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Residential property sentiment falls sharply but housing supply crisis provides a floor

Residential scores 6.2 in Q2 2026, the steepest single-quarter fall of any sector, as rate rises collide with persistent structural undersupply

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Residential property has recorded its sharpest quarterly fall, dropping a full point from 7.2 in Q1 to 6.2 in Q2 2026. The sector remains the second-strongest nationally despite the decline, with structural factors limiting how far sentiment can fall.

Western Australia leads the residential sector at 8.0, followed by Queensland at 7.4 and South Australia at 6.7. Victoria (5.5) and New South Wales (5.2) are both near the neutral threshold. In every state, the interest rate outlook and job market conditions are the main headwinds cited by residential valuers.

API Chief Economist Dr Sherman Chan said the housing supply crisis remained a significant counterweight to falling sentiment. "The housing supply crisis has not gone away. The ongoing lack of new and existing housing supply, continued population growth, and the federal government's 5% Deposit Scheme are still exerting upward pressure on residential prices even as confidence falls. Sentiment is soft, but fundamentals remain supported by deep structural undersupply."

What is driving residential property

Residential valuers point to land supply constraints and off-the-plan incentives as factors supporting prices, alongside the 5% Deposit Scheme, population growth and persistent housing undersupply. On the downside, the interest rate outlook is the dominant pressure, followed by job market conditions and infrastructure delays.

Dr Chan said Q3 would be the critical test. "The residential market is being pulled in two directions. Rates and sentiment are pushing it down. Supply, population and government policy are pushing it up. What we are watching in Q3 is which of those forces wins out, and whether the job market deteriorates enough to change the balance. For now, the structural floor is holding."

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