CoreLogic Market Pulse

3rd December 2020

New affordability measures show why property has got political so fast

Once aspiring homeowners have raised their deposit and actually made a purchase, servicing the average mortgage is cheaper (relative to income) than it has been in the past – 31% in Q3 2020, versus the average of 36%. The problem, of course, is getting that deposit together in the first place – currently taking 8.6 years of saving, versus the average of 7.5. In other words, these refreshed affordability measures help to illustrate a widening gap between existing homeowners and aspiring buyers, which is a key part of why the market has recently got so political so quickly.

The politics of the residential property market have certainly heated up in the past few weeks (and probably earlier in this cycle than we've seen in the past), no more clearly illustrated than by the exchange of letters between the Government and Reserve Bank about what can be done to restrain house prices. There are many relevant issues, but a key one is the debate around inequality in the market – and when you look at our refreshed housing affordability measures, it's easy to see why.

First, paying the mortgage for people that already own a house is currently a little easier than 'normal' – about 31% of gross household income was required for repayments in Q3 2020, versus the long-term average of 36% (see the first chart). This figure varies around the country (e.g. 37% in Auckland; 24% in Christchurch), but the general picture is that once people have made their purchase, servicing the debt isn't as hard as it has been sometimes in the past.

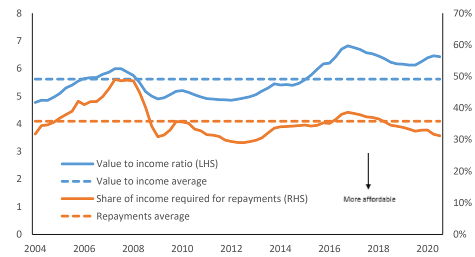
Of course, much of that is to do with super-low mortgages rates. It's interesting that after tracking each other closely from 2004 to 2012, a gap has since opened up between mortgage rates and the share of income required to service the debt (see the second chart). In other words, without low mortgage rates, the debt servicing requirement for existing home-owners would be much more onerous than it is (albeit actual house prices/loan sizes might not be as high either).

However, switching to look at affordability measures for non-homeowners (or aspiring buyers) we can see the situation looks much tougher. The number of years required to save a deposit has risen back to 8.6 in Q3, up from 8.2 a year ago and well above the long term average of 7.5 (see the third chart). The share of income required to pay the rent has also ticked higher in recent quarters, adding to the difficulty of saving the deposit for those that aspire to own a house.

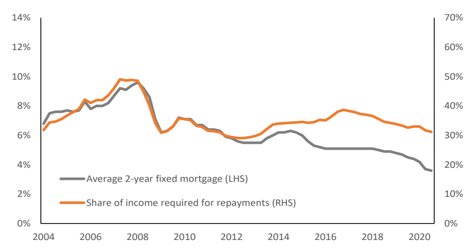
In other words, the homeowner vs non-owner 'divide' has started to widen again in recent months, as the property market has rebounded after lockdown. Our affordability measures, however, also help to reiterate one of the obvious solutions, which is to keep building more houses. Indeed, as the fourth chart shows, Christchurch's years to save a deposit (6.7) and rental affordability measures are less stretched. After the earthquakes, more flexible planning rules have clearly allowed supply to respond more readily in Christchurch (and the surrounding areas), and this has been associated with flatter property values and less strain on housing affordability.

Overall, with property prices looking set to rise further in 2021, the politics of the market are unlikely to die down anytime soon.

NZ affordability measures (Source: CoreLogic)



Mortgage rates and servicing cost (Source: CoreLogic)



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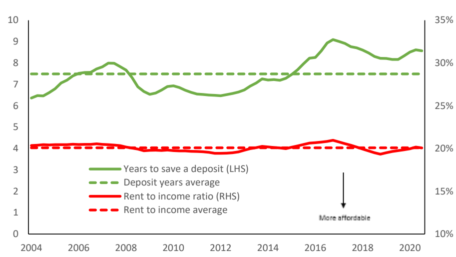
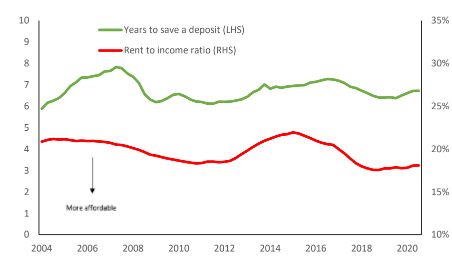


Christchurch affordability measures (Source: CoreLogic)



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