



Herron
Todd White

Independent Property Advisors

Townsville in Focus

2008
MARCH

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COMMERCIAL RETAIL INDUSTRIAL RESIDENTIAL RURAL

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Directors Notes

It would be foolish of Herron Todd White not to acknowledge that the recent interest rate rises are having an affect on property markets, albeit at varying levels throughout the different property sectors.

There is now a generation of individuals in Australia who have in some markets never seen a negative year. A group who look upon the property animal as a sure bet that never fails to show growth, and where a bad year is measured by something in the single digits. Confidence of this sort can at times be admirable and infectious, but it can also lead to heartache.

In this publication Herron Todd White presents trends from surveys, conclusions from our research and shares some of the market intelligence that helps to maintain our position as the premier independent property advisory firm.

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.



Peter Honnef
Valuation Manager – Commercial/Business
Managing Director

Townsville In Focus

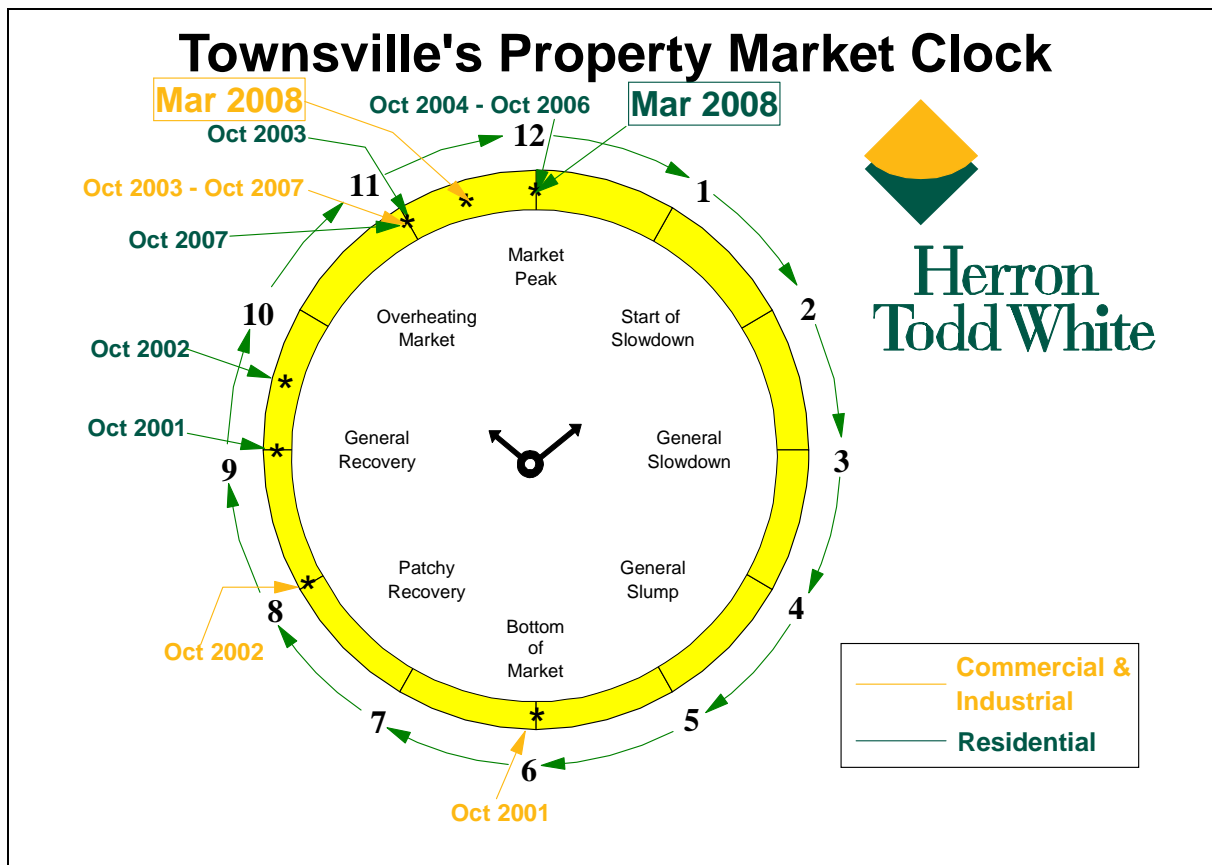
Overview

Townsville's property markets have seen a distinct change in sentiment over the last three months. Demand for residential property has cooled as buyers have become more and more discerning, the number of properties listed for sale has increased, and properties are taking longer to sell. The balance of power between market players, which previously favoured sellers because of the overheated market environment, has now equilibrated again as a result of buyers regaining considerable negotiating power.

The change in market conditions has caused us to adjust the residential dial on our Townsville property clock – refer Image 1 – forward towards the market peak. The market is now very close to, if not at, peak market conditions.

Commercial and industrial markets are also very close to the peak of the market, but we are not quite ready to move the dial there just yet.

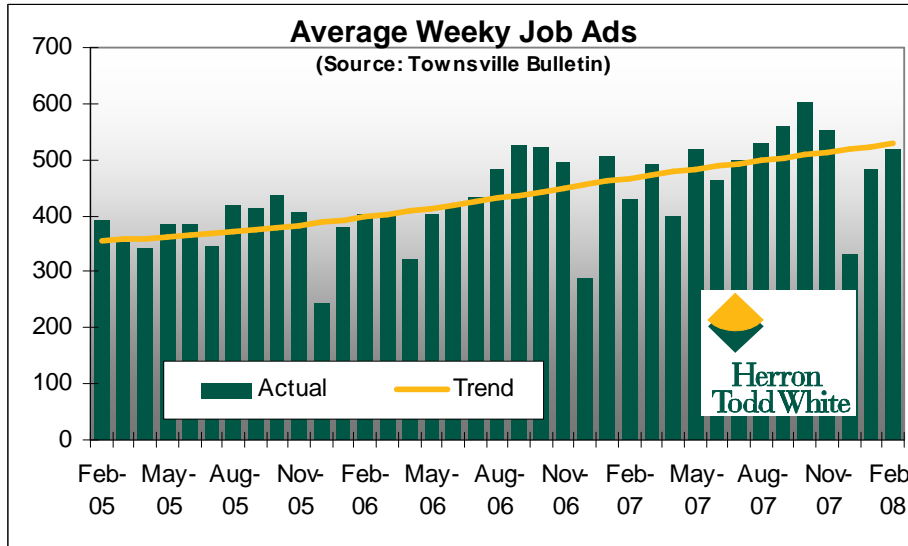
Image 1



Jobs

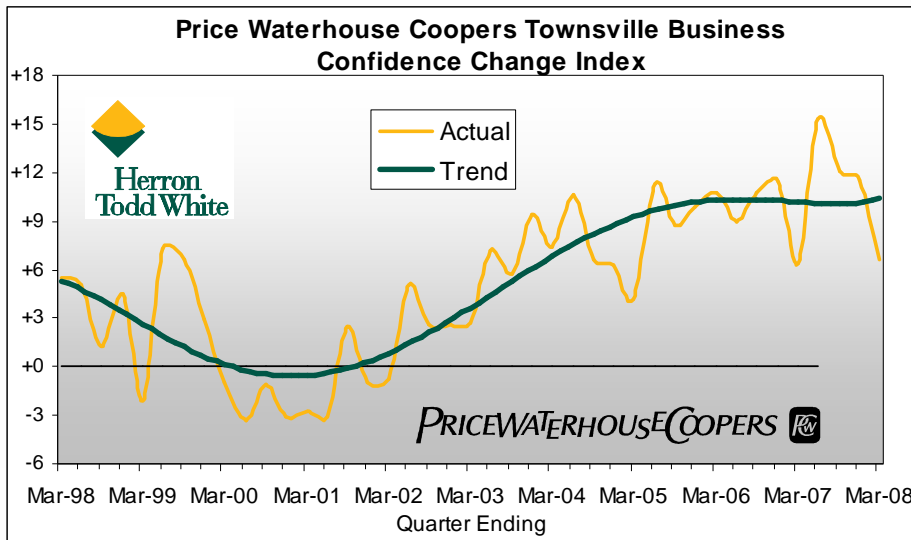
Image 2

Job ads in the Townsville Bulletin – as depicted in Image 2 – have shown a steady increase over the last three months. Job ads are now running at a record trend level of 531 per week, indicative of continuing strong job creation and demand for labour. The present trend in job advertisements is running about 14% above its corresponding level of 12 months ago.



Business Confidence

Image 3



The level of business confidence in Townsville, as measured by the Pricewaterhouse Coopers Business Confidence Change Index, has receded from the all time high reached earlier this year, but is

maintaining strong positive levels. Pricewaterhouse Coopers comment that there is also a darkening cloud looming on the horizon with the American and European economic downturns.

Building Approvals

Image 4

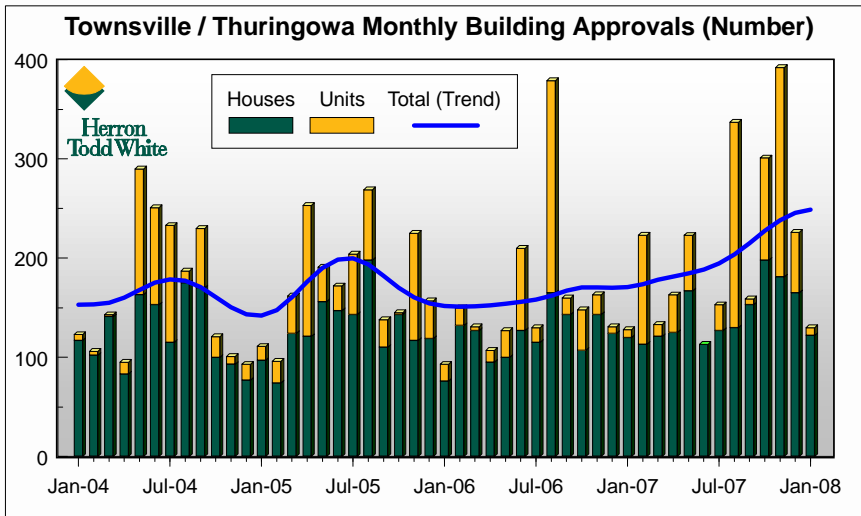
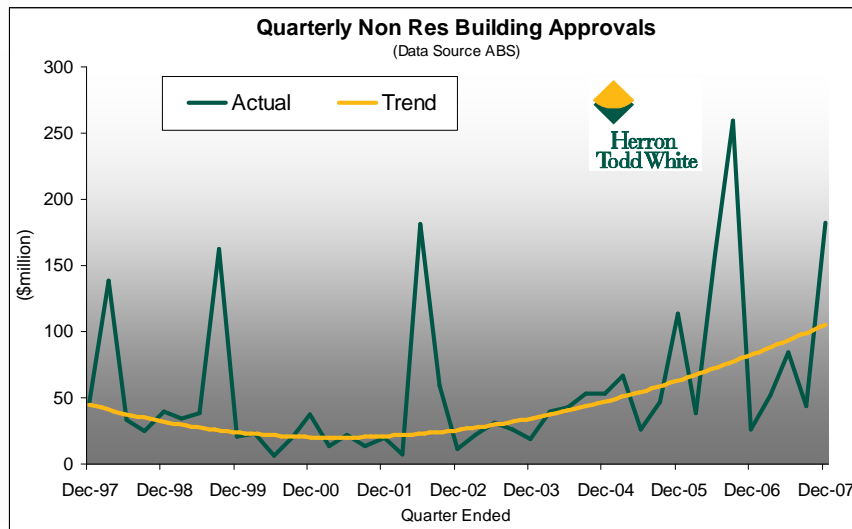


Image 4 shows that the rate of housing approvals in Townsville is continuing to soar. They are now running at a trend level of approximately 250 per month, compared to approximately 170 per month twelve months ago.

However, it remains to be seen whether the higher levels of inherent building demand can be accommodated by the building industry, which is already stretched to the limit.

Image 5

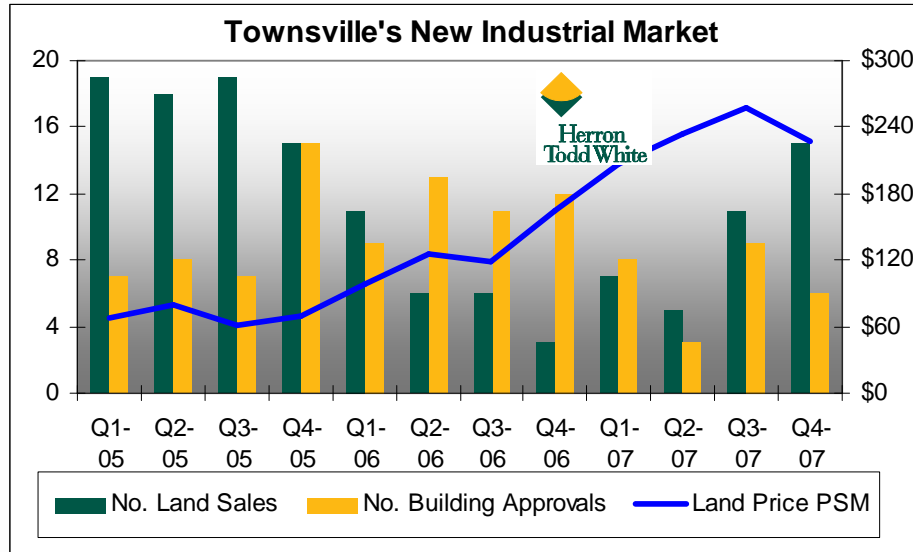
Image 5 illustrates that non-residential building approvals are maintaining a steadily increasing trend in the currently buoyant market climate. Non-residential building approvals reached \$362 million during 2007, more than double the average level of building approvals over the last 15 years of \$175 million per annum.



Industrial Market

Image 6

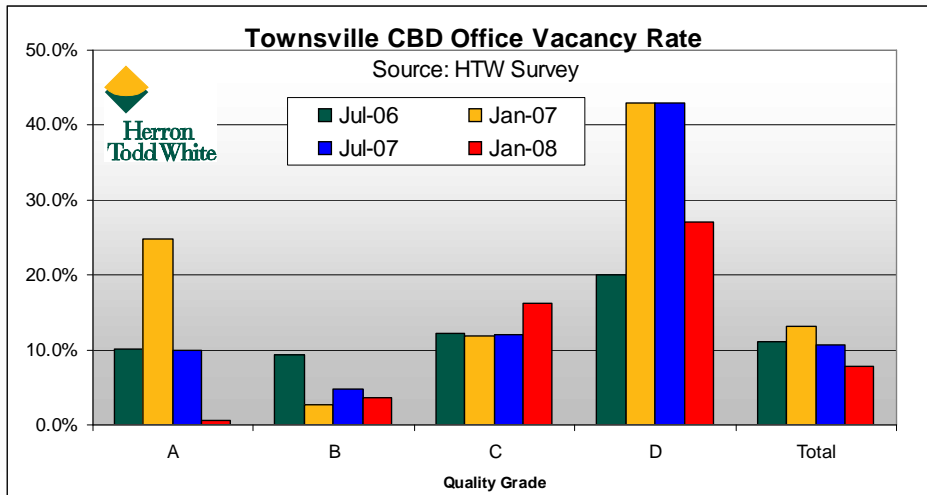
Townsville's industrial property market continues to experience strong demand from the boom in mining service industries, with the majority of demand originating from intending owner occupiers rather than investors. Industrial land sales picked up in 2007 as more stock came onto the market, which will flow through to further construction approvals for industrial premises.



Office Market

Image 7

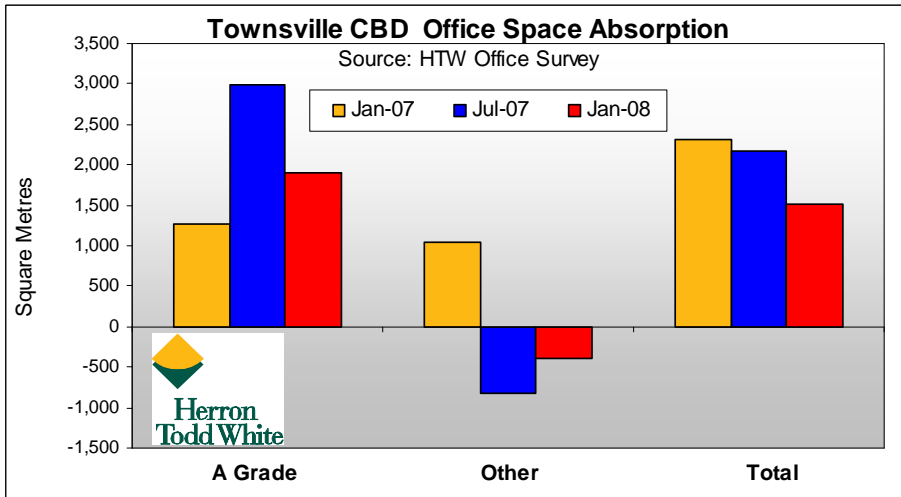
Townsville's office market is currently experiencing a construction boom in response to strong demand for premium office space. Our CBD Office Survey for January 2008 -



refer Image 7 - shows that office vacancies have lowered, with strong demand reducing the vacancy rate for A grade premises to almost zero and the vacancy rate overall to 7.9%. A further influence has been the removal of considerable D grade space from the market pending redevelopment.

Office Market (ctd)

Image 8



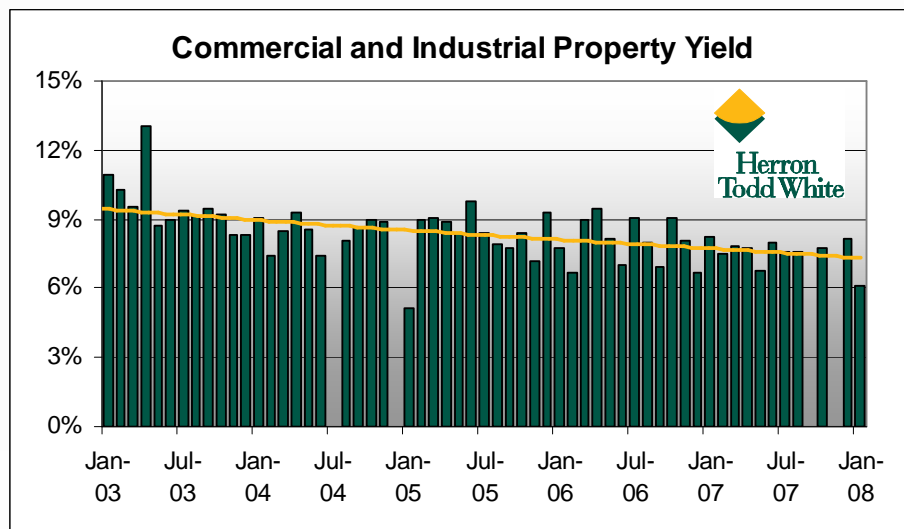
Our CBD Office Survey also shows a net absorption of almost 6,000 square metres of office space over the past 18 months - refer Image 8. Current construction will see 15,000 to 20,000 square

metres of additional A grade office space developed by mid 2010. Whilst this construction is supported by demand, it could be at the expense of higher C and D grade vacancies due to tenant relocations to better quality premises.

Commercial Property Yield

Image 9

Though recent sales show commercial and industrial yields of around 7.5% – refer Image 9 – a cooling of demand is now causing yields to soften. Buyers are now looking to the high 7% to 8% range, an outcome which

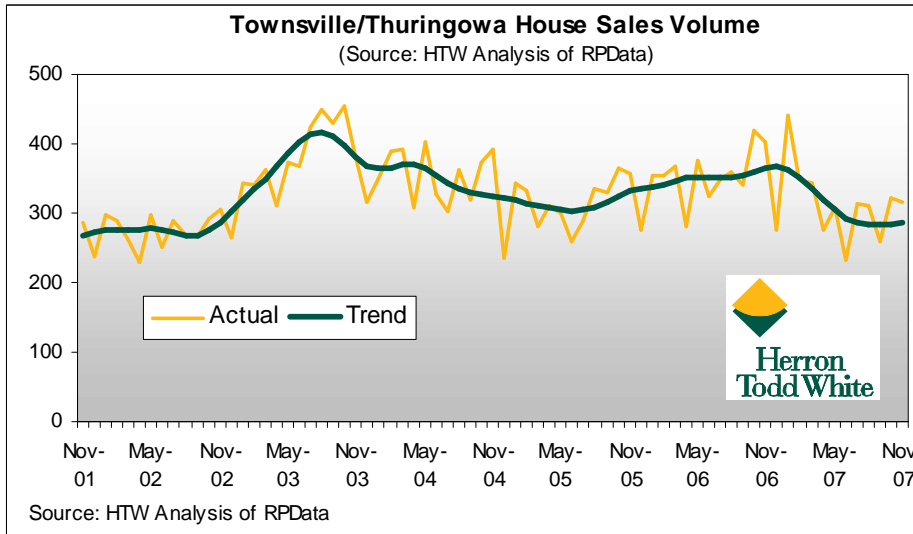


vendors are not ready to accept. This divergence between buyers' and sellers' expectations means that few sales are proceeding.

Houses

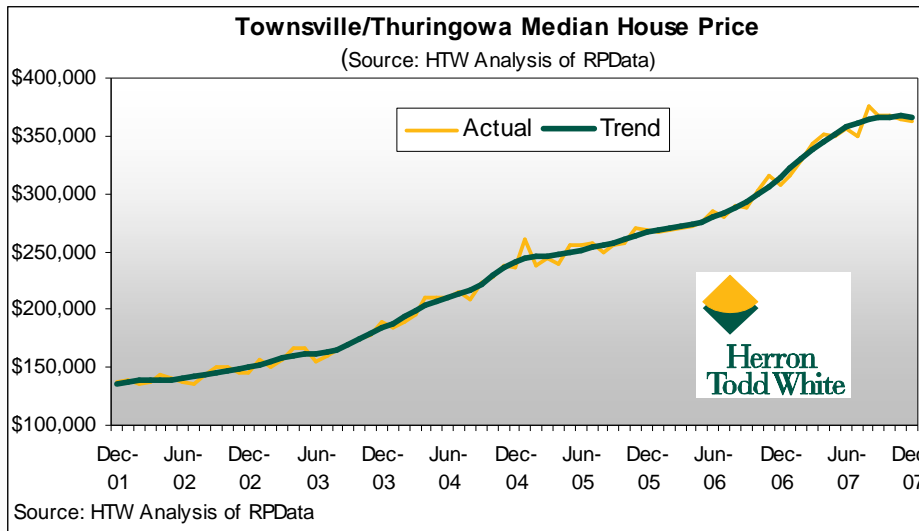
Image 10

Image 10 shows that despite strong population growth, the number of houses being sold each month dipped last year as a result of higher interest rates and affordability concerns.



Progressively decreasing sales volumes have continued into 2008.

Image 11

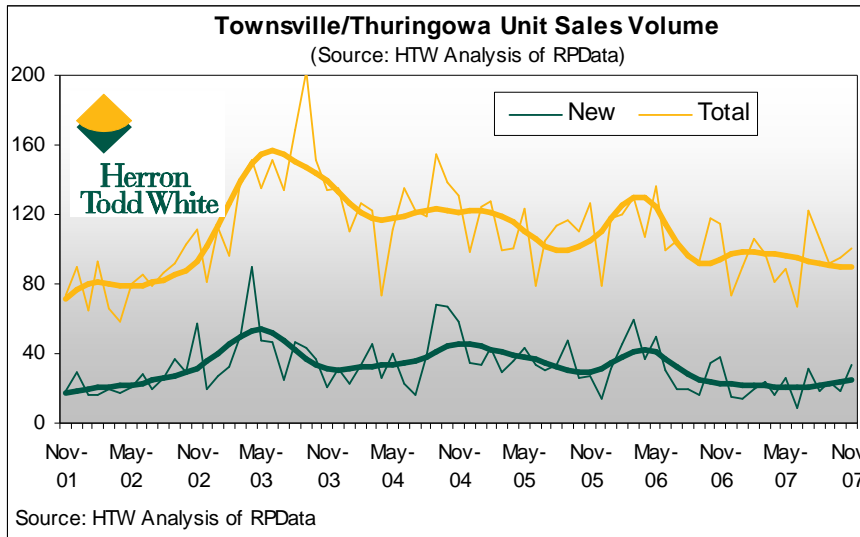


Our median price analysis - refer Image 11 - shows that median house price growth has flattened in the six months to December 2007. The house market now ranges typically from \$275,000

through to \$550,000, and exhibits a median house price of \$367,000.

Units

Image 12

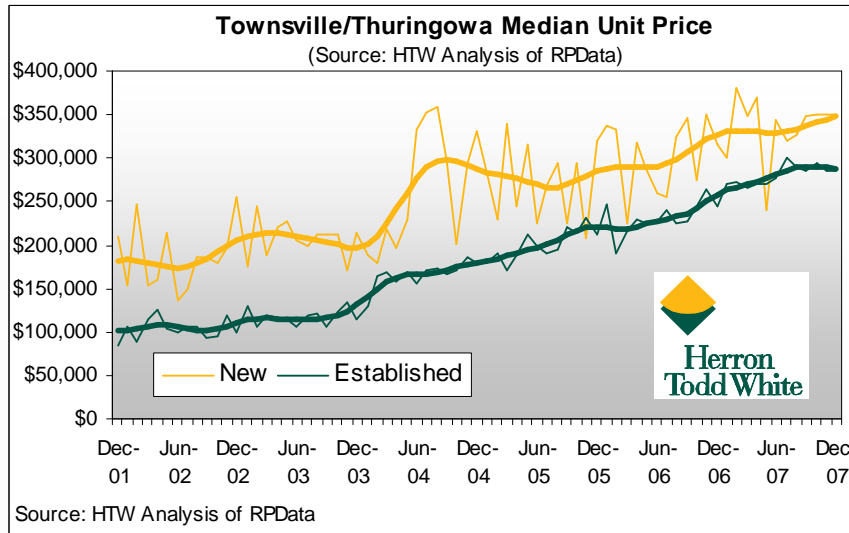


Unit sales (referred to in Image 12) are also now in decline. New unit sales are showing a remarkable resilience, but established unit sales are suffering from a shortage of buyers in the current investment climate, with progressively

diminishing sales volumes persisting into 2008.

Image 13

Image 13 shows movements in median unit prices separately for new and established units. It shows that price growth in the established unit market has also steadied in recent months, with their median price settling at \$285,000 in December 2007. The current market range for an established unit extends from \$220,000 through to \$450,000.



Vacant Land

Image 14

The land market is the exception to the rule in the current market environment, with sales volumes for vacant residential lots up to 2,000 m² - depicted in Image 14 - increasing in recent months, with additional stock coming onto the market. There remains an expectation of continuing buoyancy in the land market for some time.

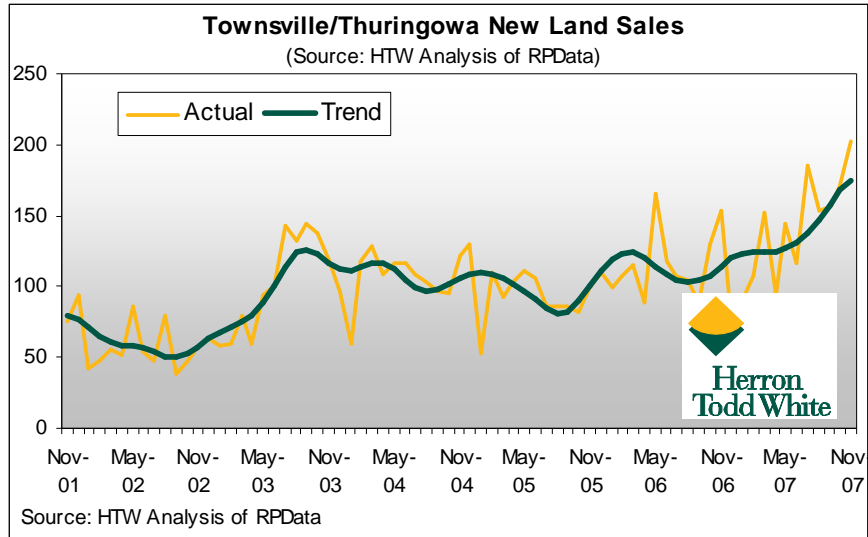
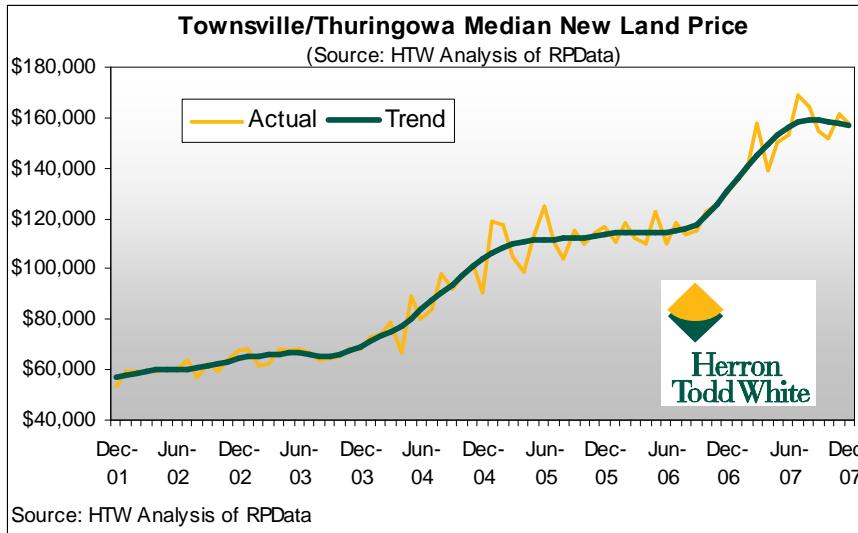


Image 15



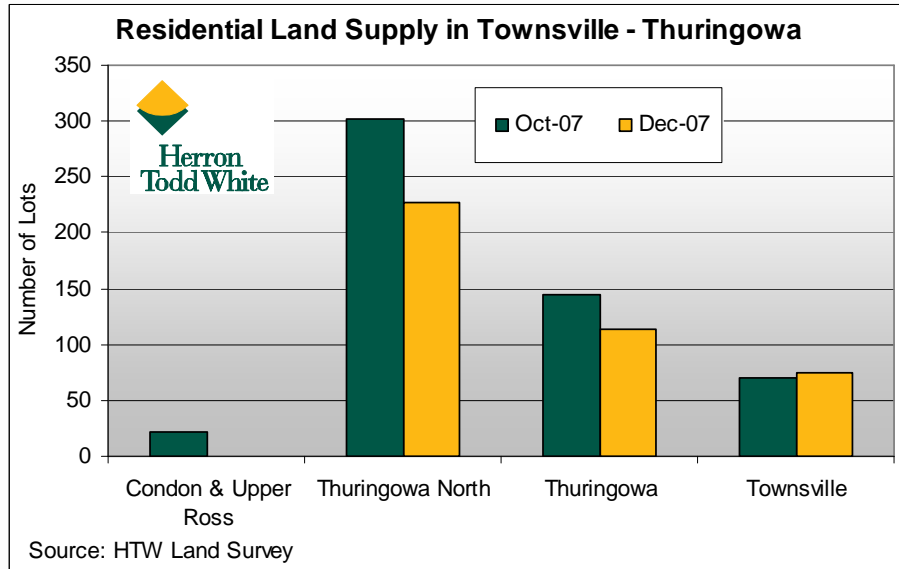
Recent movements in the median land price series - depicted in Image 15 - are somewhat tentative as a result of the small volumes of sales which have been able to proceed to settlement and enter the statistics. However, the

latest data shows a steadying of the December 2007 median allotment price at \$157,000. The market for a standard new residential block now ranges typically from \$135,000 through to \$350,000.

Vacant Land (ctd)

Image 16

Our Residential Land Survey – refer Image 16 – shows a diminishing level of developer stock, with 415 lots available for purchase as at December 2007, down from 538 in October 2007. Our December survey also shows

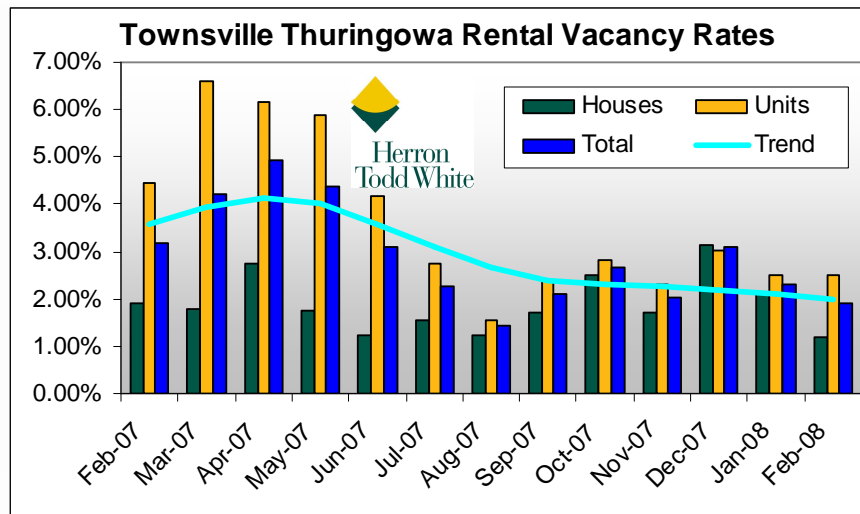


developers collectively intending to release 1,025 lots onto the market over the six months from January to June 2008.

Rental Market

Image 17

Our Townsville rental vacancy survey - refer Image 17 - shows that rental vacancy trend rates are nudging downwards, indicative of continuing tightness in the residential rental market. The latest trend vacancy rates stood at 1.7% for houses, 2.2% for unit vacancies, and 2.0% overall.

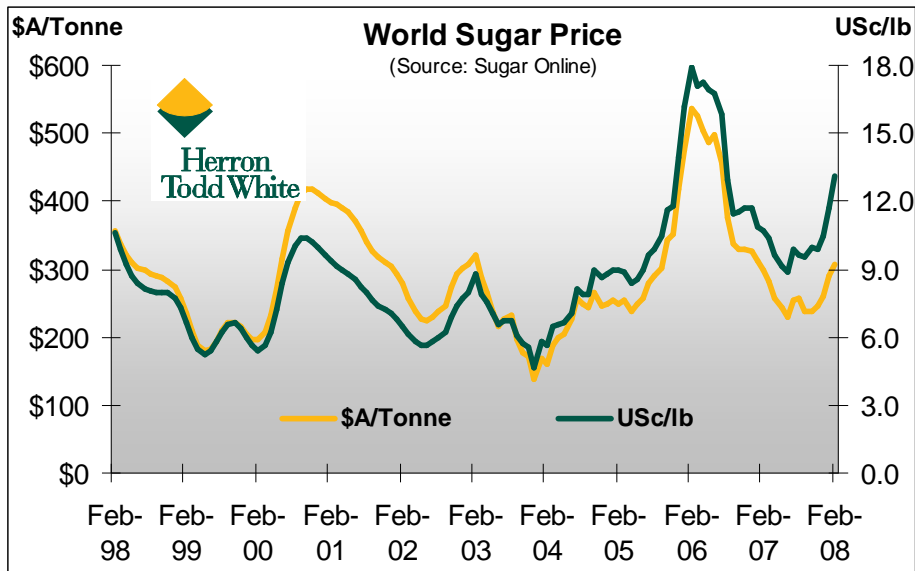


We expect the market to maintain a low vacancy situation as a result of a slowdown in investor purchasing.

Sugar Cane

Image 18

Returns to Australian sugar producers – see Image 18 – have improved since 2007 as a result of growing world demand for biofuels, despite global sugar production steadily increasing and the appreciation in the Australian dollar. However



sugar producers' margins are also being affected by increasing costs, led by skyrocketing fertiliser costs. The world sugar price is expected by ABARE to average US13 c/lb in 2007-08, and to remain above US10 c/lb over most of the period to 2012-13. A ray of hope is that the medium to long term predicted softening AUD \$ exchange rate and sound sugar price outlook will convert to increasing returns to growers.

Image 19

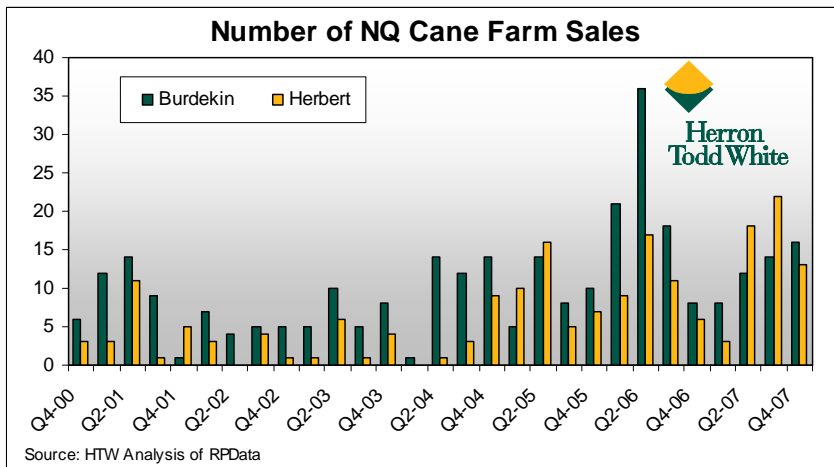
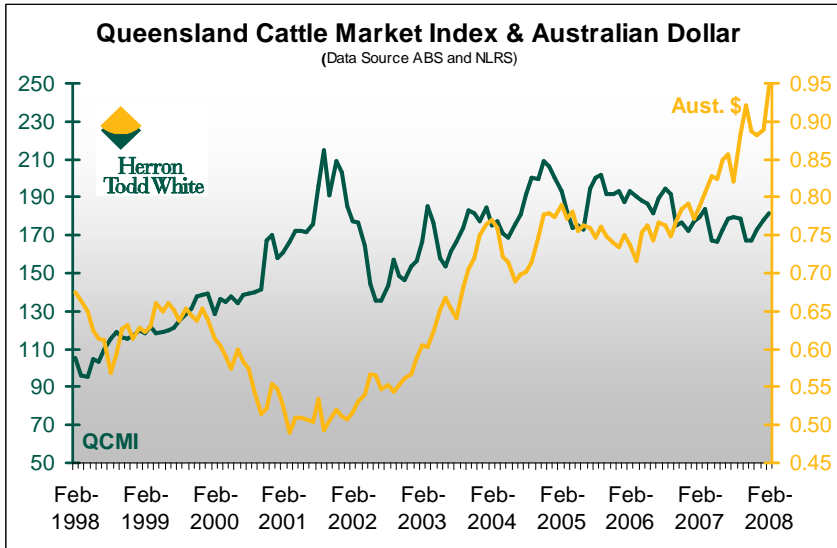


Image 19 shows the number of sugar cane farm sales that have taken place in the Burdekin and Herbert regions in recent quarters, and highlights the close correlation of cane farms sales with sugar market prices and conditions. A

further influence last year on cane farms sales in the Herbert district was acquisitions of cane land by timber companies for conversion to timber plantation.

Cattle

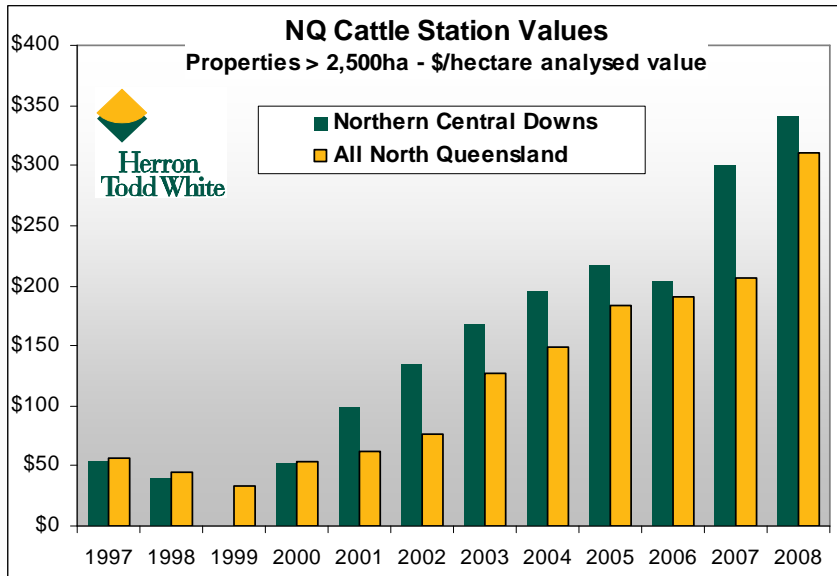
Image 20



The QCMI graph – refer Image 20 – shows that the general trend in cattle prices has been maintained over the last 12 months, despite the strong climb in the Australian dollar reducing the price competitiveness of Australian beef on the Global

exchange. The immediate outlook is for a continuation of strong cattle prices due to herd rebuilding Australia wide following several years of drought.

Image 21



There is no apparent end to strong cattle property market conditions throughout North Queensland, as revealed by Image 21 which tracks the average analysed per hectare values for the Northern Central Downs district as well as North Queensland as a whole. Image 21

shows that North Queensland grazing districts have continued to increase strongly in value, with a distinct leap in average analysed per hectare prices for 2008 sales recorded to date.

Significant Sales

Rural Grazing

| No | Address | Land Area (ha) | Contract Date | Sale Price | \$/ha Bare |
|---|---|----------------|---------------|--------------|------------|
| 1 | Corfield Downs , Corfield Downs Rd, Corfield | 45,224 | 14/03/08 | \$13,800,000 | \$305 |
| Comments - An aggregation of five freehold parcels of undulating downs country highly improved and well presented. | | | | | |
| 2 | Narollah , Corfield Downs Rd, Corfield | 13,505 | 14/03/08 | \$4,600,000 | \$341 |
| Comments - Gently undulating open downs country improved with house, cottage, sheds and yards that is well watered and fenced and located south of Hughenden. | | | | | |
| 3 | Zig Zag , | 21,500 | 27/03/08 | \$5,100,000 | \$195 |
| Comments – A coastal ranges property of mostly hill side grazing with some softer creeks and improved with house, sheds, yards and watered mainly by dams. | | | | | |
| 4 | Kenmac (Record Price) | 7,647 | 27/03/08 | \$4,450,000 | \$486 |
| Comments – Mitchell grass downs country with creek channel influence, improved with a dwelling, quarters, sheds and new yards, watered by 3 bores and seasonal holes in creeks. | | | | | |
| 5 | Ronald Plains | 12,200 | 27/03/08 | \$4,400,000 | \$316 |
| Comments – Mixed Mitchell Grass downs soil plains timbered with Gidgee, Coolibah becoming Bauhinia and beefwood woodlands in the north. Stawell River frontage along southern boundary. Improved with basic quarters and yards. | | | | | |

Commercial/Industrial

| No | Address | Land Area (m ²) | Sale Date | Sale Price | Yield | PSM Bldg |
|---|---|-----------------------------|-----------|-------------|-------|--------------|
| 1 | Industrial Building, 13 Schmid Street, Garbutt L51 RP721783 | 1,012 | 09/01/08 | \$850,000 | 6.95% | \$997 |
| Comments - This is a near level 1,012sqm rectangular shaped inside site located in an established industrial precinct zoned "Core Industry". Erected on the property is a semi-modern single level, single span steel frame, metal clad/masonry block industrial workshop. Property sold vacant possession. | | | | | | |
| 2 | Vacant Development Site 1107 Riverway Drive, Rasmussen L2 RP718866 | 4,421 | 01/01/08 | \$1,200,000 | | \$271 (Land) |
| Comments - This is a slightly irregular shaped, near level, mostly cleared vacant site that fronts Riverway Drive with rear access via Bernarra Court. The site is located across from the Rowing Club, has river views and is a short distance to Neighbourhood shopping centres, schools, ring road and Thuringowa Central. | | | | | | |

Residential

| No | Address | Land Area | Contract Date | Sale Price |
|---|----------------------------|-----------|---------------|------------|
| 1 | 16 Riverwood Drive, Idalia | 804sqm | 14/03/08 | \$470,000 |
| Comments – Vacant Land. Regular shaped inside allotment that adjoins the river. Property has a south westerly aspect and easy and direct access. The allotment offers good river and some golf course aspect. | | | | |
| 2 | 44 Dunlop Street, Kelso | 481sqm | 19/03/2008 | \$160,000 |
| Comments – This is a 481sqm residential allotment in display village section of new residential estate. | | | | |

Tax Depreciation

Did you know that there are over \$60 million in Tax Benefits available to Investors in Urban Townsville?

Herron Todd White research has revealed that 30% of residential properties in the Townsville/Thuringowa urban areas are owned by investors. This equates to approximately 15,000 properties for which the Australian Tax Office (ATO) allows the owner to claim tax depreciation allowances. With residential properties averaging \$4,000 per property per year in depreciation allowances, it can be easily calculated that over \$60 million is available to investors in legitimate tax deductions.

There appears to be a lack of tax depreciation claims on investment properties. This could be due to the fact that many people don't realize what the ATO actually allow deductions for. The ATO in fact not only approves depreciation claims on the main building itself, but also permits deductions on any substantial improvements and fixtures/fittings such as kitchen appliances, floor coverings, hot water systems, air-conditioning units and so on. The amount of these deductions depends upon the age, size and quality of the property. However, they are generally in the order of two thousand dollars to ten thousand dollars per annum for a residential property.

It is a common misconception that older properties may not have worthwhile depreciation allowances. Regardless of the age and condition of any existing fittings or fixtures, the ATO accepts that they still have worth to the new owner and can be depreciated accordingly. Even if you have owned an investment property for some time, and haven't claimed anything before, based on the original purchase information you are able to adjust your tax return for the previous five years.

Herron Todd White can work out what the depreciation allowances for an investment property are, and employs qualified Quantity Surveyors to provide this service. The schedules are accepted by the ATO and generally cost around \$495 to \$660 for an inspection and preparation of the report.

A worthy amount when it can save you thousands. Phone our office for more information on 07 4724 2000 or visit htw.com.au

People Profile



Experience

Peter has in excess of 18 years experience within the property consultancy/valuation field. Peter is the Managing Director of Herron Todd White North Queensland (based in Townsville), and oversees a variety of commercial property valuations / consultancy tasks across the retail, industrial and commercial sectors. In addition to this Peter has extensive rural property valuation experience. His valuation experience began with the Queensland Lands Department in 1990 where he built his expertise initially in rural valuations. This experience proved a valuable platform for Peter to lead the Valuation Practice when he became the director of Herron Todd White North Queensland in 1997.

Qualifications

- Bachelor of Business (Real Property Valuation)
- Justice of the Peace (Qualified)
- Associate Member of API
- Certified Practising Valuer
- Queensland Registered Valuer

Expertise

- Commercial property valuation
- Retail property valuation
- Industrial property valuation
- Rural property valuation
- Property development valuation/consultancy
- Litigation in matrimonial, resumption and mining
- Business analysis

Conclusion

Townsville's residential property markets are feeling the pinch from rising interest rates, evident through dampened market activity, while values are being maintained and expected to phase into a plateau.

On the other hand, commercial and agribusiness sectors are in the main driven primarily by unemotional investment decisions and, in many cases, are savvy interpreters of the factors affecting their industry and react thoughtfully to changes on the horizon.

It is therefore possible that the commercial agribusiness development sectors are yet to show the effects of the rising interest rates which are only one increasing cost in the myriad of other enterprise inputs including fuel, construction materials and labour to mention the obvious ones.

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