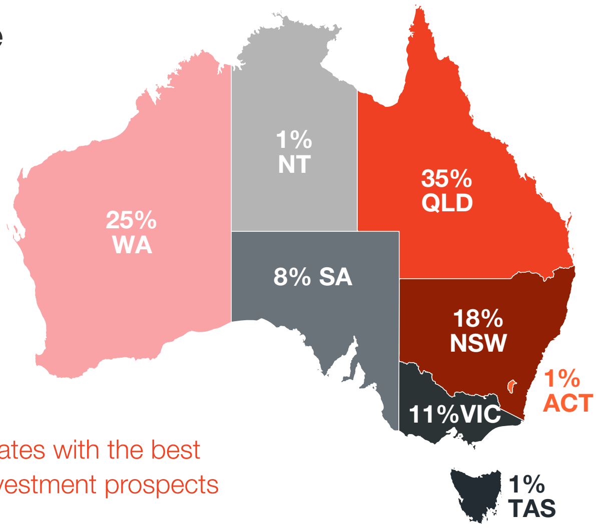
Australian Property Investor

FOR HOMEBUYERS, INVESTORS & PROPERTY PROFESSIONALS

Property Sentiment Report Q4 2023

1 Western Australia coming to the fore



States with the best investment prospects

Queensland is still entrenched as the number one priority for prospective property investors but a lot of eyes are turning west.

Western Australia has shot up to second place, ahead of New South Wales, as the preferred investment destination of Australian buyers.

Perth's red hot property market delivered stellar gains in 2023, with dwelling values up 15.2 per cent for the year.

It was the highest return in the country for any major city or regional centre and has clearly attracted the attention of investors and potential interstate migrants looking for a solid investment and more affordable entry point into the market.

This favourable sentiment heading into 2024 is vindicated by forecasts of further property price increases deep into 2024.

According to REIWA's latest 2024 property market quarterly update, Perth house prices are set to grow 10 per cent in 12 months.

Investors are also being drawn to the country's most rampant rental market. With a vacancy rate of just 0.4 per cent, equal with Adelaide as the lowest in the nation, renters have also been stung by a 15 per cent increase in median rents year-on-year.

Although the rate of growth may slow, rents are still expected to rise further, proving a lure to investors looking for attractive rental yields.

Perth may be up-and-comer on the investment scene but Queensland continues to reinforce its position as the premier state for property investors.

It increased its share of survey respondents identifying it as having the best investment prospects, rising from 30 to 35 per cent since last quarter.

Brisbane was just behind Perth in delivering annual property growth of 13.1 per cent in 2023 and, combined with a relatively high performing regional market, Queensland is well placed to deliver further gains to investors in the year ahead.

The rise of these two states has come largely at the expense of New South Wales, which now ranks third after slipping four percentage points since last quarter.

The smaller states have all taken a hit too, with South Australia's progressive rise in recent surveys coming to a halt (down from 11 per cent last quarter) and Northern Territory and Tasmania all but fading from view. Just 12 months ago, the NT was the preferred investment choice of 6 per cent of respondents.

2 Investors in it for the long term

At the end of 2022, investors were bracing for an expected property market downturn as inflation hit a 30-year high and was setting in play what would become a year of interest rate hikes.

Asked then, “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).

Fast forward 12 months and the property market utterly defied the pessimistic outlook that pervaded in the last quarter of 2022 to post strong capital growth in the capital cities (including double digit growth in Perth, Brisbane and Sydney).

With higher equity in their homes, rents up 8.3 per cent nationally to counter higher repayments and the outlook for the year ahead largely positive for property prices, it was perhaps no surprise that more people than ever (21.5 per cent) say their main investment strategy is to buy an investment property in 2024.

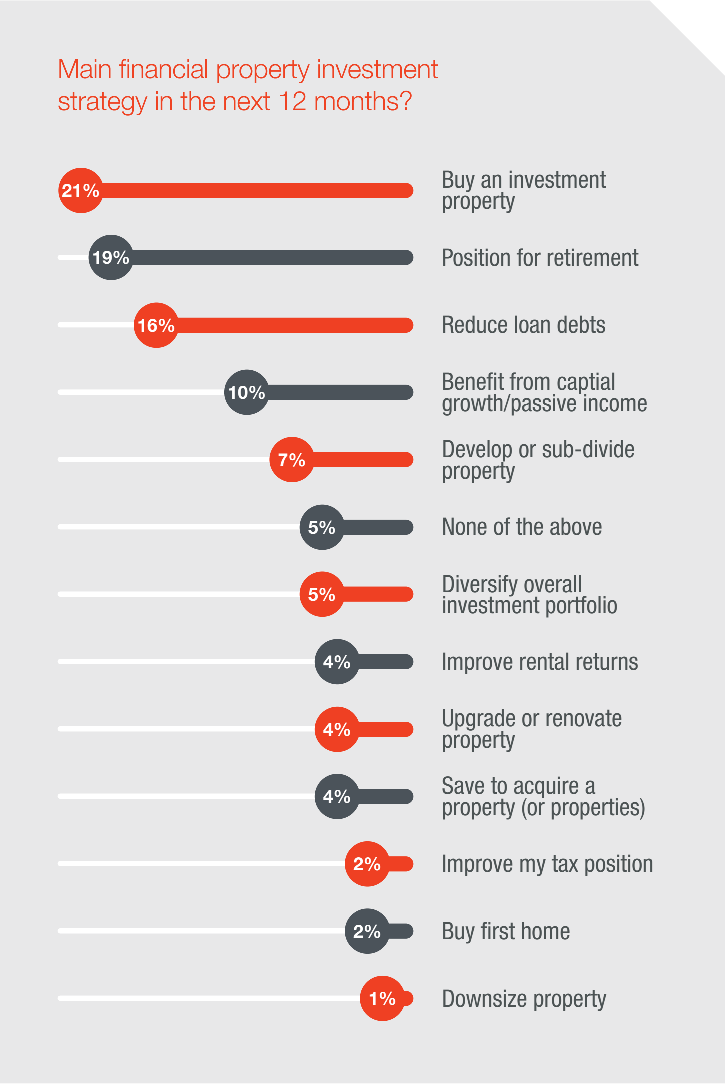
That this is the top objective among respondents points to a favourable outlook for property in the short term.

But among the biggest shifts in sentiment revealed in this quarter’s report was one that points to a very positive long term outlook for property.

There has been a huge leap in the proportion of respondents saying their main property investment strategy was to position for retirement.

A year ago, less than 5 per cent of respondents saw this as their main goal, while three months ago that figure had climbed to 12 per cent.

Today, retirement security has leapt to second among our list of intended strategies to be the priority of 19 per cent of respondents. This is all the more compelling in light of the fact just over half of API Magazine’s readership were aged a relatively young 25-44.



It’s a massive transition from a year ago when property investors and homeowners were staring down the barrel of a year of potentially crippling rate hikes and, subsequently, property prices going backwards.

In that climate of uncertainty, retirement was the furthest thing from many minds that were more focused on making their loan repayments than counting on property for their retirement.

Indeed, 40 per cent fewer respondents a year ago were basing their property strategy on gaining a benefit from capital growth of passive income (6 per cent versus 10 per cent this quarter).

History has shown that property prices over the year were largely impervious to higher rates and the shift in investment strategy sentiment reflects this.

3 Rates steadying but nervousness not easing

Sellers are feeling a whole lot more relaxed about interest rates than buyers but the overall sense of caution about what the Reserve Bank of Australia (RBA) might do next continues to pervade market sentiment.

If interest rates were to significantly increase, many property owners and investors would struggle to service their loans, especially first home buyers. As a result, we would see more properties hit the market, leading to an oversupply in the marketplace and a drop in housing prices.

The fact Australian property prices continue to climb higher in most markets, with Melbourne, Hobart and Canberra the outliers, suggests sellers are not yet feeling forced to offload properties.

And that reality is playing out strongly among our survey respondents.

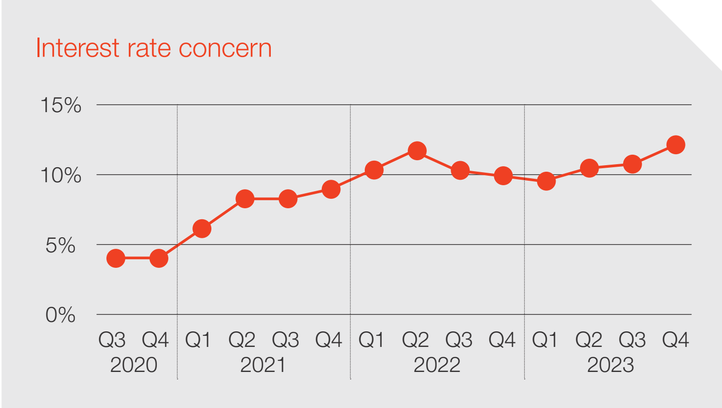
In just one quarter, the proportion of respondents who said interest rates were affecting their decision to sell halved from 22 to 11 per cent.

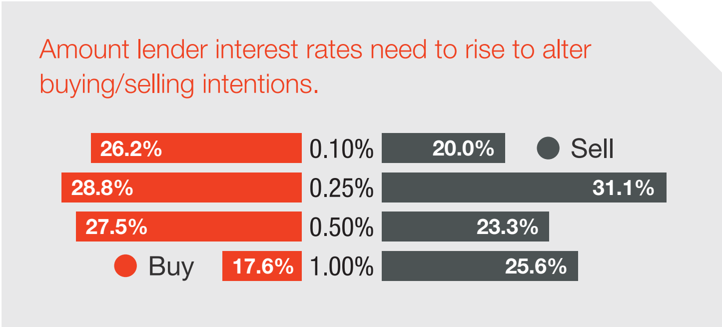
The overall proportion of respondents – buyers and sellers and home owners – who have expressed a general concern about the direction and impact of interest rates has inched up slowly but steadily for three consecutive quarterly reports.

Among buyers, or prospective buyers, there remains more sensitivity to interest rates compared to sellers. The sharp decline in sellers indicating they have an issue with interest rates is a very firm indicator that there's no alarm bells ringing to warn of an imminent shift in supply and demand.

Sellers aren't panicking – and the market is just keeping its collective eyes peeled for what may be coming in 2024.

Most banks and economic forecasters expect interest rates to decline in the latter half of 2024, as inflation continues to slide back towards the RBA's preferred 2 to 3 per cent band.





But the fact that interest rate concerns do continue to climb is indicative of the more evenly split viewpoint on whether further rate pain is imminent.

The proportion of buyers and sellers alike who see a rate rise of 0.25 per cent being a turning point in their transaction intentions has shifted markedly downwards in the past three months.

More than two thirds of buyers and sellers last quarter saw this benchmark as representing a crucial breaking point but the two camps are becoming more divided.

Sellers are less worried than they were last quarter about smaller rate increments but concerns in this area have risen among buyers.

Interest rates affecting decision to **buy**	No	Yes	Unsure	NA
	39%	30%	20%	11%

Interest rates affecting decision to **sell**	No	Unsure	Yes	NA
	65%	16%	11%	7%

4 Mortgage stress eases despite high interest rates

The RBA board in November hiked its cash rate 25 basis points to 4.35 per cent, a 12-year high. The increase was the central bank's 13th rate rise since May 2022.

Meanwhile, renters had it no better. Rents increased 9.1 per cent for houses and 13.1 per cent for units in between December 2022 – 2023. In Sydney, the median weekly rent sits above an eye-watering $750.

You could be forgiven for thinking that sort of rapid escalation in household outgoings would lead to heightened levels of mortgage and rental stress (whereby more than 30 per cent of income is consumed by one of these home repayments) but it is no longer the case.

Perception can be as big a factor as daily reality and the perception at the moment is that interest rates have likely hit their peak.

This may go some way to explaining why the proportion of people saying they are under mortgage/rental stress has dropped from more than a third (36 per cent) to around a quarter (26 per cent) in the six months since our 2023 Q2 sentiment survey report.

Household currently under mortgage or rental stress?

26%	67%	7%
Yes	No	Unsure

Household under mortgage or rental stress in last 12 months?

67%	33%
Yes	No

Encouragingly, those who say they've hit that point in the past 12 months has also slipped since the previous quarterly report from 76 to 67 per cent.

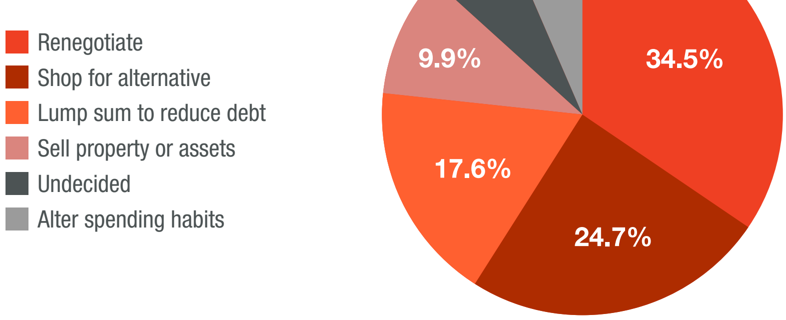
If interest rates stabilise and eventually fall, we can expect those stress levels to abate further.

5 Planning for the end of the fixed rate loan

The average three-year fixed rate loan in Q3 2020 was 2.2 per cent. Fast forward to today and those who were moved to a comparable variable rate loan are paying an average of 6.85 per cent (or 7.48 per cent if with the so-called Big Four banks).

It's little wonder refinancing recently hit record levels and remains the preferred strategy of around 60 per cent of respondents dealing with the shift from fixed to variable rates, whether with their current lender (35 per cent) or an alternative mortgage provider (25 per cent).

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



Survey respondent profile

43.83%
Seasoned investor

32.78%
Owner-occupier

9.51%
First-time investor

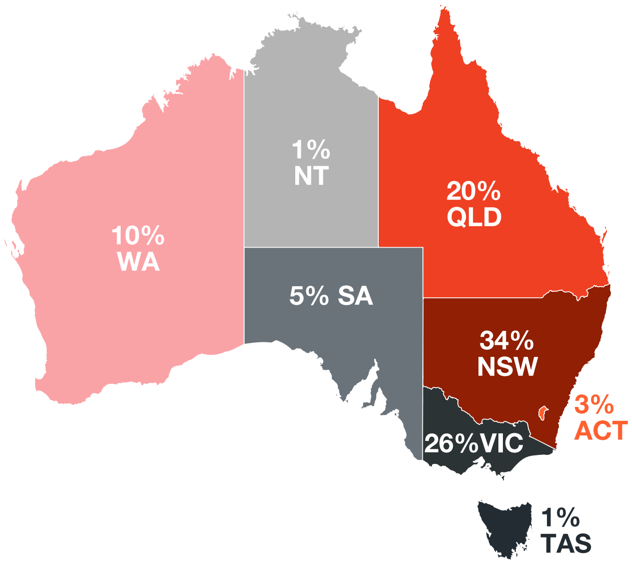
7.46%
Rentvestor

4.11%
Renter

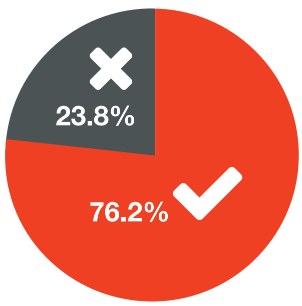
1.29%
Other

1.03%
First home buyer

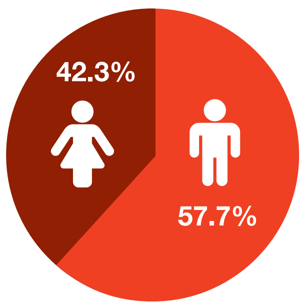
LOCATION



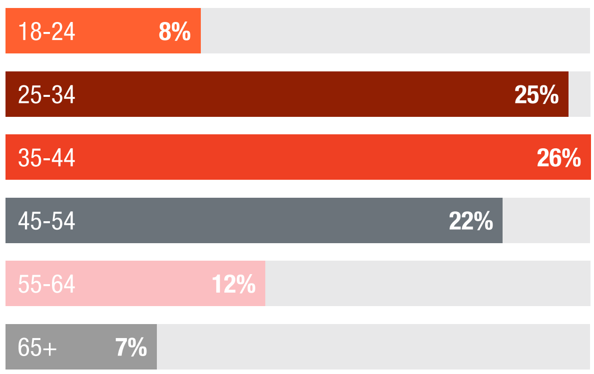
LANDLORDS



GENDER



AGE



Investor sentiment

When it comes to the national property market's outlook there's a clear divide between capital city and regional markets.

Just over 30 per cent of Australians live outside the major cities yet the market performance in regional areas has subsided appreciably since the mad rush from the suburbs when Covid restrictions created huge demand for tree- and sea-change properties.

In 2023, combined capitals more than doubled the annual property price growth of regional areas (9.3 versus 4.4 per cent). But even that modest growth rate exceeded the expectations of our survey respondents of 2022 Q4.

Back then, only 38 per cent expected property prices in regional areas to increase at all. The tide may have turned against regional property as an investment market of choice but the overall sentiment among respondents now is positive, with 58 per cent expecting regional markets to generate price increases in 2024.

But it's the capital cities that are on most property investor radars.

Four out of five respondents expect price increases over the coming 12 months, with very few expecting price falls.

General market sentiment, which embraces renters and factors in variables such as borrowing costs and broader considerations beyond price fluctuations, is more reserved but still generally optimistic. This is a significant turnaround from six months ago when that figure had dipped below the 50 per cent mark.

Increases in interest rates are not the only consideration for potential investors; the forces of supply and demand in the rental market are powerful and should not be overlooked, as is the inability of governments to deliver housing supply that coincides with a time of record population growth.

Current Australian property market sentiment

Positive	Neutral	Negative
57%	28%	15%

Property price prediction

Increase	Same	Decrease
80%	14%	6%

Regional property price prediction

Increase	Same	Decrease
58%	30%	12%

Expert's commentary: **Alex Reithmeier, Research Executive, DPN**

"This is almost a perfect storm for investors - we are seeing growth in house prices again in many metro and regional locations. From a supply perspective, the national shortage in affordable housing remains unabated and there is no short-term solution. In the last two years, more than 600,000 new migrants have arrived in Australia and simply put, they need somewhere to live.

Investor concerns

In the years since API Magazine began its sentiment survey quarterly series, four factors have emerged as consistently among the ones that keep prospective property investors awake at night.

Over the past two years, interest rates, finance, rental yields and affordability have jousted for position atop the graph to the lower right.

But there have been some swings since the earliest iterations of this report from mid-2020. At that stage, interest rates were at record lows and of little concern but over the past couple of years they have emerged as the primary concern regarding the real estate market.

This year continues that trend.

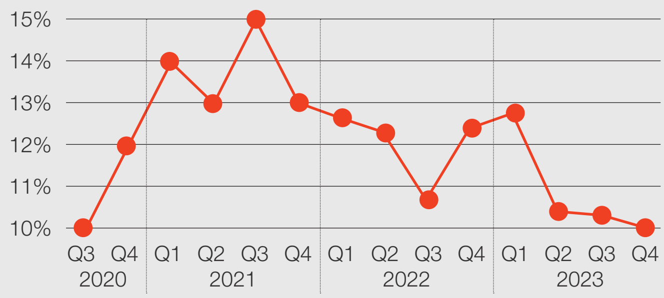
November's rate rise probably stirred up our respondents but in the last few months some other issues have begun to stir the pot.

Land tax and stamp duty crept up over the past two quarterly reports, with Victorians in particular hit hard by recent tax reforms, with one tabloid in that state reporting property owners there are forking out a combined $1 billion more than the pre-Covid era.

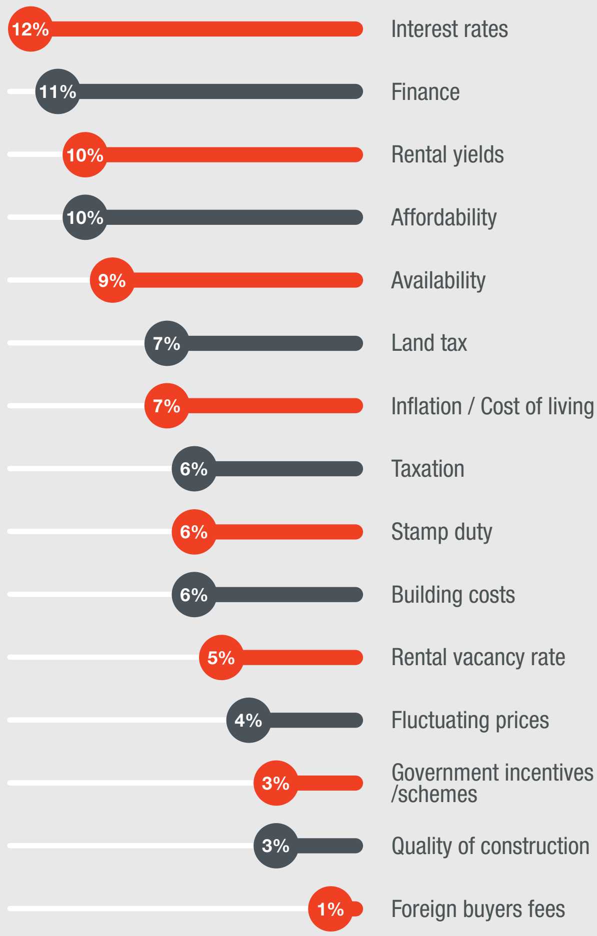
Dozens of our survey respondents this quarter turned to our comments section of the survey questionnaire to vent their annoyance and concerns over their various states' stamp duty and tax regimes.

This viewpoint encapsulated the opinions of many: "Increased taxes on land, properties and landlords are a large impediment to increasing housing stocks to try to cope with the increasing demand for housing. These changes are reducing the investment in new property stock, which is increasing the problem instead of improving the situation. Landlords are being seen as being greedy for raising rents, despite rapid rises in costs paid to government, including council rates, levies related to insurance, land tax and myriad other higher costs."

Affordability concerns



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



Expert's commentary: **Michael Matusik, Market Analyst, Matusik Property Insights**

"The housing sector needs major taxation reform, including changes to stamp duties, infrastructure charges, negative gearing and capital gains tax, in concert with the implementation of a federal land tax."

Investor finance

With historically high interest rates, inflation that still sits well above economic norms and home prices at or near record levels around the country you could be excused for thinking the financial landscape would temper the mood among property buyers. But property market sentiment has held its ground over the last quarter and risen over the course of the year.

There is an intriguing contradiction at play whereby interest rates remain the biggest concern of respondents (see page 8) but bigger issues are driving the property market higher, namely population growth and a lack of supply.

With 60 per cent of respondents stating that high inflation is influencing market activity (either definitely or somewhat), the impact of a cost-of-living crunch is clearly forcing many to prioritise their everyday needs and expenses over things like saving for a home deposit. Among hundreds of comments provided by our respondents, around a third reflected upon the pressures of inflation, rapid rent hikes, living costs and the unaffordability of property.

As with inflation concern levels, the same 60 per cent figure thought a relaxation of banks' lending rules might alleviate some of those obstacles to home ownership.

But ultimately money talks, and there's clearly enou of it in circulation for property market sentiment remain positive and price pressure to remain on the upward side despite the economic challenges confronting many ordinary Australians.

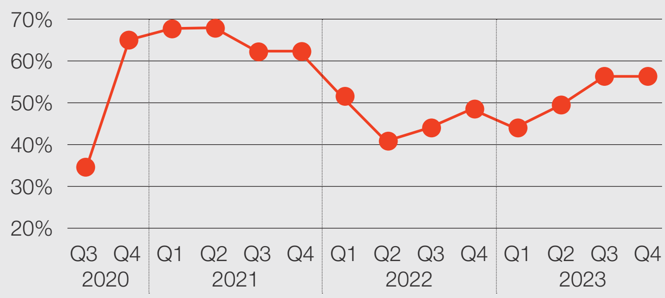
Is high inflation influencing market activity

25%	35%	32%	8%
Yes, definitely	Yes, somewhat	Probably not	Definitely not

Banks should relax lending rules

Yes	No	Unsure
60%	28%	12%

Positive property market sentiment



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

"Interest rate concerns are particularly evident within the first home buyer market, and among investors using property as collateral and overseas clients who are often faced with higher rates than Australian residents."

Respondents' quotes

Some among the hundreds of comments that demonstrated the diversity, disparity and breadth of respondents' opinions:

"Holding costs, compliance costs, increased regulation, increasing taxes on landlords, as well as more rights for tenants versus less rights for property owners, are having a big impact on landlords' confidence to continue investing in property."

"I'm bullish about Australian property. It is undervalued when you measure it against comparable cities and countries around the world."

"I am white knuckling it now with interest rates and holding on for dear life. Another rate increase could be the last straw for me, but I am sure I am not the only one in this predicament. The number of people being forced by higher rents and mortgages into homelessness is devastating."

"The ongoing threat of government intervention in residential rents etc has prompted me to sell my residential portfolio and move into commercial property."

Investor intentions

Survey respondents reflecting on the last quarter of 2023 have given every indication they are going to be very active in the property market in 2024.

The general sense of optimism that pervades this report is driven by a few of the key indicators highlighted in our graphics here.

For almost two years, the proportion of respondents intending to buy in the next 12 months has been zigzagging up and down but the latest results reveal that this key indicator of market sentiment is now at a two-year high.

An expectation that interest rates have peaked, coupled with ongoing housing supply deficiencies and a growing population, has buyers coming out of the woodwork again.

Investors are emerging as the most active segment of the market, with a massive 63 per cent of such respondents (up from 61 per cent last quarter) outstripping owner occupiers (19 per cent, down from 25) and developers (down 4 percentage points to 10 per cent).

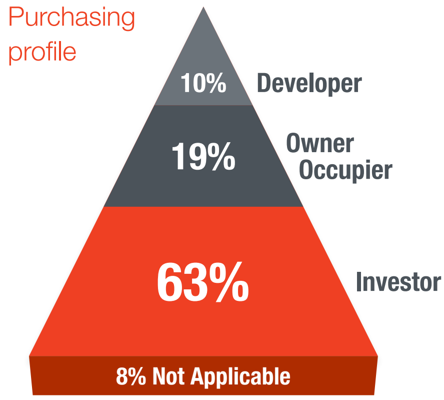
Interestingly, units closed the gap on houses in terms of capital growth in 2023, rising 6.4 per cent compared to 8.6 per cent for houses. The annual change in unit rents was higher than houses in every capital city except Darwin.

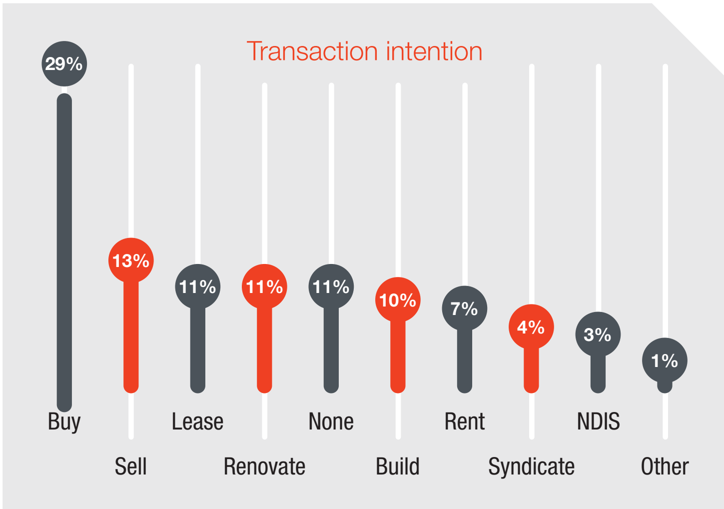
The rental yields are also significantly higher for units (4.4 per cent versus 3.5 per cent for houses), a key consideration in times of higher interest rates.

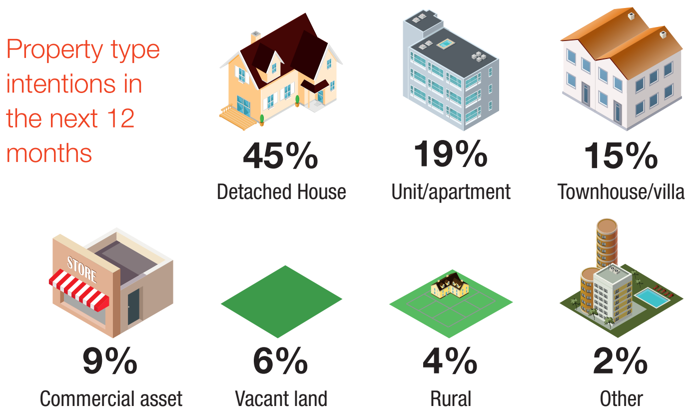
But if units are becoming a more popular option for a range of buyers, that's not been remotely evident in our survey.

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.

Twelve months down the track and there has been a huge reversal. Houses have more than doubled by this measure to 45 per cent, with units slipping back 5 percentage points to 19 per cent, with townhouses/villas taking a hit to slip from 20 to 15 per cent, along with commercial (16 to 9 per cent), vacant land (12 to 6 per cent) and rural (5 to 4 per cent).







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 15/12/23 and 15/01/24 from 778 respondents.
Report compiled and authored by Craig Francis, Editor.

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