September 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.

Thinktank

This month in the News and Views section we take a look at the Retail sector as well as some commentary on the latest Australian GDP data released by the Australian Bureau of Statistics (ABS).

The Reserve Bank of Australia (RBA) last met on 7, 8 August and the Cash Rate was left unchanged as it has been since November 2023 when it was increased by 0.25%. The RBA Board meet again on 23,24 September and from specific comments by the Governor no change to rates is expected. Very weak GDP data of a 0.2% increase for the June quarter and 1.0% for the year did not influence the Governor's remarks the following day suggesting any cut in the Cash Rate may have to wait until the New Year.

The ABS also released the July Retail figures which were unchanged from the previous month and up 2.3% on a year earlier, slightly down from the previous month. Unemployment released on 15 August for July 2024 seasonally adjusted was up again slightly to 4.2%.

Internationally similar issues continue to be confronted by Central Banks with increased forecasts of when interest rates may fall. The Federal Reserve Bank in the United States continues to be most watched and Chairman Jerome Powell and other FOMC Board members are now strongly expected to begin easing US rates at their September meeting following public statements after the closely watched Jackson Hole meetings.

The Bank of Canada and the Bank of England have already cut their rates but they remain higher than ours in Australia. Expectations of cuts to our Cash Rate have now been pushed out to next year in many cases and would be much preferred to an increase which in the view of most is not needed but was considered by the RBA Board at their recent meeting. Current US 10 year Government Bond yields are down slightly at 3.71% and un-inverted from 2 year bonds at 3.65 for the first time since mid-2022. In Australia 10 year bonds are 3.88%. The AUD has traded against the USD recently at just below 0.67.

The Westpac-MI Consumer Sentiment Index was up by 2.8% in August to 85% but continued a two year slump in sentiment below 100.

In the latest survey, consumers appear to be less concerned about further interest rate increases and still untroubled by the jobs outlook. The Westpac Melbourne Institute Leading Index however was flat for the third consecutive month. The concerns on interest rates and inflation appear to have been relieved somewhat.

A return to a negative trend was unfortunately evident in the AiG Performance Indices for August with all three down and falling further into negative territory. The AiG Australian Industry Index was down 2.9 points to -23.5 and the PMI (manufacturing) was down 11.3 to -30.8 and the PCI (construction) fell the most by 14.9 points to -38.1. Notably the AiG Industry Index has been in negative territory for the past 28 months.

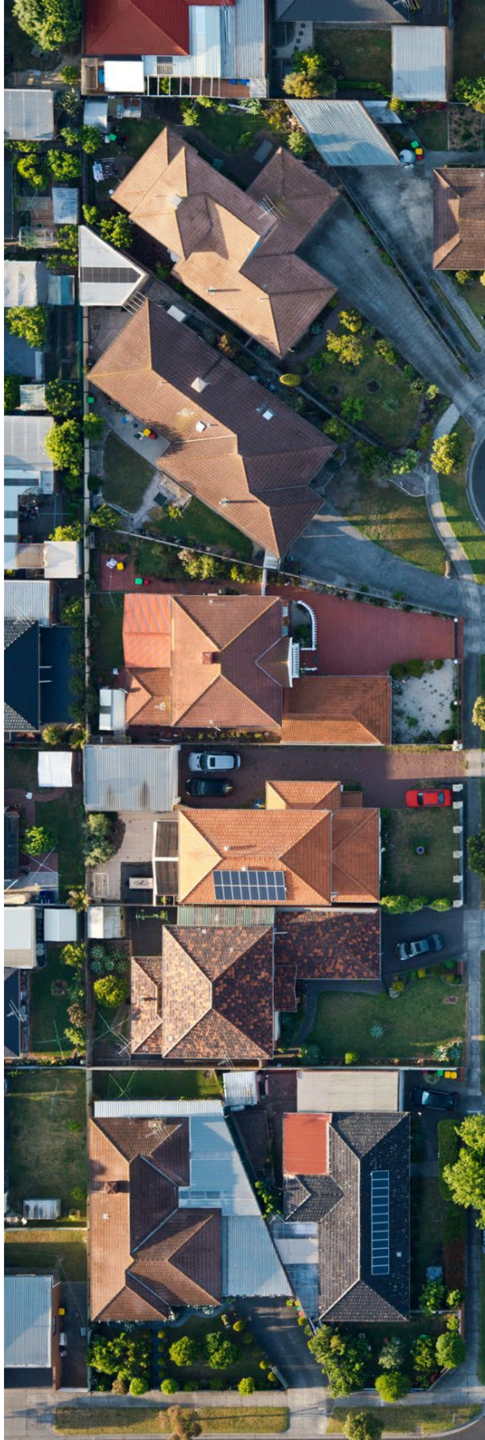
Core Logic

CoreLogic dwelling prices for August continued their National recovery but again with the exception of Melbourne and at very different paces.

National Housing values posted another good 0.5% gain for the month and up 1.3% for the quarter but with Melbourne being down -1.2% for the quarter and down -0.2% for the month and Canberra down 0.2% for the quarter and - 0.4% for the month.

Houses in Sydney were up 0.2%, Melbourne was down 0.4%. Unit prices were up 0.4% for the month in Sydney but down 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 Houses and Units for both the month and the quarter with Perth out in front. Momentum continues to be with the smaller Capital Cities but with some uncertainty about overall National Housing values after 17 months of increases.



Index results as at 31 August, 2024

	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	0.3%	0.8%	5.0%	8.3%	$1,180,463
Melbourne	-0.2%	-1.2%	-1.0%	2.8%	$776,044
Brisbane	1.1%	2.9%	15.0%	19.6%	$875,040
Adelaide	1.4%	4.0%	14.9%	19.4%	$790,789
Perth	2.0%	5.7%	24.4%	30.1%	$785,250
Hobart	-0.1%	-0.4%	-1.2%	2.9%	$655,114
Darwin	-0.2%	-0.3%	1.6%	8.1%	$504,367
Canberra	-0.4%	-0.2%	1.5%	5.6%	$845,875
Combined capitals	**0.5%**	**1.3%**	**7.1%**	**11.2%**	**$885,877**
Combined regional	**0.5%**	**1.1%**	**7.0%**	**11.7%**	**$637,660**
National	**0.5%**	**1.3%**	**7.1%**	**11.3%**	**$802,357**

Thinktank Ratings and Trends

We continue to reflect the improvement of Residential in almost all areas except Melbourne and we maintain our view that interest rates should remain on hold and will fall early next year.

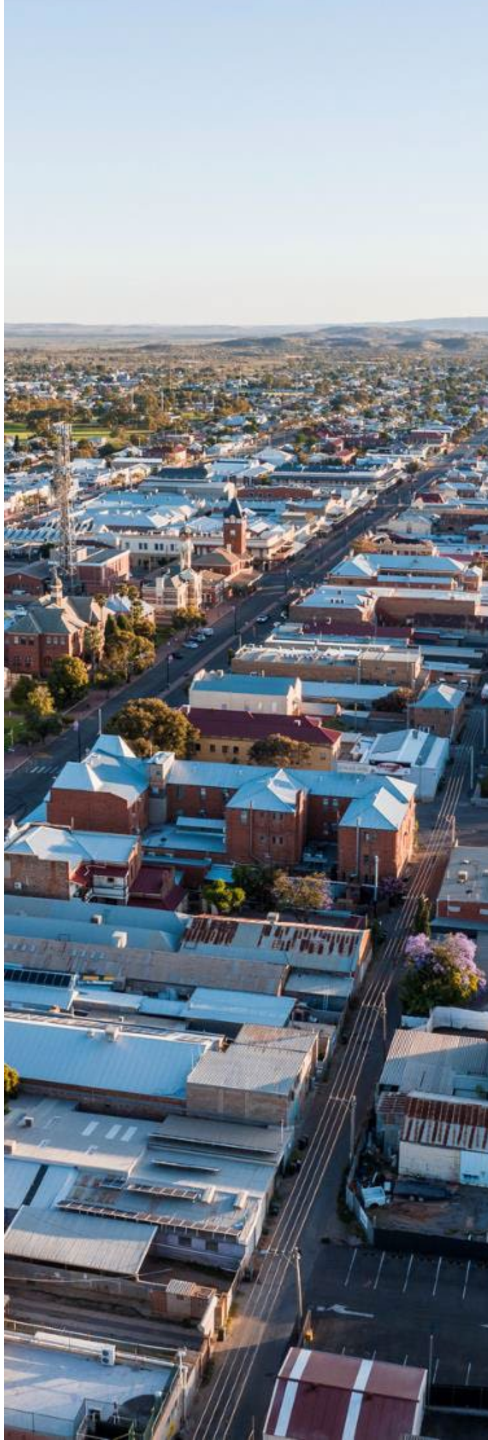
Retail remains flat as reflected in the July ABS data and we discuss this more in the News and Views section that follows.

Industrial continues to be strong across the country but still coming off their highs. While Office continues to do better in some Capitals, a real recovery remains some time into the future with negative full-year results and commentary from major REITs.

Herron Todd White (HTW) in their August Commercial Insights covered the Office sector across the country and were negative for most capitals in line with our own Ratings and Trends. Oversupply was noted for most and only Perth reported a positive local economic situation. Melbourne was shown as having a large oversupply and suffering negative economic conditions.

Overall, 6 ratings are Good, 10 are Fair, 6 are Strong and just 3 are Weak, with two in Retail and one in Office.

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



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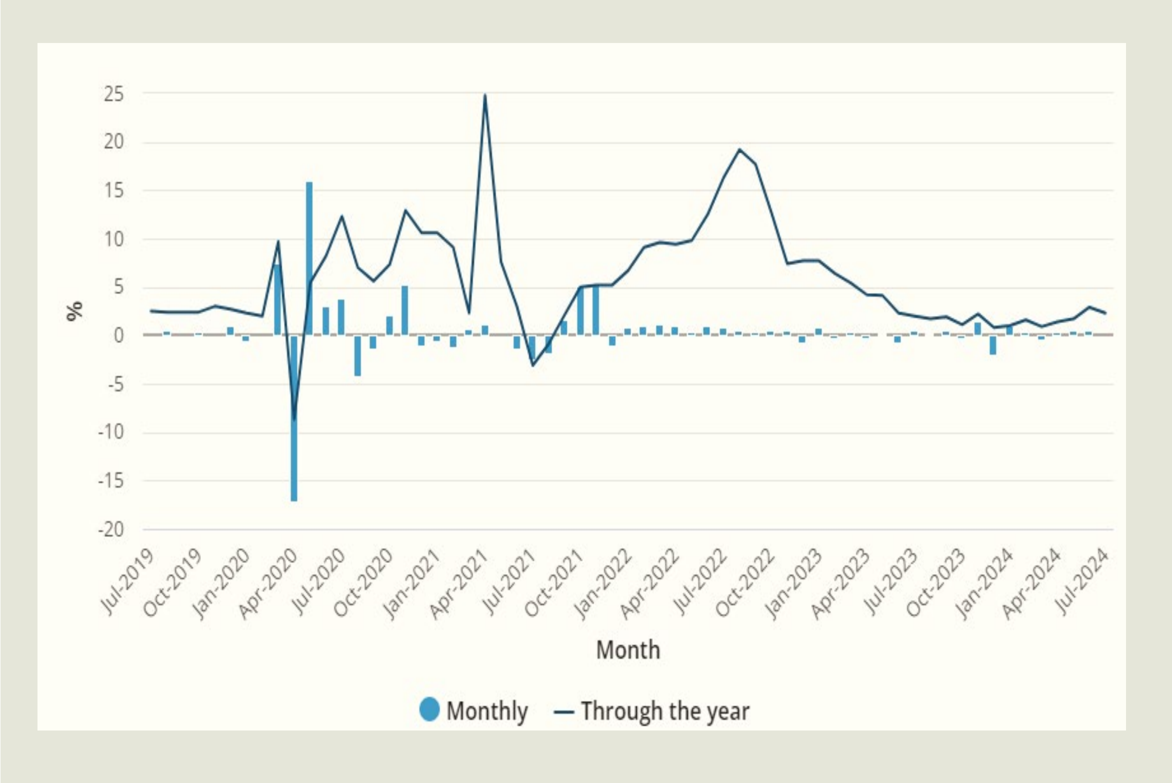
News and Views

The impact of consumer spending on both the economy in general and the performance of Retail commercial property cannot be overestimated.

As noted earlier, Retail Sales as reported on 30 August by the ABS for the month of July showed just 0.2% growth for the third month in a row and 2.2% for the year. In it, the World Bank was mildly encouraging with global growth for 2024 projected to hold steady at 2.6% and then edging up to 2.7% next year.



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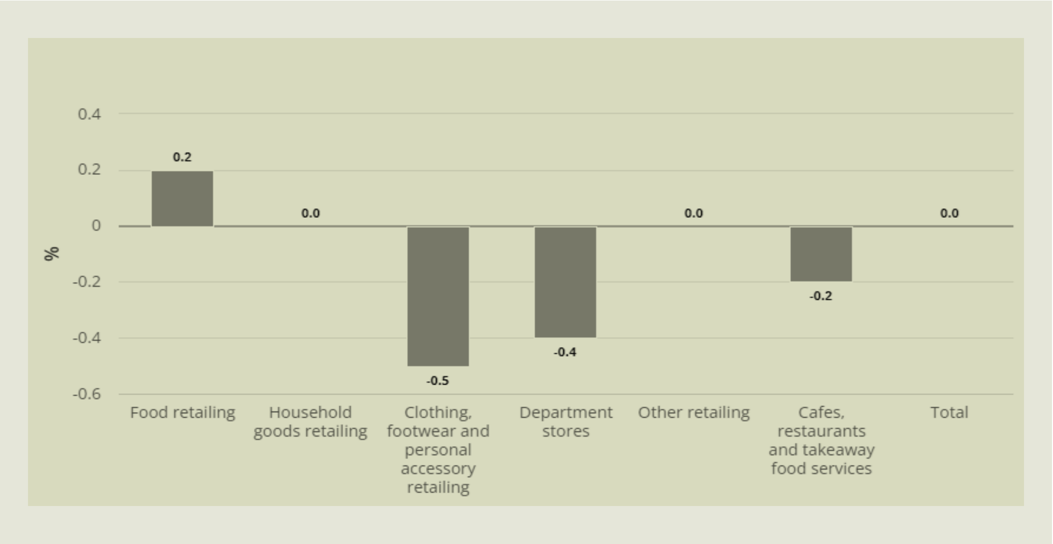
When we look at the impact on Retail commercial property, the results for individual locations are very important and vary quite considerably. The same data as shown above for Retail Sales was also reported by the ABS on a State by State basis and by Industry and as can be seen in the two graphs below the differences are quite significant.



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Colliers Real Estate Research has produced a Q2 Retail Snapshot covering five different sub-sectors ranging from Regional Shopping Centres, CBD Retail, Sub-regional Shopping Centres, Large Format Retail and Neighbourhood Shopping Centres. All contain detailed data on performance in major capital cities across the country and we have chosen to focus on Neighbourhood Shopping Centres with various comments comparing them to other sub-sectors.

Neighbourhood Shopping Centre Indicators

Submarket	Average Gross Face Rents ($/sqm p.a.)		Average Incentives	Average Yields	
Neighbourhood	Low	High	Average	Low	High
Sydney	$995	$1,105	15.00%	5.00%	6.75%
Melbourne	$612	$878	15.00%	5.25%	6.75%
Brisbane	$657	$893	21.00%	5.25%	7.00%
Perth	$372	$565	20.00%	5.75%	7.25%
Adelaide	$382	$685	20.00%	5.50%	7.00%

Source: Colliers Research

The table above comes from this research and the same data is provided for each of the other sub-sectors. While yields across the capitals do not vary that much, nor do incentives but rents in Sydney are more than double those in Perth and Adelaide.

By way of comparison, the figures for other sub-sectors show yields as low as 4.65% for Regional Shopping Centres in Sydney and as high as 7.75% for Large Format Retail in Adelaide. The highest average Incentives were reported for Sydney CBD Retail at 30% and the lowest were found in Sydney's Large Format Retail at 10%.

General commentary was subdued noting the ongoing negative Consumer Sentiment reflecting cost of living concerns. The ABS data on a regional basis showed Western Australia and Queensland up by 0.2% and NSW down 0.2%. On a sector basis, Food Retailing was alone in being up by 0.2% while Department Stores were down 0.4% and Clothing & Footwear down 0.5%. Overall, the sector continues to await a recovery as reflected in our Ratings & Trends.

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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