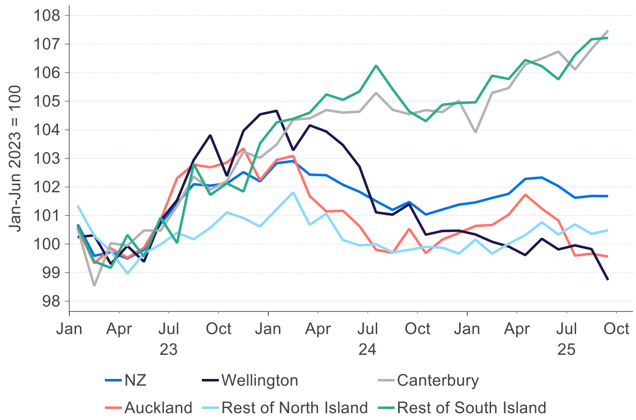
New Zealand Property Focus

Home ownership costs vs rents

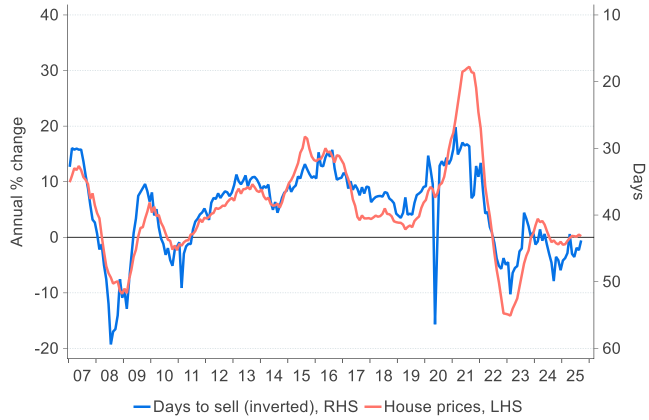
October 2025

At a glance

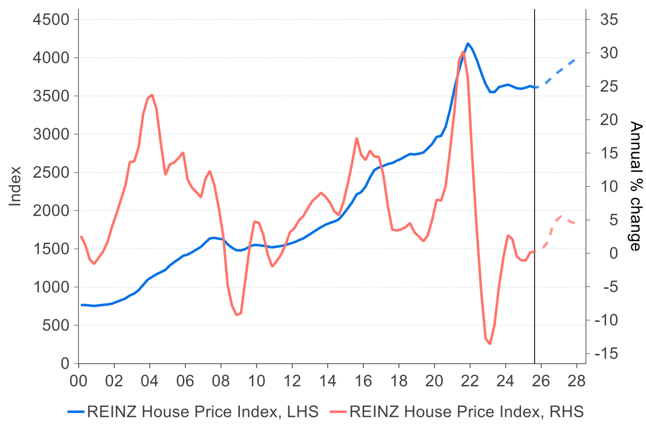
House prices have been flat overall in recent months, with regional disparities



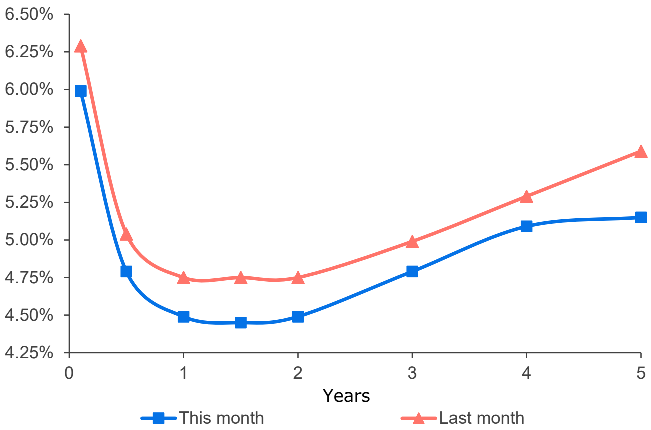
Indicators of market tightness point to a stable market in the near term



With prices up 0.3% y/y, and the OCR down, we have nudged up our 2025 house price forecast marginally

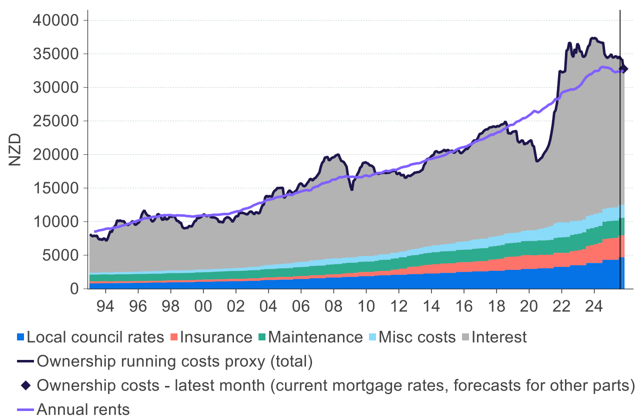


Fixed mortgage rates have fallen in the past month after the RBNZ's 50bp cut

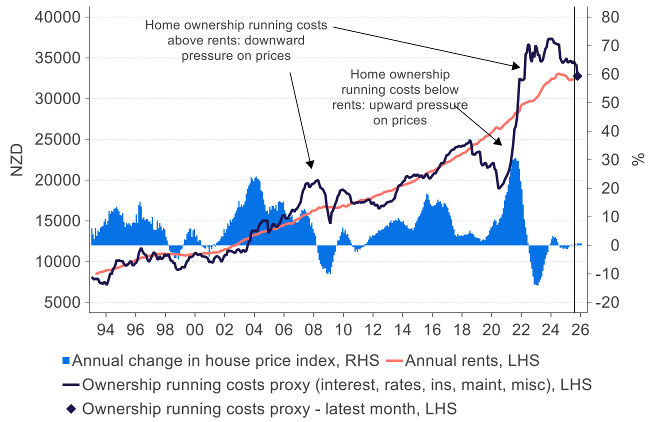


*Median of the five largest banks

Our feature article explores how the balance between rents and ownership running costs drives house prices



It suggests interest rates have fallen far enough to stabilise house prices, but not drive them strongly higher



Source: REINZ, NZ Tenancy Services, Stats NZ, RBNZ, interest.co.nz, Macrobond, ANZ Research

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See page 18

Inside

Confused by acronyms or jargon? See a glossary here.

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Summary

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

Property Focus

House prices have been flat overall in recent months. Areas with strong rural economies have seen modest price growth, while prices in Auckland and Wellington have lagged. Indicators of market tightness point to a steady market in the near term. Underlying trends look to be reverting to how they were at the start of the year, when prices were inching up, prior to the market weakening over winter. With house prices up 0.3% y/y, and the OCR falling more quickly and further than we previously anticipated, we have nudged up our 2025 house price forecast marginally from zero to 0.5-1.0% y/y. Our 2026 house price forecast for 5.0% y/y growth is unchanged, reflecting our expectation of a cyclical economic recovery next year. Inflation in wider housing costs like rents, home insurance, and construction costs is continuing to ease. See our Property Focus section.

Feature Article: Home ownership costs vs rents

In this article, we look at how the balance between home ownership running costs for a newly bought home (interest, council rates, maintenance etc) versus rents drives house prices, by affecting the choices of both renters and investors. The costs of owning a home were high between 2022 and 2024 due to high interest rates and other costs, and this put downward pressure on house prices. Home ownership running costs have since eased as interest rates have fallen, and overall are now more or less back in line with their historical relationship with rents. The combination of falling rents and high council rates and insurance costs has been a significant drag on house prices in recent years, which has dampened the impact of falling interest rates. The analysis suggests that the fall in interest rates to date is enough to keep the housing market stable, and potentially generate a modest rate of price increases next year as the economy undergoes a cyclical recovery. However, the current balance of these costs and benefits of home ownership certainly doesn't suggest that house prices are likely to race away. See our Feature Article.

Mortgage Borrowing Strategy

Mortgage rates fell following the RBNZ's outsized 50bp OCR cut, and as a result, the median 18-month rate is now the lowest rate, sitting just below the median 1-year and 2-year rates. While the reductions seen align with our earlier sense that borrowers had a little more time on their side, and will be welcome news for homeowners, the obvious question then becomes: is now the time to lock in for longer? We think we are getting closer. Our mortgage rate projections point to further moderate falls, and with rises unlikely, borrowers likely have a little more time – months, not quarters – before needing to make a decision. However, we would warn that the window could close rapidly if economic data starts to improve. We thus think it makes sense to make a plan to extend duration over coming months, and to consider spreading risk over a number of terms. The 2-year term is of obvious value given how low it is compared to other terms, but 3 years may also be worth considering, given that we expect the OCR to start rising from early 2027. See our Mortgage Borrowing Strategy.

Summary

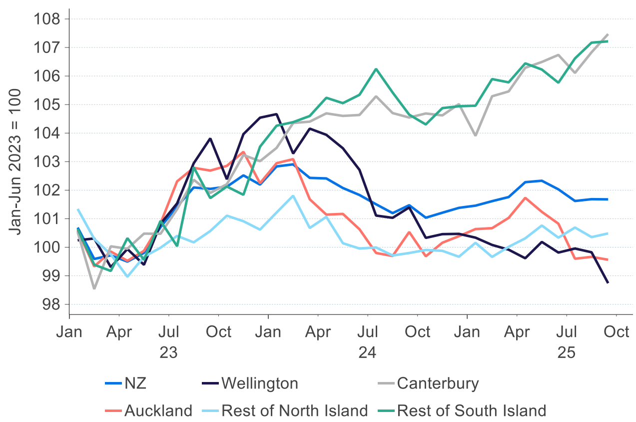
House prices have been flat overall in recent months. Areas with strong rural economies have seen modest price growth, while prices in Auckland and Wellington have lagged. Indicators of market tightness point to a steady market in the near term. Underlying trends look to be reverting to how they were at the start of the year, when prices were inching up, prior to the market weakening over winter. With house prices up 0.3% y/y, and the OCR falling more quickly and further than we previously anticipated, we have nudged up our 2025 house price forecast marginally from zero to 0.5-1.0% y/y. Our 2026 house price forecast for 5.0% y/y growth is unchanged, reflecting our expectation of a cyclical economic recovery next year. Inflation in wider housing costs like rents, home insurance, and construction costs is continuing to ease.

Regional house price disparities continue

Average nationwide house prices were stable in September, with the seasonally adjusted REINZ house price index unchanged (0.0% m/m). The previous month was revised up fractionally from 0.0% m/m to +0.1% m/m, the second such upward revision in a row. This adds to the evidence that the period of falling house prices is now behind us. But don't get too excited: house prices are up just 0.3% from a year ago (3mma basis).

By region, house prices in the South Island have continued to rise, by and large, reflecting growth in both population and incomes, with the agriculture sector performing very strongly currently. Prices in Auckland have been stable over the past couple of months after falling between May and July, while prices in Wellington resumed their decline in September after six months of stability (figure 1).

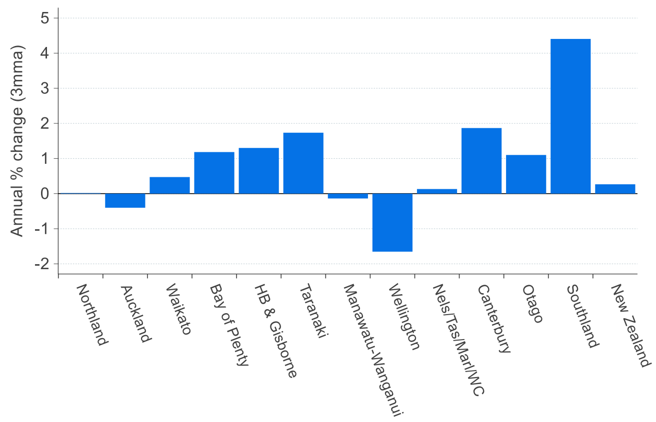
Figure 1. Change in house prices by region since the first half of 2023



Source: REINZ, Macrobond, ANZ Research

Indeed, a good rule of thumb right now is the further away you go from Auckland and (particularly) Wellington, the stronger the housing market looks. Compared to a year ago, prices are down in Auckland and Wellington, and flat in Northland, Waikato and the Manawatu-Whanganui (figure 2). By contrast, Southland's housing market is the strongest with prices up 4% y/y. Housing markets across the central areas of the North and South Islands sit in the middle, with prices up 1-2% y/y.

Figure 2. Change in house prices over the past year



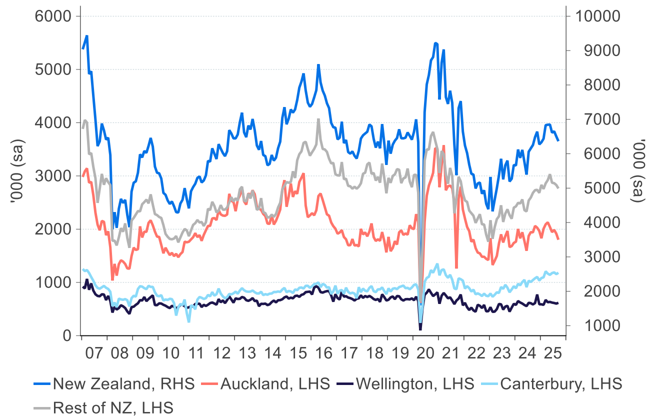
Source: REINZ, Macrobond, ANZ Research

Indicators of tightness point to a steady market

The underlying trends in the housing market look to be reverting to how they were at the start of the year, before the market weakened over winter.

Seasonally adjusted sales volumes are close to their long-run average, but have dipped in recent months, particularly in Auckland (figure 3). This shows that buyers are not rushing to the auction rooms in response to the RBNZ's recent OCR cuts.

Figure 3. Monthly sales volumes (sa)



Source: REINZ, Macrobond, ANZ Research

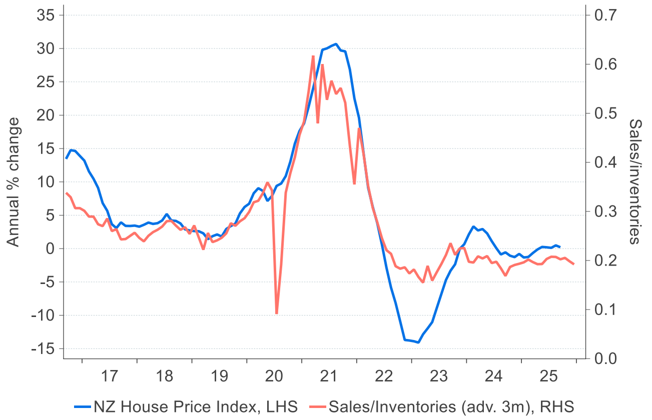
At the same time, the flow of new listings onto the market has stayed robust, keeping inventories of property for sale relatively high (figure 4).

Figure 4. Inventories (sa)

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

The ratio of sales-to-inventories is a useful indicator of heat in the housing market and tends to give a 3-6 month lead on house price momentum. This indicator has largely tracked sideways of late, suggesting a steady market through to year end (figure 5).

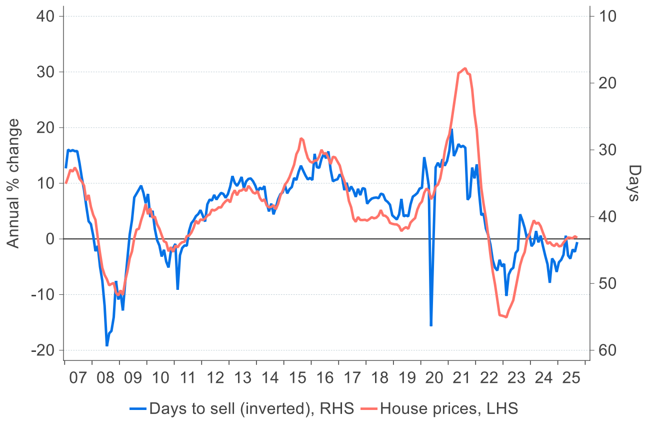
Figure 5. Sales-to-inventories ratio



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

Median days to sell ticked down in September to 44 (sa), marginally stronger than its average over the past year of 46. However, it remains above its long-run average of 40 and the recent minor shortening in days to sell only takes it to levels historically consistent with flat house prices (figure 6). That said, it is trending in a strengthening direction.

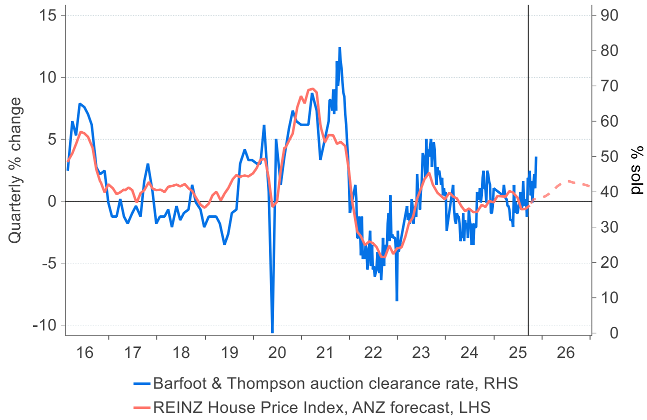
Figure 6. Days to sell vs house prices



Source: REINZ, Macrobond, ANZ Research

Also trending up is the weekly auction clearance rate (figure 7). Some of the pickup is due to normal seasonality, although some is a firming in the underlying trend over recent months.

Figure 7. Auction clearance rate vs ANZ house price forecast



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

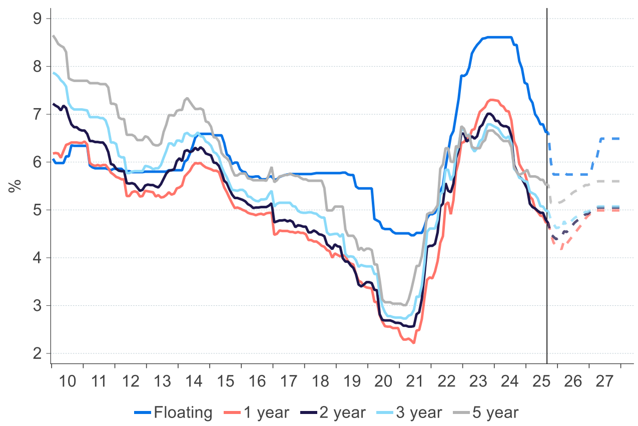
RBNZ brings forward OCR cuts

The Reserve Bank cut the Official Cash Rate by 50bp earlier in October, with balanced messaging in their statement that left open the option of a pause, a 25bp or a 50bp cut at the next meeting in November, depending on how the data evolves. The 50bp cut can best be characterised as front-loading the easing they forecast back in August, rather than signalling strongly that they believe they will need to do more.

We are forecasting a follow-up 25bp cut in November, taking the OCR to 2.25%, with that to mark the end of the easing cycle. We see risks on both sides of that. If the data continues to disappoint, another 50bp cut is possible. But it's entirely possible that activity data will start to surprise to the upside from here – the bar for that is low.

Mortgage rates have been following the OCR down (figure 8). As we discuss in our feature article though, we think interest rates have only fallen enough now to keep the market in balance and not give prices a major push upwards.

Figure 8. Mortgage interest rates



Source: RBNZ, Macrobond, ANZ Research

So far, activity and inflation indicators since the RBNZ's latest decision are no roadblock to a further 25bp cut in November. High-frequency activity indicators, such as the PMI, PSI, card transactions and ANZ Business Outlook, have been improving but are not signalling strong economic growth. Likewise, CPI inflation for Q3 showed headline inflation at the top of the 1-3% band, but core inflation measures generally eased, so it was not a game-changer for the Reserve Bank.

The Reserve Bank has signalled an easing in LVR restrictions from 1 December given that debt-to-income restrictions introduced last year will keep financial stability risks contained in low-interest-rate environments. The proposal is that the LVR thresholds stay the same (80% for owner-occupiers and 70% for investors), but that the speed limits be eased: the RBNZ has indicated that up to 25% of owner-occupier lending can be high-LVR (up from 20% currently), and 10% of investor lending can be high-LVR (up from 5% currently). This presents a small amount of upside risk to our medium-term house price forecast, but it's unlikely to have much immediate impact given ongoing caution from would-be home buyers.

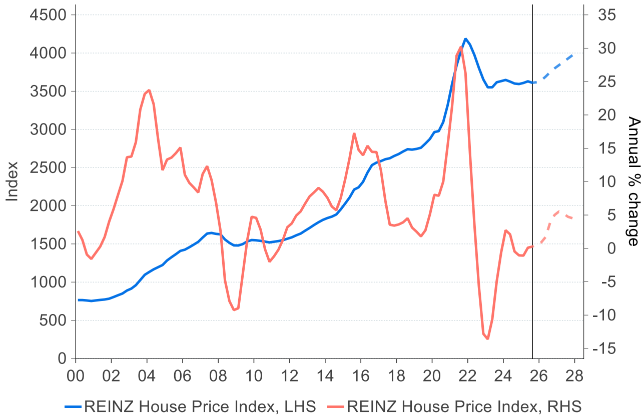
We have tweaked our 2025 house price forecast from zero to 0.5-1.0% y/y

Notwithstanding that the market has remained largely steady since August, as we approach the end of the year we are in a position to refine our house price forecast for 2025 to account for recent data and developments.

We had been forecasting zero house price growth over 2025. The REINZ house price index is currently up 0.3% y/y (3mma basis), and the falls in prices over winter now appear to be behind us. The RBNZ cut the OCR to 2.5% faster than we anticipated, and we now seeing it going a little further, to 2.25%. That will give the market slightly more support than previously envisioned. More generally, the housing market and economy look to have returned to the conditions that prevailed towards the start of the year, when the economy was growing modestly and house prices were inching up by 0.1-0.2% per month. In light of this, we are now forecasting house prices in Q4 2025 to be up 0.5% to 1.0% y/y rather than being unchanged. This allows for a very small amount of price growth over each of the final three months of the year (+0.1% per month). We would not characterise this as a big change in view.

Our 2026 house price forecast for 5.0% y/y growth is unchanged, reflecting our expectation of a cyclical economic recovery next year.

Figure 9. House price forecast



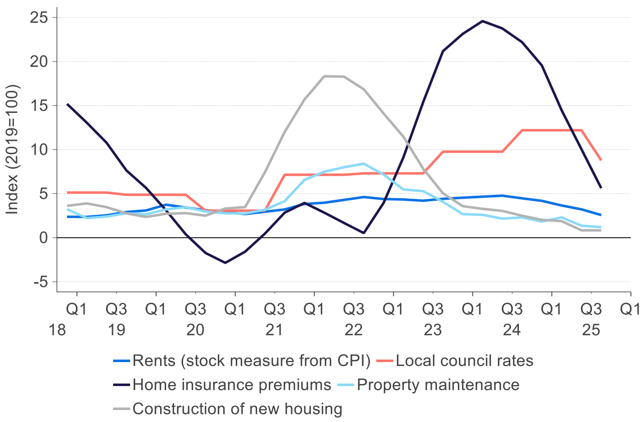
Source: RBNZ, Macrobond, ANZ Research

As always, there are wide uncertainties around our forecast. Low interest rates coupled with an economic recovery could spark a larger increase in prices than we're forecasting. On the other hand, growing public discussion about the possibility of a capital gains tax could see investors hesitate. The Labour Party has announced that it will campaign on a capital gains tax on residential and commercial property (excluding the family home) at the 2026 election. The proposal is that gains from 1 July 2027 would be taxed at a 28% rate upon sale. There were some signs that investors pulled back during previous times a capital gains tax was proposed, such as over 2014 and 2017-2019. The impact wasn't large – not enough to disentangle from the bigger macroeconomic drivers of the housing market – and prices rose by around 2-8% per year during those windows. But debate about a capital gains tax would marginally restrain the rate of price growth as investors weigh it up.

Inflation in rents, home insurance, and construction costs easing

The release of Q3 CPI inflation data provides an update on how wider housing costs (beyond interest rates and house prices) are trending. The good news is inflation for these items is easing after surging to varying extents between 2021 and 2024 (figure 10).

Figure 10. Inflation in wider housing costs



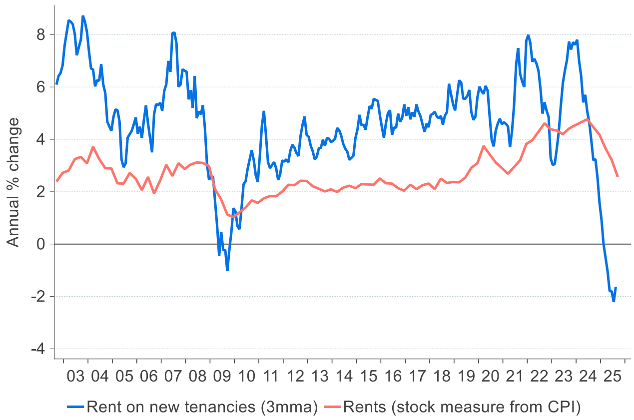
Source: Stats NZ, Macrobond, ANZ Research

We'll discuss these broader housing costs in turn.

Rent inflation is slowing. The 'stock' measure of rents included in the CPI is slow moving as it captures both new tenancies and existing tenancies, but it has eased over the past year from 4.5% y/y to 2.6% y/y (figure 11).

Rents on new tenancies alone (a narrower subset than what is included in the CPI) respond more quickly to market conditions. These are outright falling, down 1.6% y/y (3mma). Rents on new tenancies are down the most in Wellington (-7% y/y), but they are also down in Auckland (-1% y/y) and the Bay of Plenty (-2% y/y). They are flat in Canterbury and the Waikato.

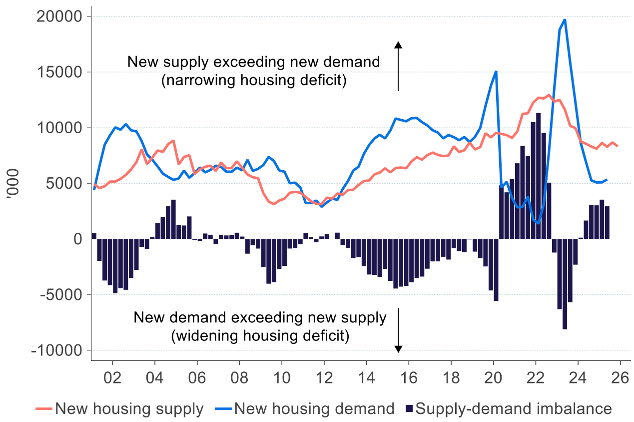
Figure 11. Rent inflation



Source: Stats NZ, NZ Tenancy Services, Macrobond, ANZ Research

Part of the reason for slowing rent inflation is that the number of houses built has held up better through this period of slower growth than in previous downturns. The fall off the peak has certainly been sizeable and extremely painful for the construction sector, but the overall rate of house building has actually remained fairly solid versus history. Indeed, new physical housing supply has outpaced population growth for extended periods since 2020 (figure 12).

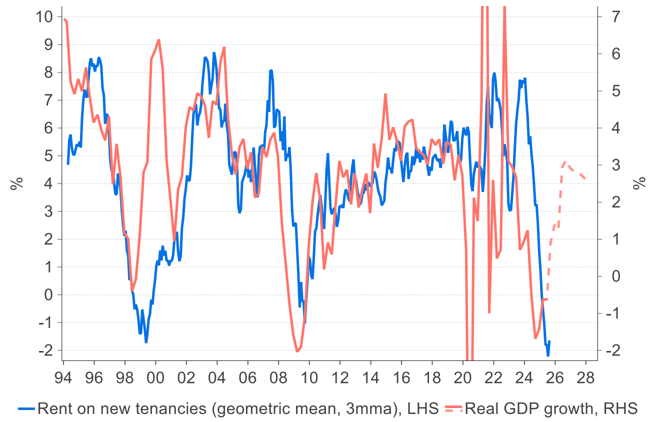
Figure 12. New housing supply vs demand



Source: Stats NZ, Macrobond, ANZ Research

Much of the slowdown in rent inflation is likely because of the economic cycle. Wage growth, net migration and employment are all correlated with economic growth and are important in determining the trajectory of rents, so it's not surprising that rent inflation has closely followed GDP growth over the decades (figure 13). As the economy recovers from its current cyclical doldrums, it is likely that demand pressures will start to push rents up again (though perhaps not at the pace seen in previous cycles, given improved housing supply). The weak economy also takes some of the shine off what looks like improving rental affordability: for renters who have lost jobs or are working reduced hours, rental affordability will not feel better.

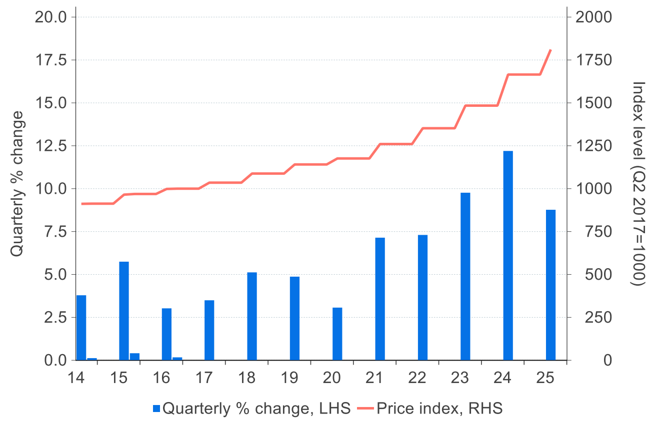
Figure 13. Rent inflation vs GDP growth



Source: Stats NZ, NZ Tenancy Services, Macrobond, ANZ Research

Second, **local council rates** are still rising rapidly, but the rate of increase is now past its peak (figure 14). Rates rise in July each year when councils set their budgets. This year they increased an average of 8.8% across the country, a slightly slower pace than the 12.2% seen last year. We see council rates inflation [staying high in the coming years but gradually easing](#) as cyclical economic pressures on councils abate and political pressure to keep rates contained intensifies.

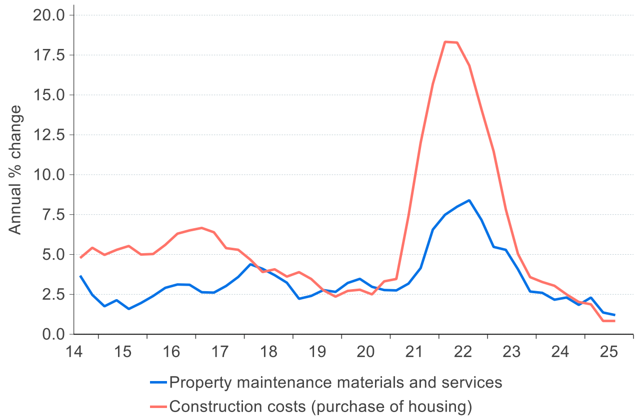
Figure 14. Local council rates costs



Source: Stats NZ, Macrobond, ANZ Research

Third, inflation in **property maintenance and construction costs** continues to ease, driven by spare capacity in the construction industry (figure 15).

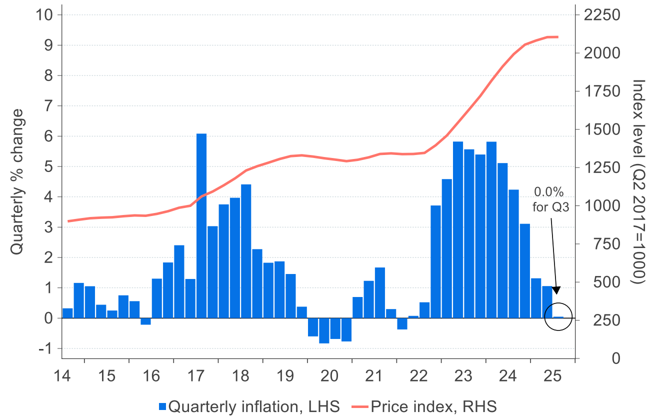
Figure 15. Property maintenance and construction cost inflation



Source: Stats NZ, Macrobond, ANZ Research

Finally, the surge in **house insurance premiums** appears to have come to an end for now. Although experiences will vary across regions and building types, premiums were unchanged between Q2 and Q3 on average across the country, continuing the softening trend that started in 2024 (figure 16). The absence of large loss events since Cyclone Gabrielle and the Auckland Anniversary floods in 2023 has helped insurers' finances and this is keeping inflation in premiums relatively low. Low construction cost inflation is helping too, as it means sums insured aren't facing the upward pressures they were a few years ago.

Figure 16. Home insurance premiums



Source: Stats NZ, Macrobond, ANZ Research

In our feature article below, we look at how the trends in interest rates and the trends in each of these other costs are adding up to influence the overall direction of the housing market.

Housing market indicators for September 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	$675,463	2.6	3.4	0.4	-0.2	184	0%	55
Auckland	$990,909	0.8	0.3	-1.0	-1.6	1,801	-6%	44
Waikato	$735,068	-4.1	0.4	0.6	-0.3	676	-5%	43
Bay of Plenty	$794,158	-1.1	-0.3	1.7	-0.1	419	+1%	45
Gisborne	$672,301	7.9	6.3	1.7	0.4	37	-14%	51
Hawke's Bay	$650,375	-6.7	-0.7	1.7	0.4	178	-11%	45
Manawatu-Whanganui	$543,700	8.3	1.8	0.3	0.3	291	-6%	38
Taranaki	$553,417	-8.9	-2.0	-1.5	0.9	152	-7%	44
Wellington	$764,413	-3.2	1.0	-2.6	-0.4	617	+3%	48
Tasman, Nelson & Marlborough	$717,151	2.8	1.2			231	+6%	43
Canterbury	$698,793	2.3	1.0	2.8	0.3	1,181	+2%	40
Otago	$704,788	1.9	0.4	2.5	1.0	394	-6%	47
West Coast	$438,830	13.6	5.3	0.4	0.1	44	+8%	61
Southland	$508,858	7.6	-0.4	5.7	0.6	148	-7%	37
New Zealand	**$766,456**	**-1.6**	**0.3**	**0.2**	**-0.5**	**6,364**	**-2%**	**44**

Feature Article: Home ownership costs vs rents

Summary

In this article, we look at how the balance between home ownership running costs for a newly bought home (interest, council rates, maintenance etc) versus rents drives house prices, by affecting the choices of both renters and investors. The costs of owning a home were high between 2022 and 2024 due to high interest rates and other costs, and this put downward pressure on house prices. Home ownership running costs have since eased as interest rates have fallen, and overall are now more or less back in line with their historical relationship with rents. The combination of falling rents and high council rates and insurance costs has been a significant drag on house prices in recent years, which has dampened the impact of falling interest rates. The analysis suggests that the fall in interest rates to date is enough to keep the housing market stable, and potentially generate a modest rate of price increases next year as the economy undergoes a cyclical recovery. However, the current balance of these costs and benefits of home ownership certainly doesn't suggest that house prices are likely to race away.

Home ownership running costs vs rents

There are many drivers of house prices through time, including population growth, credit availability, job security, tax policy, animal spirits, and the flexibility of housing supply. But the balance between the running costs of owning a home over time (interest, council rates, insurance etc) and rents is one of the main anchors for house prices, to which they gravitate.

When the running costs of owning a home are expected to be low over time compared to renting, house prices will tend to rise until the two are back in balance. Owner-occupiers and investors alike will find it attractive to buy houses (or not sell), gradually bidding up the price of houses. Likewise, when the cost of owning a home is high compared to renting, house prices will be under downward pressure. Plenty of research supports this intuitive finding, including by the Reserve Bank of New Zealand and Reserve Bank of Australia.

In this feature article, we identify a simple relationship between home ownership running costs and rents in New Zealand, exploring what they imply for the house price outlook.

A proxy of running costs for a typical homeowner

Rents are simple enough to measure, but one of the challenges with calculating home ownership running costs is that they vary widely depending on the value of the property, the size of the mortgage, and the interest rate.

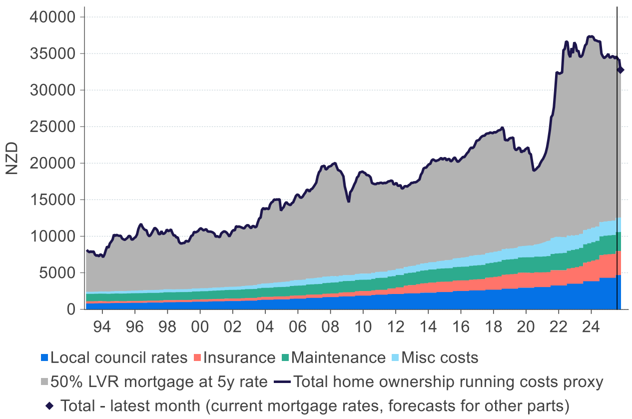
For our analysis we use a proxy of typical running costs for a median New Zealand home. Our proxy is the sum of:

- **Interest on a 50% loan-to-value (LVR) mortgage at the 5-year fixed mortgage rate.** This aims to capture what interest costs might average over several years of ownership. The LVR will reduce over time after purchasing, with 50% a sensible average. And while it's not a popular term, the 5-year mortgage rate better captures where the interest rate will average over time than do more-variable shorter-term interest rates. Our analysis shows that this LVR and mortgage rate combination best explains actual housing market trends over history, so it likely does a good job of capturing how the average buyer and seller in the market thinks about interest costs, even though circumstances vary widely.[1]
- **Council rates, maintenance and insurance.**
- **An allowance for miscellaneous other costs** equal to 0.25% of the median house price per year (approximately $2000 per year right now). This provides some allowance for things like real estate and lawyer fees associated with buying and selling, and wear and tear to the building that isn't restored.

Principal repayments are not included in our proxy as these are savings rather than a running cost.

Figure 1 shows how our ownership costs proxy has evolved over time. Interest is the dominant cost and also the main source of variation. The home ownership running costs proxy has dropped over the past month due to a sizable fall in fixed mortgage rates over October (the latest month is shown on the chart as a forecast as we don't yet have complete data for the month, but the picture isn't likely to change much with the final data).

Figure 1. Annual home ownership cost proxy

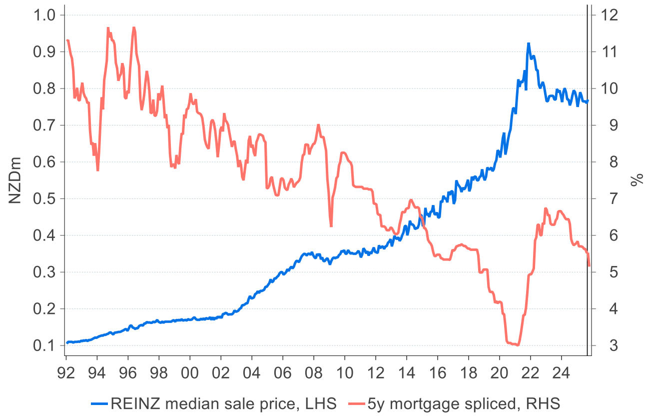


Source: REINZ, Stats NZ, RBNZ, Macrobond, ANZ Research

Recall that changes in interest costs reflect not only changes in interest rates but also changes in house prices (as the proxy is for buying a house now). Figure 2 shows that over 2021 both were rising, whereas it is more typical for them to move in different directions. That explains the particularly sharp increase in home ownership costs over 2021.

[1] Net rental yields and home ownership rate of return calculations look sensible with these numbers too. In essence, under these assumptions, rents equal average home ownership running costs and capital gains provide a return on the owner's funds.

Figure 2. Median house price and 5-year mortgage rate



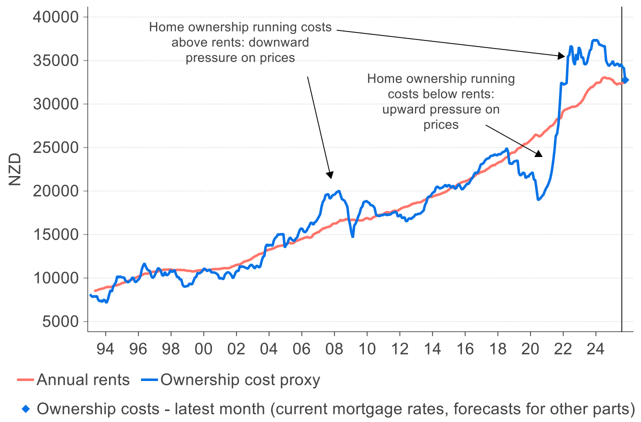
Source: REINZ, RBNZ, Macrobond, ANZ Research

Comparing running costs and rents

So how has our ownership costs proxy compared with rents over time?

Figure 3 shows the two have generally moved together, as one would expect. However, they have diverged meaningfully at times. Home ownership running costs were well below rents in 2019-2021 (fuelling the sense among renters that you might as well buy, as mortgage payments and other housing costs were cheap compared to rental payments), were above their historical relationship with rents from 2022-24, and have largely now come back in balance.

Figure 3. Annual home ownership cost proxy and annual rents

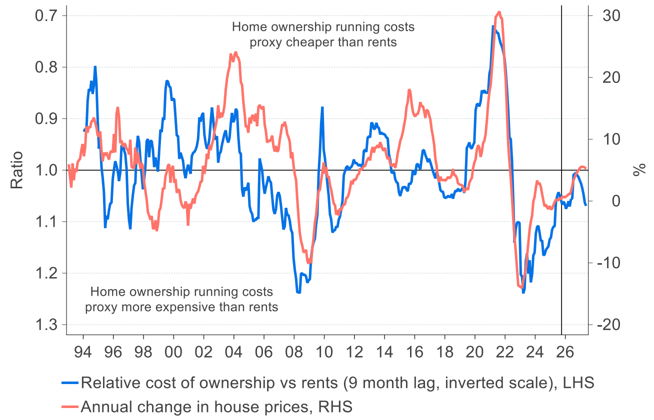


Source: REINZ, NZ Tenancy Services, Stats NZ, RBNZ, Macrobond, ANZ Research

In terms of what has driven the two lines back together over the past year, home ownership costs have decreased as both house prices and interest rates have fallen, but this has been partly offset by increases in other ownership costs such as council rates and insurance. Rents have fallen a little, meaning home ownership costs have had to fall further to close the gap.

Recall that our thesis is that divergences between these two cost measures drive house price changes by changing the relative rewards for renting versus owning, and net returns for property investors. Figure 4 shows the ratio of our home ownership cost proxy to rents (let's call it "the relative cost of ownership") compared to actual house price inflation. The correlation is indeed fairly high, including during the 2020/21 housing bubble.

Figure 4. The relative cost of ownership and annual house price inflation



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

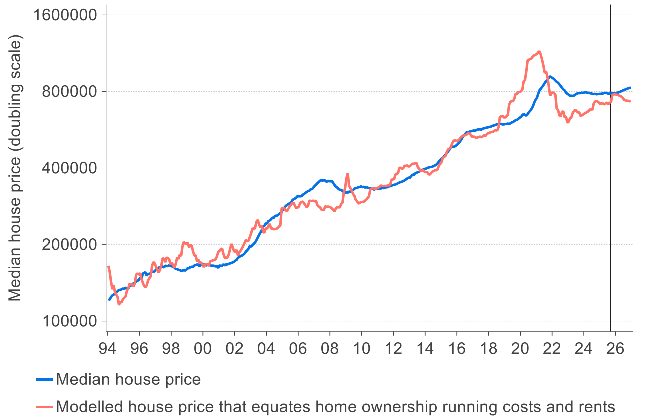
Where to from here?

Figure 4 above shows that our home ownership running costs proxy was well above rents over 2022-2024, which put downward pressure on house prices. However, the gap has steadily narrowed from a difference of 20% in 2023 to no gap now.

Our forecasts anticipate a small gap re-emerging next year as 5-year mortgage interest rates rise slightly from where they are now, driving up the home ownership cost index more than rents. If things play out this way, it suggests more downward pressure on house prices could emerge. However, given the uncertainties inherent in any model, not to mention the uncertainties regarding the forecasts of its inputs, we aren't going to draw any strong conclusions but rather settle for saying that as the economy undergoes a cyclical recovery, this model doesn't suggest house prices are going to race away. One particular qualification we would put around the implied outlook currently is that there is global upward pressure on long interest rates due to concern about the sustainability of fiscal positions in many countries. That could make the 5-year rate a less useful proxy for expected average interest rates than it has been in the past.

Another useful approach is to calculate the house price that would make our home ownership running costs proxy equal to rents, making people financially indifferent between renting and buying and thus the level at which we'd see neither upward nor downward pressure on house prices. This calculation shows current house prices are not far from that level (figure 5). Actual house prices have historically followed our modelled house price after 1-2 years.

Figure 5. House price that would balance our home ownership costs proxy and rents

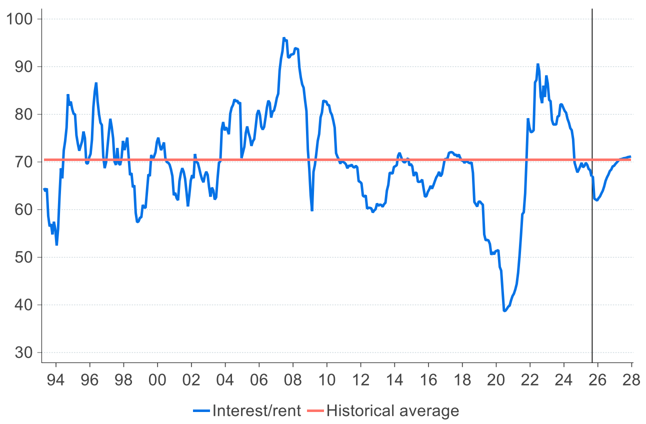


Source: REINZ, NZ Tenancy Services, Stats NZ, RBNZ, Macrobond, ANZ Research

One factor weighing on house prices in the past year has been low growth in rents, which, as we discuss on page 6, reflects a combination of a weak economy and improved housing supply. As an illustration of the impact of slow rent inflation, if rents on new tenancies had not fallen 1.6% over the past year and had instead increased by 4.5% (their long-run average), our modelled house price that equates ownership costs and renting would be 9% higher than it is now, all else equal. Rents might not be the first thing that springs to mind when thinking about where house prices could go, but they are very important.

Looking at the components of home ownership running costs, interest costs have come back to around their historical average relative to rents (figure 6). This reflects both lower interest rates and house prices having come down substantially from their 2021 peak. Our forecasts anticipate interest costs relative to rents dipping a little below their long-run average. Interest costs can therefore be said to now be providing support to house prices and are forecast to continue to do so in the coming year.

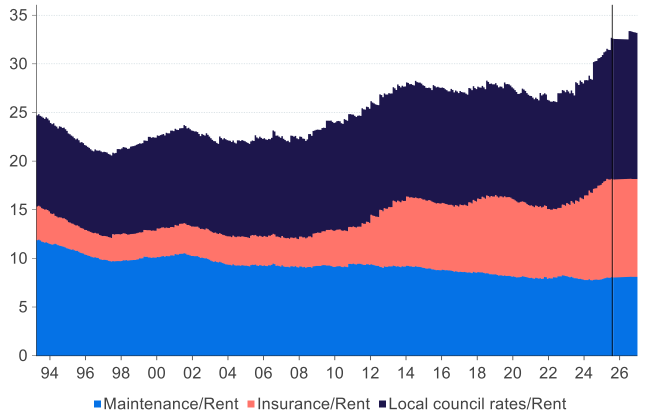
Figure 6. Interest costs in our proxy as a % of rents



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

Offsetting lower interest costs, other home ownership running costs are elevated due to recent council rates and insurance cost increases. Rates, insurance and maintenance have together increased from 27% of rents in 2019 to around 33% now, where we anticipate they will stay (figure 7). This broadly offsets the impact of below-average interest costs on our modelled house price, leaving it flat.

Figure 7. Rates, maintenance and insurance costs as a % of rents

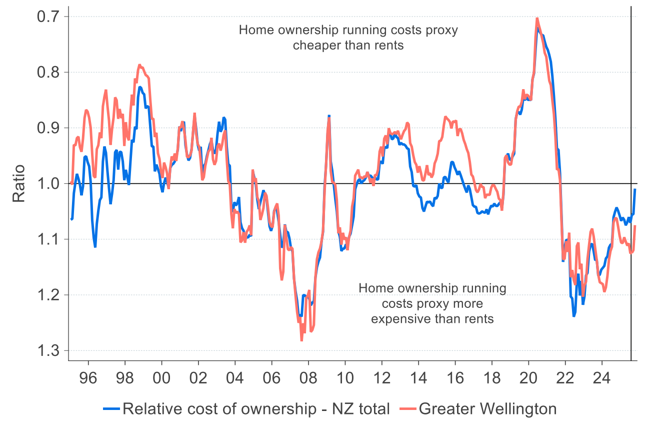


Source: REINZ, NZ Tenancy Services, Stats NZ, RBNZ, Macrobond, ANZ Research

The importance of these factors and the strength of this framework is neatly demonstrated by the current underperformance of the Wellington housing market. The loss of high-paid central government jobs has hurt demand for housing and lowered rents. At the same time, Wellington has experienced some of the largest increases in both local council rates and insurance bills in the country.

Figure 8 shows the balance between rents and a proxy for housing running costs specific to Wellington compared to the national average. The Wellington measure is a lot more negative. In short, why would you buy now? And indeed, house prices in Wellington are down 1.6% y/y versus a national average increase of a 0.3% y/y as part of the inevitable adjustment to rebalance the costs and advantages of renting and buying. Effectively, expectations of higher ongoing ownership costs, and the falling cost of renting as an alternative, are being built into Wellington's house prices.

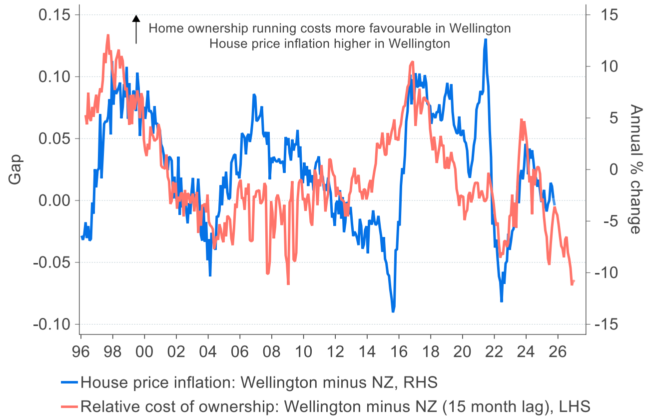
Figure 8. Relative home ownership costs: Wellington versus national average



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

A chart of the gaps between Wellington and NZ for house price inflation and relative home ownership costs illustrates the point. The correlation isn't perfect, but when home ownership has been more costly in Wellington than the national average, its house prices have tended to underperform in the subsequent years (figure 9). Right now, our analysis suggests that Wellington will continue to underperform for some time yet.

Figure 9. Relative home ownership costs and house price inflation: Wellington versus national average



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

Conclusion

The balance between home ownership running costs and rents doesn't explain everything happening to house prices, but it does explain a lot of it. Home ownership running costs have eased from their 2022-2024 highs as interest rates have fallen and are now more or less back in line with their historical relationship with rents. Our forecasts anticipate home ownership costs and rents staying in balance over the next couple of years, which points to broad stability in house prices, potentially with a modest increase in prices as the economy experiences a cyclical recovery next year. Falling rents and high council rates and insurance costs have been a material drag on house prices in recent years, which has dampened the impact of falling interest rates on house prices. However, we expect these factors to be much less of a drag going forward.

Annex: Data sources and forecast assumptions

The data used for estimating home ownership running costs and rents is as follows:

- House prices: The REINZ house price index, scaled to match the median house price in 2023.
- Mortgage rates: Special mortgage rates (including ANZ forecasts), backdated prior to 2017 using standard mortgage rates, and further backdated prior to 2004 using government bond yields plus the average historical spread.
- Rents on new tenancies: Rent on new tenancies from MBIE (geometric mean) for 52 weeks, scaled up by 10% to estimate what rent would be on a median NZ home (this accounts for the median rental property having a lower value than the median NZ house).
- Council rates, home insurance and maintenance costs: Stats NZ CPI price indexes for each of these, scaled to match the average cost of each in 2023 as reported in Stats NZ's household income and housing costs survey or household expenditure survey.

The forecasts of home ownership running costs and rents are based on the following assumptions:

- Our current house price and mortgage rate forecasts.
- Annual inflation in rents on new tenancies rising from -1.6% y/y currently to +2% y/y in 2026 as the economy recovers (remaining well below its historical average of 4.5% y/y).
- Council rates inflation easing from 8.8% this year to 6% y/y in 2026.
- Home insurance inflation remaining low over 2026 at 1.0% y/y.
- Maintenance cost inflation remaining rising from 2.0% y/y currently to 3.0% y/y over 2026.

The Wellington home ownership running costs proxy also draws on:

- An estimate of the cost of council rates per household in Wellington vs the NZ average using Stats NZ's Local Authority Statistics and the number of dwellings.
- An estimate of insurance costs in Wellington vs the NZ average drawing on data published in the RBNZ's May 2024 Financial Stability Report. This data covers 2017 to 2023, which is the key period for Wellington insurance costs as captures a reassessment of risk following the Kaikoura Earthquake. Before and after these dates we assume Wellington insurance prices track the national average.

Mortgage Borrowing Strategy

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Summary

Mortgage rates are lower across the curve this month in response to the RBNZ's outsized 50bp OCR cut and the drop in wholesale interest rates that followed. As a result, the median 18-month rate is now the lowest rate, sitting a few points below the median 1-year and 2-year rates. While the reductions seen align with our earlier sense that borrowers had a little more time on their side, and will be welcome news for homeowners, the obvious question then becomes; is now the time to lock in for longer? We think we are getting closer – not only did the larger OCR drive mortgage rates lower sooner; it should help backstop an economic recovery in 2026. It's also worth bearing in mind that wholesale markets are already banking on at least one more OCR cut, which is why the 18-month is below the 1-year, which is below the 6-month and so on. Our mortgage rate projections (which are based on our wholesale interest rate forecasts) point to further moderate falls, and with rises unlikely, borrowers likely have a little more time – months, not quarters – before needing to make a decision. However, we would warn that the window could close rapidly if economic data starts to improve. We thus think it makes sense to make a plan to extend duration over coming months, and to consider spreading risk over a number of terms. The 2-year term is of obvious value given how low it is compared to other terms, but 3 years may also be worth considering, given that we expect the OCR to start rising from early 2027.

Thoughts and views

Mortgage rates fell across the curve again this month, taking rates for every tenor to cycle lows. Regular readers will be aware that falls were expected, hence our sense that borrowers had a little more time on their side. However, we would characterise the falls seen as mostly a frontloading of falls that we were expecting later. The fact that we now expect the OCR to bottom out 25bp lower (at 2.25%) than we were forecasting a month ago does mean we see room for additional downside, but the key point is that most of what we have seen reflects timing, rather than it signalling lots more to come. Our sense is that we are now closer to what will prove to be the low in mortgage rates than would've been the case if the RBNZ had cut more gradually.

For some time now we have been of the view that the low point in the mortgage rate cycle was approaching, and that borrowers would likely benefit from locking in for a longer term. We remain of that view, and while we expect further modest falls in interest rates, the bringing forward of OCR cuts has likely compressed that timeframe, which we now think likely spans months rather than quarters. That is not to say that we think borrowers should feel rushed. We think they probably have a little more time on their side. But we are mindful that we are getting closer to the lows, with our mortgage rate projections – based on our wholesale swap rate forecasts – suggesting mortgage rates are on track to bottom out late this year or early next year, by which time many borrowers may want to have locked in for a longer term.

For those contemplating a new loan or with a rollover due such that decision needs to be made now, we think there is merit in selecting a longer term. While the 18-month is the cheapest rate, and for some will offer sufficient cover, the 2-year isn't much more expensive, and nor is the 3-year, especially when you consider that we have pencilled in that the RBNZ will be back in hiking mode by early 2027. And on that score, breakeven analysis (see our new infographics overleaf) shows that you'd have to expect the 1-year rate to be below 4.49% in a year's time to prefer fixing for 1 year over 2 years. While possible, it could come down to timing if mortgage rates fall over coming months and then start rising again. While that complicates decision-making, one reason why it may not be clear-cut is that we could be closer to the lows than many people think. There's always uncertainty and it's nigh on impossible to be right every time, but the 2-year rate is here now, and it offers twice the certainty of the 1-year. The latter might go lower in the near term, but may be higher in a year's time, when it rolls over.

We also think it makes sense to spread borrowing over several terms, in case things don't turn out as expected. Fixing is all about risk management, and while picking the absolute low is desirable, that's easier said than done. Splitting over various terms rules out completely nailing it, but it also limits your potential regret.

Figure 1. Carded special mortgage rates*

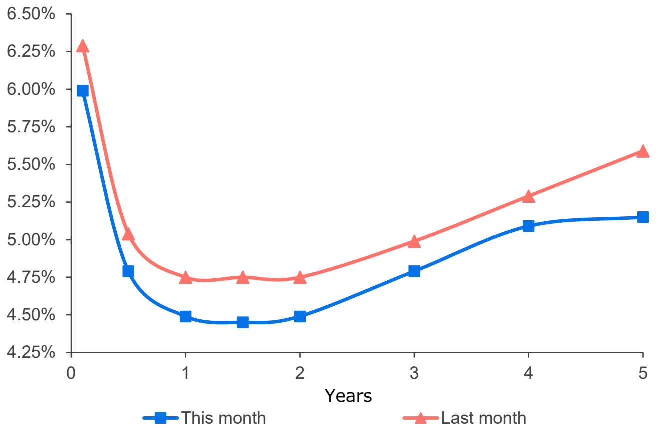


Table 1. Carded special mortgage rates*

Term	Current	Last month
Floating	5.99%	6.29%
6 months	4.79%	5.04%
1 year	4.49%	4.75%
18 months	4.45%	4.75%
2 years	4.49%	4.75%
3 years	4.79%	4.99%
4 years	5.09%	5.29%
5 years	5.15%	5.59%

Sources (figure 1 and table 1): interest.co.nz, ANZ Research,
*Median of the five largest banks

Breakevens

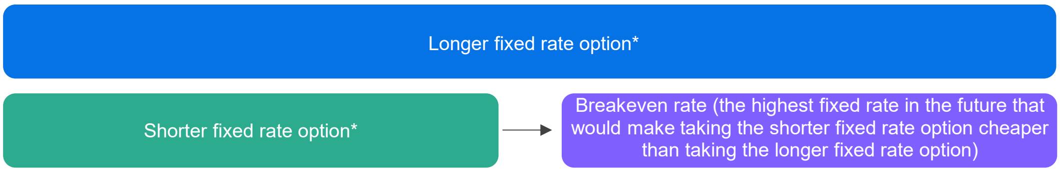
Table 1. Special mortgage rates and breakevens*^

		Breakevens for 20%+ equity borrowers					
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs	in 3 yrs	in 4 yrs
Floating	5.99%	2.99%					
6 months	4.79%	4.19%	4.37%	4.61%			
1 year	4.49%	4.28%	4.49%	4.93%	5.39%	5.99%	5.39%
18 months	4.45%	4.39%		5.13%			
2 years	4.49%	4.60%	4.94%	5.31%	5.69%	5.69%	
3 years	4.79%	4.97%	5.29%	5.46%	5.59%		
4 years	5.09%	5.16%	5.32%				
5 years	5.15%			*Median of the five largest banks			

Source: interest.co.nz, ANZ Research

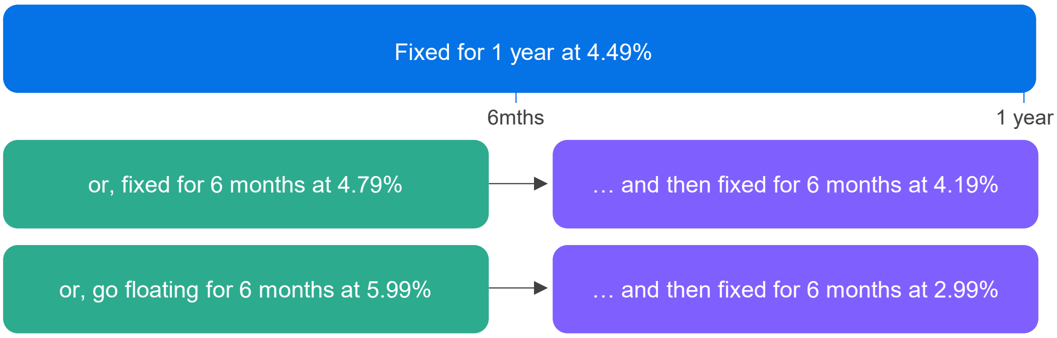
^ Floating rate breakeven assumes floating rate won't change. If it falls, the breakeven will be higher; if it rises, the breakeven will be lower.

Key – how to read our infographics

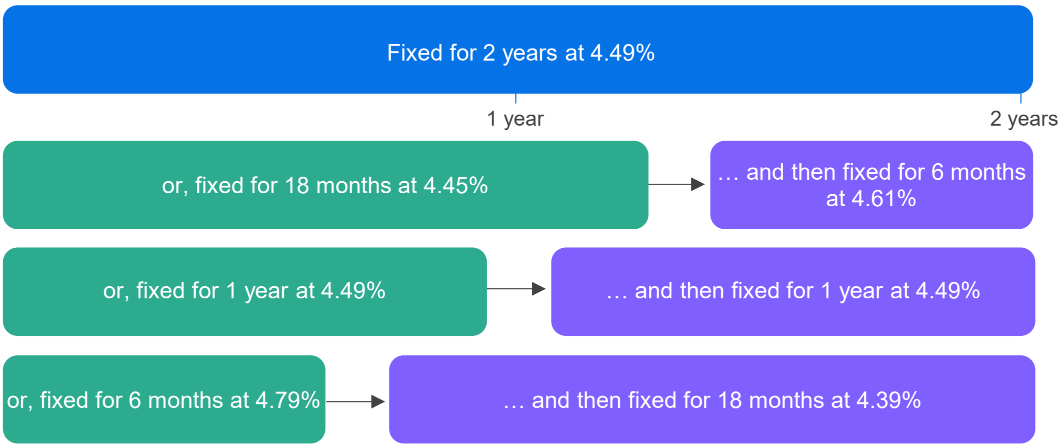


* Current advertised special mortgage rate, median of 5 largest banks

1 year horizon^

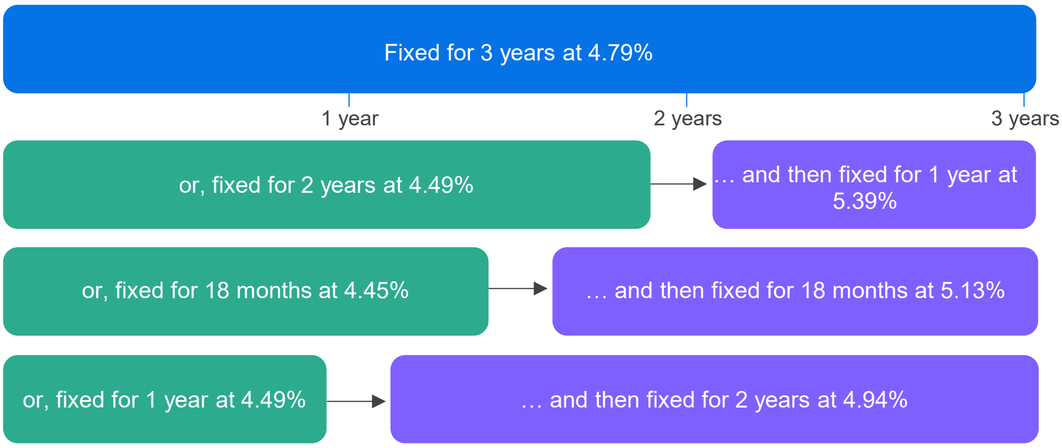


2 year horizon

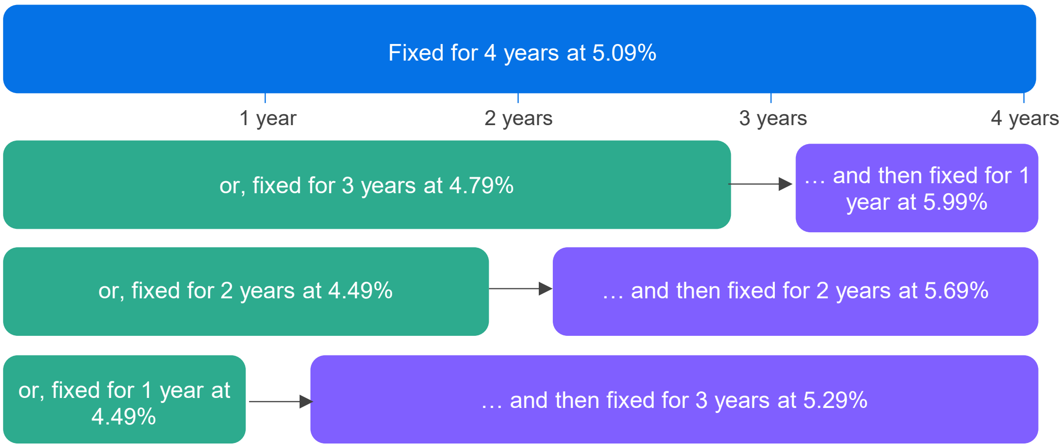


Breakevens

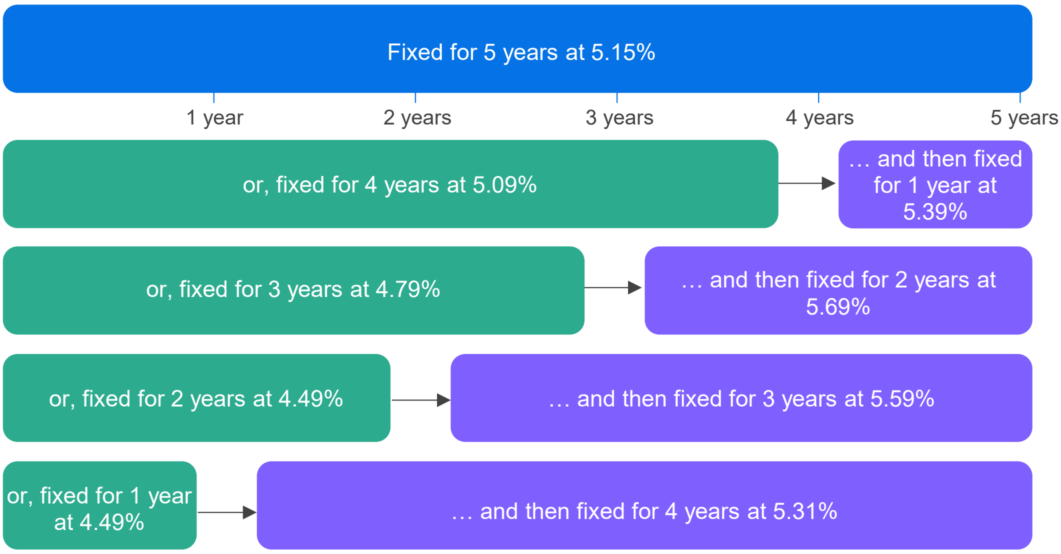
3 year horizon



4 year horizon



5 year horizon



Source: interest.co.nz, ANZ Research calculations

Key forecasts

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

Mortgage Size ($000)	Mortgage Rate (%)													
	4.00	4.25	4.50	4.75	5.00	5.25	5.50	5.75	6.00	6.25	6.50	6.75	7.00	7.25
200	220	227	234	241	248	255	262	269	277	284	292	299	307	315
250	275	284	292	301	309	318	327	336	346	355	364	374	384	393
300	330	340	351	361	371	382	393	404	415	426	437	449	460	472
350	385	397	409	421	433	446	458	471	484	497	510	524	537	551
400	440	454	467	481	495	509	524	538	553	568	583	598	614	629
450	495	511	526	541	557	573	589	606	622	639	656	673	690	708
500	550	567	584	601	619	637	655	673	691	710	729	748	767	787
550	606	624	643	662	681	700	720	740	760	781	802	823	844	865
600	661	681	701	722	743	764	786	807	830	852	875	897	921	944
650	716	737	760	782	805	828	851	875	899	923	947	972	997	1,023
700	771	794	818	842	867	891	917	942	968	994	1,020	1,047	1,074	1,101
750	826	851	876	902	928	955	982	1,009	1,037	1,065	1,093	1,122	1,151	1,180
800	881	908	935	962	990	1,019	1,048	1,077	1,106	1,136	1,166	1,197	1,227	1,259
850	936	964	993	1,023	1,052	1,082	1,113	1,144	1,175	1,207	1,239	1,271	1,304	1,337
900	991	1,021	1,052	1,083	1,114	1,146	1,178	1,211	1,244	1,278	1,312	1,346	1,381	1,416
950	1,046	1,078	1,110	1,143	1,176	1,210	1,244	1,278	1,313	1,349	1,385	1,421	1,458	1,495
1000	1,101	1,134	1,168	1,203	1,238	1,273	1,309	1,346	1,383	1,420	1,458	1,496	1,534	1,573

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

	Actual			Projections						
	Jun-25	Sep-25	Current	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
Floating Mortgage Rate	6.8	6.6	6.0	5.7	5.8	5.7	5.7	5.7	6.0	6.5
1-Yr Fixed Mortgage Rate	4.9	4.7	4.5	4.3	4.4	4.4	4.7	4.9	5.0	5.0
2-Yr Fixed Mortgage Rate	4.9	4.7	4.5	4.4	4.6	4.7	4.8	4.9	5.0	5.0
3-Yr Fixed Mortgage Rate	5.1	5.0	4.8	4.6	4.8	4.8	4.9	5.0	5.1	5.1
5-Yr Fixed Mortgage Rate	5.6	5.5	5.2	5.1	5.2	5.3	5.5	5.5	5.6	5.6

Source: RBNZ, ANZ Research

Wholesale interest rate forecasts

	Actual			Forecasts						
	Jun-25	Sep-25	Current	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
Official Cash Rate	3.25	3.00	2.50	2.25	2.25	2.25	2.25	2.25	2.50	3.00
90-Day Bank Bill Rate	3.29	2.80	2.51	2.33	2.30	2.30	2.30	2.57	3.07	3.15
NZ 2-yr swap	3.19	2.63	2.63	2.50	2.65	2.85	3.00	3.10	3.21	3.23
10-Year Bond	4.54	4.19	4.14	4.20	4.20	4.30	4.40	4.40	4.40	4.40

Economic forecasts

	Actual			Forecasts						
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
GDP (Annual % Chg)	-1.4	-0.6	-0.6	0.9	1.4	1.2	2.9	3.1	2.9	2.8
CPI Inflation (Annual % Chg)	2.2	2.5	2.7	3.0(a)	2.9	2.2	2.1	1.8	1.8	1.9
Unemployment Rate (%)	5.1	5.1	5.2	5.3	5.2	5.1	4.9	4.8	4.6	4.5
House Prices (Quarter % Chg)	-0.2	0.4	0.6	-0.5(a)	0.2	0.6	1.4	1.6	1.3	1.1
House Prices (Annual % Chg)	-1.0	-1.1	0.1	0.3(a)	0.7	0.9	1.7	3.9	5.0	5.5

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

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

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