

# HOME AFFORDABILITY REPORT

## QUARTERLY SURVEY SEPTEMBER 2019, VOL 30, NO.2

### OVERALL IMPROVEMENT IN HOME AFFORDABILITY CONTINUES, THIS WAS BROADLY DRIVEN BY DECREASES IN QUARTERLY HOUSE PRICES IN AUCKLAND, INTEREST RATE REDUCTIONS AND INCOME GROWTH

#### QUARTERLY RESULTS:

- This quarter has seen a slight improvement in national affordability of 2.6%, with a quarterly increase in median house prices of 0.3%.
- This quarter, the primary cause of the increase in affordability has been the decrease in median prices in regions like Auckland and Gisborne, combined with increases in incomes and further decrease in mortgage interest rates.

#### YEARLY RESULTS:

- The yearly results show an annual result of a solid increase in affordability at a national level of 5.2%, reflected in three quarters of the regions also recording an improvement in affordability.
- The yearly drivers of this change include an increase of 5.5% increase in median house price values nationally, that was offset by a 6.79% decrease in residential mortgage rates, now at 4.67% compared to 5.01% a year ago. Incomes have also increased by 3.7% nationally over this past year.

### KEY POINTS

#### QUARTERLY

- At the national aggregate level, affordability has continued to improve, attributed in this past quarter by declining house prices in many areas and a reduction in mortgage interest rates. Incomes have continued to show modest increases in most regions, increasing 0.6% overall this quarter.
- The greatest increase in median house prices (in percentage terms) has for the third quarter occurred in West Coast (16.2% or \$30,000), followed by Manawatu/Whanganui (11.7% or \$41,000) and Northland (9.1% or \$42,500). Most regions (12 out of 16) showed an increase in this quarter in house prices, however greatest reduction in median house prices was measured in Auckland district (-4.7% or \$40,000).
- At a national level, median house prices saw a slight increase overall (0.3% or \$2,000) for the quarter.
- Overall affordability has improved modestly again this quarter (2.6% nationally). Affordability has been generally observed, with half of the 16 districts seeing an improvement, and remaining half declining in affordability. In this quarter, the most significant changes being seen in Gisborne (12.2% improvement) as compared to last quarter (11.7% decline) and Auckland (8.0% improvement). Both of these regions' changes in affordability are due to median house price changes.
- Interest rates decreased this quarter, down by 0.11% to 4.67% as at July 2019. This is a return to the medium term trend of interest rate reductions, after further slight decrease in the previous quarter.
- Incomes have slightly increased by only 0.6% in aggregate during the quarter, with the direction of change evenly split with half of the regions increasing and half decreasing. The largest changes in income in the quarter occurred in Taranaki (2.3%↓) and Tasman (8.8%↑).

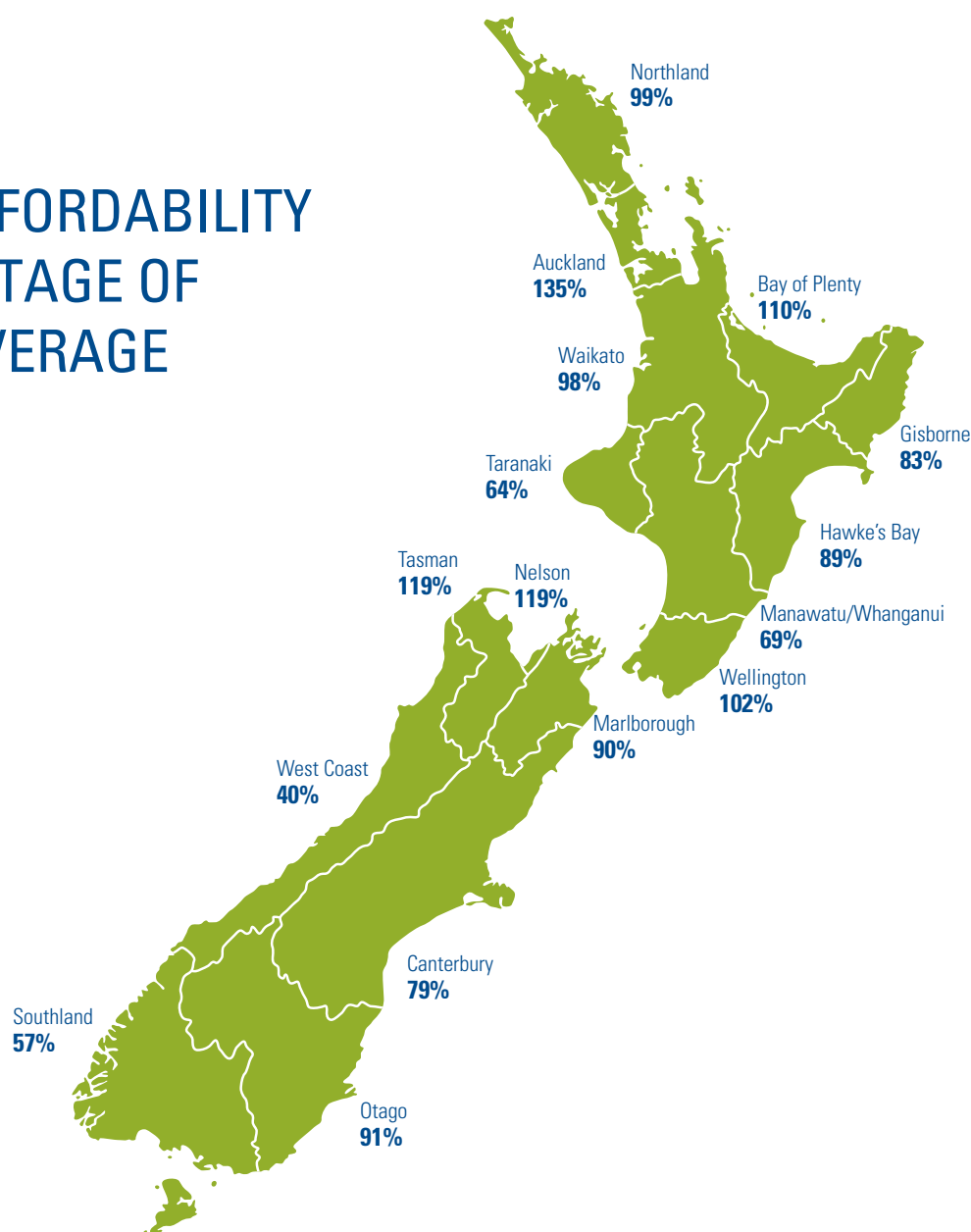
#### YEARLY

- A national 5.5% annual increase in median sales price (\$30,000 increase to \$597,000) is partially offset by a 6.79% decrease in mortgage interest rates, moving to 4.67% from 5.01% this time last year. This, when combined with a steady increase in wages of 3.7% for the year has seen affordability improve for the 12 month period (5.2% improvement).
- This improvement in affordability at the national level in the past 12 months is reflected in the half of regions (Auckland, Waikato, Bay of Plenty, Wellington, Tasman, Marlborough, West Coast and Canterbury) and remaining half showing declining affordability (Northland, Gisborne, Hawke's Bay, Manawatu/Whanganui, Taranaki, Nelson, Otago and Southland). The greatest changes for the year are Southland at a 17%↓ and Tasman at a 15.8%↑.

#### GENERAL TRENDS

- National house price to income ratios have remained the same this quarter (8.9).

# REGIONAL AFFORDABILITY AS A PERCENTAGE OF NATIONAL AVERAGE



HOME AFFORDABILITY INDEX				PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 12 MONTHS		PERCENTAGE CHANGE IN HOME AFFORDABILITY IN THE LAST 3 MONTHS	
Region	Aug 2018	May 2019	Aug 2019	Improvement	Decline	Improvement	Decline
Northland	21.4	20.0	21.5		0.5%		7.5%
Auckland	33.8	31.7	29.1	13.8%		8.0%	
Waikato	23.3	22.1	21.2	9.2%		4.1%	
Bay of Plenty	24.7	24.0	23.8	3.6%		1.0%	
Gisborne	16.3	20.4	17.9		9.5%	12.2%	
Hawke's Bay	19.2	18.5	19.3		0.8%		4.8%
Manawatu/Whanganui	13.5	13.9	14.9		10.6%		7.5%
Taranaki	12.8	13.1	14.0		9.0%		6.9%
Wellington	22.2	21.6	22.0	0.7%			1.8%
Tasman	30.7	27.4	25.8	15.8%		5.6%	
Nelson	24.5	25.1	25.7		5.0%		2.4%
Marlborough	21.6	19.5	19.4	10.0%		0.6%	
West Coast	10.0	7.5	8.7	13.5%			15.3%
Canterbury	18.2	17.6	17.0	6.5%		3.2%	
Otago	19.6	20.0	19.8		1.0%	0.9%	
Southland	10.6	11.4	12.4		17.0%		8.5%
All Regions	22.8	22.2	21.6	5.2%		2.6%	

## DATA SOURCES

The Massey Home Affordability Index takes into account the cost of borrowing (mortgage interest rates) as well as house prices and wage levels.

Note that the regional breakdown within this report and the March report has changed from earlier editions. The regional breakdown in this current report is unable to be fully compared to reports prior to March 2019. The regional breakdown contained herein for the 3 month and 12 month periods are unable to be directly compared with earlier reports. Please contact the authors for comparisons with earlier editions of this report. Waikato/Bay of Plenty/Gisborne district is now 3 separate districts: Waikato; Bay of Plenty; Gisborne. Nelson/Marlborough/Kaikoura district is now comprised within Tasman; Nelson; Marlborough districts. Kaikoura is now contained within Canterbury district. Canterbury/Westland district is now 2 districts: Canterbury; West Coast. Central Otago Lakes district is now contained within Otago district.

## 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 in

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April 2017 (E5.10 Total Monthly yield weighted average % 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). This quarter's rate is 4.92%, which is a 12-month negative % change of 3.15%.

## 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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# New Zealand Home Affordability Report: Quarterly Survey Q3 2019

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