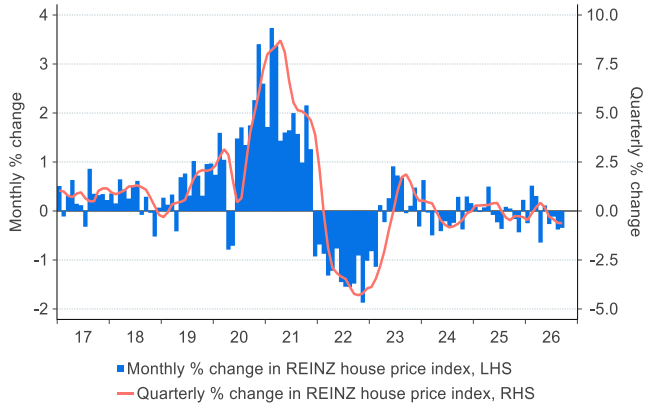
New Zealand Property Focus

Are we there yet? Comparing house prices with fundamentals

October 2026

At a glance

House prices have shifted from being broadly flat to slightly declining

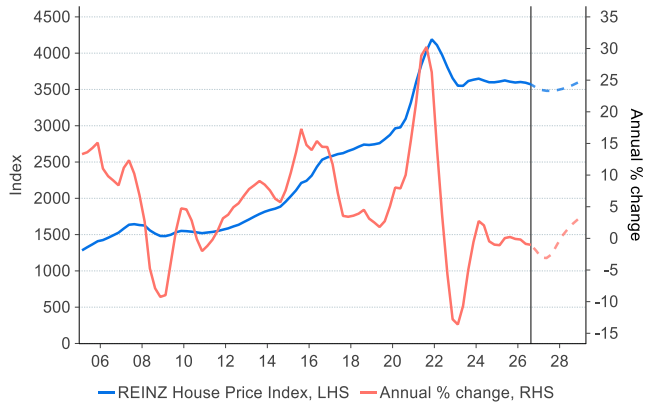


Source: REINZ, Macrobond, ANZ Research

Higher interest rates are weighing on buyer demand

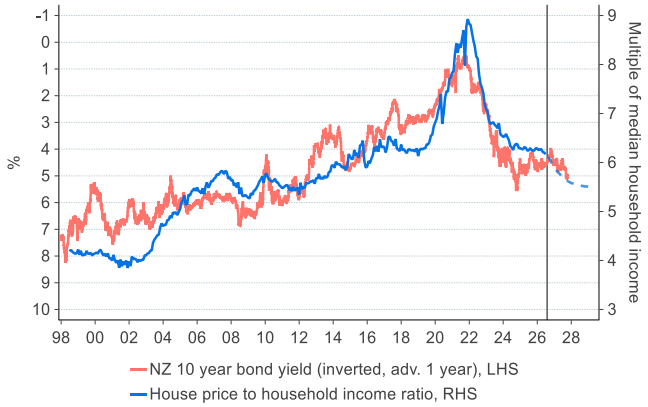
Source: REINZ, RBNZ, Macrobond, ANZ Research

We expect house prices to drift mildly down until mid-2027



Source: REINZ, Macrobond, ANZ Research

In the feature article, we look at how house prices compare to fundamentals

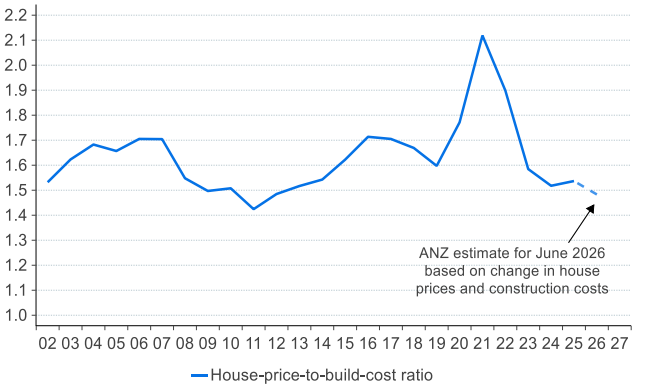


Source: REINZ, Stats NZ, RBNZ, Macrobond, ANZ Research

Higher long-term interest rates mean that prices are still a little above several measures of fundamentals

Measure	How the measure currently compares to its long-run level (red = high, blue = low)
House-price-to-income ratio	Still somewhat elevated
RBNZ's sustainable house price indicator	A little above the sustainable range
Home ownership costs	Ownership costs are currently elevated compared to renting
House-price-to-build-cost ratio	The gap between house prices and build costs is near cycle lows

But progress towards fundamentals has been substantial since 2021, limiting further downside from here



Source: Ministry for Cities, Environment, Regions and Transport, REINZ, Stats NZ, Macrobond, ANZ Research

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

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Confused by acronyms or jargon? See a glossary here.

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Housing market overview

The housing market has weakened over 2026, with house prices shifting from being broadly flat to gradually declining. Rising interest rates appear to be the main driver of the slowdown, though uncertainty about the election and the broader economic outlook have likely contributed. We expect the RBNZ to deliver three further 25bp hikes, taking the OCR to 3.5% by March next year, in response to a combination of global inflationary forces and a recovering economy. While a recovering economy is providing some support to house prices, we expect that higher interest rates will more than offset this. As a result, we have downgraded our house price forecast and now see prices drifting slightly lower until mid-2027 before stabilising. See our Housing Market Overview section.

Feature article: Are we there yet? Comparing house prices with fundamentals

In this article we look at how house prices currently compare to four different measures of fundamentals, drawing on factors such as household incomes, long-term interest rates, and the cost of building new homes. New Zealand's house prices have made substantial progress towards fundamentals since the COVID-era bubble, but still appear to be a little above levels consistent with today's long-term interest rates. Interest rates are cycling around higher levels than they were 5 to 10 years ago, and house prices are still adjusting to this change. Assuming this higher level of long-term interest rates persists, house prices are likely to drift sideways or slightly downward for a while longer, consistent with our forecast. However, the substantial progress achieved towards fundamentals suggests that the remaining downside is limited. In particular, the difference between house prices and the cost to build is now historically low, putting a limit on how much further prices can fall from here in the long run. In terms of what might surprise us, long-term interest rates are a big uncertainty: if interest rates start trending higher or lower than we and the market are expecting, the outlook for house prices could change significantly. See our Feature Article.

Mortgage Borrowing Strategy

Mortgage rates are little changed this month, with the only change being a small reduction in the median 18-month rate, which removed a kink in the mortgage curve. The broad quandary facing homeowners is the same as a month ago: fixing for longer costs more but comes with certainty. While mortgage rates are not nearly as high as they were in late 2023, they are high relative to the OCR thanks to higher global interest rates, which have pushed up local longer-term wholesale interest rates, and may remain a factor for some time. With ample spare capacity in the economy (think: high unemployment), growth can rebound without generating non-fuel inflation, and that's why we only expect three more OCR hikes. However, going the other way, higher oil prices speak to the possibility that the OCR may have to go higher than we and markets expect, and/or remain elevated for longer. Weighing these risks up, we see merit in fixing for 2 to 3 years, which isn't much more expensive than fixing for 1 year. The 6-month is the lowest but offers very little protection against rising rates. There's not really anywhere to hide, and choosing how long to fix for is more about risk management than beating the cycle. See our Mortgage Borrowing Strategy.

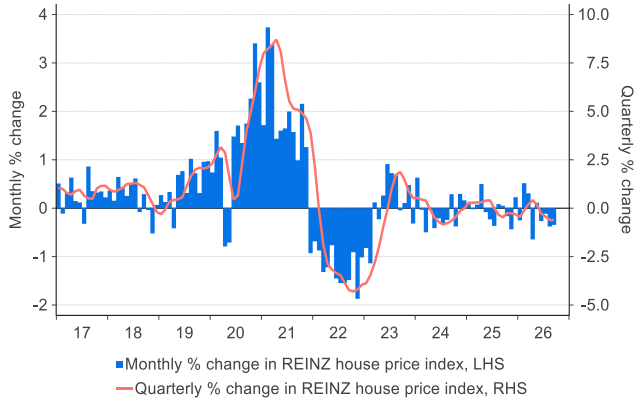
Housing market overview

Summary

- The housing market has weakened over 2026.
- The main reason is rising interest rates.
- We expect house prices to drift mildly down until mid-2027 – i.e. more of the same for a while yet.

The housing market has weakened over recent months, and the trend has shifted from broadly flat prices to a slight decline. The seasonally adjusted REINZ house price index fell by 0.3% m/m in September, its fourth small monthly decline in a row (figure 1).

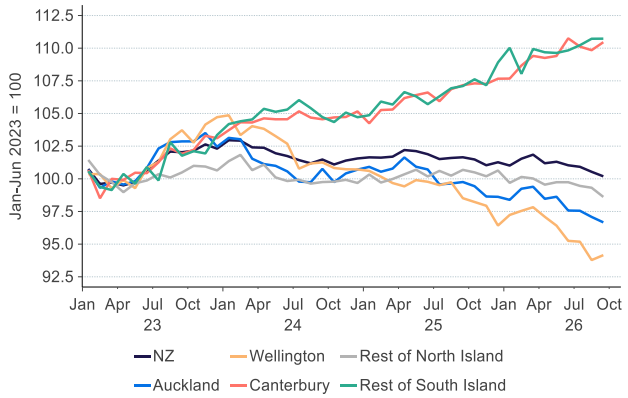
Figure 1. Monthly and quarterly change in house price index



Source: REINZ, Macrobond, ANZ Research

Long-running divergent regional trends have continued over recent months, but with price trends weakening across the board. Prices in Auckland have trended down at a pace of around 1% per quarter since the middle of 2026, while prices in Wellington have trended down at a rate of around 2% per quarter. Elsewhere in the North Island prices are slightly declining, and in South Island the previous upward trend in prices has slowed (figure 2).

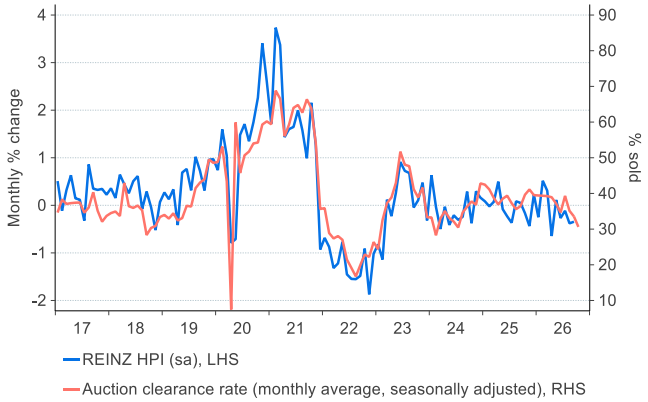
Figure 2. House price index levels since the early-2023 trough



Source: REINZ, Macrobond, ANZ Research

The pullback in buyer demand over the course of 2026 is clear across a range of indicators. There has been a notable decline in sales volumes since the peak in activity last summer, and this has been widespread across regions. The seasonally adjusted auction clearance rate has dipped (figure 3). Likewise, the median number of days to sell has lifted a little from its levels earlier in the year. This shows that buyers can take their time before committing to a purchase.

Figure 3. REINZ house price index vs seasonally adjusted auction clearance rate

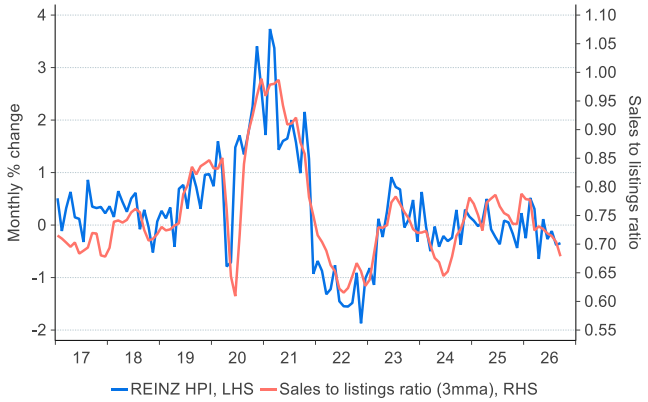


Source: REINZ, interest.co.nz, Macrobond, ANZ Research

In contrast, the flow of new listings is still elevated, showing there are plenty of homeowners wanting to sell.

The ratio of sales to new listings gives a good indication of momentum in house prices. Like the auction clearance rate, it signals that the pressure on prices is likely to remain downward in the months ahead (figure 4).

Figure 4. REINZ house price index vs the sales-to-listings ratio (sa)

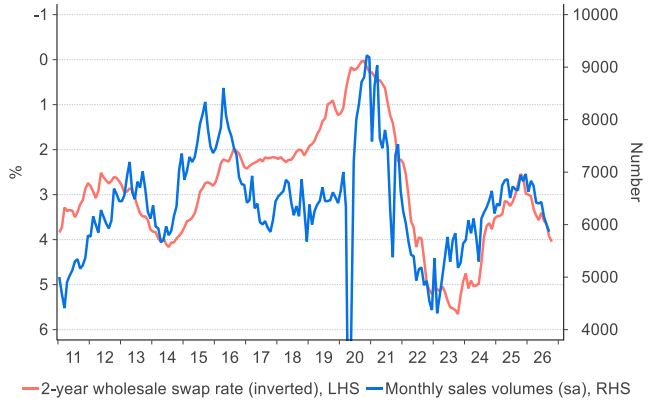


Source: REINZ, realestate.co.nz, Macrobond, ANZ Research

Higher interest rates weighing on house prices

Although there are always lots of things going on at the same time, rising interest rates appear to be the main driver of this year's slowdown. After the RBNZ finished cutting the OCR late last year and hikes appeared on the horizon, wholesale interest rates such as the 2-year swap rate began to rise, subsequently feeding into higher mortgage rates. That both lowers the enthusiasm for borrowing and mechanically reduces how much people can borrow, should they feel so inclined. It's no coincidence that the fall in sales volumes has tracked the rise in interest rates (figure 5).

Figure 5. House sales volumes vs interest rates

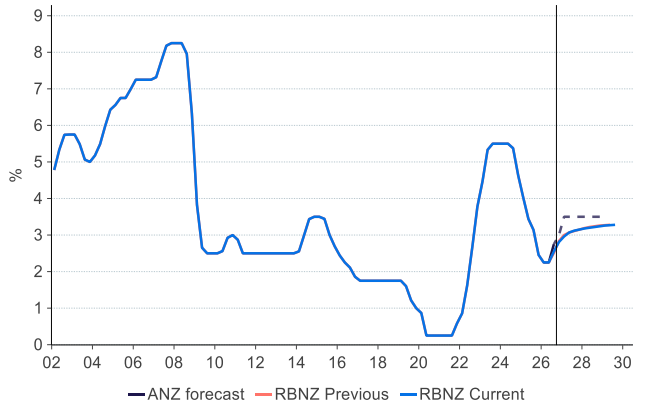


Source: REINZ, RBNZ, Macrobond, ANZ Research

The RBNZ has already delivered two 25bp hikes since July, and we are expecting three further 25bp hikes to take the OCR to 3.5% by March next year (Figure 6).

There are three main reasons why we expect the RBNZ to deliver these further hikes. First, oil prices have returned to high levels, posing upside risk to inflation well beyond the initial impact on petrol prices. Second, the exchange rate has fallen well below where the RBNZ assumed it would be, putting upward pressure on import prices more generally. Third, the economy is growing consistently, even if it can't be described as especially strong overall at this stage – and it's very patchy, with export-oriented sectors doing very well while consumers remain cautious in the face of the cost-of-living shock. It won't all be smooth sailing for the economy – after all, oil shock pose upside risks to inflation and downside risks to growth. But we think three further hikes best balance risks to the medium-term inflation outlook, reducing the risk that rates need to be hiked by considerably more down the track.

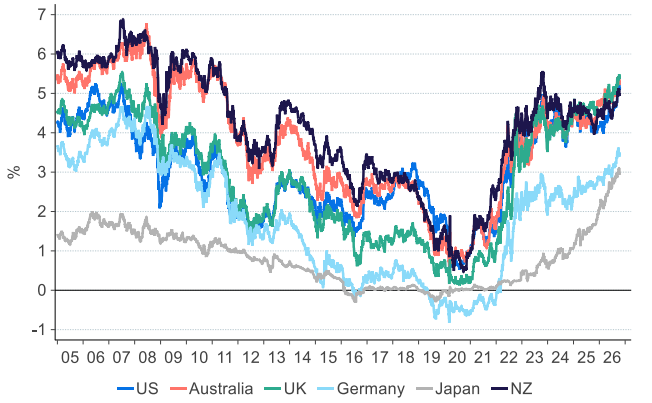
Figure 6. Official Cash Rate



Source: RBNZ, Macrobond, ANZ Research

The increase in interest rates in New Zealand is part of a wider global trend. Long-term government bond yields in the US and a range of other countries have been hitting multi-decade highs (figure 7). Underpinning this has been strong demand for capital to fund AI investment, unsustainable fiscal deficits in major countries, and inflation fears that have put global central banks into hiking mode. Given the interconnectedness of the world economy, New Zealand's interest rates have been pulled up with the global tide.

Figure 7. 10-year government bond yields

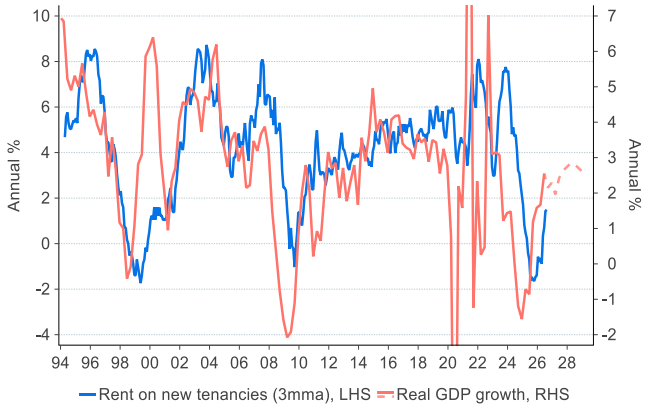


Source: RBNZ, US Treasury, SBJ, BoJ, Bloomberg, Macrobond, ANZ Research

Election-related uncertainty is likely adding to the cautious mood in the housing market, particularly amongst investors, given the debate around potential tax changes. But the election's impact on the housing market appears secondary to the effect of higher interest rates. In large part, this is because around two-thirds of New Zealand homes are owner-occupied and any tax changes will mainly impact investors.

One tailwind providing some offset to these headwinds is the ongoing recovery in the economy. The effect of improving growth has shown up the most clearly in rents on new tenancies, which have increased from a year ago, in line with their usual relationship with the economic cycle (figure 8). Employment growth and a slight pickup in net migration are providing some modest support to demand for housing.

Figure 8. Annual rent inflation and GDP growth



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

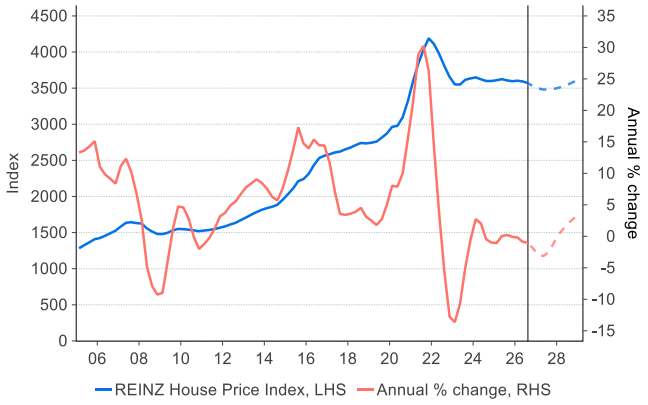
House prices expected to drift down until mid-2027

Ever since oil prices spiked back in March, we have thought that house prices will likely end 2026 slightly lower than they started. We were surprised at the resilience in house prices through the middle of the year, and in August pushed some of the weakness in our house price forecast out to next year. However, the latest data shows that prices are clearly drifting downwards.

Housing market overview

The recovering economy is unlikely to be enough to offset the headwind of higher interest rates on house prices. Having added OCR hikes to our forecasts late last month, and given the weakness in recent housing market data, we now expect house prices to drift mildly downwards until the middle of 2027. Specifically, the REINZ house price index is already 1% lower than it was in January, and we anticipate that further small declines over the next few months will see prices end 2026 around 2% lower than they started (a slight downgrade from our previous forecast of a 1% decline over 2026). We then expect further small falls over the first half of 2027 before prices flatten off, leaving them down 1% over 2027 (compared to our previous forecast for a 2% rise).

Figure 9. House price forecast



Source: REINZ, Macrobond, ANZ Research

In our feature article this month we look at how house prices compare to several measures of fundamentals. Based on this, it looks like house prices still haven't fully adjusted to the large increase in long-term interest rates since 2021. Progress has been substantial, but a further period of flat to falling prices will help more closely align house prices with fundamentals. We anticipate prices gradually rising from late 2027, supported both by the economic recovery and the long process of normalisation to fundamentals finally having run its course.

As always, there's wide uncertainty around any house price forecast. Rising interest rates could weigh more heavily on prices than we are allowing for. Likewise, if significant new housing taxes are introduced after the election, they would also likely place some additional downward pressure on house prices beyond what we have incorporated in our forecast (as always, our forecasts are based on current government policy). However, it is also possible that some of the current weakness in the housing market will prove temporary if the pressures on global inflation and interest rates abate (such as if oil prices ease), or once the uncertainty about the election has passed.

Housing market indicators for September 2026 (based on REINZ data seasonally adjusted by ANZ Research)

	Median house price			House price index		Sales		
	Level	Annual % change	3-mth % change	Annual % change	3-mth % change	# of monthly sales	Monthly % change	Average days to sell
Northland	$628,721	-6.9	-1.8	-3.3	-2.1	174	+7%	64
Auckland	$969,260	-2.4	-2.1	-3.1	-1.1	1,612	-10%	49
Waikato	$744,407	0.7	-0.5	-2.2	-0.3	572	-2%	52
Bay of Plenty	$809,563	2.0	-2.8	-0.8	-0.6	385	-7%	47
Gisborne	$621,107	-6.5	-1.6	-1.7	0.8	37	+23%	49
Hawke's Bay	$652,155	-1.8	-2.4	-1.7	0.8	170	-6%	45
Manawatu-Whanganui	$535,188	-1.0	-0.2	-2.5	-0.7	324	+1%	49
Taranaki	$618,245	11.6	-0.3	-3.0	-1.3	156	+16%	57
Wellington	$749,259	-1.9	-1.3	-4.4	-2.0	536	0%	52
Tasman, Nelson & Marlborough	$750,406	5.3	4.0			216	0%	43
Canterbury	$709,030	0.9	-1.4	3.1	0.3	1,093	+1%	42
Otago	$685,770	-4.2	-2.9	2.8	1.0	370	+7%	44
West Coast	$442,955	4.1	-0.1	0.1	0.6	32	-22%	37
Southland	$494,599	-3.8	-2.6	7.5	0.1	151	+1%	31
New Zealand	**$756,713**	**-2.2**	**-1.7**	**-1.4**	**-0.6**	**5,865**	**-2%**	**48**

Feature Article: Are we there yet? Comparing house prices with fundamentals

Summary

- We look at how house prices currently compare to four different measures of fundamentals.
- New Zealand's house prices have made substantial progress towards fundamentals since the COVID-era bubble, but still appear to be a little above levels consistent with today's long-term interest rates.
- Interest rates are cycling around higher levels than they were 5 to 10 years ago, and house prices are still adjusting to this change.
- However, the difference between house prices and the cost to build is now historically low, putting a limit on how much further prices can fall from here in the long run.
- Long-term interest rates are a big uncertainty: if interest rates start trending higher or lower than we and the market are expecting, the outlook for house prices could change significantly.

Overview

House prices rise and fall with the ebb and flow of the economy and OCR changes, but over many years they tend to gravitate towards a level consistent with a set of long-run fundamentals. These include household incomes, expected interest rates over the long term, rents, and the cost of building new homes.

In this article we look at how current house prices compare to four different measures of fundamentals, summarised in table 1 below. The fact that there are four of them highlights that 'equilibrium' or 'sustainable' is something of a grey zone when it comes to house prices. But taken together, these measures can provide a guide as to whether house prices are currently higher or lower than where they might settle in the long run.

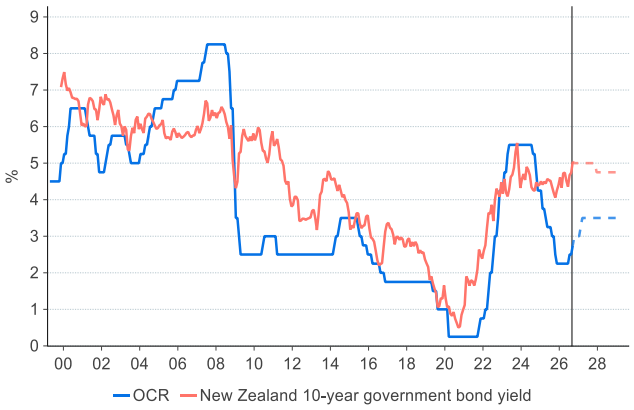
Table 1. Measures of house prices compared to fundamentals

Measure	How the measure currently compares to its long-run level (red = high, blue = low)
House-price-to-income ratio	Still somewhat elevated
RBNZ's sustainable house price indicator	A little above the sustainable range
Home ownership costs	Ownership costs are currently elevated compared to renting
House-price-to-build-cost ratio	The gap between house prices and build costs is near cycle lows

Enormous progress has been made in restoring house prices to a more sensible level after the COVID-era bubble, and while it has undeniably been painful, it has been achieved without any financial stability wobbles. We should celebrate that progress; our economy is much more robust for it. But are we there yet? Considering these four measures together, we'd judge New Zealand's house prices to still be a little above where the fundamentals indicate. The main reason for this is that prices appear to have not yet fully adjusted to the large increase in long-term interest rates that has occurred since 2021. On the other hand, the difference between house prices and the cost to build is now historically low, and overall house-building activity is subdued as a share of GDP. That suggests there's limited scope for further large falls in house prices before construction of new housing drops away further. There is a limit on how much further prices can fall from here in the long run.

It's also worth emphasising that some drivers of fundamentals can be hard to predict, such as where interest rates will trend in the long term. We're expecting interest rates to stay higher than they were through the 2010s (figure 1). However, if interest rates start trending lower than we and financial markets expect, current house prices may prove to be more sustainable. On the other hand, if long-term interest rates start trending higher than we and financial markets expect, house prices could come under further downward pressure.

Figure 1. Interest rates and ANZ forecasts



Source: RBNZ, Macrobond, ANZ Research

There are also some regional nuances to our assessment of which to be aware. The house-price-to-income ratios of Auckland and Wellington are now close to their long-run averages, following steep falls from their peaks. In contrast, in many regional areas house-price-to-income ratios are still above their long-run averages. Of course, that is in part because the economic cycle is more positive in those parts of the country right now, so it isn't a black mark for those regions! But it does suggest that prices in Auckland and Wellington may be closer to long-run fundamentals than prices in some other areas.

It might seem surprising that house prices are still above fundamentals, given how large the correction in house prices has been. Average nationwide house prices are down 16% from the 2021 peak, and more than 30% after adjusting for inflation. In part, this shows how extreme house prices had become by 2021, and unwinding that bubble has been no mean feat. However, it also shows how dramatically house prices can change when long-term interest rate expectations change. Much higher house prices could be rationalised 5 to 10 years ago when interest rates were expected to stay low for a long time.

If house prices are still a little above the level suggested by fundamentals, they will likely drift sideways or slightly down for a while longer, all else equal. That's consistent with our forecast. After prices reach fundamentals, they are likely to trend up over the long term with household incomes and construction costs – perhaps at a rate of around 4% per year. However, there will undoubtedly be large house price cycles around this long-run trend: housing upturns in periods when the economy is strong or long-term interest rates fall, and housing downturns in periods when the economy is weak or long-term interest rates rise.

Let's turn now to the four different measures of house price fundamentals.

1. The house-price-to-income ratio: still somewhat elevated

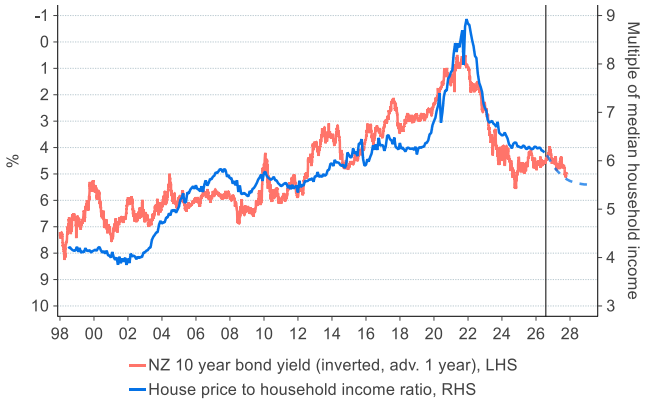
The first measure we look at is the house-price-to-income ratio, which compares house prices with household incomes. The ability to pay for a house is driven by a combination of incomes, interest rates, and credit availability. Incomes are the most stable of those drivers over the long run, providing one firm foundation for house prices (if not a perfectly predictable one!).

The house-price-to-income ratio soared from around 4 before 2002 to a peak of nearly 9 in 2021. It has since corrected back to around 6 as house prices declined and incomes rose with inflation. It has averaged 5.75 since 1998 (when our data begins).

The path of the house-price-to-income ratio over the past 30 years can largely be explained by the decline in long term interest rates until 2021 and their subsequent rise (figure 2). Essentially, for a given level of income, people were able to borrow more and more – and then abruptly less. And those broad dynamics were reflected in the house-price-to-income ratio.

The current level of long-term interest rates, if sustained, would imply the house-price-to-income ratio has a little further to fall, consistent with our forecast for it to reach around 5.5 by 2028.

Figure 2. The house-price-to-income ratio vs interest rates (inverted)



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

Regional differences in the house-price-to-income ratio

There are some marked differences in how stretched the house-price-to-income ratio currently appears across different regions.

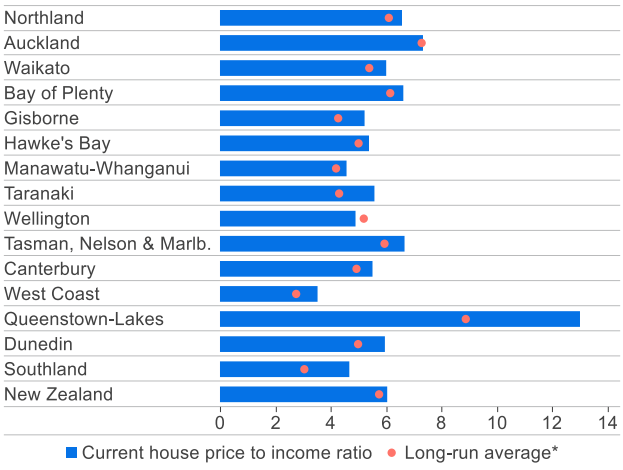
House-price-to-income ratios naturally vary across regions depending on the characteristics of the area, meaning comparisons with a region's own history are often more informative than comparisons between regions.

It is notable that the ratios for Auckland and Wellington are now around their historic averages, as weak economic conditions have driven the largest declines in house prices from the 2021 peak (figure 3).

On the other hand, house-price-to-income ratios remain above their long-run average in some regional areas, particularly in the South Island, where the economic cycle is more positive right now due to the strength of the agriculture and international tourism sectors. If the good times for those sectors last, house prices may yet prove to be in line with fundamentals there. But the clear risk is that conditions for agriculture and tourism prove cyclical to some extent, that they don't permanently stay as buoyant as they are right now, and that the house-price-to-income ratios in regional areas revert to being closer to their long-run averages over time.

Highlighting the importance of regional considerations, Queenstown has its own dynamics going on. As a holiday town, house prices have long been out of line with local incomes and seem likely to remain so, as a large proportion of the region's houses are bought with income earned elsewhere. That doesn't mean the Queenstown housing market is without risks though: prices have been reaching ever-higher levels, and there is a lot of new housing being built in the area.

Figure 3. House-price-to-income ratio by region



Source: REINZ, Infometrics, Macrobond, ANZ Research
* Average since 2000 for Gisborne, Dunedin and Queenstown-Lakes, and average since 1998 for all other regions

The big question: where might the house-price-to-income ratio gravitate back to in the long term? This is really hard to know! Prior to the 2000s, a ratio of around 3 to 4 was typical and regarded as 'affordable'. While a return to such levels would be great for housing affordability for first home buyers, we are doubtful New Zealand's ratio will get all the way back there. New Zealand's ratio hasn't been below 5 since 2004, and several structural changes mean the equilibrium ratio is likely to be higher than it was before the 2000s. These include:

- interest rates remaining lower than they were in the 1980s/1990s, meaning the real price of well-located land is likely to remain higher than then;
- population growth combined with geographic and regulatory constraints on urban expansion (despite the considerable upzoning achieved over the past 15 years);
- greater credit availability compared to the 1980s as a result of financial sector deregulation; and
- improved housing quality – it's not quite comparing apples with apples.

An analysis of 96 cities across English-speaking countries found that while house-price-to-income ratios around 3 were typical around 1990, there are now no cities with a ratio below 3, and the median city has a ratio around 5.[1]

Considering all this, our best guess is that New Zealand's house-price-to-income ratio might settle in the 5 to 6 range in the long term, which is where it was before the 2010s housing upswing began. That implies New Zealand's current house-price-to-income ratio of around 6 is at the upper end of where it might settle in the long run.

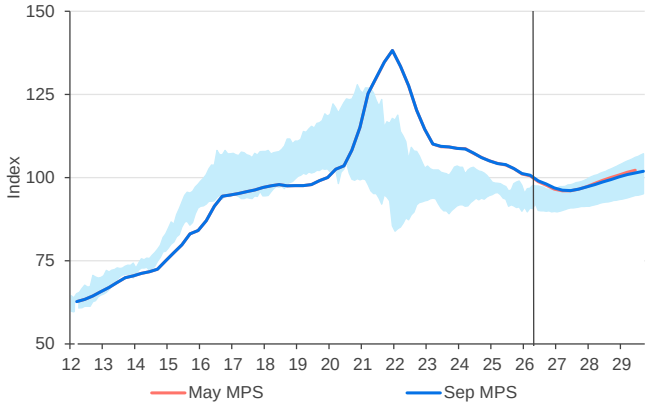
2. The Reserve Bank's estimate of sustainable house prices: above the sustainable range

The second measure we look at is the RBNZ's estimate of how house prices compare to 'sustainable' levels, which they update in each Monetary Policy Statement (MPS).

The RBNZ estimates the sustainable range by comparing the long-term benefits and costs of owning a home. The benefits are measured by rents and expected long-term inflation in rents and house prices. The costs are measured by estimated long-term interest rates (based on the estimated neutral interest rate) and other costs such as council rates and maintenance.

In the September MPS the RBNZ estimated that real house prices were still a little above the sustainable range (figure 4). The RBNZ's estimate of this range is very sensitive to the neutral interest rate, which is very hard to pin down in real time. The estimated sustainable range for real house prices has declined since 2021 as the estimated neutral interest rate has increased.

Figure 4. Real house price index and the RBNZ's estimate of the sustainable range (shaded area)



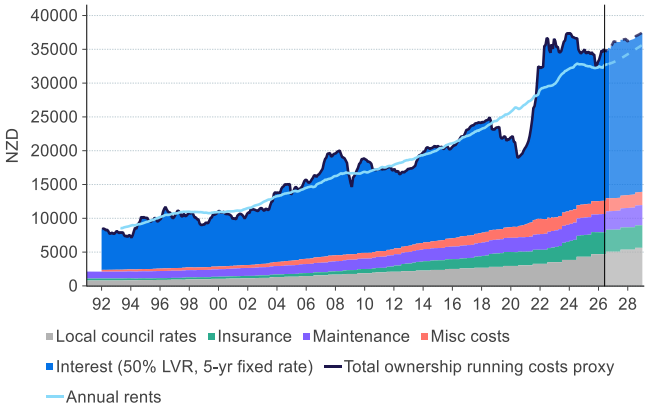
Source: RBNZ September MPS

3. Home ownership running costs: currently high compared to rents

The third measure we consider is our own estimate of how home ownership running costs for a newly bought home (interest, council rates, maintenance etc) compares to rents. This measure of fundamentals captures similar drivers to the RBNZ's sustainable house price indicator above, but it draws only on variables we can observe in the real world, such as the 5-year fixed mortgage rate, house prices and rents. It doesn't attempt to incorporate unobservable variables, such as the neutral interest rate and capital gain expectations, which are very hard to know in real time. In practice, we find that house prices can be quite well explained without relying on these unobservable variables. We outlined how we put this indicator together in a previous feature article.

The drawback of this measure of fundamentals is that it won't always capture very long-run fundamentals when the inputs – such as mortgage rates – depart from their long-run levels. Our forecasts of this measure of fundamentals beyond the latest actual observed data is also subject to the same considerable uncertainty as any other economic forecast.

Figure 5. Home ownership costs compared to rents



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

[1] Demographia International Housing Affordability, 2026 Edition. http://www.demographia.com/dhi.pdf

Right now, this measure shows that the costs of owning a home are high compared to renting, and our forecasts don't anticipate that changing in the next few years (figure 5). That implies that the financial incentive to buy houses is lower than average, and that house prices are going to stay under downward pressure for a while yet. This framing shows the trade-off for people tossing up renting or buying a home to live in, but the maths would be the same for investors weighing up the potential running costs of owning property against the rental income they would receive.

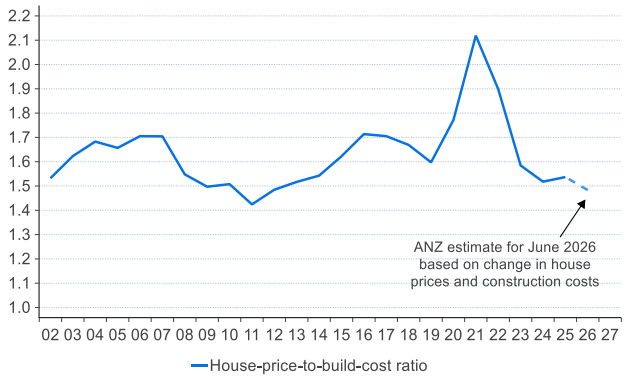
4. The house-price-to-build-cost ratio: near the cycle low

Our final measure of fundamentals compares house prices to the cost of building a new home. When house prices are well above the cost of building, it indicates that new supply can be profitably delivered and that additional supply is likely to limit further house price inflation in the long run (and vice versa when prices are low compared to build costs).

Estimates of the house-price-to-build-cost ratio are published by the Ministry of Cities, Environment, Regions and Transport to help monitor whether supply is responding flexibly to changes in demand.[2] These estimates compare the sale price of new homes with construction costs (excluding the land). When house prices rise well above construction costs, it usually reflects the price of urban land escalating, either because of a shortage of zoned land, or because it takes time to construct more housing to meet demand and the excess demand bids up land prices in the meantime.

The house-price-to-build-cost ratio is currently near the previous cycle low that occurred in 2011 (figure 6). The most recent data puts the ratio at 1.54 as of June 2025, compared to its high of 2.1 in 2021 and a low of 1.4 in 2011. However, the latest published estimate is now over a year old, and the ratio has probably declined further since then, given rising construction costs and falling house prices.

Figure 6. House-price-to-build-cost ratio



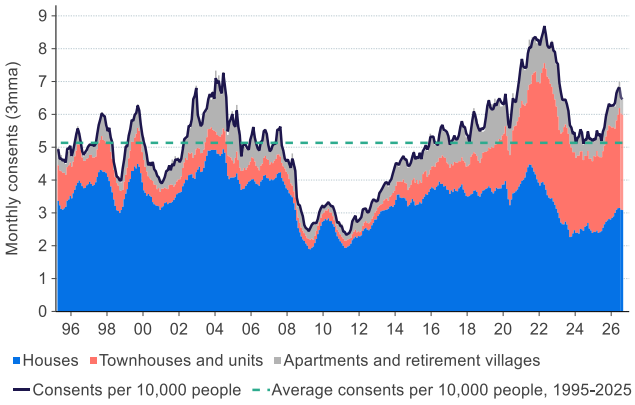
Source: Ministry for Cities, Environment, Regions and Transport, REINZ, Stats NZ, Macrobond, ANZ Research

It's hard to be definitive about where this metric might gravitate to in the long run. It excludes land costs, so would naturally sit some distance above 1 to allow for that. But it may sit closer to 1 going forward than it has in the past if recent upzoning reforms prove to have sustainably reduced the cost of urban land. It is also hypothetically possible for house prices to go well below build costs, but that only tends to happen on a sustained basis in areas experiencing long-term economic and population decline. Few parts of New Zealand fit that description, fortunately!

The amount of construction happening can give some clues as to whether the house-price-to-build-cost ratio is now low enough that it is constraining housing supply. There are some mixed signals on this score, but the total amount of house building does appear subdued currently, suggesting it is something of a constraint.

On the positive side, the number of new residential building consents per capita is well above its long-term average (figure 7). That's been driven by a boom in townhouse construction following zoning changes over the past 15 years. The high number of homes being built is certainly helping to put downward pressure on house prices.

Figure 7. Number of residential building consents relative to the population

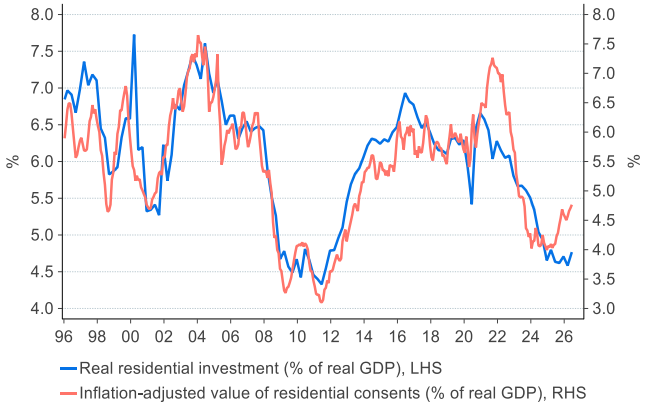


Source: Stats NZ, Macrobond, ANZ Research

However, the total *quantity* of housing construction, as measured by real residential investment as a share of real GDP, is now at its cycle low (figure 8). And while the recent pickup in building consents indicates more house-building is in the pipeline, the quantity of construction looks set to remain below average for a while yet.

[2] The data is published in their Urban Land Dashboard

Figure 8. Real quantity of house-building as a % of real GDP



Source: Stats NZ, Macrobond, ANZ Research

The main reason why the measured quantity of construction is low despite high consent numbers is that the average size of newly built homes is now around 30% smaller than it was in 2010 (figure 9). The shift to townhouses explains part of this, but the average size of newly built stand-alone homes has also declined by around 15% since 2010. Although population aging and smaller family sizes are increasing demand for smaller homes, stretched affordability and the housing market downturn are likely to have played a big part in the shift to building smaller homes.

Also helping to explain the low quantity of residential investment is that fewer alterations and additions are being done right now. While the subdued housing market means some people are finding it better to renovate than move house, it also disincentivises renovating in hope of profit.

Figure 9. Average floor area of new builds

Source: Stats NZ, Macrobond, ANZ Research

Considering that the house-price-to-build-cost ratio is now near its previous cycle low, and construction activity is subdued as a share of GDP, it is likely that substantial further declines in house prices would increasingly constrain the ability of the construction sector to deliver new supply. That might not matter now while the economy is only just getting back on its feet and net migration is low, but it could become an issue when a more sustained economic upturn sets in and demand emerges for more and larger houses. All up, that puts a limit on how much further prices can fall from here in the long run.

Conclusion

Five years into the housing downturn, are house prices back in line with fundamentals yet? The measures we've looked at suggest we probably have a bit further to go, but we are now most of the way through the process. Unwinding a housing bubble of the size we had is no mean feat. It's been a hard journey for those who bought their homes around the peak, and for everyone impacted by the domestic economic cycle – the construction industry, retailers, hospitality, and many others. But New Zealand is far better off with house prices now at more sensible levels. Housing affordability for the next generation of first home buyers is much improved. And the adjustment, tough as it has been for many, has been achieved without major financial stability wobbles. House prices appear to have a little more adjusting to do yet, given the higher level that interest rates are settling at, but we have done the hard yards and our economy will be better for it in the long run.

Mortgage borrowing strategy

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Summary

Mortgage rates are little changed this month, with the only change being a small reduction in the median 18-month rate, which removed a kink in the mortgage curve. The broad quandary facing homeowners is the same as a month ago: fixing for longer costs more but comes with certainty. Conversely, fixing for a shorter period costs less, but comes with the risk of rolling into a more expensive rate later, should the RBNZ continue to hike the OCR, as we expect. While mortgage rates are not nearly as high as they were in late 2023, they are high relative to the OCR thanks to higher global interest rates, which have pushed up local longer-term wholesale interest rates, and may remain a factor for some time. With ample spare capacity in the economy (think: high unemployment), growth can rebound without generating non-fuel inflation, and that's why we only expect three more OCR hikes. However, going the other way, higher oil prices speak to the possibility that the OCR may have to go higher than we and markets expect, and/or remain elevated for longer. Weighing these risks up, we see merit in fixing for 2 to 3 years, which isn't much more expensive than fixing for 1 year. Breakeven analysis shows that shorter-term rates don't need to rise by much to make fixing for longer cheaper in the long-run, and given the certainty fixed rates offer, that may appeal to borrowers. The 6-month is the lowest but offers very little protection against rising rates. There's not really anywhere to hide, and choosing how long to fix for is more about risk management than beating the cycle.

Recent developments, and our thoughts

Median mortgage rates are little changed this month, with a small fall in the 18-month rate the only change. For floating and 6-month rates, that reflects the fact that the OCR has not moved. However, that is likely to offer little comfort to borrowers who chose those options, given widespread expectation among economists and markets of another 0.25% OCR increase at the end of this month, which would imply higher floating and 6-month rates are likely.

With 0.9%pts separating the cheapest and most expensive fixed rates (and just 0.6%pts separating the 1- and 5-year) the mortgage curve is not as steep as it has been in the past. Based on the slope of the curve then, while certainty costs incrementally more, smaller step-ups may make fixing for longer a little more appealing, all else equal. However, for many borrowers, it's more about the outright level of mortgage rates, rather than where they sit relative to each other. And that's where things are less palatable.

To illustrate, the 5-year rate is 3% above the OCR, and only about 0.9%pts below where it was when fixed mortgage rates peaked in late 2023. Difficult as that is to swallow, the main reason is that global long-term interest rates – which tend to have more of a bearing on local long-term interest rates than the OCR does – have risen sharply this year. Worse still, as bond investors in Europe and the US worry about fiscal sustainability and inflation, global long yields are likely to remain elevated for some time. If that is the case, longer-term fixed rates are also likely to remain elevated for some time. We'll just have to hope they may not have much further to go, now that US and European 10-year bond yields are at multi-decade highs.

Shorter-term rates like the 6-month and 1-year will follow the OCR over coming months, as they have all year. That suggests that they will rise a little further, as our projections (based on our wholesale interest rate forecasts) indicate. However, rates like the 2- and 3-year have already risen in anticipation of OCR increases. Given that markets expect more OCR hikes than we do (market expectations have it rising to around 4%, whereas we only expect it to get to 3.5%), one might argue that mortgage rates like the 2-year (which are building in the expectation of a ~4% OCR) are a little high, and thus unattractive. Given softness in the economy, that may be the case. However, going the other way, if the global oil shock spills over into a longer period of above-target inflation, the RBNZ may have to hike more aggressively. That risk isn't centralised in our forecasts, but it can't be discounted.

Right here, right now, our sense is that there is nowhere to hide. Fixing for 6 months is cheapest but will likely expose you to fixing at a higher rate when you roll over in 6 months. So, it's all about managing risks, and with our breakevens showing that rates like the 1- and 2-year don't have to rise by much to make fixing for 2 or 3 years cheaper in the long run, those tenors may appeal to borrowers, especially as the step up from 1-year or 18-months isn't that significant.

Figure 1. Carded special mortgage rates*

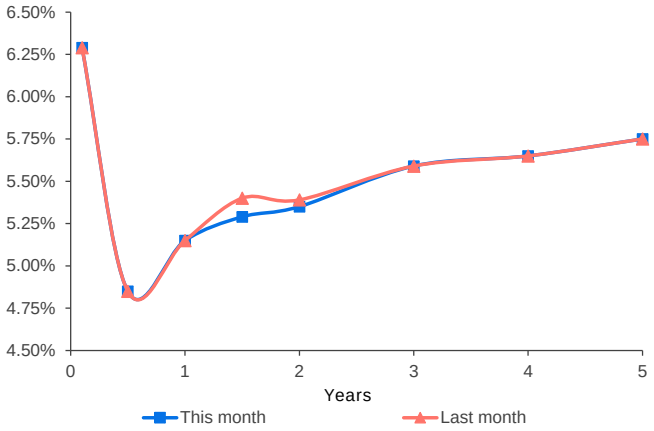


Table 1. Carded special mortgage rates*

Term	Current	Last month
Floating	6.29%	6.29%
6 months	4.85%	4.85%
1 year	5.15%	5.15%
18 months	5.29%	5.40%
2 years	5.35%	5.39%
3 years	5.59%	5.59%
4 years	5.65%	5.65%
5 years	5.75%	5.75%

Source (figure 1 and table 1): interest.co.nz, ANZ Research

*Median of the five largest banks

Breakevens

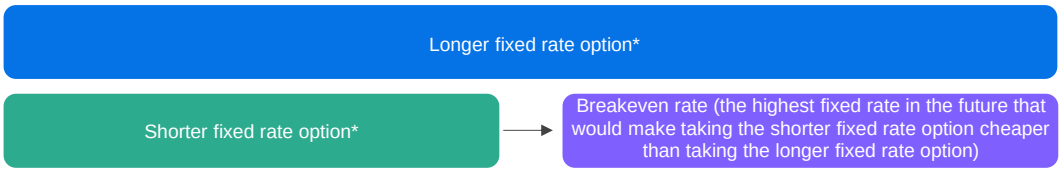
Table 1. Special mortgage rates and breakevens*^

		Breakevens for 20%+ equity borrowers					
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs	in 3 yrs	in 4 yrs
Floating	6.29%	4.01%					
6 months	4.85%	5.45%	5.57%	5.53%			
1 year	5.15%	5.51%	5.55%	5.74%	6.07%	5.83%	6.15%
18 months	5.29%	5.52%		5.89%			
2 years	5.35%	5.63%	5.81%	5.87%	5.95%	5.99%	
3 years	5.59%	5.75%	5.82%	5.91%	6.02%		
4 years	5.65%	5.81%	5.90%				
5 years	5.75%			*Median of the five largest banks			

Source: interest.co.nz, ANZ Research

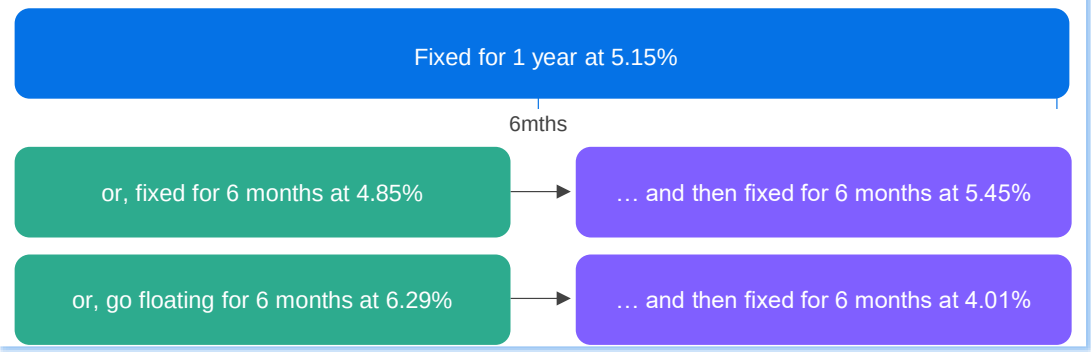
^ Floating rate breakeven assumes the floating rate won't change. If it falls, the breakeven will be higher; if it rises, the breakeven will be lower.

Key – how to read our infographics

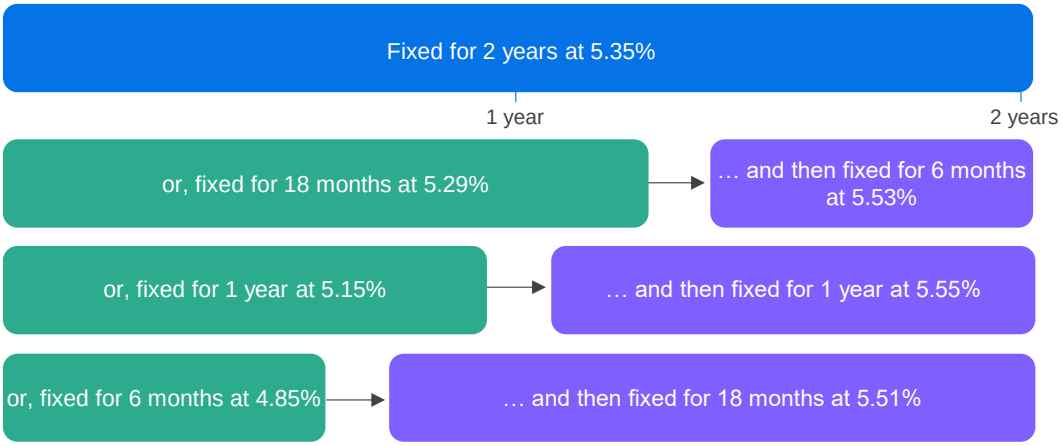


* Current advertised special mortgage rate, median of 5 largest banks

1 year horizon^

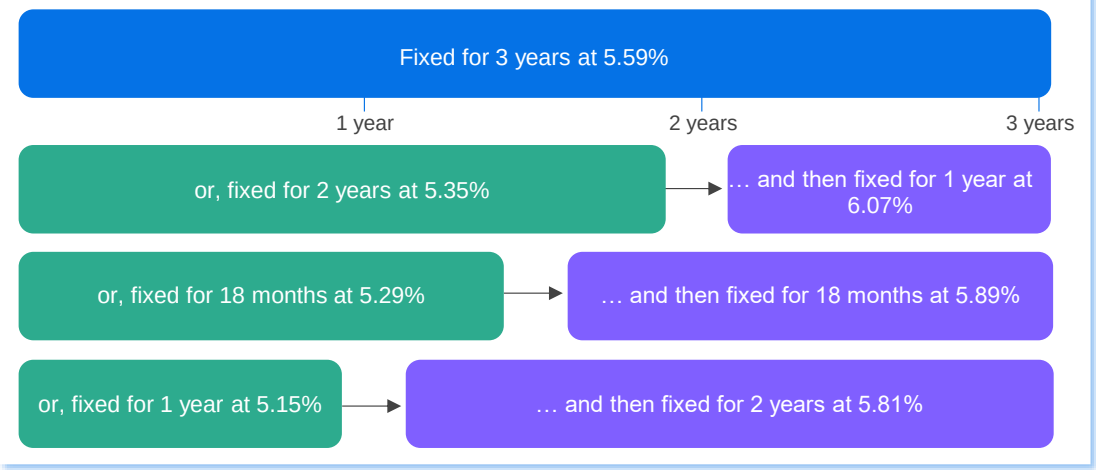


2 year horizon

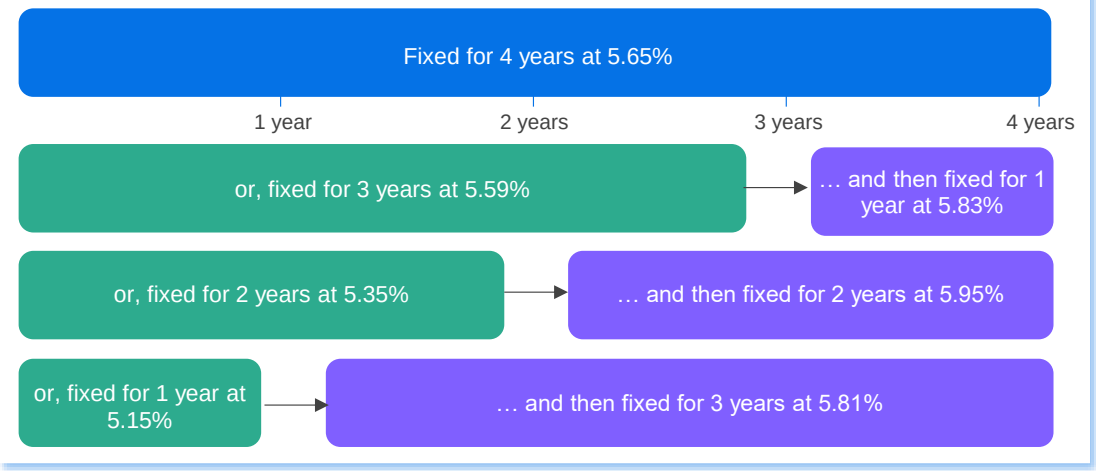


Breakevens

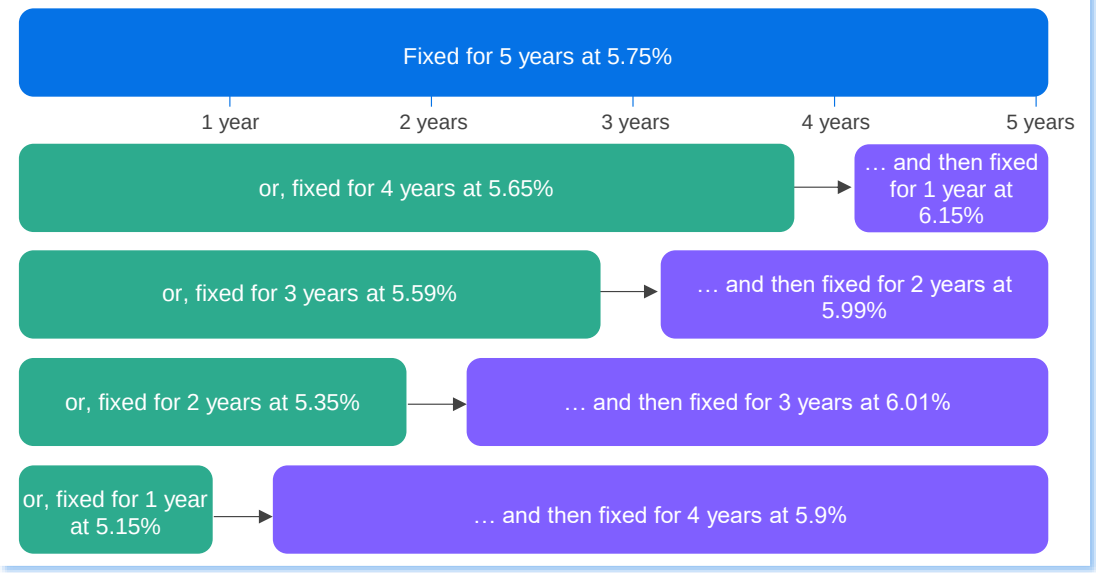
3 year horizon



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 (%)												
	4.25	4.50	4.75	5.00	5.25	5.50	5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50
200	227	234	241	248	255	262	269	277	284	292	299	307	315	323
250	284	292	301	309	318	327	336	346	355	364	374	384	393	403
300	340	351	361	371	382	393	404	415	426	437	449	460	472	484
350	397	409	421	433	446	458	471	484	497	510	524	537	551	564
400	454	467	481	495	509	524	538	553	568	583	598	614	629	645
450	511	526	541	557	573	589	606	622	639	656	673	690	708	726
500	567	584	601	619	637	655	673	691	710	729	748	767	787	806
550	624	643	662	681	700	720	740	760	781	802	823	844	865	887
600	681	701	722	743	764	786	807	830	852	875	897	921	944	968
650	737	760	782	805	828	851	875	899	923	947	972	997	1,023	1,048
700	794	818	842	867	891	917	942	968	994	1,020	1,047	1,074	1,101	1,129
750	851	876	902	928	955	982	1,009	1,037	1,065	1,093	1,122	1,151	1,180	1,209
800	908	935	962	990	1,019	1,048	1,077	1,106	1,136	1,166	1,197	1,227	1,259	1,290
850	964	993	1,023	1,052	1,082	1,113	1,144	1,175	1,207	1,239	1,271	1,304	1,337	1,371
900	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	1,451
950	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	1,532
1000	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	1,613

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

	Actual			Projections						
	Mar-26	Jun-26	Current	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
Floating Mortgage Rate	6.2	6.4	6.3	6.7	7.3	7.3	7.3	7.3	7.3	7.3
1-Yr Fixed Mortgage Rate	4.7	5.0	5.2	5.3	5.5	5.5	5.5	5.5	5.5	5.5
2-Yr Fixed Mortgage Rate	5.1	5.3	5.4	5.4	5.5	5.5	5.5	5.5	5.5	5.5
3-Yr Fixed Mortgage Rate	5.3	5.5	5.6	5.6	5.8	5.8	5.8	5.8	5.8	5.8
5-Yr Fixed Mortgage Rate	5.6	5.7	5.8	5.9	6.0	6.0	6.0	5.9	5.9	5.9

Source: RBNZ, ANZ Research

Wholesale interest rate forecasts

	Actual			Forecasts						
	Jun-26	Sep-26	Current	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
Official Cash Rate	2.25	2.75	2.75	3.00	3.50	3.50	3.50	3.50	3.50	3.50
90-Day Bank Bill Rate	2.72	3.23	3.31	3.55	3.88	3.90	3.90	3.90	3.90	3.90
NZ 2-yr swap	3.35	4.05	4.10	4.00	4.00	4.00	4.00	4.00	4.00	4.00
10-Year Bond	4.36	5.04	5.05	5.00	5.00	5.00	5.00	4.75	4.75	4.75

Economic forecasts

	Actual			Forecasts						
	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28
GDP (Annual % Chg)	1.6	1.7	2.6	2.2	2.3	2.0	2.4	2.6	2.7	2.8
CPI Inflation (Annual % Chg)	3.1	3.1	4.1	3.8	*Under review*					
Unemployment Rate (%)	5.4	5.4	5.6	5.6	5.6	5.5	5.4	5.3	5.2	5.1
House Prices (Quarter % Chg)	-0.3	0.2	-0.3	-0.6(a)	-1.3	-0.9	-0.4	0.0	0.3	0.5
House Prices (Annual % Chg)	-0.1	-0.2	-0.9	-1.0(a)	-2.0	-3.0	-3.1	-2.5	-1.0	0.4

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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