Australian Property Update

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Terry's View

Sooner or later, Australians will ask: how can rental supply be worse today than it was one, two, even five years ago? Because the numbers are brutal - and they keep getting worse. Five years ago, there were more than 72,000 homes available for rent nationwide. By March last year, that had collapsed to around 34,000. This year, it's fallen again to just 31,000.

That's less than half the supply we had in 2021. At the same time, vacancy rates are sitting at crisis levels. A healthy rental market needs vacancies above 3%. Australia hasn't seen that in two decades. Instead, the national vacancy rate was 1.2% in January, 1.1% in February, and 1.0% in March.

Anything below 2% is a severe shortage. Below 1% is a full-blown crisis. And that's exactly where much of the country is. Seven of the eight capital cities have lower vacancy rates than a year ago. Five are now below 1%, with Hobart and Darwin as low as 0.4%. Even Melbourne—the "best" of the capitals—is only at 1.4%. In other words, the least constrained market in the country is still in deep shortage.

When supply is this tight, rents don't just rise - they surge. Gold Coast rents are a clear example. House rents jumped 2.1% in the last quarter and 7.8% over the year, pushing the median to $970 a week - well above Sydney at $800 and Brisbane at $700. And it's not just headline rents. Affordability has deteriorated sharply.

Five years ago, the typical household spent about 25% of its income on rent. Today, it's closer to 33%. In real terms, that's an extra $200 a week—more than $850 a month—just to keep a roof overhead. This is the direct consequence of collapsing supply. Fewer rental properties. Lower vacancy rates. Rising competition. Higher rents.

And while rents are hitting record highs, the system is failing on both sides. Tenants are under pressure, and many landlords are also struggling as costs rise faster than rental income. But the core issue is simple: there are not enough homes available to rent. Until vacancy rates rise meaningfully—back above that 3% benchmark—rents will keep climbing, affordability will keep worsening, and the rental crisis will deepen. That's the reality in the data.

Affordable Property Prices Rising

Growing demand by first-time buyers means Australia's more affordable property markets are experiencing the strongest price growth. Analysis by Cotality shows that since October last year, properties with an estimated value below the 5% deposit guarantee scheme price caps have recorded stronger growth than higher-priced homes.

The scheme allows first-time buyers to secure a home with a deposit as low as 5%. Homes need to be below a certain price threshold to be eligible. In the six months since the scheme was expanded, properties under the price threshold have increased in value by 6.7% compared with a 3.6% increase for properties with an estimated value above the threshold.

Cotality research director, Tim Lawless, says there are several factors which may explain the stronger growth at lower price points. He says the expansion of the scheme has "brought forward" buying plans, serviceability constraints are pushing demand toward lower-priced properties and investors are competing with first-home buyers in the affordable end of the market.

Lawless says that the pattern of stronger growth in values in below price threshold markets is consistent across every capital city and regional market except for Regional Western Australia and the Northern Territory. "Overall, the expanded deposit guarantee appears to have amplified demand for lower-priced homes, adding to competitive tension for more affordable housing options and contributing to faster growth in this segment compared to higher-priced properties," he says.

Record Low Vacancies

Record low vacancy rates are continuing to drive rents higher throughout Australia.

Domain's latest quarterly Rent Report shows that nationally vacancy rates hit a record low 0.7% in the March quarter, with many capital cities well below that level.

Hobart and Darwin have the lowest vacancy rate, with both at just 0.2% - a record low for both cities.

On the back of the low vacancy rates, median house rents are now $620 and $720 per week and unit rents are $500 and $600, respectively. Perth has a tight vacancy rate of just 0.3% which helped drive house rents to $740 per week and units to $695 per week.

Adelaide's vacancy rate dropped to 0.4% with its house rents $640 and units $550, while Brisbane's vacancy rate dropped to 0.6% with its house rents $680 and units $660.

Sydney's vacancy rate is 0.8% with house rents up to $800 and units, $750. Melbourne, with a vacancy rate of 1%, is the only market not to record a record high rent; its rents are just above previous record lows at $590 for houses and $600 for units.

It is also the only capital city where unit rents are higher than house rents. Domain chief economist Nicola Powell says renters are running out of capacity to absorb higher rents. She predicts rental growth will moderate.

Holiday Homes May Disappear

Potential changes to capital gains tax won't just hurt investors but could also make it harder to rent a holiday home in the future.

Analysis by Compare the Market shows that holiday homes and short-term rentals account for about 20% to 25% of holiday accommodation in Australia.

Spokesman Chris Ford says any potential change to capital gains tax in the upcoming Federal Budget could impact holiday plans in the future.

He says Australia is the second only to Cyprus as the best country in the world to own a holiday home under current tax settings.

Ford says changes to capital gains tax could discourage people from buying a holiday home. This comes as the Australian Taxation Office is looking to tighten rules on holiday home deductions when the property is also used privately.

Previously holiday homes could be negatively geared if owners could apportion deductions based on days of private use but new draft rules mean that if holiday homes are not used mostly for productive income, they could be treated as a leisure activity. This means tax deductions will be limited to those that directly relate to earning rental income, such as advertising costs.

Under the draft rules, even limited personal use can result in no deductions at all for major costs like interest, rates and land tax.

New Home Sales Maintain Momentum

Fears of escalating construction costs have done nothing to dampen enthusiasm with new home sales up 17% over March. The Housing Industry Association's New Home Sales report shows that sales of new homes have been increasing since early 2025, with disruptions of the past two months to fuel and supply chains not slowing momentum. HIA Chief Economist Tim Reardon says new home sales for the March quarter are 31.9% higher than at the same time last year.

"This is a strong result given the impact of two rate increases and heightened global uncertainty," he says. He says a jump in sales in New South Wales and Victoria in particular is a welcome sign given their low volume of detached starts. "More broadly, demand for housing remains strong, supported by strong population growth and low unemployment. These structural drivers continue to underpin activity, even as borrowing costs rise," he says. Builder capacity to respond to growing demand does remain a little constrained as the rise in the cost of skilled labour and materials is expected to persist through 2026.

Reardon says access to shovel-ready land remains the key issue affecting how many homes can be delivered. Queensland had the highest increase in new home sales in March, followed by South Australia, Victoria and New South Wales. Western Australia is the only state to have a decline in new home sales contracts during the month.