The Australian Property Institute Inc.

Australian Property Directions Survey

SEPTEMBER 2011

This is the 27th 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 Mandatory Disclosure of Energy Efficiency Ratings required for commercial office space above 2000 square metres

The majority of survey respondents 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 predict a positive impact for high Nabers rated buildings and negative impact for low Nabers rated buildings.

Impact of Mandatory Disclosure of Energy Efficiency Ratings required for Commercial Office space above 2000 square metres
September 2011 Percentage of Respondents

	Negative Impact			Nil Impact	Positive Impact		
	Significant	Moderate	Minimal		Minimal	Moderate	Significant
Rent							
Short term (up to 12 months)	0	8	4	80	8	0	0
Longer term (2 to 5 years)	0	4	16	28	28	24	0
Leases							
Short term (up to 12 months)	4	0	9	65	22	0	0
Longer term (2 to 5 years)	0	5	18	32	27	18	0
Yields							
Short term (up to 12 months)	0	4	0	79	13	4	0
Longer term (2 to 5 years)	4	5	13	26	26	26	0
Returns to Owner							
Short term (up to 12 months)	0	8	8	59	21	4	0
Longer term (2 to 5 years)	0	17	18	26	22	17	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

There has been a slight positive change in the respondents' views since April as 50% now see the continued re-assessment of risks in relation to property and property financing resulting in lower gearing ratios. Respondents remain less certain of the impact of risk in relation to financing costs with results more evenly split from lower to higher financing costs.

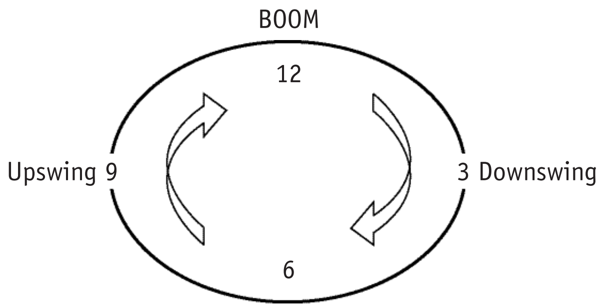
Impacts on Gearing Ratios and Financing Costs of the continued re-assessment of risks in relation to property and property financing
September 2011 (April 2011)
Percentage of Respondents

	Lower	No Change	Higher
Gearing ratios	**50** (**42**)	36 (**42**)	14 (16)
Financing costs (including interest rates)	30 (26)	33 (35)	**37** (**39**)

86% of respondents in September reported that the continued re-assessment of risks in relation to property and property financing would impact on the sources of funds. This figure is up from 65% in the April, 2011 survey.

Property Time Clock - Sydney, Melbourne and Brisbane

Property Clock Key



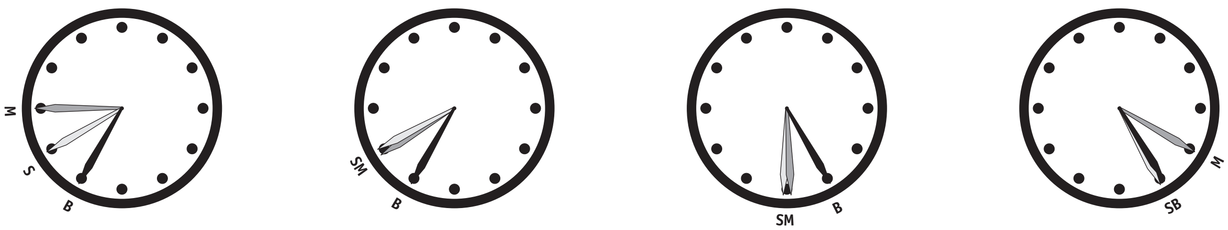
Responses are in hours, eg, 4 o'clock or 12 o'clock

BUST

Compared to the April, 2011 survey, Commercial and Industrial property in Sydney, Melbourne and Brisbane are seen as having moved slightly ahead in the cycle whereas Retail property is seen as having moved backwards. Commercial and Industrial property in the 3 cities are seen to move slowly further along the upswing over the next 2 years. Compared to the April, 2011 survey, Residential is seen as having moved substantially backwards with only moderate recovery seen as occurring over the next 2 years.

2011 - Current Time

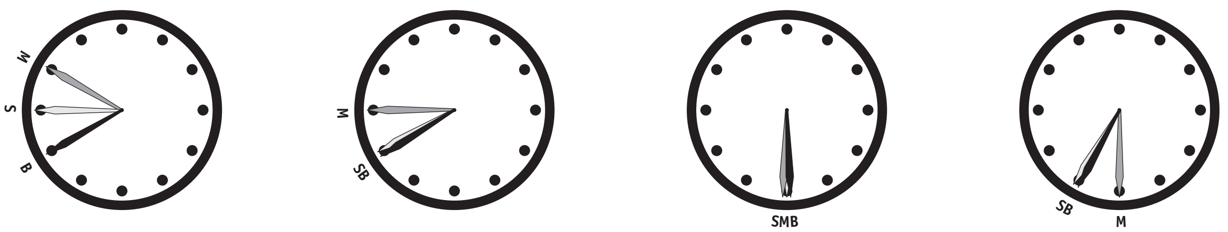
Currently, commercial property in Sydney, Melbourne and Brisbane is seen as having commenced the upswing with Melbourne the most advance along the upswing. Industrial property in all 3 cities is seen on the upswing of the cycle whereas retail property is seen as being at the bottom of the cycle in Melbourne and Sydney but still to reach the bottom in Brisbane. Residential property is seen in Melbourne, Sydney and Brisbane as being on the downswing of the cycle with Melbourne having further to drop to reach the bottom of the cycle.



	Commercial	Industrial	Retail	Residential
Sydney	8	8	6	5
Melbourne	9	8	6	4
Brisbane	7	7	5	5

2012 - One Year's Time

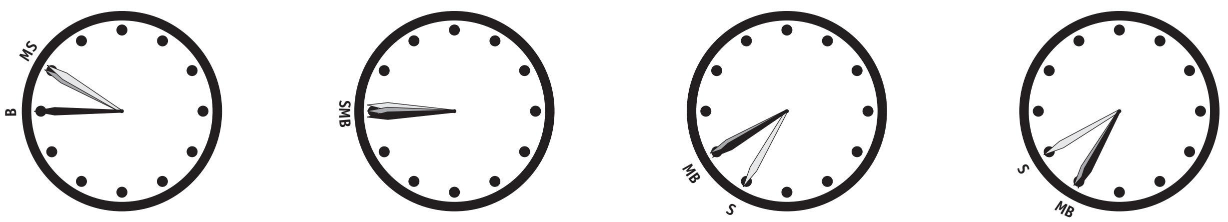
In one year's time, Commercial property in Sydney, Melbourne and Brisbane is seen as moving further along the upswing. Industrial property in Melbourne and Brisbane is seen as having moved further along the upswing with no change in position for Sydney industrial. Retail property in Sydney and Melbourne is seen as remaining at the bottom of the cycle with Brisbane joining them at the bottom. Residential property is seen as having commenced the upswing in Sydney and Brisbane but Melbourne is seen at the bottom of the cycle.



	Commercial	Industrial	Retail	Residential
Sydney	9	8	6	7
Melbourne	10	9	6	6
Brisbane	8	8	6	7

2013 - 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 of the cycle, with the exception of Melbourne commercial and industrial property and Brisbane residential which are static. Sydney and Melbourne Commercial property is predicted to be the most advanced along the upswing. 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.



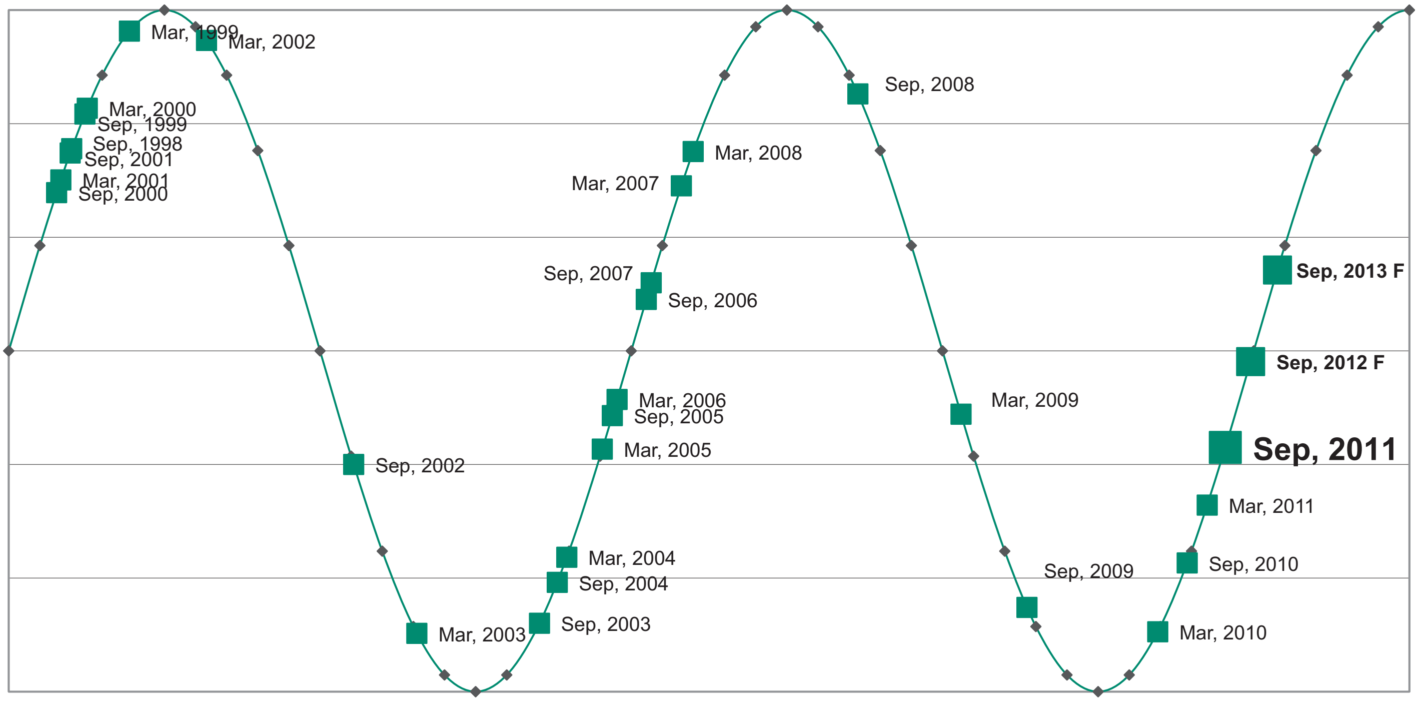
	Commercial	Industrial	Retail	Residential
Sydney	10	9	7	8
Melbourne	10	9	8	7
Brisbane	9	9	8	7

Commercial Property Cycle Including Forecasts for Sydney, Melbourne and Brisbane

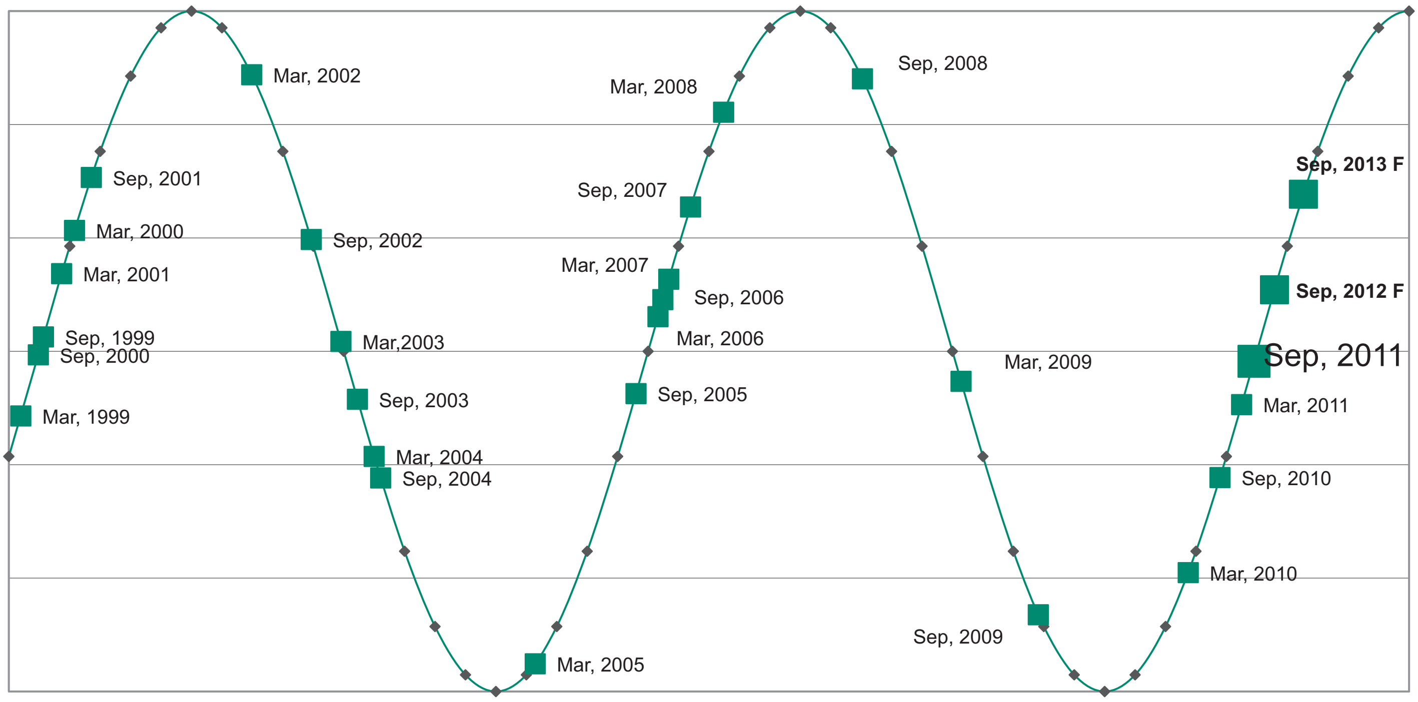
The graphs below show the respondents' views from 1998 for Sydney and from 1999 for Melbourne and Brisbane as well as showing the forecasts for one and two years from now.

The graphs all tell a similar story of small improvement in the various commercial markets since the April survey. The improvement is slightly greater in the Brisbane Commercial property market but it is still seen as behind Sydney which, in turn, is slightly behind Melbourne. The respondents see only further slight improvement in each of these markets over the next 2 years.

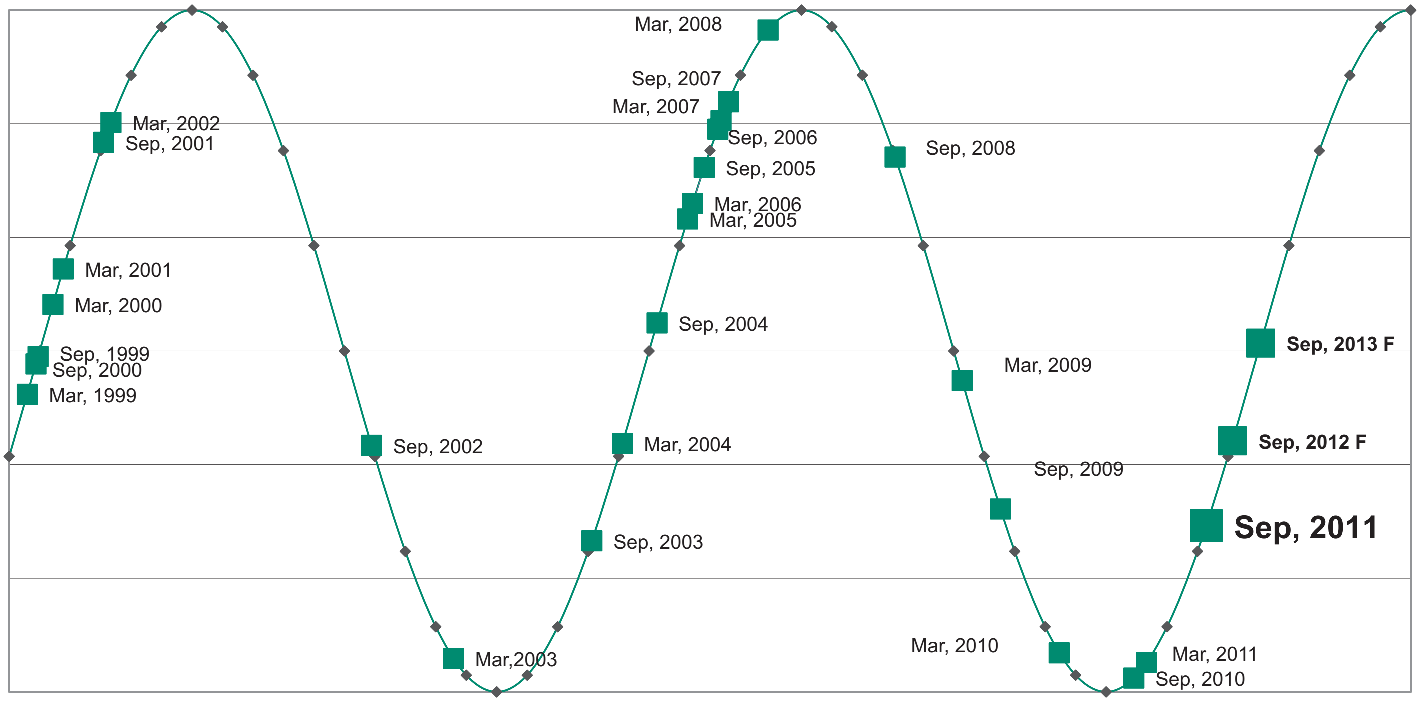
Sydney Commercial Property Cycle
1998 - 2011
(with Forecasts for 2012 and 2013)



Melbourne Commercial Property Cycle
1998 - 2011
(with Forecasts for 2012 and 2013)



Brisbane Commercial Property Cycle
1998 - 2011
(with Forecasts for 2012 and 2013)



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

A majority of respondents, but a smaller majority for the listed vehicles than in April, 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 moderate investment decline up to moderate investment growth for the next 12 months. The trend is towards a slight decline for invested capital for international listed and unlisted trusts / syndicates compared to the April forecast.

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

	Strong Investment Decline	Moderate Investment Decline	No Investment Change	Moderate Investment Growth	Strong Investment Growth
Listed					
Domestic	0 (0)	14 (4)	24 (15)	**59** (**73**)	3 (8)
International	7 (7)	**31** (27)	**31** (**31**)	24 (**31**)	7 (4)
Unlisted / Syndicates					
Domestic	0 (0)	7 (4)	17 (12)	**69** (**69**)	7 (15)
International	4 (8)	24 (11)	**48** (**42**)	21 (27)	3 (12)

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

Sentiment has improved from the last survey with more respondents predicting that the non-residential property sector is likely to outperform the equity markets in the next 12 months. Respondents are less certain whether non-residential property will outperform equity markets over the 3 to 5 year periods.

Likelihood of Non-Residential Property Sector Out Performing Equity Markets
September 2011 (April 2011)
Percentage of Respondents

	Very Unlikely	Unlikely	Same	Likely	Very Likely
One year	0 (4)	14 (19)	21 (31)	**61** (**46**)	4 (0)
3 years	0 (0)	36 (23)	18 (**35**)	**46** (34)	0 (8)
5 years	0 (0)	**39** (15)	36 (**42**)	21 (31)	4 (12)

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

Since April, sentiment has declined for Industrial and Retail property in Sydney, Melbourne and Brisbane and for Commercial property in Melbourne and the Sydney suburban CBDs. Respondents only see improvements in market values and rents above CPI for the next 12 months for the Brisbane CBD and an improvement in rents for the Sydney CBD.

Percentage Projections Above CPI for Sydney Over Next 12 Months
September 2011 (April 2011)

	Commercial			
SYDNEY				
	CBD	Suburban CBDs	Industrial	Retail
Market Value	2.9 (3.3)	0.9 (1.0)	1.4 (1.9)	-0.8 (1.1)
Market Rental	3.3 (3.0)	0.6 (0.6)	0.9 (1.4)	-1.2 (0.6)
MELBOURNE				
	CBD	Suburban CBDs	Industrial	Retail
Market Value	3.1 (4.7)	1.4 (1.6)	1.2 (1.8)	-0.9 (1.1)
Market Rental	3.3 (5.1)	1.2 (1.6)	0.7 (1.6)	-1.2 (1.0)
BRISBANE				
	Commercial CBD		Industrial	Retail
Market Value	1.7 (1.0)		0.5 (0.6)	-1.0 (0.6)
Market Rental	1.3 (0.4)		0.6 (0.5)	-1.1 (0.2)

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.

Respondents see lease incentives as features of all Australian capital city markets.

Overall since April, there is a trend for lease incentives to have decreased across CBDs in capital cities.

A smaller majority of respondents still see incentives for commercial property in the Sydney CBD and Suburban CBDs being in the 20-29% range resulting mainly from increases in the lower 10-19% range. The Melbourne CBD and Suburban CBDs lease incentives are seen more in the 10-19% range. Similarly to April, overall Melbourne CBD commercial property is seen as having lower incentive levels than commercial property in the Sydney and Brisbane CBDs.

The majority of respondents see Brisbane incentives in the 20-29% range with a trend to declines in incentives. Since April, most respondents see lease incentives for Perth commercial property decreasing to the 0-9% and 10-19% ranges. Adelaide, Canberra and Hobart lease incentives for commercial property are seen to be generally in the 10-19% and 20-29% range however it appears that respondents overall are less certain in their views with responses more evenly split across the full range of incentives.

Leasing Incentives in Current Commercial Leasing Market September 2011 (April 2011) 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	7 (0)	18 (15)	**68** **(85)**	7 (0)
A Grade	4 (0)	14 (12)	**75** **(80)**	7 (8)
Lower Grade	4 (0)	7 (8)	**58** **(59)**	31 (33)
Sydney Suburban CBD				
Prime	4 (0)	26 (21)	**59** **(71)**	11 (8)
A Grade	4 (0)	15 (13)	**55** **(61)**	26 (26)
Lower Grade	0 (0)	15 (9)	**54** **(59)**	31 (32)
Melbourne CBD				
Prime	12 (0)	**73** **(83)**	15 (17)	0 (0)
A Grade	4 (0)	**69** **(73)**	27 (27)	0 (0)
Lower Grade	4 (0)	**54** (38)	42 **(52)**	0 (10)
Melbourne Suburban CBD				
Prime	4 (4)	**54** **(52)**	42 (35)	0 (9)
A Grade	0 (5)	**54** (36)	42 **(45)**	4 (14)
Lower Grade	0 (5)	**48** (19)	**48** **(52)**	4 (24)
Brisbane CBD				
Prime	8 (0)	24 (29)	**60** **(58)**	8 (13)
A Grade	4 (0)	24 (17)	**56** **(65)**	16 (18)
Lower Grade	0 (0)	17 (14)	**58** **(59)**	25 (27)
Perth CBD				
Prime	26 (0)	**44** **(65)**	30 (30)	0 (5)
A Grade	22 (0)	**39** (47)	35 **(48)**	4 (5)
Lower Grade	10 (0)	**52** (32)	33 **(58)**	5 (10)
Adelaide CBD				
Prime	14 (10)	**50** **(74)**	32 (16)	4 (0)
A Grade	9 (6)	**41** **(61)**	**41** (33)	9 (0)
Lower Grade	10 (11)	**43** **(45)**	33 (44)	14 (0)
Canberra CBD				
Prime	13 (5)	**48** **(71)**	30 (24)	9 (0)
A Grade	4 (0)	**59** **(65)**	29 (35)	8 (0)
Lower Grade	5 (0)	**36** **(58)**	**36** (26)	23 (16)
Hobart CBD				
Prime	14 (0)	**43** **(67)**	29 (33)	14 (0)
A Grade	14 (0)	29 (42)	**36** **(58)**	21 (0)
Lower Grade	14 (0)	21 **(42)**	**29** **(42)**	36 (16)

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

A smaller majority of respondents than in April see effective rents as increasing in the next 6 months for Sydney and Melbourne while now a slight majority see effective rents as stable in Brisbane over the next 6 months. In the 3 cities, the majority of respondents still see effective rents increasing over the next 12 months with stronger sentiment in Sydney and Melbourne than in Brisbane.

Forecast Movements in Effective Rents September 2011 (April 2011) Percentage Responses			
	Declining	**Stable**	**Increasing**
6 months			
Sydney	11 (0)	18 (15)	**71** (85)
Melbourne	11 (0)	27 (4)	**62** (96)
Brisbane	11 (20)	**52** (48)	37 (32)
12 months			
Sydney	3 (0)	18 (15)	**79** (85)
Melbourne	4 (0)	15 (12)	**81** (88)
Brisbane	4 (16)	32 (32)	**64** (52)

Economic settings - major factors impacting on the economy

Interest rates

A small majority of respondents see interest rates as being similar for the 6 month period but there is a considerable leaning to interest rates being lower in that time period. Respondents are much more uncertain of interest rate movements over the one year period with most seeing interest rates as similar or higher over the 3 year period.

Inflation

A majority of respondents see inflation as similar in 6 month's time however they are much more uncertain about inflation over the one to 3 year periods with a leaning to it being higher.

Foreign Investment

Respondents are fairly evenly split between similar to higher foreign investment for the 6 month's period with higher levels of investment for the one to 3 year periods.

Business Confidence

Predictions for business confidence for the next 6 months are for lower levels with respondents being much more uncertain about the one year period. The majority see business confidence levels higher for the 3 year period.

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

	Lower	Similar	Higher
Interest Rates			
6 months	41 (0)	**52** (**62**)	7 (38)
1 year	**38** (0)	28 (15)	34 (**85**)
3 years	7 (12)	45 (19)	**48** (**69**)
Inflation			
6 months	17 (4)	**62** (**50**)	21 (46)
1 year	24 (0)	**38** (35)	**38** (**65**)
3 years	21 (8)	**41** (**46**)	38 (**46**)
Foreign Investment			
6 months	14 (4)	**45** (46)	41 (**50**)
1 year	10 (4)	28 (23)	**62** (**73**)
3 years	10 (8)	31 (27)	**59** (**65**)
Bus. Confidence			
6 months	**65** (8)	28 (**69**)	7 (23)
1 year	21 (4)	**45** (27)	34 (**69**)
3 years	0 (8)	38 (15)	**62** (**77**)

Respondents to the Survey

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

Ashe Morgan Winthrop
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
FKP Property Group
Goldman Sachs & Partners (Australia)
GPT Group
Herron Todd White
Investa Property Group
IPD
Jones Lang LaSalle
Knight Frank Valuations
LandMark White
m3property
Macquarie Capital
Mirvac
National Australia Bank
Preston Rowe Paterson
Propell National Valuers
Resolution Capital
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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