Domain

Forecast Report 2027

Moving through the downturn: adjustment before recovery



Forecast at a glance

Australia's housing market has experienced its sharpest correction on record through the second half of 2026. Higher interest rates, persistent inflation and changes to housing investment tax policy have combined to squeeze household budgets, constrain borrowing capacity and weaken buyer confidence.

The downturn has recently broadened across capital cities and housing types. House prices declined in every capital city in the September quarter for the first time in 15 years and only the second time on record. But the correction has not been uniform. The scale and speed of price falls continue to vary considerably between markets, reflecting differences in affordability, investor exposure and local demand and supply conditions.

We expect the correction to continue through the first half of 2027, but at a slower pace.

Prices are forecast to fall across every capital city to mid-2027, with peak-to-trough declines of 10-13% for houses across the major capitals, compared with 6-9% for units. Sydney, Brisbane and Perth are expected to record the sharpest further house price falls, while units should prove more resilient in most markets as affordability increasingly shapes buyer choices (table 1).

The adjustment through 2027 should be less abrupt than in 2026 as buyers and sellers become better adjusted to higher borrowing costs and weaker market conditions. At the same time, many existing owners remain able to delay selling rather than accept a lower price. Fewer new listings and elevated withdrawal rates should therefore reduce the volume of stock available for sale, limiting the extent to which weaker buyer demand translates into further price declines.

By the second half of 2027, we expect the market to begin stabilising.

Easing inflationary pressures and greater certainty that interest rates have peaked should gradually improve buyer confidence. Lower prices should also help bring buyers back into the market, while the prospect of monetary easing strengthens, allowing pent-up demand to gradually return. We expect prices to stabilise through the June and September quarters. The initial improvement should be driven by easing inflation, greater certainty that interest rates have peaked and the improvement in affordability following the decline in prices, with the first interest rate cut towards the end of 2027 providing additional support (figure 1).

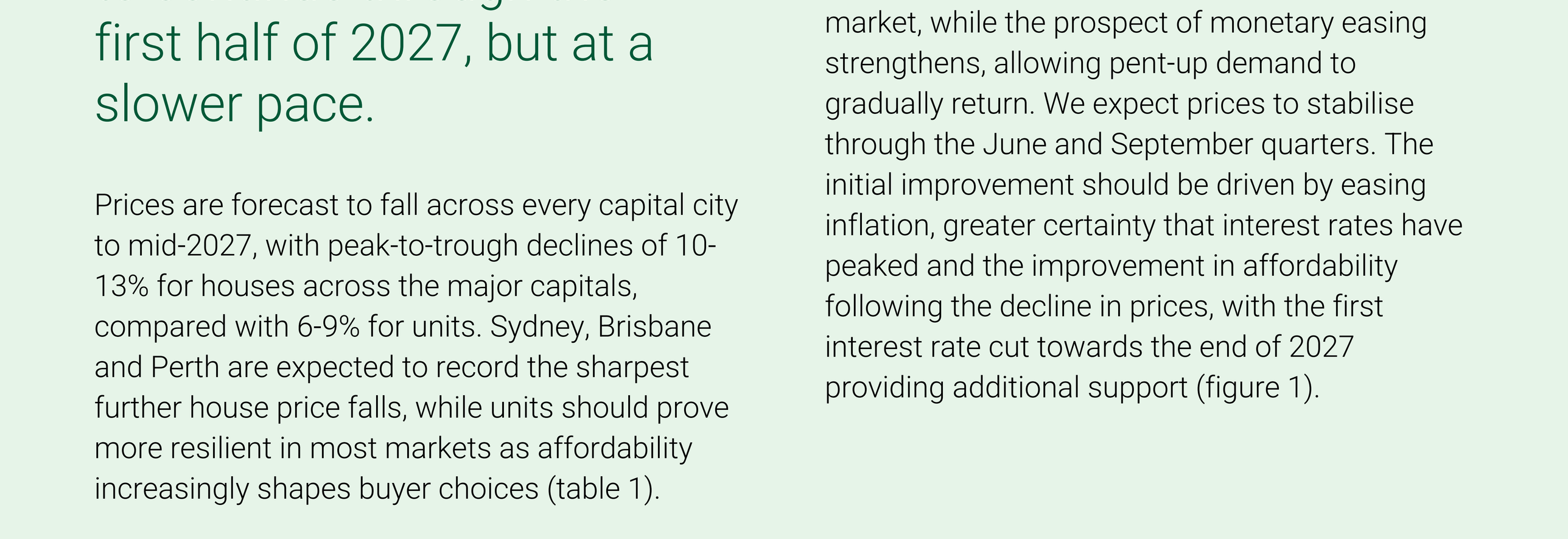


Table 1a. House price forecast

	Central forecast	Range	$ Change	Median price $
Sydney	**3.0%**	0.0% to 6.0%	-1k to 96k	1.60m to 1.70m
Melbourne	**2.5%**	-0.5% to 5.5%	-5k to 54k	0.98m to 1.04m
Brisbane	**1.5%**	-1.5% to 4.5%	-17k to 50k	1.11m to 1.17m
Adelaide	**2.0%**	-1.0% to 5.0%	-11k to 54k	1.07m to 1.13m
Perth	**1.5%**	-1.5% to 4.5%	-16k to 48k	1.06m to 1.12m
Canberra	**2.0%**	-1.0% to 5.0%	-10k to 50k	1.00m to 1.06m
Combined capitals	**2.5%**	-0.5% to 5.5%	-8k to 63k	1.18m to 1.25m

Percentage changes apply over the calendar year 2027 (December 2026 to December 2027) from the December 2026 forecast.
The central forecast used throughout this report represents the midpoint of the lower and upper forecast ranges shown in Table 1a.

Table 1b. Unit price forecast

	Central forecast	Range	$ Change	Median price $
Sydney	**1.5%**	-1.5% to 4.5%	-12k to 36k	794k to 843k
Melbourne	**1.0%**	-2.0% to 4.0%	-11k to 22k	544k to 577k
Brisbane	**4.0%**	1.0% to 7.0%	8k to 54k	779k to 826k
Adelaide	**1.0%**	-2.0% to 4.0%	-11k to 23k	558k to 593k
Perth	**3.5%**	0.5% to 6.5%	3k to 41k	640k to 678k
Canberra	**1.0%**	-2.0% to 4.0%	-10k to 19k	466k to 494k
Combined capitals	**2.0%**	-1.0% to 5.0%	-6k to 35k	683k to 724k

Percentage changes apply over the calendar year 2027 (December 2026 to December 2027) from the December 2026 forecast.
The central forecast used throughout this report represents the midpoint of the lower and upper forecast ranges shown in Table 1b.

H1 2027

Market adjustment

Prices continue to fall, but at a slower pace

High borrowing costs and weak confidence continue to weigh on demand, but reduced listings and elevated withdrawals moderate the pace of price declines.

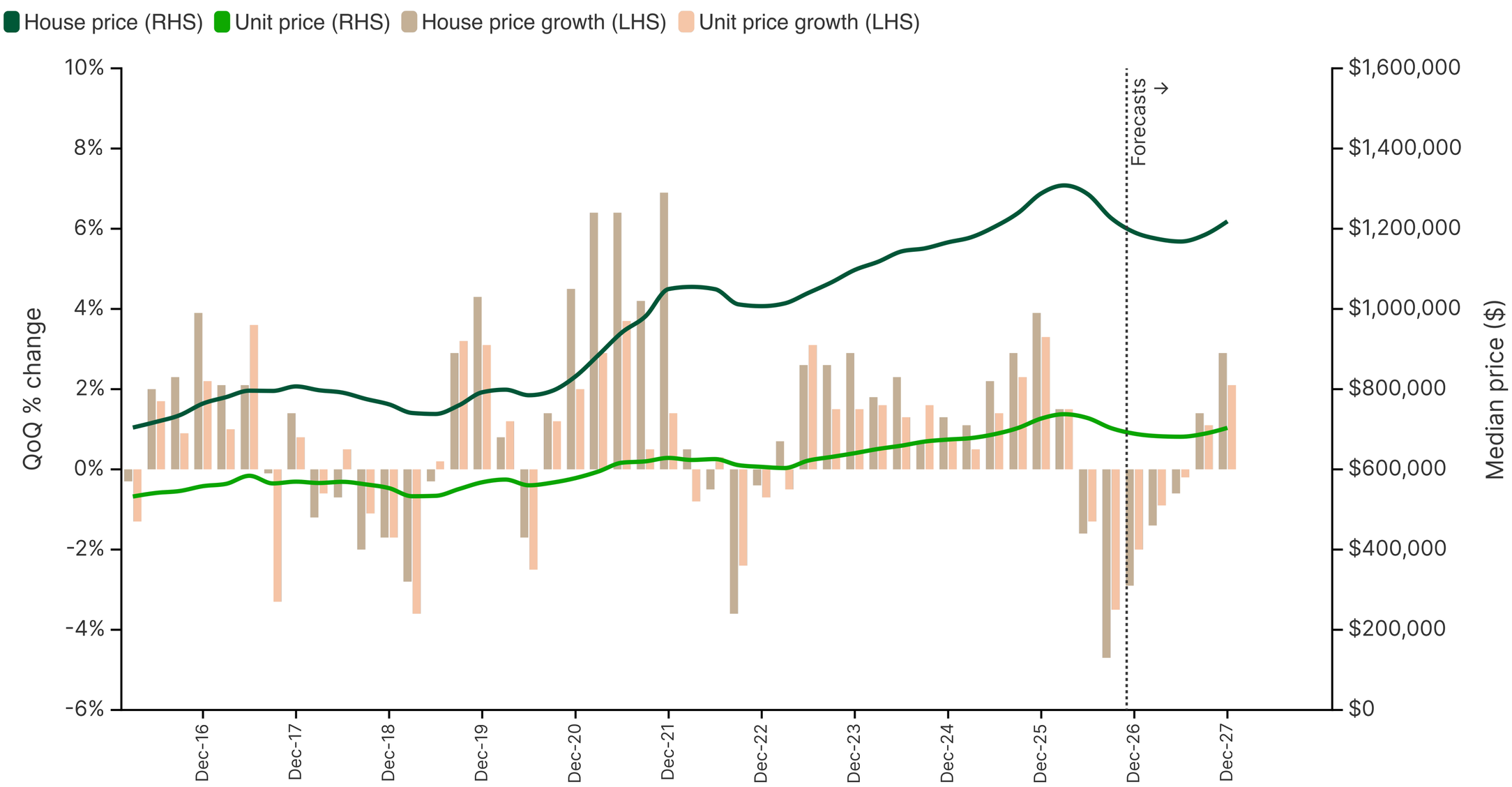
H2 2027

Stabilisation

Prices stabilise and post early-cycle increases

Easing inflation, greater certainty around interest rates and improved affordability encourage pent-up demand back into the market, with prices stabilising before returning to modest growth.

Figure 1. Australian capital city housing prices



Source: Domain



Economic outlook

High interest rates to weigh on housing through most of 2027

The RBA delivered a fifth rate hike in November 2026, taking the cash rate to 4.85%, an 18-year high. With the full effects of the previous rate increases yet to flow through the Australian economy and housing market, we expect these economic headwinds to continue weighing on housing market conditions into 2027.

Inflation remains a significant challenge and is likely to keep interest rates high through most of 2027. Headline inflation increased to 4.3% in the year to September, while trimmed mean inflation remained above the RBA's 2-3% target band at 3.6%. Price pressures remain broad-based, with elevated energy and commodity prices, domestic capacity constraints and strong global demand associated with AI-related investment adding to inflationary pressure and limiting the RBA's ability to ease monetary policy quickly.

This is likely to create a transition period for housing during 2027. Monetary policy will remain restrictive for most of the year, but the drag on buyer confidence should begin easing once households become more certain rates will not rise further. Housing activity can therefore begin improving before the first cut is delivered, although the recovery in borrowing capacity is likely to remain limited until monetary easing is underway.

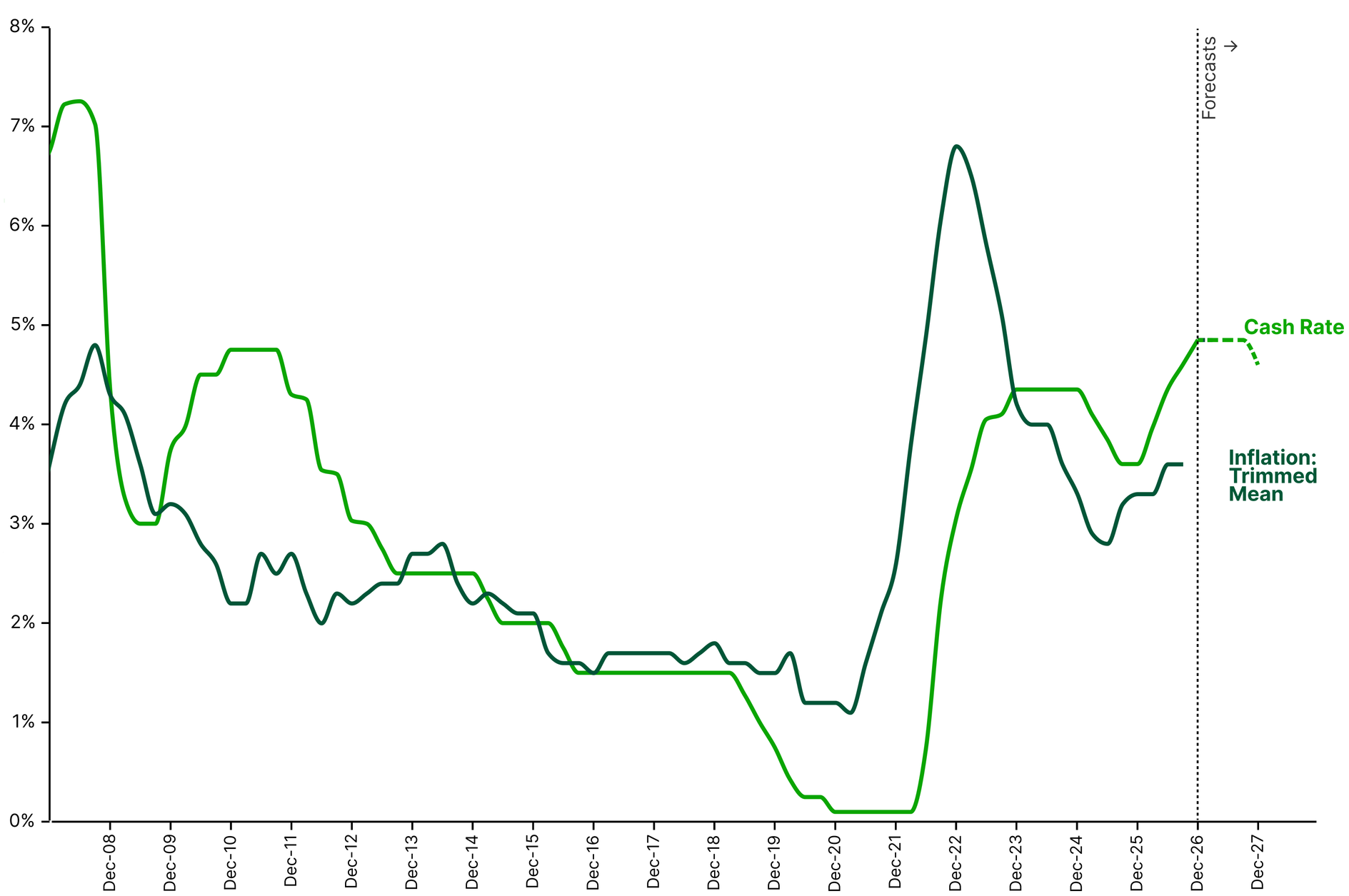
At the same time, labour market conditions are softening. Employment growth has slowed, and the unemployment rate has risen 0.4 percentage points over the past six months to 4.7% in September. While unemployment remains historically low and signs of housing market distress are largely contained, further deterioration in labour market conditions could erode one of the remaining areas of strength in the Australian economy.

We expect the cash rate has peaked at 4.85%.

The labour market is softening, business conditions have deteriorated, and consumer sentiment is at three-year lows, which should contribute to an easing in domestic price pressures and inflation through 2027. We expect the RBA to remain on hold for much of the year, with the first 25 basis point cut arriving in the December quarter of 2027 (figure 2). The main near-term risk runs the other way: if inflation proves stickier than expected, a further 25 basis point increase would add further pressure on home buyer borrowing capacity and push our price forecasts toward the lower end of their ranges.



Figure 2. RBA cash rate & inflation



Source: ABS, RBA.

Rate assumptions: cash rate peak 4.85% (November 2026); first cut -25bp in Q4 2027.

What will bring buyers back?

Australia's housing market downturn is, in part, a crisis of confidence. Higher borrowing costs and cost-of-living pressures have reduced purchasing power, but weaker buyer confidence has also played an important role in the sharp decline in housing activity and prices.

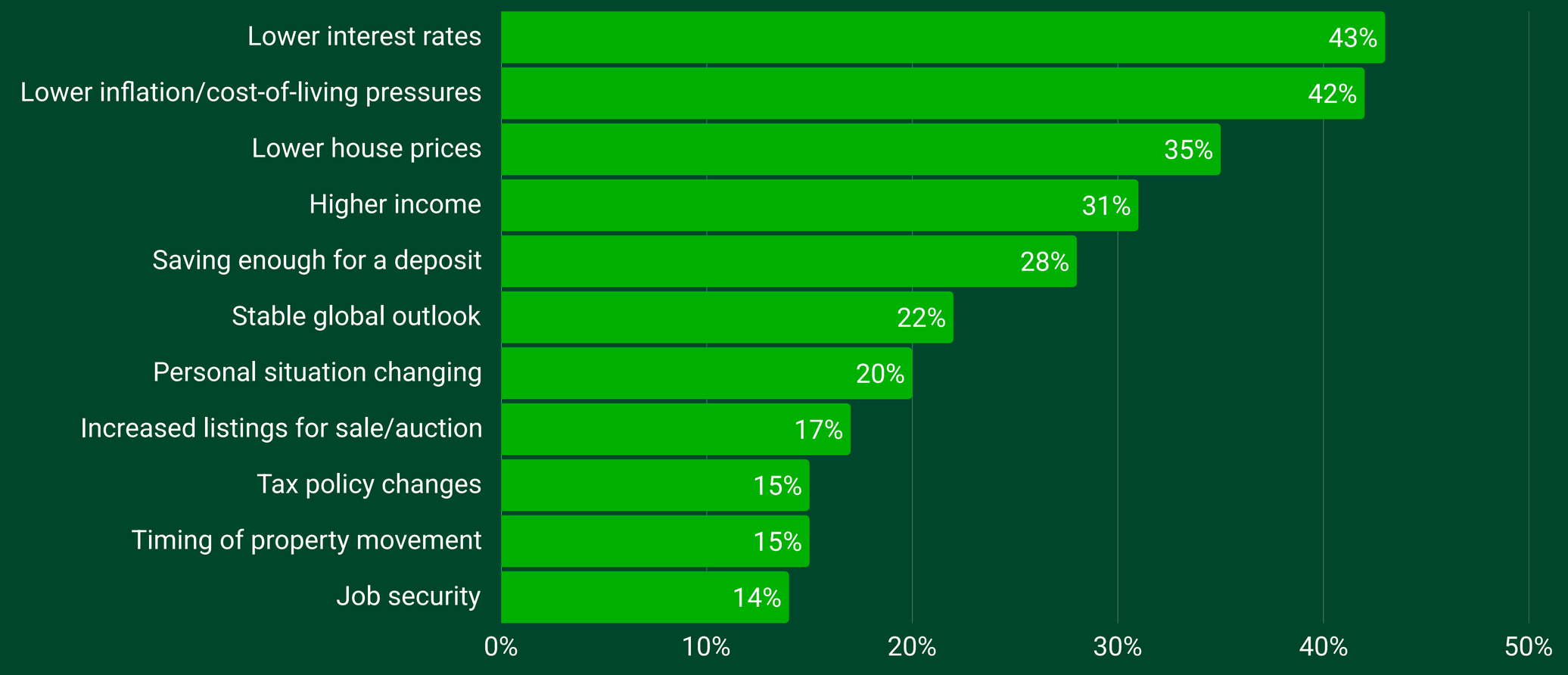
Domain's latest consumer research shows there is no single trigger that will bring buyers back to the market.

Lower interest rates, lower inflation and cost-of-living pressures were the most commonly selected factors that would help increase confidence to act (figure 3). But broader household finances also matter, with stronger income growth and having enough savings for a deposit rating highly among the conditions that would encourage buyers to act. Lower house prices are another important trigger, particularly for first-home buyers, but are less significant for upgraders, downsizers and investors.

Notably, only 14% of respondents selected greater job security or a lower risk of unemployment as a condition needed to activate their home buying plans. This is consistent with a labour market that, despite recent softening, remains comparatively resilient.

Looking ahead, the results suggest there is no single trigger for a recovery in buyer confidence. Instead, a combination of easing inflation, greater certainty around the interest rate outlook, improving household finances and the adjustment in housing prices should gradually create the conditions for buyers to return. This supports our expectation that housing market activity will begin to improve through the second half of 2027, ahead of a return to modest price growth towards the end of the year.

Figure 3. Factors to activate home buying decisions



Source: Domain's "State of the Nation" Property Consumer Survey (October 2026)
Survey conducted online by independent market research consultancy Vibrant Insights of prospective home buyers and based on a nationally representative sample of Australians aged 18+ (sample size=695)

Affordability supports unit resilience

Housing affordability remains a significant challenge, particularly for first-home buyers trying to save for a deposit. Despite sharp declines in home prices through the second half of 2026, elevated cost-of-living pressures continue to make saving for a deposit difficult, while higher interest rates have reduced borrowing capacity and increased mortgage servicing costs.

Despite both house and unit prices declining through 2026, units have demonstrated greater resilience through the downturn, reflecting their relative affordability as buyers adjust their housing choices to reduced borrowing capacity. At the same time, the policy drive to increase housing supply has seen apartments lead the supply response, with a strong pipeline of new unit development underway. As this additional supply moves to completion, it should help moderate unit price growth through 2027, even as affordability continues to support demand. The effect will not be uniform. Markets with large apartment pipelines or weaker population growth are likely to face greater price constraints, while units in undersupplied locations with large house-price premiums should continue to benefit from buyers seeking a more affordable entry point (table 2).

Relative affordability does not necessarily translate into unit outperformance in every market. In Sydney, the larger forecast recovery in house prices partly reflects their greater sensitivity to the preceding downturn, while the unit outlook is moderated by supply and investor-market conditions.



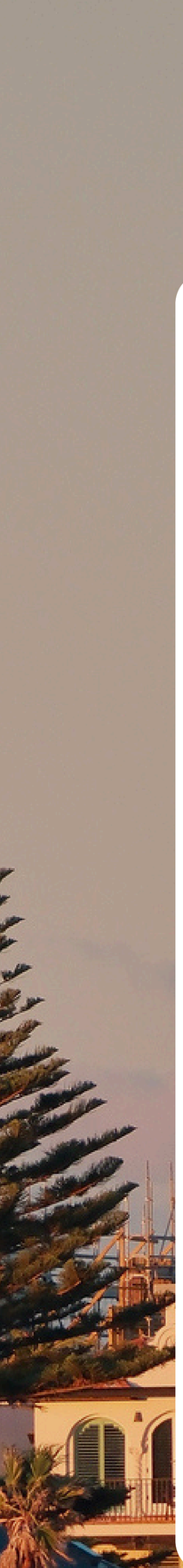
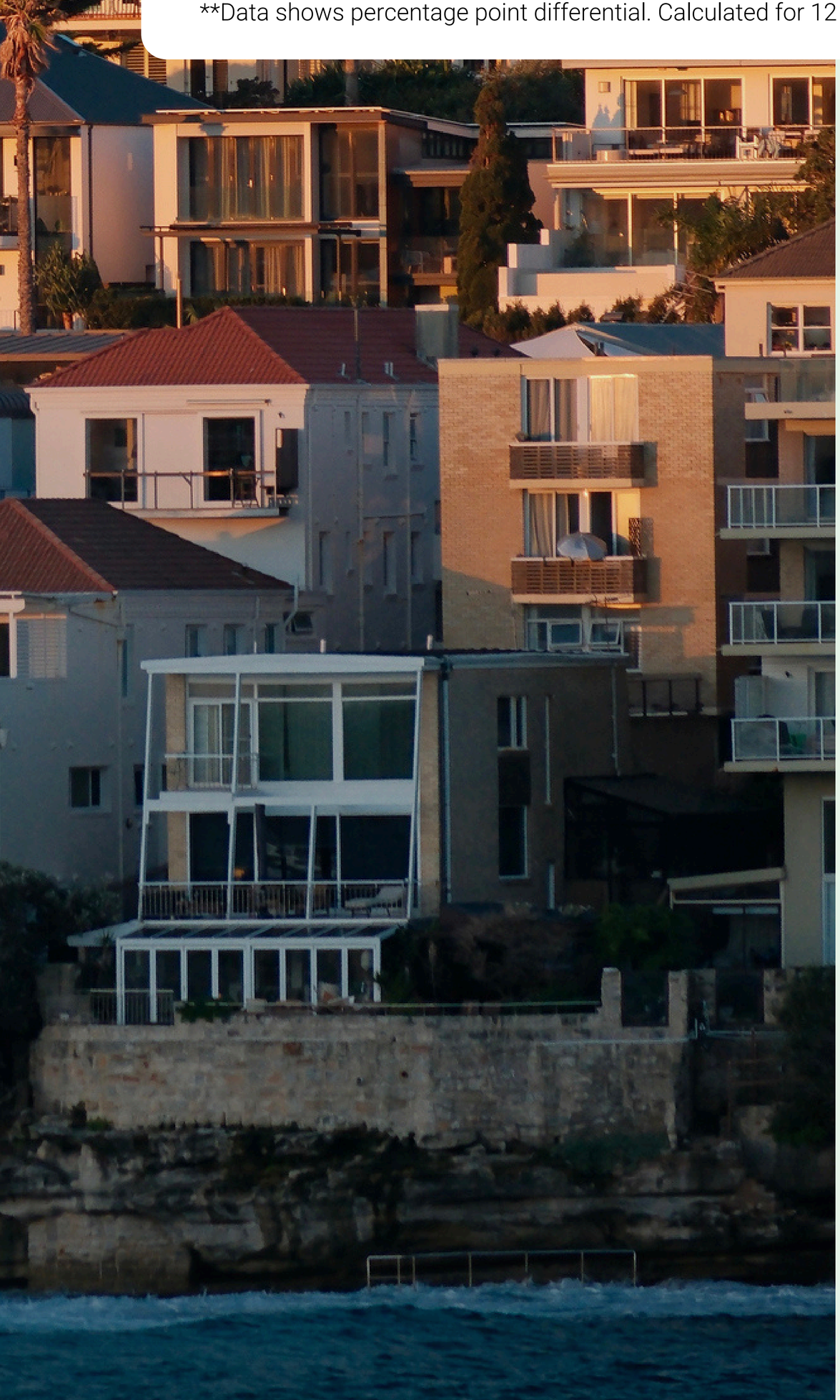


Table 2. House v unit forecast comparison

	Houses mid forecast*	Units mid forecast*	House-unit growth differential**	Overview
Sydney	+3.0%	+1.5%	+1.5ppts	Houses outperform
Melbourne	+2.5%	+1.0%	+1.5ppts	Houses outperform
Brisbane	+1.5%	+4.0%	-2.5ppts	Units outperform
Adelaide	+2.0%	+1.0%	+1.0ppts	Houses outperform
Perth	+1.5%	+3.5%	-2.0ppts	Units outperform
Canberra	+2.0%	+1.0%	+1.0ppts	Houses outperform
Combined capitals	+2.5%	+2.0%	+0.5ppts	Houses outperform

*Forecasts for 12 months to December quarter 2027. Central forecasts used. Mid-point percentage change.
**Data shows percentage point differential. Calculated for 12 months to December quarter 2027.



Capital city forecasts

Key forecast outcomes

- Melbourne’s median house price could fall below $1 million in the final quarter of 2026, for the first time since 2021.
- Sydney is forecast to remain Australia’s most expensive housing market.
- Perth is expected to experience the sharpest housing market correction across Australia’s capital cities.
- Units are forecast to outperform houses in Brisbane and Perth, bucking the trend across the other capitals.

Sydney, Melbourne, Brisbane and Perth are expected to record some of the largest peak-to-trough house price declines, although the drivers and starting points vary considerably across these markets. Sydney remains highly exposed to reduced borrowing capacity, while Brisbane and Perth are correcting after periods of strong price growth. Melbourne's downturn reflects persistently weak demand and the cumulative impact of higher interest rates and investor policy changes. These differences point to a more fragmented recovery than in previous housing cycles. Markets experiencing the largest corrections will not necessarily record the strongest initial rebound. Affordability, the composition of new supply, investor exposure and local economic conditions will shape both the timing and strength of the recovery across cities and property types (table 3).

Adelaide is forecast to experience a more moderate peak-to-trough decline in house prices, supported by population growth, tight rental conditions and ongoing supply constraints. Canberra's more moderate house price correction reflects a market that has already experienced a prolonged period of subdued growth, alongside slower population growth and comparatively higher levels of housing supply.

The pattern differs for units. Adelaide, Perth and Canberra are forecast to record the largest peak-to-trough unit price declines. In Adelaide and Perth, this reflects a continuation of recent downward momentum and a partial reversal of the strong gains recorded in recent years. In Canberra, weaker population growth, comparatively higher apartment supply and the market's longer period of subdued performance are expected to continue weighing on unit prices.

Table 3. Price forecasts for financial and calendar year.

	Houses		Units		Dwellings	
City	FY27	2027	FY27	2027	FY27	2027
Sydney	-10.0%	+3.0%	-6.0%	+1.5%	-9.0%	+2.5%
Melbourne	-7.5%	+2.5%	-6.0%	+1.0%	-7.0%	+2.0%
Brisbane	-10.0%	+1.5%	-5.0%	+4.0%	-8.5%	+2.0%
Adelaide	-6.0%	+2.0%	-6.5%	+1.0%	-6.0%	+1.5%
Perth	-12.0%	+1.5%	-11.0%	+3.5%	-11.5%	+2.0%
Canberra	-5.0%	+2.0%	-8.0%	+1.0%	-6.0%	+1.5%
Combined capitals	-9.0%	+2.5%	-6.5%	+2.0%	-8.5%	+2.0%

Houses and units forecast separately. All figures are forecast price growth over 12 months to period end. Combined dwelling is the weighted average of both. Combined capitals is the weighted average across six major capitals. Rate assumptions: cash rate peak 4.85% (November-26); first cut -25bp in Q4 2027.



Underlying drivers of the next housing market upswing

While we expect housing market conditions to begin stabilising during the second half of 2027, a more sustained recovery is likely to emerge only as the pressures on affordability and buyer confidence ease. Aside from changes to housing investment tax policy, the key forces driving the current downturn are predominantly cyclical rather than structural. As inflationary pressures ease, interest rates eventually decline and household confidence improves, we expect home buyer activity to gradually recover.

Importantly, Australia's underlying housing shortage has not gone away. Population growth has eased recently, but the strong population gains of recent years have added substantially to housing demand, and their impact continues to be felt. This is particularly evident in rental markets, where vacancy rates remain near historic lows of around 1%.

At the same time, new housing supply remains constrained. Approvals and commencements have begun to improve, and a substantial volume of housing is currently under construction. However, elevated construction costs, labour constraints, planning delays and long delivery times mean the improvement in the pipeline is unlikely to translate quickly into sufficient completed housing. National delivery is therefore expected to remain below the pace required to meet the National Housing Accord target.

This shortfall has been most significant across the major eastern seaboard states, with new dwelling completions across NSW, Victoria and Queensland around 14% below pre-COVID levels, compared with around 1% below across the other states and territories.[1]

[1] ABS Building Activity, June 2026. Calculated as private sector new dwelling completions in the year to June 2026 compared to 5-year average annual completions from June 2015 to June 2020.

Australia’s housing shortage provides the foundation for the next upswing, but it cannot trigger the recovery on its own. Its impact should become more visible as cyclical constraints on borrowing capacity and buyer confidence begin to ease, allowing underlying housing demand to translate back into purchasing activity.



As the current affordability and confidence pressures begin to ease, this persistent imbalance between housing demand and supply should become increasingly important. Pent-up buyer demand is expected to gradually return from late 2027, supporting improved sales activity and prices. Markets with greater underlying supply-demand imbalances, such as Sydney and Melbourne, and those supported by stronger population and economic conditions, including Brisbane and Perth, should be better positioned in the subsequent recovery phase, although the timing and composition of that recovery will differ.

Overall, the current downturn is predominantly cyclical and does not signal that Australia’s underlying housing shortage has been resolved. As the headwinds from high interest rates, stretched affordability and weak buyer confidence ease, the persistent gap between housing demand and supply should provide a foundation for renewed price growth across Australia’s major capital cities.

What could change the outlook?

Upside risks

1.
Interest rates fall sooner

Inflation eases faster than expected, allowing the RBA to bring forward rate cuts and improving borrowing capacity and mortgage affordability.

2.
First-home demand is stronger than expected

Government support for first-home buyers generates a stronger demand response than anticipated, particularly for more affordable houses and units.

3.
Housing supply shortfall deepens

Labour shortages, construction costs and planning delays constrain new housing delivery by more than expected, increasing competition for existing housing and supporting prices.

4.
Population growth remains elevated

Population growth proves stronger than expected, adding to housing demand and increasing pressure across both rental and purchase markets.

5.
Investor demand proves resilient

Rental market tightness, higher yields and improved market conditions sustain investor demand despite policy changes, providing greater support to housing activity and prices.

Downside risks

1.
Interest rates rise further

Persistent inflation forces the RBA to raise rates further or keep them elevated for longer than expected, further reducing borrowing capacity and weakening buyer demand.

2.
Labour market weakens more sharply

A larger rise in unemployment weighs on household confidence and borrowing appetite, while increasing the risk of financially stressed households selling.

3.
Housing supply recovers faster than expected

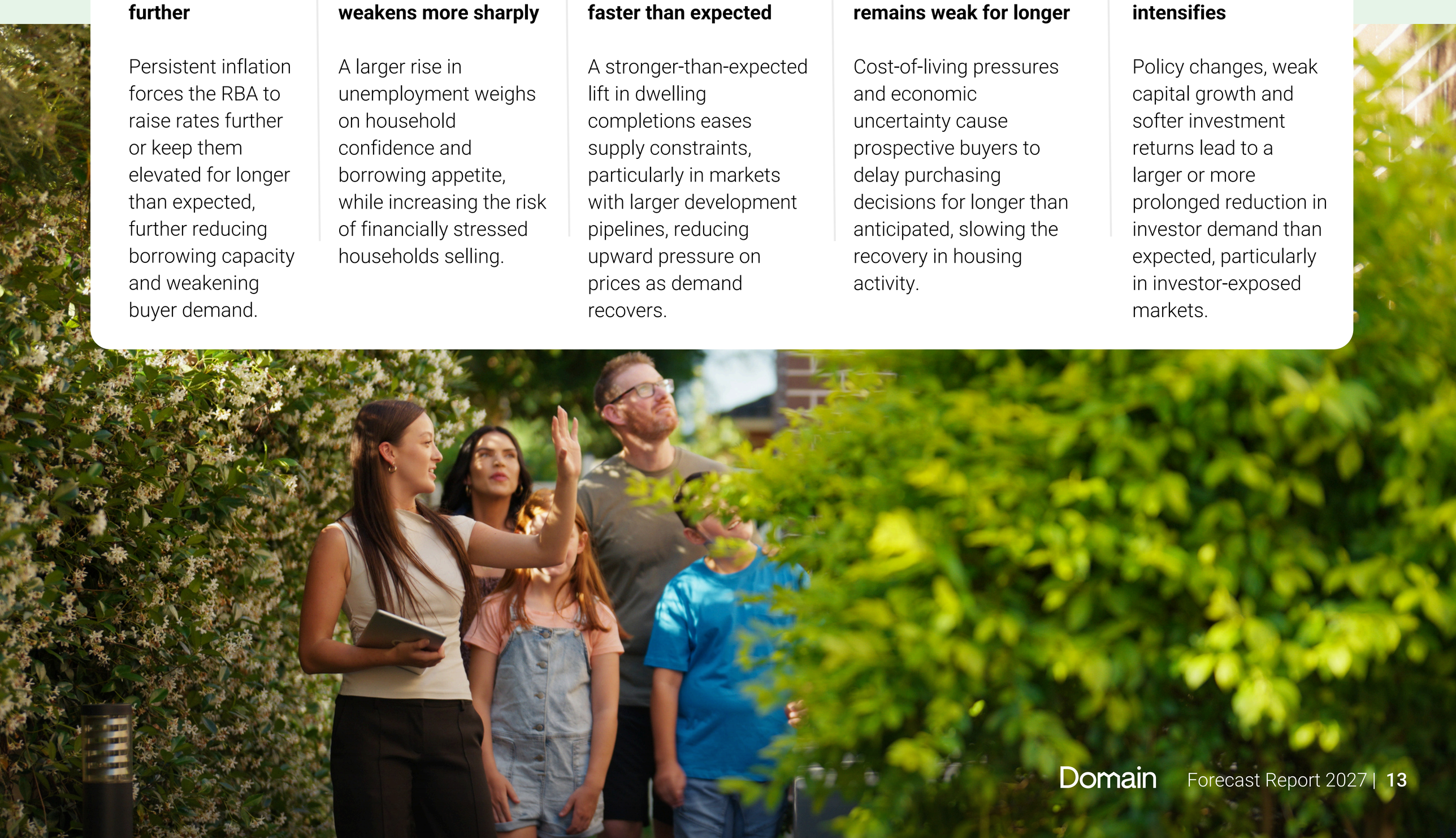
A stronger-than-expected lift in dwelling completions eases supply constraints, particularly in markets with larger development pipelines, reducing upward pressure on prices as demand recovers.

4.
Buyer confidence remains weak for longer

Cost-of-living pressures and economic uncertainty cause prospective buyers to delay purchasing decisions for longer than anticipated, slowing the recovery in housing activity.

5.
Investor withdrawal intensifies

Policy changes, weak capital growth and softer investment returns lead to a larger or more prolonged reduction in investor demand than expected, particularly in investor-exposed markets.



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.

Copyright and Disclaimer

Copyright notices and third-party terms





Domain