PROPERTY INVESTMENT PROFESSIONALS OF AUSTRALIA

PIPA

PIPA Annual Investor Sentiment Survey 2023

Introduction

Welcome to the 2023 PIPA Annual Property Investor Sentiment Survey – Australia's most comprehensive snapshot of the nation's property investment community.

This research paints a detailed portrait of Australia's residential real estate investors and how they think and feel right now.

Property markets are in a state of flux. This time last year, home prices were falling on the back of rapidly rising interest rates, with sellers abandoning plans to go to market and activity grinding to a halt. The landscape now is vastly different, with sustained levels of high demand clashing with historically low levels of for-sale listings, meaning prices are on the rise again in much of the country.

At the same time, there has been significant discussion and debate about pressures in rental markets virtually everywhere. Conditions remain very tight for tenants, who are facing increased competition to secure a shallow pool of available properties.

The imbalance between supply and demand is clearly getting worse, but most policymakers, a growing number of politicians, and many narrow-sighted commentators fail to acknowledge the main causes of the crisis.

This year's survey shows 12.1% of respondents sold at least one investment property in the past year. Of those investors exiting the market, their property was bought by another investor in just 24% of cases (down from 33% last year). Overwhelmingly, those rental homes were bought by existing homeowners (43.1%) or first-home buyers (30.3%).

> "Among the reasons why investors sold, the most common cited by 47% of respondents was governments increasing or threatening to increase taxes, duties, and levies.

This clearly shows that rental stock has diminished on the back of exiting landlords who are not being replaced, putting further pressure on the market.

A clear trend is emerging. The 2022 survey found 32.7% of respondents had sold a property in the prior 12 to 24 months to an existing homeowner and 24.3% sold to a first-home buyer. This means that for consecutive years now, a large volume of rental properties has been stripped from markets.

Using 2021 Census as the baseline of 2.478 million rental dwellings in Australia, it is estimated that many hundreds of thousands of rental properties could have been sold in the past few years, with a significant number being bought by existing homeowners – not by other investors. Clearly, this would partly explain the dramatic undersupply of rental properties available to tenants around the nation.

In terms of where the mass exodus is being most acutely felt, this survey shows investors are exiting the market rapidly in Melbourne (24.8%), Brisbane (23.3%), and regional Queensland (16.5%).

Queensland and Victoria have introduced some of the most punitive and wide-reaching legislative reforms in the country surrounding tenancies and taxation in recent times. Our survey shows these changes are a major reason why investors are choosing to sell up.

Among the motivations for investors selling, the most common cited by 47% of respondents was governments increasing or threatening to increase taxes, duties, and levies, making property a less attractive asset to hold. Victoria's land tax increase was one example offered. In addition, 43% of respondents cited changing tenancy legislation impacting their control and increasing their compliance and holding costs.

Both reasons outranked rapidly rising interest rates (40.1%) as a main pressure point, which is telling.

Other reasons for investors selling up in the past year were the threat of rental freezes (34.6%), a need to reduce total borrowings (33.1%) and positive selling market conditions (29.2%).

Of those investors who sold an asset in the past year, 12.9% believe they will never purchase an investment property again. And unfortunately, in another sign of more rental stress to come for tenants, the survey found 38% of investors say it is likely they will sell within the next 12 months – up significantly from 19% in last year's survey.

Again, the reasons investors are thinking of selling include the chance of higher taxes, levies or duties (45.2%), changing tenancy legislation (43%), and talk of rental freezes or caps (42.9%).

When asked to rank the states least accommodating of property investors, a staggering 57.4% nominated Victoria.

Where investors have sold at least one investment property over the past 12 months

Some investors sold more than one property and in multiple states.

When asked about growing cost pressures, 26% of respondents reported an increase in holding costs of between 11% and 25% in the past year. As a result, 12.5% of respondents reported experiencing difficulty covering the cash flow shortfall at present. Despite perceptions inflamed by some politicians and the media, the majority of landlords are passing on just 10% or less of their higher costs to tenants in the form of rent increases.

The potential for further interest rate increases continues to be a cause of concern. When asked at what point they might need to exit the market for financial reasons, 19% of respondents nominated a further cash rate increase totalling one percentage point while 11.2% said a 50 basis point hike would be a trigger.

In positive news, 56% of investors believe that now is a good time to invest in residential property, but this is down slightly from 58% in 2022, and down significantly from the 62% recorded in 2021.

Virtually all (90%) investors continue to think that any provider of advice should have formal property investment training or education. Likewise, 75% of investors said a QPIA qualification would influence their decision to work with a particular property investment professional.

Our thanks go to the record 1,724 investors from around Australia who participated in the survey.

Nicola Mcdougall

NICOLA MCDOUGALL,

CHAIR, PROPERTY INVESTMENT PROFESSIONALS OF AUSTRALIA

"Virtually all (90%) investors continue to think that any provider of advice should have formal property investment training or education.

Key findings

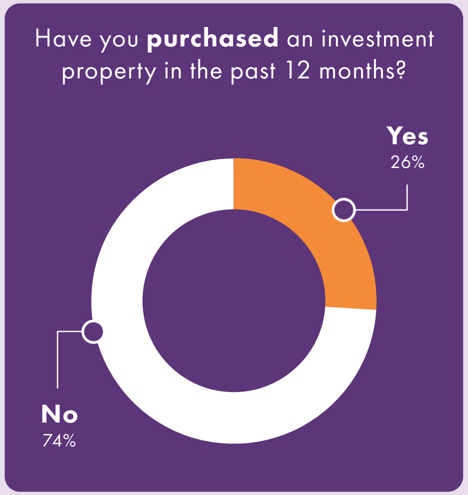
Hundreds of thousands of rental properties sold

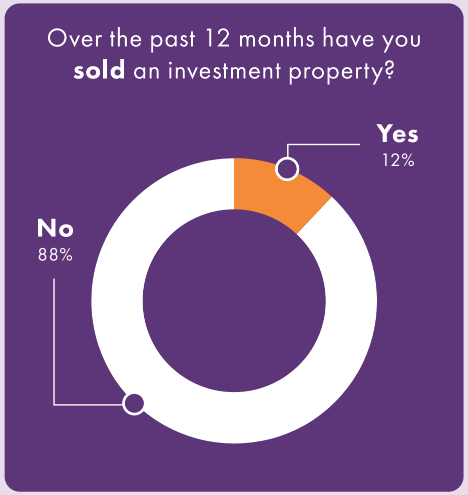
Last year's survey showed 19.2% of investors were considering selling in the 12 months ahead, and this new research shows a staggering 12.1% followed through with that intention, offloading one or more of their properties in the past year.

According to data from the 2021 Census, there are approximately 2.478 million rental properties across the country.

If the vast majority of investors hold just one property and 12.1% of respondents sold within the past year, that could equate to 217,072 dwellings* having been stripped from rental markets across Australia given 73% survey respondents indicated they sold to a homeowner rather than an investor.

Last year's survey found that about 265,000* had potentially been removed from the national rental market in the previous two years.



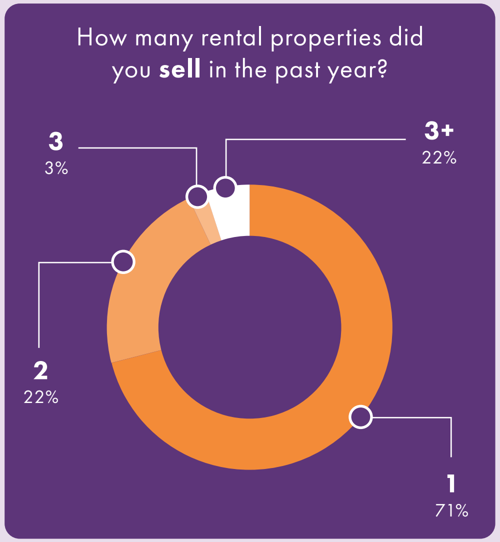


Few exiting investors are being replaced

This year's survey shows that investment properties sold in the past 12 months were not remaining in the rental market.

Respondents who sold report their buyers as being existing owner-occupiers (43.1%) or first-home buyers (30.3%). Just 24% of those purchases were by other investors, compared to 33% last year. Alarmingly, of those who sold in the past year, 12.9% say they will never purchase an investment property again.

This all spells bad news for tenants already struggling with incredibly low levels of supply, which is putting upward pressure on rent prices. Private landlords provide the overwhelming bulk of rental properties. At a time when they are needed more than ever, it's clear that property investors are being driven out of the market.



Key findings

Investors feel they are no longer in control of their assets

Part of the reason investors are exiting the market in such high numbers – and why so few are entering – could be punitive and restrictive legislative changes that have taken place, or are on the agenda, across Australia.

A staggering 38% of investors have indicated they might sell a property over the coming year, with the top reason being governments increasing or threatening to increase taxes, duties, and levies (47%). Respondents who selected this reason felt property has become a less attractive asset to hold as a result of policy reforms, such as Victoria's land tax increase.

Changing tenancy legislation that impacts their control and increased their compliance burden and holding costs was cited as a reason by 43% of respondents.

So significant are these types of policy changes, which dramatically impact the viability of holding an investment property, that both reasons outranked rapidly rising interest rates (40.1%) as a main pressure.

If you are now thinking of selling one or more investment properties in the next year, what would be your **reasons for selling**?

47%
Governments increasing (or threatening to increase) taxes, duties, and levies make it a less attractive investment tohold (e.g. Victorian Government land tax increases)

43%
Changing tenancy legislation impacting my control and increasing my compliance and holding costs

40%
Rising interest rates and higher loan repayments is making it unaffordable for me to continue to hold

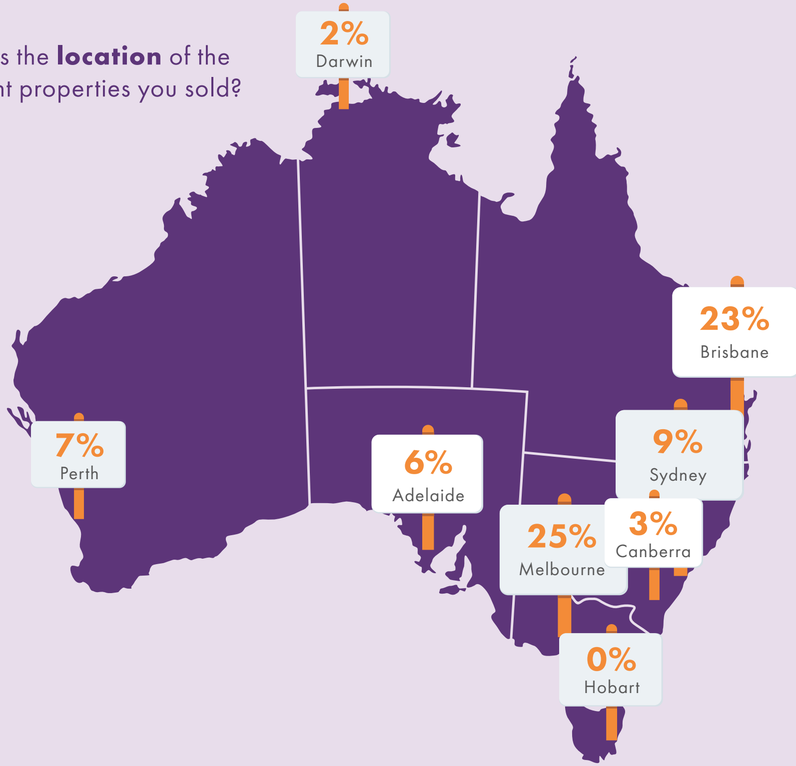
Investors are deserting states that attack them

The survey clearly shows the impact of restrictive reforms on property investment activity.

It found that 24.8% of investors sold one or more properties in Melbourne last year, followed closely by Brisbane at 23.3%. Outside of those capitals, 16.4% sold in regional Queensland and 6.4% sold in regional Victoria.

No other capital city came close. For example, 8.9% of investors sold in Sydney, 5.9% sold in Adelaide, 6.4% sold in Perth and 3.4% sold in Canberra.

What was the **location** of the investment properties you sold?



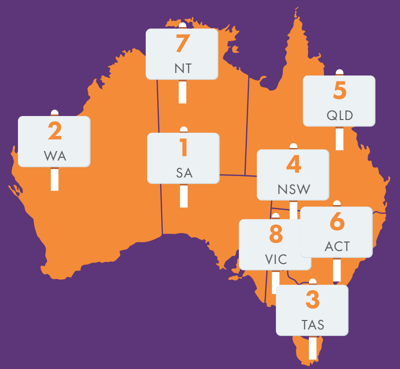
Key findings

States where investors feel most welcome

When asked to rank each state and territory from best to worst in terms of how positively they support property investors, respondents were in agreement about where they feel encouraged to invest their money.

Ranked from one to eight (info graphic below), one being the most accommodating and eight being the least, 57.4% scored Victoria an eight and 23.5 scored Queensland a seven. Just 3.1% of respondents scored Victoria a one. More scored Queensland in the upper quartile than the lower quartile.

Rank each State and Territory Government from **best to worst** in terms of positively supporting property investment in their state or territory. In considering your answer, take into account stamp duty, land tax, duties,levies, costs, and tenancy laws.



Investor sentiment seems to be cooling

About 55% of respondents believe now is a good time to invest in residential property, which is down slightly from 58% last year and a marked reduction from 62% in 2021.

When asked what challenges or concerns investors are facing right now, some clear trends emerged. Overwhelmingly, the growing trend in governments increasing taxes specifically targeted at property investors was cited (81.2%). Also, a worry for 71.5% was an increasing sense of a loss of control of the property they own and increased compliance costs, associated with new tenancy law reforms. Rental caps or freezes were also a concern (66.8%).

The running commentary from some politicians and in the media about property investors is having an impact, with 67.8% expressing concern about a growing negative public perception of the important role investors play in helping supply much-need rental housing.

With high interest rates at present, at what **further increase** would you consider selling an investment property because of financial reasons?

A city house is where the heart is

There was a rapid shift away from capital cities and to regional property markets during the COVID-19 pandemic, but this frenzy began to ease last year.

The 2022 survey found 56% of respondents felt metropolitan markets offered the best investment prospects. This year, a staggering 74.1% said one of the capitals offered the most appealing prospects.

56%
metropolitan markets offered the best investment prospects

When it comes to which cities respondents have their eyes on, 25% picked Perth, 21.8% nominated Brisbane, 12% tipped Adelaide, and 10.5% identified Sydney. Less popular were Melbourne (4%), Hobart (1%), Darwin (0.2%), and Canberra (0.4%).

Of the 31.1% of respondents planning on buying an investment property within the next year, 66.2% intend it to be a house and 72.2% intend it to be located in a capital city.

Property investors remain mostly optimistic, but fewer looking to buy

About 55% of investors believe that now is a good time to invest in residential property, which is down from 58% last year and 62% in 2021.

About 26% of investors purchased a property over the past 12 months, down from 37% last year and 29% the year before.

Some 31% of respondents are looking to purchase an investment property in the next six to 12 months, which is down from 37% in last year's survey, down from 35% in 2021, and well down on the 44% recorded in 2020.

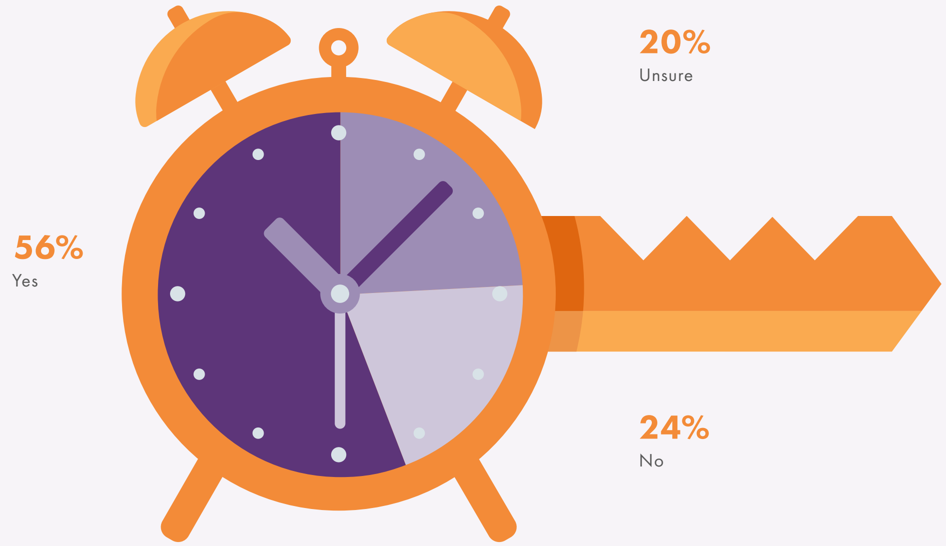
The majority of survey respondents own one or two investment properties – in-line with historical averages. About 22% of survey respondents own one property and 23% own two. Some 5% of respondents are yet to buy an investment property.

That said, there was solid representation from first-time investors. Of all respondents who purchased in the past 12 months, about 18% did so for the very first time. This was up slightly from the 16% figures recorded last year and the year before, but well down on the 29% reported in 2020.

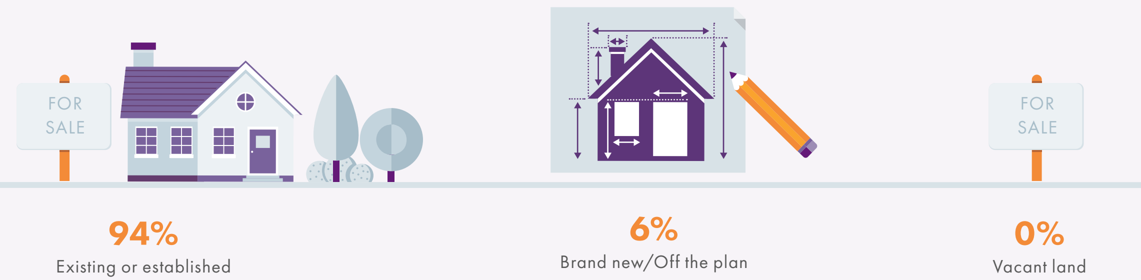
Of these first-time purchasers, 93% purchased an existing property (down slightly from 96% last year) while just 6.4% purchased new or off-the-plan (up from 2% last year). None reported buying vacant land.

Among the first-time investors, about 29% (the same as last year) identified as rentvestors. About 42% of all investors indicated they would consider rentvesting personally.

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



If this was the first investment property you've ever purchased, what did you buy?



Investors have had enough of petty and pointless politics

A staggering 12.13% of investors sold one or more properties in the past 12 months. Of those, 71% sold one property, 22% sold two, and the remaining 7% sold three or more properties.

About 43% of respondents sold a property to an existing homeowner, while 30% sold to a first-home buyer. Just 24% sold to another investor, meaning the majority of those investment properties were likely removed from the rental market.

Using 2021 Census as the baseline of 2.477 million private rental dwellings in Australia, it is estimated that hundreds of thousands of rental properties were sold in the past three years, with the majority of these bought by existing homeowners or first-home buyers. Clearly, this would explain the undersupply of rental properties available for tenants around the nation.

While these estimates do not account for investment properties added, they are a stark illustration of the mass exodus of private landlords from the market.

The survey found a whopping 39.8% of investors sold one or more of their properties located in Queensland – 23.3% in Brisbane and 16.4% in the state's regions. It also found 31.3% of investors sold up in Victoria – 24.8% in Melbourne and 6.4% in the state's regions.

PIPA analysis of ATO data also shows that the net average annual number of people with rental property incomes has fallen a alarming 55 per cent in five years across the nation.

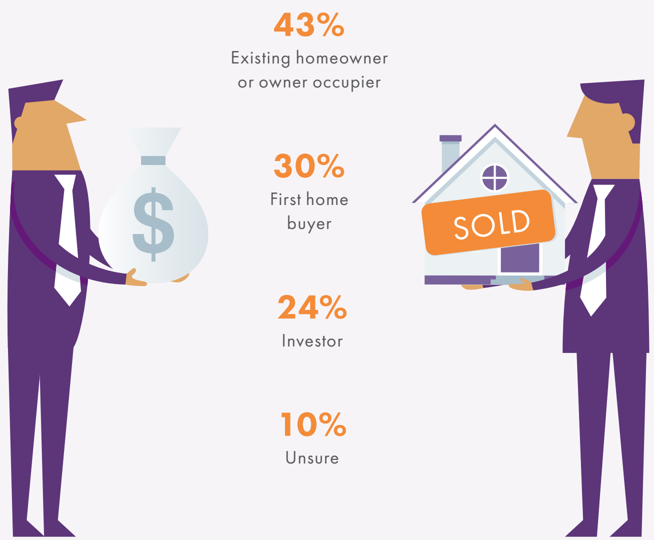
Analysis of the ATO's Individual Taxation Statistics for 2020-21 – the latest data available – found that the average increase in net individual investors every year in the five years to 2015/2016 was about 66,000 nationally, but in the five years to 2020/21 this annual figure had fallen off a cliff to about 29,600 – including a negative result in 2019/20 when investor numbers actually fell by 333.

Despite price rises across much of the country in recent months, positive market conditions were a motivator to sell for just 29.2% of investors – down significantly from last year. Instead, the overwhelming impetus for offloading an investment property (47%) was governments increasing or threatening to increase taxes, duties, and levies that make property a less attractive asset to hold.

Other reform-related reasons for selling included changing tenancy legislation (43%), rental freezes (34.6%), and rental increase limits or caps (27.7%).

How many rental properties did you sell in the past 12 to 24 months?

What type of buyer purchased your investment property?



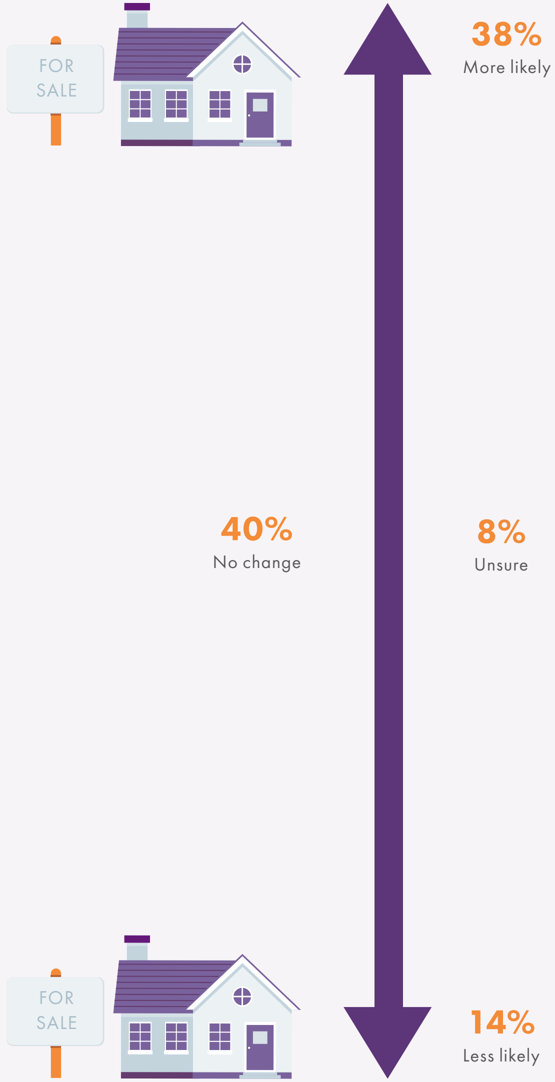
These collection of policy reasons were cited disproportionately to rising interest rates and higher loan repayment costs (40.1%), negative cash flow from higher mortgage costs (23.2%), a need to reduce total borrowings (33.1%), or offloading an underperforming asset (18.8%).

And unfortunately, in another sign of more rental stress to come for tenants, the survey found 38% of investors feel it is likely they will sell within the next 12 months for myriad reasons.

Tellingly, the reasons why investors are now thinking of selling include increases or the threat of increases to taxes, duties, and levies (45.2%), changing tenancy legislation (43%), the threat or rental freezes (42.9%), and rental increase limits or caps being implemented (41.8%).

Should governments further increase or introduce new taxes and compliance costs, 47.2% of respondents said they would be forced to increase rents. Another 29% said they would be highly likely to raise rents.

Have changing market conditions made it more or less likely that you will sell property within the next 12 months?



Property investors are aspirational and committed to the long term

Long-term capital growth continues to be the most important aspect when choosing an investment property, followed by long-term rental income.

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 and have a financially secure retirement. When asked why they choose to invest, the most important reason was to be self-funded in retirement without any reliance on government support, followed by a desire to provide a better life financially for themselves and their family, and adding to their retirement nest egg.

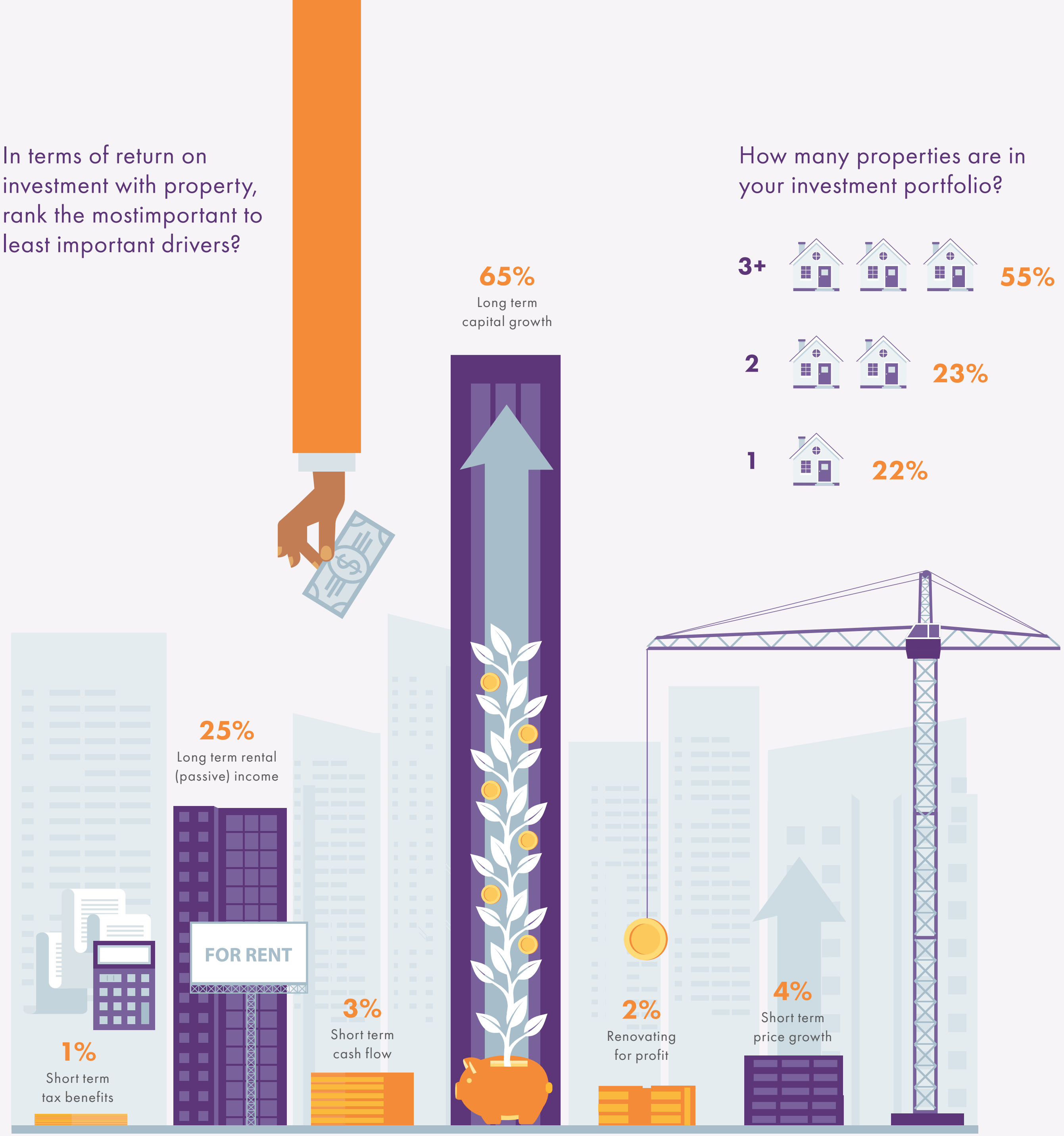
Almost 63% of respondents own property jointly, 50% in their individual personal name, 9.6% as tenants in common, 14% in SMSF, and 16% in a trust.

Contrary to common misconception, the average landlord in Australia is a humble one. When asked about their portfolios, 22.5% of respondents said they own one investment property and 23.2% own two.

When asked to describe themselves, the majority of respondents indicate they are savvy and organised investors who work to a strategy. About 27% have a detailed and modelled plan that matches their long-term goals, while another 27% have a set strategy they are working towards.

In terms of return on investment with property, rank the mostimportant to least important drivers?

How many properties are in your investment portfolio?



Rapidly rising costs remain a concern

Investors continue to report a significant increase in expenses, with 92.4% of respondents indicating their holding costs have risen.

Despite that, 56% of investors said they were only passing on 10% or less of these higher costs to their tenants. Another 26.9% reported passing on 11% to 25% of extra expenses in the form of rent increases.

The fact that interest rates have risen so rapidly since May 2022 has seen pressure mount on property investors. Interest rates and rising holding costs are a concern for many, the survey shows.

When asked about the biggest concerns facing them, rising interest rates and inflation ranked highly (63.8%) as did the current and future state of the Australian economy (26.4%). Like many across the country, investors are also battling cost-of-living pressures and it's proving to be a concern (34.5%).

In a sign of the impact of soaring costs, just 21.7% of respondents say their property investment portfolio is in positive cash flow territory. This is a marked reduction from 38% in last year's survey.

A further 15% of investors say their portfolio is cash flow neutral. More than half of respondents (57.6%) say their portfolio is negatively geared, up sharply from 30% in 2022.

For those investors with negative cash flow, more than 56% believe their portfolio will become positively geared within five years.

Accessing finance remains a barrier for many investors in this high interest rates climate. A worrying 41.3% of respondents report being unable to refinance an amount they were previously able to borrow, up sharply from 25% last year.

Among those considering selling in the next year, 31.6% cited rising interest rates and higher loan repayment costs.

When compared to last year, how much have your holding costs increased?

6% < 10%	**26%** 11% to 25%	**24%** 26% to 40%
17% 41% to 60%	**6%** 61% to 80%	**5%** 81% to 100%
9% >100	**6%** Not applicable	**1%** No cost increase

If your costs have increased, how much are you passing onto your tenant/s to recover these increased out of pocket expenses?

55% < 10%	**27%** 11% to 25%	**6%** 26% to 40%
1% 41% to 60%	**1%** 61% to 80%	**1%** 81% to 100%
0.3% >101	**7%** Unsure	**2%** Experienced no holding cost increases

In terms of rental income, what will your existing investmentproperty/ portfolio generate in cash flow this financial year?

22% Positive

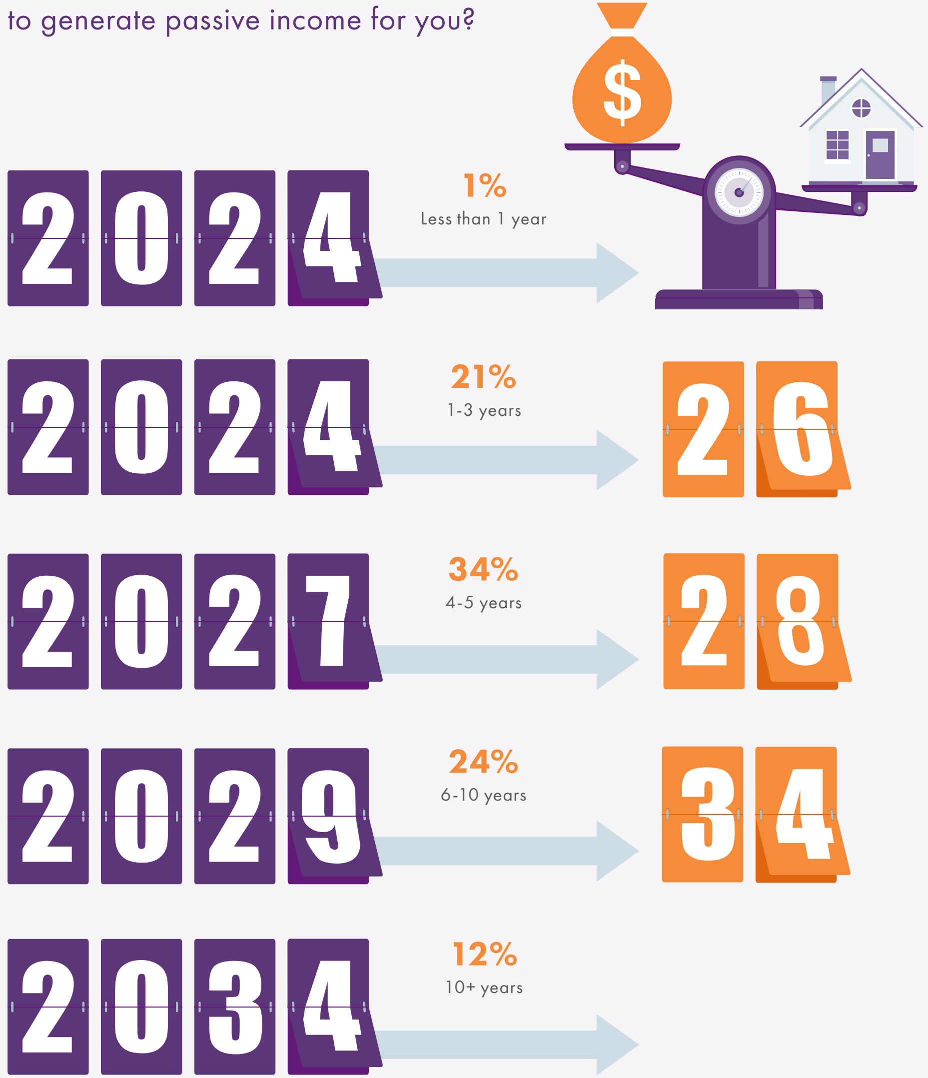
15% Neutral

2% Unsure

4% Not applicable

57% Negative

If negative cash flow, how long until you expect it will turn positively geared to generate passive income for you?



1% Less than 1 year

21% 1-3 years

34% 4-5 years

24% 6-10 years

12% 10+ years

8% Unsure

Positive outlook for property prices

When asked where property prices were heading in the next 12 months in their home state or territory, 28% said prices would stay the same, while just 13.9% expect they will be worse.

Reflecting current market momentum, 57.4% of respondents indicated that prices would increase – a marked turnaround on last year's result of 25%.

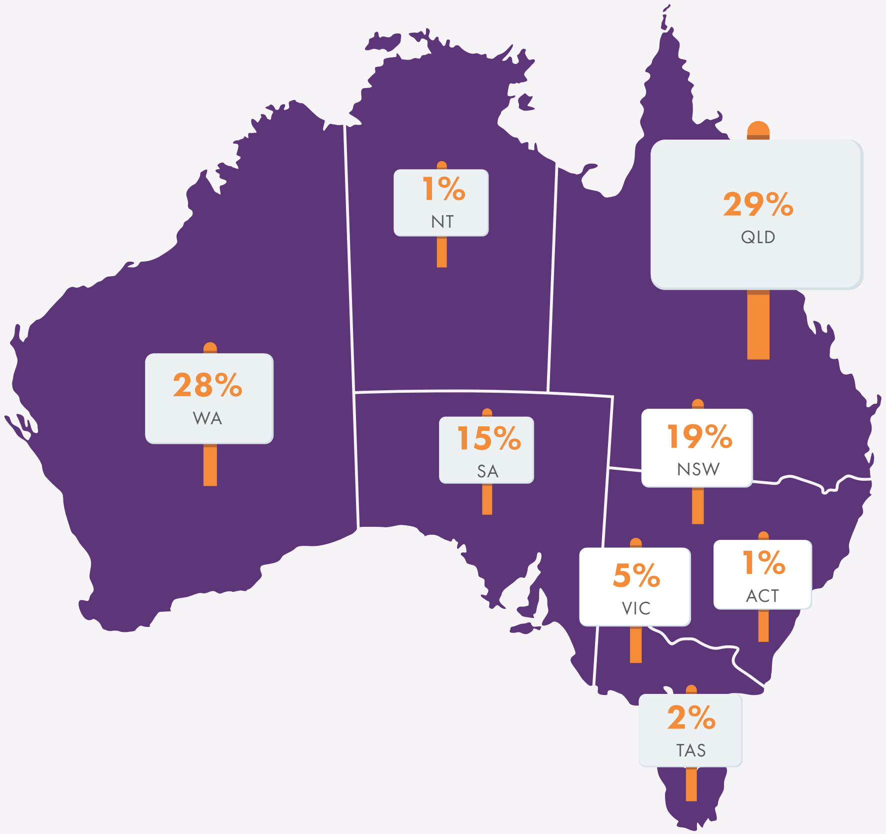
Borderless investing continues to increase in popularity, with 48.9% of investors looking to purchase outside the state they live in. This is up from 43.5% last year.

Some 38% of respondents said changing market conditions made it more likely they will buy an investment property in the coming year, 13.6% said less likely, and 39.8% said no change.

The vast majority of investors looking to purchase in the year ahead would buy a house (66.2%), followed by a townhouse or villa (6%), or an apartment or unit (5.1%).

Do you see property prices in your home state territory staying thesame, better or worse in 12 months' time?

Which State or Territory do you believe offers the best investment prospects over the next 12 months?



Queensland remains number one, but less and less so

Investors have long favoured Queensland as a potential destination, with the state ranking highly in each iteration of this survey – and 2023 is no different.

When asked which state or territory offered the best investment prospects over the coming year, 29.8% nominated Queensland. While the Sunshine State came out on top, this result is down from 33% last year and down a whopping 58% since 2021.

This year's figure is the lowest percentage for many years.

Western Australia continues to rocket up the rankings, taking out second spot with 28% of investors rating its potential prospects. This is a sharp jump on last year's result of 17.8%.

New South Wales was third at 19.4%, up slightly from 17% last year. South Australia was fourth with 14.9% of investors eyeing its potential. Victoria was fifth with a very flat 4.7% of the vote – the lowest result ever and a dramatic plunge from last year's result of 12%.

Meanwhile, when probed about the most appealing city to invest in last year, 35% of respondents picked Brisbane – the top result. This time around, the Queensland capital (21.8%) has been comfortably overtaken by Perth (24%).

Brisbane's falling status among investors is stark – in 2021, 54% of respondents put it on top.

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Qualified Property Investment Advisers top the list

More than half (52%) of survey respondents have sought, or are planning to seek out, advice from Qualified Property Investment Advisers (QPIA) – the top result in this year's survey.

Mortgage brokers were a close second on 46%, followed by buyers' agents/advocates (41.5%), accountants (38.3%) and property educator/coach with formal/professional qualifications (26.3%)

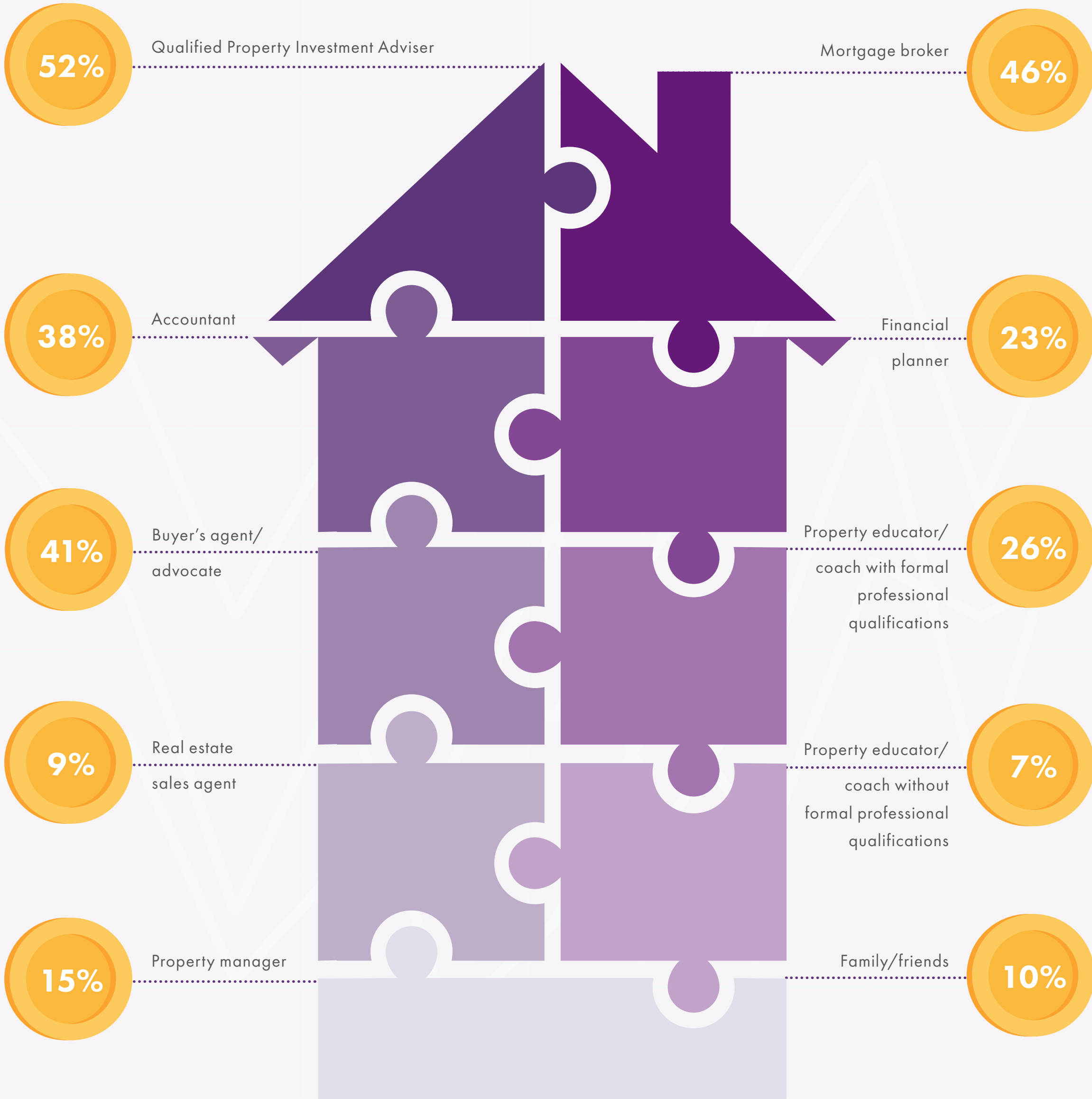
Of those that sought a professional investment advisor, 59% paid the advisor a fee directly.

Of those that sought professional advice, 49.4% (up slightly from 48% last year but down from 55% in 2021) were provided with a written report or plan, but about 15% (down from 18%) weren't provided with a plan.

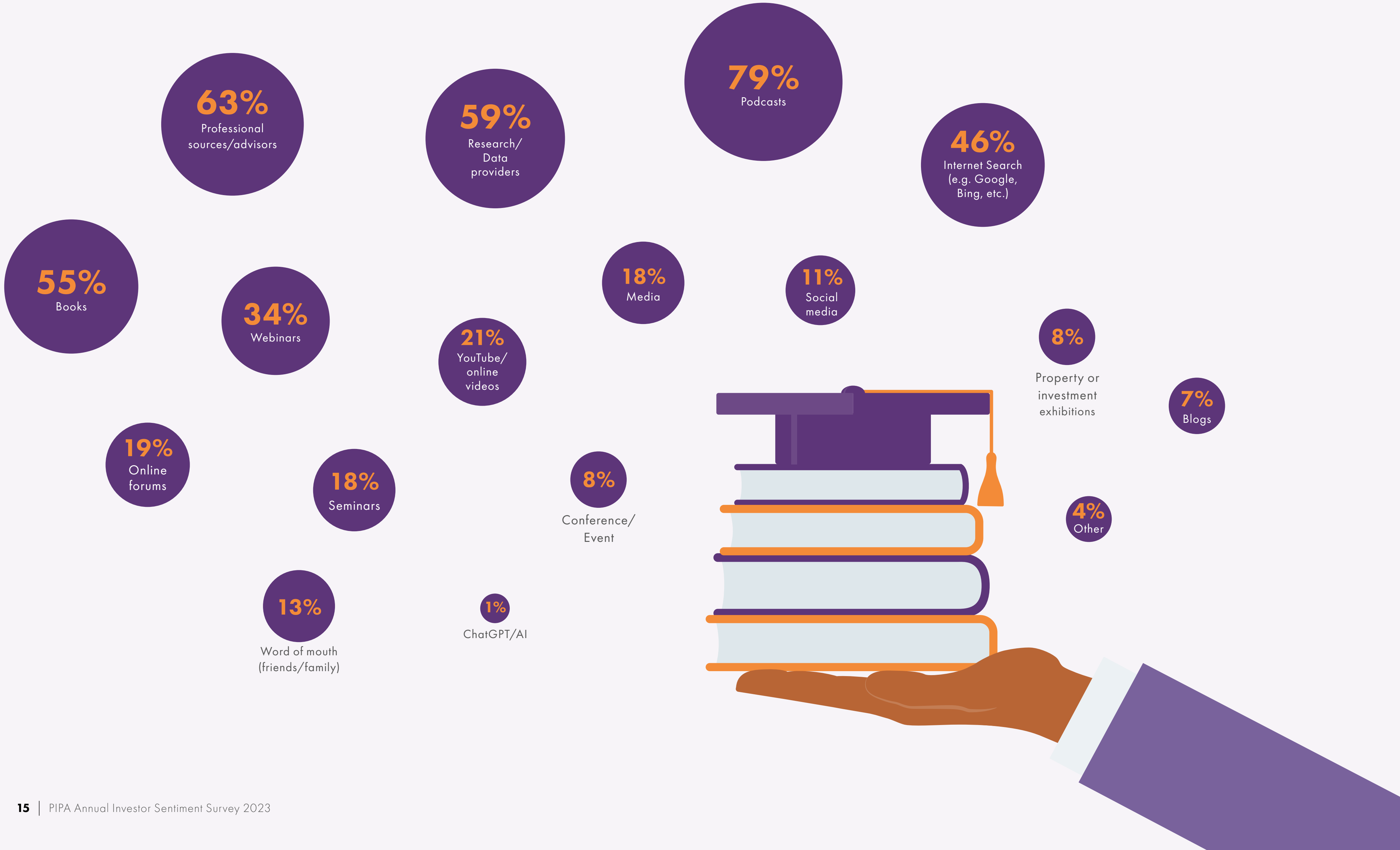
Investors continue to seek knowledge and education from a wide range of sources. In 2023, podcasts were the most popular source, followed by professional sources/advisors, research/data providers, internet searches, books, and webinars.

While many investors divested some, or even all, of their portfolio over the past few years, 43% continue to have a hold and never sell approach (down from 45% last year). About 36% said they were considering selling down some or all of their portfolio (up from 31% in 2022).

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



Where do you get your property investment knowledge/educationfrom?



Investors want educated and qualified advisers

Some 82% of all investors continue to believe that more education is needed around the risks and benefits of investing in property. Virtually all (90%) investors continue to think that any provider of property investment advice should have formal training or education.

More than 84% of survey respondents said they were familiar with what PIPA does – a welcome increase from 79% last year.

About 75% of respondents said a QPIA qualification would influence their decision to work with a particular property investment professional.

> “
> 84% of survey respondents said they were familiar with what PIPA does.

Would a QPIA® qualification influence your decision to work with a particular property investment professional?

Respondents profile

Some 34% of respondents reside in NSW, while 31.2% live in Victoria, and 20.9% live in Queensland.

The majority (35.4%) are aged 36 to 45, while 30.2% were aged 45 to 55.

About 72% were male while 25.8% were female.

When it comes to worth, 19.1% of respondents reported a household income of $150,001 to $200,000 while 16.2% had a household income of $200,001 to $250,000. A similar number (16.7%) had a household income of $100,001 to $150,000.

* The potential reduction in supply calculations used the number of rental dwellings in the 2021 Census where rent was paid to a real estate agent, person not in the same household or other type of landlord – this count excludes dwellings where the landlord is state/territory housing authorities or a community housing provider. Survey respondents reported selling 73% of dwellings to either first homebuyers or existing owner-occupiers. The potential diminishment in rental supply in Australia was then calculated using the percentage of investors who had sold a dwelling to an owner-occupier.

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About the survey

The 2023 PIPA Annual Property Investor Sentiment Survey of 1,724 investors was conducted online in August 2023. Respondents were sourced from PIPA and PICA's databases of property investors as well as member and non-member client 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, conveyancers, depreciation specialists, lenders, and developers.

PICA is the non-profit association for Australian property investors.

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