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Investor focus

MORTGAGE CHOICE

media release

11 July 2011

2011 First Time Property Investors Survey: national results

Flying solo, tenants, type, interest rates, sacrifices, concerns & more

Australia's largest independently-operated mortgage broker has found that of those who will buy their first investment property in the next two years, for 19% it is their first ever property purchase.

This incidence was highest in New South Wales (26%) and lowest in Western Australia (13%). Gender-wise, males were more likely than females to make this choice (21% versus 17%).

Of all the 1,060 respondents to the Mortgage Choice 2011 First Time Property Investors Survey*, each of whom were buying before July 2013, close to one in four will do so alone. Queenslanders were most likely to fly solo and Western Australians were least, while the genders were on par.

The number one motivator to buy was 'I want to set myself up financially for the future' (82%), then 'I see more benefit in investments such as property than in I do shares' (57%). 'Tax benefits' ran third (53%), followed by 'I've researched the property market and feel property investment will enable me to achieve my financial goals sooner/better' (40%) and 'potential rental yields' (39%).

The biggest concerns for the next 12 months for these upcoming investors were:

1. Costs of living such as clothing, utility bills, etc – 24% of respondents.
2. Interest rates – 21%.
3. Economic management at Federal Government level – 18%.
4. Rise in housing prices – 9%.
5. Job security – 8%.

Only 18% did not plan to add to their investment property portfolio after this first purchase while, on the flipside, another 18% were planning to purchase as many as possible.

Mortgage Choice spokesperson Belinda Williamson said, "Once we'd delved into the results, the description that came to mind for these first time property investors was logical, well-planned, long term thinkers who were determined, careful researchers and aware of their limitations."

"This may be why so many are buying for investment purposes before becoming a home owner.

"The findings show these novice investment buyers to be almost the opposite. They are making educated choices based on a long term commitment to their property cause and are thinking with their heads rather than hearts. All are vital attributes of a successful investor.

"For example, 84% already knew how much of an interest rate buffer they were going to factor into their repayment budget and only 2% weren't putting in a buffer. Also, 47% were looking to hold onto the property for 10 years or longer and 43% were looking at five to 10 years."

54% of respondents owned their first home also and 27% had owned more than one home before.

Other key results

- 44% were not concerned by falling property prices and 40% were only a little bothered.
- 23% will purchase alone, 69% will buy with a partner and 5% will buy with friends.
- Most common finance strategy was borrowing while using equity in their home as security.
- 31% will use a mortgage broker for the purchase and 48% might.
- 69% will make, or are already making, lifestyle sacrifices in order to buy.
- Favourite property type was a small house of one to three bedrooms.
- Top two property features were tenant demand in the area and right suburb and street.

Property location and characteristics

QLD ranked first for investment location, at 22% of respondents. VIC followed with 21%, then SA, WA and NSW at 18%. NSW residents were the least loyal to their state, with 10% planning to buy in another. QLD residents were the most, with only 6% buying elsewhere. Males ranked QLD as the top choice (25%) while females favoured SA (23%).

When asked for their top five desired property features, respondents ranked them as follows:

1. Tenant demand in the area – 58% of respondents.
2. In the right suburb and street – 57%.
3. Locality to amenities and entertainment, ie. cafes, restaurants, etc – 57%.
4. Population growth in the area – 46%.
5. Infrastructure going into the area – 44%.
6. If it needs repairs, renovations or regular maintenance – 41%.
7. Size of rooms and functionality of layout – 38%.
8. Ability to renovate to add value – 35%.
9. Suitability of property to desired tenants – 29%.
10. Aspect, ie. not looking into neighbour, views, direction, window placements, etc – 15%.

"I'm surprised the property's potential to add value through renovation didn't rank higher. Its suitability for renting out easily is a clear winner over easy short-term capital growth. The focus is getting tenants into a well-located property in a popular area with solid growth prospects," Ms Williamson said.

Smaller was better, with a house of one to three bedrooms ranking first (44%) and a unit/apartment of one to two bedrooms ranking second (19%). The former was most popular with SA and VIC while the latter was the most popular in NSW and VIC. The third most appealing property type was a house with four or more bedrooms (18%) then a unit/apartment with three or more (6%).

Lifestyle sacrifices

As opposed to the 82% of Mortgage Choice's February 2011 Future First Homebuyers Survey respondents who said they will or were making lifestyle sacrifices in order to purchase their first home within two years, only 69% of the 2011 First Time Property Investors Survey's respondents intended to do so for their purchase.

The top 10 most common sacrifices were:

1. Cut back on general day to day spending – 68% of respondents.
2. Eat out less and cut back on take away food – 63%.
3. Miss out on a holiday – 49%.
4. Delay a vehicle purchase – 33%.
5. Cut back on alcohol related spending – 31%.
6. Purchase a less expensive property than desired – 21%.
7. Remain in my current job rather than move on – 20%.
8. Change jobs for a higher income – 18%.
9. Take on an additional job – 16%.
10. Cancel gym membership – 12%.

"It's interesting to note what an impact property investment plans have on employment trends, with at least one in five respondents having already or intending to stick with or change their job situation due to their impending purchase," said Ms Williamson.

"The same goes for these buyers' health situation. On one hand the majority are cutting back on richer and/or fattier foods, and a large number on alcohol related expenses, to get in a better financial position to buy, yet on the other hand more than one in nine are giving up the gym membership."

Purchase and tenant details

Only 23% planned to take the leap alone, compared to 32% in the 2011 Future First Homebuyers Survey. 69% will purchase with a partner (vs. 61%), 5% with family (3%) and 2% with friends (2%).

A significant number were also getting friends and family involved as tenants. Although most - 83% - planned to rent out the property to an unknown person, 4% were becoming a landlord to their children, 4% to family members other than their parents and 3% to friends. 3% will use it as their own holiday home while 1% were expecting to have their parents as tenants.

Interest rate buffers and concerns

When asked what interest rate rise they could handle before giving up on buying, the results were:

- 8% would give up if rates rose between 0.25% and 0.5%.
- 8% would give up at a rise of 0.5% or more.
- 14% would give up at a rise of 1% or more.
- 15% would give up at a rise of 1.5% or more.
- 18% would give up at a rise of 2% or more.
- 10% would give up at a rise of 3% or more.
- 10% would give up at a rise of 4% or more.
- 8% would give up at a rise of over 5%.
- A lucky 9% said they could manage any interest rate rise.

"With interest rate rises a regular discussion point at the Australian dinner table, it was prudent to ask about the effect these would have on future first time investors' plans," Ms Williamson said.

"It's great to see 9% could handle any rate increases but concerning to find 16% would give up on buying their first investment property once rates rose by half a percentage point. I hope anyone who can't handle an interest rate rise of at least one to two percentage points thinks carefully about entering the market at all, unless they intend to fix their interest rate for some time or are sure they will be in a better financial position once the purchase process moves into full swing."

When it came to the interest rate buffer these buyers would put on top of their repayments, the five most popular (apart from 'I don't know', at 16%) were:

1. Between 2% and 3% – 21% of respondents.
2. Between 1.5% and 2% – 13%.
3. Between 3% and 4% – 11%.
4. Between 1% and 1.5% – 11%.
5. Between 4% and 5% – 8%.

This buffer was an area where the genders gave very different responses, with males having much more awareness of their buffer plans. Only 8% hadn't decided on a buffer, versus 24% of females.

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** Ticketek Insights ran the independent survey from 17 to 24 June 2011, asking a range of questions to 1,060 Australians, all of whom were purchasing their first investment property in the next two years. Respondents were evenly split between male and female while 28% were Generation Y, 45% Generation X, 27% Baby Boomers and less than 1% were Builders. For the purposes of this survey, Gen Y is born between 1980 to 1994, Gen X between 1965 and 1979, Baby Boomers between 1946 to 1964 and Builders between 1925 to 1945. Each major state (NSW, VIC, QLD, SA and WA) had just over 200 respondents while NT and TAS were not used in state-based comparisons due to their small number of respondents.*

For state/age/gender based results, other information or to arrange an interview, please contact:

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About Mortgage Choice

Australia's largest independently-operated mortgage broker, Mortgage Choice has sourced a home loan for well over 350,000 people since 1992. It works with all manner of property finance borrowers via hundreds of franchises.

The company writes almost one in every 20 home loans in Australia by providing professional guidance on, and choice of, products offered by an extensive panel of leading lenders. Many of its brokers provide a broader service, helping customers source commercial and personal loans, asset finance and providing referrals for risk and general insurances.

Uniquely, Mortgage Choice pays its franchisees the same commission rate for home loans they write, regardless of rate paid by the lender a new customer selects, working in the customer's best interests to tailor a solution to them.

The company has no balance sheet or funding risk, and delivers strong profits and attractive yields. It listed on the ASX in 2004 (MOC) and is a member of the Mortgage & Finance Association of Australia (MFAA).

Recent recognition: 2012, 2011 Australian Broking Awards Major Brokerage of the Year - Franchise; 2012 Australian Broking Awards Best Training and Education; 2012 Australian Broking Awards Best Ethical/Social Responsibility

Program; No.1 on The Adviser magazine's 2012, 2011, 2010 and 2009 Top 25 Brokerages list; 2012, 2010, 2009, 2008, 2006 and 2005 MFAA Awards Retail Aggregator/Originator of the Year; 2011, 2010, 2009 and 2008 10 Thousand FEET Top 10 Franchise list; 2010 Forbes Asia-Pacific Best Under A Billion list.

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