outlook FOR 2011

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THE REAL ESTATE OUTLOOK

The economic impacts of the flooding crisis across central and South East Queensland in January are yet to be fully defined. A review of what occurred in the property market after the floods of 1974 shows a difficult period throughout that year but also a fundamental resilience that allowed pre-flood levels of activity and price growth to return by early 1975. We expect that to be repeated in 2011 and 2012.

While it would seem that the floods couldn't have come at a worse time for our economy, given that green shoots of recovery were just starting to appear at the end of last year, we can expect that the purely negative impacts will not be prolonged.

The short-term cost of lost productivity and activity will be made up in increased building and construction during the repair and rebuilding phase.

The past 12 months have proved to be an eye-opener for many involved in the property profession, especially since we have had a decade of almost ideal property market conditions in Queensland. The market, and those working in it, had to adapt to conditions characterised by less buyer demand and relatively stagnant price growth over 2010. 2011 will bring new and unexpected challenges.

The Gillard Government and the Australian Reserve Bank remain locked in a tug-of-war between fiscal and monetary policy. The government has injected billions into the economy over the past two years and the impact of this stimulus is still washing through. The Reserve in turn has ratcheted up interest rates, in part to offset this stimulus. With the impact of the floods spreading through the national economy, the settings will need to be just right to ensure renewed, manageable growth in 2012 and beyond. ■

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A YEAR OF RECOVERY

In the wake of the flood crisis, Queensland will experience a year of recovery in 2011. The medium-term outlook,however, remains positive, with major resources and energy projects commencing.

Residential markets have been soft in the second half of 2010, reflecting flat employment growth and rising interest rates. The Reserve Bank of Australia is now more likely to hold off on further increases, but impending labour shortages mean higher rates are almost inevitable by late 2011.

Affordability remains a key issue for new housing products. Rental demand from flood-affected households is now likely to extend affordability pressures to the rental market. Gladstone (1.4 per cent) and Toowoomba (0.9 per cent) already had low vacancy rates in September 2010, flowing from the resources sector (source: REIQ).

Net interstate migration was at a 25-year low (9526 migrants in 2009/10), influenced by structural factors (the loss of Queensland's price differential with southern states) and cyclical factors (slow economic growth, partly reflecting the exchange rate).

Queensland will see a return to better economic performance over the medium term, so the recent dip in net interstate migration is expected to be temporary. Labour force demand is expected to ramp up by 2011/12. This could see a more rapid turnaround that previously anticipated.

Brisbane has seen a number of new office leases to resources-related companies in 2010. Metropolitan office and industrial markets have stabilised. The need for flood-affected companies to find alternative accommodation will drive vacancies down in some areas. Funding restrictions and office market incentives of around 25 per cent will limit new construction over the next couple of years.

The reconstruction process will see increased construction jobs and retail spending on household and other goods. This will benefit the retail sector, which has been adversely affected by cautious consumer behaviour and higher non-retail costs, such as utilities.

Nevertheless, the reconstruction cost is likely to impair the state's economic growth and fiscal position, increasing the infrastructure funding challenge. ■