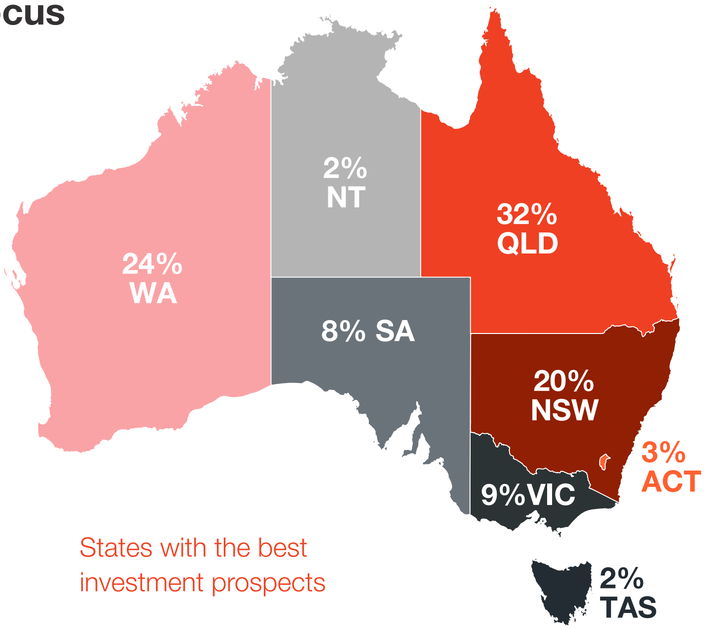
Australian Property Investor

FOR HOMEBUYERS, INVESTORS & PROPERTY PROFESSIONALS

Property Sentiment Report Q1 2024

1 Three states dominate investor focus



States with the best investment prospects

Over the course of a year, three states have cemented themselves as the dominant property markets on property investors' radars.

Queensland, Western Australia and New South Wales are now the seen as having the best investment prospects by exactly three quarters of our survey respondents. The other five states and territories have been sidelined.

Although relatively steady over the last three months, Western Australia has in 12 months doubled from 12 to 25 per cent of respondents identifying its booming property market as having the strongest capital growth possibilities in the coming year.

It is gradually closing the gap on Queensland, which in the past quarter has eased a few per cent but is still the clear darling of the market.

New South Wales is the other state commanding strong attention. Although many tipped the Sydney market to have peaked due to affordability concerns, demand continues to drive prices to ever-increasing record levels. Investors may have concluded that the market there is unstoppable, with its investment prospects down 7 per cent on a year ago but recording another uptick in the past three months.

Brisbane's popularity has been entrenched by 15 months of consecutive growth (as of May 2024), with the median house price exceeding $900,000 for the first time. Regional Queensland has also delivered reliable returns as interstate migration drives up competition for all property types.

Unit values in Brisbane have shown three to four times better performance compared to the national average.

The 75 per cent figure for the top three combined exceeds the 58 per cent of respondents who say they have investment properties in those markets and the 68 per cent who live in those cities, suggesting a strong interest in interstate investment.

At the other end of the spectrum, South Australians could feel aggrieved that investors are largely turning a blind eye when it comes to assessing its investment potential. The state has been locked in at 8 per cent, less than half of third-placed NSW, despite Adelaide and regional SA being among the strongest few market performers over the past year.

Victoria continues to stagnate, with its rating dropping another 2 percentage points over the past quarter. Weak capital growth over the past year and a perception that government policy is weighted against landlords and investors continues to weigh on investor sentiment.

Canberra has the country's second highest median dwelling value and tripled its score from 1 to 3 per cent in three months, but investors are shunning the underperforming Northern Territory and Tasmanian markets.

2 Rising prices, higher rents luring investors

Property investors are loading their artillery and chasing capital growth and high rents.

Last quarter's record level of respondents saying their main financial priority over the coming 12 months was to buy an investment property has leapt higher again.

Interest rates remain a concern as inflation sits stubbornly above the Reserve Bank of Australia (RBA) target of 2-3 per cent but our survey respondents are clearly of the view that investment opportunities abound. More than one in five are planning to buy an investment property.

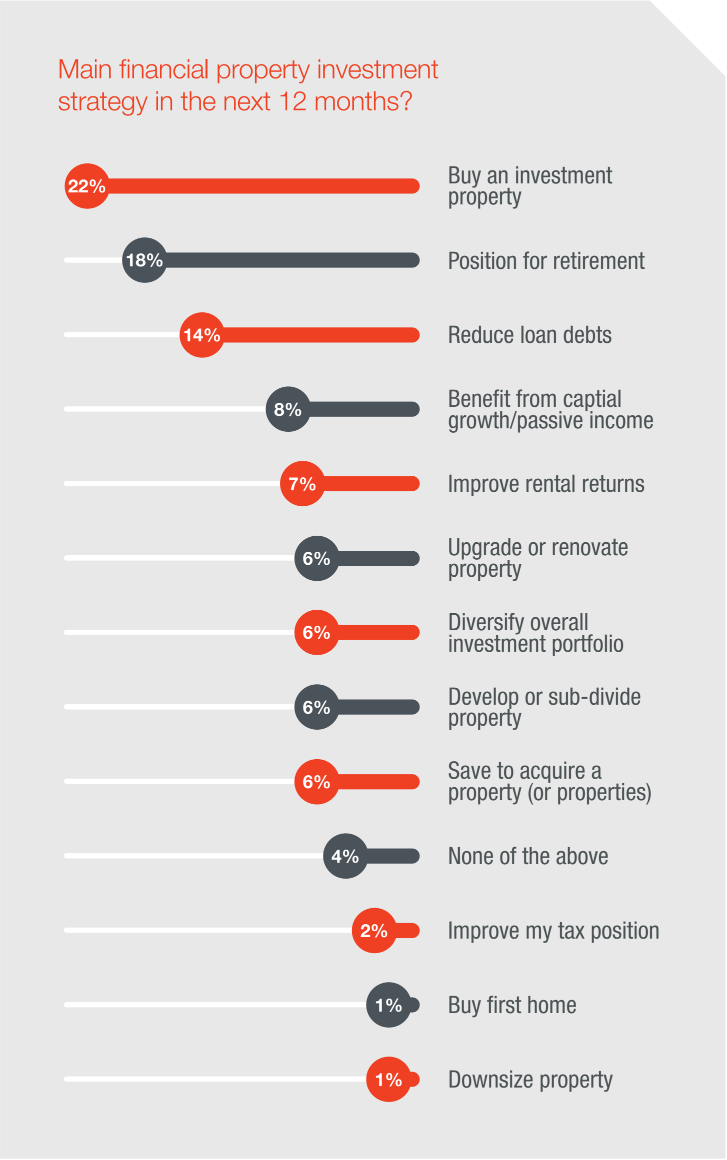
The proportion of respondents wanting to improve their rental returns has almost doubled from just three months ago to 7 per cent in the first quarter of 2024.

In the midst of a rental crisis, the pace of rental price growth is showing few signs of slowing.

For investors who have been contending with high interest rates – many of whom have been forced from Covid-era fixed rates to much higher variable rate loans – the still-high and rising rental environment offers the chance to purchase assets that are rising in value and positively geared.

In this climate of rising property prices and high investor activity, the number of people focused on reducing debt is declining in proportion to the amount looking to buy an investment property. Spending rather than saving is the focus.

As was the case last quarter, positioning for retirement remains a key focus of respondents, albeit down slightly over the quarter (from 19 to 18 per cent). Still, it is a marked increase on a year or even six months ago. A year ago, less than 5 per cent of respondents saw this as their main goal, while six months ago that figure had climbed to 12 per cent.



In the year to April 2024, national advertised rents increased by 8.5 per cent or by around $50 per week – the first time in two years that price growth was below 10 per cent.

But the rental crisis, combined with shrinking real wages, high cost of living and housing unaffordability is hurting younger buyers. Only around five per cent of survey respondents were renters or first home buyers but it was telling that a meagre 1 per cent indicated that buying their first home was their goal for the coming year, half the number from last quarter.

3 Buyers, sellers holding off until rates fall

For the first time in the past year of sentiment survey reports, the proportion of respondents concerned about interest rates has declined.

Readers should be in no doubt that interest rates are still the primary concern of investors and a rate rise of just a quarter of a percentage point – a possibility not ruled out by the RBA – would alter the buying and selling intentions of more than half of our respondents (54.5 per cent for buyers, 51.7 per cent for sellers).

When this survey was conducted among our participants, the big four banks had forecast a decline in the official cash rate towards the end of 2024. However, the RBA remains vague as to whether their next move will be up, down or remain stable.

The upshot is that rates appear to be in a holding pattern for most of this year, if not longer, and the banks are now retreating en-masse from their earlier forecasts of imminent rate cuts.

The RBA has been shouting from the rooftops for as long as inflation has been beyond its control that it won't budge on its policy of targeting 2-3 per cent CPI. It forecasts inflation, currently 3.6 per cent on its most recent measure, will not fall within that band until December 2025.

The people are making their own conclusions.

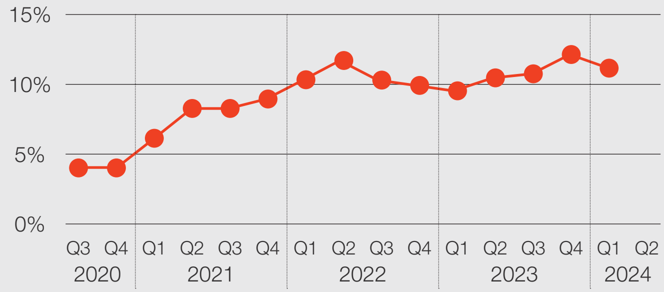
The proportion of respondents who said interest rates were affecting their decision to buy leapt sharply in just three months, from 29 to 36 per cent. For sellers it was a similar story, with that corresponding figure taking a big step up from 11 to 15 per cent.

The RBA's assertion that Australian borrowers were well positioned to cope with a high interest rate environment is perhaps reinforced by the sentiment survey report too.

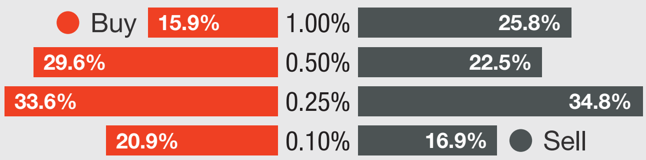
Although the prospect of rates remaining higher for longer than anticipated or hoped has caused the aforementioned quarterly leap, there does seem to be resilience among our respondents.

A year ago, 42 per cent of buyers indicated interest rates were affecting their intention to buy, and more than double this quarter's number of sellers (33 per cent) said the same regarding their intention to sell. Back then, interest rate rises were coming in every month. Now, after a year of high but stable interest rates, buyers and sellers alike appear less rattled.

Interest rate concern



Amount lender interest rates need to rise to alter buying/selling intentions.



Interest rates affecting decision to **buy**

No 36% | Yes 32% | Unsure 21% | NA 11%

Interest rates affecting decision to **sell**

No 58% | Unsure 19% | Yes 15% | NA 8%

4 Safe as houses

The ancient property wisdom, handed down through the ages, is that land appreciates while dwellings depreciate.

While that has proven to be the case over the long term, affordability constraints have driven more people to the unit market than ever before.

The growth in unit values has outpaced house values over the past three months. Hobart was the only city where houses recorded a larger gain than units so far in 2024.

But our survey respondents are sticking to the tried and tested adage.

At the start of 2023 only 21 per cent of survey respondents identified detached houses as their buying preference for the year ahead, behind units/apartments at 24 per cent.

By the Q4 2023 survey that had ballooned out to 45 per cent. It has reined itself in to 39 per cent now, perhaps on the back of those strengthening capital gains for units, but it is houses that are still the preferred investment vehicle and buying target by a wide margin.

39%	23%	18%	7%	5%	5%	3%
Detached House	Unit/apartment	Townhouse/villa	Commercial asset	Vacant land	Rural	Other

5 Investing in capitals

Sentiment around regional property markets remains less buoyant than that of the capital cities.

Like the unit market mentioned above, the regions have more recently outperformed the capital cities. But again, like the unit market, the longer-term trend has been towards capital cities' prices outpacing the regions.

Regional markets have shown a slightly stronger quarterly growth rate over the past five months than their capital city counterparts, following a 10-month period where the combined capitals index was outperforming.

One thing is for certain, there's stronger conviction than ever before that property prices overall are not slowing down any time soon.

They've risen for 15 consecutive months and respondents are even more convinced than last quarter (when 80 per cent predicted a year of increases) that this trend is set to continue, with 84 per cent of respondents expecting further property price increases.

Regional property price prediction.

66%	26%	8%
Increase	Same	Decrease

Property price prediction.

84%	12%	4%
Increase	Same	Decrease

Survey respondent profile

43.19%
Seasoned Investor

28.90%
Owner-occupier

14.12%
First-time investor

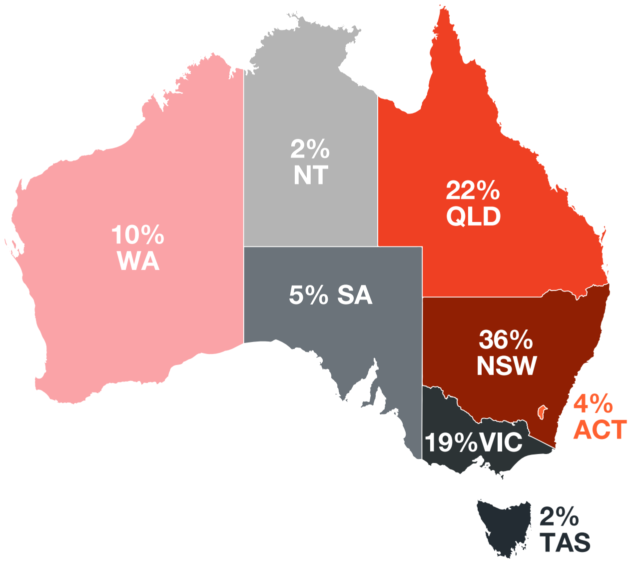
6.08%
Rentvestor

3.45%
Renter

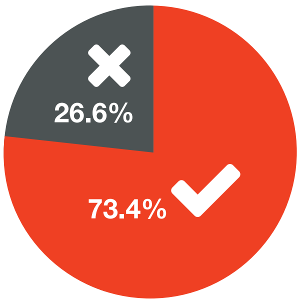
2.79%
Other

1.48%
First home buyer

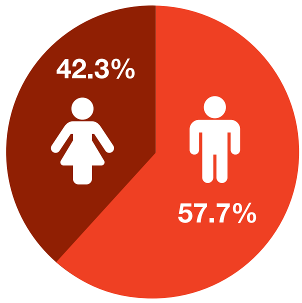
LOCATION



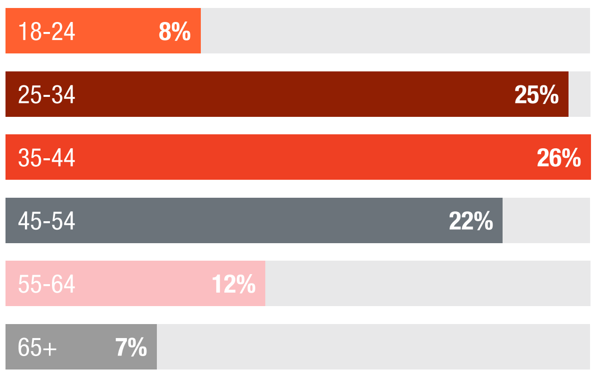
LANDLORDS



GENDER



AGE



Australia's property market is becoming increasingly two-speed, with Western Australia, South Australia and Queensland consistently recording strong monthly property price rises while other states' capital cities and regional markets have seen more modest gains, if any.

Regional markets are, for now, outperforming the capital cities.

Then there's the housing supply issues fuelling the housing and rental crises, and the woes besetting a building industry seeing record levels of insolvencies.

So, weighing up the overall state of the property market is no easy feat.

Despite the challenges and diversity of market performances, overall market sentiment has remained remarkably resilient and consistent.

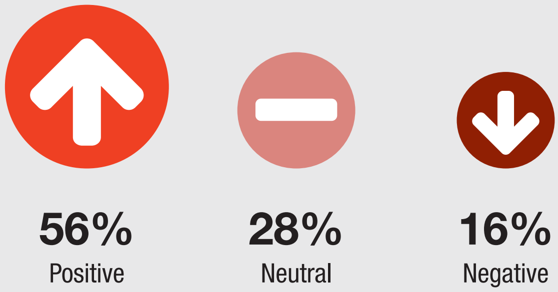
Constantly rising property prices and the likelihood of that trend continuing nationally means three-and-a-half times (56 per cent) as many respondents regard the property market positively compared to a mere 16 per cent who view it negatively.

Positive property market sentiment has fluctuated wildly at times in the four or so years since the *API Magazine* sentiment survey reports began measuring the metric.

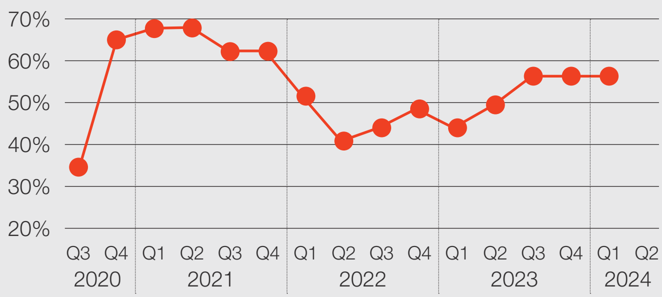
Covid, property price fluctuations, and interest rates have all had seismic impacts on this measure over the years but for the past three quarterly reports this figure has remained stable, hovering just below the 60 per cent mark for three quarterly readings.

General market sentiment, which embraces renters and factors in variables such as borrowing costs and broader considerations beyond price fluctuations, is also more optimistic than in the second quarter of 2022.

Current Australian property market sentiment.



Positive property market sentiment



This was when interest rates began their series of hikes from near zero to today's 4.35 per cent.

Interestingly, positive property market sentiment has climbed almost in lockstep with the rise in interest rates and held steady at a time when rates have been kept on hold.

Increases in interest rates are clearly not viewed in isolation by homeowners, renters or investors; the forces of supply and demand in the market are also inherent in how the market's prospects are assessed and should not be overlooked – and nor should the inability of successive governments to deliver housing supply at a time of record population growth.

Expert's commentary: **Julie Kelley, Global Sales and Marketing Manager, aussieproperty.com**

"Perth is not showing any signs of a slowdown, with population growth, housing supply shortages and high rents driving the capital growth. The east coast investor contingent is also hungrily purchasing property at rates we haven't seen since the mining boom of the 2000s. Buyers recognise Perth is extremely affordable, offers high rental yields, sub-1 per cent vacancy rates, has a strong economy, and the fastest housing value growth nationally."

In Australia, the average property costs about 120.7 per cent of the average annual income. This means that buying a home could cost Australians around 1.2 times their annual income, a daunting figure for anyone aspiring to own a piece of the Australian dream.

The average borrower would need to earn $164,400 – more than $66,000 above the average income – every year to pay off a standard mortgage without falling into housing stress.

Across the eight capital cities combined respective yearly incomes of $186,940 and $133,837 are needed to keep repayments under 30 per cent of income (based on a median house price of $866,000, median unit price of $620,000, and average income of $98,218).

These eye-watering figures explain why affordability remains, along with interest rates and finance, one of the biggest concerns for those contemplating a property transaction in the coming 12 months.

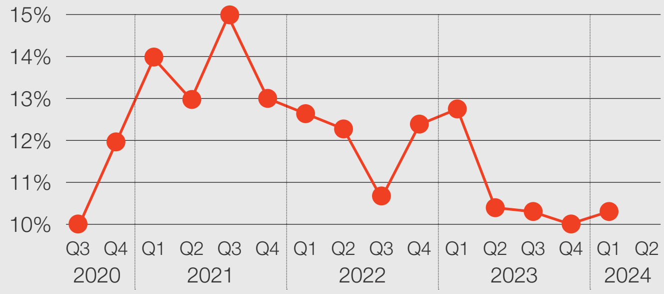
With prices levelling out in two of the country's biggest markets, Sydney and Brisbane, and flatlining in Melbourne, the proportion of respondents identifying affordability as their prime concern has actually inched down from 13 to 10 per cent.

Stellar price rises in Adelaide and Perth impact a lower volume of respondents and therefore lessen the overall perceived affordability impact.

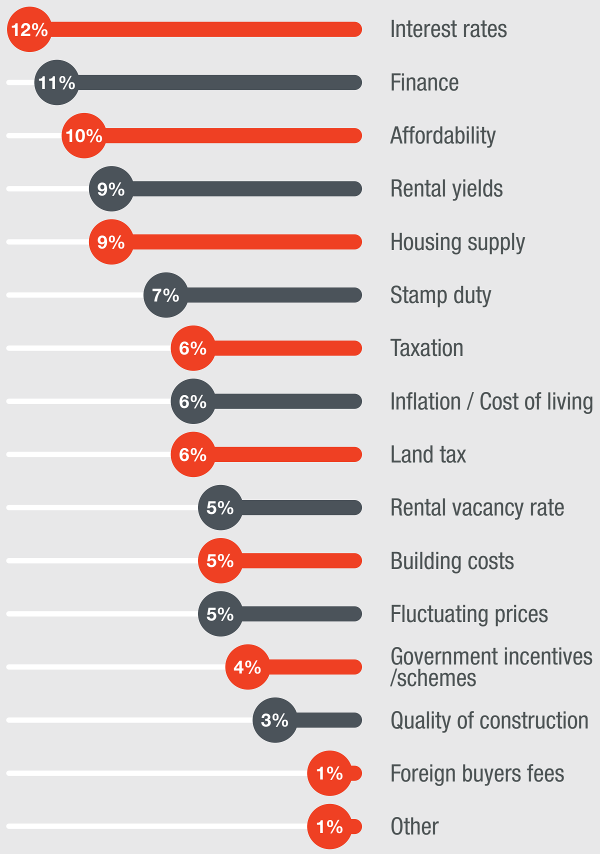
The receding prospect of interest rate relief any time soon has ensured that factor holds its familiar position at the top of the list of investor concerns at 12 per cent.

For the first time in our survey, the option of singling out housing supply issues as their primary concern was included and it duly came fifth, just behind rental yields, as a factor weighing heavily on property decisions.

Affordability concerns



Factors influencing property decision-making in the coming 12 months?



Expert's commentary: **Nicola McDougall, Chair, Property Investment Professionals of Australia (PIPA)**

"I have a better chance of winning Lotto next week than the government has of constructing (its Housing Accord policy target of) 1.2 million new dwellings over the next five years."

Investor finance

Fixed rate loans are essentially extinct.

The proportion of borrowers opting for a fixed rate hit a new record low of just 1.40 per cent in March. The peak in the popularity of fixing in Australia was back in July 2022 when 46 per cent of all new and refinanced loans opted for a fixed rate.

As a result of the forced shift to variable rate loans, more than half (53 per cent) of respondents say they are looking for either an alternative lender or renegotiating their existing loan.

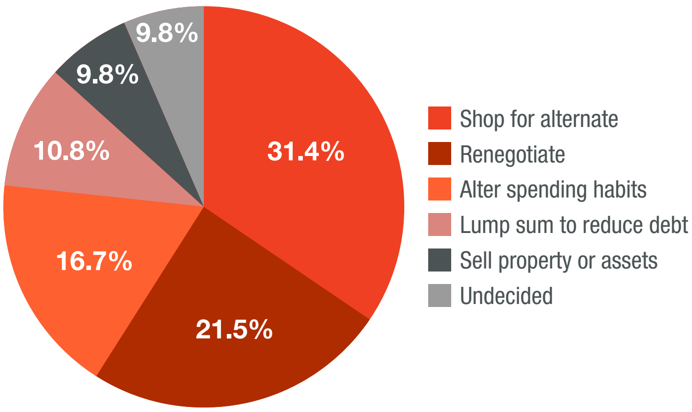
This is down on the corresponding figure last quarter (60 per cent), with a few months of interest rate stability possibly moving mortgage rates from front and centre of borrowers' collective thinking.

On the other hand, even though high inflation is gradually easing, the cost of living crisis affecting many is still all too real.

More respondents than last quarter cited inflation as having a definite effect on the property market activity (29 per cent, compared to 25 per cent at the end of 2023).

With interest rates looking to be unmoved for 2024 and inflation stubbornly resisting efforts by the RBA and government to drop below 3 per cent, it will be interesting to see how these benchmarks are viewed in subsequent surveys in 2024.

Do you have a strategy for when your fixed rate loan expires?



Is high inflation influencing market activity

29%	32%	30%	9%
Yes, definitely	Yes, somewhat	Probably not	Definitely not

Should banks relax lending rules?

61%	25%	14%
Yes	No	Unsure

Expert's commentary: **Helen Avis, Director, Specialist Mortgage**

"Refinancing is mixed at the moment, with some banks willing to offer pricing to keep clients, but others won't move. Overall, buyer demand is still strong and there is a shortage of housing stock, so we expect real estate markets to remain upbeat in 2024."

In early 2021, with the worst of the Covid measures behind us, investors were positively buoyant. More than 35 per cent of respondents for three consecutive quarterly reports indicated they intended to buy in the next 12 months.

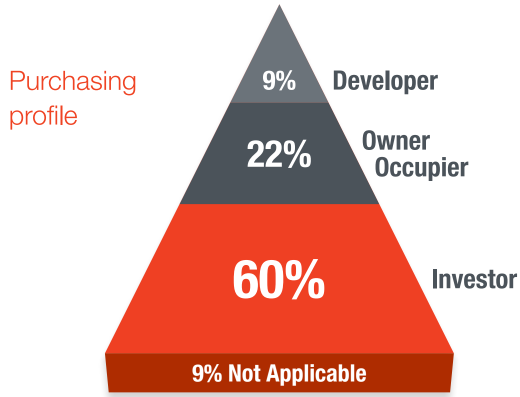
In the back half of that same year sentiment took a sharp decline and in the years hence has remained in the 20 to 30 per cent range. The past eight quarterly measures have bounced up and down in successive reports, essentially averaging out around this report's 27 per cent mark.

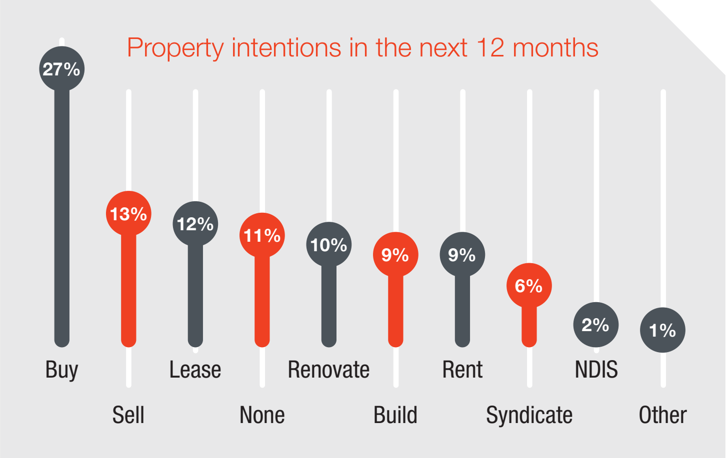
Property investors are gradually showing signs of returning to the real estate market in significant numbers. The value of new investor loans in February was a very sizeable 21.5 per cent higher than a year ago. This reignition was the response of private investors to higher rents and anticipated cuts in interest rates.

The value of new owner-occupier loans was 9.1 per cent higher compared to a year ago, while the value of owner-occupier first home buyer loans was 20.7 per cent higher over the same period. Upgraders and downsizers were the least active in the market.

The property intentions of respondents were largely consistent with last quarter.

Looking back a year, syndicates have taken the biggest hit in plunging from 13 per cent to just 6 per cent. Despite the setbacks befalling the building industry, the intention to build remains reasonably resilient, actually ticking up one percentage point from 8 a year ago to 9 per cent this quarter.





Respondents' quotes

A few comments, amongst the hundreds, that demonstrated the diversity, disparity and breadth of respondents' opinions:

"The government needs to offer more incentives to mum and dad investors to encourage them to re-enter the market because at the moment there are too many rules supporting the tenant and too much tax applied to investment properties."

"There needs to be a rental cap on the amount rents can be raised, to perhaps no more than 10 per cent per year, as everyone is struggling with inflation, bills and food."

"People want to sell to cash in on high equity, but there's no options when it comes to rentals to temporarily move into while they consider the next purchase or build."

"The large disparity between unit and house prices is becoming problematic and strata levies have increased significantly fuelled by soaring insurance costs and utility bills."

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 27 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 02/04/24 and 23/04/24 from 609 respondents.
Report compiled and authored by Craig Francis, Editor.

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