Colleen Coyne Property Research

Colleen Coyne Property Research Pty Limited ABN 58 088 879 878

PO Box 3109
Nerang East
QLD 4211

Phone (07) 5532 2745
Mobile 0418 856 439
E-mail colleen@colleencoyne.com.au
Web www.colleencoyne.com.au

March 2015

Momentum Continues

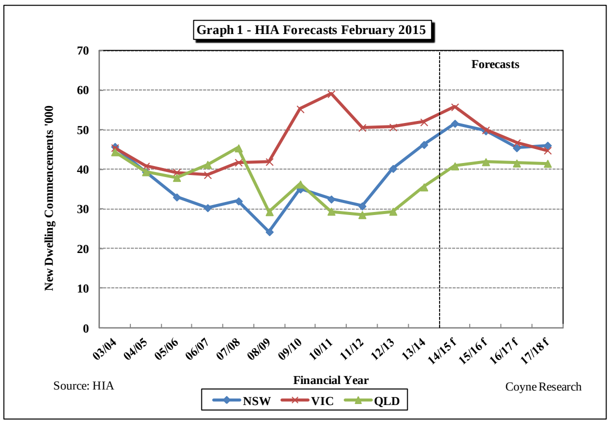
Despite setbacks in the form of slower economic growth, political changes and unexpected fees for foreign investors, momentum in Australia's East Coast property markets is set to continue in 2015 and beyond.

Graph 1 shows new dwelling commencement forecasts from the Housing Industry Association (HIA) as at February 2015. It highlights the downturn in new dwelling development that characterised the New South Wales (NSW) market from 2005/06 to 2011/12. This followed the introduction of the NSW Government's Vendor Tax in 2004 that sent a signal to investors that saw them prefer other locations.

In contrast, Victoria saw construction activity ramp up from 2009/10, reaching 59,080 commencements in 2010/11. This partly reflects high levels of multi-unit commencements. These have been concentrated in inner Melbourne, with demand supported by investors purchasing units for use by overseas students. In 2014/15 multi-unit dwellings in Victoria are forecast to represent 44.5% of total commencements.

NSW was Undersupping its Market
The higher population growth experienced in Victoria has been buoyed by the presence of overseas students. However its average increase of 97,549 persons per annum over the six years to 2013/14 was only 1.8% higher than NSW. This highlights the extent to which NSW has been undersupplying its market. It is partly pent-up demand that has driven price increases of recent years.

The increase in NSW's commencements is forecast to reach 51,620 dwellings in 2014/15. Multi-unit commencements have been rising in NSW from 2012/13, since when they have consistently exceeded housing commencements. In 2014/15 they are expected to reach 56.5% of total commencements.



In Queensland the number of new commencements peaked at 45,410 dwellings in 2007/08, resulting in the oversupply that has characterised many regional Queensland markets over recent years. Apart from the brief stimulus-driven recovery in 2009/10, Queensland's new commencements were flat until 2013/14.

Multi-unit dwelling commencements are forecast to account for 44.5% of total dwellings in Queensland in 2014/15. However housing commencements are expected to outnumber multi-unit commencements over the forecast period.

The HIA forecasts indicate momentum for new construction will continue this year. Queensland's recovery is expected to plateau at the higher level of around 41,500 dwellings per annum over the three years to 2017/18.

Gold Coast Momentum Continues

Despite some uncertainty hovering over some hoped-for major infrastructure projects, it is anticipated that momentum in the Gold Coast property market will continue. This is partly due to preparations for the 2018 Gold Coast Commonwealth Games (GC2018).

The other important factor is that the economy is showing signs of improvement. This is demonstrated by the fall in the unemployment rate to 4.6% in January 2015. This compares with 6.5% for Brisbane, 6.9% for Queensland, 5.8% for Sydney and 7.1% for Melbourne.

Some 14,800 jobs were created on the Gold Coast over the past year. The number of employed residents rose to 301,600 persons in January 2015, the highest January total on record. (source: Australian Bureau of Statistics – ABS).

Graph 2 shows that over the year to November 2014, recovery in employment in the Gold Coast region has been widespread across several industry sectors. The largest increases have been in professional services, tourism, health care, real estate and manufacturing.

In many cases these sectors are still returning to levels of employment prior to the economic downturn. However there have been substantial upwards shifts in professional services, health care, administration and arts and recreation services since 2009.

This partly reflects the opening of the Gold Coast University Hospital (GCUH) in 2013.

The fall in the Australian dollar has contributed to the Gold Coast accommodation operators experiencing one of the best summer holiday periods for some years. Credit also extends to the City of Gold Coast Council, which has worked hard to restore beaches eroded in weather events of the past few years.

Introduction of new hotel operators at the Hilton, Soul and Oracle has assisted in a strong recovery in average tariffs. A recent report from Deloitte Access Economics indicates the Gold Coast had one of the highest increases in room rates of 4.3% from 2013 to 2014.

The strength of the recovery in the professional services sector is reflected in the continued improvement in the Gold Coast office market. This has seen the vacancy rate stabilise at 15.2% following net absorption of 16,835 m^2 over the year to January 2015. This was the highest level of demand since the Global Financial Crisis (GFC) and highlights the recovery of confidence in the economy.

Graph 2 - Gold Coast - Change in Number Employed Nov 2013 to Nov 2014

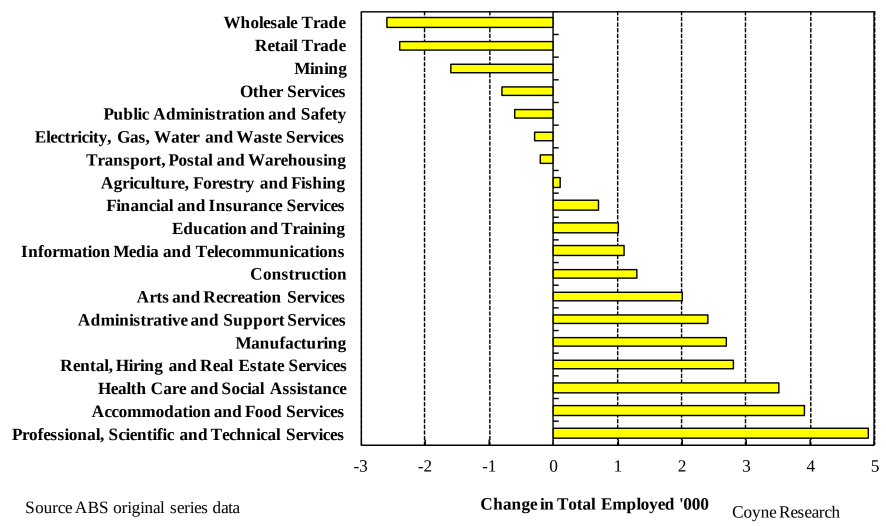


Table 1 – Comparative Median Price Movements

Location	Houses		Units	
	Median Price	Year on Year Change	Median Price	Year on Year Change
Gold Coast*	$521,000	+ 5.2%	$349,000	+ 4.7%
Brisbane	$480,000	+ 6.5%	$385,000	+ 0.5%
Sydney	$780,000	+ 14.7%	$588,000	+ 9.5%
Melbourne	$549,000	+ 8.0%	$450,000	+ 2.8%

Source: CoreLogic RP Data year on year median prices for the three months to 28 February 2015
* Gold Coast figures for year ended December 2014

The property market on the Gold Coast is still at an early stage of recovery. Table 1 is based on an analysis of median prices by CoreLogic RP Data. It shows that Gold Coast house prices rose by 5.2% over the 12 months ended December 2014, while units rose by 4.7%.

The table shows that the Queensland markets remain more affordable than the southern state capitals. Growth in median prices has seen gross rental yields diminish in Sydney and Melbourne to 4.4% and 4.2% for units and 3.5% and 3.2% for houses.

This compares with Brisbane (5.5% for units and 4.5% for houses). The lower price of Gold Coast properties contributed to a gross rental yield of 6.0% for units and 5.3% for houses (source: CoreLogic RP data as at December 2014).

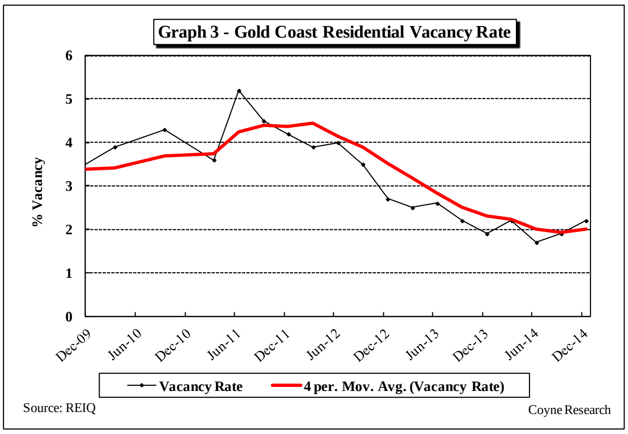
This helps to explain the enthusiasm from Sydney and Chinese investors for Brisbane and Gold Coast apartments. The fact that further price rises may be expected is also a factor.

The upswing in new residential construction is one of the factors driving the improvement in the Gold Coast economy. Table 2 compares recent building approvals with the ten year annual average. There was a relatively high number of unit approvals in 2013.

The house and land market has experienced strong take-up over the past 12-18 months, with developers struggling to keep up with demand.

This has been driven to some extent by investors, but developers are also reporting the presence of owner occupiers.

Graph 3 shows the trend in residential vacancy rates for the Gold Coast, based on surveys by the Real Estate Institute of Queensland (REIQ). The vacancy peaked at over 4% in 2011, following post-GFC stimulus measures, such as the First Home Owners Grant Boost. Over the past year it has fallen to a low of 2.0% (moving annual vacancy rate as at December 2014).



This reflects the lack of new construction over recent years. With the turnaround in new house construction, notably in the northern corridor, it is likely the vacancy rate will ease upwards.

Job creation and the demand for apartments within easy walking distance of the Light Rail may see upward pressure on rents continue for some time. The first major new high rise developments are not due for completion for 12 to 18 months.

Table 2 – Gold Coast New Building Approvals

Dwelling Type	Year to Dec 2014	Year on Year Change	10 Year Annual Average
Houses	2,265	52.1%	2,436
Units	1,979	- 3.0%	2,229

Source: ABS & Urban Development Institute of Australia (Queensland)

One of the major projects due to commence construction in 2015 is
Wanda Ridong (Gold Coast) Development's Jewel in southern Surfers Paradise
(photograph courtesy of Wanda Ridong & DBI)

In terms of maintaining its momentum, the capacity of the Gold Coast to continue to diversify its economy and to deliver major projects is critical.

With the sudden change of State Government in early 2015, it now appears unlikely that the proposed Gold Coast Integrated Resort and Cruise Ship Terminal proposed by the ASF Consortium can proceed. Factors weighing against the $7.5 billion project include the ongoing cost of dredging, environmental issues and community opposition, partly due to loss of recreational amenity.

Two other hoped-for infrastructure projects may yet get the green light from the new State Government. These are:

- The extension of the Light Rail from the GCUH to the heavy rail; and
- Upgrading of the Gold Coast Motorway's Exit 54. It is understood the road project could unlock a $500 million investment by Westfield in the Coomera Town Centre.

Despite this uncertainty, there is a long list of under construction and committed projects due for completion in advance of the GC2018. Refer to Box on the next page.

Apart from these major developments, there has been a resurgence in development applications in the Southport Priority Development Area (PDA) and along the Light Rail route. To date most of the apartment projects under construction in the Southport PDA have been smaller, more readily funded projects of <100 units. It remains to be seen how many of the larger projects will proceed.

New apartment construction is also spreading more widely away from the prime beachfront suburbs. There is significant construction occurring on land estates in the northern corridor. Waiting in the wings are four major master planned communities:

- Perron Group's Pacific View estate at Worongary (up to 3,500 dwellings);

- Sunland's development of the former Maddison estate at Pimpama (up to 1,500 dwellings);
- Sunland's Lakeview at Mermaid Waters (around 1,500 dwellings); and
- Leda Developments' Cobaki estate in Tweed Shire in NSW (5,500 dwellings).

Refer also to details of selected major apartment projects on the next page.

Gold Coast Major Projects

- AMP Capital's $670 redevelopment of **Pacific Fair** shopping centre at Broadbeach. On completion in late 2016, it will be Queensland's largest centre with approximately 150,000 m^2 of retail space. It will include Myer, David Jones, Target, Kmart, Big W, Coles and Woolworths stores, a fresh food marketplace and an indoor/outdoor leisure and entertainment precinct. Stage One re-opened in late 2014;
- Civil works commenced in 2014 for Grocon's **Parklands Residential Village**, with construction on the 1,252 apartments, townhouses and neighbourhood shopping centre due to start later in 2015. The complex adjoining the GCUH and Griffith University is to become the athletes' village for the GC2018;
- The $345 million redevelopment of **Jupiters Hotel and Casino**, with upgrades to the 592 room hotel underway. Construction of a new 70 suite hotel is due for completion in time for the GC2018;
- The Wanda Ridong (Gold Coast) Development's **Jewel** project is due to commence construction in 2015, following demolition of existing buildings on the beachfront site in southern Surfers Paradise. The three tower concept is proposed to include 171 hotel suites and 512 apartments, as well as retail/restaurant and recreation facilities. The overall mix includes 45% of one bedroom and one bedroom plus study units, 42% of two bedroom and two bedroom plus study units and 13% of three and four bedroom units. Jewel is expected to be completed in 2018;
- The Singaporean Banyan Tree Group is planning a **high end serviced apartment building** on the Esplanade in northern Surfers Paradise;
- Healthscope's $230 million **284 bed private hospital** is under construction at Parklands near the GCUH, for completion later in 2015;
- Construction is close to completion on the $15 million refurbishment of **The Mark** dining and retail precinct in Orchid Avenue, Surfers Paradise;
- Construction is underway on the $15 million redevelopment of **Australia Fair Metro** in Southport by YFG Shopping Centres, for completion in 2015. The dining and restaurant precinct will complement the adjoining **Chinatown** precinct being created in Young and Davenport Streets. The statue of Confucius is in place, with the Paifang (traditional Chinese gateways) proposed to be installed in 2015;
- Following the international design competition won by ARM Architecture + Topoteck1 in late 2013, the $37.5 million Stage One of the **Gold Coast Cultural Precinct** is due to start construction in 2016 for completion in 2018. It is to include a versatile outdoor performance space known as Splash, a new city gallery and artscape garden. A green bridge from Evandale to Chevron Island is also proposed;
- The **Metricon Stadium at Carrara** is to be extended for use during the opening and closing ceremonies of the GC2018, as well as for major events such as athletics;
- Other **sporting facilities** to be upgraded in advance of the GC2018 include the Broadbeach Bowls Club, the Hockey Centre at Labrador, the Carrara Indoor Stadium and the Robina Stadium. New sport and leisure centres are proposed for Coomera and Carrara. Extensions to the Runaway Bay Sports Centre and upgrades to the Nerang Mountain Bike Trails are expected to commence in 2015;
- Construction is underway on Stage Three of the **Broadwater Parklands** at Southport, the GC2018 venue for events such as the marathon and triathlon.

It is estimated that the $320 million investment into sport and community infrastructure will generate more than 1,000 jobs during the design and construction phase, with the athletes' village expected to generate an additional 1,500 jobs and $500 million in economic benefits to the local economy over five years (source: Department of State Development Infrastructure and Planning 2014). Venues are expected to be completed by 2017 in time for the GC2018 (to run from 4 to 15 April 2018).

Selected Gold Coast Apartment Projects

Among the current generation of apartment developments are the following along the Light Rail route:

- Meriton's 55 storey **Sundale** at Southport, under construction for completion in late 2016. The 551 apartment complex is to include a Woolworths supermarket, retail shops and childcare centre. With around one-third of the 343 residential units reported sold to date, prices range from around $400,000 for a one bedroom unit without parking; from $425,000 to $460,000 for a one bedroom unit with parking; from $490,000 to $747,000 for two bedroom and two bedroom plus study units; and $767,000 to $854,000 for high level three bedroom units. One bedroom units are typically around 60 m^2, two bedroom units around 83-92 m^2, two bedroom plus study units 101 m^2 and three bedroom units around 114 m^2. The current prices of around $7,000/$m^2$ are higher than those of 2014;
- Ho Bee Land's 223 unit project, **Rhapsody** in northern Surfers Paradise, under construction for completion in late 2015. With a mix of 25 studios (30 m^2), 124 one bedroom units (57-65 m^2) and 74 two bedroom units (88-94 m^2), this complex has extensive resident facilities on ground level and levels 27 and 41. Prices for studios range from $286,000 to $326,000, one bedroom units $391,000 to $529,000 and two bedroom units $697,000 to $827,000 (up to level 26); and
- The 25 storey **Synergy** apartment building of 137 units being developed by Amalgamated Property Group and the Morris Property Group is under construction for completion later in 2015. Remaining two bedroom apartments are available at prices from $476,000 to $529,000 (around $4,600 to $5,200/$m^2$ gross for units of around 100 m^2). Around 6% of units are still for sale.

Increased Activity in Inner Brisbane Apartment Market

Over the past six months, there has been a significant ramping up of activity in the inner Brisbane apartment market. This includes new projects marketed off-the-plan, record take-up levels reported for some projects, more proposals and reports of overseas developers buying sites for high prices.

Among the significant new projects released over this period are the following:

- The luxury 90 storey Brisbane Skytower overlooking the Botanic Gardens and wider metropolitan area in the Brisbane Central Business District (CBD). There are over 1,300 units proposed over two towers being developed by Billbergia and AMP Capital. The 90 storey tower has four recreation levels;
- Gurner's 911 unit mixed-use complex, FV at 237 Barry Parade Fortitude Valley, where 615 units were reported sold in the first 12 weeks;
- Metro Property Group's Newstead Central adjoining the Waterloo Hotel at Newstead, with around 920 units proposed over five towers;
- Lend Lease's next stage of its Showground Hill development, The Yards, with almost 400 units reported sold over a few months; and
- Several projects on the Southside, including Aria Property Group's The Melbourne Residences, Mirvac's Art House, the Karias Family's Opera, all at South Brisbane; and initial stages of Pradella's Light and Co at West End.

While the focus remains on the Inner Northside suburbs of Fortitude Valley, Newstead and Bowen Hills, urban renewal activity is intensifying at West End and Woolloongabba. Among the potential new projects are the following:

- Pradella's extension of its Gardens Riverside project at West End to the adjoining former School of Distance Education site, with 322 units proposed;
- Pointcorp Development's River Reach project in Buchanan Street West End, with 988 units proposed over seven buildings. This Riverfront project adjoins the company's existing Vida project currently under construction; and

- South City Square, a mixed-use project at 148 Logan Road, corner of Deshon Street Woolloongabba, a mix of retail, office, hotel uses and over 900 units.

Developers appear to be less focused on smaller one bedroom units which were such a feature of the market two years ago. This partly reflects increased activity by owner occupiers.

Nevertheless investors from interstate and overseas are still active. It appears this has been driven by projections of high levels of population and employment growth, as well as relative affordability compared with Sydney and Melbourne, with resulting higher rental yields.

To date, higher vacancy rates do not appear to have dented take-up levels. This may be partly because most recently marketed projects will not be completed until 2016 and 2017.

In the December Quarter 2014, the REIQ's vacancy rate for Inner Brisbane of 3.8% was up from 2.9% in the September Quarter 2014. According to SQM Research, in January 2015 some postcode areas had higher vacancy levels, for example 5.4% at Albion, 6.2% at Kelvin Grove and 7.7% at Hamilton.

This is considered to partly reflect completion of large numbers of Inner Brisbane apartments over recent months, particularly in Fortitude Valley.

An Update on Melbourne

Our March 2014 newsletter reported on the trend of increasingly smaller units being developed in inner Melbourne. Since then, the Office of the Victorian Government Architect (OVGA) has prepared draft design standards, reported to introduce a minimum apartment size of 37 m^2, with guidelines such as building depth, daylight exposure and minimum communal space and balcony sizes.

A recent report from the Oliver Hume Real Estate Group indicated the average size of new one bedroom apartments in the Greater Melbourne area fell in the December Quarter 2014 to 44 m^2, down from 47 m^2. Two years before the average size was 55 m^2. Two bedroom unit sizes fell to 59 m^2, down from 62 m^2. Two years ago the average two bedroom unit was over 70 m^2 (source: Oliver Hume and *The Age* 11 February 2015).

The trend towards smaller units is partly being driven by affordability pressures and partly by the role of offshore developers catering for overseas investors. It is understood the OVGA under the new Victorian Government is reviewing the draft apartment design standards.

Proposed Fees for Foreign Investors

Proposed fees recently announced by the Federal Government for applications by foreign investors to purchase Australian residential real estate have been criticised as disproportionate ($5,000 for properties <$1 million and $10,000 for each $1 million thereafter).

This compares with the previously indicated fee of $1,500 to implement better data collection, compliance and enforcement.

The fees are not expected to deter foreign investors in off-the-plan apartments. At the same time, they do not address the main underlying causes of price rises in Australian cities.

© Copyright Colleen Coyne Property Research Pty Ltd, 2015. Reproduction of information in this newsletter only permitted with written permission and acknowledgement of Colleen Coyne Property Research Pty Ltd as the source.

The information in this report is provided in good faith, but is not intended to be comprehensive or to render advice. It does not take into account individual objectives, financial circumstances or needs. Colleen Coyne Property Research Pty Ltd does not accept any form of liability for its content. Readers should undertake independent inquiries to satisfy themselves of the correctness of any statement and the appropriateness of any actions to their circumstances.