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## Market outlook

### Clocked

*It has been some time since we featured the property clock in a Snapshot – the last time being Snapshot 216 - which was released in November 2003. At that time, as is true now, the residential market was in somewhat uncharted waters. Whilst a simple tool, the property clock is one of the more effective ways of illustrating where each market is positioned.*

#### The clock itself

**Chart 1**, overleaf, provides a diagram of a traditional residential property clock, with 9 on the clock indicating the start of an upswing, 12 being the peak of the boom, 3 the start of the downswing and 6 the market trough or bust.

#### Non-residential markets

**Chart 2**, again overleaf, outlines – according to the Australian Property Institute (API) – the position, as at late last year, of the principal office markets across Australia, as well as the retail and industrial sector positions. All are in the upswing phase of the property cycle.

#### Capital cities – residential

As we all know, the residential market is in a weaker position. But the outlook is not a cloudy as some believe. Our research shows that Brisbane (SEQld), Melbourne, Sydney, and even Hobart are near the bottom of the cycle, and assuming interest rates remain on hold (or even with a 0.25% rise during 2006 – see Snapshot 291), these four markets are likely to start entering a mild upswing by year's end. **Chart 3** also shows that Perth is near its peak, the Darwin market is still climbing, and Adelaide and Canberra are the two residential markets likely to suffer the most during 2006.

The recently released L.J.Hooker and BIS Shrapnel Residential Property (Price) Index confirms these capital city positions, with both Brisbane and Sydney seeing a 4.1% rise in their indices during the December quarter last year. Melbourne saw a 3.8% lift over the same time period, whilst Perth's December quarter result was 5.5%, giving the WA capital an annual growth rate of just under 21% during 2005. Darwin, according to this index, saw prices lift 28% during 2005, whilst Hobart's annual growth was 9.7%. Adelaide's prices fell 4.6% during the December quarter last year. We will supply more details on each capital city in early March after the release of several ABS and industry studies in late February. Watch this space!

#### South East Queensland

We believe that the Ipswich market has yet to reach its peak for this cycle, and is likely to do so later this year. Logan City and Noosa peaked late last year, whilst the southern part of the Gold Coast (assuming that the delivery of the Tugun Bypass remains delayed/stalled),

Redcliffe and Caloundra are likely to enter a downturn during 2006. **Chart 4** also shows that the inner and middle-ring suburbs of Brisbane, the central part of the Gold Coast (and even its western suburbs), plus Redlands and Caboolture Shire are set to recover during 2006. Apart from Ipswich, the big winners for 2006 across the south-east are likely to also include Maroochy Shire, Pine Rivers, the northern suburbs across the Gold Coast, and the outer suburbs of Brisbane City. These locations all have relatively affordable land/established housing, are well-serviced by infrastructure, and have seen significant rises in weekly rents over the last two years or so, lifting rental yields to a point where investors are starting to take an interest again.

#### Regional Queensland

Most markets outside of the south-east corner of the state, in our opinion, have reached their peak. Some, we believe, are even overpriced, including Mackay, Hervey Bay, Townsville, the Whitsundays and some sections of Cairns. We do not, however, envisage that prices will fall – assuming that the current commodity/tourism continues – but are likely to remain stagnant for some time to come. But if Queensland's north was to face a hiccup or two, then the markets mentioned above, in particular, are likely to face a correction.

Warwick, Rockhampton, Bundaberg and to some extent Gladstone, in contrast, have yet to reach their peak (see **chart 5**), and we would not be surprised if these markets experienced double-digit price growth during 2006.

#### Product types

This is where we often get into a bit of trouble, as by placing certain product types on the property clock, we inevitably annoy (piss-off, really) some of our consultancy clients. Well, c'est la vie.

Let's start with the more controversial call – that the purchase of "second" homes in true sea change areas will decline this year. Our reasoning is based on: a tougher economy i.e. limited wage growth, soft retail spending, higher oil prices and a shift towards reducing debt; plus the high prices of such product. There also appears to be too much product, at present, chasing similar markets. An oversupply is imminent. In contrast, and mostly because they are generally cheaper (and to date, in limited supply),

green change properties - particularly in cooler/moister areas - are likely to experience an increase in demand during 2006. The same applies for acreage properties on the edge of our capitals. See **chart 6** below.

Master planned communities have done better than most other residential types during the downturn, and whilst they should still capture healthy market shares, it is likely that as the market improves, more sales will "leak" to nearby cheaper "generics" which borrow a position from the bigger estates/communities. This seems to happen at the bottom of most cycles - well, the four that we have

experienced to date - and 2006 is giving us no indication that it will be any different. Hence, we think that vacant land will make a comeback during 2006. Also, alternate housing targeting owner-occupiers in downtown areas is likely to show continued strength this year, as is mixed-use medium and high-rise developments. Mixed-use, to quote a recent Qld UDIA function, is one of the new "blacks."

Finally, the demand for student accommodation is likely to take a breather this year, given falling student numbers during 2005. **matusik**

