ANZ

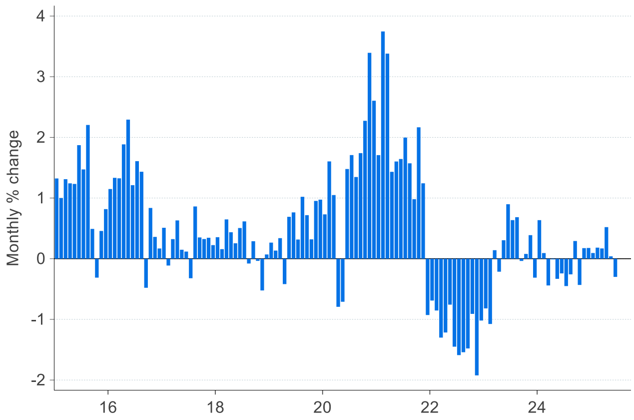
New Zealand Property Focus

Investigating rising council rates - where to from here?

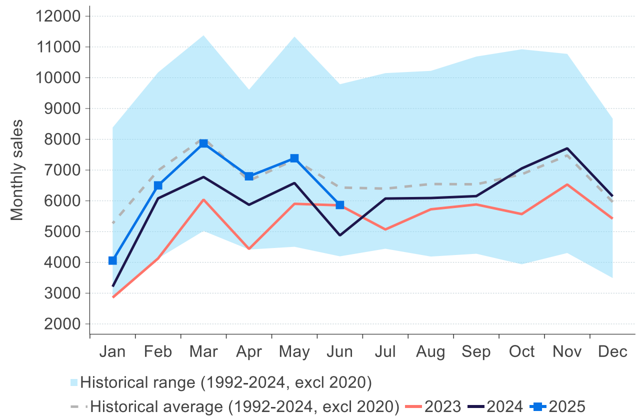
July 2025

At a glance

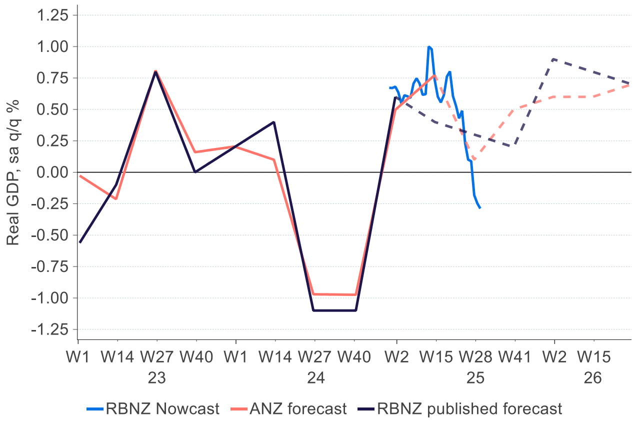
After a run of small house price increases, the market stalled in June



Softening demand saw sales volumes drop back below their historical average

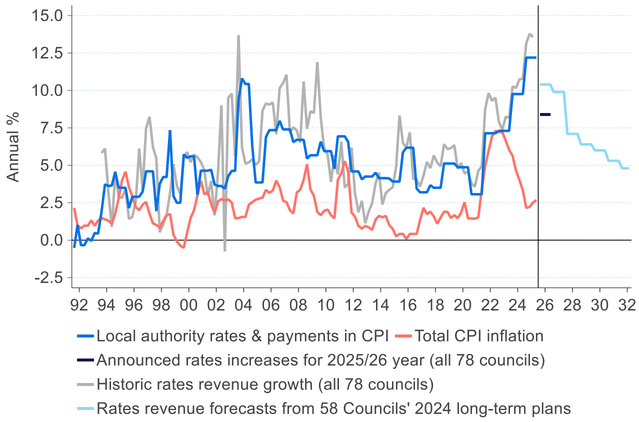


There are signs the wider the economic recovery is running out of steam

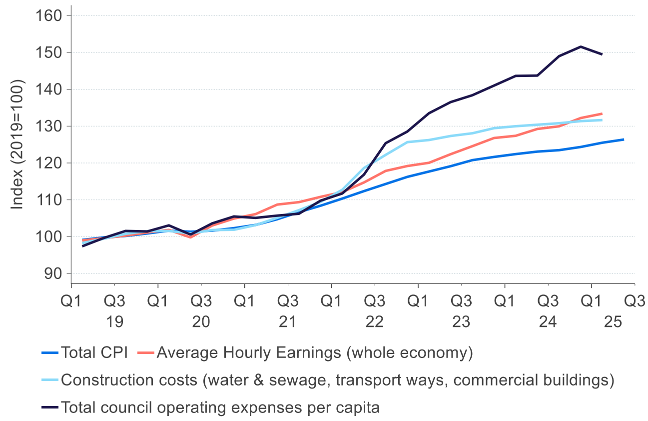


We expect modest house price growth to return as the OCR is cut further

In our feature article, we look at the outlook for council rates



Council rates are likely to keep rising, but more slowly as some economic pressures on councils ease



Source: REINZ, RBNZ, Stats NZ, NZ Taxpayers' Union, Office of the Auditor General, 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

After a run of small house price increases over the first part of the year, the housing market stalled in June. House prices fell slightly in the month, and sales volumes dipped, pointing to renewed caution among buyers. The softening in housing market data comes alongside a run of high-frequency indicators suggesting the economic recovery is running out of steam. Headline inflation isn't exactly comfortable for the RBNZ at 2.7% y/y, but spare capacity in the economy and soft economic activity data suggests that medium-term inflation risks are contained. We remain of the view that three further cuts in the OCR will be needed to shore up the economy and stabilise inflation around the RBNZ's target midpoint. Lower interest rates and a cyclical recovery are likely to see the housing market gradually strengthen over the next year, but we don't expect prices to race away. See our Property Focus section.

Feature Article: The outlook for council rates

Over the last four years, local council rates have increased by 7-12% per year on average across the country, and another large increase is set to happen this year. Looking out over the next few years, the balance of probabilities points to smaller but still-sizable increases in council rates. Some of the recent cyclical economic pressures on councils are easing. Wage and construction cost inflation have fallen back, and interest rates on local government debt are coming off their peaks. Lower recent population and GDP growth will help with catching up on infrastructure deficits. Also pointing in the direction of lower rates inflation is voter pushback against rates increases, with central government contemplating capping future increases. However, significant challenges remain. Essential local government infrastructure will need to be paid for somehow, and wages and construction costs rarely rise more slowly than overall inflation for long. This will keep the pressure on councils' finances – and rates – over the medium term. See our Feature Article.

Mortgage Borrowing Strategy

Average fixed mortgage rates are either little changed, or in the case of the 5-year, a touch lower this month. That stability followed the RBNZ's decision to keep the OCR steady at 3.25% earlier this month, keeping wholesale floating and short-term fixed rates – the proverbial building blocks of mortgage rates – steady. While some borrowers may naturally have been disappointed by the RBNZ's decision to pause, Q2 CPI released after the July OCR decision came in below expectations, which suggests that a 25bp OCR cut is very likely next month. And with high-frequency data consistent with an economic recovery that is stalling rather than gathering momentum, we expect more cuts after that too, pencilling in 25bp follow-up OCR cuts in November and February. That very much plays into the idea that borrowers have time on their side before choosing to extend the duration of their fixes at the low point of the cycle. That said, given how difficult it will be to time that perfectly, we think it makes sense to hedge your bets and spread your borrowing over several terms, even if your core strategy is to fix for a shorter period like 6 months one last time. See our Mortgage Borrowing Strategy.

Summary

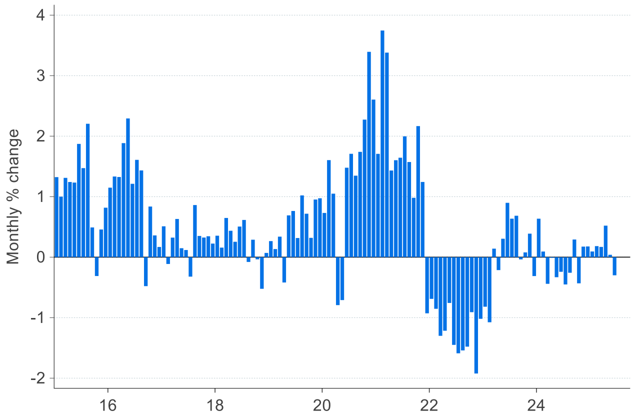
After a run of small house price increases over the first part of the year, the housing market stalled in June. House prices fell slightly in the month, and sales volumes dipped, pointing to renewed caution among buyers. The softening in housing market data comes alongside a run of high-frequency indicators suggesting the economic recovery is running out of steam. Headline inflation isn't exactly comfortable for the RBNZ at 2.7% y/y, but spare capacity in the economy and soft economic activity data suggests that medium-term inflation risks are contained. We remain of the view that three further cuts in the OCR will be needed to shore up the economy and stabilise inflation around the RBNZ's target midpoint. Lower interest rates and a cyclical recovery are likely to see the housing market gradually strengthen over the next year, but we don't expect prices to race away.

Renewed caution among buyers

After a run of small house price increases over the first part of the year, the housing market stalled in June. The seasonally adjusted REINZ house price index fell 0.3% in June (figure 1). House price growth for May was also revised down to flat (previously +0.1% m/m). The level of house prices now sits just 1.1% above its most recent low in October 2024.

Price weakness was widespread in June, with 12 of the 16 regions recording monthly falls. Prices in regional housing markets are showing more resilience, supported by the buoyant agricultural sector: Canterbury (+0.3% m/m), Waikato (+0.1% m/m), West Coast (+0.4% m/m) and Otago (flat).

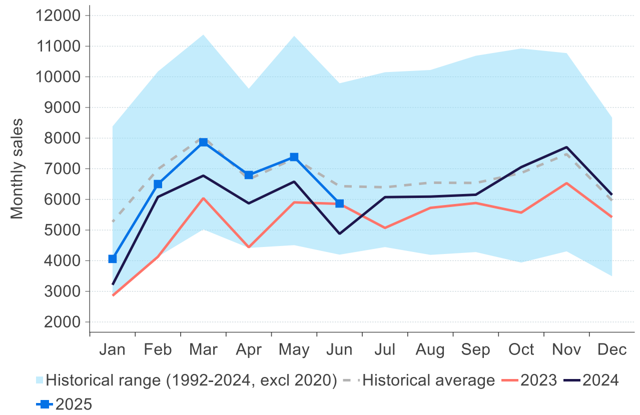
Figure 1. REINZ House Price Index (seasonally adjusted by ANZ)



Source: REINZ, Macrobond, ANZ Research

House sales volumes weakened in June, which, when viewed together with price weakness, points to flagging housing demand. Sales volumes dipped back below their historical average, having sat near average over recent months (figure 2). They remain well up from their low point around 2023 when interest rates were at their cycle peak, but are showing no sign of moving to a position of strength.

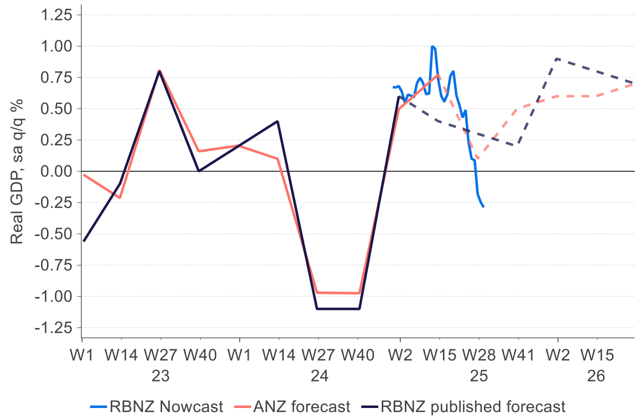
Figure 2. House sales volumes



Source: REINZ, Macrobond, ANZ Research

Softer housing market data and broader activity indicators are suggesting the economic recovery is running out of steam. Data over recent weeks now suggests the economy may even have shrunk over Q2. The Reserve Bank's Nowcast model, which draws on 36 different high-frequency economic indicators, suggests that growth was -0.3% q/q (figure 3).

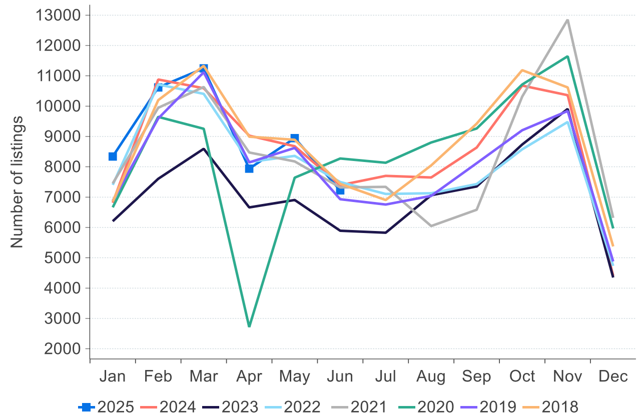
Figure 3. RBNZ Nowcast vs GDP forecasts



Source: RBNZ, Macrobond, ANZ Research

Another feature of the recent housing cycle has been an abundance of listings. The flow of new listings on to the market in June remained at the upper end of the range for this time of year (setting aside pandemic-distorted 2020).

Figure 4. New listings



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

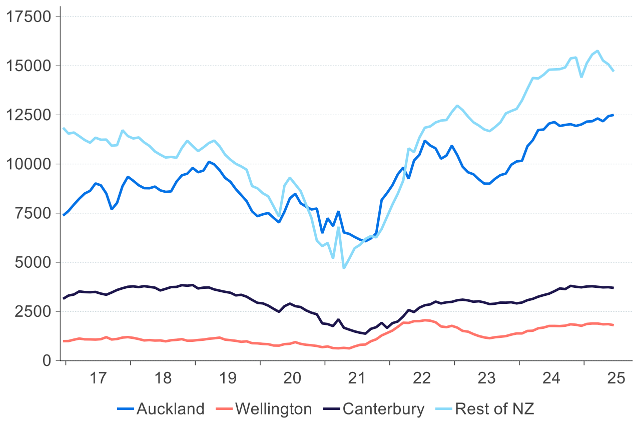
Inventories of property for sale have been broadly steady around decade highs, meaning plenty of choice has been tempering house price growth (figure 5).

Figure 5. Total housing market inventory

Source: REINZ, Macrobond, ANZ Research

Inventories have ticked down a little over the last few months, which at first glance seems inconsistent with weaker sales and still-elevated monthly new listings. Part of the story seems to be declining inventories in regional areas, where the market is stronger (figure 6). The circle may be squared by anecdotes of vendors taking unsold properties off the market, intending to relist them when demand is stronger.

Figure 6. Housing market inventory by region

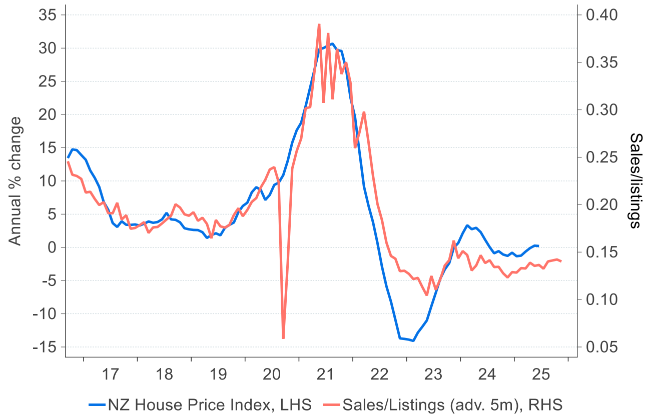


Source: REINZ, Macrobond, ANZ Research

Supply and demand in balance for now

Indicators of the balance between housing demand and supply continue point to the housing market drifting sideways. 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. It has been stable as rising sales have been matched by growing inventories, and points to house prices going sideways for a while yet (figure 7).

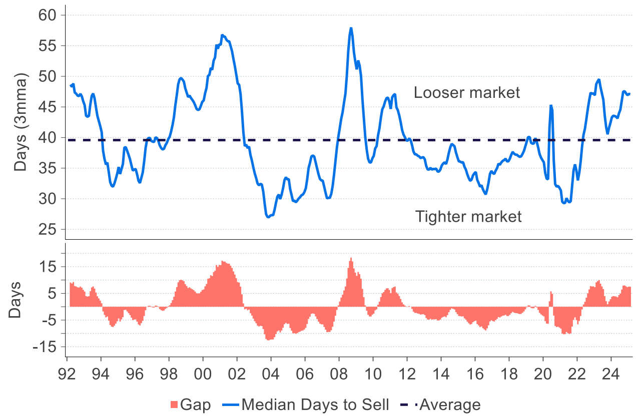
Figure 7. Sales-to-listings ratio



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

Median days to sell has sat firmly above its long run average over recent months (figure 8). This indicates that the market remains tilted in favour of buyers compared to what has historically been the case in New Zealand. This is consistent with house price inflation in the near term remaining well below its average of 6.6% since 1993.

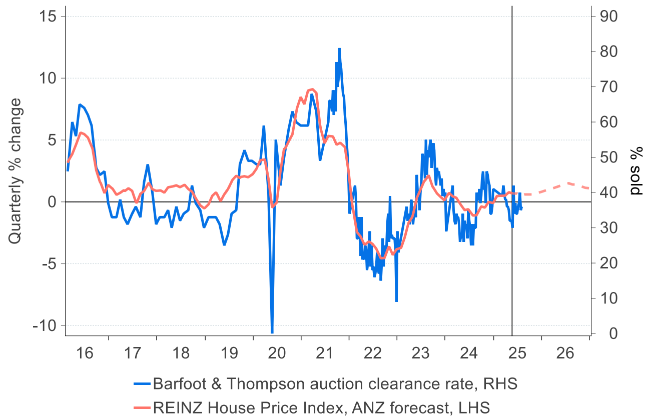
Figure 8. Days to sell



Source: REINZ, Macrobond, ANZ Research

The auction clearance rate has also been steady around 35-40%, consistent with the market tracking largely sideways for now (figure 9).

Figure 9. Auction clearance rate vs ANZ house price forecast



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

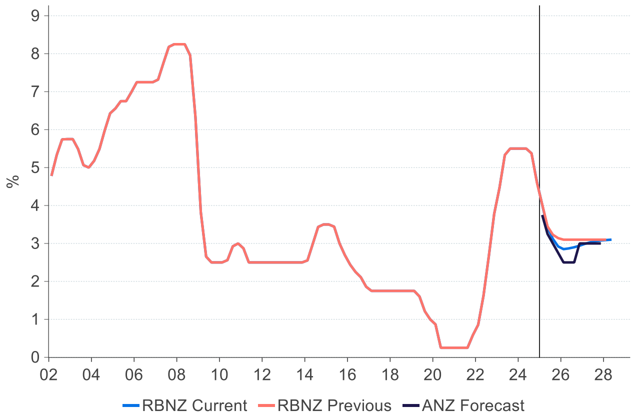
Modest house price increases to resume as OCR falls further

Putting it all together, housing market indicators are consistent with broad stability in prices, but they certainly are not going anywhere fast. The 225bp of OCR cuts delivered by the RBNZ so far in this easing cycle (from 5.5% to 3.25%) has been a tailwind for the housing market. Along with easing credit conditions, this saw house sales volumes lift towards their historical average and house prices stabilise following declines in 2024. However, the loss of momentum in the economy through Q2 has coincided with a renewed pullback in house prices and sales volumes.

This month's data presents a touch of downside risks to our house price forecasts of 2.5% in 2025 and 5.0% in 2026. However, we remain of the view that house prices will gradually strengthen. Central to this is our expectation that the RBNZ will end up reducing the OCR more than the Monetary Policy Committee currently expects, which will support house prices both through lower mortgage rates and a cyclical economic recovery.

The RBNZ has recently slowed down its cuts, deciding that the recent lift in headline inflation and some measures of inflation expectations warrant a second look. That's fair enough, but our view is that these concerns will dissipate fairly rapidly. Indeed, we are forecasting a 25bp cut not only in August, but also in November and a final cut in February to take the OCR to 2.5%, though we are describing that one as "pencilled in" and contingent on how global factors affect the domestic economy (figure 10).

Figure 10. OCR forecasts



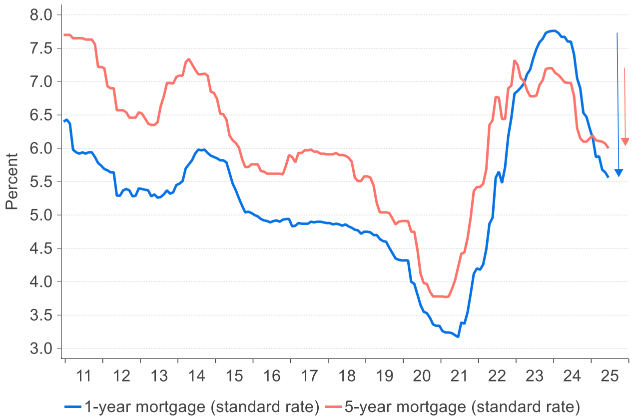
Source: RBNZ, Macrobond, ANZ Research

The latest inflation data does not appear to be a roadblock to future monetary policy easing. Headline inflation is not exactly comfortable for the RBNZ at 2.7% y/y, but is in line with their forecast, and the data alleviated fears that inflation might head closer to the top of the 1-3% band. Core inflation measures remain within the band, and annual non-tradable inflation is continuing to ease.

At the same time, spare capacity in the economy is weighing on the outlook for medium-term inflation. Indeed, the recent loss in economic momentum (evidenced by a contractionary PMI, PSI, stagnant filled jobs, and sub-par consumer and business sentiment, along with the softening housing market), combined with further domestic disinflation progress in Q2, increases the odds that the RBNZ will start putting a little more weight on downside medium-term inflation risks than near-term upside inflation risks.

That said, our baseline forecast for 2026 is that house price inflation won't race away. The sorts of changes in interest rates that really move the housing market are those that are expected to last for a long time and consequently get priced into longer-term interest rates. This was an important factor behind the housing market upturns in 2014-16 and 2018-21. This time around, the drop in longer-term interest rates has been more muted, with rates such as the 5-year mortgage rate dropping only around half as much from their late-2023 peak as short-term interest rates have (figure 11). In part, this is because longer term interest rates are heavily influenced by global long-term interest rates, and these haven't fallen as much as New Zealand's OCR. This is making the current interest rate easing cycle less potent for the housing upturn than other recent easing cycles.

Figure 11. Short- and longer-term mortgage rates



Source: RBNZ, Macrobond, ANZ Research

Other factors will also constrain how rapidly house prices can increase, including ongoing affordability constraints and debt-to-income limits capping the upside to borrowing capacity. However, a lower OCR and cyclical economic recovery are likely to see house prices increase modestly over the next couple of years.

Housing market indicators for June 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	$651,117	1.0	-4.7	-0.5	0.8	154	-31%	57
Auckland	$982,998	-3.5	-1.4	0.2	0.5	1,908	-6%	47
Waikato	$743,781	3.6	1.0	1.7	0.7	663	-6%	54
Bay of Plenty	$825,681	5.2	1.2	0.5	1.2	433	-6%	53
Gisborne	$602,830	-4.7	-0.7	-0.7	0.9	42	+4%	50
Hawke's Bay	$705,786	5.2	-1.6	-0.7	0.9	224	+8%	50
Manawatu-Whanganui	$528,156	-2.6	-2.0	-1.6	-0.6	301	-12%	51
Taranaki	$615,565	-1.0	2.2	1.8	0.5	160	-5%	38
Wellington	$767,760	-4.5	-1.5	-2.6	-0.1	612	-4%	49
Tasman, Nelson & Marlborough	$757,370	13.2	-0.6			216	-7%	48
Canterbury	$684,242	-2.1	0.3	2.1	1.6	1,135	+1%	40
Otago	$732,217	14.6	7.0	0.2	0.5	374	-8%	52
West Coast	$410,148	34.5	-7.3	0.7	-0.4	36	-27%	65
Southland	$507,010	14.3	4.1	0.8	1.0	162	-6%	42
New Zealand	$773,161	0.1	0.0	0.2	0.6	6,474	-4%	48

Feature Article: The outlook for council rates

Summary

Over the last four years, local council rates have increased by 7-12% per year on average across the country, and another large increase is set to happen this year. Looking out over the next few years, the balance of probabilities points to smaller but still-sizable increases in council rates. Some of the recent cyclical economic pressures on councils are easing. Wage and construction cost inflation have fallen back, and interest rates on local government debt are coming off their peaks. Lower recent population and GDP growth will help with catching up on infrastructure deficits. Also pointing in the direction of lower rates inflation is voter pushback against rates increases, with central government contemplating capping future increases. However, significant challenges remain. Essential local government infrastructure will need to be paid for somehow, and wages and construction costs rarely rise more slowly than overall inflation for long. This will keep the pressure on councils' finances – and rates – over the medium term.

Background

The cost of owning (as opposed to buying) a home has seen hefty increases since the pandemic, what with rising interest costs, home insurance, maintenance and local council rates. Interest costs are now falling, and insurance and maintenance costs have, on average, largely stopped increasing. However, council rates bills continue to shoot upwards. In this feature article we dig into the world of local government finances to see what's been driving rates up, and for how much longer it might go on.

Local councils provide roading, rubbish/recycling and water infrastructure, community facilities like parks and swimming pools, and undertake other activities aimed at supporting local communities. Councils set their expenditure plans for the year, then set rates revenue (a type of property tax) to balance their budgets.[1] House valuations are then used to divvy up the bill between homeowners. There are 78 different councils responsible for different areas across the country, and there is considerable variation in the specific circumstances of each one.

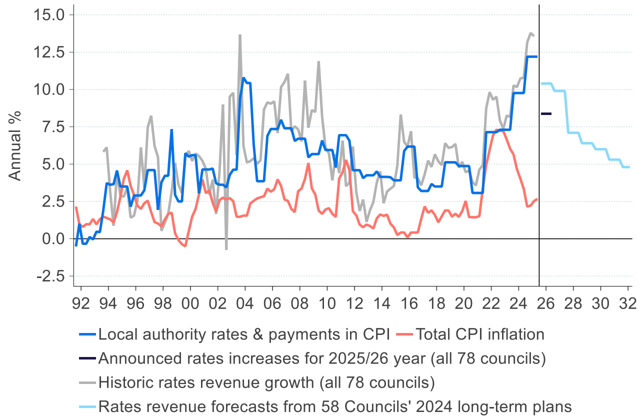
Large council rates increases since 2021, including for the coming year

Council rates inflation hit a record high last year, averaging 12.2% across the country (figure 1). This came after three years of 7-10% annual increases – well up from the average of 4.7% per year between 1992 and 2019.

Although rates are still increasing rapidly, there are signs that we are at least now getting past the largest increases. Rates are reviewed once a year, with increases typically hitting bills around September of each year. Councils have announced an average rates increase of 8.4% for the coming year, down from the 12.2% increase (as recorded in the CPI) last year[2]. At the low end, Auckland and Christchurch City Councils are hiking rates by 5.8% and 6.6% respectively this year, while at the upper end, Hamilton City Council is putting rates up 15.5%, and Wellington City Council is hiking rates by 12.0%.

Rates are a fairly small component of the overall CPI, with a weight of 3.1% (or 3.4% when including water supply charges, billed separately by some councils). Still, given the sizable increases announced for this year, we expect rates to contribute a meaningful 0.3%pt to inflation in Q3.

Figure 1. Council rates inflation and overall inflation



Source: Stats NZ, Taxpayers Union, Office of the Auditor General, Macrobond, ANZ Research

The medium-term outlook: smaller but still-sizable rates increases

The balance of probabilities points to council rates continuing to go up over the next few years, but at a slowing pace. The bulk of councils (58 out of 78) completed long-term plans in 2024. On average these plans envisaged one more year of near-10% increases in average rates revenue after this year, easing back to still-large increases of 5-7% per year thereafter (figure 1).[3] These figures refer to the total dollar value of rates revenue collected by councils, but suggest that rates inflation will gradually slow as historically rates inflation has been almost equivalent to revenue growth in percentage terms.

Some of the cyclical economic pressures on councils are abating, while political pressures are perhaps ramping up. As we discuss below, inflation in the main expenses for councils – wages and construction costs – has eased off hugely compared to a few years ago. Falling interest rates on council debt will also help at the margin, and lower recent population and GDP growth will be taking some of the pressure off strained infrastructure. A case in point: a slower pace of rates growth occurred after the Global Financial Crisis (with a few years' lag), which was the last time the economic cycle turned down as significantly as it has recently.

At the same time, voter pushback against rates increases seems to be building, and the Government is contemplating bringing in rules later this year that would cap annual rates

[1] Slightly over half of the funding for councils comes from rates, with the rest coming from a mix of sales revenue, fees like parking fines, petrol taxes, contributions from property developers, and funds given to councils by central government.

[2] Rates Dashboard 2025 - Taxpayers' Union

[3] Observations from our audits of councils' 2024-34 long-term plans.

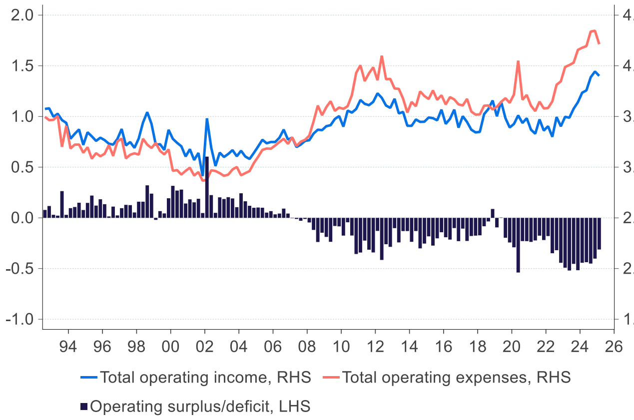
increases. And with the three-yearly local elections coming up in September, councillors will be keenly attuned to ratepayer sentiment.

Nonetheless, there are choices, and there are necessities. Significant (and expensive) issues remain for local councils that somehow need to be paid for over the medium to long term. These include closing existing budget deficits, catching up with deferred infrastructure maintenance, and making sure local infrastructure is resilient against natural disasters, with the potential impacts of climate change a hot topic. More generally, the prices of key inputs for councils - wages and construction costs – tend to rise more quickly than overall inflation (as is the case for most non-tradable goods and services). That all means that it would likely be hard to sustain council rates inflation much lower than the average pace of 4.7% per year seen over 1992-2019, unless councils find ways to significantly restrain some of their expenditure or boost their incomes in other ways.

Strained council finances

Underpinning recent inflation in council rates have been very strained council finances. When summing across all 78 local councils, Stats NZ's Local Authority Statistics show that the aggregate local government budget balance last year was a deficit of around 0.4% of GDP in the year to March 2025, or around $850 per household (figure 2). This might not sound large macroeconomically, but is very significant relative to councils' revenues.

Figure 2. Revenue, expenses and operating balance as a % of GDP (total across all local councils)

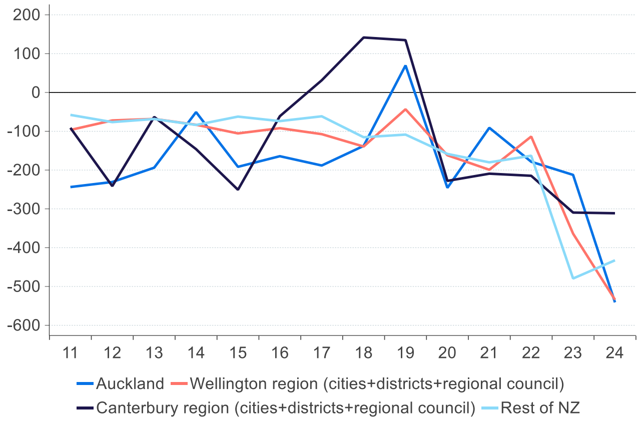


Source: Stats NZ, Macrobond, ANZ Research

Deficits widened in the years after the pandemic as council expenses grew faster than the economy as a whole. Total operating expenditure across all councils was 4.3% of GDP in the year to March 2025, up from 3.6% of GDP on average in the five years prior to COVID-19. Revenue has struggled to keep up, despite rates hikes.

Widening deficits are a widespread issue: 90% of councils' per capita budget balances were weaker in 2024 than their average over 2015-2019. Figure 3 below illustrates the pattern for a few main geographical areas. The average per capita deficit widened for councils in Auckland, Wellington, Canterbury and the rest of New Zealand (albeit by somewhat less for Canterbury than the others). Such widespread deteriorations suggest that a part of councils' financial woes is down to common nationwide factors, rather than local decisions alone.

Figure 3. Annual operating surplus/deficit per capita ($)



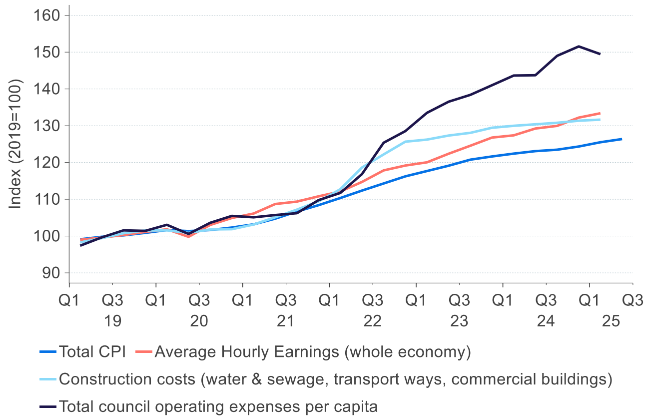
Source: Stats NZ, Macrobond, ANZ Research

The rise in council spending since 2019

What drove expenses to outpace GDP growth by such a margin? Fully analysing the finances of all 78 councils is a bigger task than we have time or space for. However, at an aggregate level, a few things are going on.

First, the costs councils face – primarily wages and construction costs – have increased more than overall inflation since 2019 (figure 4).[4] Still, the value of per capita council expenditure well outpaced either of these, indicating that the volume of real spending has grown as well. And more recently, inflation in wages and construction costs has eased back. Economy-wide hourly wages (QES measure) increased 4.7% over the past year, and construction costs for water infrastructure, transport infrastructure, and commercial buildings increased just 1.3% over the past year.[5] With council rates going up much more quickly than this, rates revenues should now be catching up with the previous expenditure growth.

Figure 4. Changes in prices and the value of council spending since 2019



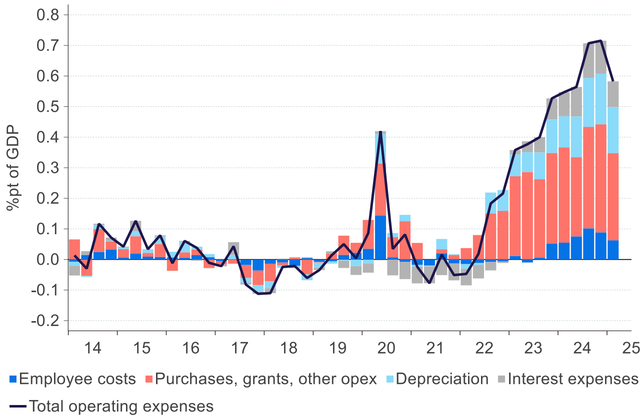
Source: Stats NZ, Macrobond, ANZ Research

[4] Comprehensive discussions of the costs councils face are provided in recent publications by LGNZ, BERL, and Sapere.

[5] This figure is the average of three components of the capital goods price index: civil construction - water and sewage, civil construction – transport ways, and commercial buildings.

Breaking down contributions to the growth in council expenditure as a share of GDP gives some further insight. Aggregate council expenditure last year was 0.6%pt of GDP higher than it averaged in the five years prior to COVID-19. Employee expenditure has largely tracked GDP, with other spending categories rising more rapidly and driving the rise in expenditure to GDP (figure 5).

Figure 5. Change in local government expenditure as a share of GDP vs the 2015-19 average (total across all councils)



Source: Stats NZ, Macrobond, ANZ Research

Chief among these cost increases has been purchases of goods and services and grants. These include payments to suppliers across councils' functions, and public transport subsidies. The costs of repairs from the 2023 Cyclone Gabrielle and Auckland Anniversary floods seems to explain part of the growth, with a disproportionate amount of the increase happening in the most affected areas (Auckland, Hawke's Bay and Gisborne). Purchases of goods and services would also include rising insurance costs for various councils. However, this category also includes a wide range of other expenditure items that are hard to disaggregate.

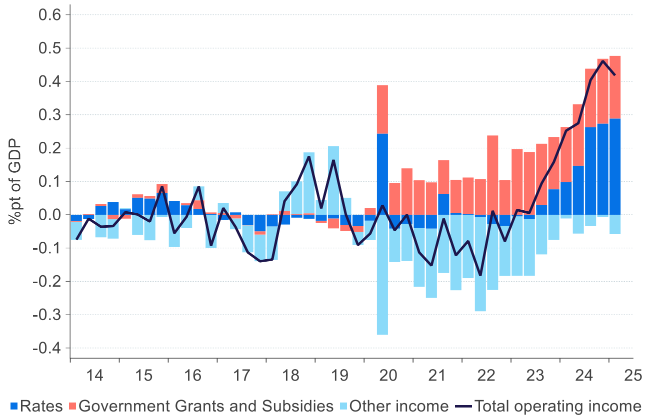
Another portion of the growth in councils' expenditure has come from rising depreciation expenses (the estimated cost of existing infrastructure wearing out). This will mainly be a result of the cumulative lift in construction costs since the pandemic pushing up the cost of replacing infrastructure (we talk more about infrastructure below).

The final part of the story is rising interest costs, driven by a combination of higher council debt and higher interest rates. Councils interest costs tend to follow the 2-year government bond rate. With this now off its peak, the pressure on council interest costs should abate somewhat for a time.

On the revenue side, it's interesting to see that rising rates income hasn't been the only thing preventing councils' budgets going even further into the red: central government has helped with increasingly large transfers to local government since 2020 (figure 6). Most recently, much of this would have involved assistance to councils affected by Cyclone Gabrielle and the Auckland Anniversary floods. Earlier, it would have included funds paid to councils participating in the Provincial Growth Fund and COVID-19 fiscal stimulus activities (such as the Jobs for Nature programme), as well as potentially more general transfers such as subsidies from central government for public transport.

However, with central government's budget in persistent deficit itself, further growth in central government's contributions to local government may be hard won.

Figure 6. Change in local government revenue as a share of GDP since 2015-19 (total across all councils)



Source: Stats NZ, Macrobond, ANZ Research

Infrastructure spending and trend GDP growth

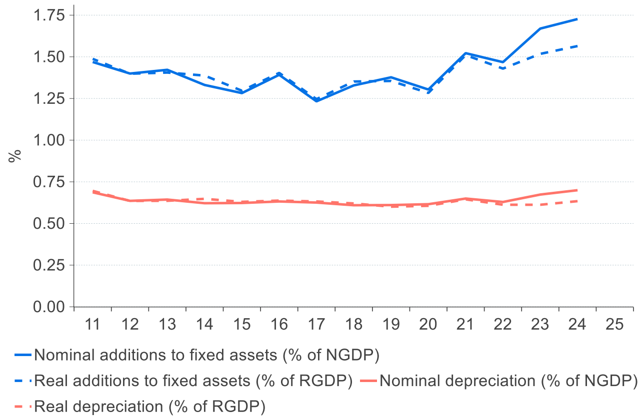
The growing depreciation costs shown earlier don't capture the full extent of councils' infrastructure costs as they are only an estimate of wear and tear on existing infrastructure. The financial burden of infrastructure on councils' finances depends on how much they are actually spending on it – both maintaining the existing stock, and growing it.

There are many detailed (and expensive) issues involving council infrastructure at the moment, such as catching up on previous deferred maintenance and rolling out new infrastructure to enable enough housing supply. We won't provide a full analysis of these, but will make a few macroeconomic-level observations.

Much of the story of the last decade has been about how to ramp up infrastructure supply to meet growth. Growth in populations and local economies creates demand for more and better infrastructure. On that front, there appears to have been some progress in recent years. In total across local government, councils' spending on infrastructure has gradually been rising as a share of GDP (figure 7). Some of this growth in spending has been eaten up by high construction cost inflation, but even in real terms, we estimate that councils' spending on infrastructure has ticked up a little over recent years as a share of GDP.

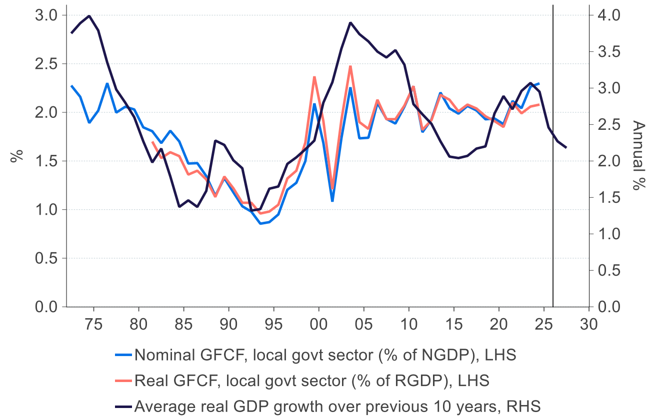
What's more, councils' spending on infrastructure has been outpacing estimated depreciation by a growing margin. This suggests that some progress is being made in meeting infrastructure needs. Whether it is enough, or correctly focused on the most needed projects, is a question we will leave to others to debate.

Figure 7. Local government spending on fixed assets vs depreciation (% of GDP)



Source: Stats NZ, Macrobond, ANZ Research[6]

Figure 8. Local government gross fixed capital formation vs trend real GDP growth



Source: Stats NZ, Hall and McDermott (2011), ANZ Research[7]

Paying for expanding infrastructure has been a factor putting upward pressure on council rates. Historically, some of the up-front costs of infrastructure could be funded with debt and then paid for over time (and using debt is fair when future ratepayers will benefit from the infrastructure). But councils have tended to use a combination of debt and higher rates for infrastructure funding to stop their debt-to-income ratios escalating (as well as to service the debt and maintain the infrastructure over time). The government and councils are now developing new funding mechanisms to reduce reliance on rates revenue for infrastructure growth and more fairly assign costs to those who actually benefit, such as by more directly charging developers of new housing areas that use the new infrastructure. However, rolling out these schemes remains a work in progress.

Although infrastructure spending is a slow-moving beast, the relationship with trend GDP growth is clear in a long-term chart (figure 8). For example, over the 1970s and 1980s councils' infrastructure investment steadily fell as a share of GDP as the economy languished and people emigrated. When trend growth picked up from the mid-1990s, so too did councils' infrastructure investment. Since the mid-2000s it has cycled around 2% of GDP.

As can be seen from figure 8, trend GDP growth has dipped in the last few years. Productivity growth has gradually slowed over the last 20 years; the economy has swung from a cyclical peak in 2022 to a low now; and population growth has slowed as net migration has pulled right back.

Lower growth is rarely something to celebrate, and hopefully growth will pick back up before long. But in this instance, a period of lower growth might give councils a small breather on the infrastructure front, as well as some opportunities.

Research by the Infrastructure Commission shows that New Zealand as a whole (not just councils) is especially inefficient at delivering complex, large-scale infrastructure projects compared to other countries.[8] Councils that have been sprinting to keep up with growth might be able to use the current slower period to push in the direction of value for money rather than scale of delivery. How best to do this is an open question. The Infrastructure Commission's research pointed to taking care when committing to projects, maintaining a steady pipeline of projects through the cycle, and being open to new technologies and methods. Achieving productivity growth in infrastructure construction would be a win-win for councils, ratepayers, and the country as a whole.

Conclusion

It's been a wild ride for homeowners since the pandemic. Those who have owned since before the pandemic are likely to still be sitting on large capital gains, with the median house price up around $180k from 2019. Those who entered the market around its 2021 peak are likely to not be. Most homeowners will have seen their running costs increase as inflation pressures hit council rates, insurance, maintenance and interest costs.

Cyclical pressures on council finances look set to ease, but balancing the books looks likely to remain a fraught task for the foreseeable future, and this will keep the pressure on council rates over the medium term. There's a lot more to the decision on whether to buy a house than just the rates bill. But at the margin, it will be putting downward pressure on house prices as prospective buyers and sellers weigh up the costs and benefits of owning a home.

[6] Real series in figures 7 and 8 have been calculated by deflating nominal values by the average of the capital goods price index for systems for water and sewerage, transport ways, and commercial buildings.

[7] Real GDP data from Stats NZ has been used from 1987, and backdated earlier with estimates from Hall and McDermott (2011).

[8] The lay of the land: Benchmarking New Zealand's infrastructure delivery costs | Te Waihanga

Mortgage Borrowing Strategy

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Summary

Average fixed mortgage rates are either little changed, or in the case of the 5-year, a touch lower this month. That stability followed the RBNZ's decision to keep the OCR steady at 3.25% earlier this month, keeping wholesale floating and short-term fixed rates – the proverbial building blocks of mortgage rates – steady. While some borrowers may naturally have been disappointed by the RBNZ's decision to pause, Q2 CPI released after the July OCR decision came in below expectations, and in our view, that suggests that a 25bp OCR cut is very likely next month. And with high-frequency data consistent with an economic recovery that is stalling rather than gathering momentum, we expect more cuts after that too, pencilling in 25bp follow-up OCR cuts in November and February. That very much plays into the idea that borrowers have time on their side before choosing to extend the duration of their fixes at the low point of the cycle. That said, given how difficult it will be to time that perfectly, we think it makes sense to hedge your bets and spread your borrowing over several terms, even if your core strategy is to fix for a shorter period like 6 months one last time.

Thoughts and views

Average floating mortgage rates and all fixed rates out to 4 years are unchanged this month, with the only change to rates we sampled across the five main banks being a fall in the average 5-year rate (figure 1). That stability owes largely to the RBNZ's decision to keep the OCR steady earlier this month, and broad stability in global interest rates, which tend to (alongside moves in short-end rates) have some bearing on 4 and 5-year mortgage rates.

Regular readers will recall that the broad vibe of last month's commentary was that we thought interest rates had further to fall, and that borrowers had time on their side as they considered when to fix at the elusive bottom of the cycle. We remain broadly of that view, and still expect the OCR to come down, taking mortgage rates with it, but there have been some subtle changes to the outlook that are worth thinking about.

For example, we were expecting the RBNZ to cut this month when we published our last Property Focus. But as the decision neared, it became apparent that a cut wasn't likely to be delivered, so we tweaked our forecasts. That tweak wasn't an abandonment of our call for a lower OCR, but rather a change to a more drawn-out profile that balances the risks of the RBNZ being spooked by the uptick in inflation and a clear deterioration in high-frequency indicators more consistent with a recovery that is stalling than one that's gathering momentum. These were exactly the risks the RBNZ monetary policy committee talked about when they met this month and decided how best to proceed. And while they ultimately erred on the side of caution and decided to stand pat, they signalled a cut was likely next month, and inflation data published since then didn't challenge that outlook.

There are of course risks – there always are. Things could evolve more quickly or be even more drawn out. And for that reason alone, we think it makes sense to spread risk across several terms, rather than pursuing a single strategy. Rates are a lot lower than they were a year ago, and it is likely that anyone re-fixing will be coming off a much higher rate. So, for many borrowers, it'll be about how much you stand to benefit, and weighing that up against how things may look later in the year. For those considering waiting, it makes sense to fix for 6 months rather than to remain floating. Not only is it 1.15%pts cheaper on average; 6 months aligns approximately with when we expect wholesale interest rates to bottom out.

For those who are keen to fix now, we think 2 years is worth considering. It's only a few points more expensive than the 1-year but offers twice as much certainty. But it isn't clear that there is a lot of value to be had in fixing for 3 years or longer, which starts to get progressively more expensive. If rates were lower, it'd perhaps be worth considering, but when we look at how quickly rates would need to rise to make it worthwhile (and recall we expect further falls), it looks like an expensive option. This is borne out in breakevens. They show, for example, that it'd only be cheaper in the long run to fix for 4 years if you thought the 2-year rate will rise from 4.95% to 6.03% in 2 years' time. That could happen, but it isn't what we expect; hence our focus on 6 months for those happy to wait a little longer, and 2 years for those wanting certainty now (or some mix of both).

Figure 1. Carded special mortgage rates*

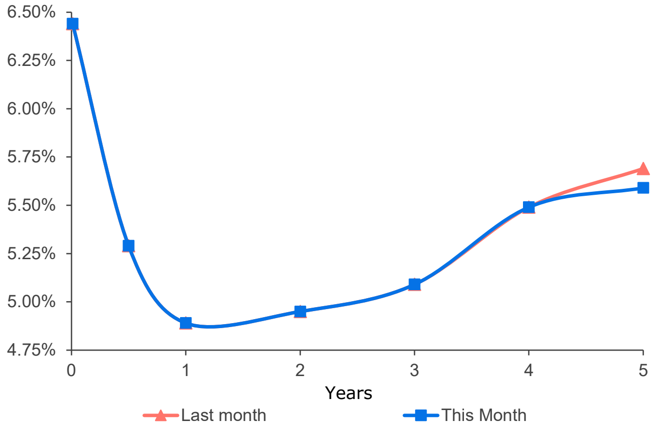

Table 1. Special Mortgage Rates*

		Breakevens for 20%+ equity borrowers			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	6.44%				
6 months	5.29%	4.49%	4.89%	5.13%	5.30%
1 year	4.89%	4.69%	5.01%	5.22%	5.37%
2 years	4.95%	4.95%	5.19%	5.59%	6.03%
3 years	5.09%	5.29%	5.69%	5.87%	6.02%
4 years	5.49%	5.57%	5.77%		
5 years	5.59%	*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						
	Mar-25	Jun-25	Current	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
Floating Mortgage Rate	7.2	6.8	6.4	6.2	5.9	5.7	5.7	5.7	6.2	6.2
1-Yr Fixed Mortgage Rate	5.2	4.9	4.9	4.8	4.8	4.7	4.8	5.0	5.0	5.0
2-Yr Fixed Mortgage Rate	5.1	4.9	5.0	4.9	4.8	4.8	4.9	5.0	5.0	5.0
3-Yr Fixed Mortgage Rate	5.4	5.1	5.1	5.0	4.9	4.9	5.0	5.1	5.1	5.1
5-Yr Fixed Mortgage Rate	5.7	5.6	5.6	5.6	5.5	5.6	5.6	5.7	5.7	5.7

Source: RBNZ, ANZ Research

Wholesale interest rate forecasts

	Actual			Forecasts						
	Mar-25	Jun-25	Current	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
Official Cash Rate	3.75	3.25	3.25	3.00	2.75	2.50	2.50	2.50	3.00	3.00
90-Day Bank Bill Rate	3.61	3.29	3.19	2.82	2.65	2.62	2.70	3.05	3.12	3.12
NZ 2-yr swap	3.37	3.19	3.16	3.06	2.96	3.02	3.13	3.17	3.22	3.22
10-Year Bond	4.49	4.54	4.56	4.50	4.50	4.50	4.50	4.50	4.50	4.50

Economic forecasts

	Actual			Forecasts						
	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
GDP (Annual % Chg)	-1.6	-1.1	-0.7	0.4	1.9	2.0	1.8	2.4	2.7	2.8
CPI Inflation (Annual % Chg)	2.2	2.2	2.5	2.7(a)	*Under review*					
Unemployment Rate (%)	4.8	5.1	5.1	5.2	5.2	5.1	4.9	4.8	4.7	4.5
House Prices (Quarter % Chg)	-0.8	-0.2	0.4	0.6(a)	0.4	1.0	1.0	1.2	1.4	1.2
House Prices (Annual % Chg)	-0.5	-1.1	-1.1	0.1(a)	1.3	2.5	3.1	3.7	4.8	5.0

Source: RBNZ, Statistics NZ, REINZ, Bloomberg, ANZ Research,

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