

# NEW ZEALAND HOME MORTGAGE AFFORDABILITY

## June 1998

Quarterly Survey Volume 8, Number 2

Prepared by Graham Crews<sup>#</sup> and Judith Callanan<sup>#</sup>

**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.)

### HOME AFFORDABILITY DECLINES SHARPLY

A further lift in interest rates and an unexpected rise in the Median Dwelling Price resulted in a sharp decline (9.4%) in home affordability for the June quarter. Whilst interest rates have continued their forecasted upward trend the New Zealand Median Dwelling Price defied all predictions, moving up by 2.5%\* over the quarter. In reporting the rise the Real Estate Institute also commented that sales volumes were well down on the same period last year. New Zealand dwelling sales for the current quarter totalled 17,233, 29.7% down on the same quarter in 1997 (24508), and 34.9% down on the same quarter in 1996 (26452).

Hawke's Bay was the sole region to record an affordability improvement (0.8%), underpinned by a quarterly decline in the Median Dwelling Price of 5.5%. Taranaki, where a drop in the Median Dwelling Price offset a lift in interest rates, showed no change in the index over the quarter. All other regions reflected quarterly affordability declines. Except for Auckland, these regions also reported increases in their Median Dwelling Prices. Northland showed the steepest affordability decline at 11.1% whilst Southland showed the smallest at 0.6%.

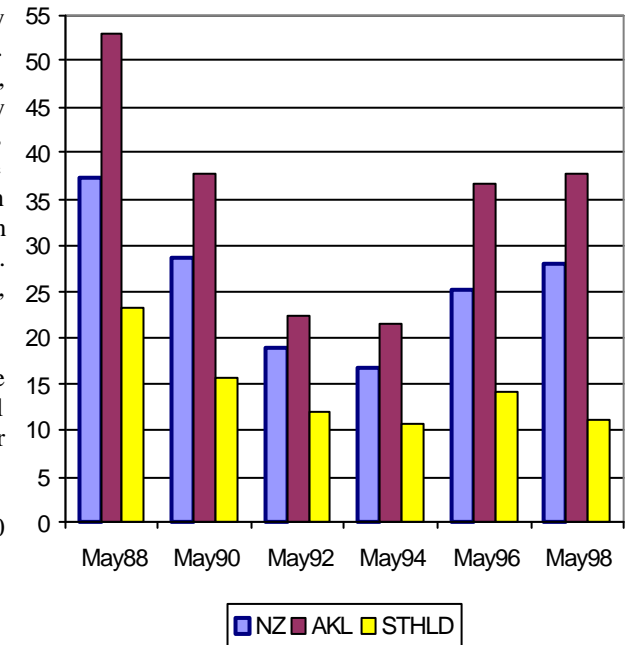
The June index for New Zealand reflects a twelve monthly affordability decline of 18.9%, the steepest since September 1994.

Over the twelve month period mortgage interest rates increased by almost 2% and the New Zealand Median Dwelling Price by 0.9%. The Median Dwelling Price dropped by 21.8% in Southland, which was the only region to record a twelve monthly affordability improvement (9.1%). The remaining ten regions reported twelve monthly affordability declines. Steepest twelve monthly declines were recorded by Wellington (30.7%), Nelson (29.1%) and Waikato/Bay of Plenty (25.1%), where the Median Dwelling Price moved up 10.9%, 9% and 3.4% respectively. Smallest declines were recorded by Hawke's Bay at 9.8%, followed by Manawatu/Wanganui and Otago, both at 13.9%.

Whilst Southland (the most affordable region) and Auckland (the least affordable region) still occupy opposite ends of the regional affordability spectrum, the gap has now widened. (Refer adjacent graph).

\* The New Zealand Median Dwelling Price lifted from \$160,000 to \$164,000 over the past quarter.

**National Home Mortgage  
Affordability Index**



## 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. Massey University's Property Studies Department is currently researching the statistics for the REINZ to seek 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, Countrywide Bank, National Bank, Trust Bank, and Westpac Banking Corporation, 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 Mr Robin O'Neill is the Secretary/Treasurer. He may be contacted on +64 6 3505261. Professor R.V.(Bob) Hargreaves is the Executive Officer and may be contacted on +64 6 3505 028.

## Massey University Finance and Property Studies Department

Massey University has two campuses, located in Palmerston North and Albany (North of Auckland), in New Zealand. The University has an enrollment of 28,000 students with approximately 7,500 business students. The Department is one of five within the Business Studies College. Professor R.V.(Bob) Hargreaves, acting Head of Department, leads the Property group, which has a staff of eight academics. He

also directs the Massey University Real Estate Analysis Unit (MUREAU).

## AMP

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.

Publications produced for AMP are;

1. New Zealand Home Mortgage Affordability
2. Real Estate Market Outlook Survey  
Auckland Region Residential Property

## Enquiries

Concerning this publication and other research papers prepared for AMP may be addressed to:

Graham Meyer  
Managing Director AMP/Ergo Mortgage & Savings Ltd  
Phone: 0 9 5262-600  
Facsimile: 0 9 5262-613

AMP/Ergo Mortgage & Savings Ltd  
Private Bag 92070  
Auckland Mail Centre  
AUCKLAND

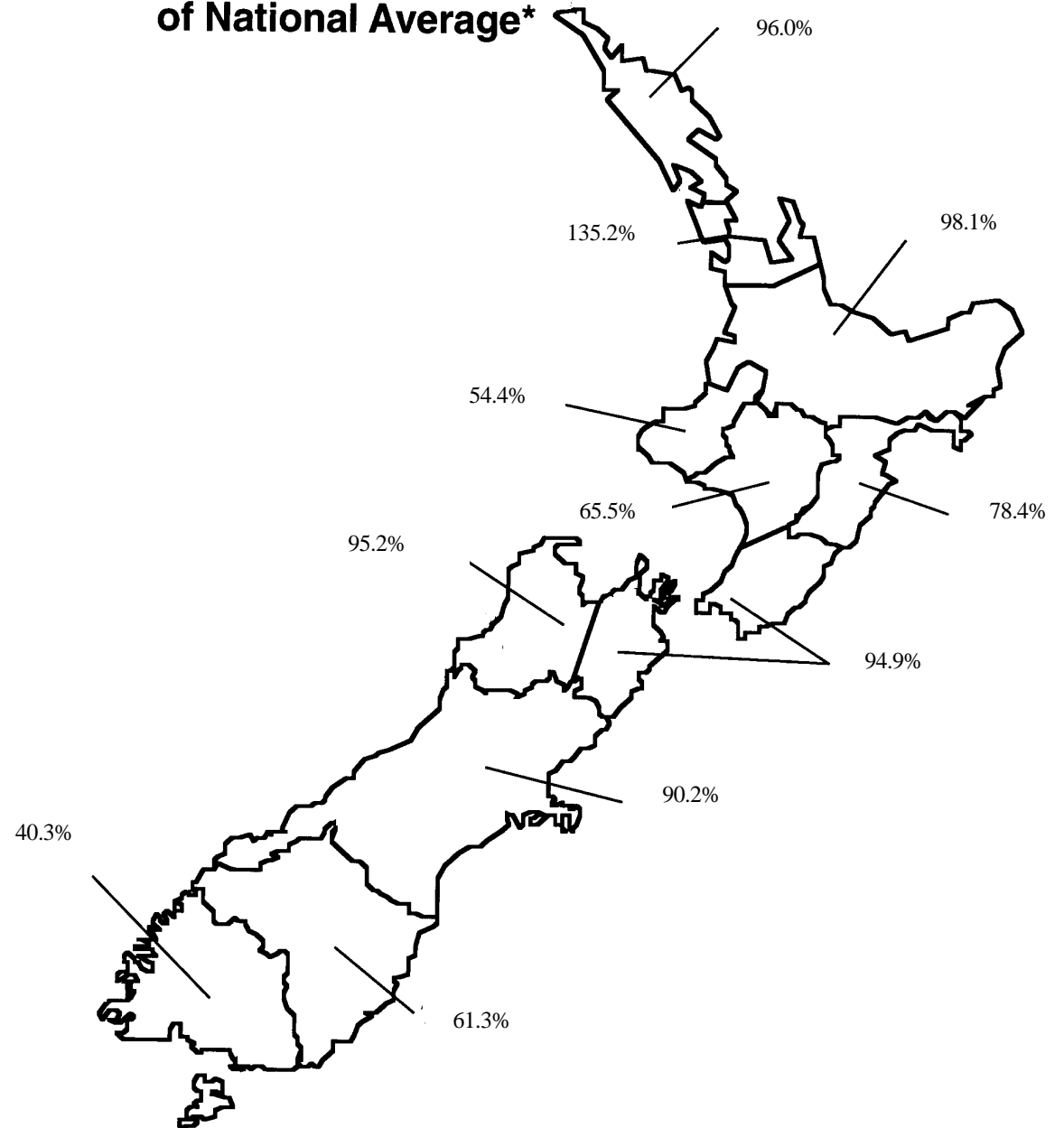
## Home Mortgage Affordability Index

Region	Quarter	
	Feb98	May98
Northland	24.16	26.83
Auckland	35.98	37.78
Waikato / Bay of Plenty	25.19	27.41
Hawkes Bay	22.09	21.92
Manawatu / Wanganui	16.97	18.30
Taranaki	15.21	15.21
Wellington	24.40	26.51
Nelson	24.44	26.60
Canterbury / Westland	23.49	25.22
Otago	15.67	17.12
Southland	11.19	11.26
New Zealand	25.54	27.94

## Percentage change in Mortgage Affordability in the last 12 months

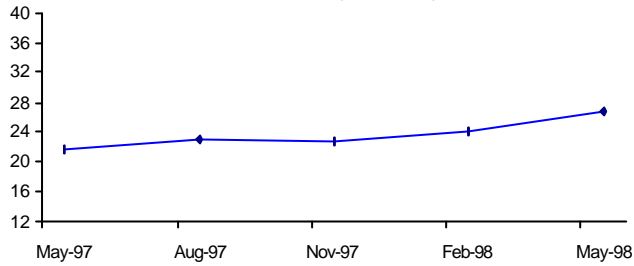
Region	Affordability % improvement	Affordability % decline
Northland		24.4
Auckland		15.2
Waikato / Bay of Plenty		25.1
Hawke's Bay		9.8
Manawatu / Wanganui		13.9
Taranaki	12.4	
Wellington		30.7
Nelson		29.1
Canterbury / Westland		19.8
Otago		13.9
Southland	9.1	
New Zealand		18.9

## Regional Affordability as a Percentage of National Average\*

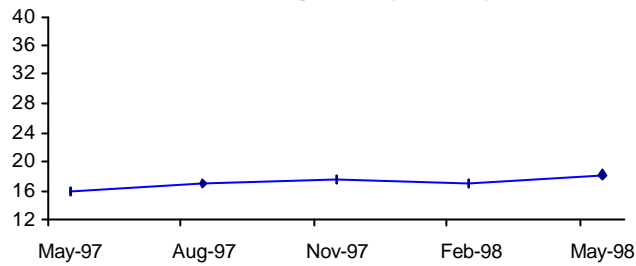


\* The higher the percentage the less affordable is the housing against the national average.

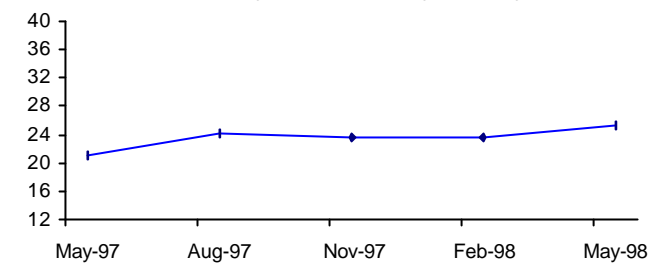
**Northland May 97 - May 98**



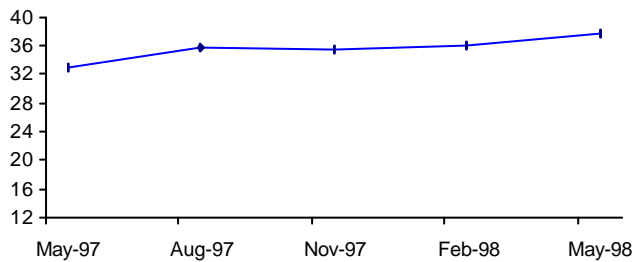
**Manawatu/Wanganui May 97 - May 98**



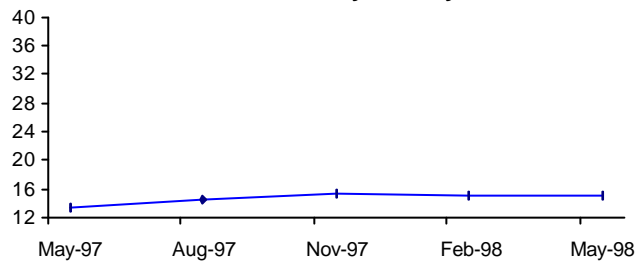
**Canterbury / Westland May 97 - May 98**



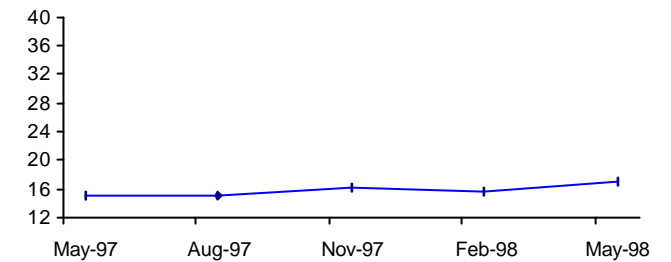
**Auckland May 97 - May 98**



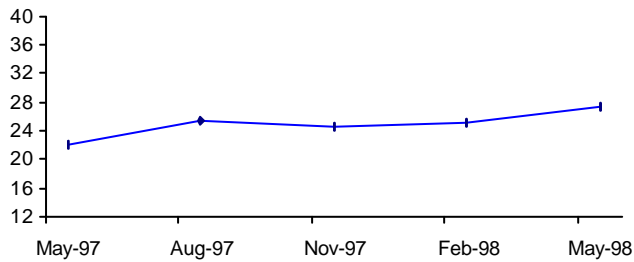
**Taranaki May 97 - May 98**



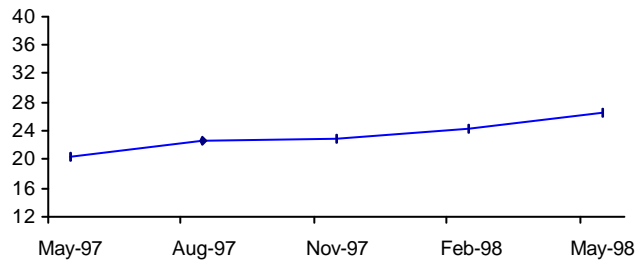
**Otago May 97 - May 98**



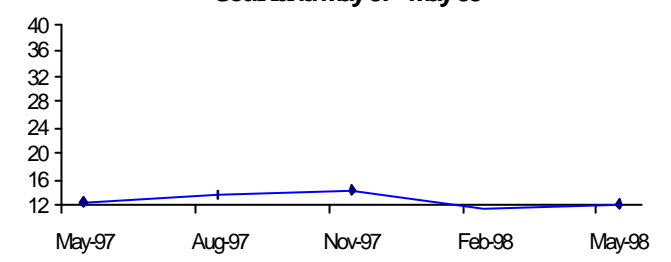
**Waikato / Bay of Plenty May 97 - May 98**



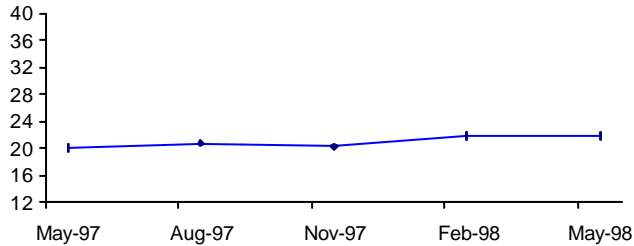
**Wellington May 97 - May 98**



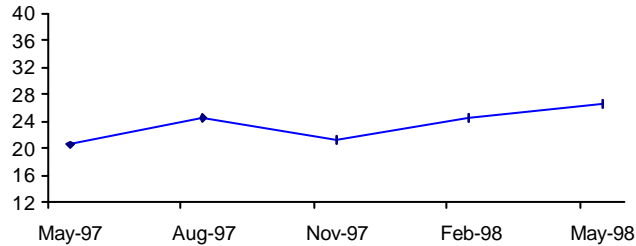
**Southland May 97 - May 98**



**Hawkes Bay May 97 - May 98**



**Nelson May 97 - May 98**



**New Zealand May 97 - May 98**

