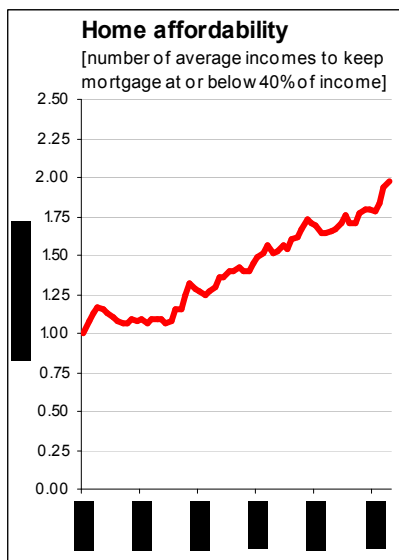


Household incomes and house prices

The www.interest.co.nz home loan affordability survey now tracks how many average incomes are required in a household to meet a mortgage:income standard of 40%.

Lenders assess total household income when approving a mortgage, rather than relying on just one income. To achieve a situation where 40% of total household income is used to pay the mortgage, you will now need 2.0 average incomes in a household, up from 1.9 in March 2007, 1.7 in April 2006, and 1.2 in April 2002.

This measure is another way to look at affordability, by focusing on household incomes, and recognizes that in many parts of New Zealand, it is just impossible to buy an average house on one average income.



In April 2007, an average household will need two average incomes to afford a standard mortgage for a median-priced house. This is the first time ever that the level of two full incomes has been breached.

Home loan affordability is falling faster than ever – in the last three months you needed 8.6% more income to avoid being worse off. In the past 12 months, you needed 16.3% more income.

Clearly the affordability squeeze has gotten dramatically worse – effectively shutting out most first-home buyers from many parts of the country.

After being pretty stable through all of 2006 at 1.75 incomes, this measure has deteriorated rapidly in 2007.

This affordability measure varies widely across the nation.

The least affordable regions are currently (April 2007):

- Central Otago Lakes 2.6 average incomes required
- Auckland 2.5
- Northland 2.1

The most affordable regions are currently (April 2007):

- Southland 1.0 average incomes required
- Otago 1.4
- Manawatu/Wanganui 1.5

By any measure, the ability of many potential home buyers to afford a median-priced house is slipping away very quickly, although you can clearly improve your prospects by moving to a more affordable region.

With the RBNZ having made the cost of funds more expensive recently with two OCR increases, the affordability problem has gotten a lot worse for first-home buyers.

Whatever the public policy imperatives, it can not be a positive outcome to push even more families away from home ownership. All central government agencies have an obligation to work on making housing more affordable, not less affordable.

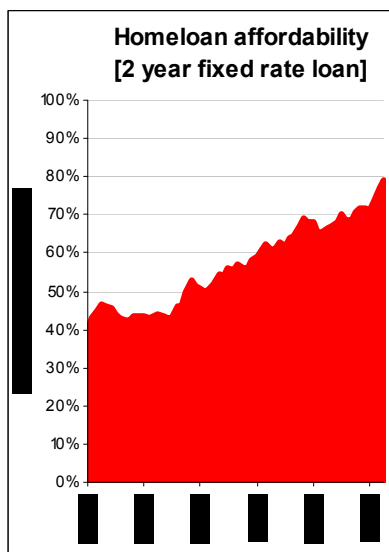
Affordability, especially for first-home buyers, will not be improved with the current mix of initiatives – in fact some of these will make matters worse. For example, both the government’s equity assistance program, and the Kiwisaver housing features will only add to demand. What’s really needed are strategies that will add significant new levels of housing supply. And to get that, regulators will need a complete change in attitude to land allocation and regulation costs.

A full report for each region is available on-line at www.interest.co.nz

Home loan affordability

This monthly series is designed to measure how much of average weekly take-home pay is required to make a standard mortgage repayment for an average house.

As at the end of April 2007, the national average was 79.2%, up dramatically from both March 2007 (77.2%) and April 2006 (66.2%).



That is, it now takes at least 79.2% of the average take-home pay to afford a standard mortgage payment of a median-priced house, as at April 2007.

In April 2002, five years ago, it took only 46.4% of take-home pay to make a mortgage payment on a median house.

The index methodology is detailed below.

The drivers of the April 2007 increase were ...

- median house prices rising +1.6% since March 2007, +14.4% since April 2006
- benchmark interest rates rising sharply from 8.644% in March 2007 and 7.764% in April 2006 to 8.784% in April 2007 as a direct result of RBNZ

pressures.

while take-home weekly pay estimates rose from \$669.07 (revised) in March 2007 and \$642.35 in April 2006 to \$670.24 in April 2007.

Weekly take-home pay rose +\$27.90 in the past twelve months, while weekly mortgage payments for a median-priced house has risen a whopping +\$105.32. (This compares buying a median-priced house with average take-home pay between April 2006 and April 2007.)

This index is designed to be a benchmark. Home buyers on average incomes may well choose to purchase a house below the median price level, and that will make their

transaction more affordable. This survey does not have access to lower-quartile house price data.

But the changes in prices and interest rates reported here will be very similar no matter what band the home buyer is in. Home loans are getting less affordable for most people because house prices and interest rates are rising faster than take-home pay.

A full report for each region is available on-line at www.interest.co.nz

Sources / Definitions / Methodology:

Average gross weekly earnings are sourced from Statistics New Zealand's quarterly series. For the latest months a factor is applied to estimate the most recent periods, and this makes the outcome for those months provisional. (The impact of this process on the overall affordability measures is considered very low.)

Average mortgage interest rates are sourced from www.interest.co.nz. These averages are for banks only, because banks have 90%+ of the mortgage market. Affordability calculations are done for mortgages using floating, and the five fixed-rate terms. For the purpose of the data in this Report, the two-year fixed mortgage interest rate is used. This is, and has been the most popular term. However, the market is shifting to longer term rates, and the index reviews allow for keeping track of affordability issues as this shift happens.

The tax adjustments to average gross weekly earnings are per the PAYE tables issued by the IRD. This converts gross earnings to take-home pay.

Median house prices are as reported by the Real Estate Institute of New Zealand. We are using the REINZ series because it is more timely. We have run a detailed correlation with the QV series, and while the REINZ series may be seen to be more volatile in the short run, and the 'median' definition theoretically problematic, in fact the two series track very similar, with the REINZ series giving an earlier indication of market trends.

Average gross weekly earnings are a national measure only. However, Statistics New Zealand also publish regional earnings data annually, by regional council areas, and this data is used to modify the national data into regional equivalents.

Average savings interest rates are sourced from www.interest.co.nz. These averages are for banks only, and use the one-year term deposit rate. This interest is credited to the time needed to save for the deposit, after deducting the IRD's resident withholding tax for interest at the gross income level of the saver.

The home loan is assumed to be for 80% of the median house price, with the remaining 20% as part of the time-to-save deposit index.

The home loan is assumed to be a standard table mortgage, where both interest and principal is repaid in a level standard weekly payment. The repayment is calculated using the tools at www.interest.co.nz/calculator. Interest in arrears is assumed.

The affordability index in this Report is calculated by dividing the weekly mortgage payment for a median house price into the weekly take-home pay. An index is generated for each region, and nationally, and for each of the mortgage interest rate terms.

Disclaimer

IMPORTANT – PLEASE READ

No reader should rely on the contents of this report for making a specific investment or purchase decision. The information in this report is supplied strictly on the basis that only overall market trends are being reported on, and that all data, conclusions and opinions expressed are provisional and subject to revision. If you are making a specific investment or purchase decision, you are strongly advised to seek independent advice from a qualified professional you trust. The conditions and disclaimers set out at www.interest.co.nz/legaldisclaimer.asp are applicable to this report as well.

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