

# TOWNSVILLE INSIGHT

APRIL 2015



## Key Findings

**Population growth** across Townsville expected to average 5,350 persons per annum between 2013 and 2031

**Gross Regional Product (GRP)** was estimated to be \$10.76 billion as at 2013, **40% above the next largest major North Qld centre**

**Diverse economy - no single industry contributed more than 13% to the region.** Notable industries include Rental, hiring & real estate services (12%) and Public administration & safety (11%)

**Townsville has the largest Government presence in North Queensland** - 18,895 Government employees working across Local, State and Federal agencies alongside a further 18,000 defence personnel and their dependents

**Building quality is very important to occupiers** - vacancy rates in office assets with NABERS rates of 4 stars and lower is currently 33.4%, compared with 17.6% for those rated as 5 star

Residential apartment market is improving in response to more positive sentiment - **Over the three months to Dec 2014, median apartment prices grew 15.2%**

The strong presence of Government tenants and defence personnel, coupled with a diverse and growing economy with linkages to resource, education and health care projects will ensure Townsville remains the strategic centre and key contributor to the economic wellbeing of North Queensland.

## HIGHLIGHTS

Industry diversity, government investment and major transport infrastructure underpin Townsville's role as the commercial and services hub for North Queensland's minerals, agriculture, tourism and tropical science sectors, according to the most recent *Townsville City Economic Development Plan 2013-2017*.

Following a period of instability and uncertainty in the run-up to the Queensland State Election, there is renewed hope that a sustained economic recovery will develop on the back of new infrastructure commitments.

The declaration of the Townsville City Waterfront Priority Development Area (PDA) on 5 September 2014, will go some way to improving and promoting the heart of Townsville. The PDA covers approximately 97.2 hectares, incorporating land on both sides of Ross Creek and is within the Townsville Central Business District (CBD), with a main aim to focus, facilitate and accelerate economic growth.

Alongside the PDA declaration is renewed optimism surrounding the building of a new integrated entertainment and stadium facility, after an initial \$100 million contribution from the Queensland Government. There is also restored confidence around employment as a consequence of a proposed \$450 million regional jobs package.

The three newest commercial office buildings in Townsville (completed in 2013) record vacancy at just under 8% (1,639m<sup>2</sup>). While vacancy rates exceed this in commercial CBD buildings across the wider market, incentives for the adaptive reuse, and the first wave of Council employees moving into the CBD from suburban areas, represents positive resurgent steps to increasing occupancy and vibrancy in the CBD. As Townsville will have little new office development, the steadily reducing level of supply, especially in premium rated buildings, will start to reflect future office rental increases.

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Prospects for residential development are improving as apartment values and demand increase

# INTRODUCTION

## TOWNSVILLE IN CONTEXT

Townsville is centrally located in terms of Queensland's (Qld) economic zones for minerals, agriculture, tourism and coal. It also has growth potential in the areas of tropical research, science and health expertise, and clean energy.

Additionally, as highlighted within the *Townsville City Economic Development Plan 2013-2017*, Townsville's location close to Papua New Guinea, Asia and the Pacific makes it a natural value-adding, services and distribution point. Port facilities and high-capacity rail, airport and road networks connect the city and the region to national and international markets. Townsville is the focus for warehousing, retail, manufacturing, health care, education and research.

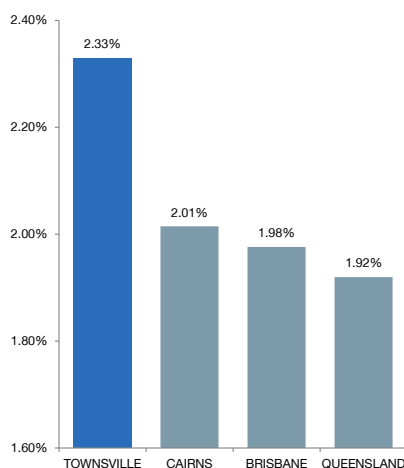
Furthermore, in a boost to northern Australia, from 1 March 2015, Townsville airport will be able to support regular international flights. Increased visitor numbers will boost the tourism and associated industries in Townsville and beyond. By making Townsville a gateway into Australia it will also encourage businesses to invest and will help to unlock the region's full potential. Queensland Airports Ltd has already commenced talks to secure the first international air service into Townsville.

Townsville is also a strategic base for the Australian Defence Force with permanent forces located at Lavarack Barracks and the Royal Australian Air Force (RAAF) Base Townsville. Known as Australia's largest garrison city, Townsville has played a significant role in the Australian Defence Force since World War 1. Townsville is home to around 18,000 defence personnel and their dependents, making up almost 10% of the total population.

Townsville's estimated residential population was 192,038 as of June 2014, making it the largest city in North Queensland and Northern Australia, and the sixth largest LGA in Qld. Townsville's population has grown rapidly over the past ten years, increasing at an average of 2.4% per annum. Over the next 20 years, Townsville is projected to experience average population growth of 2.3% per annum, significantly above Cairns, Brisbane and Queensland (see Figure 1).

Even in the face of global uncertainty, Townsville's economy has enjoyed recent growth with its performance supported by significant industry diversity. Between 2006 and 2013, Townsville's economy experienced an average annual growth rate of 5.8%, considerably above Qld's Gross State Product (GSP) growth rate of 3.1% per annum for the same period.

FIGURE 1  
**Annual Projected Population Growth Rates**  
2011 - 2031



Source: QGSO, Knight Frank





# FUTURE GROWTH DRIVERS

## TROPICAL TOWNSVILLE

As a well-served centre of the tropics, with national and international access, Townsville is an increasingly preferred location for specialised industry and professionals. The city's relatively large population, combined with that of nearby regional centres, provides a sufficiently large market to support a range of business enterprises that would otherwise be expected to operate from South East Queensland.

The latest *Development Status Report (August 2014)* reveals that the Townsville and North Queensland area has over \$77 billion worth of projects within its development pipeline. This includes \$9bn underway, \$52bn approved and waiting to start and another \$16bn proposed. Townsville City itself has strong linkages to the region's natural resources, including: mining, coal and coal seam gas deposits, cattle, sugar cane, horticultural products and fisheries within the Great Barrier Reef.

## Education

As a result, Townsville has great potential in the areas of tropical science, health and sustainable industries, especially as it is home to leading institutions like the James Cook University (JCU) and the Australian Institute of Marine Science. It is ideally located to play a leading role in developing

new research and business solutions to the challenges of development and sustainable living in the tropics.

JCU's Townsville campus is a major economic driving force of the Townsville LGA contributing 5.24% of the region's employment. Furthermore, 4.43% of Townsville's GRP was derived from the direct and flow on activities of JCU according to the *JCU Economic Impact Report 2012*. The Academic Ranking of World Universities (ARWU) positions JCU, as a whole, in the top 4% of the world's tertiary institutions, a ranking which supported growth in student numbers at its campuses by 42% over the past five years. During the same period full time

international students also increased by 62%. Of the 16,000 full time JCU students and 3,500 staff nationwide, around 75% are based in Townsville, with many students now located within the new City Campus.

## Defence

In addition to education, defence has long been one of the key contributors to Townsville's growth and economic diversity. With the increasing importance of Townsville's defence facilities and infrastructure, there is an opportunity for business and industry to be identified, developed and encouraged to participate in associated defence services and supply.

MAP 1

### Townsville's Strategic Location

Townsville's position makes it a natural value-adding, services and distribution point

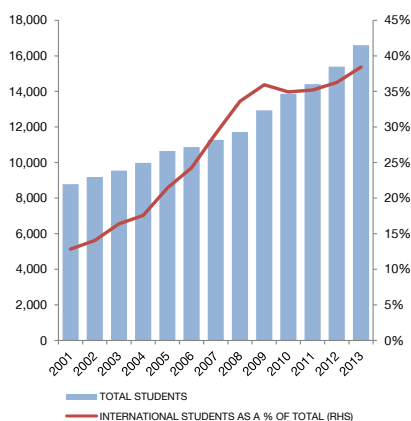


Source: Adapted from Queensland Government 2011

FIGURE 2

### James Cook University Students

Total full time numbers, all JCU campuses



Source: Department of Education & Training

# GROWTH CONTINUED

## Local Market Demographics

Townsville has been one of the fastest growing LGAs within Queensland over the past decade which has come in response to solid economic conditions, particularly up until 2012. An uplift in the region's key employing industries of defence, public administration, education and health care meant that population growth has stemmed from incoming skilled workers. At the same time, resilient demand from domestic and overseas students attending the James Cook University has propelled population growth in younger age cohorts.

As at June 2014, the Townsville LGA had a total population of 192,038, making it the 6th most populous LGA in Qld and the largest urban centre north of the Sunshine Coast. Over the past 10 years, population growth has averaged 2.4% per annum, which was above the Qld average of 2.1% per annum over the same period (see Figure 3).

Prior to 2006, population growth in Townsville (and Qld) was driven by a combination of net interstate migration and internal movements within the state. However, in response to a greater need for more skilled workers, particularly within construction and health care industries, net overseas migration has

TABLE 1

### Population Growth by Age, Townsville LGA

Age Cohort	2008	2013	2013 %	Growth (2008-2013)	% Growth p.a.
0-19	49,094	53,597	28.3%	4,503	1.8%
20-39	40,348	45,944	24.3%	5,596	2.6%
40-54	36,801	38,994	20.6%	2,193	1.2%
55-64	26,731	31,357	16.6%	4,626	3.2%
65+	15,529	19,346	10.2%	3,817	4.5%
<b>Total</b>	<b>168,503</b>	<b>189,238</b>		<b>20,735</b>	<b>2.3%</b>

Source: ABS, Knight Frank

been the backbone of recent population growth. According to the 2011 Census, population growth from overseas migrants between the two most recent Census periods (2006 & 2011) totalled 7,482 persons, of which 44% were aged between 20-34.

By age, Townsville has a young demographic structure with 52.6% of residents aged 39 or below and reflects the area's strong pull for young workers. Alternatively, while the proportion of residents aged 65+ (10.2%) is considerably below the Qld average (13.6%), population growth in this age group has been significant, where an annual growth rate of 4.5% was recorded over the five years to June 2013.

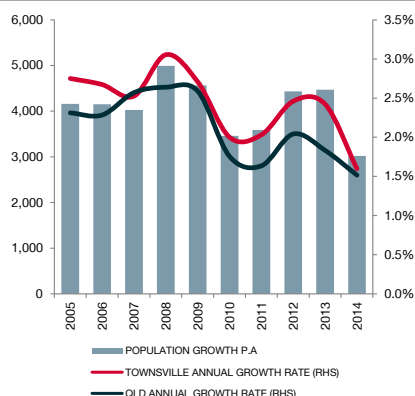
More recently, population growth has eased throughout Queensland, with Townsville being no exception. This modest reduction has been driven by a

nine year low in net overseas migration. Over the 12 months to June 2014, population growth in Townsville eased to 1.6%, remaining above the Qld average of 1.5% for the period. However, looking forward the prospects for population growth remain amongst the strongest in Queensland (Figure 1).

Townsville's growth opportunities have been recognised by the Queensland Government, with recent population projections highlighting the attractiveness of the area for workers, families and students alike. According to the Queensland Government Statistician's Office (QGSO), the Townsville LGA is set to encompass a population of approximately 285,000 persons by 2031, which indicates an average increase of around 5,350 persons per annum from 2013. The dominant working age group (20-64) is expected to remain strong, which will support demand for further employment opportunities.

FIGURE 3  
Townsville Historical Population Growth

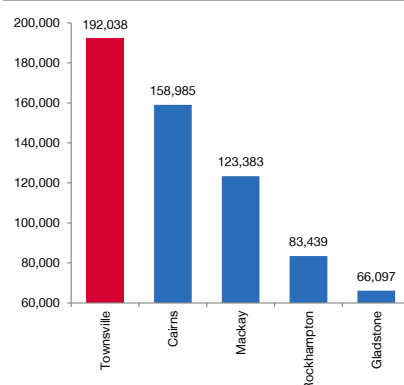
Population number and growth rate



Source: ABS, Knight Frank

FIGURE 4  
Population by Major North Qld Centres

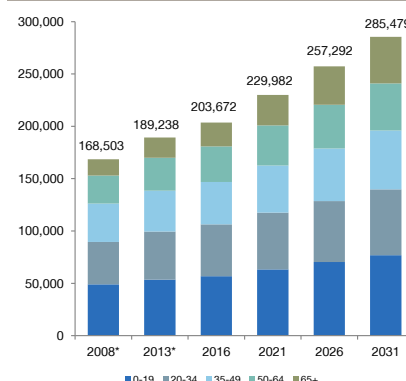
June 2014



Source: ABS, Knight Frank

FIGURE 5  
Townsville Population Growth Projections by Age

2008-2031



Source: QGSO, ABS\*, Knight Frank  
Projections are based on medium assumptions

# OFFICE MARKET

## Economy

Townsville is not only the largest urban centre north of the Sunshine Coast, but the key contributor to the economic wellbeing of North Queensland. Regarded by many as the unofficial capital of North Qld, there exists many opportunities in Townsville which have come off the back of increased infrastructure investment, ultimately allowing the city to become the primary commercial, education and services hub to the growing North Qld region. Townsville is home to some of the region's key tourism assets, which ordinarily provides a natural advantage for business development.

Unlike many other towns within North Qld, Townsville is not reliant on a single industry as the local economy is characterised by a diverse employment base, each of which contribute significantly to the region's prosperity. The area's growth is underpinned by the strong presence of agriculture and resources projects, with the Port of Townsville being the crucial link between regional Qld and the rest of the world. In this case, Townsville is the gateway to a number of crucial exports including zinc, sugar, copper and magnetite. Townsville is home to a high provision of Government departments and is also the strategic centre for the Australian Defence Force.

For the LGA, Gross Regional Product (GRP) was estimated to be \$10.76 billion as at 2013, 40% above the next largest major North Qld centre (see Figure 6). Like many area's, the Townsville economy slowed in the face of the Global Financial Crisis in late 2008/2009. However, Asia's growing appetite for Australian exports meant the local economy was more resilient than others during the period. Nevertheless, the economy appears to be gearing up for the next phase of growth. The diversity of the local economy is reflected by the contribution of each industry to the LGA's GRP. As at 2013, no single industry contributed more than 13% to the region (see Figure 7). Notable industries include Rental, hiring & real estate services (12.3%) and Public administration (Govt.) & safety (11.1%).

## Tourism & Education

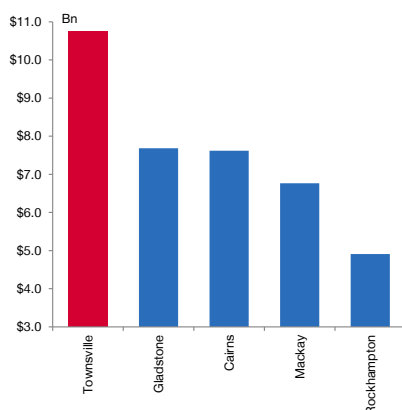
Both tourism and education play a leading role in the local economy, with many benefits flowing from increased tourism and student numbers. Data from Tourism Research Australia shows 1.95 million tourists visited Townsville over the 12 months to December 2014, which injected over \$700 million into the local economy. Looking ahead, the tourism and education sectors are set to feature as the prominent growth industries in the Australian economy over coming years, following the recent depreciation of the

AUD. For Townsville, the relative importance of these industries is expected to grow rapidly over the next five years which will bode well for the local economy. Both local and state Government as well as private businesses have recognised this importance through an uplift in investment, which more recently has included the funding and development of the cruise ship terminal and investment in The Australian Institute of Tropical Health and Medicine based at James Cook University. For education, further growth in the industry is likely to boost office demand in the CBD.

## Employment

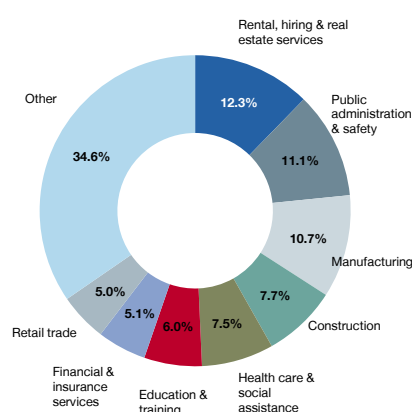
Much of Townsville's attraction for business investment is facilitated through its diverse employment base, where as at 2011 there were 71,718 jobs within the LGA. In terms of persons employed, the core sectors in Townsville include health care (14%), public administration and safety (13%), retail trade (11%) and education and training (9%). Of the 71,718 jobs located in the LGA, 25,058 jobs (or 35%) are within white collar industries (which require office space). For these industries, employment growth over the five years to 2011 was substantial (see Figure 8), particularly within education and training (+8.3% per annum) and professional, scientific and technical services (+7.2% per annum).

FIGURE 6  
**Gross Regional Product**  
By major North Qld Centre (2013)



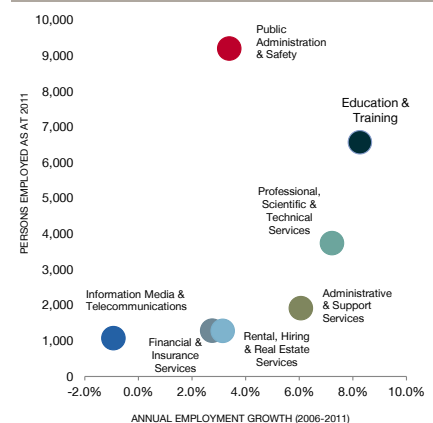
Source: ABS/NIEIR estimates

FIGURE 7  
**Gross Regional Product**  
By major industry (2013)



Source: ABS/NIEIR estimates

FIGURE 8  
**Employment & Employment Growth**  
White Collar Industries (2006-2011)



Source: ABS, Knight Frank

## Government Presence

In line with its status as the unofficial capital of North Qld, the presence of Government departments is significant and spans across all tiers of Government. While South-East Qld has the majority of Government representation in Qld, Townsville is the next dominant location with 18,895 Government employees working across Local, State and Federal agencies, representing 26% of total jobs.

By tier, the bulk of Townsville's Government jobs are located at the State level (55%), while a further 38% are at the Federal level. Government representation at other major North Qld centres is considerably lower, with Townsville having 1.6 times the amount of Government employees than Cairns, the next largest concentration (see Figure 9).

Townsville is set to continue to be the preferred location for State and Federal agencies as it remains the largest urban centre and economic focal point within North Qld. State Government commitment to Townsville is reflected by the recent reinstatement of a Northern Queensland Office for the new Queensland Premier.

## Office Market Fundamentals

Notwithstanding several major headwinds facing both the local and domestic economy, the Townsville office market has remained relatively stable in recent years which is a reflection of the region's large and diverse employment base. Similarly, business confidence is slowly starting to improve, with the most recent June Quarter PwC Townsville Business Confidence Survey showing an increase of 0.7 points on the March 2015 quarter. This is the first time the index has recorded consecutive quarters of improving confidence since June 2010. Despite an increase in the overall vacancy rate in recent years, tenant demand has remained steady with the uplift in vacancies the result of the new supply in 2013 leading to tenant outflow in other office buildings.

For a regional centre, the provision of office stock in Townsville is extensive with a number of dedicated standalone buildings housing a varied mix of both

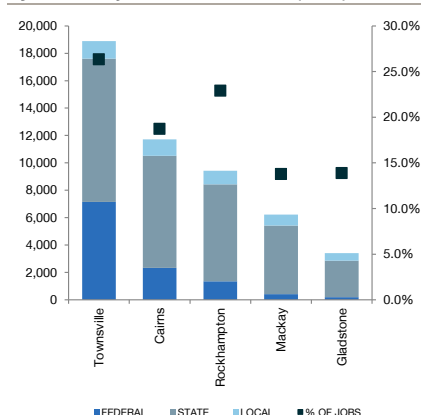
public and private sector tenants. In total, we estimate there to be a NLA of approximately 110,000m<sup>2</sup> within the CBD, with the quality of stock varying considerably. Assets with a NABERS rating of 5 stars are seen as prime grade assets, while the bulk of buildings have a rating of 4 stars and below.

Over the past three years, the supply of office stock has been considerable, with three buildings being completed in 2013, collectively adding NLA of 21,029m<sup>2</sup> to Townsville's existing office stock. Notably, these buildings include Verde (435 Flinders Street—11,500m<sup>2</sup>), Ergon (420 Flinders Street—7,340m<sup>2</sup>) and NQN House (524 Flinders Street—2,189m<sup>2</sup>). As at April 2015 these buildings are all fully leased with the exception of one floor in Verde.

## Importance of Quality Buildings

The completion of these buildings has had a large impact on the office market, particularly the vacancy rate as a number of Government departments have relocated from existing premises into these new buildings. This has included the Department of Transport and Main Roads amongst others moving into the Verde building. In conjunction with other buildings which have undertaken refurbishment to achieve a 5 star NABERS rating, the benchmark for environmental standards in Townsville's office assets is now much higher. This in turn has placed pressure on existing owners to raise the standard of their buildings to remain competitive, or alternatively, look at change of use options.

FIGURE 9  
**Government Presence**  
By Tier & Major North Qld Centre (2011)



Source: ABS, Knight Frank

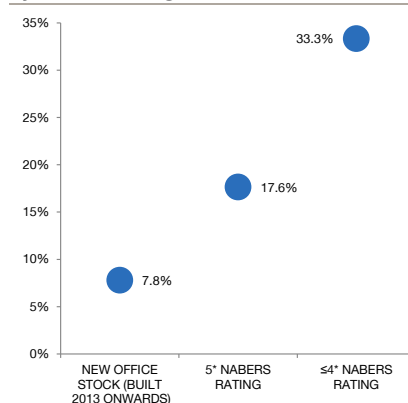
From a tenant demand perspective, Townsville's new office buildings and other highly rated NABERS assets (5 stars) have been the preferred options. As at April 2015, the vacancy rate within Townsville's new office stock (built 2013 onwards) is currently 7.8% (1,639m<sup>2</sup>), while buildings with a NABERS rating of 5 stars is slightly higher at 17.6%, or 8,600m<sup>2</sup> (see Figure 10). Both of these are considerably below the 33.3% recorded for assets with a NABERS rating of 4 stars and below, highlighting the strong relationship and preference for tenants to be located in newer or refurbished office space that is environmentally friendly, and have large efficient floorplates.

Despite the overall high vacancy rate, the CBD is set to benefit from buildings withdrawn for change of use, underpinned by the current and planned incentive programs on offer within the CBD. Introduced in 2011, the CBD Development Incentive Package is being replaced by the Townsville Jobs and Investment package in July 2015 with its purpose to support further development within the CBD.

The local office market has and is expected to continue to benefit from the incentive programs where approximately 8,000m<sup>2</sup> of vacant floor space is either under development or under active review for change of use. More recently, this has included the former Department of Transport and Main Roads building on Wills Street which has been purchased by a private healthcare provider who plans to turn it into a mental health facility.

The continued withdrawal of the city's dilapidated secondary stock for other

FIGURE 10  
**Office Vacancy, April 2015**  
By NABERS Rating & New Stock, Townsville



Source: Knight Frank



uses, coupled with further net absorption in 5 star rated NABERS buildings will place downward pressure on the vacancy rate and consolidate the commercial core into the CBD's primary office buildings.

Similar to the vacancy rate, rents vary greatly, with gross face rents in Townsville's newest office buildings, Verde and Ergon, ranging from \$540-\$590 m<sup>2</sup>. On the other hand, rents at other good -quality office assets with NABERS ratings of five stars are considerably less at \$300 - \$430 m<sup>2</sup>, while gross face rents in Townsville's secondary office market range from \$240 - \$350 m<sup>2</sup>.

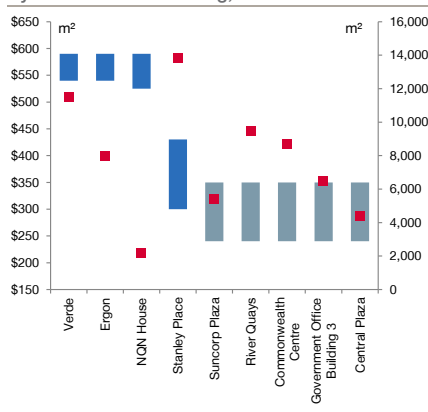
Nationally, non-CBD office markets have been subject to solid investor demand from both domestic and offshore capital. While the extent of this has not been as apparent in regional centres such as Townsville, a pick up in demand over the next 12-24 months is likely as investors focus on assets with high relative yields and an upside to growth once economic conditions improve. The high provision of Government tenants in Townsville is likely to draw attention to the market, with higher quality buildings expected to demand core market net yields of around 7% - 7.5% depending on the profile of current leasing covenants.

The only notable recent sale in the CBD was the Commonwealth Centre in January 2015, which sold to the Townsville City Council for \$16.6 million, reflecting a net yield of 10.5%<sup>^</sup>. The acquisition is part of Townsville City Council's plan to relocate 300 employees from suburban offices to the CBD and represents the first positive action to increase occupancy levels for commercial buildings in the CBD.

FIGURE 11

### Office Gross Rent Ranges & NLA

By selected CBD building, Townsville



Source: Knight Frank

# RESIDENTIAL INVESTMENT

## Rental Market

Unemployment levels had been the main impediment to tenant demand, however, tentative signs of a recovering economy have begun to stimulate the market. According to the Queensland Residential Tenancies Authority (RTA), median weekly rents in Townsville saw some increases to the end of the March 2015 quarter, with two bedroom apartments recording the highest increase, up \$15 to \$295 per week. Additionally, the growing strength of parts of the Townsville apartment rental market is also evident in the total number of bonds held by the RTA. For example, Townsville City new bonds for one, two and three bed apartments combined increased by 23 new bonds compared to 12 months ago, an increase of 4%.

In terms of occupancy the vacancy rate has increased marginally from 5.4% in June 2014 to 5.9% in March 2015, due to an increase in supply, according to the REIQ March Residential Rental Survey (see Figure 12). The latest REIQ Market Monitor Survey reports that average time on market for Townsville vacancies is around two to four weeks, with an average of approximately two applicants per listing.

## Investor Interest

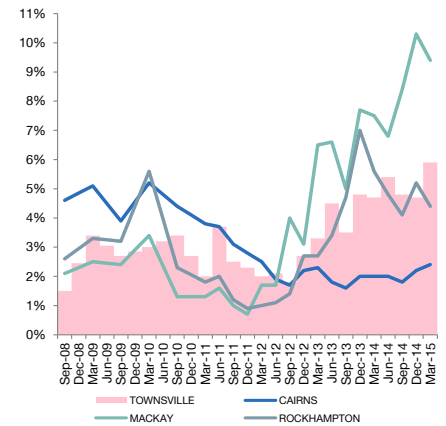
Although annual growth remains negative, improving occupier demand is beginning to feed through to investor demand with the latest REIQ median apartment figures recording impressive growth of 15.2% in the December 2014 quarter. REIQ price point data, shows a steady spike in \$350,000-plus apartment sales, and declining transactions at the lower end of the market, thus pulling the median price higher. These market dynamics are slightly compressing yields which stood at 5.0% in December 2014, down from 5.2% 12 months ago (see Figure 13).

As a response to improving economic and market sentiment there are signs that the number of apartments approved in the 2015 financial year, as a proportion of the total approvals, will reach pre-GFC levels (see Figure 14). These approvals will go some way to sustaining anticipated residential demand going forward.

FIGURE 12

### Residential Vacancy

Since September 2008

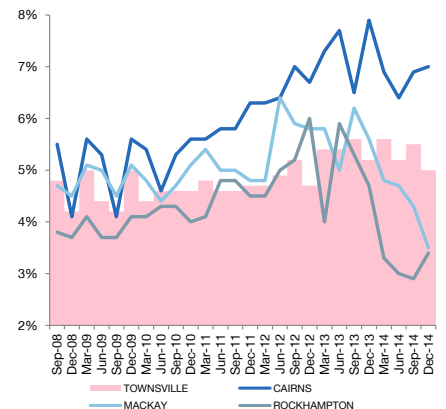


Source: REIQ, Knight Frank

FIGURE 13

### Gross Apartment Yields

Since September 2008

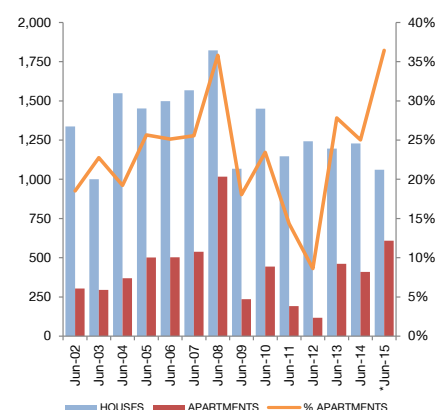


Source: REIQ, Knight Frank

FIGURE 14

### Residential Approvals, Townsville

Total number and proportion of apartments



Source: ABS, Knight Frank

\*Knight Frank estimates based on ABS Data



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Images courtesy of Townsville Enterprise

^The net yield of 10.5% was assessed, after allowing for non-recoverable outgoings, allowances for a vacancy rate of 5% in perpetuity and making additional allowances for letting of the vacant tenancies.

Vacancy data based on a selected basket of 11 CBD commercial buildings amounting to 95,675m<sup>2</sup> NLA. These are the largest buildings in Townsville all with NLA of over 2,100m<sup>2</sup> accounting for over 85% of all commercial office space.

#### Glossary:

REIQ: Real Estate Institute of Queensland

QGSO: Queensland Government Statistician's Office

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