resolution research

Based on long-term historical trends West End's apartment market looks poised to enter its next phase of growth.

MARKET COMMENT

WEST END, BRISBANE

JUNE 2017

BRISBANE INNER CITY APARTMENT MARKET OVERVIEW

Over the past 20 years, the median price of an apartment within Brisbane's inner city has grown by an average of 5% per annum. Over this 20 year period we have also seen the availability of prime land along Brisbane's inner city waterfront virtually dry up. Consequently development is now largely occurring in areas set back from the river.

INNER CITY LONG TERM GROWTH 5% P.A.

Although supply has reached record levels over recent years, demand has also reached record highs with a total of 15,270 apartments trading between 2013 and 2015. With broader market influences resulting in a significant slow-down in construction, supply has now peaked. This is unquestionably an important market correction which is expected to influence the next phase of price growth in the cycle.

Importantly, Brisbane remains one of the most affordable apartment markets in the country. According to the Real Estate Institute of Australia, the median price of an apartment in inner Sydney sat at $900,000 for December quarter 2016[1] which sits at 78% premium to the inner Brisbane median[2] of $505,000. While values continue to escalate in inner Sydney its rental market is expected to slow.

BRISBANE 78% MORE AFFORDABLE THAN SYDNEY

Inner Brisbane tells a different story with rents remaining affordable and growing at a sustainable pace. Given the city's relatively affordability, inner Brisbane's rental market continues to deliver healthy returns.

Demand for apartments within inner Brisbane is squarely focussed on new developments which offer a point of difference and in locations which are well support by infrastructure. These developments are typically enjoying strong take-up and low vacancy rates at the expense of older, established developments. On analysis, the higher vacancy rates which are reported across many inner Brisbane suburbs are a direct consequence of the high volume of older, established stock sitting in the rental market.

WEST END RESIDENTIAL MARKET PERFORMANCE

MEDIAN PRICE

Despite strong lifts in West End's median house price over the past five years, its median unit price remains affordable. For the year ended March 2017 the suburb's median house price sat at $1.1 million which is at a 111%

[1] Real Estate Institute of Australia - December 2016
[2] Resolution Research - March 2016

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Values throughout the suburb's residential market showed relatively consistent growth in both median house and unit prices. In 2008/09 growth slowed as a consequence of the global financial crisis. Whereas values across West End's housing market began to escalate strongly in 2012/2013 (averaging 9.0% over the past five years), its unit market has remained flat. This performance has been heavily influenced by the suburb's lack of available land for waterfront development over recent years. Development has been confined to inferior locations which subsequently attract lower price points than their waterfront counterparts.

The recent performance of the suburb's median house price clearly points to a market with strong underlying values. As supply levels of apartments begin to stabilise (with limited new apartment supply due to enter the market), the suburb's median apartment price is expected to recover. This recovery will be underpinned by a more diverse range of sales transactions across both waterfront and non-waterfront product. Demand over recent years has been focussed on secondary supply of smaller, one and two bedroom apartments in infill locations and is now expected to normalise with a more equal distribution between waterfront and non-waterfront apartments.

RECORD PRICE DIFFERENTIAL OF

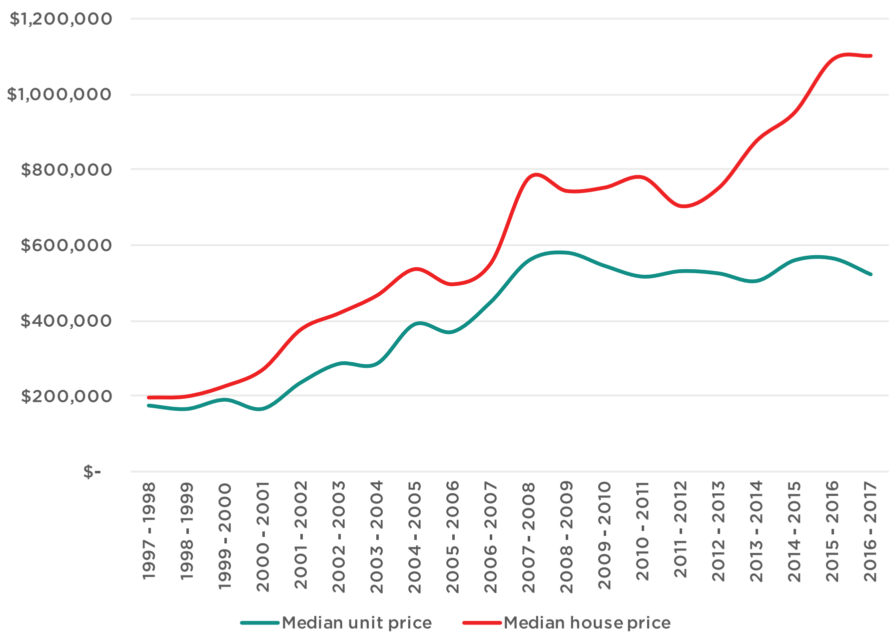
110%

Over the past 20 years there has been an average price differential of 48% between West End's median unit and house price. Over the past 10 years this has risen to average 58%. This differential is now at a record high of 111%. Now that supply levels have moderated and the intensity of development in infill locations is subsiding we expect this differential to narrow again buoyed by transactions at the premium end of the market.

APARTMENT MARKET DEMAND

Over the past 20 years there has been an average annual demand for 215 apartments within West End. More recently, over the past five years this has almost doubled to average 401 per annum. Demand peaked across 2013/2014 to 2015/16 with a total of 1,616 sales made, averaging 539 per annum. Importantly, sales volumes have risen in line with new supply

WEST END - MEDIAN UNIT PRICE VS MEDIAN HOUSE PRICE
1997 TO 2017 (Y/E MARCH)



Source: Resolution Research, The State of Queensland – June 2017

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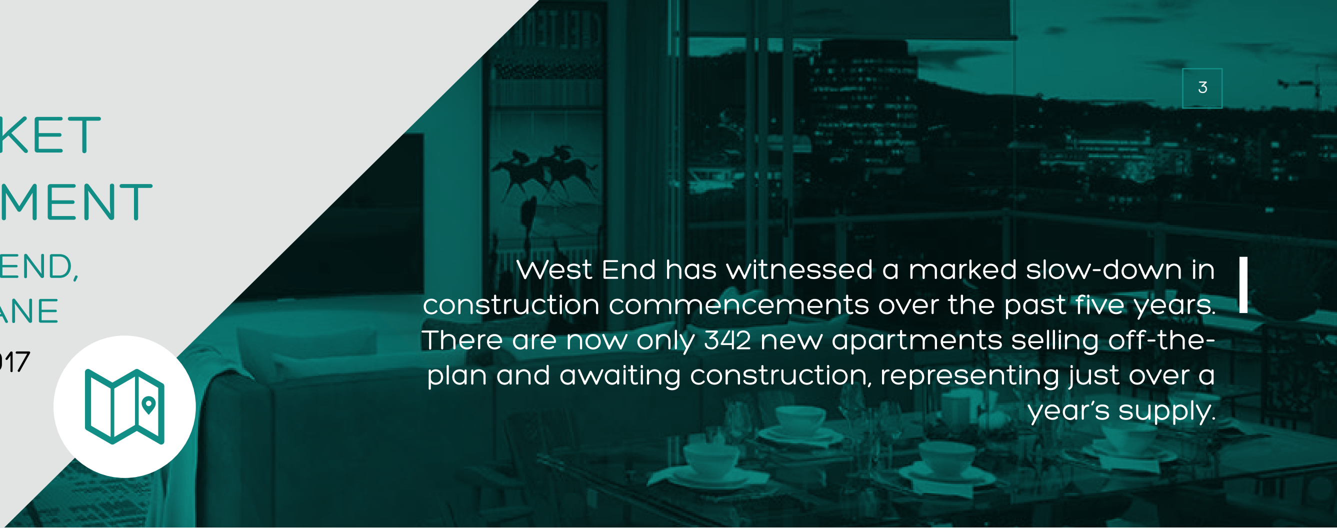

West End has witnessed a marked slow-down in construction commencements over the past five years. There are now only 342 new apartments selling off-the-plan and awaiting construction, representing just over a year's supply.

highlighting a market with strong underlying demand in place.

Over the coming 18 months we estimate that 1,053 apartments will reach construction completion within West End.

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RENTAL MARKET DEMAND

Rental market demand throughout West End continues to rise – a trend which can be observed each quarter since March quarter 2013. Over the past ten years there has been an average demand for 71 rental apartments per quarter throughout West End. Demand has risen in line with supply injections to average 105 per quarter over the past five years and 226 per quarter over the past 12 months.

Rental demand has reached record highs with a total of 902 new bonds lodged over the past 12 months. This clearly demonstrates the high level of rental demand for apartments within West End which is supporting new injections of supply.

RENT

DEMAND FOR
902
NEW RENTAL PROPERTIES

Importantly, the sharp growth in rental bonds suggests that there is sufficient rental demand in place for the absorption of the 1,053 new units due for completion over the next 18 months.

Our research reveals the rental market is showing a preference for new development over established, with quality a key factor in underpinning demand. Developments with distinguishing features and a higher quality of finishes are experiencing stronger demand than their high-density, monolithic counterparts.

CASE STUDIES - PRADELLA DEVELOPMENTS GARDENS RIVERSIDE WEST END AND LIGHT & CO

As West End's apartment market continues to mature so too does the design and liveability of new developments. Pradella Developments' "Gardens, Riverside West End" and "Light & Co" developments have seen the introduction of the "urban backyard" into West End. These developments contain 5,500m^2 and 4,500m^2 respectively of unique and useable landscaped gardens. These large open spaces not only provide a valuable green break and recreation area but an outlook to apartments which otherwise may have a secondary view.

These urban backyards have proved particularly popular amongst buyers and renters looking to move to an inner urban location offering a higher quality of life than the bulk of apartment developments throughout Brisbane's inner city. Pradella's urban backyards have not only been a driver of demand but have underpinned the sales prices and rental success of each of these developments.

An analysis of the performance of each of these developments reveals that rental absorption has occurred rapidly, gross rental yields are healthy and vacancy rates are low.

Testament to the strong level of market demand for rental apartments within both the Gardens Riverside West End and Light & Co developments is the absorption rates of rental stock.

Over a four month settlement period more than 200 apartments were taken up by the rental market.

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Our research reveals the rental market is showing a preference for new development over established, with quality a key factor in underpinning demand. Lower-scale developments with distinguishing features and a higher quality of finishes are experiencing stronger demand than their high-density, monolithic counterparts.

Consistent with the rapid absorption of rental apartments into the rental market are low vacancy rates being recorded within each development. At the time of undertaking this research, a vacancy rate of 2.9% prevailed throughout Gardens Riverside and 2.6% within Light & Co. Both rates are in line with the balanced rate of 3.0%.

LOW VACANCY RATES
2.6% & 2.9%

HIGH YEILDING DEVELOPMENTS
4.8% & 4.9%

Gardens Riverside and Light & Co are both high yielding rental developments with gross rental yields averaging 4.9% and 4.8% respectively. Gross yields being achieved range from 4.4% to 5.1% pointing to a consistently sound investment proposition.

SUMMARY

Based on long-term historical trends, West End's apartment market looks to be poised to enter its next phase of price growth. Supply levels have dropped considerably which will result in a less competitive environment.

Although current conditions do not reflect a speculative investment environment, this is always considered a high-risk strategy, irrespective of broader market conditions. Rather, the apartment market in West End has demonstrated itself to be a long-term player, delivering an uplift in median values and favourable rental market conditions over time.

Studies show that those buildings which are offering quality, size and amenity in waterfront and near-waterfront locations are more closely aligned with the demands of the both the owner-occupier and rental market. Consequently, there is a greater opportunity in place for longer-term returns from these developments.

PRADELLA DEVELOPMENTS - BENCHMARK DEVELOPMENTS - GROSS RENTAL YIELDS BY PRODUCT TYPE

Apartment type	Light & Co Radiance & Illuminate buildings	Gardens Riverside, West End Arbor & Parc buildings
1 bedroom 1 bathroom	5.1%	4.9%
1 bedroom 1 bathroom + study nook	4.9%	5.0%
1 bedroom 1 bathroom + MPR/study	-	4.9%
2 bedroom 1 bathroom	4.7%	-
2 bedroom 2 bathroom	5.0%	4.7%
2 bedroom 2 bathroom + study nook	-	4.6%
3 bedroom 2 bathroom	4.4%	4.6%
Overall average	**4.9%**	**4.8%**

Source: Resolution Research, Position Property, realestate.com.au – June 2017