Residential **views**

By Cameron Bagrie
ANZ chief economist

All eyes on the regions

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The RBNZ left the OCR on hold, but noted that rates may move lower in 2016.

We are not seeing enough to justify a further easing in policy but the risks are obvious.

December REINZ data showed some modest recoil, with the Auckland housing market considerably less buoyant than prior to the introduction of regulatory changes in October.

Markets in other regions are heating up, supported by historically low mortgage interest rates, relaxed LVR criteria and the "ripple' impact of earlier Auckland house price strength.

Dwelling construction activity is strengthening, but booming net immigration implies a moving target for housing demand.

Credit growth has followed the housing market and households are re-leveraging, although mortgage approvals look to have plateaued.

Auckland house prices remain stretched relative to both incomes and rents, but have held up well thus far, supported by historically low fixed mortgage interest rates, tight dwelling supply, and booming net immigration.

Housing markets in other regions have similar supports but milder affordability headwinds, and look set to continue to outperform Auckland.

The economy ended 2015 on a positive note, and leading indicators augur well for 2016.

While we expect solid growth over 2016, the risk profile is elevated. Global nuances and signals are poor, with China and commodity prices at the epicentre. The risk profile remains skewed towards the OCR falling further still.

There have been minimal moves in carded rates of late, with longer-term fixed rates marginally higher since our last edition.

Lower wholesale rates suggest scope for lower mortgage rates, but offsetting this are higher funding costs and we expect tension between these two as 2016 progresses.

The cheapest part of the curve by some distance is for the one to two year tenor, where rates are historically very low and offer the best value.

We continue to have a preference for the two-year rate, which offers greater certainty at a historically low rate and offers slightly higher protection if pressures in credit markets filter through into fixed-term rates.

Kitchen design trends 2016

It can be difficult to get an award-winning kitchen designer to talk about trends. Because, staying one step ahead of fashion is precisely what makes them stand out.

Robin Caudwell of Design CK, winner of the 2015 NKBA Kitchen of the Year Award, puts it this way: "When an idea becomes the norm, we don't want to know."

In other words, the designers have already moved on.

But they do acknowledge kitchen design is always changing as new materials and technologies become available. And while there is no reason why anyone even needs to be on-trend, it's worth remembering that a great kitchen with all mod cons is an investment. Conversely a kitchen that teams bright yellow and red in a glass splash-back and cabinet pulls will have the reverse effect, no matter how much it set you back.

So what can we expect to see this year? Ingrid Geldof of Ingrid Geldof Design says these are the key design trends:

- Matte black benchtops, tapware and light fittings
- Porcelain sheeting and tiles that replicate the look of marble or raw concrete on splashbacks and walls
- Rustic timber finishes and bevelled-edge planks
- Moodier, richer, darker colours
- Concealed lighting in joinery
- High-quality LED strip lighting
- Good diffusers for unobtrusive task lighting
- Copper and aged bronze in fixtures, fittings and wall panels
- Large-format tiles
- Moroccan-look tiles
- Beaded glass splashbacks

Source: stuff.co.nz

Mortgage borrowing strategy

From ANZ chief economist Cameron Bagrie

There have been some movements in special rates offered by the Big 4 Australasian banks, which have seen modest falls for the average carded three year rate, whilst average special carded rates are slightly higher in the four to five year space.

Moves have been modest, amounting to less than 10bps on average. Average standard rates have been fractionally higher for longer maturities.

The lowest part of the curve is for one to two year fixed rates, particularly for mortgage specials, with average rates around multi-decade lows. Average borrowing rates have fallen by around 50bps over 2015 (to around 5.50%), once again the lowest rate in decades.

Retail rates are now facing pressure from two sides: the potential for the RBNZ to cut rates, which wholesale markets are putting reasonable odds on, but higher funding (credit) costs internationally. The latter is a sticking point for a fall in fixed mortgages rates to under 4 percent.

For those able to access specials, one and two-year terms remain the cheapest by some distance.

Borrowers could choose to spread fixed terms across both tenors to stagger rollovers, but because of the additional certainty afforded, we have a preference for locking in a greater proportion for two years, offering greater protection should fixed rates move up.