



**Massey  
University**

# NZ Residential Rental Market

June 2004

Quarterly Survey Volume 7, Number 2

## Debt Servicing Challenges in Auckland

Prepared by  
Bob Hargreaves\*

**DATA SOURCE** This index has been developed from private sector rental data supplied by the Ministry of Housing (Bond Centre). Information on wage rates, demographics and the structure of the rental housing stock is drawn from Statistics NZ data. House price information has been extracted from Real Estate Institute and Quotable Value NZ statistics.

### Lending Ratios

The vast majority of households occupying rental accommodation aspire to home ownership. The transition to ownership requires rental households to firstly save a deposit and secondly be able to service a mortgage. Rental households are typically in the under 35 age group and city based. We will assume a hypothetical rental household based in Auckland that has accumulated a 10% deposit. Just how much income is required to service a mortgage on the median house? The answer to this question depends on both interest rates and the term of the loan. We start by using the lenders guidelines specifying debt servicing should be in the range of 25%-30% of gross income. Interest rates are assessed at 8% with a 20 year table mortgage repayable by monthly instalments. The house prices are based on the median prices for the four main Auckland cities in March 2004. The table below shows that a household with an income of \$75,000 per annum would not be able to meet the guidelines. The right hand column represents the ratio of debt servicing costs to household income expressed as a percentage.

<i>Household Income</i>	\$75,000			
<i>Interest Rate</i>	8%			
<i>Loan Term (years)</i>	20			
	<i>Price</i>	<i>Mortgage</i>	<i>Debt Serv.</i>	<i>percent</i>
<i>North Shore</i>	389000	350100	-\$35,141	47
<i>Waitakere</i>	274500	247050	-\$24,797	33
<i>Auckland</i>	358000	322200	-\$32,340	43
<i>Manukau</i>	295000	265500	-\$26,649	36

What is the position if the income level is raised to \$100,000 per annum and the loan term remains 20 years? The table at the top right shows an improved debt servicing position with the guidelines being met in two of the four cities. Of course not a lot of households have incomes of \$100,000. At the time of the 2001

<i>Household Income</i>	\$100,000			
<i>Interest Rate</i>	8%			
<i>Loan Term (years)</i>	20			
	<i>Price</i>	<i>Mortgage</i>	<i>Debt Serv.</i>	<i>percent</i>
<i>North Shore</i>	389000	350100	-\$35,141	35
<i>Waitakere</i>	274500	247050	-\$24,797	25
<i>Auckland</i>	358000	322200	-\$32,340	32
<i>Manukau</i>	295000	265500	-\$26,649	27

census the figures were North Shore (22%), Waitakere (12%), Auckland (24%) and Manukau (13%). Certainly wages and salaries have increased since 2001 but the reality is higher income households are typically home owners, not renters.

It may be argued that the lending guidelines are conservative and some households can apply more that 25%-30% of their income to debt servicing. Figures from the 2001 Household Economic Survey give some insight into the expenditure pattern of households where the reference person is in the 25-34 age group. In 2001 this group had an average weekly expenditure of \$816 per week. Taking out the direct costs of rent or mortgage payments left \$626 per week. Updating this figure by say 7.5% gives us estimated expenditure in 2004 of \$673 per week, say \$35,000 annually. A single income household on \$100,000 would have an after tax income of say \$69,370 less expenditure of \$35,000 leaving \$34,370 to be applied to debt servicing. In this case a lender could go beyond the 30% limit.

### Less Expensive Options

A household on \$75,000 is more difficult position as their after tax income is around \$54,480. Assuming expenditure of \$35,000 leaves only \$19,480 that can be applied to debt servicing. This amount would service a loan of say \$194,000 and a property priced at say \$216,000. What is available in this price range? An examination of the sales statistics for February-April 2004 reveals that there are

only a few options to purchase stand alone houses in the lower cost suburbs of both North Shore and Auckland cities. For example, a price of \$216,000 in Glenfield (North Shore City) is in the bottom 2% of transactions. It seems reasonable to assume that houses at the lower end of the market would require money spent on them and not be suitable for first home buyers.

There are more options for purchasing home units (mainly two bedrooms) in Glenfield and Ellerslie/Panmure (Auckland City). Housing in Waitakere and Manukau cities is more affordable for a household on \$75,000 with both Henderson (Waitakere City) and Manurewa (Manukau City) having a reasonable numbers of homes sold for \$216,000 and under. The table below shows the numbers of sales in the various housing categories over the period February-April 2004. In Waitakere and Manukau cities it is estimated that over 70% of households have income levels below \$75,000.

The Auckland affordability challenges outlined in this report are likely to become more problematical in the future due to increasing building and land costs continuing to outstrip the growth in wages and salaries.

Number of Sales <=\$216,000	Houses	Units	Town Hse	Apartment
Glenfield (North Shore)	9	15	2	0
Henderson (Waitakere)	127	26	6	0
Ellerslie/Panmure (Auckland)	7	12	6	1
Manurewa (Manukau)	217	8	30	0

### The Apartment Option

During the period February-April 2004 there were just over 400 Apartment sales in the Auckland City/Pt Chevalier area at or below \$216,000. Approximately 80% of these sales were small one bedroom units. Apartments may represent the most viable option for first home buyers on average and below average incomes. Living centrally has attractions for city workers faced with costly and time consuming commuting if they choose to purchase affordable housing in the more distant suburbs.

### Current Rental Levels

Over the last quarter the national level of median rent for private sector rental accommodation remained at \$240 per week. A snap shot of rents in the main cities over the period April 2003 to April 2004 is shown in the table at the top right. The figures shown for Wellington and Palmerston North cities are for March (not April) 2004 due to data problems with the way two large bonds were lodged. Median rents in the Auckland area do not appear to have moved over the last quarter. This is likely to be a function of the fall off in net migration statistics and the resultant levelling off of demand.

	April 03	Jan 04	April 04
Whangarei	180	185	190
North Shore	330	340	340
Waitakere	270	300	298
Auckland	332	325	325
Manukau	280	300	300
Papakura	250	260	260
Hamilton	210	230	230
Tauranga	220	230	240
Rotorua	160	175	175
Gisborne	150	165	175
Hastings	180	190	190
Napier	180	220	210
New Plymouth	170	200	180
Wanganui	137	140	140
Palmerston North	185	195	200
Kapiti	210	200	220
Porirua	220	220	220
Upper Hutt	160	180	170
Lower Hutt	210	220	225
Wellington	280	290	300
Nelson	220	230	250
Christchurch	220	235	240
Dunedin	190	205	210
Invercargill	160	160	170
All NZ	220	240	240

#### 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 Mr Bill Cleghorn. 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 Secretary of the Foundation is Natalie McLelland, Phone (06) 3505799 ext. 2321.

#### Massey University Real Estate Analysis Unit

The primary objective of the Massey University Real Estate Analysis Unit (MUREAU) is to provide reliable property information to the property industry, the land related professions and the public.

The Director of MUREAU is Professor RV (Bob) Hargreaves. MUREAU also offers a consulting service for individual clients. MUREAU publications, free on request are:

- 1 The AMP Banking Home Affordability Report (Quarterly)
- 2 Rural Real Estate Market Outlook (Quarterly)
- 3 Auckland Commercial Market Outlook (Quarterly)
- 4 Christchurch Commercial Market Outlook (Quarterly)
- 5 Wellington Commercial Market Outlook (Quarterly)
- 6 Auckland Residential Market Outlook (Quarterly)
- 7 Christchurch Residential Market Outlook (Quarterly)
- 8 Wellington Residential Market Outlook (Quarterly)

Inquiries concerning this publication and other research papers prepared by MUREAU may be addressed to:

MUREAU  
 Department of Finance, Banking and Property  
 Massey University, Private Bag 11.222  
 Palmerston North  
 Telephone: +64 6 350-5799 ext: 2321  
 Facsimile: +64 4 350-5651

<http://property-group.massey.ac.nz/mureau/mureau.htm>