

## OFF THE FENCE VIEW # 2

# **Are NZ house prices too high?**

**Off the Fence** is about choosing a side in a world where too many economic and investment commentators refuse to. Instead of hedging every statement, we give you our views plainly. We may be right or wrong, but we take a position.



**Written by Brett Anderson 28 February 2026**

**Disclaimer:**

***The views expressed in this document are general in nature and do not constitute personalised financial advice. Individual circumstances vary significantly. Before making any property or investment decision, you should seek advice from a licensed financial adviser who can assess your personal financial situation and goals.***

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## Executive Summary

Our view is simple: **New Zealand housing remains fundamentally overpriced in our view — by our assessment, around 30–50% above what the country's incomes can support.**

### **1) Affordability has collapsed since the 1980s and early 1990s — *they had it easy!***

Back then, homes cost **2–3× household income**; today they cost **6–8×**. That means buyers are now paying **roughly three times more on a relative basis** than previous generations. Homeownership, once achievable on one income, now commonly requires **two full incomes plus parental help** — a clear sign the market has decoupled from wages and must realign.

### **2) Property has no productivity — *unlike companies that actually grow and can justify their prices***

A buy-and-hold house produces *no increase in output* (AKA more or better shelter) unless you spend more money on it, it actually falls! By contrast, **Microsoft increased its annual revenue by nearly 4 times in the last 10 years!**

Yet property is priced higher than many companies relative to earnings, such as Microsoft with expected significant growth in output, despite generating *no* productivity, *no* innovation, and requiring continuous maintenance.

### **3) New Zealand needs an affordable housing market for social and economic stability.**

Housing is more than an investment — it provides **shelter, stability, and control**. When prices detach from incomes, we risk a **permanent renter class**, declining homeownership, and reduced opportunity for younger generations. A stable society requires housing that ordinary working households can afford so they can build equity, put down roots, and shape their living environment.

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## Six Hard Truths About New Zealand Housing

**New Zealand house prices are not just high — they are fundamentally misaligned with the country’s incomes, productivity, and long-run economic reality.**

Prices disconnected from earnings cannot be sustained, and every credible affordability metric shows that NZ homes are 30–50% above what working households can pay.

Your parents bought in an era of normal affordability. You are being asked to buy after a multi-decade distortion.

### 1) Shelter vs. Investment: A Home Doesn’t Produce Anything

A home’s value should track inflation and wages — nothing more — because the service it provides (shelter) does not grow, scale, or become more productive over time.

A home provides shelter, not economic output. And unlike a productive asset—such as shares, where companies reinvest profits, innovate, and grow—houses depreciate.

Every house steadily wears out:

- Pipes corrode
- Roofs age
- Carpet wears down
- Kitchens and bathrooms become obsolete (compare cramped 70s layouts vs. today’s open-plan expectations)
- Heating, wiring, insulation, cladding all degrade
- Architectural tastes change, reducing appeal and value unless upgraded

None of this creates wealth. It *consumes* it. So, the asset should not be priced like a growth asset that can expand over time. The shelter a

home provides does not grow over time with no additional input from you.

A property owner must constantly spend money just to maintain the same level of utility.

This is the opposite of a productive investment.

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### 2) Why the Bubble Formed

The gap between what homes *should* cost (based on incomes) and what they *do* cost came from decades of:

- Credit expansion and falling interest rates
- Limited land release and slow supply growth
- Tax advantages that encouraged speculation
- Foreign capital inflows chasing strong capital gains with no tax payable
- Parents who accidentally won the housing lottery and taught their children that “property always goes up”

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- Potential fear of other assets and lack of education about them

But the numbers show clearly: from the early 1990's onward, house prices grew much faster than wages, causing affordability to break completely.

RBNZ data shows New Zealand's price-to-income ratio rising from around 4× in the early 2000s to between 8× and 11× at the 2021 peak (around 10× in Auckland), before only partially easing.

The result is a market where two full incomes and parental assistance are now required to buy what one income could previously purchase.

Because prices were artificially inflated by credit, tax policy, supply constraints, and foreign capital — not productivity — these gains cannot continue forward. Bubbles don't plateau; they correct.

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### 3) Housing Is Now Priced Beyond What Incomes Can Sustain

Housing affordability must reflect what people can actually pay. Today's ratios prove that New Zealand has stretched far beyond that point.

If New Zealand were to return to even the unaffordable but internationally "acceptable" level of 5× income, house prices would need to:

- Fall 30–50%, or
- Stagnate below inflation while wages rise for 10–30 years

Either outcome points to the same conclusion: Future property returns will be weak or negative in real terms.

Even after the recent declines, affordability remains worse than at almost any point in NZ history. A "return to normal" mathematically

requires either falling prices or decades of below-inflation growth. There is no third path.

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### 4) Why You Should Think Like an Investor — Not a Previous-Generation Homeowner

If you are looking for financial returns, you should buy productive assets or only buy property very strategically.

Productive assets — such as shares or businesses — have a key advantage:

- they generate profits
- they innovate
- they grow
- they require minimal maintenance or ongoing capital input

These assets *produce* something. They create value independent of market prices.

Housing does not.

A house drains money over time — through maintenance, repairs, upgrades, rates, insurance, and the inevitable depreciation of its components — and it produces no economic output. The only financial return housing provides is capital gains, meaning the moment price growth slows or stops, the return collapses with it.

Your parents were rewarded not by investment skill, but by timing.

They bought before the affordability explosion — before credit expansion, before the supply choke, before population and investment pressure pushed prices far beyond what incomes could justify.

You, however, are being asked to buy after that explosion.

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That means if you want returns from property today, you must act like an investor — not like a previous generation homeowner who got lucky. This means:

- buying in undervalued areas that have not yet repriced
- buying properties where you can add value cheaply (cosmetic upgrades, layout improvements, insulation/energy upgrades, outdoor improvements)
- buying homes with structural or locational mispricing the market has overlooked
- targeting opportunities where your own skills (e.g., trades, project management, design) create value

Outside of these strategic exceptions, the average buy-and-hold property is simply not a financial investment — it is shelter. And if your goal is returns, the data, the economics, and the fundamentals say you should favour productive assets.

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### 5) Why New Zealand Needs Affordable House Prices

New Zealand does not just prefer affordable homes — it needs them. Shelter is a basic human requirement, and a functioning society depends on ordinary people being able to buy a home suited to their needs. If house prices remain structurally unaffordable, we end up with a permanent renter class, declining homeownership, worsening inequality, and entire generations locked out of the ability to shape their living environment.

Homeownership is not just a financial decision. It is about freedom:

- the freedom to modify your home to suit your family and lifestyle

- the freedom to improve it, extend it, or renovate it without landlord approval
- the freedom to garden, landscape, run a home office, add solar, or build a sleepout
- the freedom to create stability for children without fear of being removed at the landlord's discretion

If housing becomes so expensive that normal families cannot buy, these freedoms disappear for most of the population. A country where only the wealthy can own property becomes a country where opportunity and security shrink.

New Zealand does not want to become a society where the majority rent for life. For the social contract to remain intact, house prices must realign with incomes so that working households can buy their shelter, build equity slowly and sustainably, and shape their homes in ways that renting simply does not allow.

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### 6) Good Reasons You May Still Choose to Buy Even When Prices Are High

These are lifestyle reasons — not financial ones. None of them change the fact that, on a return basis, housing is expensive and fundamentally overvalued.

Even though New Zealand housing is 30–50% overpriced on affordability grounds, there are still legitimate reasons why some people will choose to buy — and those reasons have nothing to do with financial returns.

#### a. Stability for families and children

Renting means exposure to eviction, sale by landlord, instability of leases, and sudden rent changes. Many parents choose to buy simply to stop their children being uprooted every 12–24 months.

#### b. Freedom to use and modify the property

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Owning gives you the autonomy to renovate, remove walls, open up spaces, modernise a 1970s layout, upgrade heating, add insulation, or future-proof the home. These freedoms matter even if the financial return is low.

### c. Life satisfaction and control

Some people value the psychological and emotional benefits of ownership: control, permanence, and the feeling of being “settled.” Those factors can outweigh the financial negatives.

### d. You have specific skills that can add value

If you are a tradie, an investor with renovation experience, or simply skilled at identifying structural or design improvements, you may be able to buy a poor or outdated property and add value through your own labour.

This is not the same as buying to hold for 20–30 years. It is a strategy-dependent decision — closer to trading or improving — and can make sense if executed carefully.

### e. Strategic buying in undervalued pockets

Even in an overpriced market, there are always exceptions:

- up-and-coming suburbs
- areas benefiting from new infrastructure
- homes mispriced due to cosmetic issues
- properties with land or orientation advantages the market hasn't priced correctly

These opportunities require judgement, research, and often professional skill. They are not representative of the average buy-and-hold home.

### f. Buying for lifestyle, not return

A home is not a stock.

If someone wants a specific school zone, a particular section, a garage, a large garden, a small community, or proximity to family — the lifestyle value may justify a purchase even when the economics do not.

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### 7) The Relative Pricing of Property vs Productive Companies (Microsoft & Mainfreight)

New Zealand housing is not only expensive relative to incomes — it is also expensive relative to **high-quality, productive companies** that generate real earnings, pay dividends, innovate, and compound value over time. Once you compare residential property to equities like **Microsoft** and **Mainfreight**, the pricing distortion becomes obvious.

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#### Productive Companies: Microsoft & Mainfreight

##### Microsoft (MSFT)

- Current P/E ratio:  $\approx 25$
- Earnings yield =  $1 \div 25 \approx 4.0\%$

##### Mainfreight (MFT)

- Current P/E ratio:  $\approx 25$   
→ Earnings yield  $\approx 4.0\%$

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#### New Zealand Property: Low Yield + Weak Forward Growth

Typical NZ residential property:

- Net rental yield:  $\sim 1.5\%$
- Expected capital gains:  $0\%–1.5\%$  per year (in a market that must realign with incomes)

This gives property an expected **total return of only 1.5%–3% per year** — barely above

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inflation, and far below the return of productive businesses.

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### You Pay More for Property Than for the World's Best Companies

At today's prices, buyers are paying **higher valuation multiples** for **depreciating houses** than for:

- **Microsoft** — one of the most profitable, innovative companies ever created
- **Mainfreight** — a global logistics leader with real customers, cashflow, and reinvestment opportunities

And unlike these companies, **property does not grow its “output”**. A house purchased in 2016 provides **no more shelter** today without further capital injections.

Microsoft, by contrast, has grown revenues by **nearly 4×** over the past decade — an extraordinary contrast in productive capacity.

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### The P/E Equivalent for Property Shows the Problem

If you value property the same way you value a company, you can convert its yield into a **P/E multiple**:

**Property P/E Equivalent =  $1 \div \text{Net Yield}$**

- With a **1.5% net yield**:  
→  $\text{P/E} = 1 \div 0.015 = 66\times$  earnings

Even if you optimistically include **1.5% annual capital gains**, giving an adjusted “total yield” of **3%**:

- With a **3% yield**:  
→  $\text{P/E} = 1 \div 0.03 = 33\times$  earnings

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### Comparison of Valuation Multiples

Asset	Effective P/E Multiple
NZ Property (1.5%–3% yield)	33× – 66×
Microsoft	25×
Mainfreight	25×

**New Zealand property trades at 1.5× to 3× the valuation multiple of highly productive companies.**

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### And Property Is Not Even Productive

Property:

- does **not** reinvest earnings
- does **not** innovate
- does **not** generate productivity
- requires **continuous capital input** (roof, wiring, plumbing, kitchens, bathrooms)
- delivers **weak and slow-growing earnings** (rents rise far slower than wages long-term)

Meanwhile, Microsoft and Mainfreight:

- reinvest profits
- expand capacity
- grow earnings
- innovate
- pay dividends
- scale globally

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### Bottom Line

**Investors in NZ property are paying far more — for far less.**

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When a non-productive, depreciating asset trades at **double or triple** the valuation of world-class companies with strong earnings growth, it is a sign of deep market distortion.

NZ property prices are not just high. They are **economically irrational** when compared to actual productive alternatives.

### Conclusion

#### #2 Are NZ House Prices too High?

**Yes — NZ house prices are too high. They remain 30–50% above what the nation's incomes can sustain.**

**If you buy today, you are not buying for returns — you are buying for lifestyle, stability, or strategic reasons.**

**The long-run fundamentals point in only one direction:**

**lower real returns, stagnant prices, or outright declines.**

**New Zealand housing is shelter — not a growth asset — and the market must eventually reflect that.**