November 2024

Monthly Market Focus

A monthly snapshot of how we see the property markets across the country together with relevant research and economic news. We also highlight recent transactions, product innovation and industry insights.

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Ratings and Trends

We continue to reflect the improvement of Residential in almost all areas except Melbourne and Sydney this month and we maintain our view that interest rates are likely to fall early next year. Retail continues to struggle but Industrial remains strong across the country even though coming off their highs as highlighted in Savills latest “Shed Briefing” with yields holding steady in the capital cities with low/stable vacancy rates. Office continues to do better in some capitals, but a real recovery has yet to occur.

Herron Todd White (HTW) in their October Commercial Insights covered the Retail sector in each Capital and continued to be 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 Ratings are unchanged this month; 6 ratings are Good, 10 are Fair, 6 are Strong and just 3 are Weak, with two in Retail and one in Office. Trends are also unchanged with 9 Improving of which 6 are in smaller Capital Cities Residential sectors and just 2 Deteriorating in Melbourne and Adelaide Retail sectors.

▶ 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 ▲

Core Logic Data

CoreLogic dwelling prices for October continued their National recovery but for the first time since January 2023 with the exception of Sydney in addition to Melbourne both showing small declines.

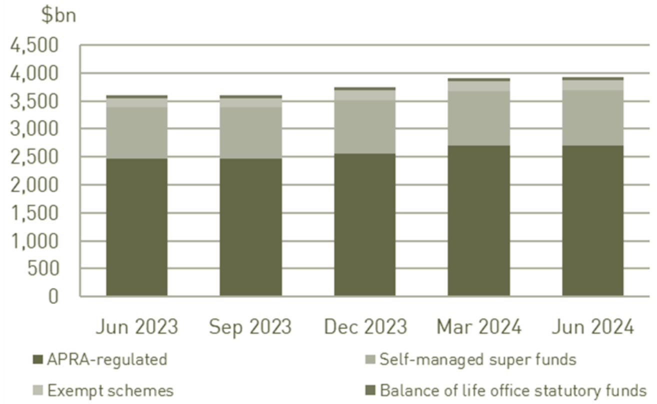
National Housing values posted a 0.3% gain for the month and up 0.9% for the quarter but with Melbourne being down -0.8% for the quarter and down -0.2% for the month and joined by Sydney which was down -0.1% for the month.

For the month houses in Sydney were up 0.1% and Melbourne houses were down 0.2%. Unit prices were up 0.1% for the month in Sydney but down 0.1% 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 up 4.1%. Momentum continues to be with the smaller Capital Cities but with some uncertainty about overall National Housing values after 18 months of increases.

Index results as at 31 October 2024

	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	-0.1%	0.1%	3.7%	6.9%	$1,193,240
Melbourne	-0.2%	-0.8%	-1.9%	1.8%	$778,926
Brisbane	0.7%	2.4%	13.0%	17.6%	$883,357
Adelaide	1.1%	3.7%	15.0%	19.4%	$808,644
Perth	1.4%	4.1%	22.6%	28.1%	$804,621
Hobart	0.8%	-0.1%	-1.2%	3.0%	$650,881
Darwin	-1.0%	-1.3%	-0.1%	6.6%	$492,692
Canberra	-0.3%	-0.9%	0.4%	4.6%	$850,223
Combined capitals	**0.2%**	**0.8%**	**5.9%**	**9.9%**	**$895,429**
Combined regional	**0.6%**	**1.1%**	**6.3%**	**11.0%**	**$643,302**
National	**0.3%**	**0.9%**	**6.0%**	**10.2%**	**$809,849**

News and Views - SMSF Focus



As is usually the case, the Australian Tax Office publishes 30 June annual SMSF data in September/October shortly after APRA releases the annual superannuation data.

SMSF assets are shown to have grown 7.5% over the year to 30 June 2024 continuing to make up a substantial portion of total superannuation assets in Australia.

The makeup of these SMSF assets is further detailed by the ATO in their release and this data is reflected in the charts we have produced below.

SMSF Total Assets are reported as just over $990 billion with 1,152,292 members, up 4.4% from last year. The number of SMSFs was just over 625 thousand making the average size of an SMSF's assets to be $1,584,000. The breakdown of assets is shown in the Chart 2 and includes the Limited Recourse Borrowing Arrangements in place which continue to rise at about 10% per annum.

Our own SMSF lending portfolio continues to grow at a more rapid pace than the sector as a whole but with the same makeup as between residential and non-residential with a little less than twice as many non-residential properties being owning by SMSFs as residential. The reason for this is the greater flexibility available to Members (Trustees) in dealing with non-residential (or commercial) properties with related parties including members' businesses being allowed to be tenants in what are described as "business real properties".

Chart 1 – SMSF Total Assets and Numbers

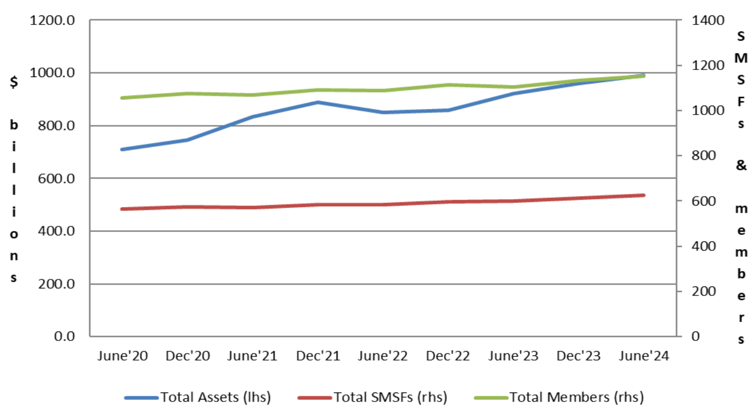
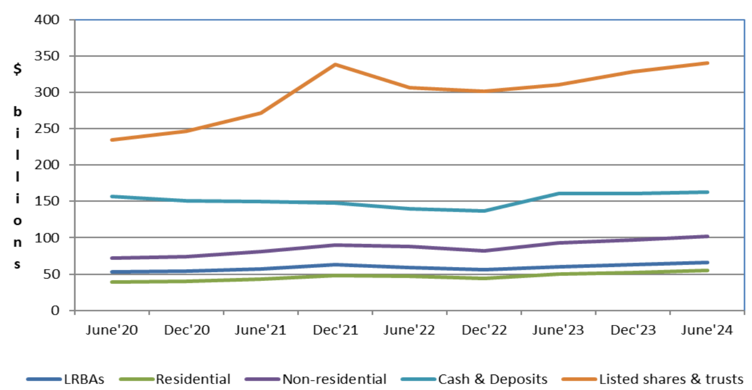


Chart 2 – SMSF Investment Portfolio Data



Self Managed Success for Brokers

Despite the shifting economic conditions we have experienced over the past 12 months, we've observed a notable increase in SMSF applications, both in residential and commercial for purchases and refinances.

SMSFs continue to be established by both PAYG and self-employed members, with the primary focus being their future retirement goals and preferences.

According to the latest ATO statistics, residential property within SMSFs accounts for approximately half the value of commercial property holdings.

A notable 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 then 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.

We've observed that an increasing number of Australians are opting for greater control over their own wealth management, especially in a period when traditional superannuation returns may not have been meeting investment expectations.

The SMSF structure offers significant protection for property assets, along with compelling tax advantages during both the accumulation and pension phases of the fund.

We believe the growing trend of purchasing commercial properties is largely driven by SMSF LRBAs which allow an associated party such as a member's own business to lease the commercial property at market rent. This arrangement makes strong financial sense, as business owners can benefit from owning their premises and building wealth, rather than paying rent. As a result, we expect the commercial property asset class within SMSFs to remain on a growth trajectory.

There is significant opportunity in both purchasing property through an SMSF and refinancing existing SMSF LRBAs.

If your client has an SMSF, it's worth reviewing their current loan arrangements, especially if their repayments have increased. Many older SMSF loans were written at higher interest rates and with shorter loan terms, resulting in unnecessarily high monthly repayments. Refinancing an existing SMSF loan could lead to lower monthly repayments, improving the fund's cash flow.

Our SMSF Reset & Refinance (R&R) option can help brokers deliver great outcomes for clients wishing to realign their existing borrowing arrangements with another lender. Our streamlined credit process simplifies individual refinances, while our exclusive reduced fee package caters specifically to clients refinancing multiple SMSF loans.

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Recent Transactions

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SMSF – Commercial Max

Security property in Dandenong South, Vic
$6,380,000 | 41% LVR | 25 years P&I

- The borrower has been a self employed for over 20 years, a Director of one of Sydney's largest suppliers of industrial materials.
- The purpose was to purchase a large industrial property for the SMSF, part of a larger deal structure where the client was acquiring multiple other properties with different lenders.
- The borrowers were over 60, they required a more flexible and tailored solution.

Private Loan – Commercial + Equity release

Security property in Darlinghurst, NSW
$5,000,000 | 50% LVR | 3 years IO

- The borrowers were self employed retailers who have sold vehicles, parts and accessories for over 20 years
- The purpose of the loan was to refinance from a bank and to provide an equity release for working capital for the business.
- The borrowers were able to take advantage of our Quick Doc Private Loan offer, enabling reduced servicing requirements (including an ICR below 1.25x)

Commercial Mid Doc + Top up

Security property in Point Cook, Vic
$4,500,000 | 77% LVR | 30 years with 3 years IO

- The borrowers were business partners who owned and operated multiple sporting facilities.
- The purchase was for a large industrial warehouse that the applicants were using to run one of their sports centres.
- We were able to have the property valued as a standard industrial warehouse, despite it being used as a sports centre.
- To assist the borrower with cash flow a $500K top up loan was also included.

Residential

Security property in Pymble, NSW
$4,462,500 | 75% LVR | 30 years with 5 years IO

- The borrower was a self employed consultant who owned their own business
- They had two existing loans from a private lender that were reaching expiry. We were able to refinance both loans at a lower rate.
- The borrower's income was derived through various fee and commission structures. So, a self-certification supported with an accountant's letter was completed for income verification requirements.

Always thinking, ahead of the curve

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For Thinktank, staying ahead of the curve means a commitment to providing innovative, practical financial solutions. By closely listening to broker feedback and adapting swiftly to market changes, we can better meet the diverse needs of both brokers and their clients. In an ever evolving economic environment, flexibility is key.

While the market is becoming more complex, the underlying demand for simple and straightforward lending solutions remains constant. Brokers are actively seeking common sense approaches that aren't significantly dependent on credit scoring systems or constrained by often arbitrary credit policies. This allows for a more holistic evaluation of borrowers and properly considering unique circumstances to not only deliver an approval but a strong financial solution that actually suits the circumstances at hand.

Ultimately, the future of financial services in Australia hinges on innovation, collaboration, and flexibility. Lenders who are proactive in offering diverse, adaptable solutions will be well positioned to partner with and support brokers as they navigate a rapidly changing marketplace.

We work exclusively with mortgage brokers, so we're committed to continuing to innovate with new products and offerings to help them deliver the best journey and outcomes for their clients.

Over the past year, Thinktank has consistently listened to broker feedback to deliver a raft of product and policy enhancements including:

- Commercial Max with a maximum loan amount of $8M
- Commercial Lease Doc allowing borrowers to provide an executed lease to evidence their capacity to service a commercial loan up to $2M with up to 70% LVR.
- Residential Easy Refinance with like for like and dollar to dollar refinance
- GST Loan to finance GST on property purchases which can be added to any commercial or SMSF loan.
- Increased residential and SMSF residential loan amounts to an impressive $5M
- Increased LVRs across residential and commercial offerings
- SMSF Mid Doc provides the option for alternative income verification

Our team of dedicated Relationship Managers is available to support brokers and their clients at every step, from initial workshop through to settlement.

Please reach out to a member of the team. They are ready to help brokers, and their clients navigate and capitalise on these exciting new financial solutions.

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Economic Outlook

The Reserve Bank of Australia (RBA) met on 4 & 5 November and the Cash Rate was left unchanged as it has been for the last year when it was increased by 0.25% to 4.35%.

The RBA Board will meet again in December and after that not until February 2025. Comments by the Governor indicate no change to rates is expected until positive data releases occur. Most economists agree and markets continue to price in only a slim chance of a reduction in interest rates at the first RBA Board meeting in the New Year being February.

CPI data for the September quarter was released on 30 October the week before the RBA meetings and the result while positive at +0.2% for the quarter and +2.8% for the year was not enough to sway the RBA. The ABS recently released the September retail figures which were up slightly from the previous month at 0.1% but up 2.3% on a year earlier. Unemployment released on 17 October for September 2024 seasonally adjusted was steady at 4.1%.

Internationally similar issues continue to be confronted by Central Banks with many now having started to cut rates. The Federal Reserve Bank in the United States continues to be most watched and Chairman Jerome Powell and other FOMC Board members cut US rates at their September meeting by 50 basis points and are expected to cut again this month by 0.25%. The Bank of Canada and the Bank of England have already cut their rates but Canada is just slightly lower than ours while England still remains higher than here in Australia as is the United States. Current US 10 year Government Bond yields are up at 4.29% and remain slightly un-inverted from 2 year bonds at 4.20 for just the third month since mid-2022.

In Australia 10 year bonds are up at 4.56%. The AUD has fallen steadily since last month from just under 0.69 to 0.6635 .

The Westpac-MI Consumer Sentiment Index rose by 6.2% in October to 89.8% a two and a half year high but with sentiment still below 100. In the latest survey, consumers are still troubled by the overall economic outlook and cost of living pressures. The Westpac Melbourne Institute Leading Index rose slightly from -0.26 in August to -0.15 in September. The concerns continue to relate to economic growth.

The AiG Performance Indices for October saw all three remaining in negative territory. The AiG Australian Industry Index was down 10.1 points to -28.8 but the PMI (manufacturing) was up by 14.6 points but still negative at -19.7. The PCI (construction) lost all of its gains from last month, falling by 21.1 points to -40.9. Notably the AiG Industry Index has indicated contraction for the past 30 months..

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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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