

By Dr Sherman Chan, Chief Economist

The Australian Property Institute's *Australian Property Market Outlook* has identified the persistent gap between the demand and supply of housing as a key driver of residential property price growth. The Federal Budget 2026-27, the fifth handed down by Treasurer Jim Chalmers, has introduced major tax changes that aim to support first-home buyers by reducing tax concessions for property investors. The key housing-related measures are outlined below, with their potential impact on the demand and supply of housing explained.

Demand-side measures

Tax reform

- The 50% Capital Gains Tax discount will be replaced with an inflation-based discount from 1 July 2027; there will be a minimum tax of 30%. Investors in new dwellings will have the option of the 50% CGT discount or the new inflation-based discount.
- Negative gearing will be limited to new dwellings from 1 July 2027. Properties held before Budget night (12 May) are not affected by the change.

Potential impact These tax changes are designed to curtail investor behaviour (hopefully) without affecting the pipeline of new housing. If all goes according to plan, property investors will shift their focus to new dwellings for tax advantage and their now-elevated appetite for new dwellings will support new development (i.e. additional housing supply), while competition for owner-occupiers in the market of established dwellings will be greatly reduced. The Government has estimated that the tax changes would help 75,000 new homeowners in the next decade.

However, there are risks behind these tax changes. With a presumably smaller pool of interested buyers, the market of established dwellings will soften. Government modelling suggests house price growth will be reduced by 2% over a couple of years (compared to the case of no tax changes), which will also slow housing supply by 35,000 over a decade.

One scenario that cannot be ruled out is that some investors will make wholesale revisions to their portfolio strategy, shifting their preference to non-property assets. The full effect or net impact of these tax changes will unfold over time.

Cost-of-living support

- The Working Australians Tax Offset will provide an annual tax cut of up to \$250 from 2027-28, which will benefit 13 million Australian workers.
- As announced in the previous Budget, the tax rate on the lowest bracket (\$18,201 to \$45,000) will drop from 16% to 15% in 2026-27 and then 14% from 2027-28, which equates to a tax cut of up to \$268 for 2026-27 and a further \$268 from 2027-28.
- As proposed during the 2025 election campaign, the \$1000 instant tax deduction will start in 2026-27, delivering an average tax saving of \$205 for 4.2 million workers.

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Potential impact While these tax cuts are welcome news from a cost-of-living perspective, they are unlikely to have a material impact on working Australians' borrowing capacity. Therefore, these cost-of-living relief measures alone are not sufficient to boost overall demand for property.

Foreign investors ban

- The ban on foreign investors buying existing homes will be extended until mid-2029.

Potential impact This will continue to curb foreign demand for properties, thereby limiting competition for local buyers.

Supply-side measures

Local Infrastructure Fund

- A new \$2 billion package to enable state and local governments to build essential infrastructure (such as water, power, sewerage and roads) to support an estimated 65,000 new homes in the next decade.

Potential impact This initiative will unlock more land for residential development and accelerate housing delivery. However, the above estimate of new homes will be partly offset by the expected downside impact of the tax reform, resulting in a net boost of 30,000 new homes over a decade. This will only have a modest impact on addressing the housing shortage, as our calculation indicates that housing completions were already 90,000 behind the National Housing Accord target for the first 18 months.

Red tape removal

- Measures include streamlining and speeding up approvals across different layers of government, providing free access to all standards referenced in Australian legislation (saving organisations or tradies up to \$1600 a year), and removing barriers to modern methods of housing construction.

Potential impact Reducing delays in the planning and construction processes will, in theory, lower construction costs and accelerate housing delivery. The ultimate impact will depend on how effectively these changes are implemented.

Construction workforce

- An \$85.2 million investment to accelerate skills assessment of migrant trades workers and occupational licensing.

Potential impact The construction industry has been struggling with worker shortages in recent years. An injection of skilled workers into the industry would provide more stability to construction activity and ease wage pressures which have been contributing to surging construction costs and putting a dampener on business confidence.

Implications for property professionals

1. It is too early to assess the net impact of the various Budget measures on the property market. A key trend to watch is how investors will respond to the CGT and negative gearing reforms. Are they going to shift their focus to new dwellings and subsequently encourage new developments, or are they going to revise their portfolio strategy altogether and favour non-property assets? Time will tell.
2. Based on the Government's own estimates of the impact of the new measures, the ongoing housing shortage is unlikely to materially improve. Which means that there will continue to be structural upward pressures on property prices in the medium term. This structural factor will also be a source of resistance to limit the impact of any immediate downward pressures on property prices.
3. Demand for property valuation is likely to increase due to the CGT reform. As the new regime applies only to gains from 1 July 2027, for assets held prior to but sold after this day, investors will have to seek a valuation of the asset as at 1 July 2027 or use a specified apportionment formula to estimate the asset's value.