Australian Property Investor
FOR HOMEBUYERS, INVESTORS & PROPERTY PROFESSIONALS

Property Sentiment Report Q3 2023

1 RBA pauses but interest rates still a source of fear

With the Reserve Bank of Australia (RBA) holding rates steady throughout the third quarter of 2023, you could be excused for thinking interest rates might have slipped off the radar, or at the very least subsided a little as a concern when it comes to decision-making around property.

Despite the RBA holding its fire as it fights persistently high inflation, concerns around interest rates are nearing levels last seen more than a year ago.

Back in early 2022, when sentiment survey respondents were at their edgiest over interest rates, the RBA was launching into its marathon session of hiking the official cash rate.

So why is it of increasing concern to our respondents now, when the RBA has been sitting tight?

Banks and fear seem to be the issue.

Disregarding the RBA's inaction as it waits for earlier rate hikes to bite, the nation's banks have had no qualms about hitting borrowers where it hurts.

Almost half, 48 per cent (43 of 90) of lenders increased variable rates since the July cash rate pause by an average of 0.15 per cent.

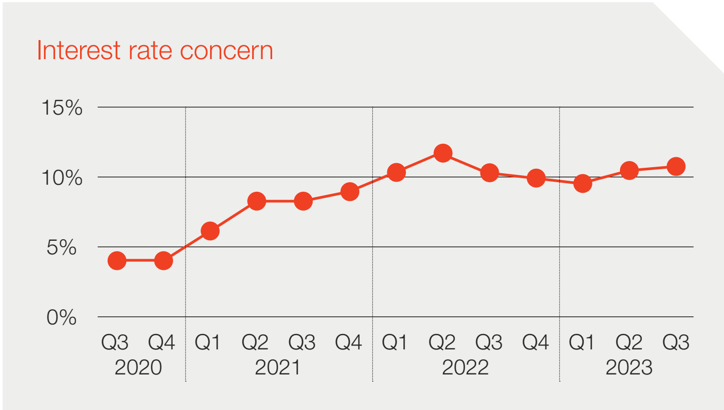
Given that avarice as their profits continue to roll in, it's little wonder interest rates have now drawn level with finance availability as the two prime concerns in regards to property decision-making in the coming 12 months.

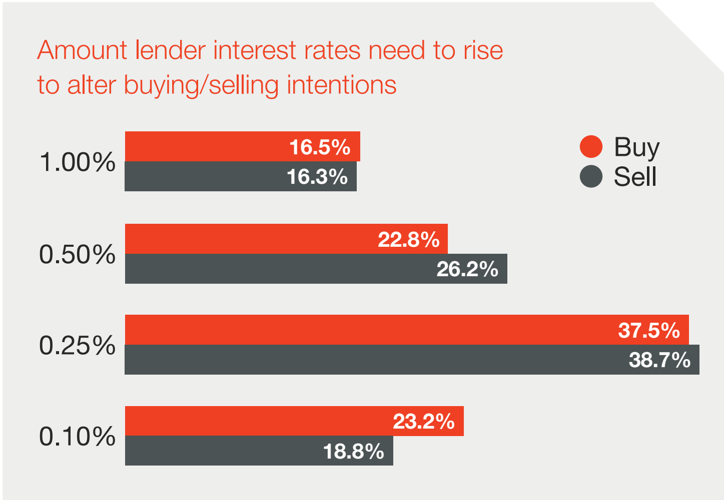
The fear stems from concerns the RBA's job is far from done.

Inflation, which was itself identified as the biggest concern of 7 per cent of respondents, has again turned upwards and the RBA has been blatant in its assertions that higher inflation will result in interest rate hikes.

A rate hike of just 0.25 per cent would be enough to alter the intention to buy within the next 12 months of a whopping 61 per cent of respondents.

A very similar proportion of sellers share the same sentiment, with 58 per cent suggesting a 0.1 or 0.25 per cent rate hike would impact their decision around selling a property.





Interest rates affecting decision to **buy**

Yes	No	Unsure	NA
39%	30%	22%	9%

Interest rates affecting decision to **sell**

Yes	No	Unsure	NA
22%	54%	17%	7%

Buyers bustling, sellers stalling

More than twice as many of our respondents, almost 40 per cent of whom regard themselves as seasoned investors, are intending to buy in the next 12 months compared to those selling a property.

A year ago, the ratio was 23 per cent intending to buy and 9 per cent to sell. With so much interest in buying, property prices recovered strongly around the country.

The portents for property prices over the coming 12 months may well be just as buoyant given this buyer-seller disparity has widened further.

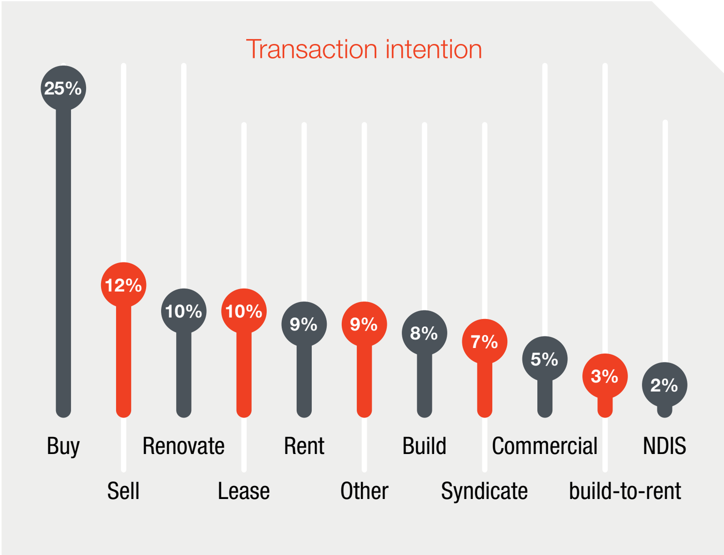
In Q3 2023, a quarter of all respondents expressed an intention to buy property in the coming 12 months, compared to just 12 per cent who were planning to sell.

The current fanfare among buyers is still well shy of that seen in our first survey sentiment report back in Q3 2020, when 45 per cent said they would buy and a mere 11 per cent sell.

When that survey result was being published property prices subsequently shot up by a massive 6.6 per cent in just three months.

It will be interesting to see if these latest results pre-empt a similar property price boom in the first few months of 2024.

Just as telling for the building and construction industry is the continued slow but steady decline in the numbers of people looking to build or renovate.



Since that first API Magazine Property Sentiment Report, the proportion of people looking to renovate in the coming year has fallen by almost 20 per cent and those looking to build by 15 per cent.

As building companies continue to collapse - 2,170 construction businesses went into administration in the 2022-23 financial year - and frustrated buyers experience delays on their new home completions in years rather than months, our respondents suggest the grim picture is deterring people from taking on such projects.

The emergence of rentvesting

Harking back again to our first survey report just three years ago, rentvesting intentions weren't even regarded highly enough to warrant measuring. It only started to make headwinds back in the Q4 2021 Property sentiment report, with 5 per cent of our audience market profile identifying as 'rentvestors'.

Today, many investors are building their property portfolios through this strategy, renting in their desired suburb while buying more affordable homes on suburban outskirts or in regional areas, or opting to buy and rent out cheaper apartments.

Around one in 12 of our respondents now identify as a rentvestor.

At a time when inner-city housing prices continue to rise, it's a lifestyle and investment decision that is likely to become more popular as time goes on.

4 Mortgage stress going through the roof

There's an evident divide between those looking to capitalise on what is viewed as a property market set to take off in 2024 and those simply trying to keep their head above water.

Probably the most disturbing revelation among an otherwise generally upbeat range of survey responses is the proportion of respondents who say they are 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).

Of the 34 per cent of respondents experiencing mortgage or rental stress, a worryingly high 76 per cent of those said they had reached that concerning level within the past year.

The financial strain of a dozen rate hikes since May last year is taking its toll, as is the sudden leap to much higher variable rates as generous Covid-era fixed rates expire. This so-called mortgage cliff has added hundreds if not thousands of dollars to millions of home loans and the toll is showing.

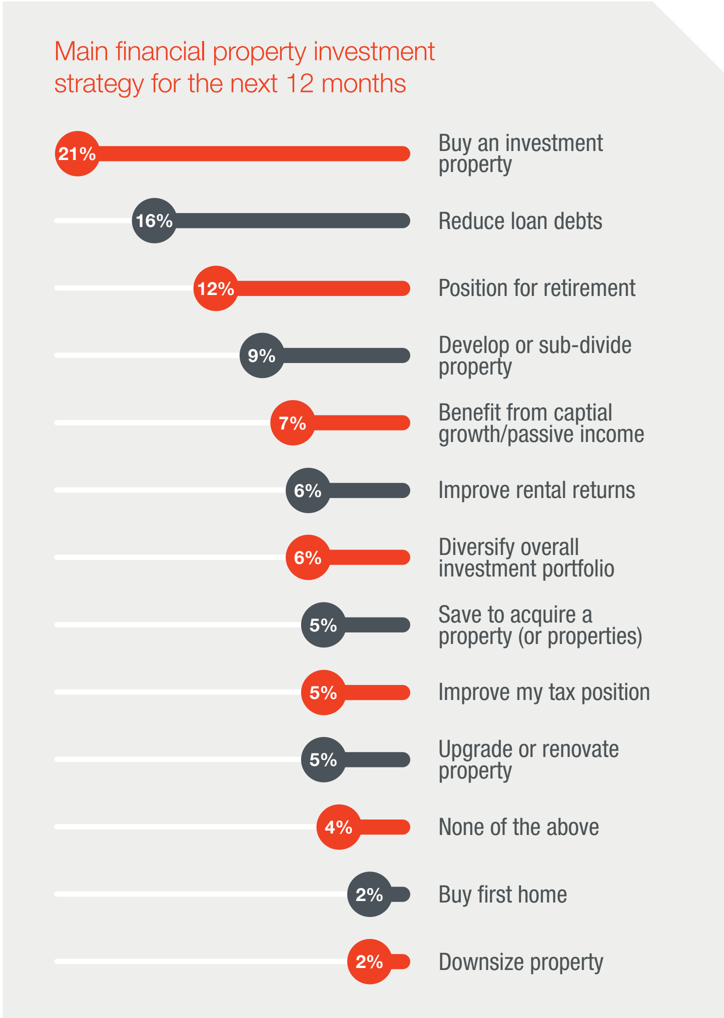
The average three-year fixed rate loan in Q3 2020 was 2.2 per cent. Fast forward to today and those moved to a comparable variable rate loan are paying an average of 6.61 per cent (or 7.21 per cent if with the so-called Big Four banks).

Further evidence of the focus on debt is that when asked what their main financial property investment strategy is for the next 12 months, the second highest ranked action among a dozen choices was to reduce loan balances.

But there was still no shortage of respondents intent on increasing or improving their property holdings.

The clear standout strategy for the year ahead is to buy an investment property, according to more than 20 per cent of respondents. Another 9 per cent intend to subdivide or develop property and 5 per cent are looking to renovate.

So, even with more than three quarters of respondents expressing genuine concerns about their financial predicament, there's still more than a third aiming to bolster their position into 2024 with further property investment activity.



The other big mover is the doubling since the beginning of 2023 in the proportion of respondents prioritising their positioning for retirement (from 6 to 12 per cent).

Most property owners fall into the 40-plus demographic, with this age group owning around 74 per cent of investment properties, and they are clearly now taking a longer term view of their financial situation.

Survey respondent profile

39.32%
Seasoned Investor

31.51%
Owner-occupier

10.82%
First-time investor

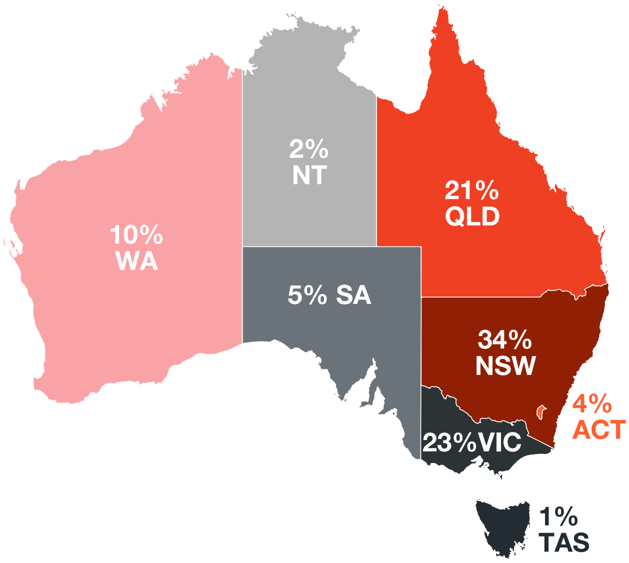
7.67%
Rentvestor

4.93%
First home buyer

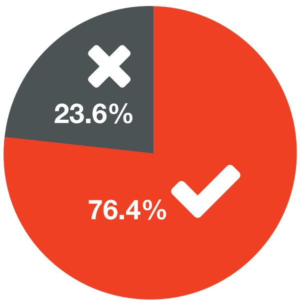
3.84%
Renter

1.92%
Other

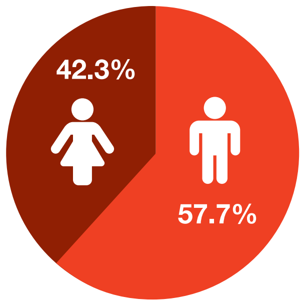
LOCATION



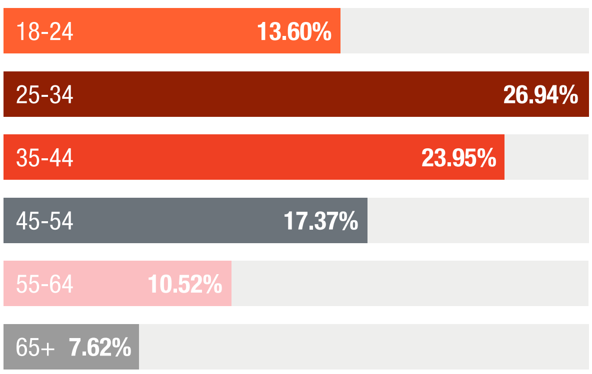
LANDLORDS



GENDER



AGE



It's amazing the difference a year makes.

This time 12 months ago a mere 43 per cent of survey respondents were expecting property prices to rise.

Fast forward to today and it's as close to a unanimous decision as our survey reports have ever come that property prices are on the way up. An overwhelming 80 per cent expect prices to head north in the coming 12 months, with 11 per cent expecting them to remain steady and just 9 per cent of contrarians tipping price declines.

Regional property pricing, while not as strong as capital city markets at the moment, is still tipped to rise with 61 per cent predicting increases, 26 per cent that it will hold steady and the remaining 13 per cent expecting a decrease.

It's worth pointing out that the relative pessimism expressed last year proved largely unwarranted, as prices rose around the country by almost 4 per cent.

So the herd may yet prove to be overly enthusiastic about the market but with record population growth, chronic supply issues in most states and investment loans recovering ground lost over the past year or two, it seems the pendulum has well and truly swung towards a growth phase.

When asked for an overarching opinion on the current state of the Australian property market, more than half of respondents (56 per cent) had a positive outlook, which was 6 per cent higher than last quarter.

Only 18 per cent said they felt negatively, which was up a couple of per cent from the previous quarter.

For more than a year, that positivity has been gathering steam.

It's a view shared by the big banks too. NAB, as an example, has upped its property price forecasts, with the bank now expecting prices to gain another 8 per cent in the final months of this year, up from 4.7 per cent previously forecast.

Prices are tipped to rise a further 5 per cent in 2024 – unchanged from its latest forecast – for a total 13 per cent growth over two years.

Property price prediction

Increase	Same	Decrease
80%	11%	9%

Current Australian property market sentiment

Positive	Neutral	Negative
56%	26%	18%

Expert's commentary: **Steve Douglas, Executive Chairman, SMATS Group**

"Australians are complaining about property prices but if you look at prices internationally it is incredibly cheap by global standards. If you think Aussie property prices are high now, you've seen nothing yet; with supply stagnant, prices will rise, mark my words."

Investors' concerns remain centred on obtaining finance and interest rates, with affordability and rental yields not far behind in the minds of our respondents.

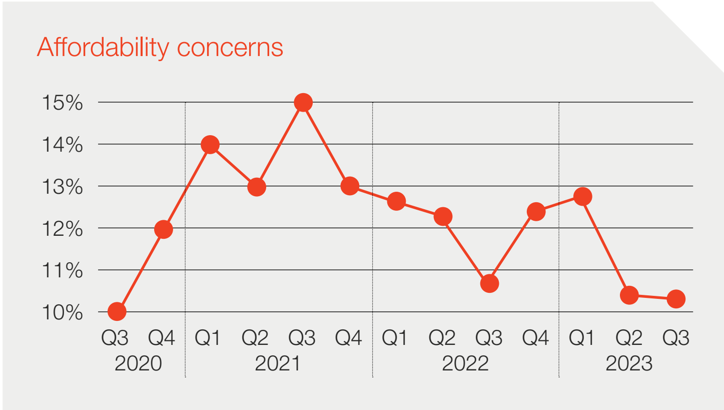
Given the vast range of issues that have emerged over the past year, the overall response to the question, 'which factors would influence your property decision-making in the coming 12 months?' has remained remarkably stable.

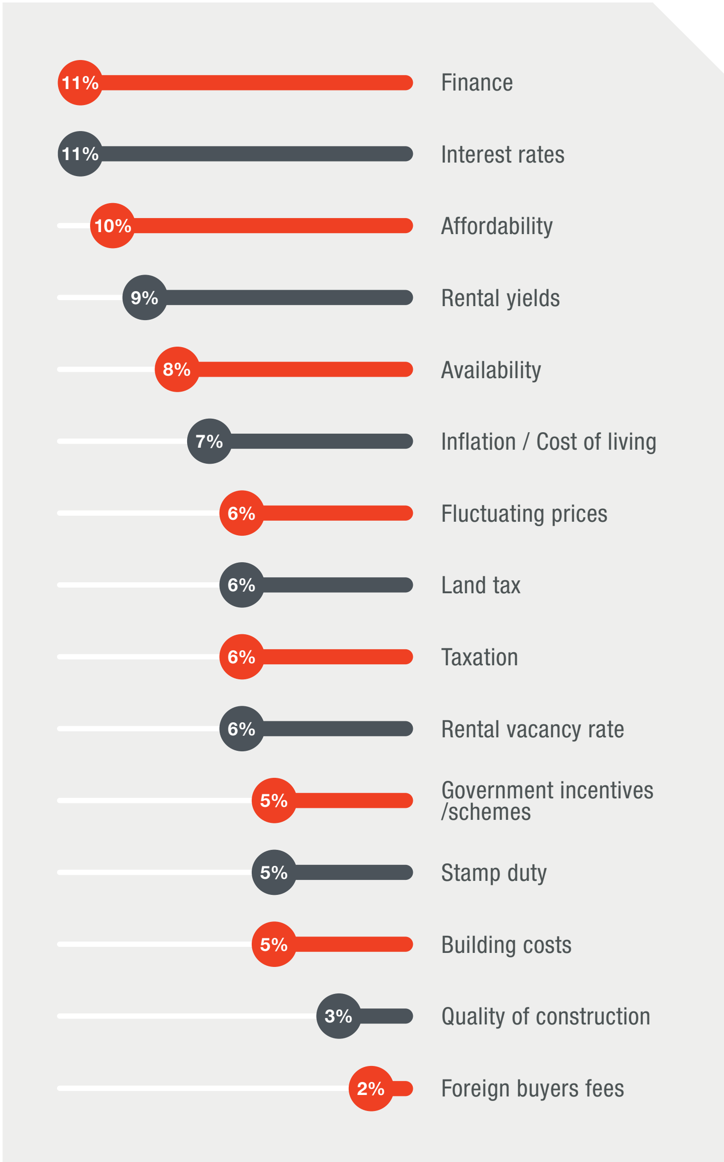
Interest rates are on pause but have drawn level with finance as the key concern. Builders have fallen like dominoes but there's been no shift in worries over building costs for a year. Inflation has been hammering household budgets but the dial there has hardly shifted in 12 months. Property prices are at record levels in several cities and closing in on Covid-era highs in others. Again, no sign of heightened concern there.

Another consistent area of concern is tax. Taxation and land tax combined are now seen as being as big an issue for property decision-makers as price fluctuations.

Land tax has soared in many jurisdictions and state governments have introduced a raft of charges and regulatory restrictions on landlords in 2023.

The ATO is also implementing stringent measures that are set to have significant implications for property investors across the country. Research carried out at the end of financial year tax season found that only around one in four property investors felt comfortable with the tax return process.





Expert's commentary: **Joe White, President, Real Estate Institute of Western Australia**

"There is no denying 12 interest rate increases have had an impact on households, but it is disingenuous to underestimate a homeowner's capacity and willingness to adjust their spending habits.

"Many homeowners on fixed rate loans have prepared for the dreaded mortgage cliff, having paid extra onto their mortgage to be ahead with their repayments, and have created a savings buffer or have refinanced."

Investor finance

Finance is consistently rated as one of the top two concerns when it comes to making property decisions and the latest quarterly results indicate it is still an issue resonating strongly with our respondents.

Around half (49 per cent) of our respondents are investors (with 39 per cent describing themselves as ‘seasoned’ and 11 per cent as ‘first timers’) and around a third of respondents intend to buy an investment property, first home or develop a property in the coming year. With property prices rising, many want to act quickly but the banks are not always so obliging.

More than two thirds of respondents said they believe banks should relax lending rules, the highest response level since API Magazine’s quarterly reports recorded this metric.

It may, however, be a forlorn hope.

According to the Federal Reserve Board’s July 2023 Senior Loan Officer Opinion Survey, banks’ lending standards tightened for all residential real estate and commercial real estate loan categories. Banks expect their lending standards across all loan categories to tighten further over the second half of 2023. Expectations of more tightening were fuelled by increased economic uncertainty and an expected deterioration of collateral values and credit quality of existing loans.

High inflation is influencing market activity	Yes, definitely	Yes, somewhat	Probably not	Definitely not
	27%	41%	27%	5%

Banks should relax lending rules	Yes	No	Unsure
	67%	21%	12%

High inflation is also affecting borrower capabilities to finance existing or potential debt. More than two thirds said it is influencing their decisions around transacting on property.

While seller sentiment in regard to interest rates and their property decision-making has shifted little this year, buyers are a little less concerned. Since the start of the year, the proportion who said their decision to buy was affected eased from 42 to a still-very-significant 39 per cent.

With the inflation rate taking an unexpected upward turn in September, inflation and interest rates may spark concern for a little while yet.

Expert’s commentary: **Tim McKibbin, Chief Executive, Real Estate Institute of New South Wales**

“With interest rate hikes only hitting one sector of the community, property prices are less impacted than if wider measures were taken to tackle inflation, especially given around a quarter of transactions are made in cash, including by downsizers and the wealthy.”

Respondents’ quotes

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

“As a property investor for the past 18 years, I feel very concerned about increasing government intervention in the private rental market. I am intending to sell one of my investment properties in the next 12-24 months because of this.”

“I am just trying to stay afloat after one of my large loans came off a 2.9 per cent fixed rate loan to a 7.4 per cent variable loan. I did renegotiate with the bank to 6.33 per cent but I can’t consider buying a new investment property now.”

“Essentially, Australia has a growing population so property, especially close to facilities and quality infrastructure, should do well.”

“I think Australia is able to attract buyers from all over the world, which provides the potential for property appreciation, and rental returns are also very attractive now.”

Investor intentions

South Australia, Victoria and Northern Territory have inched up slightly as preferred investment destinations compared to our previous survey but the big two remain largely unchallenged and even more popular than before.

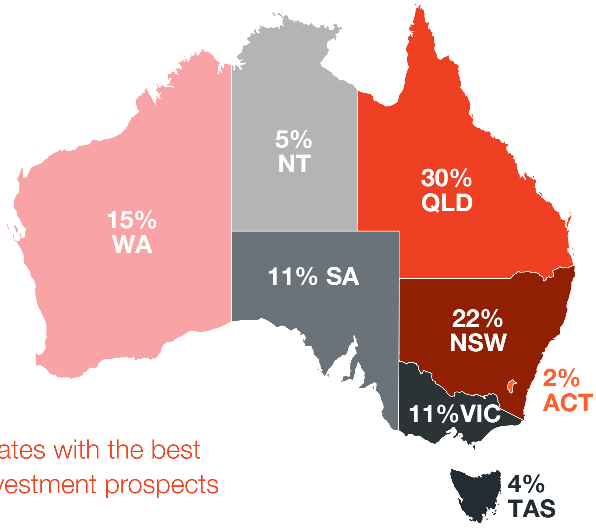
Although Queensland and New South Wales slipped a little, by another 1 and 3 per cent respectively, they remain the dominant forces on the property investment landscape commanding more than half (56 per cent) of our respondents' preferences as a preferred investment location.

Those two states have dominated with similar levels of interest since pre-Covid surveys from mid-2020.

The big movers since then have been Victoria and Western Australia, with the latter essentially taking the share previously belonging to the former. In the past three years, Victoria's interest among investors has tanked, down from 25 per cent and equal with Queensland, to just 11 per cent today and on a par with South Australia.

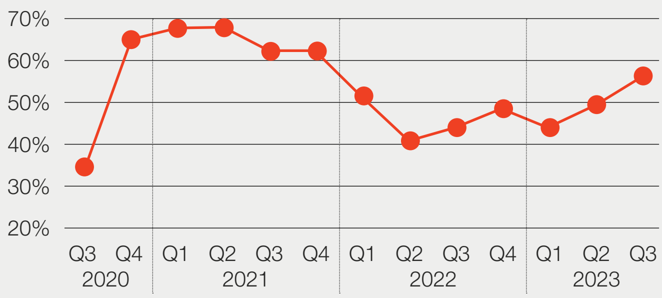
Western Australia in that time has shot up from just 9 per cent to 15 per cent, where it has now sat for two consecutive quarterly surveys.

Despite its economic strength relative to other states, Victoria's slide has coincided with a raft of tougher measures introduced by the state government in regard to rental regulations and taxes. In the west, meanwhile, property prices are rising on the back of strong population growth, limited supply and a strong economy.



States with the best investment prospects

Positive property market sentiment



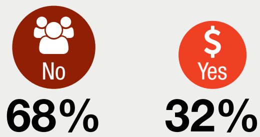
Rent yield ambitions rising

Call it pragmatism or call it ruthlessness, but landlords are looking to get more rental income from their investment properties, with around a third saying they don't even mind losing a good tenant to achieve it.

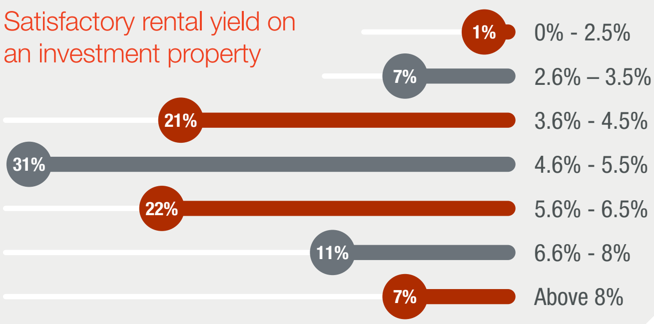
Compared to last quarter, an extra 4 per cent of respondents now regard 4.6 to 5.5 per cent as a satisfactory rental yield and a similar trend was seen in the higher yield categories. There was a marked fall in the proportion of respondents who saw a yield of 4.5 per cent or less as adequate.

Higher borrowing costs are being offset by landlords trying to cover their outgoings with rent rises, while a lack of rental supply and subsequent record low vacancy rates around the country have created an environment where landlords can demand significantly higher rents and get it.

Landlords willing to lose a good tenant to pursue the highest possible rent return



Satisfactory rental yield on an investment property



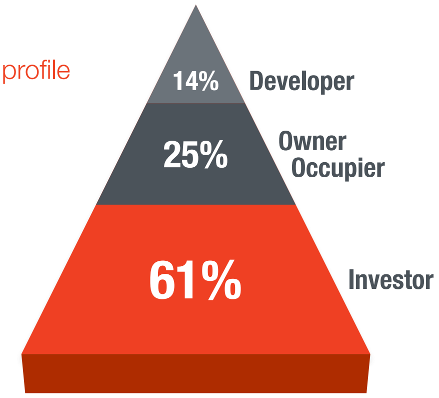
As a proportion of those looking to buy in the next 12 months, investors have increased over the course of the year up from 47 to 61 per cent, compared to owner occupiers (remained stable around 25 per cent) and developers (up from 10% to 14 per cent)

At the end of 2021, around three quarters (74 per cent) of API Magazine's survey respondents making a purchase in the next 12 months were investors, representing a huge drop in that cohort.

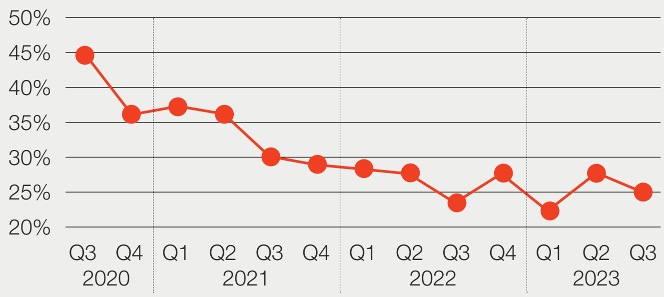
Common reasons investors sold their properties were rising interest rates, governments' threatening to increase taxes or introduce rent freezes, and the need to clear debt. Victoria and Queensland have had the highest rates of investor sales, which is widely seen as reflecting recent proposed rental market reforms.

The overall portion of respondents looking to buy in the next 12 months continues a bit of a rollercoaster ride, dropping to 25 per cent. The latest shift marks six consecutive months of this statistic bouncing up and down month-to-month between 22 and 28 per cent.

Purchasing profile



Intention to buy in the next 12 months

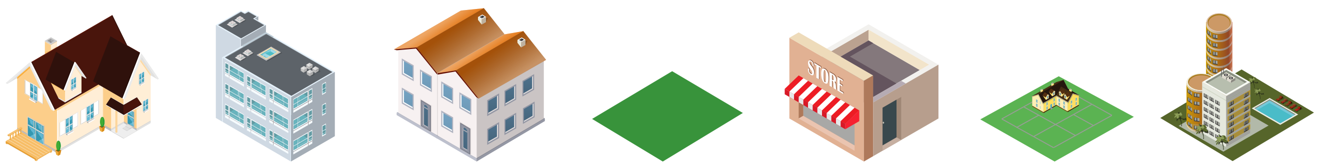


Property considerations for the next 12 months

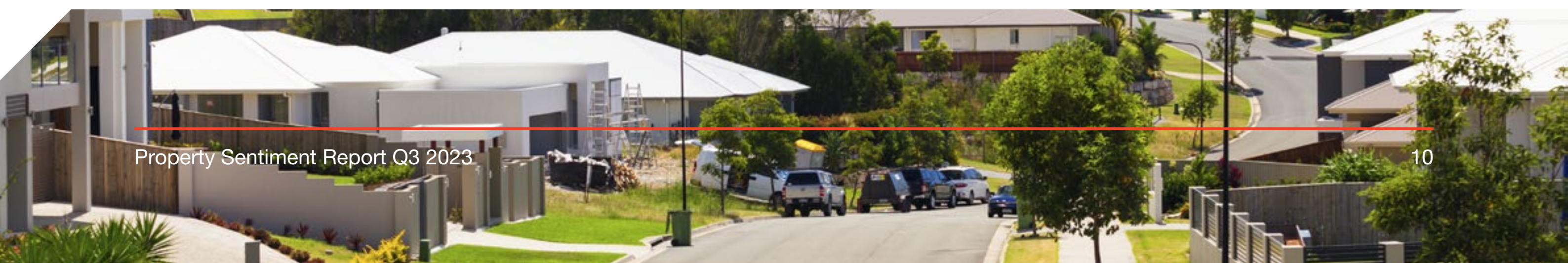
Six months ago, units/apartments overtook detached houses as the property of choice when it came to buyer intentions. A mere three months later and units were the choice of barely half of those looking to buy a detached house and had been usurped in the preference list to third behind townhouses/villas.

The third quarter of 2023 has seen a return to a more familiar pecking order, with detached houses down just 2 per cent to 35 per cent, and units again in front of townhouses/villas due to a fall of 3 per cent in interest in the latter property type.

In the face of turmoil in the building industry and continued lengthy delays to new home builds around the country, as well as land supply shortages, the 40 per cent increase in those intending to buy vacant land was perhaps a surprise. Buyers may be sensing a change in fortunes as building costs stabilise or have their eyes set on potential capital gains brought about by the acute shortage of vacant land in most capital cities.



Detached House	Unit/apartment	Townhouse/villa	Vacant land	Commercial asset	Rural	Other
35%	20%	17%	12%	10%	4%	2%



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 02/10/23 and 24/10/23 from 730 respondents.

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