The Australian Property Institute Inc.

Australian Property Directions Survey

OCTOBER 2013

This is the 31st 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.

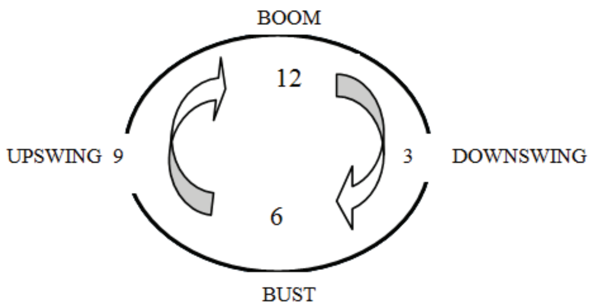
Impact of Changing Australian Dollar on Foreign Investment in Australian Property

Impact of Changing $AUD on Foreign Investment in Australian Property October 2013 Percentage of Respondents				
Strong Negative Impact	**Moderate Negative Impact**	**No Impact**	**Moderate Positive Impact**	**Strong Positive Impact**
0	23	7	63	7

Survey participants were asked what impact they believed the changing Australian dollar has on foreign investment in Australian property and the majority of respondents see a positive impact with 63% reporting a moderate positive impact and 7% a strong positive impact.

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.

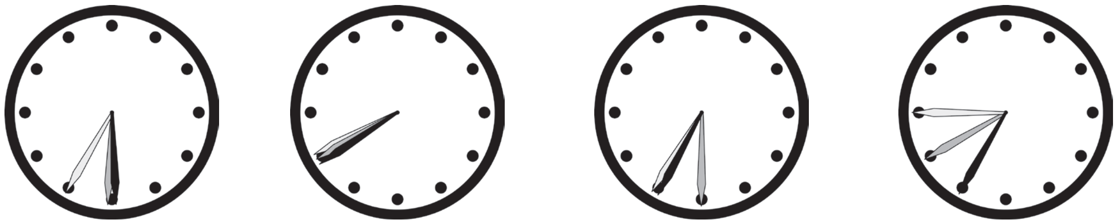
Sydney commercial, industrial, retail and residential property is seen as being on the upswing of the property cycle at present and is predicted to advance along the upswing over the next two years. Sydney residential property is seen as the strongest of these markets over the next two years.

Melbourne commercial and retail property is currently seen at the bottom of the property cycle advancing along the upswing over the next two years. Melbourne industrial property is currently on the upswing and predicted to remain at the same stage on the upswing for another year before advancing the furthest of the property classes along the upswing in two year's time. Residential property in Melbourne is currently seen as being on the upswing and advancing along the upswing next year, but not advancing any further along the upswing in two year's time.

Brisbane commercial property is currently seen at the bottom of the property cycle and advancing along the cycle over the next two years. Brisbane retail property is seen as having commenced the upswing, remaining in a similar stage next year and progressing further along the upswing in two year's time. Brisbane industrial and residential property is seen as having commenced the upswing and advancing along the upswing next year but with stronger performance predicted for two year's time making them the strongest performing of the four classes of property in Brisbane.

2013 - Current Time

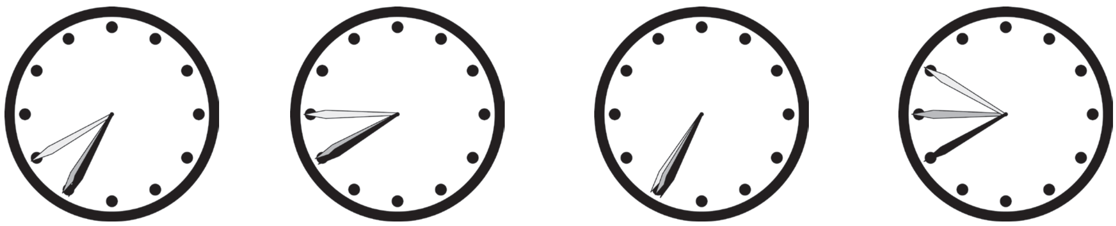
Currently commercial property in Sydney is seen as being on the upswing with Melbourne and Brisbane being at the bottom of the property cycle. Industrial property in all three cities is seen as on the upswing. Retail property is seen as at the bottom of the cycle in Melbourne, while Sydney and Brisbane have commenced the upswing. Residential property in all three cities is on the upswing of the property cycle with Sydney further along the upswing followed by Melbourne and then Brisbane.



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

2014 - One Year's Time

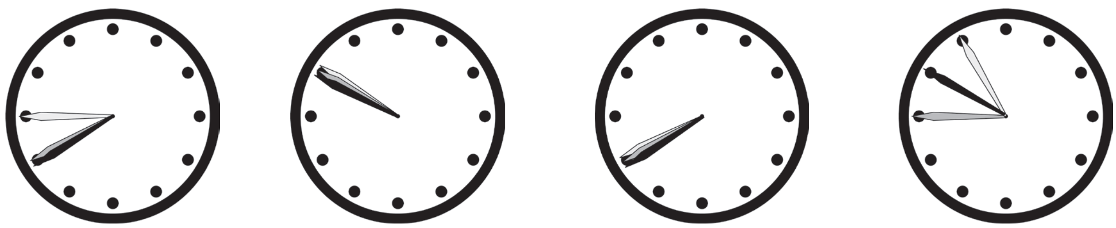
In one year's time, commercial property in Sydney, Melbourne and Brisbane is seen on the upswing of the property cycle with Sydney being furthest along the upswing. Industrial property in Sydney is further along the upswing however industrial property in Melbourne and Brisbane are seen as being on the same stage of the upswing as the current year. In one year's time, retail property in Sydney and Brisbane is seen as remaining at the same stage on the upswing as the current year while Melbourne is seen as commencing the upswing. Residential property in the three cities is seen as moving along the upswing, with Sydney progressing the fastest followed by Melbourne and then Brisbane.



	Commercial	Industrial	Retail	Residential
Sydney	8	9	7	10
Melbourne	7	8	7	9
Brisbane	7	8	7	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 a strong performer in the three cities and Sydney residential property is seen to be the strongest performer.

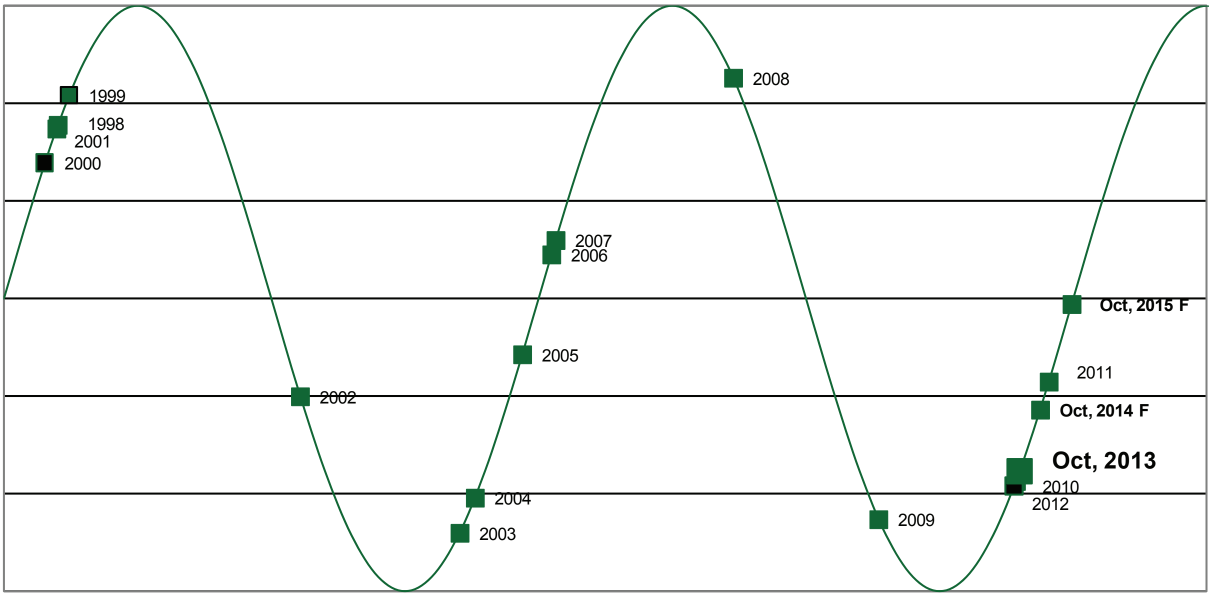


	Commercial	Industrial	Retail	Residential
Sydney	9	10	8	11
Melbourne	8	10	8	9
Brisbane	8	10	8	10

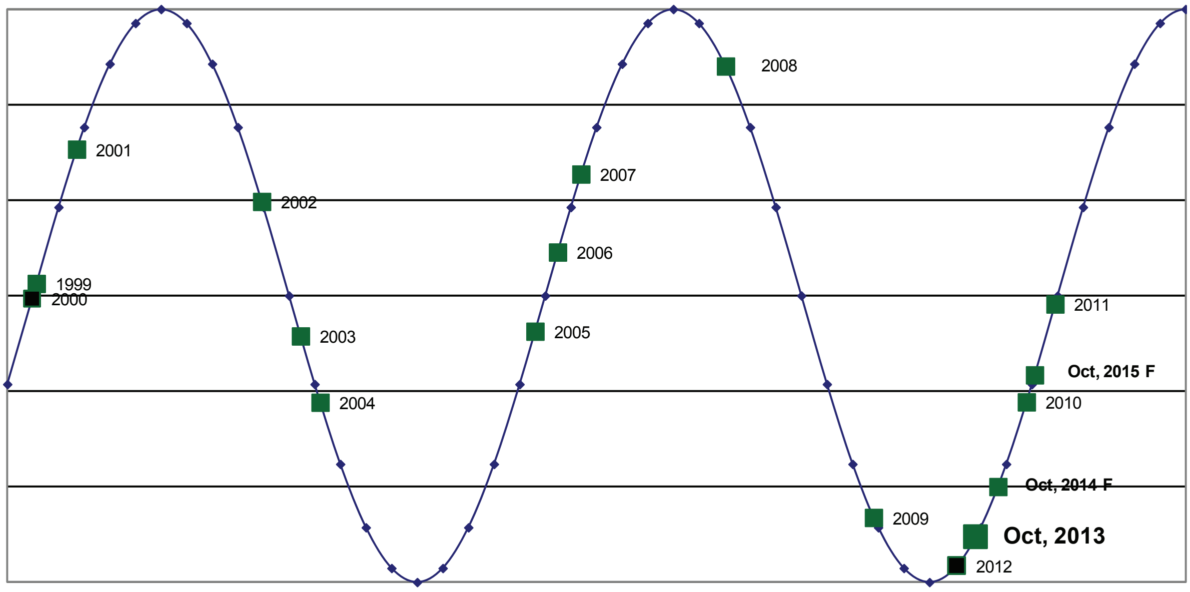
Commercial Property Cycle Including Forecasts for Sydney, Melbourne and Brisbane

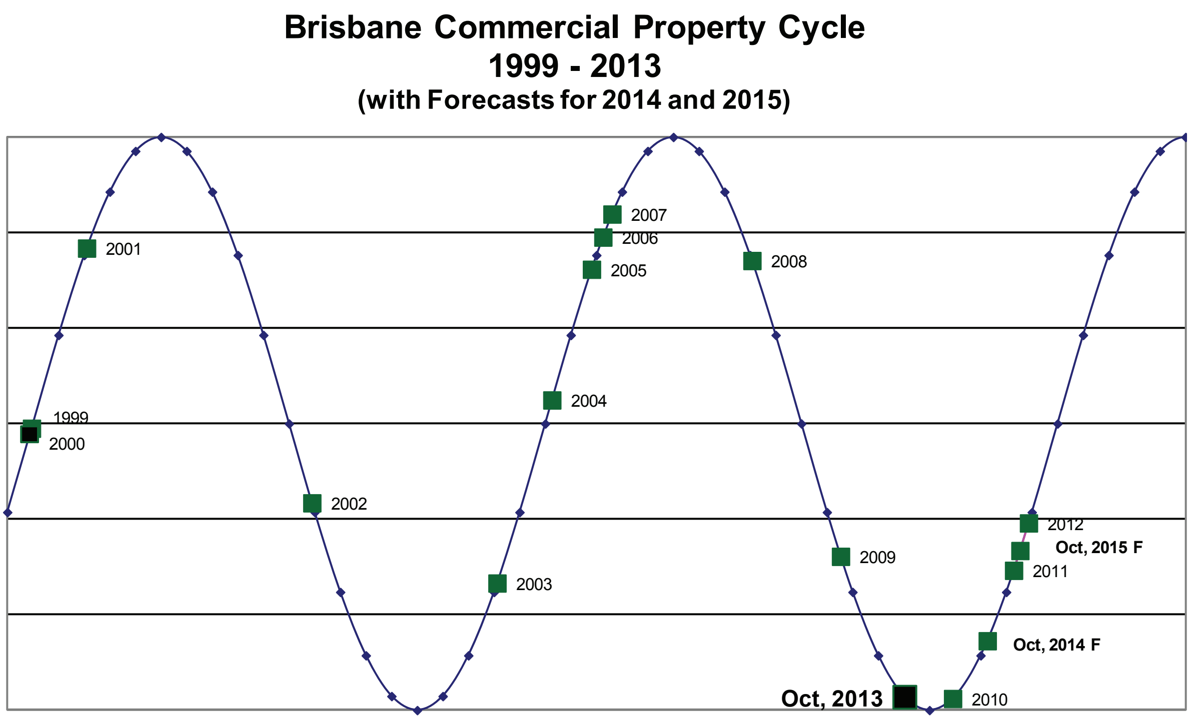
The commercial property cycle has stalled in all three locations (Sydney, Melbourne and Brisbane) over the last 2 years. It did so last year (2012) in both Sydney and Melbourne with minimal change occurring over the last 12 months to October, 2013. The Brisbane market has fallen back over the last year with the market seen as currently being at the bottom of the cycle. Respondents see only slow improvement over the next two years in all three commercial property markets.

Sydney Commercial Property Cycle
1998 - 2013
(with Forecasts for 2014 and 2015)



Melbourne Commercial 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 but fewer respondents predict strong growth than in the May survey. Overall, the expected growth for domestic trusts and syndicates remains strong for the 12 months.

A majority of respondents also 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

October 2013 (May 2013)
Percentage of Respondents

	Strong Investment Decline	Moderate Investment Decline	No Investment Change	Moderate Investment Growth	Strong Investment Growth
Listed					
Domestic	0 (0)	0 (3)	11 (7)	**78** (**60**)	11 (30)
International	0 (0)	4 (10)	33 (**53**)	**48** (30)	15 (7)
Unlisted / Syndicates					
Domestic	0 (0)	0 (0)	11 (7)	**78** (**60**)	11 (33)
International	0 (0)	0 (6)	37 (**47**)	**48** (37)	15 (10)

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

A small majority of respondents predict that it is unlikely that non-residential property will outperform the equity market over the next year. Predictions for the next three to five years are varied, indicating uncertainty in the market about the likelihood of the non-residential property sector outperforming the equity market.

Likelihood of Non-Residential Property Sector Outperforming Equity Markets

October 2013 (May 2013)
Percentage of Respondents

	Very Unlikely	Unlikely	Same	Likely	Very Likely
One year	7 (3)	**54** (32)	18 (20)	21 (**42**)	0 (3)
3 years	0 (0)	36 (35)	**43** (26)	18 (**39**)	3 (0)
5 years	0 (0)	29 (23)	**42** (**45**)	29 (29)	0 (3)

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 May except for retail property which is expected to increase at a slightly 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 May, Sydney retail property market rentals are predicted to decline but at a slightly slower rate.

Market values are expected to increase for Melbourne CBD commercial and industrial properties but at a slower rate than predicted in May. Melbourne retail property market values are expected to increase. Market values for commercial property in Melbourne suburban CBDs are expected to decline. Market rentals for Melbourne CBD and suburban CBD commercial property and retail property are predicted to decline at about the same rate of decline forecast in May. Retail rentals are forecast to decline at a lesser rate than predicted in May while industrial property is expected to have increased rentals but at a lesser rate than predicted in May.

In Brisbane, market values for industrial and retail property are predicted to increase but retail property market values increasing at a faster rate than previously predicted and industrial at a slower rate. Market values for Brisbane commercial property are expected to fall. Market rental for Brisbane commercial property is expected to decrease at a faster rate than predicted in May while market rentals for retail are predicted to decline at the same rate as previously predicted. Brisbane industrial market rentals are expected to increase but at a slower rate than predicted in the May survey.

Percentage Projections Above CPI for Sydney Over Next 12 Months

October 2013 (May 2013)

SYDNEY				
	Commercial			
	CBD	Suburban CBDs	**Industrial**	**Retail**
Market Value	1.6 (2.5)	0.6 (1.1)	1.9 (3.4)	0.5 (0.4)
Market Rental	-0.4 (0.2)	-0.5 (0.1)	0.9 (1.4)	-1.1 (-1.2)
MELBOURNE				
	Commercial			
	CBD	Suburban CBDs	**Industrial**	**Retail**
Market Value	0.9 (1.5)	-0.4 (0.4)	0.9 (1.8)	0.3 (-0.3)
Market Rental	-1.5 (-1.6)	-1.5 (-1.3)	0.3 (0.5)	-1.0 (-1.8)
BRISBANE				
	Commercial CBD		**Industrial**	**Retail**
Market Value	-0.4 (1.7)		0.7 (2.1)	0.6 (0.3)
Market Rental	-1.9 (-0.8)		0.4 (0.9)	-0.8 (-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, 56%, see stable effective rents for Sydney but there is a leaning of 44% to declining effective rents. Larger majorities of respondents see declining effective rents for Melbourne, 68%, and Brisbane, 76% which is a strong deviation for Brisbane from the May survey.

For the next 12 months, a small majority of respondents, 56%, see stable effective rents for Sydney, the remaining respondents are evenly split between seeing declining or increasing rents. 56% of respondents see Melbourne effective rents are being stable over the next 12 months but there is a leaning of 36% to declining rents. Respondents are more evenly split between predicting stable and declining effective rents for Brisbane however 40% still see declining effective rentals.

Sydney is still 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 October 2013 (May 2013) Percentage Responses			
	Declining	**Stable**	**Increasing**
6 months			
Sydney	44 (26)	**56** (**71**)	0 (3)
Melbourne	**68** (**55**)	32 (41)	0 (4)
Brisbane	**76** (**48**)	24 (**48**)	0 (4)
12 months			
Sydney	22 (10)	**56** (**45**)	22 (**45**)
Melbourne	36 (**41**)	**56** (31)	8 (28)
Brisbane	40 (31)	**48** (**48**)	12 (21)

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 all Australian capital city markets.

Across the Sydney and Melbourne CBDs and Brisbane CBD, there is a trend towards increasing incentives, with the majority of respondents reporting leasing incentives between 20 – 29% with leanings to ≥ 30% incentive levels across prime, A grade and lower grade properties.

The majority of respondents now see leasing incentives for prime property in Perth to be in the 10-19% range with a leaning to 20-29% levels; a strong change from six months ago. While most respondents still see A grade and lower grade property incentives for Perth to be in the 10-19% range, there are leanings to the higher levels of 20-29%.

Lease incentives for Adelaide prime, A grade and lower grade properties are seen to be decreasing from six months ago with more respondents seeing levels of 10-19%.

Lease incentives for Canberra prime property are seen to be decreasing with more respondents seeing levels at 10-19% whereas overall levels for A grade and lower grade properties are seeing increases in incentive levels as there has been an increased leaning towards the 20-29% levels.

Lease incentive levels for Hobart prime property have reduced with half of the respondents seeing 10-19% levels whereas levels for A grade are more evenly split between 10-19% and 20-29% levels. Hobart lower grade property incentive levels are more evenly 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 October 2013 (May 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)	11 (16)	**64** (**77**)	25 (7)
A Grade	0 (0)	4 (6)	**68** (**84**)	28 (10)
Lower Grade	0 (0)	4 (7)	46 (**61**)	**50** (32)
Sydney Suburban CBD				
Prime	4 (0)	7 (23)	**78** (**70**)	11 (7)
A Grade	0 (0)	4 (17)	**82** (**73**)	14 (10)
Lower Grade	0 (0)	11 (17)	**53** (**52**)	36 (31)
Melbourne CBD				
Prime	0 (3)	16 (28)	**68** (**69**)	16 (0)
A Grade	0 (3)	4 (14)	**72** (**83**)	24 (0)
Lower Grade	0 (4)	4 (10)	**63** (**79**)	33 (7)
Melbourne Suburban CBD				
Prime	0 (4)	28 (44)	**64** (**48**)	8 (4)
A Grade	0 (4)	28 (30)	**60** (**59**)	12 (7)
Lower Grade	0 (4)	29 (26)	33 (**59**)	**38** (11)
Brisbane CBD				
Prime	0 (4)	8 (25)	**72** (**71**)	20 (0)
A Grade	0 (3)	0 (18)	**64** (**79**)	36 (0)
Lower Grade	0 (0)	0 (14)	**56** (**61**)	44 (25)
Perth CBD				
Prime	16 (**50**)	**60** (42)	24 (8)	0 (0)
A Grade	8 (35)	**60** (**50**)	32 (15)	0 (0)
Lower Grade	4 (16)	**52** (**65**)	44 (19)	0 (0)
Adelaide CBD				
Prime	9 (0)	**73** (**65**)	14 (35)	4 (0)
A Grade	4 (0)	**64** (**55**)	23 (45)	9 (0)
Lower Grade	0 (0)	**50** (40)	41 (**50**)	9 (10)
Canberra CBD				
Prime	0 (5)	**70** (**59**)	30 (32)	0 (4)
A Grade	0 (4)	**52** (**55**)	44 (36)	4 (5)
Lower Grade	0 (0)	43 (**48**)	**48** (39)	9 (13)
Hobart CBD				
Prime	6 (8)	**50** (33)	38 (**59**)	6 (0)
A Grade	6 (7)	**44** (36)	37 (**57**)	13 (0)
Lower Grade	7 (7)	**40** (29)	27 (**57**)	26 (7)

Economic settings - major factors impacting on the economy

Interest rates
The majority of respondents see interest rates as being similar for the 6 month and 12 month periods and 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 period, with a majority still seeing inflation as similar in 12 month however a majority believes inflation will be 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 higher in 12 months 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 business confidence predictions are for higher levels for the 12 month to three year periods.

Economic Settings – Major Factors Impacting on the Economy October 2013 (May 2013) Percentage of Respondents			
	Lower	Similar	Higher
Interest Rates			
6 months	41 (**55**)	**59** (42)	0 (3)
1 year	18 (29)	**67** (**58**)	15 (13)
3 years	0 (7)	7 (16)	**93** (**77**)
Inflation			
6 months	7 (13)	**89** (**81**)	4 (6)
1 year	0 (6)	**74** (**84**)	26 (10)
3 years	4 (3)	18 (29)	**78** (**68**)
Foreign Investment			
6 months	4 (3)	**61** (42)	35 (**55**)
1 year	12 (0)	38 (42)	**50** (**58**)
3 years	30 (19)	**35** (39)	**35** (**42**)
Bus. Confidence			
6 months	4 (16)	**55** (**58**)	41 (26)
1 year	0 (7)	19 (32)	**81** (**61**)
3 years	4 (0)	7 (19)	**89** (**81**)

Respondents to the Survey

The Institute appreciates the continued support of the following survey respondents

Abacus Property
AMP Capital
Ashe Morgan Winthrop
Bankwest
CBRE
Charter Hall
Colonial First State Global Asset Management
Colliers International
Commonwealth Bank of Australia
Cushman and Wakefield
DEXUS Property Group
DTZ Australia
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GE Capital Real Estate
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Investa Property Group
Jones Lang LaSalle
Knight Frank Valuations
Lend Lease
m3property
Macquarie Capital
Merrill Lynch
National Australia Bank
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.

API THE AUSTRALIAN PROPERTY INSTITUTE
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