

APARTMENT MARKET WELL POSITIONED FOR THE NEW WAVE OF FOREIGN DEVELOPMENT

Off the back of increased confidence, developers are moving forward on previously mooted apartment projects in the Brisbane metropolitan area. How does Brisbane compare to Sydney and Melbourne?

December 2014

Residential development site sales in metropolitan Brisbane totalled \$606 million in the year to December 2014; one-tenth being purchased by foreign developers

Residential development site values currently range from \$30,000 to \$90,000 per potential apartment in metropolitan Brisbane

A total of 19,200 apartments are due for completion over the next three years in metropolitan Brisbane

Prices currently range from \$4,000/m² to \$10,000/m² for new apartments in the Brisbane metropolitan area



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“With heat still in the Sydney and Melbourne residential markets, Brisbane apartments have become a viable and more affordable option”

The Brisbane housing and construction industries are continuing to recover from the impact of the GFC with key market indicators signifying opportunities for the residential apartment market heading into 2015.

Interest rates are expected to remain at historic lows, the shift from mining to cleaner gas construction and gas exports will place Queensland ahead of those states reliant on a less diversified economy. The Australian Bureau of Statistics have projected Greater Brisbane’s population to grow by 2.1 percent annually out to 2030.

With heat still in the Sydney and Melbourne residential markets, Brisbane apartments have become a viable and more affordable option for first home buyers and local investors in Australia. As well, foreign investors are looking to invest either as a secure offshore investment strategy, or develop to add to the housing stock of Australia under the current foreign investment regulations.

Over the twelve months to December 2014, \$606 million worth of major sites have been purchased in the Brisbane metropolitan area, being suitable for potentially high density residential developments.

Foreign developers have now turned to the Brisbane metropolitan market, accounting for almost one-tenth of all residential site sales transacted. This included two major CBD site sales purchased by Singapore based, Aspial Corporation, being 30 Albert Street for \$36 million and 240 Margaret Street for \$30 million.

Positioning metropolitan Brisbane in the wider context of the Australian market, metropolitan Sydney over the same period, tallied close to \$2.9 billion worth of potential residential development sites where foreign purchasers made up 41 percent and in metropolitan Melbourne, 39 percent of sales were to foreign investors and developers across the \$1.7 billion total sales recorded.

TABLE 1

Major Residential Development Site Sales

Address	Price (\$ mil)	Purchaser	Sale Date
240 Margaret St, Brisbane CBD	30.00	Aspial Corporation	Sep-14
66-98 Montpelier Rd, Bowen Hills	25.00	Metro Property Group	Sep-14
Fmr TAFE campus, 1 Cordelia St, South Brisbane	46.00	R & F Properties	Aug-14
30 Albert St, Brisbane CBD	35.36	Aspial Corporation	Jul-14
Riverside Business Park, West End	26.00	Pointcorp	Jul-14
Absoe site, Boundary & Mollison Sts, West End	42.50	Payce Consolidated	Apr-14
Waterloo site, Stratton St, Newstead	40.00	Metro Property Group	Mar-14
801 Ann St, Fortitude Valley*	22.20	Walker Corporation	Mar-14
Festival Towers (Stage C&D), Newstead*	23.35	Cavcorp Qld Pty Ltd	Mar-14
Fmr TAFE campus, 1 Cordelia St, South Brisbane	22.00	Metro Property Group	Dec-13

BUS AND TRAIN UPGRADE

Ready for travel by 2021, the Bus and Train (BaT) project is a critical capacity expansion in the public transport network with major hubs planned across the city and inner city suburbs.

The BaT project will breathe life into proposed residential projects with three new underground stations on Roma Street and George Street in the Brisbane CBD and in Woolloongabba.

Beneath the Brisbane River and CBD, from Spring Hill to Dutton Park, the five kilometre long and 15 metre wide tunnel will be double-decked with integrated platforms for bus and rail at each station.

Less than two years ago, if a development site sold for more than \$150,000 per potential apartment in Sydney, it would be considered an excessive outlier.

Residential development sites in metropolitan Sydney now average between \$90,000 and \$260,000 per potential apartment, whilst in Melbourne metropolitan it's closer to \$60,000 and \$100,000. As foreign and local developers look for new opportunities outside Sydney and Melbourne, Brisbane is well placed with residential development sites attracting \$30,000 to \$90,000 per potential apartment.

FIGURE 1
Residential Development Site Sales
Sale price per potential new apartment

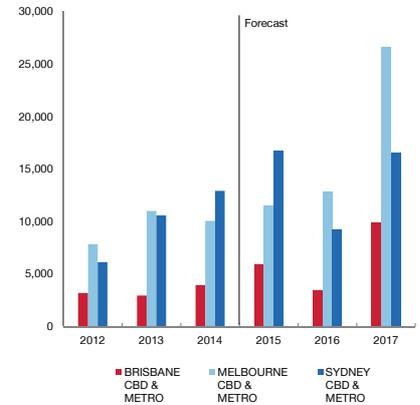


Source: Knight Frank Residential Research

This lower initial site investment widens the scope in the short term to draw in smaller foreign developers and those that are unable to accommodate the risk of higher entry costs associated with residential development sites in the Sydney and Melbourne markets.

Given the scale of some recent offerings in Brisbane including the Parmalat (2.5 ha) and Hanson (1.5 ha) sites in South Brisbane, it will not be long before the larger consortiums already with stakes in the Sydney and Melbourne markets, consider the Brisbane market for their next site to develop and expand their Australian portfolio.

FIGURE 2
New Apartment Pipeline
Number of total apartments



Complexes included must have more than 30 apartments and stand above 3 storeys.

Source: Knight Frank Residential Research

Off the back of improved sentiment and positive movement in the market, developers have started to move forward on previously mooted apartment projects in the Brisbane market.

Over the next three years metropolitan Brisbane has a total 19,200 apartments due for completion. This is significantly less than that expected for metropolitan Melbourne with 51,000 apartments, followed by Sydney metropolitan at 42,600 apartments due to come on line, as shown in Figure 2.

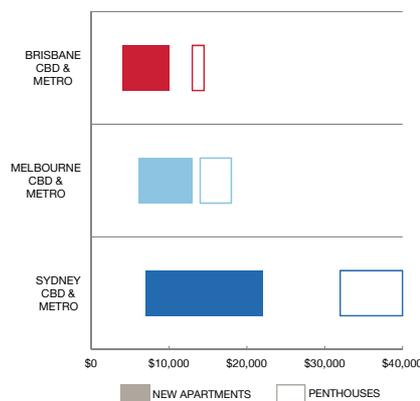
With high office vacancy and minimal new residential stock coming on line in recent years, almost 700 of these new apartments are expected in Brisbane CBD over the next three years. The major projects in the pipeline during this time include 111 Quay (78 apartments), Spire, 550 Queen Street (340 apartments) and Abian, 142 Alice Street (147 apartments).

Other significant projects due in the following phase include the Supreme and District Court site (428 apartments), Brisbane Skytower (1,314 apartments) and the Queen's Wharf redevelopment. Details of the multi-million dollar project are still to be confirmed once the developer is named. The integrated resort will include a six-star hotel, retail and entertainment zones, convention centre and dynamic public spaces.

Prices currently trend from \$4,000/m² to \$10,000/m² for new apartments in the Brisbane metropolitan area and for luxury penthouses; this extends further to \$13,000/m² to \$14,500/m².

Metropolitan Melbourne now straddles an average \$9,000/m² for a new apartment and up towards \$20,000/m² for a luxury penthouse. At the same time, Sydney ranges from \$7,000/m² to \$22,000/m² for new apartments in the metropolitan area and up to \$40,000/m² for a penthouse on Sydney harbour. When you consider these prices, it's clear to see why Brisbane apartments have become an attractive and more affordable option.

FIGURE 3
New Apartment Sales Range
Average rate per m²

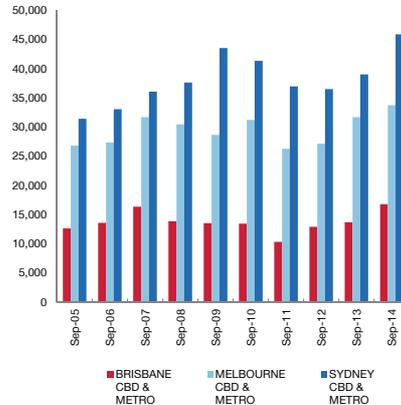


Source: Knight Frank Residential Research

Sales turnover in the Brisbane metropolitan apartment market has sustained four consecutive years of positive growth. In the year to September 2014, Brisbane recorded 16,791 apartment transactions, up 22.6% on the previous year and trending well above the ten year average of 13,710 apartments.

Brisbane's growth in sales volume surpassed Sydney and Melbourne, with growth of 17.6% and 6.6% respectively. However, Melbourne transacted double the number of sales of Brisbane and Sydney recorded almost threefold.

FIGURE 4
Apartments Sales Volume
Total number of annual sales

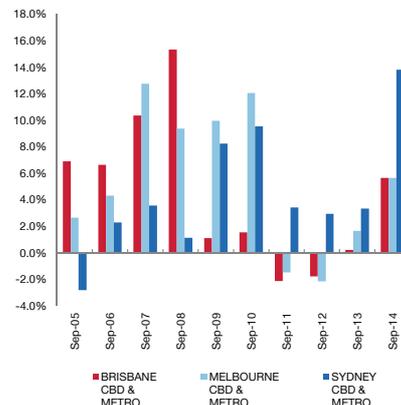


Source: Knight Frank Residential Research, Residex

After the post-GFC lull, Brisbane is starting to gain momentum sharing in the upswing in capital growth experienced by both the Sydney and Melbourne metropolitan markets over the past two years as seen in Figure 5.

Brisbane metropolitan apartments recorded capital growth of 5.7% over the twelve months to September 2014 to record a median value of \$370,000. In the last quarter of this period, capital growth has been sustained at 1.8%.

FIGURE 5
Apartments Capital Growth
% annual growth for all apartments



Source: Knight Frank Residential Research, Residex

Sydney experienced more than double the annual capital growth to September 2014, increasing 13.8% to a median \$585,500 for an apartment in the metropolitan area. In comparison Melbourne enjoyed similar annual growth to Brisbane for apartments, at 5.7% over the same time, although the median stood higher at \$464,500.

As an investment, metropolitan Brisbane apartment rents remained stable over the twelve months to September 2014, with a median weekly rent of \$375. Total vacancy in Brisbane CBD was reported by REIQ at 2.1%, after averaging 2.5% over the previous year to June 2014. Vacancy was reported to be slightly higher for the Brisbane Statistical Division at 2.3%. Based on the proportion of unlet residential properties to the total rental roll, vacancy is trending well below market equilibrium at 3%.

Over the last two years, average gross rental yields have mostly trended downwards across the major capital cities in Australia, with Brisbane metropolitan continuing to achieve the highest yield. Since September 2013, as capital values rose faster than rents, gross rental yields fell 29 bps across the year to 5.31% in Brisbane. Sydney apartments currently achieve an average rental yield of 4.72%, whilst Melbourne is slightly lower at 4.44%.

FIGURE 6
Apartments Rental Yield
% gross rental yield



Source: Knight Frank Residential Research, Residex



Outlook

- Interest rates are expected to remain at historic lows with a chance of a 25 bps reduction by mid-2015. Banks are currently keen and willing to lend at competitive rates.
- Queensland is well placed with a diverse economy going forward. As the state shifts from mining, to cleaner gas exports, the economy will benefit from the recovering housing and construction industry with a solid pipeline of residential and state significant projects.
- Annual population growth is projected to continue for Greater Brisbane, with a rate of 2.1% out to 2030. This will be powered by strong net overseas migration, followed by natural increase.
- Capital value growth is forecast to pickup over the medium term, as Brisbane is considered an alternate option due to very strong growth still occurring in the Sydney and Melbourne apartment markets.
- After ten years of soft new supply, especially in the Brisbane CBD market, vacancy is expected to move closer to equilibrium and rents are likely to witness low to moderate growth throughout this time.
- As capital values are forecast to rise at a faster pace than rents over the short to medium term, its likely that gross rental yields will continue to trend downwards, but remain higher than the other major capital cities.

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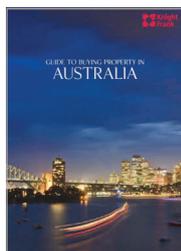
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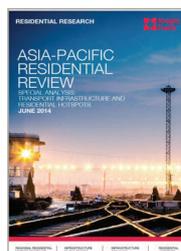
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