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NAB Australian Housing Market Update—August 25

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Cotality's

NAB Australian Housing Market Update

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

Our national home value index notched up a sixth consecutive month of growth in July, following a slight dip in values at the end of last year. After a positive turn in February, which aligned with the first rate cut, the monthly pace of growth has held at 0.6% since May as the opposing influences of low supply, falling interest rates and rising confidence run up against affordability constraints and lingering uncertainty.

Every capital city recorded a rise in dwelling values through the month, led by Darwin with a solid 2.2% rise, followed by Perth, up 0.9%. At the softer end of the growth tables are Hobart, Melbourne, and the ACT.

The positive trend in housing values is supported by persistently low inventory levels, with national listings tracking -20% below the previous five-year average for this time of the year. At the same time, Cotality's estimate of annual sales is tracking about 1.9% *above* the previous five-year average.

The imbalance between available supply and demonstrated demand has supported auction clearance rates, which have been tracking slightly above the decade average since mid-May.

Although the monthly growth trend looks to have found a sweet spot, the rolling quarterly change shows a clear upswing since February's rate cut. The 1.8% rise in the

national index over the three months ending July was the strongest outcome since the three months ending June last year.

The rate of growth in house values is once again outpacing gains across the unit sector. The past three months have seen national house values rise by 1.9%, adding approximately \$16,700 to the median value. In comparison, unit values are up a smaller 1.4% or roughly \$9,700 on the median value.

With house values once again outpacing units, the difference between the national median house and unit value is at a record high. In July, nationally, there was a 32.3% difference between the median value of the two broad housing types, or approximately \$223,000 in dollar terms.

The combined regional markets are no longer outperforming, with the rolling quarterly gain once again favouring the combined capitals. The stronger capital city

trend comes after nine months where the quarterly trend rate of growth has been stronger across regional Australia.

The strongest regional markets have seen a clear change since the pandemic when commutable lifestyle markets were leading the gains. The current trend favours rural markets in Western Australia, Queensland, and South Australia where housing is generally quite affordable and economic conditions are generally robust.

Moving our attention to rental markets, with vacancy rates holding close to historic lows, at just 1.7%, there has been some evidence of reaccelerating growth trends. On a seasonally adjusted basis, national rents were up 1.1% over the three months ending July, up from a recent low of 0.5% through the September quarter last year.

The reacceleration in rental growth is clearly bad news for renters, where the median income household would already need around a third of their pre-tax income to pay rent. Renting households have historically skewed to younger, lower-income cohorts, so no doubt the sting of high rents is having an even more acute impact on household budgets.

Now, let's take a closer look at each of the capital city trends

Sydney dwelling values are up another 0.6% in July, with the pace of growth holding steady from June. Despite severe affordability challenges, growth conditions are skewed towards houses, where values are up 3.3% over the first seven months of the year compared with a 0.7% rise in unit values. The stronger growth conditions come despite the gap between Sydney's median house and unit value widening to a record 75.7%, or a dollar value difference of approximately \$658,000. Sydney rental growth has reaccelerated, up 0.4% in July in seasonally adjusted terms which was the highest monthly rise in rents since April last year.

Melbourne dwelling values rose 0.4% in July, the sixth straight month of rising values, taking the market 2.8% higher since values started rising in February, in line with the first rate cut. The rise equates to a \$22,570 increase in the median dwelling value, but this hasn't been enough to take the market to a nominal recovery, with values remaining 3.4% or approximately \$28,000 below their record highs from March 2022. Growth conditions have favoured houses over units, with values up 2.8% and 1.2% respectively through the first seven months of the year. Rental conditions remain tight with a vacancy rate of just 1.5% in July, pushing rents 0.2% higher over the month.

Brisbane dwelling values rose 0.7% in July, a slight easing from the 0.9% rise in June. Brisbane continues to record the second-highest median dwelling value of any capital city, at \$934,620. The gap between Brisbane and Sydney prices

remains substantial, but has narrowed to 'just' 23.9%. The past few months have seen the gap between Sydney and Brisbane values trending at the smallest difference since 2013. The unit market is continuing to lead the pace of capital gains, up 1.1% over the month compared with a 0.7% rise in house values. This stronger performance across the apartment market has been a consistent feature, with unit values rising faster than houses since the beginning of 2024. Rental growth has been holding between 0.5% and 0.6% since the beginning of 2025, which is an acceleration from the second half of 2024 when monthly rental growth averaged just 0.1%.

Dwelling values were up 0.7% across Adelaide in July, the strongest month-on-month gain since December last year. However, the market has clearly lost momentum, with the annual rate of growth easing back to 7.0%, less than half the annual rate of growth a year ago (14.6%) and well down from the cyclical peak in March 22 when the annual rate of growth was 24.5%. With a rental vacancy rate of just 1.0%, rental markets remain extremely tight. However, rental growth has eased to just 0.1% over the month of July to be up 4.4% over the past 12 months, the slowest rate of annual rental growth since the 12 months ending January 2021.

Housing conditions have re-accelerated across Perth, with the market up 0.9% in July, on par with June to be the strongest monthly rise since September last year. We are seeing stronger conditions across the unit sector, with values rising 10.4% over the past 12 months compared with a 6.0% rise in house values. This stronger performance across the unit sector has been a feature of the market, at least in trend terms, since early 2024. Perth rental markets remain extremely tight, with vacancy rates holding around 1.3% over the past four months. Despite such low vacancy, rental growth has slowed to average just 0.4% over the past six months, a sharp slowdown from 2023/24 when monthly rental growth was averaging 1% month on month.

Hobart home values were slightly better than flat in July, up 0.1% to be 1.6% higher through the first seven months of the year. Although values are gradually rising, it will take some time for the market to recover the previous losses, with the values remaining 10.4% below peak levels from March 2022. Supporting the subtle rise in values is a consistent reduction in advertised supply levels which were tracking nearly 30% lower than a year ago in July. After briefly recording the fourth highest median value of any capital, Hobart's median is the second-lowest across the capitals after Darwin.

Darwin's housing market is on quite the tear, with dwelling values surging 2.2% in the month of July to be 9.7% higher over the first seven months of the year. Home lending data to March shows a solid pick up in investment activity across Darwin, which is unsurprising given the low buy-in price and

very high gross rental yields. While the short-term trends have been very strong, the 10-year growth rate across Darwin averages just 0.6% year on year, a reminder of the weak conditions post infrastructure boom.

The ACT housing market has moved through six consecutive months of mild growth, reversing more than two years of flat to falling values. The renewed growth trend has seen the annual change in ACT values move back into positive territory, with values up 0.5% over the past 12 months, with a 0.8% rise in house values offsetting a 0.4% slump in unit values. Canberra home values need to recover another 5.2% before surpassing the May 22 record high. For vendors, supply levels are tightening, with listings 3.2% lower than a year ago in July.

The outlook for housing values remains positive and we expect values to continue posting a broad-based but modest rise through the rest of the year, supported by an outlook for lower interest rates, improving sentiment and short housing supply.

The June quarter inflation outcome, with the quarterly trimmed mean at 0.6% and the annual core inflation reading reducing to 2.7% which was the lowest reading since September 2021, sets the scene for an August rate cut and probably two or three more cuts over the coming 12 months.

The housing component of CPI, which holds the most significant weighting in the CPI calculation, is one to watch, with a rise in annual inflation through the first half of the year from 1.0% at the end of 2024 to 2.0% in June due to the expiry of federal and state energy rebates.

The cost of new dwellings has also ticked a little higher, and the rental component of CPI could also see some renewed upwards pressure if the reacceleration in private sector rental measures persists.

Given that core inflation is now firmly around the mid-point of the RBA's target range, there is a clear expectation that interest rates will reduce further from here. Lower interest rates go well beyond providing a lift to home loan serviceability and borrowing capacity. We expect to see a further rise in consumer sentiment as cost-of-living pressures are contained and the cash rate moves lower. Historically, consumer sentiment and housing activity have shown a close relationship.

Low housing supply is another factor supporting some upward pressure on housing values, both from an 'immediate' perspective via low advertised listing numbers, but also insufficient newly built housing supply that is likely to be a feature of the market for some time yet.

Building costs remain high and profit margins have been severely compressed, especially across the multi-unit sector. Given the mostly below-average trend in dwelling approvals, alongside extended approval-to-completion times and competition for labour with the public infrastructure sector, it's hard to see the cumulative shortfall in newly built homes being addressed within the next couple of years at least.

Despite the tailwinds, the housing market is also facing a few headwinds.

Housing affordability poses the most significant barrier to a material rise in housing prices. Data to March shows the national dwelling value to household income ratio, at 7.9, is just shy of record highs. Although loan serviceability metrics are improving as interest rates reduce, higher housing prices are dampening the influence of lower rates. Elevated levels of household debt are another factor blocking a more material rise in home values. Recent statements from the Council of Financial Regulators and APRA make it clear that regulators are watchful for any sign of excessive debt accumulation as financial conditions ease.

Other downside factors for the housing sector include the uncertainty related to geopolitical risk and tension in conflict zones such as the Middle East and Ukraine, as well as more 'normal' levels of population growth that should help to dampen demand-side factors.

On balance, the tailwinds of lower interest rates, higher confidence and low housing supply are likely to outweigh the headwinds, providing the foundations for further modest growth in housing values in 2025.

As we approach spring it's normal for listing numbers to ramp up, testing the depth of housing demand. Likewise the remainder of 2025 is also expected to see further interest rates reductions so there's plenty to keep an eye on in the coming months.