

# Home Affordability Report



**Massey University**

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## Rebound in House Prices Results in Further Decline in Affordability

Over the quarter ending November 2006 national home affordability declined by 5.1%. This decline was due to increases in the national median house price (6.4%) outstripping increases in the average weekly wage (1.5%) with mortgage interest rates also up slightly (0.03%). This series using the variables, house prices, wage rates and mortgage interest rates has been reporting on home affordability since 1989. Currently housing is now less affordable than it was in early 1989 when mortgage interest rates were 15.5%. National home affordability has been in decline for each quarter over the last 4.5 years.

All regions except Central Otago Lakes showed quarterly declines in affordability. The largest declines were Otago (10.9%), Wellington (9.4%) and Taranaki (8.9%). Over the quarter affordability in the Central Otago Lakes region improved by 14.7%.

On an annual basis national affordability declined by 7.3% with increases in house prices of 10% well ahead of increases in the average weekly wage (6%) and increases in the weighted average interest rate on home loans (3.4%).

Central Otago Lakes showed a 4.3% annual improvement in affordability but all other regions recorded annual declines in affordability. The largest annual regional decline was in Taranaki (24.3%) followed by Nelson/Marlborough (21.4%) and Southland (18.1%). The smallest decline was Hawke's Bay (0.2%) followed by Canterbury/Westland (2.8%) and Otago (6.2%).

Southland is clearly the most affordable region with the index at 51.4% of the national benchmark of 100%. Manawatu/Wanganui (70.3%) remains in second place in the affordability stakes followed by Otago (78.4%) in third.

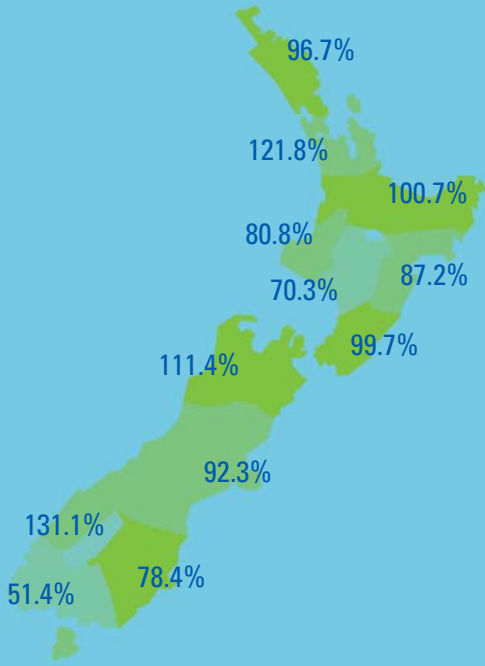
Despite recent improvements in affordability the Central Otago Lakes area remains the least affordable region with an index of 131.1% of the national average. The Auckland region (121.8%) takes second place followed by Nelson/Marlborough (111.4%) in third.

Further details on affordability and the methodology used in the study are reported on the following pages.

### Key points:

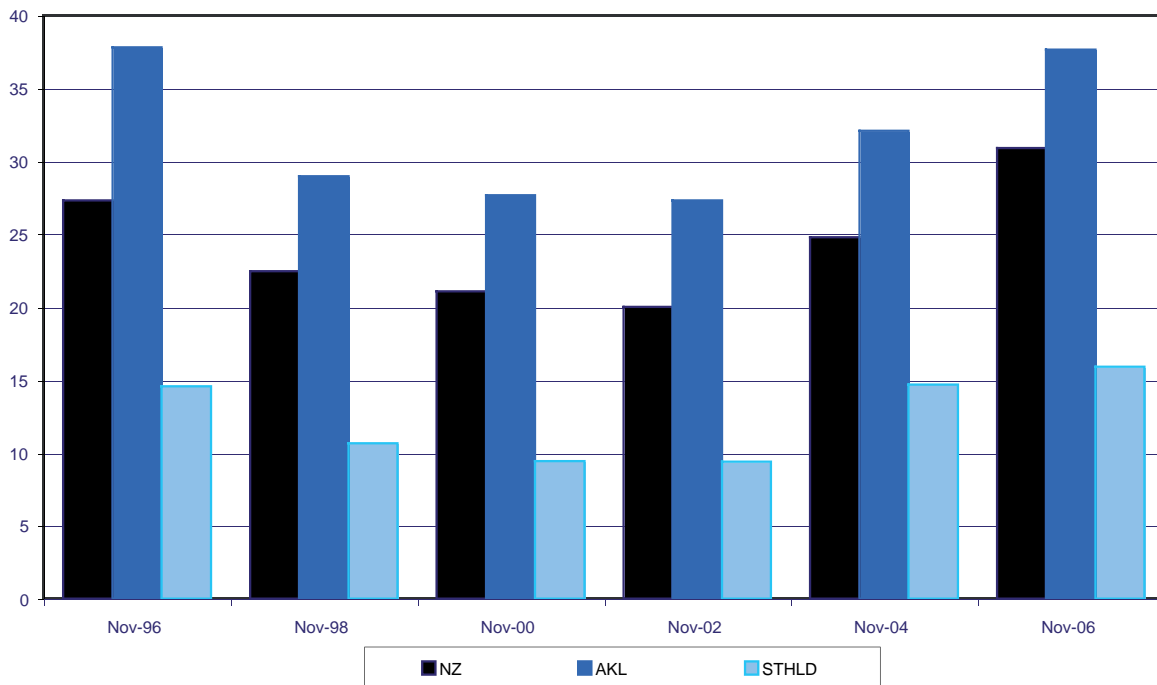
- **House prices rebounded in the November quarter.**
- **Weighted mortgage interest rates remained flat during the quarter.**
- **Nationally housing is now less affordable than in early 1989 when mortgage interest rates were 15.5%.**
- **Central Otago/Lakes area was the only area to show improved affordability in the November quarter, but still remains the least affordable region.**

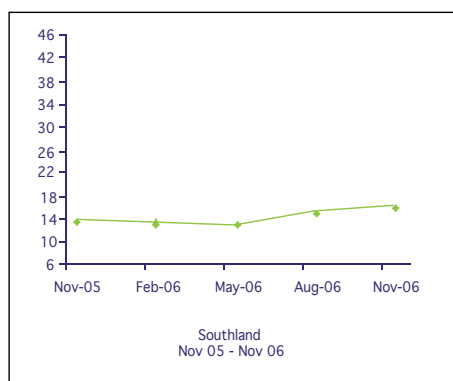
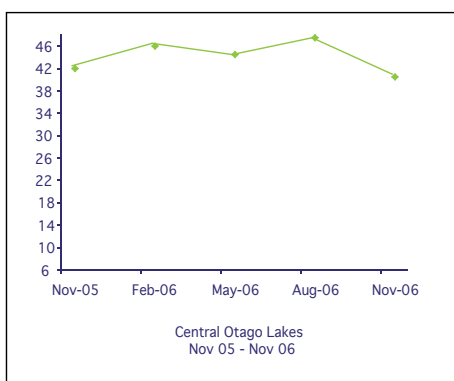
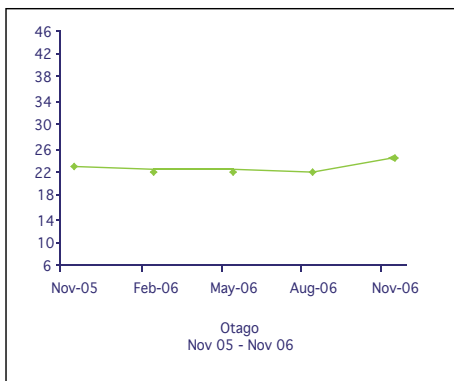
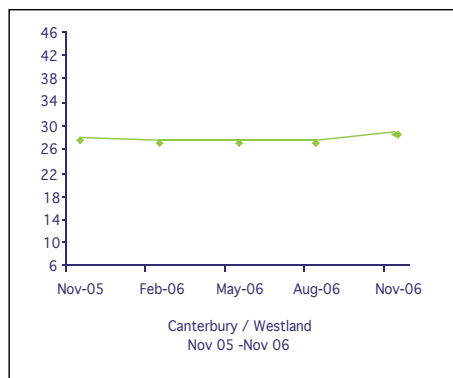
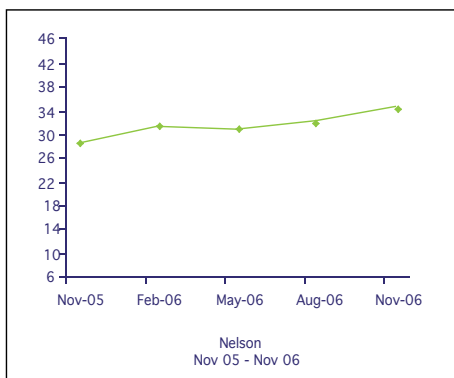
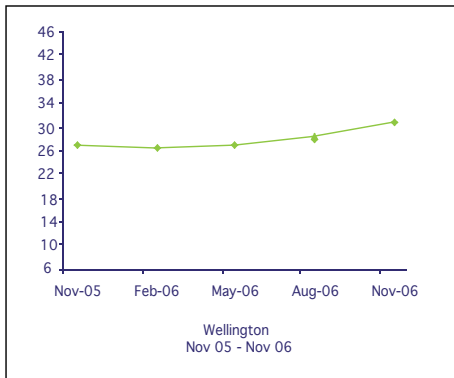
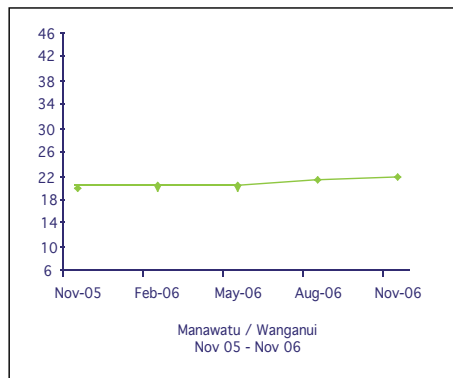
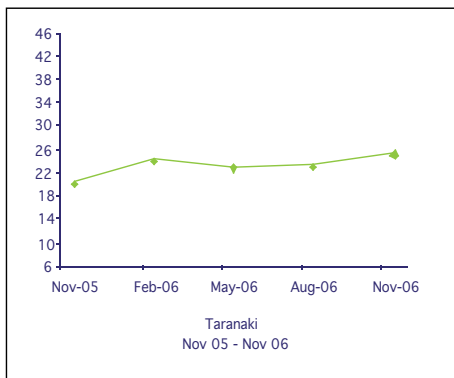
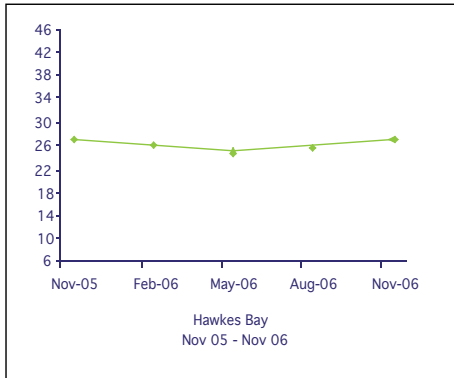
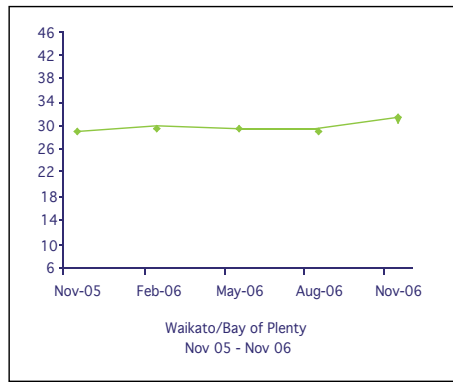
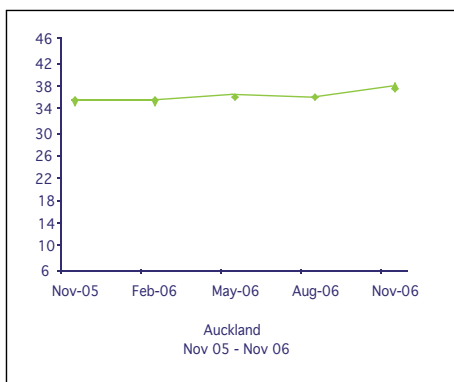
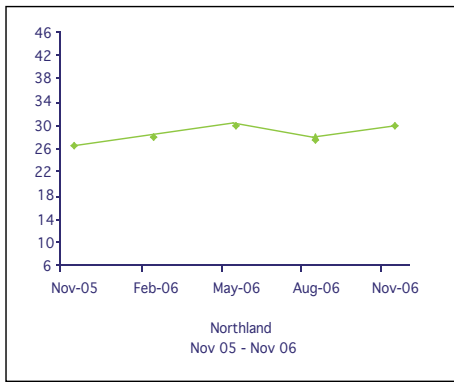
**Regional Affordability as a percentage of National Average**



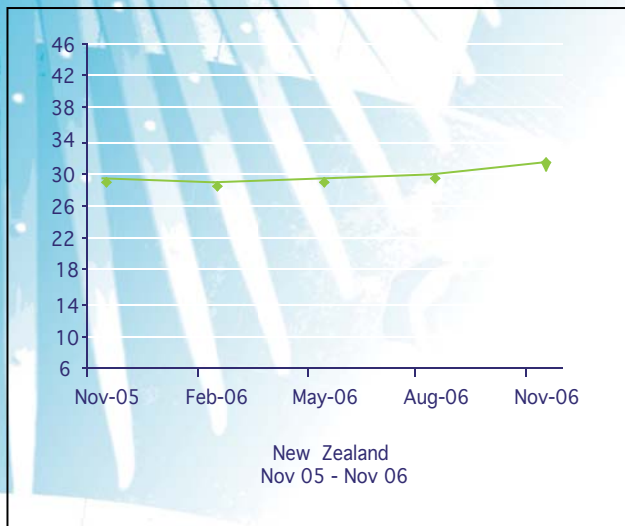
Region	Home Affordability Index		Percentage Change in Home Affordability in the last 12 months	
	Aug 06	Nov 06	Improvement	Decline
Northland	27.58	29.86		13.3%
Auckland	35.78	37.63		6.4%
Waikato / Bay of Plenty	29.18	31.11		7.9%
Hawke's Bay	25.57	26.95		0.2%
Taranaki	22.94	24.98		24.3%
Manawatu / Wanganui	21.08	21.73		9.4%
Wellington	28.16	30.80		15.0%
Nelson/Marlborough	31.71	34.44		21.4%
Canterbury / Westland	27.13	28.51		2.8%
Otago	21.87	24.24		6.2%
Central Otago Lakes	47.45	40.50	-4.3%	
Southland	15.19	15.89		18.1%
New Zealand	29.38	30.90		7.3%

**NATIONAL HOME AFFORDABILITY INDEX**  
(a low index equals improved affordability)





# Regional Affordability Index



## Data Sources

The average weekly earnings and mortgage interest rate figures are drawn from Statistics New Zealand and Reserve Bank data. Housing prices are released by the Real Estate Institute of New Zealand (REINZ). The combination of this data provides the opportunity to calculate a reliable and useful summary index. The lower the index the more affordable the housing. The index allows for comparisons over time and between regions of relative housing affordability in New Zealand.

## Terminology

Housing affordability for housing in New Zealand can be assessed by comparing the average weekly earnings with the median dwelling price and the mortgage interest rate. The earnings figure represents the money available to the family, or household unit, and the median dwelling price combined with the mortgage interest rates provide an indicator of the expense involved.

## Median Dwelling Prices

Median dwelling prices for various regions within New Zealand are released monthly by the REINZ. The figures are obtained from a survey of member agencies' sales during that specific month. There may be irregularities in the data resulting from errors in the returns or processing, but when individual returns are combined with those of other agencies the distortion is likely to be small. In some months there may be very few transactions and this can result in somewhat non-representative median prices. The REINZ continues to research ways of improving the quality of the data. The research, and other continuing action by the REINZ to monitor and improve data quality, should minimise data errors.

## Average Weekly Earnings

Average national and regional weekly earnings data is provided directly by Statistics New Zealand.

## Average Monthly Interest Rates

The Reserve Bank publishes a range of data on mortgage interest rates. The Reserve Bank series selected for the affordability index is based on end of month floating and fixed rates for existing borrowers. Weighted by volume, loan type and term from each lending institution, the rate used is effectively the weighted average interest rate earned by lenders (and paid by borrowers) for more than 90 per cent of the residential mortgage market.

This mortgage rate provides an indication of the interest which is payable on new mortgages entered into in the quarter under consideration. While there are various levels, as a percentage of the house price which a mortgage may represent, in general most new home buyers are up to the maximum percentage of approximately 80 percent.

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## Massey University Property Foundation

The Foundation is established to sponsor research and education in property related matters in New Zealand. The Chairman of Trustees is William Cleghorn and funding is obtained through sponsorship from corporations and firms within the property industry. The Foundation has established a Real Estate Analysis Unit to operate out of both Massey University's Palmerston North and Albany campuses.

The Foundation works closely with the Property Studies Group at Massey University, and Ms Donna Dowse is the Secretary/Treasurer. She may be contacted on +64 6 3574032.

Professor R.V.(Bob) Hargreaves is the Executive Officer and may be contacted on +64 6 3505799 ext 7473.

## Department of Finance, Banking and Property, Massey University

Massey University has three campuses, located in Palmerston North, Wellington and Albany (North of Auckland), in New Zealand. The University has an enrolment of 33,000 students with approximately 13,000 business students. There are 10 departments and three schools within the Business Studies College. Professor R.V.(Bob) Hargreaves, leads the Property group and directs the Massey University Real Estate Analysis Unit (MUREAU).

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