

# **PCA CMLS presentation**

## **Recent trends in the commercial property investment markets**

Adrian Harrington, Chairman  
IPD Australia and New Zealand  
Wednesday 25 May 2011

On the pulse of  
the property world

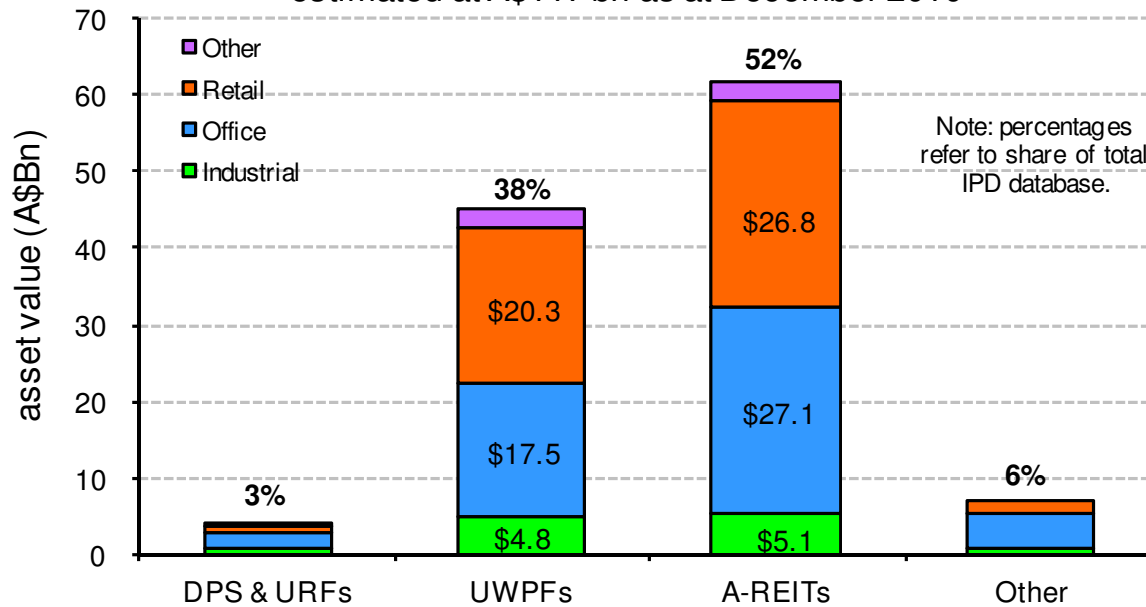


- ① Commercial property market performance
- ② Global investment performance
- ③ Investment property funds
- ④ Green Index
- ⑤ Summary remarks

# IPD property database - exposure by property sector and ownership structure



**Size of IPD AUS commercial property database**  
estimated at A\$117 bn as at December 2010



Note: "Other" denotes other corporations and government.

Source: IPD Research.

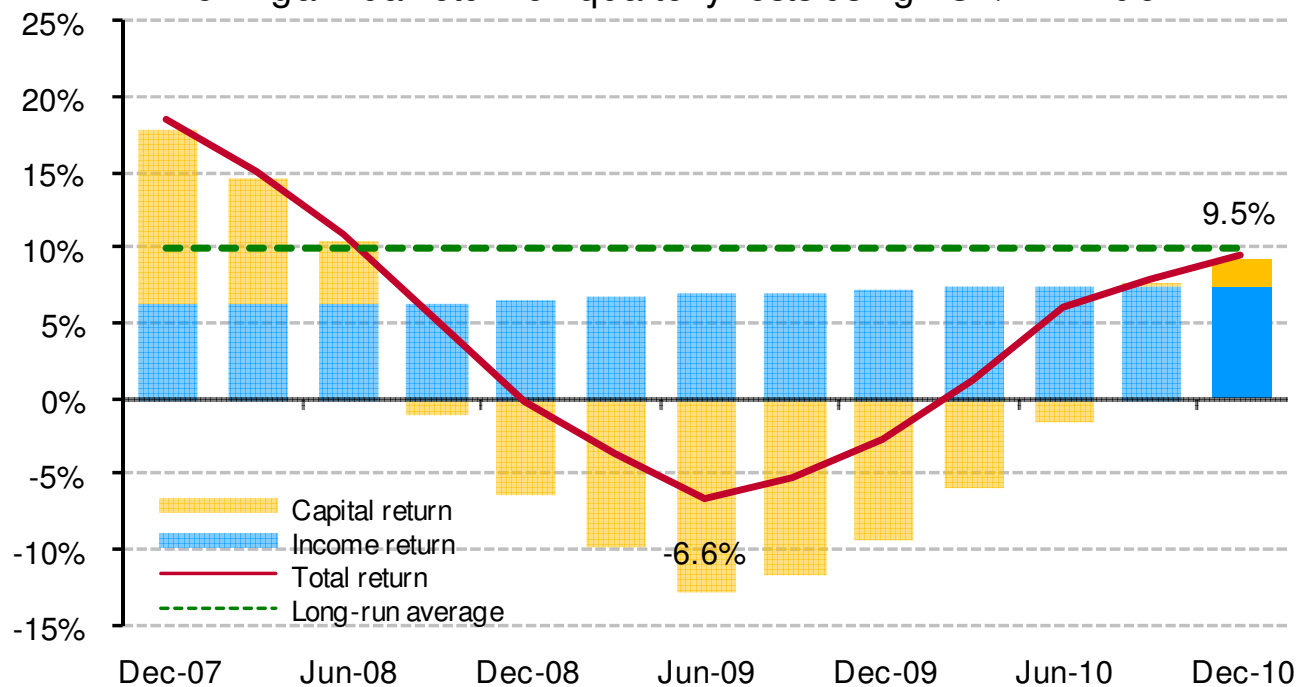
## INDEX DATABASE

- **SIZE: 1,503 investments** (1,160 in 2009:Q4)
- **VALUE: A\$117.4 billion** (A\$87.5 bn in 2009:Q4)
- **Participants: 35** (23 participants in 2009:Q4)

# Property investment performance - strengthening property returns but clearly moderating



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



Source: IPD Research.

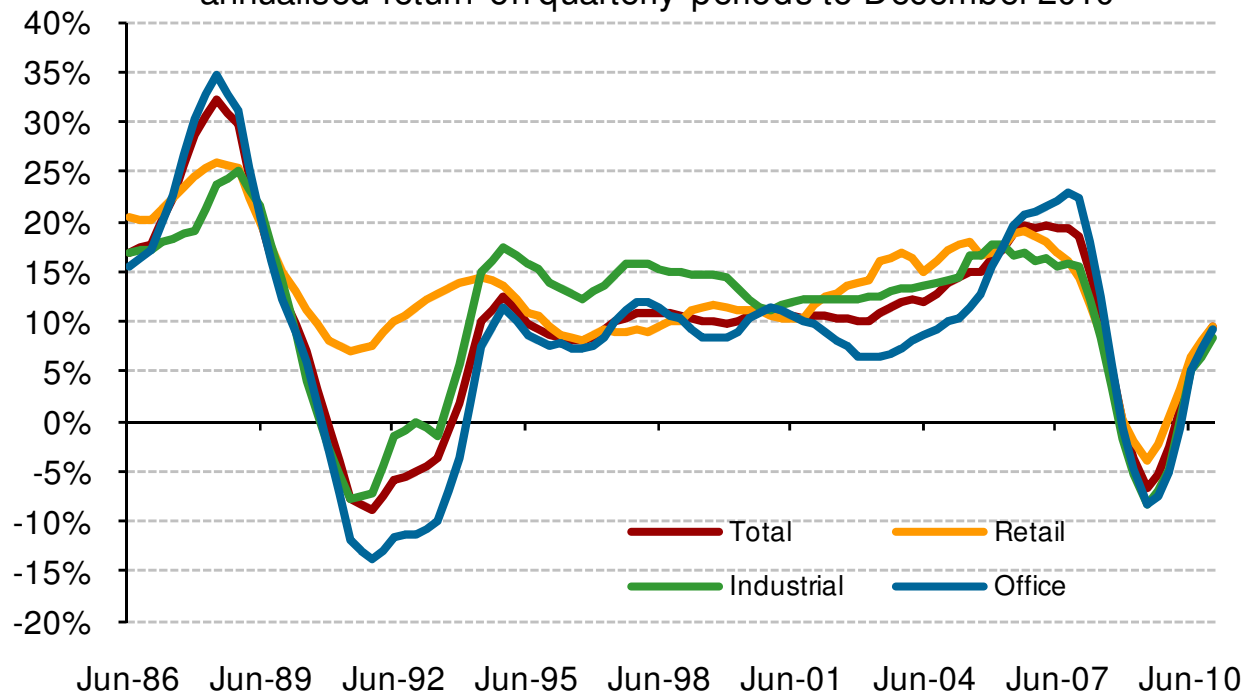
- Total annual return for 2010:Q4 stood at +9.5%. This was comprised of a 7.5% income return and 1.8% capital return.

# Property sector performance - synchronicity across core sectors



## Direct property total returns

annualised return on quarterly periods to December 2010

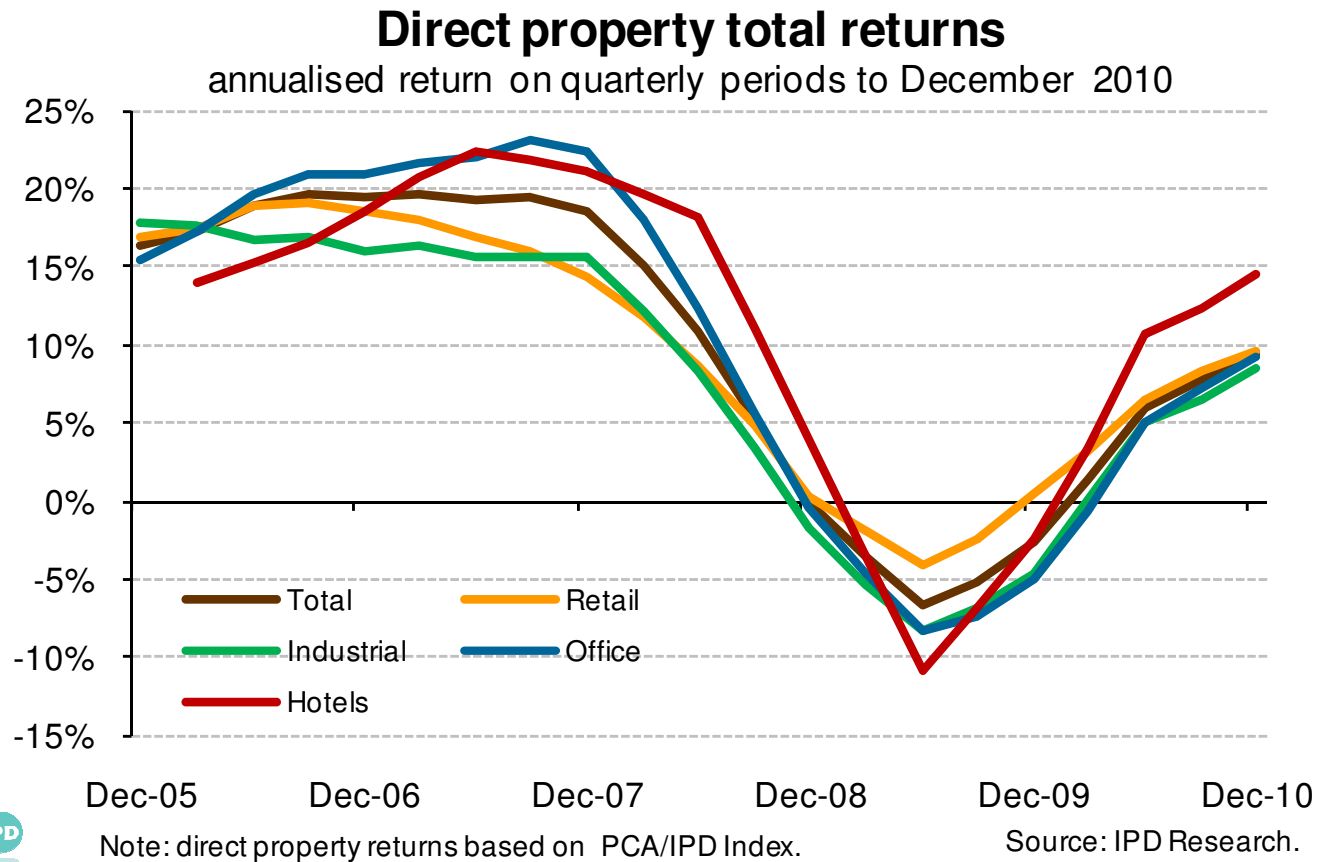


Note: direct property returns based on PCA/IPD Index.

Source: IPD Research.

- Closer synchronisation in this cycle due to capital market rather than space market drivers.

# Property market sector cycles - hotel sector leads the recovery



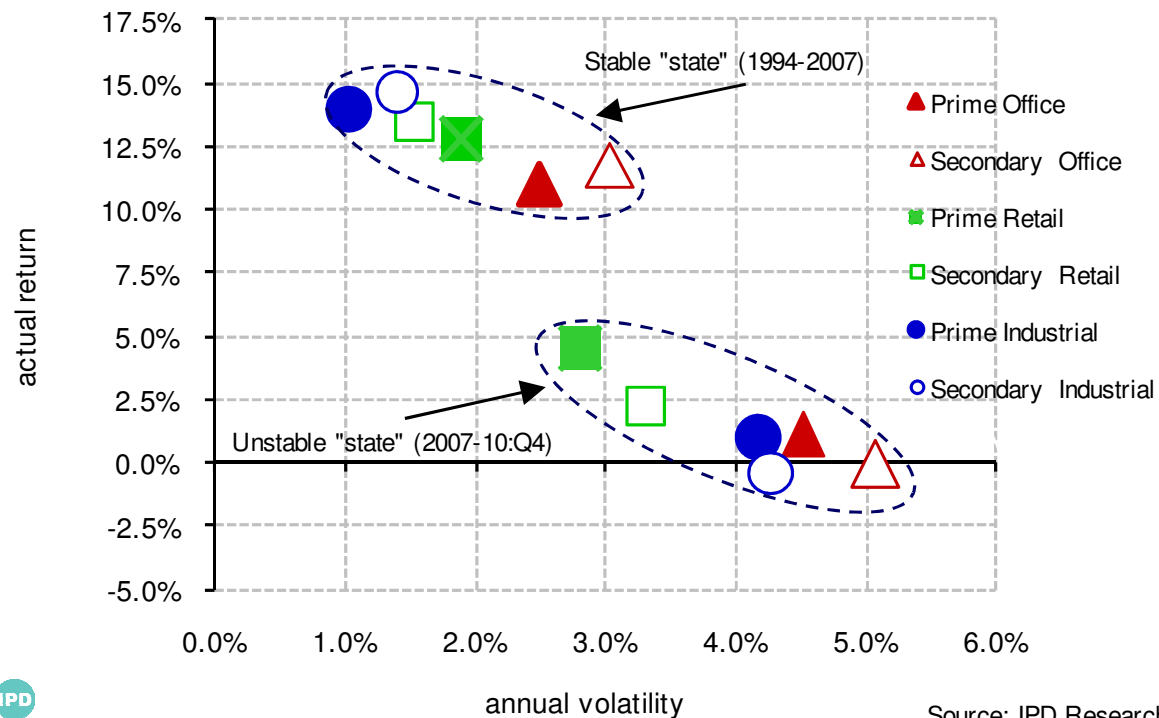
- Hotel returns are highly positively correlated with office and industrial sector returns.

# Sector dynamics across quality

## - risk-reward trade-off has changed



**Risk-reward trade-off for property sectors**  
annualised observations



Source: IPD Research.

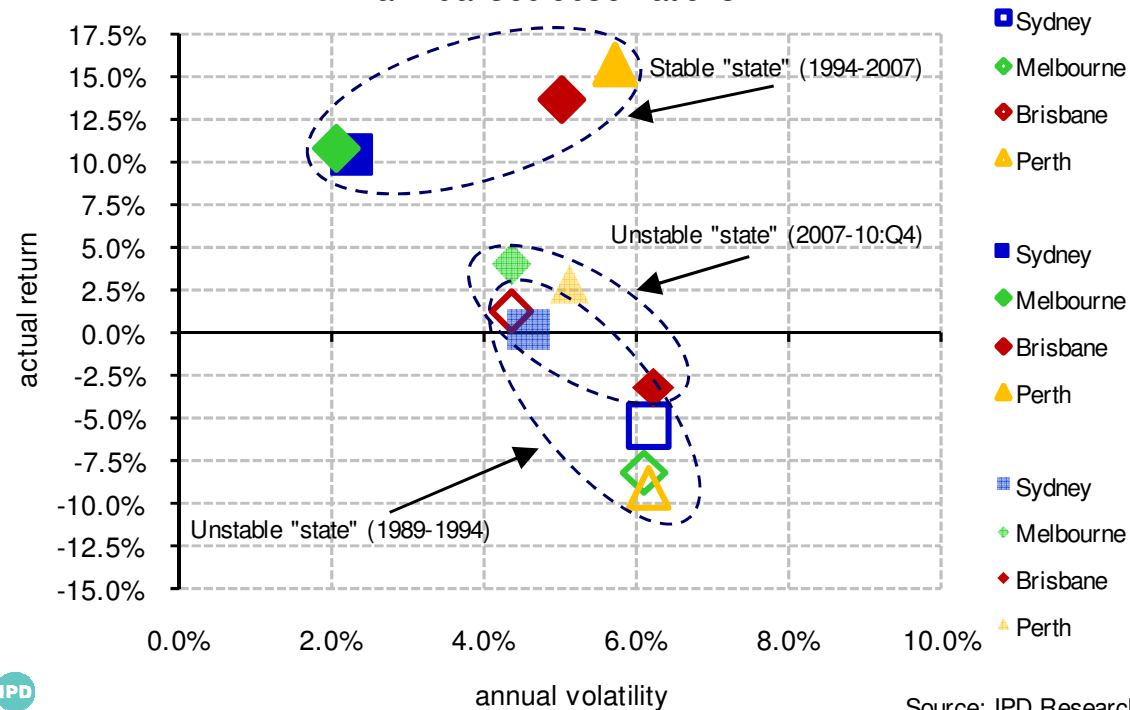
- Prime markets outperform secondary markets in current market cycle.
- In current cycle, secondary markets display lower return and higher volatility.

# CBD office market dynamics

## - risk-reward trade-off has changed



**Risk-reward trade-off for CBD office markets**  
annualised observations



Source: IPD Research.

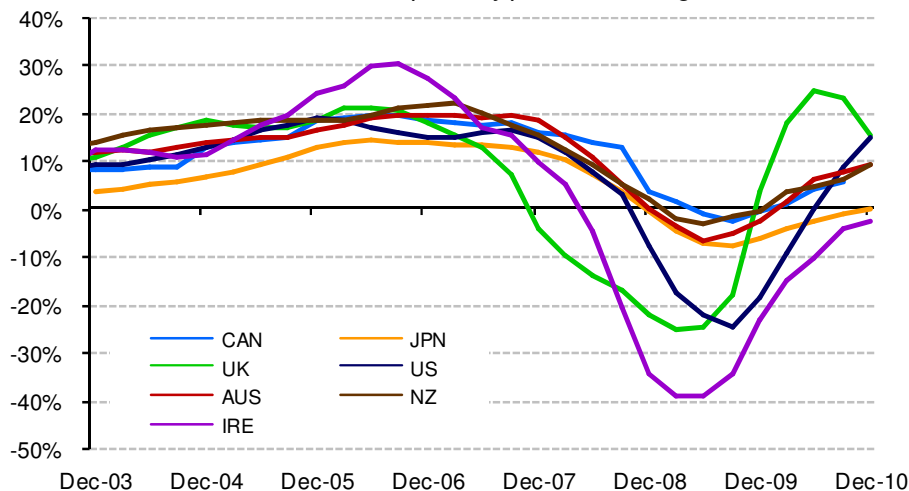
- Brisbane and Perth display greater risk and return than Sydney and Melbourne during stable period.
- Office markets move into a similar states during unstable periods of early 1990s and the recent downturn.

# Global property cycles

## - significant divergence in downturn and recovery profile across markets



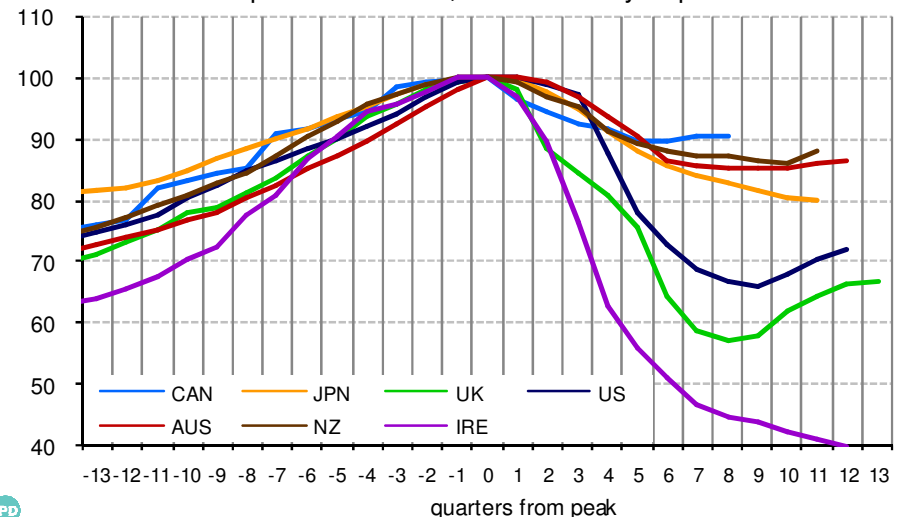
**Return profiles for selected property markets**  
annual nominal return on quarterly periods, ending Dec 2010



Note: direct property returns based on global IPD indices.

Source: IPD Research.

**Capital growth profiles for selected markets**  
capital return index, 100=current cycle peak



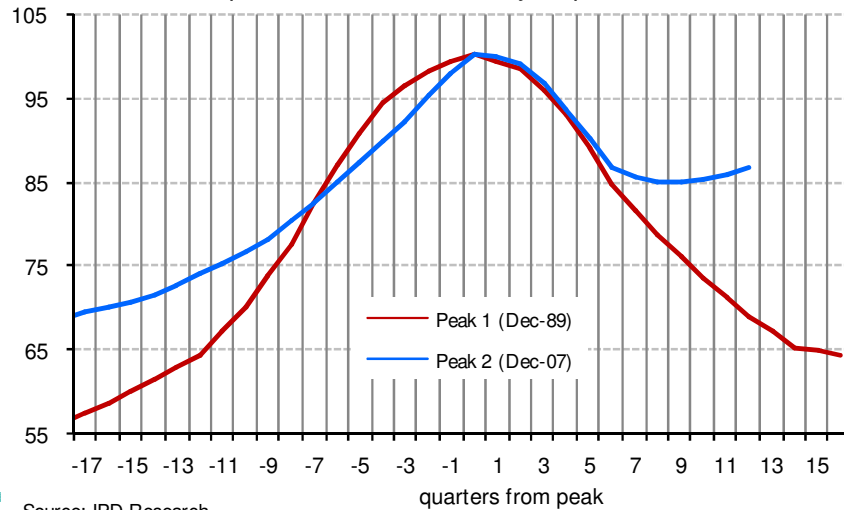
Source: IPD Research.

- The divergence in the investment profiles reflects the degree of the GFC fallout on the macroeconomy, including credit markets and labour markets.

# Comparing property downturns - the nature of cycle downturn is linked to macroeconomic conditions

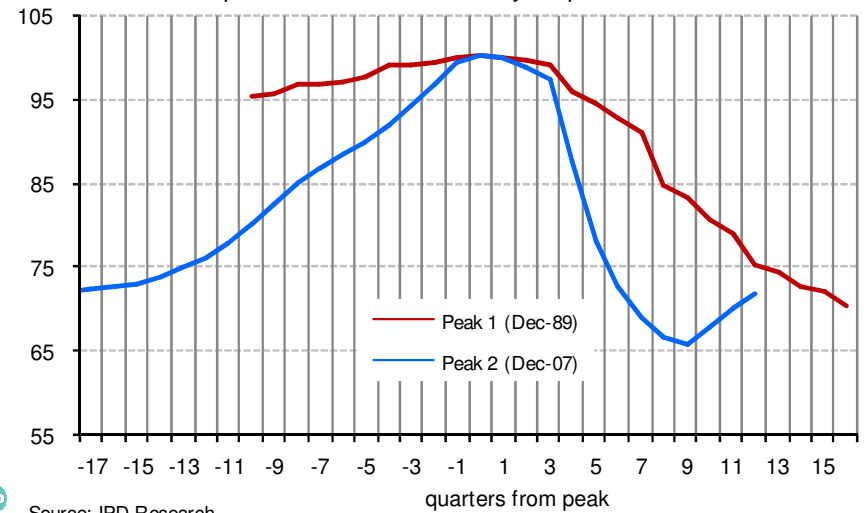


**Capital growth cycle peaks for AUS**  
capital return index, 100 = cycle peaks



Source: IPD Research.

**Capital growth cycle peaks for US**  
capital return index, 100 = cycle peaks



Source: IPD Research.

### AUS: unemployment rate

- 1990-1992: 11.2% (change: 5.4ppts)
- 2007-2010: 5.8% (change: 1.9 ppts)

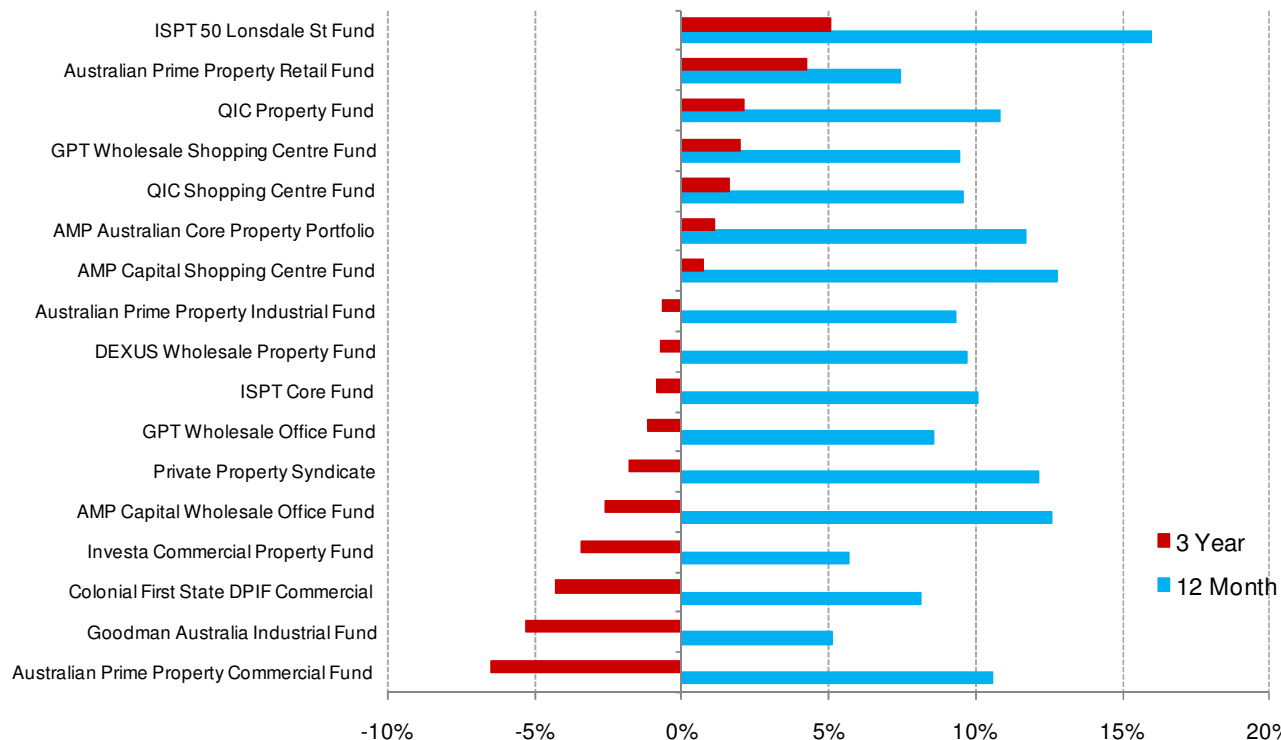
### US: unemployment rate

- 1990-1992: 7.8% (change: 2.6 ppts)
- 2007-2010: 10.1% (change: 6.3 ppts)

# Wholesale fund return performance - fund rankings based on 3 year returns



## Unlisted wholesale property fund returns annualised returns on a post-fee basis as at April 2011



Source: Mercer, IPD Research.

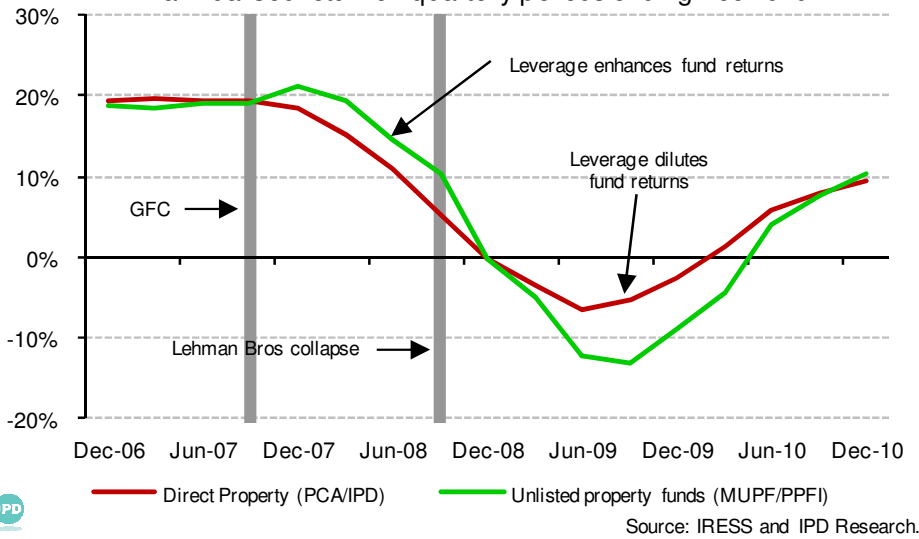


- **Wide variation in performance across wholesale managers over the past 3 years.**
- **Greater scrutiny on manager skill – who and what will add most value.**

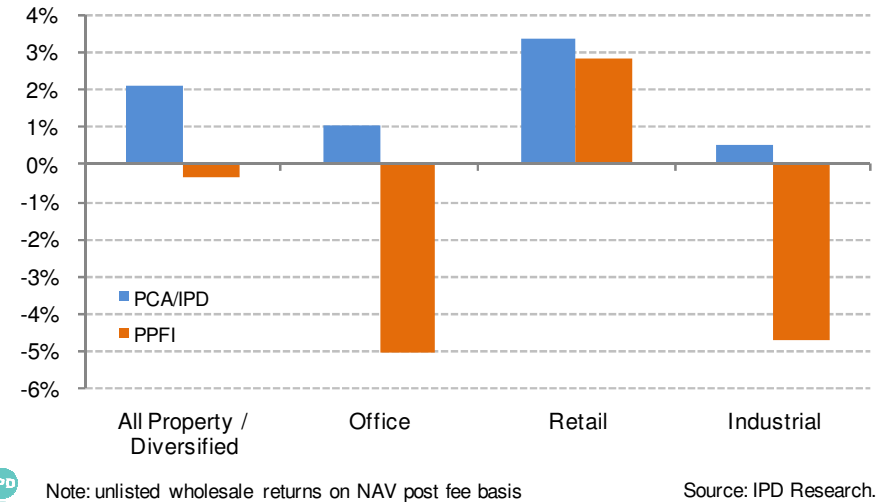
# Asset versus fund performance - underperformance of funds reflects adverse impact of leverage



**Direct property versus unlisted property funds**  
annualised return on quarterly periods ending Dec 2010



**PCA/IPD Index vs PFI Unlisted Wholesale**  
3yr annualised returns to Dec 2010

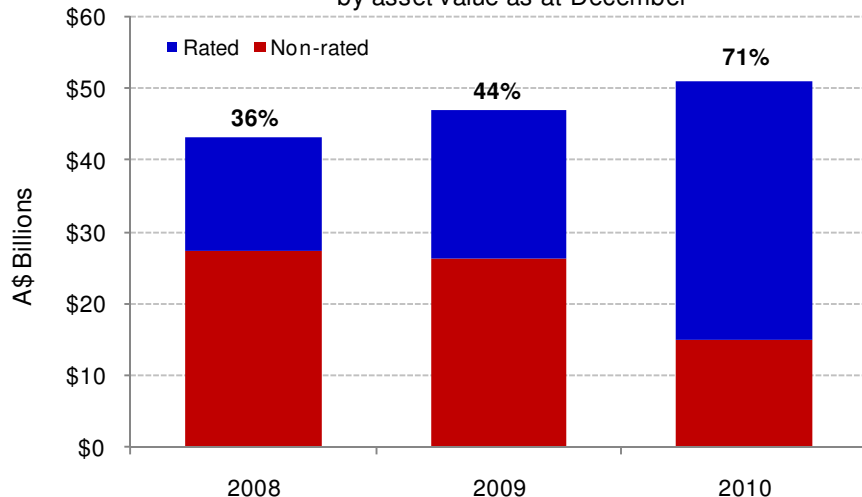


- **Leverage is the main factor for disparity between asset level and fund level returns.**

# PCA/IPD Green index - rated office buildings represent a significant share of database



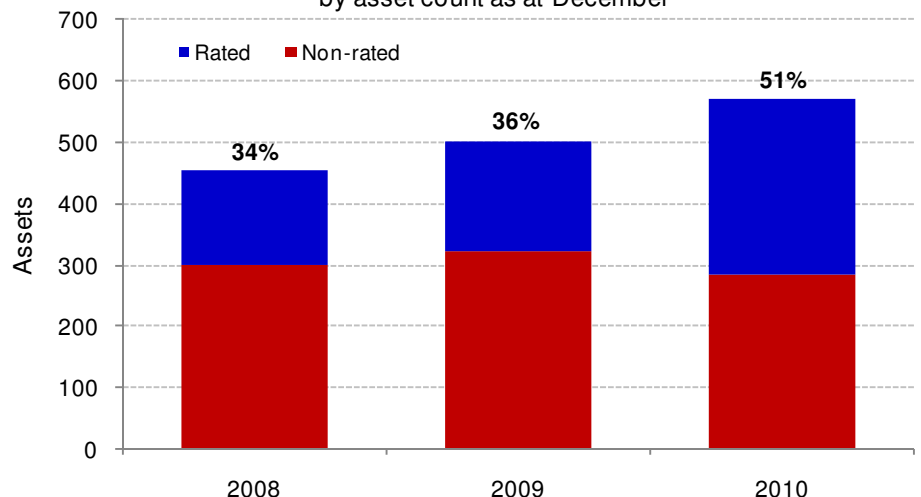
**Database of rated and non-rated office assets**  
by asset value as at December



Note: percentage refers to share of rated assets in the database.

Source: IPD Research.

**Database of rated and non-rated office assets**  
by asset count as at December



Note: percentage refers to share of rated assets in the database.

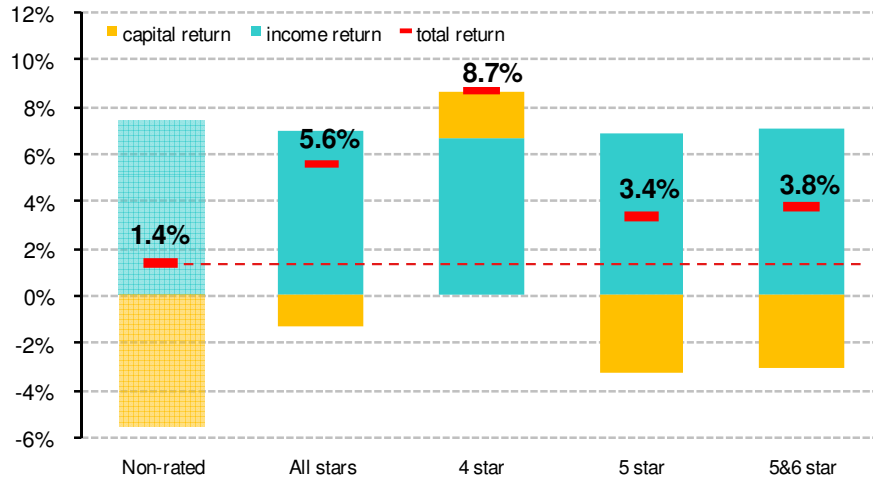
Source: IPD Research.

- The Australian IPD database currently has c1,500 of commercial assets with an asset value of c\$117bn. It represents c60% of investment-grade property in Australia.
- Commercial office assets account for c570 assets with a combined asset value of \$51 bn.
- Rated office assets (c\$36 bn) now represent a significant share of the office asset database.

# Index results for Green Star - office market total return and cap rates

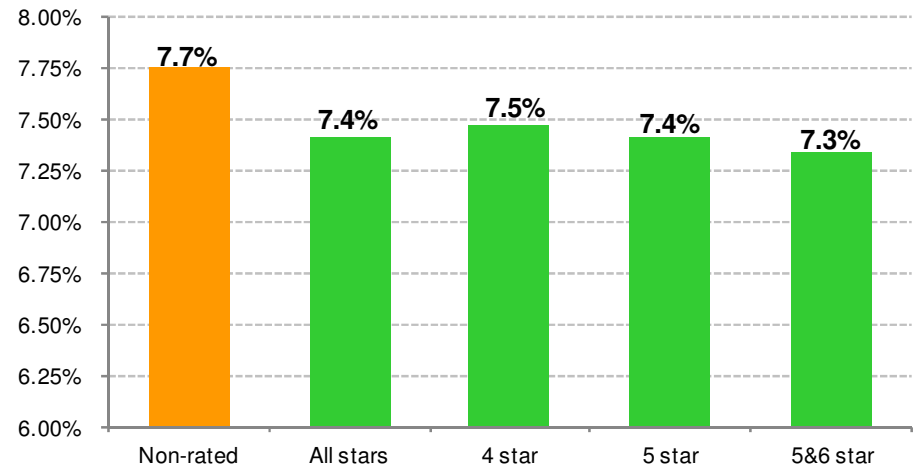


**Green Star: returns for office market**  
annualised 2 year returns to Dec 2010



Source: IPD Research.

**Green Star: cap rates for office**  
averaged over 2 years to December 2010



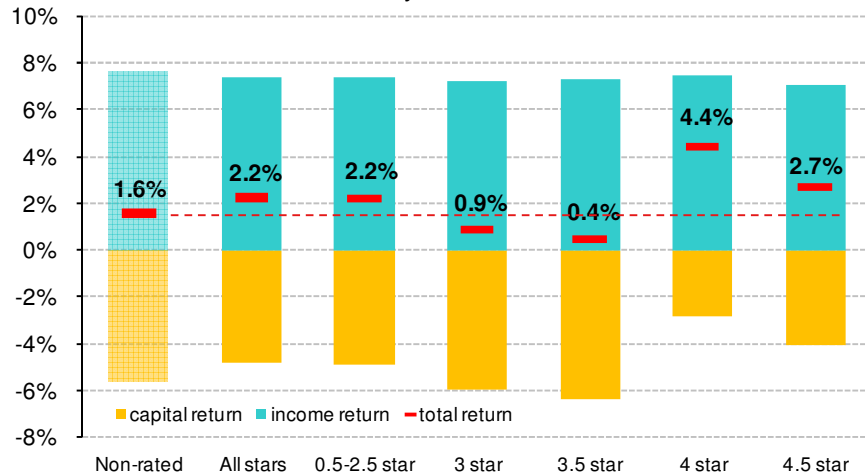
Source: IPD Research.

- The return spread between rated and non-rated buildings with a Green Star rating is c420bps.
- Rated office buildings have lower cap rates – an average of 30bps.

# Index results for NABERS Energy - office market total return and cap rates

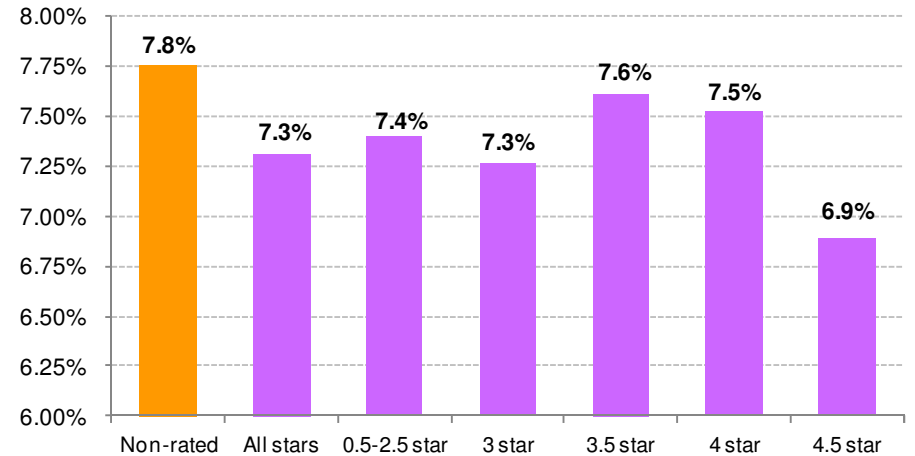


**NABERS Energy: returns for office market**  
annualised 2 year returns to Dec 2010



Source: IPD Research.

**NABERS Energy: cap rates for office**  
averaged over 2 years to December 2010



Source: IPD Research.

- The return spread between rated and non-rated buildings with a NABERS Energy rating is c40bps.
- Buildings with a rating of 4 star or above deliver higher returns than buildings with a rating of 3.5 star or below.
- Rated office buildings have lower cap rates than the non-rated building pool.

# IPD going forward



- **Commercial property database**
  - On-going expansion of the asset database
  
- **Property indices**
  - *Ownership structure* – analysing asset level performance across REITs, wholesale funds and retail funds
  - *Green Index* – expanding the diagnostic metrics to better understand the merits of green investment
  
- **Portfolio analysis**
  - Provide detailed *attribution analysis* across sectors and funds
  - Undertake *reconciliation analysis* between fund and asset level
  
- **Global property markets**
  - Expanded analysis of the Australian market relative to other global markets

# Contact



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