

Roost Home Loan Affordability Report

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MORTGAGE BROKERS

16 December 2014

Roost – First-home buyer affordability in Wairarapa

A monthly
assessment of home
loan affordability for
a first home buyer



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The Roost first-home buyer index for November 2014:

It now takes 34.0% of one median income of a person in the 25-29 age group to pay the mortgage on the lower-quartile priced house in November, up from October's 33.4%.

This index was 35.1% a year ago and 42.2% four years ago. This affordability index reached its highest point of 69.2% in November 2007.

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. (See household income section below.)

For comparison, it takes 30.6% of one median income for the 30-34 year old age group to pay the mortgage on the lower-quartile house price, up from October's 30.1%.

This index was 31.6% a year ago and 37.9% four years ago.

Deposit

The first-home buyer index is calculated assuming that the house buyer has 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 an individual 2.8 years to save a 10% deposit, and 3.6 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 \$190,000 in November, up from \$187,500 last month. Annual growth was -2.6%, from the \$195,000 lower-quartile house price in November 2013.

Wairarapa house prices in November	Price (\$)	Month (change)	Year (change)
Median	\$257,500	9.1%↑	12.0% ↑
Lower Quartile	\$190,000	1.3%	-2.6% ↓

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After-tax income

The median weekly take-home pay for a first-home buyer was \$685.00 in November, up from the \$684.34 last month and up from \$673.93 in November 2013.

Five years ago, median weekly take-home pay was \$623.55.

Disposable Income (wages minus mortgage payment)

Weekly disposable income was \$454.45 in November, \$27.83 lower than the \$482.28 in November 2013 (and compares with \$479.98 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	\$685.00	\$684.34	↑	\$673.93	\$11.08 (1.6%)
Disposable Income	\$454.45	\$479.98	↓	\$482.28	↓\$27.83

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 5.98% for November, 93 basis points higher than the 5.75% twelve months earlier.

The July OCR rise of +0.25% is the fourth of a series of increases, and flowed through quickly in August. There was little movement in mortgage rates in September, due in part to an 'election pause', and in part to signals for the Reserve Bank that the imperatives for immediate hikes had faded. The international situation also weighs on rate decisions.

Wholesale interest rates often move differently to the OCR 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 rate	5.975%	5.950%	↑	5.754%*	↑ 93 basis points
Mortgage payment	\$232.79	\$228.62	↑	\$236.60	↓ \$-3.82 (-1.6%)

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 first-home buyer household profile, it now takes 18.6% of the median take-home pay to service a mortgage of a lower quartile home purchased in November. Lower quartile housing is affordable for families in Wairarapa when both adults work.

This is up from 18.3% in the previous month, October. A year ago, it was 19.0%.

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.

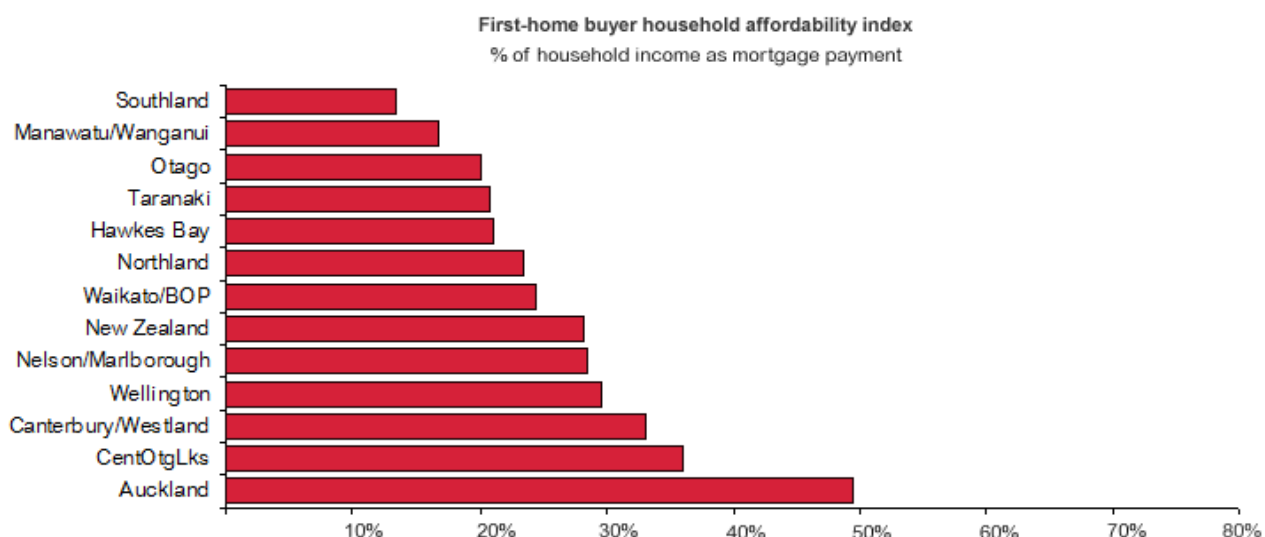
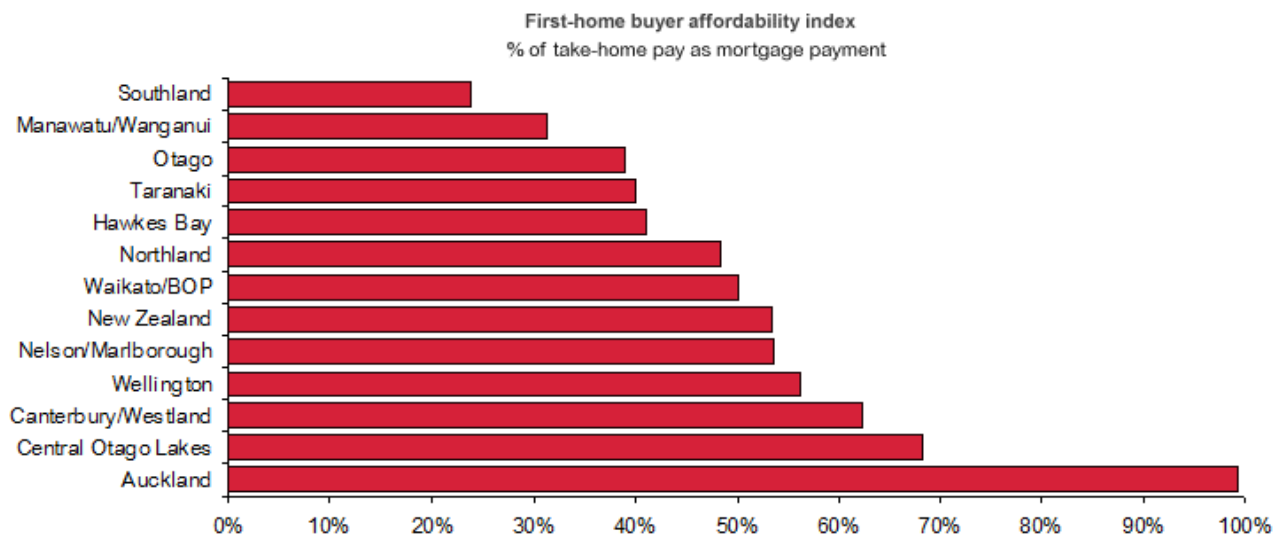
Refer to our [Median Multiple reports](#) for a reconciliation of this report to the internationally comparable benchmarks, by city.

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		
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 Marlborough		
Nelson		New Zealand
Canterbury		
Christchurch	Timaru	
Otago, Central Otago Lakes and Southland		
Queenstown	Dunedin	Invercargill

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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.

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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.stats.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](#) 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.renz.org.nz/). 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.

**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](#).

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.

If you are making a specific investment or purchase decision, you are strongly advised to seek independent advice from a qualified professional you trust.

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