ECONOMIC BULLETIN

Housing market update.

11 Sep 2025 | **Kelly Eckhold**, Chief Economist | +64 9 348 9382 | +64 21 786 758 | kelly.eckhold@westpac.co.nz

Staying in balance

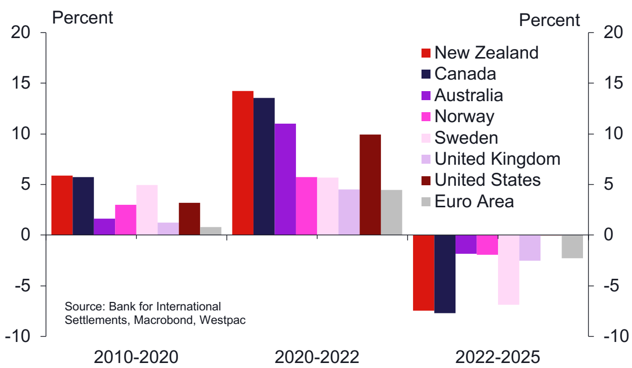
- **As occurred in peer economies, real house prices in New Zealand have undergone a boom/bust cycle over the past five years.**
- **In aggregate, nominal house prices seem on track to remain stable over 2025, but with some variation across the country.**
- **Investor and owner-occupied demand have continued to grow, but population growth is currently slow.**
- **At the same time, the market remains adequately supplied, in part due to still reasonable levels of construction activity.**
- **We expect 5.4% house price growth in 2026.**

Stepping back – some medium-term house price trends.

New Zealand house prices remain flat thus far in 2025 even as interest rates have been aggressively cut. In large part, the housing market remains comatose after the excesses of the Covid era.

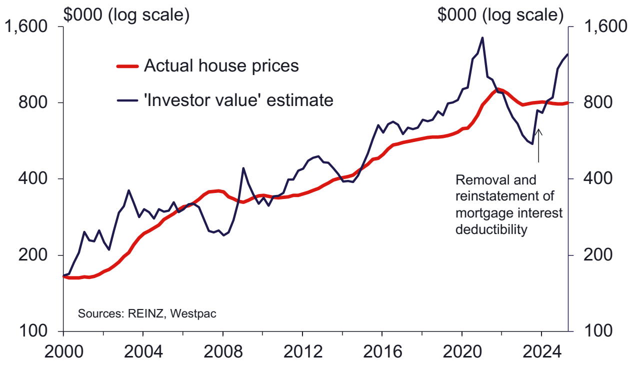
House prices rose at a rapid clip through most of the period between the Global Financial Crisis and the onset of the Covid pandemic. Real house prices rose at an astonishing 6% annual rate that decade. Few other developed markets achieved such growth – the nearest comparator is Canada, where house prices rose at just under a 6% annual rate in real terms. Australian house prices rose at a considerably slower 1.3% real annual growth rate.

Percent change in real house prices, pre-Covid, Covid, post-Covid



Steadily lower interest rates and unemployment combined with strong migrant-driven population growth to generate the uptrend in house prices. Our investor value house price model – which assesses a property's worth by estimating the net present value of its future net cash flows arising from rental income and capital gains, minus associated costs – broadly tracked these trends from 2000-2019.

Westpac 'investor value' model of house prices



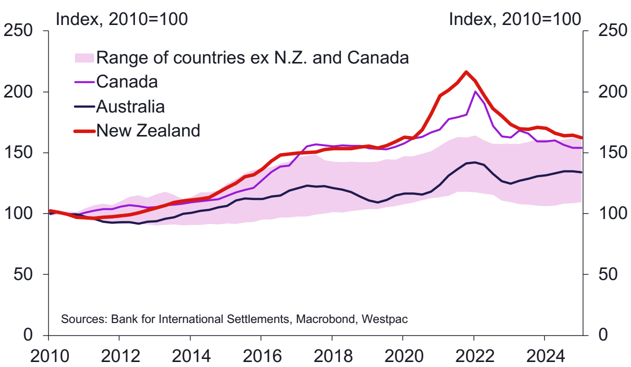
In New Zealand, the policy response to low inflation both pre-Covid and then during Covid was very accommodative. Pre-Covid, the OCR was cut by 75bps to 1.0%. During Covid, the OCR was cut by a further 75bps to 0.25%. In addition, the RBNZ undertook significant quantitative easing, removed macroprudential restrictions on housing lending and issued forward guidance implying a long period of very low interest rates.

These accommodative policy settings supercharged a housing market that already had significant momentum. New Zealand (and Canada) continued to outperform other markets in real terms through Covid, resulting in very high house prices. Investors saw value in housing at such low interest rates and behaved as if interest rates would be very low for a very long time.

The result was a severe and unsustainable spike in house prices in both real and nominal terms. But the fundamentals underlying these price rises were not sustainable as ultimately inflation and interest rates rose significantly, and house prices fell.

Countries that were most overvalued (New Zealand and Canada especially) fell by the most so that much of the increase in real house prices that occurred over the 2019-21 period was eventually unwound. Our estimate of the fundamental value from an investor perspective similarly corrected as interest rates rose.

Real House Price Indices: Australasia and selected countries

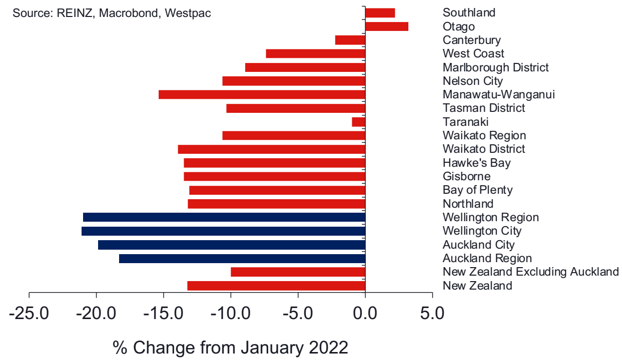


Since 2023 house prices in New Zealand have been stable on a nominal basis and falling further on a real basis. New Zealand's trend since 2023 is not exceptional when compared to our global peers. However **Australian house prices** have displayed renewed upward momentum, likely as their interest rates were not lifted as much as in New Zealand post Covid.

Recent developments.

This year to date we have seen no growth in house prices at the nationwide level, albeit with some variation across the country (e.g., prices have fallen slightly in Auckland and Wellington but increased slightly in Canterbury and Otago). More generally, the weakness in house prices is more prevalent in the largest urban areas which are not directly exposed to improvements in export returns driven by strong commodity prices. Small monthly increases in house prices earlier this year have given way to small monthly falls in house prices in the last 2-3 months, dragged down by weakness in the Auckland region, in particular.

Regional house price fall from 2022 peak



While house sales have increased over the past year and the median time to sell has been stable to falling, new housing demand has been balanced by increased supply – including that provided by new construction – so that the inventory of unsold homes has remained at around a decade high. Given the supply in the market, there has been little need for buyers to bid prices higher.

Housing-related credit demand continues to lift, growing 5.1% in the year to July. Investors and existing owner-occupiers have led growth in credit demand. There are signs that more marginal borrowers are being drawn into the market as lending to borrowers on lower incomes appears to be rising, as is lending on properties at higher loan-to-value ratios. These trends are all consistent with increasing housing demand as interest rates have declined. Anecdotally, brokers note that the lower mortgage test rates now being applied is enabling a broader range of households to enter the market. It's useful to note that lower interest rates and more favourable taxation arrangements have also significantly boosted the value of investor housing in our investor valuation model – although recent weakness in rents likely provides an offset in many investors' minds.

Nevertheless, our current forecast of a 3.6% increase in house prices for 2025 looks optimistic given the recent momentum in prices. Lower interest rates should eventually support increased demand, but it will take time for momentum to shift. With the RBNZ's recent dovish pivot likely to support housing market sentiment into year end, we forecast small positive increases in house prices over the final three months of 2025. This will mean house prices will rise by around 0.6% over the year.

Looking ahead to 2026, we expect a gradual lift in momentum to deliver house price growth of around 5.4%. Demand for both owner-occupier and investor housing should strengthen as the broadening economic recovery – and crucially an upturn in the labour market – encourages the formation of new households, including migrant households. Over time, this should eat into the current stock of unsold inventory and so reduce the current downward pressure on real house prices. Our forecast implies slightly rising real house prices in 2026 (assuming the RBNZ can keep inflation close to the 1-3% target range).

The forecast for 2026 has two-sided risks. Low interest rates imply attractive valuations for investors. Hence, it's unsurprising that credit demand by property investors is a leading driver of credit demand so far this year, albeit coming up from low levels, and that momentum could continue to build once the labour market improves. That said, the rental market also appears to be somewhat oversupplied at present, as reflected in downward pressure on rents. On the other hand, it's possible that population growth could remain slow, especially if the labour market takes longer to recover. A slower rate of household formation would likely mean less upward pressure on house prices, especially if the construction of new homes remains at current or higher levels.

Annual house price growth (including forecasts)

Past 10 years	2021	2022	2023	2024	2025f	2026f
7%	26%	-13%	-1%	-1%	0.6%	5.4%

CONTACT

Westpac Economics Team | **westpac.co.nz/economics** | economics@westpac.co.nz

Kelly Eckhold, Chief Economist | +64 9 348 9382 | +64 21 786 758 | kelly.eckhold@westpac.co.nz

Satish Ranchhod, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

Darren Gibbs, Senior Economist | +64 9 367 3368 | +64 21 794 292 | darren.gibbs@westpac.co.nz

Michael Gordon, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Paul Clark, Industry Economist | +64 9 336 5656 | +64 21 713 704 | paul.clark@westpac.co.nz

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