Comparing Resi vs Commercial properties

Five shifts in the Australian market are changing the maths on residential vs. commercial properties; this article attempt to summarise the key differences.

The old investment playbook used by every day, hardworking Australian to get ahead of: buying a house, negatively gearing it then waiting for the capital growth, is being rewritten by the labour government policy and market forces.

1. Tax reform now favours new supply, not established housing

From July 2027, negative gearing will be restricted on established residential properties, and the 50% CGT discount is being replaced with cost-base indexation and a minimum tax rate. This is a deliberate move to redirect investor capital into new housing supply. Commercial property sits outside this reform entirely; long-standing tax settings still apply.

2. The government wants residential prices to soften

This is by design; the Budget reforms are forecast to reduce house price growth as part of a broader affordability push. That may be good for buyers, but it weakens the capital-growth story residential investors have relied on for decades in Australia. Commercial assets, priced on yield and lease terms rather than owner-occupier / First home owner demand, are less exposed to a policy agenda built to cool one side of the market.

3. Lower immigration eases housing demand - not business demand

Net overseas migration is forecast to keep falling through 2027–28, taking pressure off residential property demand. Skilled migration remains targeted at workforce shortages in the same industries driving demand for warehouses, medical suites and fit-for-purpose commercial space.

4. Construction capacity is at capacity

Australia is short on residential builders and construction workers and building costs are rising annually in most major cities. That's bad news for anyone relying on new supply to hit the market quickly; approvals and builds are taking longer, and costs are eating into development margins. For commercial investors, this constraint is also an opportunity. With new-build supply harder and more expensive to bring online, existing commercial and retail assets with unrealised potential become more valuable.

Considering properties where you can add value directly like:

- **Renovate or reposition** dated retail or office space to lift rental grade and tenant appeal
- **Subdivide or strata-title** larger holdings into smaller, more liquid lots
- **Change of use or add-ons** - converting excess space, adding signage rights, storage, or additional tenancies
- **Improve lease structure** – locking-in longer terms or better covenants to lift the asset's valuation on sale

Because new commercial supply is slower and costlier to deliver, well-located existing assets with this kind of upside are increasingly the more efficient way to capture growth - rather than waiting years for new stock to be approved and built.

5. Finance is more accessible than many investors realise

Commercial lending is no longer a bank-only game. Alongside the major banks, a deep and increasingly competitive non-bank and specialist lending market has grown to service commercial buyers.

That gives investors real options:

- **Banks** remain competitive on price for straightforward, well-leased assets in mainstream sectors.
- **Non-bank lenders** work outside APRA's serviceability and debt-to-income restrictions and are actively writing loans across asset classes banks are more cautious on - including childcare, medical, retail, hospitality, regional and vacant commercial properties.
- **Specialist lenders** cater to self-employed borrowers, complex income, or time-pressured deals, with approvals often available in days rather than the 6–10 weeks typical of bank credit.

For investors eyeing value-add opportunities, a renovation, subdivision or repositioning project, this lending flexibility matters! It's often exactly the kind of scenario major banks are more cautious on and exactly where non-bank and specialist lenders are built to move with whom Chocolate Money has years of experience and relationships to help its clients!

Please note: This article is general information only and not to be considered specific advice or advice of any kind. For lending advice, contact Chocolate on 1300 137 539.

The bottom line

Tax policy, immigration settings, a stretched construction sector and a more accessible lending market are all pulling in the same direction: away from established residential, and toward well-chosen commercial assets; particularly those where renovation, subdivision or repositioning can unlock extra value. It's not a case against residential property altogether, but the tailwinds have shifted and it's worth checking your portfolio is still pointed the right way.

Again, this is only an opinion based on observations and many decades involvement in the property and lending market but this article does not constitute advice; merely an opinion!