Australian real estate market focus

December 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 latest Quarterly Market Update. This month in News and Views we take a look at some recent research that focusses on the Industrial sector and especially for property valued below $5 million which is typical of our portfolio.

The Westpac-MI Consumer Sentiment Index rose by 0.6% in November to 105.3 after its 2.0% rise two months earlier in September was described as truly remarkable at a time when Australia's two largest cities were in lockdown. This month's results for the AiG Manufacturing Index saw it rise by 4.4 points to 54.8. This produced the first month of improvement following three months of flat results. All sectors expanded except for chemicals with food and beverages rising sharply offsetting a large fall the previous month. After last month's spectacular rise of 14.9 points to 53.3, the PCI Construction Index followed up with a small drop of 0.6 to 57.0 in November. The indices for apartments and engineering activity decelerated but continued in expansion while housing activity moved back into contraction. The PSI Services Index rose 2.0 points to 49.6 yet still slightly in contraction with only two of five activity indicators rising. Sales and employment were both positive.

At its last meeting of the year before its January break, the RBA Board as widely expected once again left the Cash Rate at the record low of 0.10%. Governor Lowe's remarks reiterated updated comments in last month's Statement on Monetary Policy (SMP) in which the RBA flagged some of the key changes to its economic forecasts all of which were positive and we can expect more of this in February when the next update is issued. Later in November the ABS released the October Retail Sales statistics showing a strong 4.9% gain over the previous month and a rise of 5.2% compared to October 2020. 10 year US Treasury Yields were last traded steady at 1.47%; AUS 10 year Gov't bonds were at 1.70%. The AUD has traded down since last month and very briefly fell below USD 0.70 with the spread between US and AUD yields widening but is now back up.

CoreLogic dwelling prices for November continued the same trend of the past few months. National Housing values were up by 1.3% for the month and 4.4% for the quarter. In Sydney, House prices were up 1.6% for the month and an amazing 30.4% for the last 12 months. The results were a little less in Melbourne up 1.0 for the month and 19.5% for the past year. The rest of the capital cities except for Perth at 16.7% had over 20% growth for houses for the past twelve months. There continues to remain a difference between Houses and Units with Units on a national basis up 13.3% for the year. The lending controls introduced by APRA last month with respect to interest rate buffers used by Banks in assessing serviceability of borrowers does not appear to have had much impact. The prospect of other measures remains quite real in our opinion and with interest rates expected to remain at ultra low levels for some time to come this seems to be the likely alternative.

We continue to reflect the extension of the rise in Residential and even though some observers have expressed concern; our Ratings and Trends are unchanged from the update in our October Quarterly. Retail continues to be showing initial signs of recovery and indications of a turnaround as we see the end of lockdowns. The final October Retail numbers released in late November were positive and while we have kept Sydney and Melbourne Retail Weak we have upgraded the trend to Stable. Industrial continues to be very strong and remains the market favourite and strengthening in all geographies. Office is recovering as workers return to the CBD with reports of improved leasing activity and major investments by sovereign wealth funds.

	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	Fair	Stable	Fair	Stable	Strong	Stable	Fair	Stable	Fair	Stable
Retail	Weak	Stable	Weak	Stable	Good	Stable	Fair	Stable	Good	Stable
Industrial	Strong	Improving	Strong	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

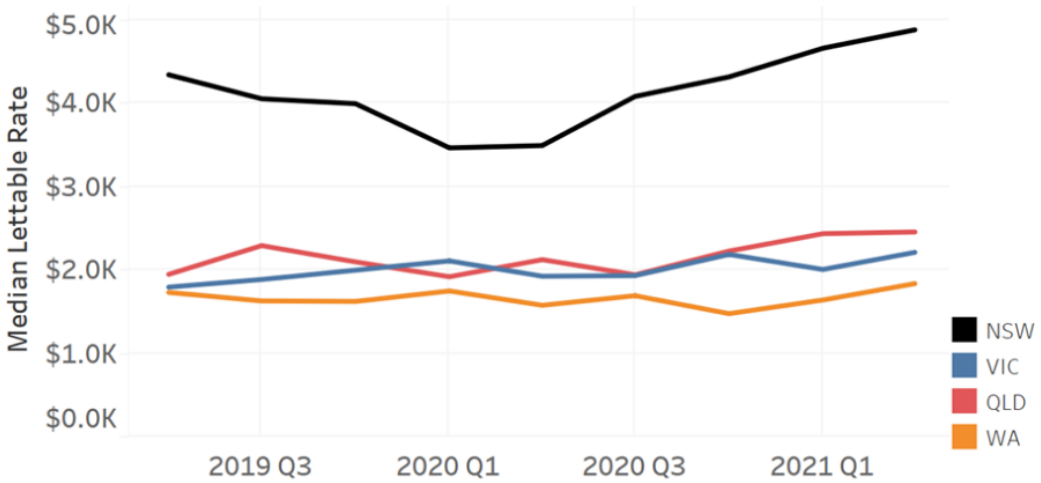
o We are often taking a look at the research produced by various valuation firms on the property sectors that make up our portfolio. These include all of the sectors listed on the table at the bottom of the front page of this publication. All are important to us but the highest concentration we have is in the Industrial sector. Most research covers properties of various sizes so it was interesting for us to recently receive research from Opteon Valuers specifically based on properties with a value of $5 million or less. With the prevalence of online shopping, demand for warehouses and logistic properties meant the industrial property remained a resilient asset class. Not surprisingly Industrial has won the title as the strongest and most consistent performer, attributed by consistent sales volumes, steady yield compression and price growth over the last 12 months.

o As shown below, Opteon has graphed the rental rates for Industrial properties located in metro areas achievable in NSW, VIC, QLD and WA. Presumably insufficient data was available from SA. There has been no significant change seen in industrial median lettable rates in Victoria or WA. Whilst prime metro Perth Markets have seen lettable area growth, this has been offset by a stabilisation of rates in secondary markets following an historical period of decline. In NSW, rates fell in early 2020 but have increased every quarter since Q2 2020. Rates have also been climbing in Queensland. There was a stark contrast in the lettable rate ranges for NSW warehouses compared to industrial property in the other states, reflecting the tight land supply in NSW, several high-value sales and its more populous metropolitan area. Lettable rates were also higher in non-metro and regional areas of NSW than in non-metro and regional areas of VIC and continue to climb.

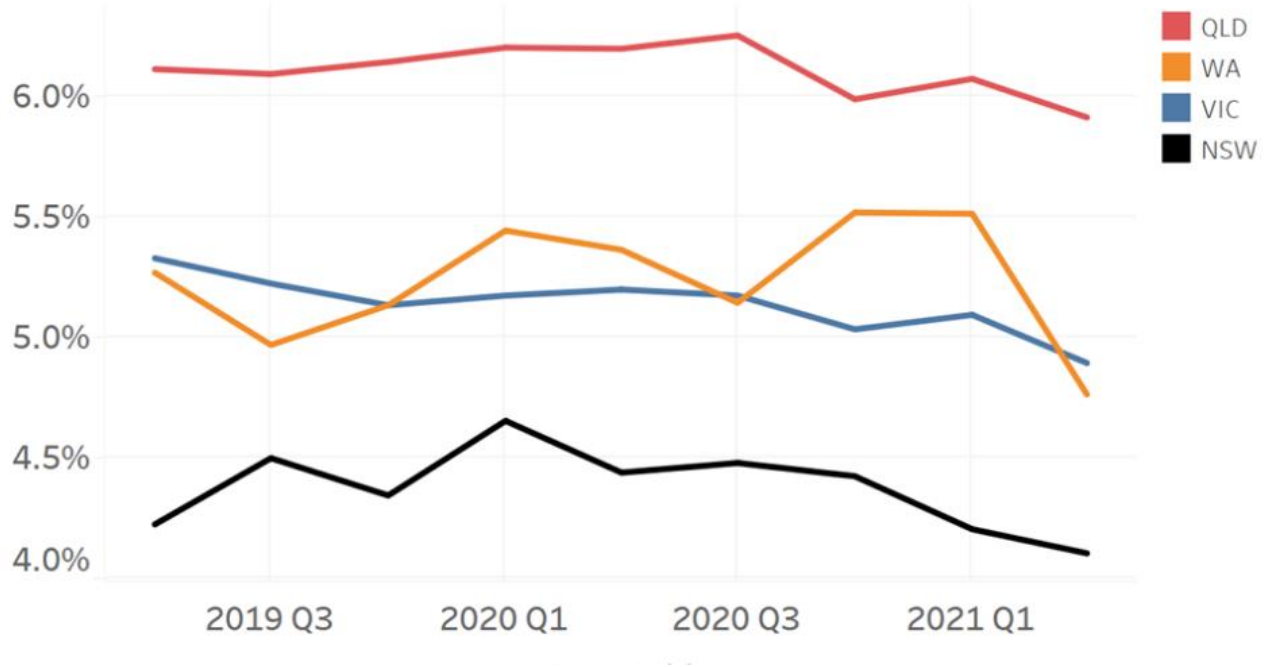
o Graph 1 opposite shows Yields for the same properties in the same areas with all heading down but at different rates and with some differences in timing as well as can be noted if one compares WA with VIC who begin and finish quite close together but with a good deal of variations in between. With metro NSW having the highest lettable rates, this measure also translated in the region with the lowest market net yields due to value rates increasing – the median was 4.1% in Q2 2021. Metro net yields were highest in Queensland, but the median yield dropped from 6.1% in Q2 2019 to 5.9% in Q2 2021. Yields in metro Victoria have been falling – from 5.3% in Q2 2019 to 4.9% in Q2 2021. Yields in non-metro and regional NSW fell from a median of 6.3% in Q2 2019 to 5.3% in Q2 2021. In Western Australia, a robust resources industry has resulted in a significant increase in acquisition activity within the prime Perth metropolitan industrial markets during early 2021 and this activity has influenced net yield compression.

o Graph 2 lets us take a look at how Retail has performed for similar valued properties in Metro locations in QLD, NSW and VIC where Retail property lettable rates reflected the COVID-19 lockdown story. Melbourne's lockdowns during Q2 2020 and Q3 2020 saw rates dip in Melbourne but have since recovered. Across the regions, an interesting takeout from recent Opteon analysed sales data has seen surprising recovery and growth from Q1 2021. Net yield in metro NSW and metro Queensland has been dropping since Q2 2019. Retail yields in Vic appear to have risen slightly in Q1 due to the uncertainty of the post pandemic behaviour of customers.

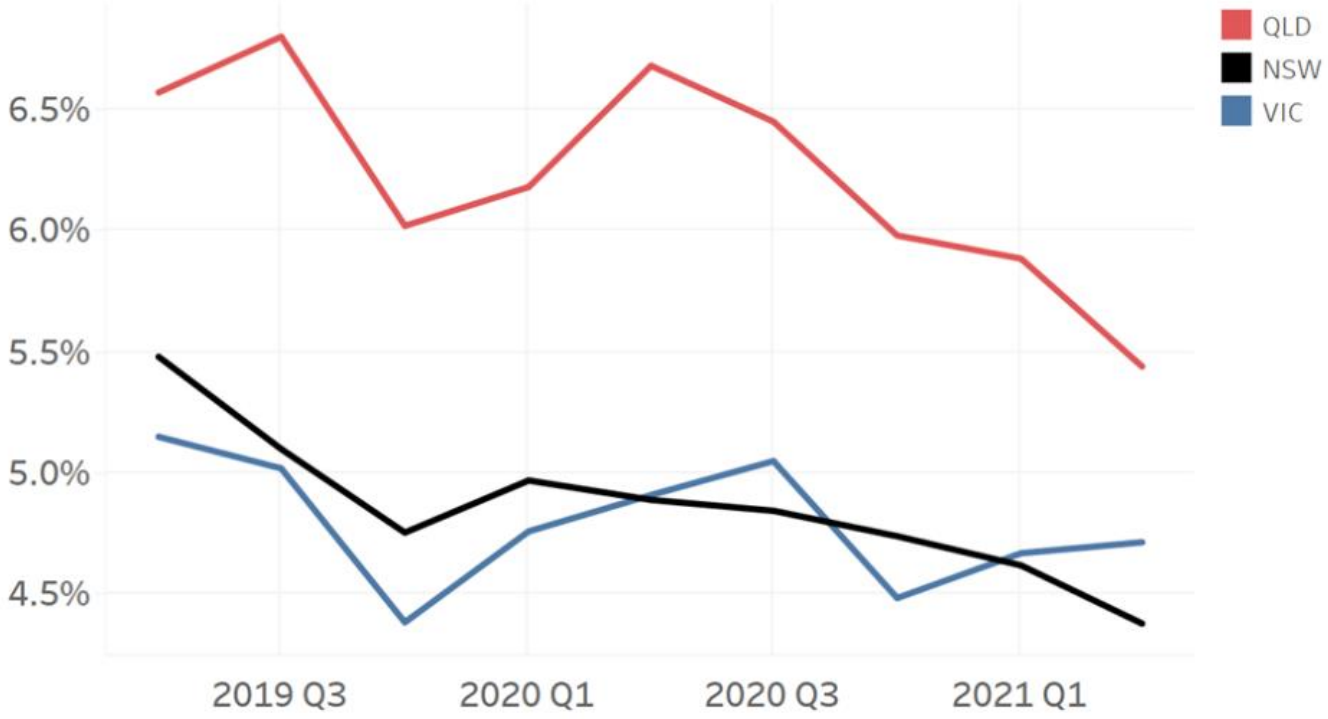
Median Lettable Rates – Metro Industrial



Graph 1: Median Net Yields – Metro Industrial



Graph 2: Median Net Yields – Metro Retail



Source: Opteon "On the Pulse" Annual Data Review 2021

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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.