

Townsville in Focus

November 2020



Townsville

Level 1,41 Denham Street
Townsville Qld 4810
PO Box 915
Townsville Qld 4810

Telephone: (07) 4724 2000
Email: townsville@htw.com.au
htw.com.au

TOWNSVILLE IN FOCUS NOVEMBER 2020

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The Fine Print:

Information in this publication is based on an analysis of data from a number of sources, often subjected to technical procedures of seasonal adjustment and trend analysis. Seasonal adjustment is a means of removing the effects of normal seasonal variation from the data, so that comparisons can be made of data against their established seasonal patterns. Trend analysis smooths the seasonally adjusted estimates to provide a clearer picture of the underlying behaviour of the series over time. The trend estimates apply the same procedures used by the Australian Bureau of Statistics in producing trends for national aggregates.

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DIRECTORS NOTES

2020 has proven to be a roller coaster year for the Townsville property market, but we are ending the year with a strong residential market, multiple offers happening for property sales in a number of suburbs, and a scramble underway to secure land to meet HomeBuilder boosted construction demand. There are also suggestions of population growth happening again as families exit the major capitals in favour of secure and functional regional cities such as Townsville where people can still 'work from home' for capital city employers at capital city wages.

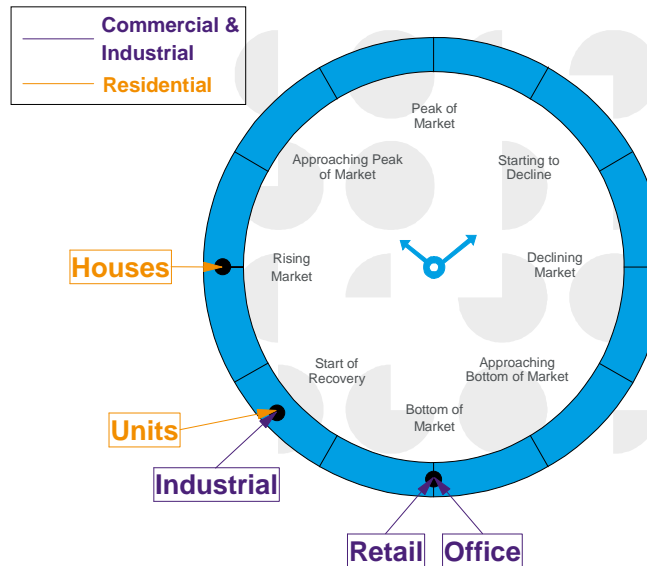
Nevertheless a concern is that market conditions are being buoyed by support measures such as JobSeeker, JobKeeper and HomeBuilder packages. The real test will be when individuals and industries need to 'stand on their own two feet' once the stimulus packages run out. The key question by then will be whether future population growth can supplant current support measures to maintain the market continuum. Watch this space!

Townsville in Focus is released at quarterly intervals by Herron Todd White. We welcome your feedback, and should you have any thoughts or questions on the material presented, please do not hesitate to contact our office on 07 4724 2000, email townsville@htw.com.au or visit our website at www.htw.com.au.

Jason Searston
Director

OVERVIEW

Townsville's Property Market Clock



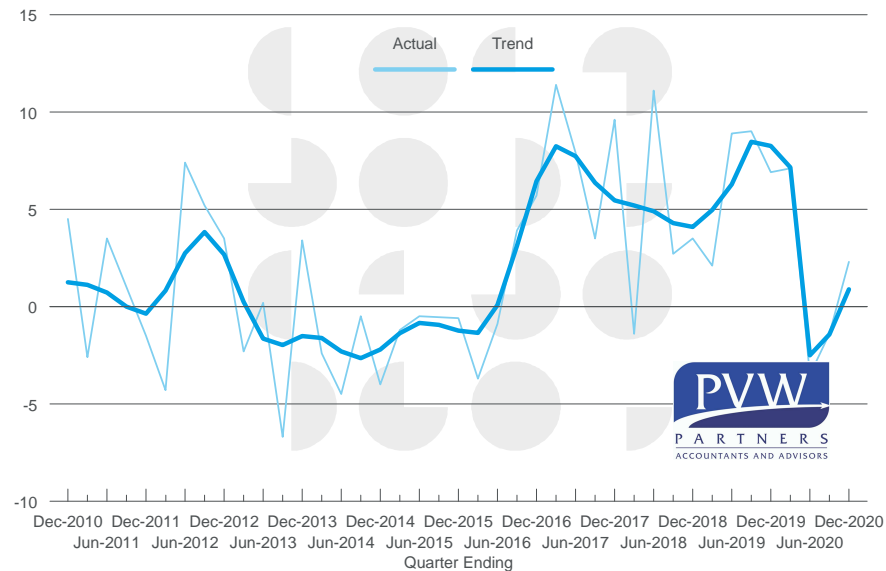
Townsville's residential property sale volumes have risen to the extent where upward pressure is now being placed on prices, especially for houses. For this reason we have advanced houses to the 'rising market' position in the property cycle. However the unit market is lagging the residential market in general and remains at the 'start of recovery' phase.

Retail and office property markets are continuing at the bottom of the cycle where they have been for some time, while industrial property is in 'start of recovery' mode.

BUSINESS CONDITIONS

Business Confidence

PVW Partners Business Confidence Change Index

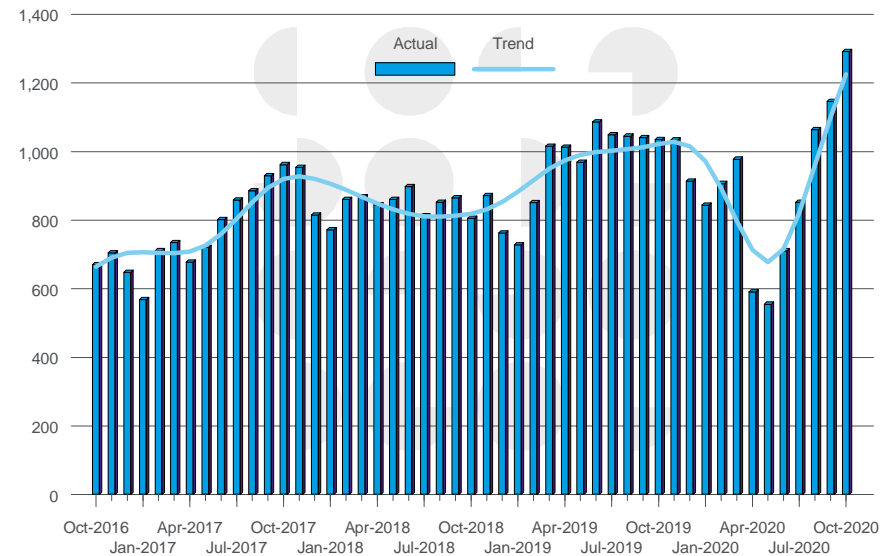


Source: PVW Partners

Business confidence across Townsville is being restored as the region begins its recovery from the COVID-19 pandemic, with the PVW Partners Business Confidence Survey for the December 2020 quarter increasing three index points and moving back into positive territory for the first time since March 2020. PVW Partners comment that there is increased sentiment that our region's broader economic recovery will now continue after the disruptions of COVID-19, supported by the well-targeted government stimulus measures. PVW Partners add that the last three quarters are starting to tell a story of a faster regional recovery from the COVID-19 induced recession than was the case in the aftermath of the GFC.

Job Advertisements

Monthly Average Jobs Advertised



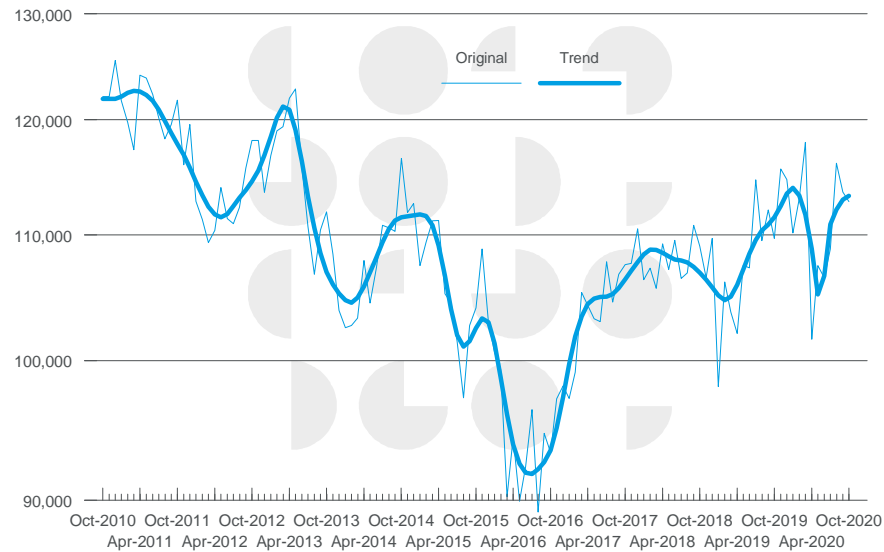
Source: HTW Analysis of Employment Websites

The trend in the number of jobs being advertised in recent months on employment websites for the Townsville region is rebuilding rapidly from the April-May 2020 slump, to the extent that it has now strongly surpassed pre-COVID 19 levels. The trend in the number of jobs being advertised during October 2020 was 37.2% above that of February 2020 and 80.8% above that of May 2020. The results are indicative of the exceptional growth during the COVID-19 recovery period and bode well for continuing employment gains in the months to come.

LABOUR MARKET

Persons Employed

Persons Employed (Log Scale)



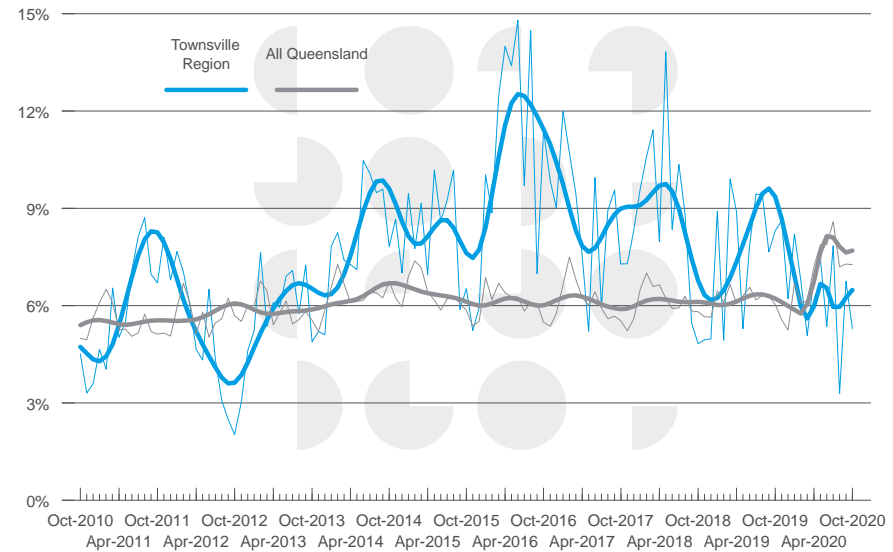
Source: Derived from ABS Labour Force Survey data

The employment trend in the Townsville Region (extending from Townsville through to the Burdekin, Hinchinbrook, Palm Island and Charters Towers LGA's) continues to rebound strongly, rising to a trend level of 113,300 persons employed during October 2020. This means that virtually all of the jobs lost between March and May 2020 have now been regained in net terms. In addition, with business confidence returning and strong rates of job advertising now being observed, the region is likely to see a continuation of solid employment growth in coming months.

N.B. The Labour Force figures published by the ABS are estimates derived from a sample survey of only about 500 Townsville Region residents, and hence are subject to potentially large margins of error. Whilst neither the original nor the trend estimates should be interpreted as precise values, greater reliance should be placed on the trend.

Unemployment Rates

Unemployment Rate (Actual and Trend Basis)



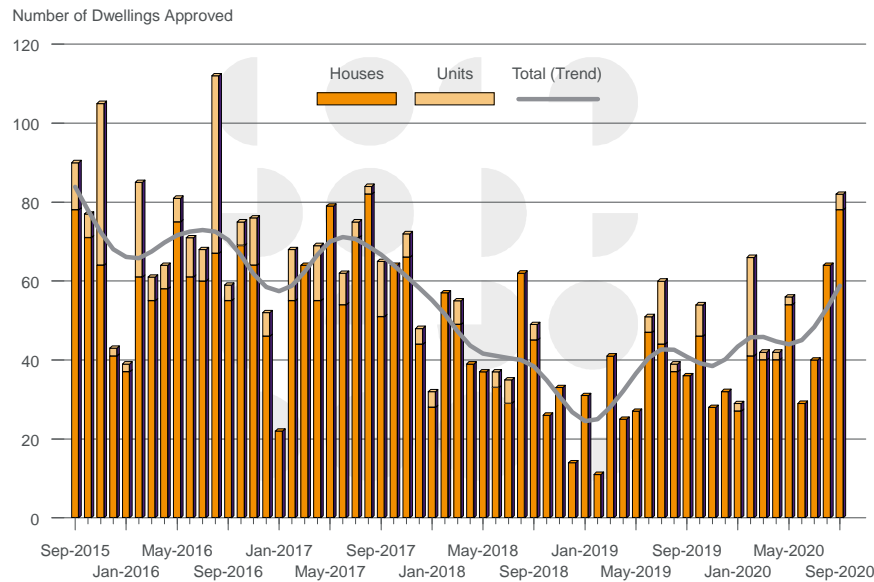
Source: Derived from ABS Labour Force Survey data

The unemployment rate in the Townsville Region stood at a trend level of 6.5% in October 2020, compared to 5.6% in March 2020. Despite the COVID-19 pandemic, the Townsville Region's unemployment rate has stayed well below its average trend level over the past five years of 8.5%. In addition the region's October 2020 unemployment rate also stands below the corresponding State average of 7.7%. Together these results indicate that Townsville's economic experience during the COVID-19 pandemic has been much more muted compared to Queensland as a whole.

N.B. To be counted as 'unemployed' in the ABS Labour Force survey you need to not have a job and be actively seeking work. People who do not have a job and are not actively seeking work are not counted as unemployed, they are regarded as 'not in the labour force'.

BUILDING ACTIVITY

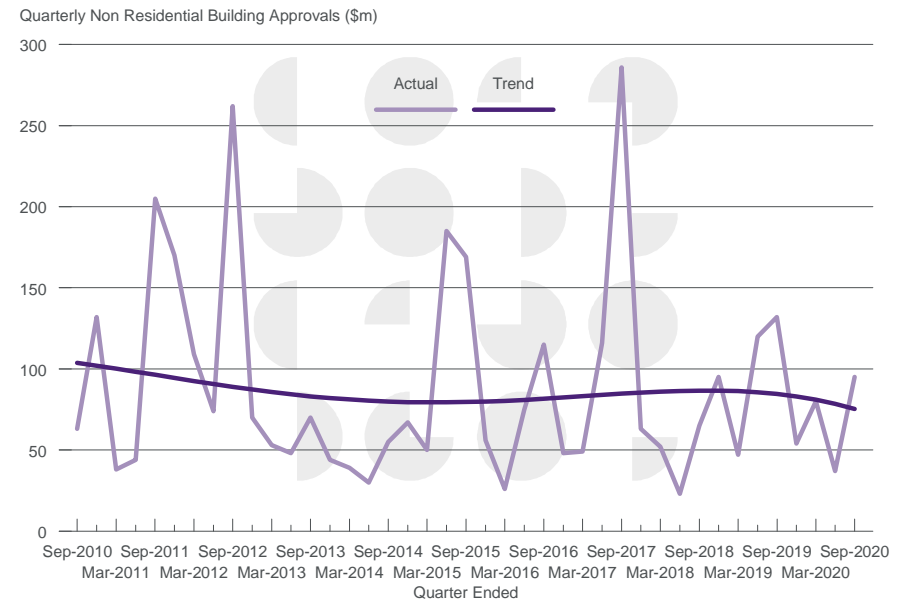
Residential Building Approvals



Source: ABS

The trend in new dwelling approvals for Townsville has been boosted significantly by the HomeBuilder grants scheme introduced in June 2020. Trend approvals for September 2020 were up by 33.8% compared to the immediate pre-HomeBuilder month of May 2020. The September 2020 levels of new building approvals stood at a trend average of 59 new dwellings being approved per month, and consist primarily of new houses rather than new units. Whilst good news for the residential construction industry, new building approvals still remain well below their longer term average.

Non-Residential Building Approvals



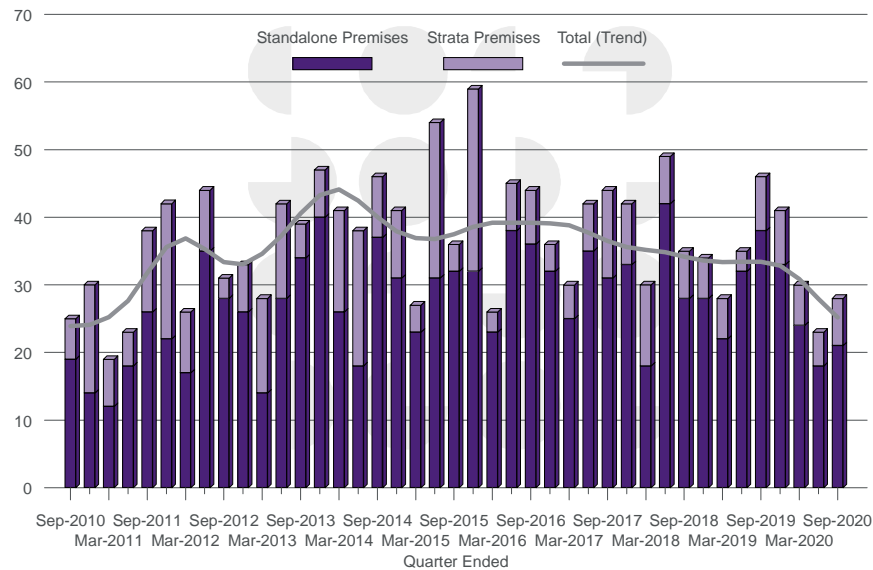
Source: ABS

The trend in non-residential building approvals appears to be holding steady to mildly declining, based on a steady stream of small to medium scale developments of up to \$40 million continuing to hit the construction market. The value of non-residential building approvals totalled \$266 million in the twelve months ended September 2020, compared to an abnormally high \$393 million posted in the twelve months ended September 2019. Current activity is being led by public sector works, with \$157 million in approvals for the twelve months ended September 2020, compared to \$109 million for the private sector over the same period.

COMMERCIAL AND INDUSTRIAL PROPERTY

Commercial/Industrial Sales

Number of Sales per Quarter

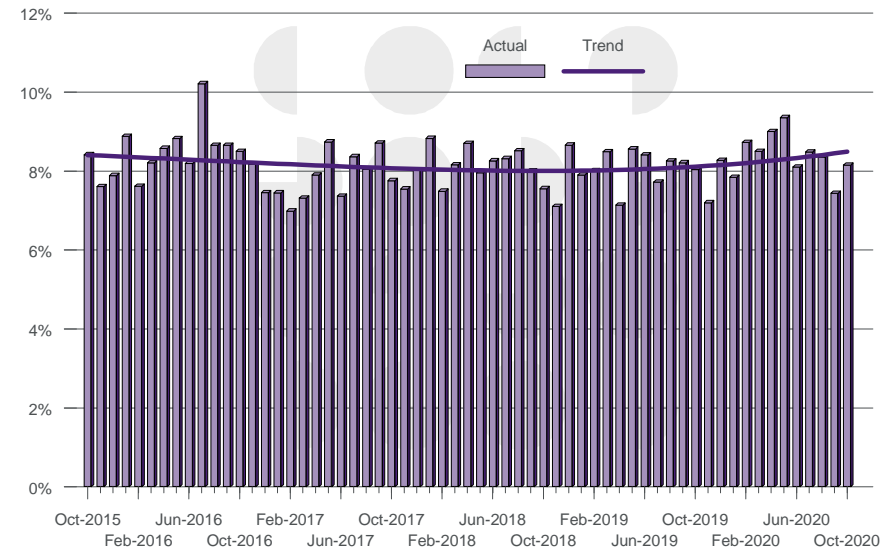


Source: HTW Analysis of RPData

Sales of developed commercial and industrial properties have slowed by about 20% in volume between the March and September quarters of 2020, with sale volumes in the September quarter of 2020 trending down to about 25 transactions per quarter. Nevertheless our impression is that since the end of September the market has started to regain its normal pace with higher levels of activity, and that the extended slowdown is attributed to typically longer lead times in commercial sale negotiation rather than any fundamental slowdown in demand.

Property Yields

Average Net Yield (%)

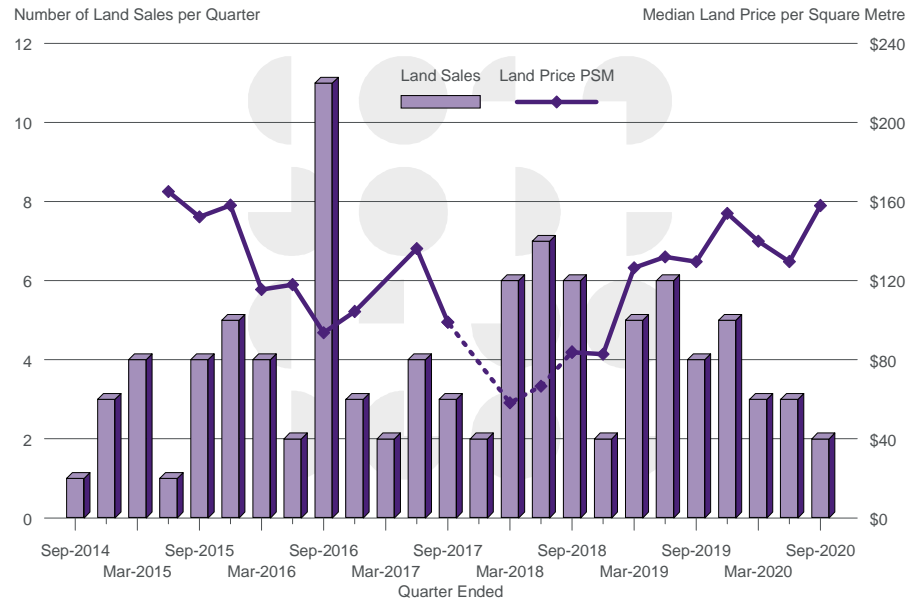


Source: HTW Analysed Sales

Average yields for commercial and industrial property have nudged higher over the twelve months to September 2020 as investors extended their sights across the broader market, rather than focussing as exclusively as before on properties strong on lease covenants, tenant profiles and lease periods. While sales now taking place are mostly analysing in the 7½% to 9½% range, the market is expected to show yields starting to compress again as a result of cheaper and more available finance leading to greater competition between buyers.

INDUSTRIAL LAND

Industrial Land Sales

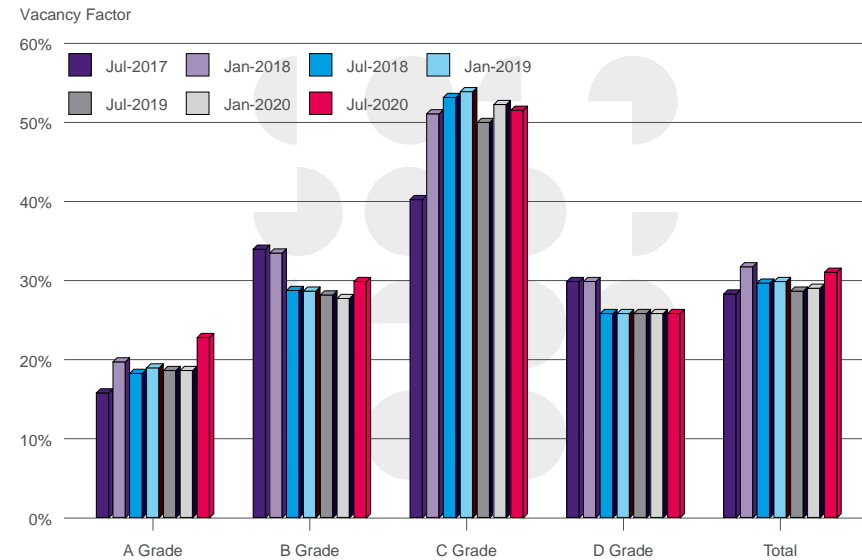


Source: HTW Analysis of RPDData

The industrial land market (inclusive of new serviced industrial land sales as well as industrial land re-sales) continues to experience variable but generally limited demand in the current economic climate. The median price of industrial land purchases has wavered over the last six years, but in our view the going rate for mainstream industrial land, for engineering or warehousing pursuits, has consistently remained at \$120 to \$160 per square metre for the last seven years. Meanwhile our industrial land survey for September 2020 indicates a preliminary market supply of 90 serviced industrial lots available in new industrial subdivisions, more than adequate for current and foreseeable levels of demand.

OFFICE MARKET

CBD Office Vacancy Rate



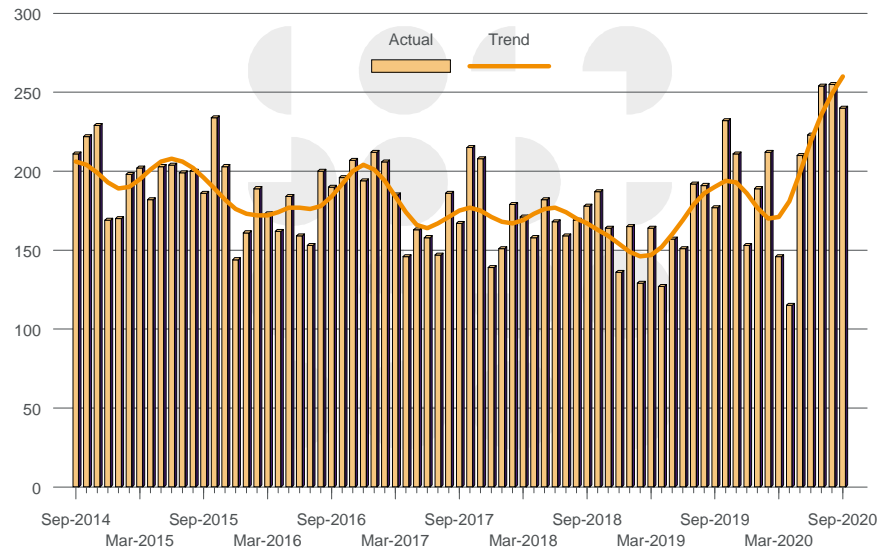
Source: HTW Survey

Townsville's CBD office vacancy rate rose from 29.0% to 31.1% over the six months from January to July 2020, as the net result of increased supply of new office space to the market exceeding net office space take up over the period. The office vacancy rate rose from 18.7% to 22.8% in the A Grade sector despite additional office space take up of close to 1,200 square metres, and rose from 27.8% to 29.9% in the B Grade sector mainly as a result of softer demand. Our overall assessment is that there is on-going leasing demand for good quality office premises. The vacancy rate adjustments observed primarily reflect net change to supply from additions to the rental stock during the period, outweighing the change to occupancy levels from tenant churn.

RESIDENTIAL MARKET - HOUSES

House Sales

Number of Sales per Month

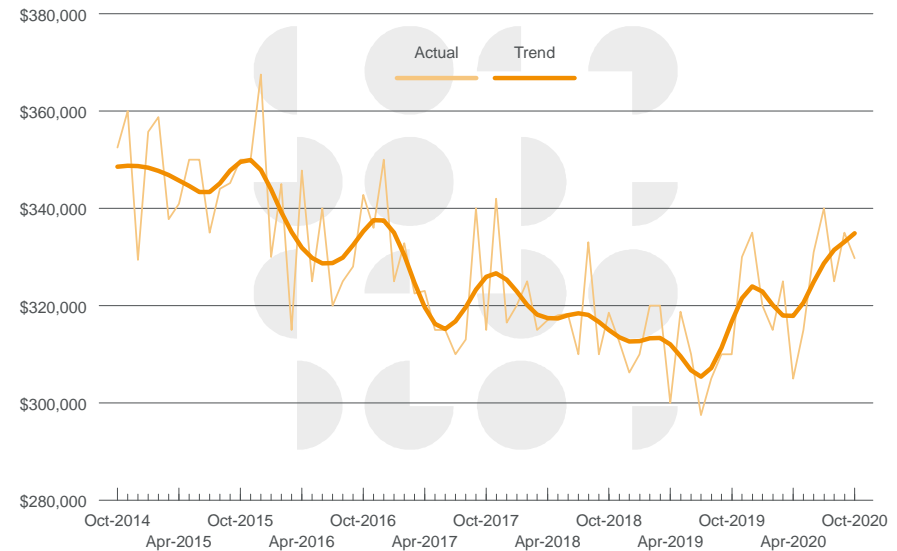


Source: HTW Analysis of RPData

House sale volume trends have escalated to show strong growth in the months from June 2020 to September 2020, to more than compensate for the number of sales 'lost' during the COVID-19 related downturn of March to May 2020. Sale volumes as at September 2020 are trending at a level of approximately 260 transactions per month, their highest level since 2009 and an impressive 36.8% above the levels observed in September 2019. While demand had previously been concentrated in central (4810 postcode) suburbs, sales growth has become more widespread extending into the Upper Ross and Northern Beaches area.

House Prices

Median House Price



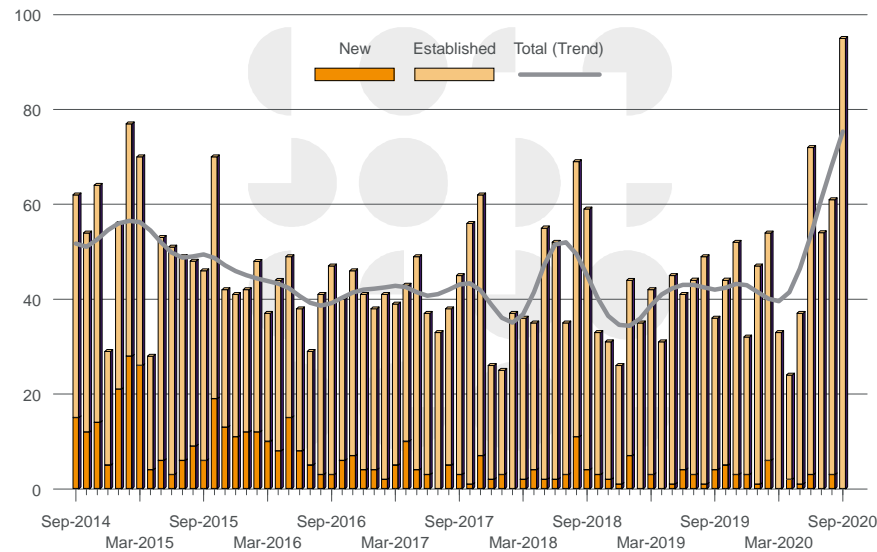
Source: HTW Analysis of RPData

Townsville's latest median house price results have confirmed a post COVID-19 price recovery in the market, and are reinforcing an on-going solid upward trend now in place. The median price trend for houses sold in October 2020 came in at \$334,800, representing a 5.7% increase over the period from October 2019 to October 2020. Upward price pressure is now being observed across many areas of Townsville.

RESIDENTIAL MARKET - UNITS

Unit Sales

Number of Sales per Month

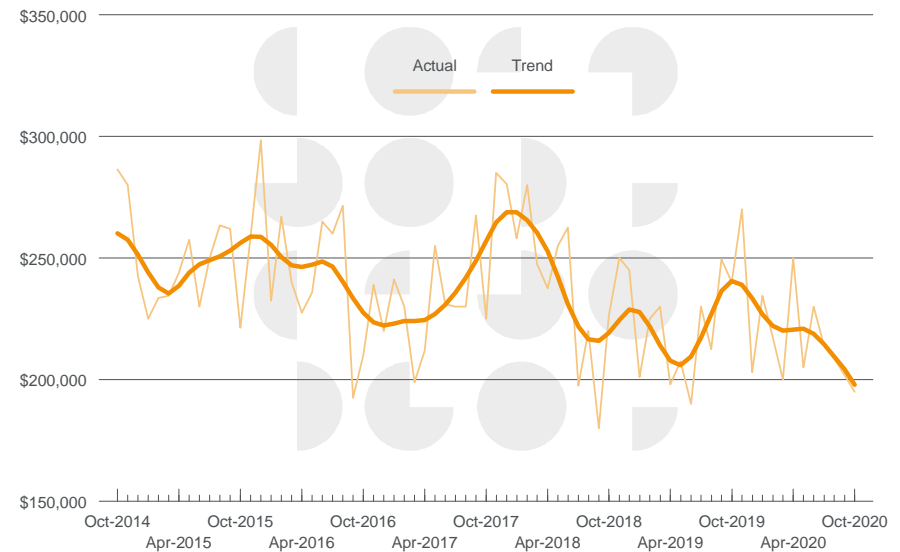


Source: HTW Analysis of RPData

The number of units being sold and settled jumped significantly during June-September 2020, to reach a trend transaction level of around 75 unit sales per month during September 2020. The current market consists almost entirely of established unit sales, with new unit sales and supply at very low levels. Demand appears to be arising primarily from intending owner occupiers, though investors do appear to be returning from a very low base based on low interest rates, ultra-low rental vacancy rates, and the more attractive rental yields available in Townsville compared to the capital cities.

Established Unit Prices

Median Unit Price



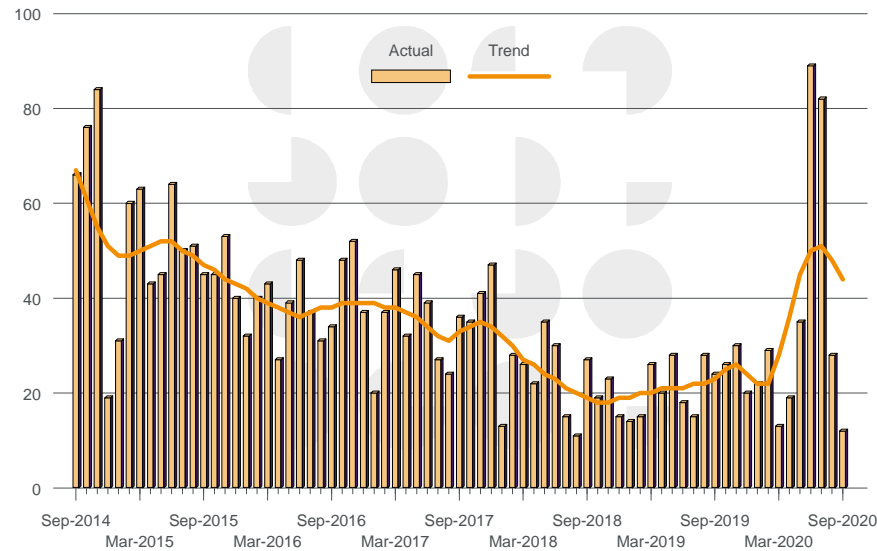
Source: HTW Analysis of RPData

The October 2020 median trend price for an established unit came in at \$197,900, which is 17.2% below the level that prevailed in October 2019. In our view these movements are more a reflection of changing composition in the market towards lower priced affordable stock, with our overall assessment being that individual unit values are remaining steady.

RESIDENTIAL MARKET - LAND

Residential Land Sales

Number of Sales per Month

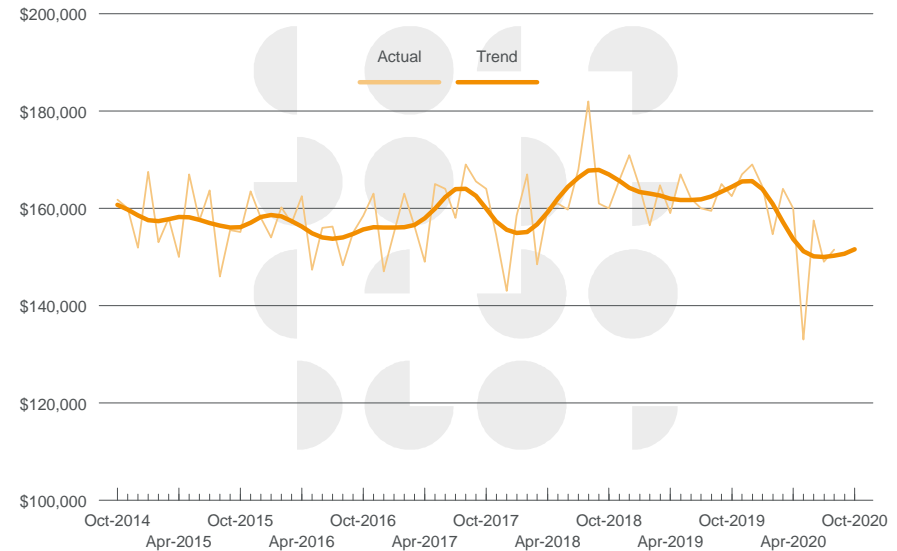


Source: HTW Analysis of RPData

Residential land sales have shot up significantly following the introduction of the HomeBuilder grant scheme in June 2020. The trend in new vacant allotments sold and settled surged to 51 in July 2020, with sales since that date being affected by a depletion of titled land and a movement towards 'off-the-plan' sales, a phenomenon not seen in Townsville for some years. In effect the market has been 'caught short' by the HomeBuilder generated surge in demand. In this sense, our New Residential Land Sales and Supply chart shown on the next page provides a better indication of the surge in land demand now being experienced. The real test will be whether population growth during 2021 can sustain land demand as the HomeBuilder scheme's impact winds down.

Residential Land Prices

Median New Land Price

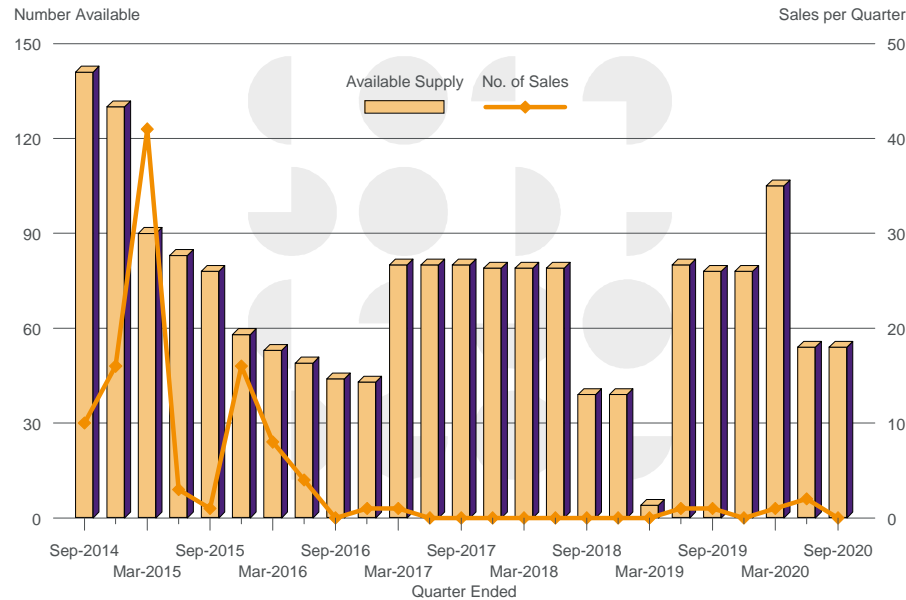


Source: HTW Analysis of RPData

Concomitant with surging demand, Townsville's median vacant land price now appears to be on a slow upward trend, in contrast to the months from January to June 2020 where the land median price trended down due to a continuing bias in land sales towards lower-priced affordable stock. The median vacant land price trend came in at \$155,600 per allotment as at October 2020, which represents a 3.4% increase compared to June 2020. In our view vacant land prices are likely to continue slowly increasing for the duration of the HomeBuilder scheme as a consequence of increased demand.

RESIDENTIAL DEVELOPMENT

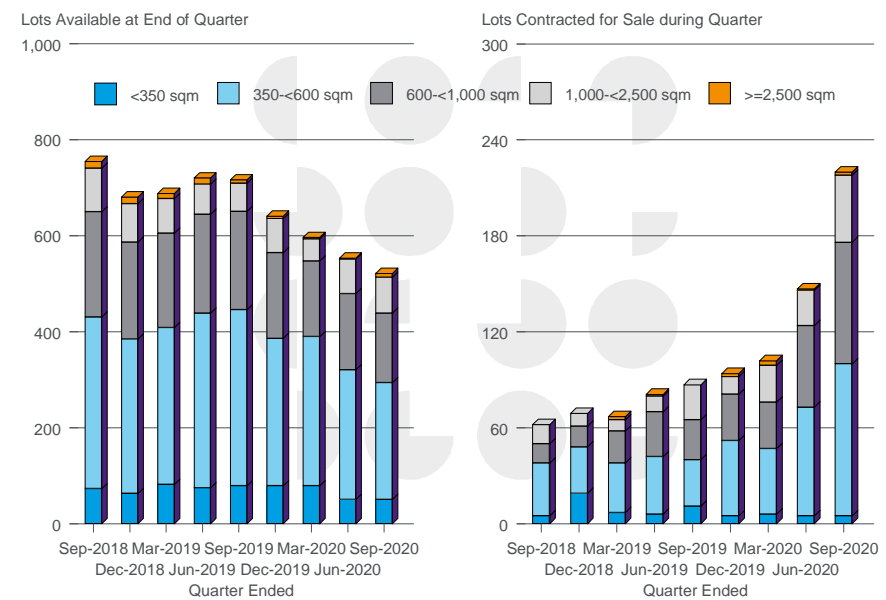
New Unit Sales and Supply



Source: HTW Unit Survey

The number of units being contracted for sale in new unit project developments has been at a virtual standstill as a result of low supplies of new units available coupled with a lack of demand for new unit product due to competitive price pressures from the established unit market. Our survey shows there have been just three units contracted for sale by developers during the twelve months to September 2020. The number of units available in the market over the last three years has been primarily affected not by sales, but by various additions of new unit developments being introduced to market, and removals of off-the-plan projects no longer being actively marketed. The net effect of these additions and removals brought the supply of new units available to 54 as at 30 September 2020, all of which are in off the plan developments.

New Residential Land Sales and Supply



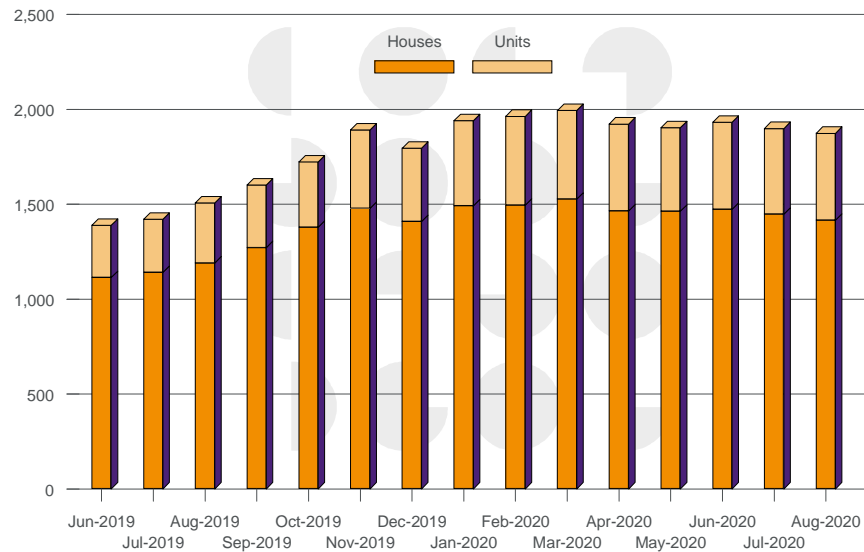
Source: HTW Land Survey

Our Developer Land Survey shows a total of 522 developer lots available on the market as at the end of September 2020, inclusive of both titled and off-the-plan allotments. This represents a net reduction from the 717 lots available as at the end of September 2019, reflecting a paucity of new land releases during the initial stages of 2020 combined with the surge in demand starting in June 2020 catching the market unawares. The number of lots sold, by being placed under contract from new vacant land sales as well as from house and land packages, shot up to a preliminary 220 during the September quarter of 2020, 2½ times the level of sales that existed in the September quarter of 2019.

RESIDENTIAL MARKET METRICS

Residential Property Listings

Number of Properties For Sale

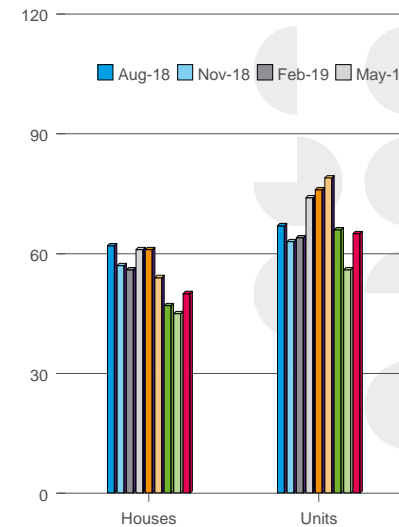


Source: CoreLogic

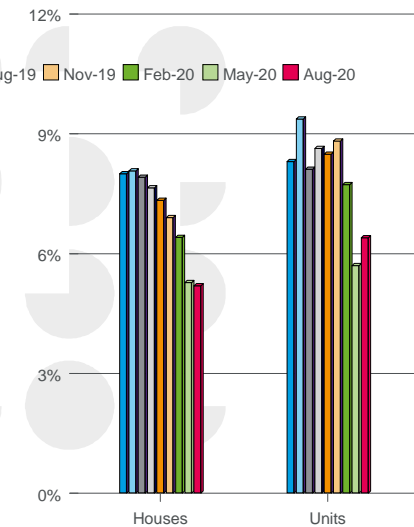
Analysis of the number of properties listed for sale in the market indicates an increasing trend up until March 2020 arising from increased confidence in the market over the period, but a trailing away thereafter to May 2020 as vendor reluctance took hold. The downward trend has continued from May to August 2020 due to the amount of property on the market beginning to deplete from property sales increasing at a faster rate than new property listings. The latest statistics indicate a stock of 1,416 houses and 458 units listed on the market during August 2020. According to our anecdotal feedback, supply depletion has accelerated over the three months to November 2020, leading to some increased competition for available property in the market.

Market Metrics

Median Days on Market



Median Vendor Discount

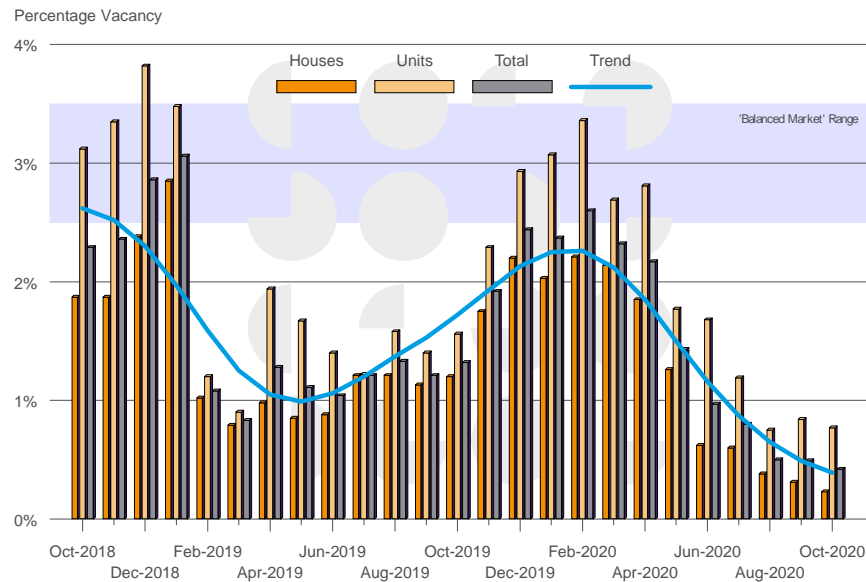


Source: CoreLogic

Other market metrics are showing an increase in the average time now being taken to sell a property. This potentially indicates that the market has been well 'picked over' with the readily saleable realistically priced stock having been progressively cleaned out, with the balance of stock available consisting of property generally more difficult to sell. Meanwhile median vendor discounts – the differences between the sale price first listed for a property and the sale price ultimately achieved – have remained basically steady over the latest quarter for houses but nudged slightly higher for units. These results are consistent with significant improvement in the overall strength of the market in recent months and are liable to have continued through to the end of November 2020.

RESIDENTIAL RENTAL MARKET

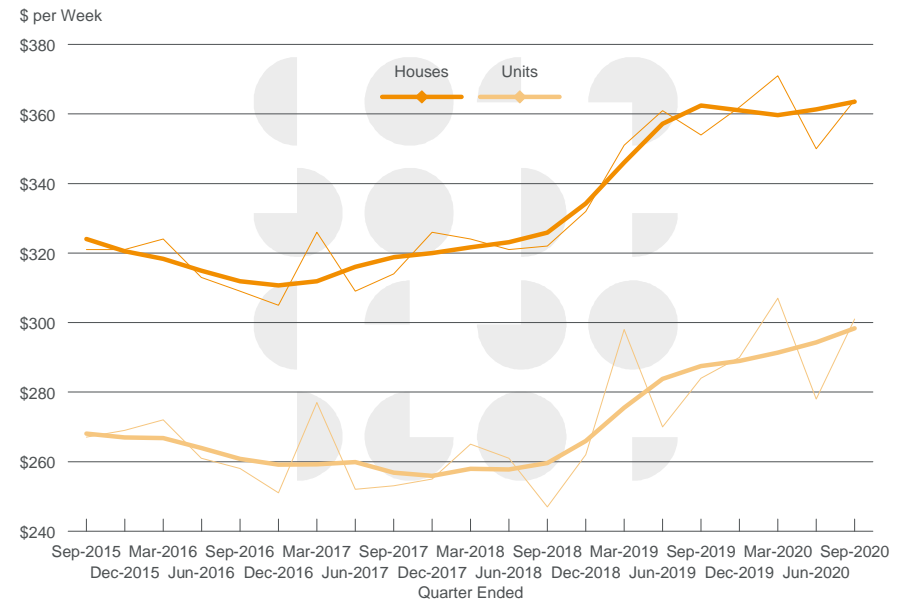
Rental Vacancies



Source: HTW Rent Roll Survey

Our HTW Monthly Rent Roll Survey indicates that rental vacancies have reduced to the lowest levels ever in the 16+ year history of our Survey, and are demonstrating an absolutely ultra-tight rental market. Vacancy trend levels in October 2020 stood at a miniscule 0.2% for houses, 0.8% for units and 0.4% overall. Ultra-low vacancy rates and strong rental yields are providing the right fundamentals for a return of investors to augment the rental supply, which is exactly what needs to happen to provide some relief to the market.

Median Rents

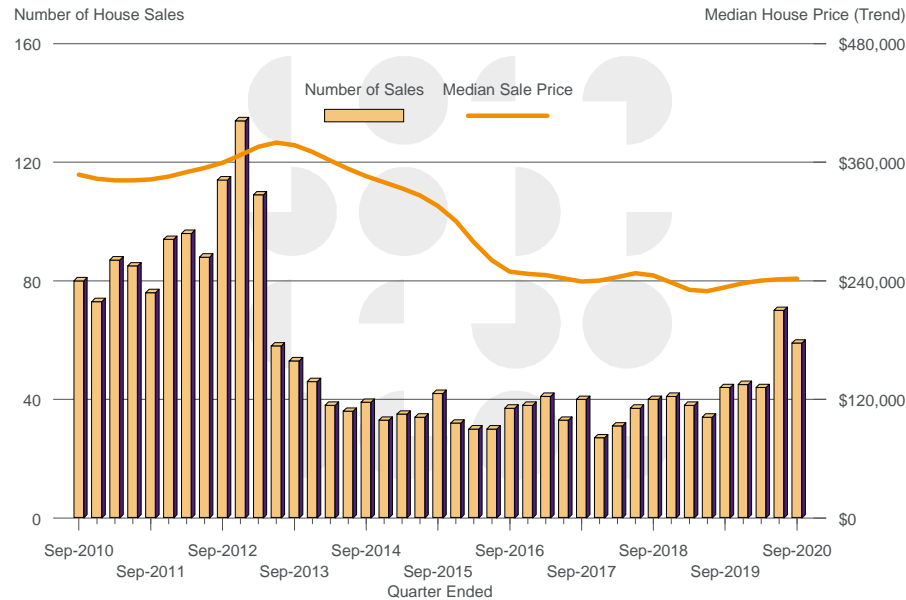


Source: RTA

Despite the ultra-tight rental vacancy rates being observed and the extreme upward pressure on rents they would normally create, rental growth statistics for houses in particular have been especially subdued. During the September 2020 quarter the trend median house rent stood at \$365 per week, and the trend median unit rent at \$300 per week. Anecdotally agents are reporting increases in rental rates achieved particularly after September 2020. Statistics for the December 2020 quarter are likely to reveal distinct increases in the median rent levels while the tight vacancy rates remain in place.

REGIONAL HOUSE SALES

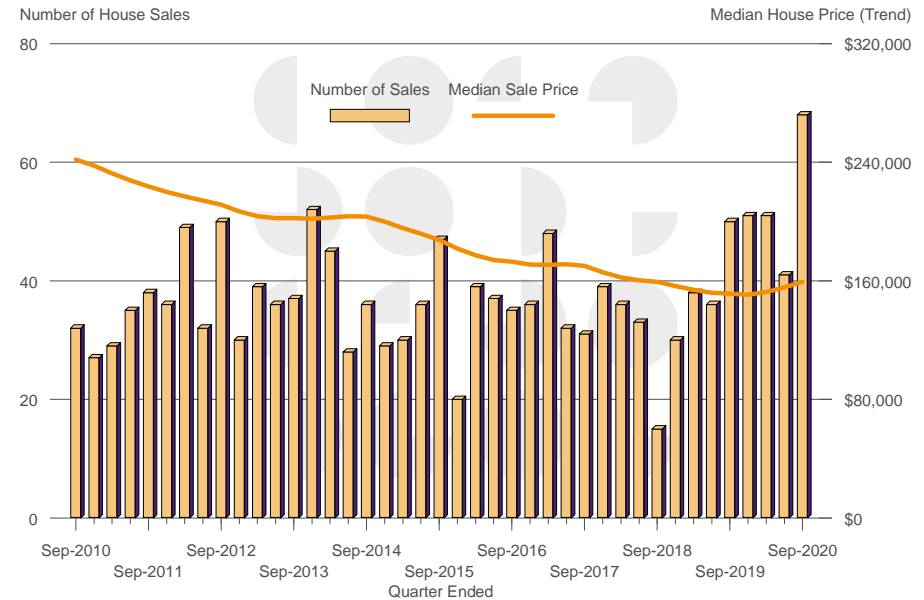
Mount Isa



Source: HTW Analysis of RPData

The number of house sales taking place in the Mount Isa market has been gradually increasing over the last three years, with a distinct uplift over the latest two quarters reflecting progressively improving sentiment in the market despite disruption due to COVID-19. Meanwhile the median house price trend came in at \$242,000 in the September quarter of 2020, and continues to exhibit a steady to slightly rising trend.

Burdekin

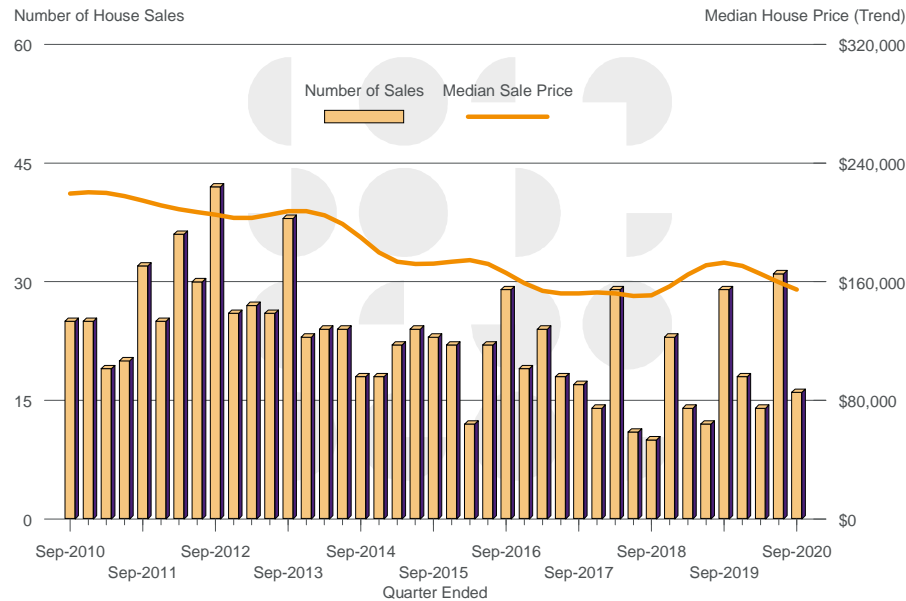


Source: HTW Analysis of RPData

House sales in the Burdekin have been tending to increase in volume in recent quarters, with a distinct uplift to an estimated 68 sales occurring in the September quarter of 2020. The median house price trend is also starting to rise, coming in at \$159,000 in the September quarter of 2020 compared to \$151,000 in the September quarter of 2019. Whilst this represents 5.3% increase compared to the September quarter of 2019, the September quarter 2020 median price trend is still 21.7% below that of the March quarter of 2014. Rental vacancies in the Burdekin have also tightened significantly leading to extra pressure on the sales market.

REGIONAL HOUSE SALES

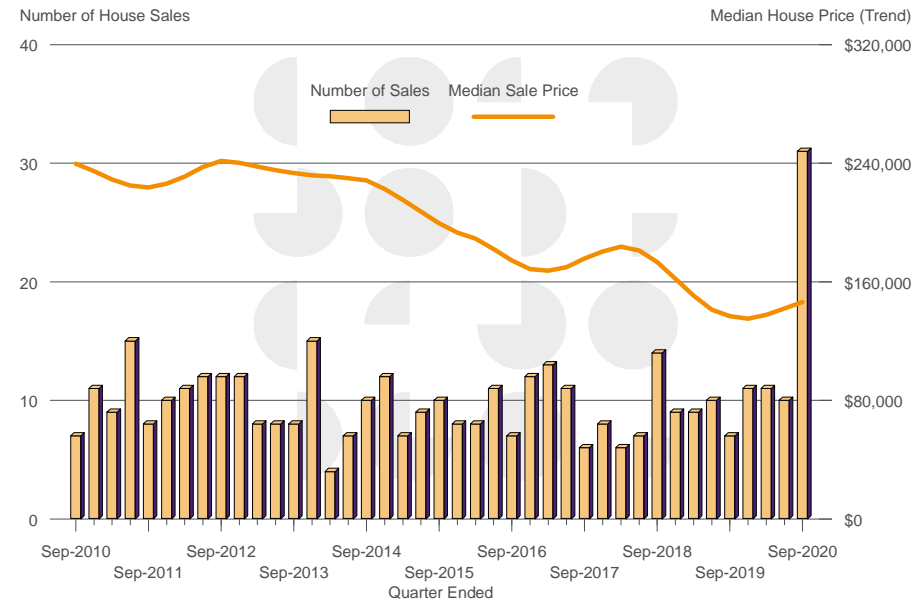
Charters Towers



Source: HTW Analysis of RPData

The number of house sales in the Charters Towers property market has bounced around significantly from quarter to quarter over the last three years, and has notably not experienced the same sales uplift as have other Townsville Regional locations. Median price trend levels have experienced reductions interspersed with bouts of stability over the same period. The median house price trend came in at \$155,000 in the September quarter of 2020, which is 10.5% below the level that prevailed in the September quarter of 2019.

Ingham



Source: HTW Analysis of RPData

The number of house sales in the Ingham property market has bounced around significantly from quarter to quarter over the last three years, but rocketed to an estimated 31 transactions in the September quarter of 2020. In addition the median house price trend has started rising over the last four quarters, coming in at \$146,000 in the September quarter of 2020, and representing a 7.0% median house price increase since the September quarter of 2019.

SUGAR CANE

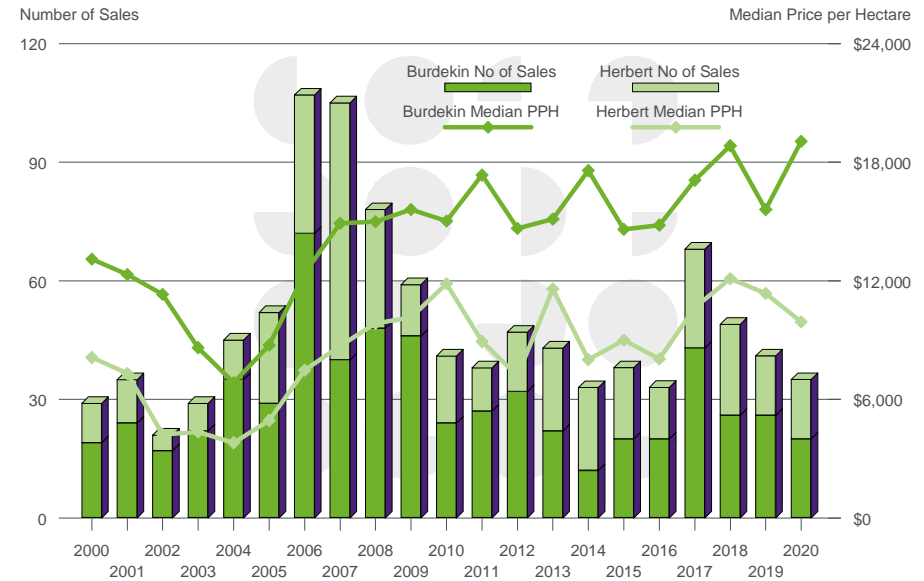
World Sugar Prices



Note: NY 11 Prompt Futures Contract
Source: ICE

World sugar prices have rallied significantly from their March-April 2020 slump caused by expectations of lower world consumption due to COVID-19 lockdowns and an expected lack of diversion of sugar to ethanol production due to contracting world energy markets. The world sugar price has now increased to average 14.3 US cents/lb in October 2020, up 42.2% compared to April 2020, but not quite reaching the pre COVID-19 level of 15.1 US cents/lb that prevailed in February 2020. The October 2020 world sugar price translates to an Australian dollar price of \$A 447 per tonne, down from \$A 509 in February 2020 due also to upward movement in the Australian dollar at the same time.

Cane Farm Sales

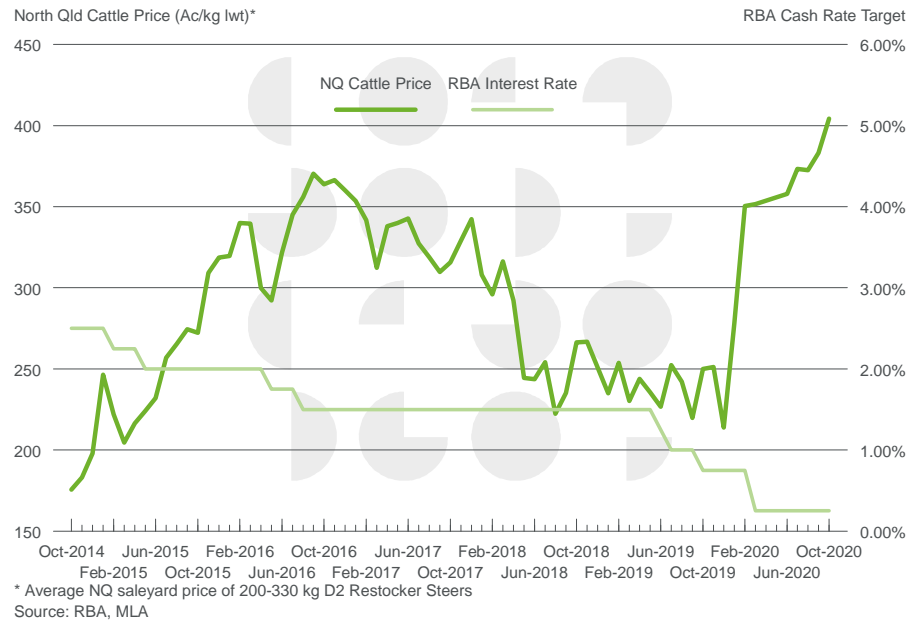


Source: HTW Analysis of RPData

Cane property sales estimated for 2020 continued to ease back in number from the minor flurry experienced in 2017, to re-establish at more moderate levels. Median cane farm sale prices also eased back in 2020 for properties in the Herbert but increased for properties in the Burdekin. However these results are potentially due to compositional effects rather than reduced values, and also reflect the uncertain sugar price outlook due to COVID-19 that prevailed for much of the year.

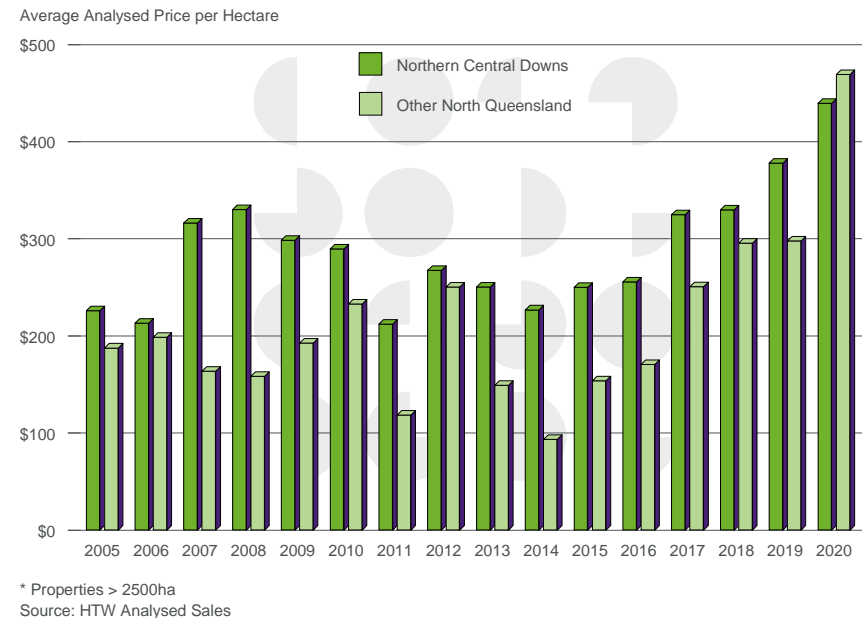
BEEF CATTLE

Cattle Prices



The cattle market has made a dynamic shift this year, with prices, as exemplified by the North Queensland Saleyard Indicator (for 200-330 kg D2 restocker steers), jumping by around 89% between December 2019 and October 2020. Restocker demand from southern areas after they finally received rain, live export demand and on-going processor demand have combined to drive North Queensland cattle prices to increase strongly to peak levels. Meanwhile the cost of capital has dropped, helping the cattle property market enjoy a golden era with North Queensland cattle country being repriced to new levels.

NQ Grazing Property Prices*



Northern Queensland grazing property prices during 2020 continued the run of strong increases that have been in evidence since 2014. In addition 2020 is the first time that the Other North Queensland (forest country) category has overtaken its Mitchell Grass Downs counterpart in average sale price terms. This is largely driven by some smaller property sales in the Charters Towers and Townsville areas. In the absence of those sales, the Other North Queensland is just below the Mitchell Grass Downs market. Demand is strong with most active buying this year coming from local, long established families seeking to make expansions. This is a clear demonstration of the long-term local confidence in the industry.

CONCLUSION

The Townsville economy is rebuilding strongly from the effects of the COVID-19 pandemic, with business confidence rebounding and the labour market in solid recovery.

Meanwhile the Townsville property market is also powering on with strong uplifts in sales levels and upwards pressure on prices. These conditions are coupled with an ultra-tight rental market, as well as a depleting supply of property available.

AT A GLANCE

Indicator	Comments	Current Sentiment
Business Confidence	Rebounding	↑
Labour Market	Recovering	↑
Residential Construction	Increasing	↑
Non-Residential Building	Steady	↔
Industrial Land Market	Slow	↔
Industrial Improved Market	Steady	↔
Commercial Improved Market	Steady	↔
Demand for Office Space	Steady	↔
House Sale Volumes	Rebounding	↑
House Prices	Rising	↑
Unit Sale Volumes	Rebounding	↑
Unit Prices	Remaining steady	↔
Residential Land Sales	Booming	↑
Residential Land Prices	Slowly rising	↑
Rental Vacancy Rate	Ultra tight	↔
Median Rents	Upward pressure	↑
Cane Farms	Steady	↔
Cattle Property	Euphoric	↑