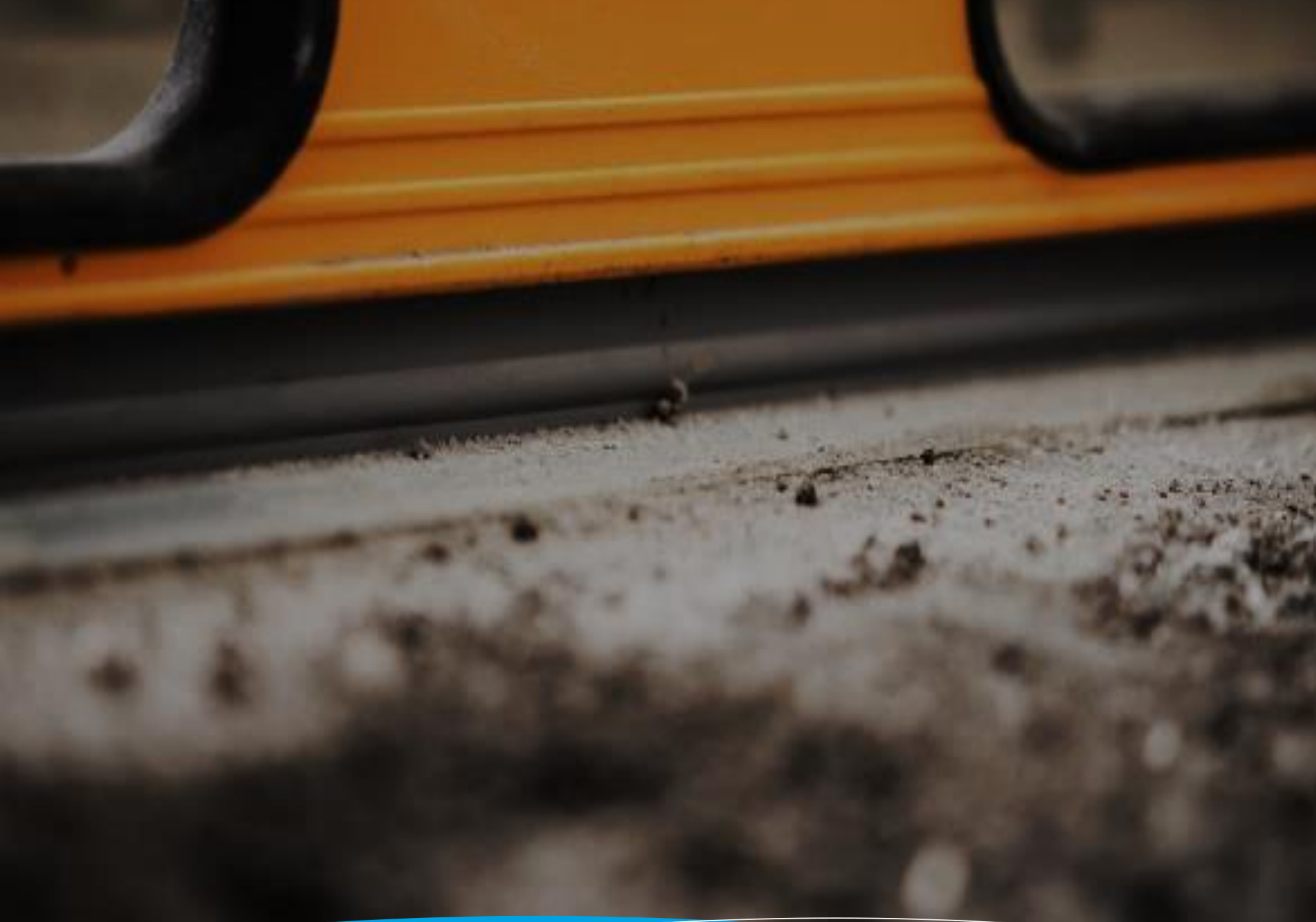
ANZ Research January 2025

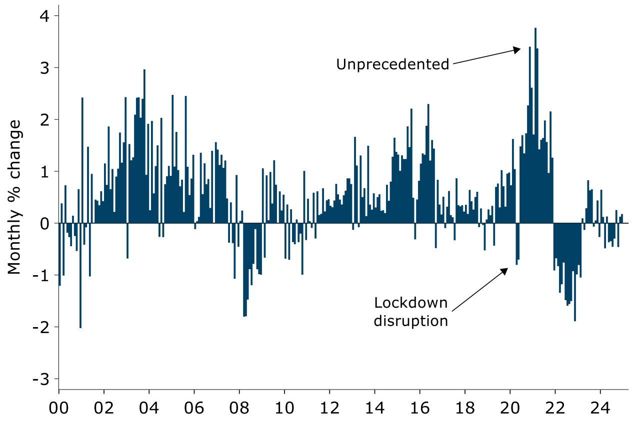
New Zealand Property Focus

Starting 2025 on a more stable footing

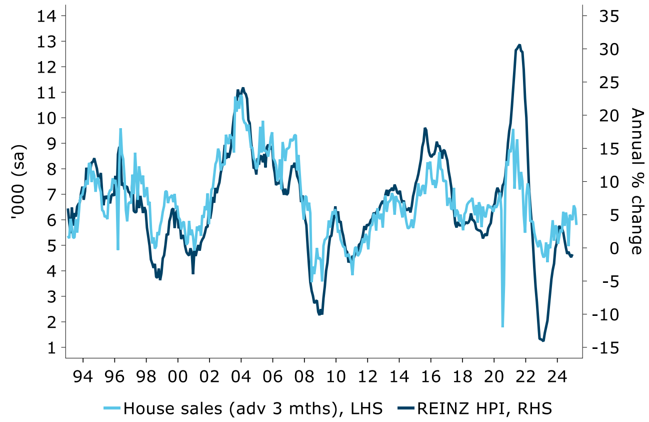


At a glance

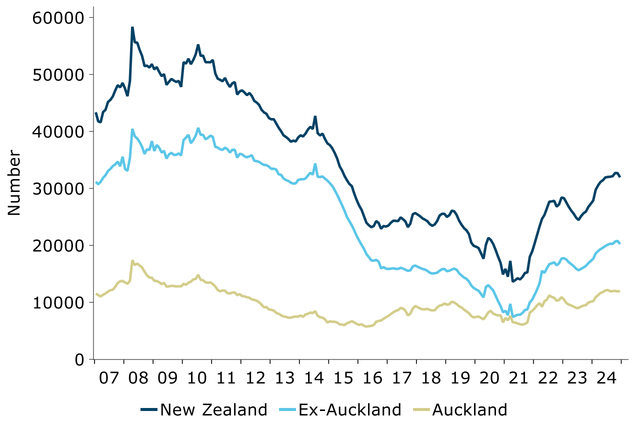
House prices have returned to growth in recent months…



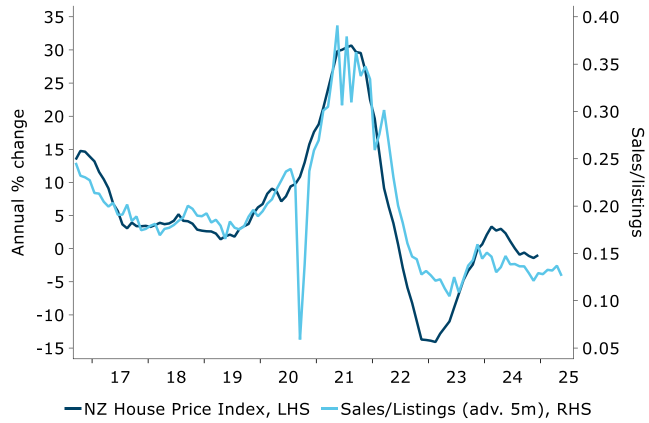
…with sales volumes trending higher…



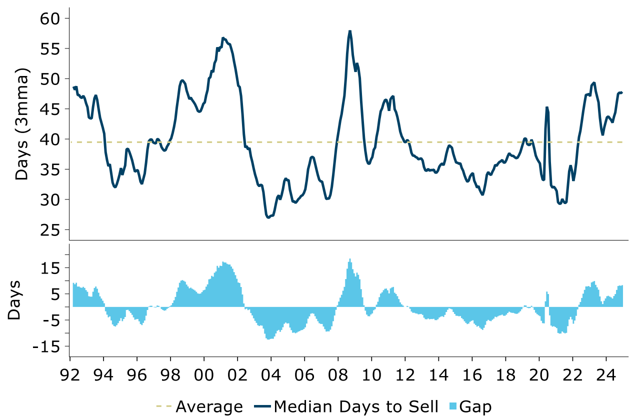
…though the level of stock on the market remains elevated.



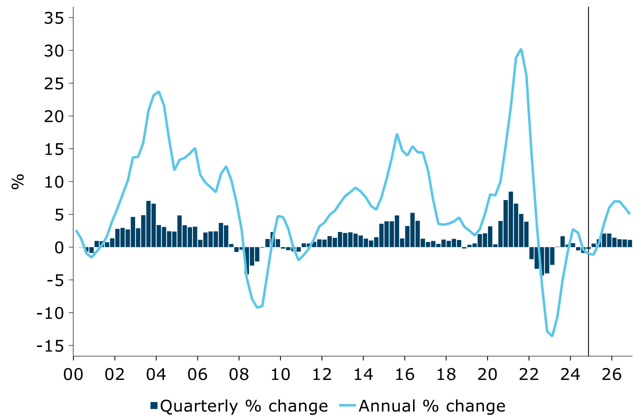
Momentum suggests prices will track sideways in the near term



Median days to sell appear to have plateaued



We expect a gradual recovery in house prices over 2025



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

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See page 10

INSIDE

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 seasonally adjusted REINZ House Price Index lifted for a second consecutive month in December – the third lift in four months – signalling the housing market stabilised to end 2024. However, underlying momentum in the market certainly isn’t suggesting the market is about to take off, with improving sales volumes being offset by a large backlog of stock on the market. Investor activity continues to lift, while owner-occupier activity remains relatively subdued, a reflection of the lack of churn in the market amidst the stock overhang, which is reducing housing market mobility. We continue to forecast a 6% rise in house prices over the year ahead, made up of a slow start to the year and a more meaningful upswing in house prices in the second half of 2025. See our Property Focus.

Mortgage Borrowing Strategy

The shape of the mortgage curve has changed quite markedly since our last edition of the Property Focus, with shorter-term rates lower, but longer-term rates higher, and the median floating rate unchanged. That was because most banks cut floating rates just as our last edition went to print, which was the day after the RBNZ last cut the OCR. But with wholesale short-end rates lower over the summer, while long-end rates have risen, mortgage rates have followed suit, as we discuss. While some borrowers may find higher 4 and 5-year rates frustrating, especially if they were of a mind to fix now that we are approaching the low point in the OCR cycle, we suspect most borrowers will still be looking to fix for 2 or 3 years, having learned how quickly things can change, and these rates are lower. We aren’t forecasting lower wholesale rates, largely because markets are already pricing in (or expecting) the OCR cuts we expect, and as such, anyone who wants to try to lock in at the bottom may want to start thinking about how much longer they want to wait. As always, fixing for a mix of terms is one sure way to spread risk and rule out the worst-case scenario. See our Mortgage Borrowing Strategy.

Property Focus

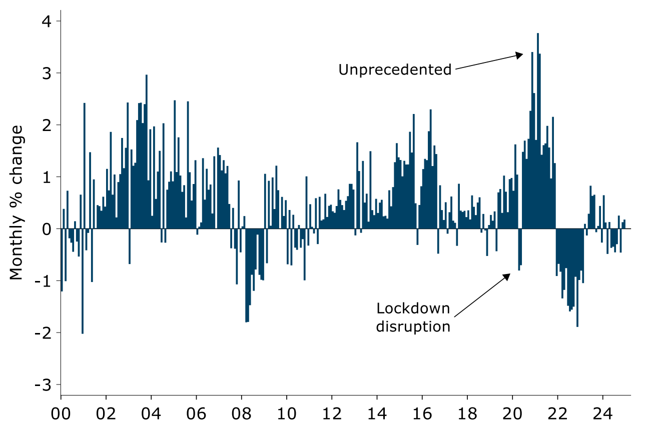
Summary

The seasonally adjusted REINZ House Price Index lifted for a second consecutive month in December – the third lift in four months – signalling the housing market stabilised to end 2024. However, underlying momentum in the market certainly isn't suggesting the market is about to take off, with improving sales volumes being offset by a large backlog of stock on the market. Investor activity continues to lift, while owner-occupier activity remains relatively subdued, a reflection of the lack of churn in the market amidst the stock overhang, which is reducing housing market mobility. We continue to forecast a 6% rise in house prices over the year ahead, made up of a slow start to the year and a more meaningful upswing in house prices in the second half of 2025.

Starting 2025 on a more stable footing

The REINZ House Price Index rose 0.2% m/m (sa) in December, its second monthly gain on the trot, and third in the last four months, paving the way for a gradual recovery over 2025. Underlying momentum doesn't suggest house prices are about to take off; rather that the market has stabilised following the significant falls in mortgage rates over the second half of the year. Overall, house prices finished 2024 1.1% lower than at the end of 2023, as restrictive interest rate settings, a slowing economy and rising unemployment eroded household confidence to borrow and invest. Despite the soft starting point, 2025 is shaping up to be a stronger year, with a recovery in the economy already underway.

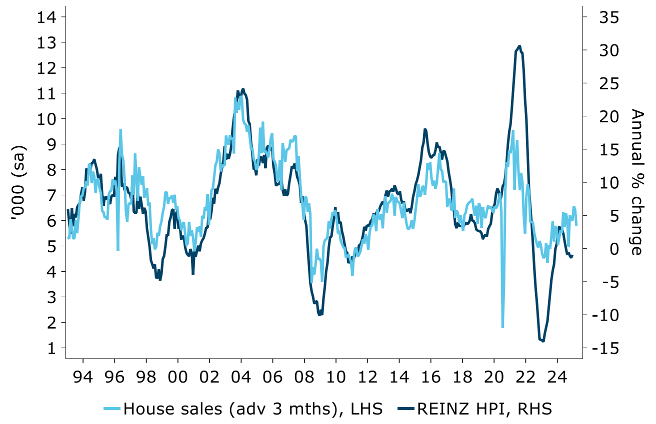
Figure 1. Monthly house price growth



Source: REINZ, Macrobond, ANZ Research

Sales volumes have been trending higher since September and have largely returned to around their long-run historic average. The three-month moving average for sales volumes finished 2024 up 15.5% y/y. That was despite a surprisingly weak month of December, with seasonally adjusted sales falling 11.6% m/m. However, we're cautious about reading too much into that given sales volumes are typically underreported initially, and the timing of holidays to end the year may have exacerbated this. Stripping out the monthly volatility, sales are trending higher.

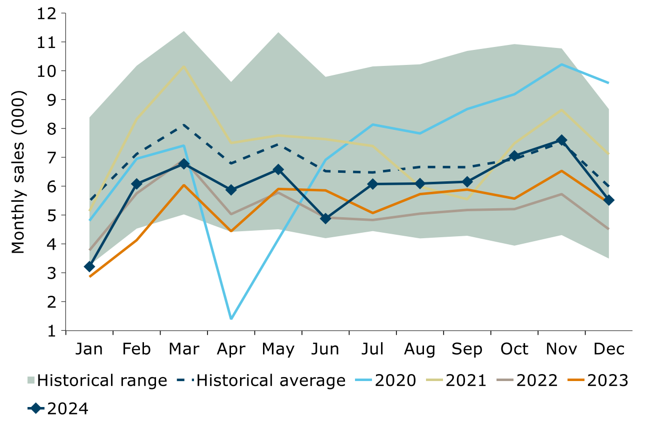
Figure 2. Sales vs house price inflation



Source: REINZ, Macrobond, ANZ Research

The lift in sales to date has been sufficient to stabilise house prices but isn't suggesting a meaningful upswing is likely anytime soon. Even with sales volumes back to more typical levels, the large overhang of stock on the market built up over the past few years is likely to contain house prices until sales lift further.

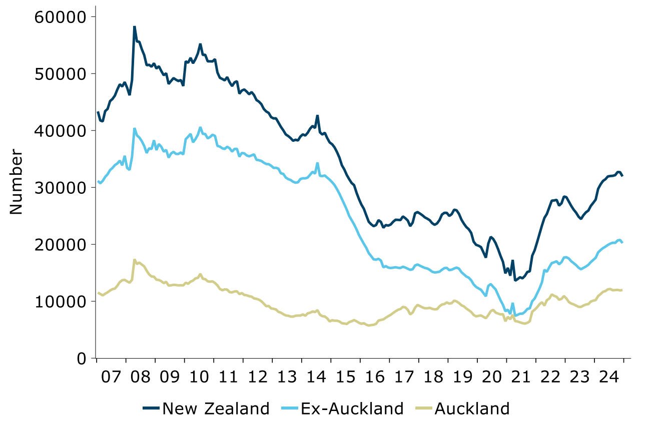
Figure 3. Sales relative to history



Source: REINZ, Macrobond, ANZ Research

Nationwide housing market inventory, while falling for the first time since July 2023 in December, is still close to near-decade highs. In Auckland, the amount of stock on the market is near the highest level since 2011. The fall in December reflected an unusually weak month for new listings coming onto the market, rather than more property sales eating into backlog of stock. The overhang of stock is likely to restrain house price increases in the near term.

Figure 4. Total housing market inventory



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

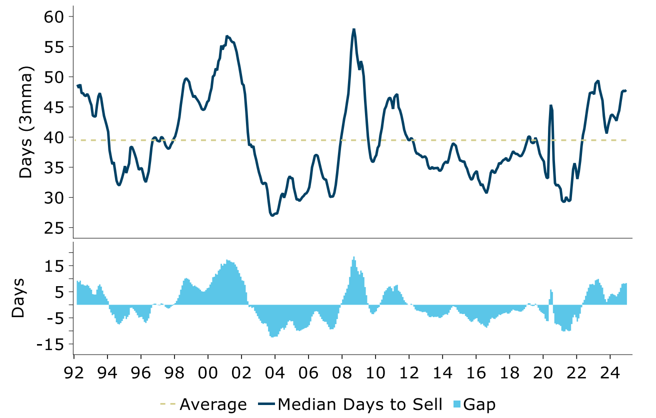
The sales-to-listings ratio is a useful indicator of heat in the housing market and tends to give a 3–6 month lead on house price momentum. The nationwide sales-to-listing ratio has stabilised in recent months, but it certainly isn't suggesting the market is going anywhere fast, with prices likely to track broadly sideways over the coming months.

Figure 5. Sales-to-listings ratio

Source: REINZ, Macrobond, ANZ Research

The median number of days for a property to sell is also suggesting that the housing market has stabilised. The three-month moving average has been steady around 48 for the past three months. While that's a long way above the long-run average of 39 days, indicating the market is well into "loose" territory, it has plateaued after a steady rise over most of 2024. As sales activity continues to improve, and starts to clear the overhang of stock, days to sell will be an important indicator of the market moving onto a tightening trajectory.

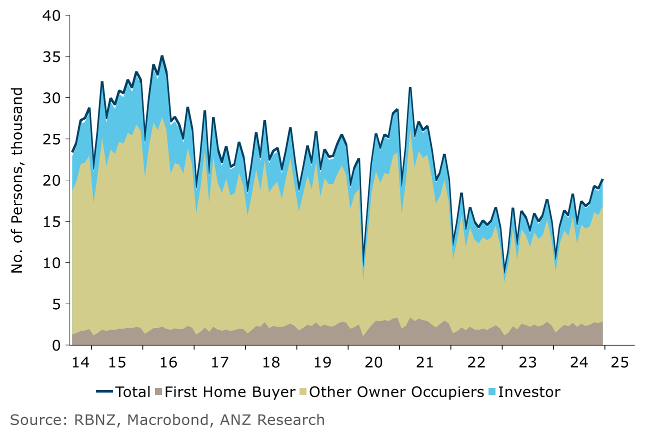
Figure 6. Days to sell



Source: REINZ, Macrobond, ANZ Research

One explanation for the current backlog of stock on the market is the inability for current owner occupiers to sell up and relocate. Existing owner occupiers are by far the largest group active in the housing market, generally making up around 70-80% of the number of new borrowers (though only around 55-60% of new lending by value, given they tend to have equity in their homes and thus borrow smaller amounts). Over the past few years, the number of new first home buyers has been steadily rising, while investor activity slowed once LVR restrictions were reintroduced (although it has been picking back up since late 2023). But the drop in owner-occupier activity compared to the boom has been particularly evident. Current homeowners have been struggling to sell due to the lack of churn in the market, and this has been an important dynamic missing from the housing market over the last few years, though that may be starting to change.

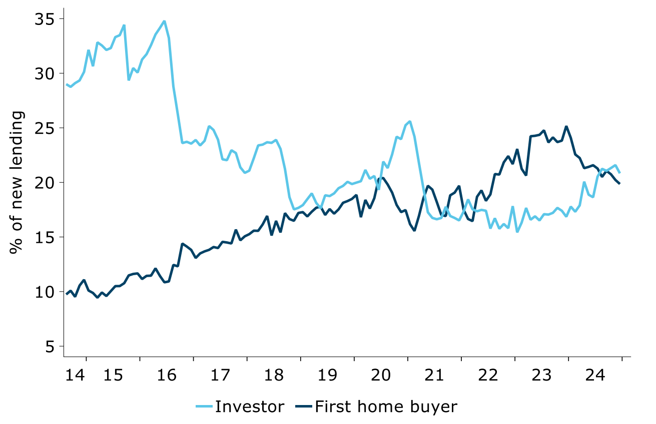
Figure 7. Number of new borrowers by type



Source: RBNZ, Macrobond, ANZ Research

Investor activity has also picked up again since late 2023, and as a share of new lending it has now overtaken first home buyers. Various policy changes such as the reinstatement of interest deductibility, the reduction in the brightline test from 10 years back to 2, changes to the Residential Tenancies Act and a loosening in LVR settings have all increased the incentives for investors to return to the market.

Figure 8. Number of new borrowers by type

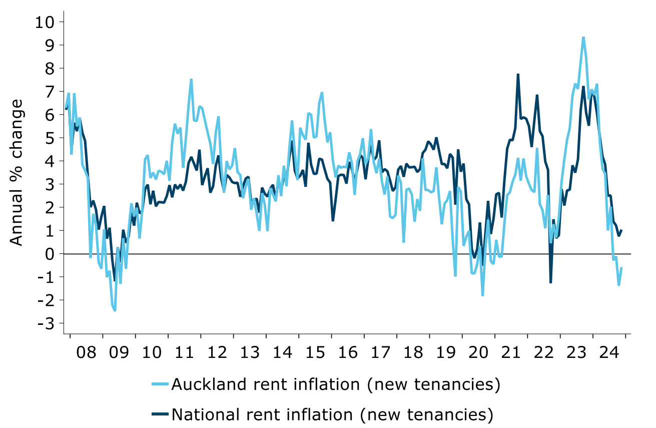


Source: RBNZ, Macrobond, ANZ Research

Despite the uptick, investor activity is still well down on where it was a decade ago, before LVR settings were introduced. The rising trend does, however, signal growing investor confidence in returns on housing investment, even as rental yields remain fairly unattractive relative to history. The correction in house prices following the COVID boom has seen nominal rental yields (before costs) return to around the levels that prevailed at the end of last decade, even though rent inflation has cooled sharply and costs have surged (from the likes of council rates, insurance, and maintenance and repairs).

For new tenancies alone, annual rent inflation across New Zealand has fallen from a peak of over 7% at the end of 2023 to under 1% now, while Auckland is currently experiencing annual rent deflation for new tenancies, down around 1% on a year ago.

Figure 9. Annual rent inflation for new tenancies

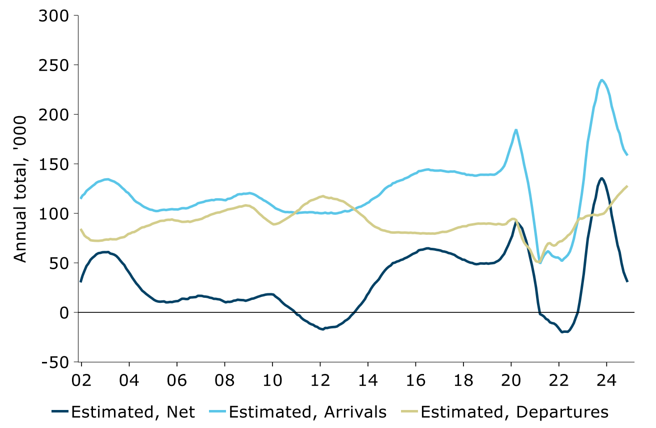


Source: REINZ, Macrobond, ANZ Research

That, in part, is likely a reflection of the sharp falls in net migration inflows recently. After reaching a peak of 136k in October 2023, the annual net inflow fell to around 30k in November and is likely to keep falling over the first half of this year. Our forecast assumes the annual net inflow troughs at 15k in the middle of this year before gradually recovering.

While the economy and housing market are near the bottom of the their respective (related) cycles, the conditions are in place for a gradual recovery from here. Interest rates have fallen significantly, with the RBNZ having delivered 125bp of OCR cuts since August, and with another 50bp cut at next month's February MPS all but locked in. The impacts of lower interest rates and easing conditions are emerging in both the housing market and broader economy. Business and consumer confidence have both bounced, and consumer spending is trending higher. As confidence consolidates and the impacts of lower interest rates continue to be felt through the economy, we expect the recovery to build – but it won't be instant.

Figure 10. Annual net migration



Source: Stats NZ, Macrobond, ANZ Research

We continue to forecast a 6% rise in house prices over 2025, though expect that growth will be fairly sluggish for the first part of the year, with a more meaningful upswing in prices not likely until the second half the year. Tailwinds for the housing market from lower interest rates and easing credit conditions are likely be partially offset by headwinds from the current elevated level of stock on the market and continued easing in the labour market over the coming quarters, given the latter is still adjusting to the past slowdown in the economy. With jobs still hard to come by, households are likely to remain cautious until labour market conditions stabilise. However, even as households become more assured of their job security as the year progresses, they will need to contend with still-stretched affordability that's likely to cap potential upside to our forecast.

Property Focus

Increasing housing supply is the best solution to New Zealand's housing affordability problem, and positively on that front, the downtrend in building consents has stabilised in the past few months. Nonetheless, even with population growth cooling rapidly on the back of falling net migration inflows, the sharp slowdown in construction over the past year means a bounce in residential construction activity is needed to make up for lost ground and prevent continued relative house price gains in the long run. That won't be an easy task given the challenges in delivering supporting infrastructure.

Housing market indicators for December 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	$648,030	6.3	1.4	-2.5	0.1	171	+1%	59
Auckland	$982,929	-4.2	1.3	-1.8	0.1	1,699	-12%	46
Waikato	$722,118	-5.2	-2.5	0.0	0.2	613	-2%	53
Bay of Plenty	$818,349	1.1	1.4	-0.7	-0.1	393	-6%	53
Gisborne	$600,346	5.8	-0.8	-2.4	0.1	22	-53%	59
Hawke's Bay	$707,810	9.6	2.6	-2.4	0.1	211	-10%	55
Manawatu-Whanganui	$543,973	3.8	4.3	-1.4	-0.8	271	-18%	48
Taranaki	$594,197	-6.3	-0.4	-2.0	-0.9	143	-3%	43
Wellington	$757,987	-5.4	-3.4	-4.8	-1.2	577	-26%	51
Tasman, Nelson & Marlborough	$723,559	2.3	3.0			192	+5%	40
Canterbury	$706,087	6.3	3.3	1.8	-0.1	891	-17%	44
Otago	$693,262	3.5	3.2	2.3	-1.0	366	-8%	48
West Coast	$416,432	24.8	2.8	-1.3	-0.7	30	-18%	64
Southland	$461,737	4.3	3.0	3.1	0.2	124	-7%	43
New Zealand	**$774,074**	**-0.6**	**0.1**	**-1.0**	**-0.2**	**5,709**	**-12%**	**50**

Mortgage borrowing strategy

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Summary

The shape of the mortgage curve has changed quite markedly since our last edition of the Property Focus, with shorter-term rates lower, but longer-term rates higher, and the median floating rate unchanged. That was because most banks cut floating rates just as our last edition went to print, which was the day after the RBNZ last cut the OCR. But with wholesale short-end rates lower over the summer, while long-end rates have risen, mortgage rates have followed suit, as we discuss. While some borrowers may find higher 4 and 5-year rates frustrating, especially if they were of a mind to fix now that we are approaching the low point in the OCR cycle, we suspect most borrowers will still be looking to fix for 2 or 3 years, having learned how quickly things can change, and these rates are lower. We aren't forecasting lower wholesale rates, largely because markets are already pricing in (or expecting) the OCR cuts we expect, and as such, anyone who wants to try to lock in at the bottom may want to start thinking about how much longer they want to wait. As always, fixing for a mix of terms is one sure way to spread risk and rule out the worst-case scenario.

Fixed mortgage rates have moved in both directions since our last Property Focus, but the median floating rates hasn't changed, just as the OCR hasn't changed since the Reserve Bank last met in November. Why the change in fixed rates? They simply reflect movements in wholesale interest rates over the summer. Short-end rates have fallen on soft domestic economic data, but long-end rates have risen as US bond yields (which regular readers will recall tend to be the main driver of local long-end rates) have lifted, with data there generally going the other way, surprising to the upside. US markets have also become concerned about inflation and fiscal risks related to the newly formed Trump administration.

For some months now, we have spoken about the idea of timing a potential switch from either floating or much shorter-term fixes to something longer. That has been based on the idea that term fixed rates may not fall a lot further now that the OCR is approaching what many forecasters expect to be the low. We, for example, expect the OCR to bottom out at 3.50% in April, which is only 25bp below where it will soon be, assuming the Reserve Bank follows through on its signalled 50bp cut in February, which will take the OCR to 3.75%. But as those cuts are now priced in (and almost universally expected by other forecasters and financial markets), when they are delivered, they are unlikely to have much of an impact on wholesale interest rates, and by extension, mortgage rates. As such, for many borrowers, the question will be, is now a good time to extend? Everyone's situation will be different, but for our part, we are not expecting further significant falls. While competitive pressures have the potential to deliver further small falls, absent a radical re-think of where the OCR may bottom out (we still see that as 3.5%), most of the move in wholesale rates is likely to be behind us.

Those who were looking for cheaper 4 and 5-year fixes may feel like they have missed out now that these have risen. Thay may well prove to be the case, but given how quickly things can change, and the tendency for 1-2yr rates to be cheaper (which is likely to remain the case if longer-term rates lead the way higher), a string of 1-2yr fixes may be more attractive anyway. Breakevens suggest that 1yr rates need to fall by 0.3%pt in the next year for back-to-back 1yr fixes to be cheaper than 2yrs at 5.44%. That's possible, but it could be a stretch, and at this juncture, a sure thing (the 2yr at 5.44%) may be preferable to a punt (that the 1yr may fall to 5.29%). Some may want to wait till after the Reserve Bank's February meeting, just in case they signal more cuts, but don't forget, they have already cut a long way.

There are always risks – the economy may fall over again, and a lower OCR may be needed. But equally, global long-term rates are rising, and that may drive local rates higher too. And for that reason, we always think it makes sense to consider spreading your risk across several terms. But in terms of core strategy, we see merit in extending soon.

Figure 1. Carded special mortgage rates*

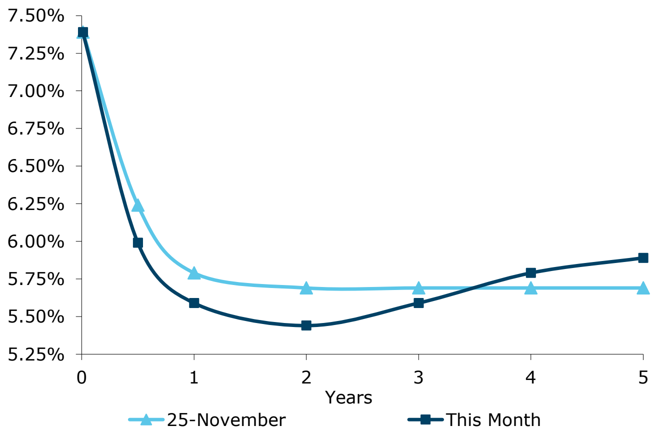

Table 1. Special Mortgage Rates*

		Breakevens for 20%+ equity borrowers			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	7.39%				
6 months	5.99%	5.19%	4.99%	5.59%	5.82%
1 year	5.59%	5.09%	5.29%	5.70%	5.89%
2 years	5.44%	5.40%	5.59%	5.92%	6.14%
3 years	5.59%	5.64%	5.86%	6.07%	6.19%
4 years	5.79%	5.82%	5.97%		
5 years	5.89%	*Median of the five largest banks			

Source: interest.co.nz, ANZ Research

Key forecasts

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

Mortgage Size ($000)	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)

	Actual			Projections						
Interest rates	Sep-24	Dec-24	Current	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Floating Mortgage Rate	8.5	7.7	7.4	6.9	6.7	6.7	6.7	6.7	6.7	6.7
1-Yr Fixed Mortgage Rate	6.3	5.8	5.6	5.6	5.5	5.4	5.5	5.5	5.5	5.5
2-Yr Fixed Mortgage Rate	5.8	5.6	5.4	5.4	5.5	5.6	5.6	5.6	5.6	5.6
3-Yr Fixed Mortgage Rate	5.8	5.6	5.6	5.6	5.7	5.7	5.7	5.7	5.8	5.8
5-Yr Fixed Mortgage Rate	5.8	5.8	5.9	5.8	5.8	5.8	5.8	5.8	5.9	5.9

Source: RBNZ, ANZ Research

Economic forecasts

	Actual			Forecasts						
Economic indicators	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
GDP (Annual % Chg)	1.3	-0.5	-1.5	-1.4	-1.3	0.4	2.2	2.7	3.1	3.2
CPI Inflation (Annual % Chg)	4.0	3.3	2.2	2.2(a)	2.4	2.6	2.7	2.6	2.2	1.9
Unemployment Rate (%)	4.4	4.6	4.8	5.1	*Under review*					
House Prices (Quarter % Chg)	0.6	-0.5	-0.9	-0.3(a)	0.5	1.2	2.1	2.1	1.4	1.2
House Prices (Annual % Chg)	2.7	2.2	-0.4	-1.1(a)	-1.1	0.6	3.6	6.0	7.0	7.0

Interest rates	Sep-24	Dec-24	Current	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Cash Rate	5.25	4.25	4.25	3.75	3.50	3.50	3.50	3.50	3.50	3.50
90-Day Bank Bill Rate	4.87	4.23	3.94	3.62	3.62	3.62	3.62	3.62	3.62	3.62
10-Year Bond	4.24	4.75	4.50	4.50	4.75	5.00	5.00	5.00	5.00	5.00

Source: ANZ Research, Statistics NZ, RBNZ, REINZ

Contact us

Meet the team

We welcome your questions and feedback. Click here for more information about our team.

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