

Home Affordability Report



Massey University

Quarterly Survey September 2008, Volume 18 Number 3

Affordability Improves Again

The housing cycle is still in the downturn phase. House sales are at very low levels and sellers have to accept lower prices than they could have achieved 12 months ago. As a result national affordability improved for the quarter ending 31 August 2008. This is now the third successive quarter showing an improvement in affordability.

In addition to house prices the affordability equation is driven by mortgage interest rates and average wage rates. Over the last quarter existing mortgage interest rates increased by 1.8% to 8.79% and the national average weekly wage increased by 0.6% to \$910.08.

Over the last quarter eight of the twelve regions showed improvements in affordability; Northland 19%, Southland 10.8%, Taranaki 8.1%, Auckland 4.8%, Manawatu/Wanganui 2.6%, Hawkes Bay 2.3%, Canterbury/Westland 2.2%, Nelson/Marlborough 0.6%. Regions showing declines in affordability were, Waikato 3.1%, Otago 1.1%, Central Otago Lakes 0.4% and Wellington 0.3%

On an annual basis all districts national affordability improved by 4.1%. The nine regions showing improved affordability on an annual basis were, Northland 10.5%, Canterbury/Westland 4.8%, Auckland 4.3%, Taranaki 0.9%, Waikato 0.7%, Otago and Hawkes Bay each 0.6%, Central Otago Lakes 0.4% and Nelson/Marlborough 0.2%. Wellington affordability remained unchanged over 12 months. Manawatu/Wanganui (10.5%) and Southland (7.4%) were the only regions showing a decline in affordability over this period.

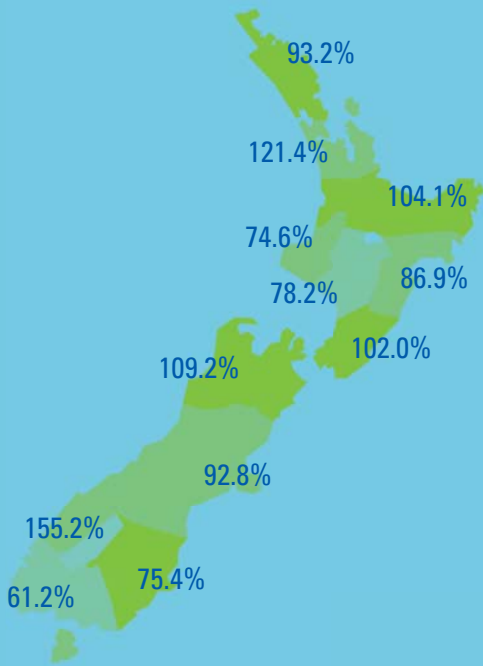
Central Otago Lakes continues to be the least affordable region with an index of (155.2%) of the national average. The Auckland region (121.4%) stays in second place with Nelson /Marlborough (109.2%) regaining third place.

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

Key Points:

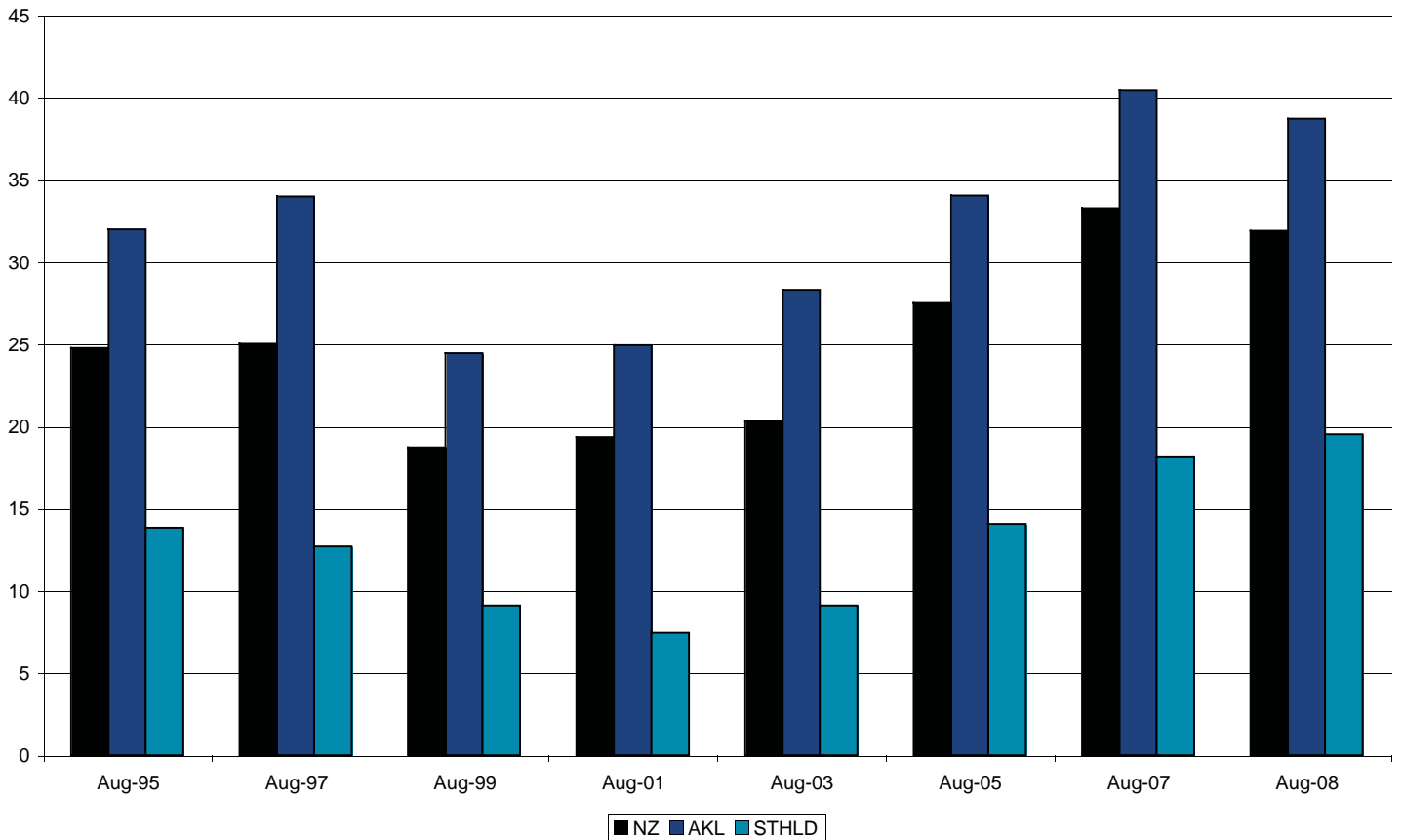
- **National affordability improved for the third consecutive quarter**
- **8 out of 12 regions show quarterly improved affordability**
- **Manawatu/Wanganui and Southland were the only two regions to show a decline in affordability over the last 12 months.**

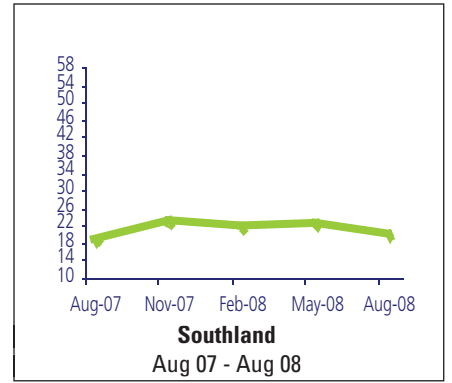
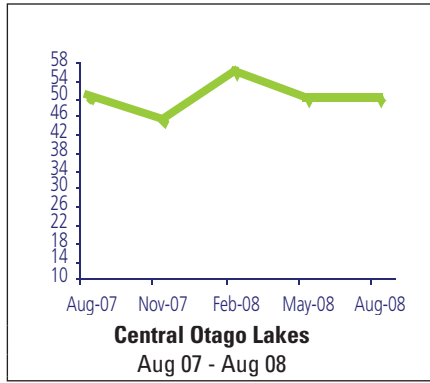
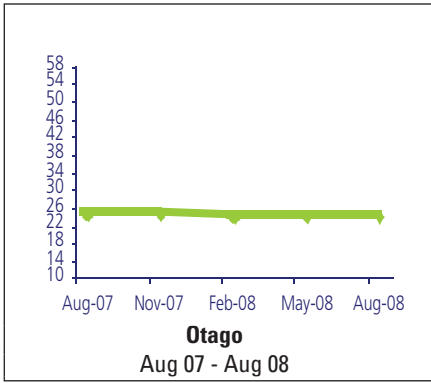
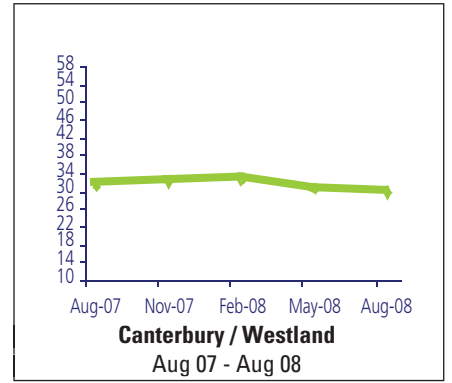
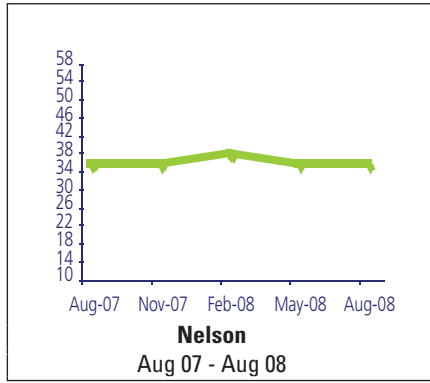
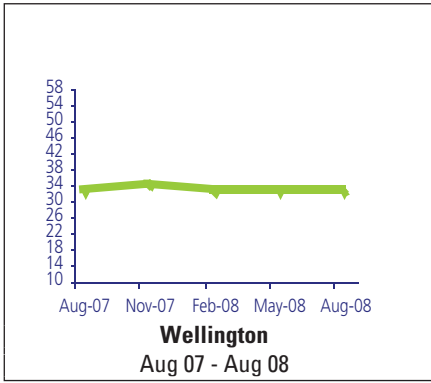
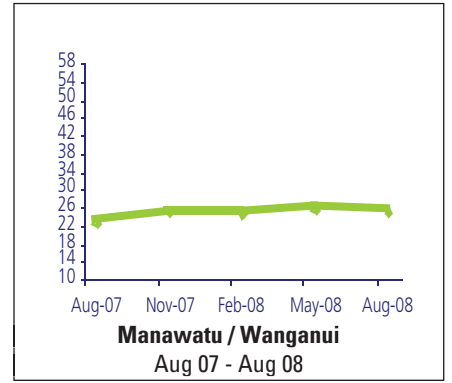
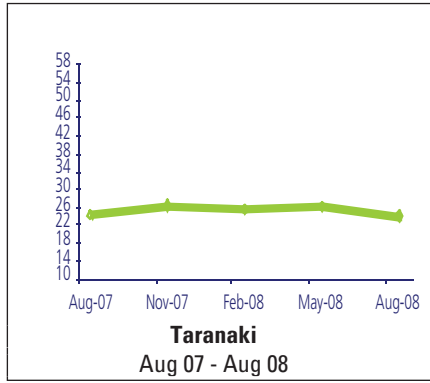
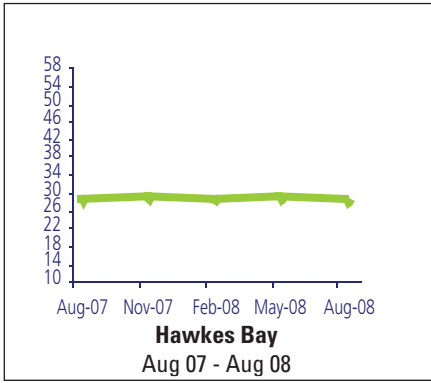
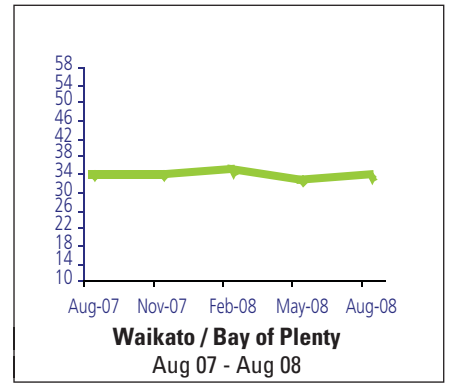
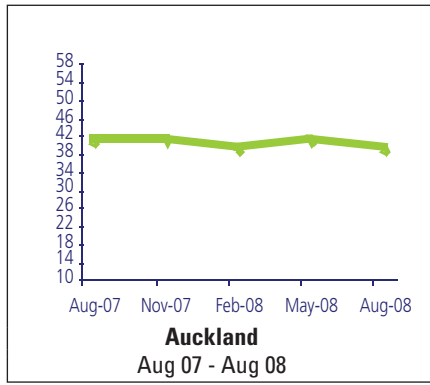
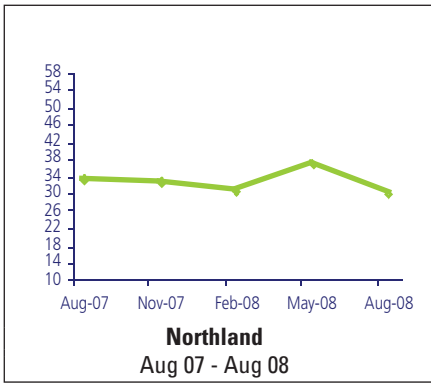
Regional Affordability as a percentage of National Average



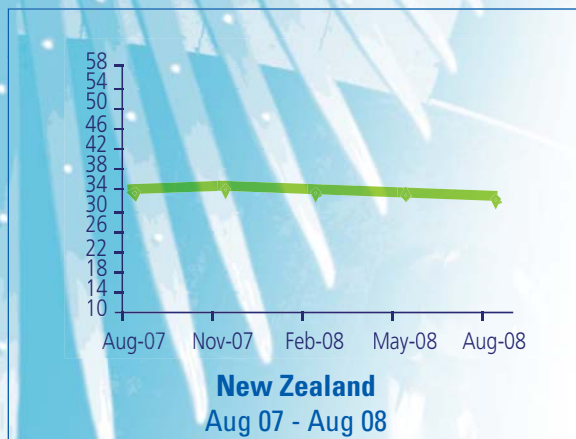
Home Affordability Index			Percentage Change in Home Affordability in the last 12 months	
Region	May 08	Aug 08	improvement	decline
Northland	36.66	29.71	10.5%	
Auckland	40.64	38.70	4.3%	
Waikato / Bay of Plenty	32.20	33.19	0.7%	
Hawke's Bay	28.37	27.71	0.6%	
Taranaki	25.89	23.79	0.9%	
Manawatu / Wanganui	25.57	24.91		10.5%
Wellington	32.43	32.52	0%	
Nelson/Marlborough	35.02	34.82	0.2%	
Canterbury / Westland	30.25	29.57	4.8%	
Otago	23.78	24.03	0.6%	
Central Otago Lakes	49.30	49.48	0.4%	
Southland	21.88	19.51		7.4%
New Zealand	32.92	31.87	4.1%	

**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. 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 Auckland 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 6 357 4032.

Professor R.V.(Bob) Hargreaves is the Executive Officer and may be contacted on +64 6 356 9099 extn 7473.

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Massey University has three campuses, located in Palmerston North, Wellington and Auckland, in New Zealand. The University has an enrolment of 33,000 students with approximately 13,000 business students. There are five departments and two 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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