

Federal Budget 2009/10: Overview and Real Estate Impact

Key economic assumptions

2009/10 Budget Economic Forecasts				
	2008/9	2009/10	2010/11	
	%	%	%	
Consumption				
Private	1	-1/4	1 3/4	Consumption slows
Investment				
Private - housing	-2 1/2	0	11 1/2	Housing recovery postponed
Private - business	2 1/2	-18 1/2	3 1/2	Business investment slumps
Non-residential construction	1/2	-26	3	
Machinery and equipment	3	-16 1/2	4	
Public final demand	5	7.75	-1/2	Public spending supports growth
Change in inventories	-1 1/2	0.3	3/4	
Plus Exports	-1/2	-4	4 1/2	Exports shrink...
Minus Imports	-1 1/2	-6 1/2	6 1/2	...import slowdown a positive for growth
GDP	0	-1/2	2 1/4	Growth: look for recovery in 2010/11
Unemployment rate	6	8 1/4	8 1/2	
Inflation	1 3/4	1 3/4	1 1/2	Inflation remains benign

Source: Treasury, Jones Lang LaSalle Research

The Australian economy is forecast to contract by ½ % in 2009/10 as private sector spending, both consumption and investment, turns negative. Growth in inventories provides a modest boost to bottom-line growth, but it is growth in public sector spending that largely supports demand through 2009/10.

Growth is forecast to recover to a 2¼% pace in 2010/11. Beyond that, Treasury projections show a growth plateau at 4 ½% though 2011/12 and 2012/13. It is this strong, but delayed, recovery that allows the Budget to return to surplus by 2015/16.

After declining through 2007/8 and 2008/9, government cash receipts are forecast to grow by 7.6% in 2011/12 and 9.6% in 2012/13 as the economy regains momentum. While receipts rise rapidly as the economy recovers, government cash payments are projected to slow from a substantial 17.1% in 2008/9 to 5.8% in 2009/10 and 1.7% in 2010/11.

Headline Budget numbers

- The underlying Budget deficit is forecast to rise from \$32.1 billion (2.7% of GDP) in 2008/9 to \$57.6 billion (4.9% of GDP) in 2009/10.
- Income tax cuts to be implemented from 1 July 2009, as previously announced, will be particularly beneficial to low income earners.
- Increase of \$32.49 per week for single pensioners and \$10.14 per week for couples on the full rate.
- Various savings achieved through reversal of superannuation concession, changes to private health insurance rebates, tightening of exemptions for overseas workers and family payments changes.

Real estate impact

- The first home owners boost scheme has been extended by an additional six months. The benefit will, however, be halved from 1 October 2009 to \$3,500 for established homes and \$7,000 for new home purchases. The basic grant of \$7,000 will continue into 2010.
- \$22 billion infrastructure funding for a wide range of projects in roads, rail, ports, education and health care. Specifically,
 - \$8.5 billion for roads, rail and ports
 - \$3.6 billion for clean energy infrastructure
 - \$2.6 billion for education infrastructure
 - \$3.2 billion for health and hospitals
- Various environmental initiatives:
 - The Energy Efficiency Trust with \$50 million in funding to support improvements in lighting, ventilation and air conditioning in buildings.
 - \$3.7 million in 2009-10 to drive energy efficiency in commercial buildings and \$5.3 million for residential buildings.
 - Other measures include \$1.5 million towards a national disclosure regime for commercial building energy efficiency at point of sale or lease.
 - Funding towards enhancing the Australian Built Environment Rating System (NABERS) and the development of new rating tools.
- Taxation and regulatory changes, including
 - Previously announced, reduction in withholding tax for distributions to non-resident investors from 1 July 2009.
 - Other measures to simplify tax arrangements, reduce compliance costs and facilitate restructuring of trusts.

Comments

Government spending on infrastructure projects and selective income tax cuts are designed to support the economy over the next two years, against the backdrop of the global recession and sharp falls in government revenue. Despite limited measures to claw back revenue in the form of reduced superannuation concessions and limitations to welfare measures (such as the health care rebate) the deficit will rise sharply to a record 4.9% of GDP in 2009/10.

The longer term Treasury strategy therefore is to limit government spending growth after 2009/10. The Budget relies heavily on the projected economic turnaround feeding through to revenues to do the heavy lifting task of returning the Budget towards surplus in around six years time – a strategy reminiscent of that adopted by the Coalition government to deal with a fiscal deficit in the late 1990s.

The real estate sector is likely to take positive note of the regulatory and taxation changes that will encourage offshore investment and facilitate restructuring of property portfolios by reducing transaction and compliance costs.

It is clear that the Federal government continues to place emphasis on and to provide financial support to environmental strategies in relation to commercial real estate. Investment in sustainability will be encouraged.

Public sector infrastructure spending will provide support to the construction sector as well as related technical and financial services over the next two years as private sector development activity contracts sharply. In addition, specific projects will boost spending and land values in surrounding locations. It is evident that the construction sector has a major role to play in supporting the economy over the next twelve months as the economy contracts and in fuelling the recovery forecast from 2010/11.

Perhaps the major impact of the Budget is the removal of some of the uncertainty surrounding the government's response to the economic downturn. While there are winners and losers, major shocks to capital markets and adverse impacts on superannuation flows have been avoided. The impact on portfolio allocations to real estate is unlikely to be adverse. The financing task flowing from the Budget deficit is large, but unlikely to impact Australia's sovereign rating or the AUD. Despite the large deficit, bond yields are unlikely to be affected and the low inflation forecast suggests that bond yields will remain relatively low. Offshore investors are likely to note that Australia's public sector balance sheet remains among the strongest of all major economies and will also be encouraged by confirmation of previous announcements on reductions in with holding tax for non resident investors

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