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NAB Australian Housing Market Update–July 25

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Cotality's

NAB Australian Housing Market Update

Welcome to Cotality's housing market update for July 2025.

Australian housing values rose another 0.6% in June, marking a fifth straight month of growth since conditions flattened out through the end of last year. Demonstrating the broad-based nature of the upswing, monthly gains were recorded across almost every broad region of Australia, with Hobart the only region to see a month-on-month fall.

The first rate cut in February was a clear turning point for housing value trends. An additional cut in May, and growing certainty of more cuts later in the year have fuelled housing sentiment, helping to push values higher.

Although value rises have been broad-based, the quarterly pace of growth, at 1.4% remains mild compared to mid-2023 when the national index was rising at the quarterly rate of 3.3%. Current growth levels could be described as tepid compared with the extreme 8.1% quarterly rate of growth recorded through the height of the pandemic.

Across the individual capitals, quarterly growth was led by Darwin, with dwelling values jumping 4.9%, enough to take dwelling values to a new record high, finally surpassing the mining boom peak recorded just over 11 years ago in May 2014.

Outside of Darwin, the quarterly trend across the capitals was led by Perth and Brisbane, the same markets which have led the five-year growth trend, with values up 81% and 75% respectively since June 2020.

Although the quarterly pace of growth still favours regional Australia, at 1.6%, compared with the combined capitals at 1.4%, it is looking increasingly likely that the quarterly growth trend will once again favour capital city markets over the coming months. In fact, the last two months have seen the combined capitals record a slightly higher rate of capital gain than regional markets.

The housing rebound is occurring against a backdrop of relatively low home sales, with turnover through the first half of the year tracking at an annualised pace of 4.9%, slightly below the decade-average of 5.1%.

Although demonstrated demand is tracking slightly below average, advertised supply is scarce, creating a more balanced market for buyers and sellers. Advertised stock levels were tracking -5.8% below the same time a year ago and -16.7% below the previous five-year average.

Low inventory levels are supporting an improvement in selling conditions, which can be seen in auction clearance rates, which rose to slightly above the decade average in the last two weeks of June, holding around the mid-60% range.

Turning the focus to rental conditions, rental growth has continued to ease across most of Australia, with the national rental index rising 1.3% through the June quarter, the lowest Q2 change since 2020. The slowdown in rental growth is more visible in the annual trends, where national rental growth has eased from a peak of 9.7% in November 2021 and tracked at more than 8% between July 2021 and May 2024. The national rental index was up 3.4% through the financial year, the lowest annual increase since February 2021.

Slower rental growth comes despite vacancy rates consistently holding around the mid-1% range, well below the pre-pandemic five-year average of 3.3%. Rental affordability is a key factor keeping a lid on rental growth. Assuming the median rent and median household income, rental households are now dedicating around one third of their pre-tax income to paying rent.

As the period of COVID 'catch up' migration comes to an end, and recent temporary migrants head back overseas, net overseas migration has reduced close to pre-pandemic levels. Because most recent overseas arrivals rent, slower rates of net overseas migration are also contributing to the slowdown in rental demand.

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

Sydney dwelling values rose 1.1% through the June quarter, adding just over \$13,000 to the median value. The quarterly gain is up from a 0.8% rise in Q1 and a -1.4% decline through the final quarter of 2024. Through the first half of the year, Sydney home values have increased by 1.9%, mostly fuelled by houses (+2.5%) rather than units (+0.4%). In some good news for renters, rental growth has eased, with the annual change in Sydney rents reducing to 1.9%, down from an annual change in 2023/24 of 7.4% and

11.1% through 2022/23. The easing in rental appreciation comes despite vacancy rates easing to 1.8% in June, well below the decade average of 2.9%

Melbourne dwelling values rose 0.5% in June, taking the quarterly change to 1.1%, up from 0.7% in Q1 after three quarters of decline. Through the first half of the year, Melbourne dwelling values have increased by 1.8%, adding just over \$14,000 to the median dwelling values. Despite the recent gains, Melbourne values are still 3.9% below the record high set in March 2022. While growth in housing values has accelerated, the trend in rental markets is losing steam, with annual rental growth of just 1.2% recorded across Melbourne, the lowest annual rate of growth July 2021.

Housing values across Brisbane rose by 0.7% in June, to be 2.0% higher over the quarter, adding approximately \$18,000 to the median value of a dwelling over the past three months. The market is up 7.0% over the financial year, led by a 10.9% jump in unit values while house values rose by a smaller 6.3%. The stronger result comes back to worsening affordability constraints deflecting demand towards the unit sector, along with very low supply levels across Brisbane's unit market where listings are tracking 33% below the previous five-year average. Annual rental growth has slowed across Brisbane, with dwelling rents up 3.8% in 2024/25 and holding below 4% annual growth since November last year.

Adelaide dwelling values rose by 0.5% in June to be 1.1% higher over the June quarter. The monthly and quarterly result were a slight underperformance compared with the national growth rate of 0.6% and 1.4%, respectively. Although growth conditions have accelerated from the March quarter, when values were up 0.5%, the annual rate of growth, at 8.0% was well down on a year ago when the market was up 14.5%. A subtle rise in advertised supply levels relative to a year ago (+3.1%) might be helping to take some heat out of the growth rate, alongside worsening affordability constraints and less population growth.

The pace of capital gains has re-accelerated across the Perth market, with the monthly rate of growth rising to 0.8% in June. After posting three months of negative change between December and February, monthly movements in Perth dwelling values have been consistently positive, taking the quarterly rate of growth to 2.1%, the highest since the three months ending October last year. Through the financial year, Perth dwelling values are up 7.0%, or

in dollar terms approximately \$54,000. Despite the strong annual outcome, the annual rate of growth is less than a third relative to a year ago when Perth home values were up 24.4%.

Although Hobart dwelling values slipped 0.2% in June, the quarterly pace of gains, at 0.9% has held in modest positive territory over eight of the past nine months. Supporting the upwards trend has been an improvement in housing affordability, with Hobart dwelling values remaining 10.2% below their record highs, and a reduction in advertised supply levels, which are now tracking 25.0% lower than a year ago and 1.7% below the previous five-year average. Rental trends have been on an upswing, with Hobart rents rising 5.3% over the past 12 months, the second highest annual gain of any capital city after Darwin (6.2%).

Darwin housing values have been on a solid growth run, with the 1.5% rise in June finally taking the city's dwellings to a new record high. The previous record high was set in May 2014 at the height of Darwin's infrastructure boom. Values were up 4.9% through the June quarter, the highest quarterly gain of any capital city, and the 6.0% gain over the financial year was the strongest annual gain since the 12 months ending September 2022. The rise in values has been accompanied by a near doubling (+98%) in the volume of investor finance commitments over the year to March, alongside affordable housing prices and high rental yields.

ACT housing values rose by 0.9% in June, the strongest monthly gain since March 2022. The monthly gain took values 1.3% higher over the June quarter, compared with a flat (0.0%) result in Q1 and a -0.2% change in Q4 last year. House values continue to show a substantially stronger capital gain than units, with values up 1.6% and 0.2% respectively over the quarter. The difference between houses and units comes back to supply levels, with house listings across the ACT tracking 14.7% below their previous five-year average, while unit listings are holding 30.4% above their five-year average.

A range of factors are set to shape housing market outcomes over the rest of the year. On the upside, we have an expectation that interest rates will fall further over the coming months, possibly reducing to the early 3% or even high 2% range by year's end. Consumer sentiment is likely to improve, while labour markets are holding tight. Additionally, persistently low levels of new housing supply are likely to support values.

With the monthly inflation indicator for May showing a 2.4% core inflation rate, inflation is well and truly back within the RBA's target range of 2-3%, beating the RBA's latest forecasts, which had trimmed mean inflation holding at 2.6% from mid-2025.

The lower-than-expected inflation outcome has prompted many economists to bring forward their forecasts for future rate cuts, with a consensus view forming that rates will fall another 25 basis points in July, with more cuts to follow. Financial markets are pricing in a cash rate of 3.1% by December and 2.9% through the first quarter of 2026.

Lower interest rates go further than improving borrowing capacity and serviceability. Along with reduced cost-of-living pressures we should see the lower cost of debt providing some support for consumer sentiment and high commitment decision making.

The tight labour market, with the unemployment rate holding around 4.1% or lower since early 2022, should also support confidence and borrowing ability. Concerns about the labour market being 'too tight' seem to be fading, with no evidence of a blowout in wage growth.

From a housing supply perspective, the rise in dwelling approvals from the cyclical lows of 2023/24 looks to have been short-lived, with monthly numbers faltering below the decade average and well below the 20,000 approvals required to reach housing accord targets.

Insufficient levels of new housing are likely to place further upward pressure on housing prices at a time when affordability constraints are already at record levels.

Downside risks relate to widespread affordability constraints, elevated levels of household debt, a cautious lending environment and reduced housing demand via population growth. Geopolitical risk is another factor that could weigh on sentiment.

Given the ongoing affordability constraints evident across most markets, it's hard to see value growth posting a material upswing. The 2.4% rise in national dwelling values through the first half of the year equates to a dollar value increase in the median dwelling value of approximately \$19,000, eroding much of the benefits of lower rates when it comes to borrowing capacity.

Household debt levels could weigh on credit availability, with the ratio of household debt to disposable income tracking at 181% in the March quarter. While down from historic highs, the risk of households accumulating excessive levels of debt as financial conditions ease is something the Council of Financial Regulators has on their radar. Lower population growth should also help to quell the accrual of housing demand in the absence of a supply response.

Finally, geopolitical risk relating to conflict in the Middle East, US tariffs and the ongoing Ukraine war remains a wild card that could weigh on consumer sentiment and potentially disrupt economic conditions.

Overall, the tailwinds of lower interest rates, higher confidence, tight labour markets and low housing supply are likely to outweigh the headwinds, providing the foundations for further modest growth in housing values in 2025, but we aren't expecting growth conditions to be anywhere near as strong as seen through early 2023 or, for that matter, the height of the pandemic housing boom.

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