

Input to your Strategy for Adapting to Challenges

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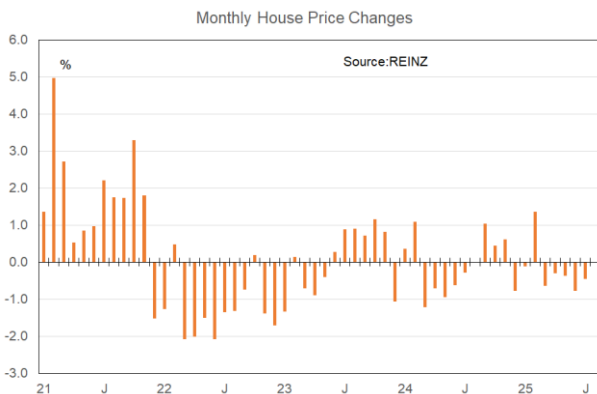
21 August 2025

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House prices fall 2.5%

Average house prices around New Zealand have fallen for five months in a row now despite mortgage interest rates falling over 2% from this time a year ago. They sit 2.5% below levels seen in February and exactly where they were a year ago on average.

Lesson number one is that interest rate changes are not the sole determinant of what happens with the housing market and house prices.

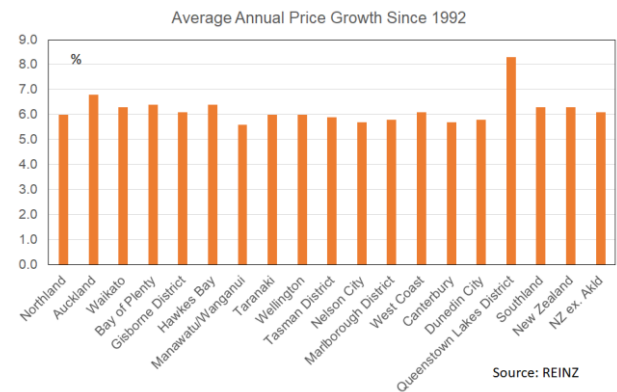


The second lesson is that accurately forecasting what house prices will do over short time periods is near impossible. All of us in this space figured

this year would produce price growth based on interest rate falls and an improving economy.

Keep this second lesson in mind as you now cast around for new insights into where house prices are headed. The only forecast I'm willing to strongly stand by is the one I've been making for at least half a decade now.

Whereas house prices on average have risen by near 6.3% per annum since 1992, going forward average rises will be closer to 5%.



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What the ups and downs look like along the way over the next three decades is anyone's guess and that is what investors need to keep in mind as they contemplate their current and prospective portfolio.

Recently I took a call from someone I'll be making a presentation for shortly to property investors. They were a bit concerned given my writings recently that the attendees may be scared off investing. Not good for business.

But the truth is the people who will be scared off are the ones who already have made the decision not to attend any more investment presentations or for whom the idea of investing is simply not on their radar and never has been.

My main comment with regard to the current structural shift in investor demand is that many people in the bottom layer of the investor pyramid will now be absent from the market. Those with hundreds of properties will remain and not change their behaviour.

They will buy some and sell some every year as they have done for generations and focus on running their portfolio as a business geared towards providing good accommodation for New Zealand's renters.

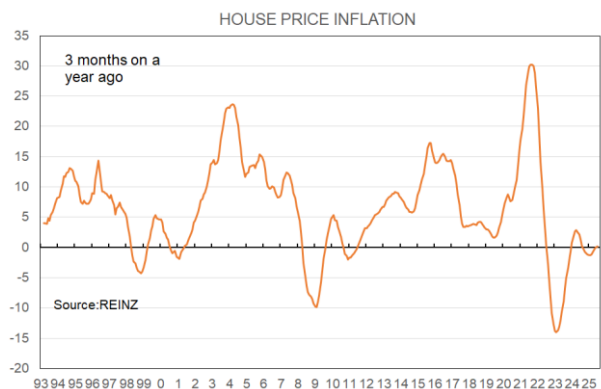
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The next layers down of those with maybe 20-50 then 5-20 will do the same. So too may those with 2-3+. The absent group will be those people whose families have no history of property investment and who would only have contemplated investing now (if the market were much stronger) because they feel not doing so would mean missing out on something.

These are the people not really driven by greed and not by a desire to run an accommodation business. They are those encouraged to buy because the gains seem easy to accrue according to the newspapers, and they feel that they would be a bit silly not to invest and make some wealth gain they could never hope to achieve through their employment.

Tens of thousands of people have helped form this bottom layer of the investor pyramid since the market started recording consistent and seemingly easy price growth since the mid-1990s. Most have enjoyed good wealth growth and set themselves up for a better retirement.



But now, they feel no sense of urgency, no itch. No media messages are being sent to them to buy because the gains seem easy (e.g. price growth exceeding annual wages was a popular theme).

But the other investors remain and many of them are continuing to buy at the moment. They are attracted by the good volume of new properties coming onto the market already meeting Healthy Homes requirements. They will be giving more thought than on average since 1992 on where population growth is likely to be greatest, where infrastructure developments may occur, where jobs growth may be strongest.



They will be taking advantage of the current high level of stock availability just as first home buyers have been doing since early in 2023.

First home buyers are beneficiaries of the second main investor change running through the market currently and for the next few years – selling by long-term holders.

Many people have invested in property since the mid-1990s and now they are realising the value of their property asset in order to fund their retirement. They are encouraged to do so not just by the passage of their years but the sharp increases in some costs such as insurance, rates, and maintenance), but the far higher than expected cost of living they will face in retirement.

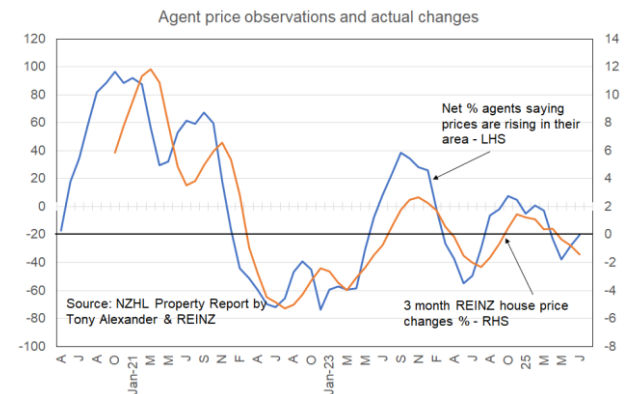
All calculations done in recent years regarding how much one needs to retire with to be “comfortable” have proved wrong because of cost hikes – especially for rates set by our monopoly councils.

Selling of these older properties is giving first home buyers extra choice – as long as they have some basic handyman skills or a willing parent who has them. Get a Builders Report.

A few decades of experience teach me that even though I wrote above that forecasting house price

changes over short time periods is pretty much a waste of time, people still want a view. They will nod and say, “What do you think will happen now?”

Some guidance can come from this graph sourced from my monthly survey of real estate agents sponsored by NZHL. It shows the very good correlation between the net percentage of agents saying what prices are doing in their area and what they actually do as measured by the REINZ’s House Price Index averaged over three months (orange).



The thing to note is that the blue line showing agent price change observations measured on the left axis has become less negative over the past two months. But at -20% it still tells us that heading into Spring prices are still firmly considered by agents to be generally easing.

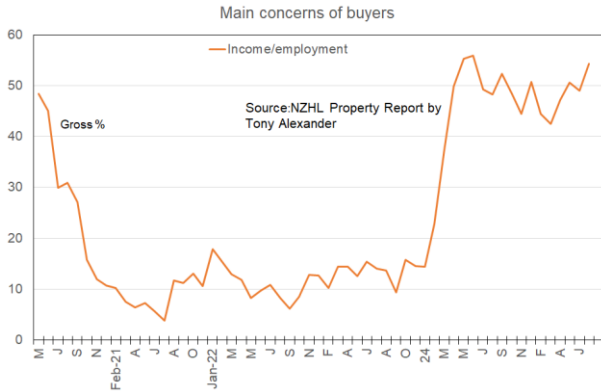
Note that a key factor in play in NZ at the moment is reports of businesses going into liquidation, people being laid off, and therefore poor feelings of job security. I get a measure of that from my agent survey.

On average for the past five years 26% of agents each month have said that they are observing buyers being worried about their incomes. This measure was a low and healthy 14% at the start of 2024. Then it soared quickly to 56% in June.

We started this year at 51%, improved to 42% in March, but are now back up at 54%.

Until people start feeling a lot more secure about their employment and incomes it would not seem

reasonable to expect house prices to go up by much if at all.



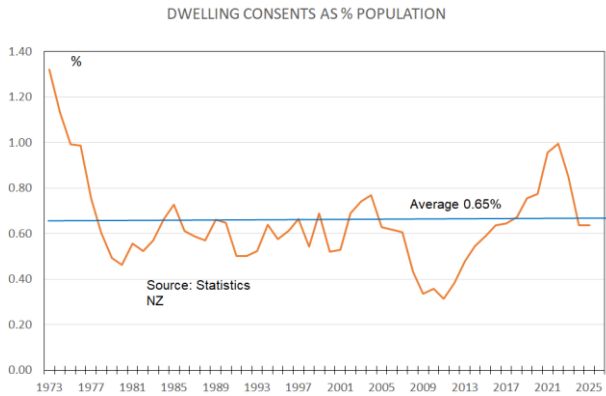
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And again, here is a reminder of the big underlying change in our housing market. More supply. That is, the ratio of consents issued to population has only fallen to just below the half century average following the period of tight monetary policy.



If I were a borrower, what would I do?

The Reserve Bank has again cut the official cash rate by 0.25% so it now sits at 3.0% from the peak of 5.5% from which it fell in August last year. In the economic forecasts accompanying yesterday's rate change the Reserve Bank provided more scope for further declines than the markets had expected they would and that has caused some falls in wholesale interest rates.



The one year swap rate at which banks borrow at a fixed rate for one year to lend fixed one year has fallen to near 2.85% from 2.95% last week. The three year swap rate has fallen to near 3.07% from 3.11% last week.

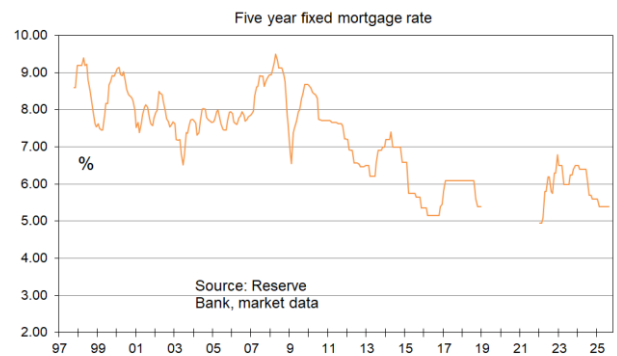
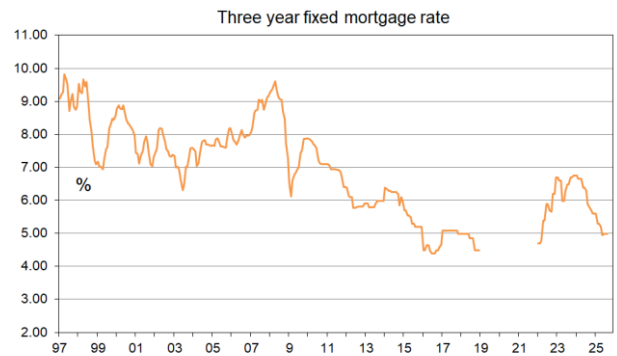
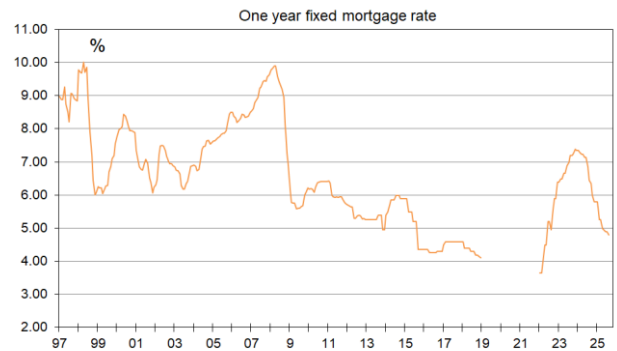
Contributing to the more dovish than expected report and its interpretation as soft by the markets was the voting record of Monetary Policy Committee members this time around. While one argued for no change, in the end four voted to cut 0.25% and two voted for 0.5%. Hence the majority decision to cut 0.25%.

The Reserve Bank have lowered their projection for the level at which the cash rate may bottom out from 2.9% to 2.5%. They have placed a lot of weight on the recent weaker than expected performance of the NZ economy and the presence by their estimation of a lot of spare capacity.

Given the new outlook for wholesale borrowing costs falling very slightly more than had previously been expected, if I were borrowing now, I'd hold off for a round of cuts then opt for three years. But again as noted here recently, fixing just one year,

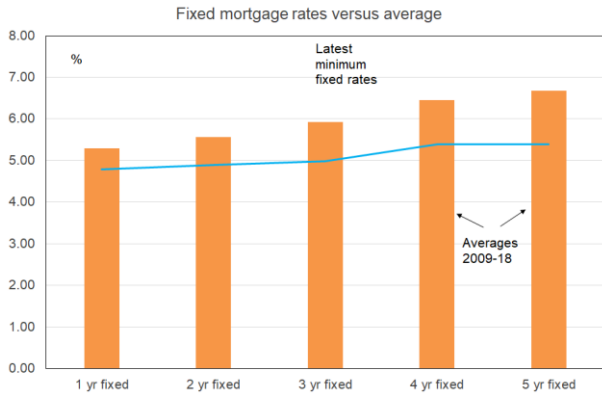
18 months, or two years will probably be fine also for those chasing best immediate cash flow impact. I'd prefer to pay a small premium for extra rate certainty as a hedge against the risk down the track that the more dovish than expected policy stance one day switches to more hawkish than expected. That is a risk for 2027, not now.

These three graphs show mortgage rates since 1997 excluding the period of deflation worries (2019) and the pandemic.



This graph shows how current rates compare with averages from 2009-18.





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

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