NAB Australian Housing Market Update- Sept 26

Presented by Cotality

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Welcome to Cotality's housing market update for September.

Australia's housing downturn has become more broad-based through winter, with Cotality's latest Home Value Index showing national home values fell a further 0.9% in August. This was the fifth consecutive month of decline, taking national home values 3.6% below the market peak recorded in March.

What started as a more concentrated easing across higher value segments has now become a more generalised softening, with 93% of capital city suburbs recording a fall in values over the past three months. That's a sharp change from autumn, when 45% of capital city suburbs were recording a fall in value. The breadth of the downturn is one of the clearest signs that weaker demand is now flowing through to most parts of the housing market.

Sydney continues to lead the pace of decline, with home values down 1.4% in August and now 7.1% below the market peak recorded in February. The rate of decline across Sydney is now running a little ahead of the 2022 to 2023 correction over the same stage of the downturn, with weaker demand and higher-than-average advertised stock levels weighing more heavily on Australia's largest housing market. Melbourne and Canberra both recorded a 1.1% fall in values over the month, while Brisbane was down 1.0%. Adelaide and Perth also moved lower, with values in both cities down 0.8% in August.

Most capitals are still seeing weaker conditions across the more expensive end of the market, but the performance gap between the upper and lower quartiles has narrowed as the downturn has become more broad-based. Premium markets are generally still recording larger declines, reflecting the impact of elevated borrowing costs and serviceability constraints. But lower-priced housing is becoming less insulated as affordability pressures and softer demand weigh more evenly across the market.

Regional housing markets have also softened. The combined regional index was down 0.4% in August, taking regional values 1.2% lower through winter. Regional South Australia was the only broad rest-of-state market to avoid a decline over the past three months, highlighting the fact that softer conditions are now evident across most regional markets as well.

The main driver of this weaker phase is declining demand. Cotality's quarterly estimate of home sales is tracking 15% lower than the same time last year and 11% below the five-year average. Brisbane, Perth and Sydney have recorded the largest falls in transaction activity, with estimated sales volumes down more than 20% compared with a year ago.

As buyer demand has weakened, homes are taking longer to sell and advertised stock levels have accumulated. Capital city listings in August were 24% higher than a year ago and 8% above the five-year average.

Importantly, the rise in advertised stock is happening despite fewer new listings coming onto the market. New capital city listings are tracking 6% below a year ago and 8% below the five-year average. Longer selling times, larger vendor discounting and persistently low auction clearance rates all point to a buyer's market, but buyers are clearly lacking the confidence to transact at the moment.

Turning to rental markets, vacancy rates have edged a little higher, but rental conditions remain tight by historical standards. The national vacancy rate reached 1.9% in August, the highest reading since January 2025 and up from the record low of 1.5% recorded in February this year. Even so, the vacancy rate remains well below the pre-COVID decade average of 3.3%, and national vacancy rates have mostly held below 2% since early 2022.

With vacancy rates still low, rents continue to rise across every broad region of the country. Nationally, Cotality's rental index increased 0.4% in seasonally adjusted terms over August, matching the July rise and broadly in line with the average monthly increase over the past two years.

Over the past twelve months, rents are up 5.7%, adding around $38 to the national median weekly rental value. Over the past five years, rents have surged 39%, leaving renters paying around $200 more per week than they were in 2021.

With rents rising and home values falling, gross rental yields have continued to trend higher. At 3.79%, the national gross rental yield is at its highest level since September 2019, but still well below the level required to achieve a neutral cash flow position for most investors.

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

Housing values have been falling over the past six months across Sydney, with the 1.8% drop in values through the month of August taking the market 7.1% below the record high recorded in February. The winter months saw home values decline by 4.7%, with almost every suburb (99%) of Greater Sydney recording a fall in values over the past three months. Advertised stock levels are tracking 12.7% higher than a year ago, setting the scene for a buyers' market heading into spring. The rise in advertised supply is more of a demand side issue, with home sales estimated to be 21% lower than a year ago through winter.

Melbourne home values moved through a ninth straight month of decline, with the 1.1% drop in August taking the market 6.5% below November's cyclical high and 6.8% down on the market peak in March 2022. Home sales are also down, tracking 16% lower than a year ago, as housing demand reduced due to a range of headwinds. With weak selling conditions, prospective vendors are waiting on the sidelines. The flow of new listings coming to market is 17% down on last year's levels, yet total advertised supply remains above average due to low demand and an accumulation of stock on market.

Brisbane home values fell 1% in August, the third straight month of declines, taking values 2.7% lower through winter. The downturn has become broad based, with 91% of Brisbane suburbs recording a fall in values through winter. The drop comes against a five-year growth rate of 64%, highlighting that most home owners remain in a solid equity position. Value declines have become more evident across the lower quartile of the market, with falls outpacing the upper quartile over the month at -0.9% and -0.8% respectively. As the housing market weakens, selling conditions have become more challenging, with advertised stock levels 51% higher than a year ago across Brisbane.

Adelaide's housing market has navigated a third consecutive month of declines, with values down 0.8% in August and 1.6% lower through the three months of winter. Despite the falls, home values remain 64% higher than they were five years ago. Housing turnover has also weakened, with our estimate of home sales through winter tracking 14% lower than a year ago. With less demand, the number of homes advertised for sale has been accumulating, tracking 41% higher than a year ago. That's great news for buyers, who now have more choice and less urgency to buy.

Perth's housing market has moved through a fourth consecutive month of declines, dropping 0.8% in August to be down 3.2% from the April peak. The four-month decline has shaved $33,370 off the median dwelling value, but values remain 80%, or about $445,000 higher than they were five years ago. As market conditions weaken, our estimate of homes sales through winter is down 23% on levels a year ago, highlighting the demand side pressures facing the market. With less demand, selling conditions are also becoming more challenging, supporting a 51% increase in advertised stock levels compared to the same time last year.

Hobart's housing market has been more resilient that most other capitals when it comes to value declines, but the market isn't completely immune to declines. Values have recorded a modest decline over the past two months, down 0.4% in July and 0.2% in August. The milder decline can probably be attributed to Hobart's softer growth trajectory over recent years, with values still holding 1.1% below the March 2022 peak. Also, advertised stock levels remain much tighter across Hobart relative to the mainland capitals, with listings tracking 12% lower than a year ago and 25% down on the five-year average.

Darwin was the only capital city to avoid values falls through winter, with the market maintaining a positive trend in growth since January 2025. Values were up 0.6% in August and 0.9% higher through winter. The resilience to lower home values can probably be tied to a number of factors, including the sheer affordability of the Darwin housing market, very high gross rental yields which are likely to be attractive to investors, and low levels of housing supply. Although stock on market is trending higher, Darwin listings remain 41% below their five-year average.

Canberra's housing market posted a 1.1% fall in values through August, with falling house values driving most of the decline, down 1.2% compared with a 0.6% fall in values across the unit sector. In fact, the unit market has seen roughly half the rate of decline through winter compared with houses, down 1.7% and 3.2% respectively, which is quite the turn of events, following a long period of weaker trends across the unit sector. Buyers continue to benefit from high supply levels, with Canberra listings tracking 22% higher than a year ago at the end of winter.

Looking ahead, the housing market is likely to remain under downward pressure over the coming months. Demand-side headwinds that have been building since late last year look to be more entrenched as the market moves into spring.

Affordability and serviceability constraints remain acute, despite lower housing values improving purchasing affordability at the margin. High mortgage rates, reduced borrowing capacity and cost-of-living pressures are all continuing to weigh on buyer demand.

The latest inflation data has also added another layer of downside risk, with core inflation coming in higher than expected and raising the possibility of a further rate hike from the RBA. Another increase in interest rates would be challenging against a backdrop of elevated household debt, reducing borrowing capacity further, adding to repayment pressures for existing mortgage holders and placing additional pressure on consumer confidence.

Consumer sentiment has improved from the lows recorded earlier in the year, but households remain deeply pessimistic. Further gains in confidence could be difficult while inflation remains elevated, and interest rates are expected to stay higher for longer. Real wages have also declined over four consecutive quarters, adding to the squeeze on household finances and making it harder for prospective buyers to save a deposit.

Additionally, population growth has normalised after the post-pandemic surge, removing some of the demand-side support that helped underpin housing conditions over recent years.

There are still factors helping to contain the downturn. New housing supply remains insufficient relative to underlying demand, with elevated construction costs, capacity constraints and feasibility challenges limiting the prospect of a material lift in completions.

Also, labour market remains an important source of support, although conditions are gradually loosening. Low unemployment should help limit the risk of widespread arrears or distressed selling, but a softer labour market is likely to weigh further on housing demand.

Incentives for first home buyers, including the 5% deposit scheme, should also support some activity across the more affordable end of the market, particularly once confidence improves.

Overall, the balance of risks remains tilted to the downside as housing forecasts are revised lower. Spring is shaping up as a timely test for the depth of demand. While listings typically show a seasonal rise through spring and early summer, its likely the spring selling season won't be as active this year due to a challenging selling environment and ongoing headwinds to housing demand.