Herron Todd White

Independent Property Advisors

Westpac

PROPERTY REPORT

Queensland

Introduction

The Australian property market is experiencing mixed fortunes, and while 'upgraders' have taken over from first home buyers in many areas, the state of markets around the country is far from uniform.

Buyers in many areas remain hesitant following a string of interest rate rises with the possibility of more to come. Concerns over European debt woes, and the possibility of wider economic fallout also weighs heavily on the market.

In some areas where financial impact of tourism is particularly important, for example coastal Queensland and the south coast of West Australia, property markets remain generally subdued post the Global Financial Crisis.

Friction between the Federal Government and the mining industry had a negative impact on property markets in resource-rich regions, with many buyers adopting a 'wait and see' approach. However, with a more conciliatory new Prime Minister, and a lower rate of mining tax than originally proposed, property markets in mining regions may strengthen.

'Upgraders' fill the gap

One of the key features of today's market is a marked slowdown in first home buyer activity following the cutback in government incentives at the end of 2009. In many parts of Australia, prices at the low end of the market rose steeply throughout 2008/09 reflecting increased activity among first home buyers. In some cases prices rose beyond the value of the additional incentives, however, without continued strong demand from first home buyers, values at the lower end of the market could remain static for some time.

Upgraders are tending to fill the gap left by first timers, buoyed by increased home equity – the result of several years of strong price growth. The challenge for many upgraders may be selling their existing home. This is especially the case for owner occupiers whose properties are in the lower price ranges that traditionally appeal to first home buyers.

Yields rising

One positive outcome of a cooler market is an increase in rental yields through lower prices. This may see investors take the lead as the main market driver in the months ahead, particularly if home affordability worsens as a result of future interest rate rises.

Brendon Hulcombe
Chief Executive Officer, Herron Todd White

Queensland

The fortunes of Queensland's property market remain mixed. The tourism industry is struggling to return to normal conditions, while buyers in areas dependent on mining activity remain concerned about the impact of potential changes to mining industry taxation.

The winding down of first home buyer incentives has seen upgraders take over as the driving force in many parts of Queensland. Nonetheless, buyers remain hesitant in a market characterised by uncertainty over employment and interest rates.

Brisbane

There was some heated action in the first quarter of 2010 among Brisbane's upgraders – especially in inner city suburbs located within 8 kilometres of the CBD. However, April and May saw a marked fall in activity across all market segments as buyers remain cautious about the state of the economy and the direction of interest rates.

Subdued activity has seen fringe suburbs such as Deception Bay and Rothwell fall in value by around 5% over the quarter. This has increased yields, and Deception Bay is currently returning gross yields of approximately 5%. Mid-ring suburbs located 5-10 kilometres from the CBD are achieving gross yields in the order of 3.5% - 4%, reflecting increased vacancies and decreased demand.

The highest valuation for the period was achieved by a Clayfield home, which sold in March for $5.8 million. A New Farm unit in the recently completed 'Aquila' complex sold for $5.5 million – the highest valuation for an apartment.

The lowest house price for the quarter was $250,000 for a 1970 Hardiplank house at Deception Bay. A 2-bedroom Caboolture unit sold for $177,000 – the lowest unit price.

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Gold Coast

Over the past six months, the middle market valued between $500,000 and $1 million has seen significant action from upgraders eager to take advantage of good buying opportunities. However Gold Coast values generally have remained flat as a result of poor employment opportunities and slowing population growth. This is also impacting yields, which have fallen to around 3%, down from 5% a decade ago.

The highest house price for the quarter was achieved by an Isle of Capri home valued at $3.5 million. Units in Surfers Paradise and Broadbeach are still achieving valuations of up to $2 million.

By contrast, house values are cheapest in Upper Coomera ($300,000) and Nerang ($340,000). Southport still offers units valued at around $200,000.

Sunshine Coast

Strong growth in values over recent years is seeing upgraders take over as the most active sector of the Sunshine Coast market. Most upgraders are looking at newer/larger dwellings in estates or relocating closer to the beach. Nonetheless, sale volumes are low.

Prestige properties are delivering low yields of 1% - 3%. The highest yields, ranging from 4.5% - 6.5% tend to be found among lower priced 2-bedroom units close to beaches and amenities, often located in inland areas like Nambour and other railway townships such as Palmwoods and Landsborough.

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Regional Queensland

In far north Queensland, upgraders have taken over as the main buyer segment, though only by default. The Cairns region is starting to experience a recovery in tourism numbers, but the pace of recovery is slow. As a result, the property market remains subdued. First home buyers have dropped away and investor activity is limited.

House prices in Cairns currently range from about $260,000 through to over $600,000. Softening rents and static values have pushed rental yields to 4.5%, down from around 5% in December 2008.

The Mackay economy is heavily reliant on the fortunes of the Bowen Basin coal industry, and there are concerns that increases in mining tax could impact the region's property values.

Mackay buyers remain active for properties priced up to $375,000, however beyond this the market is stable. Mackay has one of the highest median house values for regional Queensland, and this can make an upgrade financially challenging.

In the Bundaberg region, upgraders appear to be taking over from first home buyers as the reductions in government financial incentives for first home buyers take effect.

Values and rental yields in Bundaberg have remained static, though the bottom end of the market is delivering stronger yields.

Uncertainty in the mining industry is also affecting Rockhampton's property market. Investors can expect a gross yield of about 4% or around 6% - 7% in Emerald. Small mining towns such as Dysart and Moranbah are yielding about 10%.

Source: Herron Todd White

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