

# CITYLIFE INTERNATIONAL REALTY

## RESEARCH REPORT WEST END, BRISBANE

---



---

“WEST END HAS AN INDUSTRIAL HERITAGE, A DIVERSE CULTURAL BACKGROUND AND AN INDEPENDENT SPIRIT THAT AN INCREASING NUMBER OF PROFESSIONALS AND FAMILIES ARE KEEN TO SHARE”

---

# WEST END

BRISBANE, QLD



2km

from the Brisbane CBD

Named for its historical resemblance to London's West End, Brisbane's West End is a hub of culture and food.

Unlike its namesake, Australia's West End has an industrial heritage, a diverse cultural background and an independent spirit that an increasing number of professionals and families are keen to share.

**West End** is an inner-city suburb rich with history and culture. It is a peninsular suburb, bordered on 3 sides by the Brisbane River, in close proximity of the CBD, with bus and ferry transport, and is undergoing urban rejuvenation, with strict height limits, and limited potential future supply. As an investment location, it would be hard to find better.

**Less than a kilometre** from Brisbane's city-centre, homes here are a mix of simple cottages, apartment blocks (both new and old) and heritage homes, (many of which cannot be pulled down or ever redeveloped) tucked in behind busy streets lined with shops, bars and cafes. Strict height limits apply. There is a natural geographic limit as the Brisbane river surrounds it.

The median house price is AUD\$1,008,000 as at 24 July 2017 (RP Data)

People who live in West End are intensely proud of their community and passionate about their village lifestyle. Families, students or well-heeled professionals – they all love their suburb

and tend to shop, eat and drink in the local district.

*"West End represents an alternative take on urban living. There is nothing like it in Australia, and few places like it in the world. Imagine. A place where your neighbours are your friends, and your friends are artists, builders, students, doctors, musicians, lawyers, yoga instructors, academics, bloggers, local business owners, and circus performers. You walk, skate or ride to work or study - close to the city or to Queensland's major universities. You walk 10 minutes to the best food, coffee and nightlife in Brisbane.*

*The residential streets are quiet and safe, and neighbours still say hello to each other. In the morning, you wake up to the sound of Kookaburras, chickens, and lorikeets. You meet your friends at the gym, the indoor climbing centre, yoga, Capoeira, and/or Latin Dance school." (Local resident's comment)*

In the narrow streets (often crowded with parked cars), small elevated homes with concreted front yards sit alongside older apartment blocks and traditional Queenslander-style homes with generous verandahs.

On the city-side and by the river, factories and modest houses have been replaced by modern apartments, for people keen to take advantage of the suburb's proximity to the city and excellent public transport options (bus and ferry).

**THE MEDIAN HOUSE PRICE IS  
AUD\$1,008,000 AS AT JULY 2017  
(RPDATA)**

---

## KEY FACTORS THAT WILL CONTINUE TO DRIVE LONG TERM RESIDENTIAL APARTMENT GROWTH IN BRISBANE

*Since the GFC, several factors have driven the increase in buyer investment and the supply of residential developments throughout Brisbane.*

### LOW INTEREST RATES

The historically low interest rate environment has been one of the primary drivers of the residential construction boom in Brisbane and other Australian cities.

### LACK OF ALTERNATIVE INVESTMENTS

Weakness in the Australian share market, low bond yields, low bank deposit rates, and underperformance in other property sectors such as commercial property, have driven investors and developers towards the Brisbane residential market.

### TREND TOWARDS HIGHER DENSITY LIVING

Increasing popularity and acceptance of higher density living in all major capital cities in Australia. This has been influenced by housing affordability, social and lifestyle changes within several demographic groups, international influences and government planning.

### FOREIGN CAPITAL INVESTMENT

The relative affordability of Australian property, the consistent growth of the economy, a declining AUD\$ and proximity to Asia have all contributed towards growing international interest, with foreign proposed investment in Queensland residential Real Estate jumping from \$0.21b in 2010 to \$2.4b in 2015.

### METROPOLITAN PLANNING



Developing higher density living around major transport nodes is a key policy of the state and local councils. To support this goal the Queensland Government has created several Priority Development Areas (PDAs) around the state which provide a streamlined development approval process and promote certain functions.

### LOWEST PROPERTY TAXES ON THE EAST COAST

Brisbane has the lowest foreign and local investor taxes when buying than the other major East Coast cities, with stamp duty and taxes to buy a median priced new apartment being less than 25% of Sydney's and less than half of Melbourne's.

### LOW PRICES

Brisbane also boasts prices significantly cheaper than Melbourne or Sydney, and higher rental returns. AND surprising to most people, at least as good, if not better, capital growth for apartments over the past 15 years.

(If you have not yet done so, read our new 2017 Brisbane Research report at [www.citylifeprojects.net/research.php](http://www.citylifeprojects.net/research.php))



## BRISBANE HOUSING DEMOGRAPHICS

**Almost 60%** of Inner Brisbane's population is aged under 60 years, with 28% aged between 25 and 39 years, 22% aged between 10 and 24 years, and 10% aged under ten years.

**The largest household type** in Inner Brisbane are lone person households, which comprise 31% of all households.

**Couples without children** comprise 25% of all households in Inner Brisbane. This all means strong rental demand.

**One of the main drivers** of demand for residential property is population growth. Brisbane is Queensland's state capital city with a population of over 2.3 million and rising, which ranks it the 3<sup>rd</sup> most populated city in Australia after only Sydney and Melbourne. The population of Brisbane accounts for 19% of the national population.



**Looking back** over the last six years of Brisbane's population, the growth rate is very consistent and strong ranging from 1.32% to 6%, adding around 30,000 to 140,000 people each year to the overall population. The reasons contributing to the population growth are fertility rate and interstate migration. Overseas migration also plays a big part in Brisbane's population growth. Brisbane's sunshine and other liveable conditions also bring people from overseas and interstate

According to the Queensland Government's South East Queensland Regional Plan 2009-2031, an additional 156,000 dwellings will be required to house the increase in Brisbane City's population over the next twenty years.

**Most will be delivered** in existing urban areas; 138,000 (88.5%) of these new dwellings are to be "infill" in nature, meaning mainly medium density in existing residential areas, such as West End, Bowen Hills, Newstead, Woolloongabba, Hamilton, Milton and Indooroopilly. More people will therefore call Inner Brisbane "home".

## HOUSING PREFERENCES

**There are several reasons** why living (and investing) in Brisbane's inner suburbs has increased in popularity:

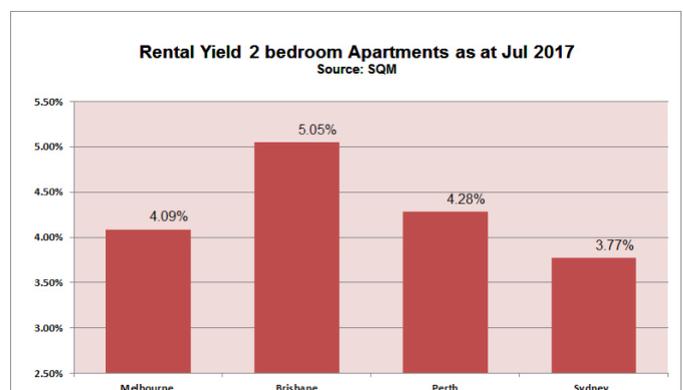
- **Increasing travel time** to get to work. Brisbane is arguably the most congested Australian capital city
- **Decline in household size** and a consequent change in household type: More than one quarter of Australians live alone - a remarkable statistic - and what is even more dramatic is that lone person households could make up 35% of all households by 2021
- **Generations X and Y:** These generations are coupling later, buying apartments rather than detached houses, and choosing to live in urban locations; and - Empty nesters. Instead of staying put when children leave home, empty nesters are selling their suburban homes and moving closer to the action. In addition, baby-boomers (the single largest population group) are now being encouraged with tax incentives to downsize. Retirees also want to be near the cafes, restaurants, theatres, transport and hospitals. In Brisbane, there are very little of these services once you get out of the inner suburbs.
- **Living close** to where they work is an important timesaver for Generations X and Y, as is close proximity to dining, entertainment and retail establishments - the "privacy of the suburbs" is not what they want. This is also generally true of Inner Brisbane apartment renters.
- **Rental demand** for new apartments will continue to be high also because more people desire the convenience of inner-suburban living.

## HIGH RENTAL YIELDS

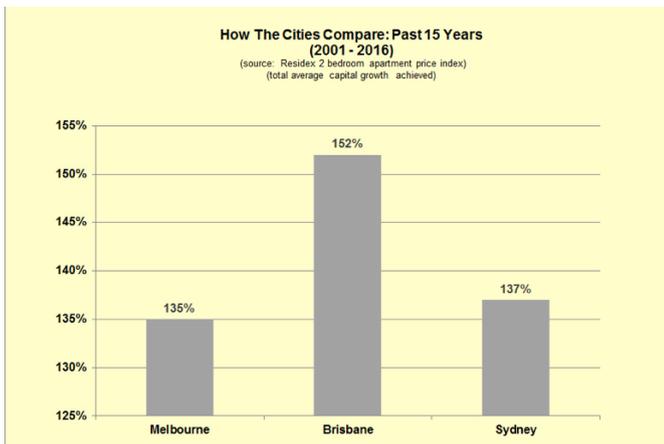
**It appears that gross yields** have remained strong for the Brisbane apartment market according to Place Advisory's Inner Brisbane Apartment report (Dec 2016), and at 5.05% are still outperforming houses in Brisbane by over 1.5% pa.

**These are outstanding** yields for any investment but particularly residential property. By comparison, gross yields in Sydney and Melbourne are between 3% and 4.5%.

**High yield rates** are important in meeting the holding costs of your property, especially when borrowing is involved, and are a



further consideration when building a portfolio and not simply buying one property.



**There is clear evidence** showing new project apartments have lower vacancy rates than older apartments as many Brisbane tenants are starting to opt out of older apartments and take up the superior designs, better finishes, facilities, and security seen in the new projects as they complete.

## BRISBANE: APARTMENTS VERSUS HOUSES

**Many investors** still think that houses with land represent a better long term opportunity than apartments.

**Let's study that** for a moment. According to the Residex house and apartment price charts, if you had purchased for \$200,000 an apartment in Brisbane in 2001, it would be worth \$504,000 today. If you had put the same money into a house, it would today be worth \$552,000. (Of course this is based on just median prices, better areas would have been higher and large differences apply between different suburbs)

**But the trade-off** is that you will have had a lower rental yield, and higher repairs and maintenance.

Plus you have to go further out of town to afford to buy a house over an apartment in your price range. For example, if \$600,000 is your budget, you can buy a brand new, luxury apartment, with facilities, a car park and security in an apartment building within 5 to 10 kms of the river and the CBD but you would need to go about 30 kms out to afford a house.

**Also there is a clear correlation** between being closer to the CBD and higher growth rates.

## NEW VERSUS OLD

**Australian residents** can claim the depreciation on new properties as a deduction against their personal income tax. This benefit reduces significantly after 5 years and altogether on properties that are older than 40 years. This tax rebate can reduce costs for Australians holding investment property significantly.

**This also helps explain** why Australian residents often prefer to buy NEW rather than (cheaper) older properties. Also important when calculating your cash-flow are the maintenance costs on new apartment's vs older houses. Old houses require painting, fixing of roofs & gutters, maintaining gardens, replacing fixtures and fittings, and that's before any structural repairs. So not only are gross rental yields lower on houses, but net yields can be substantially lower. Non-residents can also claim the depreciation and all expenses and have one huge advantage over Australian investors: they can accumulate these benefits with no time limit on

them, and then use them to minimise or eliminate capital gains taxes or any tax on future rental.

## WHAT ABOUT THE MUCH TALKED ABOUT "OVER SUPPLY?"

**New data** just obtained from the Australian Bureau of Statistics in July 2017 confirms that the number of Brisbane high rise apartment approvals **are down by a staggering 3,586** when compared with the same period last year.

**Only 2,109 high rises** were approved in the five months to May this year — over the same period last year, there were 5,695 approvals for new high rise apartments.

**The suburbs** that were the busiest centres for apartment development last year, Brisbane City, South Brisbane and West End, will have some of the most reduced supply. Brisbane City high rise approvals fell from 1,303 to 264 (80 per cent drop), South Brisbane's from 1298 to 320 (75 per cent drop) and West End's from 541 to 77 (86 per cent).

## SHORTAGES COMING?

All very good news for investors! **Less supply and increasing demand = rising prices and full house for rentals.**

**Apartment supply** in the Brisbane market is clearly on a rapid decline. Even comparing 2016 to 2015, saw Brisbane approve 15,595 units for building over the first 11 months of 2016 which was a steep decline of 17.5 per cent compared to the same period the year before.

**So all the so called** "planned and forecasted apartments" coming to Brisbane may just be hype, and the reality is likely to be significantly less apartments being built than forecasted.

**But on a less positive note,** some suburbs have bucked the trend, pushing forward with more high rise approvals than ever, and investors should avoid these areas: Fortitude Valley, high rise approvals are up a huge 1,505 per cent on the same period as last year. In Bardon and Indooroopilly, approvals are up 317 per cent and 236 per cent respectively.



Economic forecaster Michael Matusik says that while the cranes may disappear in the short term, they will come back at some stage and building prices are likely to be higher, making now a "great time" to buy an apartment in Brisbane.

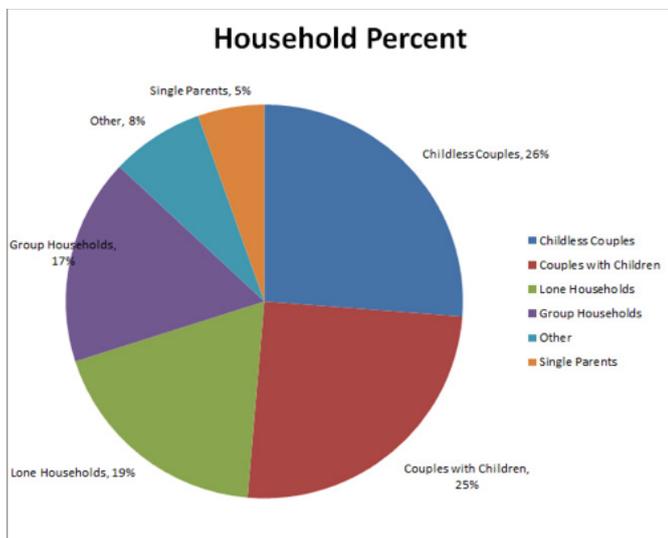
Mr. Matusik recommends buying in smaller and/or staged developments, preferably no more than eight storeys, with limited chance of being built out, and with good local facilities.

# WHY WEST END?

With a limited amount of land available for future development, and strict height limits in the West End, there is a significant restriction in supply that will undoubtedly increase rentals, and create an excellent opportunity for long term price appreciation. We caution against the Southbank area of Brisbane as height limits in this area allow up to 20 storey (or higher) buildings. The West End for this reason is highly rated. Always look for areas where huge towers are NOT permitted.

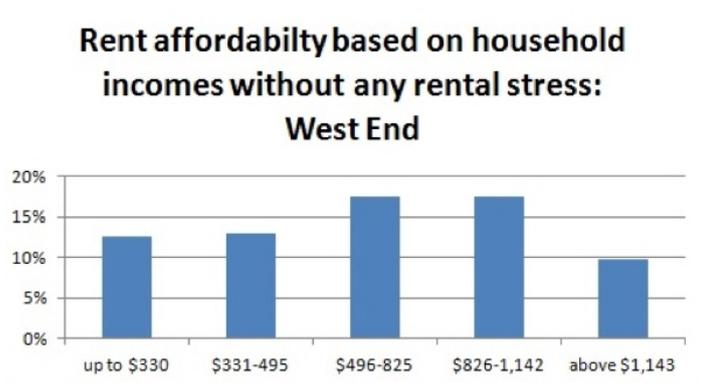
## WEST END HOUSEHOLD FORMATION

Fully 45% of all households in the West End comprise single occupants or couples, the perfect tenant profile. (See below FOR RENT LEVELS these people can afford)



## WEST END RENT LEVELS

Based on household income statistics for West End, nearly 40% of households in the area can afford to allocate over \$500 a week for rental, a large % of the local population compared to many other areas in Brisbane, helping ensure high rent returns should continue for investors.



## WEST END LOCAL EMPLOYMENT

There are around 3,000 local registered businesses employing over 30,000 people in West End alone, with another 32,000 registered businesses within a ten minute drive of West End, with close to 280,000 employed within a short commute.

**This massive work force**, until recent years unable to secure rental accommodation near all the restaurants and cafes nearby, will provide a ready source of quality tenants for years to come. Price rises could follow.

**Statistics show** that apartment prices have not increased greatly over the past few years, but detailed research shows these figures have 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, making the median price lower.

But 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 rise.

**Demand over recent years** has been focused 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.

## WEST END 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 highlighting a market with strong underlying demand in place.

**The market** has witnessed a massive slow-down in construction commencements over the past year. There are now only 342 new apartments selling off-the-plan and awaiting construction, representing barely a year's supply.

## WEST END 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 rental deposits over the past 12 months. This clearly demonstrates the high level of rental demand for apartments within West End.

**Importantly**, the sharp growth in rental deposits shows 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.

Resolution Research further shows 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.

As West End's apartment market continues to mature so too does the design and liveability of new developments. Pradella Developments "Riverside West End" and "Light & Co" developments saw the introduction of the "urban backyard" into West End.

These developments contain 5,500m<sup>2</sup> and 4,500m<sup>2</sup> 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 facilities have proven to be particularly popular amongst owner occupier buyers 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.

These 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 at just 2.6% and 2.9%.**

In addition these projects 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.

## WHICH PROPERTIES GIVE THE HIGHEST YIELD?

The study by Resolution Research into new West End quality properties developed by Pradella has shown the following rental yields:

1 bedroom 1 bathroom	4.9%-5.1%
1 bedroom 1 bathroom + study nook	4.9%-5.0%
2 bedroom 1 bathroom	4.7%
2 bedroom 2 bathroom	4.7%
3 bedroom 2 bathroom	4.4%-4.6%

## EXECUTIVE 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.

**There is very clear evidence** showing a high correlation between properties that are closer to the CBD and higher growth rates (excluding the CBD's themselves).

This correlation exists amongst most modern cities throughout the world. Therefore, it seems likely growth rates in areas with large supplies of apartments such as Fortitude Valley/Newstead will remain subdued until current supply levels dry up, before rebounding with a vengeance. Every investment's capital value is intrinsically linked to its ability to provide future income, and so long as apartments promise good yields, **long-term growth rates will remain high**, particularly in the inner-suburbs.

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 facilities in waterfront and near-waterfront locations are more closely aligned with the demands of both the owner-occupier and rental market. Consequently, there is a greater opportunity in place for longer-term returns from these developments.

**As can be seen from the data and research above**, we believe Brisbane offers an excellent investment opportunity at present, and West End is a superb location to take advantage of this forthcoming upturn and enjoy a great long term investment.

## LIMIT OF LIABILITY, DISCLAIMER AND LEGAL NOTICES

In compiling this publication, the Publisher relies upon information supplied by a number of external sources. The publication is supplied on the basis that, while the Publisher believes all the information in it will be correct at the time of publication, it does not warrant its accuracy or completeness and to the full extent allowed by law excludes liability in contract, tort or otherwise, for any loss or damage sustained by any other person or body corporate arising from or in connection with the supply or use of the whole or any part of the information in this publication through any cause whatsoever. The data and projections should be used as a guide only and should not be relied upon in making investment decisions. The data is provided from sources deemed extremely reliable, but markets and statistics can change quickly, so is not guaranteed. All properties can go up in value or down, there are no guarantees and you recognise that any business endeavour has inherent risk for loss of capital.

**SOURCES:** Data and statistics are sourced various bodies including Resolution Research, The Australian Bureau of Statistics, the Real Estate Institute of Australia, Residex, RP Data, Matusik, SQ M research and Australian Property Monitors amongst others.

