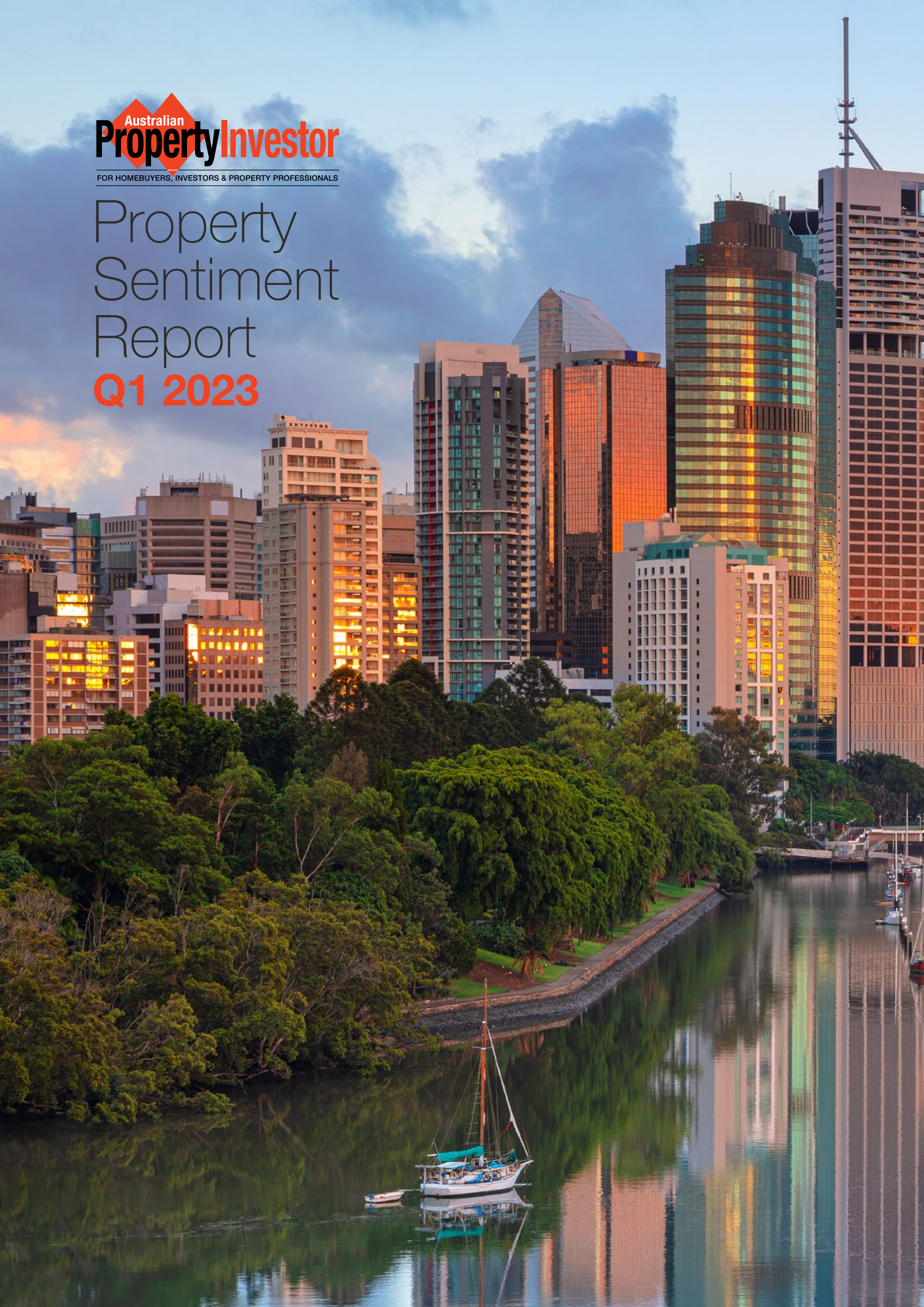
Australian Property Investor

FOR HOMEBUYERS, INVESTORS & PROPERTY PROFESSIONALS

Property Sentiment Report Q1 2023



Key findings

1 Interest rate jitters

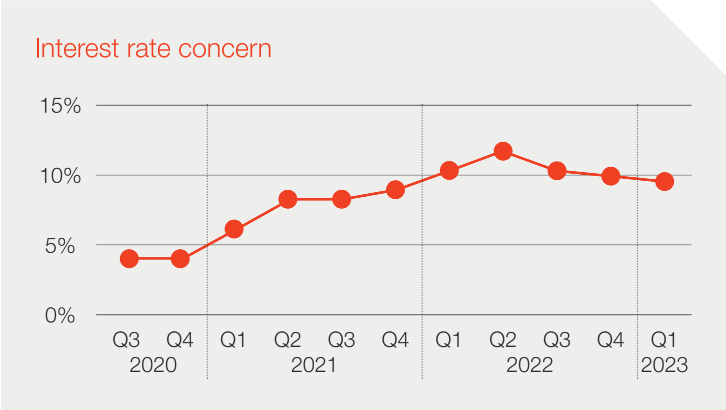
Australian borrowers in the past 12 months have endured a record-breaking ten successive interest rate increases and it has had a tremendous impact on property prices, household budgets and the mindset of real estate buyers and sellers.

Even when an interest rate pause was finally delivered in April, Reserve Bank of Australia (RBA) Governor Philip Lowe was quick to add the rejoinder that high inflation would almost certainly mean more rate rises were around the corner.

The rate hikes and unapologetic tone of the RBA led to property price declines, rent hikes from landlords trying to cover lost earnings, and more sellers sitting on the sidelines waiting for a price correction.

Almost 1,000 respondents to the *API Magazine Property Sentiment Report* in the first quarter of 2023 made it clear their intentions to buy or sell property were significantly impacted.

Despite declining home values, nervous buyers were not rushing to grab a bargain, with 42 per cent of respondents indicating the rising interest rates had affected their decision-making. This was around 25 per cent above the result from just three months ago.



It was the same story among sellers, with around 30 per cent more respondents than last quarter (32 per cent) saying their selling intentions had been altered.

While interest rates weren't the uppermost variable that would influence their decision-making in the coming 12 months, as with last quarter it was a major factor and again the top concern of 10 per cent of respondents.

2 Alarming rise in financial stress

Behind the numbers, there is genuine pain being felt across the country as inflation eats into flatlining wages, rents and mortgages surge upwards relentlessly, and families struggle to make ends meet.

There has been a disturbing increase in the proportion of people who regard themselves as being under mortgage or rental stress (whereby more than 30 per cent of total income is spent paying mortgage or rent on the primary place of residence).

A staggering and alarming 43 per cent of respondents say they are experiencing mortgage or rental stress. That's up from just 25 per cent only three months ago. And given the rapid ascent of interest rates, it's little wonder that of those experiencing mortgage or rental stress an overwhelming 81 per cent say they had slipped into that situation in the past 12 months.

Nobody expected interest rates to stay at their near-zero emergency levels forever but the pace of the upwards trajectory has clearly caught many by surprise and left huge sections of the community vulnerable to further cost of living and borrowing increases and struggling with eroding real income.

Canstar figures published in April reveal a $71,000 gap between average incomes and what's needed to repay a mortgage comfortably after median house prices inched upwards to $851,000 in March.

Sadly, it seems the average wage earner can no longer afford the average home.

3 Shifting units in an uncertain market

For almost a year, API Magazine's survey respondents have told us they are increasingly optimistic about the property market.

The optimism has defied the market's downward trajectory in that time, but just as property values have recorded their first uptick in almost 12 months, property market sentiment has dipped.

No doubt fuelled by fears of even more interest rate pain to come, the proportion of respondents who said they were planning to buy property in the next 12 months has fallen from 27 to 22 per cent.

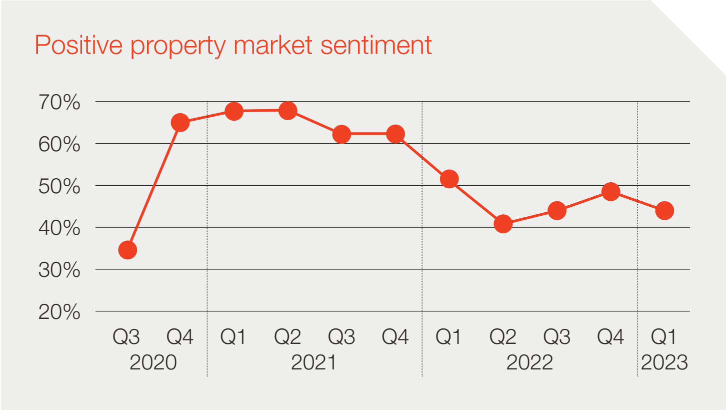
Property forecasters' widely circulated expectations that dwelling values would continue to slide until later this year have possibly influenced decision-making too. But in the face of diminishing supply and increasing migration from overseas, and property prices finally rising again across the four largest capital cities and most regional centres, it remains to be seen if this reaction is overly pessimistic.

It was only in January that *API Magazine* reported property prices had taken their biggest ever dive – an 8.4 per cent peak-to-trough tumble. It takes a bold speculator to call the bottom of the market and it seems our respondents are, by and large, not yet willing to make that call.

For those who are keen to transact on real estate this year, there's been a sizeable shift in sentiment away from houses and towards units and townhouses.

Almost 30 per cent fewer respondents said their buying priority was a house, down to just 21 per cent of respondents.

With borders open and overseas migrants and students returning, demand from renters and buyers of units has risen and vacancies have dropped markedly. Survey respondents are clearly aware of this trend and the relative resilience of unit prices compared to houses throughout the downturn. Apartments and townhouses together account for 44 per cent of the properties respondents are considering for purchase, up from 38 per cent three months ago.



4 Rental crisis worsening

Renters have been among the hardest hit cohorts of society in the past year. Rents nationally are up 11 per cent over the past 12 months in response to ongoing strong rental demand and very low vacancy rates.

There's no immediate end in sight either. A recent National Housing Finance and Investment Corporation report pointed to a decades-long struggle ahead to provide Australians with enough homes in which to live. The dire shortage of apartments and multi-density dwellings for rent over the medium-term spells more pain for renters competing for a diminishing pool of homes.

And it seems that as rents rise, overstretched landlords trying to pay the mortgage aren't particularly shy about chasing the highest bidder. Almost 70 per cent of respondents were landlords and around half of them (48 per cent) said they'd have no reservations about losing a good tenant in pursuit of the highest possible rent.

5 Show me the money

There are myriad factors that influence the decision to buy or sell property but one factor remains the primary focus.

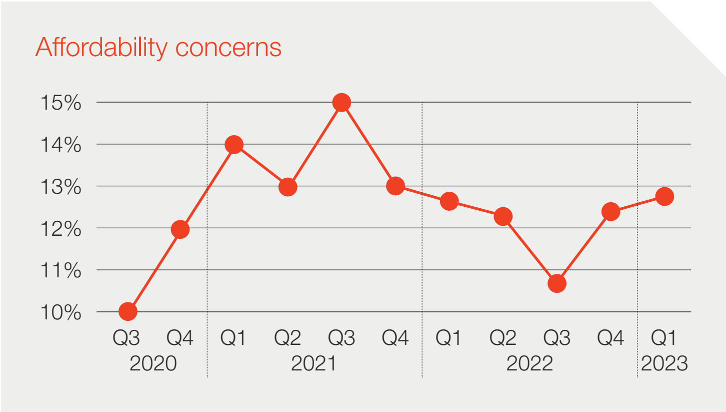
Affordability is the foremost driver of the decision-making process, with 13 per cent saying it was their main concern, while property market price fluctuations closely follow it (11.8 per cent).

Finance availability is the second biggest influencer of property strategising.

That level of concern has translated into widespread investor inactivity. Since peaking in March 2022, new lending to property investors is down 47 per cent to hit a level not seen since August 2020. For all borrower types, new lending has fallen and the value of new lending to investors was down 34.8 per cent year-on-year.

Hope may be on the horizon, however, for a return of the investment money.

The proportion of survey respondents who said their main financial property investment strategy in the next 12 months was buying an investment property almost doubled in just one quarter, leaping from 16 per cent to 29 per cent.



When asked what the main factor was that might stop them from buying an investment property, finding enough money for a deposit was the primary concern (19 per cent).

The biggest shift over the past three months, however, was the 40 per cent increase in the proportion of people who said an inability to obtain credit was holding them back (14 per cent of respondents).

If the bank won't show the money, the deal's off.

6 Inflated concerns

The RBA has made it painfully obvious to all that until the scourge of inflation is brought under control, or in reality bought under control by borrowers, interest rates would continue to rise.

Mr Lowe's RBA mantra has been chanted monthly for a year; "The Board remains resolute in its determination to return inflation to target and will do what is necessary to achieve that".

Among our survey respondents, the concern is palpable. Exactly three quarters of respondents said unusually high inflation would, either definitely or somewhat, affect their ability to enter the property market or influence their decisions around transacting on property.

Mr Lowe is also seen as the villain by a significant portion of borrowers, with 43 per cent saying the RBA's earlier assurances that interest rates would not rise until 2024 proved costly to their property decision-making.

Survey respondent profile

32.97%
Seasoned Investor

23.66%
Owner-occupier

20.81%
First-time investor

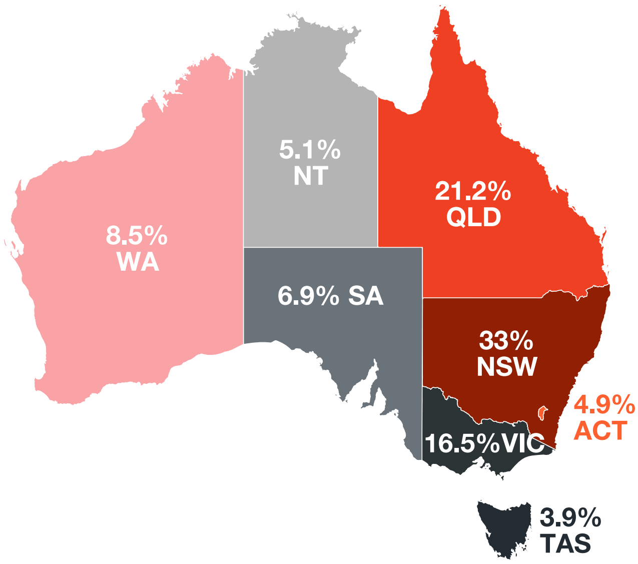
10.19%
First home buyer

7.34%
Rentvestor

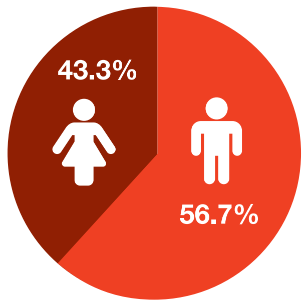
3.83%
Renter

1.2%
Other

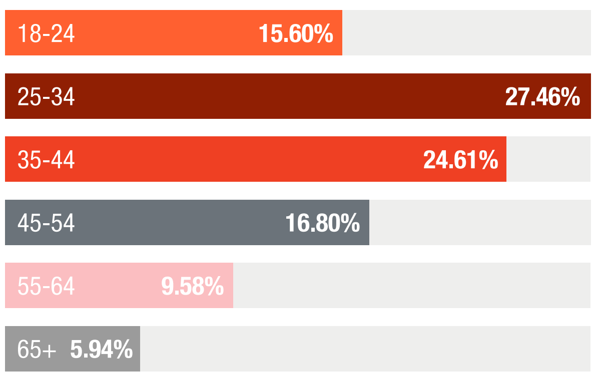
LOCATION



GENDER



AGE



What direction do you see property prices heading?

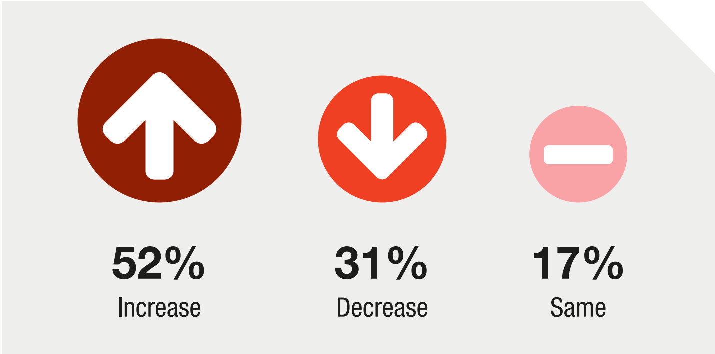
Signs are emerging that the property market may be turning a corner earlier than was widely expected, with national property prices rising by 0.6 per cent in March.

The universal doom and gloom reporting of the national property market and its perceived descent into an historic abyss has given way of late to a slightly more buoyant tone of mere uncertainty.

The first signs of life emerged in the smaller capital cities, which were relatively resilient during the wider downturn, but now it's Sydney, Melbourne and Brisbane, along with Perth, that are shaping as the best performers.

Among survey respondents, confidence continues to inch upwards. More than half of respondents now say that property prices will increase before the end of 2023.

As the pandemic-related flight to the regions begins to unwind, enthusiasm for the prospects of regional markets is slightly less effusive with 48 per cent expecting prices to rise while just 30 per cent expect them to fall.



When asked for an overarching opinion on the current state of the Australian property market 44 per cent were positive, 28 per cent negative and the same again neutral.

> "Headwinds remain, with the full impact of recent rate rises yet to be felt, which means the decline in prices could still find a second wind, particularly if new listing volumes increase in the coming months but the impact of rate rises is being counterbalanced. Positive demand drivers offsetting the downwards pressure include the strong rebound in immigration, tight rental markets and slowly increasing wages growth.

Eleanor Creagh, Senior Economist, PropTrack

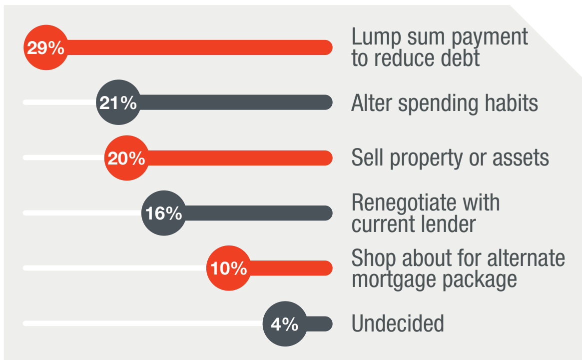
Is the so-called mortgage cliff a concern?

In a word, yes. In three words, very much so.

When interest rates were at historic lows during Covid, many homebuyers entered the property market on very low fixed rate loans. The terms of a large proportion of these loans end this year or over the next 18 months, meaning billions of dollars in loans will switch to higher variable rate mortgages. This steep, looming rise in repayments is termed a mortgage cliff.

Property owners are responding in a range of ways, as the illustration on the right demonstrates.

Google analysis recently found that the number of people searching the term 'refinancing' had increased by a staggering 5,000 per cent.



With $478 billion in fixed rates loans transferring to variable rates that can equate to double or even triple the repayments, the potential impact on borrowers and the property market cannot be underestimated.

What are your most significant concerns around the Australian property market?

Property investors around the country have been carefully studying the same market forces for a year now.

Affordability and availability of finance remain the chief concerns of respondents in the face of a market teetering between growth and retraction.

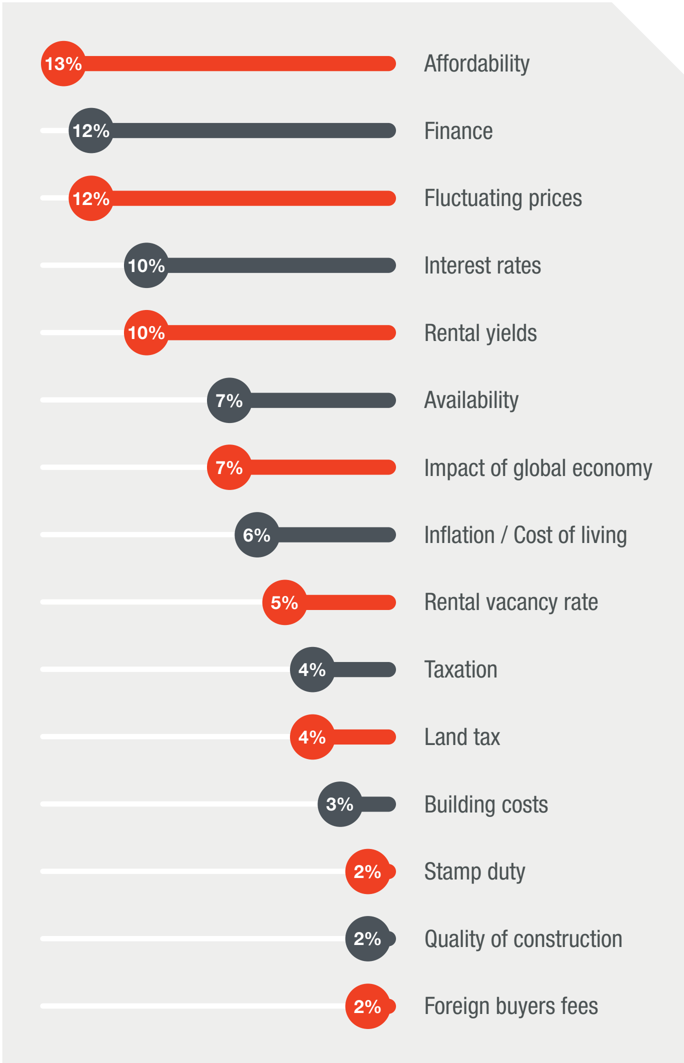
The lack of listings is underpinning property prices while interest rates are the main counterforce. With that comes those top two concerns remaining locked in for yet another survey period.

Despite the highest interest rates since 2012, there has now been a marginal lift in housing values, which serves as a timely reminder that interest rates are but one of the many key factors influencing housing trends.

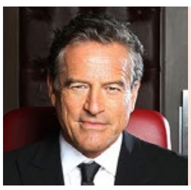
Low advertised supply, the tightest rental conditions on record and surging overseas migration are providing some positive momentum to housing markets.

Any further increases in interest rates will, however, test the resilience of property values. Among our respondents, 22 per cent said an increase of 0.25 to 1 per cent would be enough to deter them from buying real estate, while a third said the same movement would influence their decision to sell.

Given the strain consumers are under, the looming mortgage cliff, and broader global headwinds, most pundits say it is unlikely the RBA would hike above 3.85 per cent at this point, so the worst impacts on the property market may yet be avoided.



Expert's commentary: **Mark Bouris, Chairman, Yellow Brick Road Group**



Once interest rates have peaked and start to retreat, the growth period will start again, so plan to knuckle down, tighten your belt and get ready for a tougher period, make sure you have access to funding, maintain cash, reduce your costs and get ready for things to kick up - and kick up fast - in late 2024.

Are interest rates dictating property decision-making?

A record number of respondents in the first quarter of 2023 declared that interest rates are influencing their decision whether to buy or sell property.

Six months ago two thirds indicated that interest rates had no bearing on their real estate investments but three months later that figure was down to less than half. It's now just above a third of respondents.

This massive shift in sentiment came as interest rates began to bite.

And that concern is playing out in the raw numbers.

The number of loans to new investors has almost halved from its peak levels just a year ago. Since peaking in March 2022, new lending to property investors is down 47 per cent to hit a point not seen since August 2020.

For all borrower types, new lending has fallen and the value of new lending to investors was down 34.8 per cent year-on-year by the start of February.

Another apparent by-product of the interest rate squeeze is that buyers are turning more and more towards lower priced property. Affordable suburban and regional suburbs have attracted the greatest increase in investor attention over the past 12 months.

Ordinarily the increasing unease of sellers concerned about interest rates would suggest a buyers' market is emerging but given that sentiment is shared by buyers, the direction of the property market remains relatively uncertain.

Decision to buy affected?

42%	30%	28%
Yes	No	Unsure

Decision to sell affected?

36%	33%	31%
No	Yes	Unsure

Expert's commentary: **Cate Bakos, President, Real Estate Buyers Agents Association of Australia**

The stock shortage that is underpinning property prices is notable in most state capital cities, a stark reminder that vendors follow the news and don't aspire to sell in down-markets.

As we approach the peak for our cash rate, buyers are renewing their optimism and making the decision to actively pursue a home purchase again.

Time will tell, but the bottom of the market may well be behind us.

What's your next move within the coming 12 months?

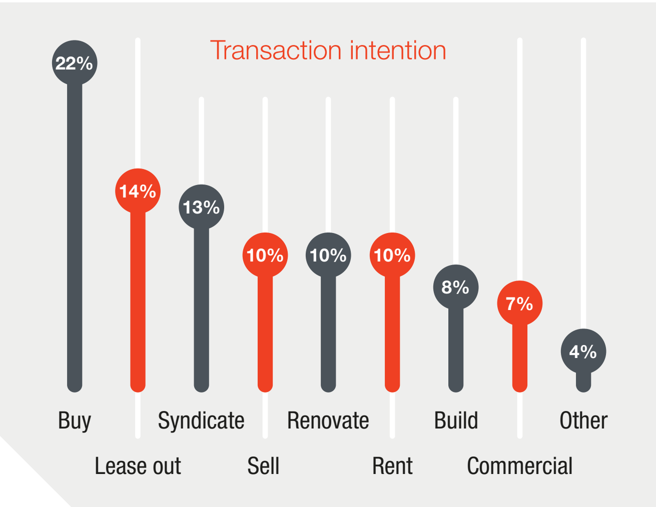
The nation's love affair with Queensland is finally subsiding.

For some years it has been identified within our surveys as the preferred state in which to invest in property.

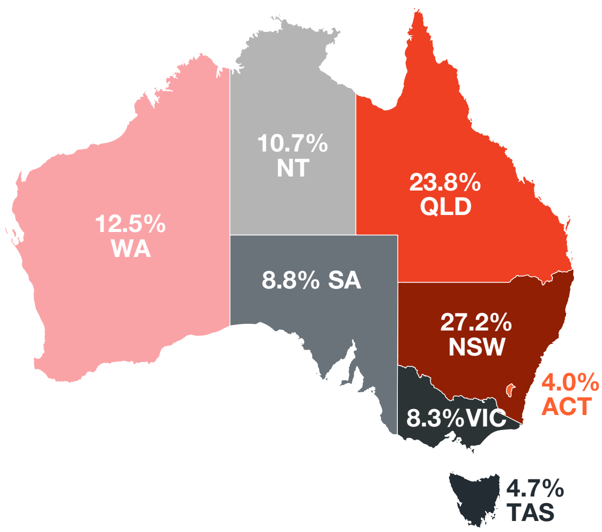
As the sunshine state's market cooled quicker than most, buyers increasingly turned their attention to New South Wales, which is home to a third of our respondents.

Just over 20 per cent of respondents have property investments in Queensland compared to 23 per cent in New South Wales but it's the latter that is now seen as the most promising state in which to invest.

In every capital city, prices are now back to where they were mid last year but Sydney has been the best performing state capital in the first quarter of 2023.



Which state offers the best investment prospects?



Brisbane on the other hand only bettered Canberra and Hobart's underperforming market in that three-month period and investors are clearly starting to look elsewhere for the next property move.

Among other states, Western Australia saw a sizeable downward shift in its perceived prospects (down 16.2 per cent last survey) while the Northern Territory is popping up on more people's radars (up from 6.0 per cent last survey).

Respondents' quotes

These were some among the hundreds of comments that demonstrated the diversity, disparity and breadth of opinion:

“I expect a decline in property prices 5-10 per cent over the next fiscal year. Regional markets will stabilise due to affordability and an exodus of city migrants.

“The cost of building has risen so steeply we have been priced out of our intention to build. We were quoted $550,000 for a knockdown rebuild in inner Brisbane and after two years that same build is $720,000, which we do not have.

“The market is emerging from the downturn and high rental yields and the continuous increase of new immigrants will make the Australian real estate market more and more attractive.

“I would hate to be looking for rental accommodation, as I don't see much light at the end of the tunnel for renters anytime soon, with vacancy rates at record lows in nearly every state and rents going up and up.

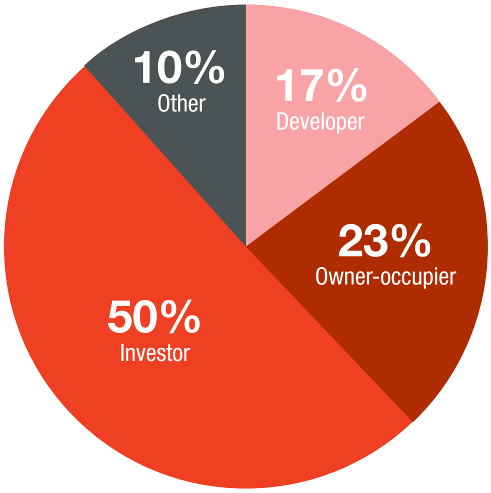
In what capacity will you purchase in the next 12 months?

What the market craves now, after a period of rapidly rising interest rates and declining property prices, is certainty. This will require the RBA to take the time to fully understand what the indicators are telling us before resuming any pre-determined path.

It's uncertainty that is keeping many investors quiet. On the surface, the fundamentals would suggest investors should be active. There's not a lot of price heat and most agents agree we're either at or near the bottom of the property price cycle.

At the end of 2021, three quarters of API Magazine's survey respondents making a purchase in the next 12 months were investors but that figure has levelled out around the 50 per cent mark for a few surveys now.

Perhaps the biggest surprise, given the plight of the building industry, is that developers' intentions leapt by 70 per cent compared to our survey at the end of 2022.



What type of property are you considering in the next 12 months?

For the first time since API Magazine's sentiment surveys have recorded this metric, units have overtaken detached houses as the property of choice when it comes to investment intentions.

A few years ago houses represented around half of buyer intention targets but as investors become more savvy and adventurous, they have increasingly opened themselves to other asset classes, including commercial (up from 11 per cent last survey) and different property types.

Units have also proven to be less volatile than house prices and in uncertain times that has generated a degree of appeal among risk-averse investors.

24%	21%	20%	16%	12%	5%	1%
Unit/apartment	Detached House	Townhouse/villa	Commercial asset	Vacant land	Rural	Other

About Australian Property Investor Magazine

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 26 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.

We are focused on providing a rich source of breaking news, analysis, and feature articles on all aspects of the property sector.

Data collected between 10/01/23 and 31/01/23 from 913 respondents.

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+61 8 9205 6858 | apimagazine.com.au
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