

# **Quarterly Index Launch** **Commercial property** **returns and green** **property investment**

IPD Australia and New Zealand  
Tuesday 31 May 2011

On the pulse of  
the property world



# SPONSORS of the PCA/IPD Hotel Index



- ① Commercial property market
- ② Green property investment
- ③ Panel discussion

- ① Commercial property market
  - Dr Anthony De Francesco, MD – IPD Australia & New Zealand
- ② Green property investment
- ③ Panel discussion

# IPD property database

- asset capture hits \$120bn with c60% market coverage



## IPD INDEX DATABASE

- |   |   |   |
|---|---|---|
| <ul style="list-style-type: none"><li>▪ Anvil Capital</li><li>▪ Amalgamated Holdings Ltd</li><li>▪ AMP Capital Investors</li><li>▪ Australian Unity</li><li>▪ Becton Property Group</li><li>▪ Blackrock</li><li>▪ Brookfield</li><li>▪ Bunnings</li><li>▪ Centro Properties Group</li><li>▪ Challenger Fin. Serv Group</li><li>▪ Charter Hall Group</li><li>▪ Colonial First State - Property</li><li>▪ Cromwell Property Services PL</li></ul> | <ul style="list-style-type: none"><li>▪ DEXUS Property Group</li><li>▪ EG Funds Mgmt</li><li>▪ Eureka Funds Management</li><li>▪ Future Plus</li><li>▪ GPT Group</li><li>▪ Goodman</li><li>▪ Grosvenor Freeholds PL</li><li>▪ Harmony Group</li><li>▪ ING Real Estate</li><li>▪ Insurance Commission of WA</li><li>▪ INVESTA Property Group</li><li>▪ ISPT</li><li>▪ Lend Lease Real Estate Inv</li></ul> | <ul style="list-style-type: none"><li>▪ Mirvac</li><li>▪ Orchard Funds Management</li><li>▪ Perron Group</li><li>▪ QIC</li><li>▪ Queensland Dept of Public Works</li><li>▪ Real Estate Private Equity Partners</li><li>▪ Retirement Benefits Fund Board</li><li>▪ Schwartz Family &amp; Co</li><li>▪ State Property Authority NSW</li><li>▪ Stockland Trust Group</li><li>▪ Thakral</li><li>▪ The Grand Hotel Group</li><li>▪ Vital Healthcare Property</li></ul> |
|---|---|---|

### COMMERCIAL PROPERTY INDEX

- SIZE: 1,535 assets
- VALUE: \$121.4 billion
- Participants: 39

### HOTEL PROPERTY INDEX

- SIZE: 59 assets
- VALUE: \$3.9 billion
- Participants: 9

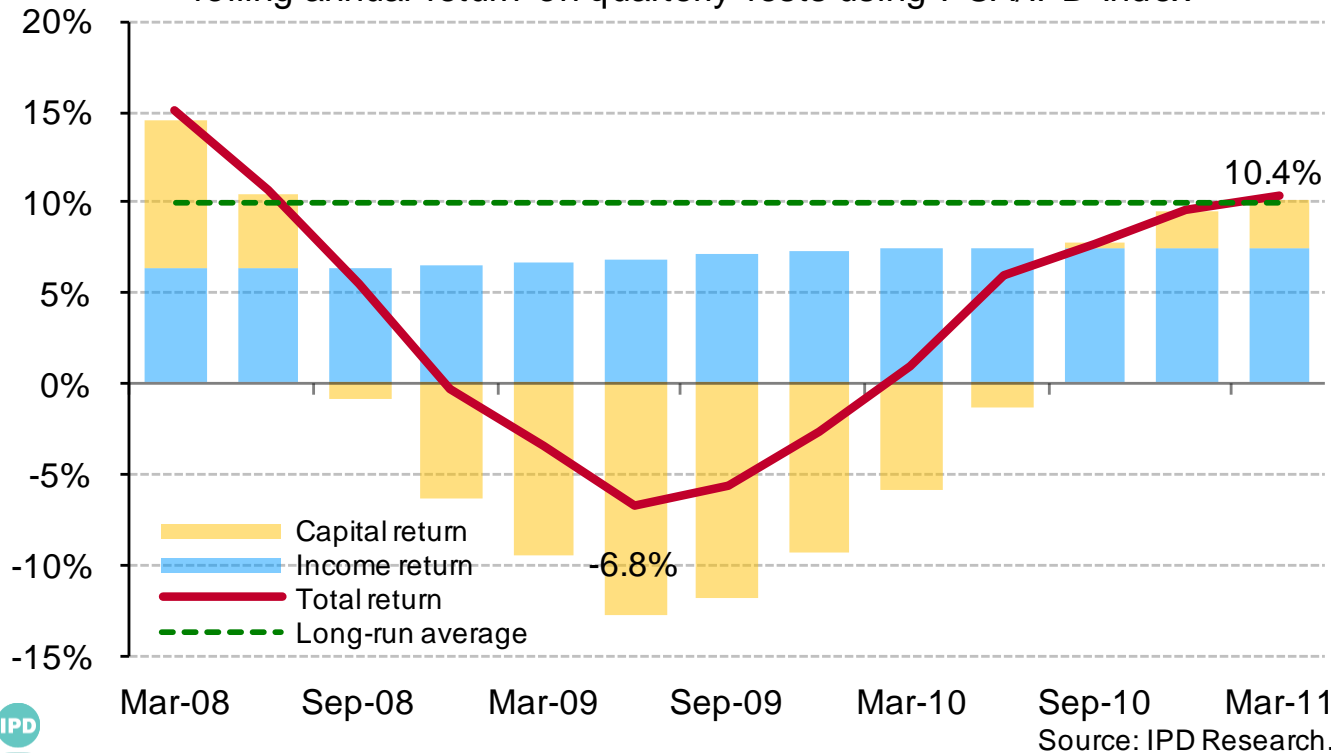
### GREEN PROPERTY INDEX

- SIZE: 328 assets
- VALUE: \$33.4 billion
- Participants: 24

# Property investment performance - returns break-through the long-run average



**Total return for direct commercial property**  
rolling annual return on quarterly rests using PCA/IPD Index

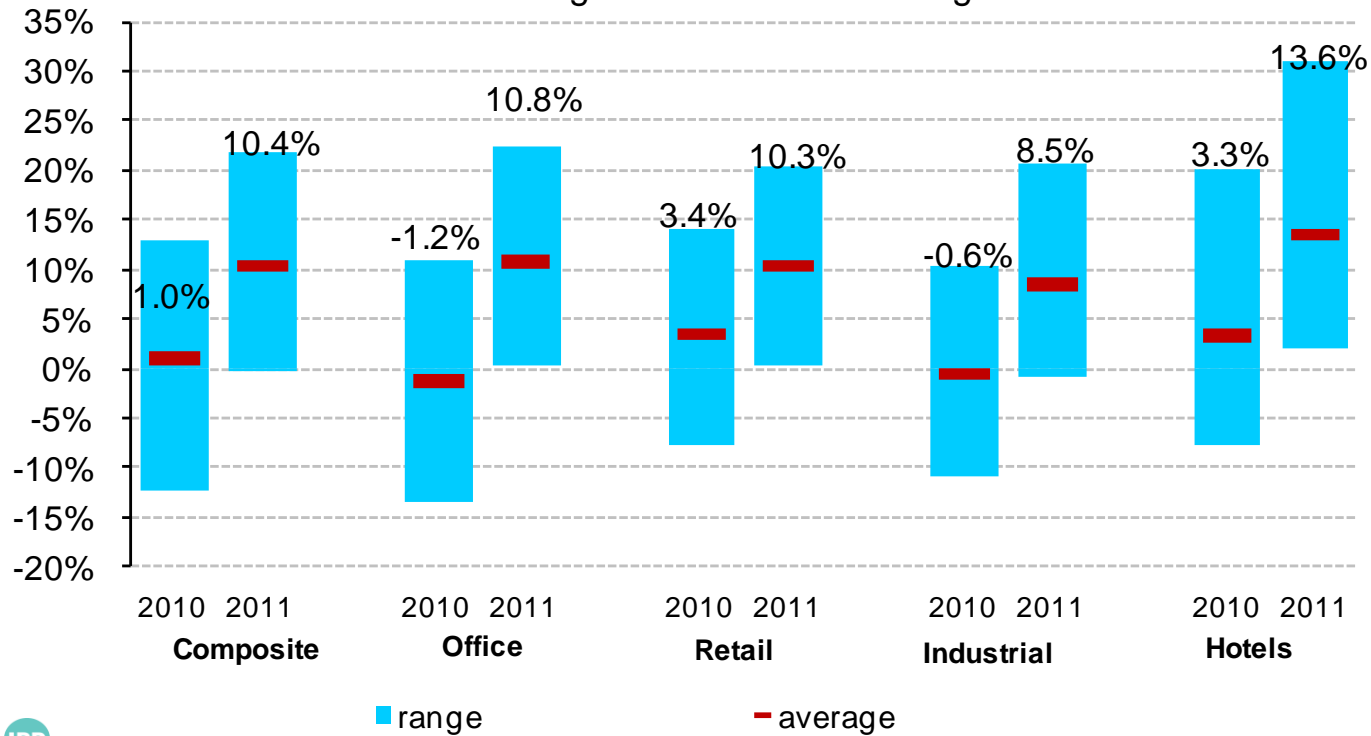


- Total annual return for 2011:Q1 stood at +10.4%. This was comprised of a 7.5% income return and 2.7% capital return.

# Property returns across sectors - hotels outperform; office overtakes retail



**Return performance across property sectors**  
historical average annual return ending March



Source: IPD Research.

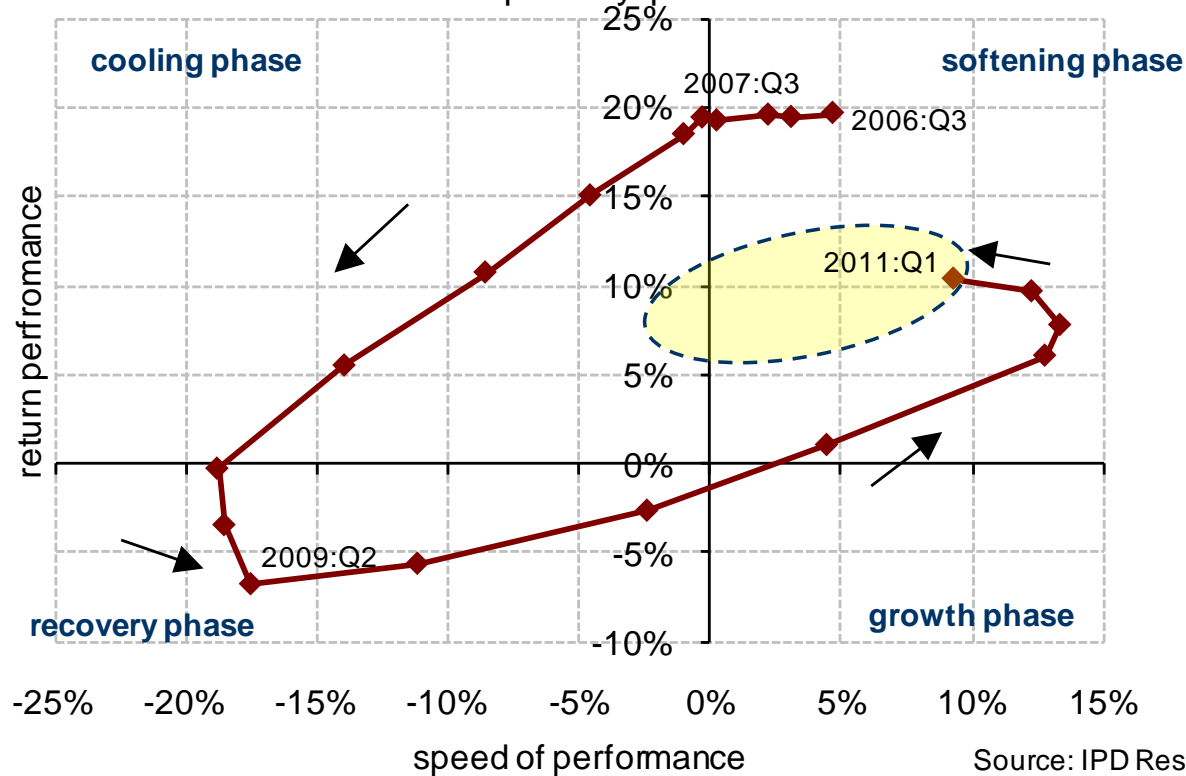
- All sectors reported a rise in annual total return from the previous quarter.

# Property market dynamics

- the market is moderating towards a new equilibrium...



**Dynamics of direct property total returns**  
 annualised return on quarterly periods to March 2011



Source: IPD Research.

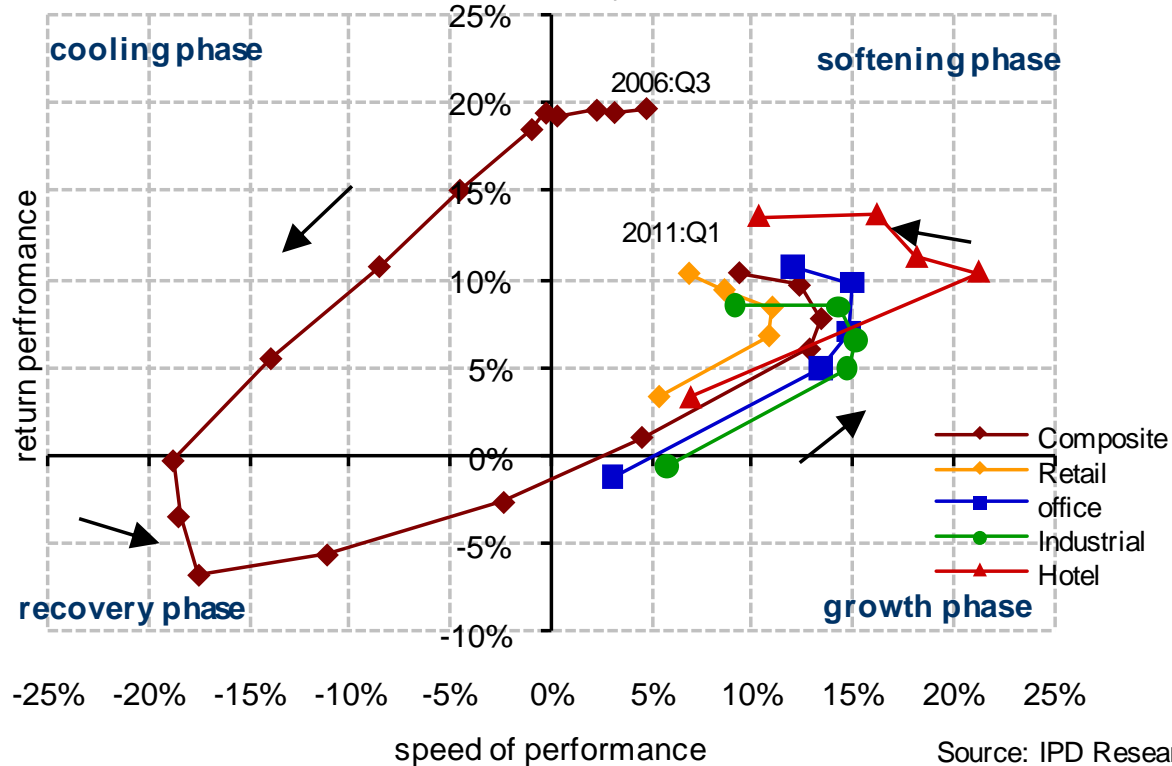


# Property market dynamics

## - all sectors showing signs of moderating but at different speeds



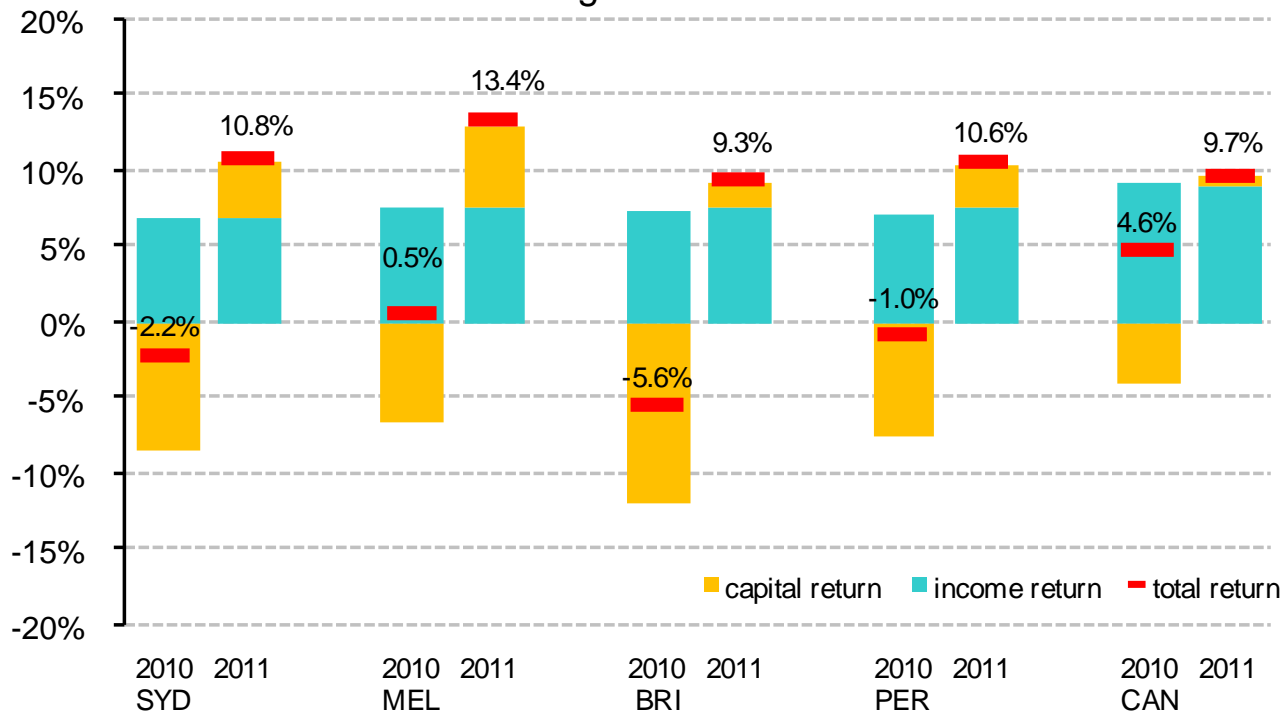
**Dynamics of direct property total returns**  
annualised return on quarterly periods to March 2011



# Office sector performance - strongest performer Melbourne CBD office market



**Performance across CBD office markets**  
historical average annual return to March



Source: IPD Research.

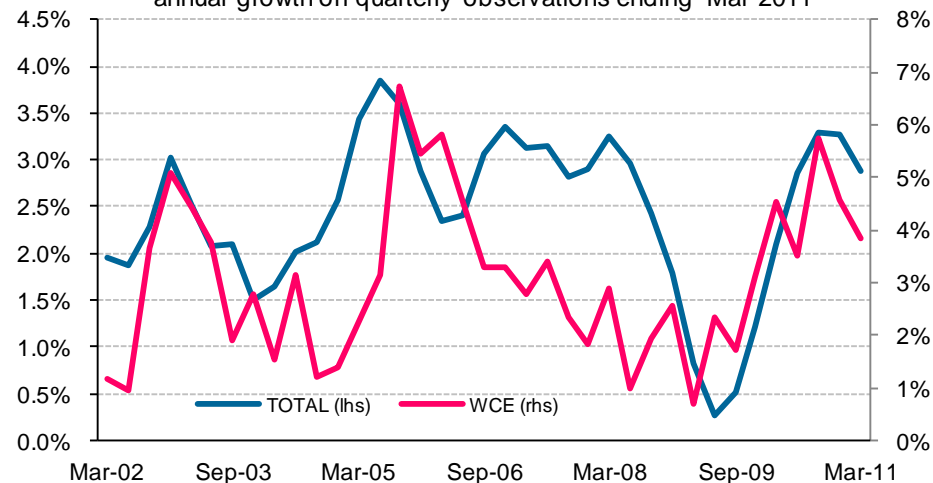
# Office property sector trends

## - employment growth has reached a peak and is now softening



### Employment growth: total versus WCE

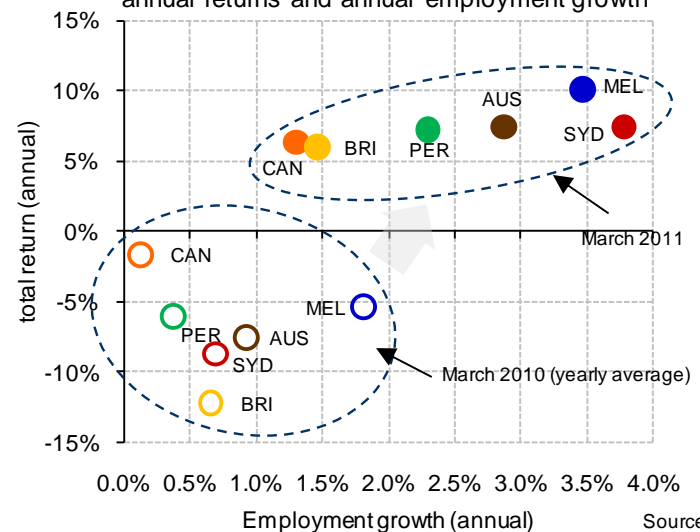
annual growth on quarterly observations ending Mar 2011



Source: ABS and IPD Research.

### office sector returns versus employment

annual returns and annual employment growth



Source: IPD Research.

- Annual employment growth peaked at 3.6% in November 2010. As at April 2011 stood at 2.4%.
- The rebound in employment growth has been reflected in higher returns across CBD office markets.

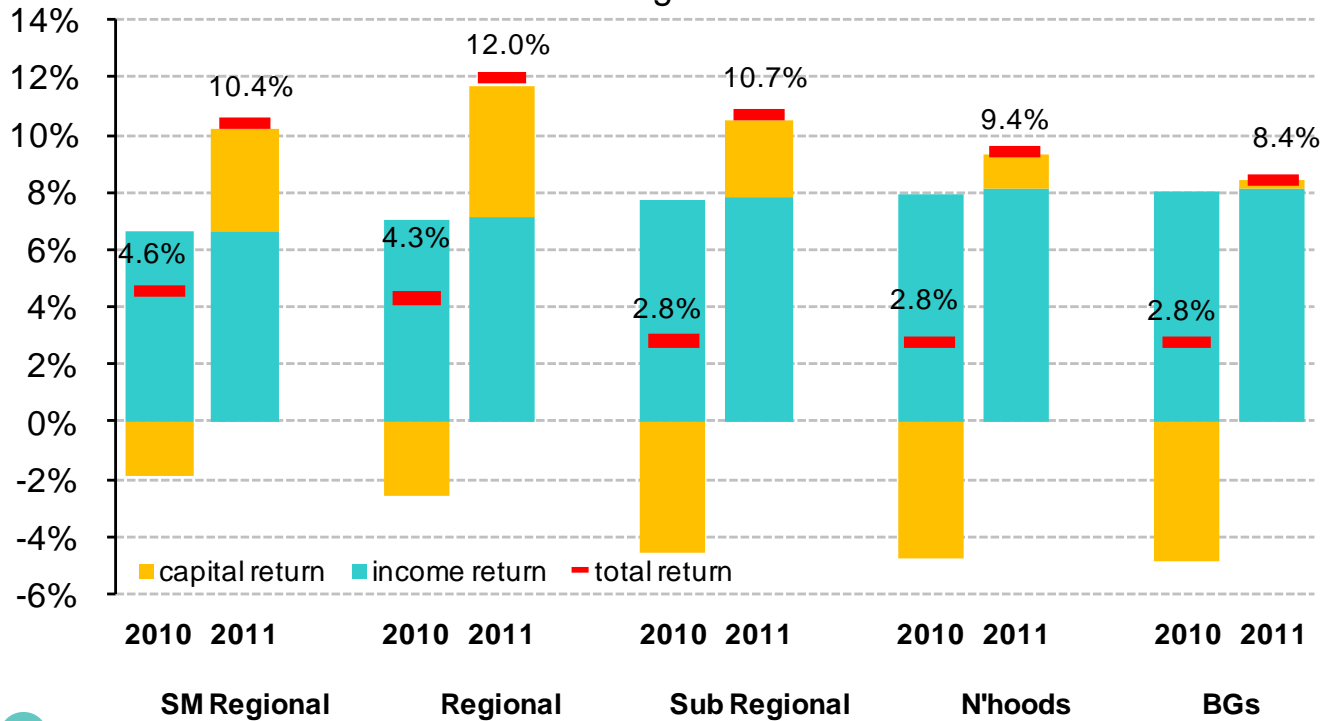
# Retail sector performance

## - strongest performer is regional shopping centres



### Performance across retail property markets

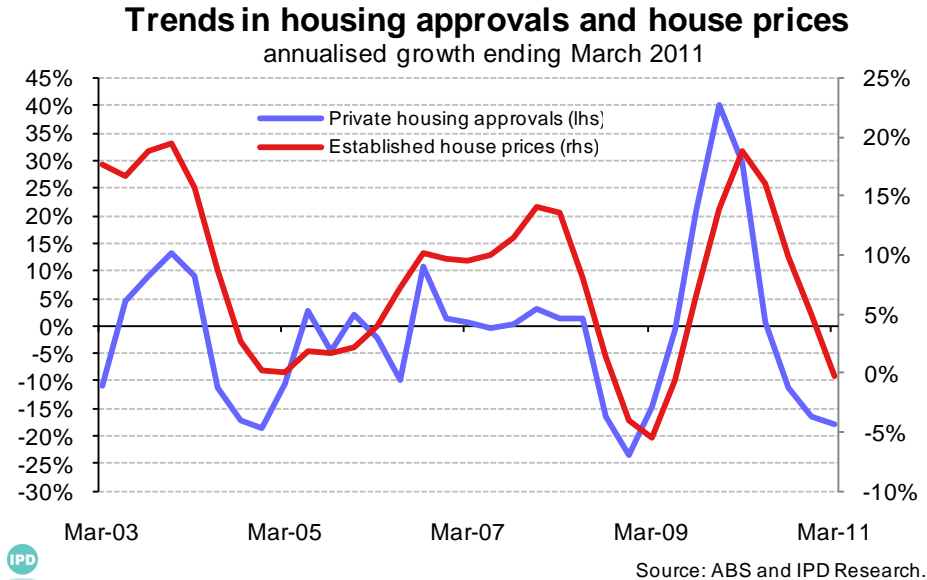
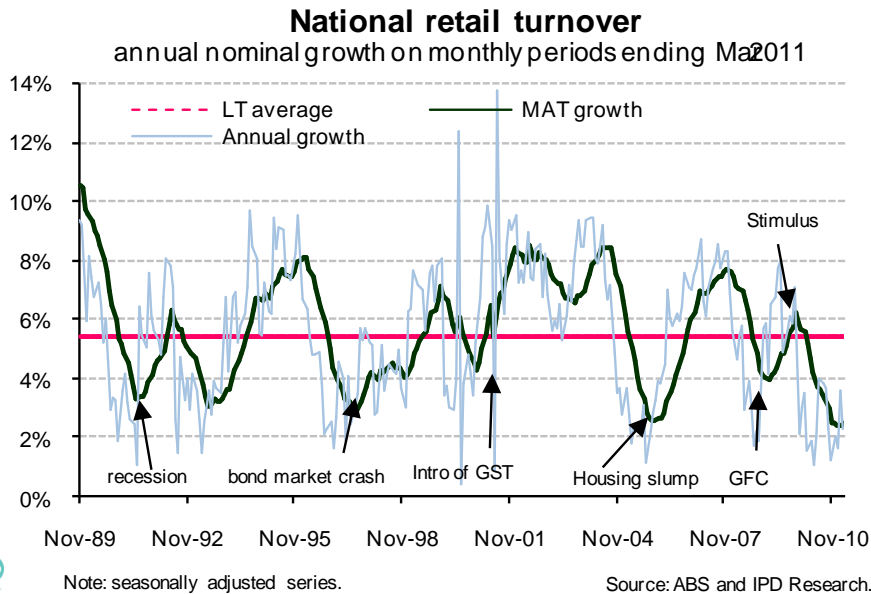
historical average annual return to March



Source: IPD Research.

# Retail property sector trends

## - returns likely to moderate with softening retail sales & housing market

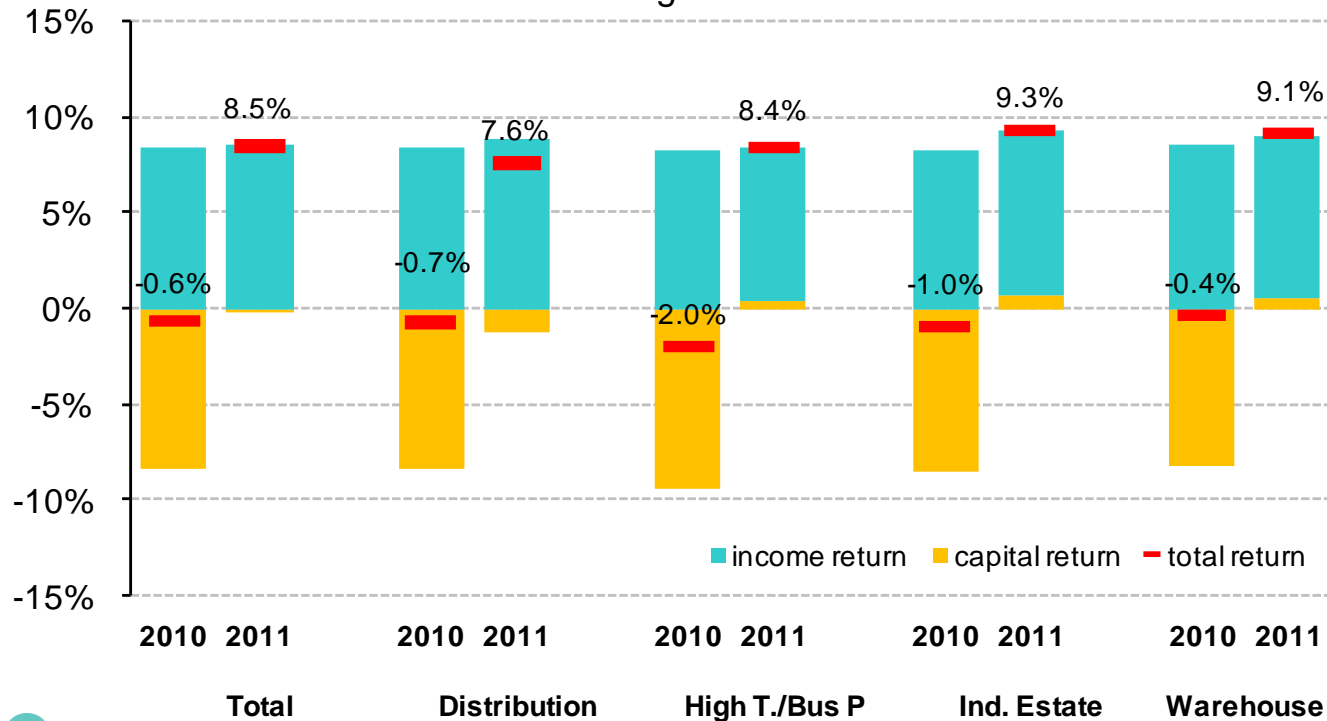


- Annual MAT growth stood at 2.4% as at March 2011. This is the lowest growth rate since late 1980s.
- The housing sector is in the cooling phase with both dwelling approvals and prices experiencing negative growth.

# Industrial sector performance - consistent recovery across all sub-sectors



**Performance across industrial property markets**  
historical average annual return to March

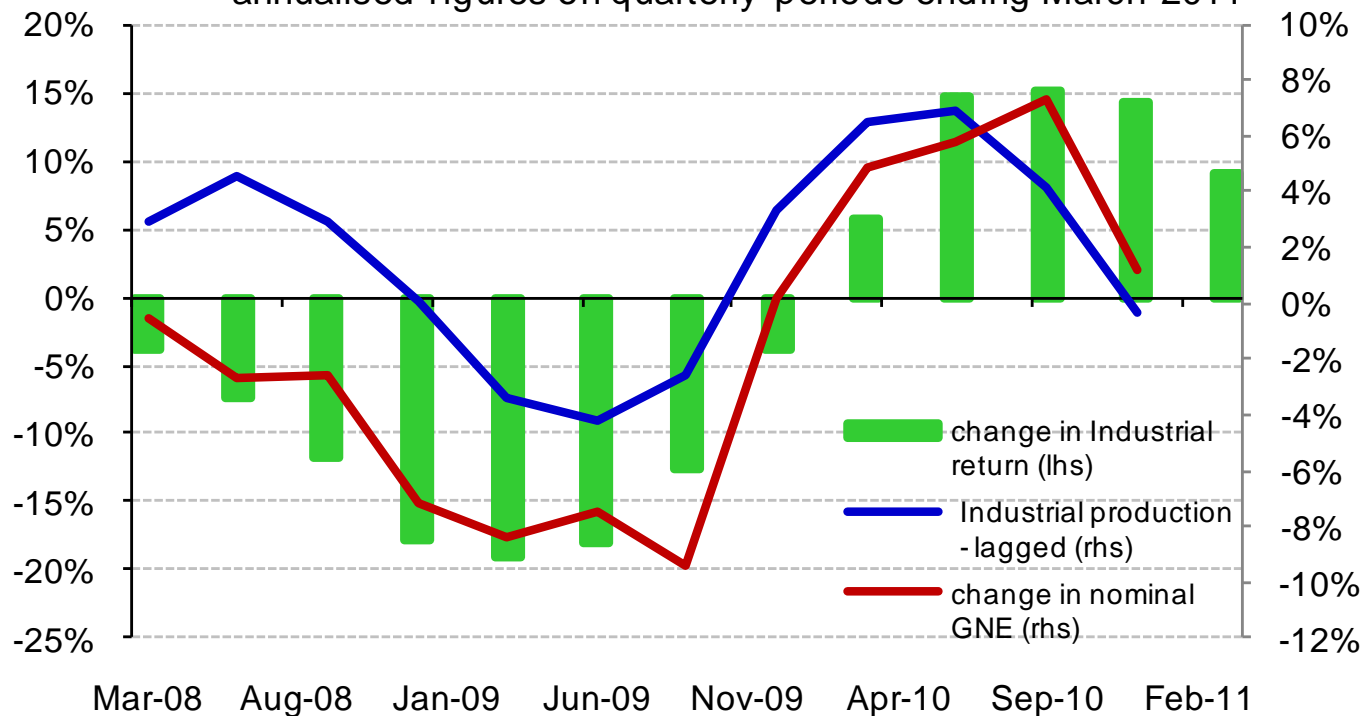


Source: IPD Research.

# Industrial property sector trends - cycle performance underpinned by changes in macroeconomic activity



**Industrial return versus macroeconomic activity**  
annualised figures on quarterly periods ending March 2011



Source: ABS & IPD Research.

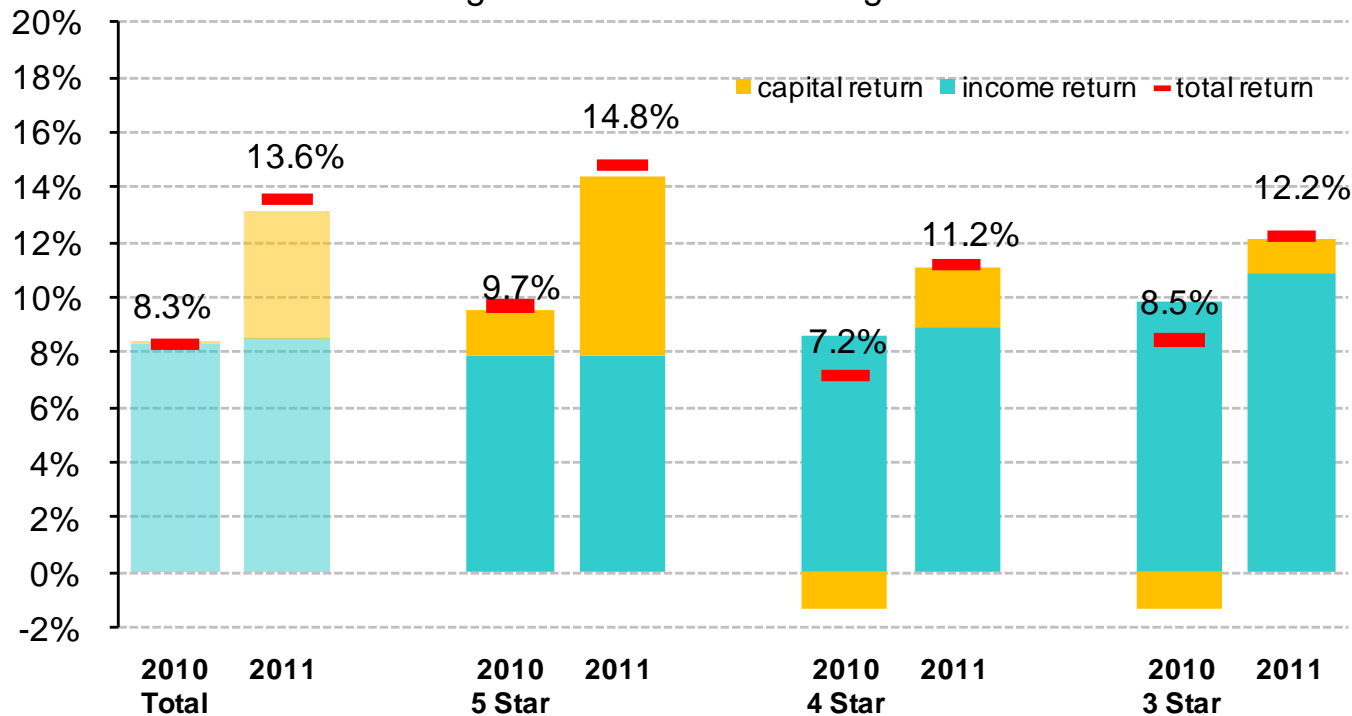
- The change in industrial returns is positively linked to the pace of growth in macroeconomic activity. Macroeconomic aggregates are indicating that macroeconomic activity is slowing.

# Hotel sector performance - delivering strong returns with 5-star hotels outperforming



## Performance across hotel property markets

average annual returns ending March



Source: IPD Research.

The PCA/IPD Hotel Index is sponsored by:

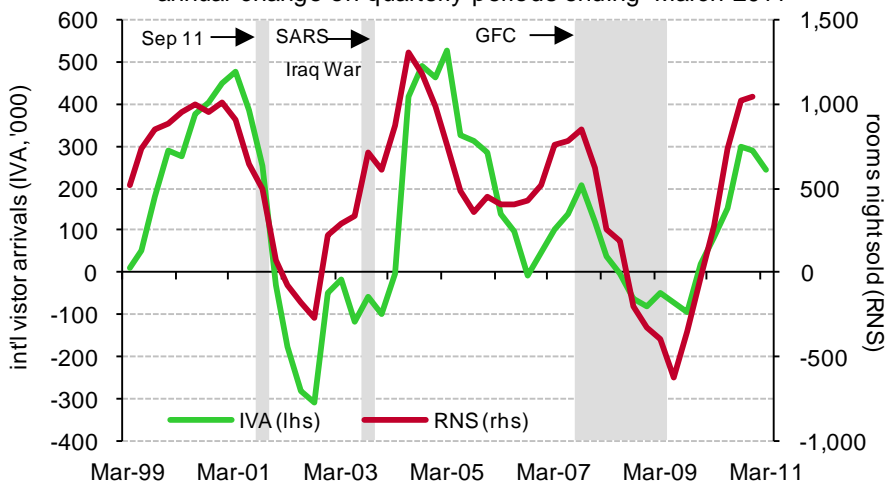


# Hotel property sector trends

- demand conditions, while strong, are likely to soften

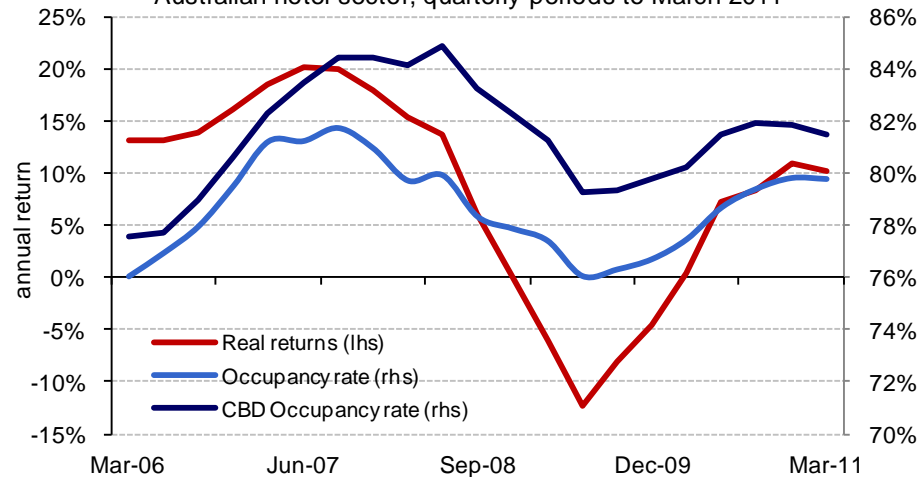


**Hotel demand versus international arrivals**  
annual change on quarterly periods ending March 2011



Source: ABS and IPD Research.

**Occupancy rates versus investment returns**  
Australian hotel sector, quarterly periods to March 2011



Note: returns are deflated by CPI (Consumer Price Index).

Source: IPD Research.

- A driver of demand (room nights sold (RNS)) is international visitor arrivals (IVA). This appears to have peaked and is now moderating.
- Rising occupancy rates has been reflected in rising returns.

The PCA/IPD Hotel Index is sponsored by:



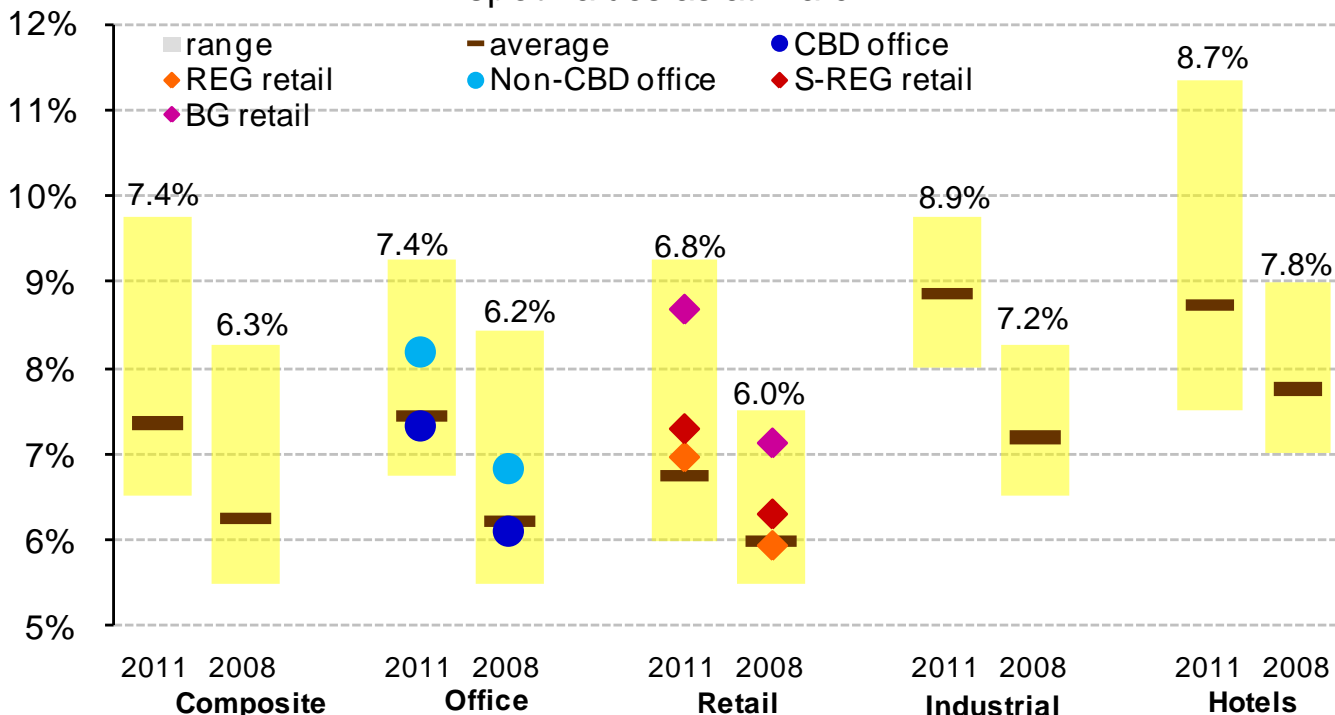
# Cap rates across property sectors

## - cap rates to remain steady but with a wide spread across sectors/sub-sectors



### Cap rates across property sectors

spot values as at March



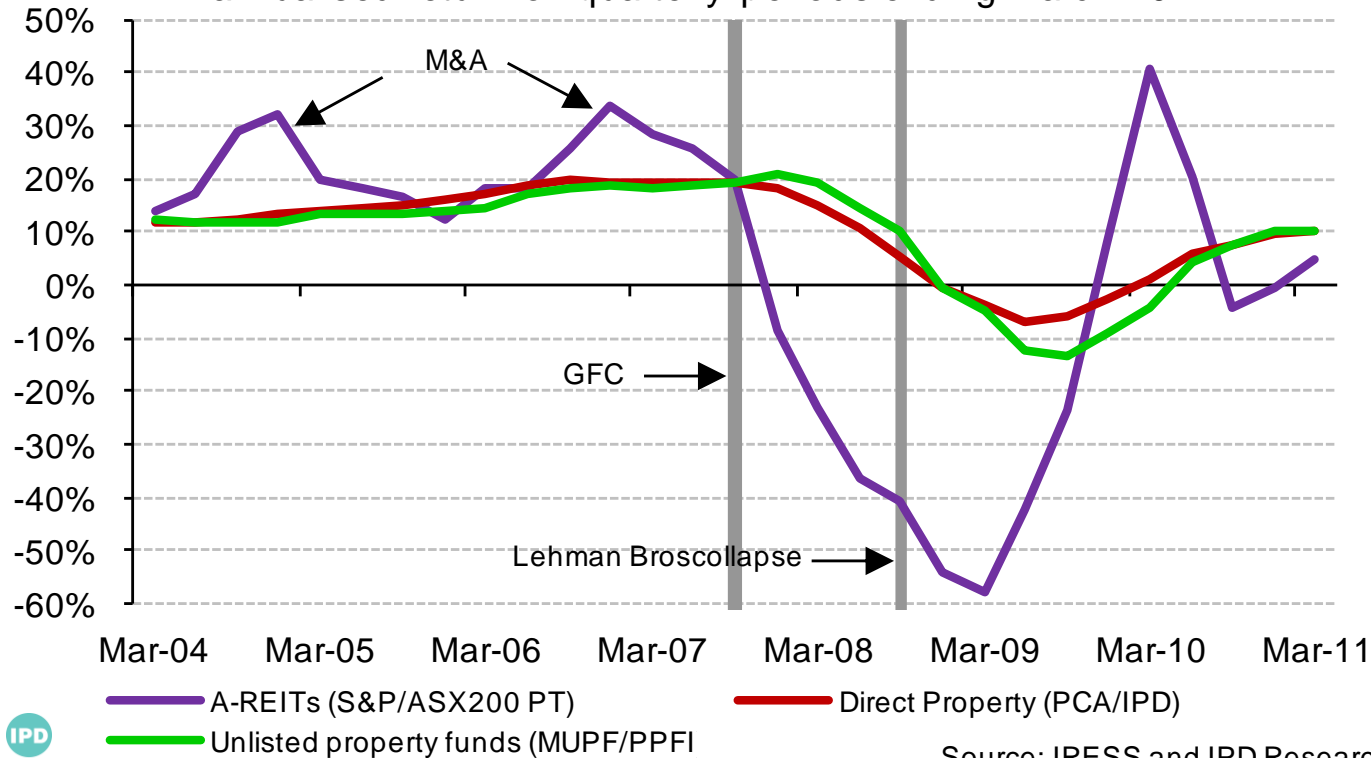
Source: IPD Research.

- Average cap rate for the commercial property market remained unchanged at 7.4%. Cap rates have remained relatively stable for eight quarters.

# Property versus A-REITs - convergence in return performance...?



**Performance across property asset classes**  
annualised return on quarterly periods ending March 2011



① Commercial property market

② Green property investment

- Mr Peter McGuinness, Research Manager – IPD AUS/NZ

③ Panel discussion

# Green index composition

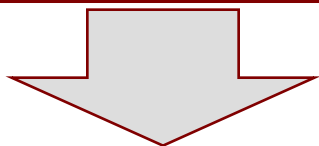
- samples based on selected Green Star and NABERS ratings



## OFFICE SECTOR ASSETS

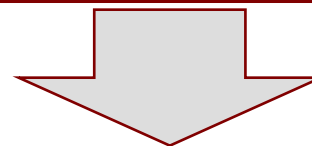
▪ SIZE: 579 investments

▪ VALUE: A\$52.2 billion



### NON – RATED ASSETS

▪ SIZE: 251 investments  
▪ VALUE: A\$18.8 billion



### ENVIRONMENTAL PERFORMANCE RATED ASSETS

▪ SIZE: 328 investments\*  
▪ VALUE: A\$33.4 billion\*

\* Remainder in NABERS water segment



### NEW BUILDING

Green Star  
Design / As Built

▪ SIZE: 35 investments  
▪ VALUE: A\$4.2 billion



### EXISTING BUILDING

NABERS Energy  
Performance Tool

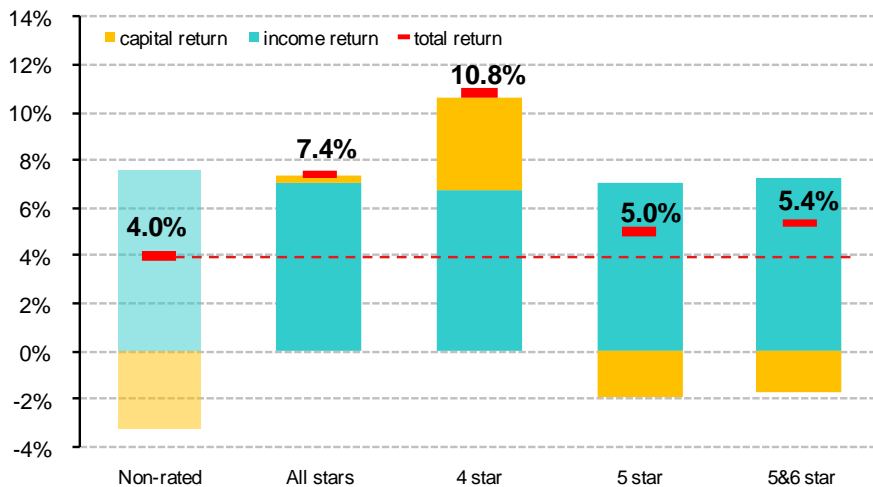
▪ SIZE: 239 investments\*\*  
▪ VALUE: A\$27.9 billion\*\*

\*\*Green Star assets with a NABERS energy rating excluded from this sample.

# Green Star rated assets - outperformance in return and cap rates

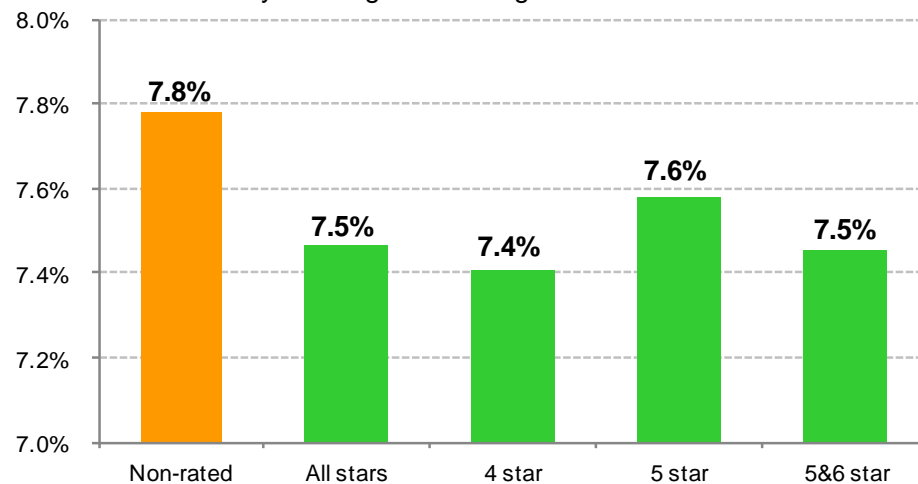


**Green Star: returns across star ratings**  
annualised 2 year returns to March 2011



Source: IPD Research.

**Green Star: cap rates across star ratings**  
2 year weighted average to March 2011



Source: IPD Research.

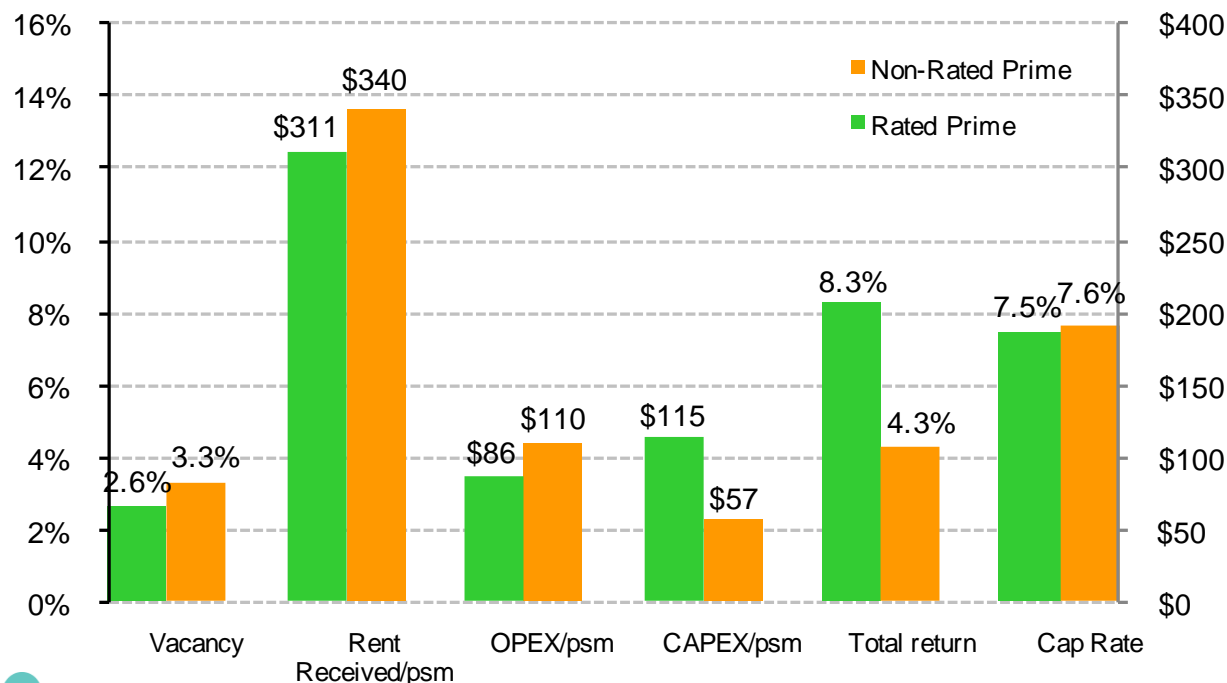
- The return spread between rated and non-rated buildings with a Green Star rating is c340bps.
- Rated office buildings have lower cap rates – an average of 30bps.

# Green Star prime assets

## - outperformance in space and investment metrics



**Green Star prime: rated vs non-rated**  
2 year annualised results to Mar 2011



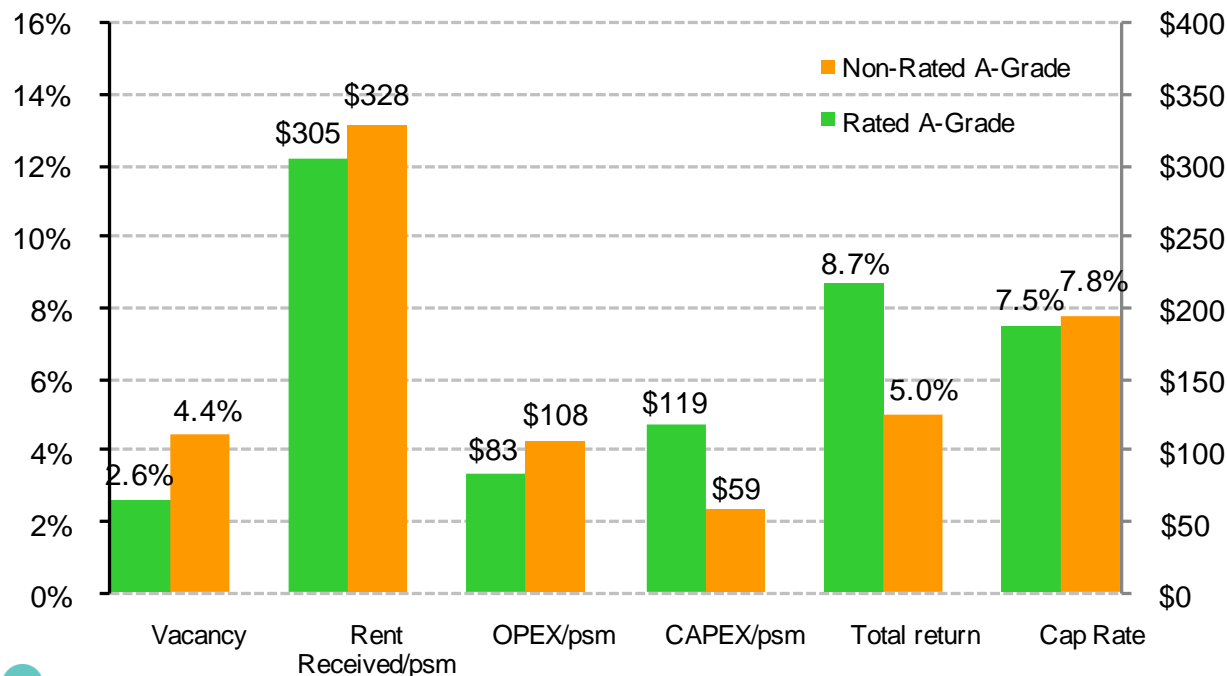
Source: IPD Research.

- Prime Green Star total return significantly outperforms the prime non-rated benchmark.
- Lower rent for Green star assets due to smaller/Non-CBD style assets and rents for new buildings struck at post GFC levels.

# Green Star A-grade assets - outperformance in space and investment metrics



**Green Star A-grade office: rated vs non-rated**  
2 year annualised results to Mar 2011



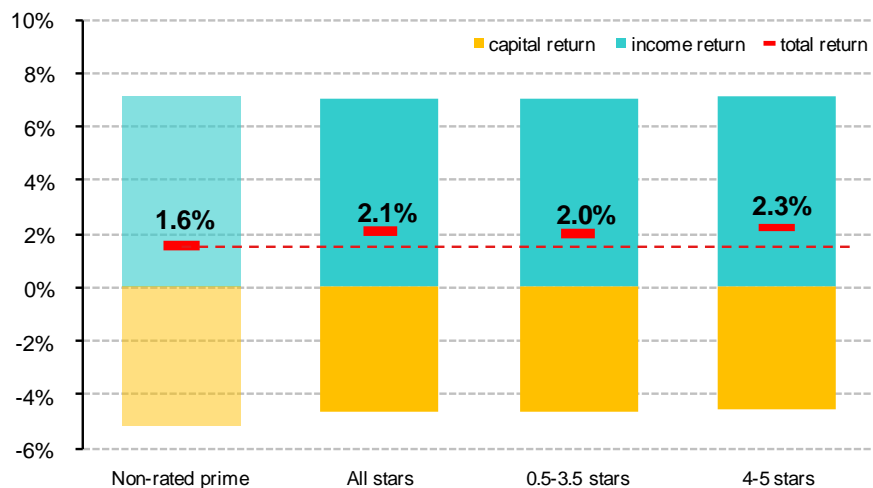
Source: IPD Research.

- Results for A-grade Green Star show similar performance profile to prime asset sample.

# Results for NABERS Energy - outperformance in returns and cap rates

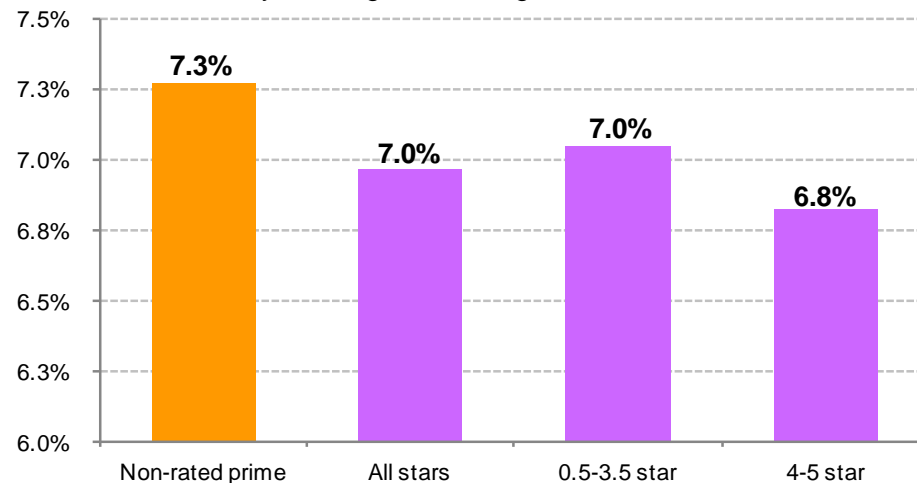


**NABERS Energy: returns for prime office**  
annualised 3 year returns to March 2011



Source: IPD Research.

**NABERS Energy: cap rates for prime office**  
3 year weighted average to March 2011



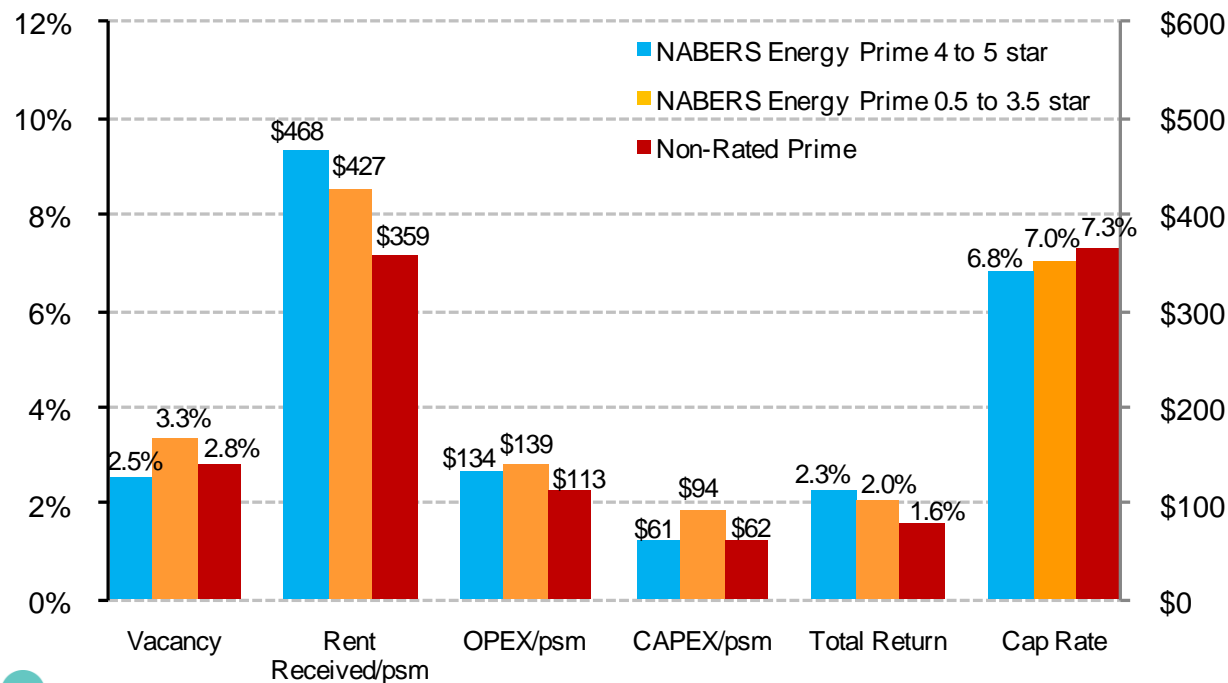
Source: IPD Research.

- The return spread between NABERS Energy prime and non-rated prime assets is c50bps.
- Inflection point for optimal return performance for NABERS Energy rated assets is 4 to 5 stars.
- Rated office buildings have lower cap rates – an average of 30bps.
- NABERS Energy excludes Green Star assets with NABERS Energy ratings.

# NABERS Energy prime assets - outperformance reflected in investment and space metrics



**NABERS Energy Prime: rated vs non-rated**  
3 year Annualised to March 2011



Source: IPD Research.

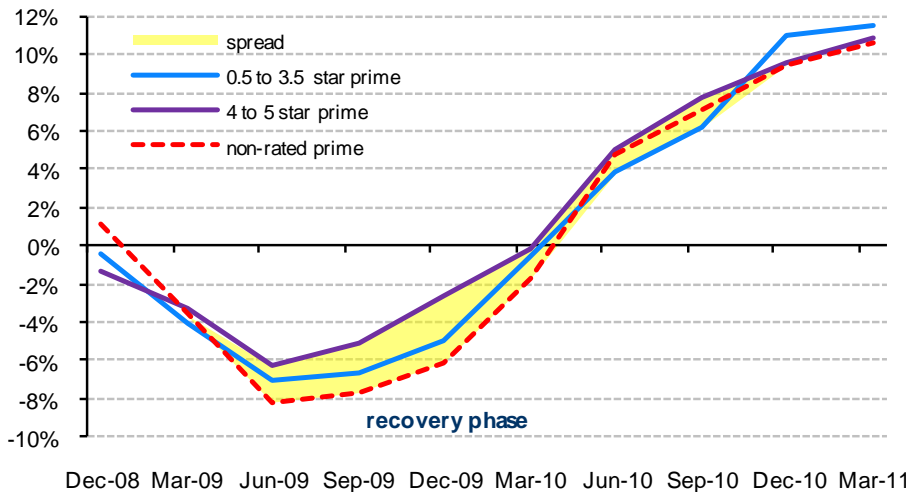
- Lower vacancy rates and higher rents indicate strong tenant demand for NABERS Energy 4 to 5 star.
- Higher OPEX in NABERS samples suggest greater cost of running energy saving systems and technology.
- Higher CAPEX in NABERS 0.5 to 3.5 indicates expense of energy technology upgrades.

# NABERS Energy assets

## - trends in return profile through the recovery phase

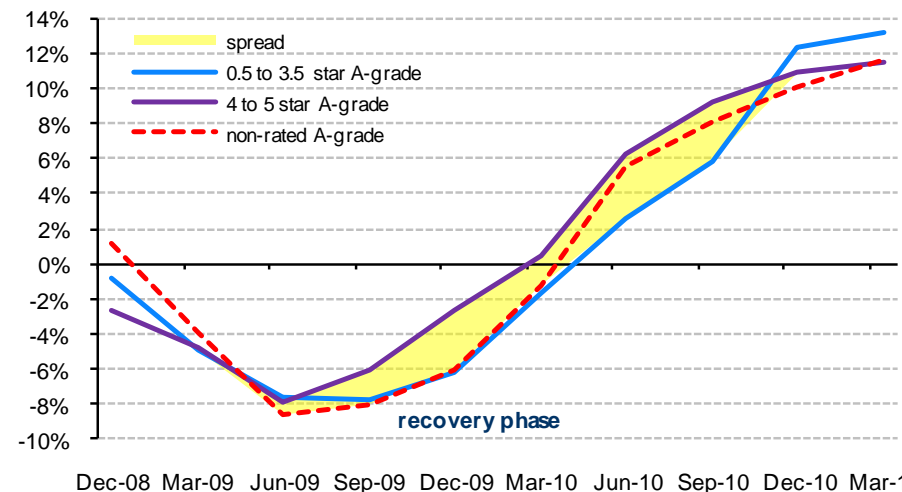


**NABERS Energy: return profile for prime office**  
annual return on quarterly periods to March 2011



Source: IPD Research.

**NABERS Energy: return profile for A-grade**  
annual return on quarterly rests to March 2011



Source: IPD Research.

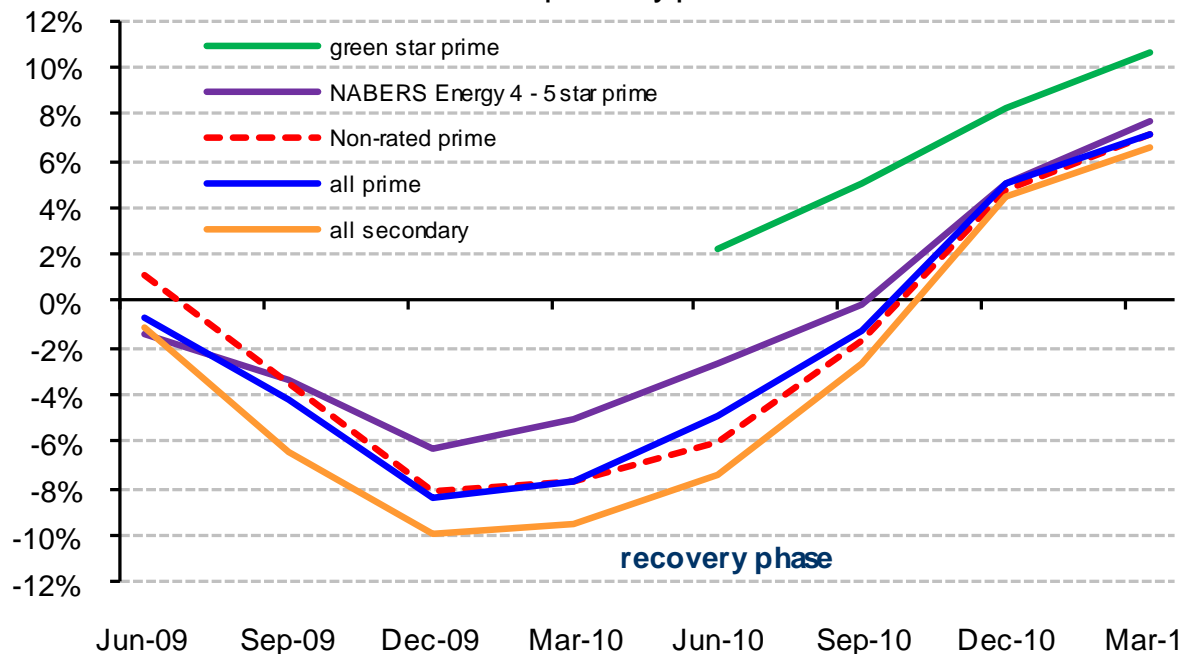
- NABERS Energy 4 to 5 star prime asset pool mitigates capital downside.
- 4 to 5 star outperforms in both prime and A-grade samples.

# Trends in office return profiles

## - rated assets outperform in the recovery phase



**Office return profile: quality vs rating**  
annual total return on quarterly periods to March 2011



Source: IPD Research.

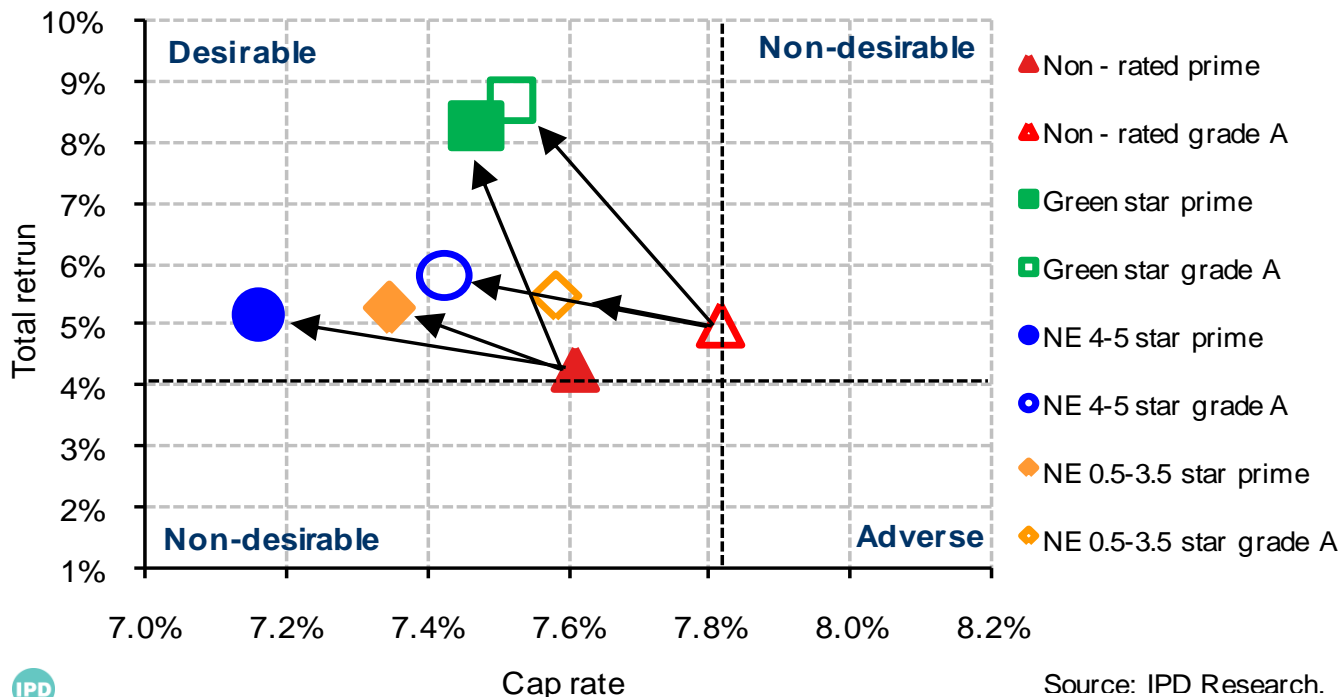
- Green Star and NABERS Energy 4 to 5 star lead traditional prime and secondary indices through the trough and recovery phase of the investment cycle.
- Results suggest a new grade paradigm with the addition of environmental performance ratings.

# Returns versus cap rates

## - outperformance in rated asset pools



**Office property sector: return versus cap rate**  
annualised 2 year values to March 2011



- Assets with a high environmental performance rating have an advanced investment proposition.

① Commercial property markets

② Green property investments

③ Panel discussion

- Moderator: Adrian Harington, Head of Funds Management, Folkestone.
- Panel:
  - Matthew Clarke, Director Water & Energy Programs, NSW Office of Environment and Heritage
  - John Freedman, Head of Real Estate & Contractors Research, UBS AG
  - Graham Pearson, Fund Manager, DEXUS Property Group
  - Craig Roussac, GM Sustainability, Safety & Environment, Investa PG

# Contact



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