THE BUYER'S EYE
BRISBANE 2018

- BRISBANE: A STEADY RECOVERY -

Brisbane recorded solid dwelling price growth of about 4.5 per cent in 2017.

Of all the capital city housing markets, Brisbane is arguably the patchiest, with some blue chip detached housing markets record very solid growth in recent years, yet many new and high-rise apartment markets languishing in the face of oversupply.

Brisbane's economy went on a tremendous run through the construction phase of the resources boom, but then slowed quite dramatically as the major LNG projects transitioned to the less labour-intensive production phase.

The positive news for Queensland is that, unlike the other resources states, the Sunshine State had taken most of its downturn medicine by the end of 2014, paving the way for an **economic rebalancing** to begin.

While the initial recovery was slow in terms of economic growth and employment, the labour market suddenly burst into life in 2017, to the extent that Queensland leapt to the very top of the employment growth tree, albeit temporarily.

While employment growth in other states has tended to be overwhelmingly capital city focused, Queensland has lately created jobs all up and down the state, with south-east Queensland a particularly strong performer.

In truth much of the employment growth in 2017 was part time in nature, the economy was far from firing on all cylinders, and the unemployment rate in Brisbane was higher than desirable.

Yet with the lower dollar helping to fire up an unprecedented boom in tourism from China, and LNG exports set to hit their straps in 2018, the outlook is brightening again.

In terms of **infrastructure**, while the pipeline cannot hope to match the hugely impressive list of projects in Sydney, many exciting new projects are nevertheless slated for inner Brisbane, including the huge Queens Wharf development, and the Howard Smith Wharves project. Other significant spend includes the transformational Cross River Rail underground rail line, an extension to Brisbane Airport, and multiple road projects.

One of the challenges facing parts of inner city Brisbane's housing market in recent times has been the accelerated volumes of high-density construction, especially of high-rise apartments. The rental market has been soft and vacancy rates elevated, while some projects have struggled to sell out.

The good news is that having slowed after the peak of the resources construction boom, population growth is now picking up again strongly, both from overseas and interstate, and the struggling apartment market is now rebalancing.

Young renters are being drawn to the inner city, lured by the prospect of strong 'walkability', an exciting city lifestyle, and relatively good value for money rentals.

2018 seems likely to bring a continuation of the mixed housing market conditions for Brisbane.

Australia's most recognised forecaster SQM Research predicts **solid capital growth of 3 to 7 per cent for Brisbane in 2018**, but there will likely be the usual variances across the sub-regions of the city, with well-located detached housing generally outperforming high-rise apartments.

- MAGNETIC NORTH -

During the headiest years of the resources boom, Queensland's population was growing at a spectacular pace of more than 100,000 persons per annum, with much of the growth feeding into resources regions.

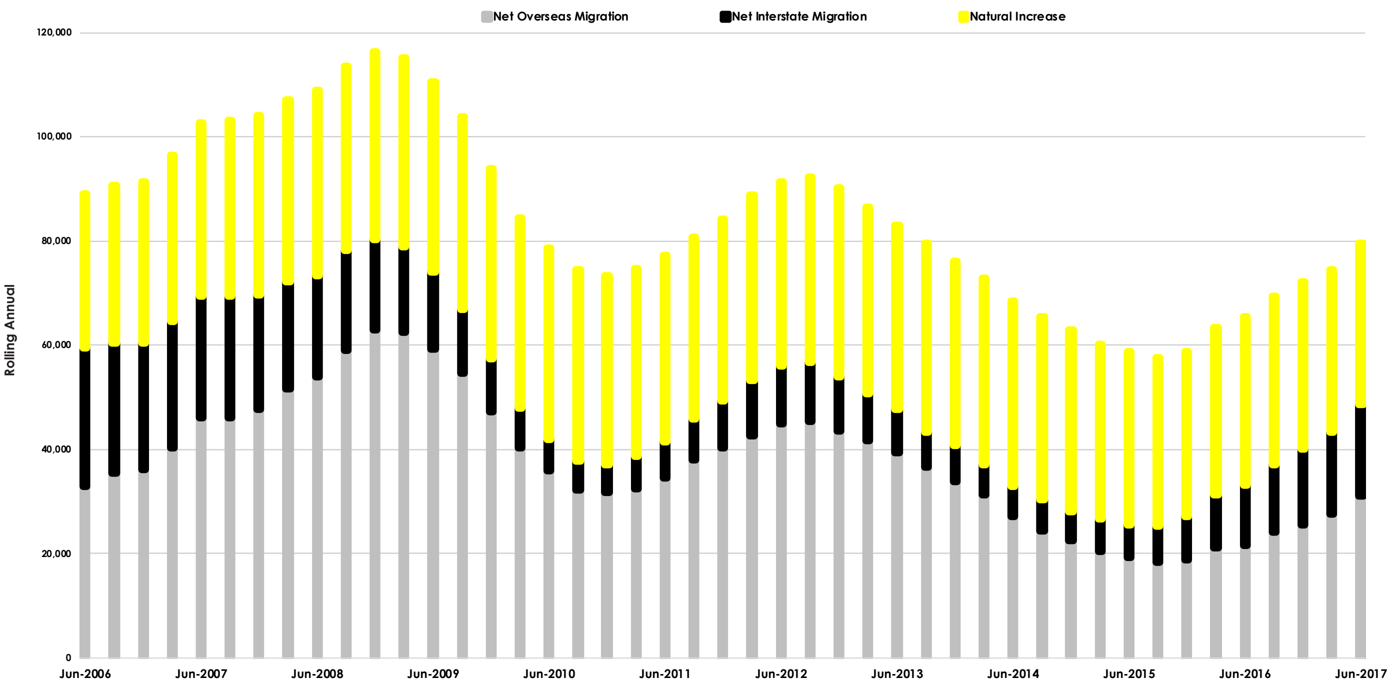
As the resources mega-projects reached the end of their construction phases, the population pulse flowed away again, leaving several central Queensland regions in economic disarray.

Even the city of Gladstone, a darling of housing market forecasters until 2012, saw its housing market get severely mauled, with dwelling prices and rents declining by up to 60 per cent in many cases.

With population growth having bottomed out at around 60,000 per annum, since 2015 the Queensland economy has begun to rebalance, and population growth is picking up velocity, both from interstate and overseas migrants.

The **state population grew by about 80,000** or 1.6 per cent in 2017, with further gains a near-certainty in 2018.

- QUEENSLAND POPULATION GROWTH -



SOURCE: ABS

Much of the population increase is experienced in south-east Queensland (SEQ), along the strip of coastal land spanning from the Sunshine Coast through Greater Brisbane and down to the Gold Coast.

With Gold Coast playing host the **Commonwealth Games in 2018** and **Chinese tourism** spend shattering records practically by the month, it's likely to be a hugely exciting couple of decades ahead for Queensland.

In previous property market cycles as the differential between Sydney and Brisbane house prices has become stretched we have seen an increase in interstate population flows to Queensland, and this is clearly now well underway.

Indeed, the ratio of Sydney to Brisbane house prices has never been more stretched than it was in 2017, at a record 2.2 to 1.

AllenWargent believes that the combination of a thriving economic hub in SEQ, relative affordability, and a fabulous climate and lifestyle, will make Brisbane a top-performing city over the decades to come.

- CASE STUDY: DEVELOPER'S EYE -

For buy-and-hold investors, some of our favoured suburbs for detached housing have in recent years included Teneriffe and New Farm in the inner city, Newmarket to the north, and Indooroopilly, Sherwood, Graceville to the south-west.

In recent years there has also been a lot of interest in property development in Brisbane, by small-time developers and those with an eye for landbanking sites with future development potential.

Until 2014 there was a great deal of interest in sites with a **low-medium density** (LMR) residential zoning, in some circumstances allowing post-war homes to be demolished or removed and replaced with townhouses or apartments.

As the medium-density market became increasingly saturated through this cycle, developers having built new apartments in unprecedented numbers for sale to a new and willing investor market in mainland China, the appetite and competition for LMR zoned sites has faded somewhat, at least for the remainder of this construction cycle.

Instead, those investors with an eye for development potential have turned their eyes towards **'splitter' blocks, typically 810 sqm** (or '32 perch' in the old money), being blocks which can be subdivided to allow the construction of a second dwelling.

In the **$1 million** price bracket, suburbs such as Morningside captured our interest in 2017, with reasonably priced homes on blocks with development potential available in a location neighbouring the blue-chip riverside suburb of Bulimba.

For those with a somewhat lower budget but wanting to buy roughly within a dozen-kilometre radius of the Central Business District (CBD), Corinda and the neighbouring gentrifying suburb of Oxley have thrown up a number of off-market and pre-market opportunities to buy splitter blocks at an affordable entry price.

Being a lower socio-demographic suburb, the end product for a typical development in Oxley (being a 4-bedroom, 2-bathroom house, with 2 lock-up parking spaces) might achieve around $800,000 per home for a total of $1.6 million.

Therefore, to make a reasonable margin, sites need to be bought at a reasonably cheap entry point, while the development site needs to be relatively flat and straightforward to develop for the numbers stack up satisfactorily.

- PROPERTY INVESTMENT SELF-EVALUATION -

1 - Strongly disagree	2 - Disagree	3 - Neutral	4 - Agree	5 - Strongly agree

I am happy with my current investment portfolio.

1	**2**	**3**	**4**	**5**

I have a robust, long term plan for my investment portfolio.

1	**2**	**3**	**4**	**5**

I believe that I am maximising the returns on my income.

1	**2**	**3**	**4**	**5**

My investment plan is tax effective.

1	**2**	**3**	**4**	**5**

I am leveraging my time and income effectively.

1	**2**	**3**	**4**	**5**

If you scored 20 or under, please get in touch with us, and we may be able to help.

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