

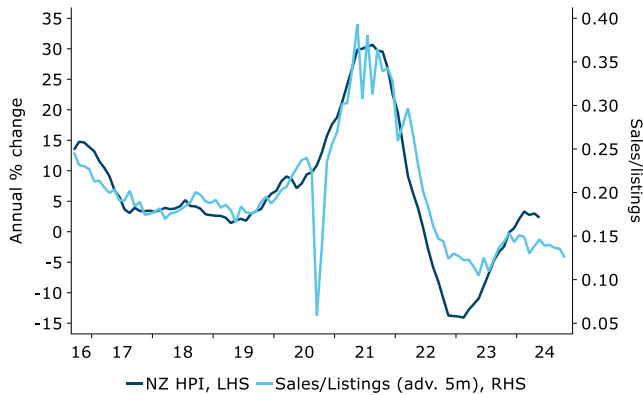
New Zealand Property Focus

On ice



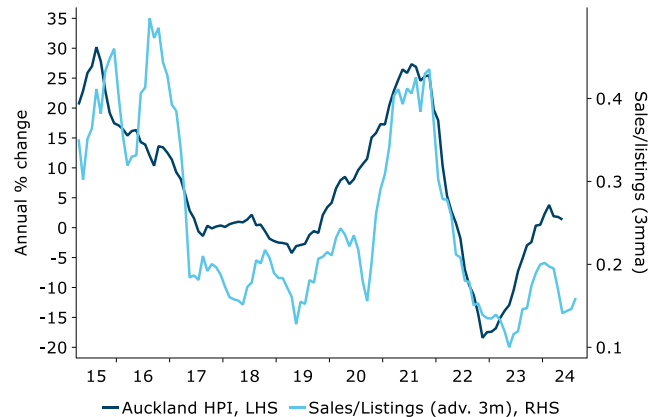
At a glance

The sales to listings ratio is sagging nationally...

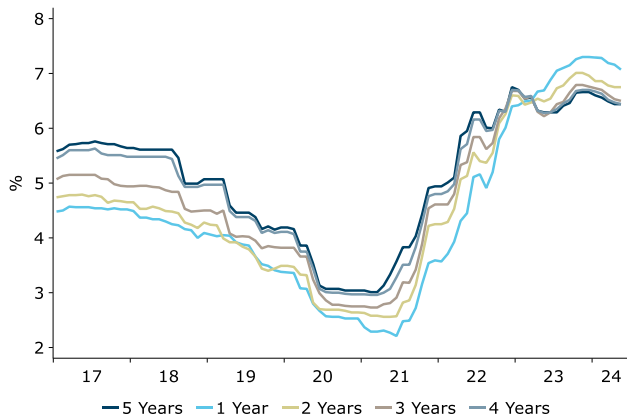


Source: REINZ, Realestate.co.nz, Macrobond, ANZ Research

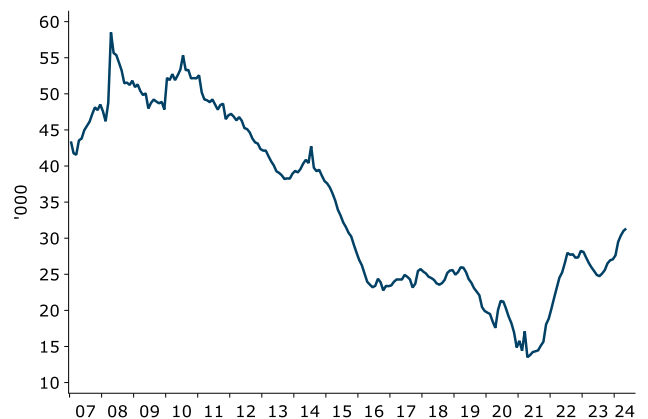
... but recovering in Auckland



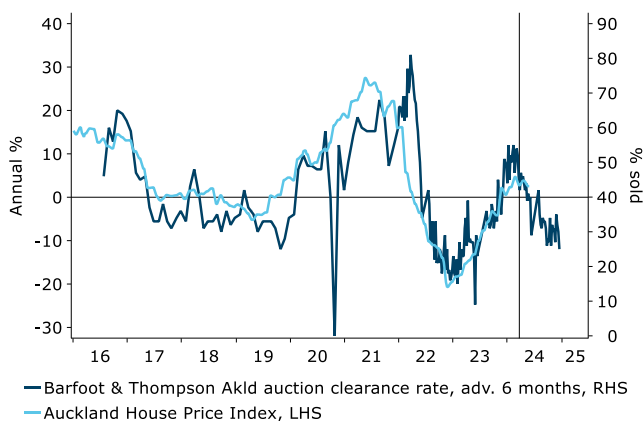
Mortgage rates are pretty stable



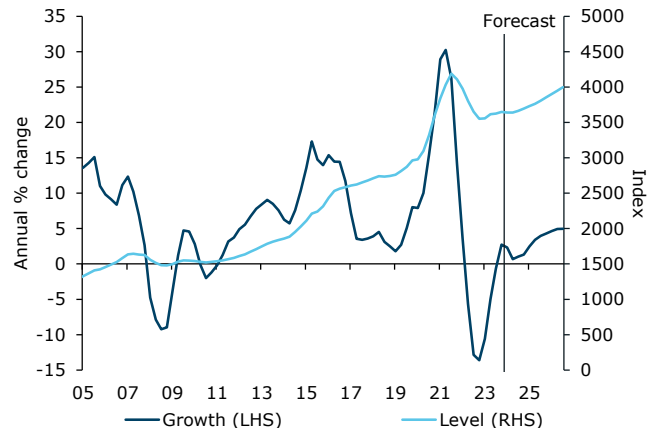
Buyers have plenty of choice



Auckland auction action suggests price inflation will continue to ease



We've revised down our house price forecast a little



Source: REINZ, Stats NZ, RBNZ, realestate.co.nz, Barfoot & Thompson, Macrobond, ANZ Research

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ISSN 2624-0629

Publication date: 26 June 2024

Summary

Our monthly *Property Focus* publication provides an independent appraisal of recent developments in the residential property market.

Property Focus

Following May's weaker-than-expected REINZ data and taking signal from the forward indicators, we've downgraded our house price forecast slightly. We now expect house prices to rise just 1% this year vs 3% previously. It's worth noting that while a downgrade from 3% y/y to 1% y/y could give the impression that we're able to forecast the housing market with a high degree of precision, we can't, and nor can anyone else. But we've crossed a threshold warranting a forecast update, and the upside and downside risks feel more balanced around a 1% y/y rise this year than a 3% lift. In the big picture, this is only a tweak to our forecast, and it is probably best thought of as a slight delay to what we were previously expecting: modest growth, with gradually falling mortgage rates offset by softening household income prospects (including job security fears) as the labour market cools. But as always, there's a lot more to the housing outlook than that! See the [Property Focus](#) section.

Mortgage Borrowing Strategy

Mortgage rates are unchanged on average compared to last month, and so is the OCR, which has been at 5.50% since May last year. One thing that has changed has been our OCR forecast – we now expect cuts to begin in February. That's earlier than we were forecasting a month ago, even as the RBNZ itself has pushed out its estimate to August next year. Earlier rate cuts would be good news for borrowers from an interest expense perspective, but we are mindful that the reason for earlier cuts – the weaker economy – is not a reason to cheer. While there are never any guarantees, confidence is growing that the peak in mortgage rates is behind us and that they will fall over coming quarters as wholesale rates drift lower. That lends itself to borrowers fixing a portion of debt for a shorter term now, with a plan to re-fix again once rates have fallen. In that regard, the 6mth may be a contender, as it would allow you to fix again soon, but for less, if indeed mortgage rates do fall. See our [Mortgage Borrowing Strategy](#).



Summary

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Forecast update: slight downgrade

The mild downside risks to our house price forecast we've been flagging in recent editions appear to be materialising. And while it's certainly still possible, we've concluded that our previous house price forecast for a 3% y/y rise (3mma) come end-2024 looks like a real stretch at this point.

We are now pencilling in a 1% rise in house prices over this year, baking in the weaker-than-expected May [release](#), and assuming house prices go broadly sideways over the next few months, before rising very gradually towards the end of the year.

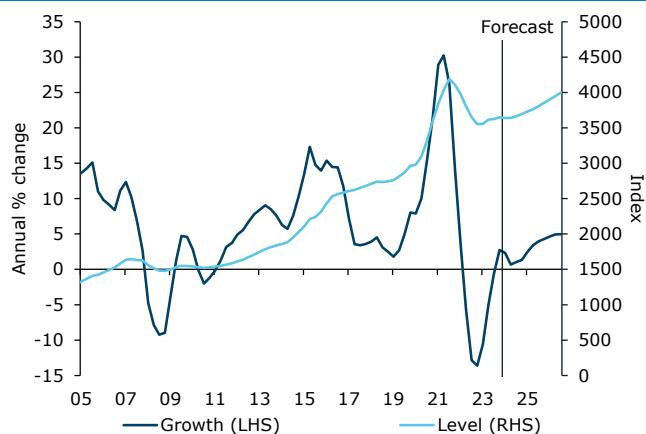
It's worth noting that while a downgrade from 3% y/y to 1% y/y could give the impression that we're able to forecast the housing market with a high degree of precision, we can't, and nor can anyone else. But we've crossed a threshold warranting a forecast update, and the upside and downside risks feel more balanced around a 1% y/y rise this year than a 3% lift.

For 2025, we are pencilling in a 4% y/y lift (previously 5%), and we maintain our prior 2026 forecast of 5% y/y. Figure 1 shows our updated forecast.

In the big picture, this is only a tweak to our forecast, and it is probably best thought of as a slight delay to what we were previously expecting: modest growth, with gradually falling mortgage rates offset by softening household income prospects (including job security fears) as the labour market cools. Of course, there's a lot more going on than that: there's net migration (not just its level but also its composition is hugely important), housing policy and tax changes, affordability constraints, and housing supply fundamentals also pushing and pulling on the market,

and all with the potential to have much larger impacts than our forecast assumes.

Figure 1. House price forecast



Source: REINZ, ANZ Research

Taking signal from a number of forward indicators, including slightly softer housing momentum in recent months, we have recently downgraded our near-term [GDP forecast](#) too. All else equal, weaker overall economic momentum tilts the balance of risks towards a slightly earlier start to Official Cash Rate (OCR) cuts than our forecast of cuts commencing February 2025. We certainly see rate cuts coming earlier than the RBNZ's own estimate of August next year.

Ultimately, it'll be the RBNZ's assessment of CPI inflation pressures that determines where the OCR goes, and on that front, there aren't nearly enough runs on the board just yet. But it's the market's assessment of where the OCR is going that is the biggest determinant of swap yields out to at least a couple of years. The market is pricing a full 25bp cut in November this year, with a bigger chance of the RBNZ cutting 50bp than not cutting that month. The RBNZ can influence what the market thinks, but not control it, so if activity or inflation comes in weak over coming months – and particularly if it comes in weaker than the RBNZ's published forecasts – fixed mortgage rates could start to fall well in advance of any actual cuts to the OCR. A weaker-than-expected housing market could be part of that story, though it would be very unlikely to move the dial on its own.

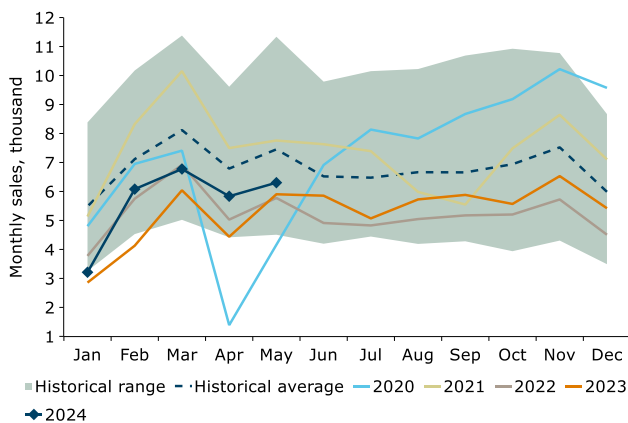
A roundup of where we're at

The REINZ house price index fell 0.4% m/m in May (ANZ seasonal adjustment). It was a soggy month for most of the country, with weakness led by Gisborne/Hawke's Bay (-2.2% m/m), Waikato (-1.3%), and Bay of Plenty (-1.1%). Price declines in the main centres were relatively modest, with Auckland, Canterbury and Wellington all down just 0.1% m/m. Manawatu/Whanganui was the only region to report a monthly rise, up 0.3% m/m.



House sales rose in raw terms but less than they typically do, meaning that they fell a chunky 9.5% in seasonally adjusted terms. Sales were well below average for the month of May, albeit they continue to run higher than the same month in 2022 or 2023 (figure 2).

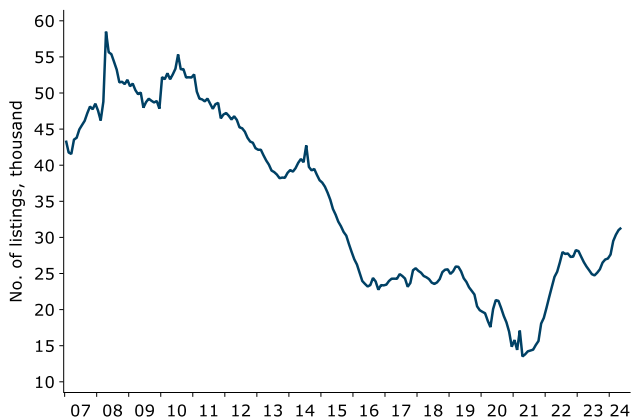
Figure 2. Unadjusted sales versus range from 1992



Source: REINZ, Macrobond, ANZ Research

Inventories continue to lift, suggesting downward pressure on prices will continue for a while yet (figure 3). If you go for a jog around your 'burb' the degree of choice for buyers is clear.

Figure 3. Available listings

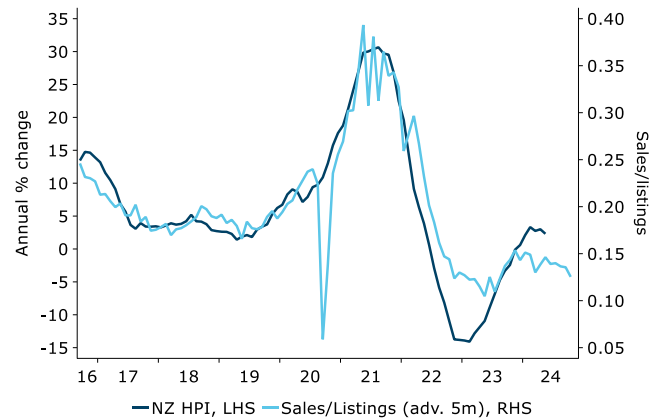


Source: realestate.co.nz, Macrobond, ANZ Research

The ratio of sales to listings is a useful measure of the heat in the housing market, as it reflects both supply (new listings and inventories) and demand (sales). Depending on how much you smooth the data (we often use a three-month moving average), this indicator can provide a three-to-six month lead on house price momentum.

As figure 4 shows, the overall story from this indicator is currently one of very little momentum.

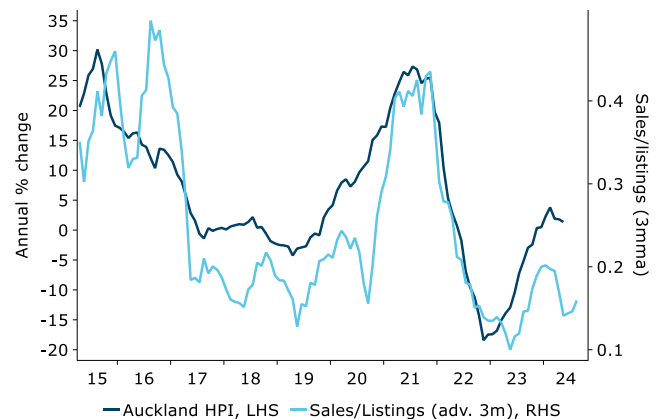
Figure 4. Nationwide sales to listing ratio vs house prices



Source: REINZ, realestate.co.nz, Macrobond, ANZ Research

It's worth zooming in on Auckland, as it is New Zealand's largest housing market and often the canary in the coalmine for national trends. Here, the Barfoot and Thompson sales/listings data has found a floor in the past couple of months and has started to lift again (figure 5). Overall, however, it remains at subdued levels, and is suggesting soft price momentum has a way to play out yet.

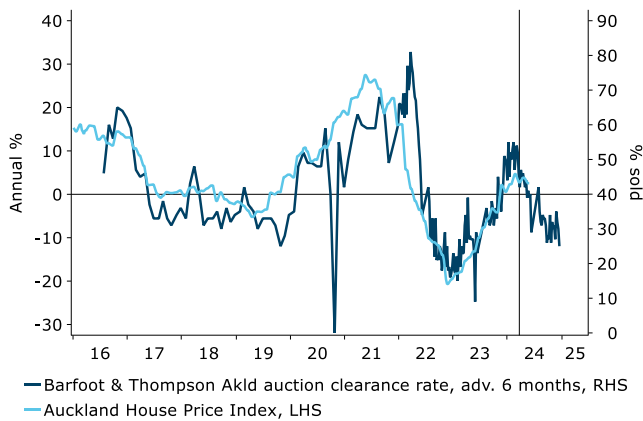
Figure 5. Auckland sales to listing ratio vs house prices



Source: REINZ, Barfoot & Thompson, Macrobond, ANZ Research

Auction clearance rates for Auckland provide even more lead time on where prices are headed, as turning points here tend to lead sales by a couple of months, which lead prices by a few months. They're a bit noisy, and don't always track perfectly. But for the record they are bouncing around at fairly subdued levels, suggesting the power remains with buyers (figure 6) and that there will remain downward pressure on Auckland (and indeed national) annual house price inflation for some months yet. We don't forecast house prices at the regional level, but this is consistent with our updated national house price forecast. Auckland is so big it does tend to dominate the national statistics.

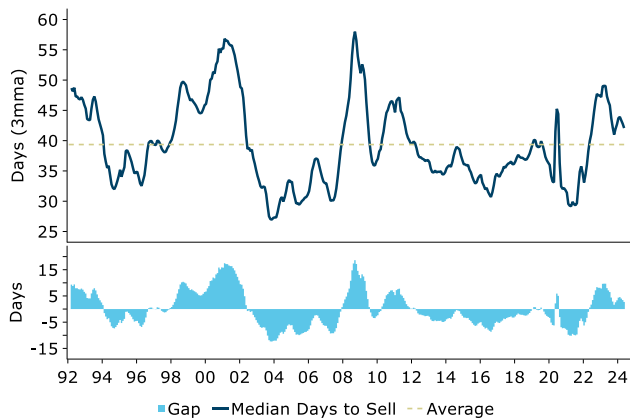
Figure 6. Auckland auction clearance rates



Source: REINZ, B&T, interest.co.nz, Macrobond, ANZ Research

The number of days it is taking houses to sell also provides a gauge on the tightness of the national housing market, and this indicator is still sitting on the “loose” side of neutral, though less than it was. On a three-month moving average basis, it was taking 2.7 days longer to sell a house in May compared to the historical average (figure 7). In Auckland, it was taking 6.9 days longer than average, 0.7 days longer than average in Wellington, and 2.8 days quicker than average in Canterbury. The latter is consistent with other indicators suggesting that population growth is resulting in more resilience in the Christchurch housing market currently than is evident elsewhere.

Figure 7. Days to sell vs average



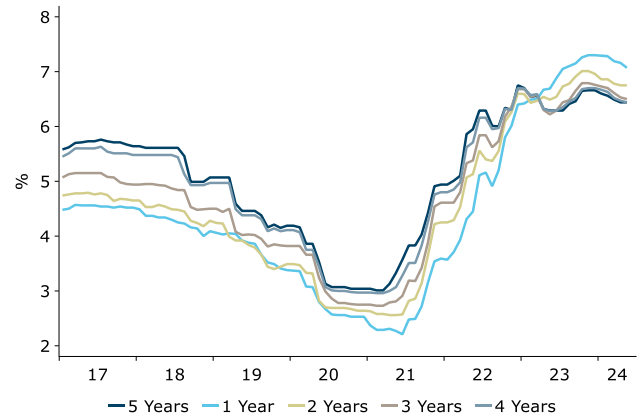
Source: REINZ, Macrobond, ANZ Research

Headwinds and tailwinds

Let’s take a quick look at how the key headwinds and tailwinds have evolved since our last edition.

Interest rates: Pretty flat (figure 8). As we outlined on page 4, bad news is good news for interest rates coming down, but the market is prodding rather than running away with the idea of rate cuts at this point.

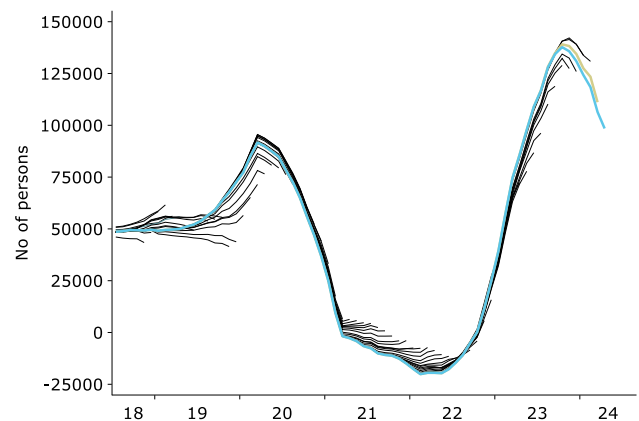
Figure 8. Fixed mortgage rates



Source: RBNZ, Macrobond, ANZ Research

Net migration: Population growth is a tailwind for the housing market, though an easing one. It is less likely to be significant for house prices than the immigration cycles of the 1990s and 2000s, as there is now a foreign buyer ban, and this wave of immigrants has skewed more towards low-skilled workers. But the data is prone to enormous revisions, and these aren’t random: estimates tend to get revised up on the way up, and revised down on the way down (figure 9). It therefore wouldn’t surprise us if it turned out that the migration tailwind is fading faster than currently estimated. It’s also worth noting that if we are exporting higher-income workers then net migration could even be a net negative for house prices even if net migration itself is positive.

Figure 9. Net migration data vintages

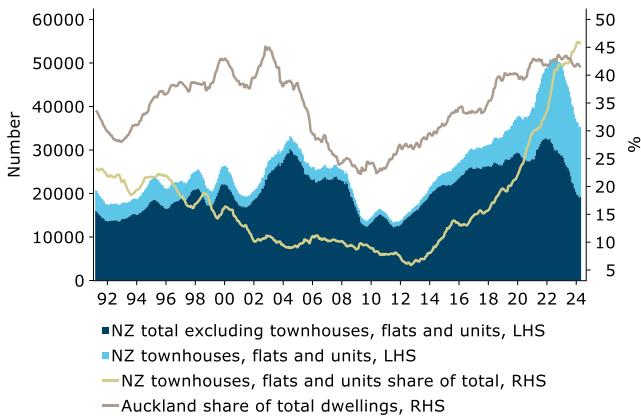


Source: Stats NZ, Macrobond, ANZ Research



Housing supply: The total number of consents issued has fallen steadily but is showing signs of stabilising recently (figure 10). It certainly needs to if we're going to have a hope of housing all these new migrants. Even if people aren't in a legal or financial position to buy a house, they need somewhere to live.

Figure 10. Annual consents by type



Source: Stats NZ, Macrobond, ANZ Research

Rising unemployment: Our forecast continues to be for the unemployment rate to rise to a peak of 5.5% in late 2025. In an environment of rising unemployment, job security can be a deterrent for would-be home buyers, and job loss can put some people in a must-sell situation.

Policy changes: The reduction in the Bright Line Test to 2 years kicks in this week. Any surge in listings seems likelier in spring than imminently. Tax cuts kick in at the end of July. The tweaks are certainly not going to change the affordability equation for anyone. The easing in LVR limits from 1 July is not immediately particularly relevant in such a soft market, and the debt-to-income limits are unlikely to become materially binding until interest rates come down.

Overall, the housing market remains orderly, with very few forced sales, steady if lowish sales, plenty of choice for buyers, a steady adjustment in sellers' expectations to meet buyers, and pretty stable interest rates. While sellers and real estate agents would no doubt prefer a little more verve, it is contributing to at least no worsening in housing affordability, and isn't standing in the way of OCR cuts. A zingy housing market would most definitely fall into the category of "be careful what you wish for".

Housing market indicators for May 2024 (based on REINZ data seasonally adjusted by ANZ Research)

	Median house price			House price index		Sales		Average days to sell
	Level	Annual % change	3-mth % change	Annual % change	3-mth % change	# of monthly sales	Monthly % change	
Northland	\$672,936	-6.3	-4.0	-2.3	-0.9	152	-11%	69
Auckland	\$1,031,638	3.0	1.7	1.4	-1.0	1,665	-15%	44
Waikato	\$741,337	-1.0	-1.2	0.0	-0.8	576	-3%	51
Bay of Plenty	\$821,243	2.6	0.5	0.9	-0.6	350	-6%	49
Gisborne	\$584,920	-1.6	6.6	0.2	0.9	45	+4%	44
Hawke's Bay	\$683,172	1.3	2.7	0.2	0.9	150	-29%	45
Manawatu-Wanganui	\$560,844	6.2	4.3	2.4	0.3	271	-2%	44
Taranaki	\$599,914	7.9	-0.7	-0.2	-1.0	135	-11%	40
Wellington	\$780,936	-0.9	1.3	4.4	0.0	596	-2%	36
Tasman, Nelson & Marlborough	\$721,205	-2.3	0.1			171	-20%	48
Canterbury	\$684,462	4.7	0.7	4.1	1.1	1,011	-1%	33
Otago	\$657,412	-1.9	1.7	6.4	0.9	294	-17%	42
West Coast	\$388,234	14.3	16.8	2.4	0.9	49	+25%	59
Southland	\$449,846	2.1	0.8	7.4	1.7	130	-4%	32
New Zealand	\$773,605	-1.3	-0.2	2.3	-0.1	5,558	-9%	42



Mortgage borrowing strategy

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Summary

Mortgage rates are unchanged on average compared to last month, and so is the OCR, which has been at 5.50% since May last year. One thing that has changed has been our OCR forecast – we now expect cuts to begin in February. That's earlier than we were forecasting a month ago, even as the RBNZ itself has pushed out its estimate to August next year. Earlier rate cuts would be good news for borrowers from an interest expense perspective, but we are mindful that the reason for earlier cuts – the weaker economy – is not a reason to cheer. While there are never any guarantees, confidence is growing that the peak in mortgage rates is behind us and that they will fall over coming quarters as wholesale rates drift lower. That lends itself to borrowers fixing a portion of debt for a shorter term now, with a plan to re-fix again once rates have fallen. In that regard, the 6mth may be a contender, as it would allow you to fix again soon, but for less, if indeed mortgage rates do fall.

Mortgage rates haven't changed on average since last month, and nor has the OCR. Wholesale rates are down a touch, and we expect them to continue falling gradually in anticipation of OCR cuts. In that regard, note that we have recently changed our forecasts, and now expect the first cut to come in February (from May previously). Forward indicators of economic activity are now really starting to roll over, which could even pave the way for cuts later this year. However, the RBNZ will need to see much more solid progress on bringing non-tradable inflation down before entertaining that idea – they currently don't expect to cut the OCR until August 2025!

While we are mindful that the past few years have thrown up many surprises, emphasising the need to both keep an open mind and hedge bets, we and the market are growing more confident that mortgage rates have peaked, and are set to decline in a more meaningful way over coming quarters. RBNZ data shows that fixed rates for all terms are off their peaks, but wholesale rates have oscillated this year, rather than being in a distinct downtrend. But what we anticipate in coming months is the eventual emergence of a downtrend in wholesale rates that will lead to more significant falls in mortgage rates. Falls are likely to be more gradual at first, as we have seen year to date, but if our call for a February start to the easing cycle is right, falls in mortgage rates will become more meaningful as we get nearer year-end and into next year.

That outlook is not without risks: many economists and the market have had to push out over-optimistic rate cut expectations. But the outlook is evolving rapidly, and we think it won't be too long before mortgage rates are noticeably lower, which suggests fixing for a shorter term could work well. As always, a mix of terms, while ruling out completely nailing it, also rules out the worst-case scenario, which has real value. A portion fixed for longer always provides certainty. But for many, the focus will be on trying to minimise interest costs after a year of seeing 1yr carded rates above 7%, and in many cases, paying rates up or near that level.

There isn't much separating 6mth and 1yr rates. The 6mth costs a little more, but gives the option of re-fixing sooner, and if rates do fall quickly, it may work out cheaper over the long term. A 6mth fix will be due for renewal just before Christmas.

Breakevens show that interest rates don't need to fall too far for fixing for a shorter period to be worthwhile in the long run, even though it costs more now. For example, the 1yr rate (currently 7.17%) only needs to fall to 6.38% in a year's time for back-to-back 1yr fixes to work out cheaper than fixing for 2yrs at 6.77%. Our mortgage rate projections (based on our wholesale rate forecasts) are consistent with that occurring – we are projecting the 1yr mortgage rate to be around 5.7% next June.

Figure 1. Carded special mortgage rates[^]

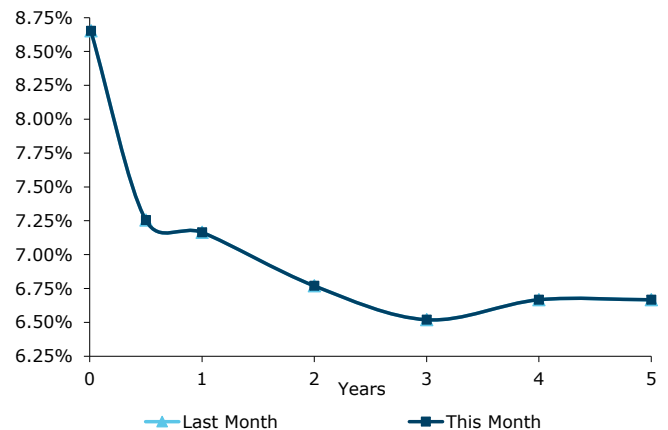


Table 1. Special Mortgage Rates[#]

Term	Breakevens for 20%+ equity borrowers				
	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	8.65%				
6 months	7.26%	7.08%	6.39%	6.37%	6.15%
1 year	7.17%	6.73%	6.38%	6.26%	6.02%
2 years	6.77%	6.49%	6.20%	6.36%	6.57%
3 years	6.52%	6.48%	6.50%	6.55%	6.60%
4 years	6.67%	6.59%	6.54%		
5 years	6.67%	# Average of "big four" banks			

Source: interest.co.nz, ANZ Research.



Key forecasts

Weekly mortgage repayments table (based on 30-year term)

	Mortgage Rate (%)													
	5.50	5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50	7.75	8.00	8.25	8.50	8.75
200	262	269	277	284	292	299	307	315	323	330	338	347	355	363
250	327	336	346	355	364	374	384	393	403	413	423	433	443	454
300	393	404	415	426	437	449	460	472	484	496	508	520	532	544
350	458	471	484	497	510	524	537	551	564	578	592	606	621	635
400	524	538	553	568	583	598	614	629	645	661	677	693	709	726
450	589	606	622	639	656	673	690	708	726	744	762	780	798	816
500	655	673	691	710	729	748	767	787	806	826	846	866	887	907
550	720	740	760	781	802	823	844	865	887	909	931	953	975	998
600	786	807	830	852	875	897	921	944	968	991	1,015	1,040	1,064	1,089
650	851	875	899	923	947	972	997	1,023	1,048	1,074	1,100	1,126	1,153	1,179
700	917	942	968	994	1,020	1,047	1,074	1,101	1,129	1,157	1,185	1,213	1,241	1,270
750	982	1,009	1,037	1,065	1,093	1,122	1,151	1,180	1,209	1,239	1,269	1,299	1,330	1,361
800	1,048	1,077	1,106	1,136	1,166	1,197	1,227	1,259	1,290	1,322	1,354	1,386	1,419	1,452
850	1,113	1,144	1,175	1,207	1,239	1,271	1,304	1,337	1,371	1,404	1,438	1,473	1,507	1,542
900	1,178	1,211	1,244	1,278	1,312	1,346	1,381	1,416	1,451	1,487	1,523	1,559	1,596	1,633
950	1,244	1,278	1,313	1,349	1,385	1,421	1,458	1,495	1,532	1,570	1,608	1,646	1,685	1,724
1000	1,309	1,346	1,383	1,420	1,458	1,496	1,534	1,573	1,613	1,652	1,692	1,733	1,773	1,814

Mortgage rate projections (historic rates are special rates; projections based on ANZ's wholesale rate forecasts)

Interest rates	Actual			Projections						
	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Floating Mortgage Rate	8.6	8.6	8.6	8.7	8.7	8.7	8.4	7.9	7.4	6.9
1-Yr Fixed Mortgage Rate	7.2	7.3	7.2	7.3	7.0	6.5	6.0	5.7	5.6	5.5
2-Yr Fixed Mortgage Rate	6.9	7.0	6.8	6.8	6.5	6.1	5.8	5.6	5.5	5.5
3-Yr Fixed Mortgage Rate	6.7	6.8	6.6	6.5	6.3	6.0	5.8	5.6	5.5	5.5
5-Yr Fixed Mortgage Rate	6.5	6.7	6.5	6.7	6.5	6.2	6.0	5.8	5.7	5.7

Source: RBNZ, ANZ Research

Economic forecasts

Economic indicators	Actual			Forecasts						
	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
GDP (Annual % Chg)	-0.6	-0.2	0.3	-0.3	0.2	0.5	0.6	1.1	1.4	1.8
CPI Inflation (Annual % Chg)	5.6	4.7	4.0	3.5	2.8	2.6	2.4	2.2	2.0	2.0
Unemployment Rate (%)	3.9	4.0	4.3	4.6	4.9	5.1	5.2	5.4	5.4	5.5
House Prices (Quarter % Chg)	1.7	0.3	0.6	-0.2	0.0	0.6	0.9	0.9	0.9	1.2
House Prices (Annual % Chg)	-5.0	-0.7	2.7	2.3	0.7	1.0	1.3	2.5	3.4	4.0

Interest rates	Sep-23	Dec-23	Mar-24	Current	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Official Cash Rate	5.50	5.50	5.50	5.50	5.50	5.50	5.25	4.75	4.25	3.75
90-Day Bank Bill Rate	5.74	5.64	5.64	5.62	5.52	5.40	4.93	4.43	3.93	3.68
10-Year Bond	5.31	4.32	4.56	4.57	4.50	4.25	4.25	4.25	4.25	4.50

Source: ANZ Research, Statistics NZ, RBNZ, REINZ



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Last updated: 20 February 2024

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