

Mitchells Realty

Australian Property Update

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Terry's View – Strong Buying Window Emerging

Amid the orgy of sensationalist news media that's occurred since the Federal Budget was delivered on 12 May, the best course of action for investors is to look for the opportunities that will emerge when the dust settles. And make no mistake - there will be opportunities. The festival of clickbait headlines, fed by economists and analysts seeking to exploit the opportunity for some cheap limelight, has dealt with the apparently dire consequences of the changes to CGT, negative gearing and the taxation of trusts.

But many of the reports are based on an overreaction to the short-term outcomes in this limbo period between Budget night and firm outcomes. The government's proposed changes still have to pass through both houses of parliament before we will have any certainty. Given the considerable outcry over the broken election promises of the Government to justify what is nothing more than a tax grab dressed up as thoughtful policy, there may well be compromises. Although even with some likely changes in the Senate, it is likely that the key taxation changes as they impact real estate, will become reality.

As a result, what investors buy may change, and the entity they use to invest may change. The key thing that WON'T change is the fundamental importance of location. Whether an investor opts to buy established or invest in a new build, residential or commercial, the importance of choosing a location with growth credentials does not change. While waiting for the changes to come to fruition, investors can use the period of uncertainty to find the best locations for future action.

As Reventon founder Chris Christofi commented recently, market uncertainty may be creating one of the strongest buying windows seen in years. The upcoming changes will make high-yielding properties and locations more appealing. Buying a positive cash-flow property makes negative gearing changes irrelevant – and this points investors primarily towards regional locations with lower prices and higher rental yields. Just be careful that you're not lured towards high-risk locations like mining towns or small country towns with vulnerable economies.



Terry Ryder

Australia's Leading Independent
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Smaller Cities Continue to Outperform

Australia's smaller capital cities have outperformed the larger markets of Sydney and Melbourne in the past 12 months. New data from PropTrack shows that Adelaide, Brisbane, Perth, Hobart and Darwin all achieved higher median price growth than the two big southern capitals.

In the past 12 months Perth had the highest dwelling price growth of 20.6%, followed by Darwin, 17.6%, Brisbane, 16.4% and Adelaide, 13.4%. Sydney only increased by 2.3% and Melbourne by 0.3%.

PropTrack senior economist Angus Moore says there are signs in the past month that the pace of price growth is slowing. Over the month of May, Sydney and Melbourne dwelling values fell by 0.2%, the ACT is down 0.4% and Perth is down 0.1%.

Cotality data shows similar patterns. Research director Tim Lawless says the housing cycle is weakening across most markets. "We are continuing to see multispeed conditions across Australia's housing sector, with Perth and Melbourne at opposite ends of the spectrum," he says.

"While the speed of value change remains very different from city to city, the direction is becoming more consistent, with most markets losing momentum as demand-side headwinds intensify."

Lawless says the more affordable end of the market continues to show stronger or more resilient conditions than the higher-priced markets across most of the capitals. Although he says that the pace of growth is generally easing across the more affordable markets as well.





Pre-Fab Housing Solution

The Federal Government is backing on prefabricated construction to help Australia meet its housing targets. Housing Minister Clare O'Neil has announced the introduction of a certification program for prefabricated homes.

She says the Government has been investigating how prefabricated and modular construction is used overseas to deliver homes faster, more efficiently and at greater scale. In countries such as Sweden, 80% of homes are built using some portion of prefabrication compared to about 5% in Australia.

It will commit \$40 million to support the different states and territories to trial System 600 - an open-source prefabricated housing platform that standardises components such as wall panels, bathroom pods and facades, enabling them to be manufactured off-site and assembled on-site at speed.

Under this model, 80% of components are manufactured offsite using standardised processes and 20% is completed onsite. The government will introduce a national voluntary certification scheme to simplify the approval of prefabricated housing under the National Construction Code.

Future Building Initiative director Duncan Maxwell says the announcement recognises that broader innovation is needed to deliver housing.

He says it has the potential to accelerate housing delivery, reduce costs, strengthen domestic manufacturing capability and facilitate scalable modern methods of construction.



More Choice for Buyers

The number of homes listed for sale is rising across Australia, with new data showing listings are 2.6% higher across the combined capital cities than at the same time last year.

The biggest increase in overall listings is in Sydney, which is up 8.5% on last year followed by Melbourne, up 7%, Adelaide (6.8%) and Canberra (5%).

All other capital cities have lower listings than at this time last year with the biggest drop in Darwin (-22%), Hobart (-20.6%), Perth (-14.7%) and Brisbane (-0.9%).

It is even tighter in regional Australia with listings across the combined regions down almost 10% on the same time last year, with the biggest drops in Regional Western Australia and Regional Tasmania.

The rise in listings means vendor discounting is increasing in some markets. The median discounting rate across the combined capitals has increased from 2.9% to 3.1% over recent months.

Sellers in Regional Northern Territory markets have had to reduce their median asking price by the most (-5.6%), while sellers in Brisbane, Regional Western Australia and Regional South Australia are getting closer to their asking price with vendor discounting of just 2.9%.

According to Cotality, softening buyer demand is also being reflected in a drop in auction clearance rates, as higher borrowing costs and proposed tax changes weigh on sentiment.



Rent Jumps Predicted

Major property industry groups are claiming rents will increase by up to four times what the Federal Government is predicting as a result of changes to Property Investment Taxes. Master Builders Australia, the Property Council of Australia, and the Real Estate Institute of Australia have released new modelling which they say shows that the Federal Budget's housing measures will cause rents to rise by \$9 a week – not the \$2 per week the government is predicting.

Market analysis by FoundIt predicts rent rises in some locations could be as high as \$50 per week within 12 months. The property technology and research platform's analysis says there is already existing momentum in rising rents and this will be compounded by a supply shortage and rising interest rates as investors put up rents to recoup costs.

It says changes to negative gearing and capital gains tax are likely to cut back on the number of investors buying property, creating a smaller market for rentals. The latest Market Insight report from realestate.com.au also warns of higher increases. REA Group senior economist Angus Moore says that by restricting negative gearing and the capital gains discount to new builds, new rental supply may not be added where it is needed most.