Australian Property Investor
FOR HOMEBUYERS, INVESTORS & PROPERTY PROFESSIONALS

Property Sentiment Report
Q4 2022

1 Interest rates and record-breaking times

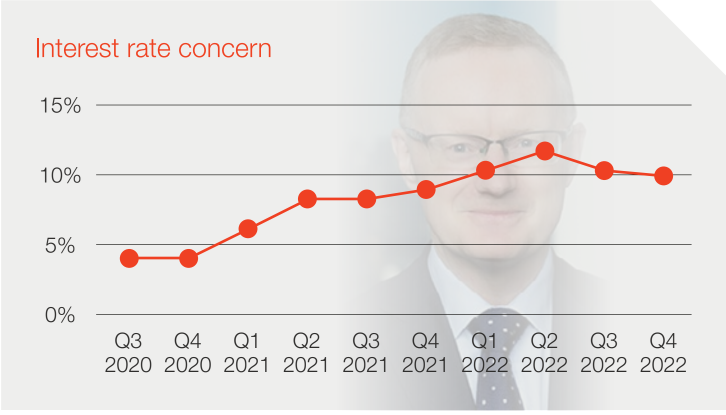
Interest rates have been rising constantly for almost a year and remain the most significant variable on the property market landscape.

These are not ordinary times. A host of economic barometers are now being described in terms of their record-breaking status.

Inflation has reached its highest peak in 30 years. Interest rates have subsequently accelerated at their fastest pace on record. Borrowers have responded by pushing loan refinancing to record levels in the December quarter. Cautious buyers have ensured the Australian property market has just notched its deepest downturn on record.

The record may not be broken but it has certainly been scratched.

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.



And our survey respondents feel confident that stabilisation is around the corner, with a lower proportion than the previous quarter rating interest rates as a concern.

They perhaps concur with Maree Kilroy, Senior Economist for BIS Oxford Economics, who said the pace of price declines is expected to soften further through the first half of 2023.

"Our forecast is for September quarter to represent the bottom for national property prices, with turnover beginning to improve soon after."

2 Stressing out

Interest rates' growing impact on the populace is highlighted by the fact that more than a quarter of survey respondents identified themselves as being in mortgage or rental stress (whereby more than 30 per cent of total income is spent paying mortgage or rent on your primary place of residence).

Most disturbingly, an overwhelming 84 per cent of those under pressure said they had lapsed into that category within the past 12 months.

Mortgage stress dropped to record lows during 2021 as record low interest rates, tens of billions of dollars of government stimulus, and the measures taken by banks and financial institutions to support borrowers in financial distress combined to reduce the number of mortgage holders considered 'At Risk'.

More than a million Australian mortgage holders are now regarded as being 'At risk', and that figure excludes the multitudes of renters in the same financial plight in terms of troubling levels of income spent on rent.

The fact the API Magazine survey comprises a relatively high number of respondents identifying as seasoned investors, as well as real estate industry professionals, only serves to underline the fact that higher interest rates do not discriminate when it comes to piling on the financial pressure.

With another 22 per cent of respondents saying they have fixed rate loans that are likely to be shifting to much higher variable rates in the near future, stress levels could be elevated further as the year goes on.

3 Ignoring the headlines

There's no shortage of investors willing to buck economic and market trends and turn against the herd.

When asked, "What is currently your main financial property investment strategy in the next 12 months?", the most popular response (17 per cent) was "to buy an investment property". This very narrowly exceeded the proportion prioritising paying down loan debt (16 per cent), and was well ahead of those focused on improving rent yields (9 per cent) or sitting tight and relying on capital growth or passive income (6 per cent).

For the first time in nearly two years, the proportion of survey respondents who say they intend to buy in the next 12 months has risen. It could be seen as a remarkable result in light of the economic climate and downward trajectory of home values in most state markets but can also be seen as a vote of confidence that buyers think a turnaround is looming.

Overall property market sentiment is also up for the second quarter in a row, following six consecutive quarters of flatlining or declining sentiment from early 2021.

While headlines trumpet the likely impact of even higher interest rates in 2023, respondents remain resiliently optimistic, with a whopping 48 per cent saying real estate prices will rise in the next 12 months (although this falls to 38 per cent for regional property). Just over 30 per cent think prices will fall, with another 20 per cent expecting them to remain steady overall.

4 RBA in the crosshairs

When Philip Lowe's tenure as Reserve Bank of Australia (RBA) Governor is up for renewal in September, there will be divided opinion over whether he has earned the right to keep his $1,037,709 salary as one of Australia's best paid public servants.

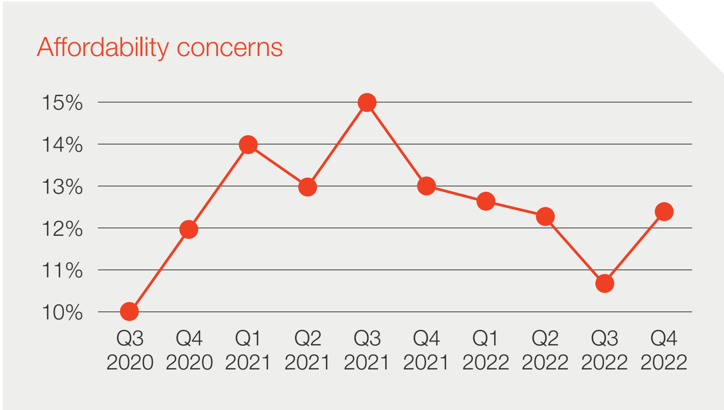
Mr Lowe repeatedly insisted towards the end of 2020 and all of the following year that the official cash rate would not increase until 2024. The official cash rate then went on a steroid-induced run.

Borrowers – almost 300,000 of them – had taken out loans six or more times their incomes, some with deposits as low as 10 per cent, based on that guidance. For many, it has proven costly as they struggle to repay higher debts and their properties move into negative equity.

More than a third of survey respondents (36 per cent) said those earlier assurances had proved costly to their property decision making, while slightly less (34 per cent) said it hadn't hurt them.

When it came to rating the RBA's performance, it was a pretty even split between those who felt it was fighting inflation the only way it knows how and those who were disgruntled at its decisions. Exactly half of respondents rated its performance 'average', while the split between 'poor' and 'good' was 19 and 17 per cent respectively. At the outer ends of the bell curve, the divide was more distinct, with 11 per cent rating the the RBA's performance regarding tackling inflation and interest rate movements as 'very poor', as opposed to a mere 3 per cent arguing it had been 'very good'.

5 Affordability still an issue



Property prices have taken a sizeable step down from their lofty perch. Yet despite the recent sharp drop in values, every capital city and rest-of-state region is still recording home values above pre-pandemic levels (although Melbourne's index would only need to fall a further 0.4 per cent before equalling the March 2020 reading).

According to PropTrack, prices nationally are actually still 28.5 per cent above their pre-pandemic levels. Back in 2012, dwelling prices were just 11.4 times that of average household disposable income. To get back to that level, prices would need to be about 25 per cent lower than they are now. Any thoughts that affordability should no longer be a concern for property buyers are misplaced.

Affordability ranks alongside finance availability (of concern to 12 per cent of respondents) as the most influential factor affecting the real estate decisions our respondents will make in the coming 12 months. It outstrips rental yields and rental vacancy rates (each 10 per cent), housing supply and inflation (each 7 per cent), while interest rates were only identified as motivating force by 5 per cent of respondents.

When it came to buying an investment property, prices were again at the forefront of people's minds. For 17 per cent of prospective investors, a lack of money towards deposit was the main hurdle and that was closely followed by those who said it was the wrong time to buy due to the property cycle being on a downward arc.

6 The quirky Queensland quandary

For the second successive quarter, Brisbane's prices have fallen at the fastest pace among the state capitals. Queensland's perennial position as being the state regarded as having the best investment prospects for the next 12 months, however, remains undisturbed.

Perth, Adelaide and Darwin and regional South Australia and Western Australia have had the most buoyant property markets over the past quarter or two.

Their relative affordability compared to the larger east cities is one of their main attractions, as is their economic vibrancy.

Sydney home values have seen a peak-to-trough decline of 13.0 per cent, Brisbane values have fallen 10 per cent and Melbourne dwelling values are 8.6 per cent from the peak. At the other end of the spectrum, Perth dwelling values have fallen less than 1 per cent from a peak in August last year and some markets are still experiencing strong growth.

But it's Queensland (30 per cent and unchanged from the previous survey) and New South Wales (20 per cent) that have been identified by survey respondents as having the best investment prospects. Western Australia (16 per cent) and South Australia (12 per cent) are on the radar but haven't truly caught the imagination of the nation's real estate investors.

37.6%
Seasoned Investor

25.5%
Owner-occupier

13.3%
First-time investor

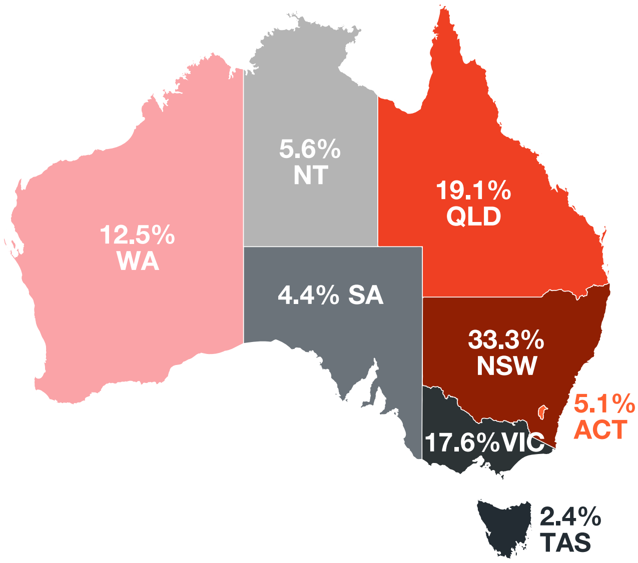
9.2%
First home buyer

7.8%
Rentvestor

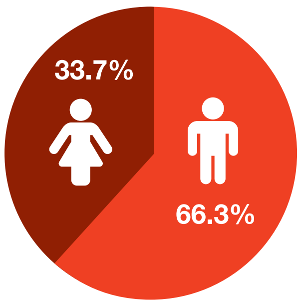
4.7%
Renter

2.0%
Other

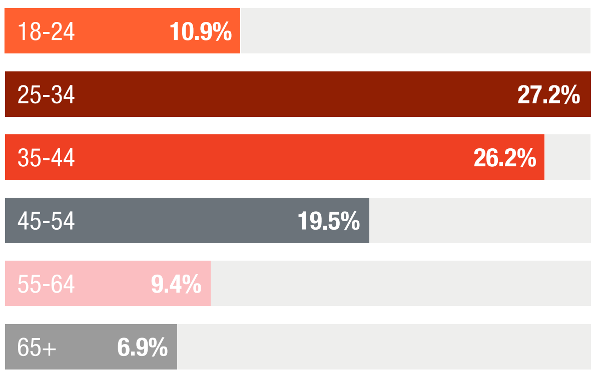
LOCATION



GENDER



AGE



What direction do you see property prices heading?

National property market continues its downhill slide; *Property prices suffer biggest ever fall*; *National real estate market shed a quarter of its earlier gains*; *From apartments to million-dollar markets, the price falls continue*.

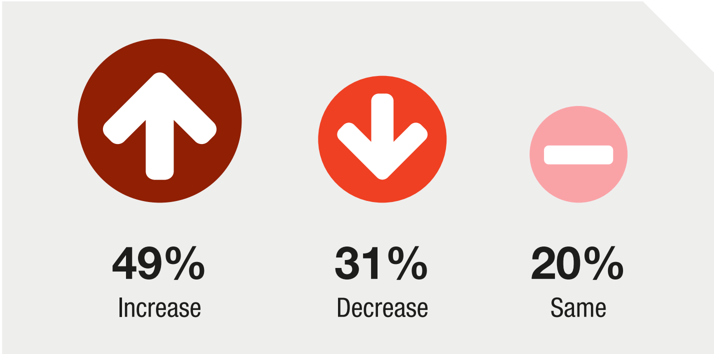
These were just some of the headlines that confronted API Magazine readers recently. Like much of the rest of the media, a strong editorial focus was inevitably placed on the continued downward trend of property prices, as analysed by major research outlets.

But a dozen or so respondents pointed out in this survey's comments section – employing varying degrees of politeness – that the media did not have a crystal ball and questioned whether the negative hype was justified.

Survey respondents clearly think not.

Despite the monthly data showing that most of Australia's property market was undeniably in a downwards cycle, around half of respondents expect property values to increase in 2023. That is 7 per cent more people than the previous quarter with such positive expectations.

The market will need to resist the borrowing constraints and added financial burdens of higher interest rates to do so, and hope that the RBA manages to tame the inflation beast soon. But migration and population growth, improving affordability and rapidly rising rents may be the drivers that lure buyers back to the market.



"Property prices are falling in most of Australia's major population centres and I expect they will continue to fall over the next couple of years as interest rates rise and households respond to inflation. While the drop in house prices will be significant by Australian standards, it won't be as dramatic as in regions such as Europe and North America.

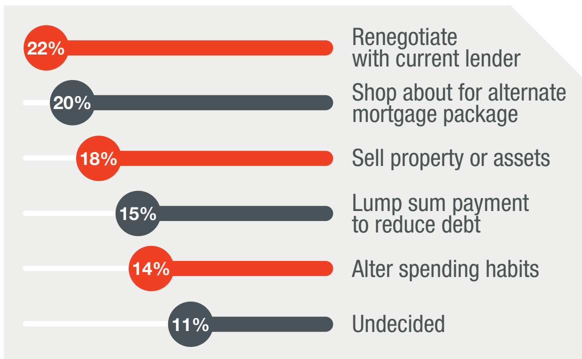
Harry S. Dent, US investment commentator and New York Times Bestseller List author, speaking to API Magazine.

Is the so-called mortgage cliff a concern?

The housing market, as well as borrowers, will be faced with $478 billion in fixed rates loans transferring to variable rates, mostly before the end of 2023.

This is the so-called mortgage cliff that arises from the rollover of fixed rate mortgages taken out mid-2020 to early 2022 at interest rates around 2.5 per cent, and transitioning within the next 18 months into loans priced at 5.5 to 6 per cent. There is a large proportion of these loans falling due before the end of 2023.

Almost a quarter of our respondents said they had a fixed rate loan, while another 17 per cent had a split between fixed and variable. There was a diverse and surprisingly even spread of opinions about how they would contend with the lower fixed rate loans moving to far more costly variable rate mortgages.



Tellingly for the property market, almost a fifth said they would sell either their property or other major assets.

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

Despite the continued climb of interest rates and seemingly unstoppable inflation soaring towards 8 per cent, survey respondents have remained surprisingly stable in their prioritisation of their real estate market concerns.

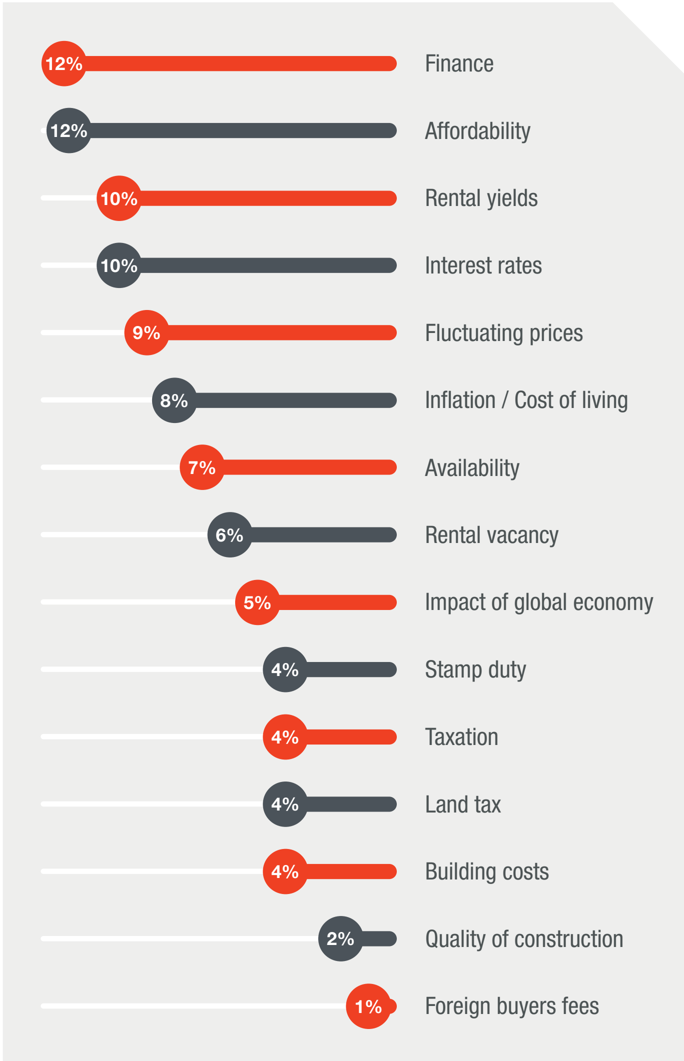
The final quarter of 2022 mirrored almost precisely the concerns expressed to the end of September 2022.

As property prices slide it may have been expected that affordability concerns would ease, but in inching upwards by 1 per cent it has joined finance as the factor presenting the most worries for property investors and home owners.

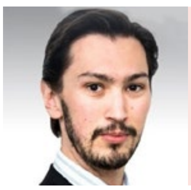
Among the big four banks, the official cash rate is expected to peak between 3.35 per cent (CBA, by February 2023) and 3.85 per cent (ANZ and Westpac, by May 2023).

The RBA has continually said Australian borrowers are well placed, due largely to the savings accrued and debt reduction undertaken during the pandemic years, to withstand the expected continued upward trajectory of interest rates.

Survey respondents seem unperturbed by the RBA's approach, with the 10 per cent expressing concern still unchanged from the previous quarter. Going back to API Magazine's sentiment survey from the midway mark of 2021, interest rates were at record lows but still rated a concern by 8 per cent of respondents. Based on these observations, it would indeed seem that most borrowers are feeling capable of meeting their repayment obligations.



Expert's commentary: **Tom Devitt, Economist, Housing Industry Association**



Affordability constraints will increasingly push home buyers back towards more affordable, higher density living and with the return of migration, demand for units should continue to strengthen.

Are interest rates dictating property decision-making?

During the last quarter, Australians refinanced in record numbers as they chased a better deal in the face of rapidly escalating interest rates.

There's ample evidence too to suggest buyers and sellers are having a rethink, or in some cases are being forced into a decision.

First home buyers are seemingly ignoring falling property prices, with a massive 35.9 per cent less entering the market over the course of 2022. New home loan commitments overall have continued to slide and forecasts suggest another 10 per cent drop in 2023 is on the cards.

And for those borrowers trying to meet the monthly repayments, they are having to wrestle with a 42 per cent per cent increase in home loan repayments from May to December that has added $888 to repayments on a $500,000 loan over 30 years, or $1,778 on a $1 million loan.

But where some see obstacles, others see opportunity.

Even as interest rates rose throughout the back end of 2022, there was a large show of confidence by our sentiment survey respondents. Just over a third said interest rates were affecting the decision on whether to buy, a large decline from 43 per cent who were shaping their decisions around rates in the previous quarter.

Sellers were more circumspect, with only 41 per cent saying a decision to sell was unaffected by interest rates compared to a whopping 64 per cent the previous quarter. The comparative unease of property sellers suggests that it could increasingly become a buyers' market.

Decision to buy affected?

34%	31%	25%
Yes	No	Unsure

Decision to sell affected?

41%	23%	23%
No	Unsure	Yes

Expert's commentary: **Eleanor Creagh, Senior Economist, PropTrack**

With market conditions cooling and more choice, buyers are regaining the upper hand in negotiations, properties are staying on the market for longer, with buyers having less pressure to move so quick.

The significant reduction in borrowing capacities implies further price falls.

It will take time for higher interest rates to fully affect prices, so they are likely to continue to fall as interest rates continue to rise.

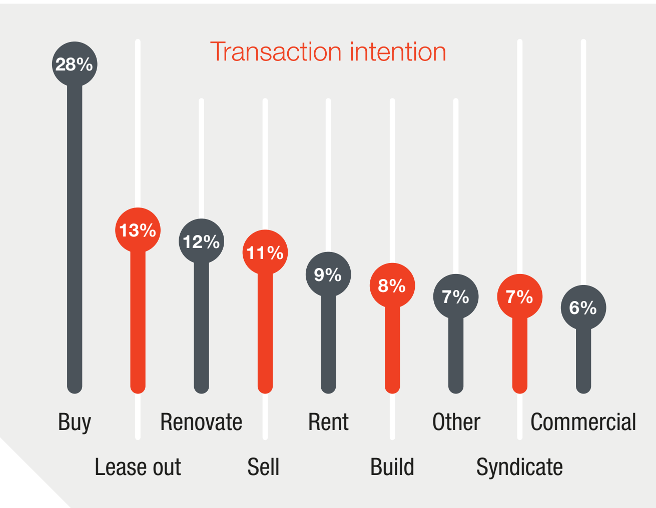
What's your next move within the coming 12 months?

US business magnate, investor and billionaire philanthropist, Warren Buffett, famously said, "Be fearful when others are greedy, and be greedy only when others are fearful."

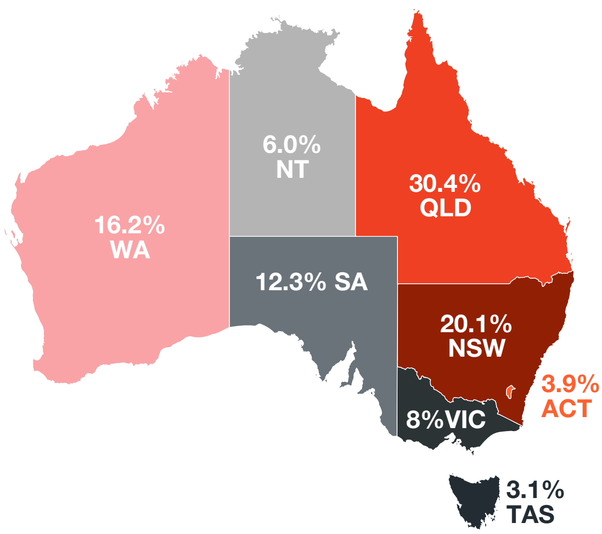
There's no shortage of fear in Australian property markets at the moment but that sage advice seemingly resonates with API Magazine's survey respondents.

As price falls gathered momentum and the RBA warned that soaring inflation would guarantee more borrower pain, the highest proportion of respondents since quarter three of 2021 expressed an intention to buy within the next 12 months.

That was a sizeable uptick of 5 per cent on the previous quarter, and comfortably outweighed the 2 per cent increase in those who intended to sell.



Which state offers the best investment prospects?



"It is clear the constant monthly cash rate increases are impacting buyer and seller sentiment. There remains robust demand from buyers with, perhaps, sellers' expectations still needing to moderate more to meet the market so more properties can sell under the hammer.

Justin Nickerson, Director, Apollo Auctions

Respondents' quotes

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

"We have 10 investment properties, which makes it difficult to handle the increase in loan repayments. So our priority now is to unload to reduce debt.

"There are markets within markets. News headlines do not show the whole story; some parts of the market are more impacted than others.

"The RBA should be held accountable for their statements on interest rates holding steady until 2024. They impacted a lot of people negatively with their false projections.

"The cycle has turned negative. That makes it a good time to buy for the investor who has money and is prepared.

"The downtrend in the property market will continue for another few years before we see the start of another boom cycle fuelled by migration, better rental yields, and an end to the war that will ease the energy crisis and stabilise the world economy.

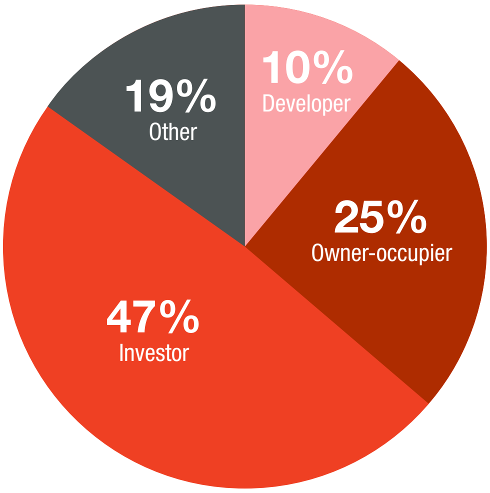
In what capacity will you purchase in the next 12 months?

The value of new lending to owner-occupiers was down 4.1 per cent, and to investors it fell 4.4 per cent month-on-month in December.

Against this backdrop, together with elevated refinancing activity, it's clear there is some uncertainty around how to move in property circles over the coming year.

The most prominent trend over the past few quarters among our respondents has been among investors.

At the end of 2021, three quarters of API Magazine's survey respondents making a purchase in the next 12 months were investors but another 2 per cent dip in the latest quarter has seen that figure fall to just 47 per cent.



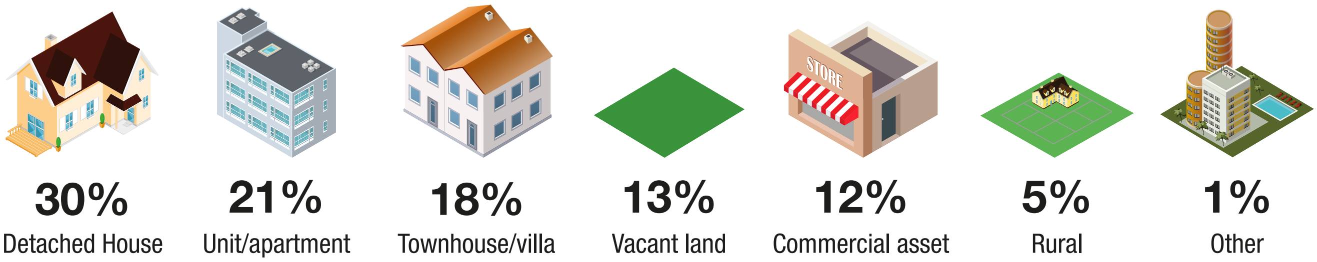
What type of property are you considering in the next 12 months?

More than half of the country's house and unit suburb markets saw a fall in value in 2022. The proportion of national house and unit markets recording a quarterly decline in values increased 80.7 per cent in December.

By comparison, fewer than 10 per cent of house and unit markets recorded a decline in value in the December quarter 2021.

With the market downswing not discriminating by building type (although units and townhouses have been less volatile than houses), the relatively unchanged sentiment among our respondents regarding their preferred property type is understandable.

Reflecting the difficulties associated with building a new home, vacant land slipped by 3 per cent on the previous quarter.



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 10/01/23 and 31/01/23 from 513 respondents.

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