Housing Affordability Report

New Zealand | Quarter 2, 2021

Data to June 2021

Contents

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Executive Summary

Since our last six-monthly NZ Housing Affordability Report in late February the economy and property market have generally remained very buoyant (apart from the recent move into alert level four of course), and property values rose by 15% over the first six months of the year, well ahead of the increase in gross average household incomes of just 1%. Accordingly, even though mortgage rates have remained very low (albeit they're now rising), housing affordability has simply got worse – and from an already stretched position.

For example, the national ratio for property values to incomes now stands at a new record high of 7.9, up from 7.4 just three months ago and 6.6 this time last year. Meanwhile, our years to save a deposit measure – very relevant for aspiring first home buyers – has climbed above 10 for the first time, surpassing the previous record mark of 9.9 (only set in Q1 2021). Going back to 2004, this has averaged 7.8 years, meaning the current figure is almost three years longer than normal.

Paying rent isn't markedly harder or easier than normal at present, absorbing 21% of household income, in line with the average. But servicing the mortgage is now taking up more of households' incomes, even though interest rates are still relatively low. At 38%, mortgage payments on a typical new loan have risen from a figure of 32% only a year ago, and are now back to levels not seen since early 2018 (when typical fixed mortgage rates were above 5%).

These patterns of declining housing affordability have been seen right across the country, from the main centres down to the smaller rural areas. Of 66 main authorities, 49 currently have a value to income ratio at its highest recorded level (going back to 2004). Looking at the mortgage affordability measure, 43 of 66 areas are currently above average, despite low interest rates.

Tauranga and Auckland are also the least affordable main centres when you look at the share of gross household income required to service an 80% LVR mortgage – those figures currently stand at 49% and 43% respectively. Even despite ultra-low mortgage rates in the past 3-6 months, Hamilton's share of income required to make payments stands at 38%, the highest since prior to the GFC in Q2 2008. A similar message applies for Wellington (36%) and Dunedin (39%). By contrast, Christchurch's figure is still comparatively low (albeit rising), at 28% – well below its average (32%).

Outside the main centres, Palmerston North, Napier, Whanganui, and Nelson all have mortgage servicing figures that are 8-9% points above normal – even though mortgage rates are low. Many smaller areas looks stretched too, including Kaipara, Horowhenua, and South Wairarapa.

It's important to note that affordability analysis can rarely be based on absolute comparisons – it has to be an area's figures measured relative to its own history or to other parts of the country. Nor do housing affordability measures necessarily provide good guidance about what happens next. Just because the value to income ratio is above (below) average, for example, doesn't mean for certain that values will fall (rise) by X% over a given period to lower (raise) the ratio back to normal.

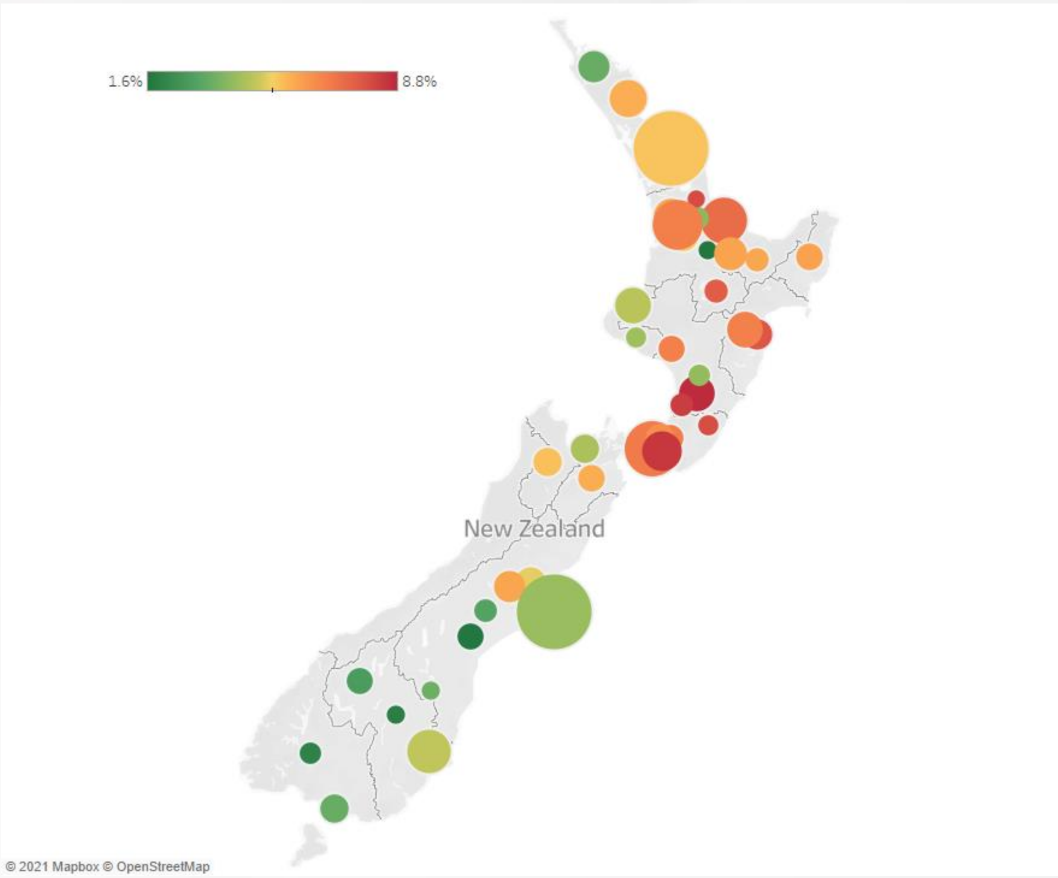
Executive Summary *(continued)*

Even so, taking a step back, these affordability pressures have been a key driver of the 'property politics' that we've seen lately, with investors now needing 40% deposits and their ability to claim interest as a tax deductible expense has also been reduced (alongside an extended Brightline Test for further purchases of existing properties).

When you also factor in rising mortgage rates, these factors should all contribute to a looming slowdown in property value growth, especially if the latest lockdown was to have a more lasting effect on the economy and employment – and/or if mortgage borrowers haven't full budgeted for higher payments (even a small rise in mortgage rates from the low starting point would be proportionally large, and significantly increase servicing costs).

However, in lieu of a big drop in employment or a GFC-style reduction in credit supply, it'll still plausibly take at least five years for housing affordability to adjust back to some kind of normality, which won't be much consolation for aspiring first home buyers.

Change in mortgage servicing (% of income) over the past year



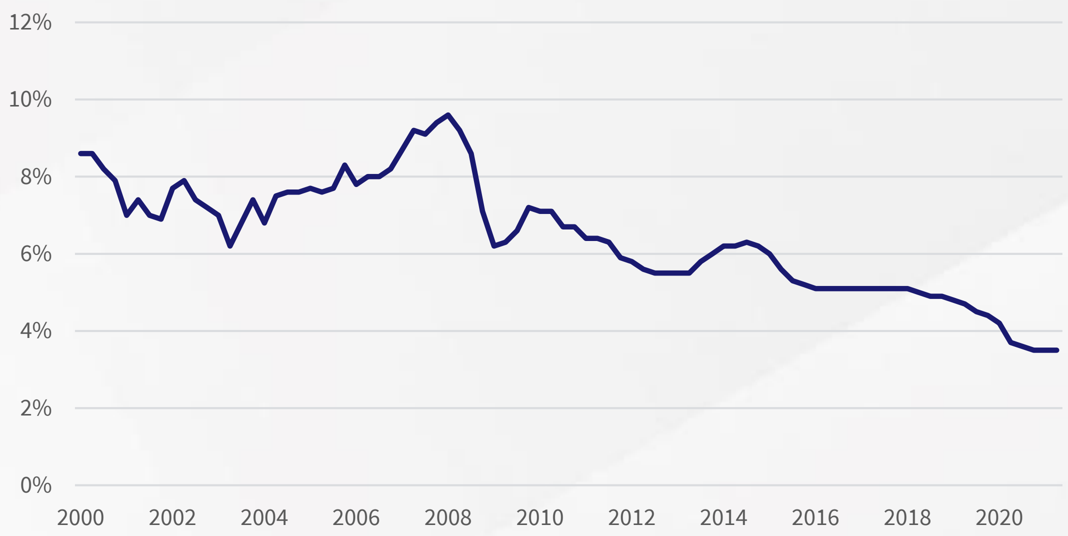
Background

The upswing in property values in NZ over the past 10-15 years has become a much more prominent issue affecting housing affordability. The increase in values over the longer term has reflected a range of factors, including:

- Deregulation of financial markets resulting in the banking sector becoming more efficient and competitive, and credit more widely accessible
- Inflation targeting by the Reserve Bank which has resulted in significantly lower levels of inflation, contributing to much lower mortgage rates
- High migration and population growth coupled with a generally insufficient supply response
- Construction costs which have consistently increased at a rate in excess of inflation
- High demand to live close to the major centres where infrastructure and amenity is superior

The fact that housing has seen fairly consistent growth over the decades has encouraged people to spend more on better located, larger and subsequently more expensive housing. By contrast, against the backdrop of appreciation in property values over a long period of time, household incomes have generally risen at lower rates. As a result, this has led to a divergence between the costs of housing and the proportion of household income it now takes to purchase a property. At the same time, with interest rates currently tracking at their lowest levels since at least the 1960s, servicing a mortgage isn't always the largest barrier to home ownership at present.

Average 2-year fixed mortgage rates



Background *(continued)*

Instead, it's more around the deposit, and somehow trying to avoid any progress on saving the deposit falling behind the actual rise in property values. Another aspect of housing affordability that isn't discussed as much are rental costs. Rents have typically risen more slowly than property values, so rental affordability hasn't become as stretched as ownership.

This report endeavours to provide a comprehensive measurement of housing affordability from a variety of perspectives, including the relationship between property values and household incomes, the challenge of saving for a deposit, mortgage serviceability and rental rates relative to household incomes. We believe this report provides a comprehensive, overall view of housing affordability, because it uses household income on a timely, quarterly basis, not individual incomes multiplied by two, or time series figures that are well out of date. It also has a long history for analysis (dating back to 2004) and covers granular information for every territorial authority in NZ. We use average property values across all stock, not a median price for whatever happens to have sold at the time.

The four measures of housing affordability included in this report are:

1. The ratio of average property values to average gross annual household income
2. The share of household income required to service an 80% loan to value (LVR) mortgage
3. The number of years it takes to save a 20% deposit, assuming 15% of income is saved
4. The proportion of household income required to pay the rent

To compile these measures, we use our own CoreLogic data, as well as figures sourced from Infometrics, the Reserve Bank of NZ, and MBIE. Note that the measures in this report use averages/means not medians – based on available (partial) median data, the conclusions would not be materially different if we switched the basis for calculation. This is because, for example, mean and median household income track each closely through time.

Methodology

The ratio of average property values to average gross annual household income

Utilising average gross household income from economics consultancy, Infometrics, and average property values from CoreLogic, we determine the ratio of values to income over time. For example, a city where the average property value is $500,000 and the average household income is $100,000, the ratio would be 5.0 (dwelling prices are 5 times higher than gross annual household incomes).

“The Infometrics household income series is a comprehensive estimate of household incomes within each territorial authority area. The series captures labour market earnings (wages, salaries and self-employment) as well as allowances (e.g. Disability Allowance), benefits (e.g. Jobseeker Support) and superannuation. Investment income is excluded. Infometrics models the series with a top-down approach, first measuring all incomes received by households in New Zealand, then apportioning them to territorial authorities using various sources of administrative data. As there is a time lag in the availability of administrative data we use contemporary indicators to project our estimates to the most recent quarter. Infometrics estimates of the number of occupied private households are used to translate total income in each territorial authority area into a per household mean. Mean household incomes are then translated into median household incomes using a Pareto distribution. The Infometrics household income series tends to be slightly higher than Census measures. Census tends to underestimate household incomes because individuals often fail to recall all of their income when completing their Census form.”

The proportion of household income required to service an 80% LVR mortgage

This measure looks at mortgage serviceability for households that already own a home. Based on a point in time, assuming the owner has borrowed 80% of the average property value and is paying the average two-year fixed mortgage rate (over a 25-year term with fortnightly principal and interest repayments), we measure the proportion of gross annual household income required to service the mortgage. Put another way, think of this as the repayment burden for a household that’s just purchased their first home. For example, based on an average property value of $500,000 and a 20% deposit, the loan principal would be $400,000. If the average gross household income was $100,000 and the current mortgage rate was 4.5%, the household would be up for $26,665 in mortgage repayments each year, or 26.7% of their gross annual household income. Mortgage rates are sourced from the Reserve Bank of New Zealand.

The number of years it takes to save a 20% deposit

Using the Infometrics average household income data we provide a measure of affordability for those households that don’t yet own a home. This analysis assumes a household can save 15% of their gross annual household income. Based on these savings, the result measures how many years it would take to save a 20% deposit. For example, based on a 15% savings objective, a household earning $100,000 gross per annum would save $15,000 per annum. If the average property value was $500,000, a 20% deposit would equate to $100,000. Based on the household savings, it would take 6.7 years to save a 20% deposit.

The proportion of household income required to pay the rent

Utilising household income data together with the average weekly rent figures (expressed as a 12-month moving average to smooth out volatility) published by MBIE we measure what percentage of gross annual household income is required to pay the rent. For example, a household earning $100,000 per annum in a city where the average weekly rent is $500 would be dedicating 26% of their gross annual household income towards paying their landlord.

The report does not seek to address where housing is affordable or unaffordable in its own right. The affordability measures need to be viewed relative to history (e.g. City X has become more or less affordable than in the past) or against other parts of the country (e.g. City X has a lower value to income ratio than City Y). It assumes that local people earn the average income for their area and purchase/rent property in that area; it does not account for somebody earning a high/low income in City X and buying/renting property in City Y. The report makes no allowance for different earnings by age, nor does it account for changes in quality or size of housing over time.

National Overview

Value to income ratio:

As at Q2 2021, the average property value across NZ is 7.9 times average annual household income. That is up sharply from 7.4 three months ago and 6.6 a year ago, and is also well above the long term average of 5.8. In fact, the latest reading for the value to income ratio is a record high for the 17-18 year history of this series – or in other words affordability on this measure is at a record low – and illustrates how property value growth has significantly outpaced incomes in the past 9-12 months (but also prior to COVID too).

		15 years ago (Q2 2006)	10 years ago (Q2 2011)	5 years ago (Q2 2016)	Latest (Q2 2021)
Average property value	$	$361,535	$392,744	$$591,013	$$906,532
	% Change	-	9%	50%	53%
Average annual household income	$	$62,587	$78,927	$89,502	$114,512
	% Change	-	26%	13%	28%
Value to income ratio		5.8	5.0	6.6	7.9
Share of income for repayments		43%	32%	37%	38%
Years to save deposit		7.7	6.6	8.8	10.6
Rent to income ratio		21%	20%	21%	21%

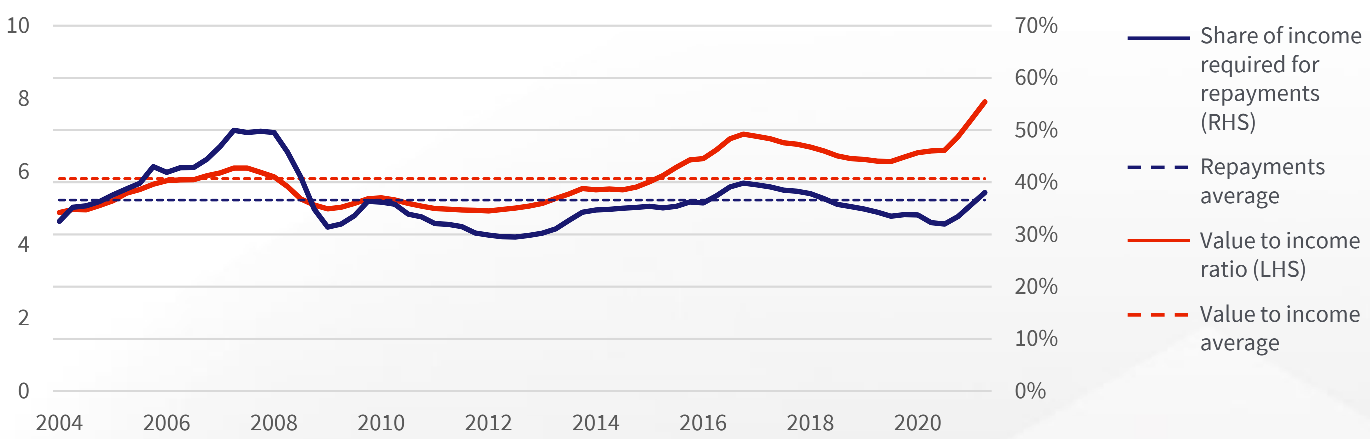
* Note: The % change columns for average property values and household incomes show the total change in each variable over five year intervals, from 2006 to 2011, 2011 to 2016, etc. The figures give readers a good indication of general affordability trends over those periods – e.g. from 2006 to 2011, values rose by 9% and incomes by 26%, so affordability generally improved. But from 2011 to 2016, value growth was significantly higher than incomes, resulting in reduced affordability on most measures.

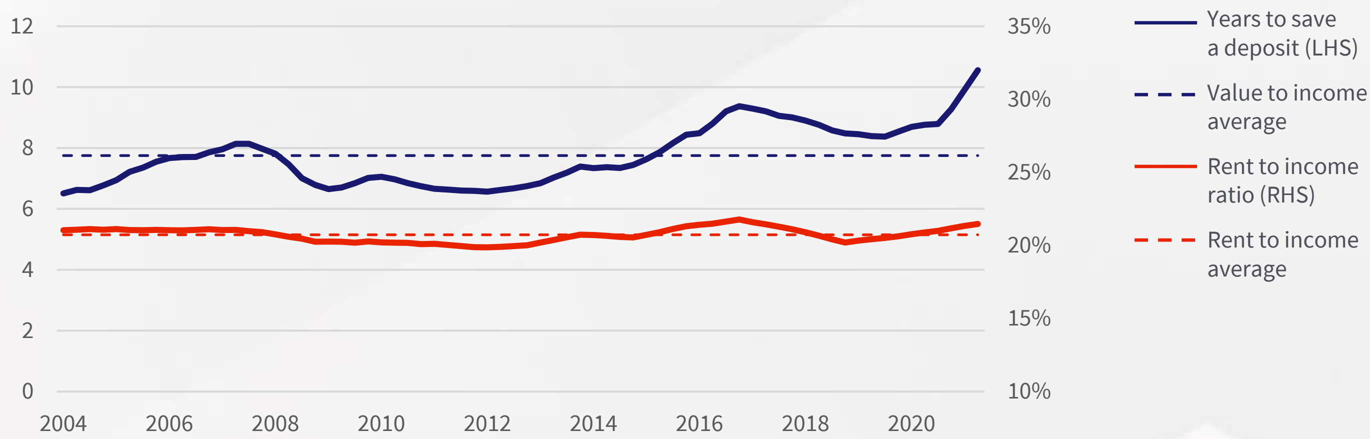
Share of income required for repayments:

Currently 38% of gross household income is required to service an 80% LVR mortgage (based on the average property value, with the mortgage over a 25-year term), up fairly sharply from 36% in Q1 2021 and 32% a year ago – despite the low (albeit rising) levels of mortgage rates that still prevail. In fact, despite low mortgage rates, this measure of affordability is now worse than its long term average of 37% and is back to levels last seen in 2017 when a typical 2-year fixed mortgage rate was above 5% (versus closer to 3% now).

In other words, mortgage affordability has started to reduce for existing home-owners too (in addition to the steady decline we've already seen in recent years for those aspiring to buy a home), and that trend looks set to continue. After all, although lockdown delayed an official cash rate (OCR) increase in August, it's clear that this episode of ultra-low rates has passed, and as the OCR rises over the medium term so too will mortgage rates – perhaps by 1.5% to 2% over the next two years.

National Overview *(continued)*





Years to save a deposit:

As at Q2 2021, it takes 10.6 years to save the deposit for the average property. That has risen sharply from 9.9 years in Q1 2021 and 8.8 years this time in 2020. In fact, this is the first time we've recorded a years to save reading of 10 or more, which is well above the long term average of 7.8. At previous cyclical peaks, this measure topped out at 8.1 (mid-2007) and 9.4 (late 2016). In other words, housing affordability has got significantly worse on this measure in the past few months.

Rent to income ratio:

Rents currently absorb 21% of gross household income across NZ. That's more or less in line with the long term average. In other words, housing affordability for renters looks to be about normal at present, although it must be noted that some will be finding it much harder than this average figure would suggest – given a typical renting household may actually have income below the average. More generally, our past analysis suggests that, over the long run, landlords can't always pass on higher costs to tenants in the form of rent increases – in turn, because tenants' affordability is anchored by the pace of their wage increases (which has recently been fairly low).

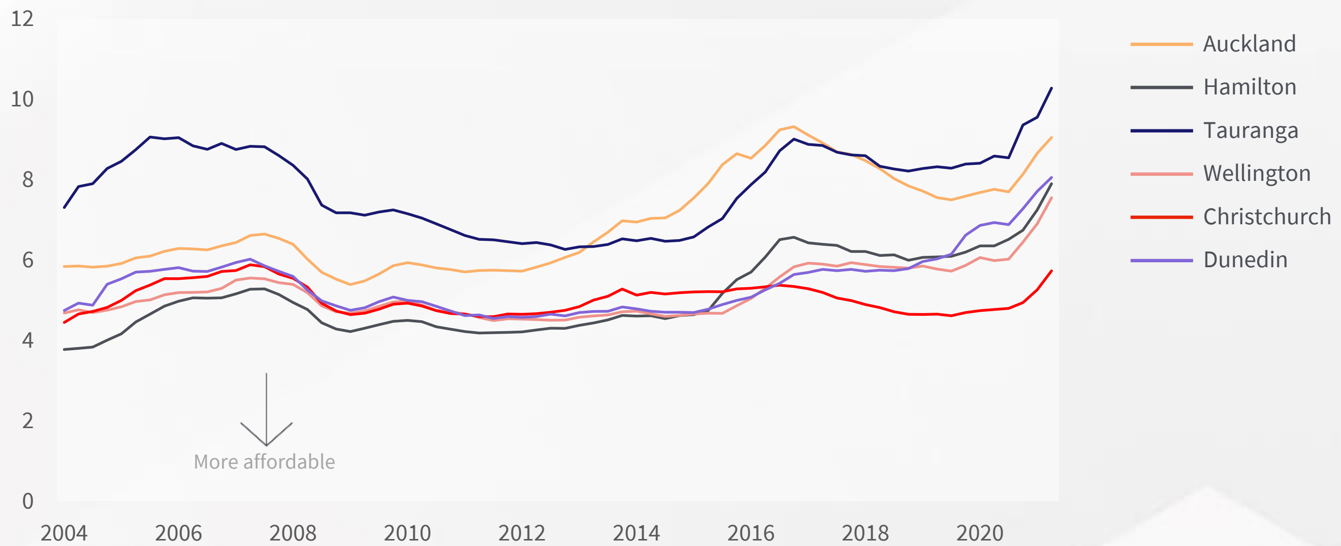
Main Centres Overview

Value to income ratio:

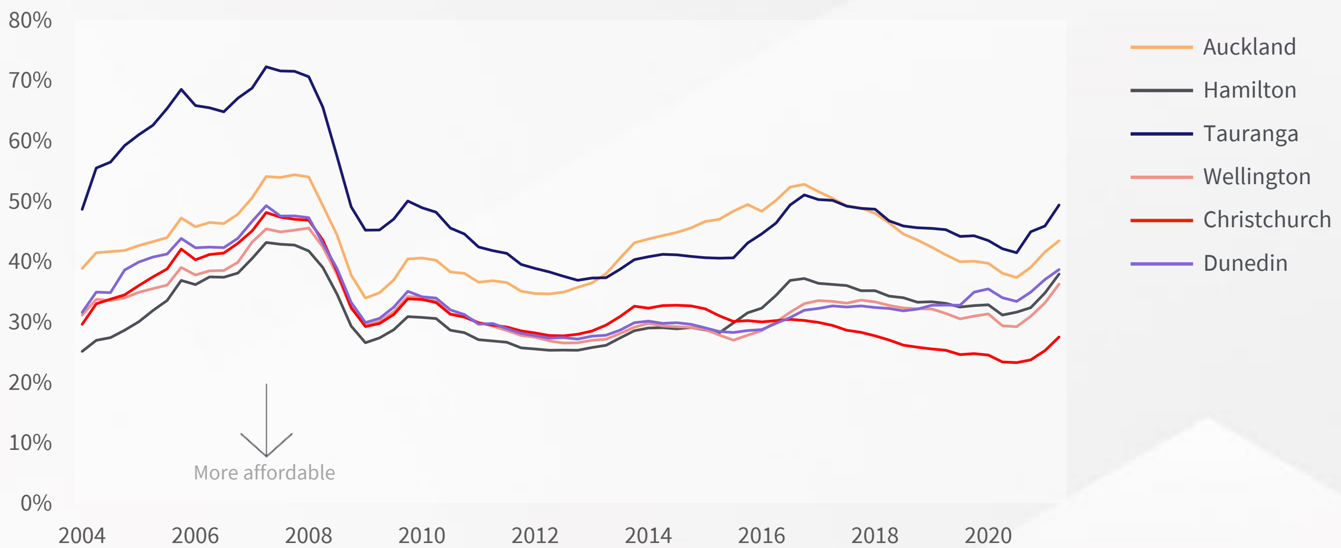
On this measure, Tauranga is the least affordable main centre, with a value to income ratio of 10.3 in Q2 2021, well above its long term average of 7.8, and in fact a new record high – surpassing the previous peak of 9.6 which was only reached in Q1 this year. At 7.9, Hamilton's value to income ratio in Q2 2021 was also a record high, along with Wellington (7.6), and Dunedin (8.1).

Auckland's latest value to income reading was 9.1, which is high by national standards and also up sharply from 7.8 a year ago, but still a bit below the previous peak of 9.3 in Q4 2016. Once again, Christchurch has the lowest reading amongst the main centres (5.7), and is also a bit below the previous peak of 5.9 in Q2 2007 – but even there, affordability has still declined (a year ago Christchurch's reading was only 4.8).

Value to income ratio



Share of income required for payments



Main Centres Overview *(continued)*

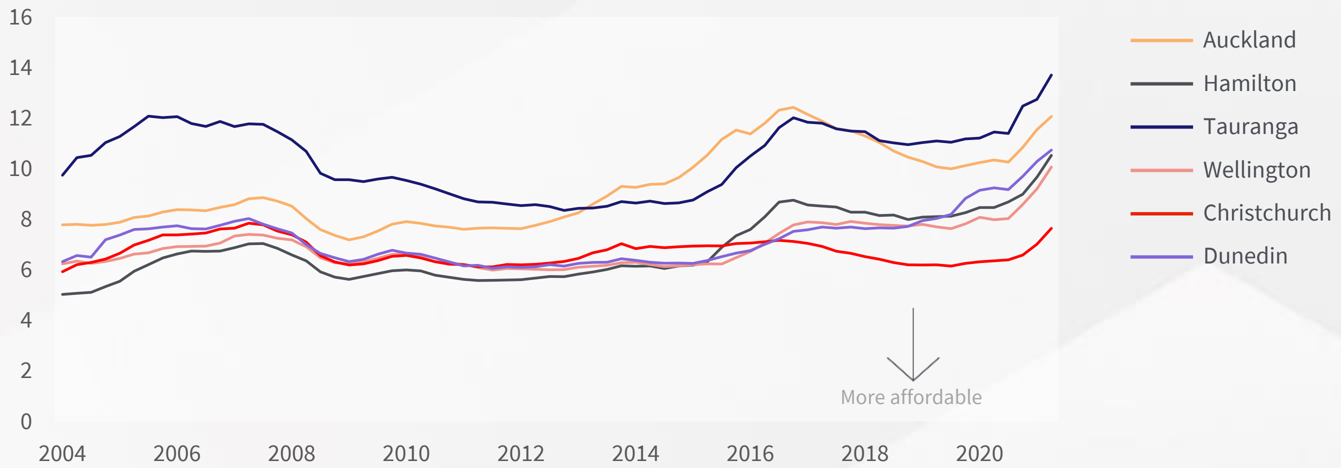
Share of income required for repayments:

Tauranga and Auckland are also the least affordable main centres when you look at the share of gross household income required to service an 80% LVR mortgage – those figures currently stand at 49% and 43% respectively. However, Tauranga stands out more when you consider the recent history; its latest figure is on a par with peak readings in 2016-17, whereas Auckland is still quite a bit below those figures from 4-5 years ago (e.g. 53% in late 2016).

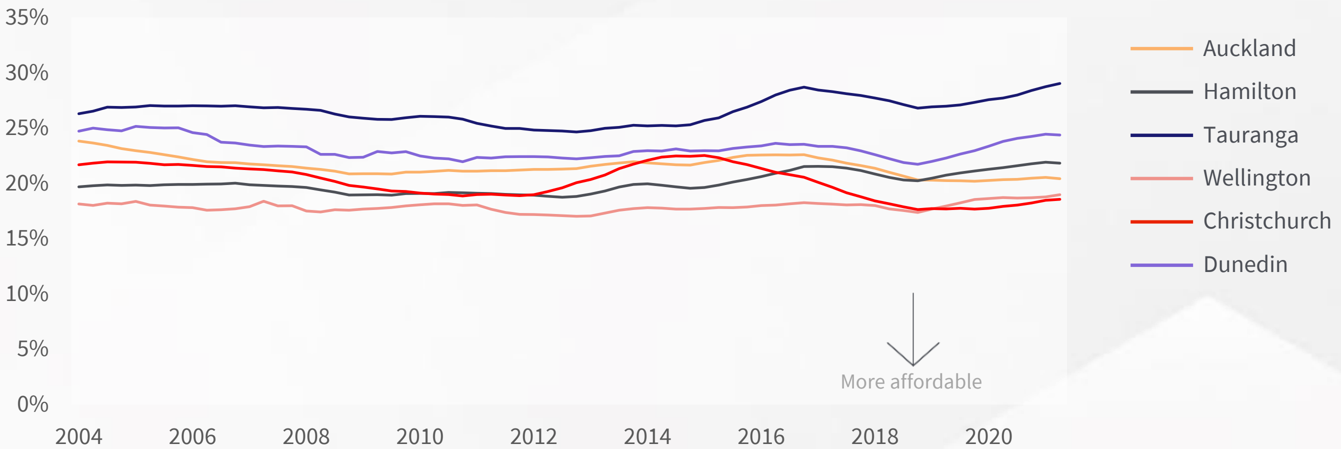
Even despite ultra-low mortgage rates in the past 3-6 months, Hamilton's share of income required to make payments stands at 38%, the highest since prior to the GFC in Q2 2008. A similar message applies for Wellington (36%) and Dunedin (39%). By contrast, Christchurch's figure is still comparatively low (albeit rising), at 28% – well below its average (32%).

This measure of affordability is effectively looking at the situation for a recent purchaser (e.g. first home buyer), and their ability to now be homeowners has generally been helped in recent years by lower mortgage rates. A household that's been in the market longer (and therefore reduced their mortgage principal) and/or has an above average income will have a lower repayment burden. Also note that the rise in the average number of workers per household over time (partly in response to higher housing costs themselves) has played a key role in raising average household incomes.

Years to save a deposit



Rent to income ratio



Main Centres Overview *(continued)*

Years to save a deposit:

Amongst the main centres Tauranga also has the longest period of time required to save a deposit, at 13.7 years (up sharply from 12.7 just three months earlier and 11.5 a year ago). Auckland's figure climbed back above 12 in Q2 2021, for the first time since Q1 2017. Meanwhile, Hamilton set a new record in Q2 (10.5), as did Wellington (10.1) and Dunedin (10.7).

Christchurch's figure of 7.6 in Q2 2021 was the lowest of the main centres, but has still risen significantly over the past year, up from 6.4 in Q2 2020, and now not far short of the city's record of 7.8 in mid-2007. Each of the main centres has a years to save measure that is currently 3-4 years longer than average/normal, except Christchurch where the gap is about one year.

Rent to income ratio:

Rental affordability has been steadier around the main centres, although Tauranga does look a bit more stretched – currently 29% of gross average household income is required to pay rent, about 2%-points above average. Dunedin's figure is 24% (compared to average of 23%), and Hamilton sits at 22%, again above normal (20%).

Wellington's 'rent burden' is closer to normal (19% versus average of 18%), while in Auckland (20% versus average of 22%) and Christchurch (19% versus 20%) it's actually a bit cheaper than normal to service rent. Those are two markets where housing supply has been stronger in recent years, and some of that construction will have found its way into the rental sector.

	Value to Income ratio		Share of income for repayments		Years to save deposit		Rent to income ratio	
Main centre	Latest (Q2 2021)	Average (2004-21)	Latest (Q2 2021)	Average (2004-21)	Latest (Q2 2021)	Average (2004-21)	Latest (Q2 2021)	Average (2004-21)
Auckland	9.1	6.9	43%	43%	12.1	9.2	20%	22%
Hamilton	7.9	5.1	38%	32%	10.5	6.8	22%	20%
Tauranga	10.3	7.8	49%	50%	13.7	10.4	29%	27%
Wellington	7.6	5.2	36%	33%	10.1	6.9	19%	18%
Christchurch	5.7	5.0	28%	32%	7.6	6.7	19%	20%
Dunedin	8.1	5.4	39%	34%	10.7	7.2	24%	23%
NZ	7.9	5.8	38%	37%	10.6	7.8	21%	21%

Auckland

Over the past five years, average property values in Auckland have risen by 32%, a touch more than the increase in average gross household income (29%). This has caused the value to income ratio to edge higher, and at 9.1 is back pretty close to the previous record high (9.3 in Q4 2016). Years to save a deposit has risen above 12, and although the share of income required to service a mortgage is 'only' 43% – which is lower than past cycles (e.g. peaks of 54% in 2007 and 53% in 2016), that's largely just because mortgage rates are currently so low. But that's set to change and so home-owning households are about to be tested a bit more in terms of their debt servicing.

By contrast, for renting households on the average income, housing costs are 'comfortable' by past standards – with rents absorbing 20% of income, less than the average of 22%.

		15 years ago (Q2 2006)	10 years ago (Q2 2011)	5 years ago (Q2 2016)	Latest (Q2 2021)
Average property value	$	$475,106	$538,727	$975,144	$1,283,895
	% Change	-	13%	81%	32%
Average annual household income	$	$75,662	$93,850	$110,123	$141,821
	% Change	-	24%	17%	29%
Value to income ratio		6.3	5.7	8.9	9.1
Share of income for repayments		47%	37%	50%	43%
Years to save deposit		8.4	7.7	11.8	12.1
Rent to income ratio		22%	21%	23%	20%

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Hamilton

For the past decade, and of course over the shorter timeframe since COIVD first hit NZ, Hamilton's property prices have been growing ahead of incomes, with affordability steadily worsening. In 2011, the value to income ratio was 4.2, but now it's basically doubled to 7.9 (a record high). Years to save a deposit has also spiked higher from 5.6 to 10.5, and while even though mortgage rates have trended downwards (and incomes have risen), it now takes 38% of gross earnings to service a mortgage, up from 27% a decade ago. Rents relative to incomes are also historically high.

		15 years ago (Q2 2006)	10 years ago (Q2 2011)	5 years ago (Q2 2016)	Latest (Q2 2021)
Average property value	$	$320,527	$324,280	$492,403	$801,919
	% Change	-	1%	52%	63%
Average annual household income	$	$63,326	$77,445	$81,019	$101,488
	% Change	-	22%	5%	25%
Value to income ratio		5.1	4.2	6.1	7.9
Share of income for repayments		37%	27%	34%	38%
Years to save deposit		6.7	5.6	8.1	10.5
Rent to income ratio		20%	19%	21%	22%

Tauranga

Tauranga has always been a less affordable market than most of the other main centres, but the situation did at least improve from 2006 to 2011. Since then, however, the value to income ratio has risen from 6.5 to 10.3, and years to save a deposit has increased from 8.7 to 13.7. Meanwhile lower mortgage rates haven't prevented the share of income required to service debt rising from 42% in 2011 to 49% now (a year ago that figure was also 'only' 42%). Rental affordability has hit a record low in Tauranga in the most recent three months too.

That said, the demographics of Tauranga are important to note in relation to housing affordability. A greater proportion of older people (with more wealth and investment income, but less wage income) amongst its population can sometimes make housing affordability look a little less favourable than it actually is.

		15 years ago (Q2 2006)	10 years ago (Q2 2011)	5 years ago (Q2 2016)	Latest (Q2 2021)
Average property value	$	$440,633	$420,202	$599,915	$978,067
	% Change	-	-5%	43%	63%
Average annual household income	$	$49,824	$64,472	$73,235	$95,106
	% Change	-	29%	14%	30%
Value to income ratio		8.8	6.5	8.2	10.3
Share of income for repayments		65%	42%	46%	49%
Years to save deposit		11.8	8.7	10.9	13.7
Rent to income ratio		27%	25%	28%	29%

Wellington

The decline in housing affordability in Wellington City in the past five years has been amongst the most acute in the country. Since mid-2016, the value to income ratio has spiked from 5.3 to 7.6, while years to save has topped 10 (despite high average incomes in the capital). Meanwhile, the share of income required to service a mortgage has gone up from 30% in mid-2016 to 36% now, even though mortgage rates have dropped by about 1.5% over that period. Rental affordability has also declined to historically poor levels.

In greater Wellington, the past five years have been a very similar story to the city, with Porirua, Upper Hutt, and Lower Hutt all seeing rising property values and declining affordability. The current value to income ratios for Porirua (6.5), Upper Hutt (7.0), and Lower Hutt (7.7) are all at new record highs for the history of our measures (back to 2004). The previous record highs were only set in Q1 2021 in each of these areas.

Mortgage servicing has also got much less affordable in each of these areas in recent quarters, with Porirua's figure of 31% and Upper Hutt at 34% both having risen by 6-7% percentage points in the past year alone, even as mortgage rates have tumbled. At 37%, this figure in Lower Hutt is now way above its average, of 29% – i.e. housing is far less affordable than 'normal'.

Years to save across Upper Hutt, Lower Hutt, and Porirua are all in the range of 9-10, while rents as a proportion of gross household incomes are also above average. An important point to note here is that the relatively easy commute to higher-paying jobs in Wellington City may flatter local owners' and renters' affordability in the Hutt Valley and Porirua. In other words, if we looked at a *local* wage for those areas, affordability may be worse.

		15 years ago (Q2 2006)	10 years ago (Q2 2011)	5 years ago (Q2 2016)	Latest (Q2 2021)
Average property value	$	$452,389	$501,423	$625,319	$1,144,381
	% Change	-	11%	25%	83%
Average annual household income	$	$87,041	$109,648	$118,024	$151,532
	% Change	-	26%	8%	28%
Value to income ratio		5.2	4.6	5.3	7.6
Share of income for repayments		38%	29%	30%	36%
Years to save deposit		6.9	6.1	7.1	10.1
Rent to income ratio		18%	18%	18%	19%

Christchurch

After a long period of relative stability for property values in Christchurch, it too has been part of the upswing over the past 9-12 months. The value to income ratio now stands at 5.7, which is lower than the other main centres, but above its own average (5.0) and up from 4.8 a year ago. Years to save has hit 7.6, more than a year longer than it was in Q2 2020 (6.4).

Meanwhile, the share of gross household income required to service a typical new mortgage has also started to rise more sharply, reaching 28% in Q2 2021, up from 25% just three months ago (albeit still less than the other main centres and its own average of 32%). Rental affordability is not as stretched as elsewhere either, although at 19%, it has got a little worse in recent quarters.

		15 years ago (Q2 2006)	10 years ago (Q2 2011)	5 years ago (Q2 2016)	Latest (Q2 2021)
Average property value	$	$331,453	$365,901	$491,148	$631,114
	% Change	-	10%	34%	28%
Average annual household income	$	$59,566	$79,621	$92,031	$110,068
	% Change	-	34%	16%	20%
Value to income ratio		5.6	4.6	5.3	5.7
Share of income for repayments		41%	29%	30%	28%
Years to save deposit		7.4	6.1	7.1	7.6
Rent to income ratio		21%	19%	21%	19%

Dunedin

Dunedin has seen some of the largest increases in property values of any part of NZ over the past 4-5 years and that has gone hand in hand with declining housing affordability. Since mid-2016, the value to income ratio has risen from 5.3 to 8.1 (a record high), while years to save has now reached 10.7, having been less than nine only 18 months ago.

Mortgage affordability has also got worse, and is currently at 39%, well above the average of 34% (even though mortgage rates are low), and up from 34% a year ago. Renting has got less affordable too, with the figure of 24% above its own historical average of 23% and also the current national figure of 21%.

		15 years ago (Q2 2006)	10 years ago (Q2 2011)	5 years ago (Q2 2016)	Latest (Q2 2021)
Average property value	$	$256,852	$267,434	$327,664	$654,995
	% Change	-	4%	23%	100%
Average annual household income	$	$44,851	$57,681	$62,289	$81,292
	% Change	-	29%	8%	31%
Value to income ratio		5.7	4.6	5.3	8.1
Share of income for repayments		42%	30%	30%	39%
Years to save deposit		7.6	6.2	7.0	10.7
Rent to income ratio		24%	22%	24%	24%

Main Urban Areas

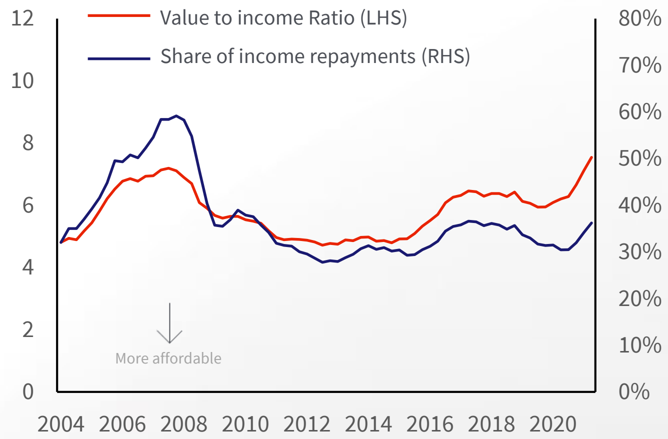
In each of the main urban areas of NZ (outside the main centres), the value to income ratio has deteriorated in recent years, and in fact for 11 of the 12 areas, it was at a record high in Q2 2021 – or in other words, affordability was the worst it's been since at least 2004 (only Queenstown bucked that trend, but not by much). Kapiti Coast (from 8.7 in Q1 2021 to 9.6) and Palmerston North (6.8 to 7.6) saw particularly large changes in Q2.

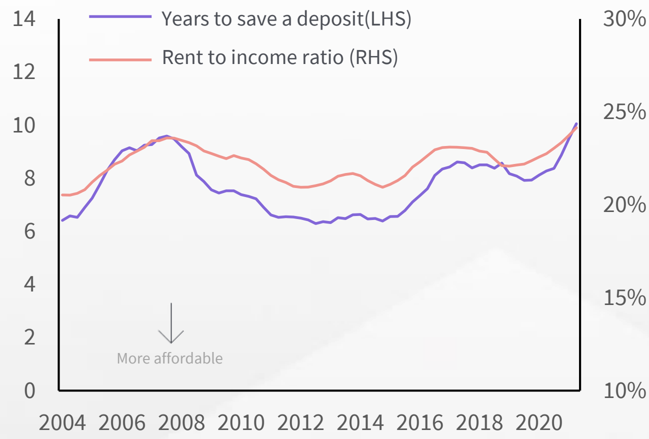
Even though property values have soared right across the country in the past year or so, some still have mortgage repayments as a % of gross household income that are below past norms – e.g. Queenstown and Whangarei, while New Plymouth (29%) is bang on its average. However, Palmerston North, Napier, Whanganui, and Nelson all have mortgage servicing figures that are 8-9% points above normal – even though mortgage rates are low.

On the years to save a deposit measure, the figures across the main urban areas range from 6.8 in Invercargill up to 13.2 in Queenstown. However, each area is above its own average (i.e. affordability is worse than normal), especially again in Palmerston North and Kapiti.

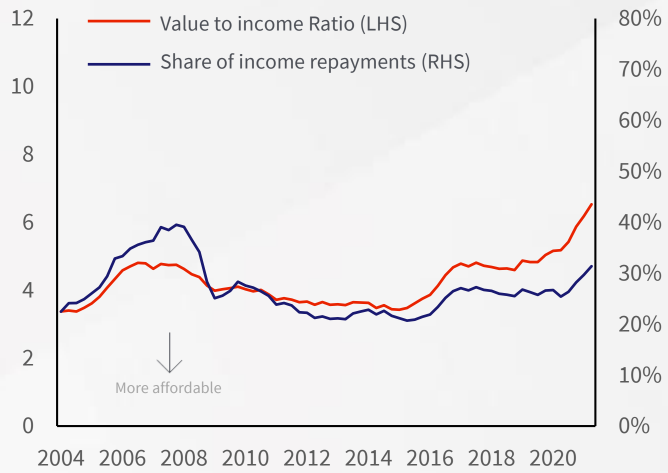
Renting is still more affordable in Queenstown than normal (presumably reflecting the reduction in the hospitality workforce and reduced rental demand), but much more stretched in areas such as Nelson, Whanganui, and Napier. However, it's also important to note that rental affordability has declined recently across all the main urban areas.

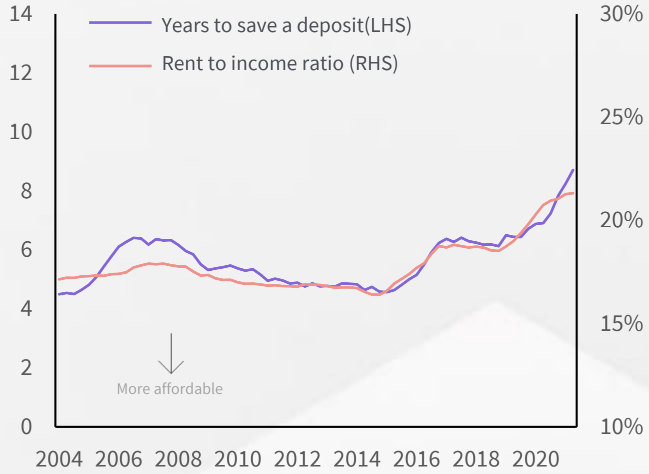
Whangarei



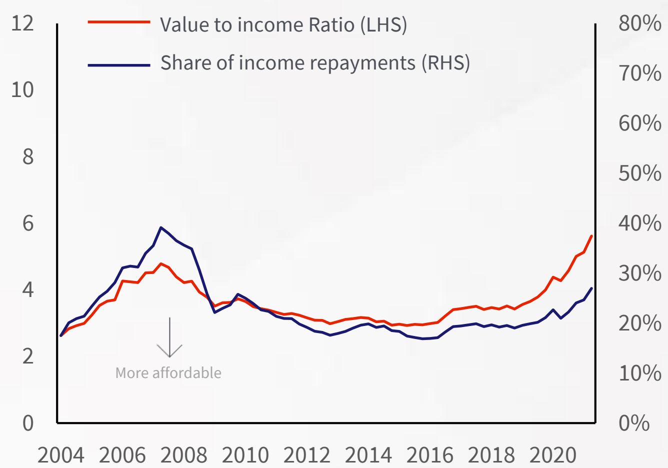


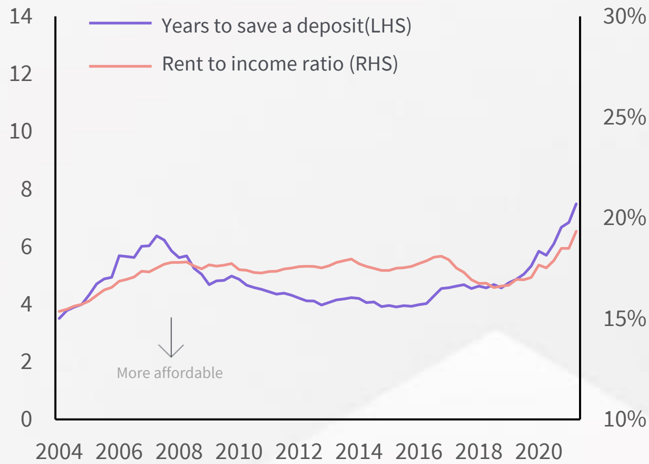
Rotorua



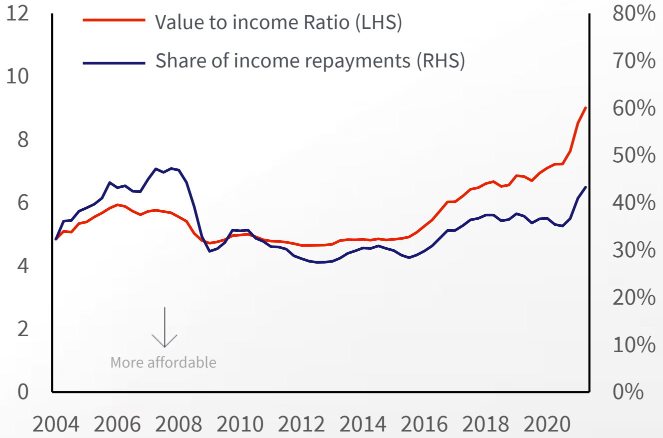


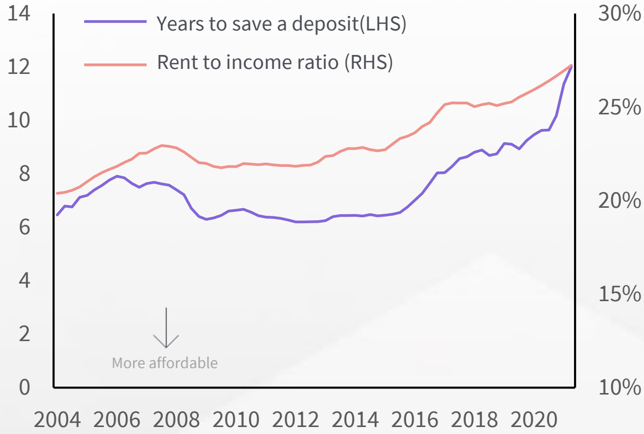
Gisborne



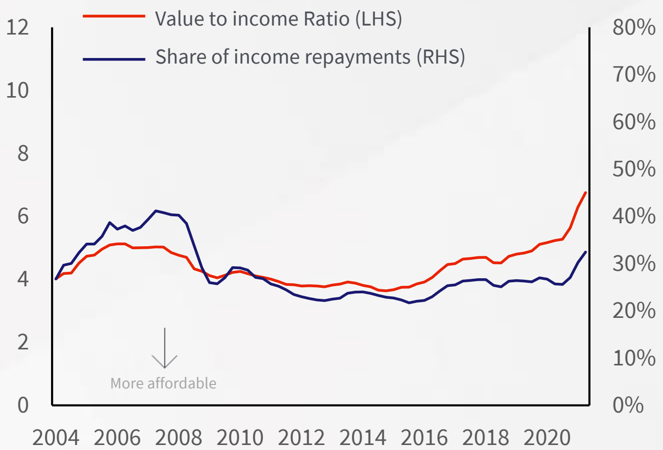


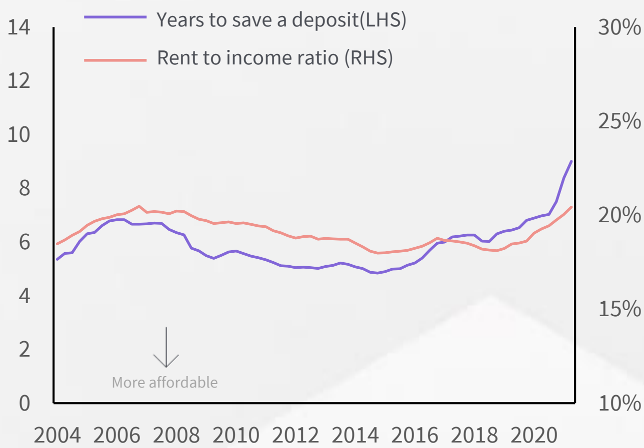
Napier



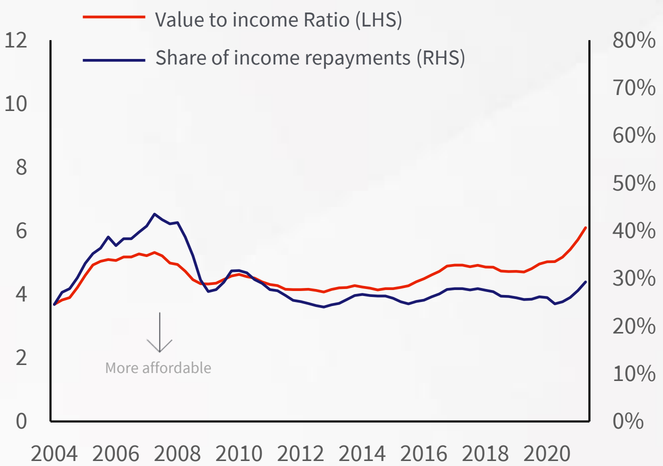


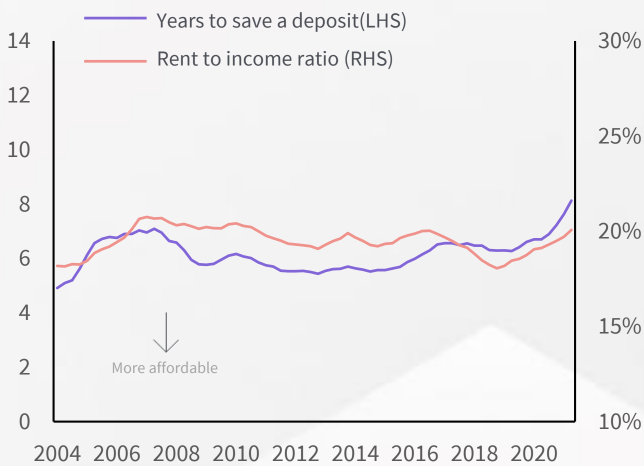
Hastings



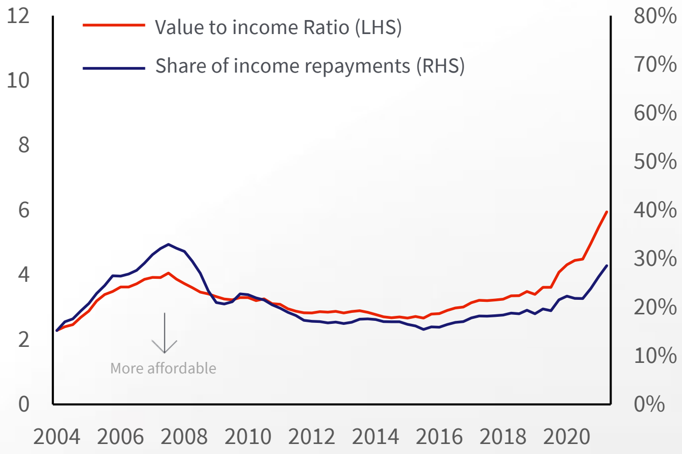


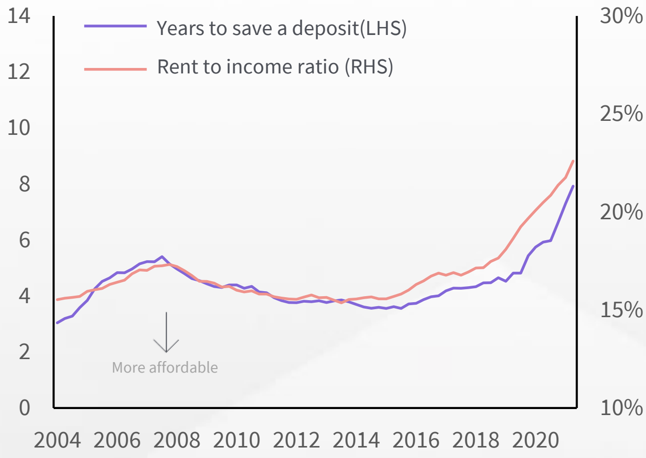
New Plymouth



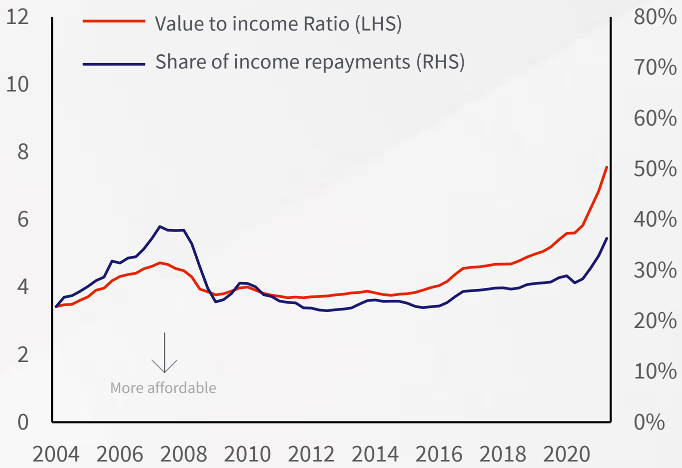


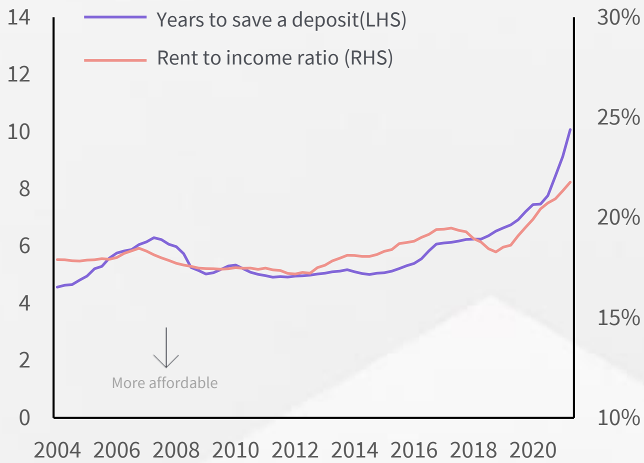
Wanganui



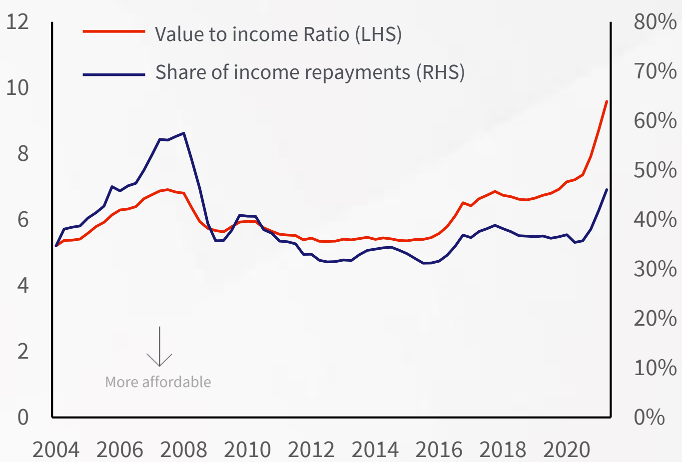


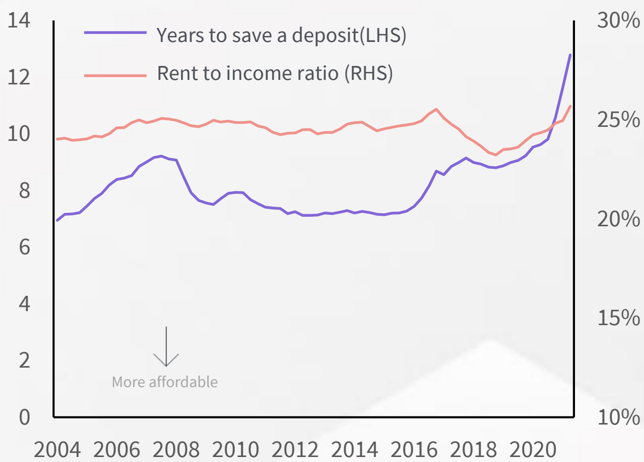
Palmerston North



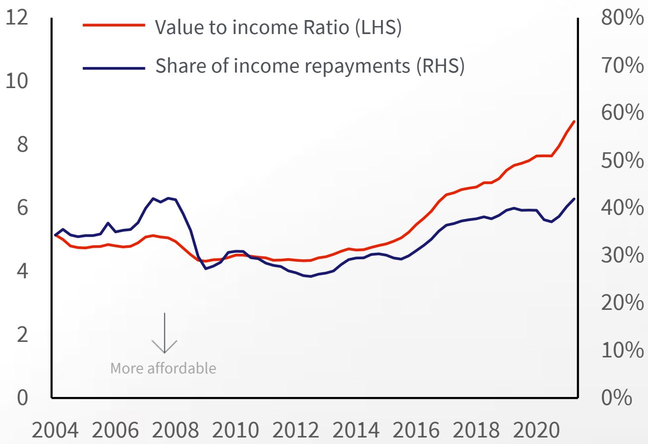


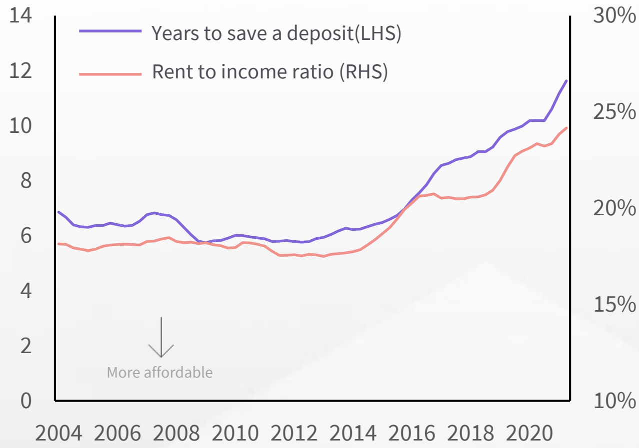
Kapiti Coast



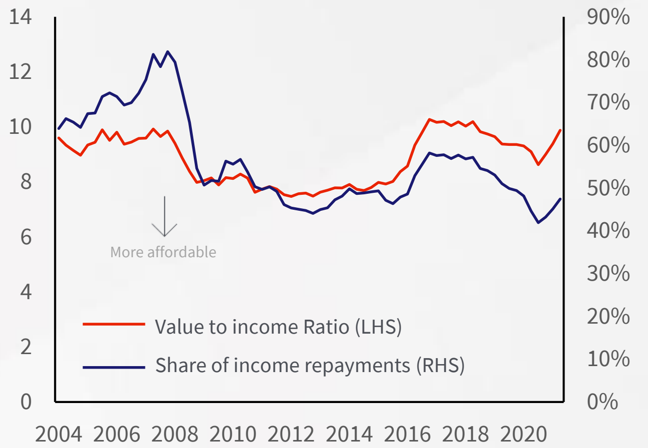


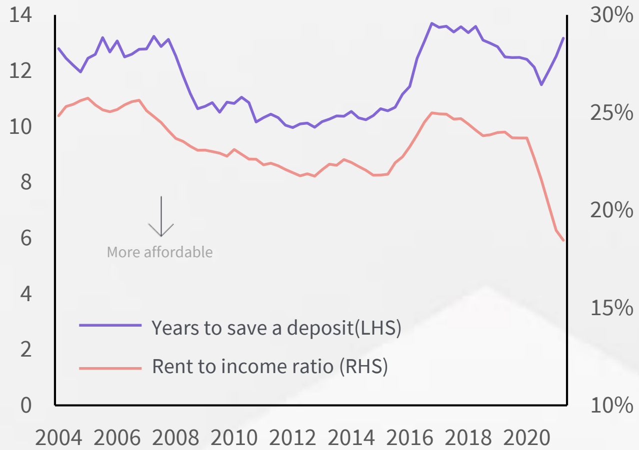
Nelson



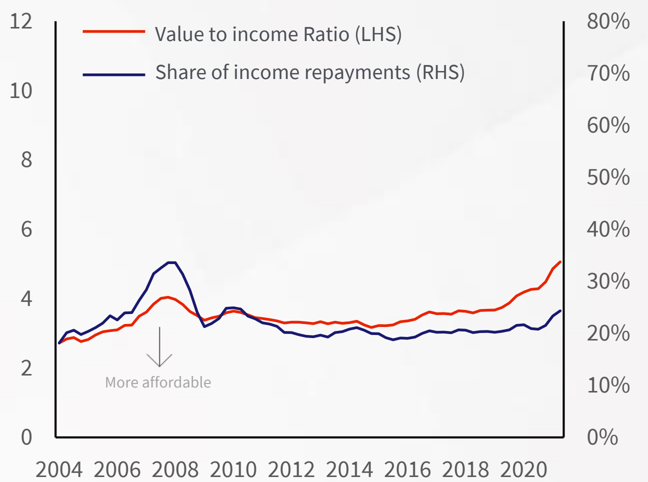


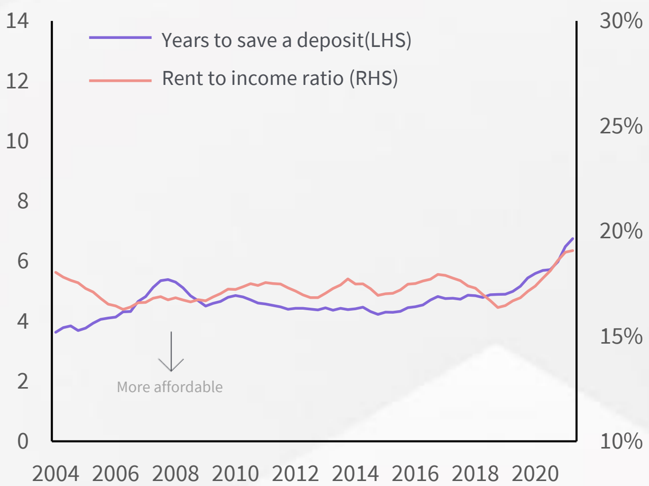
Queenstown-Lakes





Invercargill





The rest of NZ

Around the rest of the country, the key message is the same – even though mortgage rates have dropped, property values have soared well above the rise in incomes, so affordability has declined. On the value to income ratio, basically every part of the country had a Q2 2021 figure well above average, with Kaipara (11.1 versus average of 6.3), South Wairarapa (8.1 versus 4.4), Thames-Coromandel, Horowhenua, Carterton, and MacKenzie District all standing out as being the least affordable relative to average.

Looking at the measure covering mortgage payments as a share of gross household income, many markets look stretched – including Kaipara, Otorohanga, Horowhenua, and South Wairarapa. However, some look less pressured, including Far North, Western Bay of Plenty, Kaikoura, Hurunui, and Waimakariri. That said, even in those markets where mortgage payments are lower compared to their average, they're still pretty high.

Turning to years to save a deposit, almost all parts of the country are above their own averages (i.e. less affordable than normal), and in fact have risen to record lengths. This measure is at least 10 in Kaipara, Hauraki, Taupo, Horowhenua, Carterton, South Wairarapa, Tasman, and MacKenzie.

As a final note, Thames-Coromandel and Tasman stand out for the having some of the highest (worst) readings across most affordability measures. However, we can't look at that in isolation – compared to their own averages, affordability in those two areas isn't as stretched. In addition, our measure of income which excludes investment returns probably has a larger dampening effect on those areas (due to high retiree presence and higher wealth), perhaps making affordability based on incomes look worse than it really is.

Q2 2021

	Average property vals.	Average h/h income	Value to income ratio			Mortgage servicing			Years to save deposit			Rent affordability		
			Now	Average	Difference	Now	Average	Difference	Now	Average	Difference	Now	Average	Difference
Far North District	$586,097	$95,011	6.2	5.9	0.2	30%	38%	-9%	8.2	7.9	0.3	22%	22%	-0%
Whangarei District	$718,568	$95,313	7.5	5.8	1.7	36%	37%	-1%	10.1	7.7	2.3	24%	22%	2%
Kaipara District	$755,955	$68,206	11.1	6.3	4.7	53%	40%	13%	14.8	8.5	6.3	33%	22%	11%
Thames-Coromandel District	$1,057,943	$69,101	15.3	11.8	3.5	74%	76%	-2%	20.4	15.7	4.7	30%	28%	2%
Hauraki District	$601,282	$78,048	7.7	5.1	2.7	37%	32%	5%	10.3	6.7	3.5	25%	22%	3%
Waikato District	$679,530	$96,493	7.0	5.2	1.9	34%	33%	1%	9.4	6.9	2.5	24%	24%	-0%
Matamata-Piako District	$603,085	$97,650	6.2	4.1	2.1	30%	25%	4%	8.2	5.4	2.8	22%	18%	4%
Waipa District	$795,139	$120,003	6.6	4.6	2.0	32%	29%	3%	8.8	6.1	2.7	21%	19%	1%
Otorohanga District	$500,150	$94,143	5.3	2.5	2.9	26%	15%	10%	7.1	3.3	3.8	19%	12%	8%
South Waikato District	$370,278	$111,082	3.3	2.0	1.4	16%	12%	4%	4.4	2.6	1.8	15%	12%	3%
Waitomo District	$337,975	$87,465	3.9	2.9	0.9	19%	19%	-0%	5.2	3.9	1.2	17%	17%	-0%
Taupo District	$747,268	$94,498	7.9	5.8	2.1	38%	37%	1%	10.5	7.7	2.9	22%	20%	2%
Western Bay of Plenty District	$855,540	$124,684	6.9	5.8	1.1	33%	37%	-4%	9.1	7.7	1.5	19%	18%	0%
Rotorua District	$672,730	$103,049	6.5	4.2	2.3	31%	27%	5%	8.7	5.7	3.0	21%	18%	3%
Whakatane District	$679,352	$103,654	6.6	4.6	2.0	31%	29%	2%	8.7	6.1	2.6	20%	19%	1%
Kawerau District	$353,574	$78,524	4.5	2.3	2.2	22%	14%	7%	6.0	3.0	3.0	21%	15%	6%
Opotiki District	$535,615	$76,448	7.0	4.5	2.6	34%	28%	5%	9.3	5.9	3.4	22%	19%	4%
Gisborne District	$585,547	$104,331	5.6	3.6	2.0	27%	23%	4%	7.5	4.8	2.7	19%	17%	2%
Wairoa District	$403,457	$85,880	4.7	2.4	2.3	23%	16%	7%	6.3	3.2	3.0	17%	12%	6%
Hastings District	$778,896	$115,357	6.8	4.5	2.3	32%	28%	4%	9.0	5.9	3.1	20%	19%	1%
Napier City	$795,031	$88,233	9.0	5.6	3.4	43%	35%	8%	12.0	7.5	4.5	27%	23%	4%
Central Hawke's Bay District	$523,494	$97,399	5.4	3.6	1.8	26%	23%	3%	7.2	4.8	2.4	18%	15%	3%
New Plymouth District	$631,779	$103,646	6.1	4.6	1.5	29%	29%	-0%	8.1	6.2	2.0	20%	19%	1%
Stratford District	$433,464	$72,017	6.0	3.7	2.3	29%	23%	6%	8.0	4.9	3.1	25%	18%	7%
South Taranaki District	$372,583	$88,362	4.2	2.7	1.5	20%	17%	3%	5.6	3.6	2.0	20%	15%	5%
Ruapehu District	$370,926	$92,703	4.0	2.5	1.5	19%	16%	3%	5.3	3.3	2.0	15%	14%	1%
Wanganui District	$501,392	$84,374	5.9	3.3	2.6	29%	21%	8%	7.9	4.4	3.5	23%	17%	6%
Rangitikei District	$432,349	$97,073	4.5	2.6	1.9	21%	16%	5%	5.9	3.5	2.5	17%	14%	3%
Manawatu District	$600,461	$132,172	4.5	3.4	1.1	22%	22%	-0%	6.1	4.5	1.5	15%	16%	-1%
Palmerston North City	$705,306	$93,378	7.6	4.3	3.2	36%	27%	9%	10.1	5.8	4.3	22%	18%	3%
Tararua District	$432,118	$95,712	4.5	2.2	2.3	22%	14%	8%	6.0	3.0	3.0	15%	12%	3%
Horowhenua District	$598,165	$79,826	7.5	4.1	3.4	36%	26%	10%	10.0	5.5	4.5	26%	19%	7%
Kapiti Coast District	$912,784	$95,202	9.6	6.1	3.4	46%	39%	7%	12.8	8.2	4.6	26%	25%	1%
Porirua City	$915,018	$141,214	6.5	4.3	2.1	31%	27%	4%	8.6	5.8	2.9	20%	19%	2%
Upper Hutt City	$856,857	$122,835	7.0	4.7	2.3	34%	30%	4%	9.3	6.2	3.1	21%	19%	1%
Lower Hutt City	$914,549	$118,434	7.7	4.6	3.2	37%	29%	8%	10.3	6.1	4.2	21%	18%	4%
Masterton District	$610,356	$89,042	6.9	4.0	2.8	33%	25%	8%	9.1	5.4	3.8	20%	17%	2%
Carterton District	$677,162	$83,101	8.1	4.8	3.4	39%	30%	9%	10.9	6.4	4.5	22%	21%	2%
South Wairarapa District	$813,518	$100,968	8.1	4.4	3.7	39%	27%	11%	10.7	5.8	4.9	22%	17%	5%
Tasman District	$764,620	$91,851	8.3	9.2	-0.8	40%	59%	-19%	11.1	12.2	-1.1	25%	33%	-8%
Nelson City	$774,575	$88,817	8.7	5.4	3.3	42%	34%	8%	11.6	7.2	4.4	24%	19%	5%
Marlborough District	$671,569	$111,594	6.0	4.9	1.1	29%	32%	-3%	8.0	6.6	1.4	20%	19%	1%
Kaikoura District	$569,547	$76,829	7.4	7.0	0.5	36%	45%	-9%	9.9	9.3	0.6	24%	24%	-0%
Buller District	$274,627	$77,072	3.6	3.1	0.5	17%	20%	-2%	4.8	4.1	0.7	18%	17%	0%
Grey District	$304,487	$93,542	3.3	2.9	0.3	16%	19%	-3%	4.3	3.9	0.4	17%	17%	0%
Westland District	$330,071	$101,929	3.2	3.2	0.0	16%	21%	-5%	4.3	4.3	0.1	14%	16%	-1%
Hurunui District	$494,041	$97,720	5.1	4.7	0.4	24%	30%	-6%	6.7	6.3	0.5	18%	19%	-1%
Waimakariri District	$566,866	$87,202	6.5	5.8	0.7	31%	37%	-6%	8.7	7.8	0.9	26%	28%	-2%
Selwyn District	$677,260	$92,517	7.3	5.2	2.1	35%	33%	3%	9.8	6.9	2.9	26%	23%	3%
Ashburton District	$448,359	$89,662	5.0	4.1	0.9	24%	26%	-2%	6.7	5.5	1.2	20%	19%	1%
Timaru District	$443,735	$100,743	4.4	3.8	0.6	21%	24%	-3%	5.9	5.0	0.8	18%	17%	1%
Mackenzie District	$625,022	$73,327	8.5	5.5	3.0	41%	34%	7%	11.4	7.4	4.0	21%	19%	2%
Waimate District	$350,230	$76,887	4.6	3.5	1.0	22%	22%	-0%	6.1	4.7	1.4	20%	18%	1%
Waitaki District	$431,094	$87,619	4.9	3.6	1.3	24%	23%	1%	6.6	4.8	1.7	19%	17%	1%
Central Otago District	$667,046	$103,866	6.4	4.9	1.5	31%	31%	-0%	8.6	6.5	2.0	22%	20%	2%
Queenstown-Lakes District	$1,364,419	$138,173	9.9	8.8	1.0	47%	56%	-9%	13.2	11.8	1.4	18%	23%	-5%
Clutha District	$367,333	$74,979	4.9	3.2	1.7	24%	20%	3%	6.5	4.2	2.3	20%	17%	3%
Southland District	$418,205	$85,465	4.9	3.7	1.2	24%	24%	-0%	6.5	5.0	1.6	18%	16%	2%
Gore District	$348,097	$74,400	4.7	3.2	1.5	22%	20%	2%	6.2	4.3	1.9	20%	16%	5%
Invercargill City	$434,263	$85,759	5.1	3.5	1.5	24%	22%	2%	6.8	4.7	2.1	19%	17%	2%

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