

First Home Buyer Affordability Report

interest.co.nz

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First-home buyer affordability in Southland

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 standard 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 first-home buyer index for April 2016:

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.

It now takes 10.4% of the median after-tax income of a couple in the 25-29 age group to pay the mortgage on the lower-quartile priced house in April. This is up from 10.1% in the previous month, March. A year ago, it was 10.9%.

Essentially the median income for a couple *is* enough to buy a lower-quartile priced house.

But saving the necessary initial deposit will be a significant barrier for many.

Southland

	Weekly Income \$	Deposit Saved \$	LQ House Price \$	Interest rate %	Weekly pymt \$	Index %
April 2016	1,492.85	67,678	152,000	4.45	155.35	10.4
April 2015	1,453.84	65,774	139,300	5.58	158.95	10.9
April 2014	1,413.17	63,398	143,300	6.16	171.05	12.1
April 2013	1,305.61	56,174	157,100	6.44	182.60	14.0

Deposit

The first-home buyer index is calculated assuming that the house buyers have been saving for four years, and that amount saved in the four years is then used as a deposit. Based on current income and house prices it will take the household 0.9 years to save a 10% deposit, and 1.8 years to save a 20% deposit as now required by most banks.

Key drivers of home loan affordability:

House prices

The lower-quartile house price was \$152,000 in April, up from \$147,300 last month. Annual growth was 9.1%, from the \$139,300 lower-quartile house price in April 2015.

Southland house prices in April	Price (\$)	Month (change)	Year (change)
Median	\$195,000	-7.1%↓	-2.5% ↓
Lower Quartile	\$152,000	3.2%↑	9.1% ↑

Interest rates and mortgage payments

The average bank interest rate for two year fixed mortgage rate was 4.45% for April, -112 basis points less than the 5.58% twelve months earlier.

During March, markets anticipated a rate cut by the RBNZ, but have since stabilized (one that was actually delivered). Wholesale rates started falling in that anticipation, helped by some turmoil in international markets. Further rate cuts remain a possibility even though rate levels are at historical lows.

Our model assumes borrowers switched to a 2 year fixed rate in June 2014, following the shift reflected in RBNZ data. (See note below).

	weekly (%/\$)	a month ago	change	a year ago	change
Two year rate	4.452%	4.473%	↓	5.575%	↓ -112 points
Mortgage payment	\$155.35	\$150.62	↑	\$158.95	\$-3.59

Single income affordability

It now takes 19.3% of one median income of a person in the 25-29 age group to pay the mortgage on the lower-quartile priced house in April, up from March's 18.7%.

This index was 20.0% a year ago and 21.1% four years ago. This affordability index reached its highest point of 45.9% in January 2008.

For comparison, it takes 18.3% of one median income for the 30-34 year old age group to pay the mortgage on the lower-quartile house price, up from March's 17.7%.

This index was 18.9% a year ago and 19.8% four years ago.

Essentially a single median income for a first-home buyer is not high enough to buy a lower-quartile priced house, even with a deposit around 10% of the house's value. However, a couple/family with more than one income may find the lower-quartile house price is affordable.

After-tax income

The median weekly take-home pay for a first-home buyer (individual) was \$771.95 in April, up from the \$769.84 last month and up from \$752.37 in April 2015.

Five years ago, median weekly take-home pay was \$671.81.

Disposable Income (wages minus mortgage payment)

Weekly disposable income was \$622.74 in April, \$20.61 higher than the \$602.13 in April 2015 (and compares with \$626.22 one month earlier). This measure shows why current property prices exclude so many potential buyers.

Take-home pay	weekly (\$)	a month ago	change	a year ago	change
Wages	\$771.95	\$769.84	↑	\$752.37	\$19.58 (2.6%)
Disposable Income	\$622.74	\$626.22	↓	\$602.13	↑\$20.61

The profile we use for a first-home buyer household is one adult male working full-time, one adult female working full time, with no children.

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.

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](http://www.statistics.govt.nz).

The standard home loan affordability report is based on the LEEDS data for the 30-34 age group.

Income tax rates from [IRD](http://www.ird.govt.nz) 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 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](http://www.reinz.co.nz). Although the REINZ series is more volatile than the [QV](http://www.interest.co.nz) 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.

**In September 2013, REINZ advised that there were calculation errors in some first-quartile house prices supplied over the past twelve to eighteen months. We are now using the updated and corrected data. Earlier published results may not be accurate on this aspect*

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](http://www.ird.govt.nz).

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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