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NAB Australian Housing Market Update–June 25

Presented by Cotality (formally CoreLogic)

Cotality's

NAB Australian Housing Market Update

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

Australian dwelling values rose another 0.5% in May, taking the national index 1.7% higher over the first five months of the year. Capital gains were recorded across all capital cities, led by Darwin at 1.6%, with all others posting a monthly rise of at least 0.4%. The May update marks the fourth consecutive month of growth, following a short and shallow decline of 0.4% over the three months ending January 2025.

The continued momentum we're seeing across almost all markets is no doubt being fuelled by rate cuts and a widespread expectation that rates will fall further through the year. With the most recent cut in May, we are likely to see a positive influence flow through to housing values in June and the remainder of the year.

The week after May's interest rate cut saw the capital city auction clearance rate rise to 65.1%, the highest since July last year.

Despite some monthly momentum forming, the pace of annual growth in the national Home Value Index slowed to 3.3%, the weakest twelve-month change since the year ending August 2023. This slower annual pace of growth reflects the easing in capital gains through the second half of last year, culminating in the modest fall in values over the three months to January.

Only Melbourne and Canberra have recorded an annual decline in dwelling values, demonstrating the resilience of the market through a period of relatively high interest rates and cost of living pressures.

Alongside the broad-based rise in home values, the capital city trends have shown a clear convergence. The range between the highest and lowest annual change in dwelling values, at 9.8 percentage points, hasn't been this narrow since March 2021. The convergence in capital city growth rates comes shortly after the most diverse housing conditions since 2007.

The rise in housing values continues to be led by lower price tiers across most cities, however, growth rates across the different price points are also coming together, as more expensive market segments start to accelerate off the back of rate cuts.

Regional markets are also showing a positive trend, with each of the 'rest of state' markets recording a rise in values through the year-to-date. The strongest gains have been in Regional South Australia, where values are up 5.8% over the first five months of 2025.

At the other end of the spectrum, regional Tasmanian values have held reasonably flat over the same period, up just 0.1%. The macro trend in rental markets is one of slowing growth, albeit with some seasonality providing a positive influence on trends through the earlier months of the year. The monthly pace of rental growth eased back to 0.4% in May, following three months of 0.6% month-on-month gains.

Focusing on the annual trend in rents helps to cut through the seasonality, showing a clear slowdown in the pace of growth across most cities, although there are a few exceptions like Darwin and Hobart, where rental growth has accelerated. The largest capitals, Sydney and Melbourne, are now among the softest rental markets in the country following a period of extreme rental growth.

Slower rental growth, despite persistently tight vacancy rates, comes down to a combination of affordability constraints and normalising net overseas migration. Even if there are few vacant properties available for rent, it's hard to see how rental values can continue to record a strong rise off already high prices. As in many advanced economies, net overseas migration has been slowing as the period of COVID 'catch up' migration comes to an end following border closures, and recent temporary migrants depart. Because most recent overseas arrivals rent, this is contributing to the slowdown in rental demand.

Now let's take a tour of each of the capital city housing markets.

Sydney dwelling values moved through a fourth consecutive month of growth in May, with values rising 0.5% over the month to be 1.3% higher through the year to date. Although the market is once again showing a consistent uptrend, values remain slightly below their all-time highs (-0.3%) following a 1.9% drop in values over the four months to January 2025. So far this year, the growth trend has favoured houses over units, with values up 1.7% over the first five months of the year compared with a flat result (0.0%) for unit values over the same period.

Housing values moved through a fourth straight month of growth across Melbourne as the positive influence of February's rate cut continued to provide a positive influence on housing trends. The consistent rise in values follows a ten-month downturn and Melbourne home values remain 4.5%, or approximately $37,000 below their record highs from March 2022. With a median dwelling value of $791,300, Melbourne housing values remain relatively affordable compared with the other capitals; only Hobart and Darwin have a lower median than Melbourne. In-line with improving market conditions, advertised stock levels are now tracking 4.5% lower than at the same time last year and 1.3% below the previous five-year average.

Brisbane dwelling values rose a further 0.6% in May, taking values 2.3% or approximately $20,300 higher since the beginning of the year. The local unit market has been showing a substantially stronger growth rate, with values up 11.8% over the past twelve months compared with a 6.2% increase in house values. The stronger gains across the unit sector likely reflect a combination of growing affordability constraints as well as low supply levels. The trend in Brisbane rental growth has been easing, reducing from an annual change of 11.2% three years ago to just 3.5% growth over the past 12 months.

Home values rose 0.4% across Adelaide in May, taking the annual gain to 8.6% which is on par with Perth as the highest annual increase across the capitals. The 12-month rise has added approximately $65,400 to the median dwelling value. Over the past five years Adelaide housing values have surged 73.7% higher, adding approximately $352,000 to the median dwelling value which is now the fourth highest of any capital city after Sydney, Brisbane and Adelaide. From a rental perspective, the annual pace of rental growth has continued to slow, falling to 4.9% over the 12 months ending May, the lowest annual change in rents since the year ending February 2021.

Perth dwelling values rose by 0.7% in May, the second highest monthly gain of any capital after Darwin (1.6%) and a pick up from earlier months to be the highest month on month rise since October last year (0.8%). Since August last year, the pace of value growth has been skewed towards the Perth unit sector, which could be a reflection of both affordability constraints deflecting more demand towards the lower price points as well as low supply levels across the multi-unit sector. For rents, the annual pace of growth has been easing since early 2024 when the annual pace of rental growth was recorded at 13.8%. At 5.1%, the past 12 months has been the slowest rate of rental appreciation since September 2020.

Housing values in Hobart were up 0.6% in May, following a 0.7% rise in April. The latest gains have taken the annual change more firmly into positive territory, with values up 1.0% over the 12 months to May, the strongest annual change since the year ending September 2022. The gains have been mostly confined to Hobart houses, where values are up 1.4% over the past year compared with the unit sector where values are down 1.0% over the year. Rental markets are also firming, with the annual change in rents rising to 5.1% compared with an annual rise of just 0.8% a year ago and 0.3% over the 12 months ending May 2023.

Darwin housing values have been on a solid growth trajectory, up 1.6% in May and leading the capital cities through the year to date with a 5.8% rise. The gains have been broad based, with both house and unit values rising over the past year, but house values are leading the market, up 4.8% over the 12 months to May while unit values are up a smaller 2.0%. The annual change in rents has also picked up, rising to 4.9% over the past 12 months compared with a 3.0% rise over the same period a year ago. The pace of growth in unit rents is more than double that of houses, up 7.8% and 3.1% respectively over the past 12 months.

Growth in ACT housing values remains patchy, with values rising 0.4% in May, the second consecutive monthly rise, but down 0.7% over the past 12 months. The unit sector continues to weigh on the headline growth rates, where values were down 0.1% in May to be 1.4% lower over the past 12 months. House values, on the other hand, have been more buoyant rising 0.5% in May and posting a smaller annual decline of 0.5%. Overall, home values remain 6.4% below their record highs from May 2022, with the peak coinciding with the first-rate hike of the tightening cycle.

Looking forward, the RBA is becoming more comfortable with the path of inflation, supporting a widespread expectation that interest rates are set to reduce further. Given the close relationship between interest rates and housing markets, there is likely to be further upside for the volume of home sales and prices.

Some renewed confidence in decision making after the federal election and an ongoing undersupply of newly built homes are other factors that are likely to support further price growth.

The RBA expects core inflation will be around the middle of the 2-3% target range by June this year, holding there until at least mid-2027. Confidence that inflation will remain within the target range is crucial for interest rates to reduce further.

Adding to the argument for further rate cuts is the expectation that labour markets will gradually loosen through the year, with the RBA's forecasting the unemployment rate to rise to 4.3% by year's end. A relatively soft upwards trajectory in GDP growth, forecast to reach 2.1% for the 2025 calendar year, is another factor supporting a lower cash rate.

Alongside lower interest rates and lower inflation, it's reasonable to expect a further rise in sentiment, albeit with offsetting factors like global uncertainty amid tariff talks and conflicts that are likely to temper any substantial rise in sentiment.

Some renewed political certainty following the Labor Party's federal election win is another positive for household decision making. A pillar of the party's election platform was a first home buyer initiative providing access to home ownership with government-backed deposit guarantees. While the expanded 5% deposit guarantee doesn't 'go live' until next year, we could see financially capable first home buyers looking to beat the rush in 2025.
There are also downside factors that will probably keep any material upswing in housing values in check.

Affordability pressures, which are evident across most housing markets, are also set to constrain housing demand to some extent. At the end of last year, the national dwelling value to household income ratio was on par with record levels at 8.0, while home loan serviceability was also at an all-time high.
Lending policies and regulations are another factor that could keep a lid on housing exuberance. Since 2023, borrowers with a debt-to-income ratio of six times or higher have comprised around 6% or less of new loan originations. Any sign of higher housing-related debt levels could be met with a tighter policy framework for home lending.

Lower population growth should also help to quell the accrual of housing demand in the absence of a supply response.

Overall, we are still expecting housing values to post a modest rise in 2025, albeit at a slower pace than what was recorded in 2024.

With continued interest rates reductions in the second half of the year there's plenty to keep an eye on in the coming months.