



April 2012

Newcastle and the Hunter – NSW's Leading Regional Economy

Newcastle and the Hunter region are among the strongest regional economies in New South Wales (NSW). Boosted by mining and infrastructure projects, the Hunter region has the highest population growth rate outside of the Sydney region, low unemployment and a diversified economy. Nevertheless it has experienced some reversals over recent months, as the high \$AUD, weaker consumer sentiment and uncertainty about the global economy have impacted most Australian sectors outside of those directly benefiting from resources and infrastructure.

Strong population growth

With a 2011 population of 658,608 persons, the Hunter region had a growth rate of 8,119 persons or 1.2% in 2010/11 (preliminary – p). Approximately 84% of the Hunter region's population was in the five Local Government Areas (LGAs) of the Lower Hunter[#] (552,776 persons). This subregion had an average growth of 6,939 persons or 1.3% in 2010/11 (p).

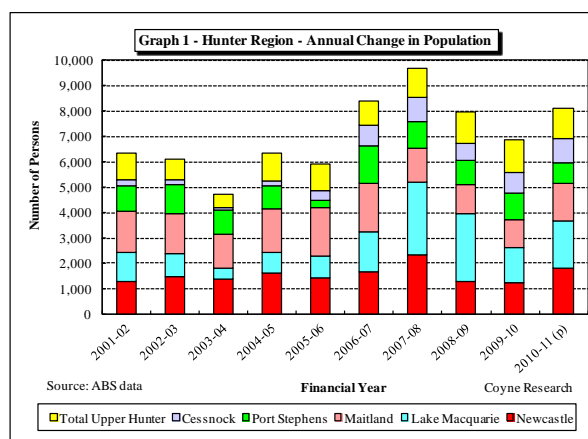
The six LGAs^{##} in the Upper Hunter accounted for a 2011 population of 105,832 persons, with a growth rate of 701 persons or 1.1% in 2010/11 (p). Graph 1 shows that Newcastle City and Lake Macquarie City have reclaimed the leading positions for growth, replacing Maitland City, which had the highest growth from 2004/05 to 2006/07. This may partly reflect the rejuvenation of inner Newcastle and Charlestown.

Population projections from the NSW Department of Planning in 2010 envisaged a 2036 population of 675,900 persons in the Lower Hunter region, with a total of 804,300 persons across the Hunter region. The highest levels of growth were projected for the decade to 2021, a total increase of 6,480 persons per annum. However, if recent growth rates continue, the Hunter region could see the population increase to one million people over the next 30 to 40 years.

Diversification continues

Since the closure of BHP's Newcastle steelworks in 1999, the Hunter region's economy has significantly diversified. However, Regional Development Australia (RDA) – Hunter believes it remains overly dependent upon a few major sectors. This is confirmed by the analysis in Table 1 on page 3.

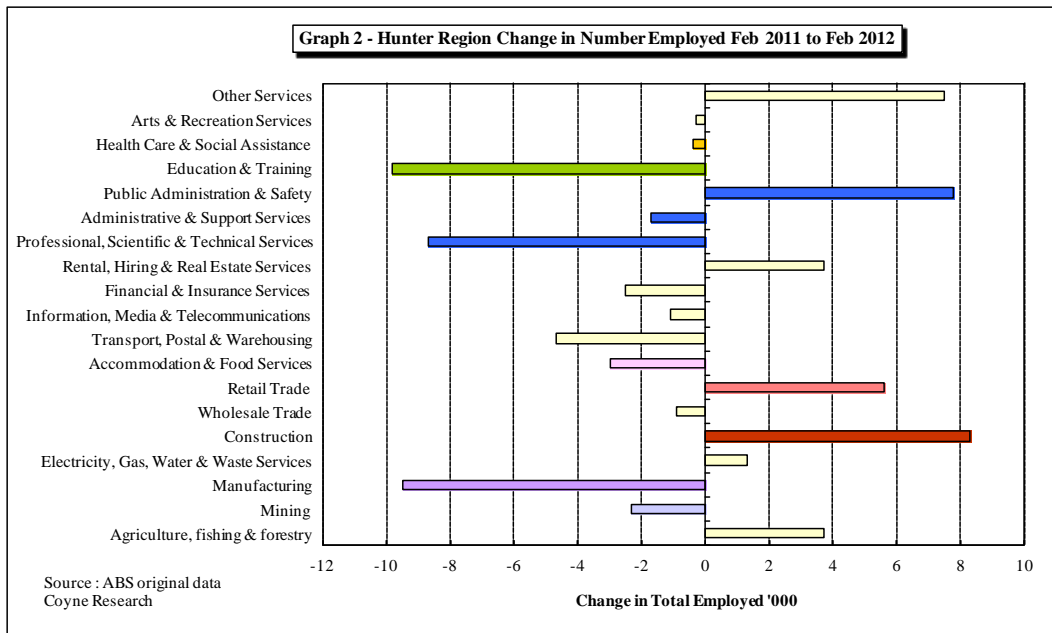
Lower Hunter LGAs: Newcastle, Lake Macquarie, Maitland, Port Stephens & Cessnock ## Upper Hunter LGAs: Dungog, Gloucester, Great Lakes, Muswellbrook, Singleton & Upper Hunter Shire



Compared with the NSW average, the Hunter region had higher proportions of workers in eleven out of 19 industry sectors. However it fell behind in white collar jobs, such as professional, scientific and technical services, finance and insurance and media (various totalling 11.5%, compared with 25.2% for NSW), as well as in education and training (4.1%, compared with 6.6% for NSW) and in wholesale trade, transport, postal and warehousing (7.1%, compared with 8.5% for NSW).

At February 2012, the total of 313,500 employed persons in the Hunter region was 6,800 persons lower than the year before and the participation rate had fallen from 63.4% to 60.2%. Although it was higher than in mid 2011, the unemployment rate of 3.9% compares favourably with the NSW average of 5.7%. The Upper Hunter had a 1.0% unemployment rate, while the Lower Hunter stood at 4.4%.

Graph 2 on the next page shows that over the year to February 2012, the most significant job losses in the Hunter region have been in education and training, manufacturing and professional, scientific and technical services. In contrast, construction, public administration and defence, other services and retail trade saw significant job increases.



Notable job losses include in excess of 150 jobs at Hydro’s aluminium smelter at Kurri Kurri in Cessnock LGA, announced earlier this year.

In contrast, despite the job losses indicated in Graph 2, the education sector appears to be expanding. In January the University of Newcastle, with 32,000 students, announced a record placement for 8,345 students for the 2012 year. The University is planning to develop a city campus at Honeysuckle in Newcastle, with Stage One expected to accommodate 2,500 business students in an 18,000 square metre campus.

Coal mining continues to play a significant role, reported to be responsible for 11,000 direct jobs and a further 4,000 indirect jobs (source: RDA – Hunter). Coal exports continue to increase, with the Port of Newcastle reporting a record throughput of 114.1 million tonnes for calendar year 2011 (up by 11% on 2010).

Corporate and cruise tourism

The Hunter region is known for its wine tourism, and Newcastle has gained a favourable reputation, being named in the Lonely Planet’s top ten cities to visit in 2011. The strength of the resources industry has seen a strong corporate tourism sector, as well as an increasing conference market.



On 9 February, the Port of Newcastle was visited by the Pacific Sun (almost 2,000 passengers) and the Discovery (almost 700 passengers). Some passengers undertook daytrips to the Hunter vineyards or Nelson Bay.

Since P & O Australia’s Pacific Sun made Newcastle its home port in 2010, Newcastle has started to see increasing visits by luxury cruise ships, with eleven visits scheduled for 2011/12. Consideration is now being given to development of a permanent cruise ship terminal.

Shift towards innovation and research

While many of the major infrastructure projects recently completed, under construction or proposed in the Hunter region are related to resources or transport, there are also a few that highlight the shift in the economy towards innovation and research.

The following is a sample of major projects identified by RDA – Hunter:

- Hunter Expressway, 40 kilometres of divided highway between the F3 Freeway and Branxton – due for completion in late 2013;

Table 1 – Hunter Region Employment by Industry February 2012

Industry Sector	Lower Hunter		Upper Hunter		NSW
	Number '000	% of Total	Number '000	% of Total	%
Agriculture, fishing & forestry	2.3	0.9%	5.4	11.6%	2.2%
Mining	12.5	4.7%	2.5	5.4%	1.3%
Manufacturing	24.1	9.0%	5.1	10.9%	8.1%
Electricity, Gas, Water & Waste Services	6.2	2.3%	1.4	3.0%	1.1%
Construction	25.6	9.6%	3.9	8.4%	8.5%
Wholesale Trade	6.8	2.5%	0.9	1.9%	3.5%
Retail Trade	32.2	12.1%	4.5	9.7%	11.0%
Accommodation & Food Services	17.9	6.7%	3.8	8.2%	6.8%
Transport, Postal & Warehousing	12.2	4.6%	2.2	4.7%	5.0%
Information, Media & Telecommunications	2.9	1.1%	0	0.0%	2.6%
Financial & Insurance Services	7.4	2.8%	0	0.0%	5.0%
Rental, Hiring & Real Estate Services	7.4	2.8%	2.1	4.5%	1.9%
Professional, Scientific & Technical Services	12.7	4.8%	2.9	6.2%	8.8%
Administrative & Support Services	9.5	3.6%	0.4	0.9%	3.8%
Public Administration & Safety	18.9	7.1%	2.8	6.0%	6.3%
Education & Training	11.7	4.4%	1.3	2.8%	6.6%
Health Care & Social Assistance	36.4	13.6%	5.2	11.2%	11.7%
Arts & Recreation Services	2.6	1.0%	1.3	2.8%	1.5%
Other Services	17.5	6.6%	0.9	1.9%	4.3%
Total Employed	266.8	100.0%	46.6	100.0%	100.0%

Source: ABS Labour Force Survey original data

- Newcastle University's Newcastle Institute for Energy and Resources, accommodating 300 research staff, completed in 2011;
- The Hunter Medical Research Facility recently completed in Lake Macquarie LGA, accommodating 400 researchers from the University of Newcastle and Hunter New England Health;
- The Williamstown Aerospace Centre, including a 50 hectare business park being developed by Hunter Land;
- Xstrata's Ravensworth North open cut coal mine in the Upper Hunter – expected to create 550 operational jobs in 2012;
- Macquarie Generation's solar thermal project at the Liddell Power Station near Muswellbrook;
- Expansion of Newcastle's third coal loader, which opened in 2010, to a capacity of 180 million tonnes per annum (Mtpa), due for completion in 2012;
- Port Waratah Coal Services' proposed fourth coal loader, which would add 120 Mtpa to the Port of Newcastle's capacity – environmental assessment completed; and
- Pacific National's Greta Train Support Facility to increase the efficiency of coal haulage services – currently employing some 550 workers during construction.

Rental market pressure

In common with resources-driven communities in Queensland and Western Australia, the Hunter is experiencing significant pressure upon its residential rental market. The Real Estate Institute of NSW's vacancy rate for both Newcastle and the Hunter region has ranged between 1.1% and 2.0% over the past year. Some agents report as many as 30 groups competing for individual rental properties.

Shift towards more affordable apartments

Significant urban renewal has occurred over the past decade in both inner Newcastle and Charlestown. Recent attention has focused on the East End, with activity including:

- Mirvac's completion of 167 apartments, as well as an 88-room hotel in The Royal on the site of the former Royal Newcastle Hospital. Only a handful of luxury apartments remain for sale, priced just over \$1 million for two and three bedroom designs (\$7,000 to \$8,000/m² gross);
- Stronach Properties' completion of a mix of smaller units in the 99-apartment Arvia at 67 Watt Street, with a few two bedroom units still available, priced from around \$449,950 to \$529,950;
- Mirvac's sale of the hotel component of The Royal to Accor, which will see the rebranding of the hotel from The Sebel to one of the Accor brands; and

- Stronach Properties' purchase of the balance of the former Royal Newcastle Hospital site from Mirvac, with a development application lodged that would see refurbishment of the David Madison building to Grade A office space.

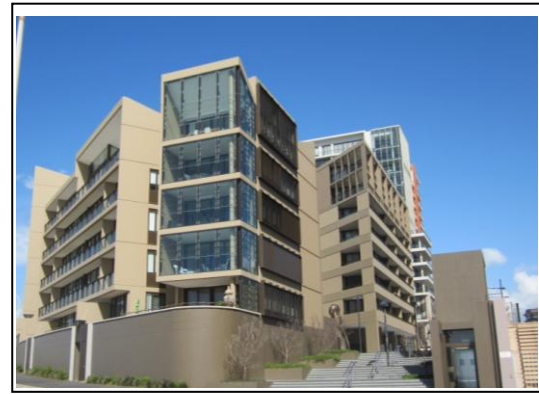
Since the Global Financial Crisis (GFC), demand for luxury apartments in Newcastle has been slow. Recent activity in inner Newcastle has focused on more affordable options.

These include Pacific Lifestyle Developments' restoration of the old Terminus Hotel and South British Insurance buildings to the eight storey Grand Central Apartments at 111 Scott Street. Recently available apartments were priced from around \$299,950 for a one bedroom unit without parking (\$6,248/m²); \$599,950 for a north-facing, two bedroom unit with harbour views and a single car space (\$8,032/m² gross); and \$1,495,000 for a four bedroom subpenthouse (\$6,921/m²). This complex also includes 45 serviced apartments operating as the Chifley Executive Suites.

In Newcastle West, marketing has recently recommenced on behalf of the receiver of the Waterhouse family's Pinnacle apartments. Until February, it was being operated as serviced apartments, but it is understood that 37 out of 68 apartments remained unsold in the redevelopment of the former Latec House. Asking prices range from \$320,000 for a one bedroom unit; \$370,000 to \$407,500 for two bedroom units; \$555,000 to \$659,000 for three bedroom units; to \$905,000 for a 300 m² penthouse.

Owners achieve capital gains

The failure of many potential apartment projects in inner Newcastle to proceed, combined with demand as a result of population growth, has seen recently developed apartments typically achieving capital gains.



Mirvac's The Royal, viewed from Shortland Esplanade.

In the East End at The Royal and Arvia, gains have typically ranged from 5% to 10% per annum for one and two bedroom units with an average resale price of \$490,000.

Charlestown, some ten kilometres south of Newcastle, has also seen significant urban renewal over recent years. This has been focused on GPT's regional shopping centre, Charlestown Square, which was expanded in October 2010 to 88,000 m². Although Charlestown occupies an elevated position with district views, it is inland from the coastline.

This is reflected in the lower price points for residential apartments (on average \$334,615 for 2011 resales in Alto at 314 Charlestown Road and Landmark at 215 Pacific Highway). Gains have typically ranged from 1% to 3% per annum, with a few owners at Charlestown accepting a small loss on resale.

The expansion of Charlestown Square by the GPT Group is in stark contrast with the planned redevelopment of the heart of Newcastle. As reported in our December 2010 newsletter, GPT abandoned the Hunter Street Mall project in Newcastle, citing the failure of the State Government to close the heavy railway line which divides the Central Business District from Honeysuckle. It seems likely that this uncertainty is one of the factors contributing to the failure of projects to proceed, despite the continuing strength of the Hunter economy and the strong underlying demand for new dwellings.

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