



Australian Real Estate Market Focus

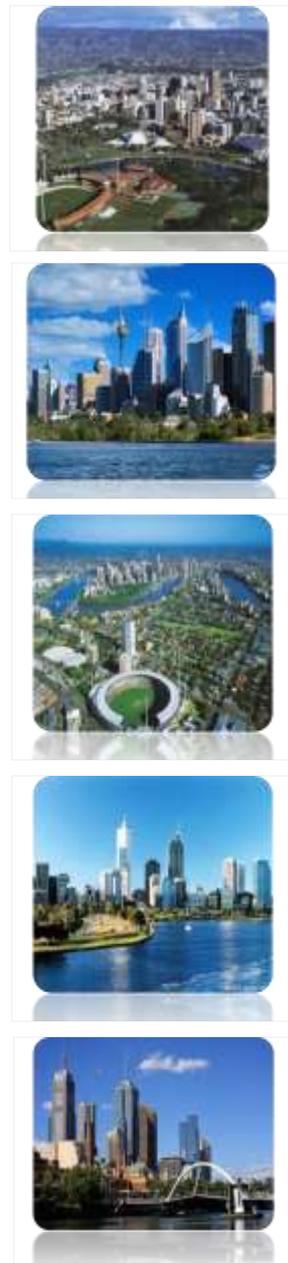
The following represents a monthly snapshot of how we see the property markets across the country along with the near term outlook. For a more detailed commentary, please visit our website thinktank.net.au for our Quarterly Market Update.

The Westpac-MI Consumer Sentiment Index rose in May by 0.6% to 101.3 staying in optimistic territory above 100. The AiG PMI for May was down by 2.1 points to 52.7 but still in expansion territory above 50 and the Westpac-MI Leading Index was down in April to -0.47 from -0.13 in March and marked five months in negative territory indicating slower future growth. The other measure to fall was the “illion” Expectations Index which fell markedly to 6.9 for the March Actual and to 19.4 for the September Preliminary.

At its June meeting, focus was very much on the RBA Board following a clear easing bias expressed in Governor Lowe’s Brisbane speech immediately after the Federal Election. As expected, the Cash Rate was cut by 0.25% to a new record low of 1.25%. Inflation appears set to remain well below 2% until the end of the year and the longstanding 2-3% target adjusted. Retail sales actually fell in April by 0.1% with both the Easter and ANZAC Holidays leaving annual growth at 2.8%. The first quarter GDP growth for 2019 was only 0.4% (1.8% annual) but in line with the May SoMP forecast. The US Fed made no change to rates at their most recent meeting but Chairman Powell’s remarks appeared to signal the possibility of a cut by the end of the year. AUD/USD have remained just below \$0.70 with markets pricing in further cuts to rates by the RBA and US rates remaining stable until December 2019 when a cut is expected with the start of a new easing cycle.

CoreLogic housing price statistics for May again showed further modest falls in Sydney and Melbourne houses by 0.4% and 0.6% respectively. Clearance rates are firming and this has led us to move to a Stable trend for both cities up from Deteriorating. Units were down 8.8% for the year in Sydney but only 4.0% in Melbourne although we remain concerned about the supply of newly completed construction. Our News and Views this month looks at the results of the 18 May 2019 Federal Election and how seats are held in the House of Representatives and the Senate with the Coalition of the Liberal and National parties controlling the House with a majority of 77 seats and holding 35 seats in the Senate and requiring the support of 4 cross-bench Senators to pass legislation.

There have been two key changes in our trends this month. Melbourne and Sydney Residential stay Weak for houses but the trend has moved to Stable from Deteriorating. Units have stayed Fair in both cities and with Deteriorating trends. Four markets are rated as Strong or Good and all are in Sydney and Melbourne. Adelaide and Perth still have six Weak ratings. Adelaide has three Improving trends and Brisbane has two. Retail is Fair and Stable except Adelaide which is Weak. Retail trends remain Stable but are of concern.



	SYDNEY		MELBOURNE		ADELAIDE		BRISBANE (SEQ)		PERTH	
RESI - HOUSES	Weak	Stable	Weak	Stable	Fair	Improving	Fair	Stable	Weak	Stable
RESI - UNITS	Fair	Deteriorating	Fair	Deteriorating	Fair	Improving	Fair	Stable	Weak	Deteriorating
OFFICE	Strong	Improving	Strong	Improving	Fair	Improving	Fair	Improving	Weak	Stable
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, Cushman & Wakefield, HTW, IMF, MSCI/IPD, JLL, Knight Frank, Melbourne Institute, OECD, PCA, RBA, RLB, Savills Research, Westpac Economics, World Bank



News and Views

- The result of the Federal Election on the 18th of May seemed to surprise just about everyone, not the least the candidates themselves and certainly the pollsters who had Labor leading on a two party preferred basis in every poll since the last election three years ago. Several key Labor policies seem to have swung the balance in favour of maintaining the status-quo and almost all were focused on the economy. Issues dealing with superannuation were also important to certain sectors and we discuss the impact on SMSFs below.
- The following week, Knight Frank (KF) released a very useful summary of the impact the Coalition victory can be expected to have on the economy in general and property markets specifically. With respect to policy continuity, KF had this to say; “The election result means policy continuity and the removal of uncertainty associated with the Labor Party’s proposed package of substantial policy changes. Financial markets welcomed result and equities rallied following the election result. Policy continuity, and an end to the uncertainty arising from Labor’s proposed policy changes, particularly to franking credits, capital gains tax concessions, and negative gearing reduce risk for investors.”
- At the same time, sentiment in financial markets has also been boosted by the RBA easing of monetary policy and proposed policy changes announced by APRA to mortgage loan serviceability requirements. Currently mortgage lenders assess whether borrowers can afford their repayment obligations using a minimum interest rate of at least 7%, or 2% above the prevailing borrowing rate – whichever is the highest. In future, APRA plans to abolish the 7% interest rate floor with a 2.5% buffer above the prevailing mortgage interest rate.
- KF also noted that the election result does not materially change the economic outlook. Growth remains satisfactory but has moderated recently (as demonstrated by the first quarter GDP figures), with slow income growth and a soft housing market weighing on household consumption and sentiment. Although employment growth remains good, the unemployment rate has drifted slightly higher as more people enter the labour market. Lower interest rates and an accommodative outlook for monetary policy for the foreseeable future, in Australia and globally, will continue to underpin demand for commercial property assets and provide support to commercial property valuations at a time when capital growth is slowing from elevated levels.
- House prices are still falling but the pace of the decline has slowed as shown by the CoreLogic data quoted on our front page. Auction clearance rates have recovered a little in the weeks since the election being over 60% in both Sydney and Melbourne for the first time in many months. The election result does ensure the continuation of the existing taxation regime for negative gearing and capital gains tax, and this will help restore confidence and certainty for investors in particular.
- We continue to have concerns about Units and note a post-election article in the AFR by Larry Schlesinger in which he wrote; “Sales of new apartments and launches of new apartment projects crashed in the first quarter of the year, amid weak housing market sentiment and tight credit conditions, according to a new report by property consultants Urbis. In Sydney, where a number of opportunity funds have been formed to buy unsold apartments in bulk at big discounts, new apartment launches were down more than 80% year-on-year in the first quarter, according to Urbis figures.”
- One issue that was of particular interest to those with SMSFs, apart from franking credits, was the long-standing proposal by Labor to ban borrowing by virtue of LRBAs. We have discussed on a number of occasions the questionable merits to this blunt policy approach when the facts of the issue don’t seem to support such a conclusion. In any event, the Government’s position is that further review by the regulators should take place over the next three years. It would appear that better supervision of advisers who are evidently not to be acting in their clients’ best interest is a much more pragmatic and effective approach than a total ban that would seriously impact retirement planning for SME operators and professionals who are frequent users of LRBAs to acquire the “business real property” which they occupy and plan their eventual retirement around.



House of Representatives

Coalition forms majority government gaining 4 seats in the House of Representatives needing 76 seats to win

L/NP Coalition – 77 seats won					
ALP Labor – 67 seats won					
Greens – 1 seat won					
Others- 5 seats won					
<u>Nationwide Party Vote Count</u>		<u>% Swing</u>	<u>Seats Won</u>	<u>Predicted</u>	<u>Changed</u>
Liberal/National Coalition	5,964,691	41.4% -0.6%	77	77	+4
Labor Party	4,750,156	33.3% -1.4%	67	68	-4
Greens	1,481,999	10.4% +0.1%	1	1	0
United Australia	488,924	3.4% +3.4%	0	0	0
One Nation	438,616	3.1% +1.8%	0	0	0
Others	1,184,495	8.3% -2.3%	5	5	0

Senate

The Coalition remains in a minority position with 6 cross bench Senators of the 76 total with 4 needed to pass legislation

L/NP Coalition – 29 seats existing & won (35 predicted)				
ALP Labor – 25 seats existing & won (26 predicted)				
Greens – 3 seats existing & won (9 predicted)				
Others- 4 seats existing & won (6 predicted)				
<u>Party Total seats predicted</u>		<u>Continuing</u>	<u>Won</u>	<u>Likely</u>
Liberal/National Coalition	35 total seats	16	13	6
Labor Party	26 total seats	13	12	1
Greens	9 total seats	3	0	6
One Nation	2 total seats	1	0	1
Centre Alliance	2 total seats	2	0	0
Australian Conservatives	1 total seats	1	0	0
Jacqui Lambie Network	1 total seats	0	0	1

Source: ABC and AEC



Business Relationships and Loan Inquiries

Heather Noonan

Regional Sales Executive – VIC, TAS, SA
M: 0435 960 646
E: hnoonan@thinktank.net.au

Cath Ryan

Regional Sales Executive – NSW, ACT, WA
M: 0433 862 944
E: cryan@thinktank.net.au

Adam Hutcheson

Senior Relationship Manager – QLD
T: (07) 3117 3787 M: 0434 609 239
E: ahutcheson@thinktank.net.au

Tony Zaccari

Senior Relationship Manager – VIC/SA
M: 0403 758 514
E: tzaccari@thinktank.net.au

Ranei Alam

Senior Relationship Manager – NSW
T: (02) 8669 5502 M: 0434 609 240
E: ralam@thinktank.net.au

Paul Burns

Senior Relationship Manager NSW/ACT
T: (02) 8669 5510 M: 0434 609 241
E: pburns@thinktank.net.au

Joel Harrison

Relationship Manager – VIC/TAS
M: 0410 861 540
E: jharrison@thinktank.net.au

Chrissi Sutherland

Partnership & Media Manager
T: (02) 8669 5516
E: csutherland@thinktank.net.au

Claire Byrne

Relationship Manager - NSW/WA
T: (02) 8669 5522 M: 0414 235 478
E: cbyrne@thinktank.net.au

Roger Pais

Relationship Manager – VIC
M: 0466 632 212
E: rpais@thinktank.net.au

For additional information, please contact

Publications & Market Update

Per Amundsen

Company Secretary
T: (02) 8669 5515
M: 0417 064 252
E: pamundsen@thinktank.net.au

Credit & Operations

Peter Kearns

General Manager
T: (02) 8669 5501
M: 0434 609 238
E: pkearns@thinktank.net.au

Stakeholders & Strategy

Jonathan Street

Chief Executive Officer
T: (02) 8669 5505
M: 0438 319 432
E: jstreet@thinktank.net.au

Partnerships & Distribution

Peter Vala

General Manager, Partnerships & Distribution
T: (02) 8669 5512
M: 0468 989 555
E: pvala@thinktank.net.au

Funding & Finance

Cullen Hughes

Chief Financial Officer & Treasurer
T: (02) 8669 5518
M: 0406 258 256
E: chughes@thinktank.net.au

Investor Relations

Lauren Ryan

Business Development Manager- Investments
T: (02) 8669 5532
M: 0401 974 839
E: lryan@thinktank.net.au

Thinktank Property Finance is the leading independent lender specialising in commercial property in Australia. Thinktank offers a wide range of tailored mortgage product options including:

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

Important Note

This report does not constitute or form a part of, and should not be construed as an offer to sell or solicitation of an offer to buy investments or any fund and does not constitute any form of commitment, recommendation or advice on the part of Think Tank Group Pty Ltd ("Thinktank").