PROPERTY INVESTMENT PROFESSIONALS OF AUSTRALIA

PIPA Annual Investor Sentiment Survey 2019

Introduction

Welcome to the 2019 PIPA Annual Property Investor Sentiment Survey – Australia's most comprehensive snapshot of the nation's property investor community.

This survey is a rare and detailed portrait of Australia's residential property investors and how they think.

Investors remained upbeat about property in 2019 and were demonstrably more positive about the market compared to the same time last year – despite slower markets in Sydney and Melbourne and a relatively tight financial environment.

However, the two leading concerns of the nearly 1200 investors surveyed were gaining access to lending and Australian economic conditions.

The survey found that Labor's proposed changes to negative gearing and Capital Gains Tax legislation heavily influenced the way that 75 per cent of investors voted in the recent Federal Election, despite short-term tax benefits being the least important criteria in investment property selection in this year's survey results.

Difficulty obtaining finance, as well as the popularity of banks being on the slide over the past year, meant that about 59 per cent of investors are now more likely to consider a non-major bank lender, especially after the outcomes of last year's Banking Royal Commission.

Indeed, given tight lending conditions and the financial sector's response to the Banking Royal Commission, a staggering 25 per cent of respondents have found they were unable to refinance an amount they were able to borrow previously.

Legislation is also having an impact on landlords, too, with more than four in five investors indicating they would pass on increased costs to tenants resulting from any potential changes to State and Territory tenancy laws.

There is no doubt that first home buyers have made the most of the softer market conditions over the past year, however, over one-third of first-time buyers self-identified as rentvestors in the survey – where they've bought an investment property while renting elsewhere.

Borderless investing is also popular, with 45 per cent of investors looking to buy outside the state that they live in.

While Brisbane is once more the preferred capital city for investment among respondents, there has been a dramatic rebound in Sydney's appeal among investors – rising from nine per cent in 2018 to 14 per cent in 2019.

This year's survey also again highlighted the need for improved professional standards and regulation of the property investment advice industry.

In fact, 88 per cent of investors continue to believe that more education is needed around the risks and benefits of investing in property, plus virtually all (93 per cent) of respondents believe that any provider of advice should have formal training.

Indeed, about 90 per cent of investors believe the property investment industry should be regulated and licensed the same way that financial planners, mortgage brokers and real estate agents are.

Distributed via our members' extensive investor networks, the 2019 PIPA Annual Property Investor Sentiment Survey provides an exceptional insight on the opinions of Australia's residential property investors.

We sincerely thank the 1192 investors who participated in the survey.

Peter Koulizos

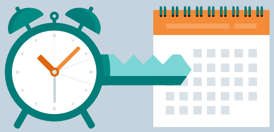
PETER KOULIZOS,

CHAIR, PROPERTY INVESTMENT PROFESSIONALS OF AUSTRALIA

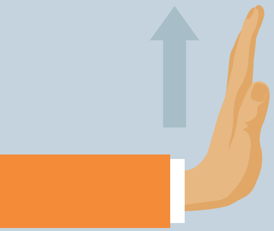
Summary of key findings

Property investors focus on the long-term merits of real estate and have become increasingly bullish about the current market

82% of investors believe that now is a good time to invest in residential property, which is up from 77% in 2018.



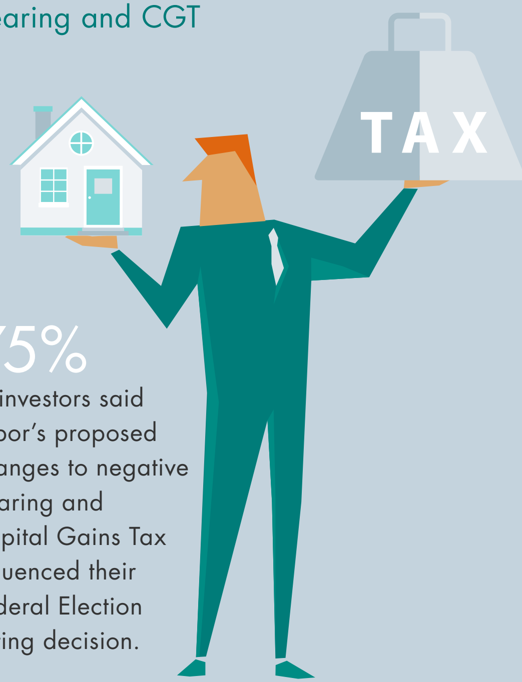
Lending and the economy continue to concern investors



However, given tighter lending conditions and the financial sector's response to the Banking Royal Commission,

25% of respondents have found themselves in a position where they were unable to refinance an amount that they were able to borrow previously.

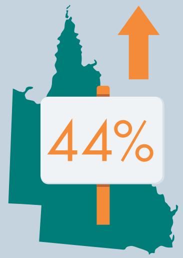
Investors voted in force against proposed changes to negative gearing and CGT



75% of investors said Labor's proposed changes to negative gearing and Capital Gains Tax influenced their Federal Election voting decision.

Brisbane stays in favour while Sydney's appeal is back on the rise

The number of investors who see Brisbane as the state capital with the best investment prospects has remained at 44% in 2019 (same outcome as 2018). Brisbane continues to be seen more positively than Melbourne (27% in 2019 vs. 26% in 2018), Sydney (14% vs 9%) and Adelaide (7% vs 8%).



Potential changes to state tenancy laws could see rising costs passed on to tenants

67% said if tenancy law changes increased the holding costs for an investment property, they'd consider passing some of these expenses on to the tenant.

Investors are still on the hunt for a better lending deal

Over 27% said they would consider refinancing their loan for an interest rate differential of just 0.5 percentage points while just under 17% said they would consider refinancing for one percentage point. Both were similar to the 2018 results.

Established houses remain the top investment choice

The number of investors looking to buy existing stock continues to be high, reflecting 91% – a fall of just 2% on last year's result with 71 per cent saying they intended to buy an established house in the next 12 months.

91%

Investors want to see greater professional standards

88% An overwhelming majority of respondents (88%) think more education is needed around the risks and benefits of investing in property, and almost all (93%) believe that any provider of property investment advice should be regulated/licensed.

Property investors focus on the long-term merits of real estate and have become increasingly bullish about the current market. Near-term investors are most interested in established houses.

Around 98% of property investors have some form of idea, plan or strategy around their investing, with 26% having a detailed and modeled plan designed to match long-term investment goals.

Some 78% of investors says any concerns about potential falling house prices won't cause them to put investment plans on hold

About 82% of investors believe that now is a good time to invest in residential property, which is up from 77% in 2018.

About 48% of investors are looking to purchase a property in the next six to 12 months, down from 52% in 2018.

Of those looking to invest in the next six to 12 months, 71 per cent are interested in purchasing an established house, with the remaining distribution including townhouse/villa at 6%, unit/apartment at 6% and house-and-land package at 2%.

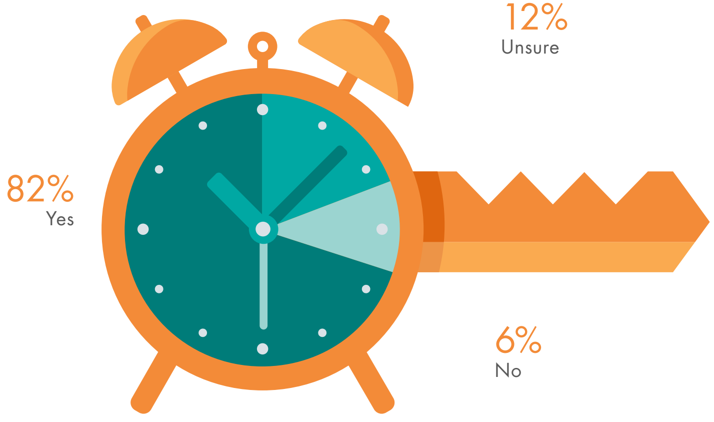
However, the number of investors in the market has fallen dramatically with 34% of investors purchasing a property over the past 12 months, down from 43% in the 2018 survey, and 47% in the 2017 survey.

The overwhelming majority of respondents are investment veterans who have purchased several properties in the past – 44% hold two to four properties in their portfolio, while another 17% hold five to 10. This was down on the 2018 numbers showing 45% and 21% respectively.

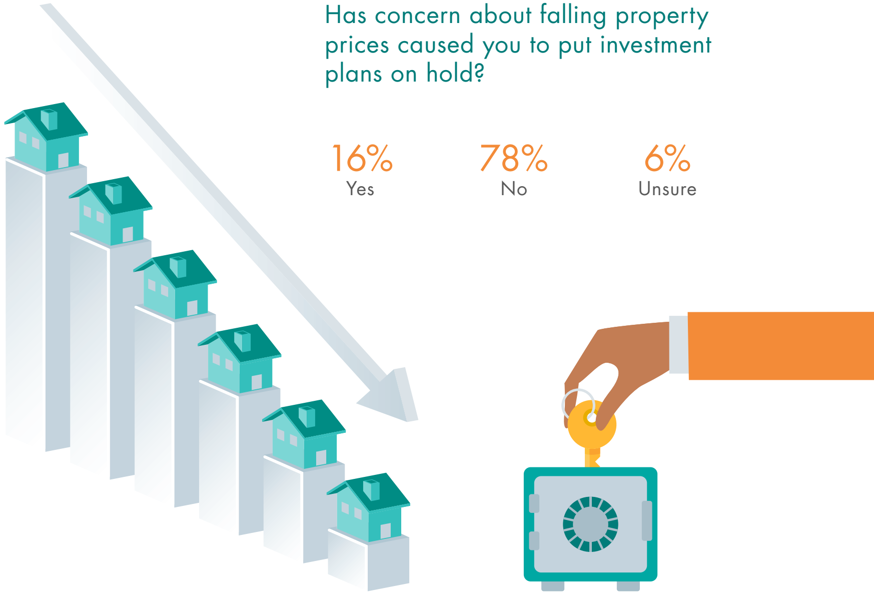
That said, there was good representation from first-time investors. Of all respondents who purchased in the past 12 months, 21% (85) purchased their first investment property in the year. Of these first-time purchasers, 75% purchased an existing property (down from 83% in 2018) while 16% purchased new or off-the-plan (up from 14% in 2018). The remainder purchased vacant land.

The rise of the rentvestor is well and truly established in this cohort. Among these first-time investors, just over one third (34%) identified as renting elsewhere while the remaining 66% owned the home they lived in.

Do you believe now is a good time to invest in residential property?



Has concern about falling property prices caused you to put investment plans on hold?



What type of property would you buy?

71%
House

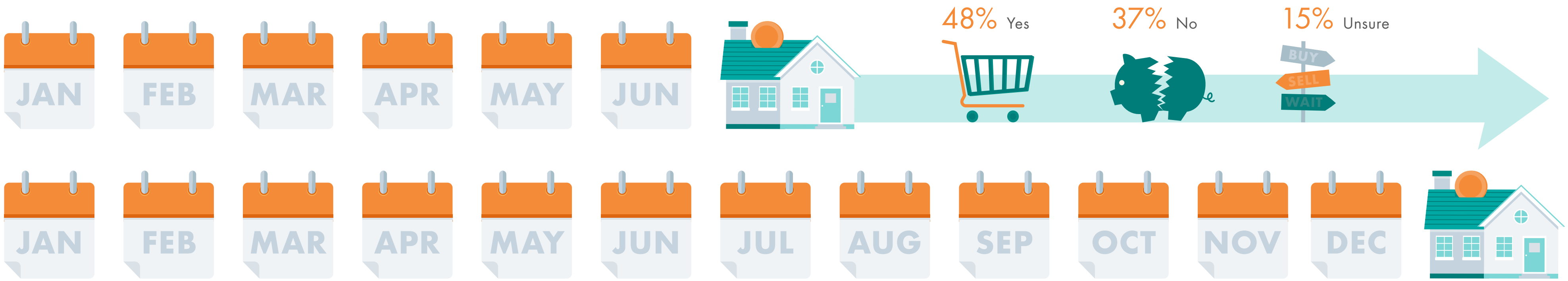
6%
Townhouse/Villa

6%
Unit/apartment

3%
House and land package

7%
Unsure

Are you looking to purchase an investment property in the next 6-12 months?



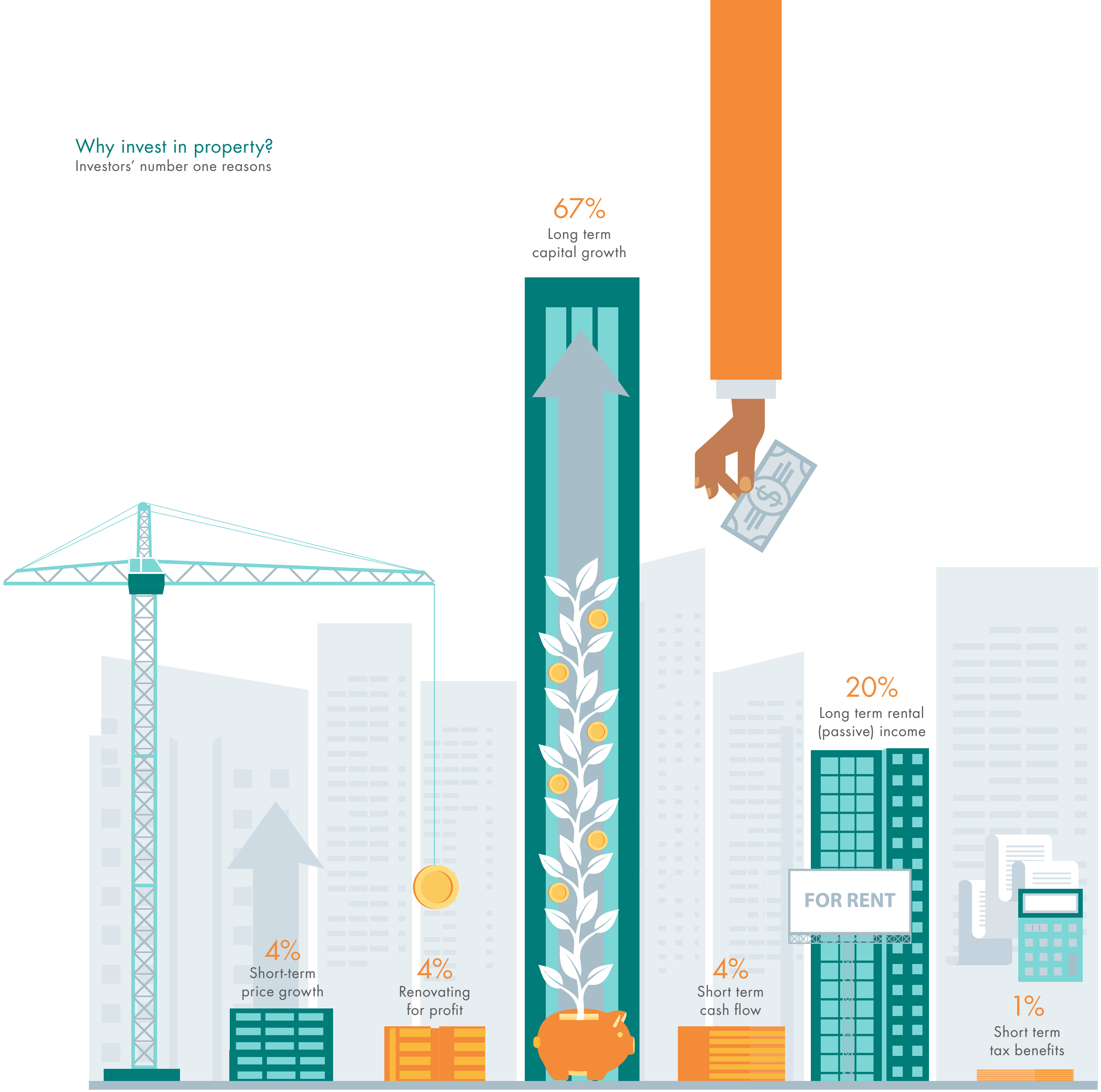
Property investors continue to seek long-term capital gains above all other drivers when choosing an investment.

Long-term capital growth beat out cash flow – both long- and short-term – as the most important aspect when choosing an investment.

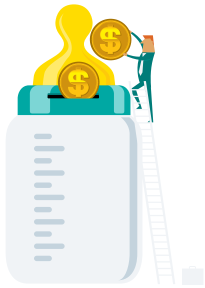
Short-term tax benefits continued to be seen as the least important driver when choosing an investment.

Property investors are looking to improve their lot. When asked why they choose to invest, the most important reason was to provide a better life financially for themselves and their family, while the idea of "becoming rich" was one of the least important reasons.

About 64% of investors said they were fine with being open about their investment activity with others, despite negative political and media perceptions of property investors as "greedy" – the same result as in 2018.

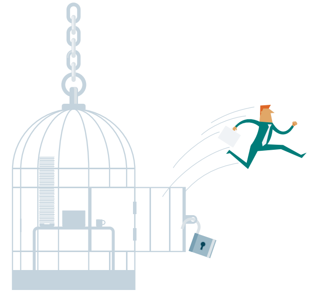


In order of importance, why do you, or why are you, planning to invest in property?



31%
To provide a better life financially for myself (and my family)

26%
To be self-funded in retirement



21%
To retire earlier or have the option to work less

10%
To add to my retirement nest egg

6%
To help provide for my child/children

2%
I don't trust the government with my superannuation

2%
To become rich

1%
The government hasn't got enough money to pay a reasonable pension to me in retirement

1%
I don't want to be a financial burden on the government when I/we retire. I want to pay my own way

Lending and the economy continue to concern investors

The two leading concerns of the investors surveyed were gaining access to lending and Australian economic conditions.

While 55% in 2019 (61% in 2018) of investors with interest only loans said they won't struggle to meet the new principal and interest repayments once the current interest-only period expires, 9% in 2019 (12% in 2018) said they would struggle.

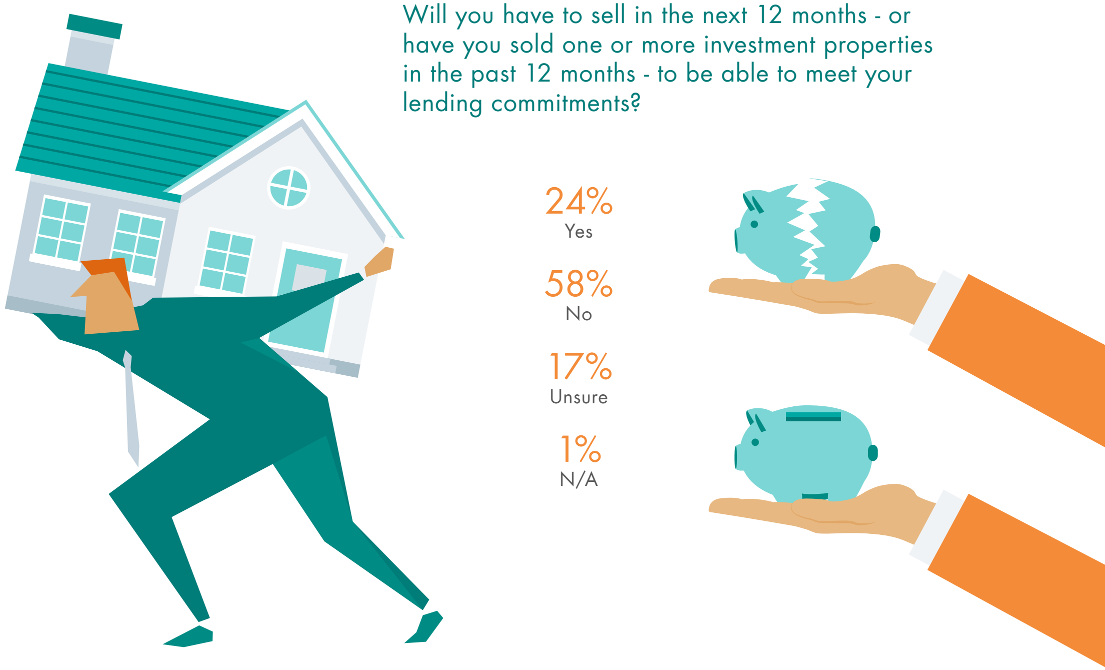
Of those that will struggle to meet P+I repayments, 24% said they have sold, or will have to sell, an investment property to meet lending commitments, which is a huge rise on the 5.5% result in 2018.

Given tighter lending conditions and the financial sector response to the Banking Royal Commission, 25% of respondents have found themselves in a position where they were unable to refinance an amount that they were able to borrow previously. 44% (up from 35% in 2018) said they were able to refinance, while 29% were unsure.

59% of investors are now more likely to consider a non-major bank lender after the outcomes of last year's Banking Royal Commission. Increased borrowing power and cheaper interest rates were the primary reasons investors were considering non-major bank lenders. Better credit policies also rated highly.

Thinking about last year's banking royal commission, are you now more likely to consider non-major bank lenders for your next mortgage?

Will you have to sell in the next 12 months - or have you sold one or more investment properties in the past 12 months - to be able to meet your lending commitments?



Investors are still on the hunt for a better lending deal

The survey found that about 27% of investors have secured a loan from a non-major bank lender in the past 12 months.

The top two reasons for doing so were cheaper interest rates and increasing borrowing power.

Over 27% said they would consider refinancing their loan for an interest rate differential of just 0.5 percentage points while just under 17% said they would consider refinancing for one percentage point. Both were similar to the 2018 results.

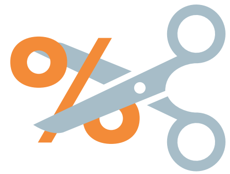
Almost 70% of investors secured their last investment loan through a broker, down from last year's result of 75%.

Only 20% secured their last loan directly from a bank – a similar result to 2018 – while 3% secured a loan directly from a credit union, building society or specialist lender.

About 78% intend to finance their next investment loan through a broker, down from 86% last year.

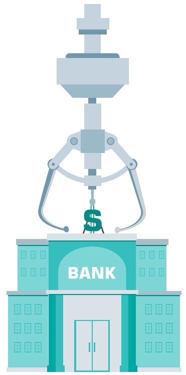
Given the current interest rate you are paying, at what interest rate differential would you consider refinancing your loan/s?

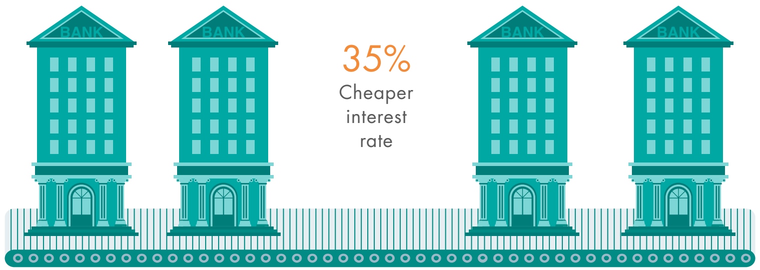
- 1% — 0.1 percentage points
- 8% — 0.25 percentage points
- 27% — 0.5 percentage points
- 13% — 0.75 percentage points
- 17% — 1.0 percentage points
- 11% — Greater than 1 percentage point
- 5% — Greater than 2 percentage points
- 3% — I don't care what interest rate I pay
- 15% — Unsure



What was the main reason for choosing a non-major bank lender?

- 6% — Better credit policy conditions
- 26% — Increased borrowing power
- 1% — Better property valuation
- 1% — Quicker response times
- 3% — Chose not to support a major bank
- 3% — Better product features
- 23% — My broker recommended them
- 2% — Cheaper fees and charges
- 35% — Cheaper interest rate





Investors voted in force against proposed changes to negative gearing and CGT

A staggering 75% of investors said proposed changes to negative gearing and Capital Gains Tax influenced their Federal Election voting decision.

About 41% of investors were negatively geared – down from 47% in 2018.

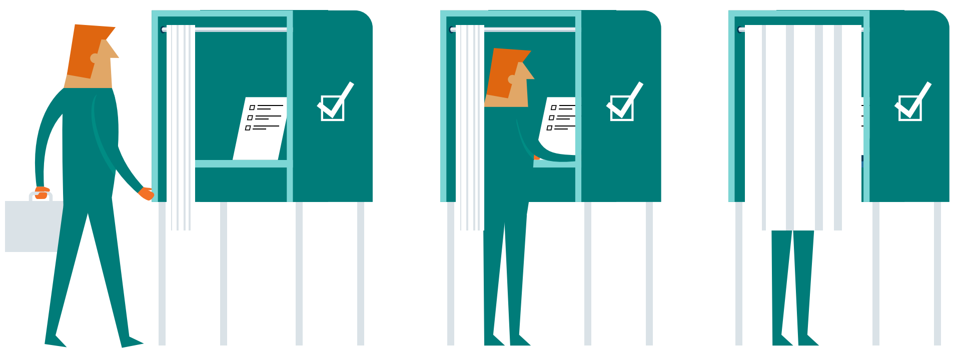
The vast majority of negatively geared investors expect to become positively geared within five years.

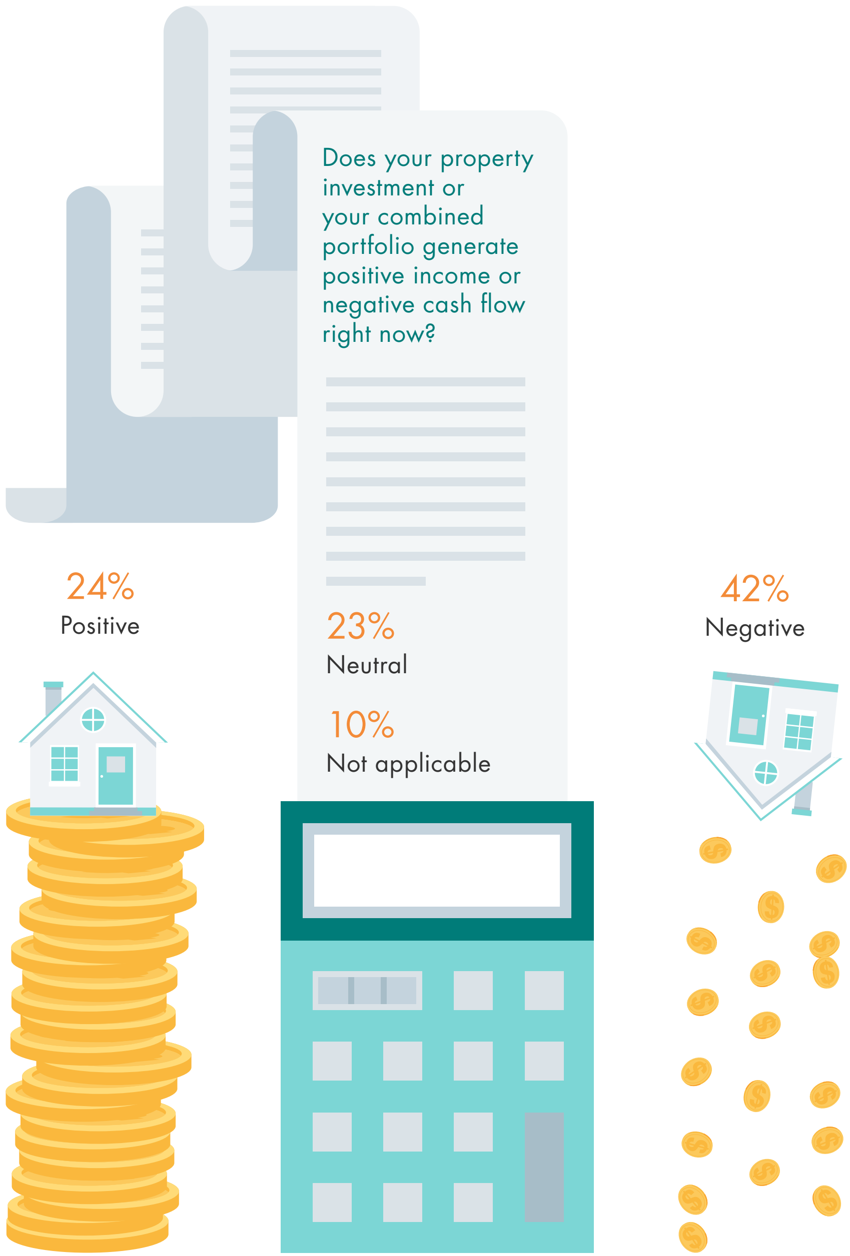
The vast majority of the negatively geared investors are not having trouble covering the cash flow shortfall at the moment.

Did the proposed changes to Negative Gearing and Capital Gains Tax influence who you decided to vote for in the recent Federal Election?

75% Yes

25% No





Established houses remain the top investment choice

The number of investors looking to buy existing stock continues to be high reflecting 91% – a fall of just 2% on last year's result with 71 per cent saying they intended to buy a house in the next 12 months.

The number of investors looking at off-the-plan units or house and land packages sits at 5% which is down from 6.4% in 2018.

Would you buy?

Rentvesting and borderless investing resonating

Borderless investing is popular, with 45 per cent of investors looking to buy outside the state they live in, while 24 per cent wouldn't and 31 per cent were unsure.

The majority (63%) of investors said they would consider rentvesting (renting in one location and investing in another) as a property investment strategy, which was the same percentage as in 2018.

Over one-third of first-time investors identified as 'rentvestors' – where they've bought an investment property while renting elsewhere.

Do you intend to buy your next investment property in a different State than the one you live in?

45% Yes

24% No

31% Unsure

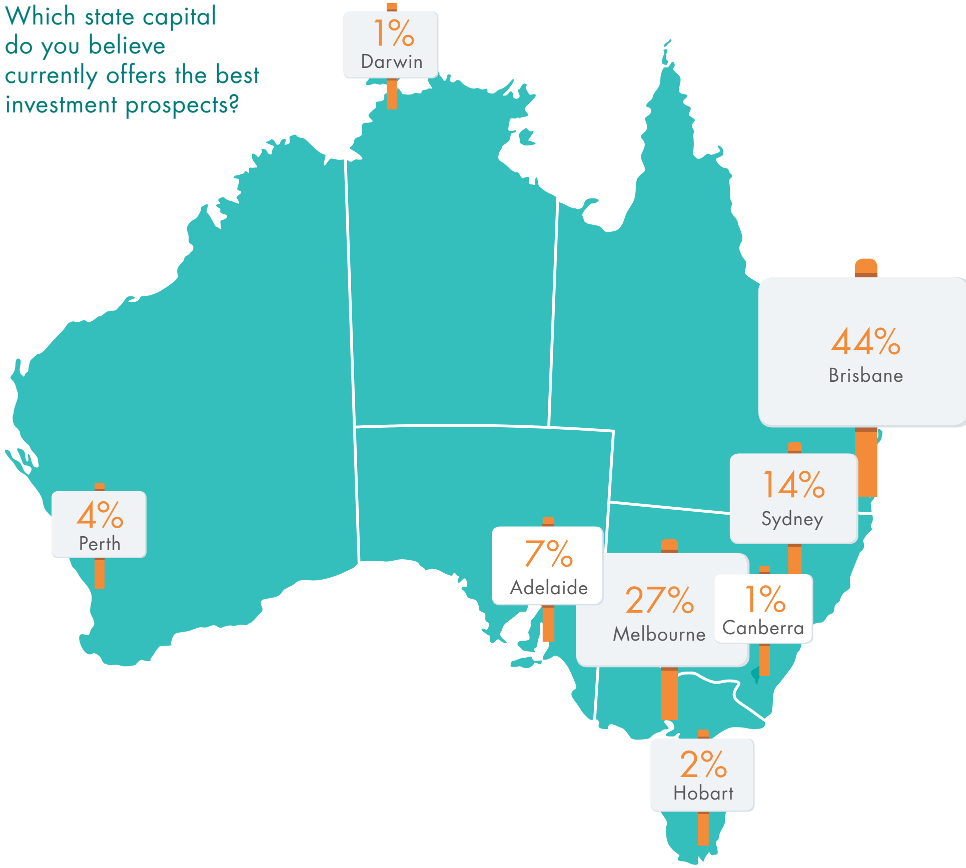
As metro locations retain their popularity, Brisbane stays in favour while Sydney's appeal is back on the rise

Investors remain keen on opportunities to invest in metropolitan markets (73% vs. 72% in 2018), while the appeal of coastal locations has stayed flat at 8% for both 2019 and 2018. Meanwhile the proportion of investors that say regional markets are the most appealing has also stayed at 15% in 2019 – the same as 2018.

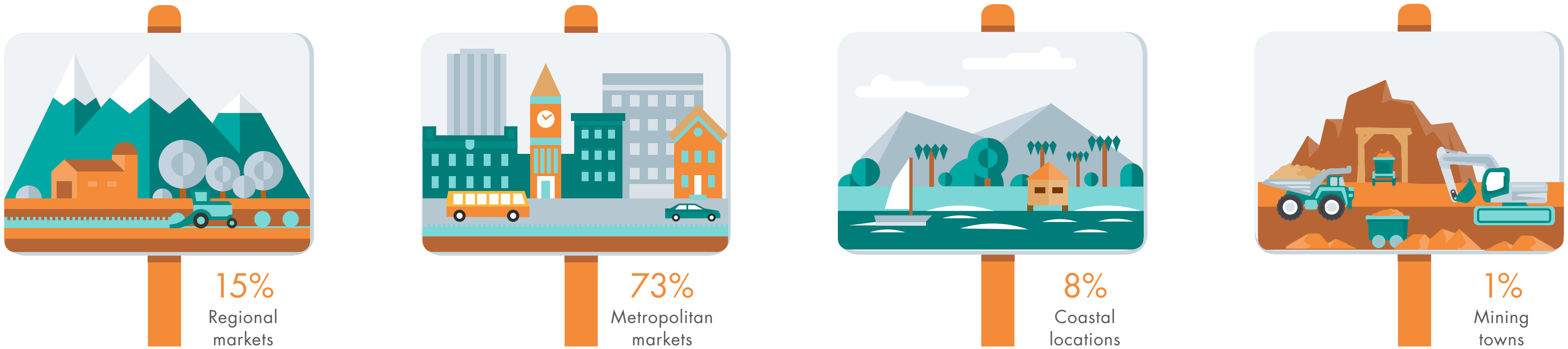
The majority of investors are also confident of their local market. When asked the direction of the property market in their state or territory, 53% said it was improving while 41% said it was flat.

The number of investors who see Brisbane as the state capital with the best investment prospects has remained at 44% in 2019 (same outcome as 2018). Brisbane continues to be seen more positively than Melbourne (27% in 2019 vs. 26% in 2018), Sydney (14% vs 9%) and Adelaide (7% vs 8%). Perth has fallen slightly in appeal (4% vs. 6%), while Hobart dropped to 2% this year, – down from 4% in 2018. Canberra sits at just 1% – the same as its 2018 result – and Darwin remains in the doldrums at 0.3%, (down from 0.5% last year).

Which state capital do you believe currently offers the best investment prospects?



Where is the most appealing place to buy right now?



Property investors are highly sophisticated and are overwhelmingly investing outside SMSFs

This survey paints a picture of an investment community that is highly sophisticated, with investors doing a lot of planning and research before they buy.

The overwhelming majority of respondents are investment veterans who have purchased several properties in the past – 44% hold two to four properties in their portfolio, while another 17% hold five to 10.

This was down on the 2018 numbers showing 45% and 21% respectively. Investors continue to use the services of specialised professionals with mortgage brokers, accountants and lawyers/conveyancers the most employed advisors.

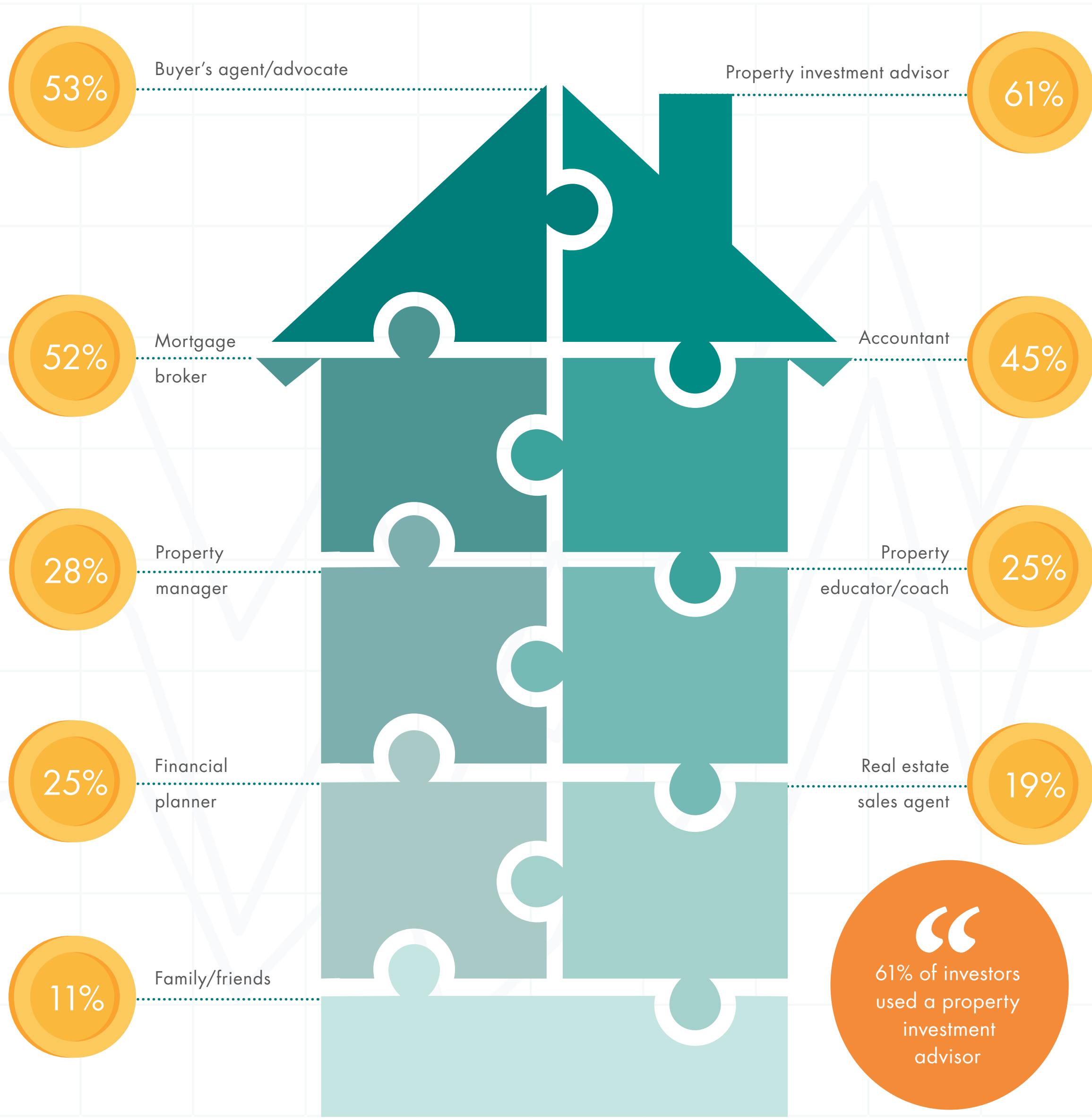
Investors are seeking property investment advice most commonly from property investment advisors, buyer's agents/advocates and mortgage brokers.

Of those that sought a professional investment advisor, 62% paid the advisor a fee directly.

Of those that sought professional advice, 55% were provided with a written report or plan, 18% weren't provided with a plan and 28% responded 'not applicable' to the advice they sought.

Investors seek knowledge and education from a wide range of sources. In 2019, podcasts were the most used source along with professional advisors.

Where have you sought/where do you plan to seek property investment advice from?



Investors want to see greater professional standards

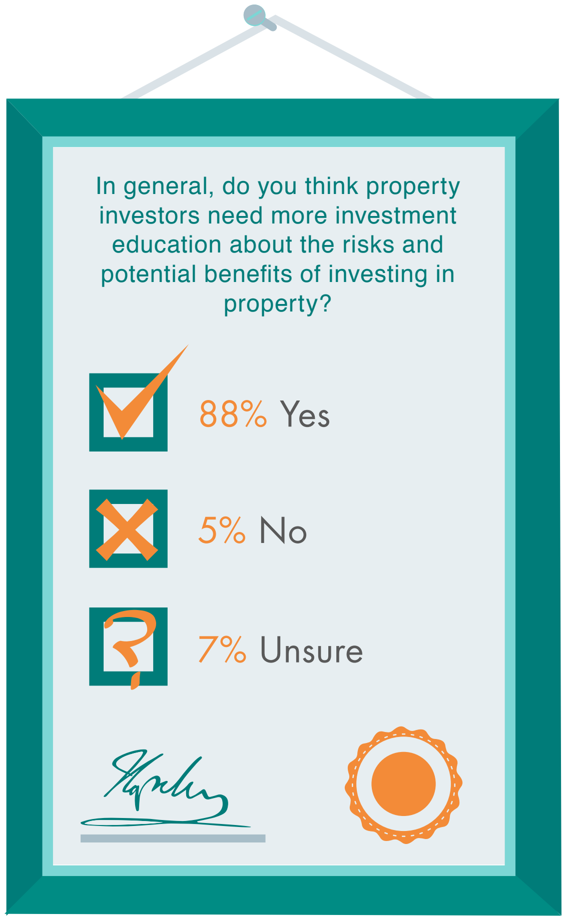
The survey found that 88% of all investors continue to think that more education is needed around the risks and benefits of investing in property.

Virtually all (93%) investors continue to think that any provider of advice should have formal training.

About 90% of investors believe the property investment industry should be regulated and licensed the same way financial planners, mortgage brokers and real estate agents are.

87% of investors are aware that PIPA exists – a similar result to the 2018 figure – while 31 per cent said an advisor's PIPA membership influenced their decision in selecting them.

About 78 per cent of respondents were aware of the not-for-profit association, PICA, which is an advocacy group working on behalf of investors.



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About the survey

The 2019 PIPA Annual Property Investor Sentiment Survey of 1192 investors was conducted online in August and September 2019. Respondents were sourced from PIPA's database of property investors and its members' databases of investors. PIPA's membership base includes property investment advisors, 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 full copy of the results visit **www.pipa.asn.au**