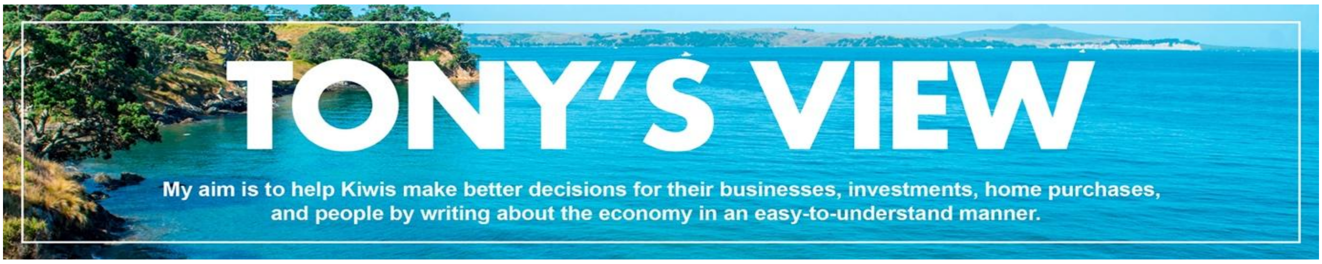

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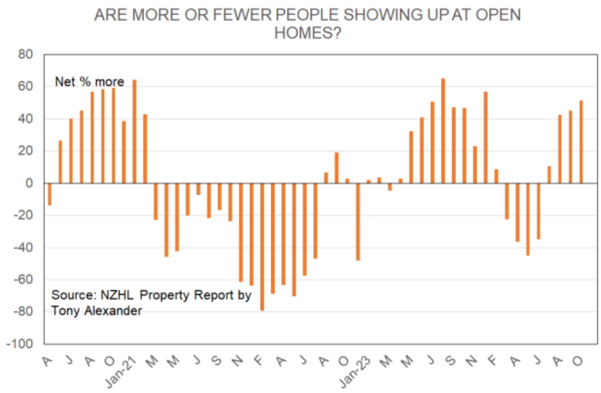
House price prospects

Forecasting house prices is a mugs game at the best of times given the huge number of factors which determine prices and the low predictability of all of them.

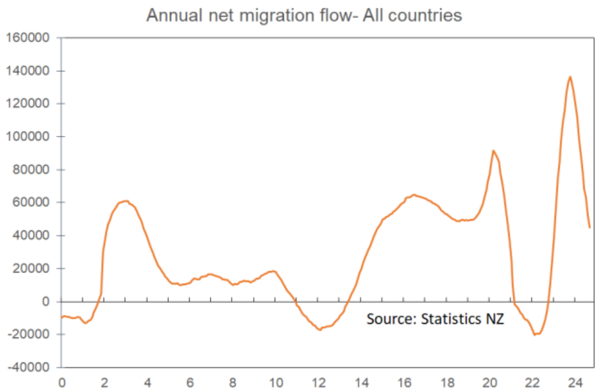
Events this year show that the outlook for interest rates can change very quickly. Borrowing costs have a substantial influence on people's ability and willingness to take on or maintain debt and now that we are receiving some downside surprises to inflation and interest rates people's willingness to borrow and buy houses has soared.

We can see that clearly from my surveys of mortgage brokers and real estate agents in particular. Whereas four months ago a net 35% of agents were seeing fewer people attending open homes, now a net 52% are seeing more.



But there is no reason for believing that following the quick shift in interest rate forecasts back in July no further such shifts will occur. They most definitely will but we cannot know when.

Migration flows are relevant to strength in the housing market even if only via the rental sector as has been the case with the migration boom up until recently. Late in 2022 many of us were predicting a net migration gain come the end of 2023 of about 30,000 people. It turned out to be 128,000. Now the flow is 45,000 but there is no reason for believing we can reasonably forecast what the flow will be a year from now.

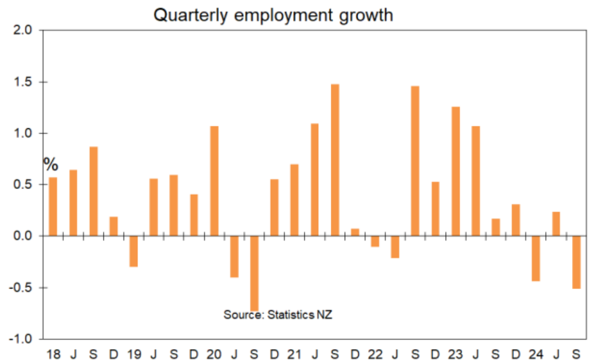


My general expectation is that a large net loss of Kiwis will continue to be recorded but that there will now be some stabilising of the gross outflow of recent migrants and we settle somewhere below 50,000 net annual gain for the coming year.

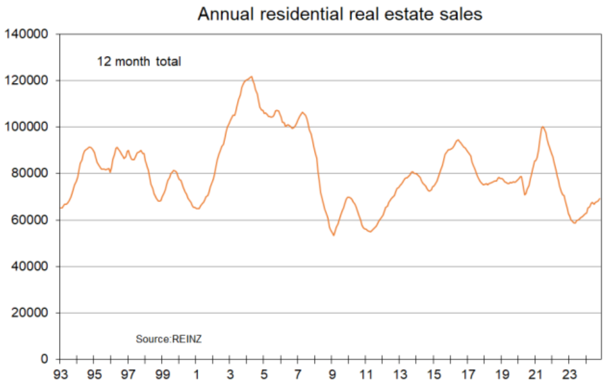
But realistically, we will just have to take the migration data as they come.

Then there is another large factor which influences house prices – jobs growth. It makes sense to believe that if employment growth is strong and people feel high job security that they will more seriously consider purchasing a property.

But the housing market is firming with annual turnover rising from 59,000 in mid-2023 to now 69,000. This has happened at the same time as the unemployment rate has climbed from 3.2% in 2022 to now 4.8%. Jobs growth has gone from 3.1% a year ago to -0.4% now.



But despite this labour market deterioration and a sharp rise in the proportion of real estate agents saying that people are worried about their jobs, real estate activity has firmed and prices are now rising.



Being an area which lags the economic cycle the labour market data are not entirely unpredictable and it seems reasonable to expect a rate close to 5.5% in perhaps the second half of last year. This implies restraint on the housing market but perhaps mainly signals that once the labour market correction is completed an obstacle to the pace of average house price rises approaching 10% will be removed. That is relevant for 2026-27, not 2025.

Rule changes affecting the potential returns to property investors are also relevant. We can clearly see that the tightening of these various rules at the start and end of 2021 had a substantial negative impact on the willingness and ability of people to purchase an investment property.

Interest expense deductibility has returned and credit rules have eased. But getting credit is still a lot harder than before 2021 and there are new DTI (debt to income) rules limiting lending to no more than seven times income for at least 80% of investors. It is impossible to know how the new lending regime will influence investor buying of property.

We can again tell from my real estate survey with NZHL that investors are returning. But have they really run the numbers of potential rental return versus newly higher costs for insurance and rates, and what are the chances they are over-estimating how much more interest rates will fall?

As mentioned last week, the two and three year fixed mortgage rates are currently sitting at about 5.65%. But they may only just fall to 5% this cycle and not remotely approach the 2.49% - 2.65% rates of 2021.

My expectation is that assisted by some mild strengthening of economic activity growth through 2025 but more especially 2026, okay migration levels, and some further mild easing of mortgage rates, house prices will rise for the next four years. 2026 gains are likely to exceed those for 2025 which may be near 5% on average.

Where might gains be the best? Again, I know from four decades of experience as an economist that while forecasting at the national level is difficult, making regional predictions is practically impossible. But everyone at least wants something which they can hang a forecast around, so here are some graphs.

In each one the straight black line shows the rising or falling trend of prices for the region relative to NZ as a whole since data start in 1992. The orange wavy line shows the 12-month average ratio of the region's prices to the NZ average.

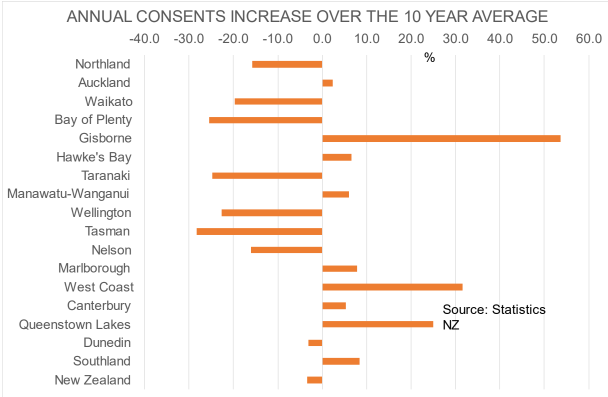
When the orange line is going up the region is enjoying superior price growth – when falling then prices are rising less strongly than the national average or falling more rapidly.

These graphs cannot allow us to make price predictions. All they can do is give a broad feel using this simple measure of whether one region seems more or less over-priced or under-priced relative to any other region. Nothing more. Good luck.

If I were doing a more complete analysis of potential regional price changes I'd want to take a look at regional population growth projections set against regional house supply growth as represented by dwelling consent numbers. Again, good luck and here is a table with projected population growth rates between 2023 and 2048 from Statistics NZ.

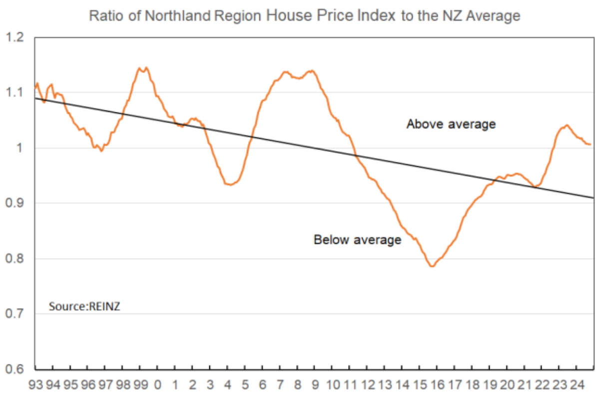
	% 2023-48
Northland	16.0
Auckland	29.5
Waikato	20.4
Bay of Plenty	16.5
Gisborne	6.4
Hawke's Bay	11.2
Taranaki	9.2
Manawatu-Wanganui	7.0
Wellington	10.5
Tasman	10.9
Nelson	5.0
Marlborough	3.3
West Coast	-5.8
Canterbury	18.0
Queenstown Lakes	35.5
Dunedin City	4.3
Southland	4.3

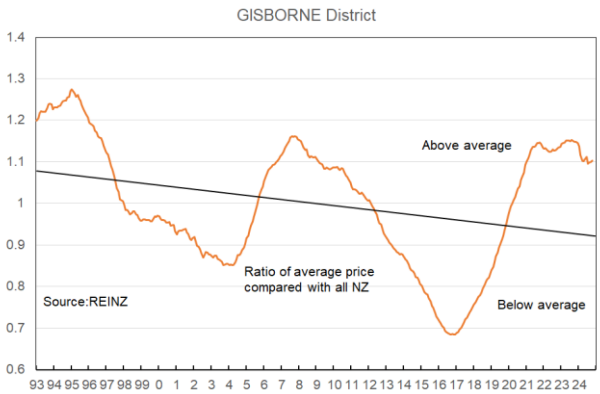
This graph shows how consent numbers over the past year compare with average for each region for the past ten years.

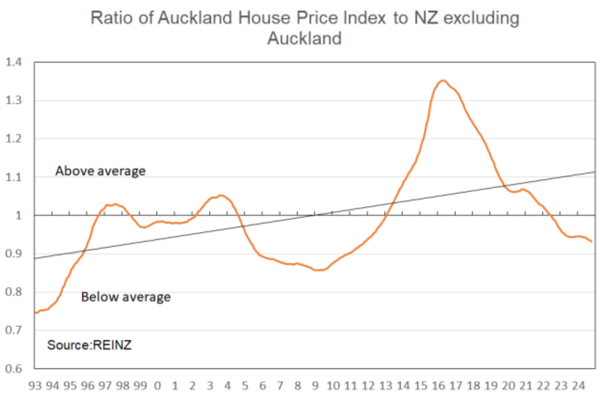


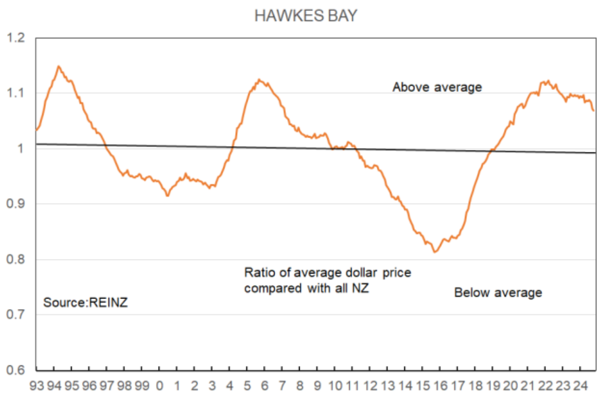
And for good luck, this table shows how much average house prices for each region have risen since 1992.

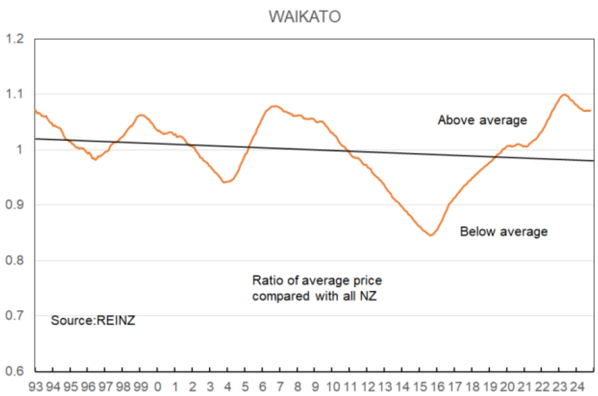
	Rise in prices 1992 - 2024
Northland	558%
Auckland	722%
Waikato	620%
Bay of Plenty	637%
Gisborne District	565%
Hawkes Bay	639%
Manawatu/Wanganui	458%
Taranaki	564%
Wellington	543%
Tasman District	534%
Nelson City	475%
Marlborough District	510%
West Coast	556%
Canterbury	489%
Dunedin City	507%
Queenstown Lakes District	1170%
Southland	609%
New Zealand	622%
NZ ex. Akld	559%

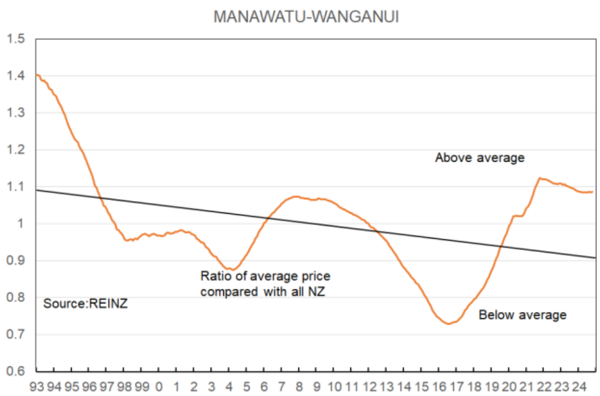

Ratio of Northland Region House Price Index to the NZ Average
Above average
Below average
Source:REINZ

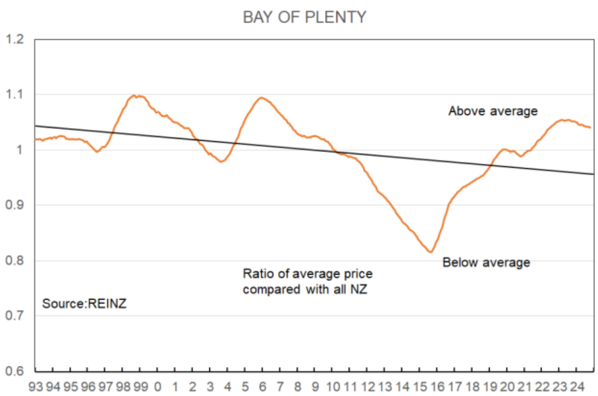

GISBORNE District
Above average
Ratio of average price compared with all NZ
Source:REINZ
Below average

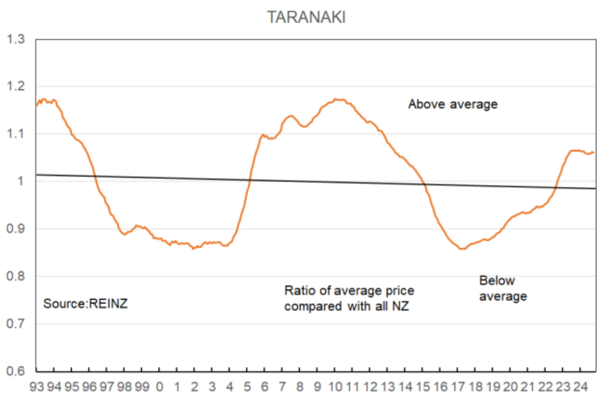

Ratio of Auckland House Price Index to NZ excluding Auckland
Above average
Below average
Source:REINZ


HAWKES BAY
Above average
Ratio of average dollar price compared with all NZ
Source:REINZ
Below average

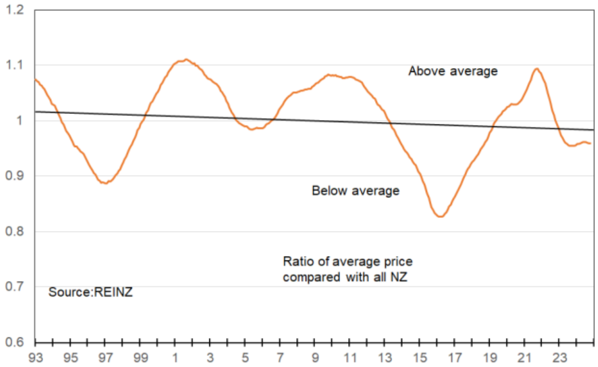

WAIKATO
Above average
Below average
Ratio of average price compared with all NZ
Source:REINZ


MANAWATU-WANGANUI
Above average
Ratio of average price compared with all NZ
Source:REINZ
Below average

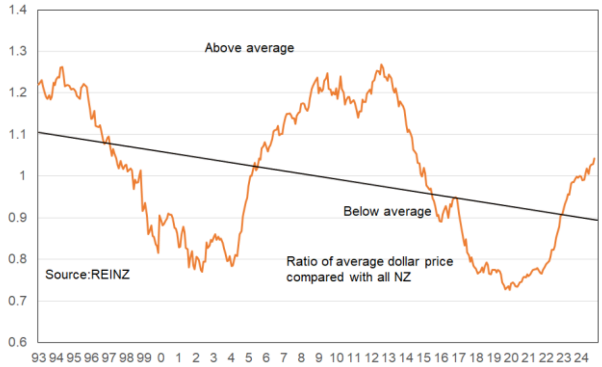

BAY OF PLENTY
Above average
Below average
Ratio of average price compared with all NZ
Source:REINZ


TARANAKI
Above average
Below average
Ratio of average price compared with all NZ
Source:REINZ

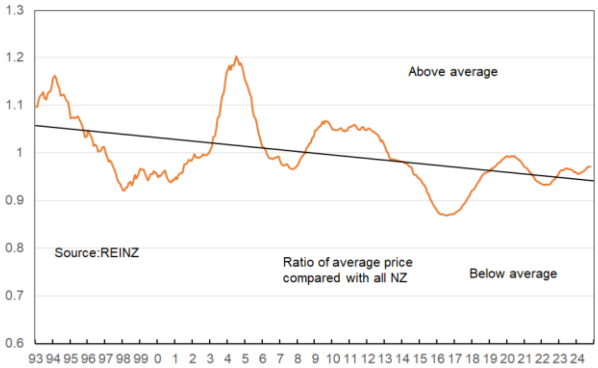
WELLINGTON



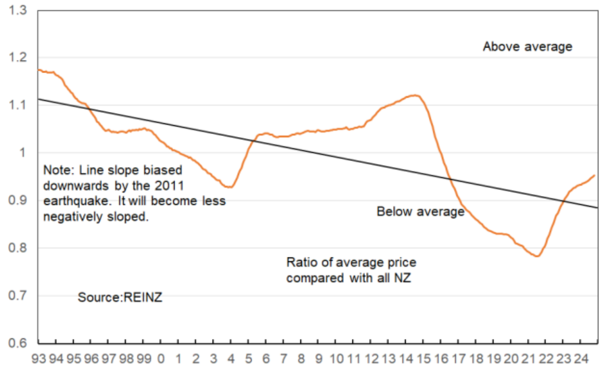
WEST COAST



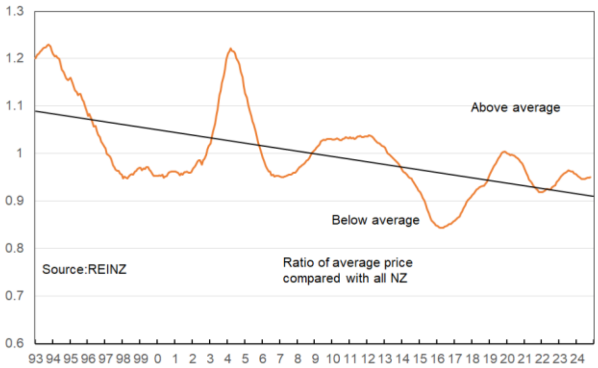
TASMAN District



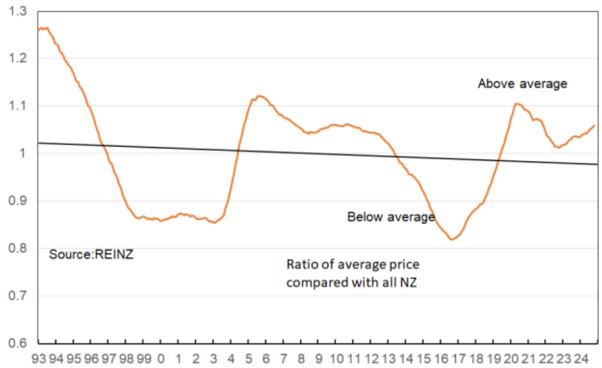
CANTERBURY



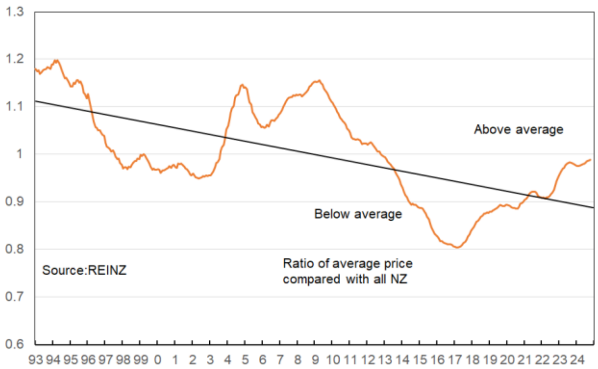
NELSON City



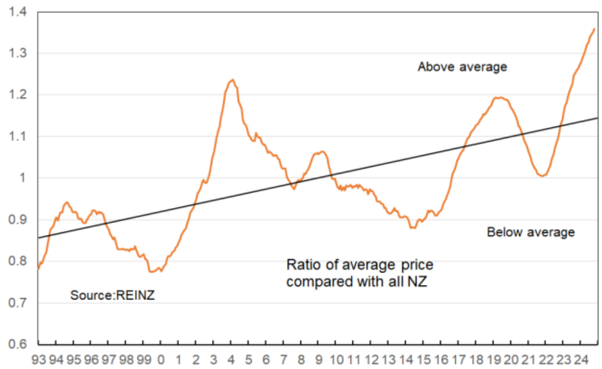
DUNEDIN City

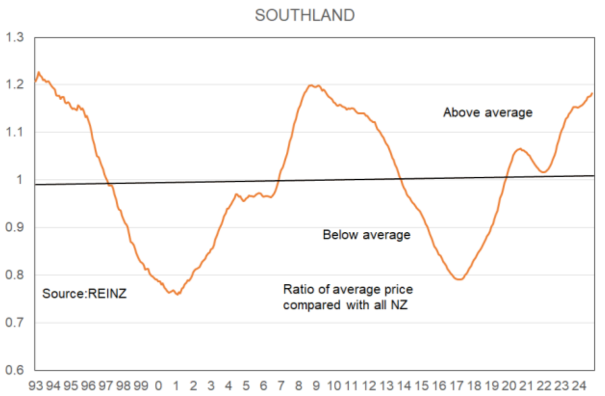


MARLBOROUGH District



Queenstown Lakes District



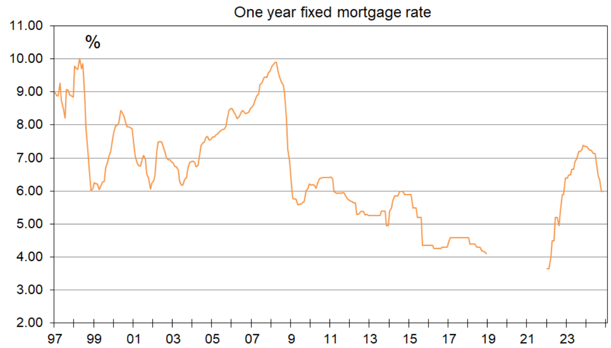


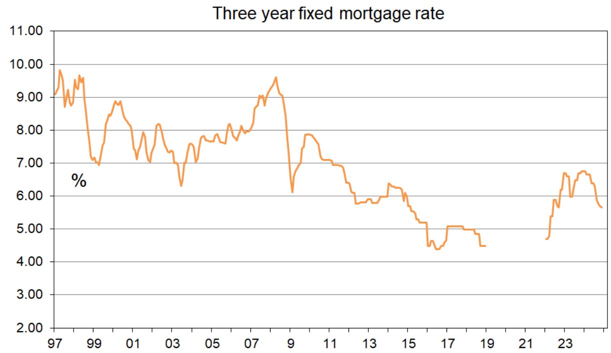
If I were a borrower, what would I do?

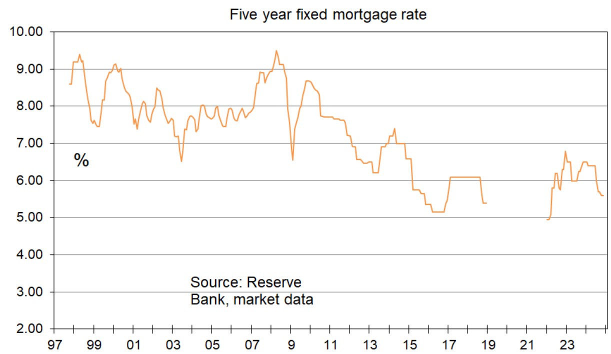
This week wholesale interest rates have fallen slightly with assistance from the simple passage of time closer to the expected 0.5% cut in the cash rate next week and a decline in yields in the United States. Some of the selloff in US bonds associated with worries about the inflationary impact of high tariffs has been reversed.

But considerable uncertainty remains about what the impact of the incoming US President's policies will be and we should expect heightened volatility for some time – the next four years I guess.

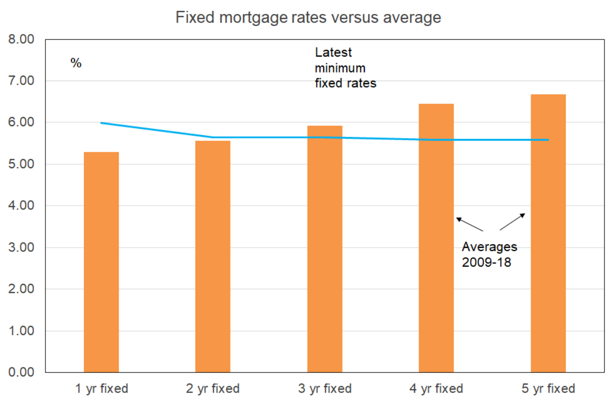
These three graphs show levels of the one, three, and five year fixed mortgage rates over the past few years excluding the 2019-21 period when rates were absurdly low because of worries about deflation and then the effects of the pandemic.







This graph shows how current rates compare with averages from 2009-19.



If I were borrowing at the moment, I would be happy to fix for just six months in anticipation of switching to a longer rate at some point from mid-2025 onwards.

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

Nothing I write here or anywhere else in this publication is intended to be personal advice. You should discuss your financing options with a professional.