ECONOMIC BULLETIN

Housing market update.

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

A well balanced market

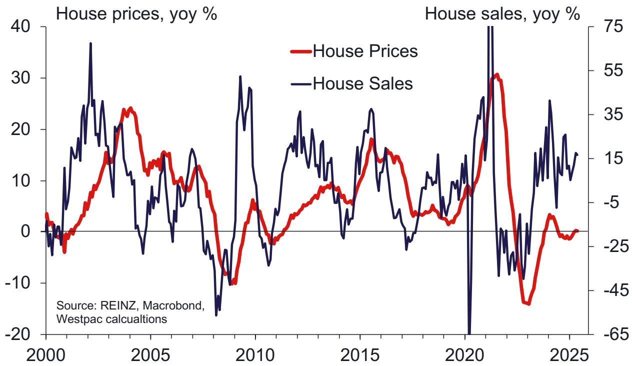
- **House prices have been heading sideways to slightly higher in 2025, reflecting strengthening demand and rising supply.**
- **Investors and existing owners are driving demand.**
- **A balanced market implies more stable price trends than expected.**
- **We now see 4% house price growth for 2025 and retain our 6% 2026 forecast.**

Current market dynamics.

We had expected the housing market to recover through 2025 and deliver close to long-run average house price returns of around 6% this year. Our view has been that sharply lower interest rates, changes in the investor tax treatment of property, and an eventual improvement in the labour market late in 2025 would lead to a recovery in housing market volumes and prices.

Only part of our story has come through thus far. While house sales have increased by around 17% y/y, house prices have increased by just 1% over the first half of 2025.

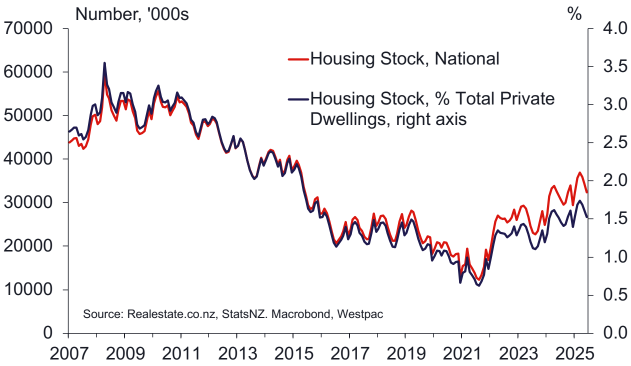
House prices versus number of sales



While demand for housing has improved in 2025, so has supply. Generally, we expect the supply of housing to be less responsive than demand. But in 2025 this has not been the case. This reflects a couple of factors:

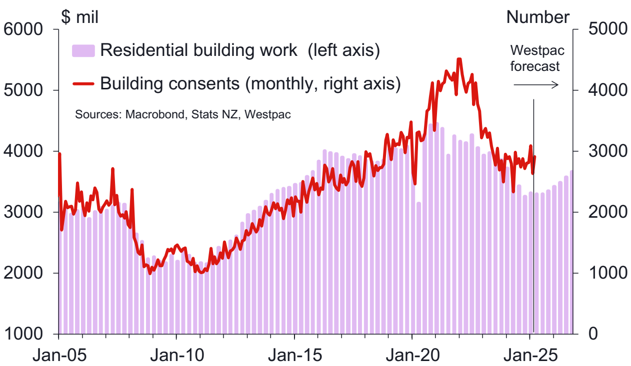
- The market has been relatively moribund since 2022 as monetary policy was tightened. With sellers on the sidelines for two years, a stock of unrequited supply has accumulated and is now being brought to market.

Housing stock on the market



- Despite slowing significantly from its peak, construction of new housing has stabilised at relatively high levels compared to history. The large pipeline of unfinished projects has been worked through and delivered a reasonable volume of new housing – especially townhouses and apartments – into the market. Relaxation of urban planning rules has also contributed at the margin.

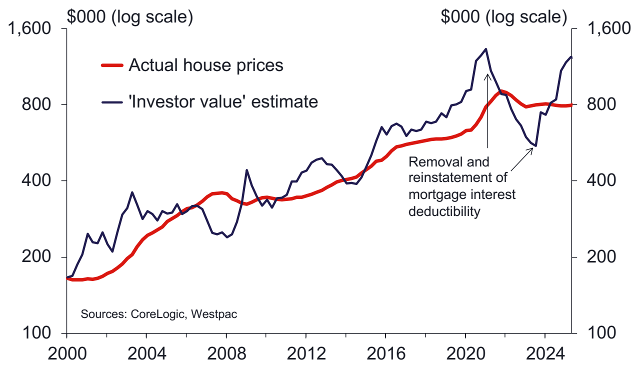
Consent issuance and building activity



Demand has improved as expected in a falling interest rate environment. However, demand has probably been more uneven and in aggregate more muted.

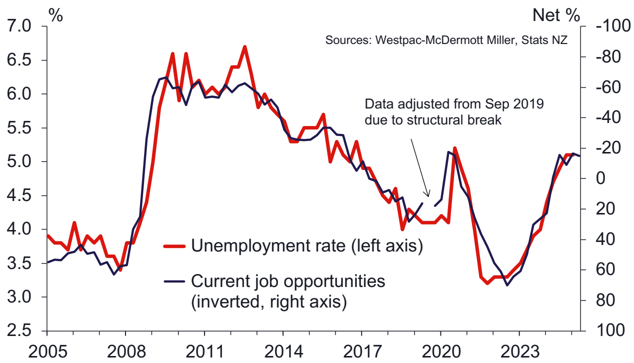
- Investor demand has been a strong point. This reflects the more favourable tax arrangements available under the current government and lower interest rates. Credit demand has been led by the investor sector and is evolving in line with what we saw in the last easing period in 2019. Investor housing credit has grown by 5.5% over the past year and is a key driver of the 4.7% aggregate growth in housing credit thus far in 2025. Westpac's 'investor value' house price model indicates that house prices lie somewhat below fair value from an investor perspective now that interest rates and tax levels are lower.

Westpac 'investor value' model of house prices



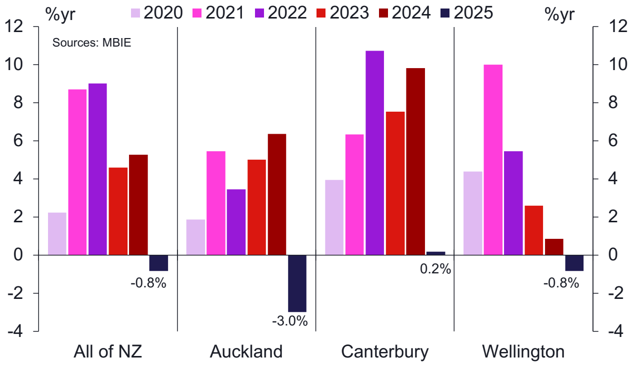
- The labour market remains weak. Westpac's employment confidence survey indicates that households still perceive few job opportunities and the recent trend in filled jobs has remained flat to falling. Consequently, consumer confidence, while stronger than a year or so ago, has been choppy and still on the weaker side of long-term trend levels.

Unemployment rate and employment confidence



- Uncertainty on the global outlook has increased of late given the trade war situation and Middle East tensions. Stories of a potential weakening in global growth may be contributing to more caution among house purchasers. The RBNZ has leaned heavily in recent forecasts on the idea that elevated uncertainty might pin back household demand for a while.
- Rents are on a weaker trend. New rents are running at a negative annual rate and population growth is weak given lower-than-average levels of net migration. This is consistent with a headwind to housing demand relative to what might have otherwise been expected.

Rents (based on bond data), annual % change



A revised forecast – flatter prices in a well-balanced market.

Maintaining our previous forecast of 6.2% annual house price growth in 2025 now looks optimistic when only 1% growth has been registered in the first half of the year. The underlying drivers of house prices are still likely to remain and support prices over the balance of 2025 and in 2026. An improved labour market from later this year should lead to further growth in house sales that should help eat into accumulated inventory.

Importantly interest rates are now low and likely at mildly stimulatory levels given Westpac's judgement that the neutral OCR is 3.75% vs the current OCR of 3.25% and our forecast of a terminal OCR of 3%. Mortgage interest rates under 5% are expected to underpin demand. And we still have a fair way to go before past mortgage rate reductions flow through to household budgets – which could be important in supporting demand for housing from existing owner occupiers.

It's likely that price growth will be still relatively muted in the winter months – we expect only 0.75% price growth over the September quarter. Stronger trends should be evident as the peak selling season begins, with 1.75% growth forecast in the December quarter.

Annual house price growth (including forecasts)

Past 10 years	2021	2022	2023	2024	2025f	2026f
7%	26%	-13	-1%	-1%	3.6	6.1

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