REASONS WHY
WEIPA HOUSES

financial
2015

* **WEIPA HOUSES** are a great property opportunity. We are proud to endorse WEIPA HOUSES as a Matusik Property Pick.

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Seven Reasons Why

7 reasons why astute investors should consider WEIPA HOUSES in Queensland, a good long-term investment.

1. **PROJECT.** New quality homes, with pools & registered long-term lease to Rio Tinto Alcan Limited. **6.5% net rental returns, which equates to 8% gross. Stage 2 priced at valuation** at $440,000.

2. **POPULATION GROWTH.** Current population growth faster than projected. **Need to build more detached homes.** New planned mines will result in further undersupply.

3. **UNDERSUPPLY.** Current housing supply is well short of underlying demand, and far too few detached homes are being built. Most rent & 80% of dwellings support families.

4. **DEMAND.** Established resale market, with up to 100 dwelling sales each year. **Just 38 properties in the area for resale. Sales are on the increase.**

5. **PRICES.** **Realistic house prices** for a far superior product to local stock. **Average local family income is double the Queensland average.**

6. **RENTS.** **No vacant rental property.** Ballot system operates with Rio Tinto Alcan (RTA) staff for new release of detached homes. Often up to 70 apply for each new batch of completed homes.

7. **ECONOMY.** Two existing bauxite mines, with three more planned. **Weipa holds Australia's largest bauxite mining & export operation** & demand from Asia is increasing.

WEIPA HOUSES is not the usual Matusik Property Pick. But the high quality product; strong & growing demand; backing by RTA & very sensible price/rent structure attracts our endorsement.

PROPERTY matusik PICK

1. PROJECT

- Priced at valuation
- High quality houses
- Long-term guaranteed lease
- High yield; positive cash flow

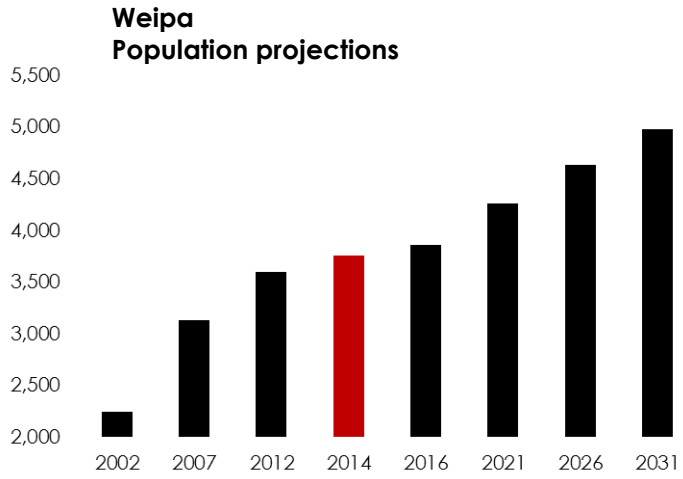
WEIPA HOUSES, 38 houses; 11 built & 100% tenanted, with 27 under construction. Ballot system to rent, often 70 lining up per new batch of completed houses.

New quality houses with pools; each comes with a ten year rental guarantee & long term registered lease to major public company Rio Tinto Alcan Limited.

6.5% net rental return or 8% gross. Stage two homes are priced at $440,000. A potentially great lock & leave investment.

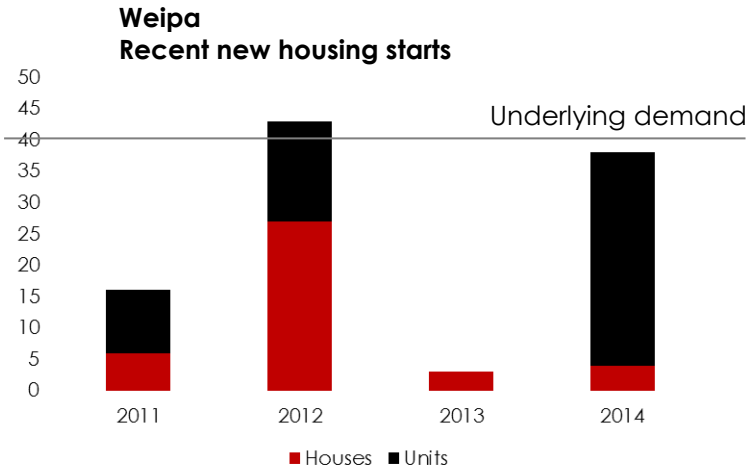
2. POP. GROWTH

- Increasing population
- Growing faster than projected
- Remote but well serviced town
- Need to build more homes



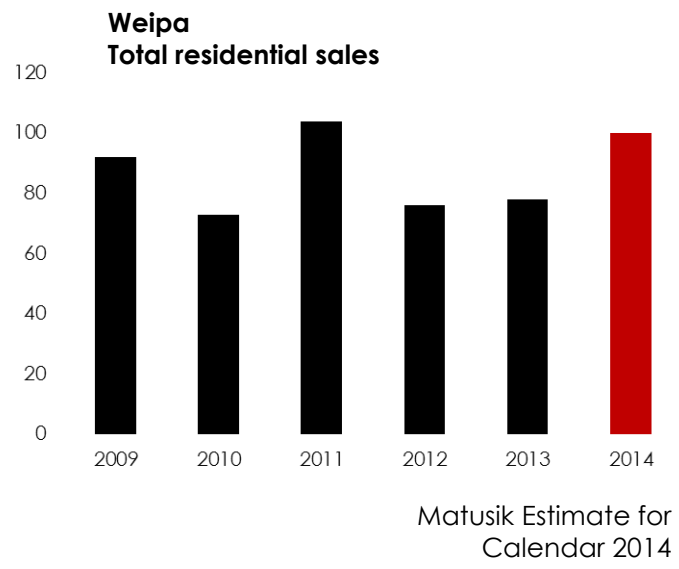
3. UNDERSUPPLY

- Just 100 new homes built over last 4 years, most units
- Needed to supply 160 or 40 each year
- Greatest demand for houses



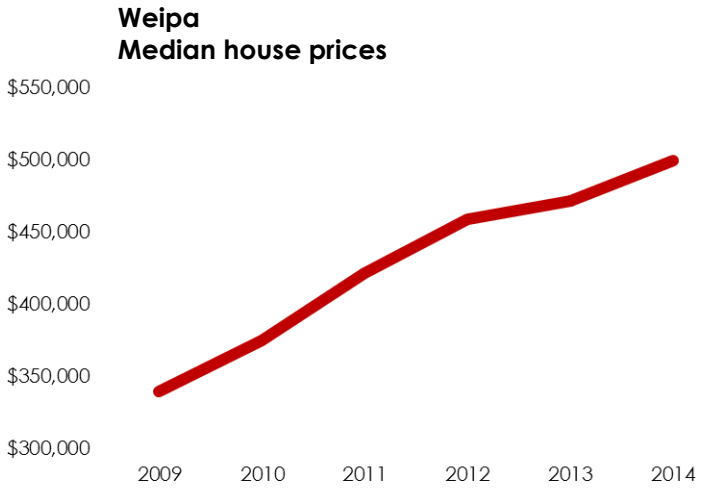
4. HOUSING DEMAND

- Up to 100 resales each year
- Just 38 dwellings for resale
- 80% family households
- Established resale market



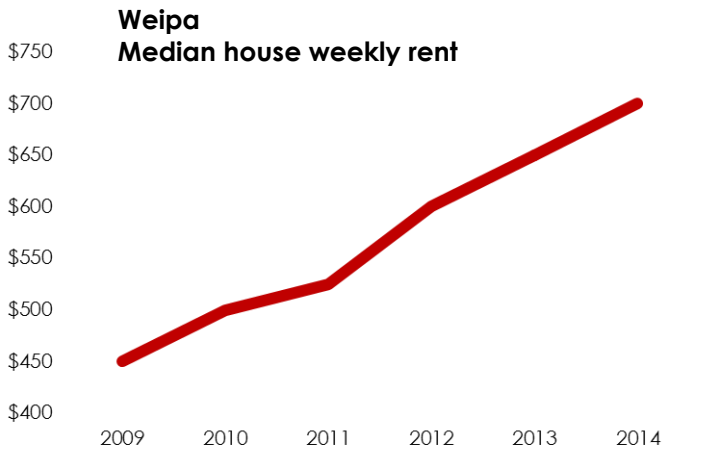
5. HOUSE PRICES

- Steady growth in end prices
- Affordable price point
- Average family household income is $120k – almost double Qld average



6. WEEKLY RENTS

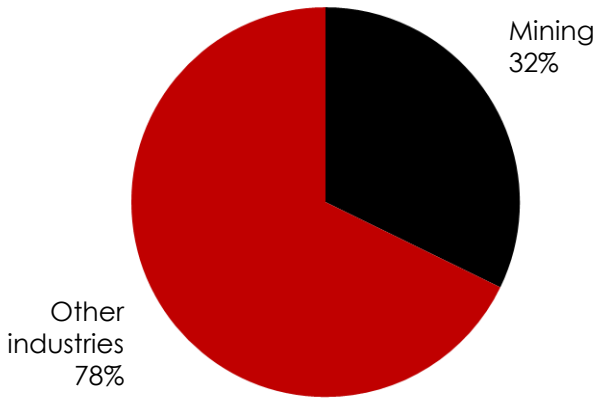
- Again steady increases
- Sensible weekly rents
- No residential vacancies
- Ballot system for RTA staff



7. LOCAL ECONOMY

- Two existing bauxite mines
- Another 3 mines planned
- RTA mining in Weipa for 50 yrs.
- 1,073 local RTA staff, up 54

Weipa
Industry employment



RIO TINTO ALCAN

Rio Tinto Alcan (RTA) has mined & shipped bauxite from Weipa since 1963. Their Weipa mines currently employ over 1,000 people & each year RTA pay $150m in salary/wages. Their local workforce increased by 54 staff last year.

The RTA Weipa operation operates two continuous mines – East Weipa & Andoom – with two plants, 19km of railway to Weipa's port, two stockpiles & two ship loaders.

RTA exported 26m tonnes of bauxite last year, a 14% increase on 2012.

BAUXITE DEMAND

Australia is the largest producer of bauxite in the world. In addition, Australia is the second largest bauxite resource in the world, after Guinea in Africa.

There are 5 active bauxite mines & 6 refineries across Australia, & Weipa - given the quality of its bauxite plus its prime port location so close to Asia – is the largest operation in the country.

World-wide demand for high quality bauxite is rising & particularly in Asia.

Chinese demand remains strong. Bauxite consumption is projected to increase by 6% to 7% per annum in coming decades.

NEW MINES

As a result, RTA have approval to build a new Weipa bauxite mine south of the Embley River. This will provide an additional 40 years of supply & employ and additional 1,200 personnel. The South of Embley mine is expected to commence by 2016.

Whilst Weipa supports other industries including manufacturing; health; education; retail; public service; & construction; mining is the major employer. To date, Weipa & its housing market has been largely tied to the RTA mining operation.

But Metro Coal (via Cape Alumina) are proposing two new bauxite mines – Pisolite Hills & Bauxite Hills - which are planned to start operating in late 2014 & in 2016/17 respectively.

These two mines – over their 15 year life – are expected to create up to 1,700 new local jobs.

Matusik Property Insights has developed a rating model to assist investors to better select new residential investment opportunities.

Property Pick uses a 'bottom up' approach – we don't rate a project based solely on 'macro' market information. Importantly, we assess each development on its own merits.

Our **broad position** is to only select residential investment opportunities with the following characteristics:

★ Within a 10 minute commute of major infrastructure
★ Boutique or staged projects
★ Inner city or infill developments
★ Well priced, with local resale support
★ High local existing amenity & limited new supply
★ High quality & designed for local demographic demand

Only new developments that tick all the right boxes receive Matusik Property Pick support. Property Pick is set around **ten key investment factors** that are shown to improve total investment returns.

The validation process draws on our extensive experience & importantly, on a range of third-party data sources & independent expertise.

PAST PERFORMANCE

A recent review* of 25 Brisbane past apartment projects found an average gain of 5% per annum on resale between 2004 & 2014. **The average money earned between resales was $110,000.**

Matusik advised on 12 of these 25 projects; the average gain in those 12 projects was 6.4% per annum, **returning buyers, on average, $182,000 between sales.**

*Analysis of official sales records in March 2014 as held by the Qld VG Dept. as supplied by RPData. Buildings investigated include: Lexicon; **Casino Towers**; Felix; Mayfair Residences; **MacArthur Chambers**; Flynn; **Mon Reve;** Milton Edge; Linear; **Rivers on the Park**; **Riyala;** Oxford on Boardwalk; Calibre; **Silhouette; Fusion**; Degree; **River Reach**; **Proximity One**; Esperian; **Ikon**; Viva; **Left Bank**; Soho & **Oxygen**. Matusik advised on those projects in bold.

TEN KEY FACTORS

1. **PEDIGREE.** Who is the developer? Who is the builder? Do they have a good track record? Do they deliver what they say they will?
2. **SITE.** How good is the actual site? What facilities already exist in the local area?
3. **DESIGN.** Is the project & product well designed? Will it appeal to buyers in the future? Will the rental market pay a premium to live there?
4. **WHO.** Does the project appeal to at least two major rental demographic subsets?
5. **RENTALS.** How big is the local rental market? What has been the local vacancy rate & rental growth over the past three years?
6. **NEED.** How many jobs & businesses are within a 10 minute drive?
7. **DEPTH.** How big is the local resale market? What are the local price points?
8. **SUPPLY.** Underlying demand versus current new dwelling supply.
9. **TIMING.** In what position is the local market & product type in the property cycle?
10. **UPSIDE.** What are the longer-term trends? Does this property/project fit? What is planned for the city/town & local area?

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We believe that property is a long-term investment. Passive investors should give consideration to buying new or newly completed stock. Post this cycle (2008/09 to 2015/16), we believe the Australian residential market is likely to slow down, possibly significantly; & in certain locations; & for certain property types – values, sales & even rents could fall, possibly substantially. We think these sluggish conditions could last for several years.

The reasons why are many & include high debt levels; the lessening "impulse" of interest rates; low affordability; workforce & general economic restructuring; changing demographics; low inflation; potential changes to property taxation & fewer fiscal government incentives.

Our analysis suggests that many Australians will need to compromise on their housing in the future.

Compact housing, especially in major urban areas, appears to be shaping up to be better potential investments.

Similarly, in regional locations & outer suburbs, properties with dual incomes or a set income stream from an established company look more promising as a passive investment, rather than more traditional housing.

With less potential price growth in coming years – or possibly over the next decade to come – investors should be focusing more on rental returns. They should also be thinking about buying a product with strong owner-resident resale appeal. In our view, residential property will return to being more about cash-flow rather than largely about capital growth.

The astute will buy strategically for a rental premium; & not just buy a generic property in anticipation of overall price growth.

Our reports, presentations & communiques all carry this mindset & our Property Pick process showcases those projects & properties that we believe better fit Australia's new housing future.

Michael Matusik is a thought leader in the Australian housing industry – including a member of the Future Housing Taskforce.

A 25 year veteran in this business, Michael has helped over 550 new residential projects come to fruition & in the late 1990s established his own advisory business – Matusik Property Insights.

Michael is a qualified Town Planner with first class honours from the University of Queensland.

END NOTES

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RISKS OF INVESTING IN PROPERTY

Direct investment in residential property, like all investments, involves a number of risks. If these eventuate, your income might be lower than expected. There may even be none. In addition, the capital value of your investment could fall.

The key risks of investing in property are outlined below:

- The property purchased may not provide the income or capital gains the asset was expected to produce.
- There is a risk that your property may, for periods of time, lie vacant & hence not generate income. Maintenance & repair costs are the investor's responsibility & can vary, and at times be significant. Such costs are sometimes recoverable from rental bonds or under insurance policies.
- There are a number of factors that affect the general property market including increases in supply & falls in demand; the cyclical nature of property values; increases in taxes & operating expenses; overall economic conditions; demographic changes; changes in town planning laws; casualty & condemnation losses; environmental risks; regulation on rents; detrimental new developments in the area; increases in interest rates; similarly, inflation & changes to bank funding policies.
- Gearing increases the volatility in the value of your investment. In the early stages of residential investment, a significant fall in the property's value may see balances fall to less than the total amount of borrowings.
- Increases in interest rates often increase the cost of borrowings.
- Changes in laws or their interpretations including taxation, superannuation & corporate regulatory laws, practice & policy could have an impact on your investment. You should seek professional tax advice before investing in residential property.

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This report is valid for six (6) months from date of issue being November 2014.

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DATA SOURCES

Matusik Property Database; Qld Government; Qld RTA; SQM Research; ABS Various; RPData; Knight Frank (Cairns); Rio Tinto Alcan & Metro Coal.