Australian Property Investor

FOR HOMEBUYERS, INVESTORS & PROPERTY PROFESSIONALS

Property Sentiment Report

Q3 2022

1 Interest rates and 'public enemy number one'

Borrowers feel they're being attacked by high interest rates but Philip Lowe, Governor, Reserve Bank of Australia, has made it clear who he sees as the main antagonist.

He recently described inflation as the enemy of monetary policy and a scourge that must be defeated.

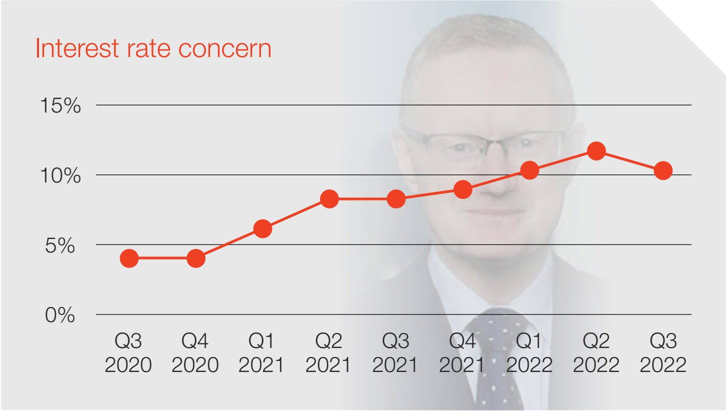
Interest rates are on the front line but it is inflation that's in the control room pulling the strings.

In the Reserve Bank of Australia's (RBA) determination to bring inflation under control, interest rates are the weapon and borrowers the collateral damage.

Mr Lowe said, "the damage high inflation does to people, to savings, equality and to living standards hurts us all by impairing the functioning of our economy.

"It is for these reasons that the Reserve Bank board will make sure that this episode of high inflation is only temporary."

If the real estate market is to recover from its current downturn – a downturn that has not yet erased the massive gains of recent years – an easing of inflation, and subsequently interest rates, will be the catalyst.



The property market is driven by myriad variables but interest rates are, for now, the biggest game in town.

Among our survey respondents, 42 per cent said interest rates would affect their decision to buy in the next 12 months. The exact same proportion said a 1.1 to 2.0 per cent rise would be enough to alter their buying intentions. Another third were more accommodating, with a lift of 2.1 to 3.0 per cent being the tipping point.

2 Show me the money

Interest rates and inflation may be waging war on Australian households, but among our (almost) 1,000 survey respondents there was another target in their sights.

When it came to the key determinant of whether or not to buy, sell, invest or make any move in property, finance availability emerged as the number one factor (12.1 per cent of respondents).

A sign of the shift in the lending landscape over the past few months is that it outweighed affordability (10.8 per cent), as well as interest rates and rental yields (both 10.1 per cent).

While finance availability is entwined with interest rates and cost of living (the main influencer of 6.7 per cent of respondents), Australian borrowers have been in a mad scramble to refinance their loans.

Record numbers of overstretched and stressed homeowners are responding to interest rate hikes by refinancing in record numbers.

Risky loans have in fact come down from the record levels of December 2021 but obtaining finance for new loans has become tougher, as banks build in higher buffers to account for the possibility of the official cash rate lifting another one or more percentage points over the next year.

One shining light for investors was the decision by the Queensland state government to reverse its decision to implement a hugely unpopular land tax that would've seen property owners there and in other states taxed on interstate property holdings. As API Magazine had exclusively pre-empted in an article on 11 August, the other state governments refused to cooperate with data sharing and the whole thing fell apart. For the six per cent of respondents who had listed it as their primary decision-making variable, it was one less thing to worry about.

3 A lack of intent

For the past two years our survey respondents have been indicating that they are increasingly disinclined to enter the property market over the following 12 months. That trend has continued unabated over the past quarter.

In Q3 2020 around 40 per cent of respondents were intending to buy over the course of the year. Last quarter it had slid to around 28 per cent. Our newest survey has seen this proportion plunge to just 23 per cent.

This cautionary approach is most prominent among owner-occupiers, with half as many looking to buy over the next 12 months when compared to investors.

But despite the apparent gloom, the lack of intent is not necessarily reflected in the overall sentiment towards the property market. Despite steadily falling property prices, more than 40 per cent of respondents say they feel positive about the market and expect prices to rise.

Almost 90 per cent of Australia's regional property markets have had property price falls over the past three months. Despite this, only 31.5 per cent of respondents expect regional property prices to fall in the coming year (42 per cent say they will go up).

It's a similar story on the national stage. Property values fell in four out of five suburbs across the capital cities, with house prices falling in every suburb in Sydney, Melbourne, Canberra and Hobart over the last quarter. Among our survey respondents, 43 per cent expect prices to go up in the next 12 months compared to just 35 per cent who say they'll fall further.

4 Downsizing property goals

Units have reinforced their reputation for stability relative to house prices, with apartment values falling at almost half the rate of detached homes.

When times are good, house price growth outstrips that of units but this volatility also extends to periods of market retraction.

Overall, houses are still up 2.1 per cent over the past 12 months, while unit values are just 0.5 per cent above the levels recorded this time last year.

Survey respondents still favour houses over other forms of property but by nowhere near the margin they did last quarter and prior to that. Respondents have swung more towards identifying the townhouse/villa and unit/apartment/duplex categories as being their next property investment.

5 Property prices falling but affordability concerns remain

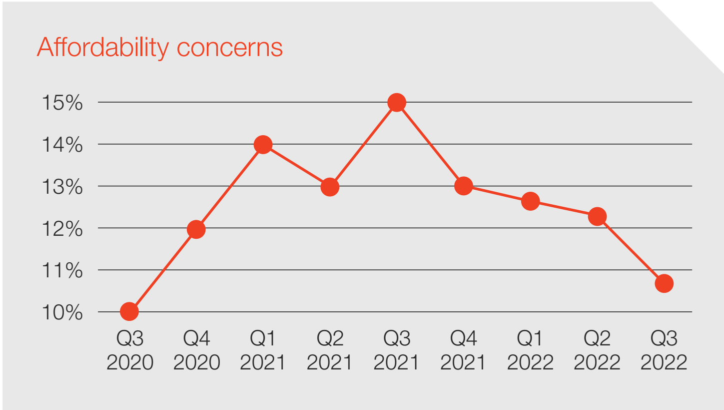
Even allowing for a quarterly price drop of almost 5 per cent for the nation's property market, affordability still remains a major issue.

Sydney's median house value has fallen by approximately $160,000 from its peak but the median dwelling value in the harbour city is still more than $1 million. Nationally, of 310 sub-regions analysed by CoreLogic, a mere 16 are now at a cyclical price high.

With low wages growth, a lack of housing supply and rising cost of living, the fact prices are coming off record highs has not been enough to assuage affordability concerns. It is still the second most significant concern identified by survey respondents.

This may change over the coming year.

Australian borrowers face the near certainty of further interest rate hikes along with persistently high and rising inflation. There is a genuine risk the rate of property price declines could accelerate as interest rates rise further and household balance sheets become more thinly stretched.



For renters facing record low vacancy rates and correspondingly soaring rents, such an outcome would be welcome relief in allowing them to buy their own property. For investors, it would allay doubts about the value of adding to a property portfolio, which in turn would also help address the rental crisis.

6 State of mind

As interest rates continue to climb, the current run of monthly national property price declines, stretching over half a year, looks set to continue.

No state or capital city has escaped unscathed, with exception of some regional pockets of South Australia and Western Australia.

Brisbane has been the hardest hit market over the past quarter, with dwelling values slipping 5.4 per cent. Yet among those surveyed, Queensland's halo had slipped somewhat but it was still the preferred investment destination of the most respondents, albeit not by as wide a margin as last quarter (chosen by 31 per cent of people in Q3, compared to a resounding 43 per cent in Q2).

Speculators may be sensing the bottom of the market is near for New South Wales, as it has overtaken Western Australia as a preferred investment location, despite Sydney prices having fallen more than any other market (down 8.6 per cent) over the past year, while Perth prices rose 4 per cent.

The Northern Territory was the big survey mover, with a negligible 2 per cent of respondents in Q2 seeing it as the brightest state investment prospect. That has more than quadrupled to 8.5 per cent in Q3.

Survey respondent profile

35.3%
Seasoned Investor

26.5%
Owner-occupier

15.6%
First-time investor

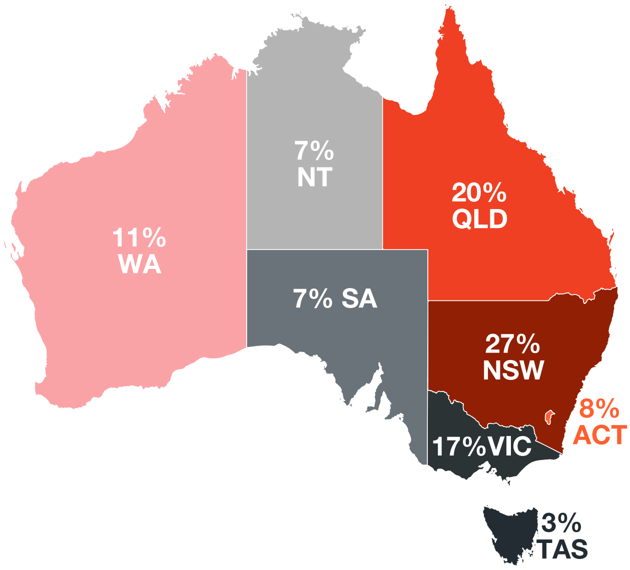
10.1%
First-home buyer

7.2%
Rentvestor

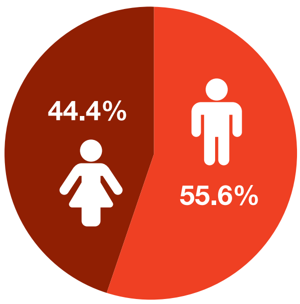
4.4%
Renter

0.9%
Other

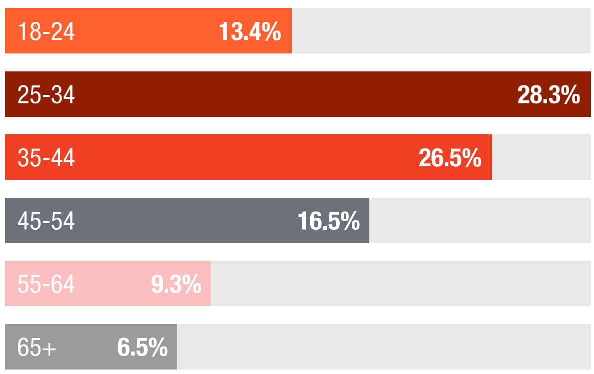
LOCATION



GENDER



AGE



What direction do you see property prices heading?

For property investors and owners, 2022 presented a mixed bag over the year but as the year wore on a clearer picture had begun to emerge.

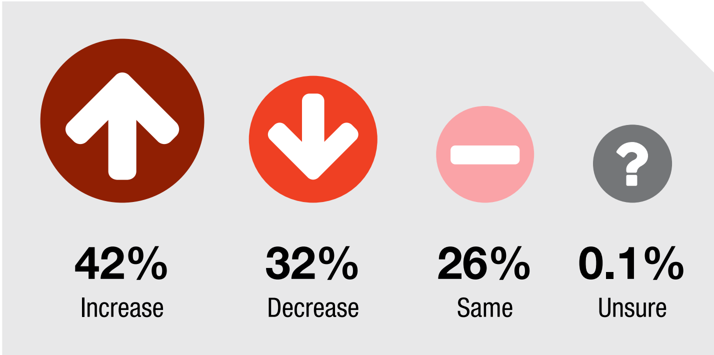
Adelaide (16.5 per cent), Brisbane (8.4 per cent), Darwin (4.9 per cent), Perth (4.0 per cent) and Canberra (1.0 per cent) delivered varying degrees of dwelling value gains over the year (to 1 November).

Sydney and Melbourne took sizeable backwards steps. Property prices in each city dropped substantially (-8.6 and -5.6 per cent respectively).

But by the end of the year, the tide had turned across the nation, with all capital city markets and almost every regional market, in decline.

The doomsayers piled on. Banks predicted price falls of 15-20 per cent over the coming year. Prominent economists predicted that prices would fall by similar or even larger margins. The RBA joined the chorus, saying that because of interest rate rises, it "would be of little surprise if there was a further 10 per cent fall" in national property prices. Even the International Monetary Fund chimed in with forecasts of another 10 per cent fall nationally.

So did this shake the resolve of API Magazine's 907 survey respondents? Not in the least.



More than two thirds of respondents expect property prices to remain steady or rise in the next 12 months or so (42 per cent predict an increase, 26 per cent say unchanged).

"It's possible we have seen the initial shock of a rapid rise in interest rates pass through the market and most borrowers and prospective home buyers have now 'priced in' further rate hikes but if they continue to rise, we could see the rate of decline in housing values accelerate once again."

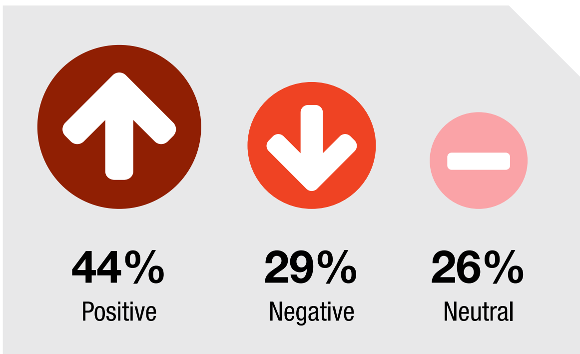
Tim Lawless
Research Director, CoreLogic

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

It seems the more dire the expert commentators paint the picture of Australia's immediate property market future, the more buoyant API Magazine's survey respondents become.

A few months ago, when most capital cities were still recording monthly property price gains, 42 per cent of respondents described the market sentiment as positive.

At a time when it might be expected that optimism would be on the wane, in the face of tumbling national dwelling values the proportion of respondents who were positive about the state of the Australian property market actually inched up (to 44 per cent).



As interest rates continue to climb, the run of six consecutive months of national property price declines looks set to continue in the short-term. But with less than a third of our survey respondents having a negative outlook, that downturn may not be as sustained as many would have us believe.

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

As property prices ease but interest rates and subsequent credit availability tightens, survey respondents' concerns are shifting.

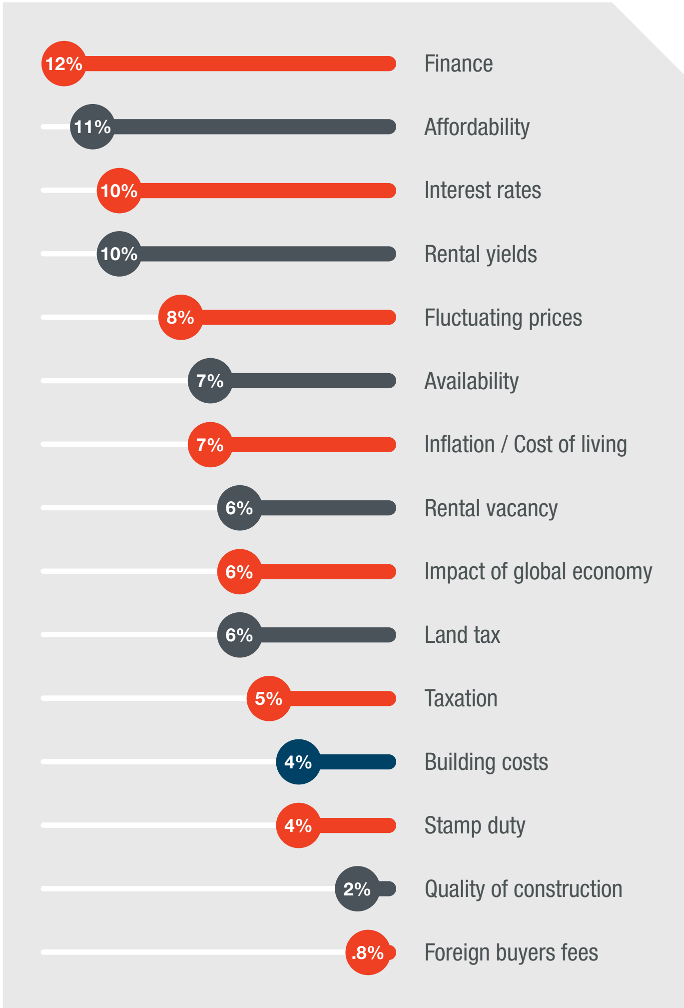
In our Q2 survey, affordability was the number one concern but finance is now the biggest deterrent to those examining their next property move. Respondents' concerns around finance appear well-founded.

Falling property prices eat into existing owners' equity levels, while rising interest rates have the banks building bigger safety buffers into their lending requirements.

Borrowers who bought recently with a small deposit could find their equity (the amount of the home they own) falls below 20 per cent and remains there for a number of years, even if they make their standard principal and interest repayments.

This would make it costly to switch banks as they are likely to have to pay lenders mortgage insurance, a cost that can run into the tens of thousands of dollars and could easily negate savings made from refinancing. In some cases, lenders might decide not to take them on at all due to their equity position.

Interestingly, the same proportion of people were as concerned about interest rates as they were rental yields. For those with an investment property, rising rents and yields are the one thing helping them contend with an increasing interest expense burden and diminishing asset value.

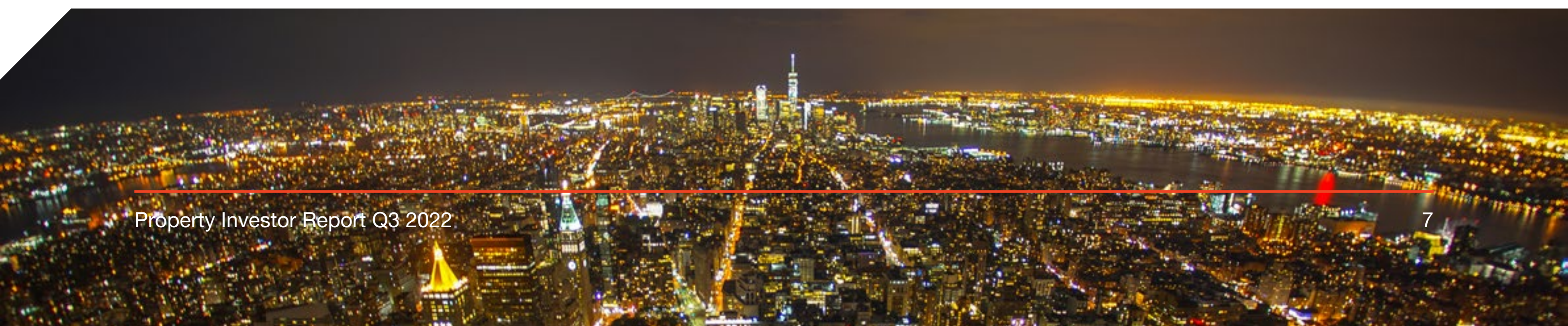


Expert's commentary: **Graham Cooke, Head of Consumer Research, Finder**

Borrowers are scrambling to cut costs on their mortgage where they can.

Repayment spikes are just too much to manage for millions of households, causing a rush to refinance.

With at least one more rate rise predicted in the short term, the full impact of increasing rates is not expected to be felt until early next year.



And what about interest rates?

The upwards trajectory of interest rates has been record-breaking.

Inflation above 7 per cent, and showing no signs of abating, is the culprit. The RBA has been criticised for promising borrowers rates would remain low until 2024 and then slamming the accelerator to the floor throughout 2023. In the RBA Board's defence, it couldn't foresee the Russian invasion of Ukraine and the impact this would have on inflation around the globe.

But its insistence that borrowers have saved and paid down enough debt during the pandemic years to weather higher rates is starting to wear thin.

Research has shown that almost a third of borrowers are under financial stress but still able to pay their mortgage. More disconcertingly, 14 per cent are now in extreme financial stress and unable to meet their repayments.

While sellers are inclined to sit tight as prices fall, taking the active step of purchasing a property as interest rates continue their ascent is a more thought-provoking process.

Indeed, survey respondents were evenly split as to whether interest rates would influence their buying decisions. It was a marked increase on the previous quarter, when the interest rate juggernaut had just left the station.

Interest rates are now in full flight and having an impact on a national property market now light on for buyers.

Decision to buy affected?

43%	43%	14%
Yes	No	Unsure

Decision to sell affected?

24%	64%	12%
Yes	No	Unsure

Expert's commentary: **Tim McKibbin, Chief Executive, Real Estate Institute of NSW**

The conditions for investors and owner-occupiers are charting different courses.

For owner-occupiers, the value of their main asset is trending down. The cost of servicing their mortgage is going up.

For investors, the price of property is more affordable than it was six months ago and rents are trending higher.

Plus, for the foreseeable future, demand will continue to outstrip supply. The cost of living is going up. Which brings us to interest rates.

Given the delicacy of the economic situation, the deepening impact of climate disasters and the promise of skyrocketing energy prices, further rate rises will compound the pain being experienced by mortgage holders.

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

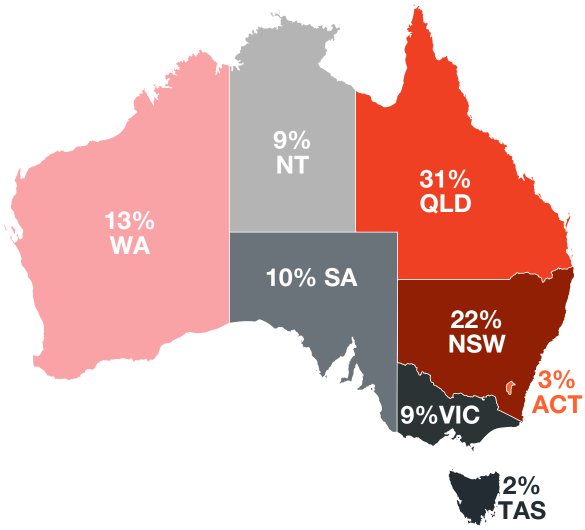
The proportion of respondents keen to buy in the year ahead dipped compared to the previous quarter.

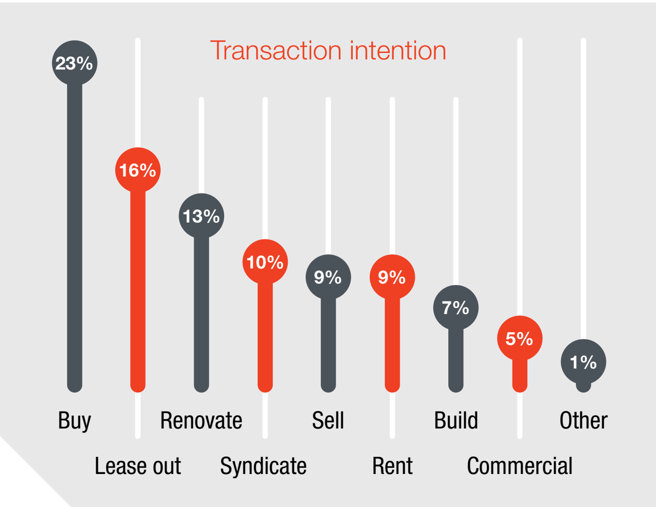
While that was perhaps unsurprising given the market's downturn, the dip was a modest 3 per cent and partially countered by the fewer number of people indicating they planned to sell.

Perhaps there's a sense now that there's safety in numbers. The number of respondents intending to purchase through a property syndicate more than doubled over the quarter, with 10 per cent saying this was their next priority (compared to just 4 per cent previously).

In terms of location, the relative resilience of the Perth and Adelaide property markets has done little to tempt respondents. Queensland retains its popularity among investors, as does the more rapidly declining New South Wales market.

Which state offers the best investment prospects?





"In the past 30 or so years, policymakers have almost always avoided a housing hard landing. A deep housing downturn is priced in, however, we see these factors supporting a recovery: low supply; a tight rental market with vacancy rates below 1.5 per cent; strong employment; and migration resuming."

Tom Bodor, Analyst, UBS.

Respondents' quotes

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

"It is still a good time to buy, it just requires a bit more research to ensure a worthwhile purchase.

"I'm very bullish on Perth and the rest of Western Australia but NSW and Victoria will be in a period of decline for the next 12-18 months at least.

"Cost of living increases are reducing people's capacity to invest. Times are hard, and only getting harder in the foreseeable future.

"When investment property costs go up and investors leave the market due to unreasonable taxes and charges, then those costs are passed on to those who can least afford it, the renters who pay higher rents.

"There are going to be some difficult years ahead, but fundamentally, if you are looking five or ten years ahead, there are very good opportunities, particularly in South East Queensland.

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

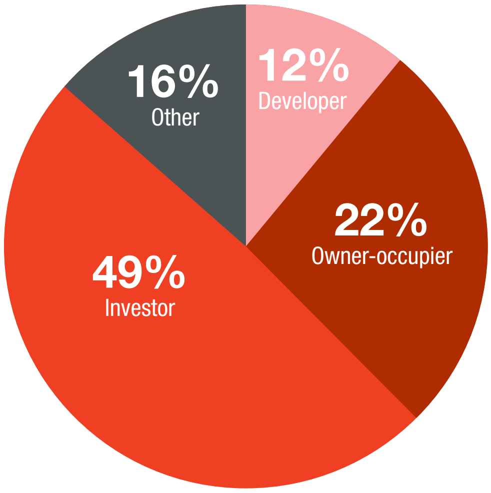
If anyone is losing faith in the real estate market, it's investors.

At the end of 2021, three quarters of API Magazine's survey respondents making a purchase in the next 12 months were investors. In nine months, that figure has plummeted to less than half.

Mortgage lending in Australia has fallen for four months, with investor loans down 6 per cent in that time.

The RBA, meanwhile, points out that households have saved a large amount of money since the onset of the pandemic – around $260 billion – and these savings have been put into redraw facilities as well as offset and deposit accounts.

Building a property portfolio seems, for now, to be less of a priority than paying down debt and consolidating.



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

Seems the saying, "safe as houses" is under revision.

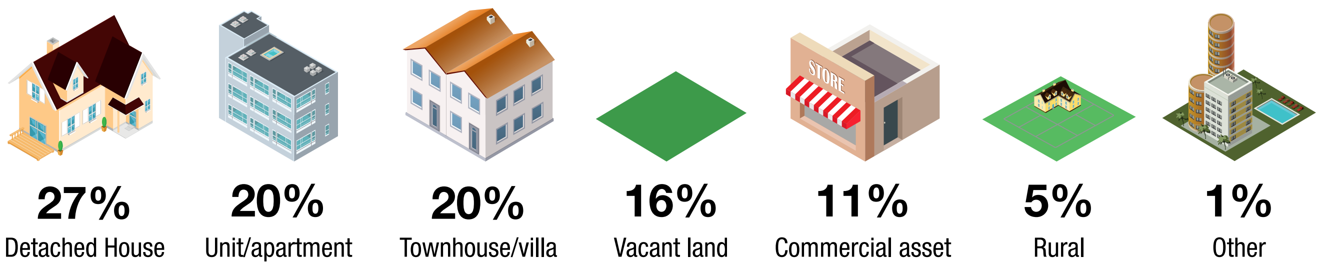
Over the past three months, there has been a massive shift away from detached houses as the preferred dwelling type for upcoming purchases.

Previous surveys have consistently seen about 45 per cent of respondents nominate detached houses as their intended purchase but that has now plunged to just 27 per cent.

When property prices were booming houses enjoyed double the gains of units, but that volatility has also seen house prices fall at around twice the rate of the unit market.

Since peaking in April, house values are now reversing at a more rapid rate, falling 5.3 per cent, while values across the unit sector have declined by a more moderate 3.0 per cent.

Those surveyed have responded by shifting their focus to townhouse/villas and apartments, and to a lesser degree commercial and rural property. Vacant land is also on the radar of more than twice as many people compared to just three months ago.



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

Data collected between 1/9/22 and 31/10/22 from 907 respondents.

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