Roost
Home Loan Affordability Report

roost MORTGAGE BROKERS

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Roost - Home loan affordability in New Zealand

A monthly assessment of home loan affordability for a typical buyer

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The Roost home loan affordability index for January 2014:

It now takes 57.0% of one median income to pay the mortgage on a median priced house purchased in January, down from December's 60.7%. A typical buyer is assumed to be in the 30-34 age group.

This index was 53.8% a year ago and 54.3% five years ago. The affordability index reached its highest point of 83.4% in March 2008.

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 9.6 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 $402,000 in January, down from $427,000 last month. The median house price was $370,000 in January 2013 which puts annual growth at 8.6%. Five years ago the median was $325,000.

Dwelling sales in January were 4,719, down from December's 5,688. They are now lower than the 4,933 sales twelve months ago but higher than the 3,706 sales five years ago.

New Zealand house prices in January		Month (change)	Year (change)
Median	$402,000	-5.9%↓	8.6% ↑

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After-tax income

The median weekly take-home pay for a typical buyer was $820.19 in January, up 2.6% from the $799.36in January 2013.

Five years ago, median weekly take-home pay was $718.84.

Disposable Income (wages minus mortgage payment)

Weekly disposable income was $352.51 in January, which is $17.16 lower than the $369.67 in January 2013 (and compares with $321.84 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	$820.19	$818.61	↑	$799.36	↑$20.83 (2.6%)
Disposable Income	$352.51	$321.84	↑	$369.67	↓ $17.16

Interest rates and mortgage payments

Floating rates are unchanged since last month but slightly higher than the same month a year ago. The average bank interest rate for a floating mortgage rate was 5.78% for January, 2 basis points higher than the 5.76% twelve months earlier.

The RBNZ announced new LVR lending criteria that will restrict bank's ability to lend on low equity loans. The roll out of these restrictions started to have an input in September, although they did not formally start until 1st October 2013. Navigating these new rules is best done with expert advice.

Wholesale interest rates are continuing to creep up and borrowers should check their options to switch to a fixed rate.

Mortgage rate and payment	Weekly pymt	a month ago	change	a year ago	change
Floating rate	5.776%	5.776%	⇔	5.758%	↑ 2 basis points
Mortgage payment	$467.68	$496.77	↓	$429.69	↑ $37.99 (8.8%)

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 37.5% of the median take-home pay to service a mortgage of a median home purchased in January. Median-priced housing is affordable for families in New Zealand, when both adults work.

This is down from 39.9% in the previous month, December. A year ago, it was 35.3% - five years ago it was 35.4%.

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.

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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

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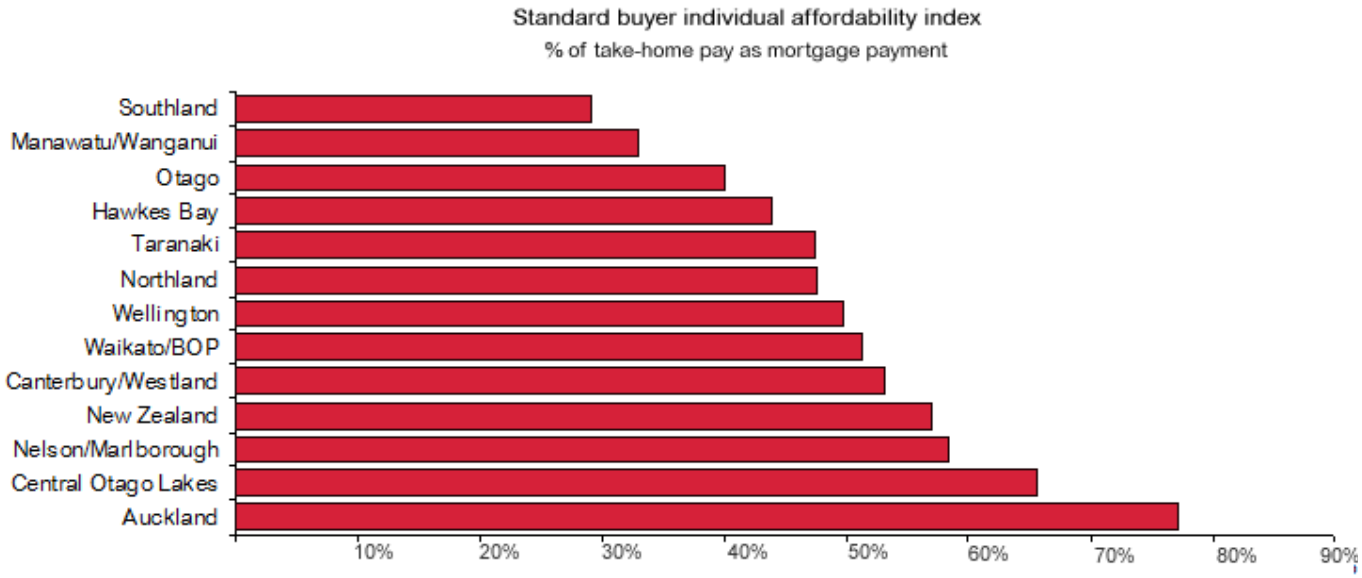

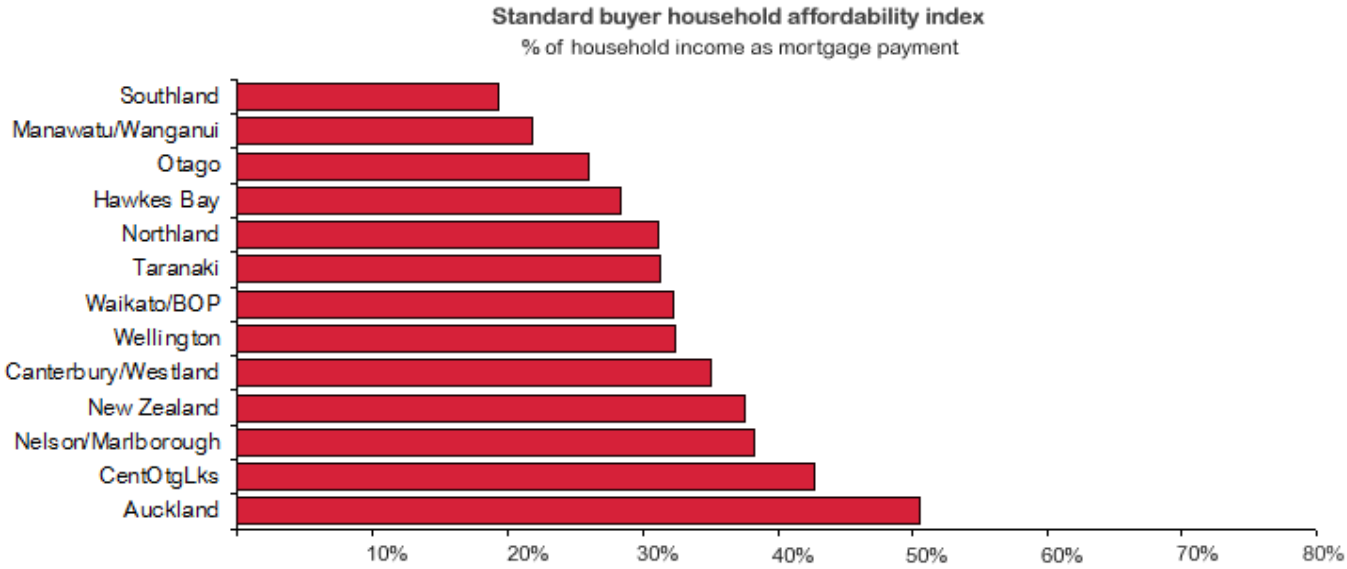

Note to Editors:

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).

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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 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 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. From September 2010 onward, this research has adopted a variable or floating interest rate as the market is shifted to a lower and cheaper rate on a floating basis.

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
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