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NAB Australian Housing Market Update- Oct 26

Presented by Cotality



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NAB Australian Housing Market Update

Welcome to Cotality's housing market update for October.

Australian housing values fell for a sixth straight month in September, with the national Home Value Index down 1.1% over the month. That takes the cumulative decline since the March peak to 5.2% nationally, highlighting how quickly housing conditions have shifted through the middle of the year.

The downturn is now broad-based. Every capital city apart from Darwin recorded a fall in values in through the September quarter, with 97% of capital city suburbs recording a decline over the three-month period.

This negative housing cycle reflects a combination of affordability constraints, higher interest rates, elevated living costs and weaker consumer sentiment. Less demand following changes to taxation policy in the federal budget has also played a role. Together, these factors have reduced purchasing capacity and dampened buyer demand.

Brisbane recorded the sharpest monthly decline among the capitals, with values down 1.5%, edging past Sydney's 1.4% fall. That result shows how sharply conditions have turned in what had previously been one of the strongest housing markets. Each of the mid-sized capitals have gone from recording monthly gains of more than 1% six months ago to a market

where values are falling at more than 1% month on month.

Sydney continues to lead the correction, with values now 8.6% below their February peak, taking about \$112,000 off the median dwelling value. Melbourne values are 7.2% below their cyclical high from November last year and 7.5% below the record high reached in March 2022.

Regional markets continue to show greater resilience, with dwelling values up 5.6% over the year, compared with a 1.8% decline across the combined capitals, but values are generally trending lower across regional markets over the past four months

Housing turnover has also eased sharply. Estimated sales over the past three months were 19.1% lower than a year ago nationally and 13.3% below the previous five-year average. The annual decline in sales was most pronounced in Brisbane, down 27.2%,

followed by Sydney at 26.5% and Perth at 24.2%. This has implications beyond the housing market, with lower turnover likely to weigh on some retail segments as well as state government stamp duty revenue.

As demand has eased, advertised supply has accumulated, even though fewer new listings are coming to market. Across the combined capitals, new listings were 9.2% lower than a year ago, but total inventory was 23.1% higher.

The reason advertised stock levels are rising is that the rate of sale has fallen even faster than the flow of listings. Capital city homes are now taking a median of 39 days to sell, compared with 23 days a year ago. That is improving choice for buyers, but many prospective purchasers still lack the confidence or financial capacity to act.

Rental conditions have also evolved. The national vacancy rate rose to 2.0% in September, up from a record low of 1.5% in February. That is the highest national vacancy rate since January 2025, although it remains well below the pre-COVID decade average of 3.3%.

The rise in vacancies has occurred despite a sharp pullback in investment and may reflect structural changes in rental demand. With weekly rents rising by around \$200 over the past five years and rental affordability stretched to its worst level on record, renters are likely to be forming larger households, considering multi-generational living, or looking for smaller homes and locations further afield.

The monthly pace of rental growth eased to 0.3% in seasonally adjusted terms, the smallest monthly rise since May 2025. Annual rental growth is now 5.5%. Although rental growth is slowing, gross rental yields are continuing to recover, reaching 3.85% nationally, the highest level since August 2019. Even with yields moving higher, neutral or positive cash flow for new investors to the market remains difficult to achieve given high interest costs, alongside rising insurance, maintenance and strata fees. Yields are likely to rise further if rents continue to increase while housing values trend lower.

Now let's take a look at housing trends across each of the capital cities.

Sydney home values were down 1.4% in September, with values falling 4.9% through the September quarter. The latest update takes market values 8.6%

below the record high recorded in February this year. Upper-quartile house values are still leading the decline, down 5.9% in Q3 compared with a 5.3% drop in lower-quartile house values. However, the gap between upper- and lower-quartile value changes is narrowing as trends become more uniform across the broad value tiers. Home sales across Sydney were estimated to be 26.5% lower than a year ago, while advertised stock levels are tracking 11.5% higher than at the same time last year, providing buyers with more choice and greater leverage.

Melbourne home values were down 0.7% in September, marking the tenth straight month of declines, but the smallest month-on-month fall since March. The September update takes Melbourne home values 7.5% below their March 2022 record high, taking about \$64,00 off the median dwelling value. The unit sector has been a little more resilient, with values down 3.8% over the past 12 months compared with a 7.3% drop in house values, likely reflecting the affordability advantage of units. Sales activity across Melbourne is estimated to be 19.5% lower than a year ago, while listings are holding about 10.8% higher than last year.

With a 1.5% drop in home values in September, Brisbane overtook Sydney to record the largest monthly decline in home values. The Brisbane market peaked in May, and home values have since fallen by 5.4%, taking the market back to levels similar to December last year. The decline comes as advertised stock levels have jumped 55% relative to a year ago and days on market have risen to 37 days, more than double the median time of 17 days a year ago. Alongside lower values, the number of home sales is down 27% on a year ago as demand pulls back.

Adelaide home values recorded a fourth straight month of declines in September, falling 1.3% and taking the market 2.9% below the record high set in May earlier this year. 94% of Adelaide suburbs recorded a fall in values through the September quarter. The largest falls are occurring across the upper quartile of the market, while lower-quartile values are also trending lower, just not quite as quickly. Alongside lower values, we have seen a sharp lift in advertised stock levels, which are now tracking 42% higher than a year ago. This is mostly a factor of softer demand, with sales down about 19% on a year ago.

Perth home values fell 1.2% in September, marking the fifth straight month of declines and the fourth month in a row in which dwelling values have fallen

by more than 1% over the month. Since peaking in April, dwelling values are down 6.0%, shaving about \$62,000 off the median dwelling value. Despite the falls, the annual gain remains in double digits, with values up 10.1% over the past 12 months, reflecting the strong capital gains prior to April. The fall in values has been accompanied by fewer home sales, which are down 19% on last year, and a rise in advertised supply, which is up 60% compared with a year ago.

Hobart recorded a third month of mild value falls in September, with the market down half a percent over the month and 1.2% through the quarter. Across the capitals, this is one of the mildest drops in value, highlighting a relatively resilient market despite higher rates and low confidence. Housing demand has held up reasonably well, with home sales tracking 2.3% higher than a year ago through the September quarter. This comes against a backdrop of tight supply, with listings holding about 30% below the five-year average.

Darwin is the only capital city where home values haven't been trending lower, with values up 0.4% in September to be almost 12% higher over the year. A far healthier level of housing affordability is likely to be a key aspect of the market's resilience, with median house and unit values by far the lowest of any capital city. Although the market has been insulated from falling values, a clear slowdown is underway, with the quarterly trend in values easing from a 3.1% gain in the June quarter to just half a percent in Q3.

Canberra home values fell by 1.1% in September, in line with the national average and taking values 3.2% lower through the September quarter. Values are down 6.2% from their peak in May 2022, when interest rates started to rise from pandemic lows. House values have shown a slightly sharper drop than unit values, down 3.5% and 2.4% respectively in the September quarter. As values trend lower, advertised stock levels have risen and are tracking almost 15% higher than a year ago, providing buyers with more choice and bargaining power.

So, what does all this mean for the housing market outlook?

Housing market conditions are likely to remain under downward pressure over the coming months, with the latest interest rate increase adding to an already formidable set of demand-side headwinds.

The RBA's decision to lift the cash rate to its highest level in fifteen years will reduce borrowing capacity, make loan serviceability assessments harder to satisfy and add to repayment pressures for existing mortgage holders.

With household debt at high levels, borrowers are far more sensitive to interest rates than they were fifteen years ago, when rates were previously this high. Higher mortgage costs are also coinciding with elevated living expenses and negative real income growth, narrowing the pool of buyers able to qualify for a mortgage and reducing the amount they can afford to pay.

Affordability and weak consumer confidence remain significant barriers to housing demand. Although values have moved lower across most markets, the improvement in purchasing affordability has been modest relative to the earlier upswing and the rise in mortgage rates. Home values remain high relative to household incomes, the deposit hurdle is substantial, and deeply pessimistic sentiment is likely to delay high-commitment decisions such as purchasing a home.

Taxation changes announced in the Federal Budget have added another layer of downside risk. Less favourable negative gearing and capital gains tax arrangements have reduced investor demand and weighed more broadly on confidence. Although the changes are intended to redirect investment towards newly built dwellings, the near-term effect has been a more pronounced decline in aggregate housing demand.

Despite the challenging outlook, several factors should help contain the downturn. The labour market remains reasonably tight, supporting household income security and limiting the risk of a material rise in mortgage arrears or forced selling. A more pronounced weakening in employment would add to the downside risks, but that is not yet evident.

Persistently low levels of newly built housing supply are another important offset. Elevated construction and infrastructure costs, capacity constraints and challenging project economics continue to limit delivery. Even where approvals and commencements improve, lengthy development timelines mean any uplift will take time to translate into completed homes, providing some support for values where advertised supply remains low.

Taken together, the balance of risks has shifted more firmly to the downside. The most likely outcome is a further decline in housing values as elevated interest rates, stretched affordability and cautious sentiment weigh on demand. Relatively low unemployment and the ongoing shortage of newly built homes should put a floor under the downturn. The path from here will depend heavily on how long rates remain elevated, whether labour market conditions weaken more materially and how quickly buyer confidence begins to recover.