NAB Australian Housing Market Update– Aug 26

Presented by Cotality

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Welcome to Cotality's housing market update for August.

Australia's housing market downturn accelerated through July, with the latest Cotality Home Value Index showing a 0.7% decline in national dwelling values. That's the largest monthly fall since December 2022 and a clear sign that housing conditions have weakened materially over recent months.

Importantly, the downturn is no longer confined to Sydney and Melbourne. Sydney home values fell by 1.4% through July, while Melbourne values were down 1.2%. These markets have been leading the decline for some time, but the latest data shows the softer conditions have now spread into the mid-sized capitals as well.

Brisbane values fell by 0.6% over the month, Adelaide was down 0.2%, and historical revisions show both cities have now recorded two consecutive months of declines. Perth was the only major capital city to remain in positive territory, posting a modest 0.1% rise in July, although revisions to earlier data show conditions have weakened much more rapidly than initially thought.

What we're seeing is a broad-based loss of momentum across the housing market. Affordability pressures, serviceability constraints, three cash rate increases this year, higher living costs, weak consumer sentiment and uncertainty surrounding policy changes announced in the Federal Budget have all combined to weigh on housing demand.

The weakness remains most apparent across higher-priced housing markets and premium housing stock. Nationally, upper-quartile home values have fallen by more than 3% over the past three months, while lower-priced housing has remained relatively resilient.

A changing market is also becoming evident through listing activity. While total advertised supply is tracking higher across the capital cities, the flow of new listings has started to deteriorate in recent weeks, particularly in Sydney. Many prospective sellers appear reluctant to list into a weaker market environment and are choosing to wait for conditions to improve. Even so, advertised stock levels remain elevated because demand has weakened faster than supply.

That imbalance is also showing up in selling metrics. Capital city clearance rates have remained below 50% since late May, highlighting an ongoing gap between buyer and seller expectations. Private treaty sales are taking longer and involving larger discounts as buyers gain more leverage in their negotiations.

Regional markets have generally outperformed the capitals since late 2025, but they are no longer immune to the slowdown. The combined regional index fell by 0.2% in July, marking the first monthly decline since January 2023. Regional New South Wales recorded the weakest result, while regional Victoria and regional Queensland also moved lower. Regional South Australia and regional Western Australia remained the standout performers, continuing to post solid growth through the month.

Turning to the rental market, conditions remain tight, although rental growth is gradually easing from the recent peaks seen earlier this year. National rents rose by 0.4% in seasonally adjusted terms during July, while annual rental growth held steady at 5.9% for a third consecutive month. Over the past year that equates to roughly forty dollars a week being added to the median rent.

The main reason rents continue to rise is the ongoing shortage of available rental stock. Although the national vacancy rate edged slightly higher to 1.7%, it remains well below the long-term average and continues to place upward pressure on rental values.

At the same time, rental affordability has become increasingly stretched. Median rents are now more than two hundred dollars a week higher than they were five years ago, and households are dedicating a record share of their income towards housing costs.
One consequence of falling home values and rising rents is that rental yields are improving. Gross rental yields across the combined capitals have lifted to 3.56%, their highest level since 2019. However, higher yields alone are unlikely to be enough to drive a meaningful lift in investor demand, particularly given the increase in borrowing costs and the changes to negative gearing announced in the Federal Budget.

Now let’s take a look at each of the capital city housing trends.

Sydney home values fell by 1.4% in July, continuing a trend of month-on-month declines that has now extended for six months. Since the peak in January, Sydney home values have fallen 5.3%, equivalent to taking around $69,000 off the median dwelling value. Affordability remains a key driver, with houses down by 6.2% since January, while generally more affordable units have declined by 3.2% from a later cyclical peak in March. A similar trend is evident across the price tiers, with lower quartile home values down just 1.7% from their peaks, compared with an 8.4% drop for upper quartile properties.

Melbourne home values contracted by 1.2% in July, the eighth month in a row of declines. From a cyclical peak in November last year, Melbourne home values have dropped 5.1%, but they are 5.5% below the record highs recorded in March 2022, which is equivalent to $46,000 off the median dwelling value. Houses, where values are down 6.0% from the peak, have seen larger falls than units with a 3.0% fall from peak levels. Weaker conditions have been evident among higher value dwellings, where values fell by 1.5% in July, compared with a 0.4% decline in lower quartile properties.

Brisbane home values drifted down by 0.6% in July, with revised data showing that this was the second month of declines in this market, following a 0.1% fall in June. Higher value properties have led this downturn, with upper quartile dwellings down by 1.2% over the past three months, compared with a 0.5% increase for the lower quartile. Brisbane has seen a sizeable shift in its available supply of homes, with total listings sitting 8.0% above the five-year average in the four weeks ending 26 July, compared with over 40% below average at the start of the year.

Adelaide home values dipped 0.2% in July, following a 0.3% decline in June. This weaker trend has been driven by the house market, with values down by 0.2%, while unit values were unchanged in July. Greater competition for more affordable properties meant that there was no decline in lower quartile dwellings, while the mid-market and upper quartile properties were weaker. The available supply of properties in Adelaide has shifted rapidly in recent months, now sitting 2.2% above the five-year average, compared with 38% below average at the start of the year.

Perth home values were 0.1% higher in July, following a downwardly revised 0.5% fall in June, which was the weakest single monthly result since April 2020. Perth remains the strongest performing market over the past 5 years, with dwelling values up 86%, the equivalent to adding $475,000 to the median value over this period. Sales volumes have been tracking lower since mid-2025, initially due to a lack of available supply, however this stock level has been gradually recovering since early 2026, with total listings now 28% higher than they were a year ago.

Hobart home values rose by 0.1% in July, outpacing all mainland capitals with the exception of Darwin. The strongest growth was among the most affordable properties, with lower quartile dwellings rising by 0.3%, although houses outperformed units in July. Available supply has remained constrained, with total listings almost 27% below the five-year average in July. Unlike most capitals, listings across

Hobart are showing no upwards pressure, keeping advertised supply levels tight and vendors in a relatively strong position.

Darwin home values rose by 0.8% in July, the strongest result across any capital. The pace of value growth accelerated through 2024 and 2025, adding around $90,000 to the median dwelling value in the past year, ranking the city third behind Perth and Brisbane. However, growth conditions have become more volatile and looks to be losing pace in 2026. Available supply in the city remains chronically short, with total listings 40% below the five-year average, albeit total listings are gradually moving higher, suggesting that demand trends are softening.

ACT home values fell by 1.0% in July, with the nation's capital following the two largest cities into a downturn that has now lasted four months. Overall, ACT home values are down 2.6% from their recent peak in March and 4.2% below the record high from March 2022. House values were down 1.2% in July and unit values fell half a percent during the month. Similar to Sydney and Melbourne, available supply in the ACT has been comparatively elevated for several months, particularly for units, where listings are 24% above the five-year average in July.

Overall, the July data confirms that Australia's housing downturn has become broader and more entrenched. What began as a correction centred on Sydney and Melbourne has now spread across much of the country, with previously resilient markets such as Brisbane, Perth and Adelaide also recording declines. In fact, more than three quarters of capital city suburbs recorded a decline in home values over the past three months.

The common thread is weaker demand. Affordability constraints, higher interest rates, cost of living pressures, weaker sentiment and changing investor dynamics have all been working in the same direction. And for now, there doesn't appear to be much immediate relief on the horizon. From August 2nd, the end of the temporary fuel excise discount is likely to add another layer of pressure to household budgets.

The good news is that the interest rate outlook has become a little more balanced. Inflation data has softened, market expectations are increasingly centred on interest rates having peaked, and the likelihood of further rate rises has diminished.

However, it's still too early to rule out additional tightening altogether, with the Reserve Bank making it clear that inflation and labour market conditions remain the key variables to watch.

Consumer confidence has improved a little from the lows, but sentiment remains deeply pessimistic by historical standards. That's important because confidence plays a critical role in housing activity. Buying a home is often the largest financial decision households will make, and it's difficult to see a meaningful lift in housing demand while households remain so cautious about the economic outlook.

For buyers who remain active in the market, conditions have become more favourable. There is more stock to choose from, competition has eased, selling times are lengthening and negotiating power has shifted away from vendors for the first time in several years.

At the same time, we're starting to see the market adjust on the supply side as well. New listings are slowing as potential sellers choose to sit on the sidelines rather than bring their property to market in weaker conditions. Combined with ongoing constraints on new housing supply, that adjustment could help place a floor under values and limit the extent of the downturn.

Our expectation remains that housing values are likely to move lower through the coming months.

However, the factors that would normally underpin a sharp correction simply aren't evident.

Unemployment remains low, population growth continues to support underlying housing demand, and both construction challenges and vendor caution are limiting the available supply of housing.

The areas most exposed to further weakness are likely to be the higher-value markets, locations and those with a stronger investor presence.
Looking ahead, the key indicators I'll be watching are underlying inflation, labour market conditions and how those factors influence Reserve Bank policy.

We'll also be closely monitoring investor behaviour under the new policy settings, along with whether elevated stock levels begin to moderate as new listings pull back or whether supply remains high as buyer activity slows further.

For now, the balance of risks remains skewed towards softer housing conditions, but the evidence still points to a gradual downturn rather than a sharp correction.