Australian real estate market focus

November 2021

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 once again take a look at RLB's recently released Crane Index for the third quarter with activity starting to pick up in multi-story residential.

The Westpac-MI Consumer Sentiment Index fell by 2.0% in October to 106.2 after its 2.0% rise in September was described as truly remarkable at a time when Australia's two largest cities were in lockdown. This month's results for the AiG Manufacturing Index saw it ease by 0.8 points to 50.4. This was the fourth consecutive month of deceleration and the weakest monthly result for the Australian PMI® since September 2020 but still maintaining a 13th month of expansion above 50. More positively, forward orders continued to expand at a relatively strong pace, indicating that recovery is likely after COVID-19 restrictions lift more fully and across more locations as is now occurring. After last month's spectacular rise of 14.9 points to 53.3, the PCI Construction Index followed up with a further 4.3 gain to 57.6 in October supporting the lift in the Crane Index.

At its November "Melbourne Cup" meeting the RBA Board once again left the Cash Rate at the record low of 0.10%. Governor Lowe's remarks suggested that the cash rate may rise earlier than previously forecast in late 2023 however the RBA will discontinue the target for the yield on the April 2024 bond. As is typical in the post meeting comments ahead of the Statement on Monetary Policy (SMP) on Friday, the RBA flagged some of the key changes to its economic forecasts. It is clear that the RBA has upgraded its inflation outlook. The RBA had expected trimmed mean inflation of 1¾% over 2021 and 2022. This has been revised to 2¼% over both years and 2½% in 2023. 10 year US Treasury Yields were last traded steady at 1.53%; AUS 10 year Gov't bonds were at 1.83%. The AUD has traded at around 0.75 since last month but fell below that at 0.742 on the RBA news with the spread between US and AUD yields widening.

CoreLogic dwelling prices for October continued the same trend of the past few months. National Housing values were up by 1.49% for the month and 4.60% for the quarter. In Sydney House prices were up 1.6% for the month and an amazing 30.4% for the last 12 months. The results were a little less in Melbourne up 1.0 for the month and 19.5% for the past year. The rest of the capital cities except for Perth at 16.7% had over 20% growth for houses for the past twelve months. There continues to remain a difference between Houses and Units with Units on a national basis up 13.3% for the year. The lending controls introduced by with respect to interest rate buffers used by Banks in assessing serviceability of borrowers does not appear to have had much impact although this remains early days. The prospect of other measures remains quite real in our opinion.

We continue to be encouraged by the extension of the rise in Residential even though some are obviously rather more concerned than ourselves but our Ratings and Trends are unchanged from our more detailed review in our October Quarterly Market Update. Retail appears to be showing initial signs of recovery and indications of a turnaround as we see the end of lockdowns. The final ABS Retail sales for September are due on 4 November and will confirm the fall in national retail sales with the NSW and Victoria lockdowns being very damaging; down 3.5% and 3.0% respectively. Preliminary October Retail numbers are to be released on the 26th of November should rise and while we have kept Sydney and Melbourne Retail Weak we have upgraded the trend to Stable. Industrial continues to be very strong and remains the market favourite and strengthening.

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

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 Once again we are taking a look at the Rider Levett Bucknall Crane Index. What is encouraging is the overall increase in crane usage across the country although as usual this does vary from city to city and from sector to sector. The various statistics included in the report are very useful indicators of construction activity and sentiment amongst developers who are investing in new projects. RLB had this to say: “The past six months has seen the country slowly accelerate towards a post Covid ‘normal’. Even with differing levels of lockdowns and business closures across the commonwealth, most regions, except for Melbourne and the Sunshine Coast, saw crane numbers increase.” We can see this in the graph below and the details of the changes in Table 1 opposite. Despite its increase in crane count Sydney slipped slightly as a % of the total but Melbourne more so with an actual reduction in cranes in use. Brisbane was the biggest gainer up by 12 from 71 to 83.”

o As shown in Table 2, the Residential sector accounted for almost all of the increase recorded with 23 more cranes in use of the total gain of 27 across all activities. Civil and Health were next with 10 and 9 respectively while Education fell the most with 16 fewer cranes in use which was a big fall from a total of 38 in Q1 2021. As noted in the report: “Multi-storey residential developments have recovered from their fourth consecutive fall in the last edition, mirroring the rise in building approvals and work done in this subsector during FY 2021. The industries hit hardest by the lockdowns in 2020 and 2021, namely tourism, retail and commercial, all recorded falls in crane numbers.”

o Looking at the actual Indices themselves as shown in Graphs 1 & 2 we can see the decline in Residential over the past few years from a peak of 177 in Q3’17 and the latest increase to 142 from the Q1 ’21 low of 134. RLB said this: “Crane numbers across all sectors rose by 27 or 3.9% reaching 718, up from 691 in Q1 2021. The non-residential index maintained its rising level to record a rise from 237 in Q1 2021 to 241, a 2% increase. representing a lift of four cranes. This index result is the highest since the inception of the index. The residential index representing the number of cranes on residential projects across the country rose for the first time since Q1 2019 to 142, up 6% from Q1 2021.”

o The report itself provides excellent detail on the activity taking place in individual locations with maps identifying all of the cranes in use and charts and graphs for every location. For cities such as Sydney and Melbourne it is useful to see how activity in Melbourne has fallen in the CBD (although residential is up) while in Melbourne East it is up (also up by five cranes in residential). The report details individual sites as well. In Sydney, Inner Sydney and the West has picked up while the North shows reduced activity. A bit of a surprise is Perth which has added 10 cranes in residential and is up 7 overall. Brisbane as mentioned previously is up strongly, particularly in the CBD & surrounds with 15 cranes added with eight residential and seven civil.

Rider Levett Bucknall

Australia Net Crane Movement by City Q3-2021

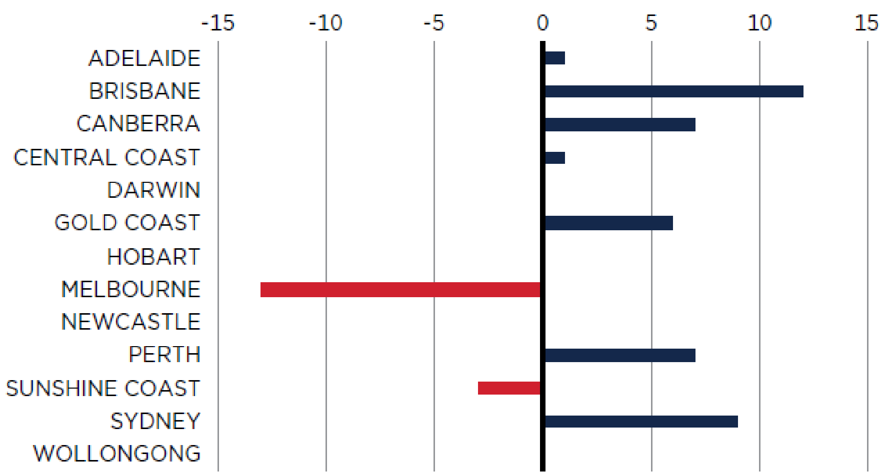


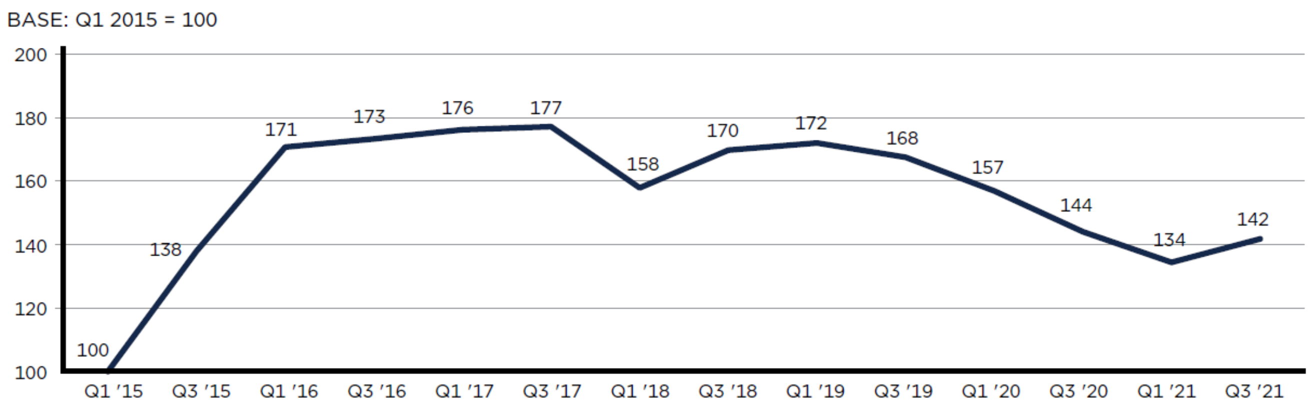
Table 1: CRANE ACTIVITY – AUSTRALIA BY KEY CITIES

	OPENING COUNT		MOVEMENT			CLOSING COUNT	
	Q1 2021	%	+	-	NET	Q3 2021	%
ADELAIDE	10	1.4%	6	-5	1	11	1.5%
BRISBANE	71	10.3%	47	-35	12	83	11.6%
CANBERRA	26	3.8%	14	-7	7	33	4.6%
CENTRAL COAST	9	1.3%	3	-2	1	10	1.4%
DARWIN	0	0.0%	0	0	0	0	0.0%
GOLD COAST	29	4.2%	23	-17	6	35	4.9%
HOBART	0	0.0%	0	0	0	0	0.0%
MELBOURNE	193	27.9%	79	-92	-13	180	25.1%
NEWCASTLE	9	1.3%	5	-5	0	9	1.3%
PERTH	30	4.3%	24	-17	7	37	5.2%
SUNSHINE COAST	16	2.3%	5	-8	-3	13	1.8%
SYDNEY	286	41.4%	116	-107	9	295	41.1%
WOOLONGONG	12	1.7%	7	-7	0	12	1.7%
TOTAL	691	100.0%	329	-302	27	718	100.0%

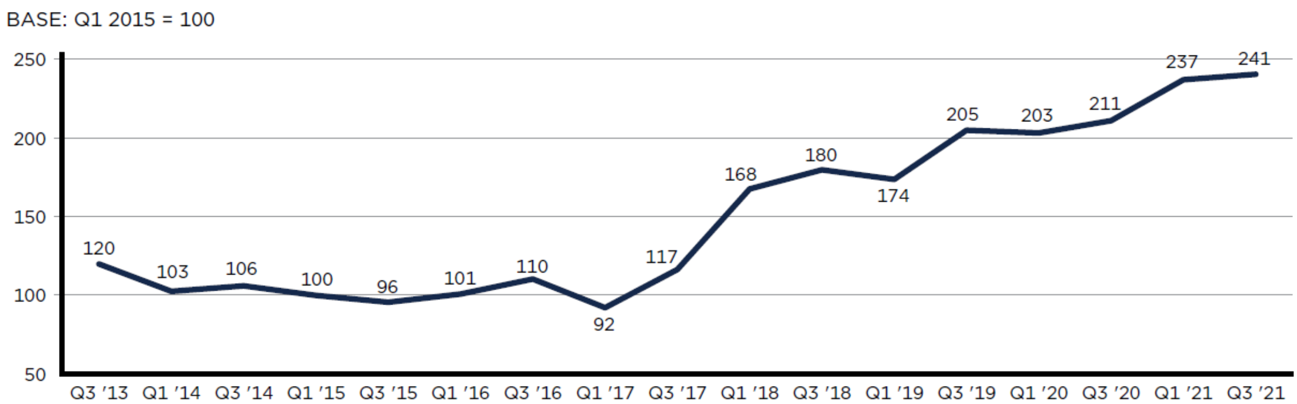
Table 2: CRANE ACTIVITY – AUSTRALIA BY SECTOR

	OPENING COUNT		MOVEMENT			CLOSING COUNT	
	Q1 2021	%	+	-	NET	Q3 2021	%
CIVIC	18	2.6%	5	-4	1	19	2.6%
CIVIL	31	4.5%	19	-9	10	41	5.7%
COMMERCIAL	69	10.0%	30	-31	-1	68	9.5%
EDUCATION	38	5.5%	10	-26	-16	22	3.1%
HEALTH	25	3.6%	20	-11	9	34	4.7%
HOTEL	13	1.9%	4	-6	-2	11	1.5%
MIXED USE	70	10.1%	25	-22	3	73	10.2%
RECREATION	6	0.9%	2	0	2	8	1.1%
RESIDENTIAL	418	60.5%	214	-191	23	441	61.4%
RETAIL	3	0.4%	0	-2	-2	1	0.1%
TOTAL	691	100.0%	329	-302	27	718	100.0%

Graph 1: RESIDENTIAL AUSTRALIAN INDEX



Graph 2: NON - RESIDENTIAL AUSTRALIAN INDEX



Source: Rider Levett Bucknall, Crane Index Q3 2021

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