

New Zealand Property Focus

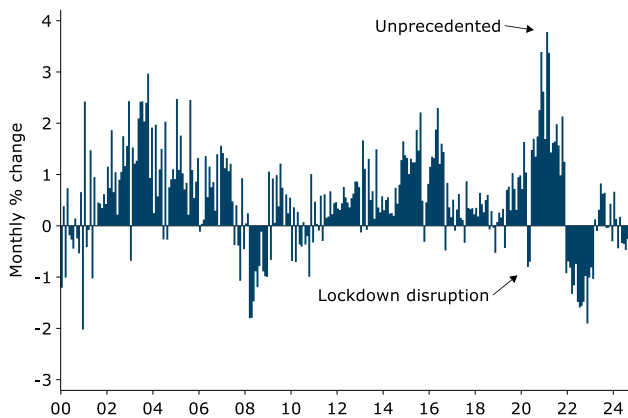
Yet to blossom



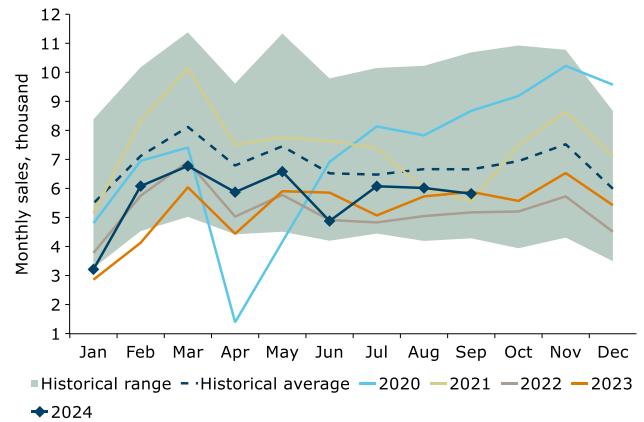


At a glance

House prices lifted in September for the first time since April...



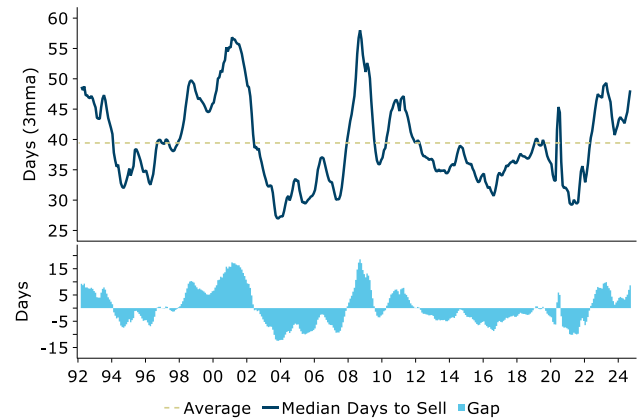
... but sales volumes remained subdued...



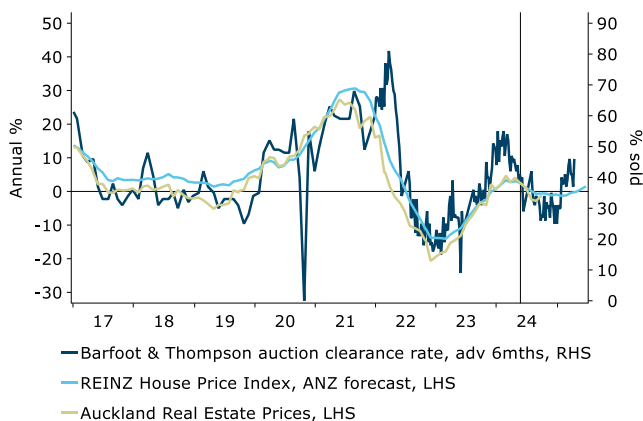
...against still-rising inventory



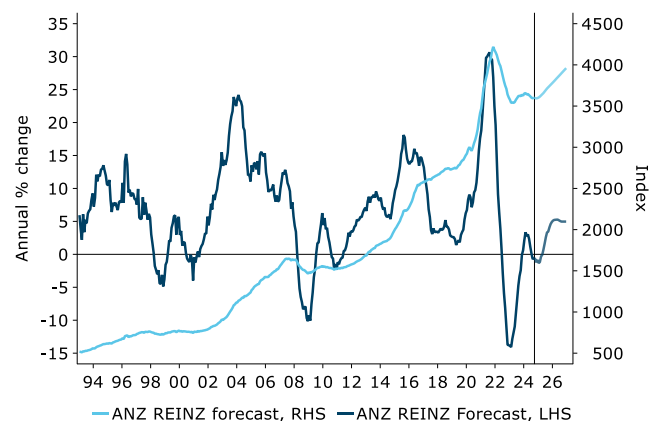
Days to sell continued to rise



Auction clearance rates suggest activity has picked up



We expect a gradual recovery in house prices over 2025



Source: REINZ, Barfoot & Thompson, interest.co.nz, realestate.co.nz, Macrobond, ANZ Research

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Confused by acronyms or jargon? See a glossary [here](#).

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Summary

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

Property Focus

The REINZ House Price Index lifted in September for the first time since April, but underlying housing momentum remained sluggish. Sales volumes fell, days to sell lifted and the number of listings on the market rose further. There is significant uncertainty around the likely pace of recovery in the housing market as mortgage rates continue to decline, with plenty for forecasters to weigh up: falling mortgage rates, rising unemployment, a fundamental undersupply of houses, changes in tax policy, affordability constraints, and of course “animal spirits”. We certainly see two-sided risk around our forecast for house prices to stabilise around the end of this year and rise 4.5% over 2025.

See our [Property Focus](#).

Mortgage Borrowing Strategy

Mortgage rates generally fell again in October, led by floating rates, which fell by 0.50%, matching the size of the RBNZ’s OCR cut. Large falls were also seen in median 6mth and 1yr rates (down 0.36% and 0.30% respectively), but 2yr and 3yr rates fell only 0.10%, and 4yr and 5yr rates were unchanged. RBNZ fixing data shows that 6mth was the most popular term in August, overtaking 1yr terms, which remain more popular than 2yr terms. While 6mth rates are higher than 1yr rates, and 1yr rates are higher than 2yr rates, paying more over the short run so as to be able to fix for longer later (at a hopefully lower rate) has some merit in an environment where interest rates are falling, and we think it’s again worth considering this month. But caution is needed; we are inching closer to the point where mortgage rates are likely to find a base. Markets are already pricing in OCR cuts all the way down to 3%, which is below our forecast, so timing will be key for anyone who wants to pick the proverbial bottom. As always, fixing for a mix of terms is one sure way to spread risk. See our [Mortgage Borrowing Strategy](#).



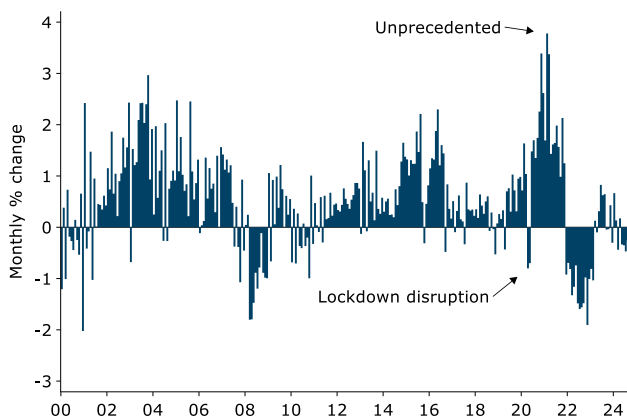
Summary

The REINZ House Price Index lifted in September for the first time since April, but underlying housing momentum remained sluggish. Sales volumes fell, days to sell lifted and the number of listings on the market rose further. There is significant uncertainty around the likely pace of recovery in the housing market as mortgage rates continue to decline, with plenty for forecasters to weigh up: falling mortgage rates, rising unemployment, a fundamental undersupply of houses, changes in tax policy, affordability constraints, and of course “animal spirits”. We certainly see two-sided risk around our forecast for house prices to stabilise around the end of this year and rise 4.5% over 2025.

Yet to blossom

The REINZ House Price Index lifted 0.3% m/m in September, the first monthly gain since April. However, indicators of underlying momentum remained soggy, with sales volumes falling, days to sell rising and the number of listings on the market continuing to lift. In that sense, the modest lift in house prices was unexpected, and we don’t believe September marked the start of a meaningful upswing in prices. We remain of the view that house prices will stabilise around the turn of the year, and a gradual recovery will follow over 2025. Ultimately, a sustained increase in house prices will require a meaningful lift in sales volumes to clear the backlog of listings on the market.

Figure 1. Monthly house price inflation (sa)

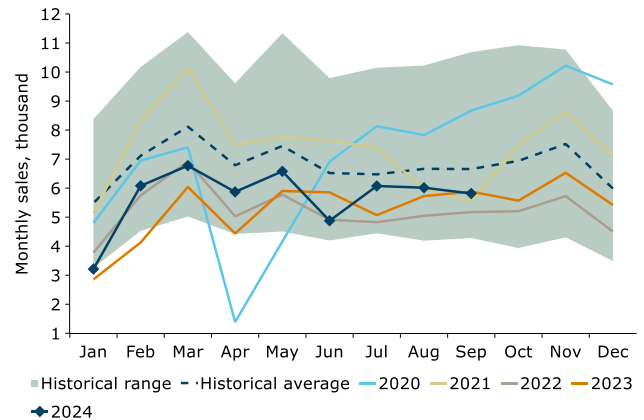


Source: REINZ, Macrobond, ANZ Research

Sales volumes fell 2.3% m/m (sa) in September and remain well below the historical average level. We expect to see sales activity pick up over the coming months as lower interest rates entice buyers into the market. That’s certainly been reflected in anecdotes signalling a meaningful lift in mortgage lending enquiries over the past few months. But to what extent – and when – prospective buyers follow through remains uncertain. Buying a house isn’t an

effortless process. Finding the right property, securing finance and negotiating the price takes time. October and November tend to see a seasonal lift in activity in the market, and whether we see the usual lift will serve as a big test of housing momentum into 2025.

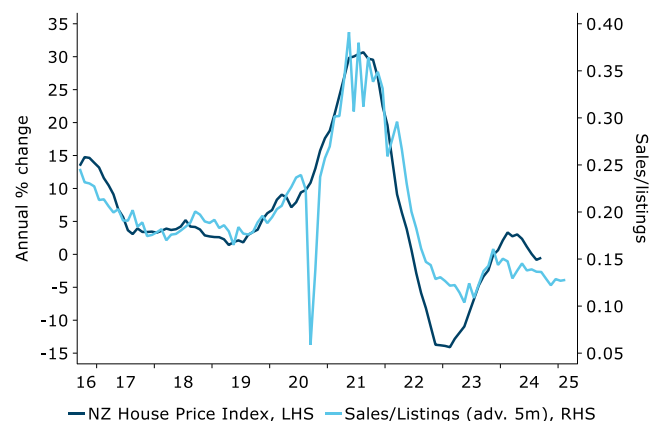
Figure 2. Sales relative to history



Source: REINZ, 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). It tends to give a 3-6 month lead on house price momentum. Given past weakness in sales and rising new listings coming onto the market, a backlog of inventory has been generated. The total number of listings on the market is currently at the highest level in nearly a decade, and given ample choice for buyers, the bargaining power sits with buyers currently. The nationwide sales-to-listings ratio suggests housing momentum remains southbound.

Figure 3. NZ sales-to-listings ratio vs house prices

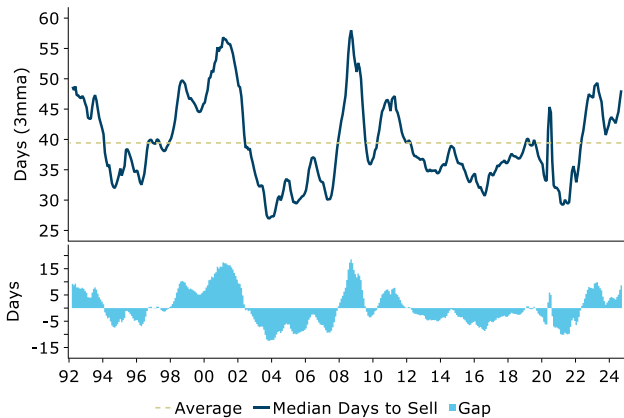


Source: REINZ, realestate.co.nz, Macrobond, ANZ Research

The number of days to sell a property is also a useful indicator of market tightness. In September, the number of days to sell rose 2 to 48, well above the long-run average of 39, suggesting the market is well into “loose” territory.



Figure 4. Days to sell

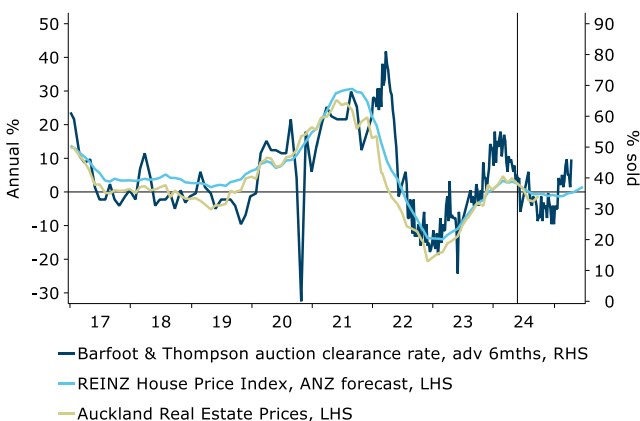


Source: REINZ, Macrobond, ANZ Research

All up, while the lift in house prices in September suggests the floor is approaching, the market remains fairly loose for now. Until the market shows signs of tightening, a meaningful upswing in house prices isn't likely to emerge. We expect that to become clearer over the coming months, but prices may bounce along the bottom for a few months yet.

While underlying momentum remains soft, there are signs that activity is picking up. One of the timelier indicators of housing market momentum, the auction clearance rate, has remained fairly stable following the bounce from late July. The auction clearance rate tends to give a three-month lead on sales and a six-month lead on prices, and the signal is broadly consistent with our forecast.

Figure 5. Auction clearance rate

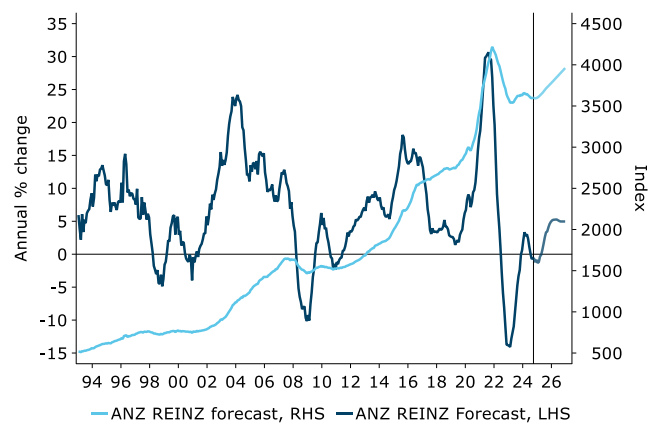


Source: REINZ, B&T, interest.co.nz, Macrobond, ANZ Research

There is significant uncertainty around the likely pace of recovery in the housing market as mortgage rates continue to decline, with plenty for forecasters to weigh up: falling mortgage rates, rising unemployment, a fundamental undersupply of houses but high listings, favourable changes in tax policy, affordability constraints, and of course "animal spirits" (ie the tendency for the housing market to

break away from "the fundamentals", with sentiments such as "fear of missing out" or "fear of overpaying" inducing a degree of volatility that's difficult to see coming and incorporate into a forecast). For now, the housing market's animal spirits appear to be sleeping, but anecdote suggests buyer interest has picked up meaningfully since the RBNZ started cutting the OCR, which is perhaps a signal that there might be a "buy the dip" mentality forming. We certainly see two-sided risk around our forecast for house prices to stabilise around the end of this year and rise 4.5% over 2025. To gauge the risks to our forecasts, let's take a quick look at how the various headwinds and tailwinds have evolved since our last edition.

Figure 6. House price forecast

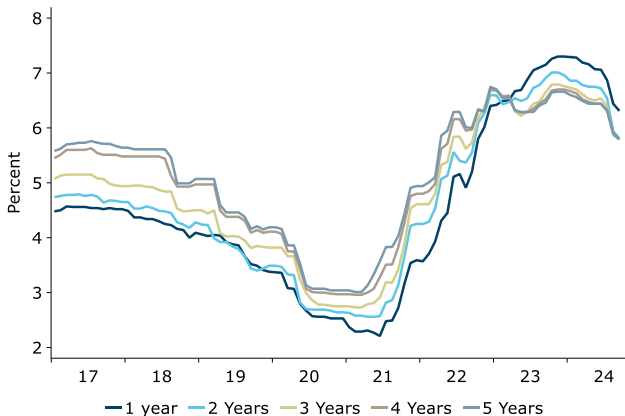


Source: REINZ, Macrobond, ANZ Research

Interest rates have continued to fall since our last edition, supported by the RBNZ's decision to step up the pace of easing and deliver a 50bp cut at its October meeting. We expect the RBNZ to deliver another 50bp cut in November to take the OCR to 4.25%. As the OCR returns closer to a neutral level, we expect the RBNZ to step down the pace to 25bp cuts over the first half of 2025, with the OCR ultimately falling to 3.5% by the middle of next year. Our OCR forecast would be consistent with mortgage rates stabilising around 5-5.5%; however, the bulk of the adjustment has already occurred with rates already nearing that range for longer tenors.



Figure 7. Fixed term mortgage rates



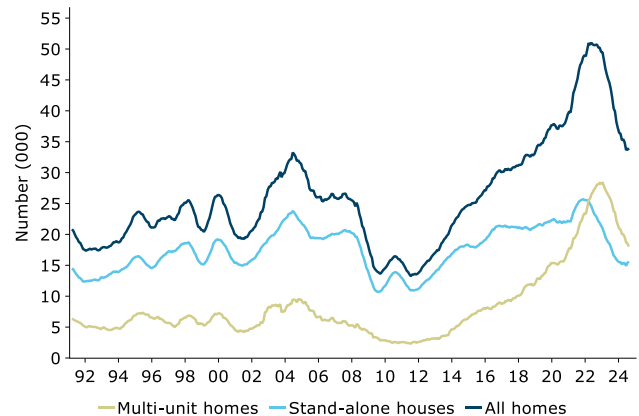
Source: RBNZ, Macrobond, ANZ Research

Rising unemployment stands as a significant headwind to the housing market recovery. The labour market tends to lag the broader economic cycle, meaning labour market conditions will continue to deteriorate well into next year. We expect the unemployment rate to peak at around 5.5% in the second half of next year. While not everyone is impacted directly by rising unemployment, it tends to flow through to confidence more broadly. That was evident in [consumer confidence](#) declining this month after three months of improvement, likely a reflection of rising job insecurity fears.

Slowing population growth also poses a headwind for the housing market. Reflecting weakening labour market conditions, net migration inflows have cooled rapidly. Annual net migration inflows have fallen from a peak of around 137k in October 2023 to 54k in August this year. We expect the annual inflow to continue to fall to around 20-25k in 2025, below the average of the decade pre-COVID.

Housing supply is also slowing on the back of restrictive interest rate settings over the past few years, which have weighed heavily on construction activity. All else equal, weaker housing supply will add upward pressure to house prices. While building consents look to be finding a floor, the decline has been significant, with annual consents down around 34% from their peak in early 2022. That's an impressive fall, but the peak was very impressive too: consents look to have troughed at a higher level than in the recession following the Global Financial Crisis.

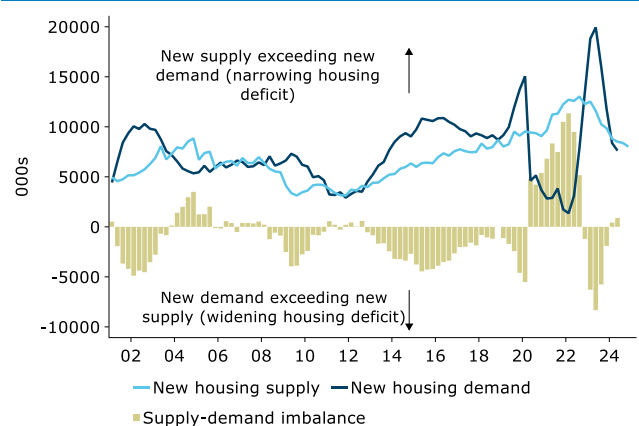
Figure 8. Annual building consents



Source: Stats NZ, Macrobond, ANZ Research

Ultimately, the imbalance between supply and demand is what matters for house prices in the long run. The surge in migration over the past two years in conjunction with the slowdown in residential construction has resulted in New Zealand's housing deficit widening once again. While the sharp cyclical fall in net migration has offset the impacts of slowing supply in recent quarters, the fundamental undersupply of housing is likely to continue to support the structural upward trend in house prices over the coming years. It's not just restrictive interest rate settings holding back supply, with stretched balance sheets restricting councils from investing in the infrastructure required to support new housing. That will be an ongoing challenge, and there's no easy fix.

Figure 9. Estimated housing supply-demand imbalance

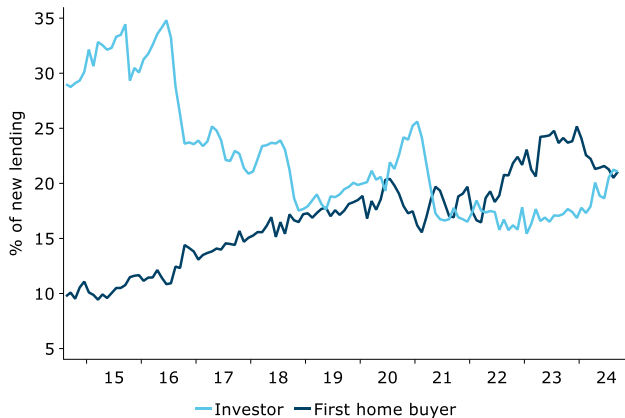


Source: Stats NZ, Macrobond, ANZ Research

Policy settings have been loosened in recent months, which will support housing demand, all else equal. The reinstatement of interest deductibility, the reduction in the Brightline test from 10 years to 2 years and loosening of LVR settings together increase incentives and credit availability for investors in particular. And there has been some increase in investor lending over recent months.



Figure 10. New mortgage lending by borrower type



Source: RBNZ, Macrobond, ANZ Research

Indeed, investors' share of new mortgage lending has been steadily rising since late last year and overtook first home buyers in August for the first time since early 2022. It has risen to its highest level since 2018, aside from the period from April 2020 to March 2021, when the RBNZ temporarily removed LVR restrictions as part of its COVID-19 policy response. That does suggest confidence is returning to the investor market.

All up, the outlook for the housing market is certainly looking more positive, but there are still plenty of headwinds. While anecdotes and timely indicators suggest activity is lifting, and in fact signal upside risk to our house price forecast, as yet there is little evidence of a shift in momentum in sales volumes. We'll be watching closely for a pickup in sales volumes over the coming months, as that's what's ultimately required for a meaningful shift in house price momentum moving forward.

Housing market indicators for September 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	\$677,296	-5.1	0.6	-1.5	-1.1	154	-18%	67
Auckland	\$977,078	-5.5	-4.9	-2.0	-1.3	1,744	-7%	50
Waikato	\$764,235	1.4	2.6	-1.2	-0.4	575	-3%	55
Bay of Plenty	\$798,156	-1.1	-0.4	0.1	-0.7	390	-2%	50
Gisborne	\$636,458	10.7	2.1	-2.0	-1.8	42	+11%	51
Hawke's Bay	\$688,679	-0.5	0.4	-2.0	-1.8	224	+6%	48
Manawatu-Whanganui	\$500,869	-4.5	-4.9	-0.9	-0.9	298	+10%	52
Taranaki	\$614,722	6.2	-1.6	1.5	0.2	141	+1%	41
Wellington	\$800,916	1.7	1.6	-2.4	-2.4	572	-5%	52
Tasman, Nelson & Marlborough	\$695,189	-5.8	-0.3			189	-8%	54
Canterbury	\$680,064	1.3	-1.8	2.8	0.1	1,004	+2%	42
Otago	\$690,531	3.5	1.7	3.5	0.8	369	-1%	53
West Coast	\$392,166	9.4	3.0	1.4	0.1	30	-15%	26
Southland	\$473,919	8.1	3.1	3.8	-0.3	139	+7%	41
New Zealand	\$776,390	-2.4	-0.2	-0.5	-0.9	5,877	-2%	50



Mortgage borrowing strategy

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Summary

Mortgage rates generally fell again in October, led by floating rates, which fell by 0.50%, matching the size of the RBNZ's OCR cut. Large falls were also seen in median 6mth and 1yr rates (down 0.36% and 0.30% respectively), but 2yr and 3yr rates fell only 0.10%, and 4yr and 5yr rates were unchanged. RBNZ fixing data shows that 6mth was the most popular term in August, overtaking 1yr terms, which remain more popular than 2yr terms. While 6mth rates are higher than 1yr rates, and 1yr rates are higher than 2yr rates, paying more over the short run so as to be able to fix for longer later (at a hopefully lower rate) has some merit in an environment where interest rates are falling, and we think it's again worth considering this month. But caution is needed; we are inching closer to the point where mortgage rates are likely to find a base. Markets are already pricing in OCR cuts all the way down to 3%, which is below our forecast, so timing will be key for anyone who wants to pick the proverbial bottom. As always, fixing for a mix of terms is one sure way to spread risk.

Mortgage rates were generally lower in October, with larger falls seen at the short end following the RBNZ decision to cut the OCR by 50bps. Of note, the median 4yr and 5yr rate did not change, and that was because global bond yields (which have more of a bearing on New Zealand long-term interest rates) rose ahead of US elections next month.

We have discussed the idea of fixing for a shorter period in recent editions of the *Property Focus* on the premise that it might be worth paying a little more now so as to be able to re-fix for longer later, at hopefully a lower rate. That's pretty much how things have panned out – not only have rates fallen, but RBNZ data also shows that borrowers have had a preference for shorter terms, with 6mths the most popular fixed term in August (data for September isn't out yet). The 1yr (which had been the most popular rate for some time) is still more popular than the 2yr, and that's despite 2yr being cheaper at that time. So, borrowers are clearly thinking ahead, have probably done well (rates did fall!), and ought to be well positioned for what lies ahead.

But as pleasing as it is to "beat the market", at some stage, those who have a fixed term expiring soon, no matter when it was entered into, will need to decide whether to keep hoping that mortgage rates keep falling or make the decision to fix for longer. Getting this exactly right will be tricky and it's hard to come out on top every time, which is why we think it's worth

considering a mix of terms, and not putting all of your proverbial eggs in one basket.

However, if you are going to try to time the market, we think three things bear consideration, as follows:

1. The OCR will almost certainly keep falling. We forecast it to do so, and the RBNZ is saying it will.
2. However, markets are already pricing in OCR cuts to 3%. That is below our forecast, and it means those cuts are already embedded into longer-term rates. So, some caution is warranted.
3. Global rates are rising, and our forecasts for wholesale interest rates bottom out fairly soon.

There is more to mortgage rates than just where the OCR and wholesale rates go – they also depend on other factors like term deposit rates, which tend to be slower to fall as banks chase deposits (so they can keep lending). But the point is, in coming months, we will be approaching the point where the pace of falls in mortgage rates is likely to slow, and they are likely to start finding a base. Longer-term rates could even rise if global long-term interest rates keep rising.

Breakevens show that rates need to fall by quite a bit over the next 6-12mths to make fixing for a shorter term cheaper in the long run than just fixing for, say, 2 years. We may see falls of the magnitude implied by breakevens, but with each passing month, we are likely getting closer to the point where locking in already-lower longer-term rates may be worth it.

Figure 1. Carded special mortgage rates*

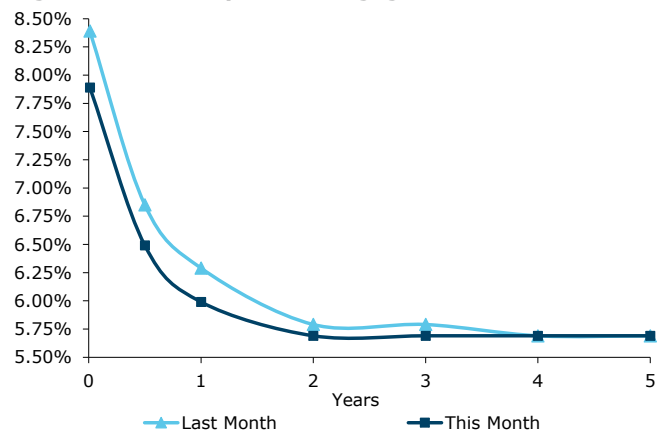


Table 1. Special Mortgage Rates*

Term	Breakevens for 20%+ equity borrowers				
	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	7.89%				
6 months	6.49%	5.49%	5.54%	5.24%	5.69%
1 year	5.99%	5.52%	5.39%	5.47%	5.69%
2 years	5.69%	5.49%	5.54%	5.58%	5.69%
3 years	5.69%	5.56%	5.59%	5.62%	5.69%
4 years	5.69%	5.59%	5.62%		
5 years	5.69%	*Median of the five largest banks			

^ Average of carded rates from ANZ, ASB, BNZ and Westpac.

Source: interest.co.nz, ANZ Research



Key forecasts

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

	Mortgage Rate (%)													
	4.75	5.00	5.25	5.50	5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50	7.75	8.00
200	241	248	255	262	269	277	284	292	299	307	315	323	330	338
250	301	309	318	327	336	346	355	364	374	384	393	403	413	423
300	361	371	382	393	404	415	426	437	449	460	472	484	496	508
350	421	433	446	458	471	484	497	510	524	537	551	564	578	592
400	481	495	509	524	538	553	568	583	598	614	629	645	661	677
450	541	557	573	589	606	622	639	656	673	690	708	726	744	762
500	601	619	637	655	673	691	710	729	748	767	787	806	826	846
550	662	681	700	720	740	760	781	802	823	844	865	887	909	931
600	722	743	764	786	807	830	852	875	897	921	944	968	991	1,015
650	782	805	828	851	875	899	923	947	972	997	1,023	1,048	1,074	1,100
700	842	867	891	917	942	968	994	1,020	1,047	1,074	1,101	1,129	1,157	1,185
750	902	928	955	982	1,009	1,037	1,065	1,093	1,122	1,151	1,180	1,209	1,239	1,269
800	962	990	1,019	1,048	1,077	1,106	1,136	1,166	1,197	1,227	1,259	1,290	1,322	1,354
850	1,023	1,052	1,082	1,113	1,144	1,175	1,207	1,239	1,271	1,304	1,337	1,371	1,404	1,438
900	1,083	1,114	1,146	1,178	1,211	1,244	1,278	1,312	1,346	1,381	1,416	1,451	1,487	1,523
950	1,143	1,176	1,210	1,244	1,278	1,313	1,349	1,385	1,421	1,458	1,495	1,532	1,570	1,608
1000	1,203	1,238	1,273	1,309	1,346	1,383	1,420	1,458	1,496	1,534	1,573	1,613	1,652	1,692

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

Interest rates	Actual			Projections						
	Jun-24	Sep-24	Current	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
Floating Mortgage Rate	8.6	8.5	7.9	7.4	7.1	6.6	6.6	6.6	6.6	6.6
1-Yr Fixed Mortgage Rate	7.1	6.3	6.0	5.8	5.6	5.5	5.5	5.5	5.5	5.5
2-Yr Fixed Mortgage Rate	6.7	5.8	5.7	5.6	5.5	5.5	5.6	5.6	5.6	5.6
3-Yr Fixed Mortgage Rate	6.5	5.8	5.7	5.6	5.6	5.7	5.7	5.8	5.8	5.8
5-Yr Fixed Mortgage Rate	6.4	5.8	5.7	5.6	5.6	5.8	5.8	5.9	5.9	5.9

Source: RBNZ, ANZ Research

Economic forecasts

Economic indicators	Actual			Forecasts						
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
GDP (Annual % Chg)	0.0	0.5	-0.5	-0.1	0.0	0.1	0.6	1.0	1.4	1.8
CPI Inflation (Annual % Chg)	4.7	4.0	3.3	2.2(a)	2.1	2.0	2.2	2.3	2.3	2.1
Unemployment Rate (%)	4.0	4.4	4.6	4.9	<i>Under review</i>					
House Prices (Quarter % Chg)	0.4	0.6	-0.5	-0.9(a)	-0.1	0.6	1.2	1.4	1.2	1.2
House Prices (Annual % Chg)	-0.6	2.7	2.2	-0.4(a)	-0.9	-0.9	0.7	3.1	4.5	5.2

Interest rates	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
Official Cash Rate	5.50	5.50	5.25	4.25	4.00	3.50	3.50	3.50	3.50	3.50
90-Day Bank Bill Rate	5.64	5.63	4.87	4.15	3.72	3.65	3.65	3.65	3.65	3.65
10-Year Bond	4.54	4.67	4.24	4.00	4.00	4.00	4.00	4.25	4.25	4.25

Source: ANZ Research, Statistics NZ, RBNZ, REINZ



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Meet the team

We welcome your questions and feedback. Click [here](#) for more information about our team.



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