Australian real estate market focus

October 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. This month we feature the RLB Crane Index in our News and Views segment.

The Westpac-MI Consumer Sentiment Index surged 18% from 79.5 in August to 93.8 in September driven by recovery outside of Victoria. The AiG Manufacturing Index fell by 2.6 points to 46.7 moving slightly further into contraction below 50. The Services Index was down heavily by 6.3 points to 36.2 however the Construction Index was up by 7.3 points to 45.2 switching places with the PSI with rises in all States except Victoria.

At its October meeting, the RBA Board held the Cash Rate at its record low of 0.25% but it looks very much as if this will end next month with many forecasting a drop to 10 basis points. In fact some were originally forecasting this would happen in October but it seems the Federal Budget delivered on the same day as the RBA Board met took precedence. The Treasurer certainly delivered a lot of extremely important fiscal stimulus in what has been described as the most important federal budget of a lifetime. This was completely understandable when last month's second quarter GDP figures showed a 7.0% decline and with unemployment forecast to rise to 10% later this year. Many however are still expecting a cut of 15 basis points in the Cash Rate at the November RBA Board meeting. This is expected to further help housing markets which noted below are doing better than many had forecast. The US Fed has said the same about interest rates and 10 year US Treasuries were last traded at yields of 0.79% (up a bit) and AUS 10 year Gov't bonds at 0.87% (down a bit). Markets continue to expect interest rates to remain at these levels for some years to come but an expectation of a rising AUD which broke through USD 0.73 last month has reversed and is now back down to USD 0.71.

CoreLogic housing prices for September as expected showed a fall for national dwelling but far lower at 0.1%. In Sydney prices were down 0.3% while in Melbourne the drop was still 0.9%. However the rest of the capital cities were up ranging from Adelaide which rose by 0.8%. We have changed from our single Fair rating and Softening trend for all capitals in order to reflect quite different markets we are seeing across the country. Melbourne remains in lockdown while Sydney has enjoyed good clearance rates and only modest price falls this past month. Units and Houses are also performing differently and for different reasons as shown below.

We have taken the opportunity of preparing our Quarterly Market Update to make some changes in our ratings and trends to those of last month. While the onset of COVID-19 made it tempting to adopt broader classifications than usual for us, we can now differentiate a bit more in some sectors. Unfortunately, Retail which had already been struggling has hit even more difficult times; on the other hand Industrial has proven to be quite resilient. Office continues to await the longer term response of businesses to work from home attitudes but we are more positive than some and indeed opinions appear to be quite split. As noted in the paragraph above on Residential we are seeing sufficient differences across the country to vary a broad brush Softening view. Our section on Residential in our Quarterly Market Update contains plenty of detail on our thinking for this key sector as well as others together with a first look at some new design features to our regular research.

	SYDNEY		MELBOURNE		ADELAIDE		BRISBANE (SEO)		PERTH	
Resi- Homes	Good	Stable	Fair	Softening	Good	Stable	Good	Stable	Fair	Stable
Resi- Units	Fair	Softening	Fair	Softening	Good	Stable	Good	Stable	Fair	Stable
Office	Good	Stable	Good	Stable	Fair	Stable	Fair	Stable	Fair	Stable
Retail	Weak	Deteriorating	Weak	Deteriorating	Fair	Stable	Weak	Deteriorating	Weak	Deteriorating
Industrial	Good	Stable	Good	Stable	Good	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, OECD, PCA, Preston Rowe Patterson, RBA, RLB, Savills Research, Westpac Economics, World Bank

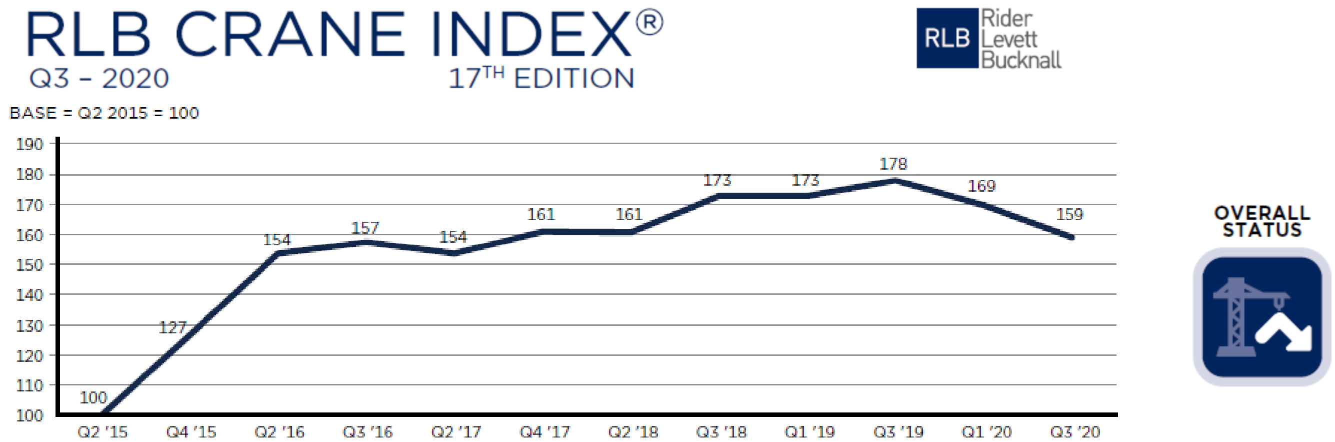
News and views

- This month we are focussing as we do regularly on the Rider Levett Bucknall (RLB) Crane Index which was recently released for the 3rd quarter. The graph below shows the decline in the index from the 1st quarter to 159 from 169. This graph includes both residential and non-residential sector cranes and while both were down, residential dropped more declining from 157 to 145, a fall of 7.6% from the 1st quarter and down 18% from a high of 177 in Q4 2017. Non-residential sectors were less affected down from 203 to 197 and just 4% off the all time high of 205 a year ago in Q3 2019. Actual crane numbers shown in the table on the opposite page were down by 45 with 17 of those in Melbourne but down 27 in residential as a number of high-rise unit towers completed compared to Sydney which lost 10. As noted below, Sydney has more residential activity outside the inner city.

- The AFR ran an interesting article on the release of the report by Michael Bleby commenting on the surprisingly low reduction in the number of cranes in use. A smaller than expected 6.2% decline in crane numbers across the country suggests pandemic social distancing requirements have hit productivity and slowed the completion of projects – particularly in Victoria – increasing the risk of damages claims for delays. Consultancy RLB's latest national survey showed fixed tower cranes dropped by 45 to 677 in last month's count. “The result was less than the larger anticipated drop of up to 10% and a sign that construction had kept functioning through COVID-19”, RLB director Domenic Schiafone said. However, productivity on construction sites across the country has taken a hit since restrictions slowed activity in March. This was exacerbated by the severe stage four restrictions imposed in Melbourne in early August and has meant some projects due to complete may have not been able to do so. "Under normal circumstances a crane could have been down in early August, however this might be pushed out to October," Mr Schiafone said. "For another couple of months, it’s another crane that gets into the count." This suggests a further gradual decline in numbers in coming quarters.

- Tables 1 & 2 opposite show the total number of cranes across the country falling by 45 from 722 to 677, down by 6.2%. In the breakdown by city in table 1 we can see that Sydney retains the largest share at 297 or 43.9% with Melbourne next at 179 or 26.4%. The biggest net fall was in Melbourne down -17 while Sydney was down only -2. Sydney however had more cranes brought down at 120 although this was almost matched by new cranes put up at 118. Melbourne had a lot less movement with 96 cranes coming down but only 79 going up which was only two thirds of Sydney’s activity. We can see in table 2 that the majority of activity is in the residential sector with 450 of the 677 cranes in use or again two thirds being employed on residential sites. Both of these movements by location and sector are emphasised in charts 3 and 4 with Melbourne highlighted as the location with the most net reduction in activity and in chart 4 residential is the sector showing the largest decline.

- The many individual city suburb reports provided in the RLB publication are not shown here but identify some interesting differences between Sydney and Melbourne that explain the numbers noted above. In Sydney which accounts for 44% of the national total just 30% of those cranes are located in Inner Sydney while in Melbourne with a lesser number of 179 cranes, 104 of those or 58% are in Inner Melbourne. An even higher % in Brisbane are within the Inner city. While Sydney has a very high percentage of all cranes employed in residential projects only 24% are located in Inner Sydney with 171 being used in residential projects in suburban projects. Projects outside of the inner city areas seem to be looked on more positively right now at least in Sydney.



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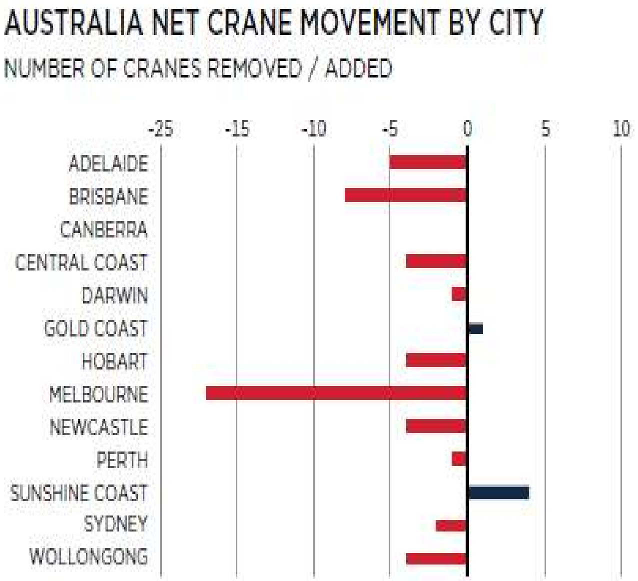
Tables 1 & 2

Charts 3 & 4

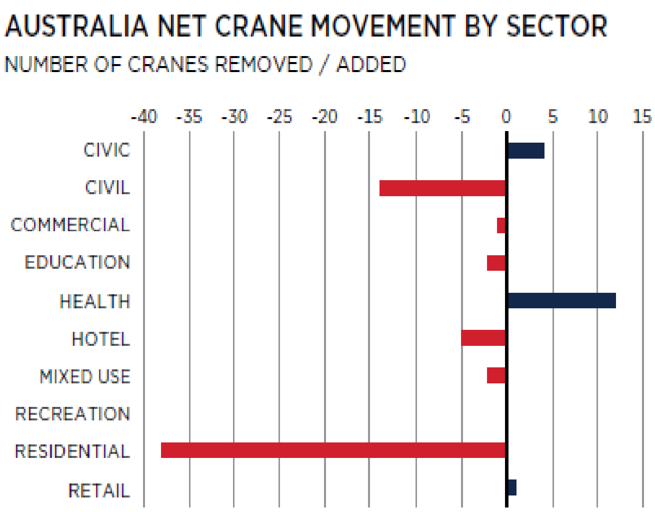
CRANE ACTIVITY - AUSTRALIA BY KEY CITIES

	OPENING COUNT Q1 2020	%	MOVEMENT +	-	NET	CLOSING COUNT Q3 2020	%
ADELAIDE	15	2.1%	7	-12	-5	10	1.5%
BRISBANE	58	8.0%	22	-30	-8	50	7.4%
CANBERRA	27	3.7%	8	-8	0	27	4.0%
CENTRAL COAST	9	1.2%	1	-5	-4	5	0.7%
DARWIN	1	0.1%	0	-1	-1	0	0.0%
GOLD COAST	33	4.6%	12	-11	1	34	5.0%
HOBART	4	0.6%	0	-4	-4	0	0.0%
MELBOURNE	196	27.1%	79	-96	-17	179	26.4%
NEWCASTLE	17	2.4%	3	-7	-4	13	1.9%
PERTH	37	5.1%	9	-10	-1	36	5.3%
SUNSHINE COAST	11	1.5%	7	-3	4	15	2.2%
SYDNEY	299	41.4%	118	-120	-2	297	43.9%
WOOLONGONG	15	2.1%	6	-10	-4	11	1.6%
TOTAL	722	100.0%	272	-317	-45	677	100.0%



CRANE ACTIVITY - AUSTRALIA BY SECTOR

	OPENING COUNT Q1 2020	%	MOVEMENT +	-	NET	CLOSING COUNT Q3 2020	%
CIVIC	3	0.4%	5	-1	4	7	1.0%
CIVIL	35	4.8%	6	-20	-14	21	3.1%
COMMERCIAL	77	10.7%	31	-32	-1	76	11.2%
EDUCATION	24	3.3%	7	-9	-2	22	3.2%
HEALTH	18	2.5%	21	-9	12	30	4.4%
HOTEL	20	2.8%	4	-9	-5	15	2.2%
MIXED USE	52	7.2%	15	-17	-2	50	7.4%
RECREATION	2	0.3%	1	-1	0	2	0.3%
RESIDENTIAL	488	67.6%	180	-218	-38	450	66.5%
RETAIL	3	0.4%	2	-1	1	4	0.6%
TOTAL	722	100.0%	272	-317	-45	677	100.0%



Source: RLB Q3 Crane Index

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