AMP Home Affordability Report

QUARTERLY SURVEY March 2005 Volume 15, Number 1

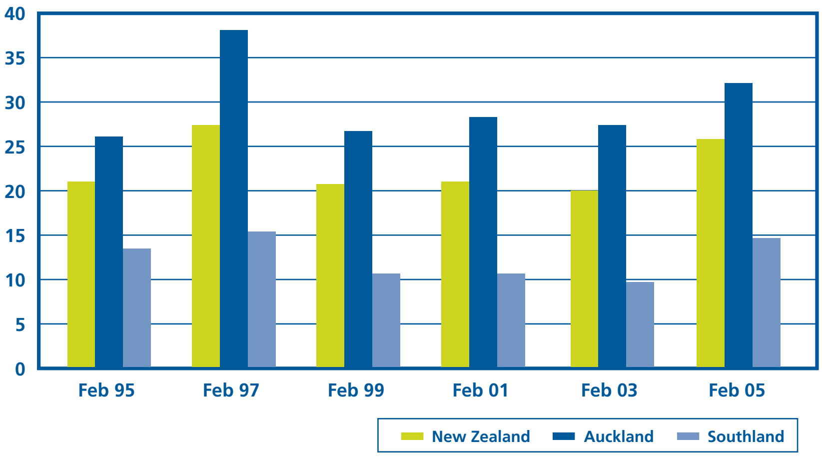
RISING HOUSE PRICES MAIN DRIVER IN AFFORDABILITY DECLINE

House prices surged ahead and sales volumes recovered towards the end of March, as interest rates inched up slightly for the third consecutive quarter. The AMP New Zealand Home Affordability Index for March reflected a quarterly decline of 3.3% meaning home affordability has now declined for four consecutive quarters. Meanwhile, after recording minimal movement over the previous six months, Average Weekly Wages moved up 1.5% over the quarter.

During the month of February, residential sales reported by the Real Estate Institute of New Zealand showed strong recovery. While quarterly dwelling sales of 25,686 were 5% down on the same period last year (27,047), February sales reached an all-time high (10,231) for that month.

The New Zealand Median Dwelling Price, already a record $260,000 at the start of the quarter, also continued to climb, lifting 3.5% to another all-time high of $269,200 at the end of the quarter. So despite continued interest rate rises put in place since December 2004, what remains the principal driver of this declining affordability is increasing house prices.

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



Key Points

- An unexpected surge in February house prices and sales volumes.
- The New Zealand Median Dwelling Price lifts again to an all-time high of $269,200.
- Four regions report a quarterly improvement in affordability.
- Annual affordability decline steepest in nine years.
- North Island provincial regions ranked highest in annual affordability decline.

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Home Affordability **Report**

This quarter, seven regions all reported a quarterly rise in Median Dwelling Prices, as well as a quarterly decline in home affordability. North Island provincial regions dominated, with Taranaki reflecting the steepest decline at 16.3%, followed by Waikato/Bay of Plenty/Gisborne (5.9%), Otago (5.5%), Manawatu/Wanganui (4.5%), Northland (3.9%), Canterbury/Westland (3.8%) and Hawke's Bay (3.3%).

Four regions recorded an improvement in affordability over the quarter. Two South Island provincial regions ranked highest in terms of improvement with Nelson/Marlborough at 3.8%, followed by Southland (2.5%), while Wellington (1.5%) and Auckland (0.3%) also recorded an improvement. All these regions, except Auckland, reported a fall in Median Dwelling Prices. This is the first time in 12 months that we have reported a quarterly affordability improvement for more than one region.

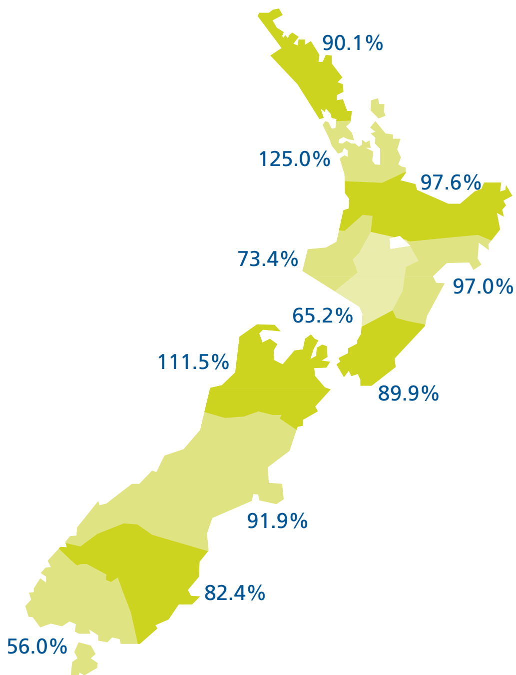
The New Zealand index reflected a 12-monthly decline in home affordability (21.7%) for the 10th consecutive quarter, the steepest annual decline recorded in nine years. Reported home sales for the past year were 105,794, 12.2% down on the historical high of the previous year (Mar 03/Feb 04) of 120,452. The Median Dwelling Price moved up 16.5% over the past year from $231,000 to $269,200. All 11 regions recorded a 12-monthly decline in home affordability for the third consecutive quarter. North Island provincial regions ranked highest with Taranaki leading at 46.5%, followed by Hawke's Bay (35.6%), Waikato/Bay of Plenty/Gisborne (33.5%), Manawatu/Wanganui (26.1%), Northland (25%), Southland (23.7%), Otago (23.1%), Auckland (19.3%), Canterbury/Westland (18.3%), Nelson/Marlborough (17.4%) and Wellington (11.6%). All regions reported an increase in Median Dwelling Prices over the past year. Taranaki was out in front with a strong annual lift in house prices of 31.7%, followed by Hawke's Bay at 31.1%. All other North Island provincial regions also moved up strongly. Wellington occupied the lower end of the spectrum at a relatively modest 8.5%.

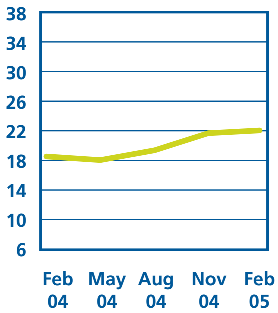
Southland remains the most affordable region followed by Manawatu/Wanganui in number two position. Auckland remains the least affordable region followed by Nelson/Marlborough in sustained ranking for number two position.

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

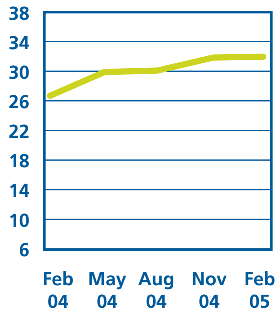
Home Affordability Index			Percentage Change in Home Affordability in the last 12 months	
Region	**November 04**	**February 05**	**Improvement**	**Decline**
Northland	22.17	23.04		25.0%
Auckland	32.08	31.98		19.3%
Waikato / Bay of Plenty	23.57	24.96		33.5%
Hawke's Bay	24.01	24.81		35.6%
Taranaki	16.15	18.77		46.5%
Manawatu / Wanganui	15.96	16.68		26.1%
Wellington	23.35	23.00		11.6%
Nelson / Marlborough	29.65	28.52		17.4%
Canterbury / Westland	22.66	23.51		18.3%
Otago	19.97	21.07		23.1%
Southland	14.68	14.32		23.7%
New Zealand	24.76	25.58		21.7%

Regional Affordability as a Percentage of National Average

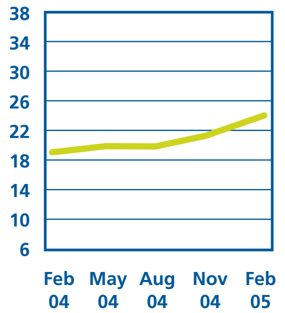




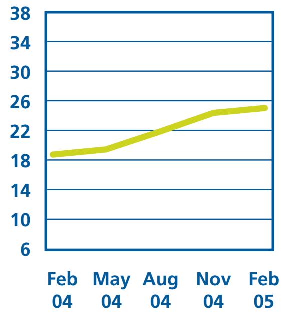
Northland
Feb 04 – Feb 05



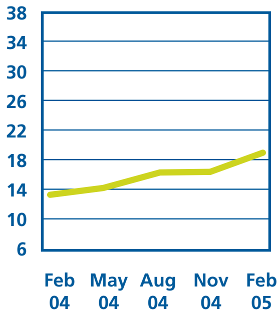
Auckland
Feb 04 – Feb 05



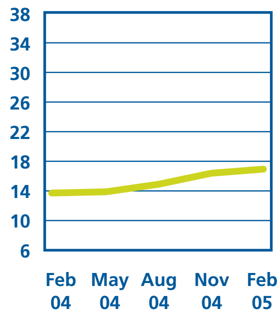
Waikato/Bay of Plenty
Feb 04 – Feb 05



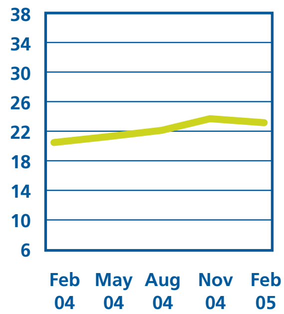
Hawke's Bay
Feb 04 – Feb 05



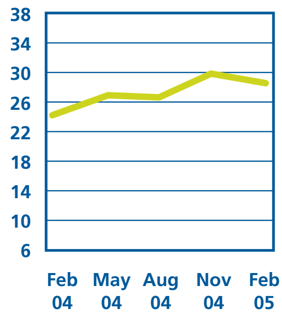
Taranaki
Feb 04 – Feb 05



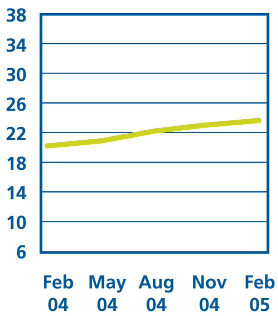
Manawatu/Wanganui
Feb 04 – Feb 05



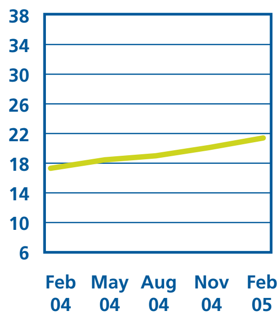
Wellington
Feb 04 – Feb 05



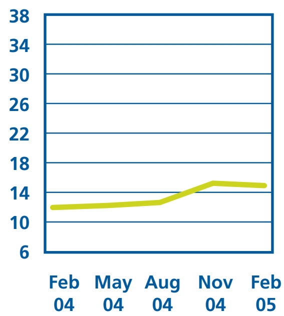
Nelson
Feb 04 – Feb 05



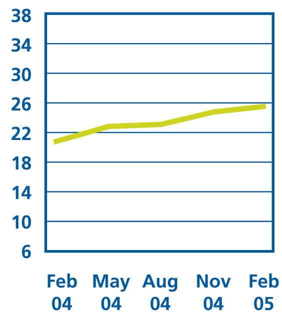
Canterbury/Westland
Feb 04 – Feb 05



Otago
Feb 04 – Feb 05



Southland
Feb 04 – Feb 05



New Zealand
Feb 04 – Feb 05

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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