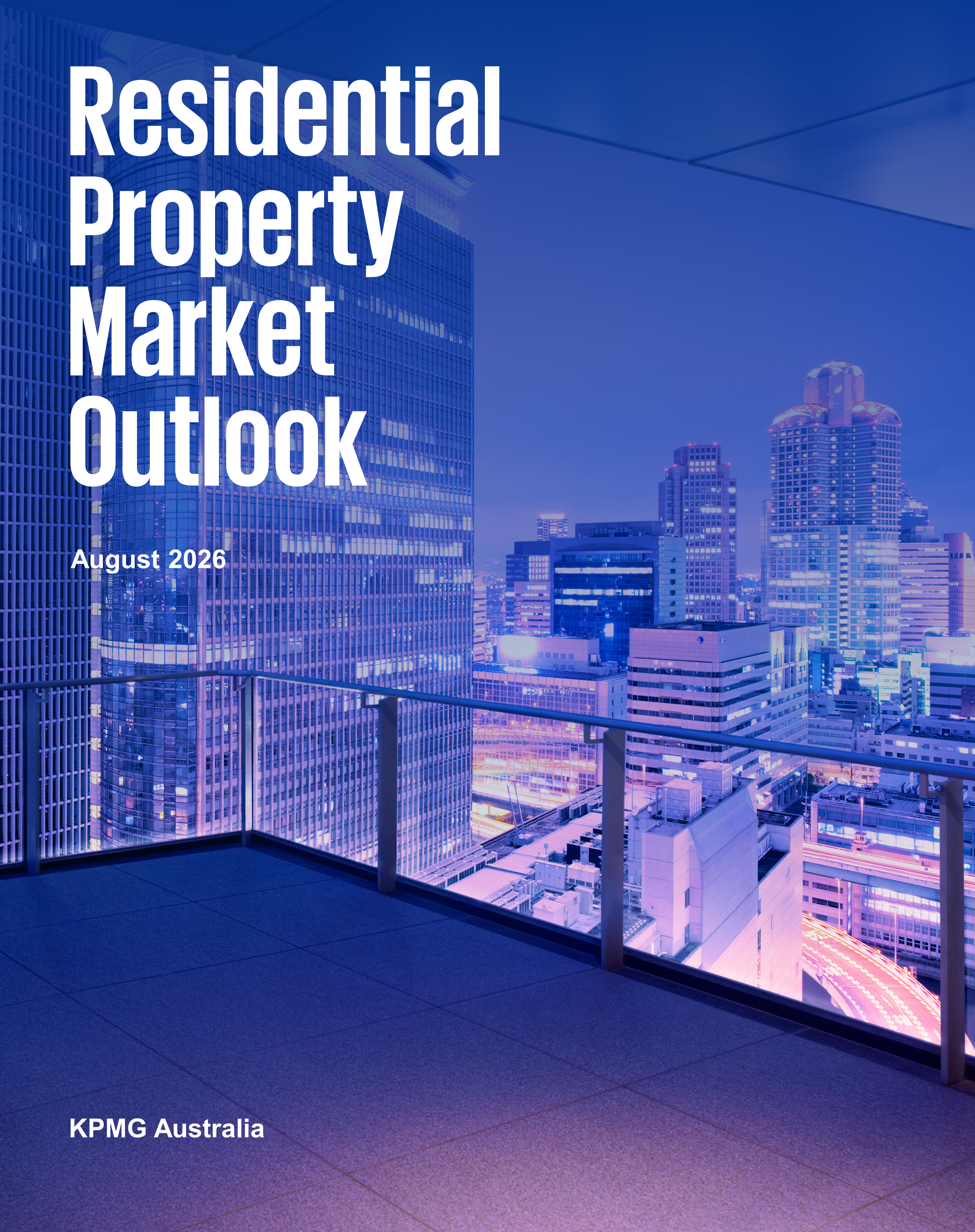
# Residential Property Market Outlook

August 2026



KPMG Australia

# Contents



# Executive summary

National house prices rose 5.5% and national unit prices rose by 6.6% over the year to the June quarter 2026, falling short of our earlier forecasts and showing a clear slowdown from the strong growth recorded in late 2025.

KPMG now expects weakness to persist through 2026, with national house values falling by 1.1% and national units rising by 2.2%. This represents a significant downward revision from our previous outlook.

Looking ahead to 2027, national house prices are expected to increase by 3.4% and national unit prices by 3.7%.

Overall, KPMG expects the housing market to follow a V-shaped path over the next two years, with a correction in 2026 followed by a gradual recovery in 2027. However, the depth of the downturn and the pace of recovery are likely to vary across markets, reflecting differences in affordability, supply conditions, population growth and local economic fundamentals.

- Australia's housing market experienced a clear loss of momentum during the first half of 2026, with the latest data showing quarterly house prices falling nationally for the first time since late 2022. The downturn was most evident in Sydney and Melbourne, while the booming cities – Brisbane, Perth and Adelaide – recorded sharp falls in quarterly growth rates after several years of exceptional performance.
- The housing market was materially affected by a series of unexpected developments since our previous outlook. Sticky domestic inflation and renewed inflationary pressures stemming from the Iran conflict contributed to three consecutive cash rate increases, while changes to the treatment of capital gains and negative gearing announced in the 2026–27 Federal Budget weakened investor sentiment. Together, these factors resulted in a significantly softer housing market than previously anticipated.
- KPMG expects housing market weakness to persist through the remainder of 2026, with price declines forecast in Sydney, Melbourne and Canberra, while growth moderates significantly in Brisbane, Perth and Adelaide. Darwin is expected to remain the strongest-performing capital city.
- Unit markets are expected to outperform detached housing over the next two years, supported by stronger affordability, higher rental yields and ongoing demand for lower-cost housing options.
- Despite softer demand conditions, the market remains underpinned by strong structural fundamentals. Population growth remains steady, rental vacancy rates are near historic lows, and housing supply continues to lag underlying demand.
- Recent changes to the treatment of capital gains and negative gearing are likely to reduce transaction volumes, as existing investors retain properties to preserve grandfathered tax benefits. While demand has softened, this reduced turnover is also likely to limit the supply of established homes available for sale, meaning owner-occupiers may still need to maintain a certain level of willingness to pay for quality stock.
- Housing supply remains a key structural constraint. Australia is already falling short of the National Housing Accord target. KPMG forecasts net new dwelling supply of around 160,000 dwellings in FY26 and FY27. This would deliver around 475,000 net new dwellings across FY25 to FY27. Achieving the National Housing Accord target would then require the remaining 725,000 dwellings to be delivered in FY28 and FY29, implying a more than doubling of current supply, which is simply unrealistic given capacity constraints.
- Looking ahead to 2027, we expect a recovery in dwelling prices as fundamental supply shortages reassert themselves. Rebounds are forecast in Sydney, Melbourne and Canberra as they will be coming off a low base. Affordability constraints are expected to prevent a return to the rapid price growth experienced in recent years in other booming cities.
- There remains considerable uncertainty around the outlook. Weak market sentiment can often outlast underlying fundamentals, which increases the risk of a sharper and more extended downturn. Moreover, ongoing economic uncertainty and a higher-for-longer interest rate environment may further weigh on buyer and investor confidence, delaying the recovery.

**6.6%**
**Unit prices**
Annual growth, June qtr 2026

**1.5%**
**Population**
Annual growth, December 2025

**5.3%**
**Housing approvals**
Annual growth, May 2026

**3.2%**
**Construction wages**
Annual growth, March qtr 2026

**5.5%**
**House prices**
Annual growth, June qtr 2026

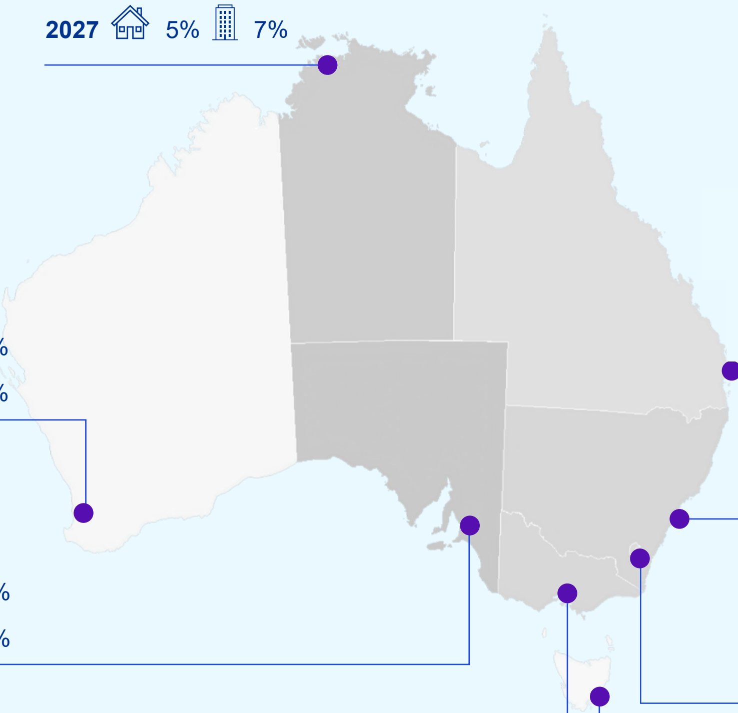
**3.8%**
**Headline inflation**
June 2026

**-8.9%**
**Net overseas migration**
Annual change, December 2025

**-8.6%**
**Unit approvals**
Annual growth, May 2026

**2.5%**
**Material costs**
Annual growth, March qtr 2026

## Forecasts of house and unit price growth



**Darwin**
**2026** 8% 8%
**2027** 5% 7%

**Perth**
**2026** 6% 4%
**2027** 4% 4%

**Adelaide**
**2026** 5% 7%
**2027** 2% 4%

**Melbourne**
**2026** -5% 0%
**2027** 3% 4%

**Brisbane**
**2026** 5% 7%
**2027** 4% 4%

**Sydney**
**2026** -4% 0%
**2027** 4% 3%

**Canberra**
**2026** -3% 1%
**2027** 3% 3%

**Hobart**
**2026** 5% 4%
**2027** 2% 4%

# Market overview

Australia's housing market saw a clear reversal of momentum during the first half of 2026, with annual growth in national house prices slowing to 5.5% in the June quarter 2026. Similarly, annual growth in national unit prices cooled to 6.6%.

A combination of factors has changed the market outlook, after an impressive performance during the second half of 2025 which saw growth in national house prices peak at 9.1% over the year to the December quarter 2025.

Since then, households have faced three consecutive cash rate rises, alongside higher uncertainty and a rebound in inflation stemming from the Iran crisis. Investor demand has also been unsettled by changes to the treatment of capital gains and negative gearing in the 2026–27 Federal Budget.

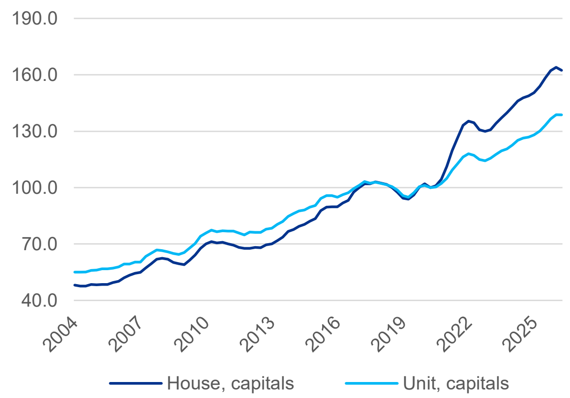
Consequently, house price growth has now slowed for the third consecutive quarter, to record a 1.0% q/q decline in the June quarter. This was also the first quarterly fall since the December quarter 2022, although there continues to be a clear divergence between capital cities.

While Sydney and Melbourne have seen prices broadly unchanged through the year, the mid-sized capitals continue to record double-digit annual growth, However, the slowdown in momentum was most pronounced in these smaller cities.

During the June quarter, quarterly house price growth in Perth slowed to just 0.7%, 4.8ppt lower than in the March quarter, the largest slowdown of any capital city. Similarly, Brisbane (+0.6%, -3.1ppt compared to the March quarter) and Adelaide (+1.5%, -2.1ppt) also saw a steep slowdown in the pace of quarterly growth.

This is suggestive of an upcoming correction, but is not entirely surprising, as the unprecedented boom in prices seen recently was never sustainable long term, given affordability constraints.

**Figure 1.** National property price indices, June 2020 = 100




Source: PropTrack, ABS, KPMG

Overall, while our last set of forecasts correctly identified the strength of growth across the mid-sized capitals, we were too optimistic about the performance of the Sydney and Melbourne markets. Consequently, national growth fell short of our expectations.

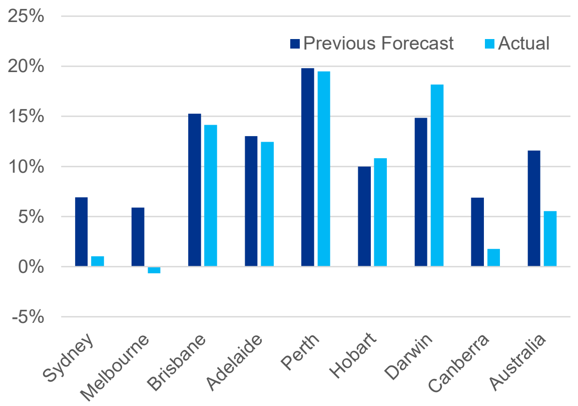
Notably, the cash rate path diverged significantly from our underlying assumption. This constrained borrowing capacity and contributed to a clear change in buyer sentiment, more than offsetting the expected boost in demand we anticipated from the 5% Deposit Scheme.

This was particularly the case in Sydney, where affordability constraints are significantly more likely to be a binding constraint, as well as Melbourne, where first home buyers are much more active in the market.

### House and unit prices saw a clear reversal of momentum during the first half of 2026

During the June quarter, annual house price growth slowed in every capital city except Hobart. Nonetheless, the pace of growth continued to be extremely strong in several cities, led by Perth (+19.5% y/y) and Darwin (+18.2% y/y).

**Figure 2.** Growth in house prices, June qtr 2026 (y/y)




Source: PropTrack, KPMG

Meanwhile, the three weakest markets of Sydney (+1.0%), Melbourne (-0.7%) and Canberra (+1.8%) also saw the sharpest reduction in annual growth. Notably, annual growth in Sydney was 4.4ppt lower than in the March quarter, while Melbourne saw a 3.9ppt fall and was the only capital to see an annual price decline.

Looking at a quarterly basis, price growth was strongest in Darwin (+2.7%), followed by Hobart (+1.7%) and Adelaide (+1.5%). The pace of growth slowed in every capital city compared to the March quarter, driving a 1.0% fall in national prices.

Growth in the unit market was more resilient but still mirrored the broader market trend. Annual growth was strongest in Brisbane (+20.0%), Perth (+19.4%) and Darwin (+17.9%).

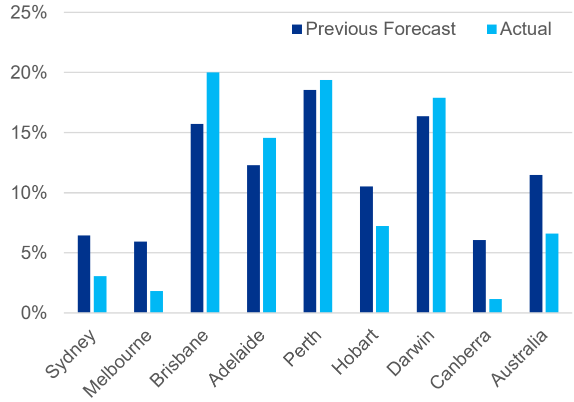
Over the June quarter, quarterly unit price growth was fastest in Darwin (+3.3%), followed by Adelaide (+2.1%) and Hobart (+1.9%). Most notably, Perth recorded the weakest performance, with unit prices falling 0.8% over the quarter. This was a particularly sharp turnaround in performance, given the city saw the fastest quarterly growth of 5.3% in the March quarter, with this pace also well below the peak of 8.4% seen in the December quarter 2025.

Looking ahead, the deterioration in investor sentiment, alongside ongoing pressures from higher interest rates, will be the primary factors driving the property market for the remainder of the year.

Alongside this, from the start of the financial year on 1 July, it is worth noting that:

- Stamp duty for first home buyers in the Australian Capital Territory has been abolished, with no limitations on property prices or income.
- Following the planned winding down of the program, the National Rental Affordability Scheme has now ended. The scheme provided investors cash and tax incentives to rent their properties at below market rates.
- Victoria has introduced a Portable Rental Bond Scheme, which allows tenants to transfer their existing bond to a new rental property.
- As part of Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) Tranche 2 regulations, compliance obligations now extend to businesses providing certain real estate, legal and accounting services.

**Figure 3.** Growth in unit prices, June qtr 2026 (y/y)




Source: PropTrack, KPMG

# Recent trends

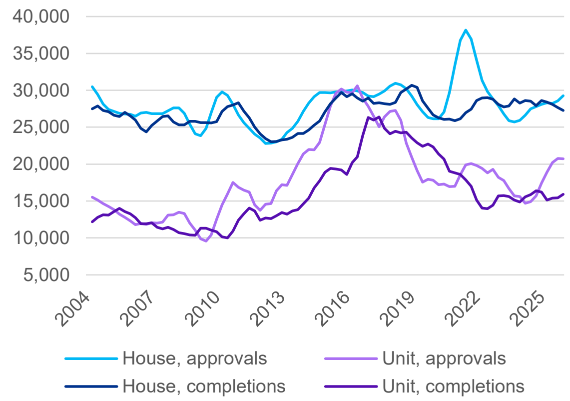
### After lifting through much of the past year, the number of housing approvals has started to flatten

Over the 12 months to the March quarter, the number of building approvals increased 9.9% compared to the corresponding period a year prior. This was predominantly driven by a 19.0% rise in unit approvals, while house approvals were up 4.2%.

Looking at the more recent but volatile monthly figures, they suggest that the upward trajectory in overall approvals seen since early 2024 has now flattened. This data for April and May indicates that this has been due to a fall in unit approvals, offset by a rise in houses.

Despite this higher level of approvals, the number of completions has not reflected this growth. Over the year to the March quarter, the number of dwelling completions was down 3.7% compared to 12 months prior. Falls were seen in both house (-4.8%) and unit (-1.9%) completions.

**Figure 4.** Number of approvals and completions




Source: ABS, Haver, KPMG
Note: Data refers to the seasonally adjusted number of dwellings, calculated using a four-quarter moving average.

### Construction costs have now rebounded to a six-quarter high

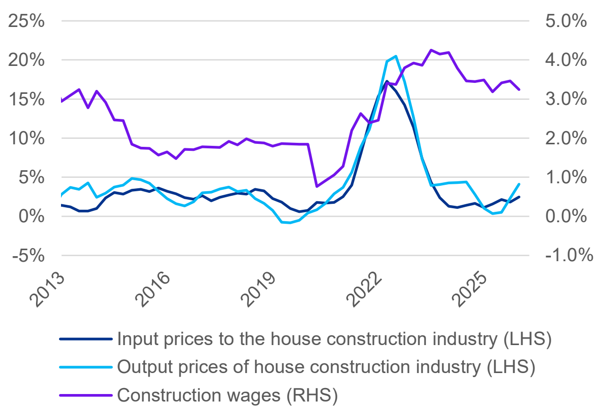
House construction prices (as measured by output prices) rose 4.1% over the year to the March quarter 2026. This was the fastest pace since the September quarter 2024, driven by a combination of strong demand, as well as ongoing labour shortages.

Across the states and territories, output prices rose fastest in Tasmania, which were up 8.8% through the year. This was followed by Western Australia, which also saw a sharp 6.3% annual rise. Both states also saw the strongest growth over the quarter, recording 2.9% and 2.3% rises, respectively. This was attributed to higher base prices, tied to ongoing strength in demand.

Momentum remains strong as illustrated by quarterly growth figures, with prices rising 1.1% in the March quarter, after recording rises of 1.5% and 1.2% in the December and September quarters, respectively. It should also be noted that data for the March quarter was collected prior to the outbreak of the conflict in Iran.

Even without factoring this latest supply shock, prices for input materials to the house construction industry rose 2.5% over the year to the March quarter. This was the fastest annual pace since the September quarter 2023. This was driven by higher raw materials, which have flowed to manufactured construction products. Specifically, higher costs for copper and aluminium drove price rises in the 'Electrical equipment' and 'Other metal products' categories.

**Figure 5.** Growth in building costs (y/y)




Source: ABS, Haver, KPMG

Looking ahead, the impact of the Iran conflict will contribute further pricing pressures. Although tensions have since cooled, the sector was acutely exposed to the rise in oil prices, as a major user of diesel in Australia. Additionally, there is the potential for second-round effects as higher prices for inputs (such as oil and plastics) flow through to materials costs.

Returning to labour conditions, the latest Wage Price Index data shows that wages in the construction sector rose 3.2% through the year to the March quarter. While this pace was in line with wage growth across the broader economy, it remains elevated compared to pre-pandemic levels. Furthermore, market feedback suggests that builders continue to face price pressure when engaging bricklayers, carpenters and concreters.

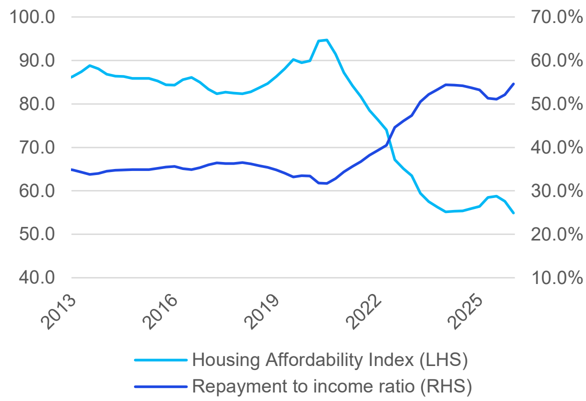
### Housing affordability has again deteriorated, reversing course in line with rising interest rates

During the March quarter, the HIA Housing Affordability Index deteriorated by 2.7pts to 54.9. It is now 1.5pts lower than a year ago. This result partly captures the impact of the three consecutive cash rate rises seen earlier in the year, which were delivered in February, March, and May. It means that 1.8 average incomes would be required to service a typical mortgage.

Crucially, this was the lowest level since the index commenced, while also being significantly below the neutral level of 100 (where precisely 30% of earnings are absorbed by mortgage repayments).

During the quarter, the repayment-to-income ratio has climbed a further 2.5ppt to 54.6% and is 21.2ppt higher than the ratio observed in the March quarter 2020, illustrating the severity of the housing affordability challenge.

**Figure 6.** HIA Housing Affordability Index and repayment to income ratio




Source: HIA, Haver, KPMG
Note: The HIA Affordability Index is designed so that a result of exactly 100 means that precisely 30% of earnings are absorbed by mortgage repayments. This is because a repayment burden of 30% or lower is regarded as being manageable. Higher results signify more favourable affordability – those above 100 signify that mortgage repayments account for less than 30% of gross earnings, whereas scores below the 100 mark mean that more than 30% of average earnings are absorbed by mortgage repayments.

### While mortgage stress has been pressured by increased interest rates, the risk of housing loan arrears remains low

According to data from the RBA's latest Financial Stability Review, households entered 2026 well placed to weather the surprises due to inflationary and interest rates pressures on their finances. During 2025, there was an improvement in financial conditions among mortgage holders, with a declining share of borrowers experiencing a cash flow shortfall, and a similar pattern seen for arrears.

At the same time, by January 2026, the median mortgage prepayment buffer was larger than pre-pandemic levels for all income quartiles. Furthermore, less than 1% of households were in a position of negative equity.

Consequently, while mortgage stress has increased during the first half of 2026, this is unlikely to result in a material increase in defaults, as mortgage stress remains relatively contained due in part to the strong macroprudential framework imposed by APRA, which has supported borrower resilience and prudent lending standards.

Data from Roy Morgan classified 29.0% of mortgage holders as 'at risk' of 'mortgage stress' in the three months to May 2026. This is below the 30.3% seen in June 2024, when the cash rate went up to 4.35% from the Covid lows.

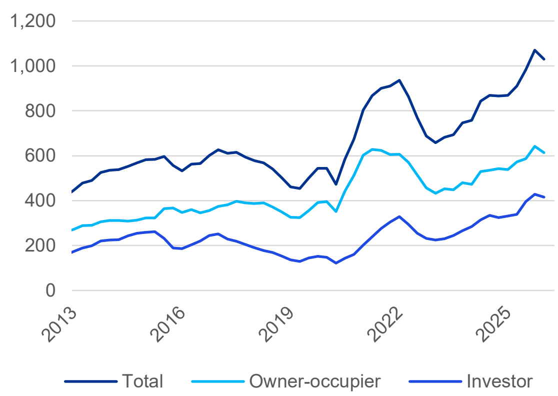
### Lending activity cooled in the March quarter

The number of new home commitments fell 6.2% q/q in the March quarter 2026 but was still 8.6% higher than a year ago. Similarly, the value of new home loan commitments fell 3.8% to $103.0 billion over the quarter, although this was still 18.5% higher than a year ago, supported by strong rises in the second half of 2025.

This fall in lending activity was broad based but was most pronounced for first home buyers. During the March quarter, the value of loans to owner-occupier first home buyers fell 6.7% q/q to $17.9 billion. Meanwhile, loans to owner occupier non-first home buyers fell 5.0% q/q to $43.0 billion.

Overall, across all owner-occupiers, the value of new loans fell 4.3% over the quarter but was up 14.3% through the year. The average loan size for an owner-occupier remained little changed at $735,000 in the March quarter.

**Figure 7.** Value of new loan commitments ($b)




Source: ABS, Haver, KPMG

For investors, the value of new loan commitments was down 3.0% over the quarter to $41.5 billion. Nonetheless, it remains 25.3% higher through the year. In part, this was due to a fall in the average investor loan size, which fell to $709,000, compared to $717,000 in the prior December quarter.

## Migration has slowed to its lowest level since the June quarter 2022

Australia's population grew by 1.51% over the year to December 2025, easing slightly from the 1.54% seen the quarter prior. This was the slowest pace of growth seen since June 2022 and is consistent with the stricter management of migration flows enacted by the government.

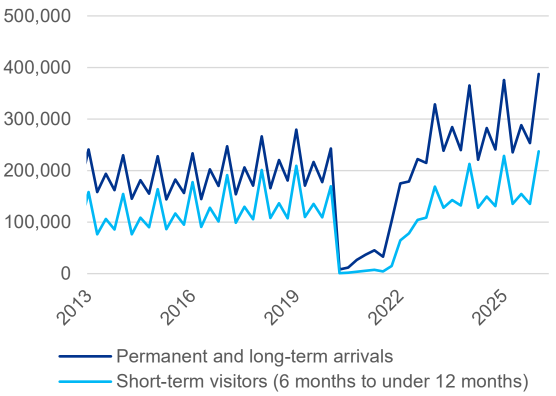
Specifically, net overseas migration (NOM) over the year to December was down 8.9% compared to a year prior. This translates into a decrease of 29,500 people, bringing annual NOM to 301,000, the lowest level since June 2022. This was driven by a 5.4% annual decline in overseas migration arrivals to 563,600 people and partly offset by a 1.0% decline in overseas migration departures to 262,600 people.

While this represents a significant reduction from the post-pandemic peak, the pace of decline has slowed, with NOM over the year to December only 1,200 people fewer than figure of 302,200 seen in June 2025.

Overall, the pace of annual population growth was fastest in Western Australia (+2.2%), followed by Victoria (+1.7%) and the Northern Territory (+1.6%). On the other hand, the slowest pace of growth was seen in Tasmania (+0.5%).

Looking ahead, the 2026–27 Federal Budget forecasts NOM to ease further, reaching 225,000 by 2027–28. It is then projected to hold steady at this level in both 2028–29 and 2029–30.

**Figure 8.** International arrivals




Source: ABS, Haver, KPMG

Although short-term visitors are excluded from NOM under the ABS's 12/16-month rule, their impact on housing demand cannot be discounted. During the March quarter, the number of short-term visitor arrivals with an intended stay of between 6 to 12 months was up 3.9% compared to the corresponding period of 2025.

## Foreign investment in Australian residential property has continued to fall

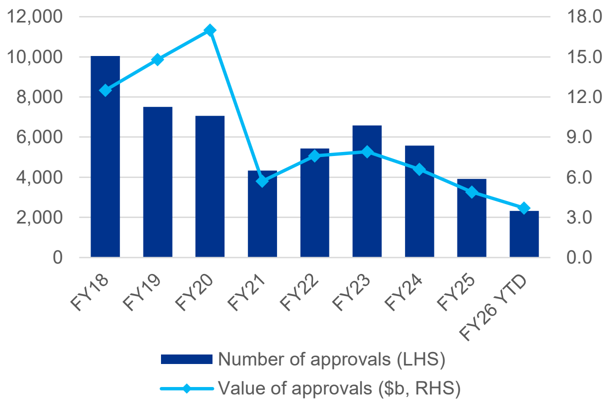
During the first three quarters of FY26, there were 2,326 approved residential real estate investment proposals, with a total value of $3.7 billion. This partial data suggests that total investment activity through the financial year will continue to slow, after consecutive declines in both FY24 and FY25.

China was the largest source of investment during the first three quarters of FY26 (638 proposals, worth $0.8 billion), followed by Taiwan (285, $0.4 billion) and Vietnam (237, $0.2 billion).

It should be noted that in the 2026–27 Federal Budget, the government has extended the temporary ban on foreign purchases of established residential dwellings. It was originally implemented for two years from 1 April 2025 but will now be extended to 30 June 2029.

There remain some exemptions for investments that would increase housing supply, as well as for permanent residents and New Zealand citizens.

**Figure 9.** Foreign investment activity




Source: Commonwealth Treasury, KPMG
Note: FY26 YTD refers to the period from July 2025 to March 2026.

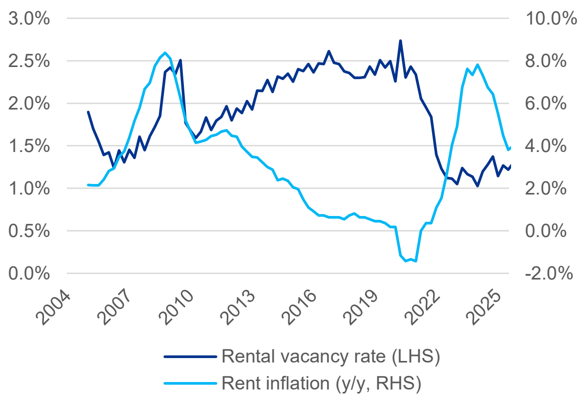
## Although rent inflation has eased further, Australia's rental market remains tight

Over the year to June 2026, rental prices were up 3.6%, easing modestly from the 3.9% pace seen at the start of the year. While this is significantly less than the period of rapid growth seen across 2023 and 2024, the rate of growth remains elevated.

Additionally, the cumulative impact of price rises over the last few years has seen rental affordability worsen significantly compared to pre-pandemic levels. Data from Cotality now suggests that around 33% of a household's median income was paid towards rent in March 2026, compared to around 27% in March 2021.

This period of strong rental price growth reflects low vacancy rates, with SQM estimating the national residential vacancy rate to be 1.2% in May 2026, unchanged from a year prior. Availability continues to be most limited in the mid-sized capitals, with Brisbane, Perth, Adelaide, Darwin and Hobart all recording vacancy rates below 1%.

**Figure 10.** Rental vacancy rate and rent inflation




Source: SQM, ABS, Haver, KPMG

## Ongoing low rental vacancy rates reflect a mismatch between demand and supply

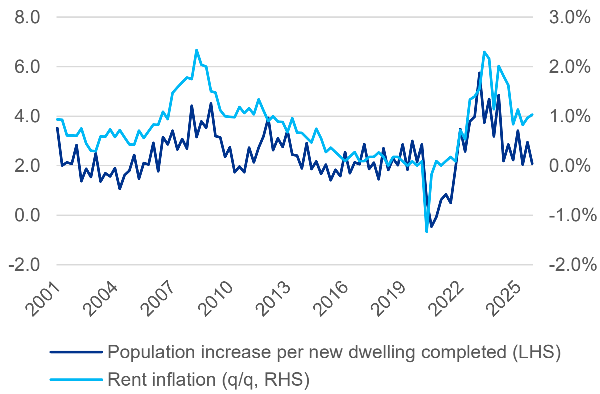
Fundamentally, the core driver behind the tight rental market continues to be the structural imbalance between strong population growth over recent years and limited housing supply.

KPMG's analysis indicates this population-to-dwelling ratio is a key predictor of rental inflation. When population growth broadly aligns with dwelling growth, nominal rents typically rise by around 0.3% per quarter. This relationship explains nearly 80% of variations in rental inflation, with the remainder largely reflecting shifts in household formation patterns. Furthermore, during immigration booms, rental pressures intensify further, increasing by 0.5% each quarter even when population growth matches dwelling growth.

Based on our latest projections for new dwelling completions, alongside the latest Population Statement forecasts, we anticipate that the quarterly rental price growth (as measured in the CPI) will exceed its pre-pandemic 10-year average by approximately 0.4ppt each quarter through to the end of 2026. This implies annual rent growth of around 3.7% for the remainder of the calendar year, compared to the 10-year pre-pandemic average of 2.3%.

Consequently, KPMG estimates that new dwelling completions would need to be at least 30% higher than current forecasts for this above-trend rental growth to ease closer to normal levels while still allowing for the expected population growth over the next few years.

**Figure 11.** Population increase per new dwelling completed versus rent inflation




Source: KPMG's calculation, ABS

### The structural imbalance between demand and supply continues, suggesting the 1.2 million house target is unlikely to be achieved without further policy intervention

The Commonwealth Government has committed to the National Housing Accord, which aims to deliver 1.2 million well-located homes by mid-2029.

However, our forecast of net housing supply, measured as new completions minus demolitions, suggests that net supply in the next two years will fall short of target by approximately 30%. Based on current trends, KPMG expects an average of 160,000 new dwellings to be delivered annually across this period.

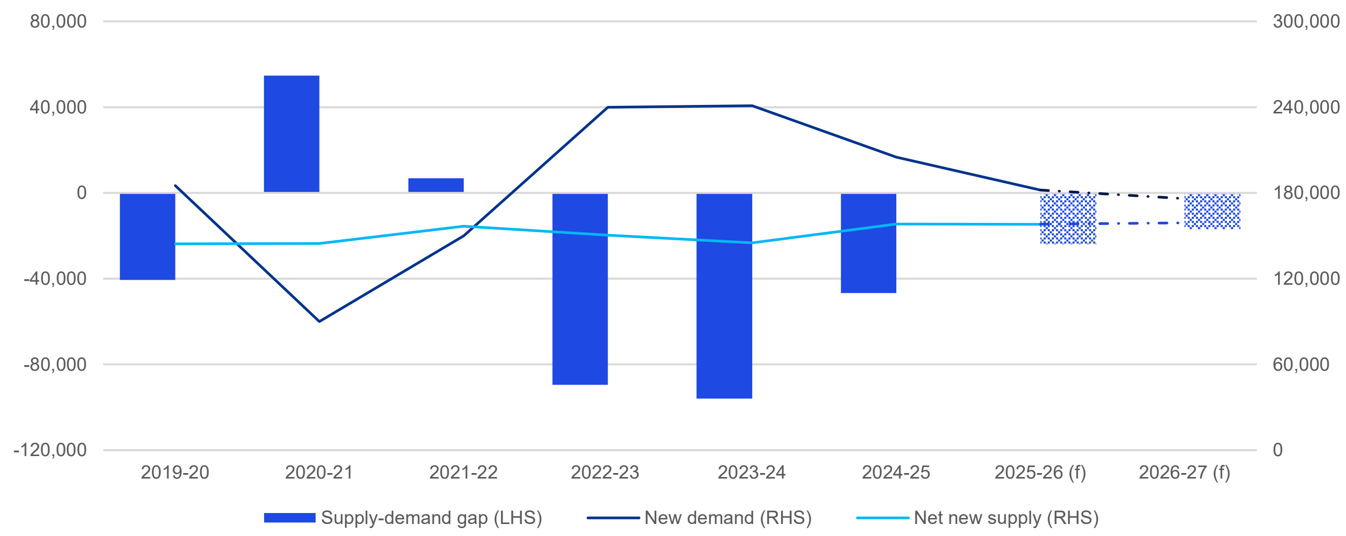
However, since our previous report, we now estimate a narrower supply–demand imbalance, reflecting a downward revision in estimates new buyer demand, alongside steady growth in supply.

Consequently, we now estimate a shortfall of 24,000 dwellings in FY26, compared to 43,000 in our previous edition. New demand was revised downward to 182,000 dwellings, while the outlook for net new supply has improved to 158,000 dwellings.

Looking further ahead, we also anticipate that the shortfall will narrow further to 17,000 dwellings in FY27 as demand eases further, in line with an assumed slowdown in population growth. Nonetheless, demand continues to outstrip supply, highlighting the severity of the current housing affordability challenge.

The latest forecasts from the National Housing Supply and Affordability Council, released at the end of April, also suggest that this goal is unlikely to be reached on schedule. They now anticipate that the target would only be met in September 2030, more than a year beyond the target date.

**Figure 12.** Housing supply–demand imbalance




Source: KPMG's calculation, Housing Australia
Note: Housing Australia estimated underlying demand from the number of occupied dwellings needed to accommodate future population growth and household formation (based on the projections from the ABS).

# Dwelling price forecasts

KPMG Economics' dwelling price forecasts utilise an error-correction model (ECM) framework. This framework was chosen as our analysis found that, over time, house prices tend to revert to the equilibrium suggested by the long run relationship between underlying housing demand and housing stock, but that in the short run factors like interest rates, employment, and housing completions can influence prices around the long run equilibrium.

For certain capital cities, we also allow for long run spillover effects across cities where there is obvious evidence that price movements in one market influence others.

Additionally, for unit price forecasts, we incorporate a long run correction mechanism between house and unit prices. This reflects the tendency for demand to shift toward more affordable housing options such as units when house prices remain persistently high, and conversely, for unit prices to soften when detached housing becomes relatively more accessible.

### Long run property prices

Our baseline model assumes that real house prices in the long run are primarily driven by two key factors: underlying housing demand and housing stock.

**1. Underlying housing demand**

- We project underlying housing demand by estimating how many households are expected to form (and disperse) over time, driven by population growth and changes in living arrangements due to key economic variables such as unemployment.
- We follow the ABS approach to project households, families, and persons by living arrangement. These projections are based on the ABS medium series population forecasts from Population Projections, Australia, 2022 (base) – 2071, assuming no change in 2021 living arrangement patterns.
- We extend these household projections to estimate the number of occupied dwellings needed to accommodate projected households. Using Census data, we apply ABS estimates of the likelihood that individuals in different age cohorts will form or join various household types, including family or non-family households, or reside in non-private dwellings. These propensities are applied across state, capital city, and regional levels, accounting for dwelling types such as detached houses, medium-density homes, and apartments.
- We estimate the total number of dwellings demanded for each state, capital city, and regional area by dwelling type, and aggregate these figures to derive national-level projections over the forecast horizon.

**2. Housing stock**

- Australia's stock of dwellings changes over time as our population changes and demographic factors, including family composition and age, influence the type of dwellings in demand.
- For this study, we have constructed our own quarterly estimate of housing stock for each capital city due to the limitations in the data provided by the Census and the ABS. We note that the Census of Population and Housing only provides a count of housing stock every five years. In addition, while recently the ABS provides some quarterly housing stock data, it only covers a limited time span from the June quarter 2016 to the June 2022 quarter and the ABS does not plan to update the data regularly.
- We construct the housing stock by adding housing completions and subtracting housing demolitions, which appears to have some relationship with housing approvals (in terms of completion rate and the time lag between the receipt of a building approval and the actual demolition) to the initial Census housing stock numbers. Our estimates are reliable as they align well with the official ABS housing stock numbers that are available from 2016 to 2022.

### Short run property prices

Real property prices in the short run are also influenced by a range of factors that push and pull real property prices away from the long run levels.

KPMG's analysis identifies a range of short run factors that influence real dwelling prices, including:

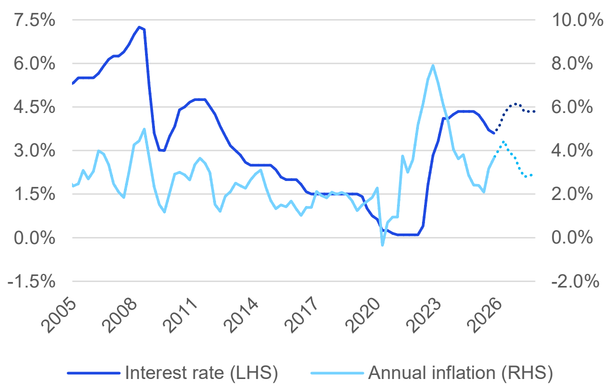
- momentum, being growth in real dwelling prices in the previous period
- the magnitude of the gap between the actual price and the estimated long run equilibrium price
- interest rates
- new housing completions.

We also consider several other short run factors such as the share of dwellings purchased by investors; the strength of the labour market as captured by the number of people employed; the cost of renting versus mortgage repayment for a similar property (the renting–buying gap). However, these factors rarely display strong forecasting power on prices growth.

In the context of this modelling analysis, only prices growth momentum and the long run gap are determined within the model. In contrast, projections for interest rates, inflation, and new housing completions are developed independently outside the model.
In particular:

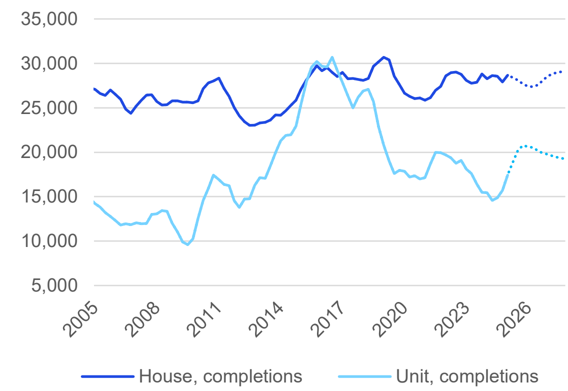
- The RBA will raise the cash rate by a further 25bps in 2026, with the cash rate peaking at 4.60% in the December quarter. During 2027, there will be one rate cut during the June quarter.
- Inflation follows the forecasts prepared by KPMG Economics as per the latest edition of the *KPMG Quarterly Economic Outlook*.
- Housing completion forecasts involve analysing the lagged relationship between housing approvals and completions. This is done first by considering the influence of forecasted population and expectation of residential prices on housing approvals.

**Figure 13.** Forecast of interest rate and annual inflation




Source: KPMG's calculation, ABS

**Figure 14.** Forecasts of dwelling completions (no)




Source: KPMG's calculation, ABS

# Our findings

**Weakness in the housing market will extend further in 2026, as household financial conditions tighten and investor demand cools**

The slowdown in house price growth is expected to continue for the remainder of the year, as higher interest rates and the rising cost of living restrict household borrowing capacities.

At the same time, new investor demand will be weaker, as changes to the treatment of capital gains and negative gearing have damaged market sentiment, and potentially reduced the attractiveness of some property investments.

This reversal of momentum will be compounded by an expectations effect, with buyers more wary of overpaying in a market with slowing or negative price growth.

Ultimately, for the remainder of the year, we anticipate these short-term drags will overshadow the fundamentals of the property market, where demand remains robust from steady population growth and supply continues to fall short.

**However, the downturn is expected to be relatively short-lived**

Looking ahead to 2027, we are expecting a normalisation of price growth, which will be more aligned with long-term average outcomes.

Nationally, transaction volumes are likely to moderate as recent tax changes encourage existing investors to hold onto their properties as negative-gearing benefits are grandfathered.

Furthermore, fundamentals remain solid. Ongoing supply constraints are expected to place upward pressure on prices, as buyers compete for a limited pool of available homes. Despite high interest rates, households have generally maintained large savings buffers, and indicators of financial distress, while rising, remain low.

Affordability will remain a key consideration. Housing prices have risen considerably faster than household incomes in recent years, limiting the extent to which further price growth can be sustained. As a result, while housing market conditions are expected to improve, affordability constraints are likely to temper the pace of future gains.

The rebound will be strong in Sydney and Canberra, mostly reflecting a recovery coming from a weaker base. In these cities, underlying demand remains resilient, while new housing supply is likely to face further constraints over the next two years due to elevated construction costs and the lingering effects of higher interest rates on new development activity.

By contrast, performance is expected to moderate in booming cities (Perth, Brisbane and Adelaide). These regions have experienced an extraordinary period of growth and current prices are very unaffordable.

**Over the next two years, growth in unit prices will be more resilient, supported by greater affordability and rental yields**

We anticipate that the unit market will outperform the housing market in the near term, driven by their relative affordability. This is particularly given the impact of the expanded 5% Deposit Scheme, where the price cap will prove to be a significant binding constraint, which will see buyers cluster around dwellings below the relevant thresholds.

Units have also been favoured by investors due to their lower entry price and attractive rental yields. However, recent tax reforms may reduce some of this appeal and temper investor demand. Offsetting this headwind, rental market conditions remain exceptionally tight, with persistently low vacancy rates continuing to support rental growth and investment returns.

**Table 1.** Forecast dwelling price growth, by property type and market (y/y)

| Location | House | | Unit | |
|---|---|---|---|---|
| | Dec 26 | Dec 27 | Dec 26 | Dec 27 |
| Sydney | -4.4% | 3.6% | 0.0% | 3.4% |
| Melbourne | -5.0% | 3.3% | 0.4% | 3.6% |
| Brisbane | 4.6% | 3.6% | 7.3% | 4.0% |
| Adelaide | 5.3% | 2.4% | 6.5% | 3.9% |
| Perth | 6.4% | 3.6% | 4.4% | 4.0% |
| Hobart | 4.8% | 2.4% | 4.2% | 3.6% |
| Darwin | 8.2% | 4.6% | 8.1% | 6.9% |
| Canberra | -2.6% | 3.0% | 1.0% | 3.4% |

Source: KPMG's calculation

### Complex market dynamics across cities

**Sydney** will see a brief decline in prices. Sydney's market has responded with more sensitivity to the recent rise in rates, as buyers are relatively more constrained by their borrowing capacity. However, the region's position as a major employment hub and economic centre, alongside persistent supply challenges, will underpin price growth in the medium to long term.

**Melbourne's** market will continue to see the weakest price performance across the capital cities in 2026. Buyers in Victoria have benefited from the relatively more substantial increase in supply, supported both by greenfield estates and higher-density redevelopments. This has also supported a greater proportion of first home buyers to enter the market. However, we expect Melbourne will recover, with robust population growth more than compensating for the expansion in new housing supply.

**Brisbane's** market is expected to see a substantial slowdown in price growth, after already losing some momentum in the June quarter. As in our previous edition, we note that prices in Brisbane are currently running ahead of what the underlying supply–demand imbalance would typically justify, suggesting some scope for softer conditions as affordability constraints intensify. Nevertheless, a structural housing shortage is expected to provide a firm floor under prices, limiting the depth of any correction.

**Adelaide** will also see a slowdown in price growth, with the slowdown likely to be more pronounced than Brisbane and Perth. The strong run-up in housing prices over recent years has intensified affordability pressures, which are expected to constrain the pace of future growth. In addition, while population growth in Adelaide remains positive, it is relatively weaker than in Brisbane and Perth, limiting the demand-side support that has underpinned the more resilient housing market performance in those cities.

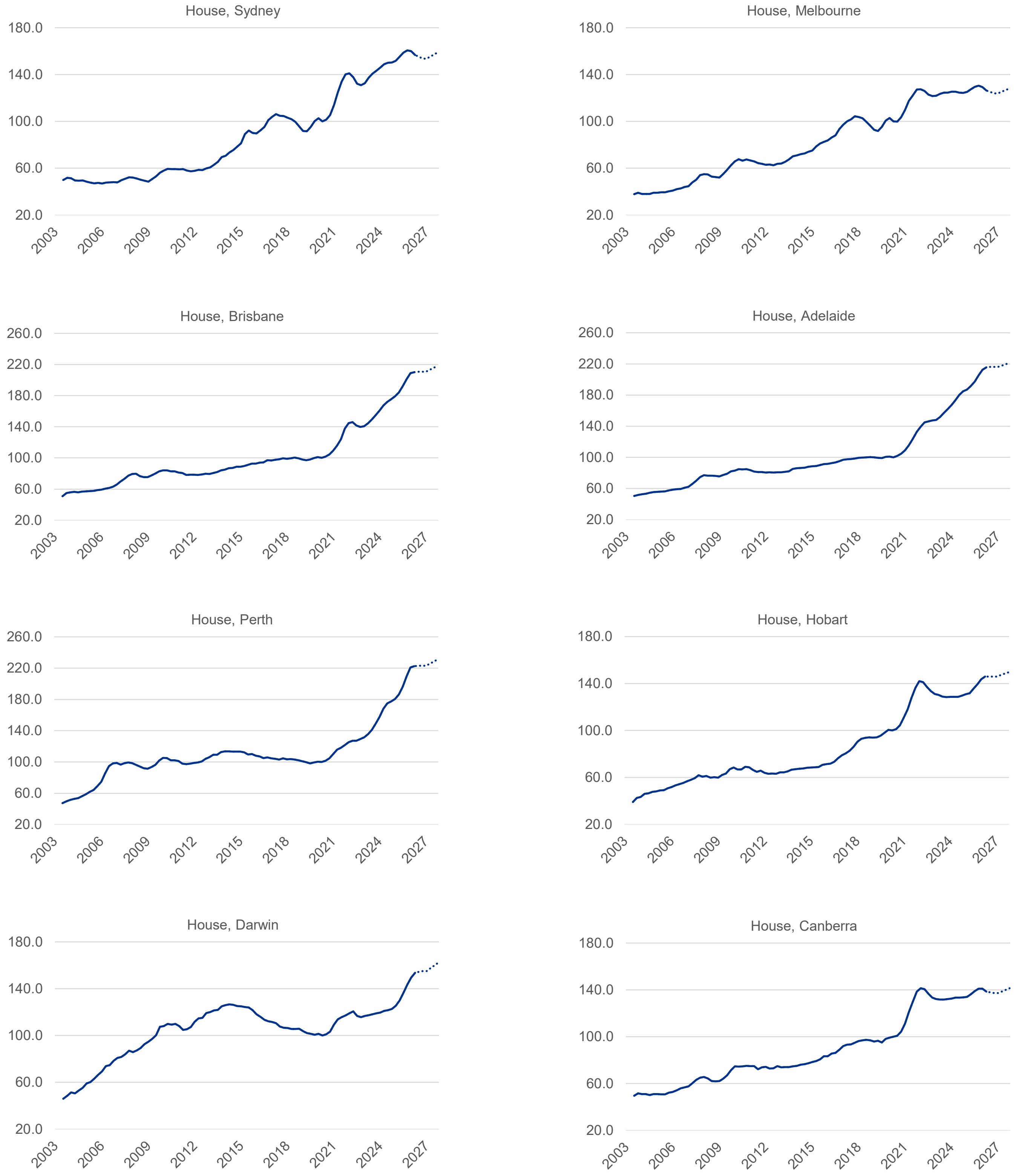
**Perth's** market is anticipated to see a significant cooling in price growth, although tailwinds from earlier market strength will keep the city towards the higher end of annual growth amongst the capitals. Strong population growth and limited supply have supported this growth, although the rapid appreciation in values has seen affordability become a much more significant constraint.

**Darwin's** market will continue to see a pace of price growth which overshadows the other capital cities. This has been underpinned by investor demand, with the city continuing to provide attractive rental yields. Data from Cotality indicates that Darwin recorded a 10.1% annual increase in rents in the June quarter, bringing the gross yield (across all dwellings) to 6.1%. This was nearly double that of Sydney and Brisbane, which saw the equal lowest gross yield of 3.3%.

**Hobart's** housing market will also see price growth moderate. Aside from weaker momentum in the near term, supply is increasing relatively quickly, and population growth continues to be subdued. Taken altogether, we only anticipate modest growth ahead.

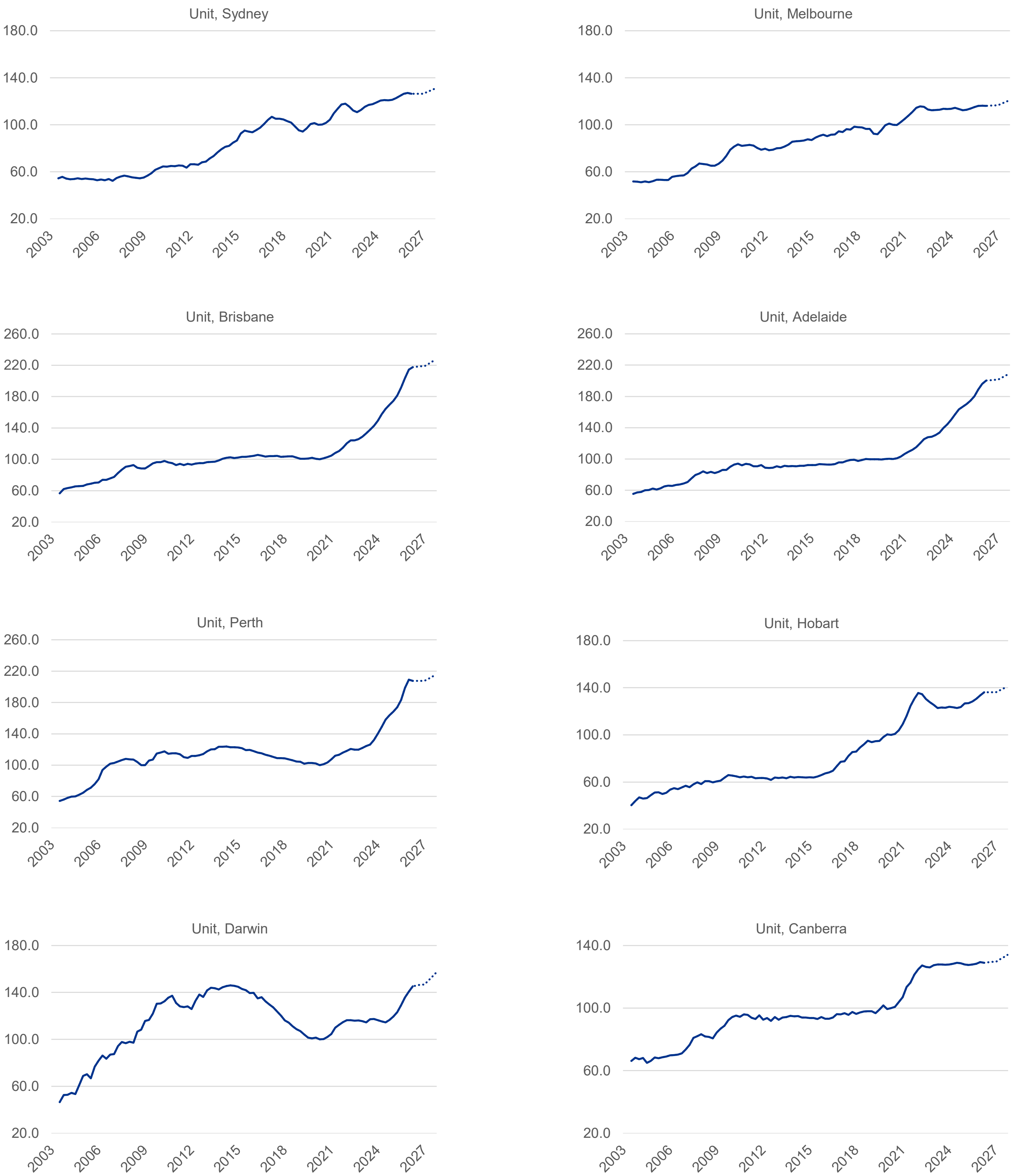
**Canberra's** market saw a material weakening in the June quarter, after gathering some momentum in recent quarters. Despite these short-term jitters, we still anticipate a recovery, with stronger price growth in 2027. This will be supported by spillover demand from proximity markets (such as Sydney), as buyers relocate in search of more affordable options.

**Figure 15.** House price forecasts, June 2020 = 100




Source: KPMG's calculation

**Figure 16.** Unit price forecasts, June 2020 = 100




Source: KPMG's calculation

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August 2026 | 4515096682E