



2009 THE YEAR THAT ALMOST WAS

Brisbane's quality housing market has weathered the Global Financial Crisis rather well compared to the situation elsewhere in Australia and the world.

The demand for housing generally has remained relatively strong in 2009 and approaching the end of the year we now see median house prices once again very much on the rise.

The chorus of predictions that rung out late last year warning of a price meltdown here have long since died down (or in the case of the doomsday outpourings from the controversial Associate Professor Steve Keen, been completely shot down).

A significant change over the past year has been the massive increase in housing affordability, driven by very low interest rates which remain at levels not seen for half a century, and a full 40% less than just a year ago.

Rates seem to have now bottomed and the recent increases are either a dead cat bounce or a genuine sign that our economy has turned the corner. Either outcome will be good for property values.

If they're headed back up for the long haul, take heart that they usually take the stairs up and the escalator down.

Rates elsewhere in the world remain on hold at levels way below our own which is both a good and a bad thing.

Most of the heavy dark clouds that cluttered Australia's economic landscape earlier in the year have now largely dissipated. The one cloud left is inflation. Interestingly inflation is a problem that most economies of the world would like to have right now.

Inflation in moderation is a good thing, if a reflection of genuine economic vitality. What may never be answered here is whether we would have the current imbalance in rates between our own and those of the rest of the world were it not for the mass 'Stimulus Packages' we introduced into the economy over the past year.

Unchecked though, inflation is not a good thing (remembering Keating's darkest hours in the 1980's). It raises the cost of living, the cost of doing business, and the cost of our exports.

The rising costs of exports that come with a higher exchange rate include property. Whilst obviously property can't be packed off on container ships like other goods, it's sale to overseas investors or to those migrating here make it an important export income earner nonetheless.

The high dollar means this source of revenue is under pressure, and the higher the dollar goes, the more pressure there is as our property loses international attractiveness.

Many intending migrants, particularly from the UK and Ireland, are already having second thoughts about coming over faced with the

double jeopardy of not getting a good price for their own home and having to pay far more for a home here than they normally would have to.

Conversely if you are considering an overseas purchase on the continent or in the States, your average Brisbane home today will buy a quality of home in either of these two countries presently the likes of which would not have seemed even remotely possible just a couple of years ago. That is of course before the US and UK property market and currency crashes.

Rising inflation and interest rates are not good for employment as they raise the cost of doing business. Australia's unemployment rate has so far not increased as much as anticipated, but concerns remain that it will in the short to medium term. China will ultimately be a key determinant to that argument.

A significant deterioration in our employment situation would obviously create a massive hole in the government's balance sheet as cash positive tax paying wage earners become welfare liabilities.

The many billions of dollars that this would take out of the economy annually would impact housing, particularly the interest rate hyper-sensitive bottom end.

Here in Queensland we are faring worse on the employment front than other states (and rather embarrassingly have just lost our prized AAA credit rating). Fortunately, the negative impact that these factors should have on property are being more than offset by the strong migration inflows into the state and the significant, and growing, deficit between housing demand and supply.

Having performed admirably in the past couple of years in the face of extreme economic adversity, what does the residential property market have to look forward to over the next?

Whilst there is rarely full agreement between economic forecasters on the subject of housing price growth, the broad consensus for Brisbane over the next three years seems to be in the 20 – 25% range (or between 7 – 8% per annum).

That level of growth, as healthy as it seems, falls somewhat short of the Brisbane average of 10.86% achieved since records started back in 1970.

There are however any number of factors that could send the median house price spiralling.

If inflation really gets a grip on our economy as some believe it might as a result of the immensity of the stimulus packages here and abroad (including China), then the current 20% growth prediction could prove very conservative indeed.