

# Rent or buy report for - Auckland North Shore

24 August 2012

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A monthly assessment of renting a property verses taking out a mortgage

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## To buy or to rent, that is the question ...

The purpose of this Report is to help you decide **when** to move from renting to owning. The indicators in here show whether you should continue to rent-and-save-for-a-deposit, or when the time is right to buy.

For many, the goal of owning your own home remains a powerful objective – one we support. But affordability issues can be a serious barrier to achieving this, and renting is often seen as a 'second best' outcome – what you are left doing if you can't afford to buy.

However, this Report is aimed at renters who want to buy, and suggests when conditions are appropriate to make the move from renting to owning.

### *Firstly, the assumptions:*

We assume you are a first home buyer household, renting a 3 bedroom house and paying a median rent. Your household income consists of one male median income and one female median income from the 25-29 age group.

We assume you want to buy a similar house, but as you are starting out, it will be one priced in the first quartile. You have saved a deposit based on 20% of your household income for the past four years to a maximum of 20% of the house price. The resulting mortgage is for 25 years as a traditional table mortgage. 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

Landlords pay rates, insurance and [some] maintenance, and these costs are included in rent. This study adjusts for these items.

### The rent or buy results for July:

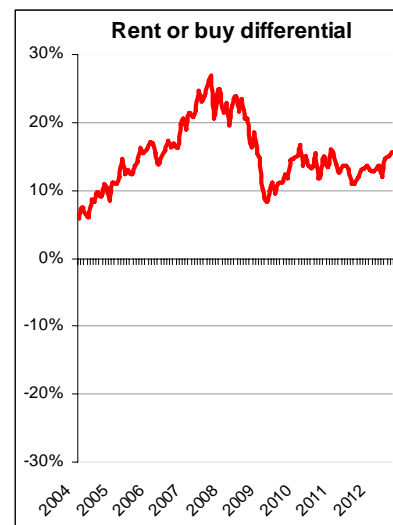
In July 2012, it takes 45.0% of household take-home pay to service the mortgage and related household costs on a lower quartile priced house.

But it also takes 30.0% of household take-home pay to make the median rent on a 3 bedroom house.

That means in July 2012, it takes 15.0% more of your household income to afford the mortgage than to rent. Of course, this assumes you have saved the deposit to afford a mortgage, and that may well be another big barrier for many.

It takes a household 5.7 years (with a saving rate of 20%) to save a 20% deposit, as now required by most banks.

*Rent or buy differential for July is 15.0%*



## The key drivers for July:

### Rental affordability

*There has been a \$39.19 increase in after tax income over the last year.*

The median weekly after tax income for a first-home buyer household in Auckland North Shore was \$1,601.04 in July, up from \$1,598.83 last month and up from \$1,561.85 in July 2011.

Median rent for a 3 bedroom house in Auckland North Shore was \$480 per week, up from last month's \$450 and up from last year's \$470 per week.

In July, it takes 30.0% of your after tax income as a first home buyer household to pay the median rent of a 3 bedroom house. This is up from last month's 28.1% and down from last year's 30.1%

### Home loan affordability (HLA) with costs

HLA measures of the percentage of after tax income needed to service the mortgage of a lower quartile house bought in July.

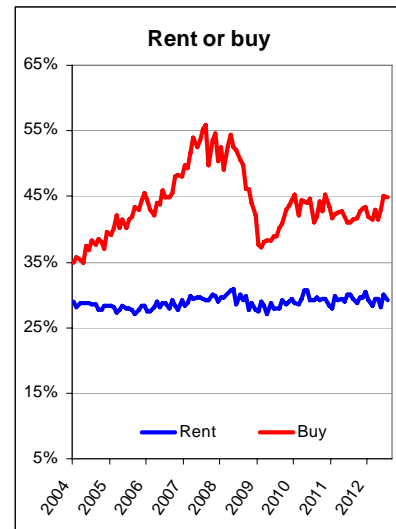
Factors that determine this figure includes house price, interest rate, income, rates, insurance and maintenance.

*The weekly mortgage payment has reduced by \$76.49 since last year.*

In July, a floating mortgage rate of 5.73% and a lower-quartile house price of \$488,700 will require a weekly mortgage payment of \$646.49. This is up from last month's \$610.87 and up from the \$570.00 that was required the same month last year.

In addition to the mortgage payment, this analysis also includes the household costs of rates, insurance and maintenance, amounting to \$74.58 per week.

This is equivalent of 45.0% of the after tax income of a first buyer household income. This is down from last year's 41.1%.



Regular revisions to the LEEDS income series were published by Statistics NZ, and these have been updated.

Full regional reports are available below:

- [New Zealand \(159kb .pdf\)](#)
- [Northland \(159kb .pdf\)](#)
  - [Whangarei \(159kb .pdf\)](#)
- [Auckland \(159kb .pdf\)](#)
  - [Auckland Central\(159kb .pdf\)](#)
  - [Auckland North Shore\(159kb .pdf\)](#)
  - [Auckland South\(159kb .pdf\)](#)
  - [Auckland West\(159kb .pdf\)](#)
- [Waikato and Bay of Plenty \(159kb .pdf\)](#)
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- [Hawkes Bay and Gisborne \(167kb .pdf\)](#)
  - [Napier \(159kb .pdf\)](#)
  - [Hastings \(159kb .pdf\)](#)
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#### **Note to Editors**

This work must be referred to as **The Rent-or-Buy report**. It has 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**

**\*Targeted renter or buyer:** An individual in the 25-29 year old age group that buys the lower-quartile priced house with a deposit as calculated below.

#### **Interpreting this Index:**

These affordability indexes measure the proportion a weekly median rent for a 3 bedroom house and a weekly mortgage payment is of weekly take-home pay. A separate measure is generated for each region, plus a national one, and for other various mortgage interest rate terms.

**Household Weekly Income:**

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](#).

A household of one male and one female, both on full median incomes, is used.

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).

**Deposit** - First home buyer index:

As house prices vary by region to a larger extent than wages, we refrained from using a simple 10% deposit-90% mortgage rule to emulate a first home buyer. Instead, to capture the disparity between incomes and house prices we estimate the deposit as a function of savings – that is 20% of weekly income saved for 4 years, plus interest earned at a 90 day deposit interest rate.

**Home Loan:** (Lower quartile house price less the 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](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 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](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](#).

**Rents:**

This study uses data sourced from the Department of Building & Housing tenancy bond service, focusing on median rents for a 3 bedroom house.

**Rates, Insurance and Maintenance:**

These are costs paid by a landlord and included in rent. To ensure this Rent-or-Buy analysis is fair, we have assumed the following costs will be incurred by homeowners:-

- Rates and insurance – The average rates and insurance costs are sourced from the Household Economic Survey published by [Statistics New Zealand](#).
- Maintenance – Based the average weekly property maintenance related expenses as sourced from [Statistics New Zealand](#).

**Disclaimer****IMPORTANT – PLEASE READ**

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