

OCTOBER 2016

HOME **LOAN**
AFFORDABILITY
REPORT
PALMERSTON NORTH



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HOME LOAN AFFORDABILITY REPORT

October 2016



Home loan affordability is a measure of the proportion of take-home pay that is needed to make the mortgage payments for a typical household. If that is no more 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 the median income for their age group, and buy a lower quartile priced home in their area. Both parties work full-time.

Take Home Pay
\$1,586.37
per Week

Mortgage payments as a percentage of take home pay

October 16	16.4%
October 15	15.5%
October 14	16.7%
October 11	17.8%

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 Palmerston North.

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 \$1,586.37 a week.

It is assumed they would have saved \$55,600 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, or 20% of the house price, whichever is lower.

To buy a home at Palmerston North's lower quartile price they would need a mortgage of \$222,400.

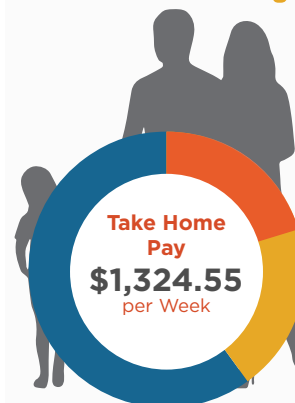
They would need to set aside \$259.65 a week to cover the mortgage payments, which would be 16.4% of their take home pay.

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 Palmerston North.

	Weekly Income \$	Deposit saved \$	LQ House Price \$	Int. rate %	Weekly pymt \$	Index %
Oct 16	1,586.37	55,600	278,000	4.49	259.65	16.4
Oct 15	1,544.64	49,200	246,000	4.84	239.15	15.5
Oct 14	1,520.77	46,200	231,000	5.95	254.14	16.7

Second Rung - YOUNG FAMILY 30-34



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

Take Home Pay
\$1,324.55
per Week

Mortgage payments as a percentage of take home pay

October 16	20.6%
October 15	20.3%
October 14	26.3%
October 11	26.6%

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 Palmerston North, and that they receive the Working for Families allowance.

That would give them total after tax weekly income of \$1,324.55 a week.

It is also assumed they purchased their current home five years ago for \$221,300, which was the lower quartile selling price in Palmerston North at the time.

If they sold that home for the current lower quartile price in Palmerston North of \$278,000, they would have equity of \$105,924 to use as a deposit on a new home.

If they purchased a home at Palmerston North's current median price of \$340,000 they would need a \$234,076 mortgage.

The repayments on this would be \$273.28 a week which would be 20.6% of their weekly income.

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

	Weekly Income \$	Deposit saved \$	Median House Price \$	Int. rate %	Weekly pymt \$	Index %
Oct 16	1,324.55	105,924	340,000	4.49	273.28	20.6
Oct 15	1,290.16	79,666	295,000	4.84	261.68	20.3
Oct 14	1,259.34	68,859	310,000	5.95	331.62	26.3

Second Rung - OLDER FAMILY 35-39



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

Take Home Pay
\$1,744.35
per Week

Mortgage payments as a percentage of take home pay

October 16	14.3%
October 15	12.7%
October 14	15.4%

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 Palmerston North, and that they no longer receive the Working for Families allowance.

That would give them total after tax weekly income of \$1,744.35 a week.

It is also assumed they purchased their current home 10 years ago for \$220,000, which was the lower quartile selling price in Palmerston North at the time.

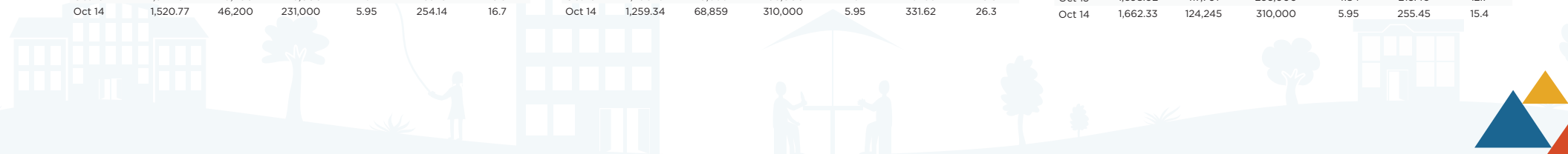
If they sold that home for the current lower quartile price in Palmerston North of \$278,000, they would have equity of \$126,854 to use as a deposit on a new home.

If they purchased a home at Palmerston North's current median price of \$340,000 they would need a \$213,146 mortgage.

The repayments on this would be \$248.85 a week which would be 14.3% of their weekly income.

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

	Weekly Income \$	Deposit saved \$	Median House Price \$	Int. rate %	Weekly pymt \$	Index %
Oct 16	1,744.35	126,854	340,000	4.49	248.85	14.3
Oct 15	1,698.02	117,701	295,000	4.84	215.46	12.7
Oct 14	1,662.33	124,245	310,000	5.95	255.45	15.4



KEY DRIVERS OF HOME LOAN AFFORDABILITY

October 2016



HOUSE PRICES

The median dwelling price was \$340,000 in October 2016, down from \$330,500 in September. In October 2015 it was \$295,000, which puts annual growth at 15.3%. Five years ago the median was \$270,000.

They were 147 homes sold in October, up from 136 in September. That compares with 133 sales in October last year and 97 sales five years ago.

The lower-quartile house price was \$278,000 in October 2016, down from \$264,000 in July. Annual growth was 13%, from the \$246,000 lower-quartile house price in August 2015.

		Lower Quartile House Price	Median House Price
Palmerston North	October 16	\$278,000	\$340,000
	September 16	\$264,000	\$330,500
	October 15	\$246,000	\$295,000
	October 14	\$231,000	\$310,000
	October 11	\$221,300	\$270,000
All NZ	October 16	\$334,500	\$510,000
	September 16	\$335,000	\$515,000
	October 15	\$305,000	\$460,000
	October 15	\$305,000	\$460,000
	October 11	\$250,000	\$359,000

INTEREST RATES AND MORTGAGE PAYMENTS

The average bank interest rate for two year fixed rate mortgages was 4.493% for October, -35 basis points less than the 4.838% 12 months earlier.

The RBNZ has recently had a rate cut program with the first reduction occurring in June 2015 and the latest one in November 2016. The reserve bank recently signaled that further rate cuts are now unlikely. Wholesale rates have been rising recently and that will put 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.

	Average 2 Year Fixed rate
This Month	4.493%
A Month Ago	4.421%
A Year Ago	4.838%

	Mortgage Payment (Weekly)
First Home Buyers	\$259.65
Second Rung- Young families	\$273.28
Second Rung- Older buyer	\$248.85

INCOMES (WEEKLY TAKE HOME PAY)

First Home Buyers

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

The change in take home pay is as follows:

	Weekly	Change
Oct 16	\$1,586.37	2.70%
Oct 15	\$1,544.64	1.57%
Oct 14	\$1,520.77	2.28%
Oct 13	\$1,486.92	

Young Families

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

The change in take home pay is as follows:

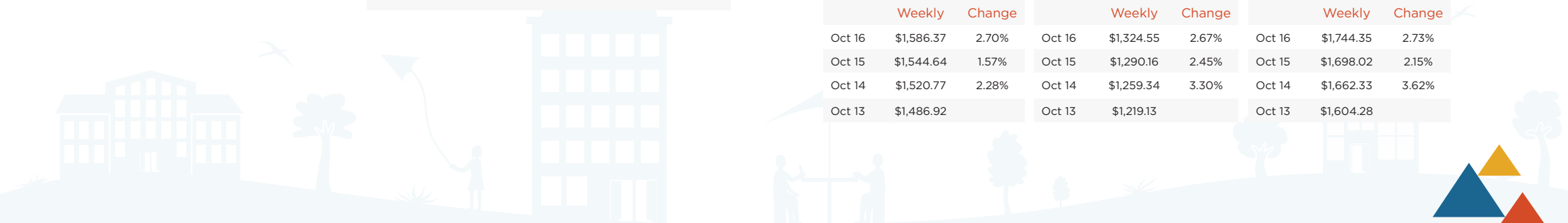
	Weekly	Change
Oct 16	\$1,324.55	2.67%
Oct 15	\$1,290.16	2.45%
Oct 14	\$1,259.34	3.30%
Oct 13	\$1,219.13	

Older Families

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

The change in take home pay is as follows:

	Weekly	Change
Oct 16	\$1,744.35	2.73%
Oct 15	\$1,698.02	2.15%
Oct 14	\$1,662.33	3.62%
Oct 13	\$1,604.28	



SEPERATE HOME LOAN AFFORDABILITY REPORTS ARE AVAILABLE TO EACH OF THE FOLLOWING AREAS

National

New Zealand

Auckland Region

Auckland Central	North Shore	Auckland South
Auckland West	Papakura	Rodney
Pukekohe		

Wellington Region

Wellington City	Hutt Valley	Porirua
Katpiti Coast	Wairarapa	

Northland

Whangarei

Waikato and Bay of Plenty

Hamilton	Tauranga	Rotorua
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Hawkes Bay and Gisborne

Napier	Hastings	Gisborne
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Taranaki, Manawhatu and Whanganui

New Plymouth	Palmerston North	Whanganui
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Nelson and Marlborough

Nelson

Cantebury

Christchurch	Timaru
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Otago, Central Otago Lakes and Southland

Queenstown	Dunedin	Invercargill
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Notes

This work must be referred to as The interest.co.nz Home Loan Affordability series.

From May 2016 it refers solely to households. There are other important changes. There are now three related components – The First Home Buyer household series which tracks home loan affordability for households aged 25 to 29 years, Second Rung young family buyers, aged 30-34 years, and Second Rung older family buyers, aged 35-39 years. They have all been produced by interest.co.nz.

Sources / Definitions / Methodology

First home buyer households have two partners working full time, and use a purchase deposit based on what they saved over the prior four years to buy a lower quartile priced home. Second Rung young family buyers have one partner working full time, one half time, and a child under 5 years of age. It is assumed they buy a median priced house, using the equity and capital gain from their First Home. (If Working for Families tax credits apply, they are added to the household income.) Second Rung older family buyers have two partners working full time. It is assumed they buy a median priced house using the equity and capital gain from their First Home.

Interpreting the Index:

The home loan affordability index in each segment measures the proportion of their after-tax income they would need to set aside each week for their mortgage payments. An index measure is generated for each region (some sub regions), and nationally. 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 criteria below.

Weekly Income:

From the July 2007 Report onward, the source on which we base our estimates of weekly income is the LEEDS (Linked employer- employee data survey) data from Statistics New Zealand. Income tax is deducted to give take-home pay. Income tax rates are from the IRD are vary over time and income levels.

Mortgage payments:

Mortgage repayments are based on the value of the home loan, paid weekly for 30 years, using the average bank 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 these Reports, 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:

These are used to calculate the First Home Buyer deposit. 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.

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