*the final word* - **JOHN JOHNSTON** CEO

# END OF FINANCIAL YEAR WRAP

*With the end of the financial year fast approaching, we take a quick look at some of the factors affecting property markets here and abroad.*

## OVERVIEW

With a combination of the uncertainty of a new government in power, a number of interest rate rises, plus widespread turmoil in equity markets both locally and abroad, the environment for continued capital growth in residential property markets in Brisbane has taken a rare hit over recent times. The resultant slowdown in the market has been particularly reflected in inventory levels which have climbed to levels twice those of just a year ago. Whilst this obviously represents a long overdue opportunity for buyers long struggling to gain a foothold in the market, the greater number of options can also mean flatter price growth for some in at least the short term. I say short term because the overall economic fundamentals driving South-East Queensland remain strong to the point that it would take nothing short of an unprecedented financial calamity to undo the good coming out of them.

South-East Queensland is also running at a significant deficit between housing starts and underlying demand. Whilst this disparity does not always immediately impact upon markets, eventually the ledger must balance up. Whilesoever demand remains unsatisfied, the supply deficit widens, which it will continue to do until it reaches a critical tipping point from where something will have to give. It is at this point that we will experience the next land price boom. Just how soon that will be we don’t know, but we do know that the day gets closer every day.

## INTEREST RATES V’S HOUSING AFFORDABILITY

The fact that on the back of recent interest rate rises housing affordability is now at its lowest point for at least several decades is weighing heavily on the minds of many in the market, and understandably so. What is worth noting though is that the effect is geographically patchy. As an example, over the last five years median house prices in many mortgage belt suburbs of Brisbane and Ipswich have increased by 200% or more. This is staggering growth by any measure and driven by the accepted ‘High Affordability’ environments of earlier this decade.

Now that affordability has entirely reversed polarity, there is a very large question mark as to how values in some areas may hold up. To demonstrate, compare this 200% growth to that experienced by many quality near city suburbs where growth over a similar period was much more subdued such as in Ascot, Chelmer and Chapel Hill at a bit over 50%, and in Hawthorne and Highgate Hill, in the 60% range. There were some areas closer to town that generated triple digit growth but these appear as aberrations in the market.

## NEGATIVE EQUITY

Whilst negative equity is a term Australians generally and South-East Queenslanders particularly are not all that familiar with, it has recently become a well worn part of the American vernacular and may even be revisited upon the United Kingdom shortly if their market continues to fail. The question has been raised as to whether negative equity could become a factor here. The short answer is that economic conditions and other factors at play in Australia are vastly different to those in the UK (the EU) and the US. That is not to say that we emerge unscathed from their fallout, which we don’t of course, it is just that we as a nation become less affected over time as our economic reliance on these countries fades (which it naturally does as our trade relationships with other emerging supereconomies strengthens).

There has been some talk (even from one of Queensland and Australia’s largest franchise real estate groups) that the Brisbane market could correct by up to 15% over the balance of this year. I think given the fundamentals at play that this is a bold call. Yes, there may be isolated incidences in parts of South-East Queensland whereby some people may have to sell property for less than what they paid for it over recent times, perhaps even for less than what they owe on it given lax lending procedures that existed again until recently; but the reality will be nothing more than that; isolated instances, that in the fullness of time as market forces re-assert themselves, will become the latest round of ‘great buys’.

## PROGNOSIS

When sentiment is on the wane, buyers can tend to clamp up and not buy even when they really should. This tendency to procrastinate in itself can unjustly devalue a quality proposition. It is worth pointing out that the astute buyers are already out with their checkbooks as they always are when there is any lull in the market. Many of our wealthier clients are such counter cyclical investors. They actively buy when few are buying and sell when few are selling.

Queensland business profits remain strong, unemployment is at almost record lows, our state and indeed the whole nation are benefiting from one of the strongest mining booms in history, and some 1,500 people a week are moving into Queensland from interstate and overseas. The smarter buyers know all of these numbers and in particular know what these numbers must do to property values over time.

The $10million Brisbane house price came and went as predicted last year without great fanfare. Whilst $10million is still a lot of money, it will not be all that long before we get to see many more sales in this bracket or higher. There are in fact already several Brisbane homes which if marketed today deserve to achieve that and more, perhaps even closer to $20million, which sounds like a nice round number for 2010.