



9 October 2017

Sydney housing market starting to slow: will Brisbane benefit?

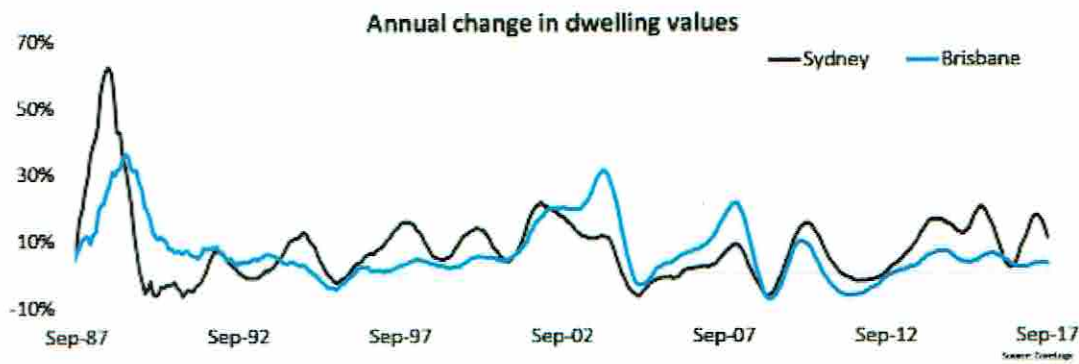


The Sydney housing market is starting to slow following more than five years of strong increases in dwelling values.

As the Sydney market slows there could be some upside for other housing markets where capital gains have been more sustainable and rental yields are higher.

Australia's third largest city, Brisbane, has recently garnered more attention as a candidate for improved housing market conditions.

In this week's blog we look at the historic relationship between housing market growth in Sydney and Brisbane in order to determine whether the slowdown in Sydney could translate into an acceleration in Brisbane.

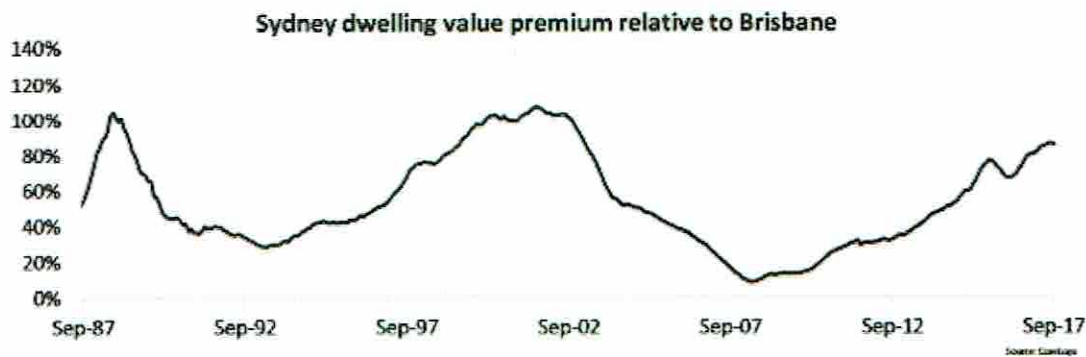


The 30 year annual change chart above tends to indicate that after a surge in Sydney dwelling values Brisbane has followed suit thereafter.

Following Sydney dwelling value growth peaking at 61.7% p.a. in August 1988, Brisbane dwelling value growth peaked at an annual rate of 35.3% in February 1989.

Annual growth in Sydney dwelling values also peaked in January 2002 at 20.8% with Brisbane's rate of growth not peaking until December 2003 at 30.7%.

Keep in mind that outside of these two clear examples, a rise in Sydney value growth has not necessarily been met with a rise in Brisbane (or vice versa).



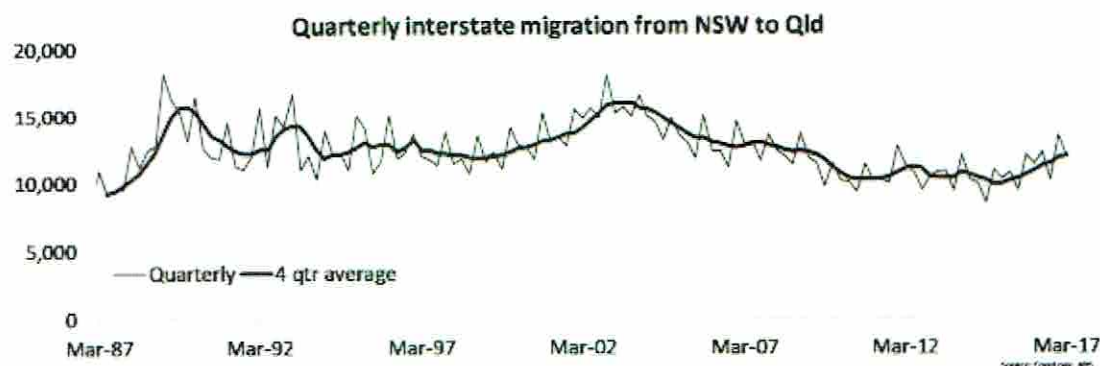
What the growth of Sydney values in 1988 and 2001 did have in common is that they resulted in a significant gap opening between values in Sydney and Brisbane.

At its peak in August 1988, Sydney dwelling values were typically 104% more than Brisbane dwellings.

At its height in September 2001, Sydney dwelling values were 107% higher than Brisbane dwelling prices.

Recently the chart shows that the gap between values in Sydney and Brisbane has increased and at September 2017 the differential was 86%.

The long-term average premium for Sydney dwellings over Brisbane is 55% indicating that the gap remains above the long-term average. Interestingly, even taking a shorter time-frame the average gap has been 56% over the past 20 years and a lower 41% over the past decade.



Queensland has historically been a popular migration destination for people choosing to leave New South Wales.

The above chart highlights that following the surge in value growth and the widening of dwelling prices between Sydney and Brisbane, migration from New South Wales to Queensland has typically increased.

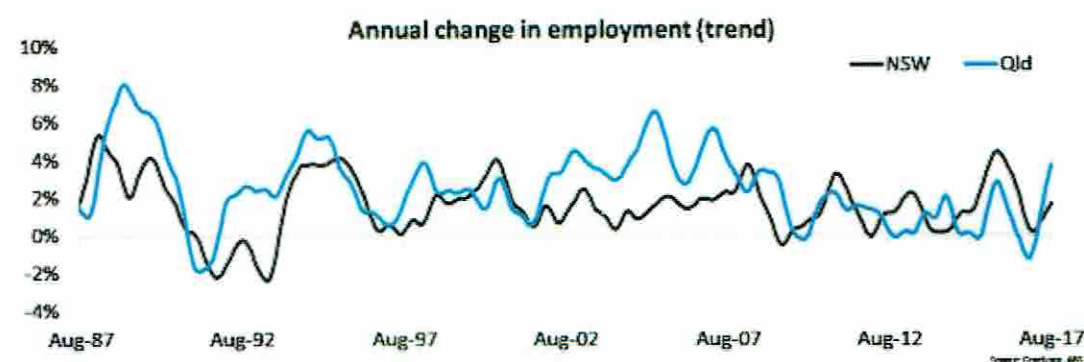
Over the long-term, the average quarterly number of persons migrating from New South Wales to Queensland has been recorded at 12,376 persons.

Migration from New South Wales to Queensland peaked over the March 1989 quarter at 18,259 persons and then averaged 14,461 persons per quarter from March 1989 to December 1991.

Migration from New South Wales to Queensland peaked again in December 2002 at 18,129 persons and then averaged 15,392 persons per quarter from December 2002 to September 2004.

As migration from New South Wales to Queensland has recently picked-up, so far it has peaked at a much lower 13,487 persons over the December 2016 quarter which is only 9.0% above the long-term average.

By comparison the 1989 peak saw migration to Queensland peak at 47.5% above the long-run average and the 2002 peak saw migration peak at 46.5% above the long-run average.



Unless those people migrating from New South Wales to Queensland are retirees, employment opportunities must be a key consideration.

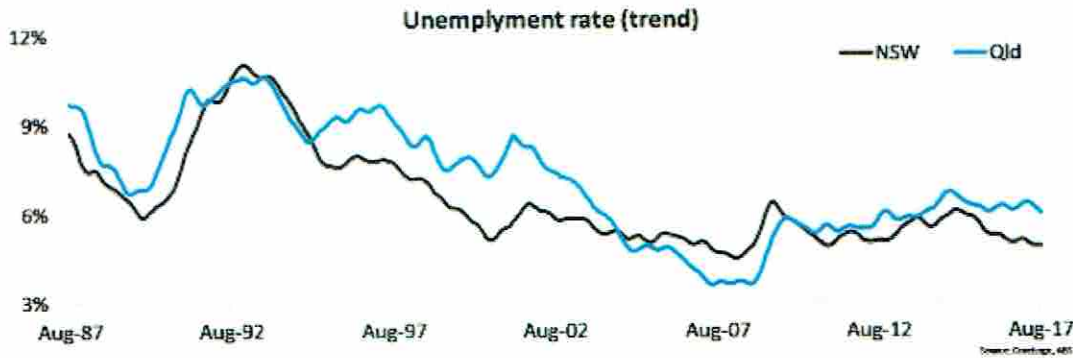
Post the 1987 boom in Sydney, New South Wales employment growth was slowing while it accelerated in Queensland.

Similarly in the early 2000's employment growth had been greater in New South Wales than in Queensland however, by June 2001 Queensland's employment was growing at a faster annual rate than New South Wales' with Queensland employment growth consistently stronger than New South Wales all the way until January 2008.

Over this period, dwelling value growth in Brisbane had consistently been stronger than growth in Sydney.

Looking more recently, New South Wales has consistently recorded stronger annual employment growth than Queensland between September 2014 and March 2017. Since April 2017, annual employment growth in

Queensland has been greater than in New South Wales.



Although employment growth is important, the unemployment rate is also a consideration.

Although job creation picked up in Queensland after 1987, Queensland's unemployment rate was consistently higher than New South Wales' until October 1991 when it was fairly similar to that of New South Wales.

By August 1992 Queensland's unemployment rate fell below New South Wales' and remained lower until December 1994.

The New South Wales unemployment rate was then consistently lower than Queensland's until July 2004 with Queensland's unemployment rate remaining lower than New South Wales' from July 2004 until late 2009 (thankyou mining boom!).

From February 2010 onwards, Queensland is yet to chalk up one month in which its unemployment rate is lower than New South Wales'. Interestingly though, the gap between the New South Wales and Queensland unemployment rate is currently lower (1.1 basis points) than it was as the Sydney housing market was peaking in August 1988 (1.5 basis points) and January 2002 (1.9 basis points).

The trends presented here would generally suggest that Brisbane could be well positioned for a pick-up in value growth as the Sydney housing market slows.

Keep in mind though that there have been instances in the past where value growth has surged in Sydney and it hasn't been followed by a surge in Brisbane, so a lift in Brisbane growth is no certainty.

A significant gap in the cost of housing between the two cities was evident in both 1989 and 2002 and it also evident currently. As value growth rose in Brisbane, interstate migration from New South Wales hit levels significantly above the long-term average and although interstate migration is increasing it is yet to hit anything close to those previous highs. Employment growth is accelerating in Queensland which may encourage an increasing number of people from New South Wales to Queensland and the differential in unemployment rate is smaller than it was in 1989 and 2002.

One other consideration is whether the same magnitude of people leaving New South Wales for Queensland will actually settle in Brisbane.

Both the Gold and Sunshine Coasts are much bigger cities in their own right than they were in 1989 and 2002 plus connectivity with Brisbane is much better than it was previously, so perhaps these migrants will be more inclined to settle on one of the Coasts rather than Brisbane.

Over the 12 months to September 2017, Brisbane dwelling values have increased by 2.9% while values on the Gold Coast are 5.4% higher over the year and Sunshine Coast values are 6.6%.

In my opinion, before we can call a coming surge in Brisbane dwelling values we are going to need to see both more evidence that migrants are settling in Brisbane rather than the Gold and Sunshine Coasts. Migration from New South Wales to Queensland is going to have to lift by a lot more than it has to-date. Finally, Queensland will also need to see a sustained improvement in employment growth to lure more people across the border.