Australian real estate market focus

March 2021

Thinktank..

The following represents a monthly snapshot of how we see the property markets across the country along with the near-term outlook. For more in depth commentary, please visit our website thinktank.net.au for our Quarterly Market Update. This month in News and Views we feature the MSCI 4th Quarter Property Investment Report.

The Westpac-MI Consumer Sentiment Index rose by 1.9% in February to 109.1 after having fallen last month following a 40% gain between August and December. This month's results for the AiG Manufacturing Index was a further increase of 3.5 points to 58.8 moving further into expansion above 50 and reaching its highest level since March 2018. The PCI Construction index was down just slightly by 0.2 points to 57.4 most segments remained in expansion including apartments. The PSI Services Index rose by 1.5 points to 55.8 with four of five sectors improving with only the employment sub-index contracting. All three AiG indices remain in expansion.

At its March meeting, the second of 2021, the RBA Board left the Cash Rate at the record low of 0.10% but the key was the post meeting press release again reaffirming that rates will stay low for years to come after a week of sharp increases in 10 year bond rates both here and in the United States. Fourth quarter GDP came in at a better than expected +3.1% and is forecast to stay at 3.5% for the next couple of years but with unemployment only down to 6.4% and not forecast to fall below 6% in the next year. Inflation, currently at 0.9% is stuck at under 2% out until June '23 according to RBA forecasts but Retail Sales came in up 0.5% for January and a solid 10.6% for the year. Both Fiscal Policy and the RBA's action on Monetary Policy has lifted sentiment and continues to help housing markets which noted below are now doing better than most had forecast. The focus over the next few quarters will no doubt remain on unemployment with expectations of a slow but steady improvement with the forecasts noted above. The US Fed has said the same about interest rates remaining low for years to come but 10 year US Treasury Yields have soared and were last traded at 1.55% the highest since February 2020 and AUS 10 year Gov't bonds were also up substantially at 1.82% up by over 50 basis points in the past month. The AUD has stabilised around 0.78 but many expect it to move to 0.80 and beyond in 2021.

CoreLogic housing prices for March continued a very strong run of the past few months confirming the positive view of many with their resilience. National Housing values were up by 2.1% building on five months of consistent rises. In Sydney prices were up 2.5% and 2.1% in Melbourne, enough for us to re-rate Melbourne Houses as Good along with all the other Capitals. The rest of the capital cities were all up for the month and for the quarter. There remains quite a difference between Houses and Units with Houses on a national basis up 2.3% while Units were also up but by 1.3%. We are encouraged by these results despite our concern for Units in Sydney and Melbourne which we continue to rate as Fair. On the basis of CoreLogics report that rentals for Units in Melbourne and Sydney are no longer falling we have changed our Softening Trends to Stable.

As a result of our comments above on Residential, we continue to see the extension of a strong recovery and we have made three changes to our Ratings and Trends. As noted previously Retail which had already been struggling is still experiencing difficult times and we wait for signs of a turnaround. Industrial has proven to be very resilient and appears to be everyone's favourite. Office awaits the longer term response of businesses to work from home attitudes but we remain more positive than some. The MSCI report also reflects these views but also has the Perth and Brisbane Office sectors picked for good recoveries.

	SYDNEY		MELBOURNE		ADELAIDE		BRISBANE (SEQ)		PERTH	
Resi- Homes	Good	Stable	Good	Stable	Good	Stable	Good	Stable	Good	Stable
Resi- Units	Fair	Stable	Fair	Stable	Good	Stable	Good	Stable	Fair	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 our regular look at the MSCI Property Investment report for the 4th Quarter of 2020. As shown below and not surprisingly, total returns just managed to produce a positive result at 0.1% for the year. Income Returns continue to be steady at just under 5% which is not too much different from the long term results shown over the 35 year life of the graph. Capital Growth (or loss) is quite a different matter and the rise and fall of the graph line really tells the story with the shift in capital value reflecting the cyclical health of the economy.

- Graph1 opposite shows the performance over the last five quarters of five different commercial sectors as well as total results for Commercial Property. It is quite striking how severely Retail capital losses have impacted the total numbers resulting in -10.1% for the year and the contrast with Industrial which has surged +13.9% compared to +11.5% in 2019 and pretty much single-handedly kept the All Property index above water.

- Graph 2 is an interesting comparison of All Property Total Returns across the Capital Cities and again presents a situation where one positive performance in Sydney has kept the overall figure above zero even though producing only a 2.0% return in 2020 compared to 9.8% in 2019. Perth remains the lowest of the Capitals having dropped to -2.1% from +2.4% but along with Brisbane having suffered a less than 5% downward swing. An AMP Capital Property webinar presented on the same day as MSCI's picked those two cities as the recovery markets with Perth getting the ultimate nod based on its return to 78% utilisation levels of available office space. The full presentation can be found on AMP Capital's website under Insights.

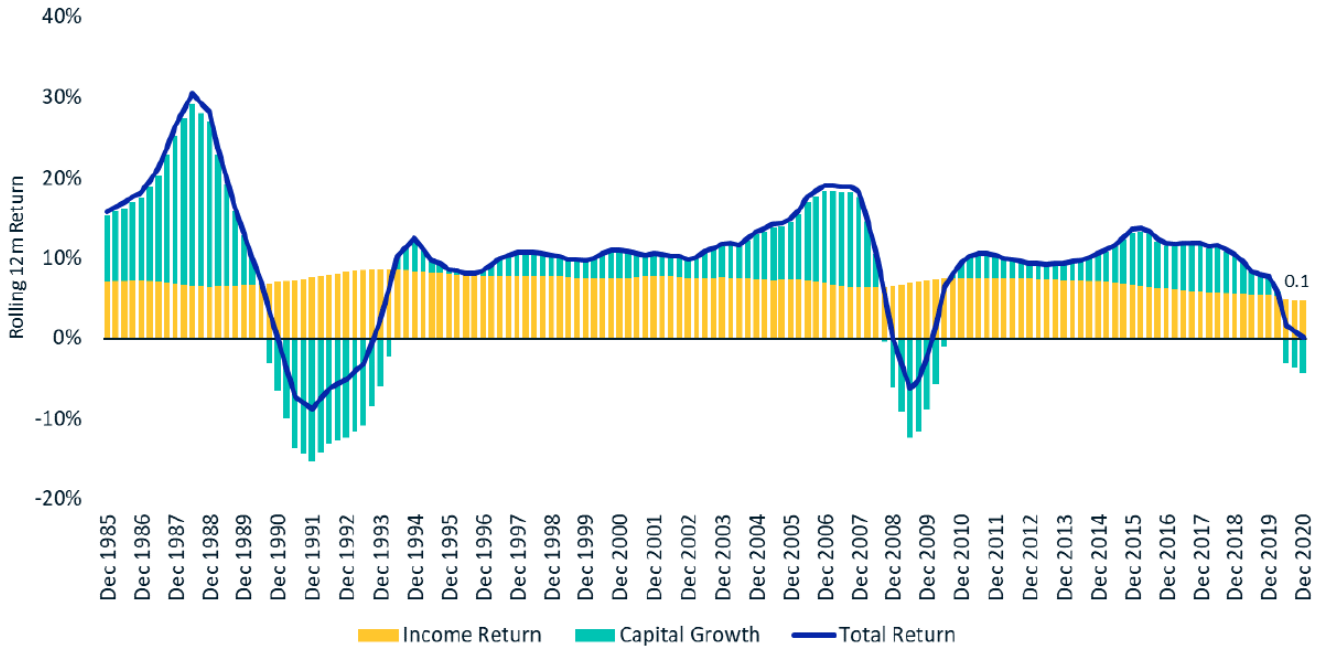
- Another interesting graph in the MSCI presentation was a breakdown of total returns by sector across these same Capital Cities. The consistency is quite clear with Industrial ranking first in every city and around the 15% level of total return except for Perth where it was about 6%. Retail was the worst performer and in negative territory ranging from -8% to -12%. A recoding of the MSCI webinar can be found on their website under Events.

- Across most research that we see, the Office sector carries the most uncertainty and this includes not just investment analysts and economists but business leaders wondering about Work From Home (WFH) policies, to what to do about approaching lease maturities for expensive CBD Office space. MSCI notes quite a difference between CBD and non-CBD performance with the latter enjoying firming cap rates and projected income growth.

MSCI

2020 4th Quarter All Australian Property Returns

December 1985 to December 2020



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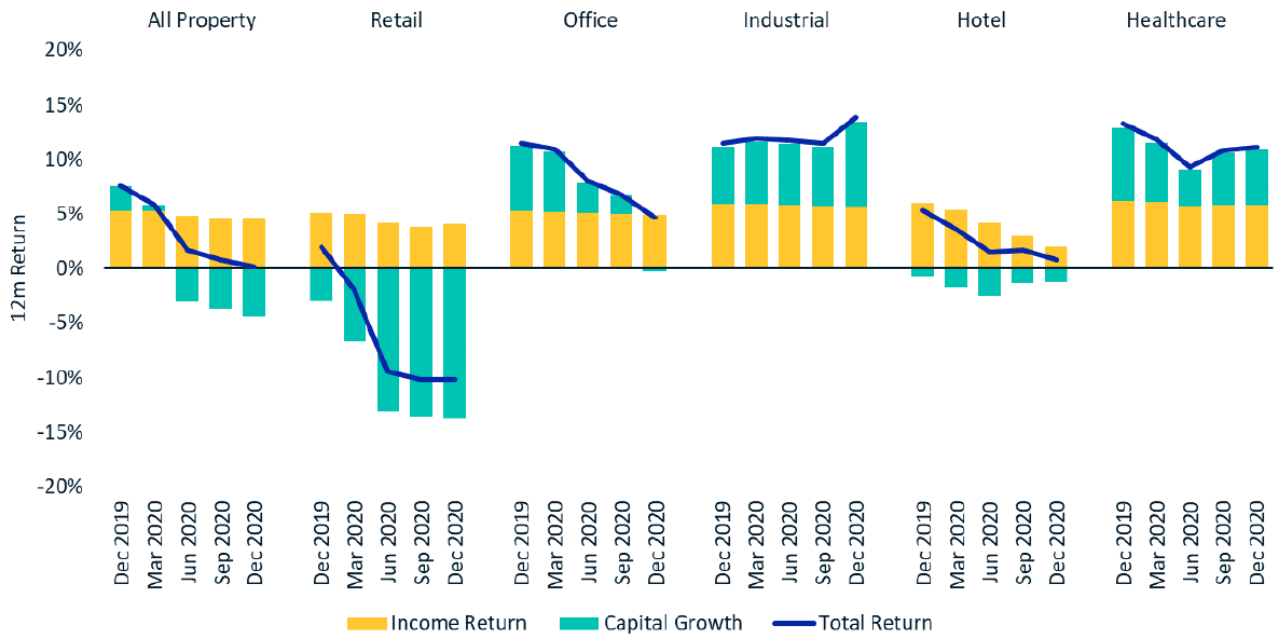
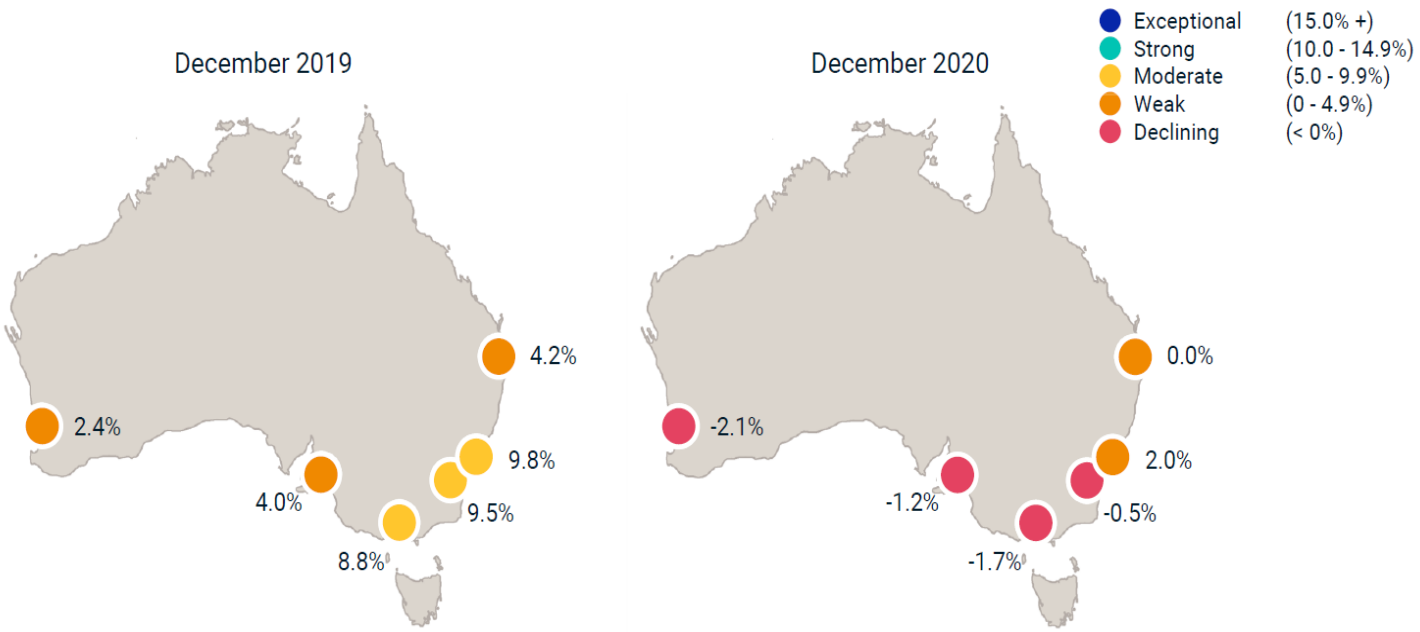
Graph 1. Aus Comm Property – Twelve Months to Dec '20



Graph 2. Capital City Returns, 12 months – Dec '19 v Dec '20



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Source: MSCI Global Intel, ABS

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Business relationships and loan inquiries

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

Cath Ryan
Regional Sales Executive
NSW / ACT / WA
M: 0433 862 944
E: cryan@thinktank.net.au

Adam Hutcheson
Regional Sales Executive
QLD / WA / NT
M: 0434 609 239
E: ahutcheson@thinktank.net.au

Joel Harrison
Senior Partnership Manager
VIC / SA / TAS / WA
M: 0410 861 540
E: jharrison@thinktank.net.au

Rob Tassone
Senior Partnership Manager
NSW /QLD / NT
M: 0450 642 995
E: rtassone@thinktank.net.au

Kat Gasparovic
Relationship Manager
QLD
M: 0405 815 287
E: kgasparovic@thinktank.net.au

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

Ranei Alam
Senior Relationship Manager
NSW
M: 0434 609 240
E: ralam@thinktank.net.au

Bob Whetton
Relationship Manager
QLD / NT
M: 0413 241 316
E: bwhetton@thinktank.net.au

Dev De
Senior Relationship Manager
VIC
M: 0466 576 338
E: sde@thinktank.net.au

Paul Burns
Senior Relationship Manager
NSW
M: 0434 609 241
E: pburns@thinktank.net.au

Robert Ilov
Relationship Manager
QLD / NT
M: 0424 685 008
E: rilov@thinktank.net.au

Amod Mahatme
Relationship Manager
VIC
M: 0466 632 212
E: amahatme@thinktank.net.au

Claire Byrne
Relationship Manager
NSW
M: 0414 235 478
E: cbyrne@thinktank.net.au

Robyn Hadlow
Relationship Manager
NSW / ACT
M: 0406 857 708
E: rhadlow@thinktank.net.au

Alex Turnbull
Marketing Manager
M: 0400 599 535
E: aturnbull@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

Partnerships & Distribution
Peter Vala
GM Partnerships & Distribution
T: (02) 8669 5512
M: 0468 989 555
E: pvala@thinktank.net.au

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

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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.

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