Thomas Choi: How Chalmers' budget rewrites housing incentives

By Perpetual Asset Management

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The 2026 budget splits the housing market into new cohorts with different tax treatments. That means investors should expect higher rents, lower turnover and pressure on prices. THOMAS CHOI explains

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Treasurer Jim Chalmers' contested 2026 budget has changed the economics of buying, selling and borrowing against property, creating new tax incentives likely to reduce turnover of established homes, drive rents higher and soften prices in parts of the market, says Perpetual's Thomas Choi.

Chalmers' budget limits negative gearing to new builds from 1 July 2027, but grandfathers properties held before budget night. It also replaces the 50 per cent capital gains tax discount with cost-base indexation and imposes a new 30 per cent minimum tax on real capital gains.

Choi says the effect of the changes is to splinter the housing market into three separate cohorts – owners sitting on grandfathered tax assets, buyers of established homes without the same concessions, and investors pushed toward tax-favoured new builds.

"If you think about someone who owned property pre-budget night, that property is not just a roof over your head any longer," Choi says.

"It is a tax efficient asset that also offers you superior borrowing capacity."

"If you own a property, you're going to have to think very carefully about whether you want to sell it. Because if you sell it, you lose your negative gearing privilege forever."

Choi is a senior portfolio manager in Perpetual's Credit & Fixed Income Team that manages the listed investment trust, Perpetual Credit Income Trust (ASX:PCI).

Existing homes retain tax protections

Homes held before budget night now have a tax value that future buyers of established dwellings will not receive, says Choi.

For some owners, that will make selling less attractive and encourage renovation instead of investment in productive assets, because owners who stay put keep their tax status.

That means turnover of established homes is likely to fall as owners protect the tax advantages attached to their property.

This is likely to support prices in tightly held areas even as weaker borrowing capacity puts pressure on demand.

New builds get tax advantages

Chalmers' budget creates a gap between new builds and established dwellings.

Investors in new builds will still be able to write off investment losses against salary income and retain the 50 per cent CGT discount, making new housing more attractive than established housing.

That should push more capital toward new stock and support construction, says Choi.

“Building and construction is a large contributor to the economy. It’s going to help employment, consumption and growth,” he says.

“But build costs are going to go up – new builds are going to naturally have a premium to existing dwellings.”

And extra supply of new dwellings is likely to drive prices lower for established housing in the same neighbourhood, he says.

“It’s likely to have a dampening effect on existing dwellings depending on location.”

Higher rents forecast

Choi says in the near-term reduced investor participation and lower turnover of established housing is likely to tighten rental supply, driving rents higher.

Similar past policy changes in Australia and New Zealand saw rents rise sharply after reducing investor access to tax breaks.

“In a tight housing market like the one we have right now – and what was the case in New Zealand in 2021 and Australia in 1985 – we’re probably going to see higher rents,” he says.

Higher rents saw Australia reverse its 1985 negative-gearing restrictions within two years, while New Zealand has now restored landlord interest deductibility after its 2021 limits were blamed for adding pressure to rents and rental supply.

Softening house prices

Choi says Australia’s housing market is already softening due to higher interest rates and the budget adds pressure by reducing the borrowing power of investors buying established dwellings.

If lenders exclude negative-gearing tax losses from serviceability calculations, buyers will have less borrowing capacity than earlier investors.

“The market is going to soften – and it’s already softening,” he says. “But we’re not predicting a calamity in the housing market.”

Credit investors

Choi says mortgage credit investors face more complexity, but not necessarily more risk from the budget changes.

Property prices may soften, but higher rents, lower turnover and more conservative borrowing limits will help support credit quality, he says.

“There will be winners and there will be losers from this budget,” he says.

“We’re monitoring pools very carefully.

“The budget has segmented property investing. It’s changed the landscape for property investing.

“There will be greater dispersion across cohorts of borrowers, specific vintages, specific tax profiles and jurisdictions.

“Grandfathered pools are going to behave differently to newly written pools. Vintage selection and equity buffers are going to be fundamental pool characteristics going forward.”

About Thomas Choi and Perpetual’s Credit and Fixed Income team

Thomas is a senior portfolio manager with Perpetual’s respected Credit & Fixed Income team.

He focuses on the management of the treasury portfolios.

Thomas has more than 20 years of investing experience and has worked with us since 2010. He has a Bachelor of Economics from Sydney University and is a Chartered Financial Analyst.

Perpetual offers a range of cash, credit and fixed-income solutions. We are specialists in investing in quality debt.

We take a highly active approach to buying and selling credit and fixed income securities and invest extensively across industries, maturities and the capital structure.

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