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FROM CRISIS TO CATASTROPHE

Daily Telegraph, Sydney

ALARM AT INVESTOR TAX GOUGES

FROM CRISIS TO CATASTROPHE

Aidan Devine

Sydney's rental crunch could escalate into a full-blown crisis if proposed investor tax reforms are not matched by a dramatic drop in migration intake.

Research by property analytics firm FoundIt revealed many suburbs within Sydney's middle and outer-ring were particularly vulnerable to a proposed removal of capital gains tax discounts.

Under current rules, investors can claim a discount on capital gains tax on sales of properties owned for over a year but plans have been floated to end that in the May federal budget.

Removing this incentive for new property investors was forecast to cause a drop in new investor activity at a time when the tenant pool was expanding because of high levels of migration. This would strangle the supply of rental homes in critical areas and drive up rents, the study showed.

"Migration intake needs to fall or the changes will be problematic," said FoundIt research head Kent Lardner.

Sydney suburbs flagged as most vulnerable to the investor tax changes were often areas home to large number of lower income tenants.

They included Western suburbs Mount Druitt, St Marys, Blacktown and Fairfield, along with Penrith, Campbelltown, Camden and the Richmond-Windsor region.

Conversely, rental supply in areas such as the eastern suburbs, Mosman, North Sydney and the Harbour suburbs of the inner west would be little impacted by tweaks to capital gains tax.

The impact on properties priced above $2m, which comprise 43 per cent of Sydney's housing market, would be minimal or negligible due to low rates of investor participation in this segment, FoundIt said.

Mr Lardner explained that the most impacted areas tended to have a mix of cheaper prices appealing to investor budgets but low rental returns.

"For many investors, buying a new rental is really about the long-term capital growth," Mr Lardner said.

"Once you take that incentive away, most investors would cease buying properties in areas where rental yields were already marginal. There are a lot of these areas.

"It will be a nightmare for tenants. As the tenant pool grows and the supply of rentals stall, competition will rise. Rents could rise.

"It may well become easier for some renters to become first-home buyers because of less investor competition but not every renter has the means to buy.

"Some people need to rent ... The problem is there will be fewer new rentals."

Mr Lardner added that removing the discount on capital gains tax charges is unlikely to push down home prices across the market as a whole. A more likely outcome would be a flattening in home value growth over the longer-term.

"Most investors will probably respond to these changes by holding their properties for much longer. It's doubtful we will see a sudden increase in investor sales that would rapidly bring down prices. It's not really going to move the dial for affordability."

Property Investment Professionals of Australia chair Cate Bakos said Australia's rental system has long relied on everyday investors, who provide more than 90 per cent of rental homes.

"Investors have quietly carried the weight of Australia's rental supply for generations. Any policy shift that undermines their confidence risks shrinking the pool of available homes at the very moment renters can least afford it," Ms Bakos said.

Nathan Birch, the head of property management firm Blink, which manages close to 7000 rentals across the country, said the timing of gains tax changes could be catastrophic.

"It would be a massive shock to the market and the average tenant would struggle," he said.

Mr Birch said proposed changes could deliver a similar result to when capital gains tax was first introduced in 1985-1987. This change coincided with the Hawke government temporarily abolishing negative gearing.

The twin reforms drove a 30 per cent rise in rents in two years.

"People say this will affect 'greedy' investors ... the worst affected people will be average renters, people just surviving on one income, who are in areas where there is little (rental) supply."

Michael Pritchatt, who has purchased 24 properties, said if the changes meant a rise in rents it would

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be a "positive" for long-term investors.

"If fewer other investors are buying, and rents go up, that's a good thing for a buy and hold investor," he said.

SUBURBS MOST EXPOSED TO CGT CHANGES

	Investor share of recent purchases	% of households who rent
Richmond-Windsor	1 in 5	31%
Camden	1 in 8	22%
Mount Druitt	1 in 7	39%
St Marys	1 in 3	32%
Penrith	1 in 6	29%
Campbelltown	1 in 8	33%
Hawkesbury	1 in 5	10%
Blue Mts	1 in 16	18%
Blacktown	1 in 6	37%
Fairfield	1 in 4	34%

Source: FOUNDIT CGT Impact Model, January 2026 data. Areas ranked by composite CGT impact assessment across investoractivity, pricing, yields, rental tenure and dwelling composition.

Elisha and Michael Pritchatt with son Luca. Picture: Rohan Kelly