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

# PROPERTY ECONOMICS

So... this despite a looming federal election and interest rate uncertainty. We think it time to take a look at what drives the market and to try to answer some of the tough real estate questions. For instance, how do we know when the time is right to buy or sell property? Where are we on the property investment clock? Does such a clock exist and is it reliable?

They say that the most reliable way to predict the future is to consult the past. There has always been booms and busts in property markets. A real estate cycle is essentially a stimulated property market taking off, gathering steam, overheating (the BOOM), and then cooling (the BUST) into the plateau. The timing, length and degree of each part of the process can vary as side issues affect the mix; economic, demographic, political, and financial (particularly interest rates and housing affordability).

South-East Queensland has recently come off the 2002/03 boom. If we review a similar period following the previous boom of 1989/90, we see that the market had entered a general holding pattern which endured right through the 1990s, right up until 2002.

This despite significant population inflows into Queensland and moderating interest rates (coming off the testing 18%+ days of the mid to late 1980s).

So, we had prospective buyers aplenty, improving housing affordability, and more than sufficient new product being produced for the increasing population. With all of these factors in tow, how was it possible that the market stayed so flat, for so long?

The answer lay in the levels of supply. As we entered the 1990s, South-East Queensland's developers, buoyed by two booms in the previous decade, continued to aggressively develop large tracts of land to cater for the predicted hordes. Unfortunately, these hordes, seeing that there was good supply and reasoning that a boom had just finished, felt no need to rush in and buy, and didn't. A glut of unsold product quickly ensued, bad news stories abounded, negative sentiment took hold and it took the housing affordability index to hit

the extreme levels of 2001 for the market to finally turn, in so doing ending one of the longest property price plateaux in history.

So when might the next takeoff be? Interestingly, in South-East Queensland, it may be far sooner than most could have thought possible. Current levels of demand for new housing are expected to move into a deficit position within two years. This is almost without precedent in history and is stark contrast with the situation of the early 1990s. Also in stark contrast is our situation of virtual 'full employment' which is topping up pay packets and which will impact positively on housing affordability. Presently Brisbane lies in fourth position on the Capital City Housing Affordability Index behind Perth, Melbourne and Sydney (most expensive).

From left field might be added the very considerable sums of Self Managed Superannuation Fund money that is waiting in the wings to be invested in property and which will be in ever increasing amounts as individual investors become more confident with direct management of funds. Hedge Fund activity could be a further positive dark horse for the market.

All in all, a pretty promising prognosis!