Centuria | BASS

NOVEMBER 2025

Centuria Bass Australian property research

Prepared by Stephen Halmarick

PRINCIPAL AND CHIEF ECONOMIST,
ECONOMICS UNCHAINED

Contents

National overview

At Centuria Bass we continually monitor our loan portfolio and the broader property landscape.

As part of our ongoing commitment to research, we have commissioned this report (following the September 2024 report) to analyse the key trends and themes affecting the Australian property sector.

This report has been prepared by Stephen Halmarick, the Principal and Chief Economist at Economics Unchained. With over 39 years' experience as an economist in Australia, including most recently the Chief Economist of Commonwealth Bank, Stephen is well placed to provide a national and state-specific analysis of the Australian property market.

Introduction

Lower interest rates power complex market

Three words sum up what's changed in property market fundamentals over the year since we published the first Centuria Bass Australian Property report — **lower interest rates**.

They've eased cost of living pressures for mortgaged Australians, improved consumer confidence, given residential property markets a boost and lowered the cost of debt for developers and commercial property owners.

Combined with real wage growth, lower interest rates have also given home buyers greater capacity and added incentive to upgrade or acquire investment properties. At the same time, government at every level is striving to make planning simpler for developers and buying more achievable through consumer subsidies and incentives.

The obvious outcome is that demand is up and property prices have risen across most major metro markets. Perth, Brisbane, Adelaide and Darwin have led the way with strong gains, a trend that report author, respected economist Stephen Halmarick, forecasts will likely continue through the rest of 2025 and 2026.

But two major issues remain and may take years to resolve. The first is lack of housing stock and affordable land with access to services and amenities. Fewer new homes are being built while established homes are trading far less often with homeowners reluctant to sell and trade up or down due to high construction costs and a lack of options. This increases competition and prices.

The other major issue is the cost of construction. Building a home has never been more expensive and in many areas the cost to build is significantly higher than the price of established housing. This is especially true of larger, more complex developments such as medium and high-rise apartments, which is having a significant impact on supply.

As a result, at Centuria Bass we are finding many of our developer clients reporting increased difficulty in making medium and high density projects stack up in middle market locations and price brackets. They cost too much to develop and in most cases the returns just aren't there due to high build costs and relatively low consumer price ceilings.

Instead, where we are seeing opportunity is at either end of the market — top or bottom. There's continuing appetite from downsizers for large well-appointed luxury apartments in premium areas. We have found quality design and high level finishes are allowing developers to achieve prices that make the development feasible.

We also see fundamentals supporting entry level housing, typically in the outer suburbs of major cities, for similar reasons. More affordable properties are always in high demand. Supported by population growth and relative affordability, they offer stable returns and make sense economically — for the buyer, developer and funder. It's a market sector we have found offers relatively high risk adjusted returns and one in which we will continue to pursue opportunities.

In geographic terms, our current preferred markets are in specific areas of Brisbane and Sydney as investment destinations. Both are dynamic regions with a supply-demand imbalance and robust economies. We're confident of the longer-term investment proposition in Melbourne but in the near to medium term we have a more cautious stance around the opportunities there.

In broader terms, we believe the future looks positive for Australian residential property investment and funding despite the challenges above. The main reasons are the floor on values created by entrenched structural issues driving continued housing shortages, a solid jobs market, sustained infrastructure spending, a reasonably benign interest rate outlook and a growing population.

We hope you enjoy this edition of the Centuria Bass Australian Property Report, in which Stephen Halmarick takes a deep dive into the forces impacting on the local residential property development and sales market.

Key Findings

Home prices to rise

We believe average Australian home prices will rise 7% this year and 5% in 2026 when lower interest rates will combine with improved home buyer sentiment, rising real incomes and ongoing supply constraints. These price gains will continue to be led by the affordable end of the market in the outer suburbs of Sydney, Perth, Adelaide and Brisbane.

Low supply drives market

Demand exceeding supply and fear of missing out are two big reasons home prices keep rising and there's no end in sight to this disparity. Even with Victoria building the most homes of any Australian state or territory, it is still falling behind the demand curve. The National Housing Accord yearly target is 240,000, while the current output is closer to 190,000.

Construction crisis

Building a home has never been harder and more expensive due to complex and costly approval and compliance processes, higher material and labour costs, skilled worker shortages and fewer builders. In many cases the cost to build is significantly more than the market is willing to pay. This is especially true of larger more complex developments such as apartment towers.

Cuts stimulate economy

The Reserve Bank of Australia (RBA) has cut interest rates by 0.75% since February and we expect the cash rate to fall a further 0.25% to 3.35% in the first half of 2026 if inflation stays between the RBA's 2% to 3% target range. The reductions have made life a little easier for many, saving $3,200 annually in repayments on a mortgage of $600,000.

Consumer confidence up

Australians have started spending again thanks to lower interest rates and an improvement in real household disposable income. Research by the Melbourne Institute shows consumer confidence has rebounded from the deeply recessionary numbers recorded through much of 2024.

Population growth eases

The post-pandemic surge in Australia's population growth rate — largely driven by a jump in international student numbers — peaked at 2.5% in September 2023. It has since fallen to 1.5% for 2025, with forecasts sliding to 1.25% in 2026 and 2027. That's still 450,000+ new Australian residents every year with migrants accounting for 75% of that number and driving excess demand.

Households to expand

The average household size shrunk when COVID hit but is now back at 2.53 people per dwelling — good news because the sharp fall in household numbers in 2023 and early 2024 contributed to higher property prices and rent. Then cost of living hit and people started living together again to save money, especially families. Further growth is expected.

Stable employment

Australia's labour market is resilient and we expect it to stay that way. Since mid-2024 unemployment has sat between 4.0% to 4.5%. Our view is it will drift higher over the next 12–18 months as some infrastructure construction jobs leave the market but is unlikely to approach the long-term average of ~6%.

Economic growth

Despite global volatility on several fronts, Australia's economic outlook is largely positive with a forecast growth rate of ~2.25% through 2026 assuming at least one more interest rate cut by the RBA, moving monetary policy to a more neutral setting.

House view

Global economy

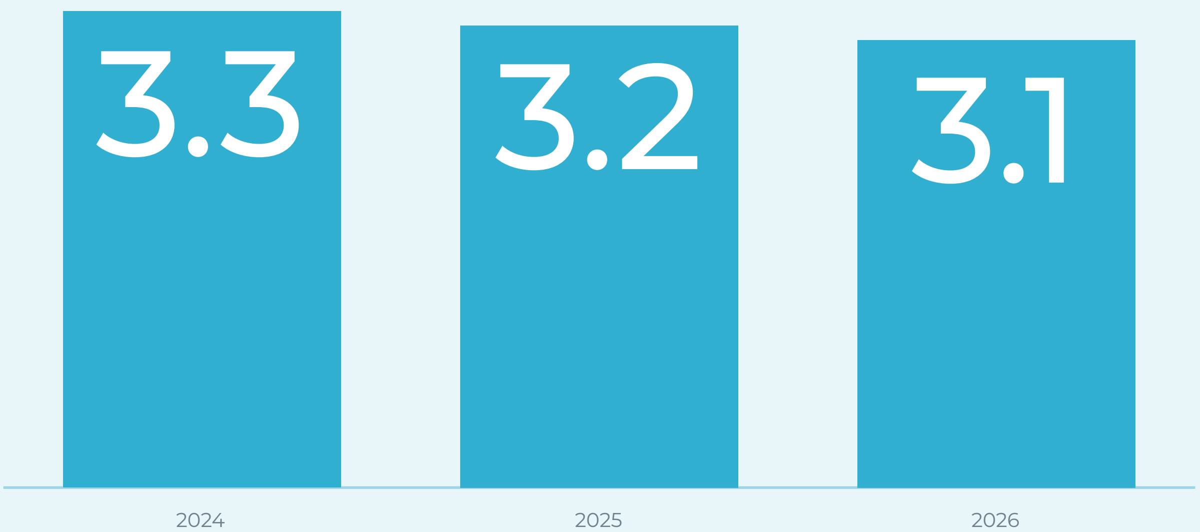
The global economic outlook has been impacted by the re-election of President Trump in the United States. The imposition of high tariffs on US trading partners, the uncertainty around what level these tariffs will eventually settle at and a large-scale easing of fiscal policy have all increased the level of uncertainty for the US and global economic outlook.

However, in October 2025 the International Monetary Fund[1] upgraded their global growth outlook to 3.2% for 2025, from the previous forecast of 3.0%, noting this a slowdown from the 3.3% in 2024.

The outlook for economic growth for the global economy in 2026 is a still very modest 3.1% but remains highly uncertain given lack of clarity on where US tariffs will settle and how other countries and companies will respond and the resultant pricing implications.

> “The outlook for economic growth for the global economy in 2026 is a still very modest **3.1%**…

GLOBAL ECONOMIC GROWTH



Source: IMF, October 2025.

1. World Economic Outlook October 2025, IMF.

Global Inflation and Interest rates

After rising by 4.6%/yr in 2023, advanced economy inflation moderated to 2.6%/qtr in 2024 and, according to the IMF in their October update, is expected to be little changed at 2.5%/yr in 2025 before easing to 2.1%/yr in 2026.

What remains unclear is how the US tariff regime will impact inflation. The US rate of headline CPI inflation had moderated from 3.0%/yr in January to a low of 2.3%/yr in April, before increasing again to 3.0%/yr in September.

The drift to lower inflation over 2024 and 2025 has allowed several central banks to lower official interest rates and move monetary policy back to a more neutral policy setting. This has included cuts to interest rates in the US, Canada, UK, Europe, New Zealand and Australia. The exception is Japan, where the official interest rates have been nudged up from -0.1% to +0.5% over the past 18 months.

In the US, the Federal Reserve began cutting interest rates in September 2024, taking the Fed Funds target rate down by a total of 100bp to end-2024 (ie. from a range of 5.25%–5.5% to 4.25%–4.5%). Much to President Trump's disapproval, the US Fed had held interest rates steady since the start of 2025 — preferring to wait for more data on the impact of the tariffs on inflation and employment.

However, at the 16–17 September meeting the US Fed lowered the Fed Funds target rate by a further 25bp to a 4.0%–4.25% range. Fed Chair Powell described the policy easing as a 'risk-management cut' as concerns grow over weakness in the labour market. The US Fed then followed up with another 25bp rate cut to 3.75%–4.0% on 29 October to guard against further labour market weakness. Fed Chair Powell noted that a December rate cut was not certain, but market expectations remain for three more interest rate cuts into 2026, down to a 'neutral' rate around 3%–3.25%.

US CPI INFLATION

Source: US Bureau of Labor Statistics.

Australian economy

The Australian economy picked up some momentum into mid-2025. The economy, as measured by Gross Domestic Product (GDP), grew by 0.6%/qtr in Q2 25, up from 0.3%/qtr in Q1 25 — taking the annual growth rate to 1.8%/yr from 1.4%/yr previously.

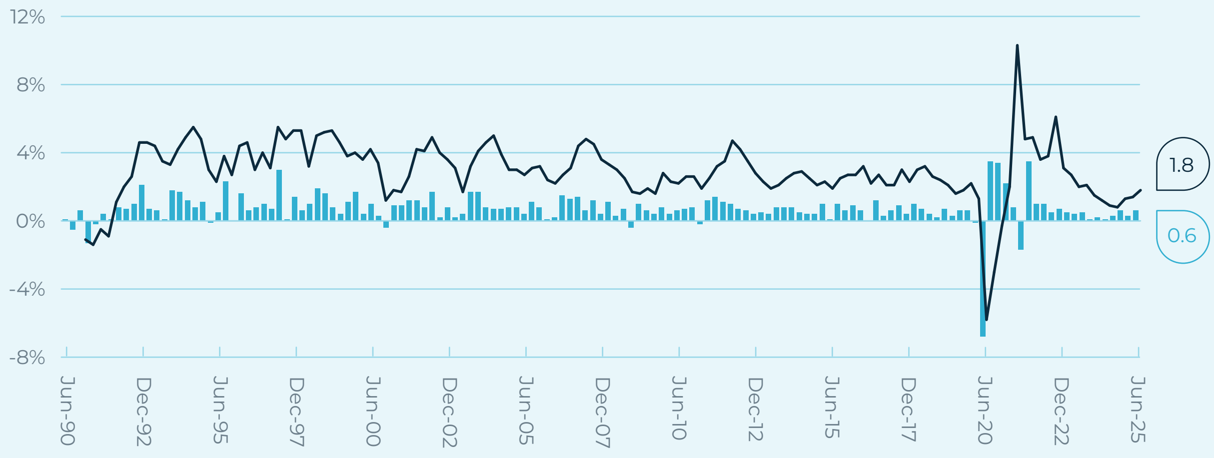
Perhaps more importantly, the sources of economic growth shifted in Q2 25. Previously, the largest contributor to economic growth in 2024 and Q1 25 was 'government' — both Commonwealth and State — specifically related to the 'care economy' (ie. aged care, childcare and the NDIS) and infrastructure spending.

For Q2 25 however, the strongest source of growth was private consumption (up 0.9%/qtr). Dwelling investment provided a small positive contribution to growth (0.4%/qtr), while business investment was close to balance (-0.1%) and net exports were a small positive (+0.1%).

In addition, GDP per capita rose 0.2%/qtr in Q2 25, as the economy grew by 0.6%/qtr and population growth was 0.4%/qtr. Real GDP per capita has only increased three times in the past 11 quarters and is still -1.3% below its peak of Q2 22.

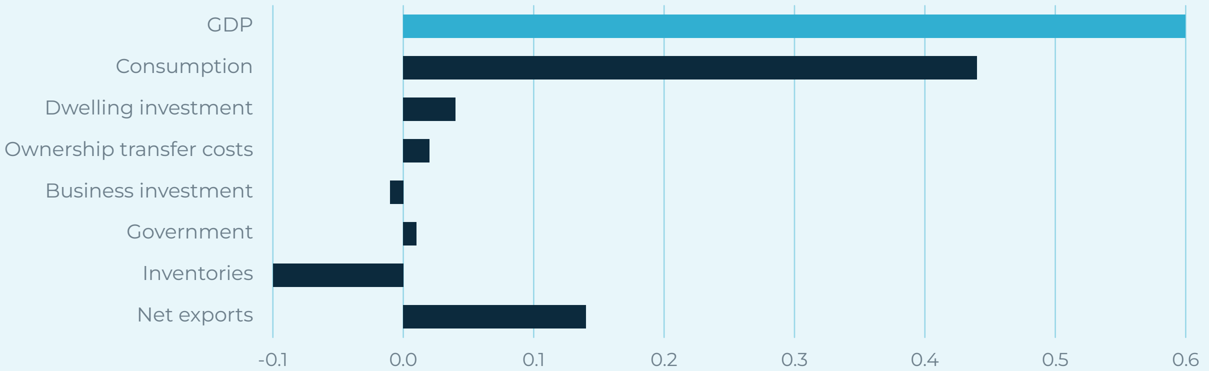
The pace of Australian economic growth is expected to accelerate in 2025 to ~2%, with a further improvement to ~2¼% expected in 2026. Critically, this improved economic outlook is dependent on the RBA cutting interest rates at least one more time, moving monetary policy to a more neutral setting.

AUSTRALIAN GDP GROWTH (% CHANGE)



Source: Australian Bureau of Statistics.

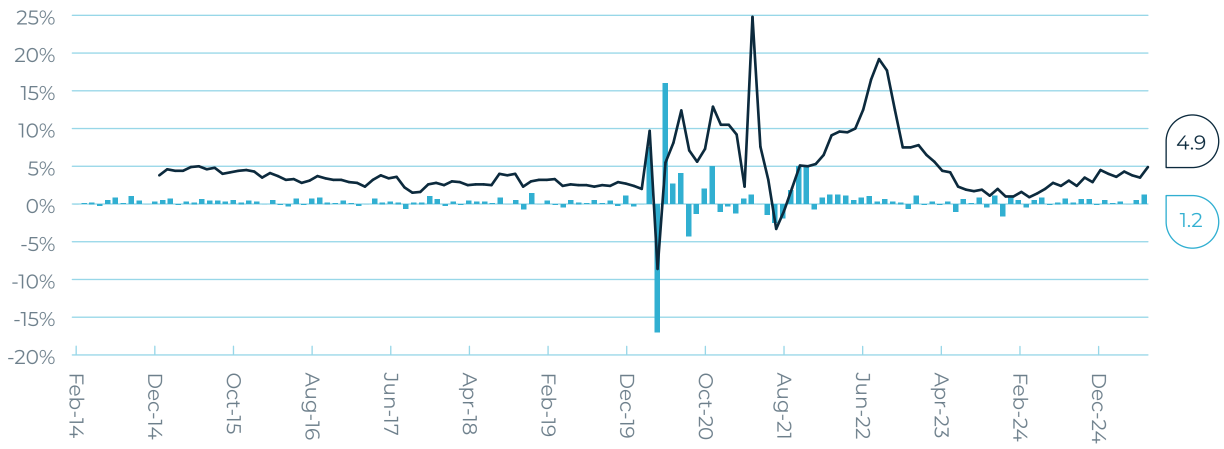
CONTRIBUTIONS TO ECONOMIC GROWTH 2025 Q2



Source: Australian Bureau of Statistics.

> The pace of Australian economic growth is expected to accelerate in 2025 to ~2%, with a further improvement to **~2¼% expected in 2026**.

RETAIL TRADE (% CHANGE)



Source: Australian Bureau of Statistics.

Consumer spending and confidence

Data from several sources points to a recovery in both consumer confidence and spending since the RBA started cutting interest rates earlier in 2025. From deeply recessionary numbers throughout much of 2024, consumer sentiment as measure by the Melbourne Institute has improved in recent months.

The monthly retail trade data showed a surprise increase of 1.2%/mth in July — driven by end of financial year sales and a rebound in Queensland after the series of weather events earlier in the year.

Another 0.25% interest rate cut by the RBA in the first half of 2026 is expected to further improve consumer sentiment and spending.

> The monthly retail trade data showed a surprise increase of **1.2%/mth** in July...

Labour market

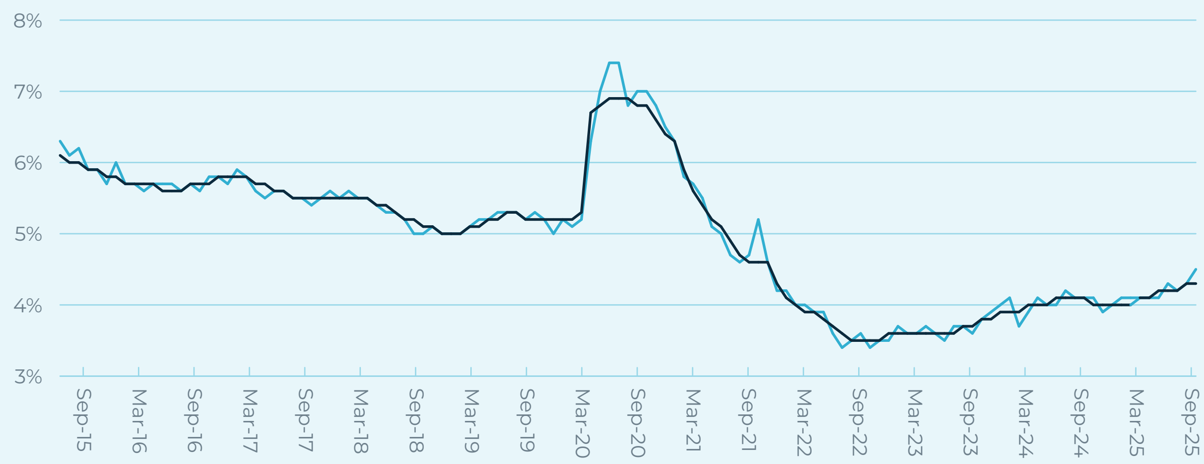
Australia's labour market has remained surprisingly resilient over the past 12–18 months — even as economic growth waned. Pre-Covid, Australia's unemployment rate averaged around 5¼%, while during the pandemic the unemployment rate rose to a high of 7.4% before dropping sharply to a low of 3.4% in mid-2022. Since mid-2024 the unemployment rate had moved in a very tight 4.0%–4.3% range but popped up to 4.5% as at September 2025.

Significantly, however, a large proportion of the jobs created over the past year have been, in some form or another, funded by either the Commonwealth or State governments. This includes large infrastructure projects, as well as 'care economy' jobs such as childcare, aged care and the NDIS.

Expectations are that the unemployment rate will continue to drift higher over the next 12–18 months but is unlikely to reach pre-COVID levels given the support for the private sector from the RBA's monetary policy easing cycle.

"Since mid-2024 the unemployment rate had moved in a very tight 4.0%–4.3% range but popped up to **4.5% as at September 2025**.

AUSTRALIAN UNEMPLOYMENT RATE — TREND AND SEASONALLY ADJUSTED



Source: Australian Bureau of Statistics, September 2025.

Interest rates

The news here has been good, with the RBA cutting the cash rate to 3.6% in August as their confidence grew that inflation would remain inside the RBA's 2%–3% target over coming years.

The Monetary Policy Board held the cash rate steady at both the 30 September and 4 November meetings. Governor Bullock expressed increasing concern that the slowing in the pace of inflation had stalled and indeed partly reversed, following the news that the Headline rate inflation rose to 3.2%/yr in Q3 25, will the all-important trimmed mean underlying inflation rate accelerated to 3.0%/yr in Q3 25 from 2.7%/yr in Q2 25.

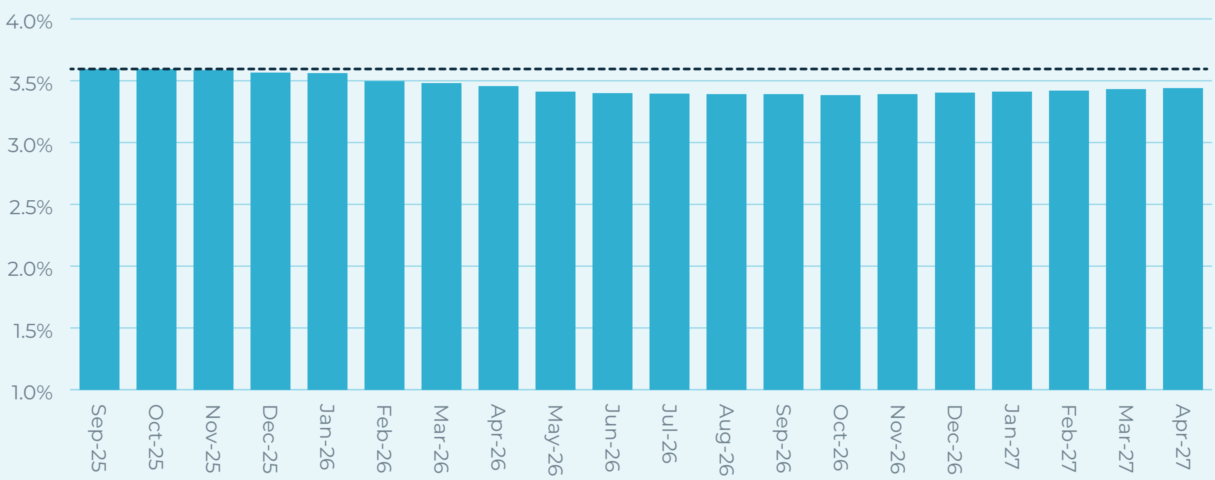
As a result, financial market pricing for the RBA cash rate has moved back to expecting only one further rate cut over the first half of 2026, after previously pricing in the expectation of at least two further interest rate cuts.

> We expect to see the RBA cut the cash rate to **3.35%** in the first half of 2026.

The bottom-line is markets are likely to continue to ebb and flow between expecting one more rate cut in 2026, or no change at all, depending largely on the data-flow.

We expect to see the RBA cut the cash rate by one more 25bp move to 3.35% over the first half of 2026.

ASX RATE TRACKER (AS AT 3 NOVEMBER 2025)



Source: ASX Rate Tracker, 3 November 2025.

Implied yield --- RBA official cash rate

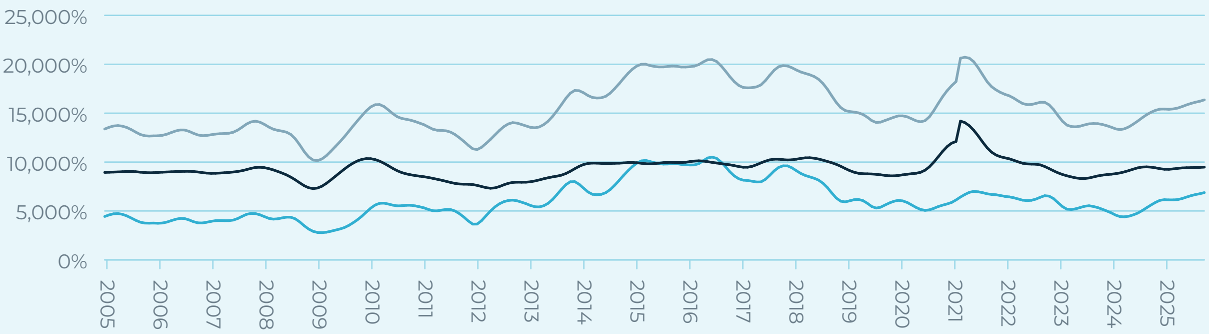
Dwelling approvals and construction work

Total dwelling approvals rose by 12%/mth in September, following declines in both August and July. In annual terms building approvals were up 15.3%/yr in the year to September.

Most of the increase, and the volatility in the data, is being driven by multi-unit approvals, which were up 26.0%/mth in September after being down in August and July. Over the year to September multi-unit approvals are up a strong 55.2%/yr. Approvals for houses were, by contrast, up just 4.0%/mth in September, after being down in August. In the year to September, approvals for houses are unchanged.

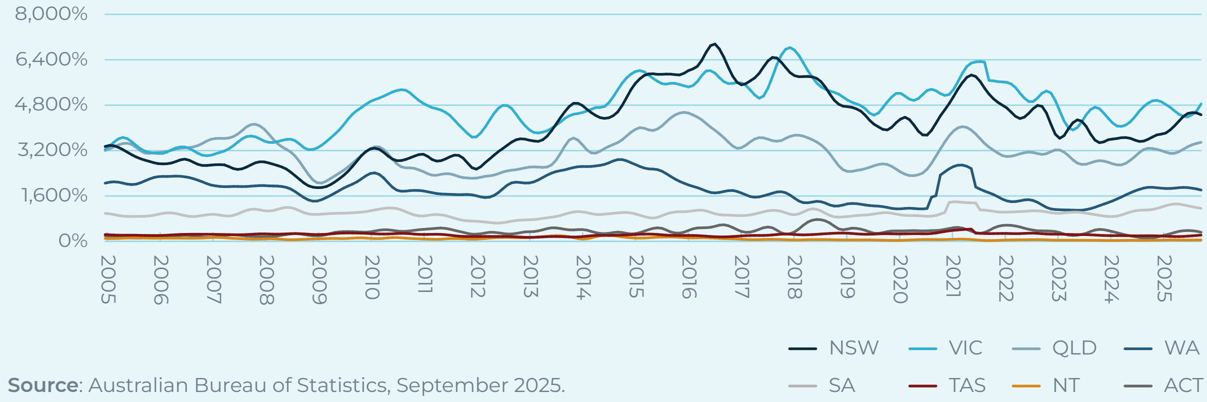
In the year to September 2025, total building approvals were running at a seasonally adjusted rate of ~192,000. While this is well up from the lows of ~165,000 on early 2024, it remains well down from the levels of ~200,000–225,000 that prevailed prior to the pandemic. Perhaps more importantly, total building approvals are running well below the 240,000 per year needed to meet the government's 5-year target of 1.2 million new dwellings.

PRIVATE BUILDING APPROVALS (BY TYPE)



Source: Australian Bureau of Statistics, September 2025.

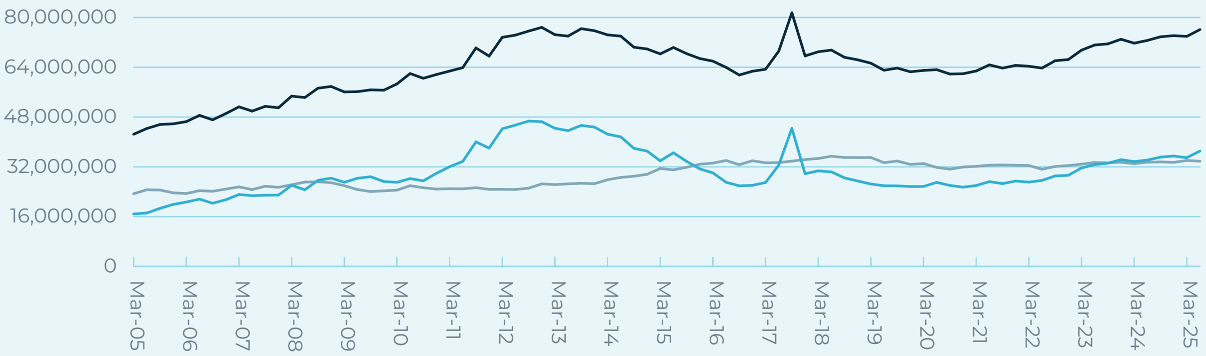
PRIVATE BUILDING APPROVALS (BY STATE)



Source: Australian Bureau of Statistics, September 2025.

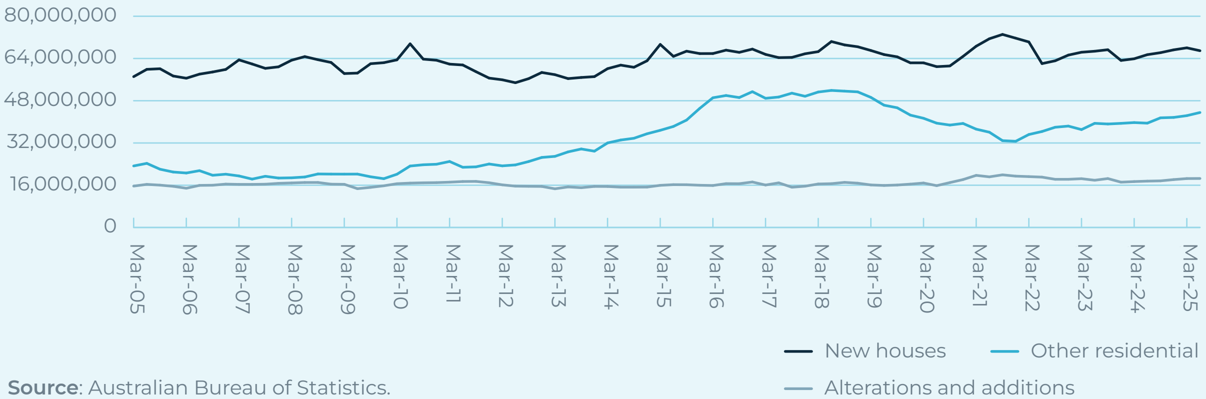
Construction work completed in Australia rose by a strong 3.0%/qtr in the June qtr 2025, driven by a 6.1%/qtr increase in engineering work, but this was solely driven by a large gas project in the NT that was commissioned in April. Excluding this project, engineering work done fell by -4.1%/qtr. Total residential work done in the June qtr 2025 increased by just 0.1%/qtr, to be up 5.3%/yr. This increase was led by a 2.8%/qtr increase in 'other residential work' and a 0.2%/qtr increase in alternations & additions. Housing construction, disappointingly, declined by -1.6%/qtr in the June qtr, to be up just 2.3%/yr.

CONSTRUCTION WORK DONE



Source: Australian Bureau of Statistics.

RESIDENTIAL WORK DONE



Source: Australian Bureau of Statistics.

Key demand dynamics

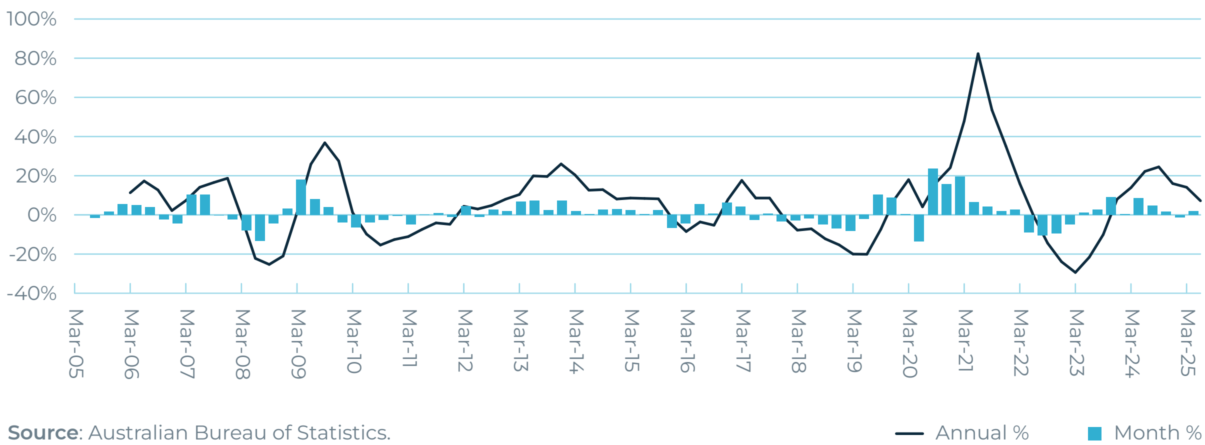
Housing finance

The total value of new housing lending rose by 2.0%/qtr in the June qtr 2025, to $A87.7bn. This was up 7.2%/yr. The increase over the year was driven by a 7.4%/yr rise in the value of home loans for owner-occupiers, led by non-first home buyers (+9.8%/yr), over first-home buyers (2.2%/yr). Lending for investors was up 6.9%/yr.

The increase in the value of home loan lending is expected to continue as the RBA's interest rate cuts feed through into home buyers' confidence and increased borrowing capacity.

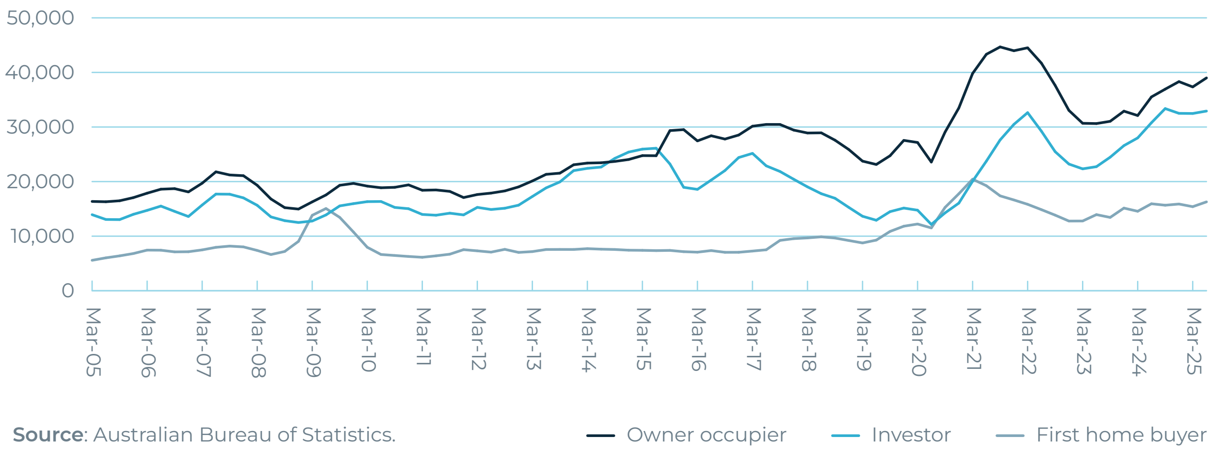
Access to housing finance is, therefore, expected to be a supporting factor for the Australian residential property market over the remainder of 2025 and through 2026.

VALUE OF HOUSING LENDING



Source: Australian Bureau of Statistics.

NEW HOUSING LENDING



Source: Australian Bureau of Statistics.

Population growth

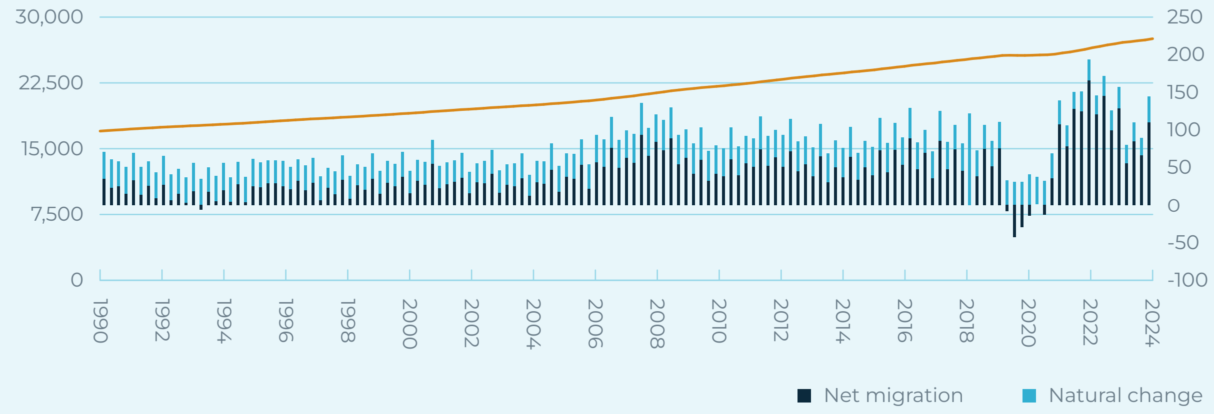
Another key driver of economic growth and a critical factor for the property market has been the post-pandemic surge in Australia's population growth rate — largely driven by a jump in international student numbers.

Pre-pandemic, Australia's population growth rate was ~1.5%/yr (ie. net migration of ~235,000 people per year), before dropping close to zero amid the pandemic shutdowns. However, the population growth rate then surged to a peak of 2.5%/yr in September 2023 (net migration ~633,800 people in the year), before retreating to ~1.65% at the end of 2024 (net migration ~445,900 people in the year). As at March 2025 Australia's total population stood at 27.5 million, with an annual growth rate of 1.6%.

Going forward, the Commonwealth government projects that Australia's population growth rate will ease to 1.5% at year-end 2025 and then down to ~1¼% at year-end 2026 and into 2027, as growth in international students slows and the post-COVID surge normalises.

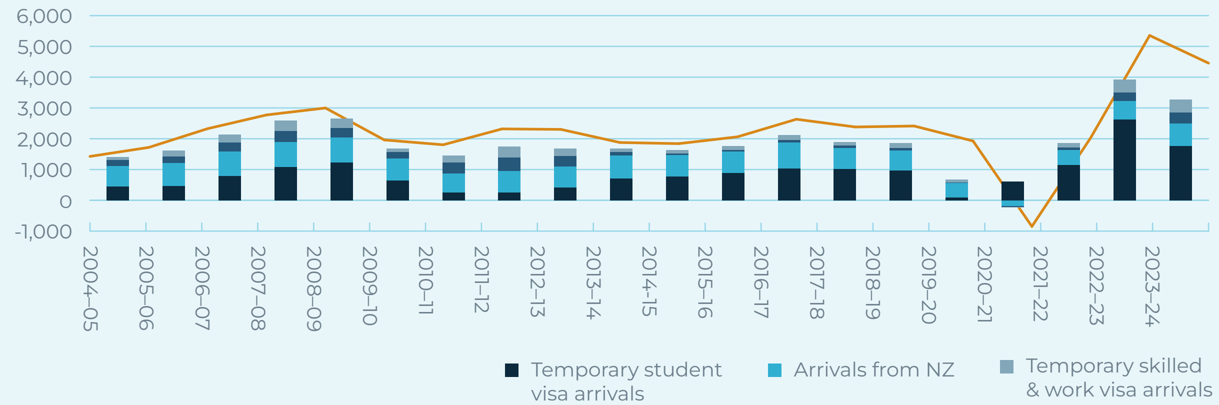
In numbers, this means that the annual increase to Australia's population is projected at ~452,600 in 2025 to 27.9 million (106,750 natural and 345,860 migration) and ~458,270 in 2026 to 28.5 million (108,100 natural and 350,185 migration) — up from 445,924 in 2024, split between a natural increase of 105,174 and net overseas migration of 340,750.

POPULATION AND GROWTH



Source: Australian Bureau of Statistics.

POPULATION AND GROWTH



Source: Australian Bureau of Statistics.

Household formation

One of the many factors that impacts on the demand for housing is the average number of people living in each dwelling — also known as household formation or average household size.

Average household size has been very volatile in recent years — with the pandemic and government policies to control its spread having a significant impact.

Prior to the pandemic, ie. 2019, the average household size in Australia was ~2.53 people per household, down from an average of 2.56–2.58 from 2004–2014. Average household size initially declined as the pandemic hit, down to ~2.505, then jumped to close to 2.60, before falling away again to a low 2.48 in August 2022. By late 2024, average household size had worked its way back up to ~2.53.

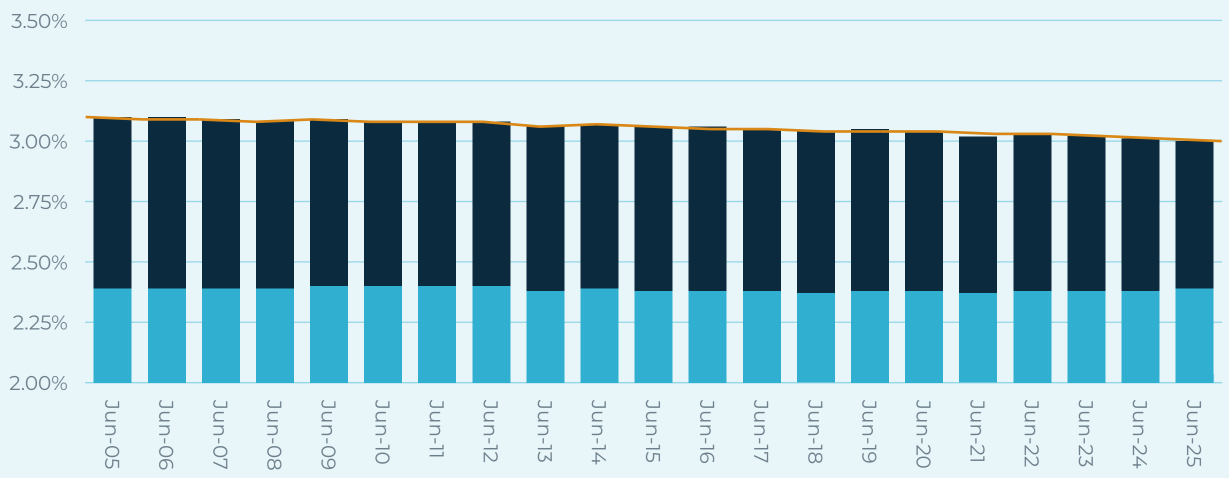
The sharp fall in average household size in 2023 and early 2024 was one of several factors putting upward pressure on residential property prices and rent, as fewer people per household clearly implies and larger supply of housing stock is needed to accommodate the same number of people.

The increase in average household size seen by late 2024 is expected to continue through 2025 and 2026 and will help alleviate, at the margin, some of the supply pressures in the residential sector.

However, taking a longer-run view of average household size paints a different picture. The e61 Institute[2] notes that average household size has declined from over 2.8 in the 1980's to ~2.5 in late 2024, the sharpest rate of decline being from 1980 (~2.8) to around 2005 (~2.52).

2. e61 Institute, Unpacking average household size, 23 May 2025.

AVERAGE HOUSEHOLD SIZE



Source: Australian Bureau of Statistics, July 2025.

"Average household size has been **very volatile** in recent years — with the pandemic and government policies to control its spread having a significant impact.

The e61 Institute notes that "the decrease in average household size has been primarily driven by a lower number of children per household. The children-per-household metric has steadily fallen from 0.92 in the late 1980s to 0.59 in 2024. Adults per household has had relatively smaller shifts, declining from 1.96 in the late 1980s to all-time lows of 1.85 in 2003, before rising back to 1.92 by the end of 2024."

While a decline in the number of children per household would indicate that there could be a corresponding decrease in the required size of the average house/apartment (ie. less rooms needed), that fact that the decline in the average household size over the past 40–50 years has been driven by a decline in the fertility rate, means that we still largely need the same number of residential properties to accommodate a similar number of adults.

House prices

According to Cotality data[3], residential property prices rose by a further 1.1%/mth in October, to be up 6.1% in the year to October. This took the median property value in Australia to just over $A872.5k.

The strongest growth in residential property prices in the year to October was in Darwin, up 15.4%/yr. This was followed by Brisbane (10.8%/yr), Perth (9.4%/yr) and Adelaide (6.7%/yr). Sydney was up 4.0%, followed by Melbourne (3.3%/yr), Canberra (3.2%/yr) and Hobart (2.4%/yr). The combined capital city gain was 5.6%/yr, which was outstripped by the combined regional gain of 7.5%/yr.

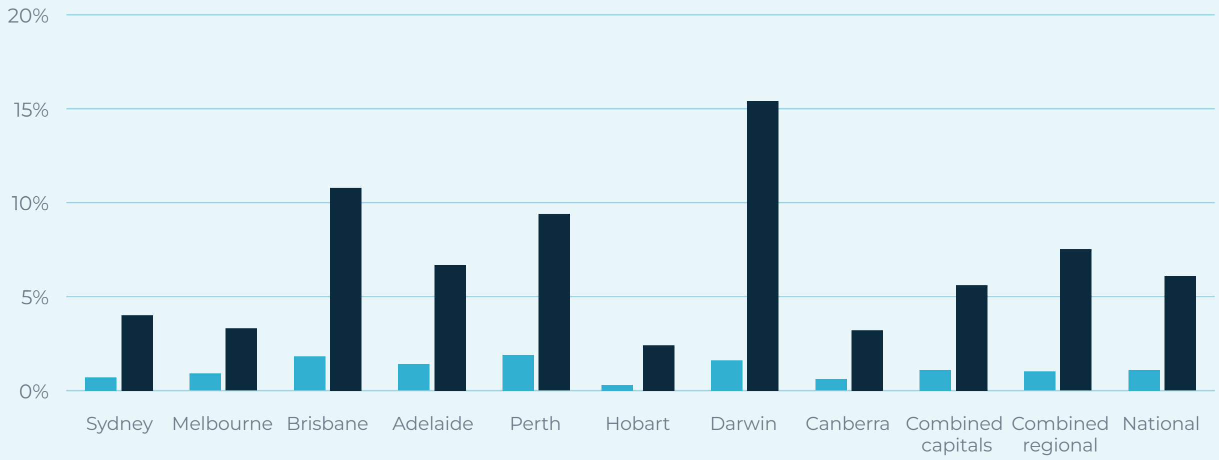
For 2025, the RBA's interest rate cutting cycle, which is expected to see the cash rate bottom at 3.35% by mid-2026, is expected to improve borrowing capacity for many Australians and subsequently support property valuations. For 2025, we expect residential prices to be up 7%.

> The strongest growth in residential property prices in the year to October was in Darwin, up **15.4%/yr**.

For 2026, the ongoing impact of lower interest rates is expected to combine with improved home buyer sentiment, rising real incomes and ongoing supply constraints to push residential property prices higher by a further 5%.

These price gains are expected to continue to be led by the more affordable parts of the market, such as the outer suburbs of Sydney, Perth, Adelaide and Brisbane.

HOUSE PRICES — AS AT OCTOBER 2025



Source: Cotality October 2025.

3. Cotality October 2025.

HOUSE PRICES IN AUSTRALIA — RECENT AND EXPECTED PERFORMANCE

%/yr	Year to October 2025	2025 F/c	2026 F/c
National	6.1	7.0	5.0
Sydney	4.0	6.0	4.0
Melbourne	3.3	5.0	3.0
Brisbane	10.8	12.0	7.0
Perth	9.4	10.0	7.0
Adelaide	6.7	7.0	6.0
Hobart	2.4	3.0	3.0
Canberra	3.2	4.0	3.0
Darwin	15.4	16.0	8.0

Source: Cotality and Economics Unchained.

State of the Housing System report

One of the most comprehensive reports on the outlook for the Australian residential property market was the April 2025 release of the 'State of the Housing System 2025' (SotHS) report[4] by the National Housing Supply and Affordability Council (NHSAC).

The key findings of the SotHS report were:

1. After years of acute deterioration of in housing affordability — as demand significantly outstripped supply — affordability is expected to continue to decline over the remainder of 2025 and through 2026, but at a slower rate.

2. The net new supply of housing was just 177,000 in 2024, near its lowest level in a decade. This was significantly below the estimate demand level of 223,000.

3. But demand for housing is now moderating, Demand for new housing is projected to slow to 205,000 in 2025 and then stabilise around 175,000 households per year in 2026 and beyond, as the population growth rate slows from the post-pandemic surge and due to changes in the average number of people per household.

4. The supply of social and affordable housing is expected to accelerate, reflecting increased government investment and focus.

5. The Housing Accord is targeting 1.2m new dwellings over the 5 years from 2025–2030, but actual completions are forecast to be 938,000 — with no state or territory expected to meet its share of the national target.

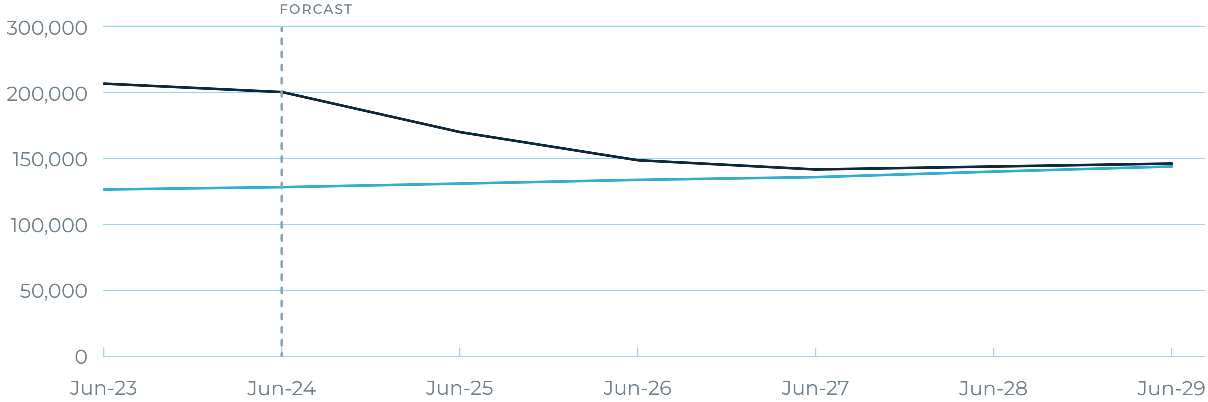
6. Taking into account demolitions, the net new supply of housing is expected to be 825,000 over the Housing Accord period — which will be 79,000 fewer new homes than the expected level of demand.

7. Cyclical constraints to supply — elevated material costs, labour shortages and high financing costs — are easing but will remain a headwind to new supply.

8. Structural constraints remain the key barrier to new supply. These include an inadequate pipeline of skilled workers, scarce, fragmented and costly land suitable for development, low rates of productivity and innovation in the construction sector, restrictive and complex land use and planning approval systems in some jurisdictions, market frictions and financial incentives that limit the optimal use of the existing housing stock and a fragmented housing policy and regulatory ecosystem that adds to costs, timeframes and risks.

4. NHSAC report, 2025.

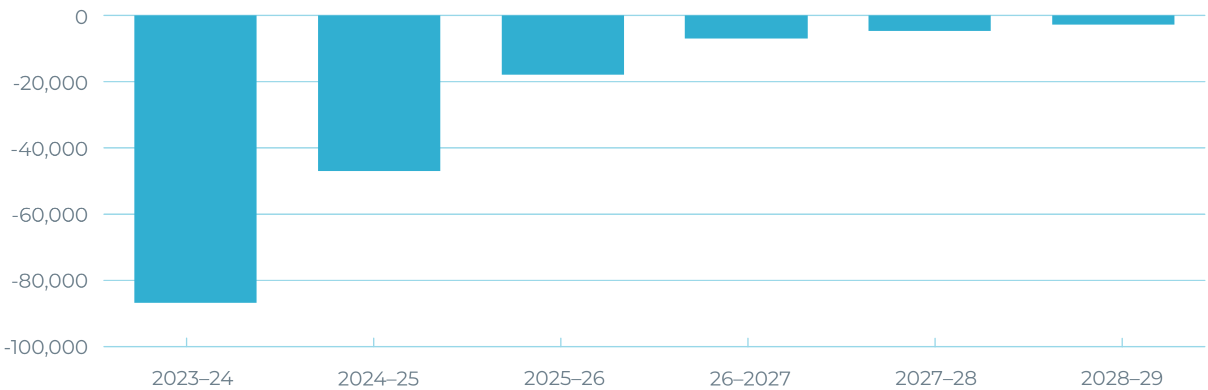
ANNUAL NET NEW HOUSING SUPPLY AND NEW HOUSING DEMAND



Note: Demand is measured as the number of new households that demographic trends imply would form. Supply is measured as the net number of dwelling completions.

Source: NHSAC 2025; Centre for Population 2024.

NET NEW HOUSING SUPPLY MINUS NEW HOUSING DEMAND



Note: Demand is measured as the number of new households that demographic trends imply would form. Supply is measured as the net number of dwelling completions.

Source: NHSAC 2025; Centre for Population 2024.

The Government's economic & productivity talkfest — Implications for the housing market

Over 19–21 August 2025 the government hosted an Economic and Productivity roundtable discussion in Canberra, with participants from the government sectors, the private sector, business groups and trade unions.

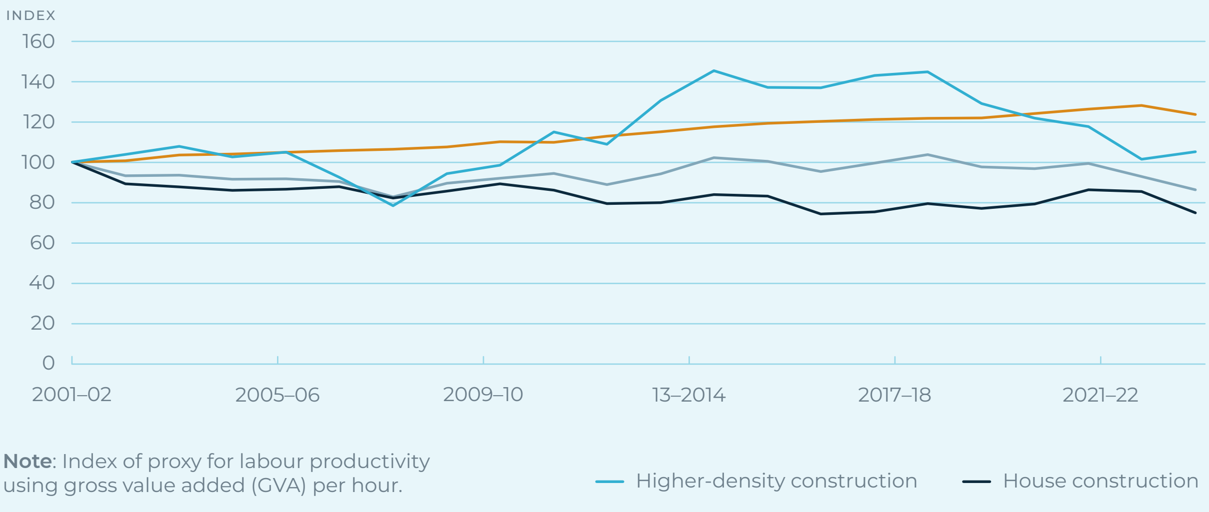
When looking at productivity, or the lack thereof, the residential construction sector is one industry in desperate need of a boost in productivity.

The State of the Housing System 2025 report notes that "housing construction productivity has significantly underperformed relative to the broader economy. Labour productivity in the housing construction industry fell by 12% over the past 3 decades, compared with an increase of 49% across the broader economy. This suggests that building new homes now takes more time and effort, even after accounting for the increase in home quality and size over the period."

> Labour productivity in the housing construction industry **fell by 12%** over the past 3 decades...

The key policy initiatives from the Economic and Productivity roundtable that will impact the residential property market included a commitment to reforming the National Construction Code and accelerate the approval of a significant backlog of housing approvals held up by environmental regulation. This is a welcome development — but much work remains to be done.

PRODUCTIVITY BY DWELLING TYPE



Note: Index of proxy for labour productivity using gross value added (GVA) per hour.

Source: Productivity Commission 2025.

The government has also introduced, as at 1 October 2025, changes to the Home Guarantee Scheme that will, according to Cotality[5], significantly increase the number of housing markets that will qualify under the scheme. "The scheme, which allows eligible first home buyers to avoid lenders mortgage insurance while purchasing a home with a 5% deposit, will now remove income and place limits, while also raising property price caps across most regions. Under the old price caps, around a third of the 4,848 house and unit markets analysed nationally had a median value below the respective limits. Under the expanded limits, this portion jumps to 63.1%, including 51.6% of house markets and 93.7% of unit markets."

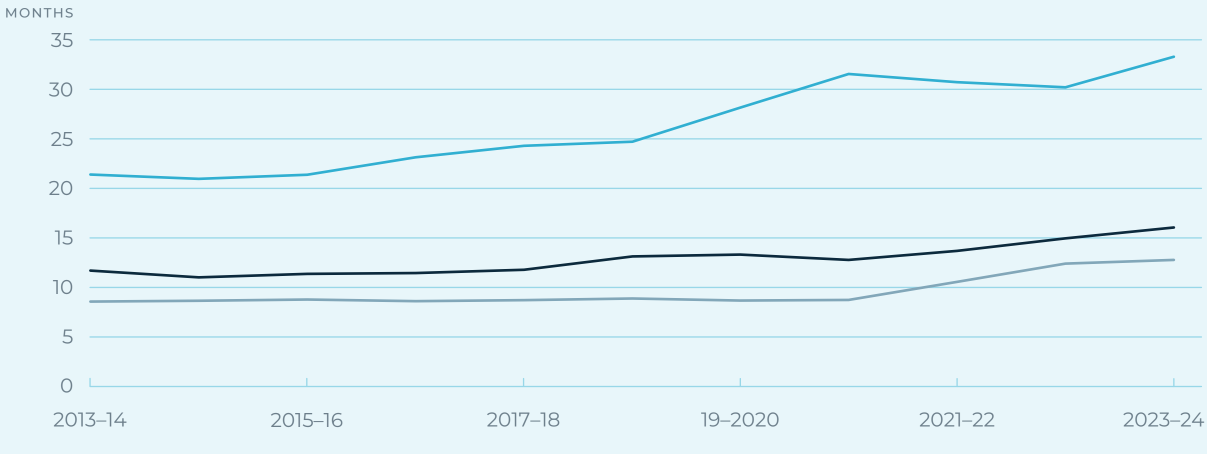
While the expanded Home Guarantee Scheme will no doubt be welcomed by many potential first home buyers, any corresponding increase in demand that is not matched by an increase in supply will add further upward pressures to dwelling prices.

The e61 Institute[6] notes that Australia's construction sector productivity has generally been better that both the US and UK over the past 25 years, similar to that in Canada, but well behind New Zealand.

This strongly suggests that there are global factors contributing to poor productivity in the construction sector — likely related to increased regulation, the availability of labour and capital and the sharp increase in the costs of building materials.

The e61 Institute concluded that the superior productivity performance of the New Zealand construction sector is likely due, at least party, to reforms in zoning rules in New Zealand from around 2013 onwards. This reinforces the critical nature of good regulation and planning process to the productivity performance of the construction sector.

AVERAGE CONSTRUCTION TIME



Note: The time from approval to completion.

Source: Australian Bureau of Statistics Building Activity 2025.

5. Monthly Housing Chart Pack September 2025, Cotality.
6. What can Australia learn from New Zealand about construction productivity? 12 September 2025, e61 Institute.

Key supply dynamics

As we have seen, several factors (lower interest rates, population growth, government incentives, household formation) are putting upward pressure on the demand for housing in Australia.

The other critical factor for residential property prices is, of course, the supply of new buildings.

The bottom-line is that, for several years the supply of new residential properties has failed to keep up with demand — we, as a nation, are just not building enough new homes.

In response to this development the Commonwealth government has set a, very ambitious, target of building 1.2 million new dwellings over the 5 years from 1 July 2025 to 30 June 2030. This amounts to 240,000 new dwellings per year — compared to the current trend rate of ~188,700 and pre-pandemic levels around 215,000–225,000.

Each state has been allocated a share of the 1.2m target according to its population, with the table below detailing each states target relative to the most recent rate of approvals.

The 'State of the Housing System 2025' report notes that "analysis and industry liaison indicate that the single biggest constraint on supply currently is that many housing projects are not commercially viable given current land, financing and development costs relative to expected sale prices."

"Higher-density housing projects, in particular, face a significant feasibility gap, as price growth for higher-density homes has been more muted than for detached dwellings. Additionally, financing costs have risen by much more for higher-density dwellings, as they require larger loans for longer durations than detached houses."

State	5-year target	Per year target	Current annual trend rate — year to September 2025
Nw	376,000	75,200	49,702
Victoria	306,000	61,200	56,170
Queensland	246,000	49,200	39,153
WA	129,000	25,800	22,495
SA	84,000	16,800	14,794
Tasmania	26,000	5,200	2,265
ACT	21,000	4,200	3,217
NT	11,000	2,200	552
Australia	**1,200,000**	**240,000**	**188,692**

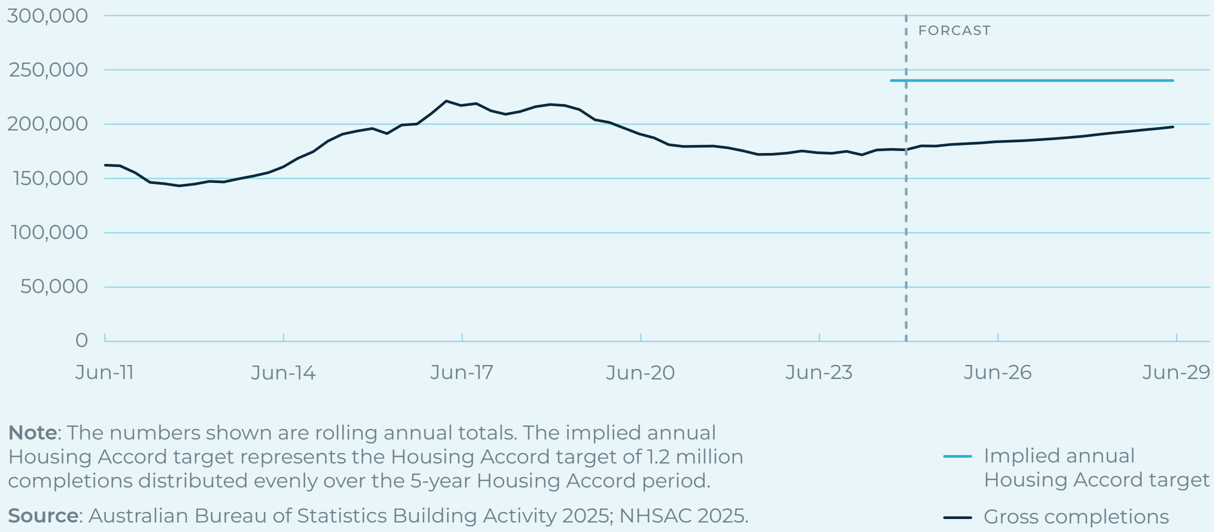
Source: State of the Housing System report, 2025 and Australian Bureau of Statistics.

> …the Commonwealth government has set a, very ambitious, target of building **1.2 million** new dwellings over the 5 years…

The SotHS report notes that persistent structural constraints on supply include:

- Inadequate skilled labour supply.
- Poor dwelling construction productivity — which has not improved over the past 30 years.
- Low investment in research and development — such as digital tools for data analytics, forecasting, supply chain management and project planning.
- Limited and costly availability of land for housing.
- Complex land use and planning approval systems and processes.
- Fragmented and disjointed housing policy systems across the various levels of government and across states.

GROSS NEW HOUSING SUPPLY



Note: The numbers shown are rolling annual totals. The implied annual Housing Accord target represents the Housing Accord target of 1.2 million completions distributed evenly over the 5-year Housing Accord period.

Source: Australian Bureau of Statistics Building Activity 2025; NHSAC 2025.

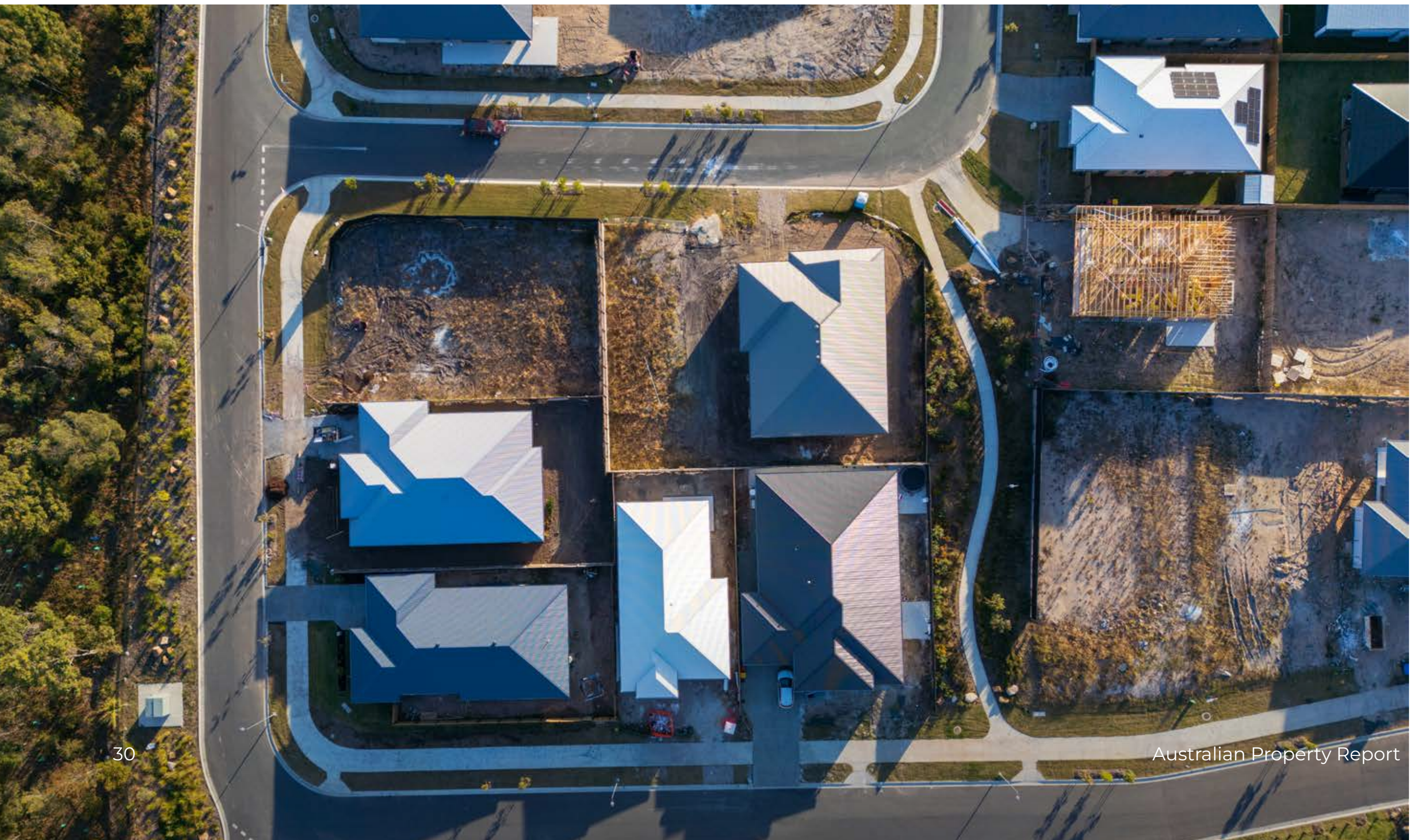
> …the Council expects that new underlying demand for housing will come from 904,000 households…

The SotHS report offers five key areas where there will need to be reforms if Australia is to meet its housing challenge:

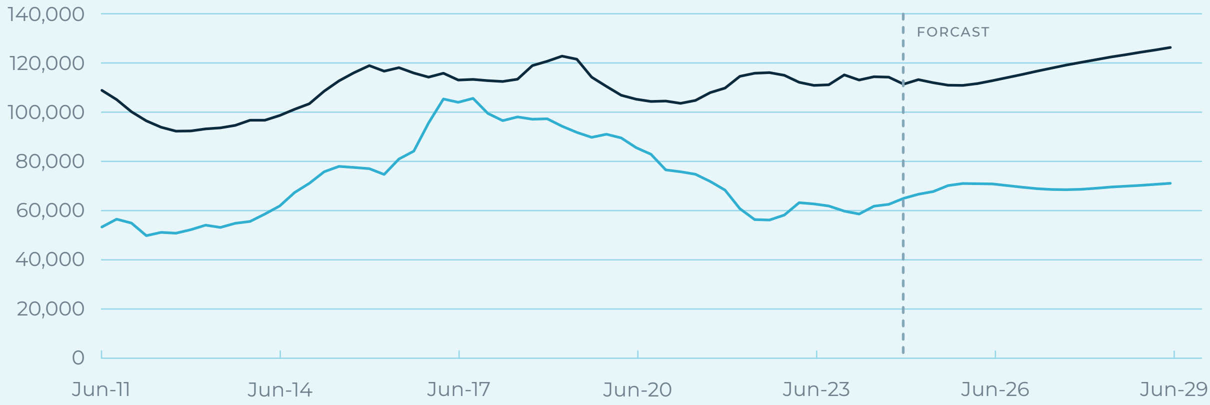
1. Increasing investment in social and affordable housing and a review of the regulatory framework for this sector of the market.
2. Improving construction sector capacity (ie. more and better skilled labour supply) and productivity (economies and scale and new construction methods and technologies).
3. Reforming planning systems and ensuring the supply and available of developable land.
4. Supporting better outcomes for renters
5. Ensuring the tax system supports housing supply and affordability.

The SotHS 2025 report makes it very clear that the NHSAC does not think the government (ie. the construction sector) will achieve the 1.2 million dwellings over 5 years target. The SotHS report notes that "over the 5-year Housing Accord period, the Council forecasts that gross new housing supply will be 938,000 dwellings. This implies a supply shortfall of 262,000 relative to the 1.2 million Housing Accord target."

"Over the Housing Accord period, the Council expects that new underlying demand for housing will come from 904,000 households. In the near term, new underlying demand for housing is forecast to remain elevated, with 205,000 new households projected to form in 2024–25. This is less than the 241,000 new households formed in 2023–24, reflecting a moderation of population growth. From 2025–26 onwards, new underlying demand is forecast to stabilise at around 175,000 new households per year."



GROSS NEW HOUSING SUPPLY (BY DWELLING TYPE)



Note: The numbers shown are rolling annual totals.

Source: Australian Bureau of Statistics Building Activity 2025; NHSAC 2025.

FORECASTS OF NEW MARKET SUPPLY, DEMAND AND NET BALANCE

Year	Gross new supply	Net new supply	New demand	Net balance (net new supply less new demand)
2023–24	177,000	155,000	241,000	-86,000
2024–25	179,000	158,000	205,000	-47,000
2025–26	183,000	161,000	179,000	-18,000
2026–27	186,000	164,000	171,000	-7,000
2027–28	192,000	169,000	173,000	-5,000
2028–29	197,000	173,000	176,000	-3,000
Total during the Housing Accord period	**938,000**	**825,000**	**904,000**	**-79,000**

Notes: All figures are rounded to the closest thousand. Totals and differences may not be consistent with component figures due to rounding.

Source: ABS Building Activity 2025; NHSAC 2025

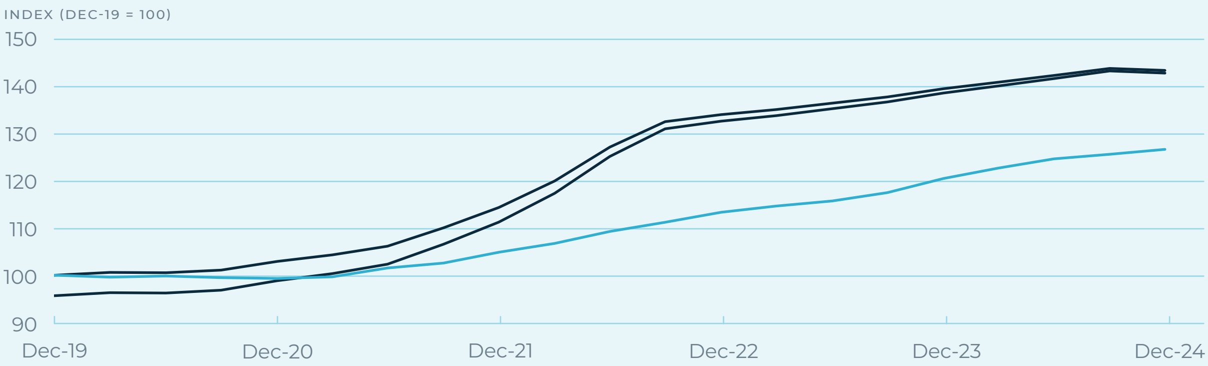
Construction costs

Construction costs (including materials, labour and profit margins) surged by 20.5% in the year to September 2022, as the global pandemic and Australian policies to limit its spread significantly impacted the market. However, the increase in construction costs have since slowed noticeable, down to 2.8%/yr in 2024.

The initial increase in construction costs was most notable in detached houses, but these have since dropped back and higher density dwelling costs are now rising at a faster rate.

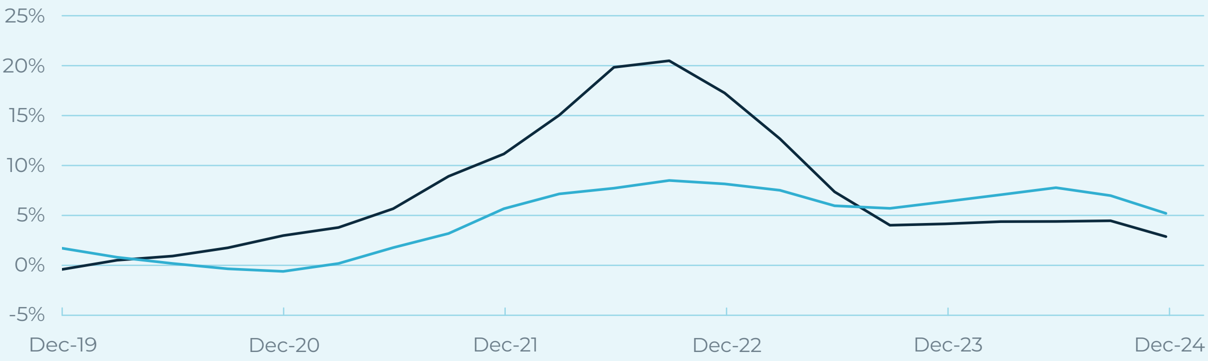
But while the rate of price increases in construction costs have slowed, the level of construction costs is significantly higher than pre-pandemic, at ~42% for detached houses and ~28% for higher-density dwellings. It is unlikely that the level of construction costs will fall back anywhere near their pre-pandemic levels in the years ahead.

CONSTRUCTION COSTS (BY DWELLING TYPE)



Source: Australian Bureau of Statistics Producer Price Index 2025.

CONSTRUCTION COST GROWTH (BY DWELLING TYPE)



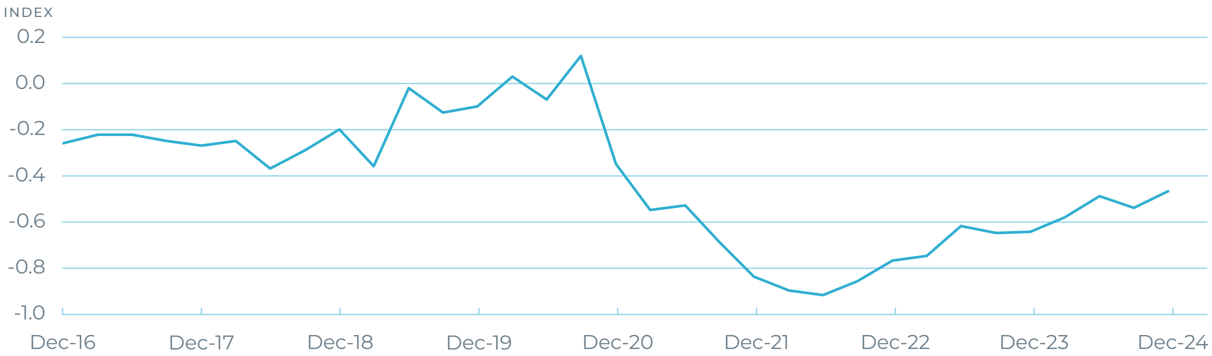
Source: Australian Bureau of Statistics Producer Price Index 2025.

Labour supply

The SotHS report states that "In 2024 the residential construction sector continued to report labour shortages, with demand for skilled trades outpacing supply across the sector. However, there are signs that some labour supply conditions have improved. Labour shortages have been driven by low rates of worker entries, high rates of worker exits and strong competition in the broader construction sector."

"While the overall building and construction workforce grew by 3.9% in the year to May 2024, worker exits led to a contraction in 2019, 2020 and 2021. Labour shortages were most severe for bricklayers, tilers, roofers and carpenters, as measured by the number of quarters in which these trades have been in shortage."

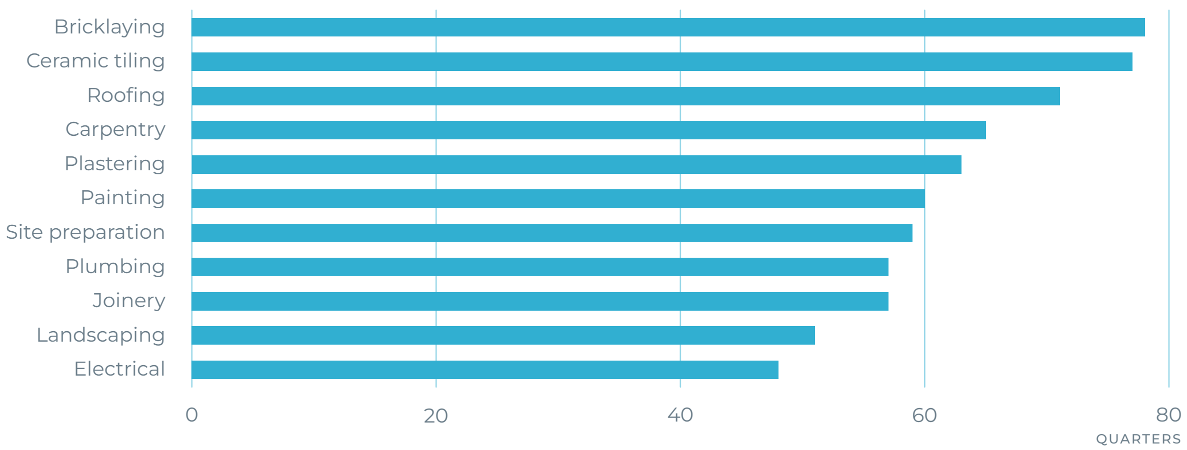
HIA TRADES AVAILABILITY INDEX



Note: The Trades Availability Index measures the industry's perception of the availability of skilled trades.

Source: HIA 2025b.

DURATION OF LABOUR SHORTAGE



Note: The number of quarters in which the Trades Availability Index has identified a labour shortage in each occupation.

Source: HIA All Hands on Deck Report 2024.

State by state outlook

New South Wales

For the remainder of 2025 and into 2026 the NSW property market, especially Sydney is expected to be driven by the combined impact of lower interest rates, increased borrowing capacity, increased listings and still low-but improving building approvals and construction starts.

Government policies designed to support the residential property market include the low and mid-rise housing policy — such as Transport Oriented Development (TOD). This allows for dual-occupancies, terraces, townhouses and apartment buildings within 800 metres of 171 key town centres and transport stations across Sydney, Central Coast, Illawarra and Hunters districts. There is also government work underway to support more medium density through rezoning and to increase the speed of the approvals process, including through the Housing Delivery Authority. There is also an Increased focus on the delivery of social and affordable housing.

Under the National Housing Accord, NSW has a target of 376,000 new dwelling approvals over the next 5 years, which is 31.3% of the 1.2 million target. This amounts to a target of 75,200 new dwellings per year. Currently NSW is running well below this goal at a trend rate of ~49,700 new dwelling approvals in the year to September 2025.

"...376,000 new dwelling approvals over the next 5 years, which is **31.3%** of the 1.2 million target.

The SotHS report estimates that NSW will only approve 65% of its 376,000 target over the next 5 years, the lowest rate of the large states and the third lowest of all states and territories.

These dynamics point to ongoing support for residential property in suburbs around major new transport and infrastructure hubs, ie. along the Metro line to Bankstown and the future line to Parramatta (due to open in 2032). Areas around the new Western Sydney Airport and major Hospital and Shopping centres could also see increased demand.

After increasing by 4.0% in the year to October 2025, NSW residential prices are forecast to rise by 6.0% in 2025 and a further 4.0% in 2026, with lower interest rates, solid demand and supply shortages continuing to impact the market.

Victoria

Melbourne had seen much more modest growth in residential property prices, up only 3.3%/yr to October. This under-performance has been due to greater supply of houses and apartments in some sectors, as well an economic underperformance by the state of Victoria.

For 2025 we expect Melbourne residential prices to be up a modest 5.0%, below the expected national average of 7.0%, with an increase of just 3.0% expected in 2026.

> "The SotHS report estimates that Victoria will achieve **98%** of its 5-year target...

Government policies designed to support the housing market include; a stated aim to deliver 800,000 new homes in Victoria over the next 10 years, a planned overhaul of planning and permit processes, the prioritising of new homes near transport, schools, and other key infrastructure. In addition, the government will provide stamp duty relief for new, off-the-plan apartments, townhouses and units to reduce upfront costs, as well as stamp duty discounts for first home buyers and the Victorian Shared Equity scheme to reduce upfront costs for eligible home buyers.

However, these polices are unlikely to be enough in the near-term to offset the negative effects of a number of years of insufficient investment in social and affordable housing and complex and slow planning laws and approval processes. Victoria is also facing materials supply-chain and labour constraints.

Victoria's share of the 1.2 million dwelling approvals target is 306,000 or 61,200 per year. In the year to September 2025 Victoria's dwelling approvals were running at a trend rate of ~56,170. However, the SotHS report estimates that Victoria will achieve 98% of its 5-year target — the highest of any jurisdiction.

Queensland

In the year to October 2025, residential prices in Brisbane rose by 10.8%/yr — the fastest of all the states and second only to the NT across the nation. For all of 2025 we expect Brisbane prices to be up 12%/yr, before moderating to ~7%/yr growth in 2026.

Residential property prices in Brisbane and Queensland have been and are expected to continue to be supported by a combination of national factors and factors specific to Brisbane/Queensland. Lower interest rates and government support policies will be a positive. But Brisbane will also be supported by strong demand related to major infrastructure projects, strong population growth and the 2032 Brisbane Summer Olympics.

> "...**no stamp duty** for first-home buyers purchasing new builds.

Government policies designed to support the housing market in Queensland include a $A8.1bn housing budget to deliver 1 million new homes over next 20 years, with a strong focus on boosting home ownership. $A5.6bn has been allocated to social and affordable housing, with increased funding also for essential infrastructure such as transport, water and power.

The Queensland government also has a Boost to Buy scheme that offers up to 30% equity for new homes and 25% for existing homes up to $A1m, for households earning up to $A225k/yr. There is also a home buyers grant of up to $A30k and no stamp duty for first-home buyers purchasing new builds.

Queensland's share of the 1.2 million housing target is 246,000 over 5 years or 49,200 per year. In the year to September 2025 total dwelling approvals for Queensland were running at a trend rate of ~39,150 — leaving the state well short of its target. The SotHS report estimates that Queensland will achieve 79% of its 5-year target, close to the 78% expected for the national target outcome.

Western Australia

Perth has seen a strong increase in residential property prices of 9.4%/yr to October 2025. An increase of ~10.0%/yr is anticipated for all of 2025, with a further gain of ~7%/yr expected in 2026.

Price increases have been fuelled by a combination of factors that is expected to continue to drive prices over the remainder of 2025 and through 2026. This includes strong population growth (both from overseas and inter-state), limited new housing supply and WA's still relatively affordable nature compared with the main east-coast capitals.

Government policies designed to support the housing market include first home-buyers support, such as no transfer duty for homes up to $A500k, saving $A18k. There is also reduced duty rates for homes valued $A500k–$A700k in Perth and $A500k–$A750k in regions and increased investment in social, affordable and regional housing.

> “
> …**reduced duty rates** for homes valued $A500k–$A700k in Perth and $A500k–$A750k in regions…

WA's share of the national housing target is 129,000 dwelling approvals over the 5-year period or 25,800 per year. In the year to September 2025, WA was running at a trend rate of ~22,500 approvals. The SotHS report estimates that WA will hit 81% of its target, just above the expected national outcome of 78% of the 1.2 million target.

> SA's share of the 1.2 million dwellings target is 84,000 of the coming 5-years, which is **16,800 per year**.

South Australia

Residential property prices rose 6.7%/yr in the year to October 2025, the fourth fastest of all the states & territories. The market has been supported by tight supply and sustained investor and first home-buyer interest — given its relative affordable nature. For 2025 as a whole prices are forecast to be up 7.0%/yr, with a further gain of 6.0%/yr expected in 2026.

Government policies designed to support the market include the SA Housing Roadmap, with increased land release, the abolition of stamp duty on new homes, enhanced renter rights, expanded workforce training, faster home construction, infrastructure investment and public housing investment, including affordable homes

SA's share of the 1.2 million dwellings target is 84,000 of the coming 5-years, which is 16,800 per year. As at September 2025 the annual trend run rate was ~14,800, while the SotHS report estimates that SA will hit 71% of its 5-year target.

Tasmania

Residential property prices rose by a modest 2.4%/yr to October 2025 in Hobart. The Tasmanian market has been affected by slower population growth, despite overall demand outstripping new supply and its 'lifestyle' and affordability appeal to mainlanders. Prices are expected to be up a modest 3.0%/yr for both 2025 and 2026.

Government policies designed to support the market include the aim to deliver 10,000 social and affordable houses by 2032. There will also be no stamp duty for first home buyers up to $A750k home and an expansion of 2% deposit for the MyHome program.

Of the nations 1.2 million dwelling target, Tasmania's share is 26,000 over 5-years or 5,200 per year. In the year to September 2025 Tasmania was running at a trend rate of ~2,265 new dwellings, while the SotHS report estimates that Tasmania will only hit 51% of its target, the lowest of all the states and the second lowest of all jurisdictions.

Australian Capital Territory

Housing prices rose just 3.2%/yr to October 2025 in Canberra, the second lowest across the country as moderate population growth impacted demand. Prices are forecast to rise a modest 4.0%/yr in 2025 and 3.0%/yr in 2026, as lower interest rates and Canberra's affordability see some improvement from the performance over the past 12 months.

> Housing prices rose just **3.2%/yr** to October 2025 in Canberra.

Government policies designed to support the residential market in Canberra include plan to deliver 30,000 new homes by 2030, including 5,000 social and affordable housing units and a significant land release program.

The ACT's share of the 1.2 million dwelling target is 21,000 over the coming 5-years or 4,200 per year. In the year to September 2025 the ACT was running at a trend rate of just ~3,200 new approvals. The SotHS report estimates that the ACT will reach 78% of its target — the same as the expected national outcome.

Northern Territory

Northern Territory residential prices jumped by 15.4%/yr to October 2025 — the strongest increase of any jurisdiction. This strong increase has been driven by Darwin's relative affordability, a strong labour market and limited new supply. For all of 2025 prices are expected to be up 16%/yr, with a more modest gain of 8%/yr expected in 2026.

Government policies that are supporting the housing market in the NT include a focus on increasing the supply of housing, especially for indigenous housing needs, as well as public and social housing. The NT government also offers a full stamp duty exemption for the purchase of newly constructed detached homes and also supports purchases through its HomeBuild Access scheme.

The NT's share of the national housing target of 1.2 million dwellings is just 11,000 over the 5-years, or 2,200 per year. However, in the year to September 2025 in trend terms the NT had only approved 552 new dwellings and the SotHS report estimates that the NT will only reach 31% of its 5-year target — the lowest of any jurisdiction.

Commercial and industrial property outlook

Commercial

The Australian commercial property market is entering a recovery and growth phase through 2025 and into 2026. The downturn that marked previous years appears to have bottomed out, with stabilisation and renewed investor interest now evident across multiple sectors. Economic recovery, easing inflation, and anticipated interest rate cuts are major driving forces behind this positive outlook.

“

...there are some early signs that the Office sector is in a recovery phase, led by Sydney and Brisbane...

Office sector

The Australian office sector has faced a number of significant challenges in recent years — not least the pandemic and the increased trend to work from home (WFH) both during and since that time.

These developments led to a reduction in tenant demand and a subsequent increase in vacancy rates and reduced valuations. However, there are some early signs that the Office sector is in a recovery phase, led by Sydney and Brisbane. National vacancy rates have started to show some small downward movement and the RBA’s interest rate cutting cycle is expected to act as a catalyst to further improvement — especially into high-quality and well-connected office hubs in the main CBD areas.

> The outlook for the Australian industrial property market is improving, especially for logistics and warehousing in Sydney and Brisbane.

Industrial property

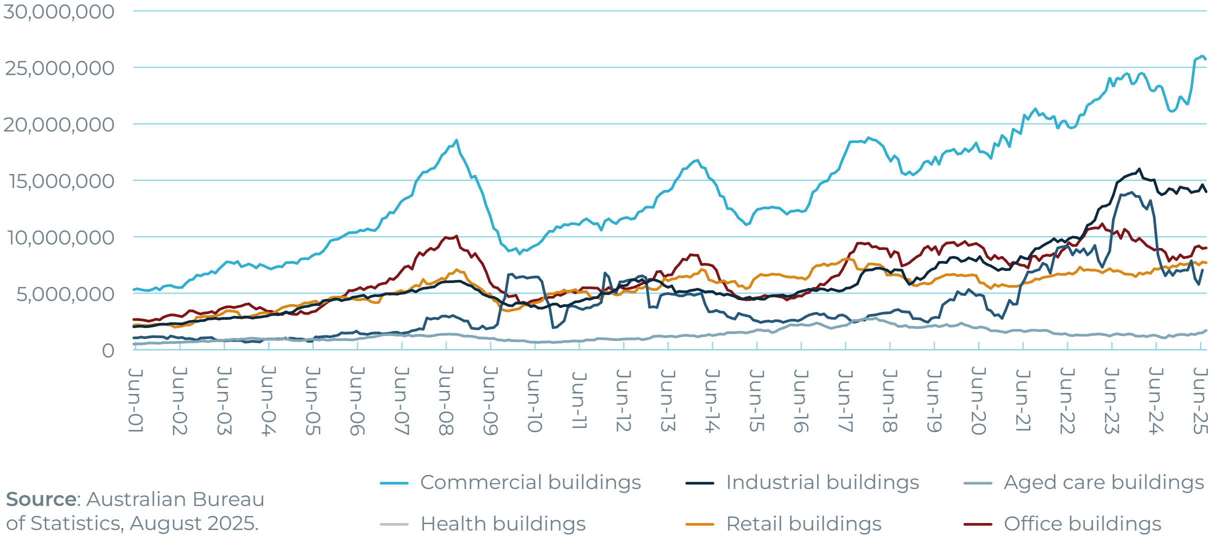
The outlook for the Australian industrial property market is improving, especially for logistics and warehousing in Sydney and Brisbane. As shown in the chart below, after a surge in industrial building approvals post-pandemic, the number of approvals have declined in recent months. With ongoing demand, especially in the high-growth sectors, such as around the new Western Sydney airport, the outlook for the industrial sector is expected to continue to improve through 2026.

Retail

The Australian consumer is showing signs of recovery, helped along by the RBA's interest rate cuts, improvements in real household disposable income and the resilient labour market.

Further interest rate cuts and improved consumer confidence should help the retail sector continue to improve through the remainder of 2025 and throughout 2026.

VALUE OF BUILDING JOBS — ROLLING 12 MONTH TOTAL



Source: Australian Bureau of Statistics, August 2025.

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