

Positive vs Negative Gearing in Australian Property

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Positive vs Negative Gearing in Australian Property: A Microburbs Report

Introduction

Investing in residential property can follow different gearing strategies, each with distinct cash flow and tax outcomes. This report compares positive gearing and negative gearing in the Australian context, explaining how they work and who they suit. We draw on the latest data to focus on capital growth trends and rental yields, using Microburbs' exclusive suburb metrics – including **Affluence**, **Livability**, and **Investment Potential** scores – to guide investors. We also highlight high-performing and historically significant areas, and examine external factors like policy changes, infrastructure projects, and natural events that influence property investment decisions. All information is up-to-date to early 2025, ensuring you have the most recent insights.

Positive vs Negative Gearing: What's the Difference?

Gearing refers to borrowing to invest, and whether an investment property is *positively* or *negatively* geared depends on its income minus expenses:

- **Negative Gearing:** The property's rental income is *less* than the costs of holding the property (loan interest, maintenance, etc.), resulting in a net loss each year. Investors tolerate this loss because Australian tax law allows them to deduct it against other income (like salary). The strategy banks on the property's value increasing over time to offset the yearly losses. In other words, a negatively geared investor is willing to lose money each year in return for potential capital gains later. Australian tax rules sweeten this by taxing only 50% of the capital gain on a property held more than 12 months, making capital growth especially rewarding.
- **Positive Gearing:** The property's rental income *exceeds* all expenses, so it produces a net profit annually. This surplus cash flow can provide immediate income to the investor. However, because it's profit, it will be added to the investor's taxable income and taxed at their marginal rate. Positively geared properties essentially "pay for themselves," often still generating some cash after mortgage and bills. Investors who choose positive gearing prioritize regular income over maximum growth, and they don't rely on selling the property at a higher price to make the investment worthwhile in the long run.

Cash Flow and Tax Implications

The core trade-off between these strategies lies in **cash flow vs. tax benefits**. Negative gearing typically causes a **cash flow deficit** (you must cover the shortfall out of pocket), but it provides **immediate tax relief** by reducing your taxable income. Positive gearing gives a **cash flow surplus** (extra money in your pocket each year), but you'll **pay tax on that profit** since it's additional income. Negative gearers often use their tax savings to partially compensate for their property losses, essentially letting the tax system subsidize their investment. Positive gearers, on the other hand, might end up paying more tax because they're earning more – but they have the benefit of actual profit even before any capital growth.

To summarize the key differences, here's a comparison:

Aspect	Negative Gearing (Loss-making)	Positive Gearing (Profit-making)
Cash Flow	Yearly out-of-pocket loss (rental income doesn't cover costs). Requires the investor to contribute extra funds regularly.	Yearly cash surplus (rental income exceeds costs), providing income from day one.
Tax Effect	Reduces taxable income: rental loss can be deducted against salary/other income, lowering tax payable. Also, only 50% of eventual capital gains are taxed after 1 year, so the strategy relies on future sale profits.	Increases taxable income: net rental profit is added to your income and taxed at your marginal rate. No special tax break on the income (aside from standard expense deductions).
Capital Growth Dependence	Highly reliant on capital growth. The investor expects the property's value to rise substantially over time to outweigh cumulative losses. Long-term price appreciation is critical for success.	Less reliant on growth. The investment is profitable each year even if property values remain flat. Capital growth is welcome (boosts equity) but not essential.
Investor Profile	Often chosen by investors with high incomes who can benefit from the tax deductions and are aiming for long-term wealth through property value increases.	Often chosen by investors seeking immediate income or cash flow – for example, retirees or those in lower tax brackets.
Risks & Considerations	Requires careful interest rate management – higher interest costs can widen losses. If property values	Finding positive cash flow properties can be challenging in expensive markets (where rents rarely cover large mortgages). Positive cash flow

Aspect	Negative Gearing (Loss-making)	Positive Gearing (Profit-making)
	stagnate or fall, the investor could face losses with no payoff.	can turn negative if costs or rents change.

As the table shows, **negative gearing trades off short-term pain for long-term gain**, while **positive gearing opts for immediate gain with potentially lower long-term upside**. Neither is “better” universally – it depends on the investor’s goals, financial situation, and risk tolerance.

Which Strategy Suits Your Goals? Investor Profiles

Choosing between positive and negative gearing should align with your financial goals, income level, and investment horizon. Different investors will find one strategy more suitable than the other:

When Negative Gearing Makes Sense

- High Income Earners Seeking Growth:** If you’re on a high marginal tax rate, the tax savings from negative gearing can be substantial. For example, every dollar lost on the property might save \$0.37 in tax (if you’re in the 37% bracket) – effectively softening the blow of the loss. High earners often use negative gearing to reduce their taxable income now while positioning for capital gains later. The assumption is that the property will appreciate significantly over time, yielding a big profit on sale that far outweighs the sum of yearly losses. The tax system favors this by taxing long-term capital gains at half the normal rate.
- Long-Term Investors Focused on Capital Growth:** Negative gearing is popular among those who prioritize **capital growth over immediate cash flow**. If your goal is to build wealth over 10+ years, you might accept a decade of small losses for a potentially large payoff at the end. Historically, many Australian property investors have taken this approach – as per ATO data, roughly 60% of Aussie property investors run their investments at a loss, while only 40% are neutrally or positively geared. This strategy can make sense in **blue-chip suburbs** or high-growth corridors where property values have a strong track record of rising.
- Those Who Can Afford the Short-Term Shortfall:** Importantly, you need sufficient cash flow or savings to cover the property’s losses each year. Negative gearing is a long-term play, so you must be financially comfortable carrying the property (paying the mortgage gap, rates, insurance, etc.) without jeopardizing your personal budget. If you have a stable, high-paying job or other income, and you’re looking to maximize your wealth in 10–20 years rather than boost monthly income now, negative gearing could be a good fit. Just be mindful of interest rate changes – rising rates can increase your losses, so a financial buffer is essential.

When Positive Gearing Makes Sense

- **Investors Needing Immediate Cash Flow:** Positive gearing is ideal if you want your investment to pay you an income right away. For instance, retirees or those nearing retirement often prefer positively geared properties to supplement their living expenses. The property effectively becomes a source of passive income. Even younger investors sometimes seek a positively geared property to improve their monthly cash position, which can then be used to pay down debt or invest elsewhere.
- **Lower Income or First-Time Investors:** If you're in a lower tax bracket (or have no other income), the benefits of negative gearing's tax deductions are smaller. In such cases, it might be more sensible to aim for a property that doesn't cost you money to hold. A positively geared property ensures you're not out-of-pocket, making it easier to manage for first-time investors who may not have a lot of spare cash each month. It's a more conservative strategy, as you're not relying on future growth – the property earns its keep immediately.
- **Risk-Averse Strategy (Profit Without Growth):** Positive gearing can be seen as lower risk from a cash flow perspective – you're not depending on the market to bail you out because you're not losing money year to year. It can also provide a buffer for unexpected costs; since you have surplus rent, issues like maintenance, vacancy, or interest rises are easier to absorb. However, remember that property value may not grow as expected. Positive cash flow doesn't guarantee a high return on investment if the asset itself doesn't appreciate. That said, this strategy doesn't strain your finances in the interim – in fact, it enhances them – so many see it as a safer bet when the property is in an area with stable or growing value.
- **Examples of Positive Gearing Opportunities:** Positively geared properties are often found in markets with high rental yields relative to purchase price. For instance, some parts of Darwin and regional Queensland have traditionally offered higher rental yields (5–7%+), making positive cash flow more achievable. In 2024, with high interest rates, true positive gearing (after interest costs) was harder to find, but areas like Perth—with more affordable prices and solid rents—came close. Perth's average gross rental yield was around 4.2% at the end of 2024, the highest of the major capitals after Darwin. An investor targeting positive gearing could use Microburbs to filter for such high-yield locales.

Tip: It's not a binary choice forever – some investors start with a positive cash flow property to build income, then later invest in negatively geared, high-growth properties (or vice versa). The right mix can change over your investing journey. What's crucial is to do the homework on any suburb's fundamentals – this is where Microburbs data can guide you, by highlighting metrics that matter for each strategy (like yield for cash flow or growth forecasts for capital gains).

Leveraging Microburbs Data: Affluence, Livability, and Investment Potential

One of the challenges in property investing is identifying which locations align with your strategy – be it capital growth or cash flow. This is where Microburbs' rich dataset and tools are invaluable. Microburbs provides suburb-level and even street-level insights across Australia, updated frequently to reflect current market conditions ([Microburbs](#)) ([Microburbs](#)). The platform offers several exclusive scores and metrics that investors can use:

- **Affluence Score** – This score gauges the wealth and socio-economic status of the local population. It looks at factors like income levels, education, employment type, home ownership rates, and even the proportion of public housing ([About - Microburbs](#)). A high Affluence score means a suburb has wealthy, well-educated residents and high housing values. For investors, affluent suburbs often have historically strong capital growth (driven by high demand and limited supply). However, they may also come with lower rental yields due to high property prices. If you're pursuing a negative gearing strategy focused on capital growth, Affluence scores can help pinpoint blue-chip areas likely to hold value and grow. For example, many of Sydney's eastern suburbs or Melbourne's inner south-east would score high on affluence, reflecting their prestige and long-term growth record.
- **Livability Score** – Also known as an amenity or lifestyle score, this measures how desirable an area is to live in based on amenities and environment. Microburbs analyzes everything from walkability and transport times to school quality, parks, cafes, and low crime rates as part of livability ([Microburbs](#)). A suburb with a high Livability score offers residents convenience and a good quality of life. This matters to both investors and tenants – high livability can attract more demand, leading to lower vacancies and steady rent growth, while also underpinning long-term capital growth as owner-occupiers compete for these areas. Whether you're geared positively or negatively, it's wise to consider livability; a property in a town with declining amenities might struggle to sustain tenant demand, while a highly livable but expensive area may still grow robustly.
- **Investment Potential Score** – Unique to Microburbs, this score distills multiple data points to signal a suburb's overall attractiveness for property investment. It typically combines forecast capital growth, current rental yield, and risk factors into one indicator. Microburbs uses advanced analytics and AI-driven forecasting (drawing on 30+ years of data and billions of data points) to project capital growth and identify high-yield opportunities ([Microburbs](#)). It also layers in data on gentrification trends, development pipelines, and even natural disaster risk ([Microburbs](#)). A high Investment Potential score could highlight an up-and-coming suburb that balances good rental returns with strong growth prospects – a sweet spot for investors. For example, a suburb undergoing gentrification with limited new housing and strong tenant demand might score well. Microburbs' Suburb Finder tool lets you screen suburbs based on criteria like projected capital growth or rental yields ([Microburbs](#)), helping you find candidates for either a negative gearing play (high growth forecast) or a positive gearing play (high yield, strong cash flow).

Using these Microburbs scores in practice: Suppose you're a high-income investor targeting long-term growth with a negative gearing strategy. You could use Microburbs' Affluence and Livability scores to shortlist suburbs that are both wealthy and highly livable – indicators of enduring

desirability. Then, check those suburbs' Investment Potential details to ensure they also have solid growth forecasts and manageable risk. Alternatively, if you want a positively geared property, you might filter for areas with higher rental yields (for example, regional centers or certain outer suburbs) and then use Microburbs to verify that those areas still have decent livability and acceptable risk.

Microburbs Products in Action:

The Suburb Reports and AI Property Finder provided by Microburbs give investors a comprehensive look at these metrics, updated weekly. The suburb reports include street-by-street analysis of median prices, recent capital growth, demographics, amenities, and even development approvals in the pipeline ([Microburbs](#)). By featuring Affluence, Livability, and Investment Potential on one platform, Microburbs allows you to compare suburbs objectively. For instance, you might see that Suburb A has a high Affluence score and past growth of 7% per annum but a rental yield of only 2.5%, whereas Suburb B has moderate affluence but a higher yield of 5% and is flagged for improving livability. This kind of insight helps tailor your strategy: you might choose Suburb A for a negatively geared portfolio expecting rising property values, and Suburb B for a positively geared addition with better cash flow.

Additionally, Microburbs includes unique data like noise levels, traffic, and even NBN internet speed in its reports ([How To Know Almost Everything About A Suburb \(Without Leaving Your House\) – On Property](#)). While these might seem minor, they contribute to a property's rental appeal and overall value. High scores in "Tranquility" or connectivity could attract a broader pool of renters or buyers, beneficial to any gearing strategy. In short, leveraging Microburbs data allows investors to make evidence-based decisions, ensuring the chosen suburb aligns with their financial goals.

Capital Growth and Rental Yields: Latest Stats and Trends (2025)

Both capital growth (price appreciation) and rental yield are critical in evaluating an investment. As of early 2025, Australia's property market is emerging from a turbulent period that included a pandemic boom in 2020–21, a correction in 2022, and a mixed recovery in 2023–24. Nationally, home values rose about 4.9% over 2024, reflecting a modest gain amid high interest rates. However, this average masks significant variation between cities and regions:

- **Perth** was the standout market in 2024, with prices surging +17.1% over the year. A strong local economy and affordable entry prices attracted buyers, including investors. Despite rapid price growth, Perth still offered relatively high rental yields of about 4.2% gross for houses on average – meaning investors enjoyed both strong capital gains and solid cash flow. This mix made Perth very attractive for balanced investments, though such growth may moderate in the future.
- **Adelaide** and **Brisbane** also delivered double-digit capital growth last year. Adelaide values jumped roughly 12–13%, and Brisbane around +10.4% year-on-year. These cities benefited from ongoing interstate migration and greater affordability compared to Sydney and

Melbourne. The strong price increases compressed yields slightly – by late 2024, gross yields in Brisbane and Adelaide were around 3.6–3.7%, still healthier than those in Sydney.

- **Sydney** and **Melbourne**, the largest markets, experienced subdued or even negative growth in 2024. Sydney's dwelling values increased by only about +1.7% annually (with slight declines in the latter half of the year), and Melbourne saw a –3.3% drop in median values over the year. High interest rates and strained affordability meant that many previously negatively geared properties in these cities remained in the red without significant capital gains. Sydney's rental yields averaged around 3.0%—the lowest among the capitals—while Melbourne's yields edged up to 3.7% by year's end as prices fell and rents rose.
- **Darwin** and **Hobart** represent smaller capital cities with different profiles. Darwin's market was almost flat, growing by about +0.9%, but it boasted the highest rental yields among capitals at roughly 6.7% gross. Such high yields enable many Darwin investments to be neutrally or positively geared, though growth tends to be volatile. Hobart experienced a small decline in values (around –0.4%) but maintained yields around 4.4% due to long-standing tight rental supply. Investors chasing positive cash flow might also consider regional markets, where yields of 5–6% or higher are common. In some regional areas of WA, for example, average yields reached around 6.7%, with certain unit markets exceeding 8%—though these higher yields can come with increased risk and lower growth prospects.

City	2024 Price Growth (Annual)	Gross Rental Yield (Late 2024)
Perth	+17.1%	4.2%
Adelaide	+12.7%	3.7%
Brisbane	+10.4%	3.6%
Sydney	+1.7%	3.0%
Melbourne	–3.3%	3.7%
Darwin	+0.9%	6.7%

From this snapshot, markets with explosive growth (Perth, Adelaide, Brisbane) tend to have yields in the mid-3% range or slightly lower, whereas slower growth markets like Darwin or Hobart have higher yields. Expensive markets such as Sydney and Melbourne naturally yield less. This is the classic trade-off between growth and yield: negative gearing strategies often target high-growth regions, while positive gearing focuses on higher-yield areas.

It is notable that 2024's unique interest rate environment influenced these outcomes. Aggressive rate hikes in 2022–23 reduced borrowing capacity and moderated price growth, while low vacancy rates helped rents surge. For example, in Melbourne, rising rents combined with falling prices helped

boost yields slightly—an atypical move that brought some previously negatively geared investments closer to neutral cash flow.

For investors in 2025, the outlook is cautiously optimistic. Property prices are beginning to rise again in many markets, and interest rates are expected to stabilize or even decline later this year. If rates fall, interest-sensitive markets like Sydney and Melbourne could see renewed capital growth, benefiting long-term negative gearers; however, faster price increases may also compress yields. This underscores the importance of choosing locations with a balanced mix of growth drivers (such as population, employment, and infrastructure) and yield support (like strong rental demand and low vacancies)—precisely the balance Microburbs' Investment Potential score strives to quantify.

High-Performing and Historically Significant Areas

Australia's property market is highly localized. Some areas consistently outperform, while others experience cyclical booms or busts. Understanding historical performance helps investors decide where to buy, whether for capital growth or cash flow:

- **Capital City “Blue-Chip” Suburbs:** Many inner-city and coastal suburbs in Sydney, Melbourne, and, to some extent, Brisbane have delivered strong long-term growth. These affluent, supply-constrained areas—such as Sydney's Eastern Suburbs (e.g., Bondi, Paddington) or Melbourne's inner east (e.g., Kew, Hawthorn)—often feature negatively geared investments (due to high prices and low yields) but have historically provided robust capital gains. Over the long term, well-located capital city properties in Australia have grown at an average rate of 6–7% per annum, with some analyses showing around 6.8% annual growth over the past 30 years. Suburbs that score highly on Microburbs' Affluence metric typically fall into this category.
- **Emerging High-Growth Corridors:** Not all high performers are the traditional blue-chips. Over time, new “hotspots” emerge. In the 2010s, parts of Western Sydney (like Parramatta and Blacktown) experienced substantial growth due to urban expansion and infrastructural investment. During the 2020–21 boom, many regional lifestyle areas (for example, the Sunshine Coast, NSW's Central Coast, Geelong) spiked in value as people sought more space. While these areas sometimes offered both strong capital growth and decent yields, regional markets can cool quickly over the long run compared to capital cities with more diversified economies and population inflows.
- **Perth and Mining Regions:** Perth experienced a commodities-fueled boom in the mid-2000s, followed by extended stagnation and, more recently, a resurgence. Perth's cycles have often been tied to mining investment, meaning investors might face periods of low or negative growth punctuated by rapid increases. Yields in Perth have generally been higher than in Sydney or Melbourne, providing some cushion. In contrast, certain mining towns have seen property prices double or triple during booms only to plunge afterward. Such high-risk, high-reward markets are generally only suitable for very risk-tolerant investors.

- **Historically Resilient Markets:** Some areas, such as Canberra's suburbs or coastal retirement hubs, are noted for their resilience. They might not deliver explosive growth every year, but over many years they tend to offer steady growth with lower volatility. In these cases, moderate yields combined with stability make for a balanced investment. Microburbs' long-term data can help identify whether a suburb has enjoyed consistent growth or has experienced significant fluctuations.
- **Gentrification Hotspots:** Suburbs undergoing gentrification—where formerly lower-to-middle-income or industrial areas see an influx of higher-income residents, trendy cafés, and new developments—often experience above-average capital growth. Historical examples in Sydney and Melbourne have shown rapid value increases as these areas transform. Microburbs even tracks a Gentrification metric, which can help pinpoint such areas early. Investing in a gentrifying suburb might yield moderate rental returns initially but can lead to strong price growth as its overall appeal improves.

In summary, high-performing areas in recent years have included parts of Perth, Adelaide, and southeastern Queensland, while historically significant growth regions have been found in Sydney and Melbourne as well as select regional areas. An informed investor weighs both historical performance and future outlook. Microburbs' Investment Potential score marries past performance with current trends—such as infrastructure developments and demographic shifts—to help predict future outcomes.

External Factors Influencing Investment Decisions

Beyond yield and growth figures, external factors play a crucial role in property investment. The broader economic and policy environment, as well as unforeseen events, can tip the scales in favor of one strategy over the other. Key influences as of 2025 include:

- **Interest Rates and Finance Climate**
Interest rates directly affect borrowing costs and can switch a property from positive to negative cash flow (or vice versa). The rapid rate hikes in 2022–23 increased mortgage expenses, turning some previously positively geared properties into negatively geared ones unless rents rose accordingly. This effect was clear in 2024's slower price growth. The good news is that, with easing inflation, rate cuts may be on the horizon later in 2025—improving cash flow for negative gearers while boosting the surplus for positive gearers. It is wise to stress-test investments for potential rate changes.
- **Government Policy and Tax Changes**
Political debates over property investment incentives continue to influence the market. Despite proposals in past years to tighten negative gearing rules, current policies remain unchanged: investors can still deduct rental losses against other income and receive a 50% discount on long-term capital gains tax. However, policy changes—such as alterations in tax brackets or new rental reforms like limits on rent increases—could impact investment returns.

Monitoring these changes is crucial, and Microburbs' regular updates on local economic conditions can offer valuable insight.

- **Population Growth and Immigration**

A surge in population, driven by record net overseas migration and strong domestic growth, has increased demand for both rentals and home purchases. This influx supports capital growth (benefiting negative gearers) and can lead to tighter rental markets (supporting positive gearing). However, if housing supply does not keep pace with demand, affordability and rental yield dynamics may shift. Microburbs provides data on planned developments and local supply trends that help assess these factors.

- **Natural Disasters and Climate Risk**

Australia's environmental risks—from bushfires and floods to long-term climate change impacts—can significantly affect property markets. Areas that are prone to natural disasters may face higher insurance costs and reduced demand, turning a seemingly positive cash flow investment into a liability. Microburbs includes a "Natural Disaster Risk" metric in its suburb reports, allowing investors to compare the risk levels of different areas when assessing long-term viability.

- **Infrastructure and Urban Development**

Significant new infrastructure projects, such as major transport links, highways, or new airports, can dramatically transform property markets. For example, the construction of a new airport or metro line can spur demand and drive both capital growth and rental yields in previously overlooked suburbs. Conversely, large-scale development may also increase supply and stiffen rental competition. Microburbs' data on proposed developments and local planning applications enables investors to gauge these dynamics in advance.

- **Economic Trends and Recent Sentiment**

General economic trends—such as employment rates, wage growth, and consumer confidence—play a role in property performance. Even media sentiment and news cycles can influence short-term market behavior. When the market feels subdued, opportunities may arise for long-term buyers, while periods of exuberance might suggest caution. Balancing micro-level data from Microburbs with an awareness of broader economic indicators is key to making informed decisions.

Conclusion: Making Data-Driven Decisions

Positive and negative gearing each offer viable pathways to success in real estate, but the right choice depends on your personal financial circumstances and market outlook. Negative gearing can build significant wealth when paired with strong capital growth and favorable tax conditions, while positive gearing provides immediate cash flow and lower short-term risk. In practice, many investors employ a blend of both strategies—for instance, using the surplus from a positively geared asset to help support a longer-term, negatively geared investment.

Microburbs' tools and exclusive suburb insights empower Australian investors to navigate these choices with confidence. By leveraging Affluence, Livability, and Investment Potential scores alongside up-to-date growth and yield data, you can identify suburbs that align with your investment strategy. With the latest market statistics in hand—from the cooling of the 2024 rental frenzy to the ongoing recovery in home values—a data-driven approach will help you build a resilient portfolio that delivers both long-term prosperity and immediate returns.

With the right strategy and reliable data from Microburbs on your side, you can make informed decisions that balance risk, reward, and cash flow to achieve your investment goals.

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