



November 2018

SEQ Defies National Trend

While median residential prices in Sydney and Melbourne subside from historically high levels, South East Queensland (SEQ) markets are defying the national trend. The notable exception is Brisbane, with its oversupplied apartment market.

Despite some expectations of a downturn in the Gold Coast market following the Commonwealth Games in April 2018, so far it has largely avoided the price falls of the southern capital cities. This is at least partly due to the reluctance of lenders to support large apartment towers.

While there are some major buildings pending, Gold Coast residential vacancy rates remain low. Nevertheless the market has been impacted by the downturn in investor demand, following changes in the regulatory environment and reduced demand from overseas buyers.

The somewhat uncertain global outlook and tightening credit conditions in the wake of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry are likely to see continued constrained new apartment development on the Gold Coast.

The former Commonwealth Games athletes' village at Parklands has been released to the rental market.

With 1,170 apartments in 18 towers and 82 townhouses, it is known as the Smith Collective. It was developed by Grocon and UBS Asset Management, and is Australia's largest build-to-rent project.

A Woolworths supermarket will anchor the 6,280 m² retail and dining hub, due to open in early 2019. The Smith Collective dwellings are being offered on lease terms from six months to two years.

Unfurnished rents start as follows:

- One bed units of 52-64 m² \$380/week;
- Two bed units of 72-81 m² \$490/week;
- Three bedroom townhouses of 112-120 m² \$590/week.
(internal areas)

Facilities include four pools and gymnasiums. The dwellings include split system air conditioning, fans and built-in robes. All units have parking for one car and the townhouses a single car garage, plus an open-air space. The project offers tenant-friendly conditions such as being able to hang pictures and paint feature walls.



Smith Collective apartments at Parklands, Southport

Table 1 – Comparative Home Value Index Changes

City	Houses			Units		
	Median Price	% Change in Quarter	Annual % Change	Median Price	% Change in Quarter	Annual % Change
Sydney	\$956,094	- 2.4%	- 8.4%	\$729,798	- 1.1%	- 4.9%
Melbourne	\$780,130	- 2.9%	- 6.3%	\$553,979	- 0.4%	- 1.0%
Brisbane	\$542,601	+ 0.1%	+ 0.8%	\$384,178	- 0.2%	- 1.5%

Source: CoreLogic Hedonic Home Value Index October 2018

Table 1 shows that both the Sydney and Melbourne markets have experienced moderate declines in value over the year to 1 November 2018. Brisbane house values have been stable, while Brisbane units fell by 1.5%. It remains a more affordable market than the southern capital cities. CoreLogic indicates that the most significant falls in Sydney and Melbourne have been in the top 25% of the market by value.

It is relevant to note that near the market peak, in August 2017, CoreLogic noted significant cumulative dwelling value increases over the growth cycle in Sydney (81.2%) and Melbourne (64.6%). At the peak of the market, investors represented over half of all loans for dwellings. In contrast, Brisbane saw a cumulative increase of only 20% over the growth cycle. In Queensland, the investor proportion of loans remained under 40%.

The Smith Collective has received a positive response, with over 700 enquiries in the first few weeks. Its 18 apartment towers are being released in stages, one tower at a time, over the next two years. This should assist in avoiding oversupply.

The Smith Collective is strategically located near a Light Rail station, adjoining the Gold Coast Health and Knowledge Precinct (GCHKP), Griffith University, the Gold Coast University Hospital and the Gold Coast Private Hospital.

The GCHKP is proposed to be developed as an innovation hub. The locality already employs some 10,000 workers, and Griffith University is noted for its world class bio-medical research. It is anticipated an additional 12,500 jobs will be created, with one of the first projects to commence expected to be the University’s Advanced Design and Prototyping Technologies Institute.

Vacancy Rates Low

The Gold Coast residential vacancy rate is currently low – 2.0% in the June Quarter 2018, according to the Real Estate Institute of Queensland (REIQ).

While higher than prior to the Commonwealth Games, this tight vacancy rate is similar to the figures from SQM Research as at October 2018.

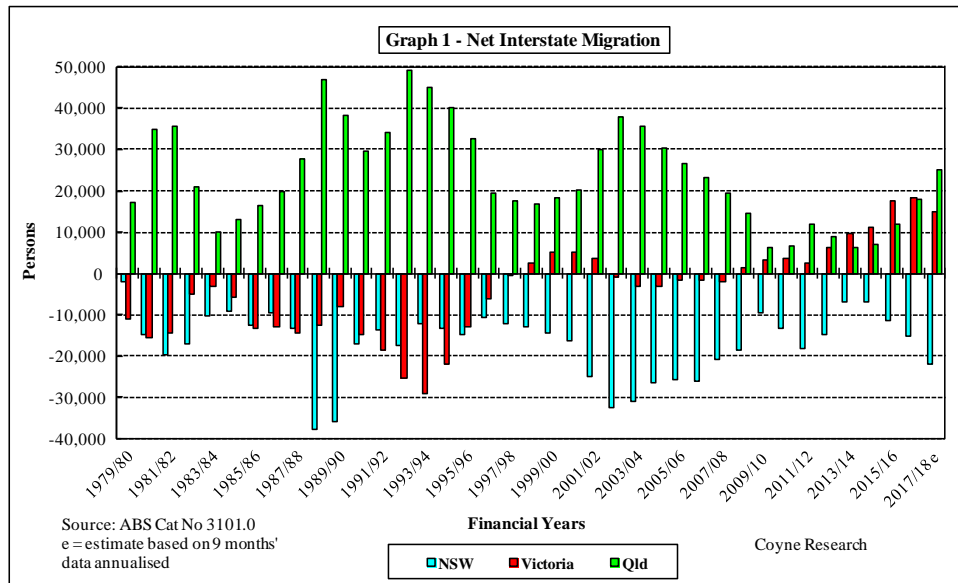
While the North Gold Coast area had a higher vacancy rate of 2.3%, the Main Gold Coast area rate was 1.9%. Southport (2.2%) had a marginally higher vacancy rate than Surfers Paradise (2.0%). Both the Robina and Coomera areas had vacancies of 1.9%.



Townhouses in the Smith Collective

With the addition of the Smith Collective to the rental market, as well as the 279 apartments in Philip Usher Construction’s project at 120 Marine Parade Southport, due for completion in early 2019, it is expected that Gold Coast vacancy rates will gradually return to equilibrium levels over coming months.

Together the two projects would represent an 18% increase on the supply of rented apartments in the Southport area (if released all at once) although only a 4% increase in rented apartments across the City and <2% of all rented dwellings - based on bonds held by the Residential Tenancies Authority (RTA).



Net Interstate Migration to Queensland Rising

After seven years of below trend net interstate migration to Queensland, this key driver of housing demand has rebounded over the past two years. Graph 1 shows that annualised data for 2017/18 reached 25,116 net migrants, just below the long-term average to 2008/09 of 27,375 net migrants.

However, the national context has changed over the past decade, with Victoria now attracting a significant share of net interstate migrants. This peaked at 18,193 net migrants in 2016/17, easing slightly to an estimated 15,064 net migrants in 2017/18.

The annualised data for 2017/18 shows a net loss of 21,828 interstate migrants from New South Wales (NSW), 28% above the long-term average loss of 16,979 net migrants.

Net Overseas Migration Easing

Major influences on the Sydney and Melbourne price increases over recent years have been strong economies, underwritten by infrastructure spending and high levels of net overseas migration.

Although below the 2008/09 peak of 300,000 net overseas migrants to Australia, in 2016/17, there were 262,268 net migrants, up from 184,033 net migrants in 2014/15.

In 2016/17, NSW and Victoria accounted for 74% of net overseas migration to Australia, but Queensland's share of 13% was below the state's share of population (20%). During 2017/18, net overseas migration to Australia has started to ease, to an annualised total of 254,049 persons. This trend is expected to continue, partly due to the Federal Government's changes to visa policies and other mooted changes.

However, the international student component of net overseas migration to Australia is expected to remain high (barring unforeseen events). This particularly contributes to apartment demand in inner city areas – see Table 2.

There is an ongoing shift in population from some inner and middle ring suburbs to outer metropolitan and lifestyle destinations. Some inner suburbs in Brisbane have attracted both young people and baby boomers downsizing to new apartments, so they have relatively high levels of net internal migration.

Much of the growth in outer suburban areas is driven by internal migration, influenced by affordability and the creation of new households by families. Net overseas migration not only drives growth around Universities, but in preferred areas such as Blacktown City and the Sunnybank environs in Brisbane.

Table 2 – Sample Areas – Components of Population Change 2016/17 (p)

Sample Areas – SEQ & Sydney Region	Natural Increase	Net Internal Migration	Net Overseas Migration	Population Change	% Population Change
Brisbane City	8,699	846	12,847	22,392	1.9%
Spring Hill	22	- 287	465	200	3.1%
Newstead-Bowen Hills	105	987	106	1,198	10.5%
South Brisbane	31	387	268	686	8.8%
West End	63	401	172	636	6.2%
Sunnybank Hills	74	- 389	363	48	0.3%
Ipswich City	2,301	3,223	820	6,344	3.2%
Gold Coast City	3,143	6,895	5,374	15,412	2.7%
Pimpama	242	2,646	78	2,966	30.8%
Coomera	258	1,034	128	1,420	10.3%
Southport-North	- 8	88	398	478	7.6%
Surfers Paradise	79	37	867	983	3.9%
Sunshine Coast*	865	6,132	1,868	8,865	2.5%
Waterloo-Beaconsfield	372	470	1,764	2,606	7.4%
Parramatta-Rose Hill	565	- 1,434	2,840	1,971	6.4%
Blacktown City	3,701	648	4,919	9,268	2.7%
Rouse Hill-Beaumont Hills	228	1,224	223	1,675	7.2%
Camden Council	895	5,531	348	6,774	8.4%
Campbelltown City	1,313	26	1,525	2,864	1.8%

Source: Australian Bureau of Statistics (ABS) Cat No 3218.0 April 2018 p = preliminary * includes Sunshine Coast & Noosa
Net Internal Migration includes both net interstate & net intrastate migration. Southport-North includes Parklands

Job Creation

One of the factors facilitating the upswing in net interstate migration to Queensland is a return to job creation. There were some 86,800 jobs created over the year to September 2018. The unemployment rate remained high at 6.1%, partly due to the participation rate increasing.

Employment growth continues to be concentrated in SEQ, although Townsville saw the creation of 6,600 jobs. Its unemployment rate remained at 9.1%, but this was down from the peak of 11.6% in February 2017. Other selected areas are shown in Table 3.

Table 3 – Selected Labour Force Data

Area	Jobs Created	% Unemployed
Greater Brisbane	43,000	6.1%
Inner Brisbane	2,600	4.1%
Ipswich	5,300	8.1%
Gold Coast	18,200	4.3%
Sunshine Coast	9,000	6.4%

Source: ABS Cat No 6291.0 original data 12 months annual average to Sep 2018 (to even out volatility)

The Gold Coast is a standout, with the unemployment rate down in the post-Games period from 4.8% in September 2017 and 4.5% in May 2018. This is despite the participation rate increasing. Both Ipswich and the Sunshine Coast had higher unemployment rates and higher participation rates.

Inner Brisbane Market Context

Stricter lending conditions for Australian buyers and reduced sales to overseas buyers have contributed to lower off-the-plan sales of Inner Brisbane apartments over the past two years. From the market peak in 2014 and 2015 of 4,000 to 5,000 sales, new apartment sales have fallen to around 1,000 sales per annum.

There are reports of developers' residential stock in completed buildings being offered at discounts of 10% to 20% on original list prices. This includes some units where settlements did not occur. Incentives and rental guarantees are also on offer.

The Inner Brisbane apartment market is however starting to stabilise. This is primarily due to many potential projects not proceeding. JLL has recently reported that around 4,600 units will be completed in 2018, down from around 6,500 units in 2017 and over 7,000 units in 2016.

Graph 2 shows that the REIQ's residential vacancy rate in Inner Brisbane rose to 3.8% in the year to June 2017, mainly as a result of the oversupply of apartments. It has eased to 3.5% over the year to June 2018. In the June Quarter 2018, it fell to 2.7%, down from 4.0% in the December Quarter 2017.

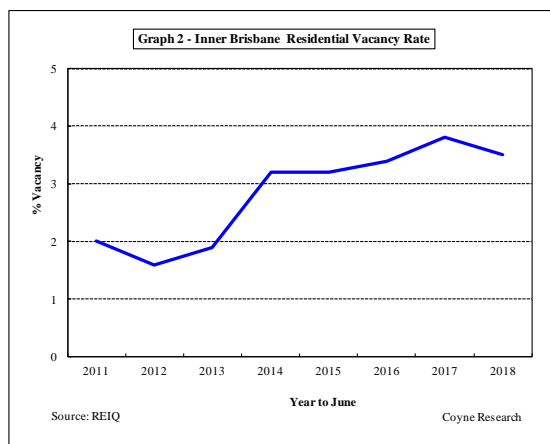
Table 4 - Inner Brisbane & Gold Coast Selected Resale Apartments Analysis 2017-2018

Building/ Suburb	Number of Units	Settlements Commenced	Number of Resales 2017 & 2018	Average Resale Price	Average Period Held (Years)	% Change Per Annum
Inner Brisbane						
Abian Botanic Gardens, Brisbane CBD	150	6/17	33	\$1,433,515	3.1	+ 7.9%
Flatiron, Fortitude Valley	355	9/17	3	\$416,000	3.7	- 3.8%
Unison at Waterfront, Newstead	293	7/16-12/16	16	\$820,094	2.7	+ 1.4%
Unison at Waterfront	146	Average Gain	9	\$1,086,222	2.4	+ 5.0%
Unison at Waterfront	147	Average Loss	7	\$477,929	3.1	- 3.2%
Belise, Bowen Hills	230	2/17	3 [#]	\$354,333	1.9	- 8.7%
Proximity, Hamilton	127	5/16	6	\$504,150	2.8	- 4.2%
Watermarque on the Park, Hamilton	68	9/14	3	\$506,667	4.1	- 3.7%
The Milton, Milton	296	11/15	6	\$717,500	3.7	- 4.5%
Oxley & Stirling, South Brisbane	219	10/17	8	\$776,313	2.6	+ 3.1%
Parc, Gardens Riverside, West End	127	8/16	5	\$784,300	1.9	- 4.6%
Soko, West End	120	7/17	3 [#]	\$584,333	1.8	- 11.4%
Peninsula Riverside, Kangaroo Point	169	2/15	5	\$468,900	4.9	- 1.5%
Gold Coast						
Sundale, Southport	342	5/16-10/16	19	\$651,974	2.4	+ 3.6%
Rhapsody, Surfers Paradise North	224	4/16	7	\$522,000	2.5	- 2.5%
Synergy, Broadbeach	137	11/15	14	\$622,250	3.2	+ 3.7%
WaterPoint Residences, Biggera Waters	373*	12/15-8/17	10	\$521,230	1.5	+ 0.2%

Source: CoreLogic

* 3 stages

[#] small number of resales, including one resale held <12 months



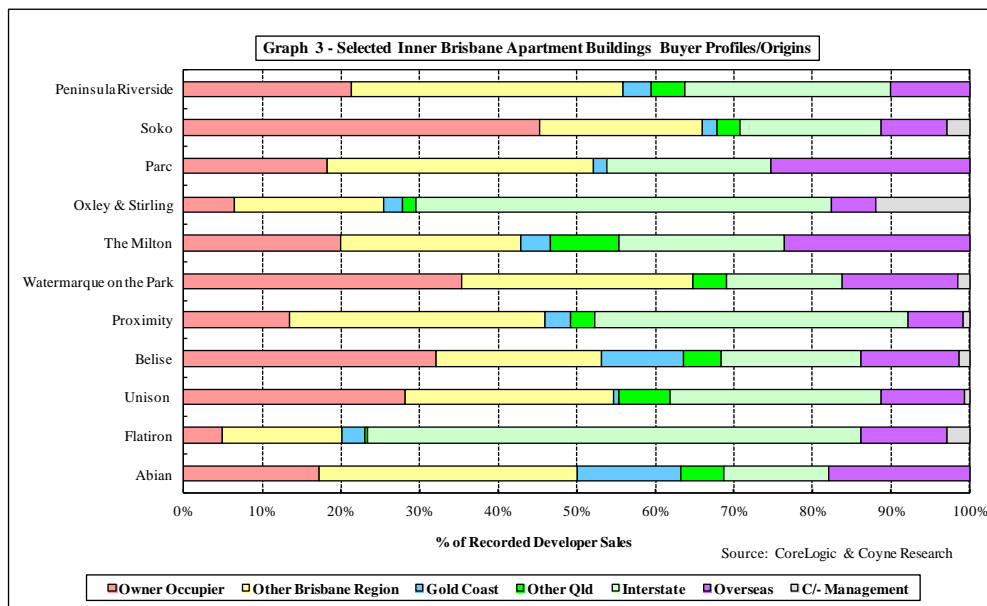
Data from SQM Research on residential vacancies in Inner Brisbane as at October 2018 indicates a range from 3.0% in Milton, around 4.2% in Woollongabba and Kangaroo Point, to 5.7% in South Brisbane/West End and 5.8% in Fortitude Valley/Newstead/Bowen Hills. The Brisbane Central Business District (CBD) had the highest vacancy rate of 7.4%.

This was probably due to the completion of major towers, such as Spire and the initial stage of Brisbane Skytower.

Data from the RTA shows that in the September Quarter 2018, median rents for two bedroom units in Inner Brisbane have stabilised, or even increased since last year. For one bedroom units in South Brisbane/ West End, the median rent fell by 12% from 2017, to be 7% above the 2016 level.

Resales Analysis

Table 4 provides an analysis of apartment resales in a sample of new buildings in Inner Brisbane and on the Gold Coast. There have been a variety of experiences, reflecting the important role of location, market positioning, marketing strategy of the developer and vendor circumstances. Resale of properties within a relatively short time of settlement can often be a recipe for losses, especially in a falling market.



Despite this, vendors typically achieved capital gains in some of the Brisbane buildings, notably Sunland’s Abian Botanical Gardens and Aria Property Group’s Oxley and Stirling at South Brisbane.

Data on Mirvac’s Unison at Waterfront at Newstead shows that within the same project some smaller units saw an average loss of 3.2% per annum on resale, while other larger apartments saw an average gain of 5.0% per annum. Allowing for the average period held, this represented average losses and gains of 10% and 12% respectively.

Among the most significant losses were those in buildings where smaller units were held for shorter periods.

Table 4 shows that on the Gold Coast, resales in new apartment buildings have typically achieved capital gains. Rhapsody at Surfers Paradise North, developed by Ho Bee Land, saw an average loss of 2.5% per annum. This was mainly for one bedroom units. Despite its location overlooking the ocean, it still has around 15% of unsold developer units, including some of the larger two bedroom units of about 92 m². These represented one-third of the total.

Buyer Profiles/Origins

Graph 3 shows that owner occupiers in the selected Inner Brisbane buildings typically accounted for 20% of developer sales.

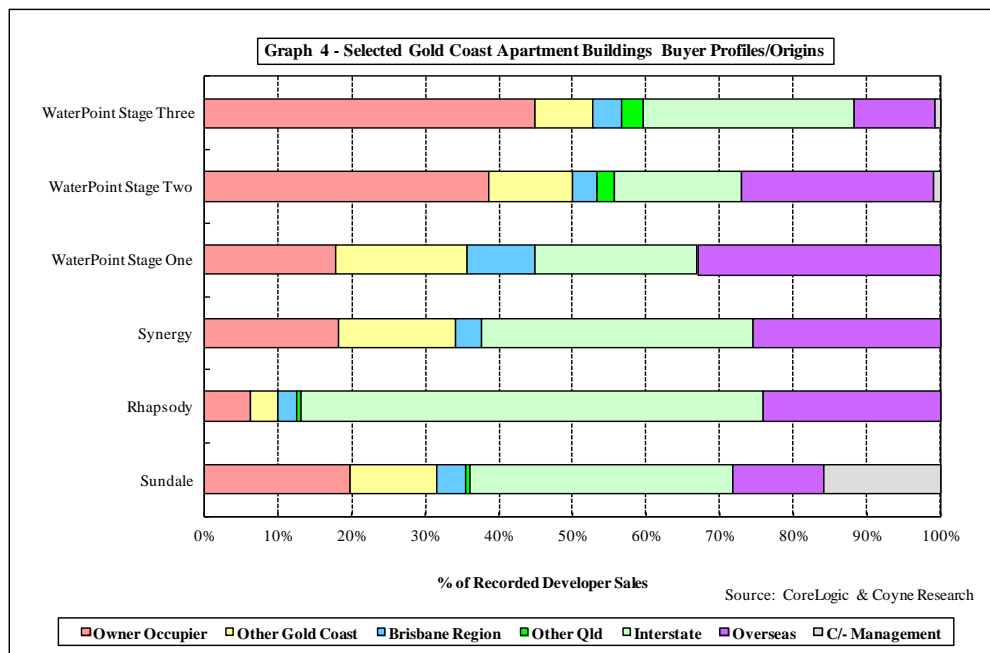
However, Soko Waterfront Apartments at West End (45%) and Frasers Property’s Watermarque on the Park at Hamilton Reach (35%) were notable for higher proportions.

The selected buildings with the lowest proportions of owner occupiers and of local support from buyers in Greater Brisbane were Gurner’s Flatiron at Fortitude Valley and Oxley and Stirling at South Brisbane. These had the highest proportions of interstate buyers, primarily from Sydney (63% and 53%, compared with a typical share of 15% to 20%).

Despite the widespread discussion of the presence of overseas buyers, the Inner Brisbane selected buildings typically had 10% to 20% of such buyers. There were however significant proportions of Asian names among the interstate and local investors.

Pradella’s Parc at West End had 25% of overseas buyers and The Milton by Aveo, 24%. The Milton is Brisbane’s first Transit Oriented Development, located over the railway station.

On the Gold Coast, the presence of overseas buyers in the selected buildings was also typically higher, for example 24% in Rhapsody and 25% in Synergy at Broadbeach. Graph 4 highlights the transition away from overseas buyers that has occurred at Raptis Group’s WaterPoint Residences at Biggera Waters.



WaterPoint Residences is a canal front project of six towers on a 2.75 hectare site, located opposite the Harbour Town Outlet Centre and 3.5 kilometres north of Griffith University at Parklands. With a proposed total of almost 700 units, it includes resort facilities, including marina berths.

Stage One, sold in 2015 and 2016, with affordable two and three bedroom units, secured 33% of overseas buyers and 22% of interstate buyers. Graph 4 indicates that the owner occupier market at WaterPoint Residences rose from 18% in Stage One to 45% in Stage Three, which sold in 2017 and 2018. Overseas buyers fell to 11%.

The transition to larger apartments and townhouses marketed to owner occupiers has occurred more widely across the SEQ market.

Studio and one bedroom apartments, like those at Rhapsody and many of the Inner Brisbane projects marketed at the peak, are out of favour, not least among lenders. Rhapsody sold predominantly to interstate buyers (63%), with limited support from owner occupiers or locals.

Many of the resales analysed for Table 4 also took place to owner occupiers. These would have included some first home buyers, reported to now account for 8.8% of owner occupier loans nationally.

Gold Coast Supply Pipeline

On the Gold Coast, Urbis recently identified 7,330 new apartments being marketed, with 554 sales over the six months to June 2018. On an annualised basis, this level of activity is below peak quarters in 2016. It is likely this reflects a downturn in foreign investment.

The pipeline includes mega projects like Jewel and Spirit, which may perform differently to smaller developments mainly targeted to owner occupiers and interstate investors/part-time users.

The supply pipeline is likely to remain constrained, assisting the demand/supply outlook. This partly reflects tighter lending conditions and the lack of appetite for major new projects.

Market Outlook

Since 2015, the Australian Prudential Regulation Authority has implemented policies to reduce lending to investors. In 2017, the market took a further step down, due to restrictions on interest only loans.

This orderly intervention to cool the market has now been impacted by fallout from the Banking Royal Commission. This has resulted in significantly tighter credit conditions. These particularly affect the more expensive Sydney and Melbourne markets.

AMP Capital has recently revised its expectations for price falls in Sydney and Melbourne to 20% over the cycle to 2020. While credit restrictions may be the major factor, other influences include:

- the ongoing supply of apartments;
- restrictions by the Chinese Government on capital outflows;
- poor affordability; and
- potential changes of a future Labor Government’s policies on negative gearing and capital gains tax.

The official interest rate remains low, unlikely to increase before early 2020.

According to *The QBE Australian Housing Outlook 2018-2021* and BIS Oxford Economics, in 2019 both Sydney and Melbourne can expect to see continued falls in median prices for both houses and units, with the markets flat in 2020 and improving in 2021.

In contrast, Brisbane’s median house price was expected to increase by 11.3% over the three year period. Brisbane’s unit market was projected to decline by a further 5% over 2019 and 2020, recovering in 2021.

On the Gold Coast, the median house price was projected to see moderate growth averaging 2% per annum to 2021. The median unit price growth was expected to be lower, reflecting the supply pipeline, averaging 0.8% per annum to 2021. The Sunshine Coast was projected to see a cumulative 9% increase in its median house price by 2021.

Infrastructure Drives Growth

In SEQ, one of the key factors underwriting the improvement in net interstate migration and employment growth (refer to pages 3-4) is the pipeline of large infrastructure projects (see panel below). With more affordable property markets and its lifestyle appeal, SEQ is defying the national trend.



The food court at the recently completed Westfield Coomera adjoins the 2,600 m² outdoor playground (The Backyard)

The Star Residences, with The Dorset Hotel (300 rooms) and 423 units under construction, has been one of the best performers in the Gold Coast apartment market over the past two years. A further four towers have just been approved for the Broadbeach site, making this potentially the largest project to be developed in the City over the next decade.

Star Entertainment Group and its partners in the Destination Gold Coast Consortium are seeking to position the project as a global tourist destination that will meet the expectations of the growing Asian market.

SEQ Selected Major Infrastructure Projects			
Brisbane		Gold Coast	
Cross River Rail	\$5.4 billion	The Star expansion	\$2 billion
Queen’s Wharf	\$3.6 billion	Jewel hotel & units	\$1 billion
Brisbane Live	\$2 billion	GCHKP (see page 2)	\$1 billion
Brisbane Airport	\$1.3 billion	Light Rail Stage 3a	\$660 million
Brisbane Metro	\$944 million	Queen Street Village hotel/retail/residential	\$550 million
Sunshine Coast		Coomera Town Centre Stage One	\$470 million
Maroochydore CBD	\$2.1 billion	Gold Coast Airport expansion & hotel	\$370 million
Sunshine Plaza expansion	\$400 million	Pacific Motorway upgrade	\$197.5 million
Airport expansion	\$225 million	Cultural Precinct Stage 2	\$80 million

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