The Australian Property Institute Inc.

Australian Property Directions Survey

OCTOBER 2014

This is the 33rd 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.

Significant Drivers for Increased Demand and Prices for Residential Property Sydney, Melbourne, Brisbane and Perth

Significant Drivers for Increased Demand and Prices for Residential Property Sydney October 2014 (May 2014) Percentage of Respondents					
	Very Insignificant	**Insignificant**	**Neutral**	**Significant**	**Very Significant**
Foreign Investment	0 (0)	0 (4)	4 (8)	46 **(50)**	**50** (38)
Negative Gearing for Self Managed Super Funds (SMSF)	0 (0)	4 (13)	25 (37)	**58 (46)**	13 (4)
Non SMSF Negative Gearing	0 (0)	4 (8)	33 (28)	**63 (56)**	0 (8)
Supply	0 (0)	4 (8)	25 (12)	**46 (64)**	25 (16)

96% of respondents in October see foreign investment as a significant to very significant driver for increased demand and prices for Sydney residential property which is up from the May figure of 88% respondents. Supply has decreased since May with 71% of respondents in October seeing supply as a significant to very significant driver whereas 80% had that view previously. Negative gearing for SMSFs and non SMSF negative gearing are also seen by a majority albeit a smaller majority of respondents as drivers of increased demand and prices for Sydney residential property.

Significant Drivers for Increased Demand and Prices for Residential Property Melbourne October 2014 (May 2014) Percentage of Respondents					
	Very Insignificant	**Insignificant**	**Neutral**	**Significant**	**Very Significant**
Foreign Investment	0 (0)	0 (5)	5 (23)	**54 (45)**	41 (27)
Negative Gearing for Self Managed Super Funds (SMSF)	0 (0)	9 (14)	23 (38)	**59 (43)**	9 (5)
Non SMSF Negative Gearing	0 (0)	9 (4)	32 (32)	**59 (59)**	0 (5)
Supply	5 (0)	5 (4)	27 (41)	**45** (50)	18 (5)

95% of respondents in October see foreign investment as a significant to very significant driver for increased demand and prices for Melbourne residential property which is significantly higher than in May when the figure was 72% of respondents. Negative Gearing for SMSFs has also had a significant increase since May as 68% of respondents now view it as a significant to very significant driver whereas the previous figure was 48% of respondents. In October, there has been a small percentage increase from 55% to 63% in respondents viewing supply as a significant to very significant driver for increased demand and prices for Melbourne residential property. Numbers of respondents viewing non SMSF negative gearing as a significant to very significant driver for demand and prices for Melbourne residential property have decreased from May to October, decreasing from 64% to 59%.

Significant Drivers for Increased Demand and Prices for Residential Property **Brisbane** October 2014 (May 2014) Percentage of Respondents					
	Very Insignificant	**Insignificant**	**Neutral**	**Significant**	**Very Significant**
Foreign Investment	0 (5)	5 (0)	27 (**43**)	**50 (43)**	18 (9)
Negative Gearing for Self Managed Super Funds (SMSF)	0 (0)	9 (14)	27 (**43**)	**55 (43)**	9 (0)
Non SMSF Negative Gearing	0 (0)	9 (5)	41 (43)	**50 (52)**	0 (0)
Supply	5 (0)	9 (14)	32 (**43**)	**45 (43)**	9 (0)

Respondents' views on the main drivers for increased demand and prices for Brisbane residential property are more varied, however similarly to Sydney and Melbourne, foreign investment is viewed as the main driver with 68% of respondents seeing it as significant to very significant in October. Negative gearing for SMSFs is the next most important driver in October with 64% of respondents rating it as significant to very significant. Non SMSF negative gearing and supply are seen by about 50% of respondents as being significant to very significant drivers.

Significant Drivers for Increased Demand and Prices for Residential Property **Perth** October 2014 (May 2014) Percentage of Respondents					
	Very Insignificant	**Insignificant**	**Neutral**	**Significant**	**Very Significant**
Foreign Investment	0	10	35	**40**	15
Negative Gearing for Self Managed Super Funds (SMSF)	0	10	35	**50**	5
Non SMSF Negative Gearing	0	5	45	**50**	0
Supply	5	10	30	**50**	5

This was the first time that Perth has been included in this question in the survey. Respondents' views on the drivers of demand and prices for Perth residential property are more varied than for Sydney, Melbourne and Brisbane. Similarly to the other three cities, foreign investment is seen as the main driver albeit with a smaller majority of 55% rating it as significant to very significant. About 50% of respondents see negative gearing for SMSFs and non SMSF investments and supply as being significant to very significant drivers.

In addition to the factors of foreign investment, SMSF negative gearing, non SMSF negative gearing and supply, a number of respondents reported that low interest rates were a significant driver for increased demand and prices in the four cities.

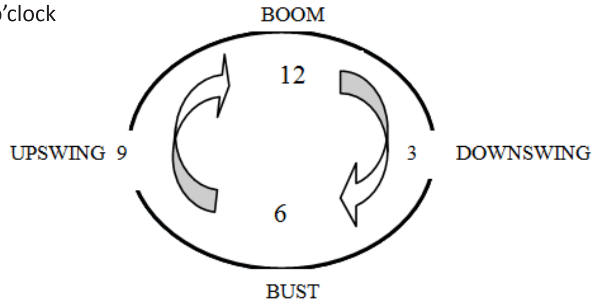
Growth Forecasts for Types of Retail over next 3 to 5 Years **(Over 5+ years)** October 2014 Percentage of Respondents					
	Very Poor	**Poor**	**Neutral**	**Good**	**Very Good**
Regional	0 (0)	0 (4)	16 (16)	**72 (76)**	12 (4)
Sub-regional	0 (0)	4 (0)	24 (36)	**64 (56)**	8 (8)
Strip / Neighbourhood	0 (0)	16 (16)	**40 (48)**	36 (36)	8 (0)
Internet	0 (0)	0 (0)	16 (20)	**56 (48)**	28 (32)

Respondents see regional and Internet retail as having the strongest growth over the next three to five years as well as over the five plus year period with 84% and 80% respectively forecasting good to very good growth. Sub-regional retail is forecast by 72% of respondents as having good to very good growth over the next three to five years but this decreases to 64% for the five plus year period. Strip and neighbourhood retail is seen as having the lowest growth forecasts with 76% of respondents rating growth from neutral to good over the next three to five years and with a slightly better outlook of 84% neutral to good growth in the five plus year period.

Property Time Clock - Sydney, Melbourne and Brisbane

Property Clock Key

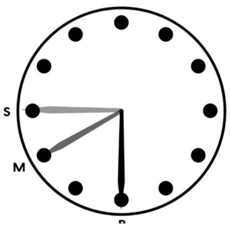
Responses are in hours, eg, 4 o’clock or 12 o’clock



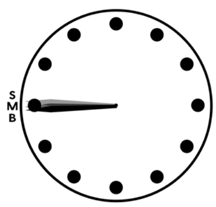
2014 - Current Time

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.

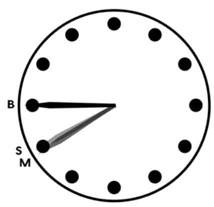
Commercial



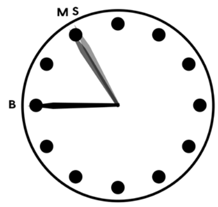
Industrial



Retail



Residential

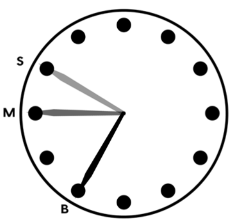


Sydney	9	9	8	11
Melbourne	8	9	8	11
Brisbane	6	9	9	9

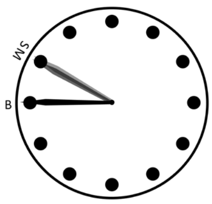
2015 - One Year’s Time

In 2015, commercial property in Sydney, Melbourne and Brisbane are 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.

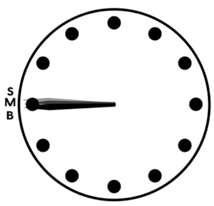
Commercial



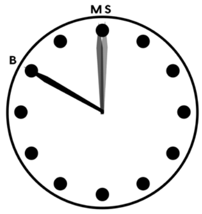
Industrial



Retail



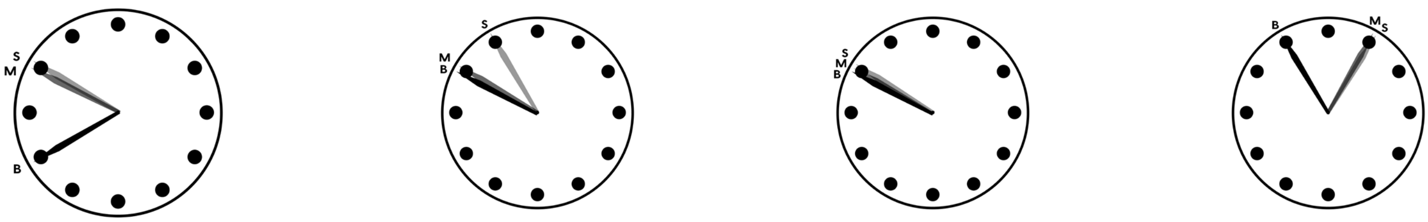
Residential



Sydney	10	10	9	12
Melbourne	9	10	9	12
Brisbane	7	9	9	10

2016 - Two Years' Time

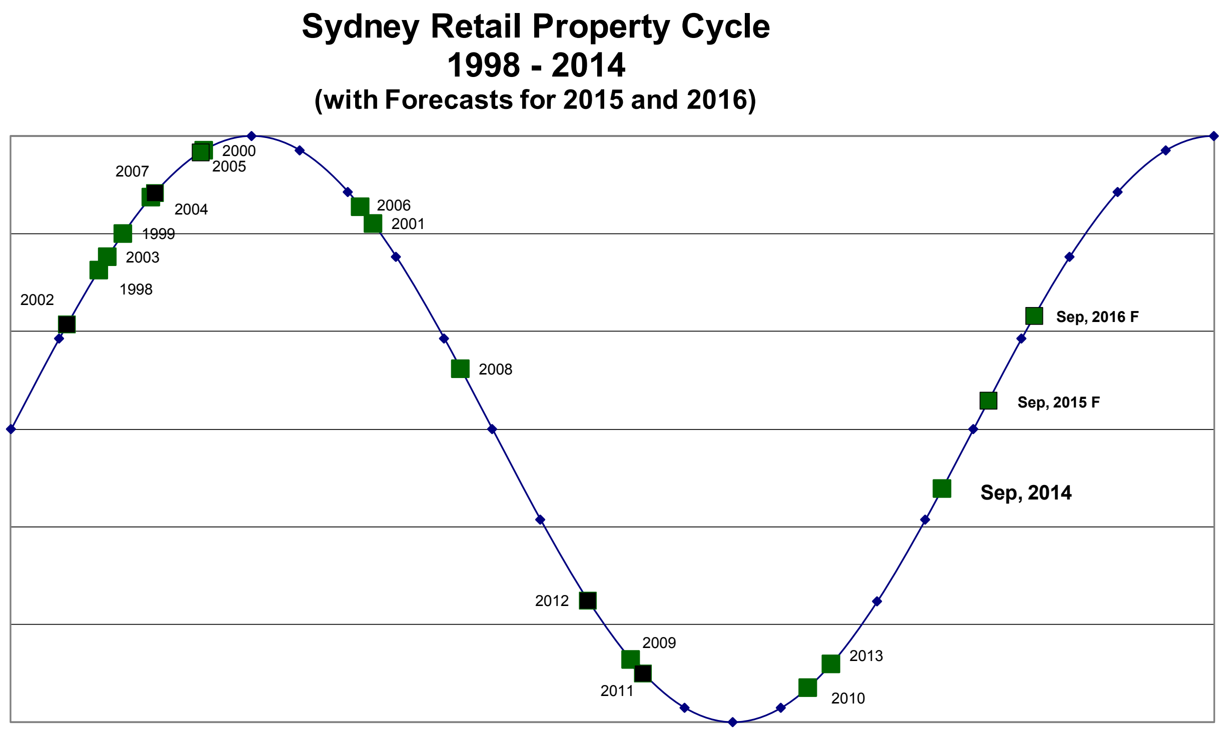
In 2016, all property classes in Sydney, Melbourne and Brisbane are expected to be more advanced along the upswing, except for Melbourne industrial property which is seen as remaining at the same stage of the property cycle as in 2015 and Sydney residential property which is seen as commencing the downswing.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



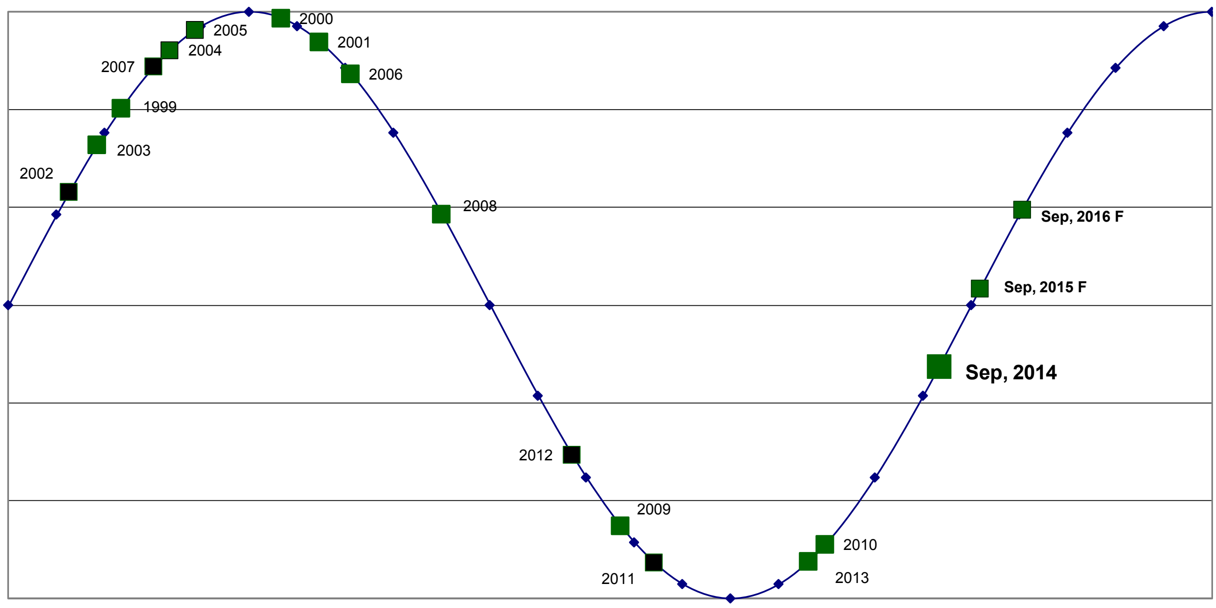
	Commercial	Industrial	Retail	Residential
Sydney	10	11	10	1
Melbourne	10	10	10	1
Brisbane	8	10	10	11

Residential Property Cycle Including Forecasts for Sydney, Melbourne and Brisbane

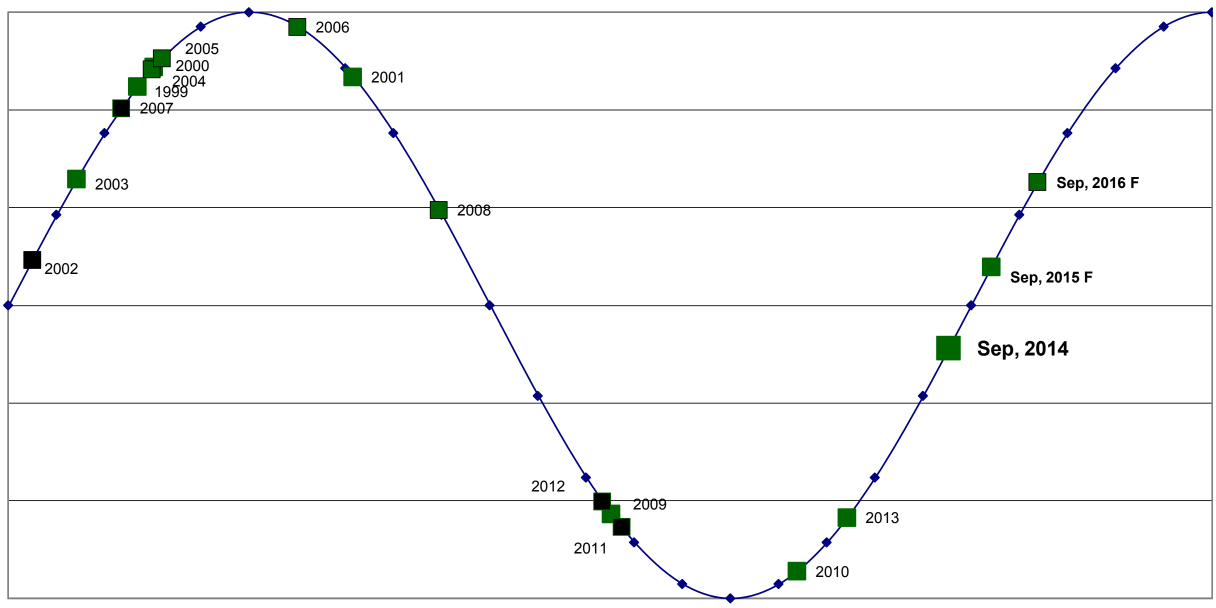
All three retail property markets are seen to be progressing steadily on the up-swing of the cycle over the next two years.



Melbourne Retail Property Cycle
1999 - 2014
(with Forecasts for 2015 and 2016)



Brisbane Retail Property Cycle
1999 - 2014
(with Forecasts for 2015 and 2016)



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

Change in Invested Capital for Listed and Unlisted Trusts / Syndicates Over Next 12 Months October 2014 (May 2014) Percentage of Respondents					
	Strong Investment Decline	Moderate Investment Decline	No Investment Change	Moderate Investment Growth	Strong Investment Growth
Listed					
Domestic	0 (0)	4 (4)	4 (11)	**72 (59)**	20 (26)
International	0 (0)	8 (11)	**40** (30)	36 (**48**)	16 (11)
Unlisted / Syndicates					
Domestic	0 (0)	0 (0)	8 (4)	**76 (70)**	16 (26)
International	0 (0)	0 (4)	**44** (41)	32 (**44**)	24 (11)

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 small majority of 52% of respondents expect at least moderate investment growth in international listed trusts over the next 12 month and 56% expect at least moderate growth for international unlisted trusts and syndicates in the next 12 months.

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

Likelihood of Non-Residential Property Sector Out Performing Equity Markets October 2014 (May 2014) Percentage of Respondents					
	Very Unlikely	Unlikely	Same	Likely	Very Likely
One year	0 (11)	28 (**41**)	**40** (33)	32 (15)	0 (0)
3 years	0 (0)	**40 (41)**	20 **(41)**	**40** (18)	0 (0)
5 years	0 (0)	32 (30)	**36 (41)**	32 (29)	0 (0)

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.

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

Percentage Projections Above CPI Over Next 12 Months October 2014 (May 2014)				
SYDNEY				
	Commercial			
	CBD	Suburban CBDs	Industrial	Retail
Market Value	3.0 (1.2)	1.6 (0.4)	2.7 (1.8)	2.4 (1.0)
Market Rental	-0.1 (-1.3)	0 (-1.3)	0.8 (0.6)	-0.7 (-0.6)
MELBOURNE				
	Commercial			
	CBD	Suburban CBDs	Industrial	Retail
Market Value	2.3 (1.3)	1.8 (0.0)	2.4 (1.4)	2.0 (0.3)
Market Rental	-0.2 (-1.0)	-0.5 (-1.2)	0.5 (0.3)	0.1 (-1.0)
BRISBANE				
	Commercial CBD		Industrial	Retail
Market Value	-0.3 (-1.3)		2.2 (1.0)	1.6 (0.2)
Market Rental	-2.3 (-3.2)		0.5 (0.5)	-0.3 (-0.5)

Respondents see an improved outlook for all property types in Sydney, Melbourne and Brisbane.

Over the next 12 months, market values for Sydney CBD and suburban CBD commercial property, and Sydney industrial and retail property, are predicted to increase at faster rates than predicted in May. Market rents for Sydney CBD commercial property are expected to decline at a slower rate than predicted in May and market rents for Sydney suburban CBD commercial property are viewed as remaining the same. Market rents for Sydney industrial property will increase at a slightly faster rate than six months ago whereas retail market rents are viewed as declining over the next 12 months.

Market values are expected to increase at a faster rate than predicted in May for Melbourne CBD and Suburban CBD commercial, industrial and retail property. Market rents for Melbourne CBD and suburban CBD commercial property are expected to decline but at a slower rate than in May while increasing slowly for industrial and retail property.

In Brisbane, market values for industrial and retail property are predicted to increase and at faster rates than in May. Market values and market rents for Brisbane commercial property are now expected to fall at a slower rate than predicted in May. Brisbane industrial market rents are expected to increase at the same rate as forecast in May and Brisbane retail market rents are expected to fall but at a slower rate than predicted in May.

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

Forecast Movements in Effective Rents INSERT MONTH OF THIS SURVEY (INSERT PREVIOUS SURVEY MONTH + YEAR) Percentage Responses			
	Declining	**Stable**	**Increasing**
6 months			
Sydney	30 (38)	**44 (62)**	26 (0)
Melbourne	27 (30)	**46 (70)**	27 (0)
Brisbane	**65 (70)**	35 (30)	0 (0)
12 months			
Sydney	22 (31)	30 **(38)**	**48** (31)
Melbourne	23 (17)	36 **(57)**	**41** (26)
Brisbane	**52 (48)**	48 **(48)**	0 (4)

For the next six months, respondents are uncertain about movements in effective rents for Sydney and Melbourne but there is a leaning towards stable effective rents. A majority of respondents see declining effective rents for Brisbane similarly to the May survey.

For the next 12 months, respondents are uncertain about movements in effective rents for Sydney and Melbourne but there is a leaning to increasing rents. Respondents remain evenly split between predicting stable and declining effective rents for Brisbane for the next 12 months however there is a slight leaning to declining effective rents.

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, Adelaide, Canberra and Hobart markets.

Overall respondents' views on lease incentives have become more uniform for the three property types of prime, A grade and lower grade, that is, respondents have not indicated significant variations in the level of lease incentives for the three types of property.

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 majority of respondents see Sydney suburban CBD lease incentives as ranging between 20-29% but with a leaning to ≥ 30% levels for lower grade property.

The majority of respondents see Melbourne CBD and suburban CBD prime, A grade and lower grade property leasing incentive levels in the range of 20-29%.

Brisbane CBD prime, A grade and lower grade property is seen as being in the ≥ 30% range of lease incentives but there is a leaning to the 20-29% for prime property.

The majority of respondents see leasing incentives for prime, A grade and lower grade property in Perth to be in the 20-29% range with leanings to ≥ 30%.

A small majority of respondents see lease incentives for Adelaide prime, A grade and lower grade property as being in the 20 – 29% range but there are leanings to the 10-19% level for prime and A grade property and a leaning to ≥ 30% for lower grade property.

A small majority of respondents see lease incentives for Canberra prime, A grade and lower grade property as being in the 20 – 29% range property but there are leanings to the 10-19% level for prime and A grade property and evenly split leanings to the 10-19% range and the ≥ 30% range for lower grade property.

Respondents are uncertain about leasing levels in Hobart with respondents fairly evenly split from 10-19% to ≥ 30% levels for prime, A grade and lower grade property.

Leasing Incentives in Current Commercial Leasing Market October 2014 (May 2014) 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)	12 (23)	42 (35)	**46 (42)**
A Grade	0 (0)	8 (8)	42 (42)	**50 (50)**
Lower Grade	0 (0)	4 (8)	39 (31)	**57 (61)**
Sydney Suburban CBD				
Prime	0 (0)	13 (28)	**74 (52)**	13 (20)
A Grade	0 (0)	4 (20)	**74 (52)**	22 (28)
Lower Grade	0 (4)	9 (8)	**56 (44)**	**35 (44)**
Melbourne CBD				
Prime	0 (0)	19 (39)	**67 (44)**	14 (17)
A Grade	0 (0)	10 (22)	**75 (61)**	15 (17)
Lower Grade	0 (4)	9 (13)	**67 (44)**	24 (39)
Melbourne Suburban CBD				
Prime	0 (0)	15 (43)	**75 (52)**	10 (5)
A Grade	0 (5)	10 (19)	**70 (67)**	20 (9)
Lower Grade	0 (5)	10 (19)	**70 (43)**	20 (33)
Brisbane CBD				
Prime	0 (0)	4 (9)	39 (**52**)	**57** (39)
A Grade	0 (0)	0 (9)	35 (39)	**65 (52)**
Lower Grade	0 (0)	0 (9)	**26** (13)	**74 (78)**
Perth CBD				
Prime	0 (0)	5 (39)	**70 (52)**	25 (9)
A Grade	0 (0)	5 (17)	**60 (74)**	35 (9)
Lower Grade	0 (4)	0 (9)	**65 (52)**	35 (35)
Adelaide CBD				
Prime	0 (0)	35 (**64**)	**55** (36)	10 (0)
A Grade	0 (5)	30 (36)	**50 (50)**	20 (9)
Lower Grade	0 (5)	15 (27)	**55 (45)**	30 (23)
Canberra CBD				
Prime	0 (9)	30 (41)	**55 (45)**	15 (5)
A Grade	0 (4)	30 (**41**)	**50 (41)**	20 (14)
Lower Grade	0 (4)	25 (32)	**50 (41)**	25 (23)
Hobart CBD				
Prime	0 (18)	**38 (37)**	31 (36)	31 (9)
A Grade	0 (18)	**38 (37)**	31 (18)	31 (27)
Lower Grade	0 (18)	**38 (37)**	31 (9)	31 (36)

Economic settings - major factors impacting on the economy

Economic Settings – Major Factors Impacting on the Economy May 2014 (October 2013) Percentage of Respondents			
	Lower	Similar	Higher
Interest Rates			
6 months	4 (0)	**96 (96)**	0 (4)
1 year	4 (0)	**48** (38)	**48 (62)**
3 years	0 (0)	4 (4)	**96 (96)**
Inflation			
6 months	8 (4)	**84 (85)**	8 (11)
1 year	0 (4)	**68 (58)**	32 (38)
3 years	0 (0)	32 (27)	**68 (73)**
Foreign Investment			
6 months	0 (4)	44 **(61)**	**56** (35)
1 year	4 (12)	40 **(50)**	**56** (38)
3 years	32 (35)	**36 (42)**	32 (23)
Bus. Confidence			
6 months	12 (4)	**76 (61)**	12 (35)
1 year	8 (8)	**48** (31)	44 **(61)**
3 years	16 (8)	36 (23)	**48 (69)**

Interest rates

The vast majority of respondents see interest rates as being similar for the 6 month period but with respondents more evenly split between similar to higher 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 period. A smaller majority see inflation as similar in 12 months but with a leaning to higher levels and for the three year period the forecast is for inflation to be higher but with a leaning to similar levels.

Foreign Investment

A small majority of respondents see foreign investment as higher in the 6 and 12 month periods, however respondents are 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 months are for similar levels. Respondents are more evenly split between similar and higher levels for business confidence for the 12 month period. Respondents are more uncertain for the 3 year period but have a leaning to higher levels.

Respondents to the Survey

The Institute appreciates the continued support of the following survey respondents

Abacus Property Group
ANZ
Ashe Morgan
CBRE
Chesterton International
CFS Retail Property Trust Group
Colliers International
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 Group
Mirvac Group
National Australia Bank
Preston Rowe Paterson
Propell National Valuers

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
Leading the property professions

New South Wales Division *ABN: 49 007 505 866*
Level 3, 60 York Street, Sydney NSW 2000
T: (02) 9299 1811 F: (02) 9299 1490 nsw@api.org.au www.nsw.api.org.au