Australian real estate market focus

August 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 Property Council of Australia's Office Market Report for July 2023 with a wrap up of Office vacancy rates in the capital cities across the country.

The Westpac-MI Consumer Sentiment Index was up by 2.7% to 81.3 points in July but remains deeply pessimistic and near recession level lows recorded for the last year. The ACCI-Westpac Survey of Industrial Trends fell in June to 50.7 stepping down from a robust 53.9 in the March quarter and close to the break-even point of 50. The Westpac Leading Index however was up at -0.515 from May's -1.01/ The AiG Australian Industry Index now well into its new format launched back in February fell again in July by 1.1 points to -11.9 after having gained 9.3 points in June and remains in contraction where it has been for the past fourteen months. The sub-indicators were split with the PMI down 14.7 points to -19.8 and the PCI up 17.2 to +10.6 and expansion.

At its August meeting, the RBA Board again surprised some commentators this time by pausing on raising the Cash Rate and keeping it at 4.10%. This came after a pause in July following increases of 0.25% in May and June which had followed the pause at its April meeting. This pause had not been forecast by all commentators and further increases are considered possible by some including the Governor himself. The 1st quarter GDP result of a disappointing 0.2% for the 3 months to March and 2.3% year over year has raised the spectre of recession. The unemployment rate of 3.6% in May was down slightly from 3.7% and forecast to be little changed during 2023 but monthly CPI was down to 5.6%. The Bank of Canada raised rates by 25 basis points to 5.00% in July and the US FOMC did the same at its meeting on 25-26 July. 10 year US Treasury Yields are trading at 4.04% and AUS 10 year Gov't bonds were at 4.25% with the US yield still inverted from the 2 year at 4.99% by 95 bps with AUD 3 year Gov't bonds at 4.24%. The AUD is down to USD 0.6599 having fallen from USD 0.67.

CoreLogic dwelling prices for July continued their recovery across the broad spread of Capitals. National Housing values posted a 0.7% gain for the month following a 1.1% rise in June. They are now up 2.9% for the past quarter. The improvement was based on gains in Adelaide and Brisbane of 1.4% each for the month with Perth and Sydney up 1.0% and 0.9% respectively. Melbourne was also up but somewhat less at 0.3%. As commented previously, this is seen as a continuation of last quarter's initial recovery and was not overly impacted by last month's RBA decision to pause rate increases in July but should only benefit from this month's further pause by the Central Bank. In Sydney, House prices were up 1.0% for the month with units up 0.7% and the results for Melbourne were also up but lower with houses up for the month 0.3% but units up by slightly more at 0.4%. Adelaide, Perth and Brisbane all did well this month with all three up in both Houses and Units for both the month and the quarter. Rental growth slowed slightly to 0.6% for July but still at a high 3.8% National gross rental yield with Regionals at 4.5% and Capitals at 3.6%. .

We continue to reflect the improvement of Residential in almost all areas and have maintained our Ratings and Trends across all Capitals with none showing a negative CoreLogic Housing result for the month. We maintain our cautious optimism. Retail continues to be showing some recovery although volatile, especially secondary although sales are flat. We discuss Office more in our News and Views section inside. Industrial remains very strong and we are maintaining our Ratings and Trends which are either Strong or Good. There are a few changes in various sectors reflecting our Quarterly Market Update completed late last month and available on our website.

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

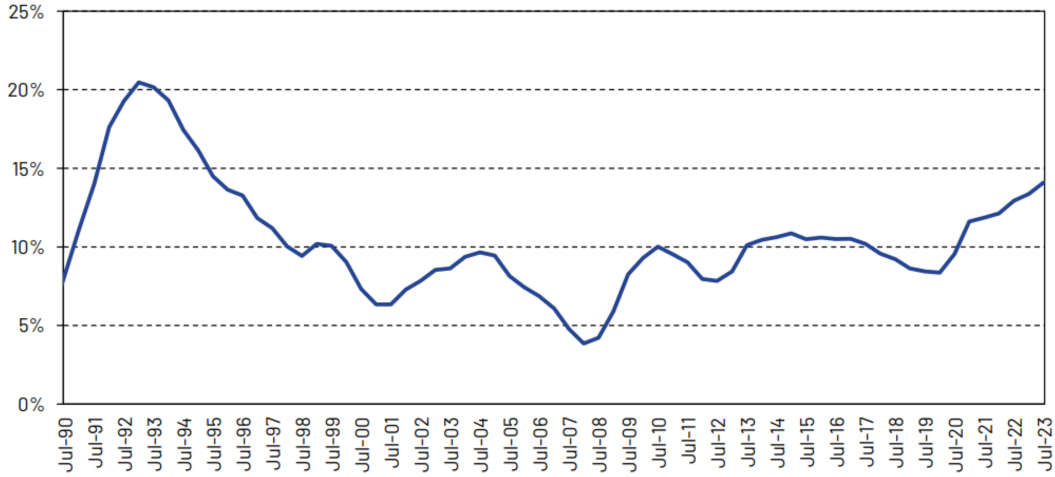
- The Property Council of Australia (PCA) recently issued its July 2023 Office Market Report (OMR) and featured a number of different research articles covering various commercial property sectors. The Australian Financial Review (AFR) featured an article on the 29th of June by Larry Schlesinger entitled “Incentives keep lid on real office rents” and including the chart shown below.

- Melbourne office rents fell in the second quarter, and even cities that lifted rents did so in the face of significant incentives to attract tenants, according to Cushman Wakefield. Competition among landlords across most CBD office markets remains strong, and that’s keeping incentives at elevated levels. The update showed a modest uplift in effective rents in Sydney and Brisbane, and a solid gain in Adelaide. Office rents went backwards in Melbourne, where the work-from-home trend is more entrenched, and remained unchanged in Perth. In the Sydney CBD, prime gross effective rents climbed 2% in the second quarter to reach $975 per square metre per year – a rise partly attributed to “quality uplift as a result of new buildings being completed in the second half of 2022”. In Melbourne, where the CBD vacancy rate hovers around 14%, prime net effective rents fell 3.7 % over the second quarter to $395 per square metre. This drop was due to the high volume of quality vacant stock, which led to prime net incentives rising from 39.5%to 42% over the quarter while face rents remained steady.

- In the Brisbane CBD, prime gross effective rents increased 1.2% in the second quarter to $490 per square metre, as face rents increased while incentives remained steady. Over the past 12 months, rents are up 7.5% in the Brisbane CBD – an increase driven by a lack of supply and inflationary pressure. In Adelaide, prime net effective rents rose almost 9% in the June quarter to $290 square metres per annum, and 14% on an annual rolling basis. This was the strongest growth nationally, driven by the “superior quality of stock now being provided,” according to the report. Prime net effective rents in the Perth CBD remained unchanged over the second quarter at $338 per square metre, despite the city recording the highest worker occupancy in the nation at 80% at the end of 2022. Incentives in Perth ranged from 45-50%, the report said.

- CBRE also covered the same topic in its quarterly research and included the two graphs shown on the opposite page. It reported that rental growth was mixed across markets and had this to say: “National rental growth stabilised with CBD effective rents up just 0.2% q-o-q in Q1 2023. However there has been a large discrepancy between markets with Sydney, Brisbane, Canberra and Perth recording healthy growth. Meanwhile, Melbourne and Adelaide have seen a mild softening of effective rents as the supply outlook and subsequent backfill availability is giving more power to tenants. Incentives stabilised across most markets in Q1 2023. Melbourne observed an increase of incentives to average 41.2% (up 104 bps) as vacancy continues to trend upwards in that market, as shown in Graph 2. On the other hand, Perth’s strong leasing activity and rental growth has continued to cause incentives to decline, albeit off a high base of 47.8%.”

Office Market Vacancies, July 2023 - Property Council of Australia, Office Market Report



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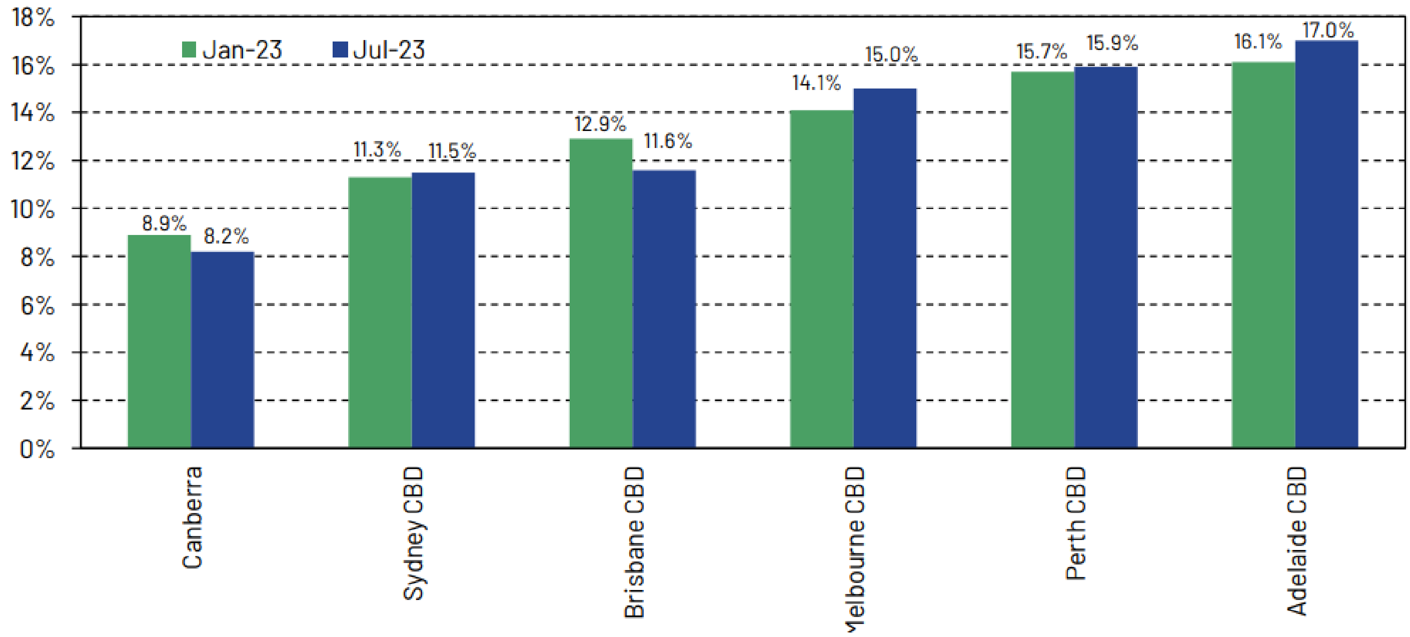
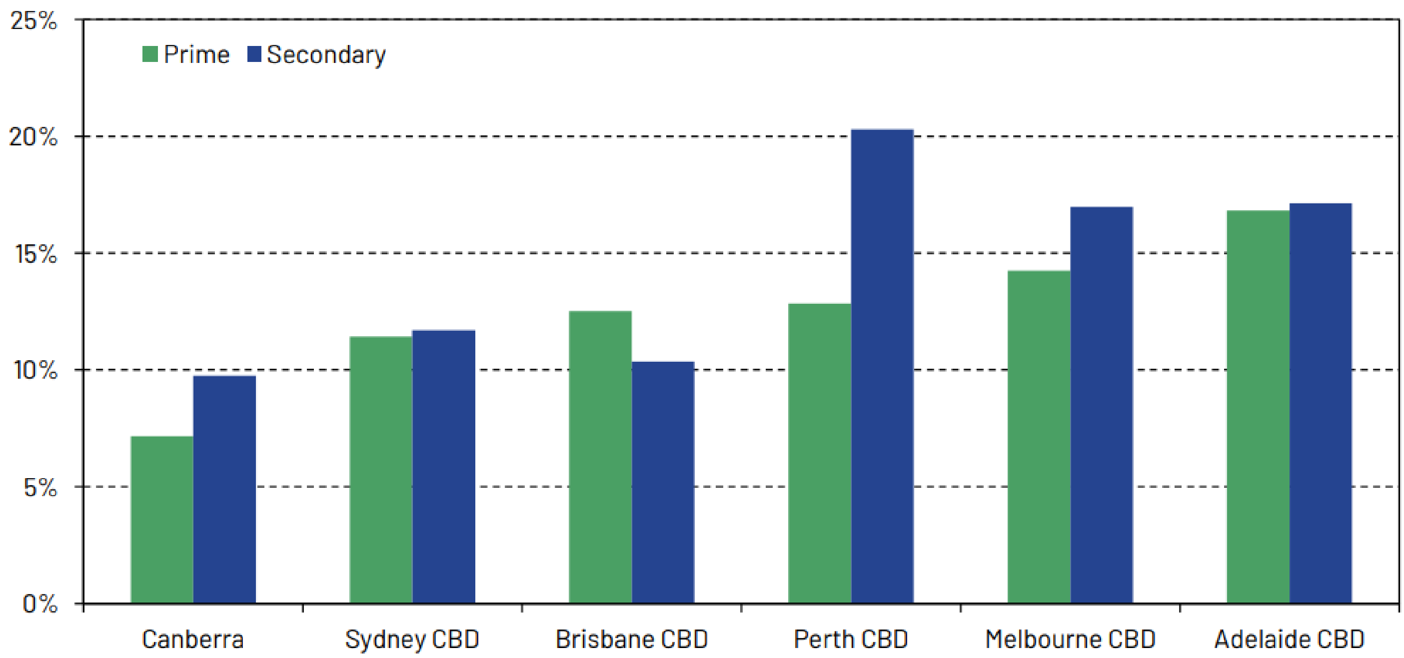
Graph 1: CBD Vacancy Changes – Six months to July 2023



Graph 2: CBD Vacancy Rates – Prime versus Secondary – July 2023



Source: PCA, OMR July 2023

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