

# Townsville in Focus

November 2019



Townsville

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## TOWNSVILLE IN FOCUS NOVEMBER 2019

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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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#### Acknowledgement

We acknowledge David Lynam Photography for the cover photo. Further samples of David's work can be viewed at <http://davidlynamphotography.com/> Cover Image © David Lynam Photography.

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## DIRECTORS NOTES

The big news of Townsville during 2019 was the February floods which, although disruptive and causing significant human dislocation, stimulated business activity for the rest of the year during the recovery and rebuilding process. Even now that process is not complete, with works ongoing into 2020.

At the end of the day, some 3,300 properties were affected by the flooding, to the extent of inundation above floor level, out of a total of approximately 80,000 residential properties in Townsville as a whole. This indicates an impact of just over 4% of property affected, but also meant that it remained 'business as usual' for over 95% of the market.

Against this backdrop, property and business commentators are reporting a strong 2019, which only included one quarter of direct disruption from flooding. Some smaller businesses are still experiencing tough conditions but broadly speaking, the larger players are doing relatively well and demonstrating high business confidence. Mining support businesses in particular are stirring again with a positive outlook.

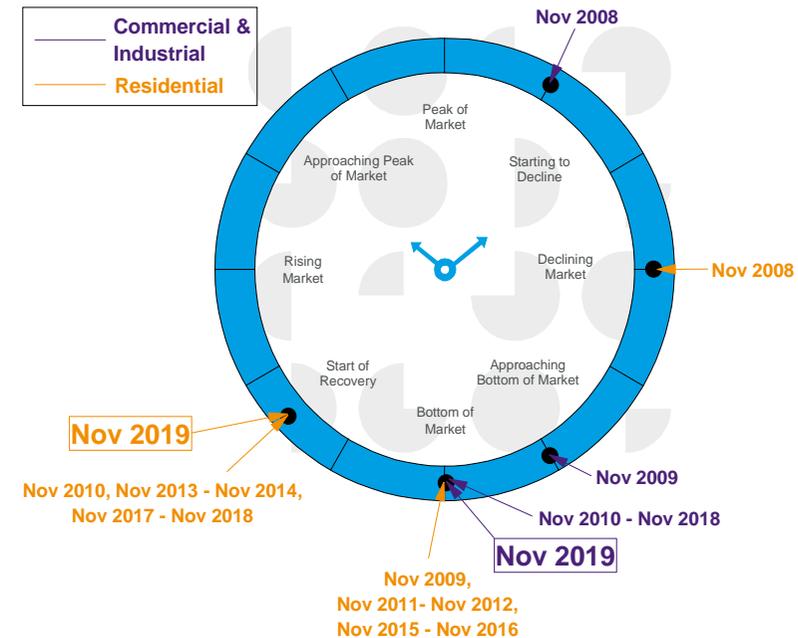
Overall we have had a busy year during 2019, and are looking forward to this continuing on during 2020.

*Townsville in Focus* is released by Herron Todd White in Townsville. 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](mailto:townsville@htw.com.au) or visit our website at [www.htw.com.au](http://www.htw.com.au).

**Jason Searston**  
Director

## OVERVIEW

### Townsville's Property Market Clock



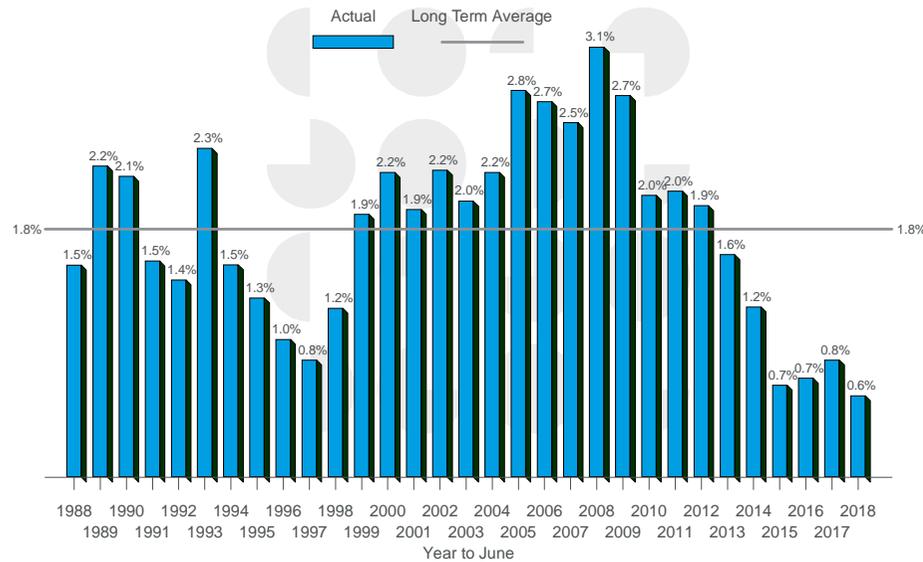
Townsville's residential property markets have come through the worst from the February 2019 floods, but fundamentally remain at the start of recovery phase.

Meanwhile the commercial and industrial markets continue showing early signs of recovery in some sectors, but not yet sufficiently to call the overall market as being at the start of recovery. Commercial and industrial markets are judged on balance as remaining at the bottom of the cycle.

## DEMOGRAPHICS

### Population Growth

Rate of Growth %pa

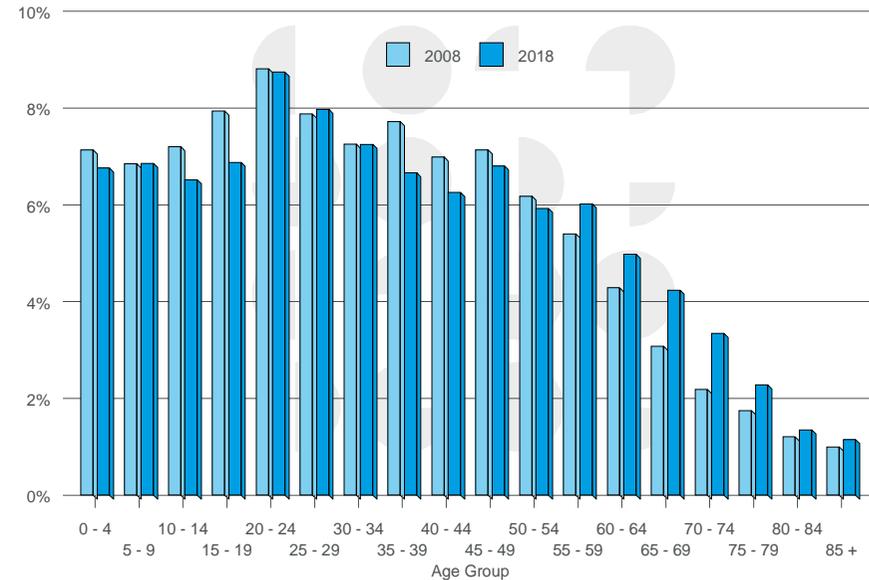


Source: ABS

Townsville experienced a population growth rate of 0.6% over the 12 months to 30 June 2018, with the city's official resident population reaching 191,114 as of that date. Population growth has averaged only 0.7% per annum over the latest four years, from 2014 to 2018, considerably below the long term (30-year) average of 1.8%, and considerably below the 2% plus rates observed in the early 2000's. Even so, there is a general perception that the 2014 to 2018 population slowdown has turned around, and that population growth during 2019 has begun to accelerate again in tandem with the improving economy.

### Population Age Structure

Percent of Total Population



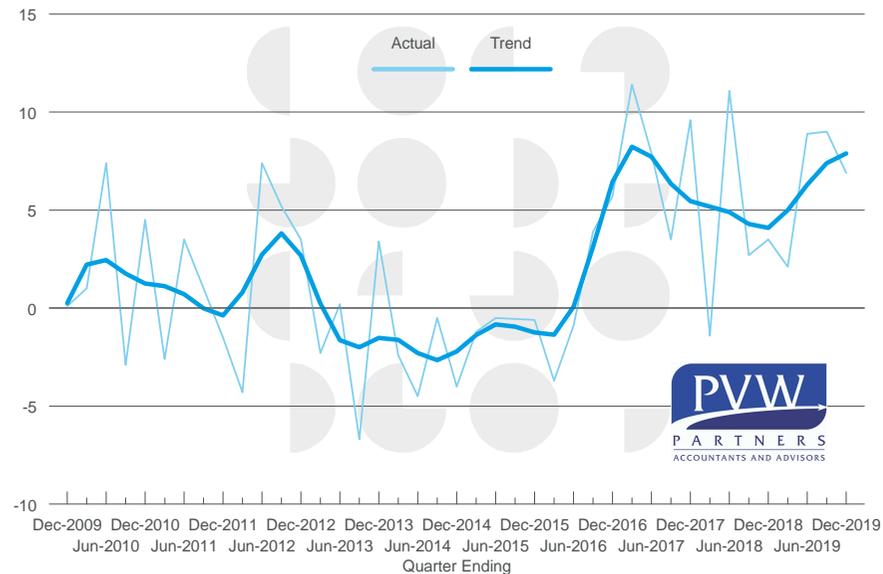
Source: ABS

Latest figures show that Townsville's demographic composition by age structure has shown significant change over the ten years from 2008 to 2018. The proportion of persons in the population aged 55 and over has progressively increased from 18.9% to 23.9% due to the combined impacts of baby boomers entering these age ranges, population ageing, and older people remaining affiliated with Townsville rather than moving elsewhere. Meanwhile the proportion of the population aged either 10 to 19 or 35 to 44 has diminished from 29.8% to 26.3%, suggestive of families with high school/university age children having lesser attachment to the region. Trends in the age composition of the population will have not only economic implications for Townsville and its future labour supply, but also impact on future housing styles and choices in the Townsville property market.

## BUSINESS CONDITIONS

### Business Confidence

PVW Partners Business Confidence Change Index



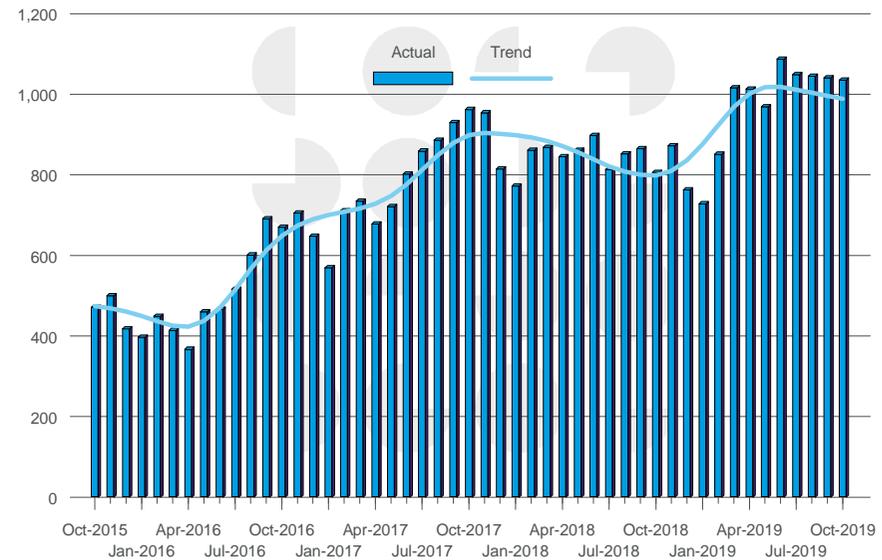
Source: PVW Partners

Despite a minor contraction for the December 2019 quarter, Townsville's business confidence finished the 2019 year stronger than it started, according to the Quarterly Townsville Business Confidence Index compiled by PVW Partners. Indeed when expressed in HTW calculated trend terms, the Index is sitting at a near-record post-GFC high.

PVW Partners comment that year on year, Townsville's business community has reported more sustained levels of confidence in 2019 than was the case in 2018. This is particularly significant in the wake of the monsoonal trough and flooding early on in 2019 and speaks to both the resilience and adaptability of local businesses and the people who run them. Even though confidence did dip in the December 2019 quarter, participant confidence still remains highly positive.

### Job Advertisements

Monthly Average Jobs Advertised



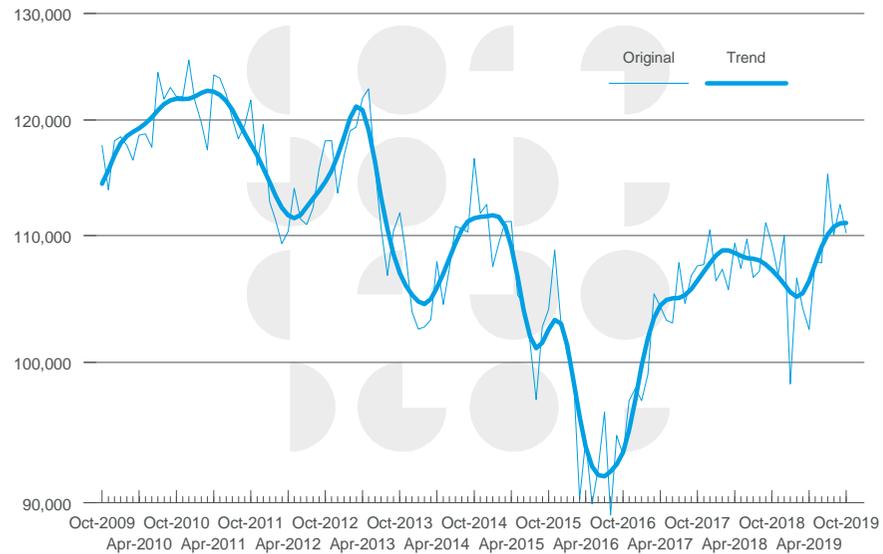
Source: HTW Analysis of Employment Websites

The trend in the number of jobs being advertised on employment websites for the Townsville region has tapered slightly in recent months, but remains significantly stronger than during corresponding months of 2018. The trend in the number of jobs advertised during October 2019 has increased by a hefty 23.9% compared to October 2018, and bodes well for further increases in net employment in the months to come.

## LABOUR MARKET

### Persons Employed

Persons Employed (Log Scale)



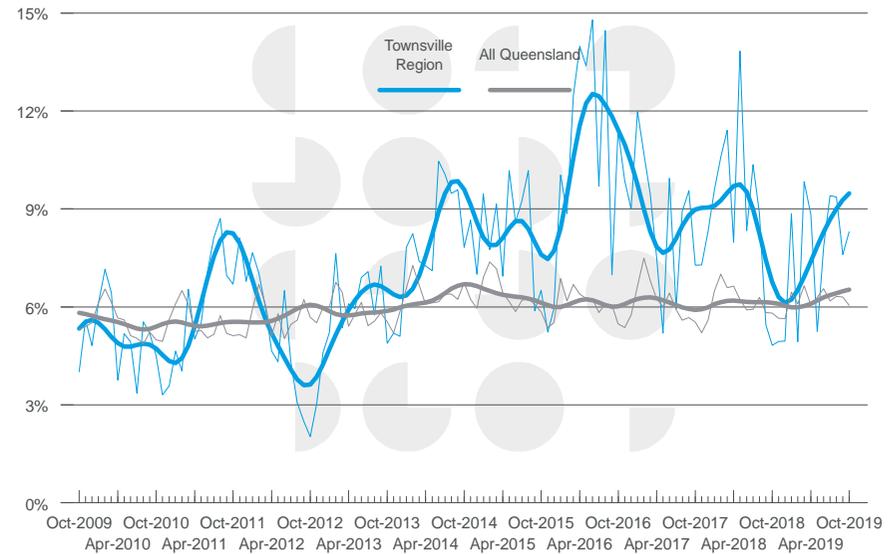
Source: Derived from ABS Labour Force Survey data

The employment trend in the Townsville Region (extending from Townsville through to the Burdekin, Hinchinbrook, Palm Island and Charters Towers LGA's) has turned around during the course of 2019, with employment numbers again back in growth territory. The trend in the number of persons employed in the region stood at 111,100 in October 2019, which implies a 4.7% increase since December 2018. In addition, high levels of business confidence and relatively strong rates of job advertising bode well for further employment creation in the 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)



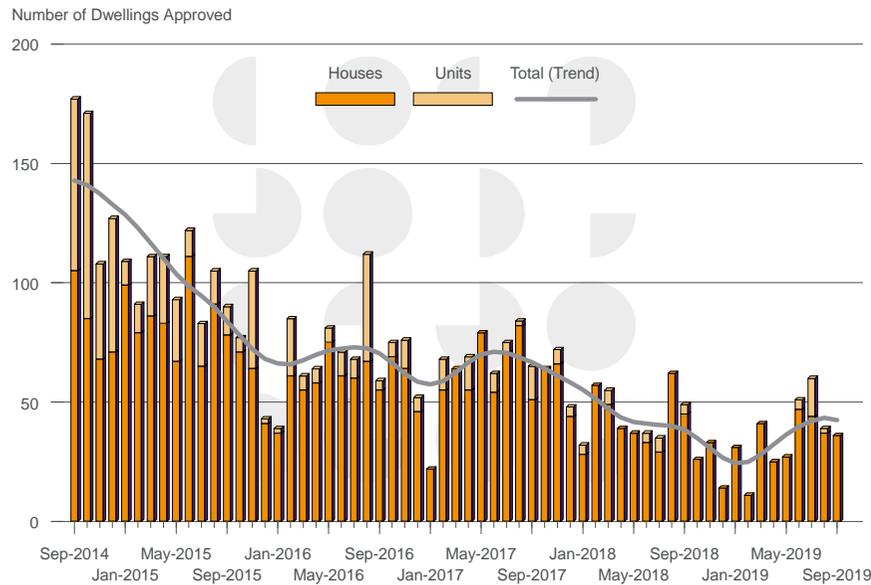
Source: Derived from ABS Labour Force Survey data

The unemployment rate in the Townsville Region has climbed during 2019, as despite increased employment over the period, even more people are coming back into the labour market to look for work as the economy and job prospects improve. The Townsville Region's unemployment rate stood in trend terms at 9.5% in October 2019, up from 6.1% in December 2018, but substantially better than the 12.5% trend unemployment rate that prevailed in 2016. In addition, the unemployment rate cannot keep rising from increased participation as it is now doing, due to the potential available labour supply reaching its limits.

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'.

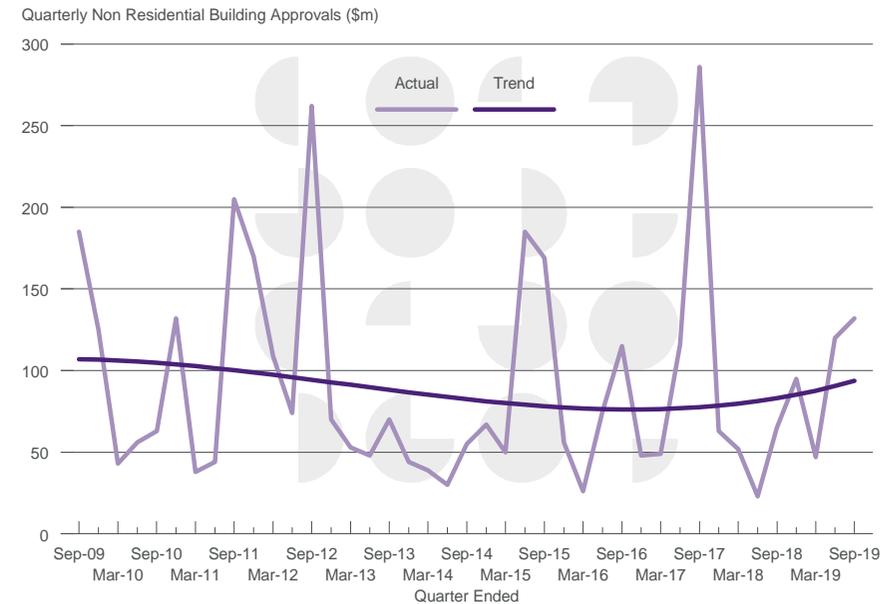
## BUILDING ACTIVITY

### Residential Building Approvals



The trend in new dwelling approvals has started turning around from the 28-year low suffered at the start of 2019, but the new dwelling construction industry (as opposed to that for repair and renovation) is still experiencing very subdued demand. The latest levels of new building activity, as at September 2019, comprise a trend average of 37 new houses and 6 new units being approved per month. Approvals for new houses have increased by 48.3% in trend over the period from January to September 2019, but still remain 60.4% below their long term average (from April 1991 on) of 93 new house approvals per month.

### Non-Residential Building Approvals

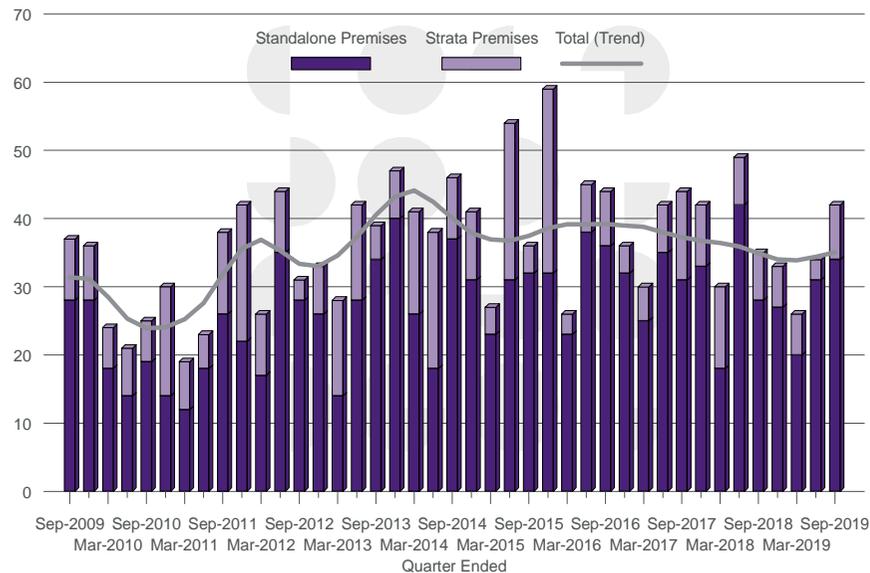


Abstracting away from large mega-projects such as the \$250 million stadium approval in the September quarter of 2017, the trend in non-residential building approvals appears to be steadily increasing, driven in the latest quarter by a variety of new approvals in the education, retail and other sectors. The total value of non-residential building approvals reached \$393 million in the twelve months ended September 2019, compared to \$203 million posted in the twelve months ended September 2018. Approvals for public sector buildings showed a distinct pickup, from \$32 million for the twelve months ended September 2018, to \$276 million for the twelve months ended September 2019.

## COMMERCIAL AND INDUSTRIAL PROPERTY

### Commercial/Industrial Sales

Number of Sales per Quarter

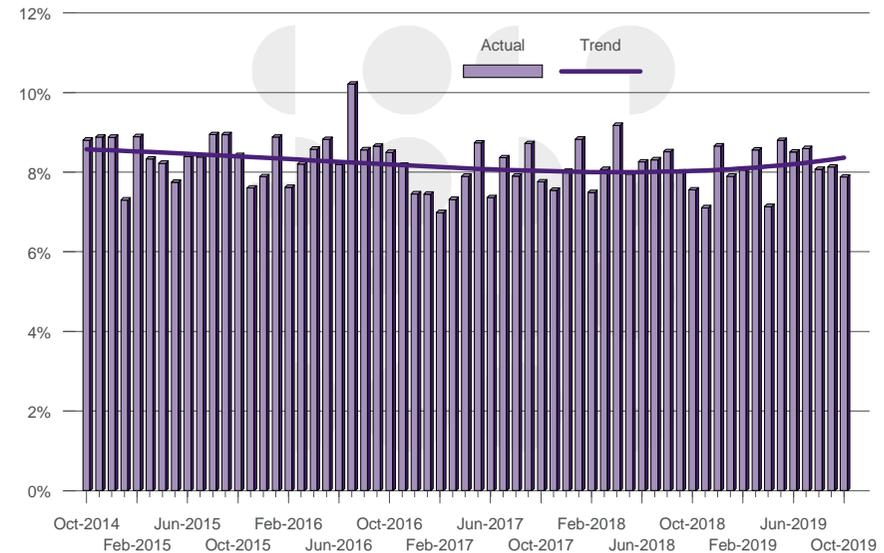


Source: HTW Analysis of RPData

Sales of developed commercial and industrial properties have shown a slight lift in activity, with sale volumes in the September quarter of 2019 now trending at about 35 transactions per quarter. The market has regained the 35 transactions recorded in the September quarter of 2018, but remains a little down on the 37 transactions recorded in the September quarter of 2017. The current market has for some time been largely confined to affordable properties that 'tick all the right boxes' in the sub \$1 million range, and largely catering to intending owner occupiers. There are occasional high end syndication/trust purchases, but only for properties with strong lease profiles. Southern investors are also actively looking given the attractive yield spread available in regional areas relative to their home locations, provided they have access to finance.

### Property Yields

Average Net Yield (%)

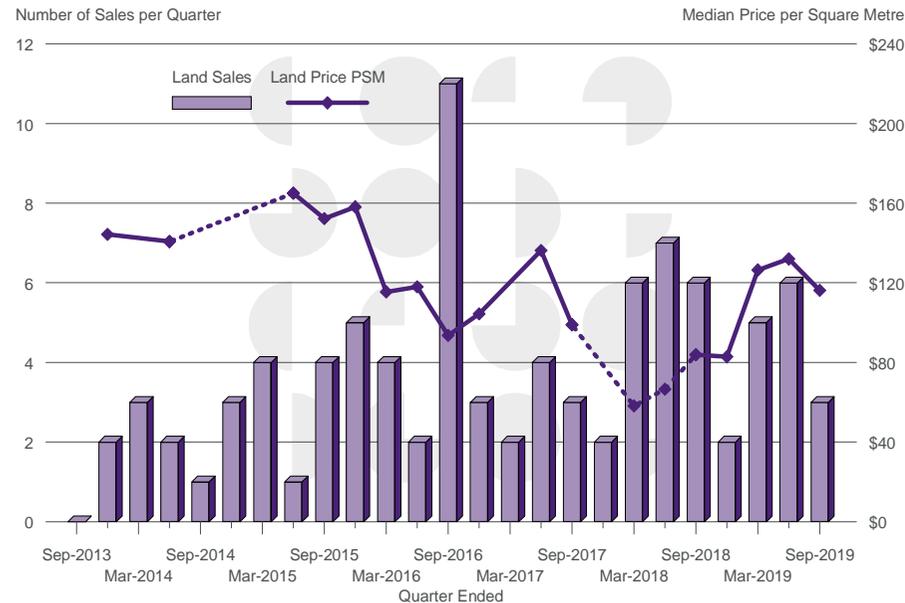


Source: HTW Analysed Sales

Average yields for commercial and industrial property have started nudging higher over the last twelve months as investors start to extend their sights across the broader market, rather than focussing as exclusively as before on only those properties with strong lease covenants, tenant profiles and lease periods. The majority of sales now taking place are analysing in the 7½% to 9½% range, but sales are very sensitive to their fundamentals and the yield spread remains widened. The market is maintaining a minimal yield differential between the industrial and commercial sectors, but a wide differential between primary and secondary stock.

## INDUSTRIAL LAND

### Industrial Land Sales

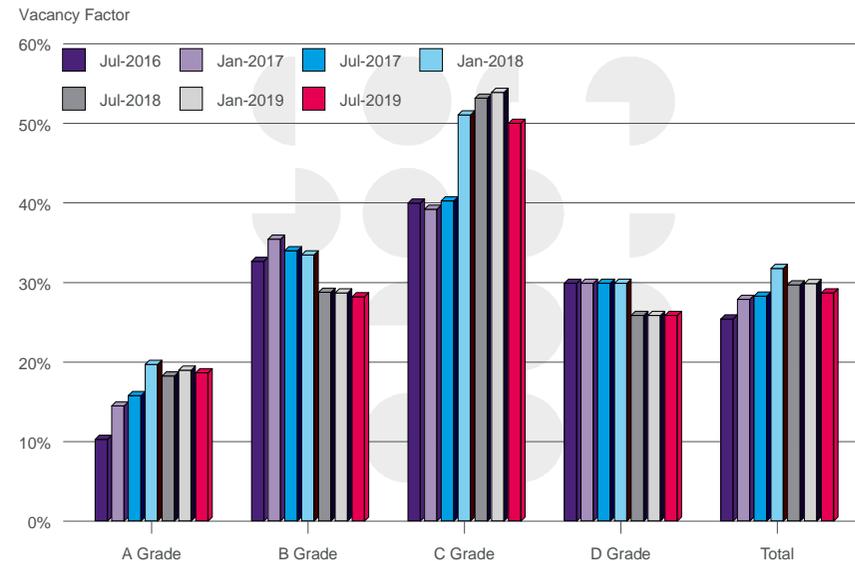


Source: HTW Analysis of RPData

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. Nevertheless we perceive that the market is starting to stir on the basis of an improving economic outlook, particularly in areas such as regional mining development support, transport terminal infrastructure and metals fabrication. The median industrial land price has been volatile since the December 2015 quarter, but in our view the going rate for industrial land for engineering or warehousing pursuits has remained at \$120 to \$160 per square metre continuously for the last seven years. Meanwhile our industrial land survey indicates a market supply of 64 serviced industrial lots available in new industrial subdivisions, more than adequate for current and foreseeable levels of demand.

## OFFICE MARKET

### CBD Office Vacancy Rate



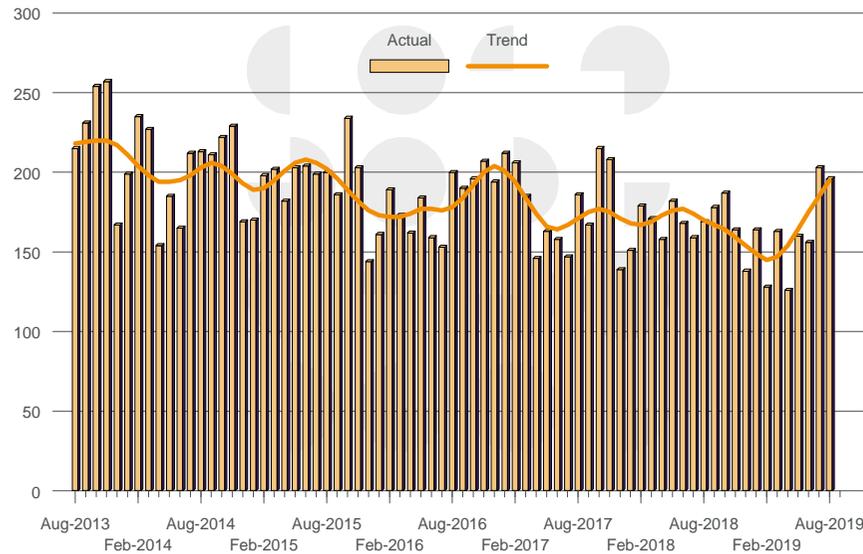
Source: HTW Survey

Townsville's CBD office vacancy rate reduced from 29.9% to 28.7% over the six months from January to July 2019, primarily due to a reduction in the level of vacancy for C Grade office space. Office vacancy rates reduced slightly from 19.0% to 18.7% in the A Grade sector and from 28.7% to 28.2% in the B Grade sector. There were no new additions or deletions to the rental stock during the period, with the vacancy reduction reflecting a net 1,652 square metres of office space absorption during the latest six months.

## RESIDENTIAL MARKET - HOUSES

### House Sales

Number of Sales per Month

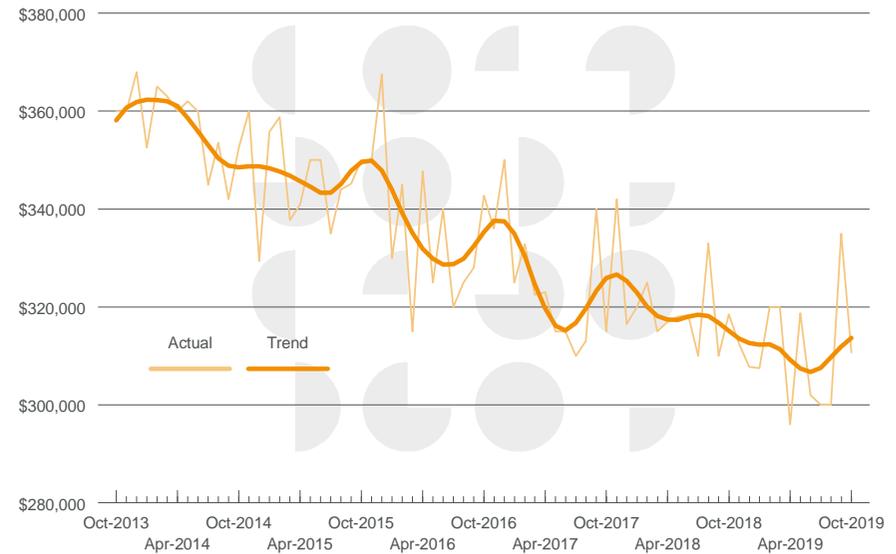


Source: HTW Analysis of RPData

House sale volume trends have rebuilt again during the course of 2019, with sale volumes as at August 2019 trending at a level of approximately 195 transactions per month, 14.4% above the levels observed in August 2018. Sales have noticeably increased in the central (4810 postcode) suburbs, other than those affected by February floods.

### House Prices

Median House Price



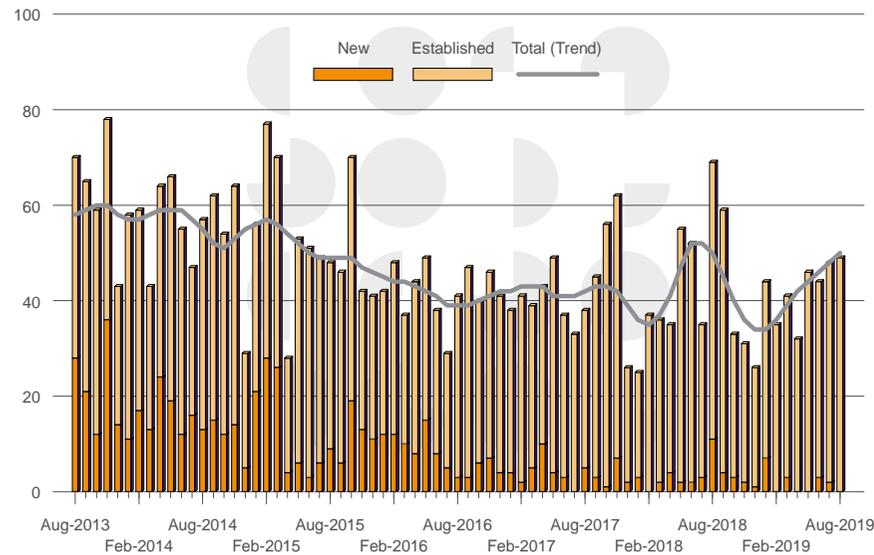
Source: HTW Analysis of RPData

Townsville's median house price is finishing the 2019 year on an upward note, with the latest median price trend, for houses sold in October 2019, coming in at \$314,000. Nevertheless this still signifies a 0.4% decrease compared to October 2018. Median prices lowered during early 2019 from a flurry of demand for houses in the sub-\$200,000 bracket in older established suburbs. However this impact has since dissipated due to the exhaustion of sub-\$200,000 stock, causing median prices to revert to compositionally 'normal' levels. Across the market overall, sale values being achieved in the better regarded suburbs are often coming in at the upper end of expectations, while prices achieved elsewhere continue to vary against their prior expectation.

## RESIDENTIAL MARKET - UNITS

### Unit Sales

Number of Sales per Month

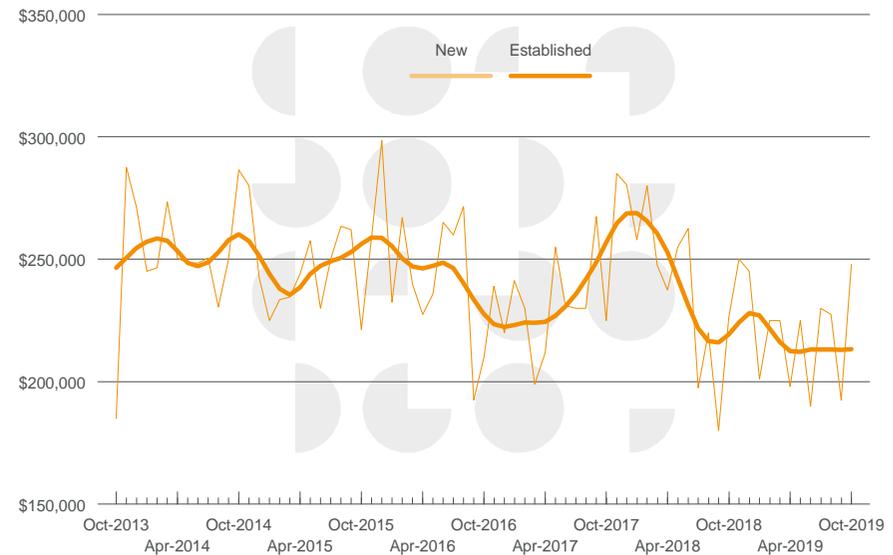


Source: HTW Analysis of RPData

The number of units being sold and settled has also increased during the course of 2019, to reach a trend transaction level now running around 50 unit sales per month. The current market consists almost entirely of established unit sales, with new unit sales and supply having faded almost completely away. Demand appears to be arising from intending owner occupiers and investors alike.

### Established Unit Prices

Median Unit Price



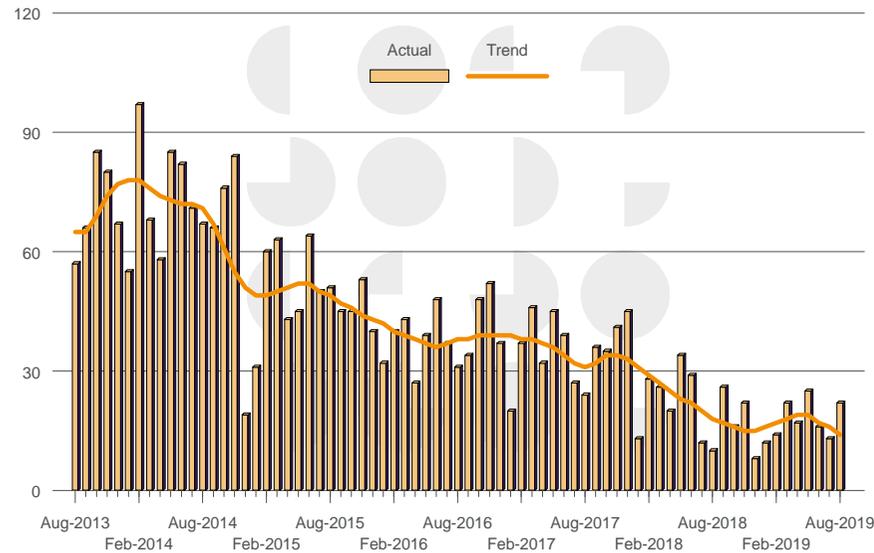
Source: HTW Analysis of RPData

Prices in the established unit market continue to be influenced by affordability concerns, with an aversion to high body corporate expenses, a dominance of entry-level or low end investor sales, and a continued incidence of mortgagee-in-possession sales. Overlaid with these has been a level of disruption associated with the February floods. The October 2019 median trend price came in at \$189,000, which is 2.7% below the level that prevailed in October 2018. In our view recent movements are more a reflection of the focus of the market on low end sales rather than actual value change, albeit that median trend values are now steady.

## RESIDENTIAL MARKET - LAND

### Residential Land Sales

Number of Sales per Month



Source: HTW Analysis of RPData

The amount of vacant land that has been sold and settled by developers remains at a trickle, down to a trend level of just 14 sales per month as at August 2019. This represents a whopping 78.3% reduction in the trend volume of sales over the six year period since August 2013. Current land sale volumes are also being reflected in a slow rate of new housing construction.

### Residential Land Prices

Median New Land Price

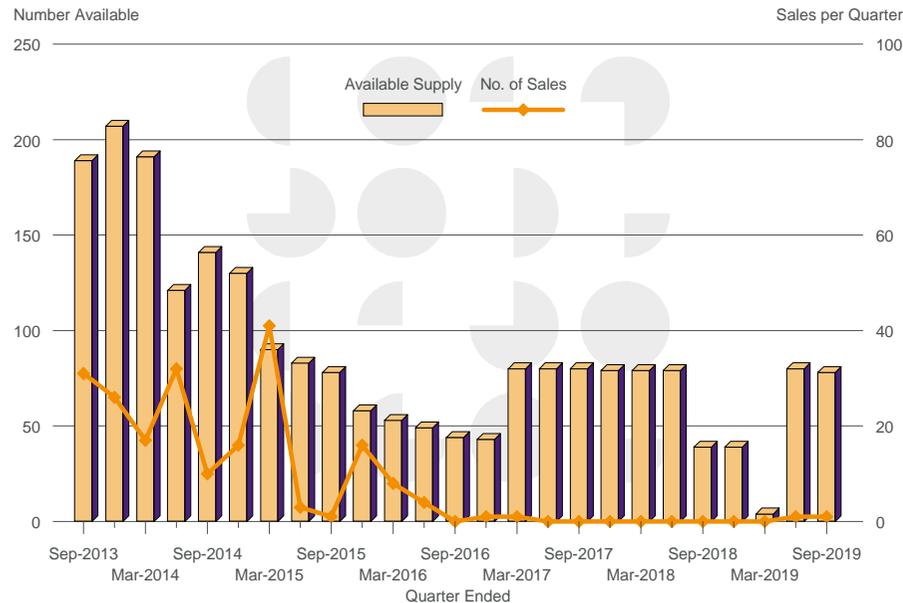


Source: HTW Analysis of RPData

The trend in Townsville's median vacant land price has remained relatively steady during the course of 2019 despite high volatility in the month-to-month actual prices, with the trend coming in at \$160,000 per allotment as at October 2019. This represents a 3.8% decrease compared to October 2018. However because of the extremely low volume of sales, this movement may not be a genuine reflection of the market. In our view competitive pressures and low demand are keeping land values at static to slightly declining levels.

## 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 two remnant units contracted for sale by developers during the twelve months to September 2019. The period from December 2018 to March 2019 saw the 'removal' from the survey of two previous off-the-plan projects which are no longer being actively marketed. However the subsequent introduction of three new developments to the market has now brought the available new unit supply to 78 as at 30 September 2019.

### New Residential Land Sales and Supply



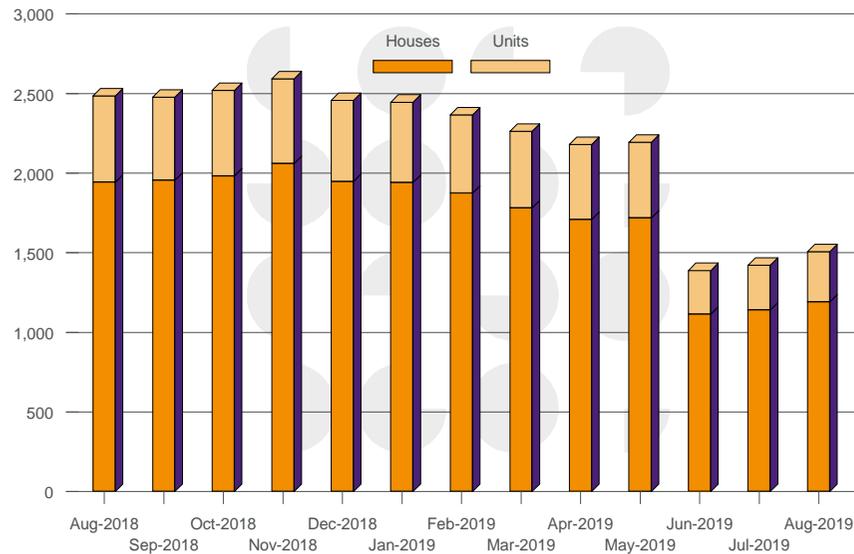
Source: HTW Land Survey

Our Developer Land Survey shows a total of 717 developer lots available on the market as at the end of September 2019. This represents a small net reduction from the 741 lots available as at the end of September 2018, reflecting relatively slow sales but a paucity of new land releases during the period. Lots remaining available are spread across a variety of size ranges, with the highest number being in the 350 to 600 square metre category. The number of lots absorbed, from new vacant land sales as well as new house and land packages, totalled 63 during the September 2019 quarter. This continues the run of low sales rates that has persisted over the last twelve months.

## RESIDENTIAL MARKET METRICS

### Residential Property Listings

Number of Properties For Sale

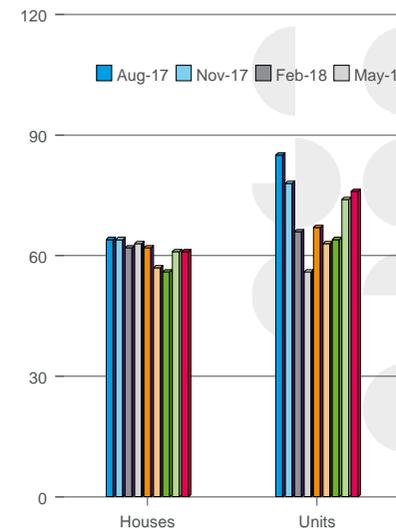


Source: CoreLogic

Analysis of the number of properties listed for sale in the market has been affected by an apparent (and unexplained) comparability break in the statistics between May and June 2019. Notwithstanding this, the statistics appear to indicate a declining trend in the number of listings up to May 2019, but an increasing trend over the three months from June to August 2019. The latest increase is a potential sign of increased confidence returning to the market during this period.

### Market Metrics

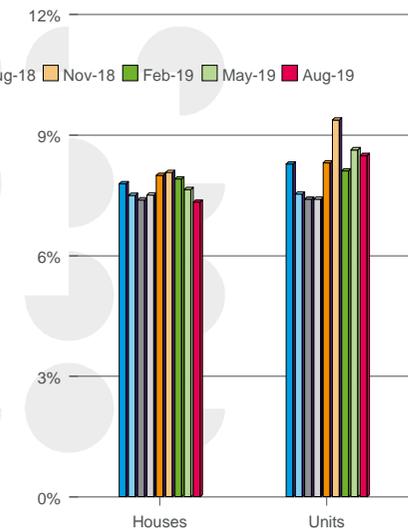
Median Days on Market



Note: Comparability Break between May-Aug 2018

Source: CoreLogic

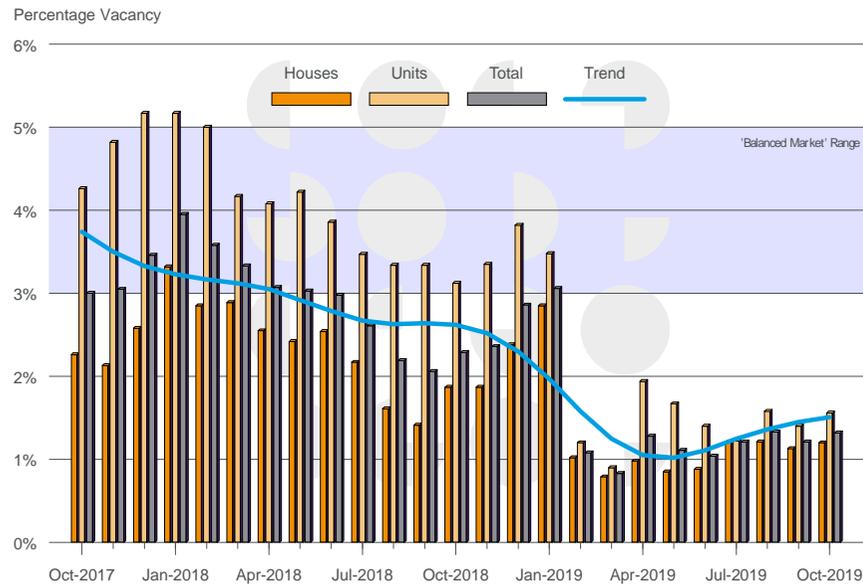
Median Vendor Discount



Other market metrics are showing mixed signals. For houses, the median time taken to reach a sale has been relatively steady over the last twelve months at around 60 days, while the median time taken for a unit to reach a sale has tended to increase to around 75 days. Meanwhile median vendor discounts – the difference between the sale price first asked and the sale price ultimately achieved – has tended to reduce over the last twelve months to 7.3% for houses but has tended to increase to 8.5% for units.

## RESIDENTIAL RENTAL MARKET

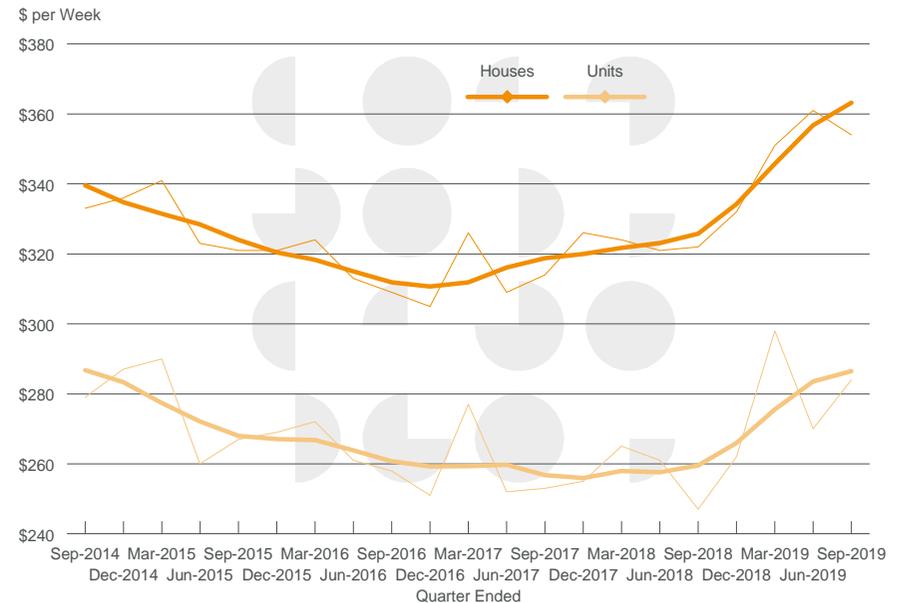
### Rental Vacancies



Source: HTW Rent Roll Survey

Our HTW Monthly Rent Roll Survey indicates that the rental scarcity experienced as a result of the February 2019 floods has bottomed out, and that rental market conditions are slowly returning to normal. Even so, vacancy trend levels in September 2019 still stood at very tight levels of 1.4% for houses, 1.9% for units and 1.5% overall.

### Median Rents

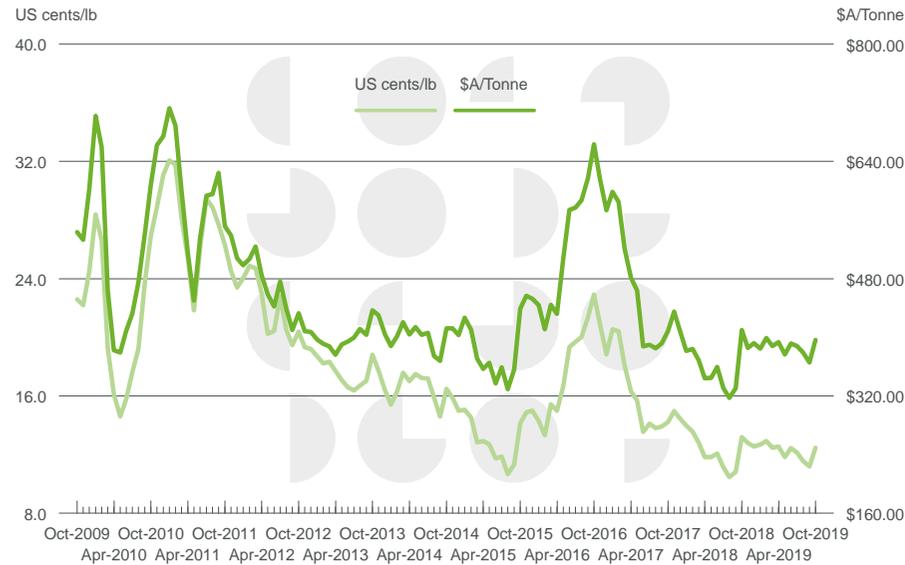


Source: RTA

The very tight rental vacancy rates since the February floods have led to burgeoning rent levels, especially for houses. However there is tentative evidence of these pressures starting to alleviate during the September quarter, even though not yet reflected in the calculated trend. During the September 2019 quarter the trend median house rent stood at \$365 per week, and the trend median unit rent at \$285 per week. In trend terms, median rent movements from the September 2018 quarter to the September 2019 quarter have seen a 10.9% increase for houses, and an 11.5% increase for units, with the post-flooding shortage being a key driver.

## SUGAR CANE

### World Sugar Prices



Note: NY 11 Prompt Futures Contract  
Source: ICE

World sugar prices have remained consistently low over the last twelve months, with the latest world sugar price of 12.5 US cents/lb in October 2019 translating to an Australian dollar price of \$A 396 per tonne. However world sugar prices are expected by ABARES to have bottomed out during 2018-19, and to begin rising marginally again over the short to medium term. Due to the weak world sugar prices, cane prices received by Australian growers are believed by ABARES to have dipped to \$35 per tonne in 2018-19, down from \$44 per tonne just two years ago in 2016-17. Nevertheless in ABARES' view, grower returns should begin increasing again in 2019-20, with a 4.9% increase to around \$37 per tonne expected.

### Cane Farm Sales



Source: HTW Analysis of RPData

Cane property sales during 2018 and 2019 have eased back in number from the minor flurry experienced in 2017, to re-establish at more moderate levels. Corresponding with the current slump in sugar pricing, median cane farm sale values transacted eased back slightly for properties in the Herbert, but median values transacted have increased in the Burdekin potentially due to compositional effects. The expected slow recovery in world sugar prices and Australian grower returns should provide a floor under the cane farm market moving forward.

## BEEF CATTLE

### Cattle Prices



Cattle prices, as exemplified by the North Queensland Saleyard Indicator (for 200-330 kg D2 restocker steers), have dropped back by around 20% from their 2016 peak, but have shown a stable albeit volatile trend over the last twelve months. Not only have slaughter cattle prices been affected by ongoing drought conditions driving higher than average cattle turn-off across eastern Australia, but low demand for restocker cattle due to the lack of grass in major growing areas has produced a negative double whammy for North Queensland producers. This is despite strong demand for restocker cattle within North Queensland to replace the estimated 600,000 head lost during the severe flood events of January/February 2019.

### NQ Grazing Property Prices\*



Northern Central Downs grazing property prices continued to demonstrate an upward trend during 2019. This has been driven by the drought affected buyers from other regions seeking to acquire grassed country in the aftermath of the February flood event. Meanwhile Other North Queensland (typically forest breeding country) values for 2018 are regarded as somewhat anomalous due to its abnormal sales mix consisting of higher quality basalt country and a lack of Desert Uplands and Croydon country. Conversely, 2019 is low due to there being a better mix of country types and locations across the north.

## CONCLUSION

The Townsville market is finishing 2019 on a positive note, underpinned by an improving economic outlook, a perception of stronger population growth and higher levels of market confidence.

Whilst the February floods have affected market activity during the course of the year, our perception is that these effects have been through the worst and the market is now rebuilding. However residential building and land development remain weak points in the current market.

Expectations are that the progress to date should continue through to a stronger 2020. From this perspective, 2020 will be a litmus test to determine whether we are genuinely into better times or merely experiencing a bubble of post flood activity.

## AT A GLANCE

Indicator	Comments	Current Sentiment
Business Confidence	Remaining high	↔
Population Growth	Rebuilding	↑
Labour Market	Improving	↑
New Residential Construction	Subdued	↔
Non-Residential Building	Slightly improving	↔
Industrial Land Market	Slow but stirring	↔
Industrial Improved Market	Steady	↔
Commercial Improved Market	Steady	↔
Demand for Office Space	Slow	↔
House Sale Volumes	Rising	↑
House Prices	Steady	↔
Unit Sale Volumes	Rising	↑
Unit Prices	Flat but variable	↔
Residential Land Sales	Very subdued	↔
Residential Land Prices	Static to declining	↓
Rental Vacancy Rate	Low but increasing	↑
Median Rents	Increasing	↑
Cane Farms	Consolidating	↔
Cattle Property	Rising	↑