

Input to your Strategy for Adapting to Challenges

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Three decade investor urgency is over

One of my key themes for some years now has been of a slowing in average annual housing capital gains for a variety of reasons. That slowing has already cemented itself in.

On average between 1992 and 2019 house prices in New Zealand rose 6.8% per annum using the REINZ's nationwide House Price Index. Since then, after the surge during the pandemic, the collapse afterwards, and the settling down since, average gains over 2020-2025 have averaged the 5% per annum I started mentioning some years back would likely be the new average gain going forward.

We have hit the long run already.

One of the factors contributing to this new long run situation is a pullback in the role of investors in the market which started in the mid-1990s.

Back then the combination of newly relaxed immigration rules, lower interest rates, construction restrictions, and exhortations to prepare for retirement, saw many people with no history of property investment purchase properties to rent out.

Accelerated house price gains, the strong media focus on profits made, and the development of an investment advisory industry encouraged average Kiwis to feel they were silly if they did not purchase an investment property as soon as financing would allow.

But now things have changed, and although there will remain a great number of people holding and interested in purchasing a residential property as an investment as was the case before the 1990s, the visceral need felt by the masses to make a purchase has greatly diminished.

There are many factors behind this change and here are a few.

1. Debt to income rules restricting investor access to funding.
2. Ring fencing of property losses away from normal household income for tax purposes.
3. Reduced depreciation allowances.
4. Higher costs of running a rental property including for council rates, insurance, maintenance, and meeting Healthy Homes requirements.



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5. Rule changes favouring tenants.
6. Absence of the structural lift in net migration flows seen in the 1990s.
7. Rule changes restricting foreign buying to Australians and Singaporeans for all but the most expensive houses.
8. Absence of downwardly trending interest rates from 1992-2021.
9. Absence of new official exhortations to invest and prepare for retirement which proliferated in the 1990s.
10. Increased availability of residential zoned land.
11. Increased construction of dwellings, especially townhouses courtesy of new density rules.
12. Greater awareness of alternative investments to prepare for retirement including KiwiSaver, managed funds generally.
13. A multi-year period is now underway of older investors selling as planned in order to fund retirement.
14. Extra selling is being undertaken by older investors as retirement is proving to be more expensive than anticipated (rates, food, insurance, electricity etc.).
15. Commonly reduced expectations for long-term capital gains.
16. Expectations/fears of tax on capital gains eventually coming in.

Then there are some factors which will pass and are not necessarily ongoing and structural in nature.

1. A shortage of tenants.
2. An over-supply of townhouses in Auckland.
3. Interest rates for new borrowers are going up again.

Does this mean housing as an investment asset is dead? Not at all. But the FOMO and media-driven feeling that one is silly not to invest in property because tax free capital gains are easy has greatly diminished.

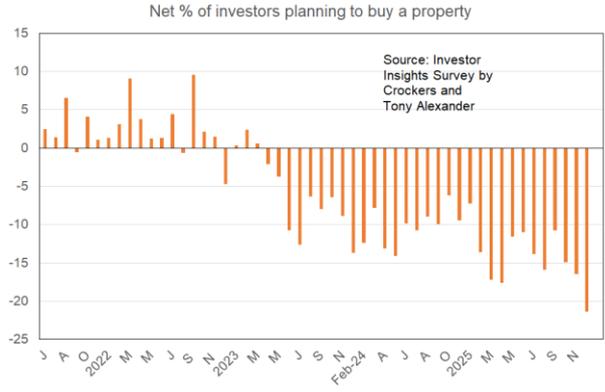
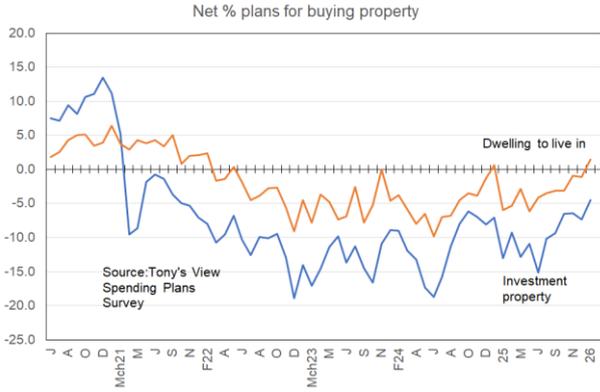
Experienced, long-term investors with multiple properties will adjust and remain. That has probably already happened. Doer-upper flippers (a vital part of the housing eco-system) will also remain. But fear of missing out-driven buying by the masses has permanently declined after a three decade surge.

Note. Few people any longer talk about "rentvesting" for young people looking to gain a housing foothold. Also, promoters of property investments are failing to attract numbers to their seminars that they hoped for. A weeding out of the inferiors in this investment-promotion sector has been happening for a while and more is to come

I can gain some insight into purchasing and selling trends of investors from my monthly surveys and here are some of those insights.

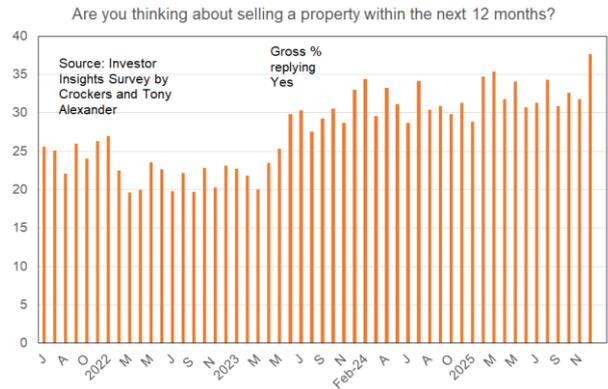
First, there is the Spending Plans Survey which I discussed here last week. It captures people's intentions of buying residential property to live in and to rent out.

This graph shows both measures in net positive terms. We can see that investment intentions are negative and much weaker than for home ownership plans. But we can also see that the investment buying reading is not really out of line with the usual relationship with occupancy plans. Investment is not dead.



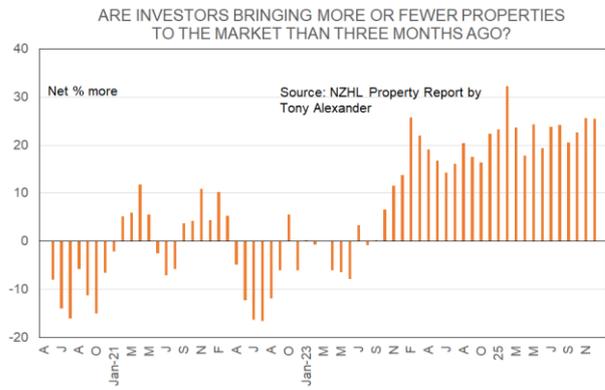
But from my survey of residential property investors sponsored by Crockers Property Management I get some selling insights. The gross proportion saying that they are thinking about selling a property over the next 12 months jumped over the second half of 2023 and has remained high since then.

In my latest survey a record net 38% of investors said they will look to sell.



I can offset this sell reading against one for buying intentions to get a net purchasing gauge. It has been trending down since mid-2023 and sits at a record low (selling) level now.

From my survey of real estate agents with NZHL we can also see a strong lift in the net proportion observing more investors looking to sell from the latter part of 2023.



The current recovery in the economy and the easing of debt servicing costs over 2024-25 have not made investors step back from wanting to reduce their property exposure.

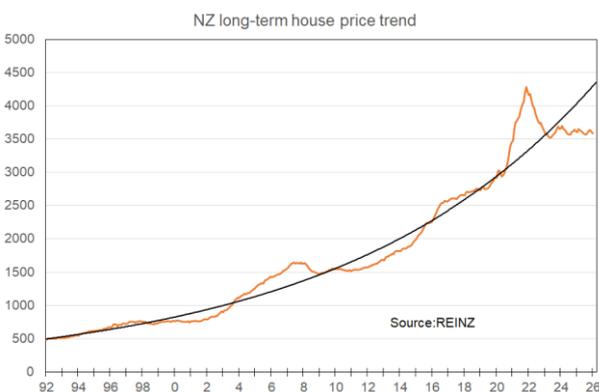
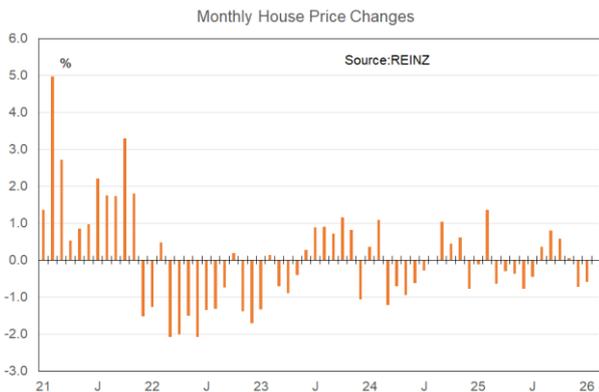
Again, let me emphasise, this is not the end of investors in the market, and this does not mean that house prices do not keep rising. They will, driven by rising incomes and rising construction-related costs. But alongside reduced buying by foreigners and increased construction, reduced urgency-driven buying from small investors will contribute to a slower pace of average house price rises than seen over the three decade period from the mid-1990s.

House prices falling again

Just when it looked like a small recovery in average house prices around the country was underway, data released over the past five weeks covering December and January show otherwise.

On average in January the REINZ's House Price Index for all of the country declined by 0.6% after falling 0.7% in December. Prices sit 0.7% lower than a year ago.

This graph shows monthly house price movements since 2021 and we can see not just the fizzing out for now of the late-2025 recovery, but the lack of a clear up or down trend in prices generally since the middle of 2022 – best seen in the second following graph.



House prices are going nowhere. Why is this happening even though mortgage interest rates have been falling since late-2024? Probably because of

1. Weakness in the labour market

2. A large stock of property listings.
3. Selling by older investors.
4. Weak net immigration inflows.
5. Still high feelings of job insecurity.
6. Mortgage rates for new borrowers have been rising since November

When might average house prices start consistently rising and achieving the 5% average annual gain discussed above? My best guess is towards the middle of the year with assistance from an improving labour market.

But frankly this view is neither here nor there. I am of the opinion that base animal spirits are no longer a strong driver of swift house price changes, and the long-run will simply sometimes manifest as flat to easing prices and sometimes as a period of catchup.

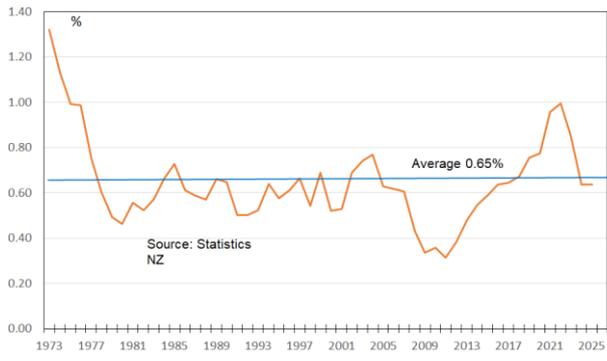
Its not very exciting and one hopes that the extremely strong focus we have seen on property as an investment in the past three decades will now be replaced by a focus on other assets. But residential property investment will remain a large item for many people and especially those who focus on the long-term rather than just the cycle.

The game has changed. The popular commentary has not entirely yet caught up with that. To help that, here is my graph which focusses on the housing supply side. It shows the ratio of consents issued in a year to population. The long-term average is 0.65%. We barely went below that in this recent cycle of woe involving average prices falling over 20%.

The average now is on a long-term climb due to many rule changes. Scarcity is not what it used to be.



DWELLING CONSENTS AS % POPULATION



If I were a borrower, what would I do?

The highlight for financial markets and economists in New Zealand this week was the release of the Reserve Bank's cash rate review and latest set of economic forecasts on Wednesday. The near universal expectation had been that no change in the cash rate would occur and that proved correct. It sits at the 2.25% level the Reserve Bank took it to over the latter part of last year when the economy was already recording good growth in output and employment as measured by the number of hours worked.



There had also been a strong expectation going into the review that the Reserve Bank would shift

away from its previously published track containing no increase in the cash rate until mid-2027 and instead pencil in a rate rise late this year. That did not happen and as a result of that wholesale interest rates have fallen slightly this week though not by enough to make cuts in mortgage rates probable.

The one year swap rate has eased to 2.6% from 2.69% last week and it now sits where it was five weeks ago. The three year rate has eased slightly more to 3.17% from 3.32% which is where it was also five weeks back.

If I were borrowing at the moment, I'd probably fix three years. Fixing five years is no longer possible at the good rate of 4.99% and at about 5.50% the leap from fixing one year near 4.5% is too large to seriously consider for all but the highly risk averse.

To see the interest rates currently charged by major lenders go to www.mortgages.co.nz

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