Matusik Missive – a year of two halves

19th January 2011

Back at work after a very surreal week indeed – the "To Do" list left on my desk last Tuesday seems somewhat irrelevant now.

The Queensland flood is a game changer, which will at least place a temporary hold on the normal market dynamics and potentially alter Brisbane's urban landscape. Last year many readers thought my weekly blusters were too bearish, but I was trying to report on reality rather than writing what some wanted to hear.

Now, without being too much of a hypocrite, things have changed and a more optimistic tone is warranted. As noted last week, way too much of the flood commentary is overly negative.

Please note that the flood's true impact is a watching brief, but there are things that I think need to be said, some of which are not being commented upon (yet) in the mainstream media.

- This is a year of two halves; business will be hard hit for the next three to six months, after which things should improve and markedly. Assuming that most legitimate insurance claims come through, the Queensland economy is likely to be stronger during calendar 2011 than would have been the case without the flood. Yes, you have read that right!

  Next year and beyond looks even better! We just have to get through the next three months or so.

- Interest rates could fall and by 0.25% in coming months, correcting the unnecessary hike last November. Remember, other parts of the country are now flooding too. Rates could stay low for much of this year, despite lifts in headline inflation. The underlying rate of inflation will rise, but I think not persistently enough to warrant a rate rise.

- The 28,000 properties affected represent around 2% of the total housing stock in the wider area. Those owner-occupied properties that were totally inundated, but away from the Brisbane River, could see substantial drops in value if they try and sell prior to being completely restored. Putting an actual figure on the drop is near impossible at present and those doing such (i.e. declines of up to 50%) should be challenged as to how they are arriving at such. There are few lessons to be learnt from 1974 in this regard.

- Whilst a quarter of the 850-odd houses on the Brisbane River were flooded, this property is tightly held and most owners are likely to renovate and stay put. Despite claims of Armageddon, values along the Brisbane River, I don't think, are likely to change much.

- In addition, just 1.5% of the securitised mortgages across Queensland have been affected. We expect end values across SEQ to drop between 5% and 8% as a result; much of this in the first half of this year, with most of these losses potentially being regained during financial 2012. We were forecasting a 5% decline in values for the first half of 2011 prior to the flood anyway.

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- The real uncertainty involves inundated investment property, with up to 10,000 households (our estimate) now seeking temporary accommodation. This, coupled with the annual influx of tertiary students, is already pushing rents upwards. In and around the flooded areas, rents are likely to rise by as much as 10%. But how far this rental pressure will spread is questionable, as there are close to 25,000 properties available to rent across the state, most of which are in SEQ. Those investors without landlord insurance might elect to sell their properties, which presents an opportunity for those willing to take a risk. A mass investor sell-off, however, could have a marked negative impact on values across the city, making our 5% to 8% very bullish. Hopefully, the financial institutions appreciate this predicament.

- Whilst there will be calls to "future proof" the south east corner via more and better infrastructure and changes to management, warning systems and evacuation plans, I fear that some of the changes imposed will be excessive. Remember, 98% of the homes in the region didn't flood. We need "function over form" – that means the right type of development, levee banks, and more river crossings, more appropriate stormwater drains and no doubt another dam or two - some of which mightn't look as nice as a park or a mangrove-lined riverfront and we might need to displace a lungfish or two, but them's the breaks.

- We also need to plan for floods and not try to totally mitigate against them. Brisbane will continue to flood and there is really little we can do about that. What we need is an accurate national flood mapping scheme, which provides property owners with certainty and allows insurance policies to be properly priced. Also, all mortgage holders (and body corporates) need to hold the appropriate insurance, without which, funding cannot be secured.

- Building forms in flood-prone areas need to change – apartment complexes perhaps shouldn't have basement parking (yes, they might now be taller) and new detached homes might need to be triple storey, with the bottom level being inhabitable. Some properties, as is already the case in Brisbane, need to be bought back as they flood somewhat frequently, but to totally blackball all new development in a potentially floodable area is a gross overreaction. Most of the newly developed areas along the Brisbane River didn't flood last week and if they did, there was limited real impact.

A much smarter man than I, told me last week that those affected will try to rebuild their lost wealth, which in time will generate demand in retail, construction and other labour intensive industries, resulting in a stronger Queensland economy (again, in time), than otherwise would have been the case.

Newcastle's rebound after the 1989 earthquake was remarkable, surprising many - some of whom had claimed that the city was all but finished. Once the insurance money starts to roll in and the rebuild starts in earnest, south east Queensland is likely to follow a similar trajectory.

Chins up!

Michael Matusik