SMITHS ECONOMIC PAPERS

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The Property-Wealth Illusion

Why property can build wealth and fragility in the same New Zealand household, at the same time.

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EXECUTIVE SUMMARY

The wealth you can see, the risk you cannot

In New Zealand, property is not merely an asset class. It is the national savings plan, the retirement strategy, and the scoreboard of financial success. About half of all household wealth sits in it. That single fact is the source of both the country's prosperity and its hidden financial fragility.

This paper is not anti-property. Property has built more household wealth in New Zealand than any other asset, and for good reason: it is tangible, it is leveraged, and over decades it has compounded. But a balance sheet dominated by one large, borrowed-against, illiquid asset does two things at once. It builds **net worth**, and it builds **fragility**. The figure on the statement rises while the household's ability to absorb a shock quietly falls.

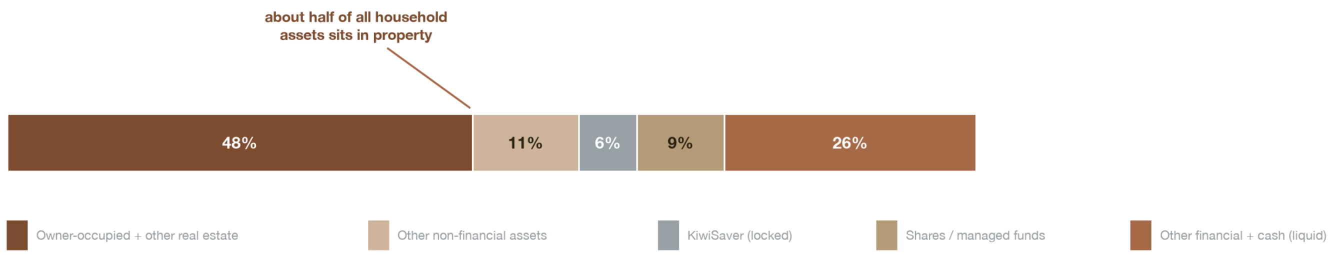
We draw on the economics of household finance (Campbell, 2006), portfolio concentration and the dominance of housing in the household portfolio (Flavin & Yamashita, 2002), the financial-instability and leverage-cycle literatures (Minsky, 1986; Geanakoplos, 2010), behavioural familiarity bias (Huberman, 2001), and New Zealand balance-sheet data from Stats NZ and the Reserve Bank. From these we build a framework, **the Hidden Property Balance Sheet**, that makes the invisible second half of a property position visible.

SMITHS FINDING 02

> **"Property can make a household wealthy on paper while leaving it under-diversified, illiquid and exposed to shocks. The wealth is real. So is the fragility, and it is hidden in plain sight."**

~48%	~1.7×	~80%
of New Zealand household assets held in property (Stats NZ Household Net Worth, 2024)	aggregate household debt as a multiple of disposable income; ~3.3× for mortgaged households (RBNZ, 2025)	share of the fixed-rate mortgage book that repriced across 2025, a 13-year high (RBNZ FSR, Nov 2025)

Where New Zealand household wealth actually sits



Owner-occupied and other real estate was about 48% of total household assets in 2024 (Stats NZ Household Net Worth), up from 43% in 2021. KiwiSaver was roughly 6%.

Around half of all New Zealand household wealth is concentrated in a single illiquid, leveraged asset class. The property (~48%) and KiwiSaver (~6%) shares are from Stats NZ Household Net Worth (2024); the remaining segments are an **illustrative** representative split, not measured sub-categories. Full sources are in the References.

THE ECONOMIC PROBLEM

One asset, doing too many jobs

A New Zealand home is asked to be many things at once: shelter, a leveraged investment, a forced-saving scheme, a retirement fund and a status symbol. No single asset can do all of those jobs without creating tension between them. That tension is the property-wealth illusion.

1. The visible layer flatters the household

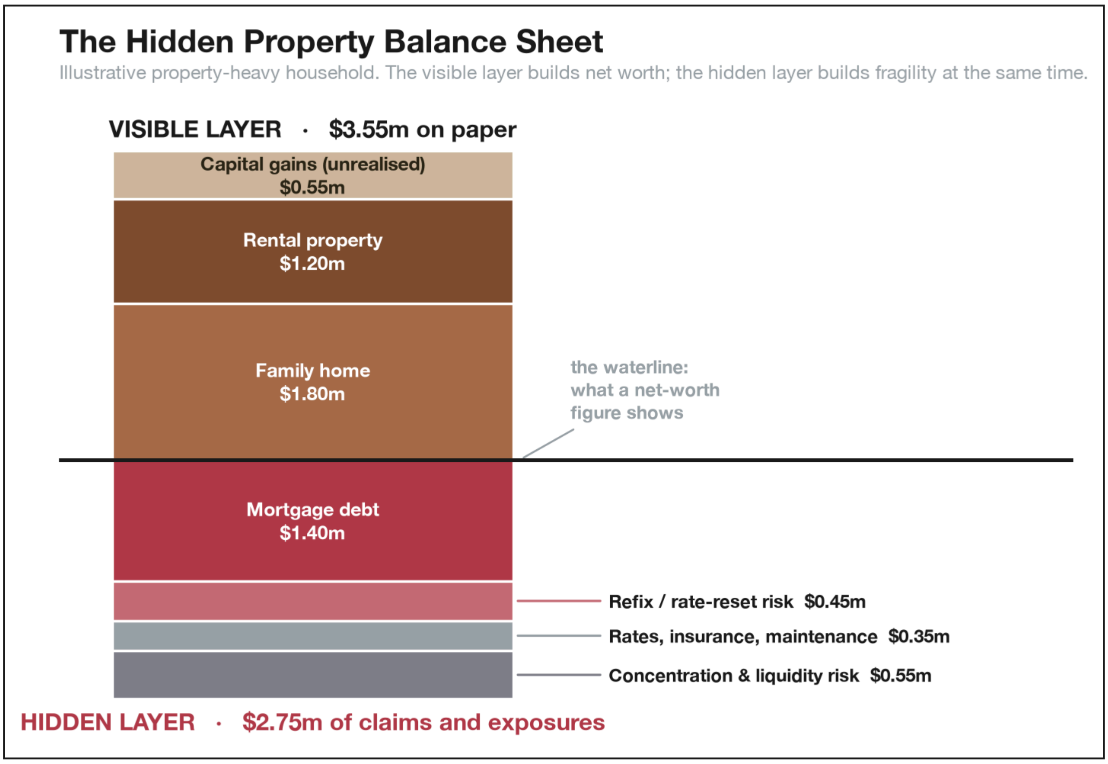
What a property position shows is its gross value: a home worth $1.8m, a rental worth $1.2m, years of capital gains. These numbers are large, they are tangible, and they rise. They are also only the top half of the balance sheet. They say nothing about what is owed against them, what they cost to hold, or whether they could be turned into cash when cash is what the household needs.

2. The hidden layer carries the risk

Beneath the visible value sits a second layer the statement never adds up: the mortgage, the refix schedule, the rates, the rising insurance premium, the maintenance, and two risks that have no line item at all, concentration and illiquidity. This hidden layer does not reduce net worth on paper. It reduces the household's capacity to withstand a shock, which is a different and more important thing.

3. Leverage cuts both ways

Borrowing is what makes property such a powerful wealth builder: a 20% deposit controls 100% of an appreciating asset. But the same leverage that multiplies gains multiplies the downside. With a large mortgage, the household owns the equity and the bank owns the security, and the household carries the cash-flow risk every time interest rates reset.



The Hidden Property Balance Sheet. The visible layer builds net worth above the waterline; the hidden layer of debt, costs and risk sits below it.

THE THEORY BEHIND IT

What the economics actually says about housing

The claim that property builds wealth and fragility at once rests on a well-established body of economic theory on portfolios, leverage and behaviour.

Housing dominates the household portfolio

Flavin and Yamashita show that the family home, large, illiquid and held with leverage, crowds out other risky investments and pushes households into a portfolio they would not choose if housing were simply a financial asset. Owner-occupiers over-weight property because they must live somewhere, then carry the investment risk as a by-product.

Flavin, M. & Yamashita, T. (2002). Owner-Occupied Housing and the Composition of the Household Portfolio. American Economic Review, 92(1).

Household finance and concentrated, undiversified balance sheets

Campbell documents that ordinary households systematically hold under-diversified portfolios, are exposed to interest-rate and house-price shocks, and face illiquidity frictions. Concentration in housing is the textbook example.

Campbell, J. Y. (2006). Household Finance. Journal of Finance, 61(4), 1553–1604.

Leverage cycles amplify the swings

Geanakoplos shows that not just interest rates but the available leverage (the loan-to-value the system will extend) drives asset prices. When credit loosens, leverage and prices rise together; when it tightens, the mechanism runs in reverse, and the most leveraged households are most exposed.

Geanakoplos, J. (2010). The Leverage Cycle. NBER Macroeconomics Annual 2009, Vol. 24, 1–65.

Financial instability and the build-up of fragility

Minsky argued that long periods of stability encourage ever more leverage against long-lived, illiquid assets, so the system becomes most fragile precisely when it looks most secure.

Minsky, H. P. (1986). Stabilizing an Unstable Economy. Yale University Press; (1992). The Financial Instability Hypothesis. Levy Working Paper No. 74.

Concentration bites because of covariance, not just a thin spread

Cocco shows house-price risk crowds out other risky investment, most for households with little financial wealth. Cocco, Gomes and Maenhout add the sharper point: human capital, the house and the local economy are positively correlated, so the home doubles down on the wage rather than diversifying it.

Cocco, J. (2005). Portfolio Choice in the Presence of Housing. RFS, 18(2), 535–567. Cocco, Gomes & Maenhout (2005). Consumption and Portfolio Choice over the Life Cycle. RFS, 18(2), 491–533.

Familiarity bias: we invest in what we know

Huberman shows people invest disproportionately in the familiar, even when poorly diversified. In New Zealand the most familiar asset is residential property, which helps explain why households concentrate wealth in housing and participate lightly in financial markets.

Huberman, G. (2001). Familiarity Breeds Investment. Review of Financial Studies, 14(3), 659–680.

What it actually costs to own a home

Economists do not measure the cost of owning by the mortgage payment. They use the **user cost of housing**: the true annual cost of holding a home, once every gain and carry cost is counted. The framework is forty years old, and it explains New Zealand's love affair with property better than any cultural story.

Following Poterba (1984) and Himmelberg, Mayer and Sinai (2005), the annual user cost of owning a dollar of house is the sum of what the dollar costs to hold, minus what it is expected to earn in capital gain. Written for a New Zealand owner-occupier, with H the value of the home:

The user-cost identity, for an NZ owner-occupier

Annual user cost = H × ($\mathbf{i}_{\text{after-tax}}$ + **r** rates & insurance + **m** maintenance / depreciation − **g** expected capital gain)

i = after-tax mortgage interest (the cost of the borrowed dollars and the opportunity cost of the deposit) · r = rates and insurance · m = maintenance and depreciation · g = expected annual capital gain. The household pays the first three terms and subtracts the fourth.

Every term except the last is a cost the household feels each year. The last term, the expected capital gain **g**, is subtracted: if a house is expected to appreciate, that anticipated gain offsets the cost of holding it. And here is the New Zealand wrinkle that turns description into economics.

New Zealand has no general capital gains tax, and the family home is excluded from the bright-line test. So the expected-gain term in the user cost is, for an owner-occupier, effectively untaxed. That single fact lowers the user cost of owning and tilts the whole country toward housing.

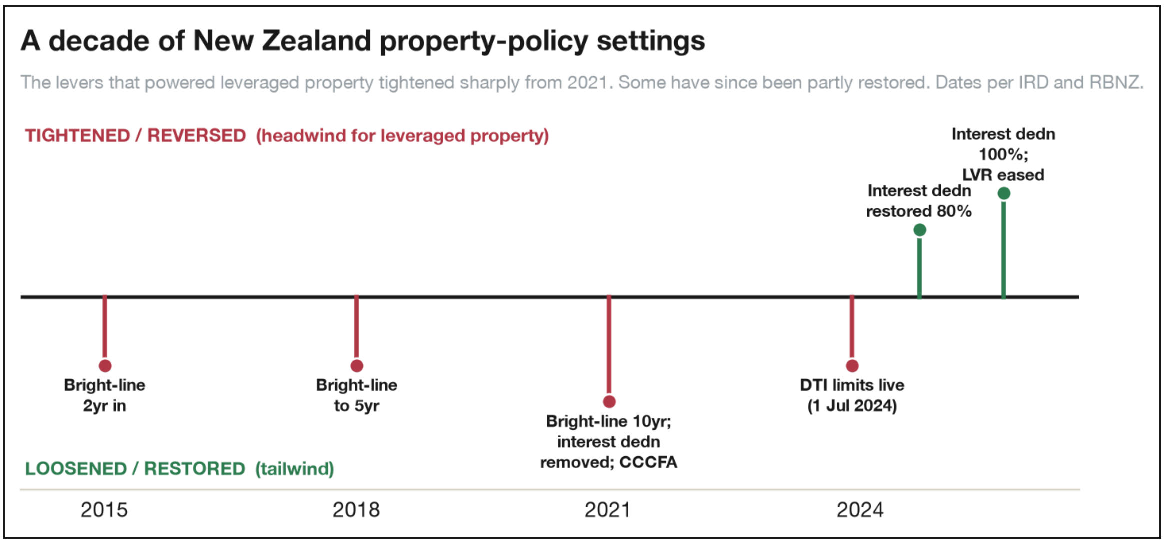
In a country that taxed capital gains on the home, the household would subtract an *after-tax* expected gain, a smaller number, so owning would look more expensive and other assets relatively more attractive. In New Zealand the household subtracts the *full, untaxed* expected gain. Owner-occupied housing therefore carries a structurally lower user cost than almost any other investment a household can make, and it is the only large, leveraged, untaxed-gain asset most families will ever hold. This is not a moral failing or a cultural quirk. It is the predictable response of rational households to the incentives the tax system sets. The over-investment in housing is built into the price of owning it.

The same identity also shows why a falling-rate era was so powerful. For two decades the after-tax interest term **i** trended down while the expected-gain term **g** stayed high, so the user cost of owning fell and fell. Households responded exactly as the model predicts: they borrowed more and bid prices up. The next section shows what happens when the policy settings behind those terms go into reverse.

THE RULES THAT BUILT THE BET

How New Zealand's policy settings tilt the field

The user cost of owning is not set by markets alone. It is set by tax and credit policy, and in New Zealand those settings pushed households toward leveraged property for a generation and are now, one by one, reversing. Geanakoplos showed that asset prices are driven not only by interest rates but by the *amount of leverage the system will extend*, and the Reserve Bank can now turn that leverage up or down directly.



A decade of New Zealand property-policy settings. The tailwinds that powered leveraged property, falling rates, no debt-to-income limits and full interest deductibility, are precisely the levers that tightened or reversed since 2021. Dates and settings per IRD and RBNZ (see References).

POLICY LEVER, AND WHAT IT DOES TO THE BET	DIRECTION NOW
No general capital gains tax; main home excluded from the bright-line test. Leaves the expected-gain term in the user cost untaxed.	Unchanged: the structural tilt
Bright-line test: 2yr (2015) → 5yr (2018) → 10yr (2021) → 2yr (1 Jul 2024). A partial, time-limited tax on investor gains.	Wound back, but the volatility is the point
Interest deductibility on rentals: phased out from Oct 2021, restored to 80% (Apr 2024), 100% (Apr 2025). Changes the after-tax cost of geared property.	Restored, after a costly four-year detour
LVR limits on high loan-to-value lending: the maximum leverage at purchase, the Geanakoplos margin.	Eased late 2025, now DTIs do the work
DTI limits (new, 1 Jul 2024): owner-occupier lending capped above a debt-to-income of 6, investor above 7. The first hard ceiling NZ has had.	New and binding: a permanent change
CCCFA affordability rules: tightened Dec 2021, eased from 2022. Controls how freely credit is extended.	Loosened, after over-tightening

Read down the right-hand column and the leverage cycle is visible in real time. For two decades the levers pushed one way: falling rates, no debt-to-income ceiling, deductible interest, light-touch credit. The Reserve Bank's **debt-to-income limits, live since 1 July 2024, are the most important change**: for the first time New Zealand has a hard ceiling on how much a household can borrow against its income, whatever the collateral is worth. That is Geanakoplos in policy form, capping the very mechanism that built the boom, and the reckoning with those past realised returns comes later in this paper.

The Hidden Property Balance Sheet

Every property position has two layers. The visible layer is the one a net-worth figure records. The hidden layer is the one that decides whether the position is resilient or fragile. Making the hidden layer visible is the whole point of the framework.

The visible layer

What you can see and what a statement adds up: the gross value of the home and any rental, the capital gains accumulated over the years, and the rental income a property produces. This layer is real wealth. The error is in stopping here.

- The family home, at market value
- Rental or investment property
- Unrealised capital gains
- Gross rental income

The hidden layer

What sits below the waterline and never appears as a single number: the debt, the recurring carry costs, and the two structural risks that have no statement line at all.

- Mortgage debt and the refix / rate-reset schedule
- Vacancy, maintenance, rates and body-corporate costs
- Insurance and reinsurance cost, rising and risk-based
- Concentration risk, liquidity risk, and the retirement-drawdown problem

The framework forces a simple discipline: for every dollar of visible property value, ask what hidden claim or exposure sits beneath it. A $3.55m visible position (the household and rental, including unrealised gains) with a $2.75m hidden layer of debt, carry costs and risk is a very different thing from the headline property wealth the statement records. The statement nets only the $1.40m mortgage against the property, reporting strong net worth; it never subtracts the carry costs or the concentration and liquidity risk that decide whether the position is resilient. The household has not been deceived by anyone. It has been deceived by the measure.

> **Net worth records the top half of the property balance sheet and ignores the bottom half. Resilience lives in the bottom half.**

This is the same logic as Paper 01's distinction between net worth and resilience, applied to the one asset that dominates New Zealand household wealth. Where Paper 01 asked what a household could survive, this paper asks what a single concentrated, leveraged, illiquid asset does to that capacity.

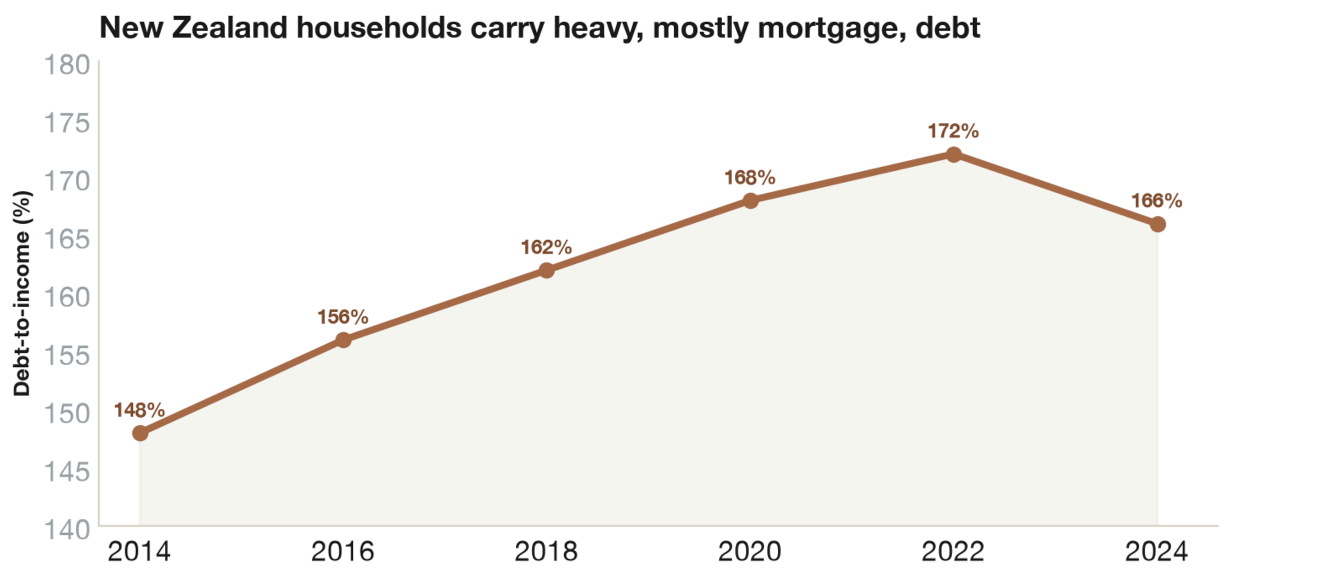
INSIDE THE HIDDEN LAYER

Four risks the statement never shows

The hidden layer is not vague. It is four specific, measurable risks. The first, leverage and refix risk, is the one that arrives on a fixed schedule the household does not control.

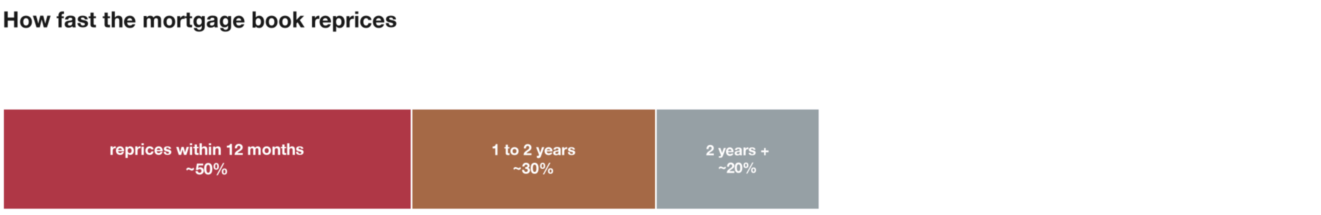
1. Leverage and refix risk

New Zealand households carry debt of roughly 1.6 to 1.7 times annual disposable income in aggregate, and closer to 3.3 times for mortgaged households specifically, almost all of it mortgage debt (RBNZ, 2025). The book is overwhelmingly fixed-rate but on short terms, so it reprices fast: the Reserve Bank estimated around 80% of fixed-rate borrowing repriced across 2025, a thirteen-year high, with roughly 40% due to refix over the December 2025 and March 2026 quarters alone. A rate reset is a near-term cash-flow shock, not a distant one.



Household debt is roughly 1.6 to 1.7 times annual disposable income (RBNZ), predominantly mortgages. Illustrative path; levels are indicative.

Household debt has climbed to roughly 1.7 times disposable income, almost entirely mortgages. Indicative path; levels per RBNZ household statistics.



In tight-policy periods, around half of New Zealand's fixed-rate mortgage book is scheduled to refix within 12 months (RBNZ Financial Stability Report). Refix risk is a near-term cash-flow shock, not a distant one.

Around half of the fixed-rate mortgage book can refix within a year. A mortgage does not change net worth when rates rise; it changes how much of next month's income the household keeps, and that is the part that breaks plans.

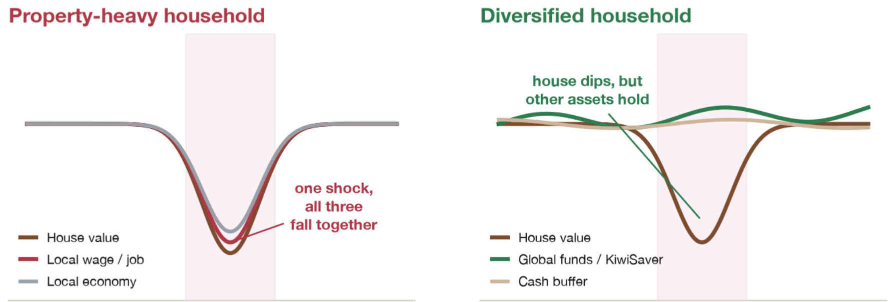
Concentration, illiquidity and carry

2. Concentration risk, and why covariance is the real problem

When one asset is most of the balance sheet, the household's financial life rides on that asset's market. Diversification is the only free lunch in finance, and a property-heavy household has declined it. But the deeper problem is not simply that the household owns too little of everything else. It is that the things it does own move *together*.

For most New Zealand households, three big risks are positively correlated: their **human capital** (the wage that services the mortgage), their **house**, and their **local economy**. You can lose your Christchurch job in the same downturn that softens Christchurch house prices, because the same regional shock drives both. The family home does not diversify the wage; it is geared to the same economy that pays it. That correlation, not merely a thin spread of assets, is why concentration bites: the shock arrives on the income side and the asset side at once, just when the household most needs them to be independent. Cocco, Gomes and Maenhout formalise exactly this, the household whose human capital, housing and labour market are entangled rather than offsetting.

Why concentration bites: covariance, not just a thin spread



When the wage, the home and the local economy are correlated, a single regional shock hits income and assets at once. Diversification works only when the other assets move independently. Schematic.

Diversification works only when assets move apart. In a property-heavy household, the wage, the home and the local economy move together, so a single regional shock hits income and assets at the same time. In a diversified household, global funds and cash do not fall with the local economy. Schematic; the point is the direction of the correlation, not a measured coefficient.

3. Illiquidity and transaction cost

Property is slow and expensive to convert into cash. A typical New Zealand sale takes weeks to months, and the round-trip cost of selling and rebuying, agent commission, legal and marketing fees, can run to five to seven per cent of value. A household that needs cash in thirty days cannot get it from a house, at least not without a forced sale or a loan secured against it.

4. Carry cost: rates, maintenance and insurance

Property is not a set-and-forget asset. Rates, maintenance and insurance are a permanent drag, and insurance in particular is rising. Since the Canterbury and Kaikoura earthquakes, New Zealand insurers have moved to risk-based, sum-insured pricing, and rising reinsurance costs are passed through as higher premiums and excesses. Wealth locked into a home in a high-hazard zone faces both capital-value and insurance-cost risk.

> **A diversified portfolio pays you to hold it. A concentrated property position charges you rates, maintenance and a rising premium for the privilege.**

Two families, one looks far richer

Consider two real-shaped New Zealand households with similar total wealth. One owns far more property and is far more fragile; the other is far harder to break.

The Property-Heavy household

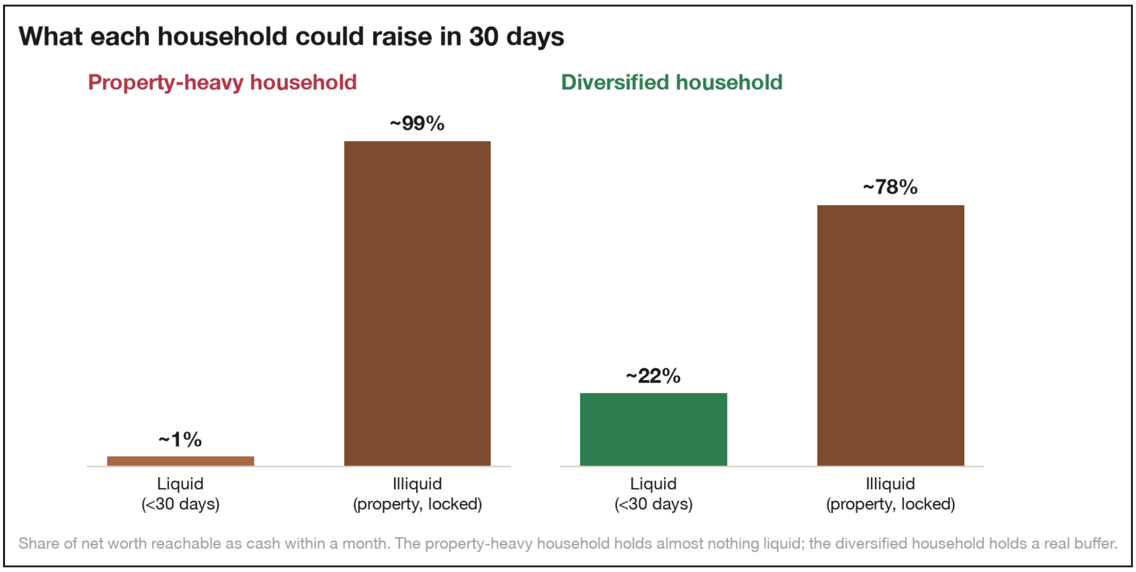
Family home	$1.80m
Rental property	$1.20m
KiwiSaver	$0.10m
Cash	$0.03m
Managed funds	$0.00m
Mortgage debt	–$1.40m
Net worth	**$1.73m**

About $3m of property, a $1.4m mortgage refixing into higher rates, $30k of cash, no managed funds, rising premiums and tight rental cashflow. Wealthy on paper, one repair or rate reset from forced selling.

The Diversified household

Family home	$1.60m
KiwiSaver	$0.35m
Managed funds	$0.25m
Cash / emergency fund	$0.08m
Rental property	$0.00m
Mortgage debt	–$0.50m
Net worth	**$1.78m**

One home, a modest $0.5m mortgage, $350k in KiwiSaver, $250k in accessible managed funds, $80k cash, and proper insurance. Less property, far more liquidity and diversification.



Near-identical net worth. The property-heavy household can raise only about two per cent of it as cash in a month; the diversified household can raise nearly a fifth.

The two households are within $50,000 of each other in net worth, yet worlds apart in resilience. The property-heavy household holds almost nothing it can reach and has bet its financial life on one market. The diversified household owns less property but a real cash buffer, a portfolio it can sell in days, and a mortgage it can comfortably service. The same wealth, a very different ability to survive a shock.

HOW THE ILLUSION BREAKS

One shock, run through a property-heavy sheet

The fragility hidden in a property position is invisible until a shock travels through it. The property-heavy household has the longest chain and the fewest places to break it.

Shock (rate reset, vacancy, repair, illness) → Cash cost rises → Thin buffer runs out → No liquid assets to sell → Property sold under pressure → Wealth and plan damaged

For the property-heavy household, every link is exposed. The refix raises costs; the $30k buffer is gone in weeks; there are no managed funds to draw on; and the only asset large enough to solve the problem is the very thing that is slow and costly to sell. The chain runs to its end, and the loss is permanent, because property sold under pressure does not come back when the market recovers.

For the diversified household, the chain breaks early. The cash buffer absorbs the cost. The managed-fund layer can be sold in days if needed. The smaller mortgage reprices into a payment the household can still meet. The same event is a setback, not a forced sale.

WHERE THE CHAIN CAN BREAK	WHAT HOLDS IT
Rate reset raises the mortgage cost	A smaller, staggered, well-managed mortgage
A repair or vacancy spikes costs	A real cash buffer, sized to months not days
Cash runs out	Accessible managed funds outside locked-in savings
An asset must be sold	Liquid holdings that sell in days, not the house
One market falls	Diversification across property, funds and cash

Each row is a point at which a diversified household interrupts the shock before it forces a property sale.

The asymmetry is the whole point. Both households did what New Zealand culture rewards. One simply did nothing else, and that concentration is the difference between a hard year and a forced sale at the bottom.

THE HONEST COUNTERARGUMENT

But property made New Zealanders rich

The strongest objection to this paper is also the truest. For forty years, concentrated, leveraged property did not just look like wealth. It delivered it. Any honest treatment has to start there.

A household that bought a home in 1990, geared it, held it and remortgaged into the next one captured a historic combination: real house-price growth, decades of falling rates, full tax-free gains on the family home, and leverage that multiplied all of it. The realised returns were real, large and tax-free. So why hold the line?

Survivorship bias

We see the households the strategy worked for. We do not see those forced to sell in 1991, 2009 or a leaky-building dispute, who never reached the compounding. The visible winners are not the whole distribution, only its surviving tail.

Sequence and forced-sale risk

The same average return is wealth if you hold through the dips and ruin if a shock forces a sale at the bottom. A concentrated, illiquid, leveraged position is exactly the one most likely to force that sale at the worst moment.

And then the decisive point: **the tailwinds that produced those returns are the very things now reversing.** Each pillar of the historic case has weakened in the last five years.

THE TAILWIND THAT BUILT THE WEALTH	ITS STATUS NOW
Secular falling interest rates, two decades of them	Reversed: rates rose sharply, and the user cost of owning rose with them
No debt-to-income ceiling on borrowing	Gone: RBNZ DTI limits binding since 1 July 2024
Full, generous interest deductibility on rentals	Removed in 2021, only restored to 100% in 2025, after a costly detour
Stable, predictable property tax rules	The bright-line test swung from 2 to 10 and back to 2 years in nine years

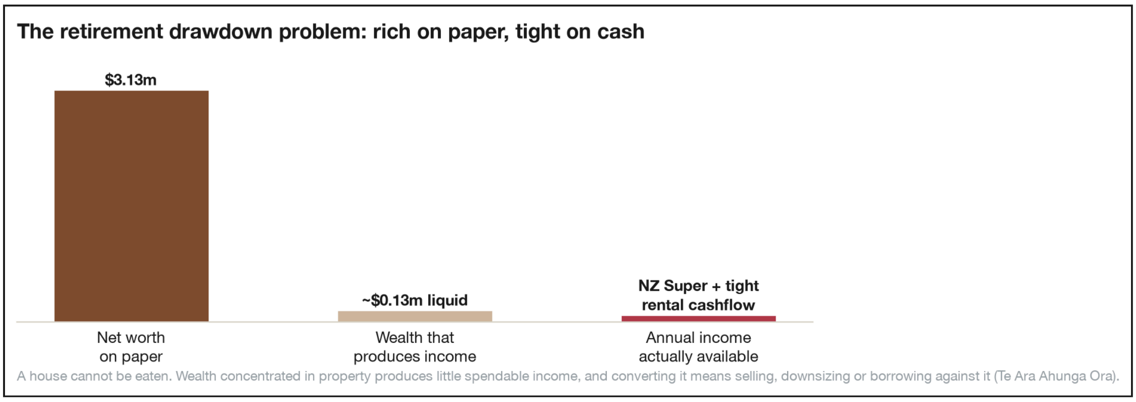
The realised returns are not in dispute. What is, is whether a household should bet its retirement on those returns repeating when every structural condition that produced them is weaker or reversed. The past was a one-time tailwind, and the household that extrapolates it takes the concentrated, leveraged risk without the policy support that once paid for it.

Property genuinely made many New Zealand households wealthy. The question is not whether it worked. It is whether the next thirty years will hand the same household the same tailwind, and on every measurable lever, they are turning the other way.

Rich on paper, tight on cash, in retirement

The property-wealth illusion bites hardest in retirement, when income stops and most of the household's wealth is locked in a house that cannot be eaten.

Te Ara Ahunga Ora, the Retirement Commission, describes a familiar profile: older households that are asset-rich and income-poor, wealth concentrated in the home, heavy reliance on NZ Super for spending. Its *Older People's Voices* research (2025) puts numbers on the reluctance: of those with financial assets, four in ten would not touch them unless an emergency forced it, and only about one in ten drew a regular income from savings at all. New Zealanders do not, on the whole, decumulate. They hold the wealth and live on the pension.



A large net-worth figure can sit alongside very little spendable income. Wealth in property produces shelter, not cash flow.

Why the house will not pay the bills

- **Selling means moving.** The family home is shelter first, so downsizing carries emotional and transaction costs, and frees only part of the value.
- **Rental income is not free cash.** A rental still carries a mortgage, rates, maintenance, vacancy and rising insurance, so the headline yield overstates what reaches the household.
- **Bequest and longevity worries lock it up.** Many retirees will not draw on housing wealth at all, holding it against an uncertain future.

Why equity release stays thin: an adverse-selection problem

If housing wealth is so large and so locked, why is the market for releasing it so small? New Zealand has, in effect, one meaningful reverse-mortgage provider: Heartland Bank holds more than nine-tenths of the market. That is what the economics predicts. A reverse mortgage carries a **no-negative-equity guarantee**: the lender can never recover more than the eventual sale price, so it is short two correlated risks at once, **longevity risk** and **house-price risk**, with no ability to call the loan. Worse, those most eager to borrow expect to live longest in homes they expect to stagnate, which is textbook **adverse selection**. The lender prices against all of it: Heartland's NZ rate sat at 7.75% in early 2026, well above standard floating rates, and the interest compounds. The product is rational on both sides, and thin for exactly that reason.

> **A house is a wonderful place to live and a poor pension. The market for turning it into cash is thin precisely because the risks of doing so are real.**

The diversified household reaches retirement with the same home but also with KiwiSaver and managed funds it can draw down in a planned, tax-aware way. It is the diversification, not the property, that makes the retirement income work.

WHAT IT MEANS FOR YOUR MONEY

A resilient property position

The answer is not to avoid property. It is to hold property as part of a balance sheet, not as the whole of one, and to manage the hidden layer deliberately.

Manage the leverage

Treat the mortgage as a risk to be managed, not a fixed fact. Stagger fixed terms so the whole book does not reprice at once, keep a buffer against rate resets, and size debt to the income that has to service it through a downturn, not just on a good day.

Build a liquid layer

A property-heavy household most needs the thing it has least: accessible cash and diversified managed funds. A liquid layer is what stops a shock from forcing a sale of the illiquid core.

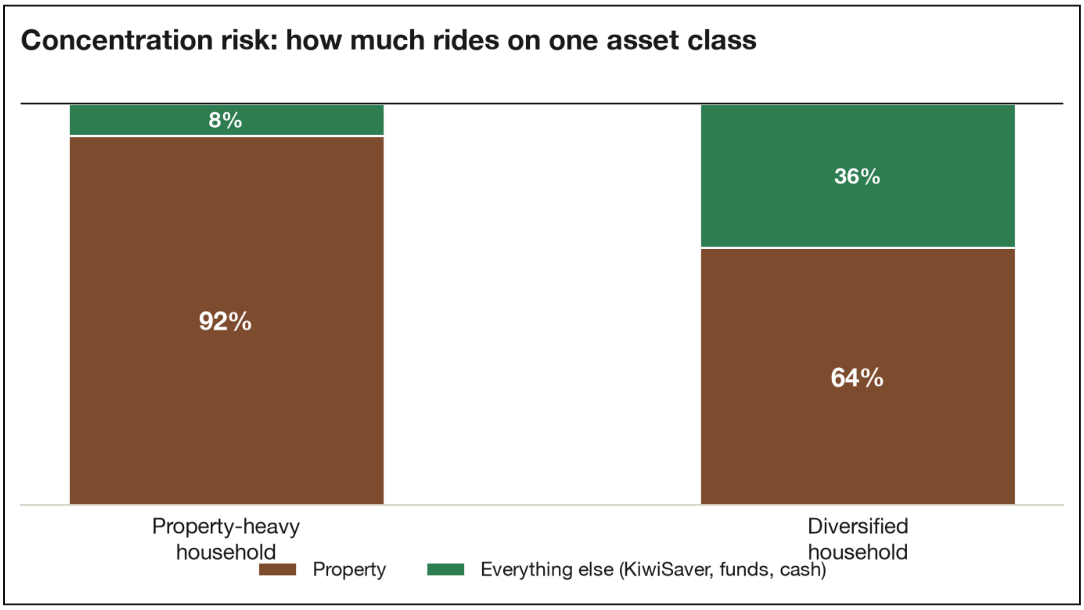
Diversify around the home

KiwiSaver and managed funds are not rivals to property; they are the diversification that makes a property position safe to hold. They spread the bet, add liquidity, and produce the drawable income a house cannot.

Insure the hidden layer

Adequate, correctly sized house insurance protects the asset itself; income-protection and life cover protect the income that services the mortgage. Together they keep a shock from becoming a forced sale. (Insurance is the subject of Paper 03.)

In every case the lesson is the same: property builds wealth best when it is one strong asset among several, not the only one. A plan that concentrates everything in housing maximises both the upside and the fragility. A plan that diversifies around a sensible property position keeps the wealth and removes much of the risk.



Diversifying around the home, rather than selling it, is what turns a fragile property position into a resilient one without giving up the wealth.

WHAT THIS MEANS IN PRACTICE

From a valuation to a plan

Applying the Hidden Property Balance Sheet to a real household is a short, structured exercise.

- **Draw both layers.** List the visible property value, then list every hidden claim and cost beneath it: debt, refix dates, rates, maintenance, insurance, and the two structural risks.
- **Measure the concentration.** What share of net worth rides on one asset class? Above roughly two-thirds in property, the household is making a concentrated bet whether it means to or not.
- **Measure the liquidity.** What could be raised in 30 days without selling the home? If the answer is close to nothing, the position is fragile regardless of its size.
- **Map the refix schedule.** When does the mortgage reprice, and can the household meet the higher payment if rates are two points higher?
- **Build the missing layer.** Add cash and diversified, liquid funds around the property core, and insure the income that services the debt.

None of these moves require selling the home or abandoning property. They change the *shape* of the balance sheet, adding the liquid, diversified, insured layer that a property-only position lacks. The household can hold the same property and the same net worth and be far harder to break.

>2/3	30 days	2 pts
share in property above which a household is making a concentrated bet, by default	the liquidity test: what could be raised as cash without selling the home	the refix stress test: can the mortgage still be serviced if rates are two points higher

IN ONE SENTENCE

"Own property as one strong asset among several, manage the debt and the costs, and keep a liquid layer beside it, so the wealth survives the shocks the statement never showed."

TECHNICAL APPENDIX

Assumptions and data

A.1 The Hidden Property Balance Sheet, formally

Define the visible property layer V as the gross market value of owner-occupied and investment property plus accrued unrealised gains, and the hidden layer H as mortgage debt plus the present value of recurring carry costs (rates, maintenance, insurance) plus a risk adjustment for concentration and illiquidity. Reported net worth is V minus mortgage debt only; the relevant figure for resilience is V minus the full hidden layer H.

> **Resilient property value = Visible value − (Mortgage + Carry costs + Concentration & liquidity risk)**

The carry-cost term is the recurring user cost of housing in the sense of Poterba (1984) and Himmelberg, Mayer and Sinai (2005): after-tax interest plus rates, insurance and depreciation, less the expected capital gain. In New Zealand that expected-gain term is untaxed on the owner-occupied home, which lowers the user cost of owning and is a structural driver of the concentration this paper describes.

A.2 Case-study parameters

ITEM	PROPERTY-HEAVY	DIVERSIFIED
Total property value	$3.00m	$1.60m
Mortgage debt	$1.40m	$0.50m
KiwiSaver	$0.10m	$0.35m
Managed funds	$0.00m	$0.25m
Cash	$0.03m	$0.08m
Property as share of assets	~96%	~70%
Liquid share of net worth	~2%	~19%
Net worth	$1.73m	$1.78m

The case-study households differ by less than $50,000 in net worth, yet the diversified household can reach roughly ten times as large a share of that wealth as cash within thirty days. Concentration and liquidity, not net worth, separate them.

TECHNICAL APPENDIX

Data anchors and limitations

A.3 Data anchors

Each figure used in the paper is anchored to a named New Zealand source. Where a single point estimate is not meaningful, the paper uses an indicative range.

METRIC	VALUE USED	SOURCE
Property share of household assets	~48% (2024, from 43% in 2021)	Stats NZ Household Net Worth
Household debt-to-income	~1.7× aggregate; ~3.3× mortgaged households (2025)	RBNZ household statistics
Fixed-rate book repriced across 2025	~80% (13-year high)	RBNZ Financial Stability Report, Nov 2025
RBNZ debt-to-income (DTI) limits	From 1 Jul 2024: owner-occ above DTI 6, investor above DTI 7, speed-limited	RBNZ macroprudential policy
Bright-line test / no general CGT	2yr→5→10→2yr (1 Jul 2024); main home excluded	Inland Revenue
Rental interest deductibility	Phased out 2021; restored 80% (Apr 2024), 100% (Apr 2025)	Inland Revenue / Beehive
Reverse-mortgage market	Heartland >90% share; rate ~7.75% (Jan 2026), compounding	Heartland; NZ Adviser
Round-trip transaction cost	~5 to 7% of value	REINZ / CoreLogic; agency data
Retiree decumulation	4 in 10 asset-holders draw down only in emergencies	Te Ara Ahunga Ora, 2025

A.4 Assumptions and limitations

- Case-study households are illustrative, built to representative New Zealand parameters, not survey records.
- Some figures (refix shares, transaction costs) are indicative ranges that vary by region and point in the cycle; policy settings are dated to the most recent confirmable IRD/RBNZ source.
- The hidden-layer risk adjustment for concentration and illiquidity is conceptual; a calibrated version is future work. This is general commentary, not a valuation, recommendation, or regulated advice.

A.5 How this paper fits the series

Paper 01 established that resilience, not net worth, is the true measure of household financial strength. This paper applies that lens to the single asset that dominates New Zealand household wealth. Paper 03 turns to the tool that protects the income servicing the mortgage: insurance, treated as balance-sheet engineering.

> **The thread across the series is one idea: wealth that cannot survive contact with the real world is not the same as wealth that can.**

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Coming next in the series

Paper 03 · Insurance as Balance-Sheet Engineering

How life, income-protection, trauma and health cover protect the largest asset most households own, their future income, and keep a property-heavy balance sheet from a forced sale.

Paper 01 · The Death of Net Worth

Why high-net-worth households can still be fragile, and why resilience, not net worth, is the true measure of household financial strength.

About the author and series

Henry W. Smith (BBusMan) is a financial adviser and the author of the Smiths Economic Papers, which apply established economic theory to the real financial lives of New Zealand households, published by Smiths Insurance & KiwiSaver. This paper is general information and economic commentary only. It is not personalised financial advice, is not a recommendation to buy, hold or sell any property or product, and does not take into account your personal objectives, financial situation or needs. Smiths Insurance & KiwiSaver is a Financial Advice Provider; regulated advice is provided only through a personalised advice process.