NAB Australian Housing Market Update– June 26

Presented by Cotality

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Welcome to Cotality's housing market update for June.

The Australian housing market has continued to lose momentum, with Cotality's national Home Value Index stalling, with a zero percent change in May. Sydney and Melbourne are leading the market into a downturn, with values down 0.9% and 0.8% over the month to be 2.1% and 3.2% below their record highs. Canberra was also slightly lower.

At the other end of the spectrum, Perth and Darwin continue to post the strongest monthly gains, while values in Brisbane, Hobart and Adelaide are still rising as well, although growth rates are slowing.

This multi-speed pattern has been a defining feature of the housing market for several years now. Over the past five years, Perth home values have surged more than 90%, while Melbourne values are only modestly higher over the same period, up just 3.3%. But even though the pace of change still varies from city to city, the overall direction is becoming more consistent. Most markets are now losing momentum as demand-side pressures build.

Importantly, this slowdown was already taking shape before the latest interest rate rise, before renewed geopolitical uncertainty, and before the housing tax changes announced in the Federal Budget. Amidst all that, affordability and borrowing constraints have been weighing on demand for some time too.

We're also continuing to see an outperformance across the lower price points of the market, although these segments are also losing momentum, or even recording declines in some cities. In fact, some of the more affordable segments in Sydney, Melbourne and Canberra are now recording falls as well, which shows how broadly the slowdown is spreading.

However, higher priced tiers of the market remain the weakest segment in terms of value changes.

Alongside weaker value growth, housing demand is also showing up in lower sales activity. Our estimate of national home sales over the past three months were down 2.2% on a year ago, and below the five-year average. The biggest drop in sales has been in Sydney and Melbourne, where listings have also risen above average levels. That's giving buyers more choice and a bit more negotiating power.

Selling conditions have softened as well. Auction clearance rates have been hovering around 50% across the capitals, and advertised supply is trending higher in most markets.

Regional markets are holding up better than the capitals, with home values rising 0.6% in May compared with a 0.1% fall across the combined capitals. Despite the gains, the monthly rise was the smallest in a year, so the slowdown is becoming more evident across regional markets too. Regional Western Australia continues to lead the way, while regional New South Wales recorded the smallest monthly rise.

In the rental market, rents rose another 0.6% in May. That takes annual rental growth to 5.9%, which is the strongest annual pace since September 2024. The main reason rents are still rising is that vacancy rates remain extremely low. National rental vacancy reduced to 1.5% in May, which is back in line with the record lows we saw during the migration surge.

The big question is how much longer rental growth can keep running at this pace. Renters are already devoting around a third of their gross income to housing costs, and rents are up roughly $204 a week over the past five years. That may mean we start to see more structural changes in rental demand, including larger household sizes, more shared living, and more multigenerational households.

With rents continuing to rise while value growth slows, rental yields are edging higher. Across the combined capitals, the gross rental yield is now 3.45%, the highest since the middle of last year. Melbourne continues to record the highest gross yield among the major capitals. Even so, positively geared investment properties are still likely to be rare, given investor mortgage rates remain well above rental yields and holding costs have continued to rise.

Now let’s take a look across each of the capital city housing markets.

Sydney home values fell 0.9% in May, marking the fifth month-on-month decline in the past six months and reinforcing the city’s downturn. Since peaking in November last year, Sydney home values are down 2.1%, shaving approximately $28,000 from the median dwelling value. The decline has been sharper for houses, down 2.8% from their November peak, while the more affordable unit sector has seen values drop 0.9% since reaching a cyclical high in February. Lower price tiers have been more resilient, though not immune, with lower quartile house values down 0.4% in May. In a further sign of softer demand, our estimate of home sales over the past three months was tracking 17% lower than a year ago.

Melbourne housing values fell 0.8% in May, taking the market 2.9% below its cyclical peak in November last year and 3.2% below the record high reached in March 2022. The more expensive sectors of the market have been the weakest, with house values down 3.3% over the first five months of the year compared with a 1.4% fall in unit values. Similarly, upper quartile housing values have borne the brunt of the weakness, with upper quartile house values down 1.3% in May and upper quartile unit values 0.8% lower. Demand-side headwinds are also evident in lower sales activity, with estimates for the three months to April tracking 14% below a year ago.

Brisbane home values rose 0.9% in May, but the pace of growth has slowed sharply from the 2.0% month-on-month peak recorded in October last year. Growth is increasingly being driven by the more affordable segments of the market. House values rose 0.8% in May compared with a 1.3% rise in unit values, while lower quartile house values were up 1.1% compared with a 0.3% rise across the upper quartile. In a sign of supply starting to catch up with demand, Brisbane listings are now 5.9% higher than year ago.

Adelaide home values rose 0.5% in May, the smallest monthly gain since June last year and a clear sign the pace of growth is moderating. That is well down from the cyclical peak in December last year, when values were rising by 1.6% month on month. Capital gains remain broad-based across houses and units, but the strongest growth conditions are still skewed towards the lower price tiers of the market. Lower quartile house values were up 3.8% over the past three months compared with a 2.2% rise across the upper quartile, while lower quartile unit values rose 4.6% compared with a 1.5% increase across the upper quartile.

Perth home values rose 1.5% in May, keeping the city as the strongest capital city market, although the pace of growth has more than halved from the 3.1% monthly peak recorded in November last year. The May rise added approximately $15,100 to the median dwelling value, while the five-year change has reached 91.4%, lifting the median value by roughly $506,000. Advertised stock levels are rising as growth slows, but from extremely low levels and still tracking around 29% below the five-year average for this time of year. Growth conditions remain strongest across the lower price tiers, where values were up 1.8% in May compared with a 1.2% increase across the upper quartile.

Hobart home values rose 0.9% in May, pointing to a modest recovery in the market, although values remain 1.4% below the record highs reached in March 2022. The monthly rise was driven by a 1.3% lift in unit values, while house values rose 0.8%. The lower quartile of the market is continuing to outperform, with house values up 4.9% over the past three months compared with a 1.0% rise across the upper quartile.

Darwin home values rose 1.5% in May, following a 2.1% increase in April, extending the city's run of strong growth. Monthly trends in Darwin can be volatile, but on a rolling quarterly basis dwelling values were up 5.2%, the strongest result in five months. With rental yields still the highest of any capital city at 6.0%, Darwin may be less exposed to slower investment activity expected through the second half of 2026.

ACT home values fell 0.2% in May, marking the second straight month of declines and pointing to a broad-based softening in the market. Both house and unit values were down by 0.2% over the month. Each of the broad value tiers also moved lower through May, with lower quartile values down 0.3% and upper quartile values falling 0.4%.

Looking ahead, the balance of risks across the housing market is tilting further towards weaker demand and lower turnover, with the potential for a broader but orderly decline in home values.
Affordability remains a major constraint, and higher interest rates are continuing to limit borrowing capacity and lift repayment burdens, especially at the upper end of the market. At the same time, cost of living pressures, weak consumer sentiment and the prospect of policy changes are all adding to buyer caution.

Previous downturns have seen annual home sales fall by around 25% from peak to trough, which might provide some guidance on housing turnover through this down cycle. Housing values have shown a lot more variability, with peak to trough declines as large as 8.2% across our combined capitals index over the past forty years.

The federal budget has added a new layer of uncertainty to the housing outlook. With changes to negative gearing and capital gains tax concessions likely to be legislated, we are expecting to see a sharp pullback in investment activity. March quarter data was already showing investor demand easing due to cyclical factors and higher interest rates, however investor participation was still elevated at 40% of mortgage demand.

Historically investors have focussed on the established housing market. Going forward we may see a high proportion of investment demand in the new housing sector, but price premiums and the risk of a shallower resale market could weigh on investor appetite to buy new.

Even with the mounting headwinds, there are still some important supports for the market. Housing supply remains constrained, population growth is still adding to demand, and the labour market has remained resilient.

So, while the market is clearly moving into a more subdued phase, the most likely outcome still looks like an orderly decline rather than a sharp correction or crash. Conditions are also likely to remain uneven from one city to another, and across different price points.

The key things to watch from here will be the trend in inflation, interest rates, consumer confidence and whether listing numbers continue to rise.