

# Home loan affordability in Otago

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A monthly assessment of home loan affordability for a typical buyer\*

## The home loan affordability index for June:

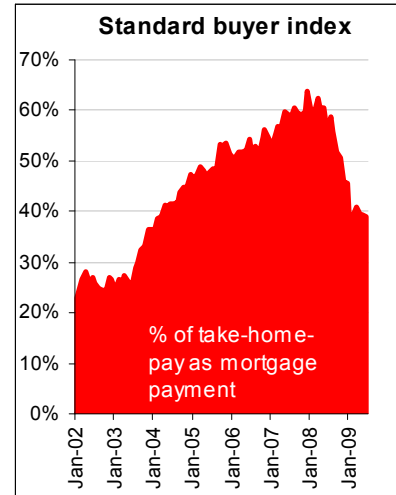
*HLA index 39.2%*

It now takes 39.2% of one median income to pay the mortgage on a median priced house purchased in June, unchanged from May's 39.2%. A typical buyer is assumed to be in the 30-34 age group.

*Above 40% is considered "unaffordable"*

This index was 55.8% a year ago and 41.5% five years ago. The affordability index reached its highest point of 63.8% in December 2007.

Essentially the median income for the typical buyer is not high enough to buy a median priced house, even with a 20% deposit. However, they may find the lower-quartile priced house is affordable (check our first-home buyer series). It is also true that a couple/family with more than one income may find the median house price is affordable. (Check household income section below.)



## Deposit

*Standard buyers require 5.9 years to save a 20% deposit*

The standard buyer index is calculated assuming that the house buyer has already has a 20% deposit. Based on current income and house prices it will take an individual 5.9 years to save the 20% deposit as now required by most banks.

## Key drivers of home loan affordability:

### House prices

*Slight decrease in house prices*

The median house price was \$219,150 in June, down from \$220,000 last month. The median house price was \$225,000 in June 2008 which puts annual growth at -2.6%. Five years ago the median was \$170,000.

*Dwelling sales figures lower than 5 years ago*

Dwelling sales in June were 232, up from May's 215, and it is now higher than the 177 sales twelve months ago, but lower than the 277 sales five years ago.

| Otago house prices in June | Month (change) | Year (change) |         |
|----------------------------|----------------|---------------|---------|
| Median                     | \$219,150      | -0.4% ↓       | -2.6% ↓ |
| New Zealand Median         | \$340,000      | 0.7% ↑        | 0.0% ⇔  |

## After-tax income

*Take-home pay increased 7.4% year on year*

The median weekly take-home pay for a typical buyer was \$681.23 in June, up 7.4% from the \$634.53 in June 2008, helped substantially by two tax cuts in October 2008 and April 2009.

Median standard buyers are now \$21.39 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 \$414.51 in June, which is \$134.24 higher than the \$280.27 in June 2008 (and compares with \$413.58 one month earlier). This measure shows that the typical buyers' income is just too low by itself to afford the mortgage payments on the median priced home.

| Take-home pay (wkly) |          | A month ago (ch) |   | A year ago (ch) |                 |
|----------------------|----------|------------------|---|-----------------|-----------------|
| Wages                | \$681.23 | \$680.76         | ↑ | \$634.53        | ↑\$46.70 (7.4%) |
| Disposable Income    | \$414.51 | \$413.58         | ↑ | \$280.27        | ↑ \$134.24      |

## Interest rates and mortgage payments

*Significantly lower interest rates than twelve month 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                 | \$266.72 | \$267.18         | ↓ | \$354.26        | ↓ -\$87.54 (-24.7%) |

## Household affordability

*HLA is at 25.0% for household income*

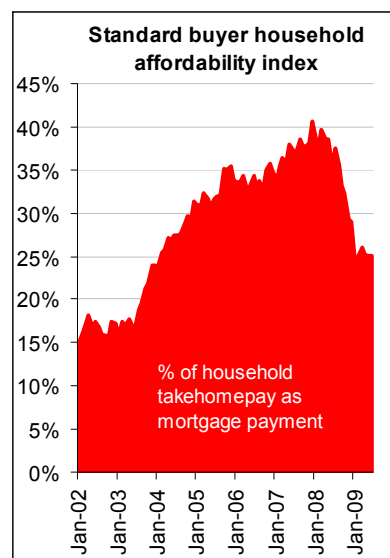
Household income is a key criteria for lending institutions. We have established a set of standardised household profiles, and these can be used to check affordability.

*Above 40% is considered "unaffordable"*

Based on our standard household profile, it now takes 25.0% of the median take-home pay to service a mortgage of a median home purchased in June. Median-priced housing is affordable for families in Otago, when both adults work.

This is down marginally from 25.1% in the previous month, May. A year ago, it was 35.6% - five years ago it was 27.4%.

Median standard buyer households are \$41.18 better off under the new tax scheme and Working-For-Families thresholds introduced in October 2008 and April 2009 compared to the previous tax rates.



*A typical-buyer household consists for 2 adults and 1 child*

The profile we use for a standard buyer household is one adult male working full-time, one adult female working 50%, and one child aged 5 years.

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

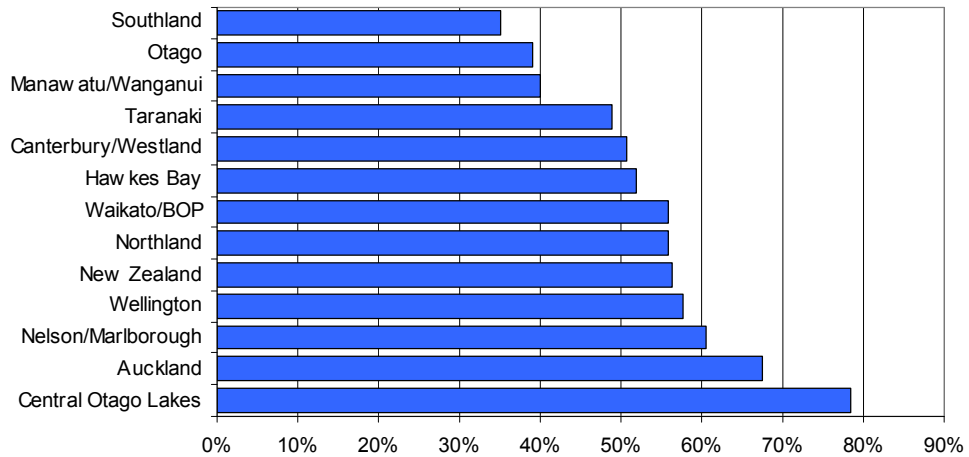
Refer to our [Median Multiple reports](#) for a reconciliation of this report to the internationally comparable benchmarks, by city.

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 \(159kb .pdf\)](#)
- [Taranaki \(159kb .pdf\)](#)
- [Manawatu and Wanganui\(159kb .pdf\)](#)
- [Wellington \(159kb .pdf\)](#)
- [Nelson and Marlborough \(159kb .pdf\)](#)
- [Canterbury \(156kb .pdf\)](#)
- [Central Otago Lakes \(159kb .pdf\)](#)
- [Otago \(159kb .pdf\)](#)
- [Southland \(159kb .pdf\)](#)

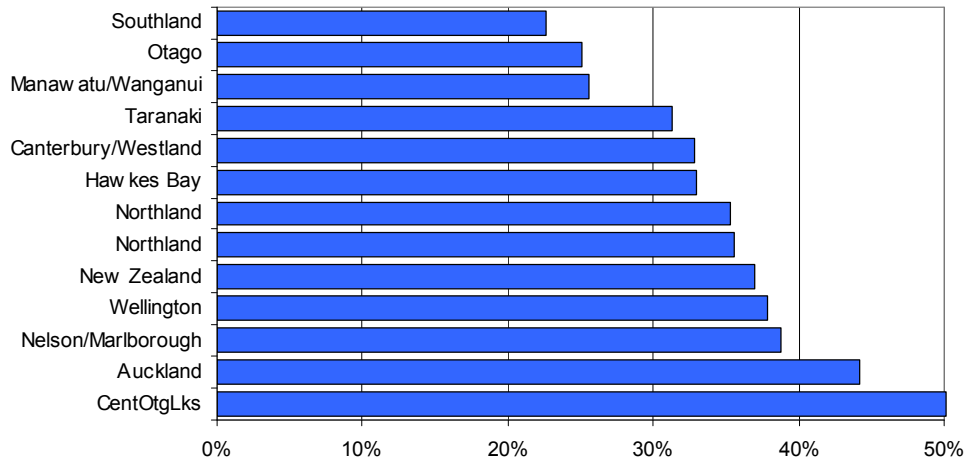
**Standard buyer individual affordability index**

% of take-home pay as mortgage payment



**Standard buyer household affordability index**

% of household income as mortgage payment



## Note to Editors

This work must be referred to as **The BNZ 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](http://www.interest.co.nz). Please direct queries via email to [info@interest.co.nz](mailto:info@interest.co.nz), or see our contact information below.

## Sources / Definitions / Methodology

**\*a typical buyer:** An individual in the 30-34 year old age group who buys the median house price with 20% deposit.

### Interpreting the Index:

The home loan affordability index measures the proportion a weekly mortgage payment is of weekly take-home pay (for a median priced house). An index measure is generated for each region, and nationally. We calculate, but do not publish, this index using other various mortgage interest rate terms.

### Interpreting the Household Income Models:

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 rules below (see Home Loan).

### 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](http://www.stats.govt.nz). For more information follow the link [www.interest.co.nz/HLA/changes.asp](http://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](http://www.ird.govt.nz) 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 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](http://www.interest.co.nz/calculator).

### Mortgage Rates:

Average mortgage interest rates are sourced from [www.interest.co.nz](http://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](http://www.renz.org.nz). Although the REINZ series is more volatile than the [QV](http://www.interest.co.nz) 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](http://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](http://www.ird.govt.nz).

### 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 *standard-buyer* household is made from 1 full time male median income, 50% of a female median income (from LEEDS data) both in the 30-34 age range, plus the Working For Families income support they are entitled to receive under that program.

## 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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