ANZ Research

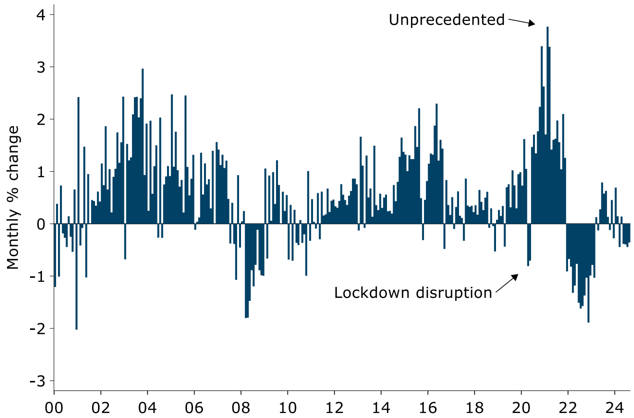
September 2024

New Zealand Property Focus

Regional revelations

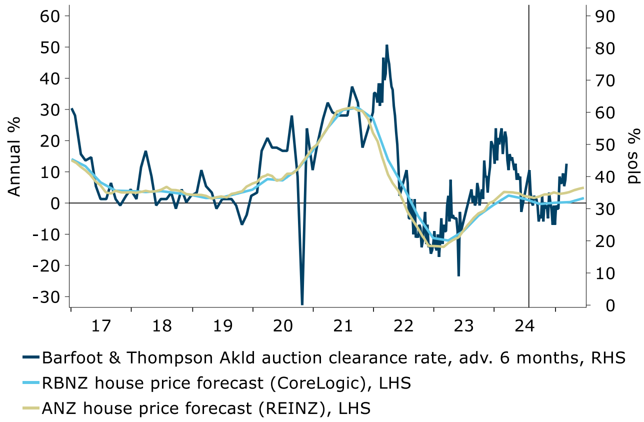
At a glance

House prices fell for a fourth consecutive month in August...

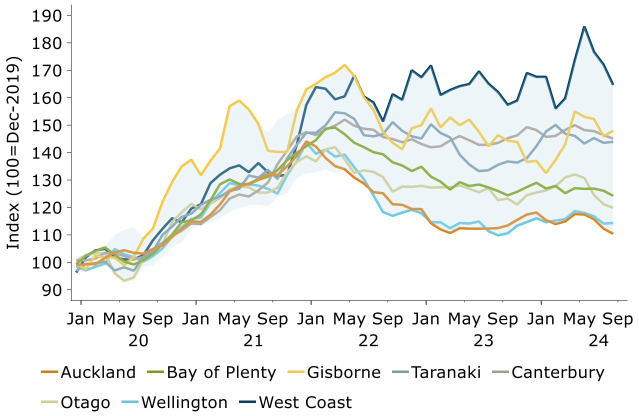


... and weak sales and rising listings suggests prices will fall further.

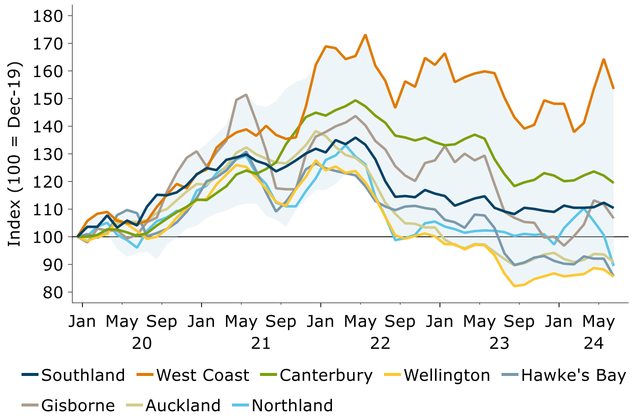
However, early indicators suggest momentum is starting to shift.



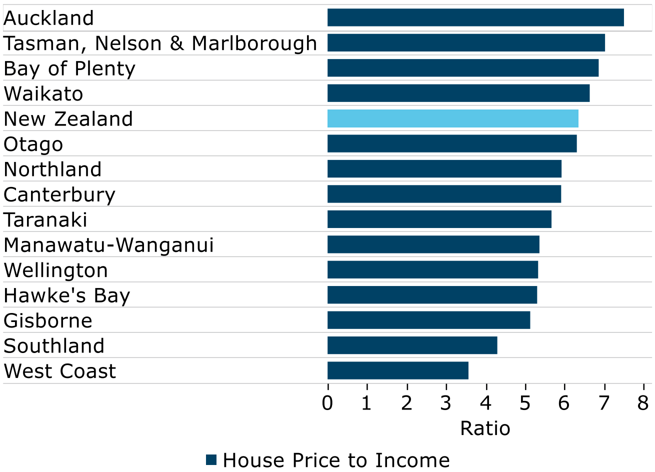
The post-COVID housing cycle has varied by region...



...seeing house price to income ratios fall in some regions...



... but in an absolute sense, housing is still very unaffordable.



Source: RBNZ, REINZ, Stats NZ, Barfoot & Thompson, interest.co.nz, CoreLogic, Macrobond, ANZ Research

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Contact

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Confused by acronyms or jargon? See a glossary here.

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Summary

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

Property Focus

Housing market momentum continued to weaken in August, with no sign as yet of a flurry of sales following the RBNZ's first OCR cut last month. Sales volumes remained weak, while inventories on the market rose further, suggesting that house prices are likely to correct further over the coming months in order to clear the backlog. However, anecdotal evidence has pointed to a pick-up in activity over recent weeks, and Barfoot and Thompson's Auckland auction clearance rate has bounced, highlighting the risk that the housing market could be spurred back to life quickly as interest rates fall. Mortgage rates have continued to head lower over the month, driven by falls in wholesale rates as financial markets have ratcheted up bets that the RBNZ will step up the pace of OCR cuts to 50bp moves. That's not what we're expecting, but it's worth remembering that faster cuts from the RBNZ would likely occur in response to the economy underperforming the RBNZ's already low expectations. In that scenario, lower interest rates may not be the boon for the housing market that many assume. See our Property Focus.

Feature Article: Regional revelations

This month we look at housing market developments across 14 key regions. Now that interest rates are normalising after the post-COVID rollercoaster, regional over- or under-performance is worth investigating. We evaluate regional house prices, indicators of housing market tightness, key regional economic indicators, and regional measures of housing affordability. Most regional housing markets are currently on a loosening trajectory, though house price cycles have been far more pronounced in some regions than others. The West Coast takes the prize for the strongest performance, with house prices up around 65% from December 2019, while Auckland has seen the weakest growth, with prices up only around 10% over the same period. How does your region stack up? See this month's Feature Article.

Mortgage Borrowing Strategy

Mortgage rates fell further in September, led by the 2yr, with the median rate offered by the five largest banks down 0.2%pt to 5.79%, marking a cumulative fall of 1.22%pt since November. Our projections (based on our wholesale interest rate forecasts) point to further declines in fixed mortgage rates over the coming year, with larger falls expected in floating and 6mth rates, and lesser falls likely in the 4-5yr part of the curve. Many borrowers will be wondering if there's merit in fixing one more time for a shorter term before fixing for a longer term later. With the 1yr 0.56% below the 6mth, and the 2yr 0.5% below the 1yr, both have their merits. Breakevens show that it might be a close call as to which will work out cheaper in the long run, and any decision is probably going to come down to individual risk appetite. We always see merit in spreading risk over several terms, especially since longer terms are cheaper. See our Mortgage Borrowing Strategy.

Property Focus

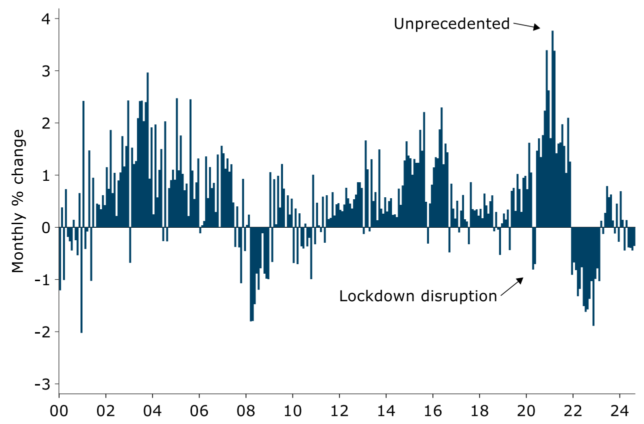
Summary

Housing market momentum continued to weaken in August, with no sign as yet of a flurry of sales following the RBNZ's first OCR cut last month. Sales volumes remained weak, while inventories on the market rose further, suggesting that house prices are likely to correct further over the coming months in order to clear the backlog. However, anecdotal evidence has pointed to a pick-up in activity over recent weeks, and Barfoot and Thompson's Auckland auction clearance rate has bounced, highlighting the risk that the housing market could be spurred back to life quickly as interest rates fall. Mortgage rates have continued to head lower over the month, driven by falls in wholesale rates as financial markets have ratcheted up bets that the RBNZ will step up the pace of OCR cuts to 50bp moves. That's not what we're expecting, but it's worth remembering that faster cuts from the RBNZ would likely occur in response to the economy underperforming the RBNZ's already low expectations. In that scenario, lower interest rates may not be the boon for the housing market that many assume.

Still in wait-and-see mode

August's monthly housing market snapshot showed few signs of a pickup in activity following the falls in mortgage rates over the past few months. The REINZ House Price Index fell 0.4% m/m (sa), the fourth consecutive monthly fall, to now be down 1.6% from the previous peak in April. And house prices are likely to head lower still in the coming months, given subdued sales and rising inventory on the market.

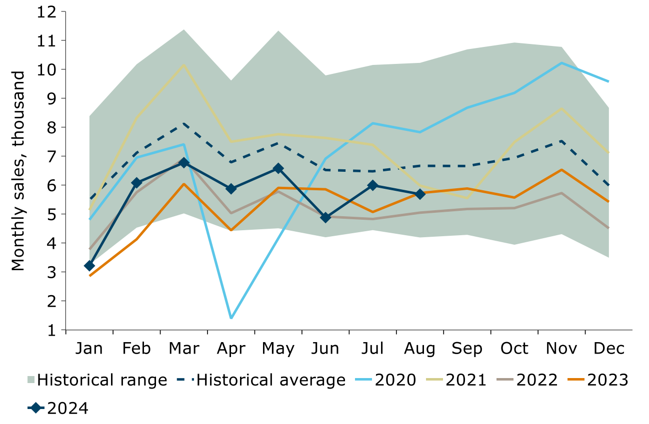
Figure 1. Monthly house price inflation (sa)



Source: REINZ, Macrobond, ANZ Research

Sales volumes declined 3.0% m/m (sa) in August, remaining well below the long-run historical average for this time of year. Weak sales volumes over the past year have generated a backlog of listings on the market. Total inventory on the market continued to rise in August, though now looks to be levelling off.

Figure 2. Sales relative to history



Source: REINZ, Macrobond, ANZ Research

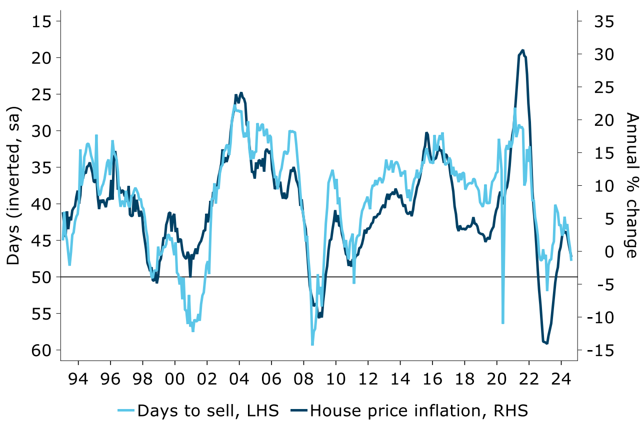
The ratio of sales to listings provides a good indication of near-term house price dynamics and suggests that a further correction lower in house prices is likely before the backlog of stock on the market is cleared.

Figure 3. NZ sales-to-listings ratio vs house prices

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

Reflecting a looser market, the number of days for a property to sell continues to rise. It rose by 2 days to 48 in August, well above the long-run average of 39.

Figure 4. Days to sell vs house price inflation

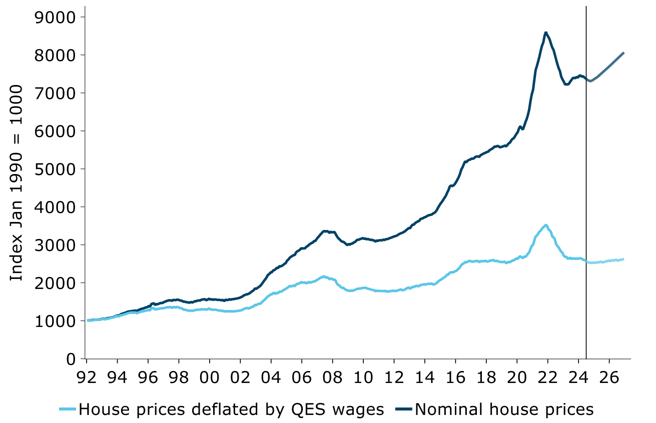


Source: REINZ, Macrobond, ANZ Research

All up, there isn't much to get excited about just yet for those anticipating a pick-up in the housing market from lower interest rates. In fact, August's data added further downside risk to our forecast for house prices to decline 1.0% y/y over 2024. That said, we haven't crossed the threshold yet to warrant a forecast change, with the potential for near-term weakness to be offset by a sharper bounce a little further down the line.

September data, to be released in the middle of next month, will be the first full month of data following the RBNZ's August OCR decision, and may give a sense of the risks to the outlook. For the time being, we're sticking to our forecast for house prices to find a floor around the turn of the year, paving the way for a gradual recovery, with house prices expected to lift 4.5% over 2025.

Figure 5. House price forecast

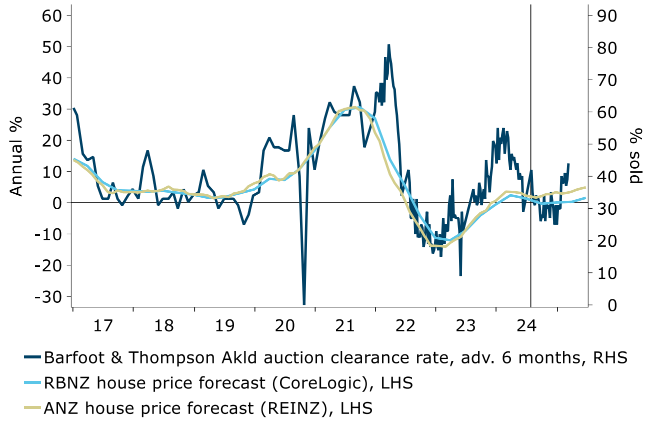


Source: REINZ, Stats NZ, Macrobond, ANZ Research

While it's still too early to see any impacts of lower interest rates on house sales, anecdotal evidence over recent weeks has pointed to a pick-up in activity. That said, it's typical to see a pickup in activity heading into spring, which means caution is warranted when interpreting these anecdotes. On the data front, the weekly Auckland auction clearance rate is a timely and useful leading indicator of changes in housing market momentum. In last month's edition we noted that the auction clearance rate had bounced following falls in interest rates. That bounce has extended over the past few weeks, hinting at the risk of a sharper-than-expected turnaround in the housing market, given this indicator tends to lead house sales by around three months, and pick turning points in house prices around six months ahead, albeit with hits and misses, unsurprisingly.

Helping to entice prospective homeowners into the market, mortgage rates continued to head lower over the past month (as we discuss in our Mortgage Borrower Strategy on page 24). These falls have been underpinned by further declines in wholesale interest rates, with market expectations for faster OCR cuts ratcheting up. Financial markets are currently pricing in 89bps of easing by the end of the year, meaning they see the RBNZ delivering at least one 50bp cut this year, with a chance of two. That's not what we expect (we're forecasting a 25bp cut at each meeting), though it's certainly a possibility.

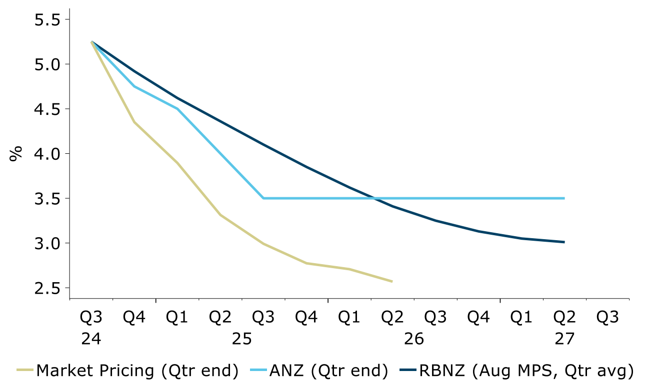
Figure 6. Auckland auction clearance rate



Source: CoreLogic, REINZ, B&T, interest.co.nz, Macrobond, ANZ Research

Domestic economic data releases over the past month have continued to point to weak economic activity and easing inflation, but they haven't suggested the economy is deteriorating any faster than the RBNZ expected back in August. In fact, Q2 GDP data (-0.2% q/q) was better than the RBNZ forecast (-0.5%), though certainly not 'strong' in any sense of the word. While the data are consistent with ongoing OCR cuts, there hasn't been a sharp negative surprise to the RBNZ's expectations that would typically be required to prompt them to step up the pace of cuts.

Figure 7. OCR forecast and market pricing



Source: RBNZ, ICAP, Bloomberg, Macrobond, ANZ Research

But financial markets have taken a different view and have priced in aggressive RBNZ easing (figure 7). That's been the vibe in markets after the US Federal Reserve started its easing cycle with a 50bp cut earlier this month, and particularly since New Zealand's economic data has remained weak. But in our view, markets are getting a little ahead of themselves with respect to the pace and extent of policy cuts.

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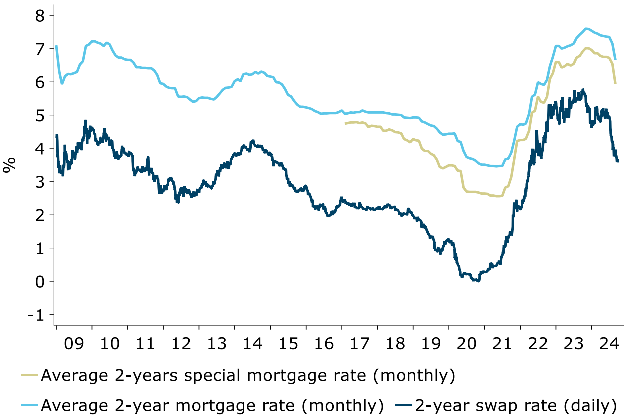
If the RBNZ sticks to a 25bp (rather than 50bp) cut at its 9 October Review, and doesn't signal any major change to its thinking, wholesale rates could correct higher. However, that's unlikely to flow through into higher mortgage rates, because while they have already fallen a fair way, they haven't fallen as far as wholesale swap rates have over the past month.

Figure 8. 2-year swap rate and 2-year mortgage rate



Source: Bloomberg, RBNZ, Macrobond, ANZ Research

Mortgage rates have already adjusted significantly lower. Most fixed rates didn't just fall before the OCR was cut, but they have fallen by more as well. That's because they are driven in part by moves in wholesale interest rates, which are forward looking and don't just move in lock step with observed changes in the OCR, but in anticipation of future changes too. So, while mortgage rates are likely to continue to fall over time as the RBNZ actually delivers the cuts (and fulfils market expectations), as we noted in our last edition, it is likely that a big chunk of the peak-trough move is already behind us, and falls from here could be slower. Our mortgage rate projections (page 25) show most fixed term rates settling around the 5.5% mark by the middle of next year, but advertised 2-year special rates across the main banks have already fallen to around 5.79%. For that trajectory to change, the RBNZ would likely need to shift its forward guidance toward faster (or deeper) cuts.

While faster falls in interest rates, all else equal, would add support to the housing market, it's important to remember the RBNZ would likely step up the pace of cuts only if the economy were to underperform its expectations. There's certainly a risk of that if the labour market slowdown accelerates across the second half of this year or economic momentum were to worsen, but it's hard to imagine that scenario being a net positive for the housing market.

Falling interest rates are a clear positive for the housing market, but it is beginning from a weak starting point, and momentum will take time to turn. Next month's September REINZ report will be the first full month of data following the RBNZ's August OCR cut, and it also marks the beginning of spring, a time when housing market activity tends to lift. Whether we see the usual spring bounce will give an early indication of the how the housing market is responding to lower rates and give us a better sense of the risks around our forecast – and the Reserve Bank's, which is meaningfully weaker than our own.

Housing market indicators for August 2024 (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	$665,370	-6.1	-1.5	-1.0	-2.0	182	+9%	68
Auckland	$967,117	-3.8	-4.5	-2.9	-1.8	1,778	-3%	50
Waikato	$740,765	-0.5	-1.1	0.6	-0.8	564	-2%	55
Bay of Plenty	$802,153	1.2	-0.5	-2.0	-0.8	388	+12%	54
Gisborne	$645,857	-5.3	3.6	-1.5	-1.1	37	-11%	45
Hawke's Bay	$655,481	-4.0	-2.6	-1.5	-1.1	207	+13%	48
Manawatu-Whanganui	$533,793	-2.0	-2.8	0.3	-0.4	247	-7%	48
Taranaki	$593,333	3.9	0.8	0.8	-0.6	132	+1%	41
Wellington	$815,033	3.8	2.0	-1.6	-2.2	592	-3%	47
Tasman, Nelson & Marlborough	$713,143	-3.1	-4.0			198	+4%	45
Canterbury	$675,348	0.4	-0.5	1.8	0.1	937	-7%	41
Otago	$654,518	6.5	-4.7	2.4	1.7	348	-12%	48
West Coast	$365,735	8.1	-8.1	1.7	-0.3	34	-8%	37
Southland	$441,744	-1.9	2.8	2.9	0.5	123	-6%	36
New Zealand	$776,884	-0.6	-1.1	-0.9	-1.0	5,740	-3%	48

Feature Article: Regional revelations

Summary

This month we look at housing market developments across 14 key regions. Now that interest rates are normalising after the post-COVID rollercoaster, regional over- or under-performance is worth investigating. We evaluate regional house prices, indicators of housing market tightness, key regional economic indicators, and regional measures of housing affordability. Most regional housing markets are currently on a loosening trajectory, though house price cycles have been far more pronounced in some regions than others. The West Coast takes the prize for the strongest performance, with house prices up around 65% from December 2019, while Auckland has seen the weakest growth, with prices up only around 10% over the same period. How does your region stack up?

With the RBNZ switching to cutting mode and interest rates now normalising following a wild few years ranging from ultra-low interest rates and massive stimulus to the most aggressive tightening cycle in history, we thought it was a good time to refresh our regional housing analysis.

We look at the following regional indicators:

- House prices: We look at median sale prices to gauge the housing cycle. This measure of house prices tends to be a lot more volatile than the quality-adjusted House Price Index (HPI), but these data offer a more granular regional breakdown. We compare annual growth on a three-month moving average basis in each region to the nationwide measure.
- Indicators of market tightness:
  - Days to sell: The length of time it takes to sell a property indicates the strength of demand. Larger cities tend to see houses sell more quickly, but deviations in a region from its historical average provide an indicator of the heat in a market at any given time. When houses are selling quickly and days to sell are shrinking, demand is likely heating up (and vice versa).
  - Sales-to-listings ratio: This is a metric of demand relative to supply in the market. When listings are low relative to sales, this can indicate intensifying price pressures. On the other hand, when new properties come online in significant numbers it can take heat out of the market. In some (but not all) regions, this indicator can provide up to a six-month lead on house price momentum.
- New dwelling consents per capita: This indicator covers a few bases: housing demand, pipeline supply, and pipeline regional economic activity.
- Regional economy: The economic performance of each region can have a bearing on how willing people are to purchase a house and what they can afford. We look at regional labour market data, and also how retail trade is tracking relative to trend. If unemployment is low and retail trade is above trend, then business cycle dynamics should go some way towards putting a floor under the housing market.
- Housing affordability indicators:
  - House prices to rents: This measures whether the affordability of owning relative to renting is in normal ranges. When houses are expensive relative to renting, purchasing is less attractive, and rental yields tend to be low – that can dissuade investors.
  - House price to incomes: This measure is pretty self-explanatory. The higher house prices are relative to incomes, the more likely it is that affordability constraints are biting.

We divide New Zealand into the following regions:

- Northland
- Auckland
- Waikato
- Bay of Plenty
- Gisborne
- Hawke's Bay
- Manawatu-Whanganui
- Taranaki
- Wellington
- Tasman, Nelson, Marlborough
- Canterbury
- Otago
- West Coast
- Southland

And finally, we wrap up in the chapter Bringing it all together.

Northland

Key statistics

Northland accounted for 2.9% of total NZ house sales in the year to August 2024.

Northland	Date	
Median price (sa):		
– Pre-pandemic	Dec-19	$523,873
– Post-pandemic peak	Jan-22	$818,786
– Current	Aug-24	$665,370
Median weekly income	Jun-24	$2,149
Median weekly rent	Jul-24	$567
Unemployment rate	2024Q2	5.0%

In recent months, annual house price inflation in Northland has fallen away sharply. It is currently -6.2%, compared to the national average of -1.5%. Indicators of market tightness are mixed, with days to sell slightly above the long-run average but sales-to-listings suggesting some upside to prices, though that's being driven by decline inventory on the market rather than robust sales activity. Building consents per capita are well below the national average and low relative to history, suggesting tight supply moving forward. Economic indicators remain weak, with unemployment above the national average (though less so than in previous downturns), while retail sales are well below trend. On the affordability front, Northland fares slightly better than the country overall.

Figure 1. Northland median sale price

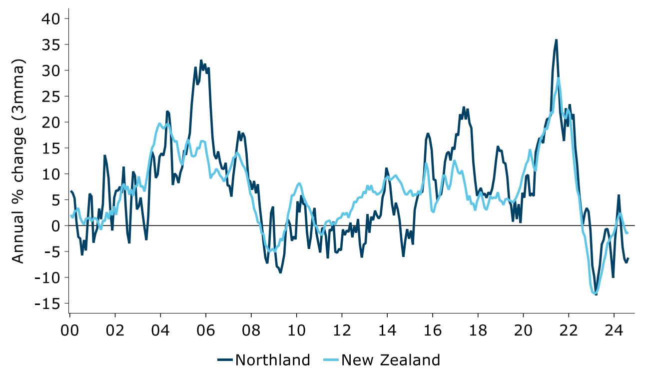


Figure 2. Northland market tightness

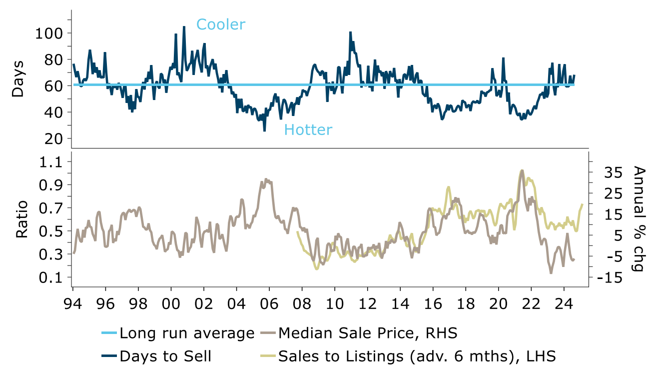


Figure 3. Northland dwelling consents per 1000 residents

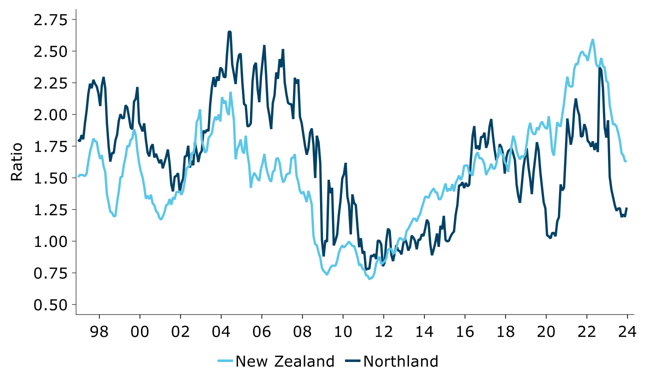


Figure 4. Northland unemployment rate

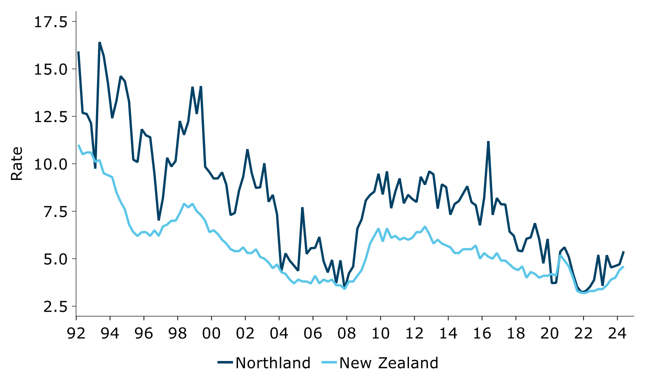


Figure 5. Northland retail sales vs trend

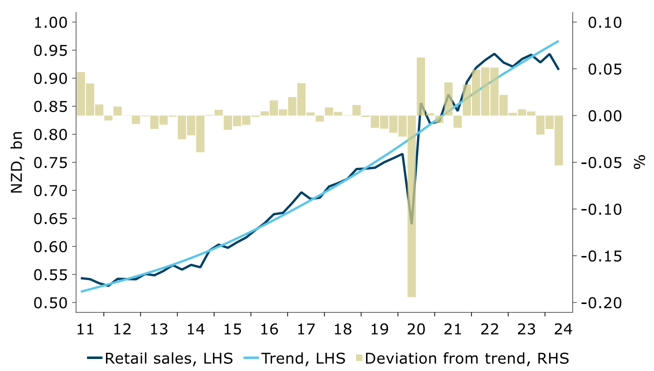
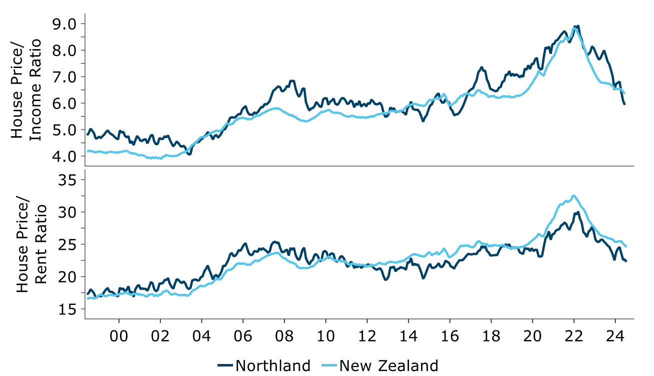


Figure 6. Northland affordability



Source: REINZ, New Zealand Tenancy Service, Stats NZ, Macrobond, ANZ Research

Auckland

Key statistics

Auckland accounted for 31.5% of total NZ house sales in the year to August 2024.

Auckland	Date	
Median price (sa):		
– Pre-pandemic	Dec-19	$873,915
– Post-pandemic peak	Jan-22	$1,261,983
– Current	Aug-24	$967,117
Median weekly income	Jun-24	$2,615
Median weekly rent	Jul-24	$653
Unemployment rate	2024Q2	4.6%

Where the Auckland market goes, the national-level data tends to follow. Auckland has experienced a larger peak-to-trough median sale price decline (26%) than the national average (17%), though that’s unsurprising given affordability in Auckland is more stretched than the rest of the country, though the gap is narrowing. Auckland has also been adding more supply than the rest of the country, with consents per capita having been well above the national average all through the COVID period. While consents have fallen away sharply, they’ve largely returned to pre-COVID levels. Current indicators of market tightness suggest the Auckland market remains on a loosening trajectory, with days to sell above the long-run average, while the sales-to-listings ratio is consistent with further moderation in house prices, at least in the near term.

Figure 7. Auckland median sale price

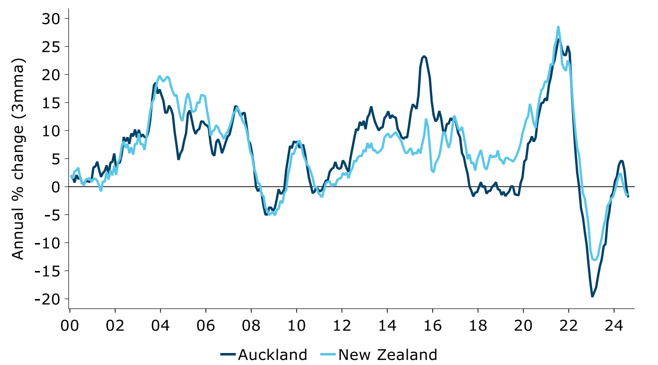


Figure 8. Auckland market tightness

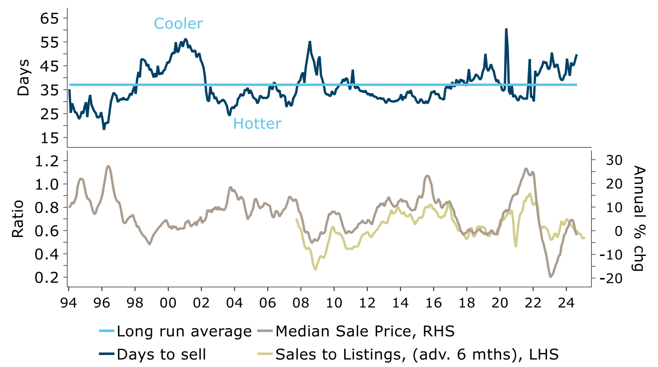


Figure 9. Auckland dwelling consents per 1000 residents

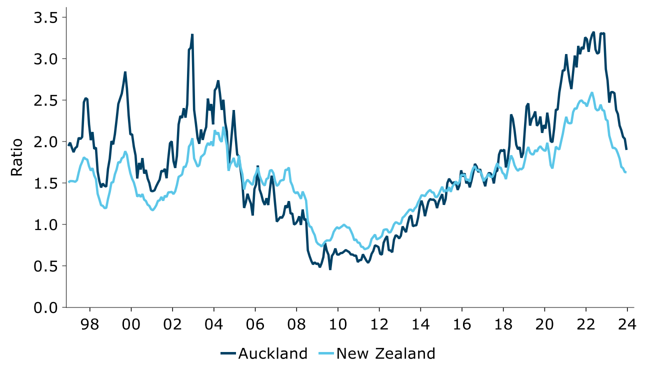


Figure 10. Auckland unemployment rate

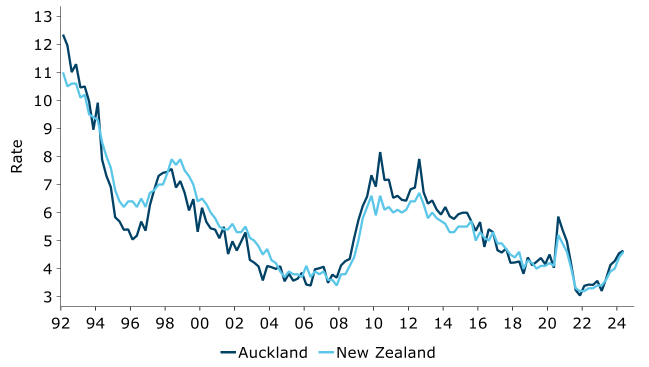


Figure 11. Auckland retail sales vs trend

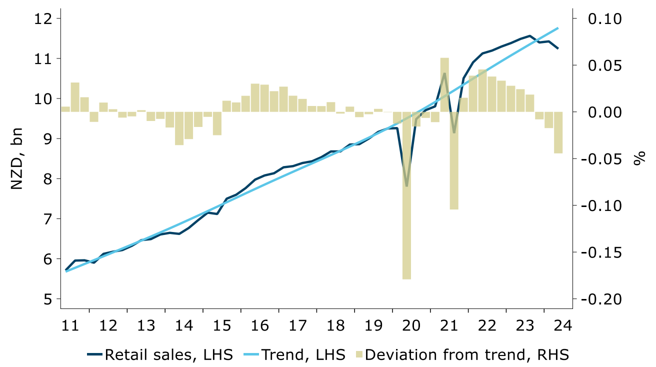
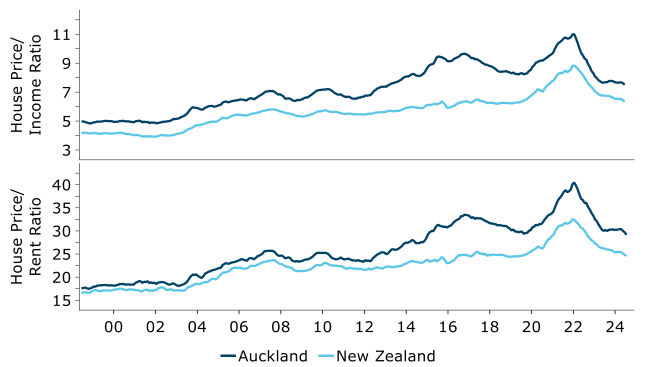


Figure 12. Auckland affordability



Source: REINZ, New Zealand Tenancy Service, Stats NZ, Macrobond, ANZ Research

Waikato

Key statistics

Waikato accounted for 9.7% of total NZ house sales in the year to August 2024.

Waikato	Date	
Median price (sa):		
– Pre-pandemic	Dec-19	$568,591
– Post-pandemic peak	Jan-22	$818,326
– Current	Aug-24	$740,765
Median weekly income	Jun-24	$2,120
Median weekly rent	Jul-24	$567
Unemployment rate	2024Q2	5.4%

The Waikato price cycle is following the national level cycle pretty closely. Houses are taking a little longer to sell than the long-run average, though the sales-to-listings ratio isn't suggesting the market is too far into "loose" territory. Consents per capita have fallen sharply, and are below the national average, while economic indicators suggest the slowdown is biting a little harder in the region than the rest of the country, with a sharper rise in the unemployment rate compared to the rest of the country and nominal retail sales trending lower, despite the boost from high inflation. Housing affordability in the Waikato remains close to the national average, but hardly something to celebrate.

Figure 13. Waikato median sale price

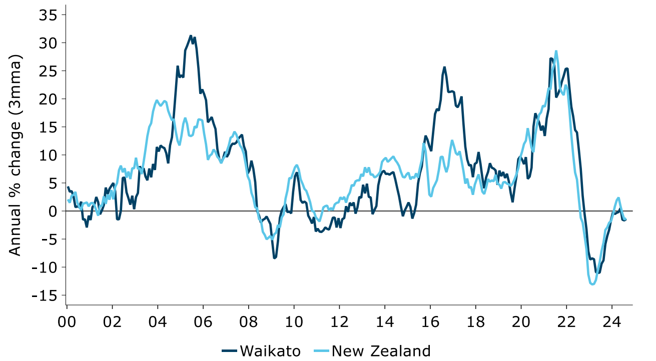


Figure 14. Waikato market tightness

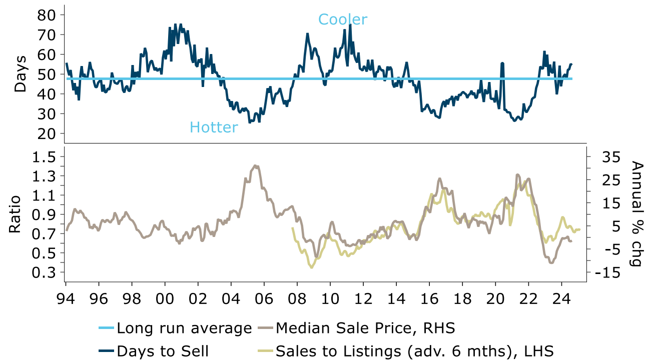


Figure 15. Waikato dwelling consents per 1000 residents

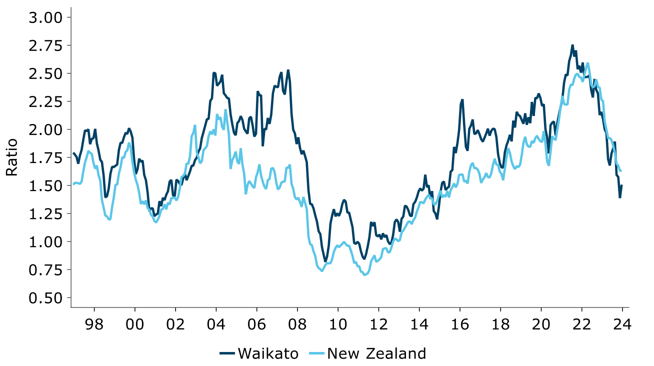


Figure 16. Waikato unemployment rate

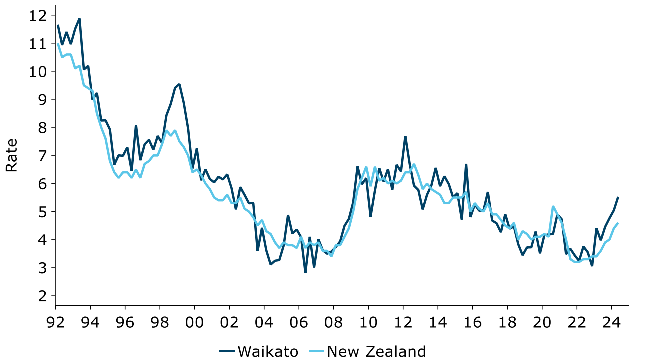


Figure 17. Waikato retail sales vs trend

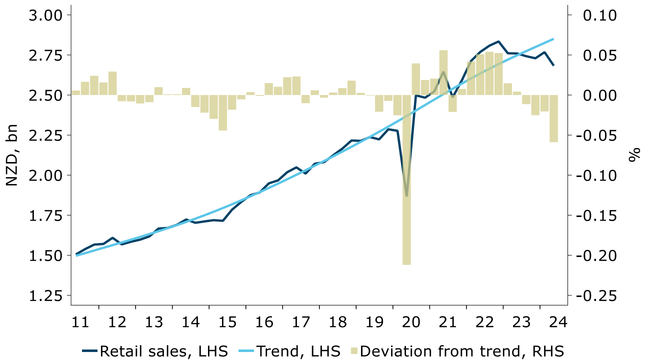
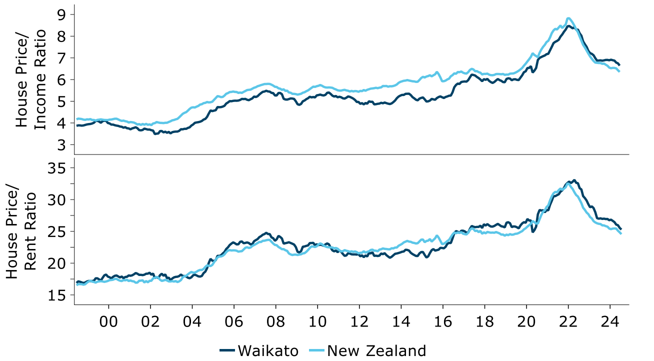


Figure 18. Waikato affordability



Source: REINZ, New Zealand Tenancy Service, Stats NZ, Macrobond, ANZ Research

Bay of Plenty

Key statistics

Bay of Plenty accounted for 6.5% of total NZ house sales in the year to August 2024.

Bay of Plenty	Date	
Median price (sa):		
– Pre-pandemic	Dec-19	$621,247
– Post-pandemic peak	Jan-22	$939,257
– Current	Aug-24	$802,153
Median weekly income	Jun-24	$2,255
Median weekly rent	Jul-24	$651
Unemployment rate	2024Q2	5.7%

The Bay of Plenty house price cycle has mirrored the rest of the country. Days to sell are in neutral territory, while the ratio of sales to listings is hovering around pre-COVID levels. Building consents per capita have been particularly weak compared to the national average over the past few years, suggesting the pipeline of new supply is coming off quickly. Economic data have weakened, with unemployment well above the national average, though the gap isn't outside normal ranges. Housing affordability continues to improve, though the house price to income ratio remains above the national average. The house price to rent ratio is slightly below the national average.

Figure 19. Bay of Plenty median sale price

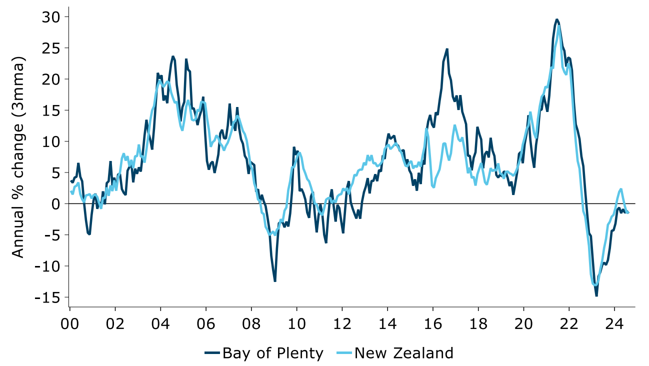


Figure 20. Bay of Plenty market tightness

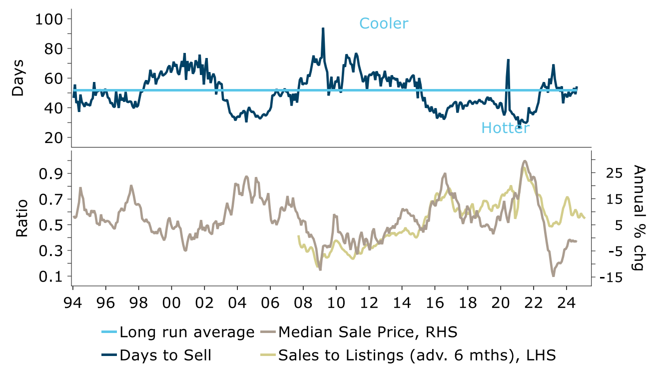


Figure 21. Bay of Plenty dwelling consents per 1000 residents

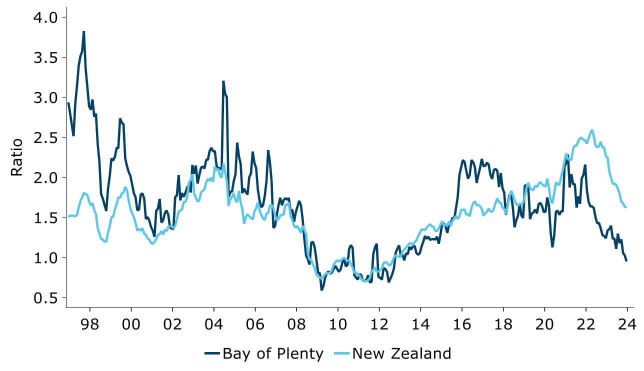


Figure 22. Bay of Plenty unemployment rate

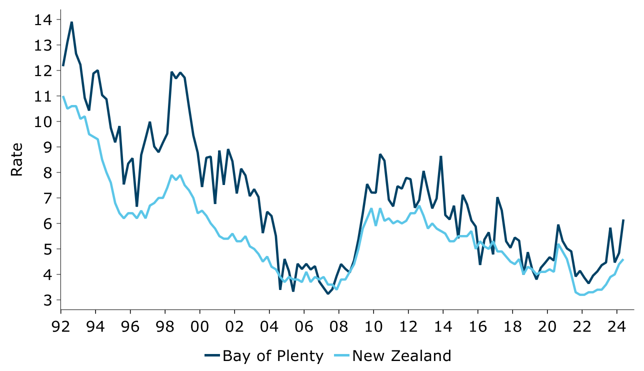


Figure 23. Bay of Plenty retail sales vs trend

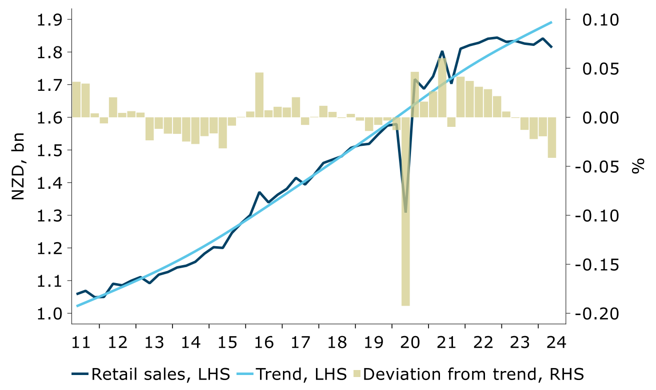
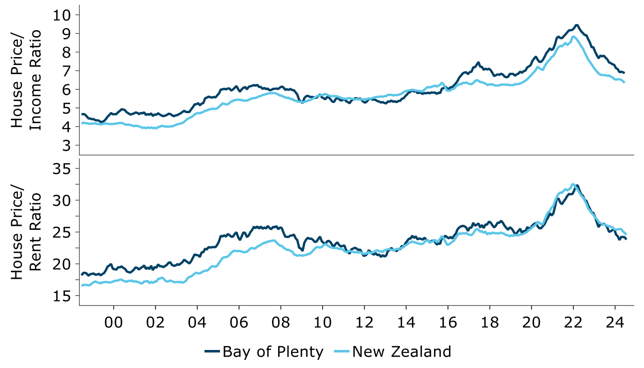


Figure 24. Bay of Plenty affordability



Source: REINZ, New Zealand Tenancy Service, Stats NZ, Macrobond, ANZ Research

Gisborne

Key statistics

Gisborne accounted for 0.7% of total NZ house sales in the year to August 2024.

Gisborne	Date	
Median price (sa):		
– Pre-pandemic	Dec-19	$404,016
– Post-pandemic peak	Jan-22	$686,412
– Current	Aug-24	$645,857
Median weekly income	Jun-24	$2,300
Median weekly rent	Jul-24	$554
Unemployment rate	2024Q2	4.1%

Growth in Gisborne's median house price tends to be volatile, likely due to changes in the average size and quality of houses being sold (a key limitation of these data) in the context of relatively small sales volumes. Outside of volatility, the cycle has been following the national trend closely. Days to sell are in neutral territory, but the sales-to-listings ratio has taken a meaningful step down over the past few months. Consents per capita remain very weak compared to the national average, though have been fairly stable, likely supported by cyclone-related rebuild activity. Economic data has held up better than the rest of the country, with unemployment below the national average and retail sales not too far from trend, and still rising (thanks in part to a cyclone-related boost). On the affordability front, Gisborne fares much better than the rest of the country.

Figure 25. Gisborne median sale price

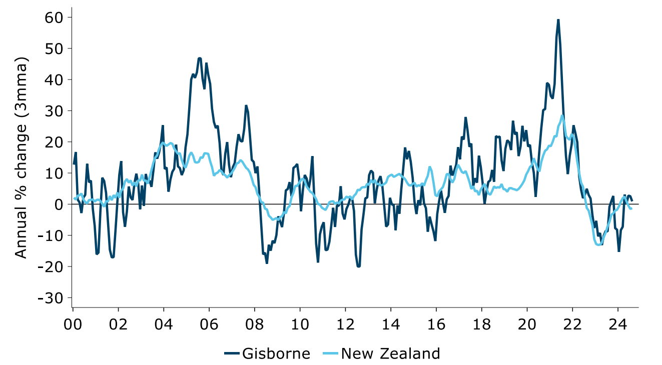


Figure 26. Gisborne market tightness

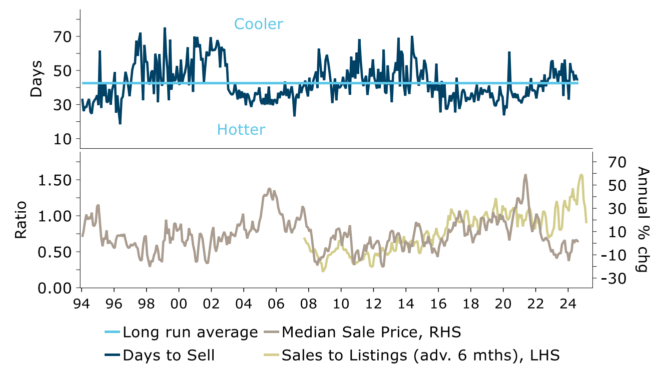


Figure 27. Gisborne dwelling consents per 1000 residents

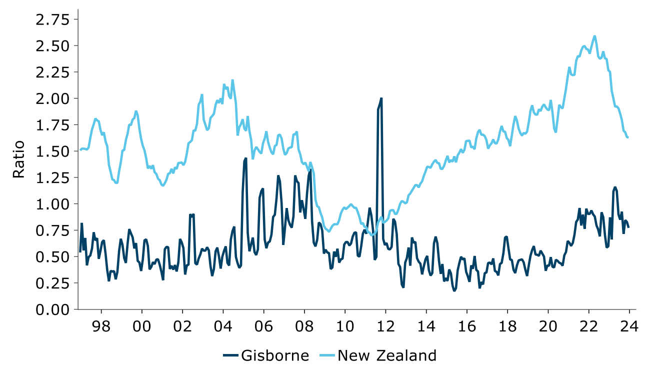


Figure 28. Gisborne unemployment rate

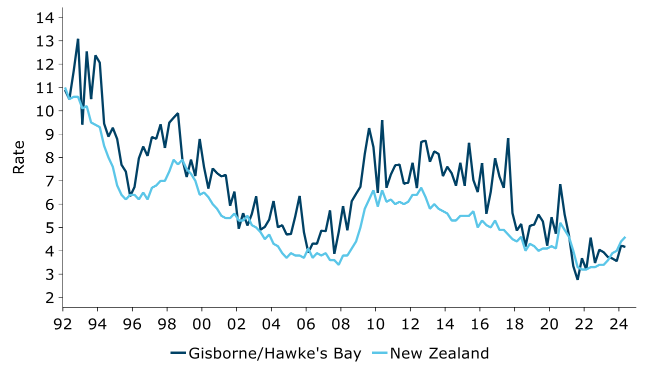


Figure 29. Gisborne retail sales vs trend

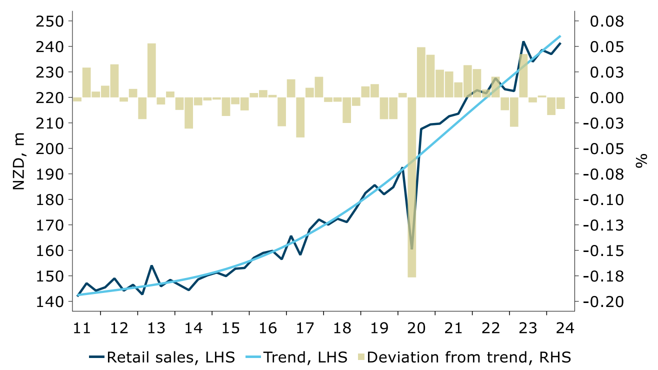
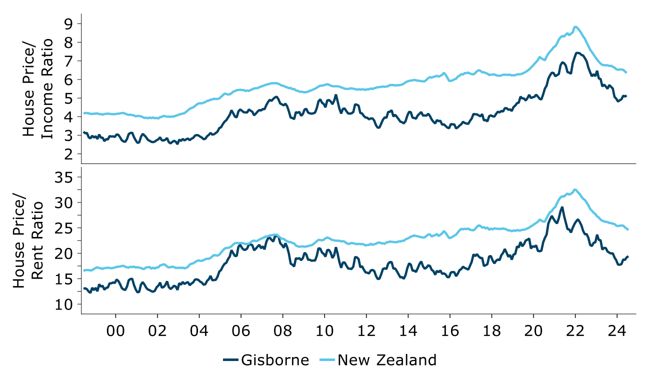


Figure 30. Gisborne affordability



Source: REINZ, New Zealand Tenancy Service, Stats NZ, Macrobond, ANZ Research

Hawke's Bay

Key statistics

Hawke's Bay accounted for 3.5% of total NZ house sales in the year to August 2024.

Hawke's Bay	Date	
Median price (sa):		
– Pre-pandemic	Dec-19	$516,377
– Post-pandemic peak	Jan-22	$785,250
– Current	Aug-24	$655,481
Median weekly income	Jun-24	$2,422
Median weekly rent	Jul-24	$599
Unemployment rate	2024Q2	4.1%

Hawke's Bay's house price cycle has also run close to the national level. Days to sell are slightly into cool territory, while the sales-to-listings ratio has been trending lower in recent months. Consents per capita had softened, but they have bounced strongly over the past few quarters. The unemployment rate is below the national average, which is unusual compared to history, while retail sales haven't experienced the same magnitude of decline as other regions. Affordability is a little better than the national average, and has been improving on a relative basis over the past year.

Figure 31. Hawke's Bay median sale price

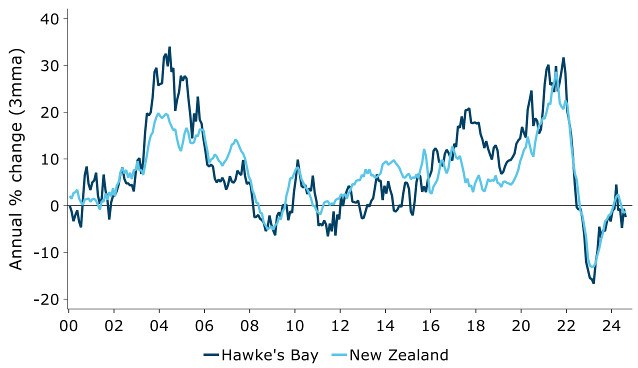


Figure 32. Hawke's Bay market tightness

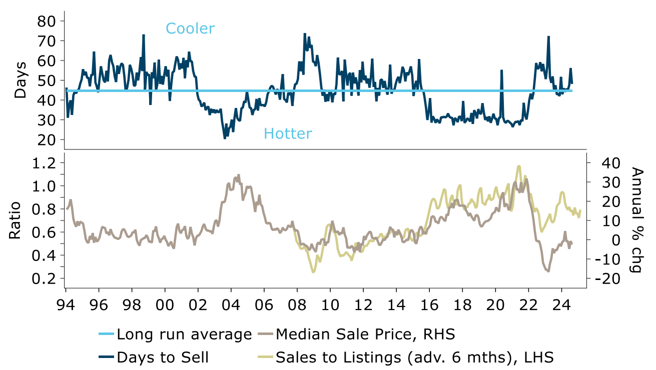


Figure 33. Hawke's Bay dwelling consents per 1000 residents

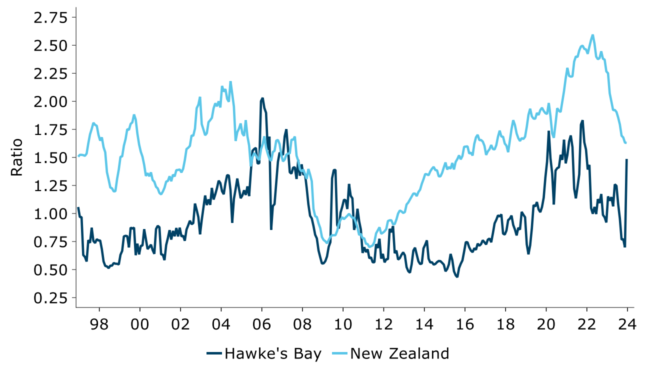


Figure 34. Hawke's Bay unemployment rate

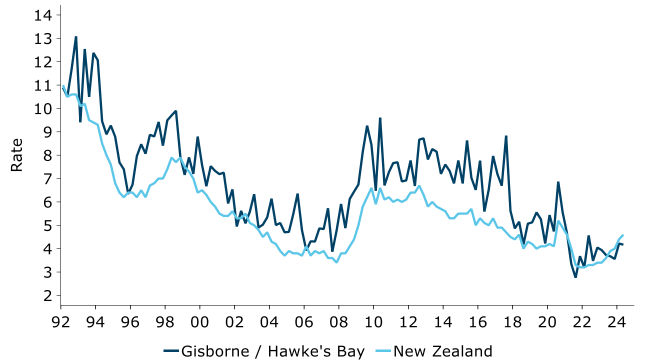


Figure 35. Hawke's Bay retail sales vs trend

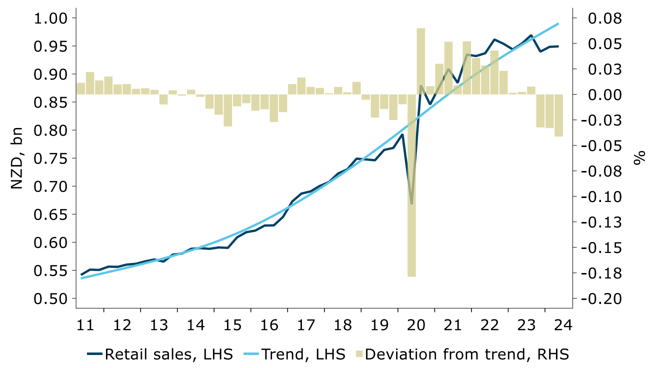
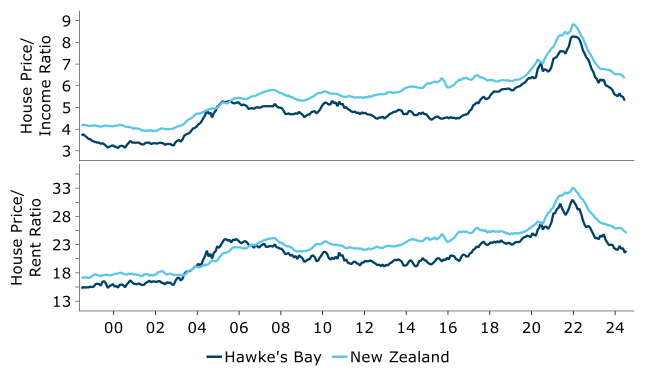


Figure 36. Hawke's Bay affordability



Source: REINZ, New Zealand Tenancy Service, Stats NZ, Macrobond, ANZ Research

Manawatu-Whanganui

Key statistics

Manawatu-Whanganui accounted for 4.5% of total NZ house sales in the year to August 2024.

Manawatu-Whanganui	Date	
Median price (sa):		
– Pre-pandemic	Dec-19	$401,222
– Post-pandemic peak	Jan-22	$602,906
– Current	Aug-24	$533,793
Median weekly income	Jun-24	$1,971
Median weekly rent	Jul-24	$518
Unemployment rate	2024Q2	4.5%

Since experiencing higher annual house price inflation (peaking at close 40% y/y on a 3m average basis in late 2021), Manawatu-Whanganui's house price cycle has followed the national average closely. Days to sell is slightly above the long-run average, while the sales-to-listings ratio has been trending down since late last year. Consents per capita are slipping, though they haven't fallen as sharply as other parts of the country. Key economic indicators are softening, but aren't dissimilar to the rest of the country. Affordability measures are better than most regions, but reflecting the 2021 price performance, the gap in the house price to income ratio vs the national level has closed compared to pre-COVID, meaning the region's relative affordability has worsened, though in absolute terms is still better than the national average.

Figure 37. Manawatu-Whanganui median sale price

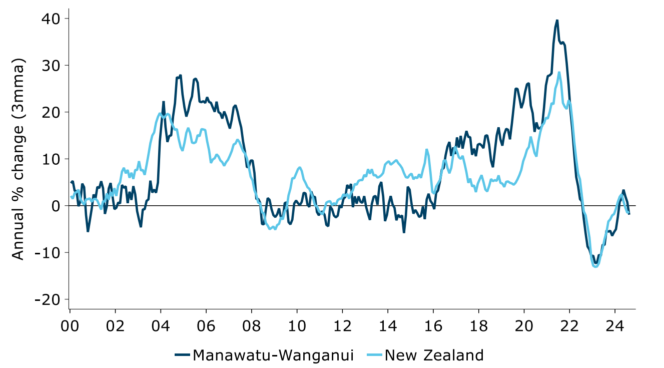


Figure 38. Manawatu-Whanganui market tightness

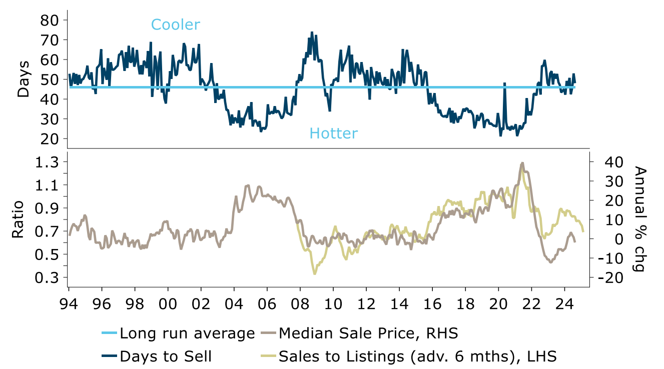


Figure 39. Manawatu-Whanganui dwelling consents per 1000 residents

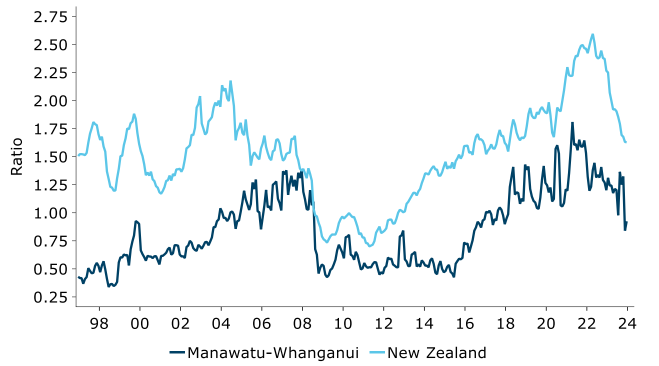


Figure 40. Manawatu-Whanganui unemployment rate

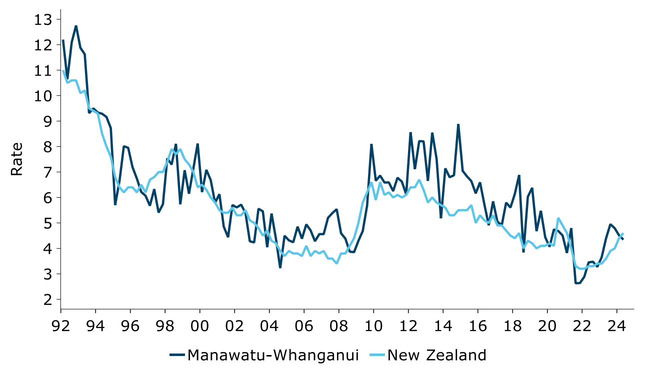


Figure 41. Manawatu-Whanganui retail sales vs trend

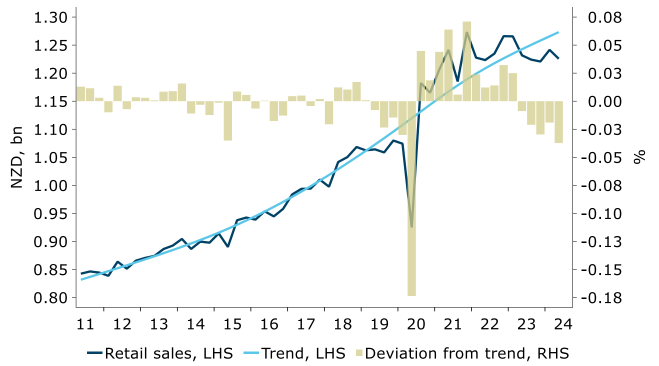
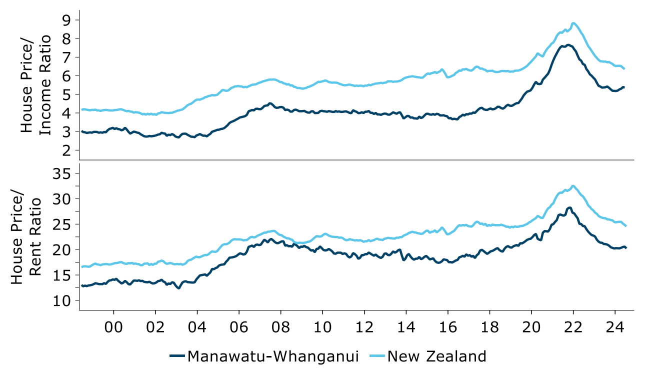


Figure 42. Manawatu-Whanganui affordability



Source: REINZ, New Zealand Tenancy Service, Stats NZ, Macrobond, ANZ Research

Taranaki

Key statistics

Taranaki accounted for 2.4% of total NZ house sales in the year to August 2024.

Taranaki	Date	
Median price (sa):		
– Pre-pandemic	Dec-19	$409,052
– Post-pandemic peak	Jan-22	$606,429
– Current	Aug-24	$593,333
Median weekly income	Jun-24	$2,086
Median weekly rent	Jul-24	$560
Unemployment rate	2024Q2	5.0%

Taranaki's housing market has held up better than the rest of the country over the past few years. Annual house price inflation peaked above the national average in late 2021 (at close to 40% y/y 3mma), but house prices also fell by less. House prices have since been heading higher again, whereas nationwide house prices are once again falling. Days to sell are around the long-run average, while the sales-to-listings ratio has been stable over the past year. Consents per capita have fallen sharply, while economic data has been softening in line with the rest of the country. Housing affordability is better than the national average in Taranaki, though the stronger housing market performance over the past few years has seen the gap to the national average narrow.

Figure 43. Taranaki median sale price

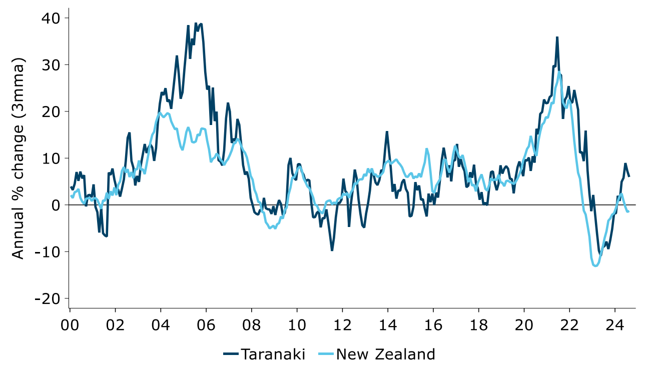


Figure 44. Taranaki market tightness

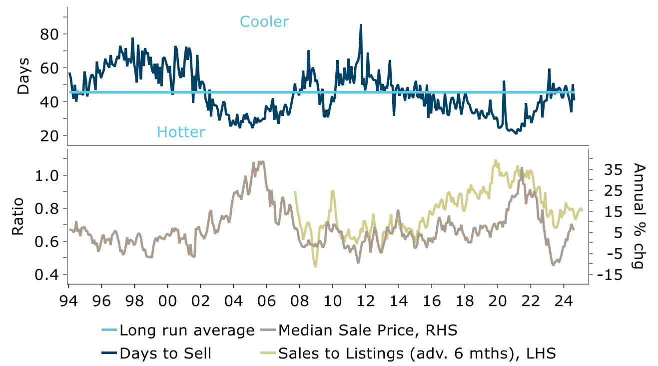


Figure 45. Taranaki dwelling consents per 1000 residents

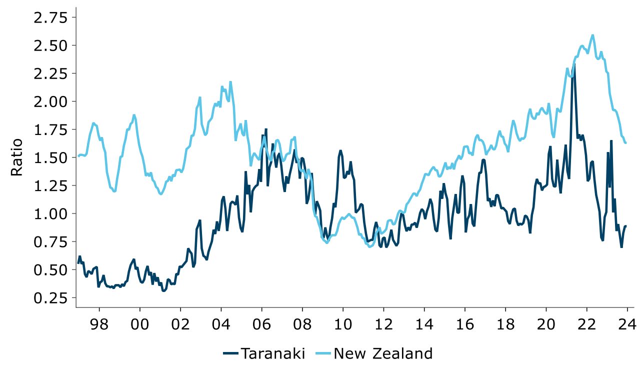


Figure 46. Taranaki unemployment rate

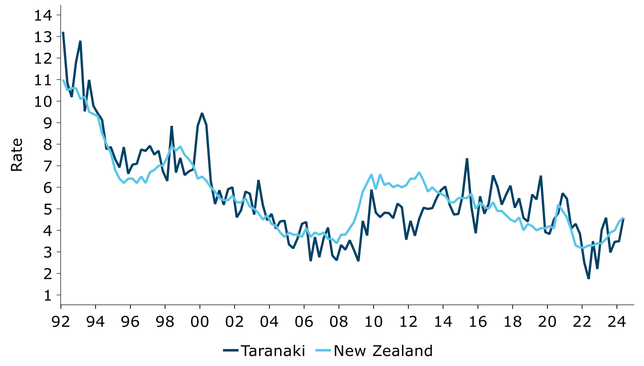


Figure 47. Taranaki retail sales vs trend

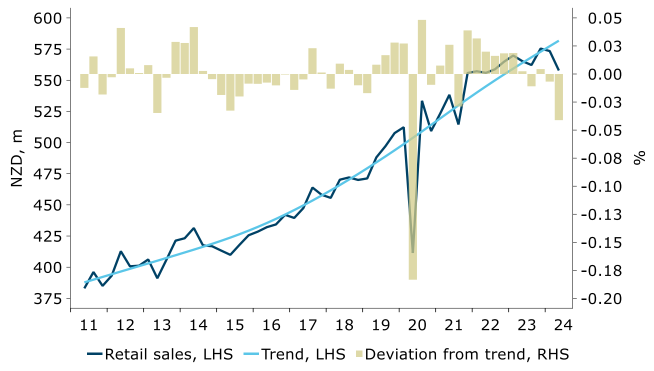
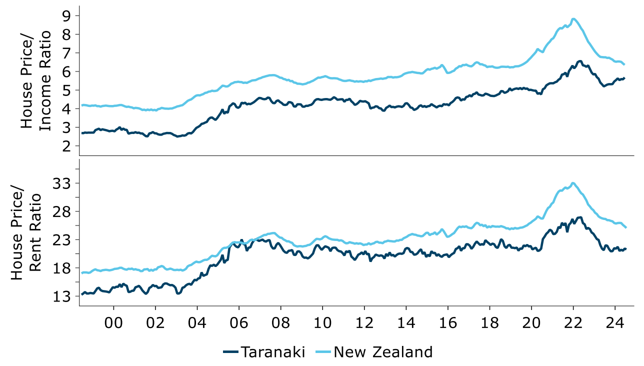


Figure 48. Taranaki affordability



Source: REINZ, New Zealand Tenancy Service, Stats NZ, Macrobond, ANZ Research

Wellington

Key statistics

Wellington accounted for 9.9% of total NZ house sales in the year to August 2024.

Wellington	Date	
Median price (sa):		
– Pre-pandemic	Dec-19	$669,398
– Post-pandemic peak	Jan-22	$953,118
– Current	Aug-24	$815,033
Median weekly income	Jun-24	$2,870
Median weekly rent	Jul-24	$614
Unemployment rate	2024Q2	4.2%

Wellington's housing market has fared worse than the rest of the country this cycle, with a much larger peak-to-trough decline of 24%, compared to the national average of 17%. Days to sell have been lifting in recent months and are in 'cool' market territory, though the decline in the sales-to-listings ratio looks to have been arrested recently. Consents per capita fell sharply since 2023 and are well below the national average. Economic indicators have continued to soften, with unemployment rising and closing in on the national average (as public sector job losses weigh), while retail sales have been in steady decline since the start of 2023. The larger fall in house prices over the past few years has improved Wellington's relative affordability, with the house prices to income ratio below the national average (and the gap widening).

Figure 49. Wellington median sale price

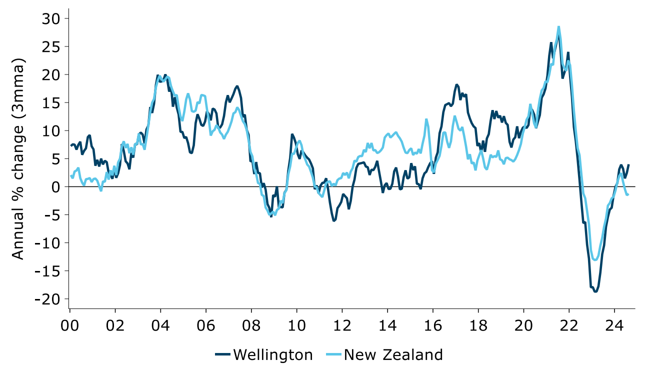


Figure 50. Wellington market tightness

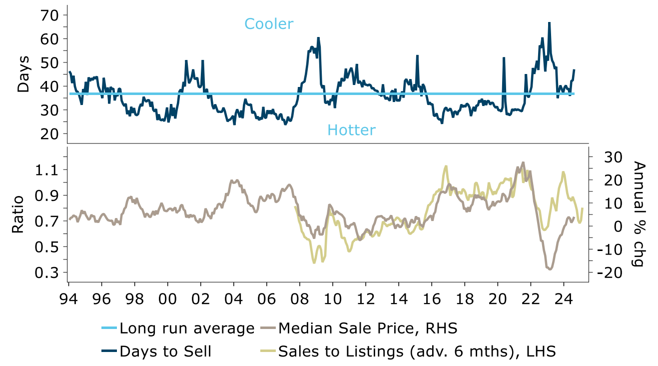


Figure 51. Wellington dwelling consents per 1000 residents

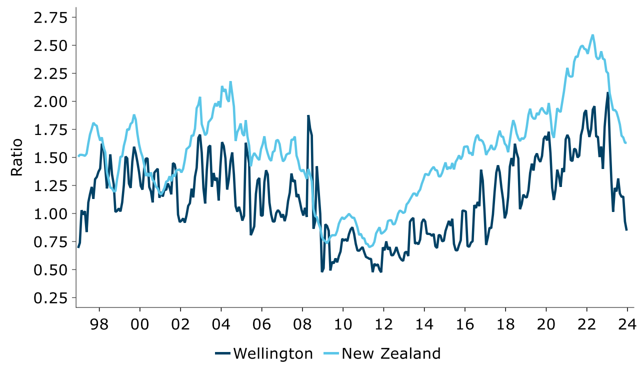


Figure 52. Wellington unemployment rate

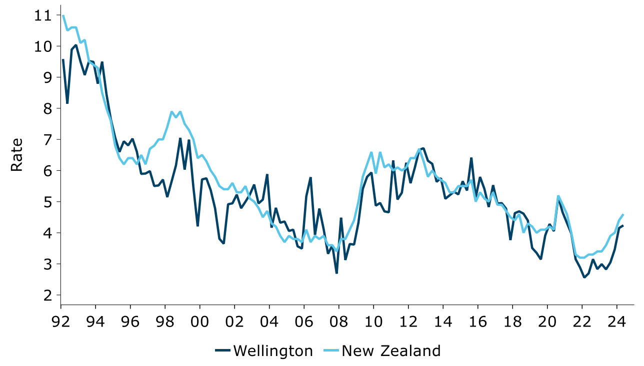


Figure 53. Wellington retail sales vs trend

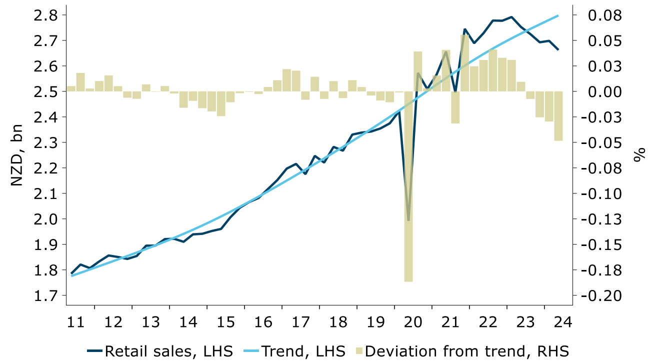
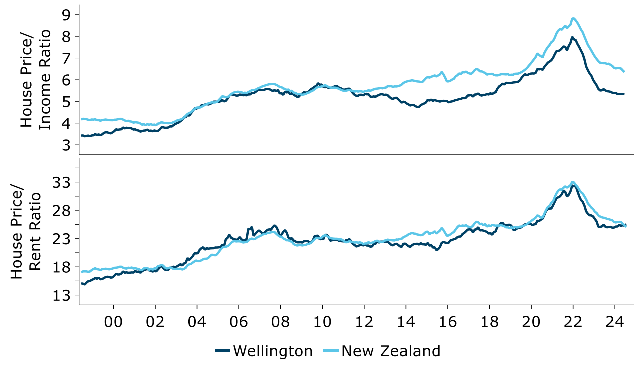


Figure 54. Wellington affordability



Source: REINZ, New Zealand Tenancy Service, Stats NZ, Macrobond, ANZ Research

Tasman, Nelson and Marlborough

Key statistics

Tasman, Nelson and Marlborough accounted for 3.2% of total NZ house sales in the year to August 2024.

Tasman, Nelson and Marlborough	Date	
Median price (sa):		
– Pre-pandemic	Dec-19	$588,324
– Post-pandemic peak	Jan-22	$776,527
– Current	Aug-24	$713,143
Median weekly income	Jun-24	$1,914
Median weekly rent	Jul-24	$572
Unemployment rate	2024Q2	3.8%

Annual house price inflation in Tasman, Nelson, and Marlborough hasn't strayed too far from the national average, landing at -3.1% in August. Days to sell have stayed consistently in cool territory since late 2021, while the sales-to-listings ratio has been stable in the past year, at levels consistent with a cool market. Regional economic indicators have held up well, with retail sales not veering far below trend, and unemployment below the national average, which is a common theme over history. Consents per capita have been volatile but are trending lower. While this region hasn't experienced a markedly different house price cycle to the rest of the country, housing affordability has worsened over the past few years, driven by weaker household income growth compared to other regions. That said, it isn't too far out of step with the national average.

Figure 55. Tasman, Nelson, Marlborough median sale price

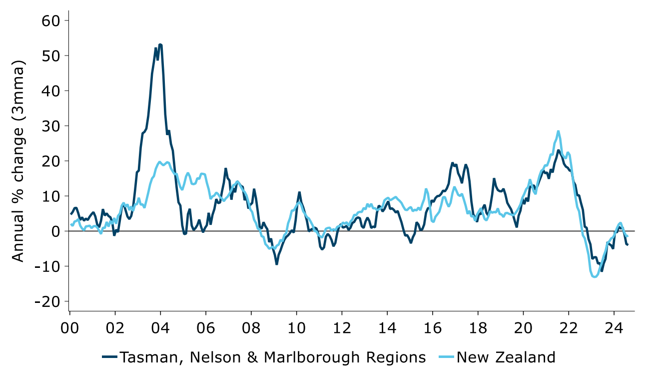


Figure 56. Tasman, Nelson, Marlborough market tightness

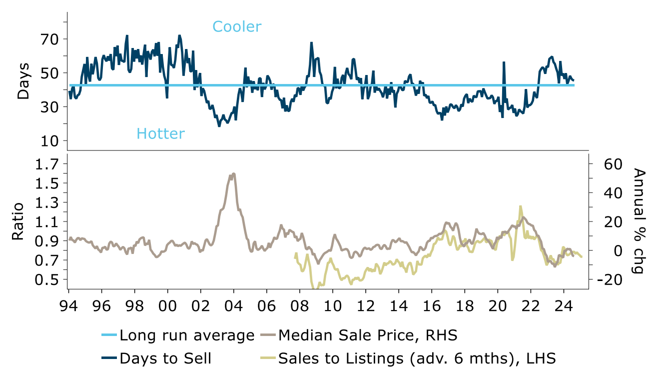


Figure 57. Tasman, Nelson, Marlborough dwelling consents per 1000 residents

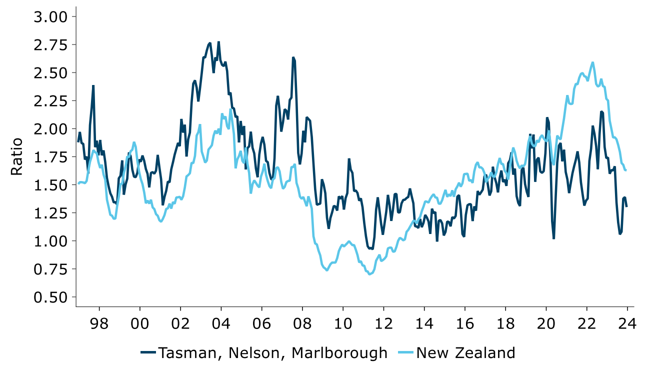


Figure 58. Tasman, Nelson, Marlborough unemployment rate

Figure 59. Tasman, Nelson, Marlborough retail sales vs trend

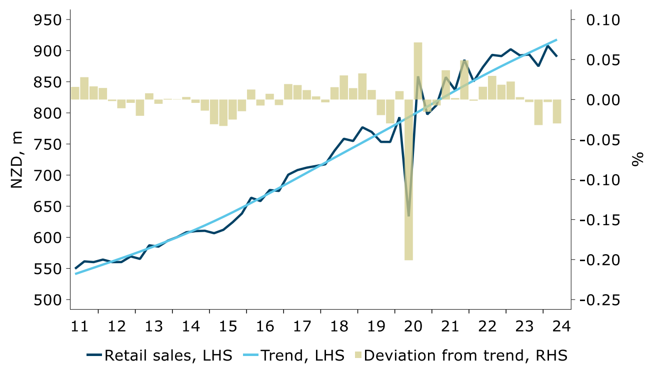
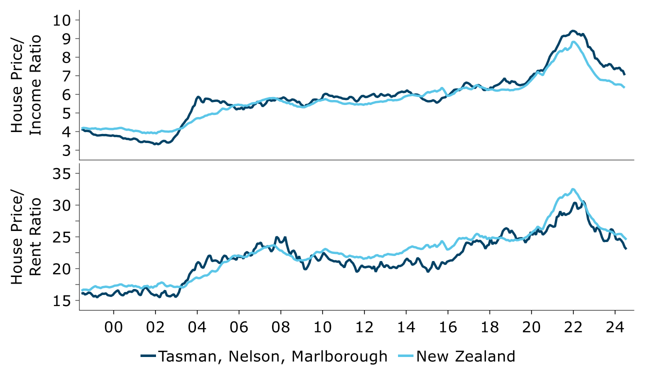


Figure 60. Tasman, Nelson, Marlborough affordability



Source: REINZ, New Zealand Tenancy Service, Stats NZ, Macrobond, ANZ Research

Canterbury

Key statistics

Canterbury accounted for 16.5% of total NZ house sales in the year to August 2024.

Canterbury	Date	
Median price (sa):		
– Pre-pandemic	Dec-19	$456,492
– Post-pandemic peak	Jan-22	$675,378
– Current	Aug-24	$675,348
Median weekly income	Jun-24	$2,220
Median weekly rent	Jul-24	$550
Unemployment rate	2024Q2	4.2%

Canterbury's housing market has performed strongly over the past few years, experiencing both a higher peak in annual house price inflation in 2022 than the national average, and also a shallower trough. Annual house price inflation remains in positive territory, though it is now following the rest of the country lower. Days to sell have risen recently, crossing into "cool" market territory, while the sales to listings ratio has been trending down over recent months. Canterbury's economic performance has also been better than most regions, with retail sales remaining close to trend, while unemployment is a touch below the national average. On the affordability front, the stronger house price performance this cycle has seen Canterbury's relative affordability worsen compared to the rest of the country, though housing remains more affordable than the national average.

Figure 61. Canterbury median sale price

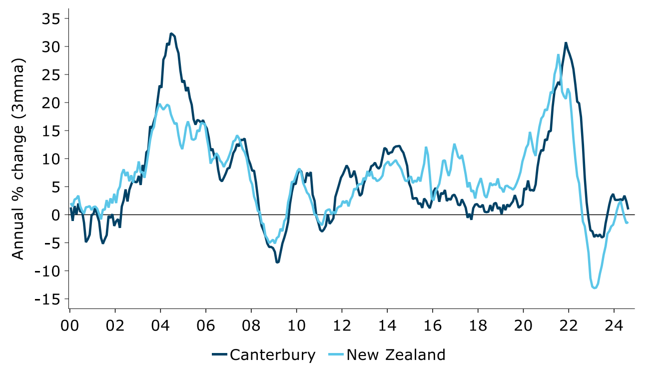


Figure 62. Canterbury market tightness

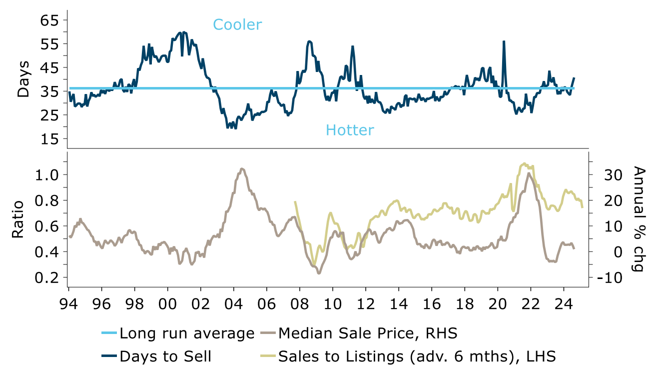


Figure 63. Canterbury dwelling consents per 1000 residents

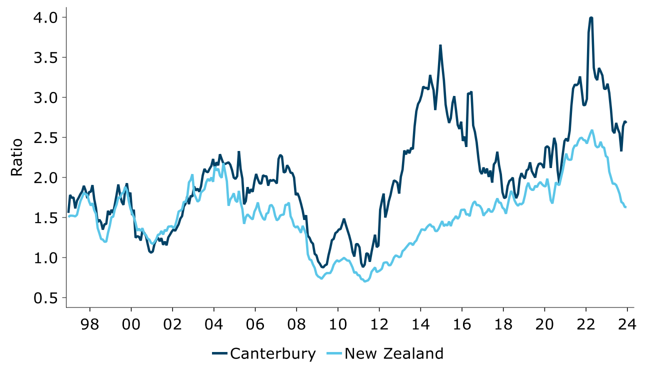


Figure 64. Canterbury unemployment rate

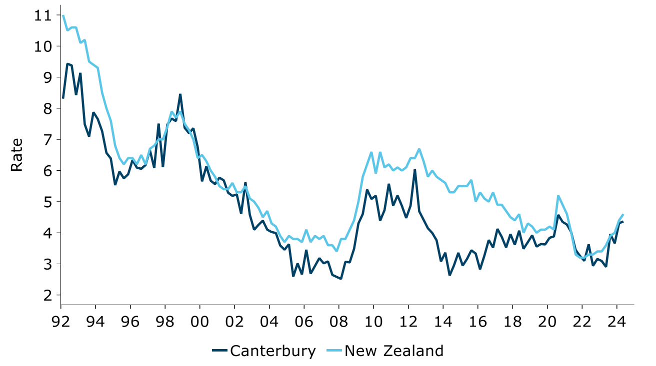


Figure 65. Canterbury retail sales vs trend

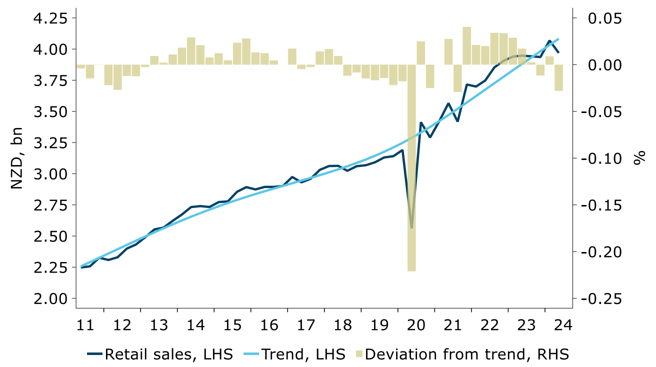
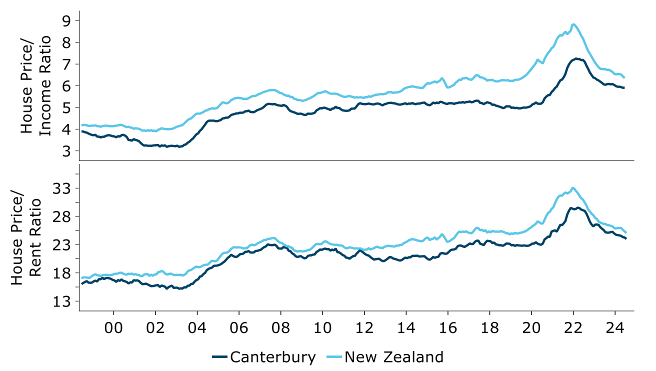


Figure 66. Canterbury affordability



Source: REINZ, New Zealand Tenancy Service, Stats NZ, Macrobond, ANZ Research

Otago

Key statistics

Otago accounted for 5.9% of total NZ house sales in the year to August 2024.

Otago	Date	
Median price (sa):		
– Pre-pandemic	Dec-19	$538,951
– Post-pandemic peak	Jan-22	$717,262
– Current	Aug-24	$654,518
Median weekly income	Jun-24	$2,014
Median weekly rent	Jul-24	$571
Unemployment rate	2024Q2	2.9%

Otago's house price cycle has been closely synchronised with the rest of the country over the past few years. Rising days to sell and a falling sales-to-listings ratio suggest the market is on a loosening trajectory. Consents per capita have been following the national cycle, after outperforming the rest of the country last decade. Otago wins the prize for the lowest unemployment rate currently (2.9%), while retail sales have only just dipped below trend after strong growth since mid-2022, supported by the international tourism recovery. The relative housing affordability that Otago enjoyed last decade has evaporated, with house prices relative incomes now on par with the rest of the country.

Figure 67. Otago median sale price

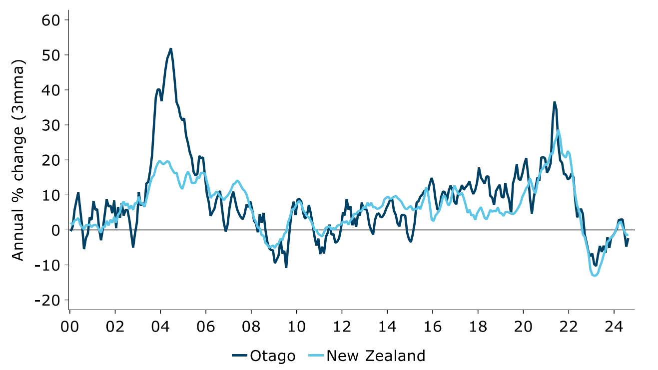


Figure 68. Otago market tightness

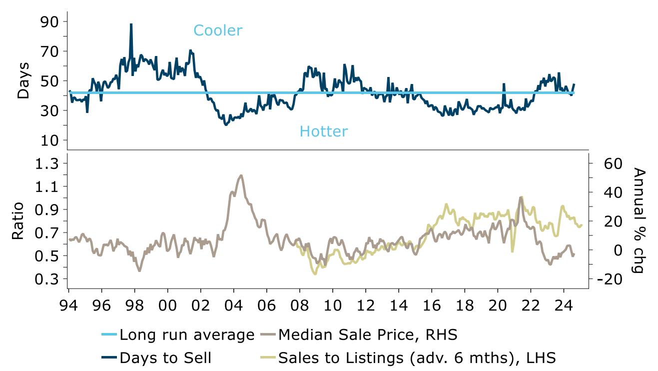


Figure 69. Otago dwelling consents per 1000 residents

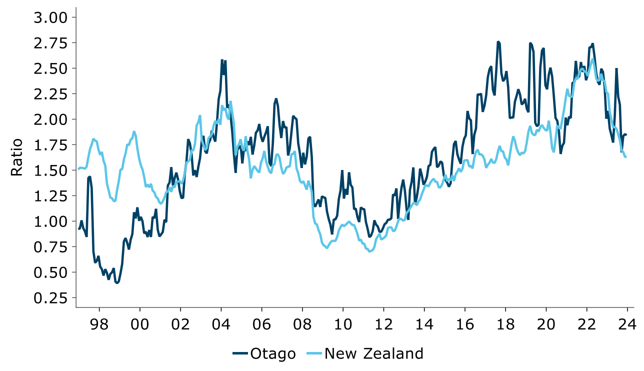


Figure 70. Otago unemployment rate

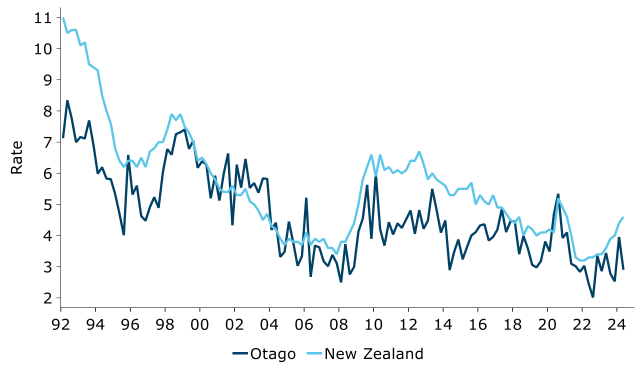


Figure 71. Otago retail sales vs trend

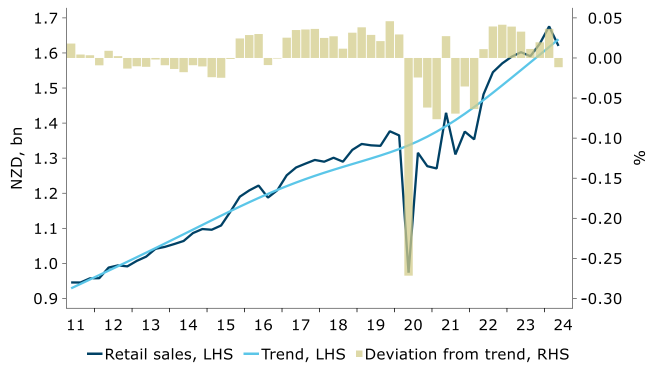
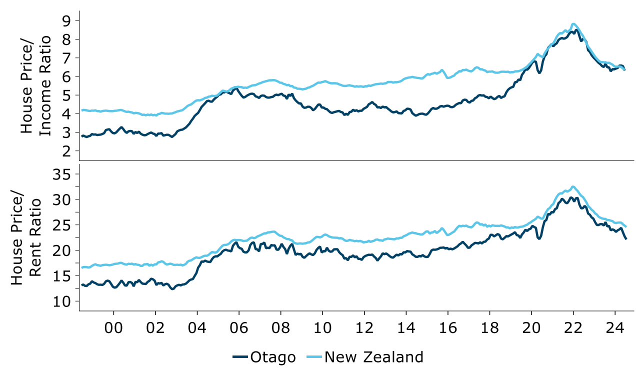


Figure 72. Otago affordability



Source: REINZ, New Zealand Tenancy Service, Stats NZ, Macrobond, ANZ Research

West Coast

Key statistics

West Coast accounted for 0.6% of total NZ house sales in the year to August 2024.

West Coast	Date	
Median price (sa):		
– Pre-pandemic	Dec-19	$210,846
– Post-pandemic peak	Jan-22	$363,035
– Current	Aug-24	$365,735
Median weekly income	Jun-24	$2,028
Median weekly rent	Jul-24	$435
Unemployment rate	2024Q2	3.8%

Price growth tends to be volatile on the West Coast, reflecting relatively low turnover and associated variability in the average size and quality of homes being sold. That said, looking through the noise, the West Cost housing market has been a strong performer over recent years, with annual house price inflation currently above the national average, and still in positive territory. Days to sell are also below the long-run average, while the sales-to-listings ratio suggests market conditions are fairly stable. Affordability measures are certainly at the cheaper end of the spectrum, but the gap in the house price to income ratio vs the national level has narrowed slightly, with the West Coast not experiencing the same degree of improvement through the slowdown.

Figure 73. West Coast median sale price

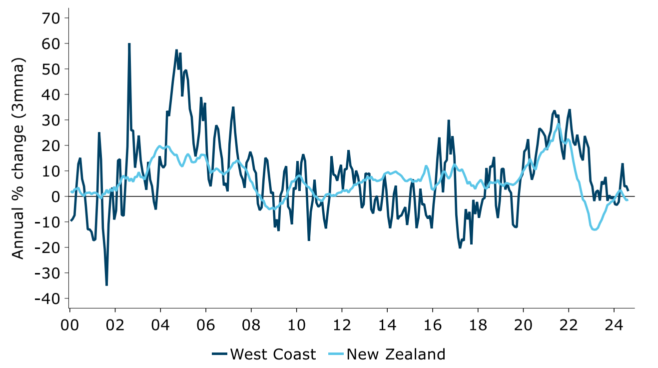


Figure 74. West Coast market tightness

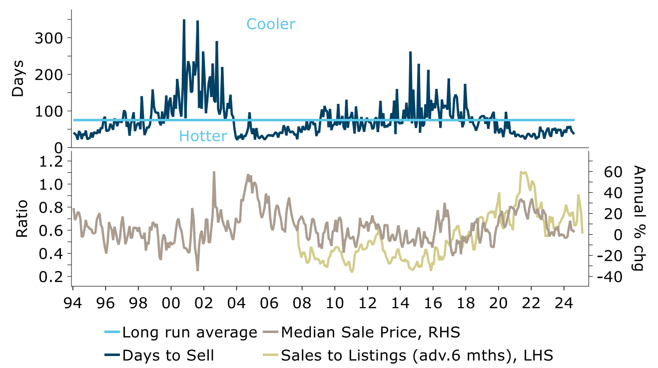


Figure 75. West Coast dwelling consents per 1000 residents

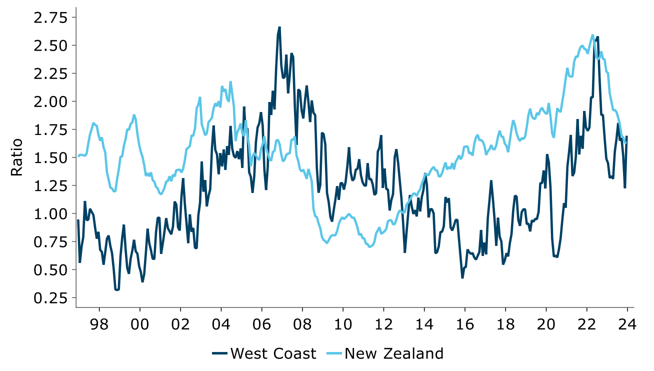


Figure 76. West Coast unemployment rate

Figure 77. West Coast retail sales vs trend

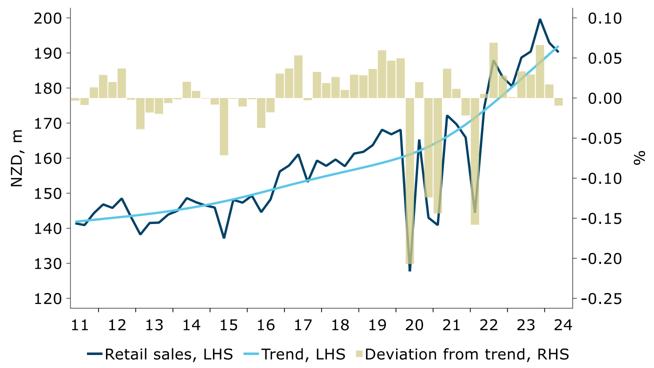
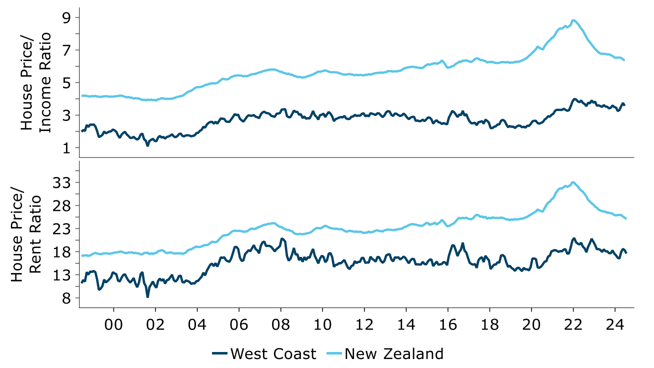


Figure 78. West Coast affordability



Source: REINZ, New Zealand Tenancy Service, Stats NZ, Macrobond, ANZ Research

Southland

Key statistics

Southland accounted for 2.2% of total NZ house sales in the year to August 2024.

Southland	Date	
Median price (sa):		
– Pre-pandemic	Dec-19	$326,480
– Post-pandemic peak	Jan-22	$428,537
– Current	Aug-24	$441,744
Median weekly income	Jun-24	$2,008
Median weekly rent	Jul-24	$460
Unemployment rate	2024Q2	3.7%

Southland is another region that's experienced a slightly more subdued house price cycle in recent years. In fact, annual house price inflation is still rising currently, out of step with the rest of the country. That could be a matter of timing, with days to sell hovering around the long-run average, while the sales-to-listings ratio has slipped in recent months, hinting at a loosening market. Consents per capita are falling, but still quite elevated compared to last decade. Economic indicators continue the theme of rosier conditions in the South Island, with retail sales close to trend, and unemployment, while rising, at 3.7%, it's still a fair way below the national rate of 4.6%. Southlanders also enjoy better housing affordability than the rest of the country (the second-best in the country), though that gap has narrowed given the housing cycle has been less pronounced.

Figure 79. Southland median sale price

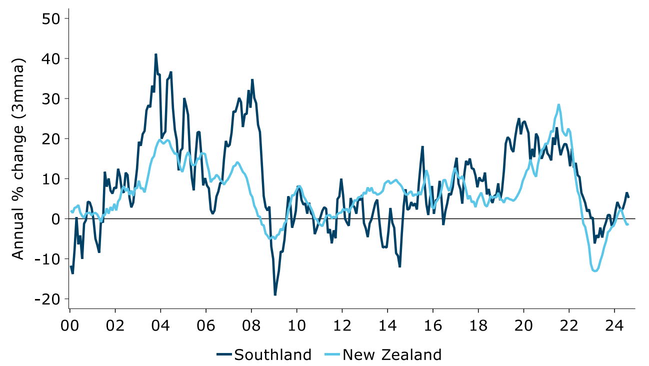


Figure 80. Southland market tightness

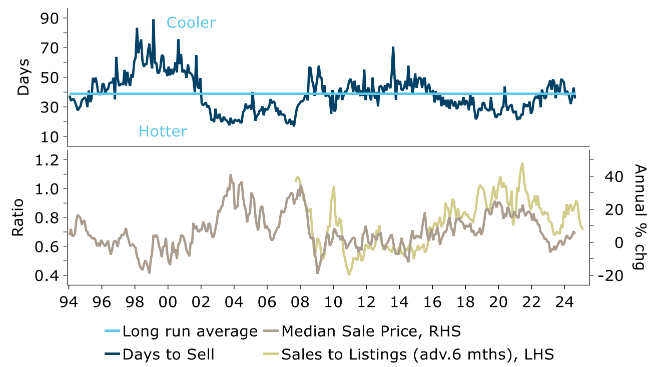


Figure 81. Southland dwelling consents per 1000 residents

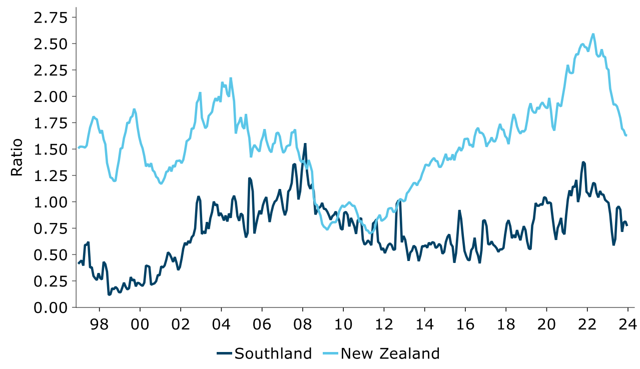


Figure 82. Southland unemployment rate

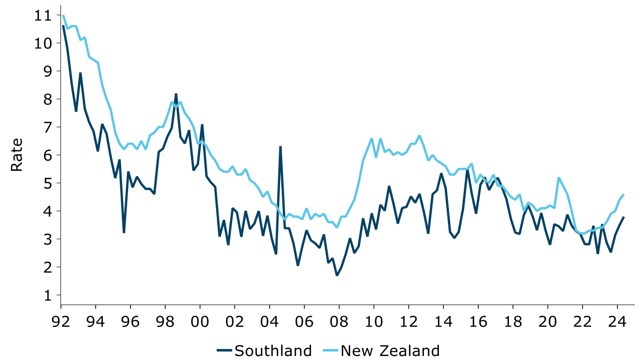


Figure 83. Southland retail sales vs trend

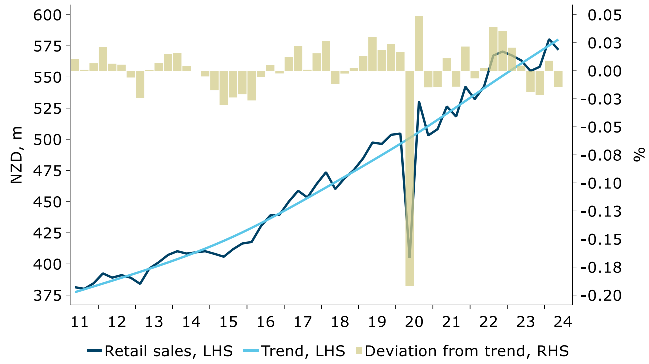
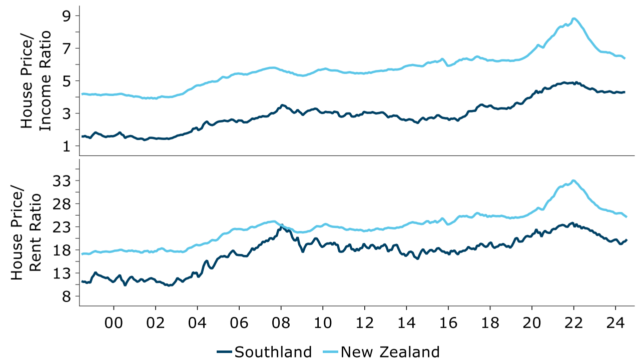


Figure 84. Southland affordability



Source: REINZ, New Zealand Tenancy Service, Stats NZ, Macrobond, ANZ Research

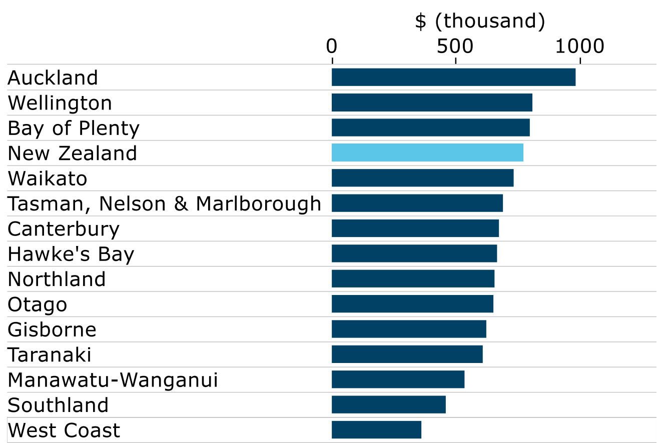
Bringing it all together

In big-picture terms, the experience of all regional housing markets has been much the same in recent years – that's to be expected when the main driver of the cycle has impacted all regions in much the same way: a significant loosening in monetary conditions followed by a rapid tightening. However, regional differences will always exist to some extent, reflecting variances between regions in:

- Population growth and demographics.
- Economic outcomes, which is a function of economic composition (eg exposure to tourism, an expanding government sector, or prices for our primary produce).
- Supply and demand imbalances and local planning, eg a region that opens up land for development more quickly will likely have more affordable housing, all else equal.
- Natural and environmental factors. This one will inevitably become more important over time as housing demand pivots away from areas at risk of flooding/rising sea levels.
- Cultural and social factors, such as shifting preferences as a result of increased optionality to work from home in the post-COVID era.
- Expectations for capital gains and 'entry level' pricing. Some regions are more affordable than others, making them more enticing to the likes of first home buyers. For investors, some may see a certain region as providing better opportunities for capital gains than others.

All up, regional divergences occur for a range of reasons, and not all of them are easy to observe. But as figure 85 shows, historical divergence between regions has resulted in some very significant differences in the level of house prices, with the median price in Auckland nearly three times higher than in the West Coast.

Figure 85. Median house price by region

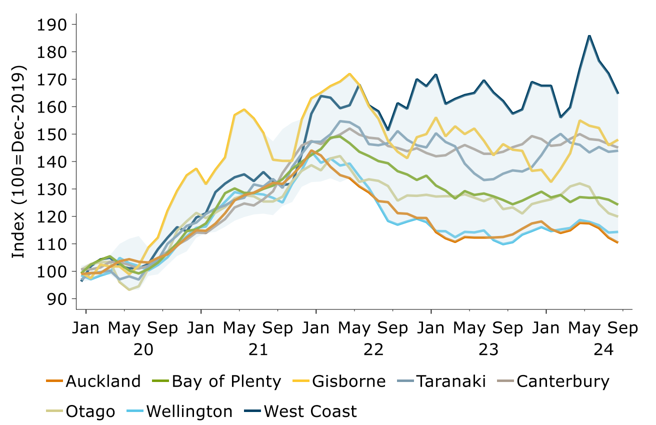


Source: REINZ, Macrobond, ANZ Research

With interest rates now normalising, it's a good time to reflect on the housing market cycle over the past few years, through the ultra-low-interest rate period and then one of the most aggressive tightening cycles in the world. It's been a rollercoaster for the housing market, but for some regions more than others.

As Figure 86 shows, there's been some regional variation in housing performance this cycle. The West Coast tops the pile for the largest increase in house prices since pre-COVID, up a whopping 65%. Meanwhile, Auckland has seen the smallest increase, with the median sales price up just 10% over the same period. While there's a range of reasons for regional divergence, one stark difference between Auckland and the West Coast stands out. Auckland is the *least* affordable housing market in the country, while the West Coast is the *most* affordable. It's unsurprising that the two regions have seen different gains. Already-stretched affordability in Auckland capped the upside during the COVID housing boom, while on the way down, Auckland's more highly leveraged borrowers (and those wanting to borrow) would have felt the interest rate pain more. And as prices become relative less affordable in some regions, demand shifts and prospective buyers priced out of some regions look to others.

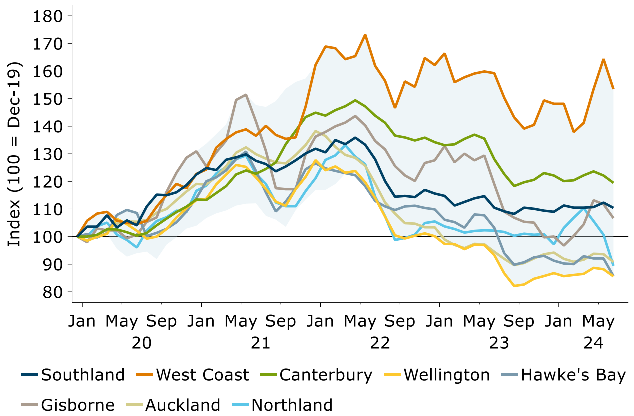
Figure 86. Changes in median house prices since Dec-19 (top and bottom four regions)



Source: REINZ, Macrobond, ANZ Research

While the nationwide house price to income ratio has fallen back to pre-COVID levels, there have been some pronounced regional differences in recent years. Some regions have seen affordability improve over that time, with Wellington, Hawke's Bay, Auckland and Northland all having lower house price to income ratios than pre-COVID. Wellington and Hawkes Bay have seen affordability improve by close to 15%. But that's not the case for everyone. The West Coast has seen affordability worsen by over 50% over that period.

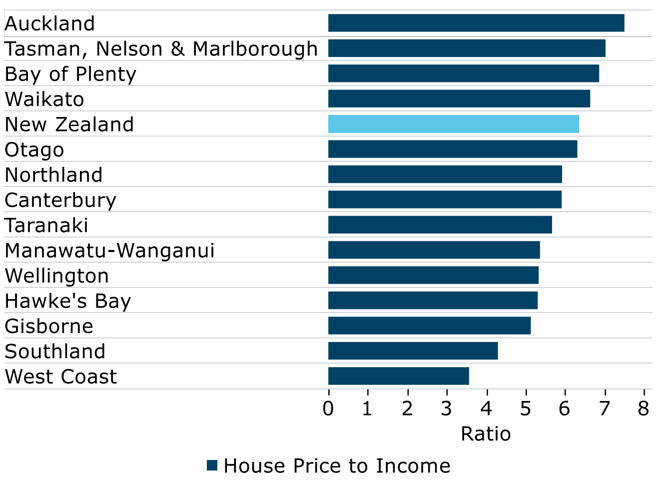
Figure 87. Changes in house price to income ratios since Dec-19 (top and bottom four regions)



Source: REINZ, Stats NZ, Macrobond, ANZ Research

However, despite the relative worsening in affordability, the West Coast remains the nation's most affordable regional housing market, while Auckland hasn't managed to get rid of its crown for the least-affordable market.

Figure 88. House price to income ratio



Source: REINZ, Stats NZ, Macrobond, ANZ Research

Mortgage borrowing strategy

This is not financial advice about any product or service. The opinions and research contained in this document are provided for information only, are intended to be general in nature and do not take into account your financial situation or goals. Please refer to the Important Notice.

Summary

Mortgage rates fell further in September, led by the 2yr, with the median rate offered by the five largest banks down 0.2%pt to 5.79%, marking a cumulative fall of 1.22%pt since November. Our projections (based on our wholesale interest rate forecasts) point to further declines in fixed mortgage rates over the coming year, with larger falls expected in floating and 6mth rates, and lesser falls likely in the 4-5yr part of the curve. Many borrowers will be wondering if there's merit in fixing one more time for a shorter term before fixing for a longer term later. With the 1yr 0.56% below the 6mth, and the 2yr 0.5% below the 1yr, both have their merits. Breakevens show that it might be a close call as to which will work out cheaper in the long run, and any decision is probably going to come down to individual risk appetite. We always see merit in spreading risk over several terms, especially since longer terms are cheaper.

Median 6mth to 4yr rates offered by the five main banks all fell a little further in September, taking their lead from wholesale swap rates, which fell to new cycle lows. As a result, 1-5yr mortgage rates are now between 0.97% and 1.22% below the highs seen last November. Floating and 6mth rates have been the laggards as they tend to move more closely with the OCR itself, which has only been cut once. However, 1-5yr mortgage rates have followed wholesale swap rates lower as they have fallen in anticipation of future cuts in the OCR. That's the nature of financial markets – they are extremely forward-looking – and that's why, for example, the 2yr wholesale swap rate is already at around 3.6%, even though the OCR is still at 5.25%. This forward-looking tendency of markets has driven fixed mortgage rates down by more than the OCR, just as fixed mortgage rates rose much more rapidly than the OCR on the way up.

And that's a good segue into the next discussion point – for how long might it be a good idea to fix? Fixing tends to be preferred to floating for most people, and for obvious reasons – cost. As we have written about many times in the past, floating is a very expensive option, and it often makes more sense to fix for 6 months as a proxy for floating, unless perhaps you expect to repay your loan, or are selling your house, or expect to receive a lump sum. At times like that, it may make sense to stay floating at 8.39%, even with 6mths at 6.85%.

But most people are likely to be pondering how long to fix. As table 1 shows, the longer one fixes for, the cheaper it gets, so choosing the optimal strategy requires taking a view on the future, as markets do.

And that's where breakeven analysis can be useful.

Consider, for example, the choice between 6mths at 6.85% or 1yr at 6.29%. The 1yr rate is obviously cheaper, but is it worth paying 0.56% more for 6mths, if you can make it up later? Mathematically, it would be worth it if the 6mth rate fell to 5.73% (ie fell by 1.12%) in 6 months' time. Will that happen? It could, especially if the RBNZ starts cutting by more than 0.25% at a time. Our projections have the 1yr rate at 5.5% in 6mths time, so it's not unreasonable to expect the 6mth to be similarly lower. But if the RBNZ keeps cutting gradually, it may not quite get there. Either way, it could be a close call. However, most fixed rates are likely to be lower in 6mths time should one want to wait a little longer, but not too much longer, before fixing for a longer term.

The choice between 1yr and 2yrs is an interesting one. We think the OCR will bottom out in around a year, so fixing for 1yr may put you in good stead to re-fix then. But breakevens show that the 1yr rate needs to fall to at least 5.29% in 1 year's time, and that's a shade below our projections. So that choice is a close call too, and it's likely to come down to your risk appetite. Picking the cycle low perfectly is really hard. And what about those longer rates? If you're risk averse, bird-in-the-hand reasoning could easily justify tucking a chunk away for longer to help you sleep at night. No forecast is ever certain, and hedging your bets is typically stress-reducing.

Figure 1. Carded special mortgage rates*

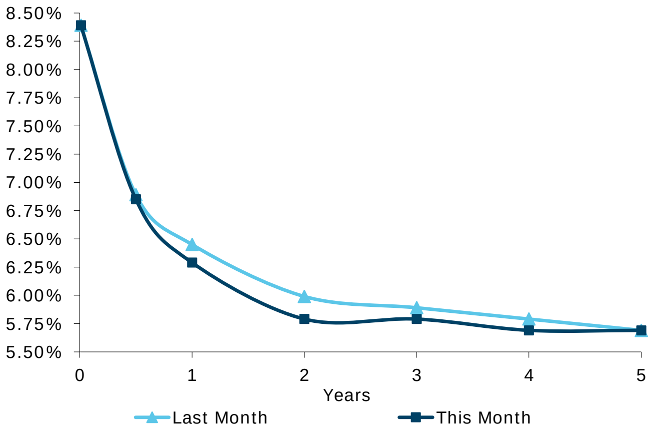


Table 1. Special Mortgage Rates*

Term	Current	Breakevens for 20%+ equity borrowers in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	8.39%				
6 months	6.85%	5.73%	5.39%	5.19%	5.79%
1 year	6.29%	5.56%	5.29%	5.49%	5.79%
2 years	5.79%	5.53%	5.54%	5.55%	5.59%
3 years	5.79%	5.56%	5.49%	5.54%	5.62%
4 years	5.69%	5.55%	5.54%		
5 years	5.69%	*Median of the five largest banks			

^ Average of carded rates from ANZ, ASB, BNZ and Westpac.

Source: interest.co.nz, ANZ Research

Contact us

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

2Mortgage Size ($000)	Mortgage Rate (%)													
	5.25	5.50	5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50	7.75	8.00	8.25	8.50
200	255	262	269	277	284	292	299	307	315	323	330	338	347	355
250	318	327	336	346	355	364	374	384	393	403	413	423	433	443
300	382	393	404	415	426	437	449	460	472	484	496	508	520	532
350	446	458	471	484	497	510	524	537	551	564	578	592	606	621
400	509	524	538	553	568	583	598	614	629	645	661	677	693	709
450	573	589	606	622	639	656	673	690	708	726	744	762	780	798
500	637	655	673	691	710	729	748	767	787	806	826	846	866	887
550	700	720	740	760	781	802	823	844	865	887	909	931	953	975
600	764	786	807	830	852	875	897	921	944	968	991	1,015	1,040	1,064
650	828	851	875	899	923	947	972	997	1,023	1,048	1,074	1,100	1,126	1,153
700	891	917	942	968	994	1,020	1,047	1,074	1,101	1,129	1,157	1,185	1,213	1,241
750	955	982	1,009	1,037	1,065	1,093	1,122	1,151	1,180	1,209	1,239	1,269	1,299	1,330
800	1,019	1,048	1,077	1,106	1,136	1,166	1,197	1,227	1,259	1,290	1,322	1,354	1,386	1,419
850	1,082	1,113	1,144	1,175	1,207	1,239	1,271	1,304	1,337	1,371	1,404	1,438	1,473	1,507
900	1,146	1,178	1,211	1,244	1,278	1,312	1,346	1,381	1,416	1,451	1,487	1,523	1,559	1,596
950	1,210	1,244	1,278	1,313	1,349	1,385	1,421	1,458	1,495	1,532	1,570	1,608	1,646	1,685
1000	1,273	1,309	1,346	1,383	1,420	1,458	1,496	1,534	1,573	1,613	1,652	1,692	1,733	1,773

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

	Actual				Projections					
Interest rates	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
Floating Mortgage Rate	8.6	8.6	8.6	8.4	7.9	7.6	7.1	6.6	6.6	6.6
1-Yr Fixed Mortgage Rate	7.3	7.2	7.1	6.3	6.0	5.5	5.4	5.4	5.4	5.4
2-Yr Fixed Mortgage Rate	7.0	6.8	6.7	5.8	5.8	5.5	5.5	5.5	5.5	5.5
3-Yr Fixed Mortgage Rate	6.8	6.6	6.5	5.8	5.8	5.6	5.6	5.6	5.6	5.7
5-Yr Fixed Mortgage Rate	6.7	6.5	6.4	5.7	5.7	5.7	5.7	5.7	5.8	5.8

Source: RBNZ, ANZ Research

Economic forecasts

	Actual			Forecasts						
Economic indicators	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
GDP (Annual % Chg)	0.0	0.5	-0.5	-0.1	0.0	0.1	0.6	1.0	1.4	1.8
CPI Inflation (Annual % Chg)	4.7	4.0	3.3	2.3	2.2	2.1	2.2	2.1	2.1	2.1
Unemployment Rate (%)	4.0	4.4	4.6	4.8	5.0	5.2	5.4	5.5	5.5	5.5
House Prices (Quarter % Chg)	0.4	0.6	-0.5	-1.1	0.0	0.9	1.1	1.2	1.2	1.2
House Prices (Annual % Chg)	-0.6	2.7	2.2	-0.6	-1.0	-0.7	0.9	3.3	4.5	4.8

Interest rates	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
Official Cash Rate	5.50	5.50	5.50	5.25	4.75	4.50	4.00	3.50	3.50	3.50
90-Day Bank Bill Rate	5.64	5.64	5.63	4.90	4.70	4.23	3.73	3.65	3.65	3.65
10-Year Bond	4.32	4.54	4.67	4.25	4.00	4.00	4.00	4.00	4.25	4.25

Source: ANZ Research, Statistics NZ, RBNZ, REINZ

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