

Home loan affordability in Northland

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A monthly assessment of home loan affordability for a first-home buyer*

The first-home buyer index for June:

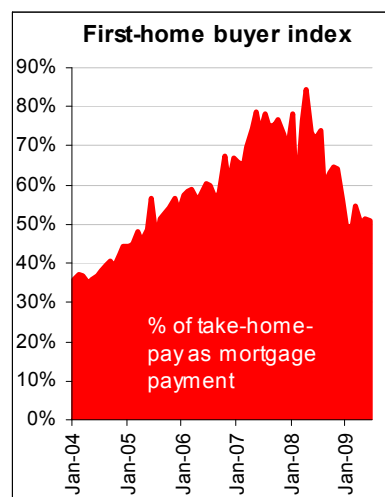
FHB index 50.7%

It now takes 50.7% of one median income of a person in the 25-29 age group to pay the mortgage on the lower-quartile priced house in June, down from May's 51.4%.

Above 40% is "unaffordable"

This index was 71.7% a year ago and 56.3% three years ago. This affordability index reached its highest point of 84.5% in April 2008.

Essentially a single median income for a first-home buyer is not high enough to buy a lower-quartile priced house, even with a deposit around 10% of the house's value. However, a couple/family with more than one income may find the lower-quartile house price is affordable. (See household income section below.)



For comparison, it takes 47.3% of one median income for the 30-34 year old age group to pay the mortgage on the lower-quartile house price, down from May's 48.0%. This index was 66.8% a year ago and 52.2% three years ago.

Deposit

A first-home buyer requires 7.1 years to save a 20% deposit

The first-home buyer index is calculated assuming that the house buyer has been saving for four years, and that amount saved in the four years is then used as a deposit. Based on current income and house prices it will take an individual 3.6 years to save a 10% deposit, and 7.1 years to save a 20% deposit as now required by most banks.

Key drivers of home loan affordability:

House prices

Lower-quartile price change for the year was -1.1%

The lower-quartile house price was \$237,250 in June, down from \$240,750 last month. Annual growth was -1.1%, from the \$240,000 lower-quartile house price in June 2008.

Northland house prices in June		Month (ch)	Year (ch)
Median	\$310,000	1.1% ↑	2.4% ↑
Lower Quartile	\$237,250	-1.5% ↓	-1.1% ↓

After-tax income

Take-home pay increased 7.6% year on year

The median weekly take-home pay for a first-home buyer was \$630.59 in June, virtually unchanged from \$630.17 last month and up from \$586.10 in June 2008, helped substantially by two tax cuts in October 2008 and April 2009.

Median first-home buyers are now \$21.48 better off under the new tax rates introduced in October 2008 and April 2009 compared to the earlier tax rates.

Disposable Income (wages minus mortgage payment)

Weekly disposable income was \$310.91 in June, \$145.26 higher than the \$165.65 in June 2008 (and compares with \$305.99 one month earlier). This measure shows why current property prices exclude so many potential buyers.

Take-home pay (wkly)		A month ago (ch)		A year ago (ch)	
Wages	\$630.59	\$630.17	↑	\$586.10	\$44.49 (7.6%)
Disposable Income	\$310.91	\$305.99	↑	\$165.65	↑\$145.26

Interest rates and mortgage payments

Significantly lower interest rates than twelve months ago

Interest rates are basically unchanged. The average bank interest rate for a 2-year fixed rate mortgage was 6.25% for June, -296 basis points less than the 9.21% twelve months earlier.

Mortgage rate and payment (wkly)		A month ago (ch)		A year ago (ch)	
2 year fixed-rate	6.252%	6.229%	↑	9.208%	↓ -296 basis points
Mortgage payment	\$319.68	\$324.18	↓	\$420.45	↓ -\$100.77 (-24.0%)

Household income

FHB index is at 24.1% for household income

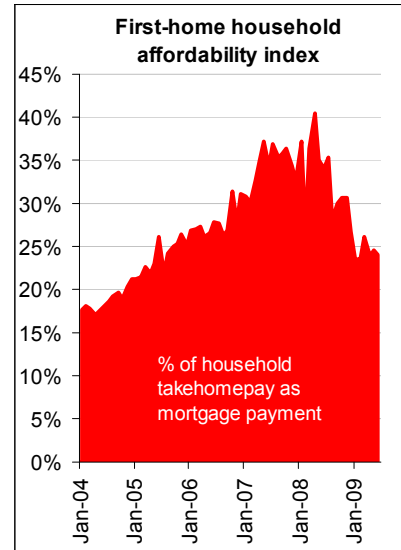
Household income is a key criteria for lending institutions. We have established a set of standardised household profiles, and these can be used to check affordability.

Above 40% is considered "unaffordable"

Based on our first-home buyer household profile, it now takes 24.1% of the median take-home pay to service a mortgage of a lower quartile home purchased in June. Lower quartile housing is affordable for families in Northland when both adults work.

This is down from 24.5% in the previous month, May. A year ago, it was 34.1%.

A median first-home buyer households are \$38.95 better off under the new tax scheme introduced in October 2008 and April 2009 compared to the previous levels.



A first home buyer household consists for 2 adults and no children

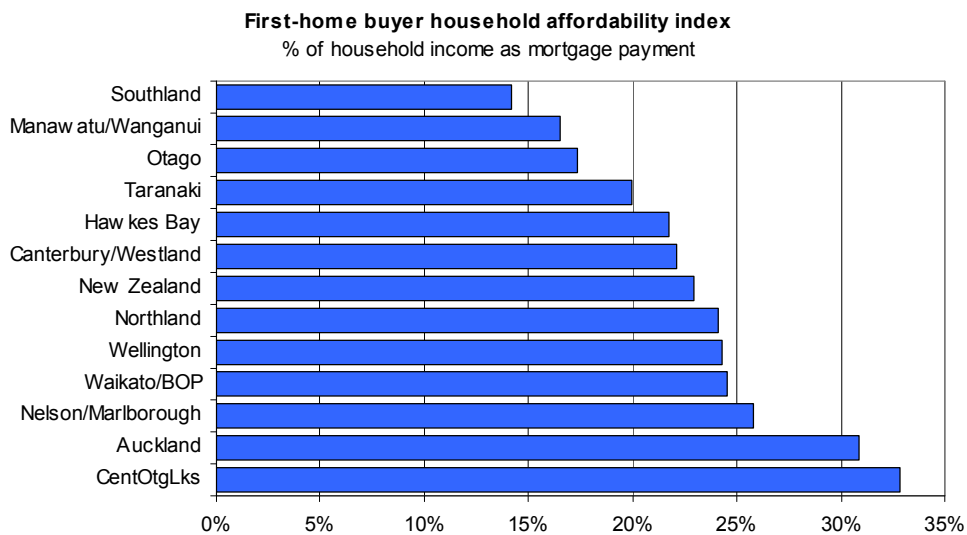
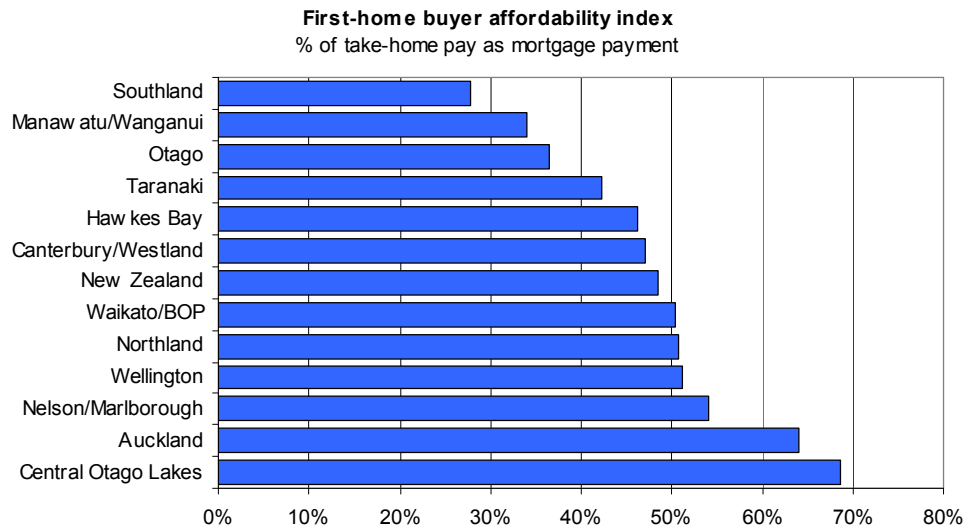
The profile we use for a first-home buyer household is one adult male working full-time, one adult female working full time, with no children.

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

Refer to our [Median Multiple reports](#) for a reconciliation of this report to the internationally comparable benchmarks, by city.

Full regional reports are available below:

- [New Zealand \(159kb .pdf\)](#)
- [Northland \(159kb .pdf\)](#)
- [Auckland \(159kb .pdf\)](#)
- [Waikato and Bay of Plenty \(159kb .pdf\)](#)
- [Hawkes Bay and Gisborne \(167kb .pdf\)](#)
- [Taranaki \(159kb .pdf\)](#)
- [Manawatu and Wanganui \(159kb .pdf\)](#)
- [Wellington \(159kb .pdf\)](#)
- [Nelson and Marlborough \(159kb .pdf\)](#)
- [Canterbury \(159kb .pdf\)](#)
- [Central Otago Lakes \(159kb .pdf\)](#)
- [Otago \(159kb .pdf\)](#)
- [Southland \(159kb .pdf\)](#)



Note to Editors

This work must be referred to as **The BNZ first-home buyer home loan affordability series**. There are two related components – the **Standard home loan affordability series**, and the **First-home buyer home loan affordability series**. They have both been produced by www.interest.co.nz. Please direct queries via email to info@interest.co.nz, or see our contact information below.

Sources / Definitions / Methodology

***a first-home buyer:** An individual in the 25-29 year old age group that buys the lower-quartile priced house with a deposit as calculated below.

Interpreting this Index:

These affordability indexes measure the proportion a weekly mortgage payment is of weekly take-home pay. A separate measure is generated for each region, plus a national one, and for other various mortgage interest rate terms.

Weekly Income (source change):

From the July 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. For more information follow the link www.interest.co.nz/HLA/changes.asp

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).

Deposit - First home buyer index:

As house prices vary by region to a larger extent than wages, we refrained from using a simple 10% deposit-90% mortgage rule to emulate a first home buyer. Instead, to capture the disparity between incomes and house prices we estimate the deposit as a function of savings – that is 20% of weekly income saved for 4 years, plus interest earned at a 90 day deposit interest rate.

Home Loan: (Lower quartile house price less the deposit)

Mortgage repayments are based on the value of the home loan, paid weekly for 25 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 www.interest.co.nz/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. This is, and has been the most popular term. However, the market is shifting to longer term rates, and the index reviews allow for keeping track of affordability issues as this shift happens.

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.

Household affordability:

Household affordability is calculated in the same way as individual affordability except instead of individual income, a household income is used. The household income for a *first-home buyer* household is made from 1 full time male median income, and 1 full time female median income (from LEEDS data) both in the 25-29 age range. Our first-home buyer household profile does not have any children.

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.

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