PROPERTY COUNCIL of Australia

On the edge

Brisbane's apartment supply crunch.

April 2024

Research conducted by Urbis on behalf of the Property Council of Australia

URBIS

A message from our Executive Director

"Abandoning prohibitive foreign investor taxes that continue to drive developers with a proportion of foreign ownership out of Queensland would go far. Encouraging this investment to locate their capital in Queensland will help kick-start much-needed new apartment projects."

As our state's population continues to grow and the housing crisis deepens, it is critical that every policy lever is pulled to ensure every Queenslander has access to safe and affordable housing.

In 2023 the Queensland Division of the Property Council of Australia commissioned URBIS to undertake research into the state of Brisbane's apartment supply pipeline.

The findings of this research are beyond concerning.

According to the ShapingSEQ 2023 Regional Plan, Brisbane will require 7,500 new attached dwellings per annum to reach the 2046 dwelling targets in the plan.

As costs skyrocket and productivity levels spiral further, intervention is desperately needed – this starts with removing the tax and regulatory barriers to delivering a home for every Queenslander.

Our research shows that:

- A constrained development pipeline in Brisbane, saw less than 2000 apartments delivered per year between 2020 and 2023
- If the projects currently under construction in inner Brisbane proceed this will only deliver an extra 4,356 dwellings to the market
- Approximately one quarter of the future supply are Build-to-rent (BTR) projects
- A little under three thousand apartments are under construction in Brisbane in 2024 - this is set to drop to less than 1,500 in 2025.

Our limited pipeline of apartments poses an extraordinary risk for Queensland and its economic and social prosperity.

Now is the time for bravery, bold policy, and action.

Getting the tax settings on the front-end right would alleviate some of the cost pressures and encourage further investment in Queensland's future.

Getting scale to market is as important as delivering the missing middle and bringing new greenfield projects to life. As the Queensland apartment market heads for a cliff, taxation settings that have scared off investment must be reformed.

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For example, Additional Foreign Acquirer Duty (AFAD) first introduced in 2016, adds an additional 7 per cent to the purchase price of residential investment properties for foreign individuals and businesses. Unlike some other states, there is no exemption for listed companies, meaning this is an additional cost that is added to residential development.

Alarmingly it is the local families who rent who will be most impacted with investors critical to building the extra apartments needed to drive down rents for the 36 per cent of Queenslanders who rent.

The reality is that Queensland is competing locally, nationally, and globally for investment that will facilitate the delivery of housing and critical infrastructure. Barriers to the delivery of at-market housing only serve to send investment elsewhere, thereby negatively impacting the level of supply overall and driving up costs through unmet demand.

Taxation settings don't just stymie the traditional Build-to-sell projects, they continue to impact the burgeoning Build-to-rent projects, that will play a critical role in boosting rental supply to market.

Given the increased appetite to invest in Build-to-rent, impediments that restrict the capacity of the sector need to be reviewed. Given BTR is predominantly owned, managed, and operated by an institutional investor for a long-term investment period, the social and economic input to Brisbane should be welcomed.

Attracting and retaining large scale investment to Queensland needs to be a priority – and the Property Council seeks urgent action to reform Queensland's tax and regulatory settings.

This includes:

- Remove the Additional Foreign Acquirer Duty and send the message that Queensland welcomes foreign investment and is removing the barriers of investment in residential housing
- Remove the Foreign Land Tax Surcharge to restore a level of competitiveness between Queensland and other Australian states
- Extend the Build-to-rent incentives to extend to all Build-to-rent developments
- Review outdated land tax thresholds with a commitment to make Queensland's land tax rates the lowest in the country to give confidence to "mum and dad" investors
- Introduce off-the-plan stamp duty concessions for buyers choosing to enter into contracts for apartments, to promote and support presales.

The argument for retaining foreign taxes is that the money raised through these taxes is then invested in Queensland.

However as shown in this research, these tax settings have deterred investors to the point where the tax settings are delivering minimal financial benefits to Queensland.

Striking a balance to attract investment in the property sector will result in more homes for Queenslanders and increased tax revenue to deliver the infrastructure and services for Queenslanders.

The risk to Queensland is too great not to take action. The housing crisis is ever worsening, ultimately resulting in further social challenges to address – in the here and now, and for generations to come.

The development industry are experts in delivering stock, be it greenfield, townhouses, apartments, commercial assets, or key infrastructure. They are at the ready – however, with limited options left, we seek support from the government to assist in addressing the areas of control which they can influence.

Jess Caire

Queensland Executive Director

Urbis acknowledges the important contribution that Aboriginal and Torres Strait Islander people make in creating a strong and vibrant Australian society.

We acknowledge, in each of our offices, the Traditional Owners on whose land we stand.

INTRODUCTION

The following report provides a high-level analysis of the current market metrics across Inner Brisbane. Key findings include:

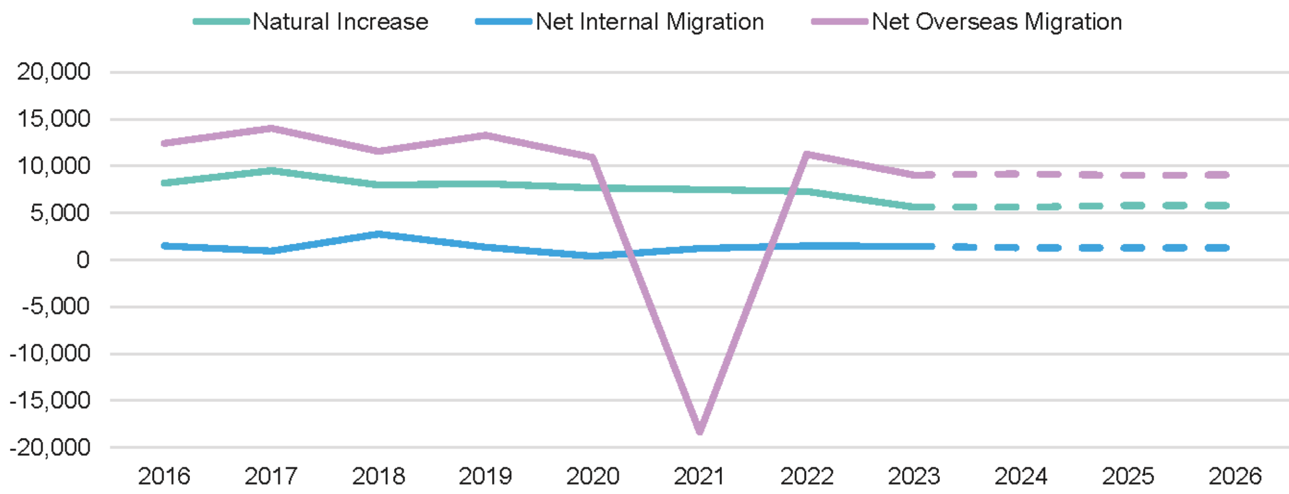
- Solid population growth is forecast to continue across Queensland, with much of this population coming to Brisbane.
- Overseas migration has rebounded quickly, driven by the return of international students. It's expected to remain high over the coming few years. Whilst internal (interstate) migration increased during 2021 into Queensland, these have now fallen to more sustainable levels.
- Sales of new apartments across Inner Brisbane have been trending downwards which is in part driven by a lack of new project launches and supply.
- Project launches have slowed on the back of increased construction costs and labour shortages impacting feasibilities. Projects that have launched are generally achieving solid sales rates.
- With limited projects proceeding, the number of new apartment projects completed has become increasingly constrained in the last few years with less than 2,000 apartments delivered per year between 2020 and 2023.
- An increase in completions is forecast In the coming years - however this supply is largely owner occupier driven and within premium projects.
- Completed supply forecasts include projects that are not yet under construction – given current feasibility concerns much of this product continuing to completion is now highly uncertain.
- Contrary to the supply coming to market, project approvals (planning approved projects) have remained steady as developers look to cement their pipeline in preparation for smoother construction considerations.

COMPONENTS OF POPULATION GROWTH

Net overseas migration has recovered strongly from its decline during the COVID-19 pandemic. In Brisbane, migration largely returned to historic patterns as of 2022 though net-overseas migration is slightly below the long-term average.

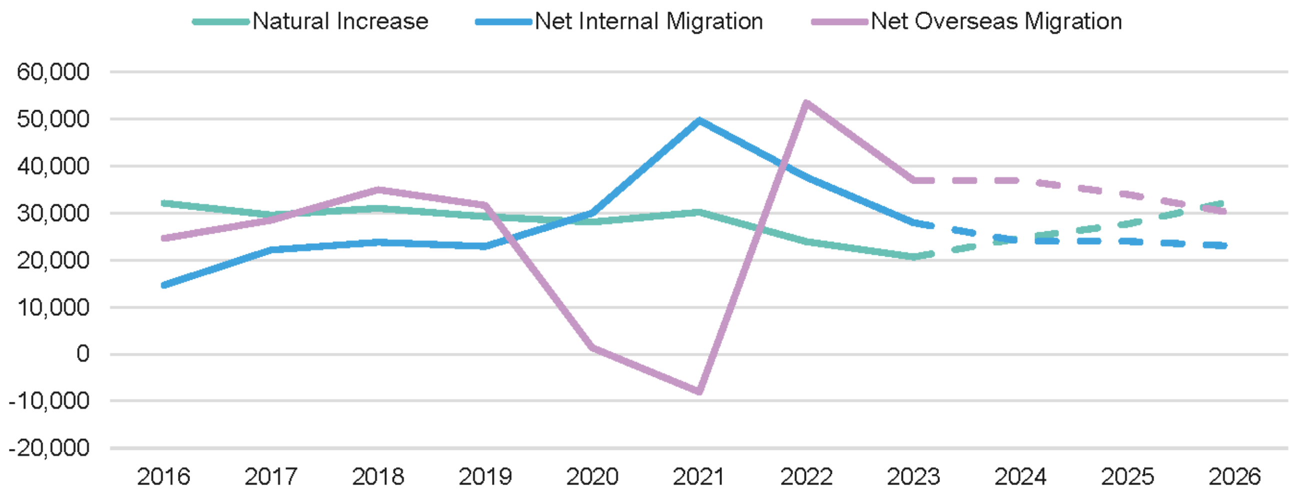
Queensland on the other hand saw levels of migration in 2022 that far exceeded historic levels, driven in part by the return of international students. Net internal migration peaked slightly earlier in 2021 and is forecast to slowly fall to more sustainable levels.

Brisbane LGA Components of Population Growth



Source: ABS

Queensland Components of Population Growth



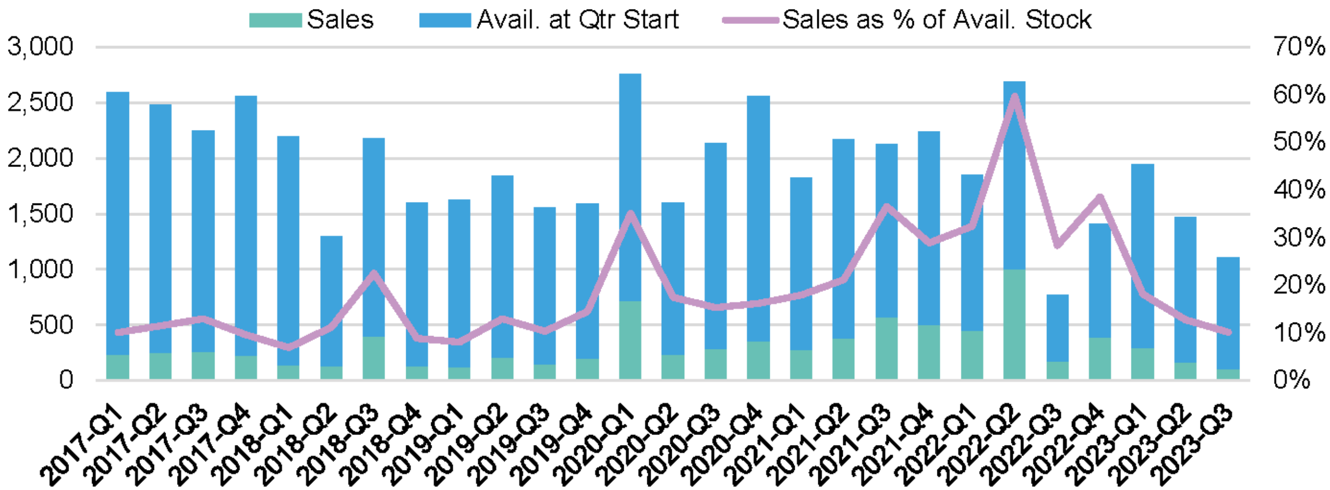
Source: ABS

SALES AND PROJECT ACTIVITY

Sales of new apartments across Inner Brisbane have been trending downwards. In the last three years, spikes in sale are largely due to individual project launches.

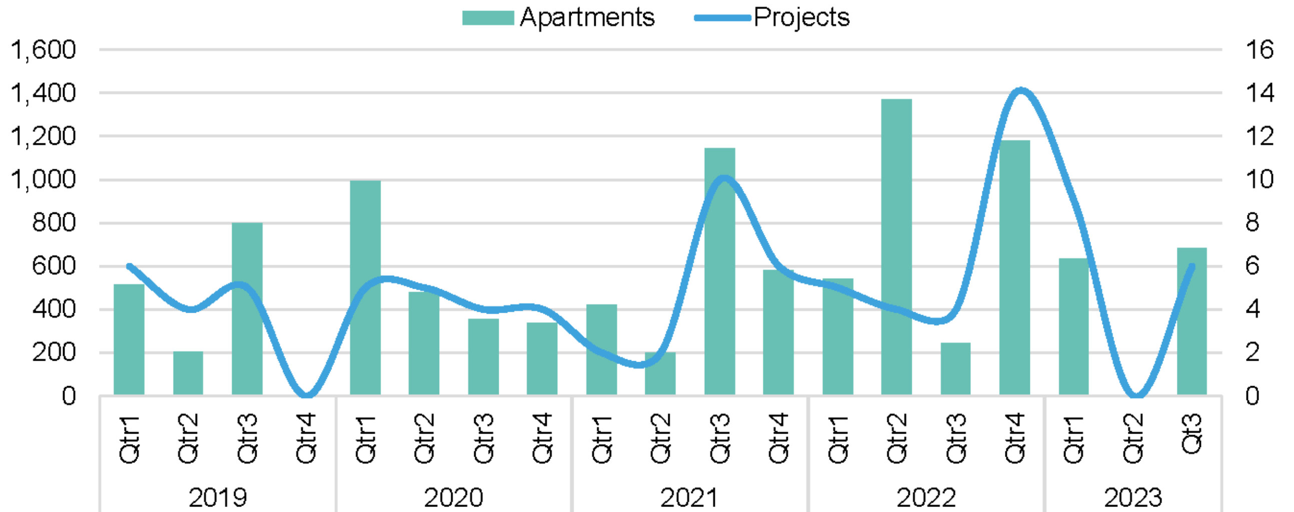
The lack of sales is largely attributable to a low number of project launches. Typically projects are mostly smaller, boutique offerings with just a handful of large projects proceeding through to construction.

Sales Velocity



Source: Urbis Apartment Essentials

Project Launches



Source: Urbis Apartment Essentials

PURCHASING ACTIVITY

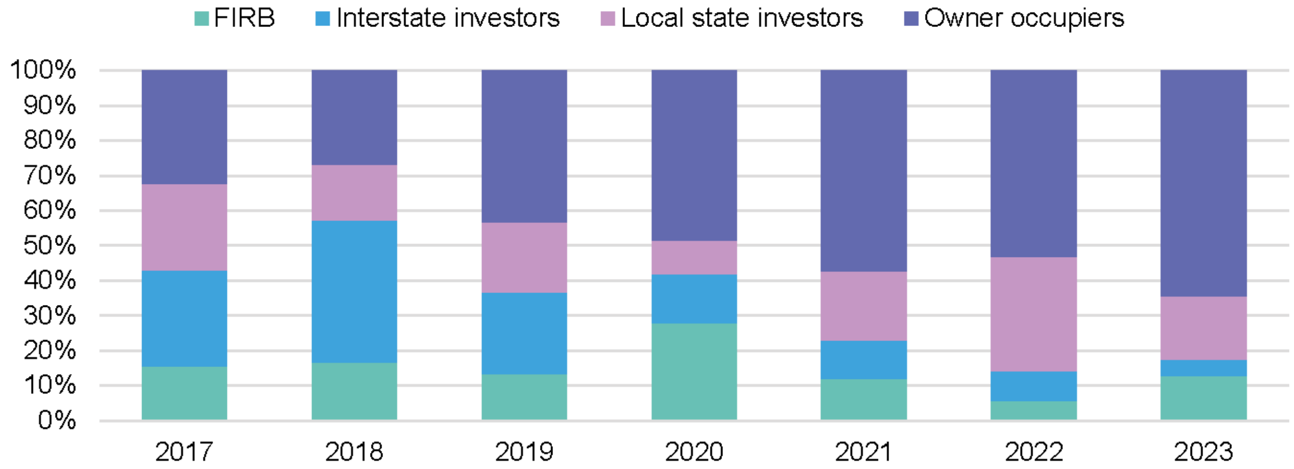
Owner occupier purchasing activity has been consistently increasing representing more than half of all sales since 2021.

Interstate investment has fallen the most significantly decreasing from consistently more than 20% to less than 5% in 2023. Local investment has shown itself to be more resilient to the overall trend in decreasing investment with it being the largest category of investment purchaser in 2023.

Foreign investment has also fallen slightly though foreign investment as of 2023 has increased slightly. This may be an effect of the end of COVID-19 related international restrictions and increased ease of movement.

Trends in investment are likely to be a reflection of both product type availability and financial conditions. Relevant financial trends include both price pressure on inputs including materials and labour and interest rate increases.

Purchase Profile



Source: Urbis Apartment Essentials

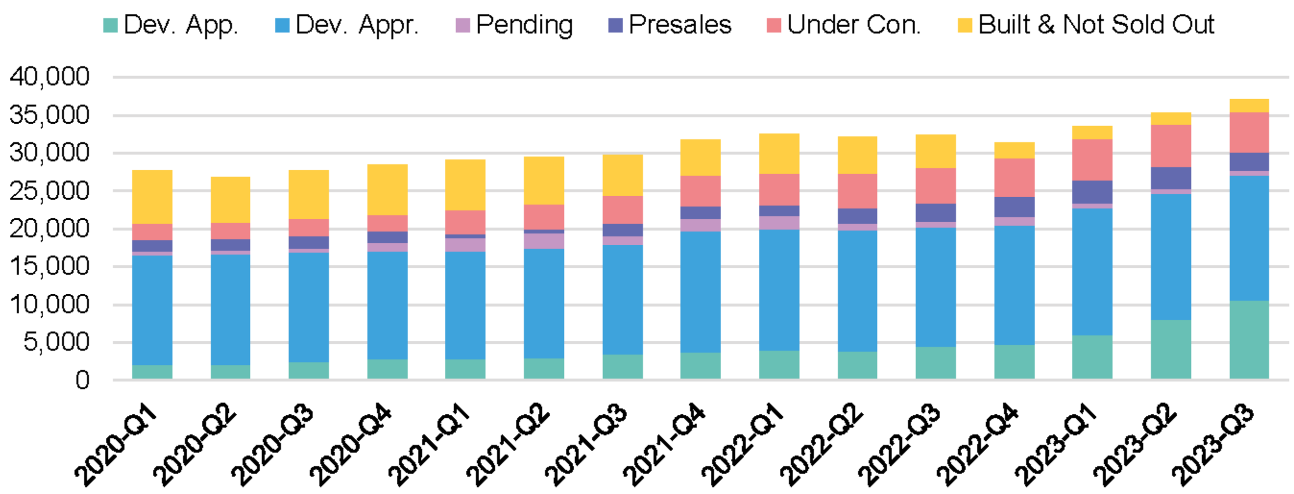
APARTMENT STOCK

Launches do not necessarily reflect the amount of supply proceeding to construction stages. This is reflected in the examination of apartment stock where construction has not varied significantly. At the same time built and not sold-out projects have fallen to low levels as stock is being absorbed by the market.

Throughout this period, developers are still actively preparing a future pipeline of work. Approvals have slightly increased on average paving the way for a stronger few years when construction and delivery headwinds ease.

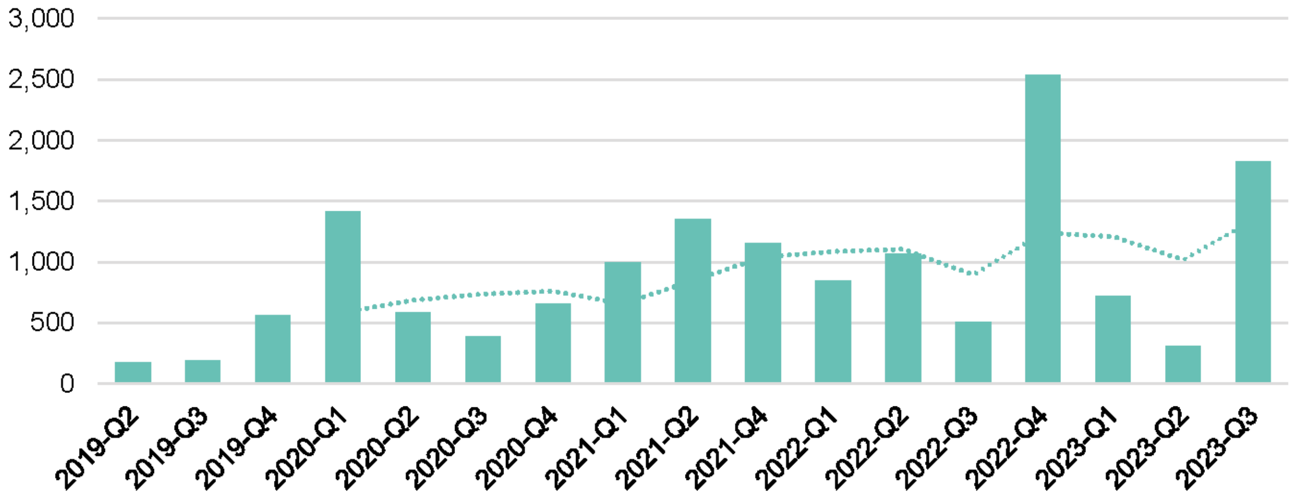
This places a larger portion of the future pipeline both further from initiation and also with less certainty in its delivery.

Apartment Stock by Quarter



Source: Urbis Apartment Essentials

Apartment Approvals



Source: Urbis Apartment Essentials

FUTURE PIPELINE

The development pipeline has become increasingly constrained in the last few years with less than 2,000 apartments delivered per year between 2020 and 2023. An increase is forecast In the coming years however this supply is not yet under construction so does remain highly uncertain.

A large amount of this incoming future supply, approximately one quarter, are BTR projects.

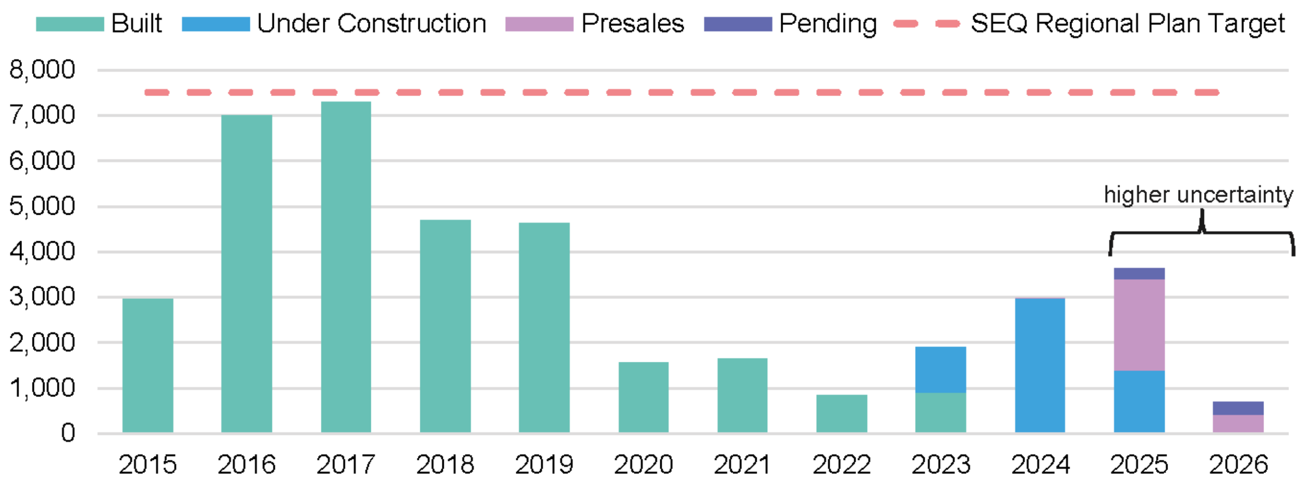
If all these projects are delivered there will be 60% more apartments delivered in the next three years compared to the previous three. If some of these future projects are not delivered or are delayed, then delivery may peak sooner. If 50% of the presales or pending projects are not delivered, then deliveries are likely to peak in 2024.

Two bed stock is expected to remain the dominant product type. After several years of limited one bed supply, the coming years are expected to see a return of one bed apartment deliveries. That being said, 30% of all one bed apartments are expected to be delivered in BTR projects. A further 34% of this is located within the Queens Wharf development highlighting the more singular delivery of smaller product.

A growing portion of the pipeline is taken up by larger unit types which reflects the more boutique projects being delivered.

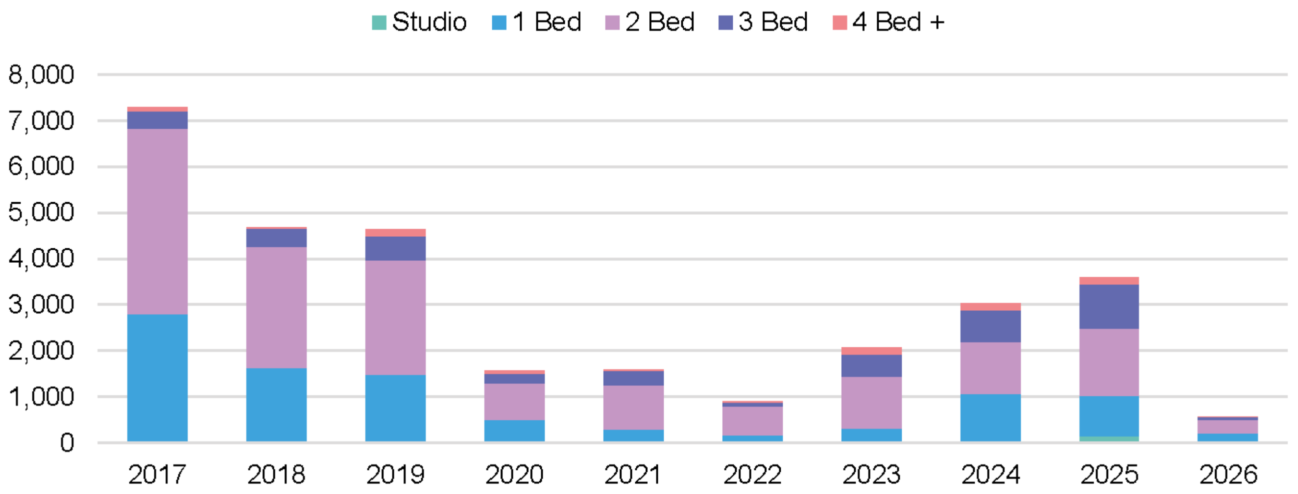
The recently released ShapingSEQ 2023 Regional Plan indicates that the Brisbane LGA requires ~7,500 new attached dwellings per annum to reach the 2046 dwelling target. Whilst the Urbis Apartment Essentials focuses on the inner Brisbane – this precinct is expected to do the heavy lifting of supply for the wider Brisbane LGA and therefore a significant increase in the current annual delivery of apartments is needed to satisfy targets.

Historic & Future Apartment Pipeline by Est. Completion Date



Source: Urbis Apartment Essentials

Historic & Future Apartment Pipeline by Est. Completion Date and Product



Source: Urbis Apartment Essentials

COVID-19 AND THE POTENTIAL IMPACT ON DATA INFORMATION

The data and information that informs and supports our opinions, estimates, surveys, forecasts, projections, conclusion, judgments, assumptions and recommendations contained in this report (Report Content) are predominantly generated over long periods and is reflective of the circumstances applying in the past. Significant economic, health and other local and world events can, however, take a period of time for the market to absorb and to be reflected in such data and information. In many instances a change in market thinking and actual market conditions as at the date of this report may not be reflected in the data and information used to support the Report Content.

The recent international outbreak of the Novel Coronavirus (COVID-19), which the World Health Organisation declared a global health emergency in January 2020 and pandemic on 11 March 2020, has and continues to cause considerable business uncertainty which in turn materially impacts market conditions and the Australian and world economies more broadly.

The uncertainty has and is continuing to impact the Australian real estate market and business operations. The full extent of the impact on the real estate market and more broadly on the Australian economy and how long that impact will last is not known and it is not possible to accurately and definitively predict. Some business sectors, such as the retail, hotel and tourism sectors, have reported material impacts on trading performance. For example, Shopping Centre operators are reporting material reductions in foot traffic numbers, particularly in centres that ordinarily experience a high proportion of international visitors.

The data and information that informs and supports the Report Content is current as at the date of this report and (unless otherwise specifically stated in the Report) does not necessarily reflect the full impact of the COVID-19 Outbreak on the Australian economy, the asset(s) and any associated business operations to which the report relates. It is not possible to ascertain with certainty at this time how the market and the Australian economy more broadly will respond to this unprecedented event and the various programs and initiatives governments have adopted in attempting to address its impact. It is possible that the market conditions applying to the asset(s) and any associated business operations to which the report relates and the business sector to which they belong has been, and may be further, materially impacted by the COVID-19 Outbreak within a short space of time and that it will have a longer lasting impact than we have assumed. Clearly, the COVID-19 Outbreak is an important risk factor you must carefully consider when relying on the report and the Report Content.

Where we have sought to address the impact of the COVID-19 Outbreak in the Report, we have had to make estimates, assumptions, conclusions and judgements that (unless otherwise specifically stated in the Report) are not directly supported by available and reliable data and information. Any Report Content addressing the impact of the COVID-19 Outbreak on the asset(s) and any associated business operations to which the report relates or the Australian economy more broadly is (unless otherwise specifically stated in the Report) unsupported by specific and reliable data and information and must not be relied on.

To the maximum extent permitted by law, Urbis (its officers, employees and agents) expressly disclaim all liability and responsibility, whether direct or indirect, to any person (including the Instructing Party) in respect of any loss suffered or incurred as a result of the COVID-19 Outbreak materially impacting the Report Content, but only to the extent that such impact is not reflected in the data and information used to support the Report Content.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