



Story Terry Ryder

# Mining the boom

## Perth, Darwin and regional Queensland towns are the new boom areas thanks to the resources explosion

**T**HE BIGGEST SINGLE influence on Australian real estate right now is the resources boom. The only property markets really firing are those affected by overseas demand for commodities. While markets such as Sydney and Melbourne struggle, prices soar in Western Australia, the Northern Territory and regional Queensland.

Property investors who buy in the right place can make big short-term capital gains. The question is: where is the right place? The

answer is probably not the one most would expect. Most property investors seeking to exploit the commodities boom think in terms of buying a house in a mining town – such as Moura in Queensland or Karratha in WA.

That's not surprising. The No.1 area in Queensland for price growth in 2005 was Moura, where the median house price rose 87%, and eight of Queensland's top 10 were towns in the state's coal mining belt. In Western Australia the outstanding performers in price growth in 2005 were all coastal centres buoyed by the resources boom: Bunbury recorded a 38% increase, Geraldton 36% and Karratha 27%.

Buying in such towns is one way to benefit from the boom but it's not necessarily the best way – not for the longer term.

Mining wealth flows back to the cities. Perth property analyst Gavin Hegney, of the Hegney Property Group, says much of the wealth generated in mining towns flows out into bigger property markets in the capital cities or major lifestyle destinations.

"They're building the Port Hedland jetty and the unskilled workers are being paid \$2800 a week," Hegney says. "People like that tend

to invest back into the nearest capital city or their home city. They put their money back into Glenelg in Adelaide, if that's where they're from, or something on the coast south of Perth."

Rod Cornish, head of property research at Macquarie Bank, agrees that much of the wealth from the mining sector flows to the capital cities. "People often invest where they know or in the capital city of the state where they're working," he says.

### Commodity slowdown

"A big factor in the Perth market is that a lot of people are making big money up in the north, in the North West Shelf for example, and investing back in the Perth market or in lifestyle locations like Mandurah. The same thing is happening in the Northern Territory, where workers in the mining industry are buying property in Darwin.

"If you're going to invest in a mining town itself, you would need to really know the market in those areas. The resources boom won't last forever, but real estate is a long-term hold. Most commentators expect the growth in commodities prices to slow down next year. It's

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## It won't last forever

Even the Treasurer says there's a limit

**P**roperty investors need to be cautious – economic forecaster BIS Shrapnel predicts the mining construction boom will peter out within two years. It expects a downturn between 2008 and 2010, although it will be "relatively mild". Federal Treasurer Peter Costello said in April he believed there were "a couple of years left" in the resources boom. "It will not last forever," Costello said. "If you put all your eggs in the resources basket, you'll be in as bad a sit-

uation in a couple of years as all those who put all their eggs in the tech basket in 2000."

The Association of Consulting Engineers Australia (ACEA) has joined BIS Shrapnel in warning many mining projects will be delayed, forced over budget or scrapped completely in coming years. One problem will be a skills shortage, notably in the engineering sector.

Cost increases caused the cancellation of a proposed expansion of an ammonium

nitrate production facility near Moura in Queensland. Another major cost increase has been felt in the development of BHP Billiton's nickel mine at Ravensthorpe in WA, and the associated expansion of the Yabula refinery in Townsville in Queensland.

Weather can have a big impact. Australia's trade gap widened in March as cyclones shut down mines, oil rigs and ports, affecting the nation's exports.

And mines eventually run out of material and close down. Rio Tinto's long-lasting Ranger uranium mine in Kakadu National Park will cease mining in 2008.

## Much of the wealth generated in mining towns flows out into bigger property markets in capital cities or major lifestyle destinations

not going to slump by any measure, but the extent of the growth will be slowing.

"If you went into a mining town you would need to be confident that in four years, when the resources boom is slower, there will still be opportunities to rent out your property."

Louis Christopher, of Australian Property Monitors, says he generally agrees that investors are better buying in cities such as Perth and Darwin than in the mining towns.

"The only caveat I would give to that is that you generally find these types of towns have very good rental returns," says Christopher. "If you want to buy a cash-flow property, you can pick one up in those kinds of towns. But remember, the returns are so high because they're so transient."

Stewart Kestel, director of buyers agents Hegney Property Advisers, says there's strong demand for rental properties in mining areas, good capital growth to be had, and the rental returns can be high as well.

"But if you buy now in a town like Karratha, the price growth has been so great already that you would have to question how much more growth there will be," he says. "The yields now are only slightly above the city market,

so there's greater risk to the investor." Investors also need to keep in mind that many of the personnel working in mining operations are on fly-in fly-out schedules – they don't live in the mining town. "Often it's more affordable for the mining company to fly staff up to Karratha or Port Hedland and fly them back after their stint, rather than pay for their accommodation up there," Kestel says.

### Long-term solidity

Recently the best way to exploit the resources boom has been to buy a house in Perth. The WA capital had by far the highest price growth among the capital cities in the 12 months to March 2006 – with its median house price rising 25%, according to Home Price Guide. Darwin, with 16%, was the only other capital city to show significant growth.

Perth is a long way from the mining centres like Port Hedland or Karratha, but its economy and property market are beneficiaries of events in such places. It also offers property owners greater long-term solidity for the period after the resources boom has run its course.

Hegney says: "In the past the resources



sector has put values on a roller-coaster ride. They rise very high and fall very hard. To benefit, you have to buy when it's coming off its base, not when it's at the top of the boom. Most people buy when the vast majority of the growth has already happened."

It makes little sense to buy a house in a WA mining town when for the same money investors could buy a house not far from the beach in a prime Perth location. The latter investment would be supported by the overall long-term economy, not just the short-term mining boom.

### Fly in and fly out

Mark Sanderson, president of the Real Estate Institute of South Australia, says there's a similar though perhaps less powerful impact in Adelaide. The major boom mining town in SA is Roxby Downs, but Sanderson says many of the mining personnel are fly-in-fly-out people based in Adelaide.

"People with a three-weeks-on, three-weeks-off schedule fly back to Adelaide during their time off. I'm surprised at the number of people renting properties in Adelaide who are executives in the mining industry."

There will be investors, however, who want to buy in a mining town, possibly because income returns often are higher. To benefit most from such a strategy, investors have to be ahead of the market. They have to understand what the mining companies are planning and what their accommodation needs will be.

Kestel says: "For example, Hopetoun – there are mines opening up near there and the astute investor would be already buying in Hopetoun [around 600km south-east of Perth], not waiting for the mines to be operational."

Another opportunity is the Hope Downs

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iron ore mine in WA's Pilbara region. First production is expected early in 2008.

**In Queensland, the Bowen Basin coal mining region has become the state's economic powerhouse. Towns such as Moranbah offer possibilities for investors, but property values have already grown steeply. The nearest major regional centre, Mackay, has also had big growth in property values for several years, but the nearby "sea change" town of Sarina remains a possibility.**

**PRDnationwide Research says Sarina, 37km south of Mackay, has an affordable entry point to the coastal property market, with a median house price in the low \$200,000s.**

On the Darling Downs the towns of Dalby and Chinchilla have already had huge growth in property values because of extensive coal mining, coal seam gas production and construction of power stations. But one possibility is to look at the small town of Jandowae, halfway between Dalby and Chinchilla, where the same sort of growth has not yet occurred. ▀

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## Scam warning

There's someone out to get you

**T**he Australian Securities and Investments Commission has issued warnings about investment fraud, as evidence mounts that mining communities around Australia are being targeted. ASIC says mining communities and regional centres associated with major resource projects are being targeted by people touting illegal, high-risk investment schemes. The Executive Director of Consumer Protection at ASIC, Greg Tanzer, said the thriving natural resources industry was attracting the interest of investment product providers, including fraudsters posing as overseas-based stockbrokers and investment advisers, selling worthless shares.

Queensland politician Jim Pearce, the Member for Fitzroy, also issued a warning to mining town people: "There have been several suspect schemes where consumers have been duped into paying inflated prices for properties or have been caught in schemes where promoters do not fully disclose all commissions, fees and charges linked to an investment," he says.

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## The figures show

Where the action is

**H**A chief economist Harley Dale says the impact of the commodities boom is seen in the growth in house prices and building approvals in regional Queensland, Western Australia and the Northern Territory.

The value of new residential building in Darwin rose 70% last year, while elsewhere in the Territory building work almost doubled. In Palmerston – the boom satellite town outside Darwin and alongside East Arm where billions of dollars in new industrial investment is occurring – residential building work doubled in 2005. In Queensland overall there was a slight decline in the value of new housing work last year, and work dropped significantly in the Gold Coast and Sunshine Coast regions. But regional Queensland areas affected by the resources boom showed big increases in residential building work.

Residential building work in WA grew 18% last year, but the growth was much higher in regional centres buoyed by the resources boom – such as Bunbury (up 35%), Geraldton (55%), Kalgoorlie (91%), the Pilbara region (41%) and the Kimberley Region (138%).