Australian real estate market focus

JUNE 2020

Thinktank..

The following represents a monthly snapshot of how we see the property markets across the country along with the near-term outlook. For a more detailed commentary, please visit our website thinktank.net.au for our Quarterly Market Update.

The Westpac-MI Consumer Sentiment Index surged by 16.4% in May to 88.1 nearly reversing the impact on consumers in April of COVID-19. After record volatility over the past two months it will be very interesting to see how consumers react to the early lifting of some restrictions. Similarly, all of the AiG indices for May also rose after sharp falls in April. The Manufacturing Index was the best up by 5.8 points to 41.6, the Services Index up 4.5 to 38.7 and the Construction Index up 3.3 to 24.9 but all still well into contraction below 50.

At its June meeting, the RBA Board held the Cash Rate at its record low of 0.25% as expected and confirmed its ongoing Quantitative Easing (QE) in maintaining 3 year Treasury yields at that same level of 0.25%. Later in the week the ABS released GDP figures for the first quarter of 2020 confirming negative growth of 0.3% (+1.4% yoy) followed by Retail Sales figures recording a fall of 17.7% in April. Governor Lowe's recent speeches continue to be very clear in outlining current Monetary Policy. Importantly for interest rate forecasters, the Unemployment Rate for the foreseeable future is expected to remain high after peaking at 10%. This is the same internationally and Chairman Powell of the US Fed has said the same about interest rates with no change expected from the June FOMC meeting. 10 year US Treasuries were last traded at yields of 0.75% to 0.82% and AUS 10 year Gov't bonds at 1.00% to 1.07%. Markets continue to expect interest rates to remain at these ultra low levels for years and the AUD has risen to USD 0.69 benefitting from overall USD weakness.

CoreLogic housing prices for May showed a fall for Houses in Sydney of 0.6% and Melbourne down 1.1%. Units were down in both capitals, 0.1% and 0.6% respectively and we remain concerned about the ongoing supply of newly completed apartments. The month-on-month drop of 0.4% in national housing values was the first since June 2019. These figures will no doubt continue to change substantially as the impact of COVID-19 is felt and for that reason we continue to adopt a Watch trend for all Residential property. Our News and Views section this month returns to our regular coverage of Self Managed Superannuation Funds (SMSFs).

There have been no changes in our ratings and trends this month as was the case in May following substantial movement in April due to COVID-19 and detailed in our April News and Views as well as the Quarterly Update. Residential are mentioned above and while we remain cautious about other sectors pending a return to normalcy it is clear that Retail which had already been struggling is headed for even more difficult times ahead. While there are changes taking place in all property sectors, they appear different from earlier downturns with Industrial appearing quite resilient and Office awaiting the response of businesses to work from home attitudes.

	SYDNEY		MELBOURNE		ADELAIDE		BRISBANE (SEO)		PERTH	
Resi- Homes	Fair	Watch	Fair	Watch	Fair	Watch	Fair	Watch	Fair	Watch
Resi- Units	Fair	Watch	Fair	Watch	Fair	Watch	Fair	Watch	Weak	Deteriorating
Office	Good	Stable	Good	Stable	Fair	Stable	Fair	Stable	Fair	Stable
Retail	Weak	Deteriorating	Weak	Deteriorating	Weak	Deteriorating	Weak	Deteriorating	Weak	Deteriorating
Industrial	Good	Stable	Good	Stable	Weak	Stable	Fair	Stable	Weak	Stable

Sources: ABS, ACCI, AiG, ABS, AFR, ANZ Research, ATO, CBA, CBRE, Colliers International, CoreLogic, Cushman & Wakefield, HTW, IMF, MSCI, JLL, Knight Frank, Melbourne Institute, OECD, PCA, Preston Rowe Patterson, RBA, RLB, Savills Research, Westpac Economics, World Bank

News and views

- This month we look at statistics on SMSFs provided by the Australian Tax Office (ATO). Typically the ATO has released quarterly statistics on this sector a couple of months after the quarter end however the December numbers have been delayed so we have decided to go ahead with the September data noting that there is seldom significant shifts quarter to quarter but rather it is the longer term trends that are important.

- One of those longer term trends is the popularity of SMSFs which have grown substantially over the 20 years that the ATO has been regulating them. Historically the choice of the regulator was apparently based on the ability of the Tax Office to deal with a large number of individuals and to capture compliance reporting in the form similar to a tax return which is effectively what the SMSF Annual Return is. The graphic below is from the ATO website and just part of their celebration of 20 years of "Regulating and protecting SMSFs" in late 2019.

- One has to wonder if it was envisaged in 1999 that SMSFs would be as popular as they have become. While the individual number of SMSFs and their members has grown strongly, it is the total assets that are most impressive. These are all shown in Graph 1 opposite with total assets now nearly $750 billion representing the largest portion of total superannuation savings at 27%, just in front of both Industry Funds and Retail Funds. Growth has levelled out over the past few years but the investment total remains a very significant figure.

- Asset allocation within SMSFs continues to be a hotly debated issue with heavy concentration of assets in a particular asset class being a major concern of the Regulator. An SMSF's Investment Strategy is meant to be the tool that allows Trustees to assess specific asset allocation levels and the rationale that supports them. These are meant to be reviewed regularly and this has been interpreted as at least annually. The argument is often made that as long as the Investment Strategy accepted by the Trustee(s) justifies their position there is no specific limitation on what that is. A frequently seen range of 0 – 100% for a particular asset class would be an example of an approach that is not acceptable and should be identified as such by the SMSF Auditor involved.

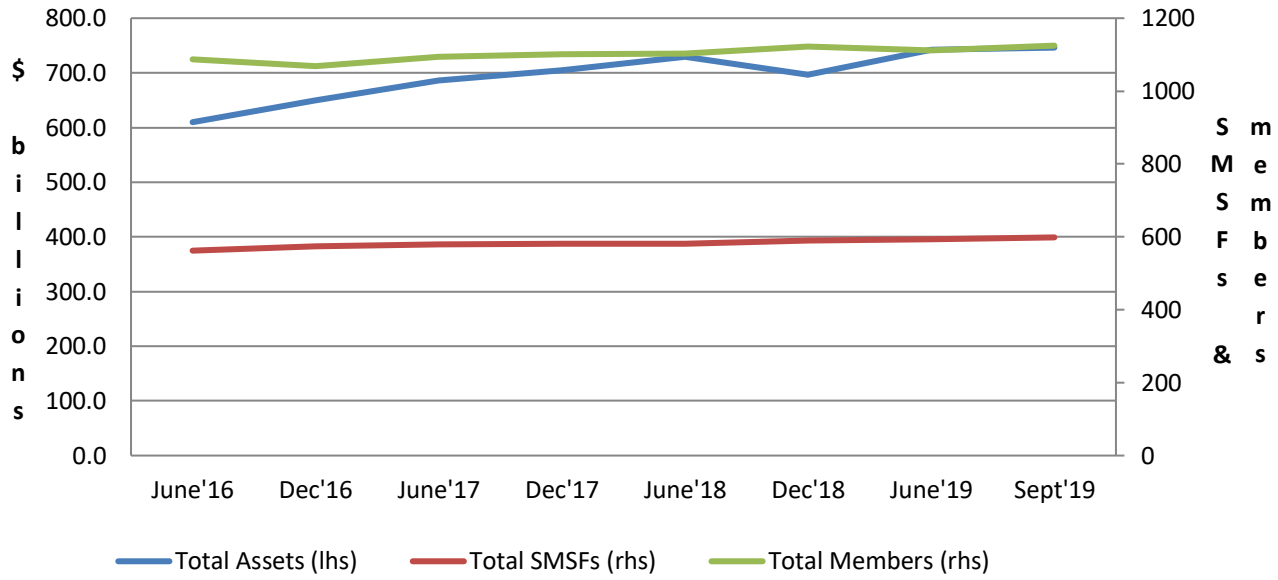
- Graph 2 opposite shows the distribution across the major asset classes with Listed Shares & Trusts being the largest followed by Cash & Deposits being 35% and 21% respectively of Total Assets. This is over half of all SMSF assets being invested in liquid and transparent investments. Again it can be seen how little change takes place over time other than for market volatility in listed investments from time to time.

- A key area of interest for us is of course Limited Recourse Borrowing Arrangements (LRBAs) which make up a much smaller segment of Total Assets at just under 6%. The assets that secure these loans are Residential Property at 4.7% and Non-residential Property at 8.7%. The level of concentration in individual SMSFs is higher than those numbers suggest but overall the impact of LRBAs and Real Property investment is not as great as some commentators and the Regulators have suggested. It is interesting to note our own experience during the COVID-19 crisis that our SMSF – LRBA portfolio which is similarly diverse compared to the rest of our portfolio has performed relatively better, consistent with our experience in prior periods.

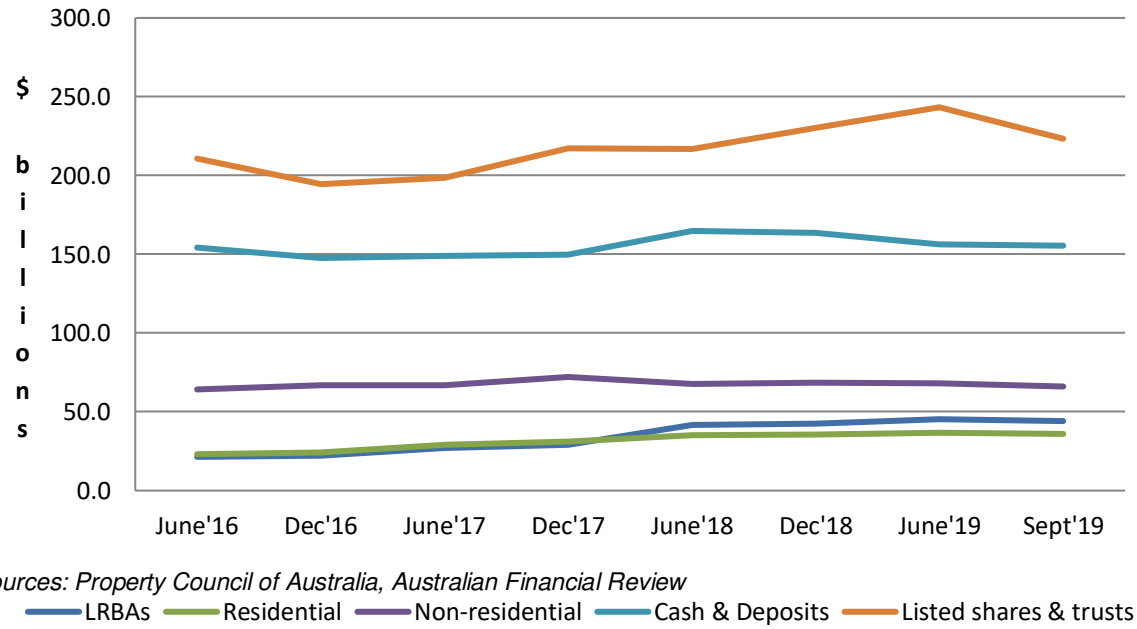
Growth of SMSFs since regulation

	Oct 1999	Jun 2019
Number of SMSFs	197,000	600,000
Number of SMSF members	387,000	1.125m
Total SMSF Retirement Savings	$55bn	$748bn

Graph 1: SMSF Total Assets and Numbers



Graph 2: SMSF Investment Portfolio Data



Sources: Property Council of Australia, Australian Financial Review

Source: Australian Tax Office

Business relationships and loan inquiries

Heather Noonan
Regional Sales Executive
VIC, TAS, SA
M: 0435 960 646
E: hnoonan@thinktank.net.au

Tony Zaccari
Senior Relationship Manager
VIC/SA
M: 0403 758 514
E: tzaccari@thinktank.net.au

Dev De
Senior Relationship Manager VIC
M: 0466 576 338
E: sde@thinktank.net.au

Cath Ryan
Regional Sales Executive
NSW, ACT, WA
M: 0433 862 944
E: cryan@thinktank.net.au

Ranei Alam
Senior Relationship Manager NSW
T: (02) 8669 5502
M: 0434 609 240
E: ralam@thinktank.net.au

Paul Burns
Senior Relationship Manager NSW
T: (02) 8669 5510
M: 0434 609 241
E: pburns@thinktank.net.au

Claire Byrne
Relationship Manager NSW
T: (02) 8669 5522
M: 0414 235 478
E: cbyrne@thinktank.net.au

Robyn Hadlow
Business Development Manager
NSW/ACT
M: 0406 857 708
E: rhadlow@thinktank.net.au

Adam Hutcheson
State Sales Executive QLD/WA/NT
T: (07) 3117 3787
M: 0434 609 239
E: ahutcheson@thinktank.net.au

Bob Whetton
Business Operations Manager QLD
T: (07) 3117 3787
M: 0413 241 316
E: bwhetton@thinktank.net.au

Kat Gasparovic
Relationship Manager QLD
T: (07) 3117 3787
M: 0405 815 287
E: kgasparovic@thinktank.net.au

Alex Turnbull
Marketing Manager
M: 0400 599 535
E: aturnbull@thinktank.net.au

For additional information, please contact

Publications & Market Update
Per Amundsen
Company Secretary
T: (02) 8669 5515
M: 0417 064 252
E: pamundsen@thinktank.net.au

Partnerships & Distribution
Peter Vala
GM Partnerships & Distribution
T: (02) 8669 5512
M: 0468 989 555
E: pvala@thinktank.net.au

Investor Relations
Lauren Ryan
BDM – Investments
T: (02) 8669 5532
M: 0401 974 839
E: lryan@thinktank.net.au

Thinktank Property Finance

Thinktank Property Finance is the leading independent lender specialising in commercial property in Australia. Thinktank offers a wide range of tailored mortgage product options including:

- 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.