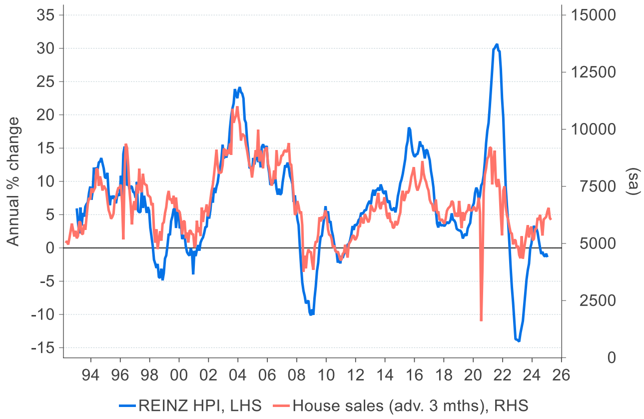
New Zealand Property Focus

Paving the road to recovery

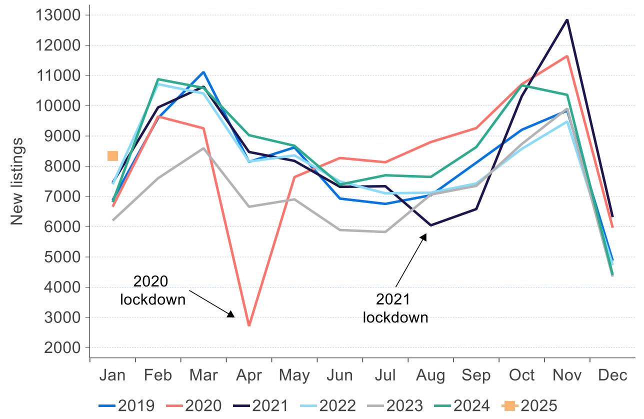
February 2025

At a glance

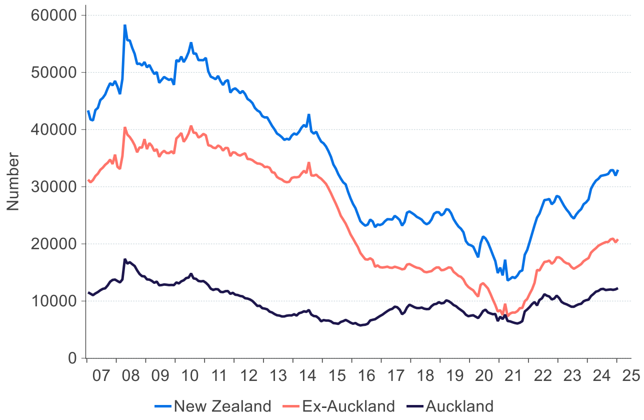
Sales volumes fell in January, but the upward trend remains intact…



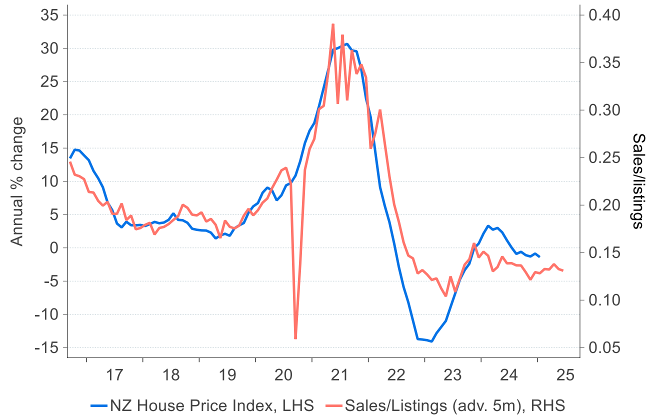
… while the number of new listings surged...



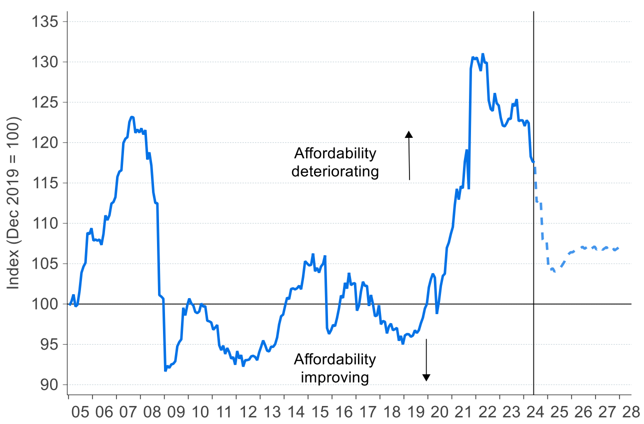
…keeping the level of stock on the market elevated.



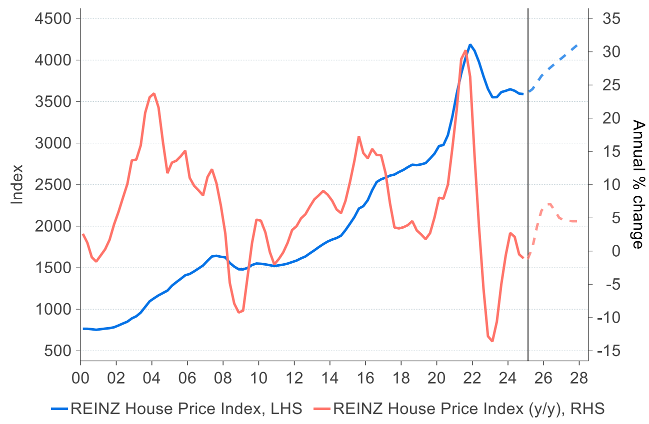
Momentum suggests muted house price growth in the near term.



Purchasing affordability has improved…



… but continues to limit scope for a sharp recovery in house prices.



Source: REINZ, realestate.co.nz, Stats NZ, RBNZ, 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 housing market started 2025 where it left off in 2024. House prices lifted modestly in January; sales volumes dipped but the upward trend remains in place. Supply is responding to firmer demand: new listings surged in January. That will keep the level of stock on the market elevated and restrain house price growth in the near term. We continue to expect momentum to build over the year ahead, with the recovery to accelerate in the second half of the year. While purchasing affordability has improved, enabling a recovery, affordability remains very stretched compared to history. That's likely to limit the extent to which house prices can outpace incomes in the medium term, provided new housing supply picks up moving forward. See our Property Focus.

Mortgage Borrowing Strategy

Mortgage rates are lower across the board this month, with the exception of the 4-year, which didn't change. The biggest falls were seen in floating and 2-year rates, which fell 0.50%pts and 0.45%pts respectively. These falls are likely music to the proverbial ears of borrowers, especially those who were on floating or a short-term rate, waiting for the opportunity to fix for longer at lower rates. The broad tone of personal financial media articles has shifted markedly over the past month, and having seen the latest falls, many are suggesting that mortgage rates may not go a lot lower, and rates just below 5% may be as good as it gets. While there are caveats (the future is always uncertain!), we generally agree with the sentiment, and see merit in considering fixing a portion of debt for 2 years at current levels. Not only is the 2-year the low point; it strikes a good balance between being fixed for long enough to provide certainty and not being locked in for so long that you may regret it for some reason (eg were the economy to sour and interest rates keep falling). Based on our wholesale interest rate forecasts, we are projecting small further falls in mortgage rates, but we would note that margins are at the tight end of historic ranges, and as such, falls in wholesale rates from here may not have as much of an impact on mortgage rates. See our Mortgage Borrowing Strategy.

Property Focus

Summary

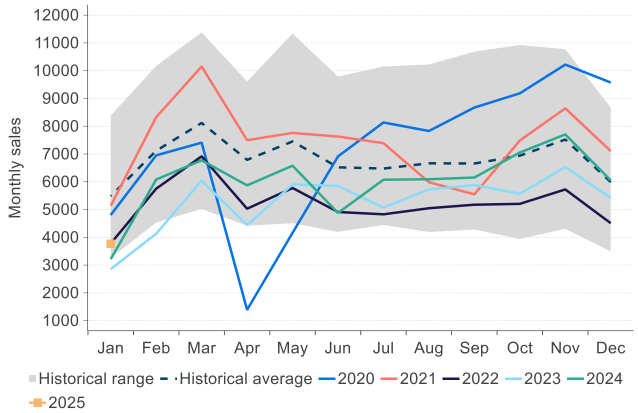
The housing market started 2025 where it left off in 2024. House prices lifted modestly in January; sales volumes dipped but the upward trend remains in place. Supply is responding to firmer demand: new listings surged in January. That will keep the level of stock on the market elevated and restrain house price growth in the near term. We continue to expect momentum to build over the year ahead, with the recovery to accelerate in the second half of the year. While purchasing affordability has improved, enabling a recovery, affordability remains very stretched compared to history. That's likely to limit the extent to which house prices can outpace incomes in the medium term, provided new housing supply picks up moving forward.

Paving the road to recovery

The REINZ House Price Index rose 0.1% m/m (sa) in January, marking a third consecutive monthly increase. That's consistent with the market having stabilised, but underlying momentum remains subdued and we don't expect to see a meaningful upswing in prices until later this year.

Sales volumes continue to trend higher. While there was a 1.6% m/m (sa) fall in the month of January, sales volumes over history were revised higher, providing a partial offset. Indeed, volumes in December were up around 9.6% on what was initially reported. Underreporting of sales volumes in the initial release isn't unusual at all, and we certainly wouldn't be surprised if January volumes were revised higher too, given they are near the low of the historical range for this time of year (figure 1).

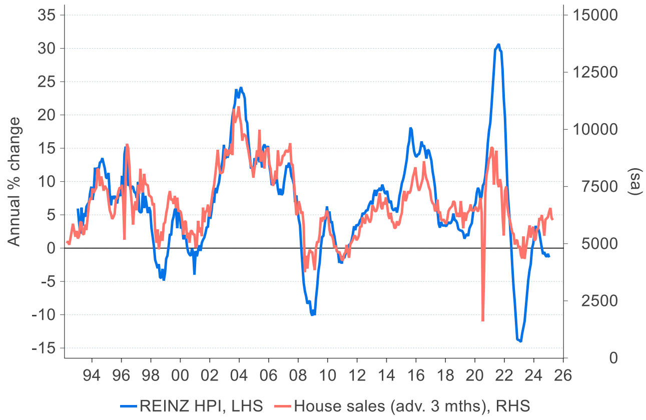
Figure 1. Sales volumes vs long run historic average



Source: REINZ, Macrobond, ANZ Research

Looking through the monthly volatility, the upward trend in sales volumes that has been in place since September remains intact (figure 2). Sales volumes tend to give a 3-month lead on changes in house price momentum, and as figure 2 shows, at face value the lift to date suggests house prices are set to rise moving forward. However, housing demand is just one side of the equation for house prices.

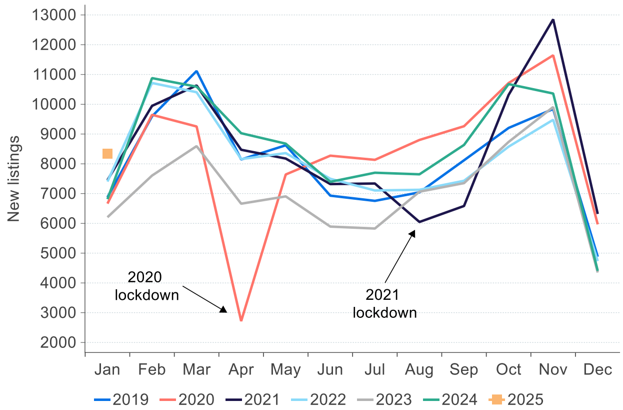
Figure 2. Sales volumes vs house prices



Source: REINZ, Macrobond, ANZ Research

Importantly, housing supply is also moving in response, with a surge in new listings coming onto the market in January. That's the highest flow for this time of year going back to 2015, suggesting improved confidence in market liquidity for those looking to trade up or down.

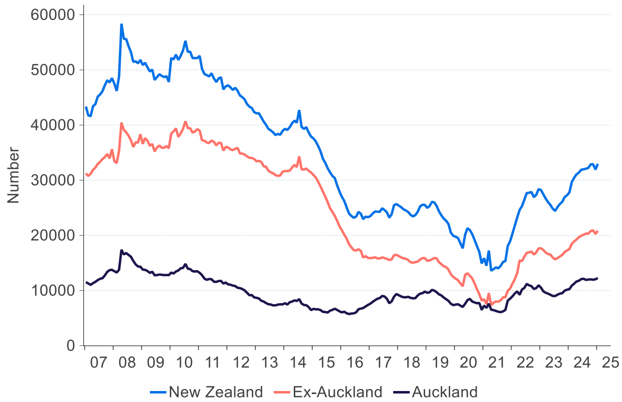
Figure 3. New listings



Source: REINZ, Macrobond, ANZ Research

The surge in new listings in January saw total housing market inventory lift to around the highest level in nearly a decade. Given the backlog of stock currently sitting on the market, house price momentum is likely to be fairly muted in the near term.

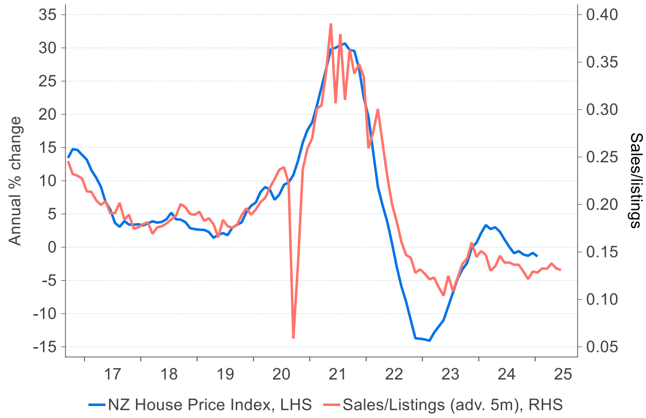
Figure 4. Total housing market inventory



Source: 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.

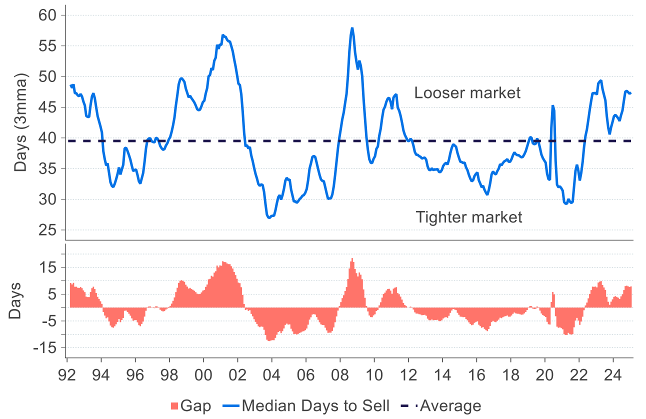
Figure 5. Sales-to-listings ratio



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

The median number of days it is taking a property to sell has also stabilised, falling by 1 in January to 47 (sa). While that remains a long way north of the historic average of 39, signalling a "loose" market, the 3-month moving average is off recent highs. At 49 days, houses in Auckland and Wellington are taking longer to sell than the nationwide median, which is unusual compared to history. In both regions, houses are taking 12 days longer to sell than their respective historic average, the widest gap for all the regions we monitor.

Figure 6. Days to sell



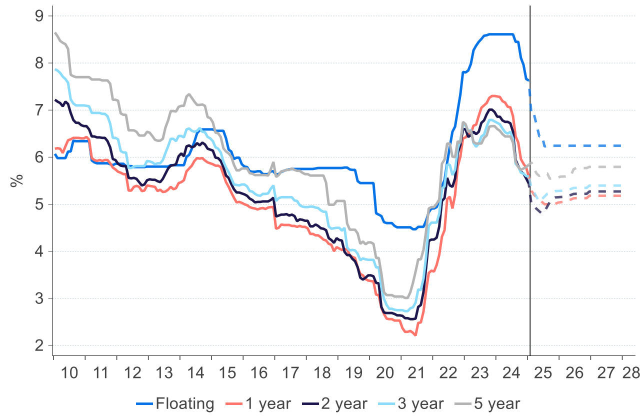
Source: REINZ, Macrobond, ANZ Research

All up, January's data were broadly in line with our expectations and consistent with our forecast for house prices to rise 6% over 2025.

This month the RBNZ delivered another 50bp cut to take the OCR to 3.75%. The RBNZ's accompanying Statement signalled further cuts to come, with the RBNZ increasingly confident in the inflation outlook. The RBNZ's OCR projection bottoms out at around 3.1%, signalling a 25bp-per-meeting pace of cuts in the near term. On the back of the RBNZ's decision, we have updated our OCR forecast. We now expect three more 25bp cuts from the RBNZ, which would see the OCR reduced to 3.0% by July. Given the RBNZ's central estimate of the neutral OCR is 3%, and our economic forecasts are similar to the RBNZ's (including our house price forecast), that's a reasonable baseline forecast, given the RBNZ's clearly expressed confidence in the medium-term inflation outlook. Of course, the OCR could well bottom out higher or lower than 3%: we outlined the two-sided risks around our updated OCR forecast in this note.

Our updated mortgage rate projections, based on our wholesale interest rate forecasts, observed margins, and the behaviour of other inputs like deposit rates, show mortgages rates across most tenors falling to around 5% by the middle of this year, although longer tenors, which are more influenced by global interest rates than the RBNZ's monetary policy, are expected to remain a little higher due to ongoing concerns over the sustainability of US fiscal policy and the potential inflationary consequences of US trade policy.

Figure 7. ANZ mortgage rates projections



Source: RBNZ, Macrobond, ANZ Research

Lower mortgage rates have significantly reduced the debt-servicing constraint for new borrowers. Expressed as a share of household income, figure 8 (over the page) shows the cost of servicing a home loan (principal and interest) based on a loan-to-value ratio of 80% of the median house price, the rolling 1-year mortgage rate, and the loan documented over 30 years. This measure of affordability can be thought of as a proxy for what affordability might look like to a new entrant to the housing market.

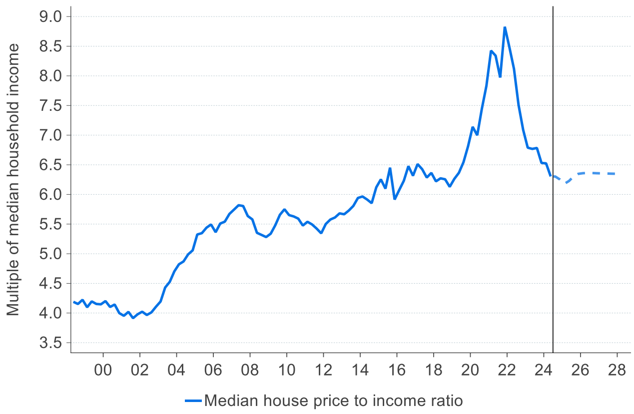
While the forecast period in figure 8 technically starts from the June-24 quarter (when annual median household income was last released), based on our mortgage rate, house price and income forecasts, debt servicing as a share of the median household income will fall to around 32% across the first half of 2025. That's still above the level that prevailed in the decade prior to COVID, but well down on the previous peak of 43% reached in 2023.

Figure 8. Debt servicing costs share of median household income

Source: REINZ, Stats NZ, RBNZ, Macrobond, ANZ Research

Reflecting the subdued house price performance over recent years, the median house price to median household income ratio has also fallen (figure 9). Our forecast shows the ratio has fallen to around the level that prevailed over the second half of last decade, well down from the extraordinary highs seen during the COVID boom.

Figure 9. Median house price to income ratio

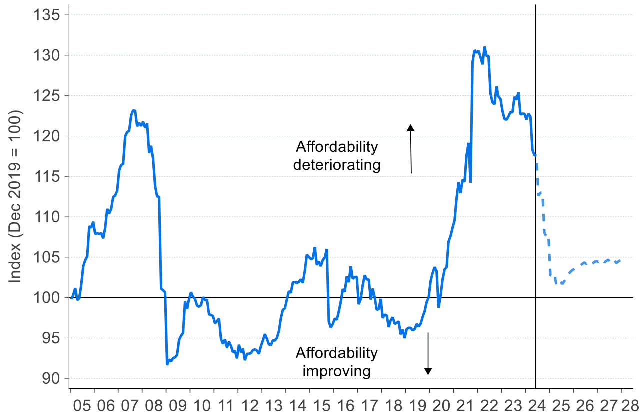


Source: REINZ, Stats NZ, RBNZ Macrobond, ANZ Research

Putting together these two measures, our ANZ affordability index (which puts even weights on the debt-servicing share and the house price to income ratio) provides a generalised measure of housing affordability (figure 10). Based on our forecast for mortgage rates, house prices and income growth, our affordability index is currently near its forecast low, though it still shows the housing market to be slightly less affordable now compared to pre-COVID.

Indeed, despite the relative improvement, affordability in the absolute sense is still very stretched. While the relative improvement will enable a recovery over 2025, into the medium term it's likely to limit the extent to which house price growth can persistently outpace income growth.

Figure 10. ANZ Housing Affordability Index

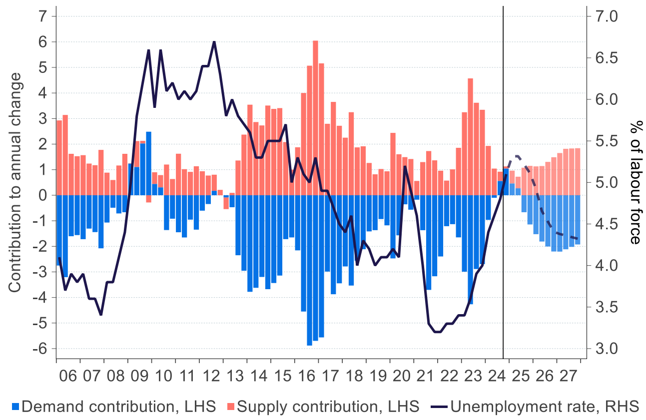


Source: REINZ, Stats NZ, RBNZ Macrobond, ANZ Research

An improving broader economic backdrop is also likely to support the housing market recovery over the year ahead. This month we published our latest Quarterly Economic Outlook, outlining that the conditions are in place for a recovery moving forward. While it is likely to be gradual at first, with labour market conditions still adjusting to past weakness in the economy, the recent dataflow continues to offer encouragement that a recovery is underway.

Labour market conditions and household confidence more broadly are important drivers of the housing market. While unemployment is likely yet to peak, with our forecast showing the unemployment rate rising to 5.3% across the first half of 2025 (from 5.1% currently), monthly filled jobs data has signalled that employment growth has returned, and business surveys show firms' employment intentions have picked up. As household job security fears subside and confidence recovers, households currently sitting on the sidelines of the housing market may be drawn in, supporting demand.

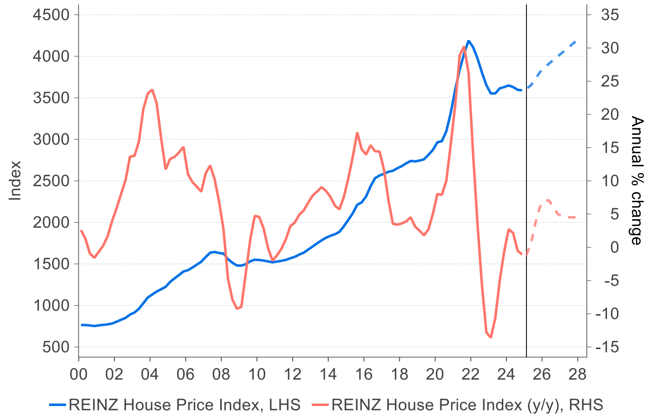
Figure 11. Unemployment rate forecast contribution



Source: Stats NZ, Macrobond, ANZ Research

All up, and despite the housing market starting the year in "loose market" territory, lower interest rates and an improving economic backdrop are supporting a gradual recovery. Looking further ahead, we're forecasting house prices to rise 5% over 2026, slightly outpacing income growth, before growth stabilises at 4.5% over 2027, in line with our forecast for household income growth.

Figure 12. ANZ house price forecast

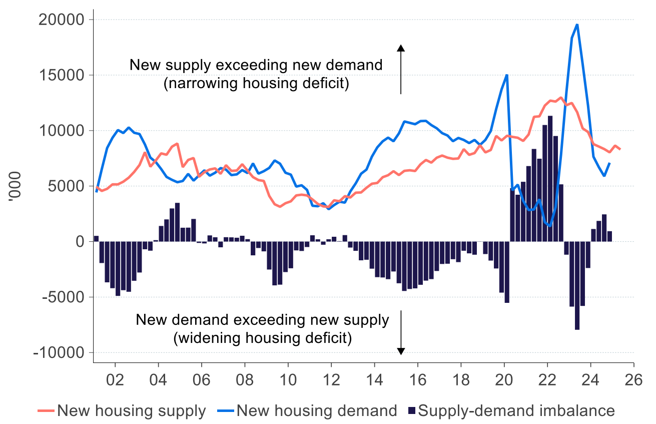


Source: REINZ, Macrobond, ANZ Research

Into the medium term, once the economic cycle has washed through, the key driver of house price growth is the relative housing supply-demand imbalance. A significant driver of outsized relative house price gains in New Zealand over history has been the failure of new housing supply to keep pace with population growth.

Our estimated housing supply-demand imbalance shows the persistent widening in New Zealand's housing deficit prior to COVID (figure 12). However, during the early COVID period, with the closed border curtailing population growth while ultra-low interest rates stimulated a rapid construction boom, New Zealand's housing deficit narrowed considerably. That certainly doesn't align with the extraordinary house price boom that New Zealand also experienced during that time, highlighting that the housing market can detach from demand-supply fundamentals when "animal spirits" come to the fore.

Figure 13. Estimated housing supply-demand imbalance

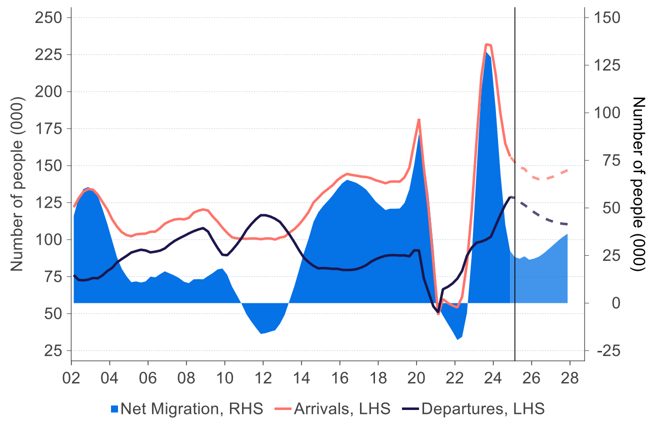


Source: Stats NZ, Macrobond, ANZ Research

But the progress made through the early COVID years didn't last. As the border reopened and net migration surged just as restrictive interest rate settings weighed on construction activity, New Zealand's housing deficit began to widen once again.

Encouragingly, from a housing affordability perspective at least, new housing supply has recently been outpacing demand once again, reflecting slower population growth. Net migration inflows have fallen sharply over recent quarters as New Zealand's deteriorating labour market has seen arrivals slow, while departures have ramped up as more kiwis look for job opportunities offshore, particularly in Australia.

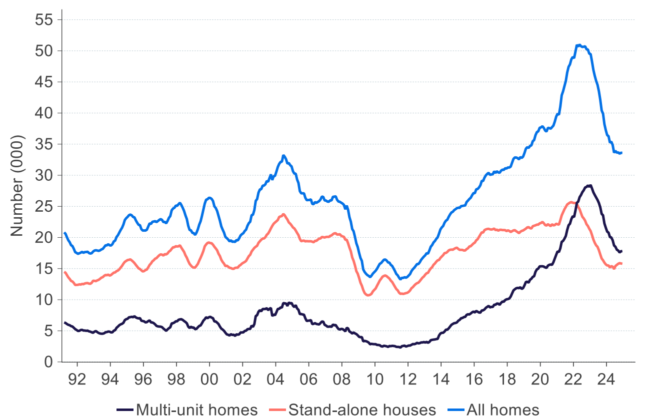
Figure 14. Annual net migration assumption



Source: Stats NZ, Macrobond, ANZ Research

Our forecast assumes annual net migration inflows remain around current levels over the year ahead before beginning to rise towards the long-run average in 2026 as the economy and labour market recover. As such, the cyclical fall in net migration inflows isn't likely to be a long-term fix for reducing the housing shortfall. We need to build more houses.

Figure 15. Annual building consents issuance



Source: Stats NZ, Macrobond, ANZ Research

On that front, while annual consents issuance has fallen sharply from its previous highs, the downtrend has stabilised in recent months. Residential construction intentions in our Business Outlook survey lifted sharply over the second half of 2024 and are firmly positive, boding well for the recovery kicking on over the year ahead.

Policy settings have a role to play too, through freeing up more land for development. That has been the direction of travel over the past decade, and progress has been made, but more is needed. But it's not just about freeing up more land. New development requires supporting infrastructure and given the current infrastructure deficit and council budget constraints, there's no quick fix.

Housing market indicators for January 2025 (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	$693,916	-8.7	5.2	-3.5	-0.9	161	-8%	58
Auckland	$998,206	-2.2	1.9	-2.2	0.6	1,747	-8%	49
Waikato	$734,934	-3.7	-2.7	-2.1	-0.1	647	+4%	53
Bay of Plenty	$840,682	7.7	2.8	-1.0	0.7	381	-6%	51
Gisborne	$662,284	27.1	-1.3	0.2	-0.3	37	+53%	51
Hawke's Bay	$679,062	-1.0	3.5	0.2	-0.3	206	-1%	54
Manawatu-Whanganui	$546,969	2.9	2.2	-0.6	0.0	281	-3%	46
Taranaki	$601,262	-0.5	-1.6	1.4	0.0	142	-1%	43
Wellington	$778,497	-1.3	-3.0	-4.5	-0.5	584	-1%	49
Tasman, Nelson & Marlborough	$755,255	2.9	2.5			206	+2%	46
Canterbury	$700,051	4.3	1.6	0.4	-0.2	1,020	+2%	42
Otago	$671,738	-1.1	0.5	1.0	-0.1	364	-8%	43
West Coast	$383,464	9.4	-3.6	1.1	0.0	37	+2%	66
Southland	$484,322	7.4	3.0	1.7	0.8	148	+9%	43
New Zealand	**$769,340**	**-1.6**	**-0.7**	**-1.4**	**0.2**	**6,034**	**-1%**	**47**

Mortgage Borrowing Strategy

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Summary

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Thoughts and views

Changes in mortgage rates this month are likely to have been music to the proverbial ears of many borrowers, especially as the biggest falls (in fixed rates) were seen in the 1-year to 3-year part of the curve, which have been popular choices in the past when mortgage rates have come down. Floating fell further, but it is a lot more expensive (the average floating rate is almost 2% more expensive than the average 2-year rate), and borrowers who have been waiting for mortgage rates to fall before fixing now have the opportunity to extend term.

Reserve Bank data shows that over the last three months of last year the most popular choice was the 1-year (which accounted for 34% of mortgage flow), followed by floating (32%), followed by 6-months (26%). That's a lot of borrowers who chose to shorten how long they were fixed for (or moved to floating), and they are now well placed to make a decision on what to do next, either now or over coming months.

For those who are floating or are about to roll off a fixed term, we see merit in considering fixing a portion of debt now. Bird in the hand, as it were. Because we expect wholesale swap rates to fall as the OCR approaches 3%, we do see mortgage rates falling a little further. However, as mortgage margins have narrowed sharply already (especially for the 2-year), future falls in mortgage rates may be more moderate. Broadly then, we concur with the chorus of personal financial media commentators who think we are nearing the lows in mortgage rates. In essence, whereas last month we wrote that in terms of a core strategy, we see merit in extending soon, we think that time has basically come (or is at least close).

As always, there are risks around any strategy – things don't ever pan out quite as expected, and there is no shortage of uncertainty. But based on our expectation of a 3% low for the OCR, we think 1-3yr mortgage rates are approaching cycle lows. History shows that for mortgage rates to move markedly below 5% (perhaps to around 4.5%), the OCR would likely need to fall below 3%, and that isn't what we or the Reserve Bank expect. So, unexpected events aside, we suspect coming months will be all about choosing when to extend. On that score, our breakevens (table 1) show that you'd need to see the 1-year rate fall from its current level of 5.29% to 4.84% in 6 months or 4.69% in a year's time for fixing for one more short term of 6-months or 1-year to be better than simply taking the already-low 2-year rate.

Those who are still fixed may be considering breaking their fixed term. Doing so may result in a penalty, but if the penalty is small relative to what you believe you'll stand to gain in terms of payments over the long run, it may be worthwhile. If you have something like a year to go, and that rate is perhaps 6.8% (as the 2-year rate was a year ago), the cost may be prohibitive. But if you only have 3 months to go before your fixed term ends, and the rate is, say, 6.4% (as the 6-month rate was 3 months ago), the penalty may be worth it to be able to fix for 2 years at 4.99%. In short, don't assume; do the maths.

Finally, it is worth reiterating that it always makes sense to consider breaking up your debt and spreading your risk across several terms. It rules out getting it completely right, but it also rules out getting it completely wrong, and most people would consider that a fair exchange. The unexpected can happen, and COVID was a recent (and very raw) reminder of that.

Figure 1. Carded special mortgage rates*

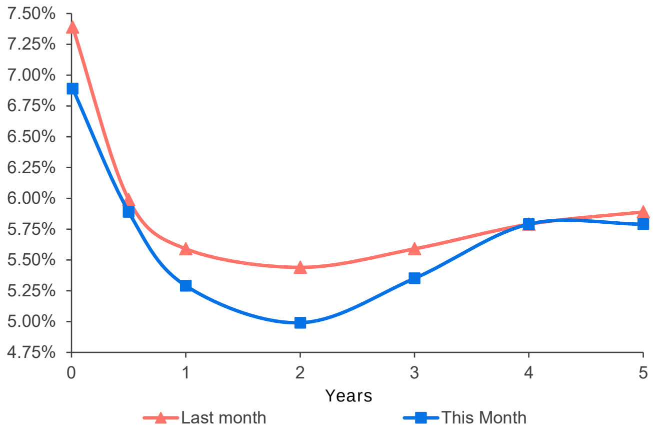

Table 1. Special Mortgage Rates*

		Breakevens for 20%+ equity borrowers			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	6.89%				
6 months	5.89%	4.69%	4.99%	4.39%	5.89%
1 year	5.29%	4.84%	4.69%	5.14%	6.07%
2 years	4.99%	4.99%	5.38%	5.86%	6.59%
3 years	5.35%	5.52%	5.96%	6.09%	6.32%
4 years	5.79%	5.78%	5.92%		
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	6.9	6.9	6.5	6.2	6.2	6.2	6.2	6.2
1-Yr Fixed Mortgage Rate	6.3	5.8	5.3	5.2	5.1	5.0	5.0	5.1	5.1	5.1
2-Yr Fixed Mortgage Rate	5.8	5.6	5.0	5.0	4.8	5.1	5.1	5.2	5.2	5.2
3-Yr Fixed Mortgage Rate	5.8	5.6	5.4	5.3	5.1	5.2	5.3	5.3	5.3	5.3
5-Yr Fixed Mortgage Rate	5.8	5.8	5.9	5.8	5.6	5.5	5.6	5.6	5.7	5.8

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(a)	5.3	5.3	5.2	5.1	4.9	4.7
House Prices (Quarter % Chg)	0.5	-0.5	-0.9	-0.2(a)	0.5	1.1	2.1	2.1	1.4	1.2
House Prices (Annual % Chg)	2.7	2.1	-0.5	-1.1(a)	-1.1	0.6	3.6	6.0	7.0	7.1

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	3.75	3.75	3.25	3.00	3.00	3.00	3.00	3.00
90-Day Bank Bill Rate	4.87	4.23	3.76	3.40	3.10	3.10	3.10	3.12	3.17	3.20
10-Year Bond	4.24	4.75	4.51	3.11	3.10	3.13	3.18	3.19	3.25	3.25

Source: ANZ Research, Statistics NZ, RBNZ, REINZ

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