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The Affordability Illusion: How Australia's 2026 Property & Investment Tax Reforms Disrupt the First-Home Buyer Pipeline and Constrain Supply

Highlights

- The 2026 Australian Property & Investment Tax Reforms may do the opposite of what they were designed to achieve. Rather than improving housing affordability, the combined effect of quarantining negative gearing, replacing the 50% CGT discount and restricting SMSF residential borrowing is likely to reduce supply, place upward pressure on rents and make it more difficult for first home buyers to enter the market.
- Australia's first home buyer pipeline has been fundamentally reshaped. The reforms significantly weaken "rentvesting" - one of the most widely used strategies allowing younger Australians to purchase an investment property while continuing to rent closer to employment. By reducing the financial viability of this pathway, the reforms remove an important stepping stone into home ownership for many first-time buyers.
- The affordability dividend appears surprisingly small when measured against its economic cost. Independent modelling projects established dwelling prices falling by only 0.76% by 2029/30 - approximately $7,648 on a $1 million home - while rents continue to rise and thousands fewer homes are expected to be built. For many aspiring homeowners, the reduction in purchase prices is unlikely to offset the increased cost of renting while saving a deposit.
- The reforms may unintentionally make apartment development more difficult to finance. Off-the-plan projects rely heavily on achieving lender pre-sale requirements before construction can commence. By removing a meaningful segment of SMSF purchasers from the market, developers may face longer sales campaigns, lower pre-sale rates and greater difficulty securing development finance.
- The reforms create a structural housing supply paradox. Existing investors retain generous grandfathered tax concessions, encouraging them to hold rather than sell, while weaker investor demand reduces the feasibility of new residential developments. The result is a market with fewer transactions, fewer projects and a reduced flow of housing into an economy experiencing a significant housing shortage.
- The consequences extend well beyond the residential property market. Independent modelling suggests the reforms will reduce construction activity, lower national GDP, eliminate thousands of construction jobs and suppress dwelling commencements over the next four years. The findings highlight how changes to property taxation can have far-reaching consequences for investment, employment and Australia's broader economic performance.

Executive Summary

The passage of the *Treasury Laws Amendment (Tax Reform No. 1) Act 2026* and the *Income Tax Rates Amendment (Tax Reform No. 1) Act 2026* (together The 2026 Tax Reforms) represents a major shift in Australian real estate taxation and superannuation policy.[13] Positioned by policy architects as a progressive intervention to "level the playing field" for first home buyers (FHBs) by curbing investor demand, independent economic and legal analysis reveals a starkly different transmission mechanism.[1,2]

Rather than smoothing the path to homeownership, the interaction of quarantined negative gearing on established dwellings, the replacement of the flat 50% Capital Gains Tax (CGT) discount with CPI based indexation,[11] and the sudden ban on Self-Managed Superannuation Fund (SMSF) residential borrowing[13] risks restricting the entry pathways used by young buyers.

This analysis demonstrates why the "new build carve out" is unlikely to achieve its intended objective. While The 2026 Tax Reforms preserve full negative gearing and the 50% capital gains tax discount for newly constructed dwellings in an effort to protect housing supply, the concession does not adequately address the commercial realities of residential development. First, the grandfathered tax treatment applies only to the initial purchaser of a newly built dwelling. Once that property is resold, subsequent purchasers are subject to the less favourable tax regime, reducing the property's expected resale value or "terminal value" from the moment it is acquired.[2] Second, new developments are not valued in isolation. Banks and valuers assess unbuilt apartments by reference to recent sales of comparable established dwellings. As investor demand weakens and established property values soften under The 2026 Tax Reforms, the valuations underpinning new developments also decline. Lower GRVs erode development feasibility, making it more difficult for projects to satisfy lender financing requirements and ultimately reducing the supply of new housing.

Independent economy wide modelling commissioned by Master Builders Australia, the Housing Industry Association, the Property Council of Australia and the Real Estate Institute of Australia, and conducted by Qaive and Tulipwood Economics, confirms that the combined effect of The 2026 Tax Reforms and the $2 billion Local Infrastructure Fund will result in a net reduction of 8,742 dwelling starts over four years.[1] Instead of improving affordability, this supply contraction is likely to counteract the initial aims of The 2026 Tax Reforms, with independent modelling projecting rents increasing by 1.53% while dwelling prices fall by only 0.76% by 2029/30.[1]

Introduction: Re-Engineering Australia's Housing Capital Channels

On 12 May 2026, the Government announced material changes to Australian legislation surrounding residential property. From 1 July 2027, the 50% capital gains tax (CGT) discount will be replaced by an indexed cost base system taxing only the real gain after inflation, with earlier gains keeping the discount; negative gearing losses on newly acquired established residential properties will be quarantined.[11,12] Following a deal with the Greens confirmed on 23 June 2026, self-managed superannuation funds (SMSFs) will also be barred from new limited recourse borrowing arrangements (LRBAs) for residential property.[13]

The 2026 Tax Reforms' rationale is straightforward: reduce the relative tax advantage held by investors, and the market tilts toward owner occupiers; redirect investor capital into new construction, and the structural housing deficit narrows. A $2 billion Housing Support Program (HSP), delivered through the Local Infrastructure Fund, is positioned as the supply side offset that makes The 2026 Tax Reforms net additive to housing.[1,11]

This transition is taking place during a cyclical market downturn and elevated interest rates, with the Reserve Bank of Australia (RBA) cash rate at 4.35% and consumer sentiment at multi year lows.[3] In corridors like South Sydney, where our urban renewal projects in Green Square and Waterloo have transformed legacy industrial precincts into high density residential hubs, the feasibility of new developments is highly sensitive to changes in credit availability and tax policy. By altering the financial math for both individual investors and institutional developers, these 2026 Tax Reforms introduce structural frictions that run counter to the supply objectives of the National Housing Accord.[2]

The 2026 Property Tax and Superannuation Landscape

To understand the impact on first home buyers, it is useful to first set out the structural changes enacted in 2026:

- Negative Gearing (from 1 July 2027): Net rental losses on established properties purchased after 7:30pm AEST on 12 May 2026 can no longer offset wage and salary income. These losses are quarantined, carried forward, and can only offset future residential rental income or capital gains. Newly built properties are exempt.[12]
- Capital Gains Tax (from 1 July 2027): The flat 50% CGT discount is abolished for individuals and trusts on affected assets, replaced by CPI cost base indexation and a minimum 30% tax rate on net capital gains. Investors in new builds retain a choice between the 50% discount and the indexed model on disposal.[11]
- SMSF Residential Borrowing Ban (10 August 2026): From 10 August 2026, self-managed superannuation funds (SMSFs) will no longer be able to borrow to purchase residential investment property through a new Limited Recourse Borrowing Arrangement (LRBA). Borrowing will remain available for eligible commercial property that qualifies as Business Real Property. Existing arrangements, and contracts exchanged before 10 August 2026, will generally continue under the transitional (grandfathering) rules.[13,14]

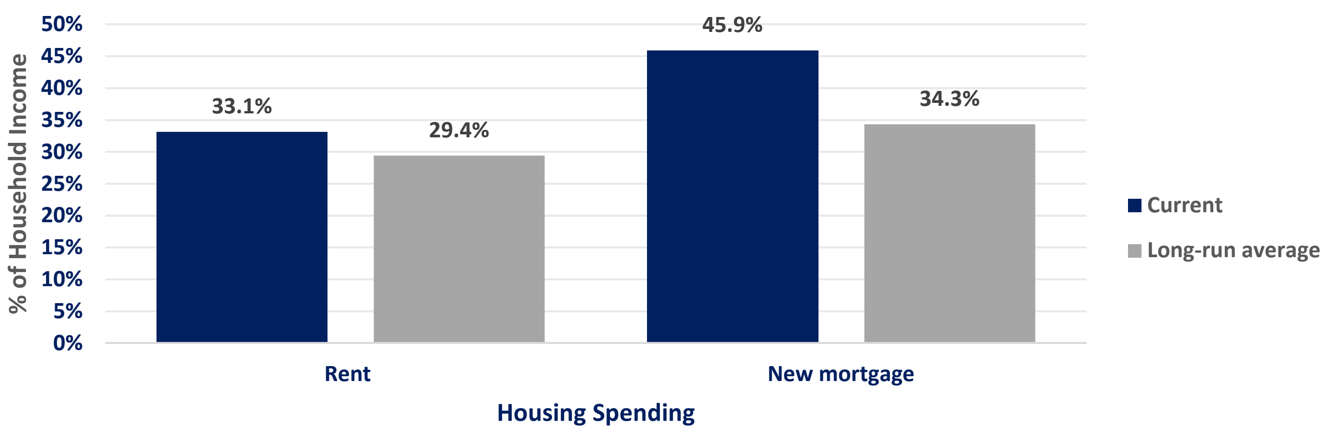
Dismantling the 'Rentvesting' Gateway

The reforms' primary narrative is that they support first home buyers by reducing investor competition. In practice, they directly affect "rentvesting," a primary pathway used by younger, capital constrained Australians to enter the housing market: purchasing an investment property in an affordable location while continuing to rent closer to work, using the rental income and negative gearing tax offsets to help service the mortgage.[5,6]

The scale of this strategy is significant. Westpac's 2025 Home Ownership Report found 54% of first home buyers nationally, and 61% in New South Wales, were considering rentvesting, up four percentage points on the prior year.[5] ABS lending data shows 8,283 first home buyers took out investment property loans in 2024, a 12% annual increase.[6] Prior to the Budget, 16% of renters aged 20 to 24 were planning to buy an investment property as their first purchase, up from 7% in 2024.[7]

Under the reformed settings, a first home buyer who purchases an established property to let is classified as an investor, losing access to negative gearing on that property.[12] The rental income that previously helped service high initial debt becomes a weaker strategy, and the CGT discount that supported the eventual exit is materially reduced.[11]

Figure 1. Housing as a Cost of Household Income. Source: Cotality[3]



The affordability context is acute: the median renter already dedicates 33.1% of gross household income to rent, against a 29.4% average across the decade, and servicing a new median mortgage requires 45.9% of household income, against a 34.3% historical average.[3] For buyers without existing equity, the new settings narrow an already thin bridge.

A Findex wealth adviser has said The 2026 Tax Reforms will deter a large portion of investors who planned to enter the property market through rentvesting, noting that its tax advantage, negative gearing the property being rented out, is central to why the strategy works financially for many buyers. Ray White's chief economist has separately confirmed rentvesting will become harder for young buyers.[7] The 2026 Tax Reforms' own framing, helping first home buyers, therefore cuts directly against one of the few leveraged entry mechanisms those buyers have historically used.

The Fallacy of Disconnection - How Established Repricing Undermines New Feasibility

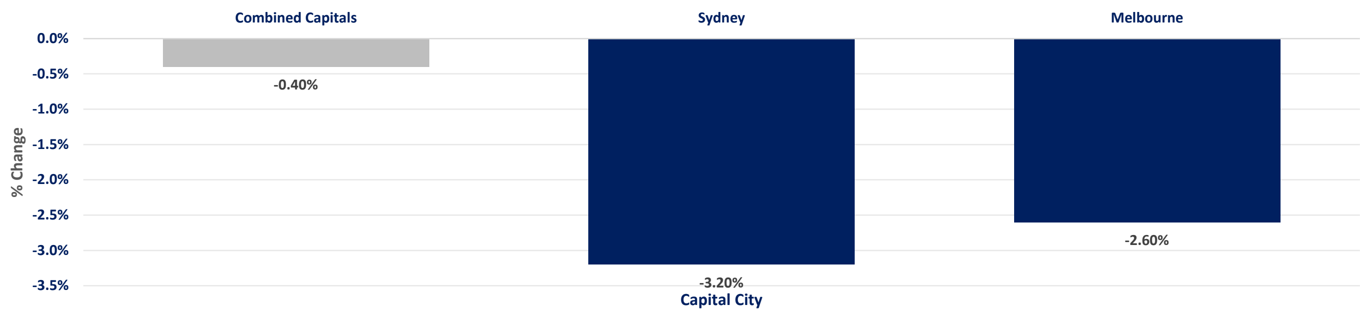
A central assumption underlying The 2026 Tax Reforms is that investor demand will shift from established housing to new residential developments. To encourage this outcome, newly constructed dwellings continue to qualify for negative gearing and retain favourable CGT treatment under the new carve out.[11,12] The policy therefore assumes that investors who reduce their exposure to established housing will instead redirect their capital towards funding new construction.

This assumption, however, overlooks the way residential developments are valued and financed. Independent valuers typically rely on recent sales of comparable established dwellings when estimating the projected end value; or Gross Realisation Value (GRV), of proposed apartment and townhouse developments. Consequently, if prices in the established housing market weaken, the estimated value of new developments also tends to decline. Because land acquisition, infrastructure and construction costs are largely fixed by the time a project proceeds, even relatively modest reductions in Gross Realisation Values can materially reduce development feasibility.

The central modelling suggests that the downward effect on established dwelling prices is relatively modest. Qaive and Tulipwood Economics estimate that, under the combined reform package, established dwelling prices would be approximately 0.76% below the baseline by 2029–30, a reduction that is unlikely, on its own, to render most projects unviable.[1] The greater concern lies in the downside scenario. Development feasibility is inherently nonlinear, with many apartment projects only marginally exceeding their required internal rate of return. In those circumstances, relatively small declines in Gross Realisation Values; particularly if investor sentiment weakens more sharply than fundamentals justify, may cause otherwise viable projects to become financially unviable.

There is early evidence that sentiment is moving faster than the modelled fundamentals. The combined capitals declined 0.4% in June 2026, with Sydney down 3.2% and Melbourne down 2.6% on a rolling 28 day basis, against a backdrop of the RBA cash rate at 4.35% and consumer sentiment at multi year lows.[24] The Property Council's submission to the Senate Economics Legislation Committee frames the same risk directly: if falling sentiment weakens established home prices more significantly than anticipated, the feasibility of new housing projects is undermined and fewer homes will be built.[2]

Figure 2. Dwelling Value Momentum by Capital. Source: Cotality[24]



In high density corridors like Botany Road in Beaconsfield and Rosebery, where we actively develop and manage assets, margins are extremely sensitive to valuation comparables. If unbuilt residential GRV is dragged down by falling established prices, developments shift from active projects to unfinanced paper, constraining the very supply the National Housing Accord is trying to deliver.

In summary, the transmission mechanism runs as follows: weakened investor sentiment softens established prices; valuers use those softer comparable sales to set new build GRV; compressed GRV against fixed, already inflated construction costs erodes projected Internal Rate of Return (IRR); marginal projects fail to clear lender hurdles; and dwelling starts fall.

The Terminal Value Problem and NPV Modelling

The carve out also leaves the terminal value problem unresolved. A sophisticated investor pricing an off the plan apartment today is modelling the price a future buyer will pay on resale, and that future buyer, acquiring an established dwelling, will have access to neither the negative gearing deductions nor the pre 2026 CGT discount.[2]

The NPV Transmission Mechanism

A sophisticated investor evaluates a residential development purchase using a Discounted Cash Flow (DCF) model. Under standard valuation theory, the present value of a real estate asset is the sum of its discounted operating cash flows over a projected holding period, plus the discounted terminal value at exit. In simplified form:

$$NPV = \Sigma\,[CF_t / (1 + r)^t] + [TV / (1 + r)^n]$$

where CF_t is the cash flow in year t, TV is the terminal (exit) value, r is the investor's risk adjusted hurdle rate, and n is the holding period.

The terminal value is particularly important because newly constructed dwellings ultimately become established dwellings when resold. Consequently, the price that an investor is willing to pay depends on the price that can reasonably be achieved on a future sale. That future resale price will be determined by the after-tax returns available to the next purchaser.

Under The 2026 Tax Reforms, a subsequent investor acquiring the property as an established dwelling must assess it under the quarantined negative gearing regime, where rental losses may only be offset against other residential investment income and are otherwise carried forward, while any capital gain is generally subject to the new 30% minimum tax after cost base indexation.[11,12] Because these rules reduce the after-tax return available to the future purchaser, that purchaser is likely to require a lower acquisition price to achieve their target IRR.

The effect is that the reduction in the value of the future investor pool is transmitted backwards through the development process, placing downward pressure on new dwelling prices even though those dwellings themselves retain favourable tax treatment. The magnitude of this effect increases with the expected holding period and the investor's discount rate, making it particularly relevant for long-duration, institutionally held residential assets that The 2026 Tax Reforms are intended to encourage.

This dynamic was identified explicitly in the Property Council's Senate submission, which states that the Government's intention to redirect investors away from established housing and towards new supply "fails to recognise the terminal value of new housing." The submission recommends that the Government publish further analysis on the effect of The 2026 Tax Reforms on the terminal value and secondary market liquidity of new housing assets.[2] No such analysis has been released.

Supply Arithmetic - Modelling the Combined Mathematical Deficit

To evaluate the combined macroeconomic impact of The 2026 Tax Reforms and the $2 billion Local Infrastructure Fund, Master Builders Australia, the Housing Industry Association, the Property Council of Australia, and the Real Estate Institute of Australia jointly commissioned independent economy wide modelling from Qaive and Tulipwood Economics.[1]

The Affordability Illusion

The modelling largely agrees with Treasury's projection that restricting negative gearing to new builds will reduce new housing supply by 35,000 homes over 10 years, finding a reduction of 14,032 dwelling starts in the first four years.[1,2] Where the modelling differs sharply from the Government is on whether the $2 billion Local Infrastructure Fund can offset this supply deficit.

While the Budget assumes the Local Infrastructure Fund will support 65,000 additional dwellings over a decade, implying a pace of around 26,000 starts in the first four years, the Qaive and Tulipwood modelling introduces real world capacity constraints on land, labour, and building materials. Once these constraints are imposed, the $2 billion infrastructure subsidy is projected to generate just 5,291 additional starts over four years.[1]

Table 1. Macroeconomic and real estate impacts of The 2026 Tax Reforms. Source: Qaive and Tulipwood[1]

Economic indicator	2026/27	2027/28	2028/29	2029/30	Four-year total
GDP impact ($m)	-70	-158	-256	-380	-864m
Construction output ($m)	-153	-263	-341	-422	-$1.18bn
Construction employment (FTE)	-507	-864	-1,114	-1,368	-3,854 workers
New dwelling starts	-997	-1,836	-2,550	-3,357	-8,742 starts
Established home prices (%)	-0.24	-0.48	-0.62	-0.76	-0.76% by 2029/30
Rental price premium (%)	+0.46	+0.89	+1.20	+1.53	+1.53% by 2029/30

The Real-World Impact of the Supply Deficit

This modelling exposes the critical policy paradox of The 2026 Tax Reforms:

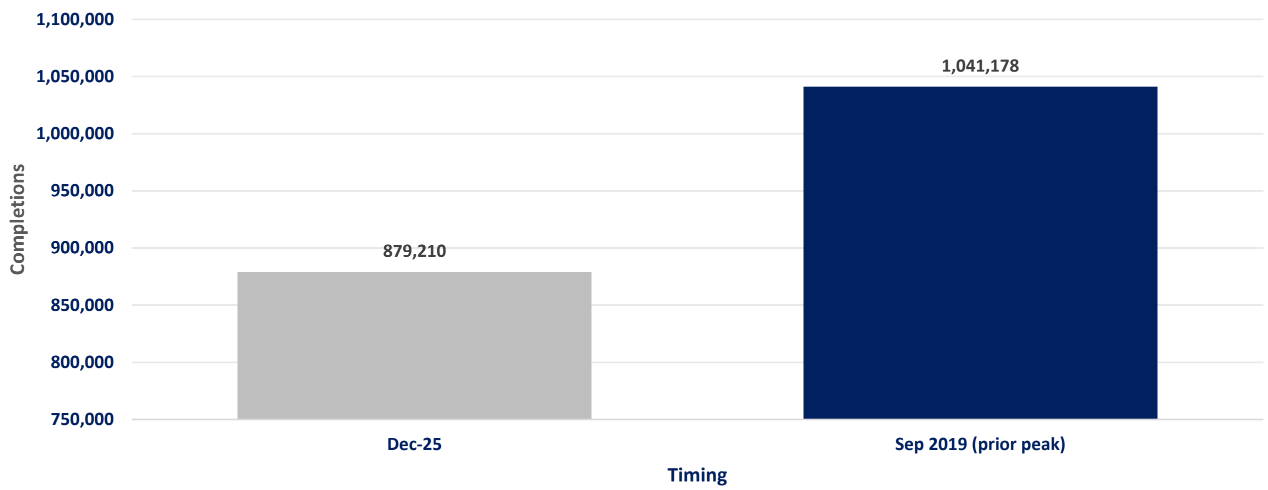
1. Negligible Price Benefits: The 2026 Tax Reforms are projected to lower established home prices by 0.76% by 2029/30, equivalent to approximately $7,648 on a $1 million home.[1] For a first home buyer struggling with borrowing capacity, this marginal discount is entirely insignificant and fails to improve purchase affordability.

2. A Regressive Rental Squeeze: Because individual and institutional capital exits the rental market, rental supply is likely to contract in established suburbs near employment and transport hubs. Rents are projected to rise by 0.46% in 2026/27, accelerating to 1.53% above baseline by 2029/30.[1] On a standard $600 per week rental, this represents an extra $142 per year initially, rising to $477 per year by 2029/30.[1] In a market where renters already spend 33.1% of pretax income on housing, against a 29.4%-decade average,[3] this incremental rental inflation directly erodes their capacity to save a deposit, locking them into tenancy for longer.

3. Severe Macroeconomic Drag: The contraction in residential construction activity is modelled to reduce national GDP by $864 million, cut construction output by $1.18 billion, and eliminate 3,854 full time equivalent construction jobs over four years.[1]

4. This contraction lands when the National Housing Accord's 1.2 million target is already severely off trajectory. In the 22 months since the Accord commenced in July 2024, ABS building approvals reached 357,302 units, an 82,698-unit cumulative shortfall against the required run rate of 20,000 approvals per month.[4] Adding structural reforms that reduce housing starts further compounds the national undersupply.

Figure 3. Dwelling Completions. Source: Cotality[3]



Credit Contraction and the Pre-Sale Finance Trap

The most acute near term risk to new supply is the ban on SMSF LRBAs for residential property, secured by the Greens as the condition of their Senate support and confirmed by the Prime Minister and Treasurer on 23 June 2026.[13] The ban is prospective: existing arrangements and contracts entered before the 10 August 2026 commencement are preserved, and borrowing for commercial property that meets the Business Real Property test is unaffected.[13,14]

As of the December 2025 quarter, there were 663,867 SMSFs holding $1.06 trillion in total assets. Direct residential property holdings were approximately $60.9 billion, with a further $116.7 billion in non-residential property, and additional residential exposure held through LRBA geared assets.[8] SMSFs account for less than 1% of total outstanding residential property borrowing in Australia.[19] That national average, however, understates the concentration of SMSF demand in specific segments of the market. Industry figures have stated that the self-managed super fund space in the off-the-plan market, makes up for approximately 30 per cent of the presales.[25]

Off the plan apartments, the property type most structurally aligned with the SMSF LRBA strategy, are disproportionately reliant on this cohort. The appeal is mechanical: off the plan purchases require only a deposit of around 10% on exchange, with the balance due at settlement 12 to 24 months later, allowing fund capital to remain invested during construction; new dwellings also attract maximum depreciation deductions, particularly valuable inside a 15% taxed superannuation environment.[22]

Australian apartment development has been historically dependent on pre-sale requirements imposed by lenders before a construction loan is released, typically 60% to 100% of a project under binding forward contracts before ground is broken.[21] The NSW Productivity and Equality Commission has identified pre-sale requirements as the most common financing hurdle cited by industry, with required pre-sales rising in some cases from 50% to 80% of dwellings in recent years.[10] Removing a segment of the buyer pool before contracts are exchanged leaves developers to either accept lower pricing to attract replacement buyers or extend their sales campaigns, deferring construction and adding holding costs.

This risk is not theoretical. Construction insolvencies remain elevated after a 31% rise in costs over the past five years, and the pipeline of dwellings approved for construction has not returned to pre-2021 levels.[3] When comparable restrictions were proposed in 2018 and 2019, major banks withdrew SMSF residential lending products ahead of any legislation, so the operative constraint is likely the announcement itself, rather than the eventual legislative deadline.[20]

The Grandfathering 'Lock-In' and the 5% Deposit Paradox

The transitional rules introduce additional structural frictions that affect first home buyers.

The Grandfathering "Lock-In"

Existing residential properties acquired before 12 May 2026 retain their previous tax settings, including full negative gearing; with CGT transitions set to begin 1 July 2027.[11,12] This grandfathering creates a strong lock in effect.

Landlords have a strong incentive to hold onto these properties indefinitely. If they sell a grandfathered asset, any replacement property would be evaluated under the less favourable new tax rules. This behaviour is likely to reduce total housing turnover materially.

For first home buyers, this lock-in reduces market liquidity. While prices may soften slightly in some investor heavy areas, the volume of properties listed for sale is likely to decline. First home buyers will find fewer properties to choose from in established areas with existing infrastructure, forcing them to compete for limited listings.

The 5% Deposit Paradox

To address the deposit hurdle faced by first home buyers, the government expanded the First Home Guarantee (5% Deposit Scheme) from 1 October 2025 by removing personal income caps, scrapping the annual cap on places, and lifting property price caps (to $1.5 million in Sydney and other major NSW cities, $1 million in southeast Queensland, and $950,000 in Melbourne and Geelong).[15]

This policy change has introduced a significant market distortion. Housing Australia data prepared for Senate estimates shows the scheme backed 39,704 loans between 1 October 2025 and 30 April 2026, and that one in three participants (13,979 borrowers) earned more than the previous income caps of $125,000 for singles and $200,000 for couples. This includes nearly 1,000 single borrowers earning $200,000 or more and 1,251 couples with combined incomes of $275,000 or above.[9]

By allowing high income earners to borrow with minimal deposits, the policy has funnelled buyers with high borrowing capacity into entry level segments. Cotality price data shows that properties eligible for the scheme recorded slower price growth than ineligible properties before the caps were lifted, then accelerated sharply once the expansion took effect.[23] Average income first home buyers find themselves outbid by high earners leveraging a government scheme originally designed for low to middle income access.

Legal & Structuring Advisory Focus Areas

For solicitors, family offices, and developers, navigating these transitional settings requires close attention to the structural details of the legislation.

The 1 July 2027 Deemed Disposal Rules

For assets held prior to 1 July 2027, the transition to the indexation regime splits capital gains into two components. The pre-1 July 2027 component, measured by the asset's market value at that date, remains eligible for the 50% CGT discount. The post 1 July 2027 component, calculated from that value to the final sale price, is subject to CPI cost base indexation and the 30% minimum tax rate.[11,16]

Advisors should recommend clients obtain independent, evidence-based market valuations as of 1 July 2027 to establish a clear cost base. The ATO has received $90.7 million over five years to implement the CGT reforms,[17] and contemporaneous valuation reports will be essential in the event of audit scrutiny.

Discretionary Trusts and the 30% Tax Floor

From 1 July 2028, trustees of discretionary trusts will pay a minimum tax of 30% on the taxable income of the trust. Non corporate beneficiaries receive nonrefundable credits for the tax paid by the trustee; corporate beneficiaries do not, to prevent the minimum tax being recycled through bucket companies. Fixed trusts, widely held trusts and complying superannuation funds are excluded from the minimum floor.[18]

The Government has provided a temporary three year rollover relief window, from 1 July 2027 to 30 June 2030, to facilitate restructuring from discretionary trusts into corporate or fixed trust structures.[18,16] However, while federal income tax and CGT are deferred under the rollover, the transfer of real property may still trigger state based stamp duty, which does not automatically follow the federal relief.[16] Advisors must model this stamp duty cost to ensure any restructure is financially viable.

Commercial Takeaways for Property Professionals

- For Developers: Expect a shift in pre-sale marketing campaigns as the 10 August 2026 SMSF borrowing ban approaches. Integrate state backed support, such as the NSW Pre-Sale Finance Guarantee, a $1 billion revolving fund under which the NSW Government commits to purchase up to 50% of dwellings in approved projects to unlock construction finance,[10] to reduce reliance on SMSF pre-sales.
- For Asset Managers: Review residential portfolios to confirm the grandfathered status of existing negative gearing and CGT concessions. For assets held in discretionary trusts, model the impact of the 30% trust tax floor and plan restructuring options before the 30 June 2030 rollover deadline.[18]
- For Valuers and Financiers: Incorporate the terminal value discount and softening established comparable sales into valuations of new residential developments, recognising the smaller secondary investor pool and compressed developer margins. Verify 1 July 2027 market valuations to prepare for ATO audit activity.[17]

Conclusion

The 2026 Australian Property & Investment Tax Reforms represent one of the most significant shifts in Australian real estate taxation in a generation. While the reforms are intended to improve housing affordability by reducing investor demand for established housing, this paper demonstrates that housing markets operate through a series of interconnected capital and valuation mechanisms that cannot be viewed in isolation. By weakening the economics of rentvesting, reducing secondary market liquidity, compressing terminal values and lowering the comparable sales that underpin new development feasibility, the reforms risk reducing the very private investment needed to expand Australia's housing stock.

The central policy question is therefore not whether investor demand should be redirected, but whether the reforms successfully preserve the economic incentives required to finance new housing. The analysis suggests that the "new build" carve out, while well intentioned, may not fully insulate residential development from changes in the broader investment market. Once future resale values, lender valuation practices, development feasibility and pre-sale financing dynamics are considered together, the distinction between established and new housing becomes far less meaningful than the legislation assumes.

Ultimately, housing affordability is determined not simply by who purchases homes, but by whether enough homes are built. Tax policy influences far more than investor behaviour; it shapes the allocation of capital, the willingness of developers to undertake risk, and the financial viability of projects long before construction begins. In that sense, the long-term success of The 2026 Tax Reforms will not be measured by modest reductions in established dwelling prices, but by whether they increase - or inadvertently reduce - the supply of new housing delivered to the Australian market. If The 2026 Tax Reforms discourage the capital required to build tomorrow's homes, they risk making housing affordability not a problem of demand, but a consequence of constrained supply.

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