

AMP Home Affordability Report

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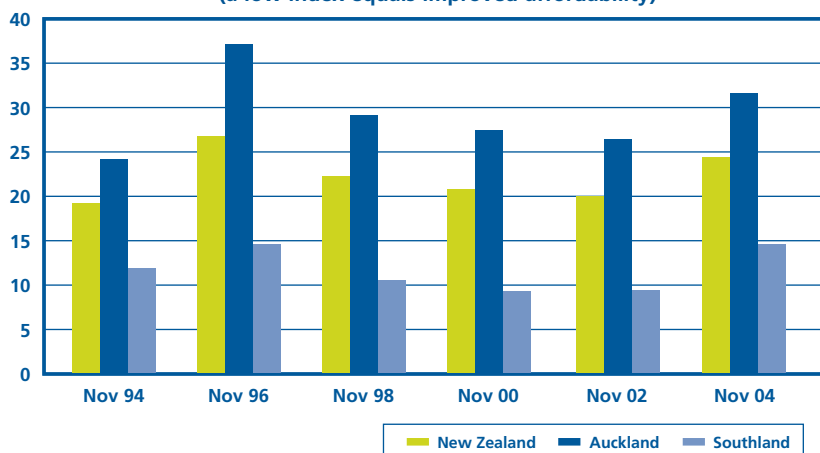


UPWARD SURGE IN HOUSING MARKET DEFIES PREDICTIONS

House prices and sales volumes surged ahead towards the end of 2004 as interest rates inched up slightly for the second consecutive quarter. The AMP New Zealand Home Affordability Index for December reflected a quarterly decline of 7.4%, meaning home affordability has now declined for three consecutive quarters. Meanwhile, Average Weekly Wages recorded minimal movement for the second consecutive quarter.

Residential sales were reported by the Real Estate Institute of New Zealand as showing strong recovery during November. While quarterly dwelling sales of 25,547 were 21% down on the same period last year (32,332), sales still remained historically high when compared to normal residential real estate cycles in New Zealand. The New Zealand Median Dwelling Price, which started the quarter at \$247,000, lifted 5.3% to an all-time high of \$260,000 at the end of the quarter. Fierce competition between the major banks continued to postpone the predicted mortgage interest rate rises.

National Home Affordability Index
(a low index equals improved affordability)



Key Points

- Unexpected surge in November house prices and sales volumes.
- New Zealand Median Dwelling Price reaches all-time record of \$260,000.
- Fierce competition among banks postpones predicted interest rate rises.
- Annual affordability decline steepest in almost nine years.
- Yearly dwelling sales remain historically high.

Home Affordability Report

In terms of regional Median Dwelling Prices, all regions reported a quarterly lift, while all regions except Taranaki recorded a quarterly decline in home affordability. Two South Island regions led that drop, with Southland reflecting the steepest decline at 16.6% followed by Nelson/Marlborough (14.2%), Northland (13.4%), Waikato/Bay of Plenty/Gisborne (12.3%), Hawke's Bay (11.8%), Manawatu/Wanganui (10.1%), Auckland (7.3%), Otago (7.1%), Wellington (6.3%) and Canterbury/Westland (4%). Taranaki recorded no change.

The New Zealand index reflected a 12-monthly decline in home affordability (15.1%) for the ninth consecutive quarter, the steepest annual decline recorded in almost nine years. Home sales for the past year declined to 107,738, 5.9% down from the yearly total of 114,523 reported in the last quarter. However, sales were still up on the previous year's (Dec 02/Nov 03) historical high of 100,218. The Median Dwelling Price moved up 10.6% over the past year from \$235,000 to \$260,000, while all 11 regions recorded a 12-monthly decline in home affordability for the second consecutive quarter. Hawke's Bay ranked highest at 36.7%, followed by Northland (30.1%),

Otago (29.8%), Southland (28.6%), Canterbury/Westland (27.9%), Manawatu/Wanganui (27.4%), Taranaki (27%), Waikato/Bay of Plenty/Gisborne (25.8%), Nelson/Marlborough (19.3%), Auckland (15.2%) and Wellington (9.5%).

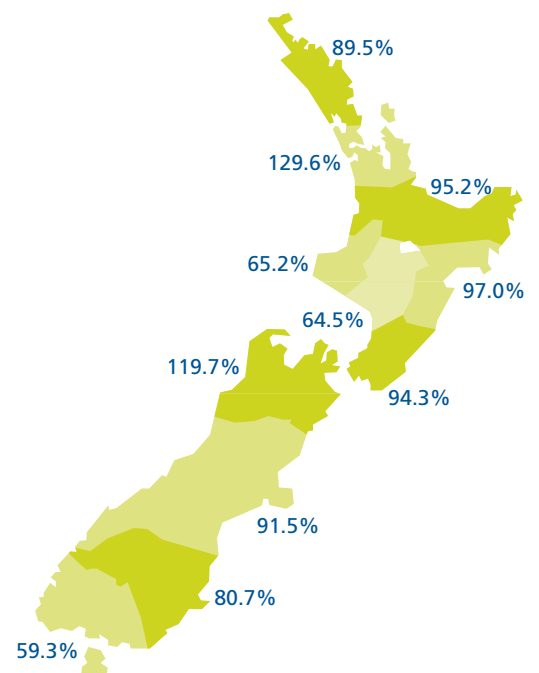
All regions reported an increase in Median Dwelling Prices over the past year. Hawke's Bay was out in front with a strong annual lift in house prices of 31.5%, followed by Manawatu/Wanganui at 26.2%. All South Island regions, except Nelson/Marlborough, also moved up strongly. Wellington occupied the lower end of the spectrum at a relatively modest 7.6%.

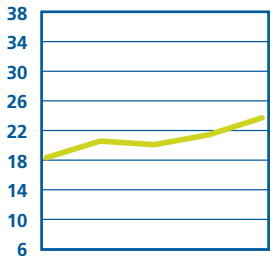
Southland remains the most affordable region followed by Taranaki and Manawatu/Wanganui in shared ranking for number two position. Auckland remains the least affordable region followed by Nelson/Marlborough.

The graph on the front page illustrates the relative movement in home affordability for New Zealand, Auckland and Southland over the past 10 years.

Home Affordability Index			Percentage Change in Home Affordability in the last 12 months	
Region	August 04	November 04	Improvement	Decline
Northland	19.56	22.17		30.1%
Auckland	29.91	32.08		15.2%
Waikato / Bay of Plenty	21.00	23.57		25.8%
Hawke's Bay	21.48	24.01		36.7%
Taranaki	16.15	16.15		27.0%
Manawatu / Wanganui	14.50	15.96		27.4%
Wellington	21.98	23.35		9.5%
Nelson / Marlborough	25.95	29.65		19.3%
Canterbury / Westland	21.79	22.66		27.9%
Otago	18.64	19.97		29.8%
Southland	12.60	14.68		28.6%
New Zealand	23.05	24.76		15.1%

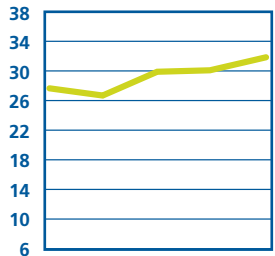
Regional Affordability as a Percentage of National Average





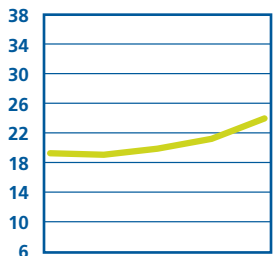
Nov 03 Feb 04 May 04 Aug 04 Nov 04

Northland
Nov 03 – Nov 04



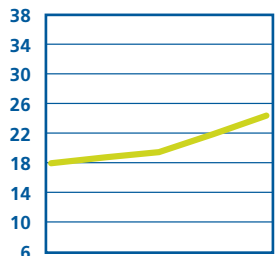
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Auckland
Nov 03 – Nov 04



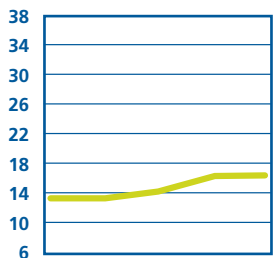
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Waikato/Bay of Plenty
Nov 03 – Nov 04



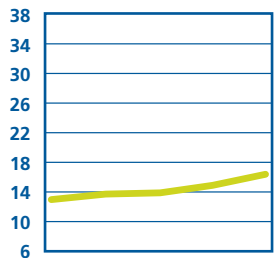
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Hawke's Bay
Nov 03 – Nov 04



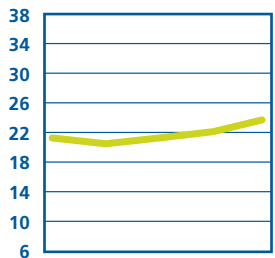
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Taranaki
Nov 03 – Nov 04



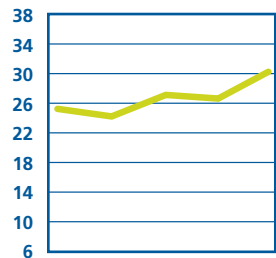
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Manawatu/Wanganui
Nov 03 – Nov 04



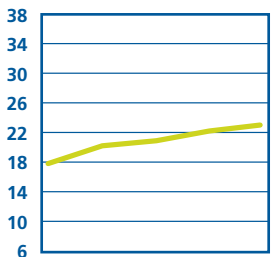
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Wellington
Nov 03 – Nov 04



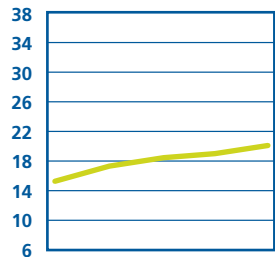
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Nelson
Nov 03 – Nov 04



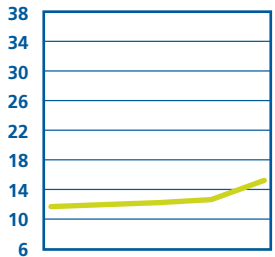
Aug 03 Nov 03 Feb 04 May 04 Nov 04

Canterbury/Westland
Nov 03 – Nov 04



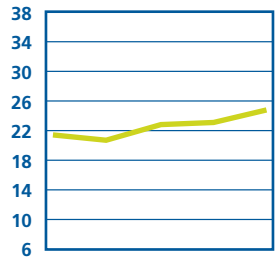
Nov 03 Feb 04 May 04 Aug 04 Nov 04

Otago
Nov 03 – Nov 04



Nov 03 Feb 04 May 04 Aug 04 Nov 04

Southland
Nov 03 – Nov 04



Nov 03 Feb 04 May 04 Aug 04 Nov 04

New Zealand
Nov 03 – Nov 04



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Data Sources

This survey is based on a similar study prepared regularly in Australia by the Real Estate Institute of Australia and AMP.* The New Zealand version differs in terms of the data used but the format of presentation is similar to aid comparability for an Australasian comparison. 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.

(*Australian Index expresses ratio of average of home loan repayment to family earnings. New Zealand Index expresses weighted mortgage interest rate as a percentage of median selling price to average wage.)

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% 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%.

Massey University Property Foundation

The Foundation is established to sponsor research and education in property related matters in New Zealand. The Chairman of Trustees is William Cleghorn and 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 Massey University's Palmerston North and Albany campuses.

The Foundation works closely with the Property Studies Group at Massey University, and Ms Natalie McLelland is the Secretary/Treasurer. She may be contacted on +025 246 2347.

Professor R.V. (Bob) Hargreaves is the Executive Officer and may be contacted on +64 6 350 5799 ext 7473.

Department of Finance, Banking and Property, Massey University

Massey University has three campuses, located in Palmerston North, Wellington and Albany (north of Auckland), in New Zealand. The University has an enrolment of 33,000 students with approximately 13,000 business students. There are 10 departments and three schools within the Business Studies College. Professor R.V. (Bob) Hargreaves leads the Property group, which has a staff of 10 academics. He also directs the Massey University Real Estate Analysis Unit (MUREAU).

AMP

AMP has commissioned MUREAU to undertake specific targeted research into aspects of the New Zealand property market. The purpose of the research is to provide informed commentary on aspects of the residential market place for the benefit of lending institutions, property related professions and the public.

Important Disclaimer

No person should rely on the contents of this report without first obtaining advice from a qualified professional. This report is made available on the terms and understanding that AMP, Massey University and the authors of this report are not responsible for the results of any actions taken on the basis of information in this report, nor for any error in or omission from this report.