

February 2012.

“Decades of wealth from “once-in-a generation” boom as commodities exports forecast to hit \$480bn”

The Australian, September 09, 2011

AUSTRALIA stands poised to capitalise on an economic transformation unparalleled in the nation's history, with a resources and commodities boom capable of generating \$480 billion of exports in the next 20 years and creating 750,000 jobs.

Perth city is at the epicentre of this explosion, with Australia’s largest mining companies all having their offices in or near the city centre.

“Perth Inner City Apartment Market: the Inevitable Property Boom”

Introduction

According to the leading Perth investment company MLG Realty, the Western Australian Resources boom is going to be the catalyst to a rental and subsequent capital growth boom in Inner City Apartment prices; which is going to mirror the recent property booms in the localised resource towns of Karratha and Port Hedland. What they are calling the “Inevitable Property Boom” will result from the emergence of the following key factors:

- Demand from Mining companies will become insatiable in 2012/13 as they continue to expand;
- There is the smallest increase in apartments in 2012 (only 192) in 8 years being some 62% below the 5 year average;
- Due to construction time lags, **Perth cannot increase supply of apartments until 2014;**
- The enormous demand for workers will result in a huge increase in population into WA from Eastern States and overseas;

- The Mining Boom will increase construction costs, and remove labour from the market making it even harder to deliver the additional apartments needed to meet the demand.
- Perth rents will continue to grow bringing investors into the Inner City market attracted by the high returns.
- Property prices will inevitably follow, as there will be huge demand, and low supply.

Why will the Mining Boom Drive the Market?

There are three main ingredients to force the coming price and rental growth:

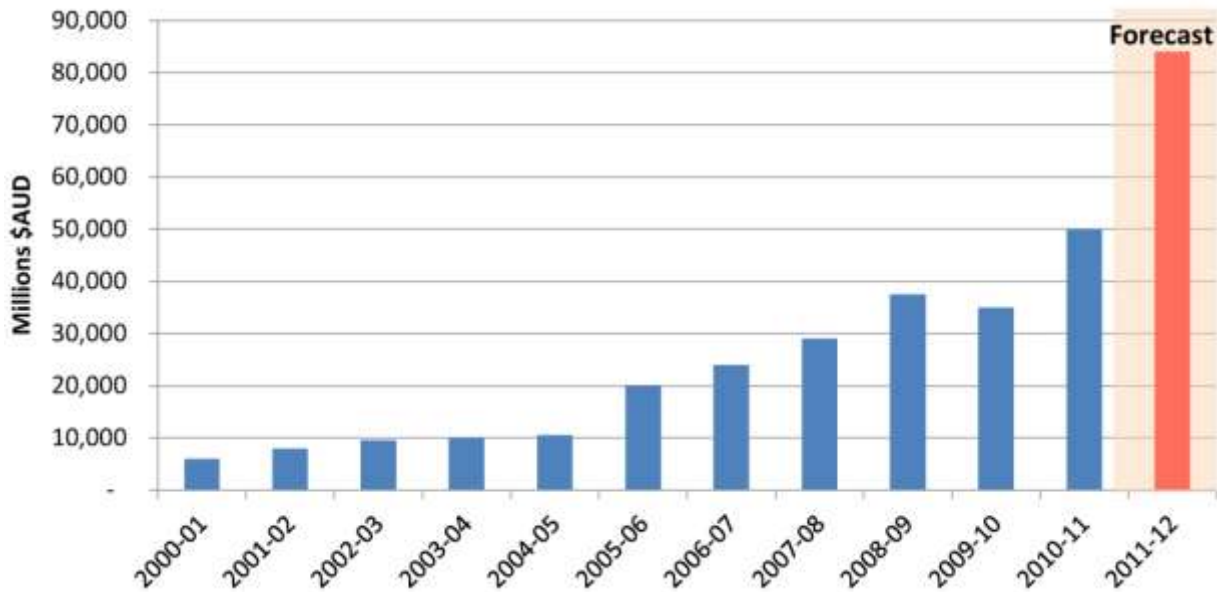
- **A huge demand for accommodation;**
- **A shortage of supply of accommodation, and inability to remedy this supply quickly;**
- **Abundance of Mining companies who have open cheque books to secure any accommodation becomes available.**

The Mining Boom

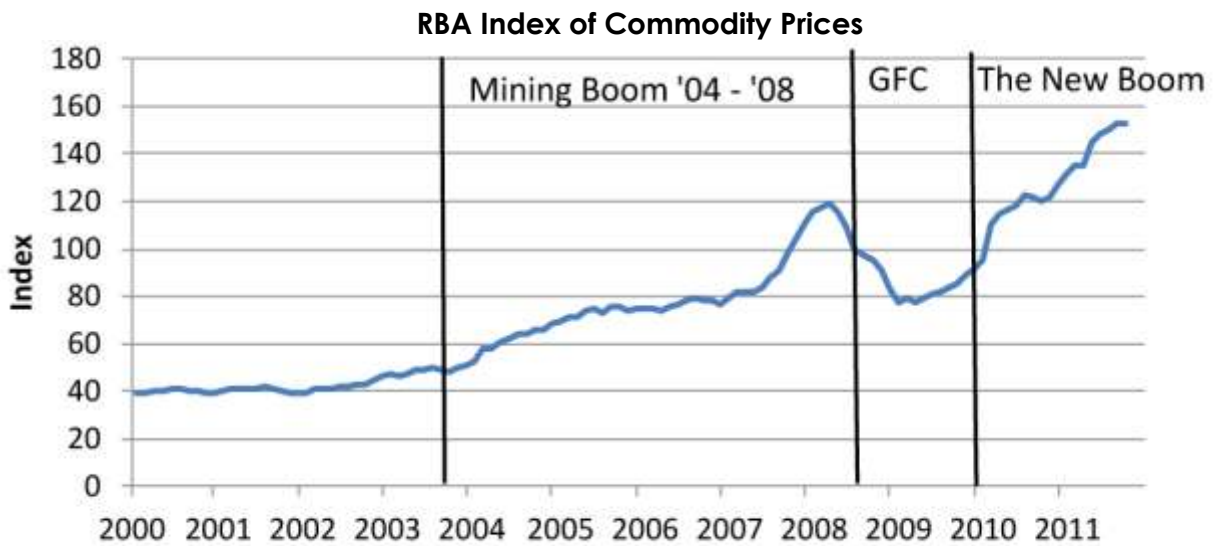
To understand why MLG believes this Property Boom will occur we need to understand how big the boom is and at what stage it is at.

To put the current boom into perspective, in the last mining boom between 2004 and 2007, there was some \$63 billion spent over 4 years in the WA Mining Industry. During this boom property prices increased by 33% per annum. In 2011/12 alone there is some \$83 billion being spent! This is 5 times the size of the last boom as can be seen in the chart below.

Resources Capital Expenditure



In addition, the profits of the mining companies are expected to be far greater in this boom, displayed on the Chart: RBA Index of Commodity Prices, showing that commodity prices are not only back to pre-GFC levels, they are in fact some 25% higher, giving the mining companies even more disposable income to drive the boom.

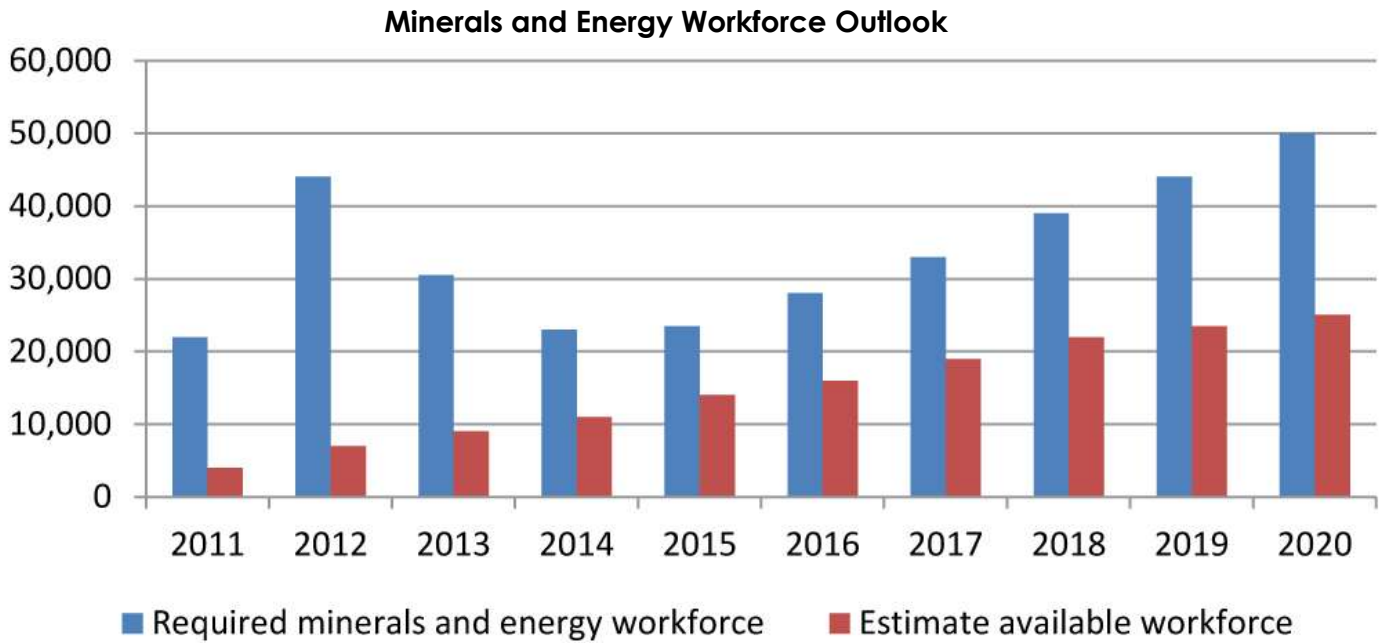


Source: RBA, MLG Research

The most important element of why MLG believes the resource sector will have a significant impact on the Property market is that the timing of this boom is at the point where there is the smallest amount of supply in the market.

The chart below highlights that WA needs an additional 45,000 new jobs in 2012, and that less than 10,000 of these are going to be filled by the existing population, followed by 30,000 in 2013.

This is going to mean a huge demand for new housing to accommodate the new population, but at a time when there is no new stock to house them.

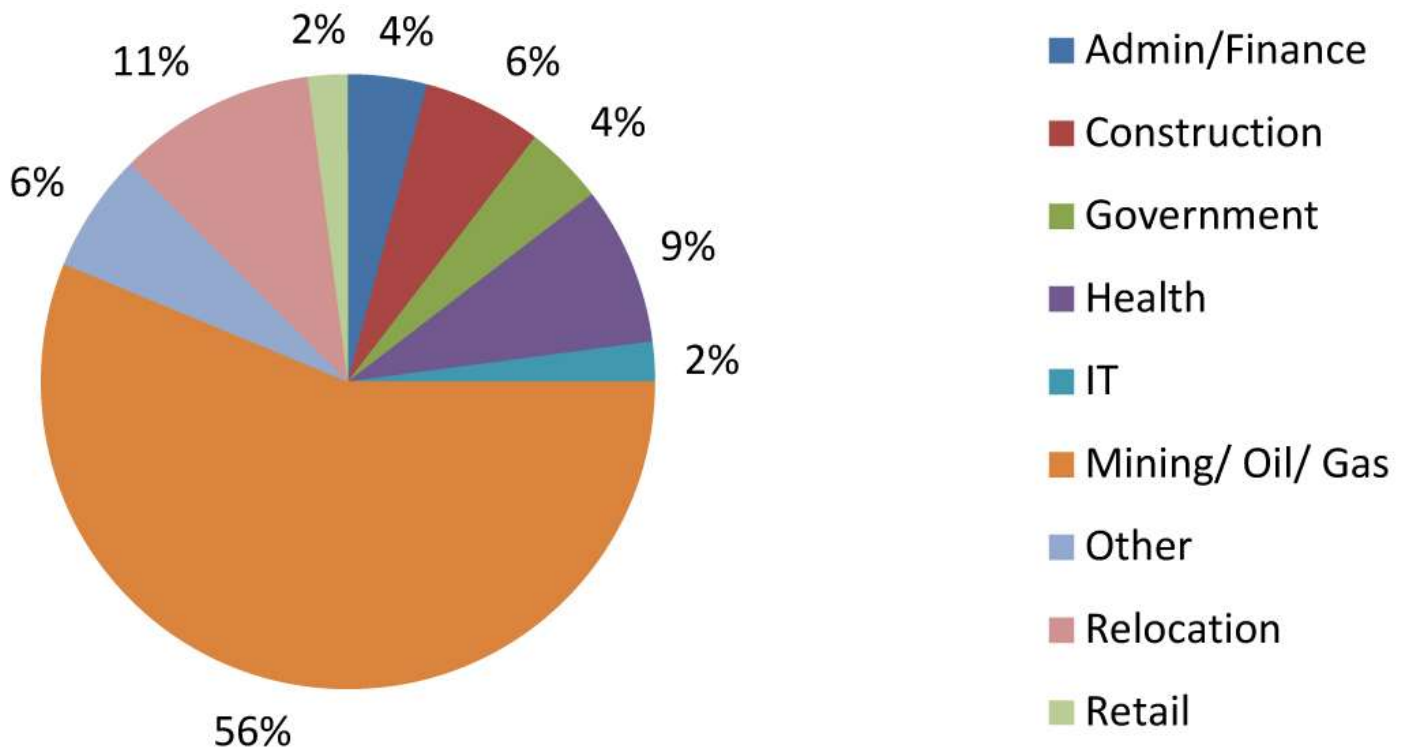


Source: CCI, MLG Research

Has the mining industry had an impact on the Inner City Market yet?

The chart leasing by employment sector highlights the number of leases taken by the Mining Industry last September by MLG Realty based on a portfolio of over 500 properties. This shows some 56% of all leases were to the Mining Industry. This was up from 40% in the first quarter of the year and 45% in the second quarter. MLG believes this could go as high as 80-90% in 2012.

Leasing by Employment Sector



Source: MLG Research

Why is the Inner City Market going to have so much impact?

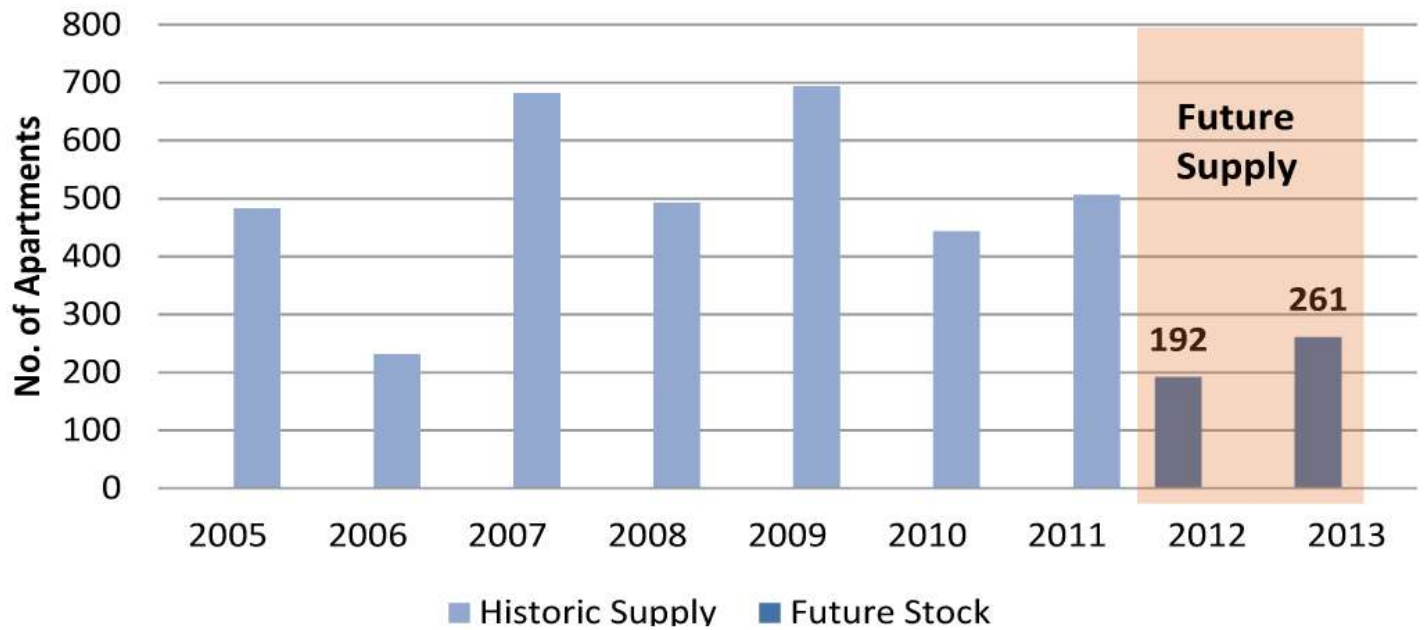
The CBD is the home of the mining companies. As they continue to grow and spend they will continue to demand more accommodation. BHP, for example has just announced it intends to lease up to 90,000/sqm of office space to house its WA operation. This move from BHP and expansion of Chevron, Rio Tinto, Woodside and all of the associated Construction and Engineering firms is, not only driving the expansion of the CBD office market, it is driving demand for accommodation for the new workforce it will be responsible for housing.

In 2012 the Perth CBD office market will see the largest increase in office accommodation in over 20 years. In this same year there are only 192 apartments being built to accommodate this new workforce.

In 2011 there were just 504 apartments completed to date, which was one of the largest ever increases in supply. With all this extra supply rents have jumped around 20% and are still growing.

In 2012, more accommodation will be required than 2011, however supply has dropped by 62%, and there simply will not be enough supply to house this insatiable demand for residential property which these companies will have. This can be seen below:

Perth CBD Supply & Forecast



Source: City of Perth, ABS, BCI, MLG Research

Where is the Market at Now?

The CBD market is moving much faster than the rest of the Perth property market, it's expected to grow much faster and with more impact than the rest of the market. The Perth Inner City apartment market has seen a dramatic 67% reduction in properties advertised for sale compared to the Perth Metro markets, where stock levels are gradually returning to equilibrium.

This reduction in available properties is also seen in the rental market, where most agents are experiencing a near 100% occupancy rate. Simply put, many agents have reported resource companies are scrambling for properties to accommodate their staff in the or near the Perth CBD, where they work. This demand has already pushed rents up by around 20% in the last 6 months! **With no relief in sight, MLG believes that rents can go as high as \$800 per week for a fully furnished single bedroom apartment this year. (2012)**

Fully Furnished Apartment Weekly Rental Rates

	1 Bed	2 Bed	3 Bed
6 Months Ago	\$500	\$650	\$900
Current	\$600	\$750	\$1,000
MLG View for June '12	\$800	\$1,100	\$1,400

Source: MLG Research

What will this do to the Market?

Basic economics shows that when demand outweighs supply prices rise. So when you have the resources boom demanding accommodation for their thousands of workers combined with virtually no supply of new apartments for 2 years –

There is going to be a significant imbalance which will result in increases in rents and in turn capital growth.

West Australian Economy: final quarter, 2011

West Australia has consolidated its position as the Nation's strongest economy over the final quarter of 2011.

WA leads the way on economic growth, construction work, unemployment, equipment investment, with other strong readings including retail spending, population growth and the strongest job market in Australia, according to the latest report from CommSec its January 23 report "State of the States: State and Territory economic performance report"

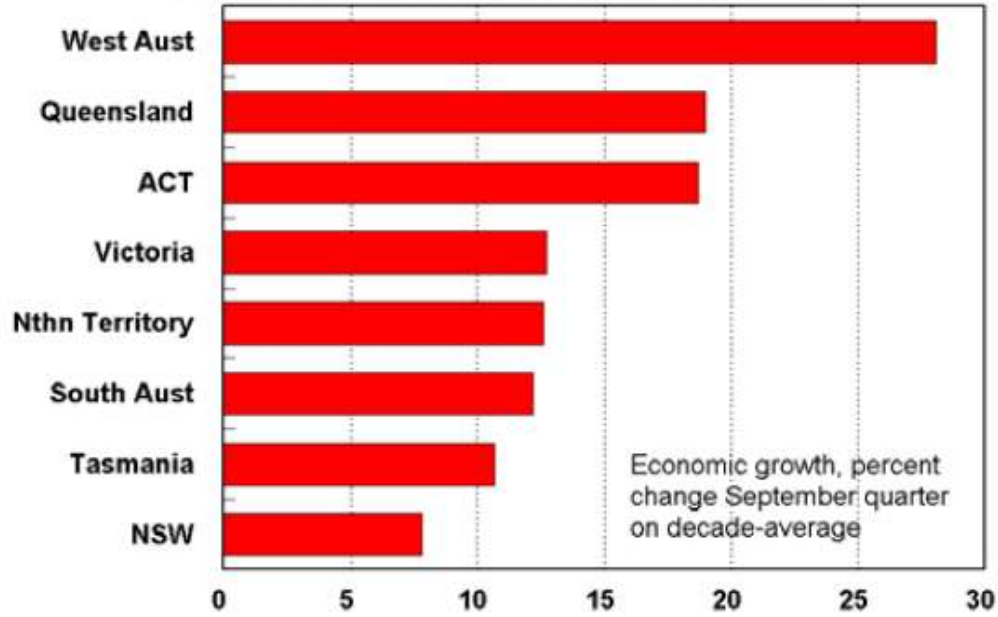
Only in terms of housing finance approvals and dwelling construction starts does WA lag: which of course is good news for investors who already have property, but does mean it is harder for new investors to find suitable property because of the scarcity and lack of new properties being built and approved, as outlined in this report.

“Housing 'falling badly' behind demand”

The West Australian

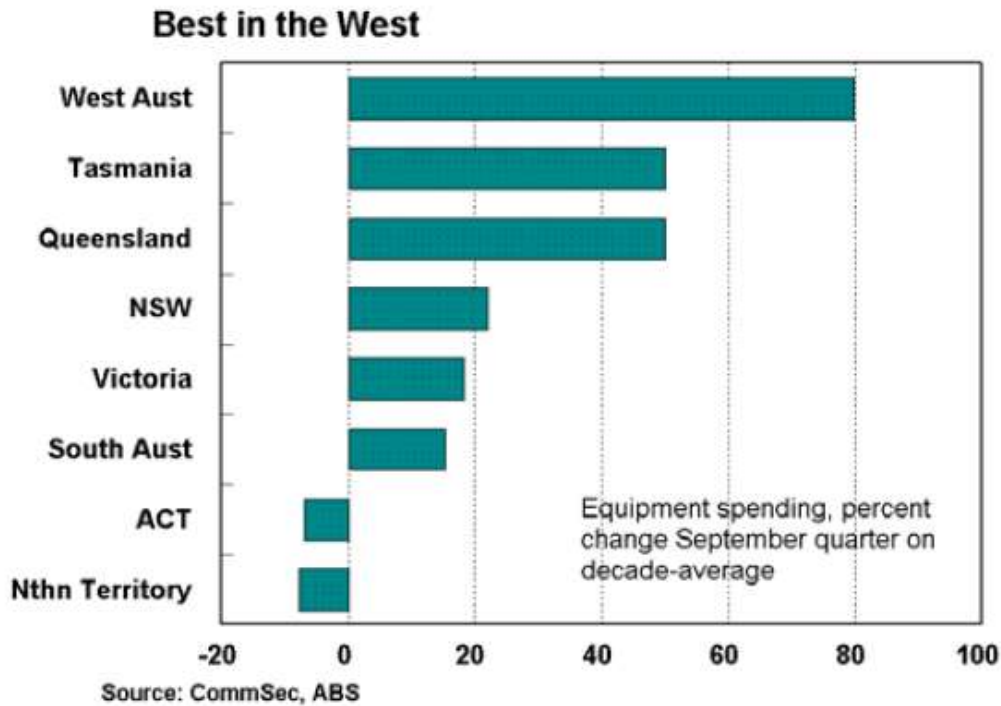
Perth faces a crippling housing shortage that will leave it tens of thousands of homes short of demand, driving up prices beyond many people”.

Resources states lead economic growth



WA has the fastest annual economic growth rate in the Nation at 5.6%, ahead of Queensland with 4.7% and Victoria with 1.9%.

West Australia's economic output was just over 28% higher than the 10 year average.



In retail spending, WA had the strongest growth in retail spending, with a stunning 20% increase over the 10 year average courtesy of low unemployment.

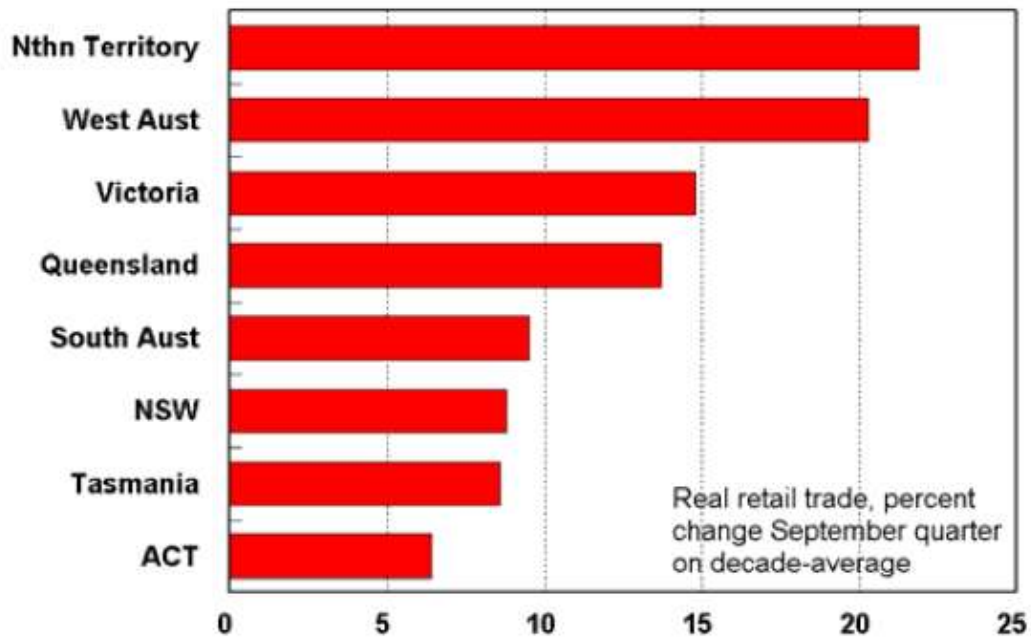
WA is also head and shoulders above all other States on equipment investment, with the September 2011 quarter showing an incredible 80% above the decade long average.

WA has the strongest job market in Australia, with just 4.35 unemployment being the lowest in the country.

Population growth is also higher than all other States except the ACT, at 2.44%.

All in all, the economic miracle of WA looks set to continue for some time, and if the global economy eventually picks up again, this will further benefit West Australia over the long term.

ACT lags in consumer spending



Source: CommSec, ABS

MLG believes that the Inner City Apartment market will see significant capital gains due to the timing of the alignment of these elements resulting in a "perfect property storm" in late 2012.

CommSec says that West Australia remains clearly out front of all Australia's States, underpinned by strong economic growth, construction and equipment spending and low unemployment.



The number of workers employed in the mining industry is expected to more than double from 693,000 to 1.45 million.

ANZ's chief executive Mike Smith calls it a "major structural shift" that will see Australia enter a "supercycle".

"Australia is currently experiencing the kind of 'problem' that makes us the envy of the rest of the developed world," Mr Smith wrote recently in the Australian newspaper

The ANZ bank has forecast that the Australian dollar could hit \$US1.25 because of sustained commodities prices and higher global infrastructure investment.

"If Australia can expand capacity rapidly enough, export revenues from hard and soft commodities could reach half a trillion dollars in real terms by 2030.

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Both these developments owe a lot to rising demand from China and, to an increasing extent, India and Indonesia, as they continue their process of development, urbanisation, and strong growth of their middle classes, with rising disposable incomes to match.

"Our family has lived in various locations outside the US for 20 years. We had never seen a hot rental market like Perth, where property managers often didn't return phone calls, using text messages to advise properties had already been rented. We were working full time to schedule and view even one property per working day. Our first and second applications failed against multiple applicants." **Alan and Linda**

Perth faces a crippling housing shortage that will leave it tens of thousands of homes short of demand, driving up prices beyond many people, according to the Housing Industry Association report into WA housing into 20201. They say Perth had 17,400 shortfall last year, with the shortage to reach more than 70,000 this decade.

How to take advantage of this once in a generation resources Boom?

It's obvious that as companies relocate to Perth, as they send their overseas executives and interstate staff to Perth, and as tens of thousands of jobs are created, and as migration explodes to keep up with demand, these people will need housing, apartments and accommodation. Someone has to supply this, and with current and planned supply levels falling well below demand, prices and rents in Perth can only go one way.

Someone needs to supply this accommodation. It may as well be you.

(Sources: CommSec: A wholly owned subsidiary of the Commonwealth Bank of Australia, and MLG a leading project marketing and investment company specialising in residential, commercial and investment property, property management and property finance.)

DISCLAIMER: We believe that information in this report is correct at the time of publishing, but no warranty can be made as to its accuracy and investors should rely upon their own enquiries before making any investment decisions