

# THE AUSTRALIAN PROPERTY INSTITUTE INC.

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

JUNE 2015



This is the 34th 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 more certain than in October, 2014 that non-residential property will outperform the equity market over the next year with 63% stating this view. Three years out, a small majority of respondents see non-residential property performing the same as the equity market and five years out a small majority see it as very unlikely that non-residential property will outperform the equity market.

Likelihood of Non-Residential Property Sector Out Performing Equity Markets

JUNE 2015 (OCTOBER 2014)  
Percentage of Respondents

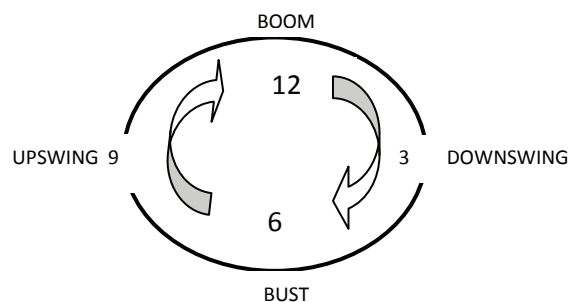
	Very Unlikely	Unlikely	Same	Likely	Very Unlikely
One Year	5 (0)	5 (28)	27 (40)	63 (32)	0 (0)
3 years	0 (0)	26 (40)	53 (20)	21 (40)	0 (0)
5 years	0 (0)	53 (32)	37 (36)	10 (32)	0 (0)

## 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

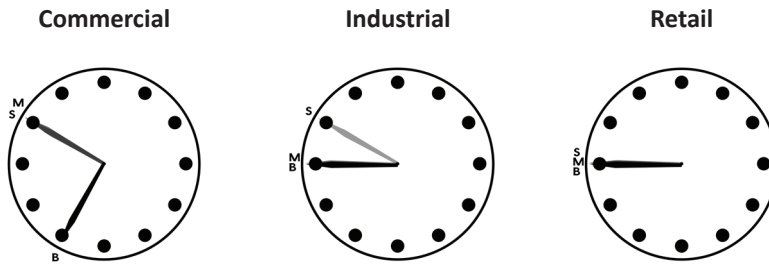
Responses are in hours, eg, 4 o'clock or 12 o'clock



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

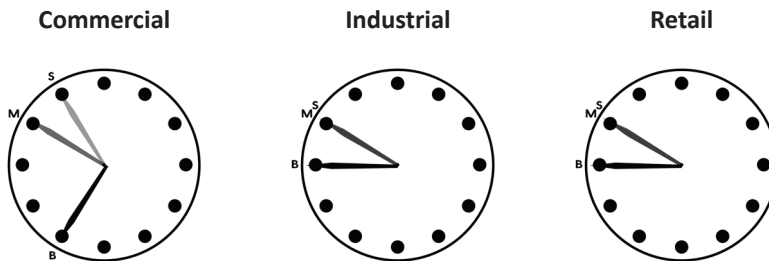
Currently, commercial property in Sydney and Melbourne is seen as being the furthest along the upswing of the property cycle with Brisbane having commenced the upswing of the property cycle. While industrial property is currently seen in all three cities as being on the upswing of the property cycle, Sydney is seen as being further along than Melbourne and Brisbane. Retail property in all three cities is seen as being at the same stage on the upswing.



	Commercial	Industrial	Retail
Sydney	10	10	9
Melbourne	10	9	9
Brisbane	7	9	9

## 2016 - One Year's Time

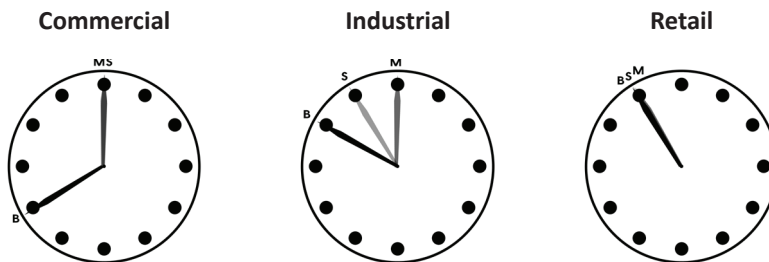
In 2016, commercial property in Sydney is seen as nearing the top of the property cycle followed by Melbourne and then Brisbane and both Melbourne and Brisbane are seen to be still at the same stage of the cycle as for 2015. Sydney and Brisbane industrial property are seen as remaining at the same stage of the upswing as for 2015 while Melbourne has moved further along the upswing. In 2016, retail property in Sydney and Melbourne is seen as moving further along the upswing of the property cycle while Brisbane remains at the same stage as in 2015.



	Commercial	Industrial	Retail
Sydney	11	10	10
Melbourne	10	10	10
Brisbane	7	9	9

## 2017 - Two Years' Time

In 2017, commercial property in Melbourne is seen as advancing quickly to be at the top of the property cycle with Sydney while Brisbane is seen as advancing along the upswing. Industrial property in Sydney and Brisbane has advanced further along the upswing with Melbourne seen as advancing quickly to the top of the property cycle. Retail property in all three cities is seen as being near the top of the property cycle with Brisbane retail property advancing more quickly to reach this position.

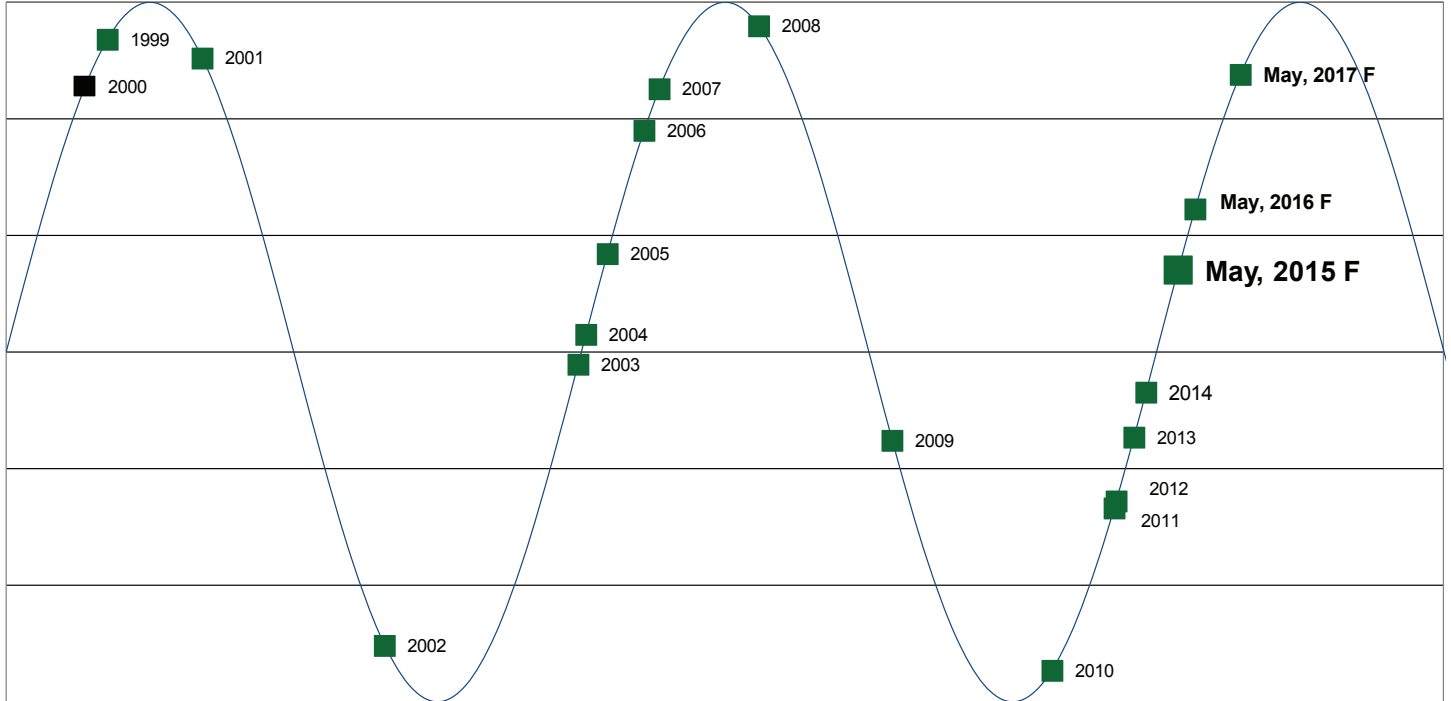


	Commercial	Industrial	Retail
Sydney	12	11	11
Melbourne	12	12	11
Brisbane	8	10	11

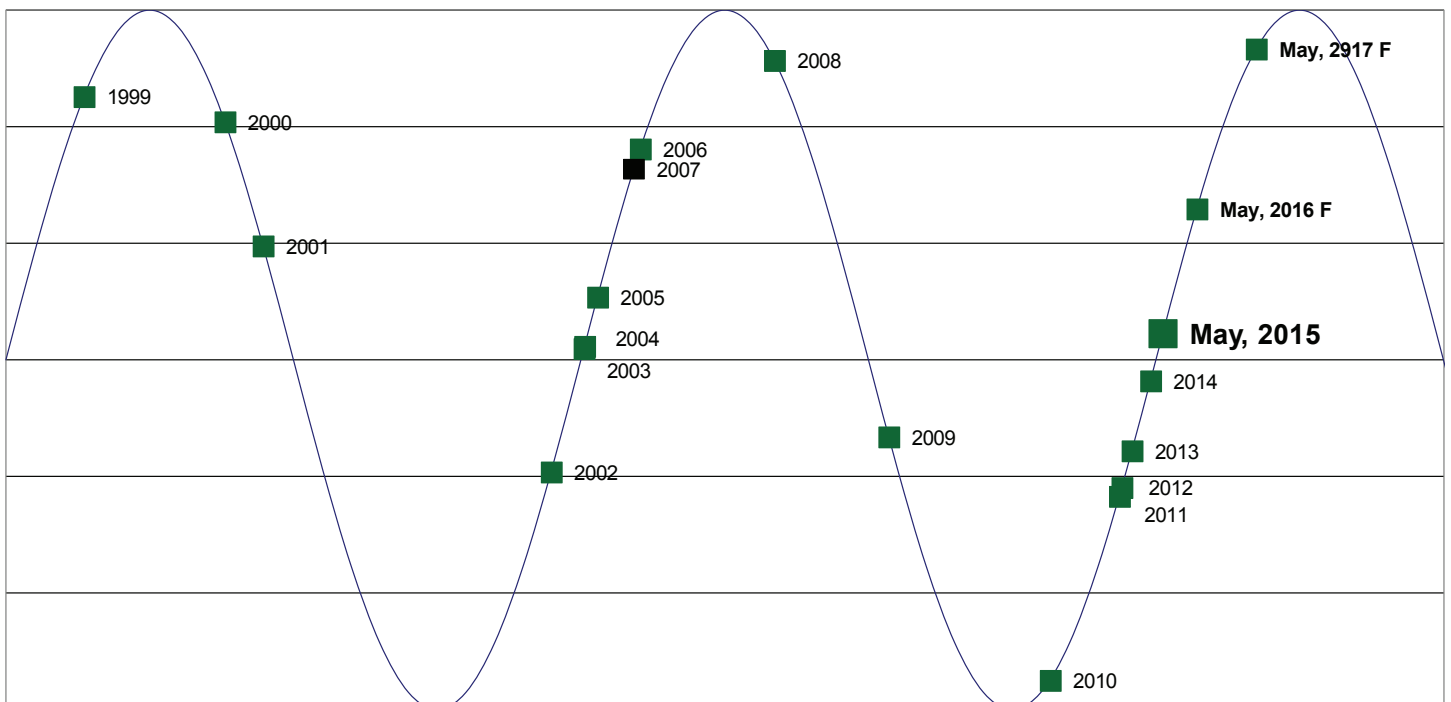
## Industrial Property Cycle Including Forecasts for Sydney, Melbourne and Brisbane

Property cycles for industrial property in Sydney, Melbourne and Brisbane have been regular however survey respondents see Brisbane industrial property advancing more slowly along the upswing for the next two years.

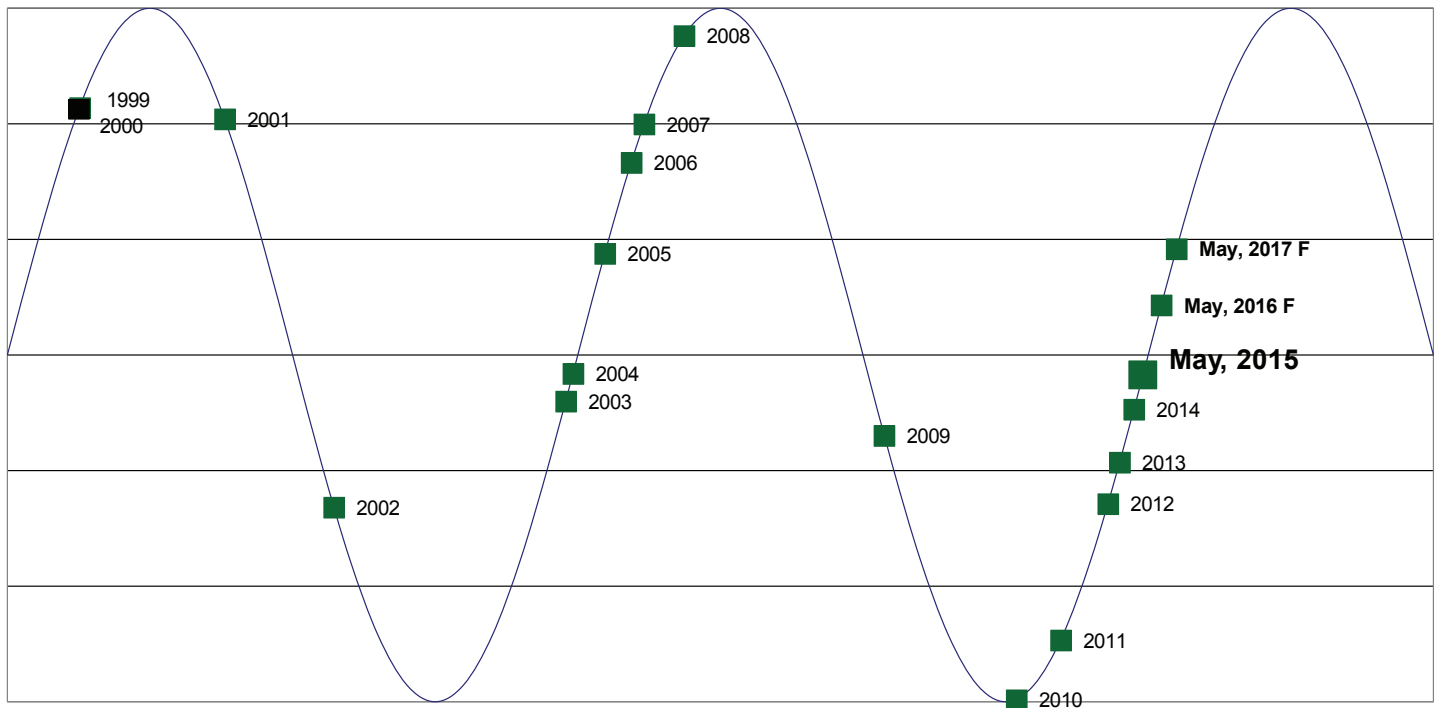
### Sydney Industrial Property Cycle 1999 - 2015 (with Forecasts for 2016 and 2017)



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



## Brisbane Industrial 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 large majority of respondents see still moderate to strong 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 October, 2014. Overall, the expected growth for domestic trusts and syndicates remains strong for the next 12 months.

Sentiment is stronger than in October last year for moderate to strong investment growth in international listed trusts and international unlisted trusts and syndicates over the next 12 months.

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

JUNE 2015 (OCTOBER 2014)  
Percentage of Respondents

	Strong Investment Decline	Moderate Investment Decline	No Investment Change	Moderate Investment Growth	Strong Investment Growth
<b>Listed</b>					
Domestic	0 (0)	5 (4)	11 (4)	<b>79 (72)</b>	5 (20)
International	0 (0)	10 (8)	26 ( <b>40</b> )	<b>32 (36)</b>	<b>32 (16)</b>
<b>Unlisted / Syndicates</b>					
Domestic	0 (0)	5 (0)	11 (8)	<b>74 (76)</b>	10 (16)
International	0 (0)	11 (0)	26 ( <b>44</b> )	<b>47 (32)</b>	16 (24)

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

Respondents see an improved outlook for all property types in Sydney and all types other than industrial in Melbourne. The outlook for the various property types in Brisbane is more mixed.

Over the next 12 months, market values and market rents for Sydney CBD and suburban CBD commercial property, and Sydney industrial and retail property, are predicted to increase at faster rates than predicted in October last year.

Market values and market rents are expected to increase at a faster rate than predicted in October for Melbourne CBD and Suburban CBD commercial property and for Melbourne retail property. Market values and rents for Melbourne industrial property are expected to increase but at a slower rate than in October.

In Brisbane, market values for commercial property are expected to decrease at a slightly faster rate than predicted in October and market rents will decrease at a slower rate than previously predicted. Market values and market rents for Brisbane industrial property are expected to rise but at a slower rate than predicted in October. Market values for Brisbane retail property are predicted to rise at the same rate as predicted last October and retail property market rents are expected to rise rather than decline as predicted last October.

Percentage Projections Above CPI Over Next 12 Months				
JUNE 2015 (OCTOBER 2014)				
SYDNEY				
	Commercial			
	CBD	Suburban CBDs	Industrial	Retail
Market Value	4.3 (3.0)	3.2 (1.6)	2.8 (2.7)	3.0 (2.4)
Market Rental	1.2 (-0.1)	1.8 (0)	0.9 (0.8)	1.2 (-0.7)
MELBOURNE				
	Commercial			
	CBD	Suburban CBDs	Industrial	Retail
Market Value	2.5 (2.3)	2.2 (1.8)	1.9 (2.4)	2.6 (2.0)
Market Rental	0.4 (-0.2)	0.1 (-0.5)	0.1 (0.5)	0.9 (0.1)
BRISBANE				
	Commercial CBD		Industrial	Retail
Market Value	-0.6 (-0.3)		1.8 (2.2)	1.6 (1.6)
Market Rental	-1.9 (-2.3)		0.4 (0.5)	0.1 (-0.3)

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

For the next six months, a small majority of respondents see effective rents as increasing in Sydney however there is a strong leaning to stable rents. 59% of respondents see effective rents as stable for the next six months in Melbourne with a leaning of 35% to increasing effective rents. The large majority of respondents see Brisbane effective rents as either declining or being stable for the next six months with the majority view evenly split between these two predictions.

For the next 12 months, respondents see Sydney effective rents as increasing while a small majority of respondents see Melbourne effective rents as stable but with a strong leaning to increasing. A majority of respondents see Brisbane effective rents as declining to stable for the next 12 months however there is a slight leaning to declining effective rents.

Forecast Movements in Effective Rents			
JUNE 2015 (OCTOBER 2014)			
Percentage of Respondents			
	Declining	Stable	Increasing
<b>6 months</b>			
Sydney	5 (30)	42 (44)	53 (26)
Melbourne	6 (27)	59 (46)	35 (27)
Brisbane	47 (65)	47 (35)	6 (0)
<b>12 months</b>			
Sydney	5 (22)	32 (30)	63 (48)
Melbourne	6 (23)	53 (36)	41 (41)
Brisbane	41 (52)	35 (48)	24 (0)

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

Lease incentives for Sydney CBD prime, A Grade and Lower Grade commercial property have tightened with respondents seeing a movement from the  $\geq 30\%$  range to the 20-29% range. Lease incentives for Sydney Suburban CBDs are seen to have tightened even further with a movement to the 20-29% range combined with a leaning to the 10-19% range.

Views on lease incentives for Melbourne CBD commercial property seen more uncertain than in October last year however most respondents see incentives in the 20-29% range with a leaning to higher incentives at the  $\geq 30\%$  range. While the majority of respondents see lease incentives for Melbourne Suburban CBDs as in the 20-29% range, there is a leaning to tightening of lease incentives.

Lease incentives for Brisbane and Perth CBD prime, A grade and lower grade commercial property are seen as having increased to the  $\geq 30\%$  range.

Lease incentives for Adelaide prime and A grade commercial property are seen to be in the 20-29% range and more evenly split between the 20–29% and 10-19% ranges for lower grade property showing some tightening of incentives.

Lease incentives for Canberra Prime, A Grade and lower grade commercial properties are seen to have tightened with most respondents reporting the 10-19% and 20-29% ranges.

Respondents are uncertain about leasing incentive levels for Hobart for Prime, A Grade and lower grade commercial property.

Leasing Incentives in Current Commercial Leasing Market

JUNE 2015 (OCTOBER 2014)

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

Location	0-9%	10-19%	20-29%	≥ 30%
<b>Sydney CBD</b>				
Prime	0 (0)	5 (12)	<b>63 (42)</b>	32 ( <b>46</b> )
A Grade	0 (0)	0 (8)	<b>79 (42)</b>	21 ( <b>50</b> )
Lower Grade	0 (0)	11 (4)	<b>63 (39)</b>	26 ( <b>57</b> )
<b>Sydney Suburban CBD</b>				
Prime	5 (0)	28 (13)	<b>50 (74)</b>	17 (13)
A Grade	5 (0)	26 (4)	<b>58 (74)</b>	11 (22)
Lower Grade	5 (0)	26 (9)	<b>53 (56)</b>	16 (35)
<b>Melbourne CBD</b>				
Prime	0 (0)	24 (19)	<b>47 (67)</b>	29 (14)
A Grade	0 (0)	12 (10)	<b>59 (75)</b>	29 (15)
Lower Grade	0 (0)	18 (9)	<b>47 (67)</b>	35 (24)
<b>Melbourne Suburban CBD</b>				
Prime	6 (0)	18 (5)	<b>70 (75)</b>	6 (10)
A Grade	6 (0)	18 (10)	<b>70 (70)</b>	6 (20)
Lower Grade	6 (0)	18 (10)	<b>58 (70)</b>	18 (20)
<b>Brisbane CBD</b>				
Prime	0 (0)	0 (4)	24 (39)	<b>76 (57)</b>
A Grade	0 (0)	0 (0)	24 (35)	<b>76 (65)</b>
Lower Grade	0 (0)	0 (0)	29 (26)	<b>71 (74)</b>
<b>Perth CBD</b>				
Prime	0 (0)	0 (5)	13 ( <b>70</b> )	<b>87 (25)</b>
A Grade	0 (0)	0 (5)	7 ( <b>60</b> )	<b>93 (35)</b>
Lower Grade	0 (0)	0 (0)	20 ( <b>65</b> )	<b>80 (35)</b>
<b>Adelaide CBD</b>				
Prime	7 (0)	20 (35)	<b>66 (55)</b>	7 (10)
A Grade	0 (0)	27 (30)	<b>53 (60)</b>	20 (20)
Lower Grade	0 (0)	33 (15)	<b>47 (55)</b>	20 (30)
<b>Canberra CBD</b>				
Prime	6 (0)	31 (30)	<b>50 (55)</b>	13 (15)
A Grade	12 (0)	25 (30)	<b>44 (50)</b>	19 (20)
Lower Grade	6 (0)	31 (25)	<b>44 (50)</b>	19 (25)
<b>Hobart CBD</b>				
Prime	30 (0)	20 ( <b>38</b> )	10 (31)	<b>40 (31)</b>
A Grade	30 (0)	20 ( <b>38</b> )	10 (31)	<b>40 (31)</b>
Lower Grade	30 (0)	20 ( <b>38</b> )	10 (31)	<b>40 (31)</b>

## Economic settings - major factors impacting on the economy

### Interest rates

A small majority of respondents see interest rates as being similar for the 6 month period with an increased majority seeing interest rates at similar levels for the 12 month period. A large majority of respondents see interest rates as higher over the three year period.

### Inflation

A large majority of respondents see inflation as similar in the 6 month and 12 month periods while the majority see rates as higher for the three year period.

### Foreign Investment

A small majority of respondents see foreign investment as at a similar level for the 6 month period but with a leaning to higher levels. Respondents are less certain for the 12 month period but most still see foreign investment at similar of higher levels. Respondents are even more uncertain about the 3 year period with forecast spread from lower to higher levels.

### Business Confidence

Predictions for business confidence for the next 6 and 12 month periods are for similar levels but with a leaning to higher levels. The majority of respondents see business confidence to be at higher levels for the 3 year period.

Economic Settings – Major Factors Impacting on the Economy			
JUNE 2015 (OCTOBER 2014)			
Percentage of Respondents			
	Lower	Similar	Higher
<b>Interest Rates</b>			
6 months	42 (4)	58 (96)	0 (0)
1 year	16 (4)	68 (48)	16 (48)
3 years	0 (0)	16 (4)	84 (96)
<b>Inflation</b>			
6 months	16 (8)	84 (84)	0 (8)
1 year	0 (0)	79 (68)	21 (32)
3 years	0 (0)	26 (32)	74 (68)
<b>Foreign Investment</b>			
6 months	5 (0)	53 (44)	42 (56)
1 year	11 (4)	47 (40)	42 (56)
3 years	42 (32)	37 (36)	21 (32)
<b>Business Confidence</b>			
6 months	10 (12)	58 (76)	32 (12)
1 year	0 (8)	53 (48)	47 (44)
3 years	0 (16)	32 (36)	68 (48)

## Respondents to the Survey

The Institute appreciates the continued support of the following survey respondents

Abacus Property Group  
ANZ  
CBRE  
Charter Hall  
Colliers International  
Commonwealth Bank of Australia  
DEXUS Property Group

DTZ Australia  
Herron Todd White  
Investa Property Group  
JLL  
Knight Frank  
LandMark White  
m3property

Macquarie Capital  
National Australia Bank  
Preston Rowe Paterson  
Propell National Valuers  
Westpac

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