Residential Property Market Outlook

January 2026

KPMG Australia

Contents

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Executive summary

National house prices rose 8.6% and national unit prices rose by 7.3% in 2025, exceeding our earlier forecasts.

KPMG expects housing momentum to remain solid through 2026, with national house values rising by 7.7% and national units by 7.1%. This outlook is supported by stabilising financial conditions and a degree of tightness in supply. Furthermore, the affordable segment is also set to outperform, boosted by the expanded 5% Deposit Scheme drawing more buyers toward the lower-priced properties. However, constrained borrowing capacity will continue to limit price growth at the upper end of the market.

Looking ahead to 2027, national house prices are expected to grow at a more moderate level, reflecting a more sustainable pace closer to long-run trends. As prices rise further, more buyers will reach the limits of what they can reasonably afford, intensifying affordability constraints. At the same time, gradually improving housing supply and population growth normalising to more typical levels should help ease some demand pressures, resulting in a more balanced market dynamic.

- Housing market momentum strengthened through 2025, validating our earlier forecast that conditions would improve despite widespread pessimism earlier last year.
- Our directional call was right, with structural force – persistent supply shortages, improved confidence as financial conditions stabilised, and elevated rents increasing the appeal of ownership – supporting broad-based price growth nationwide.
- However, our point forecasts published in August 2025 underestimated the magnitude of the upswing. National house prices rose 8.6% and national unit prices rose by 7.3% in the 12 months to the December quarter 2025. This represents the strongest calendar year gain in home values since 2021, when the market rose by more than 20% amid emergency low interest rates and record high levels of purchasing activity.
- Some of our underlying assumptions appeared to be too cautious, particularly regarding how quickly affordability constraints would return, how sensitive demand would be to higher interest rates, and the extent of improvement in housing supply.
- We had anticipated that the strong momentum in the first half of 2025 would have moderated as affordability constraints cap upside potential. Instead, the second half of the year accelerated further, even as interest rates ended at 3.6%, notably above our earlier projection of 3.1%. For example, 2025H2 accounted for 62% of Brisbane's full-year growth, 63% in Perth, 76% in Hobart, and 70% in Canberra, illustrating just how disproportionately the back half of the year contributed to the overall result.
- The expanded 5% Deposit Scheme announced in the second half of 2025 played a large role in accelerating growth, especially for the lower-priced segment.
- By bringing forward additional demand, the scheme enabled buyers who would otherwise have remained out of the market to purchase sooner, lifted overall confidence, and created a renewed sense of urgency among prospective buyers. As a result, growth in the second half of 2025 far outpaced the first half, lifting the full-year outcome well above what would have been expected based on 2025H1 momentum alone.
- While the expanded 5% Deposit Scheme provides additional support for first home buyers, it does not address the underlying drivers of Australia's affordability challenge. Ultimately, the core issue remains unchanged – dwelling prices continue to exceed what most first home buyers can reasonably afford, and meaningful progress on affordability will require structural solutions that are centred on expanding supply rather than demand-side subsidies.
- Our forecast for net housing supply (new completions minus demolitions) indicates that supply over the next two years will fall short of target by roughly 30%. Based on current trends, we expect an average of around 150,000–170,000 new dwellings per year across this period.

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7.3% Unit prices 2025 annual growth

1.5% Annual population growth, FY25

2.6% Housing approvals annual growth, September 2025

3.4% Annual construction wage growth, September 2025

8.6% House prices 2025 annual growth

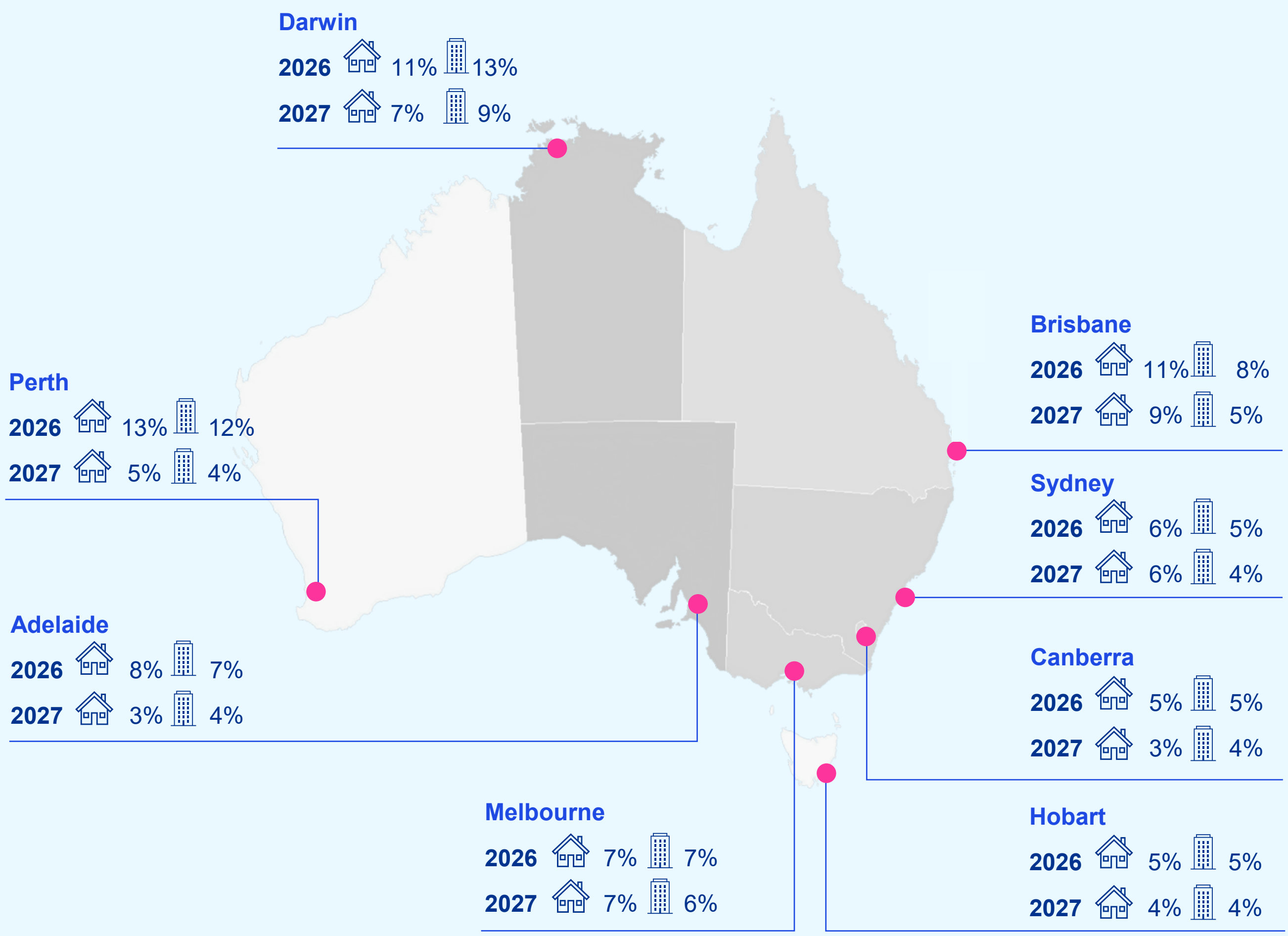
3.8% Annual inflation, December 2025

-28.8% NOM change, FY25

34.2% Unit approvals annual growth, September 2025

2.1% Annual material costs growth, September 2025

Forecasts of house and unit prices growth



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Market overview

National house prices rose 8.6% and national unit prices rose by 7.3% in the 12 months to the December quarter 2025, marking a remarkable turnaround from the subdued conditions observed in the second half of 2024. This also represents the strongest calendar year gain in home values since 2021, when the market rose by more than 20% amid emergency low interest rates and record high levels of purchasing activity.

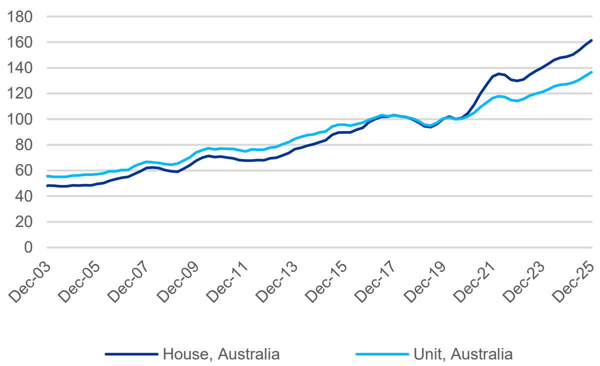
While our forecasts correctly identified the key drivers of the recovery, the actual results exceeded expectations by a meaningful margin for some cities.

Some of our underlying assumptions, particularly around the speed at which affordability constraints would re-emerge, the sensitivity of demand to higher interest rates, and the expected improvement in housing supply appeared to be too conservative. We anticipated that the strong momentum in the first half of 2025 would moderate as affordability constraints cap upside potential. Instead, the second half of the year accelerated further, even as interest rates ended at 3.6%, notably above our earlier projection of 3.1%.

2025H2 growth rates not only exceeded 2025H1 but did so by a substantial margin, lifting the full-year outcome well above what would have been expected based on first-half momentum alone. For example, 2025H2 accounted for 62% of Brisbane's full-year growth, 63% in Perth, 76% in Hobart, and 70% in Canberra, illustrating just how disproportionately the back half of the year contributed to the overall result.

A combination of structural and behavioural factors contributed to this stronger-than-expected performance. Supply conditions remained significantly tighter than anticipated, with new listings and completions failing to keep pace with population growth and household formation. The labour market continued to outperform, supporting incomes and bolstering buyer confidence despite higher-than-expected mortgage rates.

Chart 1 – National residential property price index and annual growth rate (June 2020 = 100)

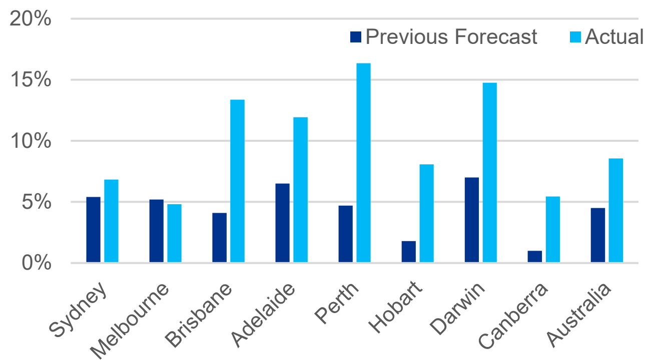


Importantly, the government's home-buying scheme, announced in August and implemented in October, brought forward a wave of new entrants, particularly first home buyers, adding further pressure to already constrained markets, in particular the lower-priced segments of the market. In addition, behavioural dynamics, such as renewed fear of missing out and early re-engagement from investors, amplified demand through the second half of the year.

House and unit prices across all capital cities continue to grow in the December quarter of 2025

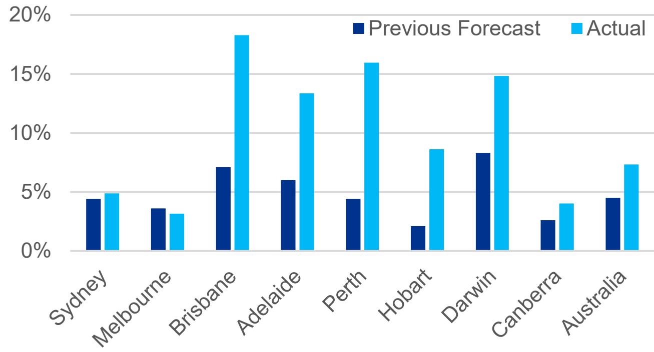
Momentum in house prices has been broad-based across capital city markets. Over the year, Perth recorded the strongest year-on-year house price growth at 16.4%, followed closely by Darwin at 14.8% and Brisbane at 13.4%, highlighting the strength of markets where supply constraints and population growth have been most acute. Even the more moderate markets such as Sydney and Melbourne continued to edge higher, reinforcing the consistency of upward pressure across the country.

Chart 2 – Growth in house prices in 2025 (y/y)



Unit price growth has also strengthened across the capitals. The unit market continues to benefit from affordability pressures in the detached housing segment, as well as strong rental demand and investor re-engagement. Over the year, Brisbane led the nation with an 18.3% increase in unit prices, followed by Perth at 16.0% and Darwin at 14.8%.

Chart 3 – Growth in unit prices in 2025 (y/y)



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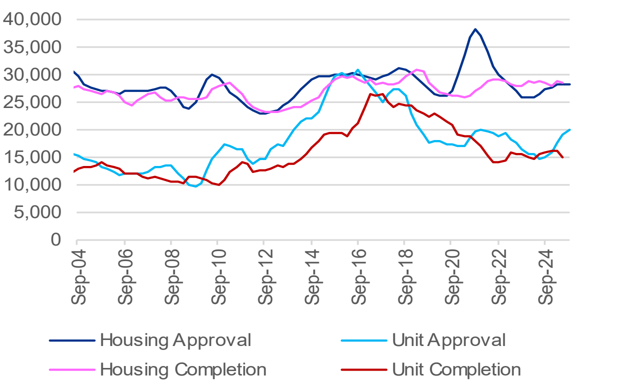
Recent trends in factors influencing property prices

Housing approvals have gained momentum but supply response remains patchy

Over the most recent four quarters, total dwelling approvals have risen 2.6% compared with the previous year, with unit approvals showing a far stronger uplift of 34.2%. This marks the fifth consecutive increase since September 2024, signalling that the pipeline of future supply is gradually rebuilding. Monthly data also underscores the volatility in the approvals cycle. Total dwellings approved jumped 15.2% in November, driven by a sharp 34.1% rise in approvals for private dwellings excluding houses – a strong rebound following a 13.5% fall in October.

However, this improvement in approvals has not yet translated into a consistent lift in completions, where growth remains volatile. The disconnect highlights the ongoing challenges in converting approvals into delivered stock, including labour shortages, elevated construction costs, and project delays.

Chart 4 – Building activity: number of approvals and completions



Source: ABS, Haver, KPMG

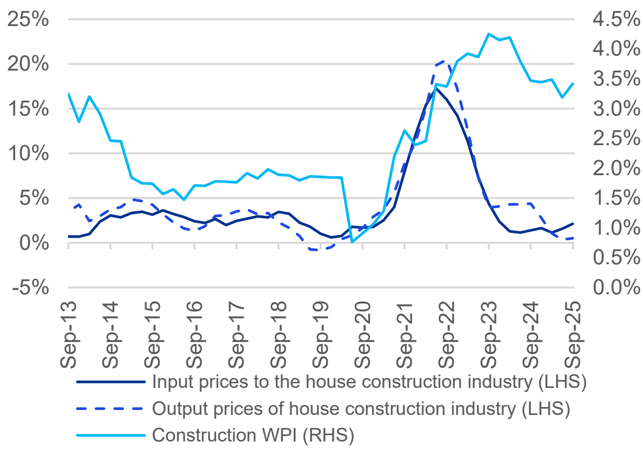
Note: Data refers to the seasonally adjusted number of dwellings, calculated using a four-quarter moving average.

Construction costs remain high, but growth has slowed in 2025

Building material prices have stabilised compared with recent years, rising 2.1% over the year to September 2025. In the September quarter, house construction costs increased 0.8%, driven by higher raw material prices and annual supplier price reviews. Timber saw significant increases as suppliers passed on costs. Other metal products rose due to higher raw material cost, particularly aluminium and copper. Other materials, including plaster, flooring, paint, and insulation, rose due to supplier adjustments. These gains were partly offset by lower concrete, cement, and sand prices due to stronger competition, although these materials still recorded the largest annual increase.

House construction prices (output prices of house construction industry) have also entered a period of moderation this year. In annual terms prices rose 0.4% in the September quarter. Quarterly growth, however, was stronger with prices increasing 1.2%, its fastest rate in nearly two years. Strong demand in New South Wales, Victoria, and Queensland allowed builders to scale back incentives offers and pass through higher input costs, particularly related to labour.

Chart 5 – Growth in building costs (%, y/y)



Source: ABS, Haver, KPMG

Labour shortages remain a key constraint, with ABS data showing house and apartment completion times have increased by around 40% since pre-pandemic times. While the labour market for construction workers remains tight, it has eased considerably compared to the same time last year. The HIA Trades Availability Index was measured at -0.48 in the September quarter 2025, up from -0.54 in the same quarter last year.*

Despite some easing in trade availability, wage growth in the construction sector has not shown further signs of slowing. Wages rose to 3.4% in the September quarter, a slight pick-up from June, but remains broadly unchanged from the levels recorded since late 2024.

The Mid-Year Economic and Fiscal Outlook (MYEFO) committed $78 million to establish an Advanced Entry Trades Training (AETT) program, which is a welcome step toward increasing the supply of skilled workers. However, given the scale of labour shortages and the need to accelerate housing delivery, this level of funding is unlikely to be sufficient on its own and will need to be supported by further initiatives.

* The HIA Trades Availability Index is a measure between +2.00 and -2.00, with a positive reading indicating easier access to skilled trades and vice versa.

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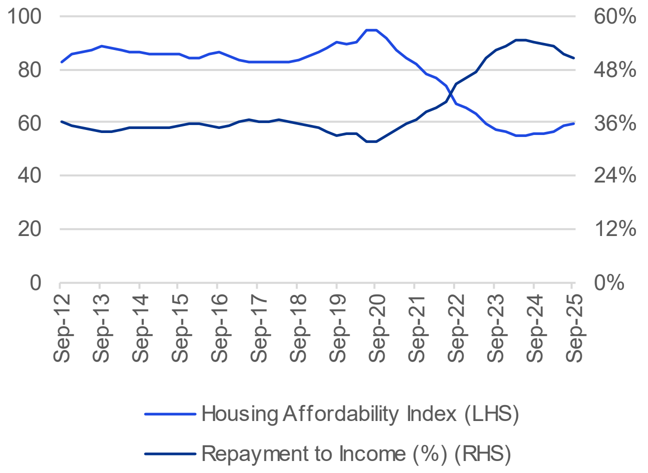
Housing affordability hits new low

The Housing Affordability Index fell to 59.3 in the September quarter 2025, similar to mid-2023 levels but still well below the low-90s range seen before the pandemic, when affordability was far more favourable. Housing affordability has deteriorated sharply, with the median house value now 8.9 times average income, up from 6.6 five years ago. The repayment-to-income ratio sits at 50.6%, slightly lower than 54.2% a year earlier.

Regional markets have now converged with capital cities on value-to-income ratios (8.1 vs 8.2), erasing their traditional affordability advantage. Sydney remains the least affordable market, while Adelaide, Brisbane and Perth have recorded significant declines in affordability. Canberra, Hobart and Melbourne show modest improvements, yet most markets continue to face rising entry barriers and mounting rental pressures.

Chart 6 – Housing Affordability Index and Repayment to Income (%)



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.

Rate cuts have also helped ease mortgage stress

Financial stress among mortgage holders has eased modestly, supported by three interest rate cuts in 2025 and the resilient labour market.

Data from SQM Research for November 2025 shows that distressed property listings nationally declined by 32.3% year-on-year, reflecting improved mortgage serviceability and stronger household balance sheets despite higher interest rates. Year-on-year, distressed listings are dramatically lower across all states, with Western Australia down 55.2% and Queensland down 39.2%.

The Reserve Bank of Australia's (RBA) Financial Stability Review notes that while arrears among highly leveraged and lower-income borrowers remain above pre-pandemic levels, they are generally low and have declined over the past year. Borrowers with high loan-to-value (LVR) or loan-to-income (LTI) ratios are more vulnerable to changes in interest rates, income, or expenses, but arrears rates for these groups have eased. Less than 1% of housing loans are currently in negative equity, and banks report that most non-performing loans remain well secured, supported by recent housing price growth.

Roy Morgan reports that the share of mortgage holders 'at risk' of mortgage stress dropped to its lowest since February 2023 after the RBA cut interest rates to 3.6% in August 2025. In September 2025, 25.9% of mortgage holders were 'at risk' of mortgage stress, down 2ppts from August and the lowest level since February 2023. This follows a period where the share stayed above one-in-four, well below the mid-2008 peak of 35.6%.

Lending activity surges as new financing hits record high

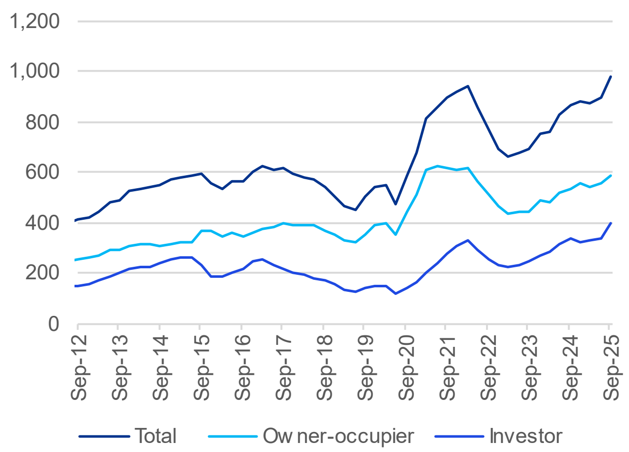
New home loan commitments surged in the September quarter, with volumes up 6.4% and values up 9.6% to a record $98 billion.

Investment lending surged to its highest level since March 2022, supported by falling borrowing costs and tight rental markets, pushing total new dwelling loan values to a record high.

Owner-occupier loans rose 2.0% over the quarter and 1.7% year-on-year, with total value up 4.7% to $58.2 billion. The average loan size increased by $15,900 to $693,800, suggesting borrowers are purchasing higher-value homes or entering the market with less equity. The increase in loan numbers during the September quarter was primarily driven by growth in New South Wales (4.9%), Victoria (2.4%), and the Australian Capital Territory (6.7%).

First home buyer activity also strengthened, with loans up 2.3% in the quarter and average loan size rising to $560,200.

Chart 7 – The value of new loan commitments ($b)



Source: ABS, Haver, KPMG

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Migration has slowed to a three-year low

Australia's population growth slowed in 2025, rising by 1.54% in the year to June 2025, compared to the average of 2.17% annual growth in the two previous years. This moderation has been driven by the government's introduction of stricter visa requirements for international students and skilled workers, contributing to a more controlled management of migration inflows.

Australia's migration intake has fallen sharply, reaching its lowest level in three years. Net overseas migration (NOM) dropped to 305,600 people over the 2024–25 financial year. This marks a decline of 28.8% (or 124,000 people) from the previous year and continues the downward trend since the post-Covid peak of 538,000 in 2022–23. NOM now accounts for 73% of population growth, down from 85% following the reopening of Australia's international borders after the Covid lockdown.

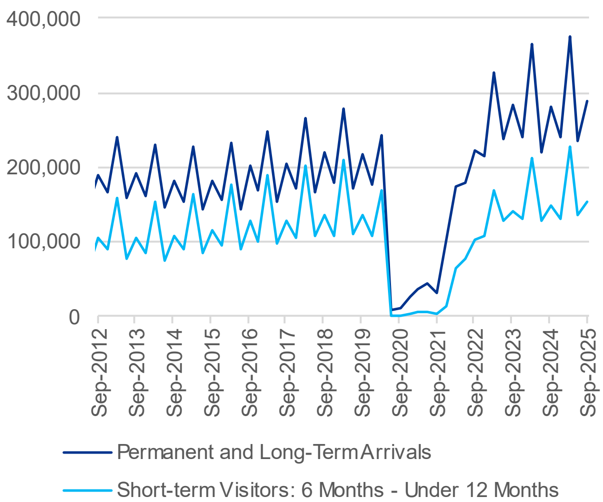
The number of migrants coming to Australia has fallen to a three-year low. In the June quarter alone, NOM eased to 50,120 people, the smallest quarterly increase since 2021.

This has been the second year in a row of falling temporary visa holders. The NOM's moderation in 2024–25 reflects both a 14% fall in new arrivals, particularly temporary visa holders, and a 13% rise in departures, which climbed to 263,000 people in 2024–25.

The estimates are in line with the recent Mid-Year Economic and Fiscal Outlook 2025–26 forecasts of net overseas migration to ease to 310,000 in FY25. Looking forward, the Commonwealth Treasury forecasts the NOM would decline further to 260,000 in FY26 and 225,000 in FY27.

Short-term visitor numbers remain strong, up 6% in the year to September compared to the same period last year. Although short-term visitors are excluded from NOM under the ABS 12/16-month rule, their impact on housing demand cannot be discounted.

Chart 8 – International immigration



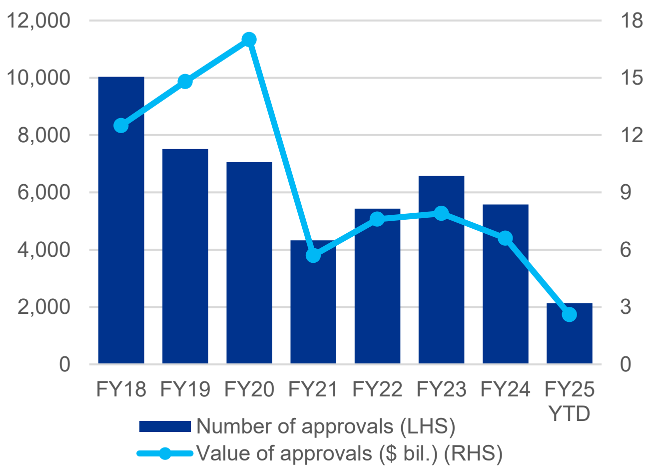
Source: ABS, Haver, KPMG

Foreign investment remains below pre-pandemic levels, constrained by ongoing policy headwinds

The latest data shows that in the first half of FY25, there were 2,134 approved residential real estate investment proposals, with a total value of $2.6 billion. While this biannual figure provides an early snapshot, it represents only around 34% of the full-year outcomes recorded in FY22 to FY24, suggesting that foreign investment may continue to be subdued unless momentum picks up in the latter half of FY25. Investors from China represented the largest share ($0.8 billion), followed by Singapore and Taiwan (each $0.3 billion).

From 1 April 2025, foreign persons, including temporary residents and foreign-owned companies, have been temporarily banned from purchasing established dwellings in Australia until 31 March 2027. Exceptions apply for large-scale developments of 20 or more properties.

Chart 9 – Foreign investment activity



Note: FY25 YTD refers to the period from July to December 2024
Source: Commonwealth Treasury, KPMG

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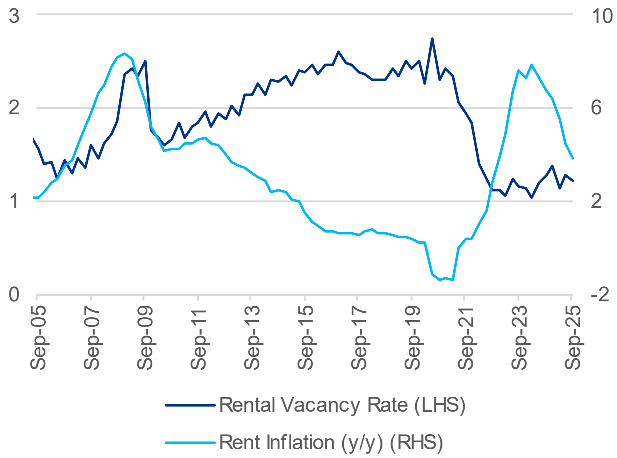
Australia's rental market hits record highs but growth has been moderating

According to the ABS, annual capital city rental inflation moderated significantly from its December 2023 peak of 8.5% to 4.0% in November 2025 but has picked up slightly in recent months. Excluding the various Commonwealth Rent Assistance (CRA) changes over the last 12 months, annual rent growth would have been higher, at around 4.3% to November 2025.

Nevertheless, despite the moderation in rental growth, the rental market remains tight and household budgets are stretched. According to Cotality, tenants are now allocating record-high 33.4% of their income to rent, well above a long-term 20-year average of 29.2%.

Vacancy rates remain near historic lows, with the SQM Rental Vacancy Rate index showing a 1.3% vacancy rate in late 2025. This represents a modest easing in rental tightness from the early-2024 low, when the vacancy rate reached 1.0%.

Chart 10 – Rent vacancy rate and rent inflation



Source: ABS, Haver, KPMG

Despite an easing in population growth, rental market conditions remain tight

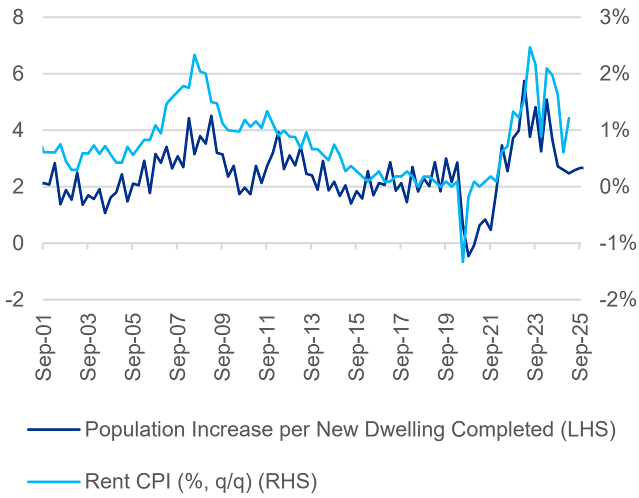
Overall, the core driver behind the tight rental market continues to be the structural imbalance between strong population growth over recent years and limited housing supply.

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 projections for new dwelling completions and Treasury's population forecasts, we anticipate that the CPI Rents component is forecast to exceed its pre-Covid 10-year average quarterly growth rate by approximately 0.12 percentage points per quarter through to the end of 2026. This implies annual rent growth of around 3.5% across 2026 and 2027, remaining above the long-run average of 3.0%.

KPMG estimates that new dwelling completions would need to be around 17% higher than current forecasts for this above-trend rental growth to be pulled back to normal levels while still allowing for the expected population growth over the next few years.

Chart 11 – Population increase per new dwelling completed versus rent inflation



Source: KPMG's calculation, ABS

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Box A: Australian Government's home ownership support

The expansion of the Australian Government 5% Deposit Scheme

The Scheme, formerly known as the Home Guarantee Scheme, enables eligible first home buyers to purchase a home with a deposit as low as 5%, and single parents or legal guardians with a deposit as low as 2%, without the need to pay Lenders Mortgage Insurance. This helps buyers enter the market sooner, without the delay of saving a 20% deposit.

On 1 October 2025, the government expanded its home ownership support, with the launch of the Australian Government 5% Deposit Scheme.

Key changes include:

- unlimited places available under the Scheme
- removal of income caps for eligible applicants
- increased property price caps across jurisdictions to reflect market growth
- continued support for single parents, who can purchase a home with a minimum 2% deposit.

Since the 5% Deposit Scheme was expanded, it has supported over 21,000 people into home ownership and over 200,000 since May 2022.

The 2025–26 MYEFO Further Housing Investment Support

Building on the government's first-term initiatives such as Build-to-Rent tax incentives and increasing Commonwealth Rent Assistance, further initiatives in this year's MYEFO aims to continue making it easier to buy and rent a home including further investments to deliver more homes for first home buyers, boost the construction workforce and increase the supply of social and affordable housing.

First Home Supply Program

The government will partner with states and territories and industry to increase housing supply. The government is investing $2 billion in grants and $8 billion in concessional loans to deliver up to 100,000 homes reserved for first home buyers. State governments will contribute an additional $2 billion in matched funding to get homes underway.

Construction on the first homes is scheduled to commence in 2026–27, with first home buyers to begin moving in from 2027–28.

The program will make it easier for first home buyers to buy a home of their own, while supporting progress towards the government's ambitious target of delivering 1.2 million new homes by June 2029.

Round 3 of Housing Australia Future Fund (HAFF)

This round will support 21,000 new social and affordable homes, building on 18,650 homes already under progress from previous rounds, including 9,284 social and 9,366 affordable homes. Together they form part of the government's commitment to build 55,000 social and affordable homes.

Round 3 of the HAFF provides $3.1 billion in concessional loans for community housing providers and a further $2.6 billion in investment, bringing the total concessional loan program to $4.5 billion to help accelerate new housing construction.

To support Closing the Gap, Round 3 includes a dedicated First Nations housing stream with $600 million in funding and access to concessional loans for projects delivered by, or in partnership with, First Nations housing organisations. It also introduces a 10% First Nations tenancy target across all social housing delivered in this round.

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Box B: Five facts about first home buyers in Australia

When evaluating approaches to improve housing access, it is important to consider the characteristics of FHBs to ensure that policies are appropriately targeted. This perspective is also crucial when determining the impact such policies will have on the housing market.

1. Families with children represent the largest proportion of FHBs.

Type of Dwelling	
Separate house	66.8%
Semi-detached, row or terrace house, townhouse	16.6%
Flat or apartment	16.4%

Household Composition	
One family households	
Couple family with dependent children	41.5%
One parent family with dependent children	3.7%
Couple only	27.5%
Other one family households	4.2%
Multiple family households#	0.9%
Non-family households	
Lone person households	19.9%
Group households#	1.9%

Characteristics of recent FHBs, from the Survey of Income and Housing 2019–20. Recent buyers are those who purchased a dwelling in the three years prior to the survey.

Source: ABS

#Use with caution, estimate has high margin of error

2. On average, a FHB borrowed $544,500 in FY2024–25. This means only a limited segment of the housing market is accessible to most buyers.

	Average Loan Size	Number of Commitments
Australia	$544,500	116,280
New South Wales	$631,600	26,993
Victoria	$522,000	38,472
Queensland	$534,500	22,912
South Australia	$506,400	7,262
Western Australia	$503,200	14,649
Tasmania	$428,600	2,129
Northern Territory	$442,100	896
Australian Capital Territory	$530,800	2,967

New loan commitments by owner-occupier first home buyers, FY2024–25

Source: ABS, KPMG

3. The FHB components of the previous scheme were fully utilised in FY2024–25, suggesting there was unmet demand. Over the lifetime of the new scheme, we expect the take-up rate to continue increasing.

Places	Available	Taken Up	Take Up Rate
Total	50,000	46,022	92%
First Home Guarantee	35,000	34,948	100%
Regional FHB Guarantee	10,000	9,986	100%
Family Home Guarantee	5,000	1,088	22%

Source: Housing Australia

4. The median loan-to-value ratio (LVR) under the previous scheme was 94% in FY2024–25. This suggests FHBs are highly leveraged, and constrained by their income and borrowing capacity, not just the deposit saved.

Median Borrower Profile	Single	Joint
Purchase price*	$521,000	$660,000
Age bracket	30 to 34	30 to 34
Household income*	$86,000	$136,000
Female	46%	50%
Male	54%	50%
Loan-to-value ratio	94%	94%

Source: Housing Australia

*Rounded to nearest $1,000

5. In practice, the scheme is likely to benefit only the lower segment of the market, as the median property remains out of reach for a median dual-income household. For instance, in New South Wales, the typical dual-income household would still be unable to comfortably borrow enough to purchase the median unit in Greater Sydney.

	Greater Sydney
New price cap	$1,500,000
Implied loan size (at 95% LVR)	$1,425,000
Gross income required to service^	$438,300
Median dual employee income	$147,300
Borrowing capacity^	$566,700
Implied maximum purchase price (at 95% LVR)	$596,500
Median dwelling price	
Houses	$1,588,000
Units	$901,000

Source: Housing Australia, ABS, Cotality, KPMG

^Based on 30% of gross income, 5.5% p.a. interest rate with 3% buffer, 30-year loan term

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Box C: At the surface level, the expanded 5% deposit scheme will support first home buyers (FHB) to enter the housing market, but it does little to generate lasting affordability

Savings are available under the scheme to some first home buyers.

When purchasing with a 5% deposit, FHBs can record savings through the following pathways:

- Compared to saving for a larger deposit, this would allow renters to enter the market years sooner and save rent expenses.
- Lower borrowing costs without paying Lenders Mortgage Insurance (LMI).
- Purchasing earlier can also provide a capital gains benefit, with FHBs entering at a lower price point and benefiting from holding an appreciating asset.

To evaluate the benefits of the scheme, KPMG conducts a welfare analysis that measures the net monetary gains for first home buyers. The analysis compares two scenarios: entering the housing market earlier under the 5% deposit scheme, versus the traditional path of delaying purchase until a 20% deposit is saved. This assessment incorporates typical housing and buyer characteristics, based on either historical norms or median values.

There could be $79,000 (in today's dollars) in benefits under the scheme compared to purchasing with a 20% deposit. Across the capital cities, these benefits ranged from $21,000 for a 'typical' buyer in Canberra up to $165,000 in Sydney, where affordability pressures are greatest.

	'Typical' Benefit
National	$79,000
Melbourne	$75,000
Sydney	$165,000
Brisbane	$127,000
Adelaide	$66,000
Perth	$97,000
Hobart	$56,000
Darwin	$78,000
Canberra	$21,000

However, given the diverse characteristics of FHBs and housing market conditions, these benefits could be significantly higher or lower. Furthermore, they must be viewed considering the effect this expanded policy will have on price growth.

For example, these benefits may be eroded or limited in some circumstances, particularly for FHBs who were already likely to enter the market in the near term, regardless of the expanded policy:

- For price segments which attract a large proportion of FHBs, earlier entry increases competition and pushes prices up, which ultimately favours existing owners rather than new buyers.
- Buyers with large deposits (or family support) gain little from avoiding LMI. Furthermore, rent savings are limited for those who were close to buying regardless.

While the expanded 5% Deposit Scheme provides additional support for first home buyers, it does not address the underlying drivers of Australia's affordability challenge. It helps some current buyers enter the market sooner, but at the same time, it also accelerates price growth. Ultimately, the core issue remains unchanged – dwelling prices continue to exceed what most first home buyers can reasonably afford, and meaningful progress on affordability will require structural solutions that are centred on expanding supply rather than demand-side subsidies.

National Model – Core Assumptions	
Current Dwelling Value	$660,000
House Price Growth	
Near Term	6.1%
Long Term	4.4%
Weekly Rent	$570
Rental Price Growth	
Near Term	3.4%
Long Term	2.5%
Gross Household Income	$146,000
Proportion of Gross Income (for Deposit/Repayment)	42%
Initial Savings	Nil.
Wages Growth	
Near Term	3.4%
Long Term	3.1%
Transaction Costs/Stamp Duty (as a % of Sale Price)	2.5%
Ownership Costs (as a % of House Value)	2.0%
Mortgage Interest Rate	
Near Term	5.5%
Long Term	5.0%
Interest Rate Buffer	3.0%
Loan Term	30 Years
Savings Interest Rate	
Near Term	3.6%
Long Term	3.1%
Inflation Rate	
Near Term	2.7%
Long Term	2.5%

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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.

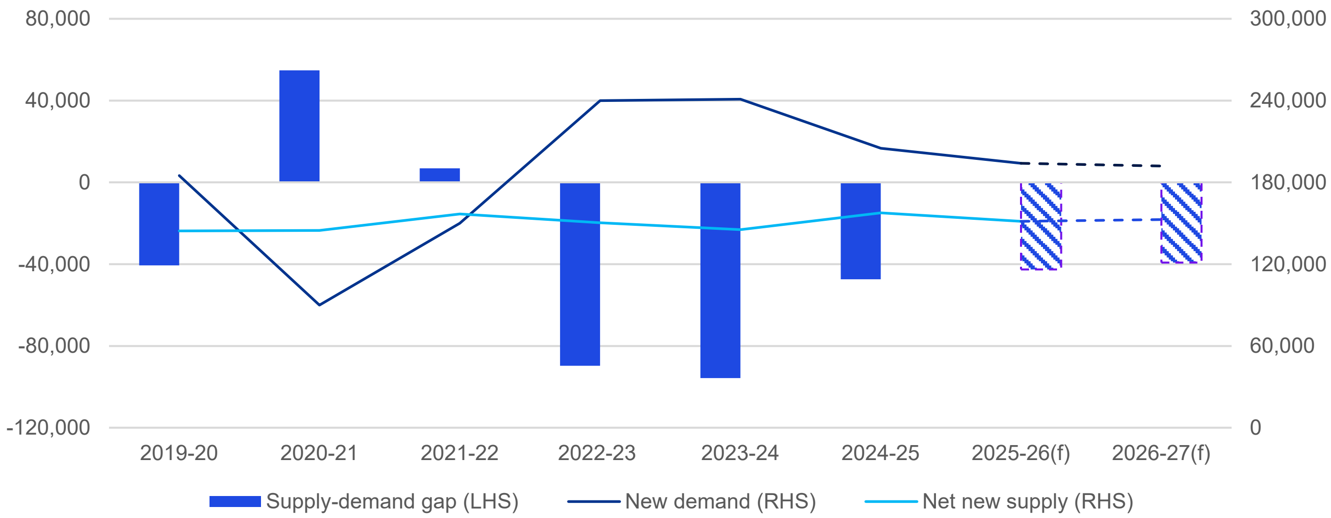
Building on our previous report published in May, this report incorporates additional uplift in demand arising from the announcement of new housing schemes (Boxes A and B) over the FY26 and FY27 forecast period.

Relative to the figures reported previously, when the new schemes had not yet been announced, the supply-demand imbalance has widened, reflecting increased demand attributable to these additional housing initiatives.

Notwithstanding this, while the housing market is expected to remain in undersupply over the next two years, the gap between housing demand and supply is projected to narrow gradually. In FY26, net new supply is forecast to reach approximately 151,000 dwellings, compared with demand from around 194,000 households, resulting in an estimated shortfall of 43,000 dwellings. This imbalance is expected to decline to approximately 40,000 dwellings in FY27.

This represents a steady improvement compared with earlier years, when the housing deficit was estimated at 47,000 dwellings in FY25 and 96,000 dwellings in FY24.

Chart 12 – Housing supply–housing 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).

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Dwelling prices 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 back 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.

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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:

- RBA cash rate will hold steady at 3.6% throughout the forecasting period.
- Inflation follows the forecasts prepared by KPMG Economics as per the Quarter 4 2025 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.

Chart 13 – Forecasts of interest rate and annual inflation

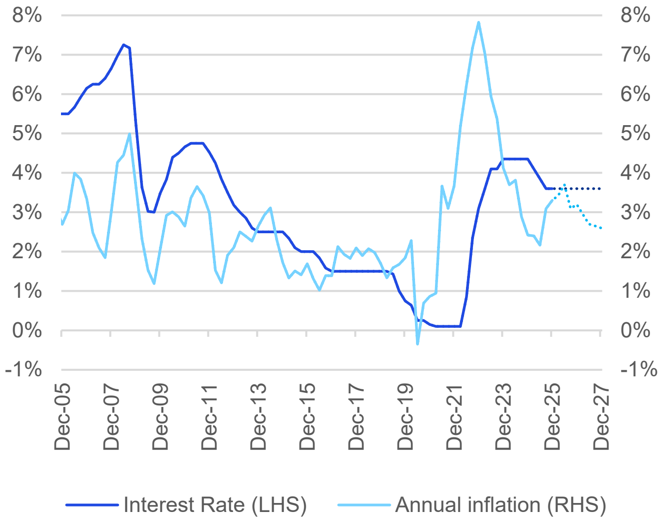
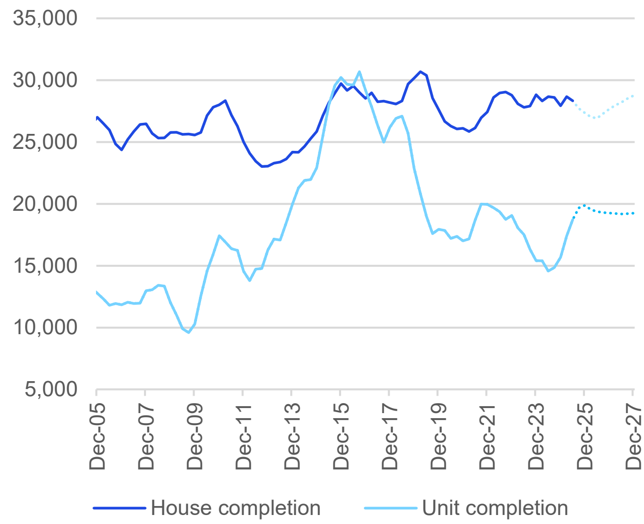


Chart 14 – Forecasts of dwelling completions (number of dwellings)



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Our findings

Housing market strength will carry on throughout 2026, with national prices expecting to rise 7.7%

Housing momentum is expected to continue through 2026, although not at the intensity seen in the second half of 2025.

With financial conditions unlikely to shift meaningfully over the next two years, the market should see steady rather than accelerating growth.

Supply is also beginning to lift, but not fast enough to close the persistent housing shortfall as elevated construction costs remain the number one barrier to starting new housing development. This sluggish improvement in new supply will still provide some support for price growth in 2026, given the depth of unmet demand.

We expect a clear two-speed dynamic. The affordable segment is set to outperform, supported by the expanded 5% Deposit Scheme and by scheme price caps that sit close to median house prices. As more buyers cluster around this threshold, activity in the lower-priced segment effectively becomes the centre of the market.

However, the share of homes that fall within a typical first home buyer budget varies significantly across states, reflecting differences in city-level price structures. In Sydney, for example, a smaller proportion of dwellings sit within reach of the average FHB budget compared with Adelaide or Perth.

Limited borrowing capacity will continue to cap price growth at the upper end, keeping affordability as the key factor moderating overall national growth.

But more balanced house price growth in 2027

Looking ahead to 2027, we forecast house prices to grow by 6.0%, reflecting a more sustainable pace of growth that is more closely aligned with long-term average outcomes.

As prices rise further, they will eventually reach the threshold of what first-home buyers can reasonably afford, while affordability constraints will also continue to weigh on higher-priced segments. This pattern has been evident for several years and is likely to continue. KPMG analysis shows that a first home buyer on an average income can now afford only around 12% of the housing stock, down sharply from 2019–20 when they could access roughly 30% of available homes.*

At the same time, housing supply is gradually improving, this lift in supply combined with population growth returning to more typical levels in 2027 will help ease some demand pressures and support a more balanced pace of growth.

Over the next two years, affordability issues are likely to maintain steady demand for units

KPMG's view is that unit prices are expected to grow at a similar level to house prices, with apartment values projected to grow by 7.1% in 2026 and 4.6% in 2027.

Robust unit growth is likely to occur particularly in capital cities where the escalating prices have left a large portion of the population struggling to be able to purchase a detached house.

As a result, there is growing demand for more affordable housing options, particularly apartments, townhouses and units. Attached dwellings offer relatively lower entry points compared to houses, making them more viable options for a larger pool of buyers.

Table 1 – Forecast annual dwelling prices growth rate by property type and market (% y/y)

Location	House		Unit	
	Dec-26	Dec-27	Dec-26	Dec-27
Sydney	5.8%	5.7%	5.3%	4.0%
Melbourne	6.8%	7.3%	7.3%	5.5%
Brisbane	10.9%	8.9%	7.8%	4.9%
Adelaide	8.2%	3.3%	6.6%	3.8%
Perth	12.8%	5.1%	11.6%	3.9%
Hobart	5.4%	4.1%	5.1%	4.0%
Darwin	10.5%	6.8%	13.4%	9.3%
Canberra	4.7%	3.3%	4.9%	3.6%

* See KPMG Australia media release, Twelve percent of homes in Australia affordable for the average first home buyers, 9 December 2025.

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Our findings (continued)

Complex market dynamics across cities

Sydney's position as a major job hub continues to attract buyers and offset affordability challenges, resulting in a steady growth outlook. While the 5% Deposit Scheme's higher price cap broadens theoretical eligibility, in practice most first home buyers remain constrained by borrowing capacity and cannot afford the mortgage required to purchase even at the lower end of the market. As a result, Sydney's outlook is one of balanced growth, underpinned by strong fundamentals but constrained by persistent housing supply and affordability challenges.

Melbourne's market rebounded in 2025 after a prolonged downturn that began in 2022. Growth is being driven by genuine underlying demand, as Victoria's land tax regime continues to weigh on investor activity. Even so, Melbourne's comparatively lower price base relative to other capitals may provide room for further growth and help sustain momentum over the coming years.

Brisbane's market strength is likely to extend beyond 2026. The state continues to attract strong population inflows, yet housing supply has not kept pace. However, 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. Even so, the structural shortage is expected to provide a firm floor under prices, limiting the depth of any correction.

Adelaide is beginning to see affordability constraints emerge, which may temper demand and redirect some buyers toward relatively more affordable cities such as Melbourne. Supply has also picked up. We expect strong growth in Adelaide this year, but a softer pace in 2027.

Perth is anticipated to have strong growth over the coming years. It continues to record the fastest population growth in the country, and limited housing availability is keeping upward pressure on prices. Homes remain relatively attainable for first home buyers, and the deposit scheme is supporting demand. However, similar to the national trend, affordability pressures are expected to gradually moderate growth.

Darwin has quickly emerged as a key investment hotspot, supported by a robust pipeline of infrastructure projects and attractive rental yields. These factors are positioning the city for continued growth over the next two years.

Hobart's housing market has recorded modest but consistent gains in recent months, signalling a gradual recovery. However, prices still remain slightly below their 2022 peak. Supply is increasing relatively quickly, and population growth is subdued, which together point to only modest growth ahead.

Canberra's market has shown early signs of strengthening after a period of flat or falling prices across five of the past six months. While recent performance suggests a potential turning point, more consistent evidence of momentum is needed to support a stronger finish to the year. Once the recovery gains traction, we expect growth to be steady next year. Growth will also be supported by spillover demand from proximity markets (such as Sydney), both from buyers relocating in search of more affordable options and from investors leveraging additional equity gains in their properties to expand into Canberra.

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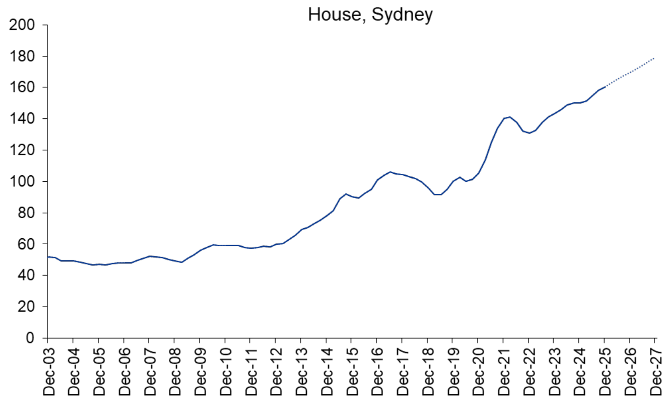
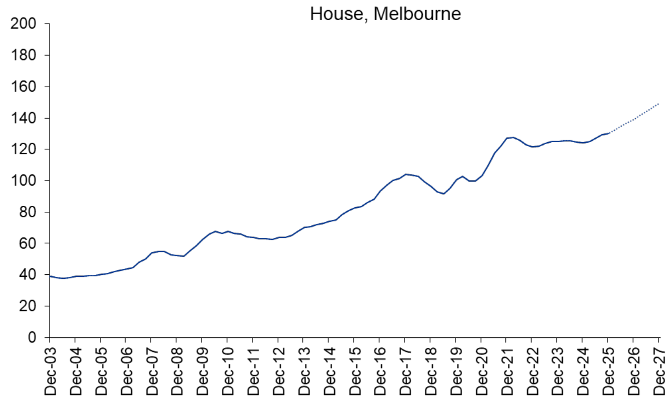
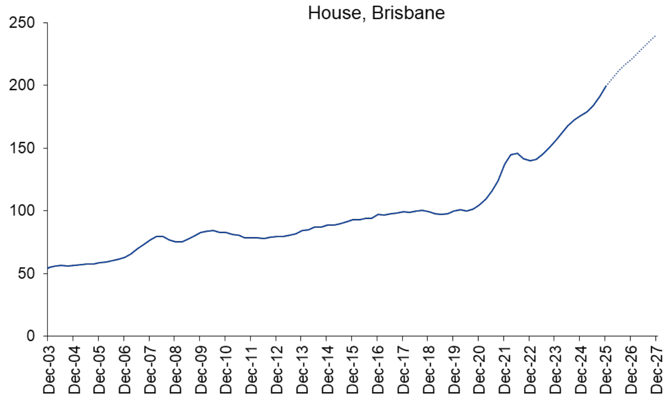
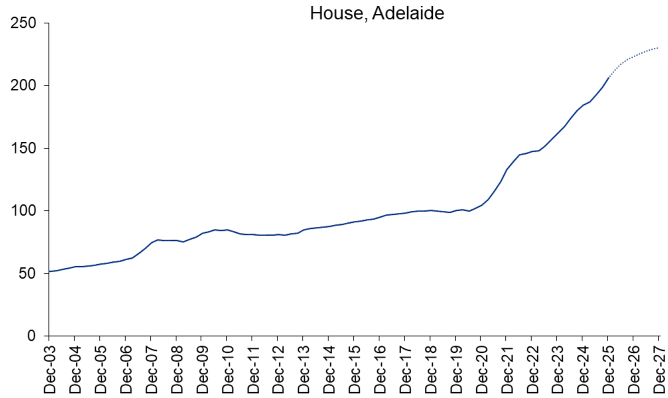
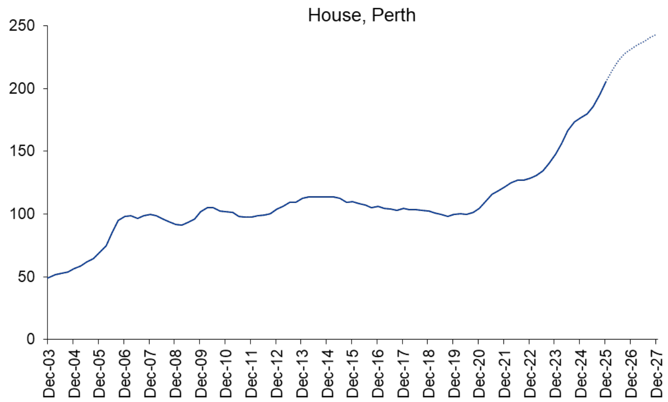
House prices forecasts (June 2020 = 100)

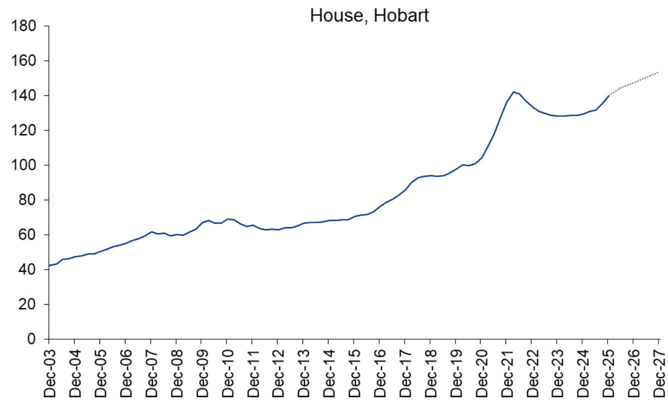


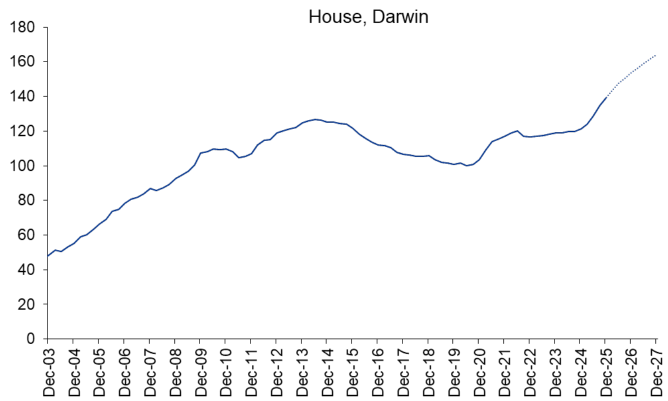


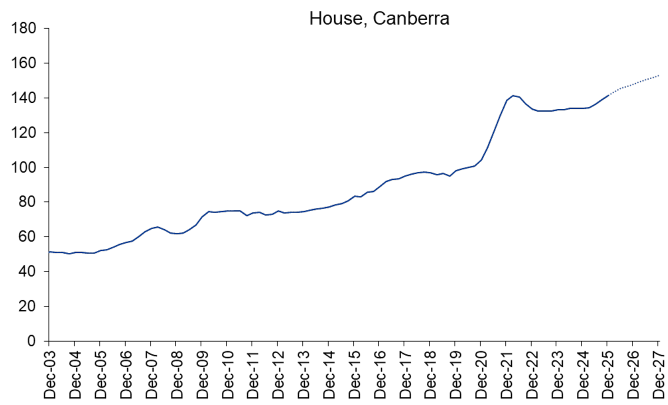












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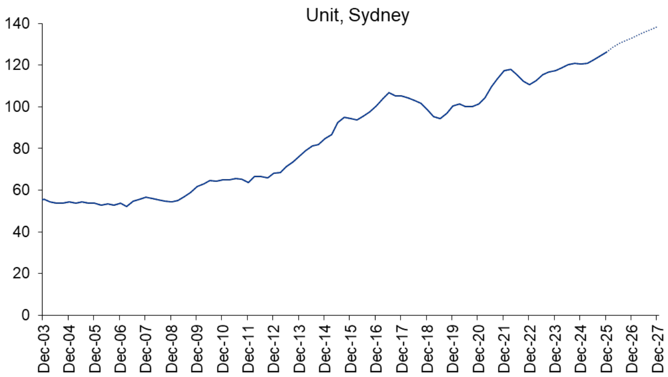
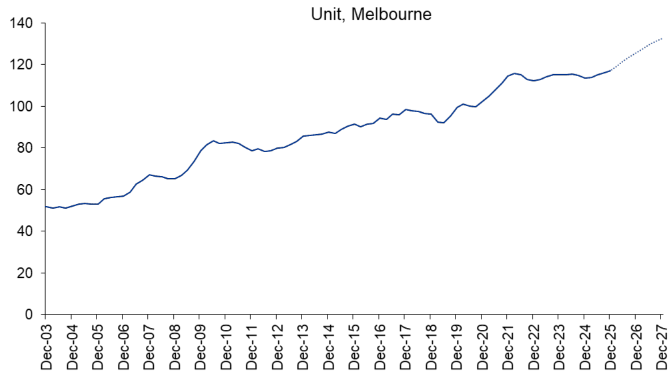
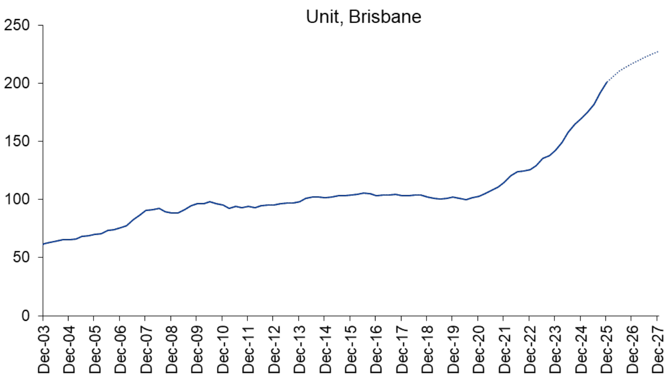
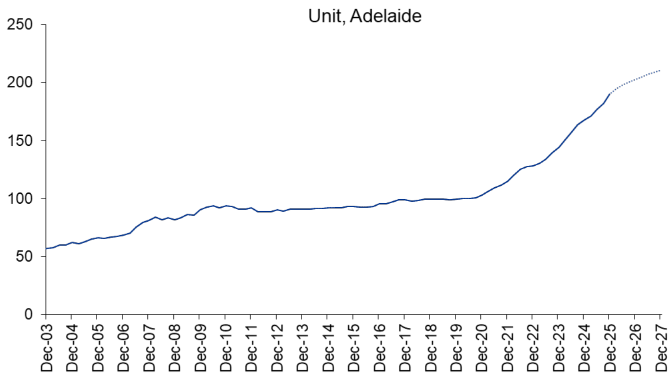
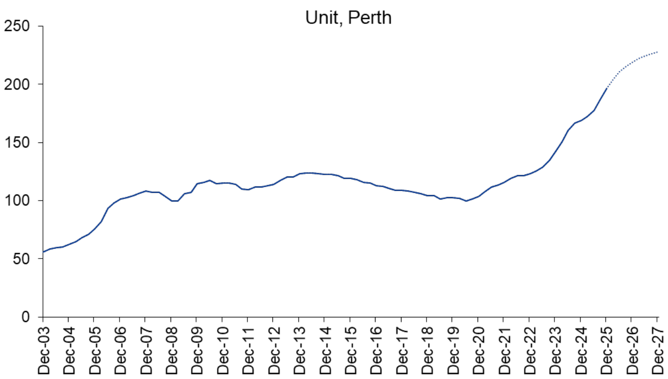
Unit prices forecasts (June 2020 = 100)

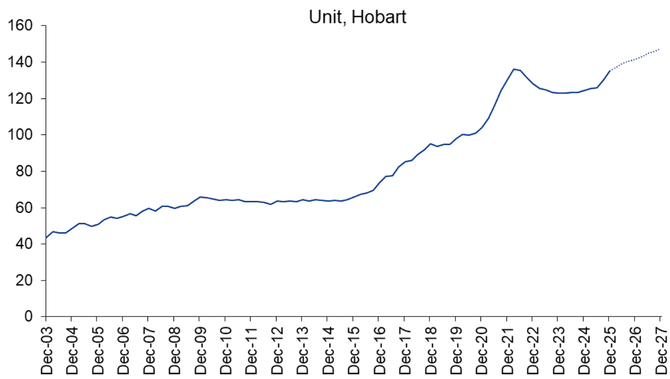


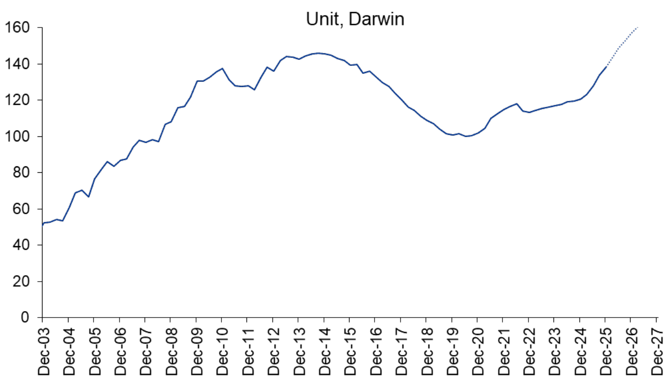


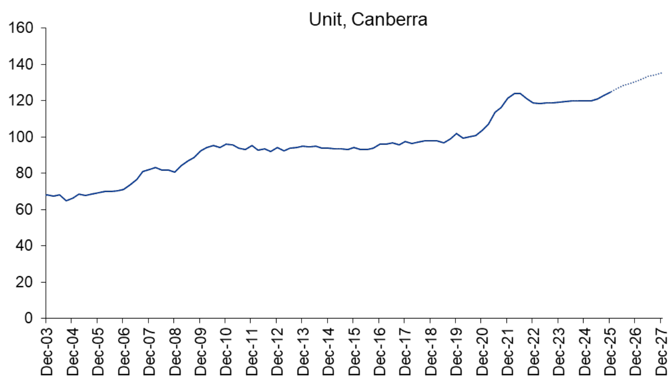












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