Australian real estate market focus

April 2022

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 the ATO statistics for 31 December 2021 covering Self-Managed Superannuation Funds (SMSFs).

The Westpac-MI Consumer Sentiment Index fell again in March by 4.2% from 100.8 to 96.6 below the 100 level separating optimism from pessimism. The ACCI - Westpac Quarterly Index however rose to 56.7 in March from December's level of 50.8. March's result for the AiG Manufacturing Index was again positive for a second month up by 2.5 points to 55.7 remaining in positive territory above 50. The PCI construction index also rose by 3.1 points to 56.5 in March. The PSI Services Index for March fell 3.8 points to 56.2 after a big gain last month but still remains in expansion; retail trade & hospitality services grew but at a slower pace than February.

At its April meeting the RBA Board as widely expected once again left the Cash Rate at the record low of 0.10% although sentiment is building for an earlier increase than previously forecast. Later in the week the RBA will release its semi-annual Financial Stability Review and we will have more comments on that in our Quarterly Market Update to be published the following week. Governor Lowe's remarks after the Board meeting included a specific change in wording indicating an earlier rate rise than expected previously. This really confirmed 4th quarter GDP results 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. Retail sales for February were also positive being up 1.8% for the month and 9.1% yoy. The unemployment rate of 4.0% in February was also said to evidence the strength of the Australian economy. The clear signal is that any sign of wage growth will lead to a rate increase possibly as early as June. The new factor remains the Ukraine crisis which Governor Lowe described last month as "a major new source of uncertainty" but no further comment for April. However rates are rising in the US with Westpac recently forecasting two 50 bps increases by the FOMC by the end of June 2022 following the 25bps increase in March.10 year US Treasury Yields traded up at 2.67% - the highest since March 2019 while AUS 10 year Gov't bonds were also up to 3.04%. The AUD is again at USD74.67 off a recent high of USD 0.76.

CoreLogic dwelling prices for March continued the flattening trend of the past few months with national Housing values posting a 0.7% gain for the month and 2.4% for the quarter. In Sydney, House prices were down 0.1% for the month with units down 0.5% resulting in a 0.2% decline in overall dwelling prices, following a 0.1% decline last month. The results were similar in Melbourne being down for the month in houses 0.1% and 0.2% dwellings while units were up slightly by 0.2%. Brisbane and Adelaide continued to perform well again this month with dwellings up 2.0% and 1.9% respectively while Regional outperformed Capitals by 1.7% to 0.3% for March and 5.1% to 1.5% for the quarter. We continue to reflect CoreLogic statistics in our ratings while keeping a close watch on trends but have not changed any this month as noted below.

We reflected the flattening of Residential in some capitals and slightly modified our ratings and trends last month but with the majority remain good and stable while Sydney and Melbourne houses were re-rated as Fair. Retail continues to be showing the expected signs of volatility as sales improve.as noted above. Knight Frank has issued a series of positive research reports on the Office markets across the country which we will cover in more detail in our Quarterly Update. Industrial continues to be very strong and we are maintaining our Ratings and Trends from last month which are either Strong or Good with an Improving Trend in each of the capitals.

	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 APRA and the ATO recently published their quarterly superannuation statistics for 31 December 2021. We have updated the graph below and our usual charts overleaf showing the gradual growth in SMSFs and their members which remains very steady from period to period and not yet reflecting any noticeable change with the increase in permissible members from four to six from 1 July 2021. As shown in the graph and Chart 1, total assets were reported as $876.6 billion across 601,906 SMSFs. The number of members per SMSF has stayed just below two for some time but the average assets has grown steadily especially as equity markets recover with average assets per SMSF just under $1.4 million. Total superannuation assets grew to $3.5 billion.

o Chart 2 opposite shows the detail of Asset Allocation across all SMSFs and as noted above the growth of Listed Shares & Trusts with Cash & Deposits remaining quite stable at about half the level of equities. These amount to $295.4 billion and $147.7 billion respectively and combined they represent just over 50% of Total Assets being held in highly liquid investments.

o Some of the less publicised statistics reported by the ATO are the Asset Allocations by Fund Size which show % allocations to be quite steady once SMSFs have more than $200k in assets with Listed Shares averaging around 25% right across the board. Cash & Terms Deposits falls quite noticeably from nearly 50% for smaller funds while those over $500k drop to half of that but stay between 12.5% to 20.3% even for funds with over $2 million in assets. What does grow quite steadily as fund size increases is the allocation to Direct property. This however isn't consistent across Residential and Non-residential assets with the latter topping out at 6.6% in funds of a size between $500k and $1 million and then falling to 3.2% for large funds with $10 million to $20 million in assets. That same segment has 12.1% invested in Non-residential direct property while in the $500k to $1 million segment this is only 6.3% or slightly less than for Residential.

o One statistic that does vary quite widely with the size of the funds is Limited Recourse Borrowing Arrangements (LRBAs) being most active in funds with total assets of $200k to $500k and $500k to $1million being at 14.5% and 15.3% respectively. These figures come down quite noticeably as funds move over $1million in assets when they are reported at 6.6% and then a further drop to 3.5% and 3.4% for funds of $2.5million to $5million and then $5million to $10million.

o Think Tank's own experience with LRBAs across a portfolio of approximately 1,500 borrowers is of steady growth with similar SMSFs and similar sized loan amounts. Growth rates however have increased considerably over the past 12 months and this is expected to continue. Several factors could see average loan size grow if the number of members allowed leads to more business partners and their spouses joining together to acquire their commercial premises as "business real property" and doing so for larger sized properties that may have previously been out of their price range.

Total Assets of Superannuation Entities

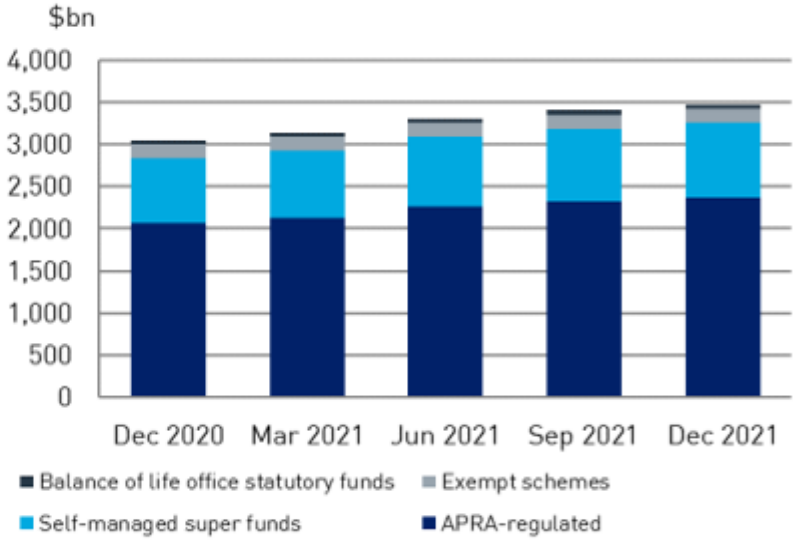


Chart 1 - SMSF Total Assets and Numbers

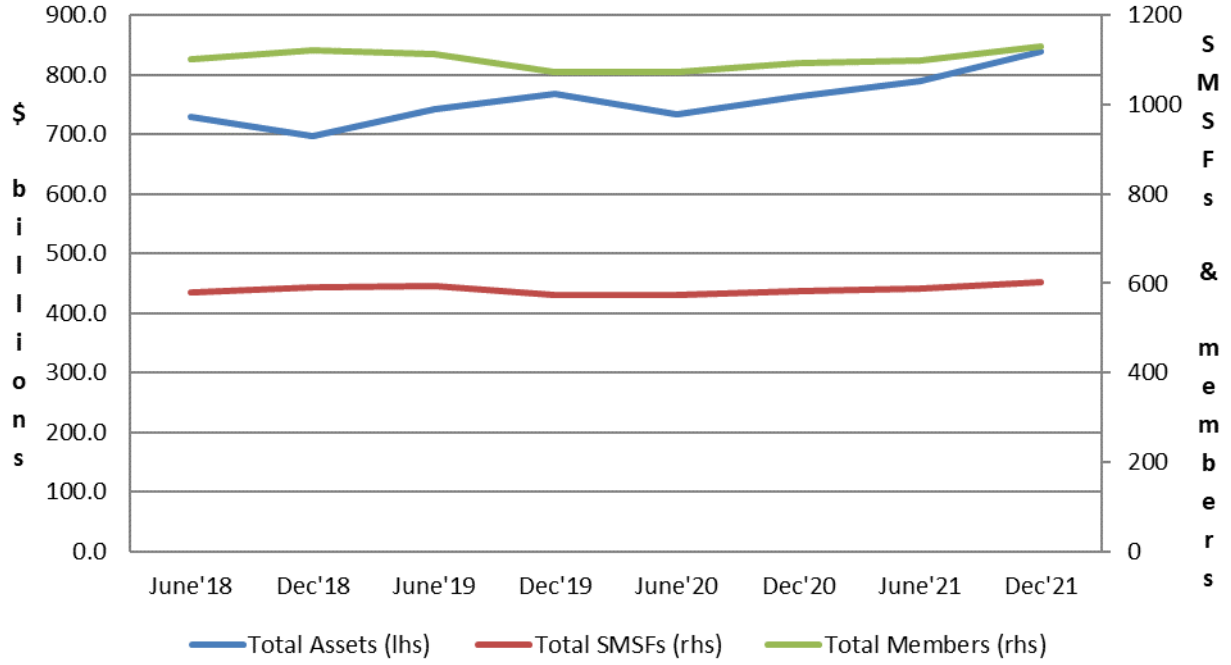
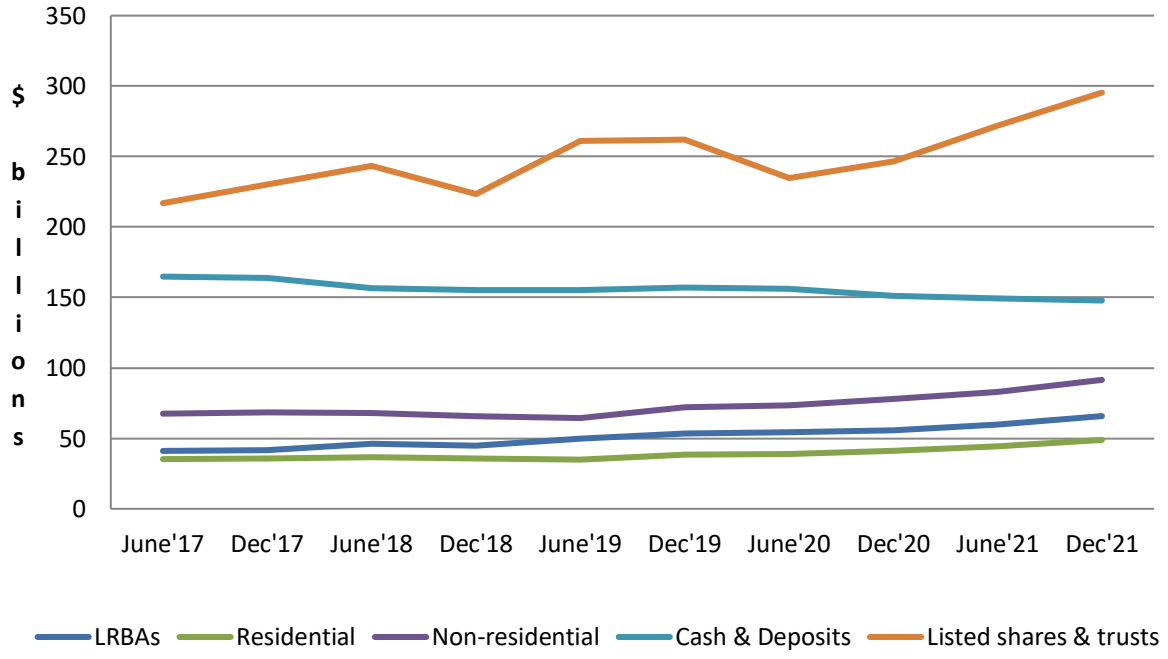


Chart 2 - SMSF Investment Portfolio Data



Source: Australian Tax Office December 2021

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- 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.