



Will Labor's changes to
negative gearing and capital
gains tax increase housing
affordability?

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Introduction

The federal government is changing the rules for taxation on investment for taxpayers holding assets in their personal names. In Australia companies pay full company tax on capital gains, but property held in trusts for individuals and in individuals' own names is taxed on only half the capital gain.

Increasing the tax has been sold principally as a cure for unaffordable housing and therefore a cure for "intergenerational inequity".

This document is a fact check on current beliefs about housing, capital gains and negative gearing.

Executive Summary

As far as housing is concerned, the changes in tax policy will have little to no impact on house prices and housing affordability. They also will not significantly change the investment case for residential real estate investors. At great political cost the government has broken a firm election promise, distressed investors and owner-occupiers, further complicated the tax system and increased costs, all for a small projected revenue gain, and no change in home affordability or availability.

Which leads us to ask the question: "Why bother?".

Our research finds:

- historically there is no obvious link between capital gains taxes, negative gearing and housing affordability;
- over the last 10 years investors would have made a good and similar return on housing on either the proposed system or the current one;
- owner-occupiers have generally been the greatest beneficiaries of the tax system so are more likely to freeze investors out than the other way around;
- housing has been, and may continue to be, competitive with alternative forms of investment; and
- encouraging investors to buy new housing rather than existing housing will potentially exhaust the entire stock of new builds, allowing nothing for owner-occupiers and inflating their price which will flow through to the price of established residential stock.

While CGT on shares and business were not discussed at length by the treasurer, that is where the damage from CGT will fall. For relatively riskless assets that can be geared to high levels, like housing, the effect is minimal. The tax rewards conservative low return investments with financial engineering and punishes higher risk, high return investments.

Specific findings are that:

- Since 1901 house prices have risen consistently, but between 1901 and 1985 wages grew faster than house prices. After 1985 this process has more than reversed itself.
- Between 1901 and 1973 house repayments compared to wages varied within a band 30% either side of where they sat in 1901. After 1973 a new equilibrium was established with servicing costs centred around a figure that was double the pre-1973 figure. In other words housing became twice as expensive to buy.
- Housing has never been as affordable as it was in the period **before** capital gains tax was introduced in 1985. This is evidence against the proposition that capital gains tax will increase affordability.
- Negative gearing was introduced in 1936 as a measure to increase housing supply. Prices did initially dip, but this was in the aftermath of the Great Depression and three years later Australia was at war. Apart from that period house prices have risen steadily.
- It cannot be established that a capital gains tax makes housing cheaper on the historical evidence. When CGT was first introduced in 1985 houses continued to rise and houses became less affordable. After CGT was adjusted in 1999 prices also continued to rise.
- Abolishing negative gearing is not the same thing as denying the investor the ability to deduct the expense. The loss is carried forward and deducted against eventual profits, whether from rental income or sale of the property. That means that the gain to the government is the interest value of the reduction in tax, not the whole reduction. It will result in higher tax now, but less tax later in the property's cycle.

- It has never been harder to service a housing loan than today. It is three and a half times more expensive than it was in 1901, 1952, and 1968. It is 270% more expensive to service a housing loan today than in 1999. It is 75% harder to service a housing loan today than in 2020, just six years ago.
- Owner-occupiers generally get a better after tax return than investors. Over the last 10 years owner-occupiers received up to 16.08% pa return on their investment after tax. The top return to investors under the scenarios we modelled was 15.19% pa, but only if they were in the top marginal tax bracket. Most investors aren't. To an investor paying 32%, the maximum return was 14.66%.
- Under the new rules and the same scenarios the best return to a top marginal taxpayer was 13.54% pa and for a 32% taxpayer it was 13.84%.
- Returns to investors have either increased slightly under the new proposals or reduced by no more than 1.5 percentage points per annum. Given the uncertainties inherent in investment this is unlikely to make much difference to an investor's calculations.
- Even without any gearing a owner-occupier would have received a return of 7.6%. Under the old rules, without gearing, the investor on the highest marginal tax rate would have received a return of 5.14%. Under the new rules the investor's return would actually increase by as much as 0.74 percentage points.
- Over the last 10 years geared residential property outperformed cash, bonds, shares and superannuation. The owner-occupier had an after-tax return of 11.90%pa with 80% borrowings. Under the new rules the top marginal rate payer would have received 9.81% on the same gearing, and 10.17% if they geared to 95%. Cash would have returned 1.05%-1.30%, shares 5.83%, and superannuation 8.21%.
- The investment returns over the last 10 years confirm our policy from 2016 that first home buyers should be able to borrow from their funds in their superannuation fund towards a deposit on a home. The return from the house would have been almost 50% higher than that from superannuation, a significant benefit in retirement.
- Even under the proposed changes housing will probably still be a competitive investment as long as house prices keep pace with GDP. If they track inflation it will be a very poor investment for owner-occupiers and investors. A 95% LVR might give an owner-occupier a negative return of -2.14% pa return, meaning they would have been better renting. The result for an investor would be even worse.
- If housing prices track GDP the return might be as high as 11.63% for an owner-occupier and 11.32% for an investor.
- Should the government's policy be successful in pushing investor demand into new housing it would create a crisis in the new housing market as there are fewer new dwellings being produced than there are investors buying. As owner-occupiers also buy new dwellings this could lead to extreme pressure on prices, with a limited capacity to increase production leading to higher prices of new dwellings.
- Public works are at a 16-year high and are competing against residential subdivisions, and house building as they use the same trades, contractors and materials. This will further make it difficult for new residential housing market to respond to increased demand.
- Any rise in new dwelling prices will cause existing dwellings to also increase in price, defeating the express purpose of the tax changes.

From the point of view of housing affordability these changes will raise a small amount of money, increase complexity and cost, but do nothing to address the price of housing.

Graham Young
Executive Director
28 May, 2026

Negative gearing

Australia has had negative gearing since 1936 when it was introduced as a measure to increase supply.

Negative gearing does give a cashflow advantage to the investor when they first buy an investment as it allows them to recoup tax they have overpaid on their total income when their tax is assessed. Under the government’s proposed system that benefit is lost in the year in which it is incurred and carried forward against the time when the asset becomes profitable or it is sold for a capital gain when it is used to reduce the tax on the future income.

Historical perspective

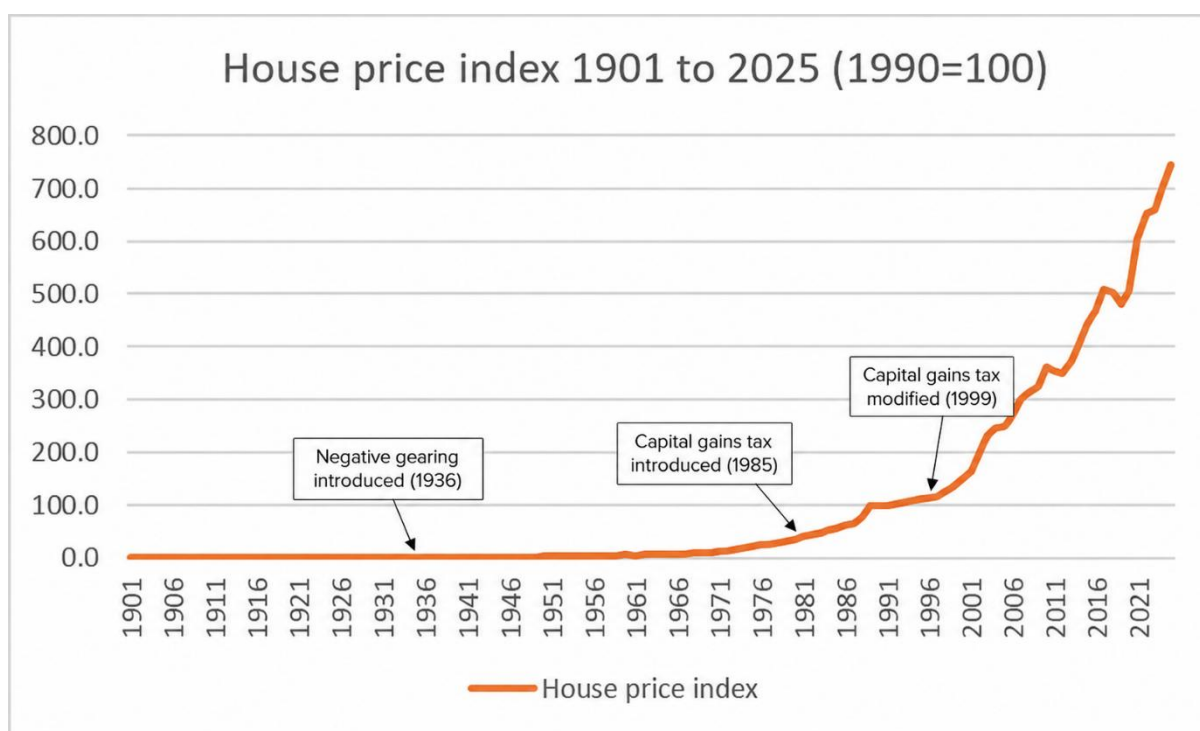
Australia has had negative gearing since 1936, and until 1985, when it was introduced by the Hawke government, there was no capital gains tax. In 1999 the capital gains tax was modified by the Howard government.

If these policies had a significant effect on housing affordability you would expect growth to be faster in periods without a capital gains tax or in periods with negative gearing,

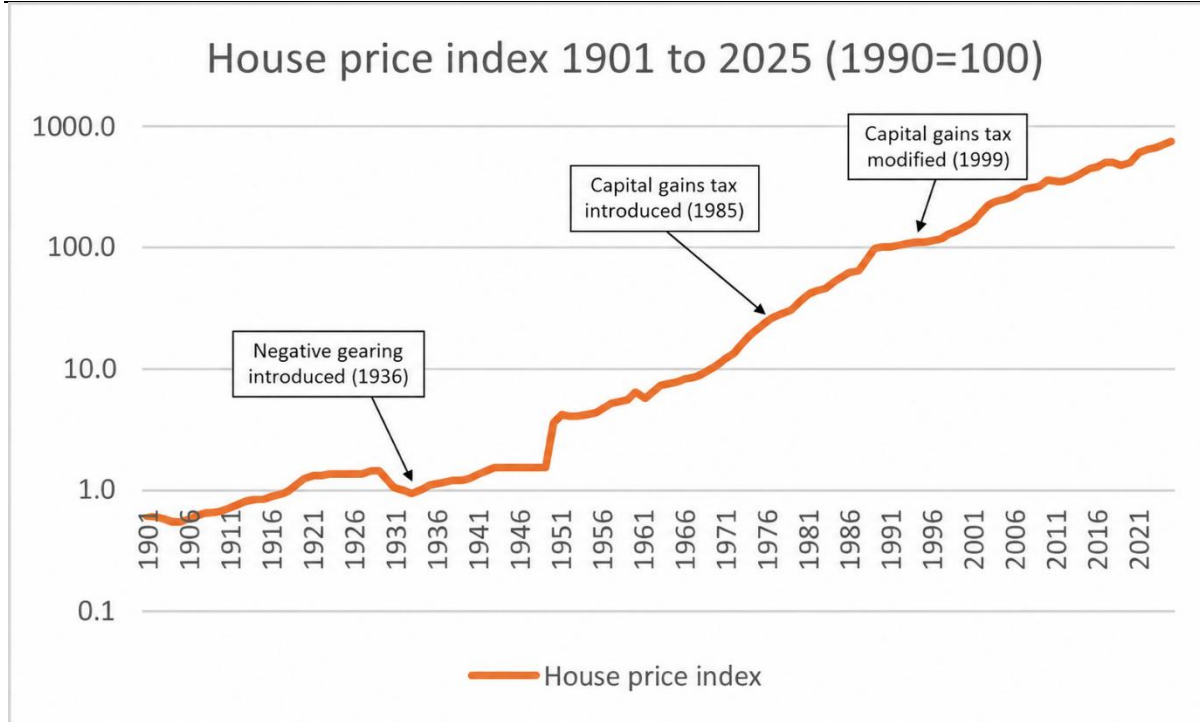
Australian house prices since 1901

The following graphs are based on the index published by the Jordà-Schularick-Taylor Macrohistory Database and extended by us to 2025 (the data from the database stops at 2020). It is an index with a zero base at 1901.

The first graph shows that nominal house price growth has been exponential over the last 125 years with the graph appearing flat to the 70s before then accelerating.



The second graph uses a log scale, which gives higher definition to the period of relatively lower prices and it can be seen that growth has been quite constant since 1901 with a significant decline in 1930 to a new equilibrium, with the old equilibrium reestablishing itself in 1949. This was the period covering the Great Depression and World War II. The return to the previous equilibrium coincides with the year of the election of the Menzies government.



In neither of these graphs is there any evidence that the introduction of Capital Gains, or its modification, acted to moderate house price growth which has been very consistent over 125 years. With depression and war confounding factors it is difficult to draw any conclusions about negative gearing.

Conclusion

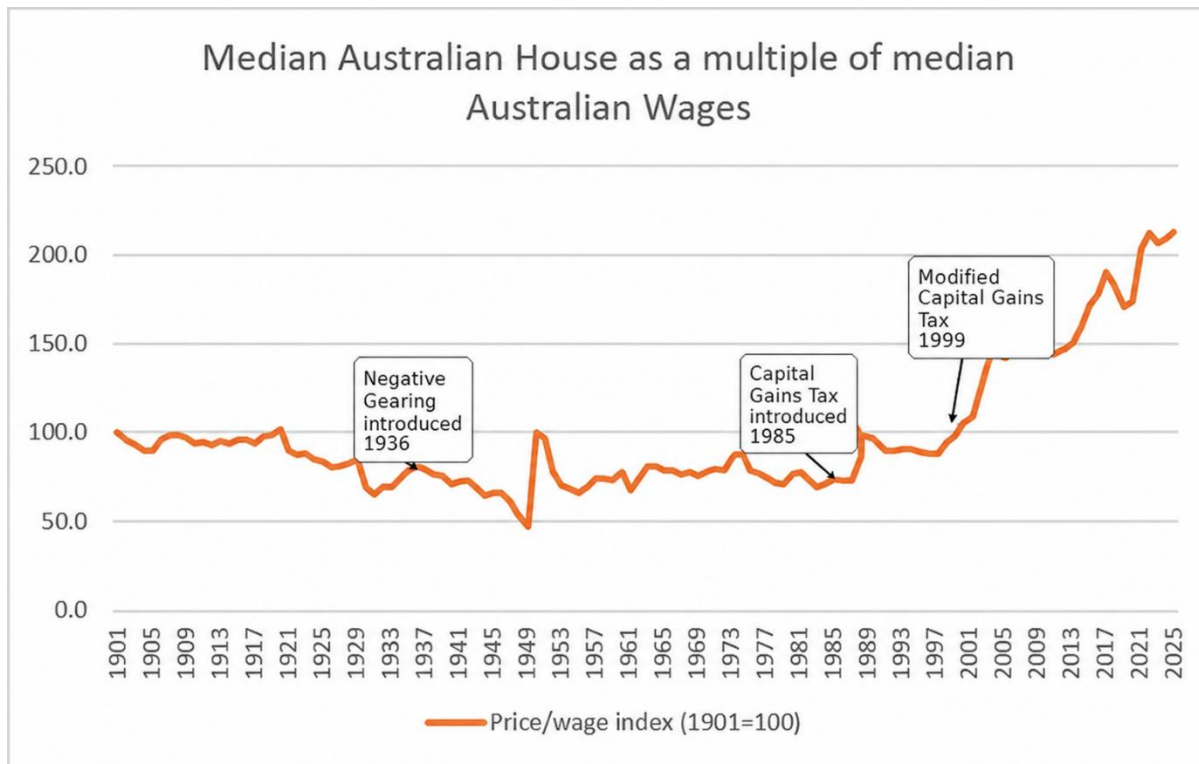
There is no support in the price of housing for the contention that negative gearing increases prices, nor that lower capital gains tax accelerates price growth

Australian housing affordability since 1901

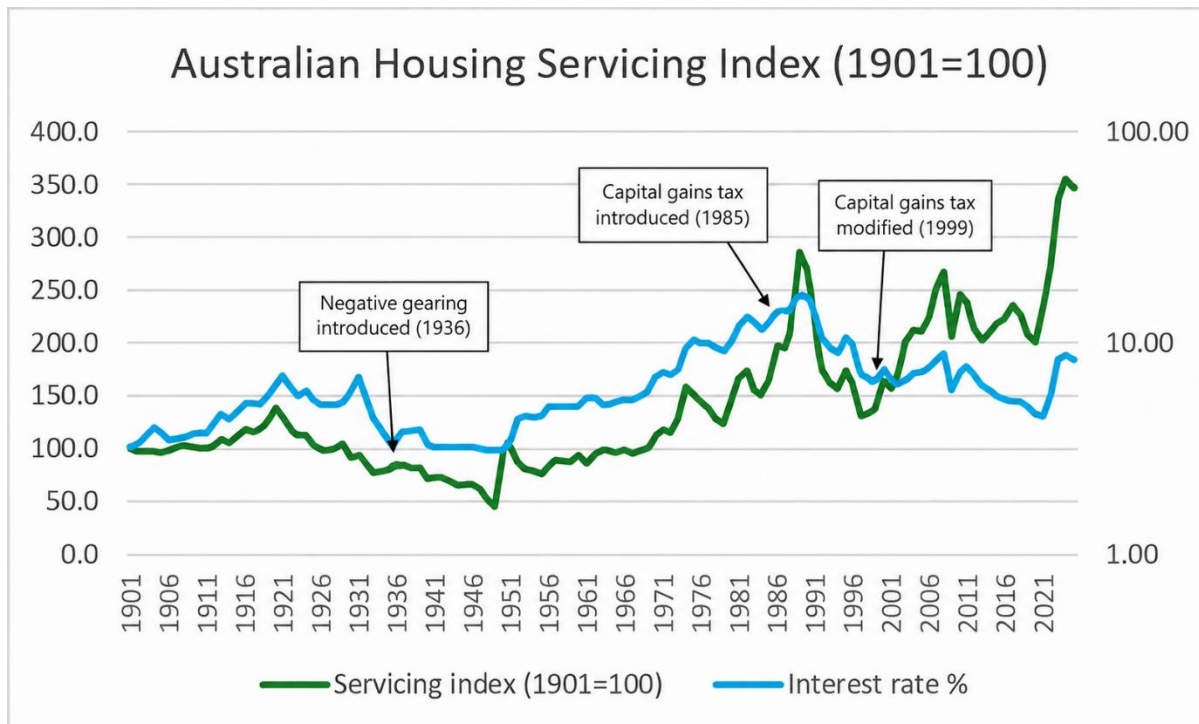
House prices are determined by the cost of producing them, the demand for them, and the ability to pay for them. It's possible that capital gains taxes and negative gearing might not appear to affect house prices but might have had an effect on affordability.

[Demographia](#) is an organisation that produces a International Housing Affordability Index by expressing house prices as a multiple of gross median household income. The graph below follows Demographia's methodology. On this basis housing was actually cheaper in 1999 than it was in 1901, despite there being no capital gains tax for all that period. The decrease in affordability happens after the capital gains tax is introduced. The change in 1999 makes no difference to the trend from 1985 to the present.

In the first 85 years of Federation there was a general increase in affordability on the Demographia model, which gave way to a 40 year period after the introduction of capital gains tax, where housing affordability has decreased dramatically.



However, the Demographia approach doesn't account for the effect on affordability of interest rates. The graph below relates median house prices to interest and repayments.



This graph shows two periods. A long period from 1901 to 1973 when the index never went over 130 and frequently went well below that. Then a second period when housing was much less affordable and the top of the previous range became the bottom of the next.

A peak level of unaffordability is reached in 1989 to coincide with record high interest rates. As rates dropped, affordability improved until 1997 and then declined after that.

Affordability generally aligns with interest rates rather than tax changes. As interest rates go down affordability improves, and as they rise, it deteriorates. In terms of affordability, houses were more affordable before capital gains tax, rather than after. There was an increase in affordability after negative gearing was first implemented (which was the stated intention). This could have been caused by the tax change, or by the tail of the Great Depression and then WWII causing rates to fall. As the decrease in affordability didn't occur for another 27 years it is hard to blame it for current levels of unaffordability.

Conclusion

The claim that increasing capital gain tax will increase affordability cannot be substantiated on the basis of the last 125 years of housing costs. It's possible that negative gearing did increase the affordability of housing, but there are obvious confounding issues at the time which make this difficult to gauge. There is no evidence that negative gearing decreases housing affordability.

Do tax advantages allow investors to outbid home buyers?

Modelling the last 10 years

The following tables are based on actual figures from the last 10 years using the median house price, the RBA's mortgage interest rate data, and the ABS figures for inflation. Actual outgoing costs were estimated using current averages deflated using CPI figures.

They show that home buyers generally get a better return on investment than investors. This is because the family home is not subject to capital gains tax. Please note that these rates of return are net of taxation.

Scenario	80% LVR IRR	95% LVR IRR	95% LVR with 4% upfront LMI
Owner-occupier	11.90%	16.08%	13.05%
Investor old rules, 47%	9.99%	15.19%	11.87%
Investor new rules, 47%	9.81%	13.54%	10.87%
Investor couple old rules, 32%	10.16%	14.66%	11.57%
Investor couple new rules, 32%	10.17%	13.84%	11.16%

We have modelled over the last 10 years three different personal situations over two different debt-to-equity levels for the current capital gains and negative gearing regimes and those proposed by the government. Using the last 10 years allows us to use real figures for median house prices, interest rates and outgoings.

The modelled scenarios are the owner-occupier, paying tax at any rate; the investor paying tax at the top marginal rate; and an investor consisting of a couple, paying marginal tax at 32% (although they may be pushed-up into the 47% bracket in the year when they sell the property, but then, only for part of the proceeds).

Three things are obvious from the table:

- the owner-occupier receives the best return in each loan-to-value scenario, as well as under the changes to taxation;
- the higher the gearing, the bigger the return; and
- the change in return between the old and new tax regimes over the last ten years for each scenario modelled is marginal.

It is important to note that these are historical figures. Based on the charts in the first section of this paper it seems unlikely that real estate will appreciate at the same rate.

We also analysed the last 10 years on an ungeared basis to reflect the situation where the owner-occupier has paid off their loan which is the endpoint that most owner-occupiers aspire to. In this case they receive a substantial benefit not just from the capital gains tax exemption, but from the fact that they receive the occupancy benefits tax free.

Scenario	IRR
Owner-occupier, ungeared	7.60%
Investor, ungeared - old rules, 47% tax	5.14%
Investor, ungeared - new rules, 47% tax	5.27%

Scenario	IRR
Investor couple, ungeared - old rules, 32% tax	5.78%
Investor couple, ungeared - new rules, 32% tax	5.89%

In this scenario the owner-occupiers is substantially ahead of the investor. To an extent it also explains why many investors gear up on an investment property to buy another.

Conclusion

There will always be situations where one investor outbids another – that is the nature of markets – but as far as the tax system influences that dynamic it is the owner-occupier who has the advantage over the investor.

Will housing continue to be a good investment after the tax change?

Even under the new tax arrangements housing should continue to attract investment. But what are realistic scenarios going forward? With housing the least affordable it has been in at least 125 years, can it continue to increase at the same rate that it has over the last 10 years? Or will interest rates fall, cushioning the effect of high prices?

Over the whole of the last 125 years of our data interest rates are currently higher than average, by around 1.87 percentage points. However, there are really two equilibria in the data – one prior to 1973 and the other subsequent to 1973. Interest rates at the moment are close to the average for that second period, making them a good proxy for what the future is likely to hold for interest rates.

We've modelled housing going forward on two bases. The first is if interest rates stay steady and residential prices increase with CPI, the second is if interest rates stay steady and residential prices increase with GDP. We've used the budget forecasts for CPI and GDP until the end of the forward estimates and then projected them forward for a further 6 years at the same rate as the last year of those estimates.

Houses increase in line with the CPI

Scenario	80% LVR IRR	95% LVR IRR	95% LVR with 4% upfront LMI
Owner-occupier	2.57%	-0.47%	-2.14%
Investor old rules, 47%	3.18%	3.10%	0.66%
Investor new rules, 47%	2.35%	-0.63%	-2.28%
Investor couple old rules, 32%	2.78%	1.62%	-0.52%
Investor couple new rules, 32%	2.35%	-0.63%	-2.28%

It should be noted that under a CPI-only scenario both the 32% and 47% marginal taxpayers end-up with the same return because there is no tax payable as the asset fails to make a return greater than inflation.

This scenario would see very low returns, even going negative in some scenarios. The new rules would punish high gearing more heavily than the old rules. In all scenarios the investor would be in a better position than the owner-occupier under the old rules, and in a less advantageous position under the new rules.

Houses increase in line with real GDP +CPI

Scenario	80% LVR IRR	95% LVR IRR	95% LVR with 4% upfront LMI
Owner-occupier	9.71%	11.63%	9.27%
Investor old rules, 47%	8.91%	13.00%	9.97%
Investor new rules, 47%	8.67%	11.29%	8.96%
Investor couple old rules, 32%	8.64%	11.81%	9.06%
Investor couple new rules, 32%	8.82%	11.32%	8.99%

With house prices increasing slightly faster than inflation the investment case looks much better. The owner-occupier generally does better than the investor under the new rules, and often a little worse under the old rules, depending on marginal tax rate and gearing.

Conclusion

In a very low growth scenario the current rules slightly advantage the investor.

Does housing stack up as an investment?

We have only modelled this for the last 10 years using actual data and the new tax arrangements, comparing housing to cash, shares and superannuation on an after-tax basis. We could model forward but given the high volatility in share prices compared to house prices, it would be highly speculative.

The investor tax rate is 47%.

Investment	Headline / pre-tax return	Top-rate after-tax return
Residential property owner-occupier, LVR 80%	modelled	11.90%
Investor in residential property - new rules, LVR 80%	modelled	9.81%
Investor in residential property - new rules, LVR 95%	modelled	10.17%
Cash - RBA cash-rate proxy	1.98%	1.05%
Cash - 12-month term deposit proxy	2.45%	1.30%
Australian shares - top-rate taxpayer	8.13%	5.83%
AustralianSuper Balanced	8.21%	8.21%
		(reported after fund tax/fees)

From this table it appears that for the top rate marginal taxpayer, as well as the owner-occupier, housing, even under the revised rules, is still a better investment than the average returns from the alternatives.

Conclusion

Housing under the new rules modelled over the last 10 years, would have been the best asset class - significantly better than cash or shares and better than the average superannuation fund.

Will there be enough new stock to satisfy investor demand?

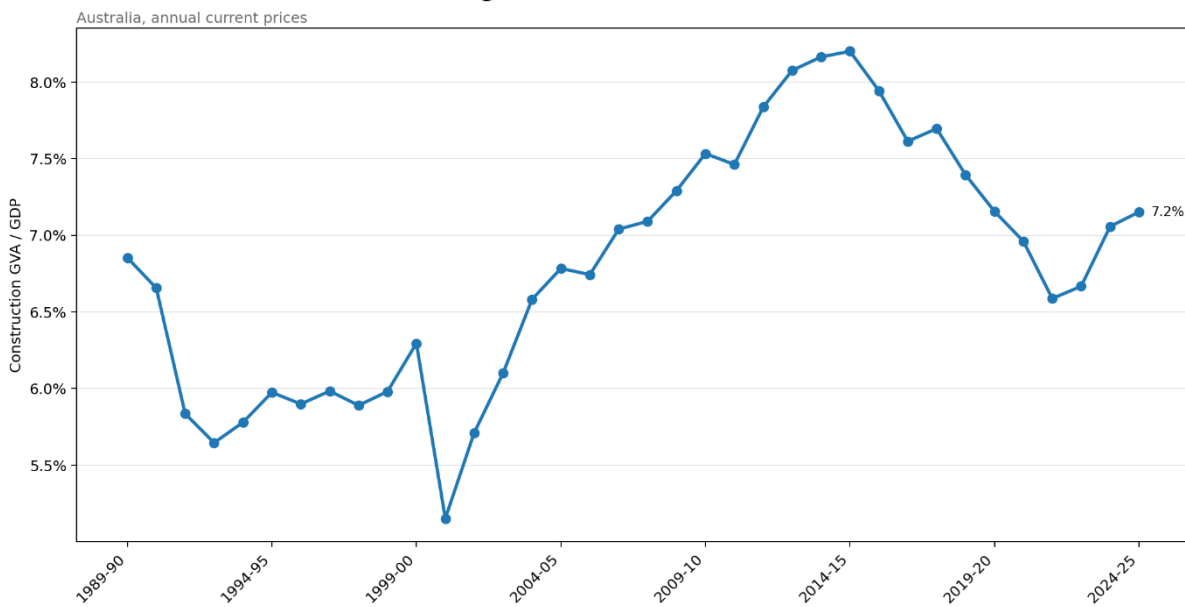
The government has reserved the current CGT regime for new housing stock. That means the preexisting arrangement where losses could be offset against other income and capital gains tax was calculated on 50% of the gains will still apply to new stock.

The government thinks this will stimulate the new housing market. There are three problems with this.

First, the difference in the returns under the old system and the new are not major and depend heavily on the tax position of the investor, gearing, interest rates and the capital appreciation of the property, so the expected demand for new housing may not materialize because established housing will offer a good enough return, despite changes.

Second, the building industry is currently working at high capacity, as per the graph below. The only time it has worked at higher capacity in the last 35 years was during the mining boom which can be seen starting around 2004.

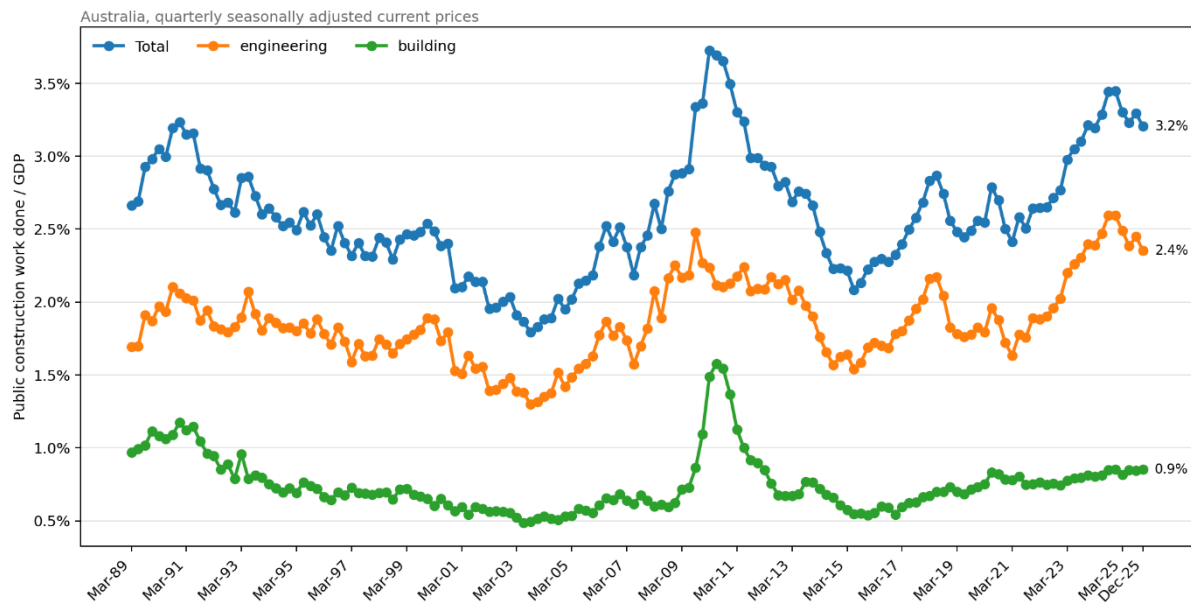
Construction gross value added as a share of GDP



Source: ABS Australian System of National Accounts, 2024-25; current-price construction GVA divided by current-price GDP.

A large part of current construction is driven by the public sector with current levels of construction close to those following the GFC.

Public construction work done as a share of nominal GDP



Sources: ABS Construction Work Done; ABS National Accounts. Current-price, seasonally adjusted quarterly flows.

This contributes to the failure of the housing construction sector to reach the government’s housing targets.

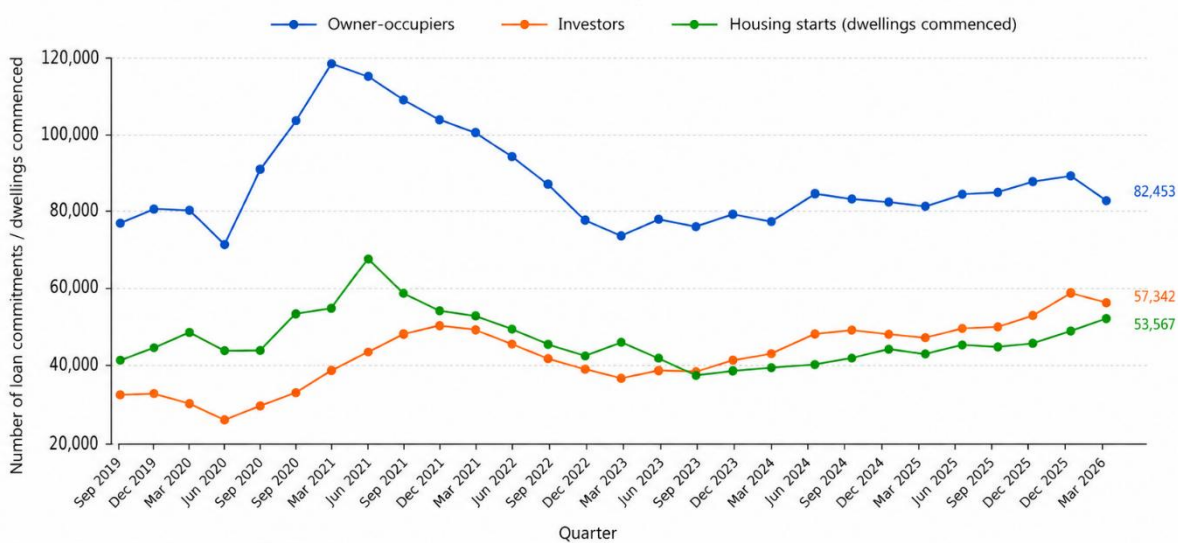
Third, if all investors opted for the higher returns they might get in new housing, there is not enough supply to meet even investor demand at the moment, let alone owner-occupier demand.

The chart below shows total housing starts compared to new loans for investors and owner-occupiers. While some buyers will not borrow, these figures still act as a conservative proxy for the number of purchases by investors and owner-occupiers separately.

What it shows is that for the last 5 or so years total purchasers by investors were on average close to equal to total new starts. If all investors were diverted to the new home market by the government’s tax changes there would not be enough stock to meet their requirements.

Total lending for dwellings and housing starts

Owner-occupiers vs investors vs housing starts, Australia, seasonally adjusted



Sources: ABS Lending Indicators; ABS Building Activity. Housing series exclude refinancing and include new and existing dwellings.

No doubt the government expects that supply will expand to meet demand. Not only will that be difficult because of the competition for construction workers, but real estate subdivisions cannot be turned on or off like a tap, and they are also in competition for the same trades, contractors and suppliers that build public works. The problems involved in bringing new land to market are outlined in the [UDIA’s National Housing Pipeline 2026](#). This graph from that

report shows some of the constraints with just over 40,000 lots currently under construction, and around 50,000 with approvals, but not under construction.

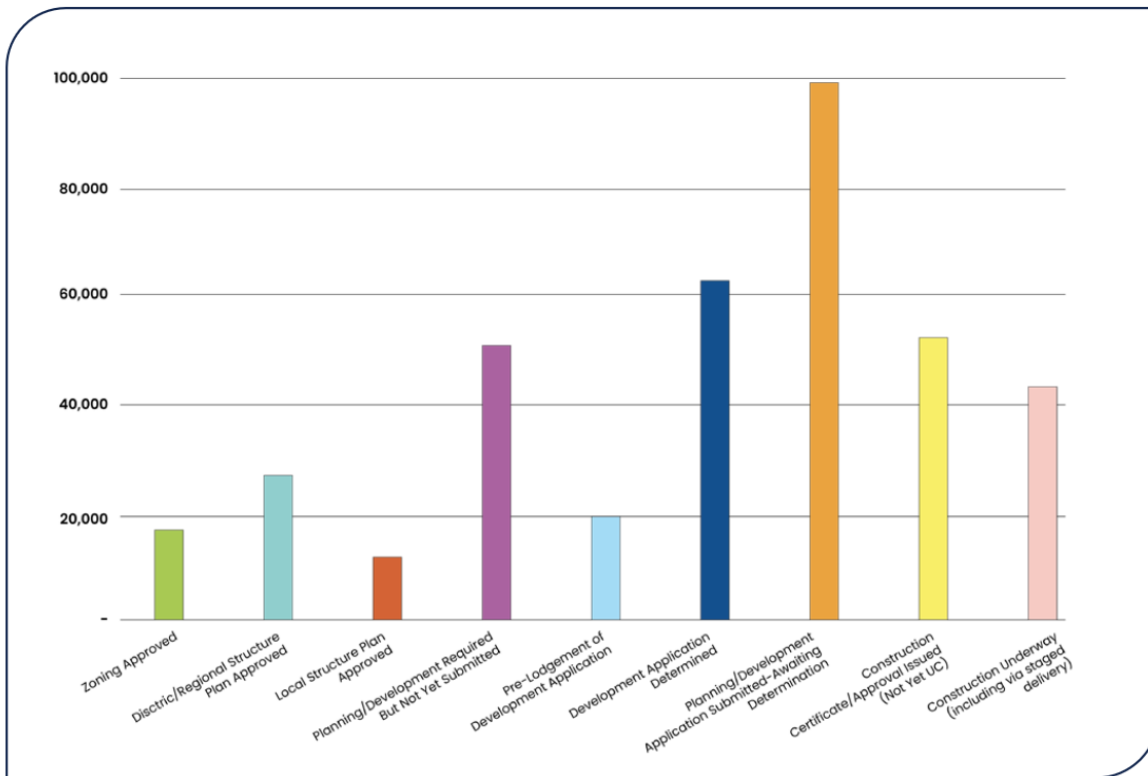


Figure 10: NHP 2025 Planning & Development Status of Forward Dwelling Yield (NHP 2025 Survey) Combined Capital City Regions
*also includes a small number of non UDIA member land holdings

If the government’s strategy is successful, the result will be to push up demand for new housing with investors competing against owner-occupiers. All other things being equal that will put up the price of new housing.

But that will not be the end of it. New housing often acts as the marginal supplier in growth markets, so higher new-dwelling prices are likely to spill over into established housing, especially where buyers can substitute between new and established stock.

Conclusion

Lack of new supply will accentuate price pressures if investors are redirected to new stock, and this will ultimately flow through to existing stock.