ResiFund

Market View

November 2020

Market View

Globally, Covid has continued to impact many economies and many have found themselves fighting a second wave of cases. There have been natural advances globally, whereby countries are now improving identification, reporting systems and stabilising out breaks, which in turn has reduced the number of fatalities.

Australia has seen stabilisation in economic and property market indicators as most states shift toward a "Covid-normal" phase. CoreLogic data revealed that six out of the eight capital cities in Australia recorded a rise in home values over the month, with a 0.1% fall in dwelling values nationally which is the lowest decline since May 2020. Victoria has been the outlier, with the declining health situation underpinning lower consumer confidence and economic activity within the state. In turn, Melbourne was the weakest performing capital city, with values down 0.9% in the month of September. Subsequent to these figures, with the reinstatement of private inspection & pent up demand, we expect these figures to mirror those of the other states.

	Month	Quarter	Annual
Sydney	-0.3%	-1.6%	7.7%
Melbourne	-0.9%	-3.3%	3.1%
Brisbane	0.5%	0.0%	3.8%
Adelaide	0.8%	0.9%	3.6%
Perth	0.2%	-0.3%	-1.0%
Hobart	0.4%	0.3%	6.4%
Darwin	1.6%	2.3%	1.9%
Canberra	0.4%	1.5%	6.3%
Combined capitals	-0.2%	-1.5%	4.9%
Combined regional	0.4%	0.5%	4.3%
National	-0.1%	-1.1%	4.8%

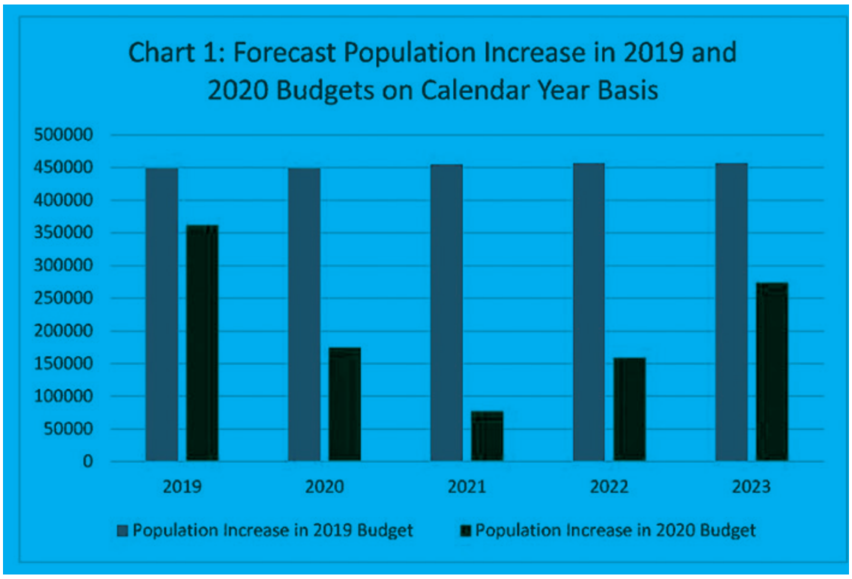
Source: CoreLogic

While we all hope for a vaccine, the trajectory of the virus around the world and the adaption response (as witnessed in Victoria in recent weeks) suggests that even in the absence of a highly reliable vaccine, the world will be able to adapt to Covid given time.

Budget & Stimulus

The most highly anticipated budget was delivered earlier this month. It was heavily focused around job creation and increasing consumer confidence. The extension of the First Home Loan Deposit scheme was one of the few housing-related measures in this year's federal Budget.

Another point to take out of the budget announcement was around population growth. The population forecast was lowered by approximately 1 million persons, relative to the 2019 budget, as reflected in the graph below.



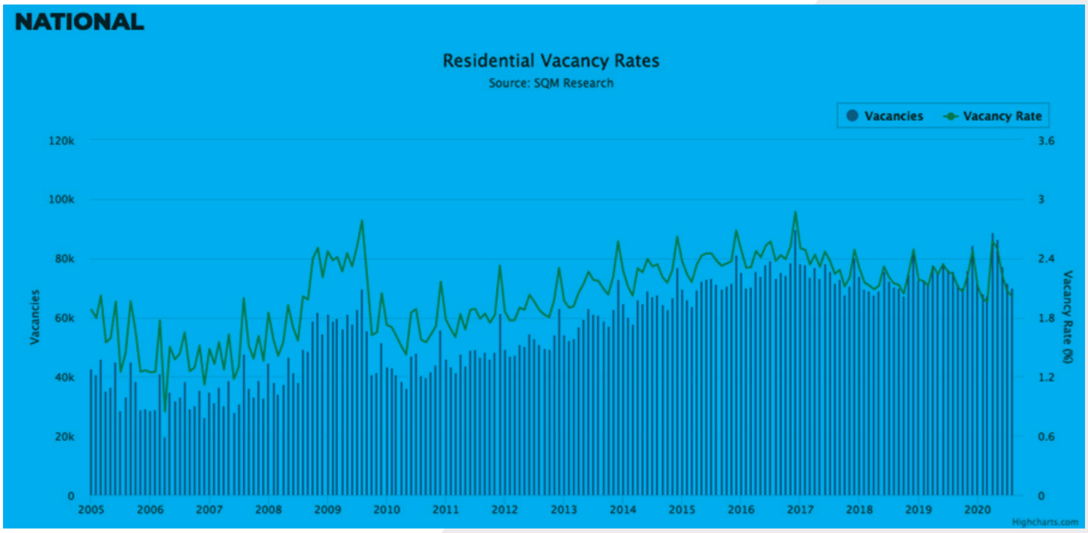
Whilst disappointing, we believe that it is reasonable for the government to underestimate this. The Morrison government have a tendency to under-promise in the hope that they can overdeliver, and a faster return to growth would give them good reason to revise upwards their population projections.

All in all, the stimulus packages implemented by the government, in particular the HomeBuilder Scheme, the low interest rates and transition back to Covid safe, have slowed price declines. A result, most economists are now predicting considerable price escalation in the next 24 months, which much to contrary of the original outlook forecasted at the start of Covid.

National Housing Supply

Rental vacancy rates provide a good indicator of supply and demand imbalances within our markets. The closure of national boarders resulting in a sharp reduction in Net Overseas Migration, has attributed to slight increases in vacancy rates.

When looking across Australia's major cities, a common theme emerges whereby higher vacancy rates are highly saturated around CBD's where the majority of temporary international residents reside. Out of the major cities, naturally Melbourne & Sydney are the softest rental markets, due to the large population and on market properties available.

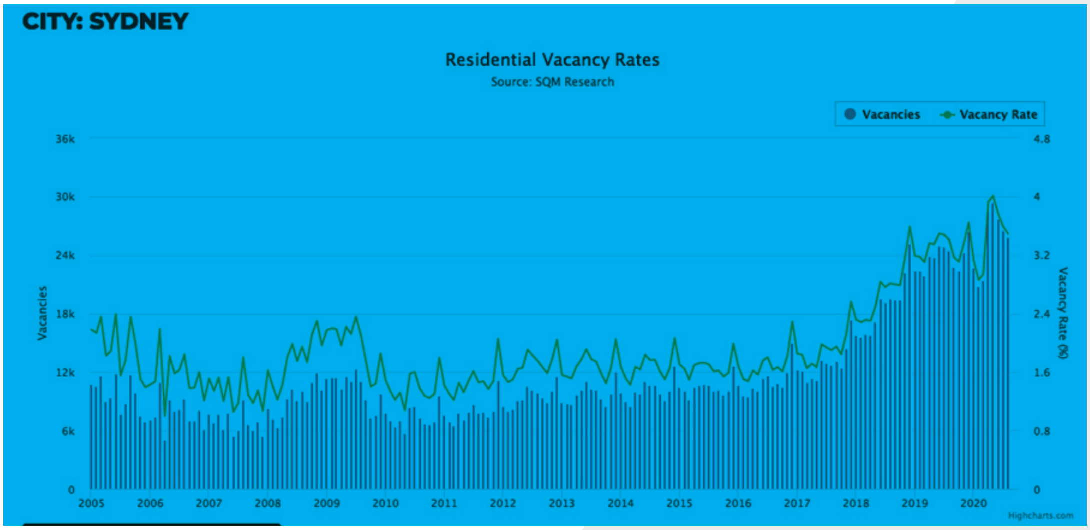


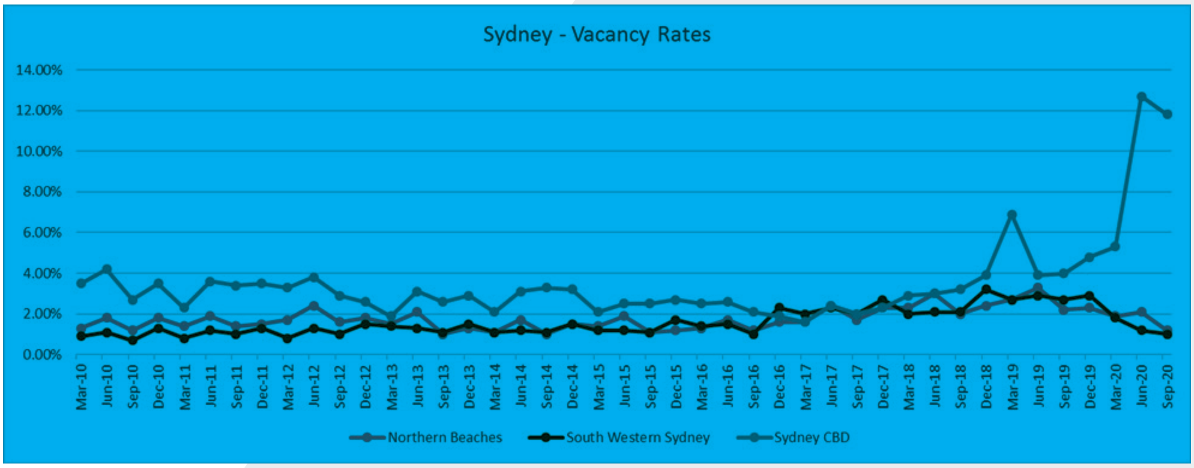
Since a sharp increase at the start of COVID, we can see the national vacancy rate trending down and hitting 2%, the lowest it has been since February. It is noted that rental vacancy rates of 3.0% have historically been considered "neutral" markets, however, there are many different methods of calculating rental vacancy rates. As such, we consider 2.5% to be the rough mark below which there is stable rental take up and slight rental growth. Below 1.5% we tend to see stronger rental price growth. Below 1.0% we see strong rental growth coupled which usually leads to above average house price growth as first home buyers "rush to the exit".

In essence, there are still regions within each capital cities that show severe shortage of rental accommodation and low vacancies.

Sydney Rental Supply

The sharp increases in vacancies in April 2020, point to short term rental properties (Air BNB) to the permanent rental pool. The Sydney market is mirroring the national trend and is reversing sitting at 3.5%, as there are no restrictions across the state. CoreLogic recorded changes in rents between March 2020 & September 2020, whereby there was a 5% decrease in units & 1.3% decrease in houses.





Sydney as a whole, is in a tenants market. However, the majority of excess vacancies are in the CBD. Northern Beaches remains quite a tight rental market and the South-Western Suburbs is very much favouring landlords with sub 1% vacancies.

Market Watch
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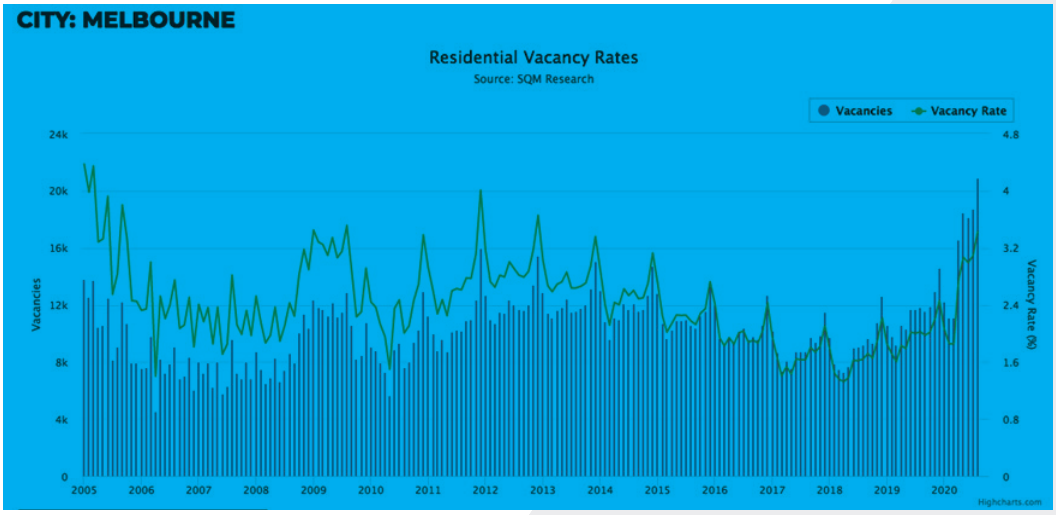
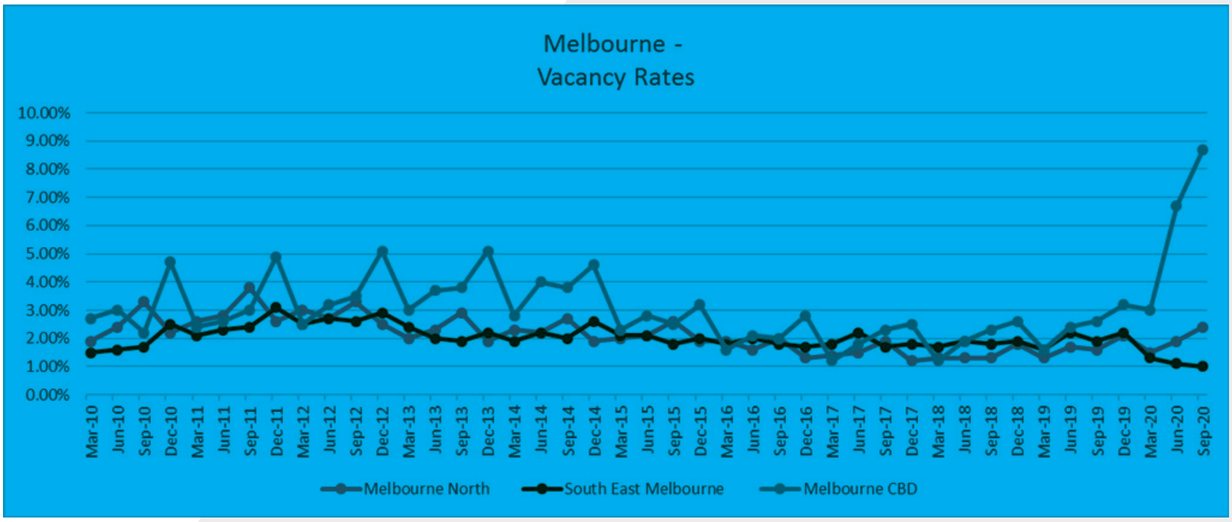
Melbourne - Rental Supply

Similar to Sydney, Melbourne's rental market has a higher number of properties on the rental market, and again they are concentrated to the CBD and inner suburbs. Investment grade apartment markets have seen significant supply additions over the past decade, with a large portion of new apartments built in Sydney and Melbourne contributing to this increase. Changes in rents between March 2020 & September 2020, reflect a 5.5 decrease in units & 1% decrease in houses.

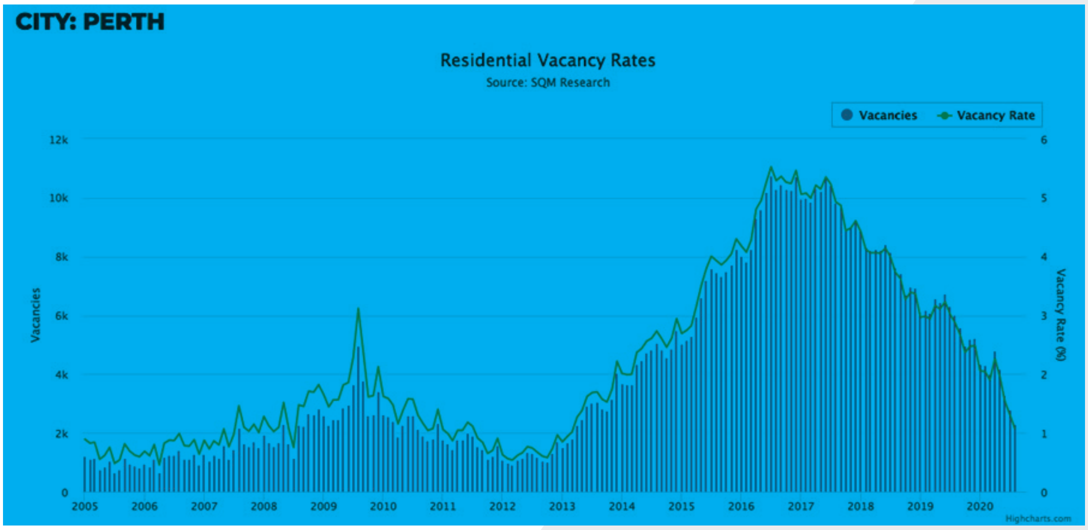


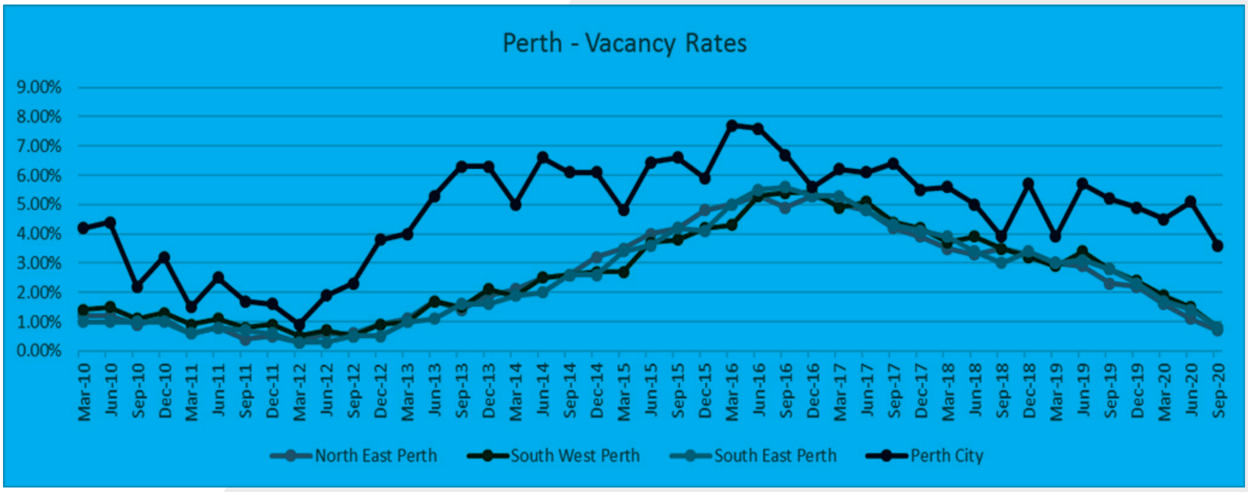


The strongest performing market is the south-eastern suburbs, with a vacancy rate of just 1%. The next best performing market is the Northern suburbs with a vacancy rate of 2.4%. With a large amount of supply and developable land available, the western suburbs have the highest vacancy sitting at 2.9%. The Melbourne market in the South-East & the north suits a budget of $600,000-$700,000.

Perth – Rental Market

Contrary to Sydney and Melbourne, Perth has seen existing stock better absorbed and as a result vacancy rates have plummeted to below six-year averages sitting at sub 1%. The inner-city market shows long term elevation of vacant properties, albeit that this higher rate of vacancy has been a common theme since the mining boom and unlikely linked to Covid. Changes in rents between March 2020 & September 2020, reflect a 1.5% increase in units & 3.3% increases in houses.

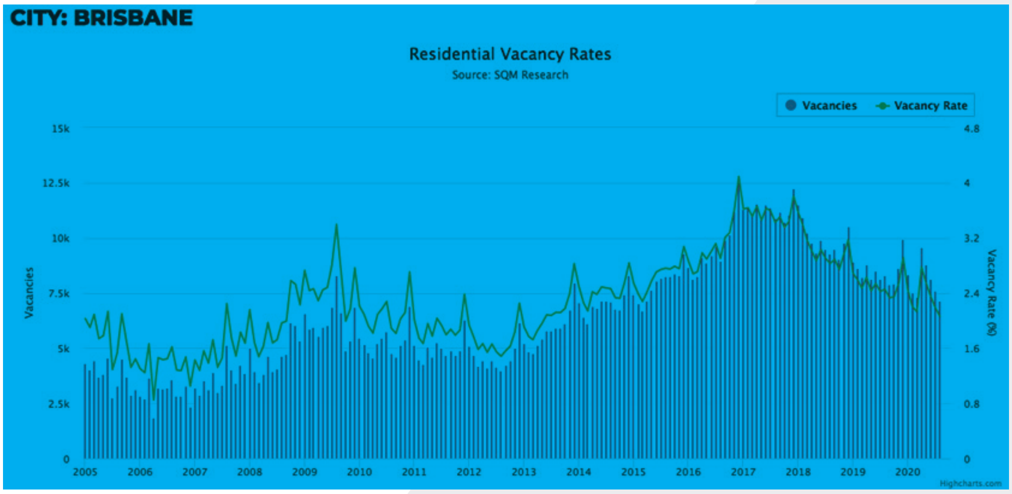


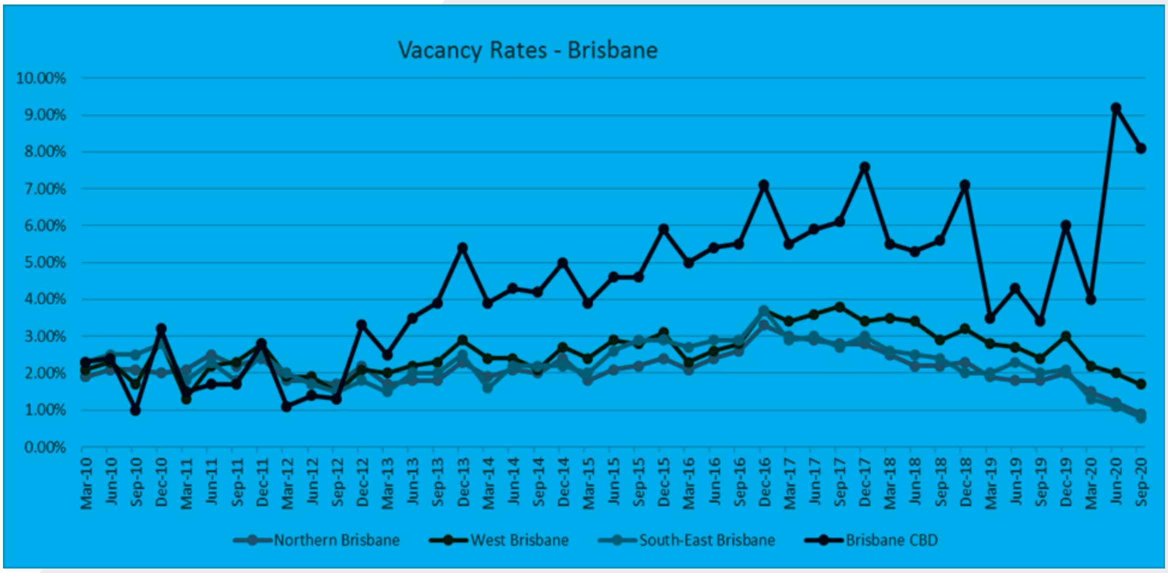


All suburban rental markets around Perth are showing extremely low rental vacancies. A reduction in Net Overseas Migration in 2020 will take some pressure off the rental market. It is important to note that off the back influx of Homebuilder & W.A grants, first home buyers will be dragged out of the rental market over the next 12-18 months as their new homes are being completed. Overall, the North & South markets present opportunities for budgets up to $500,000.

Brisbane – Rental Market

Similar to Perth, Brisbane has experienced a slight reduction in a vacancy rates over the course of 2020, with rents remaining stable from March to September with 0.2% increase in houses and a 1.6% decrease in units. Following the same theme as the other major cities, Brisbane CBD has experienced a sharp rise in vacancies due to the increase supply of apartment buildings and short-term accommodation shifting to the main rental pool. Over the next 12 months as interstate migration returns after the borders open again late 2020, we would expect the vacancy rate to continue to trend down which will lead to moderate rental increases.





The south-eastern and northern suburbs of Brisbane are now severely undersupplied, with very few opportunities for new housing supply to be brought on due to a lack of large-scale development opportunities in these sub-markets. The Western Suburbs is also seeing favourable vacancy rates, but we note that this market does have more developable land which could be brought on to meet demand in future.

Like Perth, Brisbane has also seen a strong take-up of the HomeBuilder grant, which will see new supply coming through in the southern, and south-western suburbs of Brisbane. Overall, these markets present opportunities for budgets between $440,000 - $650,000.

Affordability

As Covid-19 continues to rip through Australia, incomes, the cost of living and unemployment all play a major role in housing affordability. The RBA expected that the unemployment rate would peak at 10% and continue to increase as lockdowns extended. ABS figures released in August showed unemployment figures sitting at 6.8%, an improvement on the June 2020 result of 7.5%. Despite having the longest lockdown out of the major capital cities, Victoria has a lower unemployment rate than QLD and is marginally above the average of all states. With lockdown 2.0 expected to ease in October/November we should see an increase to employment and consumer confidence.

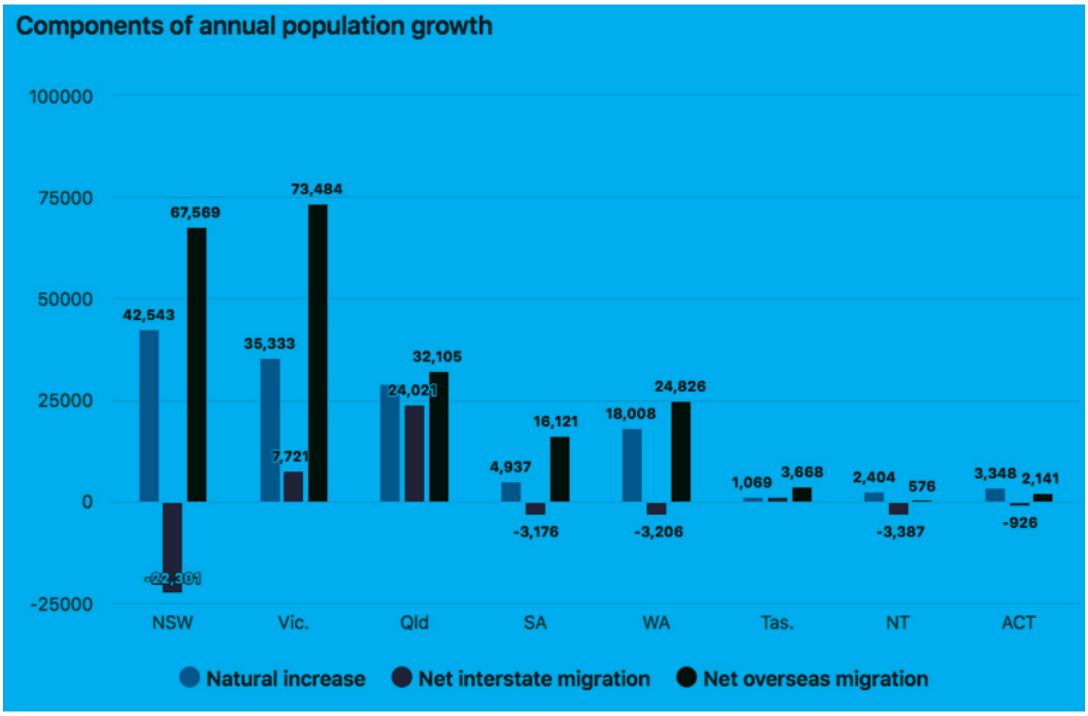
Employment Stats

	New South Wales	Victoria	Queensland	South Australia	Western Australia	Tasmania
Employed persons	4,042,400	3,255,100	2,447,900	841,200	1,350,300	255,300
Employed persons - monthly change	1.3%	-1.3%	0.7%	1.6%	2.4%	0.9%
Employment to population ratio	60.9%	59.4%	58.8%	57.9%	63.1%	57.2%
Employment to population ratio - monthly change	0.8 pts	-0.8 pts	0.4 pts	0.9 pts	1.5 pts	0.5 pts
Unemployment rate	6.7%	7.1%	7.5%	7.9%	7.0%	6.3%

With an unprecedented level of stimulus from the federal budget to be injected in to the economy over the next 24 months, we believe that the outlook for property prices is favourable. With interest rates at an all-time low and predicted to drop further and the easing of lending, purchasing power across all markets will continue to increase. The extension of the First Home Loan Deposit scheme and HomeBuilder grant will benefit First Home Buyers and continue to increase demand in the new housing space. Investors will also be enticed to enter into the market when confidence returns, as interest rates will remain low, increasing borrowing capacity & reducing the breakeven yield.

Housing Demand

A critical factor to housing demand is population growth, which accesses natural increases, net interstate migration and net overseas migrations. According to ABS, figures over the last 12 months show that the main driver of population growth in all states is from Net Overseas Migration (NOM). With international boarders closed, this makes all states susceptible to a decrease in population. Sydney and Melbourne have twice the population of any other city in Australia and have historically recorded the most increases from NOM over the past decade. Thus, these two cities will see a significant reduction. Offsetting this, construction in Victoria has been severely constrained with housing construction having slowed to a crawl over the last 7 months and new starts being pushed back as a result. Despite the lower NOM increases, there will continue to be pockets within these cities that demonstrate favourable property conditions.



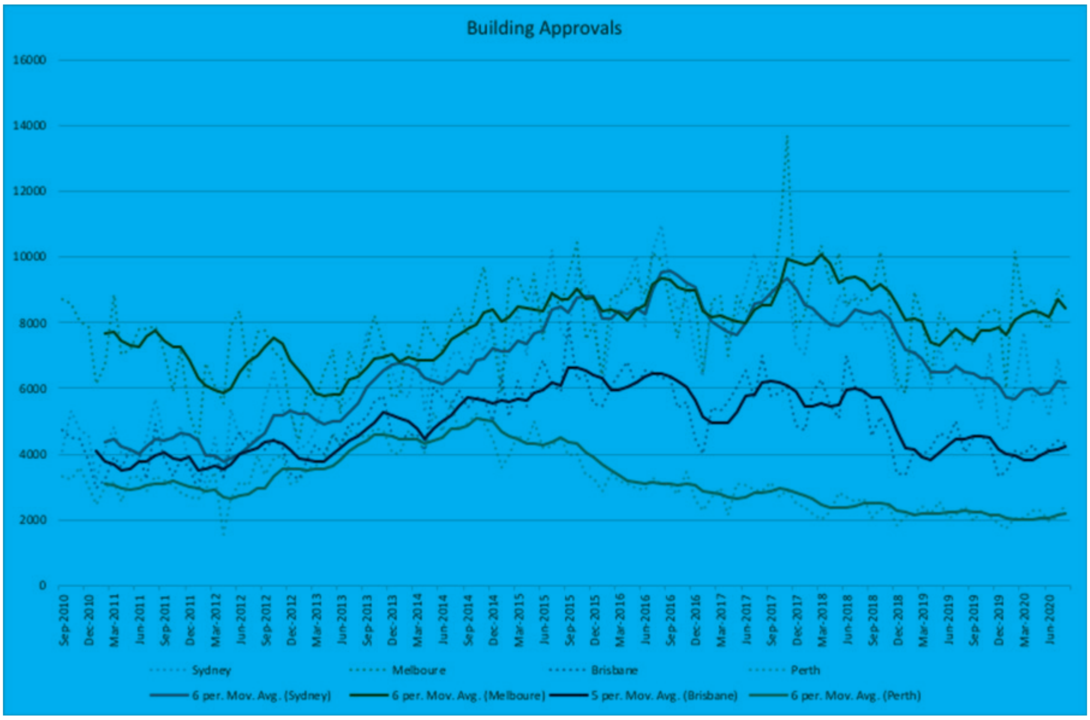
Conversely, WA and QLD will benefit immensely from their handling of the health crisis, and despite closed borders there is strong anecdotal evidence of a heavy flow of people still moving towards these states – with fewer people leaving. With working conditions changing throughout Australia as a result of the health crisis, we would expect to see individuals flow to these cities for lifestyle changes. Statistically, assuming that QLD retains its strong Net Interstate Migration (NIM) over the coming 12 months and WA sees NOM revert to a neutral number, it seems likely that they will still see strong population growth even with no NOM.

The speed at which Australia recovers its high rate of NOM and the make-up and destination of new arrivals is subject to the availability of a vaccine and boarder openings.

Building Approvals

Building approvals for most of our target cities have been below the 10-year average for the last 2 years. Sydney is the outlier in this regard. A sustained increase in building approvals across the capital cities, particularly in Sydney, over the next 6 months could be problematic considering that population growth has diminished considerably this year. That being said, the impact will depend greatly on where the approved dwellings are located.

Approvals in QLD and WA were at low levels heading into Covid, but have seen higher sales volumes as a result of moving into 'Covid Safe stages. HomeBuilder has increased supply of new housing stock in urban fringe housing markets, but the total number of properties that will be constructed is due to the availability of land, in qualifying window.



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