Housing correction deepens: CommBank economists

Commonwealth Bank · 2026-09-01 · English original

CommBank expects national dwelling prices to fall around 9% from their peak this cycle.

Price falls have spread to Brisbane, Perth and Adelaide.

A recovery in 2027 relies partly on expected RBA rate cuts.

Australia’s housing downturn is proving faster and more widespread than expected, with price falls extending beyond Sydney and Melbourne to some of the country’s previously strongest capital city markets.

National dwelling prices fell another 0.9% in August, their fifth consecutive monthly decline, leaving prices 3.6% below their March peak.

The weakness has prompted CommBank economists to downgrade their housing forecasts, with national prices now expected to fall around 9% from peak to trough this cycle.

“The adjustment over the past three months has been larger and faster than we anticipated,” CommBank Senior Economist Trent Saunders said in a new Economic Insights report.

Sydney and Melbourne remain the weakest major housing markets.

Sydney dwelling prices fell 1.4% in August and are now 7.1% below their February peak, while Melbourne prices fell 1.1% and are 6.5% below their previous peak.

CommBank now expects peak-to-trough declines of around 13% in Sydney and 12% in Melbourne.

But the bigger change in recent months has been what’s happening elsewhere.

Brisbane and Adelaide have each recorded three consecutive monthly price falls, while Perth has fallen for four months in a row.

That marks a sharp reversal from earlier in the year, when Perth home prices were increasing by around 2% to 2.5% every 28 days.

CommBank now expects prices in Brisbane, Perth and Adelaide to fall by around 8% from peak to trough.

“The downturn has also broadened materially,” Saunders said.

Other measures also point to a shift in conditions for buyers and sellers.

Homes are taking longer to sell, particularly in markets that entered the year with strong momentum.

In Brisbane, the median time a property spends on the market has increased from 15 days at the start of the year to 35 days over the three months to August.

In Perth, it has risen from just nine days to 22 days.

Auction clearance rates have also weakened relative to where they were last year, giving prospective buyers more choice and more time to make decisions than they had when competition was stronger.

Saunders said three main reasons were behind the downgraded forecast.

First, housing market momentum has weakened more rapidly than expected over the past three months.

Second, the downturn has spread to cities where tight housing supply had previously been expected to provide greater support to prices.

And third, the outlook for interest rates has shifted higher.

CommBank now expects the Reserve Bank of Australia to raise the cash rate by another 0.25 percentage points to 4.60% in November.

That would add to the pressure already coming from higher borrowing costs, weaker sentiment and changes to housing tax policy announced in the Budget.

CommBank still expects the housing downturn to eventually run its course, with prices forecast to stabilise and begin recovering during 2027.

National dwelling prices are forecast to rise around 2% over 2027, and that forecast relies partly on CommBank's expectation that the RBA will cut interest rates in May and August next year.

If the cash rate instead remained at 4.60% throughout 2027, CommBank estimates national dwelling prices would be broadly flat over the year.

"The modest growth in our baseline forecast over 2027 relies on the expected rate cuts," Saunders said.

There are also factors that should eventually provide some support.

Falling prices should improve affordability and increase rental yields, drawing some buyers back into the market, while housing supply remains tight. The national rental vacancy rate was at a historically low 1.8% in August.

For now, however, the combination of weaker momentum and higher borrowing costs means CommBank expects the housing adjustment to continue through the first half of next year.

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