THE AUSTRALIAN BUSINESS REVIEW

Melbourne's property prices are unlikely to experience substantial declines in 2025

By STUART WEMYSS

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The property market is always a fascinating topic, especially when looking ahead to what might unfold in the coming year.

While short-term price movements may not matter much for long-term investors, they can be extremely relevant for those planning to buy or sell property in 2025.

According to CoreLogic, during 2024 property prices across Australia's five major capital cities rose by an average of 5.2 per cent. Perth, Adelaide, and Brisbane led the way with significant double-digit growth, while Sydney's gain was modest at 2.5 per cent. Melbourne was the only capital city to record a decline, where prices fell 2.9 per cent.

Interestingly, despite weak buyer demand in some Victorian regions – particularly coastal areas – many property owners withdrew theirs from sale or opted to not sell. This decision to hold has kept prices from falling further; and unless more people are forced to sell due to financial distress, then Melbourne's property prices are unlikely to experience substantial declines in 2025.

Three factors play a significant role in influencing property prices in the short to medium term: interstate migration, mortgage volumes and housing supply.

• Interstate migration trends typically provide a reliable indicator of buyer sentiment. Sydney continues to experience large outflows, where that has been 7700 net departures per quarter, which is 50 per cent above its historical average.

Victoria, on the other hand, has had a turnaround, welcoming a modest net inflow of residents, reversing years of population decline over the Covid-19 period. Queensland is a standout, attracting 7500 new residents per quarter and 25 per cent above its long-term trend.

Western Australia is also gaining popularity after years of below-average migration. These trends indicate that Sydney is perhaps losing its appeal which maybe is due to the impact of higher interest rates, while Victoria is regaining positive momentum, and Queensland continues to shine as a top destination.

• Loan volumes, another key driver, have rebounded strongly since March 2023 after a sharp decline during the RBA's rate hikes.

Loan activity is now nearing the peaks of early 2022. Notably, investor activity varies significantly across states.

Western Australia has had the most dramatic increase, and loan volumes have more than tripled compared with pre-Covid levels, albeit off a very low base. Queensland and South Australia also show strong growth, while Victoria is slightly below its pre-pandemic average. Affordability and borrowing capacity will continue to be central to market dynamics this year. With borrowing constraints still tight, more affordable markets, such as Queensland, Adelaide, and Perth, are likely to experience continued strong demand.

The federal election may also play a role, particularly if major housing policy proposals are introduced. The ALP has ruled out changes to capital gains tax and negative gearing, providing certainty for investors. The Coalition is expected to propose allowing first-home buyers to use superannuation to purchase a home. Such policies can significantly influence short-term buyer demand and market sentiment, depending on their design and implementation.

• Interest rates are another hot topic, and most commentators expect the RBA to begin cutting rates in 2025 – likely starting around mid year. Markets are currently pricing in three 0.25 percentage point cuts for the year. While these reductions would modestly improve borrowing capacity by 5 to 10 per cent by my estimations, the real impact would be felt by existing borrowers through reduced repayment costs.

Lower rates would likely boost property demand and support price growth, but the effect may be less pronounced than some anticipate.

Expectations about future rate changes beyond 2025 could also sway the market, depending on whether sentiment leans toward additional cuts or even potential increases.

Looking at the broader market trends, it is helpful to consider property cycles rather than focusing solely on year-to-year fluctuations. Since 1980, Australian capital city property markets have alternated between flat and growth cycles. I have studied these cycles closely.

Growth cycles typically last about a decade and deliver median price increases of roughly 200 per cent, while flat cycles tend to last eight to nine years, with real price declines of around 1 per cent annually when adjusted for inflation.

Currently, Perth is approximately two years into its growth cycle, with prices already up 40 per cent. Brisbane and Adelaide are further along, each having seen over 70 per cent growth since their cycles began around 5.5 years ago. This suggest these capital cities may be more than half way through their growth cycles. Sydney's growth has been slower, where prices have only risen 26 per cent over four years.

Melbourne, meanwhile, is still in a flat cycle which began eight years ago, and median prices have fallen by 2.4 per cent annually in real terms. This decline is larger than most previous flat cycles and suggests Melbourne may soon transition into a growth phase.

For 2025, I expect the property market to continue along a similar trajectory to 2024. Perth is likely to be the strongest performer again, with another year of double-digit growth.

Brisbane and Adelaide should have high single-digit gains, while Sydney and Melbourne will probably lag, with price movements ranging from a slight decline to modest growth. Importantly, I don't anticipate significant disruptions from the federal election or major increases in forced property sales.

Despite the intrigue of short-term predictions, the medium to long-term outlook is always more valuable for investors.

Over time, high-quality, investment-grade properties tend to deliver strong returns. That said, current market conditions in Melbourne make it particularly attractive. As the city nears the end of its flat cycle, it presents a rare opportunity to buy in a soft market with reduced buyer competition. For those with a long-term investment strategy, this could be the perfect time to secure a quality asset in anticipation of the next growth cycle.

Stuart Wemyss is the host of the weekly podcast, Investopoly.

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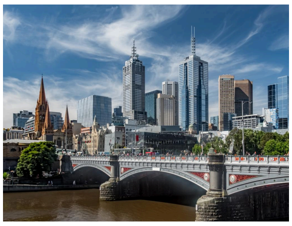

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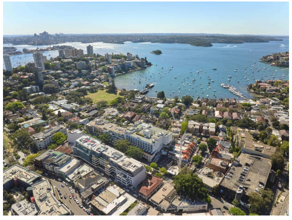

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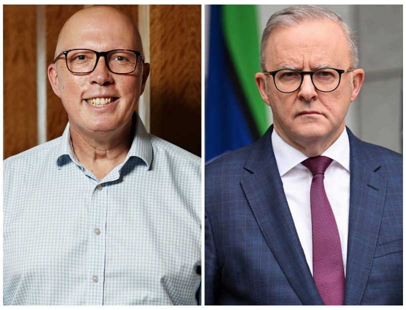

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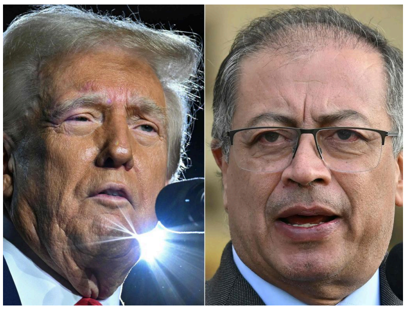

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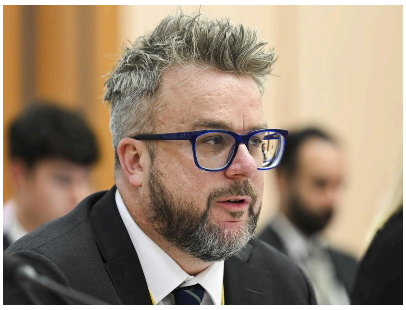

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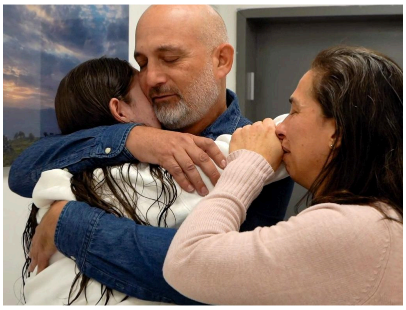

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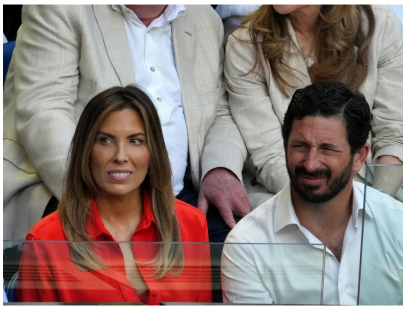

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Dreyfus says criticising Wong and politicising anti-Semitism is 'grotesque'

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By JACQUELIN MAGNAY