Australian real estate market focus

May 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 RLB Crane Index and implications for Housing.

The Westpac-MI Consumer Sentiment Index soared by 6.2% in April to an eleven year high of 118.8, surprising even Westpac's Chief Economist Bill Evans. This month's results for the AiG Manufacturing Index also saw a further increase of 1.8 points to 61.7 a seventh further month of expansion above 50 and reaching its highest level since March 2018. All six manufacturing sectors expanded. The PCI Construction index however fell slightly in April to be down by 2.7 points to 59.9 however all segments continue to expand strongly and we look at some reflection of that in the RLB Crane Index in our News and Views section inside. The services sector looks to be rebounding with the PSI lifting 2.9 points to 58.7 its strongest result since June 2018.

At its May meeting the RBA Board left the Cash Rate at the record low of 0.10% and any thoughts about an earlier than expected increase in official rates were extinguished despite the improvement in forecasts for economic growth, employment and inflation. The minutes contained the following comment on inflation: "The Board will not increase the Cash Rate until it is sustainably within the 2 to 3% target range." This was reinforced a couple of days later in a speech by Deputy Governor Guy Debelle emphasising 2024 as the likely earliest date for interest rates to rise. The focus over the next few quarters will no doubt remain on unemployment with expectations of a slow but steady improvement as forecast in the SoMP of that same week which explicitly confirmed the earlier comments by the Governor and the Deputy Governor. The US Fed has said the same about interest rates remaining low for years to come and 10 year US Treasury Yields were last traded at 1.54% slightly below last month and AUS 10 year Gov't bonds were also down at 1.63%. The AUD remains at 0.77.

CoreLogic housing prices for April 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 a further 1.8% for the month and 6.8% for the quarter. In Sydney House prices were up 2.8% in April and breaking double figures at 10.5% for the quarter. The results were slightly less in Melbourne up 1.4% for the month and 6.5% for the quarter. The rest of the capital cities were all up for the month and for the quarter and the only weakness was in regional WA and SA. There remains a difference between Houses and Units with Houses on a national basis up 2.0% while Units were also up but by slightly less at 1.2%. 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 had changed our Trends to Stable and comments regarding the RLB Crane Index in our News and Views suggest that medium term Units may recover.

As a result of our comments above on Residential, we continue to see the extension of a strong recovery but have made no changes to sector. Retail which had already been struggling is still experiencing difficult times and we wait for signs of a turnaround which may come with some longer term changes to sector strategy. Industrial has proven to be exceptionally resilient and still appears to be everyone's favourite. Office still awaits the longer term response of businesses to work from home attitudes but we remain more positive than some and the start of comments about how some businesses are addressing the issue is quite encouraging. No change in Ratings or Trends this month following our full review in our April Quarterly.

	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 numbers from quantity surveyors Rider Levett Bucknall in their quarterly Crane Index report. Somewhat surprisingly total numbers of cranes in use across the country actually increased marginally by a net 16 to 691. As shown in table 1 opposite the net change in individual cities is not that great but the actual gross additions and removals is over 50% in most centres. The chart below shows the net shift by crane activity which highlights the reduction in residential use balanced with smaller increases in civil, civic and education. Mixed use is the biggest gainer and now ranks second to residential but a long way back at 11.6% of the total count compared to 59.2% for residential.

o Table 1 shows the detail of the movement of activity geographically across the country and re-emphasises the concentration of cranes in Sydney and Melbourne with 41.4% and 27.9% of the nation's total in those two cities respectively. Brisbane is third at 10.3% followed by Perth at 4.3% just ahead of Gold Coast at 4.2%. Canberra at 3.8% remains well ahead of Adelaide at 1.4%. While Sydney shows a small decline in total crane numbers it still has 195 in use in the residential sector although this is down by 32. The largest number are in the inner city where 46 of 83 cranes are employed in residential developments. This compares to Melbourne where there are 95 cranes in use in the inner city of which only 28 are shown as for residential construction which is down from 44 six months ago. Mixed use in Melbourne is shown as 25 up from 20 while Sydney is only 10, up from 2. Civil & Commercial are at 41 for 21.3% and 45 for 15.7% respectively.

o Graphs 1 and 2 illustrate the difference in conditions between the Residential and Non-residential sectors over the past few years from Q2 '15. While these are indices and do not fully reflect the quantum of activity in each sector they certainly do convey the shifting circumstances with Residential having peaked in Q4 '17 at 177 and now after a gradual decline since Q1 '19 being at 132. Non-residential hit a low of 92 in Q2 '17 and has since risen to 245 and is the highest since the commencement of the index in 2013. Sydney's index is at 177 after having peaked at 216 in Q4 '17 while Melbourne is at 166 with a high of 191 in Q1 '19.

o There has been a good deal of debate both in the press and in specific research articles from property groups as to the immediate and medium term future of units in the inner city as well as in some suburban locations. A recent article in the Australian Financial Review said inner-city apartment markets hit hard by the exodus of students and tourists last year, are showing signs of joining the broader housing recovery as downsizers and homebuyers return, pushing prices higher. "This suggests most unit markets are now stabilising, or in an upswing phase" said Eliza Owen, CoreLogic Australia head of research. "We're now seeing some upwards pressure in prices despite the exceptionally weak rental conditions in those markets."

o Others are less optimistic mainly as a result of the lack of foreign students and migrants. Louis Christopher, Managing Director of SQM Research said in the same AFR article that looming oversupply remained a challenge for the sector's recovery. "There's a huge stock surplus coming," he said. "When we consider the amount of building commencements which are due to be completed, there are about 180,000 dwellings, with zero international migration." Ms Owen also said, "I think we can only go so far until we get that international migration flow back to pre-COVID levels." This should be an interesting situation to observe.

RLB Rider Levett Bucknall

Australia Net Crane Movement by Sector Q1-2021

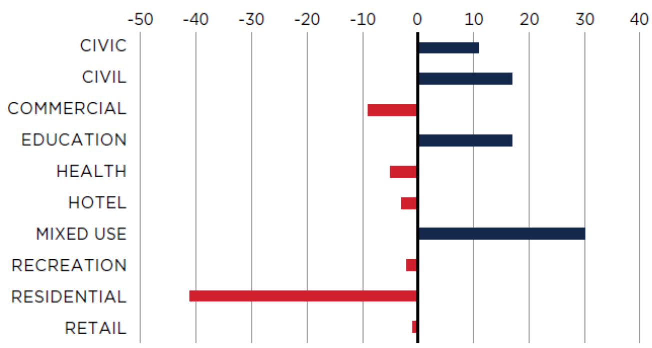

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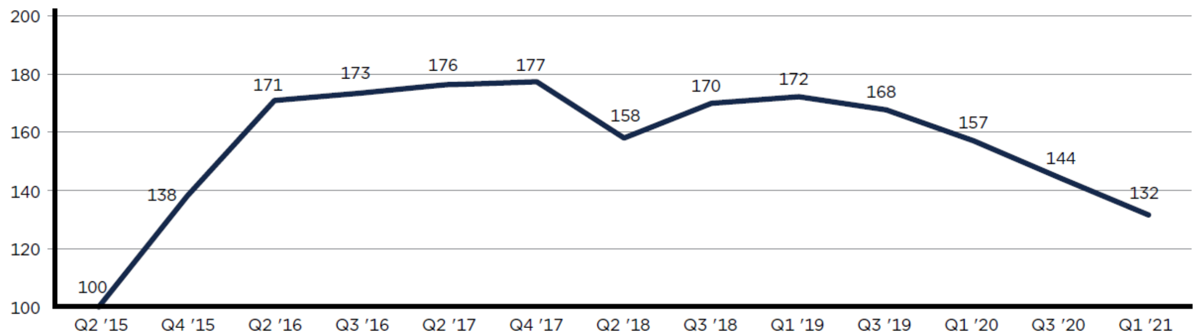
Table 1: CRANE ACTIVITY – AUSTRALIA BY KEY CITIES

	OPENING COUNT Q3 2020	%	MOVEMENT +	-	NET	CLOSING COUNT Q1 2021	%
ADELAIDE	10	1.5%	6	-6	0	10	1.4%
BRISBANE	50	7.4%	48	-27	21	71	10.3%
CANBERRA	27	4.0%	19	-20	-1	26	3.8%
CENTRAL COAST	5	0.7%	5	-1	4	9	1.3%
DARWIN	0	0.0%	0	0	0	0	0.0%
GOLD COAST	34	5.0%	8	-13	-5	29	4.2%
HOBART	0	0.0%	0	0	0	0	0.0%
MELBOURNE	177	26.2%	107	-91	16	193	27.9%
NEWCASTLE	13	1.9%	5	-9	-4	9	1.3%
PERTH	36	5.3%	14	-20	-6	30	4.3%
SUNSHINE COAST	15	2.2%	9	-8	1	16	2.3%
SYDNEY	297	44.0%	144	-155	-11	286	41.4%
WOOLONGONG	11	1.6%	6	-5	1	12	1.7%
TOTAL	675	100.0%	371	-355	16	691	100.0%

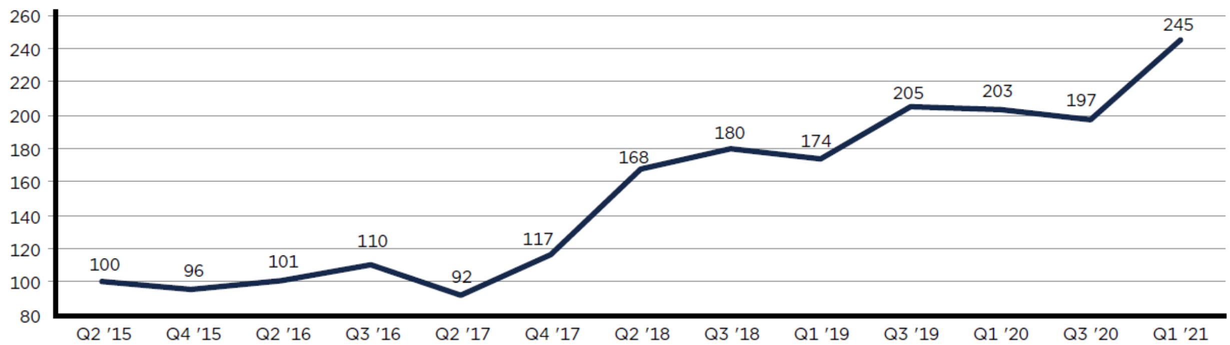
Table 2: CRANE ACTIVITY – AUSTRALIA BY SECTOR

	OPENING COUNT Q3 2020	%	MOVEMENT +	-	NET	CLOSING COUNT Q1 2021	%
CIVIC	7	1.0%	15	-4	11	18	2.6%
CIVIL	22	3.3%	21	-5	16	38	5.5%
COMMERCIAL	72	10.7%	29	-34	-5	67	9.7%
EDUCATION	20	3.0%	29	-10	19	39	5.6%
HEALTH	30	4.4%	11	-16	-5	25	3.6%
HOTEL	16	2.4%	4	-8	-4	12	1.7%
MIXED USE	54	8.0%	41	-15	26	80	11.6%
RECREATION	2	0.3%	0	-2	-2	0	0.0%
RESIDENTIAL	448	66.4%	220	-259	-39	409	59.2%
RETAIL	4	0.6%	1	-2	-1	3	0.4%
TOTAL	675	100.0%	371	-355	16	691	100.0%

Graph 1: RESIDENTIAL AUSTRALIAN INDEX



Graph 2: NON - RESIDENTIAL AUSTRALIAN INDEX



Source: Rider Levett Bucknall, Crane Index Q1 2021

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

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