

26th September 2026

Granny Flats Unlock New Homes

Australia's existing suburbs may have room for millions of additional homes without requiring new housing estates. Analysis by property platform Archistar found that 44% of suburban properties could accommodate another dwelling or duplex under current planning rules. In total, Australia's suburbs may have capacity for another 3.6 million homes.

Granny flats offer one of the quickest and most affordable ways to use that capacity. Around 2.5 million residential lots could hold at least one granny flat, including 800,000 sites within two kilometres of a train station and 755,000 near hospitals.

The approach could help several housing challenges at once. Families can create accommodation for ageing parents, adult children or siblings, while downsizers can remain in familiar communities. Adding a smaller dwelling may also free up larger homes for growing families.

For investors, granny flats can provide strong rental returns because their construction cost is relatively low compared with the rent they generate. However, feasibility depends on planning rules, access, services, building costs and the configuration of the existing block.

The research also highlights Australia's "missing middle": established suburbs dominated by detached homes but lacking duplexes, townhouses and other medium-density options.

Land capacity alone will not solve the shortage. Faster approvals, consistent planning rules and viable construction costs are still required. Nevertheless, better use of existing blocks could add housing in locations where infrastructure, employment and community services are established. Rather than relying solely on outer-suburban expansion, Australia may have a part of its housing solution potentially sitting in its backyards.



Quote Of The Week

"For long-term investors, these conditions may create opportunities to negotiate more favourable purchase prices,"

Annabell
Mezieres,
Cotality



Why Quality Property Performs

A housing downturn does not affect every property equally, with long-term transaction data showing a small group of homes has delivered most capital growth.

LongView Funds Management analysed 6.4 million property transactions dating back to 1999. It found that just 18% of properties accounted for 58% of the capital growth.

The strongest performers were typically older detached dwellings on well-located land, where land represented a large share of the property's total value. Location, street quality, block configuration, dwelling size and subdivision potential all influenced performance.

LongView describes these assets as robust older dwellings on well-located land. Its research suggests they have offered better total returns than higher-yielding properties with limited land value.

The analysis also puts the current correction into perspective. According to LongView's data, no Australian housing downturn over the past century has exceeded a 12% peak-to-trough decline. Affordable segments have also tended to hold up better than premium markets.

That does not mean every established house will outperform. Asset selection and purchase price remain critical during uncertain conditions.

For long-term investors, the lesson is encouraging. Market cycle may influence short-term values, but scarcity, usable land and enduring owner-occupier demand continue to separate resilient properties from the broader market.





Townhouses Bridge The Gap

Townhouses and units are becoming important as buyers adjust their expectations around space, location and price. Domain's Matching Demand report compared buyer search budgets with advertised property prices. It found a mismatch between what purchasers could afford and detached house prices across many capital-city markets.

Medium-density housing was closely aligned with buyer budgets. Units showed the smallest difference between search prices and listings, while townhouses offered a middle ground between apartments and standalone homes.

Rate increases have reduced borrowing capacity by up to 8%, making that compromise more relevant. Many purchasers are willing to trade land for a better location, lower price and more usable space than an apartment provides.

Townhouses can appeal to first-home buyers, young families, downsizers and investors, giving well-designed projects a market. They may also allow people to remain close to employment, schools, transport and established services.

The findings reinforce the importance of Australia's missing-middle housing. Detached houses and high-rise apartments cannot meet every household's needs, particularly where land is scarce and expensive.

As planning systems encourage more medium-density development, townhouses are likely to play a larger role in improving housing choice. For buyers, they offer a realistic path to ownership without moving to fringe locations.



Investors Adapt Their Strategies

Property investors are becoming more deliberate about debt, ownership structures and the assets they retain as market conditions change.

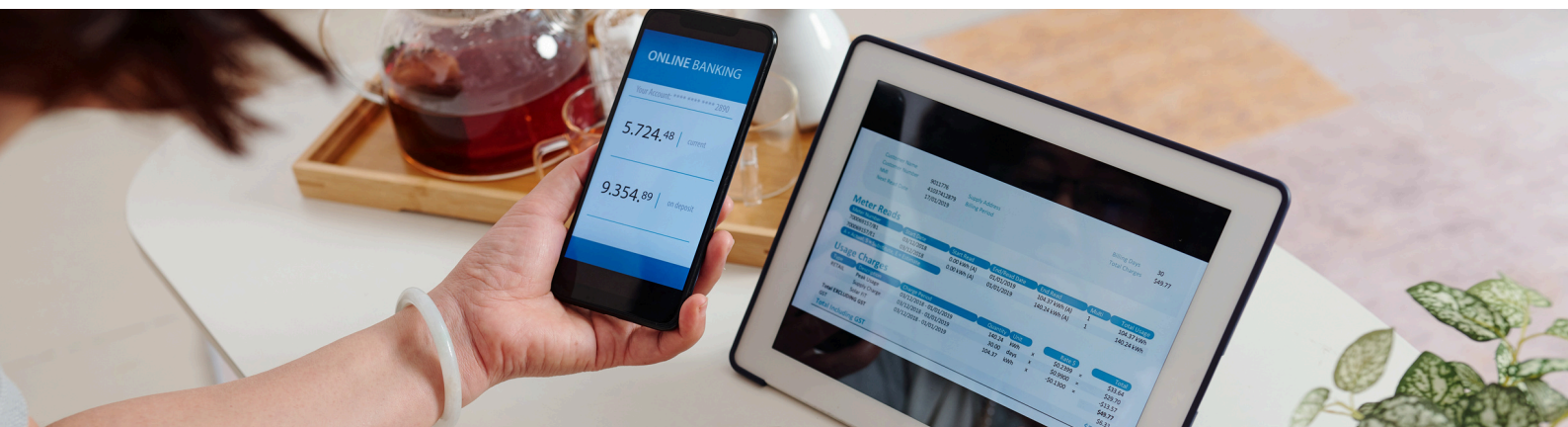
Financial advisers report growing interest from homeowners who may convert their current residence into an investment property when they upgrade. Some are considering interest-only debt to preserve cash flow and maintain debt that may later become deductible, subject to professional tax advice.

The strategy can provide flexibility, but it is not automatically suitable. Holding a former home simply for a tax benefit makes little sense if the property has weak growth prospects, poor rental demand or does not fit the owner's long-term portfolio.

Investors are therefore looking beyond headline price movements and reviewing the complete position: expected growth, rental yield, borrowing capacity, cash flow, ownership structure and future purchasing plans.

The current market also shows why there is no single national property cycle. Performance varies between cities, price brackets and property types. Higher-priced markets may experience larger falls, while affordable areas with tight vacancies can remain relatively resilient.

The constructive lesson today is that changing conditions reward planning. Investors who understand their numbers and seek qualified lending, tax and property advice can adjust without allowing short-term sentiment to dictate every decision.



Negative Equity Risk Remains Low

Negative equity has attracted attention as property values soften, but evidence suggests it remains a limited risk for most homeowners. Negative equity occurs when a mortgage balance exceeds the value of the property. Recent purchasers with small deposits are more exposed because they have had less time to reduce debt or benefit from capital growth.

However, Reserve Bank Governor Michele Bullock says fewer than 1% of Australian households are currently in negative equity. Even if housing values fell by 20%, the proportion would rise to only around 5%. Importantly, negative equity generally becomes a problem only when an owner is forced to sell. Borrowers who can continue meeting repayments may be able to hold their property until values recover. That long-term perspective matters because Australians typically retain their homes for eight to ten years. Over that timeframe, loan balances can decline and property markets can move through several stages of the cycle.

Australia's persistent housing shortage also provides support for values over the longer term. Population growth and limited new construction continue to underpin demand. Buyers should maintain a buffer and avoid overextending. Yet for most established owners, short-term price movements are unlikely to undermine years of accumulated equity.