



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 average wage.)

## QUARTERLY SURVEY - JUNE 2000

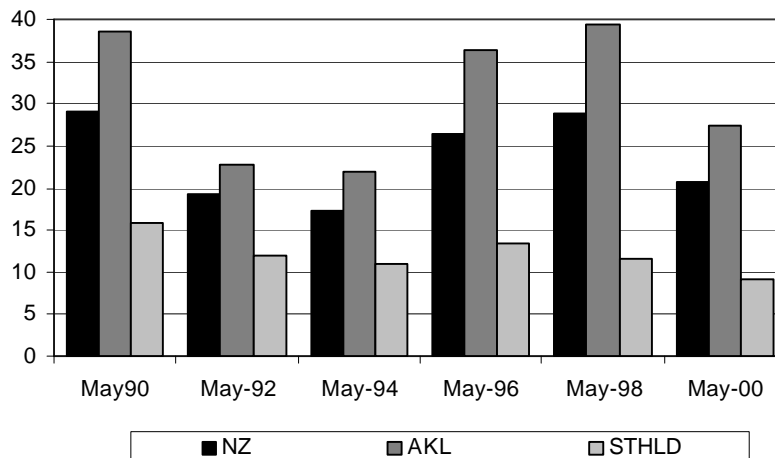
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## HOME AFFORDABILITY DECLINES FOR FOURTH CONSECUTIVE QUARTER

Home affordability declined for the fourth consecutive quarter as softening house prices in six out of eleven regions failed to offset continued upward pressure on mortgage interest rates. A hold on interest rate rises has been signalled by the Reserve Bank as this publication goes to press. An affordability decline of 7.2% was reflected in The New Zealand index for the June quarter. The Real Estate Institute, reporting a slip in the Median Dwelling Price in several regions, stated that the market reflected a lack of tangible recovery in business and public confidence. The New Zealand Median Dwelling Price, however, showed a slight rise over the quarter from \$171,000 to \$172,000. Dwelling sales volumes for the quarter (17,305) were 22.4% down on the corresponding quarter for 1999 (22,302) and slightly exceeded the corresponding quarter in 1998 (17,227).

## NATIONAL HOME AFFORDABILITY INDEX (a low index equals improved affordability)



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Three of the eleven regions reported a quarterly improvement in affordability, driven by a decline in Median Dwelling Prices. Taranaki's affordability improvement was 10.5% followed by Manawatu/Wanganui (4.8%) and Southland (3.4%). The remaining eight regions reported a quarterly decline in affordability. Otago recorded the steepest decline (13.2%) followed by Canterbury/Westland (10.2%), Northland (9.8%) and Waikato/Bay of Plenty (7.3%). These regions all recorded increases in the Median Dwelling Price. Hawke's Bay recorded the smallest quarterly decline (2.4%) followed by

Auckland (4.7%) and Nelson (5.7%). These regions all recorded reductions in the Median Dwelling Price.

Twelve monthly affordability declines were recorded for New Zealand and for all regions. The New Zealand data reflected an annual affordability decline of 25.8%, the steepest national decline reported since September 1995. Otago recorded the steepest twelve monthly regional decline (46.8%) followed by Wellington (33.3%) and Canterbury/Westland (31.3%). Northland (5.7%), Hawke's Bay (15%) and Manawatu/Wanganui (18.9%) recorded the smallest twelve monthly regional declines.

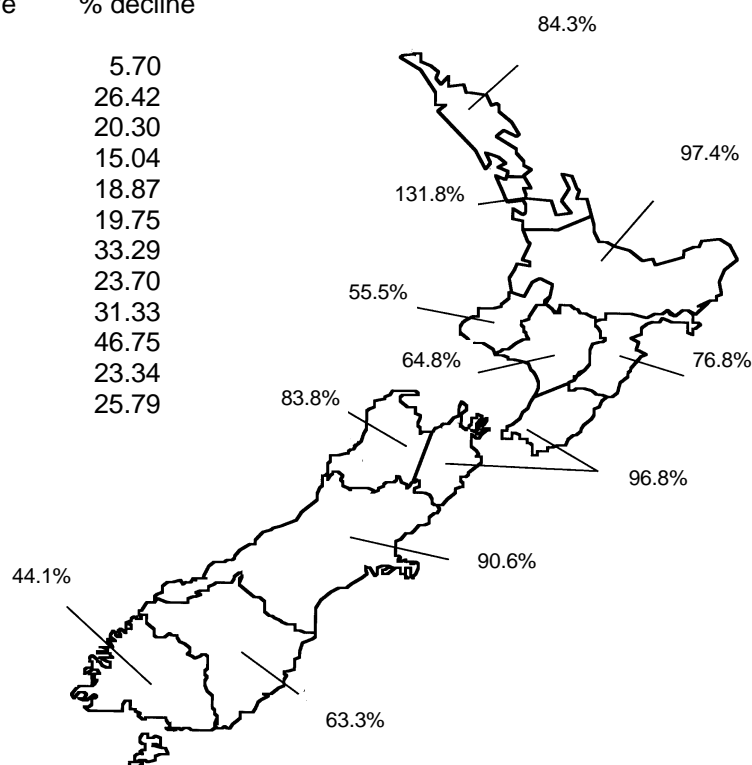
Recent changes by Statistics New Zealand to the Quarterly Employment Survey of National and Regional Weekly Earnings have necessitated back-casting of the affordability index. This technique preserves the ability to reliably measure national and regional movements. Please note that minor changes to historical data have occurred in the index as a result of the back-casting.

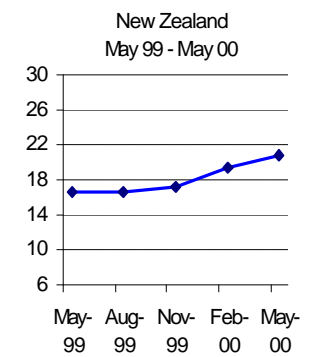
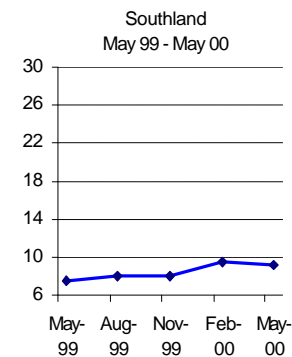
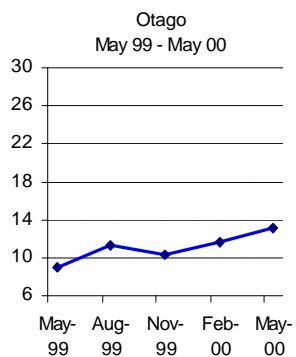
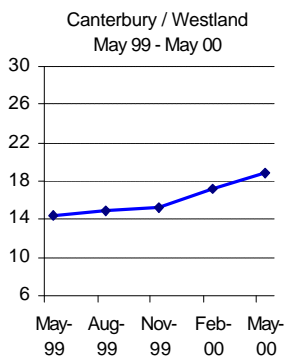
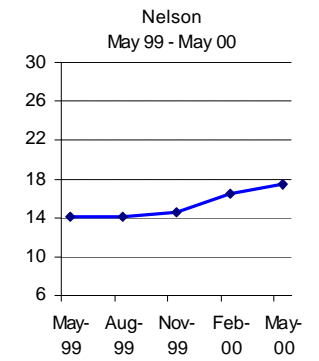
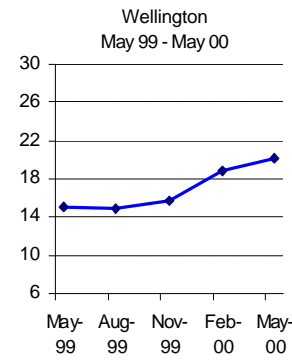
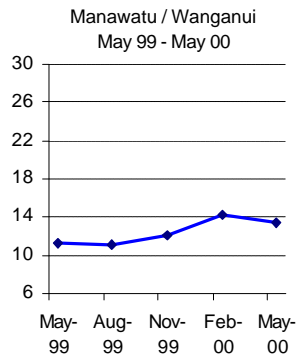
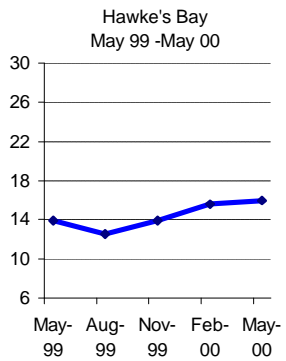
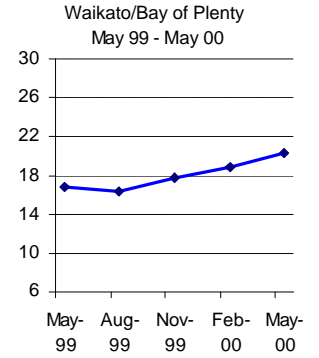
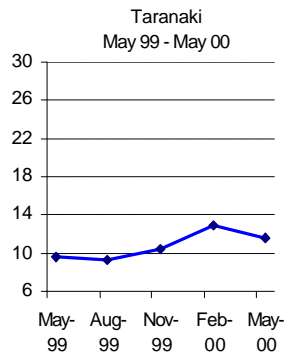
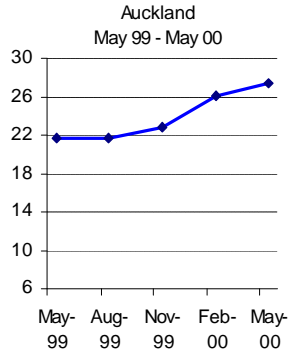
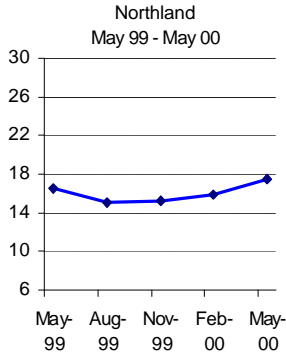
### HOME MORTGAGE AFFORDABILITY INDEX

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

### REGIONAL AFFORDABILITY AS A PERCENTAGE OF NATIONAL AVERAGE

REGION	QUARTER		12 MTHS	
	Feb 00	May 00	% improve	% decline
Northland	15.95	17.52	5.70	
Auckland	26.16	27.39	26.42	
Waikato / Bay of Plenty	18.87	20.24	20.30	
Hawke's Bay	15.60	15.97	15.04	
Manawatu / Wanganui	14.15	13.46	18.87	
Taranaki	12.88	11.53	19.75	
Wellington	18.88	20.13	33.29	
Nelson	16.48	17.41	23.70	
Canterbury / Westland	17.10	18.84	31.33	
Otago	11.62	13.16	46.75	
Southland	9.50	9.18	23.34	
New Zealand	19.39	20.79	25.79	





## 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 (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 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 33,000 students with approximately 13,000 business students. There are

ten departments and three 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.

AMP Banking is New Zealand's largest branch-free retail bank, offering residential, commercial and rural property lending and term deposits. AMP Banking has an extensive network of Financial Advisers and 700 mortgage brokers nationwide. For detailed information about the bank and its services, or to try out AMP Banking's Internet Banking service, visit our website at [www.ampbanking.co.nz](http://www.ampbanking.co.nz)

## Important Disclaimer

No person should rely on the contents of this report without first obtaining advice from a qualified professional person.

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