The Australian Property Institute Inc.
Australian Property Directions Survey

APRIL 2012

This is the 28th 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 Government incentives for the residential property development market, 86% of respondents rated them as moderately to extremely important.

Importance of Government Incentives for the Residential Development Market April 2012 Percentage of Respondents		
Not Important	Moderately Important	Extremely Important
14	47	39

Impact of Mandatory Disclosure of Energy Efficiency Ratings required for commercial office space above 2000 square metres

A smaller majority of survey respondents than in September, 2011 see nil impact in the short term (up to 12 months) from the mandatory disclosure of energy efficiency ratings for commercial office space above 2000 square metres on rent, leases, yields and returns to owners.

Over the longer term of 2 to 5 years, most respondents still predict a positive impact for rents, leases and yields with returns to owners seen as less influenced by the mandatory disclosure.

Impact of Mandatory Disclosure of Energy Efficiency Ratings required for Commercial Office space above 2000 square metres April 2012 (September 2011) Percentage of Respondents							
	Negative Impact			Nil Impact	Positive Impact		
	Minimal	Moderate	Significant		Minimal	Moderate	Significant
Rent							
Short term (up to 12 months)	7 (4)	7 (8)	0 (0)	61 (80)	21 (8)	4 (0)	0 (0)
Longer term (2 to 5 years)	11 (16)	4 (4)	0 (0)	33 (28)	26 (28)	26 (24)	0 (0)
Leases							
Short term (up to 12 months)	0 (9)	0 (0)	4 (4)	73 (65)	23 (22)	0 (0)	0 (0)
Longer term (2 to 5 years)	4 (18)	0 (5)	4 (0)	36 (32)	40 (27)	16 (18)	0 (0)
Yields							
Short term (up to 12 months)	4 (0)	4 (4)	0 (0)	64 (79)	28 (13)	0 (4)	0 (0)
Longer term (2 to 5 years)	4 (13)	8 (5)	0 (4)	36 (26)	32 (26)	20 (26)	0 (0)
Returns to Owner							
Short term (up to 12 months)	17 (8)	8 (8)	0 (0)	54 (59)	17 (21)	4 (4)	0 (0)
Longer term (2 to 5 years)	26 (18)	4 (17)	0 (0)	26 (26)	31 (22)	9 (17)	4 (0)

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

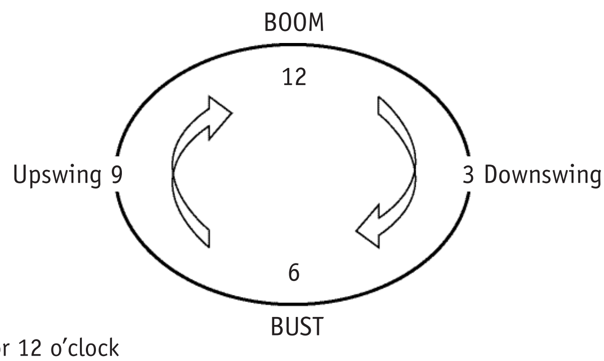
Half of the respondents see no change in gearing ratios from the continued re-assessment of risks in relation to property and property financing which included the two reductions in official interest rates in late 2011 and which included the position taken by the major Australian banks in relation to interest rates.

60% of respondents see higher financing costs resulting from the continued re-assessment of risks in relation to property and property financing. 53% of respondents see no change to the access of funds but there is a leaning to less funds being available with 40% of respondents indicating this.

Impacts on Gearing Ratios and Financing Costs of the continued re-assessment of risks in relation to property and property financing **April 2012 (September 2011) Percentage of Respondents**			
	Lower	**No Change**	**Higher**
Gearing ratios	43 (**50**)	**50** (36)	7 (14)
Financing costs (including interest rates)	7 (30)	33 (33)	**60** (**37**)
April 2012			
	Less Funds Available	**No Change**	**More Funds Available**
Access to funds	40	**53**	7

Property Time Clock - Sydney, Melbourne and Brisbane

Property Clock Key



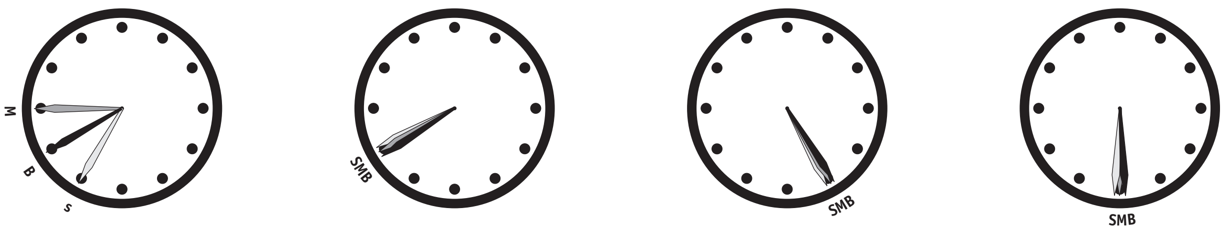
Responses are in hours, eg, 4 o'clock or 12 o'clock

Commercial, industrial, retail and residential property in all 3 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 2 years.

Similarly to the September, 2011 survey, all classes of property in all cities are seen as making only small forward progress on the upswing of the cycle over the next two years. Commercial property is seen to be progressing further along the upswing over the next two years than industrial, retail and residential property. Retail property is seen as being the least advanced along the upswing of the four property types. Over the next two years, Sydney and Brisbane residential property is seen to be advancing from the bottom of the cycle at a faster pace than in Melbourne.

2012 - Current Time

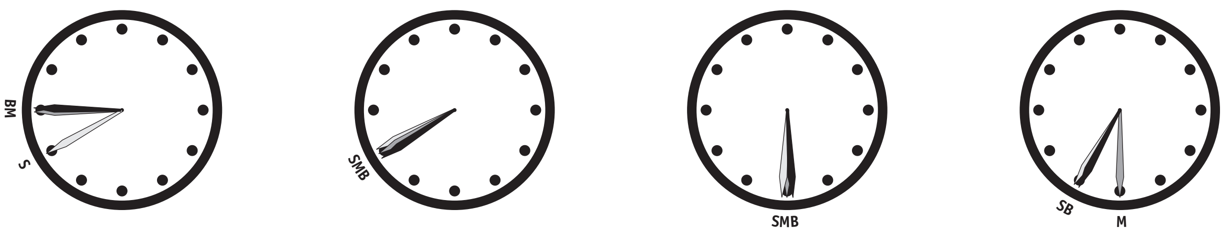
Similarly to September, 2011, currently commercial property in Sydney, Melbourne and Brisbane is seen as having commenced the upswing with Melbourne the most advanced along the upswing and industrial property in all 3 cities is also seen on the upswing of the cycle. While retail property was seen as having reached the bottom of the cycle in Sydney and Melbourne last September, respondents now see it as having further to go to reach the bottom of the cycle in all 3 cities. Residential property is seen in the 3 cities is seen as being at the bottom of the cycle.



	Commercial	Industrial	Retail	Residential
Sydney	7	8	5	6
Melbourne	9	8	5	6
Brisbane	8	8	5	6

2013 - One Year's Time

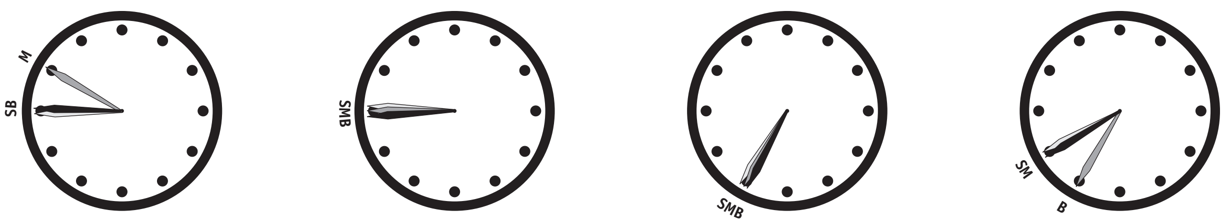
In one year's time, Commercial property In Sydney and Brisbane is seen as moving further along the upswing while Melbourne commercial property is seen at the same stage in the upswing. Industrial property in the 3 cities is seen as remaining at the same stage along the upswing. Retail property in the 3 cities is seen as reaching the bottom of the cycle. Residential property is seen as having commenced the upswing In Sydney and Brisbane but Melbourne is seen as remaining at the bottom of the cycle.



	Commercial	Industrial	Retail	Residential
Sydney	8	8	6	7
Melbourne	9	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 cycle, with the exception of Brisbane commercial which remains at the same stage of the cycle as in 2013. Melbourne Commercial property is predicted to be the most advanced along the upswing.

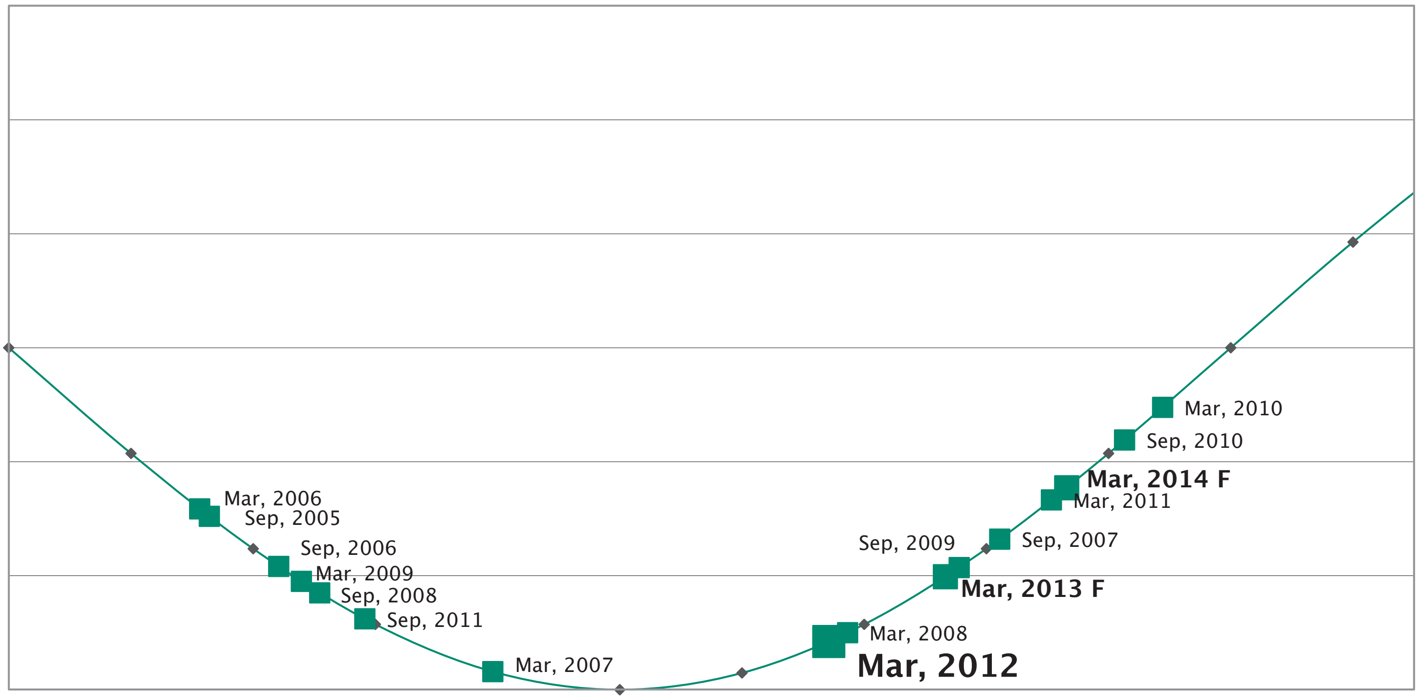


	Commercial	Industrial	Retail	Residential
Sydney	9	9	7	8
Melbourne	10	9	7	7
Brisbane	9	9	7	8

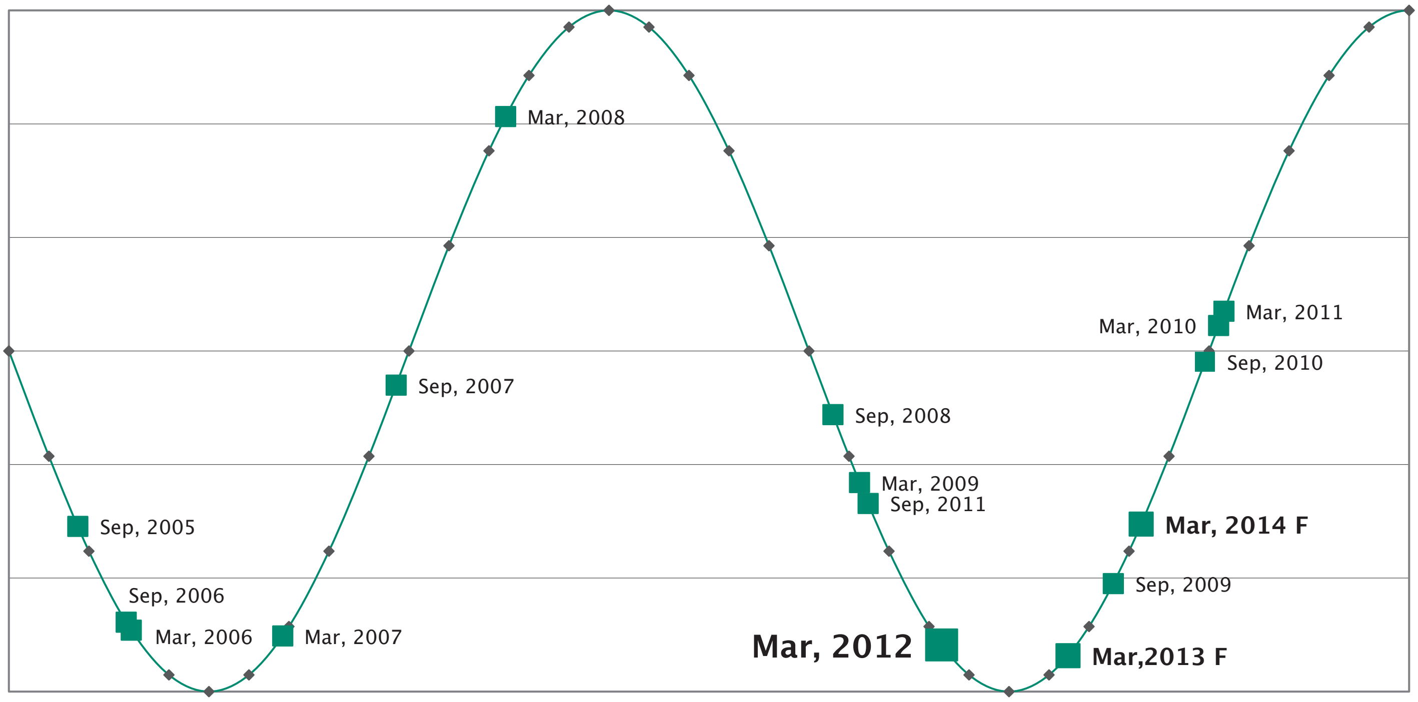
Residential Property Cycle Including Forecasts for Sydney, Melbourne and Brisbane

The residential markets in all 3 cities are seen as being stalled at or near the bottom of the property cycle. The Sydney residential property market has shown little movement over the 7 years that this data has been collected and is not seen as making significant progress over the next 2 years.

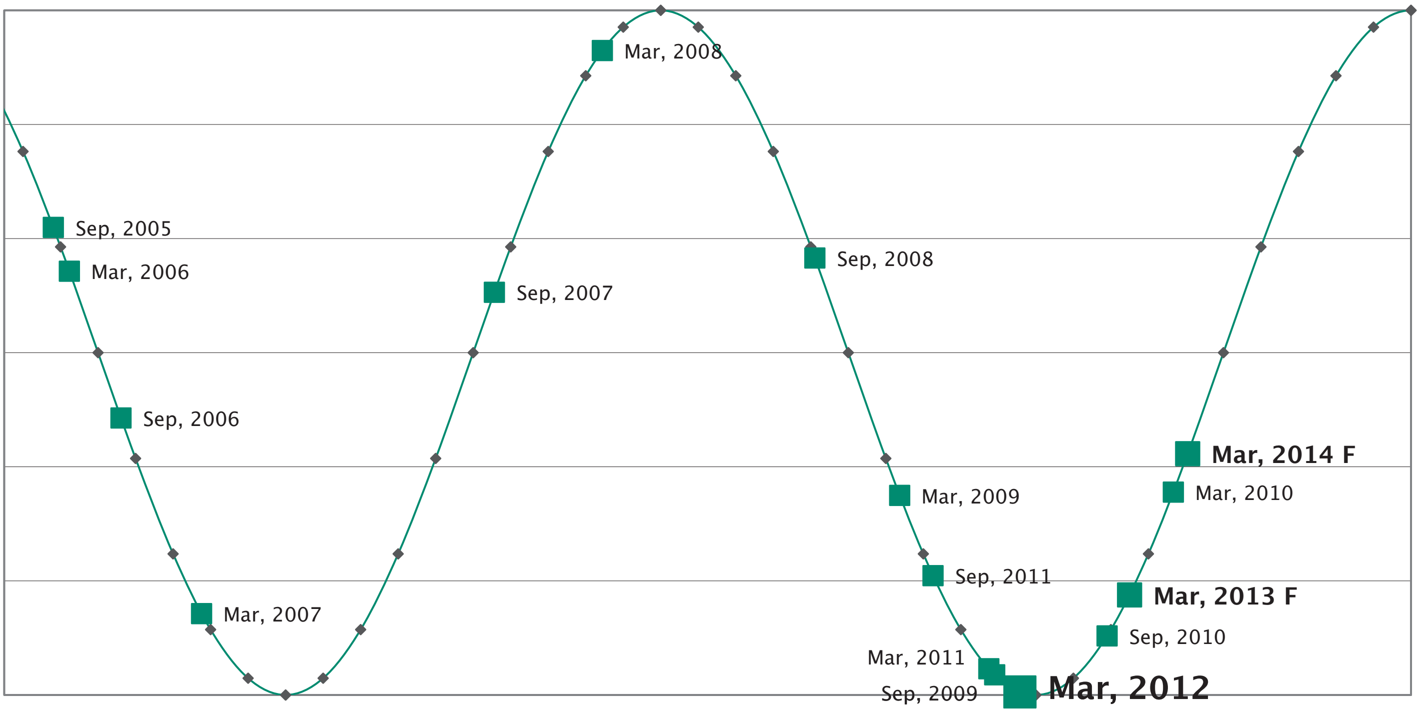
Sydney Residential Property Cycle
2005 - 2012
(with Forecasts for 2013 and 2014)



Melbourne Residential Property Cycle
2005 - 2012
(with Forecasts for 2013 and 2014)



Brisbane Residential Property Cycle
2005 - 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, but a smaller majority than in September, 2011, forecast at least moderate investment growth for both the Australian listed and unlisted property trusts and syndicates over the next 12 months.

Respondents remain less certain in relation to international listed and unlisted trusts and syndicates with most respondents predicting no investment change to moderate investment growth for the next 12 months.

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

Change in Invested Capital for Listed and Unlisted Trusts/Syndicates Over Next 12 Months
April 2012 (September 2011) Percentage of Respondents

	Strong Investment Decline	Moderate Investment Decline	No Investment Change	Moderate Investment Growth	Strong Investment Growth
Listed					
Domestic	0 (0)	23 (14)	23 (24)	**54** (**59**)	0 (3)
International	3 (7)	27 (**31**)	27 (**31**)	**33** (24)	10 (7)
Unlisted / Syndicates					
Domestic	0 (0)	10 (7)	30 (17)	**57** (**69**)	3 (7)
International	3 (4)	13 (24)	37 (**48**)	**40** (21)	7 (3)

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

Predictions are more varied than in September, 2011 with respondents less certain on whether non-residential property will outperform equity markets over the one to three years. While predictions remain uncertain for the five year period, there is a leaning towards the property sector performing the same as the equity market.

Likelihood of Non-Residential Property Sector Out Performing Equity Markets April 2012 (September 2011) Percentage of Respondents					
	Very Unlikely	Unlikely	Same	Likely	Very Likely
One year	0 (0)	30 (14)	27 (21)	**40** (**61**)	3 (4)
3 years	0 (0)	**40** (36)	30 (18)	30 (**46**)	0 (0)
5 years	0 (0)	33 (**39**)	**47** (36)	20 (21)	0 (4)

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 while both are predicted to have smaller increases in Sydney and Melbourne.

Market values and rentals are predicted to increase for Sydney and Brisbane industrial property while rentals for Melbourne industrial property are predicted to remain the same and market values to increase but to a smaller extent than in the other two cities.

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.

Percentage Projections Above CPI for Sydney Over Next 12 Months April 2012 (September 2011)				
SYDNEY				
	Commercial			
	CBD	Suburban CBDs	Industrial	Retail
Market Value	1.4 (2.9)	-0.1 (0.9)	1.5 (1.4)	-1.9 (-0.8)
Market Rental	1.9 (3.3)	0.3 (0.6)	1.3 (0.9)	-2.2 (-1.2)
MELBOURNE				
	Commercial			
	CBD	Suburban CBDs	Industrial	Retail
Market Value	1.7 (3.1)	0.1 (1.4)	0.9 (1.2)	-1.9 (-0.9)
Market Rental	1.9 (3.3)	0.4 (1.2)	0.7 (0.7)	-2.3 (-1.2)
BRISBANE				
	Commercial CBD		Industrial	Retail
Market Value	3.0 (1.7)		1.8 (0.5)	-1.1 (-1.0)
Market Rental	2.9 (1.3)		1.7 (0.6)	-1.3 (-1.1)

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

The large majority of respondents see stable to increasing effective rents for the next 6 months for new leasing in Sydney, Melbourne and Brisbane.

In the 3 cities, the majority of respondents see effective rents increasing over the next 12 months with stronger sentiment in Sydney and Brisbane than in Melbourne.

Forecast Movements in Effective Rents April 2012 (September 2011) Percentage Responses			
	Declining	Stable	Increasing
6 months			
Sydney	7 (11)	**53** (18)	40 (**71**)
Melbourne	4 (11)	**65** (27)	31 (**62**)
Brisbane	3 (11)	**52** (**52**)	45 (37)
12 months			
Sydney	3 (3)	23 (18)	**74** (**79**)
Melbourne	0 (4)	42 (15)	**58** (**81**)
Brisbane	0 (4)	24 (32)	**76** (**64**)

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.

The large majority of respondents see lease incentives as features of all Australian capital city markets.

Overall since September, there is a trend for lease incentives to have decreased across CBDs in capital cities except for Adelaide and Hobart where lease incentives have increased according to survey respondents.

Perth is seen as having the major change to incentives with the majority of respondents seeing incentives in the 0-9% range for Prime and A Grade property. Perth is seen as having the lowest level of incentives for commercial property of the capital cities.

A smaller majority of respondents than in September see incentives for prime commercial property in the Sydney CBDs being in the 20-29% range resulting mainly from increases in the lower 10-19% range. 87% of respondents in the Sydney CBD and 69% in the Sydney Suburban CBD see 20-29% leasing incentives for A Grade property.

The majority of respondents see Brisbane incentives in the 20-29% range with a trend to declines in incentives.

The Melbourne CBD and Suburban CBDs lease incentives are still seen more in the 10-19% range. Similarly to September, overall Melbourne CBD commercial property is seen as having lower incentive levels than commercial property in the Sydney and Brisbane CBDs.

Adelaide and Canberra lease incentives for commercial property are seen to be generally in the 10-19% range.

Respondents have more varied views for Hobart, with incentives seen as mainly in the 10-19% to 20-29% ranges.

Leasing Incentives in Current Commercial Leasing Market
April 2012 (September 2011)
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	7 (7)	33 (18)	**60** (**68**)	0 (7)
A Grade	3 (4)	10 (14)	**87** (**75**)	0 (7)
Lower Grade	3 (4)	3 (7)	**70** (**58**)	24 (31)
Sydney Suburban CBD				
Prime	7 (4)	31 (26)	**59** (**59**)	3 (11)
A Grade	3 (4)	21 (15)	**69** (**55**)	7 (26)
Lower Grade	3 (0)	14 (15)	**59** (**54**)	24 (31)
Melbourne CBD				
Prime	15 (12)	**77** (**73**)	8 (15)	0 (0)
A Grade	8 (4)	**69** (**69**)	23 (27)	0 (0)
Lower Grade	8 (4)	**50** (**54**)	42 (42)	0 (0)
Melbourne Suburban CBD				
Prime	4 (4)	**67** (**54**)	29 (42)	0 (0)
A Grade	4 (0)	**59** (**54**)	33 (42)	4 (4)
Lower Grade	4 (0)	**48** (**48**)	**48** (**48**)	0 (4)
Brisbane CBD				
Prime	11 (8)	37 (24)	**52** (**60**)	0 (8)
A Grade	4 (4)	33 (24)	**63** (**56**)	0 (16)
Lower Grade	4 (0)	29 (17)	**52** (**58**)	15 (25)
Perth CBD				
Prime	**69** (26)	27 (**44**)	4 (30)	0 (5)
A Grade	**61** (22)	35 (**39**)	4 (35)	0 (4)
Lower Grade	38 (10)	**46** (**52**)	12 (33)	4 (5)
Adelaide CBD				
Prime	0 (14)	**70** (**50**)	30 (32)	0 (4)
A Grade	0 (9)	**57** (**41**)	43 (**41**)	0 (9)
Lower Grade	4 (10)	39 (**43**)	**44** (33)	13 (14)
Canberra CBD				
Prime	12 (13)	**67** (**48**)	17 (30)	4 (9)
A Grade	13 (4)	**58** (**59**)	25 (29)	4 (8)
Lower Grade	4 (5)	**50** (36)	25 (**36**)	21 (23)
Hobart CBD				
Prime	15 (14)	40 (**43**)	**45** (29)	0 (14)
A Grade	15 (14)	35 (29)	**50** (**36**)	0 (21)
Lower Grade	20 (14)	**30** (21)	**30** (**29**)	20 (36)

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 similar to higher interest rates over the 3 year period.

Inflation
A majority of respondents see inflation as similar in the 6 and 12 month periods however they are much more uncertain about inflation over the 3 year period with inflation seen as similar to higher by the large majority of respondents.

Foreign Investment
A small majority of respondents see foreign investment as similar with a leaning to higher for the 6 month period. Higher levels of foreign investment are predicted for the one year period and 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 and for 12 months, similar levels with a leaning to higher business confidence levels. A large majority of respondents see higher business confidence levels for the 3 year period.

Economic Settings – Major Factors Impacting on the Economy
April 2012 (September 2011) Percentage of Respondents

	Lower	Similar	Higher
Interest Rates			
6 months	**47** (41)	43 (**52**)	10 (7)
1 year	**43** (**38**)	37 (28)	20 (34)
3 years	7 (7)	40 (45)	**53** (**48**)
Inflation			
6 months	23 (17)	**70** (**62**)	7 (21)
1 year	17 (24)	**63** (38)	20 (**38**)
3 years	14 (21)	**43** (**41**)	**43** (38)
Foreign Investment			
6 months	13 (14)	**54** (**45**)	33 (41)
1 year	7 (10)	40 (28)	**53** (**62**)
3 years	20 (10)	33 (31)	**47** (**59**)
Bus. Confidence			
6 months	33 (**65**)	**60** (28)	7 (7)
1 year	13 (21)	**50** (**45**)	37 (34)
3 years	3 (0)	13 (38)	**84** (**62**)

Respondents to the Survey

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

ANZ Bank
Bankwest
CB Richard Ellis
Chesterton International
Colliers International
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
GPT Group
Herron Todd White
Investa Property Group
IPD
Jones Lang LaSalle
Knight Frank Valuations
m3property
Macquarie Capital
Mirvac
National Australia Bank
Preston Rowe Paterson
Propell National Valuers
Resolution Capital
Valad
Westpac

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