New Zealand Property Focus

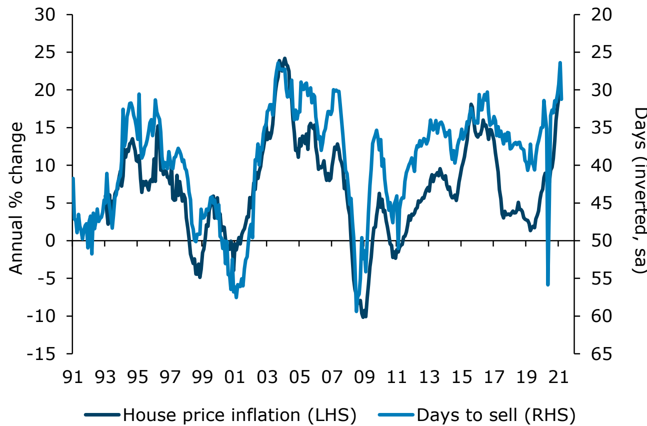
Policy plethora

ANZ

At a glance

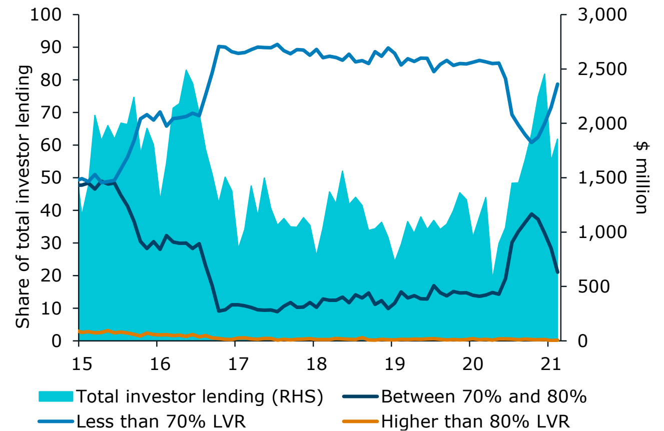
A tentative cooling?

Days to sell lifted in March



LVR restrictions biting

70-80% LVR lending share is shrinking



Policy adds uncertainty to outlook:

- Removal of interest deductibility for investors
- Tougher LVR restrictions
- End of 90-day no-cause terminations
- More to come?
- Policy action is absolutely necessary

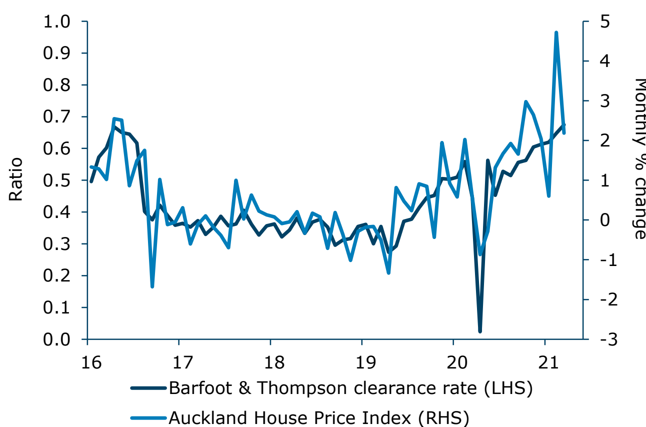
There are always policy externalities:

- Lower proportion of properties used as rentals
- Higher-than-otherwise rents
- Lower-than-otherwise investor debt levels in the long run

The Government has bought itself time, but needs to use it wisely and quickly to address supply constraints.

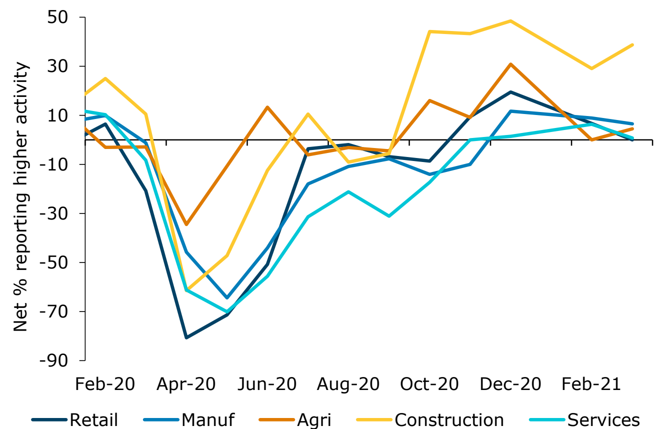
Looking for a turning point

Auction clearance rates may provide a timely signal of market tightness



Supply is slow-moving

Construction sector busy, but capacity constrained



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

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See page 13.

INSIDE

At a glance	2
Housing Market Overview	4
Regional Housing Market Indicators	6
Feature Article: Policy plethora	7
Mortgage Borrowing Strategy	11
Weekly Mortgage Repayment Table	12
Mortgage Rate Forecasts	12
Economic Forecasts	12
Important Notice	14

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Summary

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

Housing market overview

The housing market remained hot in March, but there have been a few tentative signs of cooling. House price inflation slowed in March, days to sell lifted, and February data show higher-LVR lending to investors has well and truly turned a corner. Looking forward, we expect recently announced Government policies (particularly the removal of interest deductibility for investors) to take the wind out of the market's sails a little faster than otherwise. And risks of outright falls in house prices have intensified. That said, the fundamental undersupply problem is being addressed only very slowly, and more is likely to be needed. The construction industry is working hard, but capacity needs a leg up. See Housing market overview for further detail.

Feature Article: Policy plethora

Housing policy has moved very fast in recent months, and for good reason – the market has gone bonkers. Affordability and credit constraints mean the recent pace of house price inflation was never going to be sustainable, but now, with the policy headwind about to start biting harder, we think the slowdown is looming. This month we take stock of recent policy changes and discuss some of their expected impacts. House price inflation is expected to slow a little faster than otherwise, and the risk that house prices actually fall is now higher. But while these policies may take the heat out of the market, the impact on rents could be less helpful from a broader housing affordability perspective. Further, most of the recent policy changes won't help to deliver the additional houses NZ needs to address its structural problem – they buy time. The supply side is where policy now needs to focus. See this month's feature article.

Mortgage borrowing strategy

Mortgage rates have not changed since our last edition. As has been the case for some months, the 1-year fixed rate remains the lowest at all banks, and average rates out to 3 years remain below the 3% mark. Our thinking and views remain similar to last month too: we like the 1-year rate because of how low it is, and given our expectation that the OCR will remain at 0.25% until at least 2023. However, we also see merit in adding some longer terms into the mix too, on the basis that the next move in the OCR is likely to be up, even if that's currently thought to be some years away. And with long-term global interest rates (which tend to influence New Zealand long-term rates more than the OCR does) looking to be past their cycle lows, 3 to 5-year mortgage rates may not be this low in a year's time. See Mortgage Borrowing Strategy for more.

Housing market overview

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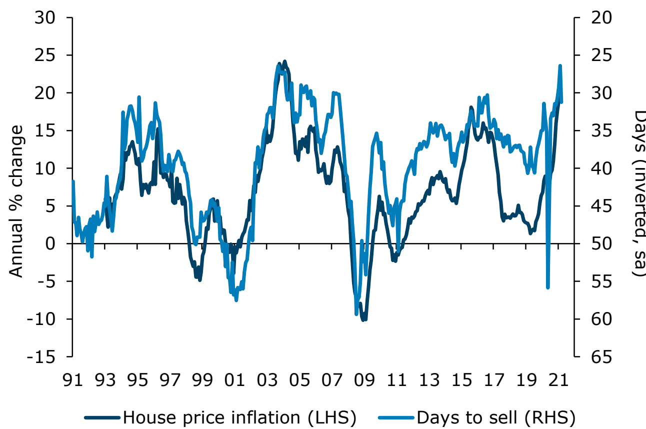
Still tight in March

Housing market strength remained clearly evident in March, but there was some tentative evidence in the data that momentum is slowing (albeit from a ridiculously giddy pace). Prices lifted a further 2.7% m/m (following a 3.7% m/m rise in February) and days to sell lifted from their record low of 26 in February to 31 in March – still faster than the historical average of 39, but suggesting the frenzy may be subsiding. Annual house price inflation continued to accelerate, reaching 24% in March, and will likely climb further over coming months as weakness during the great lockdown drops out of the annual calculation.

Figure 1. Annual house price inflation and days to sell

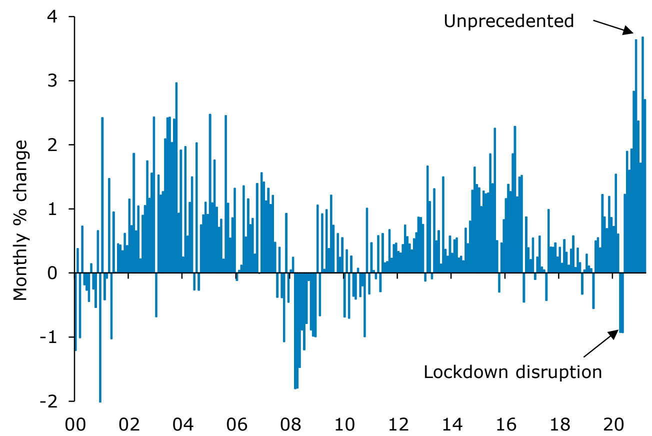


Source: REINZ, ANZ Research

Looking at the monthly price pulse (figure 2), we're expecting some relatively modest outturns from April onwards, as policy-induced headwinds (see this month's feature article) start biting harder.

Indeed, recent policy announcements represent new downside risks to the housing outlook, but at this early stage it's difficult to tell if the anecdotes we're hearing about investors throwing in the towel are representative or not. Investors have time to decide what they want to do, given the four-year phase-in. We certainly expect softer-than-otherwise housing demand in the near term, and downgraded our house price forecasts shortly after the announcement. However, recent history has taught us not to write off housing momentum too early.

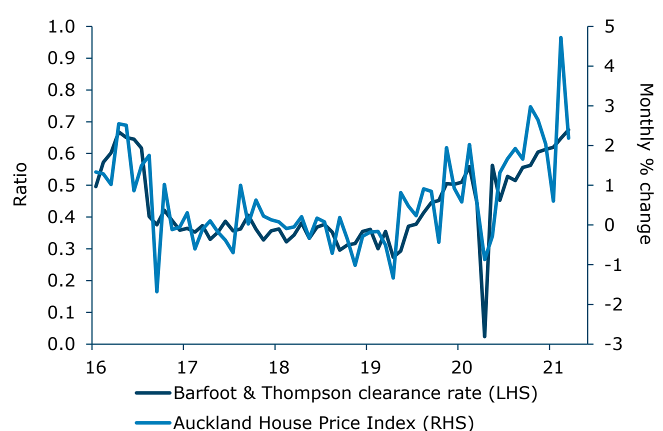
Figure 2. Monthly house price inflation



Source: REINZ

Over coming weeks we'll be keeping a close eye on both the data pulse and anecdote. Auction clearance rates can provide a steer on market tightness, so that's something to put on the radar. However, we'll need to interpret these data with caution, as a significant deterioration in the very near term may not signal a sustained reduction in housing demand – it's possible that would-be investors only hit pause temporarily while they work out the implications of recent policy changes.

Figure 3. Auction clearance rates and house prices (Auckland)



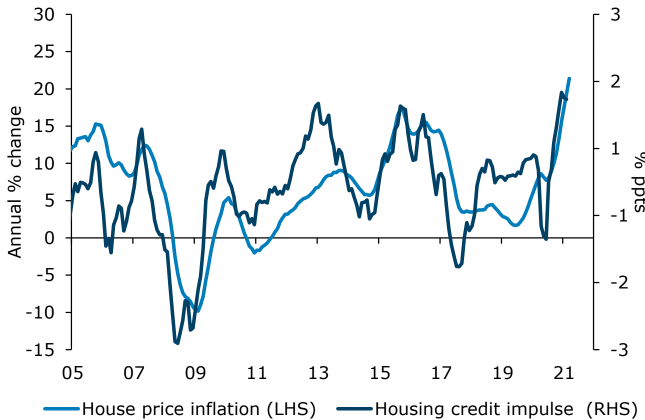
Source: REINZ, Barfoot & Thompson, Macrobond, ANZ Research

Credit data are also worth keeping a close eye on. These data are not as timely as the REINZ housing data, but they do provide some good flavour. The "credit impulse" – a measure of credit momentum based on whether credit growth is accelerating or decelerating – tends to move with the house price cycle. Causality here is messy, but that doesn't really matter. Frothy housing without credit to facilitate it is a hard story to tell, and the data to February were displaying peaky characteristics (figure 4). We

Housing market overview

discussed the outlook for tightening credit conditions in last month's edition. Bottom line: we're probably past the easiest part of the credit cycle, but tightening from here should be very gradual. Global factors are the wild card.

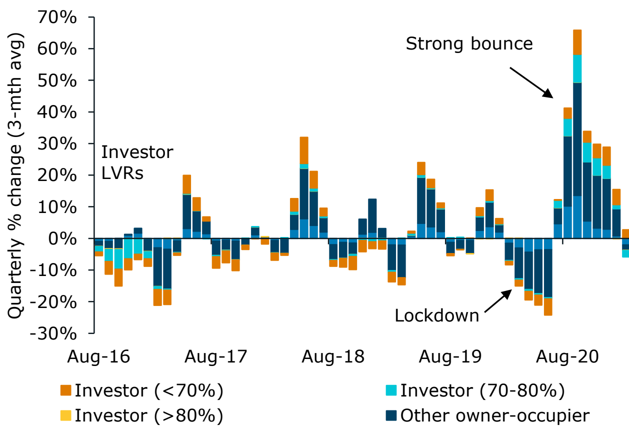
Figure 4. House prices and the credit impulse



Source: REINZ, RBNZ, ANZ Research

Updated lending data will also show us who is doing all the marginal borrowing. Quarterly data shows the worm turning, which is unsurprising given how extreme and unsustainable recent growth has been (figure 5).

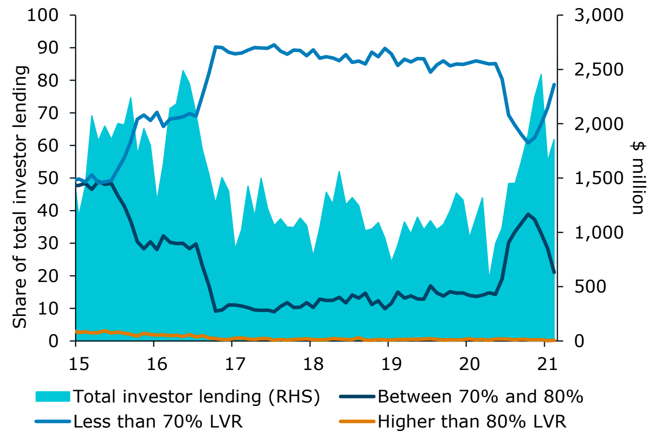
Figure 5. Contributions to q/q growth in new lending



Source: RBNZ, ANZ Research

Underpinning this dynamic is the pullback taking place in higher-LVR lending to investors (figure 6). This precedes the latest tax announcements – it reflects the closing of the LVR suspension window, of course, but also the fact that investors knew the LVR suspension was temporary, and anticipated the extension of the bright-line test to boot, and rushed in while the going was good. There was always going to be a corresponding hole in investor demand in coming months due to pure timing factors. In practice, we'll never be able to fully disentangle the marginal impact of the tax deductibility change from what would have happened anyway. We can argue about it forever – that's the great thing about economics.

Figure 6. Investor lending

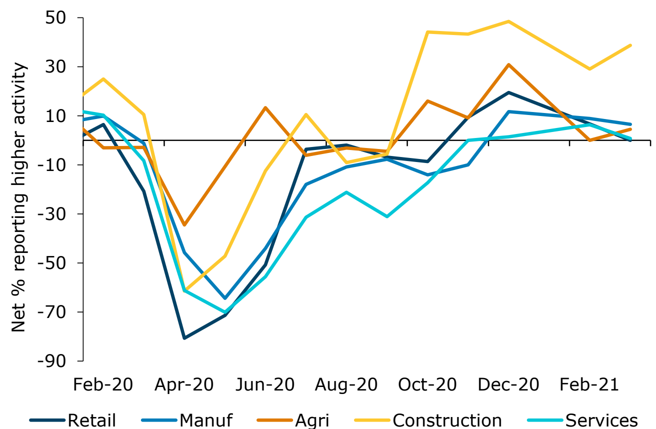


Source: RBNZ, ANZ Research

Turning to the housing supply side (where a lack thereof, combined with strong population growth, is the main culprit behind NZ's housing affordability crisis), there remains plenty of pipeline activity out there. However, it will take a long time for building supply to catch up, particularly given the industry is grappling with significant capacity and supply issues.

Regulation, lacklustre productivity growth, misaligned incentives for infrastructure provision, and land availability have always been a brake on residential building. But now, that's being exacerbated by the closed border turning off the taps for imported skilled labour, global supply chain woes making it extremely difficult to land imported building materials in a timely manner, and domestic production of building materials struggling with rising costs, competition with exports for logs, and capacity. Construction has been the jewel in the NZ economic recovery's crown (figure 7), but it can't shine any brighter than it already is.

Figure 7. Reported activity vs. same month a year earlier



Source: ANZ Research

From a broader economic momentum perspective, recent data suggest the direct impetus to growth from the hot housing market has all but run its course. We expect capacity to determine the path for construction from here, and it'll likely be a sideways one.

Housing market overview

That implies that the associated durables consumption pulse is also poised to slow. The indirect impetus to growth (via wealth and confidence channels) is a bit more of an open question, and that's why it's important for policy makers to attempt to engineer a soft landing for the housing market. If housing tanks, it'll likely take confidence with it, and that could spark a negative feedback loop, resulting in economic momentum going the wrong way. Unfortunately for policy makers, there's no getting away from the interconnectedness of housing from the broader economy. And a soft landing from a vertical take-off can be difficult to engineer, as Elon Musk recently found.

That said, slowing housing-induced momentum shouldn't be too concerning for the broader economic outlook so long as the pipeline of planned activity doesn't turn south and confidence doesn't materially deteriorate. A pivot towards a trans-Tasman bubble (and later, generally open borders) will hopefully see the key driver of underlying momentum pivot from housing to international tourism and services (where there is certainly some spare capacity). Rising export prices are also providing a boost. But the economy is still pretty vulnerable this year, and the state of the housing market does have a big impact.

Housing market indicators for March 2021 (based on REINZ data seasonally adjusted by ANZ Research)

	Median house price			House price index		# of monthly sales	Monthly % change	Average days to sell
	Level	Annual % change	3-mth % change	Annual % change	3-mth % change			
Northland	$679,178	26.4	5.7	22.2	6.4	252	+15%	40
Auckland	$1,073,972	18.5	6.4	22.5	6.9	3,178	+18%	31
Waikato	$723,347	22.6	5.3	25.2	8.8	853	+20%	28
Bay of Plenty	$805,926	24.5	10.5	27.1	9.6	484	+6%	26
Gisborne	$614,513	57.4	2.8			57	+18%	30
Hawke's Bay	$695,974	30.7	8.0	32.3	12.1	223	+28%	31
Manawatu-Whanganui	$559,313	31.0	8.3	31.5	11.4	366	+17%	23
Taranaki	$513,490	20.9	5.3	27.0	9.0	196	+25%	21
Wellington	$851,648	24.8	8.7	31.2	10.6	692	+17%	30
Tasman, Nelson & Marlborough	$695,478	20.0	3.2			204	+12%	24
Canterbury	$556,809	17.7	4.1	20.2	7.3	1,190	+16%	25
Otago	$689,562	30.5	3.4	12.8	6.1	454	+24%	28
West Coast	$290,365	37.6	8.4	23.0	7.5	85	+43%	36
Southland	$408,625	12.0	5.6	20.5	7.8	185	+4%	22
New Zealand	**$797,607**	**24.2**	**6.4**	**23.9**	**8.1**	**8,108**	**+14%**	**26**

Feature Article: Policy plethora

Summary

Housing policy has moved very fast in recent months, and for good reason – the market has gone bonkers. Affordability and credit constraints mean the recent pace of house price inflation was never going to be sustainable, but now, with the policy headwind about to start biting harder, we think the slowdown is looming. This month we take stock of recent policy changes and discuss some of their expected impacts. House price inflation is expected to slow a little faster than otherwise, and the risk that house prices actually fall is now higher. But while these policies may take the heat out of the market, the impact on rents could be less helpful from a broader housing affordability perspective. Further, most of the recent policy changes won't help to deliver the additional houses NZ needs to address its structural problem – they buy time. The supply side is where policy now needs to focus.

Housing policy stocktake

The Government has recently announced a number of housing policy measures to address New Zealand's housing unaffordability crisis. As discussed in the housing market overview above, we expect these policies to take the heat out of the housing market a little faster than otherwise. However, the impacts are highly uncertain, and will be difficult to disentangle from timing effects and other headwinds that are expected to bite (eventually), such as affordability and looming limits on credit growth.

Let's quickly take stock of some of the recent policy developments.

On 23 March the Government announced that:

- Property investors will no longer be able to deduct interest costs for the purposes of calculating taxable profit. For new investments, this will be introduced on 1 October 2021, but it will be applied retrospectively from 27 March. For existing properties, this will be phased in over four years.
- The bright-line test has been lengthened from five years to ten years. The family home remains exempt, and it will also remain at five years for newly built investment properties, in an attempt to pivot investors in this direction and protect the construction pipeline.

There were some positive supply initiatives in there too:

- Kāinga Ora to borrow an extra $2 billion to boost strategic land purchases.
- The Government has introduced a $3.8bn fund for councils for infrastructure that will demonstrably boost housing supply within a few years.

There was also a smidgen of demand-positive initiatives, which are ironically supportive of house prices but which tilt the playing field in favour of first-home buyers:

- Relatively small income cap increases for the Government's First Home Loan and the First Home Buyer Grant will take effect from 1 April.

This comes on top of a range of recent law changes that have been in the pipeline a little longer, which from an investor's perspective will add additional cost and reduce flexibility. But from a renter's perspective (if they can find a suitable tenancy) the changes will better protect them from an unreasonable landlord. Key changes include:

- Limiting the frequency of rent increases to once every 12 months from once every 6 months (effective from 12 August).
- Abolishing 90-day no-cause terminations.
- Increased tenant rights such as being able to request minor alterations to the property.
- Strengthened enforcement by the regulator (MBIE) and increased Tenancy Tribunal jurisdiction.

While the Government is rightly pursuing a policy mix aimed at helping first home buyers into the market and protecting some of our most vulnerable renters, there are some possible significant unintended negative consequences (discussed in further detail on page 9).

The RBNZ has also tightened its housing policies in response to the heightened financial stability risk associated with the out-of-control-housing market, by tightening LVR restrictions. And further macro-prudential tools could be on the way, with debt-to-income limits for investors and restrictions on interest-only loans under consideration.

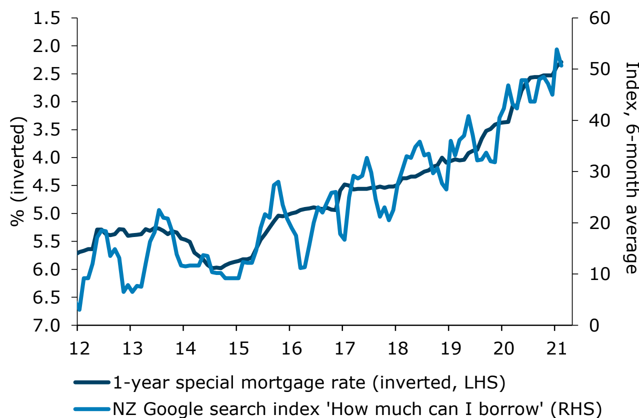
Bottom line: if you're a residential property investor, or thinking about becoming one, the game has changed a lot in a short space of time (and there's an additional layer of potentially quite off-putting uncertainty about what might yet be in store). But do the recent policy changes meaningfully threaten the belief that housing is a great investment because of its tax and leverage advantages, but also because NZ housing supply never keeps up with growing demand?

This question speaks to the important distinction between NZ's *cyclical* housing woes and its *structural* ones – in other words, the cycle and the trend. The two can never be fully disentangled, particularly in real time, but the key point to note is that policy solutions for the cycle (like LVR restrictions and interest rate changes) won't necessarily fix the trend, which is all

about how responsive housing supply is to changes in demand, be they caused by net migration, or interest rates, or anything else.

That's a distinction well worth thinking about. It's a popular view that monetary policy settings are to blame for out-of-control house prices, and from a perspective of "what drove house prices up recently", then yes, that's undeniably true (figure 1). That is, after all, how monetary policy is supposed to work.

Figure 1. Interest rates and interest in borrowing



Source: Google Trends, RBNZ, ANZ Research

But that's only the cyclical part of the story. If the decades-long, structural under-supply of housing problem were to be magically resolved, and market participants knew it would remain that way, then lower interest rates would have had less impact on house prices than otherwise.

Simply put, if we had enough houses for our population's physical needs, house prices would be lower. What NZ really needs now are policies that will address the structural issues, and that will continue to do so through the cycle.

We've touched on this topic in a previous Property Focus. For now, let's focus on the impact recent polices might have over the next year or so.

The impact on house prices

All up, and as outlined in the Housing Overview, we expect recent changes to take the wind out of the housing market's sails a little faster than otherwise. Of the recent policy changes, we think the one that's likely to have the largest impact on the arithmetic of property investment is the phased removal of interest deductibility.

Broadly speaking, we see this playing out as follows:

- Existing investors realise they're in for a higher tax bill, so will look for ways to recoup the loss where possible (via higher rents).
- Some will likely push pause on their plans to buy or develop for a while as they work through the implications and assess the housing pulse.
- Some would-be investors could be deterred permanently.
- Highly leveraged property investors may decide it's time to downsize the portfolio.
- Accountants are likely to benefit as investors try to find ways of restructuring their portfolios to avoid or limit the tax increase.

What we're not expecting is a significant fire-sale of investment properties in the near term. The phase-in of the change is important in this regard, as is the very valid question of what else they would do with their money currently. The impacts of the removal of interest deductibility on investors will vary enormously, depending on a number of factors such as loan size and the path of mortgage rates.

But the million-dollar question is what the policy change will do to house prices in aggregate.

One way of modelling the value of a house (or any other financial investment) to an investor is "net present value analysis", designed to help investors choose between two competing investments. To be honest, we're very dubious that the majority of property investors think about their housing investment in yield terms at all, let alone discounting out years, with many rather just taking a punt, focused squarely on the potential capital gain by retirement age. But nonetheless, it's a useful framework for thinking about what factors matter in terms of who is going to be stung hardest by this change.

After making a number of big assumptions, Table 1 shows how the financial value of a residential investment property would change under different LVR and interest rate scenarios.

Varying just the mortgage rate and the loan-to-value ratio throws up a fairly wide range of impacts. And the range gets considerably wider when you consider:

- a different marginal tax rate;
- whether the loan is structured as interest only; and
- how much the investor cares about yield versus capital gain, which can be roughly proxied by varying the discount rate (which then also has a lot to say about whether the phase-in is a game changer or not).

Table 1. Possible impacts on the discounted financial value of an investment property

		Mortgage rate			
		2%	3%	4%	5%
LVR	40%	-1.7%	-2.7%	-3.7%	-4.7%
	50%	-2.2%	-3.4%	-4.6%	-5.9%
	60%	-2.6%	-4.0%	-5.5%	-7.1%
	70%	-3.1%	-4.7%	-6.5%	-8.3%
	80%	-3.5%	-5.4%	-7.4%	-9.5%

Assumptions: 33% tax rate, 8% discount rate on future cashflows, 4-year phase-in, with a 30-year loan paying principal and interest.

Source: ANZ Research

As alluded to above, this type of analysis is very limited for a number of reasons. Not only is there a wide range of input assumptions that could be argued about until the cows come home ("So what's your discount rate?" is not a common BBQ question), but it also ignores alternative investment options. For many investors, there are no close substitutes for residential property. Housing is simple, has a relatively low perceived risk (perhaps unjustified), and is easy to leverage. So while the financial valuation framework throws up some pretty drastic potential impacts, so long as investors expect a solid capital gain over the long run (an expectation likely to linger until the Government fixes the structural undersupply problem), we think property is going to remain a pretty popular investment.

But let's not understate the now-increased risk to the broader economy. We aren't forecasting house prices to fall, but from these lofty heights we certainly would not rule it out. There are a lot of highly indebted households out there who would be very vulnerable if interest rates were to increase or incomes were to deteriorate. And in terms of investors, it's worth noting that interest rate increases no longer bring a larger tax offset. There's now a greater chance that interest rate increases could cause investors to sell up, meaning a faster braking impact on the housing market than previously. We're anticipating this policy change to have a relatively muted impact in the near term, but it makes mortgage rate increases even scarier for the housing market.

That feeds into our expectation that the RBNZ will be very cautious in raising interest rates, and possibly wait too long. The lesson from the 1990s was that tightening policy too late in the face of rising inflation pressures meant interest rates (and the exchange rate) had to go higher for longer, as policy really struggled to rein things in. It's possible that happens again, but we'd note that any increases in interest rates are likely to impact things pretty quickly, given both the tax change and household debt levels.

Accounting for the impact of all the recent policy changes, such as tougher LVR restrictions and the end of 90-day no cause terminations, in one fell swoop simply isn't possible. Data is limited (if it exists at all) and the impacts are likely to overlap. For example, higher LVR restrictions are expected to have less of an impact on investor activity given the interest deductibility changes. We've focussed on the latter because we think it'll be one of the most important.

Externalities and broader impacts

As the saying goes, there is no such thing as a free lunch, and this is very true when it comes to housing policy. On the one hand, policy changes should slow the pace of house price inflation, making it easier for those first home buyers who can muster up a deposit large enough to buy a home, but on the other hand, the increased costs and uncertainty for landlords is likely to see rents increase to some extent.

For example, a landlord currently charging rent of $600 per week who is looking to recoup the tax component (say 33%) of an interest cost of $24,000 per year (4% on a $600,000 loan) would need to raise rent by more than 25%! Further, if more investors start switching to principal and interest payments, their required cash flow will be higher still. But of course, in reality, rents are determined by supply and demand, not by property investors' desired yields. Landlords' ability to raise rents will be constrained by the incomes of renters and their own desire to not have properties sit empty. And of course, many investors have lower levels of debt so their cashflow will be much less impacted. However, what is undeniably true is that the maths around charging under-market rent in order to keep a good tenant has changed, and some relative bargains are likely to be repriced.

Another key consideration is what these policy changes do to investor incentives to buy new-build houses. Appropriately, many of the new policies include (or are investigating) a carve-out for new builds. But new investment and uncertainty have never been good friends, and the potential to lose money on property development only grows when construction costs are rising.

Then there's the possibility that recent policy changes deter conversions of commercial building (including office space) to apartments. With more people working from home, some businesses are seeing an opportunity to reduce their operational costs by reducing their physical office footprint. This is an opportunity in the apartment space (and a win-win from a higher housing density perspective), but the increased cost of property investment and the

uncertainty about whether these projects will qualify as new builds may delay or prevent some projects.

If investors stop buying new-build houses (as some will surely threaten to do), and capacity opens up in the construction sector, there will be an opportunity for Government to ramp up its plans to build houses. But the construction sector is struggling with a shortage of building materials, and that doesn't look like it will be resolved any time soon.

Another good reason for the Government to keep going to address the housing undersupply is that success in tilting the market towards first-home buyers may in fact shift the composition of how the existing housing stock is used, ultimately contributing to some already-nasty social outcomes, such as homelessness and overcrowding in rentals. For example, the worst case scenario is a three-bedroom house once occupied by three or four flatmates could end up sold to one or two first-home buyers who prior to buying were living with mum and dad in order to save the very sizeable deposit required to participate in this market. That's a potential double whammy for available rentals (unless mum and dad or the first home buyers rent out those empty rooms). That's probably not going to be the typical experience, but it's another good example of why housing policy needs to do more to boost overall supply of housing, particularly for our most vulnerable.

Investors being less incentivised to leverage up could end up being a slow-moving, but positive, externality from a financial stability perspective. High housing debt is a permanent feature of the RBNZ's Financial Stability Report, and rightly so. Recent policy changes aren't a game changer on this front by any means – the recent surge in house prices and debt mean associated financial stability risks are higher than ever. But for a given level of investment, there could now be less demand for interest-only borrowing, with higher principal payments leading to a lower-than-otherwise stock of debt held by "risky investors" in the long run.

All up, the Government is likely to be successful in taking the heat out of the market, but tilting the playing field from investors towards first-home buyers will never be enough to address New Zealand's homelessness problem, overcrowding, and high cost of living for some of our most vulnerable. For that, the Government needs to continue to aggressively pursue positive supply-side policies (such as freeing up land and cutting red tape) to such an extent that it will challenge the narrative that housing is scarce and always will be, and that house prices are a one-way bet (not our view). But politically, that's not easy to do when so many voters have already bet on housing for their retirement.

Mortgage borrowing strategy

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Summary

Mortgage rates have not changed since our last edition. As has been the case for some months, the 1-year fixed rate remains the lowest at most banks, and average rates out to 3 years remain below 3%. Our thinking and views remain similar to last month too: we like the 1-year rate because of how low it is, and given our expectation that the OCR will remain at 0.25% until at least 2023. However, we also see merit in adding some longer terms into the mix, on the basis that the next move in the OCR is likely to be up, even if that's currently thought to be some years away. And with long-term global interest rate (which tend to influence NZ long-term rates more than the OCR does) looking to be past their cycle lows, 3 to 5-year mortgage rates may not be this low in a year's time.

Our view

Our sampling across the "big four" banks reveals that there has been no change in average mortgage rates over the past month. As a consequence, the overall term structure of interest rates remains unchanged, with the 1-year the lowest point and all other points beyond that higher; with average rates out to 3 years below 3%. At face value, that should leave borrowers in a pretty good position, with rates as low as they have been in generations.

However, with us (and most others) forecasting stronger growth ahead and an eventual normalisation in monetary policy settings, we would urge borrowers to consider the implications for mortgage rates. Right here, right now, is likely to be "as good as it gets" for mortgage rates, with rises eventually coming as the OCR goes higher and global long-term interest rates (which tend to influence New Zealand's long term interest rates more than the OCR) also going higher.

While that might sound a bit daunting, the focus should, in our view, be on "eventually," given we expect it to be a slow process. To highlight this point, it's worth reiterating that we don't expect the RBNZ to lift the OCR until at least the end of next year. If past patterns hold, that means that we are unlikely to see any material change in floating or 1-year rates for at least another year, especially with the RBNZ offering to lend banks money for 3 years at the OCR via the Funding for Lending Programme, which will remain in place until June 2022.

If that turns out to be the case, there is a good chance that borrowers who fix for 1-year will be able to re-fix for another year at similar rates, and achieve a lower overall cost of funds over 2 years compared to fixing for 2 years. This is supported by our breakeven analysis, which shows that the 1-year rate would need to rise from 2.29% to 2.99% over the next year before back-to-back 1-year fixes became more expensive than 2-years at 2.64%.

However, while we think the odds of the 1-year rate rising to 2.99% over the next year in the absence of OCR hikes (which we don't expect) is unlikely, we can't guarantee it. That being the case, if this is as low as mortgage rates might go, it is worth considering a mix of terms. If one takes a longer-term view with the aim of lowering interest cost over, say, the next 5 years, rather than the next 2 years, it becomes less about where 1-year rates might be in a year's time and more about where, say, 2, 3 or 4 year rates may be next year. We do expect a gradual rise in New Zealand's 2 to 5-year wholesale interest rates over the next year as US and global interest rates rise, and that could lead to higher longer-term fixed mortgage rates.

We don't expect these rises to be significant or as rapid as implied by breakevens (see table 1 – which has, for example, the 3 and 4-year rates rising by 77bps and 26bps respectively over the next year), but there is no guarantee of that. Borrowers who are worried about the potential for higher mortgage rates can hedge this risk by adding some longer term fixes into the mix.

Figure 1. Carded special mortgage rates^

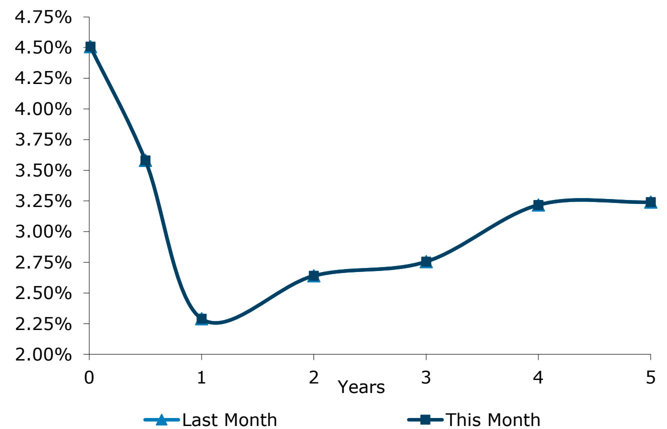

Table 1. Special Mortgage Rates

		Breakevens for 20%+ equity borrowers			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	4.51%				
6 months	3.58%	1.00%	2.82%	3.17%	2.93%
1 year	2.29%	1.91%	2.99%	3.05%	2.99%
2 years	2.64%	2.48%	2.99%	3.38%	3.80%
3 years	2.76%	2.89%	3.53%	3.61%	3.64%
4 years	3.22%	3.18%	3.48%		
5 years	3.24%	#Average of "big four" banks			

Source: interest.co.nz, ANZ Research

Key forecasts

Weekly mortgage repayments table (based on 25-year term)

Mortgage Size ($'000)	Mortgage Rate (%) 2.00	2.25	2.50	2.75	3.00	3.25	3.50	3.75	4.00	4.25	4.50	4.75	5.00	5.25
200	196	201	207	213	219	225	231	237	243	250	256	263	270	276
250	244	251	259	266	273	281	289	296	304	312	320	329	337	345
300	293	302	310	319	328	337	346	356	365	375	385	394	404	415
350	342	352	362	372	383	393	404	415	426	437	449	460	472	484
400	391	402	414	426	437	450	462	474	487	500	513	526	539	553
450	440	453	466	479	492	506	520	534	548	562	577	592	607	622
500	489	503	517	532	547	562	577	593	609	625	641	657	674	691
550	538	553	569	585	601	618	635	652	669	687	705	723	741	760
600	587	604	621	638	656	674	693	711	730	750	769	789	809	829
650	635	654	673	692	711	730	750	771	791	812	833	854	876	898
700	684	704	724	745	766	787	808	830	852	874	897	920	944	967
750	733	754	776	798	820	843	866	889	913	937	961	986	1,011	1,036
800	782	805	828	851	875	899	924	948	974	999	1,025	1,052	1,078	1,105
850	831	855	879	904	930	955	981	1,008	1,035	1,062	1,089	1,117	1,146	1,174
900	880	905	931	958	984	1,011	1,039	1,067	1,095	1,124	1,154	1,183	1,213	1,244
950	929	956	983	1,011	1,039	1,068	1,097	1,126	1,156	1,187	1,218	1,249	1,281	1,313
1000	978	1,006	1,035	1,064	1,094	1,124	1,154	1,186	1,217	1,249	1,282	1,315	1,348	1,382

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

	Actual			Projections						
Interest rates	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Floating Mortgage Rate	4.6	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
1-Yr Fixed Mortgage Rate	2.6	2.5	2.3	2.3	2.4	2.4	2.4	2.4	2.4	2.4
2-Yr Fixed Mortgage Rate	2.7	2.6	2.6	2.8	2.8	2.9	2.9	2.9	2.9	2.9
5-Yr Fixed Mortgage Rate	3.1	3.0	3.0	3.7	3.9	4.0	4.1	4.1	4.2	4.2

Source: RBNZ, ANZ Research

Economic forecasts

	Actual			Forecasts						
Economic indicators	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
GDP (Annual % Chg)	-11.4	0.2	-0.9	0.3	13.3	0.0	1.8	3.3	3.6	4.0
CPI Inflation (Annual % Chg)	1.5	1.4	1.4	1.3	2.3	2.2	1.7	1.6	1.5	1.5
Unemployment Rate (%)	4.0	5.3	4.9	5.2	5.5	5.5	5.3	4.9	4.7	4.5
House Prices (Quarter % Chg)	-0.2	4.2	8.1	8.1	3.3	0.3	0.9	0.9	0.9	0.9
House Prices (Annual % Chg)	7.7	10.0	15.7	21.4	25.7	21.1	13.0	5.5	3.0	3.6

Interest rates	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Official Cash Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
90-Day Bank Bill Rate	0.31	0.27	0.35	0.32	0.33	0.34	0.34	0.34	0.34	0.34
10-Year Bond	0.50	0.99	1.81	2.00	2.10	2.20	2.30	2.30	2.50	2.50

Source: ANZ Research, Statistics NZ, RBNZ, REINZ

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