

# A drop in lower quartile house prices and lower mortgage costs have improved housing affordability but first home buyers will still struggle in Auckland

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**By Greg Ninness**

Life became slightly easier for first home buyers in many regions last month thanks to a small drop in the lower quartile selling price and the ongoing slide in mortgage interest rates, according to the Interest.co.nz Home Loan Affordability Report.

The report said the REINZ's national lower quartile selling price dropped back from its all-time high of \$309,000 in September to \$305,000 in October, with falls occurring in Auckland, Waikato/Bay of Plenty, Taranaki, Canterbury/Westland Central Otago/Lakes and Southland.

The biggest falls were in the two most expensive regions, with the lower quartile price in Auckland dropping back to \$611,500 in October from its all-time high of \$630,500 in September, and in Central Otago Lakes where it dropped back to \$334,400 in October, compared to \$368,700 in September and it's all-time high of \$403,800 set in June.

However six regions, Northland, Hawkes Bay, Manawatu/Whanganui, Wellington, Nelson/Marlborough and Otago, went against the trend and posted increases in their lower quartile selling prices in October compared to September, and lower quartile prices hit new all-time highs in four of those - Northland, Manawatu/Whanganui, Wellington and Nelson/Marlborough - leaving first home buyers in those regions with little to cheer about.

Mortgage interest rates have also continued to fall, with the average of the two year fixed rates offered by the major banks dropping to 4.84% in October compared to 4.97% in September and 5.95% in October last year.

That combination of falling interest rates and lower prices saw the mortgage payments on a lower quartile-priced home in Auckland drop from \$791.12 a week in September to \$755.19 in October, providing a saving of \$35.93 a week.

### **Auckland home ownership out of reach for many first home buyers**

Unfortunately while the improvement in affordability would be welcome, housing in Auckland is now so expensive that even with the latest fall in prices and interest rates, owning their own home will remain out of reach for many first home buyers.

Housing is considered affordable when the mortgage payments take up no more than 40% of take home pay and the Home Loan Affordability Report estimates that the combined take home pay of a typical first home buying couple in Auckland (both aged 25-29 and working) would be \$1529.65 a week, which means mortgage payments of \$755.10 a week would consume 49.37% of their take home pay, and that's before adding other property-related expenses such as rates, insurance and maintenance.

That means the lower quartile selling price in Auckland would need to fall about 20% before mortgage payments could be considered affordable for typical first home buyers, even at the current record low interest rates.

However even before they could take on a mortgage to buy a home, one of the biggest hurdles first home buyers in Auckland would have to overcome would be scraping together a deposit.

### **A \$122,300 deposit**

A 20% deposit on a lower quartile-priced home in Auckland would be \$122,300 and although lower equity loans are available, these usually come with an interest-rate premium, meaning buyers with less than a 20% deposit probably wouldn't be able to take advantage of some of the fiercely competitive specials many banks have been offering, because these are usually reserved for buyers with a deposit of at least 20%.

According to the Home Loan Affordability Report, Auckland remains the only region of the country where housing remains severely unaffordable for first home buyers.

In Wellington where the lower quartile price was \$349,600 in October, making it the second most expensive region for first home buyers, they would only need to save \$69,920 for a 20% deposit and the mortgage payments of \$407.83 a week would take up just 26.04% of a typical first home buying couple's take home pay.

In Canterbury the lower quartile price was \$346,000 in October, which would only require \$69,320 for a 20% deposit and the mortgage payments would take up 26.6% of a typical first home buying couple's take home pay.

# interest.co.nz first home buyer affordability

