Australian Property Investor

FOR HOMEBUYERS, INVESTORS & PROPERTY PROFESSIONALS

Property Sentiment Report

Q2 2022

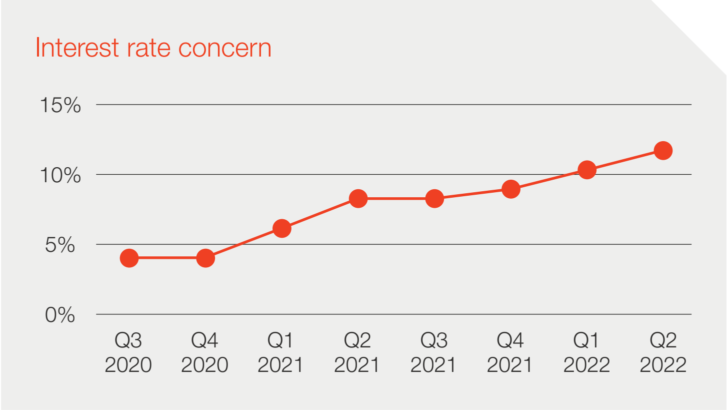
1 Interest rates casting their shadow

A generation of young Australians have known of nothing other than a world of low interest rates, low levels of unemployment and accessible credit. As a direct result, this same market has had to contend with property prices that took off in a steep ascent.

In the last quarter, interest rates began their heady ascent, and buyers and borrowers had been given stern warnings that the days of cheap credit were coming to end as inflation awoke from a lengthy hibernation.

With the official cash rate set by the RBA coming off near-zero lows to a predicted 3.35% this year or soon after, buyers may be right to be wary.

A rate rise of this scale would alter the buying intentions of around 70% of survey respondents. A rise of just 0.25 to 1% was enough to spook almost one in five, with just over half (51%) baulking when the rate rise lifted 1.1 to 3%.



Sellers on the other hand were taking it in their stride, with just 27% saying interest rates would affect their decision to sell or sit tight.

Property prices are easing and these figures suggest that as rates continue to rise, a massive proportion of prospective buyers will be carefully rethinking their plans.

2 A Queensland love affair

Brisbane property enjoyed stellar price growth over the past 12 months, with units up 16% and houses a massive 27%, according to CoreLogic. Even as Sydney and Melbourne began to ease off from their own huge capital gains and eventually slip into negative territory, Brisbane remained the king of the castle for investors and interstate migrants.

The biggest net gain winner nationally in terms of cross-border migration was Queensland, and the property prices reflected that. A housing affordability crisis also pushed first-home buyers to look further afield, with South Australians the most prolific in terms of considering an interstate move, according to Finder's First Home Buyer Report 2022. Queensland was the destination of choice for most other Australians starting out on the property ladder.

API Magazine's survey respondents correlate neatly with state populations, when a wildly disproportionate 42% of respondents declare Queensland to have the best property investment prospects for the next 12 months.

CoreLogic reports that Adelaide and Perth have overtaken Brisbane for capital growth rates in the last month. Yet, respondents were buoyant about the prospects of the west, with Perth being second most favoured with 19% nominating it as having the best prospects, while only 7% nominated Adelaide, despite it currently having the fastest growth rate of all capital cities.

New South Wales and Victorian buyers hinted they were turning their attentions to investments outside their home state. More than half of respondents (55%) come from those states but only 16% regarded NSW as having the best investment prospects and 10% named Victoria.

3 Confidence levels (sort of) high…ish

When it comes to gauging confidence in the direction of the Australian real estate market, it's fair to say there were some mixed signals being sent from our readers.

Four out of five respondents were either positive (42%) or neutral (37%) when it came to describing their feelings about the current state of the property market.

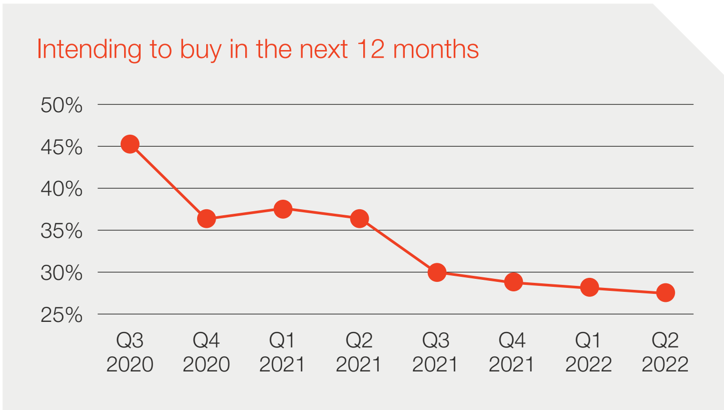
Despite a resounding sense of positivity, or indifference at worst, about the market as a whole, there were still more people who expect property prices to fall than increase.

The survey was conducted during a period of intense speculation around the direction of property prices. Despite headlines warning of potential falls of anywhere between 10 and 25%, as predicted by economists, industry professionals and banks, the sentiment among survey respondents is less bleak.

An optimistic 29% still expect prices to rise in the coming year, while 58% expect prices to fall (35%) or stay the same (23%).

Despite the interest rate concerns raised in the previous key finding and the prospect of falling property prices, more than a quarter of respondents (26%) still intend to buy a property and another 8% to build. But this is the lowest since API Magazine began surveying in 2020, when 45% of people were intending to buy.

Commercial property purchases were the focus of 5% of respondents and it was the intention of another 4% to invest in a property syndicate.



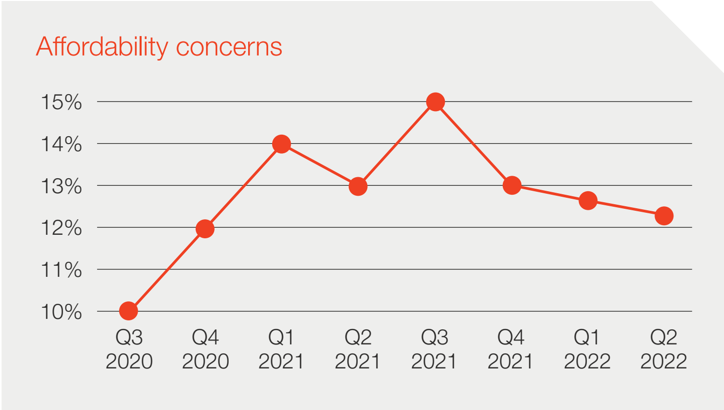
4 Investors have been busy

The API Magazine readership encompasses the full spectrum of the public, from renters, first-home buyers and owner-occupiers to large scale investors, developers and industry professionals. But one thing is clear – they are very active in the property market.

Over the past 12 months, an impressively large proportion (41%) had entered a contract to build or purchase off-the-plan or bought or sold a property. Of these, almost four in five (79%) had transacted on one or two properties and 9% on three. Three per cent had transacted on eight or more properties in that time.

Given 39% of respondents describe themselves as seasoned investors, it's evident this cohort has been undeterred by any perceived challenges presented by shifting market conditions.

5 Affordability still an issue



The property price boom has shuddered to a halt.

But all the predictions of price falls and statistics showing prices have flatlined in most key markets do nothing to alleviate the reality that prices have more than doubled in the past decade, a period that coincided with wage growth wallowing in single digit stasis.

The tide has, however, begun to turn. Around half of Australian properties are now declining in value, with the inevitability of more interest rate rises likely to put much of the other half of the market at risk of a reversal.

So when it came to deciding which factors would influence their property decision-making in the coming 12 months, survey respondents were faced with some conflicting evidence – price rises of the past versus anticipated falls in the future.

Affordability concerns pipped finance availability by a fraction of a per cent, with both issues seen by 12% of respondents as the key determinant of their next property moves.

Interest rates, inevitably, were on a lot of radars (11%). Vacancy rates are at historic lows as supply of properties dries up and rents soar. With renters and landlords in the mix among respondents, these three issues were also on a lot of minds, with rental yield concerns influencing 10% of respondents, stock availability (supply) 9% and vacancy rates another 6%.

6 Election - big news, little consequence

For the property sector that employs 1.4 million people and impacts every family and person in the nation, the election result represented a major transition in housing policy.

Throughout the election campaign, housing affordability was among the top few policy issues debated. It was a point of differentiation between the major parties in a campaign that was largely devoid of any big thinking or grand plans.

But once the dust settled and Anthony Albanese had his feet under the prime ministerial desk, sentiment around the property industry just went on its merry way with barely a ripple of difference detected.

Among our survey sample, there was a marginal leaning toward the election result having a negative impact on the property market (21%) compared to a positive impact (17%). For the vast majority (62%) it was a case of “nothing to see here”. No impact was deemed to be the end result by exactly a third of readers, while another 28% were unsure either way.

It seems that once the histrionics of the year-long build-up to the election is over, it’s business as usual among our readership.

Survey respondent profile

39%
Seasoned Investor

37%
Owner-occupier

9%
First-time investor

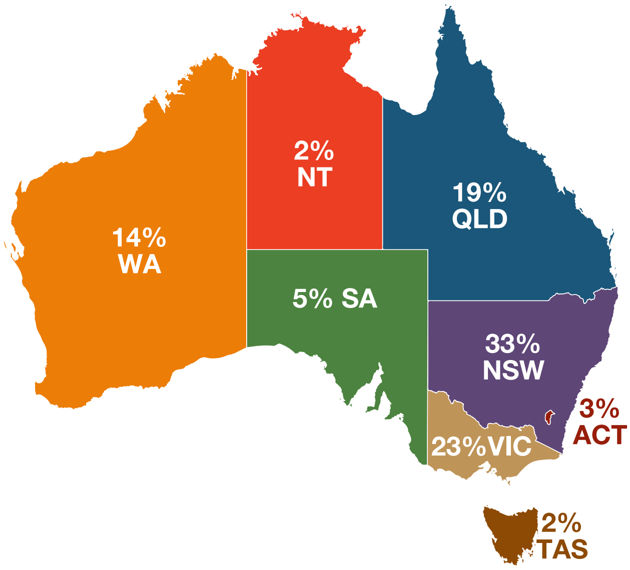
5%
Rentvestor

4%
Renter

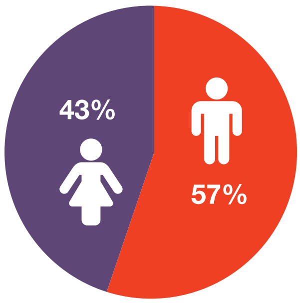
3%
Other

3%
First-home buyer

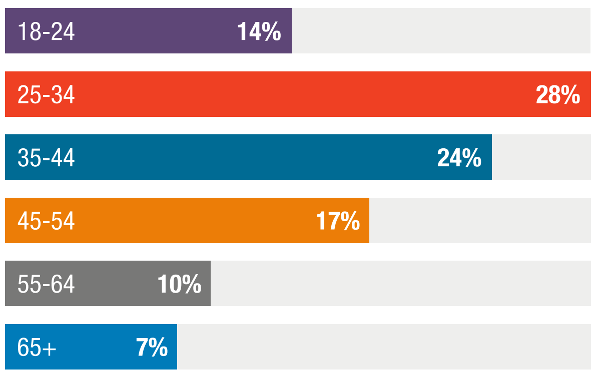
LOCATION



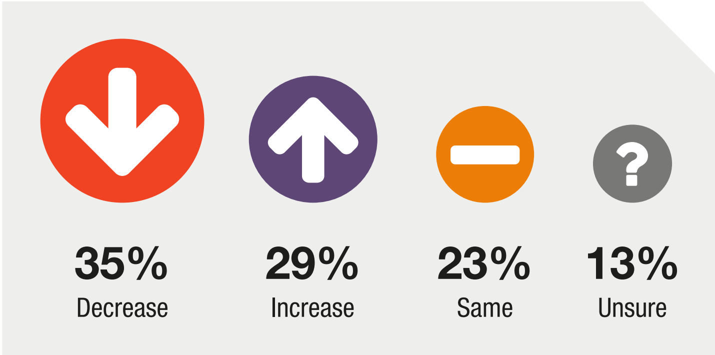
GENDER



AGE



What direction do you see property prices heading?



Among 56 global markets measured by the Knight Frank Global Residential Cities Index, Australia's property market over the past year grew at the 13th fastest pace.

With a newly hawkish RBA now likely to hike interest rates from the floor to around 3% by the end of the year, banks, economists and property commentators are revising their housing forecasts markedly downwards, with material falls in home loans, credit growth, prices and building approvals foreseen.

Chief Economist Carlos Cacho of investment and advisory group Jarden has predicted the largest house price correction since at least 1980, with peak to trough falls of around 20%.

The Commonwealth Bank has predicted prices falls of about 15% over the next 18 months, singling out Sydney and Melbourne as the epicentres of the crunch.

But for nearly a third of our respondents who are anticipating price rises over the next 12 months, this was fanciful fearmongering. The price fall contingent were still in the ascendency but were far from a majority when factoring in those who thought prices would remain steady or were unsure what side of the coin to call.

> "The recent run-up in prices, coupled with reducing borrowing capacities as interest rates rise, is likely to see price falls broaden and then accelerate further into 2023, with the more expensive cities expected to record the largest price falls.
>
> Cameron Kusher,
> Director of Economic Research at PropTrack

How do you feel about the state of the current Australian property market?

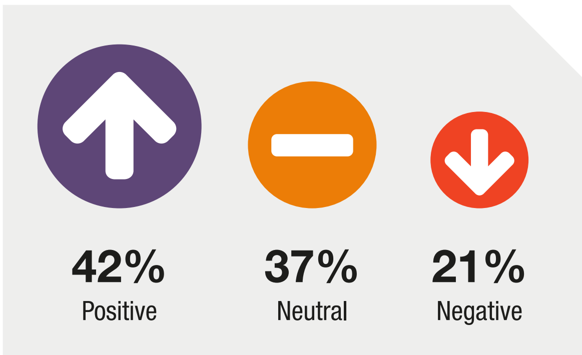
Regardless of where prices head, there are myriad components and variables that shape market sentiment.

For one person rising rent yields might be offsetting higher borrowing charges, but for their tenant a rent increase could be the final straw that sees them move further out of town.

Survey respondents had a range of responses that encompassed everything from rent to government policy, industry and affordability.

When the pandemic hit, most commentators expected housing to tank along with the stock market. The only thing that tanked was their credibility, as both investment vehicles drove to vertiginous peaks.

Interesting times lie ahead and it will be fascinating to see whether the pundits are proven wrong again. Many of our respondents think so.



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

It feels like just yesterday that a property investor's biggest problem was deciding whether to holiday in the Maldives or Caribbean, while first-home buyers chose between home brand baked beans or the tin with the colourful label.

Fast forward to a new era of interest rate hikes, easing property prices, and building nightmares, and it seems the investors, while not at beans on toast level just yet, also have a raft of issues with which to contend.

Rents are rising and offsetting some of the borrowing costs but holidays are still likely to be a bit closer to home. First-home buyers are meanwhile sitting on the sidelines hoping that the affordability crisis may soon come to an end.

As for renters, they're still copping it from every angle, as rents soar, vacancy rates plummet and their alternatives remain stubbornly out of reach as inflation eats into their flatlining wages.

And so it is that among our respondents, affordability, finance and interest rates were their main concern with rent factors not far behind. Finance concerns were up markedly in the past six months (from 8% to 12%) while interest rate concerns, perhaps surprisingly, only shifted upwards by 2% (from 9% to 11%).

Expert's commentary: **CoreLogic research analyst Kaytlin Ezzy:**

The unit segment may be more resilient relative to houses as the Australian property market inches toward the downswing phase of the cycle.

Housing affordability constraints, rising mortgage rates and the probability of a lift in the cash rate over the next few months could see less buyer demand throughout the year, however, unit capital growth cycles have historically seen less volatility than houses and as a result the downswing in prices is expected to be less than that in the detached house segment.

Unit stock is also generally more affordable relative to detached houses in the same area, and a downturn in demand may be partially offset by the fact that units are a more viable option amid housing affordability constraints.

It is clear the investment proposition for units is becoming slightly more favourable in terms of rental return. Unit rents are currently rising faster than capital growth and faster than detached house rents.

And what about interest rates?

It feels like just yesterday that property investors were revelling in soaring property prices while first-home buyers sat on the sidelines unable to get a foothold on the property ladder.

Fast forward to a new era of interest rate hikes, easing property prices and building nightmares, and it seems investors now also have a raft of issues with which to contend.

Rents are rising and offsetting some of the extra borrowing costs but falling prices and rising interest rates are stirring up some nervousness. First-home buyers are meanwhile hoping that the affordability crisis ends soon.

As for renters, they're still copping it from every angle, as rents soar, vacancy rates plummet and their alternatives remain stubbornly out of reach as inflation eats into their flatlining wages.

Despite RBA assurances that Australians are largely braced for rising rates through elevated levels of savings and are collectively ahead on their mortgages, many survey respondents were starting to worry.

Affordability, finance and interest rates were identified as their main concerns, with rent factors not far behind.

Finance concerns were up markedly in the past six months (from 8% to 12%) while interest rate concerns, perhaps surprisingly, only shifted upwards by 2% (from 9% to 11%).

Decision to buy affected?

42% Yes

58% No

Decision to sell affected?

27% Yes

73% No

Expert's commentary: **Canstar finance expert, Steve Mickenbecker:**

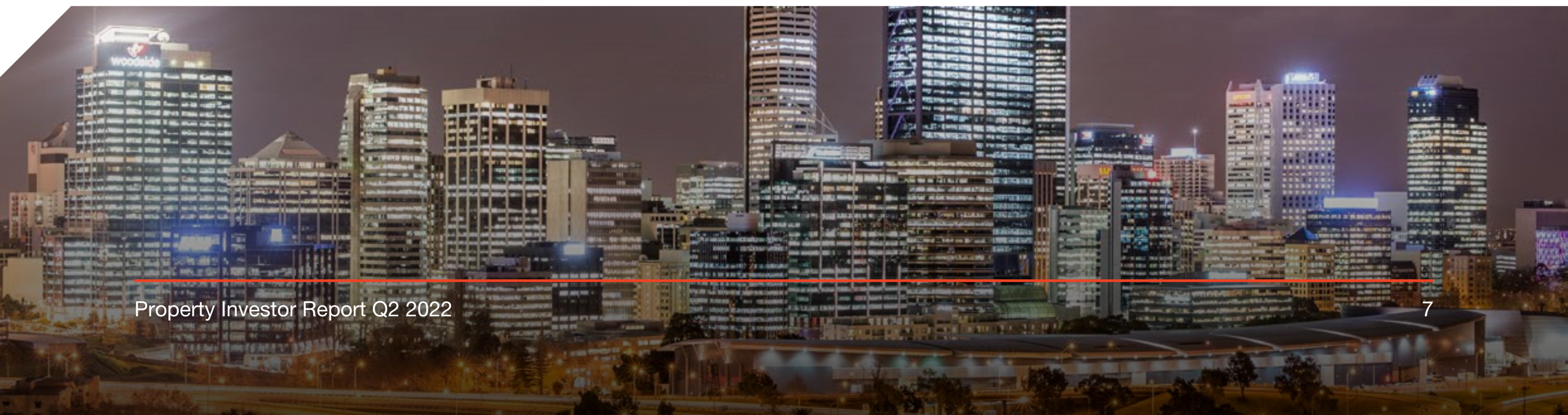
Households with a mortgage who are already at their limit will face dire financial stress when interest rates rise further.

A generation of borrowers have never seen an interest rate increase and will be feeling apprehensive about adding higher home loan repayments to mounting living costs.

Borrowers have to expect multiple increases and those with larger loan sizes will feel the squeeze the most.

With property prices moving up by as much as they have over the past couple of years, $1 million loans are anything but rare - they are almost the norm for more recent buyers.

With a rise of 1.65%, the increase to monthly repayments on a $1 million dollar loan would be close to $940.

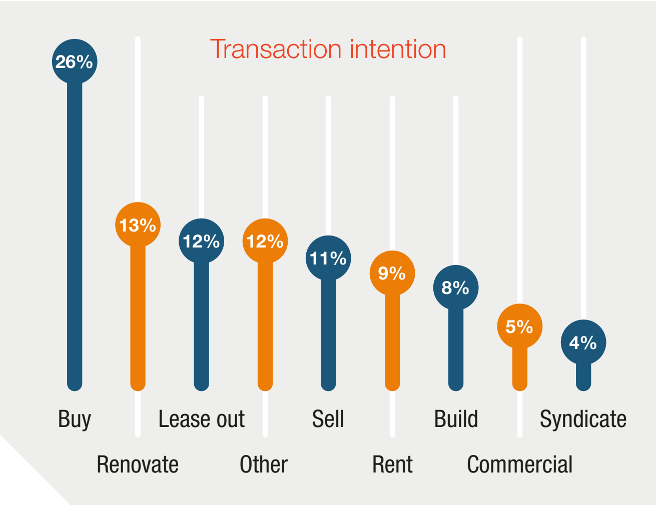


What's your next move within the coming 12 months?

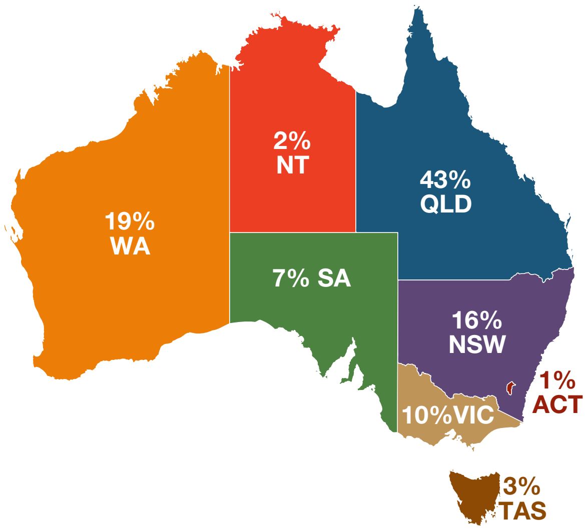
Despite the doom and gloom pervading the headlines, when we asked about buyers intentions over the next 12 months, more than a third of respondents (34%) said they intended to buy or build.

One thing was clear – almost nobody was standing still. Of the nine options available (see graphic below) a mere 10% answered none of the above.

With 90% or people making some kind of property move in the year ahead, it was little surprise that many of those would be contemplating an interstate purchase. The map (right) reveals the percentage of respondents who regard that state as having the best investment prospects for the coming year.



Which state offers the best investment prospects?



“While there are many commentators suggesting property values in Brisbane will fall, quality properties that are in high demand, despite broader market conditions, will maintain their value now and continue to grow in value.

API Magazine contributor Melinda Jennison, Buyers Agent, Streamline Property Buyers.

Respondent's quotes

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

“The shortage of housing is the result of making it unattractive for investors to build more. Make it more attractive to investors and the housing shortage will no longer be an issue.

“The hugely overinflated property bubble (decades in the making) will finally pop, or should I say explode, in Australia, just like the GFC in America in 2008, causing shockwaves around the world.

“I think Sydney and Melbourne have had their time, while Brisbane and Adelaide are still primed for long term growth.

“The next 12 months will be challenging and some owners may feel the pressures of rising interest rates, however, I believe there may also be some interesting buying options.

“We need to train and keep people in the construction industry, as the labour shortages only push up the cost to build and own property.

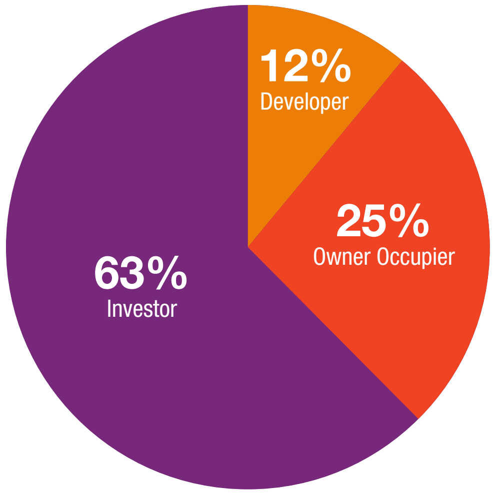
In what capacity will you purchase in the next 12 months?

According to the Australian Bureau of Statistics (ABS), about one in five (21%) Australian households own a residential property other than their usual residence.

The ABS says 68.4% of those own just one investment property, 20.3% own two properties, 7.2% own three properties and 4.3% own four or more properties. So, 90% of all property investors only own one or two investment properties.

Based on our findings, it seems unlikely the ratio of multi-property investors will increase any time soon.

Among the survey respondents, the proportion of prospective buyers active in the market over the next year identifying as investors fell quite sharply, from 74% at the end of 2021 to 63% in the just completed quarter to 1 July. The gains were shared among developers (up from 9% to 12%) and owner-occupiers (up from 17% to 25%).



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

The tumult in the building industry has wrought havoc on the plans of tens of thousands of people trying to build their own homes, not to mention the unpaid contractors, lost building jobs and suppliers losing business.

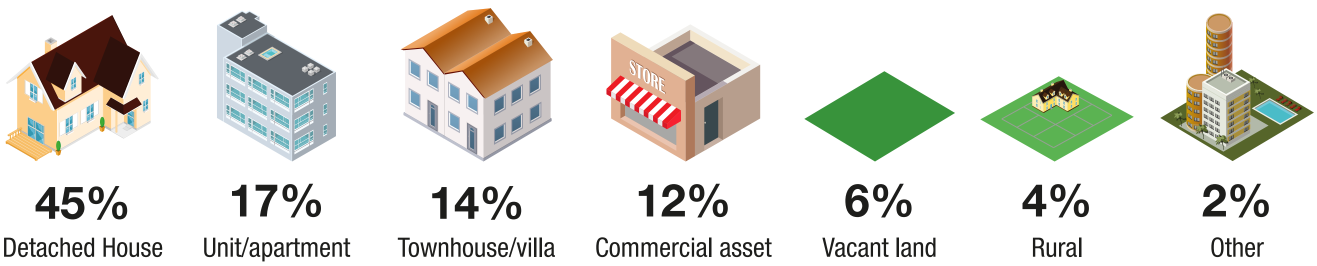
Over the past six months, there was little shift in focus among prospective property buyers with a couple of notable exceptions.

The proportion of respondents intending to buy vacant land dropped by 33% since the December quarter. Since then, around 20 builders have gone into receivership and there are fears many more may soon follow and buyers are subsequently steering well clear of vacant land that often comes with obligations to build within a certain timeframe.

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.

Commercial property is becoming more mainstream and profitable by the day and continues to improve its rating among API Magazine readers. In this survey, 12% nominated commercial as their property focus in the year ahead, an increase of 20% over the December quarter.

Despite units beginning to outperform houses in many capital city property markets, there has been little variation over the past six months in terms of survey respondents shifting their emphasis towards these building types.



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

Data collected between 1/7/22 and 1/8/22 from 557 respondents.

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