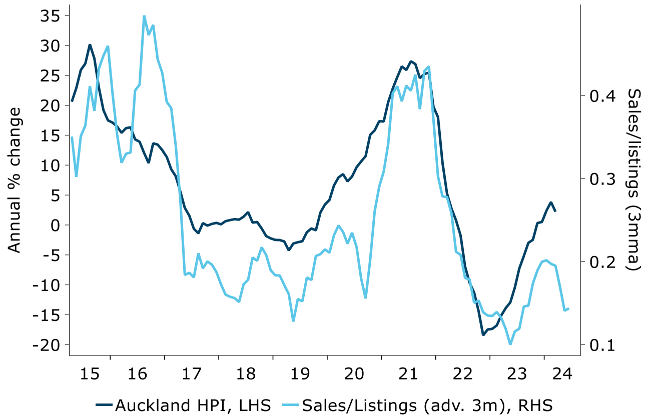
ANZ Research April 2024

New Zealand Property Focus

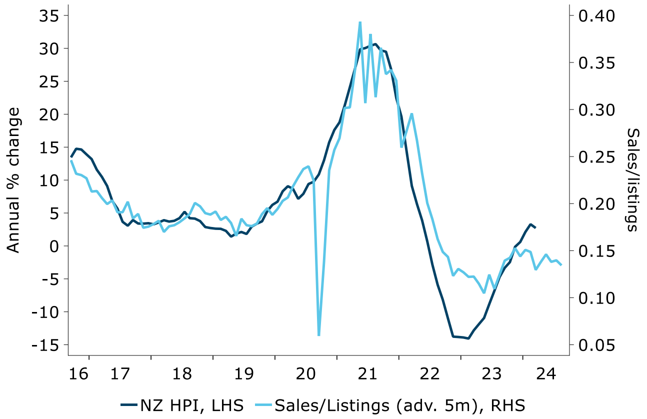
Looking for a signal from Auckland

At a glance

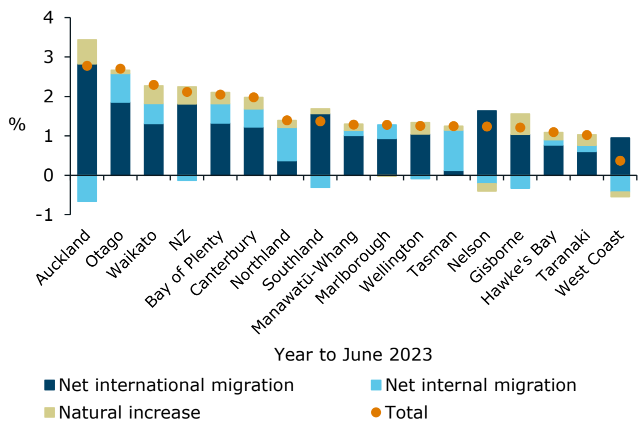
Auckland's sales to listings ratio suggests soft price momentum



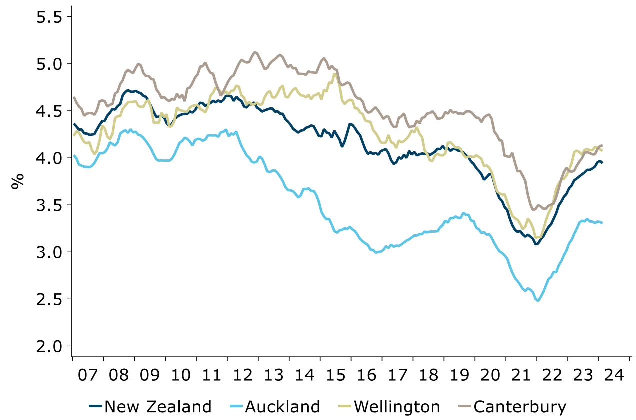
The NZ-wide ratio is pointing to soggy price momentum too



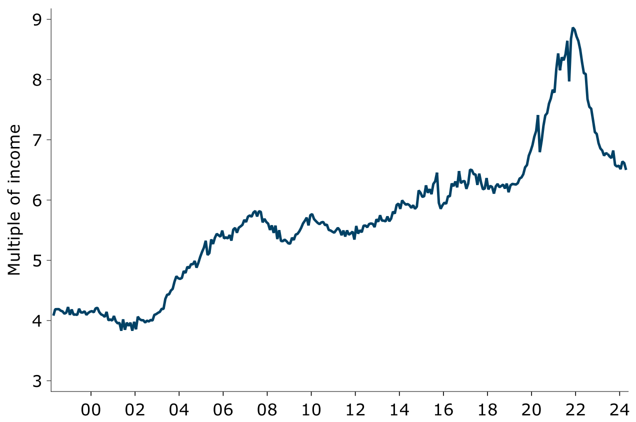
Migration is adding plenty of fuel to Auckland's population growth…



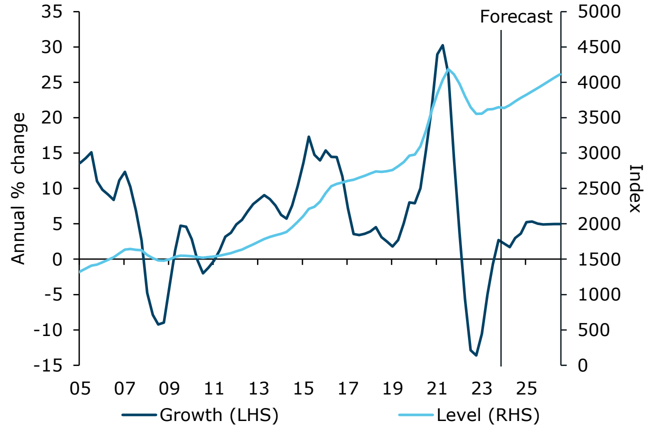
…but rental yields there appear contained



House prices remain elevated relative to incomes



We maintain our forecast for modest house price growth



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

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Summary

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

Property Focus

House prices came in a little softer than we anticipated in the first quarter of the year, and forward indicators suggest the second and third quarters could be just as soft. Auckland often leads nationwide housing outcomes, so this month we take a closer look into what some of the Auckland indicators are saying about what might lie ahead for the country as a whole. Given Auckland tends to get the lion's share of net migrants, this regional lens on the housing market is particularly important in the context of current surging net migration. However, we find little evidence in rental yields to suggest migration is about to drive a surge in investor demand for houses. In fact, rental yields in Auckland have been somewhat muted in recent months compared to the national average. All in all, indicators of market tightness in Auckland, and the rest of New Zealand for that matter, are running on the colder side of tepid, and that points to some downside risk around our house price forecast for a modest 3% rise in prices over 2024. See the Property Focus section.

Mortgage Borrowing Strategy

Mortgage rates are little changed on average across the four bigger banks this month, but the tweaks that have been seen have generally been falls. With wholesale rates at the upper end of trading ranges seen year-to-date, those falls likely reflect more intense competition among banks as loan growth slows. While that's good news for borrowers, further and meaningful falls from here will likely require wholesale rates to fall, and given sticky inflation, that looks like a story for late this year or early next year, rather than an imminent prospect. We continue to envisage lower mortgage rates, but we would caution that they may not fall as quickly as they need to for it to be cheaper fixing for, say, 1 year rather than 2 years. There isn't much in it but given that middle-duration terms like 2 and 3yr are already a lot cheaper than 1yr, we still see some merit in fixing for a little longer, and potentially across a mix of terms. See our Mortgage Borrowing Strategy.

Summary

House prices came in a little softer than we anticipated in the first quarter of the year, and forward indicators suggest the second and third quarters could be just as soft. Auckland often leads nationwide housing outcomes, so this month we take a closer look into what some of the Auckland indicators are saying about what might lie ahead for the country as a whole. Given Auckland tends to get the lion's share of net migrants, this regional lens on the housing market is particularly important in the context of current surging net migration. However, we find little evidence in rental yields to suggest migration is about to drive a surge in investor demand for houses. In fact, rental yields in Auckland have been somewhat muted in recent months compared to the national average. All in all, indicators of market tightness in Auckland, and the rest of New Zealand for that matter, are running on the colder side of tepid, and that points to some downside risk around our house price forecast for a modest 3% rise in prices over 2024.

Gauging the housing pulse

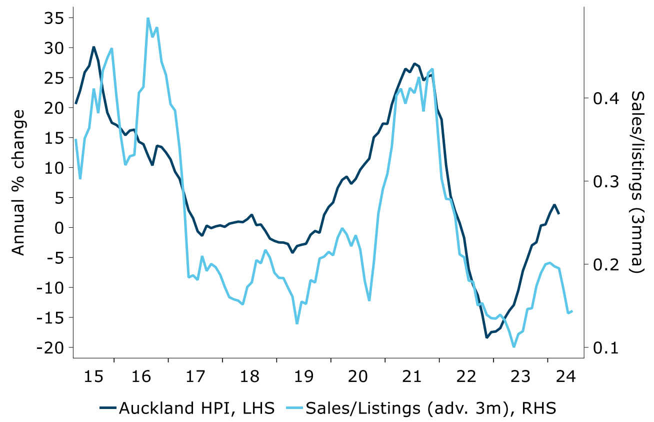
The REINZ house price index fell 0.5% m/m in March (ANZ seasonal adjustment), which saw quarterly growth come in at +0.7% q/q (3mma) over the first quarter vs our forecast of 1.1% q/q. Indeed, March delivered a weaker read on the housing market than expected, but was that noise, timing (we have been expecting some near-term price weakness), or is the market running significantly colder than we think?

Gauging the housing market's temperature in broad terms is relatively easy as we have a number of indicators that give us a sense for the balance between supply and demand. However, calibrating that into a super-accurate near-term house price forecast is the tricky part. We rely on a swathe of indicators to inform our near-term view, as no single measure lines up perfectly with house price inflation. Let's take a look at what these indicators are saying.

The ratio of sales to listings is a good place to start, as this measure reflects both supply (listings and inventories) and demand (sales). Depending on how you much you smooth the data (we often use a three-month moving average), this indicator can provide a three- to six-month lead on house price momentum.

Starting with Auckland (NZ's largest housing market) the Barfoot and Thompson data suggests the market is quite loose (figure 1) and that price momentum could soften a little further in the near term. Clearly the sales to listing ratio isn't a perfect match with annual house price inflation, but it does pick turning points more often than not.

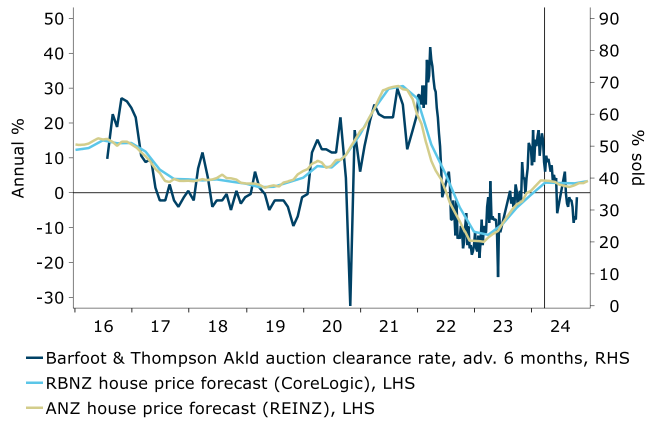
Figure 1. Auckland sales to listing ratio vs house prices



Source: REINZ, Barfoot & Thompson, Macrobond, ANZ Research

Auction clearance rates for Auckland provide a good sense check to the sales to listing ratio and can even provide a little more lead time on where prices may settle over the next few months. While clearance rates have been bouncing around quite a bit from week to week, the trend suggests the Auckland market will maintain a relatively weak price impulse over coming months (figure 2).

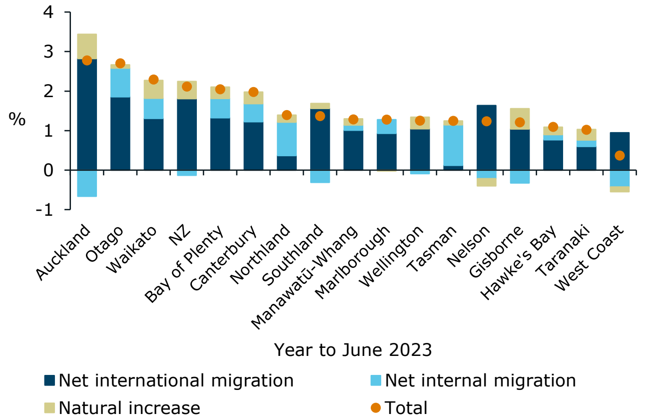
Figure 2. Auckland auction clearance rates



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

We're starting our analysis with Auckland because it's a particularly important market in the context of surging net migration inflows. As figure 3 shows, Auckland has been getting more than its fair share of net migrant inflows lately (which is not unusual). While most migrants don't go straight into home ownership when they first arrive in New Zealand, they do need a place to live.

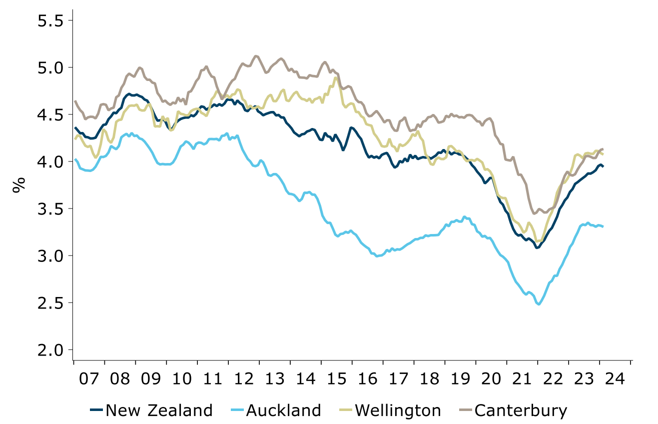
Figure 3. Population growth by region (year to June 2023)



Source: Stats NZ, Macrobond, ANZ Research

One way to gauge how much migration-led population growth might be bolstering housing demand (and therefore prices) is to look at rental yields. If migrants aren't buying, they're renting, and if rents are going up relative to house prices, higher rental yields may entice more investors into the market. However, despite Auckland getting the lion's share of net migrants, rental yields have remained broadly stagnant over the past year or so (figure 4). And compared to the national average, the change in Auckland's rental yields over the past year or so has underperformed. All else equal, that suggests Auckland has been doing a relatively good job of lifting rental supply alongside demand (we discuss how below), but at the same time it suggests rental yields are not about to drive a surge in investor demand for houses.

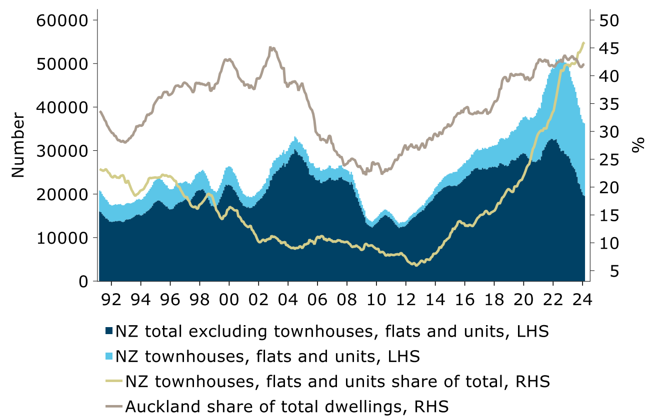
Figure 4. Rental yields by main region



Source: REINZ, MBIE, Macrobond, ANZ Research

Residential building consents data shows that while the total number of consents issued have been falling in both Auckland and across NZ, the share of new consents for townhouses, flats, and units has continued to rise, making up less than 10% of total consents 10 years ago but accounting for more than 45% of residential dwelling consents as of March 2024. This rising trend is also evident in the Auckland data. Further, Auckland's share of total dwellings consented lifted to above 40% back in 2021 (above its average share) and has maintained a share above 40% ever since. The upshot: properties more likely to be suitable as first homes and rentals have been rising as a share of total consents, and Auckland has been a key part of that. This compositional shift in construction activity appears to have, at least in part and for the time being, offset the impacts of surging migration on rents.

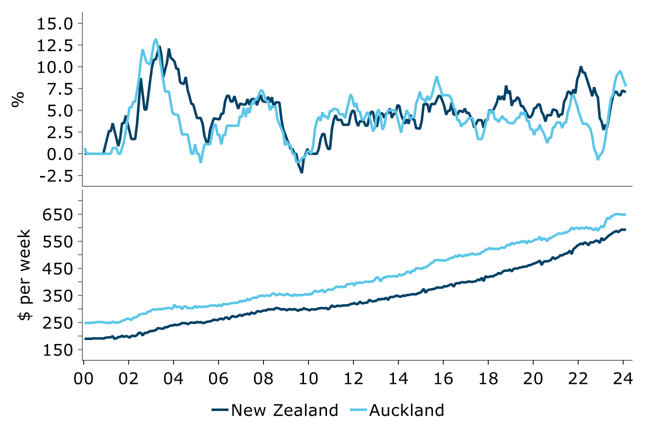
Figure 5. Annual consents by type



Source: Stats NZ, Macrobond, ANZ Research

But that's not to say Auckland isn't experiencing strong rental inflation currently – at above 7% y/y, weekly median rents inflation in Auckland is elevated. But this is following a period where the gap between Auckland rents and the national average had converged slightly by the end of 2022, with the recent acceleration in Auckland rents merely pushing that gap closer to historical norms. More recently, median rents in Auckland have tentatively plateaued, with annual rents inflation starting to slow (figure 6).

Figure 6. Rents: NZ vs Auckland

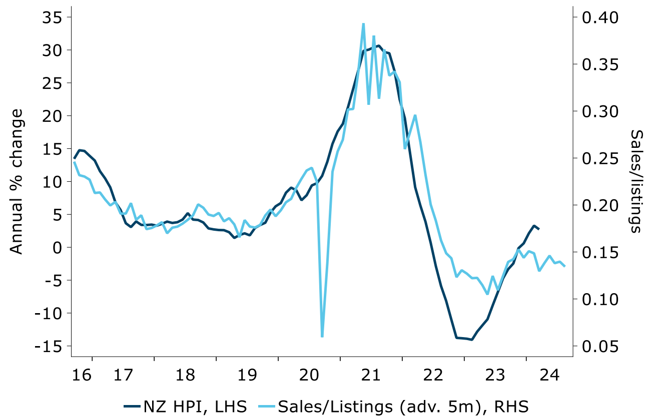


Source: MBIE, Macrobond, ANZ Research

As the adage goes, where the Auckland housing market goes, the rest of New Zealand tends to follow. All in all, we'd say key indicators of market tightness in Auckland are on the colder side, suggesting the near-term outlook for Auckland's housing market is quite soft, with prices even threatening to contract a little over the next few months. That's despite the surge in net migration that Auckland has had.

Broadening our analysis to the NZ-wide level provides a similar conclusion. Market tightness as defined by the sales to listing ratio (figure 7) suggests the housing market remains quite loose and that house price momentum will continue to track sideways for the next few months as rising inventories offset the modest pickup we've seen in sales in recent months.

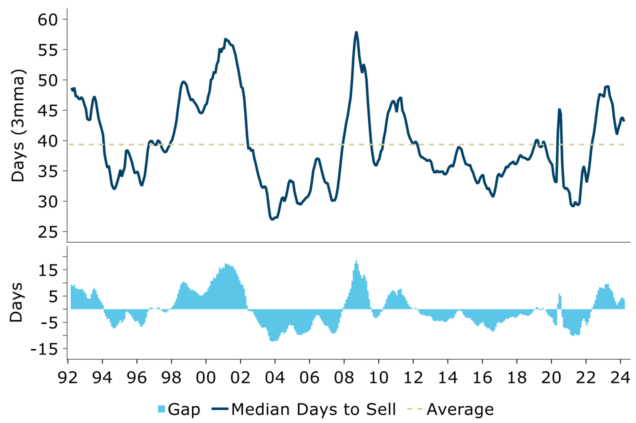
Figure 7. NZ-wide sales to listing ratio



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

The number of days it is taking houses to sell also provides a gauge on the tightness of the market. On a three-month moving average basis, it was taking about 4 days longer to sell a house in March compared to the historical average (figure 8). In Auckland, it was taking 7 days longer than average, 3 days longer than average in Wellington, and was about par with the historical average in Canterbury.

Figure 8. NZ-wide days to sell vs average



Source: REINZ, Macrobond, ANZ Research

Summing up, if you buy into the view that the Auckland market often leads the rest of NZ, then the signal across the market tightness indicators is that there's probably some downside risks brewing at the nation-wide level compared to what the nationwide indicators suggest, and possibly some downside risk to our forecast too.

Our take is that 2024 is shaping up to be yet another soggy year for house prices, but while we are expecting a little more weakness to come in the near term, we maintain our forecast that house prices will eke out a modest (3%) gain over 2024 as a whole.

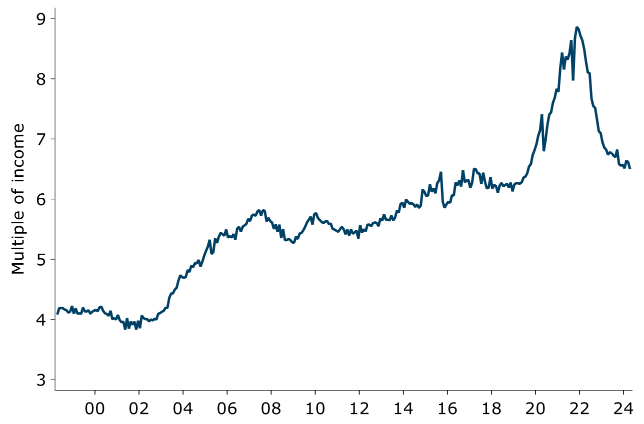
But this view requires us to weigh up some heavy-hitting housing market drivers, many of which are pushing and pulling in opposite directions. That makes the outlook particularly uncertain. We break the moving parts into the following digestible categories:

- **Macroeconomic drivers:** the key macroeconomic drivers pushing in opposite directions right now are a rising unemployment rate versus gradually falling fixed mortgage rates. Our forecast is for the unemployment rate to rise to a peak of 5.5% in late 2025, which will certainly cause some households to worry about their income prospects and therefore weigh on borrowing appetite. A rising unemployment rate also carries a risk that more households find themselves forced to sell because a decline in income means they can't service the mortgage. While this, unfortunately, is expected to happen to some extent (as it is a cold reality of business cycle dynamics), the question is whether or not it happens to a degree that tips the market into a downward spiral, with more listings hitting the market just as demand is pulling back.
- However, a negative tailspin of this nature would be more likely to materialise if it weren't for the fact that fixed mortgage rates are poised to fall from here. As shown in the table on page 10, our mortgage rate projections are for the 1-year rate to fall around 120bp between now and the end of 2025. While mortgage rates are expected to remain at a broadly restrictive level for a while yet, the change is expected to provide at least a partial offset to a loosening labour market.
- **Housing policy:** All up, the housing policy backdrop appears set to provide at least a partial offset to soft economic drivers. Of note, we think the reduction in the Bright Line Test to 2 years and the reinstatement of interest deductibility for landlords are going to have a net positive impact on housing demand. In the macroprudential space, the net impact of signalled debt-to-income restrictions and marginally looser LVR restrictions

are also expected to be a net positive for housing demand in the near term. The Government is also looking into ways to make building cheaper and easier, by cutting red tape with the aim of broadening the range of building materials available for construction. Freeing up more land for development is also part of the policy mix, but this doesn't look like it'll move the dial much on land values in the near term. Land makes up the lion's share of house prices, and freeing up more of it is probably the most potent medicine we have to treat housing unaffordability. But it's very political, with big trade-offs and differing opinions to contend with regarding urban sprawl, land banking, who should foot the bill for key infrastructure, productive use of land, climate change etc.

- **Supply fundamentals:** Construction activity is not keeping pace with population growth, meaning New Zealand's housing deficit is widening. While rental yields are barely moving, there's no skirting around the fact that NZ needs more houses, and that in the long run if we don't build them, prices will end up higher than otherwise. Our model (which has a very wide uncertainty band) suggests the housing deficit is widening to the tune of over 5000 dwellings per quarter and that over the past five quarters alone the cumulative deficit is close to 30k dwellings. With construction activity still slowing, and population growth elevated, it's hard to see this turning around in a hurry.
- **Affordability:** While it can often be tempting to look at changes in mortgage rates and rapid population growth alongside terrible housing supply fundamentals as good reasons why house prices are likely to rise, it's important to remember the broader context that housing in New Zealand is unaffordable. We'll have more to say on housing affordability in an upcoming feature, including a number of ways to say much the same thing: housing affordability, while off its recent highs, remains dire relative to history.

Figure 9. Ratio of house prices to household income

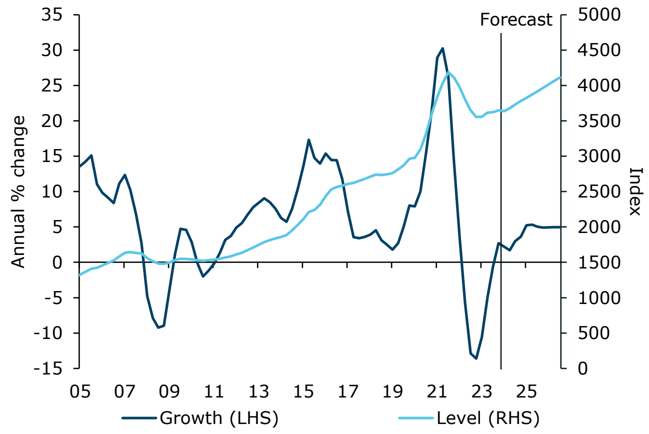


Source: Stats NZ, Macrobond, ANZ Research

- **Animal spirits:** Like all things economics, working out how sentiment is likely to evolve in a market can take you a long way in predicting price dynamics. Are perceptions of competition and scarcity about to take off, leading to a breakout in prices from their typical drivers, or perhaps market participants are about to get spooked, and try to sell up before the market really starts to deteriorate. Anecdote and related business survey data suggest neither of these scenarios are occurring right now, but if they were, we (and every other forecaster) would struggle to quantify that into an impact on house prices, particularly given all the other moving parts.

All in all, our house price outlook nets out a lot of uncertain (and likely time-varying) drivers. Near-term indicators suggest there is some modest downside risk to our forecast, but we continue to see scope for a modest lift in prices this year overall (even if prices slide a little in the very near term).

Figure 10. House price forecast



Source: REINZ, Macrobond, ANZ Research

Housing market indicators for March 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	$674,598	-0.1	11.1	0.1	0.5	144	-5%	59
Auckland	$1,036,797	5.3	0.9	2.2	0.4	1,728	-15%	41
Waikato	$760,021	3.1	1.1	-0.5	0.6	608	+12%	51
Bay of Plenty	$782,031	-3.8	-2.6	1.7	-0.7	377	+3%	47
Gisborne	$586,914	-1.1	1.8	3.0	-0.3	46	+6%	49
Hawke's Bay	$710,068	8.3	3.2	3.0	-0.3	207	+4%	44
Manawatu-Whanganui	$543,967	4.1	2.2	0.9	0.8	275	+1%	46
Taranaki	$591,263	-0.2	0.8	1.6	0.7	143	+13%	47
Wellington	$799,976	9.4	0.6	4.9	0.7	647	0%	39
Tasman, Nelson & Marlborough	$734,828	1.2	3.1			205	-11%	43
Canterbury	$678,672	2.1	0.3	4.4	1.4	931	-2%	35
Otago	$694,133	4.9	2.9	7.3	2.4	321	-11%	44
West Coast	$360,703	4.9	-4.1	2.3	1.3	39	+34%	58
Southland	$439,464	-1.1	1.5	4.4	2.4	146	-4%	40
New Zealand	**$790,581**	**2.7**	**1.5**	**2.7**	**0.7**	**5,802**	**-4%**	**41**

Mortgage borrowing strategy

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Summary

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Mortgage rates are little changed again this month, and as noted in our summary, where there have been changes, they have tended to be falls that look like they have been fuelled by competitive pressures rather than falls in wholesale rates, as the latter are higher, not lower compared to last month.

Given the slope of the mortgage curve, it pays to consider fixing for longer, where rates tend to be lower. Those wanting flexibility may also want to consider fixing for 6 months as a proxy, as that remains vastly cheaper than carded floating rates.

But with rates falling for competitive reasons, rather than because wholesale rates are lower (because as noted, they are generally higher!), a good question to ask is: when might we see lower wholesale rates, if this is what could open the door to meaningfully lower mortgage rates? Against a backdrop of sticky domestic inflation and the RBNZ's assessment that it thinks it'll likely be appropriate to maintain the OCR "at a restrictive level for a sustained period", it's a good question.

The short answer is that falls in wholesale rates do lie ahead, in our view, but they may not fall as fast as borrowers wish. We say that because financial markets are already pricing in a 25bp OCR cut by November. While growth has slowed, and in some sectors, sharply, for the RBNZ it's all about inflation, and earlier or more aggressive OCR cuts are only likely to get delivered if we see more concrete signs of progress towards the RBNZ's 2% inflation target.

We think that will happen, but not until early 2025 rather than 2024, and that's why our forecasts envisage wholesale interest rates falling more slowly than markets are pricing in, and thus what's implied by the term structure of interest rates.

How quickly rates fall matters crucially for borrowers considering for how long to fix, and as with last month, our breakeven analysis suggests that it is worth considering fixing for perhaps 2 or 3yrs, rather than only 6mths or 1yr, because those longer terms are already cheaper, and come with implied falls built in. Consider, say, the choice between fixing for 1yr (with the intention to re-fix in 1yr) or fixing for 2yrs. As table 1 shows, for back-to-back 1yr fixes to work out cheaper than fixing for 2 years at 6.77%, the 1yr rate needs to fall from 7.25% to 6.29% or below in a year's time. As with last month, that's a little more than we are projecting (based on our wholesale rate forecasts, we see it at around 6.6% in a year's time). Mathematically, that suggests that the longer 2yr fix may be a better choice, and it's because it's 0.48% cheaper. Borrowers who think rates will fall faster than we project, or don't want the regret that might go with fixing at what they perceive might prove to be "the top" may still want to fix for just 1yr, but doing the maths is often helpful, nonetheless. Fixing for a mix of terms can spread risk and avoid having everything coming up for renewal at the same time, which can be stressful, and may deprive you of opportunities to fix for other terms in the meantime.

Figure 1. Carded special mortgage rates^

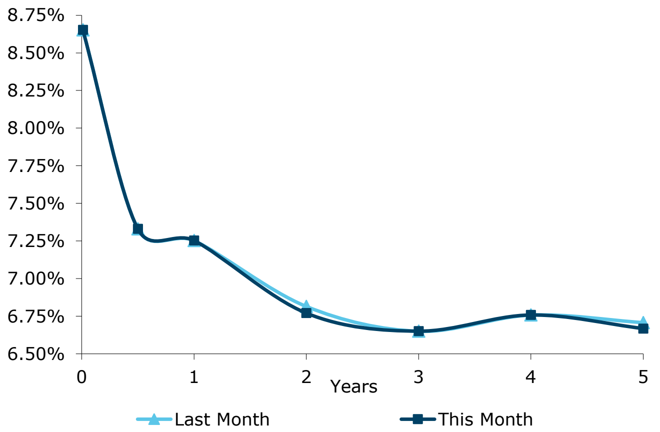

Table 1. Special Mortgage Rates#

		Breakevens for 20%+ equity borrowers			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	8.65%				
6 months	7.33%	7.18%	6.21%	6.37%	6.47%
1 year	7.25%	6.69%	6.29%	6.42%	6.41%
2 years	6.77%	6.56%	6.35%	6.55%	6.75%
3 years	6.65%	6.60%	6.59%	6.62%	6.60%
4 years	6.76%	6.64%	6.52%		
5 years	6.67%	#Average of "big four" banks			

Source: interest.co.nz, ANZ Research.

Key forecasts

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

2Mortgage Size ($000)	Mortgage Rate (%)													
	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	8.75
200	262	269	277	284	292	299	307	315	323	330	338	347	355	363
250	327	336	346	355	364	374	384	393	403	413	423	433	443	454
300	393	404	415	426	437	449	460	472	484	496	508	520	532	544
350	458	471	484	497	510	524	537	551	564	578	592	606	621	635
400	524	538	553	568	583	598	614	629	645	661	677	693	709	726
450	589	606	622	639	656	673	690	708	726	744	762	780	798	816
500	655	673	691	710	729	748	767	787	806	826	846	866	887	907
550	720	740	760	781	802	823	844	865	887	909	931	953	975	998
600	786	807	830	852	875	897	921	944	968	991	1,015	1,040	1,064	1,089
650	851	875	899	923	947	972	997	1,023	1,048	1,074	1,100	1,126	1,153	1,179
700	917	942	968	994	1,020	1,047	1,074	1,101	1,129	1,157	1,185	1,213	1,241	1,270
750	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	1,361
800	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	1,452
850	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	1,542
900	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	1,633
950	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	1,724
1000	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	1,814

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

	Actual			Projections						
Interest rates	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Floating Mortgage Rate	8.6	8.6	8.6	8.7	8.7	8.7	8.7	8.4	8.2	7.9
1-Yr Fixed Mortgage Rate	7.2	7.3	7.2	7.2	7.1	7.0	6.7	6.4	6.2	6.0
2-Yr Fixed Mortgage Rate	6.9	7.0	6.8	6.5	6.4	6.3	6.2	6.0	5.9	5.8
3-Yr Fixed Mortgage Rate	6.7	6.8	6.6	6.4	6.4	6.3	6.2	6.1	6.0	5.9
5-Yr Fixed Mortgage Rate	6.5	6.7	6.5	6.3	6.3	6.2	6.1	6.0	5.9	5.9

Source: RBNZ, ANZ Research

Economic forecasts

	Actual			Forecasts						
Economic indicators	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
GDP (Annual % Chg)	1.5	-0.6	-0.3	0.3	0.0	0.6	1.0	1.1	1.3	1.6
CPI Inflation (Annual % Chg)	6.0	5.6	4.7	4.0(a)	3.4	2.6	2.4	2.1	2.0	1.9
Unemployment Rate (%)	3.6	3.9	4.0	4.2	*Under review*					
House Prices (Quarter % Chg)	0.2	1.6	0.2	0.7	-0.4	1.1	1.5	1.3	1.2	1.2
House Prices (Annual % Chg)	-10.6	-5.0	-0.7	2.7	2.2	1.7	3.0	3.6	5.2	5.3

Interest rates	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Official Cash Rate	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.25	5.00	4.75
90-Day Bank Bill Rate	5.74	5.64	5.64	5.54	5.49	5.44	5.39	5.20	4.95	4.70
10-Year Bond	5.31	4.32	4.99	4.75	4.50	4.25	4.25	4.25	4.25	4.25

Source: ANZ Research, Statistics NZ, RBNZ, REINZ

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