



Herron  
Todd White

Independent Property Advisors

# Townsville in Focus

2009 MAY

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**COMMERCIAL RETAIL INDUSTRIAL RESIDENTIAL RURAL**

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# Directors Notes

The Townsville economy has been in for some rough times over the last nine months and the property sector has been by no means immune.

However our *Townsville in Focus* analysis indicates that the market seems to be stabilising and that the worst of the downturn is possibly behind us.

There are issues for the longer term, particularly in the area of developer charges which will have a profound influence on land affordability at the time when the market can least afford it. Our market is also suffering from State Government incentives to buy property in other States, which reduce the attractiveness of investing in the Townsville market.

In this publication, Herron Todd White presents trends from surveys, conclusions from our own research and shares market intelligence that our valuers use "in the field" on a daily basis to provide the best possible advice to our clients in their decision making.

The valuation and property advice is not based on any automated model, and as our advice is given on a fee for service basis, there is no hidden agenda other than to provide the most independent, reliable, current position of your property's worth.

Released quarterly, *Townsville in Focus* provides an overview of commerce and the changing elements affecting the different property sectors in the region. Should any of the material arouse questions, please do not hesitate to contact our office on 07 4724 2000.



**Ross Turner**  
Managing Director

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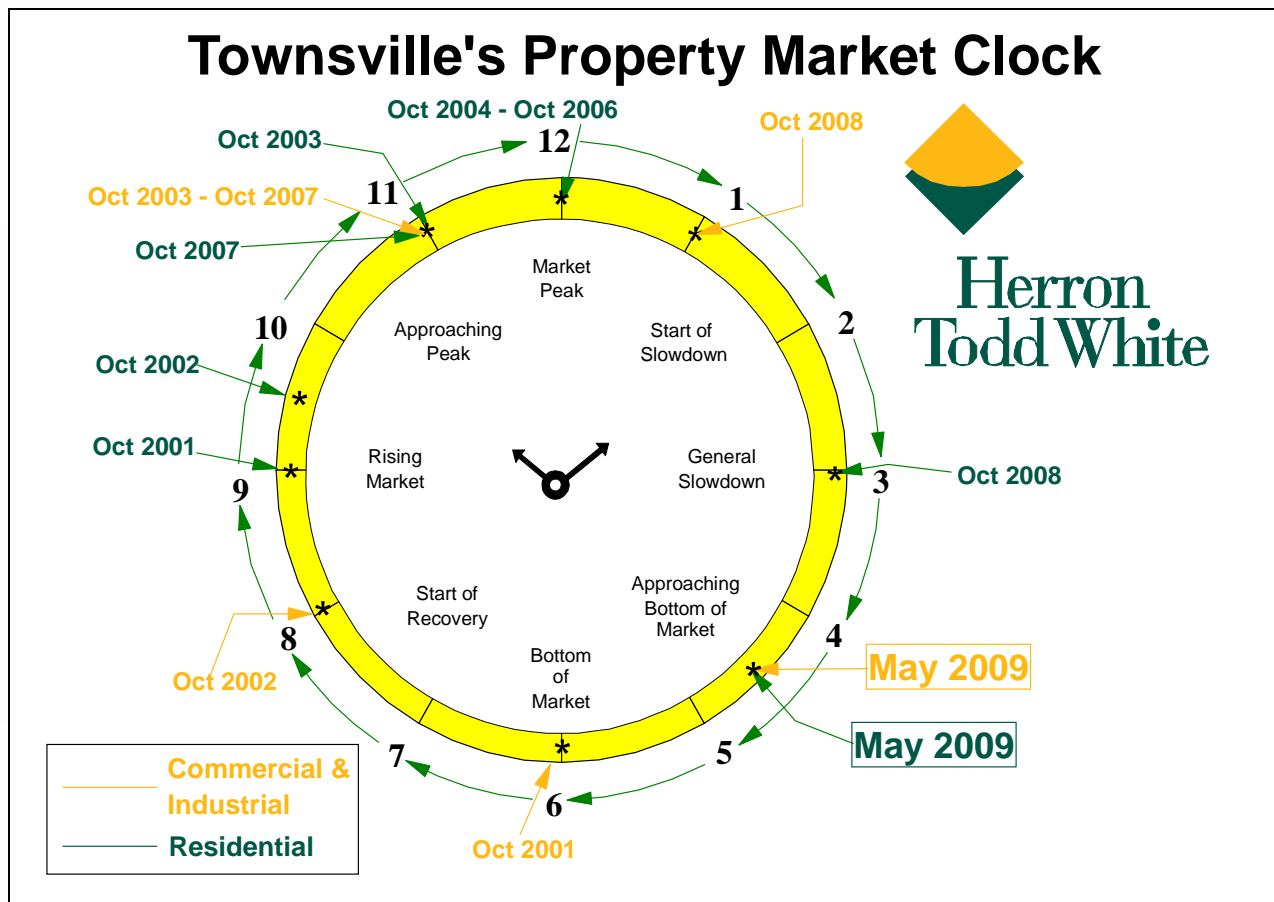
# Overview

Townsville's property markets have taken a hit over the last twelve months or so with substantial falls in the levels of real estate sales activity and with price falls evident for the majority of property. However the market now appears to be stabilising.

As a result, we have advanced our Townsville residential property clock – refer Image 1 – from the general slowdown phase of the cycle to “approaching the bottom of the market”. We may already be at the bottom of the residential property cycle, but the evidence remains tenuous and we are reluctant to call it at this stage.

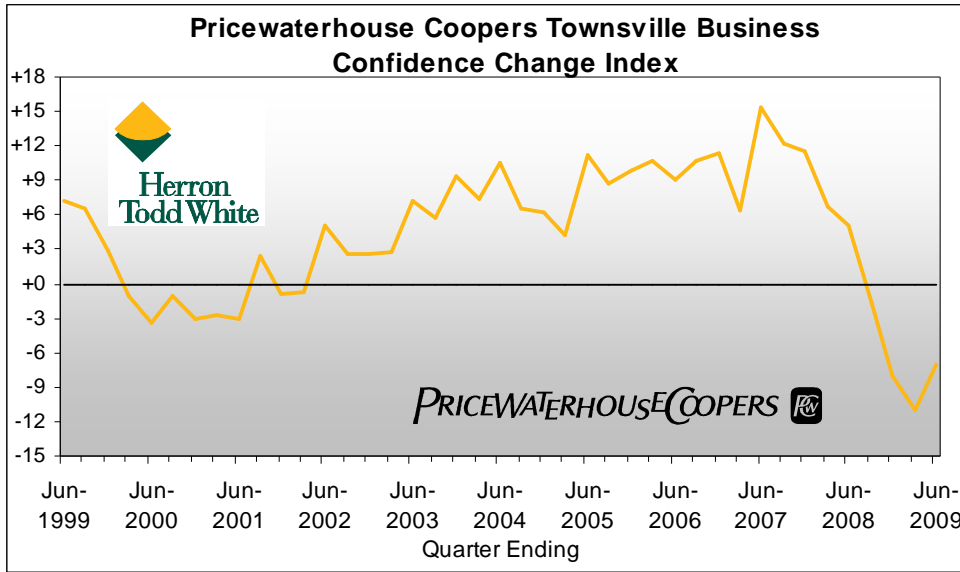
Commercial and industrial markets, which were previously lagging behind the residential market in the cycle, are now judged to have joined the residential market in approaching the bottom of the cycle.

Image 1



# Business Confidence

Image 2



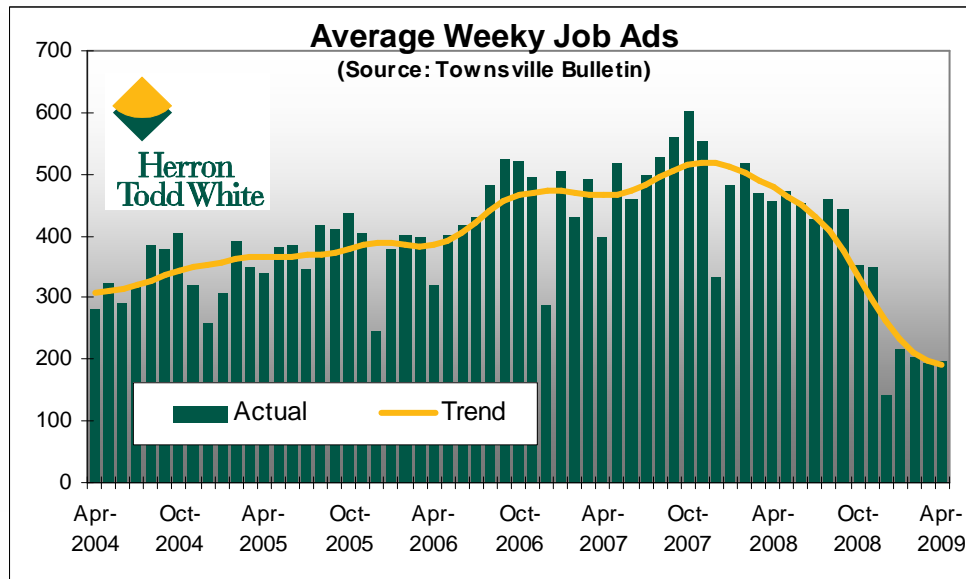
The level of business confidence in Townsville, as measured by the Pricewaterhouse Coopers Business Confidence Change Index, has regained some impetus in the last quarter, but

still remains in negative territory. Pricewaterhouse Coopers comment that the Federal Government’s \$42 Billion stimulus package appears to have had limited effect on business confidence in Townsville.

# Jobs

Image 3

The number of jobs being advertised each week in the Townsville Bulletin – as depicted in Image 3 – has reduced abruptly during the last twelve months in response to the downturn in business confidence. Though job



ads have reduced in trend terms to be about a third of the levels recorded at the end of 2007, the good news is that rate of decline appears to be abating.

# Building Approvals

Image 4

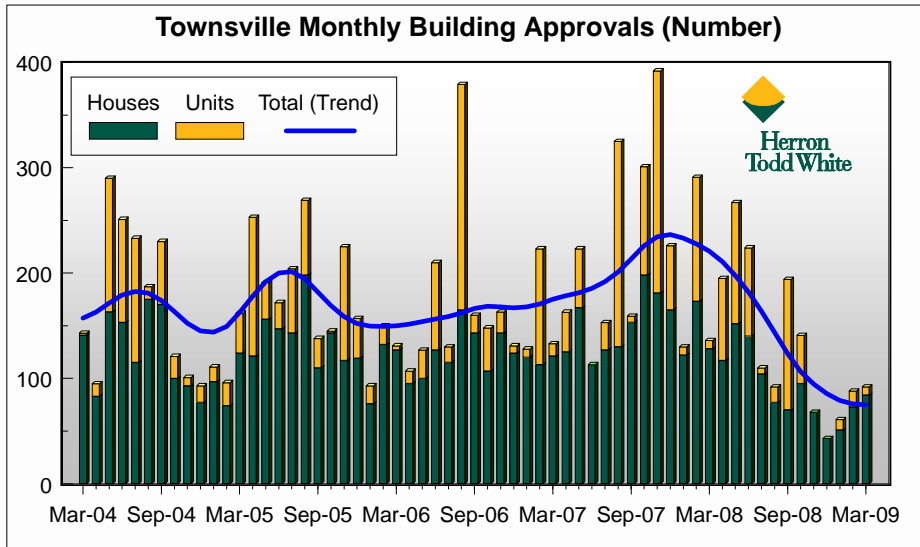
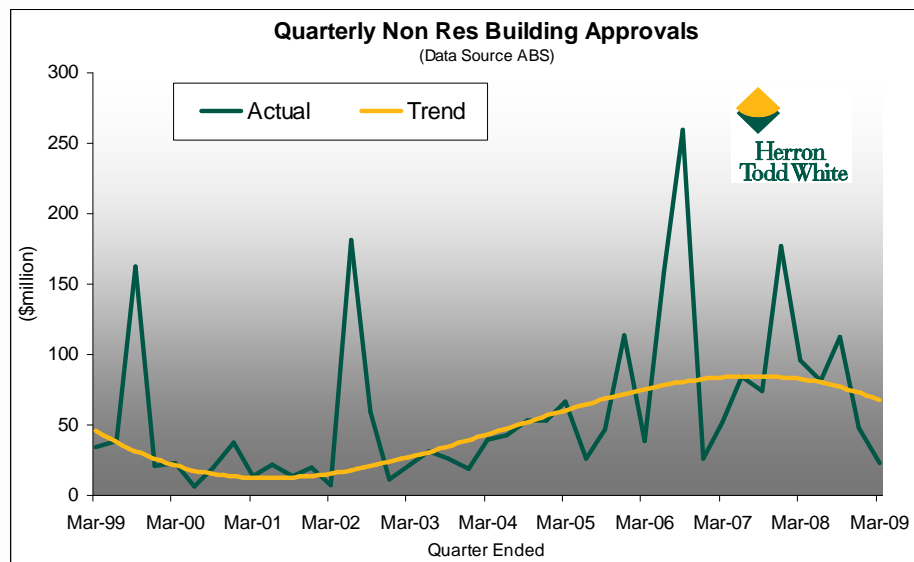


Image 4 shows that the rate of housing approvals has continued to reduce over the last few months as new home development intentions decline in the current market environment. Nevertheless the rate of decline

appears to be abating, with some evidence of a pick-up in building approval activity over the last three months as new home development targeted at cheaper homes starts to re-kindle. Building approvals are now running at a trend level of approximately 75 per month, consisting of 69 houses and 6 units.

Image 5

Consistent with the sharp decline in residential building approvals, Image 5 illustrates that non-residential building approvals are also declining, but nowhere near as intensely. Nevertheless continued weakness in non-residential building approvals can be expected in the current market climate as a result of reduced business confidence.

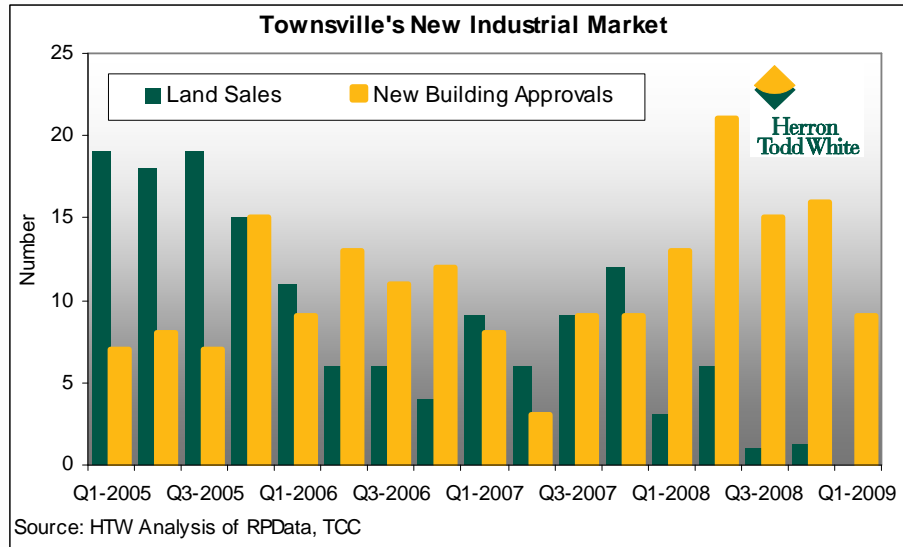


Nevertheless continued weakness in non-residential building approvals can be expected in the current market climate as a result of reduced business confidence.

# Industrial Market

Image 6

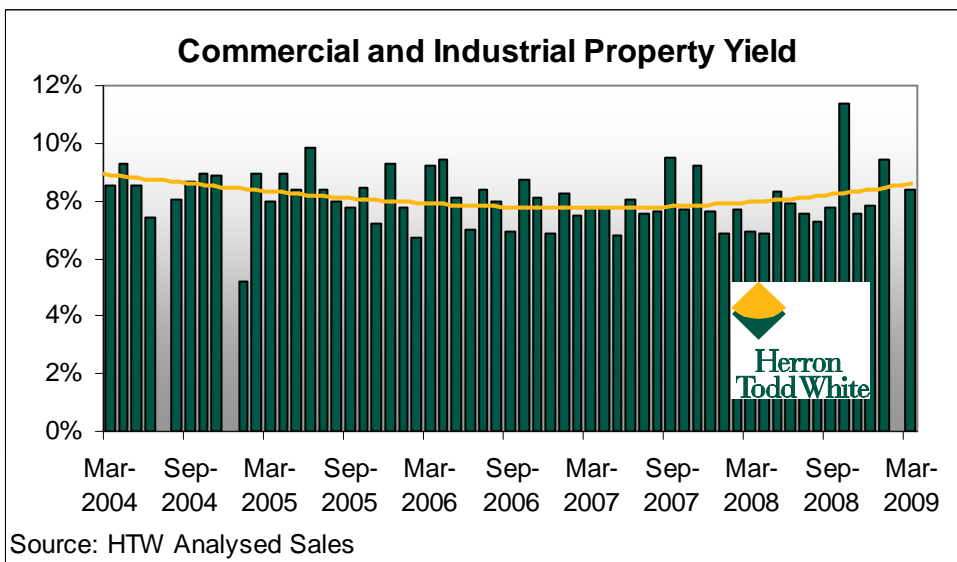
Townsville's industrial property market – refer Image 6 – has seen building approvals scale back considerably from the high levels reached at the start of 2008. Nevertheless there were 61 new industrial buildings approved during the



twelve months to March 2008, with a total building value of \$54 million. Much of the present activity is the carryover effect from past economic conditions and we expect industrial property development to decline further during 2009 in response to the changed economic circumstances.

# Commercial Property Yield

Image 7



Commercial and industrial property yields – refer Image 7 – have climbed to average in the high 8% range as a result of softer purchase prices, and have climbed even higher again for forced sales. A

large yield difference has again emerged between properties which are vacant and properties which have long-term tenants in place.

# Houses

Image 8

Image 8 shows that the number of houses being sold each month has recovered slightly from the levels observed mid last year, to now stand at approximately 240 sales per month. Houses are selling mostly in the cheaper market segments, influenced by first home buyer activity, but remain slow to sell in the mid to upper priced segments.

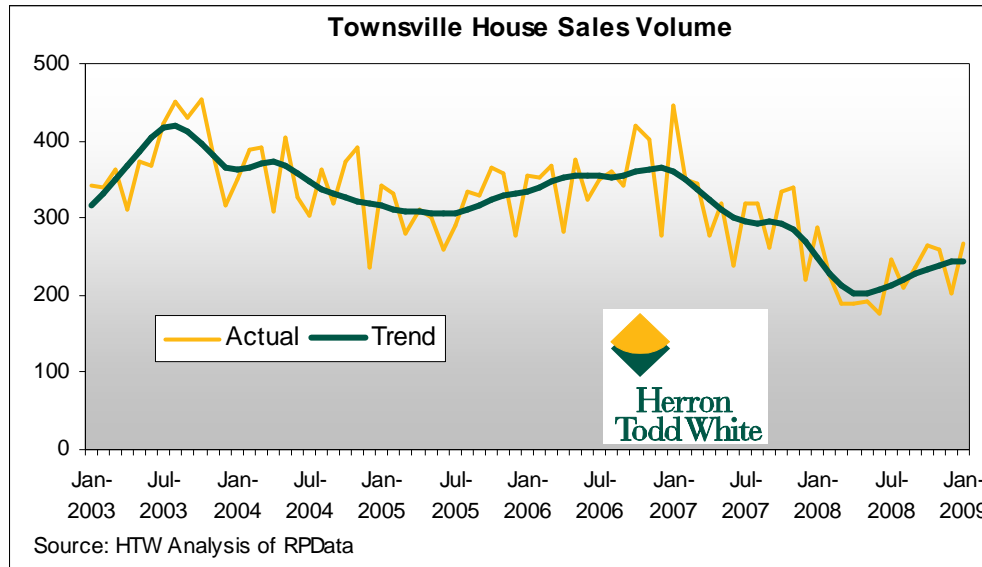
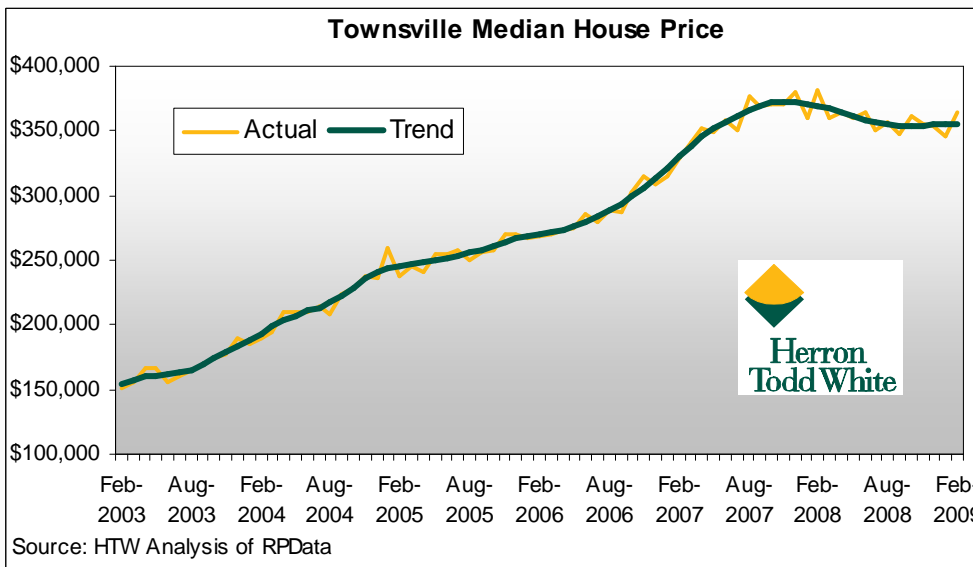


Image 9

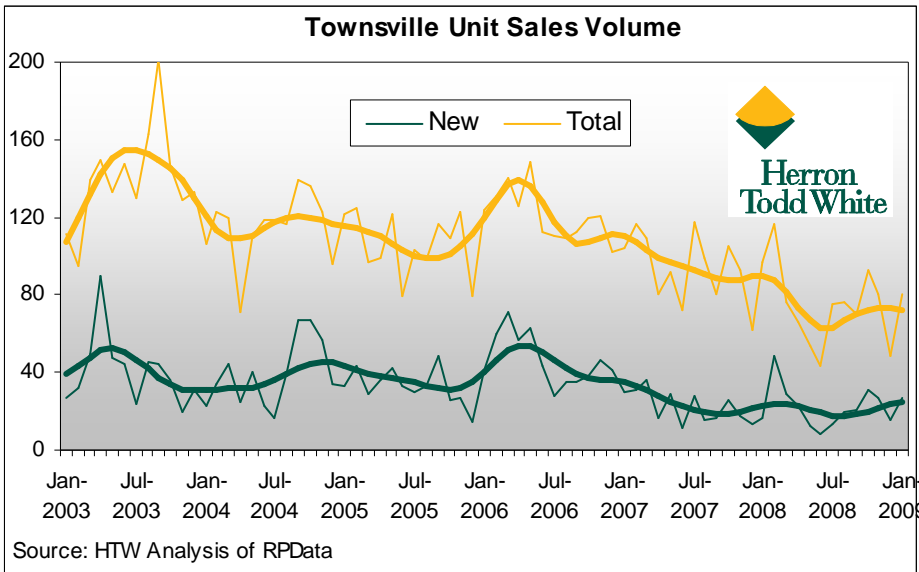


Our median price analysis – refer Image 9 – shows that the median house price has come down from the \$373,000 peak reached in November 2007, and have now stabilised at a level of around

\$356,000 in February 2009. This represents an overall reduction of 4.5% since the peak. The reduction in median prices reflects the combined impact of faster turnover at the cheaper end of the market bringing down the market average, as well as some downward movement in individual property prices.

# Units

Image 10

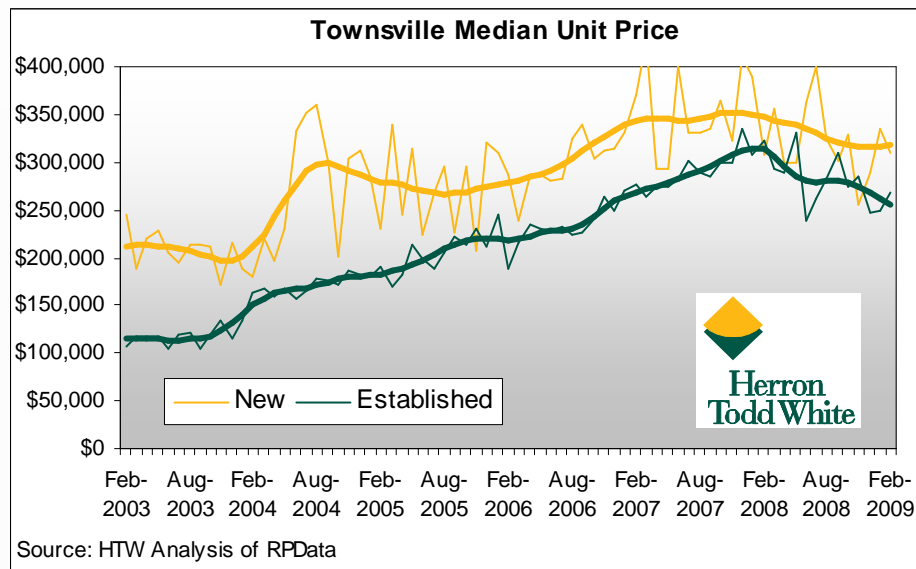


Unit sales – refer Image 10 – have also steadied out at approximately 50% of the volumes evident in mid 2006, with some gain in turnover evident in the most recent months. New unit sales have also trended up slightly in the most recent

months, though primarily in the cheaper suburban unit segment, as a result of first home buyer impetus. CBD unit sales remain slow.

Image 11

Image 11 shows movements in median unit prices separately for new and established units. It shows a reduction in median prices reflecting the impact of faster turnover at the cheaper end of the market, with our assessment being

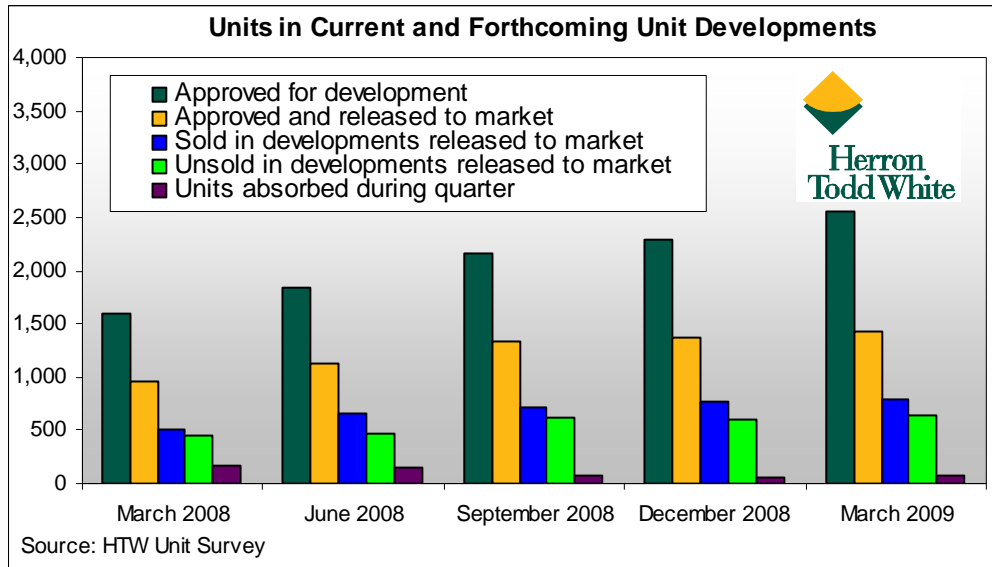


that most individual property prices have held steady as a result of first home buyers supporting the market. The median established unit price stood at \$256,000 in February 2009.

# Units (ctd)

Image 12

Our unit survey – refer Image 12 – shows an accumulated stock of 2,600 future inner city and suburban units approved in current and forthcoming developments, an increase from the stock



of 2,300 future units as at December 2008. Of the units approved for future development as at March 2009, 1,430 have been released into the market and sales cumulatively secured on 780. This leaves a total of 650 units available for purchase as at the end of March 2009, compared to a sales rate of 70 units sold during the quarter.

Image 13

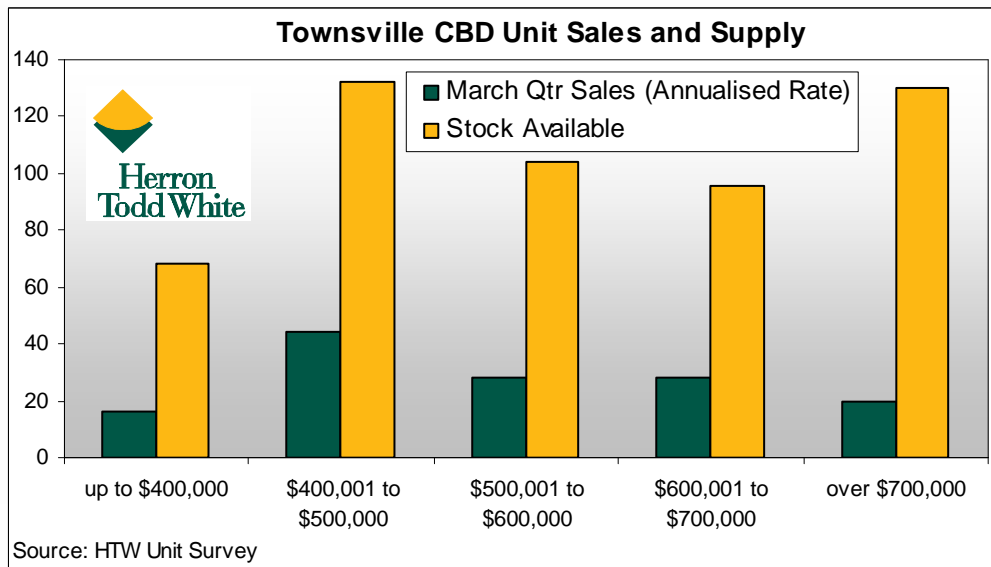
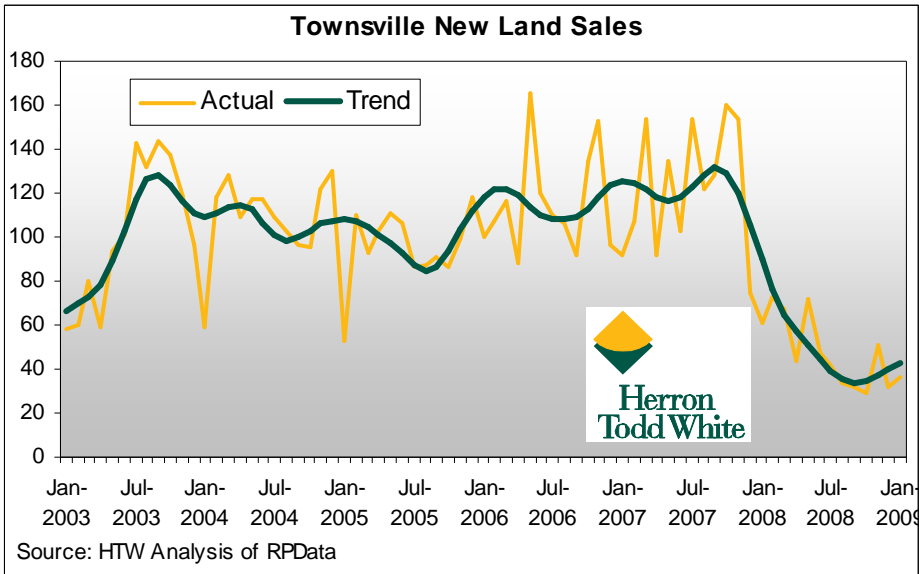


Image 13 gives the breakdown of Townsville CBD unit sales and supply according to price brackets. It highlights the current imbalance in the market, with a high concentration of sales in the lower price segments up to \$500,000, while the majority of the stock available is in the \$500,001 plus price brackets.

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# Vacant Land

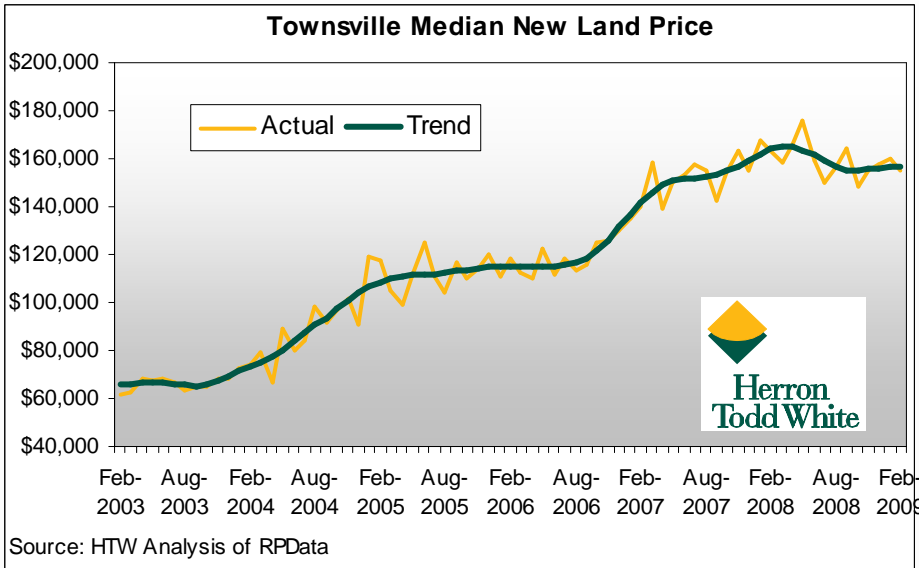
**Image 14**



The vacant land market – refer Image 14 – has also tentatively experienced an increase in sales from the very low levels observed in mid-2008, reflecting increasing demand from builders operating in the house and land

market. However current sales rates are still only a fraction of the sales rates experienced in late 2007.

**Image 15**



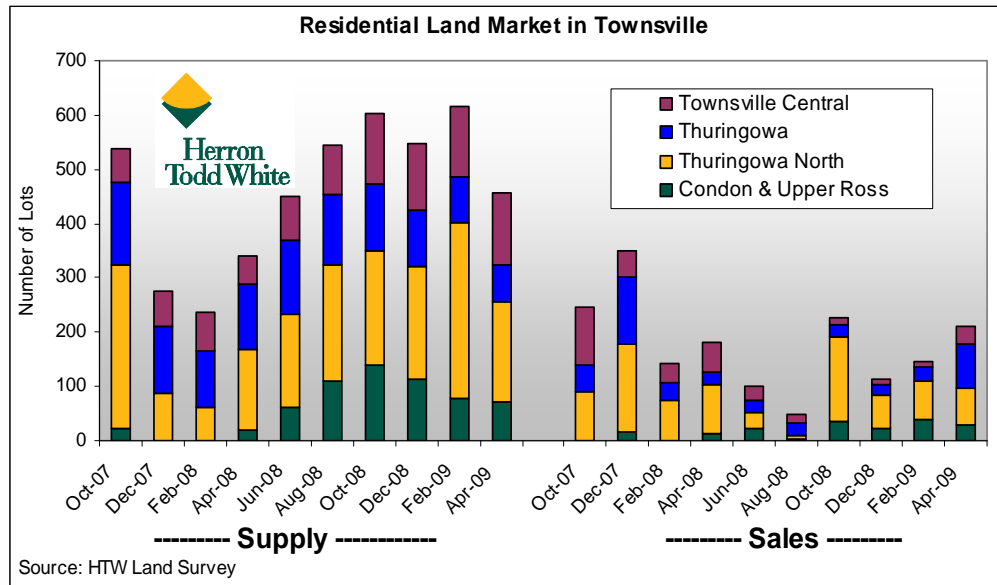
Recent movements in the median land price series – refer Image 15 – indicates that the median land price trend has remained steady over the last three to six months in conjunction with the increase in the rate of demand. The latest data shows

the February 2009 median allotment price at \$157,000.

# Vacant Land (ctd)

Image 16

Our Residential Land Survey – refer Image 16 – shows that developer land stocks have now started to tighten again as a result of a pick-up in level of sales, with our latest survey showing a stock of 456 developer lots

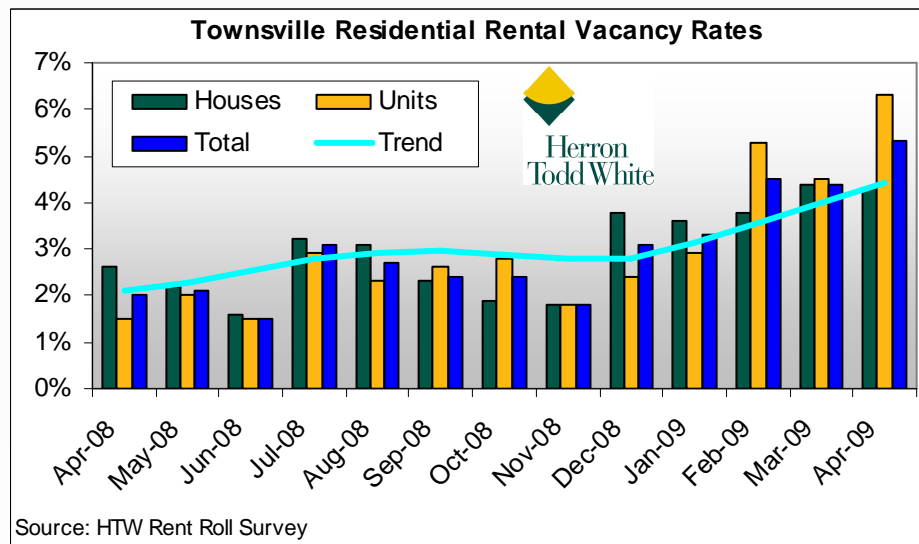


available for purchase as at the end of April 2009 relative to sales rate now running at 100 per month in March/April 2009.

# Rental Market

Image 17

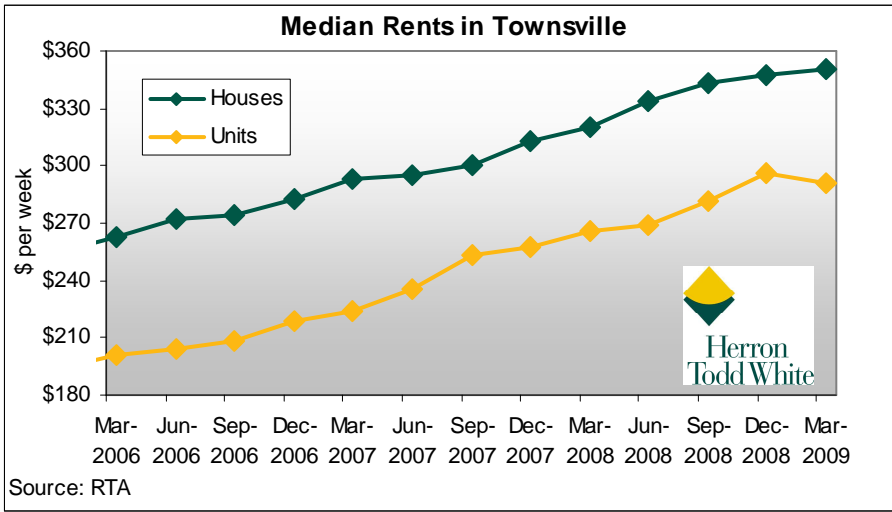
Our Townsville rental vacancy survey – refer Image 17 – shows that rental vacancy trend rates have been climbing in recent months as a result of softer rental demand especially evident in the inner City. Factors include first home buyers



moving out of the rental market as well as a greater incidence of leases being broken for affordability and/or financial hardship reasons. The latest trend vacancy rates stood at 4.0% for houses, 4.8% for units, and 4.4% overall.

# Rental Market (ctd)

Image 18

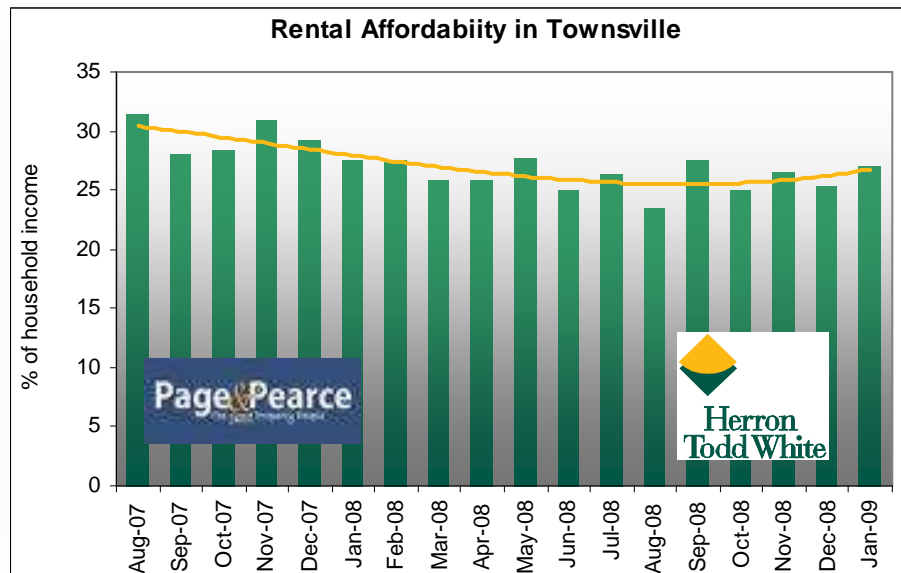


Our Townsville median rent analysis – refer Image 18 – shows that rents stopped climbing in the March quarter, with the latest median rents in Townsville reaching \$350 per week for houses (up only \$2 per week compared

to the December quarter) and \$290 per week for units (down \$6 per week from the December quarter). Rents are experiencing considerable downward pressure as a result of tenants’ affordability concerns and increasing vacancy factors, especially at the top end of the market.

Image 19

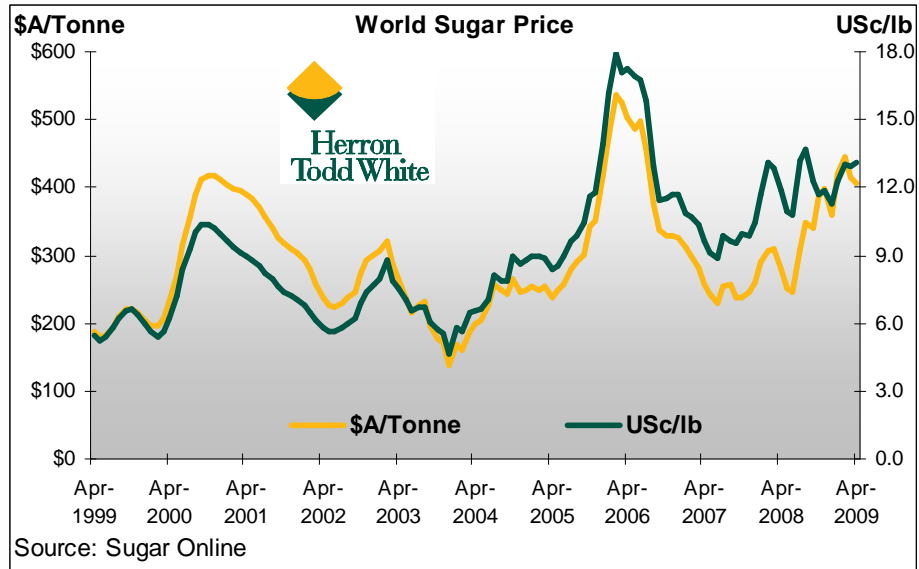
Our analysis of rental affordability, based on statistical information extracted from rental applications – refer Image 17 – shows that rents as a percent of household income had been declining through the period to late 2008, even though rents rose through this period, but have started climbing again in the most recent months even though rents have been static to declining. We would like to gratefully acknowledge the assistance of Page and Pearce in providing the source information for this analysis.



# Sugar Cane

Image 20

Returns to Australian sugar producers – refer Image 20 – remain at favourable levels, with current world prices of around US 13 cents/lb translating to approximately \$400 per tone in Australian dollar terms. Combined with



some cost relief, for instance on fuel and fertilisers, stronger returns are leading to a more profitable cane growing environment and improved short term confidence in the industry. Nevertheless the process of structural change in the Australian sugar cane industry is likely to continue over the medium term, with reductions in the number of cane growers and increases in the average size of cane farms.

Image 21

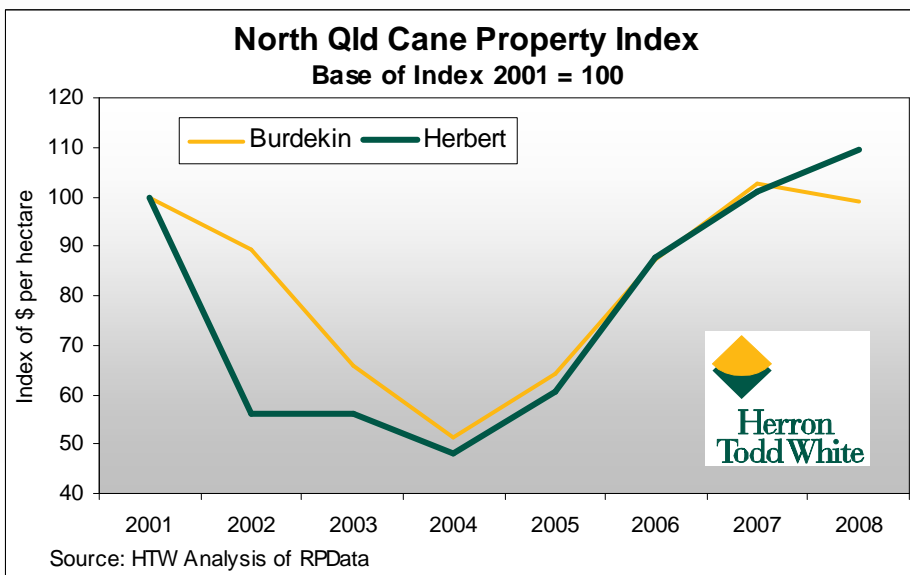
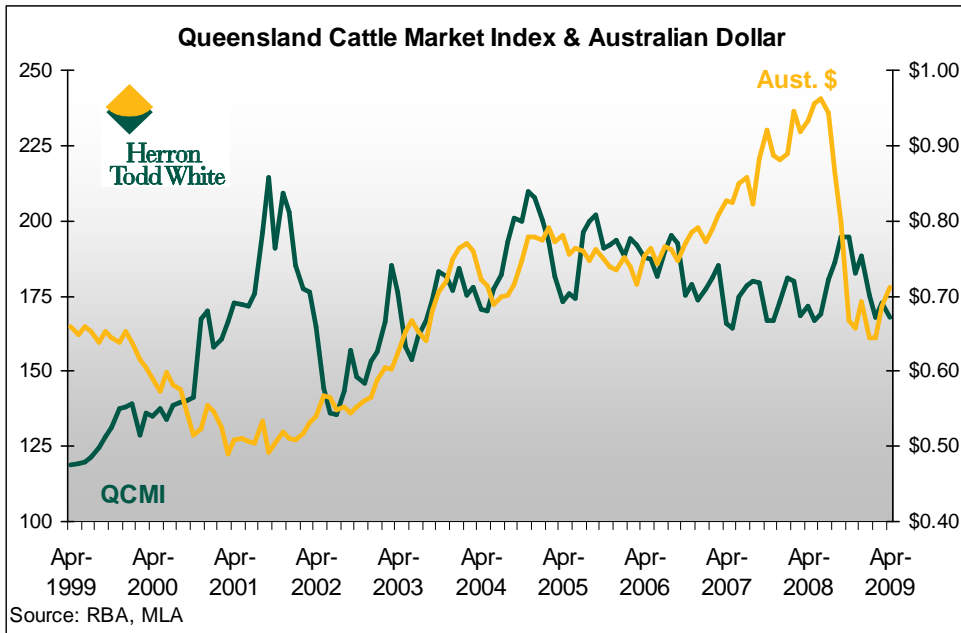


Image 21 depicts the median \$ per hectare cane farm price in the Burdekin and Herbert districts, expressed in index terms after adjustment for inflation. It shows solid increases in cane farm values in both districts from 2004 to 2007,

in the order of 27% per annum. However 2008 has seen a divergence, with cane farm values in the Herbert continuing to increase, supported by alternative use buyers such as forestry, but a softening in the Burdekin.

# Cattle

Image 22

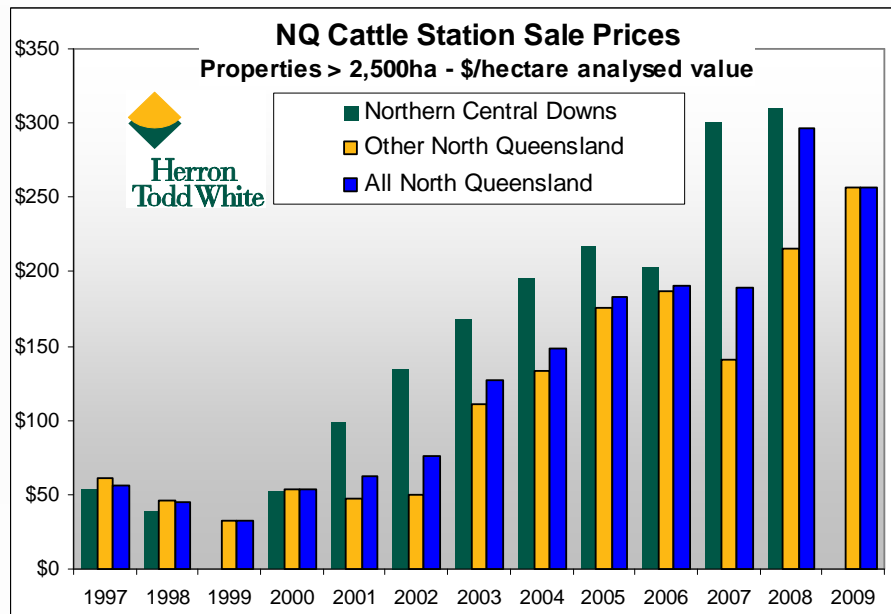


Queensland cattle prices – refer Image 22 – have managed to maintain strength despite the demand dampening effects, especially for higher valued cuts of beef, caused by global economic conditions. A

positive industry outlook remains, aided also by the abundance of rainfall in northern regions this wet season as well as better profitability due to lower input costs for fuel, fertiliser and feed supplements.

Image 23

Strong cattle property market conditions persist throughout North Queensland, as revealed by Image 23 which tracks the average analysed per hectare values for properties over 2,500 hectares in size. Image 23 shows that North Queensland grazing districts have continued to increase strongly in value, though with a blip in the All North Queensland result for 2008 caused by the preponderance of Northern Central Downs sales in that year.





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- ◆ Urban Development Institute of Australia
- ◆ Australian Property Council
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# People Profile

## PEOPLE PROFILE

For this issue of the Townsville in Focus, we thought it was time we introduced the whole team at Herron Todd White North Queensland. The North Queensland team forms part of the Herron Todd White Group in Australia, and winner for the 2009 (and second year in a row), BRW Magazine Client Choice Awards for Best Specialist Firm.

### THE VALUATION TEAM:

**Ross Turner, Director** – Specialises in commercial and development valuations and portfolio valuations and property advise for government and private enterprise; in excess of eight years experience; committee member of the Urban Development Institute of Australia; regional finalist in 2008 Australian Institute of Management Manager of the Year award. Associate of the Australian Property Institute and a Certified Practising Valuer.

**Darren Robins, Director** – Specialises in Townsville and Magnetic Island Prestige Property, regional residential and residential development. In excess of eight years experience, Darren is manager of the Residential Division; Associate of the Australian Property Institute and a Certified Practising Valuer.

**Denis Schy, Associate Director** – Specialises in commercial, industrial, litigation and rural valuations; in excess of thirty-seven years experience; specialist in general property and planning advisory. Associate of the Australian Property Institute and a Certified Practising Valuer.

**Les Searston, Associate Director** – Specialises in residential valuations, residential housing and unit portfolios for both government departments and private enterprise; in excess of eighteen years experience. Fellow of the Australian Property Institute, Chairman of the Local Australian Property Institute Discussion Group and a Certified Practising Valuer.

**Jason Searston, Associate Director** – A Registered valuer in Queensland, Jason specialises in commercial and industrial valuations, valuations for stamp duty, capital gains tax, as well as mortgage security as well as general property consultancy. Jason brings 17 years prior valuation experience in management to the Townsville team.

**Leal Kerr, Associate Director** – Whilst completing his valuation qualification, Leal brings 26 years prior experience in the banking industry focusing on going concern properties, agribusiness and commercial. This coupled with a Masters in Business Administration, and membership a Senior Associate of the Financial Institute of Australasia, Leal is a valued member of the Herron Todd White Team.

# People Profile (ctd)

## PEOPLE PROFILE

**Roger Hill, Valuer** – Specialises in the regional property market; registered as a valuer in 2008. University of Western Sydney Award Winner 2007. Associate of the Australian Property Institute and a Certified Practising Valuer.

**Cara Woch, Valuer** – Specialises in residential valuations; valuer since 2006. Herron Todd White National “Rookie of the Year” award in 2006. Associate of the Australian Property Institute and a Certified Practising Valuer. Cara lives and is primarily based in Ayr, giving the region the exceptional services that a valuer living in the region can provide.

**Hailey Danaher, Valuer** – Specialises in residential valuations; registered as a valuer in Queensland. Qualifications are in commerce, with post graduate studies in property.

**Warwick Baxter, Business Development & Coordinator Quantity Surveying Division** – Coordination and marketing of Tax Depreciation, Insurance Replacement Valuations and Asset Valuations through North, Far North and Central Queensland. The North Queensland Office, under Warwick’s direction, provided the highest number of Tax Depreciation Schedules for Herron Todd White in Australia in 2008.

**Tara Hodgson, Assistant Valuer** - Nearing completion of post graduate studies in property building on a business degree and previous banking industry experience. Assists with valuations in the Townsville and regional commercial markets.

### **THE RESEARCH TEAM:**

**Rick Carr, Research Director** – Research Director since 1998; background in economic research and consulting.

**Kylie Williams, Research Manager** – In excess of ten years experience in valuation/property consultancy field; undertakes local and regional market research.

### **THE ADMINISTRATION TEAM:**

Hayden Lynam, Administration Officer; Debbie James, Accounts Administrator; Amy Duke, Administration Officer; Kerri Turner, Media and Marketing Officer.

# Conclusion

Like everywhere else, Townsville's residential property markets have been buffeted by the impacts of the global financial crisis, with fears over the future economic direction and/or personal job security having sapped buyer sentiment in the market.

The residential market is getting close to, if not already at, the bottom of cycle, with the volume of sales showing signs of increasing again while prices remain stable. Our prognosis for the remainder of 2009, barring any further 'surprises' on the global economic front, is for the market to gradually claw its way back as interest rates remain low, purchaser incentives remain in place, and market confidence continues to rebuild.



# Herron Todd White

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