PROPERTY MARKET UPDATE
YEAR IN REVIEW 2025

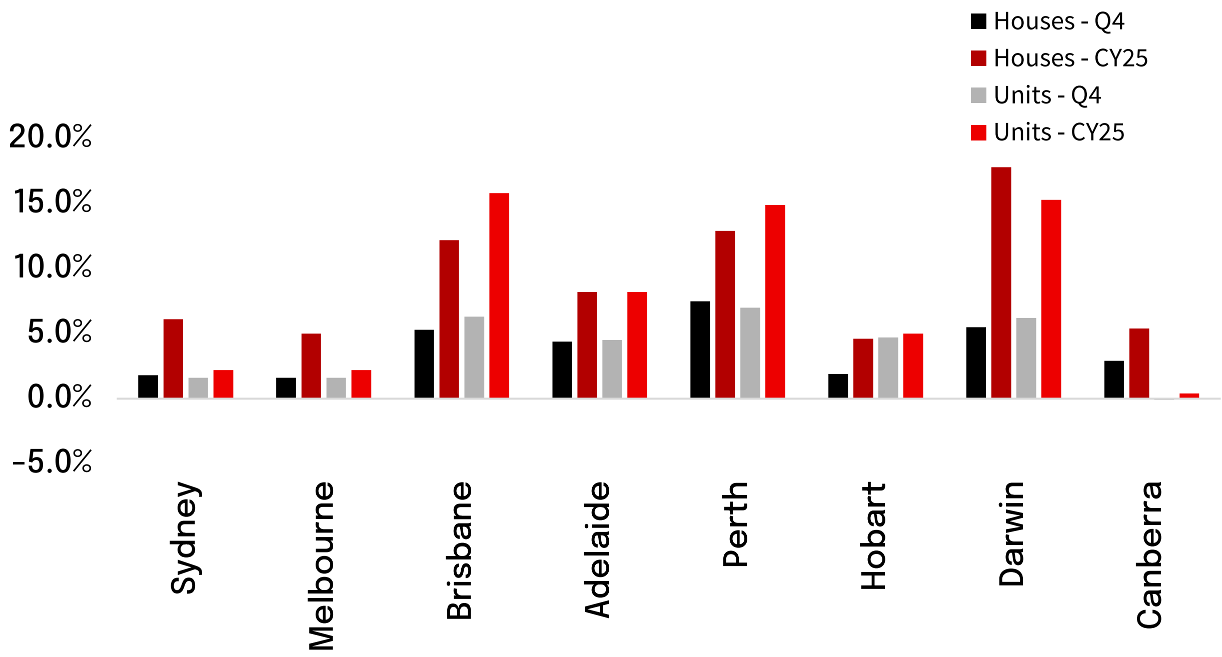
Australia's housing market in 2025 delivered another year of strong growth, with Cotality's Home Value Index showing an 8.6% rise nationally. 2025 ranked the 11th highest calendar year for value growth over the past forty years.

The 2025 outcome translated to an increase of around $71,400 in the national median dwelling value, which ended the year at $901,257. The result marked the strongest calendar year gain since 2021, but the pace of growth slowed as the year concluded as affordability constraints, renewed inflation risks and shifting interest rate expectations began to weigh on sentiment.

Every capital city and regional market posted annual gains, but the results were far from uniform. Darwin led the capitals with an 18.9% surge, followed by Perth at 15.9% and Brisbane at 14.5%. Sydney and Melbourne at a more sustainable annual growth of 5.8% and 4.8%, respectively, reflecting the impact of stretched affordability and softer demand at the top end of the market. The upper quartile of dwelling values grew just 0.2% in December, while the lower and middle segments rose 1.1%, highlighting a clear shift in demand towards more affordable price points.

Regional markets outperformed the capitals, rising 9.7% over the year compared to 8.2% for the combined capitals. Regional WA stood out with a 16.1% annual increase, while Regional QLD climbed 12.6%. Regional VIC recorded the lowest regional growth at 6.0%. The market's momentum was underpinned by persistently low stock levels, with new listings and construction remaining well below average. This structural undersupply provided a floor for growth during 2025. By year end, the national dwelling value to income ratio hit 8.2, and mortgage serviceability reached a record 45% of household income. It now takes the typical household 11 years to save a 20% deposit, and renters are spending a record 33.4% of their income on rent.

House & Unit Value Movement – End of December



Source: Cotality

Inflation risks re-emerged late in the year, with annual headline inflation rising to 3.8% in October and core inflation to 3.3%. The cash rate reduced by 0.75% during the year to be 3.6%, 1% above the pre-pandemic average, and speculation grew that the RBA's next move could be a hike rather than further cuts. Consumer sentiment moderated in December, with the 'Time to Buy a Dwelling' index down -10.6%. APRA announced the introduction of debt to income control late in the year and combined with expanded government incentive for first home buyers is anticipated to keep demand towards firmer at the lower and middle price brackets.

Rental conditions remained extremely tight, although there was a slight easing in December as the vacancy rate edged up from 1.5% to 1.6%. National rents rose 5.2% over the year, up from 4.8% in 2024 but well below the double-digit increases seen in 2021 to 2023. Regional WA led rental growth at 10.1%, followed by Darwin at 8.2%. Melbourne and the ACT saw the smallest increases, at 2.9% and 3.0%, respectively. Despite rising rents, home values climbed faster, pushing the national gross rental yield down to 3.56%, the lowest since September 2022. Sydney recorded the lowest capital city yield at 3.0%, while Darwin remained the highest at 6.2%.

Outlook

Looking ahead to 2026, the market is expected to transition to a period of more modest and uneven growth. Inflation and interest rate uncertainty, along with record-low affordability, are likely to be the main headwinds for buyers and sellers alike. The risk of further rate hikes is already weighing on consumer confidence and borrowing capacity, particularly in the most expensive markets.

Even so, persistently low levels of new housing supply and a lack of existing listings are expected to act as a buffer against any significant price falls. Targeted government incentives for first-home buyers and ongoing investor interest should also help support demand, especially in mid-sized capitals and regional areas where affordability is less stretched. The balance between these forces will be critical, and while the pace of gains is set to slow, the market is expected to remain resilient in many areas, even as conditions become more challenging and local factors play a greater role in shaping outcomes.

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Market Level Dwelling Growth

Source: Cotality