Australian real estate market focus

July 2022

Thinktank

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 our website thinktank.net.au for our latest Quarterly Market Update. This month in News and Views we take a look at the latest SMSF statistics published by the Australian Tax Office (ATO) for the quarter ended 31 March 2022.

The Westpac-MI Consumer Sentiment Index fell sharply again in June by 4.5% to 86.4 remaining well below the 100 level of confidence, impacted by inflation and interest rate increases. The Westpac Melbourne Institute Leading Index fell to 0.58% in May from 1.09% in April. June's result for the AiG Manufacturing Index was positive again after last month's fall gaining 1.6 points to 54.0 and staying in positive territory above 50. The PCI construction index was down in May by 5.5 points to 50.4, and another 4.2 to 46.2 in contraction below 50. The PSI covering services and retail was down by 8.6 points to 49.2 in May and a further 0.4 to 48.8 in June.

At its much anticipated July meeting the RBA Board raised the Cash Rate as expected but surprised some (but not all market economists) by choosing to do so by 0.50% for a second time from 0.85% to 1.35%. Further increases are expected this year over the next few months. This was another large increase and Governor Lowe's remarks after the Board meeting once again mentioned high inflation particularly as a key factor. The 1st quarter GDP results at 0.8% for the quarter and 5.3% yoy; were good but on the back of a high quarterly CPI for March of 5.1%, the strongest rise since 2001. Retail sales for May were also positive being up 0.9% for the month and 10.4% yoy. The unemployment rate of 3.9% in May, unchanged from April also evidenced the resilience of the Australian economy. Rates continue to rise by even larger amounts in the US with a 75 bps increase by the FOMC in June. Last month the Bank of Canada increased its Cash Rate by 50 bps to 1.50% and meets again on 13 July two weeks before the FOMC. 10 year US Treasury Yields traded at 2.97% at the start of the month while AUS 10 year Gov't bonds were at 3.63%. The AUD is down this month at USD 0.68.

CoreLogic dwelling prices for June continued the early stage decline. National Housing values posted a 0.6% fall for the month, and after last month's fall was down 0.26% for the quarter with falls in both Sydney and Melbourne. In Sydney, House prices were down 1.8% for the month with units down 1.0% resulting in a 1.6% decline in overall dwelling prices. The results were similar in Melbourne for houses being down for the month 1.3% and 1.1% for dwellings while units were down by 0.8%. Brisbane and Adelaide continued to perform well again this month with dwellings up 0.7% and 1.7% respectively while Regional outperformed Capitals by 0.1% to negative -0.8% for June and 2.0% to -0.8% for the quarter. CoreLogic has published a new set of charts tracking price changes across Capitals and Regions in each State which we will feature in our Quarterly Market Update as well as keeping a close watch on Ratings and Trends as interest rate increases impact the market.

We have reflected the further decline of Residential in some capitals and have slightly modified our ratings and trends for others but with many remaining stable for the near term. Sydney and Melbourne houses have both been re-rated as Soft and Declining. Retail continues to be showing the expected signs of volatility as sales continue to improve as noted above. Office continues its slow but steady recovery from the pandemic lockdowns while Industrial remains very strong and we are maintaining our Ratings and Trends which are either Strong or Good with an Improving Trend in each of the capitals. It still remains to be seen how interest rate increases will impact on commercial capitalisation rates but a relatively flat yield curve appears to be encouraging and we look more closely at this topic as well in our Quarterly Market Update.

	SYDNEY		MELBOURNE		ADELAIDE		BRISBANE (SEQ)		PERTH	
Resi- Homes	Soft	Declining	Soft	Declining	Good	Stable	Good	Stable	Good	Stable
Resi- Units	Soft	Declining	Soft	Declining	Good	Stable	Good	Stable	Good	Stable
Office	Fair	Stable	Fair	Stable	Strong	Stable	Fair	Stable	Fair	Stable
Retail	Weak	Stable	Weak	Stable	Good	Stable	Good	Stable	Good	Stable
Industrial	Strong	Improving	Strong	Improving	Strong	Improving	Good	Improving	Good	Improving

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

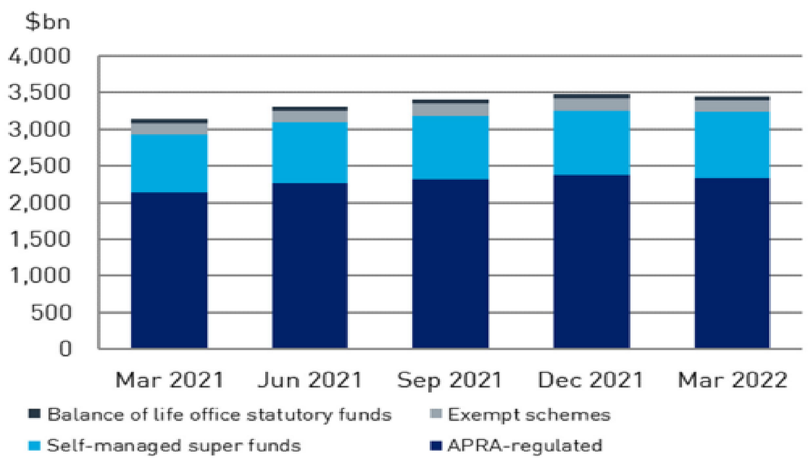
News and Views

o APRA recently released their Quarterly superannuation performance statistics which included the chart below showing the asset levels over the past year of the various superannuation entities operating in Australia. For the year ending March 2022, total superannuation assets increased 9.7% to $3.4 trillion. This incorporates a 0.9% decline in assets over the March 2022 quarter. With the continued volatility in equity markets and real property prices we are likely to see a continuation of this in the current June quarter and beyond while markets correct for the Covid slowdown and interest rate increases taking place both domestically and internationally. As shown in Chart 1 opposite total assets of SMSFs grew by 12.0% in the year to 31 March 2022 and even managed 1.7% growth in the last quarter. Both the number of SMSFs and members continues to rise and there is no indication that this trend will change as individuals appear to be increasingly wanting to have greater involvement in managing their retirement savings which is so effectively achieved in establishing an SMSF.

o Chart 2 opposite takes a look at the Asset Allocation within SMSFs and we can see the growth in Listed Shares & Trusts over the past year (the top red line) rising by nearly $50 billion or 20% in the year to December 2021 with a further $5 billion increase in the last quarter. Defensive Cash & Deposits has fallen slightly in the same period no doubt reflecting the low interest rate returns available but Direct Property investments continue to rise. AFR columnist Duncan Hughes took an interesting look at how investors were looking at various sectors in a recent article entitled “Share investors seek shelter in Property.” This wasn’t restricted to SMSFs and showed how various classes of investors could see things quite differently. Both Residential and Non-residential assets are up over 20% since December 2020 and the ratio of Non-residential to Residential continues at just under 2:1. Interestingly this is consistent with our own experience at Think Tank with commercial or “business real property” being the more popular SMSF investment than residential. Limited Recourse Borrowing Arrangements (LRBAs) also continue to grow at a slightly higher rate of 22% since December 2021 with the relationship with direct property investments staying at less than half although this is not a direct Loan to Valuation Ratio (LVR) measurement as some SMSF direct property investments have no debt attached to them.

o One interesting statistic reported by the ATO is the different asset allocation percentages by size of the SMSF. So depending on the total assets held by an SMSF what are the types of assets invested in and at what stage do Trustees consider utilising LRBAs to acquire assets. The reporting by the ATO ranges from SMSFs with $50k in assets to over $50million and is broken down over eleven categories by size. Cash & Term Deposits are highest amongst smaller sized SMSFs whilst Listed Securities are quite consistent across all sizes at mid-20%. Direct Property and LRBAs become popular in the range of SMSFs of a size from $200k to $1million with a fairly even split between Residential and Non-residential property. This changes quite noticeably once the SMSF size passes $1million and then continues quite steadily with Non-residential growing and Residential diminishing until a level of 2:1 is reached at SMSFs sized $2 to $5million. LRBAs also reduce once the SMSFs reach a size of $2million. These statistics also reflect our own experience and are quite indicative of the very sound quality we have seen in SMSF lending that is present across the whole sector.

Assets of superannuation entities – March 2021 to March 2022, APRA Quarterly Statistics



APRA

Chart 1 - SMSF Total Assets and Numbers

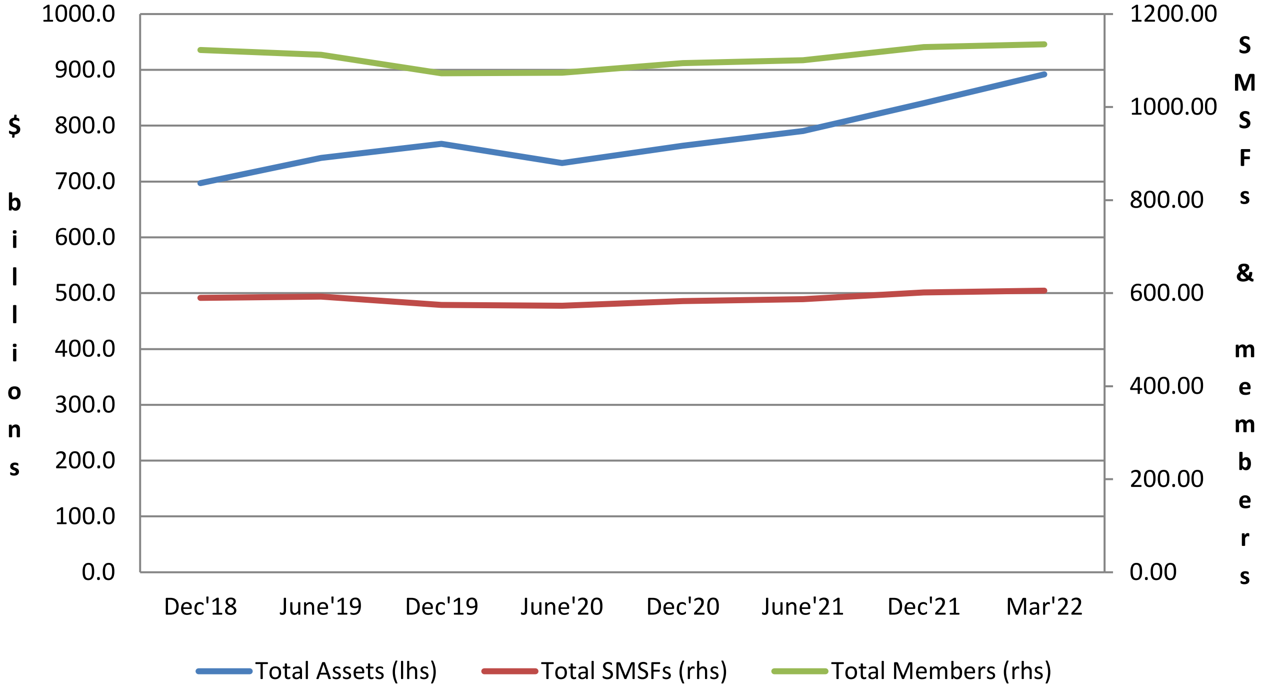
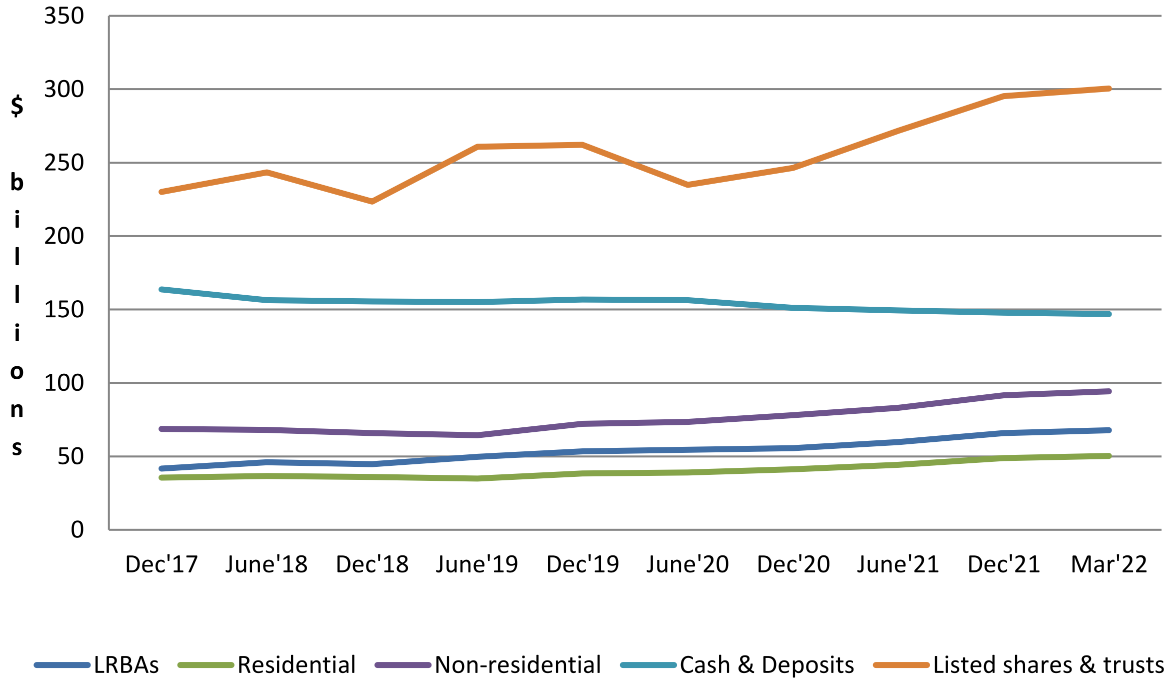


Chart 2 - SMSF Investment Portfolio Data



Source: Australian Tax Office

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- Finance for the purchase, equity release and refinance of commercial and residential property;
- Set and forget loan terms up to 30 years with no ongoing fees or annual reviews;
- Self-Managed Superannuation Fund (SMSF) loans; and
- Loan serviceability options ranging from fully verified to self-certification of income.