Federal Budget 2026-27

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Housing tax reform meets a supply-constrained market

The 2026–27 Federal Budget lands at a time when the property market is entering the next phase of the cycle. Listings are rising, buyers are becoming more selective, and price growth is moderating.

It also marks the biggest change to property-related tax policy in a generation.

That matters because the market is already being pulled in two directions. Demand is softer than it was a year ago, because higher interest rates have reduced borrowing capacity.

But supply is still the constraint. Australia is still undersupplied, construction costs remain high, feasibility remains challenging, and the pipeline is not responding fast enough to take pressure out of prices and rents in the near term.

Against that backdrop, the Government has announced reforms to capital gains tax and negative gearing, framed around affordability and intergenerational equality.

The key issue now is how investors, developers and buyers respond. These changes will alter investment behaviour, but the market impact will depend heavily on the transition rules, timing, and investor confidence.

Importantly, the Government has attempted to preserve incentives for new housing supply through exemptions for new builds and build-to-rent developments. That reflects an acknowledgement that increasing supply remains critical to improving affordability over the long term.

If investor participation moderates before housing supply improves, rental conditions could remain tight in some markets, particularly where vacancy is already low.

If investment shifts more toward new construction, that should support housing delivery over time, although supply responses will take time.

The key question is simple: do these settings improve affordability without shrinking the supply of rental housing?

Our view remains consistent. Affordability is a genuine issue and tax reform will always be part of the conversation. But Australia's biggest problem is still supply. The policies that will make the biggest difference are the ones that help more homes get built, faster and at a lower cost.

Budget at a glance

- Budget position: deficit of $31.5b in 2026–27 (and $28.3b in 2025–26)
- GDP forecast (real): 1.75% in 2026–27
- Inflation forecast (CPI): 2.5% in 2026–27
- Unemployment forecast: 4.5% in 2026–27
- Net overseas migration: 245,000 in 2026–27 (vs 295,000 in 2025–26)
- Key cost of living / tax measures: Instant tax deduction (up to $1,000 from 2026–27) and Working
- Australians Tax Offset (up to $250 per year from 2027–28)

Property related budget measures

- **Capital gains tax (CGT) reform:** From 1 July 2027, replace the 50% CGT discount with cost base indexation (incl. a 30% minimum tax on net capital gains) for assets held for more than 12 months
- **Negative gearing reform:** From 1 July 2027, limit negative gearing for established residential property (new builds exempt; grandfathering/transition rules apply)
- **Housing enabling infrastructure:** $2.0b (Local Infrastructure Fund)
- **Approvals reform:** $26.4m to fast-track environmental approvals
- **Help to Buy expansion:** $800m (higher property price and income caps)
- **Crisis & transitional housing:** $1.0b via the NHIF
- **Foreign buyer ban & land banking enforcement:** Extend the ban on foreign buyers purchasing established homes as well as $8.9m crackdown on land banking by foreign investors
- **Construction workforce:** New Housing Construction Apprenticeship Stream
- **Core point:** Supply is the key to improving affordability, not tax changes alone

“Inflation is forecast to peak at 5.0% in 2025–26 before dropping back into the Reserve Bank’s 2–3% target band in 2026–27 while unemployment settles around 4.5%.

Economic forecasts

Federal budget position

	2024–25 (Actual)	2025–26 (Estimate)	2026–27 (Estimate)	2027–28 (Estimate)	2028–29 (Estimate)	2029–30 (Estimate)
Budget position (underlying cash balance)	$-10.0b	$-28.3b	$-31.5b	$-31.0b	$-34.4b	$-25.3b
Gross debt	$928.6b	$982.0b	$1,051.0b	$1,120.1b	$1,193.0b	$1,249.0b
Net debt	$532.3b	$556.0b	$616.6b	$668.8b	$725.5b	$767.8b

Budget economic forecasts

	Outcome			Forcast		
	2024–25 (Actual)	2025–26 (Estimate)	2026–27 (Estimate)	2027–28 (Estimate)	2028–29 (Estimate)	2029–30 (Estimate)
Real GDP growth	1.30%	2.25%	1.75%	2.25%	–	–
Unemployment rate	4.20%	4.25%	4.50%	4.50%	–	–
Inflation (CPI)	2.10%	5.00%	2.50%	2.50%	–	–
Wage growth (WPI)	3.40%	3.25%	3.50%	3.50%	–	–
Net overseas migration	305,000	295,000	245,000	225,000	–	–

Inflation is forecast to peak at 5.0% in 2025–26 before dropping back into the Reserve Bank's 2–3% target band in 2026–27 while unemployment settles around 4.5%.

Source: The Commonwealth of Australia (budget.com.au/2026-27).

Capital gains tax (CGT) changes

The Federal Budget announced major changes to the way capital gains tax (CGT) will apply to residential investment properties from 1 July 2027.

Under the current system, investors who own a property for more than 12 months generally receive a 50% CGT discount, meaning only half of the capital gain is taxed when the property is sold.

From 1 July 2027, this 50% discount will be replaced with a new inflation indexation model for qualifying future investments. Under the new framework, the property's original purchase price (cost base) will be adjusted for inflation, with tax then applied to the "real" gain above inflation.

The new system will also include a minimum 30% tax on real net capital gains.

The reforms mainly apply to established residential investment properties purchased after the changes commence. This includes existing houses, apartments, townhouses and units.

Newly built residential properties will continue to receive concessional treatment under the new framework. This includes:

- newly constructed homes
- off-the-plan apartments
- substantially renovated dwellings
- qualifying build-to-rent developments

Based on the Budget measures and post-Budget guidance, eligible investors purchasing qualifying new residential builds may be able to choose between:

- the existing 50% CGT discount model, or
- the new indexed CGT framework

The timing of when a property contract is signed is expected to be one of the most important parts of the reforms.

Properties already owned before the Budget announcement at 7:30pm AEST on 12 May 2026 are generally expected to remain under the current CGT system through grandfathering arrangements.

Similarly, investors who have already signed a contract to purchase a property before the Budget announcement are generally expected to continue under the existing rules, even if the property settles later.

The reforms are expected to be linked primarily to the contract exchange or signing date rather than the settlement date.

This means two properties settling on the same day could potentially receive different tax treatment depending on when the contracts were signed.

Residential properties purchased before the introduction of CGT in Australia on 20 September 1985 generally remain exempt from CGT under existing pre-CGT asset rules, unless major ownership or redevelopment changes apply.

The principal place of residence exemption remains unchanged under the Budget measures, meaning owner-occupier family homes continue to remain exempt from CGT.

Negative gearing changes

The Federal Budget announced major changes to negative gearing for residential investment properties, with the new rules commencing from 1 July 2027.

Under the current system, property investors are generally able to deduct rental property losses against other forms of income, including salary and wages. This is commonly referred to as negative gearing.

From 1 July 2027, negative gearing will be restricted for qualifying established residential investment properties purchased after the commencement date.

Under the new framework, losses from eligible established residential investment properties will no longer be able to be offset against salary or wage income in the same way as the current system. Instead, those losses will generally only be deductible against:

- future residential rental income, or
- future capital gains from residential property

Any excess losses are expected to be carried forward.

The reforms primarily apply to established residential properties, including:

- existing houses
- existing apartments
- townhouses
- units
- previously occupied residential dwellings

The key transition timing applies to established residential properties acquired from 7:30pm AEST on 12 May 2026, the time of the Federal Budget announcement.

Properties acquired before this time are generally expected to be grandfathered under the existing negative gearing rules. This includes:

- investment properties already owned before the announcement, and
- properties where contracts had already been signed before 7:30pm AEST on 12 May 2026, even if settlement occurs later

The reforms are expected to be linked primarily to the contract exchange or signing date rather than the settlement date.

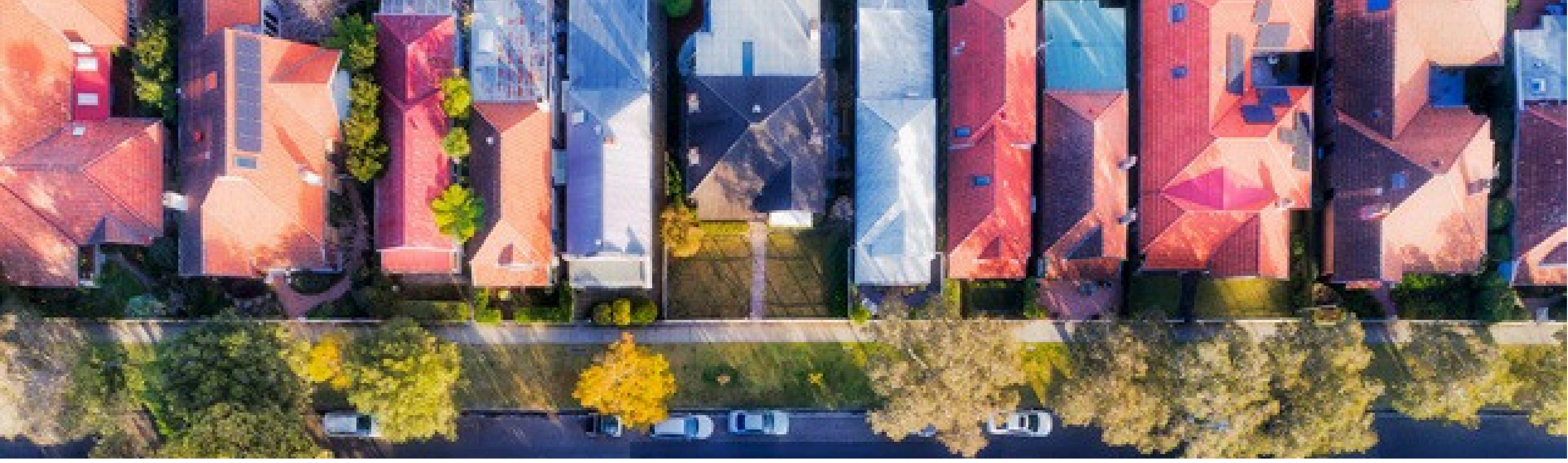
This means two properties settling on the same day could potentially receive different tax treatment depending on when the contracts were signed.

Newly built residential properties will continue to receive concessional treatment under the new framework. Eligible new builds are exempt from the negative gearing restrictions and may continue accessing existing deductions.

This includes qualifying:

newly constructed homes

- off-the-plan apartments
- substantially renovated dwellings
- qualifying build-to-rent developments



Other property related budget measures

Housing enabling infrastructure (Local Infrastructure Fund)

- $2.0b over four years from 2026–27 (Local Infrastructure Fund) to expedite housing-enabling infrastructure, contingent on state reforms
- This is aimed at unlocking supply by funding the “enablers” (servicing, roads, connections) that get land ready to build
- The practical outcome will vary by state depending on reform speed and project delivery

Approvals reform (supply enabling)

- $26.4m over four years from 2026–27 to develop bioregional plans and strategic assessments to fast-track environmental approvals in priority areas including housing
- Faster, more predictable approvals can support supply by improving feasibility and reducing holding risk

Help to Buy expansion

- $800m to expand Help to Buy by increasing property price and income caps
- This is a demand-side support measure that can lift purchasing power for eligible buyers
- In tight markets, demand support can add to competition unless supply lifts alongside it

Crisis & transitional housing (NHIF)

- $1.0b for new crisis and transitional housing through the NHIF
- This supports housing outcomes at the most acute end of the market and can reduce pressure on temporary accommodation over time

Planning reform / cutting red tape

- $120m to encourage states to cut planning red tape
- Planning reform is one of the highest-leverage supply measures, but it depends on state execution and community acceptance

Indigenous home ownership (IBA Home Loan Fund)

- $70.9m boost to Indigenous Business Australia’s Home Loan Fund
- Targeted support to improve access to finance and lift home ownership outcomes for First Nations households

Other property related budget measures

Modular & prefabricated housing

- $54m to accelerate modular and prefabricated housing
- Prefab and modular can shorten build times and improve cost, certainly if scaled effectively
- The upside is strongest where it helps address labour constraints and delivery bottlenecks

Land banking enforcement (foreign investors)

- $8.9m to crack down on land banking by foreign investors
- The intent is to discourage holding developable land idle and support quicker delivery into supply

Foreign purchases (established dwellings)

- Temporary ban on foreign purchases of established residential dwellings extended to 30 June 2029 (with limited exceptions that support housing supply, and existing screening exemptions continuing)
- This primarily targets established stock and is designed to support domestic access; the real affordability driver remains supply

Construction workforce (Housing Construction Apprenticeship Stream)

- New Housing Construction Apprenticeship Stream
- Trade capacity is a real constraint on housing delivery; lifting apprenticeships supports supply, but the impact builds over time

Existing (updated) housing measures

- **Housing Australia Future Fund (HAFF):** This year's Budget papers note a further $100m released from HAFF to improve the quality of housing for First Nations Australians in remote communities
- **National Housing Accord (incl. New Homes Bonus):** The Budget papers restate the Accord target and the New Homes Bonus design (incentive payments to states/territories to deliver additional homes above the 1 million homes target), including the Government's commitment of up to $3.0b in 2029–30 if states sign and meet targets
- **Build-to-rent (BTR):** The Budget papers note strengthened affordability standards for tax measures supporting investment in BTR, with industry estimates cited of around 80,000 new rental homes over the next decade (including up to 1,200 affordable homes in the near term)
- **Commonwealth Rent Assistance (CRA):** The Budget papers note back-to-back increases already delivered, and ongoing support for 1.4m+ Australians; maximum CRA rates are noted as having increased by 50%+ since March 2022 (including indexation)
- **Social housing & homelessness (related):** The Budget papers reference the Government's broader social and affordable housing agenda (including the 55,000 social and affordable homes framing)

> “Ultimately, improving affordability still comes back to supply. Australia needs more homes, faster approvals, enabling infrastructure and stronger construction capacity.

Residential property market impacts

Big picture

The residential property market is entering a more balanced phase of the cycle, with more listings, greater buyer choice and less urgency than the market experienced over the past two years.

However, the core issue facing the housing market has not changed: Australia still does not have enough homes.

While higher interest rates have reduced borrowing capacity and made buyers more price sensitive, supply remains constrained by construction costs, planning delays, infrastructure bottlenecks, labour shortages and project feasibility challenges.

That is why the Budget's changes to capital gains tax (CGT) and negative gearing are important. Investor activity remains a major part of Australia's housing system, particularly across the rental market.

Importantly, the Government has attempted to preserve incentives for new housing supply through exemptions for new builds, build-to-rent developments and selected housing programs.

Impact of the tax reforms

The key question is how investors respond to the new policy settings.

The proposed CGT and negative gearing reforms are designed to redirect investment toward new housing supply rather than established dwellings. If successful, this could support construction activity over time and improve housing supply outcomes.

However, the transition period matters.

If investor confidence weakens before enough new housing is delivered, there is a risk investor activity slows in established housing markets before supply improves. That could place additional pressure on rental availability in already undersupplied markets.

The grandfathering arrangements and exemptions for new builds are important because they help reduce the risk of a more disruptive adjustment across the market.

Impact on prices

Our expectation is for moderation rather than a significant correction in house prices.

Reduced investor competition may take some heat out of price growth in investor-focused markets, particularly across higher-density and more affordable segments.

However, Australia's underlying housing undersupply remains significant. Without a material lift in housing delivery, any softening in prices is likely to be relatively modest and uneven across markets.

Impact on rents

The rental market remains the key watchpoint.

Private investors still provide the majority of rental housing across Australia. If investor participation slows before enough new supply is delivered, vacancy rates could remain tight and rental pressure could persist in some markets.

Over the longer term, if the policy settings successfully encourage more investment into new housing construction, this could help improve rental supply and affordability outcomes. However, additional supply takes time to deliver.

Impact on housing supply

The Budget includes several positive supply-side measures aimed at improving housing delivery outcomes.

Planning reform, fast-tracking approvals, enabling infrastructure funding, modular housing support and construction workforce initiatives all align with the broader objective of increasing housing supply.

These measures are important because the policies most likely to improve affordability over the long term are the ones that make it quicker, easier and cheaper to build homes.

However, feasibility remains a major challenge across the residential construction sector. Higher build costs, funding costs and labour shortages continue to constrain new housing supply.

The best long-term outcome from these reforms would be a gradual re-weighting of investment toward new housing construction, supported by faster approvals, enabling infrastructure and improved delivery capacity.

Outlook

The residential market is likely to become more selective and segmented over the next 12 months.

Markets with strong population growth, limited supply and tight rental conditions are still likely to remain relatively resilient, even if investor activity moderates.

The key challenge for policymakers will be to ensure that housing supply increases fast enough to offset any slowdown in investor participation.

Ultimately, improving affordability still comes back to supply. Australia needs more homes, faster approvals, enabling infrastructure and stronger construction capacity.

Commercial property market impacts

Big picture

While the headline measures in this Budget are focused on residential housing, the broader policy settings will still have important flow-on effects for commercial property markets.

Infrastructure investment, planning reform, construction workforce initiatives and broader economic confidence all influence commercial property performance, particularly across industrial, retail, office, healthcare and mixed-use development sectors.

The proposed changes to capital gains tax (CGT) and negative gearing may also influence how investors allocate capital between residential and commercial property over time.

Investor demand and capital flows

The residential tax reforms are likely to change investment behaviour across the broader property market.

If after-tax returns on established residential investment become less attractive for some investors, parts of the commercial market may see increased interest, particularly assets offering stronger income yields and longer lease security.

This is most likely to benefit:

- industrial assets with strong tenant demand
- neighbourhood retail and convenience retail
- healthcare and essential services assets
- well-leased commercial property with stable income profiles

However, investors are still expected to remain highly selective given higher interest rates, finance costs and ongoing economic uncertainty.

Infrastructure investment and development corridors

One of the more positive aspects of the Budget for commercial property is the continued focus on infrastructure investment and enabling development.

The Government's infrastructure commitments, including transport, freight and rail projects, support long-term growth across industrial precincts, logistics corridors and outer metropolitan growth markets.

Planning reform and approvals fast-tracking measures are also positive for commercial development because reducing delays and holding costs improves project feasibility and investment confidence.

Over time, better infrastructure delivery can support:

- industrial and logistics demand
- retail catchment growth
- mixed-use precinct development
- outer suburban employment hubs
- land values in key growth corridors

Construction, feasibility and supply

Commercial development remains heavily constrained by feasibility.

Higher construction costs, labour shortages and elevated finance costs continue to limit new office, industrial and mixed-use supply in many markets.

Measures supporting apprenticeships, workforce capacity, modular construction and productivity improvements are positive because they help address some of the structural constraints facing the construction sector.

The Budget's focus on modular and prefabricated construction may also create longer-term opportunities across industrial property, warehousing and specialised manufacturing facilities linked to building materials and housing production.

Outlook

The commercial property impacts from this Budget are likely to be more indirect than residential property, but they remain important.

Infrastructure investment, planning reform, workforce initiatives and construction productivity measures are all positive for long-term commercial property fundamentals.

At the same time, changes to residential investment tax settings may gradually influence capital flows across the broader property market, potentially increasing investor interest in selected commercial sectors over time.

Ultimately, the commercial property market is still likely to favour quality assets, strong income profiles and locations linked to infrastructure, population growth and long-term economic activity.

Other budget measures

- **Tax and cost of living support:** The Budget includes a new $1,000 instant tax deduction from 2026–27, a new Working Australians Tax Offset (WATO) of up to $250 per year from 2027–28, and increases to Medicare levy low-income thresholds
- **NDIS reform:** Measures aimed at returning the NDIS to its “original intent” are expected to reduce growth in NDIS payments by $37.8b over four years, alongside additional investment in foundational supports outside the NDIS in partnership with states and territories
- **Medicare and health:** An additional $3.5b to strengthen Medicare, including making Medicare Urgent Care Clinics permanent, alongside $5.9b for new and amended Pharmaceutical Benefits Scheme (PBS) listings
- **Defence:** The National Defence Strategy receives an additional $14.0b over the next four years

  Aged care: $3.7b to support additional residential aged care supply, including incentives aimed at delivering up to 5,000 aged care beds per year
- **Childcare:** $4.7b for Cheaper Childcare reforms, including three days of subsidised childcare per week regardless of activity levels

Infrastructure

Well-planned infrastructure is essential for growing communities, helping reduce travel times, improve access to services and support new housing in outer suburbs. These investments also play a broader economic role by boosting productivity, supporting local industries and improving connectivity across key freight and logistics corridors.

National / multi-state

- Freight & logistics
  - $8.6b over 11 years from 2025–26 (and $75.7m p.a. ongoing) — road and rail infrastructure priorities
  - $1.8b (equity) over 6 years from 2026–27 — Australian Rail Track Corporation investment in the interstate rail network
  - $659.6m over 3 years from 2025–26 — High Speed Rail Authority development works for the Newcastle to Sydney high speed rail project
- Rail infrastructure
  - $55.0m in 2026–27 — Transport Resilience and Capacity Kickstart pilot (incl. incentivising increased freight volumes by rail and maritime transport)
  - $1.9m in 2026–27 — National Freight Data Hub (freight data capture/standardisation to lift freight productivity)
  - Inland Rail / intermodal: Consolidate Inland Rail at Parkes and preserve remaining rail corridor and intermodal sites for future investment; $4.4b in equity to be returned to the Budget
- Health infrastructure

  Public hospitals: The Budget notes $25.0b in additional investment in public hospitals over the next five years

New South Wales

- $50.0m — Sydney to Canberra Rail Corridor Upgrade
- $45.0m — M1 Safety Improvements
- $14.3m over 4 years from 2026–27 (and $2.5m p.a. ongoing) — cargo monitoring and regulatory fit-out requirements at Western Sydney International (Nancy-Bird Walton) Airport

Victoria

- $3.8b over 4 years from 2026–27 — additional funding for Suburban Rail Loop East
- $76.4m — Melton Line Electrification
- $50.0m — Western Freeway Upgrade (Melton to Caroline Springs)

Queensland

- $812.5m — Bruce Highway – Gateway Motorway to Dohles Rocks Road (Stage 2) upgrade

Western Australia

- $552.0m — Anketell Road Upgrades, Westport (Stage 1A and 1B)

Australian Capital Territory

- $50.0m — Drake Brockman Drive Duplication

Northern Territory

- $24.0m — Bagot Road Safety and Capacity Upgrades

South Australia

- $7.5m — AUKUS planning study and business case for key transport infrastructure upgrades

Tasmania

- $4.0m — East Derwent Highway – Bowen Bridge to Bridgewater improvements planning

Summary

This Budget marks a significant shift in housing policy through changes to capital gains tax (CGT) and negative gearing, but the broader housing challenge remains the same: Australia still does not have enough homes.

The Government has clearly attempted to balance affordability objectives with supply outcomes, particularly through exemptions for new builds, build-to-rent developments and housing programs that support additional supply. There are also positive measures around planning reform, enabling infrastructure, modular housing and workforce capacity, all of which are important if Australia is serious about increasing housing delivery.

The key question now is how investors respond.

The changes are likely to make investors more selective, particularly in established housing, while potentially redirecting some investment toward new construction and other asset classes.

Investor-heavy markets may see less competition and slower price growth, but with housing supply still constrained, a broad-based fall in prices appears unlikely.

The main near-term risk remains the rental market. If investor participation slows before enough new housing is delivered, rental availability could remain tight in low-vacancy markets.

Ultimately, affordability improves when more homes are built. Faster approvals, enabling infrastructure, improved feasibility and stronger construction capacity will have a more direct and lasting impact on affordability than tax reform alone.

“ The key question now is how investors respond.

Mathew Tiller

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