Australian Property Update

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End Is Not Near

If you believe the latest round of media commentary, you'll be convinced the end is near for Australia's property market.

The headlines would have you believe that prices are falling everywhere and the so-called national property boom is over. The reality is a long way from that scenario. It can be difficult to understand what is really happening in Australian property markets because of simplistic and often sensationalist reporting by news media. Treatment of the latest price data from CoreLogic is a case in point. It says house prices fell in December in Sydney and Melbourne, resulting in a 0.1% drop in the national average. Then, right on cue, we are bombarded with headlines that the property market is in decline and prices are falling.

The figures show something quite different is happening. In most markets, house prices continue to rise and are up nationally by 5.2% in 2024.

Australia has 15 market jurisdictions, eight capital cities and seven regional centres, and 11 of those recorded house price growth in 2024. Prices are up more than 10% in Brisbane, Adelaide, Perth, Regional Queensland, Regional South Australia and Regional WA, with smaller increases in Sydney, Darwin, Canberra, Regional NSW and Regional Tasmania. What this data does show is not that the market is falling but that the rate of price growth in the markets that have been booming is now slowing, most notably in Perth.

The reality is that house prices and unit prices continue to rise in most of the major markets nationwide.

Investment Soars

Property investment loans are growing at three times the rate of owner-occupier loans, according to Money.com.au's latest Mortgage Insights report. It says investor loans increased by 19% in the September quarter, while owner-occupier loans increased by only 5% during the same period. Investors focused on Western Australia in particular, with a 43% increase in investor loans, while in Queensland, loans to investors are up by 24%. In New South Wales, investor loans are up by 20%, South Australia is up 17%, the Northern Territory is 14%, and both Victoria and Tasmania are up by 5%. The decline in investors in Victoria has allowed owner-occupiers to gain a foothold in that market, with owner-occupier loans for existing properties up by 7%. According to the analysis in most states, investor loans have grown significantly faster than owner-occupier loans. "The exception is Victoria, where the property market remains focused on owner-occupiers due to less favourable taxes and conditions for investors in that state," it says. Money.com.au Property Expert Mansour Soltani, says investor activity is being driven by strong rental demand and rising yields, which is being fuelled by overseas migration, as well as strong property price growth. According to REA Group, there is a resurgence in investor activity throughout most of Australia. Its Hot 100 Investment Suburbs for 2025 tips locations outside capital cities as solid options. Its ten most promising suburbs for investors are Broome, Rockhampton, Braitling, Geraldton, Kirwan, East Victoria Park, West Leederville, Bassendean, Mount Lawley and Bayswater.

2025 Price Predictions

Despite a slowing in the pace of price growth in some markets toward the end of 2024, prices are tipped to continue rising in 2025. Domain Group predicts that national house prices will increase between 4% and 6% in 2025, with units to increase between 3% and 5% It also forecasts a long-awaited interest rate drop will help pick up activity in the market in the second half of the year. Domain Group Chief Economist Dr Nicola Powell says in 2024, the housing market demonstrated remarkable adaptability and strength, with Perth, Adelaide and Brisbane as the standout performers. However, she says that with more listings on the market and some buyers holding back with affordability concerns, the pace of growth will continue to slow in the early months of 2025 and will only change when the RBA finally cuts its interest rate.

"An interest rate cut or targeted stimulus measures could trigger a wave of demand and spark price growth as the housing market responds to this newfound momentum," Powell says. "It may take one or two rate cuts to motivate buyers into action, and the timing of these cuts will shape market dynamics in 2025, perhaps creating a year of two halves, with a weaker first half and a stronger second." Domain predicts that the unit market, in particular, will gather further strength in 2025.

Buyers Seek Affordability

Buyers are still focused on affordability, which is driving strong price growth in the unit market, according to PropTrack's January 2025 Home Price Index.

In the past 12 months, median unit prices have increased at a higher rate than house median prices in Brisbane and Perth, while in Adelaide, they are on par with the two asset classes.

Unit prices are up 18.8% in Perth compared with house prices, which rose by 17.5% during the same period. In Brisbane, unit prices rose by 15.4% compared with a 10.6% increase in house prices, and in South Australia, unit prices rose by 13.1% compared to houses, which rose by 13.6%.

Even in Melbourne, where both house and unit markets recorded a decline in the past 12 months, the unit market still performed better, with its median down by 1.6% compared to a 2.7% drop in the house market.

Senior Economist Anne Flaherty says buyers are still focused on affordability with prices rising the most in Brisbane, Adelaide and Perth in the past 12 months as a result of demand. CoreLogic research director Tim Lawless says the most affordable quartile of the capital city markets has shown the highest rates of value growth in 2024.

Key 2025 Market Influences

Predicted interest rate cuts, low supply and other economic factors will continue to have a big impact on the property market in 2025, according to Mortgage Choice. It has revealed the seven key influences that will shape how the market performs throughout the year.

Inflation: Underlying inflation remains too high, which increases household costs, which can lead to interest rates remaining higher for longer, reducing buyer borrowing capacity.

Interest rates: Many expected interest rate cuts in late 2024, but that did not occur. Some are predicting three cuts in 2025, starting in April.

Labour market: The labour market remains strong, with positive job creation, high employment participation and an unemployment rate of 3.9%. For inflation to reach its target, the unemployment rate will need to rise to 4.5%. There is no sign of that happening soon.

Population growth and migration: Population growth has slowed slightly but remains well above the long-term average of 1.4%. This boosts demand for housing, pushing up prices.

Mortgage lending: Lending continues to rise, which is driving housing demand and pushing prices up.

Construction costs: Material costs increased by 1.4% in the year to September 2024 and are 34.3% higher than at the start of the pandemic.While the pace of growth is slowing, costs are unlikely to drop, leading to higher housing costs.

Supply: The Federal Government's Housing Accord aims to build 1.2 million new homes by 2028–29. Dwelling approvals have increased but remain far below the level needed to meet the annual target.