Summer 2022 Newsletter

MORTGAGE & FINANCE

Mortgage & Finance (HOLDINGS) PTY LTD

- UPDATE -

REFINANCING A HOME SAVES AUSTRALIANS

More than 1 million Australians refinanced their home loan over the past 12 months, saving an estimated $1,524 per year on average, a consumer report into refinancing sentiment and behaviours showed.

The PEXA Refinancer Sentiment Research Report revealed that Australians who switched mortgage lenders when refinancing saved an estimated $1,908 per annum on average, compared to the average $384 annual savings of homeowners who refinanced with their existing lender.

Australia has experienced record refinancing activity, and there were no signs of this trend easing, with PEXA's latest report revealing that nearly 2.3 million Australians were considering refinancing in the next two years.

Of the nearly 8 million Australian mortgage holders, 31.2% have been found to be in the "refinancing mindset." And of those who recently refinanced, 81% were expected to refinance again within the next two years.

> *Although the report suggested that switching lenders will bring considerably more savings, 55% of recent refinancers stayed with their existing lender when refinancing.*

Key findings also showed that homeowners refinanced their home loan on average an estimated 5.6 years after purchasing the property. The top reasons for refinancing were wanting a more competitive interest rate, needing to save money, and broker recommendations. The top three barriers to refinancing, meanwhile, were interest rate instability, the onerous application process, and current lender providing a competitive rate.

"More and more Australian consumers are hunting out the most competitive interest rates, leading to record high levels of refinancing," said Mike Gill, PEXA Insights head of research.

"This momentum is set to continue, as mortgage holders are investing on average six weeks into researching options that best suit their circumstances. Our consumer research confirms there is a level of uncertainty felt by mortgage holders, with an estimated 71% feeling anxious about the prospect of rising interest rates, 49% worried about their job/financial security, and 73% are regularly reviewing their interest rate against market trends."

The estimated average value of properties being refinanced was $732,000, and in most cases, it was the refinancer's primary residence. Refinancers, on average, had approximately $491,000 left on their home loan, with an estimated average of 34% of the household income being spent on mortgage repayments, the PEXA report showed.

- AUSTRALIAN BROKER -

1M
AUSTRALIANS REFINANCED IN THE PAST 12 MONTHS

$1,908
SAVED ON AVERAGE P/A SWITCHED LENDERS

$384
SAVED ON AVERAGE P/A STAYED WITH LENDER

2.3M
AUSTRALIANS CONSIDERING REFINANCING IN THE NEXT 2 YEARS

WELCOME TO OUR SUMMER EDITION

Compared to the eastern states, our WA property market has been very resilient. Whilst rising interest rates have reduced borrowing capacity, many estate agents have advised that demand for properties in WA remains strong.

There has been a significant increase in construction costs and delays on home construction, which has put off some buyers who now wait until some stability returns to the labour and material shortages in this industry.

Population growth in WA has been healthy, meaning the current shortage of housing is not expected to change soon. Perth remains the most affordable capital city according to the Real Estate Institute of Australia, recording a median house price of $540,000 for the June quarter 2022, below Darwin at $586,000 and Adelaide at $663,000 and Brisbane at $758,875. Sydney recorded the highest at $1,552,015.

Over the last few years, during the period of lower interest rates, many people have built up their savings and redraw available on their home loans, which has acted as a buffer now interest rates have been steadily increasing. This has bought homeowners some time to absorb the interest rate increases and rising commitments in cost-of-living pressures. The Reserve Bank is aware that interest rate hikes will take longer to take effect before there is an adjustment to people's spending, and for inflation to come down to more acceptable levels.

The RBA estimates that about 23% of all Aussie home loans, worth a total of around 500 billion, are fixed rate and will switch to variable by the end of 2023. These borrows are facing a rate rise of 3- 4% when they roll over to the variable rates. If cash rates were to increase by 3.5% in total from when they began to increase, more than half of borrowers on fixed rate loans will face significant increases to their minimum repayments.

Before October 2021 lenders were required to apply a 2.5% margin when measuring a person's borrowing capacity. The reserve bank has already increased this to 3.1%.

We have had a continuous stream of clients which to review their existing interest rates or looking to refinance to better rates or to secure cashback offers currently on offer.

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WHO'S RESPONSIBLE FOR INSURANCE DURING SETTLEMENT?

If you're buying a property, at some point the seller will no longer be accountable for the damage to the property and it becomes your responsibility.

But when is that? At exchange of contracts? At settlement? It's important to find out so you know when you should have insurance in place. After all, a mistake could be very expensive. Should your home be hit in a storm during the settlement period you don't want to discover too late that the damage is actually your responsibility!

The standard contract for sale in each state and territory offers a good starting position to understand when the risk of damage to the property might pass to the buyer.

However, it is important to note that your particular contract for sale may contain a special condition that varies the standard contract. So you should always engage a solicitor or conveyancer to check your contract so you can be certain when the risk of damage to the property passes to you.

WA + NT

THE BUYER BECOMES RESPONSIBLE FOR DAMAGE TO THE PROPERTY ON THE EARLIER OF:

1. THE DATE THAT THE WHOLE OF THE PURCHASE PRICE IS PAID; OR
2. THE DATE THAT THE BUYER IS ENTITLED TO OR IS GIVEN POSSESSION OF THE PROPERTY.

SA + TAS + ACT

THE BUYER BECOMES RESPONSIBLE FOR DAMAGE TO THE PROPERTY ON EXCHANGE OF CONTRACTS.

VIC + NSW

THE BUYER BECOMES RESPONSIBLE FOR DAMAGE TO THE PROPERTY ON SETTLEMENT.

QLD

THE BUYER BECOMES RESPONSIBLE FOR DAMAGE TO THE PROPERTY AT 5PM ON THE FIRST BUSINESS DAY AFTER EXCHANGE OF CONTRACTS.

WHAT ABOUT STRATA SCHEMES?

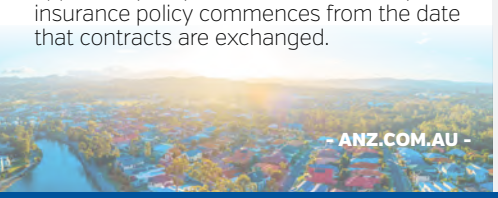
In strata schemes, the buyer of a lot isn't usually responsible for purchasing building insurance because the building itself is considered common property. The owners' corporation will handle it. But you should check with your lawyer or conveyancer whether you need to consider purchasing insurance, just in case. For example, the building insurance policy held by the owners' corporation may not cover internal fixtures such as floorboards.

You may also want to consider a contents insurance to cover your possessions.

BETTER SAFE THAN SORRY?

Some buyers get home insurance as soon as the contract is signed in case the seller does not have adequate insurance.

Some lenders will insist that the buyer does this. If in doubt, ask your lender. If this applies to you, you should check that your insurance policy commences from the date that contracts are exchanged.



- ANZ.COM.AU -

WHAT IS THE FIRST HOME LOAN DEPOSIT SCHEME?

Find out more or Download FHLDS Fact Sheet

WHAT YOU NEED TO CONSIDER WHEN BUYING A REGIONAL PROPERTY

There's plenty to entice city folks when considering a move to the country: fresh air, farmers' markets, peace and quiet, and ample space. Daylesford real estate agent Kim McQueen of McQueen Real Estate says it's important first to consider just how isolated you're willing to be.

McQueen and her husband moved three years ago from inner Melbourne to Glenlyon, just outside Daylesford, Victoria – a town they chose because of its proximity to the city, the airport, and their adult children back in Melbourne.

McQueen also emphasises that it's vital to consider closeness to services and amenities you might want to access and suggests joining local community groups to make new friends.

> *The next thing to consider is how much land you can actually maintain. It might seem dreamy to live on acres and acres of land – but it's also a lot of work.*

Hector and Rebecca Aguirre Ruiz, who operate Rydgeport Constructions in Murrumbateman, New South Wales, say that one of the first questions people need to ask themselves when looking at purchasing rural property is how big they want their property to be. For example, they point out that buying a one-and-a-half acre block means having a "beautiful big block" without worrying about livestock or paddocks.

"We're finding that a lot of people are wanting that lifestyle coming from the city, because they don't want to delve into a proper farm as such, but they want space for their beautiful, big house, and the kids can ride their bikes, they can have pets, they can have quad bikes, they can have the pool. There's plenty of room for all of that," says Rebecca.

McQueen, who lives on a 30-acre vineyard herself, reiterates that the more acreage you buy, the more maintenance is required.

"You've got to learn about fencing; you've got to learn about pastures, you've got to have your pastures looking good," she explains. "If you're going to have some animals, then if things go wrong, you know, animals die in birthing, or you get frost... There are so many things that you need to be aware of."

McQueen adds that learning about this is part of the joy of rural life and that many of her clients find they have more time for these tasks since transitioning to working from home.

Another thing that city folk often don't realise, according to McQueen and the Ridgeport team, is that country properties are usually not connected to the mains. That means learning about things like water tanks, bore water, septic systems and bottled gas. Off-grid living also means looking at how your internet will be supplied if there is no NBN connection and how good your phone reception.

This is why it's essential to ensure that you work with local tradespeople versed in constructing rural dwellings if starting a new build.

"If you find the right builder, [they] can guide [you] through these things... But finding that right builder is pretty important." says Hector.

The right builder will also be au fait with considerations such as bushfire ratings and flood threats. This is important because regional areas can be more exposed to extreme weather than some urban environments.

> *Outside of extreme weather events, however, McQueen says that a profound connection to nature and its rhythms is one of the best parts about living rural.*

"You realise that you really are at the mercy of the elements, and you can't change that," she says. "But it's such a beautiful part of country living... You have such a deep understanding of the seasons, and you're so aware of the environment. In the city, life seems to pass you by.

- DOMAIN -

MUM AND DAD INVESTORS: INSIGHTS + PREDICTIONS

The impact of mum and dad investors on the real estate market, and especially the rental market, is significant. Increasing costs and dwindling rental stock levels (particularly in Perth) prove how integral mum and dad investors are to a healthy rental pool.

WHO EXACTLY ARE MUM AND DAD INVESTORS?

Mum and dad investors are essentially non-professional, small-scale investors. The definition creates a distinction between Australians who invest in the property market versus Australians who invest in anything outside that market. In other words, "high rollers" tend to invest in the stock market. If you invest in the property market–and you are not a property developer–then you are a mum and dad investor.

The impact of mum and dad investors is significant. At the beginning of 2022, these types of investors were especially active in QLD, SA, and NSW –which was welcome news for the property market. At the end of 2021, new investor loan commitments increased by 1.1% to near record levels, according to Australian Bureau of Statistics (ABS) data. It had been the 12th consecutive month that the value of new loan commitments increased, reaching the highest level since 2015.

HOW WOULD REFORMS FOR TENANCY LAWS AFFECT MUM AND DAD INVESTORS?

> *Some 61% of investors are willing to sell their homes if significant changes to residential tenancy laws are adopted*

according to a survey of more than 7,000 investors conducted by Synergies Economic Consulting. Two of the more controversial proposals to reform the Residential Tenancies Act (1987) include eliminating the requirement for a tenant to get the property owner's consent to make modifications to the property and removing the property owner's right to end a tenancy unless on prescribed grounds, such as the owner wanting to sell the property or move back in, for instance.

This would impact mum and dad investors disproportionately since those investors with one or two properties make up over 90% of all rental owners. Some say removing these property owner rights will prevent Australians from investing in WA properties in the future, and therefore add pressure to local governments–and taxpayers.

According to the Synergies report, the proposed reforms would, if passed, impose up to $105 million in increased rents on WA's tenants every year. It would also incur an estimated $143 million in higher property management costs each year.

THE IMPORTANCE OF MUM AND DAD INVESTORS TO AUSTRALIA'S RENTAL POOL

Mum and dad property investors are seen as integral to a healthy rental pool in Australia. What is currently happening in Perth is a good example of why. Rental stock levels in the WA capital have hit a 12-year low, with only 1,675 properties available to rent at the end of September, according to the Real Estate Institute of Western Australia (REIWA). That figure represents the lowest the stock has been since November 2010, when there were only 1,537 available.

And this is where mum and dad investors come in, according to REIWA president Damian Collins who said they ensure that rental prices remain affordable. "Our research shows that 72% of people who own investment properties only own one, and are most likely working as schoolteachers, nurses or other healthcare professionals," Collins told Mortgage Professional Australia recently. "Any changes to WA's tenancy laws that discourage investors from buying residential property in WA will make an already tough situation worse. That's why REIWA is working hard to keep tenancy laws fair and equitable for all parties."

WHY DO MUM AND DAD INVESTORS EXIT THE RENTAL MARKET?

Increasing costs for land tax, maintenance and rates are forcing mum and dad investors into a precarious position, with some considering a high-priced sale in a hot market. The real dilemma for most of these investors is whether a lump sum of money would be more secure in the longer term than a regular income rental.

According to the Real Estate Institute, mum and dad investors are starting to bail out of the market to earn massive capital gains. Often, investors want to sell due to increased land taxes, legislative changes, and escalating energy efficiency standards.

- WWW.BROKERNEWS.COM.AU -

THE GREAT AUSTRALIAN DREAM STILL ALIVE AMONG GEN Z

Bankwest's latest Home Truths research, based on a survey of 1,700 Australians, primarily focused in Western Australia, concluded that the saving and spending habits of Generation Z, or people aged 14 to 25 years old, have changed over the past 2 years.

Shifting purchasing sentiment is highlighted in the fact that in the 2020 edition of the Home Truths survey, just 5%of WA's Generation Z buyers expressed their interest in purchasing a home within the next 12 months. Now, that figure sits at 14%.

Additionally, the research also found that the priorities of Australians in this age bracket were shifting. In 2020, about 43% of respondents declared their intention to purchase a car within 12 months. In 2022, that number has declined to 23%.

Standalone houses remained the most popular choice, with 45% of respondents listing it as a priority; however, duplexes/townhouses have grown in popularity, with 16% nominating it as a preference, up from 7% in 2020.

The research has found that a growing portion of WA's Generation Z are planning to put their money where their mouth is.

This is exemplified by the fact that the number of respondents in the age bracket utilising investment apps has nearly tripled from 5% in 2020 to 13% presently, while 12% indicated they had discussed finances on social media, up from 6% in the first year of the pandemic.

Bankwest general manager of home buying Peter Bouhlas said "This new data suggests the next generation is now preparing to enter the housing market, with several of these responses indicating potential Gen Z buyers are thinking more specifically about how they will achieve their goal," he said.

He said the fact that the decrease in the number of young West Australians unsure about what style of house they'd purchase is a positive indicator of shifting sentiment.

"That is supported by the increase from 2020 in the number of young people preferring smaller dwellings, such as duplexes or townhouses, with the lower price-point an understandable consideration in the current environment," he said.

Mr Bouhlas concluded that all these factors "combined with increased savings behaviours and financial engagement, suggests we could be seeing the start of the next wave of home buyers entering the market, as the state's Millennials make way for Zoomers".

- REALESTATEBUSINESS.COM.AU -

VIRTUAL INSPECTIONS SOAR AS MORE HOMEBUYERS LOOK INTERSTATE

Investors are increasingly turning their attention interstate and virtual property inspections are booming as a result.

Virtual property inspections in some states have become so popular they now make up for 43% inspections in certain cities.

New data from August revealed Australian investors and homeowners keen to snag a bargain property amid the current market downturn are looking interstate more than ever before.

Agents in New South Wales and Victoria say the sight unseen market usually draws a particular buyer and it often isn't the kind looking for an owner-occupied property.

"We tend to find that mostly investors are comfortable buying sight unseen," Frank Valentic, Director of Advantage Property Consulting in Melbourne, said.

"If it's someone who is going to be living in the property, nearly 100% of the time they won't buy sight unseen, they want to come and do through a walkthrough physically and form that emotional attachment."

INVESTORS MOST ACTIVE

Mr Valentic said over the past two years he'd seen an increasing interest from Sydneysiders who were fed up with being priced out of the market and wanted something with more "bang for buck".

"Most of the interstate buyers generally are investors," he said.

"In Sydney, similar prices are generally 20% to 30% higher, so they can't afford some of the houses they can afford in Melbourne."

> *Mr Valentic said the locations many buyers sought changed with age.*

"Most of my retirees want to go up to Queensland where the weather is warmer and where they can walk around in shorts all year long," he said.

The Sight Unseen report, from virtual property inspection platform Little Hinges, found in Australia's largest cities, Sydney and Melbourne, Little Hinges found virtual inspections conducted by interstate prospective buyers to be 13.9% and 15.4%, respectively.

In the northern NSW area of Byron Bay and Lennox Head, Belle Property's Principal, Braden Walters, said he'd seen somewhat of an exodus of locals.

"A third of buyers may have gone to Queensland and that's mostly because they've come out of areas like Byron, where we've had a great capital growth and now they're just moving north," he said.

"They're basically releasing cash - they might sell for $2.5 million in Lennox Head and then buy something for $1.3 million or $1.4 million in Queensland.

CAFFEINE-FUELLED MARKET

The local area has long been popular to buyers from all over the country but over the past two years it was those from the nation's largest city who had been most active, Mr Walter said.

"I would say that in the last two years, the major buyers have been people out of the metro cities like Sydney or Melbourne, in particular, Sydney's Northern Beaches," he said.

With the Ballina Byron Gateway Airport being a 54 minute flight to Sydney, a running joke was that it's quicker to get to Sydney from here than it is from Palm Beach."

> *The shift from the metros to northern NSW has brought with it some positive change, Mr Walters said.*

"The buyers have demanded more out of the cafes and hospitality, so now all the restaurants are getting better, the coffee we're getting is better and there's more builders around with all of the renovations happening," he said.

Mr Walters said the new crowd had begun to pump money into the local economy and forced a few changes upon local business.

"It's interesting because previously, after two or three o'clock in the afternoon, you couldn't get a coffee anywhere, you know, but now all of the cafes have started opening a little later," he said.

"I would just say that all of the comforts get a lot better because people from Sydney and Melbourne, they just demand a little bit more."

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