Australian real estate market focus

April 2021

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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 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 ATO SMSF statistics for 31 December 2020.

The Westpac-MI Consumer Sentiment Index rose by 2.6% in March to 111.8 within 0.2 points of the December level which was a ten year high. This month's results for the AiG Manufacturing Index was a further increase of 1.1 points to 59.9 a sixth further month of expansion above 50 and reaching its highest level since March 2018. The PCI Construction index soared in March to be up by 4.4 points to 61.8 with all segments expanding strongly. The PSI Services Index also rose again in March, this month by 2.9 points to 58.7 with all five sectors improving and reaching its highest level since June 2018. All three AiG indices rose this month and remain in expansion.

At its April meeting the RBA Board left the Cash Rate at the record low of 0.10% but as usual the key was the post meeting press release again reaffirming that rates will stay low for years to come despite the 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 now down to 5.8% this is a positive. Inflation, currently at 0.9% is stuck at under 2% out until June '23 according to the RBA who added "The Board will not increase the Cash Rate until it is sustainably within the 2 to 3% target range." Retail Sales came in down 0.8% for February but still up a reasonable 9.1% 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 much 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 continue to soar and were last traded at 1.65% slightly below a one year high and AUS 10 year Gov't bonds were also up substantially at 1.75% up by over 50 basis points since early this year. The AUD had stabilised around 0.78 heading to 0.80 and beyond in 2021 but it has now reversed to 0.76.

CoreLogic housing prices for March continued the exceptionally strong run of the past few months confirming the positive view of many with their recovery. National Housing values were up by 2.8% building on six months of consistent rises. In Sydney House prices were up 4.3% and 2.6% in Melbourne, enough for us to re-rate Sydney Houses as Strong. The rest of the capital cities were all up for the month and for the quarter. There remains a difference between Houses and Units with Houses on a national basis up 3.0% while Units were also up but by slightly less at 1.9%. We are encouraged by these results despite our concern for Units in Sydney and Melbourne which we continue to rate as Fair. Last month on the basis of CoreLogic's report that rentals for Units in Melbourne and Sydney are no longer falling we have changed our 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 two further 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 and we have also upgraded two Ratings and Trends in this sector. Office awaits the longer term response of businesses to work from home attitudes but we remain more positive than some. Our Quarterly Market Update has further details on each sector and the economy.

	SYDNEY		MELBOURNE		ADELAIDE		BRISBANE (SEQ)		PERTH	
Resi- Homes	Strong	Improving	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	Strong	Improving	Good	Improving	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

News and Views

o This month we once again take a look at the latest statistics on SMSFs provided by the Australian Tax Office (ATO) as at 31 December 2020. Typically the ATO has released quarterly statistics on this sector a couple of months after the quarter end however it is important to note that these are estimates but It is also worth noting that there are seldom significant shifts from period to period but rather it is the longer term trends that are important to try and identify.

o SMSF Adviser reported the ATO's most recent SMSF statistical report indicates that establishments remain steady as assets continue to increase from the previous quarter. The report shows that there are approximately 594,000 SMSFs and an estimated 1.1 million members. These figures point to overall growth in total fund numbers, which have increased on average by 2% each year over the last five years. In Chart 1 we can see total estimated SMSF assets increased 5.1% over the quarter, from $727.1 billion in the September 2020 quarter to $764.2 billion in the December 2020 quarter. Meanwhile, more than 5,000 new SMSFs were established in the December 2020 quarter, according to the ATO. Other data quoted by the ATO reported that 53% of SMSF members are male and 47% are female, and 86% of SMSF members are 45 years or older.

o Minister for Superannuation, Financial Services and the Digital Economy, the Hon Jane Hume, said the report showed there has been significant growth across the sector, despite the economic impacts and financial uncertainty caused by COVID-19. She noted the quarterly report shows increased consumer engagement and "the growing desire for Australians to become "masters of their own destiny" by taking their retirement savings into their own hands. "The SMSF sector always plays a significant role in the superannuation landscape, with steady growth trends signalling its increasing prominence" Ms Hume said, "SMSFs hold approximately 26% of all superannuation assets."

o Graph 2 opposite shows the distribution across the major asset classes with Listed Shares & Trusts being the largest followed by Cash & Deposits being 32% and 20% respectively of Total Assets. This is over half of all SMSF assets being invested in very liquid but now low yielding investments. Again it can be seen how little change takes place over time other than for market volatility in listed investments.

o A key area of interest is of course Limited Recourse Borrowing Arrangements (LRBAs) which only make up a relatively small segment of Total Assets at just under 7%. The assets that secure these loans are Residential Property at 5% and Non-residential Property at 10% with owner-occupied commercial premises being very popular. The level of concentration in individual SMSFs is higher than those numbers suggest but overall the impact of LRBAs and Real Property investment is not as great as many commentators suggest.

o It is also interesting to note our further experience during the COVID-19 crisis six months after our last report in November 2020. Our SMSF–LRBA portfolio which is similarly diverse compared to the rest of our portfolio has performed relatively better, consistent with our experience in prior periods. It seems the high % of owner-occupiers in commercial ("business real property") real estate works as a positive in stabilising performance during economic difficulty. A number of third party tenants took advantage of rental relief available through emergency legislation but we have now seen regular loan repayments resumed by almost all LRBAs and only a handful of Trustee initiated sales.

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Chart 1 - SMSF Total Assets and Numbers

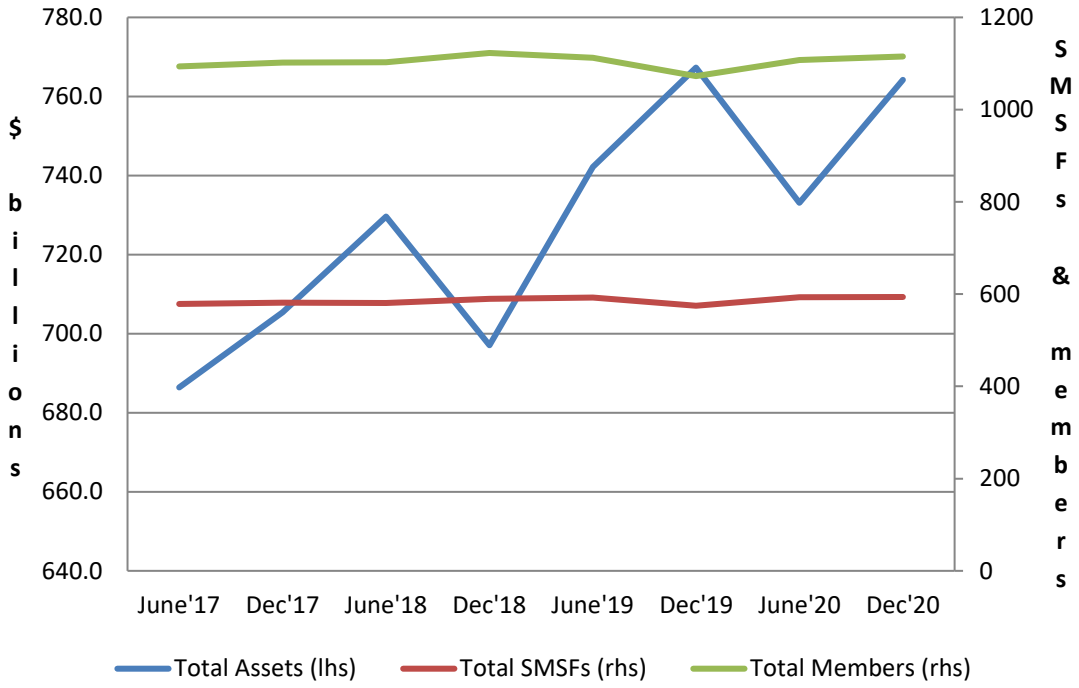
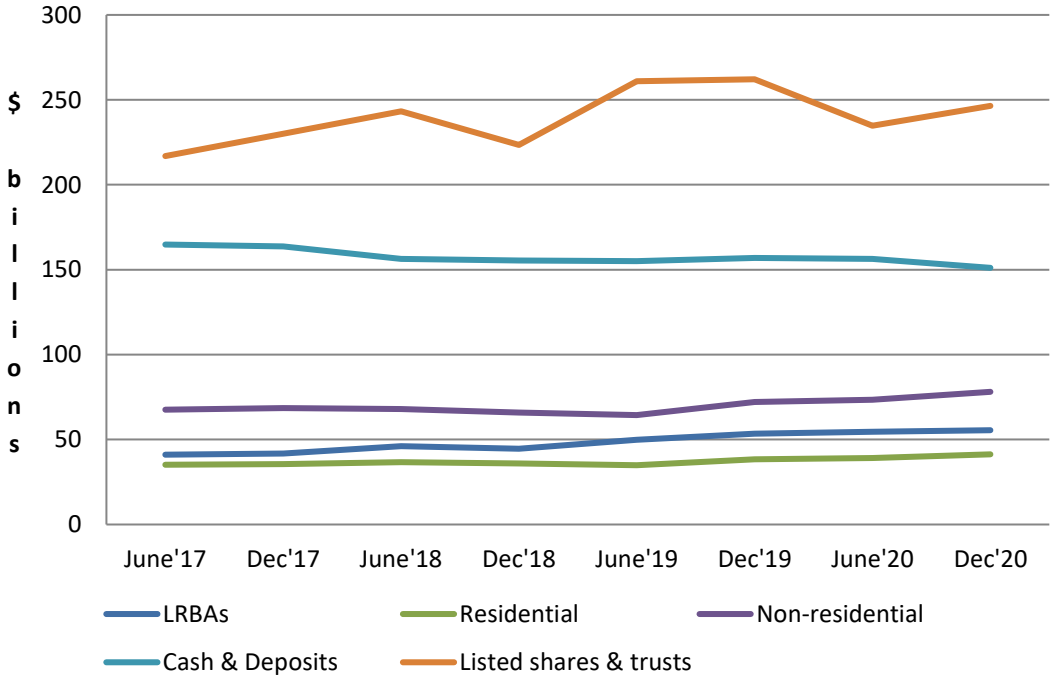


Chart 2 - SMSF Investment Portfolio Data



Source: Australian Tax Office

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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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- 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.