



Inner-Brisbane Apartments

Undersupply or Oversupply?

An analysis of consumer demographics, mobility trends, and the development pipeline.



EXECUTIVE SUMMARY

Increased apartment development in Brisbane since 2015 has resulted in oversupply issues in the inner-city. Total apartment completions increased by 83.9% from 2014 to 2015, and from 2015 to 2017 of nearly 15,000 apartments. The future development pipeline has caused fears that incorrect stock selection could further price and supply issues. This is evidenced in the growth of deferred and abandoned projects within the inner-city, increasing by 23.0% from 2017 to 2018; in total over 3,000 apartments.

To understand the current state of the market and help shape the future of Inner Brisbane's apartment market, the report seeks to identify the sociodemographic composition and mobility history of residents in Inner Brisbane, and to examine the apartment supply pipeline in Inner Brisbane with regards to historical demand for various stock types.

In this report, Inner Brisbane refers to suburbs 0-3km radially from the CBD. Characteristics which commonly occurred in inner-city residents in studies globally were selected to identify the type of persons living in Inner Brisbane. It was proposed that Inner Brisbane residents were more likely to have moved within the past 5 years, and that they were also more like to be:

- Single;
- Childless;
- Younger (aged 20-39);
- Lower income;
- More highly educated; and
- Renting.

The demographic composition analysis confirmed the above hypotheses, as well as that most Inner Brisbane residents were mobile in their dwelling location over a 5-year period; only 25.5% of residents remained in the same dwelling. The high rate of mobility also revealed a surprising spread of previous dwelling locations; 18.6% had moved from overseas in the previous 5 years. Further, residents living in dwellings with fewer bedrooms were more mobile than those living in dwellings with more bedrooms.

KEY FINDINGS

Analysis of the development pipeline revealed two key findings:

1. A potential undersupply of apartments exists in the medium-term (5 years) within Inner Brisbane. There is a current estimated shortfall of up to 15,500 apartments by the end of 2023 based on total known development.
2. There has been an oversupply of 1-bedroom apartments which is set to continue. Historic sales demand revealed a growing appetite for 3 and 4-bedroom apartments, which are currently undersupplied. Demand for 2-bedroom apartments is well met.

IMPLICATIONS

Developers may use the sociodemographic characteristics of the typical Inner Brisbane resident, as well as mobility history, to:

- a) Improve their marketing campaigns to target particular sociodemographic markets and/or particular geographical locations.
- b) Influence their building design process and apartment configurations.

Investors can benefit from this report as it was found that:

- a) Larger apartments (3/4-bedroom configuration) held occupants for longer periods.
- b) There was a minimal difference of 0.4% between the 1-year and 5-year mobility of residents moving within Inner Brisbane. Tenants thus choose to move into newer apartment stock as it becomes available.

The oversupply in Inner Brisbane has slowed to a point where the market is reversing into undersupply, moving towards the bottom of the cycle. There is now improving demand, with vacancy rates declining by -0.9% to 4.6% in the past 12 months (to November 2018). Demand has shifted to favour apartments with more bedrooms, thus, adding 1-bedroom apartments should be treated with caution. That said, this report presents a snapshot of the market at the end of 2018, and supply positions will fluctuate.



BACKGROUND

Brisbane's apartment market has been the subject of much controversy since 2015. The sudden surge in the level of development activity has led to oversupply concerns, particularly within the inner-city area. The strong increase in total project completions in Inner Brisbane* is evidence of this, with total apartment completions increasing by 83.9% from 2014 to 2015, and total completions from 2015 to 2017 together amounting to almost 15,000 apartments.

The future development pipeline from 2019 onwards is thus a cause of concern for investors and owners alike, with fears that incorrect stock selection may only compound price and supply issues previously felt. Evidence of this concern playing out has been seen in the action developers and landlords have taken, with incentives of gift cards, body corporate fee payments and even cars being offered to prospective purchasers and tenants. Further, the number of deferred (indefinitely sidelined) or abandoned (cancelled without further plans) apartment projects within Inner Brisbane* increased by 23.0% from 2017 to 2018, with the development of over 3,000 apartments deferred or abandoned in this period.

CONTEXT

Continuing concerns regarding the potential oversupply of apartments within Inner Brisbane* mean it is critical to understand the current state of the market. This can be achieved not only through the perspective of a development pipeline analysis, but also with a better understanding of who is choosing to reside within Inner Brisbane*. This will position developers and landlords alike to better profile residents of Inner Brisbane* and understand their housing choices and mobility patterns, allowing them to shape future developments and acquisitions accordingly.

OBJECTIVE

In order to better understand and shape the future of Inner Brisbane's* apartment market, this report seeks out two main objectives:

1. Identify the sociodemographic composition and mobility history of residents in Inner Brisbane*; and
2. Examine the apartment supply pipeline in Inner Brisbane* with regards to historical demand for various stock types.

This information is expected to further equip both developers and landlords to develop and acquire appropriate apartment configurations and volumes to best meet the changing demand for apartments in Inner Brisbane*.

*Inner Brisbane refers to the following suburbs within 3km of the Brisbane CBD: Bowen Hills, Brisbane City, East Brisbane, Fortitude Valley, Herston, Highgate Hill, Kangaroo Point, Kelvin Grove, Milton, New Farm, Newstead, Paddington, Petrie Terrace, Red Hill, South Brisbane, Spring Hill, Teneriffe, West End, and Woolloongabba. *Based on known projects using available data from Cordell Connect development database. Figures presented are approximate. *Vacancy rates and yields for Inner Brisbane are the average of figures determined for the postcodes 4000, 4005, 4006, 4059, 4064, 4101, 4102, and 4169. Source: Australian Bureau of Statistics, Cordell Connect database, Queensland Government Statistician's Office, SQM Research, Pricerfinder, Realestate.com.au. © PRDnationwide 2019.

INNER BRISBANE* FAST FACTS

Population growth 3.6% p.a.

From 2011 to 2016, Inner Brisbane's* population growth of 3.6% p.a. was more than double Queensland's rate of 1.7% p.a. This rate should continue to grow as interstate migration accelerates.

Rental yield# 5.1%

Rental yields for units remained steady at 5.1% in November 2018, which is on-par with the Greater Brisbane area.

Vacancy rate# 4.6%

A vacancy rate of 4.6% in November 2018 represents an annual improvement of -0.9%, moving supply towards the REIA's healthy benchmark of sub-3.0%.



15,000[^]

Apartment completions between 2015 to 2017 in Inner Brisbane*



3,000[^]

Apartments deferred/abandoned from 2017 to 2018 in Inner Brisbane*



METHODOLOGY

DEFINING INNER BRISBANE

Geographic regions are often classified differently by organisations for a variety of purposes. The Australia Bureau of Statistics (ABS) uses radial distances from the CBD to describe these areas (for instance 0-5km). The Inner Brisbane area in this report is determined through comparing the statistical likeness of the areas 0-3km and 3-5km radially from Brisbane's CBD. It was determined that the areas were not statistically similar. Inner Brisbane is therefore used to refer to suburbs within the range of 0-3km radially from Brisbane CBD, which are listed below.

- Bowen Hills 4006
- Brisbane City 4000
- East Brisbane 4169
- Fortitude Valley 4006
- Herston 4006
- Highgate Hill 4101
- Kangaroo Point 4169
- Kelvin Grove 4059
- Milton 4064
- New Farm 4005
- Newstead 4006
- Paddington 4064
- Petrie Terrace 4000
- Red Hill 4059
- South Brisbane 4101
- Spring Hill 4004
- Teneriffe 4005
- West End 4101
- Woolloongabba 4102

RESIDENT PROFILING

A significant body of research has been previously undertaken in profiling inner-city residents from various cities globally. From these studies, several common characteristics arise, which may also be evident in Inner Brisbane* residents. Thus, these factors will be examined to help understand the type of person who lives within Inner Brisbane* specifically. Each of these hypotheses are tested against a population living further away from the CBD, in the range of 3-10km, which is defined as Middle Brisbane. It is proposed that Inner Brisbane* residents are more likely than their Middle Brisbane counterparts to be:

- single;
- childless;
- younger (aged 20-39);
- lower income;
- more highly educated; and
- renting.

Past research also suggests the majority of persons living within Inner Brisbane* are likely to have moved within the past 5 years. Knowing where and when residents have moved from will provide a clearer picture of a typical resident.

To obtain data for the Inner Brisbane* area, ABS TableBuilder was utilised to secure and collate 2016 Census data at a suburb level.

DEVELOPMENT PIPELINE

To assess the supply pipeline and demand levels for apartments in Inner Brisbane*, the Cordell Connect database system was utilised. Data was retrieved for a 10-year period spanning 2014 to 2023. This allowed for a 5-year historical and 5-year future analysis of the supply pipeline. The total number of apartments constructed by year of completion was measured, as was the total number of apartments by bedroom configuration.

This data was compared against actual unit sales data obtained from Pricerfinder, both in total sales volume and sales by bedroom configuration. This historical data was used to compare the ability of developers to match demand in the market, helping identify possible areas for improvement.

Future supply data was also considered utilising the following equation:

$$\frac{\text{5-year annual average sales}}{\text{IB* Population Forecast**}}$$

$$\times \text{IB* Average Household Size}^{\wedge}$$

$$\times \% \text{ of apartments to all dwellings in IB}^{\wedge\wedge}$$

This reveals Inner Brisbane's net supply position into the medium-term (5 years), which may influence developers or investors with future investment choices.

**Using the Queensland Government Statistician's Office 5-year population forecast, annualised at an SA2-level for areas of Inner Brisbane. ^{\wedge}Using the average household size for SSC suburbs within Inner Brisbane using ABS 2016 Census data. ^{\wedge\wedge}Using the total percentage of apartments relative to the total number of dwellings located in SSC suburbs within Inner Brisbane using ABS 2016 Census data. Source: Australian Bureau of Statistics, Queensland Government Statistician's Office, Pricerfinder. © PRDnationwide 2019.

RESULTS

DEMOGRAPHIC COMPOSITION

Household Composition	Inner Brisbane	Middle Brisbane
Family Households	50.8%	66.5%
Single Person Households	33.9%	25.6%
Group Households	15.3%	7.9%
Children in Family	Inner Brisbane	Middle Brisbane
No children	82.9%	65.0%
1 child	8.8%	14.6%
2 children	6.1%	14.4%
3 children	1.8%	4.9%
4+ children	0.4%	1.2%
Age (brackets)	Inner Brisbane	Middle Brisbane
0-9	6.4%	12.1%
10-19	8.0%	11.6%
20-29	29.6%	18.0%
30-39	20.8%	16.2%
40-49	12.5%	14.5%
50-59	9.9%	11.3%
60-69	7.3%	8.1%
70-79	3.5%	4.8%
80-89	1.6%	2.7%
90-99	0.4%	0.7%
100+	0.0%	0.0%
Median Income	Inner Brisbane	Middle Brisbane
Weekly Personal Income	\$1,204	\$1,245
Highest Educational Attainment	Inner Brisbane	Middle Brisbane
Postgraduate Degree	9.50%	7.08%
Grad. Dip. and Grad. Cert.	2.94%	2.88%
Bachelor Degree	25.54%	20.54%
Adv. Dip. and Diploma	7.30%	7.65%
Certificate III & IV	7.39%	9.55%
School - Year 10 & above	22.40%	23.12%
Certificate I & II	0.02%	0.02%
School - Year 9 & below	2.22%	3.24%
Supplementary codes	2.16%	1.97%
Not stated	11.10%	6.37%
Not applicable	9.38%	17.59%
Tenure	Inner Brisbane	Middle Brisbane
Owned outright	14.9%	24.7%
Owned with a mortgage	18.2%	31.3%
Rented	53.7%	36.3%
Other	13.2%	7.6%

MOBILITY HISTORY

Place of Residence		1 Year Ago	5 Years Ago
Same Address		55.2%	25.5%
Inner Brisbane		8.8%	9.2%
Rest of Brisbane		8.1%	14.5%
Rest of QLD		4.5%	11.0%
Interstate		2.7%	6.3%
Overseas		7.3%	18.6%
Not stated/applicable		13.4%	15.0%
Place of Residence 5 Years Ago			
	Same Address	Elsewhere in Australia	Overseas
1-Bed	18.6%	51.5%	24.9%
2-Bed	20.9%	47.7%	24.5%
3-Bed	34.9%	44.2%	14.2%
4-Bed	44.5%	38.7%	9.8%

DEVELOPMENT PIPELINE

Total Stock Proportions (5-Year Average)					
	1-Bed	2-Bed	3-Bed	4-Bed+	
Sold 2014-2018	24.8%	54.3%	18.7%	2.2%	
Developed 2014-2018	39.5%	54.3%	5.9%	0.3%	
Pipeline 2019-2023	40.3%	48.7%	9.6%	1.4%	
Sales vs Development Supply Position (5-Year)					
	1-Bed	2-Bed	3-Bed	4-Bed+	
2014-2018	+14.7%	0.0%	-12.8%	-1.9%	
2019-2023	+15.5%	-5.6%	-9.0%	-0.8%	
Demand Shift (5-Year)					
	1-Bed	2-Bed	3-Bed	4-Bed+	
Sold 2014-2018	-5.6%	+0.3%	+4.4%	+1.0%	
Developed 2014-2018	-11.6%	+7.2%	+3.9%	+0.5%	
Pipeline 2019-2023	+13.5%	-11.9%	-2.0%	+0.5%	
Net Future Supply Position					
	2019	2020	2021	2022	2023
Historic sales	-4,896	-5,359	-5,822	-6,240	-6,658
Forecast increase	-463	-463	-418	-418	-418
Scheduled completions	2,619	5,040	4,406	1,753	1,880
Annual position	-2,740	-782	-1,834	-4,905	-5,196
Cumulative position	-2,740	-3,522	-5,356	-10,261	-15,457

RESULTS – HIGHLIGHTS

DEMOGRAPHIC COMPOSITION

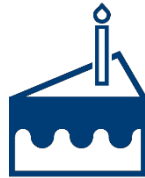


Inner Brisbane
Compared with
Middle Brisbane

33.9%
+8.3%
Single person
households



82.9%
+17.9%
Childless
households



50.4%
+16.2%
20-39 years
of age



\$1,245
-\$41
Median weekly
personal income



38.0%
+7.5%
Bachelor degree
or higher



53.7%
+17.4%
Renting

MOBILITY HISTORY



5-Year Mobility

25.5%



1-Year Mobility

55.2%
Same address
(no change)



9.2%
8.8%
Within
Inner Brisbane



14.5%
8.1%
Rest of
Brisbane



11.0%
4.5%
Rest of
Queensland



6.3%
2.7%
Interstate

18.6%
7.3%
Overseas

DEVELOPMENT PIPELINE



↓5.6%
1-bedroom
demand shift
2014-2018



↑15.5%
1-bedroom
oversupply
2019-2023



54.3%
2-bedroom
sales proportion
2014-2018



15,457
Net apartment
undersupply
position by 2023



↑4.4%
3-bedroom
demand shift
2014-2018



↓9.0%
3-bedroom
undersupply
2019-2023



KEY FINDINGS

The demographic composition analysis confirmed the hypotheses that residents of Inner Brisbane* are more likely to be single, childless, younger (aged 20-39), have lower income, are more highly educated, and are renting; compared to residents located further from the CBD.

In addition, it was confirmed that a majority of Inner Brisbane* residents were mobile in their dwelling location over a 5-year period, with only 25.5% remaining in the same dwelling. The high levels of mobility in Inner Brisbane* residents also revealed a surprising spread of previous dwelling locations, though a particularly high proportion of residents (18.6%) moved from overseas in the previous 5 years. In addition, an analysis of Inner Brisbane* residents' mobility by bedroom configuration revealed that residents living in properties with fewer bedrooms were more mobile than those living in properties with a greater number of bedrooms.

Analysis of the development pipeline revealed two key findings. First, a potential undersupply of apartments exists in the medium-term within Inner Brisbane*. There is a current estimated shortfall of up to 15,500 apartments by the end of 2023 based on total known development; a trend which is set to snowball year-on-year from 2019 onwards. Second, historically speaking there has been an oversupply of 1-bedroom apartments, which is set to continue despite an evident decline in demand for the product. Historic sales demand also reveals a growing appetite for 3 and 4-bedroom apartments, which are currently undersupplied. At the same time, demand for 2-bedroom apartments is quite well met, though developers appear to be shifting away from these to favour 1-bedroom apartments.

IMPLICATIONS

In uncovering a number of sociodemographic characteristics of the typical Inner Brisbane* resident, developers may choose to use this information to deliberately target a specific audience in marketing campaigns, as well as influencing building design and configurations.

The mobility history of these residents provides a similar opportunity to position campaigns in appropriate locations. The apparent relationship between increased mobility and fewer bedrooms may also influence an investor's purchase decisions or a tenant's leasing terms. This study has found that larger apartments (3-4 bedroom configuration) are a more attractive option when securing longer occupants; information which may further shape an investor's decisions. Additionally, there is a minimal difference of 0.4% between 1-year and 5-year mobility of residents moving within Inner Brisbane*. This may be largely attributed to a spike of new apartment completions which occurred in 2015. This is key information, as tenants may simply choose to move into newer apartment stock as it becomes available. This can present oversupply and vacancy concerns for existing investors within the secondary apartment market.

The development pipeline analysis serves as a reminder that monitoring the state of the market is critical. A historical oversupply in Inner Brisbane* appears to have slowed to a point where the market is reversing into an undersupply position; presenting now as an opportune time to enter the market, as it moves towards the bottom of the cycle. This is supported by improving rental statistics in Inner Brisbane*, with an average apartment yield of 5.1% and vacancies declining by -0.9% to 4.6% in the past 12 months. It is important to remember that supply positions will continue to fluctuate, and this report presents a snapshot of the market's position at the end of 2018. Comparing the development pipeline to historical demand levels by bedroom composition suggests that as demand shifts to favour apartments with more bedrooms, developers are presented with a prime opportunity to meet an undersupplied market. At the same time, developers and investors should be cautious to add or purchase 1-bedroom apartments in an already oversupplied market.

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