

# Stats tell the story

A house affordability index clearly shows affordability is declining, particularly in Auckland. One result nationally has been the shift to multi-residential housing.

BY IAN PAGE, BRANZ INDUSTRY PERFORMANCE AND SOCIAL RESOURCES TEAM LEADER

**HOUSING AFFORDABILITY** is measured as a combination of average house prices, average household incomes and mortgage interest rates.

## Affordability index from 1999

The Massey University Property Studies department developed the oldest index used in New Zealand to measure housing affordability. It expresses the combination as an index that BRANZ has modified to start in 1999 with an index number of 100 (see Figure 1).

Initially affordability declined but then rose from the mid-2000s as mortgage interest rates dropped markedly from about 8% in 2007 to around 5.7% now.

## All-time low in Auckland

However, since mid-2013, house prices have risen quite sharply, and the overall effect has been a drop in affordability. For Auckland, the situation has been particularly bad, and the index is now likely to reach an all-time low.

In Auckland, the median house price is over 8 times the median household income. This is very high - a ratio of about 3 is considered affordable for the median household.

## Younger buyers head for apartments

What about first homebuyers aged 25-29 years? Can they afford a lower-cost home? Figure 2 shows the affordability for these people. It is assumed they will only be ➤

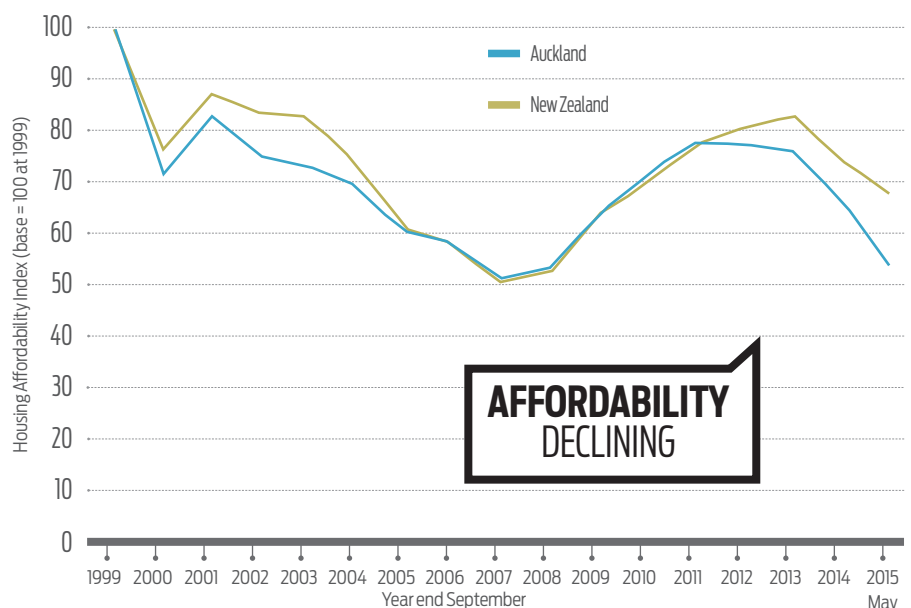


Figure 1: Existing house affordability – the higher the index, the more affordable. Source: Massey University House Affordability Index.

able to purchase a home in the lower quartile of sales - that is, houses at the top of the bottom quarter of sales prices.

Aucklanders in the two-income, 25-29 year age group currently need to spend 50% of their joint income on mortgage repayments for a lower-quartile house. While this is above the recommended third of a joint income, it is probably sustainable for a few years.

Elsewhere in New Zealand, this quartile is fairly readily affordable for a median two-income couple.

**Multi-units on the rise nationally**

For many young people, their first home is increasingly likely to be a multi-unit, as these tend to be in the lower quartile. This is a dwelling attached to another either as a terraced house or in a medium to high-rise apartment block.

The main centres have higher percentages of multi-units due to affordability and a preference by some for inner-city living (see Figure 3).

The New Zealand-wide trend has been a gradual increase in multi-unit consents. These are now at 28%, and this trend is expected to continue (see Figure 4).

**Same trend in Australia**

This trend is common as cities get larger and high land prices dictate more intensification. In Australia, for example, 47% of new dwellings nationwide are multi-units.

Although we have some way to go to reach Australia's levels of housing intensity, we are certainly now seeing the same trend in Auckland. ◀

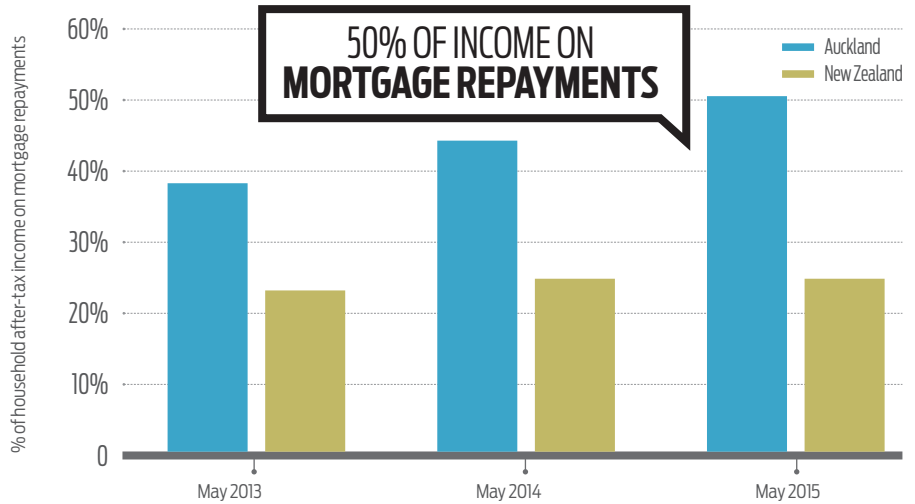


Figure 2: Two-earner median income household 25-29 years. Source: Roost Mortgage Brokers.

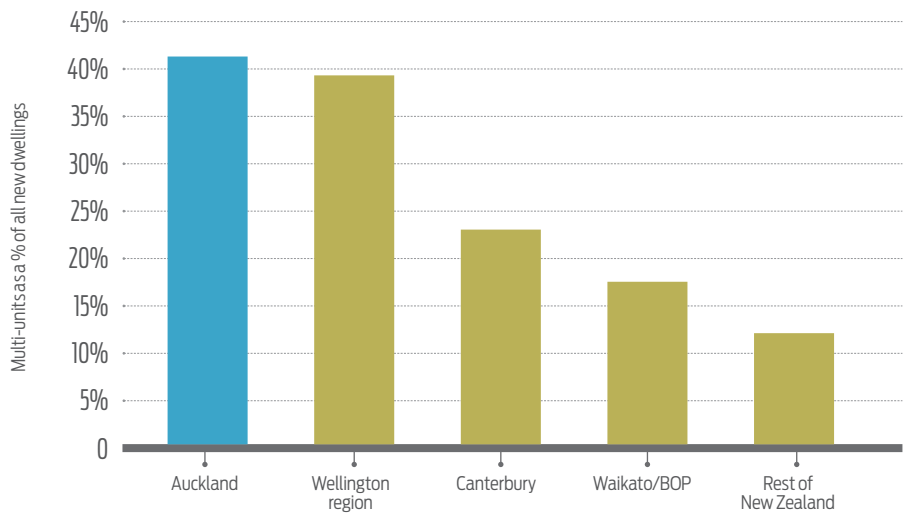


Figure 3: New multi-unit dwellings by region. Source: Statistics NZ.

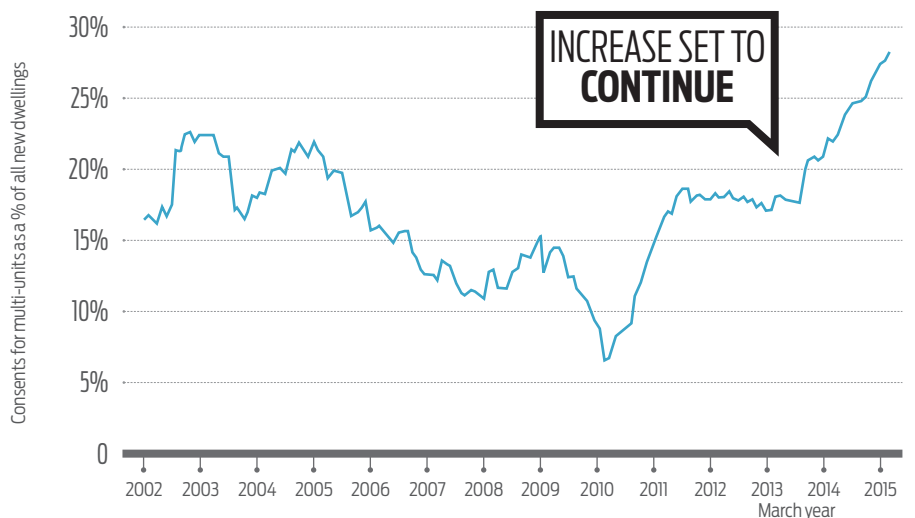


Figure 4: Multi-unit consents nationally. Source: Statistics NZ.