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Tax reforms displace interest rates as the most widely cited pressure on house prices

The API's first post-Budget survey of property professionals finds the negative gearing reform now more widely cited than the interest rate outlook as a downward pressure on residential prices; consensus that renters will be worse off, no consensus that anyone will be better off

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The Federal Government's tax reforms are now more widely cited than interest rates as a downward pressure on Australian house prices, according to the Australian Property Institute's first survey of property professionals since May's Federal Budget.

The Australian Property Institute's Q3 2026 Australian Property Market Outlook, a survey of 265 property professionals conducted between 12 June and 6 July 2026, found the negative gearing reform is now the most widely cited downward pressure on residential prices, flagged by 82 per cent of respondents, more than the capital gains tax reform and the interest rate outlook (both 77 per cent).

The interest rate outlook remains the commonly agreed source of downward pressure across every asset class, as it was last quarter, but for the first time it does not top the list in the residential market.

The reforms do not take effect until 1 July 2027, but the outlook shows the market is not waiting.

Residential sentiment recorded the steepest fall of any asset class, dropping from 6.0 to 5.0 on the API's ten point scale, and the headline API Property Market Outlook Index fell for a third consecutive quarter to 5.1.

API Chief Economist Dr Sherman Chan said the survey converted months of speculation about the reforms into a measured industry position.

"Since Budget night there has been no shortage of opinion about what these reforms will do. This is the first time the professionals who value residential property for a living have been surveyed on it, and their message is clear: the market is pricing these reforms now, more than a year before they begin," Dr Chan said.

The survey found a striking asymmetry in expectations: consensus on who will be worse off, and no consensus that anyone will be better off. Some 62 per cent of respondents expect the capital gains tax



reform to make housing more unaffordable for renters, and 63 per cent expect the same from the negative gearing changes.

Views on whether home buyers will benefit fell short of consensus (46 and 48 per cent), and there is no consensus the reforms will achieve their stated purpose of boosting supply.

More respondents believe the CGT reform will reduce new housing supply beyond July 2027 (34 per cent) than believe it will increase it (23 per cent). For the negative gearing reform, 31 per cent expect supply to fall against 28 per cent who expect it to rise.

"The reforms were introduced to support first home buyers and stimulate new housing supply. The professionals closest to the market are not convinced the supply will materialise, but they are convinced that renters will be worse off," Dr Chan said.

The reforms will replace the 50 per cent CGT discount with an inflation-based discount for gains accruing from 1 July 2027, with a minimum tax of 30 per cent, and will limit negative gearing to new dwellings from the same date.

Properties held before Federal Budget night, 12 May 2026, are not affected by the negative gearing change.

Residential: the supply crisis has not gone away, but it is no longer the whole story

The forces that have dominated the residential market for years have not disappeared. Lack of housing supply (82 per cent), lack of land supply (73 per cent), population growth (70 per cent) and construction costs (63 per cent) are all still expected to push prices higher.

"The residential market is now caught between two opposing forces," Dr Chan said.

"The structural undersupply that has driven prices for years is still there. What has changed is that tax policy is now pulling just as hard in the other direction, and sentiment has fallen from the strongest of any sector to neutral in nine months."

No consensus that home buyers will be better off

On housing affordability, the most common view among professionals is that the reforms will improve affordability for home buyers, at 46 per cent for the CGT reform and 48 per cent for negative gearing, but neither reaches consensus. The verdict on renters is far clearer.

"There was no consensus that home buyers will be better off under the reforms, but there was consensus that renters will be worse off," Dr Chan said.

"That is a significant finding for policymakers, because renters are the group with the least capacity to absorb higher housing costs."

Industrial remains the market's most resilient sector

Industrial property is again the strongest asset class, scoring 6.4, supported by a lack of supply of industrial properties (61 per cent) and a lack of zoned land (55 per cent). Every state's industrial reading remains above neutral, with Western Australia strongest at 7.4, followed by Queensland and South Australia at 7.0.

Office recorded its third consecutive quarter below neutral, easing to 4.6, with weakening business confidence (68 per cent) and general economic conditions (64 per cent) the main drags. Retail slipped further below neutral to 4.9, weighed down by consumer confidence (66 per cent) and job market conditions (55 per cent).

Agricultural property held at 5.8 with the smallest decline of any sector, supported by domestic demand for agricultural products. Notably, agriculture is the only sector besides residential where the CGT reform reached consensus as a downward pressure on prices, cited by 59 per cent of respondents.

State by state: Victoria and New South Wales reach a turning point

The headline index fell in every state, but the latest findings indicate only Victoria (4.1) and New South Wales (4.4) have reached a turning point, with both now below the neutral level. Queensland (6.6) and Western Australia (6.4) remain the most optimistic states, although WA and South Australia (5.6) recorded the sharpest declines this quarter, driven predominantly by the residential outlook.

API Property Market Outlook Index by state:

- Queensland: 6.6 (Q2: 7.5)
- Western Australia: 6.4 (Q2: 7.8)
- Tasmania: 5.8 (Q2: 6.8)
- South Australia: 5.6 (Q2: 7.0)
- New South Wales: 4.4 (Q2: 5.2)
- Victoria: 4.1 (Q2: 5.0)
- Australia overall: 5.1 (Q2: 6.0)

Read the full report here: <https://www.api.org.au/professional-development/knowledge-hub/mixed-expectations-for-the-months-ahead/>

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Interviews Dr Sherman Chan is available Monday 20 July, Tuesday 21 July, Wednesday 22 July and Thursday 23 July. Contact Holly Reynolds to arrange.

About the API Property Market Outlook Launched in 2025, the API Property Market Outlook is a quarterly survey of Australian property professionals administered by the Australian Property Institute. The survey captures sentiment and price outlook expectations across residential, office, retail, industrial and agricultural property sectors. The Q3 2026 survey received 265 responses, with 80 per cent of respondents being property valuers.

About the Australian Property Institute The Australian Property Institute is the professional body for independent property experts in Australia, representing more than 7,000 members including property valuers, advisors, analysts and consultants. In its centenary year, the API continues its commitment to professional standards, policy engagement and evidence-based reform across Australia's \$12 trillion residential property market and beyond.

Note to editors: *The API Property Market Outlook Index operates on a scale of 0 (extremely weak) to 10 (extremely strong), with 5 representing a neutral outlook. The Q3 2026 readings represent expectations for the coming quarter, while Q2 2026 readings reflect actual outcomes. The Q3 2026*

edition is the first to capture professional sentiment following the capital gains tax and negative gearing reforms announced in the May 2026 Federal Budget.

