

property perspective



Queensland Floods To Change The Landscape Of The Property Market

The recent floods have caused devastation that Queensland has not seen before. With a number of friends directly affected by the disaster I have seen first-hand how people's homes and livelihoods have been impacted. So, as I put together this edition of Property Perspective, I do so with immense sympathy for those affected. With a large number of people in the last week asking me for my professional opinion I have decided to comment on the influence I believe the floods will have on the Queensland property market in the coming months and years. But, I wish all my readers to know that this is done with immense respect for what people are going through. Various commentators have started reporting on the potential economic impact and I think too much of it is unjustifiably negative and short-sighted. The event is tragic, the economic impact on many will be severe, but there will be a (substantial) silver lining and significant property investment opportunities!

The Broader Qld Market

While there will be countless stories of individual loss in the coming months I anticipate that the floods will set the state up for some fantastic economic times ahead, including the residential property market! I've commented many times before about how so many economic indicators are positive but a general lack of consumer confidence, especially in Queensland, has been the culprit for a mostly sluggish economy. We've been jumping at shadows! Not unlike past catastrophes such as world wars and more localised disasters such as bushfires, the community has already started to rally. In times of despair we Aussies (especially Queenslanders) dig in and fight!

None of us wanted it to occur this way but I believe this fighting spirit, the totally inspirational volunteer work, will be the return of consumer confidence; the missing piece of an economy with otherwise strong fundamentals!

The federal, state, and local governments are throwing their full support behind this recovery. We saw the positive impact that the government stimulus package had on Australia's post-GFC economy. There will be a lot of money thrown at a lot of major infrastructure projects. At a micro level there will be tens of thousands of homes that will be renovated. All this money will filter through large companies, to small business, and then employee's pay packets.

	<u>Other Natural Disasters</u>		
Location	Marysville	Innisfail	Sydney
Disaster	Bushfires	Cyclone Larry	Hailstorm
Date	Feb 2009	Mar 2006	April 1999
Ins.Claims	8,500	18,000	?
Payouts (domestic)	\$1.5B	\$400m	\$1.7B



Images have been consistently beamed around the world as the disaster unfolded. This will have created extra awareness about Australia as a holiday destination. Sure, the Aussie dollar will hold some people back but expect our tourism industry to benefit.



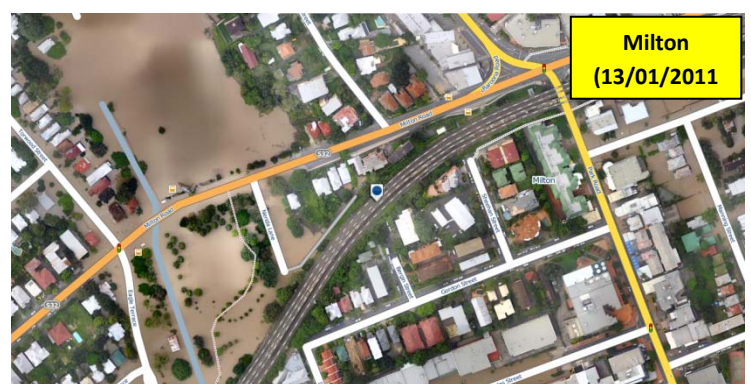
I'm not for one minute undermining the immediate affect which many will feel. The recovery will be quick however – just look at the energy in the streets of Brisbane. Even our farmers will experience the silver lining - crops will be lost but dams are full and the soil will be fertile.

Like many people, I helped some very good friends clean up their house in the western-Brisbane suburb of Westlake. While on the end of the gurni trying to get rid of mud and stench, throwing another roll of sodden carpet on to the pile out the front, or down on my hands and knees washing another wall, I knew that this clean up was temporary. What lies ahead for my friend's home (god bless them) is a substantial restoration, and 10,000s like it! Over time, plaster walls will be replaced, new kitchens will be put in, new appliances purchased, furniture, landscaping – the list goes on.

To complete this list requires skilled labour – plumbers, carpenters, plasterers, builders, tilers, carpet layers. After a couple of years of Qld's construction industry screaming out for assistance they are now going to have more work than they can handle for years. Tradespeople will be hard to find and they'll become more expensive to hire. Plenty will relocate from interstate - in 2002 and 2003, during our last property boom, approximately 117,000 people each year moved from another state to Qld compared to 91,000 in 2009. Watch history repeat itself!

While the (limited) skilled labour predominantly services the renovation market it will exasperate another problem – who will build the new properties required for an increasing population? Qld as a whole already has a housing shortage which is increasing at the rate of approximately 10,000 per year. Housing shortfalls place pressure on demand and directly contributes to capital growth for property investors.

The work which the floods will create will roll through to some very profitable years. I anticipate an era of “renovation frenzy” and a lot of money invested back in to the property market. It's what Australian's do – our home is our castle and we are very proud of it. Throw in the mining boom, which has been inevitable for a couple of years, and we have all the ingredients for an economic boom!



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A Completely Different Brisbane Market

One of the many differences between this flood and 1974 is that the damage was more isolated. Most of the properties affected are in close proximity to the Brisbane River. A large percentage of damaged properties are located in either the western or southern suburbs of Brisbane - locations renowned for mid-high income earners such as West End, Fairfield, Yeronga, Bulimba, East Brisbane, St Lucia, Fig Tree Pocket, Chelmer, Graceville, Westlake, and Milton.



This flood will definitely have an impact on directly affected suburbs. It is quite common for buyers to still enquire as to water levels during 1974 floods, 36 years after the event. Buyers will ask the same question about properties affected by 2011 floods for years to come! People will be hesitant buying in to these areas, thereby minimising demand (and prices).

Until the properties and streets are properly cleaned up it's hard to imagine sales occurring in flood affected areas. That's not necessarily a bad thing though. As at 30 September there were 68,214 properties for sale in Qld compared to 58,238 at the same time in 2009 (source: RP Data). The flood may cause a balancing out of the number of properties on the market.

People in flood affected areas who put their property on the market prior to the flood, or were previously contemplating doing so, may be forced to shelve the idea for some time. Once life gets back to some form of 'normality' victims will then have to confront the renovation ahead. There will be plenty of people who don't have insurance or the capacity to obtain bank finance to replace damaged walls, floor coverings, kitchens, etc. Without the ability to fund refurbishments their properties are automatically worth less and indirectly impact on the broader value of properties in the area. Other victims may have the capacity to renovate but simply run out of puff. I see potential for there to be surplus properties in flood affected areas on the market in the coming 12 months or so. Fewer buyers for the same properties will mean that properties in flood affected areas will not perform as well as other areas.

The rental market will also be affected by the floods. Plenty of tenants will be forced to relocate. It may take up to 12 months before these rental properties are fully restored and become part of the rental market again. This will place immediate increased demand on rental properties in other areas, forcing rents up more than normal.

From a property investor's perspective, there will be considerable stimulus for rebuilding, people's determination will continue to inspiring, and the economy will flourish! I'll conclude this publication with a reference to the Marysville Bushfires in February 2009. 2,029 homes were totally destroyed and 173 people died. Stimulus spending and the community spirit to rebuild both contributed towards Melbourne's 16.9% increase in median home values in 2009. During the same period Brisbane values increased by 6.9%. There are other examples of strong recoveries from natural disasters. It's in our DNA – when the chips are down we fight and come out winners. There will be considerable opportunities for property investors ahead! History will repeat itself!



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