April 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. Our News and Views section covers how we see the SMSF sector and developments with respect to regulation and investments.

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The Reserve Bank of Australia (RBA) under their new structure and Board meeting schedule met last month on 18 and 19 March but will not meet again until 6 and 7 May. The Cash Rate was left unchanged as it was in February. 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 was tabled on the Friday following the March meeting and contained interesting comments on how Australia was coping with the stress in the housing markets that is getting a lot of attention in the press as well as positive remarks on the resilience of the Australian financial system overall. As noted previously, key recent statistical releases have been weak.

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 February 2024 seasonally adjusted was down significantly to 3.7% compared to January's 4.1% which has caused concern this may increase inflationary pressures. Internationally similar issues are being confronted by Central Banks with almost daily adjustments to forecasts of when interest rates may fall.

The Westpac-MI Consumer Sentiment Index fell slightly by 1.8% in March to 84.4 after recovering in February to 86.0, which had taken it to its highest level since June 2022. The fall was attributed to consumers reaction to the RBA holding rates steady at their March meetings which did not appear to come as a surprise to most economists.

In contrast to this small setback, the Westpac Leading Index rose to +0.3 in February from -0.25% in January returning to the improving trend of late last year.

Improvement was also evident in the AiG Performance Indices for March with all three up although still slightly in negative territory. The AiG Australian Industry Index was up 9.5 to -5.3 and the PMI (manufacturing) was up 5.6 to -7.0 and the PCI (construction) was up 5.5 to -12.9.

The Federal Reserve Bank in the United States is most watched, and Chairman Jerome Powell has held quite firm that the FOMC is watching data closely and will be guided by those outcomes.

Expectations of cuts have gradually been pushed out slightly to later this year and this has impacted forecasts for our own Cash Rate. Current US 10 year Government Bond yields are 4.36% and in Australia they are 4.15%. The AUD is up slightly against the USD at 0.6570 .

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Core Logic

CoreLogic dwelling prices for March continued their recovery across almost all Capitals but again at quite different paces. National Housing values posted another 0.6% gain for the month and up 1.6% for the quarter with only Melbourne being flat for the month and down -0.2% for the quarter.

For the month, houses in Sydney were up 0.3% and Melbourne fell by -0.1%. Unit prices were up 0.4% for the month in Sydney and up 0.3% 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 at levels that are starting to surprise some commentators after 14 months of increases in National Housing values.

Index results as at 31 March, 2024	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	0.3%	0.9%	9.6%	12.8%	$1,139,375
Melbourne	0.0%	-0.2%	3.2%	6.8%	$778,892
Brisbane	1.1%	3.0%	15.9%	20.6%	$817,564
Adelaide	1.4%	3.3%	13.3%	18.0%	$734,173
Perth	1.9%	5.6%	19.8%	25.4%	$703,502
Hobart	0.2%	0.1%	0.3%	4.4%	$649,097
Darwin	-0.2%	0.4%	0.5%	7.0%	$498,433
Canberra	0.4%	0.8%	1.9%	6.0%	$838,976
Combined capitals	**0.6%**	**1.5%**	**9.7%**	**13.6%**	**$848,475**
Combined regional	**0.6%**	**1.8%**	**6.0%**	**10.7%**	**$620,032**
National	**0.6%**	**1.6%**	**8.8%**	**12.9%**	**$772,730**

Thinktank Ratings and Trends

We continue to reflect the improvement of Residential in almost all areas and we maintain our optimism that interest rates are on hold and will fall later this year. Retail continues to be showing some recovery although volatile, especially secondary although sales look to be flat although up in February on a weak January and December.

Industrial remains very strong across the country with continuing strong research reports but coming off their peak. While Office is doing better in some Capitals, a real recovery remains some time into the future with negative half-year results and commentary from major REITs.

▶ 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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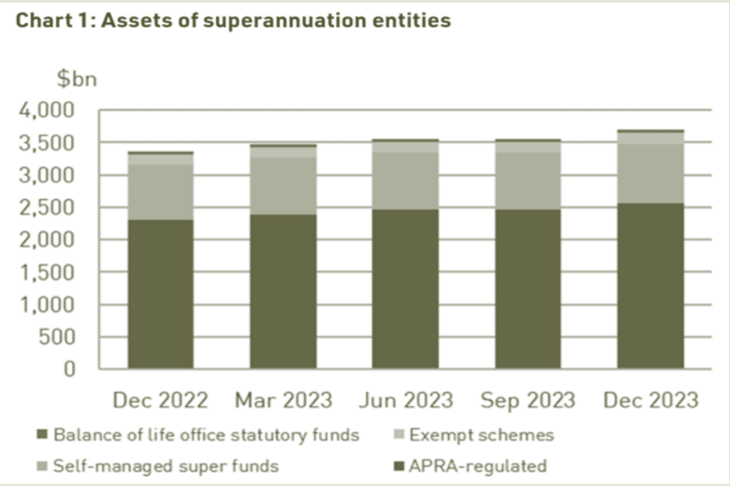
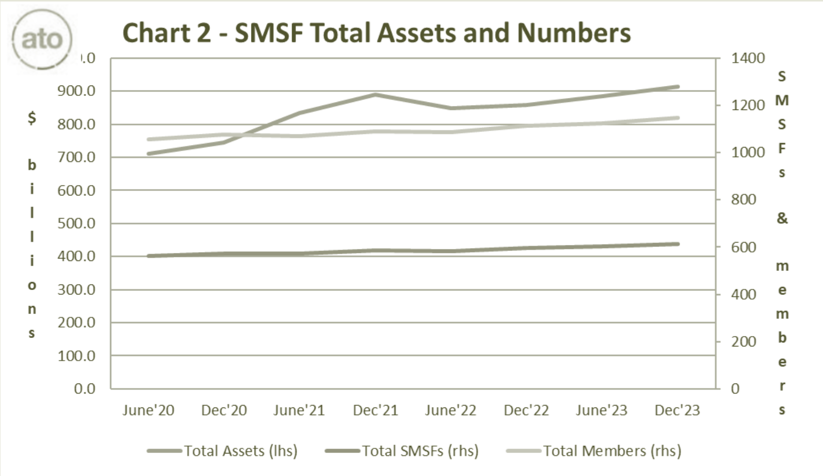
This month in the SMSF Update we look at the recent release by the Australian Tax Office (ATO) of the latest quarterly SMSF statistics for 31 December 2023 as well as comments from Regulators and SMSF Industry experts.

SMSF and superannuation continue to receive a lot of coverage regarding the changes to taxation and regulations but first some brief comments on economic factors and a look at the various property sectors.

The APRA release featured Chart 1 showing the continuing gradual quarterly rise in the assets of all Australian superannuation entities over the past year remaining slightly above $3.5 trillion in total.

Self-managed super funds also remained quite steady ending the quarter at $913.7 billion in total assets as shown below in Chart 2.





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The total number of SMSFs has grown slightly to 614,705 with total members now amounting to 1,146,724. An interesting statistic is that this past quarter saw the lowest number of wind-ups of SMSFs in the five years reported.

Average membership equates to just under 2 members per fund which has been the case for many years now with just under 70% of all SMSFs having 2 members and just under 25% having just 1. Larger numbers of members remain rare even after the legislation was changed to allow up to six members and our own experience at Thinktank is similar with most funds being made up of a husband and wife.

There are several reasons for this, and a major one is the difficulty in putting in place an investment strategy that can accommodate the goals of the parents with those of younger children who have a much longer investment horizon ahead of them.

The topic was well covered in a recent Smart Investor article published by the Weekend AFR and entitled “All in the Family”. Issues such as the children becoming trustees or directors of the corporate trustee are important and bring up different issues if the children are under 18 years of age. Older children who are working and/or have existing superannuation investments can add to the available capital of an SMSF if an acquisition of an investment property is being considered. These issues all need to be thought out carefully and expert advice is essential.

The average $ size of assets held in an individual SMSF is just under $1.5 million at $1.486 million but this is somewhat distorted by a small number of very large SMSFs with the median assets per SMSF being reported as under 60% of the average, so under $900,000.

The Asset distribution by fund size also changes quite a bit as funds grow in size with Cash & Term Deposits being most popular with funds under $500k in size and Crypto-Currency actually featuring in the top 5 for smaller funds up to $200k in Total Assets. The average asset allocation across all SMSFs is shown Chart 3 (page7) and again there are some interesting variances depending upon the size of the fund.

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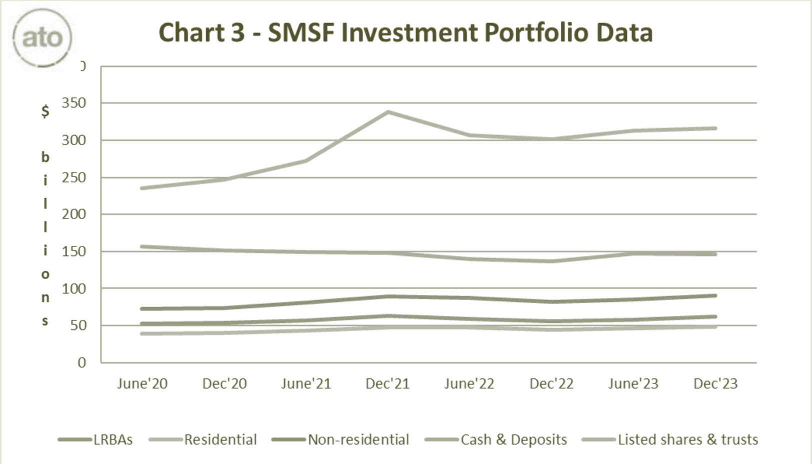

As can be seen above, average asset allocation also remains quite stable except for periods when listed markets experience high volatility. Otherwise as is not surprising, Listed Shares and Trusts combined with Cash and Term Deposits make up over 50% of the average SMSF’s assets. Real Property doesn’t get over 15% until funds reach a size of over $2 million and then grows as the fund size increases but never gets over 20%. The use of Limited Recourse Borrowing Arrangements is highest in funds ranging in size from $500k to $1 million and is about equal to the value of the Real Property investments in those funds.

An interesting feature of the split between Residential and Non-Residential Property is that it is fairly even until the size of the funds hits $1 million and the it rapidly grows to twice as much non-residential property for funds over $2 million and three times as much once funds exceed $5 million in size.

Our own experience has been to see approximately 3 to 2 non-residential LRBAs in number and approximately 2 to 1 in size because of the greater value of the average commercial property. There are some great advantages for small business owners to hold the commercial properties they operate out of in their SMSFs and to gear their acquisition through the use of a Limited Recourse Borrowing Arrangement (LRBA). This is allowed through an exception to the requirements for transactions to be at arms-length to the members under the “in-house asset rule” and covers what is described as “business real property” (BRP).

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There are multiple benefits such as the allowance of “in-specie” contributions consisting of business real property where the asset itself or part of it makes up the contribution to the SMSF and enjoys various benefits such as stamp duty exemptions. There is no doubting the significant benefits that arise from this approach and our own experience is that more and more SME owners are looking to adopt this approach to planning for retirement.

The usual commentaries that accompany the quarterly SMSF statistical releases from the ATO have been quite heavily populated with debate about recently released proposed changes in regulations and taxes that have not been well received by industry associations and individual sector experts who are widely read and well recognised for their well-informed opinions.

Two key issues which both will await the introduction of enabling legislation prior to 2025 (after the next federal election) are an increase in the rate of taxation for SMSF balances over $3 million to 30% or an additional 15% over the existing 15% tax rate for balances of $3 million and less. The calculations are proposed to be on a pro-rata basis so the additional tax would be less than simply double that on the lesser amount of $3 million.

This is estimated to impact at least 10% of SMSFs and if implementation proceeds to the current timetable will no doubt lead to a significant restructuring of existing larger SMSFs and in some cases liquidation of long-term assets. The other major taxation change is the proposal to impose Capital Gains Tax on unrealised gains in asset values such that CGT would have to be paid on Real Property that had risen in value even though the property had not been sold and thus any gain was unrealised.

Even more frustrating to many is that no recovery of the tax paid would be given if the asset in question subsequently falls in value so as to eliminate any earlier unrealised gain. It would appear clear that there is more debate to take place before either of these controversial items is finalised and especially so given the timing of the legislation to enable them is purposefully set for after the next election.

Unfortunately, the number of people impacted by them is not so great as to make them key issues so much of the discussion to date seems to be how best to cope with them and minimise the financial impact and we will keep a close eye on what is published and communicate that in future updates. Most published commentary so far suggests not rushing into any decisions.

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

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