PROPERTY INVESTMENT PROFESSIONALS OF AUSTRALIA

PIPA

SEPTEMBER 2016

PIPA Annual Investor Sentiment Survey

Introduction

Much has happened since we published our last PIPA Annual Investor Sentiment Survey in late 2015. Globally, there have been some extraordinary geopolitical shifts. Here in Australia, there are signs of economic weakness, particularly in Western Australia and Queensland, and the Federal Election has been and gone, bringing with it huge debate over negative gearing.

However, what really stands out is how many things have not changed, from the perspective of property investors. This year's survey results show that:

- In spite of the banks tightening their lending criteria, over 40% of investors survyed have bought a property in the past year.
- Compared to late 2015, the number of investors who think that now is a good time to invest in property has actually increased, and now stands at 71%. And most of these optimists are looking to buy a property in the next six to12 months.
- Yet again, investors have ignored the frequent noise about potential housing price bubbles, over-supply issues and proposed changes to negative gearing, to focus on the long-term wealth benefits that property investment can deliver.

This survey also again highlights the need for improved professional standards and regulation of property investment advice and we are pleased that PIPA continues to be recognised as the key professional association that is driving that agenda.

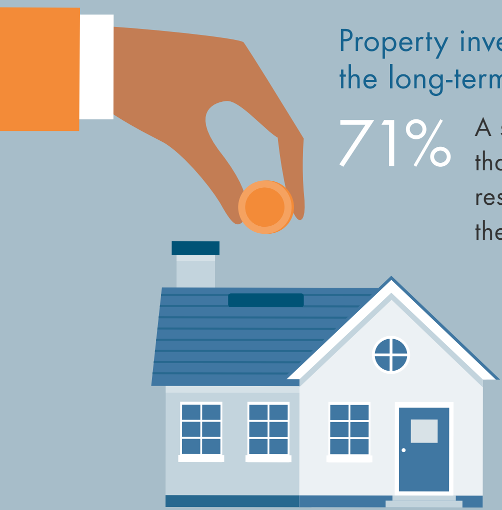
The PIPA Investor Sentiment Survey is a unique sample of Australia's property investment community. Distributed via our members' extensive investor networks, it provides a rich insight into the views of Australia's investors. We hope you find it as insightful as we do.

Our thanks go to the 1,004 investors and budding investors who participated in the survey.

CHAIR, PROPERTY INVESTMENT PROFESSIONALS OF AUSTRALIA

"The Federal Election has been and gone, bringing with it a huge debate over negative gearing

Summary of key findings



Property investors remain positive about the long-term merits of real estate.

71% A significant majority of investors believe that now is a good time to invest in residential property. A year ago, the corresponding figure was 63%.

58% are looking to buy a property in the next six to 12 months, just 2% short of the number recorded in 2015.

Investors are continuing to ignore the noise about possible changes to negative gearing, and other problems.

Property investors are looking past a lot of the potential short term challenges and remain focused on the long-term benefits of property investment.

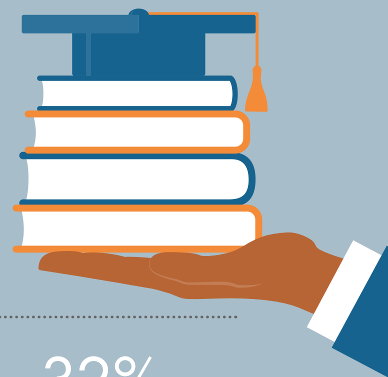
72% of investors are not worried about political proposals advocating the removal of negative gearing.

Investors continue to prefer established dwellings, and houses in particular.

Among those investors who are looking to purchase a property in the next six to 12 months, the number looking to buy a house has increased from 48% to 59%. Much of the corresponding fall has been in the number looking to buy a unit/apartment, down from 15% to 10%. And the number looking to buy existing stock has increased from 82% to 87%.

Investors place a high value on professional advice and service.

Investors see property investment as an industry that should be subject to professional standards. Almost all investors (87%) continue to think that more education is needed and that any provider of property investment advice should have formal training and be regulated/licensed.



Mortgage brokers continue to play a key role in providing finance to investors.

65% of investors have used mortgage brokers to obtain finance.

32% consider that recent changes to lenders' investment policies have affected their ability to secure finance.

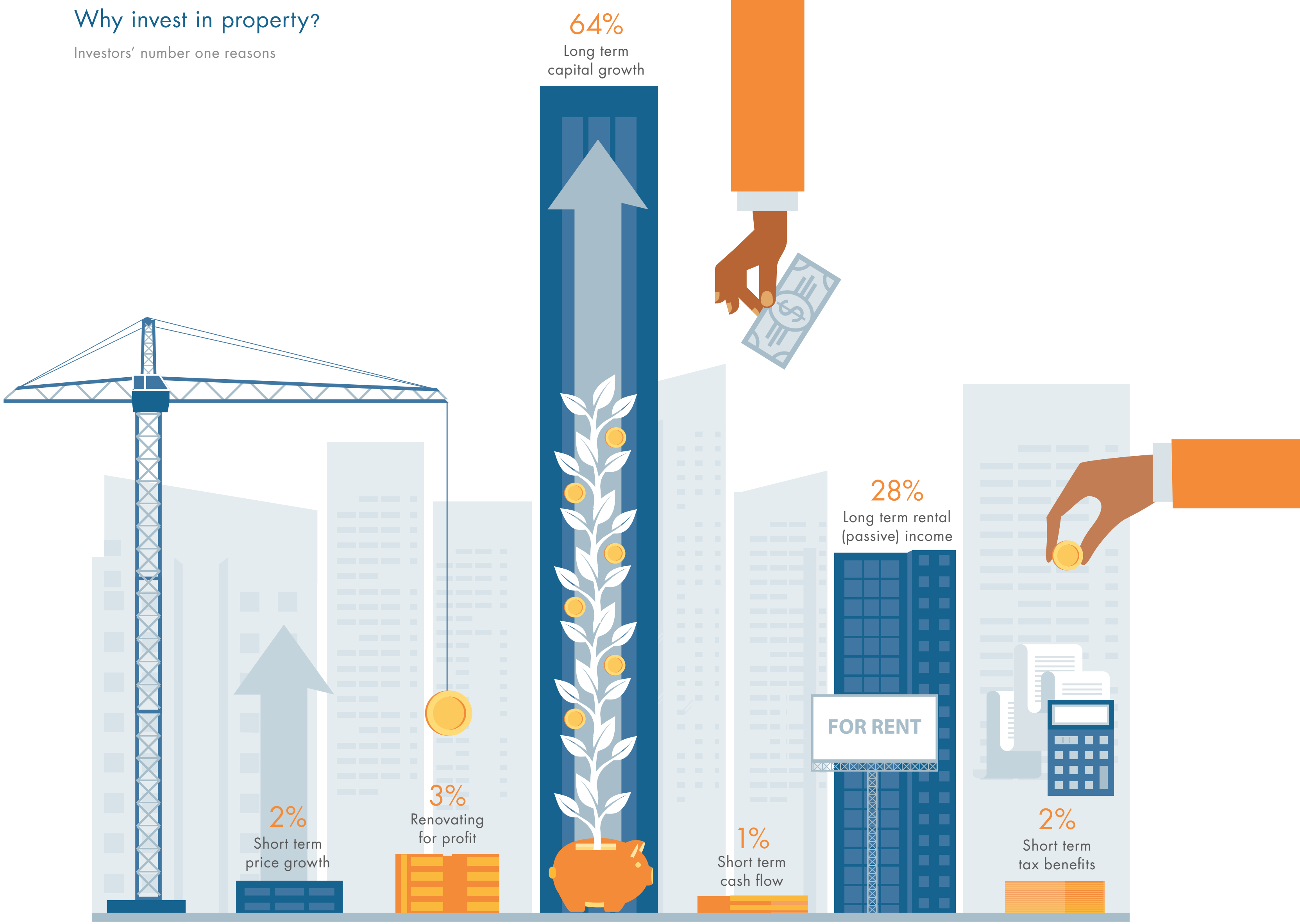
Investors remain bullish about the long-term merits of real estate.

Seventy-one percent of investors believe that now is a good time to invest in residential property – up from 63% a year ago. Moreover, 58% of investors – the overwhelming majority of the optimists – are looking to buy a property in the next six to 12 months and 43% actually purchased a property over the past year.

This optimism is consistent with the fact that property investors focus on the long-term wealth benefits – the potential for capital growth and rental income – that are available from real estate. When asked why they would invest in property right now, only 13% see record low interest rates as the key reason to buy. And only 2% think that the currently available negative gearing benefits are the key attraction.

Why invest in property?

Investors' number one reasons



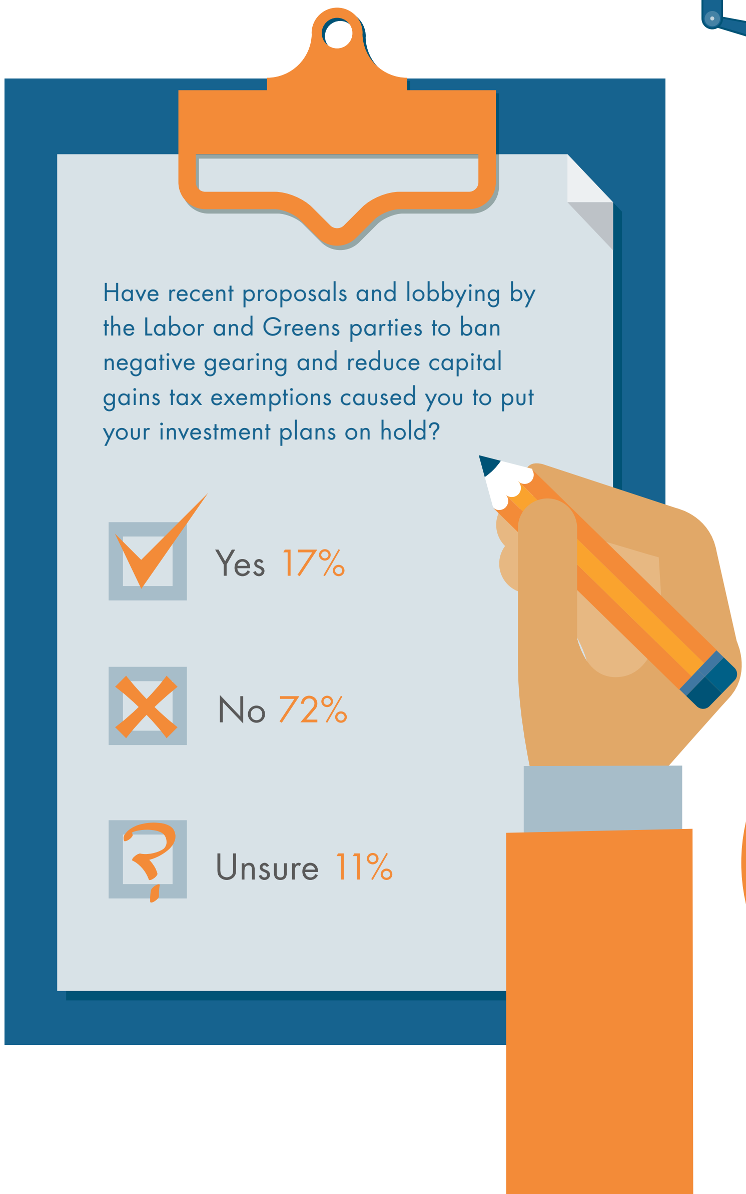
Investors continue to ignore the noise about possible changes to negative gearing and other problems.

Many of the investors we surveyed are property veterans. As was the case in 2015, the largest group (47%, up marginally from 44%) have between two and four properties in their portfolio. Another 20% own between five and 10 properties, while 19% own just one investment property.

When asked about their concerns, investors identify a number of challenges. These include: long periods of vacancy; banks raising interest rates; falling rental yields; a further tightening of investor lending; a big correction in property prices, an oversupply of property and changes to laws.

However, as a group, the investors are not unduly worried about any of these problems. Of those surveyed, 72% state that they are not worried about: proposals by the ALP and the Greens in relation to negative gearing and capital gains tax exemptions; a possible over-supply of property; or a 'bubble' in property prices.

This affirms that a lot of the discussion about negative gearing misses two crucial points. Firstly, the proposed changes will do little to improve housing affordability, a core argument of the policies. Secondly, almost half (47%) of investors are positively geared and 63% of investors who are currently negatively geared expect that they will become positively geared within five years. This highlights that negative gearing is only a short-term cash flow position rather than an investment strategy. These investors support supply and jobs and they are willing to pay tax on their positive investment income.



> "47% of property investors are positively geared

Established dwellings and houses are by far the favoured investment options - and Brisbane remains a preferred destination.

Among those investors who expect to purchase a property in the next six to 12 months, the number looking to buy a house has risen from 48% to 59%. Conversely, units/apartments remain out of fashion: the corresponding figure has fallen from 15% to 10%. The number looking to buy a townhouse/villa has dropped from 11% to 9%.

Of those who expect to buy a property in the coming months, 87% will be looking for an investment that is existing or established (up from 82% in 2015). Just 10% of investors are looking to buy brand new/off the plan and a small minority (3%) are considering vacant land.

Brisbane remains a firm favourite among property investors. The number of investors who believe the city currently offers the best investment prospects has fallen slightly – from 58% to 50% over the past year – but is still far ahead of any other capital cities. Following on from Brisbane, Melbourne is the second most preferred destination (20%), followed by Sydney (11%), Adelaide (9%) and Perth (4%). Hobart, Canberra and Darwin attracted negligible interest.

> “87% of investors plan to buy an established dwelling

What type of property would you buy?

Would you buy?

Where is the most appealing place to buy right now?

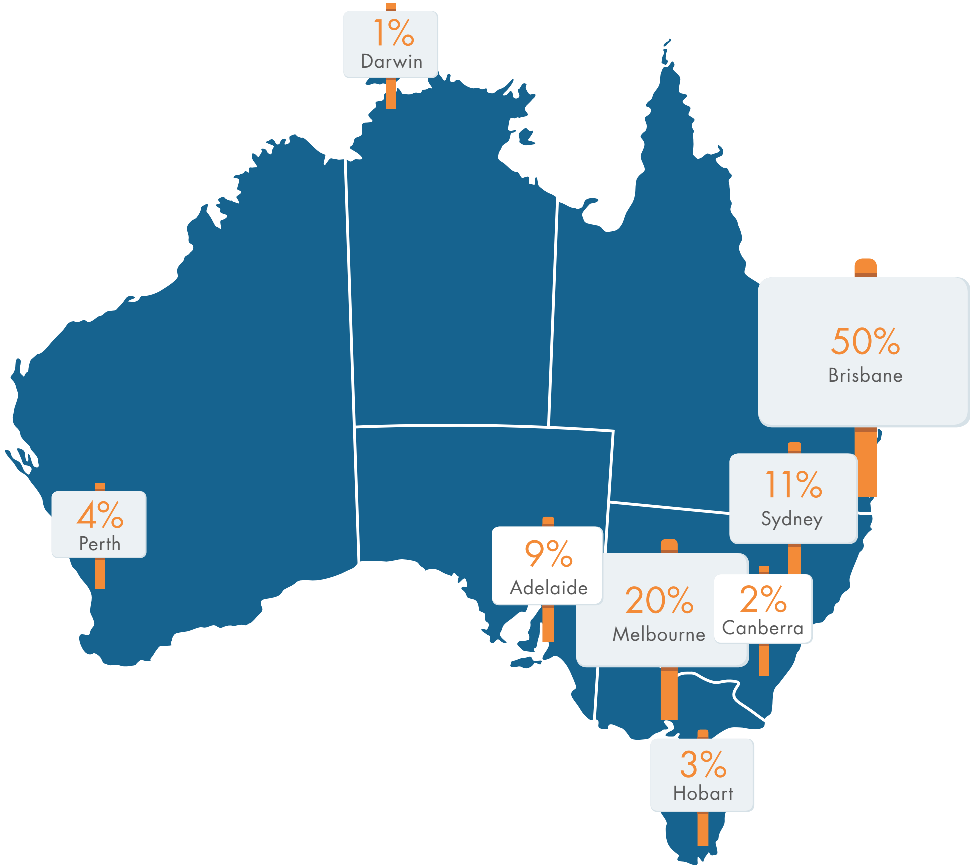
24%
Regional markets

65%
Metropolitan markets

10%
Coastal locations

0.2%
Mining towns

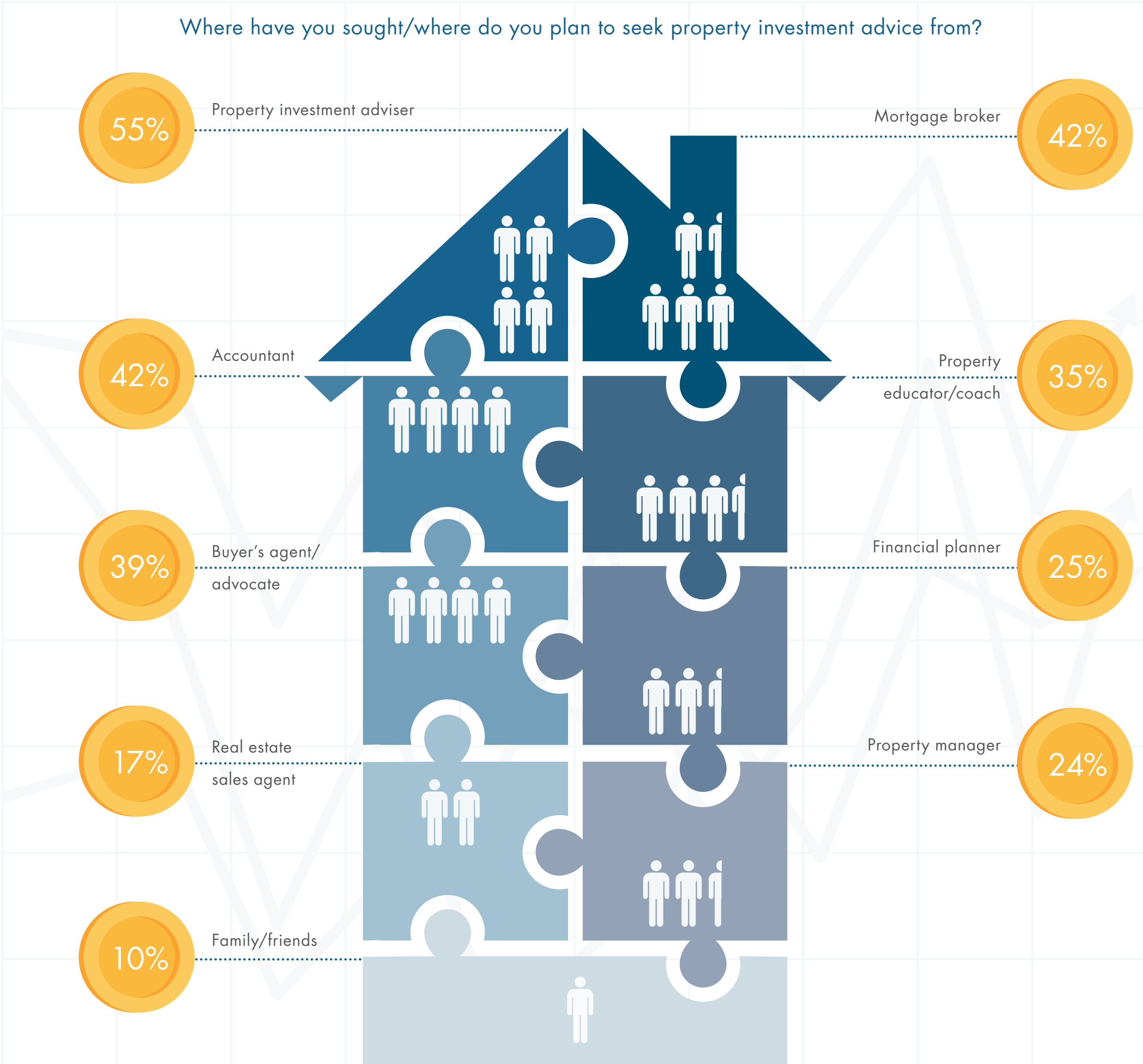
Which state capital do you believe currently offers the best investment prospects?



Property investors are highly sophisticated and disciplined in their approach

Property investors do a lot of planning and researching before they buy. More than 19% have a detailed plan and another 31% have a set strategy for investing. More than half have, in the past, used the services of: a mortgage broker; an accountant; a lawyer/conveyancer; and, a property manager. Some 44% have used the services of a property investment adviser, while 19% have worked with a property investment coach. The investors derive their information from a huge variety of sources: aside from professional advisers, the most important sources include research/data providers, property/investment magazines and Internet searches.

> "31% of investors have a set strategy for investing

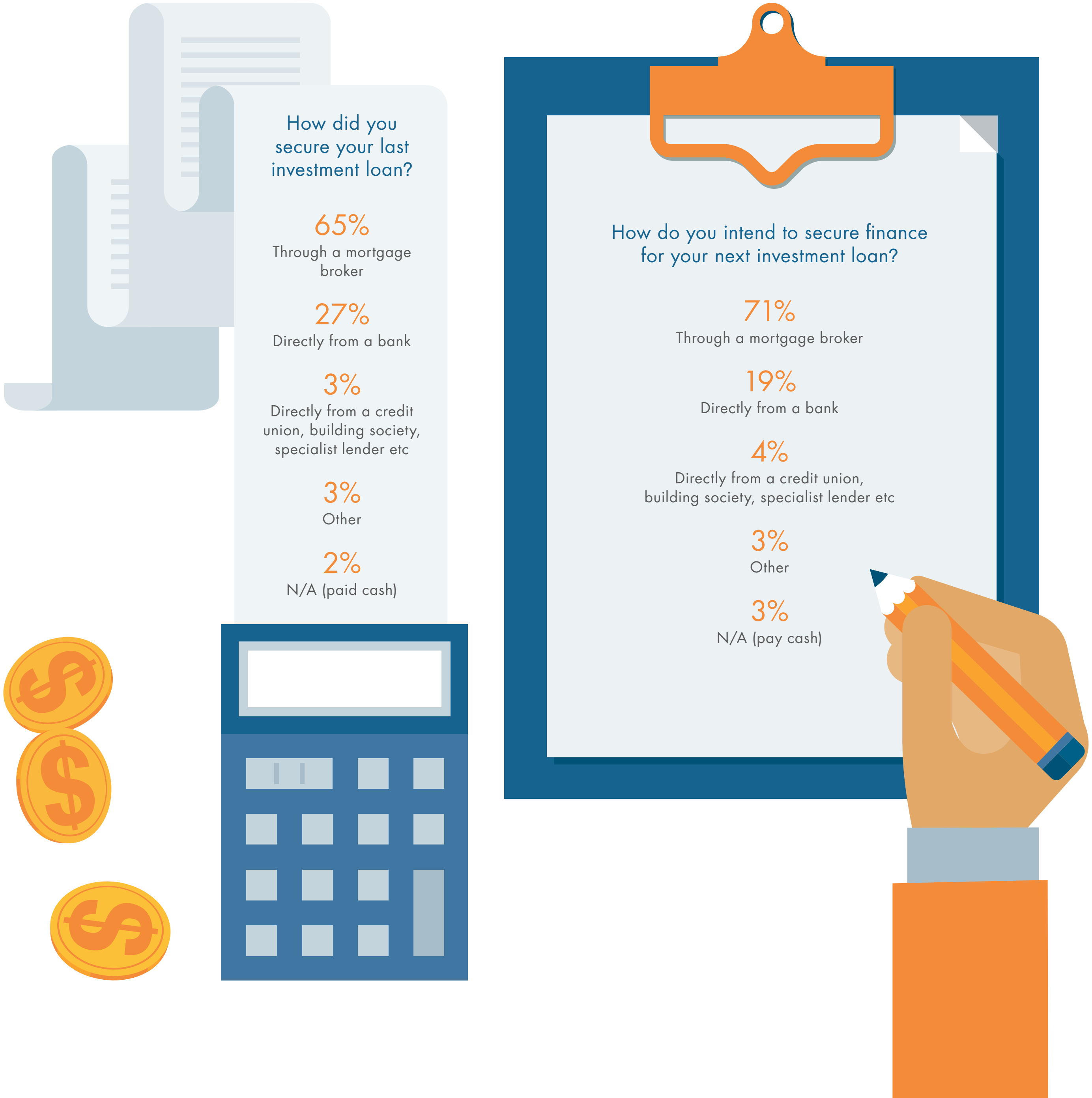


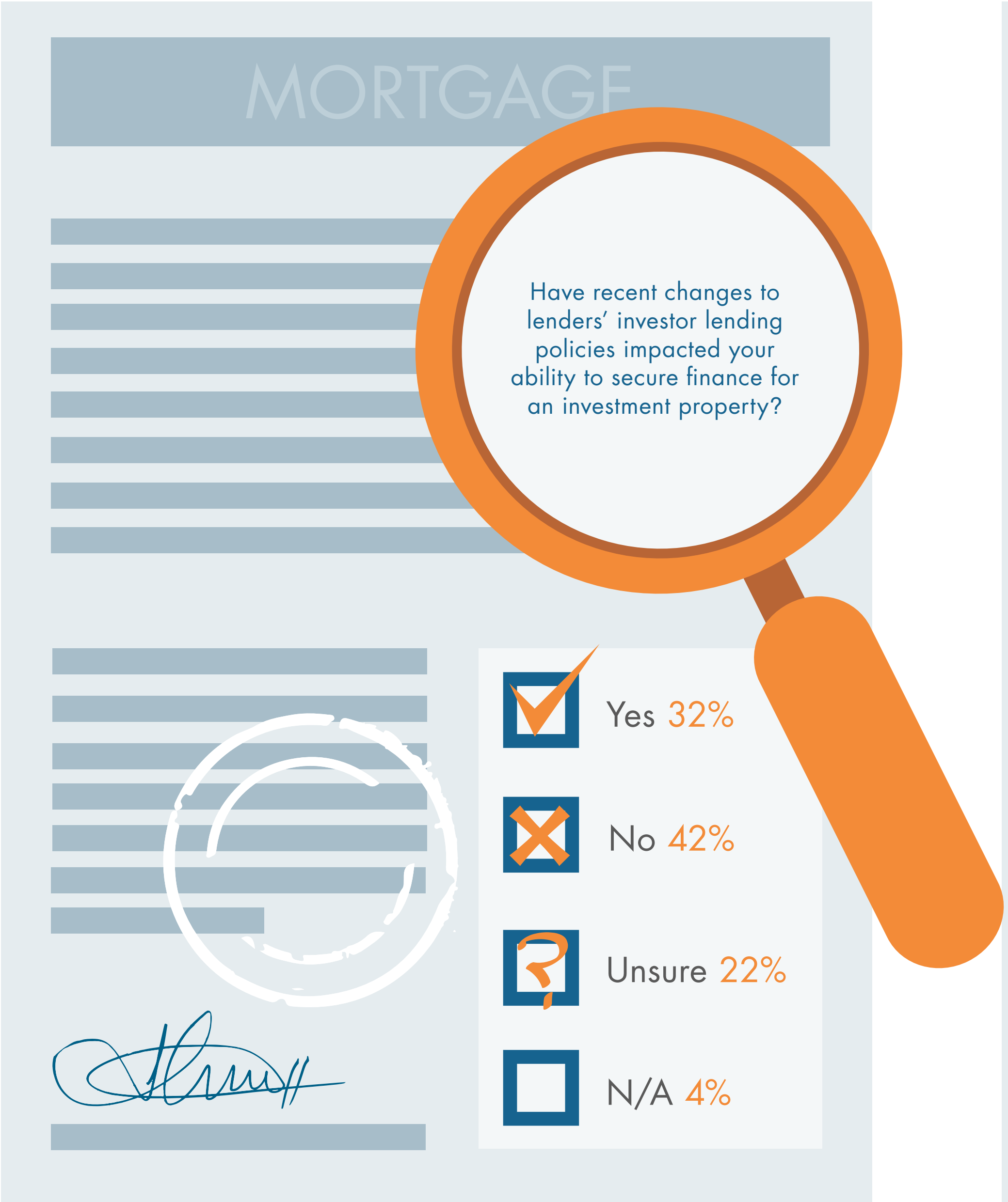
Mortgage brokers remain the most important source of funding for investors.

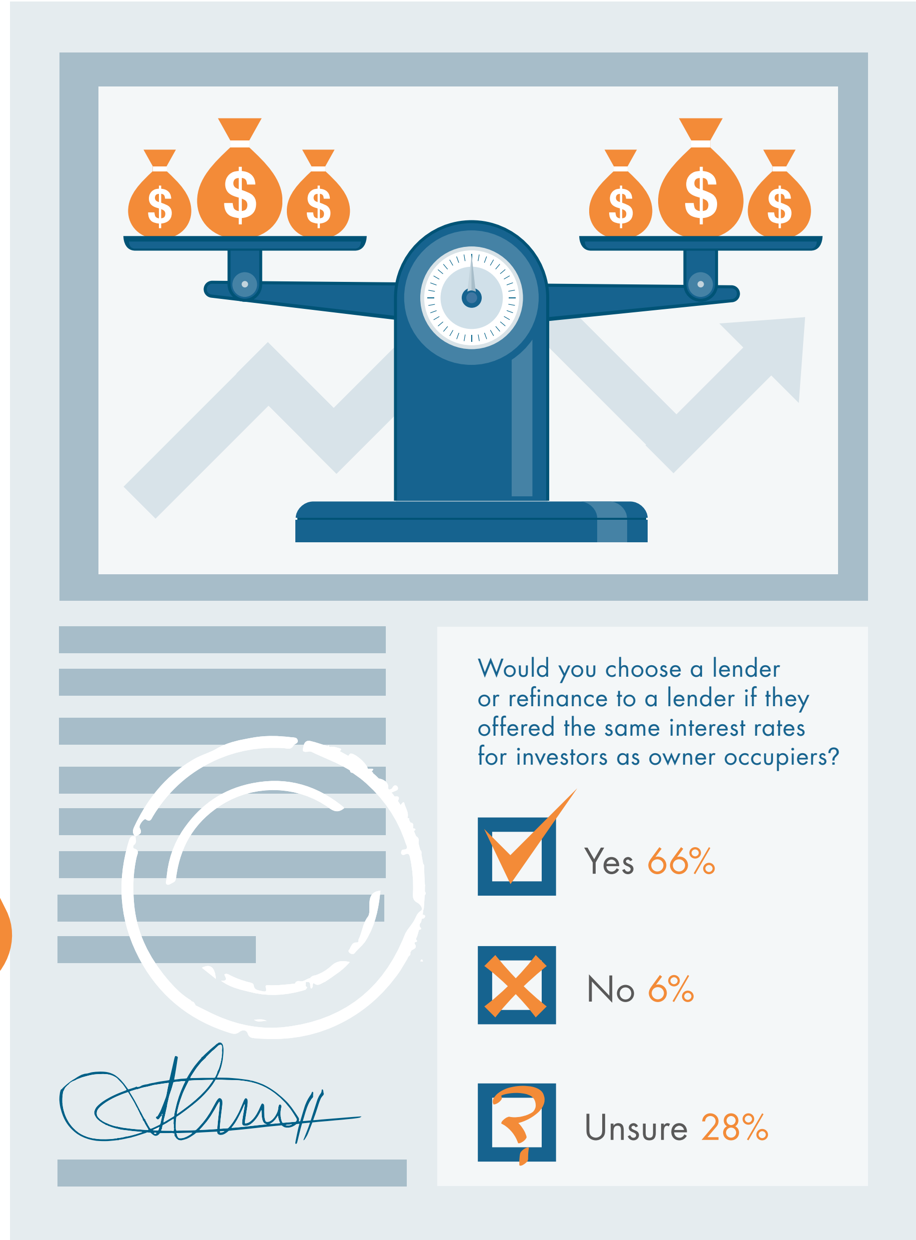
Perhaps because of the complexities of using a Self-Managed Super Fund (SMSF) to borrow, 84% of investors (virtually the same number as last year) hold their properties outside their SMSF (if they have one).

Meanwhile, mortgage brokers remain by far the most important source of finance for property investors. About 65% of investors – virtually the same number as in 2015 – secured their last investment loan through a broker. Some 71%, or marginally fewer than last year, plan on securing their next investment loan through a broker.

As was the case last year, 32% of investors consider that recent changes to lenders' investment policies have affected their ability to secure finance. Nearly 66% of investors would choose/refinance to a lender if it offered the same interest rates for investors as owner-occupiers. More than 80% of investors would choose/refinance to a lender offering the option of an interest-only repayment period, as opposed to a lender who did not offer such a period.



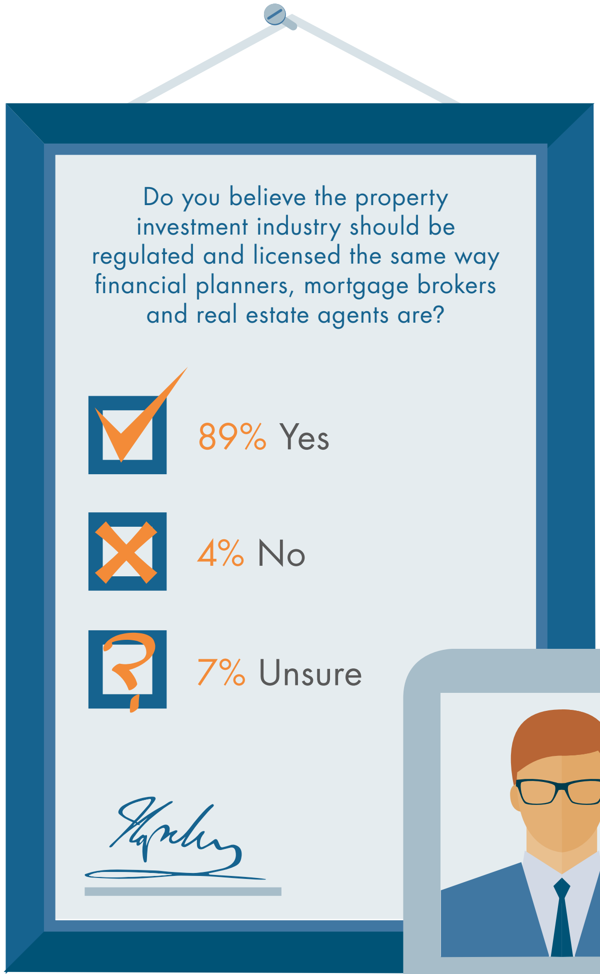

MORTGAGE
Have recent changes to lenders' investor lending policies impacted your ability to secure finance for an investment property?
Yes 32%
No 42%
Unsure 22%
N/A 4%

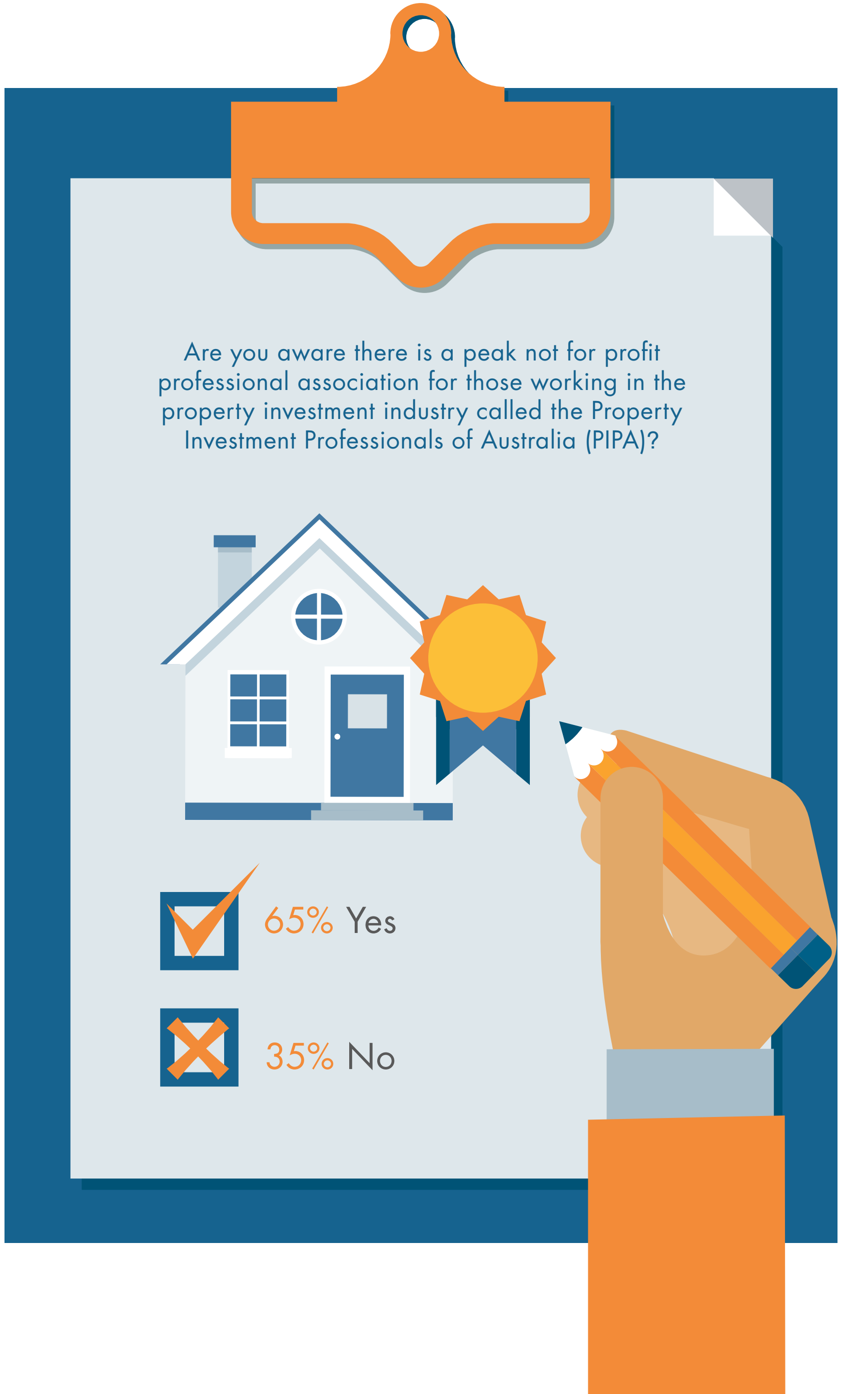

Would you choose a lender or refinance to a lender if they offered the same interest rates for investors as owner occupiers?
Yes 66%
No 6%
Unsure 28%

Investors want to see greater professional standards.

In spite of their sophistication, investors overwhelmingly (87%) consider that more investment education about the risks and potential benefits of investing in property is needed. Even higher numbers believe that property advisers should have some formal vocational training, and that the property investment industry should be regulated and licensed in the same way as financial planners and mortgage brokers. Sixty-five percent of investors are aware of PIPA, and almost all of these people know that its members abide by a strict professional code of conduct.

> “87% of investors believe more property investment education is needed


Do you believe the property investment industry should be regulated and licensed the same way financial planners, mortgage brokers and real estate agents are?
89% Yes
4% No
7% Unsure


Are you aware there is a peak not for profit professional association for those working in the property investment industry called the Property Investment Professionals of Australia (PIPA)?
65% Yes
35% No

PROPERTY
INVESTMENT
PROFESSIONALS
OF AUSTRALIA
PIPA

About the survey

The PIPA Property Investor Sentiment Survey of 1,004 investors was conducted online in August 2016. 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**