

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 the MSCI Index results for 31 December 2021 covering all Australian Commercial Property sectors.

The Westpac-MI Consumer Sentiment Index fell by 1.3% in February to 100.8 after last month's fall, as did the Quarterly Index for December down to 50.8 from 51.2 in September bringing both close to neutral levels. February's result for the AiG Manufacturing Index were more positive after last month's significant fall by 6.4 points to 48.4 with a rise of 4.8 points to 53.2 and back into positive territory above 50. Four of six sectors expanded with building materials up and with food and beverages rising sharply by 9.3 points but not quite offsetting its big fall in January. Last month, the PSI Services Index rose 6.6 points to 56.2 to get back further into expansion with the best result since June last year and with all five activity indicators being positive.

At its second meeting of the year following 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 included comments on the unemployment rate of 4.2% which is a 14 year low. The 4th quarter GDP results were released the following day at 3.4% for the quarter and 4.2% yoy; these were viewed as good and led to a view that interest rates may rise earlier than expected later this year. Retail sales for January released the previous day were positive being up 1.8% for the month and 6.8% yoy. The new factor is the Ukraine crisis which Governor Lowe described as "a major new source of uncertainty" and we could easily see a modest slowing in rate increases. However rates are certainly expected to rise in the US with Westpac recently forecasting three 25 bps increases by the FOMC by the end of June 2022. 10 year US Treasury Yields traded down at 1.86% at the start of the month while AUS 10 year Gov't bonds were up slightly at 2.20%. The AUD is now trading up again slightly at USD 0.7264.

CoreLogic dwelling prices for February continued the flattening trend of the past few months with national Housing values posting a 0.6% gain for the month and 2.7% for the quarter. In Sydney, House prices were flat for the month with units down 0.3% resulting in a 0.1% decline in overall dwelling prices, the first decline in 17 months. The results were similar in Melbourne being flat for the month in both houses and dwellings while units were up slightly by 0.1%. Brisbane and Adelaide continued to perform well with dwellings up 1.8% and 1.5% respectively while Regional outperformed Capitals by 1.6% to 0.3% for February and 5.7% to 1.8% for the quarter. Herron Todd White released their first market update for 2022 in mid-February and we have looked closely at their residential market reports. They were very positive for both Houses and Units however we are more inclined to reflect current CoreLogic statistics in our ratings while keeping a close watch on trends.

We are reflecting the flattening of Residential in some capitals and slightly modified our ratings and trends but with the majority remaining good and stable while Sydney and Melbourne houses were re-rated as Fair. The MSCI Index report discussed in our News & Views section certainly shows very graphically the wide variance of sector performance that has been experienced. Retail continues to be showing the expected signs of volatility. HTW did cover Retail in their February update and we are mostly in line with their views unlike Residential. We have upgraded our Brisbane rating to Good as a result. Industrial continues to be very strong as reflected in the MSCI indices and also shown in the recent Knight Frank National Industrial Report. Their report indicates an improving trend in all capitals and we have made adjustments to Brisbane and Perth accordingly.

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

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 MSCI recently presented their Australian Property Investment webinar for the 4th quarter of 2021. Their indices cover all commercial property sectors and reflect data from thousands of properties. The graph below shows annual results since 1995 which in themselves are very interesting but for this past year we can see a substantial improvement with total returns rising to 11.4% made up of 4.8% in income which is quite consistent with prior years over the whole of the 36 years of results. What varies considerably is capital returns which have grown to 6.4% being a third quarter of positive and improving capital returns following four negative quarters.

o Chart 1 opposite shows this in more detail along with the results for each sector which highlights the extreme differences experienced over the period reported since June 2020. The very strong capital growth experienced by the Industrial sector is clearly shown and has contributed significantly to the improvement in All Property returns on the back of yield compression in all sectors but particularly in Industrial. The reported yield compression for Industrial was 90 basis points compared to 10 basis points for Retail. This left Industrial at a 4.1% capitalisation rate and 70 bps less than Office and 105 bps less than Retail.

o Chart 2 shows how geographically the recovery is also diverse with the strongest Total Returns experienced in Adelaide at 18.1%, a 19.2% gain from a year ago. Strong gains were seen right across the country except for Perth, however a 9.4% lift in total returns was still a very good result. It is notable that with the exception of Perth, all of the capitals shown recorded double-digit returns over the past year and had improved by more than 9% compared to last year.

o Several other interesting charts were used in MSCI's presentation which we didn't have room to show but are worthwhile mentioning and noting the comments made by the panel. The performance of sub-sectors was heavily weighted towards industrial with Industrial - Other being the top 2021 performer followed by Warehouse Industrial – Estate and Distribution with all four close to or over 30% Total Return for the year. Neighbourhood Retail and Non-CBD Office were also close together at 12.5% while further down the list were Sub-regional Retail at just under 10% followed by CBD Office at 7.5%.

o Another chart that was informative when looking at the Capital City Total Returns was one that showed the performance of each sector together with the contribution of that sector within each Capital City. Industrial led all sectors in each Capital but was also shown to be a relatively small component as it is nationally. Perth for instance was largely Office and this was reflected in its 7.6% Total Return. Adelaide in contrast topped the Capitals with a 17.3% Total Return with a large Industrial component and a relatively good Retail sector featuring more Neighbourhood. In contrast Sydney with the best performing Industrial sector was held back by a large Office sector while Melbourne has held back by a larger Retail - Regional sector and CBD Office.

Total Annual Returns MSCI Property Index 1995 to 2021

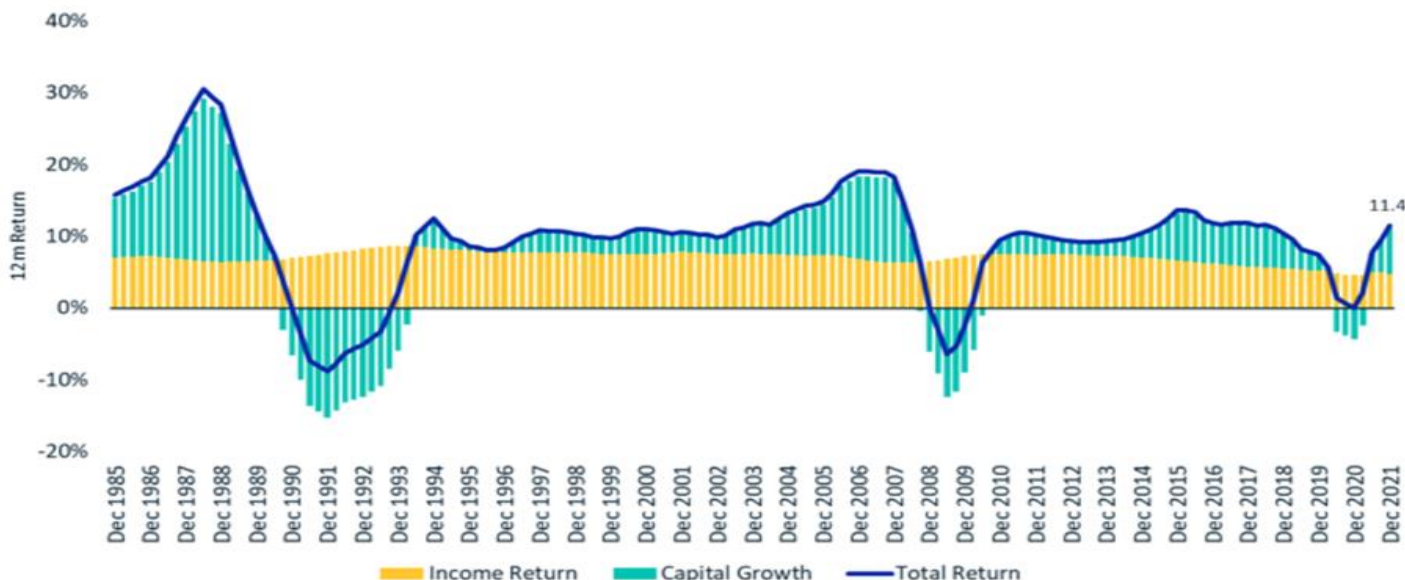
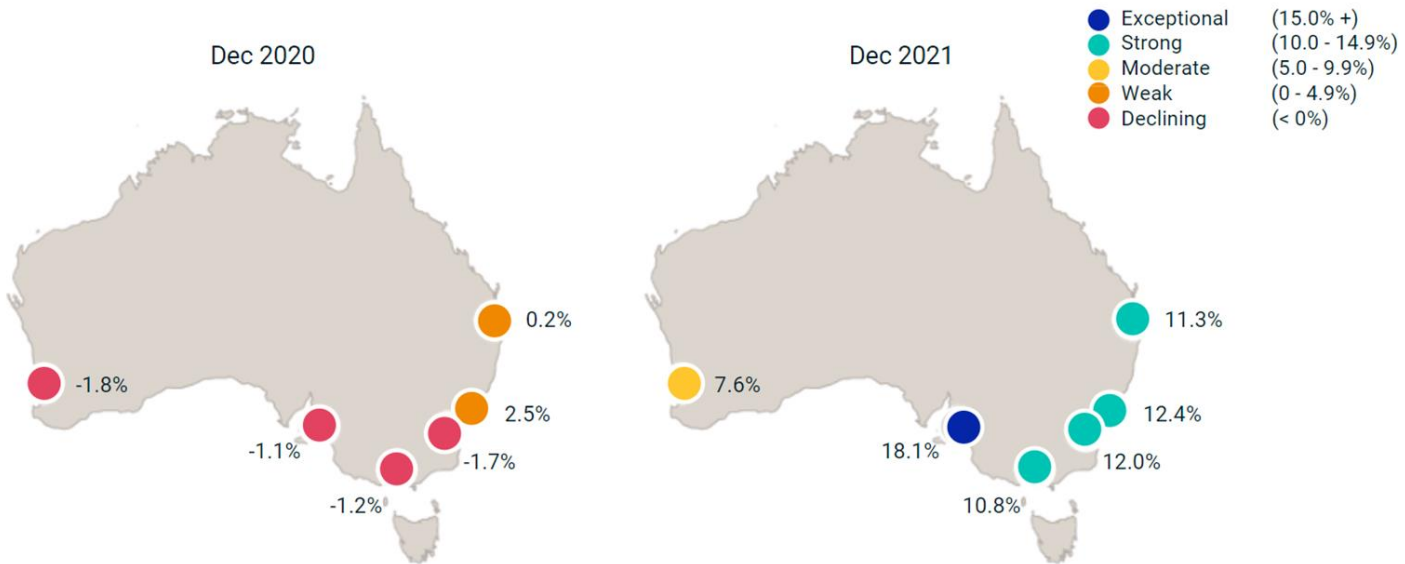


Chart 1: Quarterly Sector Total Returns – June 2020 to December 2021



Chart 2: Capital City All Property Total Returns – December 2020 & 2021



Source: MSCI Australian Property December 2021

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