March 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) under their new structure and Board meeting schedule meets next on 19 and 20 March and then again on 6 and 7 May. The Cash Rate was left unchanged as expected in February and is very likely to be the case at the next meeting.

The next quarterly Statement on Monetary Policy (SoMP) will be released after the May meeting under the new structure, but the semi-annual Financial Stability Review will be tabled at the March meeting and should have some interesting comments on the stress in the housing markets that is getting a lot of attention in the press.

As noted previously, key recent statistical releases have been weak although Retail Sales were up 1.1% for the month of January after being down 2.7% month on month for December. 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%. Very importantly, the December quarter GDP results were released on 6 March showing just 0.2% increase in the last quarter and 1.5% for the year; both considered weak but not yet reaching a negative quarterly result. Unemployment for January 2024 seasonally adjusted was up slightly at 4.1% compared to December's 3.9%.

The Westpac-MI Consumer Sentiment Index rose 6.2% in February to 86.0, from 81.0 in January taking it to its highest level since June 2022.

The rise was driven by year ahead expectations with underlying factors being cooling inflation and the improving outlook for interest rates.

Despite this good news, the Westpac Leading Index eased back to -0.25% in January from -0.01 in December with brief improvement late last year giving way to renewed weakness.

Internationally the US Federal Reserve held rates steady as did the Bank of Canada at their latest meetings.

More recently though the Chairman of the US Federal Reserve Bank, Jerome Powell hinted at earlier rate cuts than had been forecast previously which led to considerable market movement.

10 year US Treasury Yields were trading slightly down at 4.08% and AUS 10 year Gov't bonds were at 3.99% with the US yield still inverted from the 2 year at 4.41% by 33 bps with AUD 3 year Gov't bonds down to 3.60%.

The AUD had risen last month to USD 0.67 but is now once again slightly lower at USD 0.66.

The AiG Index fell 4.9 points to -27.3 in January and the PMI and PCI indices while rising by 1.5 points and 10.7 points respectively were still in negative territory at -27.3 and 11.5. The AiG index has been in contraction for the last 21 months
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## Core Logic

CoreLogic dwelling prices for February continued their recovery across almost all Major Capitals but again at very different paces but with the five major capitals all up for the month with only Melbourne down slightly at -0.6% for the quarter.

National Housing values posted a 0.6% gain for the month and up 1.3% for the quarter.  For the month houses in  Sydney were up 0.4% and Melbourne rose by just 0.1%. Unit prices were up 0.7% for the month in Sydney and up 0.2% in Melbourne.

Adelaide, Perth and Brisbane all did very well once again this month leading the Capitals with all three up strongly in both Houses and Units for both the month and the quarter. Momentum continues to be with the smaller Capital Cities and growing expectations of lower interest rates are positive for ongoing trends.

| Index results as at 29 February, 2024 | Change in dwelling values | | | | |
|---|---|---|---|---|---|
| | Month | Quarter | Annual | Total return | Median value |
| **Sydney** | 0.5% | 0.6% | 10.6% | 13.8% | $1,128,155 |
| **Melbourne** | 0.1% | -0.6% | 4.0% | 7.5% | $778,941 |
| **Brisbane** | 0.9% | 2.9% | 15.6% | 20.3% | $805,593 |
| **Adelaide** | 1.1% | 3.6% | 11.8% | 16.4% | $727,142 |
| **Perth** | 1.8% | 5.2% | 18.3% | 23.9% | $687,004 |
| **Hobart** | -0.3% | -1.4% | -0.6% | 3.6% | $652,645 |
| **Darwin** | 0.1% | 1.6% | -0.1% | 6.1% | $499,834 |
| **Canberra** | 0.7% | 0.3% | 1.6% | 5.7% | $840,103 |
| **Combined capitals** | **0.6%** | **1.2%** | **10.0%** | **13.9%** | **$842,109** |
| **Combined regional** | **0.6%** | **1.3%** | **5.5%** | **10.1%** | **$612,096** |
| **National** | **0.6%** | **1.3%** | **8.9%** | **13.0%** | **$765,762** |

# 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 showing positive CoreLogic Housing results for the month and quarter.

We maintain our optimism that interest rate cuts can be expected 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 which we feature in our News and Views section reflecting low 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 especially impacting listed Real Estate Investment Trusts (REITS) and other traded property companies. This results in no change to our Rating and Trends shown below but with close attention continuing to be paid as we end 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 the Industrial Property Sector.

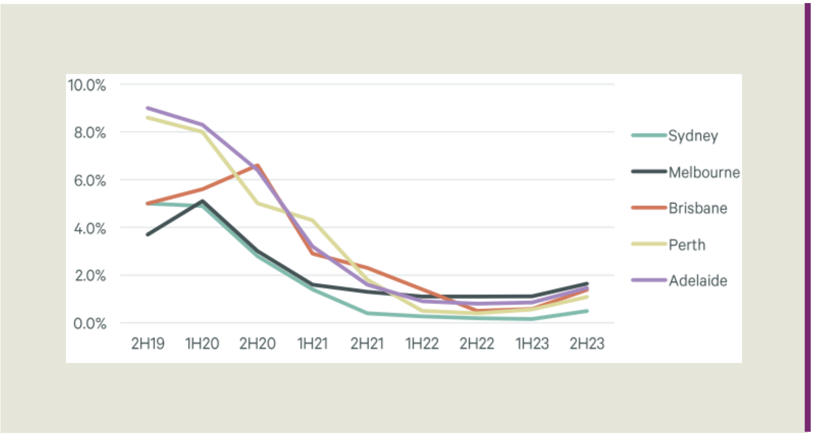
As is usually the case at the start of the year property valuation and research firms come out with various sector reports summarising what has happened in the market during the previous 12 months and what their expectations are for the coming year.

2024 is no different and there is a lot of very good research available, and we have been particularly interested in a number of fine reports covering the Industrial sector. Thinktank's Commercial Lending portfolio is made up of more than half being secured by Industrial properties well distributed across the various States. The reports we feature in this commentary are from Jones Lang LaSalle (JLL), Knight Frank Research and CBRE. Each covers both the National market and the major Capital Cities and are reflected in the assessments we produce in our Ratings and Trends.

All of the major indicators for the sector remain favourable across the country driven largely by very low vacancy rates as shown below by CBRE which see low incentives required for new leases/tenants and good net effective rents. The prospect of lower interest rates has seen pressure on most commercial property yields but in Industrial this has largely been offset by the rental factors just mentioned.

## Australian major markets vacancy rates 2H 19 to 2H 23

### CBRE Research Industrial & Logistics




Knight Frank particularly covered the leasing market stating,

**"Tenant demand has remained robust."** but adding **"After exceptionally high rental growth of 25-50% over the past two years the market has entered a stabilisation phase for rents."**

The chart shows this quite graphically with quarterly rental increases down in every major capital.

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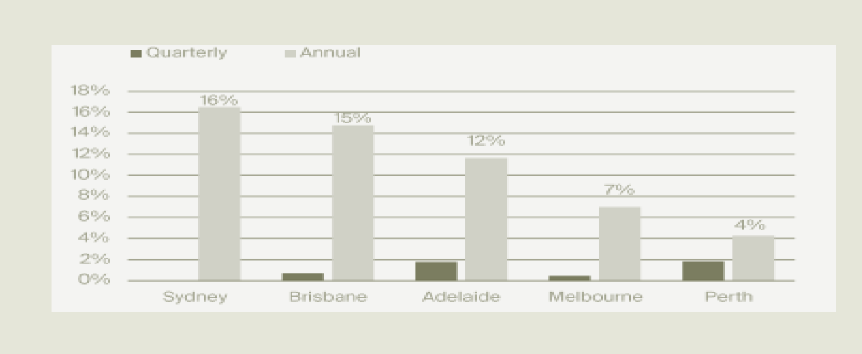
# Prime Rent Growth. Average across major capitals. Q4 2023
## Knight Frank Research



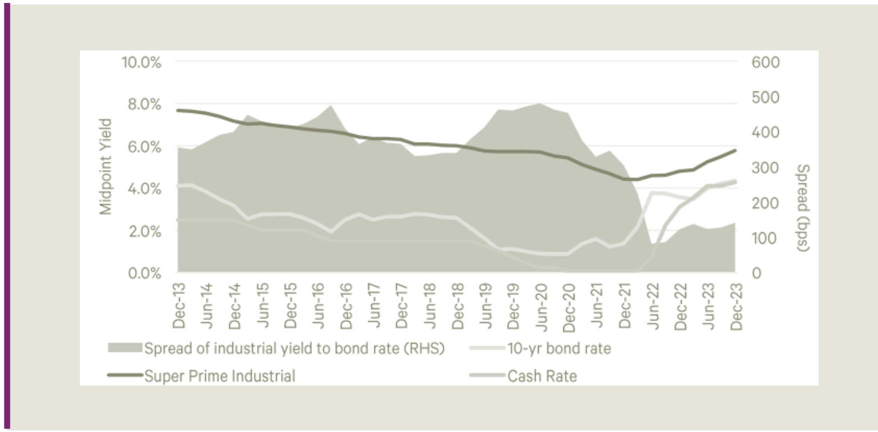

JLL reported that average market rents continued to trend upwards across Australia. Apart from Perth, average net face rents in every Australian markets increased QoQ in Q4 2023.

The supply / demand mismatch and the ongoing challenges for businesses seeking modern, efficient warehouse space is still placing upwards pressure on asking rents.

As a result, national prime average weighted net face rents increased by 3.9% to AUD 186 per sqm p.a. This increased annual growth to 18.1% - marginally down from peak annual rental growth of 24.9% y-o-y recorded at the start of the year.

The impact of incentives mentioned earlier is important in terms of its impact on net effective rents particularly when yields start to increase after a long period of decline. The following CBRE charts show nationally the big picture of interest rates  and yields over the last ten years and then weighted average incentives by major capital city for the same period.

## Weighted average super prime rental incentives by city
### CBRE Research Industrial 2012 - 2023



# Think Industrial Property

The key points of the three research articles point to what a good investment market the Industrial property sector has been right across Australia.

No doubt some markets have performed better than others with Sydney having led the way however all areas have participated and the current performance of Perth and Brisbane point to further growth in those markets.

## Commercial Max and Lease Doc Finance Solutions

Despite market fluctuations, all major indicators for the industrial sector remain favourable nationwide, primarily driven by exceptionally low vacancy rates. These low vacancy rates translate to minimal incentives required for new leases/tenants and attractive net effective rents. However, borrowers should exercise caution, considering factors such as WAULT (Weighted Average Unexpired Lease Term) or WALE (Weighted Average Lease Expiry), as they could impact borrowing power, future rollovers, and asset retention plans.

To address these concerns, Thinktank offers lending terms unrestricted by WAULT or WALE, reflecting our commitment to supporting borrowers' needs. Furthermore, our confidence in the commercial/industrial investment market has led us to introduce our Lease Doc offering, providing standalone servicing and a committed loan term of up to 30 years, without rollovers, annual reviews, or reassessments, provided the lease has at least 2 years remaining from the settlement date. In recognition of the robust rental market, we also consider 100% of the rent for servicing without applying shading.

As demand for commercial/investment property rises, so does the likelihood of price increases, especially with falling interest rates on the horizon. Anticipating market shifts, Thinktank has raised its maximum loan sizes to cater to Full Doc Commercial and SMSF transactions up to $8m, offering committed 25-year loan terms without restrictions or fees. Additionally, our Mid Doc Loan now provides lending solutions of up to $6m, based on self-certification and minimal income documentation.

The industrial market's performance has unlocked numerous opportunities for Thinktank to assist brokers and their customers with purchases, refinancing, and equity release. We look forward to leveraging our expanded offerings to help brokers capitalise on emerging opportunities and navigate market dynamics effectively.

**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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