



February 2010

2010 – Opportunity Time

Welcome to 2010, another year of opportunity for counter-cyclical buyers. This particularly applies in Queensland, which is still experiencing soft market conditions. There are good reasons to anticipate a medium-term return to rising price growth, so this is an opportunity that may not last beyond the next 12 to 18 months.

It is widely recognised that the record population growth in 2008/09 of 443,139 persons or 2.1% was a contributing factor in Australia’s rapid recovery from the downturn associated with the Global Financial Crisis (GFC). This level of population growth was buoyed by record net overseas migration of 285,347 persons and high birth rates.

While overseas students and returning expatriates contributed to the high immigration level, it also reflects skilled migration to redress labour shortages. Now that unemployment following the GFC appears to have peaked at 5.8%, continued levels of high overseas migration would appear to be likely, particularly as the baby boomers retire over the coming decade.

The recent report from Australian Property Monitors shows that nationally house prices rose by 12.1% in 2009, with Brisbane below the national level. Its increase of 7.7% reflects its greater exposure to the GFC and its impact on the resources industry. It also reflects the erosion of the price differential that used to exist between Queensland and southern capital cities.

There appears to be a close relationship between net migration and house prices. The graph below shows Real Estate Institute of Australia (REIA) long-term data for Brisbane region moving annual median house prices and net migration to Queensland (ie the total of net overseas and net interstate migration).

It shows that the 1988/89 peak of 68,838 migrants was followed by a 20% rise in the moving annual house price in Brisbane (or 56% over the two years to 1989/90).

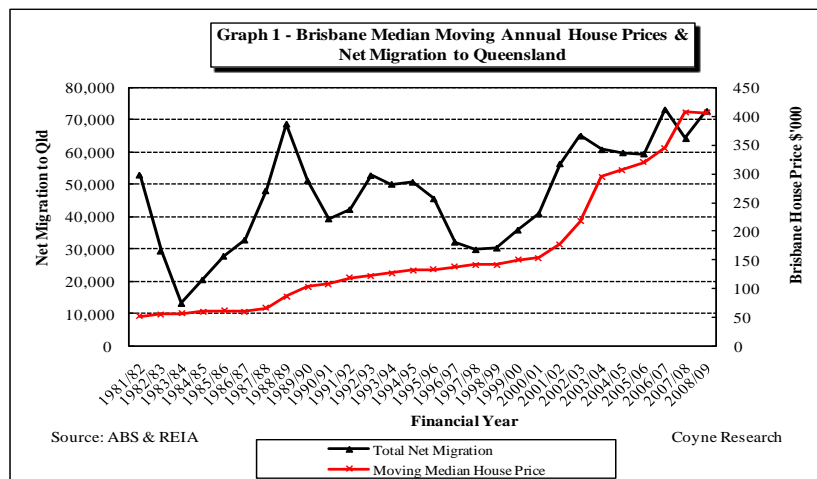
When net migration to Queensland fell to an average of 40,983 persons per annum during the 1990s, the moving annual median house price in Brisbane maintained a slow but steady increase averaging 3.7% per annum.

However when net migration rose sharply from 2001/02, reaching a peak of 73,307 persons in 2006/07, Brisbane’s moving annual median house price followed. It increased by an average of 14.8% per annum to \$407,600 over the six years to 2007/08.

There is more to rising house prices than population growth. Government’s well-intentioned measures to restrict urban sprawl and require more sustainable housing have taken away the development industry’s pressure valve – the capacity to provide cheaper housing options on the urban fringe. In Queensland over recent years, this has been exacerbated by the user-pays approach to urban infrastructure.

As Australia grapples with the demographic “time bomb” of baby boomers retirement impacting upon the labour market, we appear to be on a collision course as a result of Government measures that impact on supply and ultimately affordability.

Over 70% of Queensland’s future population growth is projected for South East Queensland (SEQ), with the SEQ Regional Plan indicating 45% of new dwellings will be in established areas. Even on the Gold Coast, it is difficult to see this level of acceptance for higher density living gaining community support.



Re-emergence of the Two-Speed Economy

The coming year is likely to see continuing signs of recovery in the Australian economy. The speed of recovery and growth in housing prices is however likely to be slowed by lingering effects of the GFC and high \$AUD upon certain sectors, as well as the impact of rising interest rates.

Another possibility is the re-emergence of the two-speed economy that was so evident at the height of the resources boom. Over the four years to 2007/08, national Gross Domestic Product averaged growth of 3.3% per annum. The leading states and territories of Western Australia (WA), the Northern Territory (NT) and Queensland ranged from an average growth in Gross State Product (GSP) of 5.3% to 5.0% over this period.

Graph 2 shows the high level of dependence that WA’s export-oriented economy has to mining (25% of GSP valued added in 2008/09). Similarly, both New South Wales (NSW) and Victoria have disproportionately high contributions from the administrative and business services industries (31.2% and 27.4% of GSP value added respectively).

In contrast, Queensland has a more diversified economy. The above average contributions from mining (8.3%), retail trade (5.8%), tourism (3.7% - made up of accommodation, cafes restaurants and recreational services), ownership of dwellings (7.6%) and construction, wholesale trade, warehousing and utilities (23.1%), has resulted in its greater exposure to the impact of the GFC. Coastal holiday resorts, with high proportions of holiday homes and upmarket housing have been most vulnerable to low sales rates and the need for discounts to effect sales.

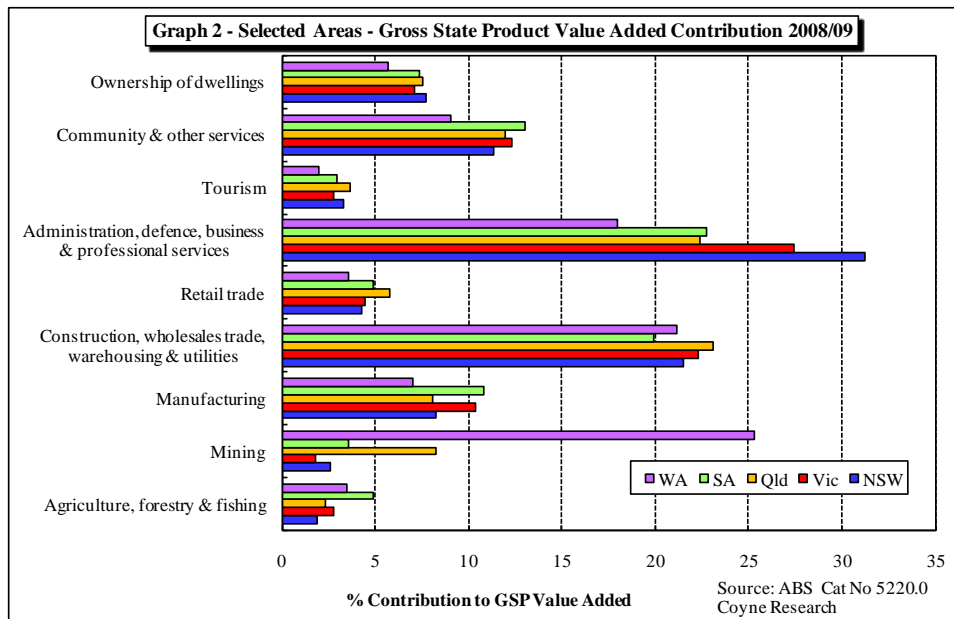
Queensland had one of the lowest growth rates in GSP in 2008/09 of 0.3%, just ahead of NSW at 0.2% (affected by Sydney’s role as the financial capital). WA (0.7%) and the NT (0.4%) also fell sharply.

Now however there is the prospect that WA will enjoy a new resurgence in growth as a result of the announcement that the Gorgon Liquefied Natural Gas (LNG) project will proceed. It is expected to create around 10,000 jobs during the peak of construction in 2012/13. Woodside Petroleum’s Pluto LNG project in WA is currently under construction.

There is renewed concern about emerging shortages of skilled labour in WA – these are not the only major projects proposed for the state.

Australia already has two operational LNG projects: Woodside Petroleum’s North West Shelf project in WA and CononcoPhillips’ Darwin plant. Proposed LNG projects include Inpex’s plant in Darwin, to process gas from the Ichthys project in the Browse Basin; Woodside Petroleum’s Browse Basin project, Chevron’s Wheatstone project (both in WA); the Sunrise project in the Timor Sea (likely to be processed offshore); and several Queensland projects which involve conversion of coal seam gas from the Surat Basin, with processing and export via Gladstone.

South Australia (SA) is set to join the resources boom, if BHP Billiton’s expansion of its Olympic Dam uranium mine proceeds. Its economy has already outperformed other states in 2008/09 (GSP growth of 1.4%), partly due to \$10 billion in defence industry contracts.



Bargain Hunters and Auction Frenzy

As the summer holidays came to a close in late January, Gold Coast real estate agents engaged in a marketing push to capitalise on the peak visitor population of potential buyers. The highlight of this activity was The Event, a mega-auction from Ray White Surfers Paradise, held this year on 24 January. The same week saw two other auctions from the Ray White Group, one on 23 January from the Broadbeach office and one on 27 January from the Runaway Bay office.

Around 225 properties were marketed in these three auctions, with an overall clearance rate on the day of auction of approximately 41%.

Around 13% of properties sold prior to auction, often with prices not disclosed. An analysis of sold properties where prices were available shows a preponderance of sales <\$500,000.

This was particularly true of The Event, which included 53% of apartments located between Southport and Broadbeach. In contrast, lack of sales and, in some cases bidders, for “dress circle” houses in the Paradise Waters, Sorrento and Isle of Capri localities highlights the continuing scarcity of buyers for million dollar plus properties on the Gold Coast.

This time last year, The Event took 93 properties to auction, with a clearance rate on the day of approximately 45%. The number listed for auction this year rose by 40% to 131 properties (although about 5% were withdrawn). The reported clearance rate of 52% by the day after auction was also better than last year.

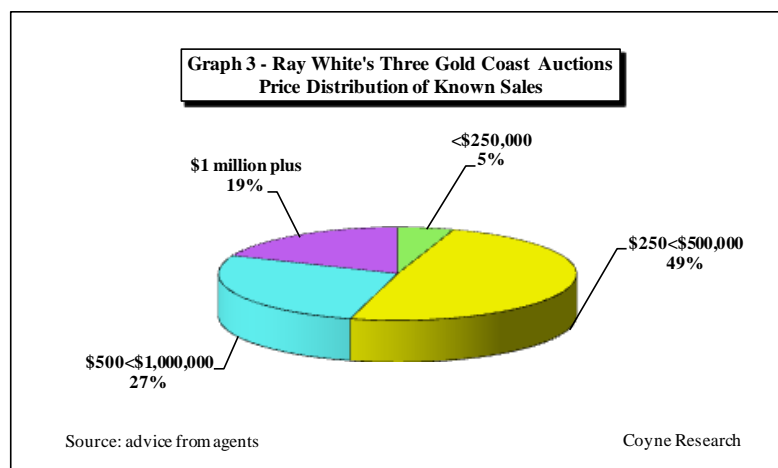
The higher number brought to auction reflects greater confidence by vendors that buyers were back in the market. It certainly remains a buyers market, with a wide range of choice for bargain hunters. These were out in force at The Event, with up to four or five bidders on some properties.

The recent auctions continued the trend of the past year or so, which has found upmarket vacant lots hard to sell, partly reflecting funding difficulties. One notable exception was a 771 m² lot in the older part of Sovereign Islands, which sold at the Runaway Bay auction for \$965,000. This represented a 48.5% increase on its previously recorded price of June 2002.

The overall impression indicated by the price distribution in Graph 3 is that lower priced properties dominated, and that activity was driven primarily by bargain hunters. Certainly some vendors were disappointed that prices on offer were below expectations. This was highlighted by the frequency of seller’s bids (20% of properties achieved no genuine bid and an additional 33% were passed in).

Nevertheless, some vendors made notable gains. These included:

- a one plus one bedroom unit on the third floor of Aqua at Labrador with Broadwater views, sold for \$595,000, reflecting a 21.9% gain on its June 2004 price;
- a three bedroom unit with north-easterly aspect and ocean views on the 19th floor of Aria in Broadbeach, sold for \$1.675 million – a 28.9% gain on its May 2002 price;
- a 17th floor unit in Acapulco in Surfers Paradise sold for \$510,000, close to double its 1992 purchase price;
- an absolute beachfront, three bedroom, ground floor unit in The Penthouses, Surfers Paradise, sold for \$775,000 – a 12.3% gain on its August 2005 price;
- a renovated three bedroom unit in a boutique low rise block, Sainte Maxime at Main Beach, sold for \$505,000, an 87% gain on its January 2000 price;



- a low rise, two bedroom unit in Le Chelsea, just inland from Garfield Terrace in Surfers Paradise, sold fully furnished for \$275,000, a 3% gain on its October 2006 price; and
- an elevated house on a 1,147 m² lot with ocean views at 644 Pacific Parade, Tugun, sold for \$1.925 million – a 10% gain on its December 2008 price.

In contrast with these success stories, a number of generic units in Surfers Paradise in buildings such as Legends Hotel, Sun City Resort, Circle on Cavill and Chevron Renaissance, sold at a loss. Examples include a two bedroom unit on the 15th floor in Chevron Renaissance, sold for \$382,000 (a loss of 22%); and two one bedroom units in Circle on Cavill sold for \$347,500 and \$390,000 (an average loss of 28%).

At Brighton on Broadwater in Southport, a two bedroom unit on the 29th floor with Broadwater views sold for \$480,000, a 20% loss on its 2005 price.

This suggests that opportunities exist for anyone looking to acquire a well-positioned apartment. However buyers should be aware of relatively high costs associated with ownership and remember that the Gold Coast is a highly cyclical market. It may be necessary to hold property for more than seven years to have the prospect of capital gain (if then).

With a population growth in 2007/08 of 15,213 persons or 2.8%, the Gold Coast-Tweed continues to be a highly desirable location. The prospect for increasing prices over the medium to longer term is enhanced by infrastructure currently being developed, including the 750 bed Gold Coast University Hospital at Southport and the expansion of the Robina Hospital by 179 beds.

Stage One of the Rapid Transit System, to run between Griffith University and Broadbeach will particularly benefit this strip.

Other notable sales at the recent auctions included:

- in the Surfers Paradise “dress circle” at 10 Fiesta Avenue, Isle of Capri, a single storey, four bedroom waterfront house on a 1,854 m² lot, sold for \$1.4 million;
- a three level apartment on the esplanade at 6 Marine Parade, Miami, sold for \$2.475 million;
- a four bedroom, two level penthouse at Wings in Surfers Paradise, sold for \$1.25 million;
- a three bedroom unit at Amira in Main Beach sold for \$606,000;
- a four bedroom villa at 77-79 Albatross Avenue, Mermaid Beach, reported sold prior to auction for \$3 million;
- a penthouse in a boutique building at 29 Bauer Street, Southport, sold for \$635,000; and
- a four bedroom house at 7 Seabeach Avenue, Mermaid Beach, sold for \$1.09 million.

These sales show there is demand for higher priced properties, but the failure to sell many waterfront and beachfront properties indicates how thin the upper end of the market remains. Among the properties that did not sell on the day of the auction were the following:

- The Beach House at 247 Hedges Avenue, Mermaid Beach (bid to \$6.2 million), one of a few in this suburb;
- an apartment and separately offered beach house also with direct beach frontage, at Jade in Surfers Paradise;
- “dress circle” waterfront houses;
- two Sovereign Island mansions, one the extravagant Baltimore, which had a genuine bid of \$11.2 million, a figure that appears to be well short of replacement cost.

The soft market conditions still evident in these auction results may not last beyond the next 12 to 18 months, so it appears that 2010 is a good opportunity for counter-cyclical buyers to act.

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