

AMP Home Affordability Report

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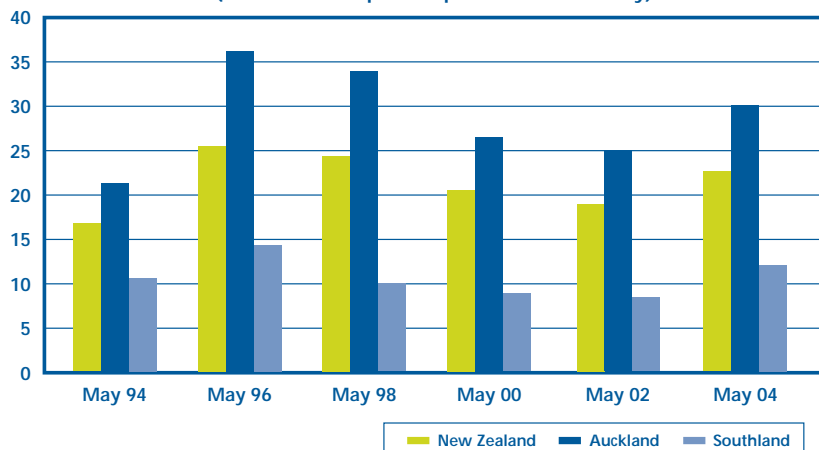


HOUSE PRICES AND INTEREST RATES ADD TO HOME AFFORDABILITY WOES

As house prices rose strongly and interest rates edged higher the New Zealand Home Affordability Index for June recorded the steepest quarterly decline (7.9%) since December 1996. A lift of 1.5% in Average Weekly Earnings over the quarter was insufficient to offset the decline.

Whilst heralding a slowdown in residential sales, the latest Real Estate Institute figures point to a continued lift in house prices led by a strong showing from the Auckland region. Quarterly dwelling sales were reported as 30,381, 1.9% down on the same period last year (30,952). Sales remain historically high despite the first reported quarterly drop in residential sales since March 2001. The New Zealand Median Dwelling Price lifted strongly over the quarter ending at a new high of \$248,000, up 7.4% from \$231,000. Interest rates also recorded an increase for the second consecutive quarter.

National Home Affordability Index
(a low index equals improved affordability)



Key Points

- Index reflects quarterly home affordability decline at seven-year high.
- New Zealand Median Dwelling Price lifts 7.4% over quarter to new high of \$248,000.
- Residential sales activity declines for first quarter since March 2001.
- South Island regions continue to lead the market up with strong annual lift in house prices.
- Otago house prices lift 51% in past year.

Home Affordability Report

Nine of the 11 regions reported a quarterly lift in Median Dwelling Prices and 10 recorded a quarterly decline in home affordability. Auckland recorded the steepest affordability decline at 11.2%, followed by Nelson/Marlborough (9.9%), Taranaki (6%), Otago (4.3%), Wellington (4.1%), Hawke's Bay (4%), Southland (3.3%), Waikato/Bay of Plenty/Gisborne (2.9%), Canterbury/Westland (2.2%) and Manawatu/Wanganui (0.5%). Northland was the only region to record a quarterly affordability improvement, at 2.9%.

The New Zealand index reflected a 12-month decline in home affordability (8.5%) for the eighth consecutive quarter. Home sales for the past year dipped slightly to 119,881, down from the yearly total of 120,452 reported in the last quarter. The Median Dwelling Price moved up 18.1% over the past year from \$210,000 to \$248,000.

Ten of the 11 regions recorded a 12-month decline in home affordability. For the fourth consecutive quarter South Island regions dominated at the high end of the 12-monthly affordability decline. Otago ranked highest for the second consecutive quarter at 37.5% followed by Canterbury/Westland (23.8%), Southland (18.8%), and

Nelson/Marlborough (16.1%). Hawke's Bay ranked next in line at 10.5% followed by Auckland (9.3%), Taranaki (8.2%), Manawatu/Wanganui (6.3%), Wellington (1.1%) and Waikato/Bay of Plenty/Gisborne (0.1%). The only region to report a 12-monthly affordability improvement was Northland at 1.4%.

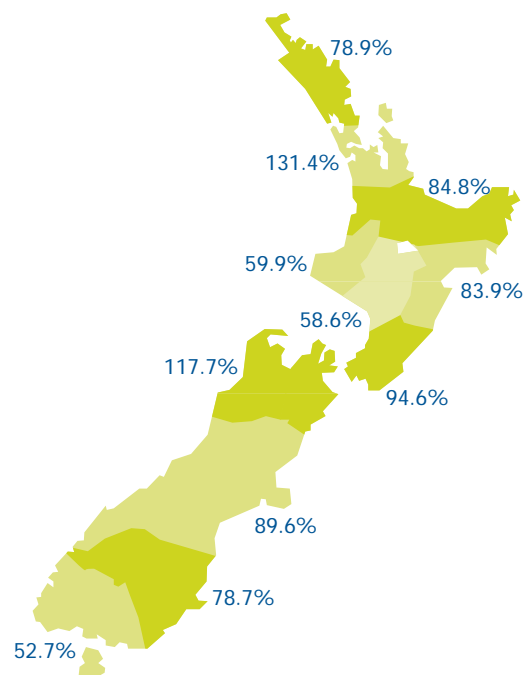
All regions reported an increase in Median Dwelling Prices over the past year. South Island regions continued to lead the market up with a strong annual lift in house prices. Otago (51%) was followed by Canterbury/Westland (34.5%), Nelson (26.7%) and Southland (25.5%).

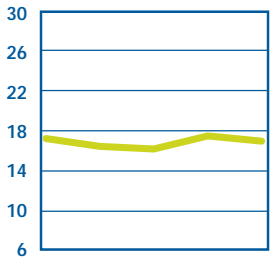
Southland remains the most affordable region followed in ranking by Manawatu/Wanganui, Taranaki, and then Otago as fourth most affordable region. Auckland remains the least affordable region followed in ranking by Nelson/Marlborough, then Wellington as the third least affordable region.

The graph on the front page illustrates the relative movement in home affordability for New Zealand, Auckland and Southland over the past 10 years.

Home Affordability Index			Percentage Change in Home Affordability in the last 12 months	
Region	Feb 04	May 04	Improvement	Decline
Northland	18.43	17.89	-1.4%	
Auckland	26.80	29.79		9.3%
Waikato / Bay of Plenty	18.70	19.24		0.1%
Hawke's Bay	18.30	19.02		10.5%
Taranaki	12.82	13.59		8.2%
Manawatu / Wanganui	13.23	13.29		6.3%
Wellington	20.61	21.46		1.1%
Nelson / Marlborough	24.28	26.69		16.1%
Canterbury / Westland	19.88	20.32		23.8%
Otago	17.11	17.85		37.5%
Southland	11.58	11.96		18.8%
New Zealand	21.01	22.68		8.5%

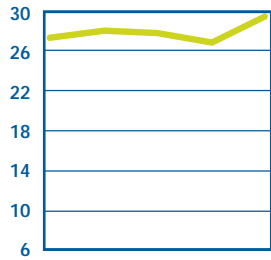
Regional Affordability as a Percentage of National Average





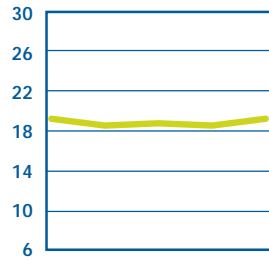
May 03 Aug 03 Nov 03 Feb 04 May 04

Northland
May 03 – May 04



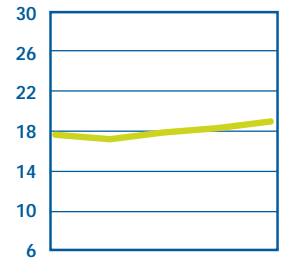
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Auckland
May 03 – May 04



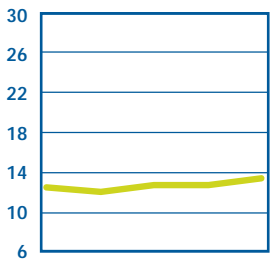
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Waikato/Bay of Plenty
May 03 – May 04



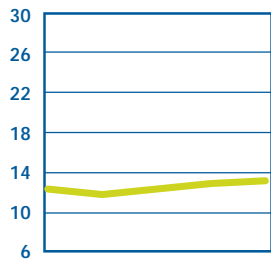
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Hawke's Bay
May 03 – May 04



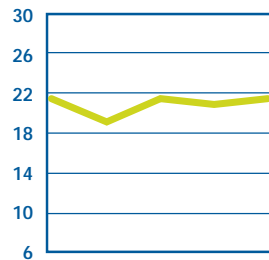
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Taranaki
May 03 – May 04



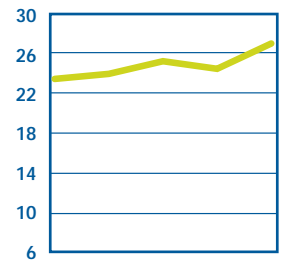
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Manawatu/Wanganui
May 03 – May 04



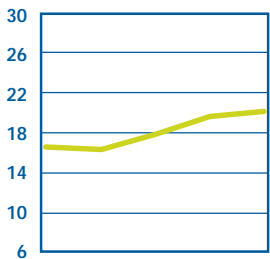
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Wellington
May 03 – May 04



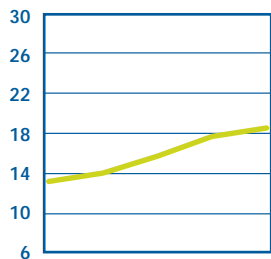
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Nelson
May 03 – May 04



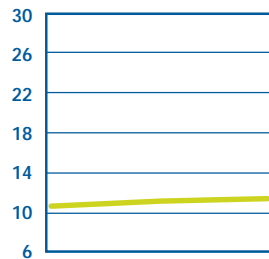
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Canterbury/Westland
May 03 – May 04



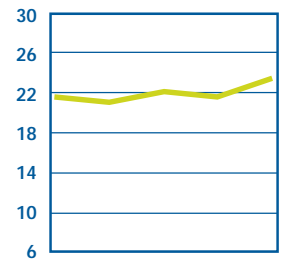
May 03 Aug 03 Nov 03 Feb 04 May 04

Otago
May 03 – May 04



May 03 Aug 03 Nov 03 Feb 04 May 04

Southland
May 03 – May 04



May 03 Aug 03 Nov 03 Feb 04 May 04

New Zealand
May 03 – May 04



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Data Sources

This survey is based on a similar study prepared regularly in Australia by the Real Estate Institute of Australia and AMP.* The New Zealand version differs in terms of the data used but the format of presentation is similar to aid comparability for an Australasian comparison. 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 these data provides the opportunity to calculate a reliable and useful summary index. The lower the index the more affordable is the housing. The index allows for comparisons over time and between regions of relative housing affordability in New Zealand.

(*Australian Index expresses ratio of average of home loan repayment to family earnings. New Zealand Index expresses weighted mortgage interest rate as a percentage of median selling price to average wage.)

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 are 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% 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%.

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 Bill 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 Natalie McLelland is the Secretary/Treasurer. She may be contacted on +025 2462347.

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, which has a staff of nine academics. He also directs the Massey University Real Estate Analysis Unit (MUREAU).

AMP

AMP has commissioned MUREAU to undertake specific targeted research into aspects of the New Zealand property market. The purpose of the research is to provide informed commentary on aspects of the Residential market place for the benefit of lending institutions, property related professions and the public.

Important Disclaimer

No person should rely on the contents of this report without first obtaining advice from a qualified professional person. This report is made available on the terms and understanding that AMP, Massey University and the authors of this report are not responsible for the results of any actions taken on the basis of information in this report, nor for any error in or omission from this report.