EXCLUSIVE PROPERTY DATA - THOUSANDS OF SUBURBS INSIDE!

your investment
property

May 2024
$9.95 (GST incl.)

BEYOND CHATGPT

Artificial intelligence is rewriting the rules of property investing

TIDES OF CHANGE

What's luring investors back into the property pool?

YOUR COUNTRY NEEDS YOU

Defense housing offers a hands-off approach to property investment

FROM BOARDROOM TO... BEDROOM?

Is converting empty offices into apartments the magic bullet to fix our housing shortage?

Stop stressing, start investing: How a buyers agent can help

Tides of change: Property investors are diving back in

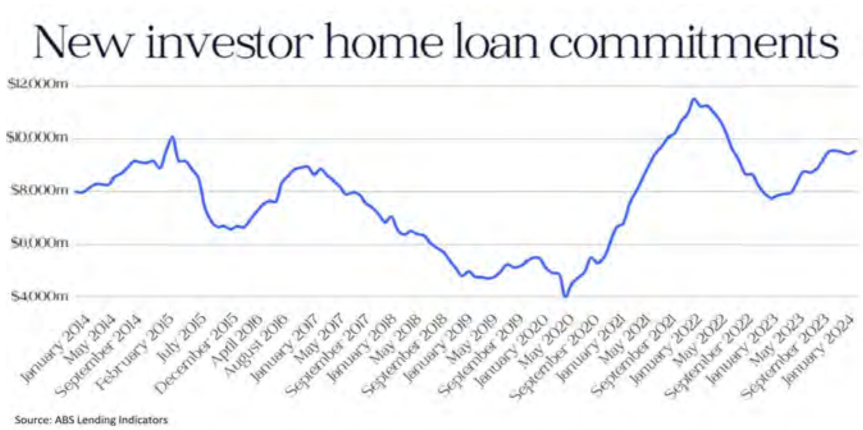
After years of uncertainty, economists and experts on the ground agree: Investors are back, baby. What's driving investors off the sideline and back into the property pool?
Brooke Cooper explores.

PROPERTY INVESTORS APPEARED TO HAVE HAD A WHIRLWIND 2020 AND AN OPTIMISTIC 2021, but 2022 brought interest rate hikes and market challenges that left many scrambling for the exits.

As we enter into 2024, however, a significant change appears to be underway.

To grasp the current state of affairs, we need to consider the hard numbers.

Australian Bureau of Statistics data on new home loan commitments for Feb-



ruary highlights a marked year-on-year increase in investor participation in the market – up nearly 22%.

More than one in three new home loans written that month were signed by property investors.

The uptick comes on the back of a period in which property investors appeared unenthused.

Hundreds of readers respond to the YIP Advantage Survey each quarter, and your insights have been astounding. We've watched the pendulum swing in real time – more than 60% of investors were considering buying a new property in mid-2022 compared to less than half one year later.

So, what could be behind the renewed enthusiasm apparent in 2024? A multitude of rising tides might be the answer, with experts suggesting an ongoing supply-demand imbalance could be the carrot enticing investors to make their way back into property.

During the pandemic, new investors shied away from the market and, at the same time, existing investors sold out of properties at very high rates – that has started to reverse,"

PropTrack economist Paul Ryan told *Your Investment Property Magazine*.

"The big thing that is drawing investors back into the market is record tight rental conditions.

"Investors can see that yields are recovering and rent growth is going to continue to be strong for some period."

By the numbers, there are still more investors selling than prior to the pandemic. Mr Ryan speculates that's a reflection of the strong capital gains realised in recent years, tempting some property investors to sell earlier than they otherwise might have.

"Investment in property is naturally a cycle – investors will generally enter the market in mid-to-late-middle age and divest those properties when they reach retirement age," Mr Ryan said.

Those selling are still outnumbered by those buying, though.

Data derived from realestate.com.au shows more newly purchased properties are being listed for lease than existing rental properties are being sold, Mr Ryan notes. That's good news for tenants, as the rental pool is getting deeper. However, it probably won't be enough to ease the rental crisis.

While data on how many rentals are available for tenants entering or shifting within the rental market varies, all confirm rental vacancy rates are at a record low. And that's unlikely to improve any time soon, as new properties simply aren't hitting the market at a rate even close to meeting demand.

In a law as old as time, where there is consistently more demand than supply, prices (read: rents) are going to go up, and up, and up. Across the board? Probably not. But overall? That's likely to be the case.

But that's not all that's seemingly drawing once-timid investors back into the deep end.

"There's been talk of interest rates potentially coming down towards the end of this year, and I think that has helped market sentiment," The Property Baron principal owner, buyer's agent, and developer Jason Baron told .

Last year there weren't as many investors in the market because of all the doom and gloom about interest rates increasing. People have been thinking of property investment as more of a viable option now."

Of those investors who didn't sell during the pandemic period, many might be hoping to use the value they've built up in existing property as leverage to buy more, Mr Baron notes.

Part of that could be due to capital gains tax, he speculates. Australia's median dwelling value has climbed by around a third since late 2019, from around $592,000 then to nearly $773,000 in March 2024. Thus, those that have kept properties within their portfolio for that time might be facing a notable capital gains tax if they were to sell now.

"Those that held on through COVID-19 are probably less likely to sell," the buyer's agent said.

"They've already held through that booming period and they're probably going to go on to buy more property afterwards using the equity they've gained over those last few years."

At the same time, high interest rates and serviceability buffers appear to be stalling some would-be buyers from entering the investment property market.

While Mr Ryan notes investors generally tend to have more resilience on the financing side – given that many are higher-wealth individuals than typical owner-occupiers – Mr Baron said access to finance is definitely hindering parts of the market.

The parts that aren't being impacted, however, are finding interest rates less dissuasive than the broader market.

"Investors tend to be older and higher wealth Australians," Mr Ryan said.

"They also tend to borrow less as a share of their income than owner occupiers, so interest rates have been less dissuasive for investors.

In addition, he points out most investors understand that an investment in property typically starts out in a negatively geared state, taking more cash flow than it provides.

Over its life, however, that equation typically inverts, as rental growth puts an investor back into the green.

All that appears to highlight the dominant belief that, in the world of real estate, timing is key. With the market's currents turning favourable once more, investors are diving back in.

Property investors look west

Investors are back. But the data suggests they're not re-entering the market at the same rate everywhere.

While some states – like New South Wales and Queensland – have seen a 20% uptick in investor home loans year-on-year, investor activity in others – like Victoria – has been flat.

At the same time, property purchasers have flocked to the nation's south and west, with the value of investor home loans written in South Australia and Western Australia soaring 40% and 60% respectively between January 2023 and January 2024.

Property in the capital cities of both states has taken off in recent times.

Perth: Pinnacle of property potential?

"Anecdotally, we've heard investment has been really strong in Perth and Western Australia," Mr Ryan said.

Perth dwelling prices have shot nearly 20% higher over the 12 months to March 31, the latest data from CoreLogic reports. Property there remains affordable though – still $70,000 lower than the national median.

Adelaide: Attractive arena for assets?

"The other one we've been hearing about for a few years now has been Adelaide," Mr Ryan continues.

Median dwelling values in Adelaide have climbed more than 13% over the 12 months to March 31, coming to around $734,000 – $30,000 higher than that of Perth.

Both cities have also had some of the strongest rent price growth and the lowest vacancy rates in the nation. YIP