TenCap

CIO Update

July 2026

When riding the tiger, the danger is in the dismount

Jason Todd, CFA
Founder / CIO

When riding the tiger, the danger is in the dismount

Article first appeared in the Australian, 20th July 2026

There is a Chinese proverb – qi hu nan xia – once you're riding the tiger, you can't get off; the longer you ride, the more dangerous the dismount. For 40 years, Australia rode the housing tiger, and it was beautiful for those on the property ladder and the industries built around keeping it moving: agents, brokers, conveyancers, listing portals and the rest.

Over the past 10 weeks the market has come to a sudden stop. Changes to negative gearing, layered on by RBA rate hikes, has hit sentiment and activity harder and faster than expected. Auction clearance rates have dropped below 50 per cent, a six-year low, and sales volumes are down close to 9 per cent year on year. Before the affordability story has even played out, the press is mourning the end of a 40-year bull market. It's an odd chorus: the loudest voices aren't the people locked out of the world's worst affordability, but the people locked in.

Full disclosure, I am a homeowner. But having lived through US and Hong Kong housing downturns, I don't assume prices should only go up, or that housing is riskless just because it's become too big (for the economy) to fail. One local research note this year warned of the largest house price correction in 40 years, framing around a 7 per cent decline as concerning. I would frame it differently and ask why prices haven't fallen by more than 7 per cent (during any one correction) in the past 40 years!

It's somewhat surprising to see just how quickly the housing market has weakened since the federal budget in early May. Investor lending, which had swollen to a decade high of more than 40 per cent of new loans – most of it into existing homes rather than new supply – is retreating fast, credit is weak, and banks are trimming earnings forecasts as mortgage growth slows. But credit is a lagging indicator, moving roughly five months after prices, so a softer credit pulse is exactly what you'd expect this far into an adjustment, not a fresh alarm.

Even a price fall twice the size of what's occurred would lift negative-equity loans to only around 2 per cent, pre-Covid levels – not the profile of a financial stability crisis that is already being discussed as a potential outcome.

Perhaps some context is important. From the mid-1990s, residential property became Australia's defining economic obsession, compounding at close to 10 per cent a year until Sydney and Melbourne ranked among the world's least affordable cities. Housing wealth as a share of GDP kept climbing even as the equity market shrank as a share of the economy as the country built an economy around a housing market, rather than the other way around.

Source: The Australian – Jake Nowakowski

The wealth effect is the clearest evidence of just how significant housing has become where every extra dollar of housing equity adds 3-5 cents of household spending, and a 10 per cent price rise lifts GDP by roughly 0.7 per cent.

A correction of the same size, by the same logic, erases more household net wealth than a full year of disposable income – which would be the largest hit outside the GFC, with mortgages over half of major bank loan books to match.
So, when the tiger slows, everyone feels it, but are there any brickbats to give or have the benefits simply been so great that everyone is really a winner? I'm not sure, but we do know that both sides of the political spectrum have been lured into the same trap.

Inquiries, grants and gearing debates alongside concern for locked-out buyers all against a backdrop where solutions for affordability and a lack of supply were desired but only if the opportunity cost was minimal and not borne out by those with the loudest voices. Lower prices should be welcome, a collapse or sustained downturn in prices and activity less so. I doubt that high-level policy changes will solve for housing problems that have grown ever larger over the past few decades. But we should never believe that a solution is unattainable because it's complex or because the dismount is dangerous.

In a short time frame, we have seen that housing is not impenetrable. Yields are rising and price-to-income ratios are improving from extreme levels. Some sell-side estimates are that investors need existing home prices 10-15 per cent lower to restore the after-tax returns negative gearing changes took away – exactly the adjustment that clears space for owner-occupiers instead of armies of leveraged bidders. The obvious rebuttal is supply and rents, but similar reforms here and in New Zealand show little lasting effect on rental inflation, and new-dwelling starts have already been running about 25 per cent higher, easing pressure rather than adding to it.

Yes, households who bought at the peak with maximum leverage are exposed, and a disorderly crash would be a genuine problem worth managing. But there's a wide gap between managing a correction responsibly and treating any decline as an emergency.

Previous periods of price weakness have not derailed the economy and the risk that it could should not prevent an attempt to address problem areas. The young Australians who couldn't afford to buy three years ago should be watching this correction with relief.

And I am hopeful that the housing backdrop is the catalyst to address other constraints such as planning delays, restrictive zoning requirements, lagging infrastructure support and short-term immigration volatility to name but a few.

For 40 years Australia rode the tiger and called it prosperity. Getting off is uncomfortable. But if better affordability was ever the actual goal, it's hard to object to the method now delivering it. The alternative is borrowing more and/or growing income faster, neither of which I'm confident of. If good intentions are where housing policy begins, vested interests are where it ends.

Let's Keep Talking

Sydney

Level 4, 151 Macquarie Street,
Sydney
NSW 2000, Australia
+61 2 7241 4388

Investor Relations

info@tencap.com.au
tencap.com.au