Australian real estate market focus

September 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 once again take a closer look at the Office Sector and Vacancy Rates which have been hit particularly hard by the pandemic in some locations.

The Westpac-MI Consumer Sentiment Index fell by 4.4 % in August to 104.1 as expected with the impact of the Sydney lockdown now being felt. This is the lowest level in a year and further declines are likely until the end of the calendar year with a strong lift quite possible by then. This month's results for the AiG Manufacturing Index also saw a large decrease of 9.2 points to 51.6 but still maintaining an eleventh month of expansion above 50. The PCI Construction index fell even more by 10.3 points to 38.4 and well into contraction below 50 and the PSI Services index also fell heavily by 6.1 points to 45.6 and not surprisingly has also fallen into contraction.

At its September meeting the RBA Board left the Cash Rate at the record low of 0.10% and much of the attention was on Governor Lowe's remarks that "The Delta outbreak is expected to delay, but not derail, the recovery." In reponse, an adjustment to the RBA's Bond Buying program was announced with the Board's decision to extend the bond purchases at $4 billion a week until at least February 2022.

On the first of the month, the ABS released GDP figures for the June quarter up 0.7% for the quarter and up 1.4% yoy but with all states recording growth although Victoria was only 0.1%. We are now facing a negative September quarter from the latest lockdowns but the positive second quarter saves us from another recession as long as we experience the expected recovery in the fourth quarter as restrictions are lifted and consumer confidence returns. 10 year US Treasury Yields were last traded at 1.33% slightly; AUS 10 year Gov't bonds matched that increase at 1.25%. As a result the AUD has risen to between 0.73 and 0.74 since last month.

CoreLogic dwelling prices for August continued the upward run of the past few months but at a somewhat reduced pace. National Housing values were up by a further 1.5% for the month and a total of 18.4% for the past year. In Sydney House prices were up 1.9% for the month and a remarkable 26.0% for the last 12 months. The results were a little less in Melbourne up 1.4% for the month and 5.0% for the quarter and 15.6% for the past year. The rest of the capital cities except for Darwin were all up for the month, the quarter and the past year although Perth was left out of the statistics this month because of some divergence from other housing market measurements. All others except for Melbourne had over 20% growth for houses for the past twelve months. There continues to remain a difference between Houses and Units with Houses on a national basis up 20.8% for the year while Units were also up but by considerably less at nearly half of that at 10.5%

We continue to be encouraged by the extension of the rise in Residential even though it has slowed and have maintained our current Ratings and Trends. Retail continues to struggle and we are still waiting for signs of a turnaround but Adelaide looks to be at the start of recovery. The July fall in national retail sales was as expected down 2.7% with the current NSW lockdown being very damaging with the State down 8.9% which forced us to downgrade Sydney Retail. Industrial continues to be very resilient and is still the market favourite. Office has responded to some favourable public comments and we take a closer look at this sector in our News and Views section with the release of the PCA Office Report.

	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	Good	Stable
Office	Good	Stable	Fair	Stable	Strong	Stable	Fair	Stable	Fair	Stable
Retail	Weak	Deteriorating	Weak	Deteriorating	Fair	Stable	Weak	Deteriorating	Weak	Deteriorating
Industrial	Strong	Improving	Good	Improving	Strong	Improving	Good	Stable	Good	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 The Office sector had been going through numerous changes since the start of the COVID-19 pandemic and the Property Council of Australia Office Market Report (PCA-OMR) shows that very graphically. Part of the more interesting data from the report is the marked differences in the various capital cities and also within the capitals the suburbs and the differences between Prime and Secondary properties.

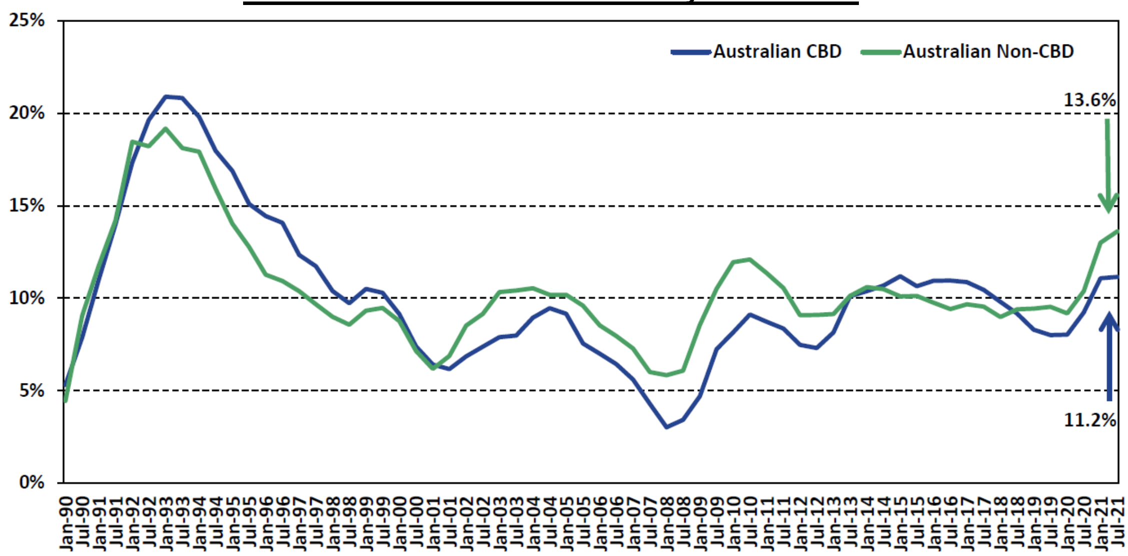
o The graph below from the PCA-OMR shows you slightly over thirty years of national vacancy rates for CBD and non-CBD office properties. It is interesting to look at the early 1990s with CBD vacancy rates in excess of 20% and then the long gradual recovery to just above 5% at the start of the new millenium. JLL in their recent National Q2 Office Market Overview has its headline CBD vacancy rate slightly higher at 14% compared to 11.2% below and also reports a Prime Weighted Average Yield of 5.2% which is a record low, down 5 basis points from the first quarter.

o Graph 1 opposite highlights the divergence in the various capitals between Prime and Secondary Office stock with Sydney and Melbourne being fairly even while other capitals have very wide differences which usually reflects tenants taking advantage of upscaling as net effective rents fall driven by rising incentives. The widest range is still found in Perth with a variance of nearly 9% despite average vacancy having dropped from 19.9% to 16.8% in the past six months.

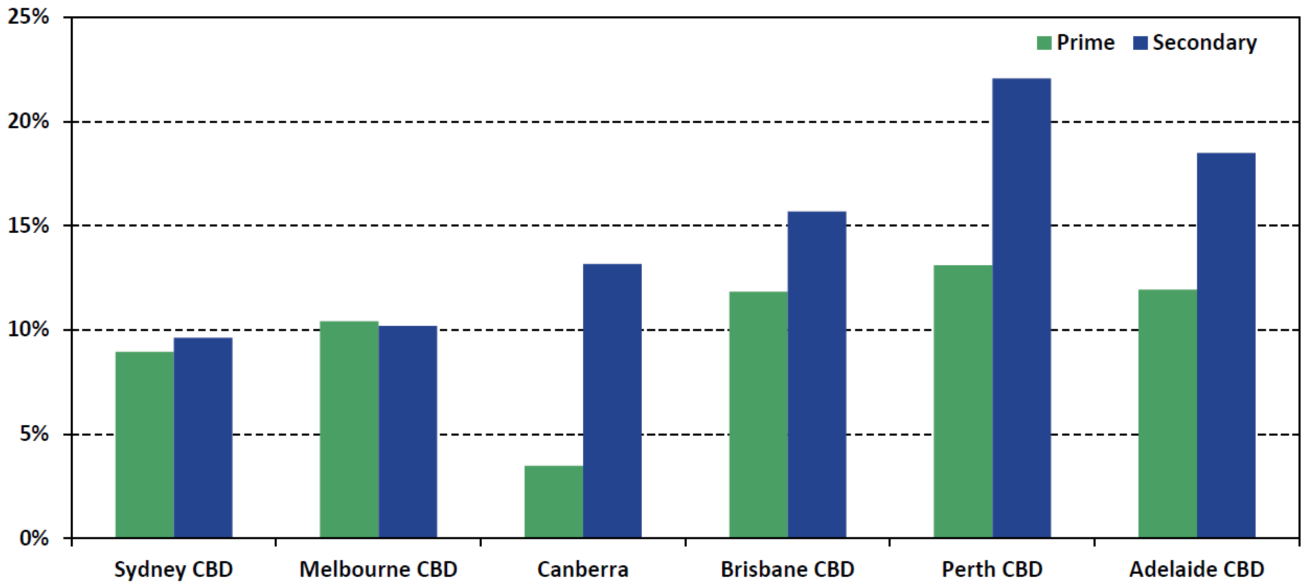
o Graph 2 shows a much wider picture of how various suburbs are faring compared to the CBD. JLL also looks at most of these same locations which is very helpful. One often likes to compare St Kilda Road to North Sydney and we can see in the graph both at just over 16%. This compares to Sydney and Melbourne CBDs at 9.2% and 10.4% respectively. Out West in Perth and West Perth other interesting comparisons are seen with the PCA showing a vacancy rate of 19%. The Perth CBD has fallen from 19.9% to 16.8% according to the PCA; JLL reports yields falling by 0.25% to a low of 5.25% in the Perth CBD while West Perth's low is 6.75%.

o The AFR ran several articles on the PCA-OMR and was reasonably balanced on Perth, Adelaide and Brisbane with different factors at play in all three Capitals. Comments on Melbourne were quite negative as per the following; "Five lockdowns have fired a cannon through the Melbourne CBD's office leasing market, where the vacancy rate has hit its highest level in more than two decades..." In contrast the headline for the Sydney article was; "Resilient CBD keeps below 10%". A subsequent article entitled; "Investors eager for office blocks, despite lockdowns"reported on three new deals worth $341 million recently announced on yields as low as 3.8%. The largest was in South Melbourne at a yield of 4.9% and the other two in St Leonards at 5.75% and the much-hyped Tech Central precinct in the middle of Sydney at the very low 3.8% yield for a 10.5 year lease showing the high capital demand for long WALE assets at the moment according to JLL who brokered the sale.

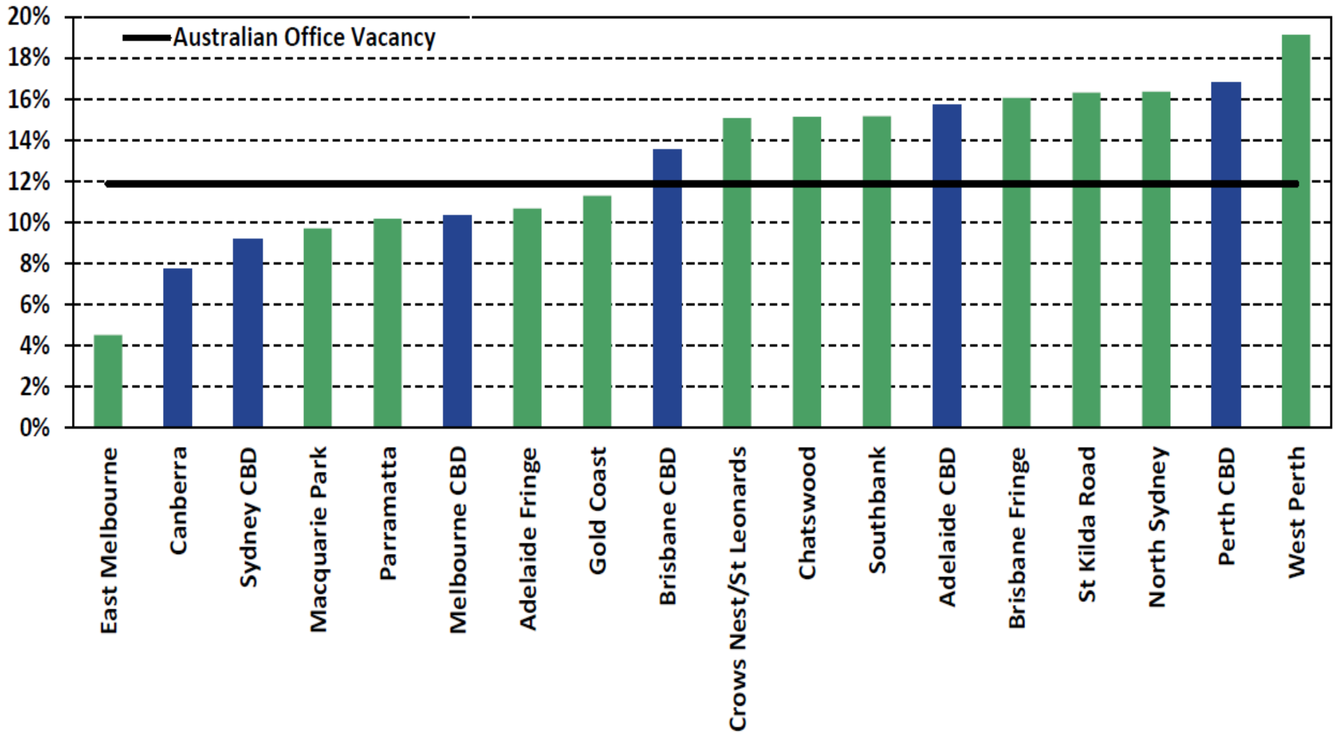
Australian CBD v Non-CBD Vacancy: 1990 –2021



Graph 1: CBD Vacancy Rate –Prime vs Secondary –July 2021



Graph 2: CBD & Non-CBD Vacancy Rates –July 2021



Source: Property Council of Australia

Business relationships and loan inquiries

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

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

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

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

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

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

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

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

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

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

Sam Dobbins
Relationship Manager
NSW
M: 0414 010 365
E: sdobbins@thinktank.net.au

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

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

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

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

Robert Ilov
Relationship Manager
QLD / NT
M: 0424 685 008
E: rilov@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

Thinktank Property Finance is the leading independent lender specialising in commercial property in Australia. Thinktank offers a wide range of tailored mortgage product options including:

- 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.

Important Note: This report does not constitute or form a part of, and should not be construed as an offer to sell or solicitation of an offer to buy investments or any fund and does not constitute any form of commitment, recommendation or advice on the part of Think Tank Group Pty Ltd ("Thinktank").