June 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 met last on 6 and 7 May after missing April and will now meet again on 17 and 18 June with no meetings scheduled in July. The Cash Rate was left unchanged as it has been since November 2023 when it was increased by 0.25%.

The quarterly Statement on Monetary Policy (SoMP) was also released after the May meeting under the new structure and will next be published on 6 August. Key recent statistical releases have been outside of previous RBA expectations. Importantly, the latest Monthly CPI for April released by the ABS on 29 May came in at 3.6% for the 12 months. The forecast CPI had now been amended to 3.8% in the new SoMP for both June and December.

The March Retail Trade figures were down 0.4% from the previous month and up only 0.8% on a year earlier. Unemployment for March 2024 seasonally adjusted was up slightly to 3.8% compared to February's 3.7% but still caused concern this may increase inflationary pressures. The projected rate for June 2024 in the SoMP was adjusted from 4.2% to 4.0%. The quarterly GDP result was released on 5 June and showed a very slim 0.1% in the first quarter and just 1.1% for the year.

Internationally similar issues are being confronted by Central Banks with almost daily adjustments to forecasts of when interest rates may fall. The Federal Reserve Bank in the United States is most watched, and Chairman Jerome Powell continues to hold firmly that the FOMC is watching data closely and will be guided by those outcomes. The Bank of Canada met on 5 June and announced a rate cut in the 5% Bank of Canada Rate to 4.75%.

The FOMC next meets on 11 and 12 June and the RBA a week after that on 17 and 18 June with no changes expected from either of them. Expectations of cuts have gradually been pushed out to later this year and this has impacted forecasts for our own Cash Rate. Current US 10 year Government Bond yields are 4.28% and for 2 years 4.72% while in Australia they are 4.22% for 10 years and 3.90% for 3 years. The AUD is up slightly against the USD at 0.6653 .

The Westpac-MI Consumer Sentiment Index fell slightly by 0.3% in May to 82.2 continuing a two year slump in sentiment. The fall continues to be attributed to consumers reaction to ongoing inflation concerns. The Westpac Leading Index improved slightly to -0.01 in April from -0.08% in March recovering close to a positive level after the negative trend of most of the last year.

A continuing negative trend however was evident in the AiG Performance Indices for May with all three down substantially and moving further into negative territory. The AiG Australian Industry Index was down 31.4 to -40.3 and the PMI (manufacturing) was down 17.3 to -31.1 and the PCI (construction) was down 42.5 to -68.1 . While all three are down significantly, the PCI is at it lowest ever.

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Into people. Not just transactions.

Core Logic

CoreLogic dwelling prices for May continued their recovery across almost all Capitals except for Melbourne but again at quite different paces.

National Housing values posted another 0.8% gain for the month and up 1.9% for the quarter with only Melbourne being down -0.2% for the quarter although up 0.1% for the month.

Houses in Sydney were up 0.5% and Melbourne houses were flat. Unit prices were up 0.7% 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 reflecting this, Brisbane has now overtaken Melbourne as the capital city with the second highest median value after Sydney.

Index results as at 31 May, 2024

	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	0.6%	1.2%	7.4%	10.6%	$1,156,020
Melbourne	0.1%	-0.2%	1.8%	5.5%	$780,437
Brisbane	1.4%	3.9%	16.3%	21.0%	$843,231
Adelaide	1.8%	4.3%	14.4%	19.0%	$757,448
Perth	2.0%	6.1%	22.0%	27.8%	$736,649
Hobart	-0.5%	0.3%	-0.1%	3.9%	$655,170
Darwin	-0.3%	1.9%	3.5%	10.3%	$502,120
Canberra	0.5%	0.7%	2.0%	6.1%	$840,100
Combined capitals	**0.8%**	**1.9%**	**8.8%**	**12.7%**	**$864,780**
Combined regional	**0.6%**	**2.0%**	**6.8%**	**11.6%**	**$626,888**
National	**0.8%**	**1.9%**	**8.3%**	**12.5%**	**$785,556**

Thinktank Ratings and Trends

We continue to reflect the improvement of Residential in almost all areas except Melbourne and we maintain our optimism that interest rates are on hold and will fall later this year. Retail continues to struggle but is showing some recovery although volatile, especially secondary although sales are down.

Industrial continues to be strong across the country although coming off their peak. While Office is doing better in some Capitals, a real recovery remains some time off with negative half-year results and expectations of a number of major sales that could see valuations falling over the coming months

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

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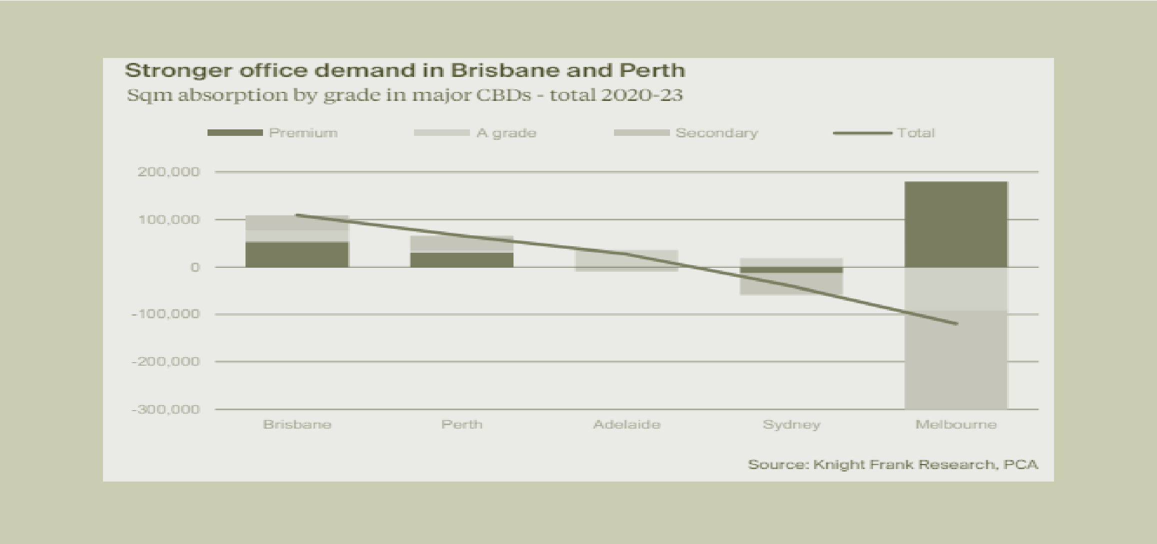
News and Views

This month we will look at various research reports on the commercial sectors we rate and consider some adjustments although overall changes appear to be more in the residential sectors. One factor that is increasingly apparent is that supply and demand is driving prices regardless of sector or location. The various pieces of research shown are also supported by Herron Todd White in their various month-in-review commentaries which we follow.

Office: The Office sector has been broadly affected by higher interest rates and yields together with higher vacancy rates over the past couple of years and recent research is only mildly positive with respect to a change in this trend.

The negative absorption in Melbourne for other than Premium space is significant and is also evident in the vacancy rates shown in the same Knight Frank research with Incentives remaining high with only Brisbane seen to have tightening vacancy. The following comment was made concerning both the Melbourne and Sydney markets: *“Fewer developments starts to tighten the prime market and widen the gap between prime and secondary rents.”*



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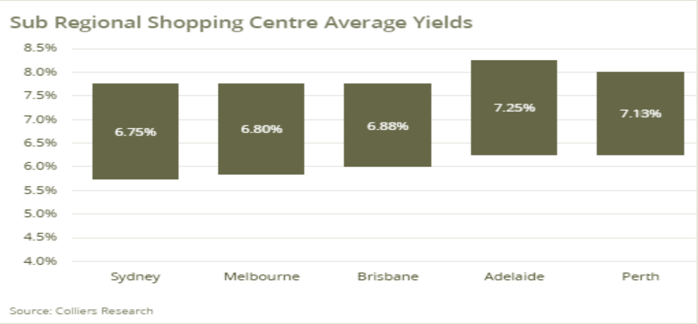
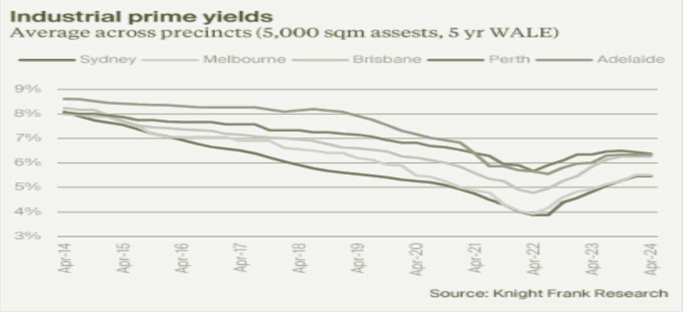
Retail: Retail can be quite accurately judged by sales volumes, and these have been consistently down for some time as consumers have been stretched by higher costs both for goods and services and particularly mortgage expense. This remains pretty much so across all capitals and the yields shown above in the Colliers Research show little variance from State to State. These numbers are for Sub-regional Shopping Centres but are representative of other categories as well.





Industrial: This sector has been strong for some time while others have struggled, and forecasts are for this to continue. Industrial rental growth has been very strong across all Capitals but is forecast to slow this year although development is expected to remain elevated as the ongoing drive for efficiency will sustain demand.

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Think the industrial market is heating up?

How heated is the industrial property market, and what measures can brokers take to meet their customers' demands for loans to acquire and refinance these assets?

Recent media coverage has highlighted the ongoing demand for industrial properties, coupled with a scarcity of supply. However, the question remains: How heated is the industrial property market, and what measures can brokers take to meet their customers' demand for loans to acquire and/or refinance these assets?

As is customary at the beginning of each year, commercial real estate, property valuation and research firms release various sector reports, summarising the market's performance over the past 12 months and outlining expectations for the year ahead. These insights hold particular significance for Thinktank, given that over half of our commercial lending portfolio comprises loans secured by industrial properties distributed across the nation.

The past year has been challenging due to inflation, rising interest rates, and a changing economic environment, impacting consumer sentiment and the business sector, however, despite these negative influences, we have continued to see solid commercial property lending activity.

The March edition of Thinktank's Monthly Market Focus Report showcases insights sourced from prominent industry leaders including Jones Lang LaSalle (JLL), Knight Frank Research, and CBRE. These reports meticulously analyse both the national market and key capital cities, serving as pivotal data in shaping the assessments we formulate for our Ratings and Trends analyses.

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 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.

At times borrowers may overlook 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.

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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.

While the prospect of lower interest rates may exert pressure on commercial property yields, industrial properties have largely offset this through rental factors. For instance, vacancy rates have fallen across all Australian states, with average net face rents experiencing quarterly increases in Q4 2023. This supply/demand disparity, coupled with the ongoing demand for modern warehouse spaces, may continue to drive upward pressure on rents for the more sought after properties and areas.

According to our research, numerous articles underscore the industrial property sector's attractiveness as a sound investment across Australia. Although certain markets, such as greater Sydney, have outperformed others, all regions have witnessed some degree of uplift. Notably, the current performance of markets such as Perth and Brisbane indicates further growth potential.

As demand for commercial 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 for Full Doc Commercial and SMSF transactions up to $8m, offering committed 25-year loan terms without performance covenants 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 making available our expanded offerings to help brokers capitalise on emerging opportunities and navigate market dynamics effectively.

Thinktank was originally established nearly 20 years ago as a specialist commercial lender, so we have deep commercial experience and offer a range of education sessions based around empowering brokers to successfully diversify into the commercial space.

We recommend that brokers establish a partnership with their Thinktank Relationship Manager and reaching out to them in the first instance. Engaging with a trusted partner who can quickly workshop a loan scenario or application and provide support throughout the process can make all the difference.

Our L&D team comprising Regional Sales Executives and other senior members in our business, each have in excess of 25 years' experience in commercial and business lending that enables us to adapt our training to suit and meet each individual broker's training requirements and preferences.

Our team is always on hand to discuss potential transactions and guide brokers from workshop to settlement, ensuring a seamless experience.

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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Relationships Team