



November 2009

### Impact of the GFC – Winners and Losers

Twelve months on from our newsletter, *Australia’s Property Markets Fundamentally Sound*, it is timely to review some aspects of Australia’s economy and property markets. There have been winners and losers from the Global Financial Crisis (GFC), with those exposed to high debt levels and the risks of exchange rates among the most adversely affected.

Most property market participants, whether they are financiers, developers, investors or consumers, have focused on market fundamentals over the past year. Companies are typically leaner, even if we in Australia have not seen the recession or the rapid shedding of jobs that was anticipated.

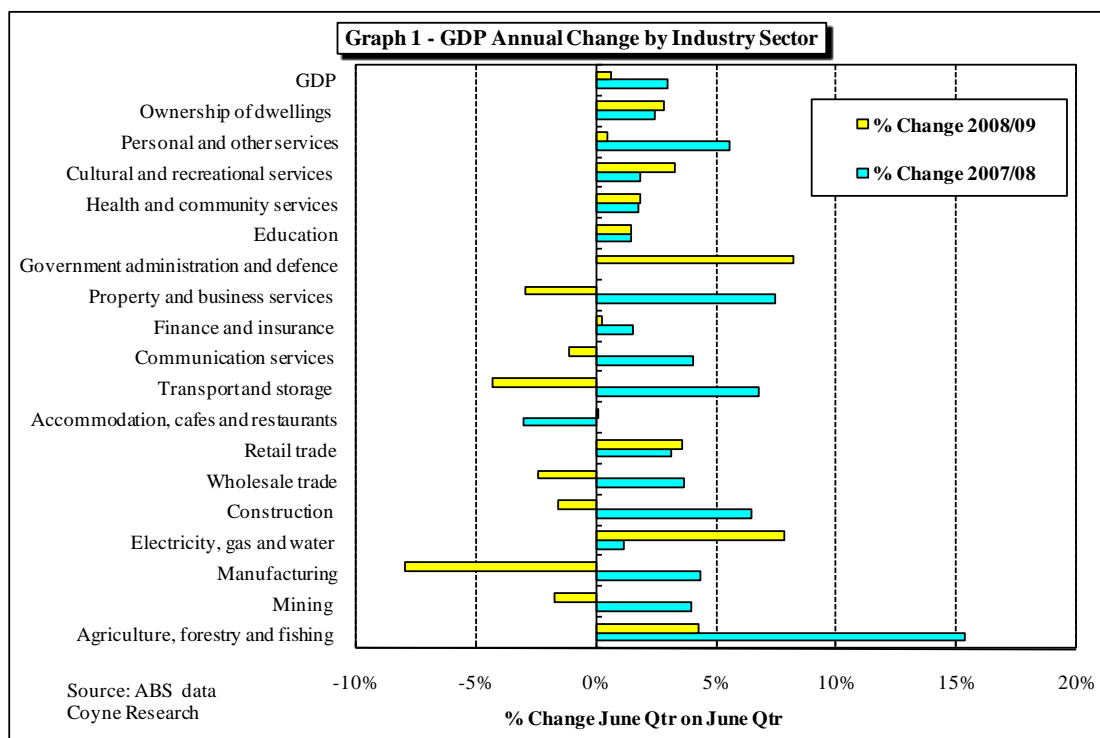
Following publication of last year’s newsletter, economists continued to revise downwards their expectations for the global and Australian economies. The Federal Government introduced two further stimulus packages, one targeted to short-term spending on social housing, schools and environmental measures such as home insulation; and the second involving large-scale, long-term, infrastructure projects.

A year on, and there is more talk about whether some of this fiscal stimulus should be withdrawn than discussion of the hard times and prospective ongoing challenges that some companies and sectors may yet experience.

Graph 1 shows that the manufacturing sector was among the worst affected in terms of year on year growth in Gross Domestic Product (GDP), as a result of the events that unfolded over the past year. In seasonally adjusted terms, the annual gross value added was down in June 2009 by 7.9%. This compared with growth of 0.6% for the overall economy, and manufacturing growth of +4.4% in the year to June 2008.

Other sectors to see a reversal of fortunes in gross value were transport and storage (-4.3%); property and business services (-3.0%); wholesale trade (-2.4%); mining (-1.7%); construction (-1.6%); and communication services (-1.1%).

Perhaps against expectations, the finance and insurance industry, where the problems began, turned in a positive result of +0.3% in 2008/09, down from +1.6% in 2007/08. This is largely attributable to the strength of Australian banks.



The accommodation, cafes and restaurants sector, which was the only sector in 2007/08 to exhibit negative growth (-3.0%), reflecting the high \$AUD, has seen an improvement to +0.1% in 2008/09. This may reflect Australians holidaying close to home at the beginning of the GFC; the fall in the \$AUD; and that some of the stimulus spending reached this sector.

Tourism now faces an \$AUD heading towards parity with the \$US, which is typically unfavourable to this industry, and something that in the past low airfares have not been sufficient to combat.

Graph 2 shows that the Australian economy experienced widespread impact in employment terms following the GFC. August on August changes in 2007/08 and 2008/09 show dramatically different results for some industries, notably mining (a change from +23.3% growth to -5.6% in the year to August 2009). While construction has experienced a downturn in employment of -1.5% compared with +6.1% to August 2008, it is still benefiting from ongoing projects; the stimulus of the First Home Owners (FHOG) Boost; and low interest rates.

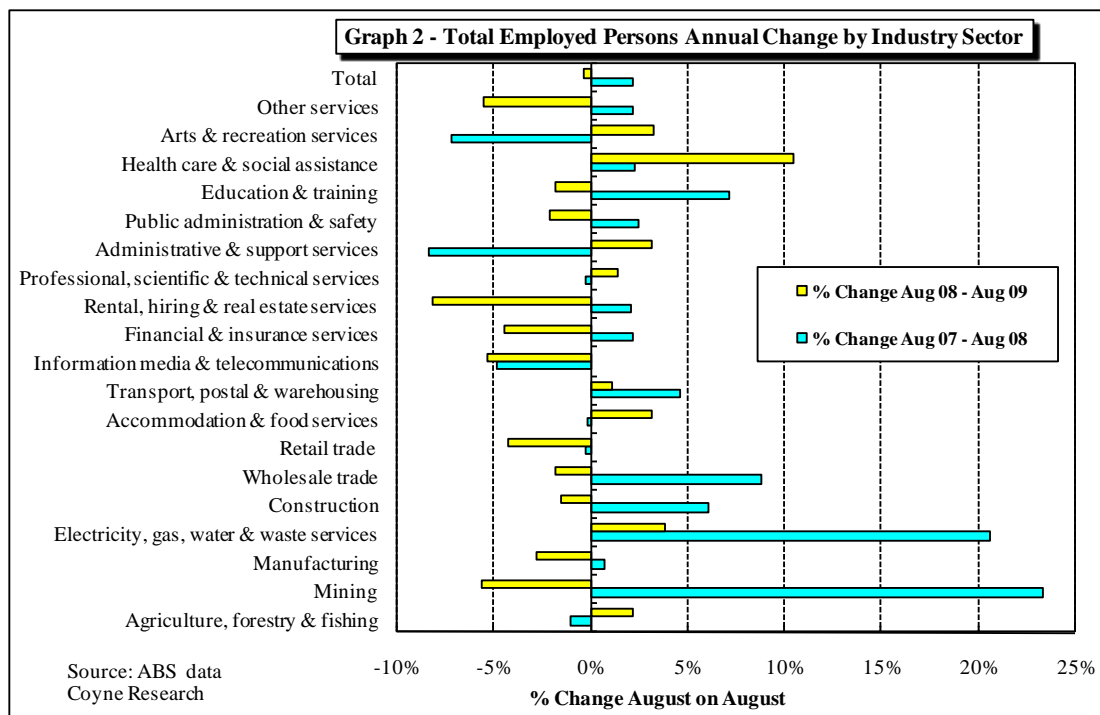
Despite the stimulus measures, retail employment fell by 4.3% in the year to August 2009. This figure indicates some widespread pain among specialty retailers engaged in sale of discretionary products. As interest rates now rise, job losses in this sector may continue.

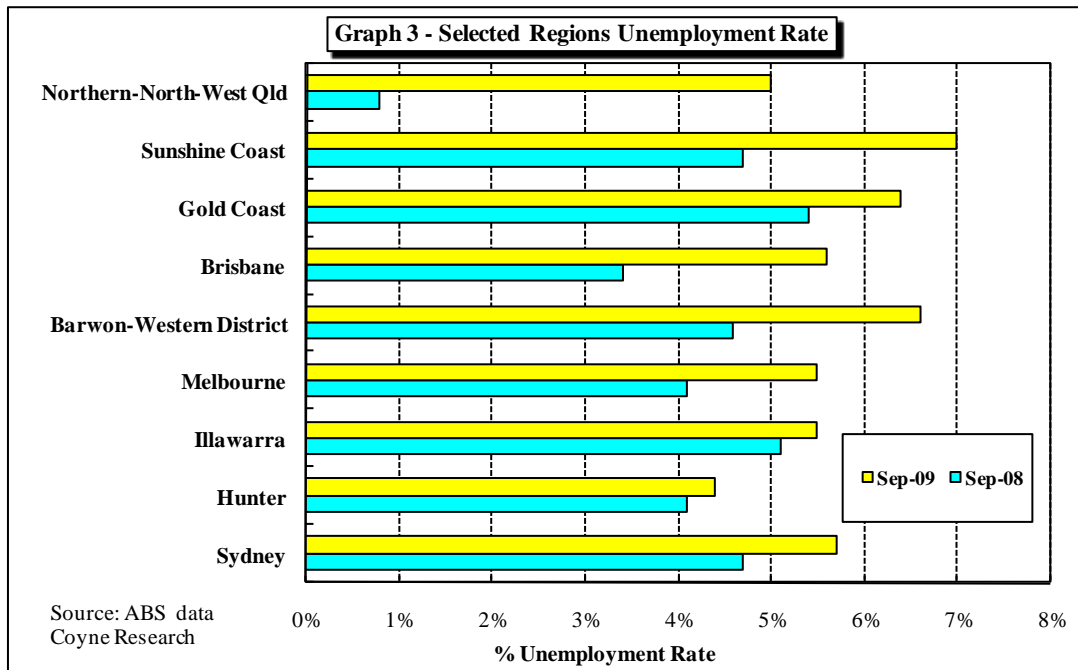
Key drivers of office employment were also among the sectors to see a fall in employment to August 2009. These include rental, hiring and real estate services -8.1%; information, media and telecommunications -5.3%; financial and insurance services -4.4%; and public administration and safety -2.1%. In contrast, health and social assistance saw a +10.5% growth in employment to August 2009.

Now that companies have started to hire, many economists are indicating that Australia may be close to the bottom of the unemployment cycle. Graph 3 suggests that coastal regions will be among those lagging the wider recovery. Another year may be needed for sustained demand for new retail, office and industrial space to become general. Depending on the extent of oversupply, some markets may take longer.

All of the selected regions shown in Graph 3 experienced a rise in unemployment over the year to September 2009. The change was most dramatic in Northern-North-West Queensland, as a result of job losses in the mining industry.

Most of the selected areas were below the national unemployment rate of 5.8%, seasonally adjusted in September 2009. The Sunshine Coast had the highest unemployment rate of 7.0%, followed by 6.6% in the Barwon-Western District of Victoria and the Gold Coast on 6.4%.





### Residential Market Resilient

Against the expectations of doomsayers of a year ago, Australian residential markets have generally shown great resilience. This is partly due to the success of the Government's FHOG Boost.

From a developer's point of view, too much of this stimulus found its way into the lower cost established housing market. Where suitable stock was available, new properties were however readily absorbed in many areas. In Queensland, Office of State Revenue data indicates that by the September Quarter 2009, one quarter of FHOG Boosts paid were for new homes.

The fact that some first home buyers moved out of family homes in some regions, rather than rental properties, has kept vacancy rates lower than might have been expected. In Sydney, the Real Estate Institute of Australia (REIA) data for the June Quarter 2009 indicated vacancy rates remained low at 1.3%, with a similar situation in Melbourne (1.4%). However Brisbane (3.0%) and Perth (3.5%) experienced increased vacancy.

The REIA data indicates that all capital cities experienced rising rents for both houses and other dwellings, except for Brisbane, where the median weekly rent for two bedroom units fell by 2.9% in the June Quarter 2009. It was up by 3.1% over the twelve month period however, suggesting that pressure has not eased for most tenants.

The strength of rental markets appears to have finally convinced some investors to return to property. ABS data suggests that over the next few months first home buyers will pass the baton to investors and upgraders (provided interest rates do not rise too quickly, cutting off the recovery before it has a chance to gain momentum).

Price growth in the housing market has been underwritten by ongoing supply shortages. This is most evident in South-East Queensland. Graph 4 shows median land prices for selected regions based on the Housing Institute of Australia's (HIA) and RP Data's June Quarter 2009 *Residential Land Report*.

Sydney's median of \$255,000 was down 1.9% on the year before and down by 15% on the peak of \$300,000 in the September Quarter 2006. This contrasts with Brisbane, where the June Quarter 2009 median land price of \$223,900 (only 12.2% below Sydney), had risen over the year by 12.0% and was 30.2% higher than in the September Quarter 2006. Melbourne remained the more affordable city, with a median land price in June Quarter 2009 of \$164,900.

Net overseas migration to Australia did not moderate in the wake of the GFC. With our economy supported by the Asian markets, particularly China, it is now likely that Australia will see continued high levels of net overseas migration. At its September 2009 conference, BIS Shrapnel was forecasting an average annual gain of 158,000 persons from this source over the five years to 2013/14.

Birth rates have also risen, as Generation X commits to relationships, mortgages and children. However Queensland's interstate migration gains have moderated to an annualised estimate of just under 20,000 persons in 2008/09. This is down from a peak of almost 38,000 persons in 2002/03 and a long-term average of 27,500 persons.

While some of this change of fortune is the result of changed employment opportunities, it seems increasingly likely that Queensland's loss of a clear price differential has deterred migrants from other states.

Queensland currently has record population growth largely due to net overseas migration, with great concern about how we can cope with high levels of growth and provide sufficient infrastructure to meet future needs. Unless more is done to address the affordability issue, over time, this growth problem could evaporate.

#### Coastal Markets Will Come Back

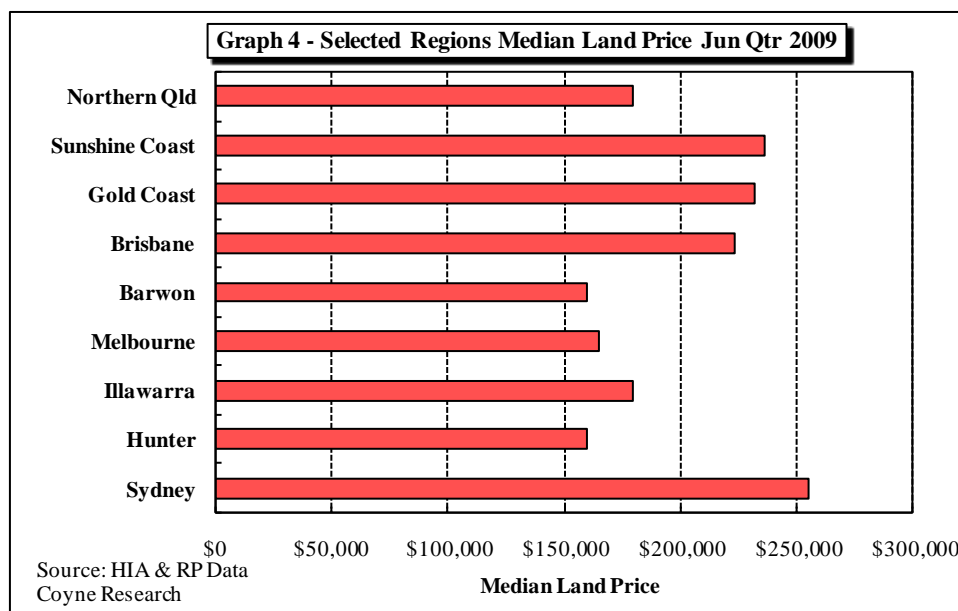
Graph 4 shows that despite their greater vulnerability to impacts from the GFC, the Gold and Sunshine Coasts in the June Quarter 2009 had median vacant residential land prices among the highest of the selected regions (\$232,250 and \$236,750 respectively).

Such coastal regions are primarily dependent upon holiday home and lifestyle markets, and as predicted a year ago, have been among the most affected by the downturn in the residential market. A recent review of a selection of top end residential properties resold on the Gold Coast found vendors forced to sell accepted losses of around 40%. This is by no means the everyday experience, especially in metropolitan markets.

The optimum strategy for owners in these more vulnerable coastal and lifestyle markets is to remember that losses on paper are only crystallised if a property is sold. Despite an emerging concern about climate change and adverse weather events, there is little doubt that these markets will come back.

They are partly driven by the baby boomer generation's retirement plans. Australia's love affair with the beach has not ended. However timing of the recovery in these markets may be delayed beyond a general recovery over the next year or so.

The sharp downturn in approvals for medium to high density residential developments may be a blessing for these coastal areas, giving them a chance to return to equilibrium before new projects are conceived.



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