



June 2013

Gold Coast's International Transformation

Over the next 12 to 18 months, the Gold Coast region will start to experience the benefits of some billions of dollars of infrastructure projects that are nearing completion and proposed. International companies who have had the foresight to invest in the region at the bottom of the cycle are among those leading the next wave of development.

Since the 1980s, the Gold Coast has been recognised as an international tourist destination and its property market has successfully attracted a diverse range of international and interstate buyers. The repricing of property since the Global Financial Crisis (GFC) has created opportunities for buyers to acquire luxury apartments and houses below replacement cost and development sites at very low prices.

The Gold Coast is now entering a phase where offshore developers are joining established local players in commencing a new round of projects. As a tourist destination, this ongoing investment in new attractions and accommodation is critical to the region's capacity to compete on the international stage.

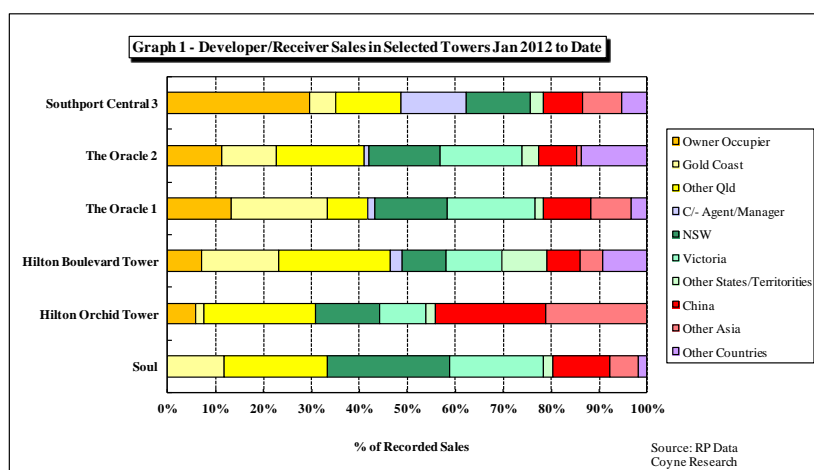
Commonwealth Games 2018

The announcement in November 2011 that the Gold Coast had won its bid to host the 2018 Commonwealth Games was a turning point. The change of political leadership at state level and at Gold Coast City Council (GCCC) has also inspired a return to policy settings that favour economic development and job creation.

Two key infrastructure projects are approaching completion: the \$1.76 billion Gold Coast University Hospital at Parklands, to commence operation in September 2013; and the \$1 billion Light Rail, due for completion in mid 2014 (being funded by an international consortium).

A recent study by Bond University and Integran Infrastructure Management has estimated that GoldLinQ's stage one Light Rail project could see a multiplier effect of 2.5-4 times the Government spending along the 13 kilometre corridor from Parklands to Broadbeach. This could translate to \$20 billion in urban revitalisation over the next 20 years.

In order to fast-track private sector development, GCCC is planning to ask the Queensland Government to declare a Priority Development Area (PDA) in Southport Central Business District (CBD) by October 2013 and the Light Rail corridor by February 2014, which could see specific planning controls and economic stimulus measures implemented within 12 months of the PDA's declaration.



City Building Projects

City building projects underway and proposed that will contribute to the transformation of the Gold Coast include:

- **Gold Coast Aquatic Centre** in the Broadwater Parklands at Southport - construction underway for completion in mid 2014, in time for the Pan Pacific Swimming Championships;
- Redevelopment of the **Gold Coast Turf Club** at Bundall, with the first stage due for completion in November 2013 in time for the Magic Millions Carnival;
- **Athletes' Village at Parklands**, three kilometres west of the Southport CBD – Expressions of Interest (EOI) from potential private sector partners closed recently, following the 29 hectare site's declaration as a PDA under the Queensland Government's Economic Development Act 2012. To accommodate 6,500 people during the Games;
- **Chinatown** in Young and Davenport Streets, Southport – precinct plan due for release July 2013. Assistance and advice has been sought from Sister Cities, including Zhuhai in southern China and Taipei in Taiwan, to ensure authenticity, with Taipei offering to provide one of the three Paifang (gateway arches). The concept envisages the revitalisation of Southport CBD as an international dining and business precinct - one that embraces cultural diversity and becomes a tourist destination through a vibrant programme of events and festivals. Completion of the public component of Chinatown expected in 2014 to coincide with the Light Rail;
- The popular **Broadwater Parklands**, currently visited by around 40,000 people per month is proposed to be extended;
- Upgrading of the Southport campus of the **Gold Coast Institute of TAFE** is proposed, with a new campus on a nearby site, as six Gold Coast campuses are consolidated into three locations over the next five years;
- Proposed **Gold Coast Cultural Precinct** on an 11 hectare GCCC site at Bundall – three teams were short-listed recently, following the first stage of an international design competition: Melbourne-based ARM Architecture; Japanese team Nikken Sekkei; and London-based CRAB Studio, in alliance with Zurich-based landscape architects, VOGT and Gold Coast-based DBI Design. Each is to receive \$250,000 to progress their designs, with the winner of the second stage to be announced in late 2013; and
- **Broadwater Marine Project**, a joint venture between GCCC and the Queensland Government - in March 2013, four short-listed proponents were announced from the EOI process. Its main purpose is to develop a proposed cruise ship terminal that would provide a quality visitor experience in a sustainable project at no cost to the taxpayer. A study undertaken in December 2012 by AEC Group for GCCC found that while there is demand from the cruise ship industry for a Gold Coast terminal and the Seaway could accommodate modern ships up to 311 metres in length, the high initial and ongoing costs mean that a stand-alone terminal is not commercially viable.

Broadwater Marine Project Proponents

- ASF China Property Consortium, (ASX-listed ASF Group, China Communications Construction Company, Guangzhou Dredging Co Ltd & China State Construction Engineering Corporation Ltd);
- Australian Cruise Port International (ACPI) Consortium, including Hutchison Builders, lead by local identities associated with previous bids for a Broadwater cruise ship terminal;
- Azure Consortium, including New Zealand (NZ) gaming group, Skycity Entertainment Group Limited and Brookfield Multiplex Constructions Pty Ltd; and
- Ridong (Gold Coast) Development (RDG), the Zhuhai-backed developer of the Jewel project – see p4.

The four proponents are currently working to provide detailed proposals that encompass a variety of additional uses, including a casino, hotel, apartments and destination retail and entertainment facilities. A decision on the preferred proponent for the cruise ship terminal is expected in late 2013.

Southport Focus

It is perhaps no coincidence that the Real Estate Institute of Queensland has recently indicated that Southport's median house price rose by 10.3% in the March Quarter 2013 to \$430,000 (up by 6.7% over 12 months). This compares with a median house price of \$475,000 for Gold Coast City (up by 2.2% for the quarter and 0.7% over 12 months). Unit and townhouse median prices were still falling – refer to report on receiver sales on p5.

Tourist Numbers Rise

Despite adverse weather conditions over the past couple of years, (with beach erosion having safety and cost implications), visitor numbers to the Gold Coast have risen. In the year to March 2013, 3.65 million domestic visitors spent 14.7 million visitor nights and \$3.15 billion (up by 13% on the previous year). Holiday visitors to the Gold Coast were up by 19% to 2.25 million, mainly reflecting increased visitors from Sydney and Melbourne, but also Brisbane.

There were 764,000 international visitors to the Gold Coast in the year to March 2013 (up by 3% on the previous year), who spent 7.6 million visitor nights and \$772 million (up by 2%) - source Tourism Research Australia (TRA).

Nationally, there was a 17% increase in visitors from China, as well as a 7% increase in visitors from the United States and a 4% increase from mainland Europe. This reflects significantly increased air access from China and some improvement in the global economy.

The Gold Coast's top international source markets, based on visitor nights, were NZ (1.8 million nights), Japan (818,000 nights), mainland Europe (795,000 nights), China (763,000 nights) and the United Kingdom (634,000 nights). Shorter stays, averaging five nights, mean Chinese visitor nights remained well below NZ, an average of 10 nights – source Queensland Tourism and Events for the year to December 2012.

In the year to March 2013, Chinese visitors to the Gold Coast increased by 34% to 173,000 visitors, approaching the leading NZ market with 180,000 visitors.

According to the TRA, Chinese visitors to Australia had the highest expenditure (on average \$7,189 per visitor, compared with \$2,091 for NZ and \$4,680 for all international visitors in the year to March 2013). Education visitors were the top spenders - \$17,374 per visitor (note includes value of package tours and international air fares).

“Lifestyle is a key factor attracting visitors.”

Gold Coast Tourism's recent report that their Sina Weibo Chinese social media website had reached 500,000 followers, just eight weeks after its launch, highlights the lifestyle appeal of the region. This also drives the incentives market, for example in May 2013 around 1,050 Chinese delegates attended the Herbalife Leadership Vacation 2012 event held at the Gold Coast Convention and Exhibition Centre (GCCEC) over five days.

Significant Education Sector

A 2012 TRA study of Chinese visitation compared the nature of first-time and return visitors to Australia. Around 64% of first-time visitors were holiday makers, but only 34% of return visitors. Instead, the more valuable education sector accounted for 61% of return visitor nights in 2011/12, compared with 44% of first-time Chinese visitor nights.

Education is a significant sector of the Gold Coast economy, accounting for over \$1 billion in value-added gross regional product. It is estimated that there are currently over 6,000 international students at the three University campuses, or 23% of a total enrolment of around 26,200 students. In addition, GCCC's *Study Gold Coast Business Plan 2013-14 Draft* indicates there were over 4,000 international students at TAFE and private training institutes, or 21% of around 20,000 students in 2012.

In association with key tertiary education providers, GCCC is proposing to reinvigorate Study Gold Coast to advance the education sector, particularly the international student market which has declined over recent years (subject to GCCC budget processes).

Accommodation Renewal

Over the past two years, the Gold Coast has seen the opening of three new five-star hotels: the Hilton Surfers Paradise, Sea Temple Resort at Soul and Peppers Broadbeach in The Oracle. Together these added around 450 rooms/apartments to the accommodation pool. Several existing hotels have been renovated, including the Indian company Pearls Australasia's Sheraton Mirage and the Surfers Paradise Marriott Resort and Spa.

The major new hotel proposed for the Gold Coast is RDG's Jewel, located half way between Surfers Paradise and Broadbeach (refer to box). There are also plans for a nine storey apartment hotel of 162 rooms at the Southport Sharks Club.

The introduction to the Gold Coast of new luxury hotel and apartment offerings contributed to a 9% jump in takings from accommodation in calendar year 2012, rising to an equivalent of \$152 per room night occupied in hotels, motels and serviced apartments of 15 rooms plus.

Continuous renewal and expansion of accommodation and attractions, including the theme parks and golf courses, have enabled the Gold Coast hotels and serviced apartments to maintain stable occupancy levels of 69% to 70%, slightly below the 71% peak in 2007.

Introduction of significant new destination resorts is required for the Gold Coast to compete on the international stage.

Apartment Market Repositioned

Since the GFC, property developers on the Gold Coast have experienced difficult times, with many companies in receivership and an oversupply of prestige properties and apartments.



Ocean view from Soul's pool

This has seen price falls of the order of 20% to 50% from the peak. Five years on, the market generally has established a new level and the supply of new properties has reduced.

Pre-GFC luxury projects with large numbers of \$3 million apartments were conceived and developed. Now the trend is towards smaller scale developments with more modest apartment sizes and prices. Examples include

- Synergy at Broadbeach proposed by Amalgamated Property Group and Morris Property Group, 137 two and three bedroom units priced from \$389,000 to \$815,000 in a 25 storey building opposite the GCCEC; and
- Emandar Group's Harbour Quays, a mid-rise project adjoining Harbour Town Shopping Centre, priced from around \$328,000 to \$460,000.

Meanwhile developer/receiver stock in the major projects conceived pre-GFC is gradually being absorbed. Table 1 on p5 shows 331 recorded sales in six major towers over the period since January 2012. Around 400 apartments are still available in these six towers. At the absorption rates indicated, this represents around two to three years' supply, depending upon vendor willingness to negotiate deals – individual projects could take longer.

RDG's Jewel

RDG's Jewel on a 1.13 hectare site on the beachfront at 40 Old Burleigh Road, on the corner of Wharf Road, Surfers Paradise – to include three towers, a three storey multi-use podium and four basement levels, with a central 45 storey five-star resort hotel (153 suites and 147 apartments), a 40 storey apartment tower of 215 apartments to the north of the site and a 32 storey premium tower of 108 apartments with direct beach frontage, plus a range of resort and retail facilities – cafe, convenience shop, bars, restaurants, function rooms, a day spa, beach club, recreation facilities and a recording studio. Expected to commence construction in 2014 for completion around 2017. The main apartment tower has a mix of predominantly one and two bedroom designs with studies, plus a few three bedroom apartments.

The rates per square metre are below the record prices of \$17,000 to \$20,000/m² previously achieved for penthouses and subpenthouses in Soul and Hilton.

There is widespread understanding that current prices are below replacement value. All of the selected towers have attracted local Queensland buyers, interstate buyers and international buyers – refer to Graph 1 on p1. While all of the towers attracted at least 20% of international buyers, Hilton Orchid Tower attracted 44%, including strong representation from China and Malaysia.

Interstate buyers have shown strong support for Soul (47% of recorded sales) and The Oracle (35%), but lesser support for Southport Central 3 (16%). Agent reports indicate that Asian offshore buyers have accounted for around 40% of sales in Southport Central 3 over the past 18 months, local Asian buyers 40% and local Gold Coast buyers downsizing 20%. Southport gains significant Asian and local Asian support, partly because it is an education hub and is more affordable. Local Chinese buyers from Logan Reserve have also purchased ten apartments in the Orchid Tower of Hilton.

China Leads Gold Coast Investment

In 2011/12 there was a resurgence in foreign investment on the Gold Coast by 43% on the previous year to \$237 million, exceeding the ten-year average of \$193 million. Gold Coast was the leading destination for foreign real estate purchases, followed by Brisbane City (\$135.9 million).

The leading source markets for Gold Coast foreign investment were China (47% by dollar value) and Singapore (9%), followed by Malaysia, Japan and Russia (each 5%) – source: analysis of Queensland Government data by Colliers International Research.

The direct conversion between the Australian dollar and the Chinese yuan, the falling Australian dollar and the Significant Investment Visa (SIV) programme may focus attention here. The SIV may permit permanent residency via investment of at least \$5 million, but its restrictions on direct property investment means that it is uncertain what benefit the Gold Coast may see (investment permitted via managed funds).

“The cyclical nature of the market will be a challenge.”

Challenge for International Developers

On the Gold Coast, Korean company Lotte Engineering and Construction was among the first of the current group of offshore developers, having completed the freehold high rise retirement community, Victoria Towers in Southport and stage one of Salacia Waters at Paradise Point around three years ago. Both these projects have had to adjust prices to meet current market conditions.

The cyclical nature of the Gold Coast property market is a challenge for the new wave of international developers. Significant numbers of apartments may potentially be sold successfully offshore (although most real estate projects must also be actively marketed in Australia).

Table 1 - Gold Coast Selected Towers – Developer/Receiver Sales Jan 2012 to Date

Building	Bedroom Type	Number of Sales	Average Price	Average Size m ²	\$/m ² Gross
Soul	2	21	\$1,273,905	130	\$9,799
Soul	3	25	\$1,514,000	162	\$9,346
Soul	Sub PH	5	\$4,450,000	369	\$12,060
Hilton Orchid Tower	2	47	\$685,730	104	\$6,594
Hilton Orchid Tower	3 +	5	\$1,313,000	174	\$7,546
Hilton Boulevard Tower	2	43	\$634,721	98	\$6,477
The Oracle 1	1 + S & 2	42	\$769,905	117	\$6,580
The Oracle 1	3 +	18	\$2,013,153	257	\$7,833
The Oracle 2	1 + S	23	\$506,391	92	\$5,504
The Oracle 2	2 & 2 + S	52	\$757,115	134	\$5,650
The Oracle 2	3 +	13	\$1,516,154	228	\$6,650
Southport Central 3	1, 2 & 2 + S	37	\$411,351	108	\$3,809

Source: RP Data & Coyne Research PH = Penthouse; S = Study; 3 + indicates 3 bedroom plus study, media or family room

International Development Projects

- Hong Kong-based Sanbano's 25 storey luxury apartment tower at **60 Marine Parade, Coolangatta** - under construction (29 apartments, a mix of 10 two bedroom units, 17 three bedroom plus media room, one-per-floor units, a penthouse and manager's unit);
- Russian-based Maylake Pty Ltd's nine storey office complex, **Elkhorn Centre East** in Surfers Paradise - under construction for completion in 2014. The same company is undertaking an office refurbishment of 40 Nerang Street, Southport;
- Pearls Australasia's **Edgewater Residences** on the lakefront at Varsity Lakes, currently under construction – a mix of 116 low rise apartments (mainly two bedroom units) and 44 lakefront three and four bedroom townhouses. It is reporting over \$30 million of presales since 2011, predominantly to domestic buyers;
- Singaporean developer, Ho Bee Australia's **Vogue on Main** proposed 41 storey apartment tower on a 2,382 m², triangular site at 3440 Surfers Paradise Boulevard. Located opposite the beach and parkland. The approval for 223 apartments plus ground floor cafes includes a mix of 25 studios of 28 m², 124 one bedroom units of 50 to 59 m² and 74 two bedroom units of 82 to 90 m². Ho Bee also owns the Broadbeach Lifestyle Centre site adjoining Pacific Fair and the Broadbeach South Light Rail station;
- Sanbano's proposed 51 storey mixed-use development at **71 Nerang Street, Southport**, with a development application lodged in February 2013 for 555 apartments and around 1,400 m² of retail/commercial space. Proposed mix of 36 studios (50 to 58 m², to be targeted to students), 167 one bedroom units of around 70 m², 320 two bedroom units of 95 to 105 m² and 15 three bedroom units of 145 to 205 m²; and
- Another Sydney-based Chinese consortium's project at **15-17 Scarborough Street, Southport** was approved in May 2013 for a 49 storey complex of 460 units and retail/dining uses. The mix includes 77 studio and one bedroom serviced apartments and 383 residential apartments (84 one bedroom, 210 two bedroom and 84 three bedroom units, some with studies, plus five penthouses).

These are some of the more advanced projects (see also Jewel p4). Site acquisition by international players is not confined to coastal positions, but extends to Nerang and into the Northern Corridor.

Just north of the Gold Coast, at Bethania in Logan City, **Jeta Gardens**, a local joint venture with Malaysian-based KPJ Healthcare is developing an Asian-themed retirement resort on a 26 hectare site. It features an established 108-bed aged care facility, around 65 independent living villas and apartments and a central clubhouse. An extension to the aged care facility of 72 beds is due to start construction in July 2013. Future plans will transform the complex into an intergenerational community, with the staged addition of a 180-bed private hospital, a training college for aged care professionals, a childcare centre, medical centre and pharmacy.

The Gold Coast market may lack the depth to absorb large numbers of apartments. At the peak of activity from 2001 to 2008, just over 1,000 new high rise apartments per annum were absorbed on average (source: Midwood Queensland Investment Report).

It is understood that marketing of apartments at Jewel and Sanbano's Coolangatta project is to be postponed until they are completed or approaching completion.

This could see timing of marketing align with a cyclical upswing, following the sell-out of most receiver stock, completion of the stage one of the Light Rail and construction of major projects associated with the Commonwealth Games 2018.

Note that locals such as Sunland, national developers such as Stockland and established companies with Asian links such as Mulpha and Nifsan, continue to be active on the Gold Coast.

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