

HOME AFFORDABILITY REPORT

QUARTERLY SURVEY JUNE 2016, VOL 26, NO.2

DESPITE SOME POCKETS OF VOLATILITY AND UNANSWERED QUESTIONS HOUSING AFFORDABILITY FOR MOST REGIONS IMPROVES YEAR ON YEAR

In the latter months of 2015 we reported an improvement in home affordability across the nation. This trend has continued, however, the past three months to June show a significant reversal (9.2%). The NZ median house price in May last year was \$460,000 and even though a year later this increased by \$46,000, actual affordability improved by 6%. The region that shows a noteworthy annual and quarterly decline in affordability is Central Otago Lakes (19.6% and 22.5% respectively), and to a lesser extent Waikato/Bay of Plenty (2.5% and 1.7%). The median value of \$707,250 in the Central Otago Lakes area is significantly higher than in the previous year. Central Otago Lakes is now 66% less affordable than the rest of NZ, so displaces Auckland in the notorious top position in that respect (52%).

Interestingly, the Central Otago Lakes area is alone in consistent monthly value increase over the current quarter. A booming tourism industry and low median wages could underlie the regional picture in Central Otago Lakes and the close proximity of Waikato/Bay of Plenty to Auckland suggests evidence of the much touted 'halo effect', as investment swings southward.

In the Auckland region the median price of \$805,000 (May) is a decline of \$15,000 since March. Given the effect of government imposed market slow down measures and a slight decrease in unfulfilled demand, affordability in our major region shows annual improvement but mirrors national quarterly deterioration (8.2% annual improvement and 4.4% quarterly decline). It almost seems an anathema to suggest Auckland is more affordable, and is perhaps better to suggest Auckland is slightly less unaffordable than at this time last year (38.46 versus 35.32). For those wanting to access the Auckland house market even a slight decrease in the median and lower than usual mortgage interest rates is hardly helpful in a market characterised by intense competition and an endemic lack of supply. However, if wages increased by 2.5% and mortgage rates decreased by even 1%, the latter of which looks increasingly likely, affordability in Auckland would improve considerably.

Annual improvement in affordability has been most marked in Southland (10.2%); Otago (10%); Hawkes Bay (9.8%), and Manawatu/Wanganui (8.8%). Manawatu/Wanganui partners Southland as the most affordable area to buy in the country (index figures of 11.8 and 10.2 respectively). Overall wages have increased in NZ slightly in the past twelve months but languished since February this year.

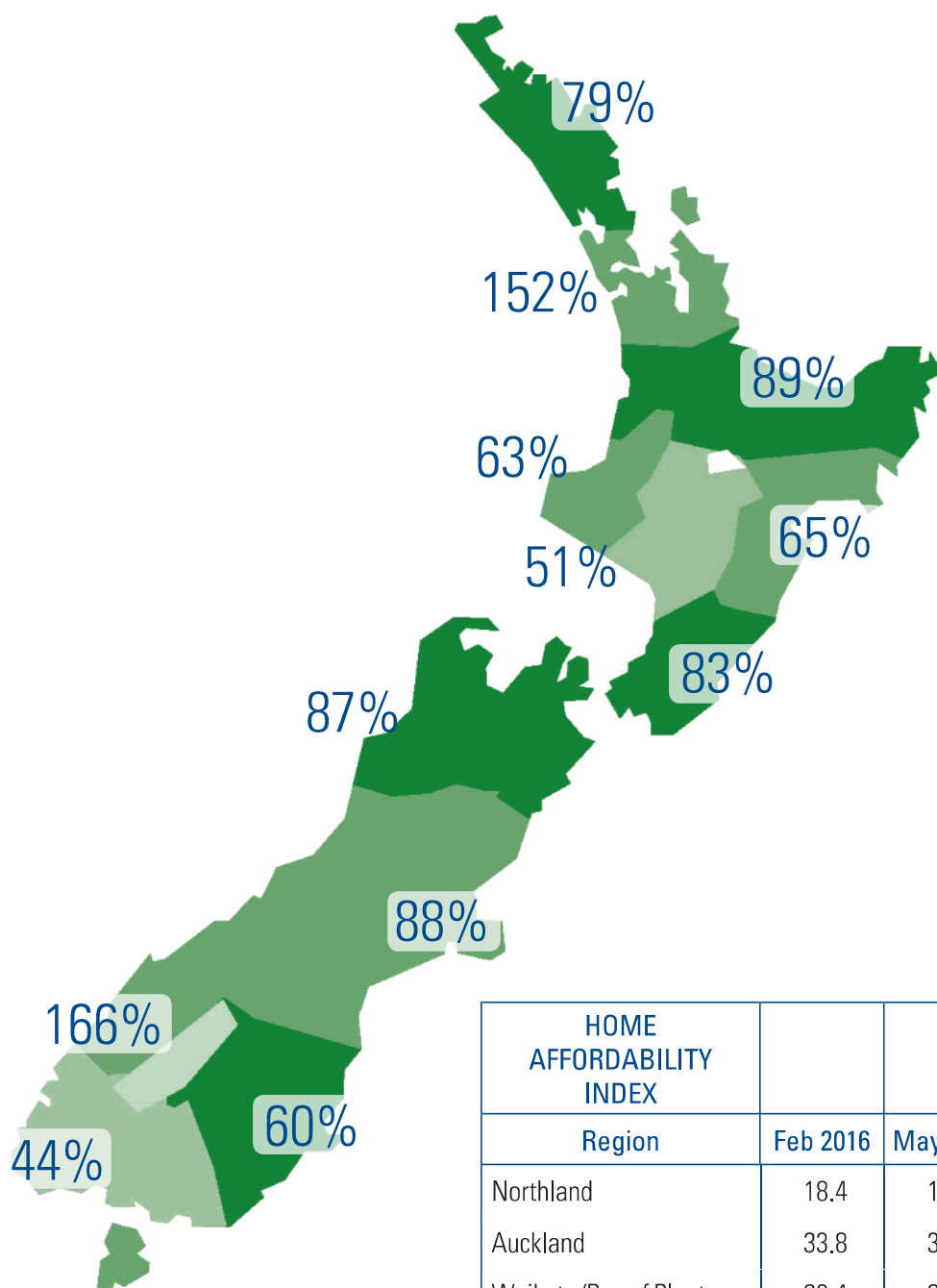
Looking forward to the rest of 2016, evidence of improving annual affordability in some parts of NZ is tempered by a quarterly reversal, most notable in Auckland where supply issues are now being addressed with some urgency. How that plays out is yet to be seen. Accelerating decline in affordability in the Central Otago Lakes region is unprecedented and is likely to continue until supply is delivered and to some extent until it is clear if tourism will be affected by recent international events.

KEY POINTS

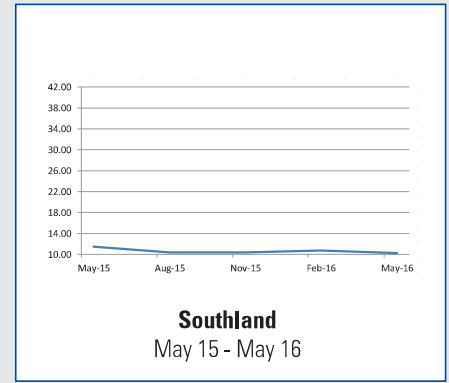
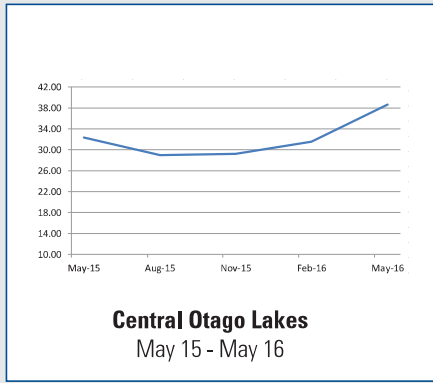
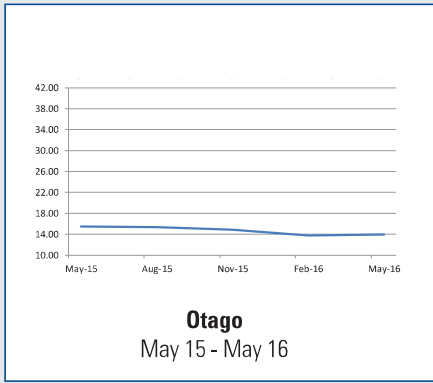
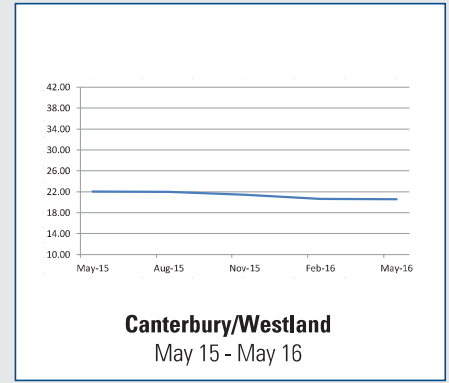
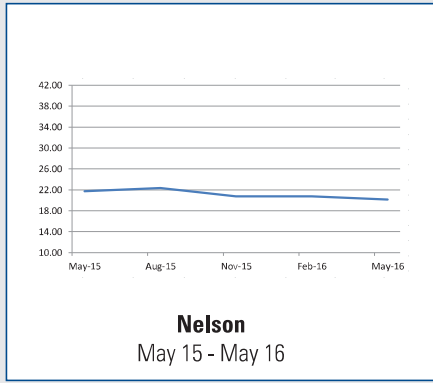
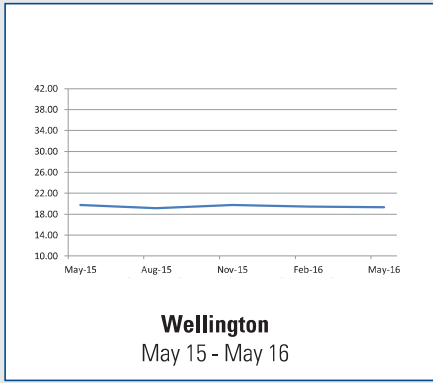
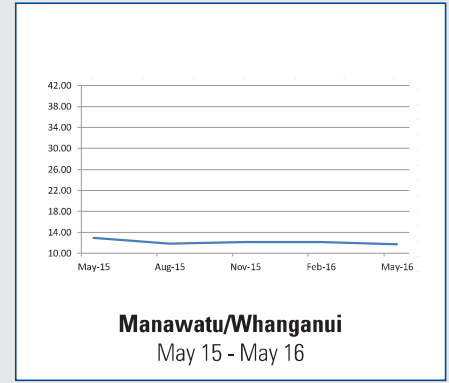
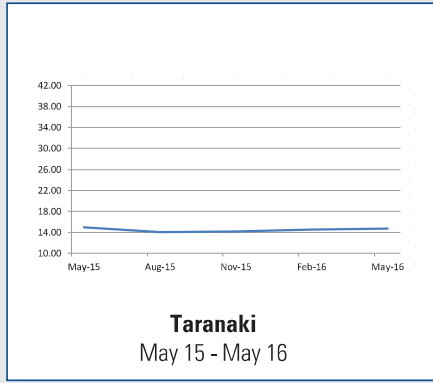
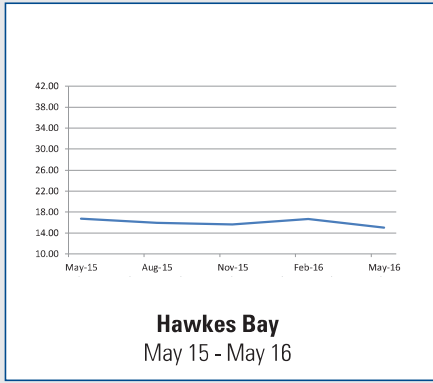
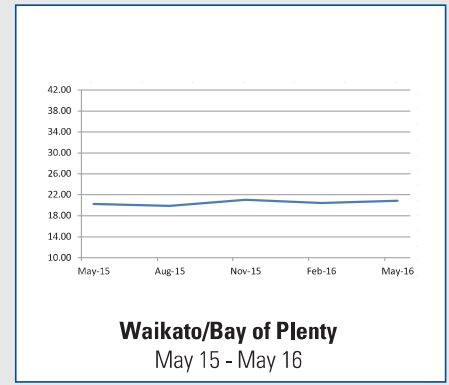
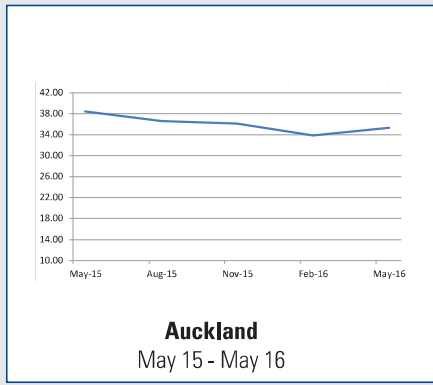
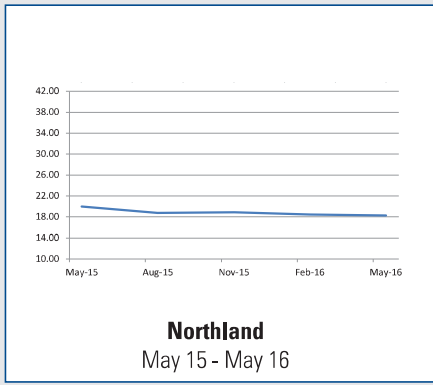
- A 6% improvement in affordability year on year across the nation continues
- But quarterly figures show a reversal in this trend of 9.2% between March and June this year
- All regions except Waikato/Bay of Plenty and Otago Central Lakes show an improvement in affordability since the same time last year
- The biggest annual decline in affordability is in the Central Otago Lakes region at just under 20%
- Since late 2015 the Auckland houses became a little more affordable against our index but over the past three months there was a reversal in this trend
- The biggest jump in annual and quarterly median house prices was in Central Otago Lakes (\$202,000 and \$151,139)
- Central Otago Lakes is now 66% less affordable than the rest of the nation
- All regions except Southland had a modest annual increase in wages of 2.1% (\$23.21 per week more overall)
- Interest rates continue to decline (now 5.21%)
- The New Zealand national median has exceeded \$500,000 this quarter (\$506,000) – a 10% increase from last June
- Auckland's median house price rate of growth has slowed and is now 7.5% (\$56,000) above last June



REGIONAL AFFORDABILITY AS A PERCENTAGE OF NATIONAL AVERAGE



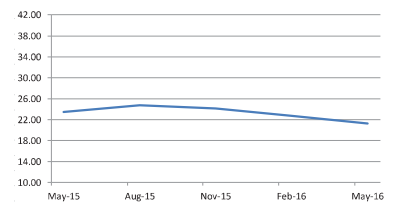
HOME AFFORDABILITY INDEX			PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 12 MONTHS	
	Region	Feb 2016	May 2016	improvement
Northland	18.4	18.3	8.3%	-
Auckland	33.8	35.3	8.2%	-
Waikato/Bay of Plenty	20.4	20.8	-	2.5%
Hawke's Bay	16.7	15.1	9.8%	-
Taranaki	14.6	14.7	1.3%	-
Manawatu/Whanganui	12.2	11.8	8.8%	-
Wellington	19.4	19.3	2.0%	-
Nelson/Marlborough	20.7	20.2	7.4%	-
Canterbury/Westland	20.6	20.5	7.0%	-
Otago	13.7	13.9	10.0%	-
Central Otago Lakes	31.5	38.6	-	19.6%
Southland	10.7	10.2	10.2%	-
New Zealand	21.3	23.2	6.0%	-



REGIONAL AFFORDABILITY INDEX

(A LOW INDEX EQUALS IMPROVED AFFORDABILITY)

New Zealand
May 15 - May 16



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.

**Prepared by Sue Flint-Hartle & Fong Mee Chin
School of Economics and Finance
Massey University.**

Thanks to Debbie Griffin for her research assistance.

ENQUIRIES MAY BE ADDRESSED TO:

Sidah Russell
Communications and Marketing
Massey University
Phone: (09) 213 6448
Email: S.Russell@massey.ac.nz

Website www.masseynews.massey.ac.nz

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.

SCHOOL OF ECONOMICS AND FINANCE MASSEY UNIVERSITY

Massey University 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 Massey Business School.

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