

HOME AFFORDABILITY REPORT

QUARTERLY SURVEY SEPTEMBER 2017, VOL 27, NO.3

THE NEW AFFORDABILITY LANDSCAPE: DECLINE IN ANNUAL AFFORDABILITY FOR ALL REGIONS; AND A MIXED IMPROVEMENT IN HOME AFFORDABILITY THIS QUARTER

The Massey Home Affordability Index takes into account the cost of borrowing as well as house prices and wage levels. Despite the annual fall in affordability for all regions, this September quarter has seen an improvement in national affordability, driven mainly by the fall in house price levels in Northland (-\$30,000), Wellington (-\$28,000) and Central Otago Lakes (-\$35,000). Overall, home affordability improved by 2.1% in this quarter with some significant improvement in the regions of Northland (11.5% improvement) and Taranaki (7.5% improvement).

Auckland home affordability improved in this quarter by 0.6%, and Central Otago Lakes improved by 3.1%. Auckland/Thames/Coromandel and Central Otago Lakes do remain the least affordable regions in the country, 50% and 68% respectively less affordable than the rest of New Zealand. In absolute home affordable index point terms, Southland (11.9 index points), Manawatu/Wanganui (13.8 index points), Taranaki (13.9 index points), and Otago (16.0 index points) remain the country's most affordable regions.

On a year-on-year basis, over the 12 months to September, we see no improvements in affordability in all regions. Year-on-year changes saw an increase of \$38,000 in median house price values nationally.

House price to wages remain very high, and this factor continues to place considerable strain on first home buyers, especially in the two most expensive regions of Auckland/Thames/Coromandel (36.2 index points) and Central Otago Lakes (40.4 index points). Median house prices are over 14 times annual wages for the Central Lakes Otago region, and over 13 times annual wages for the Auckland/Thames/Coromandel region.

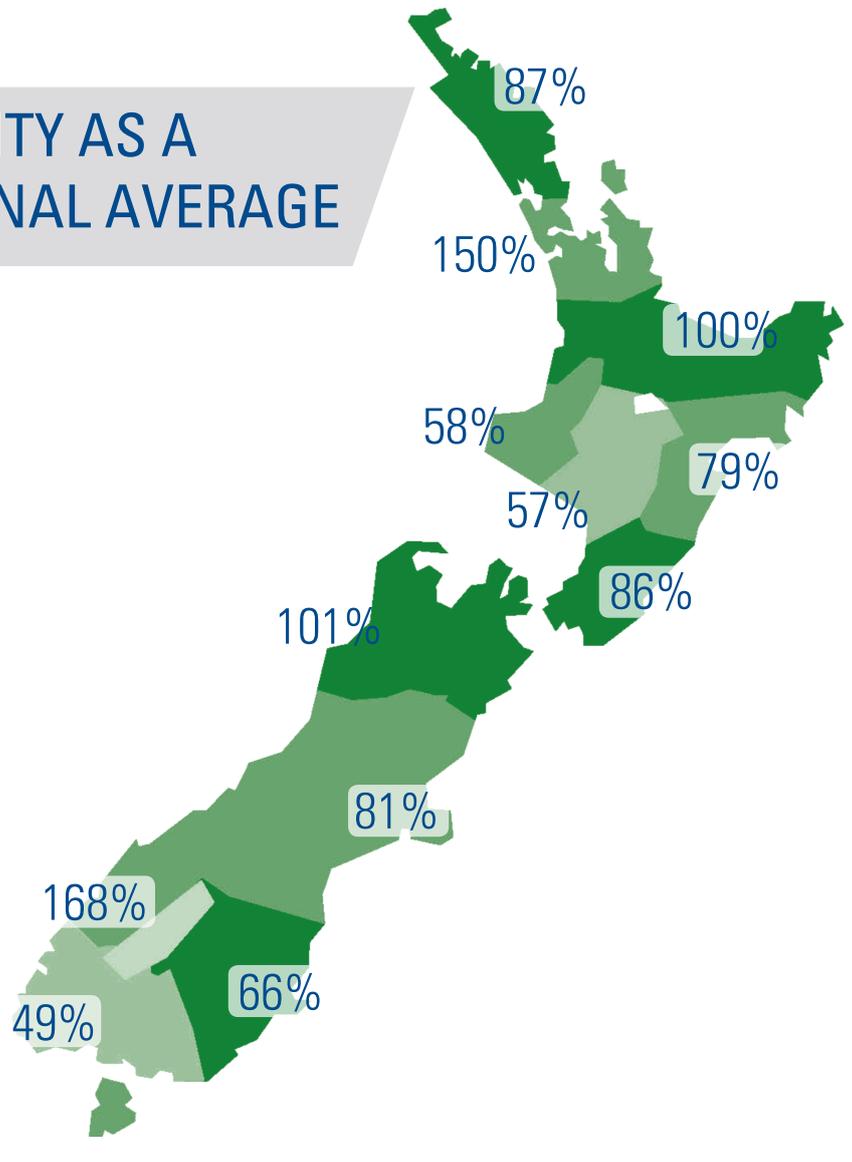
Borrowing costs remain low more broadly, with the interest rate statistic used this quarter being a 2-year fixed rate for new residential mortgages for July 2017 at 5.30% (last quarter at 5.27%).

It will be interesting to see if the quarterly fall in house prices for some regions will spread to the other regions in the next quarter, or further diverge from those regions that are on an upward trend.

KEY POINTS

- Nationwide, median sales price shows a 7.7 % year-on-year increase, with a 1.9% decrease this quarter – contributing to a year-on-year decline in national affordability of 10.5%.
- All regions have an annual price increase – except for Auckland/Thames/Coromandel (-1.3%) and Canterbury/Westland (-1.0%)
- All regions show a negative quarterly rate of median house price growth, except for growth regions of Hawkes Bay (7.4%), Manawatu/Wanganui (5.1%), Otago (4.0%), and Southland (1.9%)
- Central Otago Lakes has the highest quarterly median house price decline of \$35,000, and Hawkes Bay has the highest quarterly median house price increase of \$27,500
- Central Otago Lakes, including Queenstown (40.4 Index Points), continues its record as the most unaffordable region in New Zealand with median house prices 14.7 times annual wages

REGIONAL AFFORDABILITY AS A PERCENTAGE OF NATIONAL AVERAGE



HOME AFFORDABILITY INDEX	Region	August 2016	May 2017	August 2017	PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 12 MONTHS		PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 3 MONTHS	
					Improvement	Decline	Improvement	Decline
	Northland	17.63	23.6	20.87	-	18.4%	11.5%	-
	Auckland	35.35	36.4	36.15	-	2.3%	0.6%	-
	Waikato/Bay of Plenty	20.81	23.9	24.05	-	15.5%	-	0.8%
	Hawke's Bay	14.87	18.2	19.11	-	28.6%	-	5.0%
	Taranaki	13.20	15.0	13.91	-	5.3%	7.5%	-
	Manawatu/Whanganui	11.74	13.3	13.82	-	17.8%	-	3.7%
	Wellington	18.58	21.8	20.69	-	11.4%	4.9%	-
	Nelson/Marlborough	20.70	24.3	24.32	-	17.5%	-	0.2%
	Canterbury/Westland	19.10	19.9	19.46	-	1.9%	2.4%	-
	Otago	14.38	15.6	15.98	-	11.1%	-	2.5%
	Central Otago Lakes	34.93	41.7	40.38	-	15.6%	3.1%	-
	Southland	10.04	11.7	11.87	-	18.2%	-	1.4%
	New Zealand	21.75	24.6	24.05	-	10.5%	2.1%	-



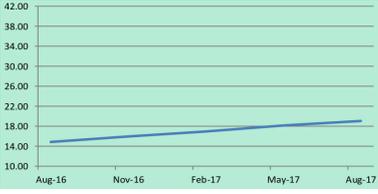
Northland
Aug 16 - Aug 17



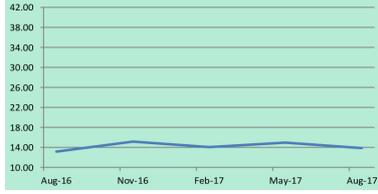
Auckland
Aug 16 - Aug 17



Waikato/Bay of Plenty
Aug 16 - Aug 17



Hawkes Bay
Aug 16 - Aug 17



Taranaki
Aug 16 - Aug 17



Manawatu/Whanganui
Aug 16 - Aug 17



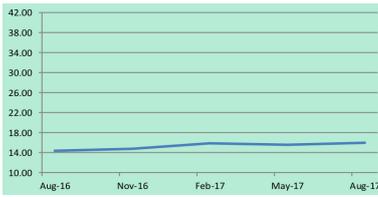
Wellington
Aug 16 - Aug 17



Nelson
Aug 16 - Aug 17



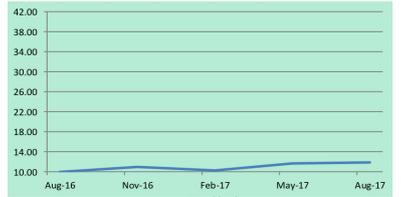
Canterbury/Westland
Aug 16 - Aug 17



Otago
Aug 16 - Aug 17



Central Otago Lakes
Aug 16 - Aug 17



Southland
Aug 16 - Aug 17

REGIONAL AFFORDABILITY INDEX

(A LOW INDEX EQUALS IMPROVED AFFORDABILITY)



New Zealand
Aug 16 - Aug 17

DATA SOURCES

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.

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 New Zealand (RBNZ) publishes a range of data on mortgage interest rates. Some interest data provided by the Reserve Bank has been discontinued at April 2017 (E5.10 Total Monthly yield weighted average % (end of month) on balance sheet).

The Reserve Bank series selected for this quarter's home affordability index is based on a 2-year fixed new residential average mortgage interest rates at the end of month for registered banks (B20).

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MASSEY UNIVERSITY PROPERTY FOUNDATION

The Foundation is established to sponsor research and education in property related matters in New Zealand. Funding is obtained through sponsorship from corporations and firms within the property industry. The Foundation has also established a Real Estate Analysis Unit.

The Foundation works closely with the Property Studies Group at Massey University.

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