

MARKET OUTLOOK

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CAIRNS



Financial
2016

matusik
Market Outlook



Overall

Our investigations have found that the residential market in the Cairns area is in the **recovery phase** of the property cycle.

It could remain stuck in this phase for some time to come. When and how fast the Cairns housing market recovers depends on new jobs creation and existing supply/demand balance.

In contrast, the Cairns market is now undersupplied when it comes to new housing stock. There is a need to start building more homes.

When Cairns enters an upswing, it is likely to be very mild and more focused on new construction rather than price growth.

Our price guide – see **page 3** for more detail – outlines suggested price points to better buy both new and existing investment orientated dwellings in the Cairns area.

Key findings

- Local population is projected to grow by 4,000 new residents each year. It is currently growing slower than forecast.
- Need to build 1,800 new dwellings in the area each year.
- A high proportion of the Cairns area's future housing demand will come from households downsizing and/or retiring. Hence, large numbers should be attracted to medium density housing; and given local issues regarding body corporate insurance, small lot housing on freehold titles is expected to be more attractive than townhouses/villas.
- Sales volumes, weekly rents and end prices have risen and are now showing signs of slowing down. The vacancy rate has increased and the time needed to sell has plateaued.
- Until more local jobs are created, the Cairns housing market looks like it is set to travel sideways.



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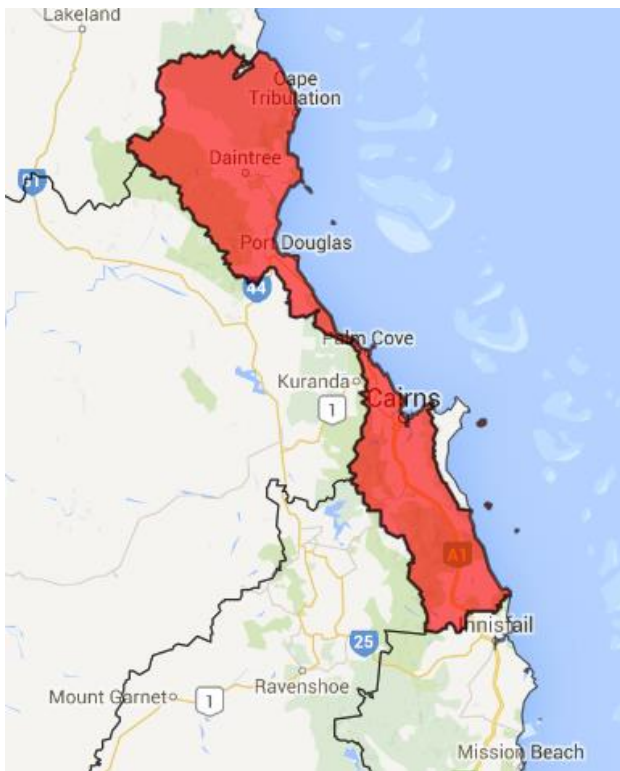


Report Coverage

This report incorporates the following **postcodes:** 4861, 4865, 4868, 4869, 4870, 4873, 4877, 4878 and 4879.

It also can be summarised as the **Cairns** and **Douglas Regional Council** areas.

See **Map 1** below.



Matusik Price Guide

Our price guide – **below** – is centred on a consistent 5% gross rental return and 5% vacancy rate. It is based on a rental outlook as shown on page 8.

Our guide covers apartments; townhouses and detached homes. **It is not advice.**

It is our opinion as to what – to us – represents fair investment value in Cairns for financial 2015/16.

Older resale dwellings

Apartments

One-bedroom	\$225,000 to \$245,000
Two-bedroom	\$300,000 to \$330,000
Three-bedroom	\$365,000 to \$400,000

Townhouses

Two-bedroom	\$275,000 to \$300,000
Three-bedroom	\$365,000 to \$400,000

Detached houses

Two-bedroom	\$320,000 to \$350,000
Three-bedroom	\$375,000 to \$410,000
Four-bedroom	\$440,000 to \$485,000

New dwellings

Apartments

One-bedroom	\$270,000 to \$295,000
Two-bedroom	\$360,000 to \$395,000
Three-bedroom	\$435,000 to \$480,000

Townhouses

Two-bedroom	\$325,000 to \$360,000
Three-bedroom	\$430,000 to \$480,000

Detached houses

Two-bedroom	\$400,000 to \$435,000
Three-bedroom	\$455,000 to \$515,000
Four-bedroom	\$550,000 to \$600,000



Our analysis and research approach, based around the strength and direction of several key real estate indicators –

- Sales volumes
- Property prices
- Weekly rents
- Underlying housing demand
- New and existing housing supply
- Employment and income growth

– suggests that most residential property in the Cairns area is in the recovery phase of the property cycle. See **chart 1**.

Typically, this phase is mildly favourable to sellers. Our general recommendations include:

- Sellers should expect a quick sale; especially if the property is well priced, presented & marketed.

- Buyers need to make sure they don't overpay, but they can miss out if they take too long.
- Renovators need to understand the market's limits. Overcapitalisation often happens in recovery market locations.
- Renters should consider buying or locking into longer lease terms.

How fast the Cairns market recovers comes down to the local employment generation and the existing supply-demand balance. External factors, such as interest rates; the \$A exchange rate plus tourism trends, also shape local conditions.

At this time, our best estimate regarding the timing for the local residential property cycle is outlined in **chart 1** below. When Cairns enters an upswing – it is likely to be very mild – one more focused on new construction than price growth.

1. Market positions – Cairns area

- 1 August 2015
- 2 By Mid 2016 (June)
- 3 Mid 2017 (June)

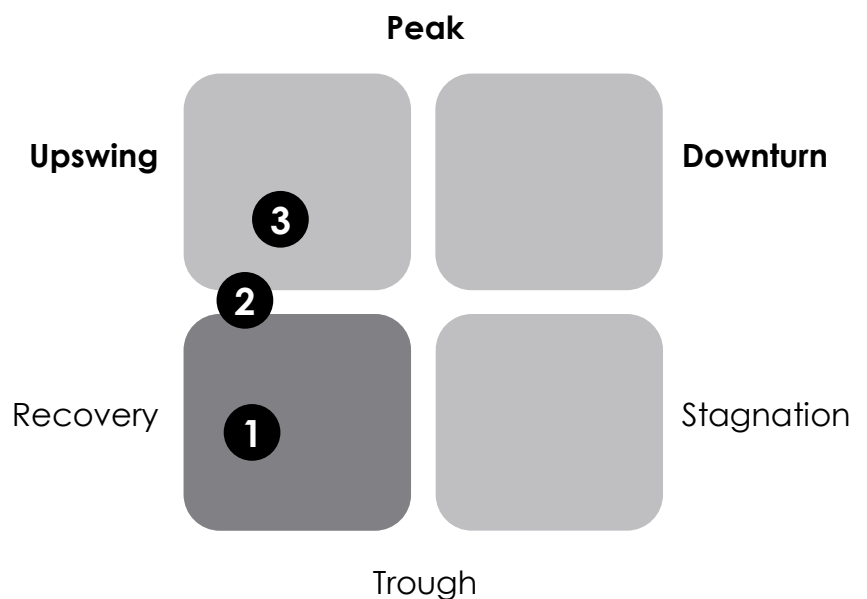




Chart 2 shows that dwelling sales are rising across the Cairns area. See **A** on chart 2.

A similar trend can be seen when it comes to dwelling values.

The middle or median dwelling price in the Cairns area area is currently \$340,000.

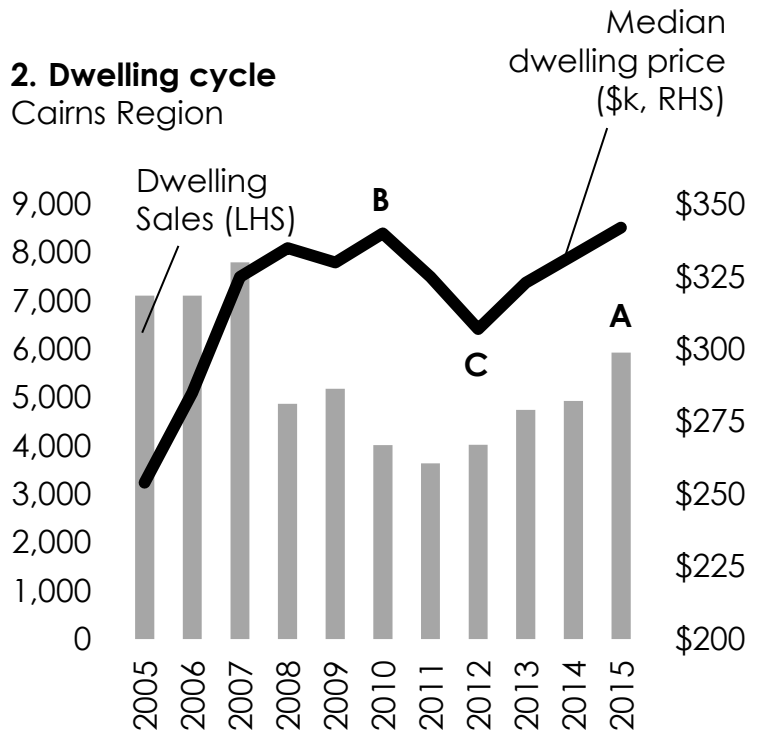
Median dwelling prices have regained losses from the previous market peak – see **B** on chart 2.

Since the last trough – see **C** on chart 2 – median values have risen from \$305,000 in 2012 to an anticipated \$345,000 by the end of fiscal 2016.

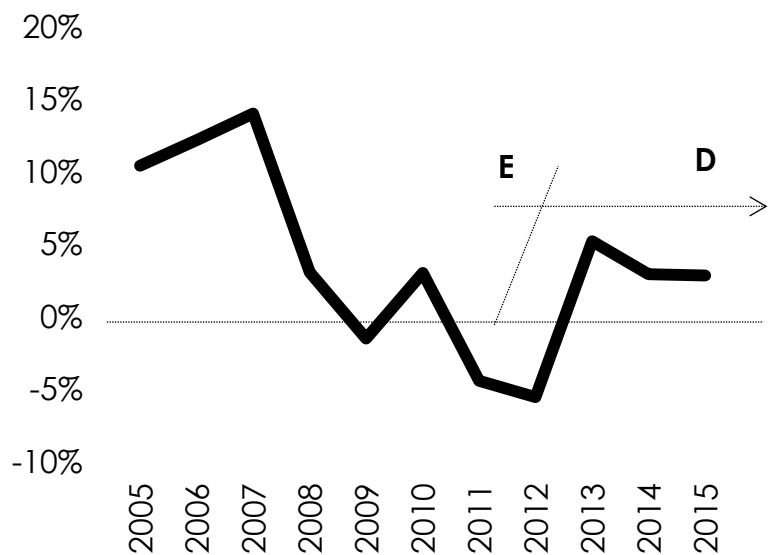
Chart 3 shows that the rate of price growth is slowing. See **D** on chart 3. Fewer jobs and more properties for resale are now affecting price growth.

We do anticipate some price growth over the next twelve months in the Cairns area, but not much.

We believe the Cairns area housing market, in terms of the rate of price growth, peaked during the 2014 fiscal year. See **E** on chart 3.



3. Annual change in dwelling prices Cairns Region





Vacant land sales volumes have been improving across Cairns.

Land values have also increased.

See **A and B on chart 4.**

At present, the average vacant allotment for sale in the Cairns area is priced at around \$200,000. This includes all vacant land for sale – subdivisions & acreage allotments.

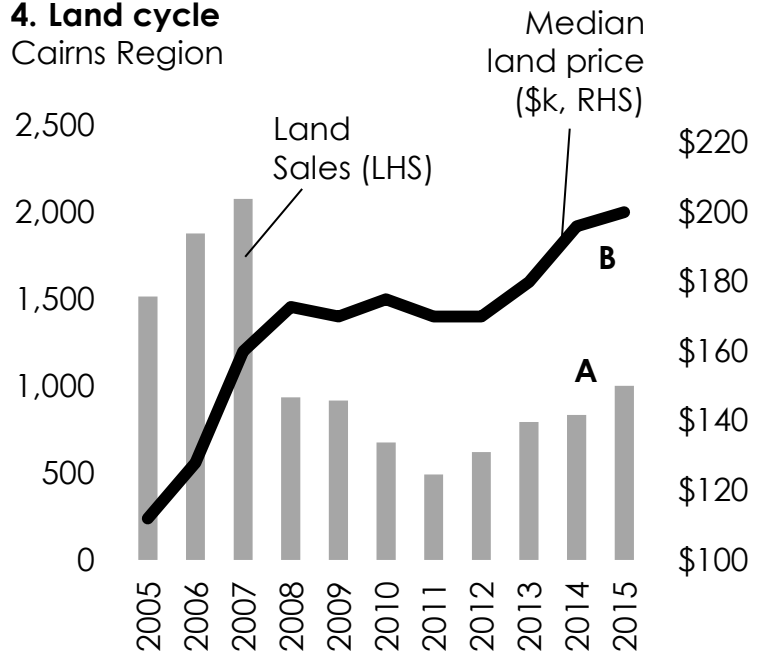
Lot sizes have fallen, somewhat dramatically, in Cairns area over the past ten years. At present, they average around 600sqm. See **C on chart 5.**

As a result, the price of land – on a square metre basis – has risen sharply. See **D on chart 5.**

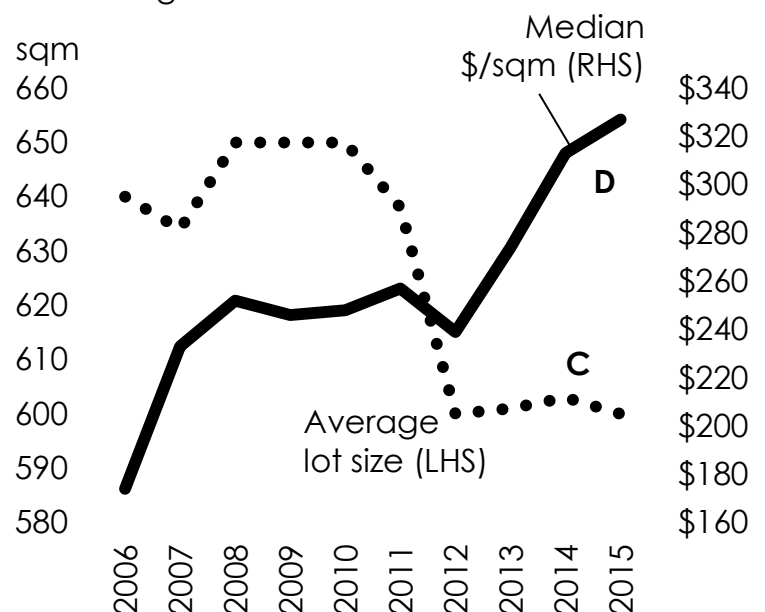
Whilst there is a latent demand for more new homes in the Cairns area, job loses and limited wage growth has placed a ceiling on the local market's capacity to pay.

As a result, we expect land values to remain flat – at best – in the Cairns area over the next couple of years.

4. Land cycle Cairns Region



5. Average lot size and \$/sqm Cairns Regional Council





Close to 40% of the households in the Cairns area rents. The proportion of households renting is high, compared to the Queensland average.

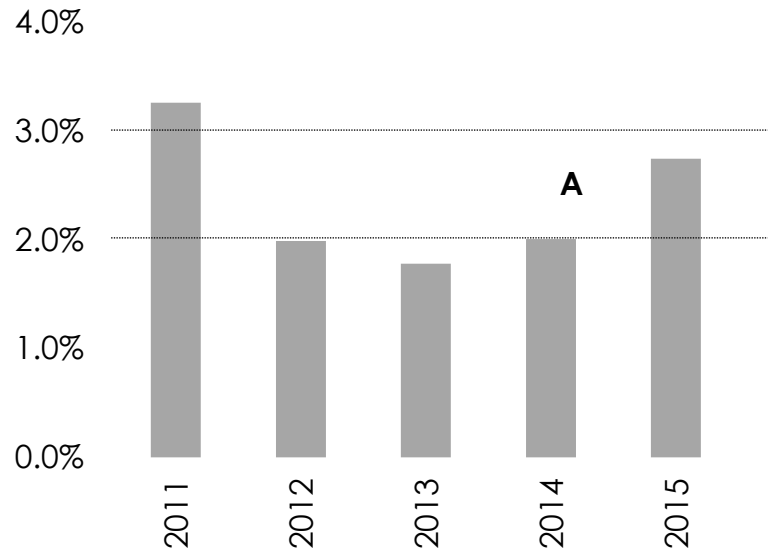
There are 24,500 private rental properties in the area, of which around 675 are currently reported vacant. This means a vacancy rate of about 2.7%. See **chart 6**.

A vacancy rate under 2% is tight, and as a result, rents usually rise. Between 2% and 3% the market is balanced, so rents are stable, typically rising with costs and/or inflation. See **A on chart 6**. When the vacancy rate is consistently over 3%, weekly rents can fall.

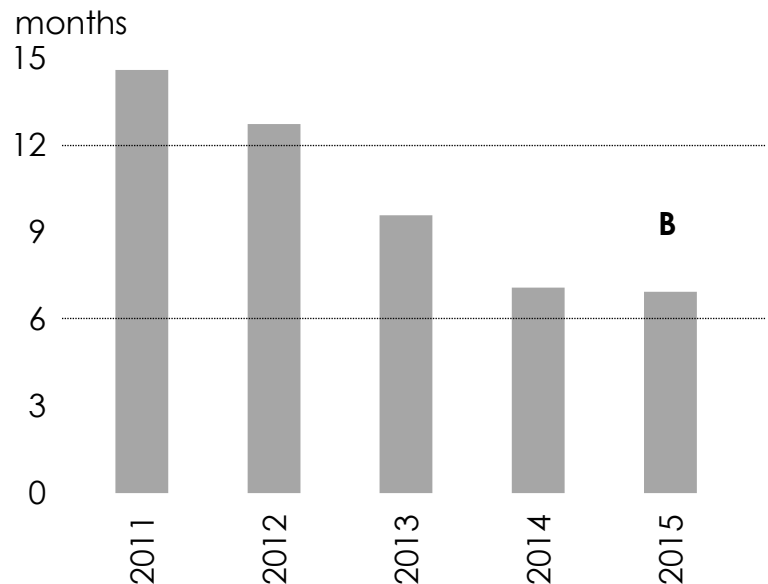
Whilst the number of existing homes for sale has increased over the last 12 months, sales volumes have increased more. There are currently about 3,450 dwellings for sale in the Cairns area. Based on current sales rates, this equates to about a seven month supply. See **chart 7**.

When it comes to existing homes, under a six month supply is considered tight. Often resale prices increase under these circumstances. Between a six and 12 month supply, the market is more balanced – meaning slow price growth – see **B on chart 7**. Over 12 months suggests an oversupply of homes on the market.

6. Vacancy rate
Cairns Region



7. Time needed to sell existing homes
Cairns Region



Charts 8 and 9 outline weekly rents being achieved for existing two bedroom apartments and three bedroom detached houses.

Reflecting the rising vacancy rate (see **chart 6**, again), local weekly rents appear to have peaked. See **A and B** on **charts 8 and 9**.

Median weekly rents for existing dwellings are outlined for 2015 and what we expect them to grow to by 2020 (next five years):

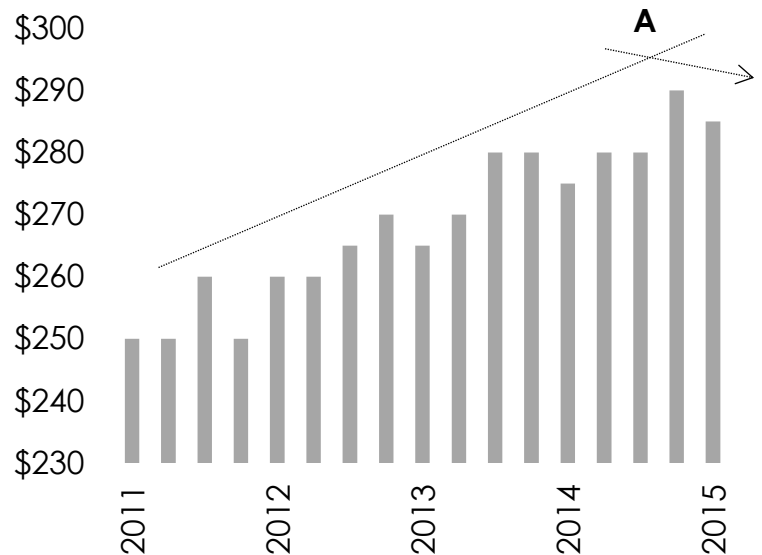
	2015	2020
➤ One bed apt	\$210	\$245
➤ Two bed apt	\$285	\$330
➤ Three bed apt	\$350	\$400
➤ Two bed t/house	\$260	\$300
➤ Three bed t/house	\$350	\$400
➤ Two bed house	\$300	\$350
➤ Three bed house	\$355	\$410
➤ Four bed house	\$420	\$485

New dwellings should attract the following rental premiums.

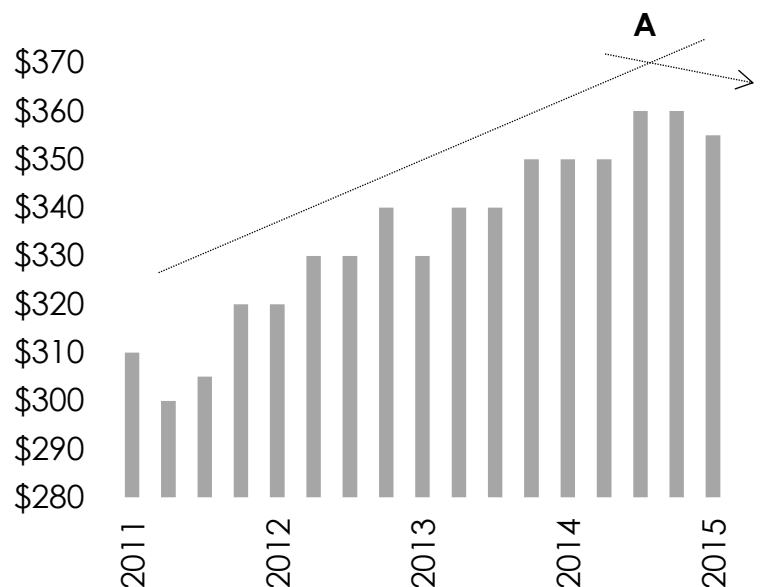
➤ Apartments	20%
➤ Townhouses	20%
➤ Detached houses	25%

We anticipate that weekly rents will show limited growth, whilst the vacancy rate remains high. Some rental growth, however, is expected over the next five years. But this will be less than the last five years. New rental homes should continue to attract a slight premium over older stock.

8. Weekly rents – Two bedroom apartments Cairns Region



9. Weekly rents – Three bedroom houses Cairns Region





About 170,000 people currently live in the Cairns area.

Chart 10 shows that this resident population is projected to increase.

The projected rate of population increase is 4,000 new residents each year over the next decade. However, over recent years the population growth rate has been less, increasing by 2,800 per annum.

Our modelling suggests that there is a need to build 1,800 new dwellings each year – assuming a population increase of 4,000 per annum over the next ten years – in the Cairns area.

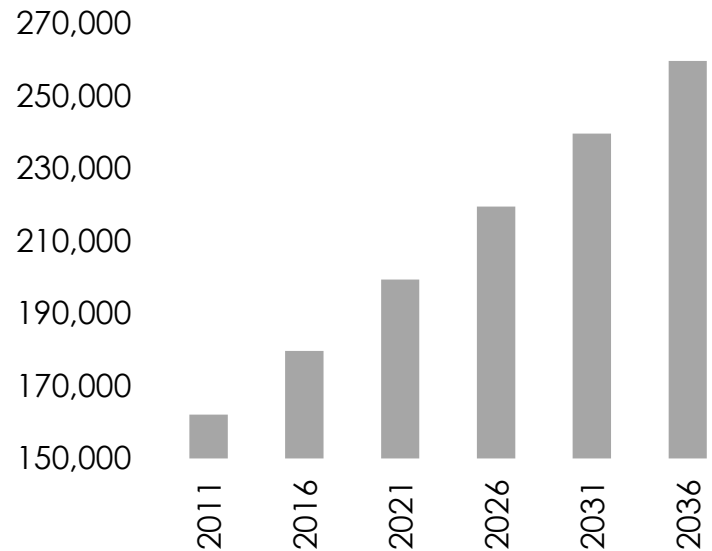
Over recent years, the housing demand has been less – around 1,275 per annum – due to the lower than projected population growth rate.

However, **chart 11** shows that new housing starts – which totalled 2,400 dwellings over the past four years – are quite short of the current underlying demand of 1,275 per annum; or 5,100 new homes between 2012 and 2015.

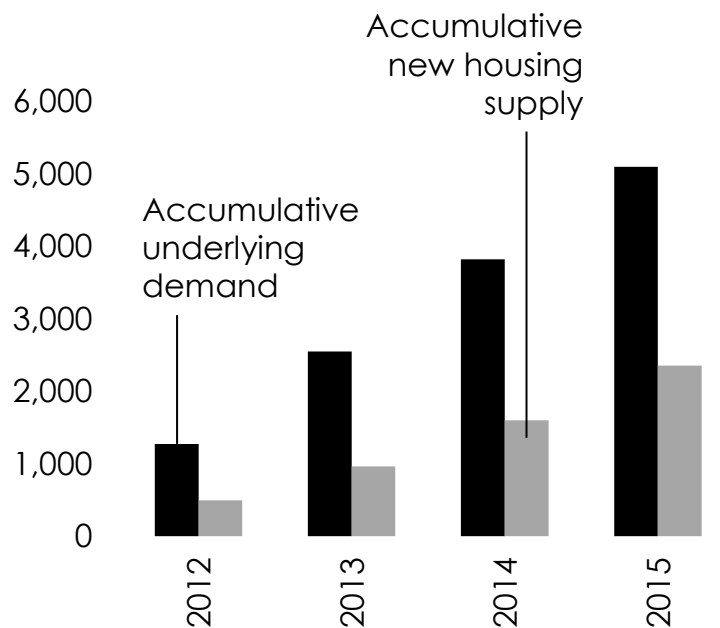
We estimate that the Cairns area's new housing market is undersupplied to the tune of about 50%.

There is a latent demand for more new homes in the Cairns area.

10. Projected residential population
Cairns Region



11. Underlying housing demand v new supply
Cairns Region





We have determined the need to build up to 1,800 new dwellings each year over the next decade in the Cairns area.

But what type of housing will be in greatest demand?

To determine such, we break the projected demographic into several distinct buyer segments.

Chart 12 shows the size of each buyer segment by expected increase in households in the Cairns area over the next decade.

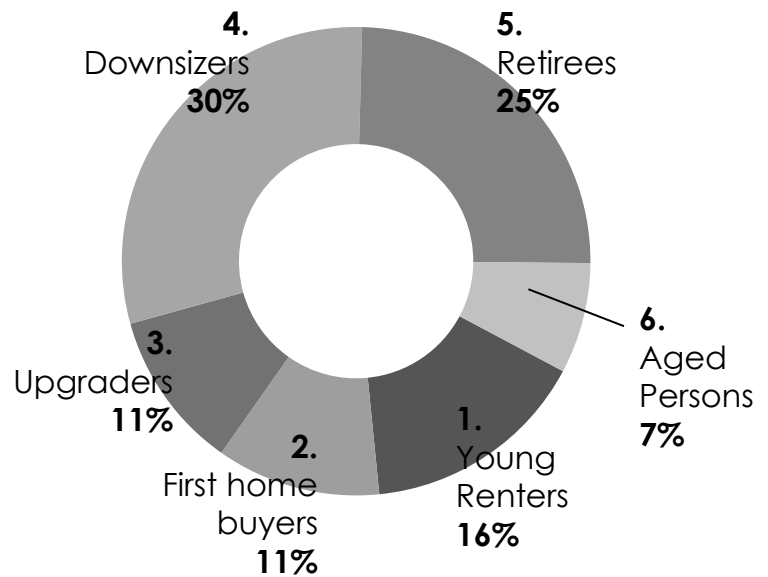
When determining the most likely demand by housing type, we cross-reference the growth projections for each of our six buyer segments – again, see **chart 12** – with locational-based dwelling preferences.

Over the next decade, by our calculations, the size of the housing need by housing type is as follows:

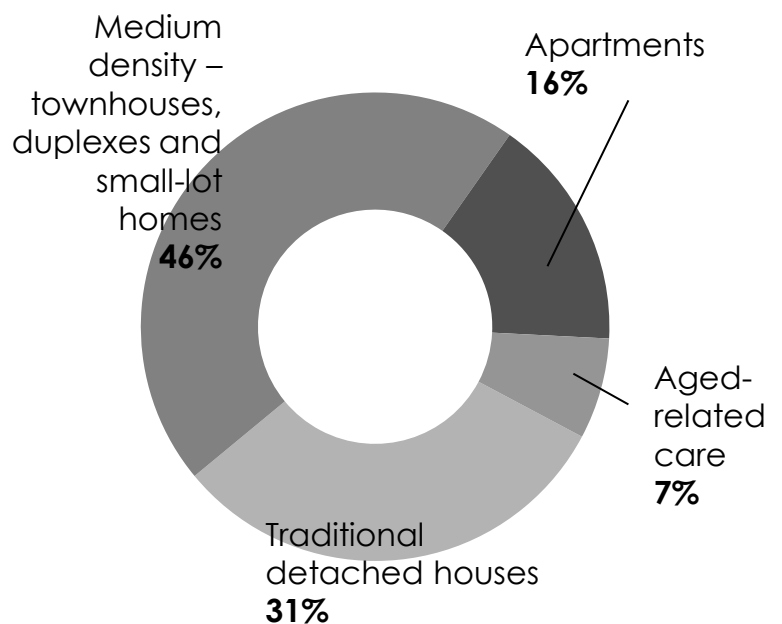
- 46% - Medium density dwellings such as townhouses, duplexes and small-lot homes
- 31% - Traditional three and four bedroom houses on standard allotments
- 16% - Apartments, especially in smaller infill-style complexes.

See **chart 13**.

12. Next decade: Distribution housing demand Cairns Region



13. Next decade: Demand by housing type Cairns Region





Approximately 108,000 people work in the Cairns area.

Between 2006 and 2009, the size of the Cairns job market grew considerably. See **A on chart 14**. The job market then plateaued – see **B** – and in recent years has fallen – see **C on chart 14**.

Over the last three years close to 10,000 local jobs have been lost.

New jobs would be created locally with the return to more new housing starts. However, Cairns has a high unemployment rate at 6.8%.

Local household incomes, whilst higher than the Queensland average, have not grown much beyond the state wide average in recent years. See **chart 15**.

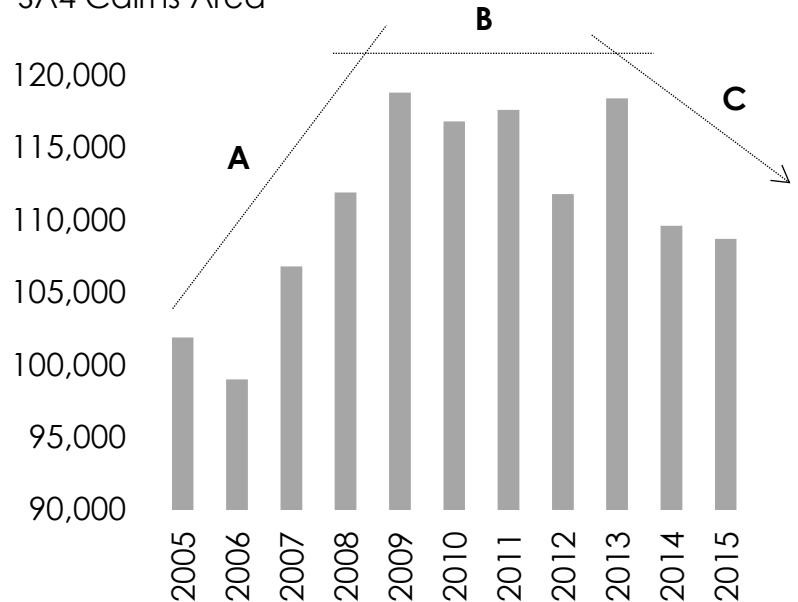
Two key fundamentals behind local demand for residential property are job creation and increasing household income.

The Cairns housing market is seriously constrained by future job prospects and limits to local earning capacity.

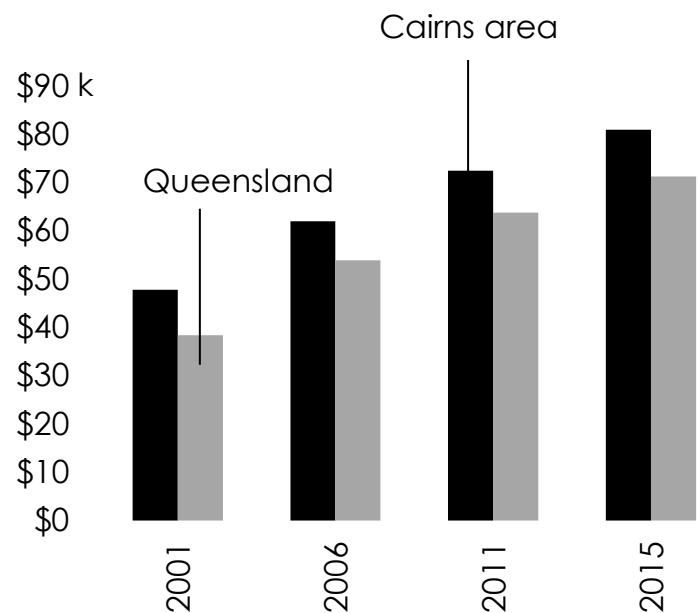
Local wages are expected to remain flat whilst u/e remains high.

Cairns needs a major boost – most likely in relation to tourist infrastructure – to improve employment and its housing outlook.

14. Total employed
SA4 Cairns Area



15. Average family household income
Cairns Region





Our aim is to help de-risk a new residential project.

We can also provide valuable market intelligence – the power to know what the market wants, and where it wants it. This insight can significantly increase the sale-ability of your project.

We welcome enquiries at any stage of the project, however, we provide the most value at the beginning, in your planning stages. However, it's never too early or too late to contact us.

We offer four consultancy services:

1. Project Definition

Pertinent advice on a new residential development opportunity. We help define the project. This typically involves a briefing meeting, site visit and short report.

2. Project Positioning

An in-depth analysis outlining the rationale and need for the given project/property in the general area. Best used with due diligence; potential end buyers, especially investors; other property-related professionals; potential joint venture partners and to help sell the subject site.

3. Project Advocacy

Matusik advocacy support is limited to our Project Positioning clientele. Advocacy clients may choose from a range of Matusik promotional products and services. We offer exclusivity – in terms of public support – for our advocacy clients – terms and conditions apply.

4. Outlook Reports and Presentations

Michael Matusik is also available as a speaker for real estate events. We often bundle a tailored market outlook report in with our speaking engagements. Sponsorship opportunities plus attractive progressive payment plans are available.

For a free consultation and quote:

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Michael Matusik is a thought leader in the Australian housing industry and a member of the [Future Housing Taskforce](#).

A 26 year veteran in this business, Michael has helped close to 600 new residential projects come to fruition and in the late 1990s established his own advisory business – Matusik Property Insights.

Michael is a qualified Town Planner with first class honours from the University of Queensland.



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RISKS OF INVESTING IN PROPERTY

Direct investment in residential property, like all investments, involves a number of risks. If these eventuate, your income might be lower than expected. There may even be none. In addition, the capital value of your investment could fall.

The key risks of investing in property are outlined below:

- The property purchased may not provide the income or capital gains the asset was expected to produce.
- There is a risk that your property may, for periods of time, lie vacant and hence not generate income. Maintenance and repair costs are the investor's responsibility and can vary, and at times be significant. Such costs are sometimes recoverable from rental bonds or under insurance policies.
- There are a number of factors that affect the general property market including increases in supply and falls in demand; the cyclical nature of property values; increases in taxes and operating expenses; overall economic conditions; demographic changes; changes in town planning laws; casualty and condemnation losses; environmental risks; regulation on rents; detrimental new developments in the area; increases in interest rates; similarly, inflation and changes to bank funding policies.
- Gearing increases the volatility in the value of your investment. In the early stages of residential investment, a significant fall in the property's value may see balances fall to less than the total amount of borrowings.
- Increases in interest rates often increase the cost of borrowings.
- Changes in laws or their interpretations including taxation, superannuation and corporate regulatory laws, practice and policy could have an impact on your investment. You should seek professional tax advice before investing in residential property.

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