Australian real estate market focus

December 2020

Thinktank..

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. This month we feature the CoreLogic Index in our News and Views segment.

The Westpac-MI Consumer Sentiment Index jumped again in November by 2.5% to 107.5 after rising 11.9% in October driven by recovery outside of Victoria. In the last three months the index has risen to its highest level since November 2013 – a seven year high. The AiG Manufacturing Index fell by 4.2 points to 52.1 but stayed in expansion above 50 after jumping 9.6 points last month. South Australia fell slightly but stayed in expansion and Victoria recorded its first month of expansion since March 2020 which was great news.

At its December meeting, as widely expected, the RBA Board left the Cash Rate at the record low of 0.10% when they held their last meeting of the year, reconvening in February 2021. After the second quarter GDP figures showed a 7.0% decline it was very well received when the third quarter GDP came in at a better than expected 3.3% increase bringing the recession to an end. Both Fiscal Policy and the recent action on Monetary Policy has lifted sentiment and is expected to further help housing markets which noted below are now doing better than many had forecast. The focus over the next few quarters will no doubt remain on unemployment with the latest November rate being 7.0% and expectations of a slow but steady improvement ranging from forecasts of 5.0% to 6.0% by the end of 2022. The US Fed has said the same about interest rates remaining low for years to come but 10 year US Treasuries were last traded at higher yields of 0.96% (a one month high) and AUS 10 year Gov't bonds were at 1.03% (a three month high). Markets continue to expect interest rates to remain at these levels for some years to come and the AUD which had been up and down through USD 0.70 has since gone back up and stabilised around 73.5.

CoreLogic housing prices for November continued a good run of the past few months surprising many with their resilience. National Housing values were up by 0.8% building on last month after five months of consistent declines. In Sydney prices were up 0.4% while in Melbourne the rise was 0.7%. The rest of the capital cities were all up everyone over 1% except Brisbane at 0.6%. There remains quite a difference between Houses and Units with Houses on a national basis up 1.1% while Units were only up 0.2%. Even though we had anticipated some of these developments we are still very pleased with these results. We take a closer look at the CoreLogic Index that we quote every month in our News and Views section inside with several graphs and comments from their monthly research and others.

As a result of our comments above on Residential, we are seeing the start of a recovery and we have made a few changes to our Ratings and Trends. As noted previously Retail which had already been struggling is still experiencing difficult times and we wait now for its recovery. Industrial has proven to be very resilient and appears to be everyone's favourite. Office continues to await the longer term response of businesses to work from home attitudes but we remain more positive than some. Our section on Residential in our Quarterly Market Update contained plenty of detail on our thinking for this key sector as well as others together with a first look at some new design features which we hope you liked.

	SYDNEY		MELBOURNE		ADELAIDE		BRISBANE (SEQ)		PERTH	
Resi- Homes	Good	Stable	Fair	Stable	Good	Stable	Good	Stable	Good	Stable
Resi- Units	Fair	Softening	Fair	Stable	Fair	Stable	Good	Stable	Good	Stable
Office	Good	Stable	Fair	Stable	Strong	Stable	Fair	Stable	Fair	Stable
Retail	Weak	Deteriorating	Weak	Deteriorating	Fair	Deteriorating	Weak	Deteriorating	Weak	Deteriorating
Industrial	Good	Stable	Good	Stable	Strong	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, OECD, PCA, Preston Rowe Patterson, RBA, RLB, Savills Research, Westpac Economics, World Bank

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News and views

○ This month we take a detailed look at the much quoted CoreLogic Hedonic Home Value Index. Australia's housing market continued along a recovery trend through November. CoreLogic's national index recorded a second consecutive monthly rise in November, with dwelling values up 0.8% over the month. The new recovery trend follows a 2.1% drop in Australian home values between April and September. Graph 1 opposite shows the month on month change in the index over the past five years while Graph 2 shows the same data on a rolling three month basis by capital city and broken down into lower, middle and upper quartiles.

○ House and unit value performance has shown more divergence in recent months. House values have driven gains in the combined capitals index over the past three months, rising 1.1%. While the rate of decline has eased, capital city unit values fell by -0.6% over the same period. "This trend towards stronger conditions in detached housing markets is evident across most of the capital cities. Relative weakness in the unit market can be attributed to factors including low investment activity, higher supply levels in some regions, and weaker rental market conditions across key inner city unit precincts," Mr Lawless said.

○ Melbourne's unit market is the exception, where unit values have recorded a smaller than expected decline throughout the COVID period to-date and a more substantial recovery trend over recent months. "The resilience in Melbourne unit values is surprising given the high supply levels across inner city areas and the sharp decline in rental conditions. We suspect the stronger trend in Melbourne unit values relative to houses could be short-lived unless overseas migration turns around sooner than expected which would help to shore up rental tenancy demand," Mr Lawless added.

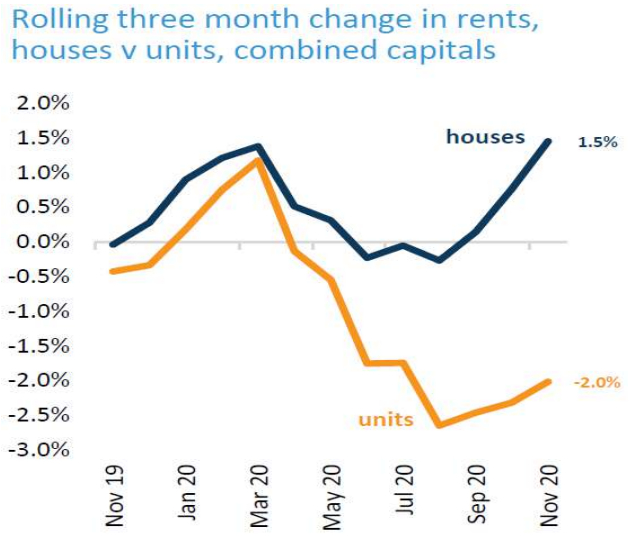
○ Rental conditions continued to diverge through November. Capital city house rents were 0.7% higher in November while unit rents were down 0.6%. The monthly data follows a now well established trend where house rents have shown a more positive trajectory than unit rents since the onset of COVID Across the combined capitals, unit rents have fallen by 5.4% since March while house rents have increased by 1.1%. Most of the weakness in rental market conditions is emanating from Melbourne and Sydney where unit rents are 6.6% and 7.6% lower respectively since March. Every capital city has shown this trend, where house rents outperform unit rents to varying degrees, however the divergence is most pronounced in Sydney and Melbourne where tenancy demand is more reliant on overseas migration, and supply levels were already high prior to COVID.

○ This is very graphically shown below in the chart at the bottom of this page where rents started falling at the beginning of 2020 for both houses and units, but by mid-year house rents levelled out and then started to rise, being up 1.5% on a rolling three month basis while unit rents have been falling and are now negative 2.0%.

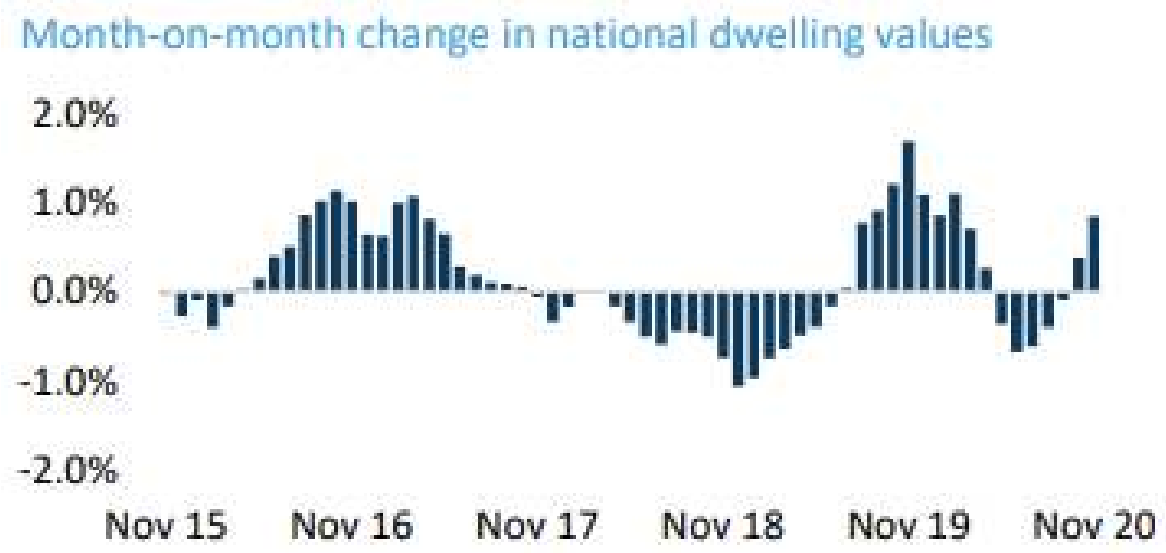
○ Inner-city apartment precincts of Melbourne and Sydney remain exposed to weak rental demand and high supply. Although the pipeline of high rise apartment projects has reduced sharply, it will be some time before the large number of projects under construction work their way through to completion. With rents and occupancy rates falling, the outlook for this sector remains weak.

For an understanding of "hedonic regression analysis" Take a look at the explanation provided by CoreLogic through the following link:

CoreLogic Home Value Index – Methodology (click link)



Graph 1



Graph 2

Source: CoreLogic

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