Provincial towns worst hit by housing affordability issues

Houses are as unaffordable as they've been at any time in the past 17 years and the worst hit are provincial towns, CoreLogic's bi-annual New Zealand Housing Affordability Report has found.

Tuesday, March 2nd 2021, 8:03AM

Average property values surged by 6.1% in the final three months of the year, and by 11.1% over 2020, while the latest Infometrics figures show a rise of just 1.3% in average household income during the last quarter of last year.

Half of the major cities CoreLogic tracks registered a spike in house prices in the December 2020 quarter that exceeded the median national income of $55,000.

In the regions four new cities cracked the $500,000 average house value mark - Rotorua, Palmerston North, New Plymouth and Gisborne. In fact, Gisborne saw the single largest increase in average house value of any city, with the average home now going for $119,877 more than it was at the end of 2019. Tauranga, Wellington and the Kapiti Coast also saw average house prices jump by more than $100,000 over 2020.

In Auckland, Tauranga, Wellington, Kapiti Coast and Queenstown the average house earned more in untaxed capital gains over the final three months of 2020 than the average New Zealander earned in pre-tax income over the entire year.

To get the true picture of housing affordability in New Zealand, the price-to-income ratio is the leveller and nationally it climbed from 6.5 in the third quarter of last year to 6.8 in the fourth quarter. CoreLogic's senior property economist Kelvin Davidson says this is the highest level since late 2016 (also 6.8), equalling the record since at least 2004.

He says in provincial areas growth in house prices – and therefore rising unaffordability – might be attributable simply to a lower starting point.

"As unaffordability rises in the main centres, some would-be buyers have likely turned to smaller centres and provincial towns to make purchases which have driven up the cost of buying in these markets. At the same time, the primary industries have been resilient, and this has driven up property values in some regional markets."

The rise in house sales has led to the vast majority of provincial areas becoming less affordable than normal on the price-to-income and years-to-save-a-deposit measures. Some are at their worst levels for at least 17 years, such as Kawerau, Rangitikei, Tararua, Masterton, Waitaki, and Clutha.

Davidson says although the falls in interest rates over the past 9-12 months have benefitted mortgage affordability, the sharp rise in property values is dampening a lot of that effect. In areas such as Kawerau, Otorohanga, South Wairarapa, and Horowhenua, the proportion of household income required to service a typical mortgage is above its long-term average, even despite low mortgage rates."

Growing divide

"The net result is housing affordability has begun to deteriorate again on each of CoreLogic's four measures, and the growing 'divide' between the wealth of existing homeowners and those who are struggling to get their first home has quickly become a hot political topic," Davidson says.

Politicians need to thoroughly examine income inequality when looking for solutions to the housing crisis. "New Zealand's incomes don't tend to match those of overseas, so there are some fundamental issues."

Davidson says without any major policy change regarding property, the long term affordability of the property market is reliant on significantly increasing supply, which is a slow moving factor. All indications are that the fervent growth in property values will continue."

Cyclical highs

On the back of rapid growth in property values in the final few months of 2020, many local areas of the country have moved beyond cyclical highs.

The rare exception amongst the main centres has been Christchurch, say Davidson. "The Christchurch market has been balanced for the past five to six years, with the right number of houses being built to meet population growth, when taking into account high construction activity in the neighbouring areas in Selwyn and Waimakariri.

"This is a good test case for what happens when supply is allowed to adjust. Indeed, we are now seeing signs that people are recognising the relative affordability in Christchurch and considering it a better place to buy as an investor or owner-occupier."

Mortgage payment rates stay steady

Mortgage payments as a percentage of household income rose to 33% across New Zealand for the last quarter of 2020, up from 31% I the third quarter – despite further falls in mortgage rates.

This figure is still lower than the long-term average of 36%, but continued growth in property values and/or gradual rises in mortgage rates at some stage in the next few years could see this situation become less favourable for existing homeowners.

Davidson says there is not a broad discussion about the potential for mortgage interest rates to rise, but across the economy property owners could be more sensitive to interest rates rises than they have been in the past, particularly if they rise from the existing 2.5% to, say, 5%, which is a massive proportionate jump on mortgages that are higher than they have ever been.

“That said, it’s also worth pointing out that banks are still testing a borrower’s ability to pay at theoretical ‘serviceability’ rates of 6.5% or more. This provides a degree of reassurance about the country’s ability to withstand higher market rates.”

Rising unaffordability “nothing new”

Davidson says there is nothing new about increasing unaffordability – to combat it, New Zealand needs more supply of housing and more intensified housing – making use of prefab techniques and tiny housing.

“Any further declines in housing affordability will increase the divide between existing owners and those who aspire to buy, and lessen the pool of people who can actually enter the market, ensuring that this issue remains right at the top of the public agenda for some time.”