

EMBARGOED UNTIL WED 22 JULY 2026, 12:01 AM AEST

Tax reforms push residential sentiment to neutral for the first time

Residential scores 5.0 in Q3 2026, the steepest fall of any sector for a second consecutive quarter, as the negative gearing reform becomes more widely cited than interest rates as a pressure on prices

July 2026

Residential property sentiment has fallen to exactly neutral for the first time since the API Property Market Outlook survey began, dropping from 6.0 in Q2 to 5.0 in Q3 2026. It is the steepest fall of any asset class for the second quarter running, and the sector that led the market only nine months ago at 7.5 now sits on the neutral line.

The cause is clear in the data. The negative gearing reform announced in May's Federal Budget 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). It is a marked change from last quarter, when the interest rate outlook led the sector's list of pressures.

The state spread is the widest of any sector. Queensland leads at 6.6, just ahead of Western Australia at 6.5, with Tasmania (5.8) and South Australia (5.6) above neutral. New South Wales (4.3) and Victoria (4.0) have both fallen below the neutral line.

API Chief Economist Dr Sherman Chan said the residential result showed the market pricing the reforms well ahead of their start date.

"The reforms do not begin until 1 July 2027, but residential valuers are not waiting for the legislation to take effect.

Sentiment has moved from the strongest of any sector to neutral in nine months, and for the first time the most widely held concern in the residential market is about tax policy rather than the Reserve Bank."

What is driving residential property

The supply-side forces that have defined the market for years remain firmly in place. 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.



Pulling the other way are the negative gearing reform, the capital gains tax reform and the interest rate outlook. Notably, the Federal Government's 5% Deposit Scheme, a consensus support for prices last quarter, no longer reaches consensus among residential valuers.

Dr Chan said the sector was now defined by the collision between the two forces.

"The residential market is caught between structural undersupply that has not gone away and a tax environment that has changed decisively.

The question for the coming quarters is which force wins, and the answer will differ from state to state. Queensland and Western Australia still have momentum. New South Wales and Victoria have turned."

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.