The Australian Property Market: Economic Overview

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Agenda

• The Economy
• Key economic drivers:
  – Office
  – Retail
  – Residential
  – Industrial
• 2005/6 outlook favourable, but don’t expect “more of the same”: the yield re-rating of 2003/4 will not continue
• **Key question**: Structural or cyclical changes?
Economic Growth Outlook

• **GDP Forecast:** 3.1% (FY05); 3.5% (FY06); 3.8% (FY07)

• **Key drivers:**
  – Exports (7.0%, FY06; 7.4%, FY07)
  – Dwelling investment (-0.5%, FY05; -1.7%, FY06; FY06; 7.8%, FY07)

• **Business investment falls in FY06**

• **Inflation** <3.0%

• **Risks:** Global growth and domestic
Office market
Employment Growth: White vs Blue Collar

Source: ABS 6291.0 55.001
Offices - Building Approvals

Source: ABS 8731026
Office market

- White collar employment very volatile
- Divergent blue/white collar employment employment trends
- Cyclical recovery in white collar employment 2005/6
- Long-term white collar employment growth (3.3% vs 1.7%)

**Risk: Supply/demand mismatch**
Retail property
Consumer Sentiment - all time high

Source: Westpac, MI
Retail Turnover Growth - annual % change

Source: ABS 850101
Retail property

• Temporary, cyclical or long-term retail spending slow-down?
• Impact on retailer margins of
  – China and strong AUD
  – Inventory management and technology
  – PPI > CPI
• “Third force” in retailing?
• Risk: Household b/sheet contraction
Residential market
Construction commencements: Houses and apartments

No. per quarter

Houses

Apartments

Source: ABS 875001
Apartments as percentage of total

Source: ABS 875001
Migration - net permanent arrivals

No. per month


Source: ABS340101
Residential market

• Accumulating evidence of a “soft landing”
• Latest (November) finance data supportive
• Other positives:
  – RBA “wait-and-see” strategy
  – Migration
  – Sharemarket
• Risk: Declining investor demand or interest rate rise
Industrial market
Factories and Other Business - Building Approvals

$ '000

Source: ABS 8731026
Industrial market

- Rising estimates for FY05 capex
- 4.3% higher than FY04 and highest on record
- FY05 Buildings and structures +23%
- FY05 Equipment - 5%
- By industry, Mining + 10%, Manufacturing +5%, “Other” + 2%
- Risk: Supply/demand mismatch
Summary

• Domestic and global economic growth will under-write property markets through 2005/6

• But don’t expect “more of the same”: the yield yield re-rating of 2003/4 will not continue

• Key question: Structural or cyclical changes?

• Key risks
  – Global growth slowdown
  – Domestic consumer spending decline
Common Market Themes

• Two (largely) independent themes through 2003/4
  – Portfolio-driven re-rating of the commercial and residential property
  – Strong economy drives demand for space and assets
• Increased supply/refurbishment the obvious response
• Re-rating has several consequences, for example
  – Lower yields, harder to generate investment returns
  – Qualitative change - refurbishment
  – Higher “base case” vacancy rates

Prospects for 2005/6 - three inter-related markets
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