Rent or buy report for March 2017 - Whangarei

24 April 2017

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

To buy or to rent

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 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.

Market overview

The national median house selling price has increased to $546,000 in March from $495,000 the previous month. Annually, the growth is recorded at 10.3% against last year. Among major cities,

Wellington has dominated the growth with an annual rise of 14.4%, followed by Auckland of 8.5%.

Lower quartile houses, which are usually sought by the landlords and first-home buyers, increased 10.9% annually to $355,000 at the national level. In Wellington, this category rose to 17.4%.

At the national level, median rents for a three-bedroom house are $400/week, up from $390/week last year.

Large scale rebuilding activities in Christchurch are the dominating factor that has changed the residential property landscape. But regulatory impediments also loom large, especially in Auckland.

Lower rates of return in alternate investments such as term deposits and bonds, along with the complete demise of the finance company industry, have led investors looking at property in a new light.
The rent or buy results for March:

In March 2017, it takes 22.7% of a typical households take-home pay to service the mortgage and related household costs on a lower quartile priced house.

But it also takes 23.5% of household take-home pay to make the median rent on a 3 bedroom house.

That means in March 2016, it takes 0.8% less 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 typical household 2.9 years (with a saving rate of 20%) to save a 20% deposit, as now required by most banks.

The key drivers for March:

Rental affordability

The median weekly after tax income for a first-home buyer household in Whangarei was $1,593.97 in March, up from $1,590.16 last month and up from $1,550.16 in March 2016. (A first-home buyer household comprises one male and one female, both working full-time. They are both aged between 25 and 29 years old and have no children)

Median rent for a 3 bedroom house in Whangarei was $375 per week, up from last month’s $365 and up from last year’s $345 per week.

In March, it takes 23.5% 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 23.0% and up from last year’s 22.3%
Home loan affordability (HLA) with costs

The weekly mortgage payment has increased by $29.41 since last year.

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

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

In March, two year fixed mortgage rate of 4.84% and a lower-quartile house price of $308,625 will require a weekly mortgage payment of $300.23. This is down from last month’s $312.31 and up from the $270.82 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 $61.79 per week.

This is equivalent of 22.7% of the after tax income of a first buyer household income. This is up from last year’s 21.3%.

Conclusion:
On a national basis it is clearly less expensive to stay renting than to buy.

But with capital gains accelerating, and that trend building into areas out of Auckland and Christchurch, you might also think about whether you can save fast enough to keep up with the price rises. You will need to have a view about the likely track of house price gains.

In places like Christchurch that has a strong momentum of building new housing inventory, your view might be one of patience because the much greater supply about to come on to the market in the next few years will undoubtedly restrain price increases at the median level. It will also likely restrain rents.

The view is more difficult in Auckland. There is much talk about building more housing but little evidence yet that even the amounts being planned will be sufficient. Inadequate supply way into the future suggests fast rising prices, perhaps pushed along by strong migration.

The distortion of strong capital gains will push many into ‘buying now’ despite the stress of sharply higher weekly costs than renting. The risk is being “locked-out” in the intermediate term.

Auckland median rents are also showing some signs of starting to rise faster than median income growth which may also count against waiting to buy.

In most other regions, the view will be clearer with current consent and build rates being about at the demand levels. It is here that you may find it better to keep saving, although it will be region-specific.

If you are buying a first-quartile house, you need to have saved about $53600.
Full regional reports are available below:

- Northland
  - Whangarei

- Waikato & BOP
  - Hamilton
  - Tauranga
  - Rotorua

- Taranaki
  - New Plymouth

- Hawkes Bay
  - Napier
  - Hastings
  - Gisborne

- Manawatu & Wanganui
  - Palmerston North
  - Wanganui

- Wellington region
  - Wellington City
  - Wellington Hutt
  - Porirua
  - Kapiti Coast

- Canterbury
  - Christchurch
  - Timaru

- Otago
  - Dunedin

- Otago & Central Otago Lakes
  - Queenstown

- Southland
  - Invercargill
**Now, 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.

**Note to Editors**

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

*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. 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.

*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.

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.

Contact
For more information, contact

David Chaston,
Publisher
JDJL Limited
www.interest.co.nz
206 Jervois Road, Herne Bay
PO Box 47-756, Ponsonby
Auckland, New Zealand

Phone: (09) 360-9670
Mobile: 021 997-311
Fax: (09) 360-9319
Email: david.chaston@interest.co.nz

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.

The conditions and disclaimers set out at http://www.interest.co.nz/terms-conditions are applicable to this report as well.

This report is made available on these terms only, and JDJL Limited or www.interest.co.nz is not responsible for any actions taken on the basis of information in this report, or for any error in or omission from this report.