

# As rates rise and times get tough, property investors opt out of market

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## There's been plenty of attention on the supply and demand deficit contributing to the Australian property market's resilience.

As of May, new listings added to the market were -20% below the previous decade monthly average across Australia and the 'months of supply' ratio, which measures the amount of time it would take to deplete stock based on the current rate of home sales, fell to 1.8 months in May.

Interestingly though there's a stark difference between the market's overall listings trend and investor behaviour at present. CoreLogic infers which listings are investor-owned based on the rental history of a property. Based on these estimates, new investor listings brought to the market over May are only -2.9% lower than the previous decade monthly average.

In three capital cities - Sydney, Melbourne and Perth - investor listings for May were actually *higher* than the previous decade average.

At a more granular level the proportion of investor listings on the market in May has shot up in inner city areas, traditional hot spots for multiple property owners.

For example, the SA3 market 'City and Inner South' in Sydney has a historic 10-year average of 38% of new listings coming to market from investors. In May it topped the list of regions with the highest proportion of investment listings, surging to 57%.

This really signifies that investor selling activity is persisting in an environment where owner occupier selling decisions are waning. Overall sales volumes, while normalising around historic averages, could see a drop off amid a combination of a seasonal slowdown and higher interest rates.

Historically, purchasing data shows the majority of buyers are owner-occupiers. And it's entirely possible the increase in investment listings may lead to owner occupiers purchasing homes that were previously investment properties.

This in itself presents some challenges for owner occupiers, who may be dissuaded from purchasing a former investment property because of long lease terms, or the perception that such a property hasn't been as well maintained. But under the

circumstances, when there's a lack of supply, buyers may have little option as investment properties represent a greater share of available listings.

It's also noteworthy that while investor listings have remained elevated – and appear to be on the rise - the share of investment listings overall is still not as high as the record peak in mid-2021, which was marked by a very strong capital growth period.

In the year to July 2021, when the share of investment listings peaked, annual growth in the national CoreLogic Home Value index was 16.1%.

Generally, all capital cities except Hobart have a higher portion of investment listings than the historic average.

It's not clear exactly why investors are selling as individual circumstances would apply to each listing and without asking vendors directly, it's unknown what the drivers are. There are of course a few things that might be prompting the sales.

The first driver might be higher interest costs over the course of the year. Based on average interest rates for investors, we estimate mortgage costs on a \$500,000 loan will have increased \$860 per month, to \$3,213. While rents have risen at a record pace over the past few years, they generally have not risen as much as mortgage costs on a new loan. If the interest burden is becoming too high amid an already high inflationary environment, investors may be looking to offload their investment.

Another key driver might be capital growth. If you look at a city like Perth, where the portion of investment sales surged in mid-2020 and remained high ever since, this may reflect investors finally getting some pay-off after a long period of decline in home values for much of the 2010s.

While east-coast cities like Sydney, Melbourne and Brisbane have seen a decline in home values since interest rates started to rise in May last year, Perth values have held fairly steady, and indeed reached a new record high in May this year. Not only is the portion of investor listings high, the volume of new investment listings through May were 19% higher than the previous decade average.

| Portion of inferred investor listings by SA4 regional market |  |          |                                  |
|--|--|----------|----------------------------------|
| Greater capital city or region                               | SA4 Region Name                        | May 2023 | Previous 10-year average for May |
| <b>Greater Sydney</b>  | Sydney - City and Inner South          | 57.0%    | 38.1%                            |
| <b>Greater Sydney</b>  | Sydney - Parramatta                    | 47.6%    | 31.6%                            |
| <b>Greater Sydney</b>  | Sydney - Eastern Suburbs               | 43.5%    | 33.0%                            |
| <b>Greater Sydney</b>  | Sydney - Inner West                    | 43.2%    | 33.2%                            |
| <b>Greater Sydney</b>  | Sydney - Ryde                          | 38.9%    | 27.9%                            |
| <b>Greater Sydney</b>  | Sydney - Inner South West              | 38.2%    | 25.5%                            |
| <b>Greater Sydney</b>  | Sydney - South West                    | 34.1%    | 20.8%                            |
| <b>Greater Sydney</b>  | Sydney - Blacktown                     | 34.0%    | 25.6%                            |
| <b>Greater Sydney</b>  | Sydney - North Sydney and Hornsby      | 32.4%    | 28.1%                            |
| <b>Greater Sydney</b>  | Sydney - Northern Beaches              | 31.5%    | 27.2%                            |
| <b>Greater Sydney</b>  | Sydney - Outer South West              | 28.4%    | 21.3%                            |
| <b>Greater Sydney</b>  | Sydney - Outer West and Blue Mountains | 28.1%    | 23.6%                            |
| <b>Greater Sydney</b>  | Central Coast                          | 23.6%    | 23.4%                            |
| <b>Greater Sydney</b>  | Sydney - Sutherland                    | 22.9%    | 22.0%                            |
| <b>Greater Sydney</b>  | Sydney - Baulkham Hills and Hawkesbury | 22.2%    | 16.9%                            |
| <b>Greater Melbourne</b>                                     | Melbourne - Inner                      | 49.3%    | 40.2%                            |
| <b>Greater Melbourne</b>                                     | Melbourne - West                       | 34.9%    | 26.3%                            |
| <b>Greater Melbourne</b>                                     | Melbourne - Inner South                | 30.4%    | 27.5%                            |
| <b>Greater Melbourne</b>                                     | Melbourne - North East                 | 30.0%    | 22.2%                            |
| <b>Greater Melbourne</b>                                     | Melbourne - South East                 | 29.3%    | 21.9%                            |
| <b>Greater Melbourne</b>                                     | Melbourne - North West                 | 28.6%    | 20.4%                            |
| <b>Greater Melbourne</b>                                     | Melbourne - Inner East                 | 27.2%    | 25.0%                            |
| <b>Greater Melbourne</b>                                     | Melbourne - Outer East                 | 22.8%    | 18.2%                            |
| <b>Greater Melbourne</b>                                     | Mornington Peninsula                   | 21.0%    | 20.9%                            |
| <b>Greater Brisbane</b>                                      | Brisbane Inner City                    | 42.9%    | 35.1%                            |
| <b>Greater Brisbane</b>                                      | Brisbane - North                       | 35.5%    | 30.7%                            |
| <b>Greater Brisbane</b>                                      | Brisbane - West                        | 35.2%    | 26.3%                            |
| <b>Greater Brisbane</b>                                      | Ipswich                                | 34.4%    | 30.6%                            |
| <b>Greater Brisbane</b>                                      | Brisbane - South                       | 31.9%    | 28.6%                            |

Source: CoreLogic

| Portion of inferred investor listings by SA4 regional market (continued) |                                   |          |                                  |
|--|-----------------------------------|----------|----------------------------------|
| Greater capital city or region   | SA4 Region Name                   | May 2023 | Previous 10-year average for May |
| <b>Greater Brisbane</b>  | Moreton Bay - South               | 31.6%    | 27.3%                            |
| <b>Greater Brisbane</b>  | Logan - Beaudesert                | 31.6%    | 27.1%                            |
| <b>Greater Brisbane</b>  | Moreton Bay - North               | 24.7%    | 26.1%                            |
| <b>Greater Brisbane</b>  | Brisbane - East                   | 24.1%    | 20.7%                            |
| <b>Greater Adelaide</b>  | Adelaide - Central and Hills      | 33.2%    | 25.4%                            |
| <b>Greater Adelaide</b>  | Adelaide - West                   | 31.1%    | 27.6%                            |
| <b>Greater Adelaide</b>  | Adelaide - North                  | 25.4%    | 24.8%                            |
| <b>Greater Adelaide</b>  | Adelaide - South                  | 23.5%    | 23.6%                            |
| <b>Greater Perth</b>   | Perth - Inner                     | 47.5%    | 36.2%                            |
| <b>Greater Perth</b>   | Perth - North West                | 35.3%    | 23.0%                            |
| <b>Greater Perth</b>   | Perth - South East                | 34.6%    | 23.3%                            |
| <b>Greater Perth</b>   | Perth - South West                | 32.6%    | 23.1%                            |
| <b>Greater Perth</b>   | Perth - North East                | 30.9%    | 20.7%                            |
| <b>Greater Perth</b>   | Mandurah                          | 22.9%    | 19.5%                            |
| <b>Greater Darwin</b>  | Darwin                            | 43.2%    | 40.0%                            |
| <b>Australian Capital Territory</b>                                      | Australian Capital Territory      | 35.8%    | 26.4%                            |
| <b>Greater Hobart</b>  | Hobart                            | 20.5%    | 21.1%                            |
| <b>Rest of NSW</b>   | Riverina                          | 32.8%    | 23.5%                            |
| <b>Rest of NSW</b>   | Central West                      | 32.3%    | 22.7%                            |
| <b>Rest of NSW</b>   | New England and North West        | 30.2%    | 22.8%                            |
| <b>Rest of NSW</b>   | Newcastle and Lake Macquarie      | 26.3%    | 22.7%                            |
| <b>Rest of NSW</b>   | Murray                            | 25.7%    | 22.7%                            |
| <b>Rest of NSW</b>   | Illawarra                         | 24.5%    | 24.4%                            |
| <b>Rest of NSW</b>   | Coffs Harbour - Grafton           | 22.5%    | 23.0%                            |
| <b>Rest of NSW</b>   | Hunter Valley exc Newcastle       | 21.1%    | 23.9%                            |
| <b>Rest of NSW</b>   | Richmond - Tweed                  | 21.1%    | 20.7%                            |
| <b>Rest of NSW</b>   | Mid North Coast                   | 18.9%    | 17.8%                            |
| <b>Rest of NSW</b>   | Far West and Orana                | 17.5%    | 19.0%                            |
| <b>Rest of NSW</b>   | Capital Region                    | 16.8%    | 16.9%                            |
| <b>Rest of NSW</b>   | Southern Highlands and Shoalhaven | 16.7%    | 17.8%                            |
| <b>Rest of Vic.</b>  | Geelong                           | 24.0%    | 21.1%                            |

Source: CoreLogic

| Portion of inferred investor listings by SA4 regional market (continued) |                                     |          |                                  |
|--|-------------------------------------|----------|----------------------------------|
| Greater capital city or region   | SA4 Region Name                     | May 2023 | Previous 10-year average for May |
| Rest of Vic.   | Shepparton                          | 23.0%    | 21.6%                            |
| Rest of Vic.   | North West                          | 22.5%    | 21.3%                            |
| Rest of Vic.   | Ballarat                            | 22.3%    | 21.0%                            |
| Rest of Vic.   | Bendigo                             | 20.7%    | 19.9%                            |
| Rest of Vic.   | Hume                                | 19.9%    | 20.5%                            |
| Rest of Vic.   | Latrobe - Gippsland                 | 19.0%    | 19.6%                            |
| Rest of Vic.   | Warrnambool and South West          | 17.4%    | 19.2%                            |
| Rest of Qld  | Townsville                          | 39.3%    | 30.3%                            |
| Rest of Qld  | Mackay - Isaac - Whitsunday         | 37.9%    | 31.5%                            |
| Rest of Qld  | Central Queensland                  | 35.0%    | 31.1%                            |
| Rest of Qld  | Darling Downs - Maranoa             | 28.8%    | 23.9%                            |
| Rest of Qld  | Toowoomba                           | 27.9%    | 24.8%                            |
| Rest of Qld  | Cairns                              | 26.9%    | 25.7%                            |
| Rest of Qld  | Gold Coast                          | 23.8%    | 26.4%                            |
| Rest of Qld  | Queensland - Outback                | 22.8%    | 24.1%                            |
| Rest of Qld  | Sunshine Coast                      | 20.5%    | 22.6%                            |
| Rest of Qld  | Wide Bay                            | 19.4%    | 21.0%                            |
| Rest of SA   | South Australia - Outback           | 31.5%    | 25.5%                            |
| Rest of SA   | South Australia - South East        | 16.9%    | 18.2%                            |
| Rest of SA   | Barossa - Yorke - Mid North         | 14.2%    | 13.9%                            |
| Rest of WA   | Western Australia - Outback (North) | 38.4%    | 41.9%                            |
| Rest of WA   | Western Australia - Outback (South) | 31.6%    | 24.4%                            |
| Rest of WA   | Bunbury                             | 22.2%    | 19.9%                            |
| Rest of WA   | Western Australia - Wheat Belt      | 16.7%    | 14.8%                            |
| Rest of Tas.   | Launceston and North East           | 18.6%    | 19.7%                            |
| Rest of Tas.   | West and North West                 | 16.2%    | 18.5%                            |
| Rest of Tas.   | South East                          | 6.5%     | 8.4%                             |
| Rest of NT   | Northern Territory - Outback        | 32.7%    | 32.5%                            |

Source: CoreLogic