



Surat Basin Profit in the pipeline?

If the headlines are to be believed the hottest property markets in the country right now are cooking with gas. Ana Holt takes a closer look at what's powering Queensland's new mining invest-fest

We've all sat by and watched as mining made megadollars for investors in two-bit towns like Mackay and Moranbah in Queensland or Karratha and Port Hedland in Western Australia over the past decade. Yet now the focus has shifted to gas and suddenly guileless Gladstone and a handful of farming towns in the hitherto unknown Surat Basin are being pegged as the next best thing. While plenty of investors have been tempted to take the leap of faith, many more are still sitting sceptically on the sidelines. Can it happen again? Can it happen here?

Well, according to www.hotspotting.com's Terry Ryder it can and will. "The Surat Basin is about to become one of the boom economies in Australia... and towns throughout the area west of Toowoomba are going to be drenched in new wealth. Towns such as Miles and Wandoan, where cows and crops

are usually the only serious issues, are about to be overrun by multi-billion-dollar resources ventures that will change them permanently," he wrote in *The Australian* earlier this year.

Even this considerable vote of confidence came well before the federal government gave the green light to plans for 2,650 coal seam gas wells to be drilled in Queensland's Surat and Bowen Basins over the next 25 years, complemented by the construction of a 435km steel pipeline from the Surat to a new liquefied natural gas (LNG) plant and export facility off Gladstone. This project alone is expected to create 5,000 construction jobs and 1,000 permanent jobs when LNG exports begin in 2014.

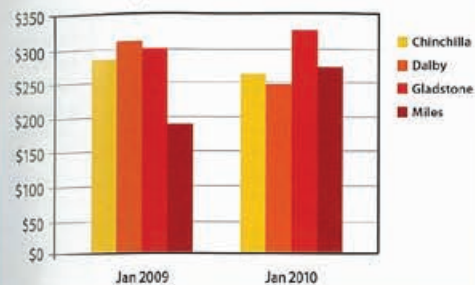
Still, it is just icing on the infrastructure cake, with estimates of \$24bn in Surat projects and \$65bn in Gladstone works beginning this year. In fact, the Surat Basin Corporation, a

regional alliance between community, government and industry, estimates mining-related capital expenditure within the region at \$140bn.

"People talk about the west like it is the most important thing but what is happening in Queensland is just as important. Even more so in a way because it is virgin. It is brand new, cutting-edge technology and the Queensland government has mandated more gas-fired power stations need to be built," says Corr Piccone of Blue Horizons Property Consultants in the Surat Basin.

Piccone has been investing in the Surat Basin towns of Dalby, Chinchilla and Miles since 2007 with his partner Helene Thomas. They now own 20 investment properties throughout the region and their company has built more than 200 houses tailored to investors in the area. "We were drawn to the area initially just by the abundant, available and verifiable research that there was going to be a massive infrastructure escalation and that the necessary accommodation for the workers was not being provided. We saw an opportunity for investors to capitalise on that," he explains.

Median weekly rents



Data Source: Queensland Residential Tenancies Authority, based on three-bedroom homes

"It is a bit of a no-brainer really. The area is so diverse; it has got so much going for it with 27 mines, plus four separate half-billion-dollar pipelines that have to go in. Up to 35,000 wells are slated to be drilled and there are contracts that have to be delivered by 2014, including \$60bn to China and \$40bn to Japan, and that's just from BG Group [the British-based world leader in natural gas]."

Ready to take off?

Surat Basin Homes director Colin West says the best way to describe Surat Basin towns is "poised for action". "Over the last 12 months, we have seen a steady increase in values in the towns that have major projects near them. Depending on the phase of operation and how close they are to ramping up

to full production, there could be an influx of thousands of workers in some areas," he says.

Real Estate Institute of Queensland (REIQ) managing director Dan Molloy confirms the promised mining profits are already translating into property price growth. "Queensland's robust resources sector has resulted in strong property price growth in areas close to existing or proposed mining activity, especially over the past five years. Towns near the Surat Basin Energy Province have been firmly on the radar of buyers of late given the potential impact of the development of natural gas, coal and coal seam gas in the region," he says. "And while Gladstone has long been known for its connection to the mining sector, the potential development of liquefied natural gas

What is the Surat Basin?

The Surat Basin extends across an area of 27,000km², stretching from Roma in the west to Taroom in the north and Toowoomba in the east. It includes the Maranoa Regional Council, Western Downs Regional Council and Toowoomba Regional Council areas. While the Surat Basin has a strong and traditional agriculture foundation, the area contains more than six billion tonnes of thermal coal and significant deposits of coal seam gas that are largely undeveloped. Mining and coal seam gas extraction contribute significantly to the regional and national economy.

View many of the projects currently on the cards in the Surat Basin at www.advancewesterndowns.com.au

in the region is likely to have dramatic impact in the years ahead."

In fact, Piccone is predicting the impact on the rental market to be every bit as 'dramatic' as the changes experienced in the Bowen Basin earlier this decade. "We were selling house and land packages in Moranbah in 2003 and they were getting similar rents to what we are getting in the Surat Basin now. By 2008, the rents were \$600; now they're \$1,200-1,300 a week," he says.

Similarly, Piccone predicts a three-to-five-year period for investors aiming to attain maximum rental price growth in the Surat Basin, although he intends to hold his properties long term. "Within 12 months we are expecting yields to be much higher and I think in 2011 we will see rents really starting

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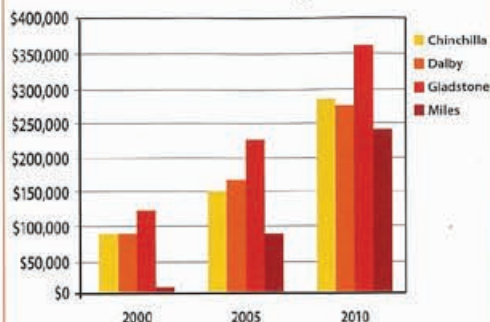
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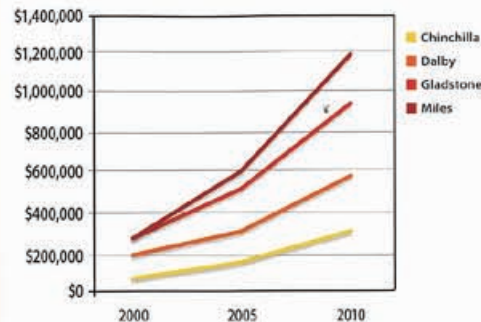
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Median house prices



Data Source: REIQ, based on three-bedroom houses using September quarter statistics

Median house prices



Data Source: REIQ, based on three-bedroom houses using September quarter statistics

to move," he says of the Surat Basin. However, despite being optimistic regarding the investment potential of the area, Molloy disputes the belief that Surat rents will go sky-high, particularly in smaller centres. "While property price growth in this region will continue, many of the mining workers will likely choose to live with their families in larger regional centres, such as Toowoomba, so it's not expected that prices will reach an unsustainable level," he says.

Certainly, regional rents have fluctuated over the past few years, with data from Queensland's Residential Tenancy Authority (RTA) showing nominal increases and even some decreases in median rents throughout the Surat Basin region, including Toowoomba, over the past 12 months. Yet Piccone points out the cyclical nature of the local market. He says rents were between \$550 and \$600 per week in 2007, but he estimates rents currently average \$350 per week in Dalby, \$400–450 per week in Chinchilla and \$450–550 per week in Miles. This is perhaps due to the number of new home starts in the area over the past few years, allowing supply to play catch-up.

"It changes extremely quickly based on day-to-day demand. One day we may have 140 workers come to town and with so many concurrent projects coming on it really is a race to get to Gladstone and a race to supply those contracts," Piccone says.

Yet mining is not the only driver underpinning the Surat Basin market. The region is also responsible for

approximately 18% of Queensland's agricultural production value. "It is a wealthy and self-sustaining agricultural region and has been for many years. It is literally known as the bread basket of Queensland," Piccone says. "Dalby also has the largest feedlot in Australia, so it has got these bedrock industries."

Diverse industry

Even within the mining sector, the Surat region is diverse with a combination of traditional coal deposits, the rapidly expanding coal seam gas industry, an emerging underground coal gasification operation valued at \$1.2bn and more than \$1.5bn currently being invested in wind and solar energy projects in the area. There are also five power stations currently in action and proposals for four more in the region.

Colin West of Surat Basin Homes, who started his own property portfolio as a 20-year-old farmer, says the fact that the Surat Basin is not reliant on a single commodity lends stability to the market. He recommends investors choose towns that have a major project close by that has reached Financial Investment Decision (FID) status. He also points out that the towns with more than one project on the go avoid the risk of boom-bust scenarios. Although some buyers have been buying for quick capital gains over the last few months, he says the majority are seeking consistent results. "Most investors are buying and holding for the long term," West says. "In the short term things are looking good, but in the long term things are looking great."

Gladstone beckons

Things appear to be equally peachy down the proposed pipeline in Gladstone, where vacancy rates have fallen by 8% over the course of a year. Raine & Horne Gladstone principal Mark Patton estimates the significant LNG investments will bring an additional 21,000 workers to the greater area over the next five to 10 years, extending an existing population of around 60,000.

"As a result, there are some concerns of whether local housing infrastructure can cope with the expected population increase," Patton says. "The increase in demand will be reflected in prices, so it's fair to expect a general increase in rents across the board."

Highgate Management director David Hume, who is involved in several development projects in Gladstone, says he sees the current state of the market as "the calm before the storm".

"I think it has the potential to go through the roof," he explains. "It is literally a supply and demand issue. Vacancy rates are almost zero so demand is picking up and, relatively speaking, house prices are quite affordable in Gladstone."

The port city is by no means immune to speculation, however, and the boom-bust reputation has certainly plagued it in varying degrees this decade. Hume concedes the high demand levels currently being experienced are coming off the back of a recent market slowdown in which little new property was released and most of the available stock was soaked

up. Another amber light for prospective buyers in Gladstone is evidence of current demand being driven by investors, attracted by rising rents, rather than the promised itinerant workforce moving into town. Herron Todd White suggests new dwellings were currently being favoured by Gladstone investors, destined for tenants employed in the mining sector in years to come.

The statistics, however, are indisputable and more encouraging than their Surat Basin counterparts. Queensland RTA data shows median rents for three-bedroom homes in Gladstone rose by \$20 per week between September 2009 and September 2010.

Hume also suggests Gladstone offers those itinerant workers greater temptation to settle down than many traditional mining towns. "It is a very liveable town. It is a solid community and there is an opportunity for people living and working up there on resource projects to become a part of that community," he says.



Similarly, Piccone points out the 'liveability' of the Surat Basin as another feature setting Queensland mining towns apart from the WA boomers. "Places like Port Hedland are just so remote, but the Surat Basin is already an established area," he says. "People move in and live there so it is not a typical mining region with the social issues of a 90% male population. Many families have been living in Dalby and Chinchilla for generations; they are established, salt-of-the-earth communities."

From all reports, the Surat Basin region seems to be becoming more expensive by the minute.

With the clock ticking on the 2014 contracts, this year could be the one to see some major changes in the new mining moguls of Gladstone, Dalby, Chinchilla, Roma and Miles.

Whatever happens, there is guaranteed to be more than a few speculators keenly waiting to see if the new liquefied natural gas industry turns to liquid gold for local property investors.

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