NAB Australian Housing Market Update–May 25

Presented by Cotality (formally CoreLogic)

Cotality's

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Welcome to Cotality (CoreLogic)'s housing market update for May 2025.

February's rate cut led to a clear improvement in housing market conditions, but that positive influence now seems to be losing some of its potency. After a 0.4% rise in March, the pace of gains slipped a little, to 0.3% in April.

At the same time, household confidence dropped in April, with the "Liberation Day" tariff announcements and the federal election causing some uncertainty. We also had two consecutive long weekends through April, which saw many Australians on holiday.

This slowdown in conditions was evident in auction markets, where the clearance rate averaged 60% over the month. The flow of new listings added to the market was also low. Apart from the early COVID period of 2020, new listings through April were at their lowest level for this time of the year since 2019.

With further rate cuts expected as soon as May 20th, and a level of certainty returning to the market following the federal election, we expect a further but modest growth in values through 2025.

The annual pace of growth provides a clearer view on how capital gain trends have evolved, with the 12 month change nationally slowing to 3.2% in April, the slowest annual rise since the 12 months ending August 2023.

The loss in momentum reflects the persistent slowdown in value growth seen between mid-2024 and early 2025. Given the softer growth trajectory through last year, the annual pace of gains will continue to soften over the coming months, despite the positive movement in values since February.

Although housing values are recording a broad-based rise, not every market is back to new record highs. In fact, across the capital cities, it is only the mid-sized capitals where home values are at their highest level on record. Sydney values remain -1.1% below their September 2024 high. Melbourne values are down -5.4% from the peak in 2022. Hobart is down -11.1%, while in Darwin and the ACT, values remain -2.7% and -6.4% below their all-time highs.

From a rental perspective, rental growth has firmed, with the national rental index rising by 0.6% consistently over the past three months. Adjusting for seasonality, the pace of growth is milder, with rents rising 0.4% nationally in April.

Despite the seasonal pickup, a slowdown in rental growth is more evident in the annual change, where the pace of growth has more than halved, from 8.3% over the 12 months to April 2024 to 3.6% over the most recent 12-month period.

With rents outpacing housing values, the national gross rental yield reached a two-year high in April, coming in at 3.73%. Gross yields across regional Australia remain substantially higher at 4.41% but are down on the levels seen five years ago, when the gross yield of 4.83% was recorded.
Now let's take a look at each of the capital city housing markets.

Sydney home values were up 0.2% in April, taking the market 1.0% higher over the past three months – the strongest three-month gain since August last year. Despite the rise, Sydney home values remain 1.1%, or approximately $13,700, below the record high set in September last year. The upper quartile of the market has been leading the recovery trend, with values up 1.4% over the past three months, while lower quartile values have gained a smaller 0.5%, reversing the trend of the past couple of years, where more affordable markets were leading the upswing. From a rental perspective, Sydney rents rose 0.7% over the month, a lift from the 0.6% rise in February and March, however the annual change in Sydney rents, at 1.9%, is the lowest annual change in four years.

Melbourne housing values recorded a third consecutive rise, up 0.2% in April to be 1.0% higher over the rolling quarter, the strongest three-month change since October 2023. The three-month change was the same for houses and units. Despite the rise, Melbourne housing values have some way to go before posting a nominal recovery. Values remain 5.4% below their March 2022 peak levels. Advertised stock levels have come down through April, tracking 1.1% lower than a year ago, which is supporting the subtle upwards pressure on prices, along with the relative affordability of Melbourne housing relative to the other major capitals. With a median dwelling value of just over $786,000, Melbourne values are almost $410,000 lower than Sydney's median.

Brisbane home values rose a further 0.4% in April, down slightly on March's 0.5% gain. With a 12-month change of 7.8%, Brisbane's annual growth rate is slowing to more sustainable levels, tracking at the slowest pace since September 2023. Brisbane unit values are rising at a faster rate than houses, up 12.8% and 6.8% respectively over the past 12 months. Similarly, it is the lower quartile of the market that continues to record stronger conditions, up 14% in 12 months compared with a 4.8% rise across the upper quartile of the market. Brisbane rents rose a further 0.8% in April and the annual pace of growth has slowed to 3.3%, down from 8.2% at the same time last year.

Adelaide values were up 0.3% in April, a sharp reduction from the 0.7% rise in March. The slowdown in growth conditions can be seen more clearly in the annual trend where the 12-month change has reduced to 9.8%, the first time we have seen Adelaide's annual change drop to single digits since December 2023. Affordability challenges have become more pressing following a 73.4% jump in values over the past five years, which has added approximately $350k to the median value of an Adelaide dwelling. Rental trends are also easing. Although rents are continuing to rise, up 0.5% consistently over the past three months, the annual pace of rental growth, at 5.5%, is the slowest since March 2021.

Perth housing values rose by 0.4% in April, a step up from March (+0.3%) and the highest monthly gain in six months. Despite the rise, growth conditions have moderated. A year ago, values were rising at the monthly rate of 2.2% and the annual pace of gains has reduced to 10.0%, the slowest 12 month change since August 2023. Unit values are rising faster than house values, up 14.5% and 9.4% respectively over the past 12 months, which is probably a reflection of both worsening affordability as well as a lack of medium to high density housing supply.

Hobart home values rose 0.9% in April, following a 0.4% fall in March. The rolling three-month change helps to read through the volatility, which shows Hobart values tracking into slightly positive territory over the past three months, up 0.9%. The annual change has held relatively flat since early 2024, however, despite the stability, values remain 11.1% below the record highs from March 2022. Rents are also accelerating after a patch of weakness, with house rents up 5.0% over the past 12 months, the second highest annual growth rate of any capital, and unit rents are up 7.0%, the third highest across the capitals.

Darwin's housing market has stepped up a gear, with values rising another 1.1% in April, taking the quarterly change to 3.4% - the highest three-month change across the capitals. Both of the broad housing sectors are rising in value, with houses up 3.7% over the three months to April and unit values rising 2.6%.

The annual change remains negative across Darwin's unit sector, at -1.1%, while house values are up 4.3% over the past year. Rental markets are also bouncing back, especially across the local unit market where rents have increased by 7.3% over the past 12 months.

ACT home values have recorded a third straight month of growth, with values up 0.4% in April to be 0.6% higher over the rolling quarter. This was first time the rolling three-month change has been in positive territory since July last year. The local unit market has recorded a rare outperformance relative to houses, with unit values up 1.5% over the past three months compared with a 0.4% rise in house values. Whether this stronger performance can be sustained is unclear, amid ongoing high supply levels, where unit listings were tracking 28% above the previous five-year average in April.

The outlook for housing markets continues to evolve, with a mix of potential positives and negatives at play.

On one hand, we have the prospect of lower interest rates and stimulatory policy proposals from both Labour and the Coalition expected to buoy demand. Also, a persistent undersupply of housing is likely to keep some upward pressure on values.

A gradual reduction in interest rates will support housing sector activity, but lower rates are also likely to embolden prospective sellers and support new housing supply. Previous research from Cotality shows it has historically been the upper quartile sectors of the market, especially in Sydney and Melbourne, which have been most reactive to rate cuts.

With Labour having won the federal election with an expansion of the 5% deposit guarantee a key pillar of their platform, one thing that seems certain is that first home buyers will see some further assistance to access home ownership, meaning first home buyers will comprise a larger share of the market as stimulus becomes available.

The housing undersupply isn't getting any better with commencements moving in the wrong direction. Building activity data to December showed dwelling commencements were down -4.4% over the December quarter last year, holding -16.5% below the decade average. Additionally, the barriers for building more homes remain substantial, with construction costs rising a further 0.4% through the March quarter.

On the downside is stretched housing affordability, a relatively cautious lending sector, normalising population growth and some uncertainty creeping into the measures of consumer sentiment and the outlook for economic growth.

With housing values once again trending higher, housing affordability is not improving. At the end of last year, the national dwelling value to household income ratio was on par with record levels, while home loan serviceability was also at an all-time high. Additionally, it would take a household on the median income an average of 10.6 years to save a 20% deposit, and, for rental households on the median income, they would be dedicating a record high 33% of their pre-tax income to pay the median rent.

With housing affordability this stretched, accessing the housing market remains a challenge, especially for first home buyers and lower income households regardless of any proposed stimulus.

Population growth, which is a proxy for housing demand, has fallen back to the decade average of 0.4% per quarter. Less population growth should help to take some heat away from housing value growth, but there is still a substantial undersupply that has accrued over the past few years.

Consumer sentiment and the volume of home sales have shown a long-term relationship, which is unsurprising given the high commitment nature of buying and selling a home. In April, consumer sentiment was dented due to the announcement of US tariffs on the rest of the world. With some backpedaling from the US, including a pause on tariffs, excluding China, along with widespread expectations of further rate cuts and ongoing tightness in labour markets, we could see sentiment once again move higher. A further rise in sentiment would be positive for the housing sector, helping to support high commitment decision making.

Overall, housing values are expected to continue rising in the short term, albeit at a softer pace than in early 2024. The outlook is subject to change as global and domestic events unfold. However, April reinforced the idea that uncertain environments tend to weigh more heavily on sales and listings than on home values. This is underpinned by a strong lending environment, tight labour market conditions and a persistently low level of mortgage arrears.

With lower interest rates on this horizon and an ongoing trade war, there's plenty to keep an eye on through May.