Banner Asset Management

# Quarterly Property Report

February 2018

# Market Update and Outlook

## AUSTRALIAN ECONOMY

While both Sydney and Melbourne continue to outpace the other capital cities, the star of this quarter's growth is Victoria, leading the way in terms of both its economic and property market performance.

Inflation holds steady at 1.8% year-on-year to Q317, and continues to sit within the Reserve Bank's target range of 2-3%.

RBA's official cash rate remains unchanged at 1.5% representing 16 months of interest rate stability.

Australian population continues to grow. Population in Victoria grew by 2.3%, NSW grew by 1.6%, and the overall Australian population overall grew by 1.6%.

Melbourne's residential property market continues to outpace Sydney and the other capitals for the fourth quarter in a row, and shows no real signs of slowing down.

The Australian economy in the quarter to September 2017 tells a story of consistent fundamentals, overall growth across the board, and steady property investment growth which is underpinned by a burgeoning population.

# 0.6%

INCREASE IN GDP

# 2.24%

ANNUAL GROWTH RATE

# 4.28%

VICTORIA'S GROWTH RATE

# 1%

SYDNEY'S PER CAPITA GROWTH RATE

The Australian economy in the quarter to September 2017 tells a story of consistent fundamentals, overall growth across the board, and steady property investment growth which is underpinned by a burgeoning population.

While both Sydney and Melbourne continue to outpace the other capital cities, the star of this quarter's growth is Victoria, leading the way in terms of both its economic and property market performance.

Overall, the Australian economy continued on its upwards trajectory in the July – Sept 2017 Quarter (Q317), with a 0.6% increase in GDP and an annual growth rate of 2.24% for the year-on-year to September 2017.

Economic growth has been seen across the board over the quarter, with 17 of 21 industries reporting growth. Notable was Victoria's growth rate for the year of 4.28%, however the per capita Victorian growth rate for FY17 was just 0.1% compared to Sydney's per capita growth rate of 1%. This could be an indicator of a future slow-down.

Inflation holds steady at 1.8% year-on-year to Q317, and continues to sit within the Reserve Bank's target range of 2-3%.

In addition, the RBA's official cash rate remains unchanged at 1.5% representing 16 months of interest rate stability – a trend that looks set to continue as at March 2018.

The Australian population continues to grow and this is supporting a large range of positive economic outcomes including in the property sector. In the Q317 period, the population in Victoria grew by 2.3%, NSW grew by 1.6%, and the overall Australian population overall grew by 1.6%.

With 90% of immigrants choosing to settle in Victoria, NSW and Queensland, the population growth in these key areas is expected to continue for the foreseeable future.

## Melbourne vs Sydney - Property Market

Melbourne's residential property market continues to outpace Sydney and the other capitals for the fourth quarter in a row, and shows no real signs of slowing down.

Despite the major markets of Sydney and Melbourne enjoying strong year-on-year growth of 8.3% and 9.4% respectively, there has been a 1.4% decline in Sydney residential property prices, which we believe is simply a smooth correction as demand remains in place.

## Government

Government debt continues to grow. The public debt to GDP ratio is at 40%, with Government expenditure rising by 0.2% for the quarter. The growth of Government debt, however, doesn't appear to be negatively influencing the property market. A growing population is driving the steady demand for quality housing in most of Australia's capital cities. Melbourne, for instance, has enjoyed five straight years of median house price increases.

## Employment

Employment figures also continue to show growth. Unemployment rates continue to sit at around 5.4%, with a 3.1% growth in employment year-on-year to November 2017. We are seeing jab vacancies remaining strong well into 2018 and expect this to continue.

## The Australian Dollar

The Australian dollar has been the victim of mixed messages, which has seen it fall after surging to USD 0.79 in August. This fall is largely due to the eroding differential between global and domestic interest rates.

In addition, other international rates rose against resilient demand from the Chinese market, financial instability in Europe and the UK, a lower level of financial instability in the USA have impacted the dollar, although we note that the current rate is 0.77 USD.

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## RESIDENTIAL PROPERTY Q2 2017

There has been a decline in Sydney housing prices, despite the major markets of Sydney and Melbourne having enjoyed recent, strong year-on-year growth of 8.3% and 9.4% respectively. The slow-down is likely to represent a smooth correction of the high growth rates of the recent past, leading to buyers regaining some leverage in the market.

The outlook for residential property is one of continued, but moderate, property price growth (especially in Victoria and Queensland) of circa 1% p/a, with a moderate growth decline in NSW.

Melbourne and Sydney continue to enjoy strong population growth that matches a continued demand for property as an investment, and this underlying growth is currently limiting any decline in the market.

Sources: Jones Lang LaSalle, Australia Bureau of Statistics, National Australia Bank

8.3%

SYDNEY YEAR-ON-YEAR GROWTH

9.4%

MELBOURNE YEAR-ON-YEAR GROWTH

1% pa

PROPERTY PRICE GROWTH

## DEVELOPMENT FUNDING

13.8%
VIC

6.5%
NSW

11.4%
QLD

The Australian housing market is going through a period of stabilisation, which has arisen principally as a result of the major Australian banks reigning in credit via a combination of limiting loan ratios for investment loans, and general credit assessment tightening.

Foreign investment in property has declined in the quarter (13.8% in Victoria, 6.5% in NSW and 11.4% in Queensland), which is likely the result of state government policies around taxing foreign residential investment. This has cooled demand somewhat, and Sydney is also seeing a decline in apartment prices, which we believe is due to oversupply.

Consumer and investor demand for housing has continued unabated due to continued population and economic growth and low residential vacancy rates remaining a feature of the Victorian, NSW and Queensland markets.

# September Key Figures

| Residential Property Prices | Sep Qtr 17 to Sep Qtr 17<br>% change | Sep Qtr 16 to Sep Qtr 17<br>% change |
|---|---|---|
| **Weighted average of eight capital cities** | **-0.2** | **8.3** |
| Sydney | -1.4 | 9.4 |
| Melbourne | 1.1 | 13.2 |
| Brisbane | 0.7 | 3.5 |
| Adelaide | 0.7 | 4.8 |
| Perth | -1.0 | -2.4 |
| Hobart | 3.4 | 13.8 |
| Darwin | -2.6 | -6.3 |
| Canberra | -0.2 | 6.9 |

| Total value of the dwelling stock | Jun Qtr 17 |
|---|---|
| Value of dwelling stock(a) ($m) | 6,779,325.1 |
| Mean price of residential dwellings ($'000) | 681.1 |
| Number of residential dwellings ('000) | 9 954.1 |

# INDUSTRIAL PROPERTY HIGHLIGHTS

SYDNEY GROWTH IN 2017

7%

MELBOURNE HAS THE LARGEST INDUSTRIAL SECTOR IN AUSTRALIA

## Melbourne

Melbourne has the largest industrial sector in Australia, and is therefore showing the strongest economic indicators in the industrial property market. Led by continued demand from the industrial sector, developments are largely based on purchaser or rental pre-commitments. As a result, yields continue to compress.

## Sydney

The Sydney industrial property market enjoyed strong growth of 7% in 2017. Central to this growth is tenant demand, with 80% of developments being sold before completion. In addition, rents have increased 7.1% over the course of 2017. This growth was, in part, assisted by industrial property stock being taken up by residential development over the past few years.

# OFFICE PROPERTY HIGHLIGHTS

VACANCY RATES IN MELBOURNE

4.6%

SYDNEY FORECAST SHORTAGE OF OFFICE SPACE OVER THE NEXT

2 Years

## Melbourne

Melbourne has led national office growth with a significant surge in education industry leasing. The rapidly growing education industry, and its space requirements, is offsetting a decline in per-person space requirements in the finance, law and accounting sectors. Vacancy rates have shrunk from 5.9% to 4.6% and demand remains very strong.

## Sydney

Sydney is also enjoying strong demand, with a forecast shortage in the supply of office space over the next two years and, as a result vacancy rates in the Sydney CBD are expected to fall to pre-2008 levels.

Source: CBD Office Research and Forecast Report - First Half 2018



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