the final word - **JOHN JOHNSTON** CEO

"CONTINUED BUOYANCY DESPITE POLITICAL UNCERTAINTY"

So wThe market for quality property in the greater Brisbane area is proving particularly resilient. This at a time when markets are in decline elsewhere in Australia and despite mounting political uncertainty.

In light of this, we thought it prudent to examine what's really happening in the marketplace and why.

What are the drivers for Brisbane's Quality Property Market presently?
Strong executive salary growth, sustained high migration levels and record capital inflows from an ongoing commodities boom are presently key drivers.

Markets in most others states are in various stages of decline, why is ours still so strong?

QUEENSLAND has a broadly diversified economy that allows it to ride out peaks and troughs in its two key pillars of mining and tourism. This economic depth and versatility coupled with all that Queensland has to offer from a lifestyle perspective provides sustained market impetus. Compare that to other states…

WESTERN AUSTRALIA is almost singularly reliant on the resources sector for growth, a dependence which limits consistent performance and which is a factor behind the serious downturns in housing markets that WA experiences when the profitability of the mining sector declines.

NSW is some what negatively affected by migration outflows (many of whom go North) in the order of 10,000's each year as the elderly retire and the young seek a better (more affordable) life. This is a phenomenon which has now endured for more than 20 years.

VICTORIA, despite brief spates of dynamism which encouraged some to stay and even some to come during the late 1990's, also appears intractably locked into negative migration outflows.

SOUTH AUSTRALIA is a victim of Australia's lack of manufacturing competitiveness and in the broadly appears in long term decline when compared against Queensland and Western Australia.

TASMANIA'S real estate market is driven very much by affordability. Presently, it enjoys a level of activity that will ease as price differentials between the states revert to traditional levels.

What dangers lurk on the horizon? Several actually…
THE FEDERAL ELECTION The uncertainty that surrounds elections is never an ally of real estate markets. Approaching the election there will be a noticeable slowdown in activity as a 'wait and see' approach sets in. The Post election picture will depend on who gets in having promised what and to whom. A high taxing, high spending government would send jitters through international financial markets resulting in a sell-off of the Australian dollar and thereafter higher interest rates.

AFFORDABILITY Not surprisingly given that we are coming off a major real estate boom, despite very strong wages growth and relatively low interest rates (by historic Australian standards), housing affordability is currently at a very low ebb. This makes the residential property market particularly susceptible to any significant upward shift in interest or unemployment rates.

INTEREST RATES It is fair to say that interest rates represent the single biggest threat to not just Queensland's, but all Australia's property markets. Whilst Brisbane's market could generally endure a touch more 'belt tightening' in the form of one or two more .25% rises in the short to medium term, anything approaching the double digit outcomes of previous administrations of the 80's and early 90's would be nothing short of catastrophic. Given current levels of gearing, particularly those in the interest rate sensitive mortgage belt areas of Australia, a variable interest rate of even just 10% moving forward would probably be enough to cause a property finance crisis the likes of which has never been experienced in this country.

So in uncertain times, where to invest with confidence?
When uncertainty creeps in, there is traditionally a 'flight to quality'. In Brisbane this translates to property generally within a 10km radius of the CBD. These 'safer' areas are already enjoying a strong upswing in demand which we expect to continue for at least the next several years as price percentage disparities between inner and outer areas revert to levels closer to traditional norms.

2007 Highlights:
We are confident that the current Brisbane record house price of $8.2million (paid for a Fig Tree Pocket home in 2003) will be eclipsed this year. We're also predicting new price records for vacant near city hilltop and riverfront land as scarcity and confidence to build gains momentum in concert with the broad desire to be relatively close to the city.