# Roost
# Home Loan Affordability Report

roost MORTGAGE BROKERS

27 January 2015 **Roost - Home loan affordability in Northland**

A monthly assessment of home loan affordability for a typical buyer

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

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

It now takes 46.1% of one median income to pay the mortgage on a median priced house purchased in December, down from November's 48.9 %. A typical buyer is assumed to be in the 30-34 age group.

This index was 52.4% a year ago and 61.7% five years ago. The affordability index reached its highest point of 92.9% in April 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 7.1 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 $300,000 in December, down from $317,500 last month. The median house price was $342,500 in December 2013 which puts annual growth at -12.4%. Five years ago the median was $306,000.

Dwelling sales in December were 173, up from November's 166. They are now higher than the 150 sales twelve months ago and higher than the 113 sales five years ago.

| Northland house prices in December | | Month (change) | Year (change) |
|---|---|---|---|
| Median | $300,000 | -5.5%↓ | -12.4% ↓ |
| New Zealand Median | $450,000 | -1.3%↓ | 5.4%↑ |

## After-tax income

The median weekly take-home pay for a typical buyer was $770.91 in December, up 1.4% from the $760.02 in December 2013.

Five years ago, median weekly take-home pay was $657.99.

## Disposable Income (wages minus mortgage payment)

Weekly disposable income was $415.45 in December, which is $53.89 higher than the $361.56 in December 2013 (and compares with $393.82 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 | $770.91 | $770.27 | ↑ | $760.02 | ↑$10.89 (1.4%) |
| Disposable Income | $415.45 | $393.82 | ↑ | $361.56 | ↑ $53.89 |

## Interest rates and mortgage payments

There have been no more OCR rises since July. The average bank interest rate for two-year fixed mortgage rate was 5.97% for December, -2 basis points less than the 5.99% twelve months earlier.

There have been no more OCR hikes since the July increase. The election pause has been extended and now markets doubts there will be any more for some time. Falling wholesale rates have kept downward pressure on 2 year fixed rates and they are likely to fall further.

Wholesale interest rates have mowed down and borrowers should check their options to switch to a fixed rate.

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 | 5.968% | 5.975% | ↓ | 5.985% | ↑ -2 basis points |
| Mortgage payment | $355.46 | $376.45 | ↓ | $398.46 | ↓ $-43.00 ( -10.8%) |

## 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 30.5% of the median take-home pay to service a mortgage of a median home purchased in December. Median-priced housing is affordable for families in Northland, when both adults work.

This is down from 34.7% in the previous month, November. A year ago, it was 34.5% - five years ago it was 38.8%.

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:

### 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

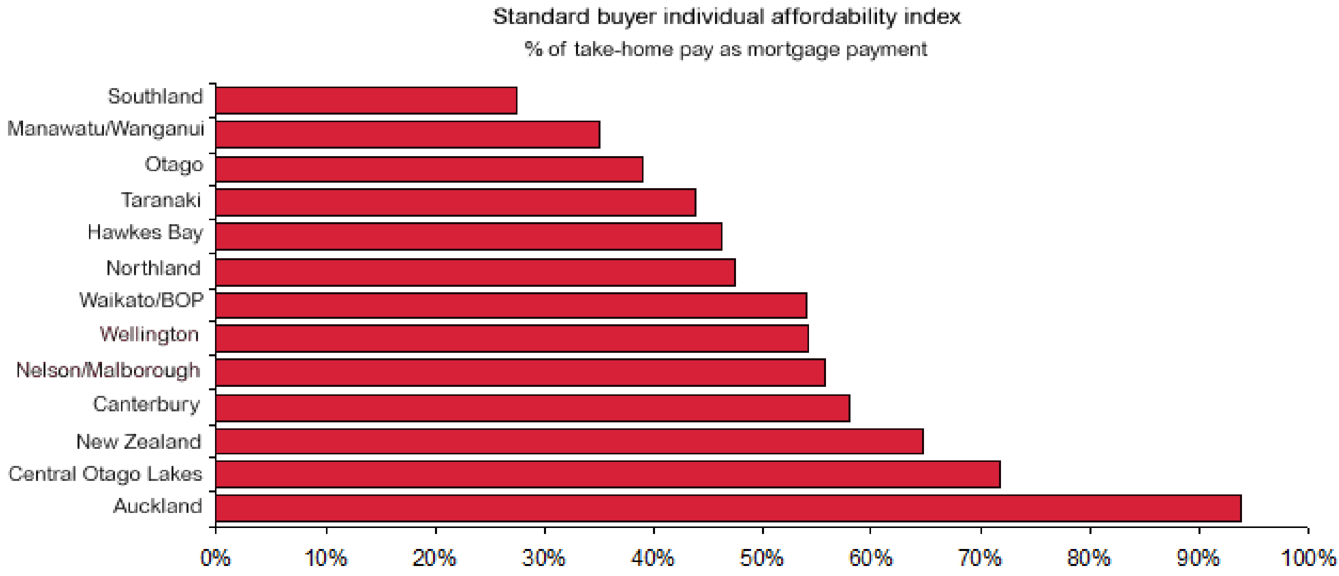
| | | |
|---|---|---|
| Nelson | | New Zealand |

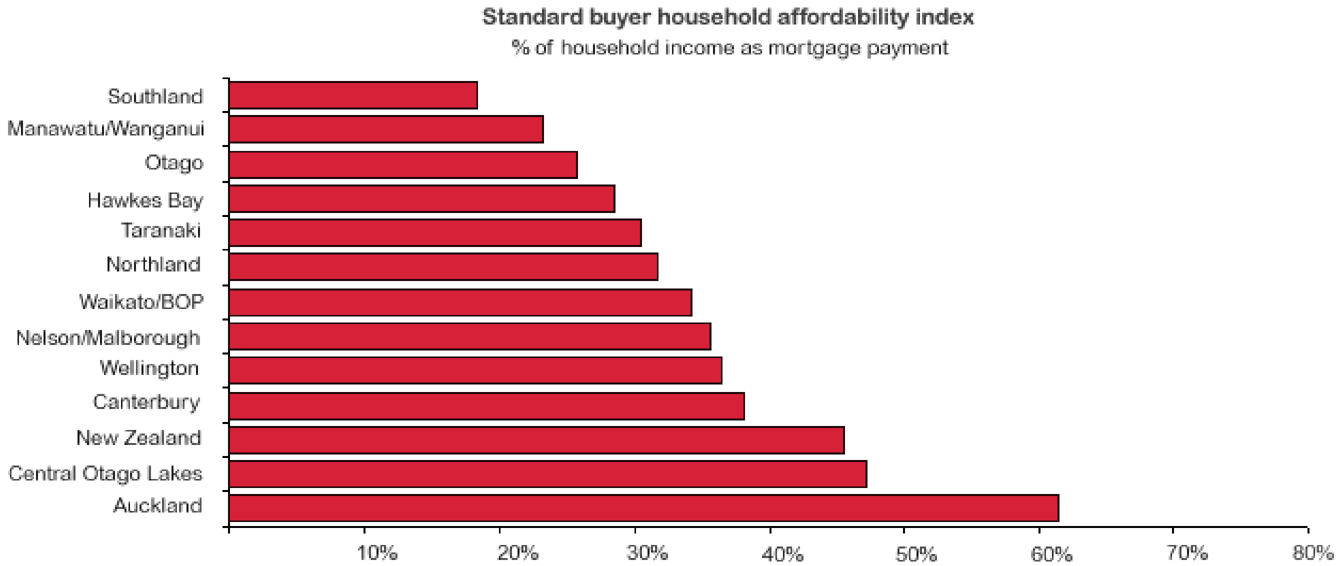
### Canterbury

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

### Otago, Central Otago Lakes and Southland

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




## Note to Editors:

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

**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.

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