The Australian Property Institute Inc.
Australian Property Directions Survey

SEPTEMBER 2012

This is the 29th 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.

Making Provisions for Carbon Tax

When asked if they were making provisions for the carbon tax, 68% of respondents stated that they were not making provisions with 32% making provisions. Of those respondents who reported making provisions for the carbon tax, most reported their provisions related to managing building outgoings and installing energy efficient equipment.

Importance of Government Incentives for the Residential Property Development Market

When asked to comment on the importance of Government incentives for the residential property development market, a greater percentage of respondents, 93%, rated them as moderately to extremely important compared to 86% six months ago.

Importance of Government Incentives for the Residential Development Market
September 2012 (April 2012) Percentage of Respondents

Not Important	Moderately Important	Extremely Important
7 (14)	**61** (**47**)	32 (39)

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

Over half of the respondents see no change in gearing ratios from the continued re-assessment of risks in relation to property and property financing. Respondents were provided the context for the question as being the two reductions in official interest rates in late 2011 and so far in 2012, and including the position taken by the major Australian banks in relation to interest rates.

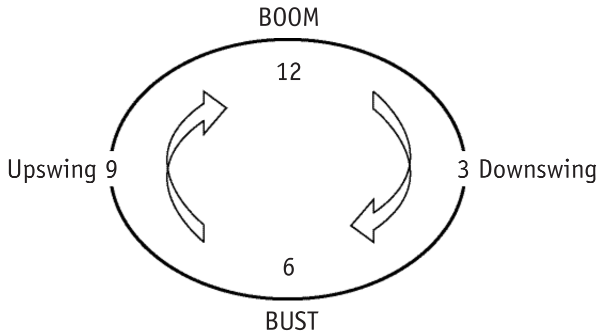
Respondents are more uncertain about financing costs than six months ago with responses more evenly spread between lower to higher costs but there is a leaning towards lower financing costs. The majority of respondents see no change to the access to funds.

Impacts on Gearing Ratios and Financing Costs of the continued re-assessment of risks in relation to property and property financing
September 2012 (April 2012) Percentage of Respondents

	Lower	No Change	Higher
Gearing ratios	28 (43)	**61** (**50**)	11 (7)
Financing costs (including interest rates)	**43** (7)	29 (33)	28 (**60**)
	Less Funds Available	**No Change**	**More Funds Available**
Access to funds	21 (40)	**61** (**53**)	18 (7)

Property Time Clock - Sydney, Melbourne and Brisbane

Property Clock Key

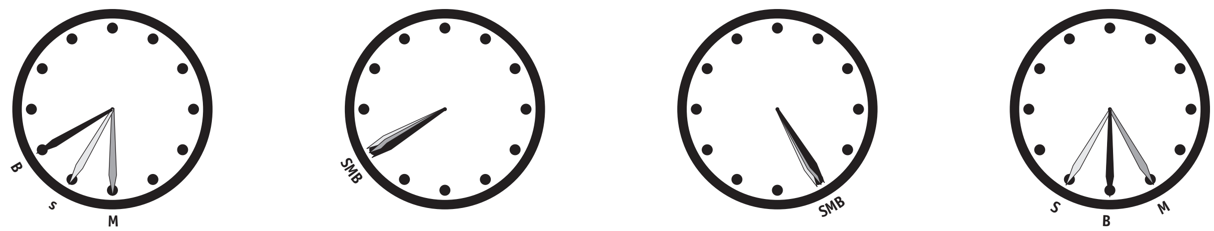


Responses are in hours, eg, 4 o'clock or 12 o'clock

Commercial, industrial, retail and residential property in all three cities is seen as currently being stalled at or near the bottom of the property cycle and is predicted to advance slowly along the cycle over the next two years. Sydney and Brisbane are seen as advancing further along the cycle than Melbourne over the next two years for commercial, retail and residential property. Over the next two years, industrial property is seen further along the upswing for Brisbane than Sydney and Melbourne and retail and residential property are predicted to be the least advanced of the four property types along the upswing for the three cities.

2012 - Current Time

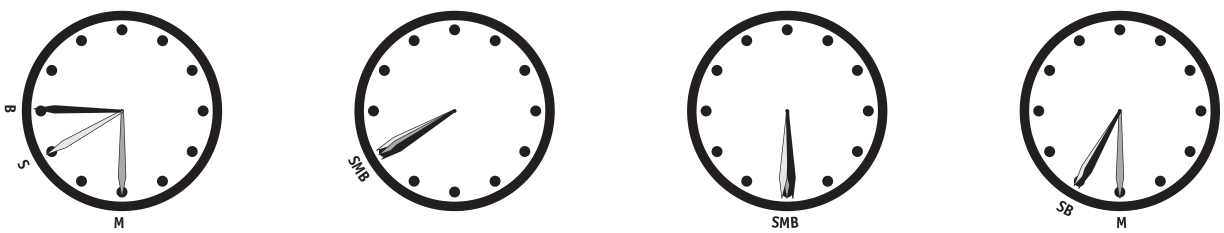
Currently commercial property in Sydney and Brisbane is seen as having commenced the upswing with Melbourne at the bottom of the cycle. Industrial property in all three cities is seen as on the upswing. Retail property is seen as nearing the bottom of the cycle in all three cities. Residential property in Sydney is seen as commencing the upswing whereas Brisbane is at the bottom of the cycle and Melbourne is yet to reach the bottom of the cycle.



	Commercial	Industrial	Retail	Residential
Sydney	7	8	5	7
Melbourne	6	8	5	5
Brisbane	8	8	5	6

2013 - 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 commercial property is seen at the bottom of the cycle. Industrial property in Sydney and Melbourne is seen as remaining at the same stage along the upswing and Brisbane is seen to advance to the same stage of the upswing as the other two cities. Retail property in the 3 cities is seen as reaching the bottom of the cycle. Residential property is seen as having commenced the upswing in Sydney and Brisbane with Melbourne seen as reaching the bottom of the cycle.

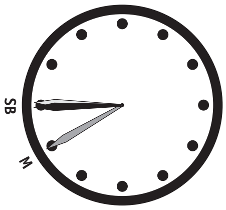


	Commercial	Industrial	Retail	Residential
Sydney	8	8	6	7
Melbourne	6	8	6	6
Brisbane	9	8	6	7

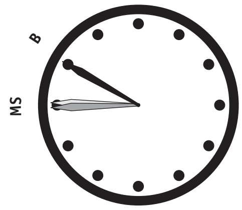
2014 - Two Year's Time

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

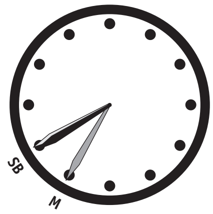
Commercial



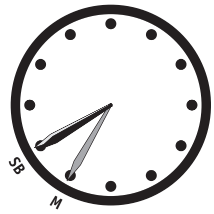
Industrial



Retail



Residential

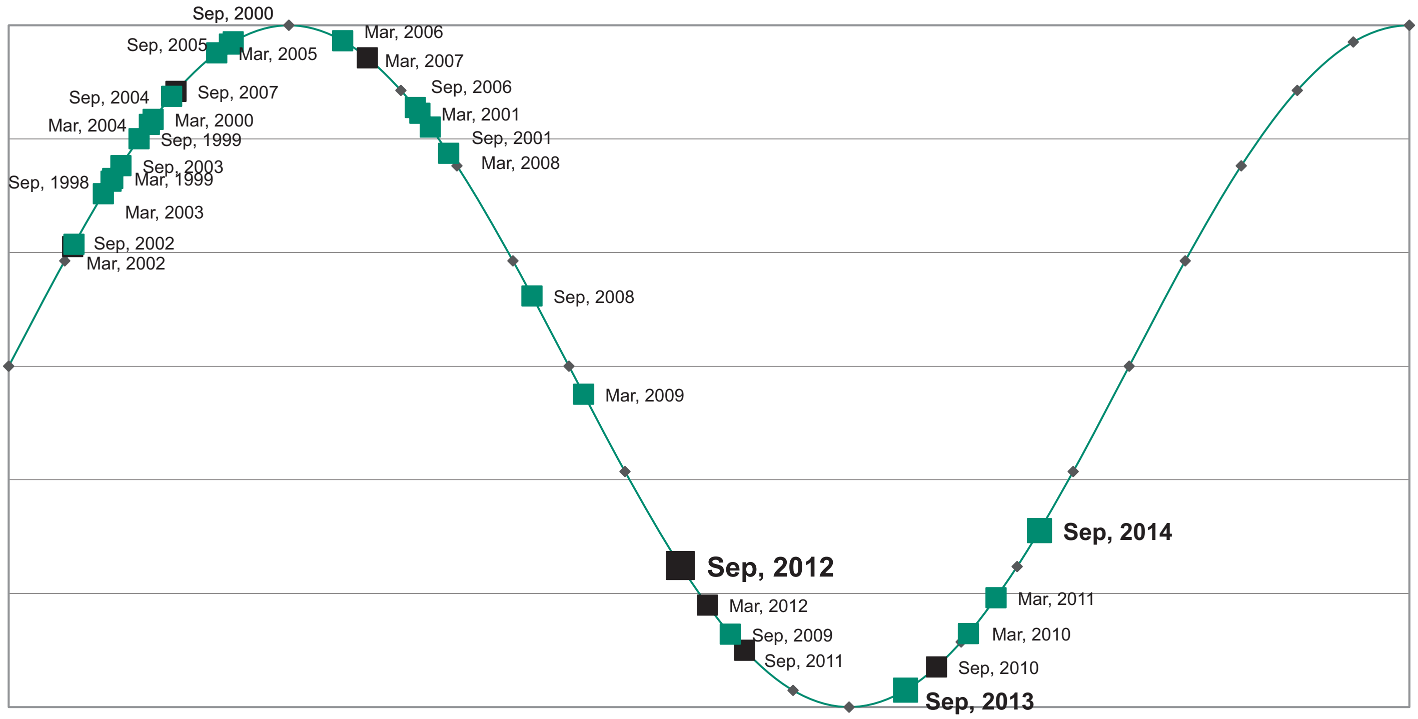


	Commercial	Industrial	Retail	Residential
Sydney	9	9	8	8
Melbourne	8	9	7	7
Brisbane	9	10	8	8

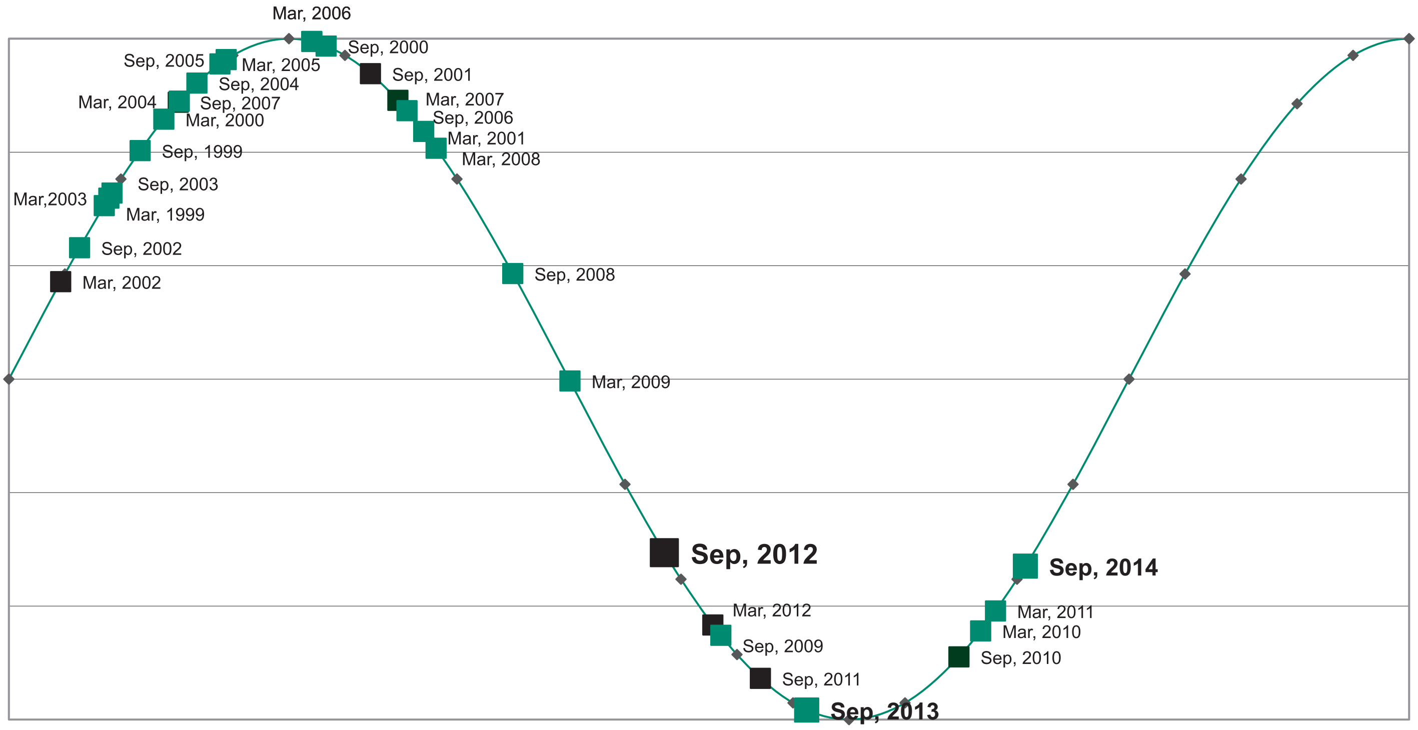
Retail Property Cycle Including Forecasts for Sydney, Melbourne and Brisbane

The graphs for retail property are similar for Sydney, Melbourne and Brisbane. The September 2012 predictions show retail property as not yet at the bottom of the cycle. Survey respondents see retail property moving slowly forward to the bottom of the cycle in about one year's time and then moving into the upswing over the next 1 to 2 years.

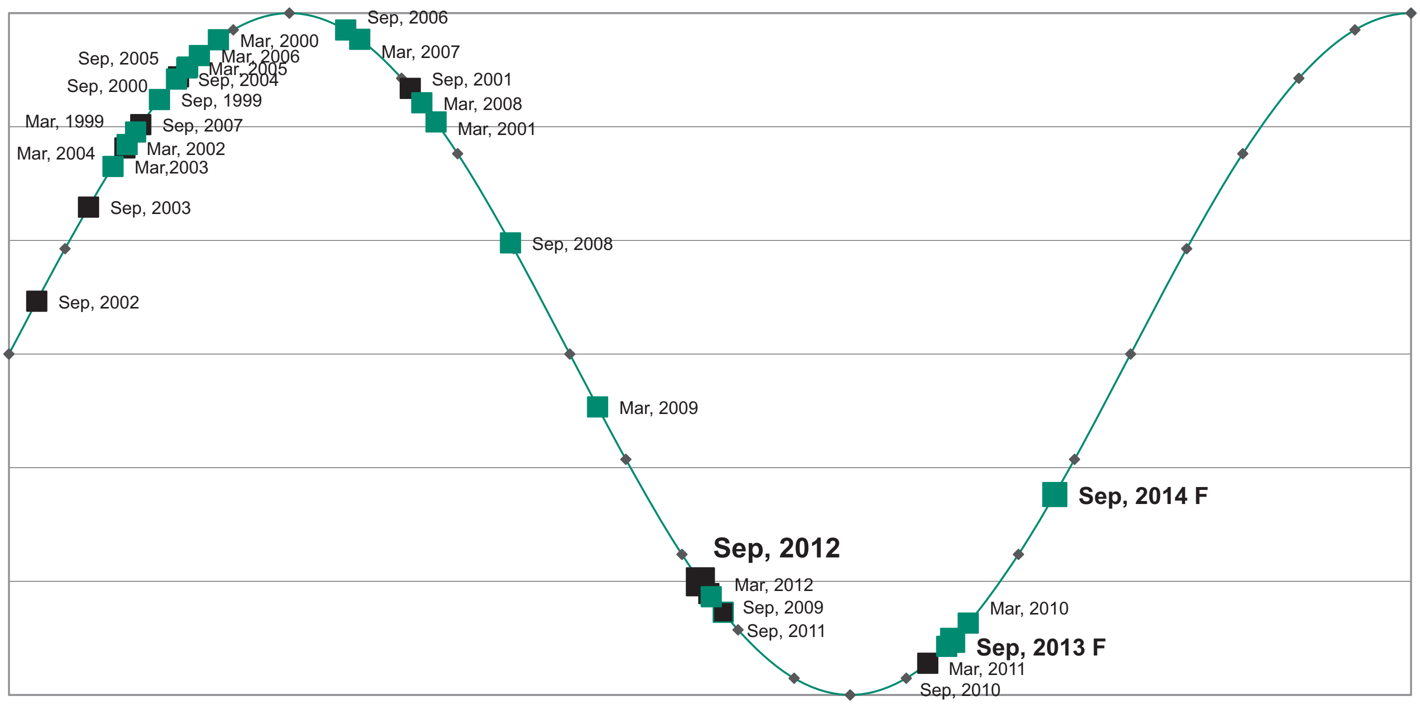
Sydney Retail Property Cycle
1998 - 2012
(with Forecasts for 2013 and 2014)



Melbourne Retail Property Cycle
1999 - 2012
(with Forecasts for 2013 and 2014)



Brisbane Retail Property Cycle
1999 - 2012
(with Forecasts for 2013 and 2014)



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. The trend is towards a slight increase for invested capital for domestic listed and unlisted trusts / syndicates compared to the April forecast.

Respondents are even less certain than six months ago in relation to international listed trusts with the majority of respondents split between moderate investment decline to moderate investment growth. Compared to six months ago, a majority now see no investment change for international unlisted trusts and syndicates.

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

	Strong Investment Decline	Moderate Investment Decline	No Investment Change	Moderate Investment Growth	Strong Investment Growth
Listed					
Domestic	0 (0)	14 (23)	27 (23)	**59** (**54**)	0 (0)
International	0 (3)	31 (27)	**38** (27)	28 (**33**)	3 (10)
Unlisted / Syndicates					
Domestic	0 (0)	7 (10)	24 (30)	**66** (**57**)	3 (3)
International	0 (3)	10 (13)	**59** (37)	28 (**40**)	3 (7)

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

Predictions are not as varied as in April, with most respondents seeing non-residential property performing the same or likely higher that the equity market over one year. While predictions remain more uncertain for the three to five year periods, there is a leaning towards the property sector not outperforming the equity market.

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

	Very Unlikely	Unlikely	Same	Likely	Very Likely
One year	0 (0)	14 (30)	**48** (27)	38 (**40**)	0 (3)
3 years	0 (0)	35 (**40**)	24 (30)	**41** (30)	0 (0)
5 years	0 (0)	**41** (33)	28 (**47**)	31 (20)	0 (0)

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

Market values and market rentals for commercial property in Brisbane are predicted to increase in the next 12 months with both predicted to have smaller increases in Sydney but slight reductions are predicted in both for Melbourne.

Market values and rentals are predicted to increase for Sydney and Brisbane industrial property with smaller increases predicted for Melbourne industrial property.

Predictions for retail property are the worst for the three property classes with respondents predicting decreases in market values and rentals for the next 12 months in the three cities. However, the decreases in market values and market rentals for Brisbane are slightly smaller than for Sydney and Melbourne. Decreases in market value for retail property in the three cities are predicted to be smaller than six months ago.

Percentage Projections Above CPI for Sydney Over Next 12 Months September 2012 (April 2012)				
SYDNEY				
	Commercial			
	CBD	Suburban CBDs	Industrial	Retail
Market Value	1.3 (1.4)	0.2 (-0.1)	1.6 (1.5)	-1.2 (-1.9)
Market Rental	0.9 (1.9)	0.1 (0.3)	1.1 (1.3)	-2.0 (-2.2)
MELBOURNE				
	Commercial			
	CBD	Suburban CBDs	Industrial	Retail
Market Value	-0.2 (1.7)	-0.5 (0.1)	0.7 (0.9)	-1.3 (-1.9)
Market Rental	-0.2 (1.9)	-0.5 (0.4)	0.3 (0.7)	-2.5 (-2.3)
BRISBANE				
	Commercial CBD		Industrial	Retail
Market Value	2.1 (3.0)		1.7 (1.8)	-0.4 (-1.1)
Market Rental	2.1 (2.9)		1.0 (1.7)	-1.2 (-1.3)

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

For the next six months, 73% of respondents see stable effective rents for Sydney while respondents are more evenly split on whether effective rents will be stable or rise in Brisbane. 54% of respondents see declining effective rents in Melbourne with a leaning of 42% to stable effective rents.

Respondents are more evenly split for the 12 month period between predicting stable to increasing effective rents for Sydney whereas in Brisbane, the majority of respondents still see effective rents increasing over the next 12 months. The majority of respondents predict stable effective rents for Melbourne in the next 12 months with a leaning to declining rents.

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

Forecast Movements in Effective Rents September 2012 (April 2012) Percentage Responses			
	Declining	Stable	Increasing
6 months			
Sydney	17 (7)	**73** (53)	10 (40)
Melbourne	**54** (4)	42 (**65**)	4 (31)
Brisbane	8 (3)	44 (**52**)	48 (45)
12 months			
Sydney	7 (3)	**48** (23)	45 (**74**)
Melbourne	31 (0)	**61** (42)	8 (**58**)
Brisbane	8 (0)	32 (24)	**60** (**76**)

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.

Overall since April, the biggest changes to lease incentives have been for lower grade properties with a slight trend to higher incentives except for Perth prime and A grade property and Brisbane prime property. Overall, there is a trend for lease incentives to have increased for Sydney and Melbourne CBDs, decreased for prime Brisbane property and remained low for Perth prime and A grade property. Lease incentives for Adelaide, Canberra and Hobart remain more varied and remain in the 10-29% range.

A larger majority of respondents than in April see incentives for prime commercial property in the Sydney CBDs being in the 20-29% range. Smaller majorities of respondents see leasing incentive levels in the 20-29% range for lower grade property in Sydney CBDs largely due to increases in the ≥ 30% incentive range.

A smaller majority of respondents see prime property in the Melbourne CBD as having lease incentive levels in the 10-19% range than six months ago. There is a leaning to incentive levels of 20-29% for prime property in the Melbourne CBD. A grade and lower grade property in the Melbourne CBD and Suburban CBDs are seen to increase to the 20-29% lease incentive range.

48% of respondents see lease incentives in the 20-29% range for prime property in Brisbane with 44% seeing incentives in the 10-19% range, that is, incentive levels are seen to be trending down for prime property. The majority of respondents see Brisbane incentives in the 20-29% range for A Grade and lower grade property.

Perth is still seen as having the lowest level of lease incentives compared to the other major cities with the majority of respondents seeing incentives in the 0-9% range for Prime and A Grade property. Most respondents see lease incentive levels for lower grade property in Perth in the 0-19% range.

Adelaide and Canberra lease incentives for commercial property are seen to be generally in the 10-19% range but now with leanings to the 20-29% range.

Respondents still have more varied views for Hobart, with incentives seen as mainly in the 10-29% range.

Leasing Incentives in Current Commercial Leasing Market
September 2012 (April 2012)
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 (7)	34 (33)	**66** (**60**)	0 (0)
A Grade	0 (3)	10 (10)	**90** (**87**)	0 (0)
Lower Grade	0 (3)	14 (3)	**57** (**70**)	29 (24)
Sydney Suburban CBD				
Prime	0 (7)	19 (31)	**74** (**59**)	7 (3)
A Grade	0 (3)	11 (21)	**75** (**69**)	14 (7)
Lower Grade	0 (3)	7 (14)	**56** (**59**)	37 (24)
Melbourne CBD				
Prime	8 (15)	**61** (**77**)	31 (8)	0 (0)
A Grade	4 (8)	38 (**69**)	**58** (23)	0 (0)
Lower Grade	0 (8)	36 (**50**)	**52** (42)	12 (0)
Melbourne Suburban CBD				
Prime	8 (4)	42 (**67**)	**50** (29)	0 (0)
A Grade	8 (4)	32 (**59**)	**60** (33)	0 (4)
Lower Grade	4 (4)	26 (**48**)	**57** (**48**)	13 (0)
Brisbane CBD				
Prime	8 (11)	44 (37)	**48** (**52**)	0 (0)
A Grade	8 (4)	20 (33)	**72** (**63**)	0 (0)
Lower Grade	4 (4)	25 (29)	**54** (**52**)	17 (15)
Perth CBD				
Prime	**68** (**69**)	32 (27)	0 (4)	0 (0)
A Grade	**60** (**61**)	32 (35)	8 (4)	0 (0)
Lower Grade	**44** (38)	40 (**46**)	16 (12)	0 (4)
Adelaide CBD				
Prime	0 (0)	**68** (**70**)	32 (30)	0 (0)
A Grade	0 (0)	**59** (**57**)	41 (43)	0 (0)
Lower Grade	0 (4)	**50** (39)	45 (**44**)	5 (13)
Canberra CBD				
Prime	9 (12)	**59** (**67**)	32 (17)	0 (4)
A Grade	9 (13)	**52** (**58**)	30 (25)	9 (4)
Lower Grade	4 (4)	**39** (**50**)	35 (25)	22 (21)
Hobart CBD				
Prime	12 (15)	41 (40)	**47** (**45**)	0 (0)
A Grade	12 (15)	35 (35)	**47** (**50**)	6 (0)
Lower Grade	12 (20)	29 (**30**)	**47** (**30**)	12 (20)

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 and 12 month periods and higher over the three year period.

Inflation
A majority of respondents see inflation as similar in the 6 and 12 month periods and higher over the three year period.

Foreign Investment
A majority of respondents see foreign investment as similar with a leaning to higher 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 lower levels whereas, for the 12 month period, business confidence predictions are for similar levels with a leaning to higher levels. The majority of respondents see higher business confidence levels for the 3 year period.

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

	Lower	Similar	Higher
Interest Rates			
6 months	**52 (47)**	48 (43)	0 (10)
1 year	**52 (43)**	45 (37)	3 (20)
3 years	10 (7)	35 (40)	**55 (53)**
Inflation			
6 months	24 (23)	**69 (70)**	7 (7)
1 year	7 (17)	**69 (63)**	24 (20)
3 years	3 (14)	28 (**43**)	**69 (43)**
Foreign Investment			
6 months	14 (13)	**59 (54)**	27 (33)
1 year	7 (7)	**55** (40)	38 (**53**)
3 years	24 (20)	35 (33)	**41 (47)**
Bus. Confidence			
6 months	28 (33)	**69 (60)**	3 (7)
1 year	10 (13)	**59 (50)**	31 (37)
3 years	4 (3)	24 (13)	**72 (84)**

Respondents to the Survey

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

AMP Capital
Ashe Morgan
ANZ Bank
Bankwest
CBRE
Charter Hall
Colonial First State Global Asset Management
Commonwealth Bank of Australia
Commonwealth Superannuation Corporation
Cushman and Wakefield
DEXUS Property Group
DTZ Australia
Ernst & Young
GE Capital Real Estate
Goldman Sachs & Partners (Australia)
Goodman
Herron Todd White
Investa Property Group
Jones Lang LaSalle
Knight Frank Valuations
m3property
Macquarie Capital
Merrill Lynch
Mirvac Group
National Australia Bank
Preston Rowe Paterson
Propell National Valuers
Resolution Capital
Savills
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 Senior Vice President.

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