the final word - **JOHN JOHNSTON** CEO

2009 - THE YEAR THAT WILL BE

So all powerful was the fallout from the 'Perfect Storm' of economic events that made up what is now simply called the Global Financial Crisis, or GFC, that it was successful in checking the forward momentum of the South-East Queensland residential property juggernaut, previously considered unstoppable.

Just how much longer this rare containment of forward momentum lasts will depend on just how much more bad news is waiting in the wings. Presently the flood of bad news has eased and some are hoping that the brightening of the sky is a signal that the famous Queensland sun is about to resume its usual uninterrupted shine on residential property and hopefully with some pent up sting. The less positive argue that it is much calmer near the eye of the storm.

Interestingly, the longer world events hold back our property juggernaut, the greater may be the bounce back.

The potential for overcompensation in uncertain times is very high. The significant interest rate cuts that we have had already appear to have made little headway on confidence and it presently appears likely that more aggressive cuts are needed. Because of the time lag between the application of such blunt financial stimulus instruments and resultant activity, by the time the RBA starts to see some evidence that it has done enough, it may have done too much.

Depending on the scope of the interest rate cuts that are passed on in the early part of this year and the broader economic mood that prevails at the time, the 'tipping point' for the property market should fall somewhere around the middle of the year.

A number of property pressure points have been building for many years and they must at some point seek release. The deficit between the number of dwellings being built and real demand has been significant for some years but is currently blowing out further as construction slows down as well. A further significant disparity exists between real demand for, and the availability of, developed land.

From an investment perspective, the significant drop in returns on bank deposit investments and the large rises in residential property rents caused by buyers staying out of the market mean that residential property returns are starting to look very attractive (even before capital appreciation is taken into consideration).

Given the vast sums lost in this latest severe sharemarket crash, rightly or wrongly, it will be a very long time before any real confidence can return to equities. Revisiting the crash of 1929, perhaps the last time in history that we experienced such a storm, a bear market persisted for five years after the initial correction during which time there were further mass falls. Thereafter the market took decades to recover.

Moving back to South-East Queensland property, there are a number of fundaments that we shouldn't lose sight of, not least that Brisbane remains the second fastest growing city in the western world because of the world famous attraction of its climate and relaxed life-style.

Brisbane is also unique in Australia in that it has ample room to expand. No less than 1 million people have comfortably made South-East Queensland their new home in just the last 20 years and a further 1,000 continue to arrive weekly from interstate and overseas. Queensland also enjoys the twin benefit of having two key counter-balancing planks to its' economy in mining and tourism. Combined these have proven capable of weathering all storms to date.

Ultimately, whilst confidence affects the performance of all markets, with property, demand and affordability reign supreme. Demand is already at unsustainably high levels and on the affordability front the RBA is aggressively cutting interest rates to historic new lows. When the market starts to comprehend just how more affordable quality property has become over the last year, that should well and truly take care of any residual lack of confidence.