



Banking

The AMP Banking Home Affordability Report

DATA SOURCES

This survey is based on a similar study prepared regularly in Australia by the Real Estate Institute of Australia and MGICA Ltd.* 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 data. Housing prices are released by the Real Estate Institute of New Zealand. 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 aver-

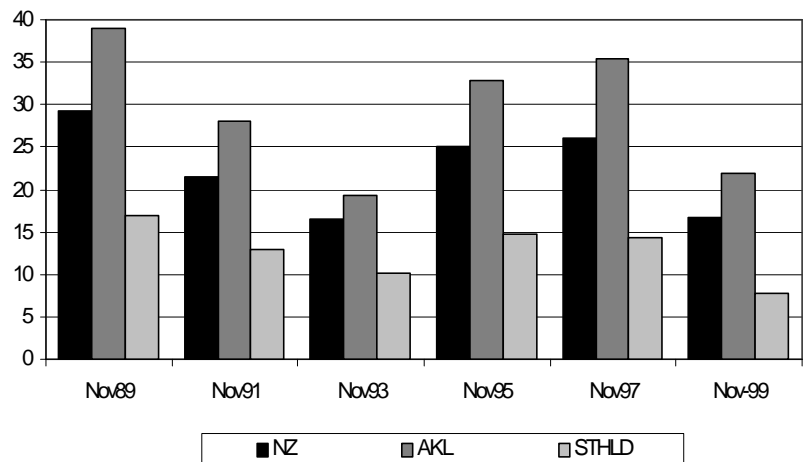
HOME AFFORDABILITY DECLINES AS INTEREST RATES AND HOUSE PRICES RISE

The upward trend in interest rates combined with lifting house prices to drive a 4.3% decline in New Zealand home affordability for the December quarter. This was the first significant decline in affordability for eighteen months. The Real Estate Institute reported "satisfaction with an upswing in activity" as the New Zealand Median Dwelling Price reached a twelve monthly high of \$172,000. Sales volumes continued a healthy recovery over the lows of 1998. Sales for the year to date were 16% up on 1998 and 11% down on 1997. Although interest rates have moved up at a slower rate than predicted further upward pressure on interest rates has been heralded as this publication goes to press. The New Zealand index now sits at approximately the same level as 1993, when interest rates were 8.4%, the Median Dwelling Price was

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\$115,000, and the Average Weekly Wage was 17.5% lower.

Ten of the eleven regions reflected a quarterly decline in affordability. Hawke's Bay recorded the steepest decline (12.4%) followed by Taranaki (11.1%) and Waikato/Bay of Plenty (8.9%). Southland recorded the smallest decline (0.3%) followed by Canterbury/Westland (2.7%) and Northland (4%). Otago was the only region to report a quarterly improvement in affordability (4.6%). Otago and Southland both recorded a quarterly reduction in the Median Dwelling Price.

Canterbury/Westland's Median Dwelling Price remained unchanged. All North Island regions, and Nelson, recorded a price increase.

For the first time in three years twelve monthly affordability declines were recorded for New Zealand and for all regions. The New Zealand data reflected an annual affordability decline of 3.2%. Nelson region recorded the steepest twelve monthly decline (13.5%) followed by Otago (10.2%) and Manawatu/Wanganui (7.5%). Southland showed the smallest twelve monthly decline (0.5%) followed by

Northland (1.4%) and Hawke's Bay (3.1%).

When affordability is expressed as a percentage of the national average, Auckland is the only region to consistently exceed 100% (131% for the current quarter). Waikato/Bay of Plenty is the first region for some years to join Auckland as the second region to exceed 100% (101.6% for the current quarter).

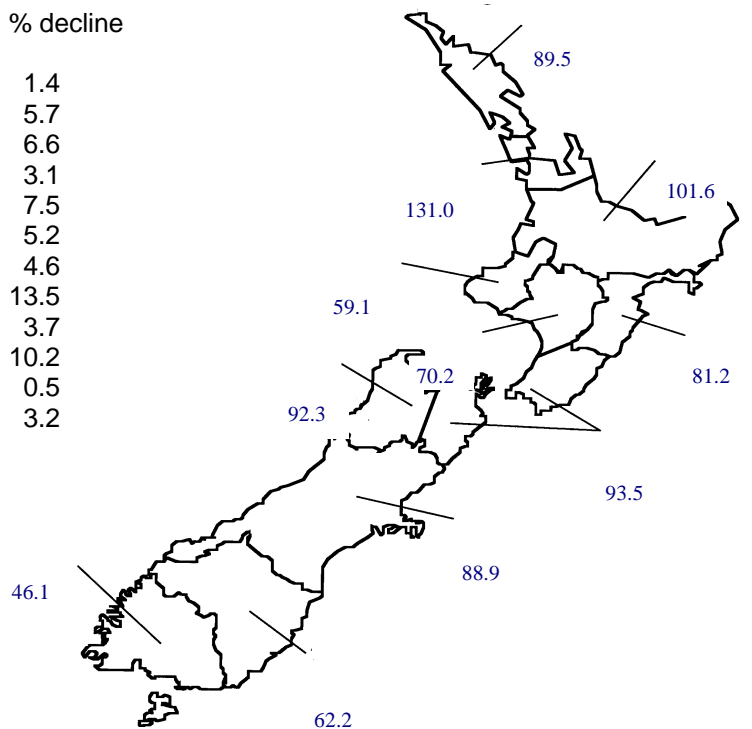
The graph below illustrates the trend in affordability improvement for New Zealand, Auckland and Southland over the past ten years.

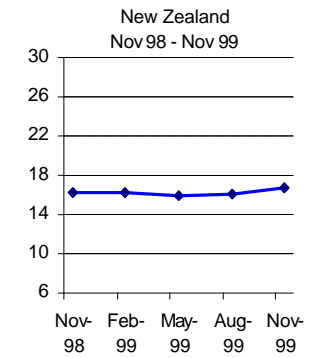
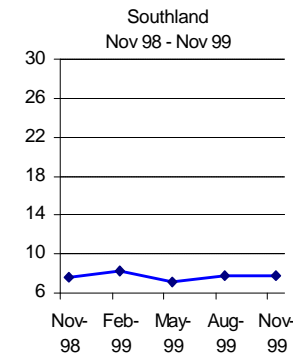
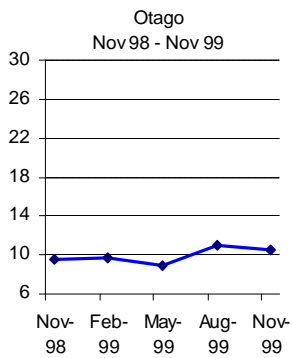
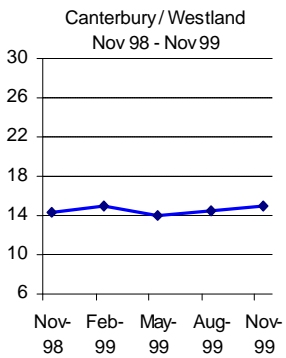
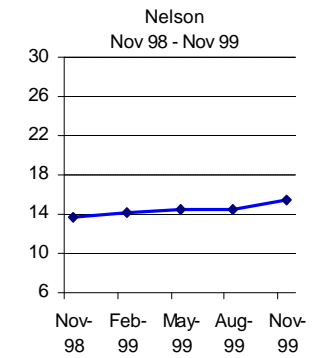
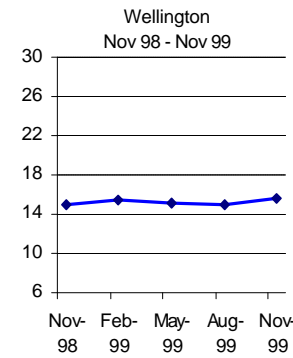
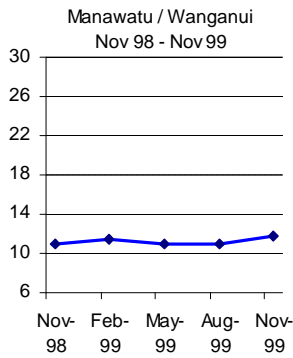
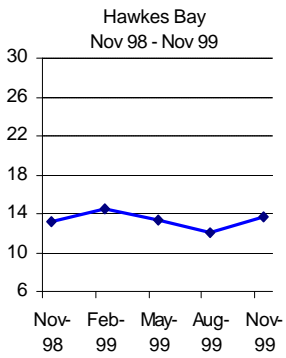
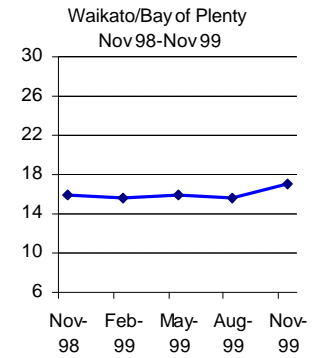
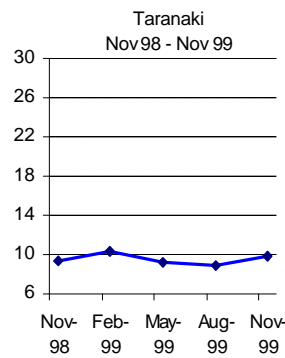
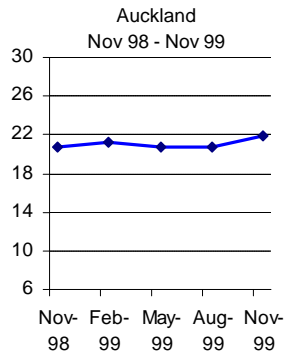
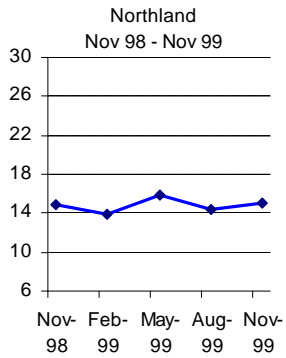
HOME MORTGAGE AFFORDABILITY INDEX

PERCENTAGE CHANGE IN MORTGAGE AFFORDABILITY IN THE LAST 12 MONTHS

REGIONAL AFFORDABILITY AS A PERCENTAGE OF NATIONAL AVERAGE

REGION	QUARTER		12 MTHS	
	Aug 99	Nov 99	% improve	% decline
Northland	14.43	15.01		1.4
Auckland	20.69	21.97		5.7
Waikato / Bay of Plenty	15.65	17.05		6.6
Hawkes Bay	12.12	13.62		3.1
Manawatu / Wanganui	10.99	11.78		7.5
Taranaki	8.92	9.91		5.2
Wellington	15.01	15.68		4.6
Nelson	14.50	15.49		13.5
Canterbury / Westland	14.52	14.92		3.7
Otago	10.94	10.44		10.2
Southland	7.71	7.73		0.5
New Zealand	16.08	16.77		3.2





Terminology

Mortgage 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 Real Estate Institute of New Zealand. 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

Statistics New Zealand, [Key Statistics](#), publishes a series on mortgage

interest rates. The number is the prime rate for new borrowers. This is calculated as the weighted average interest rate for ANZ banking group, ASB Bank, BNZ, National Bank, and WestpacTrust, weighted according to each institution's total lending outstanding for housing purposes.

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.

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 Gordon Davies 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 campus'.

The Foundation works closely with the Property Studies Group at Massey University, and Mrs Donna Dowse 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 31,000 students with approximately 13,000 business students. There are nine departments and two schools within the Business Studies College. Professor R.V.(Bob) Hargreaves, leads the Property group, which has a staff of eight academics. He also directs the Massey University Real Estate Analysis Unit (MUREAU).

AMP Banking

AMP Banking has commissioned Massey University Real Estate Analysis Unit 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.

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