# Australian Property Directions Survey – Commercial, Industrial, Retail and Trusts

NOVEMBER 2016

This is the 36th API Australian Property Directions Survey conducted by the Australian Property Institute. This survey measures the sentiment and expectations of Valuers, Funds Managers, Property Analysts and Property Financiers on a range of topics affecting property industry activity.

## Likelihood of non-residential property sector outperforming the equity market at the end of next one, 3 and 5 years

Respondents are unsure about the likelihood of non-residential property outperforming the equity market, with 46% thinking it is likely over the next year, and 42% over the next three years. Five years out, 42% of respondents believe that both will perform equally.

### Likelihood of Non-Residential Property Sector Out Performing Equity Markets

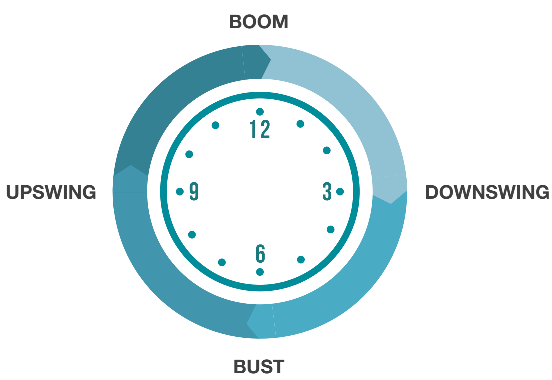
November 2016 (October 2015)
Percentage of Respondents

| | One Year | 3 years | 5 years |
|---|---|---|---|
| Very Unlikely | 0 (0) | 0 (0) | 8 (0) |
| Unlikely | 15 (16) | 31 (26) | 27 **(42)** |
| Same | 35 (26) | 27 (32) | **42** (32) |
| Likely | **46 (47)** | **42 (37)** | 23 (26) |
| Very Likely | 4 (11) | 0 (5) | 0 (0) |

## Property Time Clock - Sydney, Melbourne, Brisbane and Perth

### Property Clock Key

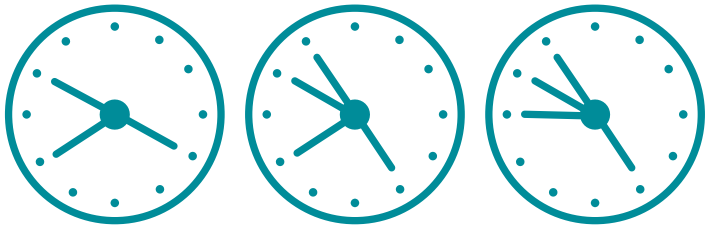
Responses are in hours, eg, 4 o'clock or 12 o'clock



## Where are commercial, industrial and retail properties on the property cycle and where are they headed over the next two years?

Currently, commercial, industrial and retail property in Sydney and Melbourne is seen as being the furthest along the upswing of the property cycle with Brisbane having commenced the upswing of the property cycle. Commercial, industrial and retail property in Perth is on the downswing of the property cycle, although there is some way to go until markets reach the bottom.

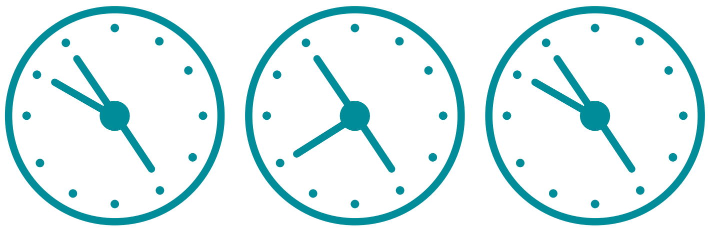
### 2016 - Current Time



| | Commercial | Industrial | Retail |
|---|---|---|---|
| Sydney | 10 | 10 | 10 |
| Melbourne | 10 | 11 | 11 |
| Brisbane | 8 | 8 | 9 |
| Perth | 4 | 5 | 5 |

In 2017, commercial property in Sydney, Melbourne, Brisbane and Perth is expected to move further along the property cycle. Industrial markets in Melbourne and Brisbane will remain at a similar point to 2016, while industrial markets in Sydney and Perth will move further along the cycle. Retail markets in Sydney and Brisbane will progress along the upswing of the property cycle, while Melbourne and Perth will remain at a similar point to the previous year.

### 2017 - One Year's Time

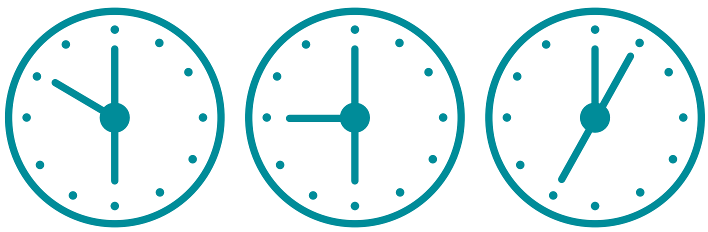


| | Commercial | Industrial | Retail |
|---|---|---|---|
| Sydney | 11 | 11 | 11 |
| Melbourne | 11 | 11 | 11 |
| Brisbane | 10 | 8 | 10 |
| Perth | 5 | 5 | 5 |

In 2018, commercial and industrial property in Sydney and Melbourne is expected to reach the top of the property cycle, while markets in Brisbane and Perth will move further along the cycle.

Retail markets in Sydney and Brisbane are expected to reach the top of the property cycle at this time, while respondents believe retail property in Melbourne will commence the downswing. In Perth, retail markets are expected to move past the lowest point of the property cycle and commence the upswing.

### 2018 - Two Years' Time

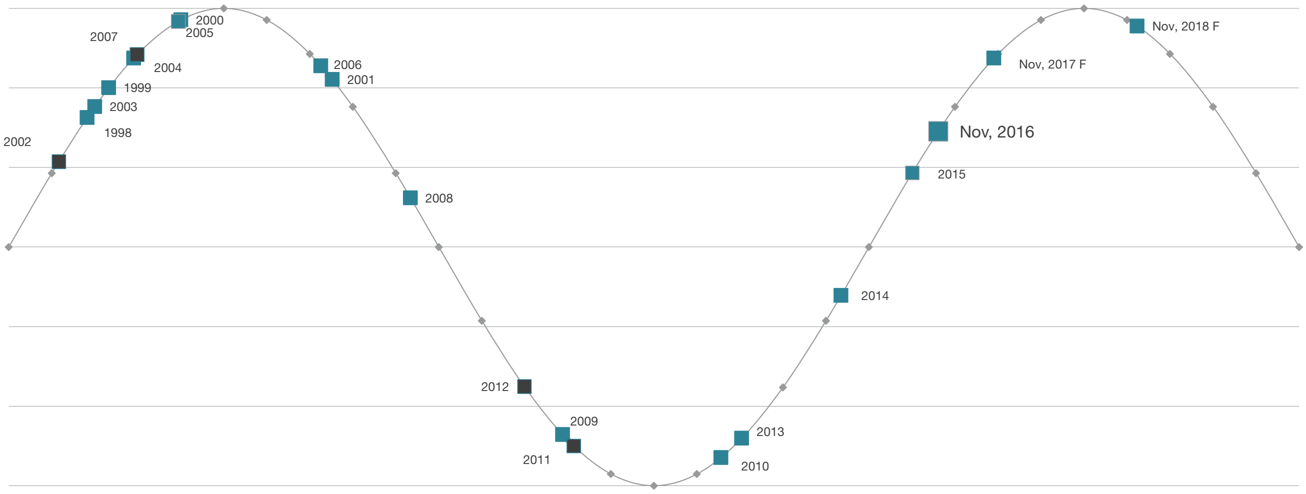


| | Commercial | Industrial | Retail |
|---|---|---|---|
| Sydney | 12 | 12 | 12 |
| Melbourne | 12 | 12 | 1 |
| Brisbane | 10 | 9 | 12 |
| Perth | 6 | 6 | 7 |

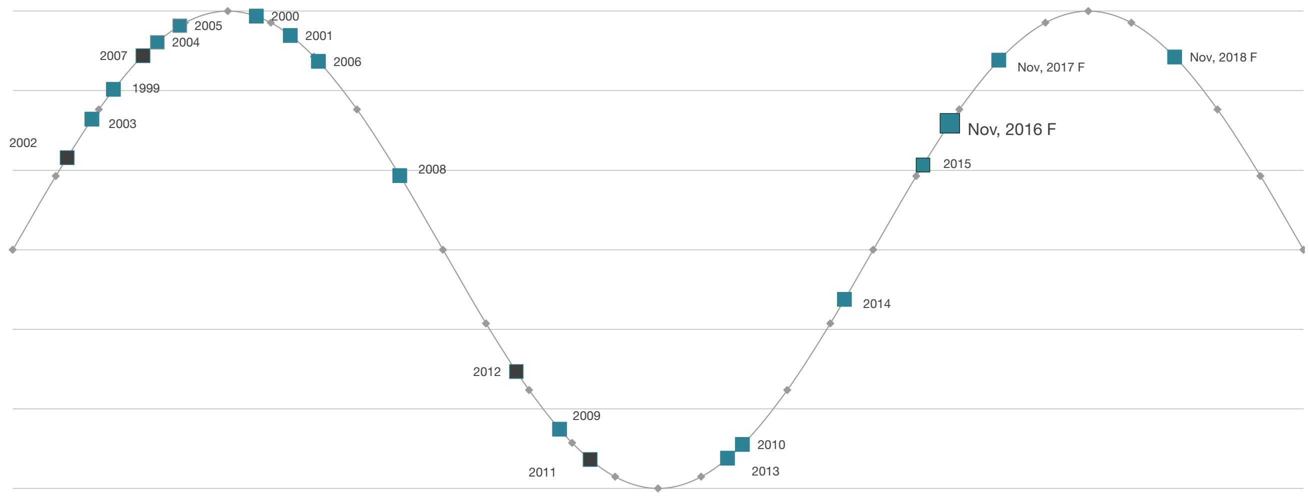
# Residential Property Cycle for Sydney, Melbourne and Brisbane

(with Forecasts for 2017 and 2018)

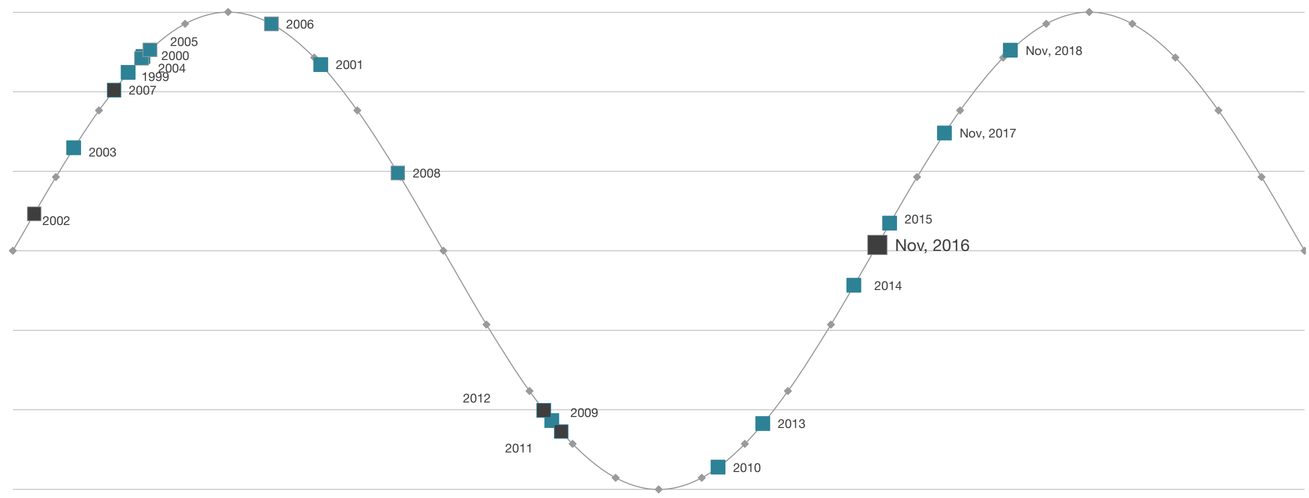
## Sydney 1998 - 2016




## Melbourne 1999 - 2016




## Brisbane 1999 - 2016



## Change in invested capital for listed and unlisted property trusts and syndicates over next 12 months

Most respondents see still moderate investment growth for Australian and international listed and unlisted property trusts and syndicates over the next 12 months. The outlook is similar to predictions made 12 months ago, however confidence in the investment growth of unlisted international trusts and syndicates has increased.

### Change in Invested Capital for Listed and Unlisted Trusts / Syndicates Over Next 12 Months

November 2016 (October 2015)
Percentage of Respondents

| | Strong Investment Decline | Moderate Investment Decline | No Investment Change | Moderate Investment Growth | Strong Investment Growth |
|---|---|---|---|---|---|
| **Listed** | | | | | |
| Domestic | 0 (0) | 0 (16) | 28 (32) | **68 (53)** | 4 (0) |
| International | 0 (5) | 8 (5) | 24 (27) | **64 (58)** | 4 (5) |
| **Unlisted / Syndicates** | | | | | |
| Domestic | 0 (0) | 4 (5) | 20 (26) | **64 (69)** | 12 (0) |
| International | 0 (5) | 8 (5) | 24 **(42)** | **64** (37) | 4 (11) |

## Growth projections for “real movement” above CPI over the next 12 months in Sydney, Melbourne

Respondents believe that market values and rents for commercial property in the Sydney CBD and suburban CBDs will increase over the next 12 months, and at a faster rate than predicted in the October 2015 survey. Sydney’s industrial and retail property market values are expected to increase at a similar rate to that predicted a year ago, while market rentals will increase more quickly.

In Melbourne, market values and rents for all property markets are expected to increase. Commercial CBD property should be the strongest performer, while industrial property is expected to have small growth in market values and rentals.

In Brisbane, growth in market values for commercial CBD and retail property is expected to increase at similar rates to October 2015. Industrial property market values will also increase, but at a slower rate. Market rentals will increase for retail property but decrease for commercial CBD and industrial property, albeit at a slower rate than predicted in October 2015.

### Percentage Projections Above CPI Over Next 12 Months

November 2016 (October 2015)

| SYDNEY | | | | |
|---|---|---|---|---|
| | Commercial | | Industrial | Retail |
| | CBD | Suburban CBDs | | |
| **Market Value** | 4.4 (3.8) | 3.0 (2.6) | 2.5 (2.5) | 2.7 (2.9) |
| **Market Rental** | 5.3 (1.0) | 2.3 (0.1) | 1.3 (0.3) | 1.5 (0.9) |
| **MELBOURNE** | | | | |
| | Commercial | | Industrial | Retail |
| | CBD | Suburban CBDs | | |
| **Market Value** | 4.0 (4.0) | 2.6 (2.4) | 1.4 (2.4) | 2.1 (3.1) |
| **Market Rental** | 2.6 (1.0) | 2.3 (0.6) | 0.8 (-0.1) | 1.1 (0.9) |
| **BRISBANE** | | | | |
| | Commercial CBD | | Industrial | Retail |
| **Market Value** | 0.1 (0.3) | | 0.3 (1.2) | 1.3 (1.6) |
| **Market Rental** | -0.1 (-2.6) | | -0.1 (-0.3) | 0.6 (0.2) |

## Forecast movements for new leasing in effective rents (rents taking incentives into account)

For each city, forecast movements in effective rents are similar for the six and 12 month periods. In Sydney, a large majority believe effective rents will increase, while a majority also believe rents will increase in Melbourne over this period. Most respondents believe effective rents will remain stable for the next 6-12 months in Brisbane, and decline in Perth.

### Forecast Movements in Effective Rents

November 2016 (October 2015)
Percentage of Respondents

| | Declining | Stable | Increasing |
|---|---|---|---|
| **6 months** | | | |
| Sydney | 0 (6) | 9 (33) | **91 (61)** |
| Melbourne | 0 (6) | 29 (44) | **71 (50)** |
| Brisbane | 17 (47) | **78 (52)** | 5 (0) |
| Perth | **67** (-) | 33 (-) | 0 (-) |
| **12 months** | | | |
| Sydney | 0 (6) | 9 (22) | **91 (72)** |
| Melbourne | 0 (0) | 38 (39) | **62 (61)** |
| Brisbane | 6 (29) | **83 (59)** | 11 (12) |
| Perth | **56** (-) | 39 (-) | 5 (-) |

## Leasing incentives in the current commercial leasing market

Estimates were made as an annual percentage over a 5 year lease term certain, e.g. 10% equals a 6 month rent free period or equivalent value of incentives for a 5 year lease.

All respondents see lease incentives as a feature of the Sydney CBD, Melbourne, Brisbane, Perth and Canberra markets, and a large majority see leasing incentives as a feature of the Sydney suburban CBD, Adelaide and Hobart markets.

In the Sydney CBD, respondents believe lease incentives for all property grades have decreased over the past year. While incentives for prime property remain in the 20-20% range, respondents are split on the current incentives for A grade property, between 10-19% and 20-29%. For lower grade properties, a small majority of respondents believe incentives are in the 10-19% range.

For Sydney's suburban CBDs, most believe lease incentives are in the 20-29% range, with a leaning towards incentives of 10-19%.

Across Melbourne and Canberra CBDs, a small majority of respondents see lease incentives of 20-29%. For the Brisbane CBD, a small majority see lease incentives above ≥ 30% across all commercial property types, with a leaning towards incentives of 20-29%.

The results are clear for Perth's CBD, where a large majority see lease incentives above ≥ 30% across all commercial property types. Lease incentives in Adelaide's CBD are also thought to be in the same range, however respondents are less certain for this city.

In Hobart, respondents seem uncertain about leasing incentives for prime property in the current market, however over a third believe incentives are in the 20-29% range. Approximately half also see leasing incentives in the same range for A grade and lower grade commercial properties in Hobart's CBD.

## Leasing Incentives in Current Commercial Leasing Market

November 2016 (October 2015)

Percentage responses from respondents who reported leasing incentives as a feature of these markets

| Location | 0-9% | 10-19% | 20-29% | ≥ 30% |
|---|---|---|---|---|
| **Sydney CBD** | | | | |
| **Prime** | 5 (0) | 28 (0) | **62 (56)** | 5 (44) |
| **A Grade** | 0 (0) | 47 (0) | **48 (56)** | 5 (44) |
| **Lower Grade** | 5 (0) | **52** (13) | 29 **(56)** | 14 (31) |
| **Sydney Suburban CBD** | | | | |
| **Prime** | 9 (0) | 38 (6) | **43 (75)** | 10 (19) |
| **A Grade** | 5 (0) | 33 (6) | **52 (63)** | 10 (31) |
| **Lower Grade** | 5 (0) | 33 (19) | **52 (50)** | 10 (31) |
| **Melbourne CBD** | | | | |
| **Prime** | 0 (0) | 26 (0) | **42 (80)** | 32 (20) |
| **A Grade** | 0 (0) | 21 (0) | **53 (73)** | 26 (27) |
| **Lower Grade** | 0 (0) | 21 (7) | **58 (60)** | 21 (33) |
| **Melbourne Suburban CBD** | | | | |
| **Prime** | 0 (0) | 25 (13) | **55 (60)** | 20 (27) |
| **A Grade** | 0 (0) | 20 (0) | **55 (73)** | 25 (27) |
| **Lower Grade** | 0 (0) | 25 (20) | **55 (53)** | 20 (27) |
| **Brisbane CBD** | | | | |
| **Prime** | 0 (0) | 10 (0) | 32 (27) | **58 (73)** |
| **A Grade** | 0 (0) | 5 (0) | 37 (20) | **58 (80)** |
| **Lower Grade** | 0 (0) | 5 (0) | 37 (7) | **58 (93)** |
| **Perth CBD** | | | | |
| **Prime** | 0 (0) | 0 (0) | 11 (7) | **89 (93)** |
| **A Grade** | 0 (0) | 0 (0) | 11 (7) | **89 (93)** |
| **Lower Grade** | 0 (0) | 0 (0) | 11 (7) | **89 (93)** |
| **Adelaide CBD** | | | | |
| **Prime** | 5 (0) | 11 (7) | 26 **(60)** | **58** (33) |
| **A Grade** | 5 (0) | 11 (7) | 21 **(53)** | **63** (40) |
| **Lower Grade** | 5 (0) | 11 (7) | **16 (53)** | 68 (40) |
| **Canberra CBD** | | | | |
| **Prime** | 0 (0) | 33 (13) | **56 (67)** | 11 (20) |
| **A Grade** | 0 (0) | 28 (13) | **55 (60)** | 17 (27) |
| **Lower Grade** | 0 (0) | 28 (13) | **50 (60)** | 22 (27) |
| **Hobart CBD** | | | | |
| **Prime** | 12 (0) | 24 **(37.5)** | **35** (25) | 29 **(37.5)** |
| **A Grade** | 6 (0) | 24 **(37.5)** | **47** (25) | 23 **(37.5)** |
| **Lower Grade** | 6 (0) | 18 (25) | **53** (25) | 23 **(50)** |

## Economic settings - major factors impacting on the economy

### Interest rates

A large majority of respondents see interest rates as being similar for the next 6 to 12 and higher in 3 years' time.

### Inflation

Most respondents see inflation as being similar for the next 6 to 12 months. In three years' time, a larger majority believe inflation will be higher.

### Foreign Investment

Most respondents see foreign investment as at a similar level for next 6 months. Respondents are less certain for the 12 month period but half see foreign investment at similar levels. In 3 years' time, half of respondents believe foreign investment will be lower.

### Business Confidence

Predictions for business confidence for the next 6 to 12 months are for similar levels. Respondents are split over predictions for 3 years' time, with 46% believing that business confidence will be higher.

## Economic Settings – Major Factors Impacting on the Economy

November 2016 (October 2015)
Percentage of Respondents

| | Lower | Similar | Higher |
|---|---|---|---|
| **Interest Rates** | | | |
| 6 months | 15 (30) | **81 (70)** | 4 (0) |
| 1 year | 12 (15) | **76 (65)** | 12 (20) |
| 3 years | 4 (0) | 19 (20) | **77 (80)** |
| **Inflation** | | | |
| 6 months | 19 (5) | **66 (90)** | 15 (5) |
| 1 year | 8 (0) | **69 (80)** | 23 (20) |
| 3 years | 4 (0) | 15 (15) | **81 (85)** |
| **Foreign Investment** | | | |
| 6 months | 12 (0) | **65 (80)** | 23 (20) |
| 1 year | 27 (10) | **50 (55)** | 23 (35) |
| 3 years | **50** (35) | 27 **(45)** | 23 (20) |
| **Business Confidence** | | | |
| 6 months | 11 (15) | **81 (50)** | 8 (35) |
| 1 year | 4 (10) | **77** (30) | 19 **(60)** |
| 3 years | 23 (5) | 31 (5) | **46 (90)** |

## Respondents to the Survey

The API appreciates the continued support of the following survey respondents

Abacus Property Group
ANZ
BankWest
Charter Hall
Chesterton International Australia
Colliers International Australia
Commonwealth Bank of Australia
Cushman & Wakefield
DEXUS Property Group
EY
Goodman
Herron Todd White
Investa Property Group
JLL
Knight Frank
Knight Frank Valuations
Landmark White
LendLease
m3property Australia
Macquarie Group
McGees Property
Mirvac
Office of the Valuer-General, Tasmania
Opteon Property Group
Preston Rowe Paterson
Pricewaterhouse Coopers
Westpac Banking Corporation

**IN APPRECIATION:** The API appreciates the work of the API Research Committee of Phil Bennett LFAPI, Research Committee Chairman; Associate Professor John MacFarlane FAPI of Western Sydney University; and Colin Pugsley FAPI, NSW Divisional Councillor.