INVESTOR SENTIMENT SURVEY Q4 2021

Australian Property Investor

FOR HOMEBUYERS, INVESTORS & PROPERTY PROFESSIONALS

THE SURVEY

Now in its sixth edition, the Australian Property Investor Buyer Sentiment Survey tracks and illustrates the changes in sentiment, intention and confidence of investors, owner occupiers and property industry professionals.

Launched in the second quarter of 2020, the API survey provides deep insight into how rapidly buyer sentiment was shaped by the COVID-19 pandemic and its associated potential impacts on the property market.

In addition to overall market sentiment and price growth expectations, those surveyed are asked to provide their thoughts on where in Australia is best to buy and share their biggest concerns when considering buying property.

Nearly half of the respondents (49 per cent) to the Q4 survey were seasoned investors who own two or more properties, making the API survey an industry-leading measure of Australian investor sentiment.

Data collected from December 16th 2021 to January 14th 2022. Total respondents: 384.

THE COMPANY

Established in 1997, Australian Property Investor Magazine is one of Australia's leading property information brands. At the heart of our innovative online publication, we are passionate about protecting the interests of our audience of investors, homebuyers and property professionals through best in market property education, information and research.

Continuing more than 24 years of API tradition, investor stories continue to be a prominent feature of the platform. Through step-by-step examples, outlining real-life strategies, audience members can learn from and emulate the success of those who have already achieved.

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INVESTOR SENTIMENT

The Australian property market, as anyone over the age of six can attest, has gone crazy over the two years of the pandemic.

Most capitals have delivered price growth of more than 20 per cent, with Sydney, Brisbane and Adelaide the standouts. But the story has been the same outside the urban centres, with regional Australia outperforming the already-stella growth rates of the capitals.

From mining towns in the Pilbara, to coastal lifestyle hubs along the east and southeast coasts and beyond to the alpine areas of the Australian Alps, investors and relocators alike have flocked to the regions.

This has had a profound impact on these markets, leading to rental crises for locals locked out of the market and corresponding issues for first-home buyers seeking a toehold on the property ladder.

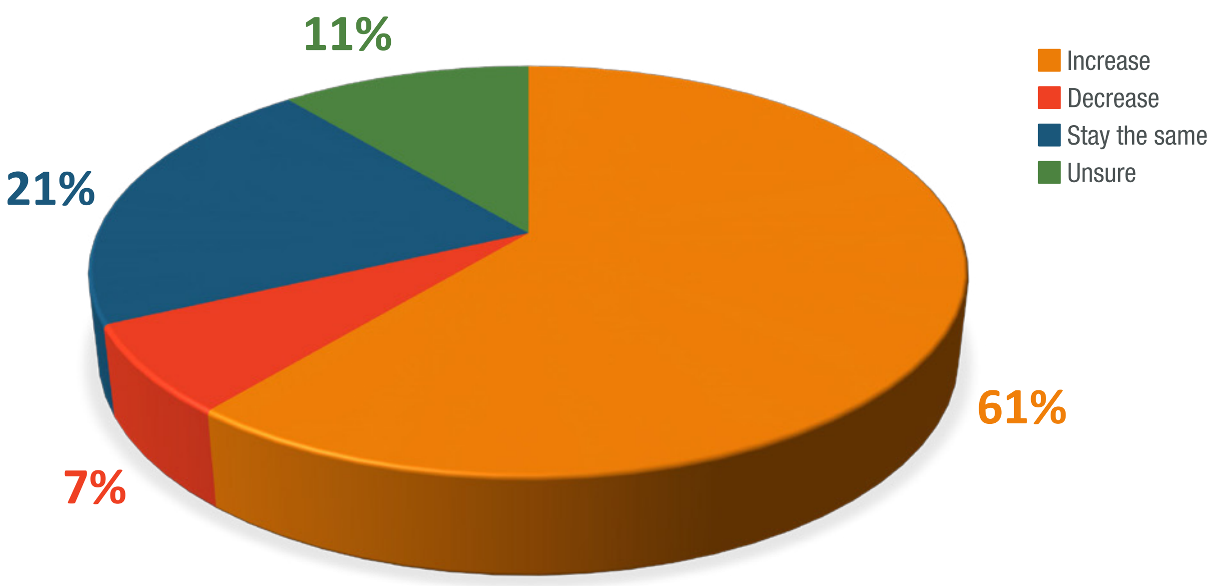
But as Australia grappled with reopening state borders and a resurgent economy, predictions of when this property boon might stall became divided.

Economists at the so-called Big Four banks predicted national declines of around 10 per cent but outside Sydney, signs of a decline remained vague.

Among our survey respondents, almost two thirds (61 per cent) are still expecting prices to rise in the coming year.

They are, it seems, the silent majority.

WHAT DIRECTION DO YOU SEE PROPERTY PRICES HEADING?



The banks and other pundits predicted an imminent end to the growth cycle and almost all of the commentary from our survey respondents expressed concerns and doubt about the market's ability to overcome affordability issues and continue to grow.

Even though more than 60 per cent indicated prices would rise, more than 80 per cent of the optional comments stated otherwise.

Among the comments that typified our survey responses were:

> *It seems out of control.*

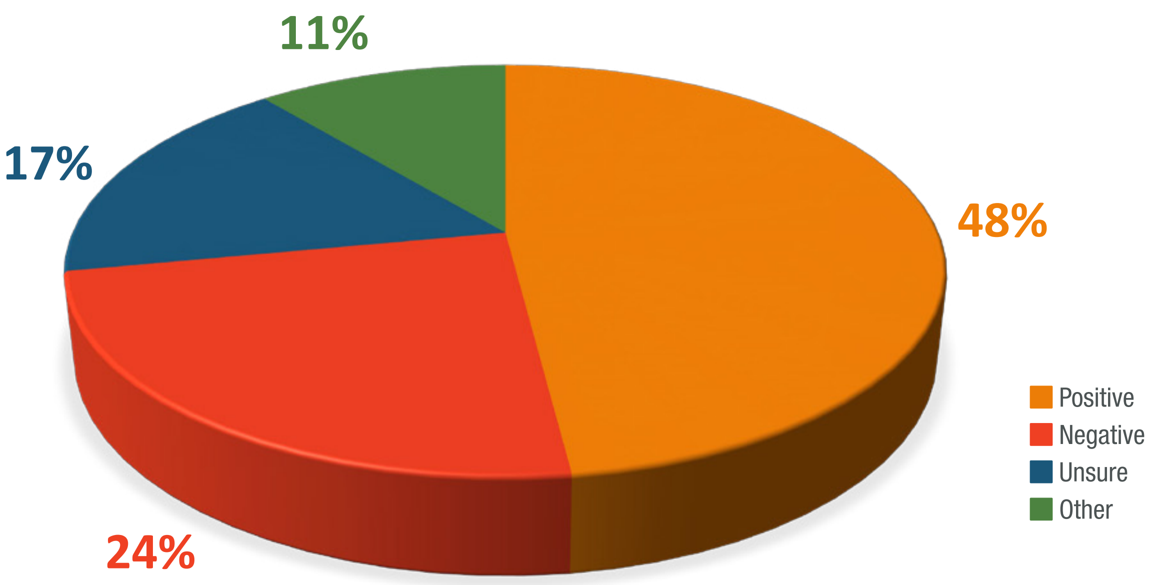
> *It's gone crazy and I worry that young people are forever locked out of the market.*

> *Overpriced, fueled by the shortage of land being released and government policy needs to change.*

> *Possible crash on the way, as prices are too high and interest rates are about to skyrocket.*

So, while the vocal minority have every reason to expect the market to stabilise or fall, the silent majority are still backing prices to continue rising for at least another year.

WHAT IMPACT DOES PROPERTY PRICE RISES HAVE ON YOU ENTERING THE MARKET?



INVESTOR INTENTIONS

According to the Australian Bureau of Statistics (ABS), fewer than one in ten Australians own an investment property.

Of that one in ten, 72 per cent of Australians who own an investment property only own one. That increases to 90 per cent when expanded to those who own up to two investment properties. There are only 5 per cent own who own four or more. It's clearly, however, not through a lack of intent.

Even with property prices having risen like the Karate Kid assuming the crane fighting pose, most respondents to our survey were still looking to get into the ring for another bout.

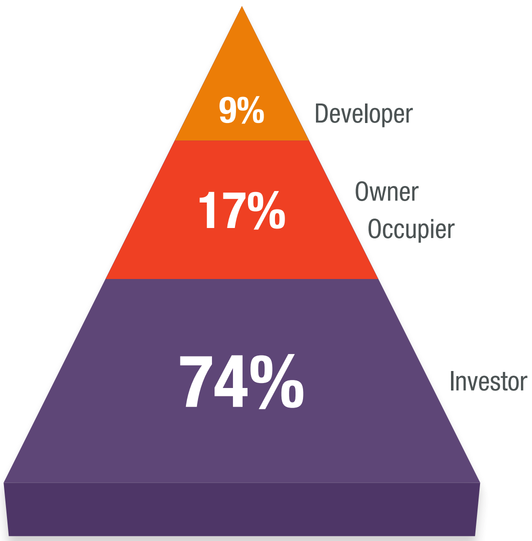
More than five times as many investors (58 per cent) want to pick up more properties than were committed to holding or selling down their portfolio (11 per cent).

Among the hundreds of respondents, almost three quarters of all intended buyers were investors, with owner occupiers and developers comprising the balance.

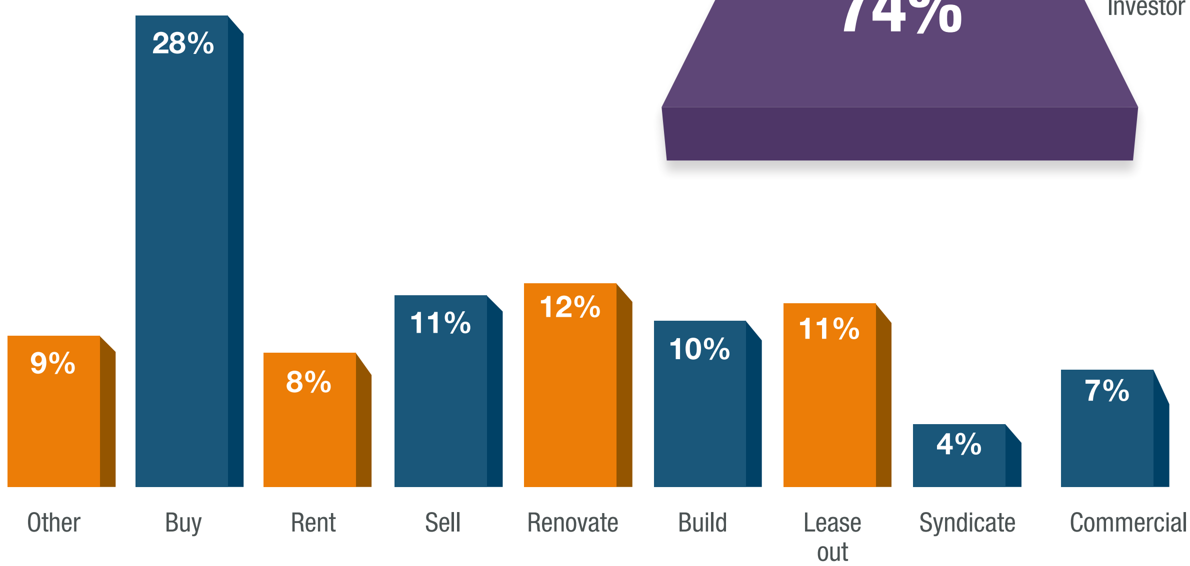
But what people want and what they actually do can be two different things. When asked how they intended to act over the coming 12 months, the previously stated desire to expand investment portfolios was not quite matched by the intent.

The percentage of people intending to buy within the year (28 per cent) is at its lowest level in the past six quarters that API Magazine has measured.

IN WHAT CAPACITY WILL YOU PURCHASE?



PROPERTY INTENTIONS IN THE NEXT 12 MONTHS?



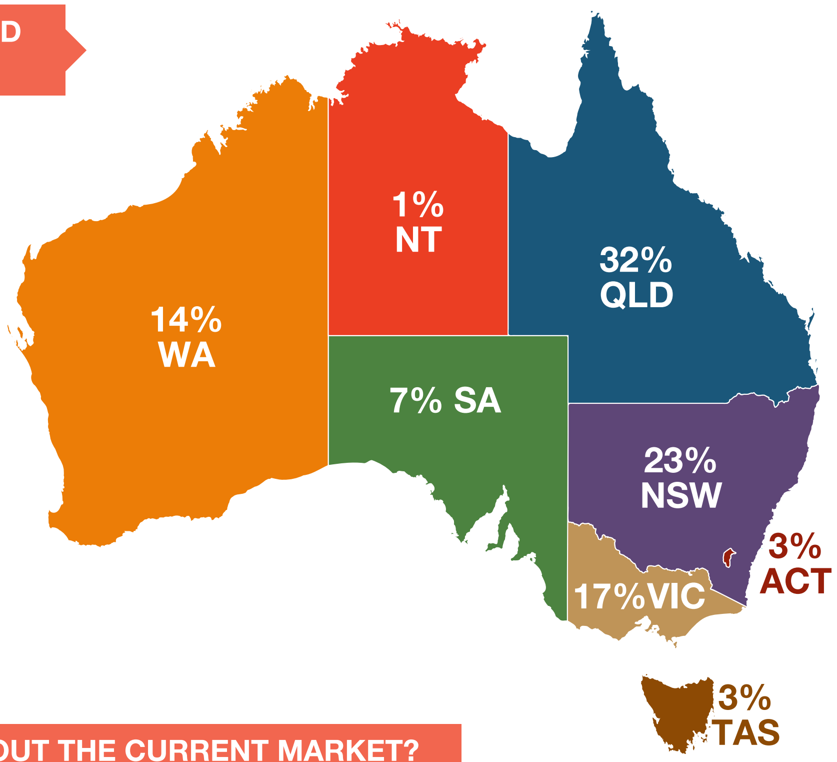
Queensland is the investment story of the moment.

New South Wales and the Australian Capital Territory combined represent 41 per cent of survey respondents, while Queenslanders comprise 21 per cent. But when asked where they intended to conduct their next property transaction, 32 per cent of respondents identified the Sunshine State.

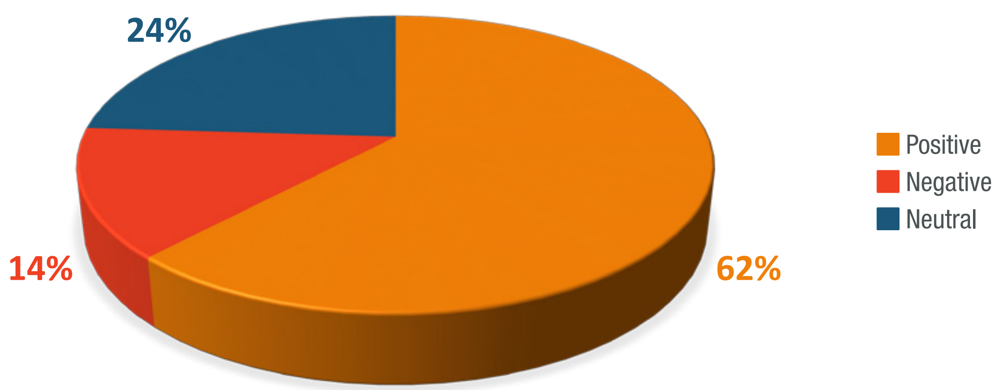
Others states to be overrepresented as intended property purchases, compared to number of respondents, were South Australia, Western Australia and Tasmania.

As prices level off in the two most populous states, investors are looking across borders for their next property opportunity.

IN WHICH STATE WOULD YOU PURCHASE?



HOW DO YOU FEEL ABOUT THE CURRENT MARKET?



INVESTOR PREFERENCES

One person's castle is another person's off-the-plan strata apartment in a near-city suburb with good schools and transport options.

The range of investment and living options today are innumerable. From 'tiny homes' built from sea containers to commercial property warehousing syndicates, there is a property and budget size for every investor.

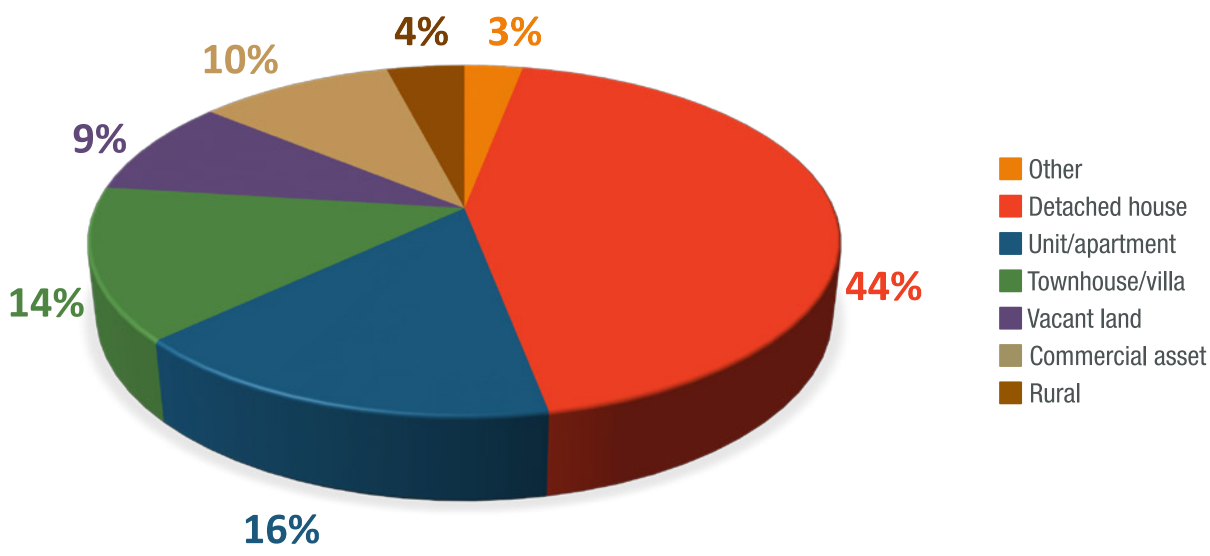
While 44 per cent of our respondents are focused on detached housing as the preferred purchase, a surprising 10 per cent are weighing up commercial property as an investment option. This is not far off the proportion looking at townhouses and villas (14 per cent) or apartments or duplexes (16 per cent) and reflects the growing maturity of the investment landscape.

The office market stalled as the CBD was drained of workers, but investors have increasingly turned to income-generating industrial and planning (I & L) assets. Investors snapped up just shy of $16 billion worth of I & L assets in Australia in 2021, more than double the previous record.

That is just over three times the 10-year average annual transaction volume of $4.2 billion, and more than double the previous highwater mark of $7.2 billion set in 2016.

Suburban houses will probably always be the bedrock of property but a diverse range of asset classes are now attracting the interest of savvy investors.

WHAT TYPE OF PROPERTY ARE YOU CONSIDERING?



INVESTOR CONCERNS

Property investors have slept like a cat for the past couple of years, basking on the cushioned window ledge as the soporific beams of capital gains sunshine washed over them.

But all good things do come to an end, or at least a gentle nudge awake, at some point.

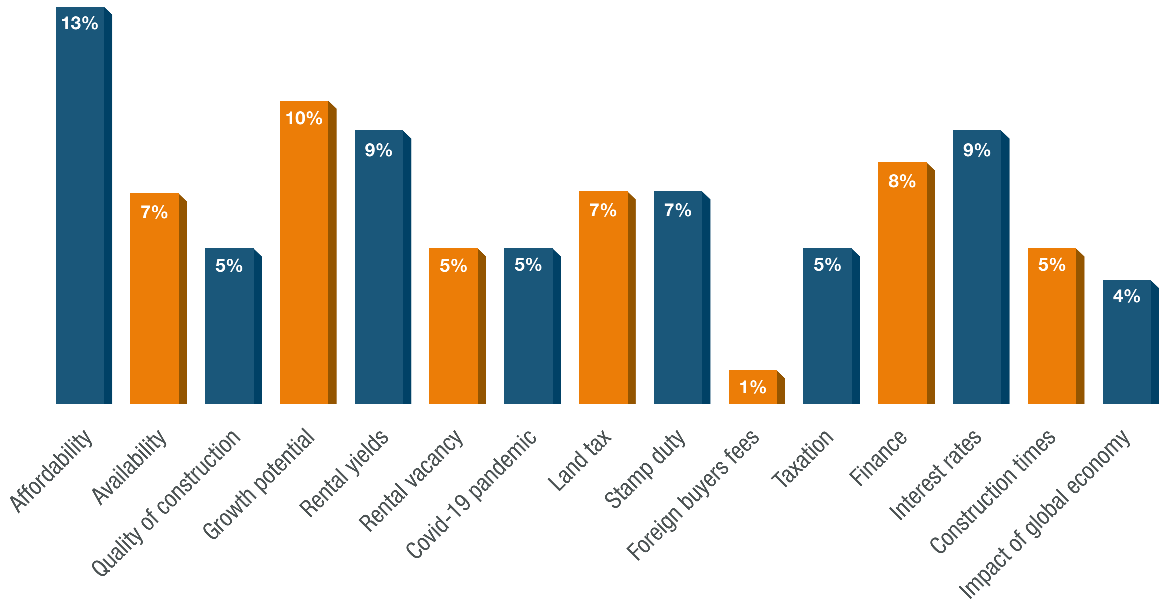
Affordability and subsequent lack of further growth potential, perhaps unsurprisingly in the current market, are the greatest concerns. But a changing regulatory and tax environment are up there with interest rates as the other notable blanket stealers keeping investors awake at night.

Banks have tightened lending limits in the past year as well but for those who get credit, solid rental returns await in a national market dominated by vacancy rates well below 2 per cent.

Given the world-shattering impact of Covid and its deleterious effect on so many sectors of the economy, the fact only 5 per cent of investors rated it an issue is testament to the remarkable resilience of the property market.

A range of issues now confront the investor but whether they serve as a wake-up call or induce investors to sleep like a baby – tossing and turning and crying all night – is yet to be seen.

WHAT ARE YOUR MOST SIGNIFICANT CONCERNS AROUND THE AUSTRALIAN PROPERTY MARKET?



INVESTOR FINANCE

Australia's historically low interest rates have remained unchanged for 24 months, and the RBA have indicated rates are likely to remain the same until at least late 2022.

As a result, more Australians are borrowing more money at higher levels of debt to income than ever before.

New home loan commitments hit a record high in December 2021, according to the ABS.

These new loans came at a time of relative low wage growth and are chewing through a higher proportion of income than any previous generation.

The Real Estate Institute of Australia's December 2021 Housing Affordability Report found the proportion of income required to meet loan repayments increased to a record 36.2 per cent nationally.

On a national basis, the average loan size grew by $6,000 to $602,000.

Unmoved, 70 per cent of our respondents still said they were not influenced by APRA's toughening of the banks' lending serviceability criteria to make it harder for new lenders.

Affordability issues have hit first homebuyers hard. Over the year, there was a dramatic reduction of 21.5 per cent in loans for this market segment but there were signs of hope. Loans to this segment rose by 5.3 per cent in December from the month prior.

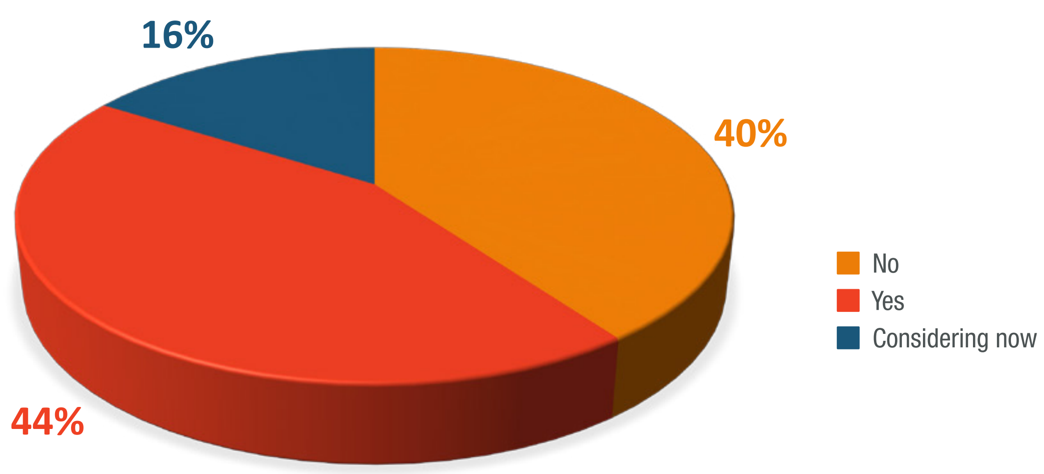
The fact more than 50 per cent of survey respondents either have, or are in the process of, refinancing to capitalise on record low interest rates is of little surprise. But nor was the resultant impact on affordability, as cheap credit continued to fuel an overheated market.

Another quarter of respondents said they had actually purchased this year as a sole result of low interest rates.

Stamp duty tax reform is also underway, or at least under the microscope, in several, if not most, states. Despite its massive bite out of initial property purchases it still does not carry the same gravitas as interest rates in the minds of investors.

Around a quarter of respondents said stamp duty reform would affect their decision-making, although more than half were keeping their mind open if the changes went far enough.

HAVE YOU REFINANCED DUE TO CURRENT LOW INTEREST RATES?



INVESTOR PROFILES

The vast majority (90 per cent) of respondents to the API Magazine survey are either investors or homeowners.

The views of this readership carry significant weight, given its relative collective experience within the property market.

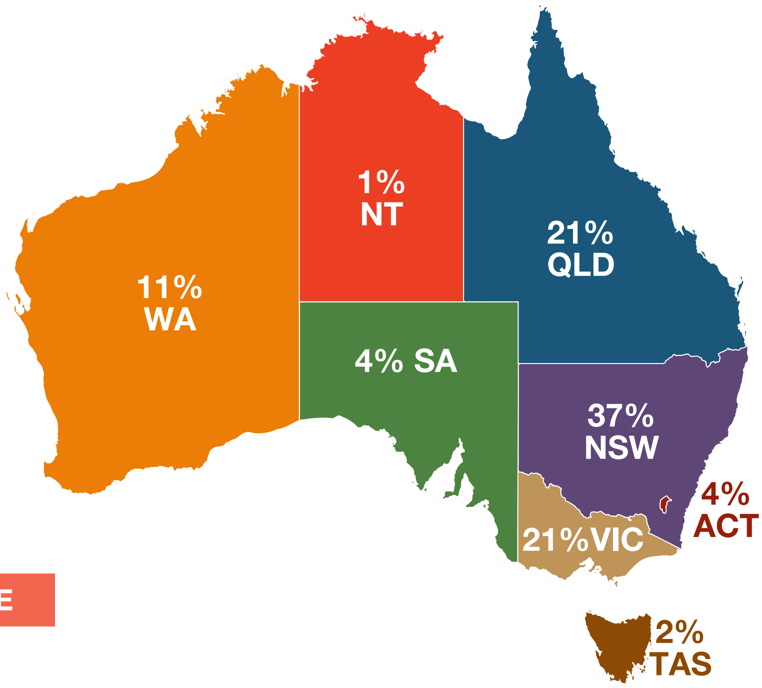
Survey respondents, and readers, are a truly national blend of experienced, new or aspiring property investors.

By state, the survey respondents roughly correlate with populations. New South Wales, with 32 per cent of the country's people, provided 37 per cent of our responses, while Victorians represent 26 per cent of the nation and 21 per cent of our surveys. Other states were almost a mirror image of respondents and population distribution.

The fact such a large proportion of API Magazine's readership is entrenched in the property market, whether as seasoned investors, homeowners or rentvesters, supports the survey's findings that almost three quarters of respondents believe property investors need more investor education about the risks and potential benefits of investing in property.

API Magazine's analysis, news and advice columns are directed at everyone, from renters to developers and all investment profiles in between and, we hope, contribute significantly to enlightening, informing, educating and entertaining our readership.

STATE OF RESIDENCE



AUDIENCE MARKET PROFILE