Home Loan Affordability Report

interest.co.nz

26 January 2016 **Interest.co.nz Home loan affordability in Northland**

A monthly assessment of home loan affordability for a typical buyer. (This is a companion report to the interest.co.nz home loan affordability report for first home buyers.)

To find where you can buy and still keep your mortgage payments affordable,

see our calculator here >

To assess Rent-or-Buy affordability,

see this report here >

The interest.co.nz home loan affordability index for December 2015:

Based on our standard household profile, it now takes 32.0% of the median take-home pay to service a mortgage of a median priced home purchased in December. Median-priced housing is affordable for families in Northland, when both adults work.

This is up from 30.0% in the previous month, November. A year ago, it was 30.2% - five years ago it was 32.8%.

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.

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.

Deposit

The standard buyer household 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 4.6 years to save the 20% deposit as now required by most banks.

Northland

	Weekly Income $	Deposit Saved $	House Price $	Int. rate %	Weekly pymt $	Index %
Nov 2015	1,187.08	72,000	360,000	4.78	379.75	32.0
Nov 2014	1,176.10	60,000	300,000	5.97	355.46	30.2
Nov 2013	1,160.01	68,500	342,500	5.98	398.46	34.3
Nov 2010	1,097.39	59,200	296,000	6.65	359.93	32.8

Key drivers of home loan affordability:

House prices

The median house price was $360,000 in December, up from $336,750 last month. The median house price was $300,000 in December 2014 which puts annual growth at 20.0%. Five years ago the median was $296,000.

Dwelling sales in December were 241, down from November's 278. They are now higher than the 173 sales twelve months ago and higher than the 95 sales five years ago.

Northland house prices in December		Month (change)	Year (change)
Median	$360,000	6.9%↑	20.0% ↑
New Zealand Median	$465,000	1.2%↑	3.3%↑

Interest rates and mortgage payments

The average bank interest rate for two-year fixed mortgage rate was 4.78% for December, -119 basis points less than the 5.97% twelve months earlier.

The RBNZ has started a rate cut program with the first reduction occurring in June 2015 and the latest one in December 2015. No more cuts are expected although turmoil in markets recently may change that expectation. Wholesale rates have been volatile recently and that has kept downward pressure on fixed mortgage rates.

Our model assumes 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	a month ago	change	a year ago	change
Two year fixed rate	4.780%	4.814%	↓	5.968%	↓ -119 basis points
Mortgage payment	$379.75	$356.44	↑	$355.46	↑ $24.29 (6.8%)

Single income affordability

It now takes 48.4% of the after-tax median income of a typical working person to pay the mortgage on a median priced house purchased in December, up from November's 45.5 %. A typical person is assumed to be in the 30-34 age group.

This index was 45.9% a year ago and 51.8% five years ago. The affordability index reached its highest point of 92.9% in April 2008.

Essentially the median income for the typical buyers on a single income 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).

After-tax income

The median weekly take-home pay for a typical buyer was $784.34 in December, up 1.3% from the $774.05 in December 2014.

Five years ago, median weekly take-home pay was $694.81.

Disposable Income (wages minus mortgage payment)

Weekly disposable income was $404.58 in December, which is $14.01 lower than the $418.59 in December 2014 (and compares with $427.46 one month earlier). This measure shows that the typical working buyer 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	$784.34	$783.90	↑	$774.05	↑$10.28 (1.3%)
Disposable Income	$404.58	$427.46	↓	$418.59	↓ $14.01

Details of 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:

Auckland region

Auckland Central	North Shore	Auckland South
Auckland West		New Zealand

Wellington region

Wellington City	Hutt Valley	Porirua
Kapiti Coast		Wairarapa

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

Note to Editors:
This work must be referred to as **The interest.co.nz 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 typical buyer:** An individual in the 30-34 year old age group who buys the median house price with 20% deposit.
***a first home buyer :** An individual in the 25-29

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:
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.

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