News Release

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Home ownership vs renting: The delicate balance shaping New Zealand's housing market

As New Zealand's housing market steadies after a turbulent few years, the age-old debate between home ownership and renting has taken on new dimensions. The latest ANZ Property Focus report reveals that the balance between the running costs of owning a home and the cost of renting is once again a central force shaping house prices across the country.

ANZ Economist Matt Galt has analysed the forces that shape New Zealand's housing market and digs into a deceptively simple question: what really drives the balance between home ownership and renting, and why does it matter so much for house prices?

"It's about the relative costs"

While many factors influence house prices, including population growth, credit availability, job security, tax policy, and the flexibility of housing supply, one factor stands out as a consistent anchor: the balance between the running costs of owning a home and the cost of renting.

"There are many drivers of house prices through time," Galt explains, "but the balance between the running costs of owning a home over time (interest, council rates, insurance, etc.) and rents is one of the main anchors for house prices, to which they gravitate."

When the costs of owning a home are low compared to renting, both owner-occupiers and investors are more likely to buy, bidding up prices. But when ownership costs are high relative to rents, house prices come under pressure. "Plenty of research supports this intuitive finding," Galt notes, referencing studies by both the Reserve Bank of New Zealand and the Reserve Bank of Australia.

The recent past: High costs, downward pressure

"The costs of owning a home were high between 2022 and 2024 due to high interest rates and other costs, and this put downward pressure on house prices," he says. "Home ownership running costs have since eased as interest rates have fallen and overall are now more or less back in line with their historical relationship with rents."

But it's not just about interest rates. Matt highlights that other ownership costs, especially council rates and insurance, have risen, offsetting some of the relief from lower mortgage rates.

Measuring the true cost

To make sense of these trends, Galt uses a proxy for the typical running costs on a median New Zealand home: interest on a 50% loan-to-value mortgage at the 5-year fixed rate, plus council rates, insurance, maintenance, and a small allowance for other costs. This aims to capture what costs might average over several years of ownership.

"Interest is the dominant cost and also the main source of variation," he explains. "The home ownership running costs proxy has dropped over the past month due to a sizable fall in fixed mortgage rates over October."

But the story is nuanced. "Changes in interest costs reflect not only changes in interest rates but also changes in house prices, as the proxy is for buying a house now. Over 2021, both were rising, which explains the particularly sharp increase in home ownership costs over that period."

Ownership costs and rents back in balance

Galt's analysis shows that, over time, home ownership running costs and rents generally move together. "However, they have diverged meaningfully at times," he says.

"Home ownership running costs were well below rents in 2019–2021, fuelling the sense among renters that you might as well buy, as mortgage payments and other housing costs were cheap compared to rental payments. They were above their historical relationship with rents from 2022–24 and have largely now come back in balance."

Galt points to several changes over the past year that have brought ownership costs and rents back in balance. "Home ownership costs have decreased as both house prices and interest rates have fallen, but this has been partly offset by increases in other ownership costs such as council rates and insurance. Rents have fallen a little, meaning home ownership costs have had to fall further to close the gap."

"The combination of falling rents and high council rates and insurance costs has been a significant drag on house prices in recent years, which has dampened the impact of falling interest rates," he observes.

What's next? "Don't expect prices to race away"

Looking ahead, Galt is cautious. "Our forecasts anticipate a small gap re-emerging next year as 5-year mortgage interest rates rise slightly from where they are now, driving up the home ownership cost index more than rents. If things play out this way, it suggests more downward pressure on house prices could emerge."

However, he is careful not to overstate the case. "Given the uncertainties inherent in any model, not to mention the uncertainties regarding the forecasts of its inputs, we aren't going to draw any strong conclusions but rather settle for saying that as the economy undergoes a cyclical recovery, this model doesn't suggest house prices are going to race away."

The bottom line

For Galt, the lesson is clear: "The balance between home ownership running costs and rents doesn't explain everything happening to house prices, but it does explain a lot of it.

"Home ownership running costs have eased from their 2022–2024 highs as interest rates have fallen and are now more or less back in line with their historical relationship with rents."

He concludes, "Our forecasts anticipate home ownership costs and rents staying in balance over the next couple of years, which points to broad stability in house prices, potentially with a modest increase in prices as the economy experiences a cyclical recovery next year.

"The current balance of these costs and benefits of home ownership certainly doesn't suggest that house prices are likely to race away."

Read the full ANZ New Zealand Property Focus here:

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