RESEARCH BRIEFING

AUSTRALIA'S CHANGING FORTUNES?

WILL 2016 CONTINUE IN THE SAME WAY THAT SAW THE NATIONAL MEDIAN APARTMENT PRICE SURGE AND RENTS RISE THROUGHOUT 2015

Is negative global economic sentiment, share market volatility, weak commodity pricing and the collapse of two Australian major retail chains in the space of the first month of 2016 signaling a change in fortune for the residential apartment market?

Australian median apartment prices, rents and the number of approvals all reached new highs by the end of 2015, as favourable market conditions impacted on the sector. Australian motor vehicle sales also reached record levels at the end of 2015 which is usually a proxy for wider consumer sentiment. However bearish economic news has dominated the start to 2016 which may impact the residential apartment market over the short to medium term.

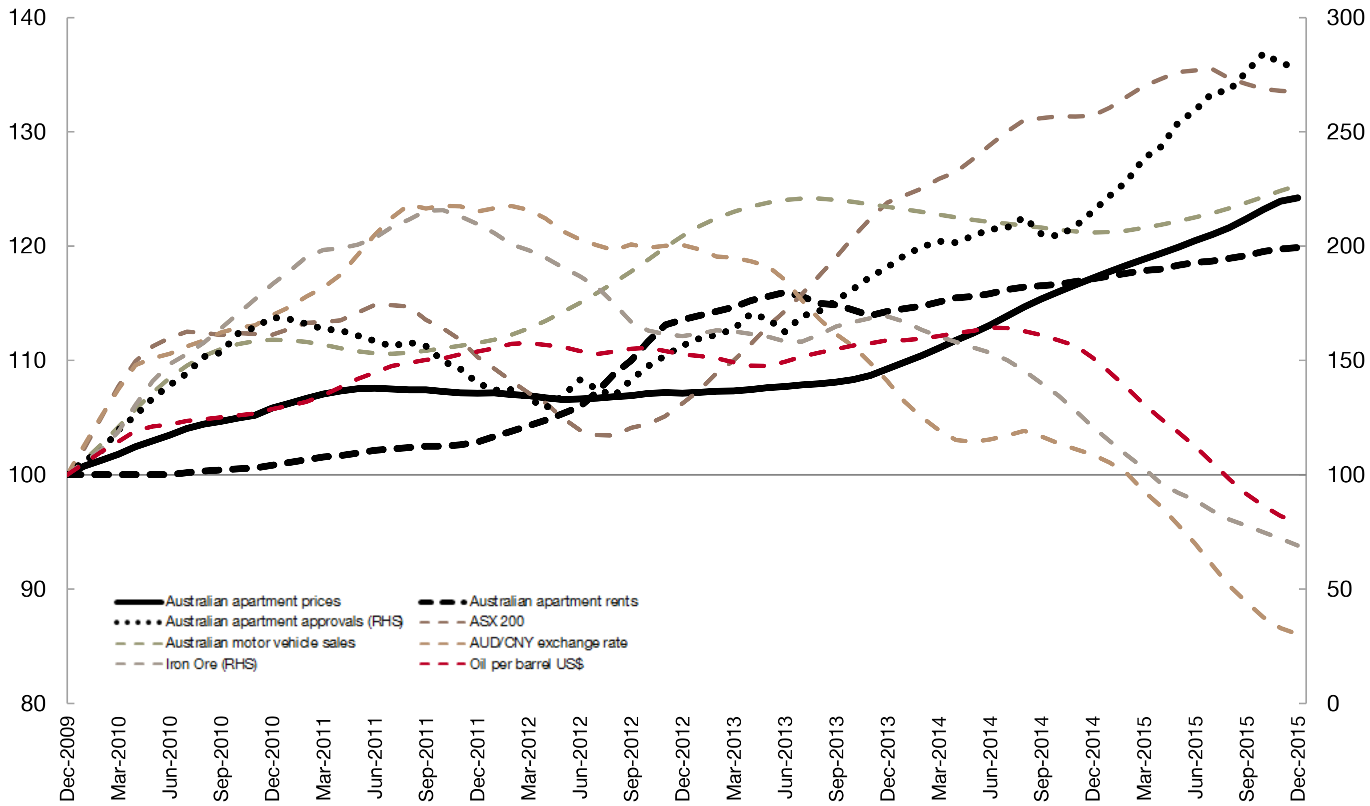
2016 has begun with the news of the demise and possible imminent closures of national retail chains which rely heavily on household consumer confidence; Dick Smith (consumer electronics—393 stores employing around 3,000) and Masters (home improvement— 63 stores employing around 7,000). Although there is hope that these retailers will survive, and the fact other retailers are waiting to pick up failed sites (such as Costco, Harvey Norman, Mitre 10 and Bunnings in respect of Masters) economic sentiment has taken a hit.

Several other factors are contributing to the changing economic mood, including heavy falls (6% during January) in the ASX 200 share market, with around $130 billion wiped off the value of the market in the first three weeks of this year alone, albeit showing a slight recovery post Australia Day. One of the drivers of the downturn in share market fortunes is a continuing push downwards in oil price to its lowest price since 2003, which fell below $US28 a barrel during January. Markets are expecting, and bracing, for a further rise in oil production, in an already oversupplied market, with a likely rise in Iranian exports after the lifting of sanctions against Tehran.

FIGURE 1

Australian apartment market trends in context with other influencing economic factors

Rolling 12 months, Index: December 2009 = 100



Source: Knight Frank, ABS, RBA, Residex, ASX, USEIA, IMF

However Australian interest rates are likely to remain low as a reduction in oil prices is softening the prospect of inflation, making imports and domestically manufactured goods cheaper. In addition China's economic growth rate, although still expanding, slowed to a 25-year low of 6.9% in 2015, reigniting worries about the health of the world's second-largest economy, and one of Australia's largest trade partners, which could force changes to the RBA's economic policy, especially if the AUD strengthens against the Chinese Renminbi.

So what does this mean for Australian residential apartment markets? With interest rates acting as an affordability parachute and population growth and a changing demographic supporting housing demand, demand and pricing for apartments will on the whole remain relatively robust (area dependent as push and pull factors are different across cities which need to be carefully monitored).

However, as a national average we foresee apartment sale price and rental growth to continue, but at softer levels than in recent years as domestic investor lending continues to tail off from recent highs as credit becomes harder to attain and yields soften, although owner occupiers have filled this gap for the meantime. Commodity prices remaining low, mining output continuing to trend lower and concerns about the domestic and global economy changing the risk attitude of domestic and international investors and owner occupiers, at a time of heightened residential apartment construction, will also contribute to a softer growth environment.

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For more information or for advice on any other aspect of the Australian property market including alternative asset classes, such as student accommodation, serviced apartments or hotels, please contact Matt Whitby, Paul Savitz or Luke Crawford.

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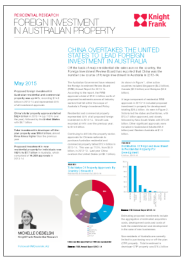
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