

THE AUSTRALIAN PROPERTY INSTITUTE INC.

AUSTRALIAN PROPERTY DIRECTIONS SURVEY | COMMERCIAL, INDUSTRIAL, RETAIL AND TRUSTS

OCTOBER 2015



This is the 35th API Australian Property Directions Survey conducted by the Australian Property Institute (NSW Division). This 6 monthly 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

Survey respondents are less confident than in June 2015 that non-residential property will outperform the equity market over the next year with 47% stating this view. Three years out, responses are spread, with 42% of respondents believing that non-residential property will perform better than the equity market and 26% with the opposite view. In five years' time, 26% believe it's likely that non-residential property will outperform the equity market.

Likelihood of Non-Residential Property Sector Out Performing Equity Markets

October 2015 (June 2015)
Percentage of Respondents

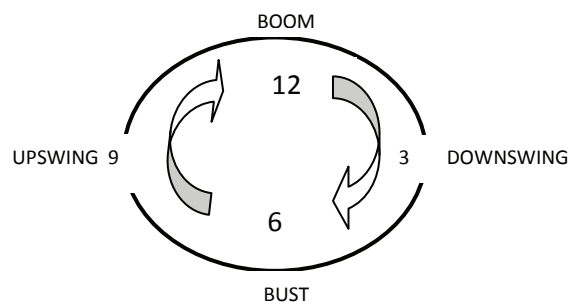
	Very Unlikely	Unlikely	Same	Likely	Very Likely
One Year	0 (5)	16 (5)	26 (27)	47 (63)	11 (0)
3 years	0 (0)	26 (26)	32 (53)	37 (21)	5 (0)
5 years	0 (0)	42 (53)	32 (37)	26 (10)	0 (0)

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

Property Time Clock - Sydney, Melbourne and Brisbane

Property Clock Key

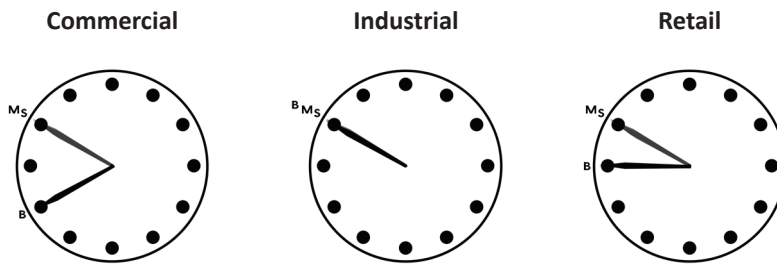
Responses are in hours, eg, 4 o'clock or 12 o'clock



Generally, commercial, industrial and retail property markets in Sydney, Melbourne and Brisbane are seen to be progressing along the upswing of the property cycle over the next two years.

2015 - Current Time

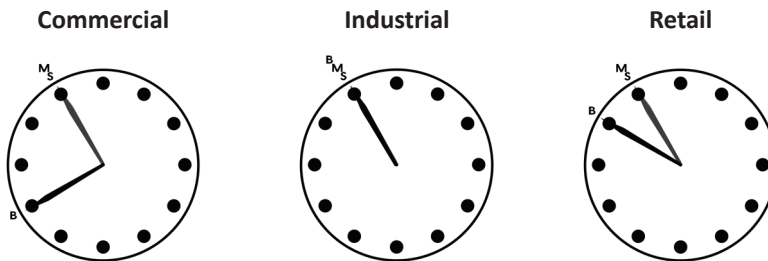
Currently, commercial property in Sydney and Melbourne is seen as being the furthest along the upswing of the property cycle with Brisbane having commenced the upswing of the property cycle. Industrial and retail property is at approximately the same point in the property cycle across all three cities, with some way to go until it reaches its peak.



	Commercial	Industrial	Retail
Sydney	10	10	10
Melbourne	10	10	10
Brisbane	8	10	9

2016 - One Year's Time

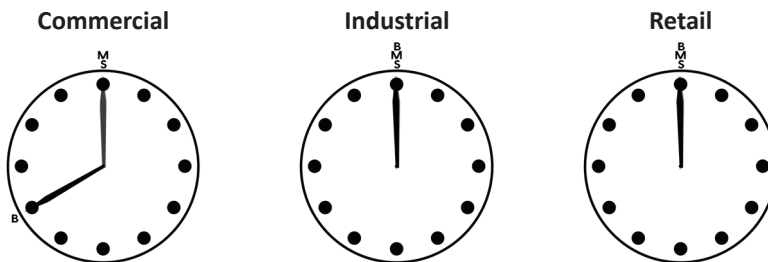
In 2016, commercial property in Sydney and Melbourne is seen as moving close to the top of the property cycle, while Brisbane is expected to remain at the same position as it is currently. Industrial and retail property in Sydney, Melbourne and Brisbane is expected to have advanced further along the upswing, and be close to the top of the property cycle.



	Commercial	Industrial	Retail
Sydney	11	11	11
Melbourne	11	11	11
Brisbane	8	11	10

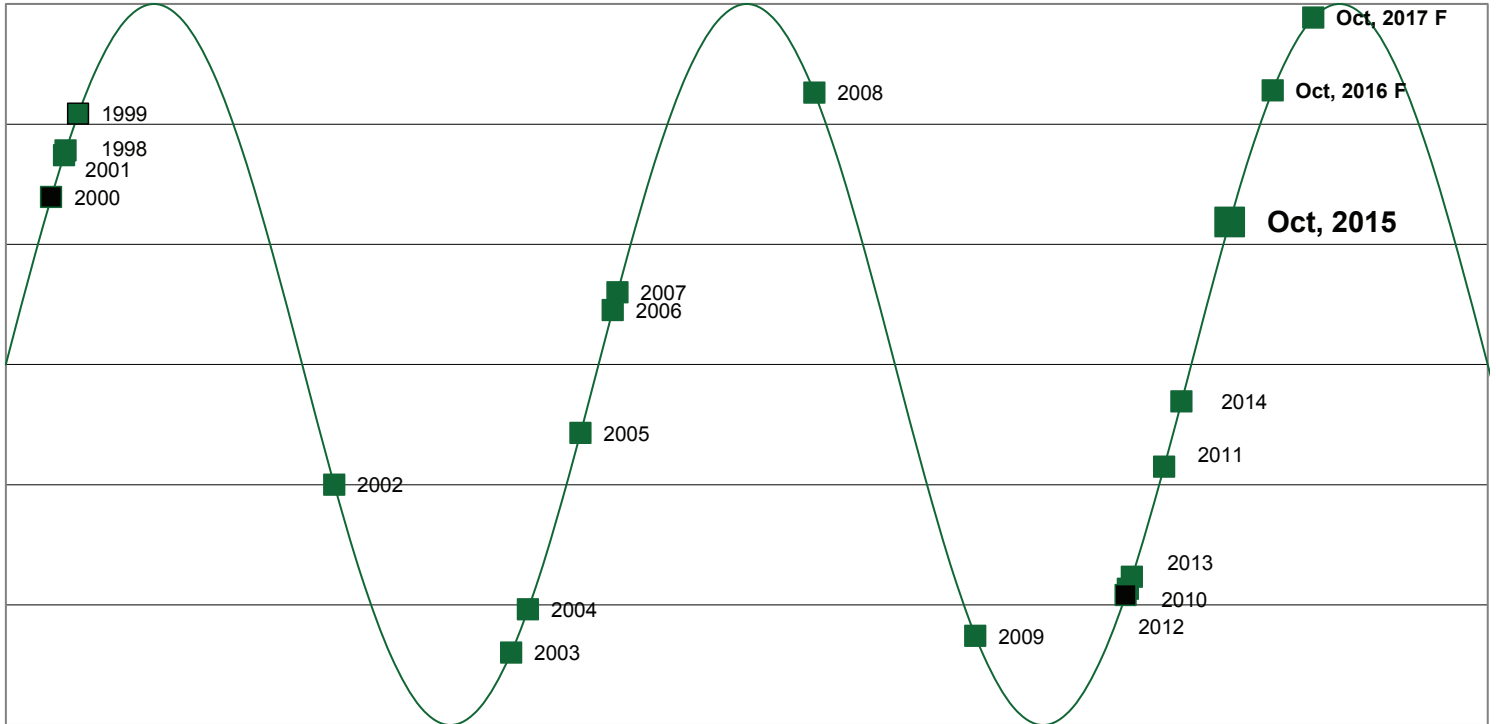
2017 - Two Years' Time

In 2017, commercial property in Sydney and Melbourne is expected to be at the top of the property cycle, while Brisbane will not have moved any further along the upswing. Respondents expect that industrial and retail property in all three cities will be at the top of the cycle.

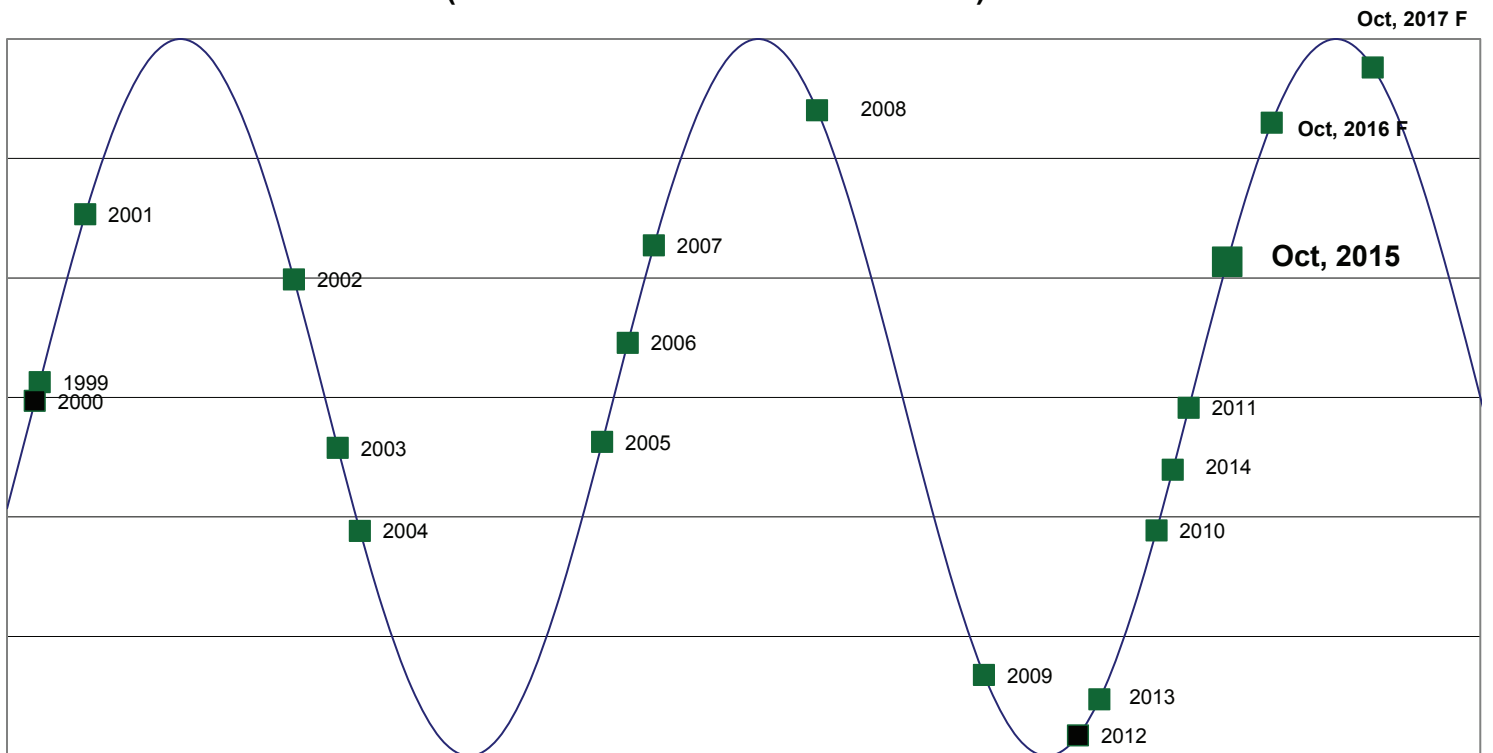


	Commercial	Industrial	Retail
Sydney	12	12	12
Melbourne	12	12	12
Brisbane	8	12	12

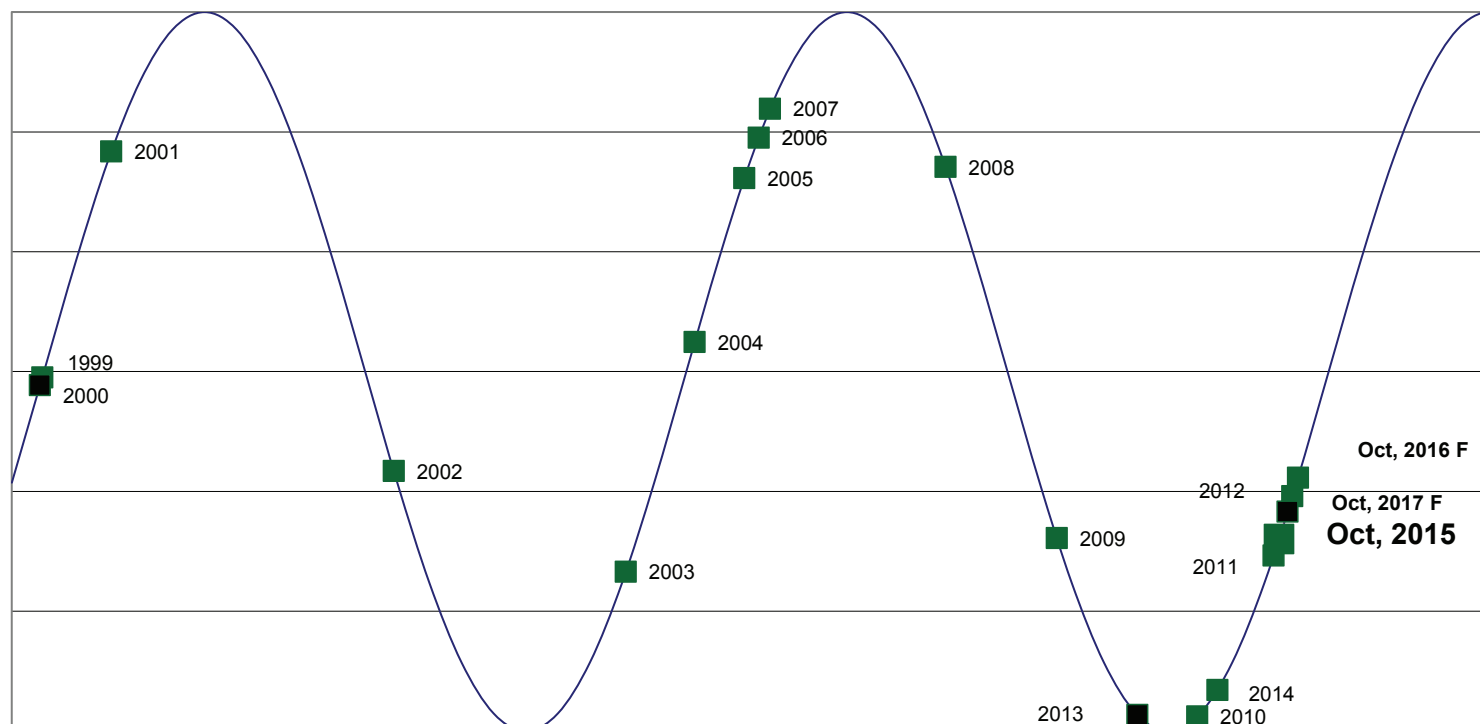
Sydney Commercial Property Cycle 1998 - 2015 (with Forecasts for 2016 and 2017)



Melbourne Commercial Property Cycle 1999 - 2015 (with Forecasts for 2016 and 2017)



Brisbane Commercial Property Cycle 1999 - 2015 (with Forecasts for 2016 and 2017)



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

A majority of respondents see still moderate investment growth for Australian listed and unlisted property trusts and syndicates over the next 12 months albeit the majority view for such growth is not as strong as it was in June 2015. Overall, the expected growth for domestic trusts and syndicates remains strong for the next 12 months.

Moderate investment growth is also expected in listed international trusts, while respondents most commonly expect no investment change for unlisted international trusts and syndicates.

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

October 2015 (June 2015)
Percentage of Respondents

	Strong Investment Decline	Moderate Investment Decline	No Investment Change	Moderate Investment Growth	Strong Investment Growth
Listed					
Domestic	0 (0)	16 (5)	31 (11)	53 (79)	0 (5)
International	5 (0)	5 (10)	27 (26)	58 (32)	5 (32)
Unlisted / Syndicates					
Domestic	0 (0)	5 (5)	26 (11)	69 (74)	0 (10)
International	5 (0)	5 (11)	42 (26)	37 (47)	11 (16)

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

Respondents believe that market values and rents for commercial, industrial and retail property in Sydney will increase over the next 12 months, but at a slower rate than predicted in the June 2015 survey.

In Melbourne, market values and rents for almost all property markets are expected to increase at a faster rate than predicted in June. The exception to this is industrial market rents, which are expected to decrease slightly.

In Brisbane, results are more mixed. Commercial CBD growth is now expected to increase, while market rents will decrease at a faster rate. Market values for industrial property will increase, but at a slower rate than previously expected, while market rates are expected to decrease slightly. Market values and rents for retail property are expected to increase, at similar rates to those predicted in June.

Percentage Projections Above CPI Over Next 12 Months				
October 2015 (June 2015)				
SYDNEY				
	Commercial			
	CBD	Suburban CBDs	Industrial	Retail
Market Value	3.8 (4.3)	2.6 (3.2)	2.5 (2.8)	2.9 (3.0)
Market Rental	1.0 (1.2)	0.1 (1.8)	0.3 (0.9)	0.9 (1.2)
MELBOURNE				
	Commercial			
	CBD	Suburban CBDs	Industrial	Retail
Market Value	4.0 (2.5)	2.4 (2.2)	2.4 (1.9)	3.1 (2.6)
Market Rental	1.0 (0.4)	0.6 (0.1)	-0.1 (0.1)	0.9 (0.9)
BRISBANE				
	Commercial CBD		Industrial	Retail
Market Value	0.3 (-0.6)		1.2 (1.8)	1.6 (1.6)
Market Rental	-2.6 (-1.9)		-0.3 (0.4)	0.2 (0.1)

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

For the next six months, a majority of respondents see effective rents as increasing in Sydney. 50% of respondents see effective rents as increasing for the next six months in Melbourne with a leaning of 44% to stable effective rents. All respondents see Brisbane effective rents as either declining or being stable for the next six months with the majority view split between these two predictions.

For the next 12 months, the majority of respondents see Sydney effective rents as increasing while a smaller majority of respondents believe the same for the Melbourne market. A small majority of respondents see Brisbane effective rents as stable for the next 12 months.

Forecast Movements in Effective Rents			
October 2015 (June 2015)			
Percentage of Respondents			
	Declining	Stable	Increasing
6 months			
Sydney	6 (5)	33 (42)	61 (53)
Melbourne	6 (6)	44 (59)	50 (35)
Brisbane	47 (47)	53 (47)	0 (6)
12 months			
Sydney	6 (5)	22 (32)	72 (63)
Melbourne	0 (6)	39 (53)	61 (41)
Brisbane	29 (41)	59 (35)	12 (24)

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

The majority of respondents see lease incentives for Sydney CBD prime, A Grade and Lower Grade commercial property to be in the 20 – 29% range, with a leaning towards incentives \geq 30%. A greater majority of respondents see lease incentives for Sydney suburban CBDs between 20 – 29%, again with a leaning towards incentives \geq 30%.

In Melbourne, views on lease incentives for CBD and suburban CBDs commercial property are more certain than in June 2015, with a larger majority seeing lease incentives in the 20 – 29% range.

In the CBDs of Brisbane and Perth, a strong majority see lease incentives above \geq 30% across all commercial property types.

Lease incentives for Adelaide and Canberra CBD commercial property are seen to be in the 20-29% range.

Respondents are uncertain about leasing incentive levels for Hobart for Prime and A Grade commercial property. 50% of respondents see leasing incentives above \geq 30% for lower grade commercial property in Hobart.

Leasing Incentives in Current Commercial Leasing Market

October 2015 (June 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	0 (0)	0 (5)	56 (63)	44 (32)
A Grade	0 (0)	0 (0)	56 (79)	44 (21)
Lower Grade	0 (0)	13 (11)	56 (63)	31 (26)
Sydney Suburban CBD				
Prime	0 (5)	6 (28)	75 (50)	19 (17)
A Grade	0 (5)	6 (26)	63 (58)	31 (11)
Lower Grade	0 (5)	19 (26)	50 (53)	31 (16)
Melbourne CBD				
Prime	0 (0)	0 (24)	80 (47)	20 (29)
A Grade	0 (0)	0 (12)	73 (59)	27 (29)
Lower Grade	0 (0)	7 (18)	60 (47)	33 (35)
Melbourne Suburban CBD				
Prime	0 (6)	13 (18)	60 (70)	27 (6)
A Grade	0 (6)	0 (18)	73 (70)	27 (6)
Lower Grade	0 (6)	20 (18)	53 (58)	27 (18)
Brisbane CBD				
Prime	0 (0)	0 (0)	27 (24)	73 (76)
A Grade	0 (0)	0 (0)	20 (24)	80 (76)
Lower Grade	0 (0)	0 (0)	7 (29)	93 (71)
Perth CBD				
Prime	0 (0)	0 (0)	7 (13)	93 (87)
A Grade	0 (0)	0 (0)	7 (7)	93 (93)
Lower Grade	0 (0)	0 (0)	7 (20)	93 (80)
Adelaide CBD				
Prime	0 (7)	7 (20)	60 (66)	33 (7)
A Grade	0 (0)	7 (27)	53 (53)	40 (20)
Lower Grade	0 (0)	7 (33)	53 (47)	40 (20)
Canberra CBD				
Prime	0 (6)	13 (31)	67 (50)	20 (13)
A Grade	0 (12)	13 (25)	60 (44)	27 (19)
Lower Grade	0 (6)	13 (31)	60 (44)	27 (19)
Hobart CBD				
Prime	0 (30)	37 (20)	25 (10)	38 (40)
A Grade	0 (30)	37 (20)	25 (10)	38 (40)
Lower Grade	0 (30)	25 (20)	25 (10)	50 (40)

Economic settings - major factors impacting on the economy

Interest rates

A majority of respondents see interest rates as being similar for the next 6 to 12 months. A larger majority of respondents believe interest rates will be higher in 3 years' time.

Inflation

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

Foreign Investment

A large majority of respondents see foreign investment as at a similar level for next 6 months. Respondents are less certain for the 12 month period but most still see foreign investment at similar levels. Respondents are even more uncertain about levels over the next 3 years with the forecast spread, however most believe foreign investment will be lower to similar over the period.

Business Confidence

Predictions for business confidence for the next 6 months are for similar levels but with a leaning to higher levels. The majority of respondents believe business confidence will be higher in the next 1 to 3 years.

Economic Settings – Major Factors Impacting on the Economy			
October 2015 (June 2015) Percentage of Respondents			
	Lower	Similar	Higher
Interest Rates			
6 months	30 (42)	70 (58)	0 (0)
1 year	15 (16)	65 (68)	20 (16)
3 years	0 (0)	20 (16)	80 (84)
Inflation			
6 months	5 (16)	90 (84)	5 (0)
1 year	0 (0)	80 (79)	20 (21)
3 years	0 (0)	15 (26)	85 (74)
Foreign Investment			
6 months	0 (5)	80 (53)	20 (42)
1 year	10 (11)	55 (47)	35 (42)
3 years	35 (42)	45 (37)	20 (21)
Business Confidence			
6 months	15 (10)	50 (58)	35 (32)
1 year	10 (0)	30 (53)	60 (47)
3 years	5 (0)	5 (32)	90 (68)

Respondents to the Survey

The API appreciates the continued support of the following survey respondents

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CI Australia
Commonwealth Bank of Australia
Cushman & Wakefield
DEXUS Property Group

EY
Goodman
Investa Property Group
JLL
Knight Frank
Macquarie Group
Opteon Property Group

Pepper Property
Preston Rowe Paterson
Propell Limited
Savills
Westpac

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