

# property perspective

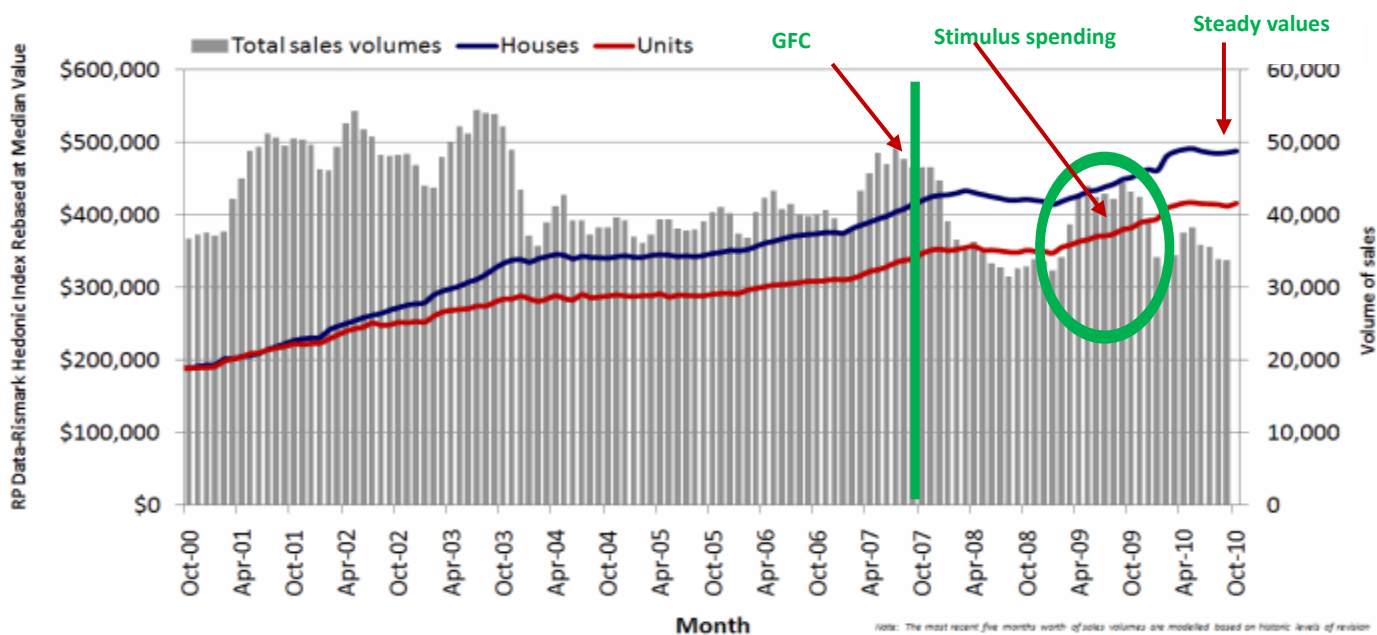


## 2011 – The Year Of Opportunity

I've gone on record a few times over the last couple of years saying that most of the fundamentals have looked good for the property market. The thing which has been most lacking is consumer confidence, especially in Brisbane, and has been the biggest contributor for a (mostly) flat market during 2010. A number of people may struggle to look past the immediate affect of recent flooding and cyclone Yasi. To the contrary, I think good times are just around the corner. The first half of 2011 may be flat in most property markets (great time to invest) and the year ahead is destined to be the "year of opportunity". Please read on to follow my logic. As my clients have heard me say many times over before, there are many property markets all capable of different performances at the same time. My views expressed in this publication reflect the Australian property market broadly. Details on more specific areas to invest are made available to my clients.

### Property Market Post-GFC

The decade of 1999 to 2009 produced a 9.4% (national) average increase in median property values; at that rate, properties double in value in less than 8 years. In 2008, the GFC became a catalyst for a 3.8% decline in median values. 2009 produced a quick rebound as a result of stimulus spending and historically low interest rates. 2010 however, was a generally 'flat' year with the national median property value increasing by 4.7%. Melbourne (8.4%) and Sydney (6.6%) were the best performed capitals while Perth (-2.3%) and Brisbane (-1.0%) were disappointing, but hardly tragic.



The above graph shows a notable reduction in the number of properties sold nationally during 2010. There were more properties on the market and less buyers in 2010 so it therefore took longer to sell. This resulted in reduced pressure on property values and a lot of sellers were disappointed. 2010 was a great buyers market, as will be early 2011.

## Influences On The Market In 2010

First home buyers were few and far between with only 90k commitments in 2010 compared to the record high of 190k in 2009. This lack of first home buyer activity affected both property values and rental incomes.

A reduction in net immigration figures combined with first home buyer inactivity to take pressure off demand for rental properties across most regions in 2010. Regions which are reliant on tourism and / or have above average unemployment (areas such as Cairns, Gold Coast, and Sunshine Coast) are finding it toughest whereas most investors around the nation ended 2010 with about the same rental income as 2009. Watch rents rise over the next couple of years!

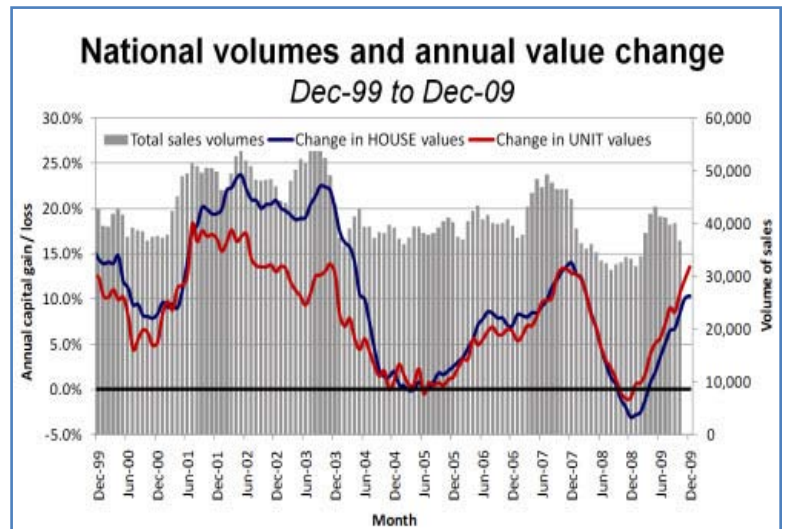
The RBA adjusted rates during 2010 with 4 increases of 0.25% seeing the cash rate finishing the year at 4.75%. The banks also added a further 0.15% to variable rate home loans. Interest rates are still quite low though!

Bank credit continued to be tight during the year. While I am (slowly) seeing signs of a gradual loosening of credit policy government intervention is needed to boost competition in the financial sector.

The Australian share market continued to be volatile with the ASX200 recording an overall decline in share values of 2.6% for the calendar year. So, with a generally flat property market, a lingering lack of confidence in the share market, and further increases to the cash rate, it is not surprising that Australians continued the post-GFC trend of tucking away more of their savings in to cash.

2010 was "the year of the political circus". Prime Minister Kevin Rudd was ousted by his own party on the eve of the federal election. We then saw a campaign whereby leaders from both parties offered very little in the way of tangible policies followed by a hung parliament. Post-election has been a period of inactivity.

In my opinion, most of the fundamentals look good but the main reason for a (generally) flat property market in 2010 was low consumer confidence. My aforementioned comments highlight why this was so.

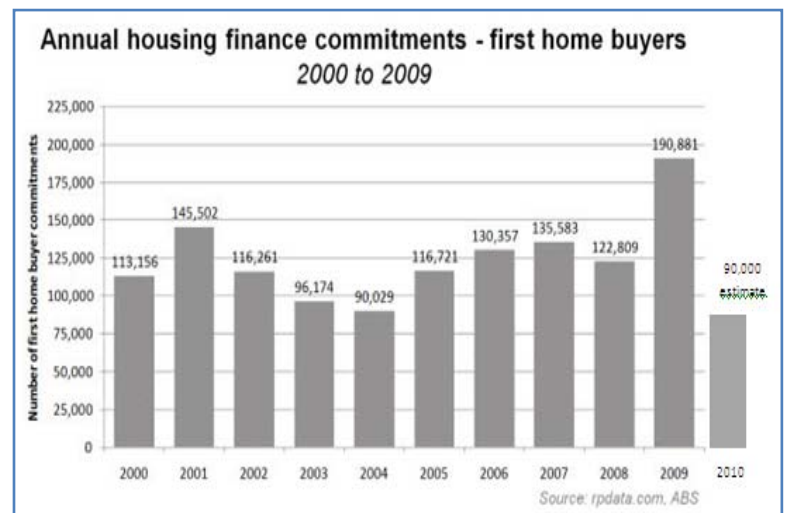


### Capital city 10 yr average annual value growth Dec-99 to Dec-09

Capital City	Houses	Units	Dwellings
Sydney	6.6%	5.6%	6.3%
Melbourne	9.5%	9.9%	9.7%
Brisbane	11.3%	8.8%	11.0%
Adelaide	10.6%	13.2%	11.1%
Perth	12.2%	13.9%	12.5%
Hobart*	12.6%	14.9%	12.8%
Darwin	14.3%	10.0%	12.5%
Canberra	11.3%	11.8%	11.4%
National	9.9%	8.1%	9.4%

\* Hobart data is based on 10 yrs to November 2009

Source: rpdata.com-Rismark



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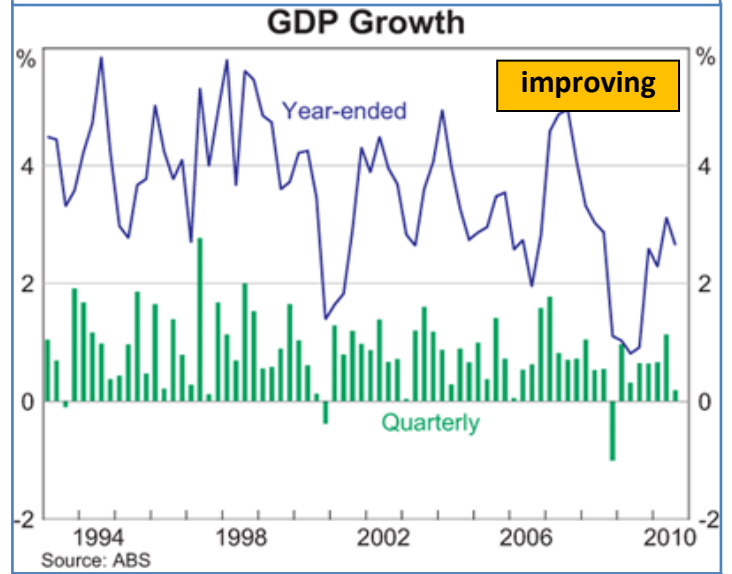
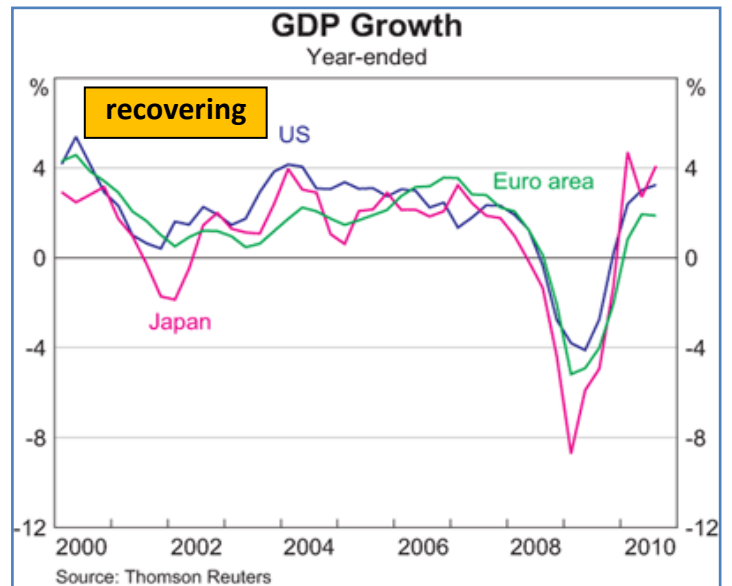


## What The Current Fundamentals Say

Australia continues to be one of the strongest economies in the world with a GDP consistently between 3% and 5% each year. Even during the 2007-08 GFC years we maintained positive growth, unlike "big players" such as the USA, Europe & Japan. The GDP of Australia's main trading partners, China and India, continue to flourish.

Australia's unemployment rate sits at just above 5% and is tipped to fall to mid-4% in 2011; that is incredibly low.

Inflation is sitting at around the 3%, which is a level that the RBA like to see it. Wage growth of 3.5% is normal also.



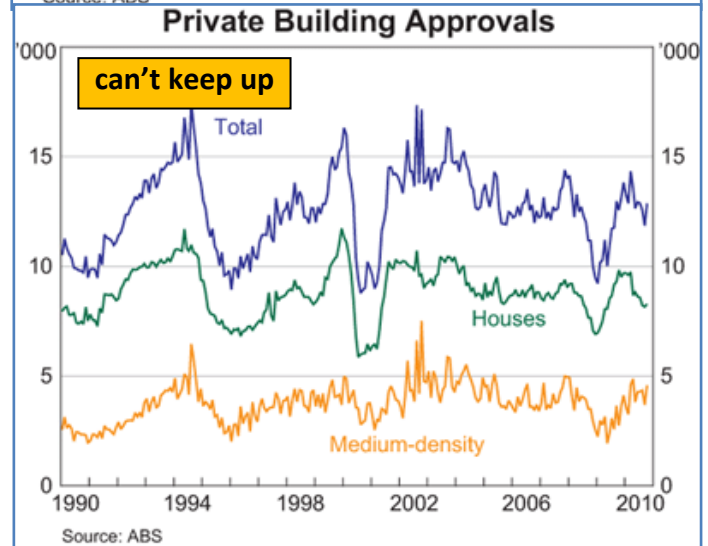
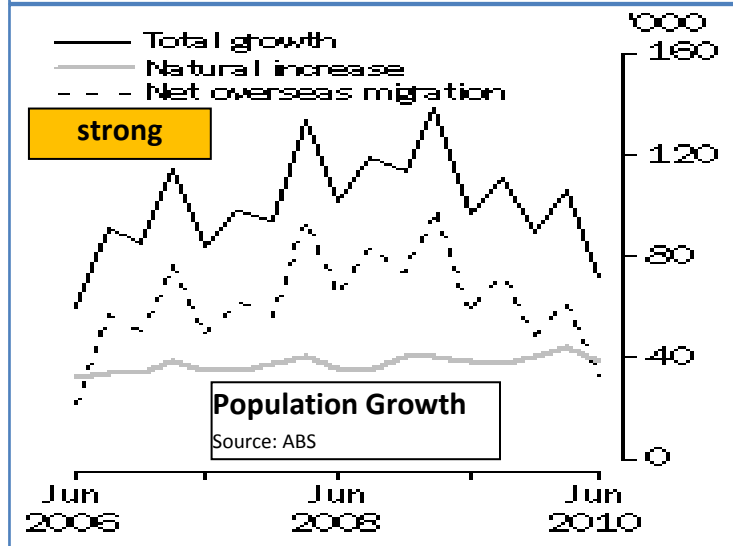
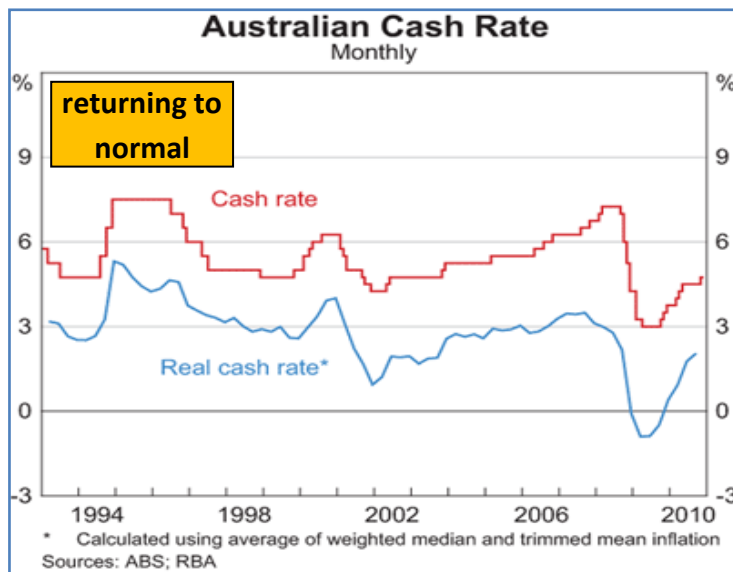
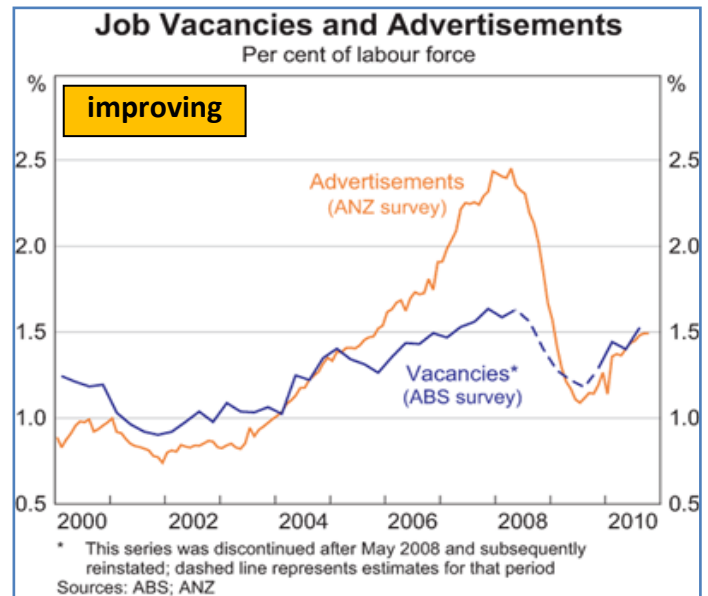
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An increasing trend for job vacancies and job advertisements suggests that business confidence is generally sound and employment opportunities are increasing. This is generally a sign of a growing economy.

Retail spending, while not disastrous, probably highlights the general lack of consumer confidence. Several interest rate increases, combined with too many doomsayers, are the main contributors of this.

Australia's population grew by 377,100 people (year to 30 June) or 1.7%, down from 2.2% in 2009 due to a reduction in net migration. That said, Australia continues to fail to build anywhere near enough homes.

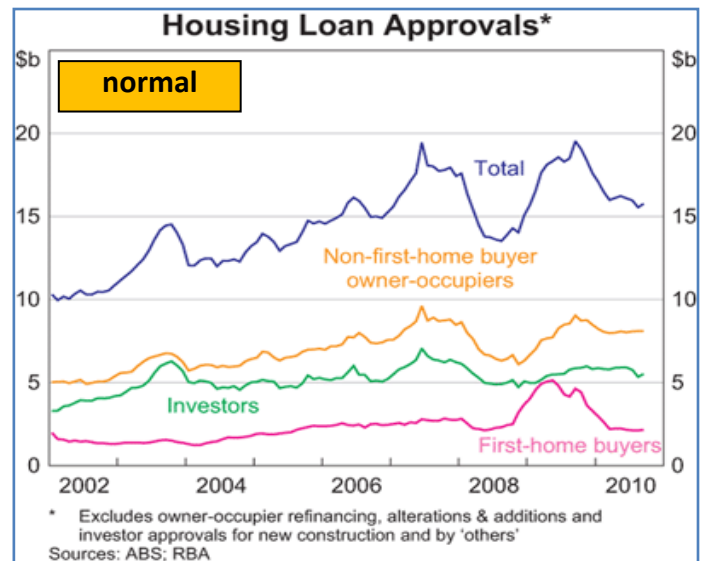
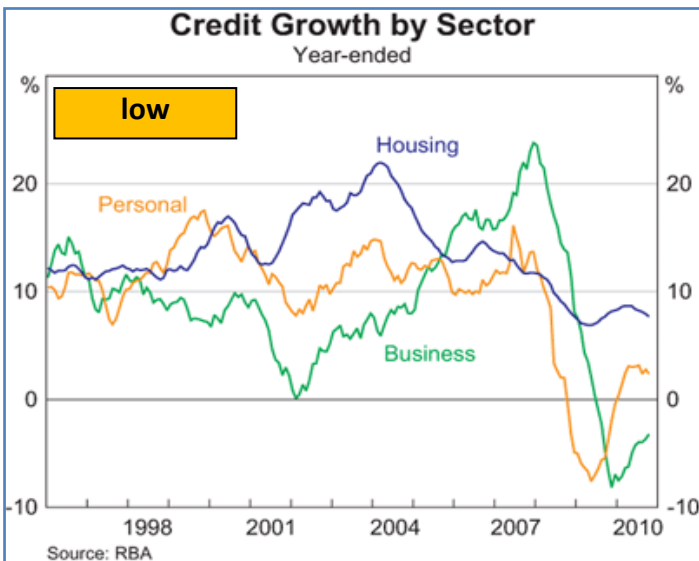
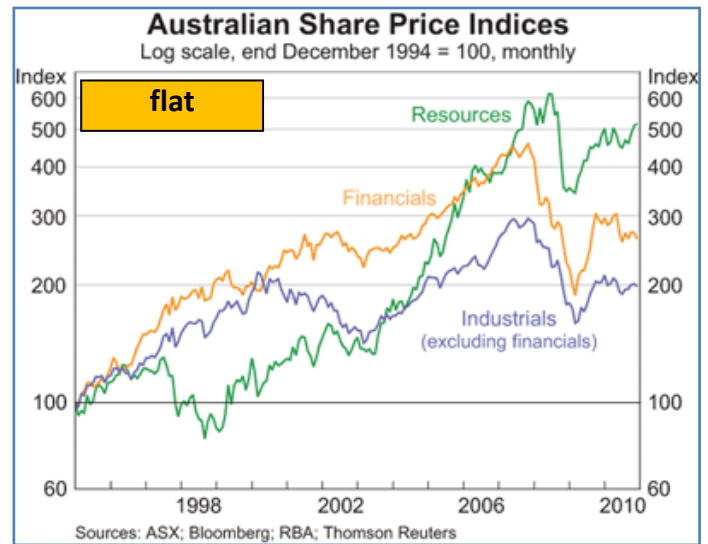
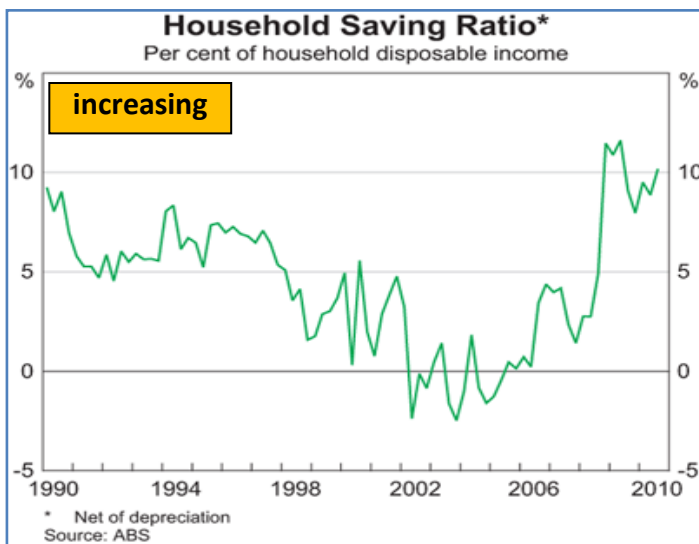
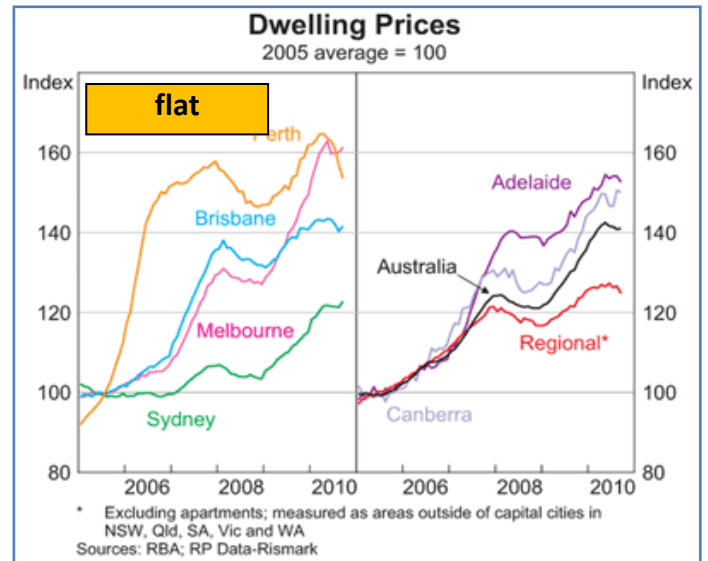


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A generally flat property and share market has seen more money going in to defensive assets (cash savings). Post-GFC, the level of debt which Australians accrue for housing, personal and business has been lower than normal. While total home loan approvals reduced from the lofty heights of 2009 it was almost totally as a result of the first home buyer market. Loans for property investors and existing owner-occupiers have been steady.

Overall, the fundamentals for our economy are very positive. As consumer confidence increases and banks loosen credit policy I'd expect to see increased investment activity. With a growing population and an inability to build enough homes there will continue to be opportunities for property investors.



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## Why 2011 Will Be The Year Of Opportunity

The market will remain “flat” for the first half of 2011 - take advantage while there is less buyer competition! The data however, points toward good times. As consumer confidence returns, I expect to see a mood shift. I’m anticipating that momentum created in the second half of 2011 will gain pace in 2012 and 2013. 2011 looks like a year of opportunity. Watch out for these influences on the property market:

**Resources Boom** - Qld & WA are now on the eve of a once-in-a-generation resources boom. Significant opportunities will exist for jobs, business investment, and infrastructure projects ahead of \$billions in royalties to state coffers. I expect this to provide a fillip for property investment opportunities. Let’s hope the government gets on with it; a lot hinges on it!

**Qld Flood Recovery** - The state has recently been ravaged by unprecedented floods. Damage bills are in the \$billions but government stimulus, donations, and insurance money will filter through quickly and communities are rallying. **Expect trade labour to become scarce, expensive, and push up home values.** The Marysville bushfires of Feb 2009 saw over 2,000 homes destroyed but Victoria’s property market (and economy in general) was Australia’s stand out in 2009 and 2010.

**Credit Policy** - Monetary supply remains limited and Australia’s banks have nominal competition so I expect **credit policy to still be tight** in 2011. I anticipate some good news for property investors with a gradual relaxation of home loan credit policy. Developers will still find it tough to get funding though and this will affect housing supply further.

**Supply & Demand** - My research shows that net immigration is forecast to increase by 180,000 in 2010-11, natural births are increasing, and deaths are reducing. Australia’s population will grow by around 400k next year. That means we will need to build around 150k additional homes but we have (consistently) only been able to build 130k per year - Australia’s housing shortage will keep getting worse! This is not to imply that the shortage is evenly spread; some locations are actually over supplied. Locations with the most pressure on supply will experience higher capital growth. **The best investment returns in 2011 will be a few regional locations in the resource states of Qld & WA, Sydney and Perth. Brisbane will experience modest growth while Melbourne will disappoint due to over-supply issues.**

**Rental Incomes** - It will remain difficult for first home buyers to get a foot in the property market so I’m anticipating **rent increases to become a sign of the times** – especially in areas with buoyant economies and pressure on supply.

**Broader Economy** - Naturally disasters will create heartache but the recovery will create opportunities. I also believe it will be the shot in the arm to improve consumer sentiment. Our high AUD\$ won’t help exports but **most indicators are positive.** Interest from people looking to establish a self-managed superfund and invest in property will continue to grow!

**RBA** - I expect they’ll continue to keep a close eye on inflation and wage growth as a result of an increasingly significant shortage of skilled labour. That said, both measurements are currently within the preferred range. Household budgets will be partly kept in check from increasing utility and produce costs (related to Qld floods). I think we’ll see two (2) rate increases during 2011, meaning **mortgage rates will remain relatively cheap.**

**Government** - The nation’s priorities should be supporting flood-affected communities, our health system, roads, ports, water supply, skilled-labour shortage, and returning our budget to surplus. The state government will have its hands full in 2011 with flood recovery, asset sales, fostering the resources boom, and buying votes before the 2012 election. Sadly, both levels of governments are floundering and their lack of real action risks missing significant economic opportunities.



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