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Kiwis still spending half of household income on mortgage repayments

Housing affordability in Aotearoa New Zealand has generally been improving as property values fall, incomes rise and interest rates stabilise, however mortgage repayments are still eating up a large proportion of people's income, according to the latest **CoreLogic Housing Affordability Report**.

Mortgage repayments as a percentage of gross annual average household income reduced from a peak of 53% in Q4 2022 to 49% last quarter, but remains well above the long-term average of 38%.

CoreLogic NZ Chief Property Economist Kelvin Davidson said the situation still looks pretty testing for new buyers.

"Even after the recent improvements, almost half of a household's income being eaten up by interest repayments is relatively unaffordable compared to long-term averages. Although lower mortgage rates seem likely over a one to two year horizon, we're not expecting any relief via rate cuts in the immediate to short-term," Mr Davidson said.

"Given the uneasy prospect that property values may start rising, albeit gradually, once again as we're already starting to see in a couple of regions, this will only add to the strain on new home buyers, at least until interest rates start to come back down," he said.

Davidson added that rising incomes will only partially offset this.

Each of the main centres still has mortgage repayments as a % of gross household income at least eight percentage points higher than their own long-term averages, with Tauranga the most stretched and Wellington the least.

Value to income ratio continues to improve

Properties in New Zealand are now valued at 7.2 times the average household income, down from 7.8 six months ago.

Mr Davidson said the figure has fallen in recent months as property values have dipped and incomes continued to rise amidst the strong labour market backdrop, but remains above the long-term average of 6.1.

"The latest figure of 7.2 is significantly lower than Q1 2022's peak of 8.8 and is the lowest since 7.1 in Q4 2020. In other words, a lot of the strain that emerged post-COVID has been easing but remains elevated by longer-term historical levels."

Tauranga remains the least affordable main centre, with a value to income ratio of 9.5 in Q2 2023, followed by Auckland, Dunedin, Hamilton, Christchurch and Wellington.

"After a period of very stretched affordability, the sharp falls in Wellington City house prices lately have seen this part of the country get markedly better in terms of purchasing power and it retains the title of most affordable from Christchurch for the second consecutive report,"Mr Davidson said.

Years to save a deposit reducing

The years to save a deposit measure fell to 9.6, still above the long-term average of 8.1, but two years better than the worst reading seen in Q1 2022 (11.7 years). Again, the latest figure is the lowest since Q4 2020.

Tauranga has the longest period of time required to save a deposit of any of the main centres, at 12.6 years, well above its long-term average of 10.8 years, and the national figure of 9.6 years. However, it has started to improve, having peaked at 15.8 years in Q1 2022.

Rental affordability relatively unchanged

Mr Davidson said rising incomes will have helped tenants in terms of rental affordability, but generally speaking, that has been offset by growth in rents themselves.

"Indeed, at the national level, rents currently absorb 22% of average household income, a touch above the average, but at least not much different from where it's been for the past few years," Mr Davidson said.

"The market that stands out is probably Christchurch, which has long been regarded as NZ's most favourable main centre for housing affordability, both in terms of buying and renting, but this no longer applies to the same extent. Indeed, it's now relatively more expensive to rent in Christchurch than Wellington, Auckland, and Hamilton."

	Value to Income ratio		Share of income for repayments		Years to save deposit		Rent to income ratio	
Main centre	Latest (Q2 2023)	Average (2004-23)	Latest (Q2 2023)	Average (2004-23)	Latest (Q2 2023)	Average (2004-23)	Latest (Q2 2023)	Average (2004-23)
Auckland	8.1	7.2	55%	45%	10.7	9.6	19%	21%
Hamilton	6.8	5.4	47%	33%	9.1	7.2	21%	20%
Tauranga	9.5	8.1	65%	51%	12.6	10.8	29%	27%
Wellington	6.1	5.4	42%	34%	8.2	7.2	18%	18%
Christchurch	6.3	5.2	43%	33%	8.4	7.0	21%	20%
Dunedin	7.2	5.7	49%	36%	9.6	7.6	26%	24%
NZ	7.2	6.1	49%	38%	9.6	8.1	22%	21%

Improving outlook

Mr Davidson said housing affordability started from such a stretched position that even after the recent improvements, it remains significantly worse than normal.

"We suspect this still-stretched starting point for housing affordability will play a role in capping the rate of price growth over the medium term, as would potential limits on debt to income ratios for mortgage lending that might be imposed by the Reserve Bank early next year.

"But any growth in house prices, even if modest, will put upwards pressure on many of these measures which will see housing affordability remain a critical issue for NZ in the coming years – even if incomes continue to rise and mortgage rates slowly fall in the longer term," Mr Davidson said.

For more information or to read the latest Housing Affordability Report, visit corelogic.co.nz/news.

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About CoreLogic NZ

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