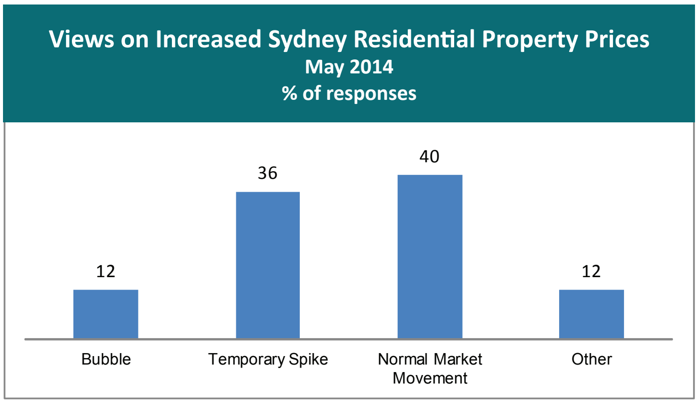
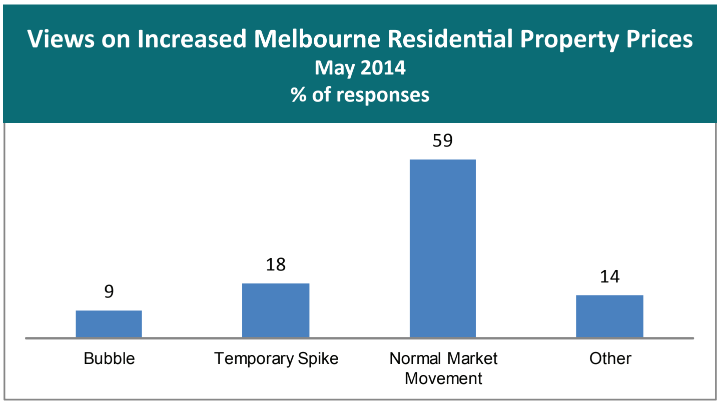
The Australian Property Institute Inc.
Australian Property Directions Survey

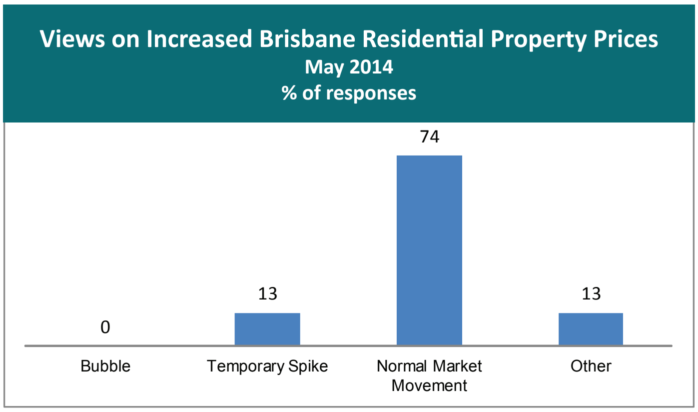
MAY 2014

This is the 32nd 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.

Views on Increased Residential Property Prices in Sydney, Melbourne and Brisbane

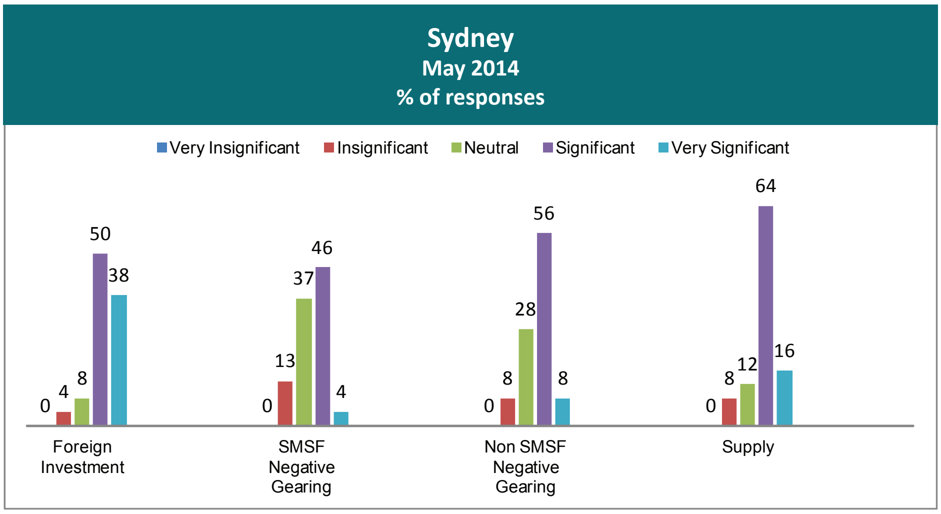




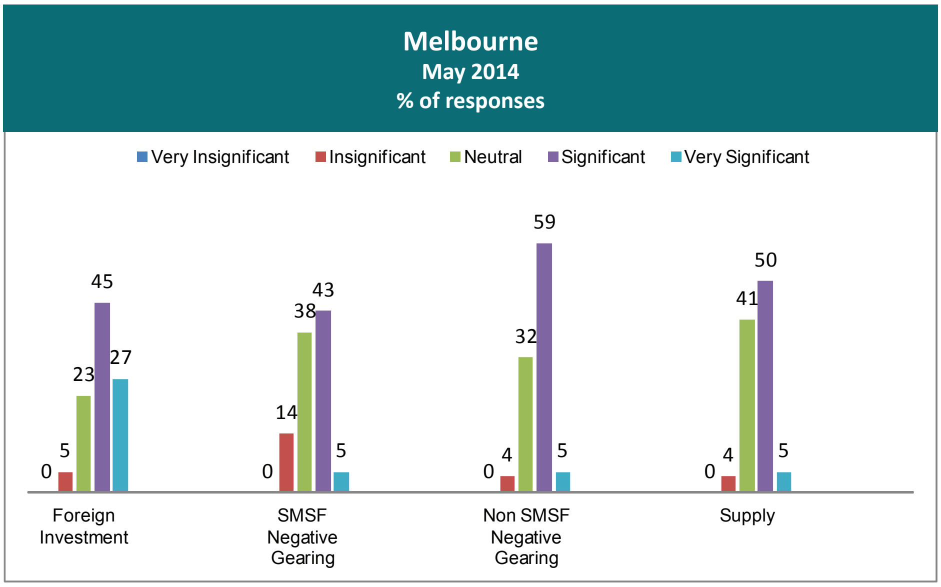


74% of respondents view the increased residential property prices in Brisbane as normal market movement and a smaller majority of 59% has the same view for Melbourne. Respondents' views are more varied for the Sydney residential property market with 40% seeing price increases as normal market movement but 36% believing it is a temporary spike and 12% a bubble.

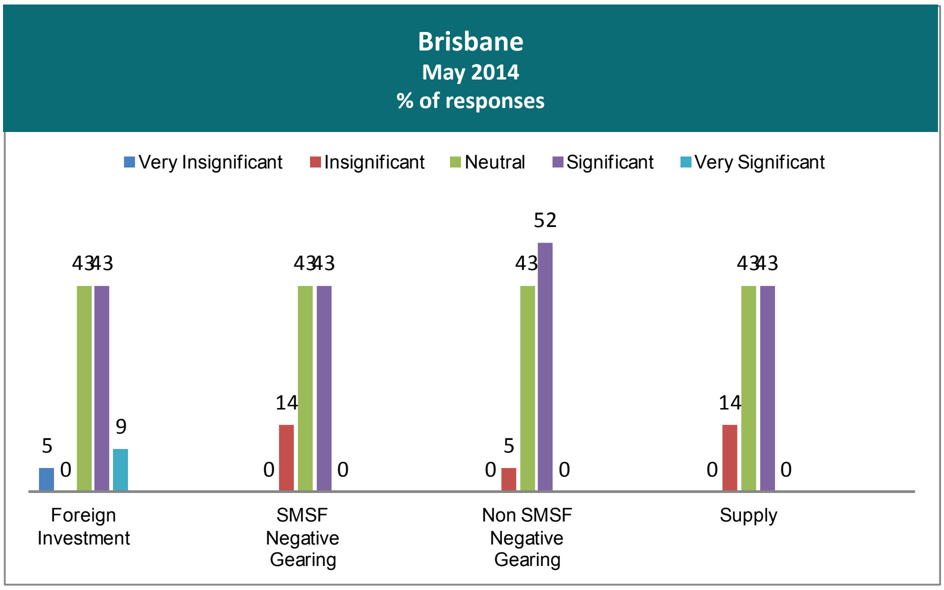
Significant Driver(s) for Increased Demand / Price for Residential Property in Sydney, Melbourne and Brisbane



The majority of respondents see supply as the most significant driver for increased demand and prices for Sydney residential property followed by non-SMSF negative gearing, then foreign investment and last SMSF negative gearing.



Respondents' views on the main drivers for increased demand and prices for Melbourne residential property are more varied, with a small majority of respondents seeing non SMSF negative gearing as the main driver followed by supply, then foreign investment and last SMSF negative gearing.



Respondents' views on the main drivers for increased demand and prices for Brisbane residential property are more varied, with a small majority of respondents seeing non SMSF negative gearing as the main driver. Supply, foreign investment and SMSF negative gearing are seen to have a neutral to significant impact.

Low Interest Rates

In addition to the factors of foreign investment, SMSF negative gearing, non SMSF negative gearing and supply, approximately 50% of respondents reported that a significant driver for increased demand and prices in the three cities was sustained low interest rates in the residential property market.

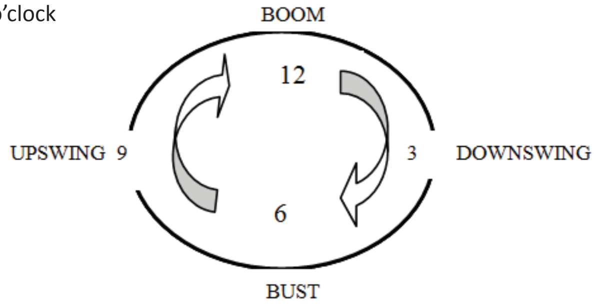
Factors Impacting on the First Home Buyer Markets in Sydney, Melbourne and Brisbane

Respondents reported that the three main factors impacting on the first home buyer markets in Sydney, Melbourne and Brisbane were housing affordability, competition from residential property investors including first home buyers purchasing an investment property rather than an owner occupied property and the lack of government subsidies.

Property Time Clock - Sydney, Melbourne and Brisbane

Property Clock Key

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

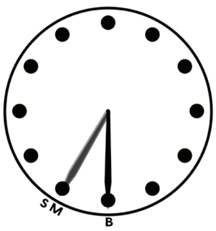


Generally, commercial, industrial, retail and residential property markets in Sydney, Melbourne and Brisbane are seen to be progressing along the upswing of the property cycle over the next two years.

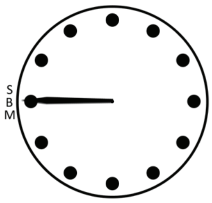
2014 - Current Time

Currently commercial property in Sydney and Melbourne is seen as having commenced the upswing with Brisbane at the bottom of the property cycle. Retail property in the three cities is seen as having commenced the upswing of the property cycle and industrial property is seen as further along the upswing. Residential property in all three cities is on the upswing of the property cycle with Sydney and Melbourne further along the upswing than Brisbane.

Commercial

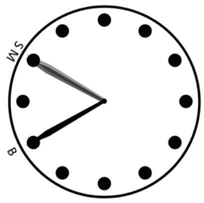


Industrial



Retail

Residential

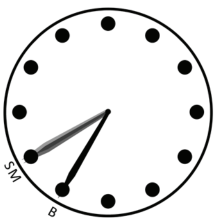


Sydney	7	9	7	10
Melbourne	7	9	7	10
Brisbane	6	9	7	8

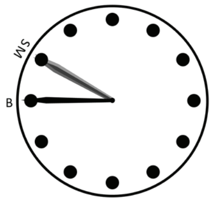
2015 - One Year's Time

In 2015, commercial property in Sydney, Melbourne and Brisbane is seen on the upswing of the property cycle with Sydney and Melbourne being furthest along the upswing. Industrial property in Sydney and Melbourne has moved further along the upswing while Brisbane industrial property is seen at the same stage in the property cycle as in 2014. In 2015, retail property in the three cities is seen as having moved further along the upswing of the property cycle. Residential property in the three cities is viewed as moving further along the upswing, with Sydney progressing the fastest followed by Melbourne and then Brisbane.

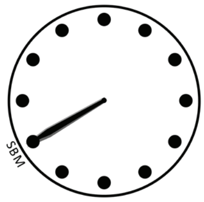
Commercial



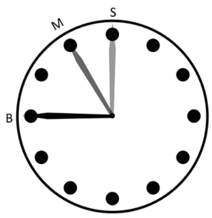
Industrial



Retail



Residential

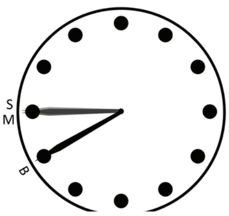


Sydney	8	10	8	12
Melbourne	8	10	8	11
Brisbane	7	9	8	9

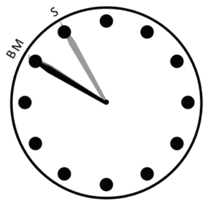
2016 - Two Years' Time

In 2016, all property classes in Sydney, Melbourne and Brisbane are expected to be more advanced along the upswing, except for Melbourne industrial property which is seen as remaining at the same stage of the property cycle as in 2015 and Sydney residential property which is seen as commencing the downswing. Melbourne residential property is seen to be at the top of the property cycle in 2016 and Brisbane is viewed as still being on the upswing.

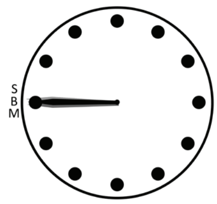
Commercial



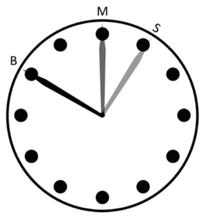
Industrial



Retail



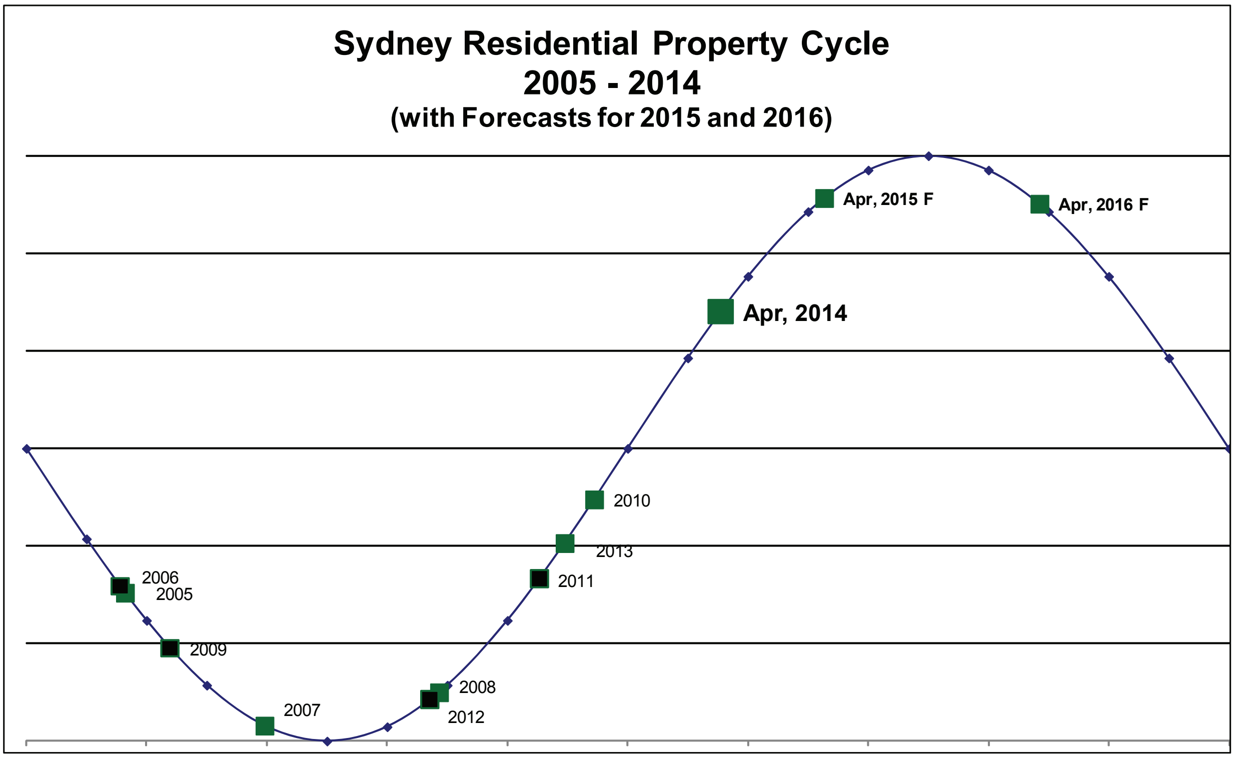
Residential

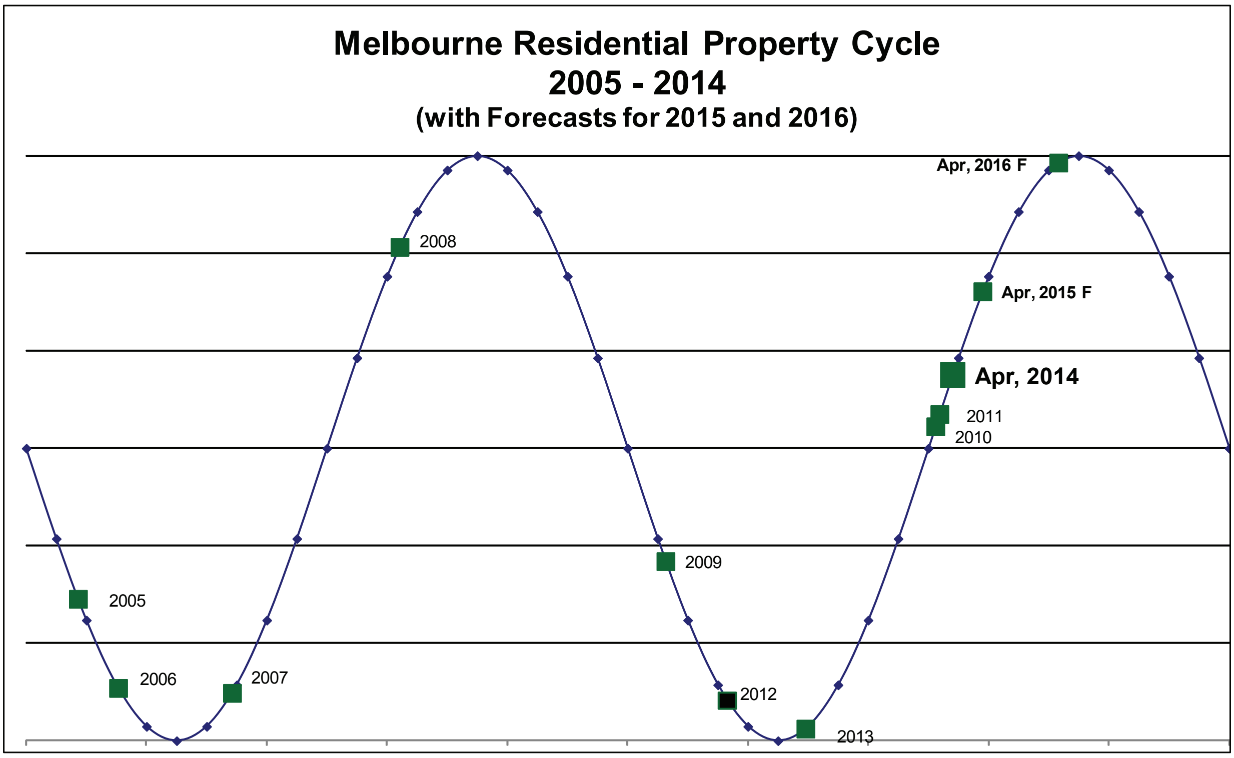


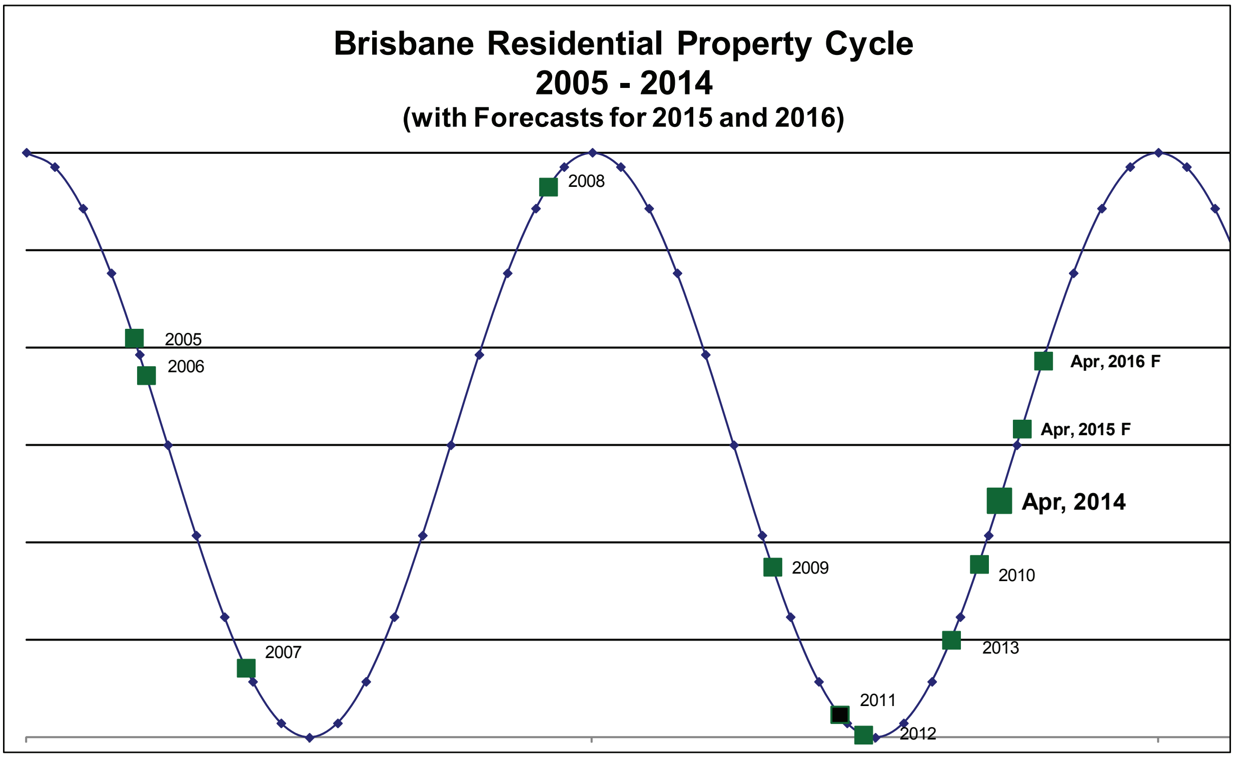
	Commercial	Industrial	Retail	Residential
Sydney	9	11	9	1
Melbourne	9	10	9	12
Brisbane	8	10	9	10

Residential Property Cycle Including Forecasts for Sydney, Melbourne and Brisbane

Sydney, Melbourne and Brisbane markets are seen to be in a strong upswing with Sydney seen as being the most advanced followed by Melbourne and Brisbane. Sydney is predicted to peak in late 2015 with Melbourne some six months or so behind.




Melbourne Residential Property Cycle
2005 - 2014
(with Forecasts for 2015 and 2016)
Apr, 2016 F
2008
Apr, 2015 F
Apr, 2014
2011
2010
2009
2005
2006
2007
2012
2013


Brisbane Residential Property Cycle
2005 - 2014
(with Forecasts for 2015 and 2016)
2008
2005
2006
Apr, 2016 F
Apr, 2015 F
Apr, 2014
2009
2010
2007
2013
2011
2012

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

The large majority of respondents see moderate to strong 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 remains strong for the next 12 months.

A slightly smaller majority of respondents than October last year expect at least moderate investment growth in international listed and unlisted trusts and syndicates in the next 12 months.

Change in Invested Capital for Listed and Unlisted Trusts / Syndicates Over Next 12 Months May 2014 (October 2013) Percentage of Respondents					
	Strong Investment Decline	Moderate Investment Decline	No Investment Change	Moderate Investment Growth	Strong Investment Growth
Listed					
Domestic	0 (0)	4 (0)	11 (11)	**59** (**78**)	26 (11)
International	0 (0)	11 (4)	30 (33)	**48** (**48**)	11 (15)
Unlisted / Syndicates					
Domestic	0 (0)	0 (0)	4 (11)	**70** (**78**)	26 (11)
International	0 (0)	4 (0)	41 (37)	**44** (**48**)	11 (15)

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

Survey respondents are uncertain about whether non-residential property will outperform the equity market over the next year with responses spread between unlikely, the same and likely to outperform. Predictions for the next three to five years remain uncertain.

Likelihood of Non-Residential Property Sector Out Performing Equity Markets May 2014 (October 2013) Percentage of Respondents					
	Very Unlikely	Unlikely	Same	Likely	Very Likely
One year	11 (7)	**41** (**54**)	33 (18)	15 (21)	0 (0)
3 years	0 (0)	**41** (36)	**41** (**43**)	18 (18)	0 (3)
5 years	0 (0)	30 (29)	**41** (**42**)	29 (29)	0 (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 for Sydney CBD and suburban CBD commercial, industrial and retail property, are predicted to increase but at slower rates than predicted in October except for retail property which is expected to increase at a faster rate. Market rentals for Sydney CBD and suburban CBDs commercial property are expected to decline while market rentals for industrial property will increase but at a slower rate than six months ago. Similarly to October, Sydney retail property market rentals are predicted to decline but at a slower rate.

Market values are expected to increase at a faster rate than predicted in October last year for Melbourne CBD commercial and industrial properties. Melbourne retail property market values are expected to increase at the same rate as predicted in October, 2013. Market values for commercial property in Melbourne suburban CBDs are expected to remain the same for the next 12 months. Market rentals for Melbourne CBD and suburban CBD commercial property and retail property are expected to decline while remaining constant for industrial property in Melbourne.

In Brisbane, market values for industrial and retail property are predicted to increase but with industrial property market values increasing at a faster rate than previously predicted and retail at a slower rate. Market values and market rentals for Brisbane commercial property are now expected to fall at a faster rate than predicted in October last year.

Percentage Projections Above CPI Over Next 12 Months May 2014 (October 2013)				
SYDNEY				
	Commercial			
	CBD	Suburban CBDs	**Industrial**	**Retail**
Market Value	*1.2 (1.6)*	*0.4 (0.6)*	*1.8 (1.9)*	*1.0 (0.5)*
Market Rental	*-1.3 (-0.4)*	*-1.3 (-0.5)*	*0.6 (0.9)*	*-0.6 (-1.1)*
MELBOURNE				
	Commercial			
	CBD	Suburban CBDs	**Industrial**	**Retail**
Market Value	*1.3 (0.9)*	*0.0 (-0.4)*	*1.4 (0.9)*	*0.3 (0.3)*
Market Rental	*-1.0 (-1.5)*	*-1.2 (-1.5)*	*0.3 (0.3)*	*-1.0 (-1.0)*
BRISBANE				
	Commercial CBD		**Industrial**	**Retail**
Market Value	*-1.3 (-0.4)*		*1.0 (0.7)*	*0.2 (0.6)*
Market Rental	*-3.2 (-1.9)*		*-3.1 (-1.9)*	*-0.5 (-0.8)*

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

For the next six months, a small majority of respondents see stable effective rents for Sydney but there is a leaning towards declining effective rents. A majority of respondents see stable effective rents for Melbourne and declining effective rents for Brisbane which are strong deviations from the October survey.

For the next 12 months, respondents are uncertain about movements in effective rents for Sydney with respondents split between declining to increasing rents. 57% of respondents see Melbourne effective rents are being stable over the next 12 months but there is a leaning of 26% to increasing rents. The large majority of respondents are evenly split between predicting stable and declining effective rents for Brisbane.

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

Forecast Movements in Effective Rents May 2014 (October 2013) Percentage Responses			
	Declining	**Stable**	**Increasing**
6 months			
Sydney	38 (44)	**62** (**56**)	0 (0)
Melbourne	30 (**68**)	**70** (32)	0 (0)
Brisbane	**70** (**76**)	30 (24)	0 (0)
12 months			
Sydney	31 (22)	**38** (**56**)	31 (22)
Melbourne	17 (36)	**57** (**56**)	28 (8)
Brisbane	48 (40)	**48** (**48**)	4 (12)

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.

100% of respondents see lease incentives as a feature of the Sydney, Melbourne, Brisbane, Perth and Adelaide markets and the very large majority of respondents see lease incentives as a feature of the market in Melbourne suburban CBDs, Canberra and Hobart.

Overall across all capital city markets the predicted trend is for increasing lease incentives.

Sydney CBD prime property has the majority of respondents reporting leasing incentives between levels of 20-29% and ≥ 30%. Half of the respondents see lease incentives of ≥ 30% for Sydney A grade property and a majority of respondents see lease incentives of ≥ 30% for lower grade property. The large majority of respondents see Sydney suburban CBD lease incentives as ranging between 20-29% and ≥ 30% levels.

The majority of respondents see Melbourne CBD and suburban CBD prime and A grade property leasing incentive levels as between 10-19% and 20-29% whereas a majority of respondents see Melbourne lower grade property at the higher levels of 20-29% and ≥ 30%.

Brisbane CBD prime property has the large majority of respondents reporting leasing incentives between levels of 20- 29% and ≥ 30%. Just over half of the respondents see lease incentives of ≥ 30% for Brisbane A grade property and a majority see lease incentives of ≥ 30% for lower grade property.

A small majority of respondents see leasing incentives for prime property in Perth to be in the 20-19% range with a leaning to 10-19% levels; a strong change from six months ago. Other strong changes from six months ago are a majority of respondents see A grade property incentives for Perth to be in the 20-29% range and about half of respondents see lower grade property lease incentives at 20-29% levels with a leaning to ≥ 30%.

Lease incentives for Adelaide prime property are seen to be in the 10-19% range with a leaning to 20 – 29% levels. Half of the respondents see Adelaide A grade property with lease incentive levels of 20 - 29% with a leaning to the lower level of 10 – 19%. 45% of respondents see lease incentive levels of 20-29% levels for Adelaide lower grade property with leanings to both the lower level of 10-19% and higher level of ≥ 30%.

Lease incentives for Canberra prime property are seen to be increasing with more respondents seeing levels at 20-29% but retaining a strong leaning to 10-19% levels. Overall levels for A grade and lower grade properties are seeing increases in lease incentives with more respondents seeing 20-29% and ≥ 30% levels.

The majority of respondents see lease incentive levels for Hobart prime property as being in the 10-19% to 20-29% levels. Lease incentive levels for Hobart A grade are more evenly split between all levels of incentives with a leaning to 10-19% levels. Hobart lower grade property incentive levels are split between the three levels up to the ≥ 30% but there is a leaning to the 10-19% level.

Leasing Incentives in Current Commercial Leasing Market May 2014 (October 2013) Percentage responses from respondents who reported leasing incentives as a feature of these markets				
Location	**0-9%**	**10-19%**	**20-29%**	**≥ 30%**
Sydney				
Prime	0 (0)	23 (11)	35 **(64)**	**42** (25)
A Grade	0 (0)	8 (4)	42 **(68)**	**50** (28)
Lower Grade	0 (0)	8 (4)	31 (46)	**61 (50)**
Sydney Suburban CBD				
Prime	0 (4)	28 (7)	**52 (78)**	20 (11)
A Grade	0 (0)	20 (4)	**52 (82)**	28 (14)
Lower Grade	4 (0)	8 (11)	**44 (53)**	**44** (36)
Melbourne CBD				
Prime	0 (0)	39 (16)	**44 (68)**	17 (16)
A Grade	0 (0)	22 (4)	**61 (72)**	17 (24)
Lower Grade	4 (0)	13 (4)	**44 (63)**	39 (33)
Melbourne Suburban CBD				
Prime	0 (0)	43 (28)	**52 (64)**	5 (8)
A Grade	5 (0)	19 (28)	**67 (60)**	9 (12)
Lower Grade	5 (0)	19 (29)	**43** (33)	33 **(38)**
Brisbane CBD				
Prime	0 (0)	9 (8)	**52 (72)**	39 (20)
A Grade	0 (0)	9 (0)	39 **(64)**	**52** (36)
Lower Grade	0 (0)	9 (0)	13 **(56)**	**78** (44)
Perth CBD				
Prime	0 (16)	39 **(60)**	**52** (24)	9 (0)
A Grade	0 (8)	17 **(60)**	**74** (32)	9 (0)
Lower Grade	4 (4)	9 **(52)**	**52** (44)	35 (0)
Adelaide CBD				
Prime	0 (9)	**64 (73)**	36 (14)	0 (4)
A Grade	5 (4)	36 **(64)**	**50** (23)	9 (9)
Lower Grade	5 (0)	27 **(50)**	**45** (41)	23 (9)
Canberra CBD				
Prime	9 (0)	41 **(70)**	**45** (30)	5 (0)
A Grade	4 (0)	**41 (52)**	**41** (44)	14 (4)
Lower Grade	4 (0)	32 (43)	**41 (48)**	23 (9)
Hobart CBD				
Prime	18 (6)	**37 (50)**	36 (38)	9 (6)
A Grade	18 (6)	**37 (44)**	18 (37)	27 (13)
Lower Grade	18 (7)	**37 (40)**	9 (27)	36 (26)

Economic settings - major factors impacting on the economy

Interest rates

The vast majority of respondents see interest rates as being similar for the 6 month period and a smaller majority see them as higher over the 12 month period. A very 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 period, with a smaller majority seeing inflation as similar in 12 months and a majority still seeing inflation as higher over the three year period.

Foreign Investment

A majority of respondents see foreign investment as similar in the 6 month period, half of the respondents see foreign investment as similar in 12 months however respondents are more uncertain about the 3 year period however there is a leaning to lower or similar levels of foreign investment.

Business Confidence

Predictions for business confidence for the next 6 months are for similar levels with a leaning to higher levels, while business confidence predictions remain at higher levels for the 12 month to three year periods, there is a leaning to similar levels for these time periods.

Economic Settings – Major Factors Impacting on the Economy May 2014 (October 2013) Percentage of Respondents			
	Lower	**Similar**	**Higher**
Interest Rates			
6 months	0 (41)	**96 (59)**	4 (0)
1 year	0 (18)	38 **(67)**	**62** (15)
3 years	0 (0)	4 (7)	**96 (93)**
Inflation			
6 months	4 (7)	**85 (89)**	11 (4)
1 year	4 (0)	**58 (74)**	38 (26)
3 years	0 (4)	27 (18)	**73 (78)**
Foreign Investment			
6 months	4 (4)	**61 (61)**	35 (35)
1 year	12 (12)	**50** (38)	38 **(50)**
3 years	35 (30)	**42 (35)**	23 **(35)**
Bus. Confidence			
6 months	4 (4)	**61 (55)**	35 (41)
1 year	8 (0)	31 (19)	**61 (81)**
3 years	8 (4)	23 (7)	**69 (89)**

Respondents to the Survey

The Institute appreciates the continued support of the following survey respondents

Abacus Property Group
AMP Capital
Balmain NB Corporation
CBRE
Charter Hall
Chesterton International (NSW)
Colonial First State Global Asset Management
Commonwealth Bank of Australia
Cushman and Wakefield
DEXUS Property Group
DTZ Australia
EY
GE Capital Real Estate
Goodman
Herron Todd White
Investa Property Group
JLL
Knight Frank Valuations
Lend Lease
m3property
Macquarie Capital
Mirvac Group
National Australia Bank
Pepper Property
Preston Rowe Paterson
Propell National Valuers
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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