

MarketView

SE Queensland Residential

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First Quarter 2010

Hot Topics

- Queensland economy to lead the way as recovery strengthens
- Statewide housing starts to return to long-term average
- Brisbane house and unit markets show modest growth in 2009
- Vacancy rates climb as first home buyers move from renting
- Minimal increase in Gold Coast house and unit values for the second year running
- Sunshine Coast median house value slips back

Market Overview

The Australian economy showed surprising resilience over the latter part of 2009. With the threat of a recession, be it technical or otherwise, seemingly passed, the economy heads into 2010 with a much more positive outlook. Government stimulus handouts, the temporary increase in the First Home Owner's Grant and the generational low interest rate setting all helped to support a generally resurgent residential market in 2009. This played a major role in the country avoiding the dreaded recession.

With the effects of the stimulus packages now largely through the system and interest rates climbing towards what is expected to be a neutral setting of between 5.0% and 5.5%, however, 2010 does appear to present a mixed and challenging environment for the residential markets.

The boost to the First Home Owner's Grant did indeed prove significant during 2009, providing support to a recovery in sales volumes, particularly in the sub-\$500,000 bracket, and increases in median house and unit values. While the grant has now returned to pre-boost levels, the ripple effects had begun to spread into the \$500,000 plus market by the end of the year.

Although first home buyers have begun to retreat – in November 2009 the first home buyer percent of dwellings financed had dropped to 22.1% nationally from their mid-2009 highs of above 28% - there is still solid momentum underway in many states which is likely to continue into the first part of 2010 as investors re-emerge. In many ways, however, it appears that while 2009 was characterized by efforts to re-invigorate the housing market, 2010 may well be marked by efforts to slow down the current pace.

Interestingly, residential markets nationally have acted quite uniformly since the onset of the global financial crisis. Rising interest rates, and the varied pace of recovery in individual states, including impacts on employment, are likely to see greater levels of divergence state-by-state emerge in 2010, driven by local economic conditions.

While the Brisbane residential market did show growth during 2009, the increases evident were not as substantial as occurred in most other capital city markets.

House and unit sales volumes recovered somewhat from their 2008 lows, although both measures remained well below the levels witnessed for much of the past decade. The increase in sales volume in 2009 – 12.0% for houses and 9.2% in for units – compared with national increases of 16.4% and 20.1% respectively.

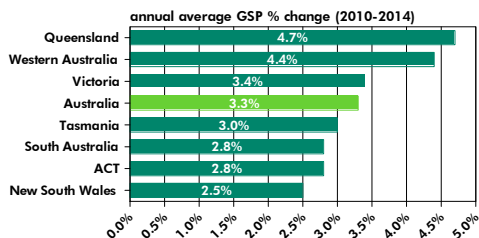
The median house value in Brisbane rose by a modest 5.3% in 2009 to \$471,500 at the December quarter, according to Residex. The median unit value grew by 4.7% to \$362,500. Both growth measures were less than half the 10-year average and were only slightly higher than the 2008 growth figures. While Brisbane's increases were amongst the lowest in the country, unlike a number of other capital city markets, Brisbane's median house and unit values have not recorded a negative annual growth result for more than a decade.

Brisbane's residential vacancy rate has risen noticeably in recent quarters and was approaching 4.0% at the end of 2009. The impact of first home buyers moving from rental accommodation to home ownership has likely been the major driver of the rise. The median house rent in Brisbane rose by just \$5 per week in 2009 to \$365 per week, while the median unit rent rose by \$15 per week to \$345 per week.

The Gold Coast market in 2009 was more subdued compared with Brisbane. Median house values generally increased by around 2.0% while the median unit value rose by just 1.5%. These rates of growth largely repeat the 2008 performance. While sales volumes also picked up, they remain below longer term averages, and in the case of units, as much as 50% below the peak years of 2002 and 2003.

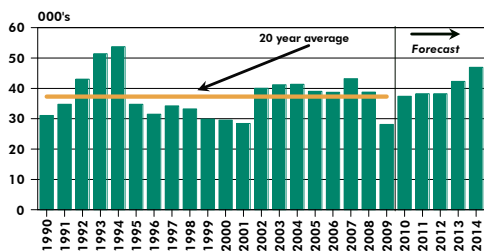
Sunshine Coast houses recorded their first decline in median value in more than a decade in 2009, down by 4.2% to \$466,500. Sales volume recovered slightly in 2009, although still well down on the longer-term average.

Average Annual Economic Growth 2010-2014



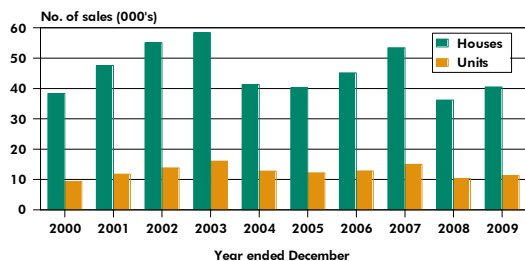
Source: Access Economics (January 2010)

Housing Starts Queensland



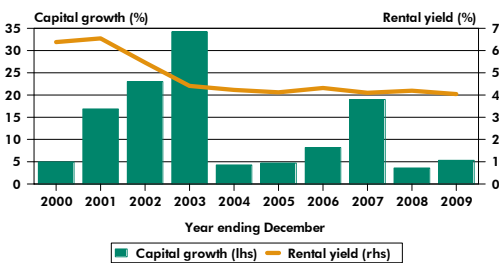
Source: Access Economics - January 2010

Annual Sales Volume Houses and Units, Brisbane



Source : Residex (December Quarter 2009)

Capital Growth and Rental Yield Brisbane Houses



Source : Residex (December Quarter 2009)

Queensland economy to again lead the way

The Queensland economy has been impacted heavily over the past two years by the fallout of the global financial crisis. After a 12-year period where the state economy outgrew the national economy each year, often substantially, Queensland's economic performance dipped marginally below the national growth rate in 2008-09. Gross State Product increased by 0.8% in 2008-09 compared with national growth of 1.0% as key sectors including resources retreated from their pre-crisis boom. The outlook is positive, however. Over the 2010 to 2014 period, the Queensland economy is expected to again lead the way nationally. Access Economics are forecasting, at January 2010, real output growth to average 4.7% per annum over the five-year period, the strongest of all the major states. This compares with the national growth forecast of 3.3% per annum. Recovery is expected to kick in particularly strongly from 2011, with resources again the key driver.

Housing starts set to recover by the end of 2010

The pace of housing construction in Queensland has been hard hit by the global financial crisis, with a lack of finance for developers weighing on the recent pace of construction. That affected the starts significantly in 2009, and will limit gains in 2010 as well. However, Queensland's strong population growth and healthy underlying economic fundamentals will see a pick up in housing construction in coming years, the only questions are its timing and pace. Population demand pressures remain strong, and the availability of finance for development should improve with increasing stabilisation in financial markets. That combination suggests that housing construction should be seeing clear signs of recovery towards the end of 2010. After a very sharp fall of 27.5% in 2009, housing starts may rebound by close to 33% in 2010 and then grow another 2.3% in 2011, lifting housing starts back towards those seen in Victoria.

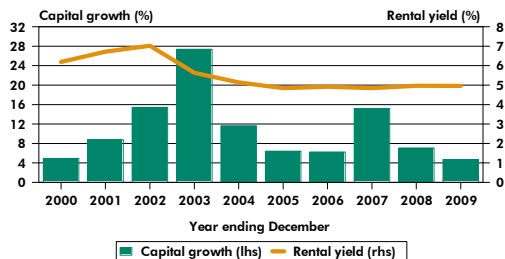
Sales volumes increase but remain below average

Sales volumes for both houses and units in Brisbane during 2009 recovered somewhat from the lows recorded in 2008, although both measures remained well below the levels witnessed for much of the past decade. House sale volume in 2009 totalled 40,502 according to Residex, a 12.0% rise on the 2008 level. These figures compare with an average annual sales volume of 47,500 over the preceding eight years. Unit sales volume totalled 11,283 in 2009, again showing a solid rise, by 9.2%, on the 2008 low. As for houses, however, activity over the past two years has remained well below the preceding eight years average of 13,000 sales per annum. Brisbane was the third most active capital city market nationally behind Sydney and Melbourne. The increase in sales volume, however, was more modest than that evident across most other capital city markets and compared with national sales volume growth of 16.4% for houses and 20.1% for units.

Brisbane median house value increases by 5.3%

The December quarter 2009 median house value for Brisbane, as reported by Residex, rose by 4.2% over the quarter and by 5.3% on an annual basis to \$471,500. This compares with the 3.6% annual growth recorded in 2008. Growth over the past 10-years has averaged 12.0% per annum. Unlike some other markets, such as Sydney, Brisbane house prices have not fallen on an annual basis for more than decade. The Brisbane median value compares with the national median of \$420,500, with the growth figure comparing with national growth of 6.8%. Perth (0.8%) and Hobart (5.2%) were the only two capital city markets to record lower growth rates over 2009. The December quarter growth rate, however, was second only to Darwin. Brisbane's median house rent rose by just \$5 per week in 2009 to reach \$365 per week in the December quarter. As a consequence, rental yield fell to 4.04%, its lowest rate in more than decade and continuing a long-term pattern of falling yield, albeit very gradual since 2003.

Capital Growth and Rental Yield Brisbane Units

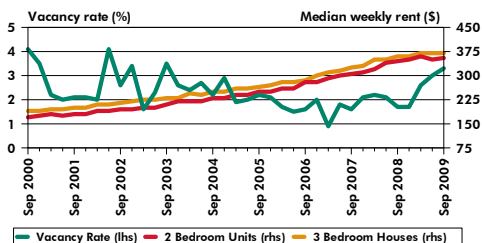


Source : Residex (December Quarter 2009)

Brisbane median unit value shows lowest growth since 2000

Brisbane's median unit value reached \$362,500 at the December quarter 2009 according to Residex. Modest growth of 4.7% occurred during 2009, which was the lowest annual growth result since 2000. The 2009 increase was less than half the 10-year average growth rate of 10.6% per annum and compared with national growth of 6.3% in 2009. Perth was the only capital city market to record a lower rate of growth during 2009, at 4.0%. Brisbane's median unit value is slightly lower than the national median (\$371,500) which contrasts with the Brisbane house median value, which is 21% above the national median. Brisbane's median unit rent continued to rise in 2009 and at the December quarter had reached \$345 per week. This represented a \$15 per week increase over the year. This produced a rental yield of 4.96%. The past 5-years has seen little movement in Brisbane's unit rental yield, fluctuating between 4.84% and 4.97%.

Residential Vacancy Rate & Median Rents, Brisbane

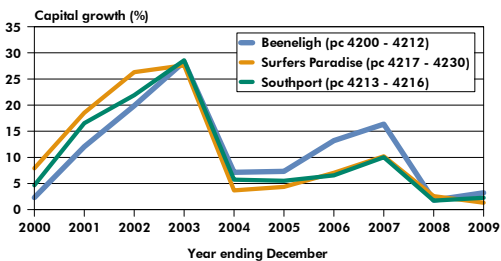


Source : REIA; RTA Queensland

Residential vacancy rate jumps

The Brisbane vacancy rate at the September Quarter was 3.3%, the highest mark across all capital city markets, according to the Real Estate Institute of Australia. The vacancy rate has almost doubled since the December quarter 2008. More detailed data from the Queensland State Government indicates a further rise in vacancy, with their indicator increasing to 3.8% in the December quarter. The inner Brisbane area, within approximately a 5-kilometre radius of the CBD, recorded the highest vacancy rate (4.4%), with the remainder of the Brisbane City LGA at 3.2% and surrounding LGA's at 3.1%. Rental data from the Queensland Residential Tenancies Authority provides further evidence of the slow-down rental growth that occurred in 2009. The median rent for a two-bedroom unit in the Brisbane City LGA increased by just \$5 per week in 2009 to \$355 per week at the December quarter (compared with \$310 per week in 2007). The median rent for a three-bedroom house rose by \$10 per week in 2009 to \$370 per week (compared with \$330 per week in 2007).

Annual Capital Growth Gold Coast Houses

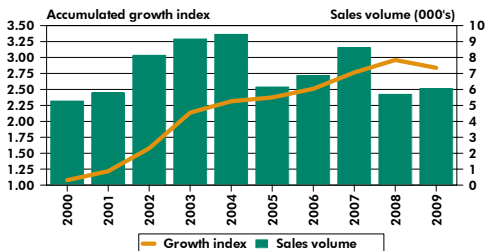


Source : Residex (December Quarter 2009)

Gold Coast growth remains subdued

The Gold Coast has recorded its second year of subdued growth in median value. At the December quarter 2009, the Southport Residex region (postcodes 4213 to 4216) median house value sat at \$506,000, with growth of just 2.3% in 2009 after a 1.7% increase in 2008. The Surfers Paradise region (postcodes 4217 to 4230) recorded a median house value of \$595,000, with growth of 1.4% in 2009 and 2.6% in 2008. The Beenleigh region (postcodes 4200 to 4212) median value sat at \$444,500, with growth of 3.2% in 2009 following on from 1.8% in 2008. Sales volumes did pick up in 2009 in comparison to 2008, by as much as 18% in the case of the Southport region, although volumes were still below the levels recorded in most of the preceding eight years. The Gold Coast's median unit value at the December quarter was \$372,500, with growth of just 1.5% in 2009 following on from 1.9% in 2008. Sales volume rose only slightly, to 5,923, and was still between 30% and 50% below annual sales volumes in each year from 2001 to 2007.

Capital Growth and Sales Volume Sunshine Coast Houses



Source : Residex (December Quarter 2009). Postcodes 4550 to 4599

Sunshine Coast house value drops

The median house value in the Sunshine Coast (postcodes 4550 to 4599 as defined by Residex) recorded its first annual decline in more than a decade in 2009. At the December quarter, the median house value sat at \$466,500, a 4.2% decline over the year. The previous 9-years were all positive, ranging from a low of 2.5% in 2005 to a high of 35.5% in 2003. Sales volume did recover slightly in comparison with the 2008 low, up by 6.3% to 6,048. It was still, however, lower than the aggregates recorded each year from 2002 to 2007, although only slightly so in some years. The median weekly rents at the December quarter was \$375. This generated a rental yield of 4.2%, relatively unchanged from the previous year. Rental yield has, in fact, grown solidly from a low of 3.68% in 2005.

Market Outlook

With the Federal Government's First Home Owner's Grant having returned to its pre-boost levels and three consecutive interest rate rises from October to December 2009, conditions have been set for a mixed and challenging 2010 for the residential sector.

The Reserve Bank of Australia (RBA) surprised most by leaving the official cash rate unchanged at 3.75% at their February 2010 Board meeting, their first of 2010.

In the statement released subsequent to the Board meeting, the RBA highlighted that Australian economic conditions have been stronger than expected. While the effects of the fiscal stimulus on consumer demand has now faded, household finances are being supported by strong labour market conditions and a recovery in net worth. Credit for housing has been expanding at a solid pace and dwelling prices have risen significantly over the past year.

Importantly, the statement identified that interest rates to most borrowers remain lower than average. If economic conditions evolve broadly as expected, it is likely that monetary policy will need to be adjusted further to ensure that inflation remains consistent with the medium term target.

In short, expect further rises to the cash rate in 2010. Most analysts are still suggesting the rate will have returned to a more neutral setting of around 5.0% by the end of 2010.

The Queensland economy has been hard hit by the economic downturn, but as recovery strengthens, good underlying fundamentals are expected to see the State again lead the nation, with Western Australia, as the standout performers economically.

In the Brisbane housing market, the sub-\$500,000 sector appears to have peaked following the surge of first home buyers in 2009. There is little evidence yet of any price retreat, however. The threat of mortgage stress does loom in some quarters, particularly if interest rates continue to rise. There is concern that some buyers may have overextended their capabilities when entering the market in 2009 which may be exposed by higher interest rates in 2010.

The average loan size for first home buyers in Queensland sat below \$250,000 in the first half of 2008. It then rose steadily to a peak of just over \$300,000 in March 2009 and although easing as the higher First Home Owner's Grants were wound back, was still high at \$286,400 by December 2009. The first home buyer share of owner occupier dwelling finance commitments in Queensland increased from a mark around 15% in 2008 to as high 27% in mid-2009

As an indicator of the potential for this issue to grow, Queensland court records show a 20% increase in the number of Queensland properties repossessed in 2009, at 1,638 compared with 1,361 in 2008 and 1,025 in 2007.

The strongest activity now appears to be in the \$500,000 to \$1,000,000 market, especially within a 10-kilometre radius of the Brisbane CBD. This segment is experiencing high sale volumes, rising prices and short marketing periods. The prestige segment of the market (\$1 million plus) remains relatively soft, although with agents reporting increased buyer enquiry in recent months, there are glimmers of hope of improved performance in 2010.

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