The Australian Property Institute Inc.

# Australian Property Directions Survey

**MAY 2013**

**This is the 30th 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.**

## Importance of Government Incentives for the Residential Property Development Market

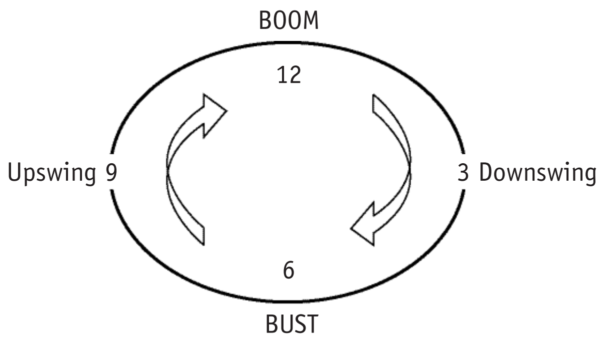
When asked to comment on the importance of both Commonwealth and State Government incentives for the residential property development market, all respondents believe government incentives are important for the residential property market.  83% of respondents rate them as moderately important.  Respondents commented that the importance of Government incentives is for the building industry and particularly for first home buyers.

**Importance of Government Incentives for the Residential Development Market**
**May 2013 (September 2012) Percentage of Respondents**

| Not Important | Moderately Important | Extremely Important |
|---|---|---|
| 0 (7) | **83** (**61**) | 17 (32) |

## Property Time Clock - Sydney, Melbourne and Brisbane

**Property Clock Key**




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

Over the next two years, commercial, industrial, retail and residential property in Sydney, Melbourne and Brisbane are expected to be advancing slowing along the upswing of the property cycle, with Sydney predicted to be further advanced than the other two cities.

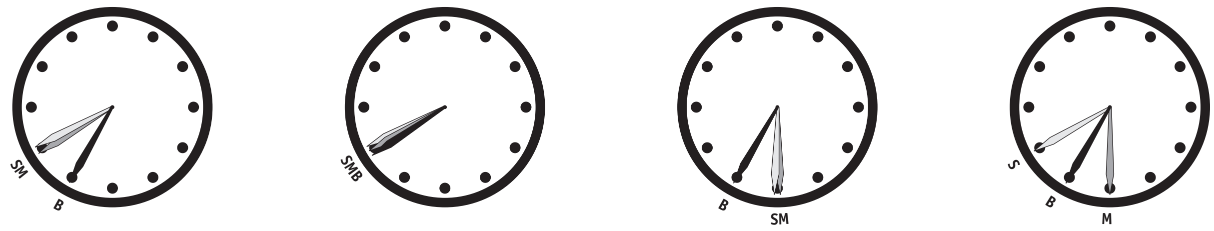
Currently, retail property in Sydney is seen as being at the bottom of the property cycle, while commercial, industrial and residential property is further along the upswing. Over the next two years, retail and residential property is expected to move the most quickly along the property cycle.

In Melbourne, both retail and residential are currently seen as at the bottom of the cycle, while commercial and industrial property is performing more strongly and is further along the upswing. Commercial property is expected to remain in a similar position in the upswing of the property cycle in the next year, but will advance further in the 2-year period.

In Brisbane, commercial, residential and retail have all commenced the upswing of the cycle, while industrial property is currently the most advanced along the cycle. All property types are expected to progress along the upswing of the property cycle at a similar pace over the next two years.

## 2013 – Current Time

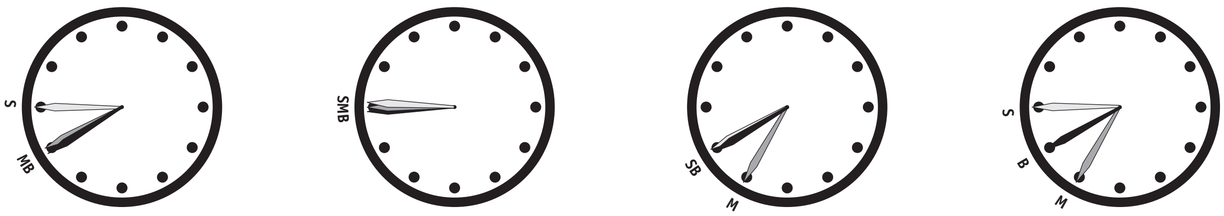
Currently commercial property in Sydney and Melbourne is seen as being on the upswing with Brisbane commencing the upswing. Industrial property in all three cities is seen as on the upswing. Retail property is seen as at the bottom of the cycle in Sydney and Melbourne, while Brisbane has commenced the upswing. Residential property in Sydney is seen on the upswing whereas Brisbane is commencing the upswing and Melbourne is at the bottom of the cycle.




| | **Commercial** | **Industrial** | **Retail** | **Residential** |
|---|---|---|---|---|
| **S**ydney | 8 | 8 | 6 | 8 |
| **M**elbourne | 8 | 8 | 6 | 6 |
| **B**risbane | 7 | 8 | 7 | 7 |

## 2014 – One Year's Time

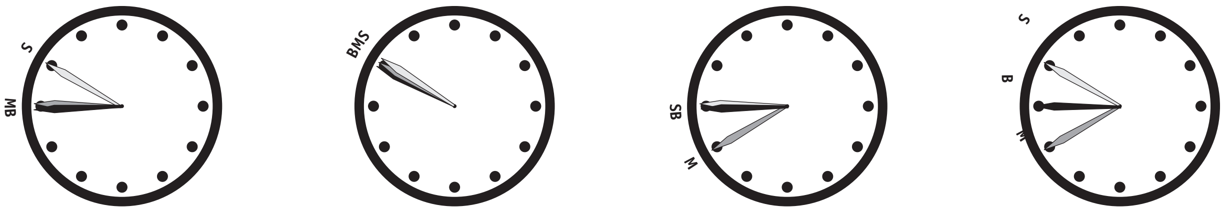
In one year's time, commercial property in Sydney and Brisbane is seen as moving further along the upswing while Melbourne remains at the same position on the upswing. Industrial property in all three cities is further along the upswing. Retail property in the three cities is seen as moving along the upswing, with Sydney progressing the fastest. Residential property is seen as on the upswing in all cities, with Sydney the most advanced.




| | **Commercial** | **Industrial** | **Retail** | **Residential** |
|---|---|---|---|---|
| **S**ydney | 9 | 9 | 8 | 9 |
| **M**elbourne | 8 | 9 | 7 | 7 |
| **B**risbane | 8 | 9 | 8 | 8 |

## 2015 – Two Years' Time

In two years' time, all property classes in Sydney, Melbourne and Brisbane are expected to be more advanced along the upswing. Industrial property should be the strongest performer across the board.

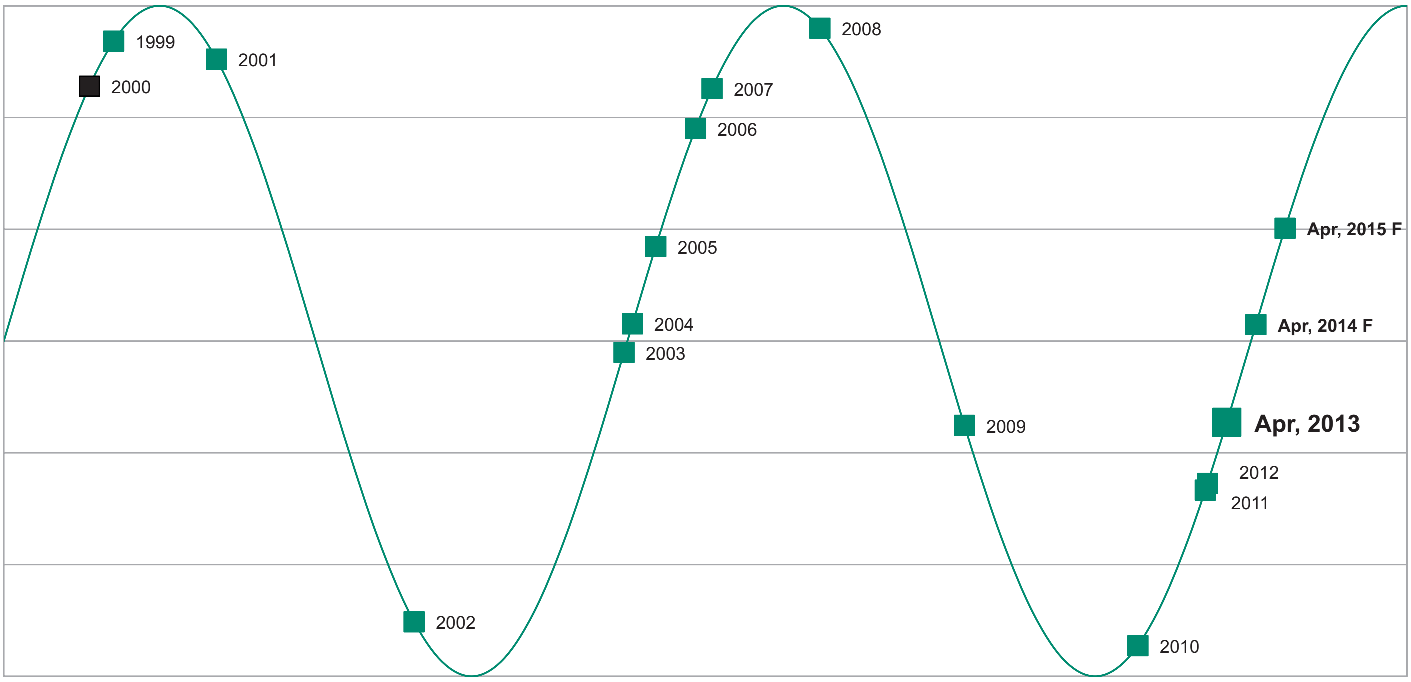



| | **Commercial** | **Industrial** | **Retail** | **Residential** |
|---|---|---|---|---|
| **S**ydney | 10 | 10 | 9 | 10 |
| **M**elbourne | 9 | 10 | 8 | 8 |
| **B**risbane | 9 | 10 | 9 | 9 |

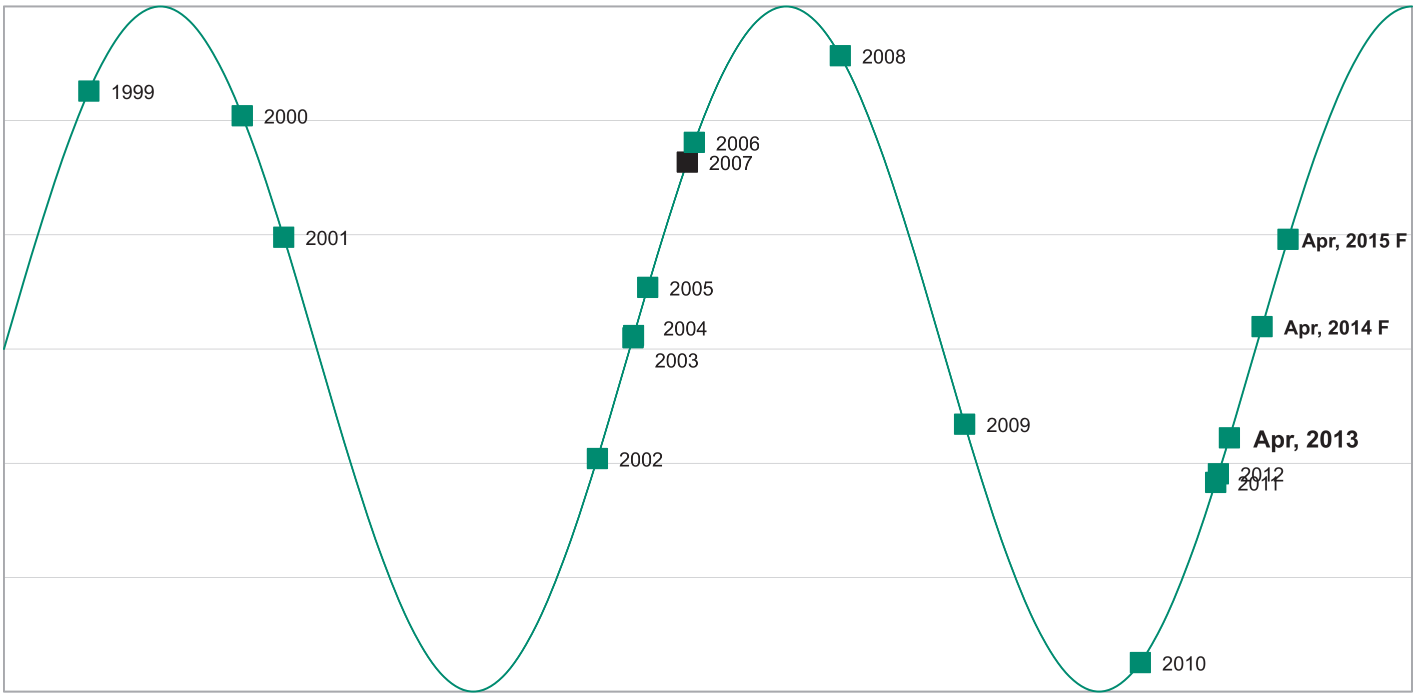
## Industrial Property Cycle Including Forecasts for Sydney, Melbourne and Brisbane

Respondents see industrial property in Sydney, Melbourne and Brisbane as in the recovery phase of the property cycle with slight improvements over the next two years to 2015. Black markers in the industrial graphs indicate a backwards movement in the cycle.

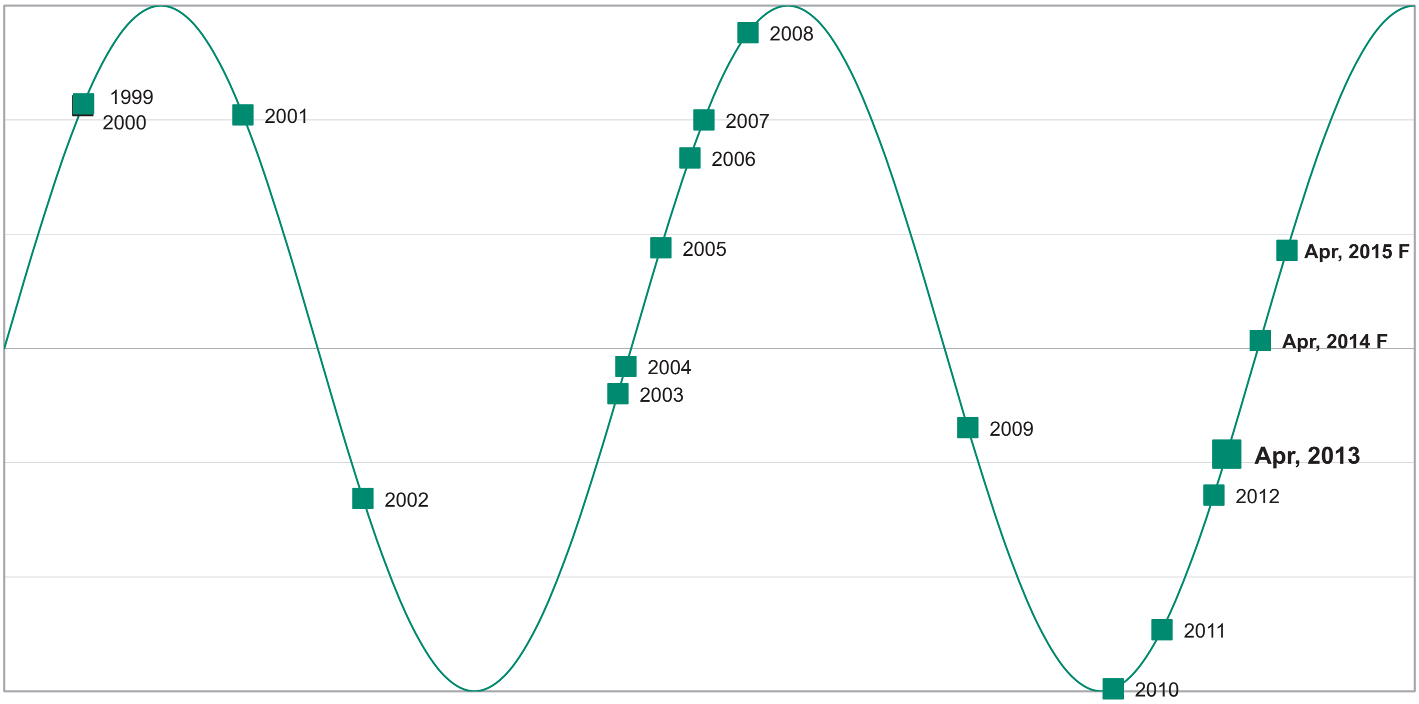
### Sydney Industrial Property Cycle
### 1999 - 2013
**(with Forecasts for 2014 and 2015)**




### Melbourne Industrial Property Cycle
### 1999 - 2013
**(with Forecasts for 2014 and 2015)**



## Brisbane Industrial Property Cycle
## 1999 - 2013
(with Forecasts for 2014 and 2015)




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

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. Overall, the expected growth for domestic trusts and syndicates has improved compared to the April forecast, with the number of respondents predicted strong investment growth increasing significantly.

A small majority of respondents expect no investment change in international listed and unlisted property trusts and syndicates over the next 12 months, while approximately one third of respondents predict moderate investment growth.

**Change in Invested Capital for Listed and Unlisted Trusts / Syndicates Over Next 12 Months**
**May 2013 (September 2012) Percentage of Respondents**

| | Strong Investment Decline | Moderate Investment Decline | No Investment Change | Moderate Investment Growth | Strong Investment Growth |
|---|---|---|---|---|---|
| **Listed** | | | | | |
| Domestic | 0 (0) | 3 (14) | 7 (27) | **60** (**59**) | 30 (0) |
| International | 0 (0) | 10 (31) | **53** (**38**) | 30 (28) | 7 (3) |
| **Unlisted / Syndicates** | | | | | |
| Domestic | 0 (0) | 0 (7) | 7 (24) | **60** (**66**) | 33 (3) |
| International | 0 (0) | 6 (10) | **47** (**59**) | 37 (28) | 10 (3) |

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

Predictions for the next one to three years are varied, indicating uncertainty in the market about the likelihood of the non-residential property sector outperforming the equity market. In five years' time, a small majority of respondents believe that the equity and non-residential property markets are likely to achieve similar performance.

**Likelihood of Non-Residential Property Sector Out Performing Equity Markets**
**May 2013 (September 2012) Percentage of Respondents**

| | Very Unlikely | Unlikely | Same | Likely | Very Likely |
|---|---|---|---|---|---|
| **One year** | 3 (0) | 32 (14) | 20 (**48**) | **42** (38) | 3 (0) |
| **3 years** | 0 (0) | 35 (35) | 26 (24) | **39** (**41**) | 0 (0) |
| **5 years** | 0 (0) | 23 (**41**) | **45** (28) | 29 (31) | 3 (0) |

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

Over the next 12 months, market values across the board in Sydney are expected to grow above CPI. Market rentals are expected to stay relatively steady for suburban CBDs, while market rentals in the Sydney CBD, although still growing above CPI rates, will be at a smaller rate of growth than six months ago. Retail market rentals are expected to decrease, but the rate of decrease is predicted to be smaller than six months ago. Industrial property market rentals are expected to grow.

In Melbourne, market values are expected to increase for commercial and industrial properties. Retail market values are expected to decrease, but at a rate smaller than that predicted six months ago. Market rentals will decline across commercial and retail properties in Melbourne, while industrial properties are expected to see a small increase.

In Brisbane, market values for all property types are expected to increase, although the rate of increase for commercial CBD properties will be at a slower rate than previously predicted. Market rentals for industrial properties are also expected to increase, while market rentals for commercial CBD and retail properties will fall slightly.

**Percentage Projections Above CPI for Sydney Over Next 12 Months**
**May 2013 (September 2012)**

| | | | | |
|---|---|---|---|---|
| | **SYDNEY** | | | |
| | Commercial | | | |
| | CBD | Suburban CBDs | Industrial | Retail |
| **Market Value** | 2.5 (1.3) | 1.1 (0.2) | 3.4 (1.6) | 0.4 (-1.2) |
| **Market Rental** | 0.2 (0.9) | 0.1 (0.1) | 1.4 (1.1) | -1.2 (-2.0) |
| | **MELBOURNE** | | | |
| | Commercial | | | |
| | CBD | Suburban CBDs | Industrial | Retail |
| **Market Value** | 1.5 (-0.2) | 0.4 (-0.5) | 1.8 (0.7) | -0.3 (-1.3) |
| **Market Rental** | -1.6 (-0.2) | -1.3 (-0.5) | 0.5 (0.3) | -1.8 (-2.5) |
| | **BRISBANE** | | | |
| | Commercial CBD | | Industrial | Retail |
| **Market Value** | 1.7 (2.1) | | 2.1 (1.7) | 0.3 (-0.4) |
| **Market Rental** | -0.8 (2.1) | | 0.9 (1.0) | -0.8 (-1.2) |

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

For the next six months, 71% of respondents see stable effective rents for Sydney while respondents are evenly split on whether effective rents will be stable or decline in Brisbane, a strong deviation from the September 2012 survey. Fifty-five per cent of respondents see declining effective rents in Melbourne with a leaning of 41% to stable effective rents.

Respondents are more evenly split for the 12 month period between predicting stable to increasing effective rents for Sydney. In Brisbane, predictions are split across the board, with 48% predicting stable effective rents, 31% predicting a decline and 21% predicting an increase. Respondents are also split regarding predictions for Melbourne, with 41% predicting declining rents.

Sydney is seen to be the strongest market of the three cities for the six and 12 month periods in relation to effective rents.

**Forecast Movements in Effective Rents**
**May 2013 (September 2012) Percentage Responses**

| | Declining | Stable | Increasing |
|---|---|---|---|
| **6 months** | | | |
| Sydney | 26 (17) | **71** (**73**) | 3 (10) |
| Melbourne | **55** (**54**) | 41 (42) | 4 (4) |
| Brisbane | **48** (8) | **48** (44) | 4 (**48**) |
| **12 months** | | | |
| Sydney | 10 (7) | **45** (**48**) | **45** (45) |
| Melbourne | **41** (31) | 31 (**61**) | 28 (8) |
| Brisbane | 31 (8) | **48** (32) | 21 (**60**) |

## 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.

The majority of respondents see lease incentives as a feature of all Australian capital city markets.

Across the Sydney, Melbourne, Brisbane and Hobart CBDs, there is a trend towards increasing incentives, with the majority of respondents reporting leasing incentives between 20 – 29% across prime, A grade and lower grade properties. Leasing incentives were also increasing for A grade and lower grade properties in the Perth CBD, but from a lower base, with incentives reported to be between 10 – 19%. The majority believe that leasing incentives are not a feature of prime property in the Perth CBD.

In the suburban CBDs of Sydney and Melbourne, responses are similar to those in the previous survey six months ago, with the majority of respondents predicting leasing incentives of 20 – 29% across prime, A grade and lower grade properties.

Across prime and A grade properties in the Adelaide and Canberra CBDs, and lower grade properties in Canberra, respondents believe that leasing incentives of 10 – 19% are a feature. For lower grade properties in Adelaide, respondents are more evenly spread between reported leasing incentives of 10 – 19% and 20 – 29%.

## Leasing Incentives in Current Commercial Leasing Market

**May 2013 (September 2012)**

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

| **Location** | **0-9%** | **10-19%** | **20-29%** | **³ 30%** |
|---|---|---|---|---|
| **Sydney CBD** | | | | |
| Prime | 0 (0) | 16 (34) | **77** (**66**) | 7 (0) |
| A Grade | 0 (0) | 6 (10) | **84** (**90**) | 10 (0) |
| Lower Grade | 0 (0) | 7 (14) | **61** (**57**) | 32 (29) |
| **Sydney Suburban CBD** | | | | |
| Prime | 0 (0) | 23 (19) | **70** (**74**) | 7 (7) |
| A Grade | 0 (0) | 17 (11) | **73** (**75**) | 10 (14) |
| Lower Grade | 0 (0) | 17 (7) | **52** (**56**) | 31 (37) |
| **Melbourne CBD** | | | | |
| Prime | 3 (8) | 28 (**61**) | **69** (31) | 0 (0) |
| A Grade | 3 (4) | 14 (38) | **83** (**58**) | 0 (0) |
| Lower Grade | 4 (0) | 10 (36) | **79** (**52**) | 7 (12) |
| **Melbourne Suburban CBD** | | | | |
| Prime | 4 (8) | 44 (42) | **48** (**50**) | 4 (0) |
| A Grade | 4 (8) | 30 (32) | **59** (**60**) | 7 (0) |
| Lower Grade | 4 (4) | 26 (26) | **59** (**57**) | 11 (13) |
| **Brisbane CBD** | | | | |
| Prime | 4 (8) | 25 (44) | **71** (**48**) | 0 (0) |
| A Grade | 3 (8) | 18 (20) | **79** (**72**) | 0 (0) |
| Lower Grade | 0 (4) | 14 (25) | **61** (**54**) | 25 (17) |
| **Perth CBD** | | | | |
| Prime | **50** (**68**) | 42 (32) | 8 (0) | 0 (0) |
| A Grade | 35 (**60**) | **50** (32) | 15 (8) | 0 (0) |
| Lower Grade | 16 (**44**) | **65** (40) | 19 (16) | 0 (0) |
| **Adelaide CBD** | | | | |
| Prime | 0 (0) | **65** (**68**) | 35 (32) | 0 (0) |
| A Grade | 0 (0) | **55** (**59**) | 45 (41) | 0 (0) |
| Lower Grade | 0 (0) | 40 (**50**) | **50** (45) | 10 (5) |
| **Canberra CBD** | | | | |
| Prime | 5 (9) | **59** (**59**) | 32 (32) | 4 (0) |
| A Grade | 4 (9) | **55** (**52**) | 36 (30) | 5 (9) |
| Lower Grade | 0 (4) | **48** (**39**) | 39 (35) | 13 (22) |
| **Hobart CBD** | | | | |
| Prime | 8 (12) | 33 (41) | **59** (**47**) | 0 (0) |
| A Grade | 7 (12) | 36 (35) | **57** (**47**) | 0 (6) |
| Lower Grade | 7 (12) | 29 (29) | **57** (**47**) | 7 (12) |

## Economic settings - major factors impacting on the economy

**Interest rates**

The majority of respondents see interest rates as being lower to similar for the 6 month period, similar for the 12 month period and higher over the three year period.

**Inflation**

A large majority of respondents see inflation as similar in the 6 and 12 month periods, while a majority believes inflation will be higher over the three year period.

**Foreign Investment**

A small majority of respondents see foreign investment as higher with a leaning to similar for the 6 and 12 month periods, however respondents are more uncertain about the 3 year period with views spread from lower to higher levels.

**Business Confidence**

Predictions for business confidence for the next 6 months are for similar levels with a leaning to higher levels, while for the 12 month period business confidence predictions are for higher levels. The large majority of respondents see higher business confidence levels for the 3 year period.

**Economic Settings – Major Factors Impacting on the Economy**
**May 2013 (September 2012) Percentage of Respondents**

| | Lower | Similar | Higher |
|---|---|---|---|
| **Interest Rates** | | | |
| 6 months | **55** (**52**) | 42 (48) | 3 (0) |
| 1 year | 29 (**52**) | **58** (45) | 13 (3) |
| 3 years | 7 (10) | 16 (35) | **77** (**55**) |
| **Inflation** | | | |
| 6 months | 13 (24) | **81** (**69**) | 6 (7) |
| 1 year | 6 (7) | **84** (**69**) | 10 (24) |
| 3 years | 3 (3) | 29 (28) | **68** (**69**) |
| **Foreign Investment** | | | |
| 6 months | 3 (14) | 42 (**59**) | **55** (27) |
| 1 year | 0 (7) | 42 (**55**) | **58** (38) |
| 3 years | 19 (24) | 39 (35) | **42** (**41**) |
| **Bus. Confidence** | | | |
| 6 months | 16 (28) | **58** (**69**) | 26 (3) |
| 1 year | 7 (10) | 32 (**59**) | **61** (31) |
| 3 years | 0 (4) | 19 (24) | **81** (**72**) |

## Respondents to the Survey

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

**AMP Capital**
**ANZ Bank**
**Bankwest**
**CBRE**
**Charter Hall**
**Chesterton International**
**Colonial First State Global Asset Management**
**Colliers International**
**Commonwealth Bank of Australia**
**Commonwealth Superannuation Corporation**
**Cushman and Wakefield**
**DEXUS Property Group**
**DTZ Australia**
**Ernst & Young**
**GE Capital Real Estate**
**Goldman Sachs & Partners**
**Goodman**
**Herron Todd White**
**Investa Property Group**
**Jones Lang LaSalle**
**Knight Frank Valuations**
**LandMark White**
**m3property**
**Macquarie Capital**
**Merrill Lynch**
**Mirvac Group**
**National Australia Bank**
**Preston Rowe Paterson**
**Propell National Valuers**
**Resolution Capital**
**Westpac**

**IN APPRECIATION**: The Institute appreciates the work of the API Research Committee of Phil Bennett LFAPI, Research Committee Chairman, Associate Professor John MacFarlane FAPI of University of Western Sydney, and Tyrone Hodge AAPI, API NSW President.



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