



# Negative Gearing, Capital Gains Tax and the Rental Market

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## Adept Economics

Adept Economics is a Brisbane-based consultancy providing expert economic analysis and advice for private and public sector clients. Adept Economics offers a broad range of economic consultancy and business advisory services. These services include economic impact analysis, regulatory and policy analysis, economic contribution and valuation analysis, social ROI and cost-benefit analysis, as well as data analysis and economic modelling.

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# Glossary

AHURI	Australian Housing and Urban Research Institute
AiP	Australian Institute for Progress
CGT	Capital Gains Tax
CPI	Consumer Price Index
LVR	Loan-to-value ratio
IRR	Internal rate of return
NG	Negative gearing
P&I	Principal and interest
ROI	Return on investment

# 1. Overview

## 1.1. Scope of work

The Australian Institute for Progress (AiP) has commissioned Adept Economics to advise on:

- the likely effect on the rental market of eliminating negative gearing and halving the 50% capital gains tax (CGT) discount; and
- the impact of capping rents.

## 1.2. Key findings

### 1.2.1. Negative gearing and CGT discount

- Negative gearing is a logical feature of the tax system, as is the concessional treatment of capital gains. Removing negative gearing and halving the CGT discount would result in higher rents over the long term. This is because removing negative gearing and halving the CGT discount would significantly reduce the return on investment (ROI) in property for investors. This will likely result in a significant reduction in the supply of rental properties.
- After a period of adjustment, which could be as short as a few years and within ten years, rents could be around 11% higher than they would otherwise be (or \$60-95/week higher in capital cities based on current asking rents) if enough investors leave the market and rents rise to restore the previous ROI.
  - This rent uplift would be on top of rent increases already expected to occur. In the modelling, rents are assumed to increase by 5% yearly in the base case, and any uplift from policy changes would increase this yearly rate until the full uplift has happened. The projected 5% yearly increase in rents in nominal terms (i.e. 2.5% yearly in real terms) in the model's baseline is reasonable when compared with growth in rents post-pandemic—i.e. average annual growth of 5.9% per annum over the three years to December quarter 2024.<sup>1</sup>
  - The exact impact is highly uncertain and depends on various factors, including how much of the adjustment occurs via property prices and how

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<sup>1</sup> ABS, Consumer Price Index, Australia, TABLE 7. CPI: Group, Sub-group and Expenditure Class, Weighted Average of Eight Capital Cities.

much of the adverse financial impact cannot be recovered by landlords.

Nonetheless, policymakers should be cautious in adjusting tax policy settings for investment properties.

- Some Australians may be better off because the rate of owner occupation may increase, but those stuck in the rental market would be significantly worse off.
- Significant rent increases over and above the already expected increases could show up in as little as two years. This is because of the current state of the rental market, with very low vacancy rates, low dwelling completion rates, and considering the median rental investment period is two years, according to AHURI.<sup>2</sup>

### 1.2.2. Capping rents

- Economic theory and evidence tell us that capping rents will have adverse outcomes. So it is with housing. If rents do not increase in line with market conditions, fewer landlords will be willing to invest, including in new housing. The market will not clear by price adjustments. Instead, there will be rationing of the available rental properties, meaning many people wanting to find a rental—and willing to pay what would have been the market price in the absence of rent controls—will miss out.
- The most compelling empirical evidence reveals that San Francisco rent controls led to a reduction in available rental properties in rent-controlled buildings by 15%.<sup>3</sup> This is likely indicative of the potential impact of rent controls in Australia. In this case, given that around 3 million households are renting their dwellings, rent controls could mean the withdrawal of around 450,000 dwellings, affecting 450,000 households.<sup>4</sup>

<sup>2</sup> Singh, R., Ong Vitorj, R., Leishman, C. and Hewton, J. (2025) Modelling landlord behaviour and its impact on rental affordability: Insights across two decades, AHURI Final Report No. 440, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/>, p. 1.

<sup>3</sup> Rebecca Diamond, Tim McQuade, and Franklin Qian (2019) “The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco”, *American Economic Review* 2019, 109(9): 3365–3394, <https://doi.org/10.1257/aer.20181289>

<sup>4</sup> National Housing Finance and Investment Corporation (2022) Overview of rental market, <https://www.housingaustralia.gov.au/research-data-analytics/analysis-australias-rental-markets>, p. 1.

## 2. Background

### 2.1. Policy settings

#### 2.1.1. Negative gearing

Negative gearing is when a taxpayer uses declared losses from a rental property (or multiple properties) to reduce their taxable income, including wage and salary income, thus receiving a reduction in taxes paid. Negative gearing is allowed in Australia, New Zealand and Sweden but is subject to restrictions in the US and the UK, where rental losses cannot be used to offset labour income.

In Australia, a taxpayer can deduct a variety of rental expenses from their total income—in addition to interest payments on a loan used to finance the property—including, among others, depreciation, repairs and maintenance, utility bills, rates, insurance, management fees and (until recently) travel expenses.

Assuming legitimate deductions are claimed and depreciation is accurately calculated, an investor is still losing money on a rental property each year it is negatively geared. Still, the size of the loss is reduced by being able to reduce total taxable income and receive a tax saving. What can make negative gearing pay off eventually is net rental income, if and when a property becomes positively geared, and the capital gain that is ultimately realised on the property.

Incidentally, most proposals to abolish negative gearing allow investors to carry the losses forward.<sup>5</sup> To a large extent, the only real value to the government is the time value of having more taxpayer money earlier, but this is weighed up against having less of it later, and possibly when a higher tax rate is applied. For instance, with negative gearing, the tax paid on sale is higher than it would be without negative gearing.

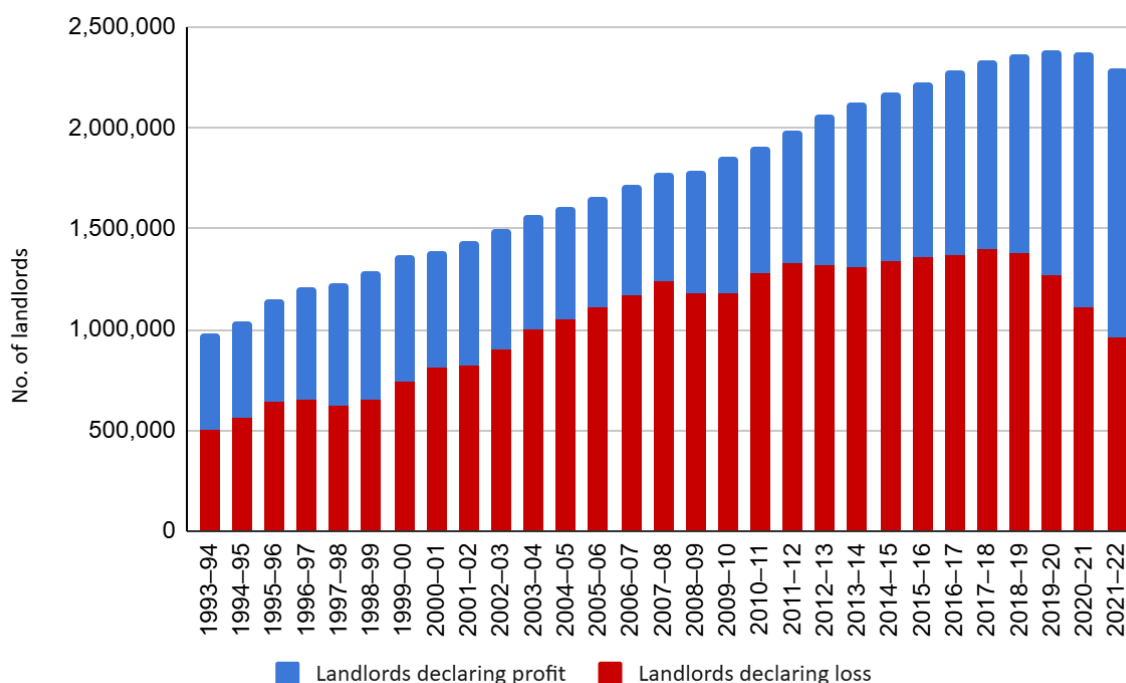
There are many negatively geared landlords (Figure 1). In 2021-22, 42% of landlords were negatively geared, but this percentage would have been higher in 2022-23 and 2023-24 as interest rates increased. Ten years ago, around three-fifths of landlords were negatively

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<sup>5</sup> The modelling in this report assumes losses are carried forward and offset against any future positive net rental income or capital gains.

geared. Hence, policy measures affecting negative gearing or CGT could significantly affect the rental market.

**Figure 1. Landlords by net rental profit status**



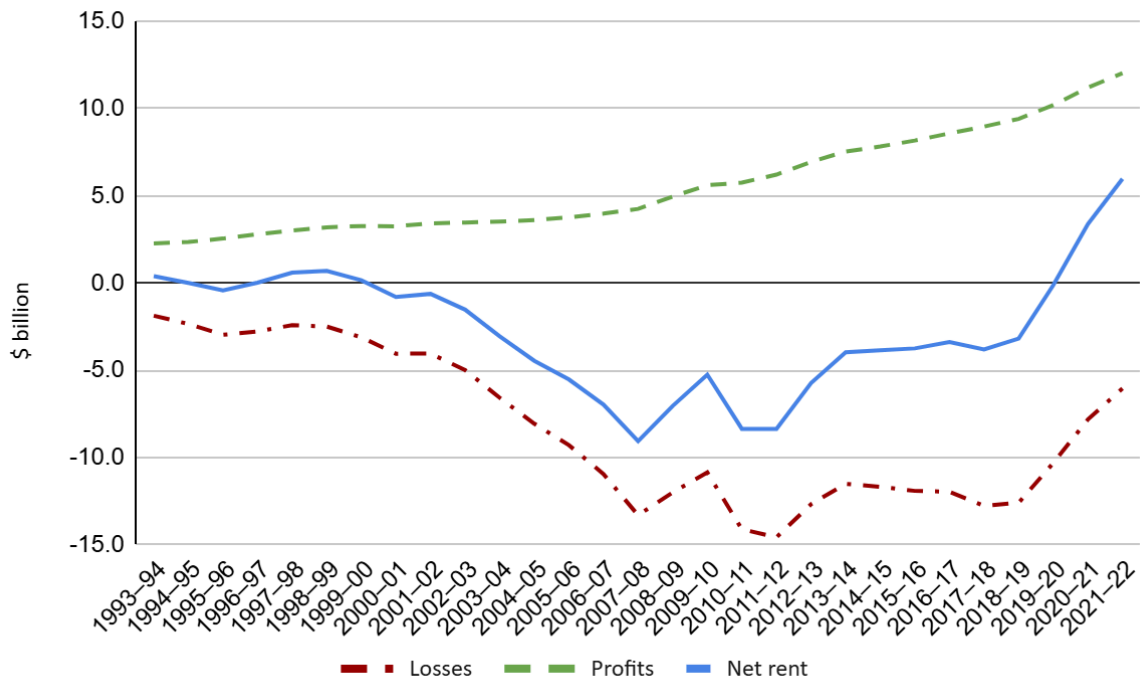
Source: ATO Taxation Statistics.

Note: The number of landlords declaring a profit reported in the chart also includes a relatively small number of landlords who declare zero net rent.

ATO data shows total net rent has improved substantially in recent years, from -\$0.1 billion in 2019-20 to \$6.0 billion in 2021-22 (Figure 2). This is likely due to lower interest rates and reductions in deductible interest payments. Total declared rental losses have fallen from \$14.6 billion in 2011-12 to \$6 billion in 2021-22. The average rental loss has fallen from around \$11,000 to around \$6,300 over this period.



**Figure 2. Rental profits, losses and net rent**



Source: ATO Taxation Statistics.

## 2.1.2. Capital Gains Tax discount

Capital gains tax (CGT) is not a separate levy. Instead, any net capital gain you make when you dispose of an asset (e.g. investment property, shares or crypto) is added to your other assessable income for the year and taxed at your marginal rate (companies pay CGT at the corporate tax rate). Assets acquired before 20 September 1985 are exempt, and several specific items—such as your main residence, cars, and most personal-use assets—are also outside the CGT net. After offsetting any capital losses (which can be carried forward indefinitely), individuals and most trusts that have held the asset for at least 12 months can apply the 50% CGT discount. An optional indexation method still applies for assets bought before 21 September 1999. The resulting discounted net capital gain is then reported in your tax return and taxed along with your other income.

### 2.1.3. Rent caps

#### Overview of economic consequences

Rent caps impose restrictions on how often rents can be increased, how much they can be lifted up or a combination of both. According to the Australian Housing and Urban Research Institute (AHURI), the cap on the rate of increase can be specific (i.e., a rise by \$X per week), *ad-valorem* (i.e., a rise by X% of the current rent per week), or it could be indexed to price growth levels (i.e., a rise by inflation rate resulting from the Consumer Price Index). In addition, rent caps can limit the number of times rent can be increased per a given period (e.g., the Queensland Government has limited rent increases to once per year for all new and existing tenancies from 1 July 2023).

Economic theory and evidence tell us that capping rents will have adverse outcomes. The cure for high prices is high prices, as they signal the market to supply more of the desired goods. So it is with housing. If rents do not increase in line with market conditions, fewer landlords will be willing to invest, including in new housing. Furthermore, property owners will convert rented-out properties to owner occupation.

The rental market will not clear by price—i.e. supply and demand will not be brought back into balance by an adjustment of rents. Instead, there will be rationing of the quantity of available rental properties, meaning many people willing to pay more for a rental will not be able to find one.

In an April 2025 research paper, AHURI commented on the adverse effects of rent freezes:

“Landlords’ rental investment decisions are affected by the gross rental yields of their rental properties. A higher gross rental yield reduces the odds of selling over time, as a 1 percentage point increase in the gross rental yield depresses the odds of selling over time by 8.1 per cent. This suggests that landlords will only continue to invest in the rental market if market conditions offer them a sufficient rent relative to their property values. Policy changes that apply long-term freezes to rental increases (e.g. The Greens 2023) may therefore negatively impact the supply of housing in the private rental market.”<sup>6</sup>

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<sup>6</sup> Singh, R., Ong ViforJ, R., Leishman, C. and Hewton, J. (2025) Modelling landlord behaviour and its impact on rental affordability: Insights across two decades, AHURI Final Report No. 440, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/>, p. 74. research/final-reports/440, doi: 10.18408/ahuri8129501.

## Case study of San Francisco

A high-quality quasi-experimental study using San Francisco data published in the leading journal *The American Economic Review* revealed that:

“Landlords treated by rent control reduce rental housing supplies by 15 percent by selling to owner-occupants and redeveloping buildings. Thus, while rent control prevents displacement of incumbent renters in the short run, the lost rental housing supply likely drove up market rents in the long run, ultimately undermining the goals of the law.”<sup>7</sup>

Furthermore, the study revealed that San Francisco rent control led to labour market inefficiency because it discouraged the mobility of people that is necessary for a well-functioning labour market.<sup>8</sup>

## Case study of Argentina

Recent evidence of the adverse impact of rent controls has come from Argentina, where President Milei’s repeal of rent controls at the end of 2023 saw a 195% increase in rental supply in Buenos Aires up to June 2024, and about 95% of this supply were units or flats.<sup>9</sup>

The controversial Rent Law No. 27.551, which was repealed, was promulgated on 30 June 2020 to bring balance in the negotiations between landlords and tenants, amid economic uncertainty and high inflationary pressures, in the entire Argentine territory. The main changes were:

- An increment of the minimum lease term from two to three years for residential lease agreements, with some exclusions for specific cases.
- Rent adjustments were limited to once per year. Moreover, the adjustment was based on an index calculated by the Central Banks, combining 50 percent of the inflation

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<sup>7</sup> Rebecca Diamond, Tim McQuade, and Franklin Qian (2019) “The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco”, *American Economic Review* 2019, 109(9): 3365–3394, <https://doi.org/10.1257/aer.20181289>

<sup>8</sup> Ibid.

<sup>9</sup> See <https://iea.org.uk/media/rent-controls-do-far-more-harm-than-good-comprehensive-review-finds/> and <https://www.newsweek.com/javier-milei-rent-control-argentina-us-election-kamala-harris-housing-affordability-1938127>

rate, and 50 percent of the wage variation of the average taxable wage of permanent workers.

- Reinforced the use of Argentine pesos for rental contracts.

According to Jose Rozados, Estate Report Director in Argentina, these changes in the rental market caused a reduction in the supply of rental properties, rental prices jumped, and disincentives for property investment and housing construction for rentals.<sup>10</sup> As noted by Bourne (2024),<sup>11</sup> it was estimated that around 45% of landlords exited the rental market to sell their properties in US dollars. In addition, many landlords opted for short-term rentals or Airbnb as a better option to generate revenue (Box 1). Regarding the rental price, many landlords decided to raise their rents before the index took effect. Those factors, reduction of the rental supply and up-front rental price hikes, contributed to inefficient allocations in the rental market in Argentina.

#### **Box 1. Rent control in Argentina: a textbook study**

Argentina's 2020 rent control laws led to a dramatic contraction in rental housing supply—45% of landlords exited the market, and Airbnb listings in Buenos Aires surged from 10,000 to over 29,500. As a result, the average monthly rent for a two-bedroom apartment skyrocketed from 18,000 pesos in 2019 to 334,000 pesos by 2024—far exceeding inflation. Following the repeal of these controls in late 2023, traditional rental listings rose by 50% up to January 2024, and new rental prices have fallen by 20–30%, demonstrating the market-corrective effect of deregulation.

Source: Bourne (2024).

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<sup>10</sup>

<https://www.lanacion.com.ar/propiedades/casas-y-departamentos/ley-de-alquileres-los-paises-del-mundo-que-limitaron-el-valor-de-los-contratos-y-tuvieron-problemas-nid05042023/>

<sup>11</sup> Bourne, Ryan (2024) Argentina offers a textbook study in why rent controls are a bad idea. CATO Institute. See

<https://www.cato.org/commentary/argentina-offers-textbook-study-why-rent-controls-are-bad-idea>

## 2.2. Rationale for negative gearing and CGT discount

### 2.2.1. Negative gearing

Negative gearing is a logical feature of the tax system, as it leads to consistent treatment of debt and equity regarding the financing of investments, a point made in 2015 by the Australian Treasury (Box 2).<sup>12</sup> After all, if an investor were to use additional equity to purchase a property rather than debt, they would forgo a rate of return on that equity and hence would pay less in taxes. Negative gearing is not a tax concession as such, and for this reason is not included in the Treasury's annual Tax Expenditure Statement.

#### **Box 2. The Treasury on negative gearing and CGT discount**

"Negative gearing does not, in itself, cause a tax distortion, but it does allow more people to enter the market than those who might have had the equity alone to do so. Purchasers can make bigger investments in property by borrowing, in addition to using their own savings. This behaviour is encouraged by the CGT discount, as larger investments can result in greater capital gains and therefore benefit more from the CGT discount.

Contrary to popular perception, negative gearing is not a specific tax concession for taxpayers with investment properties — it is simply the operation of Australia's tax system allowing deductions for expenses incurred in producing assessable income...Expenses incurred in producing income from other types of investments are also generally deductible. This includes interest costs incurred when borrowing to purchase assets like shares. In 2011-12, around 285,000 individuals deducted a total of nearly \$1.4 billion for expenses incurred in earning dividend income."

Source: Treasury, 2016, p. 64.

Given that a person's income for tax purposes—and the marginal tax rate they are liable to pay—is built up by adding up income from different sources, generally wage and salary income but also income from businesses and investments, it is natural that deductible expenses are built up in the same way.

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<sup>12</sup> The Treasury, 2015, Re:think Tax Discussion Paper, p. 66.

Negative gearing does not unfairly advantage investors relative to people who only own an owner-occupied property, for which there is no deduction of mortgage interest payments available. Economic theory and empirical evidence suggest owning your own home in Australia is very tax effective and a person should typically prefer an owner-occupied property to ‘rentvesting’, whereby they rent their place of residence and buy an investment property.<sup>13</sup> The advantage of owner occupation comes through the implicit rental income of the property you live in being exempt from taxation and capital gains on the property also being exempt.

Critics of negative gearing often note that negative gearing is disproportionately undertaken by high income earners. The Grattan Institute has observed that ‘the top 10% of income earners before rental deductions receive almost 50% of the tax benefits of negative gearing.’<sup>14</sup> It is misleading, however, to refer to tax benefits. As noted above, negative gearing means an investor loses less money than they otherwise would because they are able to deduct expenses associated with earning that income. This is not illogical or improper. Furthermore, the observation that the top 10% disproportionately negatively gear is hardly surprising, given they are more likely to own investment properties and indeed multiple properties in many cases. The top 10% also pay around half of all income tax in Australia.<sup>15</sup> So it is unsurprising and not inequitable that the top 10% should receive around half of negative gearing’s so-called tax benefits.

Regarding the equity implications of negative gearing, consider that—as the Treasury noted in its *Re:think Tax Discussion Paper*—negative gearing also allows more people to enter the property market than would otherwise be the case.<sup>16</sup> This is certainly correct, and research by the Australian Housing and Urban Research Institute suggests that if negative gearing were not available, around half of investors may not have purchased an investment property.<sup>17</sup> ANU Associate Professor Ben Phillips has observed, ‘While negatively geared investors do typically have larger incomes it is also true that their spread of incomes covers

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<sup>13</sup> See, for example, estimates of the internal rates of return for owner-occupied and rental properties in Australian Institute for Progress, 2017, *Housing investment – the last five years*, p. 6.

<sup>14</sup> Daley and Wood, 2016, *Hot Property: Negative Gearing and Capital Gains Tax Reform*, Grattan Institute, p. 28.

<sup>15</sup> Phillips and Stewart, 2015.

<sup>16</sup> The Treasury, 2015, p. 64.

<sup>17</sup> Seelig, T., Thompson, A., Burke, T., Pinnegar, S., McNelis, S. and Morris, A., 2009, *Understanding What Motivates Investors to Become and Remain Investors in the Private Rental Market*, AHURI Final Report no. 130, p. 3.

low, middle and high incomes.<sup>18</sup> Using ATO data, Phillips estimated that around 25% of negatively geared investors are in the five lowest family income deciles.<sup>19</sup>

### 2.2.2. CGT discount

A discount for capital gains is generally uncontroversial, as there is widespread recognition that capital gains should be taxed at a concessional rate because part of any capital gain is due to inflation, and also because capital gains are booked in a single year for income tax purposes making them more likely to be subject to a high marginal tax rate. On the other hand, the time value of money means that the effective marginal tax rate on capital gains naturally declines over time as the booking of the gain is deferred until its realisation for tax purposes.<sup>20</sup> Hence, it is not straightforward to work out an appropriate CGT discount.

Some commentators have argued that the current treatment of capital gains for taxation is highly concessional in a low-inflationary environment. Discounting capital gains by 50% is more than compensating for inflation where the real capital gain is greater than the rate of inflation—for example, if average annual inflation is 2.5%, the real capital gain is 3.5%, and the nominal capital gain is 6%.

It is beyond the scope of this paper to resolve whether a different rate of CGT discount is desirable. Rather, the focus is on assessing the impact of removing negative gearing and halving the CGT discount.

## 3. Analysis

### 3.1. Overview of modelling approach

In this section, Adept Economics' 2016 analysis is updated to account for any new data relevant to the model's parameters and assess the impact on the rental market.<sup>21</sup> A cash flow analysis for property investors is undertaken to evaluate the property market and rental market impacts. The exact post-tax return on investment (ROI) for a property investment

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<sup>18</sup> Phillips, 2016, Distributional Modelling of Proposed Negative Gearing and Capital Gains Taxation Reforms, ANU Centre for Social Research and Methods Research Note, p. 5.

<sup>19</sup> Ibid.

<sup>20</sup> See Ingles, D., 2009, "Tax equity: Reforming capital gains taxation in Australia", Australia Institute Technical Brief, p. 14 and Treasury (2008) Australia's Future Tax System: Consultation Paper, p. 148.

<sup>21</sup> Tunny, G. and Windle, P. (2016) "Potential impacts of negative gearing and capital gains tax changes on the property market", Adept Economics Report prepared for Walshs Financial Planning.

depends on, among other things, the rental revenue, expenses, marginal tax rate, and loan-to-value ratio (LVR). The core assumptions for the modelling are set out in Table 1.

**Table 1. Core assumptions for modelling**

Parameter	Value	Notes
Property value (when purchased)	\$820,000	Approximately median dwelling price for Australia, based on CoreLogic data. NB given the specification of assumptions in percentage terms, the assumed property value does not affect the rate of return.
LVR	Variable: 0-80%	A range of LVRs is assumed to capture the diversity of leverage in property investment.
Rental yield (net, after expenses, excluding interest payments)	3.0%	The net rental yield assumption was chosen based on analysis of property market data and for consistency with previous studies by the Grattan Institute and BIS Shrapnel.
Capital gain (annual, nominal)	5%	The assumptions regarding capital gains for houses and units were based on analysis of property market data, industry consultation and consideration of assumptions in other studies. It is the same assumption as used by the Grattan Institute and appears conservative given actual rates of capital gains observed in the market. Historically, property has grown at greatly different rates in different decades, and it is not possible to discern a stable long-run average.
Borrowing rate (annual, nominal)	5.25%	A nominal mortgage interest rate of 5.25 percent is assumed. This is consistent with further reductions in the cash rate (of at least 1 percentage point) from the rate in April 2025, as the cash rate moves back to a more neutral rate, and assuming they flow through to mortgage interest rates. According to the latest RBA data, lending rates for new P&I loans were 6.21% in February 2025. The lending rate for new interest-only loans was 6.39%. (See <a href="https://www.rba.gov.au/statistics/interest-rates/">https://www.rba.gov.au/statistics/interest-rates/</a> )
Marginal tax rate (incl. Medicare Levy)	39%	We have assumed an investor on the second highest marginal tax rate, which is 39 percent (37 percent actual marginal tax rate plus the 2 percent Medicare levy). This compares with a marginal tax rate of 47 percent assumed in the Grattan analysis, so they could estimate the maximum possible impact on the market, and 35 percent in the BIS Shrapnel analysis.
Inflation (annual)	2.5%	This is the mid-point of the RBA's target band for inflation.
Holding period (years)	10	This is consistent with the assumed holding period in the Grattan analysis and with AHURI's April 2025 analysis (see p. 82).

## 3.2. Modelling results

The first step in assessing the potential market impacts of removing negative gearing and halving the CGT discount is to model the ROI of property investment under current policy



settings. Then, the ROI is modelled under the assumed policy change. For this analysis, while negative gearing is not allowed—i.e. rental losses cannot be deducted from other income in the current financial year—rental losses can be carried forward and used to reduce the future tax liability associated with positive net rental income or capital gains at the end of the holding period, assumed to be 10 years.

The analysis reveals that removing negative gearing and halving the CGT discount would significantly reduce the ROI for property investment. It considers these policy changes for all investment properties. Hence, it should not be considered necessarily as an analysis of policies proposed by specific political parties, which have restricted the application of their measures (e.g. grandfathering existing properties and denying negative gearing for established properties for Labor as per the 2016 and 2019 election policies, or denying negative gearing to investors with multiple properties as per the Greens' current policy).

We begin by presenting simulations of the impact of denying negative gearing and removing the CGT discount on the ROI in investment properties by type of loan and leverage. This reveals significant reductions in the ROI (Table 2). Across various classes of investors, the proportionate fall in ROI ranges from around 13% to 16%.

**Table 2. Impact on ROI, measured by internal rate of return (IRR)**

LVR	Post-tax real rate of return (i.e. IRR)		
	Current policy	Removal of NG & CGT discount	Proportionate change
<i>P&amp;I loan</i>			
80%	8.57%	7.25%	-15.4%
40%	4.77%	4.11%	-13.8%
<i>Interest only loan</i>			
80%	9.66%	8.16%	-15.5%
40%	4.91%	4.23%	-13.8%
<i>No borrowings</i>			
0%	3.47%	3.00%	-13.5%

The initial short-term impacts will be felt regarding property prices, as investment properties are now less attractive for investors. This could result in property price impacts relative to the baseline (i.e., it would mean lower property price appreciation than otherwise in the year it is implemented). This is not necessarily a forecast of lower property prices, as significant immigration-led population growth and expected cash rate reductions will mean property prices will likely continue to increase.

In the longer term, we expect higher rents as investors withdraw from the market (e.g., selling properties to owner-occupiers or converting them to second homes). Hence, we model a new long-term equilibrium scenario in which the gross rental yield adjusts to restore the ROIs—in other words, to compensate for the higher user costs of investment properties—before removing negative gearing and the CGT discount.<sup>22</sup> This suggests increases in gross rental yields in the long run of around 15%, depending on how much of the adjustment occurs through rents rather than the property prices (Table 3). The gross rental yield can adjust through either rents (the numerator) or property prices (the denominator).<sup>23</sup>

**Table 3. Simulated impact on gross rental yields in the long run—i.e. if the pre-policy-change ROI is restored**

LVR	Gross rental yield uplift required to restore ROI
<i>P&amp;I loan</i>	
80%	13.6%
40%	15.7%
<i>Interest only loan</i>	
80%	13.1%
40%	15.6%
<i>No borrowings</i>	
0%	16.5%
<b>Average</b>	<b>14.9%</b>

Based on the modelling, the policy changes would result in an increase in rents in the long run of between 7.5% and 14.9%, with a midpoint of 11.2%. The 7.5% lower bound estimate

<sup>22</sup> This is analogous to an alternative approach of modelling the impact of the policy changes on the user cost of investment properties. On user cost, see Stapledon, N. and Roberts, A. (2016) Taxation and Housing – The Great Debate, Notes on Housing - No.1 March 2016.

<sup>23</sup> As UNSW economists Nigel Stapledon and Andrew Roberts (2016, p. 1) noted regarding previous proposals to change negative gearing and the CGT discount “Increases in capital gains tax for all dwellings and disallowance of negative gearing for established dwellings will increase the user cost of investors and, other things equal, will mean some combination of higher rents) and lower prices, ie higher rent-price ratios.”

is based on empirical evidence that in the long run, at least half of an increase in user costs is passed through to rents.<sup>24</sup> Using the midpoint estimate, this could mean increases in average rents of \$60-95 across Australian capital cities, ranging from a \$60/week increase in Hobart to a \$95/week increase in Sydney (Table 4). This illustrates what could happen rather than a forecast, given the uncertainty regarding whether the adjustment in the gross rental yield will occur via rents or property prices. Previous research has suggested most of the impact would occur through property prices, and there is US evidence that while half of an increase in user costs is passed on to rents eventually, that can take over a decade.<sup>25</sup> However, as discussed below, we expect the impact on rents to be more rapid and substantial in the current Australian rental market.

**Table 4. Increase in average weekly rent in capital cities from abolishing negative gearing and CGT discount**

Capital city	Weekly rent	Lower bound increase	Upper bound increase	Midpoint
Sydney	\$854	\$64	\$127	\$95
Melbourne	\$647	\$48	\$96	\$72
Brisbane	\$685	\$51	\$102	\$77
Perth	\$754	\$56	\$112	\$84
Adelaide	\$620	\$46	\$92	\$69
Hobart	\$537	\$40	\$80	\$60
Canberra	\$686	\$51	\$102	\$77
Darwin	\$622	\$46	\$93	\$70
Capital city average	\$742	\$55	\$111	\$83

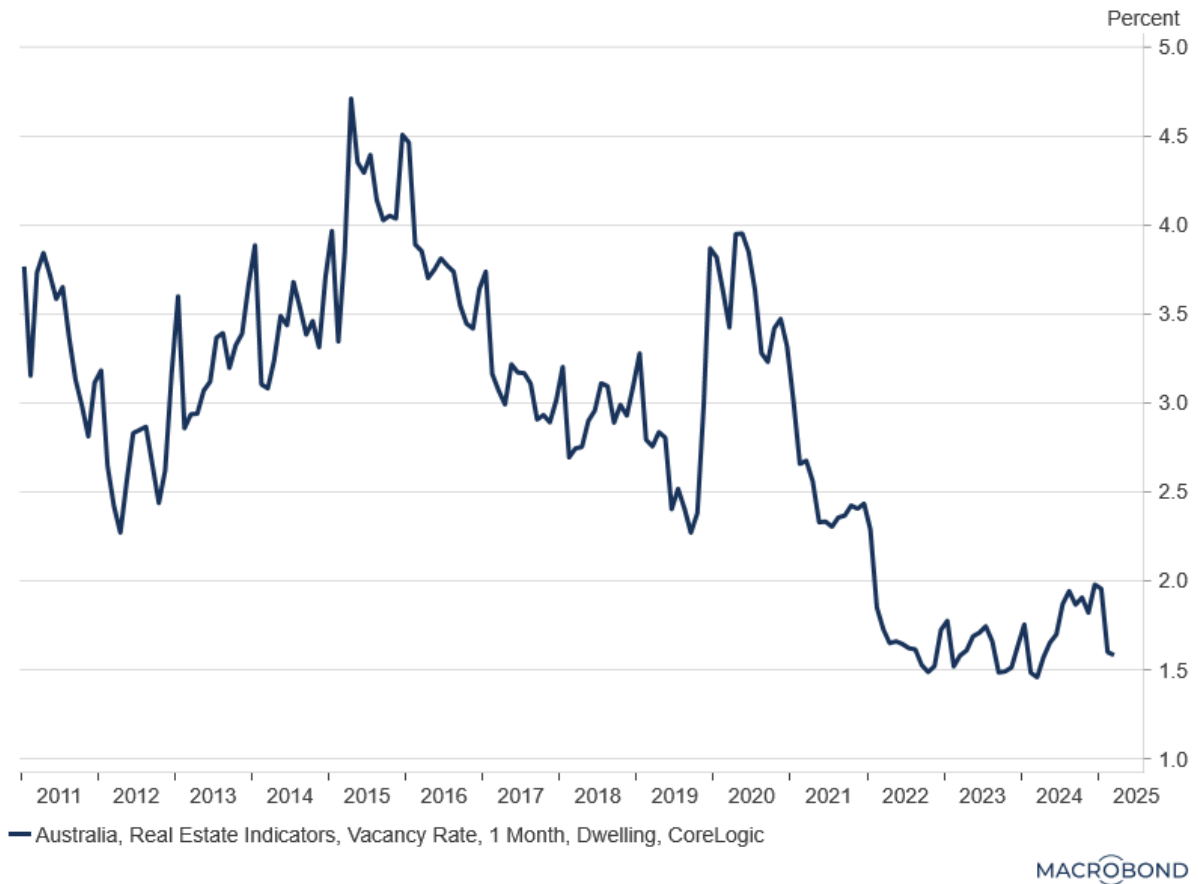
Source: The calculations are based on average rent data for April 2025 from SQM Research, available at <https://sqmresearch.com.au/weekly-rents.php?t=1&avg=1>. Note: The rents are the averages across all property types, labelled 'Combined' in the SQM data.

It is difficult to predict how long it will take for this long-run adjustment in rents to occur. It could occur within a few years and likely within ten years. In the current Australian market, we expect the impact of higher user costs for investment properties to be more easily passed on through rents than previously. There is a very tight rental market, a situation different from what applied when previous policy changes were proposed in 2016 and 2019 (Figure 3).

<sup>24</sup> Blackley, D. and Follain, J. (1996) "In search of empirical evidence that links rent and user cost", *Regional Science and Urban Economics*, Volume 26, Issues 3–4, June 1996, Pages 409-431.

<sup>25</sup> For instance, see Deloitte (2019) *Analysis of changes to negative gearing and capital gains taxation* Prepared for the Property Council of Australia, July 2019 and Blackley and Follain (1996).

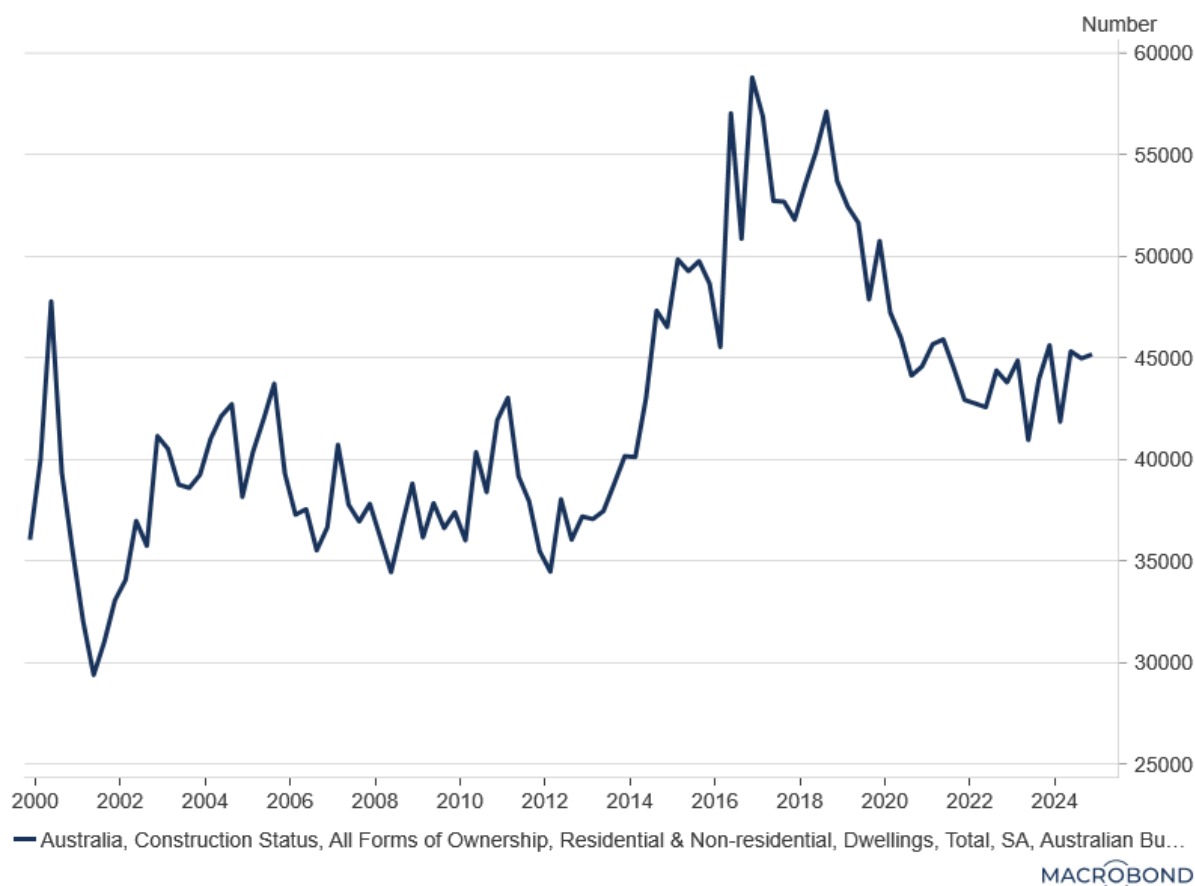
**Figure 3. Rental vacancy rate, Australia**



Source: CoreLogic, via Macrobond.

Furthermore, Australia is currently tracking well below the level of dwelling completions necessary to meet the national housing target (i.e. 240,000 per year or 60,000 per quarter), meaning there is an even greater challenge to ensure sufficient rental supply in the future (Figure 4).

**Figure 4. Dwelling completions, quarterly, Australia, ABS seasonally adjusted estimates**



Source: ABS, via Macrobond.

That said, Impacts on rents may not be noticeable within the first year, given that around half of all tenancies are for twelve months. Sufficient time needs to pass for demand from investors to drop off sufficiently that there is a decline in the relative availability of rental properties. AHURI estimates suggest many landlords are quick to turnover properties already, and hence a significant impact on the availability of rental properties occurring within a few years is not implausible. Consider that, as AHURI reports:

“The median rental-investment period is two years, whereas the mean rental investment is 3.9 years. Approximately 22 per cent of rental investments are disposed of after the first year.”<sup>26</sup>

<sup>26</sup> Singh, R., Ong ViforJ, R., Leishman, C. and Hewton, J. (2025) Modelling landlord behaviour and its impact on rental affordability: Insights across two decades, AHURI Final Report No. 440, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/>, p. 1.

These simulations illustrate the significant role that negative gearing and the 50% CGT discount play in improving the ROI of investment properties, and hence, changing these policy settings would be risky.