PROPERTY COUNCIL of Australia

October 2024

Brisbane apartment snapshot A report on Brisbane's apartment supply pipeline.

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



A message from our Executive Director

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.

According to the State Government's South East Queensland Regional Plan (SEQRP), Brisbane's population is expected to grow by almost 500,000 by 2046.

With land at a premium across Brisbane, higher density apartments are set to play an important role in housing these new residents with the South East Queensland Regional Plan predicting more than half of the 210,800 new homes needed in Brisbane will be attached dwellings, including medium and higher density apartments.

Given the importance of apartments for Brisbane, the Queensland Division of the Property Council of Australia commissioned Urbis to undertake research to measure the state of the Brisbane apartment supply pipeline. The findings of this research are cause for concern.

According to the results, Queensland has not delivered the quantum of apartments required under the South-East Queensland Regional plan since 2019. This looks set to continue for the foreseeable future, with future supply set to fall short of the targets stipulated by the regional plan by between 800 to 1000 dwellings annually.

This analysis is potentially optimistic given the feasibility challenges being experienced in the multi-residential construction sector with our research revealing that a third of Brisbane's projected supply is considered moderate to high risk of not being developed in 2027.

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 over 30 per cent of Queenslanders who rent.

As costs skyrocket and productivity continues to spiral, intervention is desperately needed, starting with removing the tax and regulatory barriers to delivering a home for every Queenslander. This includes the additional taxes levied on Australian-based Developers who utilise foreign capital, the entities and investors we need to deliver apartments at scale.

Off the back of the Property Council's advocacy earlier in the year, the Queensland Treasurer on the 1st of July committed to review tax settings if re-elected in October.

However, this commitment does not go far enough.

The Property Council is calling on the Government to commit that the review will:

- Be conducted independently of Treasury and chaired by an independent tax expert
- Include appropriate peak bodies in setting the Terms of Reference and;
- Include a commitment to no new or increased taxes or charges across the entire property sector

Further, we seek the same commitment from the Opposition ahead of October's state election.

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.

Jess Caire

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Queensland Executive Director



Recommendations

Off the back of the Property Council's advocacy earlier in the year, the Queensland Treasurer on 1 July committed to review tax settings if re-elected in October. However, this commitment does not go far enough. The Property Council is calling on the Government and Opposition to commit that the review will:



BRISBANE - SALES AND PROJECT ACTIVITY

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

The lack of sales is largely attributable to a low number of project launches. Typically, projects have been smaller, boutique offerings with just a handful of large projects proceeding through to construction. Consecutive guarters with no new project launches occurred for the first time in over five-years in Q4 2023 and Q1 2024.







Source: Urbis Apartment Essentials

Project Launches

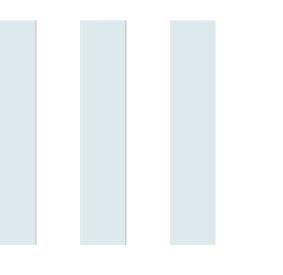


BRISBANE - APARTMENT STOCK

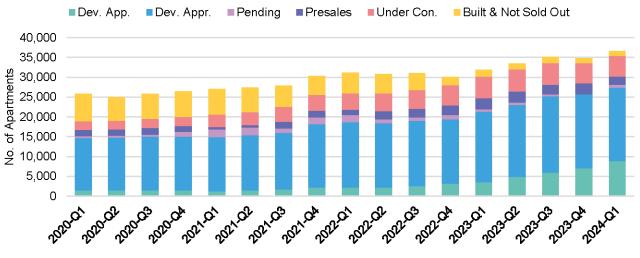
Launches do not necessarily reflect the amount of supply proceeding to construction stages. This is reflected in the examination of apartment stock where construction has not varied significantly. At the same time built and not sold-out projects have fallen to low levels as stock is being absorbed by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

Throughout this period, developers are still actively preparing a future pipeline of work. Approvals have slightly increase, with the number of applications also growing significantly since 2022.

This distribution highlight the pressures and uncertainty constraining industry's ability to progress projects through construction.

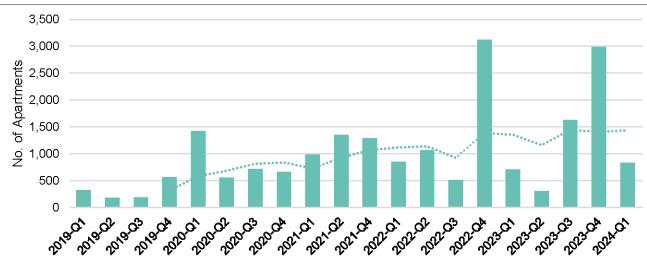






Source: Urbis Apartment Essentials

Apartment Approvals



Source: Urbis Apartment Essentials

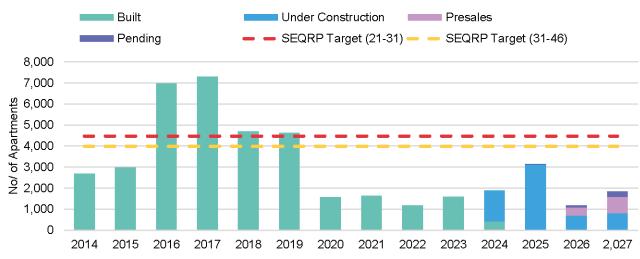
BRISBANE - FUTURE PIPELINE

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, with the bulk of supply in 2024-25 currently under construction.

Despite the resurgence in projected supply, **the annual dwelling targets set under the SEQRP remain circa 800 to 1,000 above the pipeline**

Beyond 2024-25, certainty of delivery becomes significantly more volatile. Based on a high-level assessment of project age, developer activity, and product positioning, **roughly 33% of apartment supply is considered moderate to high risk**.

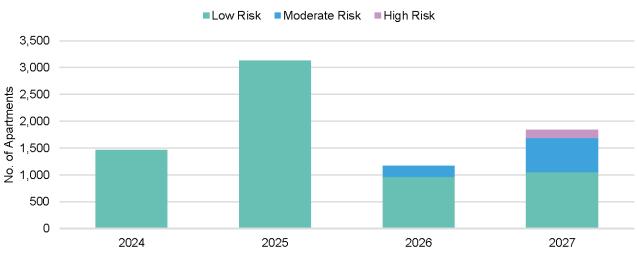




Historic & Future Apartment Pipeline by Est. Completion Date

Source: Urbis Apartment Essentials

Future Apartment Pipeline by Delay Risk Rating

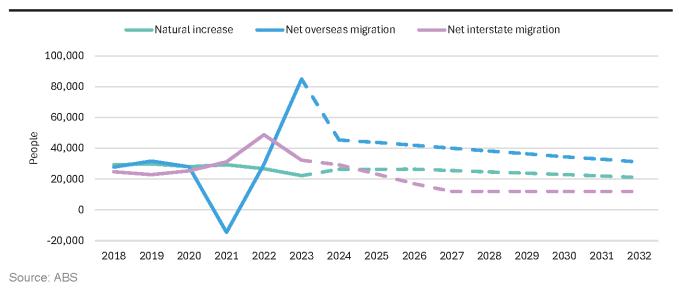


Source: Urbis Apartment Essentials

REGIONAL SUMMARY - COMPONENTS OF POPULATION GROWTH

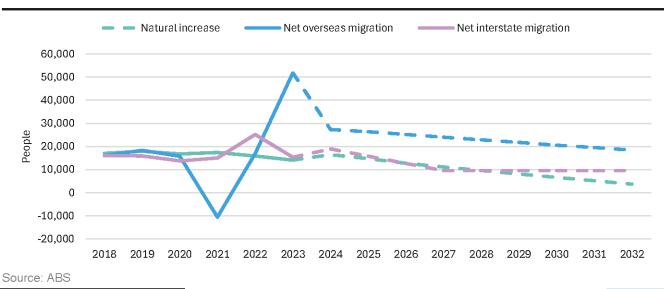
Net overseas migration has strongly rebounded following the COVID-19 pandemic. Queensland saw levels of migration in 2022/23 that far exceeded historic levels. This rise was partly fueled by the return of international students. Although softening in net overseas migration is forecasted, it is expected to remain marginally above the historical long-term average. Net interstate migration, on the other hand, is projected to gradually decrease to more modest levels (~10,000 people per annum).

In a similar vein to Queensland, Greater Brisbane experienced a substantial rise in net overseas migration in 2023, which is expected to revert to levels seen before the pandemic. Net interstate migration reached its peak slightly earlier in 2022 and is forecasted to follow a similar downward trajectory as Queensland, Greater Brisbane's projected net interstate migration equates to over 90% of the State's total.



Queensland Components of Population Growth

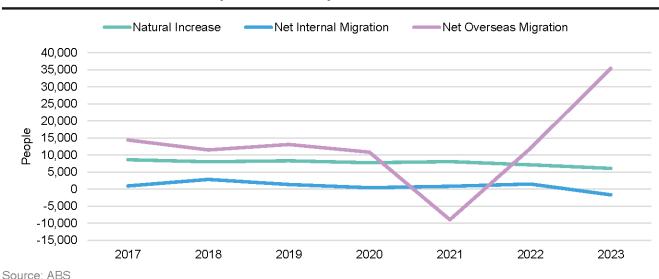




REGIONAL SUMMARY - COMPONENTS OF POPULATION GROWTH

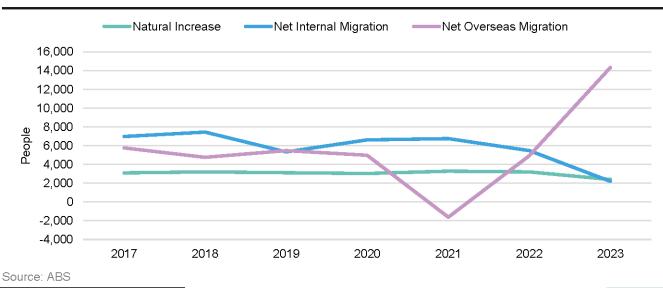
Brisbane and the Gold Coast experienced a significant decline in net overseas migration during the COVID-19 pandemic, with figures significantly dropping below zero. However, by 2023, both cities shown to have rebounded, with overseas migration levels not only recovering but also exceeding the historic long-term averages. This rebound is expected to be short-lived before reverting to more historic norms in line with State and Greater Brisbane projections.

In terms of internal migration, Brisbane maintained relative stability, with only a slight decrease observed in 2023. Since 2017, the Gold Coast's net internal migration seems to be on a downward trend, hitting a low in 2023. We note that internal migration is often preceded by overseas migration, with new arriving in southern states (NSW and VIC) before migrating north into South East Queensland. The recent tapering in internal migration is likely explained by the constrained international migration in 2021 though would have otherwise converted to internal migration in 2023.



Brisbane LGA Historic Components of Population Growth





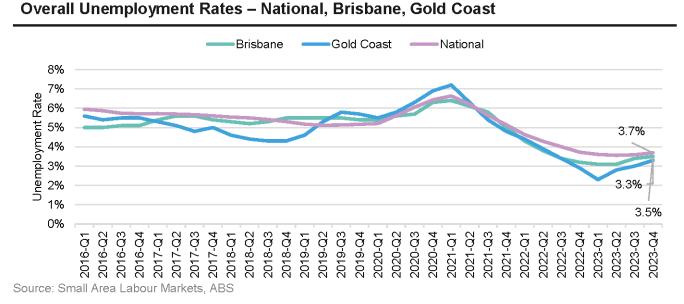
DELIVERY CONSTRAINTS – LABOUR SCARCITY

Between 2016 and 2021, Australia's unemployment rate hovered between 5% and 6%, indicating a stable job market. Following an initial surge in unemployment, the nation's closed borders led to a sharp decline in unemployment as international labour supply was closed off. Unemployment rates have remained below the long-run average despite restrictive monetary policy. This suggests labour force scarcity is likely to remain sticky in over the short to medium term.

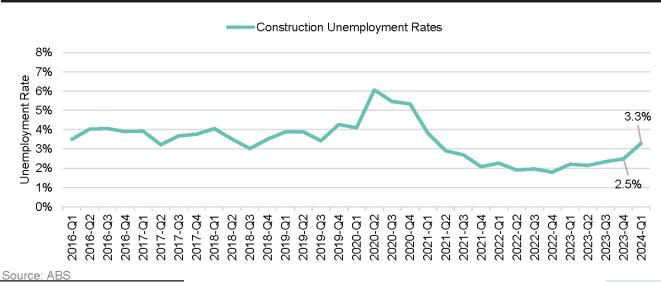
In Q1 2024, construction unemployment rate rose to 3.3%, surpassing 3% for the first time since early 2021. These low rates reflect high demand for labour in the construction sector. Numerous factors are likely to see labour shortages in the construction industry, namely a shortage of skilled migration and "crowding-out" effects driven by major public sector projects such as Olympic infrastructure, Queensland's Hospital Expansion Program, and numerous transport projects such as Brisbane Metro and Cross River Rail.

Persistent labour scarcity could contribute to delivery constraints, **leading to project delays** and potentially withdrawals.

It's important to mention that we utilised Small Area Labour Markets' recommended National unemployment rate estimates from ABS, which were in line with their own estimates, rather than using the seasonally adjusted data.



Australia's Construction Industry Unemployment Rates



CONSTRUCTION COST INFLATION

The adjacent table provides a depiction of Construction Product Price Input index for Brisbane. Before the onset of COVID-19, typical quarterly input price growth was between 0% and 1.2% (Q1 2016 – Q4 2019). The rate of increase during 2021 and 2022 was more notable, with growth ranging from 1.1%-5.5% per quarter during the period. The peak growth was observed in the second quarter of 2022 at 5.5%. From the end of 2022 to the current period there is indications of cost stabilisation, it's important to note that these costs are still considerably higher than the precovid rates and pose a significant constraint to construction feasibility.

Despite signs of input costs stabilising towards the end of 2022, the Construction Product Price **Output Index in Queensland maintained its upwards trajectory, marking a 3.5% increase in the first quarter of 2024**. This output has been on a notable escalation since 2021, with growth rates fluctuating between 0% and 3.4% during 2021 and 2022. This persistent increase in output could be attributed to the shortage of labour, which pushes output costs higher. Given the likely persistence of labour constraints, there is potential that construction output is likely to continue to increase in cost.



Construction Product Price Input Escalation for Brisbane

Included in the Input: Timber, board and joinery; Ceramic products; Concrete, cement and sand; Cement Products, Steel Products; Other metal products; Plumbing products; Electrical equipment, Installed gas and electrical appliances; and Other materials. **Construction Product Price Output Escalation for Queensland**



ABS classifies one of Other Residential Building Construction primary activities as Apartment constructions (excludes freestanding houses).

DWELLING TARGETS

Facilitating the delivery of new apartment project in the Brisbane and Gold Coast Local Government Areas is <u>critical</u> to achieving the dwelling targets outlined in the South East Queensland Regional Plan 2023 (SEQRP).

Supply of medium- and high-rise dwellings (4-ormore storeys) across SEQ is intended to triple from 2021 to 2046. Brisbane and the Gold Coast provide 87% of SEQ's existing medium- and highrise apartment dwellings, with a greater (+5%) share of high-rise dwellings.

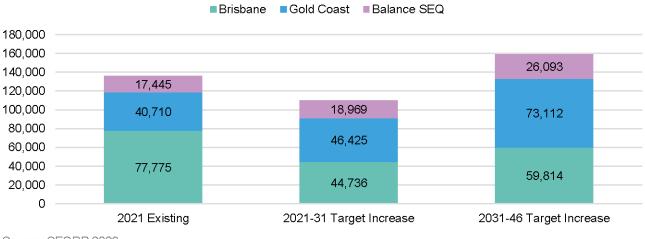
Each LGA is envisaged to deliver ~45,000 new dwellings over the ten years to 2031, equating to circa **4,500 per annum**. The balance of SEQ is projected to deliver less than 2,000 per annum over the same timeframe.

The following 15-years (2031-2046) anticipates the Gold Coast will increase its rate of delivery (4,800 per annum) while Brisbane is expected to slow (4,000 per annum). Balance SEQ projects a slight decline in the rate of delivery (1,700 per annum).

Over the projected period, Brisbane and the Gold Coast are planned to deliver 83% of new medium- and high-rise apartment dwellings.

Assuming SEQRP targets are met, Brisbane and the Gold Coast will provide 85% of all mediumand high-rise dwellings in region in 2046. The share increases to 89% for high-rise dwelling which comprise the majority of planned supply.

Any constraints to apartment developments across Brisbane and the Gold Coast pose significant risks towards meeting regional dwelling target and exacerbating the nationwide housing crisis.



Medium- and High-rise Dwellings – Existing and Target Increase by Region, 2021-46

Source: SEQRP 2023

2021 2031 2046 100% 92% 89% 89% 87% 85% 85% 90% 81% 79% 77% 80% Share of SEQ Total 70% 60% 50% 40% 30% 20% 10% 0% Medium-rise dwellings High-rise dwellings Combined Source: SEQRP 2023

Medium- and High-rise Dwellings – Brisbane and Gold Coast Share of Total, 2021-46

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.

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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.

