Rent or buy report for August 2018 - Whangarei District

24 September 2018

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 decreased to $549,000 in August, down from $550,000 the previous month. Annually, the growth is recorded at 3.6% against last year. Among major cities, Wellington has dominated the growth with an annual rise of 18.0%.

Lower quartile houses, which are usually sought by the landlords and first-home buyers, increased 6.9% annually to $375,000 at the national level. In Wellington, this category rose to 12.3%.

At the national level, median rents for a three-bedroom house are $420/week, up from $395/week last year.

There is a definite leveling off in new housing construction nationwide. Building consents data shows that, and our own monitoring of new residential tittles confirms it. That means that supply of housing is lagging furthers and what is being built is the expensive end, which in turn means affordable housing is under even more intense pressure.

At the same time, low interest rates make it harder to save for a deposit, and those same low rates work to push up prices for the existing housing stocks

The rent or buy results for August:

It's better to rent at present (but depends on city).

In August 2018, it takes 25.1% 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 26.7% of household take-home pay to make the median rent on a 3 bedroom house.

That means in August 2018, it takes 1.6% 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.

Rent or buy differential for August is -1.6%

It takes a typical household 3.0 years (with a saving rate of 20%) to save a 20% deposit, as now required by most banks.

The key drivers for August:

Rental affordability

There has been a $34.46 increase in after tax income over the last year.

The median weekly after tax income for a first-home buyer household in Whangarei District was $1,610.57 in August, up from $1,607.67 last month and up from $1,576.11 in August 2017. (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 District was $430 per week, down from last month's $440 and up from last year's $400 per week.

In August, it takes 26.7% of your after tax income as a first home buyer household to pay the median rent of a 3 bedroom house. This is down from last month's 27.4% and up from last year's 25.4%

Home loan affordability (HLA) with costs

The weekly mortgage payment has increased by $1.29 since last year.

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

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

In August, two years fixed mortgage rate of 4.61% and a lower-quartile house price of $360,000 will require a weekly mortgage payment of $340.94. This is down from last month's $362.28 and up from the $339.65 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 $64.09 per week.

This is equivalent of 25.1% of the after-tax income of a first buyer household income. This is up from last year's %.

Conclusion:

On a national basis it is clearly less expensive to stay renting than to buy. But apart for Auckland and Queenstown, buying is still a practical option for most.

The recent leveling off housing prices, even small falls in same markets, don't really change the situation. But buying in anticipation of capital gains may not be wise any more. Housing may be returning to its primary purpose of 'shelter' rather than as an 'investment'. And that may effect its positioning in retirement savings plan.

However, until the new Government's strategy of supplying significant volumes of affordable housing, pressure will rise for rents. Limited supply and a refocus by landlords on 'yield' will be the main pressures. Competition for places by renters may get even more fierce. Rental affordability is the next area of housing stress. Having said that, there are fixed upper limits to what renters can pay. Sadly if may be the quality and standards of available rental options that suffer next.

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.

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