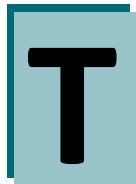# THE AUSTRALIAN PROPERTY INSTITUTE INC.

AUSTRALIAN PROPERTY DIRECTIONS SURVEY | RESIDENTIAL PROPERTY

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.

Are the Sydney, Melbourne and Brisbane residential property markets in bubbles?

Survey respondents were asked to indicate whether or not residential property markets in Sydney, Melbourne and Brisbane were in a bubble.

Results are split for Sydney, with 50% of respondents indicating residential property is in or is entering a bubble, while 50% indicate it is not in a bubble. For Melbourne, 56% of respondents believe residential property is in or is entering a bubble, while 44% believe it is not in a bubble. For Brisbane, 70% of respondents indicate that residential property is not in a bubble, 24% indicate that it is in or is entering a bubble and 6% are unsure.

Residential Bubble or Not?
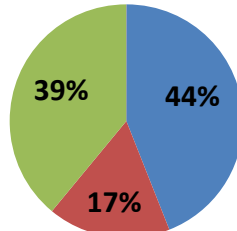**Sydney**
October 2015
Percentage Responses

- 50%
- 33%
- 17%
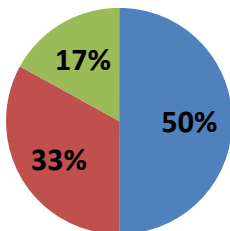
Residential Bubble or Not?
Melbourne
October 2015
Percentage Responses

- 44%
- 39%
- 17%

Residential Bubble or Not?
Brisbane
October 2015
Percentage Responses

- 70%
- 18%
- 6%
- 6%
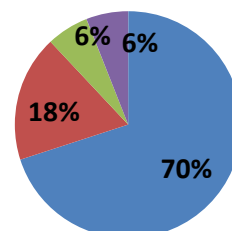
- ■ Not in a bubble
- ■ Entering a bubble
- ■ In a bubble
- ■ Unsure

How long will the current upward trend in Sydney and Melbourne residential property last?

Survey respondents were asked to indicate how long the current upward trend in residential property would last in Sydney and Melbourne.

Most commonly respondents indicated that the current upward trend for Sydney residential property will last for 6 months while 33% believed it would last for 12 months. 88% of respondents indicate that the current upward trend for Melbourne residential property will last for either 6 or 12 months, with 50% of those respondents believing the upward trend will last for 12 months.

How long will the current upward trend in residential property prices last?
Sydney
October 2015
Percentage Responses

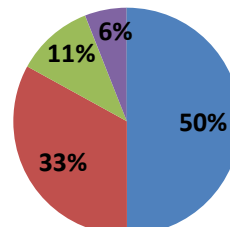- 44%
- 33%
- 17%
- 6%
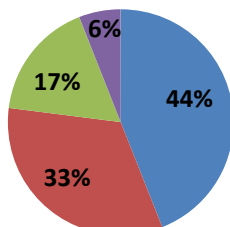
How long will the current upward trend in residential property prices last?
Melbourne
October 2015
Percentage Responses

- 50%
- 33%
- 11%
- 6%

- ■ 6 months
- ■ 12 months
- ■ 18 months
- ■ 24 months
- ■ > 24 months

What are the drivers for residential property demand / prices in Sydney, Melbourne, Brisbane and Perth?

Respondents were asked about the significant drivers for increased demand and price for residential property in Sydney, Melbourne, Brisbane and Perth.
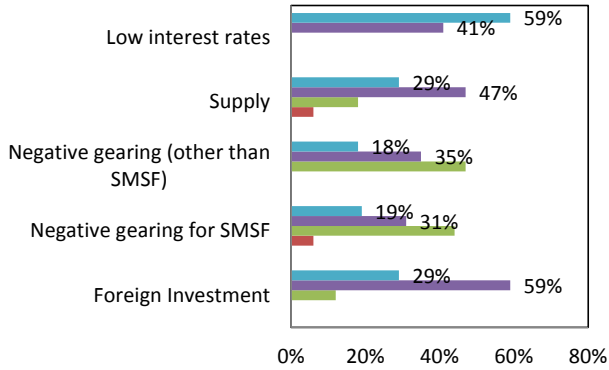
All respondents see low interest rates as a significant to very significant driver of Sydney residential property demand and prices. The second most significant driver is foreign investment with 88% seeing it as significant to very significant. In Melbourne, the two main drivers for residential property demand and prices are the same, with 100% of respondents naming both low interest rates and foreign investment as significant to very significant.

Drivers of Residential Property Demand / Prices
Sydney
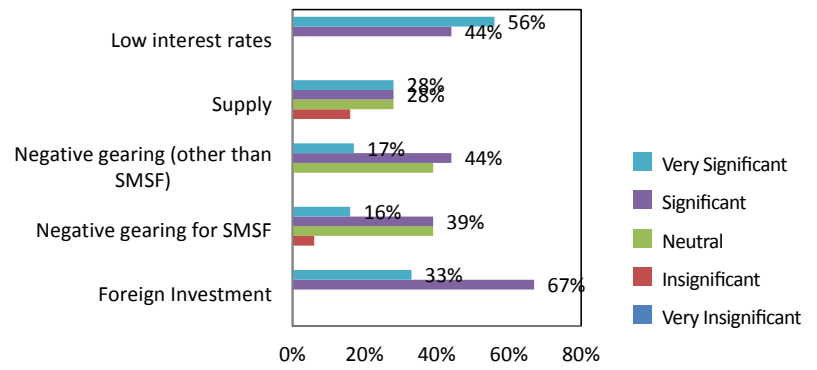October 2015
Percentage Responses

Drivers of Residential Property Demand / Prices
Melbourne
October 2015
Percentage Responses

It's a similar story in Brisbane, with 100% of respondents seeing low interest rates as significant or very significant, and therefore the main driver of demand and prices in the city. Negative gearing outside of self managed super funds (SMSFs) is considered the second most significant driver, with 65% seeing it as significant to very significant.

In Perth, low interest rates are again considered the most significant driver of demand and prices, however this view is not as strong as in the other cities, with 88% seeing it as a significant or very significant driver. Negative gearing outside of SMSFs is considered the second most significant driver, with 53% seeing it as significant.

Drivers of Residential Property Demand / Prices
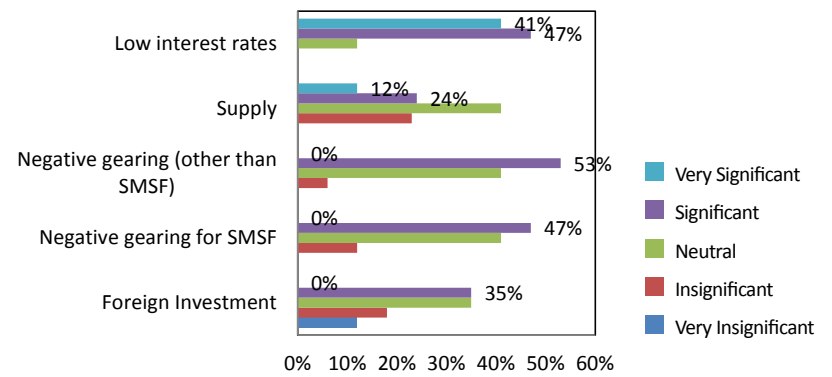**Brisbane**
October 2015
Percentage Responses
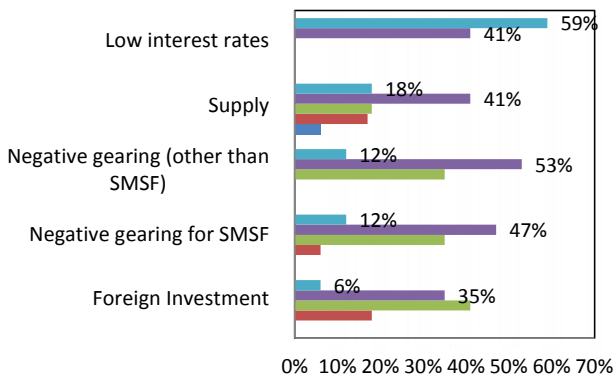
Drivers of Residential Property Demand / Prices
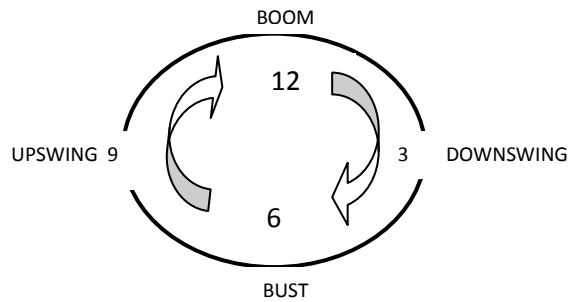**Perth**
October 2015
Percentage Responses

Property Time Clock - Sydney, Melbourne and Brisbane

Property Clock Key

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

Respondents see residential property in Sydney and Melbourne as being at the top of the property cycle and moving slowly on the downswing over the next two years. Over the next year, Sydney is expected to pass the top of the property cycle, but will remain close to the top over the next two years. Respondents believe the residential market in Melbourne has also reached its peak, but it will move along the downswing of the cycle at a slightly faster rate.

It is expected that Brisbane will take approximately one year to reach the top of the property cycle.

2015 - Current Time

Residential property in Sydney and Melbourne is seen as being at the top of the property cycle while Brisbane residential property has further to go along the upswing.

Residential
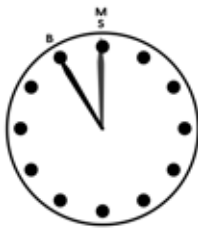
Sydney	12
Melbourne	12
Brisbane	11

2016 - One Year's Time

Residential property in the three cities is viewed as moving further along the property cycle, with Brisbane reaching the top and Sydney and Melbourne commencing the downswing.

Residential

Sydney	1
Melbourne	1
Brisbane	12

2017 - Two Years' Time

Respondents believe that all three cities will have commenced the downswing of the cycle. Sydney is projected to move more slowly, while Melbourne and Brisbane residential property will be further along the downswing of the cycle then they were 12 months previously.

Residential

Sydney	1
Melbourne	2
Brisbane	1

Residential Property Cycle Including Forecasts for Sydney, Melbourne and Brisbane

Sydney Residential Property Cycle
2005 - 2015
(with Forecasts for 2016 and 2017)
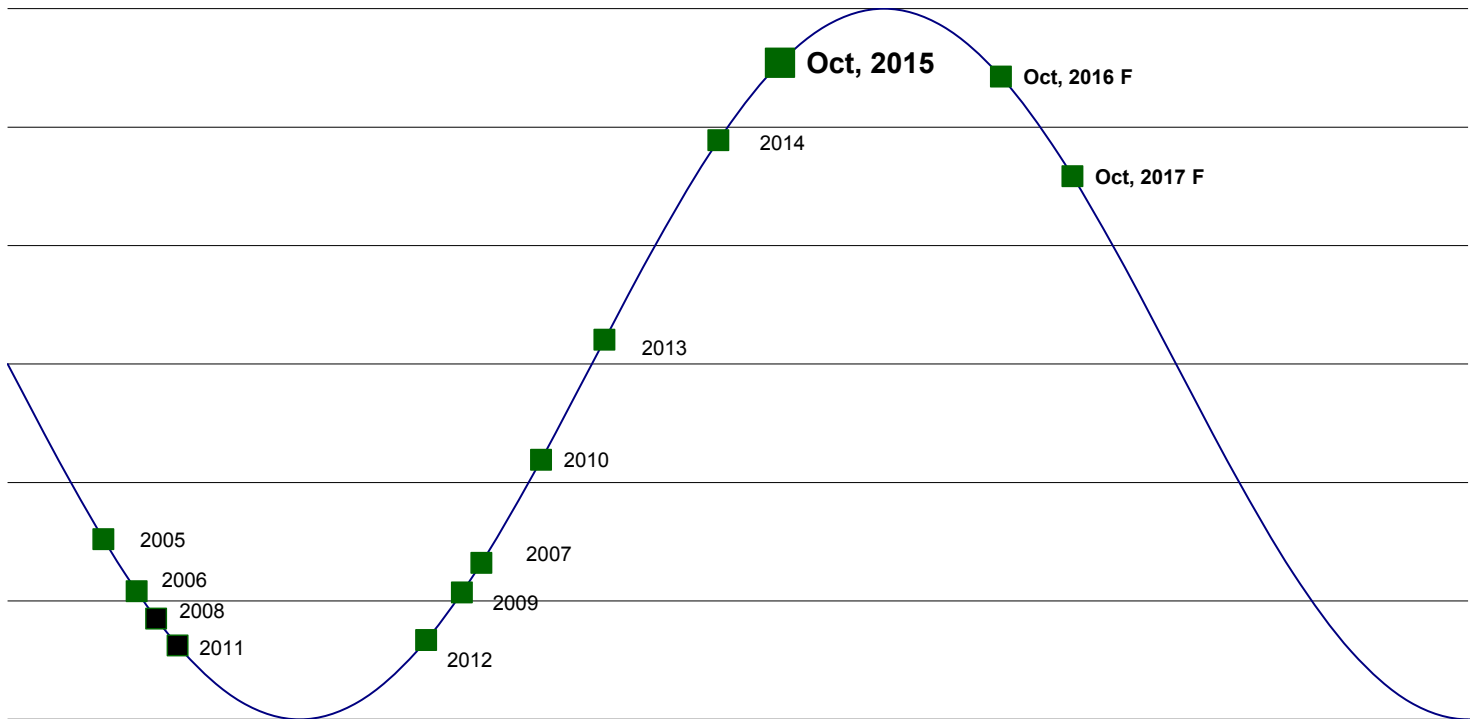
Melbourne Residential Property Cycle
2005 - 2015
(with Forecasts for 2016 and 2017)
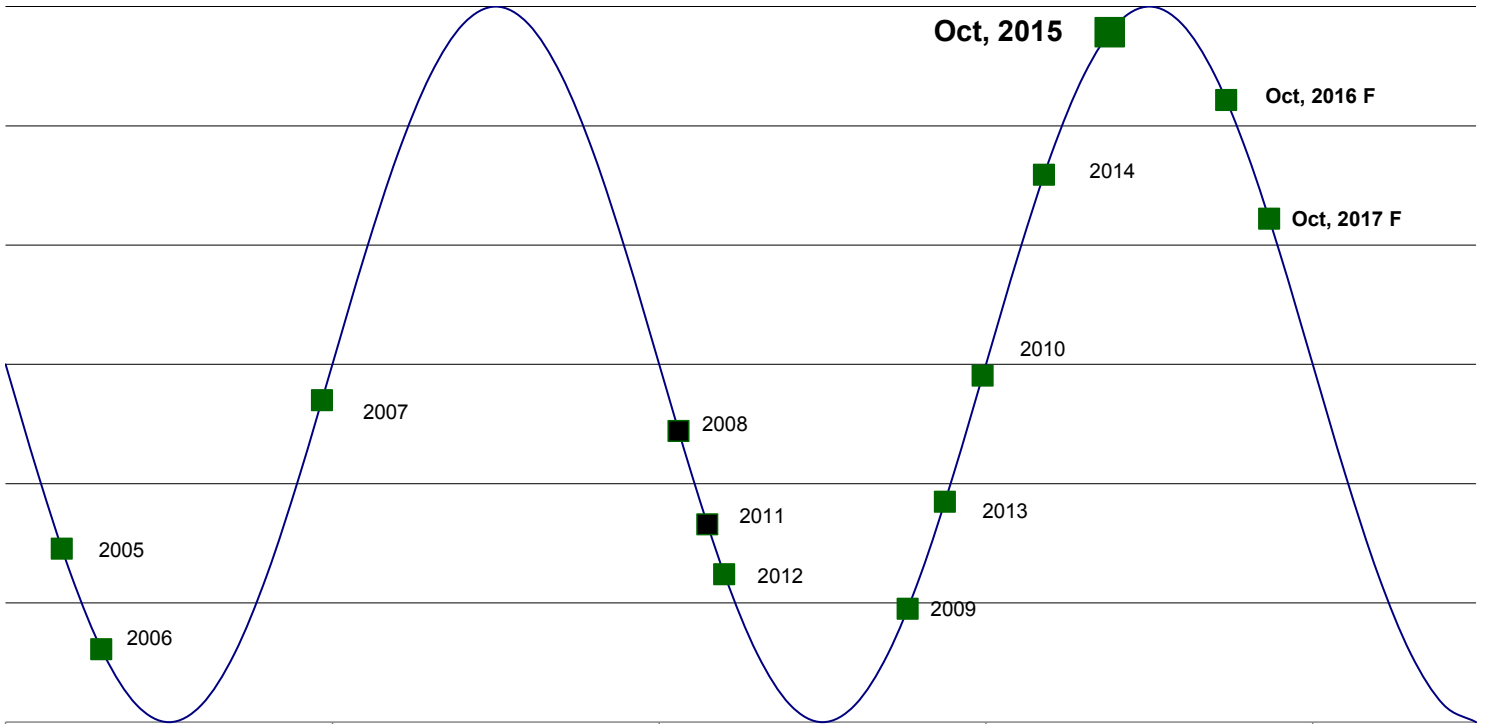
Oct, 2015

Oct, 2016 F

2014

Oct, 2017 F

2010

2008

2007

2011

2013

2005

2012

2006

2009

Brisbane Residential Property Cycle
2005 - 2015
(with Forecasts for 2016 and 2017)

Oct, 2016 F

Oct, 2017 F

Oct, 2015

2005

2008

2007

2014

2006

2011

2013

2010

2009

2012
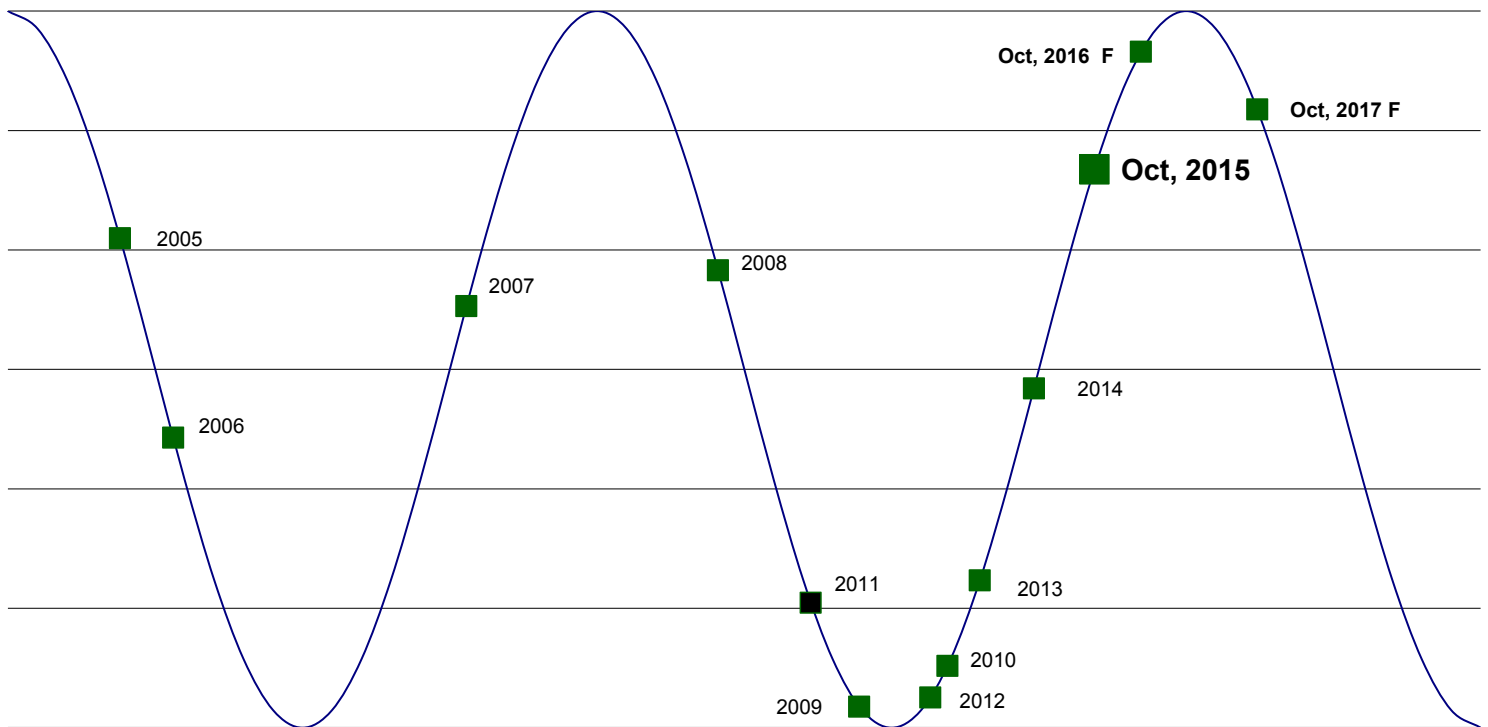
Economic settings - major factors impacting on the economy

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

Abacus Property Group	EY	Pepper Property
Ashe Morgan	Goodman	Preston Rowe Paterson
Charter Hall	Investa Property Group	Propell Limited
CI Australia	JLL	Savills
Commonwealth Bank of Australia	Knight Frank	Westpac
Cushman & Wakefield	Macquarie Group	
DEXUS Property Group	Opteon Property Group	

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.

DISCLAIMER: "Information analysis provided in this publication is only intended to indicate the results of the survey. The information should not be taken as a guarantee to specific future improvements in the market, but rather as an indication of the sentiment of respondents at the date of the survey." API members and survey respondents may quote the results subject to stating the disclaimer and making reference to the source of the information. With the exception of API members and survey respondents, all or part of this document may not be reproduced, published or included in any report without the approval of the API (NSW Division) as to the form and context in which it will appear.

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