Australian real estate market focus

October 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 latest Quarterly SMSF Statistics for 30 June 2022 recently released by the Australian Tax Office (ATO).

The Westpac-MI Consumer Sentiment Index rose in September by 3.9% to 84.4 and while a little surprising, it remained near historic lows well below the 100 (neutral) level of confidence, impacted by inflation and interest rate increases. The Westpac Quarterly Survey of Industrial trends saw the index stay at very positive levels at 64.6 broadly unchanged from 64.5 in June. The result for the AiG Manufacturing Index for September was up slightly by 0.9 points to 50.2 returning to positive territory just above 50. The AiG PCI construction index last month was up by 2.6 points to 47.9 but remained in contraction below 50. The PSI covering services and retail was up by 1.6 points to 53.3 and further into expansion above 50 consistent with Retail Sales reported below.

At its October meeting the RBA Board raised the OCR by a lower 0.25% after four 0.50% increases in a row. This takes the rate from 2.35% to 2.60%. While further increases are expected this year the slowing of the pace of increase was welcomed by most commentators. Governor Lowe's remarks after the meeting left economists expecting further increases but of a more moderate amount. Retail sales for August were also positive being up 0.6% for the month and 19.2% yoy. The unemployment rate of 3.5% in August, little changed in months also evidenced the resilience of the Australian economy. Globally, the OECD released a pessimistic interim update with interest rates rising rapidly. The US Federal Reserve at its September meeting again raised its base rate by 0.75% and signalled more increases to come. 10 year US Treasury Yields traded at 3.63% at the start of the month and AUS 10 year Gov't bonds were at 3.70%. The AUD was at 0.65 against the USD.

CoreLogic dwelling prices for September continued their decline but at a slightly slower pace. National Housing values posted a 1.4% fall for the month compared to 1.6% in August. The fall was 4.1% for the quarter nationally compared to last month's figure of 3.4% with a fall of 6.1% in Sydney and 3.7% in Melbourne. In Sydney, House prices were down 2.1% for the month with units down 1.0% and the results were similar in Melbourne with houses down for the month 1.2% while units were down by 0.8%. Adelaide and Perth also fell into negative territory this month with dwellings down 0.2% and 0.4% respectively and Brisbane Houses fell 1.7% for the month. Regionals outperformed Capitals but were still down by -1.3% to -1.8% for the month and -3.6% to -4.3% for the quarter. Rents continue to rise up 0.6% for the month with yields at 3.6% nationally.

We have continued to reflect the further decline of Residential in almost all areas and have maintained our ratings and trends accordingly across all capitals. Sydney and Melbourne houses and units remain Weak and Declining. Retail continues to be showing the expected signs of volatility as sales continue to improve as noted above. Office continues its slow recovery from the pandemic lockdowns and is just Fair. Industrial remains very strong and we are maintaining our Ratings and Trends which are either Strong or Good with an Improving Trend in each of the capitals. It still remains to be seen how interest rate increases will impact on commercial capitalisation rates but a relatively flat yield curve appears to be encouraging as well as strong rental growth in the Industrial sector. We take a closer look at the performance of all sectors in our Quarterly Market Update as well as the OECD report mentioned above. Our News and Views section inside covers the quarterly SMSF statistics released by the ATO and looks at Thinktank's own performance in that segment.

	SYDNEY		MELBOURNE		ADELAIDE		BRISBANE (SEQ)		PERTH	
Resi- Homes	Weak	Declining	Weak	Declining	Soft	Declining	Soft	Declining	Soft	Declining
Resi- Units	Weak	Declining	Weak	Declining	Soft	Declining	Soft	Declining	Soft	Declining
Office	Fair	Stable	Fair	Stable	Good	Stable	Fair	Stable	Good	Stable
Retail	Weak	Stable	Weak	Stable	Good	Stable	Fair	Stable	Fair	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 recently released Superannuation numbers for the various entities that hold these assets as at 30 June 2022 confirming the majority as being held by APRA regulated funds but with a growing amount in member managed Self-managed Super Funds (SMSFs). The total of assets in superannuation was down slightly to $3.3 trillion as can be seen in the graph below and this is the result of a drop in value of investment markets. This decrease was 4.4% during the last quarter and somewhat less over the past year at 0.5%. SMSF assets also fell slightly over the past quarter and half-year but grew modestly year over year due to an increased number of SMSFs and increased membership.

o Chart 1 opposite shows the relatively steady numbers over the last four years for the total number of SMSFs and SMSF members. These were reported by the ATO as being 603,432 funds with 1,123,430 members or just under two members per fund. A recent article in SMSF Adviser noted; “The 2021–22 income year saw further growth in SMSF establishments with a total of 27,713 funds established during the year. This was the highest number of establishments since the 2016–17 income year when 30,282 funds were set up. The majority of new funds are being established by younger trustees with individuals under 50 accounting for 59% of new set ups. The 35 to 44 age group accounted for almost a third of new establishments alone at 32.2%. The statistics also indicate that around a third or 33.7% of all SMSF members are under the age of 55.”

o Chart 2 which breaks down the asset allocations of all SMSFs shows the relative volatility of Listed Shares & Trusts which is also evident in Chart 1 in the Total Assets numbers over the past two years. Cash & Deposits have seen a decline in that period as interest rates have fallen to minimal levels until recently and the asset class that has seen steady if modest growth is Real Property. The investments by SMSFs in Real Property was up by 15% during the past fiscal year and remained quite steady at 65% being in Non-residential. Borrowing by LRBAs was also up as would be expected by about the same amount at 15%. There is no doubt that the advantages of investing in “business real property” by way of an SMSF are well recognised by SMEs and their advisers.

o Thinktank’s own experience with SMSF lending in many ways reflects the overall performance of the sector. The portfolio has experienced very good growth through the last financial year and the split between Commercial and Residential properties is almost exactly the same as reported by the ATO in their statistics at about 2:1 in favour of Commercial. Broadly in common with the rest of the Thinktank loan portfolio the average LVR is in the low 60% and the average loan size is $500k. Of Commercial LRBAs 2/3rds are for Industrial property which again is quite similar to Thinktank’s non-SMSF loans and arrears are negligible for LRBAs.

Assets of Superannuation Entities – Australia, 30 June 2022

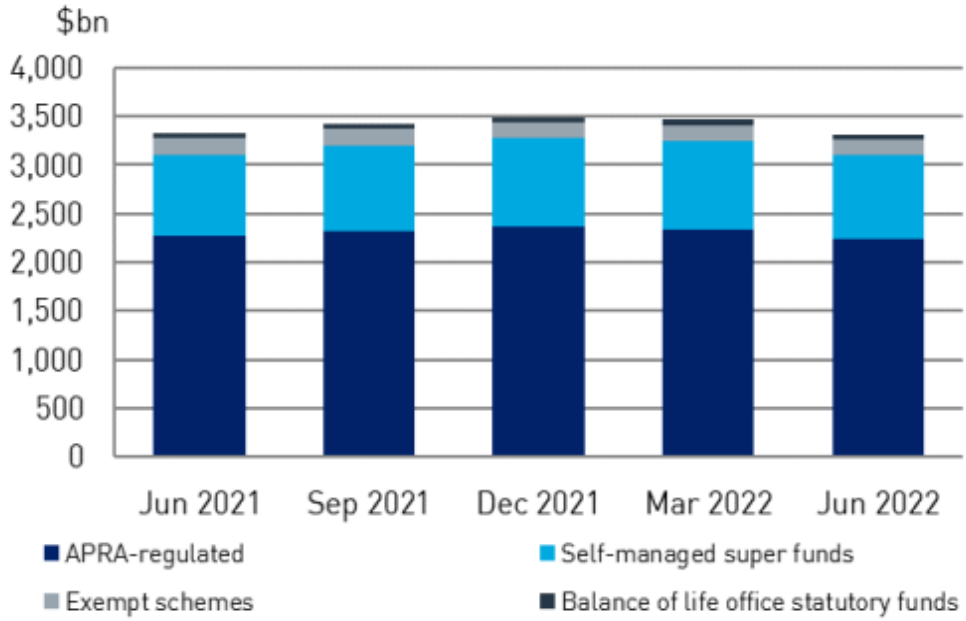


Chart 1 - SMSF Total Assets and Numbers

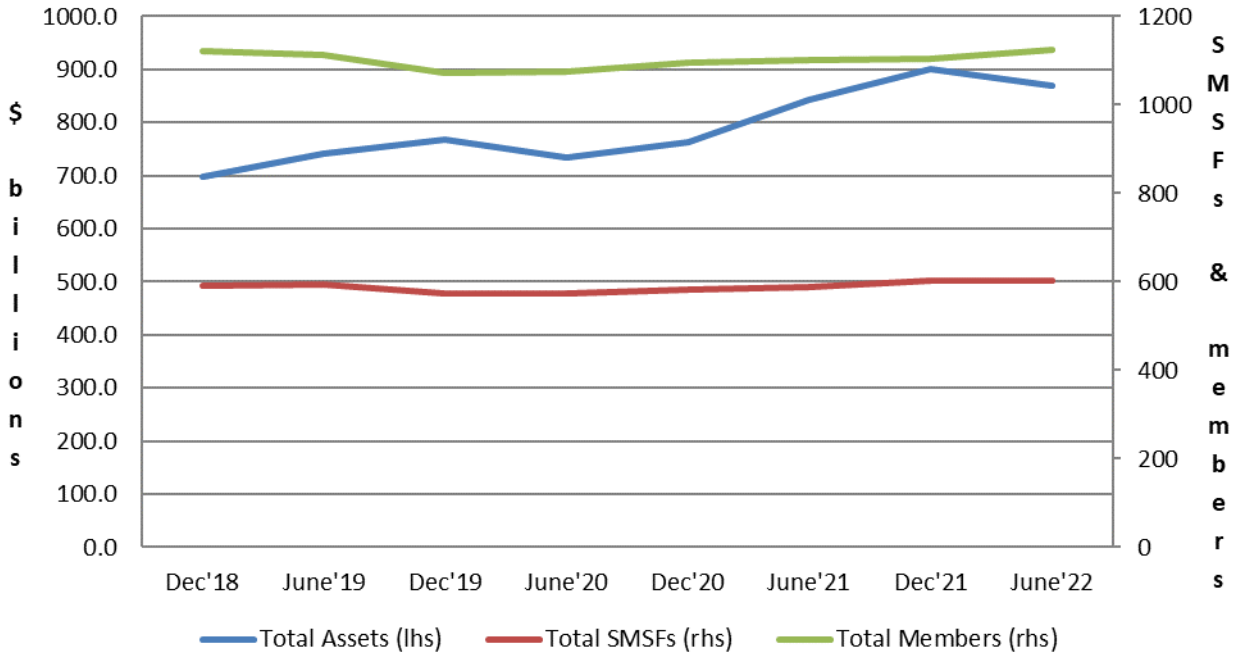
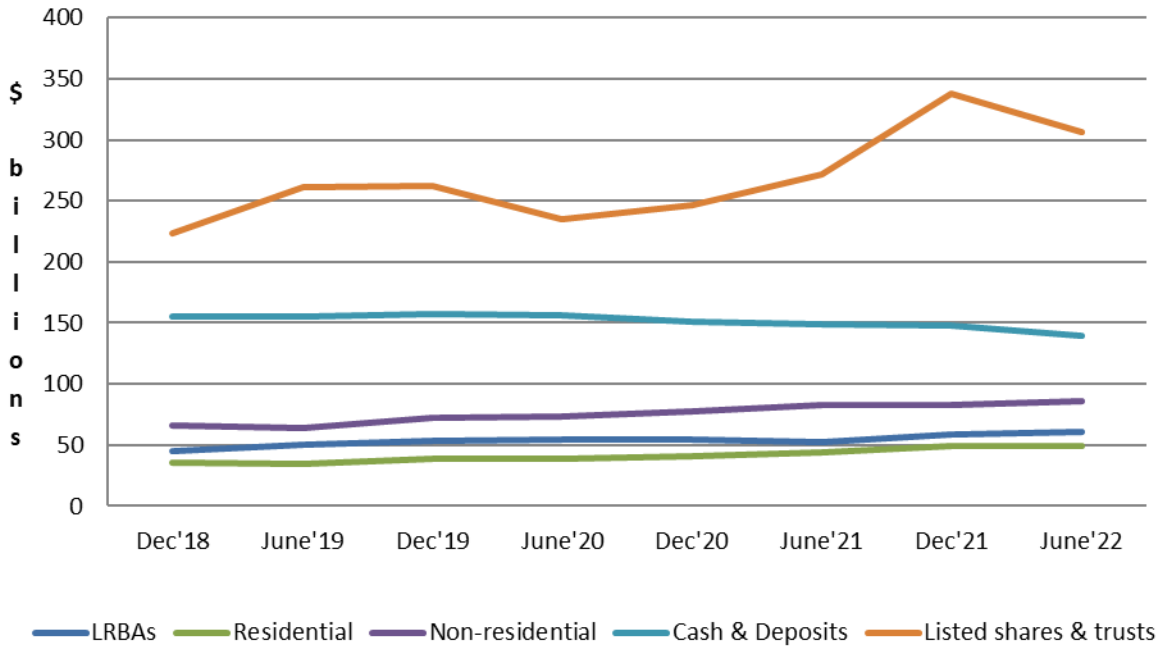


Chart 2 - SMSF Investment Portfolio Data



Source: ATO

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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.