Update

Winter 2022 | Issue 6

By the Property Investors Council of Australia

Today's market

Read our summary on today's market

A call to arms to all investors:

We need your help!

Will interest rates kill the market?

PICA PROPERTY INVESTORS COUNCIL OF AUSTRALIA

Update magazine is brought to you by the

Property Investors Council of Australia

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The Property Investors Council of Australia (PICA) is an association set up to provide a single voice for the two million plus property investors in Australia. It is a pure not-for-profit association, run by property investors, for the interests of property investors. PICA aims to advocate on behalf of property investors to government, industry, and consumers.

As the peak association for Property Investors, PICA has established a five point charter:

1. Advocate on behalf of all property investors
2. Play an active role in educating property investors and those looking to invest
3. Engage with the Government, regulators and the community to ensure property investors receive appropriate representation in matters which directly or indirectly impact them
4. Engage with the Government, industry and businesses to ensure property investors' consumer rights are protected and free from dishonest, deceptive and misleading conduct in light of the industry being unregulated
5. Help inform and promote the financial and social benefits of a vibrant and sustainable property investment marketplace

PICA membership starts at just $5. Join today at www.pica.asn.au/join

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Stay up-to-date

Make sure your contact details are correct to ensure you receive important information on upcoming events in your inbox.

Also, join our PICA Facebook group to stay up-to-date on event dates and other educational opportunities too.

Chairman's message

This is a pivotal moment in the Australian real estate landscape.

The conversation around rental markets and role played by landlords has been striking. Unfortunately, most of the recent commentary has been distinctly anti-investor. While this isn't (unfortunately) unusual, the facts are being overlooked at a time when nobody – tenants and government included – can afford to deal with the inevitable fallout.

I recently sent an email to all members about the issue which was as follows:

As a valued member of PICA, I wanted to reach out with an important update regarding the tenancy reviews and reforms which have been underway over the past couple of years across Australia. Some of these reviews have been completed, while several remain live in terms of finalising new legislation.

While well intended, a number of these reforms have (or will have on their legislation) delivered unintended consequences. This is due to their increased interference in a market which was already operating efficiently and appropriately for the vast majority of tenants and landlords.

We are now experiencing an extreme shortage of rental listings and there's clear evidence this has been a direct result of reforms. In Victoria, where 133 new reforms were introduced into their Tenancy Act, there have had two major impacts on the rental market:

1. *Private landlord have sold up, reducing available rental stock*
2. *Increase compliance/holding costs can no longer be absorbed by owners and some costs have been passed on to tenant in higher rents*

TWITTER: Herald Sun – New Tenant Protection Laws adding to Vic Rental Crisis

Re: Western Australian Rental Reform

The Western Australian Government are soon to release their new legislation, with some groups advocating for similar reforms to Victoria.

The Real Estate Institute of Western Australia commissioned an economic impact study and their findings support the actual events which are playing out in real time in Victoria and Queensland right now.

Here is a summary of the report's key findings:

- *Over 60% of those surveyed are likely or very likely to sell their investment properties in the next 2 years if the proposal to remove the right of the property owner to terminate a tenancy and the proposal to remove the requirements of a tenant to seek the consent of the property owner to make modifications to the property*
- *It would cost tenants across the state an extra $105m in rents annually*
- *Investors would be slugged an additional $142.5m in higher property management and holding costs*

You can access the full report by clicking here - https://view.publitas.com/reiwa-1/synergies-report-residential-tenancy-reform/page/1

Although well intended, when reform goes too far, the costs are great and everyone loses out.

As Property Investors, we supply private rentals as part of every city and town's overall accommodation mix. We play an important role in delivering safe accommodation, whereby our tenants have the right to 'quiet enjoyment'.

We have already been asked a great deal by Governments and Regulators over the past few years but they keep seeking more and more from us. However there is a limit, and it appears many landlords have reached theirs. The more they seek, the harder it is to justify the investment and government now risks deepening the rental crisis further across all states and territories.

At PICA we'll continue to advocate on behalf of our members and the overall positive economic and social benefits we contribute to within Australia.

Your ongoing support is appreciated.

The message is clear. If we want our voice to be heard, now is the time to rally together and make our position known. Enough is enough when it comes to investor vilification by government and tenant unions. A reasonable, sensible, facts-based discussion about the fundamentals of rental markets is desperately needed.

Spread the word and help bring others to our cause.

The only way we gain a voice is by coming together, demonstrating the weight of our numbers and demanding to be heard. The impact of ignoring investor concerns won't simply be upon landlords, but will flow through to tenant's rental rates, government revenue, homeowners' values and the overall economic health of our nation.

Yours faithfully,

Ben Kingsley

PICA Chair

Will interest rates kill the market?

PICA Associate Member, RIchard Crabb provides his commentary on the current rate changes.

Australians are an interesting lot. When it comes to important issues deliberated around the kitchen table, there are some tried and true discussion starters. It could be about the effectiveness of our political leaders, or which sporting franchise is up the proverbial creek without a paddle.

But another constant source of discussions is interest rate movements – and like amateur epidemiologists during the pandemic, everyone seems to have an 'expert' option on the subject.

This is now a particularly hot topic of course. Inflationary pressure has seen shots fired across the bow by the Reserve Bank, and people are beginning to panic as interest rate rises arrive.

But dig a bit deeper before you run away screaming, "We're all doomed".

The real question is, "Will rising interest rates kill the real estate market?"

To me, the answer is no, and here's why:

Confidence indicator

Rising interest rates are a big lever pulled by the RBA to help control inflation. Given inflation is increasing strongly in this post-pandemic world, there's every reason to expect interest rates will continue to rise in the coming months.

Firstly, the threat of rising rates often does much of the work before an increase comes in.

You see, telegraphing the change has the effect of cooling everyone's heels. They are expecting the rate rise further, so they are already factoring it into their household budgets. They're looking for better lending deals, cutting costs as needed and building in buffers. As rising rates hit, don't expect them to immediately gut our economic strength.

Lots of savings

One unexpected pandemic result was the extraordinary level of ready funds Australians squirreled away.

Many Aussies, rightfully fearful of their future, started saving furiously. This was assisted by less spending on travel and socialising.

The result is that many of us now have plenty of savings on hand. This buffer will help buy time for property owners as they settle into rate increases.

Property as a hedge

Here's something all too rarely discussed. Well-chosen property is an excellent hedge against rising inflation and interest rates.

Think about it. A good quality property investment will probably deliver average capital growth of around five per cent per annum. On top of that there will be a net rental return of something like two to three percent after costs.

The bottom line is property can deliver a total return of seven to eight per cent as an investment. Even in the worst-case scenario, we're unlikely to see interest rates go anywhere near that figure in the foreseeable future.

Rates won't keep rising

Interest rate rises will reach a balance point sooner than most expect, and then stop.

Rate rises have been a bit bigger than most of us predicted early in 2022, but they will do the job sooner than a drawn-out increase process.

At present most mortgages are still on a sub-four per cent interest rate. Rate rises won't elevate those suddenly into double digits, so most borrowers will be able to tolerate the move.

In conjunction with that, smart investors will already have an interest rate buffer in their home budgets. I'd encourage clients to assess their own borrowing tolerance at double the interest rate they're currently being charged. That means they have plenty of room to weather further rate rises.

Robust banking system

Australian banks already have rigorous lending criteria. We had a healthy banking system before the The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, but once that was handed down Australia's lenders became even more cautious around lending decisions.

Borrowers who qualify for a loan must go through extensive assessment before being granted an approval. In addition, banks must now assess their clients' applications based on a three per cent tolerance rate buffer. This means the bank runs every potential borrower's financials assuming their loan's interest rate is three per cent higher. If the numbers don't stack up, the loan probably won't be approved.

All this says our nation's rules on who qualifies for a loan are stringent, so those holding mortgages will already be well placed to deal with near-term interest rate rises.

So, before all the 'chicken littles' out there start screaming about the sky falling, take a pause and think about it. Rising rates may be here, but don't expect a mass selloff of property. Demand for good quality investments remains high among buyers... and even higher among tenants. If you secure the right real estate now it will continue to perform strongly well into the future, whatever may come.

Market change heralds more opportunities

Nichola McDougal (PIPA Chair)

In all my years of reporting on property markets and economic metrics, I don't think I've ever seen such outlandish commentary on interest rate increases as occurred in May and June.

While, yes, the rate rises are earlier than the central bank had indicated, I don't think any of us really wanted to believe that the cash rate would need to stay at such an emergency low level for multiple years.

That's because, if it did, it would mean that our economy was in very bad shape indeed, which would be a bad thing for all of us – rather than the opposite.

Of course, our robust banking sector means that new borrowers were already financially stress-tested by two or even three percentage points higher than the actual interest rate attached to their mortgages. This fact, as well as most borrowers being well ahead on their repayments, means that moderate increases to interest rates are nothing to be feared.

Rising costs of living are more of an issue for most households, with inflation now well above the Reserve's two to three per cent target band.

However, the central bank has indicated that it expects high inflation to be a temporary situation, rather than a permanent one. Further, most major banks appear to be pricing in a maximum interest rate of around five per cent to six per cent within two years, which is still relatively low compared to historical averages.

It's obvious that affordability constraints, as well as changing monetary policy, has taken some of the heat out of property markets – especially in our more expensive locations – with members reporting fewer active buyers.

However, with more listings available and fewer buyers, it's clear that the current changing market conditions are presenting a plethora of opportunities for long-term homebuyers and investors.

Source: Herron Todd White

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Source: Herron Todd White

Market update

Our good friends at PIPA have shared their state-by-state market reviews gathered from experts.

New South Wales

Ben Plohl - Director, BFP Property Buyers
A clear transition is evident across the marketplace where the dropping of price guides and auctions being passed is the new norm. A-grade properties are still moving and for good prices, however, we are seeing a significant slowdown in B- and C-grade stock.

The disparity between vendor expectation and offers from buyers in some campaigns has been very interesting.

According to the CoreLogic index results as at 31 May 2022, Sydney saw a one per cent decline in dwelling values, however, it's worth pointing out that we are still 22.7 per cent above pre-COVID levels.

We have witnessed a range of different auction results over the past couple of weeks with some auctions struggling to muster up a single registered bidder, while others are seeing some 10 to 15 registered bidders.

Overall, the market is quite patchy with no distinct trend or pattern. Although numbers at some open homes have been down, we are noticing a lot of opportunists appearing.

Consumer confidence has taken a battering due to the negative news headlines, global unrest, and the rapid increase to the cost of living. No doubt this is and will continue to dampen buyers' appetites when buying real estate and the market will continue to flat line and be quite patchy.

The trajectory of the cash rate will be one to watch very closely as this will have an effect on market direction.

Overall, these are the market conditions buyers should be excited about. Less competition, an increase in inventory, and dampening consumer confidence is when opportunities start to appear.

Victoria

Cate Bakos – Buyers' Advocate, Cate Bakos Property
The election jitters and interest rate increase didn't do much to change Victoria's rate of capital growth – we've sustained yet another very static month for both our capital city and regional market with our capital city exhibiting -0.7 per cent price movement and the combined regions exhibiting +0.4 per cent.

This is a pleasant surprise given the media doom and gloom, and the mere fact that buyers do typically opt to sit on their hands in the leadup to a Federal Election.

The ALP's lack of tax reform and significant policy change was a stark differential to the early months of 2019 when voter nerves became palpable in the final months leading up to our last election.

We anticipate that Anthony Albanese's shared equity scheme won't have a dramatic impact on the property market as a whole, however, the headwinds of inflationary pressures and the increased cost of living are still a significant threat to further negative consumer sentiment.

By far, the most significant change within our property market relates to our rental outlook. With onerous rental reforms rolling out and a general supply/demand imbalance in favour of rental providers, we expect that strengthening vacancy rates and increasing rents will be a hallmark of 2022 and beyond.

As far as stock levels go, with winter approaching and buyer scrutiny remaining high, we can anticipate that A-grade properties will continue to attract strong competition and prices will hold up for quality real estate.

Queensland

Meighan Wells - Direcor & Principal, Propety Pursuit
Southeast Queensland, and particularly Brisbane, is experiencing a fundamental shift in buyer behaviour across the residential housing market. And I, for one, am relieved.

The type of buyer behaviour that has been exhibited over the past 17 months has been highly alarming.

People making significant financial and personal decisions that are overwhelmingly based on an extreme fear of missing out is fundamentally flawed to the degree of bordering on insanity.

What lead to this behaviour and what has changed since Easter? Much has been written about the storm of conditions that lead to the rapid rise in house prices. The combination of low interest rates, strong net migration, affordability, and a desire for a change in lifestyle have been key factors.

But let's break that down by looking at buyer behaviour.

1. Fewer people leaving SEQ

A lack of higher paying salaries and limited career progression relative to other geographic locations – Sydney, Melbourne, and overseas – used to be one of the factors that lead to moderate median house price growth for Brisbane over the long-term.

Upwardly mobile professionals with strong career trajectories were forced to look interstate or overseas for significant professional pathways. Consequently, the prestige upgrade property market was somewhat stifled by the exodus of professionals with high incomes in years gone by. But the work from home revolution has put a squeeze on the outflow of talent.

2. More people coming to SEQ

Interstate migration is at its highest level in 20 years and there are a number of factors contributing to this.

The COVID-created work from home revolution appeared to some families to be the answer to the question that they did not even know they had pre-March 2020.

Not only is the weather beautiful one day, perfect the next, a yearning to slow down the pace of life and spend more time doing family-oriented activities appears to be at an all-time high post-COVID restrictions.

3. Affordability

An increasing median house price differential between Brisbane and Sydney/ Melbourne is often a lead magnet for southerners as housing up north starts to look far more affordable.

The last big influx of southerners was in the early 2000s when the price differential was at an all-time high, which led to rapid median house price growth over the same period.

South Australia

Adam Hindmarsh - Director & Principal Strategist, Prospa Property Advisory

The Adelaide property market has maintained its upward trajectory over the past few months, with prices continuing to rise.

Buyer demand remains very high and the availability of stock on market remains at relatively low levels.

Adelaide is now firmly on the radar for eastern seaboard investors, who are flocking to our city in droves – and driving up local property prices according to many locals!

Real estate agents across Adelaide are reporting that it is not uncommon for more than 50 per cent of enquiries on a listing to come from interstate investors and buyer groups. The majority of whom being from Sydney and Melbourne, where prices are continuing to flatten, and investors are looking for value in other markets.

Following the recent interest rate rise there has been a very slight reduction in urgency within the Adelaide market, but certainly not enough to slow things down. We do have to consider that the last time we saw an interest rate rise was back in 2010, meaning there is a generation of Australian homeowners who have never experienced an interest rate rise and may be a little rattled by this.

So, aside from amazing food, wine and lifestyle… why has Adelaide become so popular?

Affordability is a strong motivator for many investors. In the northern suburbs you can still buy a standalone house in the $300,000s! In the southern suburbs there can also be "bargains" in the low $400,000s. But, as with every investment, there is definitely an element of buyer beware! Investors need to understand the location and its inherent risks rather than just "investing in Adelaide."

Along with affordability, rental conditions in Adelaide are extremely attractive to investors.

Vacancy rates are around 0.6 per cent and, according to SQM Research, rents have risen by 18.9 per cent in the 12-month YTD.

Property managers are reporting that rental demand is 'through the roof' and some properties are being tenanted in minutes, not days or hours. It is not uncommon to have 70-plus people attend an open inspection and over 30 applications submitted on an average three-bedroom home, with brand-new and renovated properties achieving premium rents.

Western Australia

Matthew Hughes - Managing Director, Capital Property Advisory

The biggest news to hit headlines and the hip pocket recently has been a rise in interest rates.

In April, the Australian Bureau of Statistics released data showing inflation for the year to March 2022 was 5.1 per cent. This is the highest rate of inflation since GST was introduced by the Howard Government in 2000.

It comes as no surprise that attention quickly turned to the RBA. After all, the rate had not risen since November 2010, with November 2020 being the last time it changed at all.

While the higher-priced east coast cities will certainly feel the pinch, this won't be the case in Perth.

Many households in Melbourne and Sydney are spending around 40 per cent of their disposable income on mortgage repayments, according to data from the Real Estate Institute of Australia. Households in Perth, however, are spending circa 26 per cent on meeting loan repayments.

Only recently has Perth overtaken its previous median price record, which was set in 2014. Despite the recent growth, Perth remains one of the most affordable capital cities in Australia.

Historically, Perth residential prices have had a unique relationship with higher interest rates and it is not unusual for Perth to be counter-cyclical to the eastern markets.

The Reserve Bank cut the cash rate to a then relatively low 4.25 per cent in December 2001, amid ongoing global uncertainty following the 9/11 attacks.

However, this rate didn't last long. By May 2002, the rate increased to 4.5 per cent and kept increasing until early 2008 when it peaked at 7.25 per cent, just before the GFC.

And what happened to Perth property prices during this time? They rose significantly.

Perth's median house price grew sharply each year until 2008, despite the higher rates and subsequent increases. In terms of supply, the Perth rental market has continued to tighten, with the vacancy rate currently 0.7 per cent. This is the lowest rate ever recorded by REIWA in 40 years.

As previously noted, a distinct lack of supply in both the rental and sales markets will often lead to upward pressure on property values.

Supply chain constraints and labour shortages have also dampened the development pipeline, making it unlikely there will be a significant rise in housing stock any time soon.

Border openings will also weigh on the market, interstate and international arrivals will only add fuel to the demand fire.

Tasmania

Simon Pressley – Head of Research, Propertyology

Tasmania's three largest markets produced outstanding rates of capital growth over the past three years (Hobart 60 per cent, Launceston 80 per cent, and Burnie 70 per cent).

Launceston is officially one of Australia's top six of 200 property markets over the past five years.

Looking ahead, while the rate of capital growth will not reach the same recent giddy heights, the pressure will continue to be more than normal and double-digit rates of capital growth are therefore likely. And the incredible upward pressure on rents is not going away any time soon.

The Tasmanian economy has been the nation's best for four consecutive years and, just this month, produced an all-time record low unemployment rate.

Community confidence has received an extra boost from the Jack Jumpers remarkable success in its first year of the national basketball competition, plus the entire state are like kids with a lollypop while eagerly awaiting confirmation of entry into the national AFL competition.

Meanwhile, household finances have never been stronger due to record high values in both home equity and liquidity (huge cash reserves in mortgage offsets and redraws). We are anticipating home upgraders, first home buyers, and investors to still be very active real estate buyers in the foreseeable future. The volume of dwellings listed for sale has mildly increased in recent months, but still remains 48 percent lower than five years ago.

Advocacy Corner

A central tenet of PICA is to advocate on behalf of Australian property investors.

As a collective, investors make up a substantial proportion of the voting population. Unfortunately, a previous lack of co-ordinated representation and funding means our interests are often drowned out by other advocacy groups with contrary agendas.

To this end, PICA has come forward as a representative voice for the nation's approximately 2.3 million property investors.

Since our inception we've been successful in pushing the investor message. This has included affiliating with state's based real estate institutes when necessary to highlight disproportionally unfair of tenancy law changes, as well as participation in exploratory groups at the highest political level. We also coordinate formal responses to legislation proposals, and utilise media opportunities to highlight the important role property investors play in Australia's economic and housing supply markets.

In 2022, PICA's advocacy work will be more important than ever. There are several events this year where we need to make our presence felt, including:

- Tenancy law reforms in Western Australia
- Stamp Duty reforms in New South Wales
- Land tax changes proposed in Queensland
- The federal election where housing supply, affordability and taxation will be central discussion points.

All these instances have the potential to penalise hard-working Australians like you who simply want to secure their financial future through property investment.

So... what can you do to help?

There are four simple actions you can take that will assist immensely with this work.

1 – Help build our membership.
As our numbers grow, so our voice becomes more difficult to ignore. If you know of friends, family and associates who invest in property (or even aspire to owning an investment), tell them about PICA and encourage them to join up. For $5 per year, they can be part of the movement.

2 – Make noise.
Take the opportunity to submit responses in relation to political reform and legislative changes. Make your opinions known and hold our leaders to account.

3 – Volunteer.
PICA is a volunteer-based organisation. If you believe you can help in pushing our agenda, contact the association.

4 – Donate.
We run a lean organisation with no outside funding or additional support beyond membership fees. If you are so inclined, please consider a small donation to help keep the wheels of PICA turning.

PICA is a voice for you – run by property investors, for property investors. Get involved, provide support and you'll discover PICA membership is the best investment you can make in 2022.