

# Home Affordability Report



**Massey University**

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## Overall Affordability Continued To Become More Difficult

The affordability measure used in this report is driven by three variables, house prices, wage rates and mortgage interest rates. National home affordability declined by 1.4% over the last quarter. This represents the 17th consecutive quarter where the national index has declined.

On a regional basis the quarterly results were a mixed bag with the main driver being differential changes in house prices. Affordability improved in 5 regions and declined in 7 regions. Leading regions with improved affordability were Northland (8.2%), Auckland (1.1%) and Otago (1.2%). Leading the declines were Central Otago/Lakes (6.8%), Wellington (5.6%) and Manawatu/Wanganui (5.4%). These results appear to be largely a result of regions being at different stages on the property cycle.

Over the last 12 months national affordability declined by 6.9%. Again this was largely driven by house prices increases of 6.9% outstripping increases in wages (3.5%) and increases in the weighted average interest rate on home mortgages (3.5%). All regions posted annual declines in affordability.

The smallest regional annual decline in affordability was Hawkes Bay (0.8%) followed by Canterbury Westland (3.6%) and Auckland (5.1%). The largest regional decline was in the Central Otago/Lakes region (28.9%) followed by Manawatu/Wanganui (16.6%) and Nelson/Marlborough (16.0%).

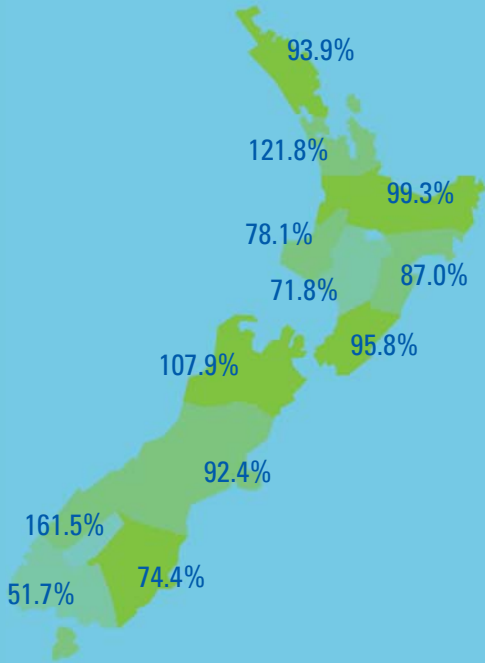
Southland remains the most affordable region with the index now at 51.7% of the national benchmark of 100%. Manawatu/Wanganui with an index of 71.8% retains the number two position, followed by Otago 74.4% in third. Central Otago Lakes continues to be the least affordable area with an index of 161.5% followed by Auckland 121.8%.

The graph on the next page illustrates the relative movements in home affordability for New Zealand, Auckland and Southland over the last decade.

## Key points:

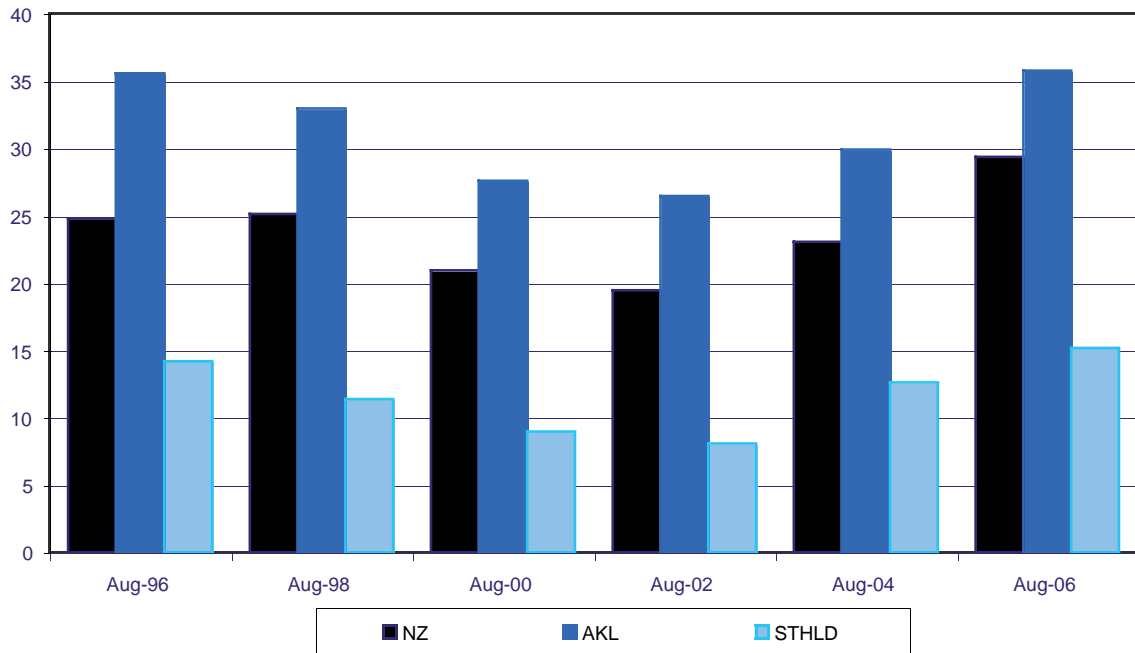
- **House prices continue to dominate the affordability equation.**
- **Auckland affordability improves a little.**
- **Central Otago/Lakes least affordable region.**
- **Southland most affordable region.**

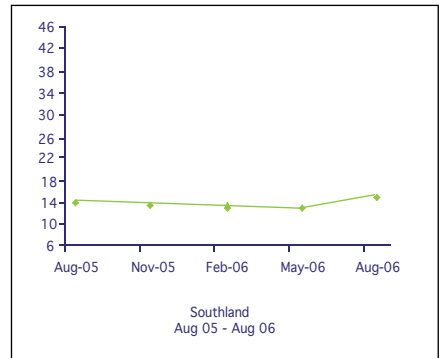
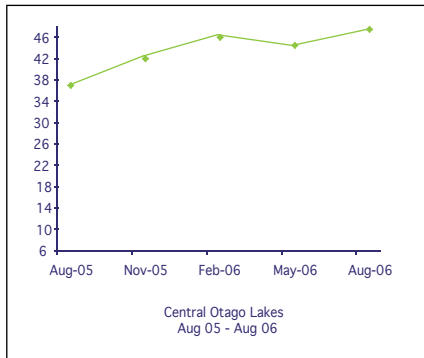
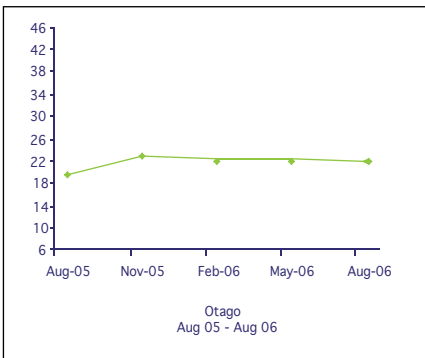
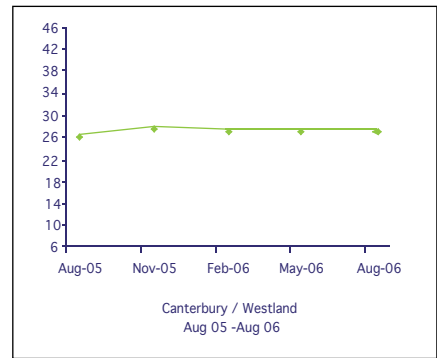
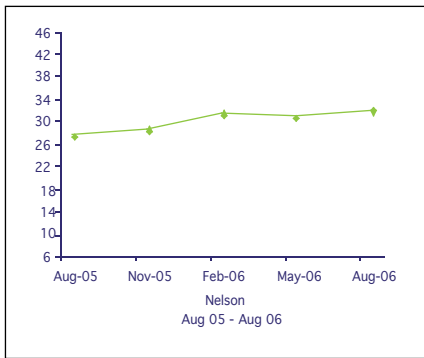
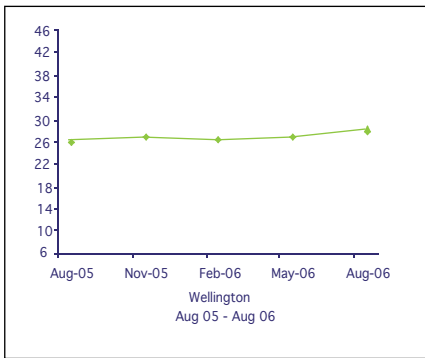
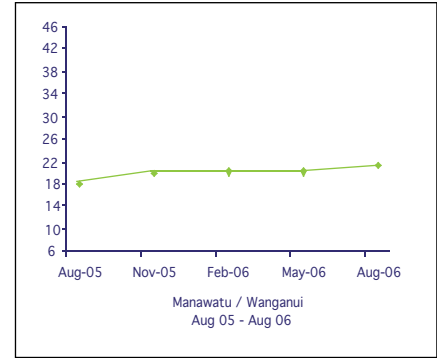
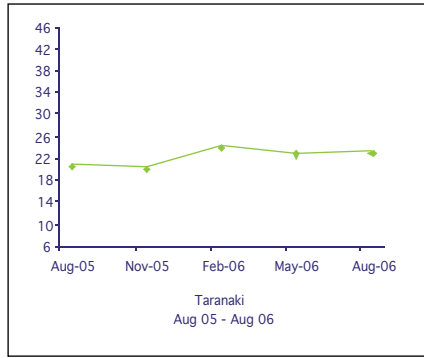
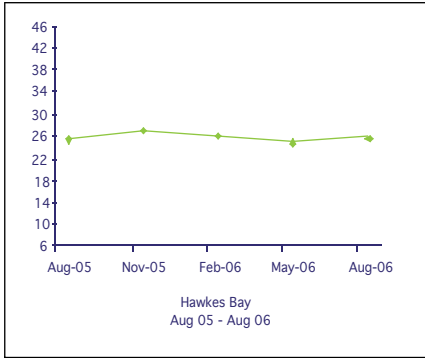
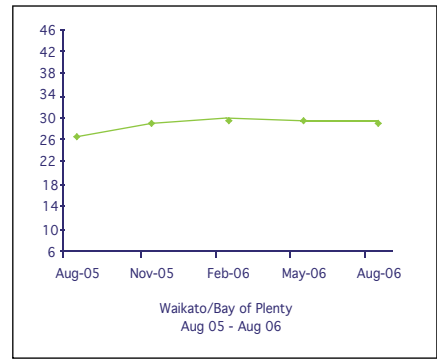
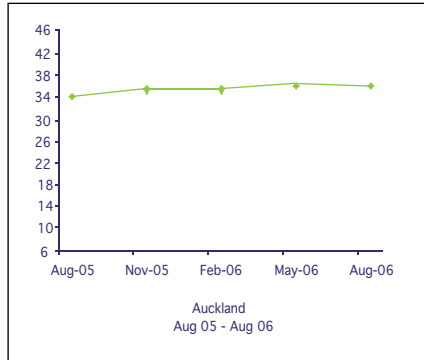
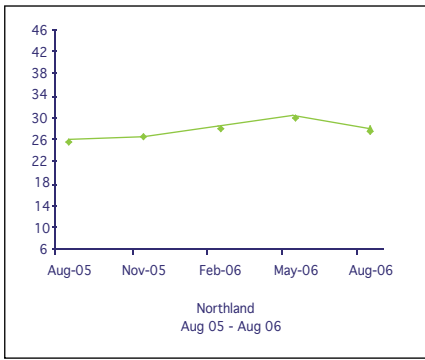
**Regional Affordability as a percentage of National Average**



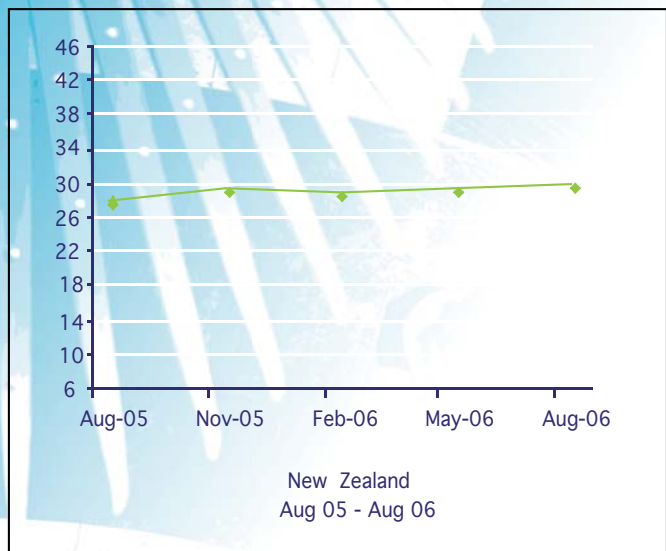
| Region                  | Home Affordability Index |        | Percentage Change in Home Affordability in the last 12 months |         |
|-------------------------|--------------------------|--------|---|---------|
|                         | May 06                   | Aug 06 | Improvement   | Decline |
| Northland               | 30.03                    | 27.58  |   | 8.2%    |
| Auckland                | 36.18                    | 35.78  |   | 5.1%    |
| Waikato / Bay of Plenty | 29.30                    | 29.18  |   | 9.9%    |
| Hawke's Bay             | 24.84                    | 25.57  |   | 0.8%    |
| Taranaki                | 22.73                    | 22.94  |   | 11.3%   |
| Manawatu / Wanganui     | 19.99                    | 21.08  |   | 16.6%   |
| Wellington              | 26.66                    | 28.16  |   | 8.5%    |
| Nelson/Marlborough      | 30.80                    | 31.71  |   | 16.0%   |
| Canterbury / Westland   | 27.28                    | 27.13  |   | 3.6%    |
| Otago                   | 22.12                    | 21.87  |   | 12.8%   |
| Central Otago Lakes     | 44.42                    | 47.45  |   | 28.9%   |
| Southland               | 12.98                    | 15.19  |   | 8.0%    |
| New Zealand             | 28.98                    | 29.38  |   | 6.9%    |

**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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