

Ownership composition: the area fundamental investors rarely factor in

Annabelle Mezieres, Economist and Thomas Clarkson, Sr Manager, Analytics & Data Science

Most property investors look at capital gains, yield, value and recent growth before deciding where to buy. Few ask whether the area has a skew towards owner-occupied or investor-owned homes. New Cotality analysis of approximately 2,300 areas over sixteen years suggests they should, particularly in the unit market. Areas with a higher share of owner-occupiers have generally recorded stronger long-term capital growth than more investor-heavy areas.

Changes to negative gearing and capital gains tax discount could put more pressure on investor-heavy markets, especially where the investment depends on tax benefits or future capital growth. The analysis uses the rental ratio as a proxy for investor concentration. Put simply, a higher rental ratio means more of an area's homes are rented out rather than owner-occupied. This does not prove owner-occupiers cause stronger growth, but the pattern is strong enough to add one more question to the investor checklist: how rental heavy is the area?

At a glance:

- Areas with a higher owner-occupier share have tended to record stronger long-run capital growth, particularly in the unit market, highlighting a positive correlation between capital gains and owner occupancy.
- Between 2010 and 2026, this outcome was most pronounced in units; units in owner-occupier areas grew 99% in value, compared to 65% in investor-heavy areas.
- For example, a \$436,000 unit (the national median in January 2010) would have delivered around \$148,000 more in an owner-occupier area than in an investor-heavy one.
- This pattern is less consistent in house markets, where ownership mix has little predictive power in some cities. In markets like Sydney and Melbourne, ownership mix has little to no impact on capital growth.
- Higher rental ratios are often associated with softer growth outcomes over the following twelve months in unit markets. Units in investor-heavy areas have historically underperformed on capital growth and may be more exposed to the new Federal Budget tax settings.
- The data suggests Australia has a clear divide in its unit markets. In areas dominated by owner-occupiers, value growth has been stronger and more resilient. In investor-heavy areas, value growth and returns have historically been weaker and appear more sensitive to supply and policy settings. The rental ratio can highlight this divide, although it reflects broader market characteristics and offers an early signal of, rather than a strict prediction of, future growth outcomes.

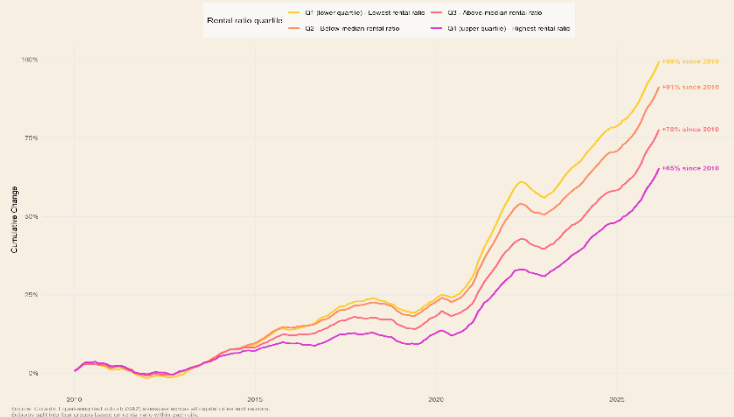
The Ownership Effect: Why Rental Mix Shapes Property Growth

Australia's residential property market has delivered sustained long-term value growth, but the trajectory has not been uniform across dwelling types or location. These charts track cumulative house and unit value movements at the national level, highlighting divergences between the two property types that carry significant implications for portfolio allocation.

If you are wondering whether the share of rental listings in an area truly matters for long term capital growth, the unit market gives a compelling answer. The four lines on the graph below represent four groups of units and areas, sorted from the lowest share of rental listings (Q1, large share of owner occupiers) to the highest, (Q4, investor-heavy). Notice that the Q1 line rises steadily and finishes well above the others. By the end of the period, the growth gap between the two reaches 34 percentage points. To illustrate this, consider a hypothetical example: for every \$100 invested in a Q1 area, the value grew to \$199, compared with \$165 in a Q4 area. The separation rises steadily, highlighting that two units in the same city, with roughly the same value or rental yield, but different compositions of owner occupier and investor-owned homes can produce very different capital growth over the long run.

National Cumulative Monthly Capital Growth - Units

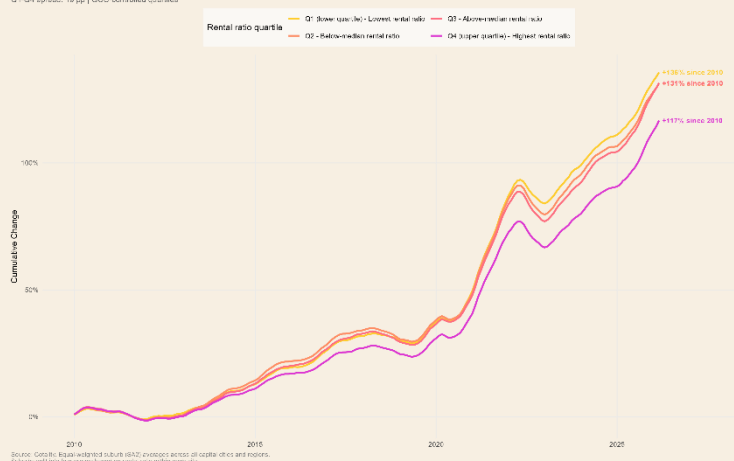
Q1-Q4 legend: 34 pp | QOC: centralised quartiles



The same pattern that's strong in the unit market is apparent for houses, but it's weaker and much less consistent.

National Cumulative Monthly Capital Growth - Houses

Q1-Q4 legend: 19 pp | QOC: centralised quartiles



Findings

For investors, the key is not just what the rental ratio is currently, but where it's heading. High rental areas often already reflect weaker growth outcomes. More interesting are those where the rental share is rising; a sign investor activity is picking up, and the balance of the market is shifting. That shift matters because investor-heavy markets tend to be more sensitive to changes in sentiment, credit conditions and supply, particularly when similar properties hit the market at the same time. Owner-occupiers, by contrast, typically buy for lifestyle and may be more inclined to renovate and hold for longer, which grows value over time. A rising rental ratio isn't a reason to avoid an area but it is a signal to look a little closer.

Areas with lower rental ratios have generally delivered stronger returns than those with higher rental ratios. Simultaneously, areas with a higher share of owner-occupiers have consistently outperformed on total return. However, this relationship is considerably more pronounced in the unit market than in the housing market.

For houses, the relationship between ownership mix and capital growth is weaker and less consistent from city to city. Owner-occupier areas still outperform in the national aggregate, but the effect is muted or absent in some markets, notably Sydney and Melbourne. Units tell a different story. Over the past 16 years, units in owner-occupier-dominated areas have almost doubled in value, while units in investor-heavy areas within the same cities gained barely two-thirds of that. The gap appears in every capital city; widest in Sydney and Melbourne.

The table below quantifies the divide for both units and houses.

The areas most popular with investors have generally been the under-performers. Since 2010, areas with the lowest investor presence have seen unit values rise by 99% and house values by 136%, well ahead of the 65% and 117% recorded in the most investor-heavy areas. Apply those rates to the January 2010 national medians (\$436,000 for units, \$435,000 for houses) and the dollar gap works out to roughly \$148,000 for a unit and \$83,000 for a house. These figures assume both quartiles started at the national median, which is a simplification (investor-heavy areas typically start cheaper) but a reasonable one for illustrating scale. The unit gap is the sharpest of the two, and that fits the broader pattern in the data, where ownership mix has consistently mattered more for units than for houses.

Capital growth in owner-occupier versus investor heavy suburbs, 2010 to 2026

Cumulative capital growth, owner-occupier vs investor suburbs

Property type	National median (Jan 2010)	Cumulative growth: owner-occupier heavy suburbs (Q1)	Cumulative growth: investor heavy suburbs (Q4)	Gap (percentage points)	Dollar gap
Units	\$436,000	99%	65%	34 pp	~\$148,000
Houses	\$435,000	136%	117%	19 pp	~\$83,000

Source: Cotality national index, January 2010 to March 2026. Quartiles assigned within each Greater Capital City region by SA2 rental ratio. Q1: lowest 25% rental ratio (most owner-occupiers). Q4: highest 25% (most investors). Dollar gaps calculated by applying each quartile's cumulative growth rate to the January 2010 national median value, then taking the difference between the resulting Q1 and Q4 values (illustrative scale).

The rental ratio could have more potential than a solely retrospective indicator. Sorting the areas by their rental ratio 12 months earlier produces roughly the same underperformance gap, suggesting that the ratio has acted as an early signal of which areas were about to lag.

For investors, the level of the rental ratio and the change in the rental ratio carry different information. The level tells you where underperformance has been most persistent, given that areas with a high share of rental listings have consistently delivered weaker growth. The change tells you where risk may be building. Areas where the rental share is rising are more likely to underperform in the future.

That said, the rental ratio is primarily a unit market signal. Individual areas still vary widely, and it is only one factor among many, but its consistency over sixteen years makes it a metric worth paying attention to.

Why the difference?

Three explanations can consistently explain why this relationship is present.

Investors potentially buy for financial returns, not to live somewhere or search for their forever home, so they react more strongly to the price signal than owner-occupiers do. One way to describe this investor behaviour is as pro-cyclical (RBA, 2026). When dwelling values begin rising in an area, investor purchases tend to pick up, so investors often arrive after much of the growth has already happened, leaving weaker gains ahead.

The second variable is features in owner-occupier areas that investor-heavy areas often lack, such as quality public schools, walkable amenities, reliable transport, and a strong pool of dual-income households. Owner-occupiers will often pay \$50,000 more to be inside a school zone or close to a station, because they use that value every day for years. Investors look at the same property and ask what rent it can earn. If the extra cost doesn't lift the rent, they can't pay it. As a result, owner-occupier areas capture more of each cycle's price growth, while investor-heavy areas are constrained by rental yields.

For example, homes within top Sydney and Melbourne public high school zones can command premiums of nearly \$1.3 million over comparable properties just outside the boundary, though this does not always lead to stronger long-term growth. While this example refers to houses, the same principle applies to units. Owner-occupiers pay for lived value, investors price based on rent, and this difference accumulates over time.

Lastly, supply, which mostly distinguishes the unit market from the house market. New apartment towers can quickly add hundreds of dwellings, and developers target investor-heavy areas for such projects. Supply is where units and houses really diverge. One apartment tower can add hundreds of units. Developers tend to build where investors are already buying, so supply keeps arriving even as investor demand starts to fall. Houses can't be added at anything like the same pace. That asymmetry is most of why the ownership-mix gap is so much wider for units.

If you are an investor, a high rental ratio in the unit market often means there is not much demand from owner-occupiers in that area.

Why does this matter now?

Investors have represented a large share of housing demand in recent quarters, accounting for around 40% of housing lending by value in the March quarter of 2026, the highest share since 2016. That said, even ahead of the Federal Budget, borrowing conditions were tightening, with the Reserve Bank fully reversing the interest rate cuts it implemented in 2025.

- Policy intent and investor behaviour. The Budget is intended to push investment toward new housing supply, but only around 23% of investors currently invest in new builds, and that share has been drifting lower for the past three years. New builds come with a premium that does not transfer to the next buyer, they're only "new" once, and the apartment developments investors usually end up in have a mixed record on resale.
- Cash flow is the other problem. Gross rental yields in the capitals are around 3.5%. Investor mortgage rates are sitting in the low-to-mid 6% range. For anyone holding the property with real leverage, that's a loss before the front door is even open. Negative gearing on established stock used to absorb that gap. Post-Budget it doesn't, and rents are unlikely to close it either, with tenants already directing 33% of gross income to rent against a long-run average closer to 29%.
- The Budget creates a clear split: negative gearing arrangements for existing properties are grandfathered, while incentives for new investors have shifted substantially. Newly purchased established properties won't be eligible for negative gearing, while new builds retain full incentives. Proposed changes to negative gearing and the capital gains tax discount may make some investor-heavy markets less attractive, especially where buyers have relied on tax benefits or strong future growth assumptions to make the purchase worthwhile.
- Unit areas with a high rental share face the most concentrated risk. Demand in these areas skews toward investors rather than owner-occupiers buying for lifestyle, making them more sensitive to any pullback in investor activity.
- The reforms could also concentrate demand on the very areas that have historically delivered the weakest capital growth: high rental-ratio units.

What does this mean for investors?

For investors who already own established property, the existing rules will still apply from 1 July 2027. But future buyers won't all have access to the same tax benefits, and that could narrow the buyer pool, particularly in inner-city unit markets. For existing owners, it's a good time to look closely at whether your property sits in a high rental-ratio area, and whether the changing buyer mix strengthens the case to hold or sell.

For those looking to buy, the case for established residential property has become less compelling. With negative gearing restricted, a smaller CGT discount, and tighter credit conditions, more of the return will need to come from capital growth. The challenge is that many of the unit areas favoured by investors have historically been among the weaker performers on growth. Factoring rental ratios into your area selection is a simple way to add another layer of risk assessment.


New builds retain both negative gearing and the 50% CGT discount under the proposed settings, making them more attractive on a post-tax basis. But investors should weigh that against higher entry costs, reduced scarcity, and uncertainty around resale demand. There is a structural risk too, the potential to create the next investor-heavy area as the new tax policy could draw enough investors into one area and turn it into exactly the kind of investor-heavy area that has underperformed. To mitigate this risk, it would be worth considering area characteristics. Prior to purchase it would be worthwhile considering the rental ratio, types of buyers acquiring nearby property and assessing whether key owner occupier drivers such as schools are present. While tax benefits may be the same, the potential for capital growth often differs!

For those staying in established markets, rental mix matters particularly in units. Areas with a higher share of rental listings tend to be more investor-heavy, and the data is consistent: these areas have generally delivered weaker capital growth and more volatile performance over time. Areas dominated by owner-occupiers tend to benefit from more stable, less price-sensitive demand, which supports stronger long-term outcomes.

The practical implication is straightforward. Focus on unit markets with lower rental ratios. Be more cautious where investor activity is already high or increasing. The rental ratio won't tell you everything, but the consistency of the pattern/trend provides another option to screen out the weaker parts of the market.

Conclusion

- For investors in established housing, the rental ratio is a simple way to spot areas where long-term performance risks may be higher. The evidence suggests it carries real signal. In unit markets, areas with a higher share of investment owned properties have been more exposed to weaker performance for over a decade. The same pattern is visible in house markets over the full period and has become more pronounced since around 2020. And the measure isn't purely backward-looking; it shows some capacity to flag what may lie ahead. Higher rental yields can cushion the risk, but they don't eliminate it. This matters more now than it has in the past.
- Even after factoring in rental income, areas with fewer investors have delivered stronger total returns/capital growth.
- Recent Budget changes on negative gearing and a reduced capital gains tax discount are reshaping the economics of established investment property. With less support from the tax system, returns will depend more heavily on capital growth. That raises the stakes on area selection. For existing investors, the practical question is whether their holdings are concentrated in areas the data suggests may underperform over the long term, and whether grandfathered tax settings provide enough of a buffer. For new investors, the case for established housing has weakened, making where you buy matter more than ever. For those open to alternatives, new builds retain more favourable tax treatment. Whether this drives a genuine shift toward new builds or simply a contraction in investor activity overall is still an open question. What the past sixteen years suggest is that ownership mix has been a meaningful signal of long-run capital growth, which is reason enough to keep an eye on it.



Methodology

For each SA2/property type/month combination we calculated the ratio of rental listings over a 12-month period, over the total count of properties (the SA2's cumulative dwelling count for that property type). The ratio was winsorised at the first and ninety-ninth percentiles by property type to reduce outlier influence and bias, and SA2s with fewer than fifty properties were excluded. SA2s were ranked into quartiles based on the rental ratio within each capital city / regional area. When aggregating to the national series this meant all regions are equally represented in each quartile, reducing geographic bias in the results. Indices were constructed on top of these quartiles using the average growth of constituent SA2s. Both the capital growth index and the total return index, which captures capital growth and rental yield, were computed for these quartiles. This analysis was conducted using 2,299 SA2s from January 2010 to March 2026. The composition of each quartile was recomputed each month, meaning that the indices do not represent a fixed stock, but shift with investor demand.

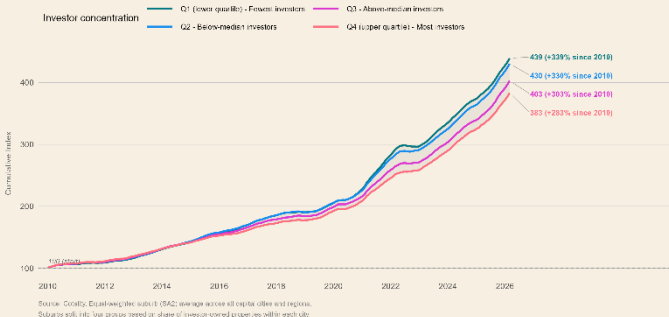
Caveat

The findings highlight the relationship between capital growth and investor presence at the SA2 level, but do not highlight a causal link, as correlation does not mean causation. Other variables may be influencing the relationship, or a confounder could be responsible for the relationship.

Appendix

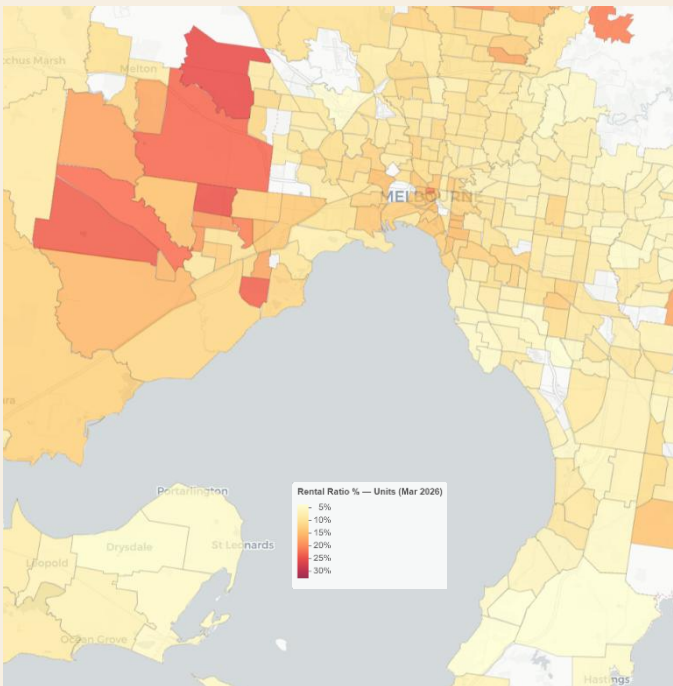
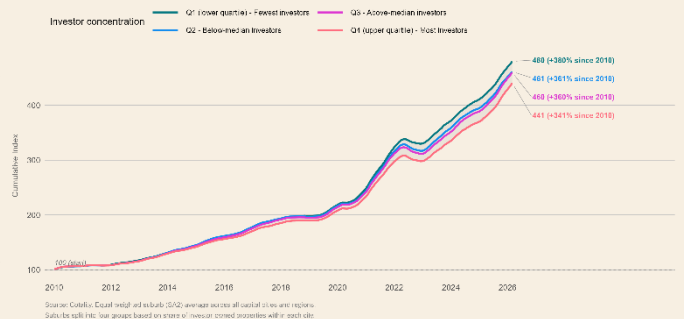
National Cumulative Total Return - Units

Index = 100 at start | Spread: 55 pts | Suburbs grouped by investor concentration

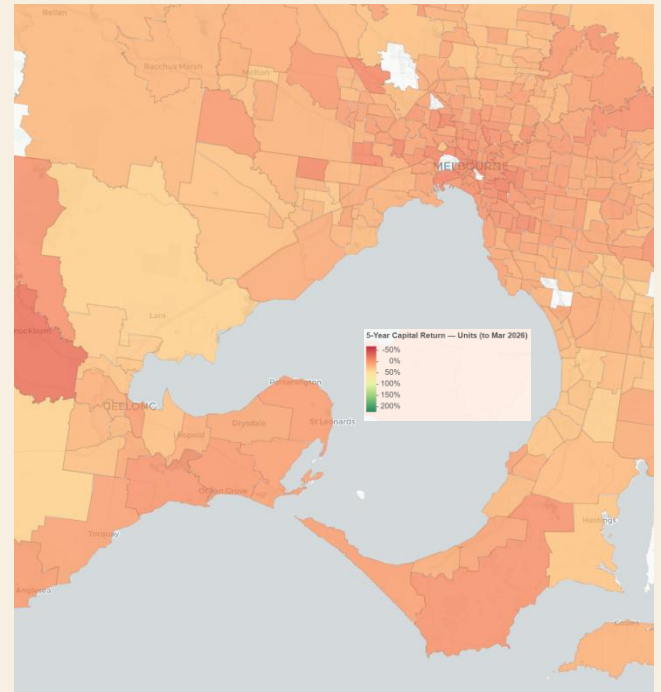


National Cumulative Total Return - Houses

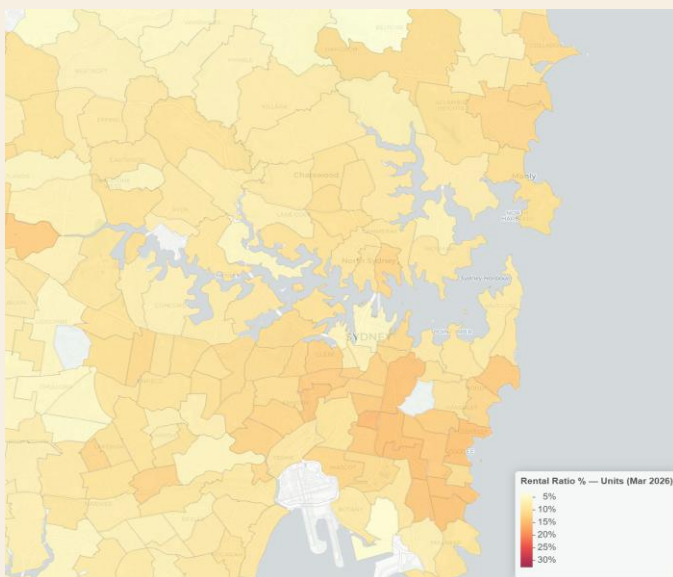
Index = 100 at start | Spread: 30 pts | Suburbs grouped by investor concentration



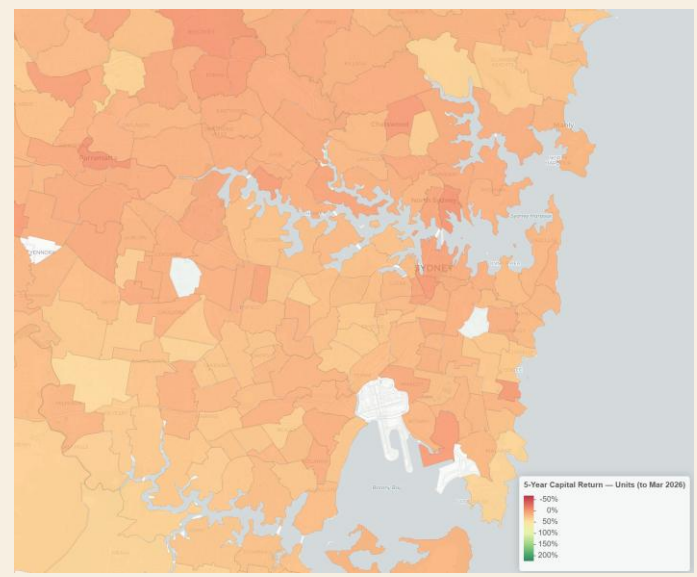
Melbourne rental ratio units



Melbourne Capital return over a 5-year period



Sydney rental ratio units

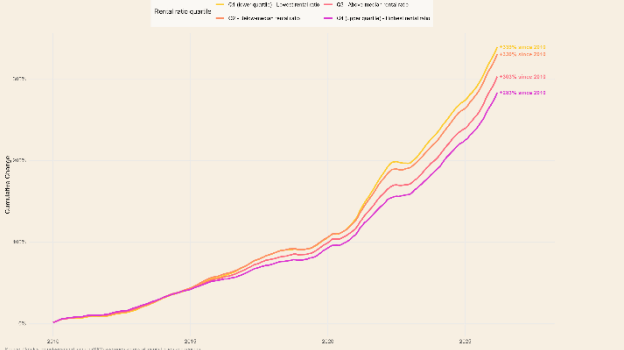


Sydney Capital return over a 5-year period

Appendix

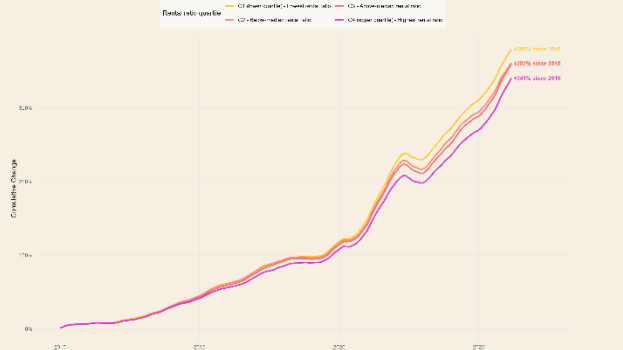
National Cumulative Monthly Total Return (CG+Yield) - Units

Q1-Q4 spread: 26 pp | 1000 simulated quarters



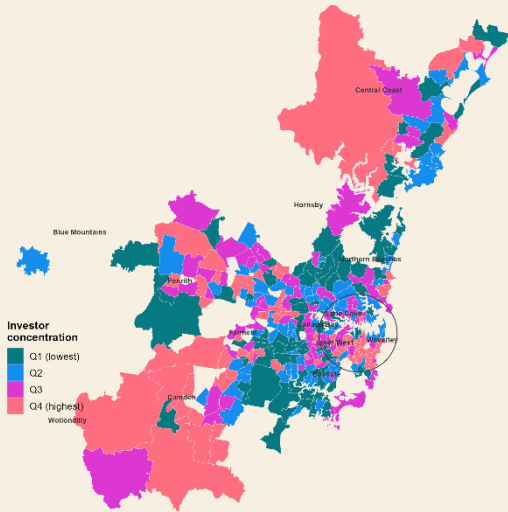
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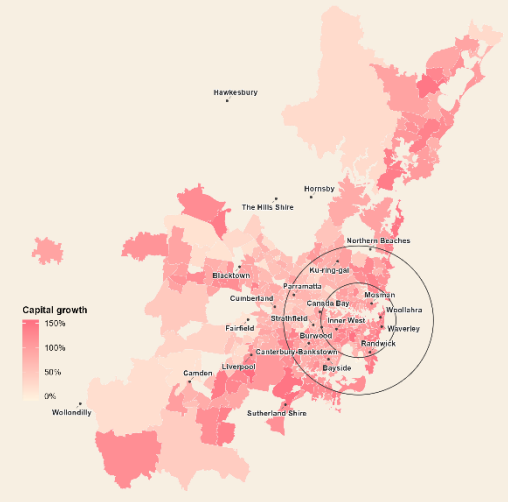
Sydney - Unit

Rental ratio (investor concentration), within-city quartile



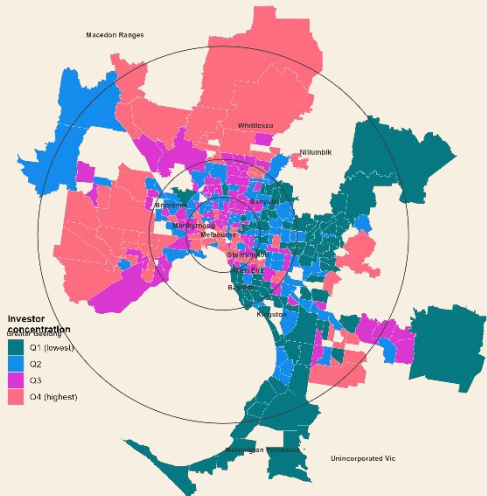
Sydney - Unit

Cumulative capital growth (2010 to latest)



Melbourne - Unit

Rental ratio (investor concentration), within-city quartile



Melbourne - Unit

Cumulative capital growth (2010 to latest)

