PROPERTY INVESTMENT IN SOUTH-EAST QUEENSLAND

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THE INDEPENDENT GUIDE

AQUILA

PROPERTY INVESTMENT

INTRODUCTION

There's no shortage of opinions on the subject of property investment. If you've ever researched or shown an interest in the topic, you've probably come across numerous books, seminars, videos and advertisements telling you how you should invest. No doubt, they've also promised you incredible opportunities for wealth if you follow a certain system or strategy.

There's more than enough opinion out there, and I'm not planning on adding to it overly here. There's also plenty of information on the basics of property investment, such as structuring, cashflow, gearing and tax, so I'm not going to cover that either. I'm also not going to comment on specific systems or strategies offered by other property investment luminaries; you can make your own mind up on them.

What I have noticed, however, in most of the discussion around property investment, is an absence of independent research and facts. It's all well and good to have an opinion, but what do the actual facts say about the issue? For most property investors, the purpose of any property investment is to make a profit, through capital gain and rental income. As such, "the numbers" of a property investment are what matter most. The problem is, the numbers that really matter are in the future. Anyone can have an opinion on the topic, because ultimately, no one knows exactly what the future will bring.

Nevertheless, this doesn't mean we can't make an informed judgment on what will happen in the future. While we say that past performance is not a reliable indicator of future performance, most of our assessment on what will happen in the future is based on the past. For example, if you think that investing in Sydney or Melbourne is a good idea, you've probably based that on the fact that these cities have performed well in the past. If you think buying a house is better than buying an apartment, it's probably because you know that houses have generally outperformed units in the past. Indeed, the whole idea of property investment probably appeals to you because property has performed well as an investment in the past. If property had performed terribly up until now, would you really be comfortable investing in it, even if you thought the future would be different?

But we need to know more than the simple fact that property has performed well historically. As an average it has, however, while some property has performed very well, some property has performed poorly. If you own the property that has performed poorly, then the average is of no solace to you. So, at a minimum, we need to understand why property has performed the way it has in the past, so we can make valid assessments on what is likely to shape its performance in the future. It's not good enough to assume that a property will produce a return similar to the average in the future, because it almost certainly won't.

This is where facts come in. They allow us to understand what has happened in the past, and help us to refine our judgment in terms of what will happen in the future. This book is designed to provide you with those facts in the context of the South-East Queensland property market. You'll learn about the nature of the SE-QLD market, how to understand value within it, and what has happened in the past in key sub-sets of the market, across a true investment timeframe of 20 years or more. I'll also provide you with an insight into what will happen in the future, on the basis of logical assessment and the best data projections currently available. By the end of the book, I hope to have helped you answer the questions of:

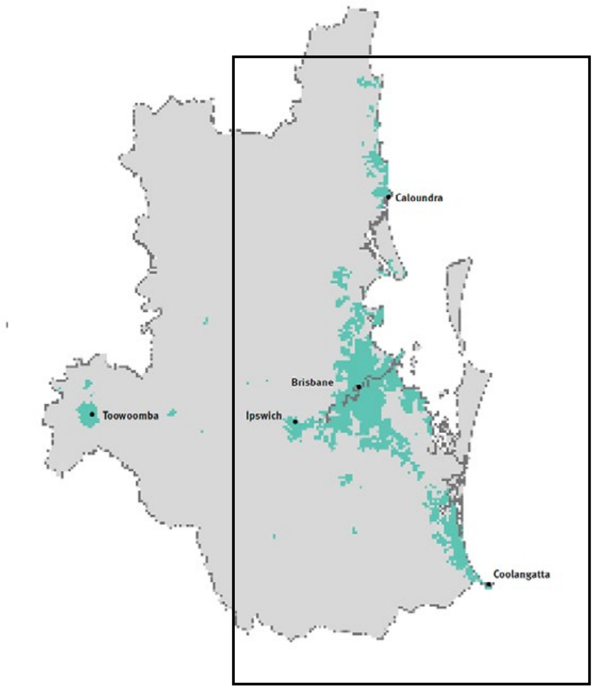
- What kind of market should I invest in?
- Where should I buy property in South-East Queensland?
- What kind of property should I buy?
- When should I buy it?

As you'll discover over the course of this book, there are no right or wrong answers here, but there are better answers and there are worse answers. I don't know what the future of property investment in South-East Queensland will be, and I certainly can't predict the returns you'll make if you invest here. But I'm confident you'll walk away from this book with a much better insight into what will shape those returns, and if it helps you to buy a good investment property and avoid making a major mistake, then my job is done.

WHAT WILL WE COVER?

THE SOUTH-EAST QUEENSLAND PROPERTY MARKET

SOUTH-EAST QUEENSLAND



OUR FOCAL AREA

THE SE-QLD PROPERTY MARKET

For our purposes, I have defined South-East Queensland as the 7 major Local Governments Areas (LGAs) in the area; Brisbane, Gold Coast, Sunshine Coast, Moreton Bay, Redlands, Ipswich and Logan.

- **Pop:** 3,242,948 (2017 Estimate)
- **Median Family Income:** $92,041 (2016)

775,000 House	27% Fully Owned
133,159 Townhouses	35% Mortgaged
151,000 Apartments	35% Tenanted
6,241 Caravans	3% Other

MARKET FUNDAMENTALS

There are two main features I want to discuss about the SE-QLD market:

CRITICAL MASS

South-East Queensland is a large enough property market that it is self-sustaining. With over 3 milllion people and over 1 million properties, It has a large population and multiple economic drivers across the public and private sector, which gives you the safety of diversification of demand and less fluctuations in supply. It means you won't be caught out if a major employer relocates, or if developers misjudge and there is a long-term oversupply.

This doesn't mean that oversupply and price falls can't happen, but it does mean that the market is large enough to prevent a long-term supply glut. Unlike in a small town, for example, the size of the property market in South-East Queensland is such that the increase in supply will only represent a small percentage of the overall market, and there is a wider pool of potential buyers and tenants to absorb the supply.

Unlike investors in shares or equities, most property investors will only be able to buy a limited number of properties in their lifetime, which reduces your diversification and spread of assets. It's very important, therefore, to reduce your risk by buying assets that don't have major downside potential. While buying in smaller markets can lead to spectacular gains, it can also lead to significant losses, and the pain of loss is much worse than the joy of gain!

OWNER-OCCUPIER DRIVEN MARKET

62% of the South-East Queensland property market is owned by owner-occupiers, and these buyers represent the stable core of the market. Investor demand is more variable, as it is affected more by interest rates, credit, government policy and market sentiment.

Owner-occupiers generally make better property purchase decisions than investors. This is because most owner-occupiers will:

- Buy in a market they intuitively understand
- Buy in a location that they are familiar with and like
- Inspect a number of properties before buying
- Have a good understanding of value

Investors, on the other hand, will crowd in when times are good and flee when times are bad, leading to exaggerated highs and lows. As a result, markets that are dominated by investors can carry much greater risk.

South-East Queensland has a healthy proportion of owner-occupiers, which makes it a lower risk marketplace. However, there are numerous sub-markets, some of which are dominated by investors. Examples include the inner-city high-density apartment markets and outer suburb development areas. These sub-markets will have higher volatility, and for reasons that will become apparent, are best avoided.

UNDERSTANDING VALUE

Understanding the basis for property value is critical to making an informed decision on what property you should invest in. Correctly assessing a property's value will ensure that you don't overpay for a property - an experience that can be a significant setback to your long-term investment returns.

More importantly, understanding what makes a property valuable now will help you assess a property's likely future value; both its capital value and rental return. This will comprise the vast majority of your future investment returns.

There are three main aspects of value I will cover here:

- MARKET VALUE
- INTRINSIC VALUE
- RENTAL VALUE

MARKET VALUE

WHAT IS MARKET VALUE?

The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

HOW DO YOU DETERMINE MARKET VALUE?

SOLD $480,000
SOLD $500,000
SOLD $5520,000

FIND COMPARABLE LOCAL SALES

SOLD WORSE
SOLD SAME
SOLD BETTER

RANK COMPARABLE SALES

ADJUST FOR MARKET CONDITIONS

OTHER WAYS

ASK FOR A COMPARATIVE MARKET ANALYSIS FROM AN AGENT

PAY FOR A PROFESSIONAL VALUATION FROM A VALUER

INTRINSIC VALUE

In simple terms, the intrinsic value of a property is its replacement cost. Intrinsic value can be estimated by determining the cost of building an equivalent structure on an equivalent block of land. You can most easily work out intrinsic value by determining what a similar vacant block of land has sold for, and what it would cost to construct improvements of similar size and spec.

LAND VALUE + IMPROVED VALUE

LAND VALUE

Land derives its value from a combination of where it is located, how big it is, what it can be used for and how much other land is currently available in the area.

LOCATION

The demand for land is determined by the land's access to the following:

JOBS | TRANSPORT | SCHOOLS | LIFESTYLE | AMENITY

SIZE & USE

All things being equal, a larger block is better than a smaller block. More importantly, the greater the value of improvements that can be permissably constructed on the land, the higher the land value will be.

AVAILABILITY

The more scarce the availability of land within an area, the more it will be worth, and vice versa.

IMPROVED VALUE

Buildings derive their value from what it would cost to construct an equivalent structure in the same location. This can be determined by the cost of construction per square metre of the type of construction in question, with a discount applied based on the age of the property.

Other factors that will influence the value of a building include:

QUALITY OF DESIGN | QUALITY OF CONSTRUCTION | PROPERTY CONDITION

MARKET VS INTRINSIC VALUE

While market value is an important short-term measure, intrinsic value is a more useful gauge of a property's long-term worth. It removes much of the emotion and irrationality of the property marketplace, and helps us identify opportunities to purchase properties below their true value.

RENTAL VALUE

Renters will have many of the same considerations as owners when it comes to determining the rental value of a property. However, renters will prioritise the features of a property that provide immediate value to them, rather than long-term value. The key features that will determine rental price are:

LOCATION

The same considerations that affect a buyer assessing the value of a location will affect the renter, including access to employment, transport, services, lifestyle and amenity. This will be an immediate judgment of the location's quality, rather than a long-term assessment of the location's potential.

PROPERTY

Tenants will assess a property based on its internal and external space, design, condition and features, but again in an immediate sense rather than in its future potential. Tenants will not take into account the land or building's future use.

This explains why rental yields in established suburbs tend to diminish over time. Land values in these areas will increase over time to reflect both the quality of the location and the higher use the property can potentially be put to (i.e. a detached house in an inner city suburb may be able to have a duplex or a block of units constructed on it). Tenants will pay a rental premium for the location component of this increase, but not for its potential future use. Until that potential has been realised, the property yield will reflect this.

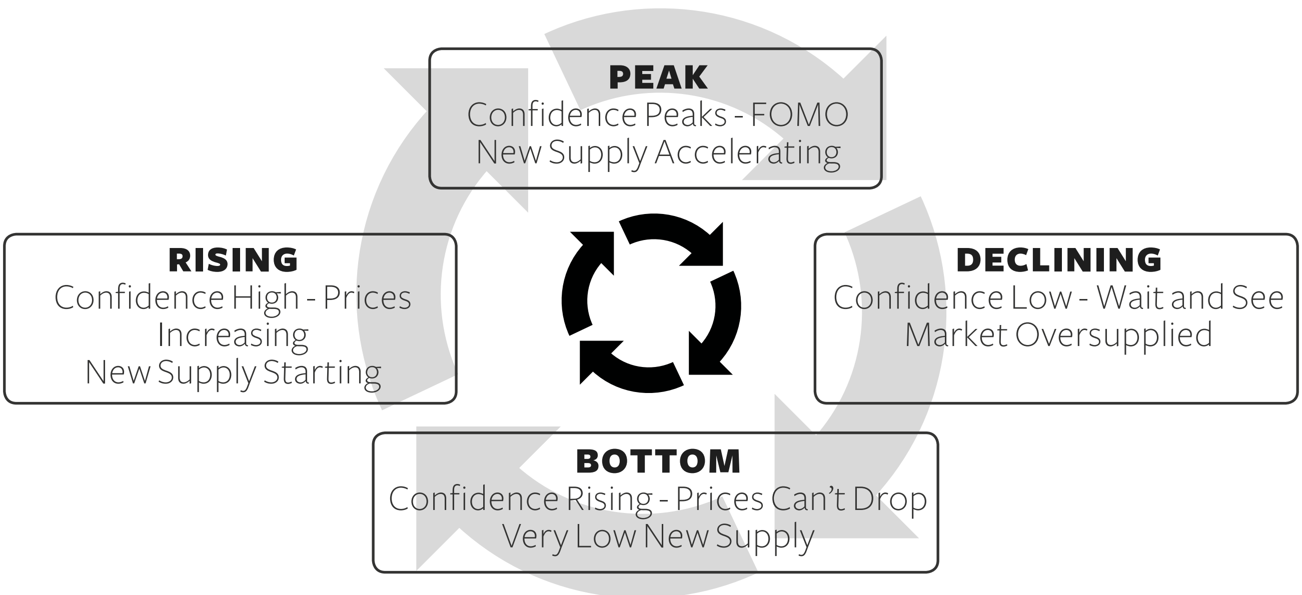
THE PROPERTY CYCLE

While the historical trend has been upwards, the property market doesn't move in a linear fashion. Like a slower-moving share market, there is price volatility, with exaggerated moves upwards and downwards, as well as periods of stagnation, rather than a slow, steady increase over time. This is due to a number of factors, including the availability and cost of money (credit and interest rates), the supply of new properties, and possibly the most crucial element, confidence.

Like the share market, the property market is governed by humans, and so emotional factors impact on how the market functions. This usually shows itself in an over-exaggeration of existing trends. A rising market will promote greed, which often leads to an irrational pile-on at the peak of a market, when there is no value to be had. Conversely, fear will lead to selling at the bottom of the market, and buyers not wanting to take a risk on a property when the value proposition is at its best.

Remember, things are never as good or as bad as they seem! Understanding the property cycle gives you the opportunity to buy the right kind of properties at below their intrinsic value, and also helps you avoid paying too much for a property when market value has outstripped fundamentals. However, timing is not the critical factor in selecting your market. The right property market will have shorter cycles and therefore more opportunity for growth. It is better to buy in the right market at the wrong time than buy in the wrong market at the right time.

To help understand this cycle, we use the Property Clock. It is a useful, if not foolproof, guide to where a specific property market is sitting. Herron Todd White prepares one of these monthly ***www.htw.com.au/month-in-review/***



HISTORICAL PERFORMANCE

You'll probably have seen lots of opinions and statistics about property prices and investment returns over the years. Some of the things you may have heard in your time include:

"Property doubles every seven-ten years"

"Capital cities outperform regional areas"

"Land appreciates, buildings depreciate"

"Buy new property for tax benefits"

"Buy in areas of high population growth"

"Buy houses not apartments because you get land"

"Buy apartments not houses because our population is ageing"

It's difficult for the average person to determine what is true here and what isn't, because so many of the statistics are short-term or lack context, and because so many of the opinions have a vested interest. So to help clarify these debates for you, I've conducted independent research to determine the key historical perfomance of:

Our Three Biggest Capital Cities
Brisbane Versus QLD Regional Centres
Land Versus Buildings
New Estates Versus Established Suburbs
Houses Versus Apartments

While past performance is not an indicator of future performance, most of our understanding of property investment comes from what has happened in the past, so it's important to have the correct facts to start with. The statistics below have been generated without any axe to grind or point to prove - instead, they are here to help you make an informed decision on key aspects of property investment - aspects that will have a signficant impact on your future return and future lifestyle.

CAPITAL CITIES

What were the key growth numbers for each city over the last 45 years?

SYDNEY

MEDIAN HOUSE PRICE
1972: $23,700
2017: $869,149

GROWTH PER ANNUM

8.33%

MELBOURNE

MEDIAN HOUSE PRICE
1972: $15,000
2017: $710,096

GROWTH PER ANNUM

8.94%

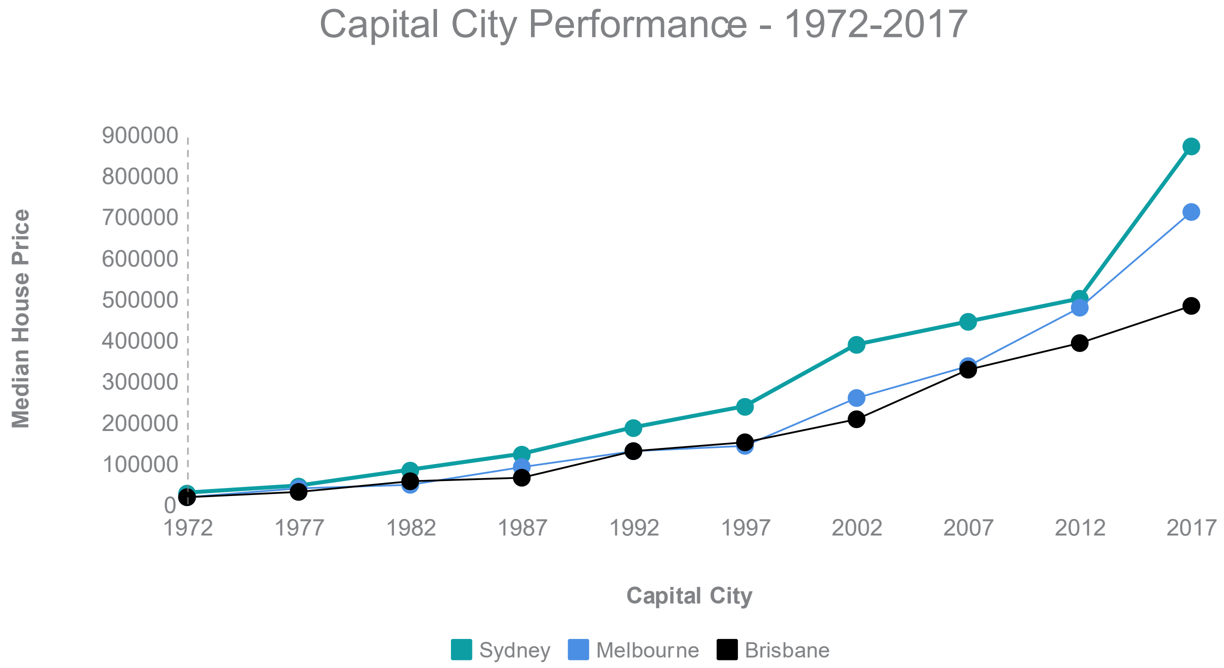
BRISBANE

MEDIAN HOUSE PRICE
1972: $14,000
2017: $480,152

GROWTH PER ANNUM

8.17%

How does this look in 5 year increments?



There are some interesting conclusions to draw from these statistics.

Firstly, the difference between the cities has been relatively slight. Melbourne is the standout performer, but money invested in any of three cities over 45 years will have produced an exceptional return.

Secondly, no capital city has seen a drop in median house price over a 5 year period. This points to a shorter housing cycle and demonstrates the decreased risk of investing in capital city market.

Thirdly, Sydney has always led the property cycle, followed by Melbourne and then Brisbane. There has never been a bigger differential between Brisbane and the other two capitals as there is currently. If, as predicted, the Brisbane market continues to grow while the others stagnate, then the difference in growth per annum between the cities will reduce.

BRISBANE VERSUS REGIONS

Should you invest in a capital city or a regional area? Let's look at the performance of Brisbane over the last 25 years up against three major regional centres: Townville, Rockhampton and Toowoomba.

BRISBANE

MEDIAN HOUSE PRICE
1993: $128,000
2018: $535,000

GROWTH PER ANNUM

5.9%

TOWNSVILLE

MEDIAN HOUSE PRICE
1993: $120,000
2018: $320,000

GROWTH PER ANNUM

4.0%

ROCKHAMPTON

MEDIAN HOUSE PRICE
1993: $113,000
2018: $282,000

GROWTH PER ANNUM

3.7%

TOOWOOMBA

MEDIAN HOUSE PRICE
1993: $100,000
2018: $272,000

GROWTH PER ANNUM

4.1%

LAND VERSUS BUILDINGS

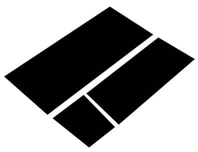
“Land appreciates, buildings depreciate”, is the maxim you’ll hear in property investment frequently. Land goes up in value but buildings go down in value.

You may also have heard that only buildings can be depreciated, which means you’re better off getting as much improved value as possible to reduce your tax. You’ll also have heard that the cost of construction is increasing, which increases the value of buildings over time.

So what’s the real story?

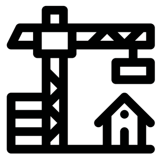
If we look at the example of Brisbane from 1991-2011, we can see how much both land and buildings have increased in value per annum:

8.87%



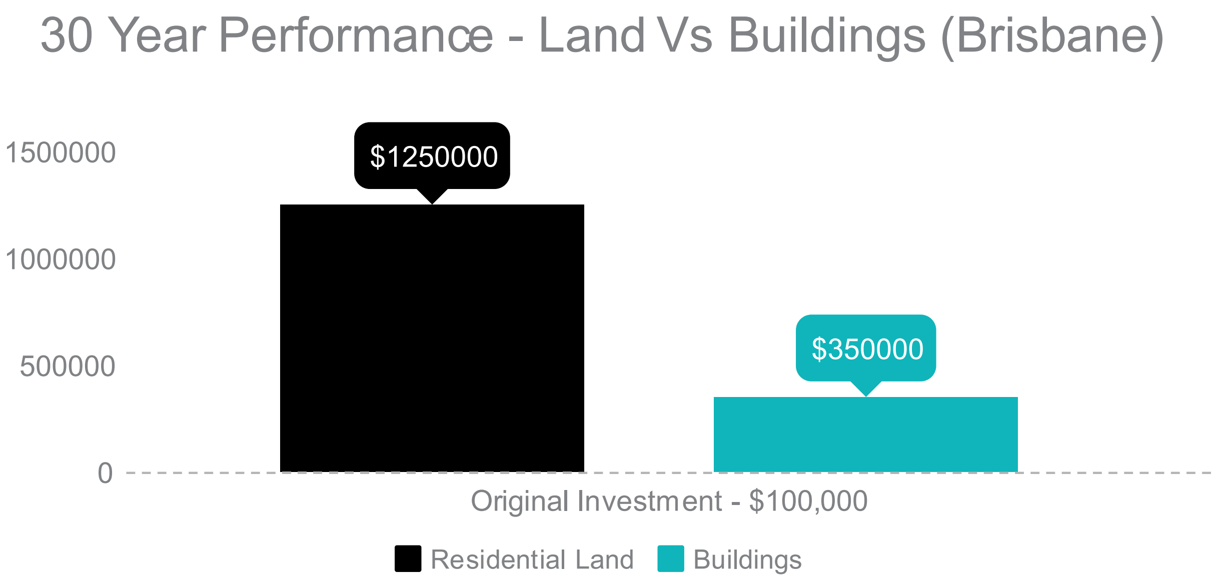
LAND VALUE

4.29%



COST OF CONSTRUCTION

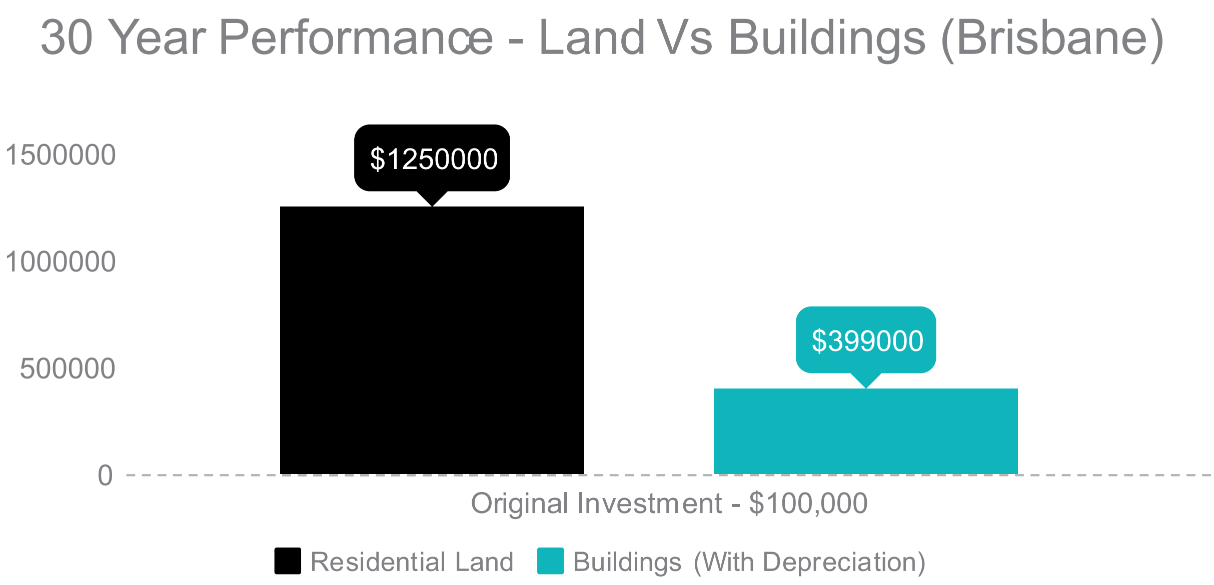
Based on these figures, if we invested $100,000 each in land and in buildings twenty years ago, what would each asset be worth today?



It's clear that land is the stronger performer of the two. In fact, these figures should be even more heavily skewed towards land. After all, while the cost of construction has increased 4.29% per year, the quality of construction has improved as well. A house built 30 years ago won't be as nice as a house built today.

WHAT ABOUT DEPRECIATION?

Depreciation is a handy way to boost your cashflow. But it's not going to make you rich. If we use the same example as before, and depreciate the entire $100,000 invested in buildings at the highest marginal tax rate (49%), it doesn't change the outcome much.



Depreciation is a useful tool for the investor, but it shouldn't be the reason you invest. It's not free money either - in the event of a sale, the amount depreciated reduces your cost base, increasing your capital gains tax.

NEW VERSUS ESTABLISHED

This follows on from our discussion on land versus buildings. Much of the commentary on the issue is self-interested: for example, if you ask a company that is selling new properties, they will probably tell you that buying new is best. So the only way to separate the myth from the facts is to see what has happened in the past, and calculate on the basis of total return, including capital growth, rental return and depreciation.

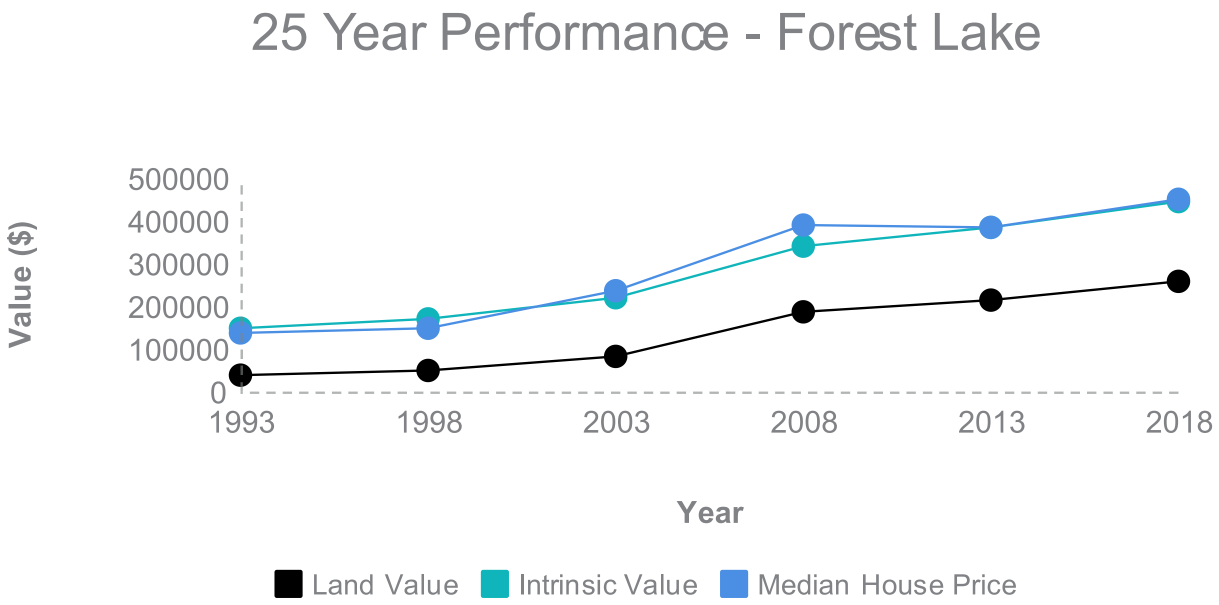
To achieve this, I've chosen four SE-QLD suburbs; Forest Lake, Salisbury, Upper Coomera and Southport. Forest Lake and Salisbury are located in the south of Brisbane; Forest Lake was a suburb developed from 1991 onwards, while Salisbury was an established suburb at that time. Upper Coomera and Southport are on the Gold Coast, and again, Upper Coomera is the new suburb and Southport the established one. I have focused on houses only.

When assessing the performance of a suburb over the long-term, it's important to not just look at the changes in the median sales price, as this can give a skewed representation of performance. You also need to see how typical properties have performed over the same period. Why? Because the median sales price only captures the sales within a certain period, not the actual performance of individual properties. Suburbs that have a high percentage of new development will show an inflated level of performance, as these new properties drive up the median sales price but do not add value to existing properties.

For the examples below, I have used the land values provided by the QLD Valuer-General. I have determined the intrinsic values of properties in each suburb by researching the performance of a number of typical properties within it. I've also tracked the intrinsic value against the median house price for each suburb, with updates every 5 years for both. You'll see that improved value rises quite consistently, if slowly, land values have risen steadily with a spike in 2003-2008, and that median prices got ahead of intrinsic value between 1998-2008, which led to a correction from 2008-2013.

NEW ESTATE BRISBANE

Forest Lake is located twenty kilometres to the Brisbane CBD's South-West. It was Brisbane's first master planned estate. The estate was developed between 1991-2006, and is considered to be a highly successful development, winning a number of awards.



1993
Land Value: $36,500
Intrinsic Value: $144,000
Median House Price: $137,000

2018
Land Value: $255,000
Intrinsic Value: $445,000
Median House Price: $450,000

KEY VALUE STATS

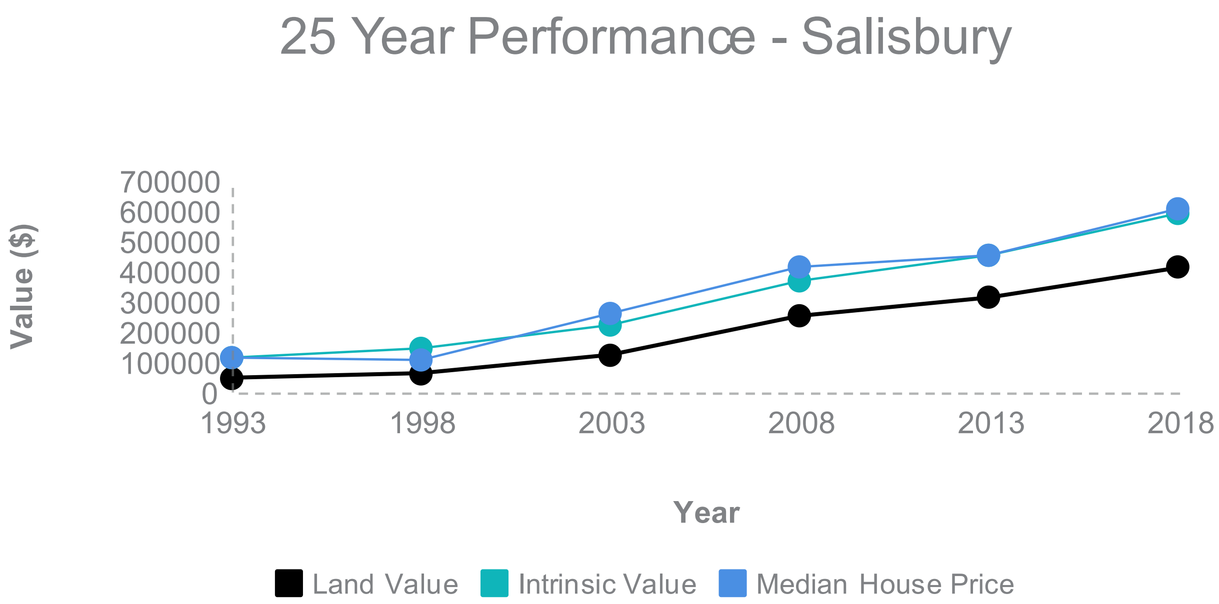
Growth in Land - 8.08% per annum
Growth In Building: 2.31%
Overall Growth: 4.61%
Land Value Ratio (1993) = 25%
Land Value Ratio (2018) = 56%

KEY RENTAL STATS

Weekly Rent (2001) = $180
Weekly Rent (2018) = $400
Rental Growth: 4.8% per annum
Current Yield: 4.67%

ESTABLISHED SUBURB BRISBANE

Salisbury is located 9 kilometres south of the Brisbane CBD. Signficant residential development began after the Second World War.



1993
Land Value: $44,000
Intrinsic Value: $113,000
Median House Price: $113,000

2018
Land Value: $415,000
Intrinsic Value: $585,000
Median House Price: $605,000

KEY VALUE STATS

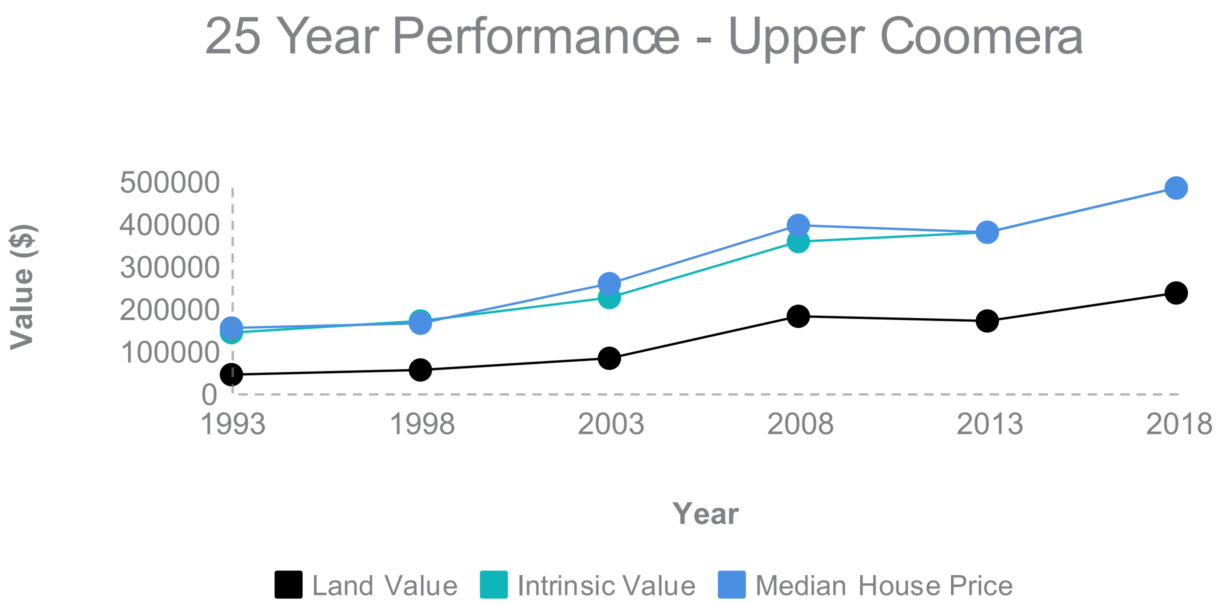
Growth in Land - 9.39% per annum
Growth In Building: 3.67%
Overall Growth: 6.79%
Land Value Ratio (1993) = 39%
Land Value Ratio (2018) = 70%

KEY RENTAL STATS

Weekly Rent (1991) = $140
Weekly Rent (2018) = $415
Rental Growth: 4.1% per annum
Initial Yield: 6.44%
Current Yield: 3.68%

NEW ESTATE GOLD COAST

Upper Coomera is located 15 kilometres from the Southport CBD, it was developed from the early 1990s with the scale increasing substantially from 1998-2016.



1993
Land Value: $40,000
Intrinsic Value: $140,000
Median House Price: $150,000

2018
Land Value: $40,000
Intrinsic Value: $140,000
Median House Price: $150,000

KEY VALUE STATS

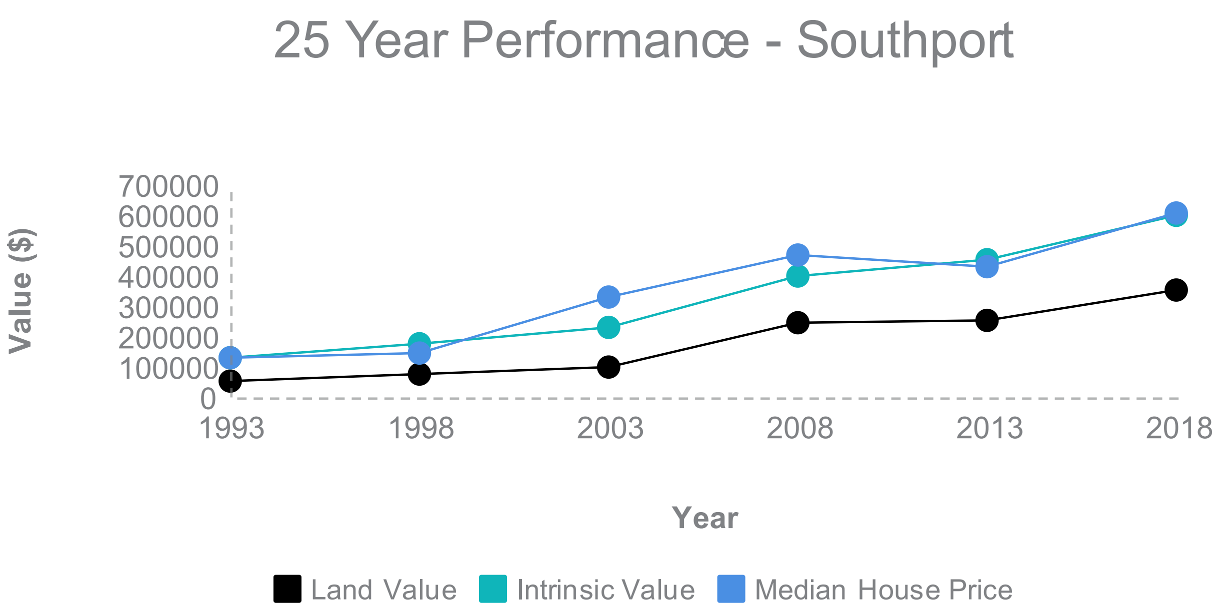
Growth in Land - 7.29% per annum
Growth In Building: 3.69%
Overall Growth: 5.05%
Land Value Ratio (1993) = 28%
Land Value Ratio (2018) = 48%

KEY RENTAL STATS

Weekly Rent (1991) = $153
Weekly Rent (2018) = $450
Rental Growth: 4.1% per annum
Initial Yield: 5.68%
Current Yield: 4.87%

ESTABLISHED SUBURB
GOLD COAST

Southport is the Gold Coast's official CBD. Most detached houses are located in pockets away from the high-density centre, with larger-scale residential development commencing in the 1960s.



1993
Land Value: $50,000
Intrinsic Value: $128,000
Median House Price: $128,000

2018
Land Value: $350,000
Intrinsic Value: $600,000
Median House Price: $603,000

KEY VALUE STATS

Growth in Land - 8.09% per annum
Growth In Building: 4.76%
Overall Growth: 6.37%
Land Value Ratio (1993) = 39%
Land Value Ratio (2018) = 58%

KEY RENTAL STATS

Weekly Rent (1991) = $146
Weekly Rent (2018) = $500
Rental Growth: 4.7% per annum
Initial Yield: 5.93%
Current Yield: 4.33%

OVERALL PERFORMANCE

Based on $100,000 invested in each suburb, and rent averaged over 25 years.

FOREST LAKE

Capital Gain: $208,000
Rental Return: $250,714
Total Return: $458,714

Total Depreciation Claimable: $46,875

SALISBURY

Capital Gain: $416,731
Rental Return: $325,000
Total Return: $741,731

Total Depreciation Claimable: $38,125

UPPER COOMERA

Capital Gain: $242,689
Rental Return: $279,964
Total Return: $522,653

Total Depreciation Claimable: $45,000

SOUTHPORT

Capital Gain: $368,251
Rental Return: $328,046
Total Return: $696,297

Total Depreciation Claimable: $38,125

CONCLUSIONS

- The suburbs with a higher percentage of land value performed more strongly
- The land value of established suburbs has increased at a faster rate.
- Rent has increased at a broadly equivalent rate across all suburbs.
- Rental yields have fallen across all suburbs, but have fallen furthest in established suburbs.
- Depreciation is not a major factor in returns over the long-term.

WHY?

- As we would expect, land has increased in value more in established suburbs, which are closer to job sources, transport, services and lifestyle, and where land supply is more scarce.
- Unsuprisingly also, suburbs with a higher percentage of land value have increased faster, due to the better performance of land over buildings.
- Rents have increased relatively consistently across the suburbs. The established suburbs received a higher rental return overall, however, due to the better value achieved in the initial purchase.

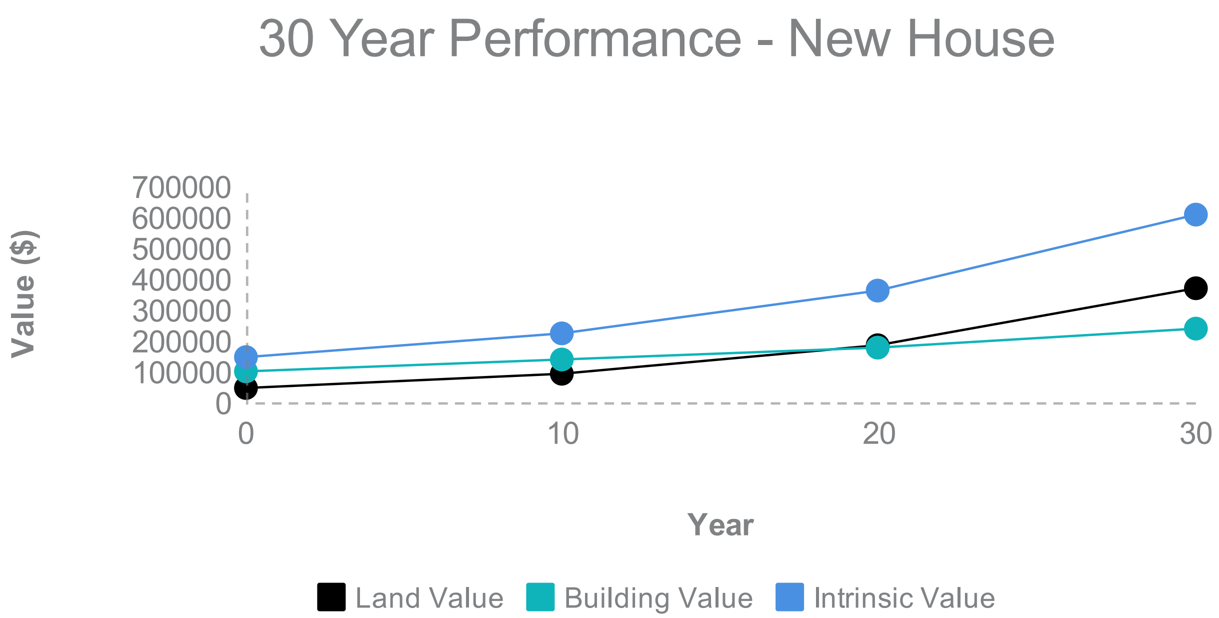
HOUSES VERSUS APARTMENTS

This is another age-old debate in property investment. To help you understand the factors which matter, I've compared the performance of a typical new home in Brisbane against the performance of a new apartment, both built 30 years ago.

Some key assumptions I've made:

NEW HOUSE

Built in Brisbane's middle ring (15-20kms from the CBD). Land value growth of 7.5% per annum (based on Brisbane middle-ring land performance 1991-2011). Rate of building value increase is 3%, which assumes regular maintenance but no major improvements to the property over this period.



KEY VALUE STATS

1988

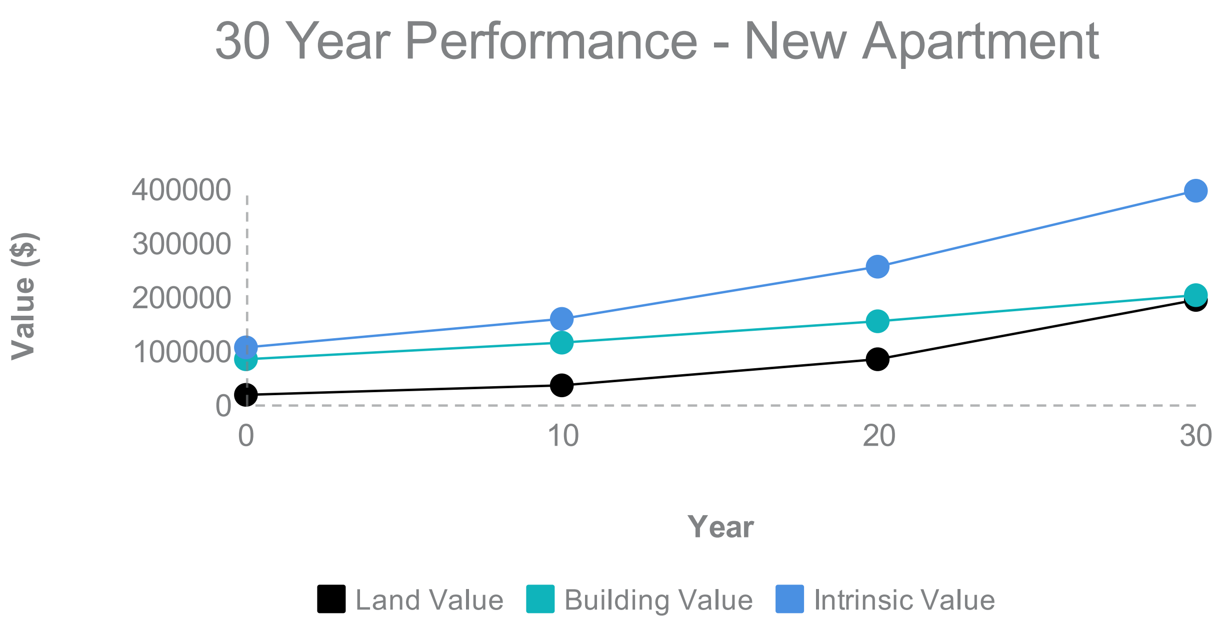
Intrinsic Value: $140,000
Land Value: $42,000 (30%)
Building Value: $98,000

2018

Intrinsic Value: $605,000
Land Value: $367,000 (60%)
Building Value: $238,000

NEW APARTMENT

Built in Brisbane's inner suburbs. Land value growth of 8.87% per annum (based on Brisbane overall land performance 1991-2011). Rate of building value increase is 3%, which assumes regular maintenance but no major improvements to the property over this period.



KEY VALUE STATS

1988
Intrinsic Value: $103,000
Land Value: $15,000 (14%)
Building Value: $88,000

2018
Intrinsic Value: $393,000
Land Value: $192,000 (48%)
Building Value: $201,000

NEW HOUSE

GROWTH PER ANNUM
4.99%

NEW APARTMENT

GROWTH PER ANNUM
4.56%

As we would expect, the growth was stronger for the property with the higher land component (the house), despite the lower growth rate of the land dollar for dollar. Both property types had lower land value to price than we would like, with a new apartment suffering particularly in the early stages from a lack of land value. This explains their underperformance against the Brisbane average for this period. However, we can see that both property types performed more strongly in their final 10 years, as their land components increased.

Ultimately, it demonstrates that the houses/units comparison is not as relevant as the land versus building comparison - the key to good property buying is maximising your component of high-quality land.

SOME KEY TAKEAWAYS

- Our 3 biggest Capital Cities have achieved broadly comparable performance. Melbourne is the standout, although sits at the peak of its current cycle
- Brisbane has strongly outperformed regional Queensland
- The greater the amount of high-quality and scarce land your investment contained the higher your return would have been
- Established areas have outperformed new estates
- Houses have marginally outperfomed apartments, but the land is the more important driver of growth than the property type itself

FUTURE RETURNS

Our analysis of historical performance provides us with a pathway for achieving strong investment returns in the future. But now we need to understand how to apply it on the ground in South-East Queensland.

There are two major aspects to this. The first is simple; focus on what you can control, not on what you can't. There are many aspects that affect property investment that you'll probably never fully understand and definitely can't control. These include interest rates, economic trends and government policy. If you can accept this and focus on what you can influence, you'll find the process much easier and more rewarding.

So what can we control? We can control where we buy, what we buy and how much we pay for it. With this in mind, we can now focus on getting the best answer to the questions of where, what and how much.

To do this, we need to understand supply and demand, both how it affects values now, and more importantly, well into the future. Ultimately, we want to purchase a property that will have the strongest possible future demand from buyers and tenants, but will have as little competition in the form of future supply as possible. A property that achieves the greatest positive disparity between demand and supply will increase in value the most.

We already understand the sources of property value, so it's now a case of applying this knowledge to the future of the South-East Queensland property market as best we can. This section covers the main areas that will drive future value in the context of South-East Queensland, to give you the best possible chance of achieving strong investment returns through property in the future.

FOCUS ON WHAT YOU CAN CONTROL

WHAT YOU CAN'T CONTROL

INTEREST RATES

THE ECONOMY

GOVERNMENT POLICY

WHAT YOU CAN CONTROL

MARKET & LOCATION

PROPERTY TYPE & DESIGN

PURCHASE PRICE

DEMAND AND SUPPLY

BUY IN AREAS OF HIGH DEMAND AND LOW SUPPLY

DEMAND

WHAT CREATES IT?

- Flexible and well-designed properties suited to a range of potential buyers
- Access to high-paying employment
- Access to the best schools, services and lifestyle
- Great location amenity

SUPPLY

WHAT LIMITS IT?

- Lack of available land to build
- Planning constraints in certain areas and on certain property types
- Ongoing rises in the cost of construction

LOCATION VALUE

We know from history that it is the land and its location that is the main long-term driver of price growth. Why is this? It's because location is the main discriminator in property investment. If the building itself was the primary reason a property held value, then buyers would purchase the best possible building in the location with the cheapest land, and the value of property would rise only by the cost of construction. But, location clearly does matter a lot to buyers, which is why the best locations have achieved the strongest price growth.

So our first focus is on location, and what creates value in a location now and into the future. I've discussed in detail below the five main areas of location value: jobs, transport, schools, lifestyle and amenity, and how they impact the key areas of SE-QLD now and into the future.

JOBS | TRANSPORT | SCHOOLS | LIFESTYLE | AMENITY

JOBS

PREDICTED JOBS GROWTH

Access to high-paying employment is the basis for much of the demand for property. So what does the future hold for employment in South-East Queensland? Let's look at projected jobs growth for the major Local Government Areas (LGAs), compared to current employment figures and in relation to future population growth.

BRISBANE

JOBS
2016: 817,000
2041: 1,247,000

POPULATION
2016: 1,184,000
2041: 1,570,000

JOBS TO POP RATIO: 79%

GOLD COAST

JOBS
2016: 255,000
2041: 433,431

POPULATION
2016: 568,000
2041: 919,000

JOBS TO POP RATIO: 47%

SUNSHINE COAST

JOBS
2016: 118,000
2041:193,092

POPULATION
2016: 303,000
2041: 594,000

JOBS TO POP RATIO: 32%

REDLANDS

JOBS
2016: 47,000
2041: 69,000

POPULATION
2016: 152,000
2041: 188,000

JOBS TO POP RATIO:37%

MORETON BAY

JOBS
2016: 122,000
2041: 198,000

POPULATION
2016: 438,000
2041: 655,000

JOBS TO POP RATIO: 30%

LOGAN

JOBS
2016: 102,000
2041: 168,000

POPULATION
2016: 314,000
2041: 586,000

JOBS TO POP RATIO: 28%

IPSWICH

JOBS
2016:67,927
2041: 129,000

POPULATION
2016: 200,000
2041: 520,000129

JOBS TO POP RATIO: 25%

TRANSPORT

Investors are frequently looking for the next big infrastructure project that will drive property price growth. Recent examples in South-East Queensland that have gathered plenty of attention include:

- The Moreton Bay Rail Line
- The Springfield Lakes Rail Line
- The Gold Coast Light Rail

There's no doubt that these are important pieces of infrastructure that enhance the value of property in the immediate area. But it's important to keep these projects in perspective. A new rail line or highway connecting an outer suburb location to the rest of the city is critical to making that location a functional community, but it doesn't turn the property market on its head. Outer suburb locations will still have less transport options and considerably longer commutes.

It's much more useful to take the entire transport situation into account, rather than focus on one new piece of infrastructure. To highlight this, I've included a table on the next page comparing the Brisbane Inner City area with the Ipswich LGA. This is not to specifically target Ipswich; it is one of the more accessible outer suburb locations in Greater Brisbane. The reality is, however, that suburbs in the centre of a city disproportionately benefit from transport projects. These locations enjoy the shortest commute times, the most number of transport options and are the most accessible to the major lifestyle offerings of the city. Based on future transport projects, the inner suburbs will retain and enhance this substantial edge well into the future.

BRISBANE - INNER CITY	IPSWICH
Current Major Transport Infrastructure	**Current Major Transport Infrastructure**
Brisbane Airport Inner City Bypass AirportLink Clem 7 Legacy Way 8 heavy rail lines 2 busways CityCat	Cunningham Highway Warrego Highway Centenary Highway Ipswich Rail Line Springfield Lakes Rail Line
Future Major Transport Infrastructure	**Future Major Transport Infrastructure**
Cross River Rail (funded) Brisbane Metro (funded) Brisbane Second Runway (funded) Kingsford-Smith Drive Upgrade (funded) Wynnum Road Upgrade (funded) Carindale Busway (unfunded) Chermside Busway (unfunded)	Ipswich to Springfield Lakes Rail Line (unfunded)
Commute to City (Enoggera): 17 Min by train Commute to City (Morningside): 22 Min by train	Commute to City (Springfield): 41 Min by train Commute to City (Ipswich): 58 mins by train

EDUCATION

There's no question that parents will pay a premium to live in a location with access to a good school. We also know that the best universities attract students from around the country and the world, creating demand for property in the areas immediately around them.

It's very difficult to forecast what the exact situation will be in education in South-East Queensland in 25-30 years time. It's also beyond our scope here to individually analyse the quality of schooling in each location. However, we can identify broad patterns in terms of education quality. Below is the number of primary and secondary schools in each LGA that rank in the Queensland top 50, as well as the locations of universities and their ranking in Australia.

The results are clear - Brisbane dominates across all three levels of education, and there is little sign this is set to change. There are some good high schools scattered around the other LGAs, and the Gold Coast is an alternative centre for university education, but Brisbane is the education powerhouse and is likely to remain so.

TOP 50 QLD PRIMARY SCHOOLS

- Brisbane: 41
- Gold Coast: 3
- Sunshine Coast: 1
- Ipswich: 2
- Moreton Bay: 0
- Logan: 0
- Redlands: 0

TOP 50 QLD SECONDARY SCHOOLS

- Brisbane: 32
- Gold Coast: 6
- Sunshine Coast: 3
- Ipswich: 1
- Moreton Bay: 2
- Logan: 2
- Redlands: 2

UNIVERSITY LOCATIONS AND RANKINGS

Brisbane

- University of Queensland (2 Campuses, 4th)
- Queensland University of Technology (2 Campuses, 13th)
- Griffith University (3 Campuses, 19th)
- Central Queensland University (28th)
- Australian Catholic University (33rd)

Moreton Bay

- University of the Sunshine Coast (From 2020, 33rd)

Ipswich

- University of Southern Queensland (31st)

Gold Coast

- Griffith University (19th)
- Bond University (23rd)
- Southern Cross University (33rd)

Sunshine Coast

- University of the Sunshine Coast (33rd)

Logan

- Griffith University (19th)

LIFESTYLE AND AMENITY

LIFESTYLE

The focus on lifestyle is one the mega-trends of recent times, and promises to accelerate as our society continues to grow wealthier.

What constitutes a great lifestyle is in the eye of the beholder. For some, great cafes, restaurants and bars are important, while for others, outdoor activities and water sports are more of a priority. From a property investment perspective, we are looking for wide a range of lifestyle offerings as possible.

There are a number of trends that are likely to affect a location's lifestyle in the future:

- Boutique retail areas with a combination of shopping, cafes, restaurants and bars instead of sprawling malls.
- Experiences over products, including live events, festivals, markets etc.
- Health and Wellbeing activities and services, including gyms, yoga, outdoor activities, holistic wellness services.

Microburbs is a free data site which measures lifestyle in an area by assessing access to restaurants, bars, entertainment, health and fitness centres, wellness services and beaches. The areas with highest rankings are:

- Brisbane Inner-City
- Gold Coast Beachside Suburbs
- Sunshine Coast Beachside Suburbs
- Redcliffe Peninsula
- Southern Moreton Bay

There tends to be a compounding effect in suburbs with high median incomes and diverse demographics; these attract the best lifestyle opportunities, which in turn attract the right demographic groups. I expect that this trend will continue.

AMENITY

What gives a suburb amenity? It's an amorphous but very important concept; essentially, we are trying to measure whether or not a location is physically enjoyable to spend time in or not. So what are the key factors that produce amenity (ordon't)?

Density

Density is a key determinant in the amenity of an area. All things being equal, a high-density suburb will have much lower amenity than a low-density suburb. High-density areas will have more noise, traffic, construction, light-blocking high-rises, and less greenery. This is one of the reasons why the highest-density areas of South-East Queensland, such as the Brisbane CBD, Fortitude Valley, South Brisbane, Toowong, Southport, Surfers Paradise, Broadbeach, Caloundra and Mooloolaba, have low rates of owner-occupiers and long-term residents.

Housing Mix

A suburb with a range of different housing types creates an interesting aesthetic and attracts a broader range of residents. The type of zoning that allows for this, but doesn't increase density too greatly, is low-medium density in Brisbane and Logan, Medium Density on the Gold and Sunshine Coasts, and in Redland and Ipswich, and Next-Generation Zoning in Moreton Bay.

Leafiness and Open Space

Suburbs with a higher degree of greenery and open space will be more attractive.

Safety

Areas with low crime are more desirable to all demographics. In general, crime rates are higher in areas of low median income, while higher-density areas have more crime than lower-density areas.

OFFENCES 2016-2017, PER 100,000 PEOPLE

BRISBANE
8,468

GOLD COAST
9,902

SUNSHINE COAST
7,047

MORETON BAY
9,234

IPSWICH
12,178

LOGAN
11,496

REDLANDS
5,758

ASSESSMENT

JOBS

70% of the future jobs projected for the region are in the Brisbane Metro Area, the Gold Coast and the Sunshine Coast. Locations with the best access to these jobs sources will outperform other areas. Ipswich, Logan and to a lesser extent Moreton Bay will act as dormitory areas for Brisbane.

TRANSPORT

The city and inner suburbs of Brisbane have the most transport options presently and will benefit most from future projects. The expansion of the Brisbane, Gold Coast and Sunshine Coast airports will increase transport options and facilitate employment growth further in these areas. Low-density areas with existing transport infrastructure are well-placed to benefit from increased services, whilst avoiding congestion issues of transit-orientated areas with higher-density construction.

LIFESTYLE

Brisbane will remain a lifestyle hub due to its high concentration of sporting, entertainment and cultural precincts. This will expand further with development of Queens Wharf and Brisbane Live in the inner city. The Coastal areas of SE-QLD are also growing in demand, with a growing concentration of dining, drinking and entertainment.

AMENITY

Locations that boast high-paying employment, good transport options, access to good schools and excellent lifestyle, and are also attractive, leafy, uncongested and low in crime, are likely to perform best in the future.

FUTURE SUPPLY

Supply is the second half of our growth equation, so it's vital we understand the future supply projections for the South-East Queensland marketplace. Thankfully, supply is easier to predict than demand, because it is controlled primarily by government.

The Queensland Government has formulated a plan for new supply to be created across South-East Queensland to meet the projected growth in population over the next 25 years, which is part of the Shaping SEQ - South East Queensland Regional Plan 2017. This plan dictates new supply targets for each of the local governments in South-East Queensland, who then formulate city plans to deliver on these targets.

The primary method local governments use to control new supply is zoning, which stipulates what types of housing can be built where. Developers use this zoning information to create plans for development, which will be submitted to the relevant local government for approval. In this way, local governments will shape the type, style and volume of development within an area, without being responsbile for its actual design and construction.

The Shaping SEQ plan gives us clear information on the future numbers and broad types of development across South-East Queensland, while more specific information on suburbs within each LGA can be obtained through the relevant city plan. I have included the key future supply numbers for each major LGA in South-East Queensland below. Before we get to them though, we need to properly understand population growth, and how it affects property investment in South-East Queensland.

POPULATION GROWTH

Population growth is often cited as a major driver of property price growth. While it is an important factor, you need to have a full understanding of its effects before you can use it as a guide to decision making.

Population growth is measured at a number of different levels. The first is the city level (i.e. Greater Brisbane, The Gold Coast etc.). Below this we have the local government areas within the city (for Brisbane this includes Brisbane, Logan, Ipswich, Redland and Moreton Bay, while the Gold Coast and Sunshine Coast are considered separate entities and have a single council). Finally we have the suburb level. The results at city level mean very different things to the results at the lower levels.

For example, the Gold Coast has a projected population growth rate per annum of 2.1% until 2041. If this plays out, this is very positive for the Gold Coast's property market, as it will mean, strong demand and occupancy for existing property, and the ongoing need for new supply to accommodate the growth. Because this growth is anticipated and new supply has been planned, it's very unlikely that there simply won't be enough property on the Gold Coast to house the new population. But the growth will place greater demand on the most attractive areas and property types on the Gold Coast, and ensure new supply is occupied. If population growth is stronger than anticipated, then it will create even more demand pressure on property, and force the construction of new supply to accelerate. If it is weaker than expected, demand will reduce. New supply will likely reduce as developers see less profit in development, and some of the new supply and established properties will lie vacant until growth eventually fills them.

So at the city level, high projected population growth is a positive, paticularly for the most popular areas and property types.

It's a different story at the lower level. Strong projected population growth in a locality or suburb within a city means one thing - lots of new supply. The only way a suburb can accomodate major population growth is by the construction of new properties within it. Think about it - people don't arrive in a new suburb and camp out until a property becomes available, the growth can only occur if new properties are added to the suburb. On the flip side, if no new properties are planned to be built in a suburb over the next 25 years, then unless more people move into the same properties, population growth will be zero.

Therefore, the areas within a city that have high projected population growth are the areas that the government is planning for supply to increase the fastest. As a property investor looking at where to invest, these areas will have the greatest competition against you in terms of new properties. All things being equal, these are the worst locations to invest.

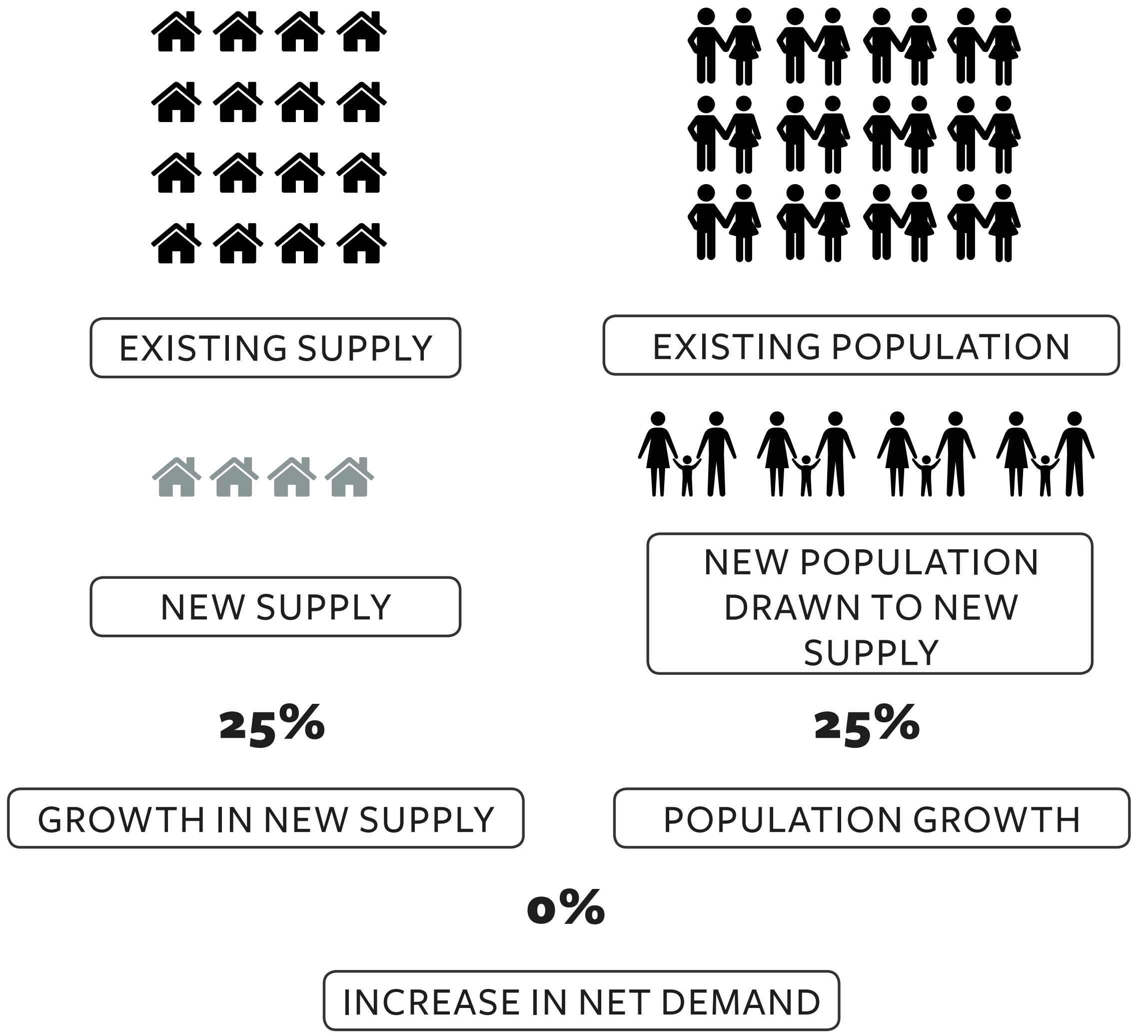
It's important to understand this when you're being presented information about a suburb or local government area. Locations that are touted as 'high-growth' areas are usually done so on the basis of future population growth - but in most cases this means the opposite in terms of future capital growth.

So beware the spruik. It's no surprise that the areas that have the highest future population growth are those most loudly marketed by property investment companies selling new properties. It's because this is where all of the stock they have to sell is located!

CITY-WIDE POPULATION GROWTH

Strong, consistent population growth across the city will lead to demand increasing across the city and force the construction of new supply to accommodate the growth. While population growth will lead to occupancy across the entire city, net demand and price growth will be strongest in established areas with the greatest amenity and with limited new supply.

SUBURB POPULATION GROWTH



Population growth won't occur in a suburb until new supply is constructed. In many suburbs with large amount of new construction, population growth will not be sufficient to fill all properties, meaning net demand is actually negative.

BRISBANE

CURRENT SUPPLY 2016	INCREASE IN SUPPLY 2016-2041	GROWTH IN SUPPLY 2016-2041
272,437	11,400	4%
128,133	176,800	138%

REDLAND

CURRENT SUPPLY 2016	INCREASE IN SUPPLY 2016-2041	GROWTH IN SUPPLY 2016-2041
44,559	4,700	11%
7,293	12,500	171%

LOGAN

	CURRENT SUPPLY 2016	INCREASE IN SUPPLY 2016-2041	GROWTH IN SUPPLY 2016-2041
	83,533	70,000	84%
	12,791	19,900	156%

IPSWICH

	CURRENT SUPPLY 2016	INCREASE IN SUPPLY 2016-2041	GROWTH IN SUPPLY 2016-2041
	83,533	83,800	100%
	12,791	27,900	218%

MORETON BAY

Moreton Bay
Regional Council

CURRENT SUPPLY 2016	INCREASE IN SUPPLY 2016-2041	GROWTH IN SUPPLY 2016-2041
122,497	40,100	33%
23,588	48,200	208%

GOLD COAST

CITY OF
GOLDCOAST.

CURRENT SUPPLY 2016	INCREASE IN SUPPLY 2016-2041	GROWTH IN SUPPLY 2016-2041
115,758	31,000	27%
80,506	127,900	159%

SUNSHINE COAST

Sunshine Coast COUNCIL

CURRENT SUPPLY 2016	INCREASE IN SUPPLY 2016-2041	GROWTH IN SUPPLY 2016-2041
79,971	33,300	42%
26,441	53,700	204%

PROPERTY TYPES

We've now got a good overall view of the future supply/demand situation in South-East Queensland. So how do the different property types fit in to the investment picture? There are many zealots on this particular issue; some people say you should only buy houses, others only units. What we have learnt in this book is that over the long-term, the improvement on the land is less important than the land itself as an engine of growth. Therefore, regardless of property type, we want to maximise our component of high-quality and scarce land.

However, in the short to medium-term, the building will have a substantial effect on rental return, available equity and resale (if you have to). A building will also improve your long-term return if you are able to reduce your maintenance costs, and retain and enhance its value through good design and build quality.

There is no definitive right or wrong answer to the type of property you should buy in South-East Queensland, (although I would suggest high-rise apartments are the wrong answer to almost every question). Regardless of property type, the aim is to:

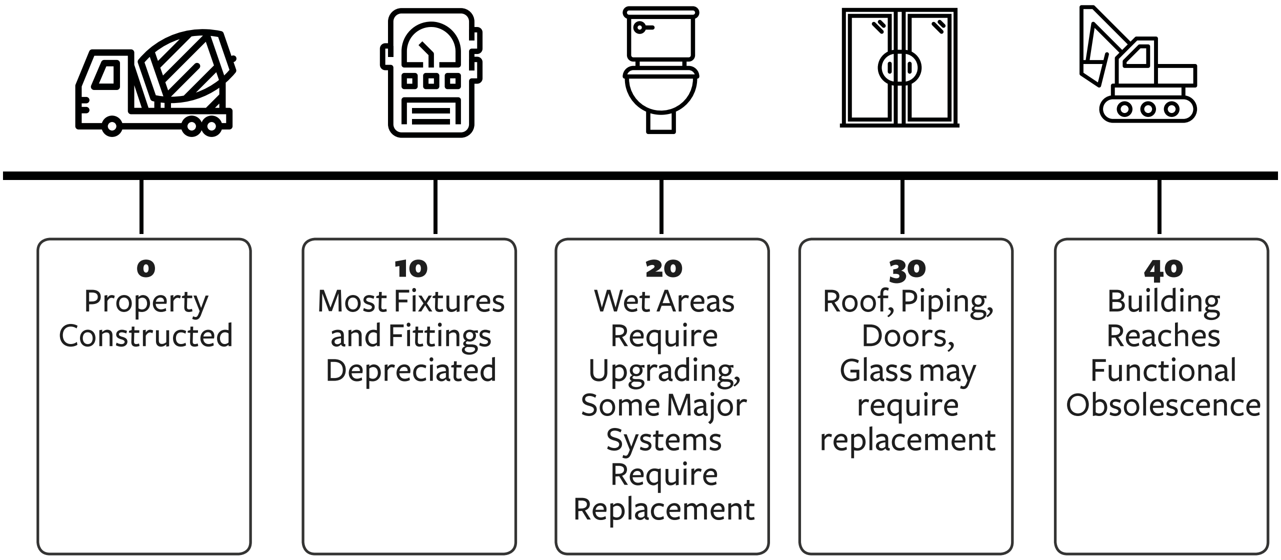
- Select the right location to achieve strong future growth in land value through high demand and low supply
- Select a property that maximises your component of land value
- Buy at the right time of the building's life-cycle to maximise future value
- Achieve sufficient cashflow from the property to allow you to hold it long-term

This is achievable with correctly selected houses, townhouses and apartments. We'll cover how in detail below.

BUILDING LIFE-CYCLE

Buildings have a finite lifespan, with each element depreciating over a period of time. According to the Australian Tax Office, most fixtures and fittings (a/c, carpets, hot-water, blinds etc.) will need to be replaced within 10-15 years, while the structural elements of the building (walls, roof, fences, cabinetry) depreciate over 40 years.

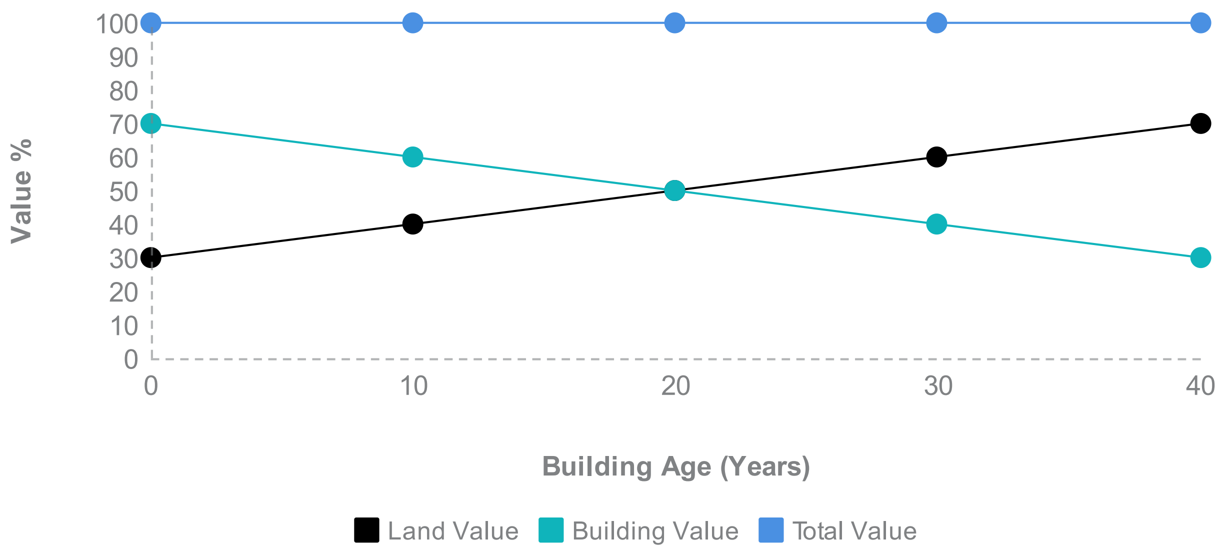
The actual life of a structure and its components will vary based on the quality of workmanship and materials used. However, after 40 years most buildings will face the problem of functional obsolescence unless major renovation or restorative works are conducted.



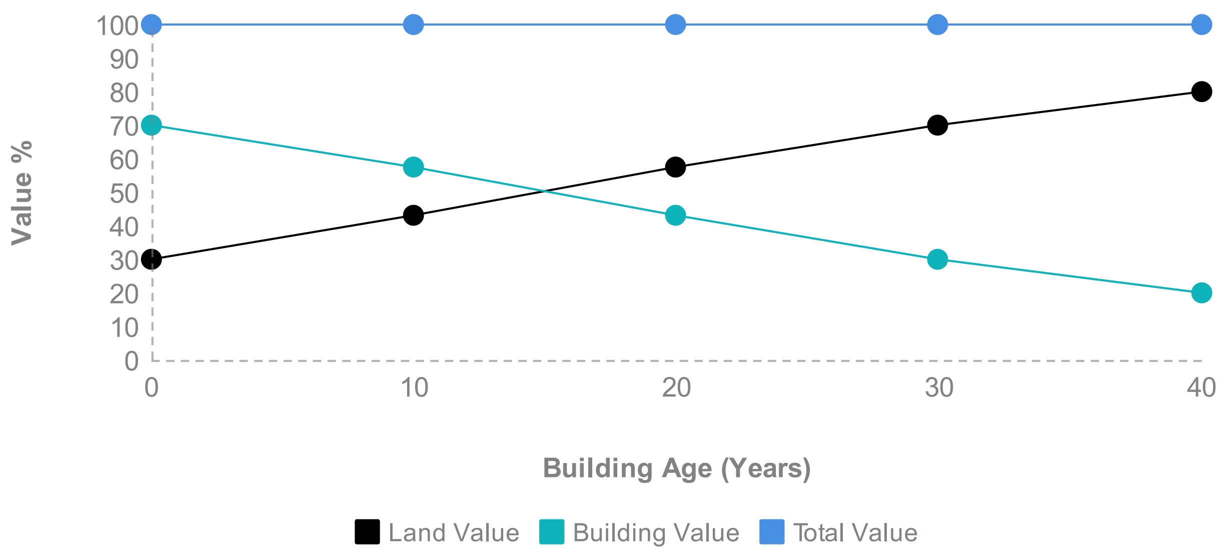
Buildings in areas of lower land values are likely to remain in original condition for longer, as the economic impact of functional obsolescence is lower. In areas of high land value, the demolition/construction/renovation cycle is shorter, as the economic incentive to increase the value/output of a building is greater

We can see this effect in the graphs below. In both cases we track the two main elements of value, land and buildings over a forty-year period, with both properties starting at a 30%/70% land/building ratio (typical of a new house), and the rate of building increase of 3% per annum. However, in the first 'standard' suburb, the rate of land growth is 7.5%, while in the second 'high-performing' suburb the land value increases at 9%.

Land and Building Value - Standard Suburb



Land and Building Value - High Perfoming Suburb



PROPERTY TYPES

LAND VALUE VS IMPROVED VALUE
START AND END OF LIFE CYCLE

HOUSES

30-90% LAND VALUE

10-70% IMPROVED VALUE

TOWNHOUSES

15-80% LAND VALUE

20-85% IMPROVED VALUE

LOW-RISE APARTMENTS

10-80% LAND VALUE

20-90% IMPROVED VALUE

HIGH-RISE APARTMENTS

5-20% LAND VALUE

80-95% IMPROVED VALUE

When a property is built, sensible developers will have attempted to maximise the improved value on a site. As such, in almost all cases, new properties will have the lowest percentage of land value for all of the property types. As we have learnt, over time this ratio changes as the land value of the area increases, and the buildings depreciate in value relative to new buildings.

Houses traditionally have had the greatest land value, as you are getting the most amount of land. However, as the value of land in high-demand locations has outperformed secondary locations, the percentage of land value for some townhouses and units has exceeded that of many houses.

Even in the strongest locations, the value of high-rise apartments still only constitutes a small percentage of the overall value at the end of a building's life cycle. This leaves the owners with two choices: either demolish the building and sell the site, or pay the ever-increasing cost of maintaining an ageing building. It's one of the reasons why the body corporate fees for older high-rises are so prohibitive.

BUILDING MAINTENANCE

As you would expect, as a building grows older, it costs more per year to maintain. However, it's also important to note that the cost of maintaining a property depends on the amount of the improved value on a property, rather than the overall value of the property, as it is only the improvements that generally require any maintenance. So an older building worth $100,000 may not cost as much to maintain as a newer, larger building worth $200,000, as the more improved value there is, the more that needs to be repaired/replaced over time.

Medium to high-rise apartments are mostly improved value, so the maintenance spend is usually a higher percentage of the overall property value. Also because of their height, much of the maintenance is more costly to conduct. This is a maintenance 'double-whammy', making these types of properties much more expensive to hold long term.

So how does the building life-cycle affect you as the investor?

Firstly, the stage of the building cycle in which you buy will have a signifcant impact on your returns. Generally, the earlier in a building's life-cycle that you buy, the more the building will cost, and so the less land value you will gain through your purchase. We know that land historically has outperformed buildings, so the less land value you get, the lower your long-term growth will be.

This needs to be balanced against your need as an investor for sufficient cash-flow to hold the property long-term. A more modern property will (generally, although not always), achieve a higher rental return, provide more depreciation and require less maintenance.

A more modern building may also be more functional over the long-term due to its design and build, meaning that functional obsolescence may take longer to occur. This will increase the return you receive, by delaying the need for a capital injection into the property needed to acheive a rental income or maximum resale value.

This is often not the case, however. Many older buildings, when you take away superficial elements such as fixtures and fittings, have a higher degree of function than newer buildings. This is a result of better building materials, superior workmanship and extra space. The key when assessing the function of a building is to focus on the basics; build quality, design and overall condition, rather than aspects that depreciate more quickly and can be economically upgraded.

I will now discuss the major types of buildings: houses, townhouses low-rise apartments and high rise apartments. I'll explain the minimum location criteria for each type, and what you should look for to maximise the building value over the long-term.

HOUSES

Houses remain the predominant stock-type in South-East Queensland, and provide the greatest versatility in terms of land and improvements. I recommend focusing on two areas - good design and build coupled with larger blocks to allow upgrading in the future. This will help you retain and enhance your building value over time and broaden the overall appeal of the property to future buyers. Features such as master suites, second (and third) living areas, large outdoor spaces and pools are increasingly sought after, so aim for houses that either have these or can be upgraded to have these in the future.

Houses suit the widest range of buyer demographics, and remain the most desirable stock-type. This will likely see you payng a premium for them versus townhouses or units, as the supply cycle is less pronounced and demand is steadier, particularly in established suburbs.

LOCATION

LIMITED FUTURE LAND SUPPLY
REASONABLE AMENITY

PROPERTY

GOOD DESIGN AND BUILD QUALITY
ABILITY TO UPGRADE

AREAS OF FUTURE OVERSUPPLY

RIPLEY
REDBANK PLAINS
CABOOLTURE
FLAGSTONE
YARRABILBA
PIMPAMA

TOWNHOUSES

Townhouses offer a balance between the size and features of a house, and the more efficient use of land use of an apartment. This gives you the opportunity to purchase a house-like configuration in a superior location for the same money. The more like a house it is, the more attractive a townhouse will be, particularly to owner-occupiers, so generous internal space, larger outdoor spaces and as small a complex as possible will add considerable value. Townhouses cannot be easily upgraded externally, so good design, particularly for newer townhouses, is critical. Duplex-style construction is best, with plenty of natural light and good flow. A 3 Bed 2 Bath configuration is best, as it means less competition from 2 bed 2 bath apartment stock.

It is very important to prioritise location in a townhouse purchase. I would only buy in suburbs where the house price is significantly higher than the townhouse's purchase price. This eliminates many areas in SE-QLD. Focus on areas with high land value, high amenity and limited future land supply. Avoid locations with large blocks of vacant land and unrestrictive zoning.

LOCATION

HIGH MEDIAN HOUSE PRICE
LIMITED FUTURE LAND SUPPLY

PROPERTY

SMALL COMPLEX AS POSSIBLE
GOOD DESIGN
INTERNAL SPACE
FLEXIBLE CONFIGURATION

AREAS OF FUTURE OVERSUPPLY

RICHLANDS
COOMERA
PIMPAMA
MORETON BAY
IPSWICH
LOGAN

LOW-RISE APARTMENTS

Low-rise apartments are an increasingly popular property type as our society's demographics change. While they generally do not suit families, low-rise apartments are the right configuration for singles and couples across all phases of life. With the increase in people's life span and the decrease in the birth rate, there is now a greater percentage of life spent without raising children, which is driving the move to apartment living.

All things being equal, however, most buyers will prefer a house over an apartment. Therefore, you need to be careful about the type of locations in which you buy a low-rise apartments. I would recommend paying no more for an apartment than 50% of the suburb's median house price. Buying in a location with high land value and lower density zoning will also help to sustain the value of your investment, by improving the property's long-term flexibility and reducing future apartment supply.

As with townhouses, altering the design and configuration of an apartment is very difficult. If you plan on retaining the building for the long-term, avoid apartments with limited space, small balconies, low ceilings, limited natural light or poor flow. Stay away from big complexes, which will have higher body corporates and low land value.

LOCATION

VERY HIGH MEDIAN HOUSE PRICE
LIMITED FUTURE LAND SUPPLY
HIGH AMENITY
LOW-MEDIUM DENSITY ZONING

PROPERTY

SMALL COMPLEX
LIMITED COMMON FACILITIES
VERY GOOD DESIGN

AREAS OF FUTURE OVERSUPPLY

I believe that most areas of South-East Queensland will have a persistent oversupply of apartments. I would recommend only buying apartments in the best suburbs of SE-QLD, such as inner suburbs in Brisbane with the right profile and certain beachside suburbs of the Gold Coast and the Sunshine Coast.

HIGH-RISE APARTMENTS

Due to the high cost of construction, much higher maintenance costs, and low land value, high-rise apartments only make sense in locations of very high land value and exceptional amenity. I would argue that SE-QLD does not have any location that matches this criteria, and therefore I would not recommend investing in high-rise apartments here.

I would only invest in high-rise apartments in global cities where all other property types are beyond your reach. Neither Brisbane, the Gold Coast or the Sunshine Coast have reached this point yet; the price differential between high-rise apartments and other property types, even houses, is not nearly large enough. This is because the land value is not high enough to drive up the prices of houses, townhouses or low-rise apartments to the levels needed to make high-rise construction economical.

LOCATION

ALL OTHER PROPERTY TYPES UNAFFORDABLE
VERY LIMITED FUTURE LAND SUPPLY
VERY HIGH AMENITY
UNIQUE LOCATION FEATURES

PROPERTY

MAXIMISE LAND VALUE
MINIMISE BODY CORP
LOW-MAINTENANCE BUILDING MATERIALS

AREAS OF FUTURE OVERSUPPLY

WOOLLOONGABBA
SOUTH BRISBANE
FORTITUDE VALLEY
WEST END
BOWEN HILLS
LUTWYCHE
CHERMSIDE
UPPER MOUNT GRAVATT
EAGLE FARM
SOUTHPORT
SURFERS PARADISE
MAROOCHYDORE
CALOUNDRA

MAXIMISING FUTURE VALUE - CHEAT SHEET

HOUSES

LOCATION

LIMITED FUTURE LAND SUPPLY
REASONABLE AMENITY

PROPERTY

GOOD DESIGN AND BUILD QUALITY
ABILITY TO UPGRADE

TOWNHOUSES

LOCATION

HIGH MEDIAN HOUSE PRICE
LIMITED FUTURE LAND SUPPLY

PROPERTY

SMALL COMPLEX AS POSSIBLE
GOOD DESIGN
INTERNAL SPACE
FLEXIBLE CONFIGURATION

LOW-RISE APARTMENTS

LOCATION

VERY HIGH MEDIAN HOUSE PRICE
LIMITED FUTURE LAND SUPPLY
HIGH AMENITY
LOW-MEDIUM DENSITY ZONING

PROPERTY

SMALL COMPLEX
LIMITED COMMON FACILITIES
VERY GOOD DESIGN

HIGH-RISE APARTMENTS

LOCATION

ALL OTHER PROPERTY TYPES
UNAFFORDABLE
VERY LIMITED FUTURE LAND SUPPLY
VERY HIGH AMENITY
UNIQUE LOCATION FEATURES

PROPERTY

MAXIMISE LAND VALUE
MINIMISE BODY CORP
LOW-MAINTENANCE BUILDING
MATERIALS

So what have we learnt from this book?

We've covered a lot. We've looked at the basics of the South-East Queensland property market, how to understand value and the importance of intrinsic value, the historical performance of key areas and property types in the market, and made some informed judgments into what will happen in the future. In the process, I hope I've debunked a few property myths. For example, the data strongly suggests that you shouldn't invest just for depreciation benefits, and it also shows that you probably shouldn't invest in new property unless the value proposition is extremely strong. It's easy to sell new properties with glamorous brochures, artist's impressions and woolly forecasts, but the numbers rarely stack up in reality.

From our assessment of future supply and demand, it also seems very unlikely that the property market will turn on its head, and that outer suburb houses or high-rise apartments will become the most desirable and scarce property type. It is most likely that the areas of South-East Queensland with the highest income, transport options, services and amenity, and with the greatest scarcity of land, will continue to perform the most strongly.

As a property investor, there will always be compromises to make based on your purchase price, cashflow requirements and comfort with risk. We'd all like to own a house or a valuable block of land in the best suburbs of South-East Queensland, but these options will be beyond most investor's ability to afford or service. Balancing the desire to maximise your component of high-quality and scarce land, with your requirements for short-term income, can be a challenge, and really, this is where the art of successful property acquisition comes in. But understanding the fundamentals, as you do now, will put you into a position of strength to determine the kind of property you should buy, and if you do need help, the exact nature of that help.

Best of luck in your property investment journey, and if it's the right path for you, buying a high-performing property in South-East Queensland.

ABOUT THE AUTHOR

Andrew Wegener is an independent property adviser and buyers agent, and the director of Aquila Property Investment. He created Aquila Property Investment in 2013, after a negative first experience with property investment - paying too much for new properties in secondary locations, based on conflicted recommendations. Andrew realised that the best approach to helping investors was through providing independent and insightful advice and service, free of kickbacks and conflicts of interest. He has helped dozens of investors to buy high-quality properties in the South-East Queensland market.

In his previous work, Andrew served an officer in the Australian Army, leaving as a Captain. He served on two deployments to Afghanistan, where he worked in operational planning and execution with the Australian Reconstruction Task Force and the Netherlands Provincial Reconstruction Team in Uruzgan Province. He also deployed to a remote patrol base for 8 months to mentor and provide mortar, artillery, helicopter and fast air support to a company of Afghanistan National Army soldiers.

He is an expert in history, politics and culture and was awarded the University Medal for his honours thesis *Afghan Responses to Foreign Invervention: A Complex and Changing Dynamic*. He holds a Masters of Arts and a Bachelor of Arts (Honours), and is a Qualified Property Investment Adviser and Licensed Real Estate Agent in Queensland.

Andrew lives in Brisbane with his wife Morven. They enjoy the outdoors, hiking and health and fitness, and make regular trips to the Gold Coast, Sunshine Coast and Northern New South Wales beaches and hinterland.

NOTES

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