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## WA full of hot air

by Lachlan Hibbert-Wells : Wednesday, August 26, 2009

Australia's largest ever trade deal based on the supply of liquefied natural gas from Western Australia to China will have an enormous positive impact on Perth's property market, according to Paul Craig, Savills WA managing director.

"There is no doubt at all that the record \$50 billion gas deal will have a positive effect on the Perth commercial office market," Mr Craig said.

"We are already seeing sub-lease space being withdrawn from the market by the major resource groups in anticipation of a re-bounce, and the majority of Perth's new developments are significantly pre-committed."

"A project of this size will create plenty of new tenant demand, not only for the partners directly involved but also add-on services, such as consultants and sub contractors, small engineering, legal and general professional services. It will also have a positive effect on retail spending and general business confidence."

WA's North West Shelf Gorgon development, a partnership between global energy giants Chevron, Shell and ExxonMobil, will supply \$50 billion worth of natural gas to PetroChina under the historic 20-year agreement.

The deal represents the single biggest investment in Australia's history. Construction will start next year with 10,000 new jobs during construction, 6000 new jobs during the peak and 3500 ongoing jobs.

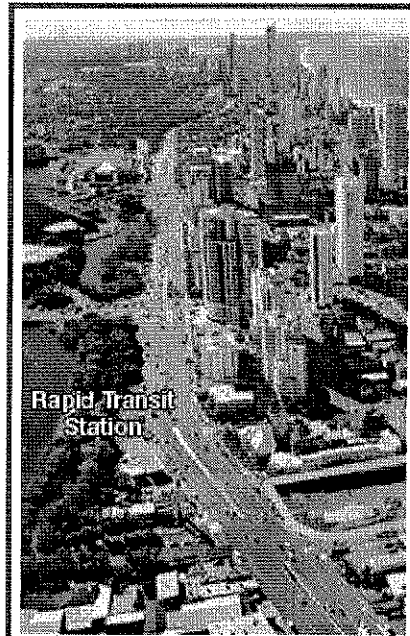
Approximately \$300 billion worth of gas is expected to be sold from the project, with an increase in Gross Domestic Product (GDP) of \$64 billion over 30 years, a 4% boost to WA's state gross product, and a government revenue increase of \$40 billion.

Savills' Mr Craig said the record-breaking China deal confirms WA's status as a world energy superpower and doubles the value of the current projects currently underway in WA.

He said further multi-million dollar natural gas contracts are also expected to be announced in WA in coming months, including Woodside's Pluto venture near Karratha which has the potential to be 40% bigger and generate even more sales than Gorgon.

"This is very exciting for the WA economy considering historically 70% of our resource exports have been iron ore, and we are now entering the world of energy at such a significant level," he said.

"When considering commercial property investment, confidence in the economic outlook is key. No other state can match WA for this type of project's sheer size and ability to produce jobs. In addition, the \$40 billion worth of government revenue will result in many new infrastructure projects."



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Mr Craig said while the WA economy has by no means been immune to the effects of the global financial crisis, it is much better positioned than other states and has continued to record positive economic growth statistics.

He said last financial year, during the peak of the crisis, WA saw a 25% rise in the value of its exports, which account for nearly 40% of all Australia's exports. Base metal prices have also risen by 37% in US dollar terms.

During the first half of 2009, there was 60% more home loans to WA first home buyers than in 2008, building approvals were 11% higher than in June 2008 and WA retail sales have grown by 3% in the past 12 months, Mr Craig said.

"Against this backdrop, the magnitude of the Gorgon deal will re-create a labour shortage in WA, resulting in escalating construction costs and positioning existing property as well below replacement cost given that rents and capital values have corrected by 20% in the past 12 months," he said. "In fact, with such a quick re-bound there has been a lot of talk about a reduction in construction costs, however, to date, we are still yet to see these filter through to the market."

"The growth in jobs and GDP will also have an ongoing positive effect on retail spending and the local retail market, where we have already seen the likes of luxury international retailers Burberry and Emporio Armani recently enter the Perth market."

Mr Craig said the China gas deal will also restore confidence to WA's residential investor market, where house prices already appear to be stabilising.

"This is why the Gorgon deal and Woodside's announcement on Pluto are so important, as confidence will be the key to the residential outlook going forward," he said.

"Local residential agents are reporting a buyer shift from low priced residential to the middle and top end as recently as the past six to eight weeks, even in the state's south west."

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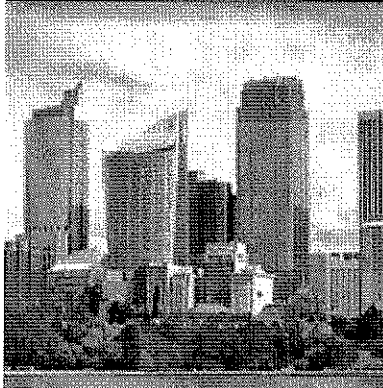
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