NAB Australian Housing Market Update–April 25

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CoreLogic's

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Welcome to CoreLogic's housing market update for April 2025.

Australian property values recovered to new record highs in March, reversing the recent half a percent dip in values between November and January.

CoreLogic's national home value index was up 0.4%, continuing the growth trend for the second consecutive month following February's 0.3% rise.

The monthly rise in values was broad-based, with every capital city except Hobart recording a positive change, along with each of the rest-of-state regions.

The monthly change across the capitals ranged from a 1.0% gain in Darwin to a -0.4% fall in Hobart. Improved sentiment following the February rate cut is likely the biggest driver of the turnaround in values, along with the cut's direct influence of a slight improvement in borrowing capacity and mortgage serviceability.

Sydney and Melbourne look to have turned a positive corner, with values across both cities rising over the past two months. Although Sydney home values remain -1.4% below their record high. In Melbourne, where the downturn has been long running following the March 2022 peak, values remain -5.6% below their record high, despite rising 0.9% over the past two months.

Values are still increasing across the mid-sized capitals, however the pace of gains has slowed noticeably, especially in Perth, where downward revisions over recent months have seen values remain virtually unchanged since October last year. Perth home values have led the five-year upswing among the capitals, rising 75.4% since March 2020.

The change in values across the different 'price points' – or value tiers - has started to even out. Following a clear out-performance from the lower quartile of the market since mid-2023, the rate of change across the value segments is starting to converge. This was most apparent in Sydney where upper quartile values have increased by 0.6% over the past three months compared with a 0.3% rise across the lower quartile.

Earlier research demonstrated that relatively expensive markets have historically shown stronger responses to reduced cash rate settings, especially houses in Sydney and Melbourne. Most of the remaining capitals continue to see the lower quartile record a higher rate of change relative to the upper quartile, however, the gap is getting smaller. Regional markets continue to outperform the capitals, with the combined regionals index rising 0.5% compared with the combined capitals 0.4% gain. However, the growth trajectory looks to be converging as the capital city trend accelerates.

Rental values are also at record highs, with the national rental index up a further 0.6% in March, in-line with the last month's increase, but well below the 1.0% increase seen this time last year. Dwelling rents rose across every capital city in March, but annual rental growth is clearly slowing. It has dropped from a peak of 9.7% over the 12 months ending November 2021 to 3.8% over the past year, marking the slowest annual change in rents since March 2021.

Now let's have a look at each of the capital city housing trends.

Following a 2.2% decline in values between October and January, Sydney home values have trended higher over the past two months, up 0.3% in March and 0.4% in February. Despite the two months rise, Sydney home values remain 1.4%, or roughly $17,300, below peak levels from September last year. The gains have been driven by houses, where the market is up 0.5% through the first quarter of the year, while unit values have recorded a 0.1% fall in values over the past three months. Similarly, across the price tiers, Sydney's upper quartile has recorded a 0.6% rise in values through the March quarter compared with a 0.3% lift in lower quartile values.

Melbourne home values have risen over the past two months, up 0.4% in February and accelerating to a 0.5% change in March taking the market 0.3% or roughly $2,700 higher over the first quarter of the year. Despite the gains, Melbourne dwelling values remain 5.6% or about $46,500 below the record highs set in March 2022. The rise in values has been led by houses, up 0.6% over the March quarter, while unit values rose 0.4% in March but remain 0.2% down over the quarter. The gains come as advertised stock levels stabilise, but listings are still 8.1% higher than a year ago and 3.6% above the previous five-year average.

Brisbane home values were up 0.4% in March, the 26th straight month of growth. Over the March quarter, values were up 0.9%, adding approximately $8,340 to the median value of a dwelling. Although values are still rising, the pace of gains has slowed substantially; a year and a half ago the quarterly rate of change was tracking at 4.2%. Affordability constraints following a 69% jump in values over the past five years is a key factor in the slowdown, along with a slower rate of population growth. Advertised supply levels have also picked up, with listings tracking 4.1% higher than a year ago at the end of March.

Adelaide dwelling values rose another 0.8% in March, the second largest monthly gain across the capital cities after Darwin. The March rise marks 24 months of consistent capital gains across Adelaide where values have risen by a cumulative 25.6%, adding approximately $169,000 to the median dwelling value. Stronger growth conditions have been skewed towards the most affordable regions of Adelaide, with the lower quartile of the market up 16.7% over the past 12 months compared with an 8.5% rise across the upper quartile. The persistently strong housing conditions align with ongoing low supply levels, with Adelaide listings holding 28% below the previous five-year average.

Perth home values were up 0.2% in March, continuing a period of stabilisation across the western capital. Housing values are virtually unchanged in Perth since October last year. The slowdown in growth comes after a 75.4% gain in values over the past five years, creating some affordability challenges, alongside less demand as investment activity and population growth slows. As the market slows, listing numbers are rising, tracking 9.1% higher than a year ago at the end of March, but still well below average for this time of year. A year ago, homes were selling with a median of just nine days on market, rising to 19 days over the March quarter of 2025.

The March quarter has seen Hobart home values edge 0.2% higher, continuing a relatively flat trend that has been evident since early 2023. Despite the small quarterly improvement, Hobart home values remain 12.0% below the record high set in March 2022, a reflection of the weak conditions leading into the early phase of rate hikes. Advertised stock levels remain elevated across Hobart, tracking 22% above the previous five-year average, however, in some good news for sellers, listings numbers are reducing to be 4.4% lower relative to the same time last year.

The 1.0% rise in Darwin home values was the highest monthly change of any capital city, taking the quarterly change to 2.8%, the largest three month change since mid-2021. Both house and unit values have trended higher through the quarter, with house values up 3.0% and unit values 2.2% higher. Darwin is also showing, by far, the lowest median values of any capital city, the highest gross rental yields and a doubling in the number of investment loan commitments through 2024. Listing numbers are also tracking well below average, holding almost 40% below the previous five-year average.

ACT housing values rose by 0.2% in March, accelerating from a 0.1% rise in February, flattening the quarterly change to just -0.1%, the highest reading over a rolling three-month period since July last year. The quarterly change has been driven by the unit sector, which has previously acted as a drag on growth. ACT unit values are up 0.5% over the past three months compared with a -0.3% fall for house values. The gap between house and unit values remains historically wide, with the median unit value tracking 39% below the median house value in March.

With two months of growth in Australian home values now on the scorecard, it's looking more convincing that the positive turn is more than a temporary recovery, but a material upswing in values remains unlikely.

On the upside we have a gradual easing in monetary policy, cost of living relief, income growth, tight labour markets and improved sentiment which are all likely to support housing sector activity.
On the flipside, a variety of headwinds are likely to at least partially offset the tailwinds, keeping value growth contained. The rate-cutting cycle is likely to be drawn out, housing remains unaffordable, population growth has reduced to more normal levels and housing credit policies remain risk averse. Factoring in a reasonably bullish 75 basis point cut to the cash rate for the remainder of the year, which would take the cash rate to 3.35%, implies that interest rates will remain above the RBA's estimate of the neutral cash rate throughout 2025. Until home loan serviceability improves more substantially, it's hard to see housing markets moving into a material growth trend.

Further cost of living relief announced in the federal budget should also support household balance sheets, although the variables may change following the May 3rd federal election. Alongside real growth in household disposable incomes, which the RBA forecasts at 2.5% over the 2025 calendar year, prospective borrowers may find it easier to save for a deposit. In fact, we are already seeing a consistent pick up in the household saving ratio, albeit from exceptionally low levels.

Labour markets are holding tight, with a national unemployment rate of 4.1% but there are some signs that labour markets are loosening. The February labour force update was relatively soft, showing the largest month on month fall jobs since December 2023, taking the trend in annual jobs growth back to 1.9%, the lowest annual change since October 2021.

Measures of consumer sentiment have been rising, fuelled by improvements in inflation outcomes, cost of living relief and growing certainty that interest rates will come down further. Consumer sentiment and housing activity have historically shown a strong relationship, so the improvement in sentiment should help support sales turnover.

Another downside factor for demand is that housing affordability remains stretched with the national dwelling value to household income ratio on par with record highs at 8.0 at the end of last year. Home loan serviceability was also at a record high. Assuming a household on the median income purchased the median value dwelling with a 20% deposit, they would be dedicating 50.5% of their gross income on mortgage repayments.

Lower population growth is also denting demand. Population growth in the September quarter was back to 0.4%, on par with the pre-COVID decade average. The slowdown has been driven by a sharp drop in overseas migration following its peak in the first quarter of 2023. As of September 2024, quarterly net overseas migration numbers have reduced by -46%.

Although demand side pressures are easing, new housing supply is likely to remain constrained amid high costs, a scarcity of skilled trades and compressed profit margins. Even though population growth is easing, the cumulative undersupply of housing will take some time to address. Housing construction costs are still rising from an already high base, creating ongoing feasibility challenges for builders and developers and the competition for trades with the infrastructure sector is likely to persist for several years at least. Low supply is another factor that could support further value growth.

Overall, it's likely we will continue to see housing prices tick higher from month to month, with less diversity between the capitals as annual growth rates converge. The prospect of a surge in home values as interest rates fall looks highly unlikely. What is more probable is a mild growth underpinned by a gradual fall in rates and ongoing supply side challenges.

As always, there has been a lot to cover in this update. We will keep you updated as the year unfolds.