

Roost - Home loan affordability in New Zealand

22 March 2011

A monthly assessment of home loan affordability for a typical buyer*



The Roost home loan affordability index for February 2011:

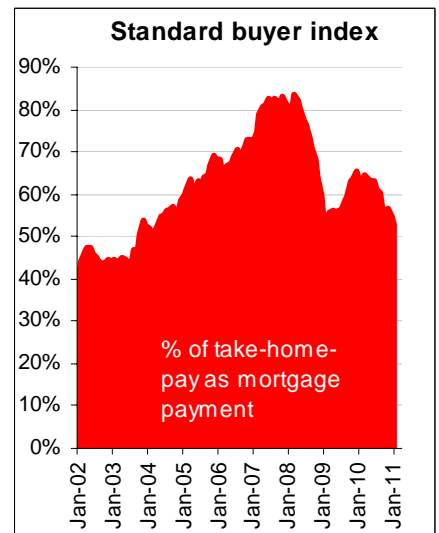
HLA index 54.0%

It now takes 54.0% of one median income to pay the mortgage on a median priced house purchased in February, up from January's 52.7%^(r). A typical buyer is assumed to be in the 30-34 age group.

Above 40% is considered "unaffordable"

This index was 63.6% a year ago and 66.0% five years ago. The affordability index reached its highest point of 83.4% in March 2008.

Essentially the median income for the typical buyer is not high enough to buy a median priced house, even with a 20% deposit. However, they may find the lower-quartile priced house is affordable (check our first-home buyer series). It is also true that a couple/family with more than one income may find the median house price is affordable. (Check household income section below.)



Deposit

Standard buyers require 8.5 years to save a 20% deposit

The standard buyer index is calculated assuming that the house buyer has already has a 20% deposit. Based on current income and house prices it will take an individual 8.5 years to save the 20% deposit as now required by most banks.

Key drivers of home loan affordability:

House prices

Increase in house prices

The median house price was \$350,000 in February, up from \$340,000 last month. The median house price was \$350,000 in February 2010 which puts annual growth at 0.0%. Five years ago the median was \$295,000.

Dwelling sales figures lower than 5 years ago

Dwelling sales in February were 4,502, up from January's 3,252, and it is now lower than the 5,029 sales twelve months ago, and way lower than the 7,930 sales five years ago.

New Zealand house prices in February		Month (change)	Year (change)
Median	\$350,000	2.9%↑	0.0% ↔

After-tax income

Take-home pay increased 7.2% year on year

The median weekly take-home pay for a typical buyer was \$787.62 in February, up 7.2% from the \$734.63^(r) in February 2010.

Five years ago, median weekly take-home pay was \$632.42

Income tax cuts came into effect on 1 October 2010 and have improved home loan affordability by more than 2%.

Disposable Income (wages minus mortgage payment)

Weekly disposable income was \$362.36 in February, which is \$94.73 higher than the \$267.63 in February 2010 (and compares with \$370.93^(r) one month earlier). This measure shows that the typical buyers' income is just too low by itself to afford the mortgage payments on the median priced home.

Take-home pay (wkly)		A month ago (ch)		A year ago (ch)	
Wages	\$787.62	\$784.37 (r)	↑	\$734.63	↑\$52.99 (7.2%)
Disposable Income	\$362.36	\$370.93 (r)	↓	\$267.63	↑ \$94.73

Interest rates and mortgage payments

Higher interest rates than twelve month ago

Interest rates have barely fallen since last month, although are higher than one year ago. The average bank interest rate for a floating mortgage rate was 6.23% for February, 37 basis points higher than the 5.86% twelve months earlier.

Mortgage rate and payment (wkly)		A month ago (ch)		A year ago (ch)	
Floating rate	6.234%	6.243%(r)	↓	5.861%	↑ 37 basis points
Mortgage payment	\$425.26	\$413.44(r)	↑	\$467.00	↓ \$-41.74 (-8.9%)

Note:

If the post-earthquake RBNZ OCR decrease of March 10, 2011 had happened in February, this would have improved the February Home Loan Affordability score of 54.0% down by -2.3% to 51.7%.

Household affordability

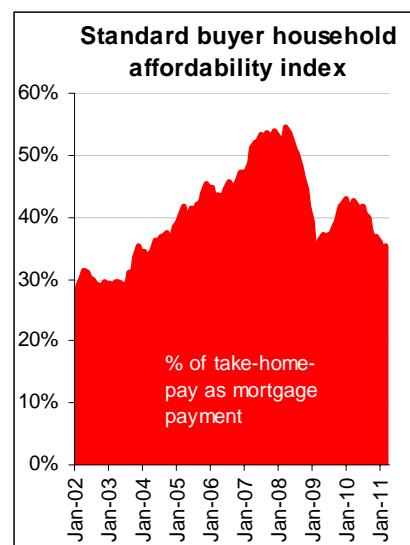
HLA is at 35.5% for household income

Household income is a key criteria for lending institutions. We have established a set of standardised household profiles, and these can be used to check affordability.

Above 40% is considered "unaffordable"

Based on our standard household profile, it now takes 35.5% of the median take-home pay to service a mortgage of a median home purchased in February. Median-priced housing is affordable for families in New Zealand, when both adults work.

This is up from 34.6%^(r) in the previous month, January. A year ago, it was 41.8% - five years ago it was 43.3%.



A typical-buyer household consists for 2 adults and 1 child

The profile we use for a standard buyer household is one adult male working full-time, one adult female working 50%, and one child aged 5 years.

Details of our household profiles, the data sources, and the methods used, are set out in the Notes section of this report, below.

Refer to our [Median Multiple reports](#) for a reconciliation of this report to the internationally comparable benchmarks, by city.

Important note:

An important update was made starting in January 2011. We have changed from basing the interest rate on a 2 year fixed mortgage, to one based on a variable mortgage rate. We have assumed a borrower was on a two-year fixed rate until August 2010, and then switched to a floating rate arrangement in September 2010. This mirrors the same change that happened in the overall mortgage market profile in New Zealand in 2010.

This change results in revisions to previously published results [marked (r) above].

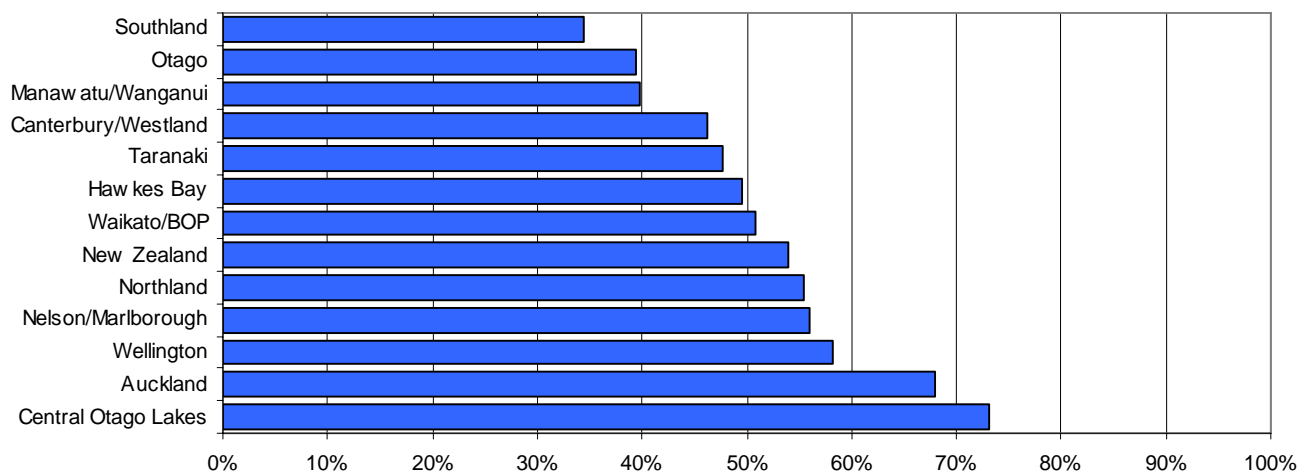
At the same time, regular revisions to the LEEDS income series were published by Statistics NZ, and these have been updated as well, also marked (r) above.

Full regional reports are available below:

- [New Zealand \(159kb .pdf\)](#)
- [Northland \(159kb .pdf\)](#)
- [Whangarei \(159kb .pdf\)](#)
- [Auckland region \(159kb .pdf\)](#)
 - [Auckland Central \(159kb .pdf\)](#)
 - [Auckland North Shore \(159kb .pdf\)](#)
 - [Auckland South\(159kb .pdf\)](#)
 - [Auckland West\(159kb .pdf\)](#)
- [Waikato and Bay of Plenty \(159kb .pdf\)](#)
 - [Hamilton \(159kb .pdf\)](#)
 - [Tauranga \(159kb .pdf\)](#)
 - [Rotorua \(159kb .pdf\)](#)
- [Hawkes Bay and Gisborne \(159kb .pdf\)](#)
 - [Napier \(159kb .pdf\)](#)
 - [Hastings \(159kb .pdf\)](#)
 - [Gisborne \(159kb .pdf\)](#)
- [Taranaki \(159kb .pdf\)](#)
 - [New Plymouth \(159kb .pdf\)](#)
- [Manawatu and Wanganui\(159kb .pdf\)](#)
 - [Palmerston North\(159kb .pdf\)](#)
 - [Wanganui\(159kb .pdf\)](#)
- [Wellington region \(159kb .pdf\)](#)
 - [Wellington City \(159kb .pdf\)](#)
 - [Wellington Hutt Valley\(159kb .pdf\)](#)
 - [Porirua \(159kb .pdf\)](#)
 - [Kapiti Coast \(159kb .pdf\)](#)
- [Nelson and Marlborough \(159kb .pdf\)](#)
 - [Nelson \(159kb .pdf\)](#)
- [Canterbury \(156kb .pdf\)](#)
 - [Christchurch \(156kb .pdf\)](#)
 - [Timaru \(156kb .pdf\)](#)
- [Central Otago Lakes \(159kb .pdf\)](#)
 - [Queenstown \(159kb .pdf\)](#)
- [Otago \(159kb .pdf\)](#)
 - [Dunedin \(159kb .pdf\)](#)
- [Southland \(159kb .pdf\)](#)
 - [Invercargill \(159kb .pdf\)](#)

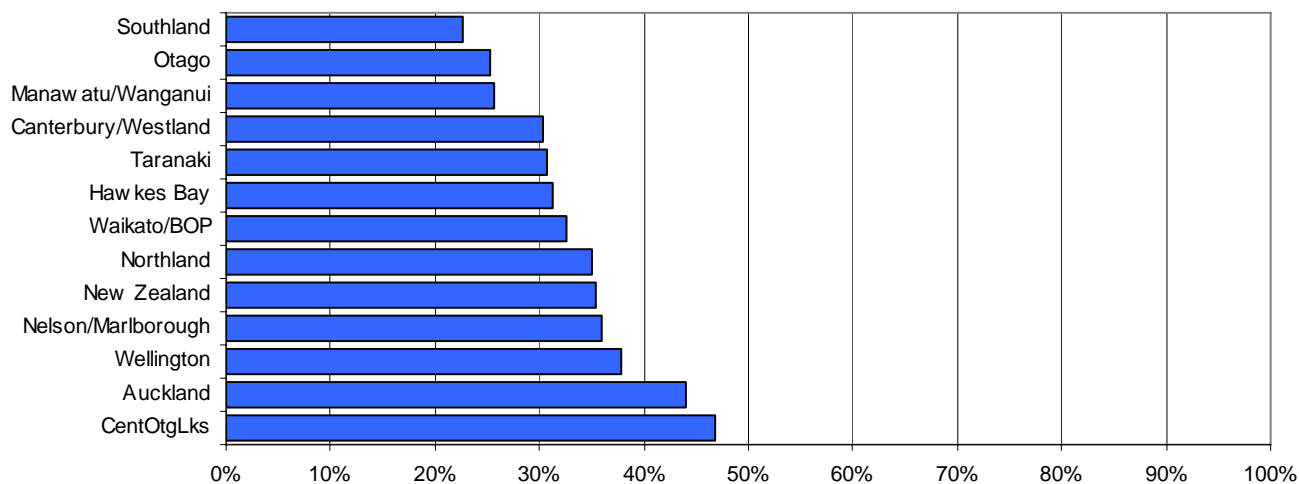
Standard buyer individual affordability index

% of take-home pay as mortgage payment



Standard buyer household affordability index

% of household income as mortgage payment



(r) = Revised, following Statistics NZ LEEDS database update.

Note to Editors:

This work must be referred to as **The Roost Home Loan Affordability series**. There are two related components – the **Standard home loan affordability series**, and the **First-home-buyer home loan affordability series**. They have both been produced by www.interest.co.nz. Please direct queries via email to info@interest.co.nz, or see our contact information below.

This research has been sponsored by Roost since July 2010. **Roost**, owned by AMP, is one of New Zealand's largest independent home loan and investment property brokers with 16 franchisees nationwide. Roost offers to source the perfect loan for its customers from a panel of lenders, and insurance advice from Roost insurance specialists. Roost was established in 1996. For more information please visit www.roost.co.nz

Sources / Definitions / Methodology

***a typical buyer:** An individual in the 30-34 year old age group who buys the median house price with 20% deposit.

Interpreting the Index:

The home loan affordability index measures the proportion a weekly mortgage payment is of weekly take-home pay (for a median priced house). An index measure is generated for each region, and nationally. We calculate, but do not publish, this index using other various mortgage interest rate terms.

Interpreting the Household Income Models:

A mortgage is 'affordable' when the mortgage payment is no greater than 40% of household weekly take-home pay. The value of the mortgage is based on the rules below (see Home Loan).

Weekly Income (source change):

From the July 2007 Report onward, the source on which we base our estimates of weekly income, is now the LEEDS (Linked employer-employee data survey) data from [Statistics New Zealand](#).

The standard home loan affordability report is based on the LEEDS data for the 30-34 age group.

Income tax rates from [IRD](#) are used to calculate a take-home pay (which is the LEEDS-based data net of the specific income tax rate).

Home Loan: (Median house price less a 20% deposit)

Mortgage repayments are based on the value of the home loan, paid weekly for 25 years, using the 2 year bank average interest rate. The home loan is assumed to be a standard table mortgage, where both interest and principal is repaid in a fixed weekly payment made in arrears. The repayment is calculated using the tools at <http://www.interest.co.nz/calculators/mortgage-calculator>

Mortgage Rates:

Average mortgage interest rates are sourced from www.interest.co.nz. These averages are for banks only as banks have 90%+ of the mortgage market. Affordability calculations are done for mortgages at the floating rate and one year through to the five fixed-rate terms. In this report, the two-year fixed mortgage interest rate is used until August 2010. From September 2010 onward, this research has adopted a variable or floating interest rate as the market is shifted to a lower and cheaper rate on a floating basis.

House price data:

Median house prices are as reported by the [Real Estate Institute of New Zealand](#). Although the REINZ series is more volatile than the [QV](#) equivalent, there is a highly positive correlation between the two series. The REINZ series is more current and offers an earlier indication of market trends.

Saving Rates:

Average savings interest rates are sourced from www.interest.co.nz. These averages are for banks only, and use the 90 day term deposit rate. Saving calculations take into account the individuals marginal tax rates as defined by [IRD](#).

Household affordability:

Household affordability is calculated in the same way as individual affordability except instead of individual income, a household income is used. The household income for a *standard-buyer* household is made from 1 full time male median income, 50% of a female median income (from LEEDS data) both in the 30-34 age range, plus the Working For Families income support they are entitled to receive under that program.

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.

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Contact

For more information, contact

Bernard Hickey
Managing editor,
www.interest.co.nz
JDJL Limited
206 Jervois Road, Herne Bay
PO Box 47-756, Ponsonby
Auckland, New Zealand

Phone: (09) 360-9618
Mobile: 021 866-051
Fax: (09) 360-9319
Email: bernard.hickey@interest.co.nz