

Market Insight

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Property market fundamentals remain solid post-Budget, but rental crunch to accelerate and Australia’s core supply challenge remains

Summary

The 2026 Federal Budget introduces the most significant reforms to property investment taxation in decades. The changes, a restructured capital gains tax discount and the removal of negative gearing for established residential property, will reshape the economics of property investment for a meaningful segment of the market, with flow-on effects for buyers, renters, developers, and housing activity more broadly. Both changes take effect from 1 July 2027, are grandfathered for existing holdings, and newly built homes are exempt from both.

Effects across most areas of the market are expected to be gradual and the available structural modelling suggests the effects of the changes will be modest and manageable.

But the timing and context matter. Rental demand is elevated, rental affordability is at record-low levels and the rental market has a limited buffer. Policies that reduce investor participation, even modestly, carry a higher risk of tightening rental supply. The effect on the most affordable segments of the rental market deserves close attention.

To the extent investor activity pulls back a bit, reduced competition for existing homes and some downward pressure on home prices is likely to create more favourable conditions for first-home buyers entering the market; over the longer-term this should modestly boost homeownership.

However, supply remains the fundamental challenge facing the housing market. On this front, the Budget offers relatively limited new measures. Additional infrastructure funding and the exemption for new builds in both the CGT and negative gearing should help support supply, but the scale is modest relative to the enormous supply task. While housing supply is predominantly a state and local government issue, the Federal government has a key role to play in coordinating and incentivising reforms to planning, zoning and stamp duty, to help unlock supply and improve housing affordability.

Key announced changes

Capital gains tax discount:

From 1 July 2027 investors will be taxed on the above-inflation gain on their asset, rather than on half of the gain (that is, their cost base will be indexed by inflation, and the full after-inflation gain taxed). This change applies to all assets, not just residential property.

While less generous on average, some property investors would pay less tax under the new system. Over the past decade approximately [27% of properties](#) that received a capital gain would have been better off under the new indexation model.

Newly built homes are the only assets exempt from this change: buyers of new homes will be able to opt to stay under the existing 50% discount, or use inflation-indexing.

Expected housing market outcomes post Budget

Impact area	Short term (ahead of 1 July 2027)	Medium term (during transition; circa five years)	Long term (post majority of negative gearing transition)
Prices	↓ Small decrease	↗ Increase, but less than otherwise	↗ Increase, but slightly lower than otherwise
Turnover	↑ Small increase	Broadly unchanged	↑ Increase
Rent prices	↑ Small increase	↑ Increase, but slightly more than otherwise	↑ Increase, but slightly more than otherwise
New supply	→ Unchanged	Ambiguous effect from Budget; likely small	↗ Increase, but slightly lower than otherwise

Negative gearing removed:

From 1 July 2027, expenses on residential property investments can only be offset against residential property income. This removes 'negative gearing' for residential property (i.e. offsetting net rental losses against labour income). These losses can still be carried forward and offset against future rental income (or future capital gains).

These changes will be grandfathered: any home owned prior to Budget night can continue under the old system. [Reporting indicates](#) that this will also apply to owner-occupied homes that are subsequently rented out, though exact details of the transition will only be known once we see legislation.

As with the change to capital gains, new homes are exempt from this change and can continue to deduct net rental losses from other sources of income.

Short-term effects

(i.e. ahead of 1 July start date)

Home prices are likely to be a bit lower than they would have been absent the changes. With home prices already falling in Sydney and Melbourne in response to higher mortgage rates, that likely means a slightly larger decline in home prices than we would have otherwise seen. However, the modelling we have suggests the effect on home prices is likely modest, probably [equivalent](#) or a little smaller than the effect of the rate hikes we've seen (and will see) this year. The effect could be a bit larger in the near-term than in the medium-term, as prospective buyers take time to fully digest the changes.

The effect on **home prices** is likely largest in areas with high investor participation – typically the most-affordable end of the market. This downward pressure on prices would work opposite to the trend we're seeing currently, where higher rates are having a larger effect on prices at the more-expensive end of the market.

The effect on **housing turnover** is a balance between two competing effects; the net effect is likely a small boost to turnover in the short-term.

The change to the treatment of capital gains will likely boost turnover as some investors look to sell ahead of 1 July 2027 (or not long after) on the basis that the less generous capital gains treatment makes their investment less attractive / other investment options a better portfolio choice.

The grandfathering of negative gearing likely depresses turnover as existing homeowners look to defer selling to retain existing, more generous, negative gearing treatment. As discussed below, this effect is probably small, and likely more material over the medium term.

Rents are probably not much affected, at least in the very near term, as the scale of investor sales will still be small relative to the size of the overall rental market. However, there are risks, as discussed below.

A **key short-term uncertainty** is how material these changes are for investor sentiment, over and above the structural changes.

The transition period, as market participants digest and understand the changes, could see a softening in market conditions. These changes come at a time where conditions have already pulled back, following three consecutive rate hikes in 2026, and home prices declining very slightly in April.

Medium-term effects

(i.e. during transition period; circa 5 years)

Effects on **home prices** are largely the same as in the near-term, or even a little smaller, as market participants fully digest the effect of the changes. The outlook for mortgage rates will be a key determinant of home prices over this horizon.

New **residential construction** may see a small boost. Because newly built homes are exempt from the changes, some investors that would have otherwise purchased an existing home will instead buy newly built. This is likely to support viability of some developments and see a modest increase in new construction in the medium term. However, supply constraints remain a key factor and will temper the effect. As discussed below, countervailing effect of the tax changes on the market for existing homes, as well as lower-than-otherwise home prices will work in the other direction, and will offset some (possibly all) of the effect.

Rents are likely higher, though the aggregate effect is probably still small. However, as discussed below, there could be larger disruptions during the transition in some parts of the market where investors are more likely to be selling and little new supply is available, and there are risks the effects on rents could be larger than expected given the already tight state of rental market conditions.

Tax changes probably mean **housing turnover** will be broadly unchanged over the medium term relative to what turnover would have been had policies not been changed.

The boost from investors selling ahead of / due to the capital gains changes will not be as strong post 1 July 2027, while the 'lock-in' effect of grandfathering negative gearing persists and discourages some investors from selling.

How large this 'lock-in' effect will be is unclear: the number of investors for whom the decision to sell is affected by grandfathering is probably not large:

- Investors selling for lifecycle reasons are unaffected (e.g. retirement, marital separation). These investors would not be taking advantage of negative gearing anyway (if they are retiring) or are selling for reasons that are insensitive to tax treatment.
- Investors selling for portfolio allocation reasons should be mostly, though not completely, unaffected (e.g. those selling to buy non-rental assets or selling to upgrade owner occupier home). This decision should be unaffected as the eligibility of these other assets for negative gearing has not changed. However, would-be investors who plan to move back into rental property later in life are likely to be discouraged from that (temporary) reallocation.
- Investors selling to alter their portfolio (e.g. selling in one state to buy in another or selling some group of properties to buy a different group) are affected by the grandfathering and their decision to alter their portfolio is discouraged.

Measuring the size of each of these groups (and therefore the likely size of the lock-in effect) is challenging with the available data. But the data we do have suggests the 'lock-in' effect is probably not large.

- Only around half to two-thirds (depending on the year) of investors are negatively geared; for those that are positively geared, grandfathering is largely irrelevant.¹
- Of the investor groups that may sell listed above, the former (i.e. lifecycle reasons) is by far the largest: 27% of investors are aged over 60, and more than half are over 50.
- The latter, most sensitive, group is likely small; the vast majority – 72% – of investors own just a single rental property. And those with two or more properties are slightly *less* likely to be negatively geared *and* are more likely to be older (i.e. those with large portfolios may be more likely to sell for lifecycle/retirement than for altering their portfolio).

This 'lock-in' may also flow over to existing owner occupiers, who may (based on recent reporting) be able to retain negative gearing on their current home if they convert it to a rental. However, exactly how this aspect of grandfathering will operate in practice remains to be seen.

Again, the number of homeowners to whom this might apply is hard to pin down. But it is also likely a small effect, as many owner-occupiers looking to sell will have been in their home for a reasonable length of time and so will be at a lower LVR than a newly

purchased investment. With correspondingly lower interest repayments, that rental property is much less likely to be negatively geared (since interest is by far the largest expense for negatively geared investors).

Long-term effects

(i.e. post majority of negative gearing transition)

Home prices are likely to be a little lower than otherwise, though modelling suggests effects are likely to be small; estimates are in the order of 1-5% lower.²

Homeownership will be a little higher, as existing homes shuffle between investors and owner-occupiers.³ Government estimates are for 75,000 extra first-home buyers over a decade – i.e. a modest boost to homeownership.⁴ Less-generous capital gains taxation could make saving a deposit harder for some first-home buyers, which would work in the opposite direction. However, this is likely to be relevant for only a small number of first-home buyers: only around 5% of taxpayers under 35 report capital gains, with an average net capital gain of \$5,300.

Housing turnover is likely to be a little higher in the long-run as homes move out of the grandfathered negative gearing arrangements, either due to moving into being positively geared, or from being sold due to lifecycle reasons (eg retirement).

- Higher homeownership likely boosts turnover, as the additional first-home buyers upgrade sooner than investors would have otherwise sold.
- Modelling also suggests that both tax changes will reduce average investor hold periods.⁵

Both effects are likely to be modest relative to overall turnover, so the boost to turnover is not large.

Rents are likely a little higher in the long-term due to the smaller stock of rental properties. The aggregate size of this effect is small. Modelling suggests rents are likely to be at most a few per cent higher than otherwise, and Treasury's estimates in the Budget are that rents will be \$2 higher.⁶ The aggregate effect is small because the effect of fewer rental properties is offset by there being fewer households looking to rent (as some have moved into homeownership). However, as discussed below, there are **meaningful risks for some segments**.

The long-term effect on the **supply of new homes** is ambiguous, but likely a small decrease. Exemptions for new builds should move some investor demand away from existing homes and toward new builds, supporting construction activity. However, reduced investor demand for established homes may have a

¹ A possible exception is investors that *could* switch to being negatively geared if rates were to rise by enough to raise their interest costs enough. With rates already at quite high levels, this is marginal at most.

² Saunders (2026); Singh et al (2025); Daley & Wood (2016); Deloitte (2019); Cho et al (2017)

³ Singh et al (2025); Warlters (2024); Cho et al (2017)

⁴ Budget Paper 1, pg. 159.

⁵ Singh et al (2025)

⁶ Singh et al (2025); Daley & Wood (2016); Deloitte (2019); Cho et al (2017); Budget Paper 1, pg. 159

flow-on effect, since buyers of new homes will, at some point, want to sell their investment. Treasury estimates are that, on net, the tax changes will reduce the cumulative number of new homes over the next decade by 35,000 (due to modestly lower-than-otherwise home prices).⁷ Other factors, like supply and zoning constraints, financing costs, and building costs will have a larger effect.

More to be done on housing supply to improve affordability

Achieving sustainable and meaningful improvements to housing affordability must come from boosting supply. While the tax changes are designed to help redirect investment toward new construction, the changes also reduce the overall attractiveness of residential property investment.

Tax incentives alone cannot solve the underlying feasibility challenges currently facing the construction sector; high and growing construction costs, labour shortages, and rising interest rates.

Including \$2 billion for new infrastructure to support development is a positive step, and one which the government estimates will unlock 65,000 homes.⁸ However, this is a slow process expected to take between five and ten years, and is modest in the context of the affordability challenges we face.

While much of housing supply is a state and local government issue, the Federal government has a key role in encouraging and coordinating reform. Linking the \$2 billion in funding in the Local Infrastructure Fund to state government reforms in productivity, approval times and land release will help, but the actual implementation, which is yet to be seen, will determine how effective that is. More can also be done to encourage local governments to reform zoning in high-value, highly desirable areas that are well supported by infrastructure. In addition to boosting new supply, encouraging and supporting states that commit to reducing their reliance on stamp duty would also help make better use of the homes we already have.

A watch out for renters

While reforms to negative gearing and capital gains are designed to discourage investors and (modestly) boost homeownership, renters may end up being the hardest hit.

Around one third of Australians currently rent and many, whether through choice or circumstance, are not looking to buy. This includes many lower income households, families, and older Australians, who are among the most vulnerable renters in a tight market.

These changes come at a time of extremely challenging rental market conditions. Australia's national vacancy rate recovered from a record low of 1.05% in February 2024 to reach 1.36% in April 2026. While vacancy has improved a little in recent years, supported by strong investor activity, it remains well below the level consistent with a balanced market. This has driven rental affordability to its worst level seen since at least 2008, according to realestate.com.au's Rental Affordability Report 2026.⁹ At the same time, Australia is on track to see net migration average 230,000 people per year over the remainder of the decade. The vast majority of new migrants rent, rather than own, for at least their first five years in Australia, creating an immediate need for more rental accommodation.

If the effects of these changes prove larger than expected, the effect on rental market conditions, and therefore rents, could be disproportionate.

While the medium- and long-term aggregate effect of the changes on rents is estimated to be only a modest increase, it will not fall evenly.

By restricting negative gearing and the capital gains discount to new builds, new rental supply may not be added where it is needed most. Currently, much of Australia's new housing comprises high-density apartments in inner-city areas and low-density houses in outer suburban growth areas. If investors shift from existing homes providing rentals in inner- and middle-ring suburbs to these areas, the balance of *where* rental properties are available will shift.

This could see more rental accommodation added in outer growth areas that are further from jobs, universities, and other amenities renters typically look for. While there may be downward pressure on rents in these areas from the added supply, the reduced supply in existing areas could see rents in those areas increase by more than aggregate estimates imply.

Median advertised rents on realestate.com.au



⁷ Budget Paper 1, pg. 158

⁸ Budget Paper 1, pg. 158

⁹ Moore (2026)