

The State We're In



Herriots
Certified Practising Valuers

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Issue 30 May 2006

Queensland Market Review

The figures for this reporting period generally show modest increases in sale prices in most areas with varying volume numbers affected to some extent by the holiday season and a continued cooling of buyer and seller activity as the market settles into a more pronounced post boom calm.

The underlying strength of the property that has prevailed for so long now, may soften or show signs of stagnation following the announcement by the Reserve Bank on 8th May 2006 of a 0.25% rise in the official cash rate to 5.75%, which constitutes its highest level since 2001. Even with a 0.25% rise in home loan rates, it is a far cry from rates experienced in the 1980's and 1990's. Simply put, home loan lending rates (particularly with discounts for the wide range of products offered by the mainstream lenders), is still most reasonable.

In Australia the average Home loan mortgage is just a touch under \$220,000 so the Reserve Bank decision followed by a general 'flow on' by the trading banks will mean an increase in repayments of approximately \$38.00 per month for a loan of that value.

The increase will impose pressure upon those who have tight budgets and meagre reserves to accommodate unforeseen costs or fluctuating income levels. Rather than sustaining a continued healthy level of borrowing for home purchase, we may see a period of re-financing as mortgagors seek a better more manageable deal. Credit cards and personal loans that were affordable before the rise, could now necessitate an application for a consolidation loan to relieve pressure on borrowers with a low uncommitted monthly income.

In this issue of The State We're in, a new reporting format has been adopted as an interim arrangement pending a revamp of the publication which should better reflect reporting on relevant matters directly impacting upon the property market in Queensland that affects us all.

The State we're in, will attempt to report in a very readable manner on important issues that arise in all the regional areas that we service. It is intended to place greater emphasis upon issues that have been the subject of requests from our readers. In this regard. I invite you to contact the Manager of Research, Chris Simpson to convey any thoughts or suggestions that you believe appropriate for inclusion in these pages.

International developments are continuing to provide stimulus to growth in Australia. The world economy is growing at an above-average pace for the fourth successive year and, significantly, forecasts have recently been revised upwards. Commodity prices have been increasing strongly for some time, and they have risen further in the year to date. This suggests a strengthening in the outlook for Australia's export earnings, with consequent expansionary effects on incomes and spending.

In Australia, domestic spending has been growing at a solid pace recently and prevailing conditions suggest that this is likely to continue. High profitability and rising share prices are indicative of a favourable business environment in which investment growth is likely to remain strong. There are also signs that the dampening effects of household balance-sheet adjustment on consumer spending are starting to wane.

Recent trends in credit growth indicate that households and businesses have continued to find it attractive to borrow at prevailing interest rates. After touching a low point in the September quarter, the growth of household credit has picked up over the two most recent quarters. Business credit growth has continued to trend upwards. A factor that is likely to have contributed to the overall strength of credit growth has been the continuing compression of lending margins by financial intermediaries over recent years, reflecting competition among lenders. As a consequence, although the cash rate has been close to its historical average, interest rates paid by borrowers have remained below average.

These domestic and international trends have added to inflationary pressures in an economy that has been operating for some time with rather limited spare capacity and low unemployment. Wages growth, though not accelerating further recently, is higher than it was a year ago, and businesses are continuing to report that suitable labour is scarce. Raw materials costs continued to increase strongly in the March quarter, reflecting the general strength in global commodity prices. Consumer price inflation has picked up to around 3 per cent in recent quarters. While this partly reflected rising fuel costs, underlying consumer price inflation also increased in the March quarter, to around 2¾ per cent, a rate it had not been expected to reach until the second half of the year.

I.G. Herriot
Managing Partner

Will The Tunnel Make Or Break Brisbane?

Australian motorists do not readily take to new traffic tunnels beyond the initial curiosity trip by Dad, Mum and the kids in the family car. No clearer is this borne out than the recent attempts by the Tunnel authority and the Sydney City Council to encourage patronage of the Sydney, Cross City Tunnel by reluctant and skeptical commuters.

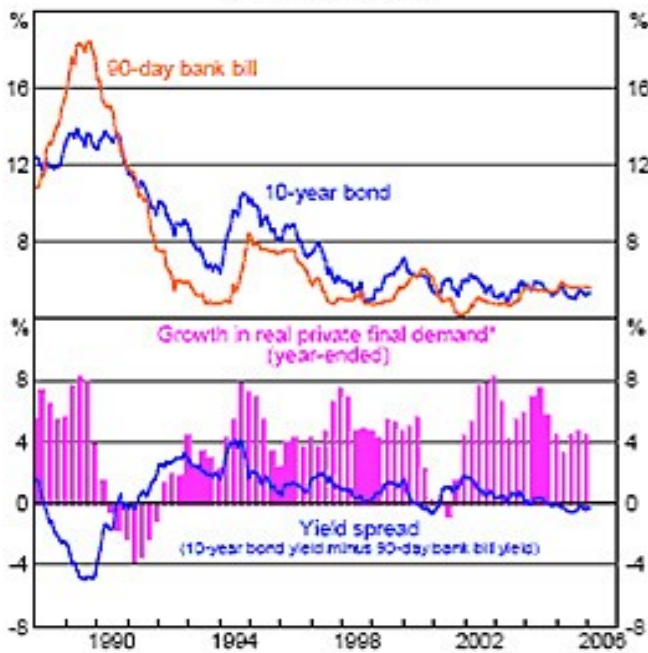
It seems that these clever (or misguided) traffic Engineers created some exotic road diversions to force motorists into using the tunnel. Despite these somewhat devious and heavy handed actions, commuters largely boycotted the tunnel, resulting in a major rethink by administrators and some necessary tinkering with tariffs. Many Sydney commuters thumbed their collective noses at the project and bypassed the Bypass. The big questions is now , was the project ill-conceived , and how will a short fall in patronage impact on the City of Sydney and of course those who invested so heavily in the project.

What's the relevance to Queensland? Well, simply put, the recently announced decision to proceed with construction of the North-South Brisbane Bypass Tunnel will cost a minimum of \$2 Billion (to-days dollars) without cost blowouts (and aren't they the norm with large Aussie infrastructure projects), will the travelling public pay, the per trip cost of \$4.10 for a domestic user. Already people are saying quite vehemently, that the cost of construction and regular use is prohibitive. Will this bold traffic engineering project vastly improve Brisbane's traffic woes? will it increase the attraction of travel to and from the City ? will it place unforeseen and untenable pressure on alternative routes, how will it affect the property market and the amenity of inner city living.

Long term Queensland Premier, Sir Joh Bjelke Petersen took considerable comfort and a measure of personal satisfaction in the constant presence of large construction cranes on Brisbane's skyline, during his term in office, will the same warm and agreeable feeling be enjoyed by Brisbane's civic fathers when the 'big black hole' develops later this year. Stay tuned.



Interest Rates



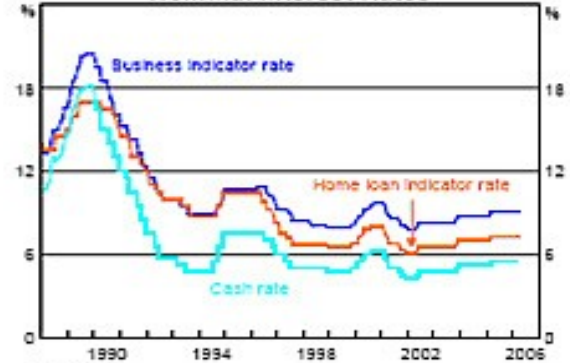
* Excludes the effect of transfers between the private and other sectors
Sources: ABS; RBA

Cash Rate



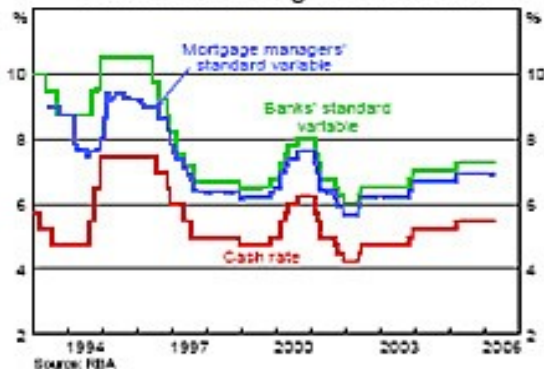
* Real cash rate calculated using weighted median inflation
Source: RBA

Nominal Interest Rates



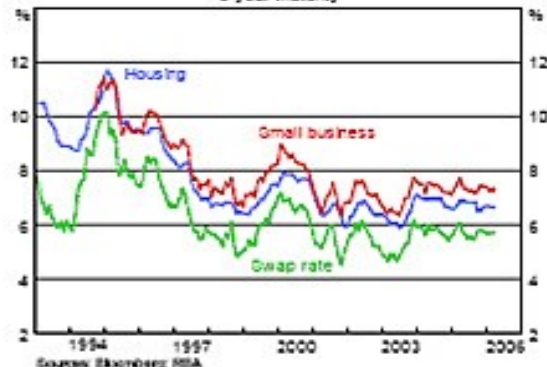
Source: RBA

Australian Housing Interest Rates



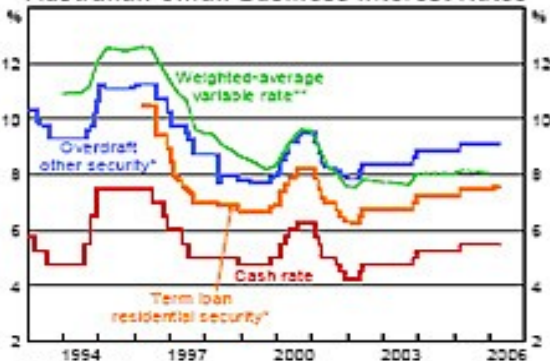
Source: RBA

Australian Fixed-term Interest Rates 3-year maturity



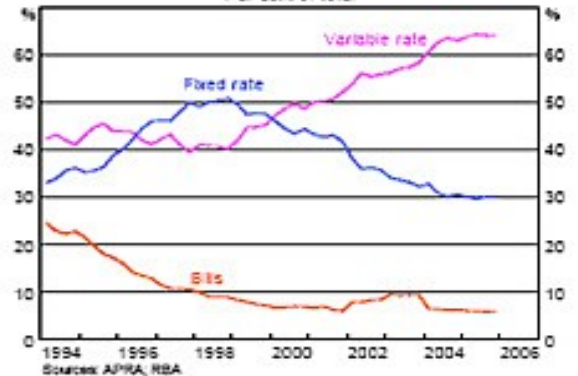
Source: Skonberg; RBA

Australian Small Business Interest Rates



* Indicator rate
** Including risk margin
Source: RBA

Composition of Australian Small Business Loans Per cent of total



Sources: APRA, RBA

BRISBANE WATERFRONT DEVELOPMENT SITE SELLS FOR \$45.1 million

A former service station site on Brisbane's river front at Morningside is believed to have been sold to the Trinity Consolidated Group and joint venture partner, Consolidated Partners for a cool \$45.1 million.

The site was previously used as a Mobil service station. It is proposed that the land will be the subject of a \$300 million industrial and commercial re-development over a ten year period.

MACKAY CONTINUES TO PROSPER

Major growth centre Mackay continues to make the news with the announcement that the northern city is soon to have its first international hotel.

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ABS FIGURES

Housing finance:

On a seasonally adjusted basis, the QLD value of owner/occupied housing loan commitments for February 2006 was \$2.83 billion which was a 1.1% increase over the previous reporting period

First Home Buyer Commitments:

Commitments by First Home Buyers in February 2006 on a nationwide basis was 17.9% which was a drop of 0.8% over the previous reporting period. This is one of the highest percentages recorded over the past four years.

The Average Loan:

The national average loan size remained constant at \$216,900. The average loan in QLD was \$222,000, which was second only to NSW at \$248,200.

Re-financing:

The value of re-financing of established dwellings amounted to 31.5% of established dwelling loans, compared to 30.1% in January.

Unemployment rate:

The unemployment rate for March 2006 was 5.0% down from 5.2% in February.

Consumer price Index:

Year to December 2005 was 2.8%

Retail sales:

Australian retail sales in February 2006 were up by 4.7% on February 2005, and the trend estimate for February 2006 showed an increase of 0.5% over January 2006.

Chris Simpson CPV AAP I
Manager- Research

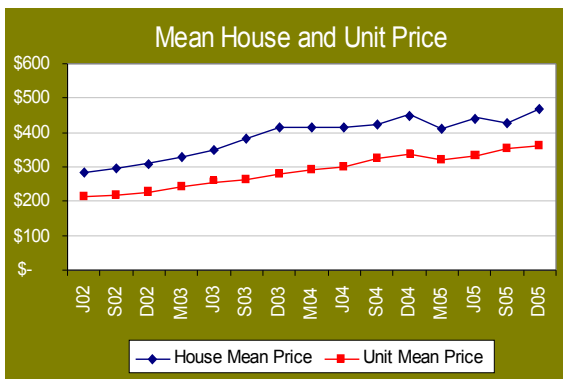
BRISBANE NORTH

Steady demand

The partner of Herriots Brisbane North office, Mr Rod Hart and his team report that the northern Brisbane suburbs have experienced a growing steady demand over the reporting period. Some selling agents are reporting a scarcity of property listings which will serve to feed continuing modest rises in property prices across the board unless the economy takes a down-turn.

It appears that areas up to 20 kilometres distant from Brisbane's CBD are most affected by this steady demand. Areas such as Kallangur, Petrie and other locations 30 – 40 kilometres out are not experiencing the same level of buyer interest.

Unit sales in the region within 10 -12 kilometres of the CBD continue to be steady.



DECEMBER QUARTER 2005

Houses		Units	
\$469,000	1,809	\$360,000	1,234
Mean Price	Sales	Mean Price	Sales
10.08%	3.8%	2.4%	3.4%



New unit development in Nundah



Emporium apartments in Fortitude Valley

CABOOLTURE/PINE RIVERS

Market remains steady

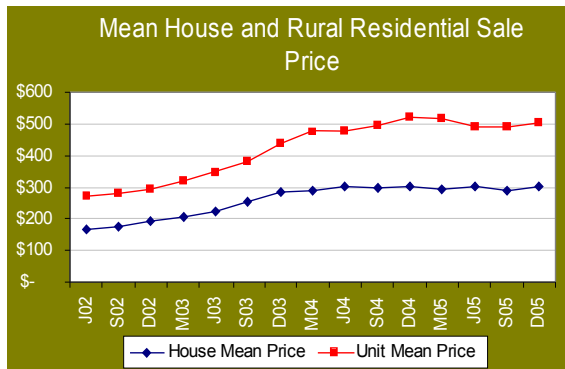
The figures for the region seem to indicate a continued trend of urban sprawl as the cheaper suburbs become more buyer friendly.

Dwelling sales volumes and price rises appear consistent with advice received from agents who are reporting an improved listing rate and higher conversion rate per inspection.

The Rural /Residential market remains steady with the listing volume up considerably due to poor recent listing numbers.

Despite the recent political stoush over the Caboolture Hospital, the region is enjoying a modest and pleasing real estate selling climate which is probably due entirely to the 'ripple affect' caused by those buyers seeking property in their price range just beyond the higher priced areas yet close enough to the City.

Mr Mark Lester and the Herriots Valuers at Caboolture will continue to monitor their local situation with great interest as closer North Brisbane suburbs experience price escalations pushing some buyers from the marketplace into more attractively priced areas.



DECEMBER QUARTER 2005

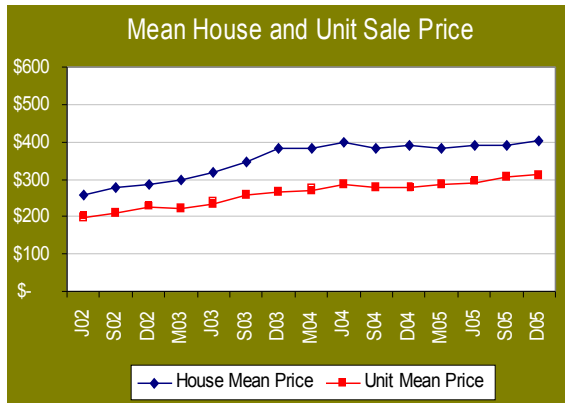
HOUSES		RURAL RESIDENTIAL	
\$304,000 Mean Price	1,348 Sales	\$504,500 Mean Price	155 Sales
4.8%	6.3%	2.7%	17.4%

BRISBANE SOUTH

Continuing to perform

Mr Andrew Mullins Partner of the Brisbane South office reports that the local market continues to perform in a steady manner. Selling prices and stocks of good marketable properties have shown a modest increase over the reporting period.

The figures quoted are in accord with comment by local agents, some who bemoan the end of boom selling conditions, but appreciate a more ordered listing and sale process. Andrew is of the view that their market will continue to firm modestly in the short to medium term with the proviso that interest rates do not experience any sharp upward movement.



DECEMBER QUARTER 2005

HOUSES		UNITS	
\$403,000 Mean Price	2,315 Sales	\$308,000 Mean Price	833 Sales
↑	↑	↑	↑
2.8%	2.2%	1.3%	0.7%

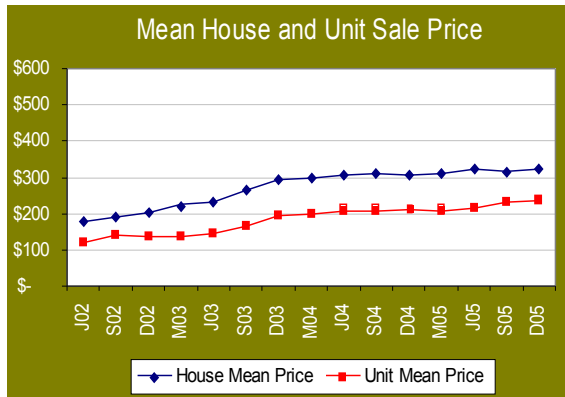
REDLAND & LOGAN

Steady buyer interest





In the last edition of "The State We're In' it was reported that, the volume of home listings was down by a margin of 12.1%. This situation improved considerably as the figures show.

It is interesting to note that a decrease in volume of unit sales by 11.6% prevailed. Despite the lack of supply prices only kicked by 0.6%

Again this area continues to attract steady buyer interest with agents reporting robust first home buyer enquiry.



DECEMBER QUARTER 2005

HOUSES		UNITS	
\$323,000 Mean Price	1,538 Sales	\$234,000 Mean Price	305 Sales
			
2.5%	1.2%	0.6%	11.6%

GOLD COAST

Overall Healthy Market

Herriot's Gold Coast based co-partner Robert Sayers comments that "the Gold Coast market has been fickle for the past 6 months with value levels being steady in most suburbs. The general feedback from the Gold Coast team and local agents, is that the lower end of the market (up to \$350,000) is going well, as is the top end of the market (above \$900,000) but the middle market (350-900,000) seems to be slow".

"Obviously any property which is in a good location and priced appropriately will sell in almost any market but the typical mid-value property is slow to move and is verging on something akin to that encountered in a "buyers" market.

The lower end market is being targeted by investors and first home buyers.





Generally the market on the Gold Coast tends to be irregular, and there have been reports or comments from agents of some upper end vendors reducing their asking prices by as much as \$2-300,000.

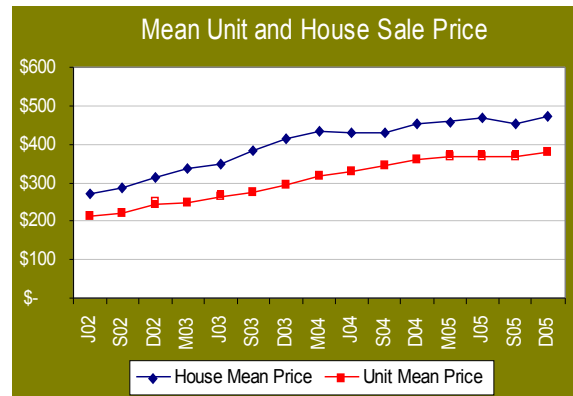
Overall the market is healthy and values are statistically moving in the right direction with the eastern coastal suburbs being more in demand than the hinterland.



Southport Central – the changing face of Southport.

DECEMBER QUARTER 2005

HOUSES		UNITS	
\$473,000	1,860	\$381,000	2,229
Mean Price	Sales	Mean Price	Sales
			
4.4%	0.3%	3.6%	2.9%



Ephrim Island – Fluctuating values

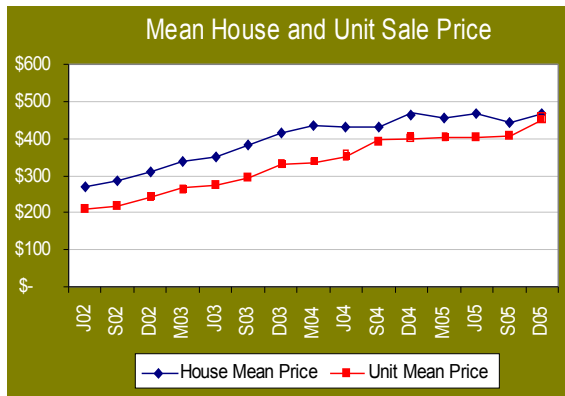
SUNSHINE COAST

Buyer confidence returning

Herriot's Sunshine Coast partner Mr John Rhule, reports that the pre-Christmas period saw buyer interest begin to appreciate, particularly in the lower end of the market. (\$200,000 - \$350,000). Despite this, the market is still very price sensitive. If a seller meets the market and prices the property correctly, they can expect a quick sale, if it is overpriced by as little as \$20,000, they may not even get people through the door for an inspection. Statistics seem to indicate buyer confidence is returning, but the majority of home purchasers still seem to be owner occupiers, rather than investors.

The figures for unit sales are surprising, they are possibly underpinned by the fact that a number of new developments have settled during the reporting period which has helped maintain such a high average. However, buyers can still buy older stock in good locations at attractive prices.

I don't feel there is much short to medium term gain available for unit purchasers at the values quoted in the figures. These figures have been somewhat distorted by investor stock purchased 'off the plan' over two years ago when things were really pumping" he said.



DECEMBER QUARTER 2005

HOUSES		UNITS	
\$468,000 Mean Price	1,159 Sales	\$450,000 Mean Price	714 Sales
6.1%	6.9%	10.6%	3.2%



Miniyama Waterfront



Kawana Island

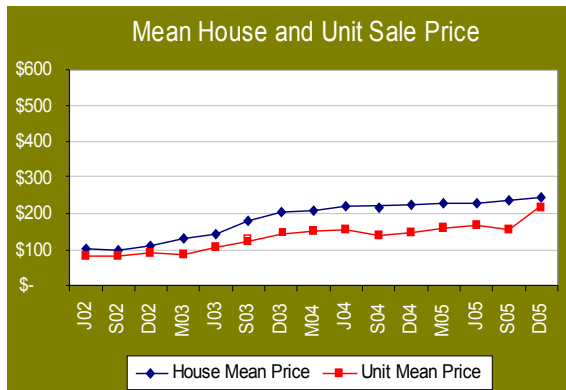
IPSWICH

Rock solid sales

Herriot's Ipswich office reports a continuing trend of rock solid sales figures with diminishing stocks of suitable property. This region has a similarity to that of the Caboolture area with buyers seeking property further out from the City at more manageable prices.

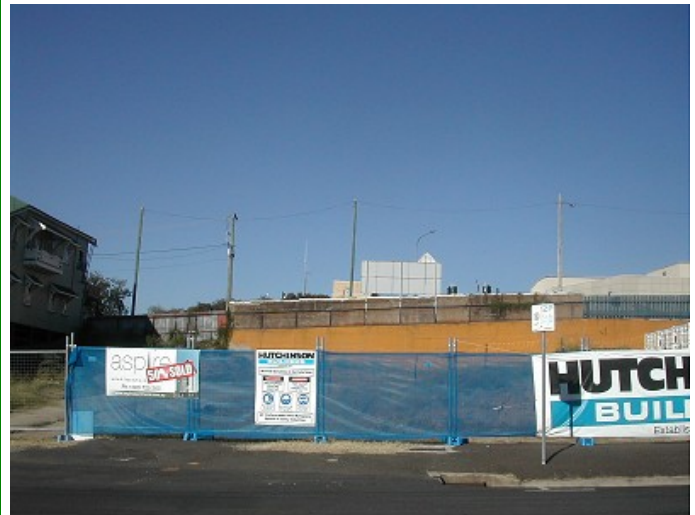
The figures quoted for unit sales are dramatically skewed by the inclusion of sales from the prestige 'Brook water' unit development.

The Ipswich market is otherwise in good shape but in need of increased quality listings.



DECEMBER QUARTER 2005

HOUSES		UNITS*	
\$246,000	721	\$218,000	57
Mean Price	Sales	Mean Price	Sales
4.4%	9.3%	39.7%	14.9%



Aspire Apartments, Ipswich's first proposed hi-rise residential tower



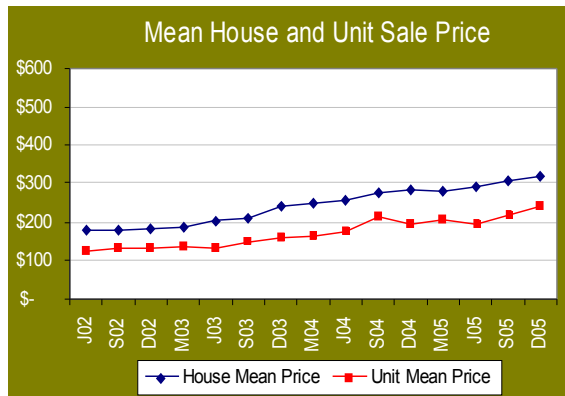
Riverlink Ipswich will contain a homemaker centre, factory outlets and retail outlets.

Market Stable

Herriot's Cairns/Townsville office partner Natalie Bond commented that the figures stated, reflect a slight slowing in the market in terms of activity. However it is promising to see that prices have remained stable-buoyant which reflects the confidence that many investors and owner/occupiers have in the Cairns market. Realistically priced properties are selling relatively quickly at present i.e. within a four week marketing period.

Building activity has slowed and this situation will compound due to post Cyclone Larry emergency reconstruction operations and the heavy demand on a limited supply of trades.

The weather conditions of the past month (Cyclone Larry which caused damage to Cairns and Cyclone Monica which caused flooding) have definitely had considerable impact upon normal market activity. However the upside has been decreased vacancy rates with many workers and Innisfail residents coming to Cairns for accommodation. In the long term I can see the cyclone having a positive affect on the Cairns market and in particular, the Innisfail market as the rebuilding effort continues she said.



DECEMBER QUARTER 2005

HOUSES		UNITS	
\$318,000 Mean Price	668 Sales	\$241,000 Mean Price	492 Sales
3.2%	10.6%	9.9%	14.1%



Damage from cyclone Larry.

