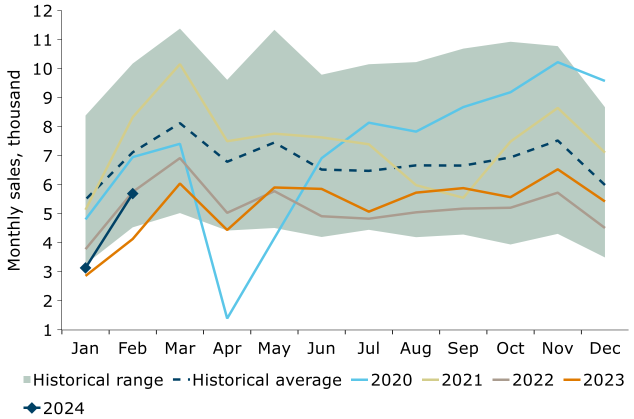
New Zealand Property Focus

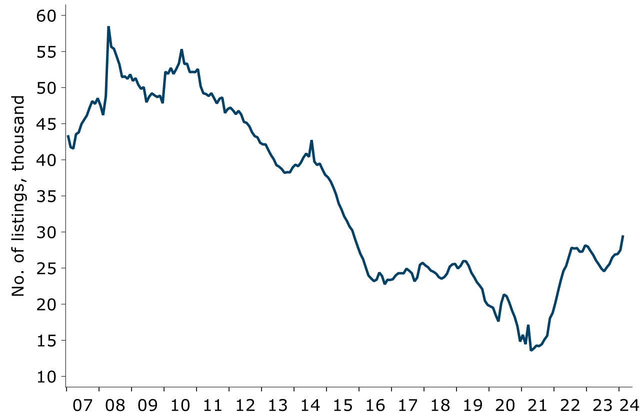
Buy vs rent

At a glance

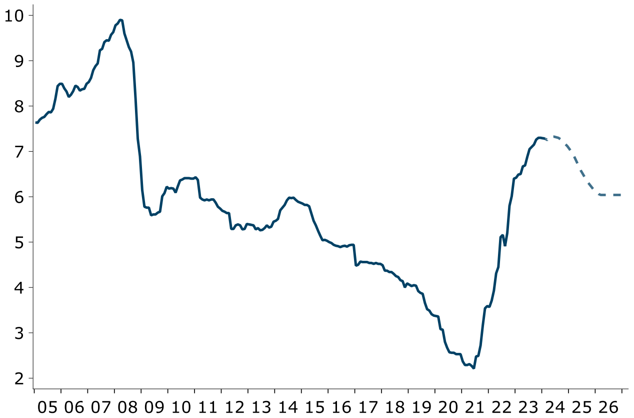
House sales picked up in February, but will that momentum last?



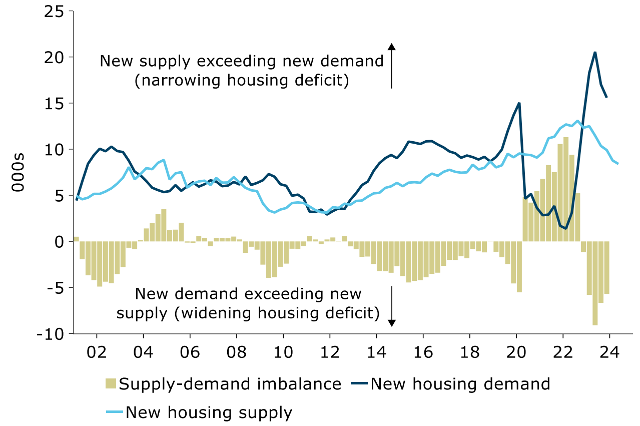
Rising inventories suggest the market isn't exactly tightening…



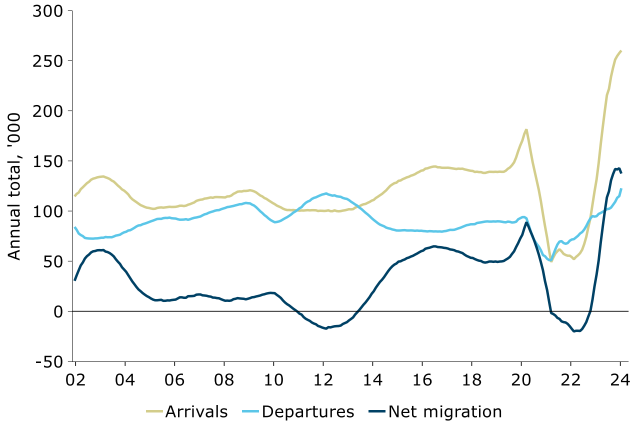
…but falling mortgage rates this year could change that



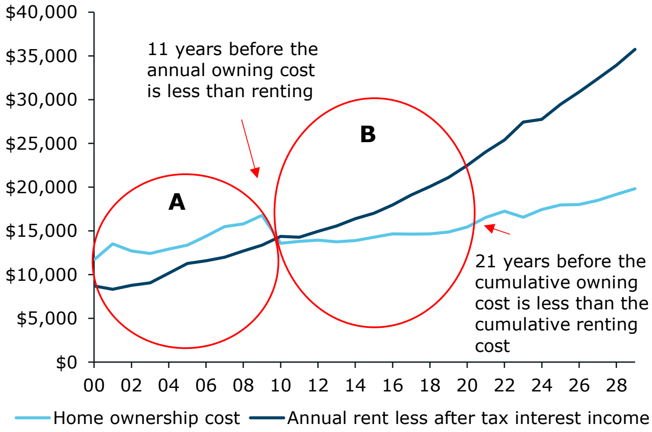
And we're certainly not building enough houses…



…to keep up with migration-driven population growth



In our feature article we compare renter costs to buyer costs



Source: REINZ, Stats NZ, RBNZ, realestate.co.nz, Macrobond, ANZ Research

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Contact

Miles Workman, Sharon Zollner, or David Croy for more details.

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Summary

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

Property Focus

The 2024 housing outlook seems to be getting more complicated by the day. Forward indicators for price pressures are soft overall, but certainly not one-way traffic. The macroeconomic drivers (eg household incomes and mortgage rates) are mixed; macroprudential and government-related tax and policy changes are broadly supportive, and the lift in housing supply is being thoroughly left behind by population growth. Anecdotal evidence is all over the shop. May as well call it now: our forecast is probably going to be wrong! But we couldn't tell you which side. Recent house price data has actually landed broadly in line with our expectation, so our prior outlook remains a reasonable punt at looking through what could ultimately end up a surprising year for the housing market. See the Property Focus section.

Feature Article: Rent vs buy

Is it better to buy a house, or rent it? It's a question a lot of people grapple with. As always, the ultimate answer is "it depends!" but in this article, we shed some light on the question by taking a long-term perspective. In what follows, we take data from 1999 to 2023, make a bunch of assumptions about the outlook, and compare cash flows of someone who buys a house versus someone who rents. The upshot? When borrowing at a high LVR (we assume 80%), servicing a mortgage and paying other ownership costs will generally be more expensive than renting in the first years of ownership. But eventually, homeownership costs will typically be lower than renting. Therefore, to the would-be borrower-buyer, what's best does depend to some degree on how long you are willing to wait to break even. But as we show, the amount of time that takes depends on a bunch of variables and assumptions, and how you frame what 'breaking even' actually means. Do you care about annual cash flows, cumulative cash flows, or discounted cash flows? And what about capital gains and opportunity costs? We discuss the lot. But it's important to note that the mythical "median person" in our analysis is likely to differ greatly from personal experiences. And as with most choices in life, whether big financial decisions work out well will inevitably partly depend on luck. See this month's Feature Article.

Mortgage Borrowing Strategy

Banks have continued to cut mortgage rates over the past month, with slightly larger falls seen this month compared to February. Banks have been emboldened by the RBNZ change of tone, with the latter's lower OCR track last month (after we published our last edition of this publication) a signal that further OCR hikes are unlikely. While the inflation battle is far from won yet, the threshold for hikes is clearly now very high, leaving the OCR likely to remain on hold "for a sustained period". Whether further relief comes for borrowers depends on the flow of data, especially on the inflation front. Q1 CPI data is due in mid-April, which we'll report on next month. Given the shape of the mortgage curve and the RBNZ's warning about remaining on hold for longer, we still see some benefit in fixing for a little longer, especially since those rates are cheaper. But many borrowers won't want to fix at what could prove to be the top, and we do forecast lower wholesale rates ahead, and they tend to lead mortgage rates. See our Mortgage Borrowing Strategy.

Property Focus

Summary

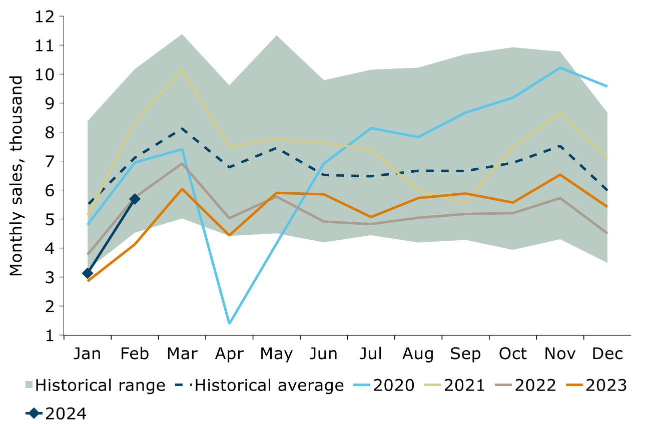
The 2024 housing outlook seems to be getting more complicated by the day. Forward indicators for price pressures are soft overall, but certainly not one-way traffic. The macroeconomic drivers (eg household incomes and mortgage rates) are mixed; macroprudential and government-related tax and policy changes are broadly supportive, and the lift in housing supply is being thoroughly left behind by population growth. Anecdotal evidence is all over the shop. May as well call it now: our forecast is probably going to be wrong! But we couldn't tell you which side. Recent house price data has actually landed broadly in line with our expectation, so our prior outlook remains a reasonable punt at looking through what could ultimately end up a surprising year for the housing market.

Mixed signals

House prices are already up 1.1% in 2024 following a 0.9% m/m and 0.2% lift in January and February respectively. Average through the last two months, and you could be forgiven for thinking that house price momentum is running at slightly above its historical pace of 0.5% m/m. That could be the case, but it's not our forecast.

While sales lifted sharply in February (up almost 38% compared to February last year), the overall level of sales remained below its historical average (figure 1). But even if we take the extra day out of the equation (owing to 2024 being a leap year), sales would still be up more than 33% y/y. And where sales momentum goes, prices tend to follow (usually with around a three-month lag), so it's certainly worth keeping an eye on the March data. Indeed, given overall trading volumes tend to lift in March, we think this will be a particularly important month for gauging the underlying market pulse.

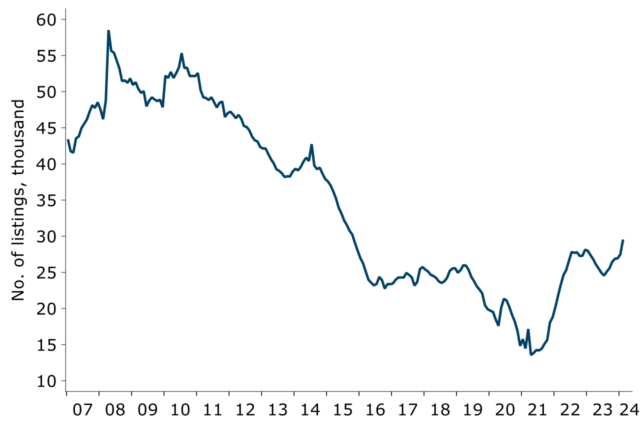
Figure 1. House sales up, but still below average



Source: REINZ, Macrobond, ANZ Research

But while recovering sales suggest the market may be gathering pace, there are lots of other data to suggest the underlying pulse is weakening. Houses have been taking longer to sell, up 2 days in February to 46 (well above the historical average of 39). Combine that with still-soggy turnover, and that's seen inventories continue to push higher. As at end-February, inventories were touching levels not seen since 2015. There's plenty of choice out there.

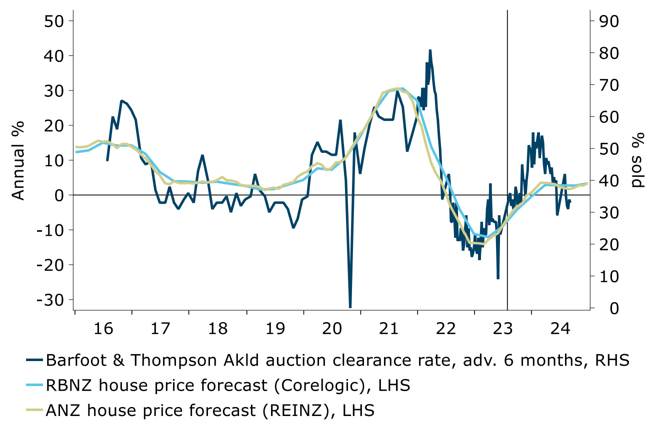
Figure 2. Inventories are on the rise



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

Meanwhile, auction clearance rates in Auckland have been volatile in recent months, but with a tentative downward trend emerging. But the data will need to settle down before we draw any conclusions from it.

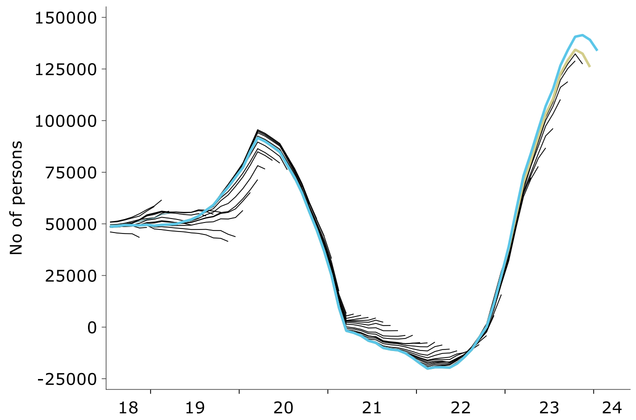
Figure 3. Auction clearance rates and house price forecasts



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

Meanwhile, New Zealand's ability to house all its people continues to deteriorate. Migration is surging, though the latest read on these data is a little mixed. January's monthly net migration inflow dropped like a stone, from an estimated net inflow of more than 10k people in December to a touch under 3k come January. But at the same time, the upward revisions to history that accompanied the January release means the estimated recent peak in annual net inflows is now around 5k people higher than previously (figure 4). With revisions this large, we require more data before concluding that the migration cycle is turning faster than our expectation.

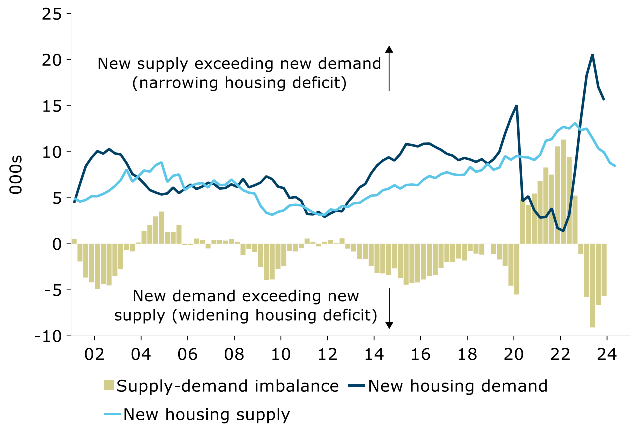
Figure 4. Annual net migration vintages



Source: Stats NZ, Macrobond, ANZ Research

But here's what we do know. The combination of surging migration-induced population growth alongside slowing residential construction means New Zealand's housing deficit is widening sharply. And that can only support house prices.

Figure 5. Housing supply-demand imbalance

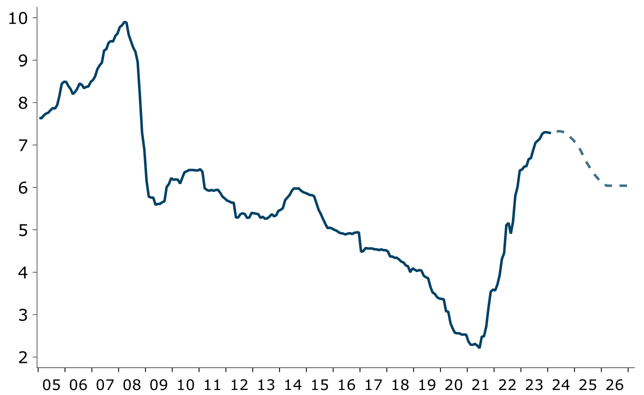


Source: Stats NZ, Macrobond, ANZ Research

And what about the other macroeconomic drivers of housing? On the one hand, we (and everyone else) are forecasting the unemployment rate to rise over the coming year; we're picking a peak of 5.5% by the end of 2025. As the labour market loosens it's probably going to see households question their job security, which is likely to weigh on appetite to borrow (and therefore buy). Meanwhile, a rising unemployment rate also tends to be associated with rising non-performing loans, which could see a pickup in house sales, adding to the supply of housing in the secondary market (ie existing dwellings opposed to newly built houses) at a time when demand may not be very strong.

But on the other hand, fixed mortgage rates appear to have peaked, and if there's one thing we (and everyone else) underestimated in the post-COVID housing surge, it was the impact of lower interest rates on house prices (largely because we were also expecting a significant hit to household incomes that never eventuated). The suspension of LVR limits would have had a big impact too and it's difficult to separate out the impact of things that happened all at once. But it was quite something how far house prices rose even as population growth slowed. Based on our OCR outlook (on hold until mid-2025), our expectation is that the one-year mortgage rate could fall more than 100 basis points over the next 18 months or so. If household incomes remain on the robust side of expectations, we certainly can't rule out that that could have a more potent impact on house prices than we expect.

Figure 6. One year mortgage rate forecast



Source: RBNZ, Macrobond, ANZ Research

Then there's the looming policy changes to consider. On the macroprudential side, debt-to-income (DTI) limits are expected to be introduced shortly (but at a level that is not binding), while LVR restrictions are expected to be eased slightly. Our modelling suggests investor LVR limits do matter for house prices, suggesting this tweak to the policy mix will be mildly positive for house prices in 2024.

On the housing-related Government policy front, the two changes that stand out are the phased reinstatement of interest deductibility for investors and the reduction of the Bright Line test from 10 years to 2, before which the house is deemed to have been bought for capital gains if sold, making such gains taxable. The former is a clear positive for the net present value of a leveraged housing investment. The latter takes effect 1 July and makes housing a more liquid investment, and therefore more attractive, all else equal (eg you may be willing to buy a house as an investment closer to retirement than under the 10-year rule). The impacts on house prices will be difficult (read: impossible) to quantify in real time, but again, our previous modelling shows that when these housing policies were tightened (including the CCCFA, also slated for a review) there was a notable negative impact on quarterly house price inflation.

Cleary, there are many moving parts to weigh up for the outlook: mixed (but still generally soggy) forward indicators, a changing macroeconomic backdrop, macroprudential and other housing-related policy changes, and of course, a widening housing supply deficit. With so many moving parts, it's fair to say that our forecast is netting out some big hitters when it comes to what tends to impact house prices. The range of possible outcomes is probably considerably wider than the range of forecasts out there (the same goes for interest rates and indeed most things!).

With February's read on house prices coming in as expected, we maintain our forecast for a modest gain in prices over 2024 (up 3% y/y). This includes an expectation that the next few months will be as soft as many of the forward indicators suggest, and that momentum will gradually pick up over the second half of the year as downward pressure on mortgage and looser housing policy offsets the softening labour market.

Housing market indicators for February 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	$722,500	5.5	2.2	2.9	0.4	145	-4%	64
Auckland	$1,031,820	2.5	0.1	3.9	0.5	1,911	+13%	44
Waikato	$742,333	-3.6	-0.2	0.3	0.5	508	-4%	49
Bay of Plenty	$803,823	0.2	-0.8	-1.2	-0.3	354	-2%	51
Gisborne	$585,107	7.9	-1.3	-1.3	-0.9	43	+29%	56
Hawke's Bay	$672,099	0.6	-1.8	-1.3	-0.9	194	+18%	45
Manawatu-Whanganui	$531,621	0.3	0.8	1.9	0.7	271	+3%	49
Taranaki	$597,906	4.5	5.2	4.3	1.1	123	-4%	53
Wellington	$770,823	1.2	0.2	3.1	0.9	593	+6%	40
Tasman, Nelson & Marlborough	$715,712	-3.3	0.9			227	+33%	47
Canterbury	$687,751	5.4	-0.2	5.9	1.3	894	+7%	37
Otago	$660,198	-3.0	1.3	8.2	2.8	348	+5%	47
West Coast	$319,654	-8.5	-8.7	0.8	1.4	26	-10%	40
Southland	$452,191	4.6	3.3	5.3	2.0	143	+7%	41
New Zealand	**$794,929**	**3.2**	**0.1**	**3.4**	**0.8**	**5,783**	**+7%**	**46**

Summary

Is it better to buy a house, or rent it? It's a question a lot of people grapple with. As always, the ultimate answer is "it depends!" but in this article, we shed some light on the question by taking a long-term perspective. In what follows, we take data from 1999 to 2023, make a bunch of assumptions about the outlook, and compare cash flows of someone who buys a house versus someone who rents. The upshot? When borrowing at a high LVR (we assume 80%), servicing a mortgage and paying other ownership costs will generally be more expensive than renting in the first years of ownership. But eventually, homeownership costs will typically be lower than renting. Therefore, to the would-be borrower-buyer, what's best does depend to some degree on how long you are willing to wait to break even. But as we show, the amount of time that takes depends on a bunch of variables and assumptions, and how you frame what 'breaking even' actually means. Do you care about annual cash flows, cumulative cash flows, or discounted cash flows? And what about capital gains and opportunity costs? We discuss the lot. But it's important to note that the mythical "median person" in our analysis is likely to differ greatly from personal experiences. And as with most choices in life, whether big financial decisions work out well will inevitably partly depend on luck.

First, the elephant in the room

Let's start with some whopping caveats. First, renting or buying is an emotional decision as well as a financial one. Second, it's difficult to generalise, as everyone's situation is different. And third, for regrettably many people in New Zealand, buying a house is not even remotely within the realms of possibility, so dire is housing affordability.

We get all that, but to say anything at all, we must make some assumptions, even if that means our analysis won't precisely represent choices faced in real life.

In what follows, our aim isn't to make value statements about what situation is 'best'. Rather, our intention is to illustrate how the situation of the lifetime renter might differ from that of the buyer. Our analysis is based on observed and forecast median house prices, median rents, median income and average mortgage rates, and no one could possibly tick all those boxes, so it certainly should *not* be taken as financial advice! That will quickly become clear once you've perused the following assumptions, which are extremely unlikely to all hold true for any given individual.

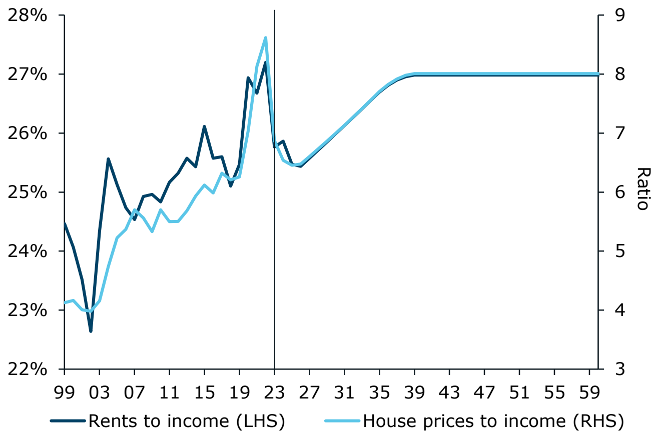
Second, our assumptions

We can't do this analysis without making a lot of assumptions, and here are the main ones:

- We assume the representative person in our analysis is in a financial position to choose between buying a house or continuing to rent. As noted, for many people that unfortunately won't be remotely true.
- We assume a person has a deposit equal to 20% of the median house price at the time, and their income and credit history is not a constraint on obtaining an 80% LVR home loan. If they purchase a house, they pay the median sale price at the time, structuring the loan over 30 years, fixing at 1-year intervals at the going rate. If they continue to rent, they will pay the median rent each year.
- In our cash flows analysis, we assume the renter uses the interest income from their savings (ie the 20% deposit) to help pay the rent (since they're not putting it towards a deposit). When we extend the analysis to compare housing capital gains to the gain on savings, we assume interest income is reinvested and that the difference in annual cash flows between renting and owning is added to their savings, so as to compare apples with apples.
- For the would-be buyer, we assume home ownership costs (rates, insurance, maintenance etc) are 1% of the median house price at the time. That means on the relatively rare occasions when house prices fall, these costs also fall. Although rates and insurance costs rarely fall, homeowners do have the option to tighten their belts on maintenance (perhaps DIY) during periods when their capital gain is going backwards. Call it a 'wealth effect'. In practice, of course, rates and insurance are currently rising strongly, and climate change suggests the latter at least is going to be persistent. But we abstract from that in this analysis. Renters wouldn't be immune either, of course, insofar as landlords are able to recoup these higher costs via rents.
- We assume the return on savings is 100 basis points below the going 1-year mortgage rate, and that interest income is taxed at 30%.
- For net present value calculations, we apply a flat discount rate of 6%. Ideally, we'd plug in the risk-free rate (for example, the 10-year government bond yield) at the time for each period, but a flat rate works well enough for our illustrative purposes. Results in dollar terms will vary meaningfully based on your chosen discount rate, but the overall conclusions generally don't.

- All our analysis is done in March years. From 1999 to 2023, we use actual outturns for key variables (eg mortgage rates, median house prices, median rents, median income). From 2024-2026 we use our forecasts for these variables, noting that the year to March 2024 can almost be classified as an "actual" given we have most of the year's data.
- Beyond that, we assume median household incomes grow at their historical average pace (a little over 4.5% y/y). Between 2027 and 2035 we grow median house prices and rents by their historical growth rate (rents around 5% y/y; house prices around 6.5%), but if we run that out too far, rents and house prices relative to incomes explode! So from 2035 onwards we transition both rents and house price inflation to match the pace of income growth. In practice, this stabilises the house price to income ratio around 8 times, and the rents share of income a touch above 27% (both higher than their latest read, but below their historical high).

Figure 1. Rents and house price to income ratio assumptions



Source: REINZ, MBIE, Stats NZ, ANZ Research

- Beyond the end of our forecasts in 2026, we simply hold the 1-year mortgage rate stable at 6% (its 1999-2023 average).
- And lastly, because a mortgage is generally such a long commitment (ie we assume 30 years), it's important to note that even our estimates of cash flows from 1999 require assumptions about the future (eg the 1999 loan in our analysis isn't paid off until 2029). Fast forward to 2024, and our calculations are entirely reliant on assumptions about the future.

Phew, that's a lot of assumptions, and all of them will be wrong, but there will be unders and overs and they'll serve for illustrative purposes.

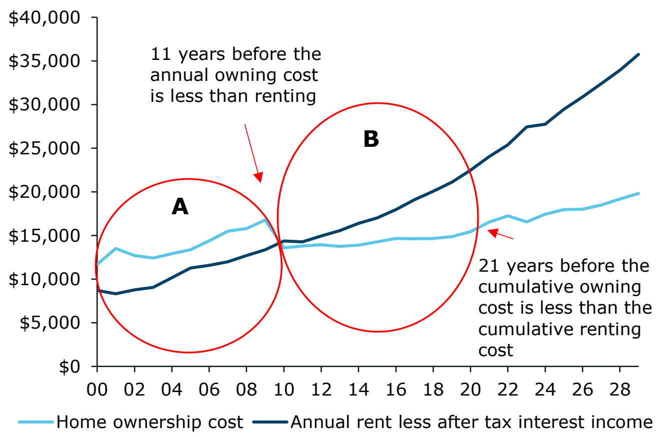
How long before the homeowner is in a better cashflow position than the renter?

Let's start at the beginning (of our data set): 1999. The median house price was a little less than $170k, meaning we assume a deposit a little under $35k.

Figure 2 shows that at the end of year 1 (based on all our assumptions), the total cost of owning a home (mortgage payments and other housing costs) was a touch below $12k. Conversely, the median renter (who also used their interest income to help pay the rent) would pay a little less than $9k in year 1. That is, at the end of year one, it was around $3k more expensive to have bought a house than it would have been to rent. That situation, where renting was cheaper than buying, was sustained until year 11, beyond which buying became cheaper.

In other words, from a pure cash flows perspective (not discounted, and not thinking about capital gains nor what else one could have done with the money) had our representative person purchased at the median house price in 1999 they would have to wait until 2010 before their annual homeownership cost was cheaper than renting. On a cumulative basis (ie summing the annual cost of renting vs buying), it would have taken 21 years (2020) before the owner more than recouped their initially higher ownership costs. In figure 2, this is the same as asking how long it takes before the (negative) gap in period A is recouped by the (positive) gap in period B.

Figure 2. 30 years of annual outflows from 1999

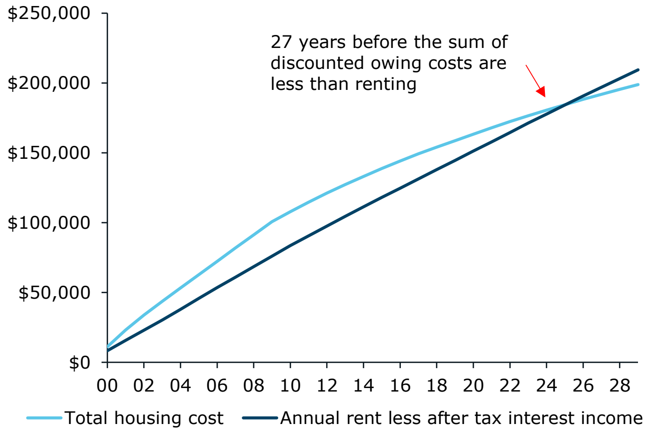


Source: REINZ, MBIE, Stats NZ, ANZ Research

Beyond the 30-year loan horizon (ie once the loan is paid off), there is a logical step change in favour of owning in cash flow terms. Mortgage-free, woohoo!

In practice, a dollar in the future is not worth as much as a dollar in the past (even ignoring inflation), as you could invest a dollar and get more than a dollar back. Therefore, it is appropriate to *discount* these cashflows to reflect that. Using a flat discount rate of 6%, the cumulative breakeven doesn't occur until year 27 (figure 3), rather than year 21. That's before considering capital gains, but we'll do that separately.

Figure 3. Discounted cumulative cost

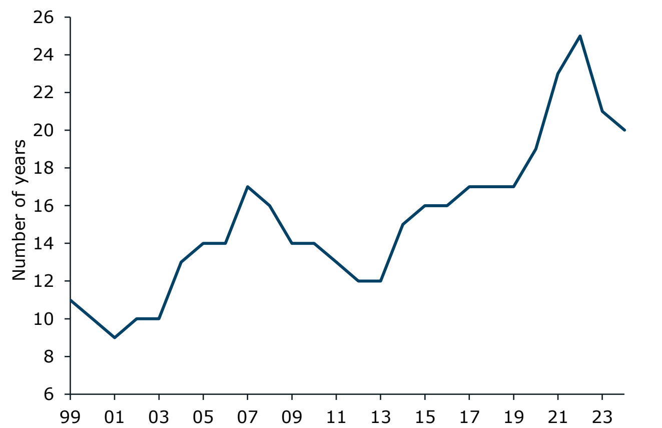


Source: REINZ, MBIE, Stats NZ, ANZ Research

Now that we've discussed the rent vs buy situation as at 1999, let's look at how some of these outcomes have evolved over the years. That is, let's plug all our renter vs buyer assumptions into the data we have on median house prices, rents and interest rates over the years and combine these with our projection assumptions. That will tell us how the time to break even has changed over the years.

Figure 4 shows that from an annual cost comparison perspective (no discounting), the amount of time it has taken to break even has trended higher over time. The trend is largely owing to rising house prices requiring larger mortgages, while the volatility in between also reflects other factors (eg rents inflation and interest rates).

Figure 4. Years until annual ownership costs are less than annual rents



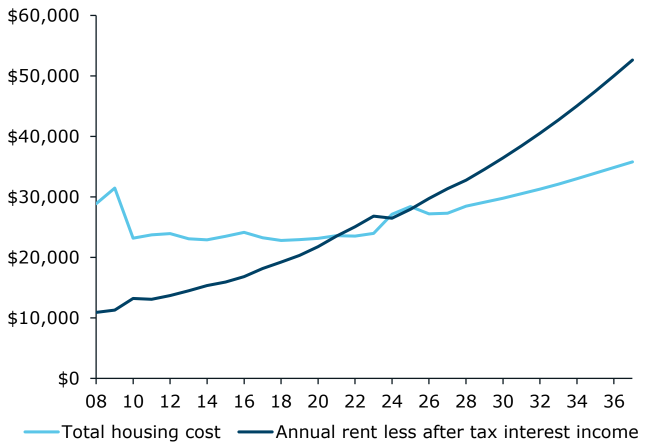
Source: REINZ, MBIE, Stats NZ, ANZ Research

The 'low' for a would-be buyer was in 2001, when the wait was just 9 years before annual ownership costs were less than renting costs. In fact, buying in 2001 under our scenario conditions has the same breakeven date (2010) from an annual cost perspective as buying in 1999.

The high in the series is recorded for a buyer in 2022, which, based on house prices at the time (and our assumptions for rates, rents etc over the next couple of decades), suggests it will take 25 years (ie 2047) until annual home ownership costs are lower than renting costs.

Roll forward to now (2024), and the fall in house prices since 2022 means it will now take 'just' 20 years (2044) to break even. But a word of caution: by the time you get to 2024, the analysis becomes very dependent on our projection assumptions over the next couple of decades or so, whereas the earlier we go back in our analysis (eg 1999), the more actual data we have to make our computations.[1]

Figure 5. 30 years of annual outflows from 2007



Source: REINZ, MBIE, Stats NZ, ANZ Research

Let's now turn to the cumulative story and ask how long an owner has had to wait under our scenario conditions before the sum of annual ownership costs is smaller than the sum of annual renting costs.

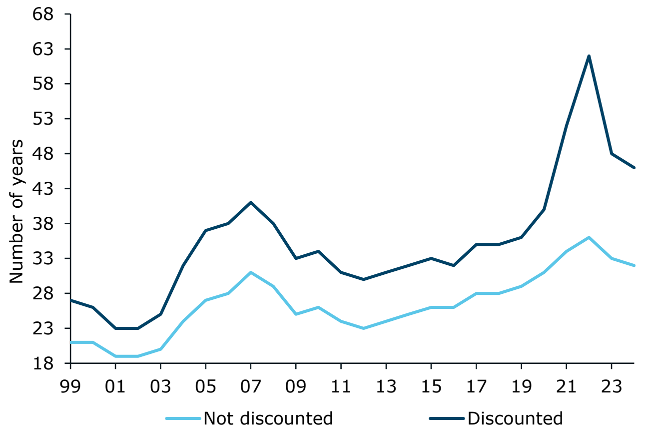
Figure 6 shows that once again, the low was recorded in 2001 (and 2002) when it took 19 years before the sum of ownership costs became smaller than the sum of renting costs. That is, the 2001 buyer broke even on a cumulative basis in 2020.

[1] There have been years where the owner finally breaks even from an annual cash flows perspective, only to have a rise in mortgage rates send them back into the red for another year or two. When this has happened, we present our calculations as the sum of all years that the owner is in the red, and then add one (given we're interested in how long it would take to breakeven).

Once again, high house prices followed by higher mortgage rates (and combined with our projection assumptions), means that the 2022 buyer represents the series peak: 36 years (ie 2058) until the sum of ownership costs are less than the sum of renting costs – and we haven't even got to discounting these cash flows yet.

Apply a 6% discount rate to these cash flows and it would take 62 years (2084) to break even on a cumulative basis after buying in 2022. As at 2024, under our scenario conditions, that had dropped to 46 years (2070), still high relative to history. At this point, you might be asking why on earth would someone who cares about the time value of money even consider buying a house if it's going to take them 40+ years to break even on a cumulative basis! But we haven't addressed capital gains yet.

Figure 6. Years until cumulative ownership costs are less than cumulative renting costs



Source: REINZ, MBIE, Stats NZ, ANZ Research

But before we consider a scenario with capital gains (and the return on savings), lets quickly summarise where we've got to:

- From a straight annual cash flow perspective, buying a house at the median price with an 80% LVR loan will tend to cost more than renting (at the median rent) for the first few years. Through this lens, the answer to the question of whether buying is cheaper than renting really comes down to how long you are willing to wait. And as housing has become less affordable over time, that wait has got longer.
- To recoup the sum of all your annual ownership costs compared to renting, it could take around 1.8 times longer (on average) to break even under our scenario conditions compared to the straight cashflow measure.
- And if you consider the time value of money, it'll take longer still (around 2.4 times longer on average based on our analysis). And in some years, a would-be buyer (say a 40+ year old in 2022) may not breakeven in a discounted (or non-discounted for that matter) sense within their lifetime. Now that's grim. But, unfortunately, that's the reality of housing unaffordability: high house prices relative to incomes means it generally takes longer to save the 20% deposit (something our analysis does not address).

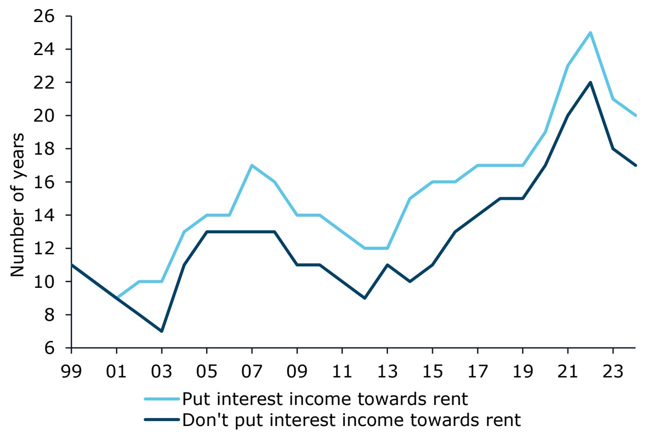
But for many, homeownership isn't just about breaking even from a discounted, non-discounted, or simple annual cashflow perspective. There's also the capital gain on the house to think about: something you can leave to the kids, or a charity, or "cash in" and consume it in your golden years.

Capital gains vs the return on savings

To factor in capital gains, we've altered our scenario conditions slightly. For the renter, we assume they could afford to service a mortgage, and choose to put the difference between that cost and their rent towards their savings (but only for the years that this difference is a positive number). Further, we no longer assume that after-tax interest income is put towards the rent. Rather, interest gets reinvested to grow the renter's savings balance (the 20% deposit). The impact on our breakeven cashflow analysis means renting costs more, and therefore it doesn't take as long for ownership costs to drop below renting costs.

Figure 7 shows the impact of this assumption change. On average, not using interest income to reduce rents means annual ownership costs fall below rents around 2-3 years earlier on average (ie ownership costs are unchanged, but net renting costs are now higher). Note, given our analysis counts in full years, there are some years when the two rental funding assumptions yield the same result (ie the interest income isn't enough to move the breakeven dial when presenting in full years).

Figure 7. Years until annual ownership costs are less than renting costs



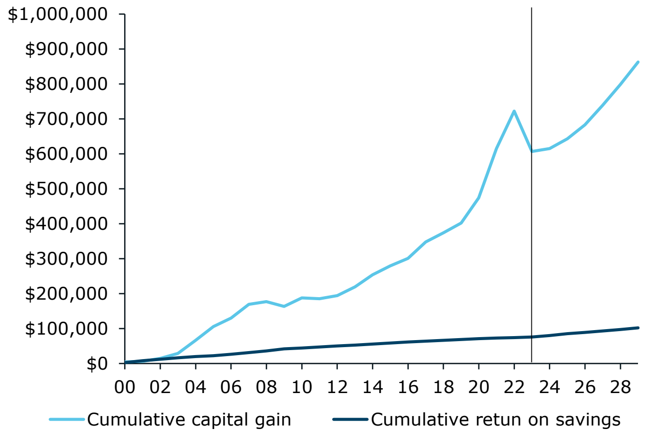
Source: REINZ, MBIE, Stats NZ, ANZ Research

So let's go back, once again, to 1999, where under our new assumptions it still takes 11 years (2010) for annual ownership costs to fall below renting costs, but 17 years (2016) on a cumulative basis (was 21 years under our previous assumptions), and 20 years (2019) if we discount at 6% (was 27 years under our previous assumptions).

So now that we've assumed the renter grows their deposit, rather than using it to help pay rent, thereby growing their wealth, let's see how things look for the home buyer when we consider capital gains, and the impact that has on wealth.

The theoretical renter under our updated scenario conditions would see their savings account grow from a little less than $35k in 1999 to a little more than $135k in 30 years' time. Meanwhile, over the same timeframe, the theoretical homeowner started with a house worth a little less than $170k, and by the time they have paid off the home loan it's worth a little more than $1 million: the savings balance has grown around 270% over 30 years (based on our assumptions), but the house has grown around 500% (and that higher growth rate is applied to an asset that's worth more from the beginning). In level terms, it's almost a $900k difference by the end of year 30 – that's the power of leverage, tax-free gains on houses, and the fact that on average, the median house price has grown a little faster than the return on savings rate.

Figure 8. Cumulative gain on house purchased in 1999 vs gain on savings balance

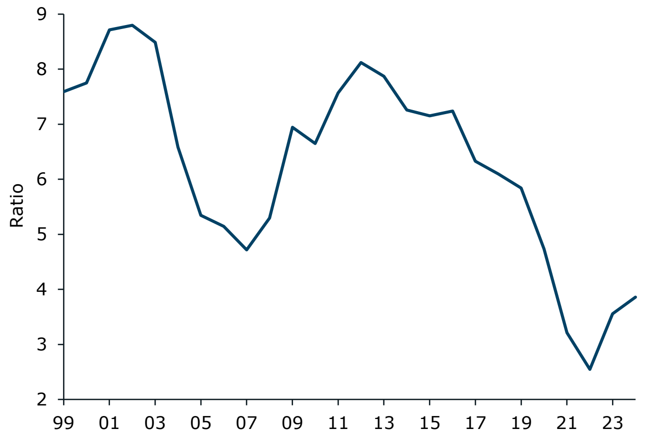


Source: REINZ, MBIE, Stats NZ, ANZ Research

To present how this dynamic has changed over time, we compute the ratio of the house price to the savings balance in 30 years' time (ie once the home loan is paid off and the house fully belongs to the owner). For example, if our representative agent in 1999 bought a house, by the time 2029 concluded that house would be worth 7.6 times more than their deposit had they decided to rent and maintain their savings balance as discussed instead. Discounting makes some difference to these calculations, but not enough to change the overall conclusion that a renter/saver will struggle to grow their wealth the same way as the leveraged homeowner.

One key takeout here is that getting on the so-called "property ladder" (which has been a "property snake" in some countries in the past) at the right time makes a huge difference to how much larger the housing asset will be in 30 years' time compared to the counterfactual savings balance. Based on our projection assumptions, a buyer in 2024 would end up with a house worth 3.9 times their counterfactual savings balance in 30 years. Of course, this would be higher if our assumption for house prices over the longer run was not contained by income growth, but we struggle to see how house prices relative to incomes can keep drifting higher forever. Or naturally it will be lower if for whatever reason future house price gains are smaller than our assumptions.

Figure 9. House price to savings ratio in 30 years



Source: REINZ, MBIE, Stats NZ, ANZ Research

All in all, when we look at the question of whether renting makes more sense than buying, it quickly becomes a question of what lens you apply: simple cash flows, cumulative cash flows, discounted cash flows, and/or expected capital gains vs maintaining a savings balance. But ultimately (based on our assumptions – the most important being that rents and house prices tend to go up and thus buyers benefit from leverage), it largely becomes a question of time before you'd be better off having bought a house. Importantly, however, our analysis is absolutely *not* a guarantee that housing is a one-way bet. Mortgage rates could end up higher for longer; house prices could undergo a sharp and/or lengthy decline at some point; and there's always the threat of losing your income (ie being made unemployed) at the worst possible time (when house prices are falling), which could leave a would-be buyer forced to sell and book a capital loss.

Indeed, those who bought at the recent peak of the housing cycle know full well that it'll probably take them longer to breakeven than if they had delayed the purchase, and by the time they have the mortgage paid off their capital gain (which isn't exactly a liquid asset) could be a historically small multiple of their counterfactual savings balance, and if our assumptions about the outlook are horribly wrong, they could end up with a multiple less than 1.

The big takeout of this analysis is that those at a crossroads between buying and renting have a lot of factors to consider, and a lot of assumptions to make. In reality, it isn't clear what measures house buyers have in their heads when they make such decisions, and some might struggle to quantify their expectations for key variables such as rents, interest rates or what an appropriate discount rate is. But in practice, expected capital gains are probably a key part of the reckoning for most buyers, though many might struggle to tell you their assumptions on that front too. But explicitly or not, these are the considerations that go into a financial decision like this, and in this paper we have attempted to formalise them by coming at it in a few different ways.

We're not saying one measure is better than the other, as they all frame the question slightly differently. But whatever measure you use, with housing affordability so stretched, it's likely going to take a pretty long time to reach cashflow 'breakeven' when buying a house today. That suggests to us that most people are still counting on (leveraged, tax free) capital gains to some degree when they make the decision to buy, as well as the non-financial benefits of ownership, such as security of tenancy and other wellbeing aspects that are not captured in this analysis.

Mortgage borrowing strategy

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Summary

Banks have continued to cut mortgage rates over the past month, with slightly larger falls seen this month compared to February. Banks have been emboldened by the RBNZ change of tone, with the latter's lower OCR track last month (after we published our last edition of this publication) a signal that further OCR hikes are unlikely. While the inflation battle is far from won yet, the threshold for hikes is clearly now very high, leaving the OCR likely to remain on hold "for a sustained period". Whether further relief comes for borrowers depends on the flow of data, especially on the inflation front. Q1 CPI data is due in mid-April, which we'll report on next month. Given the shape of the mortgage curve and the RBNZ's warning about remaining on hold for longer, we still see some benefit in fixing for a little longer, especially since those rates are cheaper. But many borrowers won't want to fix at what could prove to be the top, and we do forecast lower wholesale rates ahead, and they tend to lead mortgage rates.

Mortgage rates are down slightly again this month, with many banks cutting rates following the RBNZ's dovish February MPS, when they lowered their OCR projections. That was seen by financial markets as a sign that further hikes are unlikely, which has had a knock-on impact on longer-term wholesale interest rates and mortgage rates.

While the future is, by definition, still uncertain, for their part, the RBNZ are treading cautiously. While their February OCR track is lower than the November track throughout the 4-year projection period, their vibe is consistent with a preference for keeping the OCR on hold for *longer* rather than taking it *higher*. While that may not sound like a significantly better outcome for borrowers (OCR cuts would clearly be more beneficial for borrowers!), given the tendency of markets to front-run the RBNZ, it's not bad news. So, while we don't expect the OCR to be cut for another year or so, we do expect 1 to 5yr wholesale rates to continue drifting lower over the year, as markets anticipate eventual cuts. And if recent experience and past cycles are anything to go by, markets are likely to over- (rather than under-) anticipate cuts, to the benefit of borrowers, as can be seen in our mortgage rate projections on page 14.

In the more immediate future, we expect markets to take their steer from data (especially inflation data), as that's what will ultimately guide the RBNZ. The main near-term focus is on Q1 inflation data, due on 17 April. We'll have more to say next month, after the data is in hand. But the monthly price data so far has suggested upside risk to the RBNZ's forecast.

In terms of choices for borrowers, they are the same as they have been for some time: pay more for a shorter-term fix or pay a little less to fix for longer (noting floating is an expensive choice). While many borrowers (and the media) are singularly focussed on fixing for shorter, confident that cuts are around the corner, we are slightly more cautious. It's still unclear when and by how much the OCR will fall and do see merit in spreading borrowing over several terms. For many, it's less about being 100% right and more about avoiding nasty surprises.

But let's look at breakevens and compare, say, fixing for 1yr to fixing for 2yrs. As table 1 shows, for back-to-back 1yr fixes to work out cheaper than fixing for 2 years at 6.82%, the 1yr rate needs to fall from 7.25% to 6.38% or below in a year's time. That's a bigger fall than we are projecting (based on our wholesale rate forecasts, we see it at around 6.9% in a year's time), suggesting that a slightly longer fix may be a better choice (also noting that 2yrs is 0.43% cheaper too). But readers who think rates will fall faster, or don't want to risk the regret that might go with fixing "at the top" if rates fall, that may be a price worth paying in order to be able to participate in lower interest rates, should they fall more quickly than we anticipate.

Figure 1. Carded special mortgage rates^

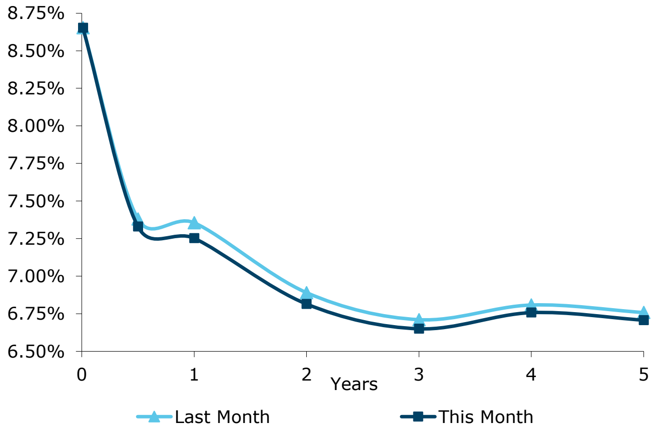

Table 1. Special Mortgage Rates#

		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%	6.55%	6.40%
1 year	7.25%	6.69%	6.38%	6.47%	6.32%
2 years	6.82%	6.58%	6.35%	6.55%	6.70%
3 years	6.65%	6.60%	6.59%	6.65%	6.64%
4 years	6.76%	6.66%	6.57%		
5 years	6.71%	#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	8.7	8.7	8.7	8.7	8.7	8.4	8.2	7.9
1-Yr Fixed Mortgage Rate	7.2	7.3	7.3	7.3	7.3	7.1	6.9	6.6	6.3	6.1
2-Yr Fixed Mortgage Rate	6.9	7.0	6.8	6.9	6.7	6.6	6.5	6.4	6.2	6.1
3-Yr Fixed Mortgage Rate	6.7	6.8	6.7	6.7	6.7	6.6	6.5	6.4	6.3	6.3
5-Yr Fixed Mortgage Rate	6.5	6.7	6.7	6.7	6.7	6.6	6.5	6.4	6.3	6.3

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	3.5	2.6	2.5	2.3	2.2	2.1
Unemployment Rate (%)	3.6	3.9	4.0	4.2	4.4	4.6	5.0	5.2	5.3	5.4
House Prices (Quarter % Chg)	0.0	1.6	0.4	1.1	-0.1	0.6	1.4	1.3	1.2	1.2
House Prices (Annual % Chg)	-10.6	-5.0	-0.7	3.1	2.9	1.9	3.0	3.2	4.6	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	4.56	4.75	4.50	4.25	4.25	4.25	4.25	4.25

Source: ANZ Research, Statistics NZ, RBNZ, REINZ

Contact us

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Sharon Zollner
Chief Economist

Follow Sharon on Twitter
@sharon_zollner

Telephone: +64 9 357 4094
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
@ANZ_Research (global)

David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com

Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com

Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, economic developments, GDP and activity dynamics, fiscal and monetary policy.

Telephone: +64 21 661 792
Email: miles.workman@anz.com

Henry Russell
Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553
Email: henry.russell@anz.com

Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com

Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com

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