

THE BOOST AND BEYOND

Opinions and views on the future of the market.

BOOST DELIVERS SOME RELIEF AND SOME PAIN

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There is little doubt that some Queensland developers have benefited from the Queensland Building Boost (QBB). New projects with lower-priced stock have seen increased enquiry, resulting primarily in sales to investors and first home buyers. Many developers however continue to grapple with the lingering impact of the Global Financial Crisis, especially the restrictive funding environment.

To be eligible for the \$10,000 QBB, contracts must be written by 31 January 2012, so it is a short-term measure. The construction jobs impact may however extend into 2013 (and even to 31 January 2015 for off-the-plan medium-density

projects). It is however expected that sales activity will fall from early next year as a result of brought-forward demand.

Many housing estates, townhouse and apartment projects and retirement villages have found it difficult to convert enquiry when an existing home needed to be sold to fund the purchase. This situation is exacerbated by the removal of the stamp duty concession for owner occupiers (except for first home buyers).

Higher priced projects are seeing little benefit from the QBB, so it is up to individual developers to stimulate sales through innovative marketing. This especially applies to \$1 million-plus products, with research from RP Data showing that the decline in

sales volumes has been more noticeable in South East Queensland than the other major capital city prestige markets.

Over the next two years, Queensland's economy is projected to rebound as a result of the resources and infrastructure boom. This is also expected to see a recovery in net interstate migration. Central and North Queensland, along with the Surat Basin, are expected to benefit the most.

In a two-speed economy, recovery in coastal lifestyle markets may depend on major project or regionalisation initiatives that are unrelated to the QBB. Developers have also started to reposition projects to address the affordability issue. ■

HOUSING MARKET OUTLOOK APPEARS FLAT

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The July results of the RP Data-Rismark Home Value Index showed that the falls in Australian home values have gathered pace. Home values across the combined capital cities fell by 1.5 per cent over the three months to July 2011. The month-to-month index results show an increase in value declines with a fall of 0.6 per cent in July compared to a downwardly revised fall of -0.4 per cent in June and 0.4 per cent in May. Over the year to July 2011, capital city home values have fallen by 2.9 per cent. At the same time last year, capital city home values had increased by 10.3 per cent over the year.

Looking forward our view remains that Australian housing markets are likely to remain fairly flat with regards to capital gains over the coming year with the potential for some further falls. The recent falls in property values together with an increase in selling times and vendor discounting along with weak auction clearance rates suggest that market

conditions at this point are unlikely to improve significantly. One encouraging point is that the number of properties advertised for sale nationally is moderating. Listings remain at inflated levels however, and there is a very low volume of new stock hitting the market each week. This is an important development, given the time it takes to sell a home is increasing, a rising level of new listings would result in a mounting of effective stock levels.

The big wild card remains the global economy. The likelihood of further economic uncertainty is high which will continue to dampen consumer confidence and their willingness to spend on high commitment decisions like purchasing a property.

Aside from consumer confidence most likely remaining low, we can expect Australia's rate of unemployment to remain low (despite the recent rise from 4.9 per cent to 5.1 per cent), economic growth to improve on the back of the resources

sector and household incomes to grow at a faster rate than inflation.

While capital growth is no longer evident (outside of Sydney and Canberra), rental rates are starting to show some upwards pressure. The improving rental market is also likely to see rental yields improving for investors. As capital gains outpaced rental markets in 2009 and the first half of 2010, rental yields were sharply eroded. We are now seeing yield improvement which is likely to provide a further incentive for investors looking to strategically position themselves in the market.

In summary, the Australian housing market is likely to remain reasonably weak over the coming year. Renewed speculation about mortgage rates coming down is certainly a positive development for the housing market; however any improvements to consumer confidence that an interest rate cut would provide will be balanced by the ongoing global economic uncertainty. ■