# Inner Brisbane Unit Market Residual Stock Analysis May 2020

## Scope of Research

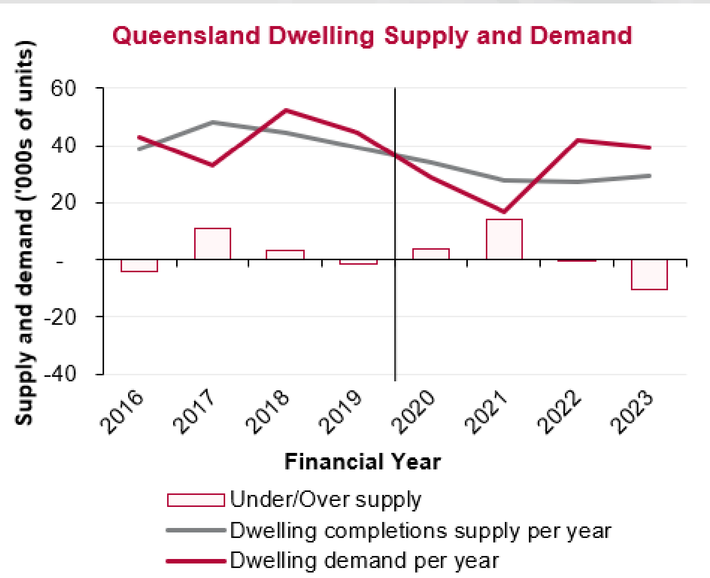
### Development Size
Projects with 50+ units.

### Time Frame
Projects completed between January 2016 and March 2020

### Location
0 to 5 kilometres from the Brisbane CBD plus the Hamilton Northshore precinct. Projects are categorised as being within the CBD, North of the River or South of the River (to five kilometres from the CBD).

## Key Findings and Comments

- Conditions have certainly shifted since our last report released in January, with COVID-19 having impacted the property market in an unprecedented and significant way.
- The Inner Brisbane unit market is starting to experience weaker demand, with first home buyers and investors shying away from the market.
- Our analysis shows an estimated 15.2% of units completed since January 2016 remain in the ownership of the project's developer. The proportion of residual stock in the Inner Brisbane market has increased from December 2019 when we calculated it to be 12.4%*. The increase in the residual stock rate from December 2019 to March 2020 was predominantly the result of a number of projects reaching completion during February and March.
- Whilst national dwelling prices are forecast to decline, we are of the view that Brisbane dwelling prices will fare better than other capital cities over the short-term. This is due to the fact that heading into COVID-19, Brisbane was not over-supplied, nor was it considered to be an over-valued market.
- However, the impact of the current economic downturn and reduced migration into Queensland will not go unnoticed. Our forecasts are for Queensland's population to grow by 0.8% during the 2021 financial year. This, on its own, will mean significantly reduced demand for residential properties, particularly from overseas investors who have been large investors in the Inner Brisbane apartment market over recent years.




- Looking at the supply side of the equation, project completions scheduled for the remainder of 2020 are far more restrained than 2019. There is the potential for delays in some projects already under construction and the postponement of projects that are scheduled to begin construction. However, our conversations with developers suggest that some are keen to kick off projects in the second half of this year.
- Our baseline forecasts for dwelling supply and demand in Queensland are for oversupply to increase during the 2021 financial year. Prior to COVID-19, the market was heading towards under-supply. However, with State population growth forecast to be halved during the 2021 financial year (relative to 2019), the supply-demand equation has shifted significantly.

*This figure has been revised since our last report to account for previously unreported projects now included in our analysis.

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- Looking forward to the end of 2020, we expect that the proportion of residual stock will increase. Whilst the market will benefit from lower supply completions relative to 2019, reduced demand, poor buyer sentiment and general uncertainty in the market will significantly dampen demand for end-product. Anecdotal evidence points to pre-sale activity having reduced and being harder to get across the line as well as finance being more difficult to achieve due to a tightening in bank credit policies.
- We expect to see some distressed sales come to the market in 2020 and 2021. This could result in a stronger decline in average resale prices, which was calculated in our latest analysis to be -3.59% (for units in projects completed since January 2016).
- Average residential site values are expected to decline over the coming 12 months, however, sites with holding income and development approvals will remain attractive to buyers.
- Whilst the short-term outlook is leaning negative, we maintain our view that the fundamentals for the Brisbane residential market are okay and the medium-term outlook is positive. Based on our current forecasts, we expect that Queensland will move into a period of under-supply in 2022 and 2023 and this will result in stronger price growth in these years. We expect that when conditions start to normalise, demand from offshore investors will resume given the lower value of the Australian dollar.

## Residual Stock

- An estimated 2,400 units remained in the ownership of the project's developer as at 31 March 2020. This represents 15.2% of total supply completed since January 2016.
- The proportion of residual stock in the market increased over the first quarter of 2020, due to a number of projects reaching completion and weaker sales activity.
- The CBD has the highest proportion of residual stock.

## Residual Stock by Location

South of River ................ 12.4%

North of River ................ 15.0%

CBD .................. 28.0%

## Unit Resales - Price Differential

- The average differential in price between the purchase of a unit at practical completion, compared to the first resale of the same unit after completion, was -3.59% (excluding in-one-line sales). The CBD continues to see an increase in average resale prices.

6.61% CBD

-7.52% North of River

-3.49% South of River

## Unit Resales - Rate of Resale

- The rate of resale is higher in the CBD (5.3%) relative to the North and South of the River precincts (3.4% and 3.1% respectively).
- During the first quarter of 2020, there were circa 54 units resold for the first time. The average differential in price for units resold in the first quarter of 2020 from the initial purchase of the same unit was -8.26%.
- The average time between the purchase and resale of a new unit is 3.3 years (based on contract dates).

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