



# Property Market Outlook

June 2024

**Author:** Cameron Kusher, Director Economic Research, PropTrack



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# Housing in Australia

## The market in 2023-24

At the end of 2023 there had been a noticeable deceleration of home price growth. At the time, interest rates had just increased but were expected to have reached their peak, and the stock of new listings coming to market and total listings for sale was increasing. Given this, at the time of our previous forecasts, we expected the slowing of price growth to continue until tax and interest rate cuts occurred from the second half of this year.

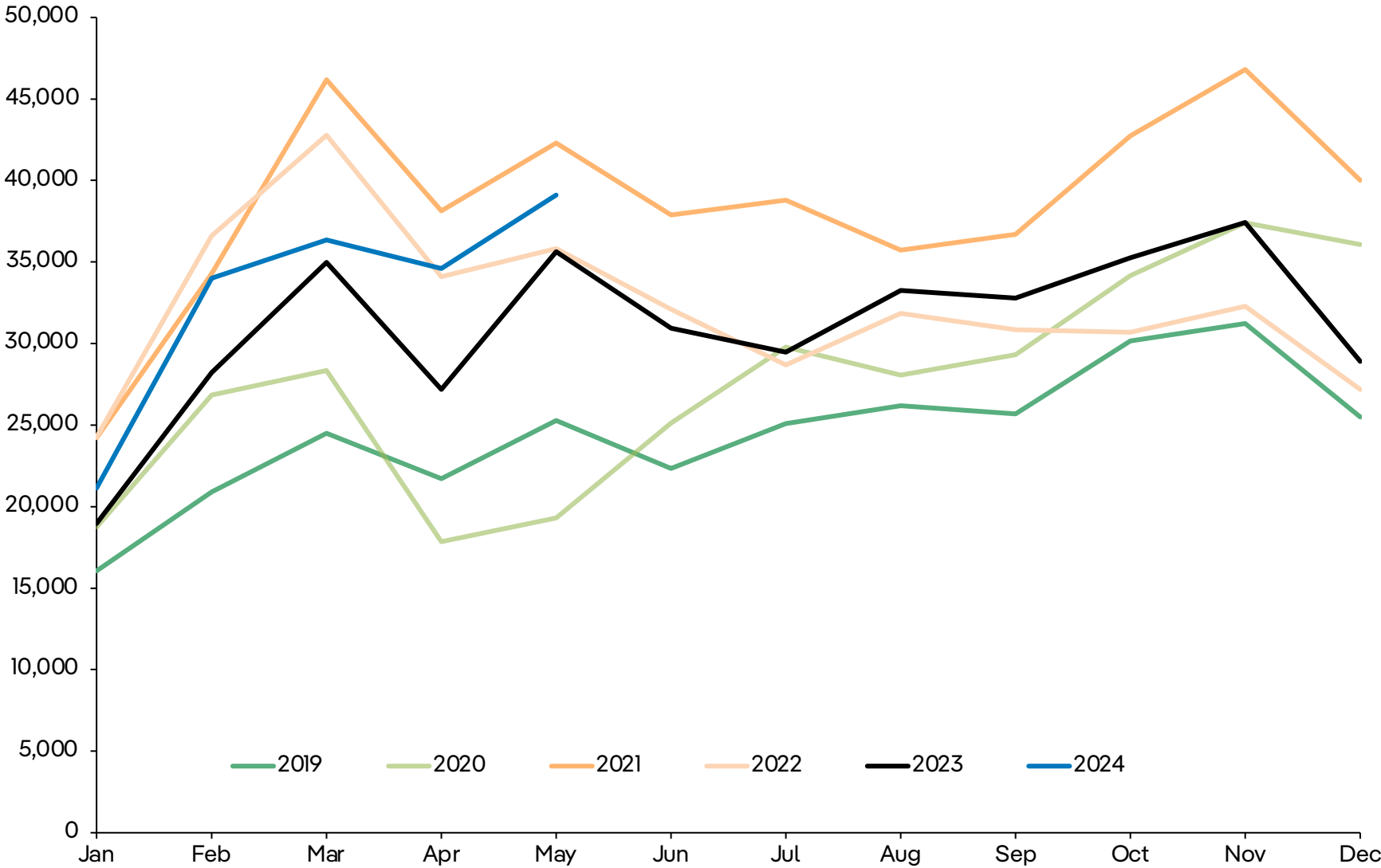
As it stands today, the volume of new stock coming to market has continued to rise and broaden to more capital cities and the overall volume of stock for sale has persistently increased. Despite the lift in stock for sale, there has also been a significant increase in sales volumes and subsequently price growth has been stronger than anticipated early in 2024. The market is proving much more resilient to the sustained pause in interest rates and uplift in stock than we had anticipated.

Cameron Kusher

Director Economic Research, PropTrack



Monthly count of preliminary sales of properties listed for sale on realestate.com.au, National



In December of last year, we had forecast that national home prices would rise by 1-4% in the 2024 calendar year and prices have already increased by 2.7% from January to May, with home prices up by 5.9% over the 2023-24 financial year to date.

The market remains resilient despite higher interest rates, which now look likely to persist for longer than first expected. Just a few months ago it seemed likely that interest rates would be cut later this year, and while rate cuts remain more likely than increases, the expectation is that these cuts will not commence until the first half of 2025. As a result of interest rates remaining higher for longer, borrowing capacities will remain reduced.

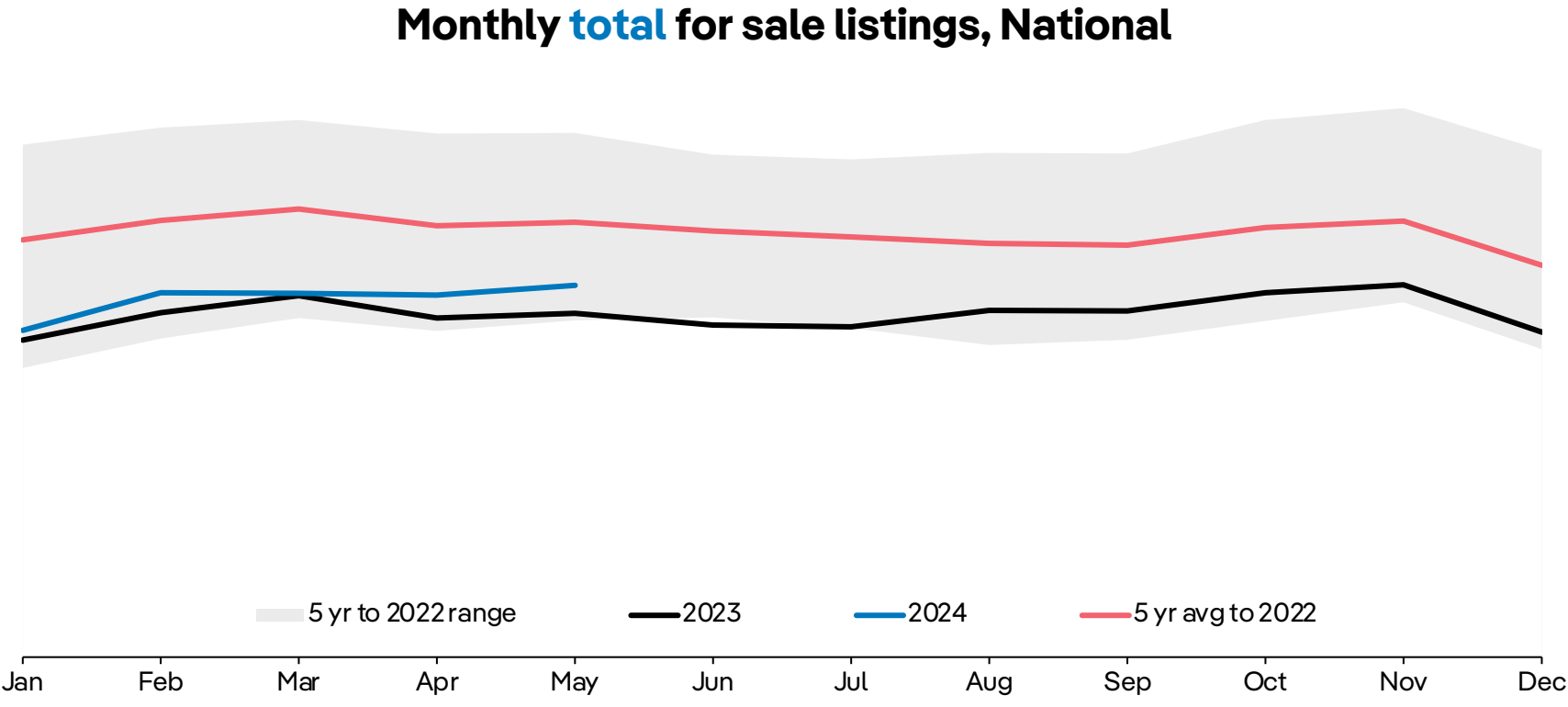
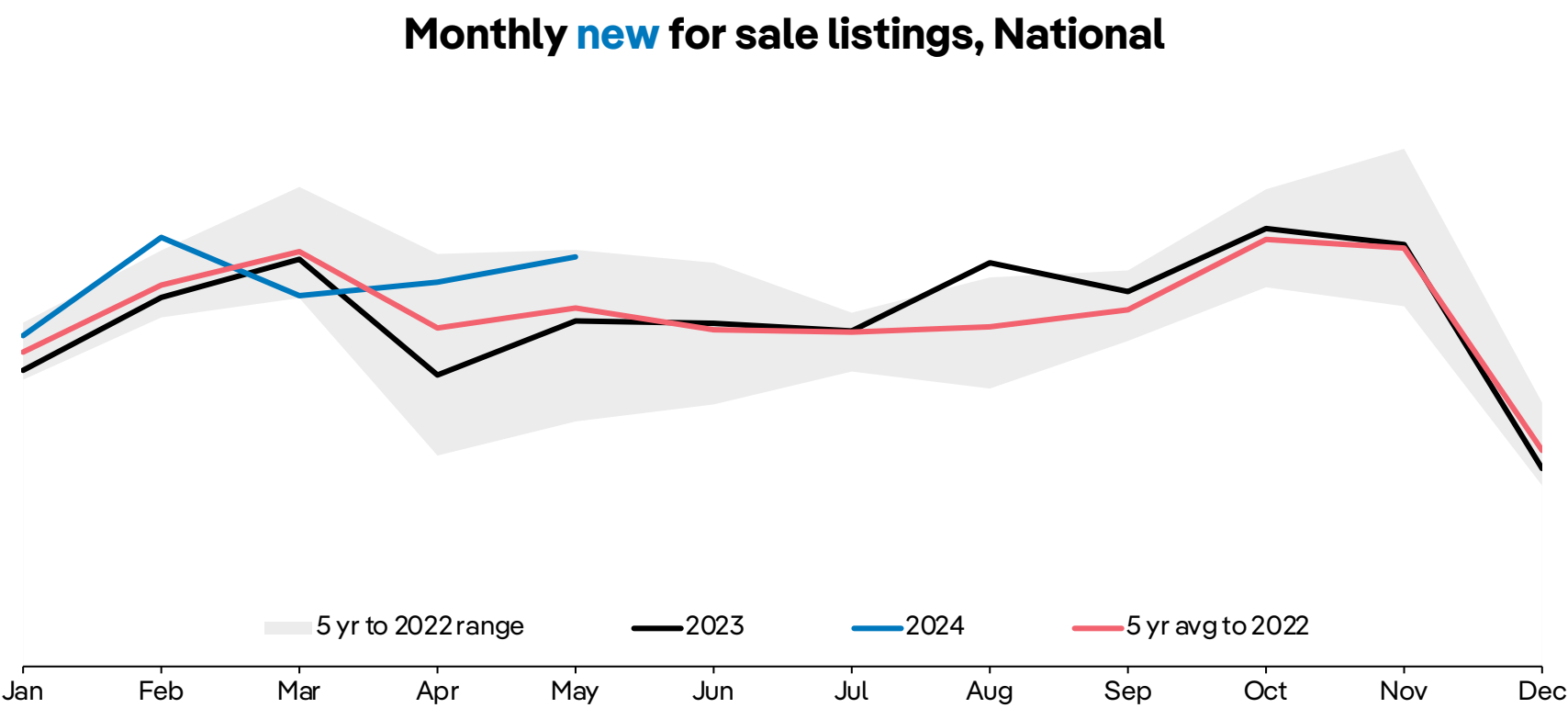
Over the first five months of 2024, sales volumes have proven to be strong, with national volumes 13.9% higher than the same period last year. In each capital city and rest of state area, except for Hobart and regional Northern Territory, sales are higher over the year. The greatest increases in sales volumes have occurred in Sydney, Melbourne and Darwin, with Sydney and Melbourne also being the two of the three capital city regions, along with Canberra, with the largest increases in stock available for sale.



The total number of properties available for sale has increased by 8.2% in May 2024 compared to the same period last year. This indicates that the lift in sales volumes has occurred despite there being more choice for buyers in the market. New listing volumes in Sydney, Melbourne and Canberra have seen the largest increases, highlighting how the willingness from sellers to list has been matched by the enthusiasm from buyers to purchase. We are starting to see an increase in new listings coming to fruition across most other markets now too.

Even though the volume of stock for sale has increased over the past year, buyer interest remains strong. The number of enquiries per listing nationally has fallen by 6.3% relative to a year ago but remains at an elevated level.

The strength of demand for housing is also highlighted when we look at the median days on site for properties listed for sale. In May 2024, the median days on site was 38 days compared to 43 days at the same time a year earlier.







The main factor supporting strong price growth has been an increase in demand for housing as new and total listings have increased, but there are also other factors to consider which are contributing to the strength of established home prices.

Official interest rates have been unchanged since November last year and until recently, the expectation was that they would reduce over the second half of this year. While the outlook for interest rate cuts has now been pushed into 2025, stable interest rates have contributed to a greater preparedness from market participants to transact.

Although price growth has slowed compared to previous years, price growth since the onset of the pandemic has been significant, with national home prices 42.1% higher over the period from March 2020 to May 2024. The significant price increases and equity gains are giving current owners the confidence to shift to their next property.

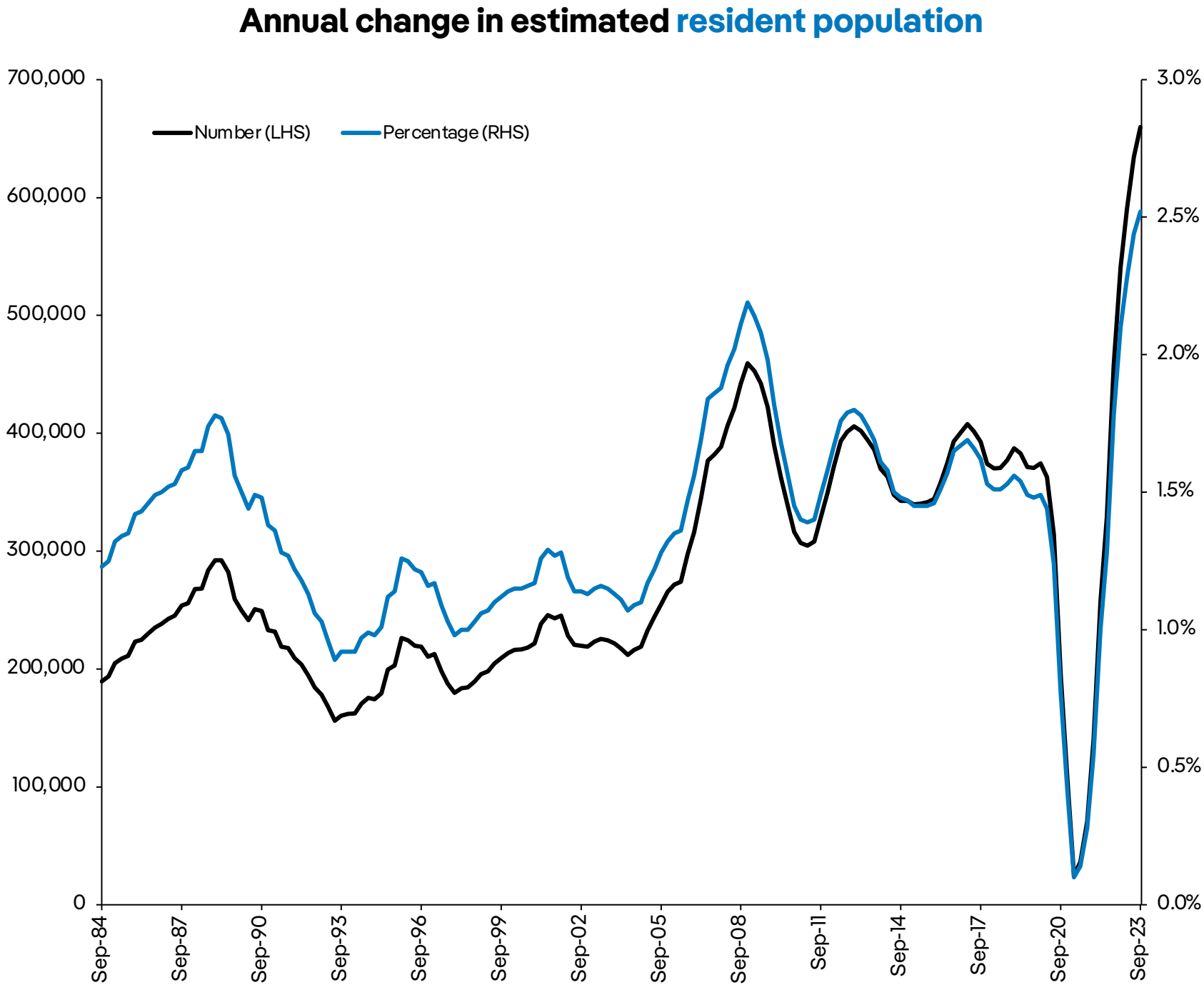
The fact that higher interest rates have potentially caused some financial stress for mortgage holders shouldn't be discounted. This stress, along with interest rate relief now seemingly further away, may encourage more owners to sell their home and shift to a cheaper property.



Although established home prices have increased significantly over recent years, the price premium for new homes over existing homes remains larger than normal. As a result of these conditions, most buyers are preferencing the purchase of existing housing stock rather than new homes, a trend we expect to see continue.

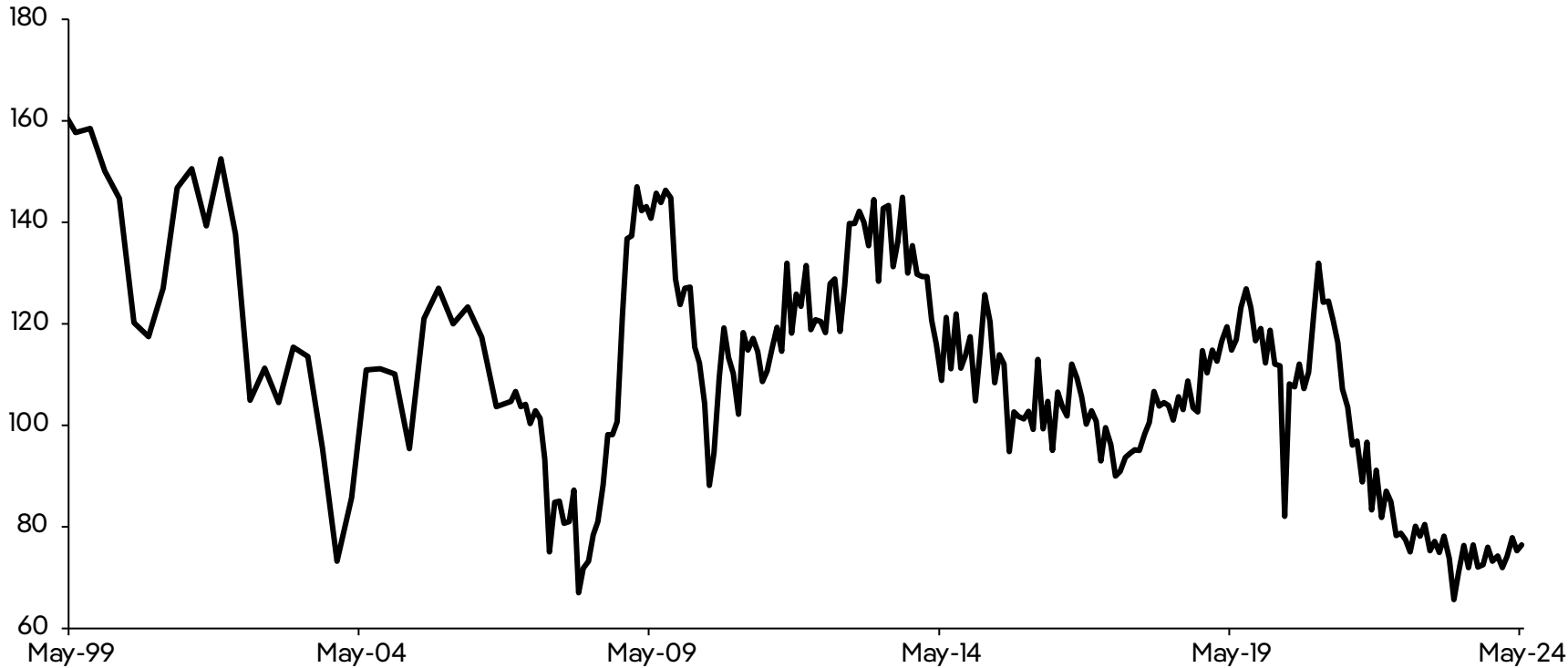
The Australian population is expanding rapidly which is also fuelling demand for housing. Over the 12 months to September 2023, the national population increased by 659,795 people, a record-high 2.5% annual growth. Of this increase, 548,770 people were from net overseas migration, most of whom required housing upon arrival.

It is also interesting to note the strength of housing demand while consumer sentiment remains in the doldrums. According to the Westpac-Melbourne Institute Consumer Sentiment Index, pessimism has outweighed optimism for 27 consecutive months, the longest such stretch since the early 1990s.



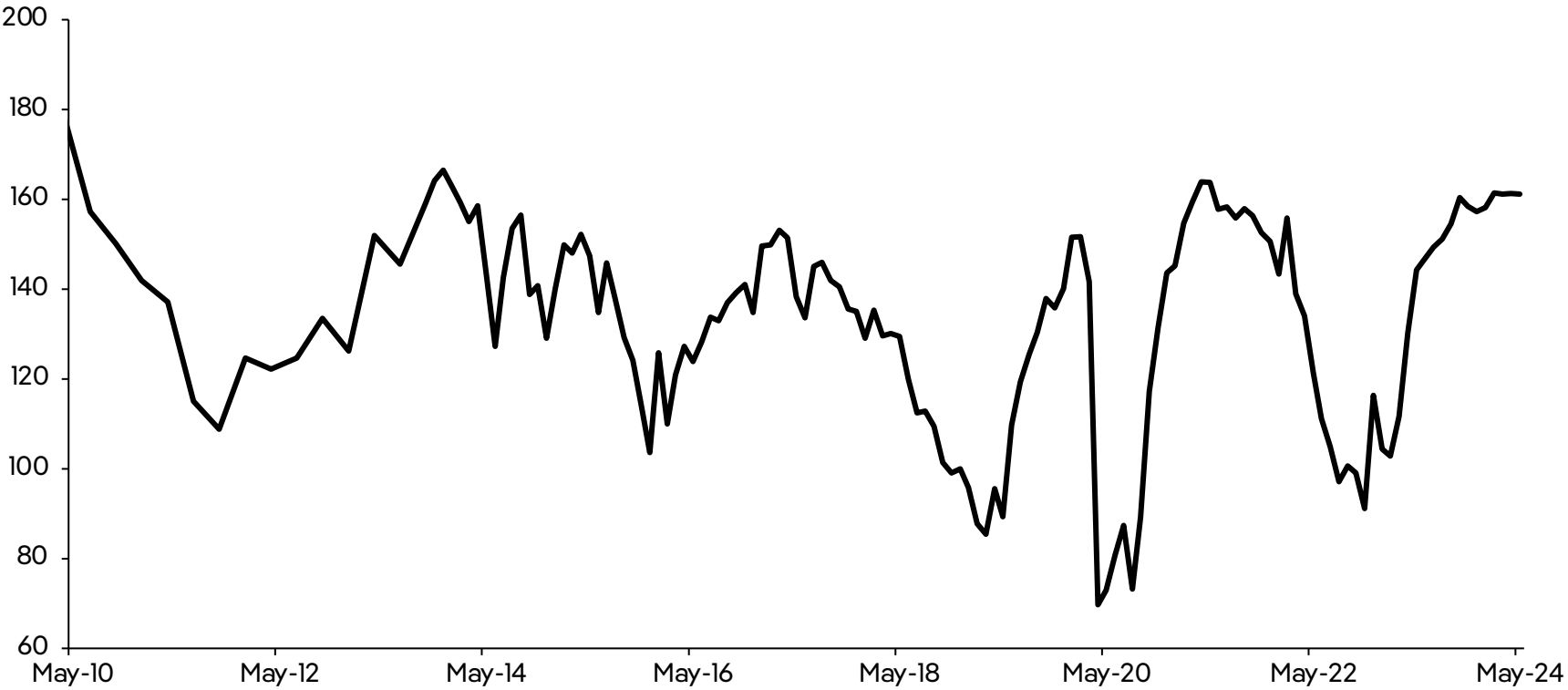


**Time to buy a dwelling index - National**



Similarly, the Westpac-Melbourne Institute Time to Buy a Dwelling Index has shown pessimism outweighing optimism for 36 consecutive months, indicating consumers don't believe it is an ideal time to be purchasing. Yet, the Westpac-Melbourne Institute House Price Expectations Index is hovering at high's last seen in mid-2021 when interest rates were still at record-lows.

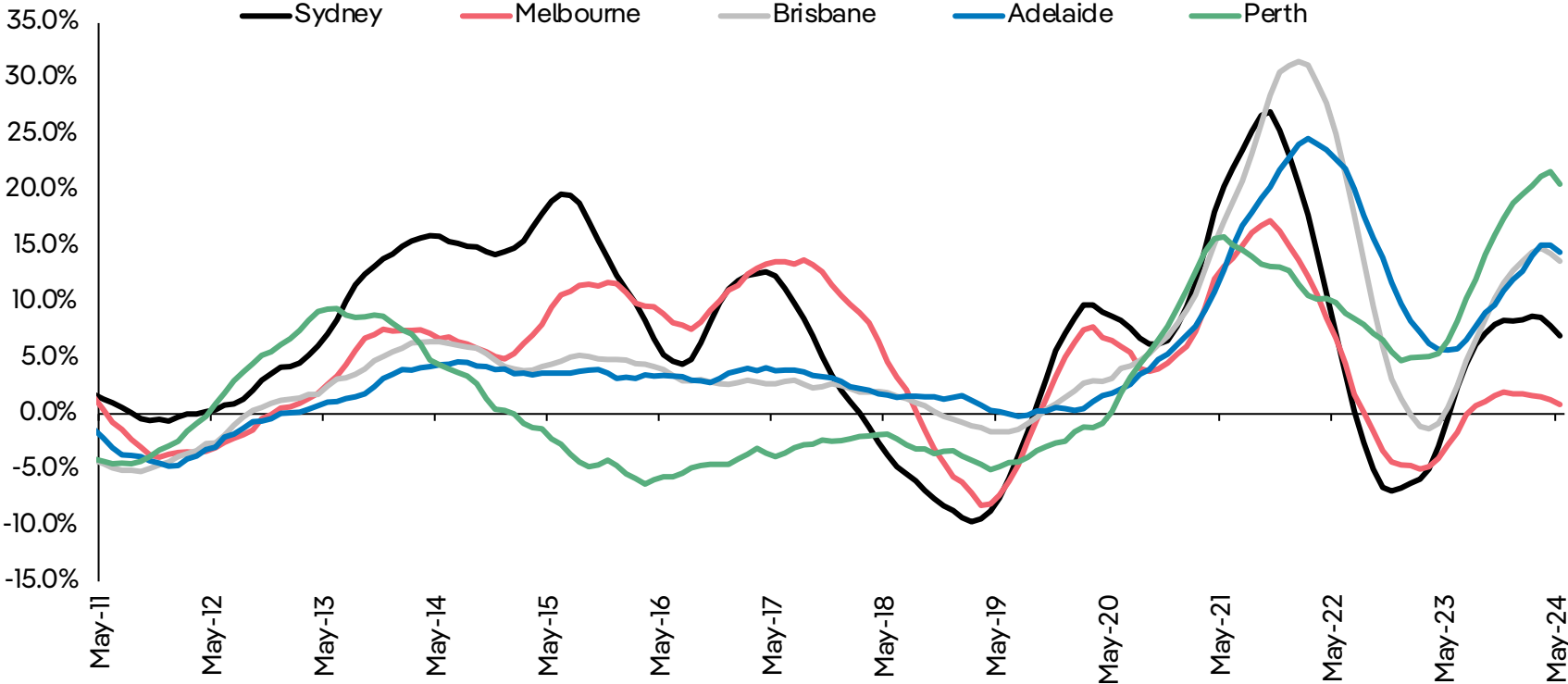
**House price expectations index National**



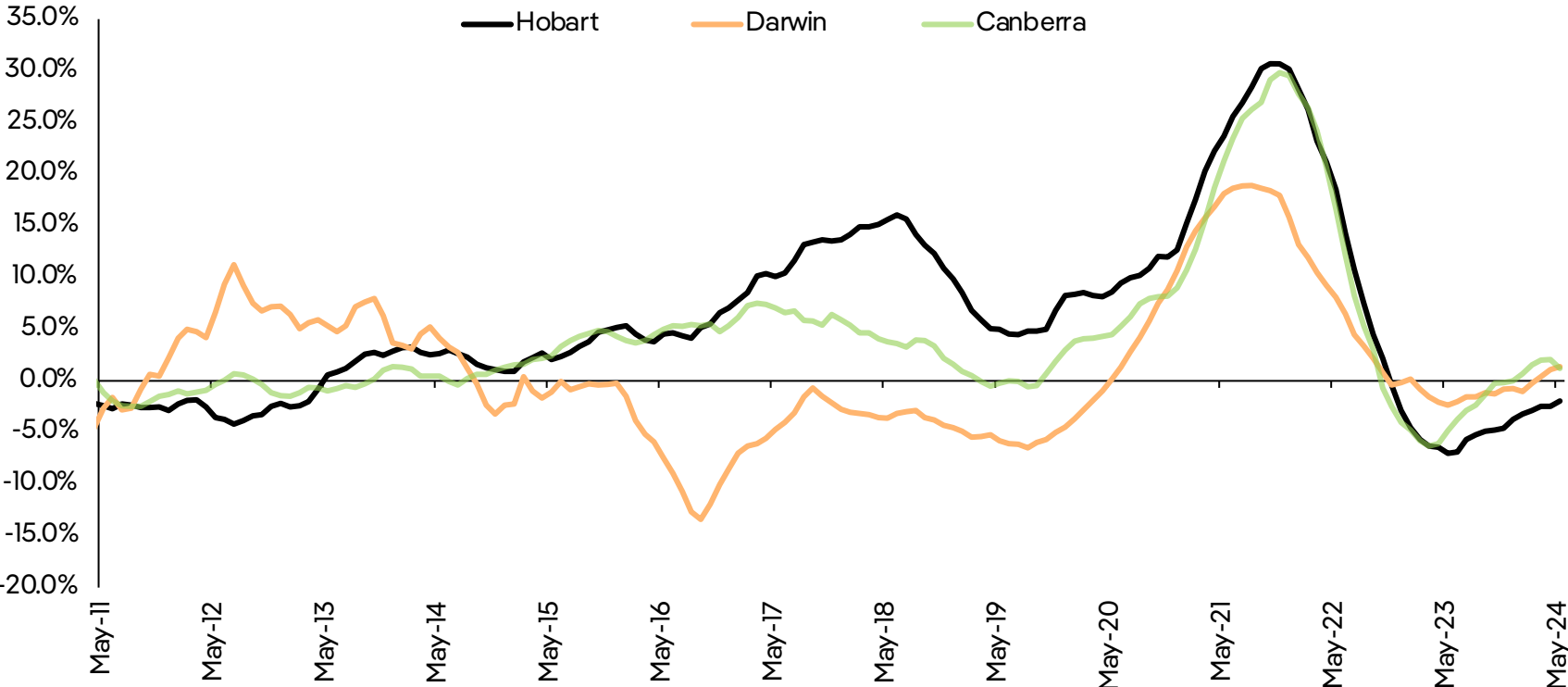
It is a confusing time for consumers, they have low confidence and don't believe it is an ideal time to be purchasing a home, likely due to record-high home prices and high interest rates however, given expectations of continued price rises, many are overcoming affordability challenges and purchasing.



Annual change in home prices, major capital cities



Annual change in home prices, other capital cities



# What to expect for the remainder of 2024

Given the home price growth trajectory, we are revising our forecasts for price growth for 2024. We now expect that prices will increase by between 2% and 5% in the current calendar year.

We have revised our forecast for price changes this year in Brisbane, Adelaide, Perth, Darwin and Canberra to be higher, largely reflective of the strong price growth momentum in these markets, low volume of stock for sale and the boost from income tax cuts from the middle of this year.

Price growth expectations are largely unchanged in Sydney and Melbourne, but we believe they are more likely to be on the higher-side of our forecasts.

Should this price growth come to fruition, it will be a lower rate of growth than what was recorded in 2023 but with larger increases in certain capital cities.



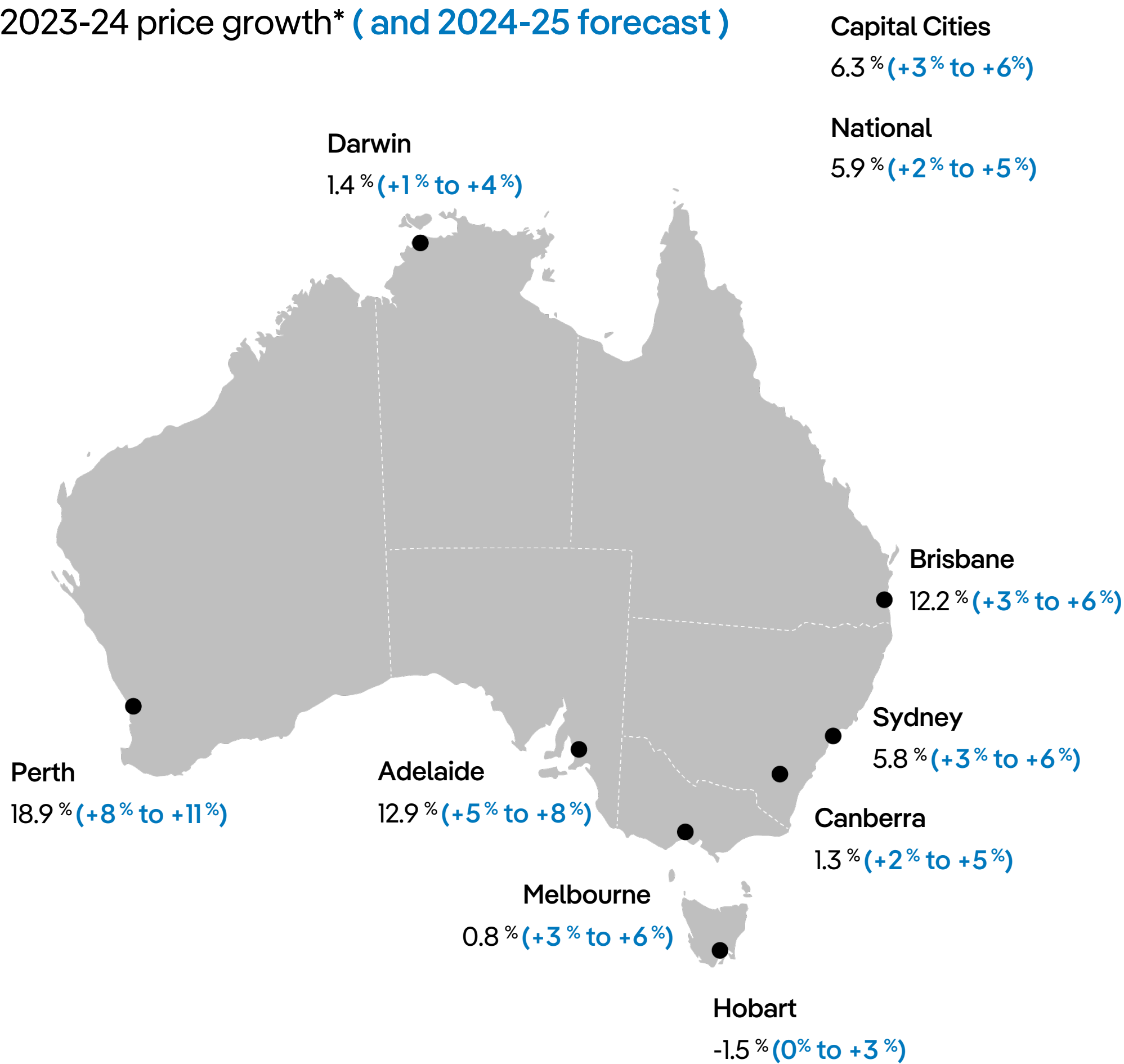
# Forecasts for the 2024-25 financial year

Forecasting price growth becomes more challenging as we look at the housing market over the next 12 months.

Prices are currently rising at a faster pace than anticipated despite interest rates sitting at a 12-year high, borrowing capacities having fallen substantially and the volume of stock for sale increasing.

Over the past few months, the rate of home price growth has started to slow, and we have seen stronger than anticipated inflation. As a result, expectations of interest rate cuts have been pushed back from September this year to middle to late 2025.

It is hard to know how much of the recent price growth has been due to rate cut expectations, but we expect it has played into purchaser confidence. Given this, rate cut expectations being pushed back may dampen buyer activity. Later rate cuts may also necessitate some people to sell due to financial stress.





Conversely, from the middle of 2024, Stage 3 tax cuts will increase disposable incomes for most households, increase borrowing capacities and some modelling suggests they will be the equivalent of at least two 25-basis point interest rate cuts.

These tax cuts have the potential to further inflate housing prices.

As we move into early 2025, interest rate cuts are likely to be getting closer, which may entice more buyer demand and contribute to further price increases. At this time there should also be a moderate rebound in economic growth, however, the labour market is forecast to be weaker.

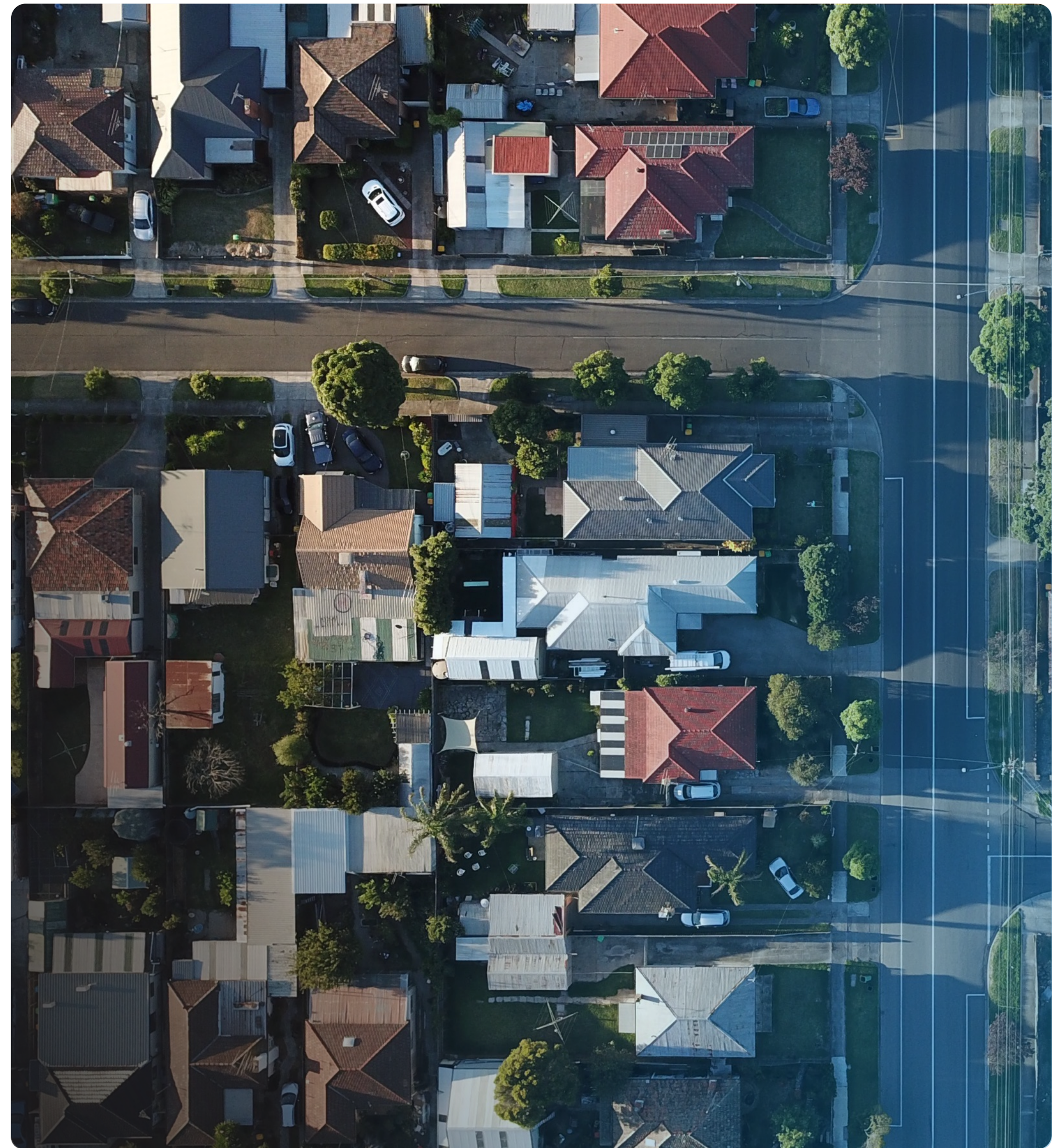
New dwelling commencements and completions are expected to remain weak over the coming financial year, which will see most of the overall demand for housing flow to established properties and keep the rental market extremely tight. The tight rental market is likely to continue to encourage those with the means to purchase their own property, especially as interest rate cuts draw nearer.



We expect that price growth by the end of the 2024-25 financial year will be slightly stronger than what is expected for the end of the current calendar year, with the profile of growth shifting. We expect slowing price growth in several capital cities but an uptick in price growth in the larger markets of Sydney and Melbourne.

These forecasts could be impacted by unforeseen factors such as dramatic changes in the supply of existing homes for sale or changes in the supply of new housing which we expect to remain low.

Government intervention into the market such as major increases to home buyer support or changes to the tax treatment of investment properties (which we've seen in some states) could also impact on these forecasts.







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