

HOME AFFORDABILITY REPORT

QUARTERLY SURVEY JUNE 2014 | VOLUME 24 | NUMBER 2

AFFORDABILITY WORSENS

The all districts national affordability index deteriorated by 7.6% during the twelve months ending May 2014. There was no real surprise in this result because the average annual wage increase of \$34.53 was not enough to offset a \$38,000 increase in the national median house price and an increase in the average mortgage interest rate from 5.57% to 5.64%. This deterioration in affordability is likely to continue as recent interest rate increases are incorporated into the debt servicing costs for home mortgages.

On a regional basis annual changes in affordability showed five regions with improved affordability. These were Southland [14.4%], Taranaki [8.4%], Manawatu/Wanganui [6.2%], Nelson [2.2%] and Otago [0.8%]. A deterioration in annual affordability was evident in seven regions; Central Otago/Lakes [12.2%], Canterbury [10.6%], Auckland [9.1%], Waikato [4.8%], Northland [3.5%], Wellington [3.4%] and Hawkes Bay [0.7%]. On a quarterly basis the all districts national affordability index deteriorated by 4.5% compared with 2.8% improvement in the previous quarter.

Auckland at 138.0% of the all districts national index [100%] was the least affordable region followed by Central Otago/ Lakes [133.9%] and Canterbury [100.6%]. Southland retained its place as the most affordable region with an index of 42.5% of the national average. Manawatu/Wanganui [55.2%] was in second place followed by Taranaki [56.7%] third. There appears to be an ongoing trend where the affordability gap is widening between the larger urban centres and the provincial urban centres. This is mainly a function of differential house prices between regions.

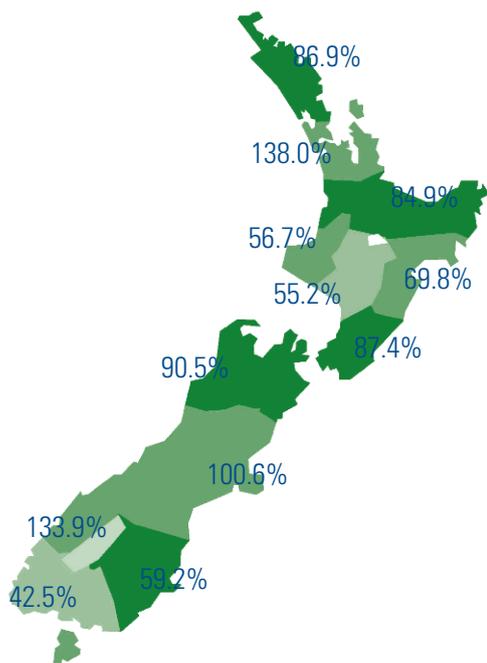
Further details on affordability and the methodology used in this survey are reported on the following pages.

KEY POINTS

- Annual deterioration in National affordability of 7.6%
- Quarterly deterioration is National affordability of 4.5%
- Affordability projected to continue to deteriorate during 2014
- Affordability gap between urban and rural regions is widening

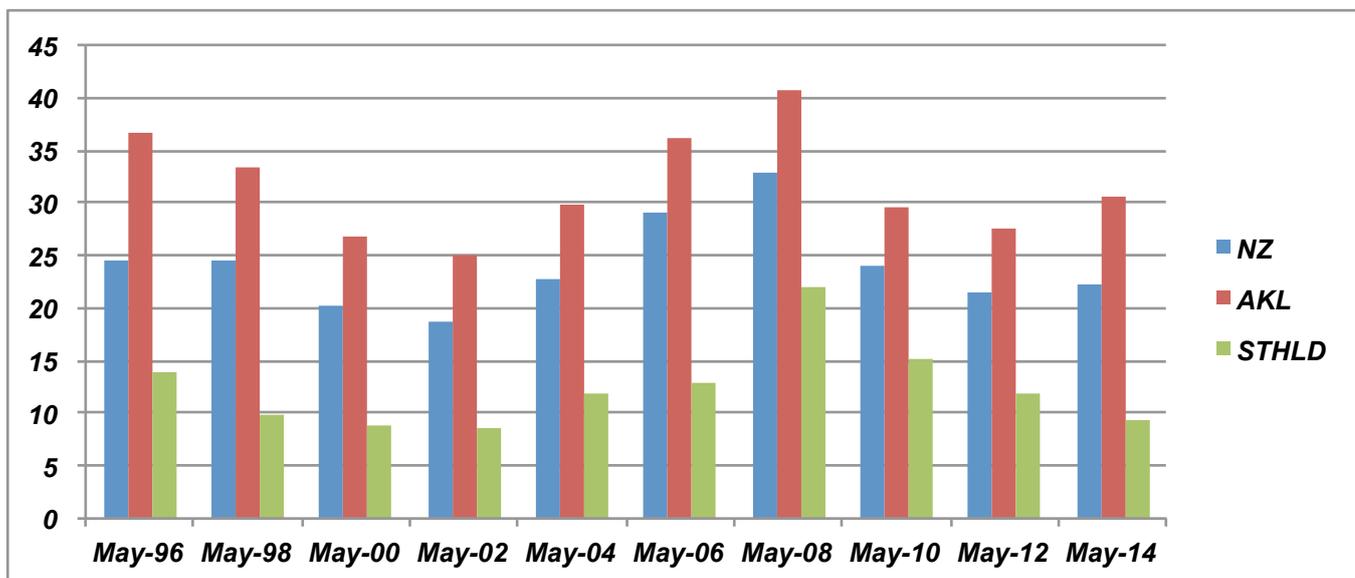


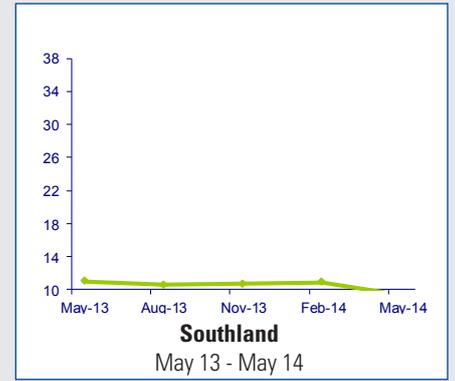
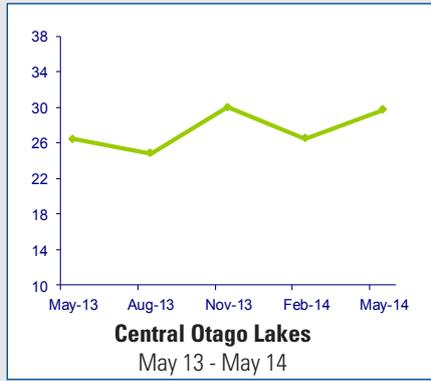
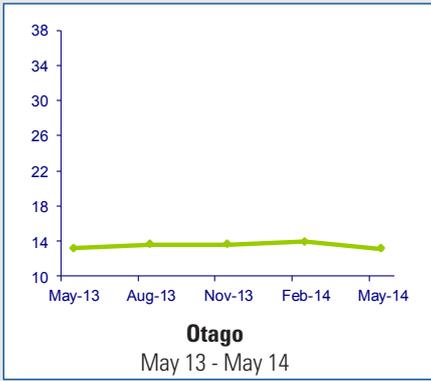
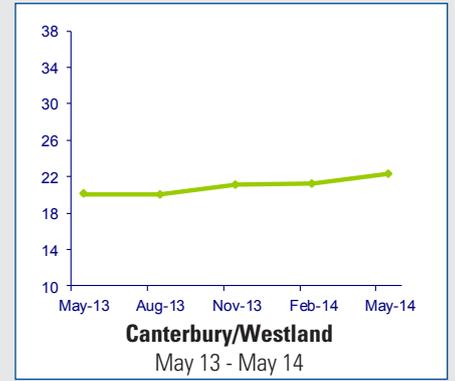
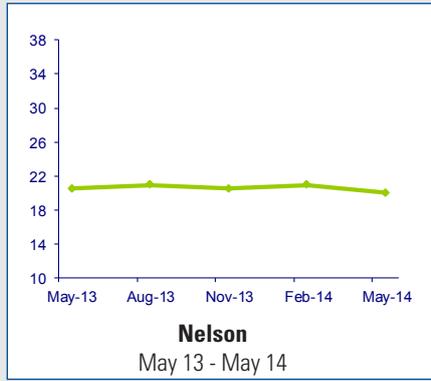
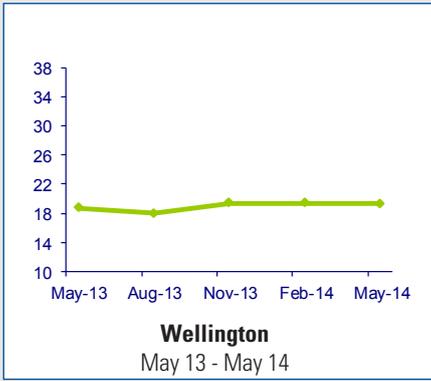
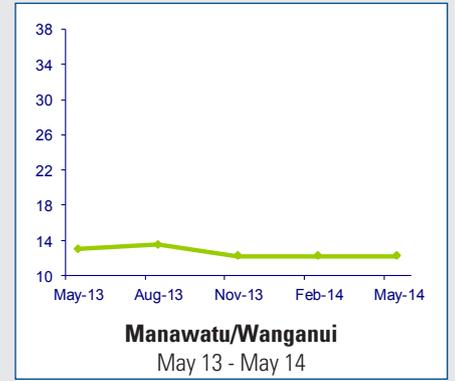
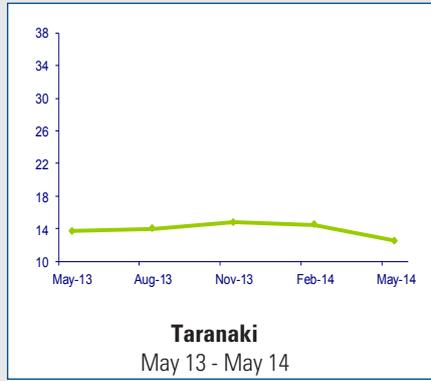
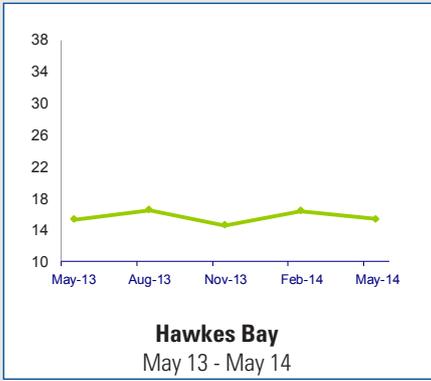
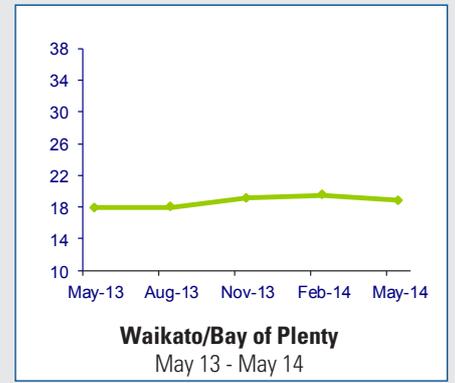
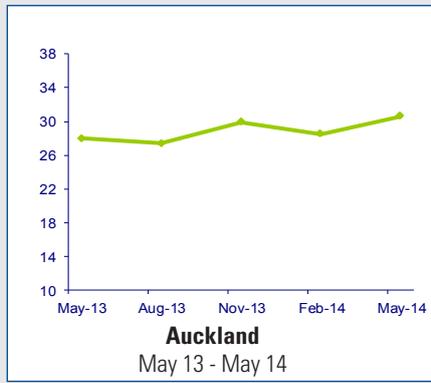
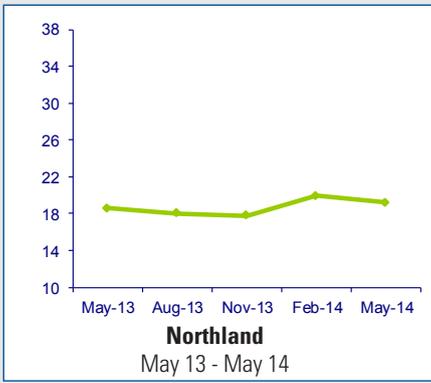
REGIONAL AFFORDABILITY AS A PERCENTAGE OF NATIONAL AVERAGE



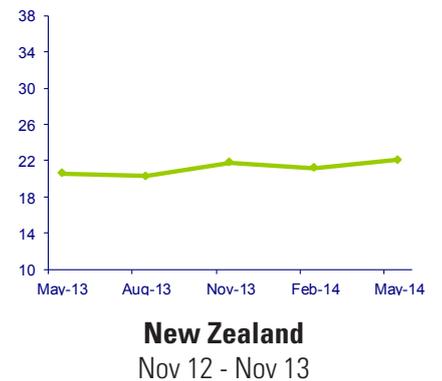
HOME AFFORDABILITY INDEX	PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 12 MONTHS			
	Region	Feb 2014	May 2014	improvement
Northland	19.9	19.2	-	3.5%
Auckland	28.5	30.6	-	9.1%
Waikato/Bay of Plenty	19.5	18.8	-	4.8%
Hawke's Bay	16.4	15.4	-	0.7%
Taranaki	14.5	12.5	8.4%	-
Manawatu/Wanganui	12.2	12.2	6.2%	-
Wellington	19.4	19.3	-	3.4%
Nelson/Marlborough	20.9	20.0	2.2%	-
Canterbury/Westland	21.2	22.3	-	10.6%
Otago	13.9	13.1	0.8%	-
Central Otago Lakes	26.5	29.7	-	12.2%
Southland	10.9	9.4	14.4%	-
New Zealand	21.2	22.1	-	7.6%

NATIONAL HOME AFFORDABILITY INDEX
(A LOW INDEX EQUALS IMPROVED AFFORDABILITY)





REGIONAL AFFORDABILITY INDEX



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 publishes a range of data on mortgage interest rates. The Reserve Bank series selected for the affordability index is based on end of month floating and fixed rates for existing borrowers. Weighted by volume, loan type and term from each lending institution, the rate used is effectively the weighted average interest rate earned by lenders (and paid by borrowers) for more than 90 per cent of the residential mortgage market.

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.

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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 established a Real Estate Analysis Unit to operate out of both MasseyUniversity's Palmerston North andAlbany campuses.

The Foundation works closely with the Property Studies Group at MasseyUniversity.

SCHOOL OF ECONOMICS AND FINANCE MASSEY UNIVERSITY

MasseyUniversity has three campuses, located in Palmerston North, Wellington and Auckland, in New Zealand. The University has an enrolment of 33,000 students with approximately 13,000 business students. There are five schools within the BusinessStudiesCollege. Professor R.V.(Bob) Hargreaves, directs the Massey University Real Estate Analysis Unit (MUREAU).

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