Australian real estate market focus

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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 plummeted by 17.5% in April to 75.6 far below 100 reflecting the impact of COVID-19 on consumers. All of the AiG indices for April also fell sharply and were all in the 30s; the Manufacturing Index was down by 17.9 points to 35.8, the Services Index down 8.3 to 38.7 and the Construction Index down 4.8 to 37.9 all well into contraction below 50. The IMF announced in their April World Economic Outlook entitled “The Great Lockdown”, growth for 2020 expected to fall to -3.0% as a result of the corona virus pandemic but then rising strongly to 5.8% in 2021 led by China growing at 9.2% after not even hitting negative territory at 1.2% in 2020. Further details can be found in our April–June 2020 Quarterly Update.

At its May meeting, the RBA Board held the Cash Rate at its record low of 0.25% and emphasised its ongoing Quantitative Easing (QE) in maintaining 3 year Treasury yields at that same level of 0.25%. Later in the week the central bank will be releasing its May quarterly SoMP although it is expected to contain little in the way of new forecasts or policy given Governor Lowe’s recent speeches which have been very clear in outlining current Monetary Policy. Importantly for interest rate forecasters, the Unemployment Rate for the foreseeable future is expected to remain high after peaking at 10%. This is the same internationally and Chairman Powell of the US Fed has said the same about interest rates. Markets are expecting interest rates to remain at ultra low levels for years and the AUD while holding around USD 0.64 appears to be benefitting by overall USD weakness.

CoreLogic housing prices for April showed a gain for Houses in Sydney up 0.3% but Melbourne down 0.4%. Units were up in both capitals, 0.6% and 0.1% respectively but we remain concerned about the ongoing supply of newly completed apartments. The month-on-month lift of 0.3% in national housing values was also good and brought the annual recovery to 8.3%. These figures will no doubt change substantially as the impact of COVID-19 is felt and for that reason we have adopted a Watch trend for all Residential. Our News and Views section covers the RLB Q1 Crane Index release which has some very interesting figures for high-rise projects.

There have been no changes in our ratings and trends this month following substantial movement last month due to COVID-19 and detailed in our April News and Views as well as the Quarterly Update. Residential are 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 difficult times ahead. This contrasts with the major downturn in Property of the early 90s when faced with an oversupply of Office space and Retail proved to be a sanctuary for investors while other sectors struggled for years. Things are very different thirty years later.

	SYDNEY		MELBOURNE		ADELAIDE		BRISBANE (SEO)		PERTH	
Resi- Homes	Fair	Watch	Fair	Watch	Fair	Watch	Fair	Watch	Fair	Watch
Resi- Units	Fair	Watch	Fair	Watch	Fair	Watch	Fair	Watch	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

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News and views

- This month we once again look at the RLB Crane Index provided by one of Australia's (and the world's) leading Quantity Surveyors. The index provides a physical count of the number of cranes working on projects across the country and gives us valuable information on construction activity across various sectors.

- The tables and graphs opposite show you that activity had slowed across the country but surprisingly in Sydney cranes used in Residential development had actually increased by 3 with 109 cranes coming down during the quarter and 112 going up. Other sectors were down slightly with total numbers for Sydney falling by 20 to 299. Melbourne was down by 17 to 196 with all sectors falling slightly and this was true of most major centres with Australia's total dropping by 35 to 722. Perth, Brisbane and Canberra all eked out small gains.

- As with all statistics gathered during the coronavirus pandemic we can expect a very high degree of volatility as seen on a number of the indices quoted on our front page. The fall in the AiG PCI Construction Index is a case in point with the index at 37.9, it lowest level since 2013 but not as bad as 2008 when it was hit with the impact of the GFC and fell below 30. While the Apartments segment is down as well as Commercial and Engineering, Houses have actually moved up slightly in the last month.

- We have for some time been concerned that high-rise apartment construction in Sydney and Melbourne was continuing at a pace that would exceed demand for completed units over the next couple of years. This concern is only heightened by the COVID-19 crisis and its expected aftermath with various sources of demand weakening. Longer term migration levels will drop and foreign students who are a steady source of tenants will also fall leaving higher density markets exposed.

- The immediate impact will be seen in the monthly CoreLogic statistics we report and as can be seen on page one while Unit price growth has slowed and remains less than Houses a very noticeable immediate impact has been the fall in yields with rental rates falling in all capital cities and especially in Melbourne and Sydney where they are now producing yields of 4.0% and 3.4% respectively for April. Tim Lawless of CoreLogic expects these rates to fall further as demand softens and supply increases and we agree.

- The March Dwelling Approvals data from the ABS was better than expected by many economists but still down 4.0% from February but up 0.2% on the previous year. These numbers do not fully reflect the impact of COVID-19 which should be seen next month. Approvals for Units were down 2.7% for high-rise and 5.5% for low-rise on the same period last year.

- The two graphs opposite show the decline on an indexed basis as well as in actual numbers of cranes in use but still significantly up since the index start of 100 in Q2, 2015. The non-residential index is up slightly from Q3 last year and substantially from the start of the index and from its subsequent low of 92 in Q2, 2017.

The Q1 RLB Crane Index surprised with Sydney Residential Cranes up by 3 to 236.

Melbourne was down 17 overall and -27 in Residential while Australia wide the total for all sectors fell 35 to 722.

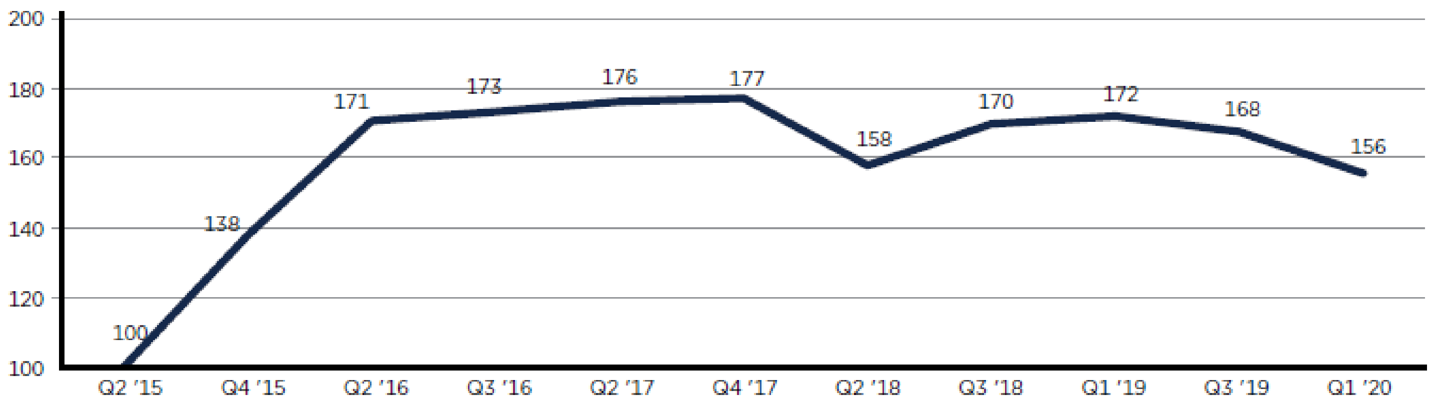
Table 1: CRANE ACTIVITY – AUSTRALIA BY KEY CITIES

	OPENING COUNT Q3 2019	%	MOVEMENT +	-	NET	CLOSING COUNT Q1 2020	%
ADELAIDE	19	2.5%	3	-7	-4	15	2.1%
BRISBANE	57	7.5%	34	-33	1	58	8.0%
CANBERRA	25	3.3%	10	-8	2	27	3.7%
CENTRAL COAST	14	1.8%	2	-7	-5	9	1.2%
DARWIN	1	0.1%	0	0	0	1	0.1%
GOLD COAST	29	3.8%	20	-16	4	33	4.6%
HOBART	5	0.7%	0	-1	-1	4	0.6%
MELBOURNE	213	28.1%	71	-88	-17	196	27.1%
NEWCASTLE	12	1.6%	7	-2	5	17	2.4%
PERTH	34	4.5%	21	-18	3	37	5.1%
SUNSHINE COAST	11	1.5%	7	-7	0	11	1.5%
SYDNEY	319	42.1%	127	-147	-20	299	41.4%
WOOLONGONG	18	2.4%	2	-5	-3	15	2.1%
TOTAL	757	100.0%	304	-339	-35	722	100.0%

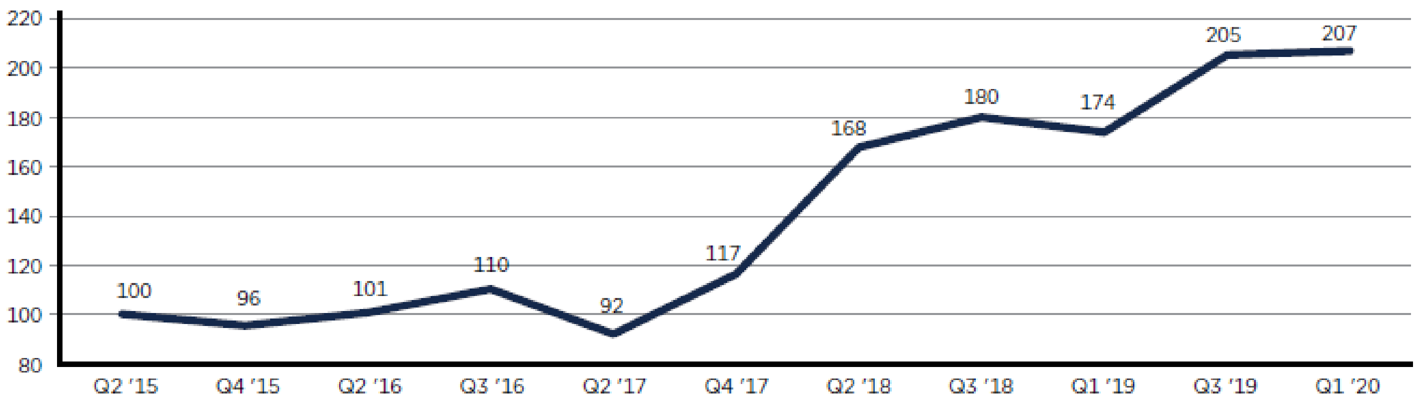
Table 2: CRANE ACTIVITY – AUSTRALIA BY SECTOR

	OPENING COUNT Q3 2019	%	MOVEMENT +	-	NET	CLOSING COUNT Q1 2020	%
CIVIC	4	0.5%	2	-3	-1	3	0.4%
CIVIL	37	4.9%	13	-15	-2	35	4.8%
COMMERCIAL	82	10.8%	24	-28	-4	78	10.8%
EDUCATION	25	3.3%	17	-18	-1	24	3.3%
HEALTH	18	2.4%	8	-8	0	18	2.5%
HOTEL	19	2.5%	7	-6	1	20	2.8%
MIXED USE	44	5.8%	23	-14	9	53	7.3%
RECREATION	2	0.3%	1	-1	0	2	0.3%
RESIDENTIAL	521	68.8%	206	-243	-37	484	67.0%
RETAIL	5	0.7%	3	-3	0	5	0.7%
TOTAL	757	100.0%	304	-339	-35	722	100.0%

Graph 1: RESIDENTIAL AUSTRALIAN INDEX



Graph 2: NON - RESIDENTIAL AUSTRALIAN INDEX



Source: Rider Levett Bucknall, Crane Index Q1

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- 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.