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Residential Property Report Karratha and Port Hedland, WA

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1 Overview

Atchison Consultants has been commissioned to provide an assessment of the residential property investment characteristics of the towns of Karratha, Port Hedland and South Hedland. The review has examined the residential and industry features of these towns and the Pilbara region and looks at the supply and demand drivers for the residential property markets.

2 Background

2.1 Port Hedland and South Hedland

The town of Port Hedland is located on the east Pilbara coast in Western Australia.

The two main residential centres of the Port Hedland region are Port Hedland and South Hedland, with the remaining population living on pastoral stations or in Indigenous communities.

Millstream and Karijini National Parks are located nearby, while Broome and the Kimberley are also within reach. Port Hedland lays 1761km from Perth via the North West Coastal Highway or 1600km via the Great Northern Highway.

The Wedgefield Industrial Area of Port Hedland contains a variety of light and service industry premises, while the feature which now dominates the landscape is the BHP Billiton Iron Ore Nelson Point crushing and shipping facility. The Port is one of the world's largest in tonnage terms, with over 70 million tonnes of product worth more than \$3 billion shipped each year. Port Hedland is the highest tonnage port in Australia and largest town in the Pilbara region of Western Australia with a population of approximately 14,000 (this includes its satellite suburb South Hedland, 18 km away).

Port Hedland is a natural deep anchorage port which, as well as being the main fuel and container receivable point for the region, was seen as perfect for shipment of the iron ore being mined in the ranges located inland from the town. The ore is moved by railway lines from four major iron ore deposits to the east and south of the Port Hedland area. Other major resource activities supported include the offshore Natural gas fields, salt, manganese, and livestock.

South Hedland was originally established in the mid-1960s and serves as a predominantly residential area for the nearby mining communities. It now caters for more than half of the Port Hedland population. Revitalisation of the South Hedland town centre is underway with planning approval for the development of up to 130 townhouses and apartments plus commercial and retail space. The town centre upgrade is a key part of the State Government's Royalties for Regions program with \$23million of funding being injected to help change the face of South Hedland.

2.1.1 Industry

The main industries are iron ore processing and export, salt production from evaporation ponds for export, shipping of manganese and other minerals and livestock production (mainly cattle).

The two major business enterprises within the town are BHP Billiton, which operates a significant iron ore processing and shipping facility and a complex direct reduced iron plant producing iron briquettes for export; and Dampier Salt, which produces over 3 million tonnes of industrial salt annually for export from solar salt ponds. There is a range of companies providing varied support services including metal fabrication and welding, mechanical and electrical services, construction and general contracting, automotive services, building trades, cleaning services, freight transport, and painting and corrosion control.

Retail businesses operate in various locations in Port Hedland, South Hedland and the Wedgefield Industrial Area.

There are a large number of major resource projects around the Port Hedland region which employ a substantial construction, and to a lesser extent operational, workforce. Appendix A summarises the current projects under construction or operation and those that are being considered for the region.

Table 1 shows the construction workforce and the number of employees required to remain to operate the projects.

Table 1 – Required workforce for major resource projects – Port Hedland

	Construction workforce	Permanent workforce
Current projects	5,700	2,020
Projects under consideration	2,576	1,395
Total - Port Hedland	8,276	3,415

It should be noted that this is a current snapshot of the projects underway and under consideration. The number and scale of projects in the future may be significantly different.

As illustrated in Table 1 the permanent workforce is significantly less than that required in construction of projects, however it remains significant (a potential population increase of 25%+ on the existing population), and is likely to have a large impact on the medium to long term growth in population for this area. Almost half of the projects do not currently publish an estimate of the required workforce and as such the actual employee requirements are likely to be considerably higher.

2.2 Karratha Overview

The town of Karratha was founded in 1968 on Nickel Bay as a joint State Government-Hamersley Iron development to house the workers, buildings and equipment needed for the Hamersley Iron mining project.

The huge North West Shelf Project has been central to Karratha's livelihood. These and other local companies using Karratha's wealth of natural resources have invested in the town and as a result it has out-grown its 'company town' status.

Now the busy centre of the Pilbara district, Karratha is large and its facilities are modern. Karratha is located approximately 1,535 kilometres (954 mi) north of Perth and 850 kilometres (528 mi) south of Broome on the North West Coastal Highway.

Much of the business conducted in the Pilbara region has its administration centres in Karratha, including government departments.

Karratha and Dampier are located within the Roebourne shire.

2.2.1 Industry

The North West Shelf Project is a key offering to Karratha's business activity, drilling into vast natural gas reserves off the coast behind the islands of the Dampier Archipelago.

Representing an investment of A\$27 billion, the Woodside-operated North West Shelf Venture facilities constitute Australia's largest oil and gas resource development and currently account for more than 40 per cent of Australia's oil and gas production.

The North West Shelf Venture supplies oil and gas to Australian and international markets from huge gas and condensate fields in the Carnarvon Basin on Australia's northwest continental shelf.

For 25 years the North West Shelf Venture has been Western Australia's largest producer of domestic gas, and currently provides about 65 per cent of total State production. Domestic gas is processed at the Karratha Gas Plant and delivered to customers in southern Western Australia via the 1600km Dampier to Bunbury Natural Gas Pipeline.

Production from the North West Shelf Venture accounts for about one per cent of Australia's gross domestic product and contributes more than A\$3 billion each year in taxes and royalties. Almost A\$800 million a year is injected directly into Australian business through operating costs, and thousands of jobs are created during construction and as part of ongoing operations.

A recent major project for the Karratha region is construction of the Gorgon natural gas processing project. The project is estimated to cost A\$43 billion and will require a peak workforce of around 10,000 in construction. The gas processing component will be located on Barrow Island, approximately 70km off the Pilbara coast, and will utilise geosequestration (carbon dioxide injection deep into the earth) for greenhouse gas management.

Appendix B summarises the current and proposed energy projects for the Karratha region.

Table 2 shows the construction workforce and the number of employees required to remain to operate the projects.

Table 2 - Required workforce for major resource projects – Karratha

	Construction workforce	Permanent workforce
Current projects	12,950	2,310
Projects under consideration	12,400	1,395
Total - Karratha	25,350	3,705

As shown in table 2 the construction workforce is substantially higher than the permanent operational workforce required, however the permanent workforce will again boost the long term population of the Karratha region.

2.3 Pilbara Community Based Developments

One of the major problems affecting resource towns such as Karratha and Port Hedland is the domination of the resource industry in the Pilbara region. This tends to drain the towns of labour and capital investment in vital sectors such as services and building/construction as they struggle to compete with the significant compensation offered through resource oriented work. There is a need for these towns to have greater economic diversity and provision of services in order to retain a stable population and healthy community.

Various development projects in the Pilbara region are underway or in the planning stages in order to help address these issues. These projects will serve to stimulate the local economies and improve social welfare for local as well as prospective residents in the area.

These developments include:

- The first stages of plans to develop a community park in South Hedland are progressing swiftly. The facility has been estimated to cost \$4.6 million and will be funded by the Town of Port Hedland, BHP Billiton Iron Ore, the South Hedland New Living Project and Newcrest Mining.
- Newman Community Collocation Centre - The project's aim is to establish a purpose built collocated facility to provide affordable, permanent and occasional accommodation for existing not for profit and government funded service providers in Newman and to attract additional services to the town.
- BHP Billiton Iron Ore has recently announced a \$150 million housing program spread across the towns of Port Hedland, South Hedland and Newman. The two-year program features a number of innovative housing models for permanent, semi-residential and mining camp accommodation in the region.

The investment in community development and infrastructure by major corporations serves as an indicator of 'urbanising' and economic as well as social development of

these townships. These projects may not directly bring in large increases in population; however they may go some way in helping to stabilise the dynamic population numbers, keeping more people in Pilbara as it becomes increasingly urban and acceptable as an area for families to live and grow. It is very much a case of resource projects being a driver for population growth, whereas community development and investment will drive population stability and retention.

The Western Australia state government also provides funds for regional areas through the Royalties for Regions program whereby the equivalent of 25 per cent of the State's mining and onshore petroleum royalties are returned to the State's regional areas each year as an additional investment in projects, infrastructure and community services. The grants scheme has been developed to provide money for projects which help attract investment and increase jobs or improve the quality of life in regional Western Australia.

3 Port Hedland and Karratha Residential Property Markets

This section examines the forces that affect Port Hedland and Karratha residential property markets. Shire or state information is used as a guide where data is not available at the town level.

3.1 Housing stock

Table 4 shows the total housing stock for the town of Port Hedland as measured in 2001 and 2006 censuses.

Table 4 – Housing stock – Port Hedland

		Separate house	Semi-detached house*	Units [^]	Other dwelling	Total
2001	No.	2,661	749	444	506	4,360
	%	61.0%	17.2%	10.2%	11.6%	100.0%
2006	No.	3,272	418	348	612	4,650
	%	70.4%	9.0%	7.5%	13.2%	100.0%
2001 - 2006 change		23.0%	-44.2%	-21.6%	20.9%	6.7%

* Includes row or terrace houses and townhouses

[^] Includes flats and apartments

Source: ABS

Total housing stock has increased by 6.7% over the five year period to June 2006 mainly due to increases in separate houses and other dwellings. The number of occupied semi-detached houses decreased significantly as did units though to a lesser degree which is perhaps attributable to the census being conducted during a low point in Port Hedland's population.

Table 5 shows the total housing stock for the shire of Roebourne as measured in 2001 and 2006 censuses.

Table 5 – Housing stock – Roebourne shire

		Separate house	Semi-detached house*	Units [^]	Other dwelling	Total
2001	No.	3,448	1,029	126	669	5,272
	%	65.4%	19.5%	2.4%	12.7%	100.0%
2006	No.	3,836	1,114	243	897	6,090
	%	63.0%	18.3%	4.0%	14.7%	100.0%
2001 - 2006 change		11.3%	8.3%	92.9%	34.1%	15.5%

Total housing stock has increased by 15.5% over the five year period to June 2006 mainly due to increases in separate houses and other dwellings. The number of occupied units doubled however this was from a relatively low base.

3.2 Ownership

Home ownership in the town of Port Hedland and Roebourne shire is quite low, compared to the national average of 70%, at around 30% - 35% of dwellings owned or with an owner occupier mortgage.

Table 4 - Housing Tenure - Occupied Private Dwellings

Port Hedland	2006		2001	1996
	No.	%	%	%
Fully owned	467	10.0%	11.7%	10.4%
Being purchased	943	20.3%	24.1%	25.7%
Rented	1,901	40.8%	53.7%	51.9%
Other Tenure	1,343	28.9%	10.5%	11.9%
Total	4,654	100.0%	100.0%	100.0%

Roebourne Shire	2006		2001	1996
	No.	%	%	%
Fully owned	910	14.9%	14.8%	13.2%
Being purchased	1,123	18.4%	21.9%	24.4%
Rented	3,089	50.7%	55.4%	55.1%
Other Tenure	968	15.9%	7.9%	7.2%
Total	6,090	100.0%	100.0%	100.0%

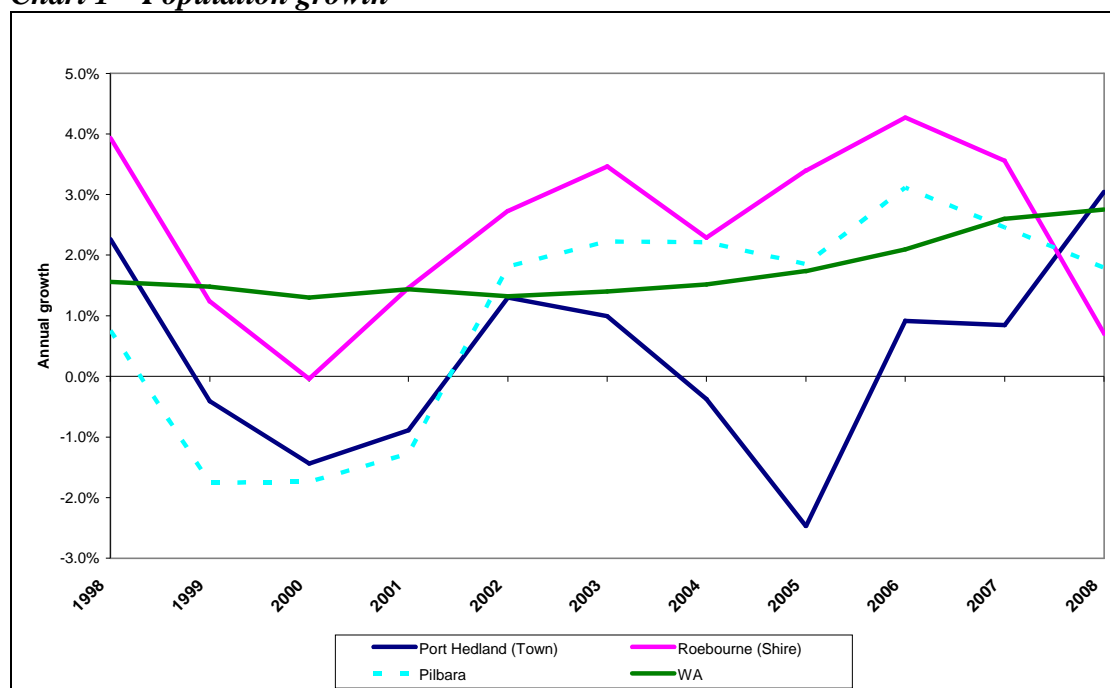
3.3 Demand Drivers

There are several factors that influence demand for residential property. They include housing affordability, social trends, regulatory constraints and demographics.

3.3.1 Population growth

Chart 1 shows the population growth rate per annum of the town of Port Hedland, shire of Roebourne, which encapsulates the town of Karratha, the Pilbara region and the state of Western Australia (WA).

Chart 1 – Population growth

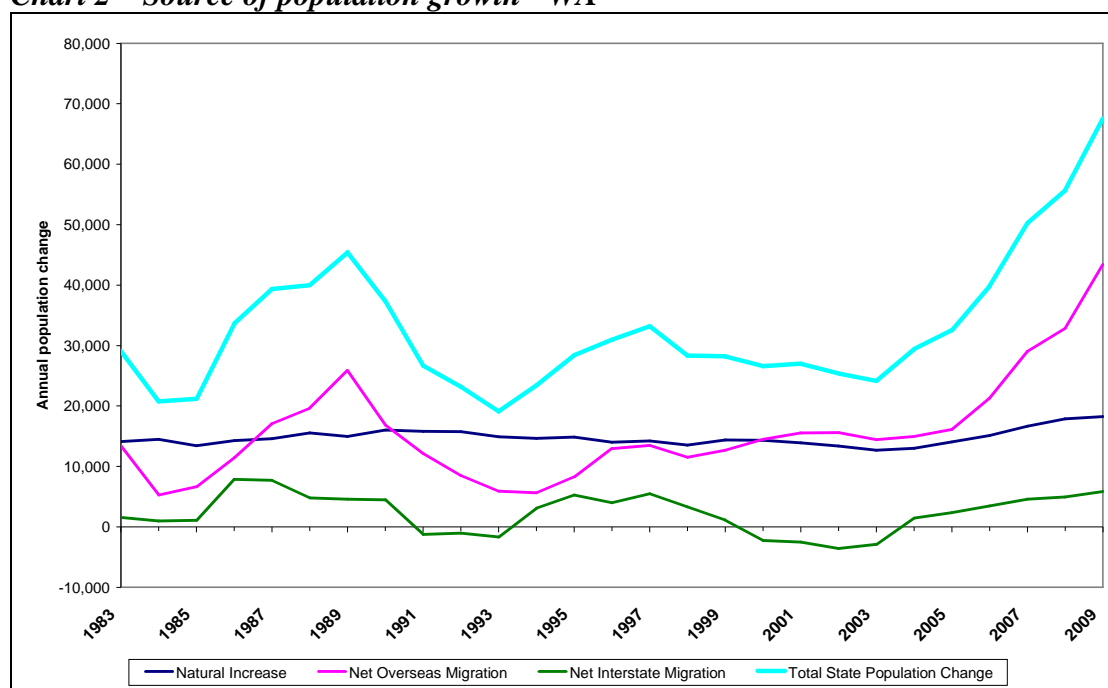


The growth in population for the Pilbara region, particularly Port Hedland, has been quite volatile over the ten year period to 30 June 2008 reflecting the periodic nature of work in this region (fly in fly out – FIFO workers). Port Hedland’s estimated population decreased marginally from 1999 – 2001 and again in 2004-05. The growth rate for the state has been relatively stable with a steady marginal increase in growth from 2002.

Annual net overseas migration to WA has grown considerably since 2005 and has been the main source of population growth since. Net interstate migration was marginally negative (i.e. more people leaving WA) from 1991-93 and from 2000-04 and has been a positive contributor since 2004.

Chart 2 shows the various sources of population growth for the state of WA.

Chart 2 – Source of population growth - WA



Source: ABS

The ABS has projected that the population of Western Australia will more than double from the current level of around 2.1m to 4.3m in 2056. The state will increase its share of Australia's population from 10% at 30 June 2007 to 12% in 2056, while Perth will increase its share of the state population from 74% to 78% over this period.

3.3.2 Housing Affordability

Chart 3 illustrates housing affordability indices for Perth and Australia. Housing affordability jumped by around 39% at the national level in the three months to 31 December 2008 following the substantial reduction in interest rates by Reserve Bank of Australia from 7.25% at the start of September 2008 to 3.0% by April 2009. As a result standard variable mortgage rates reduced from around 8.95% p.a. in September 2008 to the current level of around 5.1% p.a.

This massive reduction in mortgage rates greatly reduced the typical mortgage repayments for variable loans making residential property more affordable. There was also a small drop in prices in most capital cities which further increased affordability.

Affordability declined in the June 2009 quarter due to house price increases, but remains well above affordability levels at 30 June 2008.

Chart 3 – Housing affordability



Perth house prices have experienced strong growth over the five year period to 30 June 2009 due in the main to the mining boom and resultant massive demand for housing. The impact on affordability can be seen in the above chart, with Perth significantly less affordable than the national average from 2005 to remain the least affordable city as at 30 June 2009.

Major companies, and to a lesser degree Government agencies, subsidise accommodation for their workers which can make it difficult for the rest of the population to compete for affordable housing. The high demand for accommodation and resultant high accommodation costs significantly drives up the cost of living in these towns. This is to the detriment of the health of these communities as they struggle to maintain non-resource sectors.

On standard housing affordability measures Australian houses have been relatively expensive. After adjusting for the high levels of migration the house price gap is in approximate equilibrium.

3.3.3 Social Trends

The increased median marriage ages, higher divorce rates along with the greater number of single households have boosted household formation and demand for residential real estate in Australia.

ABS projections for Western Australia are for the state to experience the second highest household growth in Australia over the period 2001 to 2026. Compared to projected national growth of between 39% and 47%, the number of households in Western Australia is projected to increase by between 49% and 60%, from 724,000 in 2001 to between 1.1 million and 1.2 million in 2026.

The significant household growth in Western Australia is due in the main to strong growth in lone person households, which are projected to increase by between 72% and 139%, from 179,000 in 2001 to between 307,000 and 428,000 in 2026¹.

3.3.4 Government Initiatives and Tax Concessions

There have been a number of Government initiatives introduced by Federal and State Governments designed to assist residential property owners. Of note is the First Home Owners Grant (FHOG) which was introduced to offset the effect of the GST on home ownership by providing a grant to first homeowners. This grant has contributed in part to the demand for houses. As a part of Budget 2009-10 the Australian Government announced a First Home Owners Boost (FHOB) which consisted of a further \$14,000 for existing homes and \$21,000 for new homes in addition to the existing state grants. The FHOB is due to end on 31 December 2009. The original FHOG of \$7,000 will remain available for first home buyers.

Also contributing to demand for residential property are tax concessions such as the 50% discounted capital gains tax for assets held for greater than one year and negative gearing which is discussed further in section 6.

3.3.5 Regulatory Constraints

Constraints on urban sprawl and development restrictions in Australia's major capital cities have contributed to increased demand for residential real estate. Urban sprawl creates the need for additional hospitals, schools, public transport and other public amenities, that are costly to provide, whilst potentially imposing a high environmental burden. As a result, in 2001, 85% of the Australian population lived within 50 kilometres of the coastline² whilst urban areas cover less than 0.3% of Australia's land mass³.

Development restrictions and urban consolidation collectively prevent land being used most efficiently. Landowner preferences for land usage are constrained by planning authorities which create artificial scarcity that drives up the value of land. Insufficient supply is a key driver of house price escalation and government regulatory policies are a key factor in rationing land availability.

¹ "Household and Family Projections, Australia, 2001 to 2026" ABS

² "Census of Population and Housing: Population Growth and Distribution, Australia, 2001" ABS

³ "Planning restraints; A plague on wealth and the democratic process" Institute of Public Affairs – April 2006

3.3.6 Restrictions on New Land/Housing Development

As evidenced by very high house prices and rents (see section 3.7 and 3.8) there is a considerable shortage of housing in the Pilbara region. Supply tends to be constrained by a lack of infrastructure due to the remoteness of the location.

The two major forces which act to restrict the advancement of housing and land developments are Native Title restrictions under the Native Title Act 1993. In addition, the Environment Protection and Biodiversity Conservation Act (EPBC) can pose barriers in regards to land release as well as building restrictions on size, height, etc.

Town Planning Scheme amendments are relatively straight forward as regional and local governments are very ‘pro-development’ as they look to urbanise the Pilbara region and making it more acceptable for family life. This is part of a bid to increase the number of permanent residents in addition to the FIFO and temporary workers which form a substantial part of the demand for housing in the area. Contrary to popular belief, the majority of housing demand actually comes from local residents who live and work in the Pilbara region on a permanent basis.

Furthermore, there is minimal unconstrained land available throughout the Pilbara region, which also affects the flexibility for new housing and land developments to be commenced.

The following are town specific summaries of development restrictions:

Port Hedland

The Environmental Protection Agency (EPA) was concerned about dust contamination stemming from mining works in the west of Port Hedland. This led to a policy of small one-bedroom homes being built up in the residential areas. It acted as a precautionary measure in an attempt to protect children and large families from the feared contamination, but still allowed singles and couples to dwell in the area for work and development purposes. The town of Port Hedland comprises mostly old dwellings, typically greater than 25yrs old, that were built cheaply at the time.

South Hedland

South Hedland is dominated by commission housing with virtually no town centre. The remnants of an old development project undertaken by the Department of Housing still mark the town. LandCorp, with the assistance of the regional government, is re-developing the South Hedland suburb in an attempt to re-brand its image to a place which supports new families and modern communities. Amenities in the area are being developed alongside a new and improved town centre which will accommodate the commercial aspects of the town, forwarding a “live work play” mentality throughout South Hedland.

Karratha

Karratha falls predominantly under R-40 zoning requirements, which places restrictions on high rise developments, and multi-story residential projects. The area is

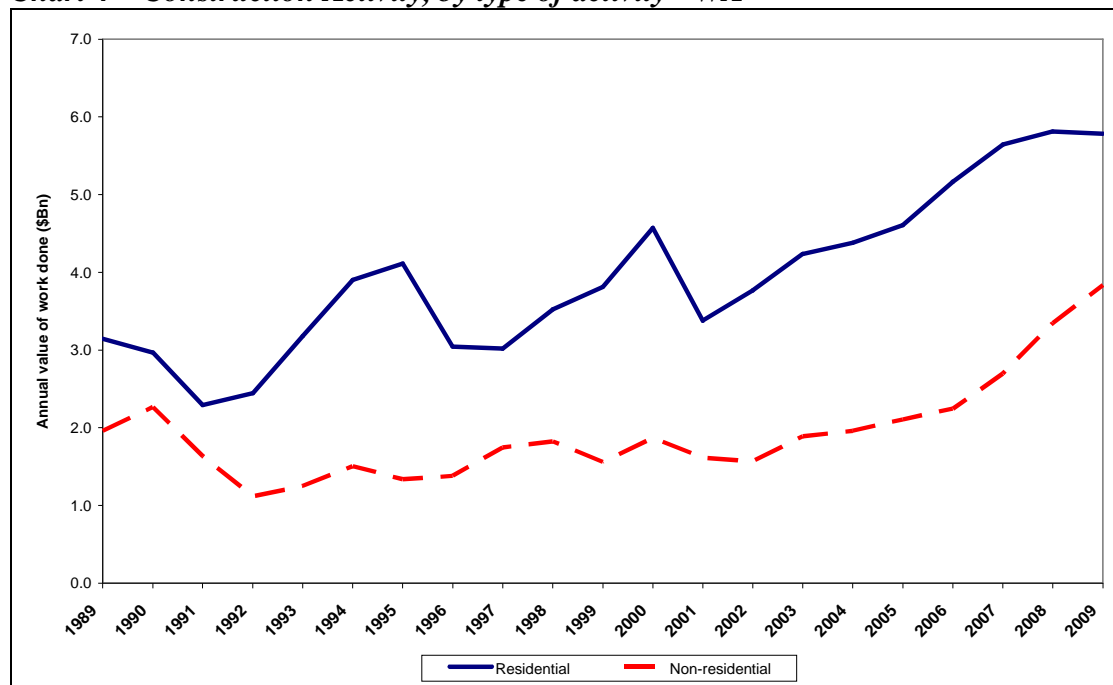
not particularly dense, and attempts are being made to adapt the town to a more residential feel, away from its current industrialised and commercial quality.

3.4 Supply Drivers

3.4.1 Construction Activity

Construction activity in residential building has been steadily increasing, as shown in Chart 4, with the exception of the 2000-01 period, which follows a spike generated by the introduction of the GST in July 2000. Dwelling construction in Western Australia has stabilised since its peak in mid-2006 with the boost in the first home owners grant for new homes offsetting any fall resulting from any oversupply generated during the mining boom.

Chart 4 – Construction Activity, by type of activity - WA



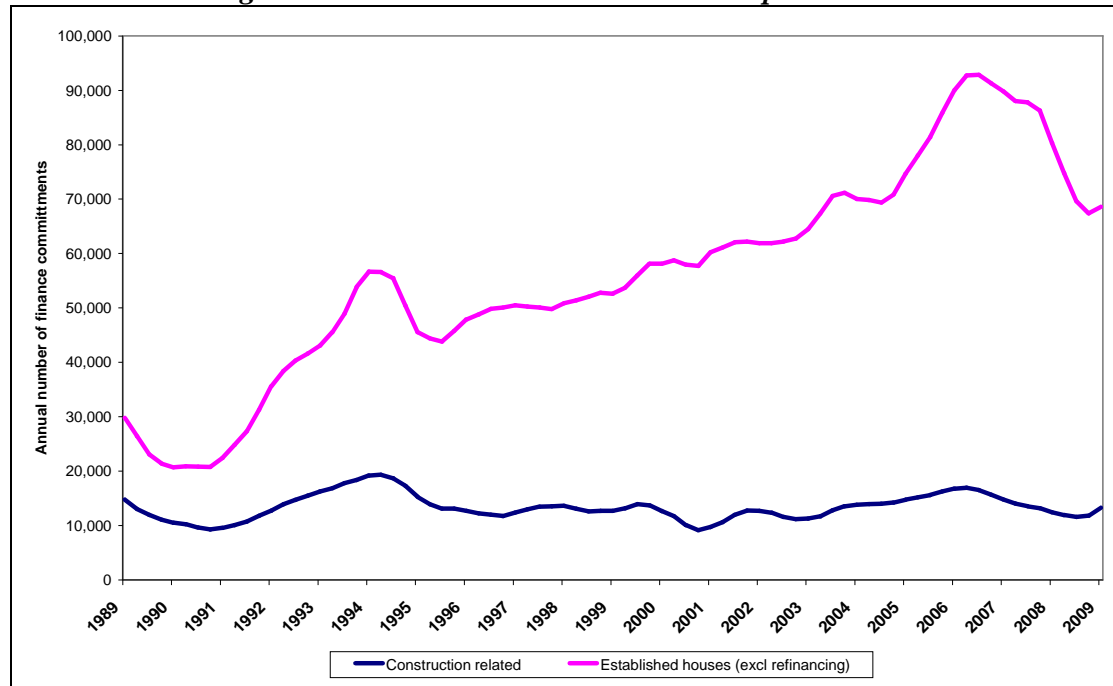
Source: ABS

3.4.2 Financing Levels

Since the mid 1990s, there has been an upward trend in established housing lending which peaked in 2006 and has trended downwards over the last three years, bottoming in December 2008. The number of finance commitments per year for owner occupiers has increased in March and June 2009 quarters reflecting the increase in FHOG.

Construction lending for new houses in Western Australia has been relatively stable over the 20 year period to 30 June 2009 as illustrated in Chart 5.

Chart 5 – Housing Finance Commitments – Owner Occupier – WA

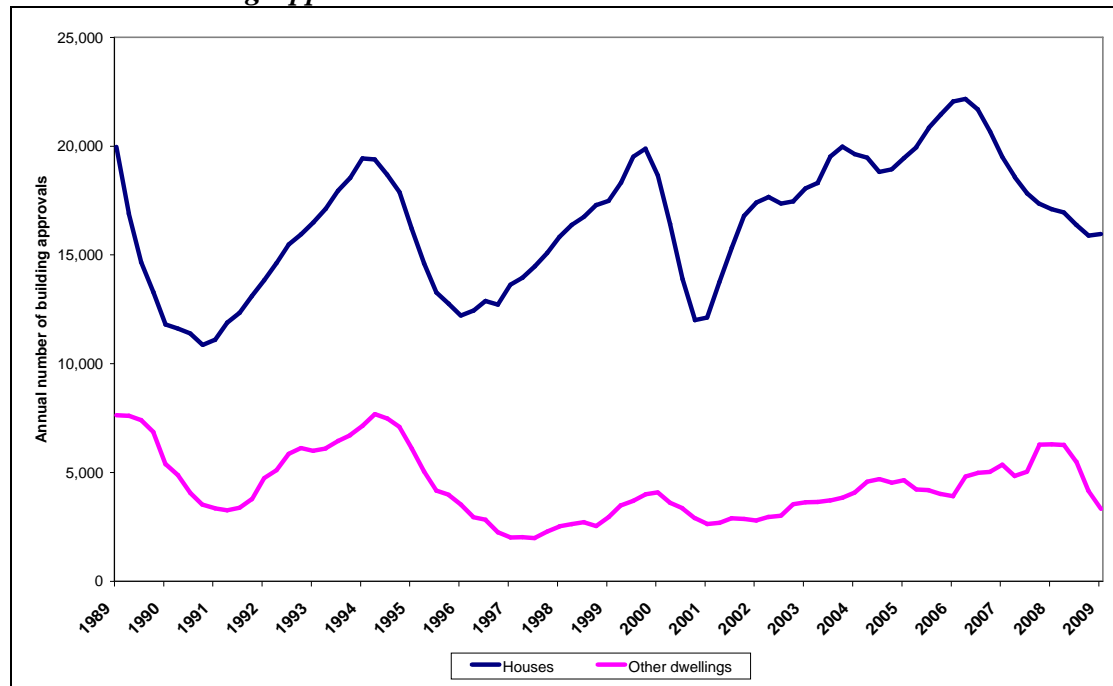


Source: ABS

3.4.3 Building Approvals

Chart 6 presents the fluctuations in the number of building approvals for houses over the 20 years to June 2009. As evidenced, the number of approvals for houses and other dwellings moves in a similar trend.

Chart 6 – Dwelling Approvals

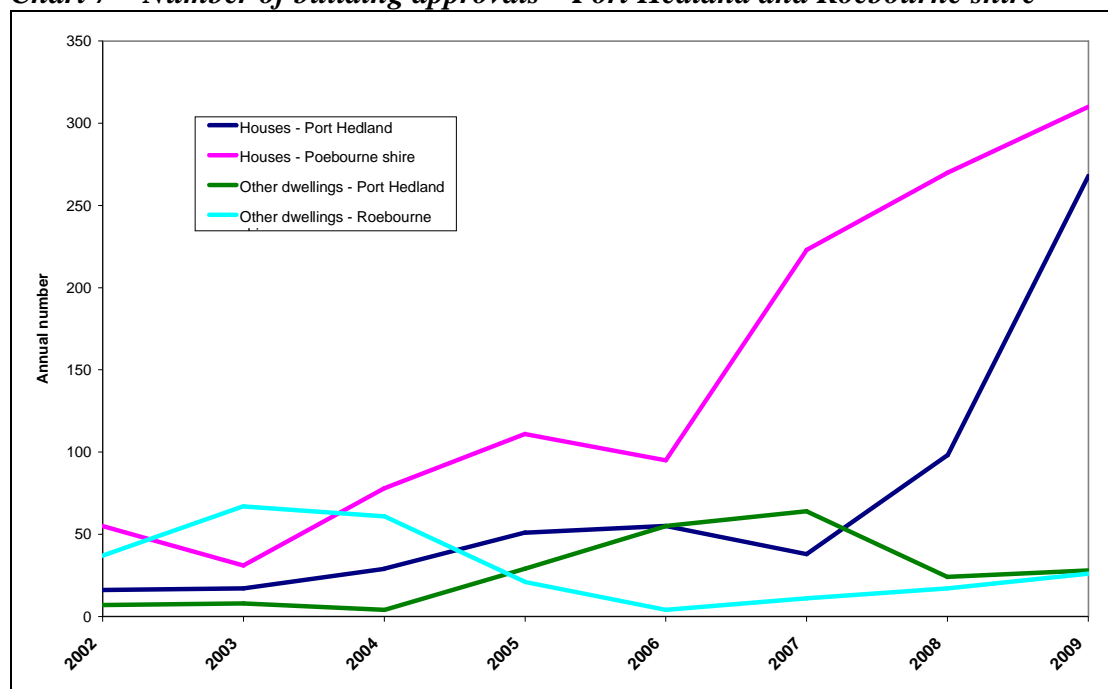


Source: ABS

There has been a significant reduction in dwelling approvals, particularly for ‘other dwellings’, over the year to 30 June 2009 which is in contrast to the marginal improvement in finance for new construction shown in Chart 5.

At the local level there has been an increasing trend in the number of house building approvals from 2002 to 2006 for both Port Hedland and Roebourne shire. There has been a steep rise in house building approvals in Roebourne shire since 2006, with Port Hedland house approvals also growing at fast rate from 2008 as shown in Chart 7.

Chart 7 – Number of building approvals – Port Hedland and Roebourne shire



Building approvals for other dwellings in both Port Hedland and Roebourne shire have been subdued over the seven year period to June 2009 with approvals averaging around 30 per year.

3.5 Housing Stock Shortfalls

Table 6 shows estimates of the annual deficiency or surplus of dwelling stock for Western Australia and the total for Australia for the years from 2006 to 2010. Positive figures indicate a deficiency.

Table 6 – Housing stock shortfalls – WA and Australia

	Australia (000s)	WA (000s)
2006	21.7	1.6
2007	47.6	1.0
2008	72.5	3.2
2009	128.9	10.4
2010(f)	151.6	11.2

Source: BIS Shrapnel

As shown in Table 6 the deficiency in Australia's dwelling stock more than doubled in 2007 and has since continued to increase at a rapid pace. Western Australia had an estimated housing shortfall of 1,600 dwellings in 2006 which then decreased

marginally for 2007. The housing shortfall for 2009 was estimated to be 10,400 and is estimated to comprise around 7% of Australia's overall deficiency in supply for 2010.

3.6 New Residential Supply

LandCorp is working in conjunction with industry, the community and State and Regional Government's in the Pilbara region. Together they are undertaking several residential developments and associated infrastructure improvements which are helping to update the area, offering new housing choices and improved community welfare.

3.6.1 Port Hedland

Port Hedland will see the addition of a new \$100m hotel development which will provide a significant boost to Port Hedland's visitor accommodation and social facilities. In addition, investment into recreation facilities, public art, parks, playgrounds and walkways as well as a new residential development are being planned, further enhancing the growing residential appeal of Port Hedland.

3.6.2 South Hedland

The town of South Hedland is set for a substantial revolution under a plan to create a new town centre incorporating residential, retail and commercial uses. In conjunction with the State Government's Royalties for Regions scheme, millions will be spent resulting in a new town centre, based around a new main street; new roads and updates of existing ones. Land development projects are underway which will allow for 600 new homes to be built. The project will be integrated with new infrastructure throughout the town, revitalising South Hedland and advancing it into the modern era.

3.6.3 Karratha

New residential developments being undertaken in Karratha will see the town enjoy the addition of a new school, various infrastructure projects and three housing developments which provide over 1200 additional lots, going some way in urbanising the town and creating a more community friendly environment.

A report commissioned by the Roebourne Shire and the WA State Government has identified that due to industry expansion and the resultant demand for labour, land banks are currently being prepared to house an additional 5,000 residents and workers north of the Karratha hills by 2020⁴.

While Karratha is estimated to be able to support a population of 35,000, environmental constraints such as uncomfortably hot weather will be a key consideration for any residential subdivision south of the Karratha hills which will be up to four degrees hotter.

⁴ "Karratha Vision 2020 and Community Plan – Shire of Roebourne", Geographia, January 2009,

3.7 Vacancy Rates and Rental Growth

3.7.1 Vacancy rates

Vacancy rates for residential rental properties provide a good indication of the degree of shortage or surplus of stock in market. BIS Shrapnel suggest that a vacancy rate of 2.5% or lower indicates a high level of demand whilst in a balanced market a vacancy rate of 3% would apply. Australian rental vacancy rates are at their lowest level since records began almost 40 years ago however Perth has recently increased above the five year average for those states. Vacancy rates for rented dwellings in Perth and the national weighted average are shown in Table 8. These figures highlight the impact of the combination of rapid population growth and inadequate supply of housing.

Table 8 – Vacancy Rates for Rented Dwellings

City	June 2009 quarter	5 year average
Perth	3.5%	2.2%
Australia*	1.9%	1.9%

*Population weighted average

Source: REIA, Atchison Consultants

After very strong rises over the last five years the Perth housing market has slowed as the global economic downturn depresses demand for resources. An oversupply is emerging in the areas around greater Perth most affected by the downturn and as a result vacancies have risen significantly.

4 Historical House Prices – Port Hedland, South Hedland and Karratha

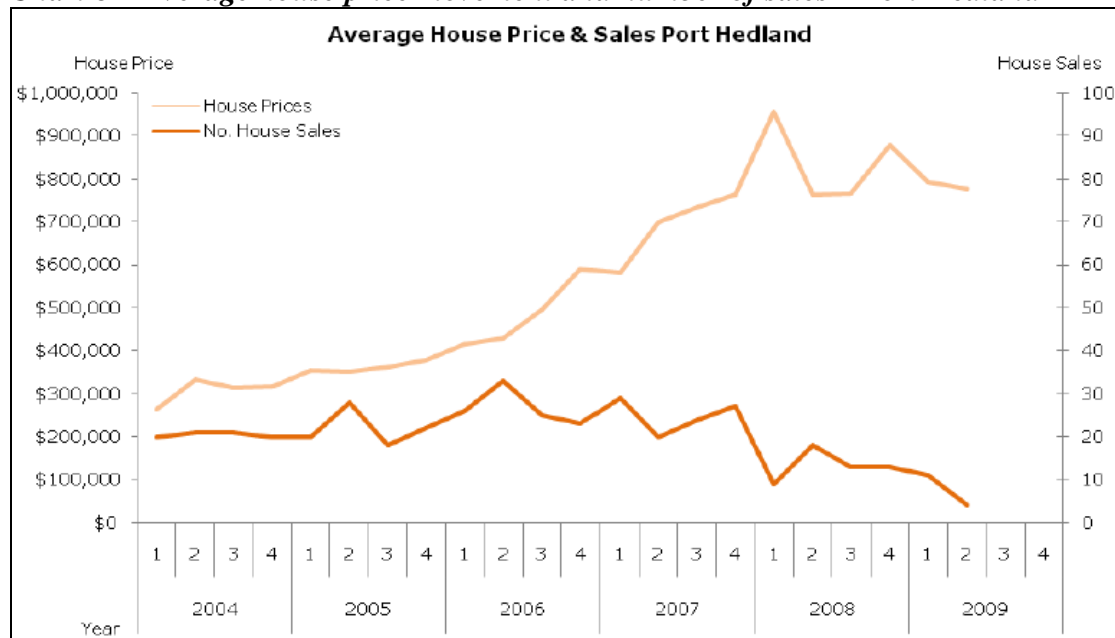
The WA state government’s Pilbara Development Commission (PDC) has published a ‘Housing and Land snapshot’ for the Pilbara region on a quarterly basis since March 2006. The snapshot includes price data and advertised rental information for Port and South Hedland and Karratha and attempts to measure the changes in price from house transactions and movement in rents.

While the depth of the data is limited, the PDC does attempt to put some compositional overlay onto its data by recording the number of bedrooms in a dwelling that has sold, or noting that the transaction related to vacant land. Transactions are recorded by Landgate, the State’s official register of land ownership, and the data is revised for a period as further transactions are settled.

Limitations in the data are the low number of sales in a quarter and the use of an average in place of a median price (a median is more commonly used for house prices as it disregards any outliers whereas an average will tend to be skewed by such outliers).

Chart 8 shows movement in the average house price and number of sales for Port Hedland over the five year period to June 2009.

Chart 8 – Average house price movement and number of sales – Port Hedland

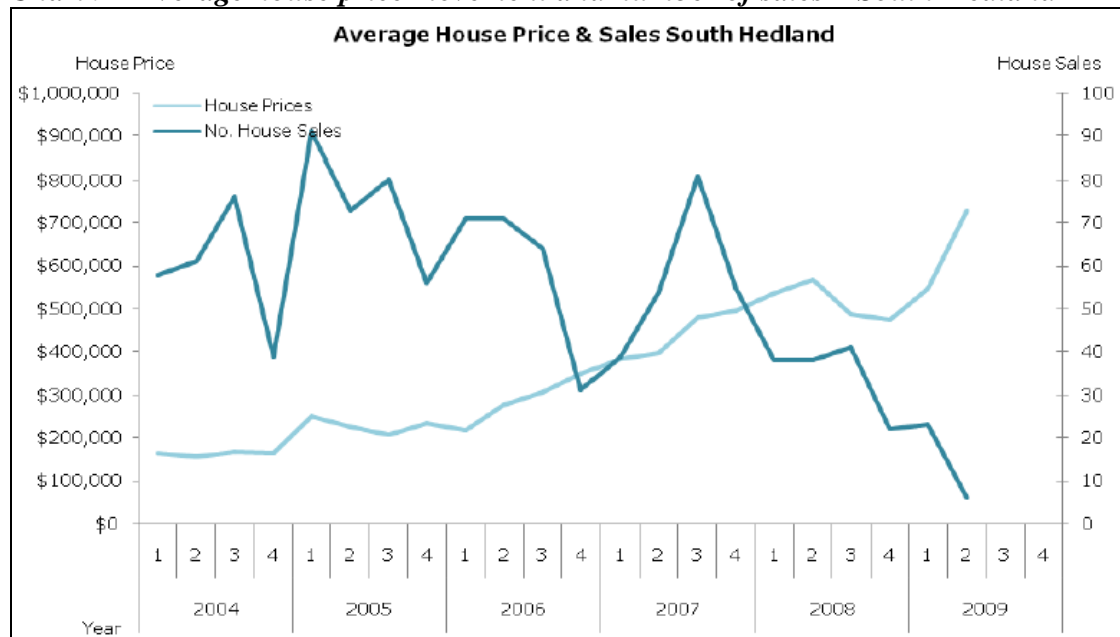


Source: Landgate, Pilbara Development Council

As shown in Chart 8, the number of transactions is relatively low on which to base any robust analysis, however the trend of house prices transacted is one that is steadily increasing to September 2007 where some volatility has been introduced due to the reducing number of transactions.

Chart 9 shows movement in the average house price and number of sales for Port Hedland over the five year period to June 2009.

Chart 9 - Average house price movement and number of sales – South Hedland

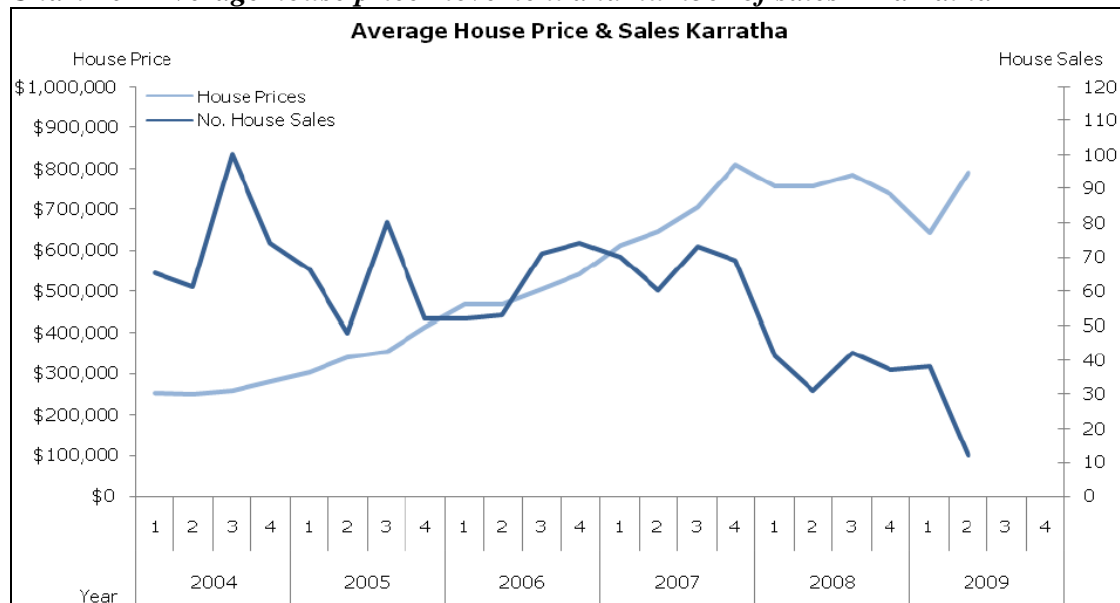


Source: Landgate, Pilbara Development Council

As shown in Chart 9, the number of transactions per quarter for South Hedland is significantly higher than in Port Hedland, particularly from 2004 – 2007 and has since decreased significantly. The average house price has steadily increased from 2004 (off a lower base than Port Hedland) through to June 2008. Prices have spiked from December 2008 through to June 2009, however this is based off a relatively low number of transactions.

Chart 10 shows movement in the average house price and number of sales for Karratha over the five year period to June 2009.

Chart 10 - Average house price movement and number of sales – Karratha



Source: Landgate, Pilbara Development Council

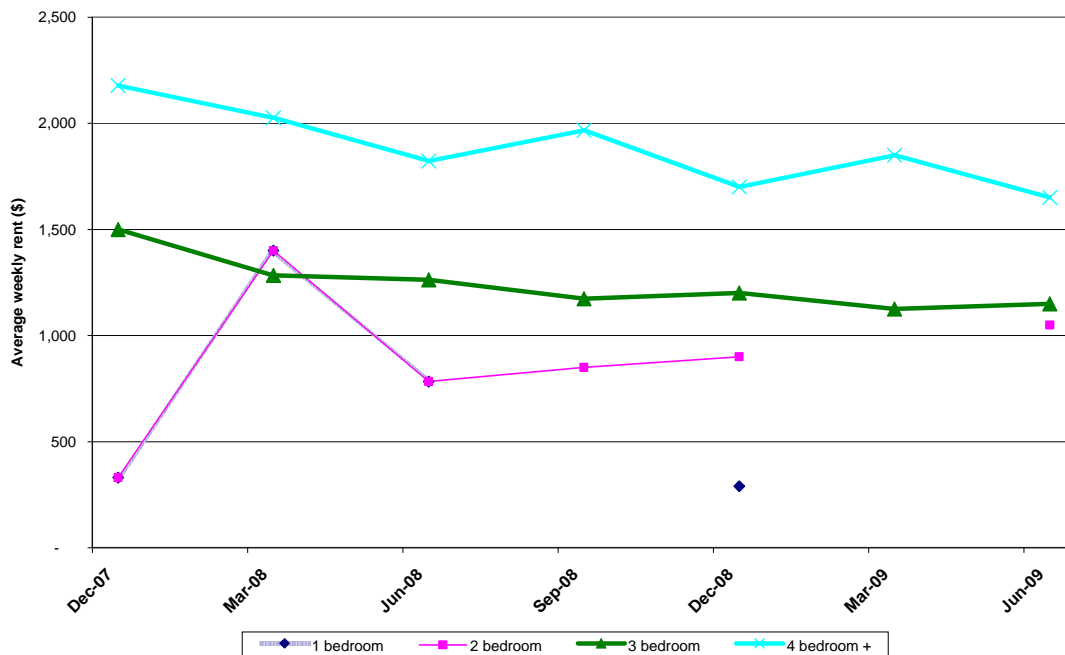
As shown in Chart 10, the number of transactions per quarter is similar to South Hedland. The average house price has steadily increased from 2004 (off a lower base than Port Hedland) through to December 2007 where it has remained relatively stable when the lower number of transactions increasing volatility is considered.

4.1 Rental growth

4.1.1 Karratha

Chart 11 shows the average weekly rent as advertised for rental properties in Karratha. Consideration of this chart needs to take into account the limitations in the data. Long term data is not available for Karratha, as such this chart shows only quite recent history. A further major limitation is the very low number of advertised properties in each quarter, particularly for one and two bedroom dwellings where the number of properties recorded was often either zero or one. The average weekly rent will also be affected by outliers in the data. Data for three and four plus bedroom dwellings is significantly better with most quarters recording around 10 or more properties. One and two bedroom dwelling data is combined until June 2008.

Chart 11 – Average weekly rent - Karratha



Source: Pilbara Development Council, Realestate.com.au

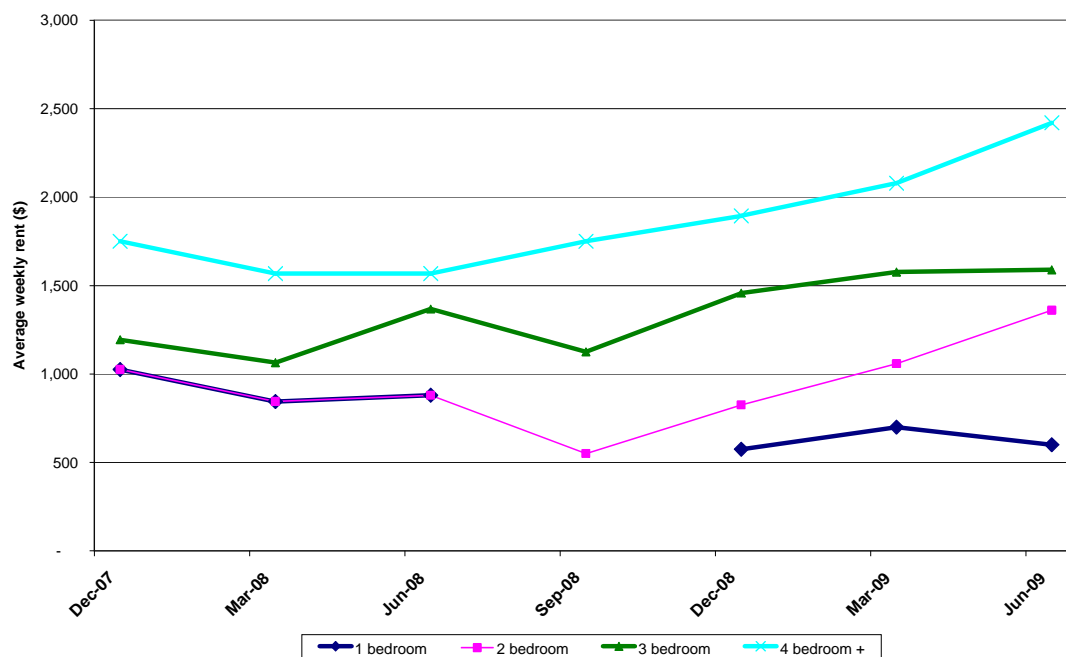
As shown in Chart 11 the average weekly rents for three and four plus bedroom dwellings are relatively stable over the period measured, with four bedroom dwellings trending downwards. One and two bedroom dwelling rents are significantly more volatile however this mainly reflects the lack of data.

Weekly rents for three and four plus bedrooms are substantially greater than an 18 month average of median weekly rents which are approximately \$388 per week for three bedroom houses in Australia (population weighted by state) and \$377 per week for three bedroom houses in Perth. It should be noted that data for Perth and Australia is substantially more robust.

4.1.2 Port Hedland

Chart 12 shows the average weekly rent as advertised for rental properties in Port Hedland. Consideration of this chart needs to take into account the limitations in the data. All rental data for Port Hedland is based on less than 10 advertised dwellings with the exception of three bedroom houses over the period from December 2008 to June 2009. One and two bedroom dwelling data is combined until June 2008.

Chart 12 – Average weekly rent – Port Hedland



Source: Pilbara Development Council, Realestate.com.au

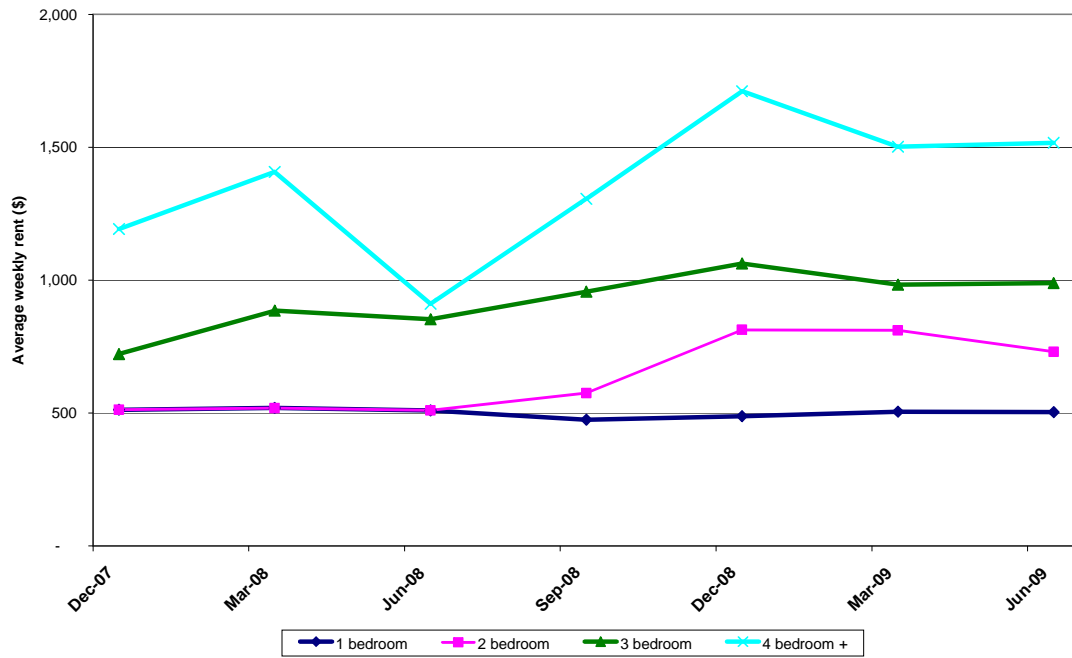
Chart 12 illustrates an upward trend in the average weekly rents for three and four plus bedroom dwellings over the period measured, while one and two bedroom dwelling rents are significantly more volatile however this mainly reflects the lack of data.

Weekly rents for three and four plus bedrooms are substantially greater than an 18 month average of median weekly rents for three bedroom houses in Australia and Perth.

4.1.3 South Hedland

Chart 13 shows the average weekly rent as advertised for rental properties in South Hedland. Consideration of this chart needs to take into account the limitations in the data. All rental data for South Hedland is based on less than 10 advertised dwellings with the exception of three bedroom houses which has consistently recorded data for more than 20 properties over the period from September 2008 to June 2009. One and two bedroom dwelling data is combined until June 2008.

Chart 13 – Average weekly rent – South Hedland



Source: Pilbara Development Council, Realestate.com.au

Chart 13 illustrates a marginal upward trend in the average weekly rents for three bedroom dwellings over the period measured, while one and two bedroom dwelling rents are relatively stable.

Weekly rents for three and four plus bedrooms are substantially greater than an 18 month average of median weekly rents for three bedroom houses in Australia and Perth.

5 Conclusion

The significant demand for residential dwellings in Port and South Hedland and in Karratha, as evidenced by sustained increases in prices and high rental costs is a reflection of the area's dependency on the resources sector. A significant proportion of the population in each of these areas are workers contracted for a project which are often long term (3+ years). These workers may live in Perth and fly in during the life of the project.

High housing costs and availability tend to act as an impediment to the ability of these towns to attract new residents, particularly those not employed in the resources sector. The domination of the resources sectors in the Pilbara region can work against these communities as they struggle to maintain non-resource sectors. Community based development, a broadly based new housing strategy and greater economic diversity has been recognised as vital to maintain and grow healthy communities in this region.

The long term growth prospects for residential property in the Pilbara will tend to follow any cycle in the global demand for resources. It is expected that while China's growth and demand for resources have been impacted by the global downturn, it nevertheless seems likely that the Chinese economy will continue to play a key role in shaping Australia's economic prospects for some time to come. The Gorgon gas processing project is an example of a major resource project that is expected to generate substantial revenue for the joint venture partners and State and Federal Government for the next 30 to 40 years. Sales of over \$200 billion have already been committed by China, India, Japan and South Korea. It is expected that such projects will provide significant economic benefits to the area over the very long term.

The major projects that take place in the region – of which there are a large number – require a permanent workforce in place to maintain the project. As such it is expected that the population in this area will continue to grow, however it will remain relatively volatile when compared to other regions of Australia.

Furthermore, there is potential for residential development projects to deliver high returns by accessing the growth in the local workforce as a source of owner occupier, tenant or investor, as major projects are constructed and maintained. Fluctuations in population may be eased by the considerable investment being undertaken by State and Regional governments as well as Property Developers (i.e. LandCorp) in key areas such as community development, infrastructure and local amenities. This investment push will see these towns of the Pilbara region become increasingly urban, creating a more suitable location for families and workers to permanently reside. This will have the follow-on effect of increasing population stability, hence reducing the population's sensitivity to cyclical changes within the resource sector.

It is expected that the prospective high returns in the Port and South Hedland and Karratha residential property markets would be more volatile than those generated in other regions of Australia however the global demand for resources is likely to continue to grow and will tend to support these markets.

Appendix A – Significant resource projects – Port Hedland

Significant resource projects underway or planned that may proceed in town of Port Hedland area as at 17/6/2008 are shown in the table below. Projects under consideration are shaded.

Project	Approximate construction workforce	Approximate permanent workforce	Estimated Construction Start/End Date
Rapid Growth Project 3 BHP BILLITON IRON ORE P/L	900	150	TBA
Pilbara – West Pilbara Iron Ore Project AUSTRALIAN PREMIUM IRON PTY LTD	1300	700	The company anticipates that the first shipment will occur half of 2011*
Pilbara Iron Ore Mine Rail & Port Development FORTESCUE METALS GROUP (FMG)	2500	870	First exports commenced in May 2008.
Hope Downs – Iron Ore mine HOPE DOWNS IRON ORE & HAMERSLEY WA	1000	300	Imminent (Q4 2008)
Brockman 4 Iron Ore mine (Phase A) HAMERSLEY IRON PTY LIMITED	n/a	n/a	Commissioning is expected in 2010 with full capacity reached in 2012
Rapid Growth Project 4 (RGP4) BHP BILLITON IRON ORE P/L	n/a	n/a	Construction has commenced with operation in 2010
Pilbara - Rapid Growth Project 5 (RGP5) BHP BILLITON IRON ORE PTY LTD	n/a	n/a	This work commenced in May 2008. RGP5 is scheduled to be completed by mid 2010.
Mesa A—Waramboo Project RIO TINTO	n/a	n/a	Work has commenced. Expected start up 2010. Projected mine life of 10+ yrs.
Panorama Copper/Zinc mine CBH RESOURCES LTD	176	150	Undergoing public environment review
Balla Balla Iron Ore Project AUROX RESOURCES LIMITED	n/a	n/a	First export of magnetite is expected in 2011. Figures confirm a likely 30-year mine life.
Spinifex Ridge mo/cu mine MOLY MINES LIMITED	400	375	Undergoing environment assessment

Balmoral South - Mine and Pellet Plant AUSTRALASIAN RESOURCES	2000	800	TBA
Pilbara - Iron Ore mine - Roy Hill HANCOCK PROSPECTING PTY LTD	n/a	n/a	TBA
Pilbara - Pardoo Hematite DSO mine ATLAS IRON LTD	n/a	70	2010

* Subject to successful completion of feasibility and environmental studies (in process) and receipt of government regulatory approvals

Source: Pilbara Development Commission

Appendix B – Significant Energy Projects – Karratha region

Significant resource projects underway or planned that may proceed in the Roebourne shire as at 17/6/2008 are shown in the table below. Projects under consideration are shaded.

Project	Approximate construction workforce	Approximate permanent workforce	Estimated Construction Start/End Date
North West Shelf – Project Expansion – 5th LNG Train WOODSIDE ENERGY LTD	1500	20	Commissioning is due in Q4 2008 and first LNG export cargoes are planned for Q4 2008
Burrup Peninsula – Ammonia Urea Plant DAMPIER NITROGEN	1000	130	TBA
Pilbara – Cape Preston – Iron Ore Mine Processing CITIC PACIFIC	2500	500	The company plans to export the first high-grade pellets to China in 2010.
Pilbara – Cape Preston – Mine & Processing Plant MINERALOGY PTY LTD	2000	800	TBA
Cape Lambert Port Expansion ROBE RIVER MINING COMPANY PTY LTD	450	70	Imminent (Q4 2008)
Dampier Port Expansion HAMMERSLEY IRON PTY LTD	800	200	Full commissioning is expected by Q3 2008
Carnarvon Basin – Pluto LNG WOODSIDE ENERGY LTD	3000	200	Q4 2010
Cape Preston – Sino Iron Ore Project CITIC PACIFIC Mining Pty Ltd	2500	500	
Angel (Carnarvon Offshore Basin) WOODSIDE ENERGY LTD	n/a	n/a	Expected to start up in Q4 2008.
Pyrenees Development BHP BILLITON PETROLEUM PTY LTD	n/a	n/a	First production is expected during the first half of 2010 and the estimated economic field life is 25 years.

Van Gogh (Carnarvon Offshore Basin) – Oil APACHE ENERGY LIMITED	n/a	n/a	Production expected by mid 2009. Expected life 12-15 yrs.
Vincent (Carnarvon Offshore Basin) - Oil Field WOODSIDE ENERGY LTD	n/a	n/a	First oil is planned for Q4 2008
Devil Creek Development Project (DCDP) APACHE ENERGY LTD AND SANTOS LTD	200	20	Construction is scheduled to start by end 2008, with first gas delivered into the DBNG pipeline by mid 2010.
Pilbara LNG Plant BHP BILLITON PETROLEUM & EXXON MOBIL	2400	125	TBA
Gorgon LNG (Carnarvon Offshore Basin) - Barrow Island CHEVRON AUSTRALIA PTY LTD	3000	600	Under consideration
Scott Reef/Brecknock (Browse Basin) WOODSIDE ENERGY LTD	n/a	n/a	Production is expected in 2013 - 2015
Macedon (Carnarvon Offshore Basin) - Gas Field BHP BILLITON PETROLEUM PTY LTD	n/a	n/a	Under consideration
Sherlock Bay Nickel Project SHERLOCK BAY NICKEL COMPANY	n/a	n/a	Under consideration
NWS North Rankin B NORTH WEST SHELF VENTURE	n/a	n/a	2013
Perseus over Goodwyn Project NORTH WEST SHELF VENTURE	n/a	n/a	n/a
Wheatstone Gas Field CHEVRON	3000	240	2010
GTL Project SASOL CHEVON AUSTRALIA	3000	300	Under consideration

Source: Pilbara Development Commission

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