

ANZ-Property Council Survey Media Release

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Improving credit outlook drives sentiment higher

- The ANZ-Property Council Survey for the September quarter shows a solid bounce in sentiment in Australia's property sector.
- Just as the recent weakness in the property sector has been more pronounced in residential, the bounce in sentiment in the September quarter was more marked in the residential sector. The improvement was apparent across all the key housing indicators including the outlook for credit availability, prices and construction.
- The improvement in confidence was broadly based, with NSW, Victoria, Queensland, Western Australia and South Australia all posting gains. Of the states, only Tasmania saw a decline.
- The improvement in confidence is encouraging and suggests that the worst of the house price falls are probably behind us. With the reality of ongoing constraints on credit availability, however, we expect that the bounce in prices and construction will be much more muted than the rebound in some residential indicators might suggest.
- Sentiment also bounced in the commercial property space in the September quarter, and remains well above confidence in the residential sector. The outlook for the office, industrial, aged care and accommodation segments all improved in the quarter.

ANZ Head of Australian Economics, David Plank, commented:

"Since April we've been flagging that there were emerging signs of stability in the residential property market. In particular, we noted the fact that pace of house prices declines was slowing and that the auction clearance rate was beginning to rise.

Over the past month lower interest rates, the proposed change to the interest rate floor by the regulator, and the removal of uncertainty around the impact of the possible tax policy changes have boosted sentiment toward housing. This boost is reflected in the rise in the auction clearance rate in Sydney and Melbourne to its highest level in more than a year.

The results of the latest ANZ-PCA survey capture this shift, with most parts of the survey showing material improvement. Of particular note is the marked improvement in credit availability. This measure has proved to be a reliable indicator of shifts in housing activity in the past and if it remains so it suggests better times ahead. Certainly, it seems safe to say that the worst of the house price declines are well and truly behind us. This doesn't mean we are expecting a shift back to dramatic increases in house prices. This is not something we see as desirable given the still stretched levels of affordability in Sydney and Melbourne. Nor do we think it is likely with the more stringent credit policies that are in place.

Also encouraging for the economic outlook was the lift in sentiment in the commercial property sector. This provides some reassurance that the recent weakness in the domestic economy and the more negative global environment hasn't flowed through into a sharply weaker outlook for business investment."

Optimism in the residential sector rebounds

The September quarter ANZ-Property Council survey shows that confidence in Australia's housing sector has bounced solidly following four straight quarters of declines.

The bounce follows a number of developments which have helped support sentiment in the residential sector. Interest rates cuts, both actual and prospective, regulatory easing, and the removal of uncertainty about taxation arrangements, together look to have turned sentiment around in the housing sector. There is some supporting evidence of this in the hard data, with auction clearance rates continuing to improve and house price falls moderating. The extent of the rebound in some of the indicators in the ANZ-Property Council survey is a positive sign, however our view is that the recovery in housing is likely to be a relatively subdued one.

Of crucial importance, firms are now reporting that they expect finance to become more readily available. This is critical in the current environment, where macro-prudential policies and tighter bank lending conditions have, in our view, been the main driver of the slowdown in the housing sector. In the September quarter survey, firms reported a sharp improvement in expectations of finance availability over the next 12 months, back up close to the high seen in June 2014. Whether these expectations will be met remains to be seen, but it certainly does point to much improved sentiment around credit availability.

On a similar front, many respondents also now expect interest rate cuts in coming months. A net 51% of respondents across the country now expect interest rates to be lowered over the next 12 months. This is consistent with our own view and market expectations, which have at least one more cut priced in after the expected RBA rate cut in July.

With this sharply improved backdrop, the bounce in the outlook for house prices and construction is not surprising. With the pessimism centred on New South Wales and Victoria, these are the states where the bounce in sentiment has been largest. While price expectations remain negative in the largest two states, they have improved sharply from the lows seen in the June quarter. Of the respondents that operate in the residential sector in New South Wales and Victoria a net 24% and 17% respectively, expect housing prices to fall over the next year (compared with 71% and 72% in the previous survey). For the country as a whole only 8% expect housing prices to fall.

The construction outlook has also bounced, although not to the same extent as the prices outlook. While a net 24%, 41% and 18% across New South Wales, Victoria and nationwide respectively expect construction activity to fall over the next 12 months, this is an improvement from the 48%, 42% and 29% respectively in the previous quarter. The improved outlook for construction is consistent with tentative signs of stabilisation in building approvals.

While easier credit and low interest rates have clearly buoyed sentiment in the housing sector, we are cautious of being overly optimistic about any rebound. Our view for some time has been that restricted credit supply has been the most important driver of the downturn, so while APRA's relaxation of the interest rate floor will provide a modest easing, it is small compared with the range of other more permanent tightening measures implemented over recent years. Accordingly, this suggests that the turn in the housing cycle is likely to be relatively subdued.

Commercial property confidence turns up

Confidence in Australia's commercial property segment also bounced in the September quarter, but remains well below the levels seen through 2018. At this level, firms remains significantly more positive than their residential counterparts.

The rebound in sentiment in the September quarter occurred across all segments. The retail sector saw the most modest bounce and remains by far the weakest sector with conditions well below the long run average. This likely reflects a number of headwinds the sector is facing, including persistently weak household income growth, record high household debt, and strong competition from international and online retailers. That said, retail property firms remain positive about the construction outlook, with a net 37% of firms expecting a rise in construction activity over the next 12 months (the highest since June 2017).

The accommodation segment posted the largest bounce in the September quarter, although it remains well below the peak seen in the September quarter 2018. The fundamentals for the accommodation segment remain positive, and new building approvals for the sector have been growing strongly. While growth in the number of tourist arrivals has slowed, the gradual depreciation in the AUD since early 2018, with further depreciation likely over coming quarters, will provide support to tourism demand going forward.

Elsewhere in the commercial space, the industrial and office segments rose. Office property survey respondents suggest that the outlook for construction activity has declined slightly, while industrial property respondents were slightly more upbeat than in the previous survey. In both cases, though, the construction outlook remains solid.



Important notice

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