LGen PROPERTY

Brisbane and SE Queensland Residential Property Market Update

August 2019

General Advice Warning

The information in this document is of a general nature only and should not be taken as a complete or definitive statement about property returns and other investments. You should not make decisions concerning your investment arrangements solely based on the information contained on this presentation.

The information has been prepared without taking into account your objectives, financial situation or needs. Before acting on that information, you should consider its appropriateness having regard to your objectives, financial situation and needs. You are responsible for your own investment decisions and should obtain individual tailored financial advice whenever necessary.

Overview

The Brisbane and SE Queensland Residential Property Market has been in a state of flux over the last 12 months. With dwelling values falling an anaemic -2.4% over that period of time.

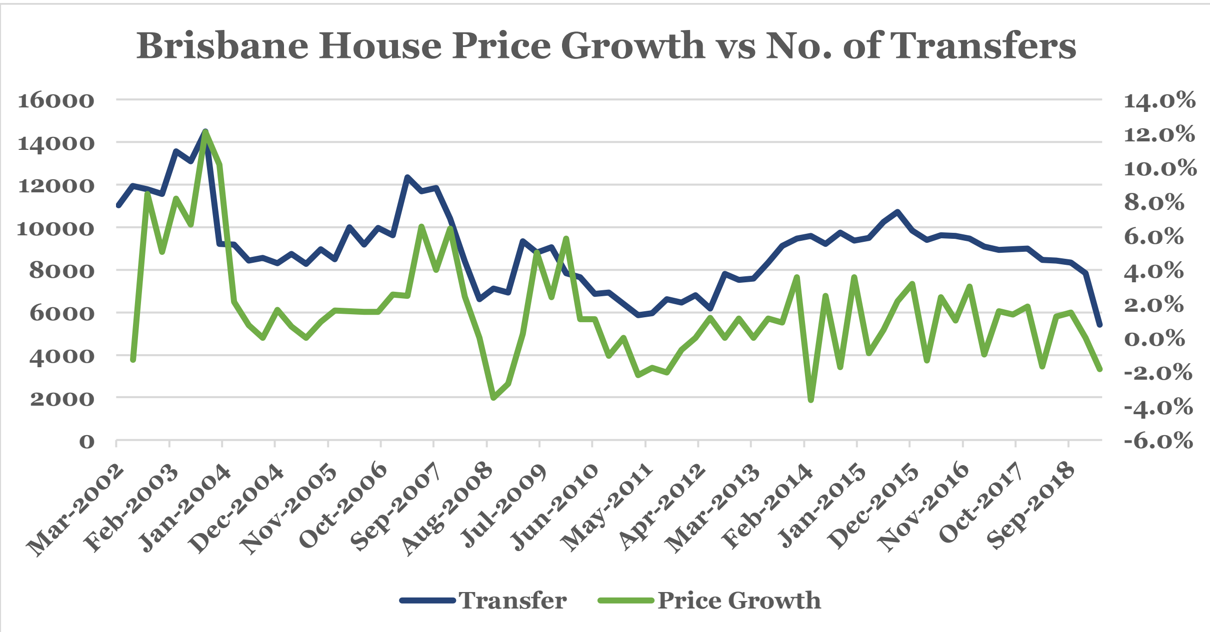
Much like Sydney and Melbourne, the market has been hampered by restrictive lending practices, as regulated by APRA and the Reserve Bank of Australia. Additionally, an oversupply of apartments hitting the market between 2013-2016, kept price growth on the backfoot when Sydney and Melbourne saw steep rises.

South-East Queensland has been less impacted by downside in the market over the last 12 months, compared to the other two major capital cities due to; rising population, falling supply and the more "affordable" nature of dwellings.

Only about 5% of Brisbane Properties go to auction vs Sydney (~25%) & Melbourne (~30%). With only a small subset of data and most properties selling via Private Treaty, auction clearance rates are not a useful tool to measure implied demand.

The number of sales/transfers does however, reflect a higher correlation with Brisbane median house price movement. As transfers rise & fall, so does price growth

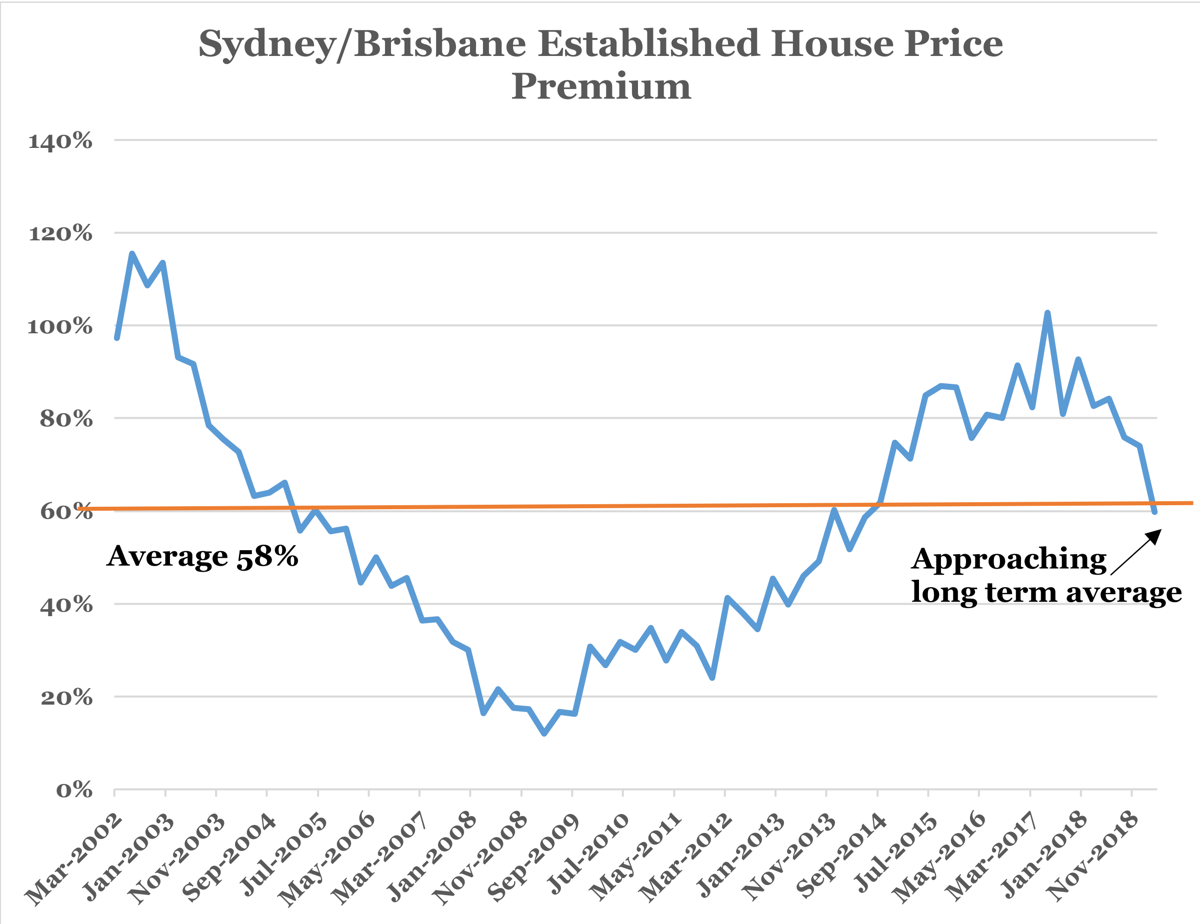
Figure 1: Brisbane Median House Price Growth vs Number of Transfers



Source: www.abs.com

One metric that is long watched for Brisbane Dwelling Prices, is that of the Sydney/Brisbane Premium as a measure of which market shows value.

<u>Figure 2: Sydney/Brisbane Established House Price Premium</u>



To explain the above chart:

- When the line is trending higher, Sydney is outperforming Brisbane.
- When the line is trending lower Brisbane is outperforming Sydney.

What is most interesting, is the period of outperformance from either city (in recent times), trends in that direction for ~6-7 years, much like a true property cycle.

The most recent period of outperformance in the Brisbane market is ***<u>only ~2 years old</u>***.

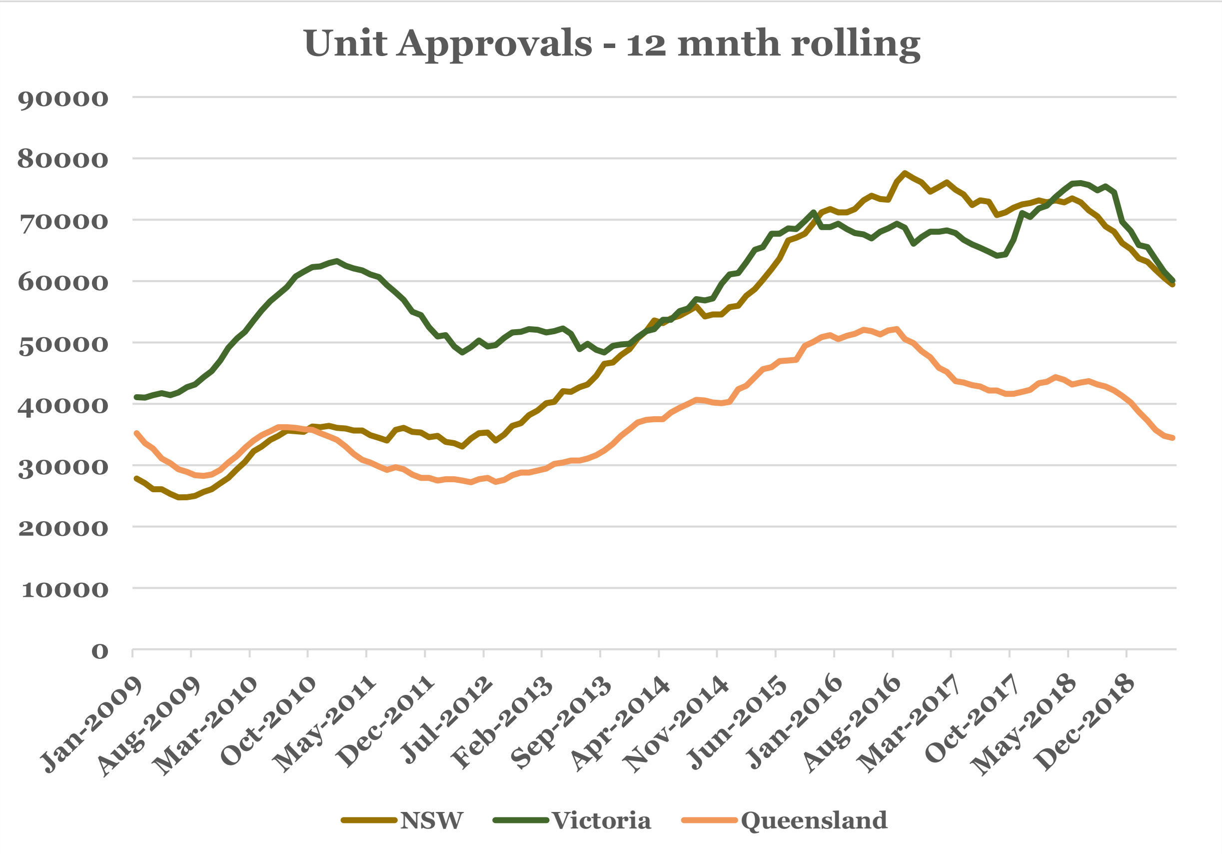
The coming report will hypothesise that this trend has a lot of boxes ticked to say this will continue.

Supply

A pick up in developer activity between 2013 and 2016, kept Brisbane's dwelling price growth subdued during the same period, while Sydney and Melbourne accelerated. Extra stock hitting the market between 2013-16, as well as tempered population growth, was the catalyst for Sydney to outperform its northern sister. Typically in a cycle, as Sydney and Melbourne become more expensive, individuals and families seek "better value", and head to Brisbane. This, increases the take up of oversupply and, in time, rebalances the market. This phenomena has been occurring for the last 12-18 months

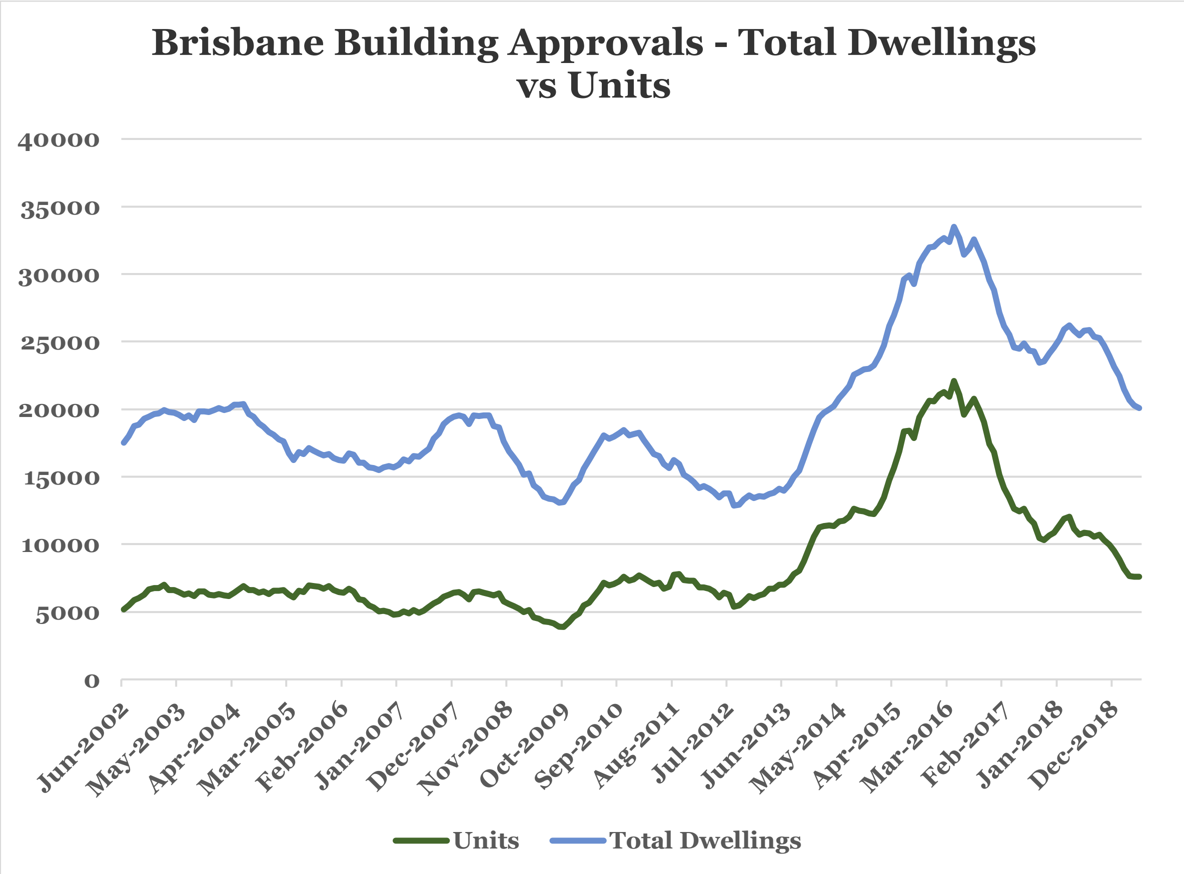
An oversupply of stock and tempered price growth, forced the hand of many developers to abandoned projects in 2017, as projects became uneconomically viable. The result is that Brisbane & Queensland building approvals, over the last 2-3 years, have pulled back AGGRESSIVELY, and are now currently at a level below Brisbane's historical average.

Figure 3: East Coast Rolling 12 month Attached Dwelling Approvals



Source: www.abs.gov.au

Figure 4: Brisbane Building Approvals – Total Dwellings vs Unit Approvals

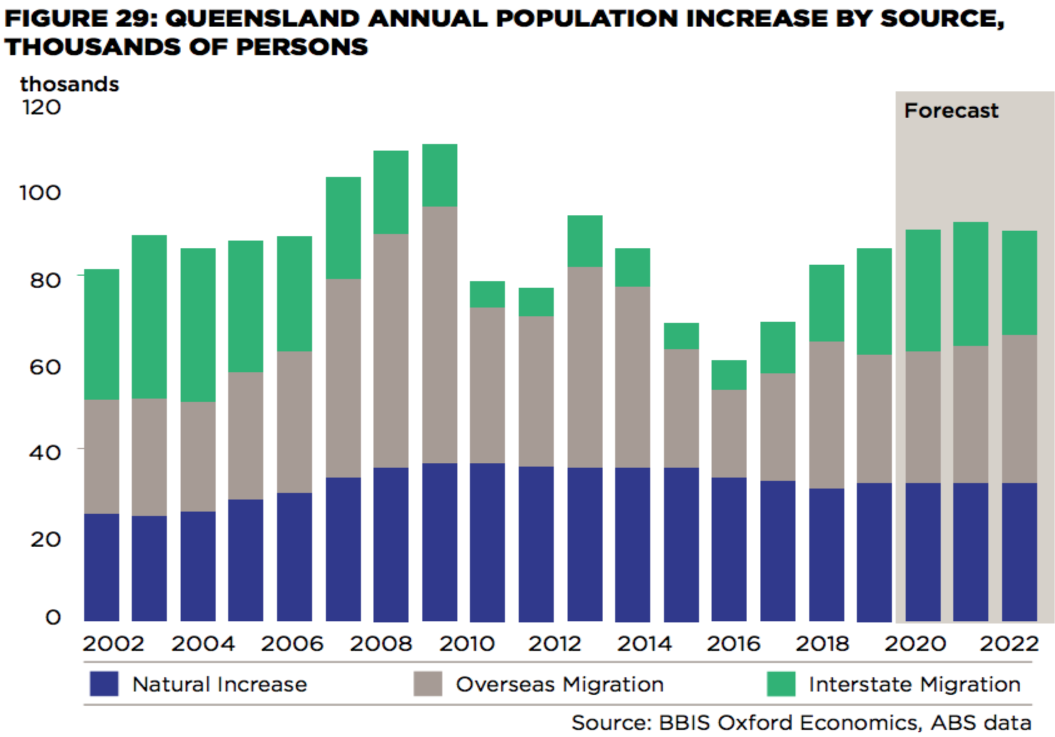


To reinforce the improving supply position in Brisbane, and coinciding with the low levels of building approvals, Greater Brisbane vacancy rates have also fallen from ~4% at their peak in January 2017 to 2.5% at last reading (SQM Research).

Demand - Population

Australia's desirable qualities including; a robust economy, democratic elections and way of life, the amount of immigrants wanting to move to Australia is relentless, keeping Australia's Population growth >400,000 people. Queensland and by default, Brisbane, has experienced significant population growth over the last 2 years as families move north from more expensive Sydney and Melbourne, in addition to increasing job opportunities

Figure 5: Qld Annual Pop'n Growth, by source, '000's of persons



Source: www.qmca.com.au

Figure 6: 2019/20 Budget Population and Immigration Estimates

Table 1: 2019–20 Budget population and immigration estimates

	2019	2020	2021	2022
Population	25 621 000	26 070 000	26 525 000	26 981 000
Pop. growth	439 000	449 000	455 000	456 000
Pop. growth (%)	1.74	1.75	1.75	1.72
Net overseas migration	271 700	271 300	267 600	263 800
Natural increase[1]	167 300	177 700	187 400	192 200

Source: aph.gov.au

Source: aph.gov.au

Brisbane currently has a population of 2.45m people, while Queensland recently jumped over the 5m person mark. Over the next 20 years or so (to 2041), Queensland projected population will stand at 7.16m with around 50% of those living in the Greater Brisbane Area. Occupancies are expected to remain reasonably stable at around 2.5 people per household.

Whilst the longer term Supply-Demand ratio looks stable, ***there is a forecast of a short term spike in population growth to close to 90,000 people per year in Queensland, and at least half of these moving to Brisbane. This coincides with a period of significantly weaker building approvals falling to historically low levels. The combination of these metrics, in the short-medium term, will likely provide a scenario where Brisbane Property prices are set to see rises in pockets of expected short term undersupply.***

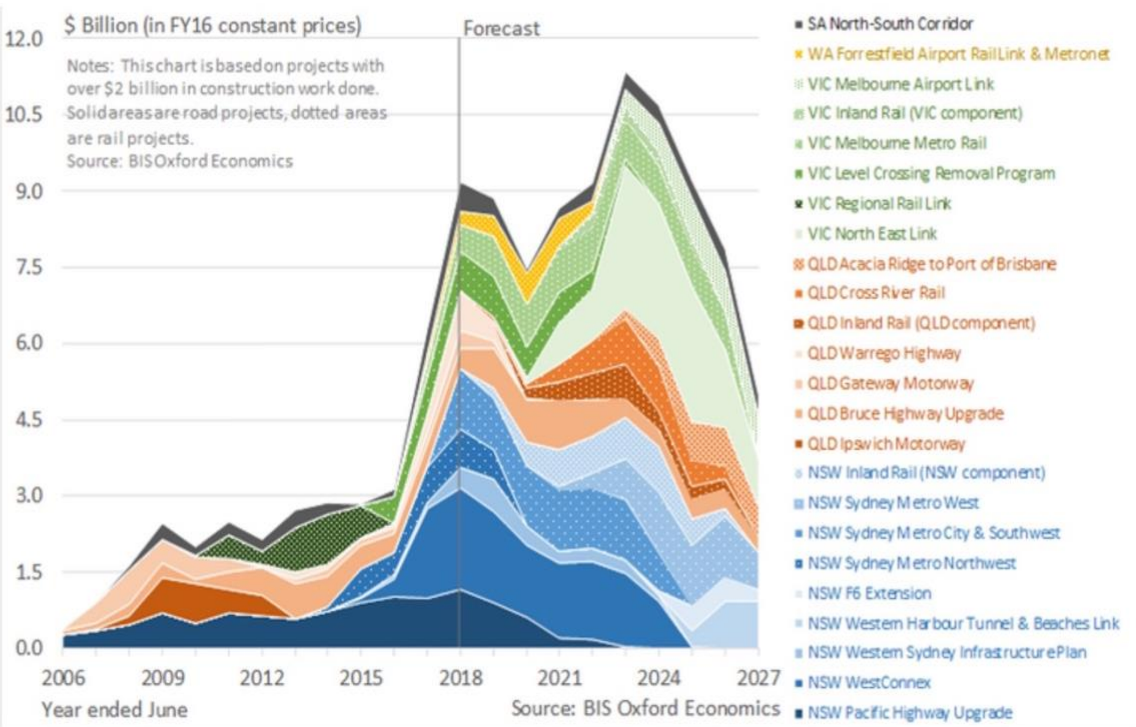
Lending and Interest Rates

Lending and Interest Rates are a macro measure and consideration of the housing market. It is an extraordinarily important influence but was covered at length in our recent (July) Sydney Property Market report. This report can be downloaded from our website www..lgenproperty.com.au

Infrastructure and Growth

Of more direct impact and of equal importance to the Brisbane property market, is the amount of flagged Infrastructure in Queensland, that is steadily rising. At the May budget in 2018, it was noted that the Infrastructure planned for both Victoria and Queensland was going to increase as a portion of the national pie.

Figure 7: 2018 Budget Infrastructure Projects by state, by project



Source: BIS Oxford Economics

This observation is coming to fruition in the months following the most recent May 2019 election, with the fast tracking of the Carmichael Coal Mine ($16Bn), in addition to already large projects underway including the Queensland leg of the Inland Rail ($4.45Bn), The Brisbane Cross River Rail ($5.4Bn).

Roads, Harbour Projects, Bridges and Rail make-up ~40% of the $41Bn planned spending on infrastructure in Queensland Projects

Relevant Projects that will impact Brisbane and surrounds

Adani Carmichael Coal Mine

Figure 8: Proposed Adani Carmichael Mine site within the Galilee Basin

Source: sbs.com.au

This $16Bn coal mine is now being fast tracked, after its delay being a contributor to the ALP's loss in the recent federal election. Its economic benefits to Queensland and the Mackay region are relatively unopposed. It's Adani's poor environmental record which is of concern to critics.

The mine is set to bring a staggering 11.6% increase to the Mackay Gross Regional Product of $7.977Bn, and an additional 1.1% GDP growth to the Queensland state as a whole. It is important to bear in mind this may well be a nice filler to offset concerns over dwindling LNG supplies in Gladstone that have boosted recent growth for Queensland.

The supply-demand equation for housing in Mackay is also looking favourable with the mine expected to bring in extra employment, and additional dwellings not expected to increase markedly.

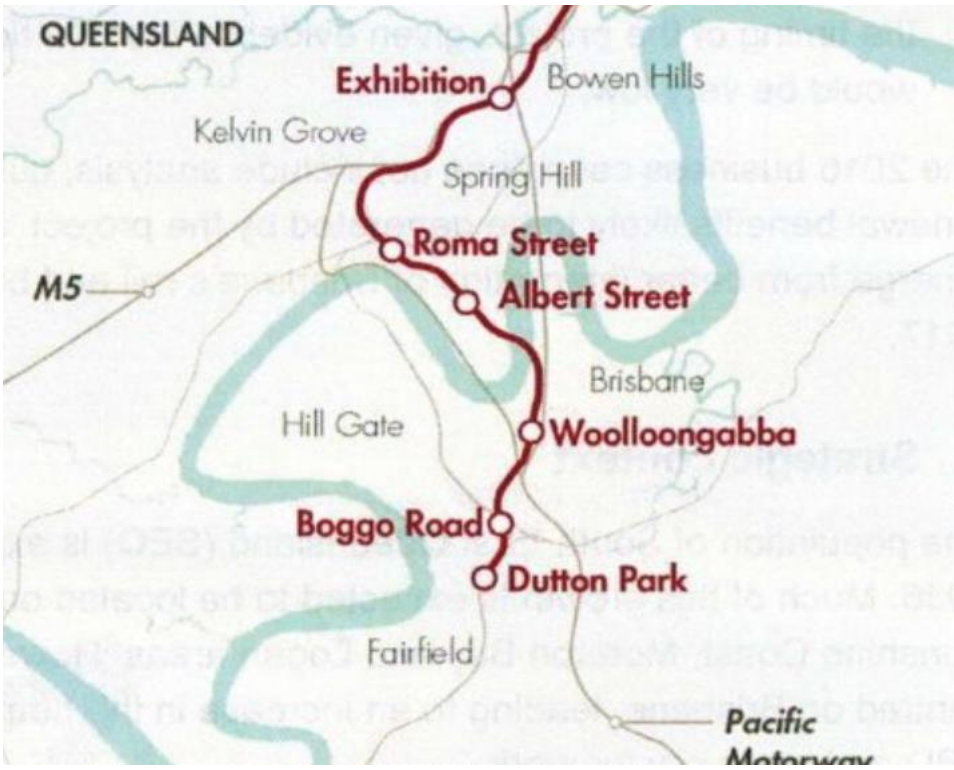
Despite this favourable outlook. Mackay is at risk of falling into a trap of becoming a "mining town" story, with what could be elevated levels of risk for investors.

Brisbane Cross River Rail

The $5.4Bn Cross river Rail project in Brisbane, runs north to south, under the Brisbane River and CBD, with 4 new stations at Boggo Road, Woolloongabba, Albert Street and Roma Street. The project will also be looking at further extensions south in due course to areas north of the Gold Coast.

The project is set to deliver new access routes to the city and city fringe for those in Brisbane's South in area's such as: Wolloongabba, Boggo Road and Dutton Park.

Figure 9: Brisbane Cross River Rail Route with planned stations



Source: www.abc.net.au

Brisbane South's supply-demand ratio also looks weighted in favour of the investor with close to 110,000 new residents and an expected ~38,000 dwelling projected to be built over the next 20 years.

Hubs like Princess Alexandra Hospital, Queensland Children's Hospital, The Gabba Cricket Ground and TAFE South Bank campus will provide an ongoing level of interest in livability, in the area.

Moreton Bay

Moreton Bay lies midway between Brisbane and The Sunshine Coast. It is a flagged growth priority precinct from the Queensland Govt, there is around $1.1Bn of Infrastructure being invested in this area alone for growth, with an upgrade to the Bruce Highway, new shopping district in North Lakes and a new University (USC) in Petrie. The completion of the Moreton Bay rail link in 2016 has also improved accessibility to Brisbane City

The Supply-demand equation for housing here is an weighted slightly in favour of supply with a projected ~260,000 new residents and extra supply of 110,000 homes. (Currently 490,000 residents and ~175,000 dwelling). However, the extra economic growth in this region brought on by the large influx of residents and low density levels should still hold significant interest for an investor.

Conclusion

Brisbane's economic backdrop is looking more sound with a significant infrastructure projects, bringing employment and boosting population. This, coupled with a severe pullback in construction of new stock, may see near-term shortages of dwellings in pockets of Brisbane. This, supply-demand equation should keep prices from falling, and position the city well for first-mover advantage should we see a move higher in house prices nationally. Brisbane is a key city on Australia's East Coast and provides an excellent investment option for properties with larger land componentry in a more affordable price category (compared to Sydney & Melbourne). Area's worth investigating are those highlighted in this report; Brisbane South and Moreton Bay. Mackay would be of interest for the speculative short-term investor, but does not meet our investment criteria for the long-term.

If you would like to investigate Brisbane opportunities further, or if you have any further questions or enquiries regarding buyer advocacy, syndication or developments, please contact Ben Weeding at LGen Property on +61 (0)428 559 308 (Phone or Whatsapp) or via ben@lgen.email

Referencing:

Information and graphics for this report was sourced from:

www.abs.com.au

www.qmca.com.au

www.sbs.com.au

http://inlandrail.artc.com.au

www.qgso.gov.au

www.aph.gov.au

www.asx.com.au

www.bloomberg.com

www.sqmresearch.com.au

www.petewargentblogspot.com

Jarman, Ben K, JPMorgan Australian Economic Research, June 2019

BIS Oxford Economics