Thinktank

Leading
Commercial
Finance

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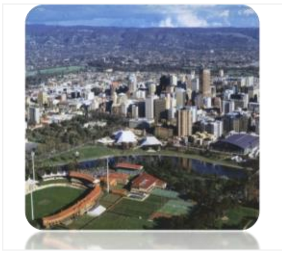
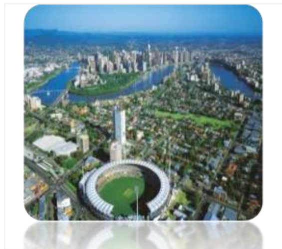
Australian Commercial Real Estate Market Focus





The following represents a monthly snapshot of how we see the commercial property markets across the country along with the near term outlook. For a more detailed commentary, please visit our website thinktank.net.au for our Quarterly Market Update.

The Westpac-Melbourne Institute Consumer Sentiment Index fell by 0.7 points in April and remained below the 100 level of optimism at 99.0; we take a closer look at that in our News and Views section on the following pages. The AiG-PMI for April rose by 1.7 points to a strong 59.2. The W-MI Leading Index also continues to point to steady growth rising from 1.14% in February to 1.17% in March. Equally optimistically the D&B Business Expectations Survey hit another multi-year high and the 1st quarter actual was also up 2.5 points to 11.2. Stephen Koukoulas, D&B Economic Adviser said, "The Index held at a solid level, with a broadly optimistic take on the economy."

For yet another month as expected by almost all commentators the RBA Board left rates unchanged in May at the record low of 1.50%. Steady unemployment of 5.9% along with talk of further regulatory action to curb housing price growth in Melbourne and Sydney appeared to have had some impact on the RBA's thinking. A quarterly CPI result of 2.1% that was more in line with the RBA's Statement on Monetary Policy medium term range of 2% - 3% was also well received. Market rates continue to move up domestically here in Australia and with an ongoing expectation that official US interest rates will continue to rise later this year that pressure on Australian rates will likely continue. The AUD/USD still remains relatively high but has fallen somewhat to just under 75 cents.

Our recent Quarterly Market Update also took a closer look at all of the various sectors we cover and confirmed the marked contrast between Melbourne and Sydney with the other three national markets. Not surprisingly this is also reflected in regional levels of consumer confidence and the quarterly CPI result with much higher price rises in NSW and Victoria. The Residential market remains a key focus with increases in Melbourne and Sydney prices and very strong Commercial sectors in both cities. Retail fundamentals remain a concern amid numerous challenges for the sector but interestingly, strong demand for assets is still there and yields remain firm.

We have made no changes this month following a close look at all sectors in our Quarterly Markey Update. We still have six markets that are Strong or Good and seven that are Weak. Sydney and Melbourne Residential trends remain Improving with Strong ratings and Retail is Fair and Stable. In contrast, Perth and Adelaide still have seven ratings Weak but only one Deteriorating. Brisbane has only one Improving trend and Commercial there remains Weak but Stable however there are other positive signs there.

	Sydney		Melbourne		Adelaide		Brisbane (SEQ)		Perth	
Residential	Strong	Improving	Strong	Improving	Fair	Stable	Fair	Stable	Weak	Stable
Commercial	Strong	Improving	Strong	Improving	Weak	Stable	Weak	Stable	Weak	Deteriorating
Retail	Fair	Stable	Fair	Stable	Weak	Stable	Fair	Stable	Fair	Stable
Industrial	Good	Improving	Good	Improving	Weak	Stable	Fair	Improving	Weak	Stable

Sources: ABS, ACCI, AiG, ABS, ANZ Research, ATO, CBA, CBRE, Colliers International, CoreLogic RP Data,Cushaman & Wakefield, HTW, IMF, IPD, JLL, Knight Frank, Melbourne Institute, OECD, PCA, RBA, Savills Research, Westpac Economics, World Bank

News and Views

- The Melbourne Institute and Westpac Economic Research have jointly produced their Consumer Sentiment Index (CSI) on a monthly basis for over 30 years and it provides a forward looking assessment of consumers' confidence with respect to the economy and their own finances. The CSI represents the balance of favourable and unfavourable responses to five questions on consumers' views about the broad economic environment and the household's financial position. The survey is conducted by telephone, and the questions are put to a sample of 1200 households each month.

- The five questions that makeup the basic CSI survey include the respondents' assessment of their current family finances, family finances over the coming twelve months, economic conditions in Australia over the coming twelve months, economic conditions in Australia over the next five years, and whether it is a good or bad time to buy major household items. The CSI is a simple average of the five component indices. An Index of 100 indicates that, on balance, consumers do not feel any more or any less optimistic about the future than their perception of the present situation.

- Each month we regularly open this publication with the most recent CSI result as we have on this occasion reporting a slight fall in the index to 99.0 which indicates, on balance, a slight degree of pessimism from the respondents. This was a rather surprisingly good result according to Westpac in their analysis and prompted an in depth look at the survey results which included a number of additional questions put to the individuals being interviewed. This is often the case and the Westpac bulletin that releases the monthly results includes discussion of these additional responses to topical issues. This month however in a special "The Red Book" presentation in addition to the CSI result which was described as "The consumer mood; 'It's complicated'" there were an additional 26 charts and comments over 18 pages. We have selected two which are shown overleaf which we think are particularly relevant to real property investment.

- Chart 1 shows what the respondents think will happen to interest rates over the next 12 months and covers the past 7 years. The results show a significantly more hawkish outlook with a net 56% expecting rates to move higher vs 10% in Aug. There also appears to be a systematic upward bias to rate expectations with those expecting rises outnumbering those expecting cuts by 40% on average since 2010 despite actual rates moving lower through most of this period. Of those with a view in Feb: 60% expected standard variable mortgage rates to be higher in 12mths (21% expecting a rise of more than 1ppt); 35% expected no change; and just 5% expected rates to be lower. The mix of responses is similar to that seen in 2014 when official rates were firmly on hold and that certainly seems to be the consensus right now..

- Chart 2 reflects a form of asset allocation preferences over the past 15 years; asset classes of particular interest to us are direct property and borrowings. This is used to produce a Risk Aversion Index and results show a further increase with the Index rising to 43 from 39 the previous quarter. The March read is the highest since Dec 2011 when the European debt crisis was in full swing. The main moves in March were a jump in the proportion nominating 'pay down debt' from 20.5% in Dec to 25.7%, and a further fall in the proportion favouring real estate to just 11.6%, a record low going back in 1974. Among the other components, bank deposits remain the most favoured (29%) with only 7% favouring shares, 6% nominating super, and similar proportions nominating 'capital protected' options (6%); "don't know" (5%); or 'other' (3%). This appears to reflect a substantially less positive view from consumers than we are currently seeing from business.

Chart 1: Consumers' expectations for mortgage rates next 12mths

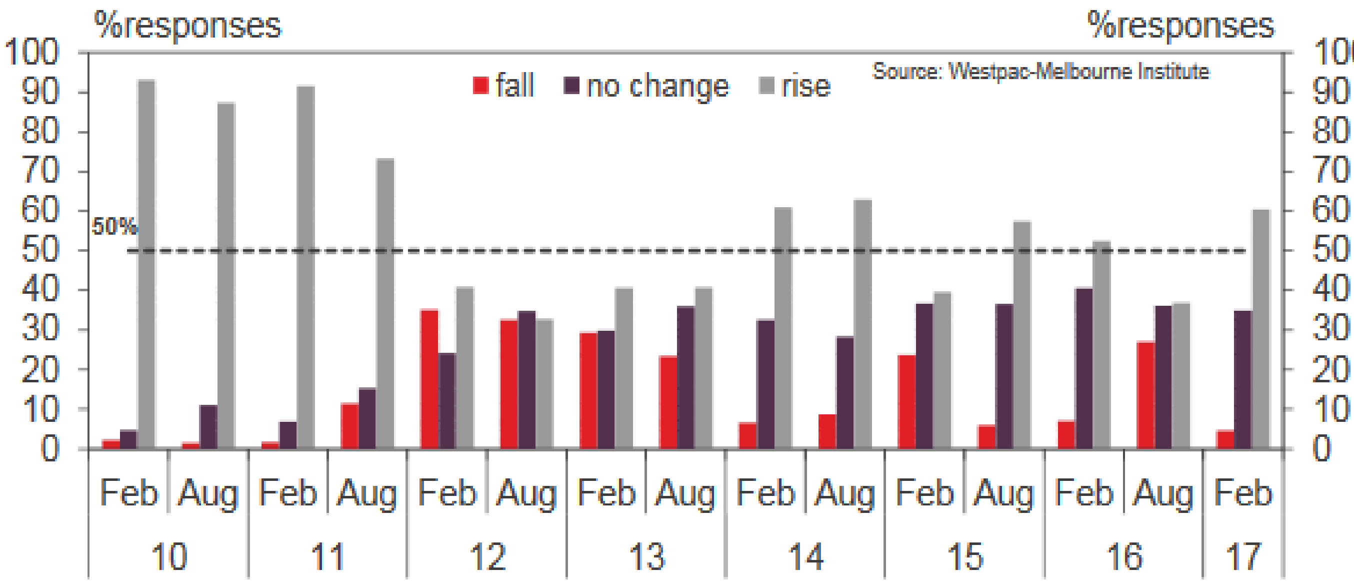
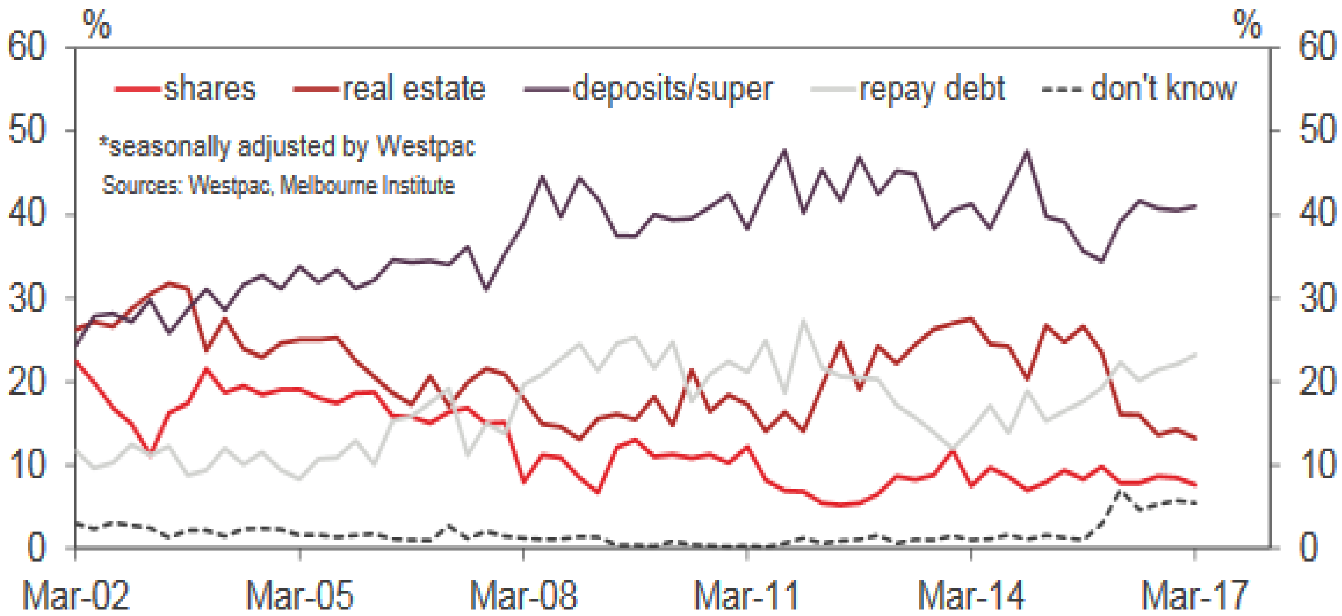


Chart 2: Consumers: 'wisest place for savings'



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- Finance for the purchase, equity release and refinance of commercial and residential property
- Loan to Valuation Ratios (LVR) up to 75%
- Set and forget loan terms up to 30 years with no ongoing fees or annual reviews
- Self-Managed Superannuation Fund (SMSF) loans up to 75% LVR, and
- Loan options ranging from fully verified to self certification of income.

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