The Australian Property Institute Inc.

Australian Property Directions Survey

APRIL 2011

This is the 26th 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.

Impact of Mandatory Disclosure of Energy Efficiency Ratings required for commercial office space above 2000 square metres

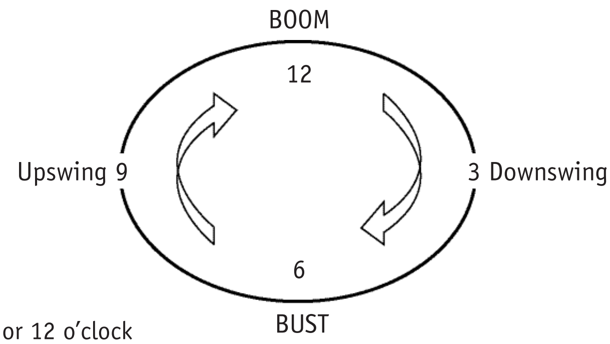
Overall, survey respondents see the impact from the mandatory disclosure of energy efficiency ratings for commercial office space above 2000 square metres on rent, leases, yields and returns to owners increasing from the short term to the longer term of 2 to 5 years. Yields and returns to owners are viewed as being the most affected compared to rents and leases.

Impact of Mandatory Disclosure of Energy Efficiency Ratings required for Commercial Office space above 2000 square metres
April 2011
Percentage of Respondents

Rent	Nil	Minimal	Moderate	Significant
Short term (up to 12 months)	24	72	0	4
Longer term (2 to 5 years)	4	52	36	8
Leases				
Short term (up to 12 months)	20	68	8	4
Longer term (2 to 5 years)	0	52	40	8
Yields				
Short term (up to 12 months)	20	60	20	0
Longer term (2 to 5 years)	4	36	52	8
Returns to Owner				
Short term (up to 12 months)	28	44	28	0
Longer term (2 to 5 years)	0	32	56	12

Property Time Clock - Sydney, Melbourne and Brisbane

Property Clock Key



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

Overall, respondents see Commercial, Industrial, Retail and Residential property as having commenced the upswing of the cycle in Sydney and Melbourne, with Brisbane at the bottom of the cycle and with slow movements along the upswing during the next two years for all 3 cities.

Impact of Recent Adverse Climate events (flooding, storms & bushfires)

The recent adverse climate events are seen by most survey respondents as having a greater impact in terms of insurance, planning, financing and redevelopment on residential property than on commercial property. Most respondents, 81%, see a moderate to significant impact on insurance for residential property followed by planning and redevelopment as factors predicted to be impacted upon by flooding, storms and bushfires.

Impact of Recent Adverse Climate Events (flooding, storms & bushfires)
April 2011
Percentage of Respondents

Insurance	Nil	Minimal	Moderate	Significant
Residential Property	4	15	58	23
Commercial Property	0	32	52	16
Planning				
Residential Property	4	27	42	27
Commercial Property	15	39	31	15
Financing				
Residential Property	0	54	38	8
Commercial Property	8	58	23	11
Redevelopment				
Residential Property	8	27	46	19
Commercial Property	12	42	31	15

Impacts on Gearing Ratios, Finance Costs and Sources of Funds with the continued re-assessment of risks in relation to property and property financing

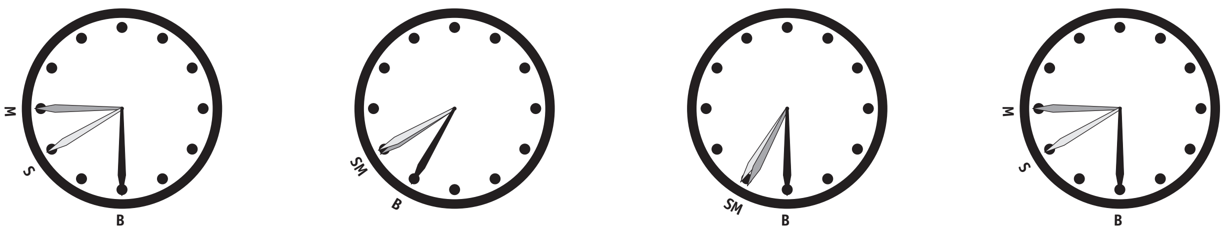
Compared to September last year where 72% of survey respondents believed that the continued re-assessment of risks in relation to property and property financing would result in lower gearing ratios, respondents in the April survey are more evenly split between predicting lower and no change to gearing ratios. Respondents are even less certain of the impact of risk in relation to financing costs than 6 months ago with respondents more evenly split in terms of the impacts. The results show a positive change in sentiment from 6 months ago for gearing ratios and financing.

Impacts on Gearing Ratios and Financing Costs of the continued re-assessment of risks in relation to property and property financing
April 2011 (September 2010)
Percentage of Respondents

	Lower	No Change	Higher
Gearing ratios	**42** (**72**)	**42** (22)	16 (6)
Financing costs (including interest rates)	26 (17)	35 (31)	**39** (**52**)

2011 - Current Time

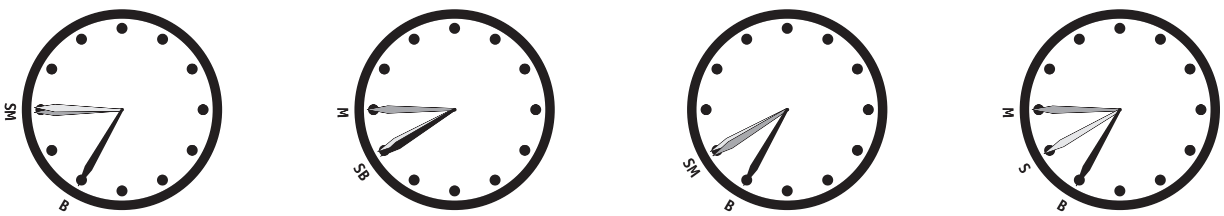
Currently, commercial property in Sydney and Melbourne is seen as having commenced the upswing while commercial property in Brisbane is at the bottom of the cycle. Industrial property in all 3 cities is seen on the upswing of the cycle, whereas retail property is seen as having commenced the upswing in Melbourne and Sydney but is at the bottom of the cycle in Brisbane. Residential property is seen as further along the upswing in Melbourne and Sydney with Brisbane being at the bottom of the cycle with Brisbane catching up in most property classes.



	Commercial	Industrial	Retail	Residential
Sydney	8	8	7	8
Melbourne	9	8	7	9
Brisbane	6	7	6	6

2012 - One Year's Time

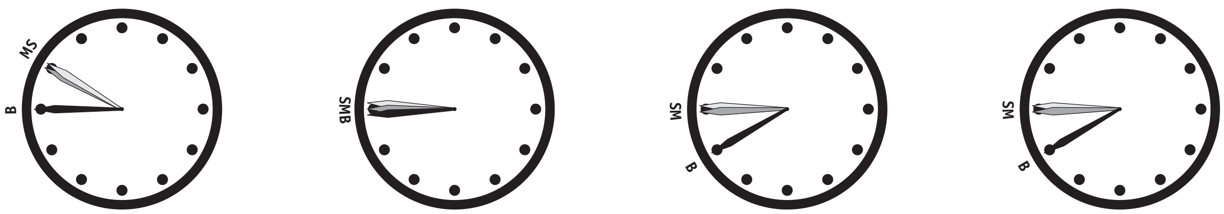
In one year's time, commercial property in Sydney and Melbourne is seen as moving further along the upswing and Brisbane has commenced the upswing. Industrial property in Melbourne is seen as having moved further along the upswing than Sydney or Brisbane. Retail property in the 3 cities is seen as having commenced the upswing with Sydney and Melbourne further along the upswing. Residential property is seen as being on the upswing with Melbourne being further along followed by Sydney then Brisbane



	Commercial	Industrial	Retail	Residential
Sydney	9	8	8	8
Melbourne	9	9	8	9
Brisbane	7	8	7	7

2013 - Two Year's Time

In two year's time, respondents see all of the property classes – commercial, industrial, retail and residential – as moving further along the upswing of the cycle, with the exception of Melbourne residential which is static. Sydney and Melbourne commercial property predicted to be the most advanced along the upswing.



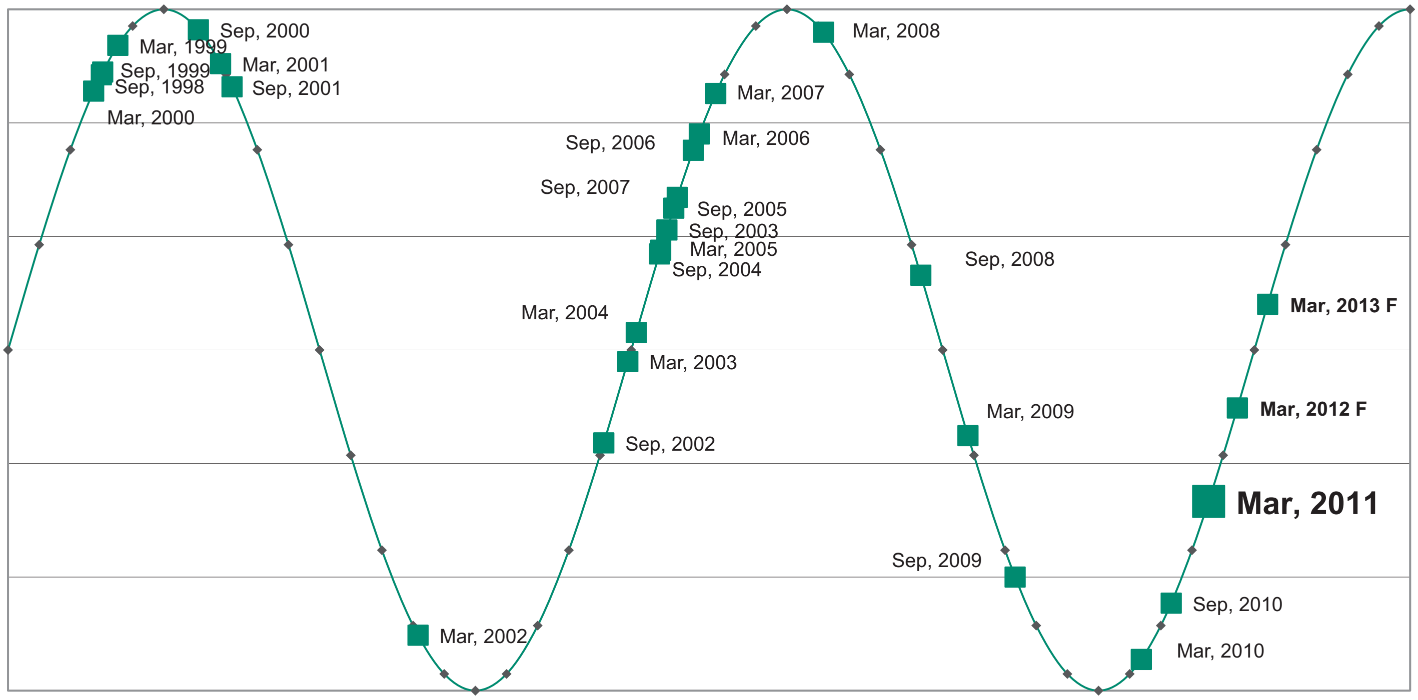
	Commercial	Industrial	Retail	Residential
Sydney	10	9	9	9
Melbourne	10	9	9	9
Brisbane	9	9	8	8

Industrial Property Cycle Including Forecasts for Sydney, Melbourne and Brisbane

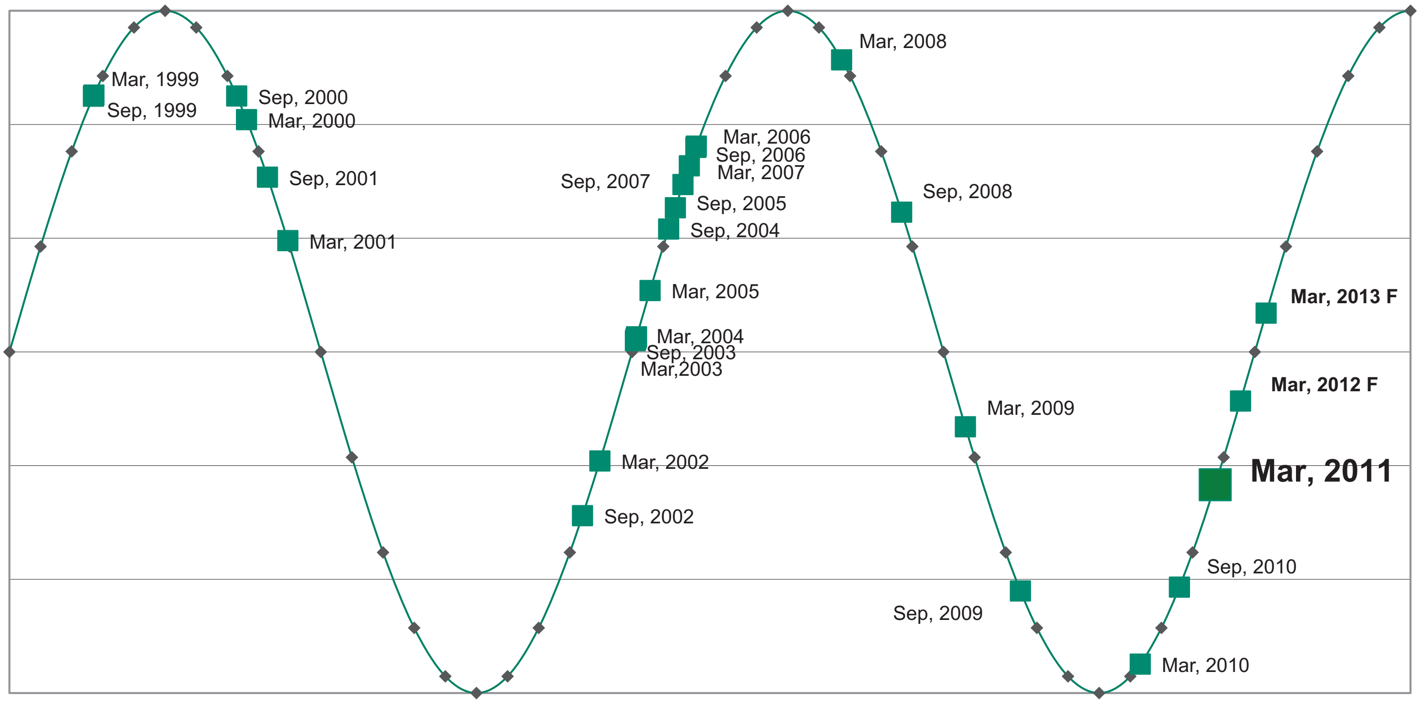
The graphs below show the respondents' views from 1998 for Sydney and from 1999 for Melbourne and Brisbane, as well as showing the forecasts for one and two years from now.

All industrial property markets are seen as moving slowly on the upswing over the next 2 years with Brisbane catching up following recent set backs.

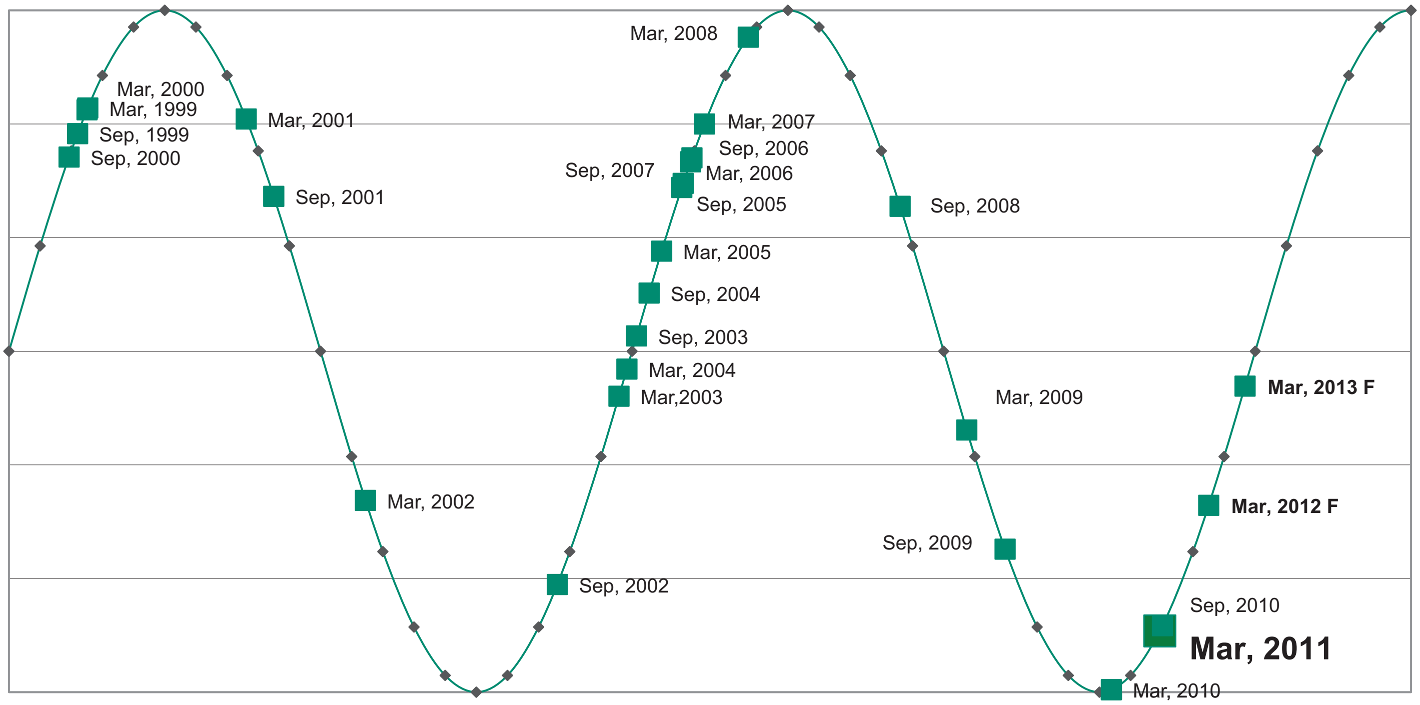
Sydney Industrial Property Cycle
1998 - 2011
(with Forecasts for 2012 and 2013)



Melbourne Industrial Property Cycle
1998 - 2011
(with Forecasts for 2012 and 2013)



Brisbane Industrial Property Cycle
1998 - 2011
(with Forecasts for 2012 and 2013)



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

Similar to September last year, a majority of respondents forecast at least moderate investment growth for both the Australian listed and unlisted property trusts and syndicates over the next 12 months. Respondents are less certain in relation to international listed and unlisted trusts and syndicates, with most respondents predicting moderate investment decline up to moderate investment growth for the next 12 months. The trend is towards an improvement of invested capital for international listed and unlisted trusts / syndicates.

Change in Invested Capital for Listed and Unlisted Trusts / Syndicates Over Next 12 Months
April 2011 (September 2010)
Percentage of Respondents

	Strong Investment Decline	Moderate Investment Decline	No Investment Change	Moderate Investment Growth	Strong Investment Growth
Listed					
Domestic	0 (0)	4 (0)	15 (13)	**73** (**87**)	8 (0)
International	7 (7)	27 (**32**)	**31** (29)	**31** (16)	4 (13)
Unlisted / Syndicates					
Domestic	0 (0)	4 (0)	12 (28)	**69** (**66**)	15 (6)
International	8 (10)	11 (22)	**42** (**45**)	27 (10)	12 (13)

Likelihood of non-residential property sector out performing equity market at the end of next year, 3 and 5 years

Sentiment has improved from the last survey with more respondents predicting that the non-residential property sector will perform the same as equity markets or are more likely or very likely to outperform them over the next one to 5 years. This prediction is consistent with the predictions from the property clocks with most property markets seen as being in the upswing of the cycle over at least the next 2 years.

Likelihood of Non-Residential Property Sector Out Performing Equity Markets
April 2011 (September 2010)
Percentage of Respondents

	Very Unlikely	Unlikely	Same	Likely	Very Likely
One year	4 (3)	19 (30)	31 (**34**)	**46** (33)	0 (0)
3 years	0 (0)	23 (26)	**35** (32)	**34** (**42**)	8 (0)
5 years	0 (0)	15 (29)	**42** (32)	31 (**39**)	12 (0)

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

Sentiment has improved for commercial, industrial and retail property since September, with respondents seeing positive improvements in market values and rents for these property classes in all CBDs in the 3 cities of Sydney, Melbourne and Brisbane. Similarly to September, the largest growth projections for market and rental values above CPI over the next 12 months are for Melbourne CBD commercial property.

Percentage Projections Above CPI for Sydney Over Next 12 Months
April 2011 (September 2010)

	SYDNEY			
	Commercial			
	CBD	Suburban CBDs	Industrial	Retail
Market Value	3.3 (2.6)	1.0 (0.5)	1.9 (1.2)	1.1 (0.7)
Market Rental	3.0 (2.1)	0.6 (-0.1)	1.4 (0.6)	0.6 (0.4)
	MELBOURNE			
	Commercial			
	CBD	Suburban CBDs	Industrial	Retail
Market Value	4.7 (3.7)	1.6 (1.0)	1.8 (1.1)	1.1 (0.6)
Market Rental	5.1 (3.5)	1.6 (0.6)	1.6 (0.6)	1.0 (0.2)
	BRISBANE			
	Commercial CBD		Industrial	Retail
Market Value	1.0 (-0.5)		0.6 (0.1)	0.6 (0.0)
Market Rental	0.4 (-1.2)		0.5 (-0.2)	0.2 (-0.4)

Leasing incentives in the current commercial leasing market

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

All respondents see lease incentives as features of all Australian capital city markets.

Since September, more respondents see incentives for commercial property in the Sydney CBD and suburban CBDs being in the 20-29% range resulting mainly from predicted decreases in the $\geq$ 30% incentives. The Melbourne CBD lease incentives are seen more in the 10-19% range with Melbourne suburban CBDs more in the 20-29% range. Similarly to September, overall Melbourne CBD commercial property is seen as having lower incentive levels than commercial property in the Sydney and Brisbane CBDs.

The majority of respondents see Brisbane incentives in the 20-29% range due mainly to fewer respondents seeing incentives in the $\geq$ 30% range. Most respondents see Perth's prime commercial property as remaining in the 10-19% range, with respondents more evenly split between 10-19% and 20-29% incentives for A Grade property. Adelaide, Canberra and Hobart lease incentives for commercial property are mainly seen as being in the 10-19% range.

Leasing Incentives in Current Commercial Leasing Market April 2011 (September 2010) 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 (3)	15 (19)	**85 (72)**	0 (6)
A Grade	0 (0)	12 (12)	**80 (72)**	8 (16)
Lower Grade	0 (0)	8 (3)	**59 (55)**	33 (42)
Sydney Suburban CBD				
Prime	0 (0)	21 (16)	**71 (65)**	8 (19)
A Grade	0 (0)	13 (9)	**61 (56)**	26 (35)
Lower Grade	0 (0)	9 (6)	**59** (39)	32 **(55)**
Melbourne CBD				
Prime	0 (10)	**83 (77)**	17 (13)	0 (0)
A Grade	0 (6)	**73 (65)**	27 (26)	0 (3)
Lower Grade	0 (7)	38 (34)	**52 (52)**	10 (7)
Melbourne Suburban CBD				
Prime	4 (7)	52 (43)	**35 (47)**	9 (3)
A Grade	5 (3)	36 (40)	**45 (47)**	14 (10)
Lower Grade	5 (3)	19 (28)	**52 (48)**	24 (21)
Brisbane CBD				
Prime	0 (0)	29 (29)	**58 (48)**	13 (23)
A Grade	0 (0)	17 (23)	**65 (45)**	18 (32)
Lower Grade	0 (0)	14 (10)	**59 (48)**	27 (42)
Perth CBD				
Prime	0 (0)	**65 (63)**	30 (37)	5 (0)
A Grade	0 (0)	**47** (37)	**48 (59)**	5 (4)
Lower Grade	0 (0)	32 (27)	**58 (54)**	10 (19)
Adelaide CBD				
Prime	10 (10)	**74 (71)**	16 (19)	0 (0)
A Grade	6 (5)	**61 (62)**	33 (24)	0 (9)
Lower Grade	11 (5)	**45** (33)	**44 (48)**	0 (14)
Canberra CBD				
Prime	5 (3)	**71 (78)**	24 (15)	0 (4)
A Grade	0 (7)	**65 (64)**	35 (25)	0 (4)
Lower Grade	0 (4)	**58** (44)	26 **(44)**	16 (8)
Hobart CBD				
Prime	0 (12)	**67 (56)**	33 (19)	0 (13)
A Grade	0 (12)	42 **(44)**	**58** (25)	0 (19)
Lower Grade	0 (19)	**42** (25)	**42 (37)**	16 (19)

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

Respondents were far more positive in this April survey than in September with 85% seeing effective rents as increasing in the next 6 months and an even larger majority of respondents, 96%, forecasting increases in effective rents in 12 month's time.

Forecast Movements in Effective rents April 2011 (September 2010) Percentage Respondents			
Time Period	**Declining**	**Stable**	**Increasing**
6 months	0 (9)	15 **(67)**	**85** (24)
12 months	0 (15)	4 (9)	**96 (76)**

Economic settings - major factors impacting on the economy

Interest rates
A smaller majority in April compared to September see interest rates as being similar for the 6 month period but a large majority of 85% see rates as higher in one year's time. Respondents are less certain 3 years out with a smaller majority predicting rates will be higher in 3 year's time.

Inflation
Respondents are fairly evenly split between similar to higher inflation in 6 month's time. The majority of respondents see inflation as higher over the 12 month period and are then more evenly split again between similar to higher for the 3 year period.

Foreign Investment
Respondents are fairly evenly split between similar to higher foreign investment for the 6 month's period, with higher levels of investment for the one to 3 year periods.

Business Confidence
Predictions for business confidence for the next 6 months are for levels similar to the present to current levels, with the majority of respondents seeing business confidence levels higher for the one to 3 year periods.

Economic Settings – Major Factors Impacting on the Economy

April 2011 (September 2010)
Percentage of Respondents

	Lower	Similar	Higher
Interest Rates			
6 months	0 (0)	**62** (**73**)	38 (27)
1 year	0 (3)	15 (18)	**85** (**79**)
3 years	12 (0)	19 (27)	**69** (**73**)
Inflation			
6 months	4 (3)	**50** (**85**)	46 (12)
1 year	0 (6)	35 (**49**)	**65** (45)
3 years	8 (0)	**46** (45)	**46** (**55**)
Foreign Investment			
6 months	4 (6)	46 (**63**)	**50** (31)
1 year	4 (9)	23 (25)	**73** (**66**)
3 years	8 (9)	27 (25)	**65** (**66**)
Bus. Confidence			
6 months	8 (9)	**69** (**67**)	23 (24)
1 year	4 (6)	27 (33)	**69** (**61**)
3 years	8 (0)	15 (9)	**77** (**91**)

Respondents to the Survey

The Institute appreciates the continued support of the following survey respondents:

ANZ
Australian Reward Investment
CB Richard Ellis
Chesterton International
Colliers International
Colonial First State
Commonwealth Bank of Australia
DEXUS Property Group
DTZ Australia
Ernst & Young
GE Commercial Finance
Goldman Sachs & Partners (Australia)
Goodman International
GPT Group
Herron Todd White
Investa Property Group
Jones Lang LaSalle
Knight Frank Valuations
LandMark White
m3property
Macquarie Bank
Mirvac
National Australia Bank
Preston Rowe Paterson
Resolution Capital
Westpac

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Australian Property Institute Inc New South Wales Division ABN 49 007 505 866
Level 3, 60 York Street, SYDNEY NSW 2000 • Tel: (02) 9299 1811 • Fax: (02) 9299 1490 • Email: nsw@api.org.au • Web: www.nsw.api.org.au