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Monthly Market Focus

December 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 thinktank.net.au for our latest Quarterly Market Update.

This month in our News and Views we take a closer look at the performance of the industrial sector across the country through the Knight Frank 3rd Quarter Industrial Report.

The Westpac-MI Consumer Sentiment Index declined in November by 2.6% to 79.9, down from 82 in October. The Westpac Leading Index was also down slightly at -0.40 in October from -0.38 in September but continuing its string of negative reads since August '22. Westpac describes it as stuck in a 'low growth rut' well into next year.

The AiG Australian Industry Index fell further in November by 12.5 points to be further into negative territory. This indicates strongly contractionary conditions. The index has indicated contraction for the last 19 months. The two sub-indicators moved lower with the manufacturing PMI down 4.5 points to -24.3 while the construction PCI was down heavily by 40.7 to -22.2 after gaining last month to move into positive territory and its best showing in 18 months.

At its December meeting the RBA Board held the Cash Rate steady after raising it by 25 basis points to 4.35% in November. This latest decision had also been forecast by just about all commentators and leaves markets now looking forward two months to February 2024 until the next RBA meeting which will be under the new framework recently adopted.

We will feature a special News and Views on the changes taking place in our January Monthly Market Focus. Last month's RBA's Statement on Monetary Policy also had comments about the possibility of further rate increases but was broadly positive. Key statistical releases ahead of the RBA decision were very weak Retail Sales down 0.2% for the month of October and up only 1.2% for the year. The unemployment rate of 3.7% in October was unchanged from September and is forecast to be little changed in the near term.

The October indicator quarterly CPI was down to 4.9%. Just released GDP for the 3rd quarter following the RBA meeting was a weak 0.2% for the quarter and 2.1% for the year.

The International Monetary Fund last month issued a commentary on the Australian economy and in it specifically said they felt the RBA should be increasing interest rates which they did in November but not this month.

The Bank of Canada however held rates steady at 5.00% at their December meeting the following day and as the US FOMC is expected to do at 5.25% to 5.50% for the Federal Reserve Rate . 10 year US Treasury Yields are trading down at 4.17% and AUS 10 year Gov't bonds were at 4.30% with the US yield still inverted from the 2 year at 4.58% by 41 bps with AUD 3 year Gov't bonds down to 3.89%. The AUD had risen last month but is now once again below USD 0.66 .

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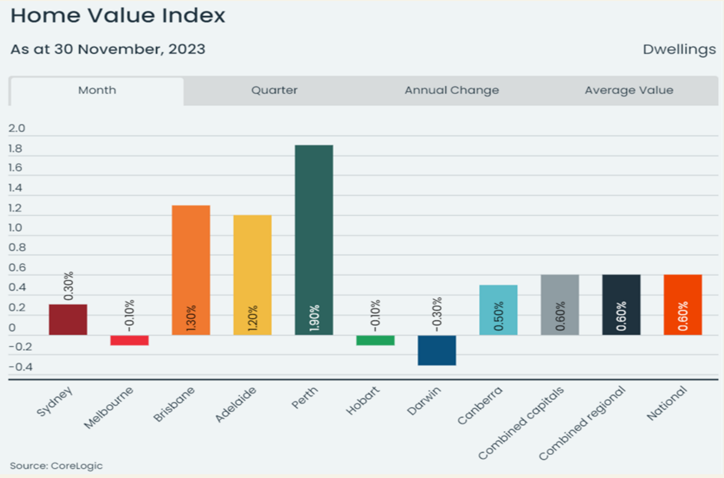

CoreLogic dwelling prices for November continued their recovery across almost all Capitals but again at different paces as you can see below. National Housing values posted a 0.6% gain for the month following a 0.9% rise in October. They are now up 2.1% for the past quarter. The improvement was based on leading gains in Perth of 1.9% for the month and 5.4% for the quarter, both better than last month.

Adelaide and Brisbane were not far behind both at 3.9% for the quarter and 1.2% and 1.3% respectively for the month. For the month Sydney was up just 0.3% and Melbourne fell by 0.1%. In Sydney, House prices were up 0.3% for the month with units also up 0.3 but the results for Melbourne were flat for houses for the month but units were down 0.3%. As noted above, Adelaide, Perth and Brisbane all did very well once again this month leading the Capitals with all three up in both Houses and Units for both the month and the quarter. With the year end approaching it will be interesting to see how the annual changes end up. .

Ratings & Trends

We continue to reflect the improvement of Residential in almost all areas and have held our Ratings and Trends for Perth, Adelaide and Brisbane while all Capitals except Melbourne are showing positive CoreLogic Housing results for the month. We maintain our cautious optimism that interest rates are on hold. Retail continues to be showing some recovery although volatile, especially secondary although sales look to be flat. Industrial remains very strong across the country and we look at recent positive Knight Frank research on the sector in our News and Views section that follows. While Office is doing better in some Capitals, a real recovery remains some time into the future.

	Sydney	Melbourne	Adelaide	Brisbane	Perth
Resi – Homes	Fair ● Stable	Fair ● Stable	Good ● Improving	Good ● Improving	Good ● Improving
Resi – Units	Fair ● Stable	Fair ● Stable	Good ● Improving	Good ● Improving	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

● Stable ● Improving

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News & Views

Knight Frank recently issued its Q3 National Industrial Research which took a close look at the sector's performance across all the capitals as well as on a National basis.

Key Indicators for each of the major capitals led the report with comments on the detail for each location which followed together with graphs and comments on individual precincts.

The Key Indicators and the graphs that follow focus on rental growth and yields in each of the capitals. In addition to the graphs from the Knight Frank research we have included some brief comments and graphs from Herron Todd White (featured last month) who also covered the Industrial sector in their November monthly report.

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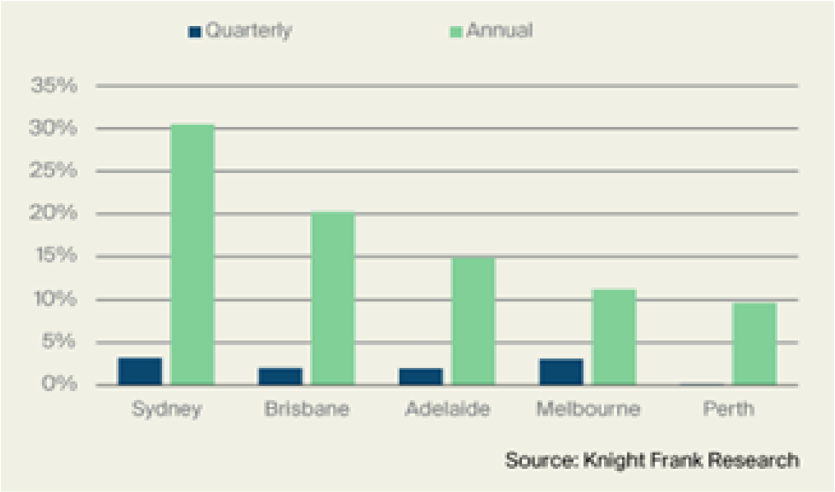
Key Indicators Q3 2023

Market	Prime Net Face Rent $/sqm	Secondary Net Face Rent $/Sqm	Super*Prime Market Yield Range %	Land <5,000sqm $/sqm	Land 1-5 ha $/sqm
Sydney*	245	200	4.75-5.25	2,005	1,716
Brisbane	156	138	5.25-5.75	523	487
Melbourne**	135	112	4.75-5.25	1,149	901
Adelaide	124	92	5.50-6.00	549	387
Perth	136	116	5.25-5.75	479	356

Sydney continues to lead in face rents by a considerable margin, but yields are quite comparable to Melbourne with the other capitals not far behind. We can see more detail on that in Graph 2 with all yields softening since interest rates started rising after a long period of tightening.

Capital City Prime Rent Growth, Industrial – Q3 2023

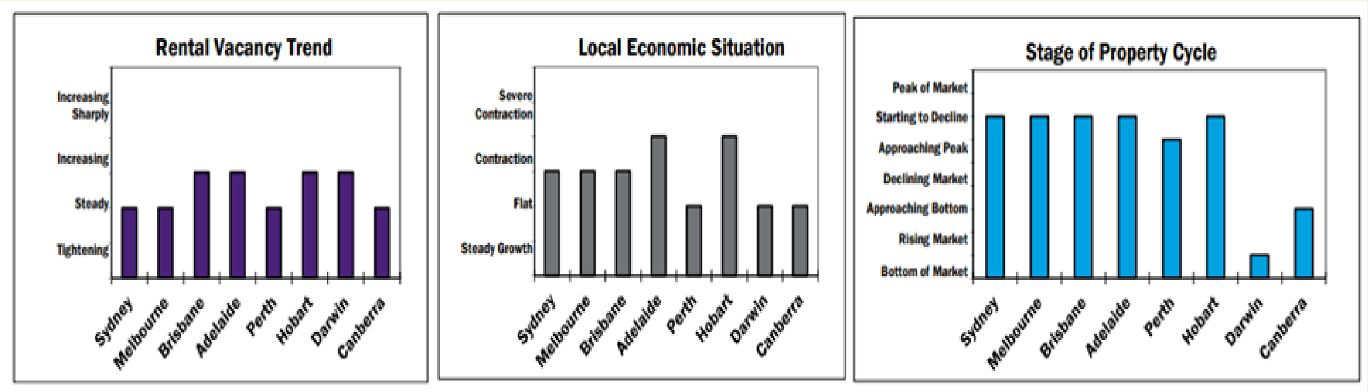


The pace of quarterly rental growth has slowed across all markets with Sydney and Melbourne recording the strongest growth of 3.2% and 3.1% respectively. Perth was the only market with rents remaining unchanged over the quarter. Despite this, annual growth remains high with Sydney and Brisbane at 30% and 20% respectively. Incentives remain at historical lows across all capital cities in contrast to what we see for other sectors. With available supply still set to remain tight for the foreseeable future, rental growth is expected to continue albeit at a slow pace, with growth expected to revert to an annual pace in the range of 4- 8% over the next 12 months.

Capital City, Industrial Prime Yields – Q3 2023

As noted, earlier yields have been softening in all locations. KF noted in their commentary that the strong rental growth profile outlined in Graph 1 has kept yields tighter than they otherwise may have been. During Q3 prime yields across Sydney, Melbourne and Brisbane softened by a further 12 – 25 bps with greater stability emerging in the Adelaide and Perth markets. Average prime yields are 5.27% in Sydney (+20bps) and 5.26% for Melbourne (+13bps) as despite the differing rental growth profiles these markets currently appear to be perceived similarly. Brisbane at 6.26% moved by 12bps in the quarter. Adelaide at 6.33% and Perth at 6.5%were largely stable in the quarter, moving 2.0bps and 3.1 bps respectively off very limited investment activity.

Herron Todd White Property Market Indicators, Industrial – November 2023



Interestingly the HTW commentary reflects a shortage or “severe shortage” of rental properties in all capitals but apart from Perth which is approaching the peak of the market in its property cycle all others are starting to decline. With respect to the local economic situation Perth again stands out as evidencing steady growth while the rest are flat or in the case of Adelaide shown as in contraction.

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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