# Roost Home Loan Affordability Report

28 August 2014

## Roost - Home loan affordability in New Plymouth

A monthly assessment of home loan affordability for a typical buyer

roost MORTGAGE BROKERS

You find the perfect home, we'll find the perfect loan.

## The Roost home loan affordability index for July 2014:

It now takes 53.3% of one median income to pay the mortgage on a median priced house purchased in July, down from June's 54.9 %. A typical buyer is assumed to be in the 30-34 age group.

This index was 50.2% a year ago and 57.0% five years ago. The affordability index reached its highest point of 89.4% in September 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

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 8.0 years to save the 20% deposit as now required by most banks.

## Key drivers of home loan affordability:

### House prices

The median house price was $332,500 in July, down from $346,000 last month. The median house price was $322,500 in July 2013 which puts annual growth at 3.1%. Five years ago the median was $310,000.

Dwelling sales in July were 72, up from June's 62. They are now lower than the 78 sales twelve months ago and lower than the 96 sales five years ago.

| New Plymouth house prices in July | | Month (change) | Year (change) |
|---|---|---|---|
| Median | $332,500 | -3.9%↓ | 3.1% ↑ |
| New Zealand Median | $416,000 | -2.6%↓ | 8.1%↑ |

## After-tax income

The median weekly take-home pay for a typical buyer was $765.08 in July, up 2.6% from the $745.98 in July 2013.

Five years ago, median weekly take-home pay was $662.32.

## Disposable Income (wages minus mortgage payment)

Weekly disposable income was $357.56 in July, which is $13.89 lower than the $371.45 in July 2013 (and compares with $345.66 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 | weekly ($) | a month ago | change | a year ago | change |
|---|---|---|---|---|---|
| Wages | $765.08 | $765.08 | ↓ | $745.98 | ↑$19.10 (2.6%) |
| Disposable Income | $357.56 | $345.66 | ↑ | $371.45 | ↓ $13.89 |

## Interest rates and mortgage payments

Floating rates were increased in June 2014 in response to the recent OCR hike. The average bank interest rate for a floating mortgage rate was 6.45% for July, 70 basis points higher than the 5.76% twelve months earlier.

The June OCR rise of +0.25% is the third of a series of increases, although it was very slow to flow through in June. The RBNZ said it is on track to raise the OCR by about 2% over the next two years. When that is done, it will have had a substantial and negative impact on affordability.

Wholesale interest rates often move differently to the OCR and borrowers should check their options to switch to a fixed rate.

Our mode now assumes that borrowers switched to a 2 year fixed rate in June 2014, following the shift reflected in RBNZ data. (See note below)

| Mortgage rate and payment | Weekly pymt | a month ago | change | a year ago | change |
|---|---|---|---|---|---|
| Two year fixed rate | 6.454% | 6.419% | ↑ | 5.758%* | ↑ 70 basis points |
| Mortgage payment | $407.52 | $420.48 | ↓ | $374.53 | ↑ $32.99 ( -18.1%) |

## Household affordability

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.

Based on our standard household profile, it now takes 35.3% of the median take-home pay to service a mortgage of a median home purchased in July. Median-priced housing is affordable for families in New Plymouth, when both adults work.

This is down from 36.4% in the previous month, June. A year ago, it was 32.9% - five years ago it was 36.2%.

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.

You find the perfect home. We'll find the perfect loan. contact a ROOST mortgage broker today

**Full regional reports are available below:**

### Auckland region

| | | |
|---|---|---|
| Auckland Central | North Shore | Auckland South |
| Auckland West | | New Zealand |

### Wellington region

| | | |
|---|---|---|
| Wellington City | Hutt Valley | Porirua |
| Kapiti Coast | | |

### Northland

| | | |
|---|---|---|
| Whangarei | | New Zealand |

### Waikato and Bay of Plenty

| | | |
|---|---|---|
| Hamilton | Tauranga | Rotorua |

### Hawkes Bay and Gisborne

| | | |
|---|---|---|
| Napier | Hastings | Gisborne |

### Taranaki, Manawatu and Wanganui

| | | |
|---|---|---|
| New Plymouth | Palmerston North | Wanganui |

### Nelson and Malborough

| | | |
|---|---|---|
| Nelson | | New Zealand |

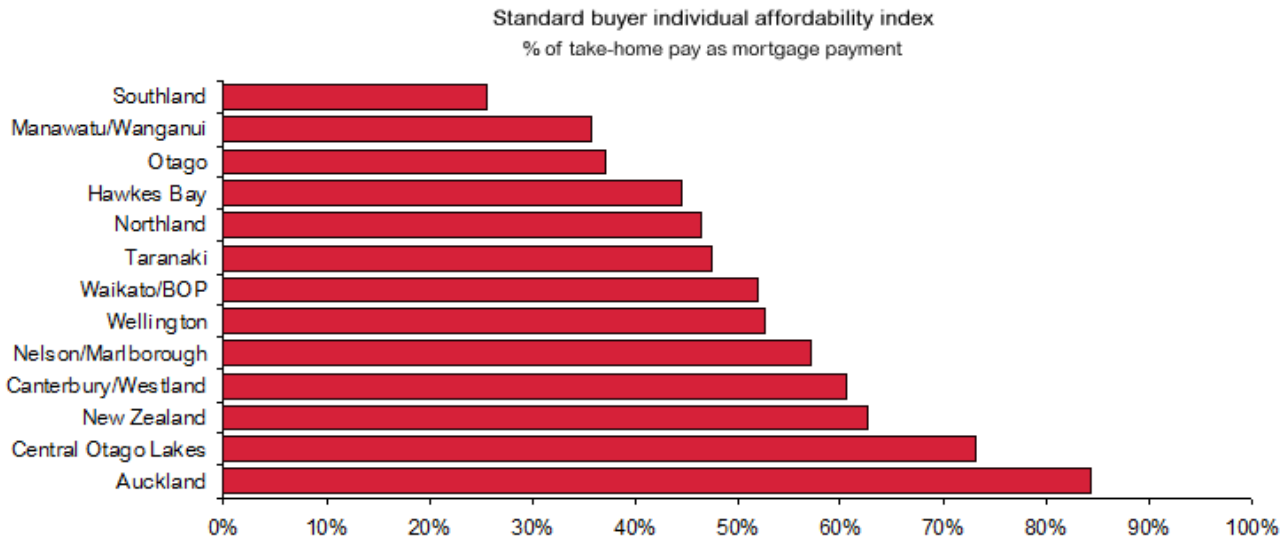
### Canterbury

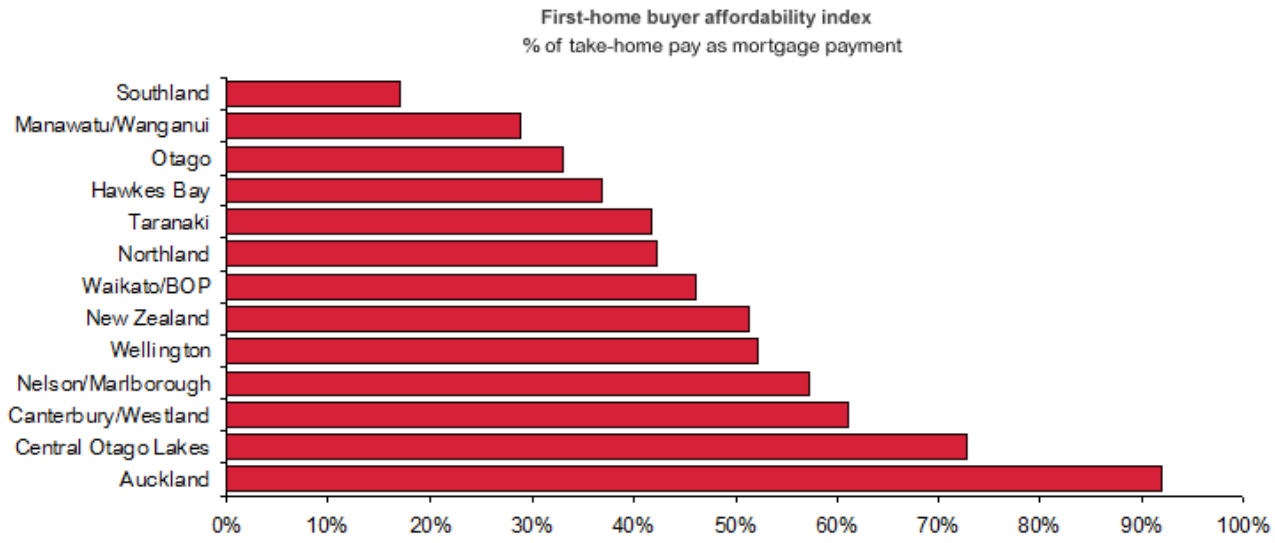
| | |
|---|---|
| Christchurch | Timaru |

### Otago, Central Otago Lakes and Southland

| | | |
|---|---|---|
| Queenstown | Dunedin | Invercargill |

You find the perfect home. We'll find the perfect loan. contact a ROOST mortgage broker today




### Note to Editors:

This work must be referred to as **The Roost 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.

This research has been sponsored by Roost since July 2010. **Roost**, owned by AMP, is one of New Zealand's largest independent home loan and investment property brokers with 16 franchisees nationwide. Roost offers to source the perfect loan for its customers from a panel of lenders, and insurance advice from Roost insurance specialists. Roost was established in 1996. For more information please visit www.roost.co.nz

### 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).

You find the perfect home. We'll find the perfect loan. contact a ROOST mortgage broker today

**Weekly Income:**
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.

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).

**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 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 http://www.interest.co.nz/calculators/mortgage-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. Until August 2010 this series used a 2 year fixed rate loan as the basis for interest rates. In September 2010 it was switched to the floating rate, reflecting actual market shifts by borrowers. In June 2014, it was switched back to the 2 year fixed rates, again reflecting market shifts.

**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 *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.*

*If you are making a specific investment or purchase decision, you are strongly advised to seek independent advice from a qualified professional you trust.*

*The conditions and disclaimers set out at http://www.interest.co.nz/terms-conditions are applicable to this report as well.*

*This report is made available on these terms only, and JDJL Limited or www.interest.co.nz or Roost is not responsible for any actions taken on the basis of information in this report, or for any error in or omission from this report.*

**Contact**
For more information, contact

David Chaston
*Publisher*,
www.interest.co.nz
JDJL Limited
206 Jervois Road, Herne Bay
PO Box 47-756, Ponsonby
Auckland, New Zealand

Phone: (09) 360-9670
Mobile: 021 997-311
Fax: (09) 360-9319
Email: david.chaston@interest.co.nz

You find the perfect home. We'll find the perfect loan. contact a ROOST mortgage broker today