

Property Market Update May 2011

Brisbane Focus

Our property market fundamentals remain positive, with a strong economy, low unemployment, population growth and a housing shortage. Brisbane is clearly at the bottom of its property cycle and with rents on the rise, Brisbane is a market worth considering.

Excerpts taken from our Priority Investors Update in May 2011.

We are increasing our stock of Brisbane investment properties as we feel that now is the ideal time to be considering Brisbane as your next investment property destination. As such we thought it timely to provide a brief market update, with a particular focus on the Brisbane market.

Market Update:

Australian property prices compared to many other nations are relatively high and for some time now we have had some sectors of the media talk up the notion of a “property bubble”. Whilst this sort of reporting most certainly sells papers, we and more importantly many of Australia’s top economists and property researchers feel that it is well off the mark. Are our prices sustainable – we believe so. Are they likely to increase – we believe so.

Here’s why:

Over the past five years – for the first time in Australia’s post war history – Australia’s population grew faster than our housing stock. This helps to strengthen the current floor price of our properties. As a comparison, our population has grown at more than double the rate of the U.S. and the U.K. So, the population has outgrown the housing supply and in addition property prices have broadly tracked income growth. Since the end of 2003, the ratio of housing prices to income has stayed in a narrow band, between 3.5 and 4.5.

Unlike other nations, there is no mortgage debt crisis among Australians who are most vulnerable. Only 23 percent of lower income households have any mortgage debt, the other 77 percent of lower income households either rent, own their home outright or live with family etc. 75 per cent of all household debt in Australia is actually held by the top 40 percent of income earners.

Less than 2 percent of mortgages are in arrears in Australia, which is low by international standards. Plus household savings have risen from a negative number in 2005 to an historic high near 10 percent in 2010. In addition, the fact that Australian mortgages are “full recourse” makes the system even more stable.

So yes, our housing on average, compared to other nations is expensive, but with good reason:

- The Australian home is the largest in the world, at 214 square meters on average.
- The average floor area of new houses increased by 40.3 percent between 1984-85 and 2002-03.
- There is a short supply of property in good locations. Whilst Australia is a big country, the majority of our population is centered around our major capitals. Our

public transport (compared to many other nations) is fairly poor and as such people are keen to limit their travel times by living relatively close to our cities.

- We have a strong economy, almost full employment, a capable Reserve Bank and a government with strong balance sheets
- So, generally speaking we feel that the Australian housing market is in very good shape indeed.

As for Brisbane:

Over the last two years there has been very little construction in Brisbane, over which time rents had been fairly flat. As the population has continued to grow we had expected to see rents rise this year. But in addition the cyclone and floods earlier this year have further exacerbated the problem, as people required temporary accommodation and there was an influx of people to the state involved in the reconstruction etc, putting even further pressure on rents.

Project commencements are still trending down as developers in Brisbane are having the same finance issues as developers in other states, there's less money around and the banks are very selective as regards who they will lend too. So population continues to grow and commencements are low, which suggests a long term shortage of available property and as such, rents are now on the rise in Brisbane and it's tipped to continue.

Looking at the comments in the Australian Financial Review (April 2011) from Oliver Hume Real Estate Group:

A jump in population growth over the past two years has coincided with a slump in dwelling approvals. The ratio of new residents to new dwelling approvals had increased dramatically in most states but especially in NSW, the Northern Territory and Queensland.

There were 3.7 new Australians for every new dwelling built in the last two years. This is well above the decade-long average of 2.9 new resident per dwelling.

In Queensland a long-term higher than national average ratio of 3.6 rose further to 4.6 new residents for every dwelling approved in the past two years.

Why Brisbane:

The timing is right. Generally speaking the fundamentals of our total property market are very healthy. But looking at where Brisbane is in the current property cycle, all the indicators are that it's at the bottom and with rents on the rise it will begin it's next cycle. This is supported by the latest Residex figures which suggest that capital growth in the Brisbane unit market over the last year was -1.59% (March 2010 to 2011) and the Brisbane unit median rental yield is 5.19% (March 2011). Add to this the fact that the median house and unit values in Brisbane are at far more affordable levels than in Sydney & Melbourne.

Our property market moves in cycles and it's been relatively predictable over the last 100 years. Our economy is very strong and all of the basic indicators are in place to suggest that rents will continue to move upwards in Brisbane, as this happens more investors tend to enter the market (as yields are improving) and some tenants decide they are better off buying than renting and these factors put further pressure on the limited stock of property, forcing prices up. If you want to buy at the right time in the cycle for Brisbane, it's now.

Why South Brisbane:

We have specifically targeted a new off plan apartment project in South Brisbane as we feel

that this area of Brisbane offers some excellent potential. It is ideally located, just across the river from Brisbane city and an easy walk to the amenities of South Bank. The State Government & Brisbane City Council has already completed, embarked and committed to a combined \$4 billion in infrastructure to South Brisbane, so it's an area which is undergoing significant rejuvenation.

There are 26,000 office workers in the immediate South Brisbane precinct, plus a further 200,000 just across the river in the CBD. Not to mention the 120,000 students that are within 3 kms and the medical staff from the Mater Hospital and Children's Hospital and the related medical practitioners surrounding them, all within the area.

It's easy to see why according to SQM Research:

South Brisbane experiences the second highest weekly rents in Queensland, second only to the Brisbane CBD and why South Brisbane records a strong rental premium over the surrounding area, with rents for one and two bedroom apartments 11% to 31% higher than the total 4101 postcode area, of which South Brisbane is a part of.

Furthermore SMQ suggest that dwelling supplies and underlying demand indicate there will be a shortage of approximately 450 properties in 2012 and 852 properties in 2013. Beyond this period, underlying demand is forecast to exceed supply by over 1,000 dwellings each year to 2016.

South Brisbane is certainly a suburb that will be on the move given the amount of infrastructure that has already gone in and is continuing. Added to this the fact that new residential apartments are and will be in very limited supply and we feel that South Brisbane will be one of the star performers of the overall Brisbane market in the medium to long term.

We have secured access to a brand new off plan apartment project in South Brisbane, well prior to its public release. To date the majority of sales that have been made are sales to people associated with the project, such as staff of the developers team, architects etc. It's always a strong sign when those involved in the project are investing in it. These are the people whose business is property, they know the location and they are choosing to invest in it. If you would like further details on our latest South Brisbane project, please visit our current off plan section.

As you can see by the comments above there are a lot of positive reasons to consider investing in Brisbane right now.

Contact me on 0412 472 172 or email terry@terryloftusrealestate.com.au if you wish to find out more about a property that will suit your needs.

Just send me an email to me confirming "South Brisbane", "St Lucia" or "both projects"

Regards

Terry Loftus