

AMP Home Affordability Report

QUARTERLY SURVEY March 2006 Volume 16, Number 1



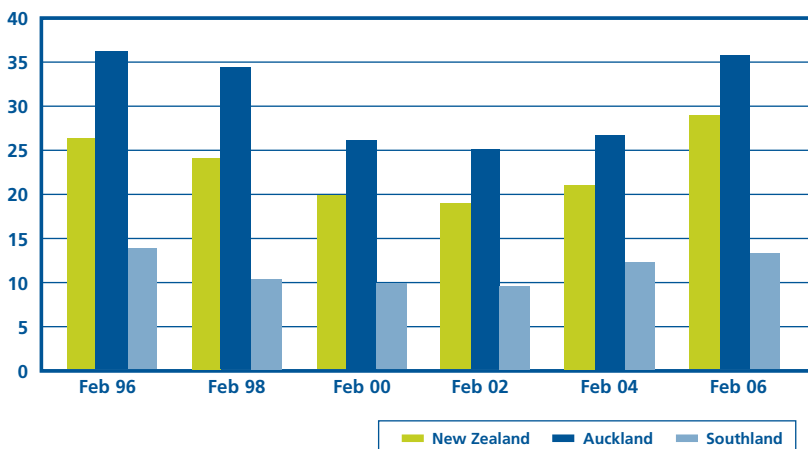
TURN IN HOUSING MARKET BRINGS HOME AFFORDABILITY IMPROVEMENT

A slight fall in house prices, accompanied by a small increase in wages, offset a continued upward creep in interest rates to drive the first quarterly improvement in New Zealand home affordability for two years. The New Zealand Median Dwelling Price fell 1.7%, from an all-time high of \$300,000 to finish the March quarter at \$295,000. House prices and sales volumes also showed signs of plateauing in several regions, despite a continuing busy market in others. The New Zealand Home Affordability Index reflected a quarterly improvement of 1.3%.

A long-predicted slowdown in the housing market was evident with residential sales reported by the Real Estate Institute of New Zealand as "subdued". Quarterly dwelling sales of 21,196 were 17.5% down on the same period last year (25,686). February sales were reported at 7,930, up on January sales but over 2,000 down on February of last year.

This quarter six of the 12 regions recorded a rise in Median Dwelling Prices and a quarterly decline in home affordability. Taranaki was a stand-out at 20%, followed by Central Otago Lakes (11.1%), Nelson/Marlborough (10.5%), Northland (6%), Waikato/Bay of Plenty/Gisborne (2.5%), and Manawatu/Wanganui (1.2%). For the first time in 18 months six regions recorded a quarterly improvement in affordability. Hawke's Bay led at 4.2% followed by Otago (3.9%), Wellington

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



Key points

- New Zealand home affordability improves for first time in two years.
- New Zealand Median Dwelling Price falls from all-time high of \$300,000, but lifts 9.6% over past year.
- For the first time in 18 months six regions show quarterly improvement in home affordability.
- Long-predicted slowdown evident with quarterly sales down 17.5%.
- Taranaki region dominates annual affordability decline with a lift of 29% in Median Dwelling Price.
- Southland's Median Dwelling Price remains at the same level as March quarter last year.



Massey University



Home Affordability Report

(2.4%), Southland (2%), Canterbury/Westland (1.9%) and Auckland (0.5%). All six regions also recorded a quarterly fall in Median Dwelling Prices.

For the 15th consecutive quarter the New Zealand index reflected a 12-monthly decline in home affordability (11.1%). Total sales for the past year were 101,491, 4.2% down on the previous year's (Mar 04/Feb 05) sales of 105,974. The Median Dwelling Price moved up 9.6% during the past year from \$269,200 to \$295,000.

All 12 regions recorded a 12-monthly decline in home affordability. Taranaki continued to dominate in top regional ranking at 28.5%, followed by Northland (21.2%), Manawatu/Wanganui (20.5%), Waikato/Bay of Plenty/Gisborne (18.4%), Canterbury/Westland (15.7%), Wellington (13.6%), Otago (12.8%), Central Otago Lakes (10.5%), Auckland (10.1%), Nelson/Marlborough (9.9%), and Southland and Hawke's Bay (3.9%).

All regions, except Southland, reported an increase in Median Dwelling Prices over the past year. Taranaki topped the market with a busy year recording the steepest lift at 29%, followed by Northland at 25.5% and Manawatu/Wanganui at 22.2%. Southland's Median Dwelling Price recorded no change.

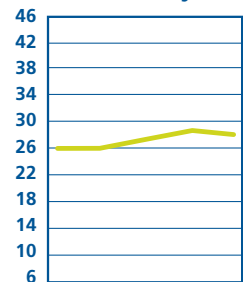
Southland remains the most affordable region followed in ranking by Manawatu/Wanganui in the number two position. Central Otago Lakes is the least affordable region followed in ranking by Auckland. The graph on the front page illustrates the relative movement in home affordability for New Zealand, Auckland and Southland over the past 10 years.

**Regional Affordability
March 2006 Quarter**

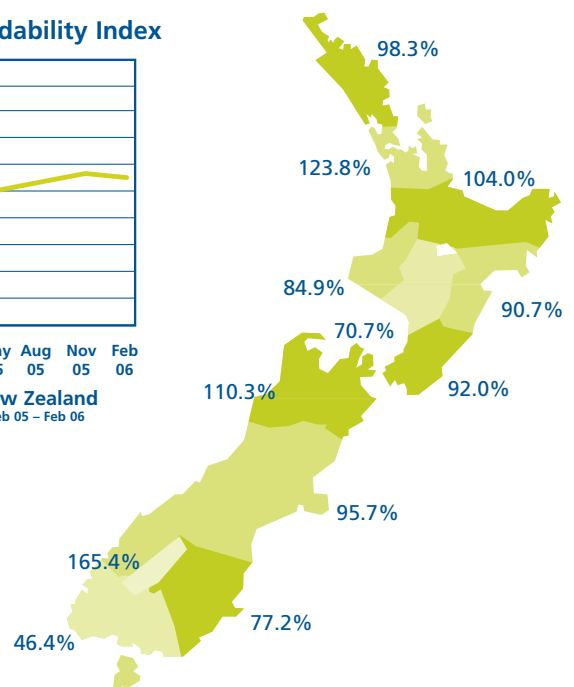
Region	Home Affordability Index		Percentage Change in Home Affordability in the last 12 months	
	Nov 05	Feb 06	Improvement	Decline
Northland	26.35	27.92		21.2%
Auckland	35.37	35.20		10.1%
Waikato/Bay of Plenty/Gisborne	28.84	29.56		18.4%
Hawke's Bay	26.90	25.78		3.9%
Taranaki	20.10	24.13		28.5%
Manawatu/Wanganui	19.87	20.10		20.5%
Wellington	26.78	26.14		13.6%
Nelson/Marlborough	28.36	31.34		9.9%
Canterbury/Westland	27.72	27.19		15.7%
Otago	22.83	21.94		12.8%
Central Otago Lakes	42.33	47.02		10.5%
Southland	13.46	13.19		3.9%
New Zealand	28.80	28.42		11.1%

Regional Affordability as a Percentage of National Average

NZ Affordability Index

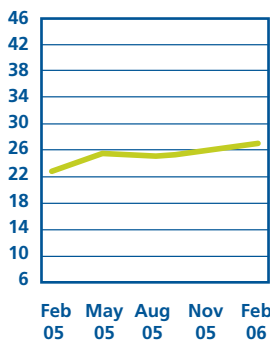


**New Zealand
Feb 05 - Feb 06**

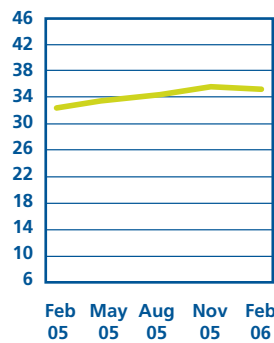




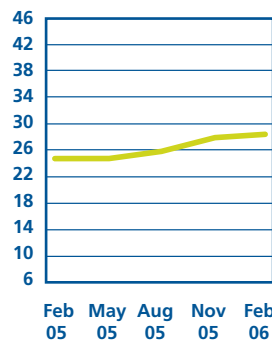
Regional Affordability Index – March 2006 Quarter



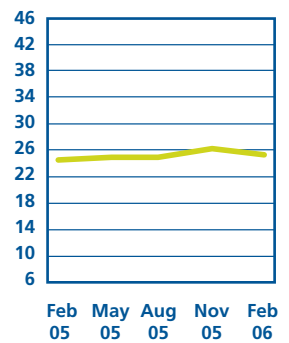
Northland
Feb 05 – Feb 06



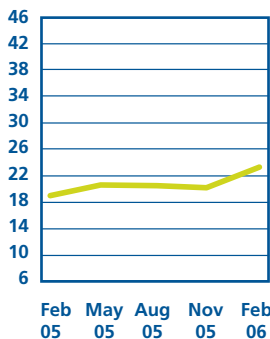
Auckland
Feb 05 – Feb 06



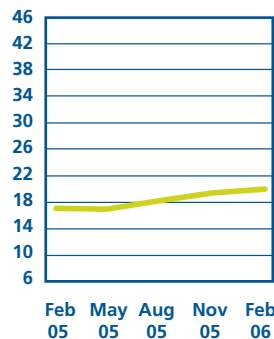
Waikato/Bay of Plenty/Gisborne
Feb 05 – Feb 06



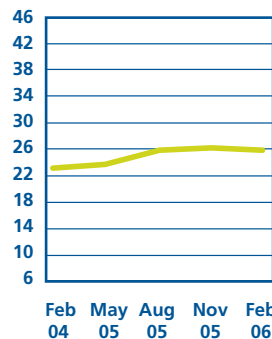
Hawke's Bay
Feb 05 – Feb 06



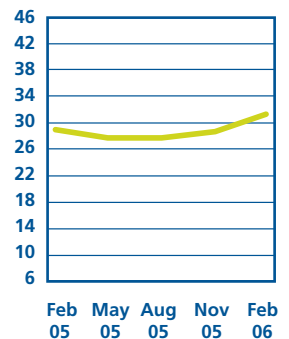
Taranaki
Feb 05 – Feb 06



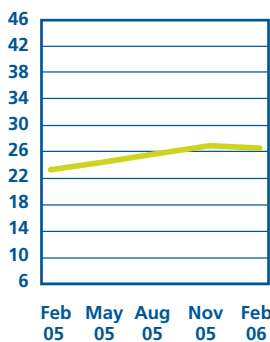
Manawatu/Wanganui
Feb 05 – Feb 06



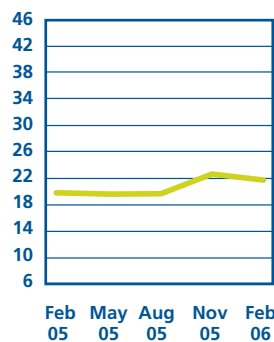
Wellington
Feb 05 – Feb 06



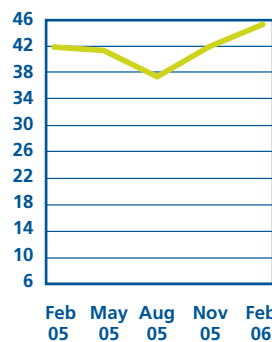
Nelson
Feb 05 – Feb 06



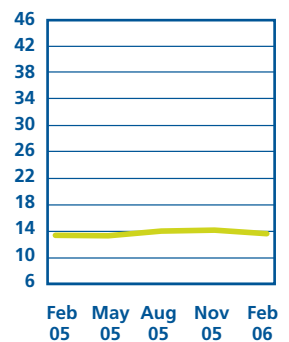
Canterbury/Westland
Feb 05 – Feb 06



Otago
Feb 05 – Feb 06



Central Otago Lakes
Feb 05 – Feb 06



Southland
Feb 05 – Feb 06



Prepared by Graham Crews
Department of Finance, Banking and Property, Massey University

Enquiries may be addressed to:
Carol Smith, Public Affairs, AMP
Phone: +64 9 337 7723
Fax: +64 9 337 7701
Email: carol_smith@amp.co.nz
website: www.amp.co.nz (click on About AMP/Media Centre/Reports)
or post to: AMP Financial Services
P O Box 55
Shortland Street
Auckland

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 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.

(*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 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% 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 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 Alison Smith is the Secretary/Treasurer. She may be contacted on +027 210 4440.

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 10 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.