

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 for a second month in a row by 6.3% in June to 93.7 remarkably reversing the impact on consumers of COVID-19 in April and March which saw a 20% fall. This appears to be consumers' reaction to the early lifting of some restrictions and it is quite likely that the volatility experienced may be repeated as the current situation in Victoria plays out. Two of the AiG indices for June also rose strongly. The Manufacturing Index was up by 9.9 points to 51.5 actually moving into expansion above 50. The Services Index was down just 0.1 to 31.5 but now below the Construction Index which was up 10.6 to 35.5.

At its July meeting, the RBA Board held the Cash Rate at its record low of 0.25% as expected and confirmed its ongoing Quantitative Easing (QE) in maintaining 3 year Treasury yields at that same level of 0.25%. Recent speeches by the RBA continue to be very clear in outlining ongoing Monetary Policy while at the same time encouraging more support from Fiscal Policy. Internationally the IMF released its World Economic Outlook Update in June entitled "A Crisis Like No Other, An Uncertain Recovery"; it projected a 4.9% decline in global growth for 2020 which was 1.9% worse than it had done in April. The US Fed has said the same about interest rates with no change coming from the June FOMC meeting. 10 year US Treasuries were last traded at yields of 0.63% and AUS 10 year Gov't bonds at 0.90% both lower. Not surprisingly markets continue to expect interest rates to remain at these ultra low levels for years and the AUD continues to trade around USD 0.69.

CoreLogic housing prices for June once again as expected showed a fall for Houses in Sydney of 0.9% and Melbourne down 1.3%. Units were down in both capitals, 0.6% and 0.7% respectively and we note considerably more comment on the supply of newly completed apartments. The month-on-month drop of 0.7% in national housing values greater than 0.4% in May. These figures will no doubt continue to change as the impact of COVID-19 continues to be felt but we have replaced the Watch trend for some Residential sectors with Softening. Our News and Views section this month returns to taking a close look at the impact of COVID-19.

There have been some changes in our ratings and trends this month with the benefit of our Quarterly Update and developments with COVID-19. Residential is mentioned above and while we remain cautious about other sectors pending a return to normalcy it is clear that Retail which had already been struggling is headed for even more difficult times ahead. While there are changes taking place in all property sectors, they appear different from earlier downturns with Industrial appearing quite resilient and Office awaiting the response of businesses to work from home attitudes. We are maintaining a Stable trend for the latter despite some ominous signs in locations such as the Docklands in Melbourne which we think may be short-term in nature.

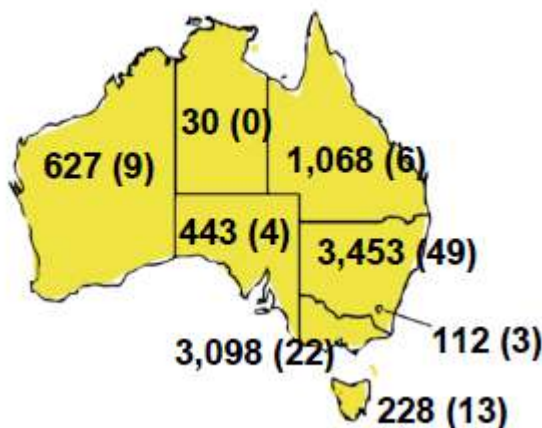
	SYDNEY		MELBOURNE		ADELAIDE		BRISBANE (SEO)		PERTH	
Resi- Homes	Fair	Softening	Fair	Softening	Fair	Softening	Fair	Softening	Fair	Deteriorating
Resi- Units	Fair	Softening	Fair	Softening	Fair	Softening	Fair	Softening	Weak	Deteriorating
Office	Good	Stable	Good	Stable	Fair	Stable	Fair	Stable	Fair	Stable
Retail	Weak	Deteriorating	Weak	Deteriorating	Weak	Deteriorating	Weak	Deteriorating	Weak	Deteriorating
Industrial	Good	Stable	Good	Stable	Weak	Stable	Fair	Stable	Weak	Stable

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

News and views

- This month, as we did last month, we are using some graphics and data drawn from the Australian Federal Government. In June it was the ATO and SMSFs that we focused on and this month it is the Department of Health and COVID-19. The statistics are current as at the date of publication of this Monthly Market Focus which is 10 July 2020. At this point as shown below, of the 9,059 cases nationwide, NSW has had 3,453 or 39% but with the latest outbreaks in Victoria they are rapidly closing in on that number being at 3,098 or 34%. The sudden escalation of cases in Victoria and the reintroduction of restrictions state wide and lockdowns in areas of Melbourne and surrounding LGAs is a stark reminder of how quickly things can change.
- The impact of the pandemic here in Australia up to now has been surprisingly consistent and from our point of view at Thinktank our experience in terms of its effect on property investors and tenants is very similar to that reported by other mortgage lenders. The initial gradual approach from borrowers for Hardship Support as a result of reductions in business volumes and/or tenants relying on legislative relief to stop or reduce rentals payments ended up being circa 20%. The initial support period of three months is for many now approaching an end and the focus is on the need for extensions and it has been very pleasing to see this running at about 50% of borrowers being in a position to resume normal repayments. The timing of the latest outbreaks in Melbourne is of course having an impact on the distribution of these numbers. This will undoubtedly also cause a shift in the numbers shown overleaf such as Cases by Source of Infection with those acquired Overseas falling.
- The global situation from an economic impact point of view is well covered by the IMF's June World Economic Update mentioned on the front page and the significant decrease in 2020 GDP forecasts just since their April Update. We cover further details of their report in our Quarterly Market Update which will be released shortly but from an industry point of view very clear victims of this downturn and associated restrictions are the Airline industry and Hospitality sector. For Australia, the virtual cessation of international travel and tourism has severely impacted airlines and hotels; even with the partial re-opening of State borders the period of closures and the ongoing loss of international visitors will have a profound affect. The AFR recently reported Mike Batchelor, Head of JLL's Hotel & Hospitality Group Asia-Pacific as forecasting a 10 – 30% fall in values across the region. The Retail sector is being heavily damaged right around the world and Australia is no exception and with the large concentration of shopping centres in listed A-REITs their decline is very visible publicly.
- We also mention on our first page the change in Housing values across the country with special mention of Units. We talk more about that once again in our Quarterly Market Update but a particular feature worth mentioning is the fall in Inner City Apartment rentals just reported by Domain. Nationally, unit rents fell by 3.2% and in Sydney they were down 3.8%, a record fall for the quarter and with Sydney rents now at their lowest in five years, having fallen 9.1% from their 2017 peak. A great deal is also being written about the impact of Work From Home on Office occupancy. There is no doubt the short term impact is very considerable but investors and developers appear more confident in the future and the recent confirmation of a 42 story Office tower in North Sydney above the new Metro Station evidences that. Prime Industrial property is also well reported on.

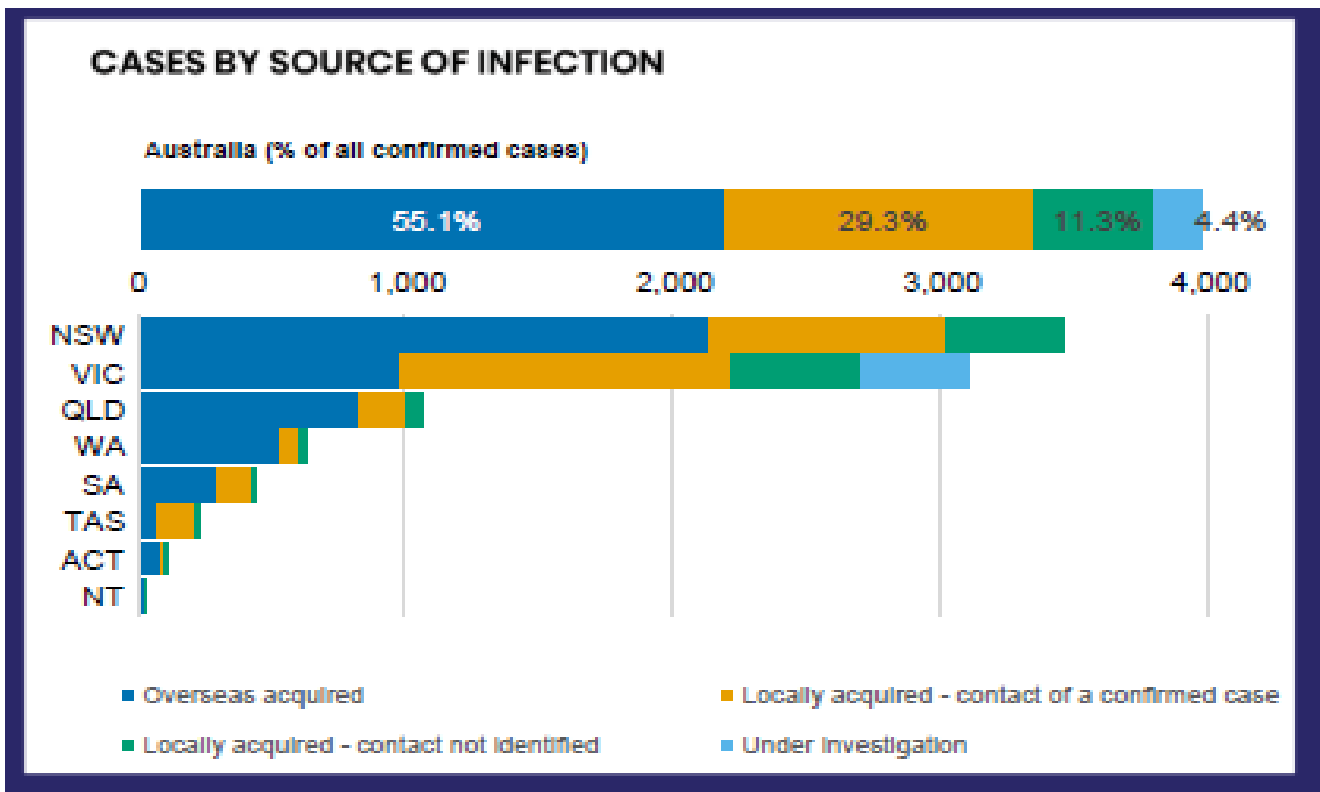
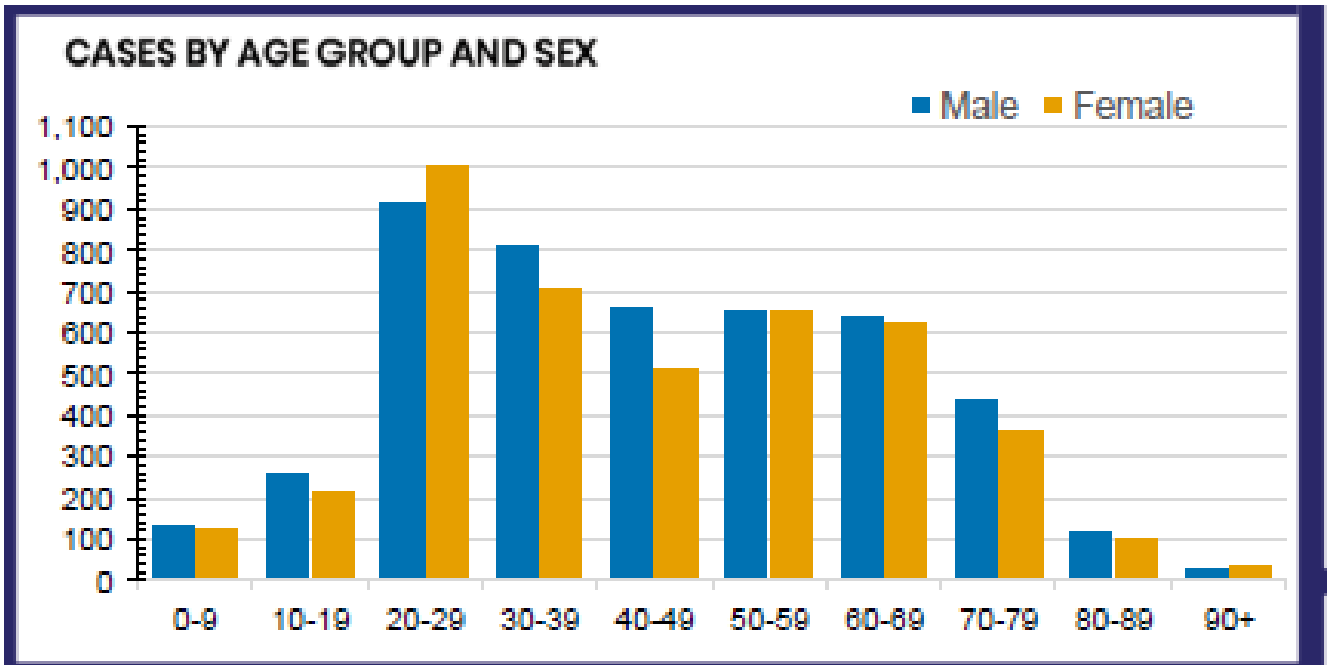
CASES (DEATHS) BY STATE AND TERRITORIES



CURRENT STATUS OF CONFIRMED CASES



Charts & Graphs: Australian Government Department of Health



Source: Australian Federal Government



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- Loan serviceability options ranging from fully verified to self-certification of income.

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