

# Property Pulse

## It's a bump not a jump

- The housing market continues to slowly thaw out
- That's in keeping with our views. We continue to expect a modest lift in house prices this year
- Risks from heightened supply and global uncertainty
- Value in the mortgage fixing decision shifting out into longer fixed terms

### The view, in brief

Amid the many moving parts and risks, the overall vibe of NZ's housing market seems to be tilting in the direction of our long-held view. This being the case, we haven't messed with it. We continue to pick around a 7% lift in national house prices this year.

It's a view that, in broad strokes, balances the positive impulse from falling mortgage rates and a recovering economy against the moderating influence of a more balanced supply-side picture.

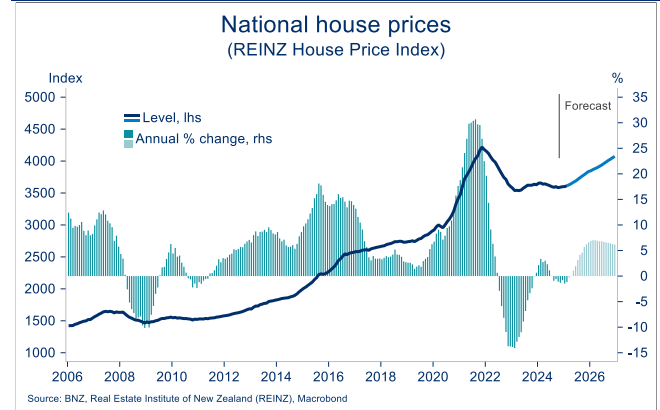
There's plenty of attention on mortgage markets given we're well into the [Year of the Refix](#). We remain of the view short-term mortgage rates have more downside as the Reserve Bank continues to prune the cash rate. Even so, in our view, the relative value in the mortgage fixing decision appears to be shifting from a strategy focused on short fixed terms, to one of spreading some risk out into longer-terms like the 2-year.

Welcome to our first *Property Pulse* for 2025. Supporting our more regular [Eco Pulse](#) updates, the aim here is to chat through recent housing and mortgage rate happenings, and provide our take on the outlook.

### Included in report:











- [The view, in brief](#)
- [House price outlook](#)
- [Mortgage rate outlook](#)
- [Appendix: Regional Heatmap](#)

### BNZ house price forecasts



## Impact of macro drivers on our house price view

The table below summarises the various drivers of house price inflation and their directional impact on our view.

	0-6 months	12-18 months	View summary
Mortgage rates			Mortgage rate support is coming through thick and fast - it's just being offset by some of the drivers below
Housing supply			Unsold inventory is at 10-year highs. We expect some of this oversupply to be worn down in coming months as activity picks up
Labour market			Job security worries persist but may have lessened a touch, consistent with signs the jobs market is starting to stabilise
Housing policy			Playing second fiddle to other factors. Changes to interest deductibility are supportive. There's still plenty of buffer inside DTI and LVR limits
House price inflation			Momentum expected to build over 2025, but uptrend unlikely to be strong or linear

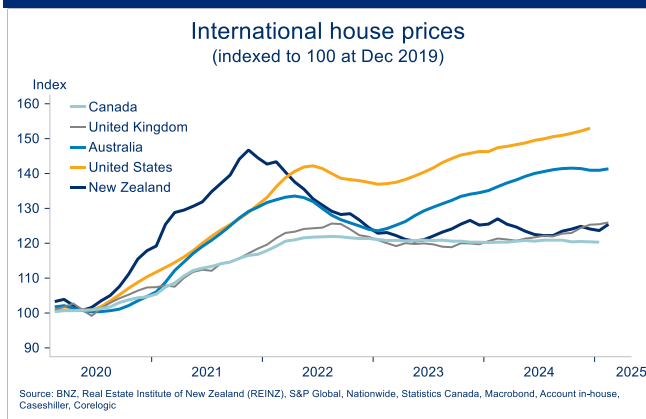
**If it ain't broke**

Amid the many moving parts, the overall vibe of NZ's housing market seems to be tilting in the direction of our long-held view. This being the case, we haven't messed with it. We continue to pick around a 7% lift in national house prices this year.

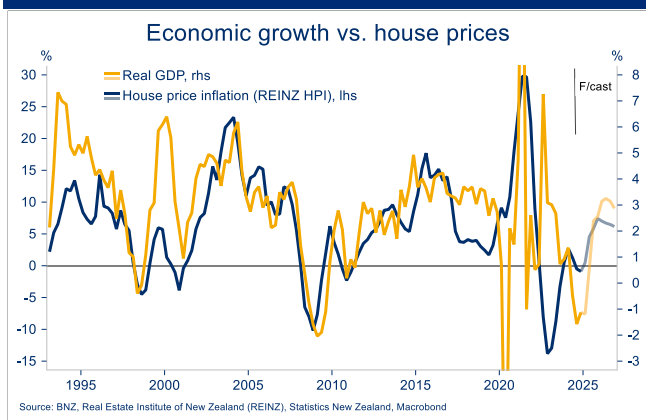
It's a view that, in broad strokes, balances the positive impulse from falling mortgage rates and a recovering economy against the moderating influence of a more balanced supply-side picture. We looked into the latter in a little more detail recently [here](#).

As with many aspects of the economy, we're talking about some growth off a relatively low base. National house prices have flat-lined for two years. That's an experience similar to Canada and the UK, but well unders compared to Australia and the US. Moreover, if our longer-term forecasts are close to the truth, admittedly a big 'if', we won't see prices reclaim the 2021 peak until sometime in early 2028. In a historical context, that would be a noticeably slower and lower upswing than past periods of economic recovery (2<sup>nd</sup> chart).

**International context**



**Slower and lower**



**Is the market moving?**

So, what evidence have we got to suggest the market is starting to move?

Most obviously, mortgage rates appear to have fallen to a level which is encouraging housing market activity. Basically, the numbers are starting to work for people again. Higher local authority rates, insurance, and maintenance bills are clearly pushing in the other direction. But, as our recent [note](#) indicated, the net change in cash flows over the past year, for the average market participant, will still be strongly positive.

We've seen the pace of monthly housing turnover, at around 6300 sales/month, float back to almost average. In Canterbury, Otago and Waikato it's above average.

The extra interest and sales activity has also been reflected in a recovery in new lending flows, something that's evident across all buyer types. Lending to first home buyers is up 26% on last year while lending to investors is almost double last year's very low level. Bear in mind that some of this – about a quarter – reflects an increase in churn as people have changed loan providers a little more regularly (long-run average closer to 17%).

**Mortgage borrowing accelerates**

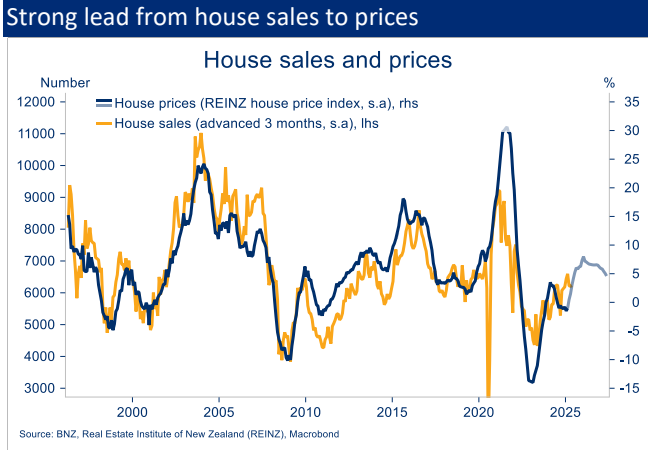


The number of days to sell a house is a reasonable proxy for general market balance. It's still taking longer than usual to sell, but less so than last year. The median days to sell has drifted down from September's 49.0 day high to 46.6 days in February (adjusted for seasonality). The long-run average is 40 days.

All told, there does seem to be broadening evidence of a firming in housing demand. And it appears to be exerting a steadying influence on house prices following some of the wobbles of 2024. We've now seen four consecutive, small monthly gains in the REINZ House Price Index (adjusted for seasonality).

**Our take**

Our forecasts essentially have this unsteady uptrend continuing. On past form, the increased level of turnover already seen in the market supports the idea the trend in house prices has turned and will stay that way (chart below).



We’re nonetheless wary about the potential for a couple of factors to upset the apple cart:

- The historically reliable correlation between house sales and prices may not hold up to the usual extent given the unusually strong supply response we’ve seen this cycle. Put another way, an abundance of supply

means the market is not as tight as looking at sales alone would suggest. Providing some support for this theory, the ratio of sales to listings is still at a level consistent with a mild oversupply.

- Large investment decisions are sensitive to confidence. Buying and selling activity could slow down again from here if rising trade and/or political anxiety causes folk to hunker down and hold off until the dust clears (whenever that may be!). The renewed slump in consumer confidence reported last week is perhaps an early sign of this effect.

These factors underscore our view that the house price upswing is unlikely to be either strong or linear in nature. Certainly, we’re not anticipating anything like the froth and fomo of the 2020/21 cycle.

Rather than strong stimulus ‘floating all boats’, we suspect the more regionally mixed conditions currently pervading will stick around, with relativities in population, supply, and economic strength exerting more of an influence. The time and choice prospective buyers currently enjoy appear unlikely to disappear in a hurry.

**Mortgage rate outlook**

Our view at a glance\*

	Short-term	12m ahead	Comment
Floating rates	↓	→	Our view of additional RBNZ cash rate cuts implies a fall into the low 6s by mid-year
Short-term fixed	↓	→	Downtrend has a little further to run; sub-5% rates still expected for six month and one-year terms
Longer term fixed	→	↘	Additional small declines are possible but, bigger picture, the downtrend is largely done
Fix or float?	More value now in longer fixed terms like the 2-year		

\*All based on our forecasts for the Official Cash Rate and wholesale interest rates

**Floating rates – more to go**

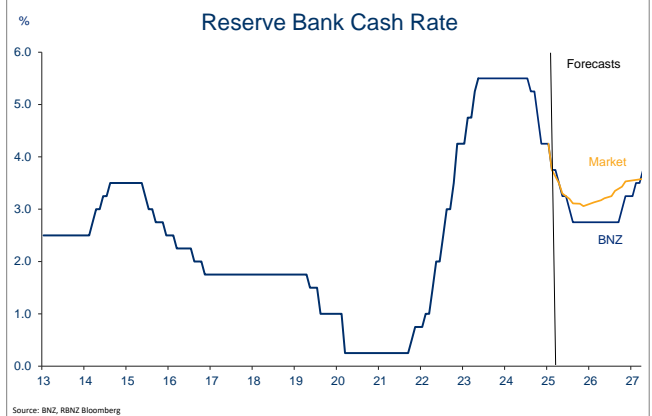
Further falls in floating rates to at least the mid-6’s look likely in coming months as the Reserve Bank continues to prune the Official Cash Rate (OCR). We think it’s highly likely the Bank follows through on its prior guidance to deliver at least two additional 25bps cuts. That would take the OCR from 3.75% down to 3.25%.

Thereafter, it gets murkier. Our official view is still that the cash rate will fall to a cycle low of 2.75% in the third

quarter. But changes at the Reserve Bank – including the Governorship and, potentially, bank capital requirements – muddy the waters, as does global trade uncertainty.

The net is some upside risk on our forecast for how far the cash rate can ultimately fall this year. Making some allowance for this suggests floating mortgage rates will head below 6.5% in the autumn before spending the rest of the year in a 6.0-6.5% range.

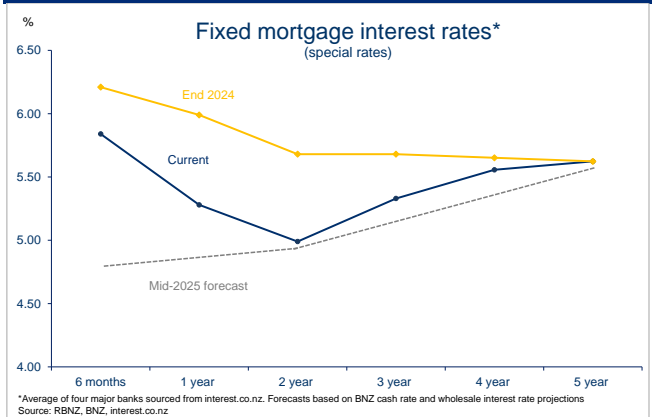
**No change to BNZ OCR forecasts**



**Fixed rates – more downside for shorter terms**

Mortgage rates for most terms continue to grind their way lower. Rates from floating out to two-year fixed terms are all about 50bps below end-2024 levels. Those for 3-years and longer have fallen by 10-30bps. These moves have left us with a slightly odd-looking “v”-shaped mortgage curve, with a pivot point around the 2-year term.

**V-shaped mortgage curve**



We continue to see the left-hand side of the “v” falling away from here as six-month and one-year rates are pulled down by additional OCR cuts. Our forecasts have both sub-5% by mid-year. The area to the right of the 2-year ‘pivot’ has much less downside. Taken together, it would mark a return to the more ‘normal’ upward-sloping mortgage curve typical of the closing stages of an easing cycle.

How are the risks skewed? Widely but roughly evenly around our central view would be our assessment. There’s some upside on our cash rate forecasts as noted opposite. However, that need not necessarily imply the same for mortgage rates. The global trade war playing out in front of our eyes creates risk in all directions and it’s impossible, at this stage, to discern the likely net impact on interest rates.

**Mortgage strategy**

Before diving into the rate fixing debate, it’s worth reiterating that getting a mortgage strategy “right” is primarily about meeting a borrower’s financial needs and requirements for certainty. Trying to pick the timing of interest rate movements is fraught with difficulty.

For some time, the fixing decision in NZ has been a question of whether the higher upfront costs of fixing for shorter terms would ultimately ‘pay for themselves’ as mortgage rates decline.

The consensus has been a hard “yes” and it’s generally been on the money. There had been a mad dash for short-fixed terms. So much so that, as we’ve frequently highlighted, the mortgage book is the ‘shortest’ it’s been in a long time. As at the end of January, 83% of all mortgage borrowing had a remaining term of less than a year. That’s been bested only once before in 25 years of data.

Throughout 2024 we concurred with a shorter-term focused strategy, but the tide may be turning. Our [note](#) of late January laid out some competing viewpoints. We flagged that “fixing for tenors longer than a year does not look as unappealing as the current meagre demand would imply.” Those arguments have only strengthened since, in our view. Particularly given the recent falls in some term mortgage rates.

The hurdle for breaking even on fixing for shorter terms is now higher. For example, say you’re tossing up between fixing for one or two years. You can fix for 2-years at 4.99%<sup>1</sup> or you could take the one-year rate of 5.3% on the basis you can hopefully roll onto a lower rate in a year’s time.

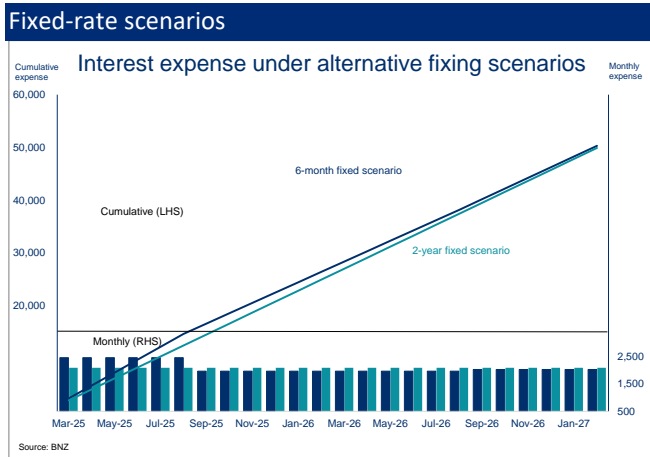
To breakeven, that one-year rate needs to fall to about 4.7% at the time you go to refix. That’s entirely possible, in fact, it’s close to our forecasts. But plenty needs to go right to get there and, even then, you’ve only got yourself to breakeven.

An update of the scenario we ran in our January note further highlights the point. The chart opposite shows the monthly and cumulative interest cost of fixing today for either two-years or six months on a hypothetical 500k debt.

You can fix for two-years at 4.99%, entailing a constant \$2080 monthly interest cost. Or fix for six-months at a higher rate of around 5.9% (\$2450/month), on the assumption you might be able to re-fix at lower rates in future. We’ve assumed those six-monthly refixes occur at rates of 4.7%, 4.6%, and 4.9%.

The chart shows that, using these simplified parameters, the cumulative interest “worm” on the six-month option gets back to level pegging with the two-year but only just, and only by the end of the scenario. And that’s based on assumed falls in six-month rates that probably err on the optimistic side. We also haven’t discounted future cash flows which, if we did, would lend support to the 2-year, ‘take the benefit up front’ option.

<sup>1</sup> All mortgage rates quoted are average of four major banks’ ‘special’ rates.



Everyone’s situation will be different, but these examples add some support to the idea there may now be more value in longer fixed-terms like the two-year.

Of course, that doesn’t mean there’s suddenly nothing to be gained from retaining some exposure to shorter terms. There’s the extra flexibility for one thing. Moreover, the fog shrouding the macro-outlook has got [thicker](#). Fixing some debt exposures for shorter-terms could thus be seen as some ‘insurance’ against the outlook deteriorating and interest rates ultimately dropping more than people currently expect.

## Appendix: Regional Heatmap

Our housing market heatmap provides a snapshot of the *relative* strength of housing markets around the country.

- The contrast between the cooler North and relatively warmer climates of the South Island has become even more marked in recent months.
- There’s a chill running through house prices in the Waikato and Taranaki regions but lifting activity (house sales) hints at a warmer winter.
- The degree of Auckland’s underperformance appears to be lessening but Wellington remains frozen.

Regional Housing Market Heatmap - February data*								Relative strength
Region	House prices <sup>1</sup>			House sales	Days to sell	New tenancy rents <sup>2</sup>		
	Median price	3m/3m %	Annual %	3m/3m %	Deviation from av	Per week	Annual %	
Northland	\$701,667	-0.6	-3.9	-3.2	0%	\$515	-2.2	
Auckland	\$999,495	0.7	-2.2	-3.8	31%	\$638	1.0	
Waikato	\$727,337	-0.2	-0.8	3.0	13%	\$526	4.4	
Bay of Plenty	\$813,341	0.6	-3.5	-2.8	0%	\$614	3.5	
Gisborne	\$621,620	-0.4	-2.2	-16.5	20%	\$544	2.3	
Hawke's Bay	\$697,149	-0.4	-2.2	-6.5	11%	\$595	5.7	
Manawatu-Whanganui	\$547,077	0.5	-1.9	-6.7	6%	\$490	2.9	
Taranaki	\$602,459	-0.4	-1.0	3.8	-17%	\$521	-1.6	
Wellington	\$860,447	-0.2	-3.0	-11.3	24%	\$604	-0.3	
Nelson, Tasman, Marlborough	\$737,366	2.0	2.8	0.9	6%	\$476	-0.6	
Canterbury	\$696,863	0.1	1.0	-2.4	13%	\$528	-1.0	
West Coast	\$384,500	0.5	2.6	10.2	NA	\$412	7.5	
Otago	\$674,953	0.2	-0.1	-3.5	7%	\$577	6.9	
Southland	\$474,844	0.8	3.1	2.7	-3%	\$372	NA	
<b>New Zealand</b>	<b>\$772,735</b>	<b>0.4</b>	<b>-1.2</b>	<b>-2.9</b>	<b>19%</b>		<b>1.5</b>	

\*Notes: All data seasonally adjusted by BNZ; (1) House price data (other than Median Price) based on REINZ HPI; (2) January data, based on new tenancies.  
Sources: REINZ, Statistics NZ, BNZ, realestate.co.nz, NZ tenancy service, Macrobond.



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