Australian real estate market focus

November 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 RLB Crane Index for Q3 2022 recently released by Rider Levett Bucknall (RLB) showing crane numbers are at a record high.

The Westpac-MI Consumer Sentiment Index fell in October by 0.9% to 83.7 reversing last month's increase, returning to near historic lows well below the 100 (neutral) level of confidence, impacted by inflation and interest rate increases. The Westpac Leading Index for September saw the index fall to -1.15 from -0.33, to be at its weakest pace since the start of the pandemic. The result for the AiG Manufacturing Index for October was down slightly by 0.6 points to 49.6 returning to negative territory just below 50. The AiG PCI construction index was down by 3.2 points to 43.3 to be further in contraction. The PSI covering services and retail for October was up by 1.6 points to 53.3 and further into expansion above 50 consistent with Retail Sales reported below.

At its November meeting the RBA Board raised the Cash Rate 0.25% for a second month after four 0.50% increases in a row. This takes the rate from 2.60% to 2.85%. While further increases are expected this year the slowing of the pace of increase was viewed positively by most commentators. Governor Lowe's remarks after the meeting again left economists expecting further increases but of a more moderate amount as signalled last month and confirmed by the quarterly SoMP released later in the week which provided an excellent overview. Retail sales for September were also positive being up 0.6% for the month and 17.9% yoy. The unemployment rate of 3.5% in August, little changed in months also evidenced the resilience of the Australian economy but the increase in inflation with a CPI of 7.3% annual and 1.8% for the September quarter was higher than expected. The US Federal Reserve at its November meeting again raised it base rate by 0.75% and signalled more increases to come but the Bank of Canada reduced their October increase to 0.50% with much the same comments as made by the RBA. 10 year US Treasury Yields traded slightly over 4% after the FOMC meeting and AUS 10 year Gov't bonds were at 3.88%. The AUD dropped to USD 0.63 early in the month of November.

CoreLogic dwelling prices for October continued their decline but at a slightly slower pace. National Housing values posted a 1.2% fall for the month compared to 1.4% in September. The fall was 4.1% for the quarter nationally unchanged from last month's figure with a fall of 5.3% in Sydney and 3.1% in Melbourne; both down slightly. In Sydney, House prices were down 1.5% for the month with units down 0.9% and the results were similar in Melbourne with houses down for the month 0.9% while units were down by 0.6%. Adelaide and Perth also fell again this month but with dwellings down just 0.3% and 0.2% respectively but Brisbane Houses fell 2.2% for the month. Regionals underperformed Capitals and were down by -1.4% to -1.1% for the month and -4.1% to -4.0% for the quarter. Rents continue to rise up 0.6% for the month with yields at 3.7% nationally.

We have continued to reflect the further but slower decline of Residential in almost all areas and have maintained our ratings and trends across most capitals. Sydney and Melbourne houses and units remain Weak and Declining and Brisbane has joined them. Retail continues to be showing some recovery as sales continue to improve as noted above. Office continues its slow recovery from the pandemic lockdowns but 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. Commercial capitalisation rates are starting to rise but a flat yield curve is encouraging; next month we will look closely at the MSCI quarterly commercial update.

	SYDNEY		MELBOURNE		ADELAIDE		BRISBANE (SEQ)		PERTH	
Resi- Homes	Weak	Declining	Weak	Declining	Soft	Declining	Weak	Declining	Soft	Declining
Resi- Units	Weak	Declining	Weak	Declining	Soft	Declining	Weak	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 RLB recently released the Q3 statistics for its Crane Index showing the usage of cranes across Australia by major city and by sector with some interesting results. As shown below, The RLB Crane Index® rose again to record the highest value since the inception of the index. The index now stands at 204 points. Details were highlighted in the RLB release and well summarised by Michael Bleby in the Australian Financial Review: "New residential and commercial projects, along with delays that held back completion of existing work, have lifted the number of cranes across Australia's skylines to a record 868, the latest RLB Crane Index shows. Tower cranes used in high-rise apartment projects increased to 535, their highest number in 2½ years and those on non-residential commercial projects rose to a record 333, the Q3 2022 report shows."

o Table 1 opposite shows crane numbers by city. As shown, Sydney's tally rose by 32 cranes to a new high of 380, Melbourne gained 14 to 206 and Brisbane ticked up 3 to 82. Just between Melbourne and Sydney, these two cities account for over 2/3rds of the total of cranes operating across the country. Similarly in table 2, residential alone accounts for over 60% of cranes in operation with no other sector even reaching double figures. As also commented on by the AFR: "Residential cranes rose by 30, partly reflecting the increase in public housing work such as Victoria's renewal of stock under ground-lease projects in suburbs such as Brighton and Flemington, while commercial numbers were boosted by projects including the Western Sydney Airport construction and Sydney Fish Markets redevelopment."

o But the latest count was kept higher by a fall in the so-called churn rate of cranes on construction sites, as bad weather, material and labour shortages slowed projects and left cranes on site longer than would otherwise be the case. "Whilst this strong number shows the continuing resilience of our industry, projects are also being delayed due to increases in inclement weather events, shortages of materials, and lack of skilled labour," said Domenic Schiafone, RLB Oceania head of research and development.

o Domenic went on to say: ""If cranes providing logistical assistance to multi-storey developments remain onsite longer than anticipated due to weather events and supply chain disruptions, the cost of preliminaries increase, causing overall costs to rise." Sydney, which increased its share of the national crane total to nearly 44%, has also suffered the biggest slowdown since the pandemic began. The Crane Index shows the churn rate – the number of cranes removed in a period, divided by the closing number of cranes, and expressed as a percentage – in the NSW capital dropped from 49 per cent in Q1 2020 to just 24 per cent in the latest count. Brisbane – a capital city also hit hard by flood-related delays, on top of supply chain challenges – suffered less of a slowdown, with its churn rate falling from 57% to 32% over the same period. Melbourne slowed even less, down from 45 to 32%. The report does not show which projects are delayed or quantify delays relative to predicted time on site. It only measures the turnover across a city. But the extra delay does create cost. The daily cost of having a crane on site varies by project between $7,500 and $12,500, to cover equipment costs, fuel, insurance and workers, RLB said.

Australian Crane Index – Q3 2022

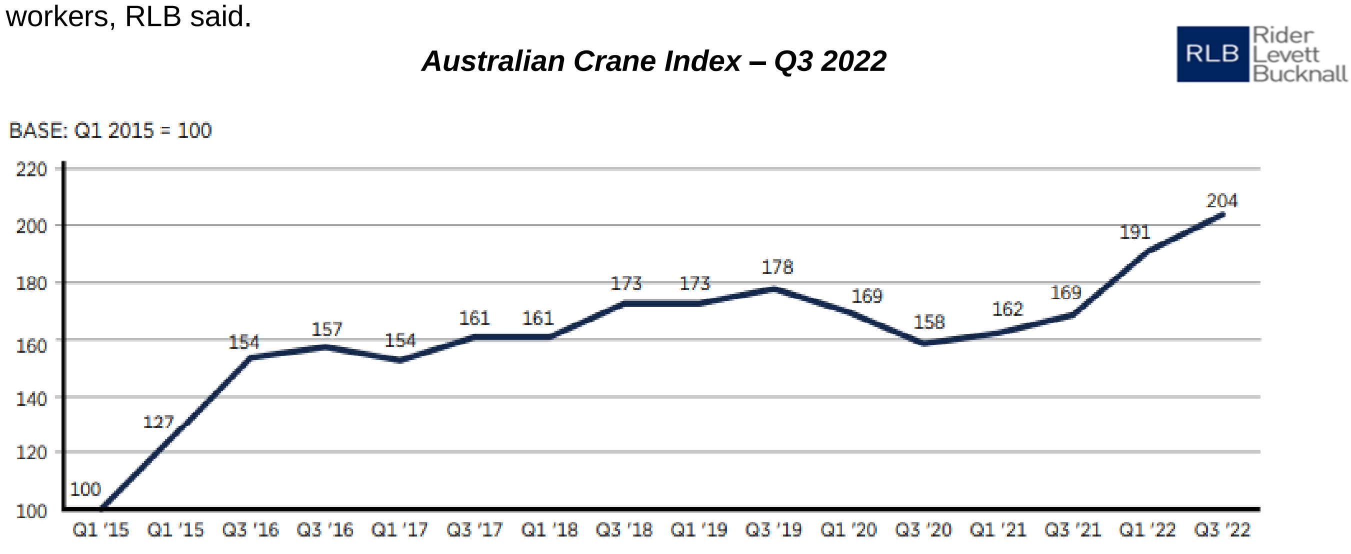

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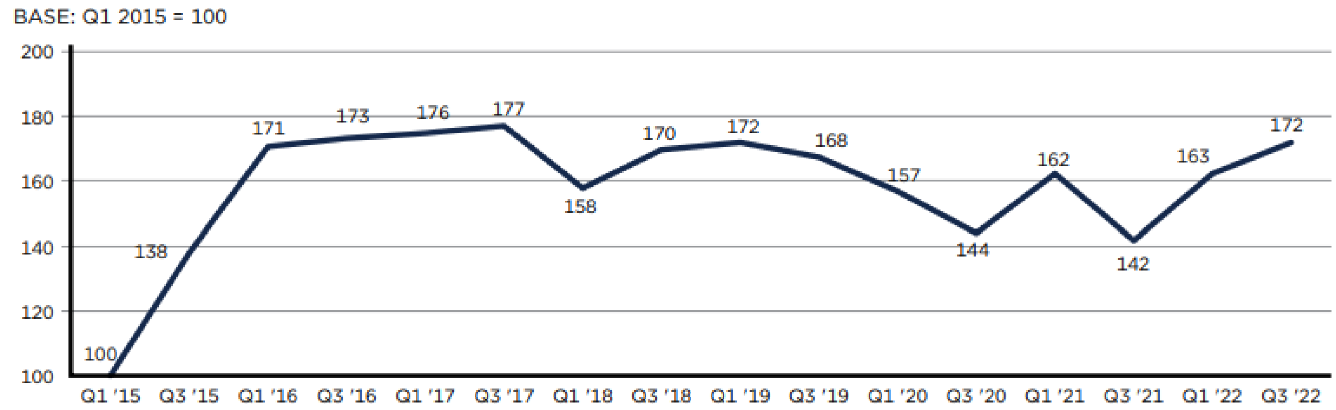
Table 1 - Crane numbers by city

	OPENING COUNT Q1 2022	%	MOVEMENT +	-	NET	CLOSING COUNT Q3 2022	%
ADELAIDE	16	2.0%	5	-4	1	17	2.0%
BRISBANE	79	9.7%	29	-26	3	82	9.4%
CANBERRA	31	3.8%	8	-16	-8	23	2.6%
CENTRAL COAST	10	1.2%	2	-2	0	10	1.2%
DARWIN	2	0.2%	0	0	0	2	0.2%
GOLD COAST	40	4.9%	21	-9	12	52	6.0%
HOBART	0	0.0%	2	0	2	2	0.2%
MELBOURNE	192	23.6%	79	-65	14	206	23.7%
NEWCASTLE	12	1.5%	3	-3	0	12	1.4%
PERTH	55	6.8%	10	-14	-4	51	5.9%
SUNSHINE COAST	16	2.0%	10	-10	0	16	1.8%
SYDNEY	348	42.8%	125	-93	32	380	43.8%
WOLLONGONG	12	1.5%	6	-3	3	15	1.7%
TOTAL	813	100.0%	300	-245	55	868	100.0%

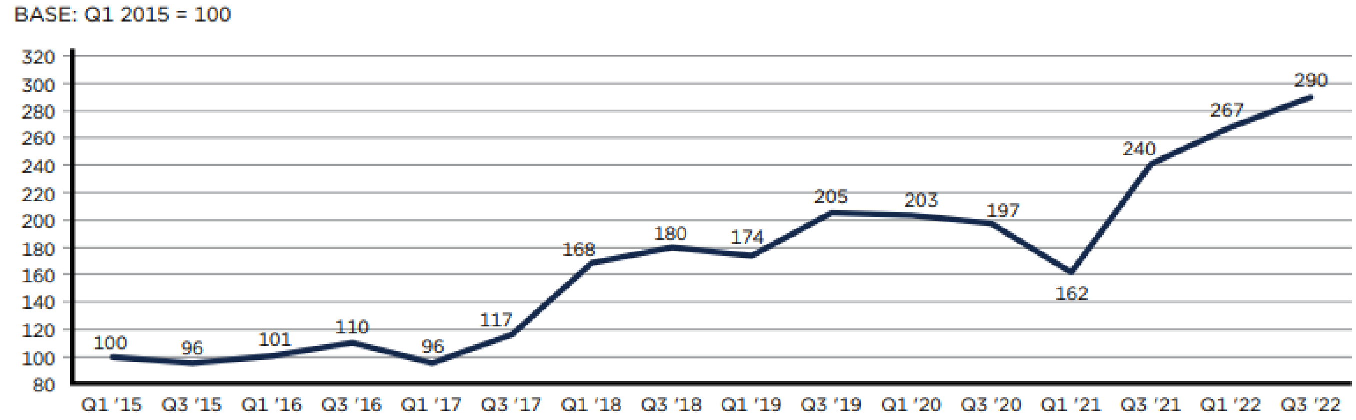
Table 2 – Crane numbers by sector

	OPENING COUNT Q1 2022	%	MOVEMENT +	-	NET	CLOSING COUNT Q3 2022	%
AGED CARE	14	1.7%	7	-7	0	14	1.6%
CIVIC	15	1.8%	10	-3	7	22	2.5%
CIVIL	37	4.6%	13	-9	4	41	4.7%
COMMERCIAL	78	9.6%	27	-29	-2	76	8.8%
DATA CENTRES	14	1.7%	13	-6	7	21	2.4%
EDUCATION	23	2.8%	8	-7	1	24	2.8%
HEALTH	31	3.8%	6	-3	3	34	3.9%
HOTEL	12	1.5%	7	-3	4	16	1.8%
MIXED USE	72	8.9%	15	-15	0	72	8.3%
RECREATION	7	0.9%	2	-5	-3	4	0.5%
RESIDENTIAL	505	62.1%	186	-156	30	535	61.6%
RETAIL	5	0.6%	6	-2	4	9	1.0%
TOTAL	813	100.0%	300	-245	55	868	100.0%

Graph 1 – Australian Crane Index Q3 2022 - Residential



Graph 2 – Australian Crane Index Q3, 2022 – Non-residential



Source: RLB and AFR

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- Loan serviceability options ranging from fully verified to self-certification of income.