



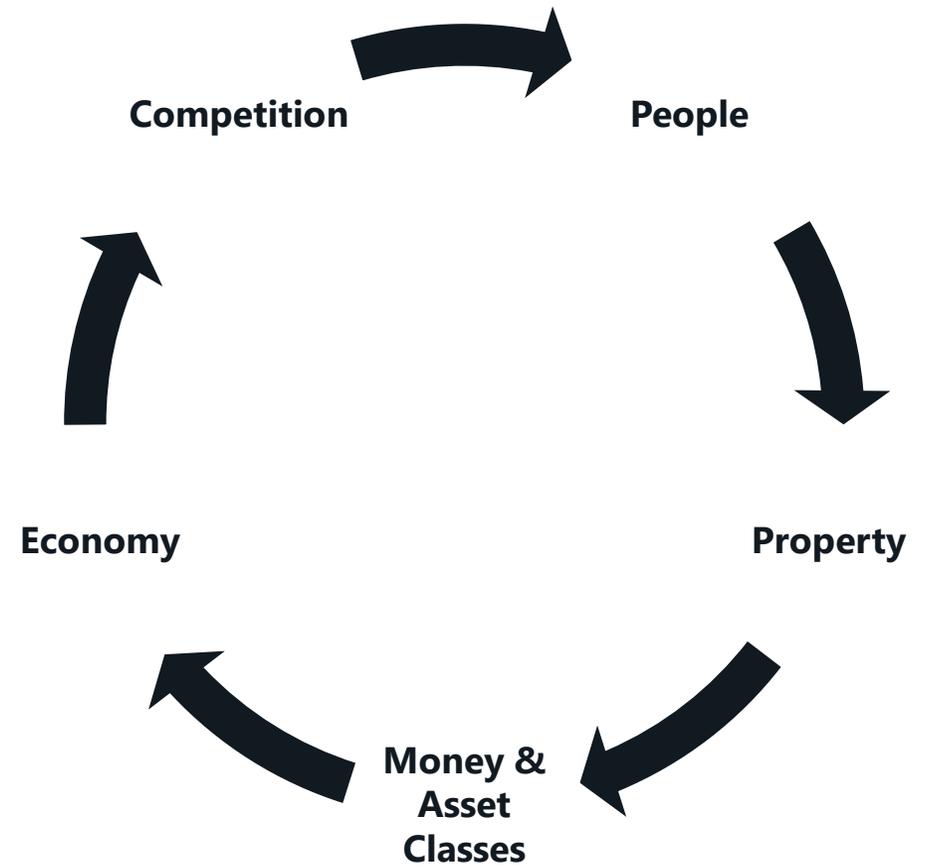
A Conversation in Valuation TAFE NSW Property Valuation Degree

20th July 2023

Presented by
Gregory Preston AM



Preston Rowe Paterson
International Property Consultants and Valuers





THE ECONOMY



Marbles Up In The Air



Preston Rowe Paterson
International Property Consultants and Valuers



Easing inflationary pressure in 2023

Work from home

Business Confidence Resilience!

Rent Review Type and Frequency?

Listed WACC - Relationship with Discount Rates and Cap Rates?

Office Use Demand Evolution?

Premium Versus A, B and C Grade Office?

Cash Rate Increasing?

New Demand New Supply?

Construction Cost Increases!

Weight Of Capital - is it a cushion to decompression?

Hedging For the Times?

Liquidity (Listed immediate response - versus Unlisted)?

Continuing Hectic Times

Pent Up Demand!

Victorian Tax Reform - Land Tax Stamp Duty

Historic and Current Vacancies - A Story!

Rental Cash Flow Resilience?

Yield Curve?

Debt- Equity Ratios!

Balance Sheet Impact?

Hedging Strategies - Income and Debt!

COVID Black Swan - Impact Lingers!

Rising Cost of Debt?

Equity Betas?

Cap and Discount Rate Stability?

RAPID INFLATION - ABERRATION OR LONG TERM?

Supply Chain Disruption!

Risk Free Rate (10 yr. Bond Rate) Increasing?

Statutory Outgoings and Opex - Inflation?

Albanese Government are being tested

Swap Rates?

New Strategies for Lease T & C's

Industrial Versus Retail Versus Office?

Pre-COVID Legacy Lease T&C's

CPI and Face/ Effective Rent Movement?

Premium Offices versus A,B and C Grade

Cap & Discount Rate Expansion (OR Decompression)?

Impact of Ukraine?

Sydney vs Melbourne forward office supply?

Due Diligence Timing





2023 - Forces Driving Change

- **Central banks increasing rates to curb inflation**
- **Increase in short and long term to maturity rates due to the cash rate increasing**
- **The impact of the increasing cash rates on the yield curve and money markets in general**
- **Inflation - economic cycle duration?**
- **Consequential impact on property cap rates and discount rates, development values as if complete, development cost and debt service cost**
- **COVID-19 induced supply chain disruptions (China) – borders now opening up and supply chain distantly improving**
- **The War in Ukraine and wage claims accelerating inflation**
- **Global flow on effect of the US Fed Reserve interest rate rises**
- **No asset class is immune to the cost of capital increasing and**
- **Impact on market rent relative to lease rent?**
- **Listed REIT trading price corrections and Unlisted fund redemptions**
- **Consequential impact of all this on development site values – stable (slightly corrected residential values and rising rents) conundrum or opportunity?**
- **AI**



Things that are front of mind!

Coming off Covid 2020 & 2021 lockdowns & Government ordained / landlord funded waivers and deferrals. 2023 – the Greens are trying to introduce rental control

Leading into 2022 post Covid lockdown breakout of global inflation, then the Ukraine War and now wage claims

In mid 2023 Capital is fence sitting for now.....slowed transaction volumes as a result, and uptick in yields

The slowing down of leasing transactions is also problematic in some asset classes (office)

Lockdown influenced Work From Home – Can the clock be turned back?

Valuers historically accused of being backward looking and being questioned on the media

Fundamental valuation principals – willing buyer and seller acting knowledgeably, prudently and without compulsion (Spencer) with limited transactions – point in time!

Existing lease rental growth versus making a call on “market rent” and rental growth as well as cap and discount rates in the inflationary economy

Development environment different with materials supply chain and cost inflation, as well as values as if complete and debt cost impact

The market value and time to sell conundrum resurfaces

Forced sale reemerges as a valuation principle

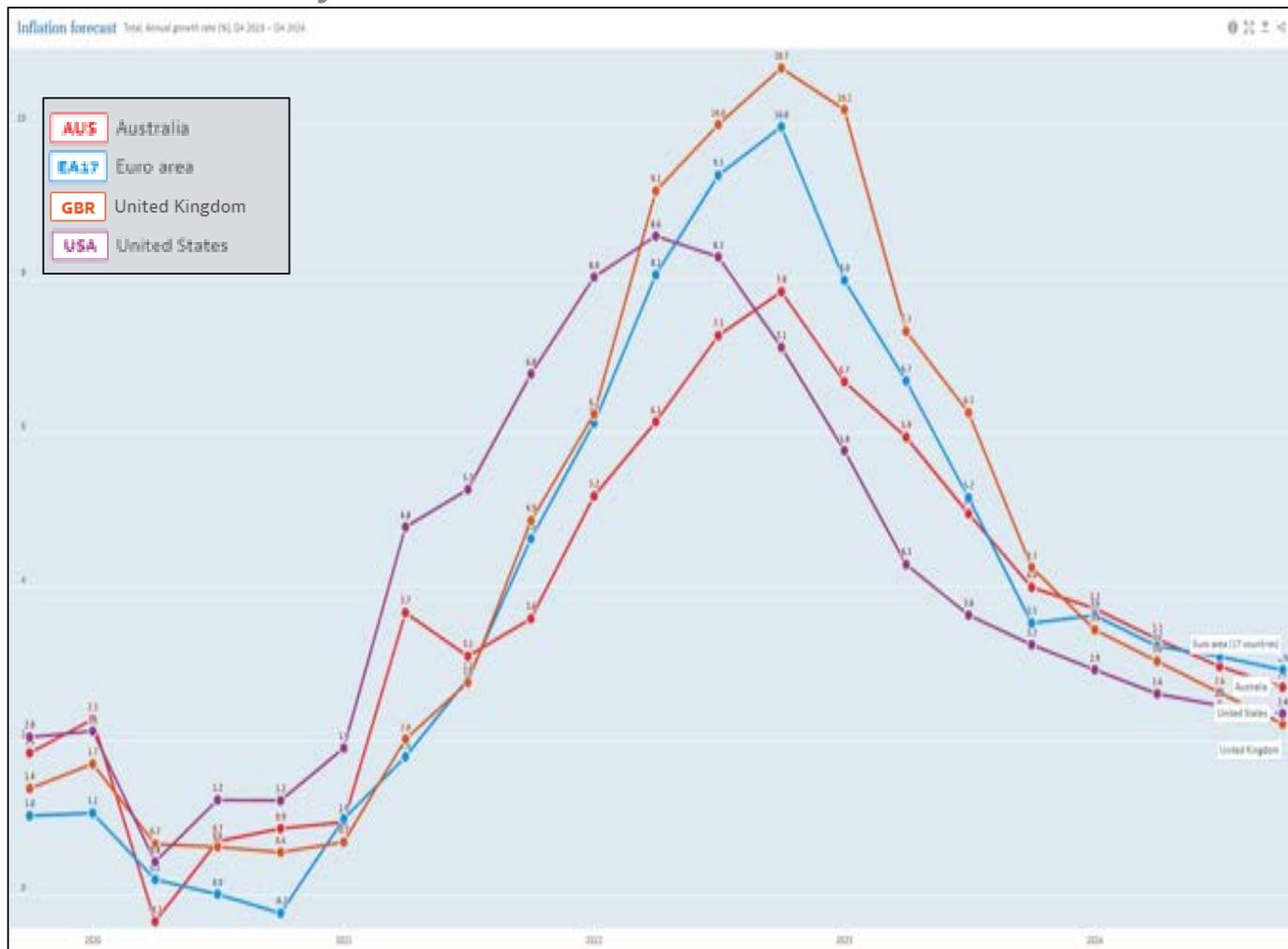


**And also,
the economic
forecasts**



OECD and RBA Inflation Forecasts

Sourced on 20 July 2023



Source: OECD.org (2023)

OECD - peak at 7.8% in Qtr 4 2022

Issued on May 2023

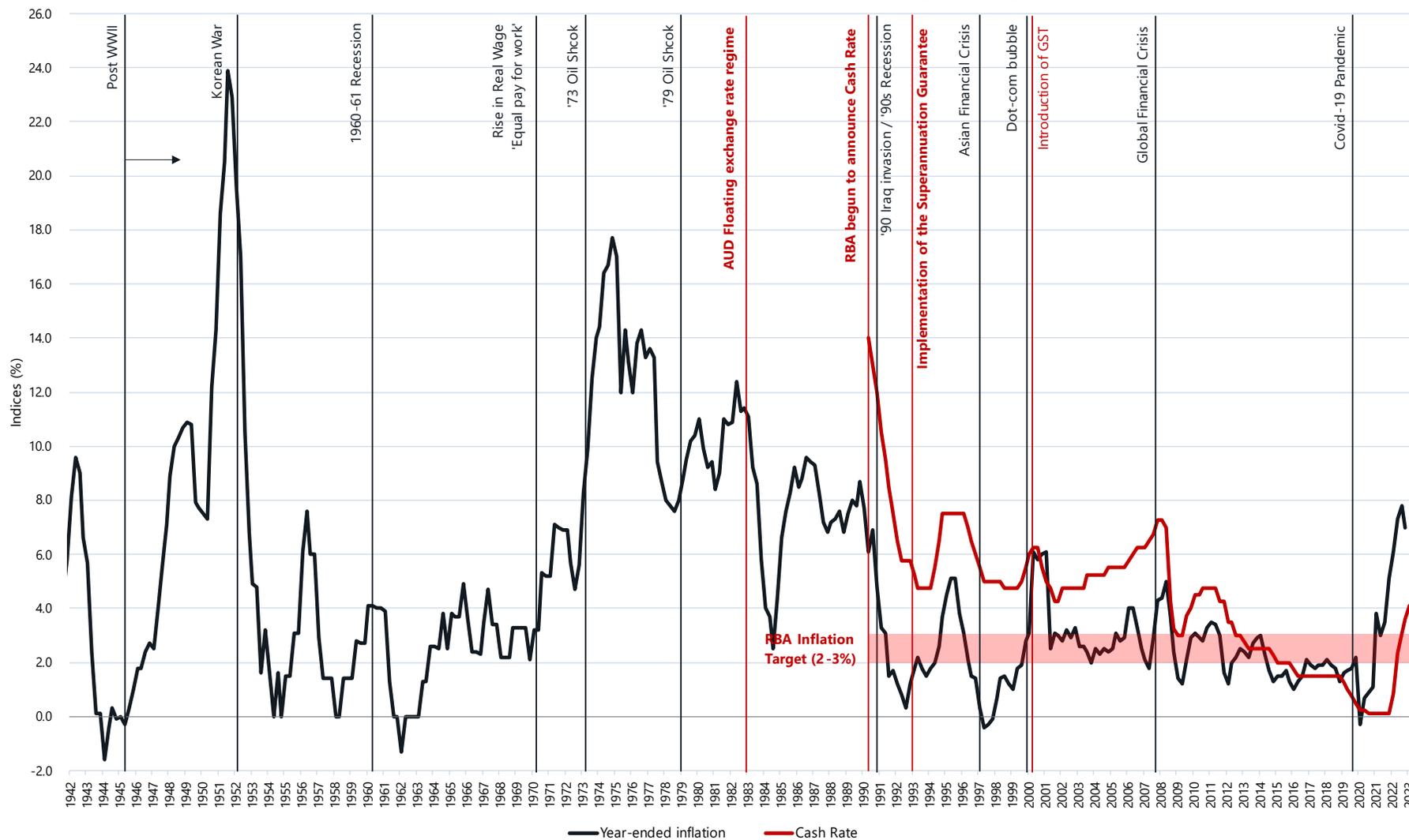
Table 1: Forecast Table – May 2023^(a)
Percentage change over year to quarter shown^(b)

	Dec 2022	Jun 2023	Dec 2023	Jun 2024	Dec 2024	Jun 2025
Gross domestic product	2.7	1.7	1.2	1.4	1.7	2.1
Household consumption	5.4	1.8	1.3	1.8	2.1	2.4
Dwelling investment	-3.7	0.3	0.2	-2.4	-3.0	-0.5
Business investment	3.1	2.2	2.3	1.6	1.9	2.6
Public demand	2.6	1.1	0.9	1.2	2.0	2.4
Gross national expenditure	3.2	1.0	1.2	1.5	1.7	2.1
Imports	12.1	3.3	7.0	5.0	3.4	2.7
Exports	7.7	7.3	6.1	4.0	3.0	2.5
Real household disposable income	-3.3	-2.5	0.0	0.4	1.8	3.0
Terms of trade	7.2	-7.0	-4.5	-5.0	-4.1	-3.7
Major trading partner (export-weighted) GDP	2.3	4.3	4.0	3.5	3.5	3.7
Unemployment rate (quarterly, %)	3.5	3.6	4.0	4.2	4.4	4.5
Employment	5.0	2.5	1.6	1.1	1.0	1.1
Wage price index	3.3	3.8	4.0	3.9	3.8	3.7
Nominal (non-farm) average earnings per hour	2.5	4.2	5.3	4.8	4.4	4.1
Trimmed mean inflation	6.9	6.0	4.0	3.3	3.1	2.9
Consumer price index	7.8	6.3	4.5	3.6	3.2	3.0

Source: Reserve Bank of Australia (2023)

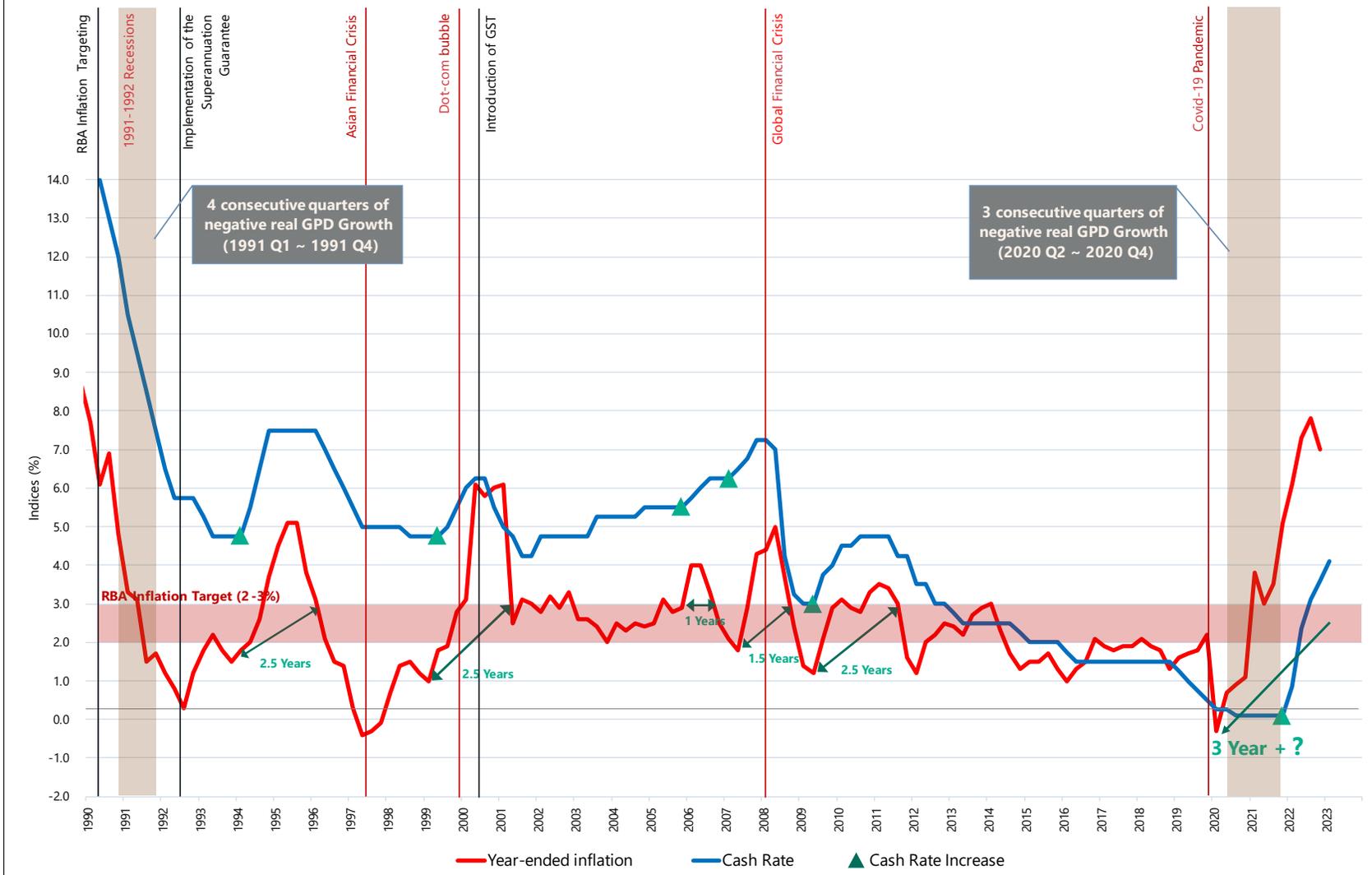
RBA - peak at 7.8% at Year end December 2022

Historical Inflation and RBA Monetary Policy



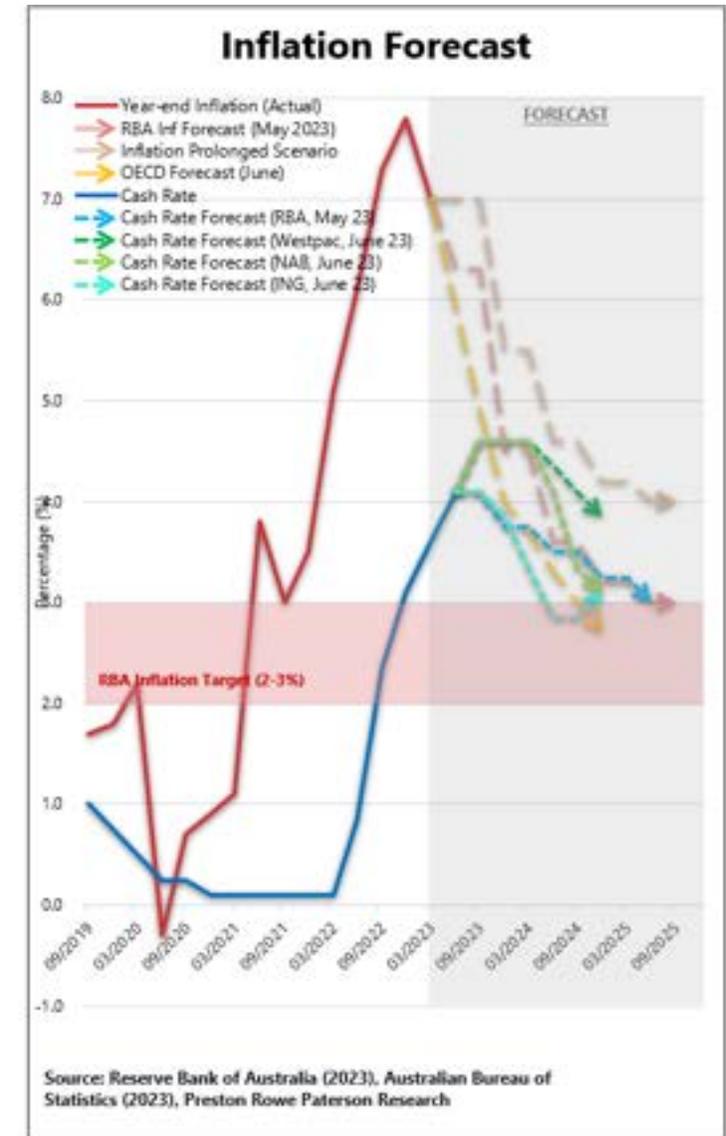
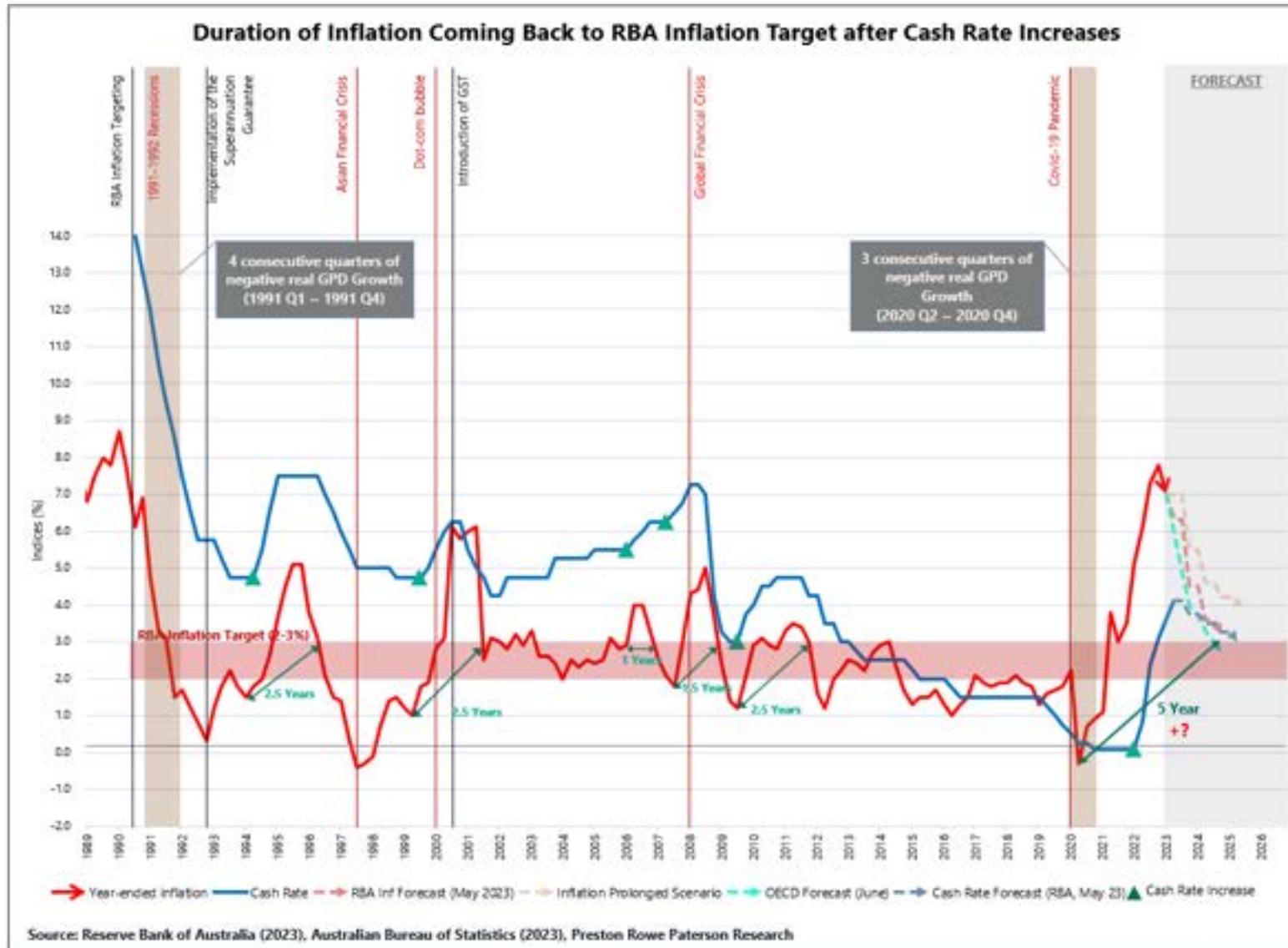
Source: Reserve Bank of Australia, Australian Bureau of Statistics Preston Rowe Paterson Research

Durations of Inflation Coming Back to RBA Inflation Target after Cash Rate Increases



Source: Reserve Bank of Australia, Australian Bureau of Statistics, Preston Rowe Paterson Research

Inflation forecast





**Many valuation
challenges with all
this going on**

Reduced number of sales and leasing transactions – detailed analysis of them will tell the story in due course (forced sales)

Impact of rising interest rates on investment and development markets

Ongoing Covid tenant stress in some sectors

Office versus industrial versus retail – very different characteristics post COVID and into inflationary environment

Rising construction costs and supply chain timing disruptions

People with longer positions in property and manageable gearing will weather the storm better

Recent buyers at high LVR's across all asset classes under more pressure

Valuing only looking backward at yesterday's market transactions is problematic

Taking a view on the consequential economic impact on net incomes, yields and discount rates and the duration of the cycle paramount

Office occupancies and resultant rental cash flows an unresolved challenge

Monitoring the case for recompression timing will be a further challenge





**Valuation - a Foundation
Stone for a Career in Real
Estate/Property**



What Makes a Good Valuer

Eye for detail

Education

Experience

Building blocks to complexity

Understanding valuation maths
and not just being a model
data input junkie

Understanding the property
economy for asset classes and
what make them tick

Understanding the markets,
buyers, sellers, lessees and
lessors and their motivations

Someone who kicks all the
rocks over and thinks about
and comments on what's under
them

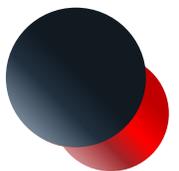
Exhausting the investigatory
process and getting it right

Keen listener and learner

Understanding the valuation
standards and accounting
standards they impact
valuations processes.

Great with people – real estate
is a people business



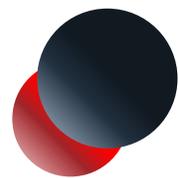


Career Opportunities in Valuation

- Residential Valuation
- Commercial valuation
- Plant and machinery valuation
- Infrastructure valuation
- Consulting and advisory
- Asset and funds management
- Development
- Banking
- Government and private sectors.



How to get started in the industry



- Degree Qualification
- API CPV a must (API Course)
- Join the API as a student member and network, network, network!
- Be an avid user on LinkedIn (Professional social media)
- Building your contacts
- Follow firms that you aspire to join and share their content with others
- Write topical content and share it
- Find a firm or government agency that is willing to mentor you
- Keep in touch with your student colleagues throughout your career
- Apply for positions and don't give up! Keep applying



The Importance of API Membership



- Networking
- Accreditation in the Profession (CPV)
- Continuing Professional Development (post graduation)
- Evolution
- Standards commentary and development
- Connectivity with peer valuers as well as clients
- Keeping up to date with topic economic and market issues



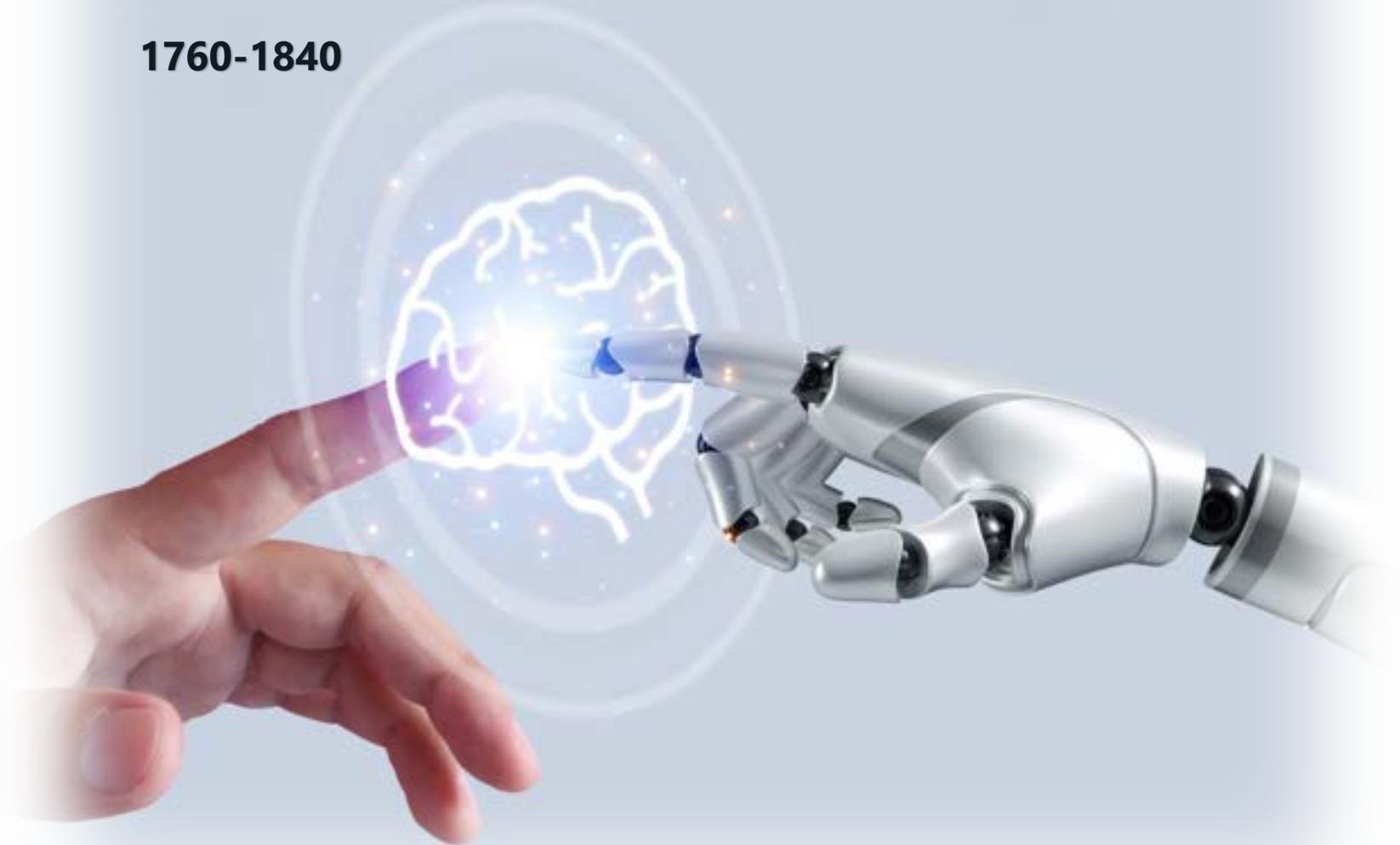
THE FUTURE

**Industrial
Revolution**

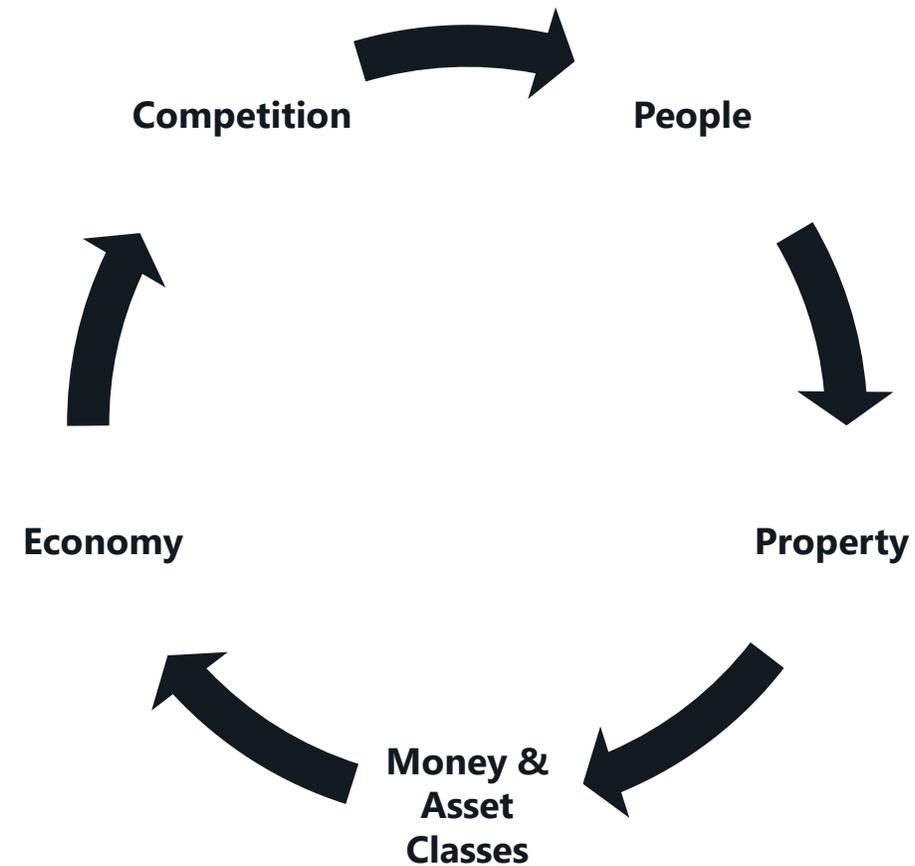
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2023 - ?

Our Brains and AI



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Thank you

Established in Sydney in 1988, Preston Rowe Paterson Sydney is a leading firm of property valuers, analysts, advisers and consultants who operate throughout capital cities and regional Australia as well as New Zealand.

We also have links globally. Since start-up, it has been our philosophy to be recognised as an elite supplier of investment, development and asset property services. Our fundamental business and service principles are knowledge, experience, professionalism and innovation.

Whether considered in the context of:-

- The clients we represent,
- The property classifications we deal with,
- The reasons clients use us, or
- The locations we cover

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