Thinktank

August 2019

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 fell in July by 0.6 to 100.7 just staying above 100. The AiG PMI for July was up by 1.9 points to 51.3 and moving back into expansion above 50 however the PSI Services Index fell to 43.9 and the PCI Construction Index was down to 39.1. The Westpac-MI Leading Index was up in June to -0.02 from -0.47 in May but still marked over six months in negative territory indicating slower growth ahead. The illion Business Expectations Index was down to 7.6 its lowest since March 2017.

At its August meeting, the RBA Board held the Cash Rate steady at a record low of 1% following two consecutive 25 basis points cuts in May and June and Governor Lowe re-affirmed the prospect of further easing. Inflation continues to remain well below 2% at 1.6% in Q2 and Retail Sales for June also remained low at 0.4% for the month and 2.5% year over year. The US Fed made its much anticipated change to rates at their July meeting but Chairman Powell's remarks appeared to signal some doubt about more cuts by the end of the year. AUD/USD had remained around $0.70 with markets still pricing in further cuts to rates by the RBA however the AUD dropped sharply after the FOMC action to USD 0.68.

CoreLogic housing prices for July finally showed the swing to positive numbers in Sydney and Melbourne houses at 0.2% and 0.1% which we expected and had led us to upgrade our ratings to Fair. Units were up 0.3% for the month in Sydney and 0.4% in Melbourne. We remain concerned about the supply of newly completed construction but have maintained a Stable trend. The combined capitals were up 0.1%, the first rise since September 2017. Our News and Views section covers the semi-annual PCA Office Market Report and the various capital cities continue to perform in line with our ratings and trends show below.

There have been no changes in our ratings and trends this month following a number in our Quarterly Update in July. Melbourne and Sydney Residential are confirmed as Fair for Houses and Units and the trend has remained Stable despite comments above on Units in both cities. Industrial ratings in both cities were upgraded to Strong last month matching the Office sector there making four markets rated as Strong and Improving with all in Sydney and Melbourne. In contrast, 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 are of concern with respect to trading performance with Department Store sales down 0.6% for the month of June and 0.9% for the year.

	SYDNEY	MELBOURNE	ADELAIDE	BRISBANE (SEQ)	PERTH
Resi - Houses	Fair Stable	Fair Stable	Fair Improving	Fair Stable	Weak Stable
Resi - Units	Fair Stable	Fair Stable	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	Strong Improving	Strong Improving	Weak Stable	Fair Improving	Weak Stable

Sources: ABS, ACCI, AiG, ABS, AFR, ANZ Research, ATO, CBA, CBRE, Colliers International, CoreLogic, Cushaman & Wakefield, HTW, IMF, MSCI, JLL, Knight Frank, Melbourne Institute, OECD, PCA, Preston Rowe Patterson, RBA, RLB, Savills Research, Westpac Economics, World Bank

Thinktank

August 2019

News and Views

- The July semi-annual Property Council of Australia (PCA) Office Market Report (OMR) was recently released and showed improvements in all CBD markets' vacancy rates with the exception of a very small rise in the strongest market being the Melbourne CBD which went from 3.2% to 3.3%. In an article for the Australian Financial Review (AFR), Nick Lenaghan headlined "Stock withdrawal caps office vacancies" and went on to write: "The withdrawal of space from the market rather than rising tenant demand has helped nudge the national vacancy rate in office markets to 8.3%; six months ago the national vacancy rate was at 8.5%, according to the PCA."

- As shown in Chart 1, Melbourne and Sydney remain Australia's strongest and best-performing CBD markets with very tight vacancies. Melbourne's CBD vacancy rate was 3.3%, up slightly from 3.2% in January. Sydney's CBD vacancy rate was 3.7%, down from 4.1% in January and its lowest vacancy since January 2008. There were signs of improvement in the resource markets as well, with Brisbane's CBD vacancy rate falling for the third consecutive period to 11.9% compared with 12.9% in January. The Perth vacancy rate tightened slightly to 18.4% in July. Adelaide improved by more than Perth or Brisbane, falling by 1.4% to 12.8% on the back of strong demand from the defence industry.

- With Melbourne at 3.3% and Sydney dropping to 3.7% both markets are now at "incredibly low levels", said PCA chief executive Ken Morrison. "While their headline vacancy results are similar, the supply and demand dynamics of Sydney and Melbourne are really a tale of two cities. Both markets have strong economic fundamentals, but the Melbourne CBD has seen both strong supply of new office space and strong demand for that space. In the Sydney CBD the combination of a net withdrawal of office space and a tight market has left demand nowhere to grow into."

- While improving over the last 6 months, vacancy rates remain high in the other major Capital Cities we cover. Perth has dipped a little further below 20% at 18.4% and Adelaide has also improved moving down further below 15% at 12.8% as the build-up of momentum in the defence and mining sectors helped office vacancy rates fall slightly and incentives had dropped by between 5% to 8% in the past six months. Brisbane has also done the same coming in a good bit lower at 11.9%. The improving economic environment has pulled the vacancy rate down 1.0% from 12.9% in January.

- Chart 2 shows the differences in performance between prime and secondary properties with all the Capital Cities showing higher vacancies in the latter. The stronger capitals of Sydney and Melbourne show similar patterns for both sectors with secondary vacancies around 5% in both cities. In Adelaide and Brisbane as well as to a lesser extent in Perth, prime vacancies are showing improvement but still sometimes at the expense of secondary properties with tenants upgrading as leases mature and taking advantage of strong lease incentives. Secondary vacancies in Perth remain below 25% and are also reducing in Brisbane now below 15% while Adelaide is just at 13%.

- Amongst the Chartbook released by the PCA with its report was one graph including all fringe market statistics along with the CBD markets shown opposite. While as you would expect, most fringe markets run slightly higher vacancy rates than the CBD sectors in their cities but there are some exceptions. North Sydney where Thinktank is located, is just below the national average of 8.3% while Parramatta has recorded the second lowest vacancy rate in the country of 3% just below the Melbourne CBD while the lowest is East Melbourne at 2%. Our Melbourne office is soon to move to Docklands which is reported as a precinct of the Melbourne CBD but its vacancy rate is practically nil at 0.6% while just across the Yarra River in Southbank vacancies have risen over the past six months to just over 12% but a little further east along St Kilda Road they are half that at 6%. Overall only one of 18 markets recorded in Sydney or Melbourne rank above the national average and none in the other cities rank below it.

Chart 1: CBD Vacancy Change –Six Months to July 2019

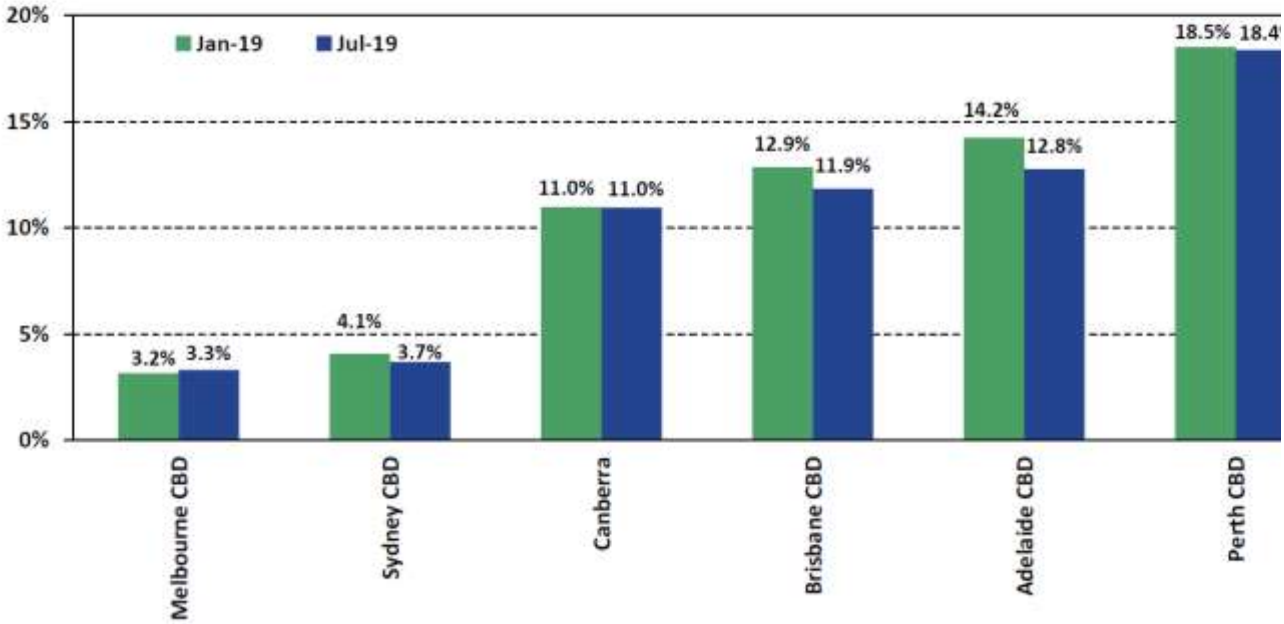
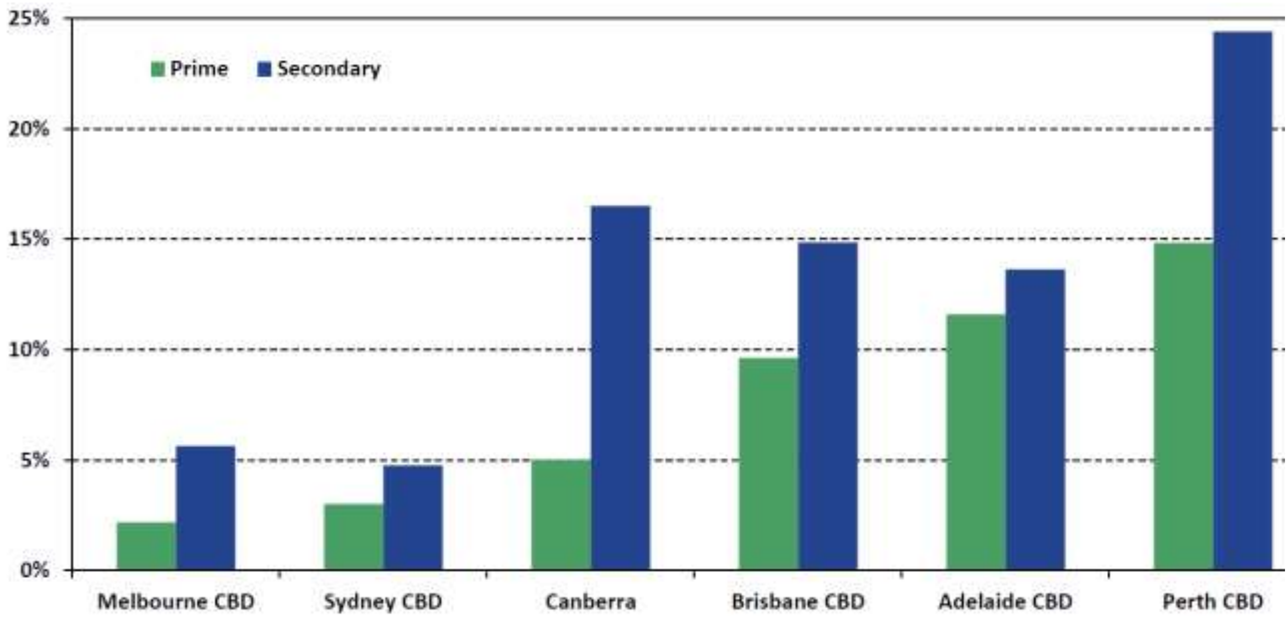


Chart 2: CBD Vacancy Rate –Prime vs Secondary –July 2019



Sources: Property Council of Australia

Thinktank

August 2019

Business Relationships and Loan Inquiries

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

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

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

Roger Pais
Business Development Manager – VIC
M: 0466 632 212
E: rpais@thinktank.net.au

Cath Ryan
Regional Sales Executive – NSW, ACT, WA
M: 0433 862 944
E: cryan@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

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

Adam Hutcheson
Sales State Executive – QLD/WA
T: (07) 3117 3787 M: 0434 609 239
E: ahutcheson@thinktank.net.au

Kat Gasparovic
Relationship Manager - QLD
T: (07) 3117 3787
E: kgasparovic@thinktank.net.au

Chrissi Sutherland
Partnership & Media Manager
T: (02) 8669 5516
E: csutherland@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
GM Partnerships & Distribution
T: (02) 8669 5512
M: 0468 989 555
E: pvala@thinktank.net.au

Funding & Finance
Cullen Hughes
CFO & Treasurer
T: (02) 8669 5518
M: 0406 258 256
E: chughes@thinktank.net.au

Investor Relations
Lauren Ryan
BDM – Investments
T: (02) 8669 5532
M: 0401 974 839
E: lryan@thinktank.net.au

Thinktank Property Finance

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.