November 2019

Thinktank

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 heavily by 5.5% in October; it now stands at 92.8 its lowest level in four years. The AiG PMI for October was down by 3.1 points to 51.6 but still staying in expansion above 50. The Westpac-MI Leading Index was also down in September to -0.92 from -0.24 in August, indicating a slowing in expected GDP growth to 2.4% according to Westpac. The illion Business Expectations Index for the final quarter was up to 22.7 but the Actual Index was down to 7.4 its lowest level since March 2016.

At its November meeting on Melbourne Cup Day, the RBA Board held the Cash Rate steady for the time being at the record low of 0.75%. Governor Lowe had already spoken of the prospect of further easing but the quarterly SoMP will be important when it is released. The Q3 CPI came in at 0.5% with the annualised rate rising to 1.7% and Retail sales for September were weak at +0.2% and 2.5% for the year; the third quarter was actually down -0.1%. The US Fed made its widely anticipated change to rates at their October meeting but Chairman Powell's remarks appeared to signal some doubt about more cuts despite urgings from President Trump. With markets unsure about further cuts to rates by the RBA the AUD rose in late October to above USD 0.68 and is staying there for now.

CoreLogic housing prices for October showed further gains in Sydney and Melbourne houses at 1.9% for both. Units were up as well, 1.1% for the month in Sydney and 1.4% in Melbourne although we are still concerned about the ongoing supply of newly completed apartments which we discuss more overleaf. The month-on-month lift of 0.9% in national housing values was the largest monthly gain since March 2017 and has seen a shift to an Improving trend in a number of capital cities. Our News and Views section covers the RLB Crane Index which has recently been updated and shows continued strong activity levels for residential development in Sydney and Melbourne and expanding infrastructure work.

There have been a couple of changes in our ratings and trends this month. Melbourne and Sydney Residential are confirmed as Fair for Houses but with an Improving trend. Units remain Fair and Stable, in both cities, despite comments above. Industrial ratings in both cities were upgraded to Strong earlier last quarter matching the Office sector there making four markets rated as Strong and Improving with all in Sydney and Melbourne. Perth's Weak Office rating moved to Fair. Adelaide has three Improving trends and Brisbane has two. Retail is Fair and Stable except Adelaide which is Weak. Retail trends remain a concern and we discussed that in more detail in our recent Quarterly Update as we do all sectors.

	Sydney	Melbourne	Adelaide	Brisbane (SEO)	Perth
Resi- Homes	Fair Improving	Fair Improving	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	Fair 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, 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

- RLB recently published their 3rd quarter Crane Index for Australia with plenty of coverage provided in the Australian Financial Review which we reference below. The tables and charts shown opposite are taken from the RLB report and provide an excellent if sometimes surprising summary of construction and development activity across the nation in every property sector and in infrastructure development.

- The net surge of 14 new cranes dedicated to new offices across the nation, boosted by a rise in those on mixed-use projects, offset a dip in the residential sector of 19 and pushed the country's total number of tower cranes up by 22 from the previous count six months ago to a new record of 757 as shown overleaf in tables 1 and 2. The growth of cranes to record numbers in other sectors such as civil (37) and education (24) showed the effect of public infrastructure spending on the wider economy. "The ongoing changes in government's infrastructure spending and planning schemes is evident as the location of cranes gravitate along key city transportation corridors and activity centres," said Domenic Schiafone, consultancy RLB's Oceania director of research and development.

- A net loss of cranes in residential (down 3 to 145), mixed-use, commercial and educational work pulled Melbourne's count down for the first time in the past six reports. The city's total fell to 213 from 222 six months earlier. As of the latest count, which finished in mid-September, the city now has 13 cranes involved on the Melbourne Metro Tunnel and Western Distributor projects. Sydney's crane total rose 9 to 319, making up most of the decline it suffered in the last count six months earlier. The gain includes a net increase of just one residential crane to 233, while commercial cranes made a net gain of six to 44. Tower cranes are more spread out across the NSW capital than in Melbourne, and they were closely following infrastructure projects, Mr Schiafone said.

- Brisbane continued the decline it has seen since the city's burst of apartment construction that peaked at 104 cranes in the fourth quarter of 2015 and again in the second quarter of 2016. In total, the city lost a further two cranes – and a net 15 in the residential sector – in the latest report to slip to 57. The Gold Coast total slipped to 29 from 32, with a net decline in residential cranes partly offset by new cranes on retail projects. In Perth, where overall activity picked up after troughing in early 2017 – and has fallen back again over the past 12 months – the crane count made a net gain of one, rising to 34 cranes. Adelaide rose to a record-high 19 cranes, with a boost of three coming from hotels and student accommodation projects.

- Looking at graphs 1 and 2, the RLB Crane Non-Residential Index has risen to 193 (excluding Wollongong's inclusion) which is in line with the FY 2019 lift of 4.9% in building work done across the country. The residential index across the country has also maintained its level above the 160 mark. Wollongong residential cranes (in red) have made an impact with the full index falling to 166 in lieu of 164 on a like for like basis to the previous edition. Both residential and non-residential work done rose by 1.3% and 12.2% respectively on a chain volume measure. There were no cities within the index that recorded crane falls in the double digits, a sign that the industry has not yet entered into the economic cycle of falling demand as predicted by some. During the past six months 416 cranes were erected on sites around Australia, representing 54% of all cranes in the current count. One hundred percent of cranes removed from completed developments were placed back into the industry on new developments.

- The rate of replacement of cranes taken down from completed projects is quite surprising and using Sydney residential as an example we can see 142 cranes being dismantled out of 232 over the past six months and 143 being erected for a new total of 233. This is just below the total number of residential cranes in use in Melbourne. While we recognise that dwelling approvals for units in high rise buildings were down 38% in September versus a year ago, there is still a tremendous amount of building activity going on with many units to be completed and settled over the next two years which remains a risk in itself.

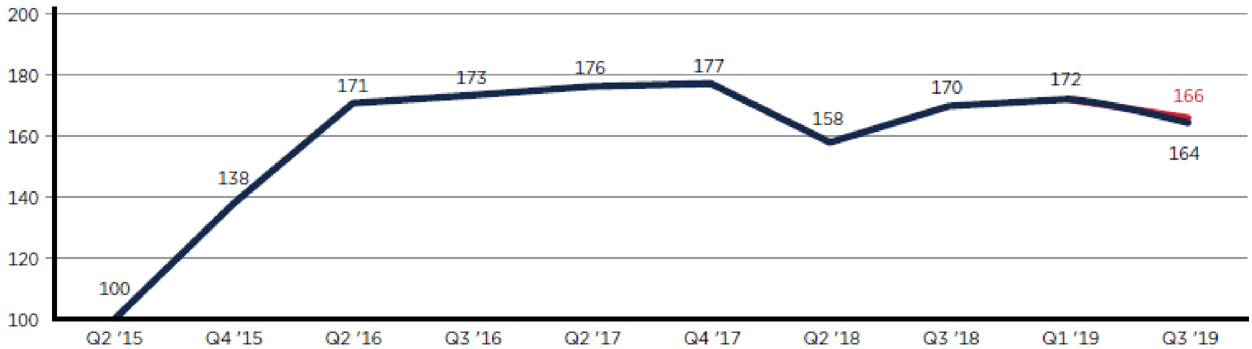
Table 1 – CRANES BY MAJOR CITY

	OPENING COUNT Q1 2019	%	MOVEMENT +	-	NET	CLOSING COUNT Q3 2019	%
ADELAIDE	17	2.3%	8	-6	2	19	2.5%
BRISBANE	59	8.0%	32	-34	-2	57	7.5%
CANBERRA	28	3.8%	9	-12	-3	25	3.3%
CENTRAL COAST	13	1.8%	8	-7	1	14	1.8%
DARWIN	0	0.0%	1	0	1	1	0.1%
GOLD COAST	32	4.4%	16	-19	-3	29	3.8%
HOBART	5	0.7%	2	-2	0	5	0.7%
MELBOURNE	222	30.2%	94	-103	-9	213	28.1%
NEWCASTLE	6	0.8%	9	-3	6	12	1.6%
PERTH	33	4.5%	25	-24	1	34	4.5%
SUNSHINE COAST	10	1.4%	5	-4	1	11	1.5%
SYDNEY	310	42.2%	189	-180	9	319	42.1%
WOOLONGONG	0	0.0%	18	0	18	18	2.4%
TOTAL	735	100.0%	416	-394	22	757	100.0%

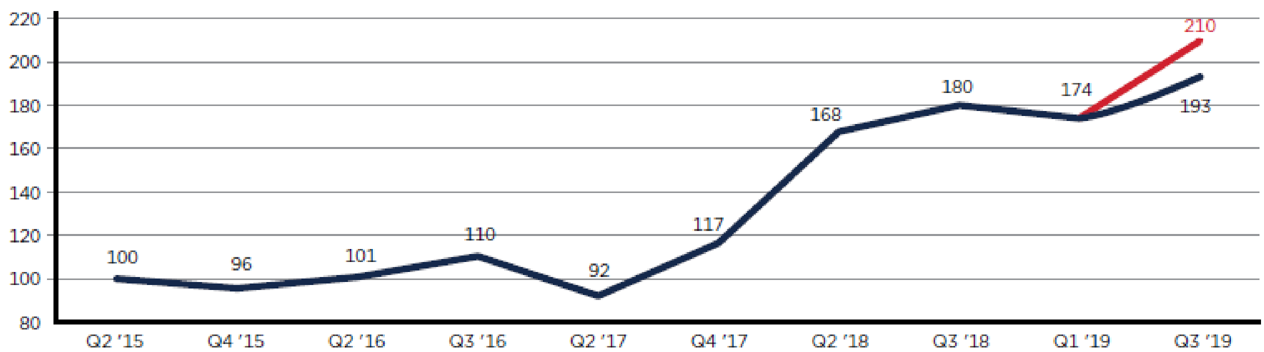
Table 2 – CRANES BY SECTOR USE

	OPENING COUNT Q1 2019	%	MOVEMENT +	-	NET	CLOSING COUNT Q3 2019	%
CIVIC	7	1.0%	0	-3	-3	4	0.5%
CIVIL	29	3.9%	20	-12	8	37	4.9%
COMMERCIAL	71	9.7%	41	-27	14	85	11.2%
EDUCATION	17	2.3%	18	-11	7	24	3.2%
HEALTH	16	2.2%	8	-7	1	17	2.2%
HOTEL	17	2.3%	9	-9	0	17	2.2%
MIXED USE	30	4.1%	24	-11	13	43	5.7%
RECREATION	2	0.3%	2	-2	0	2	0.3%
RESIDENTIAL	535	72.8%	286	-305	-19	516	68.2%
RETAIL	11	1.5%	8	-7	1	12	1.6%
TOTAL	735	100.0%	416	-394	22	757	100.0%

Graph 1 – AUSTRALIA RESIDENTIAL CRANE INDEX



Graph 2 – AUSTRALIA NON-RESIDENTIAL CRANE INDEX



Source: RLB Crane Index Report, Australian Financial Review

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Thinktank Property Finance

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- 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.