Thinktank

# Monthly Market Focus

November 2023

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 October 2023 Month in Review and how they are assessing residential and commercial sectors.

The Westpac-MI Consumer Sentiment Index rose in October by 2.9% to 82; still only a muted lift in sentiment despite the RBA pause in lifting interest rates during the survey period. The Westpac Leading Index was also up slightly at -0.34 in September from -0.48 in August but continuing its string of negative reads since August '22 and Westpac still expects this to continue for another year. The AiG Australian Industry Index fell in October by 6.5 points and was further into negative territory and remaining in contractionary condition for the 18th month in a row at -9.9. The two sub-indicators moved in different directions with the manufacturing PMI also down 8.1 points to -20.9 while the construction PCI was again up for the second month in a row by a strong 11.4 points to move further into expansion at 18.5, its best level since March 2021.

At its November meeting, the second for Michele Bullock as the new Governor, the RBA Board increased the Cash Rate raising it by 25 basis points to 4.35% marking the first upward move in five months. This latest decision had been forecast by just about all commentators including all four major banks. Last month's RBA's six-monthly Financial Stability Review also had comments about the possibility of further rate increases but was broadly positive. The 2nd quarter GDP result of a disappointing 0.4% for the 3 months to June and 3.4% year over year was released by the ABS in September and once again raised the expectation of prolonged slow growth. The unemployment rate of 3.6% in September was unchanged from August and is forecast to be little changed during 2023 but quarterly CPI was up slightly to 1.2% and 5.4% for the year on higher fuel and rental costs which seemed to drive the RBA's interest rate decision. Just released Retail sales for September were up 0.9% for the month and 2.0% over September 2022.

The International Monetary Fund which last month released their World Economic Outlook, this month issued a commentary on the Australian economy and in it specifically said they felt the RBA should be increasing interest rates. The Bank of Canada however held rates steady at 5.00% in October as did the US FOMC at 5.25% to 5.50%. The Bank of England and the European Central Bank did likewise. 10 year US Treasury Yields are trading down a bit at 4.65% and AUS 10 year Gov't bonds were at 4.77% with the US yield still inverted from the 2 year at 4.91% but only by 26 bps with AUD 3 year Gov't bonds at 4.31%. The AUD has risen but remains just below USD 0.65 having fallen from USD 0.67 in the past six months.

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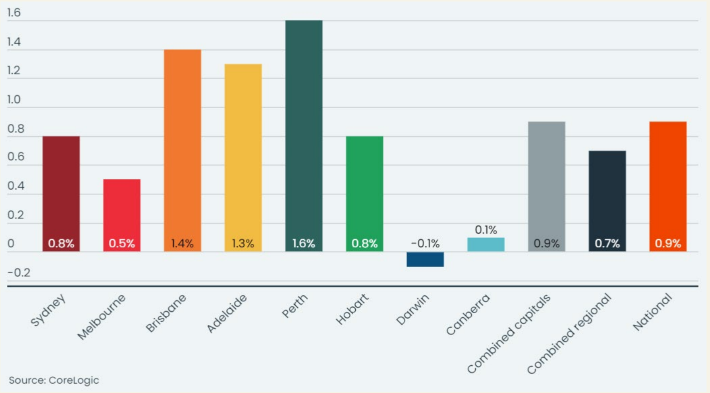


CoreLogic dwelling prices for October continued their recovery across almost all Capitals but again at different paces as you can see below. National Housing values posted a 0.9% gain for the month following a 0.7% rise in September (revised down from 0.8%). They are now up 2.3% for the past quarter. The improvement was based on gains in Perth of 1.6% for the month and 4.6% for the quarter.  Adelaide and Brisbane were not far behind at 4.2% and 3.8% for the quarter respectively and 1.3% and 1.4% for the month. For the month Sydney was up 0.8% and Melbourne 0.5%. In Sydney, House prices were up 0.9% for the month with units up 0.4% and the results for Melbourne were also up but rather less for houses up for the month 0.5% but units up by 0.7%. As noted above, Adelaide, Perth and Brisbane all did very well this month leading the Capitals with all three up in both Houses and Units for both the month and the quarter.

# Ratings & Trends

We continue to reflect the improvement of Residential in almost all areas and have revised our Ratings and Trends for Adelaide and Brisbane accordingly while all Capitals are showing positive CoreLogic Housing results for the month. We maintain our cautious optimism despite concern with the interest rate increase. Retail continues to be showing some recovery although volatile, especially secondary although sales have lifted. Industrial remains very strong across the country and while Office is doing better in some Capitals, a real recovery remains some time into the future, and this is addressed in our News and Views section that follows. We discuss all the other sectors in much more detail in our Quarterly Market Update which is available on our website.

| | Sydney | Melbourne | Adelaide | Brisbane | Perth |
|---|---|---|---|---|---|
| Resi – Homes | Fair | Fair | Good | Good | Good |
| Resi – Units | Fair | Fair | Good | Good | Good |
| Office | Fair | Fair | Good | Fair | Good |
| Retail | Weak | Weak | Good | Fair | Fair |
| Industrial | Strong | Strong | Good | Good | Good |
| Stable Improving | | | | | |

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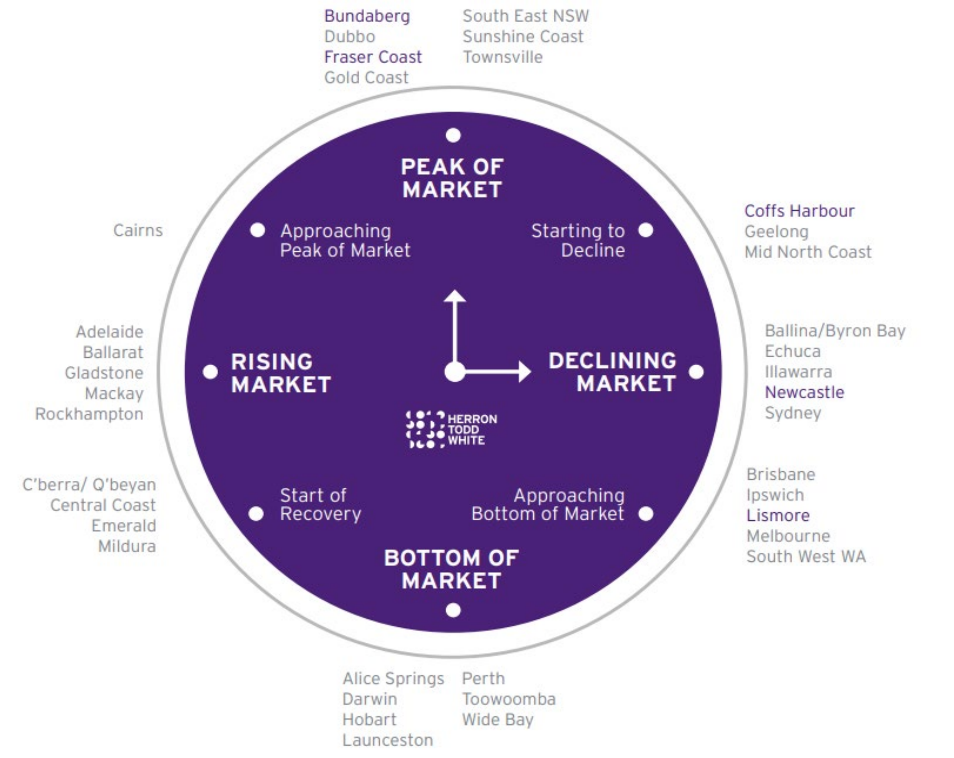
**News & Views**

Herron Todd White (HTW) recently issued its October 2023 Month in Review which 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 Office.

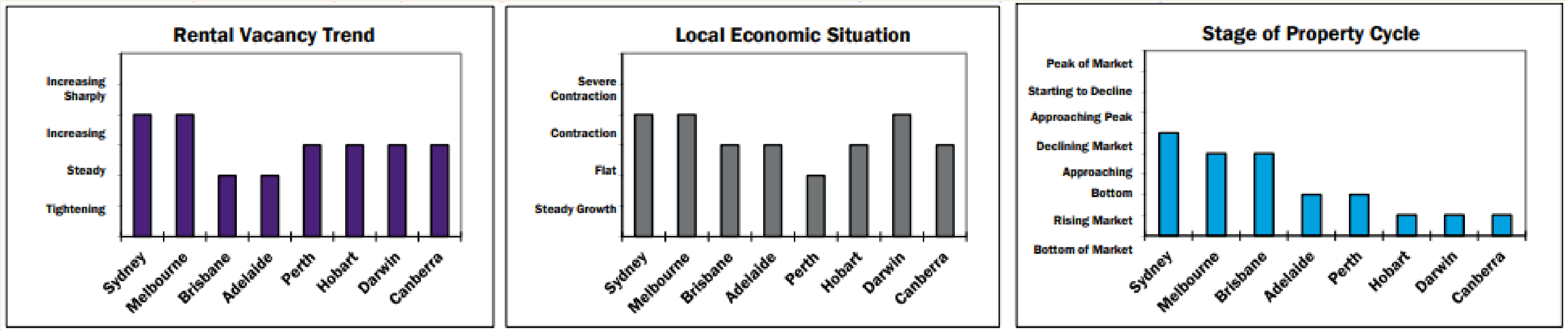
The HTW coverage and assessment runs across seven different factors for each sector and location and the commentary accompanying these is prepared by HTW Directors and Associates in each location. In addition, a Rural section is provided and a total of 24 contributors from HTW are covered in 90 to 100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



Further detail below (Graphs 1) we show the three key Market Indicators for the Office Sector in the Capital Cities. The Stage of Property Cycle aligns with the Property Clock 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 on the Ratings and Trends table in this update.

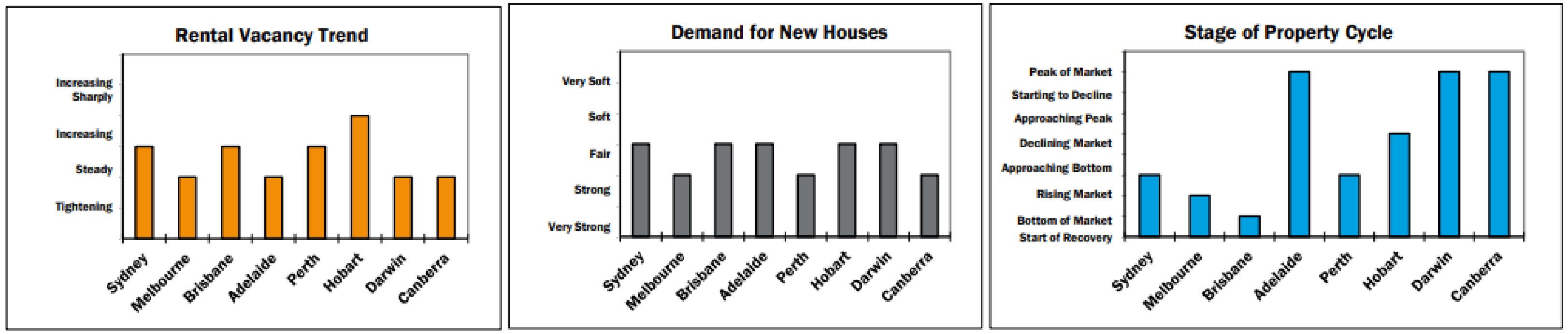
## **Graphs 1**: Capital City Property Market Indicators, Office – October 2023




All of the Capitals except Adelaide are shown as experiencing an oversupply of office rental properties with Adelaide also the only one to show a Rising market. Vacancy Rates continue to rise in Sydney and Melbourne and Lease Incentives remain at very high levels reported as being up to 40% in Sydney, bringing Net Effective Rents down considerably. By way of comparison, Incentives for Industrial properties for Sydney were reported in a very recent JLL research report as remaining in the single digits. Perth's economic situation is the only one to be described as experiencing Steady Growth. The graphs above show Sydney and Melbourne in a negative light, but we have retained a Fair rating especially for better grade Offices.

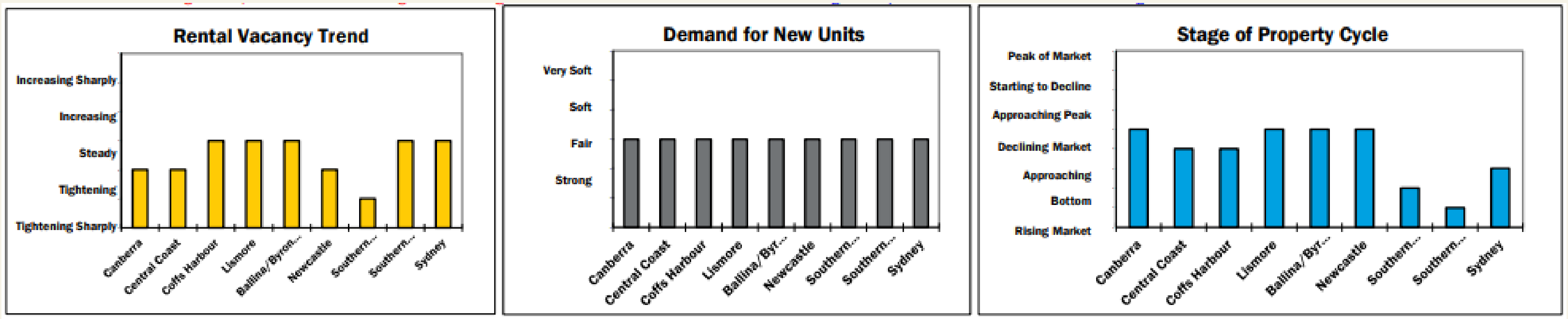
Graphs 2 and 3 on the following page look at the Residential sectors of Houses and Units. The same approach is taken as in the Office sector with local Vacancy and Demand for New Houses or Units being key factors. With respect to Rental Vacancy Situation almost all Capitals are shown as experiencing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

# **Graphs 2**: Capital City Property Market Indicators, Houses – October 2023




As shown above, demand for New Houses is rated as Strong in Melbourne and Perth but only Fair in the other Capitals. As for rentals, Houses are shown as experiencing a Severe Shortage in all Capitals. Sydney and Perth are shown as experiencing Rising Markets while Adelaide is at its Peak.

# **Graphs 3**: Capital City Property Market Indicators, Units – October 2023




Units are also experiencing a Severe Shortage with respect to rentals in the major Capitals and with respect to demand for new units all are Strong except for Sydney and Adelaide which are Fair. Apart from Melbourne which is rated as being at the Bottom of the market, Perth and Sydney are in Rising markets and Brisbane and Adelaide are at their Peaks

Leadership Team

Relationship Manager Team

**Sources**

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, RLB Crane Index Q3 2023

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