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Gladstone Market Overview

Gladstone is currently going through a rapid phase of economic growth. There is \$30 billion worth of engineering construction underway, with the resultant construction-related workforce expected to peak in 2014. A further \$60 billion worth of investment is planned for Gladstone.

At present, accommodation is so tight that local employees are shifting away from detached rental housing (due to its short supply) and into older apartments or even construction camps. Many are buying now instead of renting.

The average Gladstone resident earns 50% more than the typical Australian.

Gladstone's population is predicted to increase by between 10,000 and 25,000 in the next five years. The wide range depends on the scale of future industrial development.

Independent modelling by Central Queensland University suggests that Gladstone's median house price could rise from today's \$480,000 to between \$600,000 and \$925,000 by 2018.

Australia's housing markets are now showing more convincing signs of improving. With interest rate cuts helping to ease the pressure on those servicing existing mortgages; affordability at near decade-best levels for prospective buyers; substantial 'pent-up' demand for new housing in select markets, namely NSW, WA and QLD and more recently several sentiment surveys showing consumers starting to warm to real estate again, the scene looks set for recovery.

Importantly, and despite these positives and a long-history of rapid, vigorous housing upturns in the past, this current housing cycle for many of Australia's capitals – will show a much more gradual transition from stabilisation to recovery.

In contrast, many of the country's regional towns, and in particular, those larger centres like Gladstone – associated with resources and mining, have actually seen prices and rents rise over recent years. Australia's resource centres continue to experience extremely tight rental market conditions, with vacancy rates often well below 2%.

In addition, some of this reading may be skewed by state government policy changes. The NSW, VIC, QLD and SA governments all recently made significant changes to bonuses and concessions for first home buyers and/or those building new dwellings. Queensland's recent \$15,000 first home buyers boost towards new property stock is a case in point.

The Queensland economy is predicted to continue growing (at 4% per annum) well above the national average.

Resources principally drive Queensland's growth. The Queensland Resources Council estimates there are \$165 billion worth of resource projects in Queensland under way. Yet Queensland's economy has a broad base with just 9% of the state's production coming directly from mining. By comparison, one-third of Western Australia's economic output comes from mining.

The ABS employment figures for the 12 months to June 2012 confirm that 21,700 new jobs were created in Queensland – a quarter of which were created across central Queensland.



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Economic forecasters, BIS Shrapnel, predict that Queensland's dwelling values should start to grow during 2012/13, accelerating in 2013/14 as the economic upturn gains momentum and the underlying dwelling deficiency becomes more pronounced.

Based on last year's statistics, Queensland looks to be heading towards a massive undersupply, with 33,000 new dwellings needed during 2012, yet just 26,000 supplied – an undersupply to the tune of about 20%.

Queensland's population growth is also on the increase, with a likely 75,000 increase during 2011/12 – up 50% or 25,000 on 2010's 50,000 annual increase. History shows that the Sunshine State attracts a third of Australia's annual population growth.

There are three phases to Australia's resources boom – commodity prices; infrastructure expenditure and higher priced exports. We are only part way through the second phase. Moreover, our proximity to Asia and their rising demand for household, business and financial services is very advantageous for the Australian economy.

There is much more to Queensland's economy than mining and the current machinations in iron ore/coal prices.

Located halfway between Rockhampton and Bundaberg, Gladstone is easily accessed with a comprehensive network of rail, road, sea and air services.

Gladstone is situated on the Queensland coast and is just a six hour drive or under one hour from Brisbane by air.

The area supports a growing residential community, along with significant agricultural and industrial operations.

The main urban centre is Gladstone itself, but the Gladstone region also supports numerous townships, including Agnes Water, Boyne Island, Calliope, Miriam Vale, Seventeen Seventy and Tannum Sands.

Gladstone supports several hospitals and retail centres, numerous schools including a catholic high-school and two tertiary facilities.

The region is proving to be a ideal investment location for resource processing and light metal-related industrial industries.

Demographics

Gladstone holds 65,000 permanent residents. The official statistics suggest this population base should increase by 2,300 each year for the foreseeable future.

According to the latest Census, nine out of ten dwellings in Gladstone are detached, yet just half of the city's households support families. Twenty nine per cent of Gladstone's population is couple only households, with another 19% living alone.

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More interesting, and in particular for a regional town, is that two-fifths of Gladstone's detached housing supports either one or two person households. Yet 70% of all households have two or more cars.

This suggests a strong underlying demand for small-lot detached housing, with double garages and associated storage.

Underlying Demand

Gladstone already supports 22,000 private dwellings.

Looking forward, given the expected lift in population growth based around Gladstone's growing economy, there is a need to build about 900 new dwellings each year in the area.

Over the past seven years, the underlying demand was for around 800 new housing starts each year. Yet over the same time period just 600 new dwellings were supplied on an annual basis.

In recent years, new housing starts have increased, causing some supply concerns, but the lift from just 300 starts in 2010; to 611 in 2011 and 1,150 in 2012 is essentially "catch-up".

When compared to Gladstone's longer-term economic outlook, the local new housing market remains undersupplied.

There are currently about 5,000 new dwellings approved in the Gladstone region, of which just about 27% have operational works. Approvals take place early in the development process and by their very nature are a leading supply indicator. Operational works is the final stage in the development process.

Despite claims to the contrary, there isn't enough new urban development coming through Gladstone's construction pipeline.

Airport

Not only is Gladstone's base population growing, but so too is it's Fly-In/Fly-Out base, with 2011 attracting 240,000 passengers through its airport – an increase of 35% on the year before.

Gladstone Airport is now serviced by both Qantas and Virgin Australia. Passenger numbers through Gladstone Airport are expected to double within the next five years.

Economic Growth

The Gladstone economy is currently booming with some \$30 billion worth of major engineering projects (mainly LNG gas and related developments) under construction in the resource and energy sectors.

At present about 7,000 people are employed in the construction of these engineering projects, with employment numbers expected to peak at between 8,000 and 10,000 in early 2014. Operational employment in the region should provide over 1,200 new jobs by 2016.

Last year alone, 5,600 new jobs were created across central Queensland, about a third of which were located in and around Gladstone.

Exactly what happens to Gladstone's construction-related workforce post 2014 is uncertain – except to say that a further \$30 billion worth of energy/engineering investment is planned, much of which has completed



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environmental industry statements. In addition, another \$30 billion worth of retail, tourism, community and housing construction is project.

Visit www.gladstoneindustry.org.au for more information.

But there is much more to Gladstone than construction. The region has many pillars of economic support. Two out of every five jobs in Gladstone are associated with manufacturing, with a further 30% related to services and retail. One third of the service sector employees work as professionals in science and technical-related industries.

Also, Gladstone is a well established industrial city with numerous international companies locating in the area. The area supports several aluminium refineries, including Australia's largest – Boyne Smelters Ltd. Gladstone also supports the country's largest cement kiln and ammonium nitrate plant, plus Queensland's largest power station.

Gladstone's median household annual income exceeds \$96,000, which is 50% higher than the Australian average and 33% higher than the average annual earn in Brisbane.

Real Estate Statistics

Local real estate agents have been complaining of late that Gladstone has gone "quiet" – and we think it deserves to have a rest – given its recent growth spurt. But despite the resultant comments to the contrary, Gladstone's real estate market remains in good health.

There are just 87 properties – as at late August 2012 – available for permanent rental in the Gladstone area. This equates to a 1.3% vacancy rate. Yes, the vacancy rate has lifted from 0.3% this time last year, but keep in mind that most vacant properties in Gladstone take under two weeks to rent and on average, five applicants apply per listing. There were 128 properties vacant in July this year, so properties lease quickly in the area.

House rents and end prices rose dramatically last year. Such growth isn't sustainable over the long-run, but illustrates the strength of the Gladstone market. More importantly, it remains unlikely, given Gladstone's economic grunt, that rents or prices will drop from their current levels.

Close to 2,600 residential properties changed hands in Gladstone during 2011/12, which is up 6% on the year before.

So, in summary, **Gladstone** faces:

- ▶ A shortage of rental stock
- ▶ Very strong rental growth
- ▶ A rising demand for new housing stock
- ▶ A rise in the number of properties selling

Gladstone is well positioned in the property cycle.

Well priced and positioned new house and land packages in Gladstone are selling at prices below their potential resale value.



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Sources

ABS various including 2011 and 2006 Census
Various QLD OSER documents including Residential Land Development Activity Profiles & Population/Dwelling Profiles
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Matusik Property Rationale – Gladstone Market Overview, October 2012

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