PIPA ANNUAL INVESTOR SENTIMENT SURVEY

October 2015

PROPERTY
INVESTMENT
PROFESSIONALS
OF AUSTRALIA

PIPA

Introduction

Welcome to the 2015 PIPA *Property Investor Sentiment Survey*.

In a year where real estate has taken centre stage, a number of factors make this year's survey particularly timely and relevant.

• There has been widespread discussion of whether or not a bubble exists in housing prices – especially in Melbourne and Sydney – both in the trade and the mainstream media.

• What constitutes relevant experience and qualifications of people who provide investment advice in this country continues to be a major topic.

• Through mid-2015, the Australian Prudential Regulation Authority (APRA) introduced a clamp-down on lending by banks to property investors.

• Property remains key to economic and jobs growth as we transition away from the mining lead growth story of the past decade.

• Further demands on the major banks' capitalisations provisions will change the lending landscape for investors as they still seek to obtain competitive loan options.

Many of the findings of this year's survey are encouraging, and some may be surprising. In general, though, this year's survey indicates that property investors are a lot more upbeat than the raft of challenges often debated in the outside world might suggest.

We are grateful to the support of the 1,063 property investors who participated in this survey and hope you find it an insightful read.

Ben Kingsley

Chair

Property Investment Professionals of Australia

Summary of key findings

Some of the key insights revealed in the 2015 PIPA *Property Investor Sentiment Survey* are:

1. APRA's clamp-down on lending to investors in residential real estate has had some impact.
In spite of the clamp-down, well over half of all investors (60%) are looking to buy a property in the next six to 12 months. The tightening of funding is – by a small margin – seen as a bigger challenge than other problems, such as a correction in the property market or widespread discussion of a property bubble.

2. Mortgage brokers are an important source of finance for investors and are becoming more important. Two thirds of property investors worked with mortgage brokers to fund their last deal and nearly three quarters will likely use the services of mortgage brokers to fund their next deal. Investors also seek advice from many other sources, including lawyers/conveyancers and accountants and there is rising demand for advice and insights from properly qualified property advisers. Investors also fully support greater education of property investors and the licensing of all the professionals whose services they might use.

3. In spite of the challenges, property investors remain reasonably upbeat with 63% confident it's still a good time to invest in property. This is likely down to their long-term view and 'borderless' approach to investment, which indicates they are getting more sophisticated and confident in their approach. They also have clear views of what sorts of properties they want. They prefer established houses in metropolitan areas and think that the prospects for Brisbane are better than those for other capitals. There is virtually no interest in investing in properties in mining towns.

4. The experience of investors, and their constructive collaboration with mortgage brokers and other trusted advisers, means they are reasonably unperturbed about most potential challenges.
A tightening of lending by banks to property investors is – by a small margin – the biggest concern, slightly ahead of a potential correction in property prices and the removal of negative gearing. The possible removal of negative gearing is one of the issues that investors worry about. However, only around half of surveyed investors actually use negative gearing and a sizeable majority of this group expect that their properties will become positively geared within five years.

5. Property investors remain a diverse group of people.
What they have in common is that they are experienced, looking outside Sydney and Melbourne, and are taking the long-term view – regardless of what exactly their (typically deeply considered) investment strategies may be. They are also almost all investing outside SMSFs. Where they differ is that they come from different household income brackets (i.e. they are emphatically not all high income) and they do not all have the same investment objectives. However, 42% say that the potential for long-term wealth benefits is what makes property investment such an attractive choice right now.

APRA's clampdown on lending to investors has had an impact – but not a major one

A third (32%) of investors say that recent changes to lenders' policies have impacted on their ability to secure finance for an investment property. Nevertheless, 37% say it hasn't impacted them and about 49% reported buying an investment property in the last year. Of those surveyed, 60% are also looking to purchase in the next six to 12 months. Only 20% say concerns about a property price 'bubble' have caused them to put their investment plans on hold. And 65% say that they would still buy an investment property if lenders charged higher interest rates than they would to an owner-occupier.

Two thirds of investors worked with mortgage brokers for their last investment loan and an even higher number say that they will use mortgage brokers for their next loan. Mortgage brokers are seen as one of many sources of professional advice. More crucially, though, they are seen as the professionals who can arrange access to funding for investments in spite of APRA's clamp-down.

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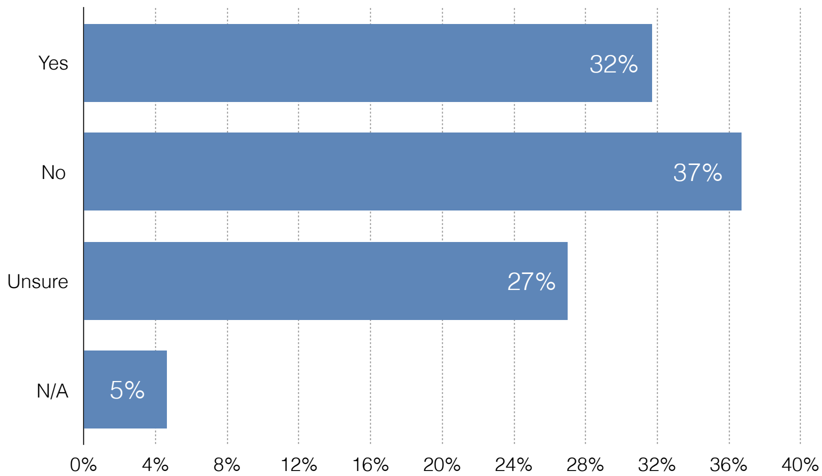
Have recent changes to lending policies impacted your ability to secure finance?



N.B. All responses rounded to nearest whole number.

Property professionals are becoming more important

Investors rely heavily on professional advice, and usually from several different professionals. Of those surveyed, 76% have worked with mortgage brokers in the past. Large numbers of investors have also sought services of accountants (69%), lawyers/conveyancers (61%), property investment advisers (40%), property managers (49%) and property educators/ coaches (39%).

Mortgage brokers play a key role as providers of finance to investors. Two thirds (66%) of respondents secured finance for their last investment loan from a mortgage broker. An even greater number – 72% plan to seek finance through a mortgage broker for their next investment loan. Conversely, 27% of investors sought their last investment loan directly from a bank and only 20% expect to seek their next investment loan directly from a bank.

Investors believe strongly in the value of professional training and education. A significant 67% think Australia needs a more comprehensive education program for property investment and 91% believe that people who recommend property investment should be regulated and licensed. Looking forward, 52% say they will seek advice from a property investment adviser. Very few of the investors surveyed are worried about the possibility of being conned by property spruikers. This is likely because most of the investors are well-experienced and relying heavily on advice from professionals. Spruikers are more likely to take advantage of inexperienced and aspiring investors.

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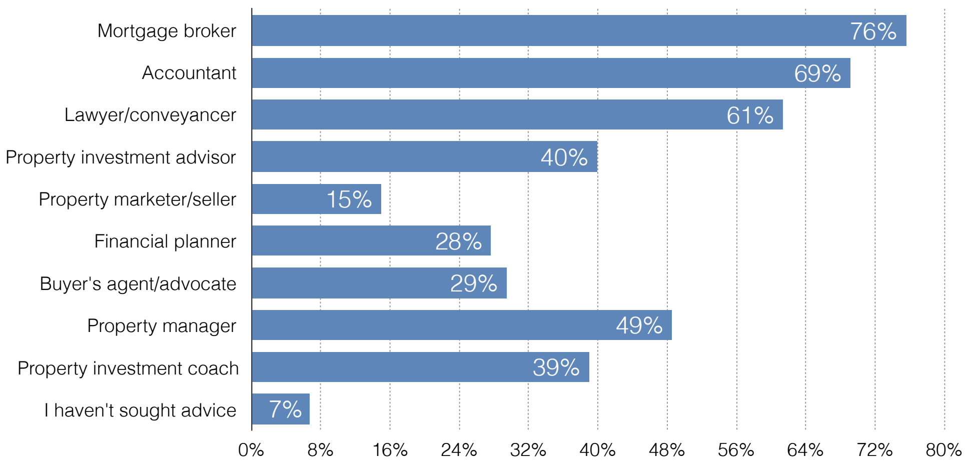
Which professionals have you sought services from in the past?



N.B. All responses rounded to nearest whole number.

Property investors remain upbeat

Only one fifth (20%) of investors say concerns over a property bubble have caused them to put their property investment plans on hold. In fact, 63% consider now is a good time to invest in property. Almost as many – 60% expect they will buy an investment property in the next six to 12 months. Of this group, 49% will look to buy a house, while the remainder are divided between those who are looking for a townhouse/villa, a unit/apartment, or a house/land package, and those who are undecided. In any event, investors who are looking to buy are overwhelmingly (82%) anticipating a purchase of existing stock, suggesting investors remain averse to investing in new property.

An overwhelming majority of investors (74%) think metropolitan markets are the most appealing place to buy right now. Another 18% indicated a preference for regional markets, and 8% for coastal locations. Almost no potential buyers are attracted to mining towns (less than 0%). Brisbane was identified by 58% of investors as being the state capital which currently offers the best investment prospects. The corresponding figures for Sydney and Melbourne were 11% and 17%. Given the numbers of investors who identify each state or territory as their home are broadly similar to the relative populations of the states and territories, this suggests that many property investors are 'borderless' and are prepared to look at interstate opportunities.

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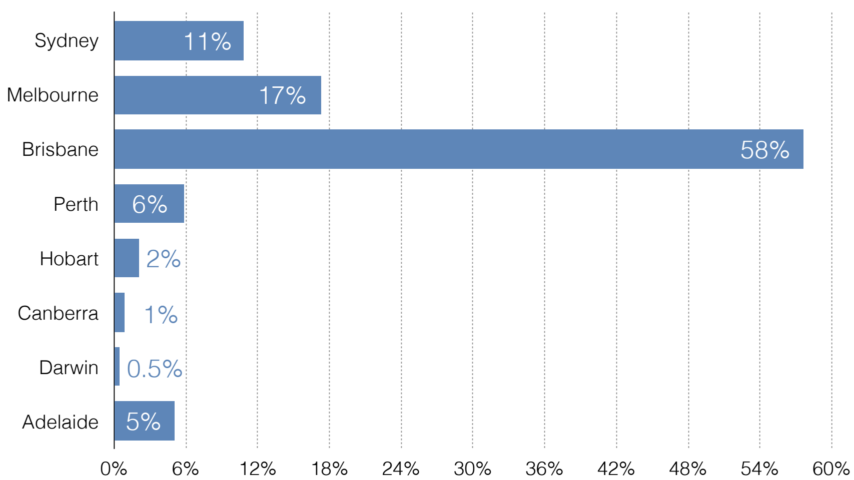
Which state capital represents the best investment prospects?



60% of investors plan to buy an investment property in the next 6-12 months

NB. All responses rounded to nearest whole number

A number of issues are keeping investors awake at night

A tightening of lending by banks to property investors is – by a small margin – the biggest concern. Some 20% of investors said it was the most important challenge (out of eight identified) while another 15% rated it as the second most important challenge. These figures mean that the tightening of lending conditions is only a little more important to investors than a correction in property prices (top concern for 19% of investors) or a possible removal of negative gearing (16%). The fourth most important challenge, from the point of view of property investors, appears to be long-periods of vacancy (12%). Investors are less worried about a possible oversupply of property. This was the most important challenge for 10% of investors, and the second most important challenge for another 12%.

The possible removal of negative gearing is one of the issues that investors worry about. However, only around half of surveyed investors (54%) actually have negatively geared property. The other 46% are generating positive cashflows from their properties. Furthermore a sizeable majority of this group expect that their properties will become positively geared within five years. Tax considerations are the most important reason for investment for just 7% of investors. This means many investors are not negatively geared, and for those that are, there properties will eventually generate positive incomes and greater tax revenues. It also suggests investors see the removal of negative gearing as being bad for the market as a whole – if not necessarily for themselves.

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What is currently the biggest concern for you as a property investor? (Ranked 1-8)

1. Tightening of investor lending
2. A correction in property prices
3. Removal of negative gearing
4. Long periods of vacancy
5. Oversupply of property
6. Being conned by a property spruiker
7. Rising loan rates
8. Falling rental yields

Investors remain a diverse group

The investors surveyed generally have substantial experience in real estate investment, with 44% owning between two and four properties and 23% owning between five and 10. Half have purchased a property in the last year. Of this group, only 19% were first time investors.

Almost three-quarters (70%) of the investors who made a purchase in the last year purchased an existing property. The remainder were almost evenly divided between those buying a brand new property and a property off the plan. Only 17% are looking to make a property investment through their SMSF in the next 12 months.

Many are investing in property as a part of their plans for retirement income. Only 4% of investors are aged 66 or older. The largest groups are aged between 36 and 45 (31%), 46 and 55 (29%) and 56 and 65 (19%). 61% of investors select properties carefully on the basis of a long-term investment strategy. Another 19% monitor listings for the right property, but rarely purchase. Of those surveyed, 13% delegate all the decision-making to the property professionals with whom they work.

The detailed motivations for investing in property are varied. When asked for one reason why investing in property is the most attractive investment choice right now, 42% nominate long-term wealth benefits.

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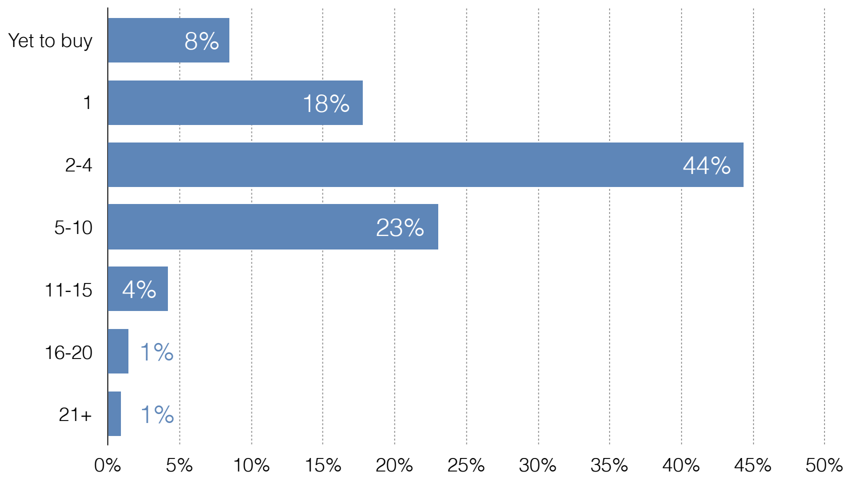
How many properties are in your portfolio?



A majority (42%) of property investors cite long-term wealth benefits as the top reason to invest in property

N.B. All responses rounded to nearest whole number.

Other responses include capital growth opportunities (19%), low interest rates (14%) and safety relative to other investments (10%). When asked to rank the importance of capital growth, rental income and tax benefits as a reason for investing in property, 76% of investors put capital growth in first place, and 18 per cent selected rental income. Only 7% of investors identify tax benefits as the most important reason.

More than half of property investors (53%) have annual household income that is $150,000 or less. A small 4% have annual household income of under $50,000. Another 9% have annual household income that is between $50,001 and $75,000. The percentages that have annual household income of between $75,001 and $100,000 and between $100,001 and $150,000 and between $150,001 and $200,000 were 14%, 28% and 20% respectively.

Only 54% of investors are using negative gearing. The remaining 46% have properties with positive cash flows. Of those investors who do use negative gearing, most expect that their properties will start generating positive cash flow from one to three years (34%) or from four to five years (29%).

Above all, the investors differ widely in terms of their property investment exit strategies. Of those surveyed, 35% plan to hold and never sell. Another 31% expect to sell down some or all of their property investments. Maeanwhile, 13% want to live off the equity, while another 21% say that they are currently unsure about their investment strategy.

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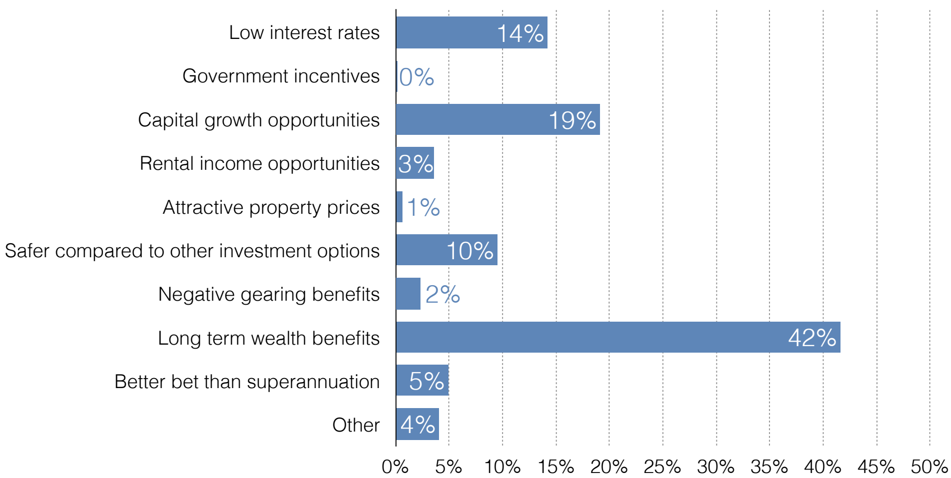
Why is investing in property the most attractive investment choice right now?



N.B. All responses rounded to nearest whole number.

A positive road ahead for property investment

Most of the trends in residential real estate investment in this country are positive. Property investors are a varied group, but they are overwhelmingly investing in real estate as a part of a carefully considered strategy. They are increasingly relying on a diverse group of professionals for advice. Mortgage brokers are among this group and are playing an expanding role as conduits for the funding that the investors need. Investors understand the importance of education in relation to what they do and overwhelmingly support the concept that professionals should be licenced and regulated.

What is already a strong relationship between the investors and professionals in general appears set to improve further. The investors' confidence in the advice and assistance that they are receiving from the professionals means that they can look through the various short-term challenges. The professionals' help means that the investors can continue to focus on the long-term opportunities from their property investments.

About the PIPA Property Investor Sentiment survey

The PIPA *Property Investor Sentiment Survey* of 1,063 property investors was conducted online in September 2015. Respondents were sourced from PIPA's database of property investors and its members' databases. PIPA's membership base includes property investment advisers as well as a range of professionals whose business operations form part of the property investment process. These include financial planners, property buyers and advocates, accountants, mortgage brokers, real estate agents, lenders and developers.

To download a copy of the full survey results visit www.pipa.asn.au/survey2015.

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To find a PIPA member or QPIA in your area, or to learn more about Australia's peak association for property investment professionals visit

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