February 2024

Monthly Market Focus

A monthly snapshot of how we see the property markets across the country together with relevant research and economic news both global and domestic.

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The Reserve Bank of Australia (RBA) held their first Board meeting of 2024 on 5 & 6 February under their new structure which we discussed in last month's News and Views.

The Cash Rate was left unchanged as expected by most commentators with indications that rates will be paused for a while as supported by the projections included in the quarterly Statement on Monetary Policy (SoMP) also released on 6 February under the new structure.

One of the highlights of the changed format was the press conference held by the RBA Governor Michele Bullock which added significant background to the SoMP and was viewed very positively.

Key recent statistical releases in late January were very weak with Retail Sales down 2.7% month on month for December and up only 0.8% for the year. The seasonally adjusted unemployment rate stayed at 3.9% in December unchanged from November and is forecast to be little changed in the near term. The December CPI was released on 31 January and as expected eased to 4.1% for the year from 5.4% in the September quarter; the quarterly increase was 0.6%.

The Westpac-MI Consumer Sentiment Index fell in January by 1.3% to 81.0, in what was the weakest January read outside of the early 1990s recession.

The Westpac Leading Index eased back to +0.01% in December from +0.18 in November. This is only the second positive read after 15 consecutive negatives.

Internationally the US Federal Reserve held rates steady at its February meeting as did the Bank of Canada in late January. More recently the Chairman of the US Federal Reserve Bank cautioned against the markets' expectations of early rate cuts.

In early February 10 year US Treasury Yields were trading slightly down at 4.11% and AUS 10 year Gov't bonds were at 4.19% with the US yield still inverted from the 2 year at 4.31% by 20 bps with AUD 3 year Gov't bonds down to 3.63%.

The AUD had risen last month to USD 0.67 but is now once again closer to USD 0.65.

The AiG issued their annual CEO survey in January which reflected uncertainty about 2024 with all areas indicating concern consistent with other reports.

Core Logic

CoreLogic dwelling prices for January continued their recovery across almost all Major Capitals but again at very different paces with only Melbourne down slightly at -0.1% and Perth again leading the way at +1.6% for the month.

National Housing values posted a 0.4% gain for the second month in a row. For the month houses in Sydney were up just 0.2% and Melbourne fell by -0.4%. Unit prices were up 0.1% for the month in Sydney and down -0.3% in Melbourne. 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 New Year starting, momentum in the last quarter remains with the smaller Capital Cities and expectations of lower interest rates should be positive for ongoing trends

Index results as at 31 January, 2024	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	0.2%	0.1%	11.4%	14.6%	$1,122,430
Melbourne	-0.1%	-0.9%	3.9%	7.4%	$777,250
Brisbane	1.0%	3.2%	14.8%	19.5%	$796,818
Adelaide	1.1%	3.7%	10.3%	14.8%	$721,376
Perth	1.6%	4.9%	16.7%	22.2%	$676,823
Hobart	-0.7%	-1.5%	-0.4%	3.7%	$651,807
Darwin	0.3%	0.7%	-0.1%	5.7%	$501,520
Canberra	-0.2%	0.2%	1.2%	5.2%	$842,971
Combined capitals	**0.4%**	**1.0%**	**10.0%**	**13.8%**	**$836,013**
Combined regional	**0.4%**	**1.2%**	**4.9%**	**9.5%**	**$605,085**
National	**0.4%**	**1.0%**	**8.7%**	**12.8%**	**$759,437**

CoreLogic Home Value Index

Thinktank Ratings and Trends

We continue to reflect the improvement of Residential in almost all areas and have held our Ratings and Trends for each of the five Capitals with all of them except Melbourne showing positive CoreLogic Housing results

for the month and quarter. We maintain our optimism that interest rates are on hold and as noted above momentum is positive for rate cuts later this year. Retail continues to be volatile, especially secondary although sales look to be flat. Industrial remains very strong across the country as reflected in a number of national research reports reflecting virtually no vacancy and rising rents in all Capitals. While Office is doing better in some Capitals, a real recovery remains some time into the future with high vacancy rates and uncertain valuations as outlined in our News and Views commentary. This results in no change to our Rating and Trends shown below but with close attention to be paid during the first quarter of 2024.

▶ Stable ▲ Improving	Sydney	Melbourne	Adelaide	Brisbane	Perth
Residential Homes	Fair ▶	Fair ▶	Good ▲	Good ▲	Good ▲
Residential Units	Fair ▶	Fair ▶	Good ▲	Good ▲	Good ▲
Office	Fair ▶	Fair ▶	Good ▶	Fair ▶	Good ▶
Retail	Weak ▶	Weak ▶	Good ▶	Fair ▶	Fair ▶
Industrial	Strong ▶	Strong ▶	Good ▶	Good ▶	Good ▲

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Our News and Views section this month covers two International Monetary Fund (IMF) publications and the Property Council of Australia (PCA) Office Market Report.

Reserve Bank Economic Forecasts

The table shows the updated RBA forecasts released with the SoMP on 6 February and we can see the importance of the CPI Inflation figure released by the ABS on 28 January 2024 the week before the February RBA Board meeting.

Having now decreased to 3.3% for June 2024 and 3.2% for December 2024 it will be very important that these forecasts are met.

Reserve Bank updated economic forecasts

SOURCE: RBA

	Dec23	Jun24	Dec24	Jun25	Dec25	Jun26
GDP						
Nov 2023	1.6	1.8	2.0	2.2	2.4	n/a
Feb 2024	1.5	1.3	1.8	2.1	2.3	2.4
Unemployment						
Nov 2023	3.8	4.0	4.2	4.3	4.3	n/a
Feb 2024	3.8	4.2	4.3	4.4	4.4	4.4
Wage Price Index						
Nov 2023	4.0	4.0	3.7	3.7	3.5	n/a
Feb 2024	4.1	4.1	3.7	3.6	3.4	3.2
Trimmed Mean inflation						
Nov 2023	4.5	3.9	3.3	3.0	2.9	n/a
Feb 2024	4.2	3.6	3.1	3.0	2.8	2.6
Consumer Price Index						
Nov 2023	4.5	3.9	3.5	3.3	2.9	n/a
Feb 2024	4.1	3.3	3.2	3.1	2.8	2.6

A positive sign is the November 2023 CPI Indicator which has come in at 4.3% for the 12 months, having fallen each of the last two months from September 2023 at 5.6% and October 2023 at 4.9%.

This is a very good trend, and we view it as a reassuring factor in interest rates having peaked with the prospect of reductions later this calendar year.

The additional commentary provided by the RBA with their announcements of Monetary Policy decisions are very useful in forecasting future interest rate movements.

These will be expanded at the half-year when further changes are implemented with an additional Board for Monetary Policy to come into being and unidentified voting numbers on Cash Rate decisions to be disclosed.

International Monetary Fund (IMF) Reports January 2024

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On 8 January 2024, the International Monetary Fund (IMF) issued its Country Report on Australia following a detailed review including a visit in September, October 2023 which saw several interviews with Government and Reserve Bank of Australia (RBA) officials.

The headlines of the report were “A tighter fiscal policy is need to support disinflation.” and “Monetary Policy should be tightened further to ensure inflation comes back to target earlier than projected 2026 baseline.” The report drew a great deal of attention when published with four major articles in the Australian Financial Review (AFR) and the lead editorial that day.

A few commentators did note that the IMF team producing the report visited Australia in September and October and that is when they met with Treasury and RBA officials. That is quite a while ago in terms of economic changes and in fact the RBA did increase the Cash Rate at its November 2023 meeting. With this in mind we are not convinced that the IMF comments are going to have much future impact.

The broader World Economic Outlook (WEO) issued on 28 January 2024 was entitled “Moderating Inflation and Steady Growth Open Path to Path to Soft Landing.” It went on to say that Global growth is projected at 3.1% in 2024 and 3.2% in 2025, with the 2024 forecast 0.2 percentage point higher than that in the October 2023 WEO on account of greater-than-expected resilience in the United States and several large emerging market and developing economies, as well as fiscal support in China.

The forecast for 2024–25 is, however, below the historical (2000–19) average of 3.8%, with elevated central bank policy rates to fight inflation, a withdrawal of fiscal support amid high debt weighing on economic activity, and low underlying productivity growth. Inflation is falling faster than expected in most regions, in the midst of unwinding supply-side issues and restrictive monetary policy.

Global headline inflation is expected to fall to 5.8% in 2024 and to 4.4% in 2025, with the 2025 forecast revised down. The table below shows the key numbers outlined above with those for Australia underneath.

The numbers for Australia show improvement from those projected 3 months ago in October 2023 with GDP for 2024 forecast to be up by 0.2% and 2025 up by 0.1% which are now similar to Canada and other Advanced Economies of the World.

We can compare these to the forecasts by the RBA released in the latest quarterly SoMP (next slide).

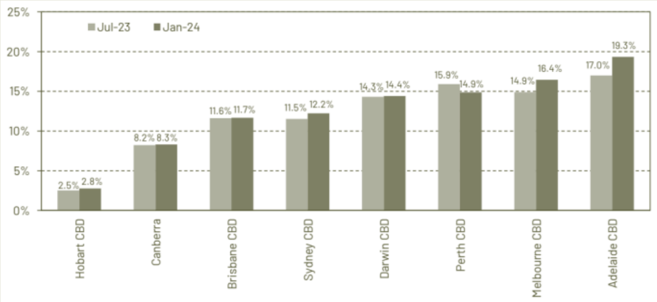
	ESTIMATE	PROJECTIONS	
(Real GDP, annual percent change)	2023	2024	2025
World Output	3.1	3.1	3.2
Advanced Economies	1.6	1.5	1.8
United States	2.5	2.1	1.7
Euro Area	0.5	0.9	1.7
Germany	-0.3	0.5	1.6
France	0.8	1.0	1.7
Italy	0.7	0.7	1.1
Spain	2.4	1.5	2.1
Japan	1.9	0.9	0.8
United Kingdom	0.5	0.6	1.6
Canada	1.1	1.4	2.3
Australia	1.8	1.4	2.1

Property Council of Australia (PCA)

Office Market Report (OMR) January 2024

One of the many reports on the various property sectors issued at the start of the year was the PCA, Office Market Report showing high levels of vacancies across all capitals with some variation depending upon CBD or secondary location. One of the graphs provided by the PCA is shown below.

The January 2024 edition of the Office Market Report, which is released twice a year, showed overall CBD vacancy increased from 12.8 to 13.5% nationally. Non-CBD areas saw an increase from 17.3 to 17.9%.



The vacancy rate for prime office space across the country was lower than secondary assets in every capital city besides Sydney and Adelaide. The Australian CBD prime vacancy rate across the country was 12.9% compared to a vacancy rate of 14.5% in the secondary market.

Other research reports for the 4th quarter 2023 in the Office sector confirm the impact on rents, incentives and yields which with few exceptions continue to reflect a difficult operating environment. The prospect of interest rate reductions later in the year will doubtless have a positive impact on the sector and this is mentioned by many analysts in their commentaries.

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How to increase comfort and reduce borrowing risks.

When looking at commercial property purchases try to remove as many potential lender covenants as possible.

Thinktank have no annual reviews, no revaluation requirements and ongoing monitoring of various lending covenants. We offer set and forget commercial lending solutions for loans up to $6m.

At times borrowers forget that commercial property investment loan terms are often tied to the lease term for a period equal to or less than the actual term of the lease. Often WAULTs and WALEs are at play which not only restrict the committed proposed loan term, but potential exit strategies may also be impacted on expiry of the loan. Increased vacancies rates and short term WALES can cause a level of concern and refinancing difficulties

Whilst our recent News and Views noted vacancy rates may be changing, having a loan product not tied to the lease term provides a great deal of comfort.

None of our loans are tied to lease terms.

In fact, if you are looking for a standalone lending solution from a servicing and security perspective, a Thinktank Lease Doc loan maybe a suitable solution. Our Lease Doc loan offers a 25 year P&I committed term using 100% of the rental income generated from the proposed security property with serviceability measured at an ICR (Interest Cover Ratio) of 1.50x

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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