Australian real estate market focus

September 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 Herron Todd White Month in Review publication which we often reference and look at their approach to assessing various property sectors.

The Westpac-MI Consumer Sentiment Index was down slightly by 0.4% to 81.0 points in August and remains deeply pessimistic and still near recession level lows recorded for the last year. The Westpac Leading Index however was up slightly at -0.60 in July from June's -0.67 but still recorded 12 months of negative prints which is the longest in seven years. The AiG Australian Industry Index now well into its new format launched back in February rose in August by 3.1 points to -11.6 but remains in contraction where it has been for the past sixteen months since the start of the current interest rate rising cycle. The sub-indicators were split with the PMI up 5.8 points to -19.8 and the PCI down 0.7 to -9.9. Clearly sentiment remains negative but with room for improvement.

At its September meeting, the RBA Board surprised hardly anyone this time by again pausing on raising the Cash Rate for the third month in a row and keeping it at 4.10%. This was the last meeting for Governor Phillip Lowe ahead of the end of his seven year term later in September. This latest pause had been forecast by just about all commentators and was seen as continued welcome relief for consumers and the economy in general even though further increases are still considered possible by many market economists and was reflected in the minutes of the meeting which contained numerous updates from last month's. The 2nd quarter GDP result of a disappointing 0.4% for the 3 months to June and 2.1% year over year was released by the ABS the following day and has once again raised the expectation of prolonged slow growth. The unemployment rate of 3.7% in July was up slightly from 3.6% and forecast to be little changed during 2023 but monthly CPI was down to 4.9% from 5.4%. The Bank of Canada raised rates by 25 basis points to 5.00% in July and then paused this month when it met just after the RBA. The US FOMC also raised rates again when it met in July and meets again later this month. 10 year US Treasury Yields are trading at 4.30% and AUS 10 year Gov't bonds were at 4.15% with the US yield still inverted from the 2 year at 5.03% by 73 bps with AUD 3 year Gov't bonds at 3.82%. The AUD is down below USD 0.64 having fallen from USD 0.67 in two months.

CoreLogic dwelling prices for August continued their recovery across almost all Capitals. National Housing values posted a 1.1% gain for the month following a 0.7% rise in July. They are now up 3.8% for the past quarter. The improvement was based on gains in Brisbane of 1.7% and 1.1% in both Sydney and Adelaide. For the month Perth was up 0.9% and Melbourne 0.5%. In Sydney, House prices were up 1.1% for the month with units up 1.0% and the results for Melbourne were also good but rather lower with houses up for the month 0.6% and units up by 0.3%. Adelaide, Perth and Brisbane all did very well this month with all three up in both Houses and Units for both the month and the quarter. Rental growth slowed again slightly to 0.5% for August but still at a high 3.8% National gross rental yield. Overall, the recent stability in interest rates appears to be a positive factor.

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 Industrial which remains very strong more in our News and Views section inside while Office is doing better in some Capitals a real recovery remains some time into the future.

	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

- Herron Todd White (HTW) recently issued its August 2023 Month in Review which on a monthly basis covers both Houses and Units in the Residential sector across all Capitals as well as Regional Centres in each State; this included over 50 locations in this month's publication. Each month a different Commercial sector is covered in the same way so over each quarter HTW provide detailed assessments of Office, Retail and Industrial with this month featuring Industrial.

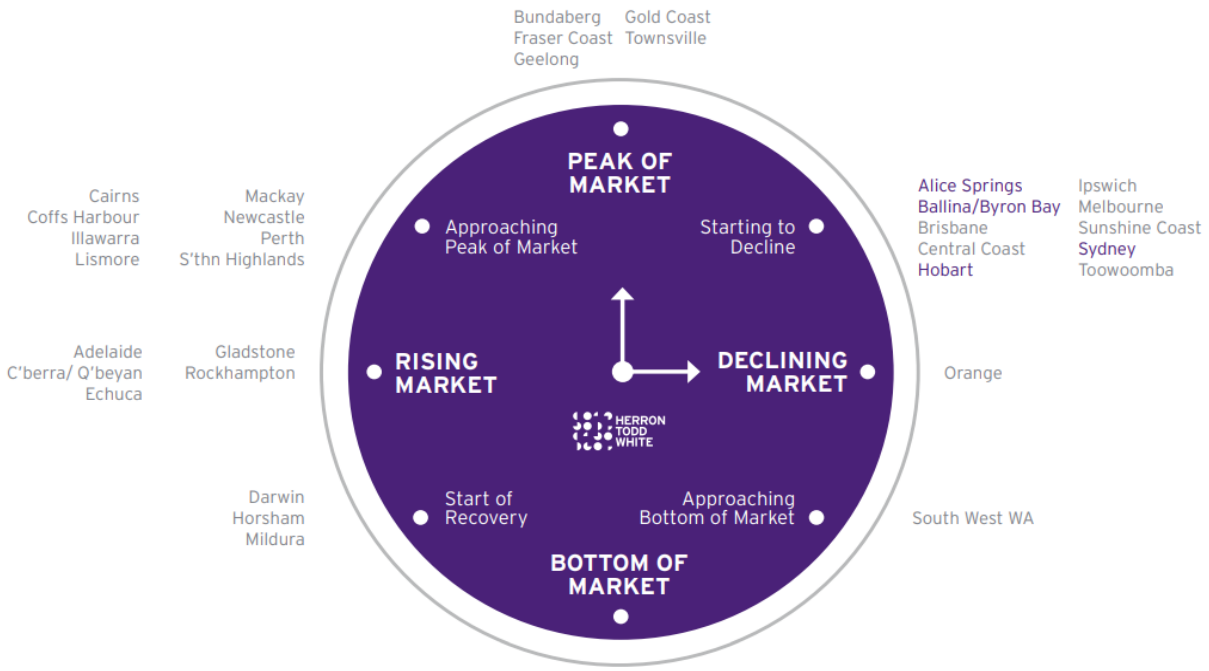
- The HTW coverage and assessment runs across seven different factors for each sector and location and the commentary accompanying these is prepared by HTW Directors and Associates in each location. In addition a Rural section is provided and a total of 24 contributors from HTW are covered in 90 to 100 pages published each month. We are featuring the Industrial sector because of its prominence in Think Tank's portfolio but a similar approach is taken with all of HTW's other coverage.

- The National Property Clock shown below summarises the current status of each location with respect to the eight different rankings shown ranging from Peak of Market at 12 noon to Bottom of Market at 6 o'clock. Each sector is presented in the same way and summarises the position of each Capital and Regional Centre covered. These are all presented in individual tables with the current assessment which range from Stage of Property Cycle to Local Economic Situation.

- Overleaf in Graphs 1 we show the three key Market Indicators for the Industrial Sector in the Capital Cities. The Stage of Property Cycle aligns with the Property Clock below showing Melbourne, Sydney, Brisbane and Hobart as Starting to Decline. Perth is shown as Approaching the Peak of the Market. Individual commentary in the Month in Review supports the conclusions reached and is often illustrated by individual comparable transactions common in valuations. The Local Economic Conditions are mostly described as Flat but with Perth shown as experiencing Steady Growth which is also reflected in our Trend shown on the front page table in this update.

- Graphs 2 and 3 look at the Residential sectors of Houses and Units. The same approach is taken as in the Industrial sector with local Vacancy and Demand for New Houses or Units being key factors. With respect to Rental Vacancy Situation almost all Capitals are shown as experiencing Severe Shortages of Available Property which is also reflected in almost all research on Residential Rentals across the country.

National Property Clock – Industrial Herron Todd White, Month in Review – August 2023



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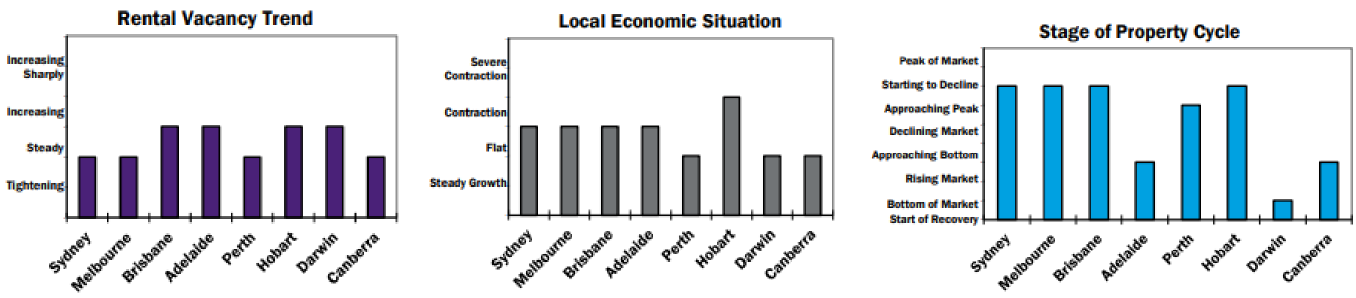
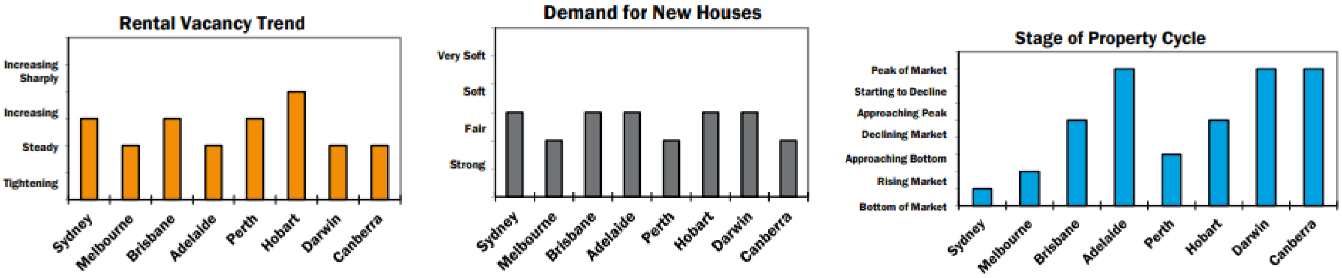
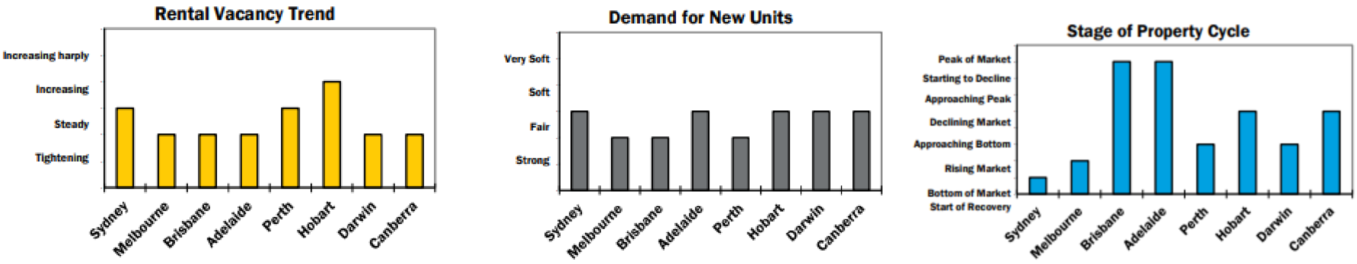
Graphs 1: Capital City Property Market Indicators, Industrial – August 2023



Graphs 2: Capital City Property Market Indicators, Houses – August 2023



Graphs 3: Capital City Property Market Indicators, Units – August 2023



HERRON TODD WHITE

Source: HTW Month in Review August 2023

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