

Research

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Decoding Australia's Residential Market

Trends and Forecasts

Executive Summary

Australian housing markets have been remarkably resilient over the past few years, however several headwinds that slowed the market over the latter part of 2024 have continued into the first half of 2025. Most notably the impact of higher interest rates.

However, these headwinds should give way as 2025 progresses and a recovery is likely to emerge by the second half of the year.

The first signs of easing monetary policy in early 2025, and the likelihood of further cuts in the Official Cash Rate (OCR), will likely prove to be a turning point for household sentiment and housing market confidence.

Short-term headwinds persist within Australia's housing market. The recently concluded Federal Election is likely to be a factor keeping housing market activity muted, given the housing sector was a major battleground for the election. Market consensus generally aligned with the view that housing initiatives pledged before the election were pro-demand, rather than addressing supply-side policies to encourage new dwelling creation.

Despite short-term headwinds still to navigate, the medium-term outlook remains robust, underpinned by a clear under-supply of housing

relative to strong population growth. This under-supply already exists, and with supply only likely to lift moderately over the next few years, values are expected to grow further as housing completions stay well below underlying demand growth.

House price growth is likely to lift as 2025 progresses.

As witnessed in 2024, several smaller capital cities, particularly Perth and Adelaide, are expected to continue to outperform in 2025.

However, by 2026, growth is expected to accelerate across other major capital city markets.

Rental growth is also expected to slow but not turn negative,

as ongoing low vacancy and moderate apartment supply levels support higher rents. However, improved affordability and a marginal lift in available stock is likely to see rental growth continue to moderate towards the rate of wage growth.

As with house prices, there is also likely to be a relatively large disparity across the major states. While far from over-supplied, recent and upcoming Build-to-Rent (BTR) completions in Melbourne are creating marginally more competition in the inner-city market in 2025 thus far. Over the medium term, ongoing supply shortages will see rental growth increase again, but affordability is likely to keep growth around the level of wage growth.

Australian Dwelling Price Forecasts (major banks aggregated)

	Dwelling Price Growth (p.a.)		
	2024 (Actual)	2025 (f)	2026 (f)
Australia	4.9%	2.3%	5.5%
Sydney	2.3%	1.4%	4.9%
Melbourne	-3.0%	1.3%	5.9%
Brisbane	11.2%	3.9%	6.2%
Perth	24.5%	4.9%	5.7%
Adelaide	17.3%	4.7%	4.4%

* Forecasts are based on major banks dwelling price estimates for 2025 and 2026 as at February 2025
Source: CoreLogic, NAB (Q4 2024 Residential Survey), ANZ (2025 Housing Outlook), Westpac (2025 Housing Pulse), JLL Research

Comparison of house price forecasts – select advanced economies

Country	2025	2026	2027	2028	2029	Five-year Annual Average
Germany	2%	4%	6%	7%	6%	5.1%
Australia	4%	5%	6%	4%	4%	4.5%
New Zealand	2%	7%	5%	5%	4%	4.4%
U.S.	5%	4%	4%	4%	4%	4.2%
U.K.	4%	2%	2%	4%	6%	3.5%
Advanced Economies Average	4%	3%	4%	4%	4%	3.5%
Spain	7%	4%	2%	1%	1%	3.1%
France	0%	3%	4%	4%	4%	2.9%
Italy	2%	1%	2%	2%	2%	1.8%
Canada	-2%	-3%	4%	5%	3%	1.6%
Japan	2%	0%	1%	1%	1%	0.7%

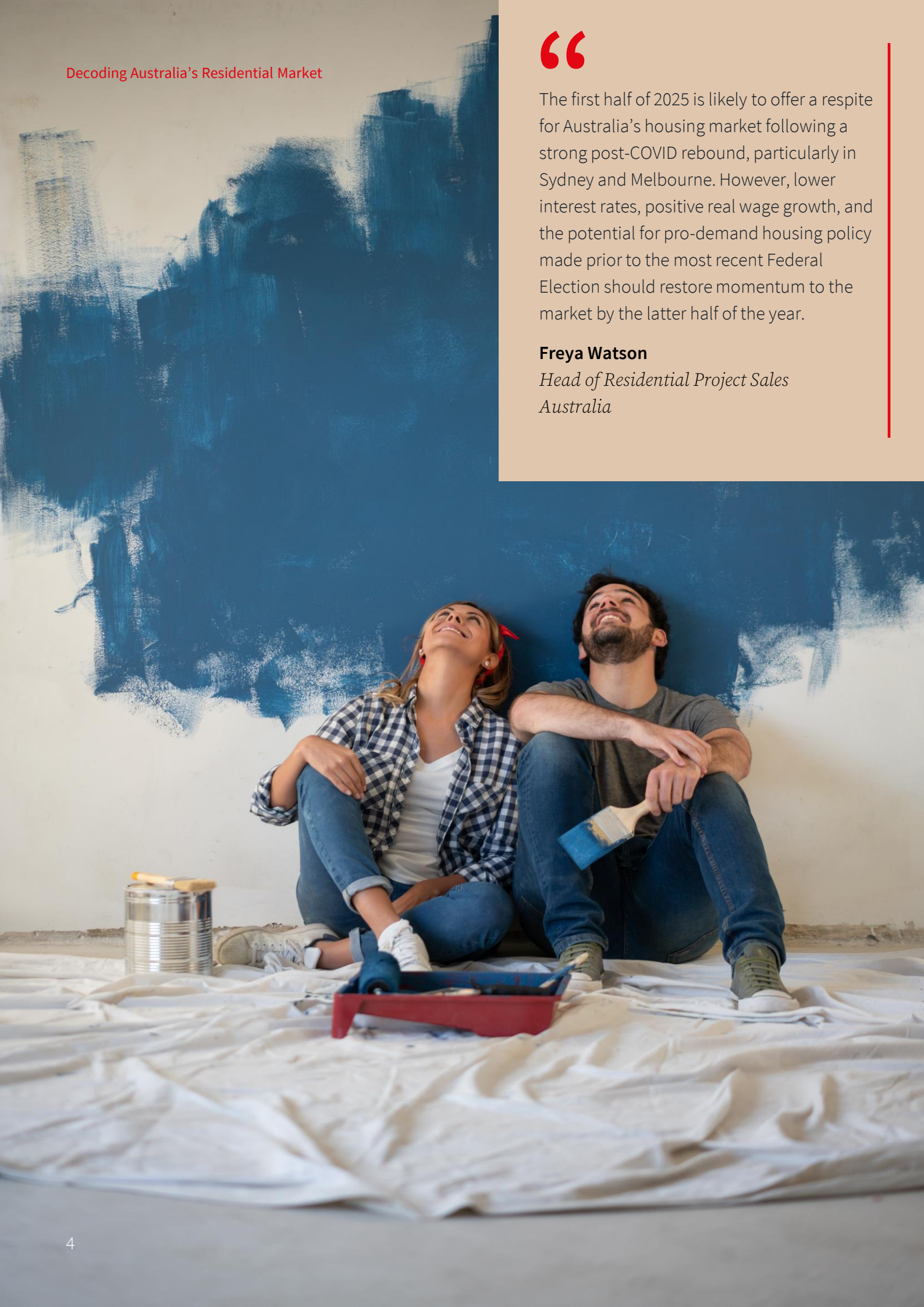
Source: Oxford Economics, JLL Research

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The first half of 2025 is likely to offer a respite for Australia's housing market following a strong post-COVID rebound, particularly in Sydney and Melbourne. However, lower interest rates, positive real wage growth, and the potential for pro-demand housing policy made prior to the most recent Federal Election should restore momentum to the market by the latter half of the year.

Freya Watson

*Head of Residential Project Sales
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Hot Topic

Sydney luxury apartment market will continue to outperform

Averages invariably obscure considerable detail. Across all markets, sub-markets will significantly under and over-perform relative to our broad city-level dwelling forecasts. This is particularly evident in the high-end of Sydney’s apartment market, which is much less sensitive to interest rates than the broader Sydney housing market. As such, we anticipate continued growth in this segment of the market in 2025, far exceeding the 1.4% growth forecast (major banks aggregated estimates) for Sydney as a whole, due to factors outlined below.

Downsizers generally don’t need debt

Across new apartment markets nationally, the strongest buyer demographic in recent years has been downsizers. This trend reflects the convergence of the large baby boomer generation becoming empty-nesters and retiring, coupled with substantial growth in dwelling prices driving significant equity gains in their existing properties.

This equity growth has enabled this demographic to sell expensive detached houses in prime suburbs and purchase luxury apartments for a lower price, often without debt and with funds remaining to supplement their retirement savings.

Equity growth in Sydney has been most pronounced over the past five years. Median detached house prices have increased 47% over the past five years, with even greater gains in many premium suburbs. Assuming the average growth, a homeowner holding a AUD 3.0 million house five years ago has seen an equity increase of AUD 1.4 million today, while a homeowner with a AUD 5.0 million house would now have an additional AUD 2.4 million in equity.

Consequently, the significant magnitude of equity growth in Inner Sydney has driven investment into premium, newly built apartments. This has resulted in buyers being more than willing to pay higher construction costs to secure larger, high-quality developments in prime locations.

Sydney is Australia’s international city

Globally, Sydney is by far the most recognised and sought-after city. This leads global companies to predominantly establish their headquarters in Sydney, maintaining strong growth in high-paying jobs, while also concentrating international investment from high-net-worth individuals (HNWIs) towards Sydney. Indeed, this interest from HNWIs facilitates a level of development and rates per square metre that cannot be achieved in other Australian markets.

For example, apartment developments such as Kirribilli Harbour and One Circular Quay in the Sydney CBD are achieving sales rates exceeding AUD 100,000 per square metre. This is more than double the maximum sales rates achieved in other Australian cities.

Construction costs will keep pushing prices

Although there has been some moderation in construction cost growth recently, prices are still rising. This upward trend in build costs, combined with continued robust demand for luxury properties and the already high ceiling established in Sydney for maximum achievable sale rates, collectively exerts further upward pressure on sales rates at the upper end of Sydney’s apartment market.

Conclusion: None of these factors are likely to change in the short-term

Sydney Dwelling Price Forecasts

	2025 (f)	2026 (f)
All Dwellings	1.4%	4.9%
Luxury Apartments	5.6%	7.5%

Source: Major banks aggregated forecast, JLL Research



Australia’s stable economic outlook continues

Economic growth has likely passed its trough, inflation is normalising, and a continued strong labour market is establishing a platform for robust wage growth.

The economic backdrop remains a robust foundation for Australian housing demand. Notwithstanding ongoing global economic external risks, Australia’s Gross Domestic Product (GDP) growth is expected to accelerate from a cyclical low of 1.3% in 2024 to 1.6% in 2025 and 2.3% in 2026 (DAE figures). In comparison, advanced economies GDP growth is forecast to average 1.4% in 2025 and 1.5% in 2026 (IMF April 2025 Global Economic Outlook).

Headline inflation retreated into the Reserve Bank of Australia’s (RBA) 2-3% target band over 2024. The RBA’s preferred inflation measure – the trimmed mean inflation rate – also fell into the target band in March 2025.

Importantly for housing demand, Australia’s labour market is expected to remain relatively

tight, albeit marginally easing. This will ensure a strong platform for continued growth in wages over the next five years as workers look to regain lost ‘real’ income through the COVID-19 pandemic induced inflation spike.

Australia’s population growth has been robust, despite easing migration trends over the last 12 months. Annual population growth has moderated from a peak of 2.5% (year-on-year as at September 2023) to 1.8% (year-on-year as at September 2024), however remains above the 10-year average of 1.6%.

Regardless, forecast population growth remains a significant boost to underlying housing demand, especially given the low supply of existing listings and the slow response of upcoming new supply.

Australian Economic Forecasts

	2024 (Estimated)	Growth (% p.a.)			
		Forecaster	2025 (f)	2026 (f)	Average p.a. 2025-2029
GDP	1.3%	DAE	1.6	2.3	2.4
		OE	2.1	2.5	2.5
CPI	2.4%	DAE	2.7	2.7	2.5
		OE	2.8	3.2	2.7
Unemployment	4.0%	DAE	4.4	4.5	4.5
		OE	4.3	4.4	4.3
Wage Growth	3.2%	DAE	3.3	3.3	3.4
		OE	3.1	3.3	3.2
Population	1.8%	DAE	1.6	1.4	1.4
		OE	1.3	1.2	1.2

Source: Oxford Economics (OE), Deloitte Access Economics (DAE), JLL Research



Interest rates are likely to fall further in 2025, which may improve household finances, housing affordability, and confidence. With the rate-cutting cycle underway as of February 2025, the key question now evolves around how many interest rate cuts will be required and how soon they will occur.

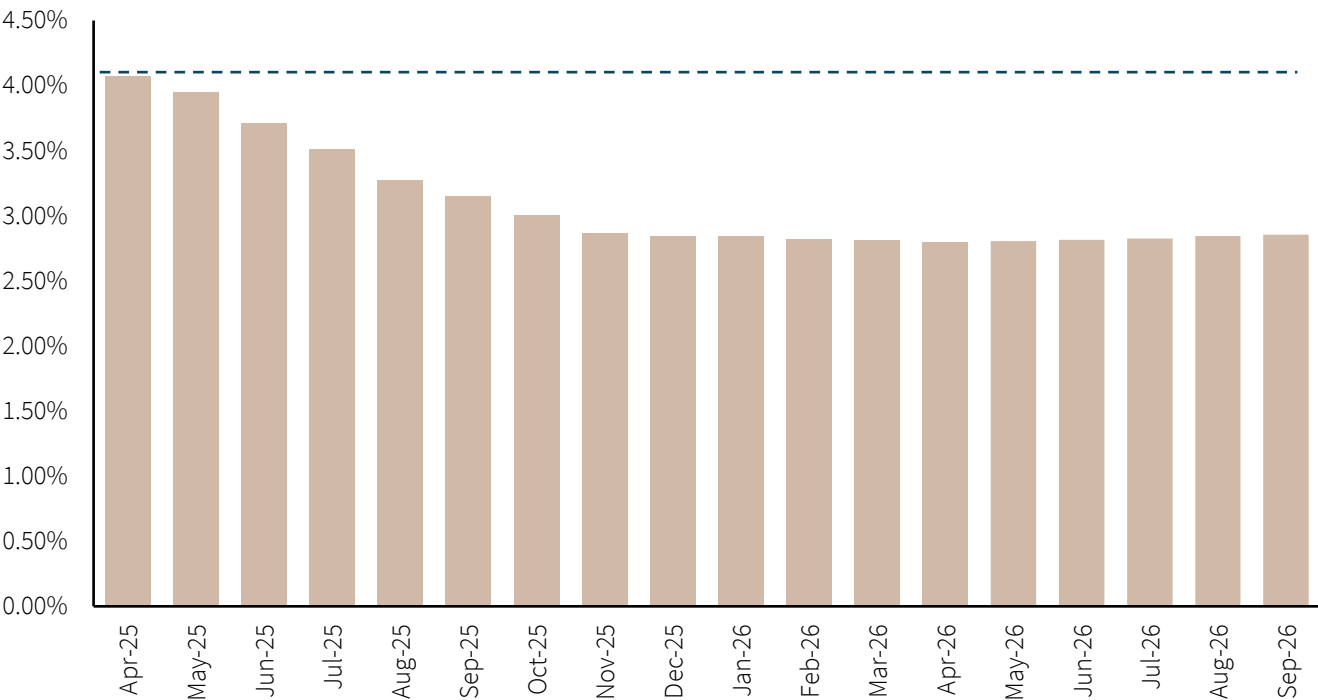
Financial markets are currently pricing in a further 110 basis points (bps) of interest rate cuts by the end of 2025, which would take the OCR to 3.00%. Nevertheless, these expectations have been volatile over the past year, and the outlook can shift rapidly.

The shift towards expectations that the RBA will accelerate the pace of monetary policy easing has been driven by potential concerns of a global economic slowdown and the implications for economies such as Australia. Business uncertainty is expected to persist, with investment activity set to be tempered in light of implemented U.S. tariffs.

Market economists also remain optimistic about the number of cuts in the OCR for the remainder of 2025. Three of the 'Big Four' banks are maintaining a forecast of three additional cuts in the OCR, with one bank expecting an additional four.

Financial conditions remain tight, and it will likely take multiple interest rate cuts to make a material difference to households' buying capacity. As such, any unexpected delay in further interest rate cuts could prolong the housing market recovery until later in 2025.

ASX 30-day Interbank Cash Rate Futures Yield Curve



*Based on ASX 30-day futures as at 30 April 2025
Source: ASX, JLL Research

110 bps

The current expected fall in the OCR by the end of 2025, based on the latest Futures Market pricing

81 bps

The current average expected fall in the OCR by the end of 2025 among the 'Big Four' banks



Market fundamentals still support housing

Construction levels have fallen well short of underlying demand in recent years, and this is unlikely to change over the short to medium term.

New dwelling supply has not been able to keep up with underlying demand, and a still-growing undersupply is expected to result in a persistent supply-demand mismatch within Australia's residential sector.

Population growth rebounded after the COVID-19 pandemic more strongly than anticipated. Net overseas migration reached a record high of 555,798 year-on-year in September 2023. While this figure has trended lower in the subsequent four quarters for which data is available, it remains well above historical norms.

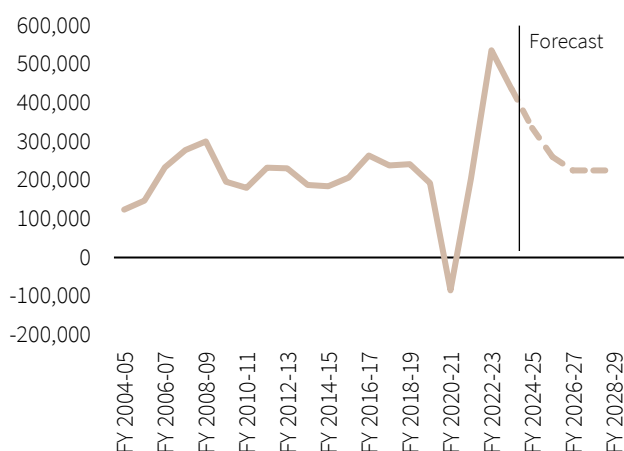
Australia's population growth rate peaked at 2.5% (year-on-year as at September 2023), however at 1.8% in the latest measure (year-on-

year as at September 2024), growth remains higher than the 40-year average level of 1.4% per annum.

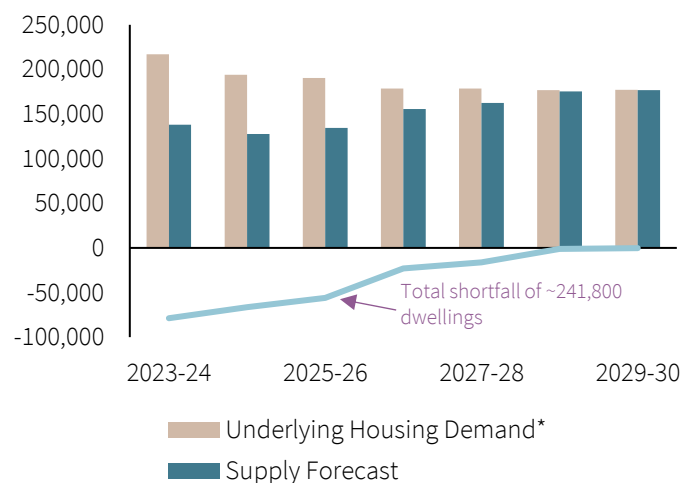
Against this backdrop, housing construction has also remained highly constrained. As a result, based on current population projections, supply is expected to fall short of underlying demand based on housing population growth at historical household sizes.

Supply is expected to respond eventually, however this process will be slow. We anticipate a shortfall of over 241,800 dwellings from FY 2023-24 to FY 2029-30.

Net Overseas Migration to Australia (Annual)



Australian Housing Market Balance



*Adjusted for population actuals and projections to FY25 Federal Budget, with static supply assumptions

Source: ABS, Australian Federal Budget, JLL Research

Source: Housing Australia, ABS, JLL Research

Illustrative demand-supply matrix for the Australian residential sector

		Current Market (2025)	Future Expectation (2030)
Demand	High	High prices, strong inbound migration	Speculative: Very high prices, strong inbound migration
	Moderate	Balanced market - stable prices	Likely: Moderate price growth, stable inbound migration
	Low	Low demand given current trends	Unlikely: Lower prices, significantly lower migration
Supply	High	Moderate prices, increased buyer options	Unlikely: Price decrease, high supply response
	Moderate	Balanced market: supply-demand relatively balanced	Likely: Moderate price growth, mild supply recovery
	Low	High prices, low supply response	Speculative: Very high prices, low supply response

* Analysis is based on current supply-demand market dynamics, forecast dwelling price growth and supply trends

Source: JLL Research



Barriers to housing supply

1

Build costs

During the COVID-19 pandemic, construction material prices rapidly increased but have since stabilised. However, labour costs remain elevated. This has resulted in a 28% rise in apartment construction prices over the past four years (ABS data). Apartment end-prices for mass-market apartment projects have not risen enough to compensate for higher build costs, rendering this sort of higher density apartment project largely unfeasible across much of the country.



2

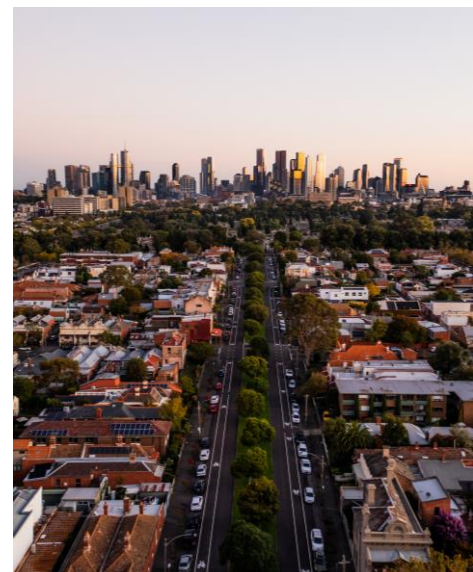
Development finance

The significant rise in interest rates over the last couple of years is another factor that has increased developers' cost base and contributed to the deterioration in the feasibility of major housing developments. Lenders have also been cautious in lending to developers, forcing many to use higher-cost non-bank lenders. While this is now changing, and banks are taking a more favourable position towards housing development lending, they remain strict on controlling delivery and construction cost risks.

3

Construction capacity

Infrastructure construction increased significantly throughout the COVID-19 pandemic as a stimulus response. However, this has diverted available construction resources to these projects, which are more attractive to builders than typical 'fixed-price' housing projects. This issue is exacerbated in some of the smaller markets, particularly in Brisbane, where major government and Olympic projects are crowding out apartment developers from available resources.



Barriers to housing supply

4

Planning and land availability

Accommodating strong population growth within the limited urban footprints of major cities has consistently challenged land release and planning processes. The fragmentation of planning authority across numerous local councils with differing growth objectives further complicates this issue. We are observing increased intervention from state governments to boost housing supply; however, this can also add time to planning timeframes.

5

BTR tax treatment

A key factor in boosting foreign investment to support Build-to-Rent (BTR) construction in Australia is the reduction in foreign investor withholding tax, aligning it with other property sectors. The Federal Government committed to this in the May 2024 Budget, however the legislation was delayed in the Senate and only passed in the final parliamentary sitting of 2024. With this uncertainty now resolved, investment is expected to increase in 2025 and prompt some of the previously stalled projects to commence construction.



Dwelling price growth

While aggregate price growth is moderating, regional variation in growth will remain significant, with units having greater scope for growth compared to houses.

The significant variance in price growth that was evident in 2024 is likely to persist through 2025. The strong dwelling price growth recorded in 2024 is likely to moderate in the smaller cities of Perth, Adelaide and Brisbane, although strong momentum is still expected. Limited supply additions, low levels of existing stock available for sale, and robust population growth are all likely to contribute to sustained growth throughout 2025.

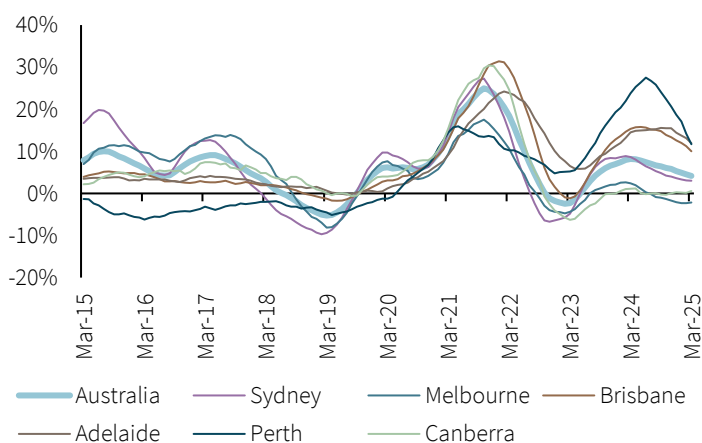
The other major capitals - Sydney, Melbourne, and Canberra - are likely to experience some downward pressure on prices over the first half of the year as affordability constraints and headwinds on household finances temper behaviour. However, by late 2025, an early-stage recovery should be underway in most markets, particularly if interest rate cuts continue steadily

in the coming months.

Unit price growth is expected to outperform house price growth. While this occurred in some markets in 2024, a clearer trend is expected in 2025, driven by several supporting growth factors:

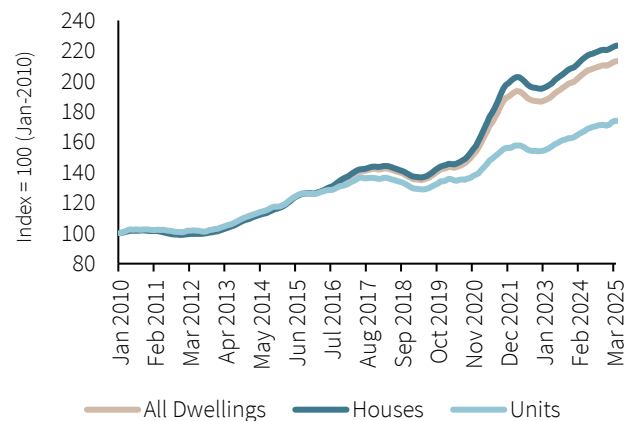
- **Affordability** – unit dwelling price growth has been significantly lower than that of houses over the past decade, resulting in a larger-than-average median price differential. As credit remains constrained and expensive, more buyers are being driven towards units.
- **Low new supply** – current apartment supply remains constrained.
- **Cost-push** – higher construction costs mean replacement costs for units are above existing unit prices, supporting price growth in a supply-constrained market.

All Dwellings Price Growth (Annual % change)



Source: PropTrack, JLL Research

Australian Dwelling Prices



Source: PropTrack, JLL Research

Rental growth

Affordability is tempering rental growth, but there will still be a difference between 'market' and 'passing' rents in 2025.

Rental rates have increased between 35% and 50% over the past three years across most Australian cities. The strong rebound in population growth and foreign student numbers has resulted in rental vacancy rates averaging just over 1% nationally since early 2022 (SQM Research). Limited new apartment supply has further exacerbated tight rental market conditions.

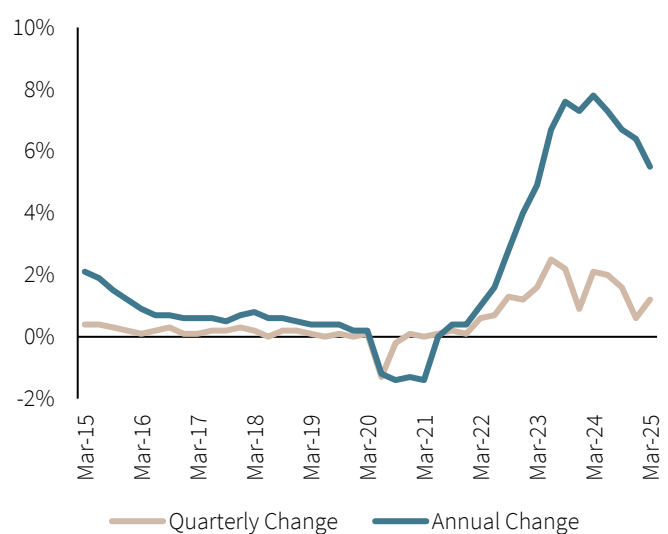
Nevertheless, the upward momentum of asking rents has somewhat stalled since the second half of 2024. Key factors that have contributed to marginally softer rental market conditions include:

- **Affordability** – There is now greater price resistance and stretched household incomes are reducing the potential for further rental growth.
- **Changing demand patterns** – In response to higher prices, rental household sizes appear to be increasing to spread costs. Some younger renters have also likely moved back in with their parents.
- **More investors** – Housing finance data from the Australian Bureau of Statistics (ABS) suggest that higher rents and price growth have encouraged investors to return to the market. This means that existing housing stock that was previously owner-occupied is now slowly returning to the rental market.

We expect these pressures to continue moderating rental growth throughout the second half of 2025; however, the market is expected to remain tight, and a sudden rise in vacancy rates is unlikely. Consequently, rental growth is likely to be more closely tied to inflation moving forward.

Despite this easing of pressures, 'passing' rental growth (as measured in the CPI on all rentals) is likely to remain elevated, as leases expire and are reset closer to the higher asking rents established over the past three years.

CPI Rental Growth



Source: ABS, JLL Research



Melbourne is experiencing a greater volume of BTR stock completions relative to other markets. However, vacancy rates remain moderate, and while this may temporarily slow rental growth, the market remains over-supplied.

Jack Bergin

Head of Living

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Balance of risks

Dwelling price and rental growth forecasts remain subject to risks in both directions, particularly given current fluid global economic conditions.

Nevertheless, we believe that significant medium-term housing supply shortages mean these risks are skewed toward higher, rather than lower, growth.

Australia's housing markets remain resilient, with dwelling price growth continuing across most capital cities despite higher interest rates (relative to recent historical levels), affordability pressures and global economic headwinds stemming from geopolitical risks and U.S. tariffs.

Population growth, tight rental markets and a chronic housing undersupply are key drivers of ongoing demand across major Australian capital city markets.

With interest rates forecast to fall further over the second half of 2025, improving household finances, housing affordability and consumer confidence may further lift dwelling price growth and market rents.

Higher construction costs also limit downside risks to Australian dwelling prices and rents. With existing dwelling prices now below replacement cost, upward pressure is being exerted on prices. Combined with supply shortages, this could drive stronger price growth than forecasts suggest.



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