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JANUARY 2019

HOME LOAN AFFORDABILITY REPORT

HAMILTON CITY

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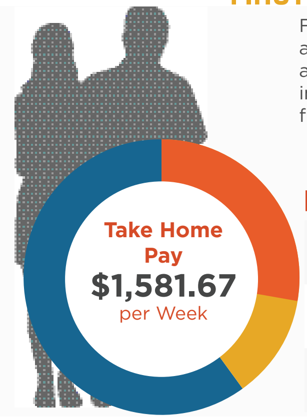
January 2019

Home loan affordability is a measure of the proportion of take-home pay that is needed to make the mortgage payment for a typical household. If that is less than 40%, then a mortgage is considered 'affordable'. The following are typical assessments for households at three stages of home ownership.

FIRST HOME BUYERS 25-29



First home buyers earn a median income for their age group, and buy a first quartile house in their area. Both parties work full-time.

Mortgage payment as a percentage of the take home pay

January 19	30.5%
January 18	27.4%
January 17	25.8%

This report estimates how affordable it would be for a couple where both are aged 25–29 and are working full time, to buy a home at the lower quartile price in Hamilton City.

It assumes they earn the median rate of pay for people of their age in their region, which would give them a take home pay of $1,581.67 a week.

It is assumed they would have saved $72,978 to use as a deposit, by putting aside 20% of their net pay each week for up to four years, earning interest on the savings at the 90 day bank deposit rate.

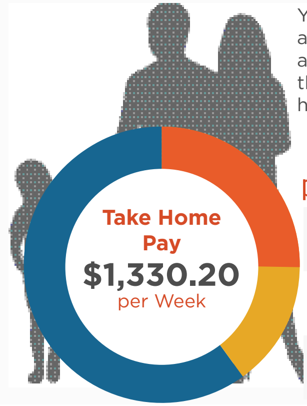
To buy a home at Hamilton City's lower quartile price they would need a mortgage of $426,022.

They would need to set aside $483.19 a week to cover the mortgage payments, which would be 30.5% of their take home pay.

Mortgage payments are considered affordable when they take up no more than 40% of take home pay.

On that basis it would be affordable for a young couple earning the median pay rate to buy a lower quartile-priced home in Hamilton City.

YOUNG FAMILY 30-34



Young family buyers earn median incomes in their age bracket, and buy a median house in their area. One partner works half-time.

Mortgage payment as a percentage of the take home pay

January 19	25.8%
January 18	25.2%
January 17	26.9%

This report estimates how affordable it would be for a couple with a young family to move up the property ladder and buy their next home at the current median price.

It is assumed that one partner works full time and one works half time and both are paid at the median rate for people of their age in Hamilton City, and that they receive the Working for Families allowance.

That would give them total after tax weekly income of $1,330.20 a week.

It is also assumed they purchased their current home five years ago for $280,000, which was the lower quartile selling price in Hamilton City at the time.

If they sold that home for the current lower quartile price in Hamilton City of $499,000, they would have equity of $276,127 to use as a deposit on a new home.

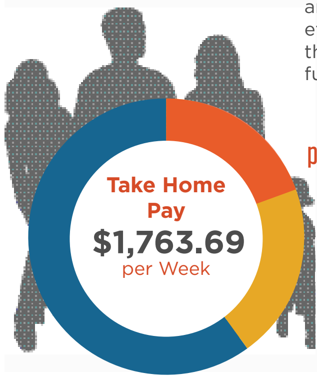
If they purchased a home at Hamilton City's current median price of $579,000 they would need a $302,873 mortgage.

The repayments on this would be would be $343.51 a week which would be 25.8% of their weekly income.

Mortgage payments are considered affordable when they take up no more than 40% of take home pay.

On that basis it would be affordable for the couple in this example to move up to next rung of the property ladder and buy a home at Hamilton City's median price.

OLDER FAMILY 35-39



Older family buyers earn median incomes in their age bracket, and buy a median house in their area. Both partners work full-time.

Mortgage payment as a percentage of the take home pay

January 19	16.8%
January 18	18.5%
January 17	20.0%

This report estimates how affordable it would be for a couple who are both aged 35-39 and working full time, to move up the property ladder and buy their next home at the current median price.

It is assumed that both are paid at the median rate for people of their age in Hamilton City, and that they no longer receive the Working for Families allowance.

That would give them total after tax weekly income of $1,763.69 a week.

It is also assumed they purchased their current home 10 years ago for $255,000, which was the lower quartile selling price in Hamilton City at the time.

If they sold that home for the current lower quartile price in Hamilton City of $499,000, they would have equity of $317,621 to use as a deposit on a new home.

If they purchased a home at Hamilton City's current median price of $579,000 they would need a $261,379 mortgage.

The repayments on this would be would be $296.45 a week which would be 16.8% of their weekly income.

Mortgage payments are considered affordable when they take up no more than 40% of take home pay.

On that basis it would be affordable for the couple in this example to move up to next rung of the property ladder and buy a home at Hamilton City's median price of $579,000.

HAMILTON CITY

KEY DRIVERS OF HOME LOAN AFFORDABILITY

January 2019

HOUSE PRICES

The median house price was $579,000 in January, up from $559,000 last month. The median house price was $500,000 in January 2017 which puts annual growth at 15.8%. Five years ago the median was $347,000.
Dwelling sales in January were 151, down from December's 216. They are now lower than the 159 sales twelve months ago and higher than the 147 sales five years ago.
The lower-quartile house price was $499,000 in January, up from $479,000 last month. Annual growth was 16.0%, from the $430,000 lower-quartile house price in January.

		First Quartile House Price	Median House Price
Hamilton City			
	January 19	$499,000	$579,000
	December 18	$479,000	$559,000
	January 18	$430,000	$500,000
	January 17	$400,000	$495,000
	January 14	$280,000	$347,000
National			
	January 19	$386,000	$550,000
	December 18	$390,000	$560,000
	January 18	$350,000	$500,000
	January 17	$280,000	$485,000
	January 14	$275,000	$400,000

INTEREST RATES AND MORTGAGE PAYMENTS

The average bank interest rate for two year fixed mortgage rate was 4.248% for January, -37 basis points less than the 4.618% twelve months earlier.
The RBNZ has had a rate cut program with the first reduction occurring in June 2015 and the latest one in November 2016. However, no more cuts are expected although turmoil in markets recently may change that expectation. Wholesale rates have been rising steadily recently and that is now putting upward 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.

	2 Year Fixed rate
This Month	4.248%
A Month Ago	4.330%
A Year Ago	4.618%

	Mortgage Payment (Weekly)
First Home Buyers	$483.19
Young Families	$343.51
First Rung Buyers	$296.45

INCOMES (WEEKLY TAKE HOME PAY)

First Home Buyers

First home buyers are aged 25-29. A household is on male and on female both earning median incomes. There is no child in this household. Take home pay is gross pay less income tax.

The growth in these are as follows:

	Weekly	Change
Jan 19	$1,581.67	2.18%
Jan 18	$1,547.89	0.79%
Jan 17	$1,535.73	2.51%
Jan 16	$1,498.19	

Young Families

Young families are ages 30-34. A household is one make, a female and a child aged five. One partner works part-time. Take home pay is gross pay less income tax.

The growth in these are as follows:

	Weekly	Change
Jan 19	$1,330.20	2.15%
Jan 18	$1,302.14	0.93%
Jan 17	$1,290.11	2.94%
Jan 16	$1,253.22	

First Rung Buyers

First rung buyers are ages 35-39. A household is one male, one female, and school aged children. Both parents work full time. Take home pay is gross income less income tax.

The growth in these are as follows:

	Weekly	Change
Jan 19	$1,763.69	2.21%
Jan 18	$1,725.61	0.83%
Jan 17	$1,711.41	2.35%
Jan 16	$1,672.14	

National			
	New Zealand		
Auckland Region			
	Auckland Central	North Shore	Auckland South
	Auckland West		
Wellington Region			
	Wellington City	Hutt Valley	Porirua
	Katpiti Coast	Wairarapa	
Northland			
	Whangarei		
Waikato and Bay of Plenty			
	Hamilton	Tauranga	Rotorua
Hawkes Bay and Gisborne			
	Napier	Hastings	Gisborne
Taranaki, Manawhatu and Whanganui			
	New Plymouth	Palmerston North	Wanganui
Nelson and Marlbourough			
	Nelson		
Cantebury			
	Christchurch	Timaru	
Otago, Central Otago Lakes and Southland			
	Queenstown	Dunedin	Invercargill

Notes

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 LEEDSbased 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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