Will the mortgage swallow you in retirement?

1:20 AM, 04 Mar 2019

Catherine Smith

Feeling stressed that you're never going to get out from under the mortgage? You're not alone.

The recent Global Housing and Mortgage Outlook by international ratings agency Fitch announced New Zealand has one of the highest levels of indebtedness, with household debt sitting at 93 percent of GDP. Although, for once, things are worse in Australia, where household-debt-to-GDP level soared last year to a frightening 121 percent, the highest in the world.

And high household debt isn't just stressful for individuals.

Borrowers are exposed to downturns, more vulnerable to financial shocks.

OneRoof and its data insights partner Valocity looked at where homeowners are toughing out mortgage payments around the country and where they are mortgage-free. And we found that, like the long-faded dream of buying a first home in your 20s, the dream of entering your retirement mortgage-free is quickly slipping away.

Across the country, only one third of properties are owned mortgage-free. Alarmingly that's three percent down on the 36 percent free and clear five years ago.

James Wilson, director of valuation innovation at Valocity, says that implies that many people are opting to use the increase in their equity on residential property to either purchase additional property or other goods.

"Increasingly, Kiwis see the growing equity in their homes as something that can be used to buy new cars or boats, update kitchens or bathrooms or to consolidate other debt," he says.

"Given the significant capital gains over the last five years and the historically low interest rate, that's not entirely unexpected.

However, this may result in borrowers carrying a mortgage for a lot longer, even in some cases having to delay retirement in order to service the loan."

Today, nearly four in ten (39 percent) of the mortgagees are to first home buyers (in Auckland it's 38 percent), only 14 percent to investors with three or more properties.

Mortgage prisoners

As recently as four years ago, when the Commission for Financial Capability (CFFC) surveyed New Zealanders about their retirement plans, nearly eight in ten people expected to be in their own mortgage-free home. And right through the 1990s to the 2010s, this was true, according to the Ministry for Social Development incomes report.

But recent monitors show that this is rapidly declining. Today, only 70 percent of people over 65 own their house freehold.

But more importantly, of the next generation coming up to retirement (those in the 50-64 age bracket) less than four in ten (38 percent) has kicked the mortgage. The rosy retirement nest egg is evaporating.

"This has been trending down for the past 20 years, and commentators would say that's expected to continue," says CFFC managing editor Tom Hartmann.

"This may mean that people buy houses later (and keep paying the mortgage to just before retirement) or that they take out longer mortgages. We do not know if the current 55-64 year olds, once they reach 65 years, will be in a situation as good as the current 65 year olds."

A study released in 2017 by consumer credit information Credit Simple (a division of credit registry Illion, formerly Dun & Bradstreet) found that debt-free retirement is moving out of reach for New Zealanders. People over 55 make an increasing proportion of bankruptcies - 28 percent, up from 21 percent in 2010 - and still hold 28 percent of mortgages, at an average value of $321,000.

Worse, paying it off by 65 is not happening: people over that age still hold eight per cent of all mortgages (they are 14 percent of the population) and owe an average of $232,000.

Add that to other debts - over 65s have four percent of personal loans and 16 percent of credit card debt (average $11,135) - and the crunch continues.

That means that many older New Zealanders are planning to keep working well past retirement. Already, three quarters of 60 to 64-year-olds are still working, compared to only half that number back in the 1980s, and data from the University of Auckland Retirement Policy and Research Centre suggest that New Zealand's proportion of working over-65 year olds will grow to be one of the highest in the OECD.

BNZ's Financial Futures monitor found 46 percent of Kiwis plan to keep working beyond 65.

For some retired people - four out of ten - super is all the income they have, CFFC research found. And for a further three quarters of people 65 and over, more than half of their income comes only from NZ Super.

CFFC found that only 11 percent of near-retirees think they have enough to live on, and 46 percent don't have a financial plan.

That means that today some 41,000 people on superannuation rely on government accommodation supplements, a number that's predicted to grow as more people rent, not own.

While today only 14 percent of seniors over 65 rent, by 2036, that's projected to reach 24 percent.

"For most people, their biggest investment is their home, so if you reach retirement with a higher debt to equity ratio, your choices for de-cumulating are confined," says Troy Churton, national manager retirement villages for CFFC. "Your accommodation options become about right sizing, finding new ways of working, or even relocating to another town."

Boomers cash in
So where is mortgage-free nirvana?

Coromandel, the region full of second homes and life-style beaches for lucky Aucklanders, tops the ranking. There over half (54 percent) of homes are owned mortgage free. And unlike many parts of the country, that proportion has increased over the past four years, even as median prices have increased to $640,000.

Not surprisingly, other mortgage-free towns are those that are still at bargain basement prices: Wairoa, with more than half its households mortgage free (up two points from five years ago) has a median value of only $147,000. In Ruapehu, with a median value of $190,000, 46 percent of properties are mortgage-free.

But low prices today are not the entire story. Wilson points out that there is also a high proportion of mortgage-free properties in districts like Taupo and Tasman despite high median values (nearly $500,000 to $600,000), because their rapid price increases are only a recent phenomenon.

“Historically, prices in those places were not that high, so people who bought at much lower prices would be the ones who could pay their mortgages off fast. It’s only in the past five years that a lot of new quality housing stock has been built,” he says.

“That’s not the case now as these regions, along with the likes of Hawke’s Bay, have had rapid influx of the big city boomers cashing up and using the capital gains to move to the ‘lifestyle’ provinces, helping them to quit the mortgage.”

Stress levels
Where are mortgage holders doing it toughest?

In Waikato District and Hamilton only 27 percent of properties are mortgage free, well down from 34 and 32 percent five years ago. Selwyn, which covers a huge area from central Canterbury right through to Arthurs Pass, is also highly mortgaged, with median property value of just under $600,000, as are Lower and Upper Hutt and Porirua (with median values from $513,00 to $582,000).

Wilson explains that when the main urban centres - Auckland, Hamilton, Tauranga, Wellington and Christchurch - have experienced rapid house price growth, requiring larger and larger mortgages, people start to look further afield.

“For example, investors and first home buyers spread out of Wellington to Upper and Lower Hutt or Porirua,” he says. “The flow of investor money into the regions has maintained or decreased the proportion of mortgage-free owners, as they use mortgage debt to purchase in these relatively more affordable areas.

"So, rather than cash out the equity gained from main urban centres and buying mortgage free, people are holding their properties in the main centres, refinancing to add more mortgage debt and buying into the smaller provinces," Wilson says.

A similar thing is happening in the South Island in Selwyn or Invercargill where low values are attracting both first home buyers and investors, both of whom require mortgages to fund purchases. In Invercargill, with a median value of $266,000, first-home buyers make up 47 percent of mortgages there, compared to only 38 percent in Auckland and nationally.

A growing trend, particularly for the "golden triangle" of Auckland, Hamilton and Tauranga is for mortgage-free older people - these days that means over 75 - downsizing to retirement villages. Most of the nearly 30,000 units have Occupation Right Agreement, usually some form of a licence to occupy which banks would not provide a mortgage over, so residents have sold family houses to become mortgage-free.

"That's where retirement villages are still an option, because the whole idea is about improving your lifestyle and releasing equity to invest to supplement your super," says CFFC's Churton.

Right now, around 13 percent of over 75 year-olds live in retirement villages, 16 percent in Auckland. With villages now making over one third of the city's new builds, the industry predicts that could grow to even higher proportions of over 75-year-old Aucklanders moving into villages.

Graham Wilkinson, president of the Retirement Villages Association, says that's helping improve housing supply.

"It's tremendously useful in freeing up a three-bedroom house to a family," he says. "If you add it up, it's really contributed to solving some of the housing issues."

Mortgage free properties

Percentage of properties without a mortgage in 2014 and 2019 (black 2014 orange 2019)

COROMANDEL

53%
54%

MACKENZIE

52%
46%

WAIROA

49%
51%

QUEENSTOWN

48%
40%

OPOTIKI

48%
49%

KAIPARA

47%
45%

OTAGO

47%
41%

KAIKOURA

46%
50%

HURUNUI

46%
42%

FAR NORTH

46%
47%

SOUTHLAND

44%
42%

RUAPEHU

44%
46%

TAUPO

44%
44%

BAY OF PLENTY

44%
40%

SELWYN

43%
27%

TASMAN

43%
43%

WAIMATE

43%
40%

WAITOMO

43%
44%

HAURAKI

43%
41%

WAITAKI

43%
41%

CLUTHA

42%
40%

MARLBOROUGH

42%
42%

OTOROHANGA

42%
41%

WHAKATANE

41%
41%

WHANGAREI

41%
40%

CHATHAM ISLANDS

41%
43%

TAURANGA

40%
32%

SOUTH WAIRARAPA

40%
42%

HOROWHENUA

40%
39%

RANGITIKEI

40%
38%

WESTLAND

39%
41%

KAPITI COAST

39%
37%

MATAMATA

39%
37%

GORE

38%
36%

GISBORNE

38%
39%

BULLER

38%
45%

CARTERTON

38%
38%

ASHBURTON

38%
33%

TIMARU

37%
35%

HAWKES BAY

37%
39%

WAIPA

36%
31%

WAIMAKARIRI

36%
30%

STRATFORD

36%
33%

GREY

36%
39%

WANGANUI

36%

36%

NELSON

36%
37%

CHRISTCHURCH

36%
32%

MASTERTON

36%
36%

NAPIER

36%
37%

NEW PLYMOUTH

36%
33%

TARARUA

35%
35%

KAWERAU

35%
38%

WAIKATO

34%
27%

HASTINGS

34%
32%

AUCKLAND

33%
30%

DUNEDIN

33%
32%

MANAWATU

33%
29%

SOUTH TARANAKI

32%
34%

HAMILTON

32%
27%

SOUTH WAIKATO

32%
33%

PALMERSTON NORTH

31%
30%

ROTORUA

31%
31%

PORIRUA

30%
30%

LOWER HUTT

30%
28%

INVERCARGILL

30%
29%

WELLINGTON

29%

27%

UPPER HUTT

28%

28%

2014

2019