



# 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 average wage.)

## QUARTERLY SURVEY - MARCH 2000

### Volume 10, Number 1

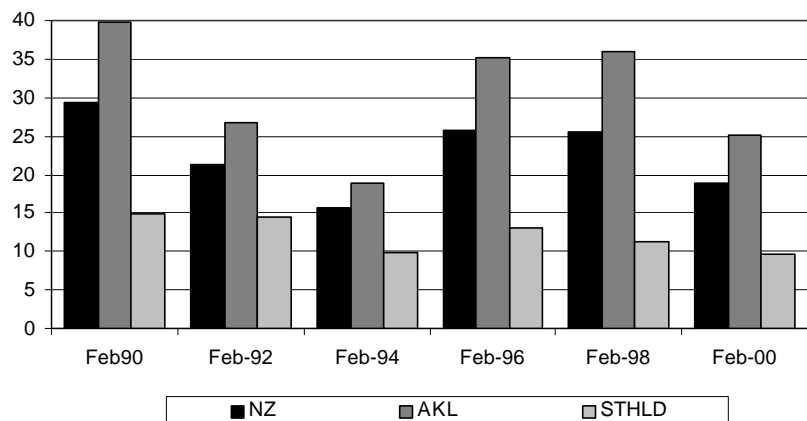
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## TREND IN HOME AFFORDABILITY DECLINE CONTINUES

Continuing upward pressure on mortgage interest rates drove a decline of 12.9% in New Zealand home affordability for the March quarter. This is the steepest decline reported since the March 1995 quarter and is the third consecutive quarter in which the index has reflected a decline. The Median Dwelling Price, at \$171,000, moved down slightly (0.6%) and has remained relatively steady over the past twelve months. Dwelling sales volumes (16,246) as reported by the Real Estate Institute were 16.6% down when compared to the March 1999 quarter, and slightly exceeded the March 1998 quarter. The Institute comments that “despite a challenging economic environment - throughout New Zealand homes are tending to hold their value”.

## National Home Mortgage Affordability Index

(a low index equals improved affordability)



All eleven regions recorded a quarterly decline in affordability. Southland recorded the steepest decline (25.3%) followed by Taranaki (25%) and Wellington (19.4%). The smallest decline was reported by Northland (4.8%) followed by Waikato/Bay of Plenty (7.4%) and Canterbury/Westland (10.7%). Seven of the regions also recorded a quarterly increase in Median Dwelling Prices. Southland (10.3%) and Taranaki (10.2%) reported the highest lift in prices. The Median Dwelling Price remained unchanged in Hawke's Bay

and fell in three regions (Northland, Waikato/Bay of Plenty and Canterbury/Westland).

For the second consecutive quarter, twelve monthly affordability declines were recorded for New Zealand and for all regions. The New Zealand data reflected an annual affordability decline of 16.2%. Nelson region recorded the steepest twelve monthly decline (24.8%) followed by Manawatu/Wanganui (23.1%) and Otago (22.5%). Hawke's Bay (6.5%), Canterbury/Westland (9.9%) and Northland

(13.1%) recorded the smallest twelve monthly declines.

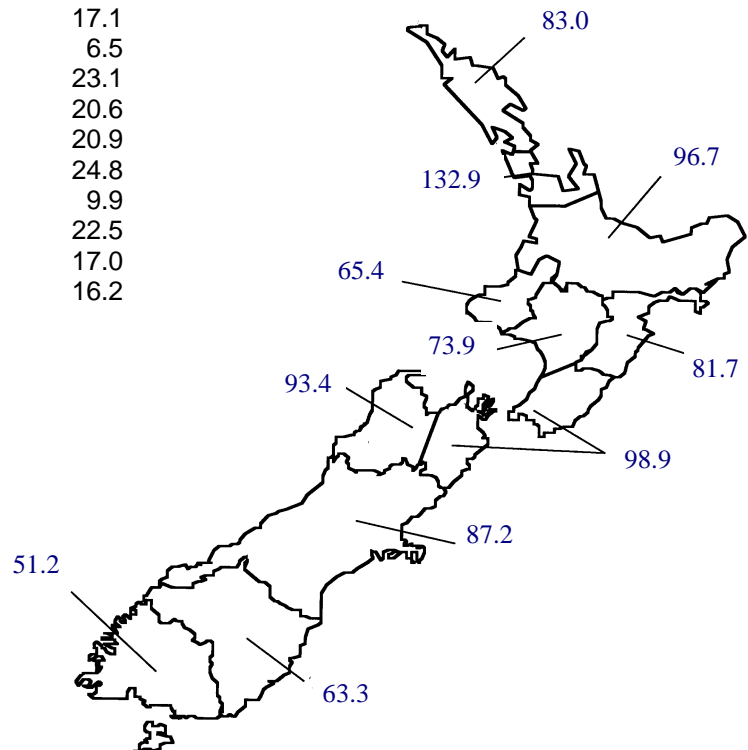
The graph on page one illustrates the trend in affordability improvement for New Zealand, Auckland and Southland over the past ten years.

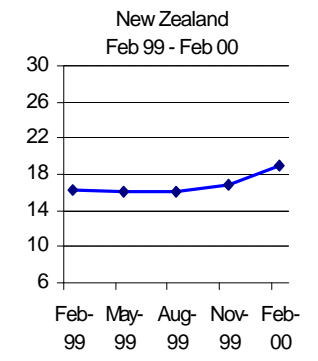
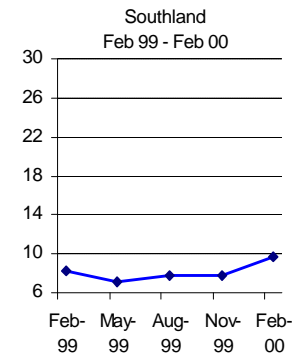
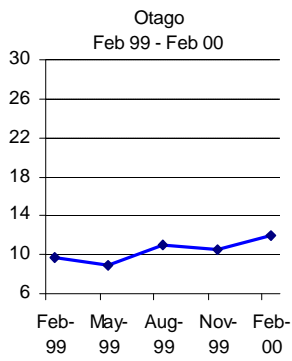
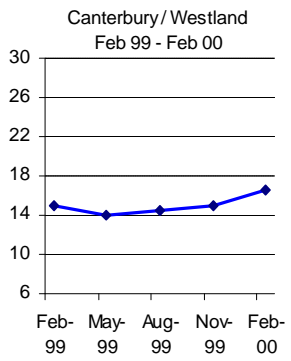
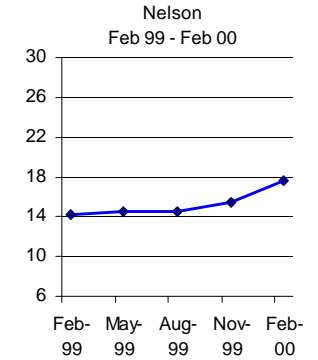
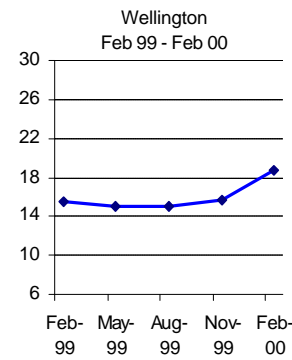
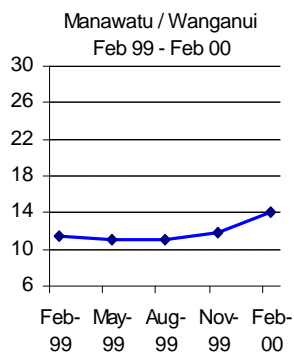
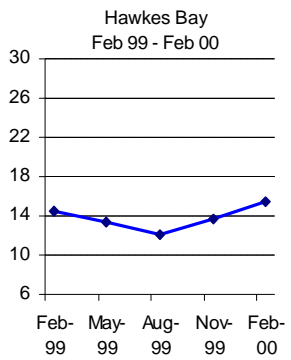
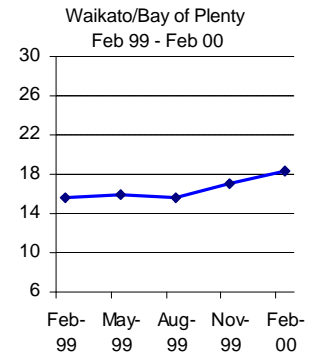
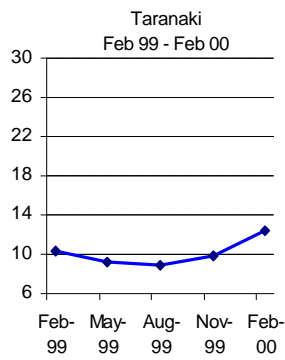
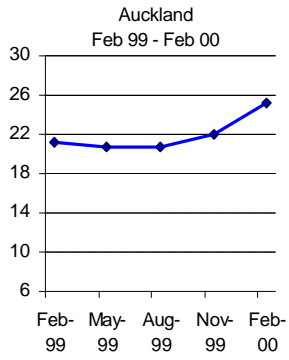
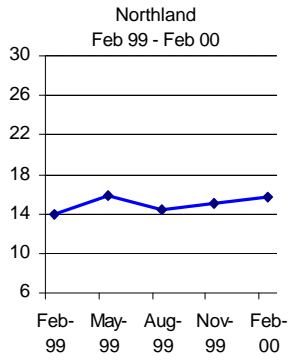
**HOME MORTGAGE AFFORDABILITY INDEX**

**PERCENTAGE CHANGE IN MORTGAGE AFFORDABILITY IN THE LAST 12 MONTHS**

**REGIONAL AFFORDABILITY AS A PERCENTAGE OF NATIONAL AVERAGE**

REGION	QUARTER		12 MTHS	
	Nov 99	Feb 00	% improve	% decline
Northland	15.01	15.73		13.1
Auckland	21.97	25.17		18.5
Waikato / Bay of Plenty	17.05	18.31		17.1
Hawkes Bay	13.62	15.47		6.5
Manawatu / Wanganui	11.78	14.01		23.1
Taranaki	9.91	12.38		20.6
Wellington	15.68	18.73		20.9
Nelson	15.49	17.69		24.8
Canterbury / Westland	14.92	16.51		9.9
Otago	10.44	11.98		22.5
Southland	7.73	9.69		17.0
New Zealand	16.77	18.94		16.2





## 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 two campuses, located in Palmerston North and Albany (North of Auckland), in New Zealand. The University has an enrollment 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 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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