

# Typical first home buyers \$31.56 a week better off in June: interest.co.nz Home Loan Affordability Reports show

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Housing became a little more affordable for first home buyers last month thanks to a combination of falling mortgage interest rates and a slight drop in lower quartile house prices.

According to interest.co.nz's Home Loan Affordability Reports, the mortgage payments on a home at the national lower quartile selling price would have consumed 23.1% of a typical first home buying couple's take home pay in June, down from 25.24% in May.

In dollar terms their mortgage payments would have declined by \$31.56 a week.

Even first home buyers in Auckland would have benefited from the changes, with the weekly mortgage payments on a lower quartile priced home in the region dropping from \$821.83 a week in May to \$794.96 a week in June, providing a saving of \$26.87 a week.

Around the country affordability improved in eight regions in June - Northland, Auckland, Waikato/Bay of Plenty, Hawkes Bay, Wellington, Nelson/Marlborough, Canterbury/Westland and Otago - and worsened in four - Manawatu/Wanganui, Taranaki, Central Otago/Lakes and Southland.

The Home Loan Affordability Reports calculate the mortgage repayments on the REINZ's lower quartile selling price in each region, and calculate how much of a typical first home buying couple's income that would consume.

The mortgage payments are based on a 25 year mortgage at the average of the major banks' average interest rates for a two year fixed rate loan, while typical first home buyers' after tax incomes in each region are based on the regional median income of a couple aged 25-29, which is taken from Statistics NZ's Linked Employer-

The deposits needed to buy a lower quartile-priced house in each region are calculated as the lesser of 20% of the purchase price, or the amount that would be accumulated if the couple saved 20% of their net income for four years, and earned interest at the average 90 day bank deposit rate.

## Lower interest rates main driver

The biggest driver of the improvement in affordability last month was the change in the average mortgage interest rate, which fell by 0.3% to 5.31% in June compared to 5.61% in May.

That is the lowest average two year fixed mortgage interest rate since interest.co.nz started calculating the data in January 2002.

The improvement in affordability was also aided by declines in the Real Estate Institute of New Zealand's lower quartile selling prices in eight regions around the country.

The national lower quartile selling price declined by \$15,000 to \$290,000 in June compared to \$305,000 in May.

In Auckland the decline was much more modest, with the lower quartile price declining by \$2500 to \$614,000 in June.

The biggest decline in the lower quartile selling price for the month was in Wellington, where it declined by \$25,900 to \$300,000 in June compared with \$325,900 in May.

That is the lowest it has been since January last year, and along with the drop in interest rates saw weekly mortgage payments on a lower quartile priced home in Wellington decline by \$47.56 a week.

The four regions where affordability for first home buyers worsened in June - Manawatu/Wanganui, Taranaki, Central Otago/Lakes and Southland, all posted substantial increases in their lower quartile selling prices, which more than wiped out the benefits of the fall in mortgage interest rates.

In Manawatu/Whanganui the lower quartile selling price increased from \$163,100 in May to \$173,600 in June, in Taranaki it increased from \$234,500 in May to \$250,000 in June, in Nelson/Marlborough it increased from \$295,700 in May to \$296,600 in June and in Central Otago/Lakes it increased from \$388,900 in May to \$403,800 in June, which was a new all time high for the region and the first time it has been above \$400,000.

### **Seriously unaffordable**

While the improvement in first home affordability would have been welcome in the eight regions in which it occurred, housing remains seriously unaffordable for first home buyers in Auckland.

The interest.co.nz First Home Loan Affordability Reports consider mortgage payments to be affordable when they do not exceed 40% of take home pay.

By that measure, buying a first home (at the lower quartile selling price) remains affordable in all regions of the country except Auckland, where the mortgage payments would eat up more than half (52.14%) of a typical first home buying couple's take home pay.

Up until two years ago, housing was still affordable for first home buyers in Auckland because the mortgage payments on a lower quartile home would have taken up 38.73% of a typical couple's income in June 2013.

But since then the lower quartile home's price in Auckland has increased by \$164,100 (36%), rising from \$449,900 in June 2013 to \$614,000 in June 2015.

Although the average mortgage interest rate has dropped from 5.49% to 5.31% over the same period, that has not been enough to offset the massive rise in house prices.

Neither has the increase in incomes.

### **Mortgage payment increases out pace wage rises**

Over the last two years, the median take home pay of a typical first home buying couple in Auckland has risen from \$1488 a week in June 2013 to \$1525 a week in June 2015, an increase of just \$37 a week, while mortgage payments on a lower quartile priced home would have increased by \$218.41 over the same period.

Essentially, rapidly rising house prices in Auckland have far outpaced both falling interest rates and rising income levels, and unless there is a significant fall in house prices or a substantial jump in incomes, housing is likely to remain seriously unaffordable for first home buyers in the region.