National Australia Bank

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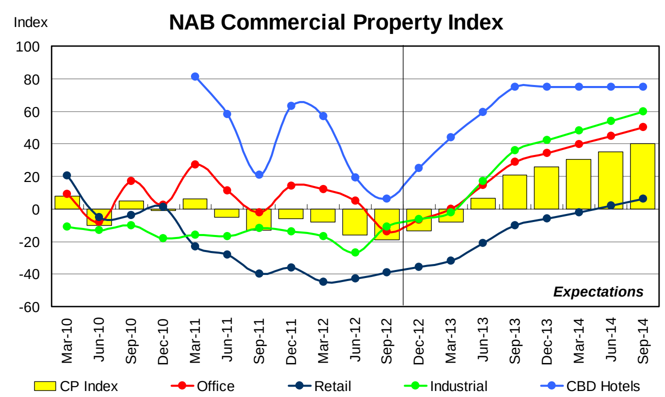
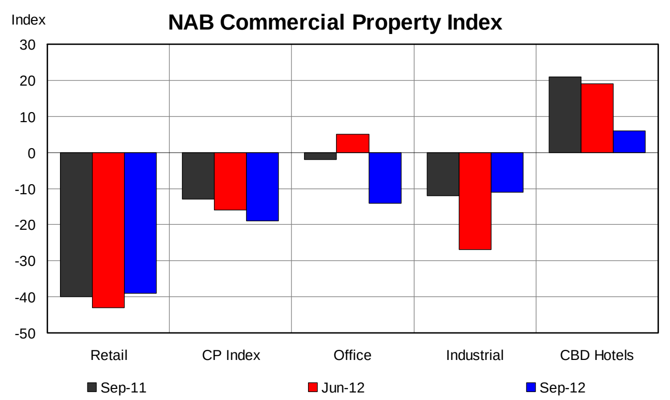
Quarterly Australian Commercial Property Survey: September 2012

NAB Commercial Property Index hits new low of -19 points in Q3'12 as domestic economy passes through a soft patch with business conditions weaker and forward indicators concerning. Retail participants least optimistic, but expectations soften most in office and CBD Hotel markets. WA strongest market nationally. Victoria weakest with less property professionals expecting positive capital or income returns in office and retail markets. Consumer confidence seen as the main challenge for property firms in the next year.

- Property professionals saw national capital values falling in all sectors in Q3'12, with values down most for retail. CBD hotels enjoy strongest outlook (1.8% by Q3'13 and 3.8% by Q3'14). Industrial values to rise 1.3% and 2.8% in next 1-2 years respectively. Office values also rise 0.4% in next year and 1.8% by Q3'14. Retail participants least optimistic with values expected to fall -1% in next year and -0.2% in next 2 years.
- National rents less negative in industrial and retail markets but weaker in office market in Q3'12. Expectations pared back in office market with average rents to rise just 0.3% in next 12 months and 1.8% by Q3'14. Retail expectations also pared back to -1.7% in next year and -0.8% in next 2 years, but expectations for industrial revised up to 1.5% in next year and 2.5% by Q3'14.
- Leasing incentives still considered to be very important in office and retail leasing markets, but somewhat surprisingly, slightly less so than in the previous survey.
- Supply conditions in national office market neutral in Q3'12 with tighter market in WA offsetting modest supply overhang in Victoria, Qld and SA/NT. All state retail markets "somewhat" over-supplied in Q3'12 and set to remain so in next year. Industrial market balanced in all states bar Victoria which is mildly over-supplied, but national market to tighten in next 3-5 years, mainly in WA and Qld. CBD hotel market to remain under-supplied.
- Vacancy inches down in all markets in Q3'12. Weak supply pipelines and projected improvement in overall operating conditions to drive vacancy rates lower in industrial and office markets in the next 2 years, but vacancy to remain broadly unchanged in retail where operating conditions are expected to be more difficult.
- Many developers still hesitant to commence works in the near-term and time-frames for starting new projects/developments were pushed out in Q3'12.
- Debt and equity funding seen as more difficult in Q3'12, with conditions reportedly toughest in Victoria and SA/NT. Access to funding is expected to improve slightly in both channels over the next 3-6 months but remain negative. Fewer respondents also planning to source more capital in the short-term. Expectations on bank pre-commitment requirements fell further and expected to continue easing in the next 12 months.
- Consumer confidence still seen as the biggest challenge facing property firms but concerns over government regulation/red-tape and stock levels also a growing challenge. Business costs are expected to have the biggest impact on property businesses over next year.





NAB Commercial Property Index: September Quarter 2012

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Mar-13	Sep-13	Sep-14
Office	9	-8	17	3	27	11	-2	14	12	5	-14	0	29	50
Retail	21	-5	-4	1	-23	-28	-40	-36	-45	-43	-39	-32	-10	6
Industrial	-11	-13	-10	-18	-16	-17	-12	-14	-17	-27	-11	-2	36	60
CBD Hotels	--	--	--	--	81	58	21	63	57	19	6	44	75	75
CP Index	**8**	**-10**	**5**	**-1**	**6**	**-5**	**-13**	**-6**	**-8**	**-16**	**-19**	**-8**	**21**	**40**

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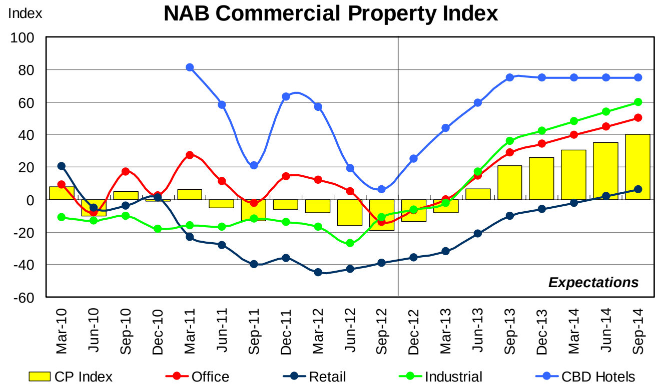
Commercial Property Overview

The NAB Commercial Property Index fell to a new low of -19 points in the September quarter (-16 points in Q2'12) as the Australian economy passes through a soft patch with business conditions weaker and forward indicators concerning.

Participants in the retail property segment are still the least optimistic, although NAB's Retail Property Index rose slightly for the second straight quarter to -39 points (-43 points in Q1'12). Despite several cuts to borrowing rates, discretionary spending and consumer spending are still quite weak.

The NAB Industrial Property Index bounced back to -11 points in Q3'12, up from a record low of -27 points in Q2'12. While domestic manufacturers continue to face significant challenges, some segments of the industrial property market, especially warehousing and logistics requirements, are reportedly faring much better.

NAB Commercial Property Index falls to a new low in Q3'12 on softer expectations in office and CBD hotel sectors



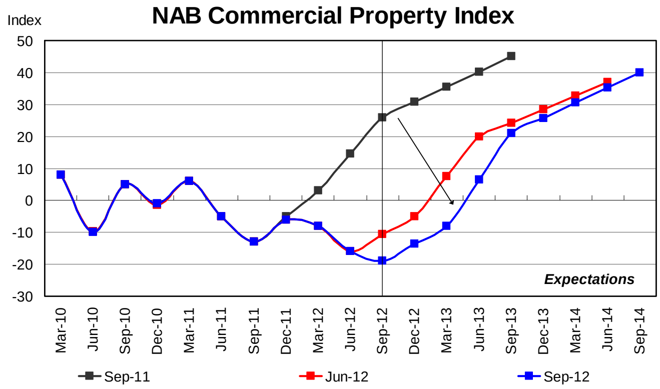
In contrast, survey participants were much less bullish about prospects for office property, with fewer reporting growth in capital values or rents in Q3'12. As a result, the NAB Office Property Index slipped to -14 points - its first negative reading since Q3'11. It seems that the deterioration in business conditions seen in NAB's latest Business Surveys may also be weighing on sentiment in the office property market.

Survey respondents in the CBD hotel sector are still the most optimistic overall. However, fewer respondents saw capital values rising during in Q3'12 despite rising occupancy rates and continued room rate and revPAR growth. As a result, the NAB CBD Hotel Index fell to +6 points in the September quarter, down from +19 points in Q2'12.

The Australian economy remains in a soft patch at present, with falling income growth from lower commodity prices, the high AUD and fiscal tightening (both state and federal) likely to continue to weigh on activity in coming months and quarters. NAB's Business Survey is highlighting this both via lower activity results and very weak forward orders. Against this, we have lowered our Australian GDP forecasts for 2013 to 2.5%.

We suspect the weaker economic outlook may also underlie our latest commercial property survey results, with fewer respondents expecting capital values or rents to grow in the next 1-2 years. Consequently, the NAB Commercial Property Index is expected to remain negative until mid-2013, before rising to +21 points in Q3'13 and +40 points in Q3'14.

Forward expectations downbeat

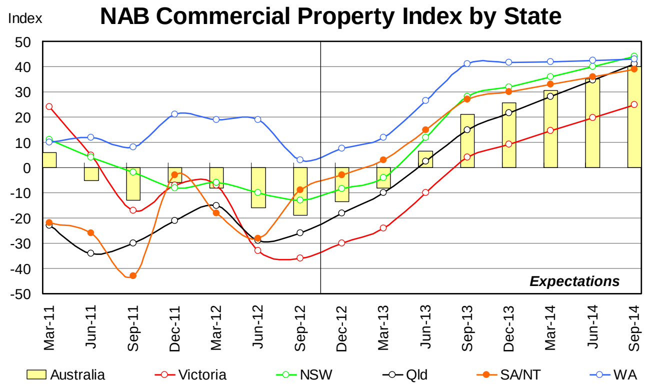


WA is still identified by survey respondents as the strongest commercial property market nationally, although the state index slipped to +3 points in Q3'12 (+19 points in Q2'12). Victoria (-36 points) and Queensland (-26 points) were the most downbeat states. SA/NT was the big improver, but it is also the most volatile state.

WA (+43 points) is expected to remain one of the strongest performing state markets going forward, but it will also be joined by NSW (+44 points), Queensland (+39 points) and SA/NT (+39 points) by Q3'14.

Victoria (+25 points) is expected to under-perform the national average, with weaker state economic conditions driving higher levels of pessimism, especially in the state's retail and industrial property markets.

WA the strongest state now; NSW & Qld to catch up by 2014; Victoria to lag

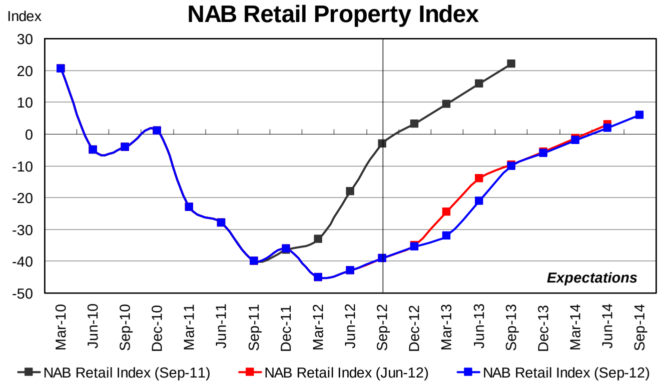


Survey respondents continue to identify retail as the most difficult commercial property market segment. However, the NAB Retail Property Index retreated mildly for the second consecutive quarter to -39 points in Q3'12 (-43 points in Q2'12).

Despite recent cuts in official interest rates, the overall story remains difficult for retailers, with trading conditions and profitability in this sector the worst of all industries. At the same time, consumer sentiment remains well below its long-term average, while challenging conditions have seen a number of retail businesses placed into administration.

With few signs of a imminent turnaround on the horizon, confidence surrounding the outlook for retail property remains subdued - but no worse than in June - with the NAB Retail Property Index expected to rise to just +6 points by September 2014.

Conditions in the retail property market are still very difficult and expected to remain so over the next 2 years

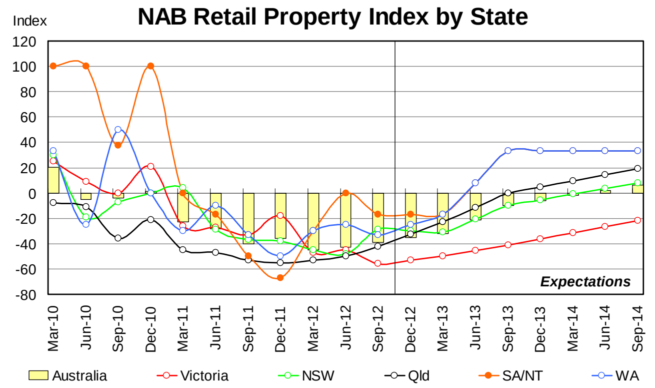


Expectations for capital values and rents in the retail property market remain very weak in all states. Victoria (-56 points) was the least optimistic state for retail property in Q3'12, followed by Queensland (-42 points). SA/NT (-17 points) was the most optimistic state, but from a small sample size.

Expectations for capital values and rents are however, expected to improve in all states in the next year, led by WA (+33 points) and SA/NT (33 points). Victoria (-41 points) is by far the least optimistic state, with the state index also negative in NSW (-10 points).

By Q3'14, Victoria (-22 points) is the only state with a negative index, with survey respondents likely reacting to the slowdown in Victorian economic growth and soft outlook for the state economy. In WA (+33 points), where faster state growth is being fuelled by mining sector activity, retail property is expected to out-perform.

Retail market expectations weak in all states; WA most optimistic state going forward; Victoria the most pessimistic

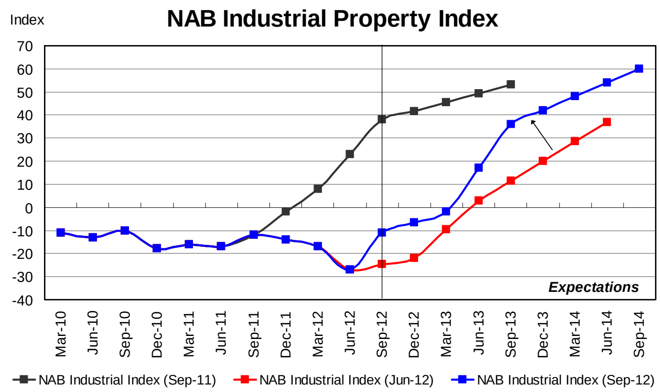


Survey participants were less pessimistic with regards to industrial property in Q3'12. The NAB Industrial Property Index rose to -11 points, from a low of -27 points in Q2'12. Forward expectations have also strengthened, with the index to recover in mid-2013 and the subsequent recovery to be stronger than previously anticipated.

The recent pick up in sentiment in the industrial property market may have been influenced by broader trends in manufacturing seen in the latest NAB Business Survey. This also shows conditions in manufacturing improving moderately during the September quarter.

According to our latest survey results, the industrial property market emerges as the best performing property sector after CBD hotels by September 2014. Improved expectations for both capital values and rents underpin a sharp pick in the NAB Industrial Property Index to +36 points by Q3'13 and +60 points by Q3'14.

Industrial Property Index rises in Q3'12 but still negative; forward expectations much stronger; sector to emerge as one of the best performers by Q4'14



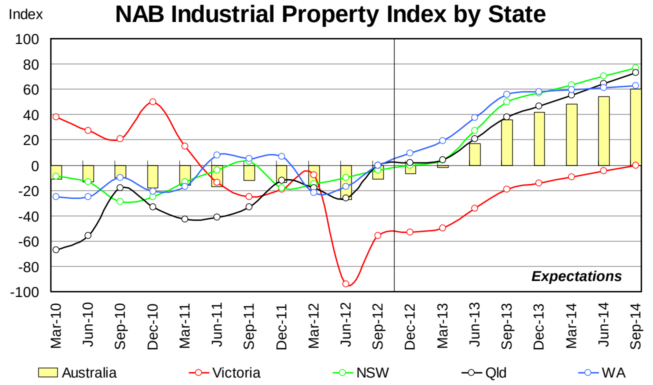
Significant divergence in industrial property market expectations across states; WA the best performing state; Victoria the most pessimistic

There is significant divergence in industrial property market expectations across the states. WA (0 points) and Queensland (0 points) were the most optimistic states in Q3'12 as industrial requirements remain strong due to mining construction and operations.

Expectations improved in Victoria (-56 points), but it is still clearly the weakest state as large parts of the state's manufacturing sector continues to face ongoing structural challenges.

Confidence is expected to return in most states in the next year, led by WA (+56 points), NSW (+50 points) and Queensland (+38 points). Overall expectations remain negative in Victoria, with the state index at -19 points. We exclude SA/NT because of a sample size.

Victoria remains the most pessimistic state in Q3'14, but the state industrial property index is forecast to rise to 0 points. NSW (+77 points), Queensland (+73 points) and WA (+63 points) out-perform.

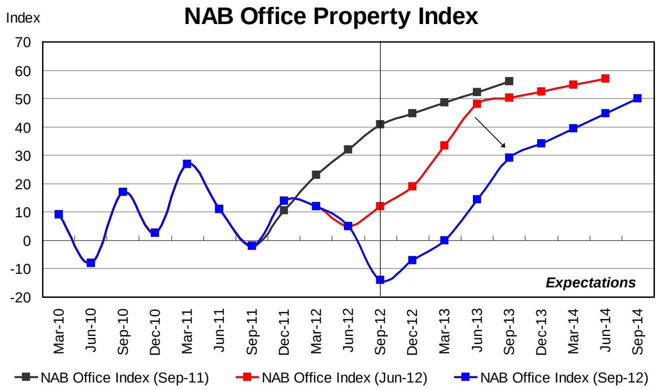


Office Property Index continues to slip and has now moved into negative territory for the first time since Q3'11; forward expectations also pared back

Our latest survey shows that sentiment in the national Office property market continues to slip. The NAB Office Property Index declined for the third consecutive quarter in September to -14 points (+5 points in Q2'12) and has now moved into negative territory for the first time since the September quarter of 2011.

Business confidence has fallen as the Australian economy remains in a soft patch at present, with falling income growth from lower commodity prices. The situation is also less clear in the emerging markets where it looks quite likely that the softening in growth has continued.

These uncertainties appear to be weighing on office market confidence, with expectations for capital values and rental growth waning. Against this background, NAB's Office Property Index is now forecast to rise to +29 points by September 2013 and +50 points by September 2014.

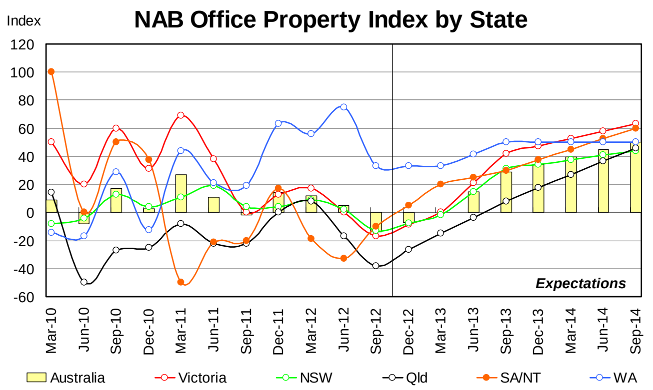


WA still the most optimistic state with regards to office property; Victoria and SA/NT the big improvers moving forward; NSW to lag

WA is still the most optimistic state for office property. But, the state office index slipped to +33 points in Q3'12 (+75 points in Q2'12) as the downgraded outlook to global minerals and energy demand may be starting to weigh on sentiment in Australia's largest mining state.

Queensland was the most pessimistic state with the state index falling to -38 points (-17 points in Q2'12) amid reports tenant demand has been easing since mid-2012 due to the slowing resources sector, particularly coal producers, general cost cutting by major corporates and the state government downsizing.

Victoria is the most optimistic state with regards to office property, with the state office index expected to rise to +63 points by Q3'14. SA/NT (+60 points) is the next best state, followed by the mining states of WA (+50 points) and Queensland (+46 points). NSW (+44 points) is the least optimistic state for office property, possibly reflecting subdued leasing activity and media reports of downsizing in global investment banks.

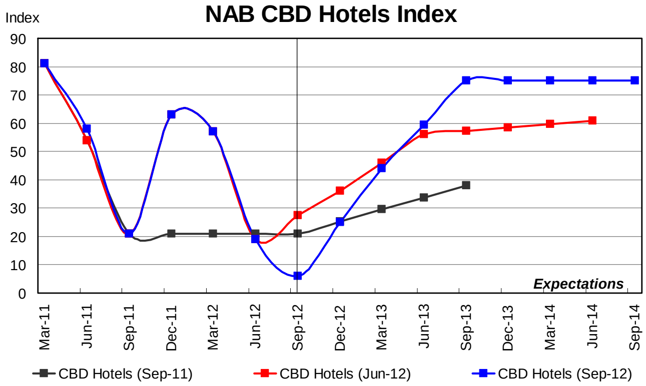


CBD Hotel index slips in Q3'12 but sector still the most optimistic in the commercial property space and expected to remain so going forward

NAB's CBD Hotel Index also slipped further to +6 points in Q3'12, from +19 in Q2'12 and +57 points in Q1'12, mainly due to weaker capital value expectations. However, overall expectations are still above the commercial property market average and survey participants in the CBD Hotel sector remain the most optimistic in the commercial property space.

The out-performance of CBD hotel property continues to be driven by relatively high occupancy and solid demand from business travellers, which continues outstripping the growth in new supply.

Forward expectations in the CBD hotel market have strengthened relative to our last survey. With supply shortages persisting in key CBD markets and growing demand for CBD hotel rooms from corporate, domestic and international travellers, long-term expectations for capital growth and room rates are positive. This underpins an increase in NAB's CBD Hotel Index to +75 points by September 2014.



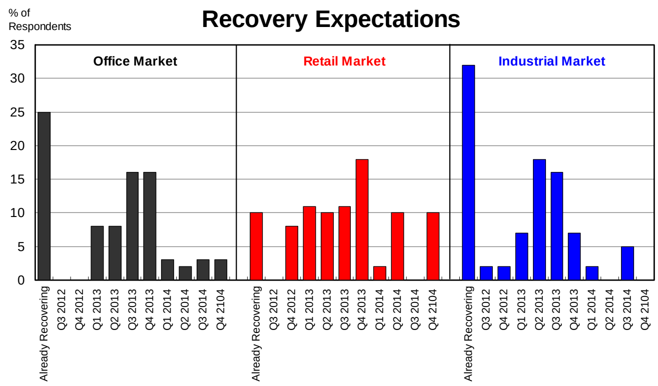
There is a wide variance in opinion among survey respondents as to where each market is in the current cycle

While property market confidence has waned in the September quarter, there was a wide variance of opinion among our survey respondents as to where each market was in the cycle.

In the office market, 25% said that the market was already recovering. However, 32% believe that the market will not recover until the second half of 2013, while 16% see it starting in the first half of next year.

Industrial market participants appear most confident, with 32% of respondents believing that the market is already recovering. However, 34% also believe that a recovery will commence in Q2 and Q3 of 2013.

Confidence has been hardest hit in the retail sector, where just 10% believe that a recovery has already started. Around 50% believe that a recovery will commence next year, with 29% expecting it start in the second half of the year.

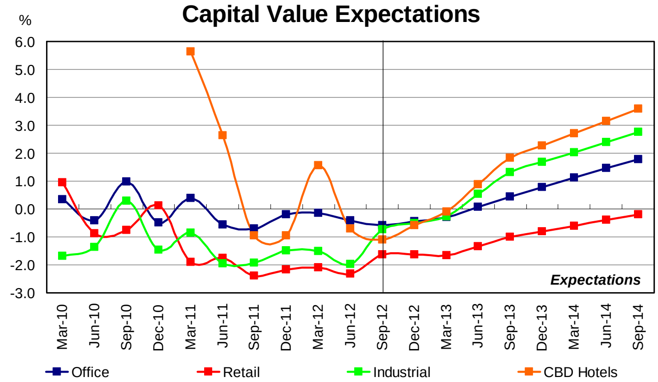


Negative growth in capital values reported in all property segments in Q3'12; long-term expectations strongest for CBD hotels; retail expectations still very weak

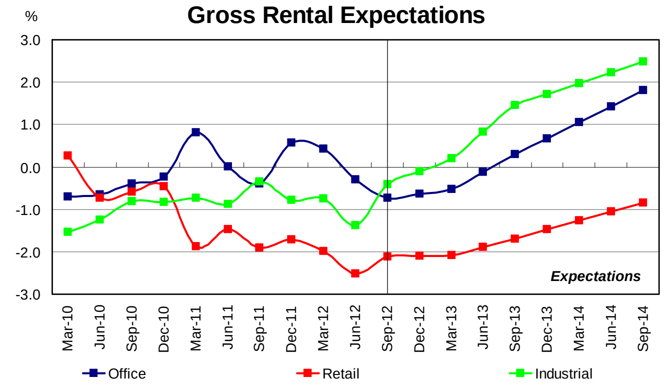
Average capital value expectations were negative in all property sub-sectors in Q3'12. Capital values fell most for retail property, although the pace of decline slowed to -1.6% (-2.3% in Q2'12). Average capital values for CBD Hotels were down -1.1% (-0.7% in Q2'12), office property fell -0.6% (-0.4% in Q2'12), while industrial capital values fell -0.7% (-2% in Q2'12).

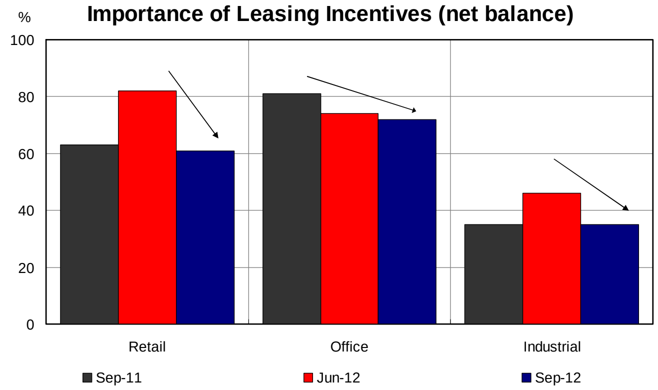
CBD Hotels enjoy the strongest outlook, with values tipped to rise by 1.8% by Q3'13 and 3.6% by Q3'14, with expectations stronger than those observed in our last survey.

Industrial capital values are forecast to rise by 1.3% and 2.8% in the next 1-2 years respectively. Capital values for office property are also expected to rise by 0.4% over the next year and 1.8% by September 2014. Respondents remain least optimistic in the retail property space, where capital values are expected to fall by -1% in the next year and -0.2% in the next 2 years.



Gross rents fall in all markets in Q3’12; outlook more subdued in office and retail markets, but stronger for industrial. Leasing incentives falling in all markets.





Expectations for gross rental returns remained negative in all property segments in Q3’12. However, they improved in the industrial and retail property markets but weakened in the office market. Average gross rents for industrial property fell -0.4% in Q3’12, following a -1.4% decline in Q2’12 amid subdued supply and steady tenant demand. Retail rents declined -2.1% (-2.5% in Q2’12), with rents falling in all states. Gross rents for office property also fell by -0.7% (-0.3% in Q2’12), with rents falling in all states bar WA and SA/NT.

Forward expectations for rental growth in the office property market were again pared back in September, with average rents now expected to rise by just 0.3% in the next 12 months (1.4% previously), with SA/NT (1.5%) and Victoria (1.1%) leading the way and rental expectations scaled back heavily in WA from 4.4% to 0.9%.

In the retail market, survey respondents were also slightly less optimistic, with average gross rents predicted to fall by -1.7% in the next year (-1.5% predicted previously). Respondents from Queensland (-2.8%) and WA (-2.5%) are least optimistic with regards to rental returns.

In contrast, rental expectations for industrial in the next year were revised up. Rents are now tipped to grow 1.5% in the next year (flat previously), with growth strongest in WA (1.9%) and NSW (1.9%) and weakest in Victoria (flat).

Over the next 2 years, national industrial rents are expected to rise by 2.5% (1.2% previously), with Queensland (3.1%) and NSW (2.8%) the best performing rental markets over this period and Victoria (flat) the weakest. Rental expectations in the national office market were scaled back to 1.8% over the next 2 years (2.7% previously), with Victoria and SA/NT the strongest performing rental markets over this period and Queensland the weakest. Expectations for average national gross rents for retail property over the next 2 years were unchanged at -0.8%.

Rental incentives (e.g. rent free periods etc) were most important in the office leasing market in Q3’12 according to a net balance of 72% of survey respondents, down slightly from 74% in Q2’12. In net balance terms, fewer respondents also considered leasing incentives to be important in the industrial (35%) and retail (61%) markets this quarter, reversing the increases seen in both markets last quarter.

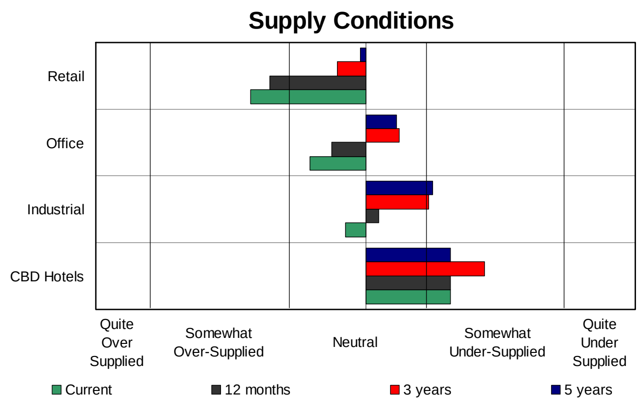
National office supply was “neutral” in Q3’12 as market tightness in WA offset modest supply over-hangs in Victoria, Queensland and SA/NT. The national market is set to remain balanced in the 3-5 years in all states bar Queensland, which will be “somewhat under-supplied”.

National and all state retail markets were “somewhat over-supplied” in Q3’12 and are expected to remain so in the next year. Excess supply is however, expected to be worked out of the market in 3-5 years with “neutral” conditions emerging in all states.

The industrial market is currently balanced in all states except Victoria, which is modestly over-supplied. The market is set to tighten in the next 3-5 years, especially in the faster growing states of WA and Queensland.

The CBD hotel market remains under-supplied and this situation is not expected to rectify in the outlook period.

Retail over-supplied; industrial under-supplied in 3-5 years; office balanced; CBD hotels shortage to persist



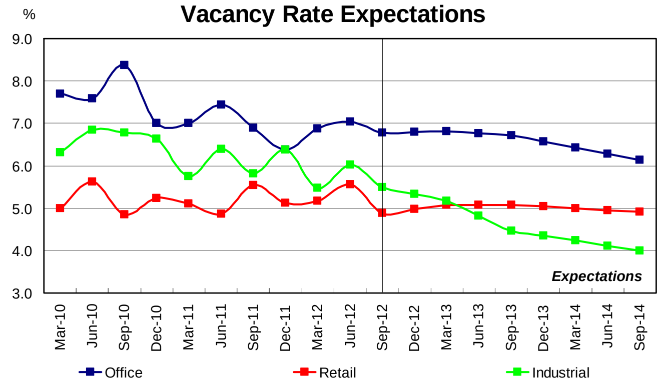
Vacancy rates inched down in all property segments in Q3'13. National office market vacancy fell to 6.8% (7% in Q2'12). Despite new supply, the market is very tight in WA (3%) with prime grade properties in high demand.

National vacancy in the industrial property market also declined to 5.5% in Q3'12 (6% in Q2'12). WA (3.6%) is the tightest market amid strong demand and very limited lease stock available.

Despite difficulties facing many retail trade sectors, national retail vacancy eased to 4.9% in Q3'12 (5.6% in Q2'12). However, vacancy rates are much lower in major retail centres compared to other retail formats.

Given weak supply pipelines and a projected pick-up in overall operating conditions, vacancy is expected to fall in office and industrial property markets in the next 2 years, but remain unchanged for retail where operating conditions are expected to be more difficult.

Vacancy rates inch down in all markets in Q3'12; Limited supply to drive vacancy rates lower in industrial and office markets



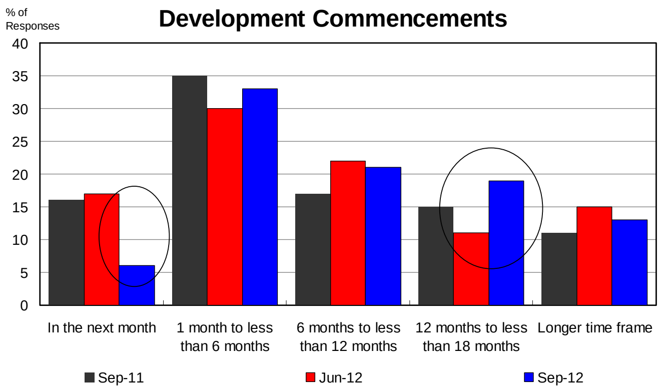
New Property Developments

Survey respondents operating in the property development space are asked when they plan to commence new works. Responses in September indicate that many developers are still hesitant to commence works in the near-term.

According to the survey, the number of respondents planning new developments in the next 0-6 months fell to 39% in the September quarter, down from 47% in the June quarter and 51% in the Q3'11. Developers were most optimistic in WA, where 50% expect to commence new developments in the next 0-6 months, and least optimistic in Queensland (17%).

At the same time, the share of respondents reporting new developments occurring from 6-18 months rose to 40%, from 33% in the previous survey. The number of respondents nominating a longer time fell to 13%, from 15% in the last survey and the share of those who "don't know" rose to 8% 5% (5% in Q2'12).

Developers more cautious with time-frames for starting new projects/developments being pushed out in Q3'12

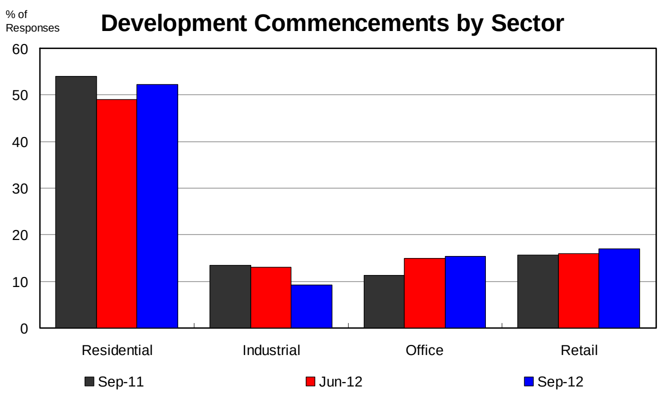


When asked to nominate which sectors developers were seeking to develop new projects, residential property was the most favoured property type according to 52% of survey respondents. This was up from 49% in our previous survey and consistent with the improvement in housing market sentiment also seen in our Residential Property Survey during the quarter.

Around 15% of survey respondents expected to develop new projects in the office property sector, which was unchanged from Q2'12. Developers were most optimistic in Victoria, Queensland and SA/NT.

Prospects for new retail developments also rose slightly to 17% in the September quarter (16% in Q2'12), led by stronger prospects in NSW and Queensland. In contrast, a smaller number were seeking to develop industrial property (9%) compared to 13% in Q2'12.

Majority of property developers still seeking to develop projects in the residential space



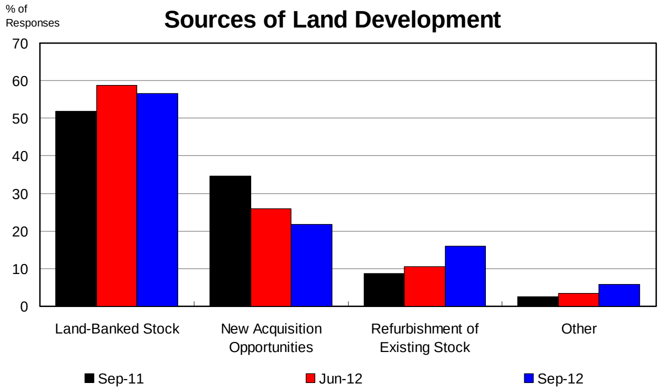
Of respondents looking to undertake new works, 57% are looking to do so with land-banked stock held for future development (59% in Q1’12). NSW (33%), Victoria (26%) and Queensland (26%) make up the lion’s share of land held for future development.

The share of developers chasing new acquisitions fell to 22% in Q3’12 (26% in Q2’12). Nationally, Victorian developers are most likely to be chasing new stock this quarter (40% of the total national responses) and 29% of all state responses.

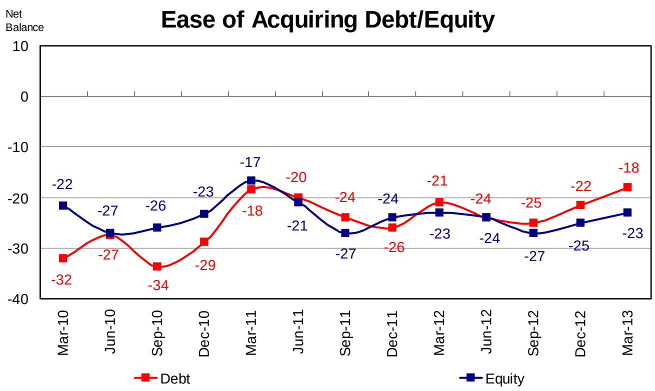
There was an increase in national respondents looking to refurbish existing stock to 16% in Q3’12, from 11% in Q1’12, with refurbishments more likely to occur in NSW.

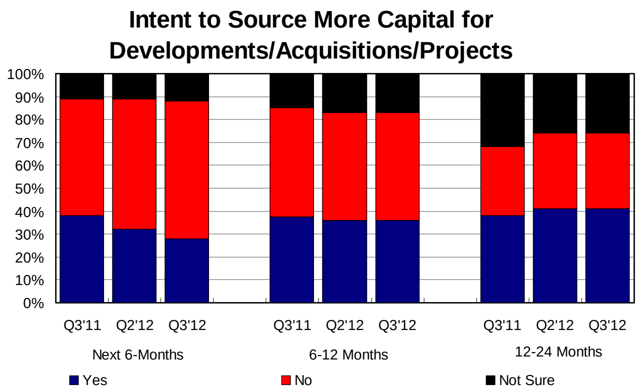
Overall, these trends suggest that developers may be thinking of pulling back from the market extending the long period of caution seen in the development market.

Developers look to be pulling back from the market, extending the long period of caution seen in the development market



Debt and equity funding was seen as more difficult in the September quarter; conditions expected to improve slightly in both channels over the next 3-6 months but remain negative. Fewer respondents also planning to source more capital in the short-term





Debt funding continues to be perceived as a problem for property developers. A net balance of -25% of survey respondents nationally reported more difficult conditions for sourcing debt to fund new developments in Q3’12, up from -24% in Q2’12. SA/NT (-47%) and Victoria (-28%) were the most pessimistic states, while WA (-17%) and Queensland (-21%) were the most optimistic. Around 22% of survey respondents also reported that they had no new borrowing requirements in the past 3 months, but this share is expected to fall to 17% in the next 3-6 months.

Survey respondents are predicting that debt conditions will improve modestly in the next 3-6 months, with a net balance of -18% anticipating more difficult conditions, compared with a net balance of -21% anticipating more difficult conditions in our last survey. SA/NT (-30%) and Victoria (-28%) remain the most pessimistic states, with Queensland (-10%) and NSW (-11%) the most optimistic states.

Raising equity was also seen as more difficult in Q3’12 with a net balance of -27% reporting more challenging conditions (-24% in Q2’12). Victoria (-32%) and SA/NT (-29%) were the most pessimistic states and WA (-17%) the most optimistic.

Raising equity is expected to be only marginally easier in the next 3-6 months, with the net balance expecting more difficult conditions falling to -23%. Whereas Victoria (-27%) remains the most pessimistic state, SA/NT (-18%) is expected to be the least pessimistic, while conditions are expected to be more difficult in WA according to a net balance of -24%. Around 26% survey respondents also reported that they had no equity requirements in the last 3 months, but that share is expected to fall slightly to 23% in the next 3-6 months.

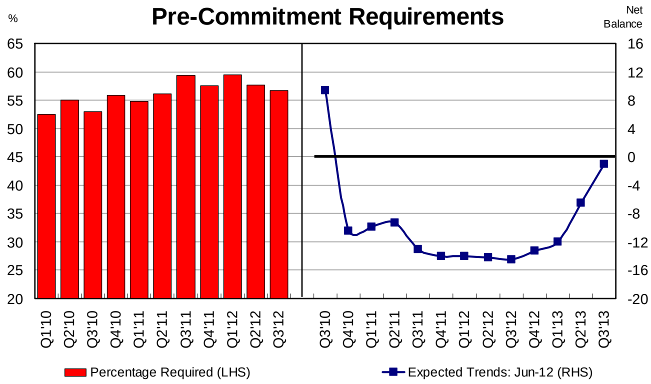
Fewer survey participants are optimistic about their short-term capital raising plans, with the share of respondents planning on sourcing more capital over the next 6 months falling to 28% (32% in Q2’12). The number of respondents with no sourcing intentions also rose to 60% (57% in Q2’12). Longer-term intentions were unchanged, with 36% expecting to source capital over the next 6-12 months and 41% over the next 12-24 months. The share of respondents who are “not sure” about their future capital raising plans is still quite high suggesting that many developers remain uncertain about the future operating environment.

Expectations on bank pre-commitment requirements for new developments fell for the second straight quarter to 58% in Q3’12. Queensland (63%) and Victoria (61%) were the most negative states on bank conditions. WA (49%) and NSW (52%) were the most positive states with regards to average pre-commitment expectations to secure development funding.

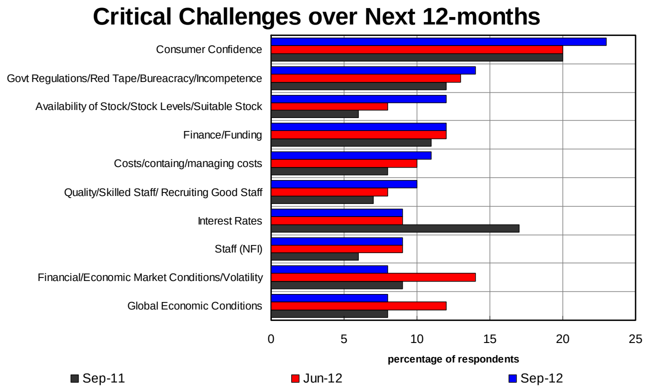
Of those respondents who elected to predict the next 6 month period, a negative net balance of -12% nationally expect a higher pre-commitment requirement to secure funding for new developments by Q1’13. Victoria (-22%) is the most pessimistic state and Queensland (-2%) and WA (-4%) the most optimistic states.

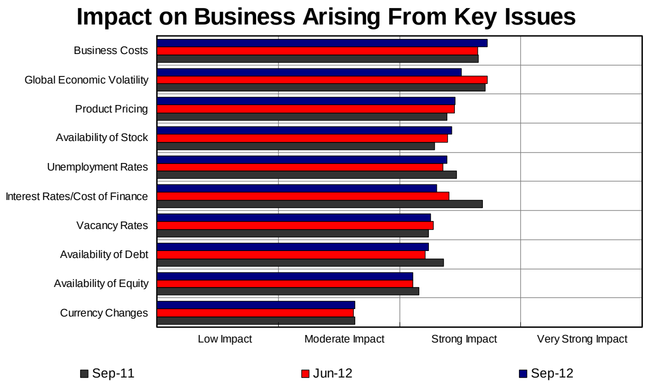
Pre-commitment requirements are expected to continue easing in the next 12 months with a net balance of -1% predicting improving conditions. Queensland (+11%) and WA (+10%) are the most positive states, while Victoria (-12%) is the most pessimistic state.

Bank pre-commitment requirements fall again in Q3’12 and are expected to soften further over next 3-6 months



Consumer confidence still the main challenge for property firms but regulation/red-tape and stock levels rising. Rising costs to impact property businesses most over next year





Consumer confidence is still seen as the most critical challenge facing property businesses over the next 12 months. Moreover, the extent of concern among our survey panel is rising, with the share of survey respondents citing this factor as a critical challenge rising to 23% in Q3’12, up from 20% in Q2’12. NSW (27%), Victorian (24%) and SA/NT (24%) respondents were most concerned about consumer confidence.

Government regulation, red tape and bureaucracy was seen as the next biggest challenge and it is also growing, with around 14% identifying it as a critical challenge over the next 12 months, up from 13% in Q2’12. Respondents were most concerned in Queensland (24%) and least concerned in WA (7%).

Availability of stock/stock levels/suitable stock was identified by our survey respondents as the third biggest challenge for property businesses in the next 12 months. Around 12% nominated this factor as a critical challenge in Q3’12, up from 8% in Q2’12 and just 6% one year earlier, with these concerns much more pronounced in WA (23%). We also note increasing concerns over cost levels (especially in SA/NT) and staffing issues (especially in WA and NSW) over the past year.

The extent of concern over financial and economic market volatility and global economic conditions is, however, falling as the latest business survey indicators from the big advanced economies suggest that their economic slowdown has paused, while equity and commodity markets have recovered earlier losses. These concerns, however, are much more pronounced in WA, where the state economy is more heavily exposed to global commodity price cycles.

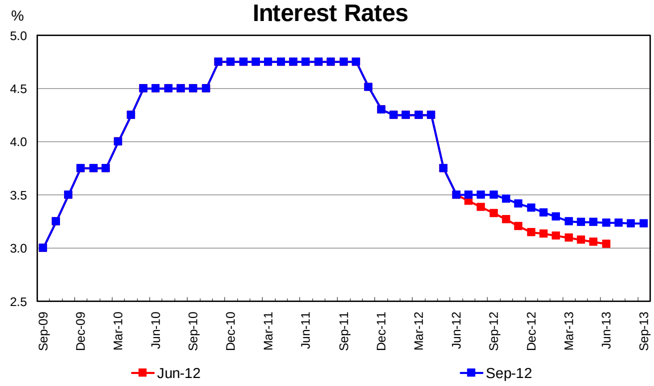
We also ask our survey respondents to identify key issues and assess their impact on their businesses over the next 12 months. Business costs (especially in SA/NT, Queensland and NSW) are expected to have the biggest impact on businesses over the next year and a bigger impact than predicted in the last survey. Global economic volatility (NSW, Queensland and WA) is the next biggest factor, although the level of concern is slightly less than in Q2’12. Product pricing (NSW), stock availability (NSW and WA) and unemployment rates (especially in Victoria and Queensland) are expected to have the next biggest impacts.

Survey respondents on average predict that interest rates will continue falling in the next 12 months, but the size of future cuts is smaller than previously expected.

In our September survey, respondents on average said they expected interest rates to fall by around 35 bps in the next 6 months and around 50 bps over the next year. However, survey respondents on average now expect rates to fall by just 25 bps over the next 6 months and 25 bps over the next 12 months.

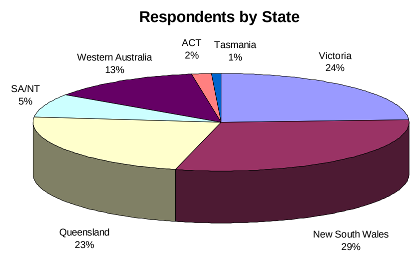
While interest rates were kept on hold in November, an easing bias persists at the RBA. In reading through the statement, however, there is no clear intent to act on the easing bias. NAB currently favours another interest rate cut in February (after the next CPI Results). After that, the risk of further cuts will remain for much of 2013, depending on inflation, house prices, activity, commodity prices, the AUD and the extent of the mining investment slow down.

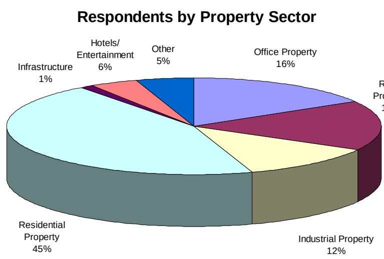
Survey respondents predict that interest rates will continue falling over the next 12 months, but size of future rate cuts smaller than previously expected

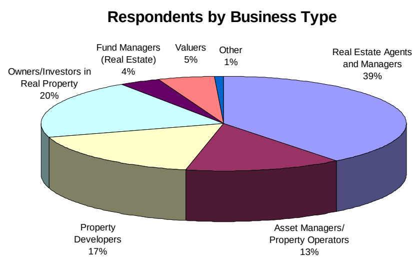


About the Survey

In April 2010, NAB launched the inaugural NAB Quarterly Australian Commercial Property Survey with the aim of developing Australia's pre-eminent survey of market conditions in the Commercial Property market. The large external panel of respondents consisted of Real Estate Agents/Managers, Property Developers, Asset/Fund Managers and Owners/Investors. Given the large number of respondents who are also directly exposed to the residential market, NAB expanded the survey questionnaire to focus more extensively on the Australian Residential market. Around 250 panellists participated in the September 2012 Survey and the breakdown of our Survey respondents - by location, property sector and business type - are shown below.







Tables

Survey Respondents Expectations: September 2012

Capital Values (%)

OFFICE	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Sep-12	-0.7	-0.5	-1.5	1.3	-0.7	**-0.6**
Mar-13	0.0	-0.4	-1.1	1.3	0.0	**-0.3**
Sep-13	1.2	0.5	-0.6	1.2	0.4	**0.4**
Sep-14	3.1	1.1	1.5	2.6	1.6	**1.8**
RETAIL	**Victoria**	**NSW**	**Queensland**	**WA**	**SA/NT***	**AUSTRALIA**
Sep-12	-2.3	-1.9	-1.3	-0.3	-0.6	**-1.6**
Mar-13	-2.8	-1.9	-0.9	0.0	-0.6	**-1.7**
Sep-13	-2.6	-1.6	0.6	1.3	0.6	**-1.0**
Sep-14	-1.6	-0.7	1.4	1.3	1.9	**-0.2**
INDUSTRIAL	**Victoria**	**NSW**	**Queensland**	**WA**	**SA/NT***	**AUSTRALIA**
Sep-12	-2.9	-0.4	-0.4	0.0	n.a	**-0.7**
Mar-13	-2.5	-0.2	0.2	0.5	n.a	**-0.3**
Sep-13	-1.4	1.3	2.5	1.3	n.a	**1.3**
Sep-14	-0.5	2.4	5.0	1.8	n.a	**2.8**

Gross Rents (%)

OFFICE	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Sep-12	-0.4	-0.9	-1.8	0.6	0.4	**-0.7**
Mar-13	-0.2	-0.7	-1.2	0.3	0.7	**-0.5**
Sep-13	1.1	0.1	-0.6	0.9	1.5	**0.3**
Sep-14	2.8	1.6	1.7	1.3	2.3	**1.8**
RETAIL	**Victoria**	**NSW**	**Queensland**	**WA**	**SA/NT***	**AUSTRALIA**
Sep-12	-2.3	-1.9	-2.8	-2.5	0.0	**-2.1**
Mar-13	-2.4	-2.1	-2.4	-1.8	0.0	**-2.1**
Sep-13	-2.2	-2.1	-1.6	-0.6	0.6	**-1.7**
Sep-14	-1.1	-1.5	-0.3	0.2	1.9	**-0.8**
INDUSTRIAL	**Victoria**	**NSW**	**Queensland**	**WA**	**SA/NT***	**AUSTRALIA**
Sep-12	-1.3	-0.3	-0.5	0.3	n.a	**-0.4**
Mar-13	-1.0	0.4	0.1	0.5	n.a	**0.2**
Sep-13	-0.8	1.9	1.3	1.9	n.a	**1.5**
Sep-14	0.0	2.8	3.1	2.1	n.a	**2.5**

Vacancy Rates (%)

OFFICE	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Sep-12	5.8	7.9	7.8	3.0	5.5	**6.8**
Mar-13	6.0	7.9	7.5	3.3	6.0	**6.8**
Sep-13	6.0	8.1	7.0	3.3	5.0	**6.7**
Sep-14	5.4	7.6	5.8	4.3	4.5	**6.1**
RETAIL	**Victoria**	**NSW**	**Queensland**	**WA**	**SA/NT***	**AUSTRALIA**
Sep-12	4.1	5.1	6.3	4.2	5.0	**4.9**
Mar-13	4.2	5.6	5.8	4.2	5.7	**5.1**
Sep-13	4.6	6.0	5.0	3.8	4.3	**5.1**
Sep-14	4.0	6.3	4.3	3.8	4.0	**4.9**
INDUSTRIAL	**Victoria**	**NSW**	**Queensland**	**WA**	**SA/NT***	**AUSTRALIA**
Sep-12	4.6	7.0	6.1	3.6	n.a	**5.5**
Mar-13	3.8	6.8	5.9	3.3	n.a	**5.2**
Sep-13	3.5	6.0	4.6	3.3	n.a	**4.5**
Sep-14	3.0	5.6	3.7	3.6	n.a	**4.0**

** Limited sample size*

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