Australian real estate market focus

February 2023

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 Office Market Report from the Property Council of Australia (PCA).

The Westpac-MI Consumer Sentiment Index somewhat surprisingly rose in January by 5.0% to 84.3 reversing recent falls rising off near historic lows well below the 100 (neutral) level of confidence, impacted by inflation and interest rate increases. The Westpac Leading Index for January saw the index move just slightly to -0.96 from -0.97. This was consistent with the December quarterly Westpac – ACCI Survey of Industrial Trends which fell sharply from September's 64.6 to 49.6 . This was viewed by Westpac as consistent with below trend growth well into 2023. The last results for the AiG Industry Indices were for November released in early December and all three were in contraction at that time. The AiG has since announced that it will be issuing just one combined Index starting with the January survey to be released shortly. We will feature a review of the changes next month.

At its February meeting, its first of 2023 the RBA Board raised the Cash Rate 0.25% for a fourth month after four earlier 0.50% increases. This takes the rate from 3.10% to 3.35%. While further increases were expected as we entered 2023, the slowing of the pace of increase over the past four months is viewed positively. Retail sales for December were down 3.9% for the month and but up 7.5% yoy. CPI for the 4th quarter was up 1.9% and 7.8% for the year which is hoped to be the high point in this cycle. The unemployment rate of 3.5% in December was little changed in months and continues to demonstrate the resilience of the Australian economy. At the end of January, the IMF released their Global Economic Update and as foreshadowed it was better than the World Bank but still sobering. The US Federal Reserve at its latest meeting raised its base rate by just 0.25% and while signalling more increases to come, they are likely to be the same. The Bank of Canada also kept their January increase to just 0.25% raising its rate to 4.50% with comments that they may now pause. Currently 10 year US Treasury Yields are trading at 3.64% and AUS 10 year Gov't bonds were at 3.55%. The AUD had risen to over USD 0.70 at the start of February but has since slipped just under that level.

CoreLogic dwelling prices for January continued their decline but at a slightly slower pace. National Housing values posted a 1.0% fall for the month compared to 1.1% in December. The fall was 3.2% for the quarter nationally down from 3.5% last month. The fall of 3.9% in Sydney and 3.1% in Melbourne were also both down slightly. In Sydney, House prices were down 1.3% for the month with units down 1.2% and the results were similar in Melbourne with houses down for the month 1.1% and units also down 1.1%. Adelaide and Perth are still the best this month but still lower with dwellings down just 0.8% and 0.3% respectively but Brisbane Houses fell 0.6% for the month. Regionals were down less than Capitals by -0.8% to -1.1% for the month and also for the quarter at -2.6% to -3.3% with both figures are an improvement over last month.

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 with some changes reflected in the PCA report featured inside. 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.

	SYDNEY		MELBOURNE		ADELAIDE		BRISBANE (SEQ)		PERTH	
Resi- Homes	Weak	Declining	Weak	Declining	Good	Stable	Weak	Declining	Good	Stable
Resi- Units	Weak	Declining	Weak	Declining	Good	Stable	Weak	Declining	Good	Stable
Office	Fair	Stable	Fair	Stable	Fair	Stable	Fair	Stable	Fair	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

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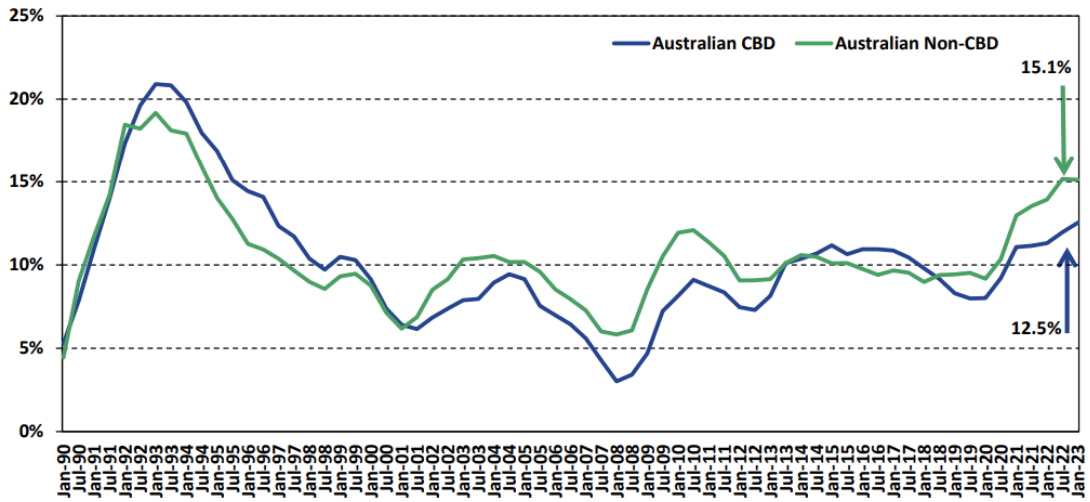
News & Views

- The PCA recently released their January 2023 Office Market Report which showed modest sector performance in all the capital cities it covered which are the same as those reflected in our Ratings and Trends table on the front page of this report. The report focusses on CBD offices but consistent with most other research being done includes more non-CBD locations covering both prime and non-prime buildings. Overall we have adjusted Ratings to just Fair and Trends are shown as Stable. These cover both Prime and Secondary properties but as we can see there is quite a wide variance in many Capitals as there is between CBD properties and those located in non-CBD locations. The chart below shows this difference over the past few decades with a significantly wider variance currently with non-CBD vacancy at 15.1% and CBD at 12.5%

- Graph 1 opposite shows the movement over the past six months in CBD office vacancy with most Capitals moving up and ending up above the national average of 12.5%. The AFR reported the following in a recent article: "The national office vacancy rate crept higher over the last six months, including for the Sydney and Melbourne CBDs, as the supply of space, much of it baked in through new development, outpaced demand. Net demand in Sydney and Melbourne, the two biggest markets, went negative, well below the historical rates of positive demand, pushing the vacancy rate higher by around one percentage point in both CBDs to 11.3% and 13.8% respectively." The AFR article also said "As vacancy rates tightened marginally in Brisbane and Perth, effective rents have risen in those two CBDs. Effective rents had risen by 11% and 10% respectively in those two cities, according to Mark Curtain, CBRE's head of office leasing. Nevertheless, weaker office conditions in many major global office markets were softening expectations for the year ahead, he said."

- Graph 2 opposite shows the further wide variance between Prime and Secondary properties and when added to the variance between CBD and non-CBD properties there is a very interesting analysis to be had of the many non-CBD locations across the country that are home to many Office buildings. Both the PCA and other research houses are paying more attention to this with CoreLogic one of the main Residential sector researchers covering Capital City Office markets including many non-CBD locations which are increasingly important and vary considerably from their CBD counterparts in the same Capitals. Another graph provided by the PCA in their OMR shows both CBD and non-CBD locations numbering 26 and both their six month vacancy change and current vacancy rate. Only two CBD locations recorded vacancy levels below the national average and for non-CBD locations six were over 15% and four of those were over 20%. Included in those locations are prominent areas of Sydney and Melbourne being North Sydney and St. Kilda with North Sydney's vacancy rate falling slightly over the past six months and St. Kilda's having risen. Interestingly secondary property vacancy rates have risen in most capitals with the exception being Brisbane.

Australian CBD v Non-CBD Vacancy: 1990 - 2023, January 2023 PCA Office Market Report



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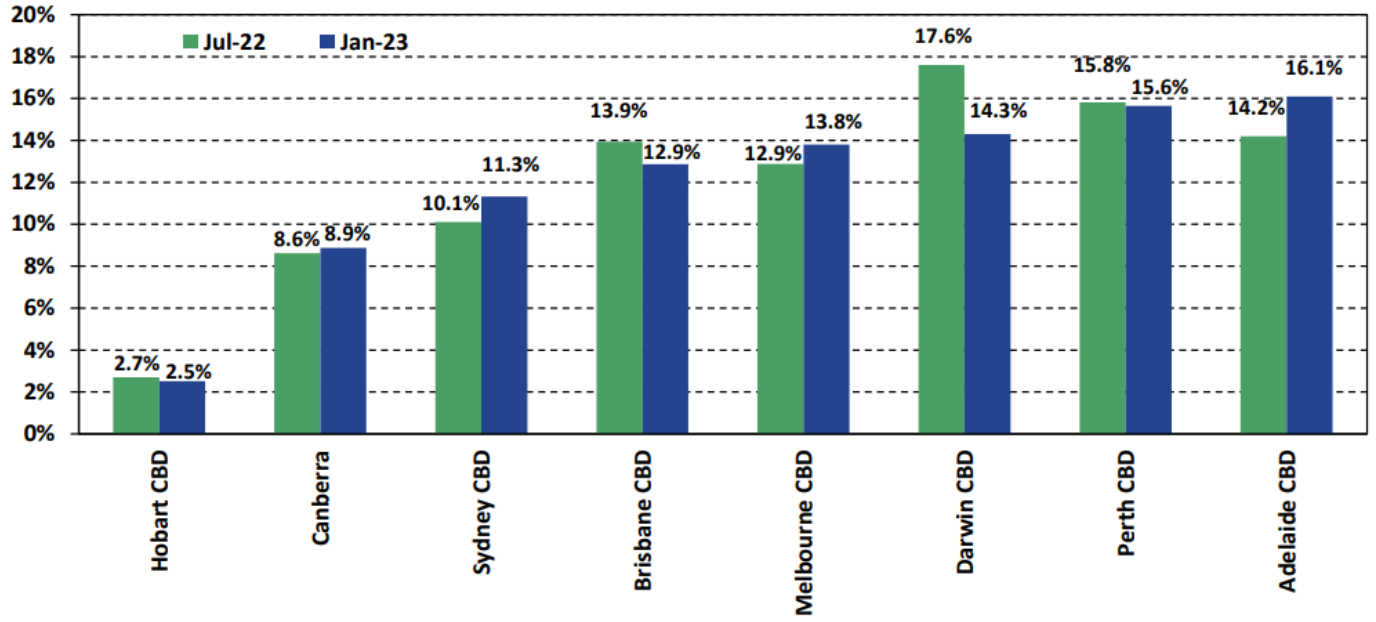
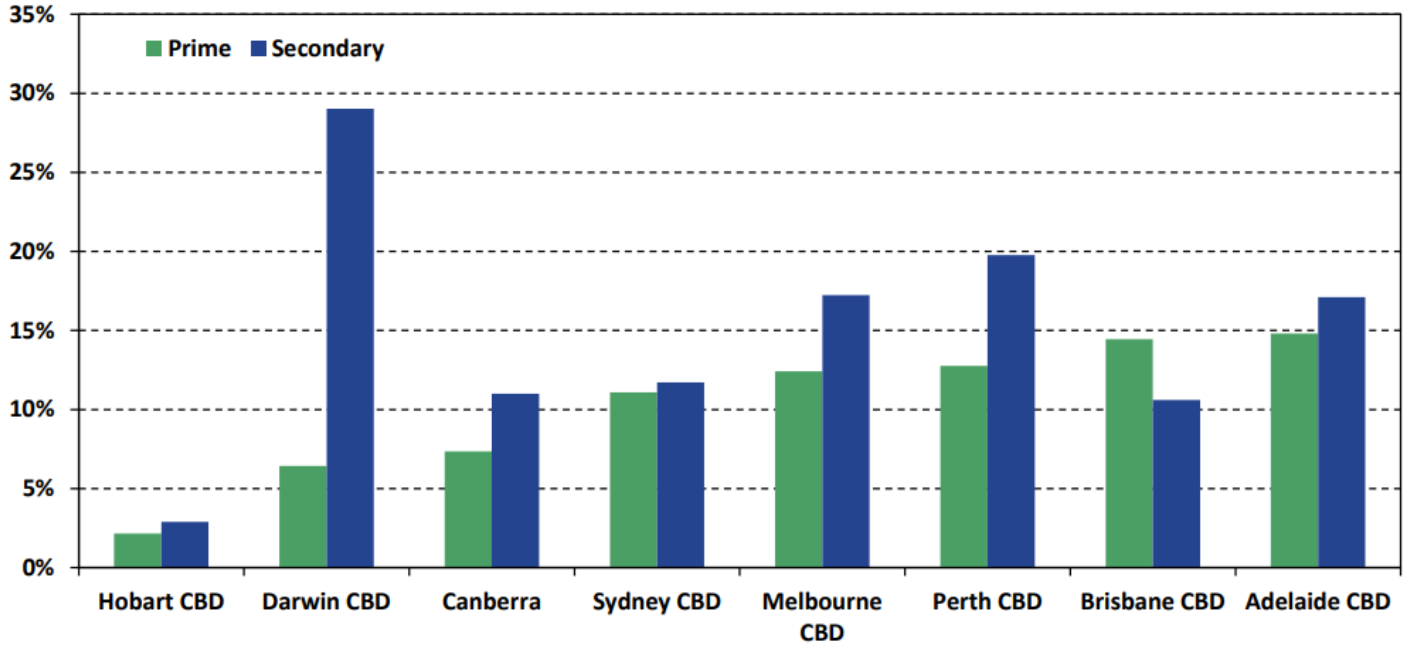
Graph 1: CBD Vacancy Change – Six Months to January 2023, PCA Office Market Report



Graph 2: CBD Vacancy Rate – Prime vs Secondary – January 2023, PCA Office Market Report



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