

ANZ-Property Council Survey Media Release

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Overall sentiment down, but residential confidence up

- The ANZ-Property Council Survey for the December quarter shows a decline in sentiment in Australia's property sector. The decline was driven by a fall in commercial property sentiment. Sentiment in the residential sector rose strongly for a second quarter.
- The recovery in the residential sector is evident across a broad suite of indicators, with expectations for prices extending the recovery seen last quarter. A further improvement in credit availability and ongoing expectations of rate cuts are supporting the bounce.
- The improvement in residential confidence was concentrated in the eastern states, while confidence in South Australia and Western Australia fell.
- The recovery in the residential sentiment indicators is encouraging. But the reality is that credit availability is unlikely to return to pre-Royal Commission levels. Consequently, we expect that the recovery in prices and construction will be more moderate than what the rebound in the survey indicators suggests.
- In contrast, sentiment was weaker in the commercial property sector, where the outlook for office, industrial, retail, aged care and accommodation segments all declined. Sentiment remains weakest in the retail sector by a large margin.

ANZ Senior Economist, Felicity Emmett, comments:

"Signs of recovery in the residential property market have been emerging for some months now, with sentiment turning around convincingly in May. Since then, auction clearance rates have picked up sharply, prices have been rising strongly in Sydney and Melbourne for two months, and housing finance is starting to pick up.

Interest rate cuts (both actual and anticipated) and regulatory easing have been the key drivers of this turnaround.

The results of the latest ANZ-PCA survey show the strong improvement in sentiment has extended into the current quarter. The continued improvement in credit availability suggests that construction activity, and not just prices, should begin to pick up in the coming months. Prices are clearly benefitting from the combination of pent-up demand and low levels of stock, but we continue to think that the current period of strong monthly price gains will be relatively short lived, and that prices will moderate in coming months as more supply comes on stream and credit policies remain relatively constrained.

The decline in sentiment in the commercial property sector, while not sharp, continues the downward trend evident since mid-2018. Marked weakness in retail is clearly weighing on the overall commercial sector, while concerns over land tax reform appear to have dampened sentiment in South Australia. But even outside of these segments, sentiment looks to be trending lower with the recent soft tone to the economy and ongoing uncertainty around the global outlook, likely weighing on the business investment environment."

Sentiment in the housing sector continues to improve

The December quarter ANZ-Property Council survey shows that confidence in Australia's housing sector has extended its rebound. The sustained bounce in sentiment in response to interest rates cuts, regulatory easing and the removal of uncertainty about tax arrangements is very encouraging. Hard housing data back this recovery in sentiment: auction clearance rates are back up above 70%, house prices are rising again and finance for construction has picked up.

Crucially, firms continue to see finance as more readily available. Given our view that the slowdown in the housing sector was largely driven by a tightening of credit supply, the easing of constraints is clearly an important factor in the sector's rebound. In the December quarter survey, firms reported a further improvement in their expectations of the availability of finance over the next 12 months, bringing the index back to 2015 levels.

The turnaround follows APRA's announcement in early May which flagged the easing of the interest rate floor used in serviceability assessments, as well as RBA rate cuts (both actual and anticipated). The extent of the recovery in the finance availability index has surprised us, given ongoing constraints on lending related to responsible lending requirements, but encouragingly points to a rebound in building approvals over the coming quarters.

Alongside expectations of easier access to finance, many survey respondents continue to expect interest rates to go lower. A net 50% of respondents across the country expect rates to be lowered over the next 12 months. This is consistent with our view and market expectations. The RBA has cut again in October, and we and the market expect further cuts over the coming months.

House price expectations continued to improve in the December survey and are now back in positive territory for the first time in 18 months. New South Wales and Victoria, where capital city prices have had the strongest rebound, have seen a solid improvement in price expectations, while the bounce in Queensland and South Australia has also been strong. In Western Australia, price expectations are also now in positive territory. Of the respondents that operate in the residential sectors of New South Wales and Victoria, a net 29% and 37%, respectively, expect housing prices to rise in the next year (compared with a net 24% and 17% expecting *declines* in the previous survey). For the country as a whole, 33% of survey respondents expect housing prices to rise in the coming year — the strongest result since September 2015.

The lift in the outlook for residential prices is consistent with the improvement across a number of housing market indicators. Auction clearance rates have been picking up since the beginning of the year. Home prices rose strongly in Sydney and Melbourne in both August and September. Housing finance is also turning higher now.

The turnaround in sentiment and subsequent pick-up in house prices has been sharper than we expected. Our view for some time has been that APRA's relaxation of the interest rate floor would provide a modest easing, but it needs to be viewed in the context of a number of other more permanent tightening measures implemented over recent years. An element of pent-up demand looks to be driving the recent strength in the housing market, and we expect it to moderate towards the end of the year.

Alongside the overall bounce in sentiment, the construction outlook has also bounced, and is now back in positive territory. Nationwide, a net 6% of respondents in the residential sector expect construction activity to rise in the next 12 months. The outlook is positive across all the states and territories bar New South Wales, where a net 18% of respondents expect construction activity to decline over the next year, likely reflecting the modest supply overhang in parts of Sydney.

The improved outlook for construction is encouraging. The latest data show that housing construction fell heavily in Q2 and building approvals continued to fall sharply into August. There are, however, some signs of improvement. There was a sharp pick-up in housing finance for the purchase of new homes in July, while in Sydney three large apartment blocks with a combined value of AUD3bn were reportedly approved in September. Given the fall in approvals to date and the long time-lags, a quick turnaround in work done looks

unlikely. We expect that activity is likely to continue to decline in coming quarters, before picking up around mid-2020.

Foreign interest in the residential sector remains subdued. The share of residential property sales to foreign buyers rose modestly in the December quarter, but at 13% remains well down on the 24% high seen in September 2016.

Commercial property confidence edges lower

Confidence in Australia's commercial property industry was weaker across the board in the December quarter. The deterioration in sentiment was concentrated in South Australia and to a lesser extent, Western Australia. In the eastern states, sentiment in the commercial property sector was only modestly lower. In South Australia, sentiment was much weaker across all sectors (office, industrial, retail, tourism, retirement living) and on all metrics (construction, price expectations, forward orders, employment), with proposed reform of land taxes most likely impacting sentiment.

The weakness in commercial property was broad-based across the segments. The sharpest fall was in the retail sector, where confidence remains by far the weakest 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.

The accommodation segment was also weaker in the December quarter. The construction outlook, forward orders and staffing levels were all weaker. In contrast, the outlook for prices was a little better. The fundamentals for the accommodation segment remain positive: building approvals for the sector are off their highs but remain elevated. While growth in the number of tourist arrivals has slowed, the ongoing depreciation of the AUD will provide support to future tourism demand.

Elsewhere in the commercial space, confidence in both the industrial and office segments declined. Office property survey respondents suggest that the outlook for construction activity has declined but remains above its long-run average, although expectations for prices have bounced and are back up close to the highs seen in June 2018. In the industrial sector, expectations around both prices and construction activity have declined modestly, but also remain high by historical standards.



Important notice

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