

# BIS SHRAPNEL FORECASTS RESIDENTIAL RECOVERY

Despite the capitals recording a decline in median house prices in the year to March 2011, economic forecaster BIS Shrapnel is not expecting a property price crash. In fact it is forecasting steady prices through 2011, with some capital cities even showing moderate price growth over the following two years to 2013.

IN its Residential Property Prospects, 2011 to 2014 report, it notes that the 2010-11 residential market was hit by a 'perfect storm' of falling first-home buyer numbers – which flowed through to weaker 'up-grader' demand, stalling economic conditions and increases in interest rates.

However, unlike other market commentary, BIS Shrapnel senior manager and study author, Angie Zigomanis, is expecting the situation to improve from 2011-12.

"Economic growth is forecast to regain traction through 2011, and continue to accelerate in 2012 and 2013 as resources investment flows through to the rest of the economy," says Zigomanis.

"Strengthening employment growth – the unemployment rate is forecast to fall below four per cent in 2013 – will also see net overseas migration inflows turn around, and the underlying demand for new dwellings begin to rise.

"With new dwelling starts currently declining, the corresponding fall in completions means the underlying deficiency of dwellings nationally will increase. This will underpin the strength of residential conditions, causing rental markets to tighten and rental growth to pick up, particularly in those markets where it has been weakest in the last couple of years."

The Brisbane residential property market has arguably been the weakest of the state capitals, with the forecast median house price of \$440,000 in June 2011 representing a 4 per cent decline for the year.

Strong growth in house prices up to 2008 has also impacted on affordability relative to the other eastern state capitals. As a result, underlying demand in the Queensland market has been weakened by lower overseas and interstate migration inflows that have fallen to long term lows.

New dwelling construction in Queensland has collapsed back to pre-GFC levels

and while BIS Shrapnel estimates the Queensland residential market is roughly in balance, the decline in supply will result in a rising dwelling deficiency. This will see vacancy rates tighten to below the balanced market rate of 3 per cent and underpin a recovery in rental growth.

"The next round of investment in new resource projects is expected to commence in 2011, economic conditions are also forecast to rapidly improve, and the ensuing employment and income growth will create a greater level of purchaser confidence," says Zigomanis.

"As a result, a mild improvement in prices is forecast in 2011/12, and this will pick up in 2012/13 as the economic upturn gains traction and the underlying dwelling deficiency becomes more pronounced. Nevertheless, the impact of rising interest rates will continue to dampen the magnitude of price growth, with a total rise of 15 per cent forecast over the three years to 2014, representing an average rise of 4.7 per cent per annum."