

Domain

Forecast Report FY2027

A market in transition:
headwinds, resilience, and
a path forward





Forecast at a glance

Australia's housing market has entered a more complex phase. Three rate hikes in the first half of 2026 have changed the landscape, and the federal budget's change – removing negative gearing from established properties and adjusting the CGT discount – introduce a structural shift on top of the cyclical one. Together, these forces are bearing down on household budgets, consumer confidence and the capacity to borrow.

The result is not a uniform slowdown. It is a divergence – between cities with different affordability profiles, investor exposures and supply dynamics, and between houses and units within those cities.

Sydney, Melbourne and Canberra are forecast to fall (table 1). Brisbane, Adelaide and Perth will continue to grow, though well below the extraordinary run rates of recent years. Across most capitals, units will hold up better than houses – in some cases significantly so.

Affordability is now a binding constraint for many buyers, not just a consideration. Cost-of-living pressures have eroded household buffers, consumer sentiment remains fragile, and rate rises have removed meaningful borrowing capacity. Higher interest rates don't remove demand – they redirect it. Buyers adapt or pause, trading location for value, houses for units, aspiration for affordability.

The rest of 2026 is forecast to be weak. A gradual recovery is likely from mid-2027, contingent on the first rate cut arriving as forecast. If it doesn't, price weakness could overshoot.

Table 1. Forecast price movements to June 2027

City	Houses range	Mid	Units range	Mid	Combined
Sydney	-7% to -3%	-5%	-3% to 1%	-1%	-3.3%
Melbourne	-8% to -4%	-6%	-3% to 1%	-1%	-4.4%
Brisbane	3% to 7%	5%	5% to 9%	7%	5.5%
Adelaide	4% to 8%	6%	4% to 8%	6%	6%
Perth	5% to 9%	7%	7% to 11%	9%	7.4%
Canberra	-4% to 0%	-2%	-4% to 0%	-2%	-2%
Combined capitals	-2.5% to 1.5%	-0.5%	-0.7% to 3.3%	1.3%	0.1%

Houses and units forecast separately. All figures are forecast price growth over FY27. Combined dwelling is the weighted average of both. Combined capitals is the weighted average across six major capitals. Rate assumptions: cash rate peak 4.35% (May-26); first cut -25bp in Q2 2027. At finalisation (17 June 2026), money markets priced approximately even odds of a further hike in H2 2026. We treat this as the principal downside risk — each additional 25bp would remove a further ~2.5% of borrowing capacity and push price outcomes toward the lower end of our published ranges.



FALLING

Sydney · Melbourne · Canberra

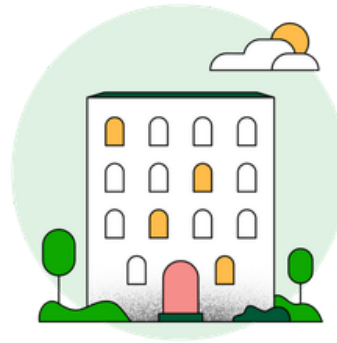
Higher rate sensitivity, sharper investor withdrawal, and rising supply — particularly in Melbourne and Canberra where population-to-supply ratios are more balanced.



GROWING

Brisbane · Adelaide · Perth

Supply deficits, tight rental markets and demographic demand will sustain positive — but slower— growth.



THE CALL

Units outperform houses

Across Sydney, Brisbane and Perth, the first-home buyer schemes and affordability shift will drive the divergence.

What’s driving it

Interest rates: the borrowing power shock

The RBA delivered three rate hikes in the first half of 2026, taking the cash rate to 4.35%. For a market that had just started to breathe again after three cuts in 2025, the reversal has been sharp.

Inflation remains the problem. Despite significant progress from the peak, price pressures are proving harder to eliminate than expected. Headline CPI rose to 4.2% in the year to April, while trimmed mean inflation – the RBA's preferred measure – edged up to 3.4%, remaining well above the 2-3% target band.

Many expected the federal budget to act as a circuit breaker, easing inflation pressures and bringing forward rate cuts. It didn't – much of the projected savings was recycled back into the economy, leaving inflation stubborn and borrowers waiting longer for relief. The budget's real influence on the rate outlook arrives through a different channel entirely: its housing tax changes.

We expect the cash rate has peaked at 4.35% (figure 1). The labour market is softening, business capacity utilisation has fallen sharply, and the May budget's investor tax changes act as a de facto tightening of financial conditions – doing the work a further hike would otherwise do.

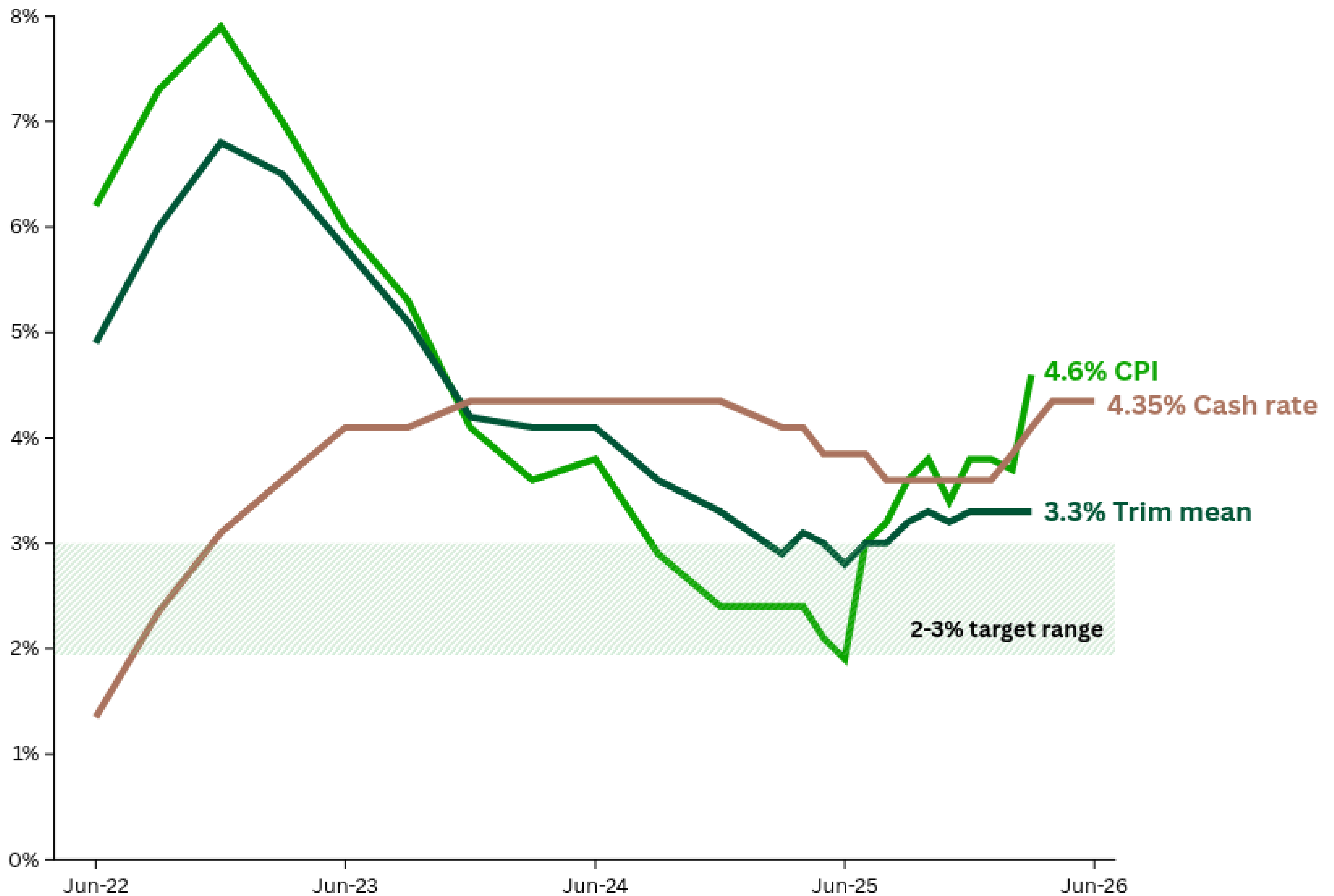
We expect the RBA to hold through the remainder of 2026, with the first cut arriving in the June quarter of 2027 as inflation gradually retreats. The principal near-term risk sits the other way: should inflation prove stickier than expected, a further 25-basis-point rise in the second half of 2026 – taking the cash rate to 4.60% – would deepen the pressure on borrowing capacity and push our price forecasts toward the lower end of their ranges.

For housing, the impact is significant. Three 25-basis-point rate increases have removed around 7-8% of borrowing capacity – and the budget's investor lending changes compound the squeeze, with lenders already cutting maximum investor loan sizes in response. With mortgage rates around current levels, borrowers are being assessed at close to 10% under APRA's mandatory serviceability buffer.

That's not a rounding error. It's a meaningful constraint on housing demand. While population growth and a persistent housing shortage continue to support prices, higher borrowing costs will limit how much buyers can pay.

Actual		
Feb 2026	Mar 2026	May 2026
3.85%	4.10%	4.35%
Hike #1	Hike #2	Hike #3 Cycle peak
Forecast		
H2 2026	Q1 2027	Q2 2027
4.35%	4.35	4.10%
Hold	Hold	Cut
Footnote: Rate assumptions: cash rate peak 4.35% (May-26); first cut -25bp in Q2 2027. At finalisation (17 June 2026), money markets priced approximately even odds of a further hike in H2 2026, which we treat as a downside risk.		

Figure 1. Inflation and the cash rate.



Source: ABS, RBA

Turnover and transaction volumes

Beyond prices, transaction volumes are expected to slow in FY27. Consumer sentiment remains fragile under the weight of cost-of-living pressures and higher rates. Many buyers are choosing to wait rather than transact at current prices – and sellers, unwilling to accept discounted offers, will start to hold back.

The budget: A potential structural shift in investor demand

The May 2026 federal budget proposes a change that, if it holds, will reshape the investment property landscape for years. From July 1, 2027, negative gearing will apply only to newly built properties, and the 50% CGT discount will be replaced by an indexed cost base approach with a minimum tax rate on capital gains.



While grandfathering provisions will cushion the immediate impact – existing investors retain access to negative gearing on established properties already held – the structural shift in incentives will weigh on investor demand for established housing over the medium to longer term. The attractiveness of new investment in existing stock diminishes materially.

The impact won't be felt evenly across the country (figure 2). States with the highest investor share of lending face the sharpest withdrawal of demand from established housing, namely NSW. Importantly, the budget does not remove incentives for new construction – it redirects investor demand toward new builds, which will support supply delivery while reducing demand for established stock. How investors respond may become one of the most important housing stories of FY27.

Figure 2. Investor share of home lending by state (% of total).

Current investor lending profile			Decade average		
NSW	43.4%	← above long-run average	NSW	39.2%	
SA	42.5%		AUS	33.4%	
QLD	41.4%		QLD	31.7%	
AUS	40.3%		VIC	30.7%	
WA	39.1%		SA	30.5%	
VIC	34.6%		ACT	29.1%	
ACT	27.4%	← Lowest	WA	25.1%	

Source: ABS lending indicators, seasonally adjusted, refinancing excluded.

Rental yields as a re-entry signal

One counterforce to investor withdrawal could be an improving rental yield picture. As prices soften and rents increase, gross rental yields will rise. This may attract a cohort of yield-focused investors back to the market in the second half of FY27, providing a partial demand offset, particularly for units.

The houses-versus-unit story

When borrowing power falls, and economic uncertainty rises, behaviour shifts – fast. Buyers trade location for value, houses for units, and timelines for patience. That shift in behaviour sits at the heart of our forecast.

The divergence matters most in Sydney, where units are expected to outperform houses by 4 ppt. Three powerful forces are colliding: the FHB scheme reaches units (especially for Sydney); reduced borrowing capacity; and the record 111% house-to-unit premium is compressing as affordability bites. Canberra is the deliberate exception – higher unit supply means houses hold up no better than units.

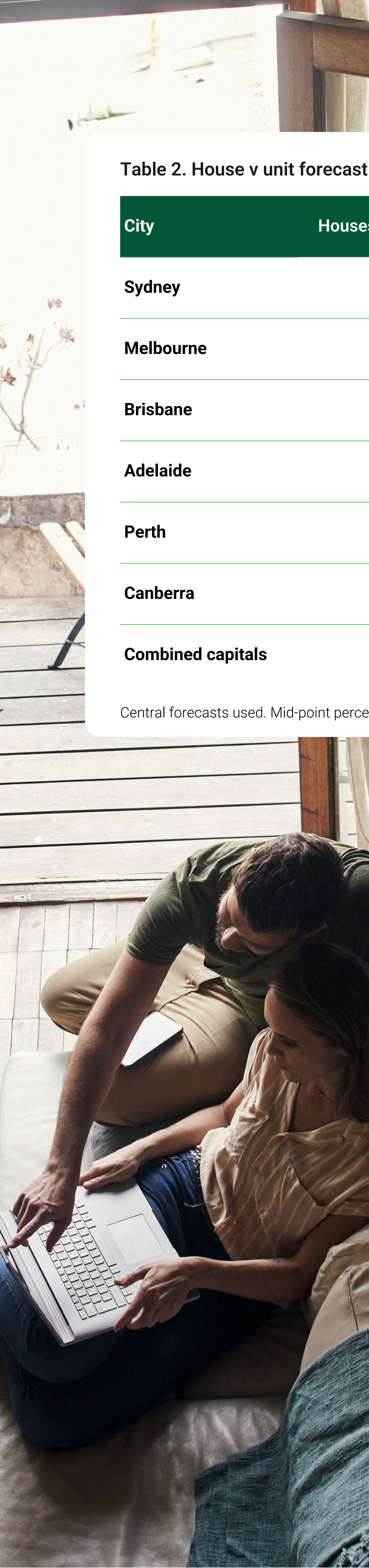


Table 2. House v unit forecast comparison

City	Houses mid forecast	Units mid forecast	Story	Gap
Sydney	-5%	-1%	Units outperform	+4ppt
Melbourne	-6%	-1%	Units outperform	+5ppt
Brisbane	5%	7%	Units outperform	+2ppt
Adelaide	6%	6%	Equal growth	-
Perth	7%	9%	Units outperform	+2ppt
Canberra	-2%	-2%	Equal weakness	-
Combined capitals	-0.5%	1.3%	Units outperform	+1.8ppt

Central forecasts used. Mid-point percentage change.

City forecasts

Sydney and Melbourne are expected to lead the downturn, reflecting their greater sensitivity to interest rates, affordability pressures and investor policy changes (table 3 and 4).

Brisbane, Adelaide and Perth are forecast to continue growing, supported by population growth, tight rental markets and ongoing supply shortages.

Canberra is also expected to have softer conditions, with modest price movements expected across both houses and units.

Table 3. House forecast in per cent and dollar terms.

City	Lower range			Upper range		
	% change	\$ change	Median price	% change	\$ change	Median price
Sydney	-7%	-\$122k	\$1.62m	-3%	-\$52k	\$1.69m
Melbourne	-8%	-\$84k	\$966k	-4%	-\$42k	\$1.01m
Brisbane	3%	\$37k	\$1.29m	7%	\$87k	\$1.34m
Adelaide	4%	\$45k	\$1.18m	8%	\$90k	\$1.22m
Perth	5%	\$61k	\$1.28m	9%	\$110k	\$1.33m
Canberra	-4%	-\$43k	\$1.03m	0%	\$0	\$1.08m
Combined capitals	-2.5%	-\$32k	\$1.26m	1.5%	\$19k	\$1.31m

Percentage changes apply over FY27 (June 2026 to June 2027) from the forecast Jun-26 price.

Table 4. Unit forecast in per cent and dollar terms.

City	Lower range			Upper range		
	% change	\$ change	Median price	% change	\$ change	Median price
Sydney	-3%	-\$25k	\$821k	1%	\$8k	\$855k
Melbourne	-3%	-\$18k	\$587k	1%	\$6k	\$611k
Brisbane	5%	\$41k	\$861k	9%	\$74k	\$893k
Adelaide	4%	\$26k	\$686k	8%	\$53k	\$712k
Perth	7%	\$50k	\$768k	11%	\$79k	\$797k
Canberra	-4%	-\$19k	\$456k	0%	\$0	\$475k
Combined capitals	-0.7%	-\$5k	\$735k	3.3%	\$24k	\$765k

Percentage changes apply over FY27 (June 2026 to June 2027) from the forecast Jun-26 price.

Key forecast implications

- Brisbane is forecast to become Australia's most expensive unit market, overtaking Sydney.
- Melbourne house prices could fall below \$1 million for the first time since 2021.
- House prices in Brisbane, Adelaide and Perth are expected to reach record highs.
- Units are forecast to outperform houses across Sydney, Brisbane, Melbourne and Perth.
- Under the upper-growth scenario, unit prices could reach record highs across Sydney, Brisbane, Adelaide and Perth.

How are some cities still forecast to rise?

The question isn't whether these markets continue to grow, but how much they slow (table 5). Brisbane, Adelaide and Perth are forecast to remain in positive territory because of strong underlying demand and limited supply, but growth rates are expected to be a fraction of those recorded during the recent boom.

Population growth and rental market tightness are the primary drivers. All three cities continue to absorb migrants and interstate arrivals faster than new housing can be delivered, and vacancy rates remain near historic lows. With construction constrained by labour shortages, rising costs and planning delays, supply is unlikely to catch up in FY27.

What the headline narrative misses is that these markets carry their own risks. Investor lending in Western Australia currently sits at 39.1% – 14 percentage points above its decade average of 25.1%, the largest gap of any state. Queensland and South Australia are similarly stretched, at 9.7 and 12 percentage points above their long-run norms respectively. If investor sentiment sours in response to taxation changes, these markets are not insulated – they are exposed.





The comparison with Melbourne also challenges easy assumptions. Melbourne's current house median sits below those of Brisbane, Adelaide and Perth – meaning the growth cities are not simply riding an affordability advantage. Brisbane, Adelaide and Perth are growing despite elevated prices and elevated investor concentration, because underlying occupier demand remains strong enough to absorb both. The forecast, then, is not that these cities are immune to the forces weighing on Sydney and Melbourne. It is that their structural demand is sufficient to keep them positive – at growth rates well below the extraordinary run of recent years.

Table 5. Actual and forecast price growth.

	Houses				Units			
City	2024	2025	Current	FY27f	2024	2025	Current	FY27f
Sydney	3.9%	8.4%	6.6%	-7% to -3%	3.0%	3.2%	3.5%	-3% to 1%
Melbourne	-2.0%	5.9%	4.4%	-8% to -4%	-1.0%	5.0%	5.5%	-3% to 1%
Brisbane	11.5%	17.4%	20.4%	3% to 7%	18.0%	21.5%	23.0%	5% to 9%
Adelaide	14.1%	9.6%	16.4%	4% to 8%	17.0%	16.0%	18.7%	4% to 8%
Perth	20.7%	18.4%	24.6%	5% to 9%	22.1%	21.9%	27.8%	7% to 11%
Canberra	0.7%	6.8%	9.7%	-4% to 0%	0.3%	-1.0%	0.3%	-4% to 0%
Combined capitals	5.8%	10.4%	11.2%	-2.5% to 1.5%	5.3%	7.6%	8.7%	-0.7% to 3.3%



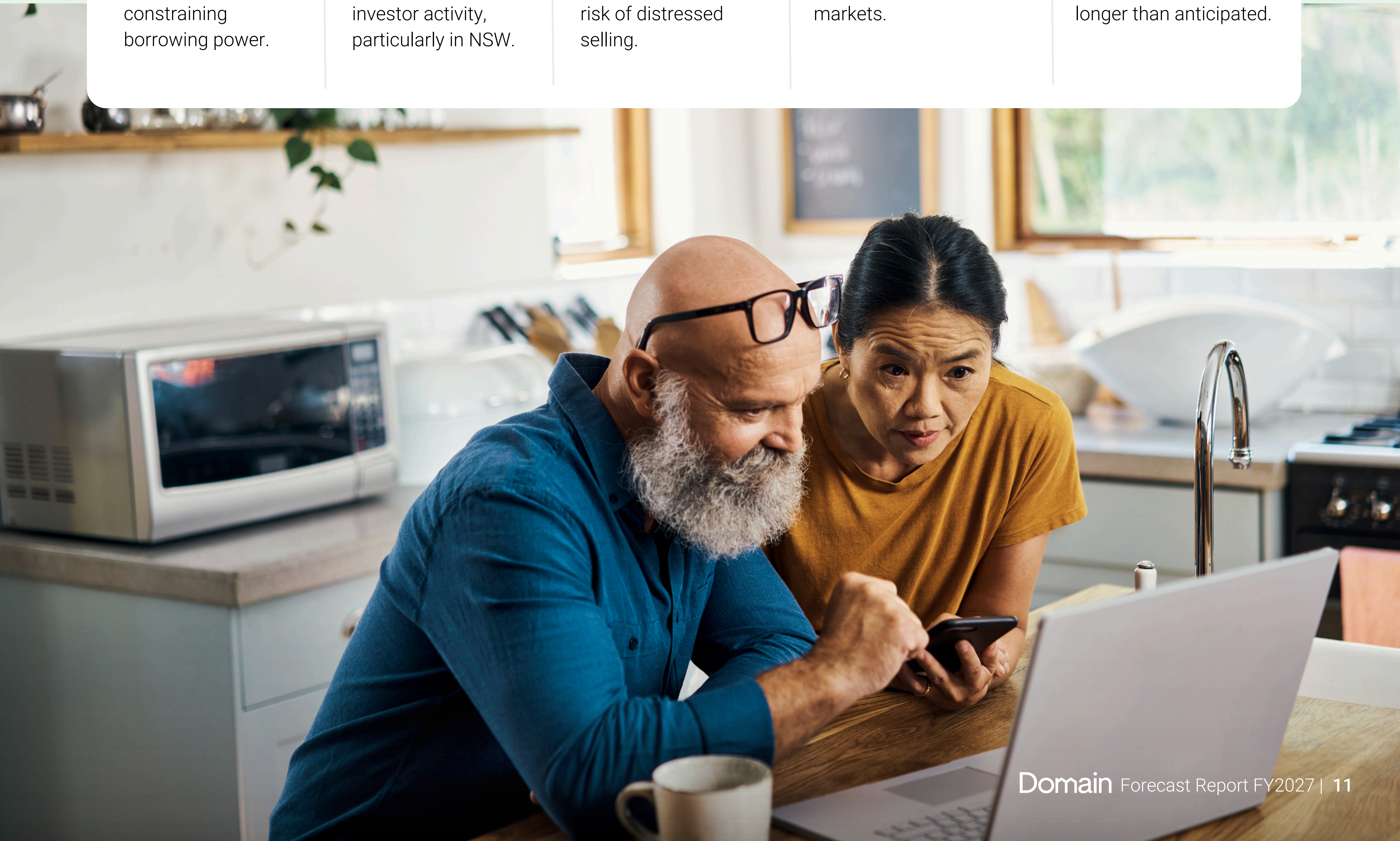
What could change the outlook?

↑ Upside risks

Interest rates fall sooner	First-home demand surprises	Supply shortfall deepens	Population growth remains elevated	Investor demand proves resilient
Inflation returns to target faster than expected, bringing forward rate cuts and boosting borrowing capacity.	The FHB scheme generates stronger-than-expected demand for affordable houses and units.	Labour shortages, construction costs and planning delays keep new supply below target, supporting prices.	Strong migration and limited housing stock place further pressure on both rental and purchase markets.	Investors adapt to policy changes more quickly than expected, reducing the impact of budget reforms on demand.

↓ Downside risks

Further rate hikes or delayed cuts	Investor withdrawal exceeds expectations	Labour market weakens	Housing supply rebounds faster than expected	Consumer sentiment deteriorates
Persistent inflation forces the RBA to keep rates higher for longer, further constraining borrowing power.	Changes to negative gearing and capital gains tax trigger a sharper pullback in investor activity, particularly in NSW.	Rising unemployment weighs on confidence, reduces borrowing appetite and increases risk of distressed selling.	A stronger-than-forecast lift in completions eases shortages and reduces price pressure in growth markets.	Cost-of-living pressures and economic uncertainty cause buyers to delay decisions for longer than anticipated.



Methodology

Domain's Forecast Report draws on a suite of complementary models to project median house and unit prices, as well as rents. The modelling framework includes time-series approaches such as AR, ARIMA, ARIMAX, and Kalman filtering techniques, alongside machine-learning ensemble models that combine ARIMA, ETS, and Random Forest forecasts.

The models integrate both market and economic fundamentals – including population trends, housing activity, cash rates and unemployment – and also draw on Domain-exclusive data such as buyer enquiries, views per listing, listing volumes, auction clearance rates and vacancy rates.

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