The 2026/27 Budget Creates New Pathways for Property Investors

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The 2026-27 Australian Federal Budget introduces significant reforms to housing taxation policy, fundamentally shifting how residential property investment will be treated. These changes affect two key areas: negative gearing provisions and capital gains tax (CGT) treatment.

However, the taxation reforms are just one element of a broader housing strategy. The Budget tackles housing affordability through supply-side initiatives with a new AUD 2.0 billion investment in enabling infrastructure to support the construction of up to 65,000 new homes.

This funding for last-mile infrastructure, such as water, power, and road connections, aims to unlock stalled projects and addresses a key barrier to delivering the government's 1.2 million homes target.

Together, the infrastructure investment and tax reforms create a coordinated approach: incentivising new housing supply through both capital funding and investor tax settings, while reshaping established property market dynamics.

What's Changing?

Negative Gearing

The government is modifying the negative gearing framework that has been a feature of Australian property investment for decades.

Under the new rules, the ability to offset rental property losses against other income will be removed for new investments in existing properties from the budget date, with a grace period to July 2027.

Capital Gains Tax

The 50 per cent CGT discount that currently applies to all assets held for at least one year will revert to a pre-1999 system for all new investments, while existing rules will be grandfathered for investments made prior to this budget.

For existing investments made prior to the budget, gains realised after 1 July 2027 will shift to being taxed under the new inflation-indexed approach.

For new investments, capital gains will be taxed based on real gains adjusted for inflation over the life of the investment. This change applies across all asset classes, not just property.

The New-Build Exemption

Critically, both sets of changes include an important carve-out: new-build dwellings will be exempted from these reforms.

Investors purchasing newly constructed properties can continue to access the existing tax settings, including negative gearing and the option to retain the 50 per cent CGT discount or adopt the inflation-based model.

This exemption is designed to incentivise new housing supply while maintaining investment pathways under the previous framework.

Combined with the AUD 2.0 billion infrastructure investment, this creates a dual incentive structure, removing some infrastructure barriers while providing tax advantages, to accelerate new dwelling construction.

What Could These Changes Mean for the Residential Market?

Investor Preferences Shifting Toward New-Build Properties

The exemption for new-build dwellings will likely drive a shift in where investors allocate their capital. We expect a substantial proportion of new investor activity to target the new-build sector, particularly increasing demand for off-plan investment options.

This creates a dual benefit, new investors gain access to the previous tax settings that enabled property wealth accumulation, while simultaneously incentivising the supply of new housing that Australia needs.

For developers, this represents an opportunity to design strategies specifically targeting these investors. Understanding buyer motivations and structuring offerings to appeal to this tax-advantaged segment will be increasingly important.

The infrastructure funding may also accelerate project feasibility and timelines, allowing developers to bring supply to market more quickly to meet this anticipated investor demand.

Increased Supply of Existing Dwellings and Reduced Competition for First Home Buyers

If investors pivot from existing stock to new-build properties, we anticipate an increased supply of established dwellings entering the market. This could occur through normal portfolio optimisation activity or as existing investors recycle capital in response to the policy changes, selling older properties to purchase new-build alternatives.

Any reallocation could reduce competitive pressure on existing housing stock, potentially benefiting first home buyers.

Established properties are often priced below new builds, and with reduced investor demand competing for these homes, price growth may become more balanced. This doesn't mean prices will necessarily fall, but the rate of increase could moderate as demand levels adjust.

Growth in New Apartment Supply and Quality Rental Options

The new-build incentives are likely to stimulate increased apartment supply specifically. Many new-build dwellings qualifying for the exemption will be apartments, and many of these offer higher quality living standards than older rental properties.

This could expose a new generation of renters to the benefits of quality apartment living, including modern amenities, building facilities, and community features.

Additionally, the tax advantages may encourage investors to hold new-build properties over the medium to long term, potentially providing renters with greater security of tenure under long-term landlord investors. This stability can be valuable for tenants seeking to establish roots in their community.

The infrastructure funding supporting up to 65,000 new homes will likely contribute significantly to this apartment supply growth, particularly in areas where enabling infrastructure has been a constraint on medium and high-density development.

Continued Investor Appetite with Expanded Optionality

Despite these changes, we believe a significant proportion of investors will maintain their interest in Australian residential property exposure. The reformed settings don't eliminate property investment; they reshape the landscape and create different pathways depending on investor circumstances and preferences.

Some investors will continue targeting existing properties, particularly in highly desirable locations where long-term capital appreciation remains attractive under the new framework. Others, including many first-time investors and rent-vesting first home buyers, may choose new-build apartments to access the existing tax settings.

This policy change creates optionality where investors can select the approach that best suits their personal situation and investment strategy.

Those without current property exposure may find the new-build pathway particularly attractive as it preserves access to the existing tax framework while contributing to housing supply.

Looking Ahead

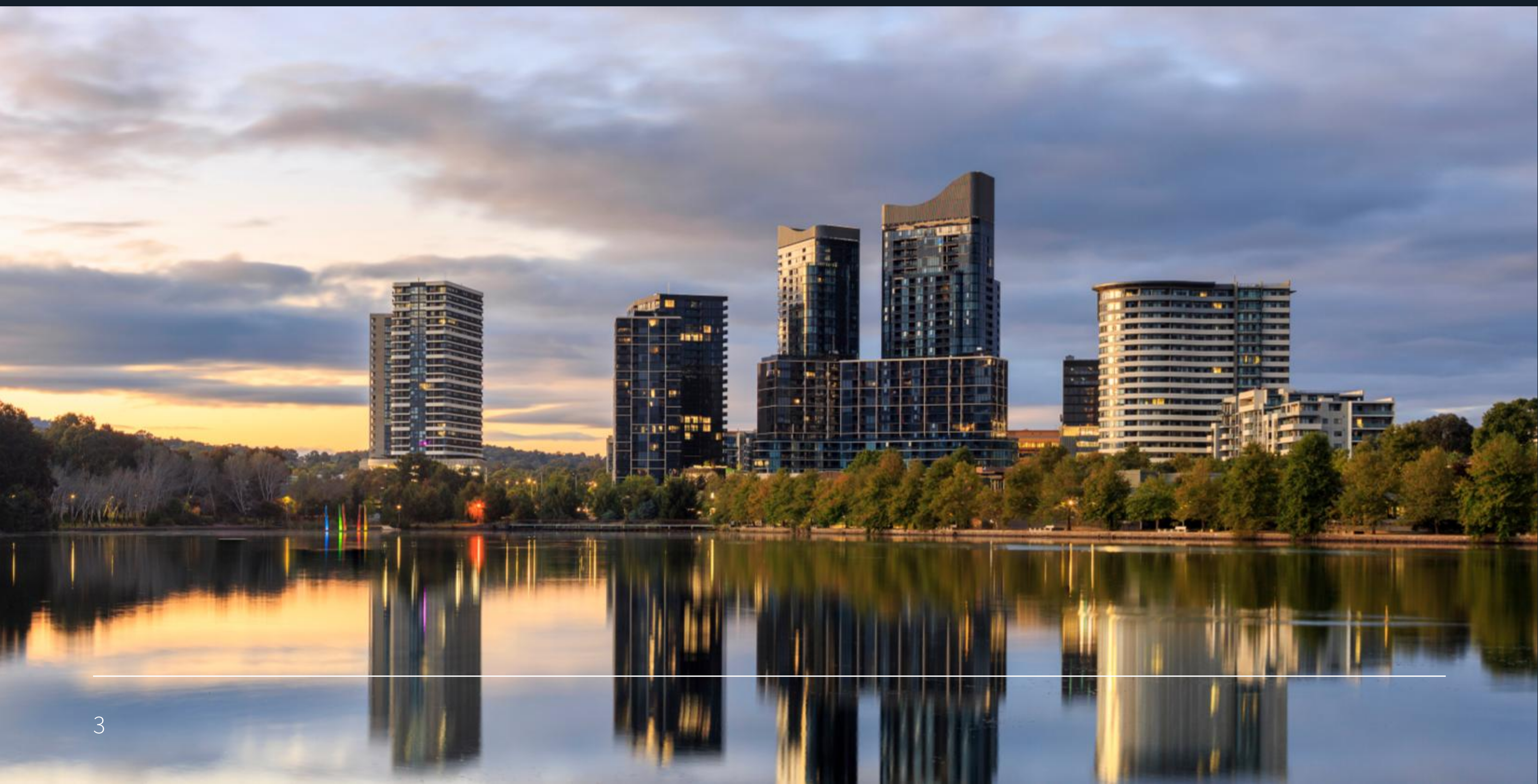
These reforms represent a significant recalibration of Australia's residential property investment framework. The rules are changing, and market participants including, developers, investors, renters, and first home buyers, will all need to adapt their strategies accordingly.

For developers, understanding and responding to the investor segment motivated by new-build tax advantages will be essential. The infrastructure funding unlocking constrained sites presents additional opportunities to bring supply to market where investor demand may be strongest.

For investors, the changes necessitate a fresh evaluation of investment strategies and property type preferences. And for first home buyers, the reduced competition for established properties may present new opportunities.

The market will adapt to these new settings, but the fundamental demand for residential property exposure among Australian investors is likely to remain strong, channelled through different investment vehicles and property types than in previous decades.

These reforms ultimately provide multiple pathways into residential property investment, each suited to different investor goals, risk profiles, and market perspectives.



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