

TREASURY EXECUTIVE MINUTE

Minute No.

20 January 2011

Deputy Prime Minister and Treasurer

IMPACT OF THE QUEENSLAND FLOODS ON HOUSE PRICES AND RENTS

Timing: At your convenience.

Recommendation/Issue:

- That you note this briefing.

Noted

Signature:/...../2011

KEY POINTS

- There has been media speculation that the substantial damage to residential buildings in the recent Brisbane floods will adversely affect house prices and drive up rents. Our initial analysis suggests that the impact on house prices is likely to be modest, with the potential for some increase in rents.
- The experience in the aftermath of the 1974 Brisbane flood indicates no evident causation from a major flooding event to house prices and rents.
 - Brisbane's house prices fell in the March quarter of 1974, however this was similar to the fall observed in Sydney and Melbourne in the same quarter. Brisbane's house prices in fact turned around in the June quarter of 1974 and commenced an upward trend.
- However, the higher proportion of households affected in the recent floods, and the significantly larger number of houses inundated, means that the predictive value of the 1974 data is unclear.
 - The 1974 flood mainly affected the greater Brisbane area, with around 3 per cent of dwellings, or 8,500 homes, inundated.
 - The recent floods in Queensland affected 3.7 per cent of dwellings in Brisbane, hitting particularly waterfront properties in low lying areas. The Queensland Government has estimated that around 28,000 homes need to be completely rebuilt .
- Nevertheless, the data suggest that the impacts are likely to be less than speculated. The recent state of Brisbane's housing market also suggests that there may be only a relatively small impact on house prices in the near term.
 - Brisbane's housing market has performed strongly in past years, growing at an average rate of almost 11 per cent per year since 2000. This was above the national average of 9.2 per cent, and only growth in Perth and Melbourne was higher. Despite a recent slowdown, Brisbane house prices remain at a historically high level.
 - The flood-affected riverside suburbs in Brisbane largely represent the top end of the housing market, where house prices exceed Brisbane's median house price. Therefore,

flood damage to the top end of the housing market is unlikely to affect Brisbane's median house price.

- The underlying demand for dwellings in Brisbane accompanied by population growth should continue to support house prices.
- There is the potential for a greater impact on rents in Brisbane in the short term, given recent indicators, than was evident in the wake of the 1974 floods.
 - The CPI rent index for Brisbane went up by around 9 per cent through the year in the March and June quarters of 1974, which was within a normal range compared to rent growth before and after the floods. An increase of this magnitude was also observed in Sydney and Melbourne.
 - Brisbane's rent has grown at an average rate of almost 5 per cent per year in the past decade. This is above the national average of 3.9 per cent, and higher than all other major capital cities except Canberra.
 - Where flood-affected residents seek alternative short-term accommodation, this will add to already existing rental demand and is likely to put upward pressure on rental prices in the short term.

[Section 22]

Manager

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