

Townsville in Focus

May 2020



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

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DIRECTORS NOTES

Post flood recovery was short lived as the Townsville economy is now coping the effects of the COVID-19 pandemic, though arguably not as badly as elsewhere. Its broader based economy, and in particular its lower reliance on tourism and hospitality compared to other Queensland locations, is certainly a positive for Townsville amongst all the negativity. Nevertheless the key questions are, 'what is the on-going severity of the downturn, how long will it last, and to what extent can businesses start rebuilding again to get staff back into jobs and improve business, economic and consumer confidence'.

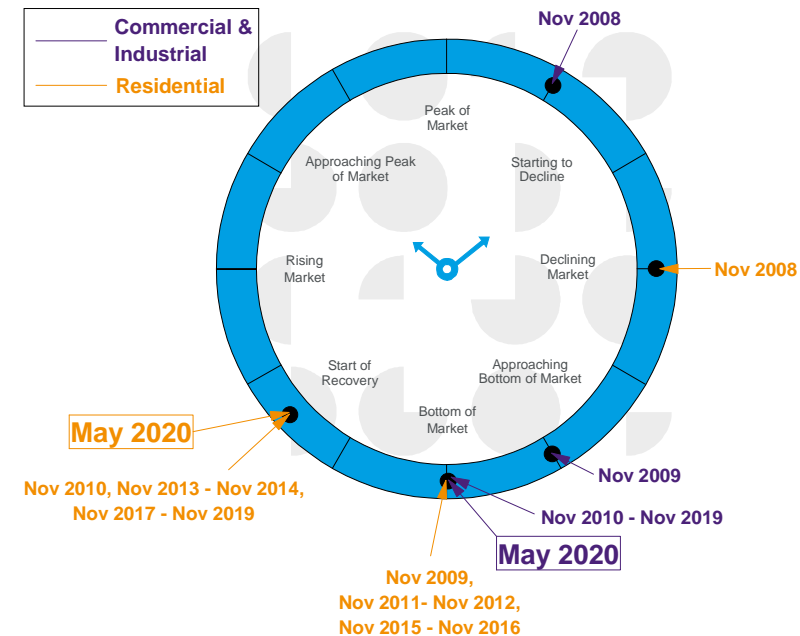
Market conditions at present are quite artificial, being buoyed by business support measures and packages such as JobKeeper and residential/commercial tenancy emergency responses. The real test will be when everyone needs to 'stand on their own two feet' once the major short term stimulus packages run out. Hopefully though, our broader based economy means that Townsville may be well positioned for a more rapid post COVID-19 recovery.

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



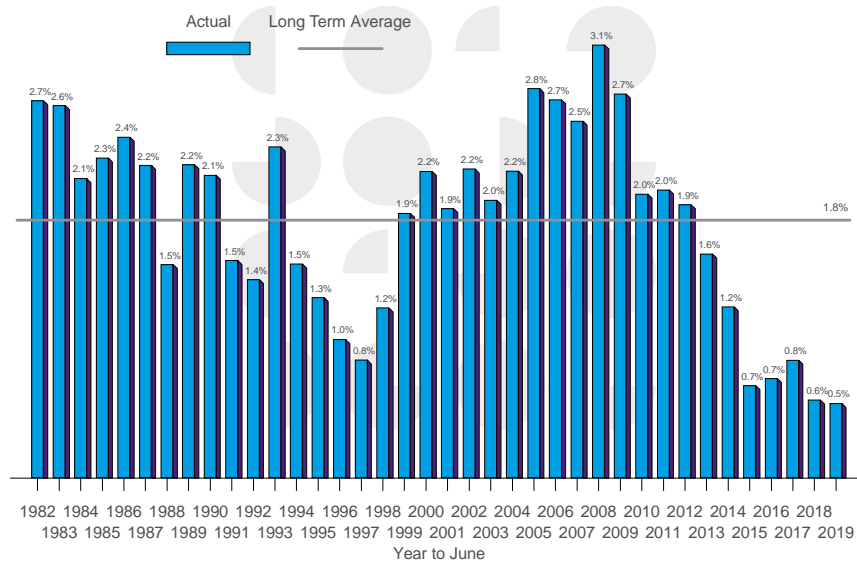
Townsville's residential property sale volumes have reduced, but property prices are still holding and a 'balanced' market position between buyers and sellers is being maintained. For this reason we believe the current state of play in the Townsville market remains more akin to a 'start of recovery' position than to any other.

Commercial and industrial markets are continuing at the bottom of the cycle where they have been for some time.

POPULATION GROWTH

Population Growth

Rate of Growth %pa



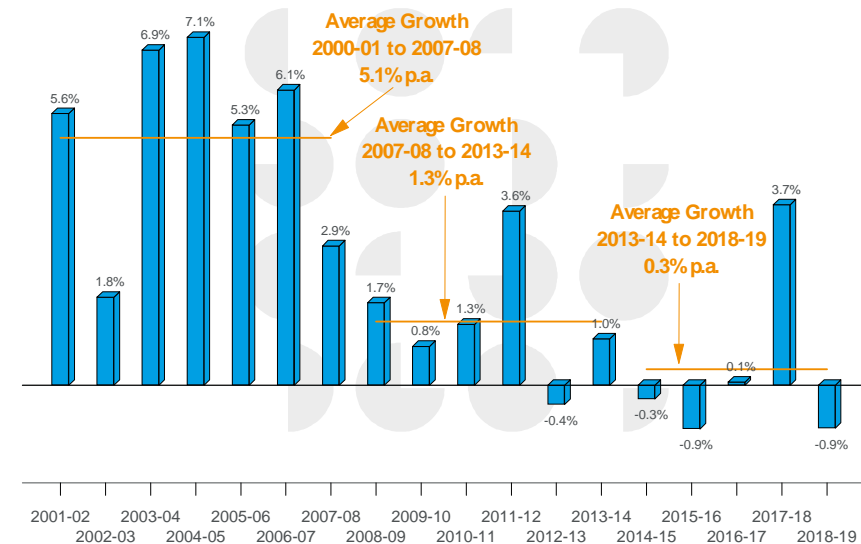
Source: ABS, HTW Research

Townsville experienced population growth of just 0.5% over the 12 months to 30 June 2019, its slowest population growth rate for at least 38 years. Population rose in numerical terms by 1,023 persons between 30 June 2018 and 30 June 2019 to reach 195,084 as of the later date. The increase to 30 June 2019 consisted of natural increase (births minus deaths) of 1,372 persons, a net overseas migration intake of 782 persons, but a net internal migration outflow (to/from other areas of Australia) during the year of 1,131 persons. The net loss of people to other Australian areas is indicative of the difficult times Townsville passed through during the year, including from the February 2019 floods.

ECONOMIC GROWTH

Economic Growth

Growth in Gross Regional Product (% per annum at constant prices)



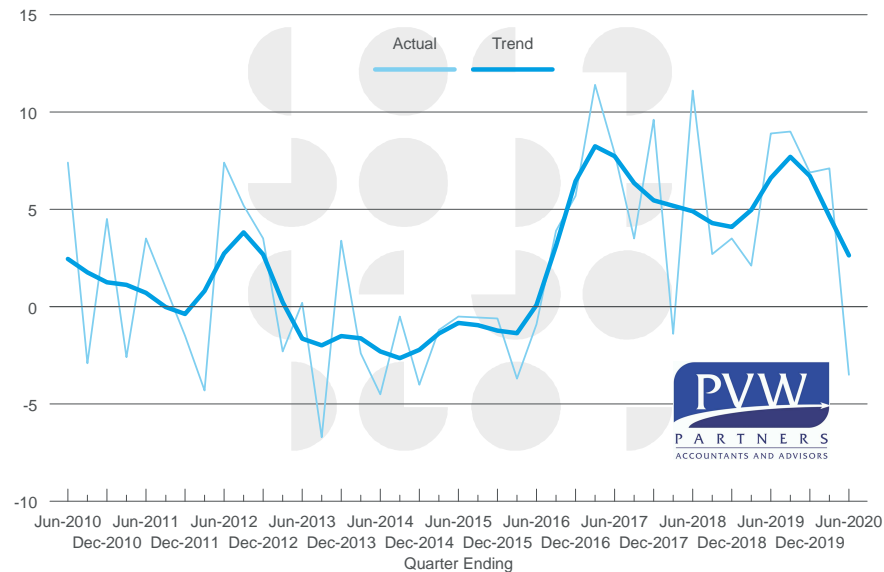
Source: NIEIR

Townsville had a total economic size in Gross Regional Product terms of \$11.74 billion in 2018-19, which equates to 3.33% of the total Queensland economy. During the halcyon days from 2000-01 to 2007-08, the Townsville economy was growing at an average rate of 5.1% per annum, but this fell to average 1.3% per annum in the immediate post-GFC period from 2007-08 to 2013-14. Economic growth is estimated to have reduced further to average 0.3% during the five years from 2013-14 to 2018-19, and culminated in negative 0.9% growth in 2018-19, indicative of the tough business and commodity market conditions faced during this period. In addition, economic growth for 2019-20 and 2020-21 is liable to remain subdued due to COVID-19, a position from which it could take some time to recover.

BUSINESS CONDITIONS

Business Confidence

PVW Partners Business Confidence Change Index



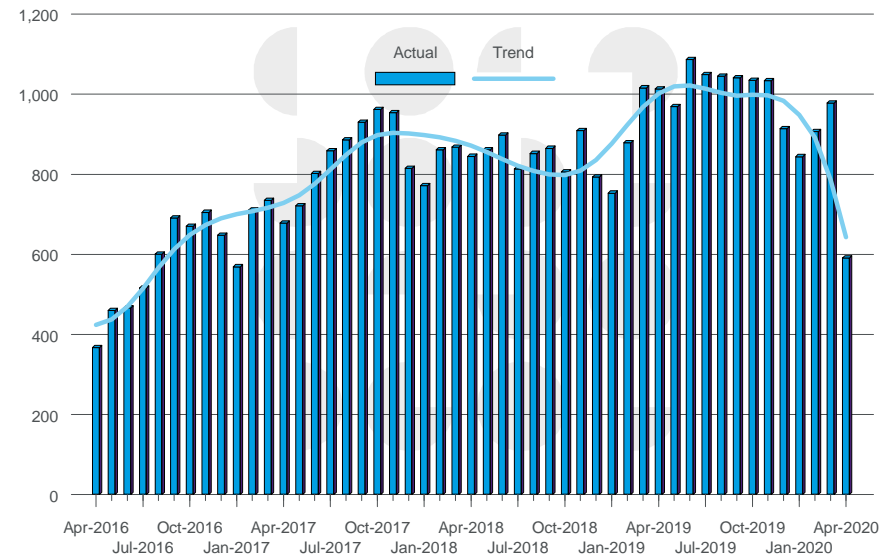
Source: PVW Partners

Business confidence for the June 2020 quarter dropped 10.6 index points into negative territory for the first time in over two years, according to the Townsville Quarterly Business Confidence Survey compiled by PVW Partners. PVW Partners commented that the survey, completed during the period 11 to 20 March 2020 before the full impacts of COVID-19 were felt, showed the 2nd biggest quarterly drop in the history of the Index.

PVW Partners said that with large projects nearing completion and Townsville getting past the impact of the devastating early 2019 flooding, 2020 started with high optimism among the business community. PVW Partners add that it's a devastating blow to the region that just a few short months later, Townsville is now in this position.

Job Advertisements

Monthly Average Jobs Advertised



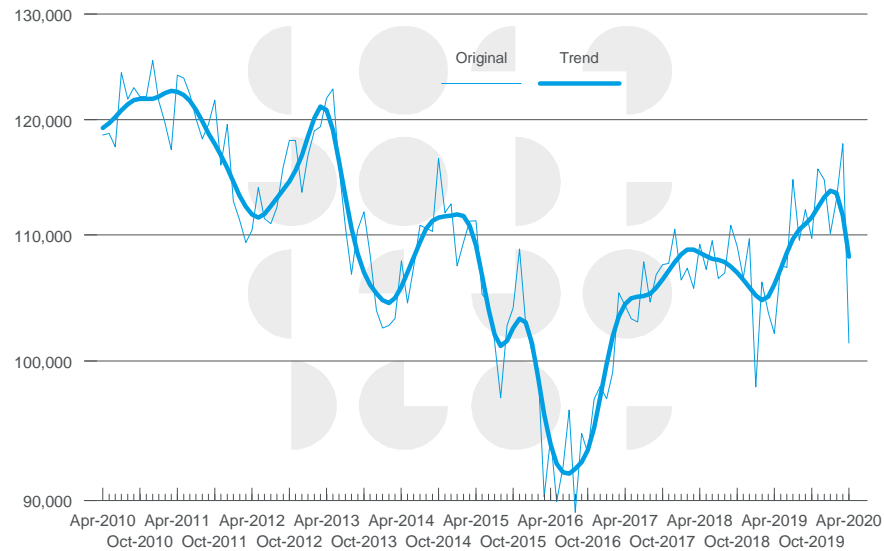
Source: HTW Analysis of Employment Websites

The trend in the number of jobs being advertised on employment websites for the Townsville region has slumped by 32.1% during the three months from January 2020 to April 2020. The drop is indicative of the downturn in business confidence as well as the deterioration in business conditions conveyed by the COVID-19 pandemic.

LABOUR MARKET

Persons Employed

Persons Employed (Log Scale)



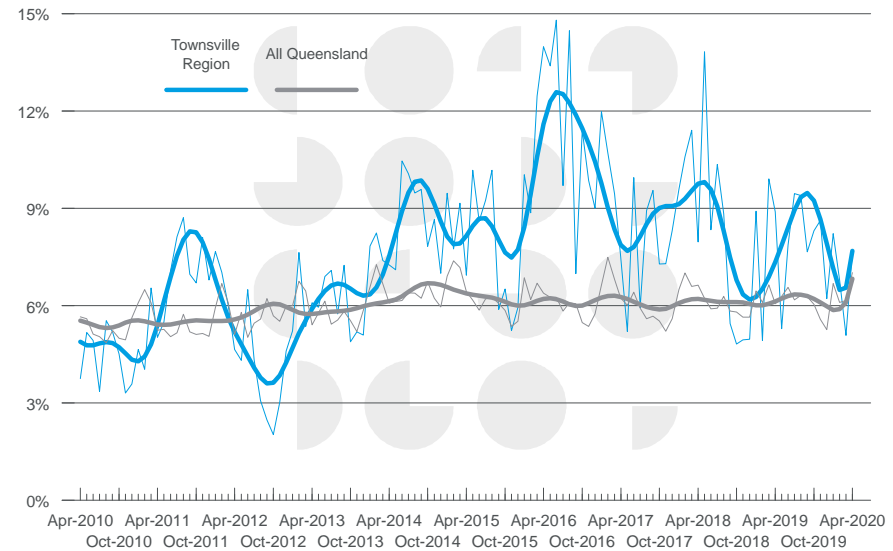
Source: Derived from ABS Labour Force Survey data

The employment trend in the Townsville Region (extending from Townsville through to the Burdekin, Hinchinbrook, Palm Island and Charters Towers LGA's) started 2020 on a positive note, but this position has now rapidly changed as a result of the COVID-19 pandemic. The trend in the number of persons employed in the region stood at 108,200 in April 2020, a reduction of 5,500 in the three months since January 2020. In addition, with much lower rates of job advertising now in evidence, the worst may not yet be over. The real test for the employment market will be post-September 2020, when the JobKeeper subsidies run out.

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)



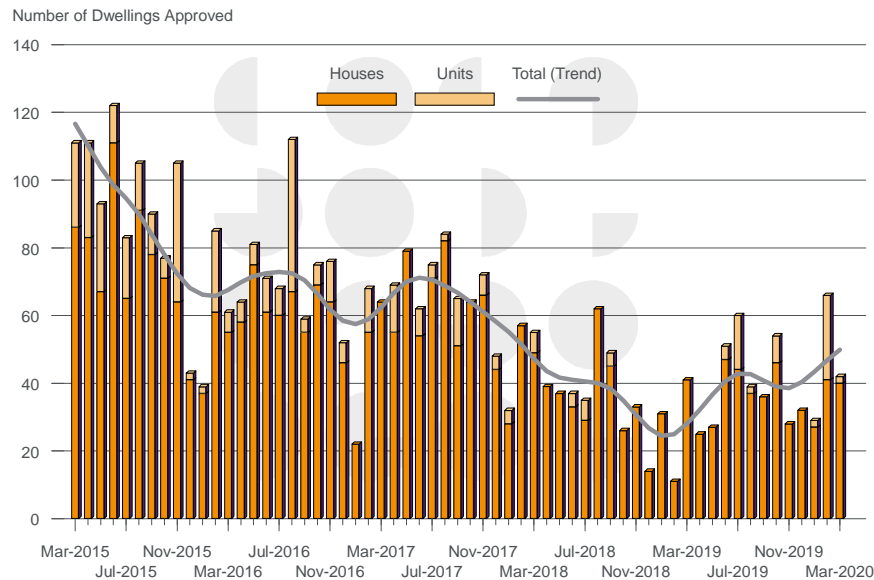
Source: Derived from ABS Labour Force Survey data

The unemployment rate in the Townsville Region has jumped up as a result of job losses during the last two months. The Townsville Region's unemployment rate stood in estimated trend terms at 7.7% in April 2020, up from 6.5% in February 2020, and would have been even higher except that many of the newly jobless obviously didn't start looking for work again due to the uncertain economic situation. The Townsville Region's trend unemployment rate also moved more sharply up over the last two months than the estimated trend rise in the Queensland average.

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'.

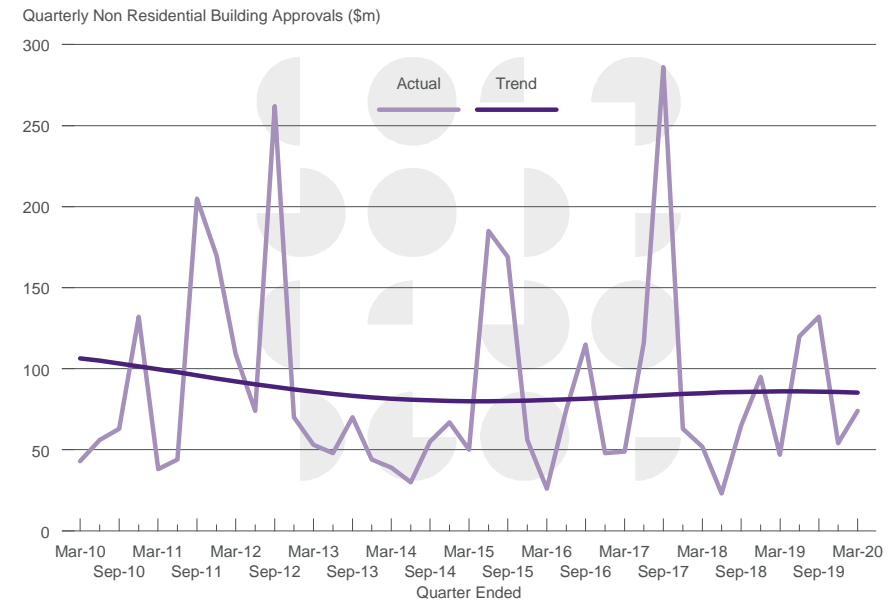
BUILDING ACTIVITY

Residential Building Approvals



The trend in new dwelling approvals has picked up since late 2019, with the focus of building works shifting from repair and renovation following the February 2019 floods, back to new dwelling construction inclusive of a return to new unit development. The latest levels of new building approvals, as at March 2020, comprise a trend average of 38 new houses and 11 new units being approved per month. New dwelling approvals have increased by 77.7% in trend over the period from March 2019 to March 2020, but nevertheless remain well below their long term average.

Non-Residential Building Approvals

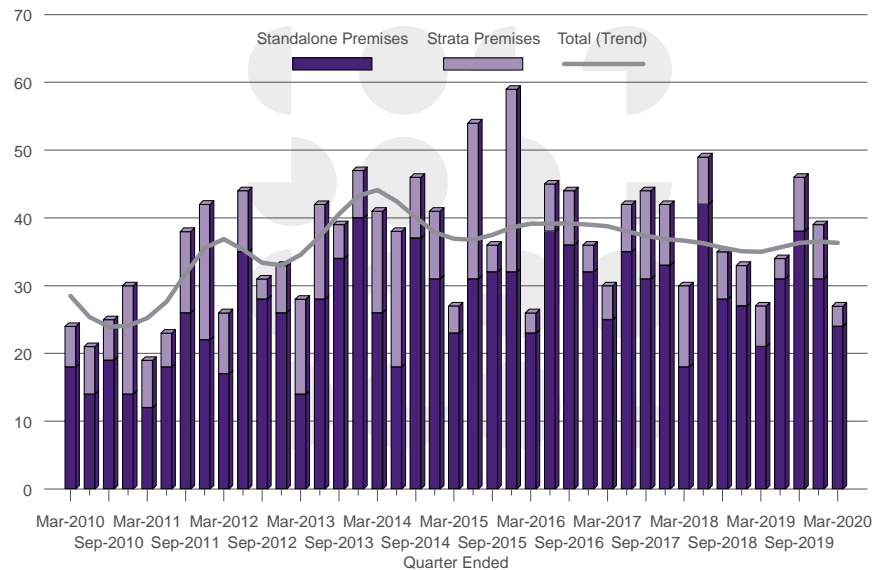


Abstracting away from large mega-projects such as the \$250 million stadium approval in the September quarter of 2017, the trend in non-residential building approvals appears to be holding steady with a modest on-going stream of new small to medium scale developments of up to \$40 million continuing to hit the market. The total value of non-residential building approvals reached \$380 million in the twelve months ended March 2020, compared to \$230 million posted in the twelve months ended March 2019. The increase has been driven largely by the public sector, where approvals rose from \$110 million for the twelve months ended March 2019, to \$251 million for the twelve months ended March 2020.

COMMERCIAL AND INDUSTRIAL PROPERTY

Commercial/Industrial Sales

Number of Sales per Quarter

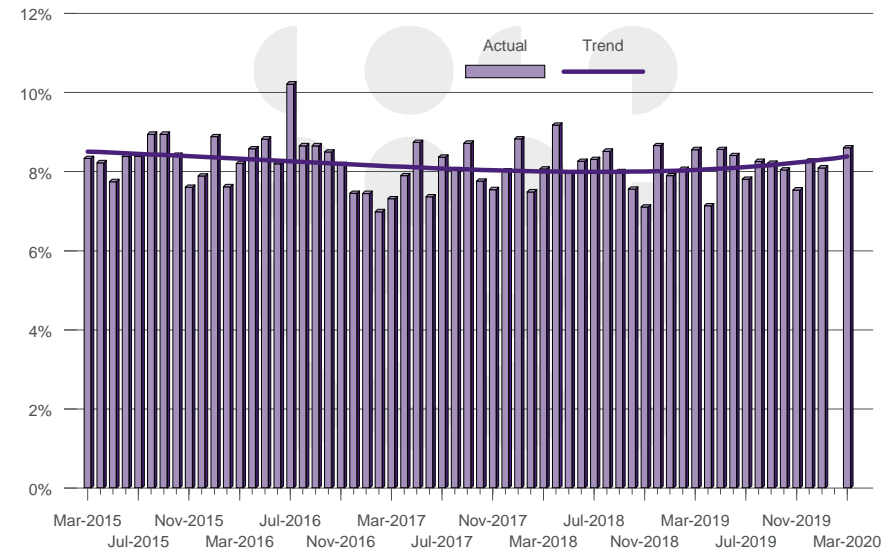


Source: HTW Analysis of RPData

Sales of developed commercial and industrial properties remain basically steady, with sale volumes in the March quarter of 2020 trending at about 36 transactions per quarter. This continues the narrow band of market activity trending in the range of 35 to 39 transactions per quarter that has been consistently in evidence over the last five years. More recent anecdotal indications are that the market has been little affected as yet by the COVID-19 pandemic, though many of the current sales could well be hangovers from sale processes that commenced pre COVID. The market is now expected to quieten as buyers and sellers adopt a wait and see attitude, particularly regarding the impact on the market once businesses need to 'stand on their own two feet' when JobKeeper terminates in September 2020.

Property Yields

Average Net Yield (%)

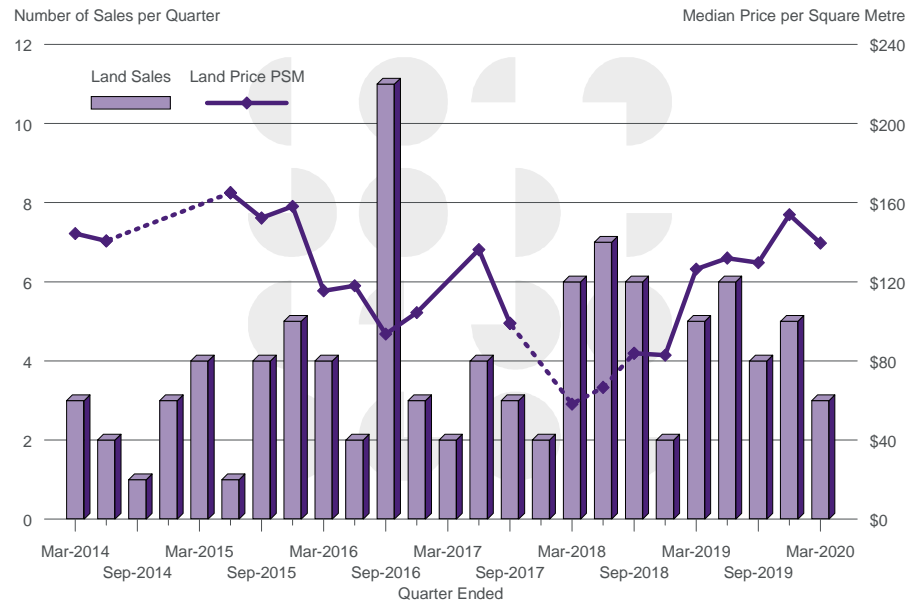


Source: HTW Analysed Sales

Average yields for commercial and industrial property started nudging higher over the twelve months to March 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. Those sales now taking place are mostly analysing in the 7½% to 9½% range, but are very sensitive to their fundamentals and the yield spread remains widened.

INDUSTRIAL LAND

Industrial Land Sales

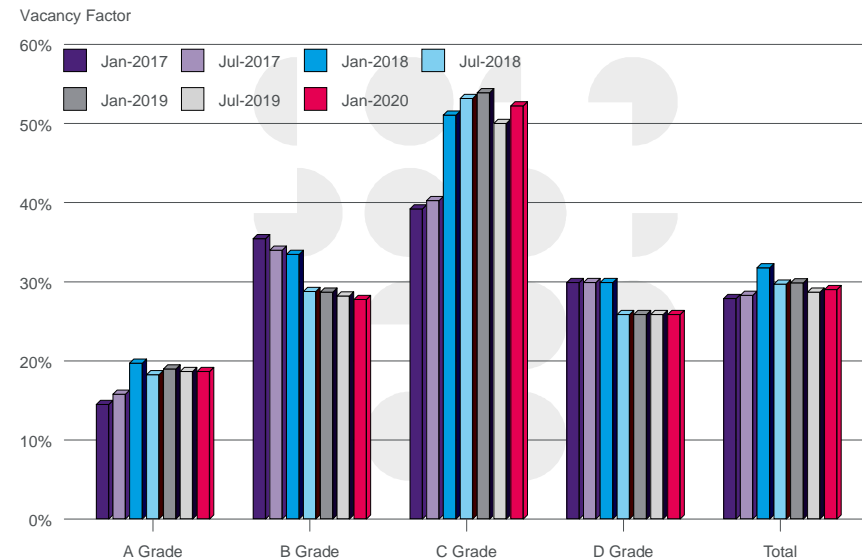


Source: HTW Analysis of RPData

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. 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 March 2020 indicates a market supply of 62 serviced industrial lots available in new industrial subdivisions, more than adequate for current and foreseeable levels of demand. Nevertheless the market is expected to quieten off as buyers and sellers adopt a wait and see attitude to COVID-19 business impacts.

OFFICE MARKET

CBD Office Vacancy Rate



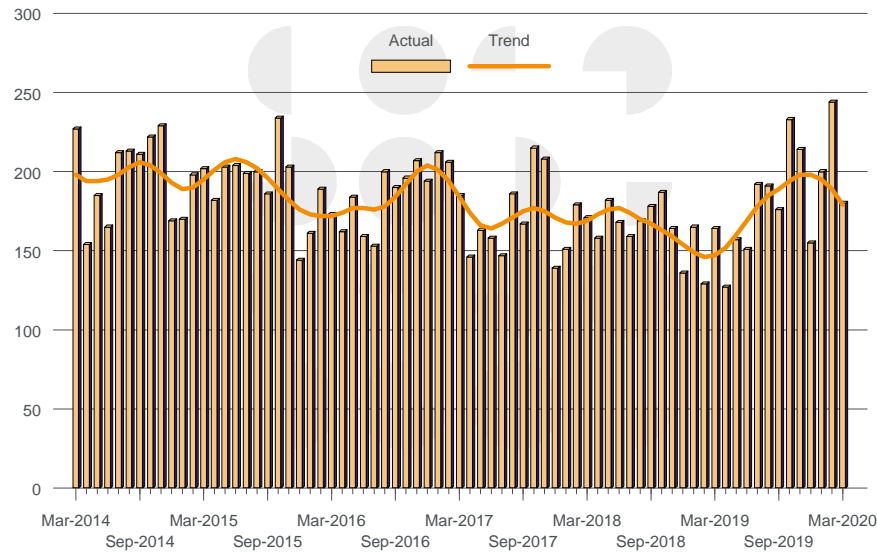
Source: HTW Survey

Townsville's CBD office vacancy rate drifted up ever so slightly, from 28.7% to 29.0% over the six months from July 2019 to January 2020, primarily due to a small rise in vacancies for C Grade office space. Office vacancy rates were maintained at 18.7% in the A Grade sector and eased from 28.2% to 27.2% in the B Grade sector. Our overall assessment is that office leasing demand is steady, with the vacancy rate adjustments reflecting modest change to supply from additions and deletions to the rental stock during the period, and a small amount of change to occupancy levels from tenant churn. There does not appear at this stage to be any real subsequent change to office occupancy/vacancy levels stemming from COVID-19.

RESIDENTIAL MARKET - HOUSES

House Sales

Number of Sales per Month

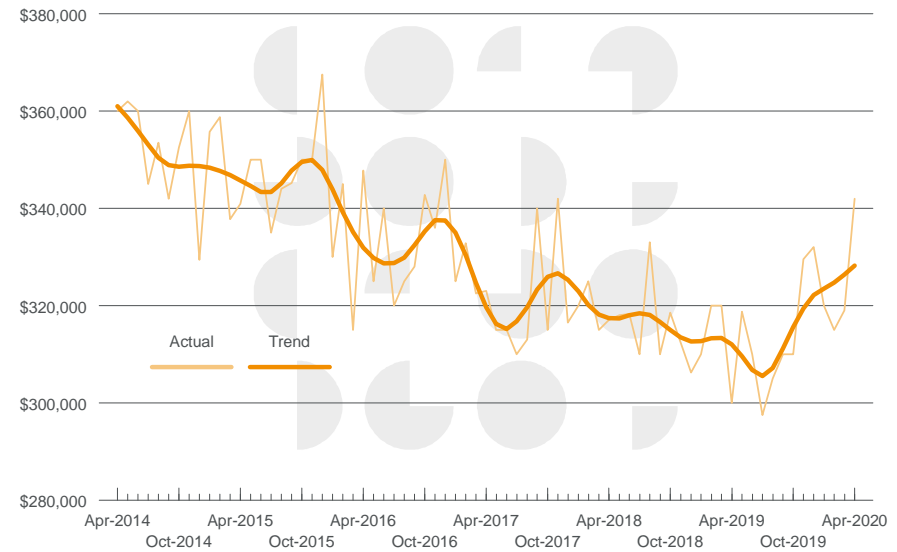


Source: HTW Analysis of RPData

House sale volume trends had been rising strongly during most of 2019, but have now started to soften, with sale volumes this year trending back from a level of 195 per month in January 2020 to 179 per month in March 2020 as COVID-19 effects started taking hold. House sales are now taking place more consistently across all Townsville suburbs, with much less focus than before on the central (4810 postcode) suburbs. Anecdotal information is that the market dipped in late March and early April, but by late May had regained early March levels. In addition the amount of stock available for sale is depleting as new listings have slowed.

House Prices

Median House Price



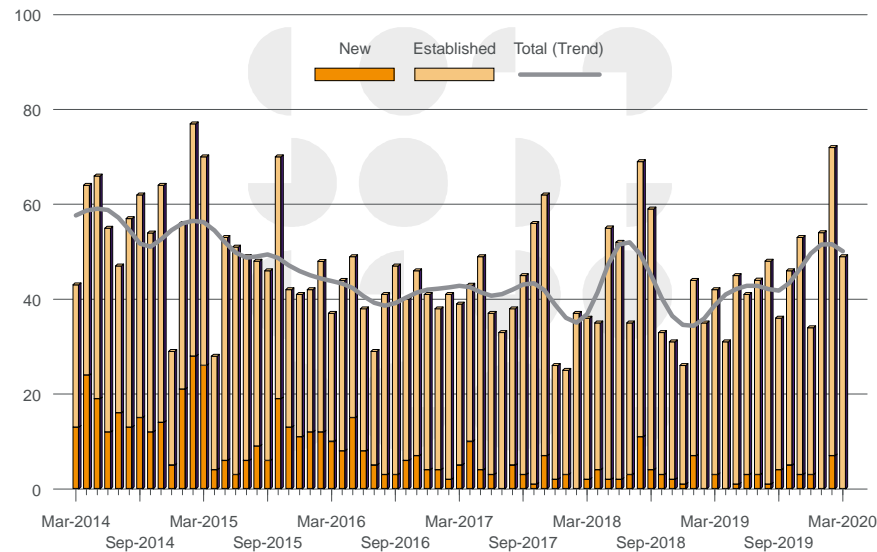
Source: HTW Analysis of RPData

Townsville's median house price continues to gain ground, with the latest median price trend, for houses sold in April 2020, coming in despite the reduced level of sales at \$328,000. This signifies a 5.1% increase compared to April 2019. 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.

RESIDENTIAL MARKET - UNITS

Unit Sales

Number of Sales per Month

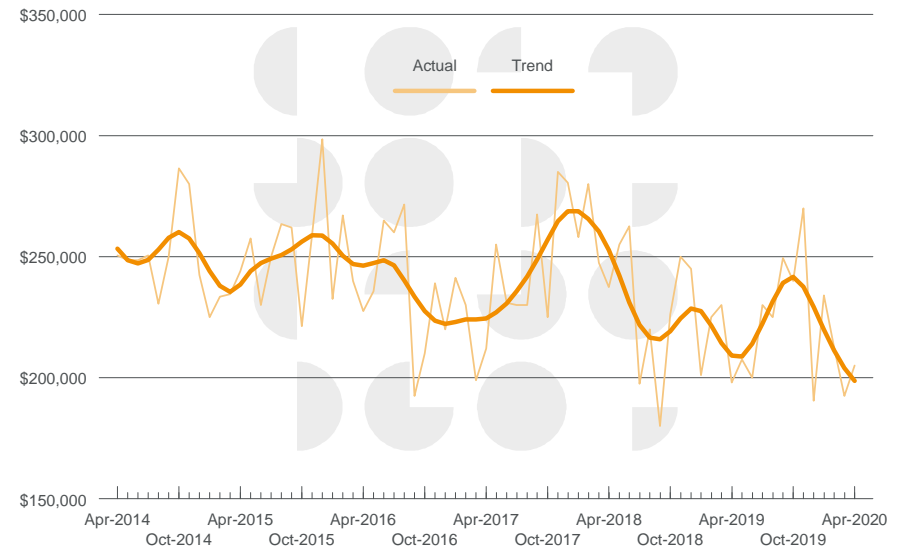


Source: HTW Analysis of RPData

The number of units being sold and settled has increased during the course of 2019, to reach a trend transaction level around 52 unit sales per month during January 2020. However the market has subsequently softened, dropping back to around 47 sales per month as at March 2020. The current market consists almost entirely of established unit sales, with new unit sales and supply only a small force in the market. Both supply and demand have reduced, though demand appears to be on-going from intending owner occupiers and investors alike.

Established Unit Prices

Median Unit Price



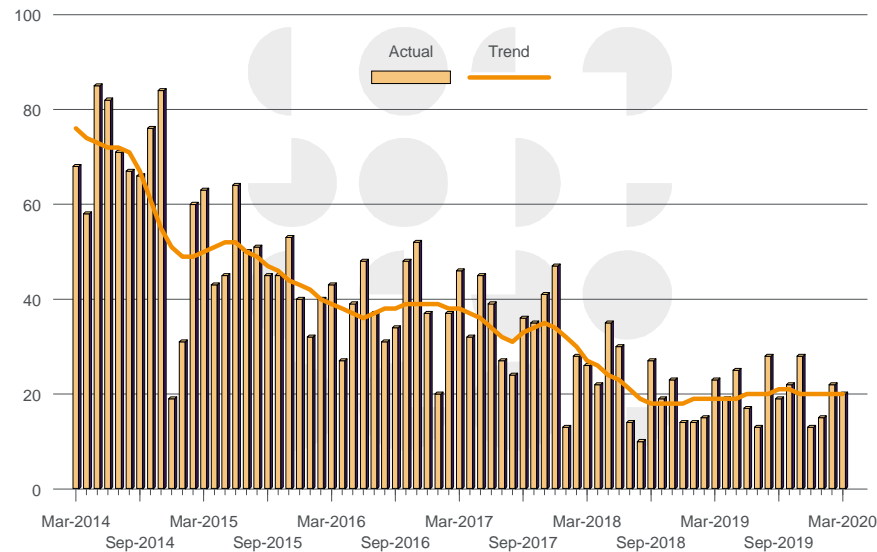
Source: HTW Analysis of RPData

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. The April 2020 median trend price came in at \$189,000, which is 5.0% below the level that prevailed in April 2019. In our view recent movements are more a reflection of the focus of the market on low end sales rather than actual value change, with a general perception that unit values are holding steady.

RESIDENTIAL MARKET - LAND

Residential Land Sales

Number of Sales per Month

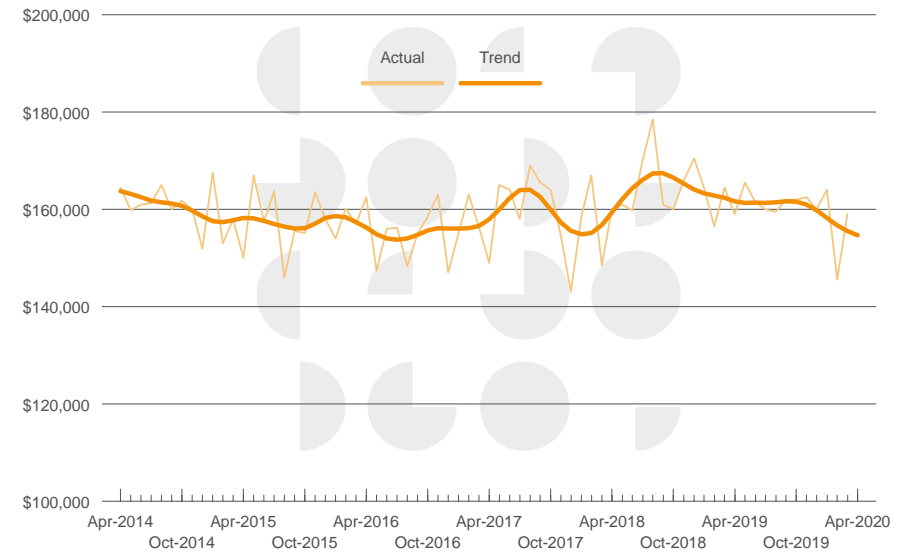


Source: HTW Analysis of RPData

The amount of vacant land that has been sold and settled by developers remains stable at historically low levels, trending at 20 sales per month as at March 2020. This represents a 73.3% reduction in the trend volume of sales over the six year period since March 2014. Land sales have been largely unaffected by the COVID-19 pandemic, and anecdotally have continued to move apace during April and May 2020.

Residential Land Prices

Median New Land Price

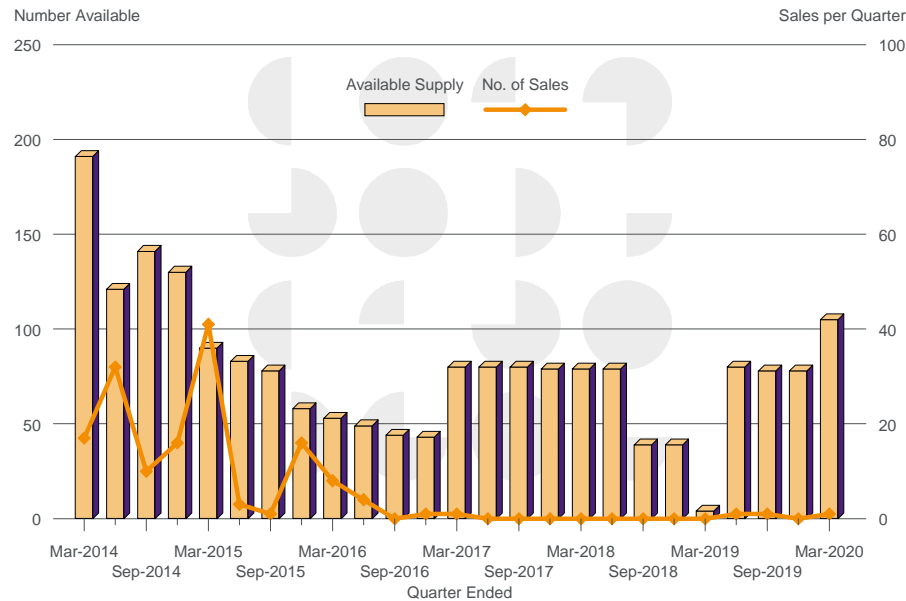


Source: HTW Analysis of RPData

While Townsville's median vacant land price has shown high volatility in the month-to-month actual terms, the overall median price trend has noticeably reduced over the last year and a half, down to \$155,000 per allotment as at April 2020. This represents a 4.3% decrease compared to April 2019. However because of volatility from the low volume of sales, this movement still may not be a genuine reflection of the market. In our view competitive pressures and historically low demand are keeping land values at static to only mildly declining levels.

RESIDENTIAL DEVELOPMENT

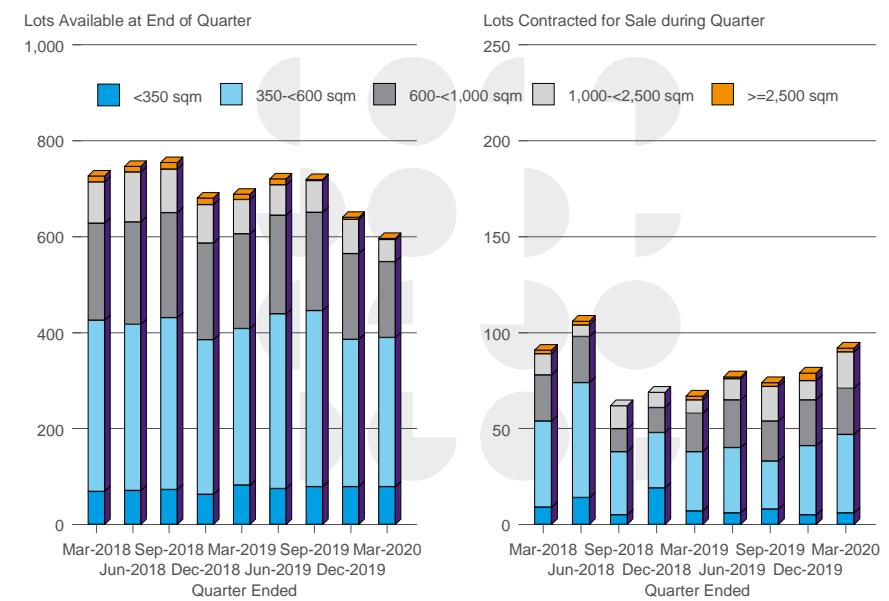
New Unit Sales and Supply



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 three units contracted for sale by developers during the twelve months to March 2020, all of which have been remnant sales from developments long since completed. 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 four new developments to the market has now brought the available new unit supply to 105 as at 31 March 2020.

New Residential Land Sales and Supply



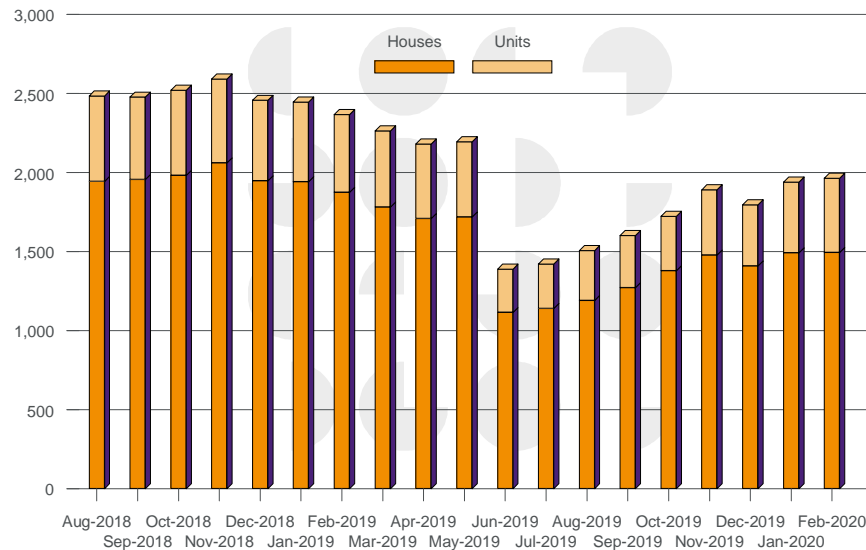
Source: HTW Land Survey

Our Developer Land Survey shows a total of 594 developer lots available on the market as at the end of March 2020. 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 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, increased to 86 during the March 2020 quarter. This continues the run of generally increasing sales rates that has been in place over the last eighteen months.

RESIDENTIAL MARKET METRICS

Residential Property Listings

Number of Properties For Sale

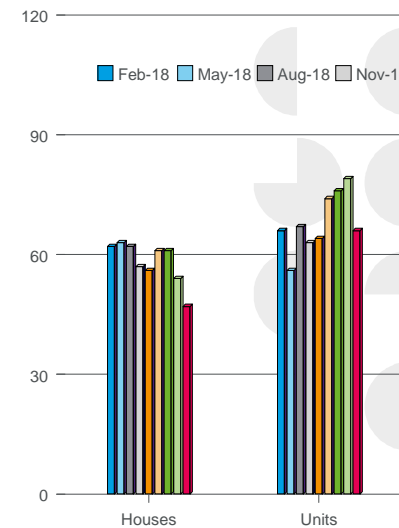


Source: CoreLogic

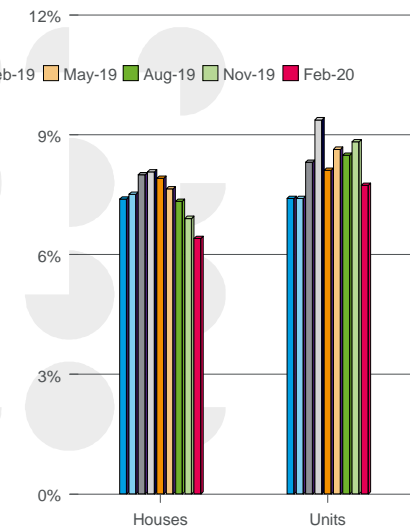
Analysis of the number of properties listed for sale in the market has been affected by an apparent (and unexplained) comparability break in the statistics between May and June 2019. Notwithstanding this, the statistics appear to indicate a declining trend in the number of listings up to May 2019, but an increasing trend over the period from June 2019 to February 2020. The latest increase is a sign of increased confidence returning to the market during this period. However conditions have no doubt changed since February 2020, with anecdotal evidence of a large subsequent drop in listings due to market uncertainty over the effects of COVID-19.

Market Metrics

Median Days on Market



Median Vendor Discount

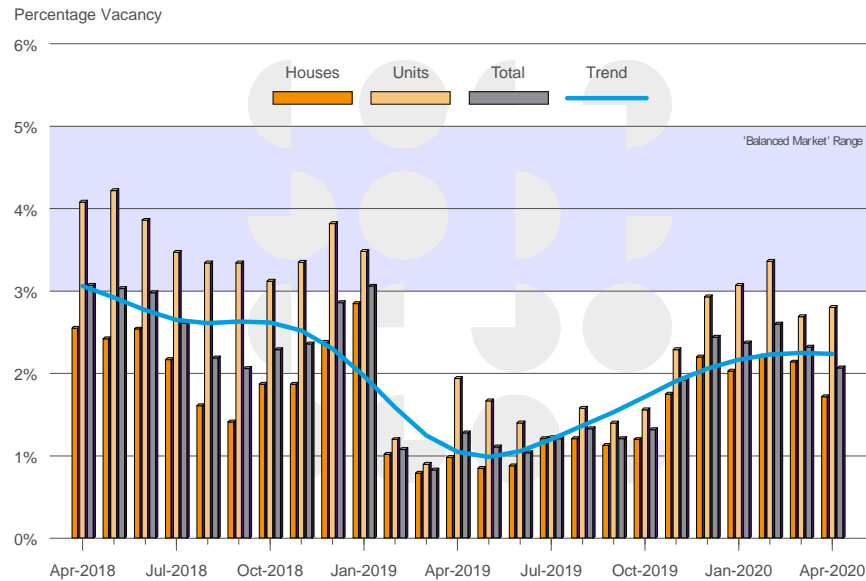


Note: Comparability Break between May-Aug 2018
Source: CoreLogic

Other market metrics have been showing positive signals for the market up until February 2020. For houses, the median time taken to reach a sale has reduced from 54 days for properties sold over the twelve months to November 2019, to 47 days for those sold the twelve months to February 2020. The median time taken for a unit to reach a sale has similarly reduced from 79 to 66 days over the same periods. Meanwhile median vendor discounts – the difference between the sale price first asked and the sale price ultimately achieved – has reduced from 6.9% for houses sold over the twelve months to November 2019 to 6.4% for those sold over the twelve months to February 2020, while for units the corresponding reduction was 8.8% to 7.7%. While these results are indicative of the market strengthening up until February 2020, they may have now changed, with anecdotal evidence of time taken to reach a sale now lengthening again.

RESIDENTIAL RENTAL MARKET

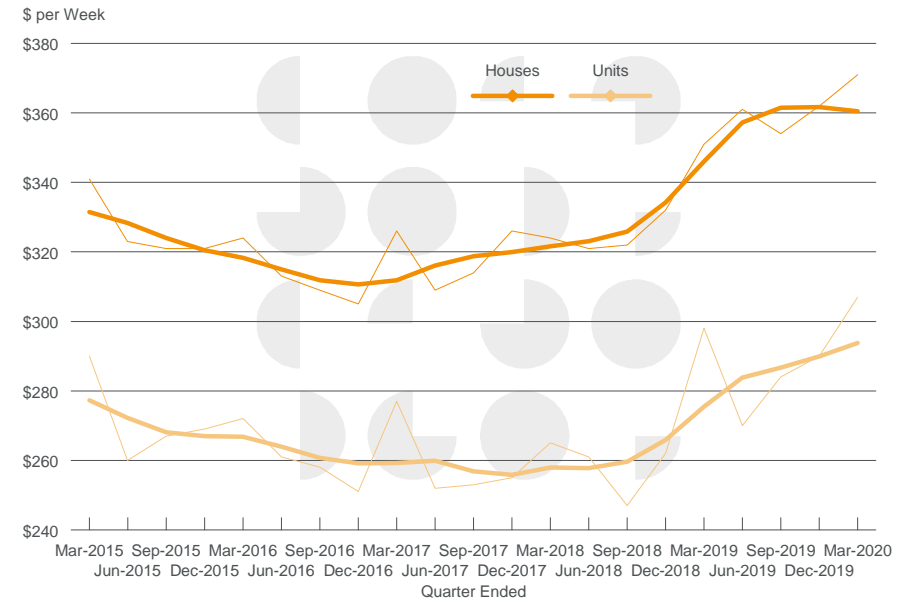
Rental Vacancies



Source: HTW Rent Roll Survey

Our HTW Monthly Rent Roll Survey indicates rental market conditions have stabilised again after recovering from the rental scarcity experienced as a result of the February 2019 floods. In addition there has been a relatively low impact from COVID-19 on the rental market, with rental demand still strong and minimal change to the rental supply. Vacancy trend levels in April 2020 stood at 2.0% for houses, 2.9% for units and 2.3% overall.

Median Rents

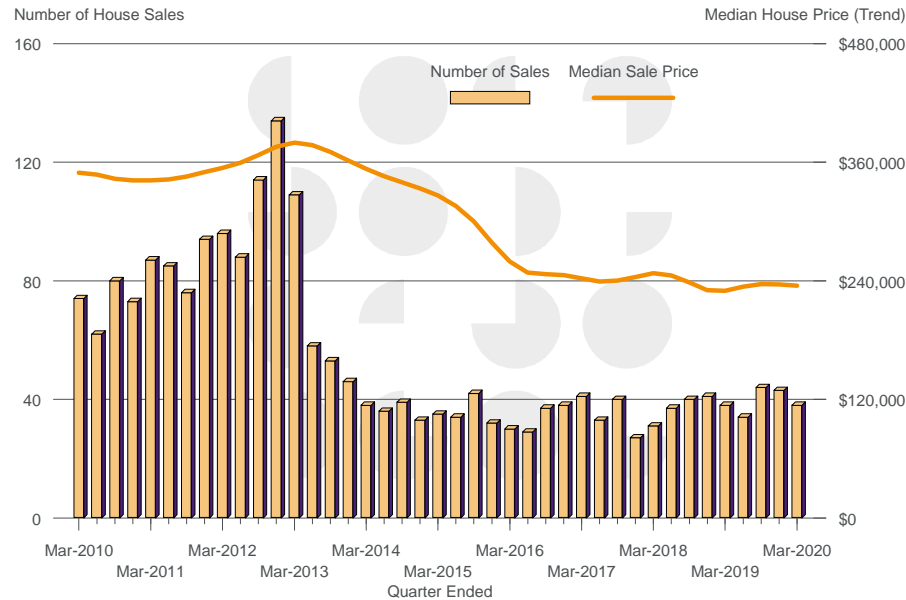


Source: RTA

The burgeoning rent levels that existed immediately after the February 2019 floods have now abated for houses, but there still appears to be upward pressure on rents for units. During the March 2020 quarter the trend median house rent stood at \$360 per week, and the trend median unit rent at \$295 per week. In trend terms, median rent movements from the March 2019 quarter to the March 2020 quarter have seen a 4.2% increase for houses, and a 6.6% increase for units.

REGIONAL HOUSE SALES

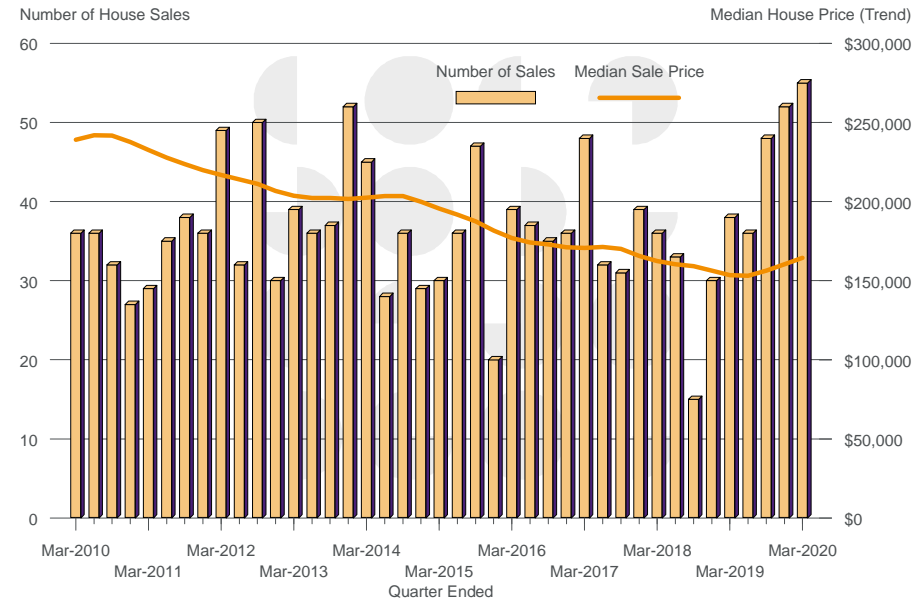
Mount Isa



Source: HTW Analysis of RPData

The number of house sales taking place in the Mount Isa market has been maintaining a steady base averaging around 36 sales per quarter from the March quarter of 2014 through to the March quarter of 2020. Meanwhile the median house price trend came in at \$236,000 in the March quarter of 2020, and continues to exhibit a steady trend. Prices in Mount Isa have in effect been stable over the last four years. However rental vacancies are tightening and rents are firming. This has historically been a precursor to increased sales activity in Mount Isa. Anecdotally, agents are now reporting enhanced sales activity with families moving to town. However there is a large amount of stock that needs to be absorbed before prices see any substantive upwards movement again. Agents are all indicating a lack of listings with vendors hesitant due to the uncertainties of this time. Things are appearing more positive but watch this space.

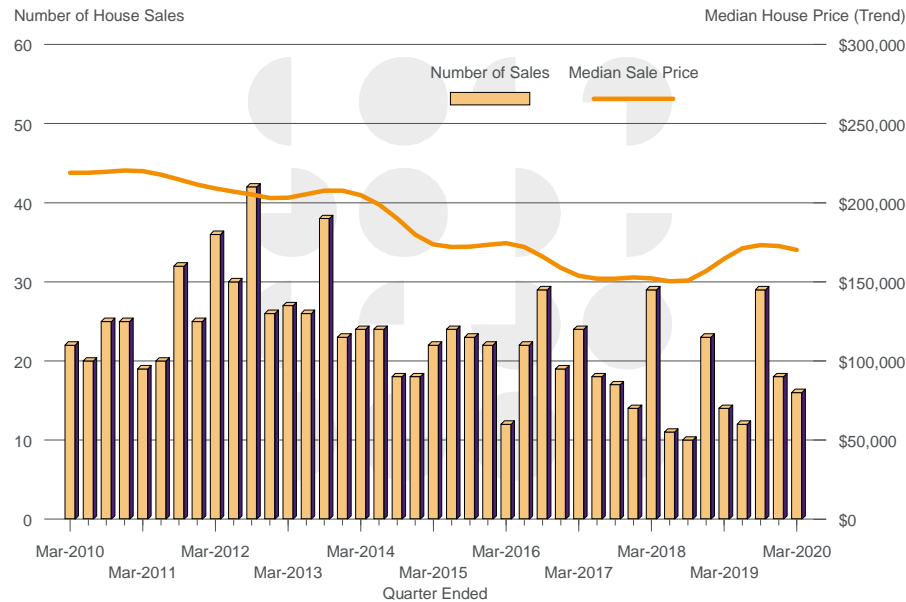
Burdekin



Source: HTW Analysis of RPData

House sales in the Burdekin have been increasing in volume in recent quarters, with sale numbers rising over the last twelve months from 38 sales in the March quarter of 2019 to an estimated 55 sales in the March quarter of 2020. The median house price trend has also been slowly increasing, coming in at \$160,000 in the March quarter of 2020 compared to \$153,000 in the March quarter of 2019. Whilst this represents 4.0% increase compared to the March quarter of 2019, the March quarter 2020 median price trend is still 21.2% below that of the March quarter of 2014. Rental vacancies in the Burdekin are also tightening significantly.

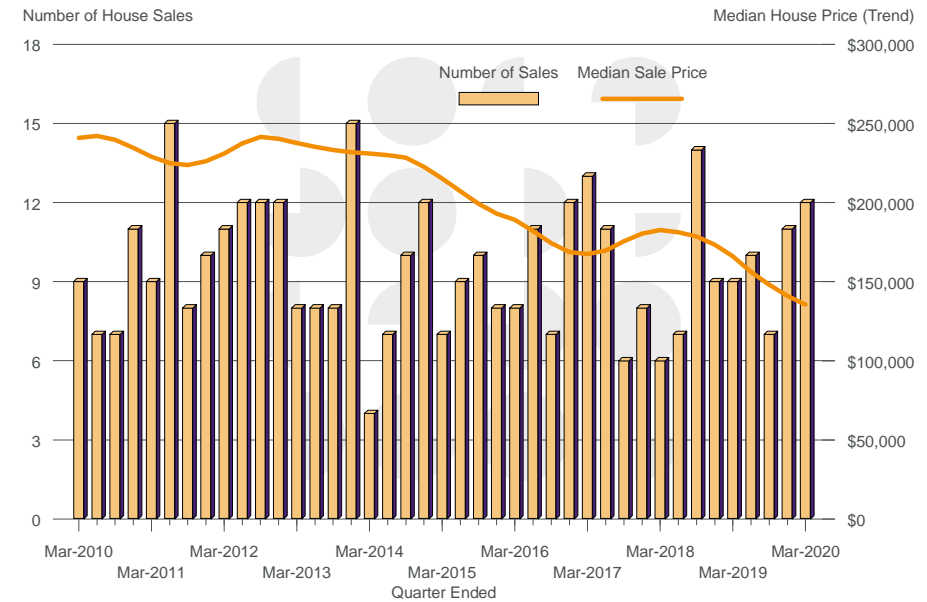
Charters Towers



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, but is currently maintaining a consistent average of about 18 to 20 transactions per quarter. Median price trend levels have experienced reductions interspersed with bouts of stability over the same period. The median house price trend came in at \$170,000 in the March quarter of 2020, which is 3.5% above the level that prevailed in the March 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 is currently maintaining a consistent average of about 10 transactions per quarter. The median house price trend came in at \$135,000 in the March quarter of 2020, which is 18.4% below the median house price trend that prevailed in the March quarter of 2019. The market is also being affected by difficulty in obtaining finance for properties over \$250,000 limiting sales in this category. The median price reduction over the last twelve months reflects the twofold effect of compositional movement from the lack of high priced sales combined with a general reduction of property values in the range of 5% to 10%.

SUGAR CANE

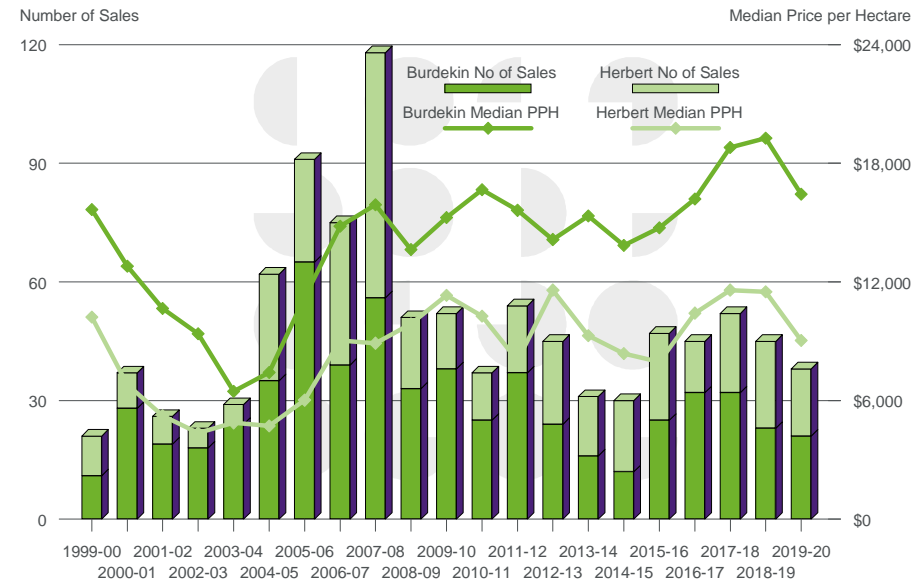
World Sugar Prices



Note: NY 11 Prompt Futures Contract
Source: ICE

World sugar prices, which were rallying at the start of 2020, turned around rapidly during March and April 2020 as a result of expected lower world consumption due to lockdowns imposed by COVID-19 and an expected lack of diversion of sugar to ethanol production as world energy markets contract. The world sugar price slumped to average 10.1 US cents/lb in April 2020, down 33% compared to February 2020. The April 2020 world sugar price translates to an Australian dollar price of \$A 337 per tonne, down from \$A 509 in February 2020. Whilst there are preliminary indications of world sugar prices starting to rebound again in May 2020, its effect is being moderated by upward movement in the Australian dollar at the same time.

Cane Farm Sales

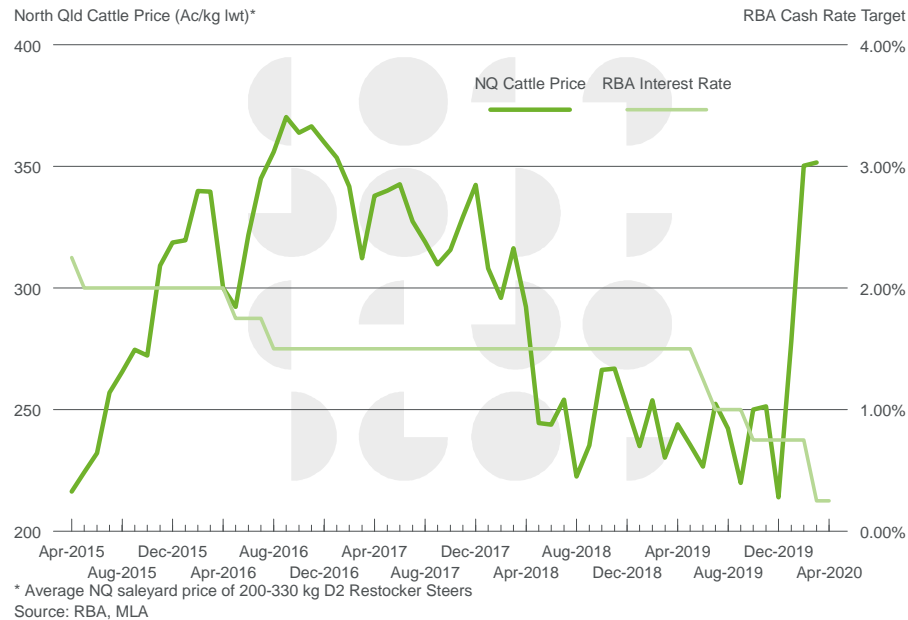


Source: HTW Analysis of RPData

Cane property sales during 2018-19 and 2019-20 have eased back in number from the minor flurry experienced in 2017-18, to re-establish at more moderate levels. Median cane farm sale prices also eased back in 2019-20 for properties in the Burdekin and Herbert alike, but potentially due to compositional effects rather than reduced values. Nevertheless the uncertain sugar price outlook due to COVID-19 is liable to lead to even greater uncertainty in the cane farm market, clouding its future outlook.

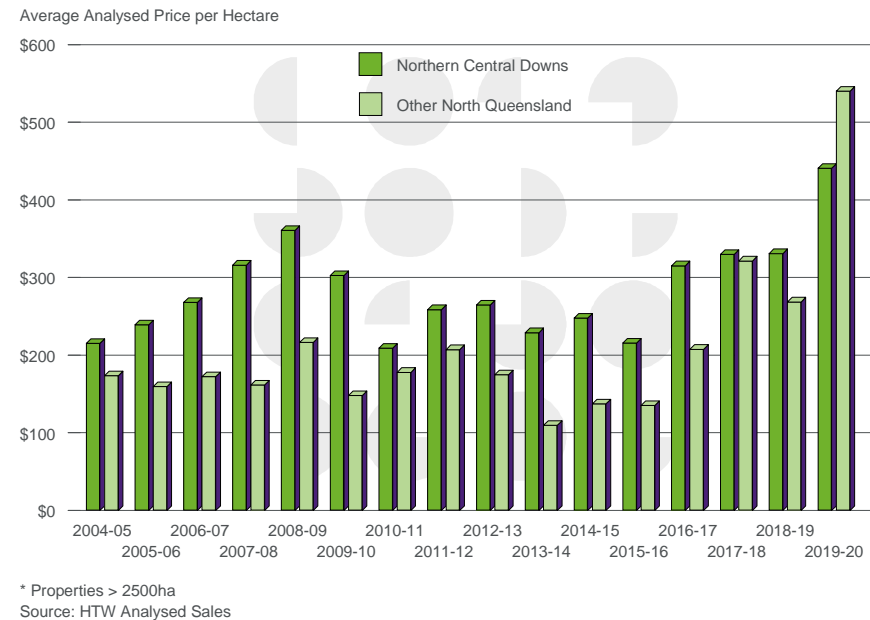
BEEF CATTLE

Cattle Prices



The cattle market has made a sudden return to strength, with prices, as exemplified by the North Queensland Saleyard Indicator (for 200-330 kg D2 restocker steers), jumping by around 64% between December 2019 and March 2020. Rain in southern Queensland, New South Wales and Victoria has resulted in strong demand from those districts to restock their herds, to the distinct benefit of North Queensland producers. Whilst there has been some disruption to live cattle exports during the COVID-19 lockdowns, these have been avoided by producers securing agistment down south to hold them until such time as live exports resume. Strong cattle pricing in conjunction with deeply reduced interest rates are in turn driving strong confidence in the cattle property sector.

NQ Grazing Property Prices*



Northern Central Downs grazing property prices continued to demonstrate an upward trend for the 2019-20 financial year to date based on ten sales thus far in the market area. Three of these sales reflect a substantial reason where the buyers paid a premium. For the 2019-20 year to date in Other North Queensland there have been six sales, of which four involved strong purchaser motivation that have pushed average sale values to unprecedented levels. Both market areas are showing hectare rate appreciation to average levels considerably stronger than that of the previous market peak in 2008-09. Not every property that is offered to the market is selling, which indicates that the pool of buyers is not excessive or being emotionally driven.

CONCLUSION

The Townsville economy is coping the effects of the COVID-19 pandemic, though arguably not as badly as other Queensland locations. Nevertheless employment is dropping, the unemployment rate is climbing, and business confidence is down. The key question now is the on-going severity of the downturn, how long it will last, and to what extent businesses can start rebuilding again to get people back into jobs and improve business, economic and consumer confidence.

Meanwhile the Townsville property market continues to function, but at lower volumes of sales reflecting reduced levels of both property supply and buyer demand. However at this stage property prices appear to be generally holding.

The real test of economic and property market resilience will occur once the support mechanisms such as JobKeeper expire over coming months.

AT A GLANCE

Indicator	Comments	Current Sentiment
Business Confidence	Severe drop	↓
Labour Market	Dropping	↓
New 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	Lower	↓
House Prices	Rising	↑
Unit Sale Volumes	Lower	↓
Unit Prices	Overall steady	↔
Residential Land Sales	Steady but subdued	↔
Residential Land Prices	Static to mildly declining	↓
Rental Vacancy Rate	Steady	↔
Median Rents	Increasing	↑
Cane Farms	Easing	↔
Cattle Property	Strong	↑