PROPERTY
INVESTMENT
PROFESSIONALS
OF AUSTRALIA
PIPA

PIPA Annual Investor Sentiment Survey 2018

Introduction

Welcome to the 2018 PIPA Annual Investor Sentiment Survey – Australia's most comprehensive snapshot of the nation's property investor community to reveal the mood, confidence, concerns, optimisms and key trends underlying Australia's real estate investment market.

There have been notable market movements since our previous survey release in September 2017.

The slowdown in property price growth in Sydney and Melbourne began in 2017, but became entrenched in 2018. Common opinion is that buyers in these capitals have become less anxious about securing holdings – so FOMO (Fear Of Missing Out) is on a decline. Vendors are having to be more realistic about market direction and price accordingly to achieve sales.

Other capital cities throughout the country have seen reasonably flat market conditions, however the survey revealed growing confidence in some markets, particularly Brisbane, which was considered the most promising capital city investment location in this year's survey.

Regional centres are also experiencing some increasing confidence with the tourism and agriculture sectors seen by experts as helping drive demand for real estate.

The financial services crackdown on investors is having an impact on sentiment. Moves by APRA to slow investing lending growth have played their part and response to commentary from the Banking Royal Commission has been swift. There is also the continued crackdown on interest-only loans which is playing into some decision-making on whether to invest. As at the time of writing, three of the four major lenders had also raised their base interest rates out of cycle as the cost of lending reportedly rises despite the RBA keeping official rates on hold.

Political debate over hot-button topics continues and looks set to ramp up through to the looming Federal Election. Turmoil in government ranks that saw a change in the prime ministership has translated into increased opinion poll support for the opposition, so investors face the very real prospect of seeing tax deductions cut, and this is playing into their purchasing decisions.

Despite these headwinds, property investors remain resilient with real estate still a favoured vehicle for building wealth and retirement nest eggs.

Some of the key themes to come out of this year's survey are:

- Most respondents believe now is a good time to invest, with a majority planning to buy a property over the next six to 12 months.
- The two leading concerns for investors this year were further tightening of investor lending and banks raising interest rates on investment properties. Investors are countering this by

"Despite some headwinds this year, Australian property investors remain engaged in, and confident about, our country's real estate markets.

increased use of mortgage brokers and active attempts to source better finance deals.

- While investors remain well aware of the slowdown in Sydney's property market activity, they continue to invest with a long-term growth strategy as their primary focus.

This survey also again highlights the need for improved professional standards and regulation of the property investment advice industry. Indeed, property investors are crying out for more rigorous standards in the real estate investment advisory sector. We are pleased that PIPA continues to be recognised as the peak professional association for those working in the industry as we continue to drive this agenda.

Distributed via our members' extensive investor networks, the 2018 PIPA Investor Sentiment Survey provides an exceptional insight on the opinions of Australia's residential property investors.

We sincerely thank the investors who participated in the survey.

Peter Koulizos

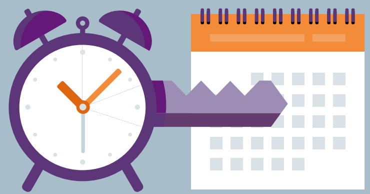
PETER KOULIZOS,

CHAIR, PROPERTY INVESTMENT PROFESSIONALS OF AUSTRALIA

Summary of key findings

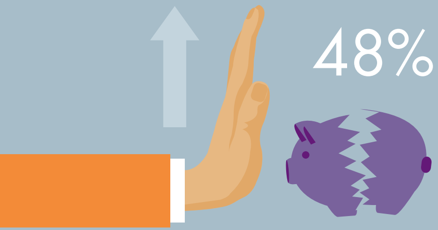
Investors remain bullish on residential real estate

77% A significant majority (77%) of investors believe now is a good time to invest in residential property (up from 70% in 2017),



52% are looking to purchase a property in the next six to 12 months.

The investor loan crackdown is making it harder to access finance for a growing number of potential purchasers



48% More investors than last year (48% in 2018 versus 43% in 2017) said changes to investor lending policies have impacted their ability to secure finance for an investment property.

Investors increasingly look to mortgage brokers as they hunt for a better deal

As investors seek better lending terms and conditions, they are increasingly turning to mortgage brokers:

86% intend to finance their next loan through a broker, up from 83% last year.

Investors are growing more concerned about negative gearing and Capital Gains Tax changes

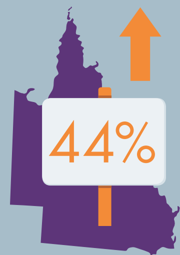
45% of respondents said they would reconsider their future investment plans as a result of proposed changes.

Houses remain the top investment choice

The number of investors looking to buy a house has remained flat at 67% – the same as in 2017, though the proportion of people looking to buy units or apartments has fallen to 6.5% from 9.3% in 2017.

67%

Brisbane still the hot favourite



The number of investors who see Brisbane as the state capital with the best investment prospects has risen slightly to 44% from 43% last year. Brisbane continues to be seen more positively than Melbourne (26% vs. 32% last year), Sydney (9% vs. 8%) and Adelaide (8% vs. 7%).

Rentvesting, particularly among first-time investors, is an increasing popular strategy

The concept of "rentvesting" – where people rent in one location that suits their lifestyle and invest in another, often less expensive, location— is resonating.

63% A majority of survey respondents said they would consider rentvesting as a property investment strategy, while a third (36%) of this survey's first-time investors were also renters.

Investors want to see greater professional standards

95% An overwhelming majority of respondents (95%) think any provider of advice should have formal training, and almost all (90%) believe any provider of property investment advice should be regulated/licensed.

Investors remain bullish on real estate and take a long-term approach to investing

A significant majority (77%) of investors believe that now is a good time to invest in residential property. That's up compared to last year, when 71% thought it was a good time to invest.

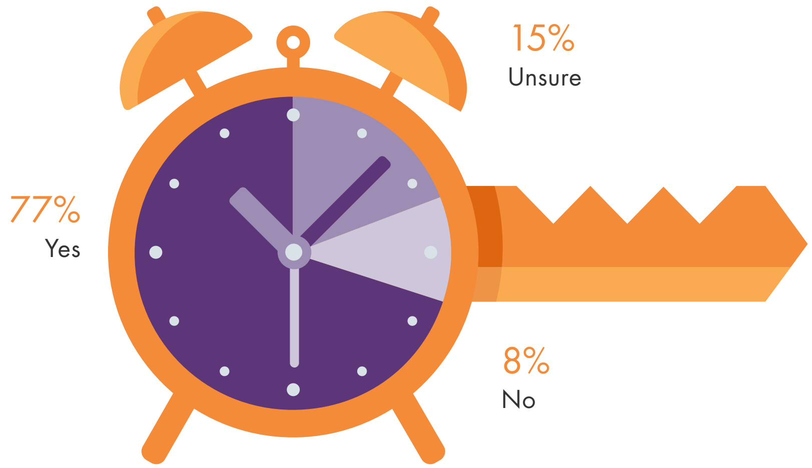
52% of investors are looking to purchase a property in the next six to 12 months, down from 61% last year, and 43% purchased a property over the past year, down from 47% in the prior survey.

The optimism is consistent with the fact that investors are focusing on the long-term wealth benefits of real estate. They 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 driver when choosing an investment. Short-term tax benefits were seen as the least important driver when choosing an investment.

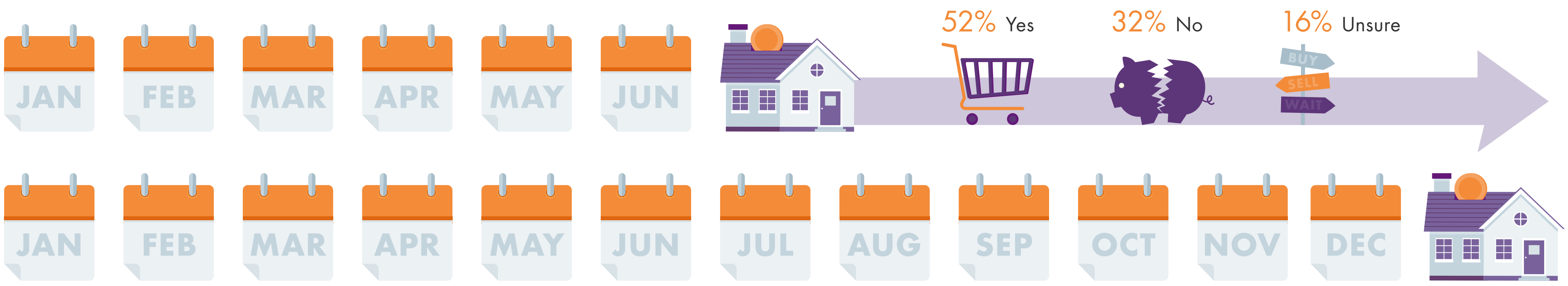
Long-term capital growth and rental growth are the two biggest reasons for investing in property by those surveyed. Reflecting the focus on the long-term plan, the largest group of investors (49% this year, up from 47% last year) continue to have a "hold and never sell" approach.

Investors are also thinking beyond the big market downturns. Almost 90% said concerns around Sydney and Melbourne price falls will not slow down their investment plans.

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



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



Why invest in property?

Investors' number one reasons

What is your property investment exit strategy?

The tighter investor lending environment is effecting a growing group of investors

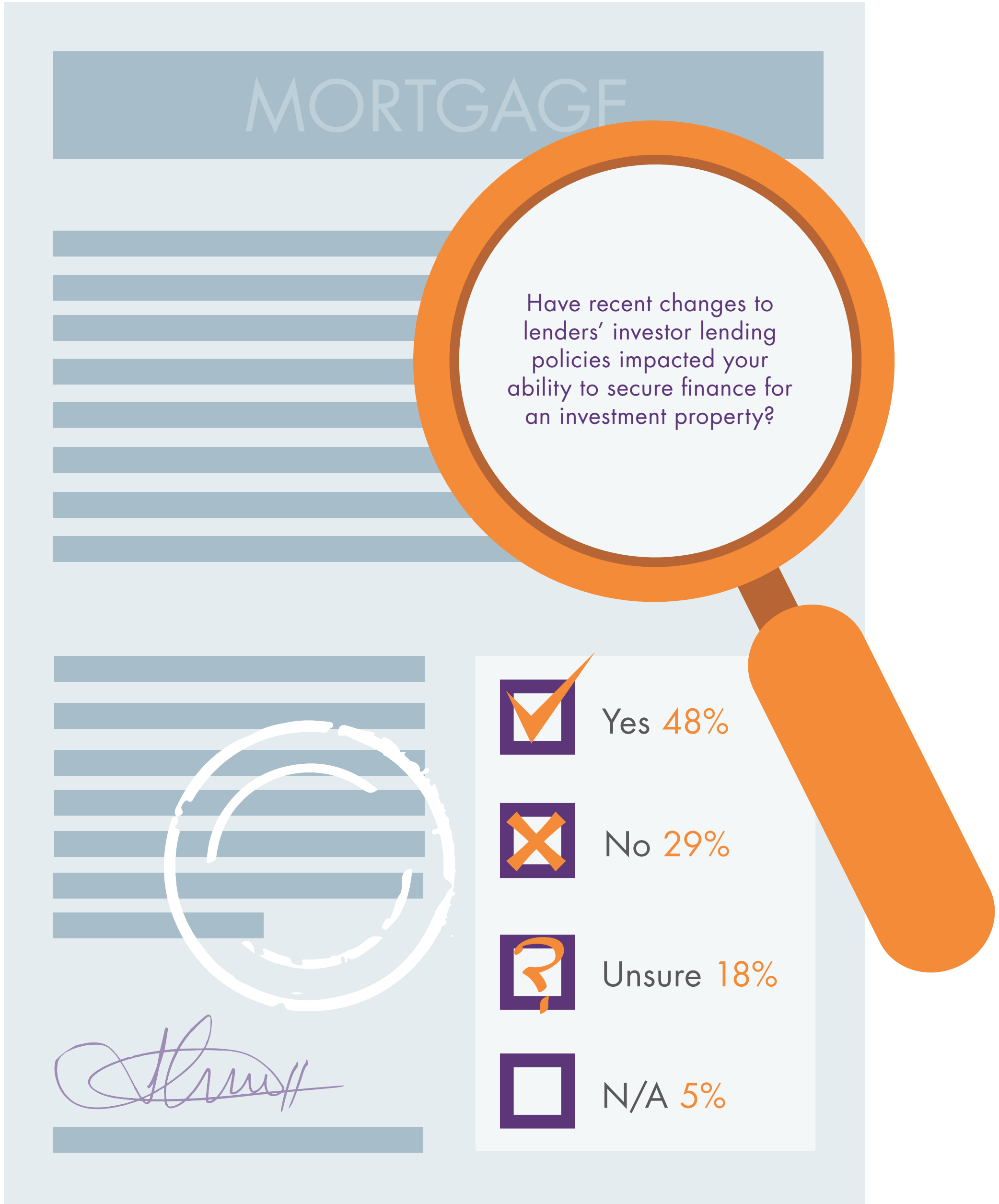
The two leading concerns of investors surveyed were further tightening of investor lending and banks raising interest rates on investment properties, with a majority (64%) believing it's unfair to charge investors higher interest rates compared to owner occupiers.

More investors than last year (48% in 2018 versus 43% in 2017) said changes to investor lending policies have impacted their ability to secure finance for an investment property.

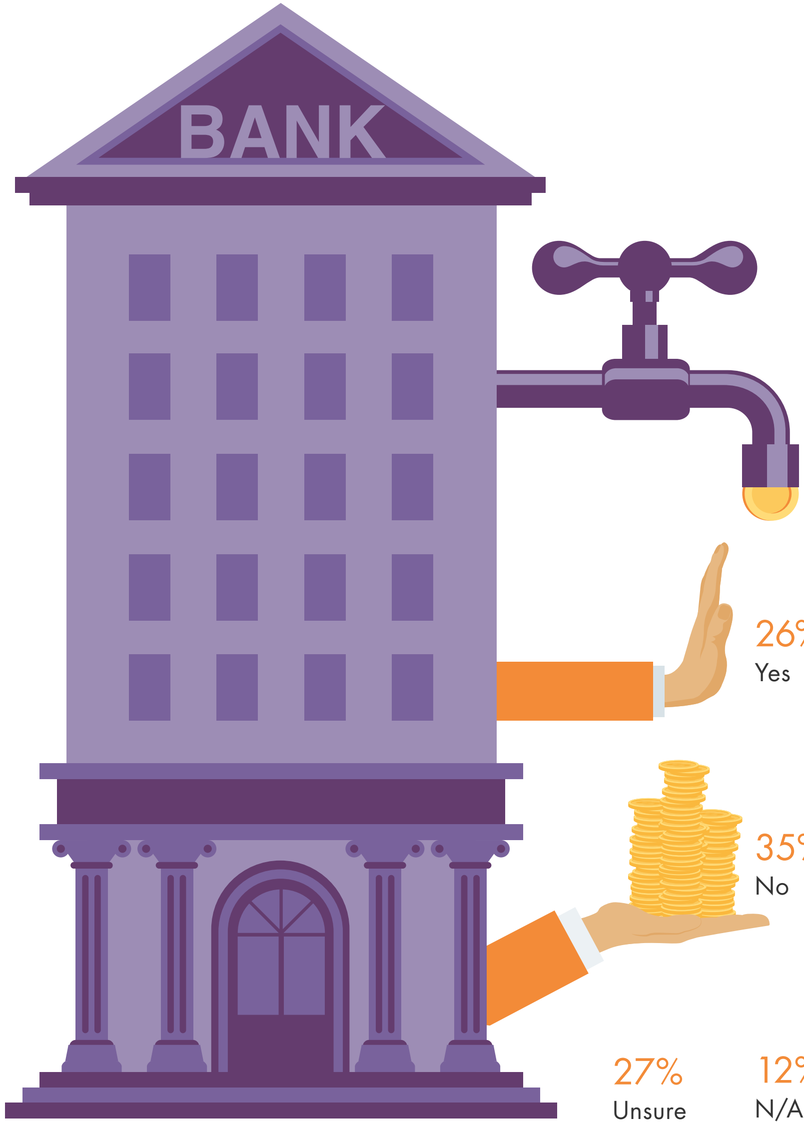
Given tighter lending conditions and the financial sector response to the Banking Royal Commission, 26% of respondents have found themselves in a position where they were unable to refinance an amount they were able to borrow previously. 35% said they were able to refinance, while 27% were unsure.

While a majority (61%) 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, 12% said they would struggle and 13% weren't sure.

Of those that will struggle to meet P+I repayments, just 5.5% said they have sold, or will have to sell, an investment property to meet lending commitments.



Given lenders further tightening of serviceability/borrowing power over recent years - and in light of evidence presented at the Banking Royal Commission - do you currently find yourself in a position where you are unable to refinance an amount which you were able to borrow previously?



26% Yes

35% No

27% Unsure

12% N/A

If you have an interest-only loan/s, will you struggle to meet the new principal and interest repayments once the current interest-only period expires?

13% Yes

61% No

13% Unsure

13% N/A

Do you think it's fair that property investors have to pay a higher interest rate, compared to owner occupiers, when the banks admit that investor lending is less risky than owner occupied lending?

32% Yes

64% No

4% Unsure

Investors are increasingly looking to mortgage brokers as they hunt for a better deal

As borrowing costs rise, lenders are on the hunt for a better deal. Given lenders are raising interest rates out of cycle with the Reserve Bank of Australia's cash rate, close to half (44%) said they are considering fixing their interest rate for some or all their loans compared to 49% in 2017.

Almost 27% (up from 23% in 2017) said they would consider refinancing their loan for an interest rate differential of just 0.5 percentage points, while more than 17% said they would consider refinancing for one percentage point (up from 23% in 2017).

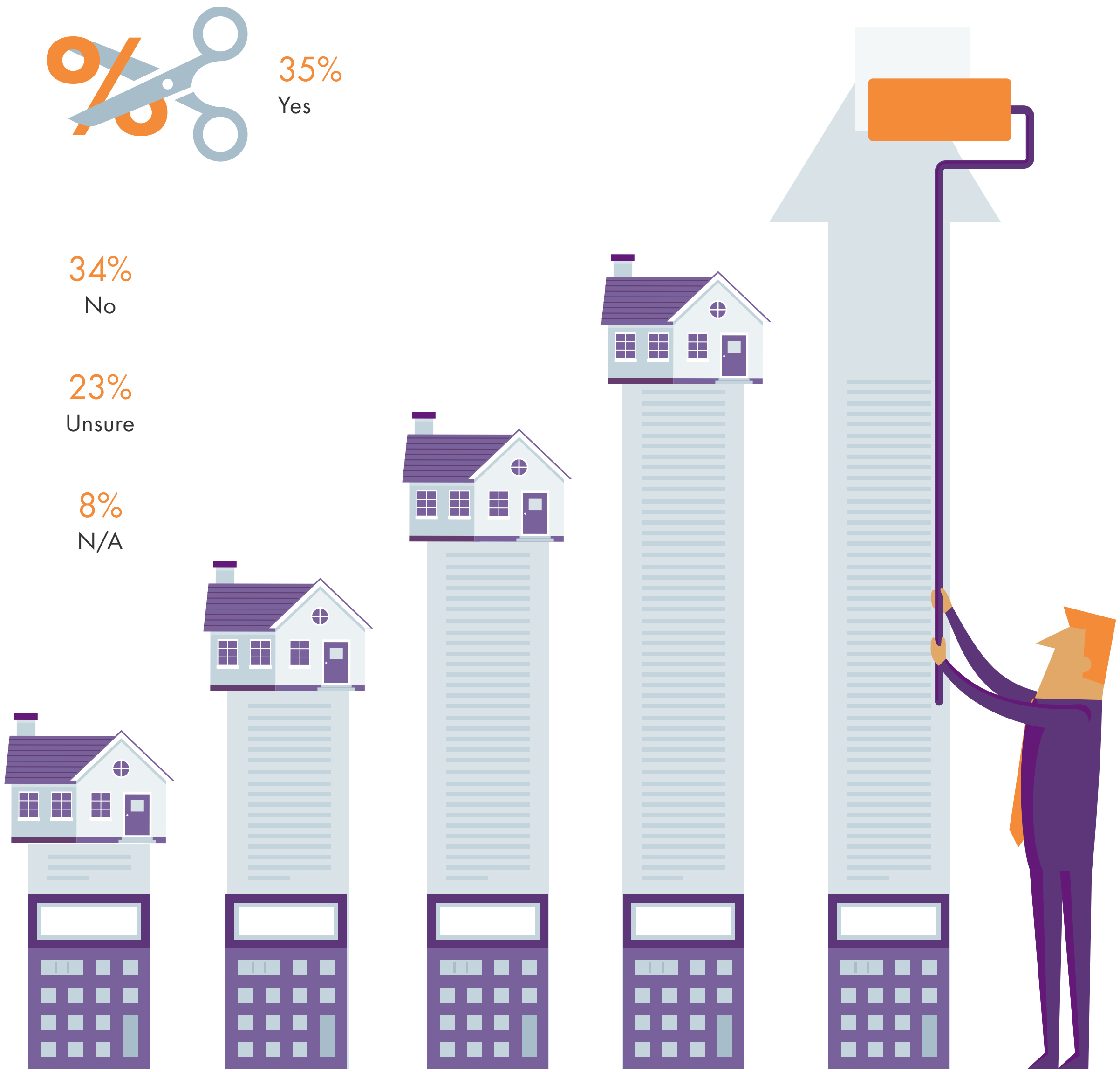
Given lenders are charging higher interest rates for interest-only loans, 35% (up from 30% in 2017) of investors said they either have switched or intend to switch to principal and interest repayments, however an even bigger proportion (36%) said they have no plans to switch.

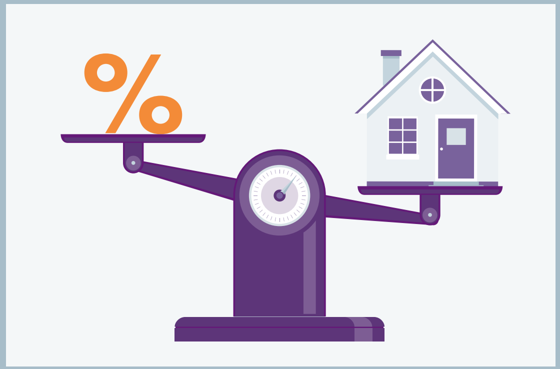
In this environment, investors are increasingly looking to mortgage brokers to secure finance. Over 75% of investors secured their last investment loan through a broker, up slightly from last year's result of 73% and dramatically more than the 2015 number of 65%.

Only 20% secured their last loan directly from a bank while 2.8% directly from a credit union, building society or specialist lender.

86% intend to finance their next investment loan through a broker, up from 83% last year.

Given lenders are charging higher interest rates for interest-only loans, have you/do you intend to switch to principal and interest repayments?





Given lenders are raising interest rates out of cycle with the RBA's cash rate, are you considering fixing your interest rate/s for some or all of your loans?

- Yes 44%
- No 35%
- Unsure 17%
- N/A 4%

MORTGAGE

How do you intend to secure finance for your next investment loan?

9%
Directly from a bank

2%
Directly from a credit union, building society, specialist lender etc

86%
Through a mortgage broker

2%
Other

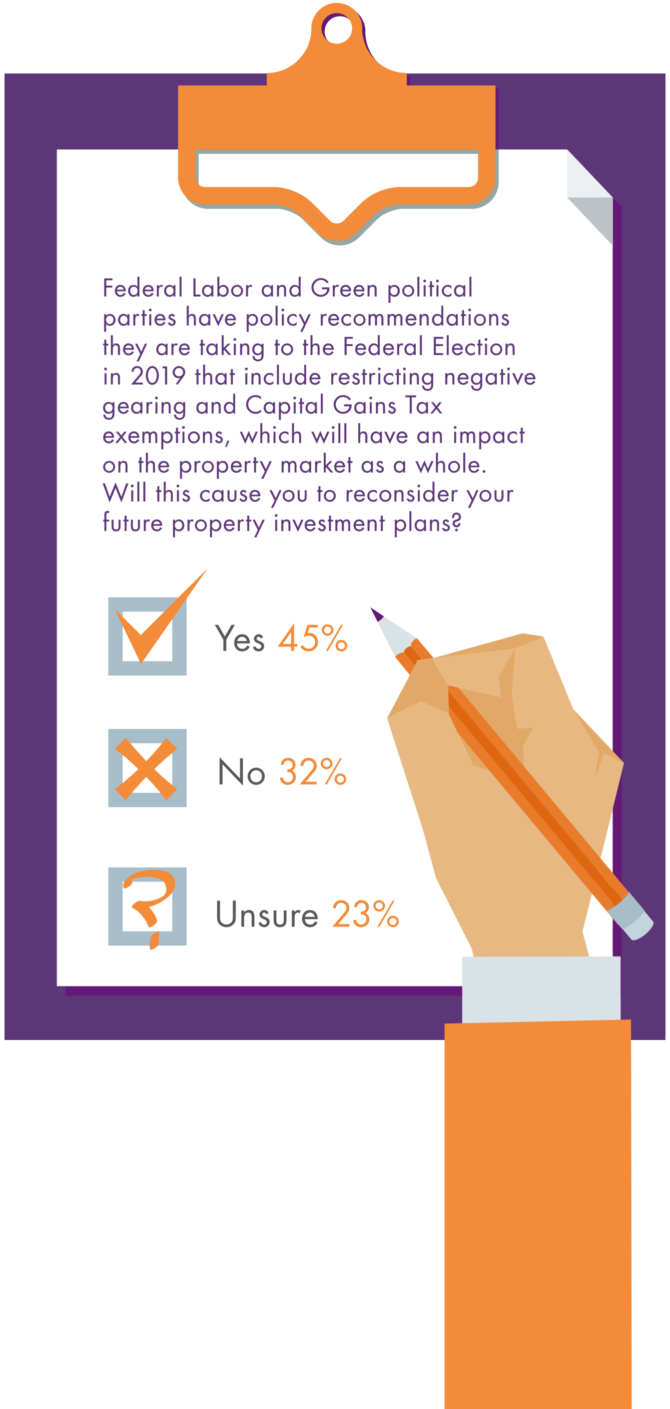
1%
N/A (pay cash)

Investors have grown more concerned about potential negative gearing and Capital Gains Tax changes

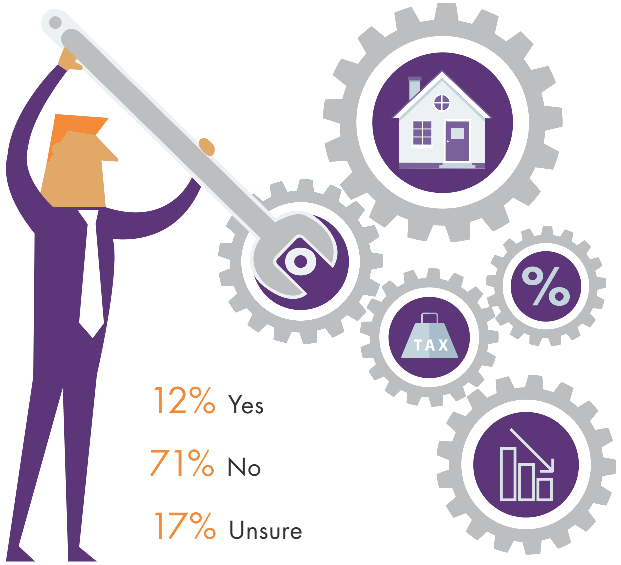
45% of respondents said they would reconsider their future investment plans as a result of proposed changes under proposals of the ALP and the Greens in relation to negative gearing and Capital Gains Tax exemptions. In 2017, only 14% of investors put investment plans on hold due to these proposals.

While 47% of investors are negatively geared, the vast majority (59%) expect to become positively geared within five years, and almost none (1.6%) of the negatively geared investors are having trouble covering the cash flow shortfall at the moment.

In addition, the majority of those surveyed (71%) believe changing negative gearing and Capital Gains Tax policy will not improve housing affordability.

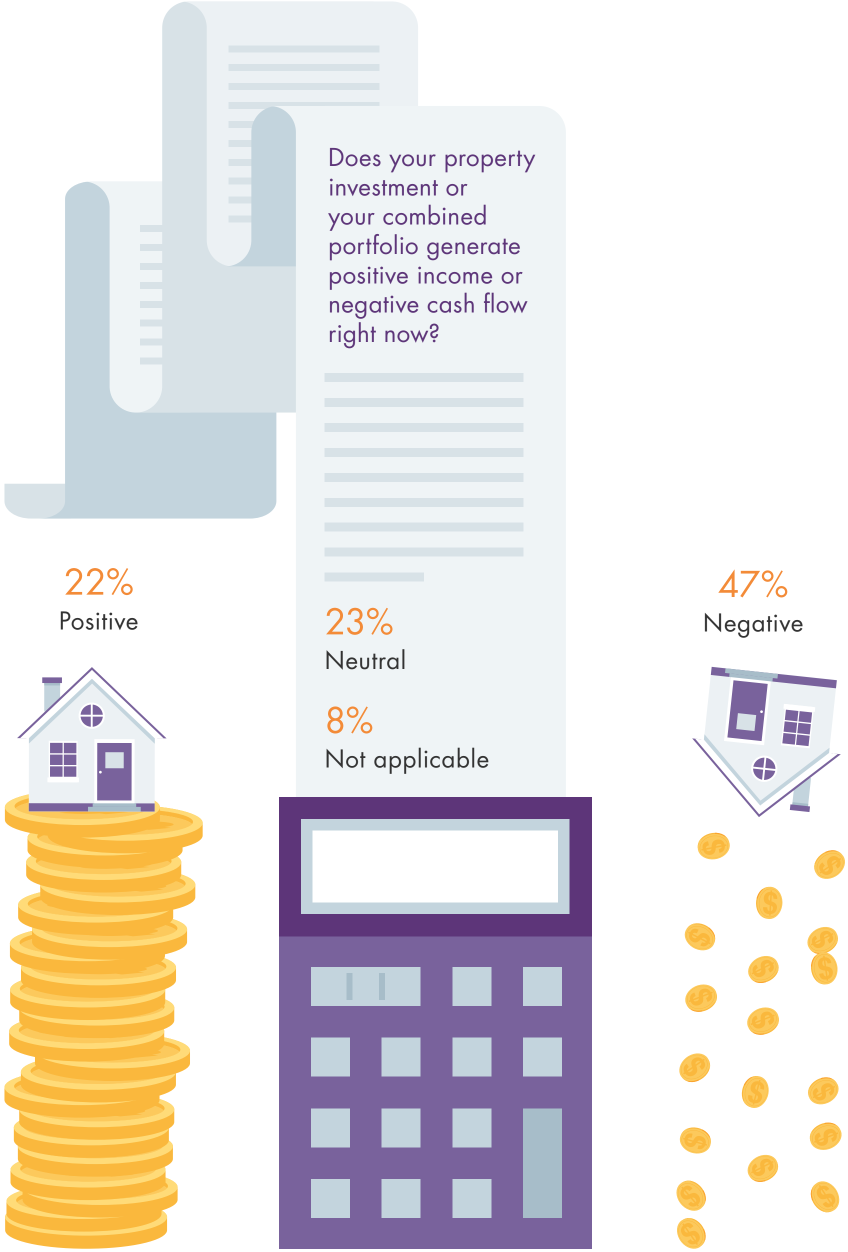


Do you believe changes to negative gearing and Capital Gains Tax will improve housing affordability, because property prices could fall?



Has concern around property price drops in Sydney and Melbourne caused you to put investment plans on hold

Does your property investment or your combined portfolio generate positive income or negative cash flow right now?



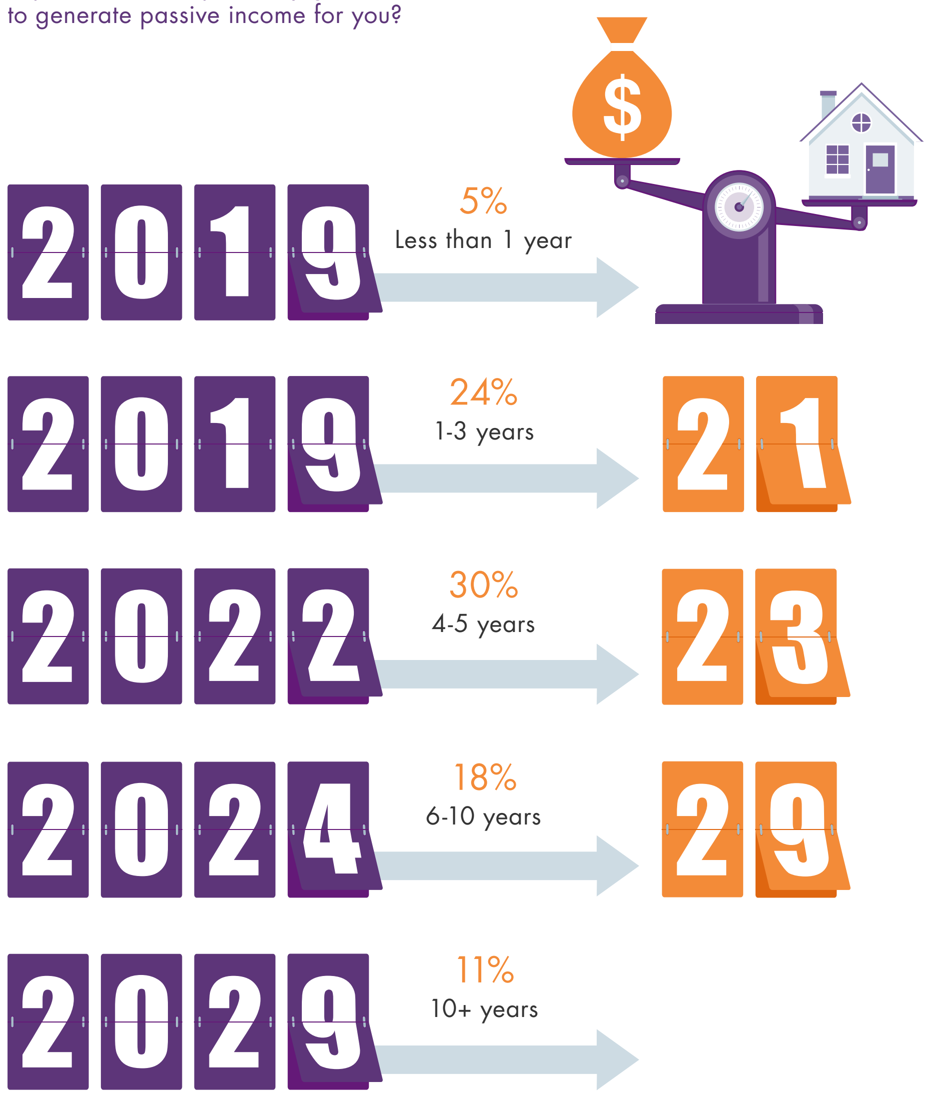
22%
Positive

23%
Neutral

8%
Not applicable

47%
Negative

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



5%
Less than 1 year

24%
1-3 years

30%
4-5 years

18%
6-10 years

11%
10+ years

12%
Unsure

Investors increasingly favour established houses as an investment option

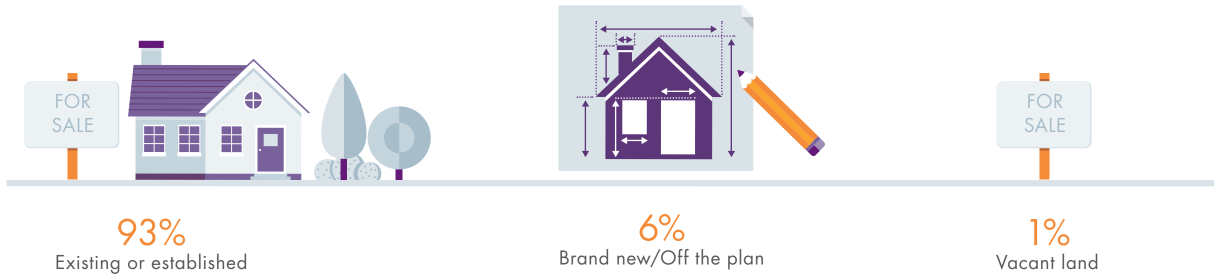
Of respondents planning to invest in property in the next six to 12 months, those looking to buy a house has remained flat 67% – the same as in 2017, though the proportion of people looking to buy units or apartments has fallen to 6.5% from 9.3% in 2017. There's been an increase in the number of investors who are unsure about what sort of property to buy, rising from to 11% in 2017 to record 15% this year.

The number of investors looking to buy existing stock continues to be high at 93% – a rise of just 1% on last year's result. The number of investors looking at off-the-plan units or house and land packages sits at 6.4% – just slightly higher than the 2017 result of 5%.

> “93% of investors plan to buy an established dwelling

What type of property would you buy?

Would you buy?



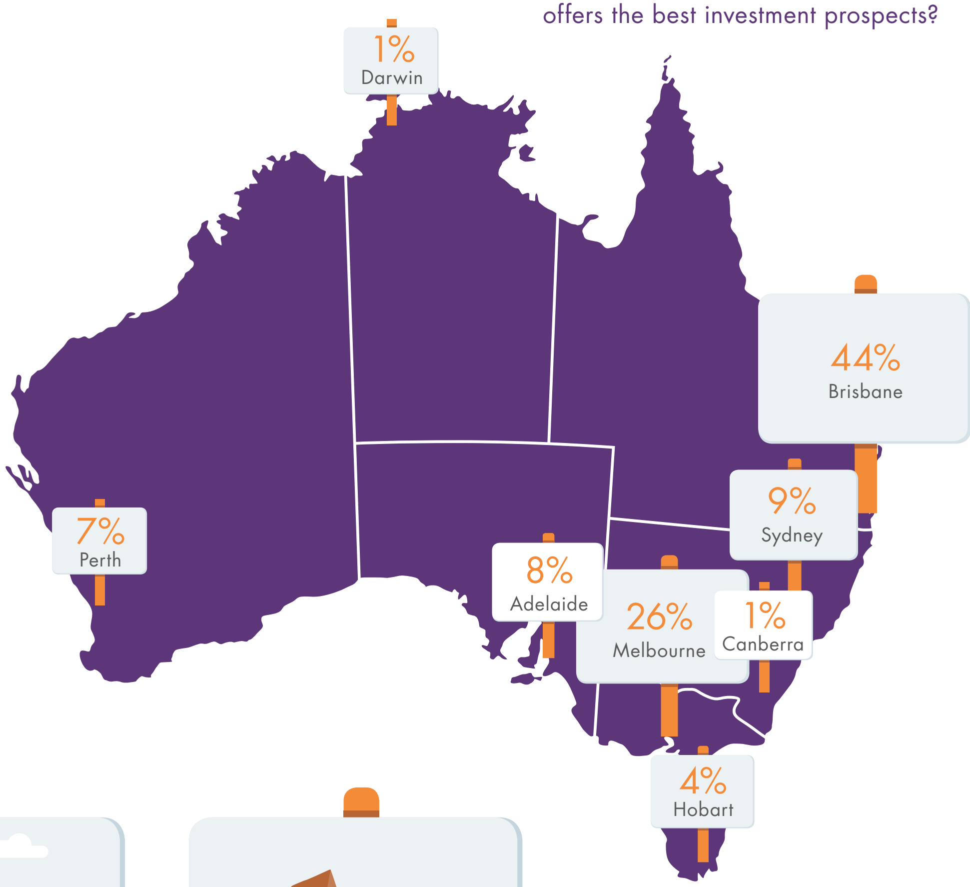
As metro locations retain their popularity, Brisbane tightened its grip as investors' favourite destination

72% of investors remain keen on opportunities to invest in metropolitan markets (down insignificantly from 73% in 2017) while coastal locations have lost favour somewhat (down to 8% from 12% in 2017).

Meanwhile the proportion of investors that say regional markets are the most appealing has risen to 20% from 15% in 2017.

The number of investors who see Brisbane as the state capital with the best investment prospects has risen slightly to 44% from 43% last year. Brisbane continues to be seen more positively than Melbourne (26% vs 32% last year), Sydney (9% vs 8%) and Adelaide (8% vs 7%). Perth has risen slightly from (6.6% vs 6%), while Canberra sits at just 1%, down only fractionally from 2% last year, and Darwin remains in the doldrums at 0.5%, (up from 0.3% last year).

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



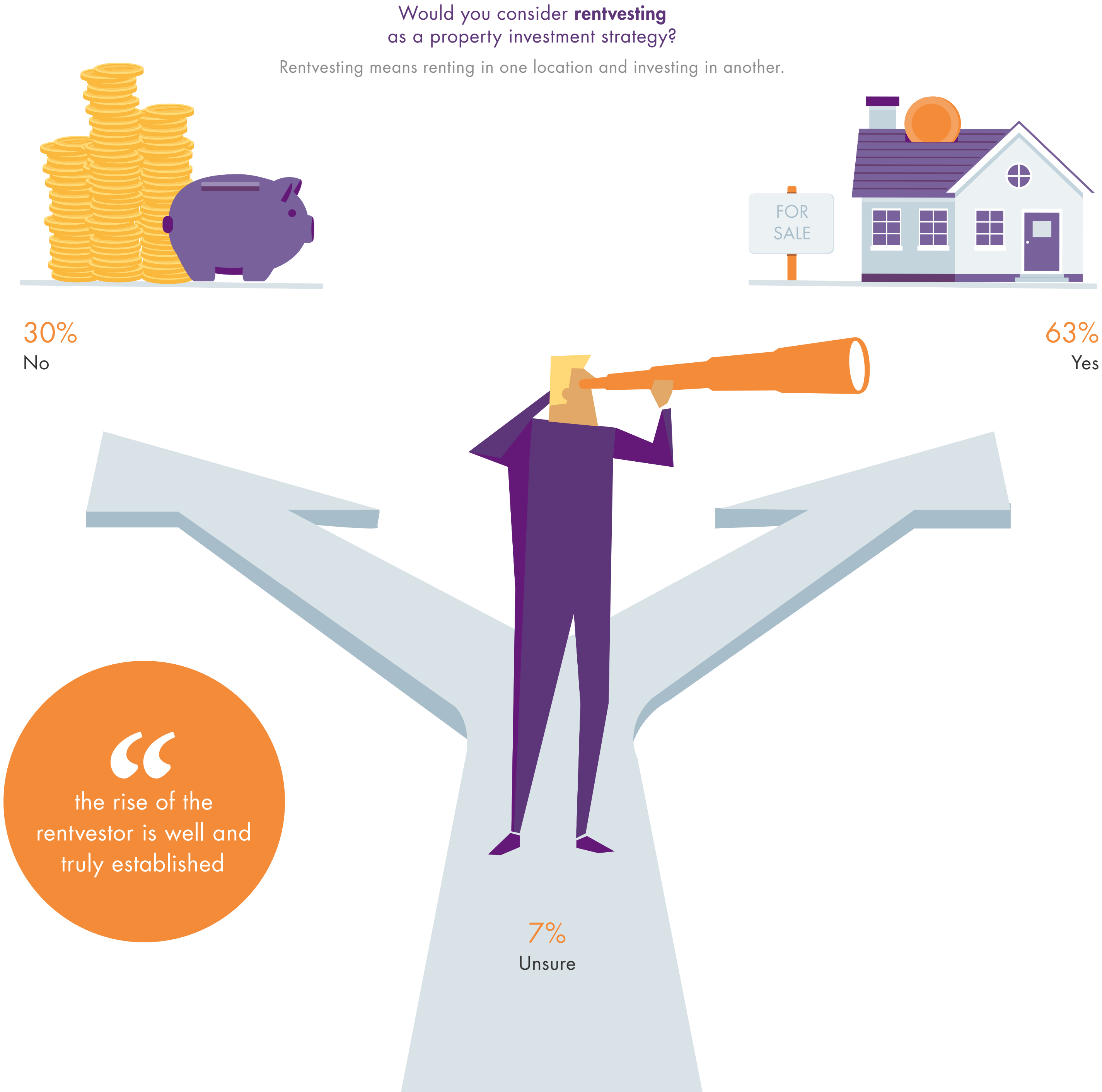
Where is the most appealing place to buy right now?

Rentvesting resonates as a property investment strategy, particularly with first-time investors.

63% of survey respondents said they would consider rentvesting – where instead of buying a home to live in, people rent in one location and invest in another – as a property investment strategy.

There was good representation from first-time investors in the survey. Of all respondents who purchased in the past 12 months, 20% (104) purchased their first investment property in the year. Of these first-time purchasers, 83% purchased an existing property while 14% purchased new or off-the-plan. The remainder purchased vacant land.

Among this first-time cohort, the rise of the rentvestor is well and truly established. Among these first-time investors, more than a third (36%) identified as renting elsewhere while the remaining 64% owned the home they lived in.



> "the rise of the rentvestor is well and truly established

Property investors are sophisticated in their approach

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. 45% hold two to four properties in their portfolio, while another 21% hold five to 10. This was up on the 2017 numbers showing 42% and 18% respectively.

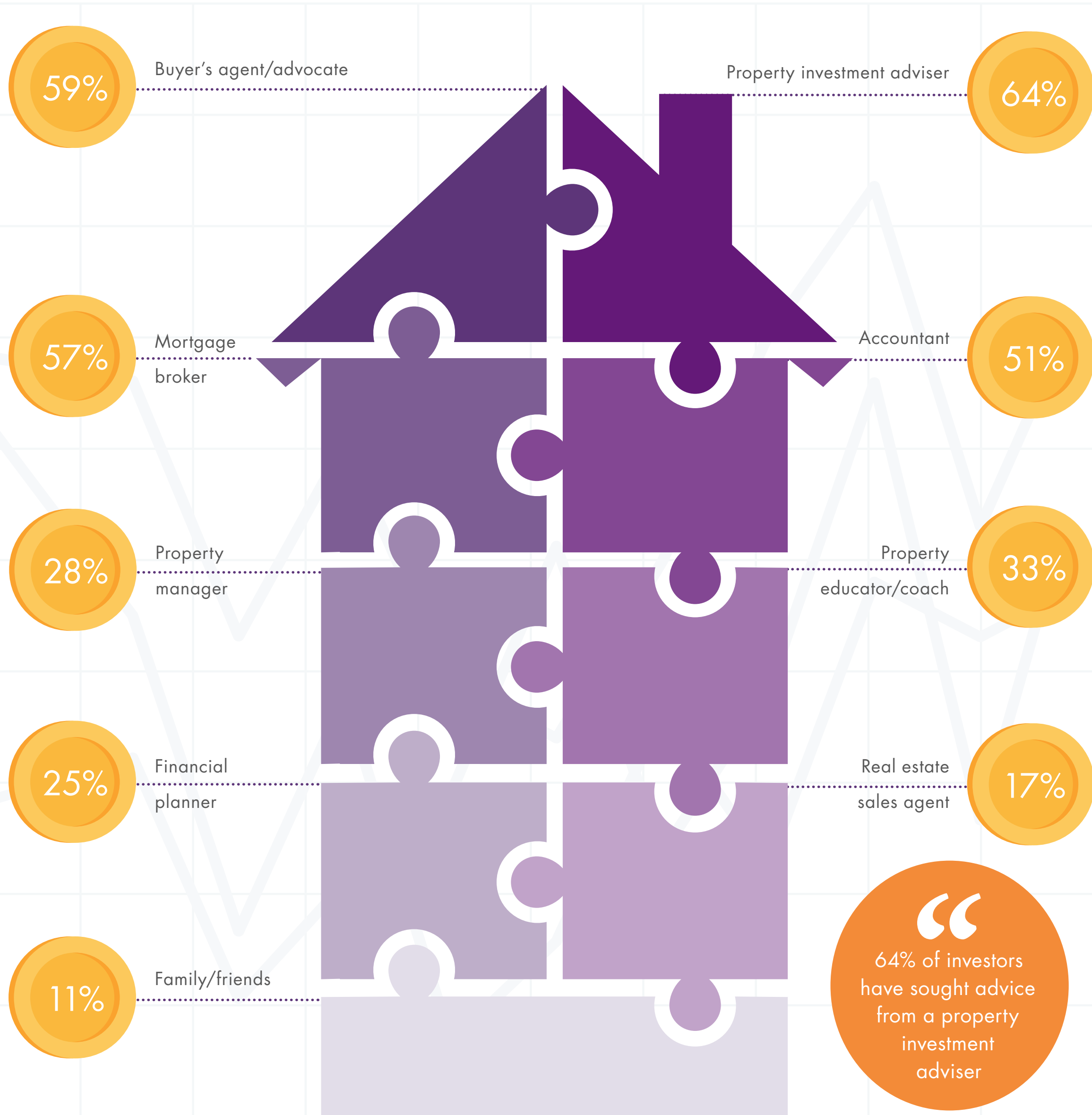
Over 98% of property investors have some form of plan or strategy, with almost 28% having a detailed and modelled plan designed to match long-term investment goals.

Investors continue to seek advice and services from a large variety of licensed and regulated professionals. Mortgage brokers are the most commonly used service providers, with 87% of investors (up from 85% last year) saying they have sought the services of a broker.

Over the past year there has been a slight change among those professions from which investors have sought/are planning to seek property investment advice. This year, 64% of investors chose a property investment advisor (up from 57% last year) while buyers' agents/advocates, which were the most popular choice in 2017 at 60%, recorded an insignificant drop to 59%. Mortgage brokers (57%) and accountants (51%) were the next most popular.

Perhaps reflecting the complexities of using a self-managed super fund (SMSF), 86% of investors continue to invest overwhelmingly outside their SMSFs. In fact, the same percentage say they have no plans to invest via their SMSF in the next 12 months either.

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



Investors want to see greater professional standards for the industry

Despite their sophistication, a large majority (87%) of survey respondents think property investors need more education about the risks and potential benefits of investing in property.

Virtually all (95%) continue to think that any provider of advice should have formal training and be regulated/ licensed.

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.

In addition, 90% of those surveyed were aware that PIPA exists, which is up from the two-thirds recorded in 2017.

> “90% of investors believe the property investment industry should be regulated

PROPERTY INVESTMENT PROFESSIONALS OF AUSTRALIA PIPA

About the survey

The PIPA Property Investor Sentiment Survey of 820 investors was conducted online in August and September 2018. 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 full copy of the results visit
www.pipa.asn.au