

Home loan affordability for typical buyers

HOME LOAN AFFORDABILITY REPORT
A MONTHLY ASSESSMENT OF HOME LOAN AFFORDABILITY IN NEW ZEALAND

interest.co.nz

To find where you can buy and still keep your mortgage payment affordable,
[SEE OUR CALCULATOR HERE](#)

To assess rent-or-buy affordability,
[SEE THIS REPORT HERE](#)

The graphic features a map of New Zealand, a grid of triangles in various colors (blue, yellow, orange, red), and the text 'HOME LOAN AFFORDABILITY REPORT' in large, bold letters. Below the title is the subtitle 'A MONTHLY ASSESSMENT OF HOME LOAN AFFORDABILITY IN NEW ZEALAND'. At the bottom left is the logo 'interest.co.nz'. On the right side, there are two orange buttons with white text: 'SEE OUR CALCULATOR HERE' and 'SEE THIS REPORT HERE'. Above the first button is the text 'To find where you can buy and still keep your mortgage payment affordable,' and above the second button is 'To assess rent-or-buy affordability,'.

The interest.co.nz home loan affordability index for June 2016

FIRST HOME BUYERS - Aged 25-29



This report estimates how affordable it would be for a couple where both are aged 25–29 and are working full time, to buy a home at the lower quartile price in New Zealand.

It assumes they earn the median rate of pay for people of their age in their region, which would give them a take home pay of \$1,560.22 a week.

It is assumed they would have saved \$64,200 to use as a deposit, by putting aside 20% of their net pay each week for up to four years, earning interest on the savings at the 90 day bank deposit rate, or 20% of the house price, whichever is lower.

To buy a home at New Zealand's lower quartile price they would need a mortgage of \$256,800.

They would need to set aside \$296.98 a week to cover the mortgage payments, which would be 19.0% of their take home pay.

Mortgage payments are considered affordable when they take up no more than 40% of take home pay.

On that basis it would be affordable for a young couple earning the median pay rate to buy a lower quartile-priced home in New Zealand.

YOUNG FAMILY BUYERS - Aged 30-34



This report estimates how affordable it would be for a couple with a young family to move up the property ladder and buy their next home at the current median price.

It is assumed that one partner works full time and one works half time and both are paid at the median rate for people of their age in New Zealand, and that they receive the Working for Families allowance.

That would give them total after tax weekly income of \$1,321.97 a week.

It is also assumed they purchased their current home five years ago for \$249,000, which was the lower quartile selling price in New Zealand at the time.

If they sold that home for the current lower quartile price in New Zealand of \$321,000, they would have equity of \$127,099 to use as a deposit on a new home.

If they purchased a home at New Zealand's current median price of \$500,000 they would need a \$372,901 mortgage.

The repayments on this would be \$431.25 a week which would be 32.6% of their weekly income.

Mortgage payments are considered affordable when they take up no more than 40% of take home pay.

SECOND RUNG BUYERS - Aged 35-39



This report estimates how affordable it would be for a couple who are both aged 35-39 and working full time, to move up the property ladder and buy their next home at the current median price.

It is assumed that both are paid at the median rate for people of their age in New Zealand, and that they no longer receive the Working for Families allowance.

That would give them total after tax weekly income of \$1,788.38 a week.

It is also assumed they purchased their current home 10 years ago for \$225,000, which was the lower quartile selling price in New Zealand at the time.

If they sold that home for the current lower quartile price in New Zealand of \$321,000, they would have equity of \$165,135 to use as a deposit on a new home.

If they purchased a home at New Zealand's current median price of \$500,000 they would need a \$334,865 mortgage.

The repayments on this would be \$387.26 a week which would be 21.7% of their weekly income.

Mortgage payments are considered affordable when they take up no more than 40% of take home pay.

HOUSE PRICES

The median dwelling price was \$500,000 in June 2016, down from \$506,000 in May. In June 2015 it was \$450,000, which puts annual growth at 11.1%.

Five years ago the median was \$360,000. They were 7,864 homes sold in June, down from 9,075 in May. That compares with 7,426 sales in June last year and 5,229 sales five years ago.

The lower-quartile house price was \$321,000 in June 2016, down from \$325,000 in May. Annual growth was 10.7%, from the \$290,000 lower-quartile house price in June 2015.

Interest Rates and Mortgage Payments

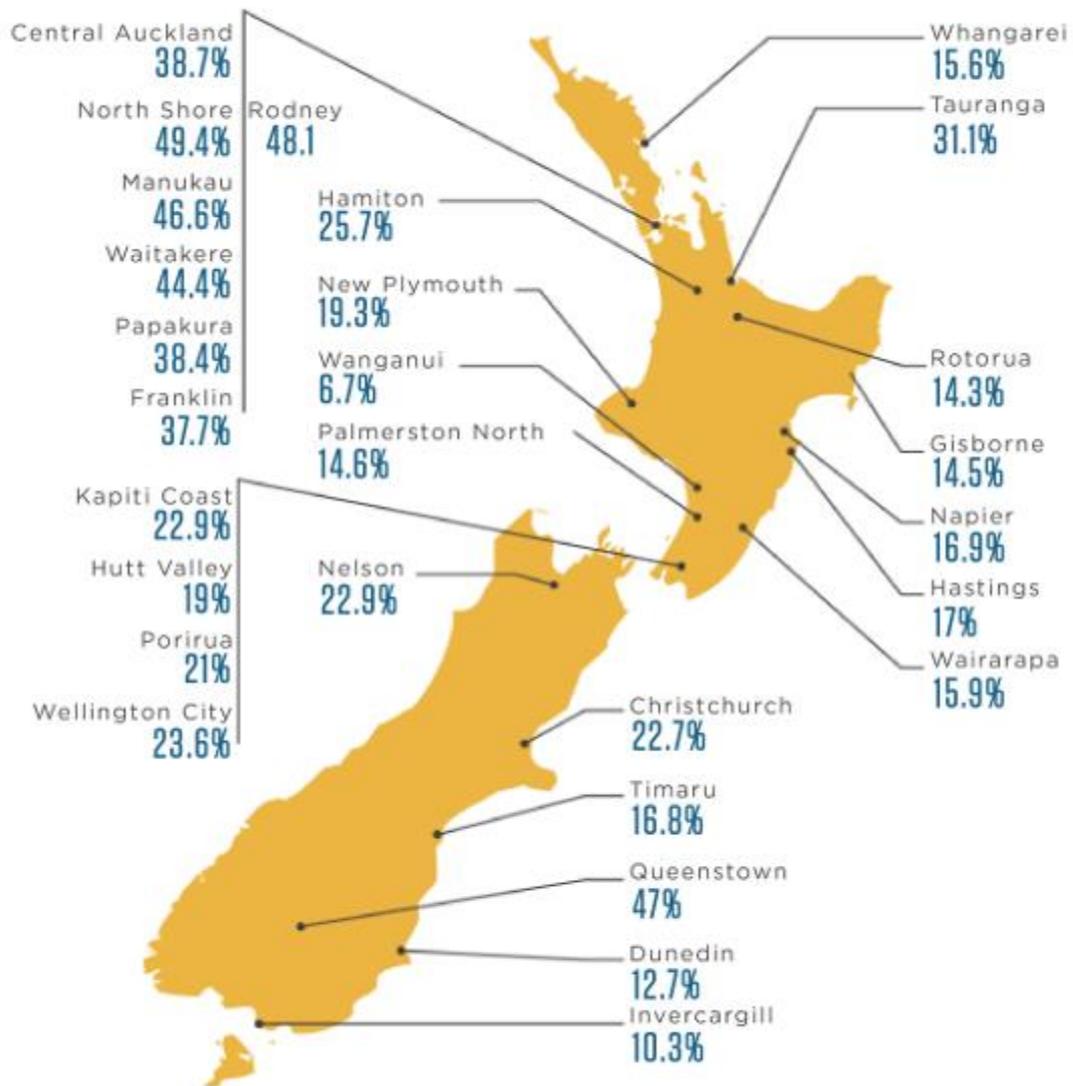
The average bank interest rate for two year fixed rate mortgages was 4.412% for June, -90 basis points less than the 5.311% 12 months earlier.

The RBNZ has started a rate cut program with the first reduction occurring in June 2015 and the latest one in December 2015. No more cuts are expected although turmoil in markets recently may change that expectation. Wholesale rates have been volatile recently and that has kept downward pressure on fixed mortgage rates.

Our model assumes borrowers switched to a 2 year fixed rate in June 2014, following the shift reflected in RBNZ data.

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| <ul style="list-style-type: none">• First Home Buyers• Young Family Buyers• Second Rung Buyers |
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FIRST HOME BUYER AFFORDABILITY INDEX



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

LOWER QUARTILE HOUSE PRICES

HOW'S YOUR AREA LOOKING?

Town/Region	Jun-16	Jun-15	% change
New Zealand	321,000	290,000	10.7%
Whangarei District	265,000	228,500	16.0%
Auckland metro	671,500	614,000	9.4%
- North Shore	804,200	730,000	10.2%
- Waitakere	666,900	600,100	11.1%
- Central Auckland	628,300	618,900	1.5%
- Manukau	649,300	561,800	15.6%
Hamilton City	395,000	290,000	36.2%
Tauranga City	450,500	315,000	43.0%
Rotorua District	227,000	178,110	27.4%
Gisborne District	200,500	162,625	23.3%
Hastings District	260,000	224,250	15.9%
Napier City	260,000	254,500	2.2%
New Plymouth District	307,375	287,500	6.9%
Whanganui District	100,000	105,500	-5.2%
Palmerston North City	250,750	231,500	8.3%
Wellington metro	363,600	300,000	21.2%
- Kapiti Coast District	350,000	260,000	34.6%
- Porirua City	350,000	310,000	12.9%
- Wellington Hutt	324,900	264,500	22.8%
- Wellington City	459,500	380,300	20.8%
- Wairarapa	218,750	175,750	24.5%
Nelson City	359,500	289,250	24.3%
Christchurch City	382,700	361,100	6.0%
Timaru District	263,500	248,125	6.2%
Dunedin City	188,750	219,000	-13.8%
Queenstown-Lakes District	666,875	490,000	36.1%
Invercargill City	159,750	150,250	6.3%

Full regional reports are available below:

AUCKLAND REGION

AUCKLAND
CENTRAL

NORTH SHORE

AUCKLAND SOUTH

AUCKLAND WEST

PAPAKURA

RODNEY

WELLINGTON REGION

WELLINGTON CITY

HUTT VALLEY

PORIRUA

KAPITI COAST

WAIRARAPA

NORTHLAND

WHANGAREI

WAIKATO AND BAY OF PLENTY

HAMILTON

TAURANGA

ROTORUA

HAWKES BAY AND GISBORNE

NAPIER

HASTINGS

GISBORNE

TARANAKI, MANAWATU AND WHANGANUI

NEW PLYMOUTH

PALMERSTON
NORTH

WANGANUI

NELSON AND MARLBOROUGH

NELSON

CANTERBURY

CHRISTCHURCH

TIMARU

OTAGO, CENTRAL OTAGO LAKES AND SOUTHLAND

QUEENSTOWN

DUNEDIN

INVERCARGILL

NATIONAL

NEW ZEALAND

Note to Editors:

This work must be referred to as **The interest.co.nz Home Loan Affordability series**. Please direct queries via email to info@interest.co.nz, or see our contact information below.

From May 2016 it refers solely to households. There are other important changes. There are now three related components – The First Home Buyer household series which tracks home loan affordability for households aged 25 to 29 years, Second Rung young family buyers, aged 30-34 years, and Second Rung older family buyers, aged 35-39 years. They have all been produced by interest.co.nz.

Sources / Definitions / Methodology

First home buyer households have two partners working full time, and use a purchase deposit based on what they saved over the prior four years to buy a first quartile home.

Second Rung young family buyers have one partner working full time, one half time, and a child under 5 years of age. It is assumed they buy a median priced house, using the equity and capital gain from their First Home. (If Working for Families tax credits apply, they are added to the household income.)

Second Rung older family buyers have two partners working full time. It is assumed they buy a median priced house using the equity and capital gain from their First Home.

Interpreting the Index:

The home loan affordability index in each segment measures the proportion a weekly mortgage payment is of weekly takehome pay. An index measure is generated for each region (some sub regions), and nationally. 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 criteria below.

Weekly Income:

From the August 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 30 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 this series used a 2 year fixed rate loan as the basis for interest rates. In September 2010 it was switched to the floating rate, reflecting actual market shifts by borrowers. In June 2014, it was switched back to the 2 year fixed rates, again reflecting market shifts.

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](#).

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.

If you are making a specific investment or purchase decision, you are strongly advised to seek independent advice from a qualified professional you trust.

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