

ANZ-Property Council Survey

16 July 2020



COVID-19 continues to weigh on property sentiment

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- The ANZ-Property Council Survey for the September quarter showed a modest improvement in sentiment across Australia's property sectors, although it remains deep in negative territory as COVID-19 and the associated shutdown of economic activity cuts across the economy.
- The impact of COVID-19 is immense. Nationwide, almost all respondents report being negatively hit. Encouragingly, 60% of businesses expect the impact to improve over the coming quarter, however keep in mind that this survey closed on 1 July, before Melbourne's shutdown was announced.
- In the residential sector, overall sentiment remains negative across all states and territories. Price expectations fell further into negative territory, while the employment outlook remains challenging. The outlook for construction and forward orders, however, are both now positive and improving, clearly helped by the HomeBuilder scheme.
 - In a special question on the Commonwealth Government's HomeBuilder program, respondents within the residential sector were broadly positive about the scheme, with 60% reporting that it would have a positive impact on their business.
- In commercial property, sentiment remains deeply negative across all sectors except industrial, where confidence is now back in positive territory. Sentiment in the office sector declined and was broadly flat in the tourism sector where confidence is the weakest.

ANZ Senior Economist, Felicity Emmett, comments:

Property sentiment remains depressed in the wake of COVID-19 and the shutdowns put in place by the federal and state governments to contain it.

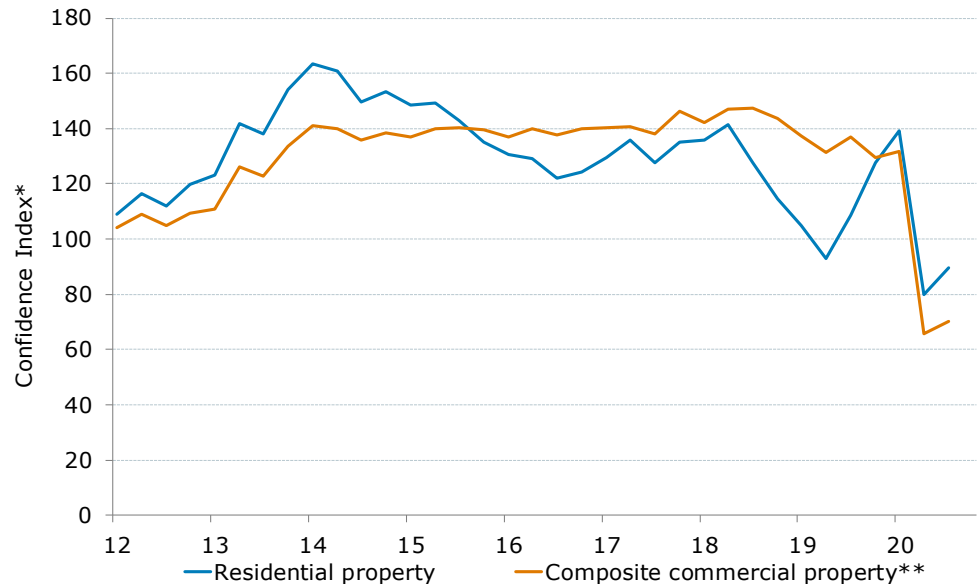
The impact has been widespread across states and sectors, with residential, office, industrial, retail and tourism sectors all heavily impacted. Not surprisingly, the tourism sector has been the hardest hit, although office property expectations have deteriorated further over recent months as businesses reassess the long-term outlook for office space.

Government support has been clearly important in supporting the economy through this period. The HomeBuilder scheme seems to have hit the mark, with around 60% of firms operating in the residential sector reporting that it will have a positive impact on their business. While the program looks to have had a material impact on the outlook for a majority of businesses in the housing sector, it will not be a panacea for either the residential or overall property markets. And with the outlook still challenging, the economy is likely to need more stimulus in coming months.

Despite a modest lift, property sector sentiment remains downbeat

While the pandemic continues to take its toll on the property sector, and the economy more broadly, confidence in the property sector rose modestly in the September quarter survey. Despite this, in both the residential and commercial sectors the index remains well below the key 100 level for only the second time in the history of the survey (Figure 1).

Figure 1. Property sentiment inched off its lows in the September quarter

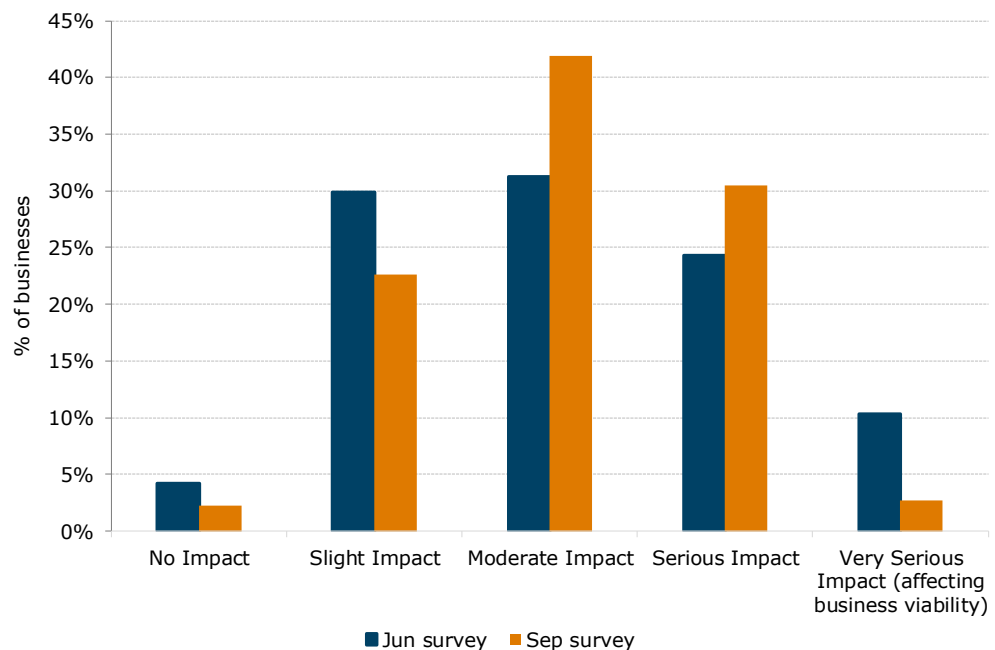


* Data post-September 2013 only includes firms' responses in their primary sector. Weights applied to calculate sub-indices differ to those applied to calculate national & state/territory property confidence indices.
 ** Includes commercial office, retail, industrial and tourism. Excludes aged care property.

Source: ANZ-Property Council

In the second round of a special set of questions, we found that the impact from COVID-19 was widespread, with 98% of respondents reporting a negative impact to date. That appears to have intensified in the past few months. The proportion of businesses noting a slight impact fell from 30% to 23%, while the number reporting a moderate or severe impact rose from 56% to 72%. One silver lining is that the number of firms reporting that the impact is so severe it threatens the viability of the business fell from 10% to 3% (Figure 2).

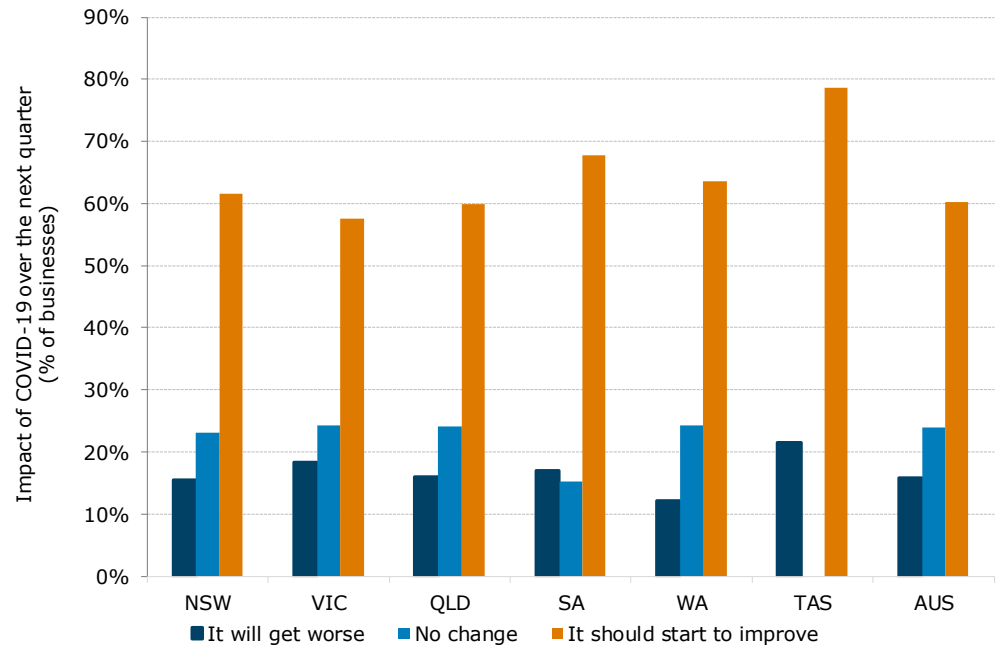
Figure 2. Impact of the pandemic on business in the current quarter



Source: ANZ-Property Council

Looking ahead, around 60% of businesses expect the impact to diminish, but this survey closed on 1 July and as such pre-dates the current six-week shutdown of Melbourne’s metropolitan area and Mitchell shire. Interestingly, Victorians were already the least optimistic about the outlook (Figure 3).

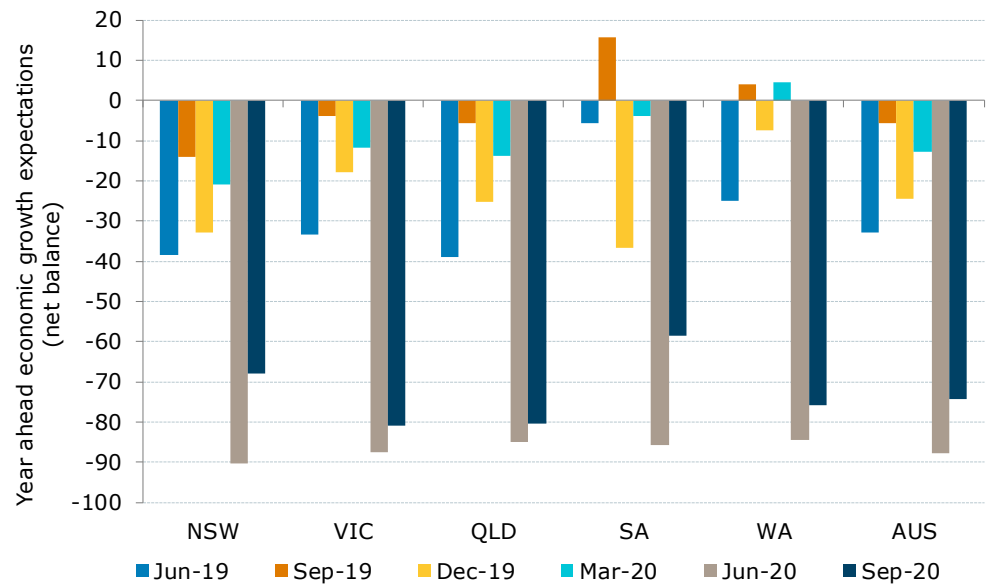
Figure 3. Impact of the pandemic on business over the next quarter



Source: ANZ-Property Council

The deterioration of the economic outlook continues to weigh on property sentiment. While expectations improved a little since the previous survey, a net balance of 74% of respondents expect the economy to worsen over the next 12 months. A modest improvement in economic expectations across all the states was reflected in the national average (Figure 4).

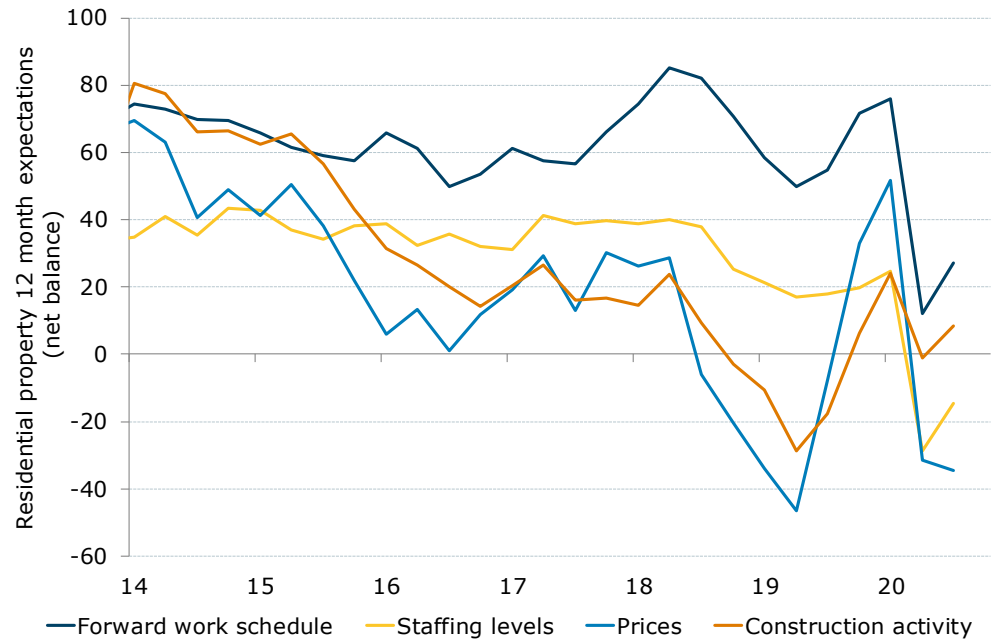
Figure 4. Economic growth expectations deteriorated sharply



Source: ANZ-Property Council

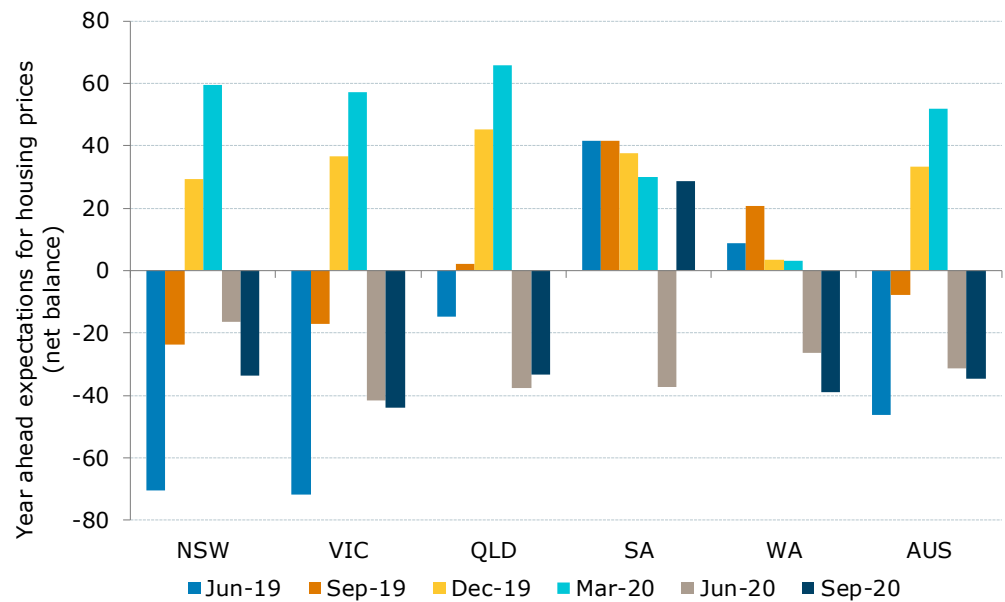
While overall sentiment in the residential sector remains very low, there was a broadly based modest improvement. All measures of confidence except for the prices outlook rose in the September survey (Figure 5). The outlook for housing prices remains very poor, with a net balance of 35% of respondents in the residential sector expecting price declines over the next year. Price expectations were quite negative across most states except for South Australia, where a net balance of 29% of firms expect prices to rise over the coming year. Victorian firms were the most pessimistic, with a net balance of 44% of firms expecting a decline in prices (Figure 6).

Figure 5. Confidence in the residential sector is generally higher, but house price expectations fell further



Source: ANZ-Property Council

Figure 6. The outlook for prices is negative in all states, except SA

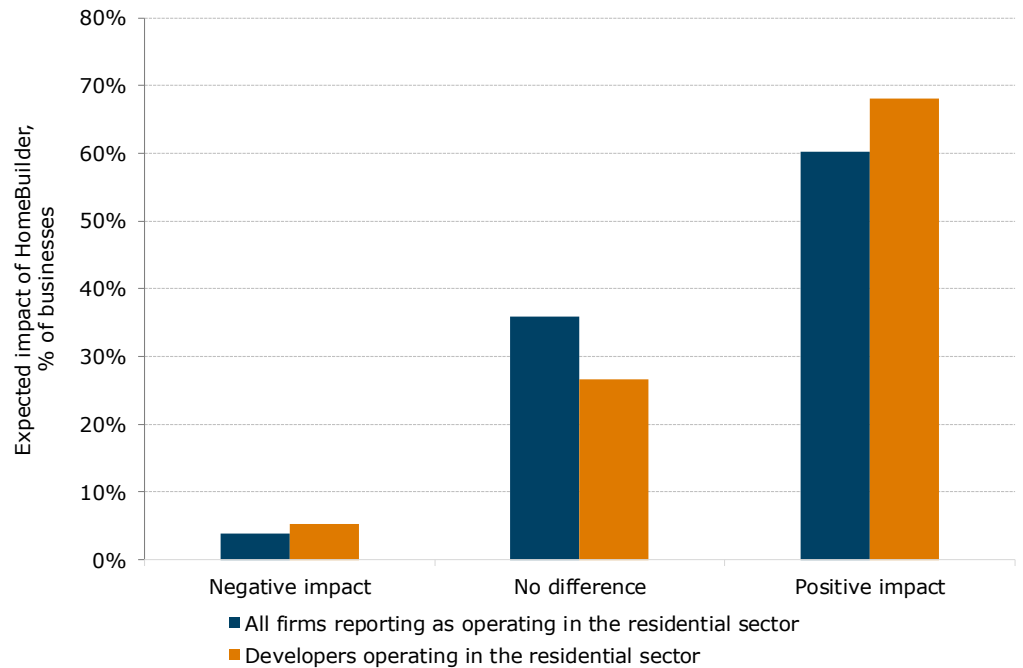


Source: ANZ-Property Council

Our view is that house prices will continue to fall over the next year or so, as the deterioration in household incomes and a sharp fall in population growth both weigh on demand. A very weak rental market will also significantly crimp investor demand.

The indexes of residential construction, forward orders and staffing levels all posted modest increases. The staffing index remains below the key zero line, suggesting the employment outlook remains challenging. The improvement in these indicators suggests that the Commonwealth Government’s HomeBuilder program has had a material impact on confidence. In a special question, we found that 60% of respondents operating in the residential sector feel that the program will have a positive impact on their business, 36% expect no impact and 4% expect a negative impact. When we drilled down into the types of businesses responding, we found that developers were more likely to be positive about the program, with nearly 70% expecting a positive impact (Figure 7).

Figure 7. Expected impact of the HomeBuilder program

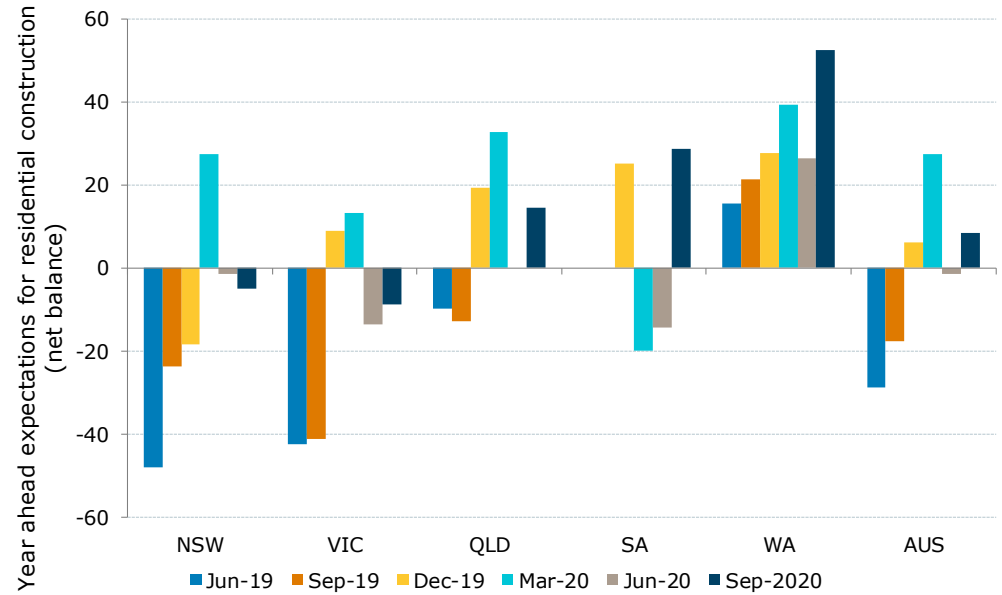


Source: ANZ-Property Council

Interestingly, the HomeBuilder program appears to be having an uneven impact across the country. Nationally, the construction outlook moved into positive territory with a net balance of 8% of firms in the residential sector expecting an improvement. At a state and territory level the outlook varied considerably. At the negative end, a net balance of 9% of Victorian firms expect a *decline* in construction, while at the positive end a net balance of 53% of Western Australian firms expect an expansion in construction (Figure 8). The latter may reflect the Western Australian Government’s extra stimulus, with first-home buyers eligible for up to a total of AUD69,000 in grants.

For the minority of businesses who felt that the HomeBuilder scheme would not have an impact on the sector, the main reason given was the eligibility requirements. Not working well for apartment sales, and (relatedly) the requirement for construction to begin within three months were also important reasons given for expecting no impact. A minority of firms noted that regulatory delays, including planning approval and land titling, were also reasons they expected little benefit from HomeBuilder.

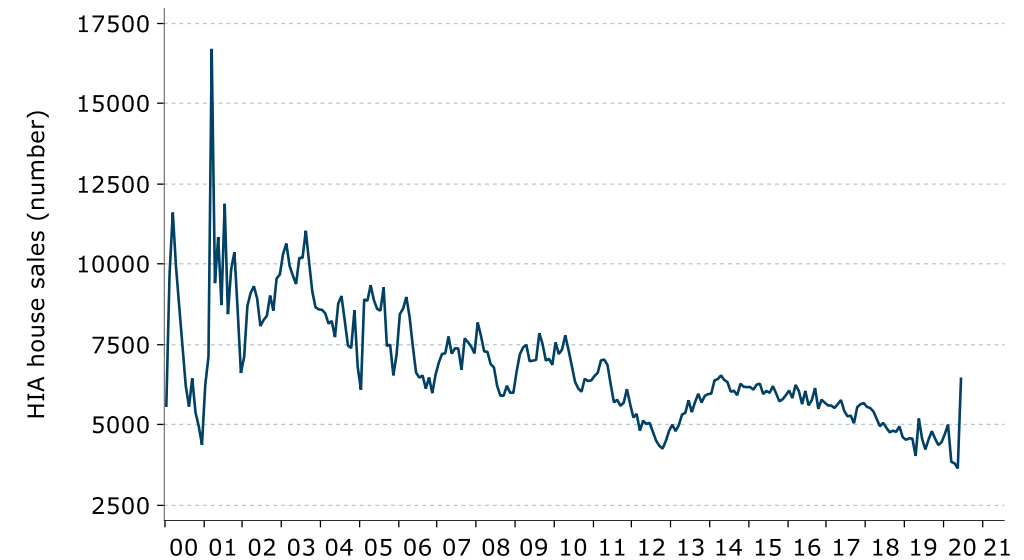
Figure 8. The outlook for residential construction is strongest in WA



Source: ANZ-Property Council

The improvement in construction expectations is likely to take a little while to feed into residential building approvals. They fell 16.4% in May and are likely to fall again in June. The Housing Industry Association, however, reported that new home sales rose 78% in June suggesting HomeBuilder has breathed some life into the sector and that building approvals should rise in coming months. An improvement over coming months looks likely, although any recovery will be cramped by the drop in overseas migration and an extended period of high unemployment.

Figure 9. HIA house sales bounced sharply in response to the HomeBuilder



Source: ABS, Macrobond, ANZ Research

Despite the small improvement in sentiment at the headline level, firms are saying they expect credit to become even harder to access over the next 12 months. In the latest survey, a net 23% of respondents said they expect debt to be more difficult to access, (down from a net 18% in the previous quarter). Of those in the residential sector, a net 21% expect it to be harder to access credit, unchanged from the June survey.

Figure 10. Sentiment around access to debt finance remains negative

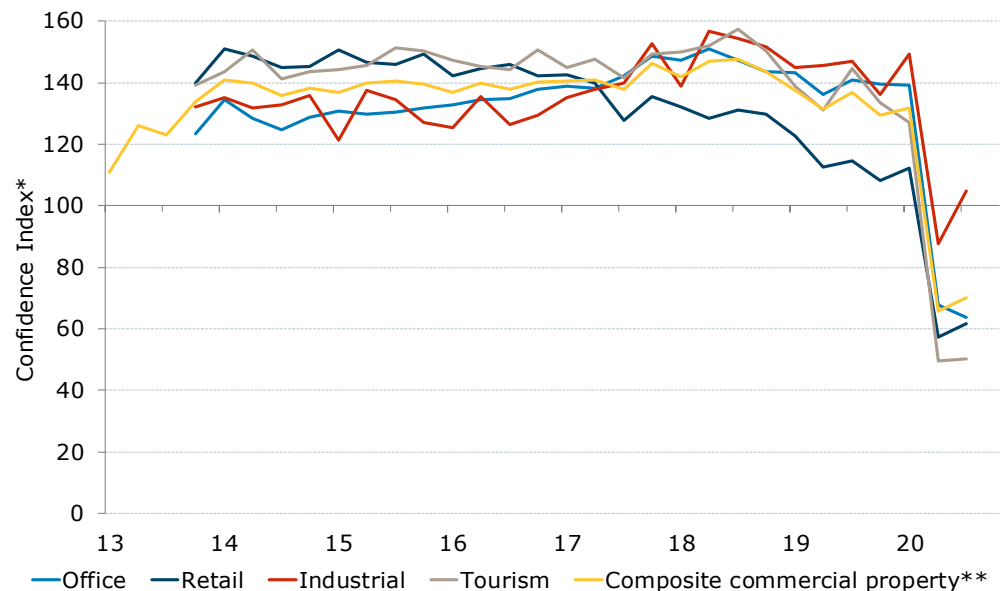


Source: ANZ-Property Council

Commercial property confidence rose a little in all sectors, bar office

Confidence in commercial property rose across most sectors in the September quarter survey, with office property the exception. Not surprisingly sentiment remains weakest in the hard-hit tourism and retail sectors, and strongest in industrial property, which was also the only sector where confidence is in positive territory (Figure 11).

Figure 11. Commercial property confidence rose modestly

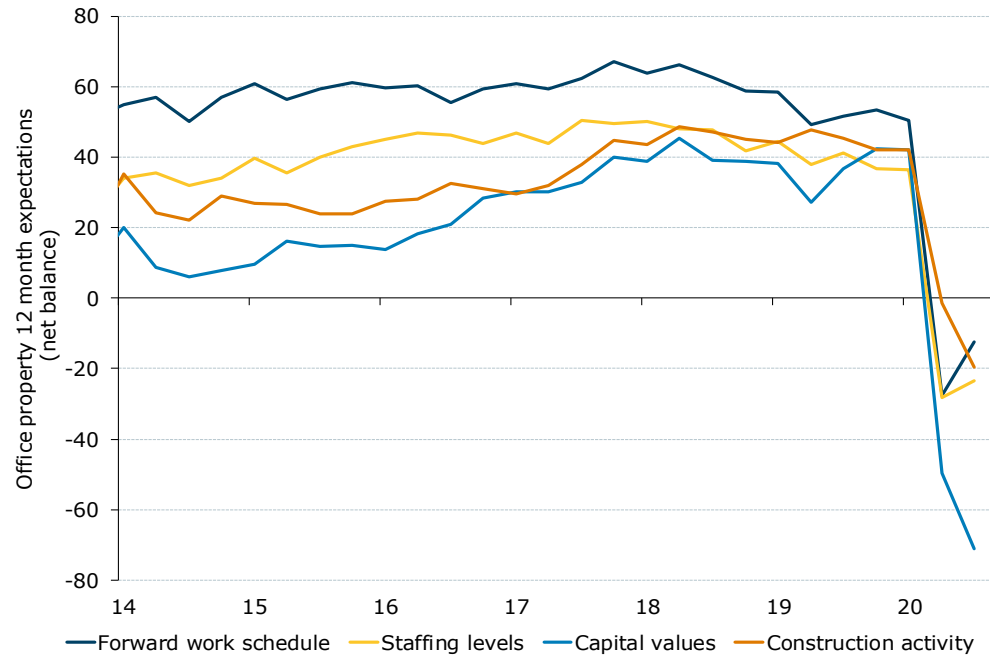


* Data post-September 2013 only includes firms' responses in their primary sector.
 ** Includes commercial office, retail, industrial and tourism. Excludes aged care property.

Source: ANZ-Property Council

The deterioration in confidence in the office market was across capital value and construction expectations. The forward work schedule and staffing levels both saw a small bounce, but remain in negative territory. The deterioration in price expectations was most marked, with a net balance of 71% of respondents in the sector expecting price declines, as firms reassess the longer term implications of the pandemic on office requirements (Figure 12).

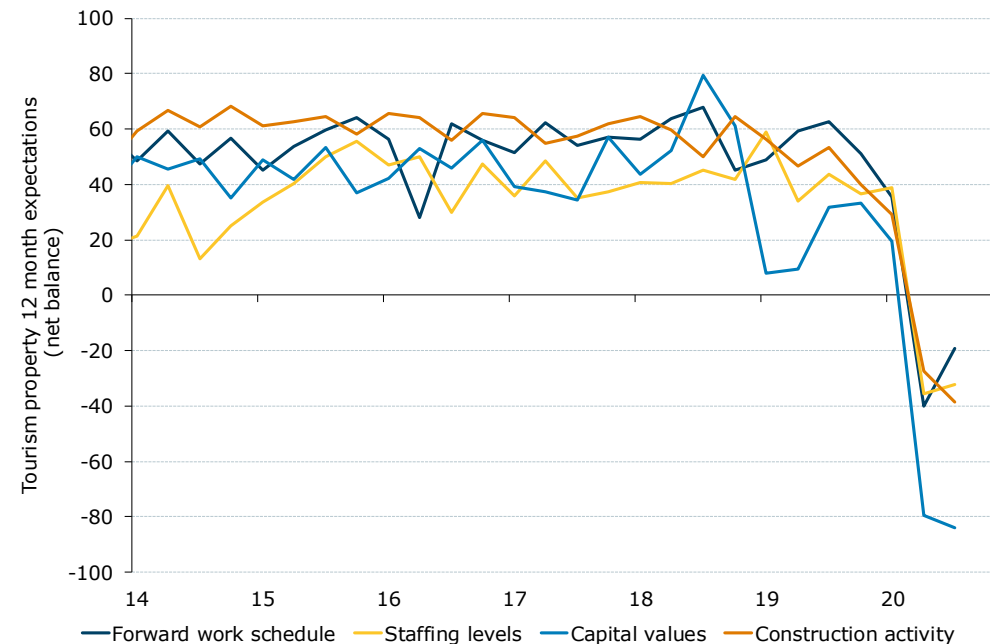
Figure 12. Office property confidence declined across all sectors



Source: ANZ-Property Council

In the tourism sector, indicators were mixed but remain in negative territory. Price expectations continued to decline with a net balance of 84% of respondents in the sector expecting price declines. Construction expectations also fell further, while forward orders and employment expectations rose modestly. With the international border likely to remain closed for many months and some state borders shut, the outlook for the accommodation sector is extremely challenging (Figure 13).

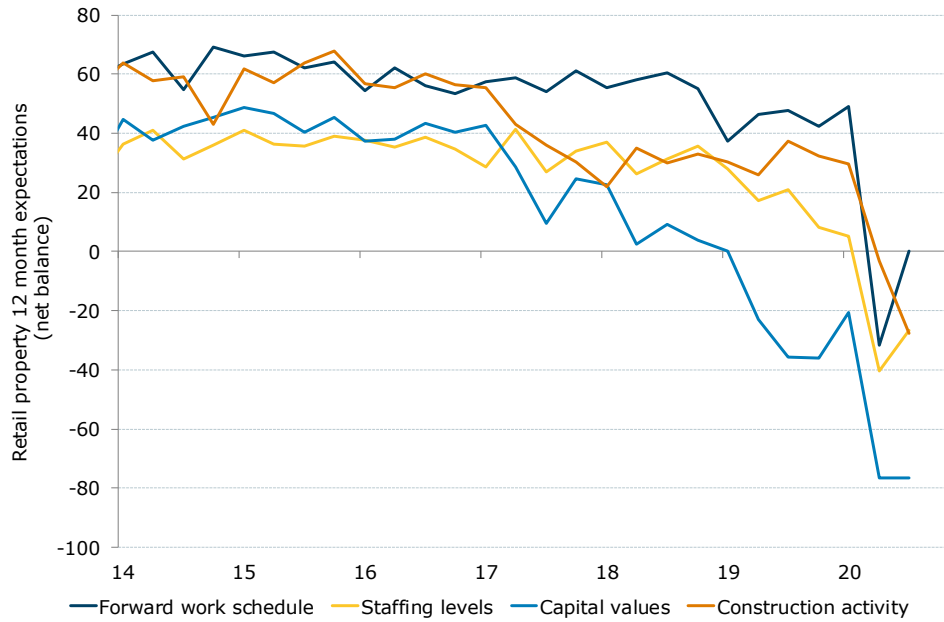
Figure 13. Tourism property confidence declined across all indicators



Source: ANZ-Property Council

Sentiment in the retail sector is still very pessimistic, despite some modest improvements in the September quarter survey. Expectations for prices levelled out, although they remain very low, with a net 76% of respondents expecting price declines. Expectations for construction activity continued to decline, although staffing levels and the forward work schedule both improved. The COVID-19 related shutdowns have added to the pressure the retail sector was already facing and are likely to continue to crimp activity in bricks and mortar stores (Figure 14).

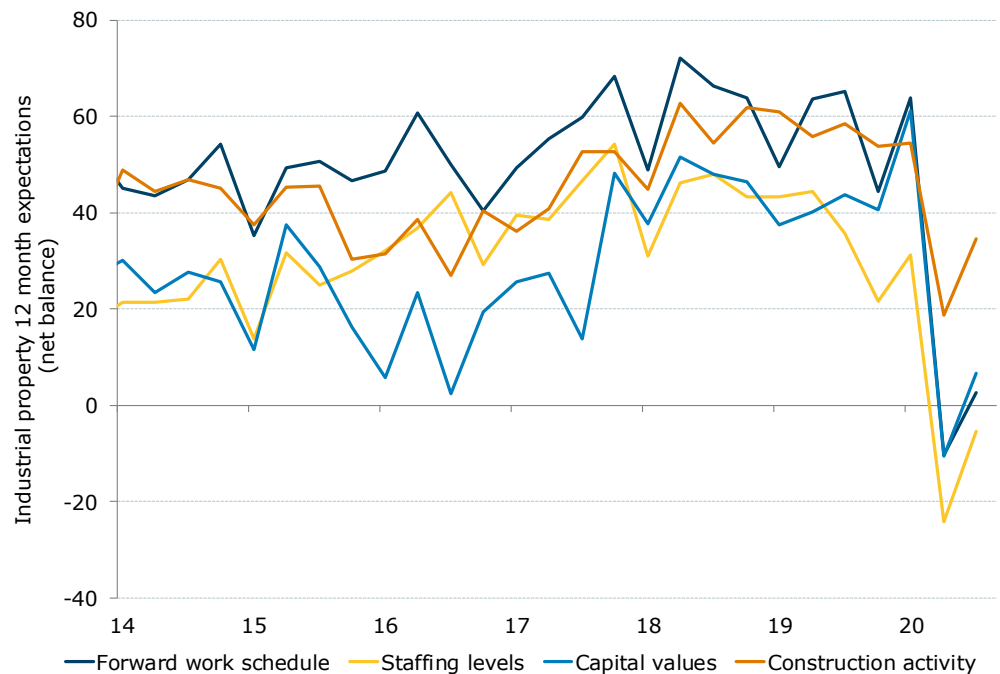
Figure 14. Retail property indicators are almost as weak as for tourism



Source: ANZ-Property Council

Of the commercial property sectors, industrial property expectations fared the best. There was a broadly based improvement, as all indicators recorded a solid gain. Expectations for construction activity, prices and forward orders are all back in positive territory, with only the employment index still below zero. With the shift to online trading, warehousing and logistics are benefitting. Some of these benefits are likely to continue in the longer term, with at least part of the current lift in the share of online sales likely to be permanent (Figure 15).

Figure 15. Industrial property sentiment improved



Source: ANZ-Property Council

See tables below

Table 1. ANZ-Property Council Survey, summary indices

	Confidence ¹	Residential Prices ²	Residential Construction ²	Employment ²	Forward Work Schedule ²
Jun 19	113.4	-46.0	-24.1	28.6	38.0
Sep 19	122.3	-16.8	-13.4	30.5	42.0
Dec 19	117.8	28.2	-1.5	26.2	44.9
Mar 20	124.0	48.2	19.7	29.6	48.9
Jun 20	55.7	-35.6	-3.5	-29.0	-19.0
Sep 20	66.4	-49.1	4.3	-19.9	-3.5

1. Indexed to a base of 100. 2. Net balance index measures the net sum of 'increase' and 'decrease' responses.

Source: ANZ-Property Council

Table 2. ANZ-Property Council Confidence Index, Australia

	Confidence index ¹	Year ahead Australian economic expectations ²	Year ahead interest rate expectations ²
Jun 19	113.4	-32.9	-27.0
Sep 19	122.3	-5.7	-51.0
Dec 19	117.8	-24.4	-49.9
Mar 20	124.0	-12.7	-42.1
Jun 20	55.7	-87.9	-66.7
Sep 20	66.4	-74.2	-23.0

1. Indexed to base of 100. 2. Net balance index measures the net sum of 'increase' and 'decrease' responses.

Source: ANZ-Property Council

Table 3. Property industry expectations, Australia

	Year Ahead Expectations ¹				
	Employment	Forward work schedule	Debt finance availability	Prime Cap rates	Secondary Cap rates
Jun 19	28.6	38.0	-29.1	3.5	13.2
Sep 19	30.5	42.0	3.2	3.3	12.3
Dec 19	26.2	44.9	10.7	-6.2	4.6
Mar 20	29.6	48.9	13.3	-8.6	2.2
Jun 20	-29.0	-19.0	-17.6	17.8	26.1
Sep 20	-19.9	-3.5	-23.3	19.7	33.1

1. Net balance index measures the net sum of 'increase' and 'decrease' responses.

Source: ANZ-Property Council

Table 4. Capital value expectations, Australia

	Year Ahead Capital Value Expectations ¹				
	Residential	Office	Retail	Industrial	Tourism
Jun 19	-46.0	22.3	-23.1	33.4	16.9
Sep 19	-16.8	26.8	-21.5	38.4	18.3
Dec 19	28.2	26.9	-33.6	36.8	13.4
Mar 20	48.2	33.7	-23.8	38.4	19.8
Jun 20	-35.6	-53.3	-78.3	-25.1	-87.4
Sep 20	-49.1	-78.4	-76.9	0.1	-82.4

1. Net balance index measures the net sum of 'increase' and 'decrease' responses.

Source: ANZ-Property Council

Table 5. Construction activity expectations, Australia

	Year Ahead Construction Expectations ¹				
	Residential	Office	Retail	Industrial	Tourism
Jun 19	-24.1	36.8	0.1	49.9	39.9
Sep 19	-13.4	36.5	-3.9	51.1	37.8
Dec 19	-1.5	32.6	-13.9	46.5	33.4
Mar 20	19.7	31.9	-11.9	46.1	37.0
Jun 20	-3.5	-9.2	-35.1	11.8	-35.9
Sep 20	4.3	-27.3	-38.5	32.8	-38.7

1. Net balance index measures the net sum of 'increase' and 'decrease' responses.

Source: ANZ-Property Council

Table 6. ANZ-Property Council Confidence Index – states and territories

	Property Industry Confidence Index ¹					
	NSW	VIC	QLD	SA	WA	ACT
Jun 19	105.2	111.8	113.7	136.8	128.5	137.4
Sep 19	116.8	124.5	120.5	142.9	135.9	124.3
Dec 19	114.9	124.6	116.9	98.6	122.2	145.0
Mar 20	124.5	123.9	120.6	118.5	127.2	127.3
Jun 20	56.5	53.2	50.7	53.5	54.6	57.2
Sep 20	64.3	60.3	61.9	76.1	70.6	88.3

1. Indexed to base of 100.

Source: ANZ-Property Council

Table 7. Property industry expectations: states and territories

	Year Ahead Expectations ¹				
	Staffing Level	Forward Work Schedule	Debt Finance Availability	Cap rates Prime Secondary	
New South Wales					
Jun 19	19.7	34.2	-29.0	5.0	15.9
Sep 19	24.7	42.3	3.7	-2.3	11.7
Dec 19	23.2	47.3	12.0	-9.1	5.8
Mar 20	35.9	52.2	15.9	-13.7	0.3
Jun 20	-22.1	-19.5	-17.8	15.9	22.4
Sep 20	-23.4	-8.9	-22.9	23.5	38.0
Victoria					
Jun 19	33.7	39.7	-30.1	6.5	13.0
Sep 19	34.7	46.2	9.9	5.6	7.9
Dec 19	38.0	49.2	21.1	-5.1	-0.4
Mar 20	28.4	48.7	16.5	-8.7	2.2
Jun 20	-29.0	-31.6	-20.7	16.8	30.4
Sep 20	-25.3	-20.8	-23.9	20.0	28.0
Queensland					
Jun 19	26.9	39.6	-27.4	0.5	15.9
Sep 19	25.8	42.4	-2.5	6.9	14.5
Dec 19	23.7	41.4	4.3	-5.6	6.1
Mar 20	21.3	43.7	14.4	0.0	7.8
Jun 20	-39.7	-34.5	-18.0	17.6	21.8
Sep 20	-22.7	-11.2	-29.3	19.6	39.0
South Australia					
Jun 19	39.4	56.3	-29.6	-5.6	1.4
Sep 19	47.8	71.1	-4.4	4.4	7.8
Dec 19	7.9	21.8	-5.9	-2.0	7.3
Mar 20	17.6	29.4	19.6	-5.9	-2.0
Jun 20	-25.7	-34.3	-15.7	16.7	27.3
Sep 20	-1.7	-5.1	-12.1	23.6	30.4
Western Australia					
Jun 19	33.6	54.6	-25.7	2.7	12.8
Sep 19	36.0	57.0	1.7	6.0	20.8
Dec 19	18.2	52.9	11.6	-5.2	7.0
Mar 20	26.4	54.5	8.2	-7.5	1.9
Jun 20	-34.9	-24.8	-20.2	23.4	32.7
Sep 20	-16.0	0.9	-21.5	17.8	32.4
ACT					
Jun 19	67.7	58.1	-29.0	-10.0	-10.0
Sep 19	42.2	40.0	15.6	4.8	4.8
Dec 19	63.3	73.3	10.0	-6.7	13.3
Mar 20	39.5	44.7	5.3	-23.5	-8.3
Jun 20	-6.3	-18.8	0.0	21.9	34.4
Sep 20	8.3	13.9	-16.7	-3.0	18.2

1. Net balance index measures the net sum of 'increase' and 'decrease' responses.

Source: ANZ-Property Council

Table 8. Capital value expectations, states and territories

	Year Ahead Capital Value Expectations ¹				
	Residential	Office	Retail	Industrial	Tourism
New South Wales					
Jun 19	-73.9	22.1	-34.7	41.3	18.6
Sep 19	-37.7	30.3	-34.1	46.9	18.3
Dec 19	31.2	33.0	-49.6	50.1	14.6
Mar 20	50.3	37.8	-35.1	42.9	21.3
Jun 20	-35.0	-50.5	-82.7	-13.6	-87.9
Sep 20	-59.2	-81.1	-77.5	8.4	-80.4
Victoria					
Jun 19	-67.4	30.9	-24.3	29.4	19.8
Sep 19	-19.6	41.5	-20.6	41.4	24.5
Dec 19	30.5	41.5	-29.3	34.1	12.4
Mar 20	57.5	46.8	-16.7	43.6	17.4
Jun 20	-34.9	-46.5	-83.2	-22.2	-89.8
Sep 20	-52.8	-77.9	-74.2	5.2	-84.4
Queensland					
Jun 19	-19.8	13.3	-22.7	34.6	17.4
Sep 19	-4.0	12.3	-19.9	35.4	23.2
Dec 19	39.5	21.1	-24.4	46.5	28.4
Mar 20	61.8	26.2	-21.7	39.3	31.8
Jun 20	-34.0	-55.9	-73.0	-25.3	-85.3
Sep 20	-42.6	-79.7	-79.2	0.0	-85.9
South Australia					
Jun 19	20.3	38.2	17.2	23.4	49.2
Sep 19	25.0	24.1	5.7	28.2	36.4
Dec 19	12.0	-13.1	-38.7	-8.5	-2.2
Mar 20	47.8	20.8	-6.5	26.7	8.9
Jun 20	-39.4	-60.0	-78.8	-36.9	-93.9
Sep 20	-19.0	-73.7	-80.4	-5.6	-75.4
Western Australia					
Jun 19	-6.7	13.7	-13.3	31.3	-12.9
Sep 19	5.3	20.7	-6.3	33.5	-8.5
Dec 19	1.7	-19.1	-35.5	-15.7	-9.1
Mar 20	-31.8	-40.4	-39.7	-33.1	-14.6
Jun 20	-28.3	-38.2	-34.7	-23.7	-7.5
Sep 20	-19.7	-31.0	-35.2	-30.3	-4.2
ACT					
Jun 19	3.2	40.0	6.7	23.3	40.0
Sep 19	-14.3	33.3	-7.0	15.0	14.0
Dec 19	39.3	40.7	11.1	20.8	30.8
Mar 20	20.0	36.1	-11.4	14.3	42.9
Jun 20	-46.9	-63.3	-93.5	-51.6	-93.5
Sep 20	-28.6	-52.8	-71.4	-14.3	-65.7

1. Net balance index measures the net sum of 'increase' and 'decrease' responses.

Source: ANZ-Property Council

Table 9. Construction activity expectations, states and territories

	Year Ahead Construction Expectations ¹				
	Residential	Office	Retail	Industrial	Tourism
New South Wales					
Jun 19	-41.9	39.6	-15.4	58.6	44.2
Sep 19	-25.0	41.1	-15.8	60.1	41.4
Dec 19	-19.2	38.5	-28.5	54.0	35.8
Mar 20	13.1	39.9	-25.1	54.4	39.5
Jun 20	-3.9	-6.2	-41.6	17.8	-36.2
Sep 20	-9.6	-31.3	-46.2	43.3	-45.1
Victoria					
Jun 19	-34.2	48.1	-5.9	46.7	39.6
Sep 19	-29.9	48.5	-9.7	51.3	36.4
Dec 19	1.7	44.7	-18.7	46.7	35.6
Mar 20	9.7	34.4	-4.2	42.7	36.2
Jun 20	-3.4	-9.2	-45.3	14.0	-37.4
Sep 20	-8.1	-29.5	-34.5	35.8	-40.6
Queensland					
Jun 19	-21.6	29.7	-3.9	50.9	46.5
Sep 19	-9.2	29.9	-8.8	43.7	44.4
Dec 19	0.6	24.1	-8.3	53.6	35.4
Mar 20	33.7	23.8	-14.8	43.5	39.0
Jun 20	-7.5	-12.5	-33.0	15.5	-40.8
Sep 20	5.1	-30.7	-38.7	34.4	-36.5
South Australia					
Jun 19	13.0	47.0	34.4	41.9	55.0
Sep 19	21.8	40.2	19.8	46.8	52.9
Dec 19	12.4	18.1	-7.0	22.5	36.7
Mar 20	23.4	25.0	-8.7	51.1	44.7
Jun 20	-11.5	-1.6	-23.1	-1.6	-21.5
Sep 20	22.8	-8.8	-43.4	26.0	-35.7
Western Australia					
Jun 19	4.0	13.5	41.4	49.6	8.7
Sep 19	9.6	20.1	35.7	52.8	6.0
Dec 19	12.2	15.0	13.2	34.9	3.6
Mar 20	29.2	20.6	6.7	43.0	14.6
Jun 20	4.8	-16.7	-14.9	-2.1	-36.6
Sep 20	48.1	-28.4	-26.7	20.4	-34.0
ACT					
Jun 19	16.7	58.6	11.1	19.2	66.7
Sep 19	11.4	22.0	-10.0	26.3	43.6
Dec 19	31.0	51.7	22.2	44.0	72.0
Mar 20	18.4	31.6	-12.9	13.9	54.3
Jun 20	-6.7	0.0	-37.0	0.0	-40.0
Sep 20	14.3	3.0	-36.7	6.7	-15.2

1. Net balance index measures the net sum of 'increase' and 'decrease' responses.

Source: ANZ-Property Council



Important notice

[28 January 2020]

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