**National Australia Bank**

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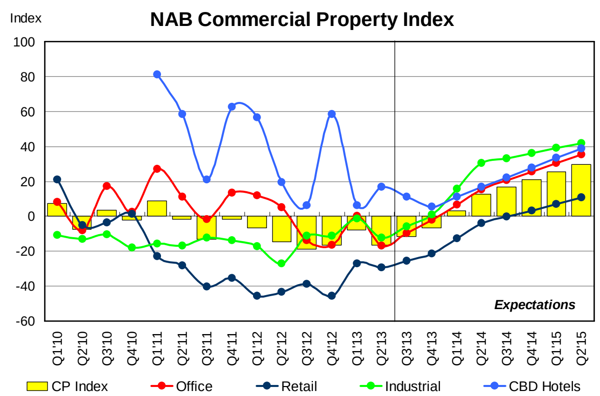
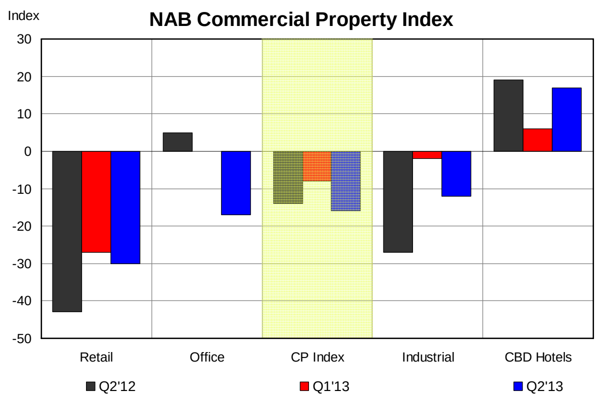
# Quarterly Australian Commercial Property Survey: Q2 2013

**Sentiment in the commercial property market weakened notably in Q2 2013. The recent softening in economic conditions (and more subdued outlook for GDP growth) seem to have weighed most heavily in office and industrial markets, with retail unchanged (but very weak) and improving for CBD hotels. Sentiment fell most in Victoria (now the weakest state after SA/NT). WA is the only state where sentiment was positive (but also lower). Expectations for capital and rental growth softened in all markets. Fewer developers planning to start new projects in the near-term, with capital sourcing intentions also suggesting developers are uncertain about the future operating environment. Consumer confidence still the main challenge facing property businesses, but concerns about government regulation and financial economic/volatility have also risen.**

- NAB Commercial Property Index fell to -16 points in Q2 (below long-term series average of -6 points). Overall index weighed down by notable fall in office and industrial. With weaker domestic economic conditions, the outlook for capital and income growth more measured in all markets. As a result, NAB Commercial Property Index now expected to rise more sedately to just +13 points by Q2'14 and +30 points in Q2'15 (well below outcomes reported in the last survey).
- Sentiment fell heavily in Victoria in Q2 but SA/NT the most downbeat state. WA the only state reporting positive sentiment (but lower). Sentiment improved in Queensland and NSW but negative state index readings suggest these markets are also sluggish. Market sentiment to remain negative in SA/NT and Victoria in the next year. NSW the strongest market in the next 2 years, with Victoria overtaking WA as the next best.
- Capital values fell most for retail (-1.5%) in Q2, with values also down for industrial (-0.7%) and office (-0.5%) but up 0.3% for CBD hotels. CBD hotels to lead capital growth but pared back to 1.5% and 2.7% in the next 1-2 years. Property professionals also expect lower capital growth in both the office (0.9% and 2.5%) and industrial (0.5% and 1.6%) in the next 1-2 years. Average capital values for retail property tipped to fall -0.6% in next year and rise 0.3% in the next 2 years.
- Property professionals estimate gross rents fell in all markets in Q2 (at a faster rate than Q1). Rents fell most in retail (-2%). In the office and industrial markets, rents fell -1.2% and -0.9% respectively. Expectations for rental growth lowered in all markets. Office and retail rents now expected to fall -0.1% and -1.3% respectively in the next year, with industrial rents up a more modest 0.3%. In the next 2 years, rents expected to rise 1.2% in office, 1.1% in industrial and fall -0.3% in retail.
- Supply conditions in national office market softened in Q2, with the market now "somewhat over-supplied". National retail market also "somewhat over-supplied", but industrial and CBD hotel markets "neutral". Vacancy rates fell slightly in industrial and retail markets in Q2 but increased in office. Vacancy rates forecast to rise in office and retail markets in the near-term.
- Fewer developers are planning to start new projects in the near-term, with the majority still seeking to develop residential projects although prospects improved most among retail developers. Debt and equity funding is still a problem for property developers, but conditions have been improving since late-2012. Developers' capital sourcing intentions suggest growing uncertainty over the future operating environment. Consumer confidence remains the biggest challenge facing property businesses in the next 12 months, but concerns over government regulation and financial economic/volatility also higher.




## NAB Commercial Property Index: Q2 2013

| | Q4'10 | Q1'11 | Q2'11 | Q3'11 | Q4'11 | Q1'12 | Q2'12 | Q3'12 | Q4'12 | Q1'12 | Q2'13 | Q4'13 | Q2'14 | Q2'15 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Office | 3 | 27 | 11 | -2 | 14 | 12 | 5 | -14 | -16 | 0 | -17 | -2 | 15 | 35 |
| Retail | 1 | -23 | -28 | -40 | -36 | -45 | -43 | -39 | -46 | -27 | -30 | -21 | -4 | 11 |
| Industrial | -18 | -16 | -17 | -12 | -14 | -17 | -27 | -11 | -11 | -2 | -12 | 1 | 30 | 42 |
| CBD Hotels | n/a | 81 | 58 | 21 | 63 | 57 | 19 | 6 | 58 | 6 | 17 | 6 | 17 | 39 |
| **CP Index** | **-2** | **9** | **-2** | **-13** | **-2** | **-7** | **-14** | **-19** | **-17** | **-8** | **-16** | **-7** | **13** | **30** |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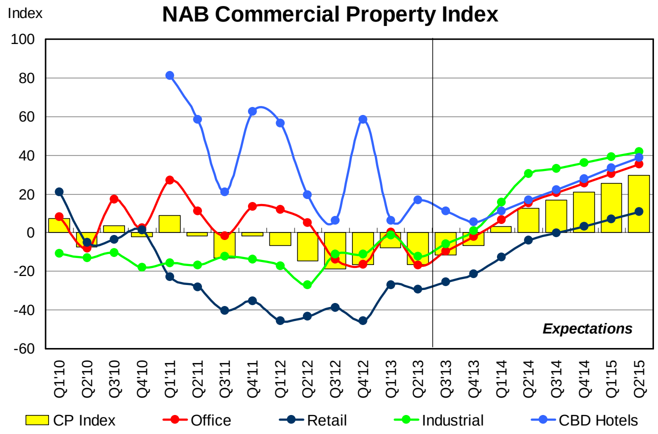
# Commercial Property Overview

Market sentiment in the Australian commercial property market weakened notably in Q2'13, with the NAB Commercial Property Index retreating to -16 points (-8 points in Q1'13). The index has now fallen below the long-term series average of -6 points.

The overall index was weighed down by a notable fall in the NAB Office Index to -17 points (0 in Q1'13). It seems that the recent softening in domestic economic conditions (and more subdued outlook for GDP growth) has weighed heavily on office markets. Indeed, the NAB business surveys (a lead indicator for the office sector) show business conditions remaining low with mediocre confidence levels.

The NAB Industrial Property Index also declined 10 points to -12 index points, mainly due to very big falls in industrial property market sentiment in both SA/NT and Victoria, where activity in state manufacturing industries remains subdued.

***NAB Commercial Property Index dips in Q2'13, driven by weaker sentiment in the office and industrial markets.***



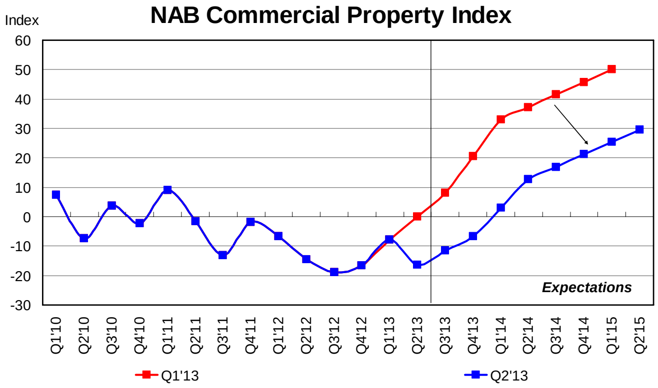

Interestingly, sentiment in the retail property market was little changed during the quarter (down 3 to -30 index points), but was much less subdued than the lows seen six months earlier (sentiment in the retail property space is however still weakest overall). Although many parts of the retail economy are struggling, it is likely that sentiment may have been positively impacted by the depreciation of the A$ and a further rate cut in May.

In contrast, sentiment in the CBD Hotel sector improved in the June quarter, with the CBD Hotel Index rising to +17 points (+6 points in Q1'10) to continue leading the overall commercial property market. Although capital value expectations in the sector were slightly lower this quarter, it was offset by higher room rate growth.

As the year plays out, the immense impact structural change is having on the Australian economy is becoming increasingly apparent, with the economy now growing at its slowest pace in almost two years. The fragility of the non-mining sectors suggest the economy's ability to cushion the effects of this adjustment is also less certain, posing a downside risk to near and medium-term growth prospects.

This pessimism also seems to have spilled over into commercial property markets, with more surveyed property professionals lowering their expectations for capital and income growth in the next 1-2 years. As a result, NAB's Commercial Property Index is tipped to rise to just +13 points by Q2'14 and +30 points in Q2'15.

***Forward expectations weaken.***

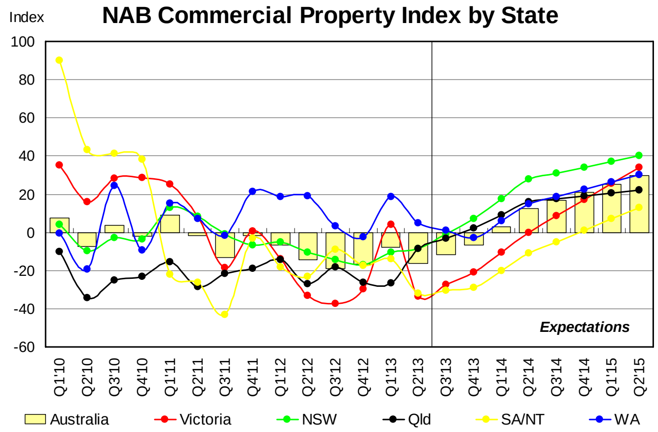



Sentiment fell heavily in Victoria in Q2'13, with the state index down 38 to -34 points, pulled back by much weaker sentiment in local office and industrial markets. WA was the only state where overall sentiment was positive, although the state index also fell 5 to +5 index points. Sentiment improved in Queensland (-9 points) and NSW (-9 points) although still negative index readings suggest these markets also remain sluggish.

There is little indication of any near-term improvement in commercial property markets in SA/NT and Victoria, where both state indices are expected to remain negative next year. Expectations were also weaker in WA, but broadly unchanged in Queensland and NSW.

NSW emerges as the strongest market in the next 2 years, with Victoria overtaking WA as the next best.

***...but a mixed bag between the state states.***

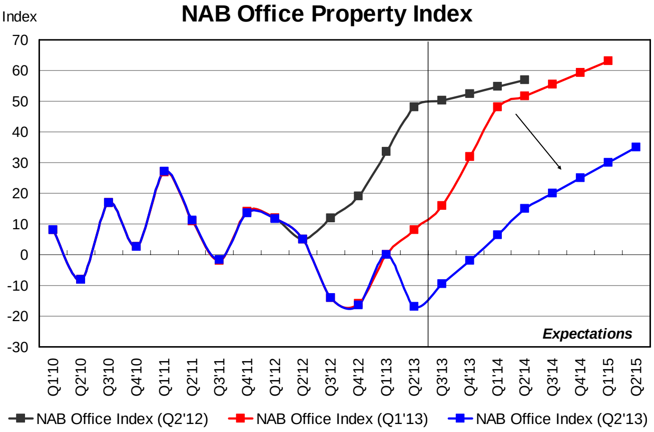


The NAB Office Property Index declined to a new low of -17 points in Q2’13 (0 points in Q1’13). These results are consistent with readings from NAB’s June monthly Business Survey which also show very weak overall business conditions persisting, with business conditions slumping to their lowest level since May 2009.

The June NAB Business Survey showed that business confidence also remained lacklustre. The falling A$ appears to have done little to lift spirits, with concerns about global economic conditions and overall weakness in the domestic economy also likely to be worrying firms.

Against this backdrop, fewer survey respondents operating in office property markets are predicting growth in capital values or income over the next 1-2 years. As a result, the NAB Office Property Index is expected to rise to just +15 points in the next year and +35 points by mid-2015, representing a significant downward revision in expectations from the last survey.

***NAB office property index declines to a new low in Q2’13 as business conditions weaken and confidence remains poor.***

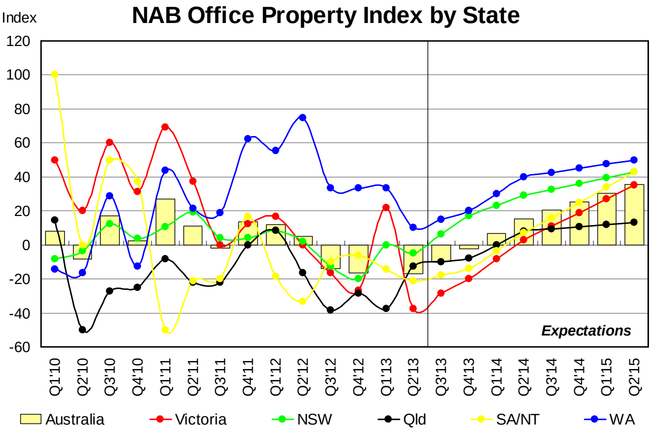



Office market sentiment fell heavily in Victoria with the state index down to -38 points (+22 points in Q1’13). Clearly, the economic slowdown in Victoria (and large new volume of supply expected to come onto the market) are having an effect on the state office market.

WA remained the most resilient state for office property in Q2’13, but the state office index also fell 23 to +10 points, with the deterioration consistent with the decline in mining activity. In contrast, Queensland was the only state where sentiment improved, with the state office index rising by 25 to -13 points.

WA (+50 points) and NSW (+43 points) have replaced Victoria (+35 points) as the most optimistic states for office property in the next 2 years. However, expectations in WA were scaled back relative to the last survey as state business confidence also softened. Expectations were broadly unchanged in NSW, where lower rates reportedly boosted investor confidence and helped generate higher CBD office sales.

***Office market sentiment fell heavily in Victoria in Q2’13. WA & NSW the most optimistic states for office property.***

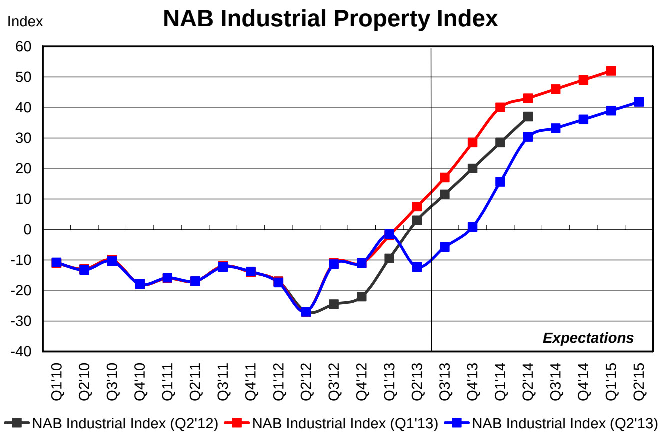



The NAB Industrial Property Index fell 10 to -12 index points in Q2’13 marginally ahead of its long-term average (-14). The deterioration in sentiment in this sector was broadly reflective of the weakness in business conditions apparent in manufacturing, where activity slumped heavily to very weak levels, according to the latest NAB Business Survey. Instead, this market is being increasingly driven by major distribution centres, e-retailers and third-party logistics contracts.

With the domestic economy softening, fewer property professionals anticipate capital or rental growth in the industrial market in the next 1-2 years - although a bigger fall in sentiment may have been prevented by a notable lift in manufacturing confidence linked to A$ depreciation.

On balance, the industrial index is forecast to rise to +30 points by Q2’14 and +42 points by Q2’15 and emerge as the most optimistic segment in the market.

***Industrial property index fell in Q2’13 but above long-term average. Industrial market the most optimistic in 2 years time.***



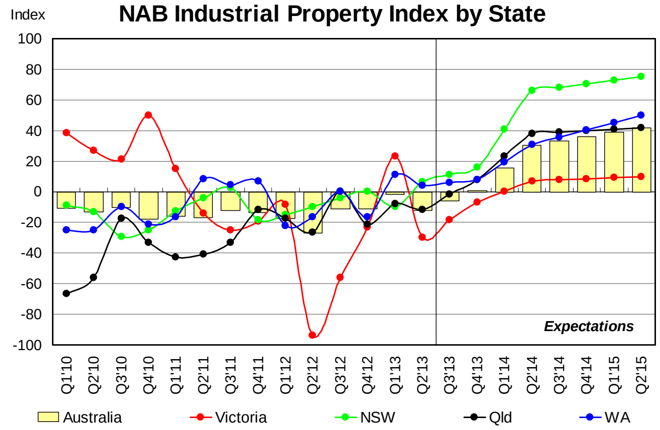
Sentiment among property professionals operating in the industrial market fell in all states in Q2'13, except NSW where the state index climbed 16 to +6 points amid reports of buoyant investment demand for large prime grade assets and an improvement in take up.

In contrast, sentiment fell heavily in Victoria (down 53 to -30 points), with sentiment likely adversely impacted by reports of significant job cuts in some key Victorian industries.

Sentiment is expected to be strongest in NSW (+75 points) over the next 2 years after lagging the national average in Q1'13. WA (+50 points) is the next best market underpinned by the continuation of activity in the resources sector.

The outlook is weakest in Victoria where the market has been subdued amid limited transactional activity. State business conditions have also deteriorated recently and business confidence remains negative.

***Sentiment weakens in all states except NSW. Index fell heavily in Victoria and expected to stay weak in the next 1-2 years.***

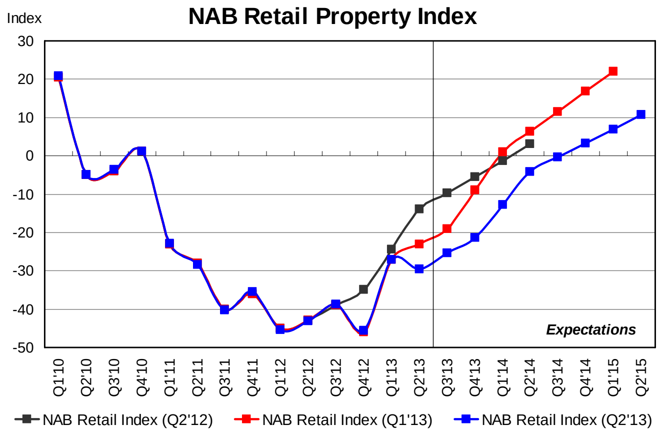



The retail property market remained subdued in Q2'13 with sentiment little changed during the quarter (down 3 to -30 index points). The Retail index was also below its long-term average of -25 points and still the weakest segment in the commercial market. Despite subdued retail spending, however, it is possible that sentiment may have benefited from the recent depreciation of the A$ and another interest rate cut in May.

That said, expectations in the retail market were scaled back in Q2'13 - a result consistent with the latest readings from the NAB Business Surveys which indicate that retail trading conditions worsened sharply in June while confidence among retailers was negative. This suggests that sentiment in retail property markets may continue to flounder in the near-term.

With few signs of turnaround on the horizon, the Retail Property Index is expected to remain negative at -4 points in Q2'14, rising modestly to +11 points in Q2'15 - well below the commercial property average.

***Retail property index remains subdued in Q2'13. Sentiment to remain negative over the next year, with a small improvement forecast in 2015.***

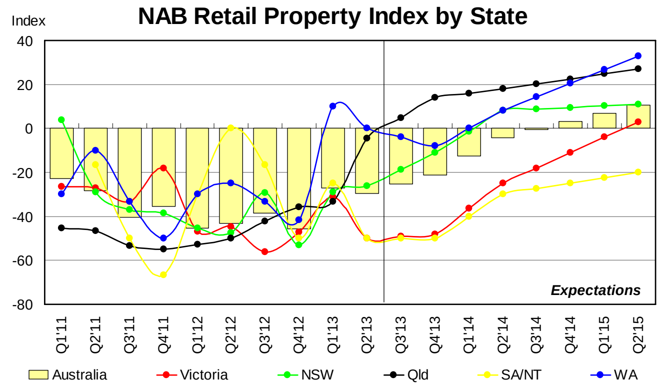



Retail market sentiment was negative in all states in Q2'13 except WA, where the state index fell 10 to 0 points). Sentiment improved most in Queensland (up 28 to -5 points) and NSW (up 3 to -26 points). Sentiment fell heavily in both Victoria (-50 points) and SA/NT (-50 points).

Sentiment is expected to improve in all states in the next year, led by Queensland (+18 points), WA (+8 points) and NSW (+8 points). Property professionals in SA/NT (-30 points) and Victoria (-25 points) are however, much less upbeat.

WA (+33 points) replaces Queensland (+27 points) and NSW (+11 points) as the most optimistic state for retail property by Q2'15. Victoria continues to lag the national average, although the state index is expected to turn positive (+3 points). SA/NT (-20 points) remains the least optimistic state for retail property.

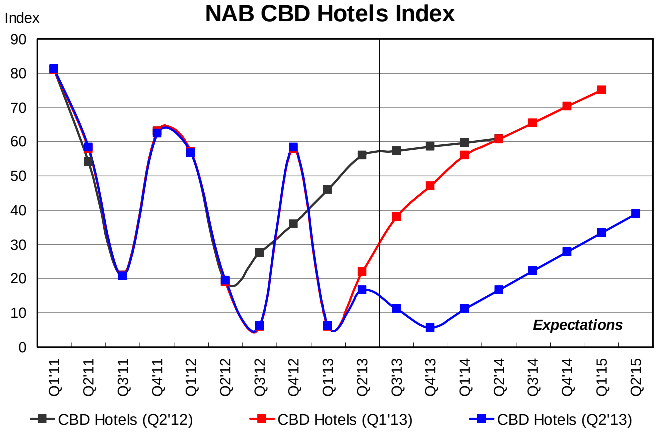
***Retail property market sentiment negative in all states bar WA (flat) in Q2'13. Sentiment to improve in all markets in the next 2 years, led by WA and Queensland.***



NAB's CBD Hotel Index increased slightly +17 points in Q2'13 (but was well below its long-term average of +39 points) and remained the most optimistic segment in the commercial property market. Much softer sentiment in the CBD Hotel sector in recent surveys appears to have been negatively impacted by a softening mining sector which has reportedly caused some developers to reassess their plans to add more rooms to hotel stock in Perth and Brisbane.

The softening domestic economy and subsequent deterioration in market conditions also appears to be weighing on future expectations among survey participants in the CBD hotel space. Our survey results indicate that the CBD Hotel Index will be unchanged at +17 points Q2'14 and rise to +39 points by Q2'15 - a much weaker result than predicted in the last survey. Although the CBD hotel index will continue out-perform the broader market index, it will be overtaken for the first time by industrial property.

## *CBD hotel index improves slightly in Q2'13 but well below its long-term average. Expectations considerably weaker.*



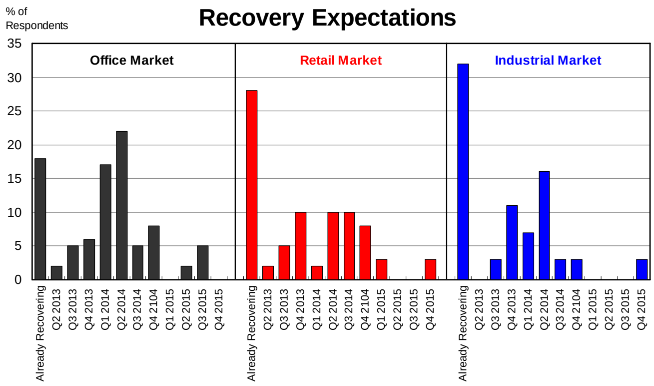

Property professionals remain divided as to where each market currently sits in the cycle.

There was a large change in expectations as to where the office market was currently sitting in this cycle. Only 18% of survey respondents said that the market was already recovering (35% in Q1'13), while almost 40% expect the recovery to be delayed until the first half of 2014.

Respondents were much more upbeat in the industrial property market, where 32% said that the market was already recovering. Around 14% see the market recovery starting in the second half of 2013, while 23% believe that it will commence in the first half of 2014.

In the retail space, 28% said the market was already recovering, up from just 12% in Q1'13. At the same time, however, more than 35% said it would begin to recover from Q2'14 or after, while 20% were not sure.

## *Property professionals still divided as to where each market segment currently sits in this cycle.*

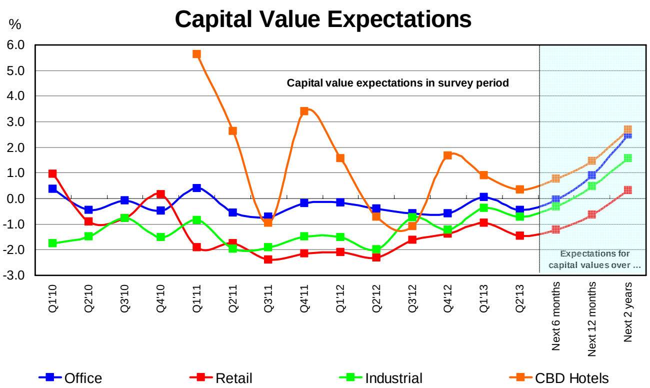



Expectations for capital growth weakened in all property segments in Q2'13. Average capital values fell most for retail property (-1.5%), with capital values also falling for industrial (-0.7%) and office property (-0.5%). In the CBD hotel market, values grew 0.3% (0.9% in Q1'13).

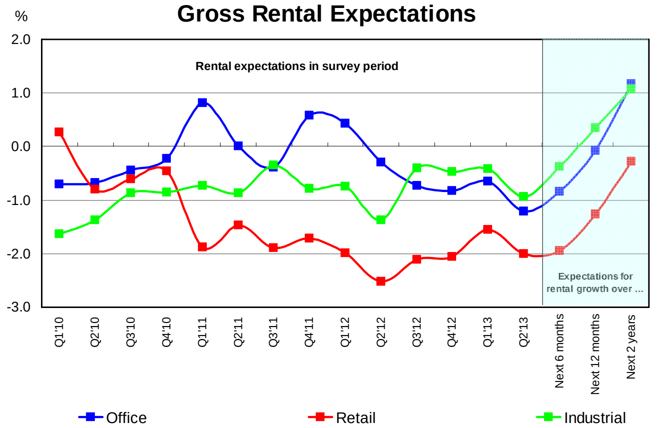
CBD hotels enjoy the strongest outlook for capital growth, with property professionals operating in this sector forecasting capital growth of 1.5% in the next year and 2.7% in the next 2 years, although their expectations have been pared back since Q1'13.

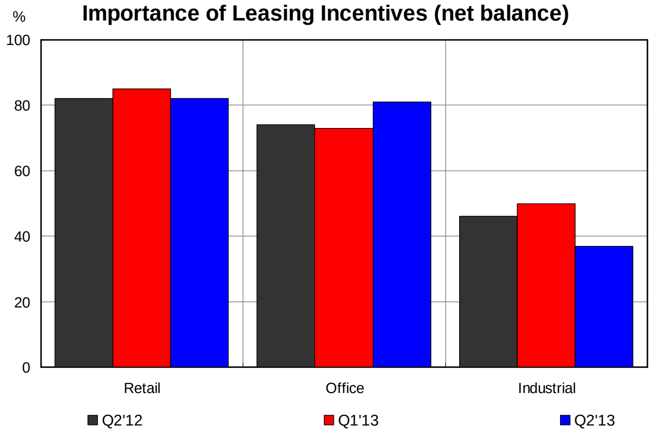
Expectations have also weakened in all other commercial property segments. Survey professionals expect lower capital growth in both the office (0.9% and 2.5%) and industrial (0.5% and 1.6%) markets in the next 1-2 years. Retail capital values (-0.6%) are also forecast to fall at a faster rates in the next year, but rise 0.3% in the next 2 years.

## *Expectations for capital growth weakened in all markets in Q2'13 with respondents also reporting lower expectations for capital growth in next 1-2 years.*



## *Gross rental returns fell in all markets in Q2'13, while the outlook for future returns has softened. Leasing incentives are rising in the office market.*




Gross rental returns remained negative in all markets in Q2'13 and fell at a faster rate than in Q1'13, according to surveyed property professionals.

Rents fell most for retail property (-2%), largely due to steeper fall in returns in Victoria (-2.7%), NSW (-2%), SA/NT (-3.8%) and flat growth in WA. In the office market, average rents fell -1.2% (-0.7% in Q1'13), mainly due to weaker returns in Victoria (-1.7%), NSW (-0.9%) and WA (-0.2%). In the industrial market, average national rents fell -0.9% (-0.4% in Q1'13) as expectations weakened in Victoria (-2.4%) and SA/NT (-4.3%).

Expectations for future rental returns softened in all markets in Q2'13. In the office sector, average rents are expected to fall -0.1% (0.4% in Q1'13), with marginal growth in SA/NT (0.3%) and WA (0.1%) offset by declining returns in Victoria (-0.2%) and Queensland (-0.3%). In the retail market, property professionals expect average rents to fall -1.3% over the next year, with returns weakest in SA/NT (-2.9%), Victoria (-2.1%) and NSW (-1.2%). In the industrial property market, average rents are forecast to grow 0.3%, although this was revised down from 0.9% previously. Industrial rents are forecast to grow fastest in NSW (1.4%) and WA (0.9%), but fall in Victoria (-0.3%) and SA/NT (-2.9%).

Over the next 2 years, national rents are expected to rise 1.2% in the office market (1.5% previously), with positive returns expected in all states. Rents are also forecast to grow in the industrial market by 1.1% (1.9% previously), with growth tipped in all markets except Victoria (-0.4%). In the national retail market, average rents are expected to fall by -0.3% over the next 2 years (-0.1% previously), with property professionals predicting negative income returns in NSW (-0.9%), SA/NT (-0.8%) and Victoria (-0.6%).

With rents falling and vacancy rates drifting up in the office market, tenants appear to be gaining the upper hand in the leasing market. Indeed, a net balance of +81% said that leasing incentives (e.g. rent free periods) were important in Q2'13, the highest reading since Q1'11. Leasing incentives continue to be highest in the retail market, where rents have fallen consistently since Q2'10. Incentives remain least important in the industrial leasing market.

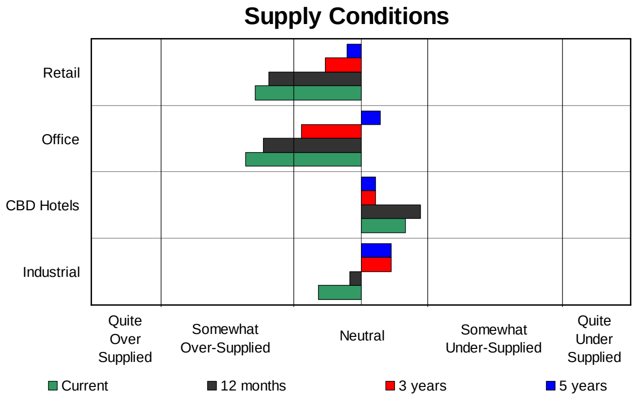
## *Supply conditions soften notably in office market. Retail also "somewhat" over-supplied. Industrial & CBD hotels "neutral".*

Supply conditions in the national office market softened notably in Q2'13, with property professionals now assessing the market as "somewhat over-supplied", which is in line with recent reports that office vacancy rates have ballooned amid indications of expanding pressure on business across a number of fronts.

The national retail property market is also considered to be "somewhat over-supplied" and is expected to remain so in the next year. Excess supply is however set to be slowly worked out of the market with "neutral" conditions emerging in the next 3-5 years.

The national industrial property market is currently balanced and survey respondents expect this market to remain balanced in the next 3-5 years.

The CBD hotel market is also considered to be "neutral" and is expected to remain so in the next 1-5 years.

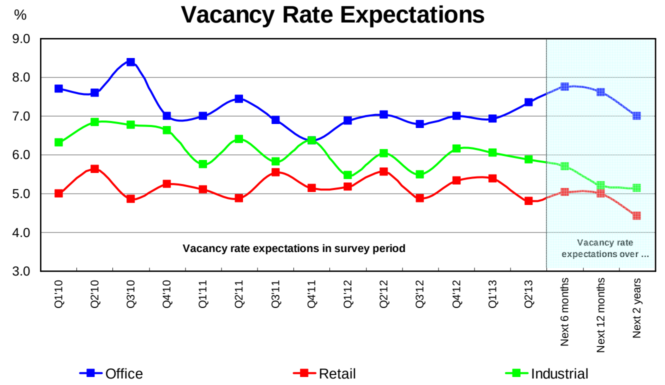


The national industrial vacancy rate fell in Q2'13 to 5.9% (6.1% in Q1'13) as vacancy tightened in Victoria and Queensland. Vacancy rates in this market are expected to continue trending down over the next 1-2 years.

Retail vacancy also tightened in Q2'13 to 4.8% nationally, from 5.4% in Q1'13. Queensland (5.8%) and Victoria (4.8%) have the highest vacancy rates for retail property and WA (3%) the lowest. Retail vacancies are expected to continue climbing over the next year to 5% before easing back to 4.4% by mid-2015.

Property professionals operating in the office space were the only group to report higher vacancy in Q2, with the national rate rising from 6.9% to 7.3%. Vacancy rates remain very elevated in Queensland (9.4%) and NSW (8%) but have also risen in Victoria (6.4%). As corporate Australia adjusts to slower growth, the office vacancy rate is expected to remain high over the next 12 months (7.6%) before reducing to 7% by mid-2015.

***Vacancy rates fall slightly in industrial and retail markets in Q2'13 but increase in office. Vacancy rates in office and retail markets expected to climb in the near-term.***



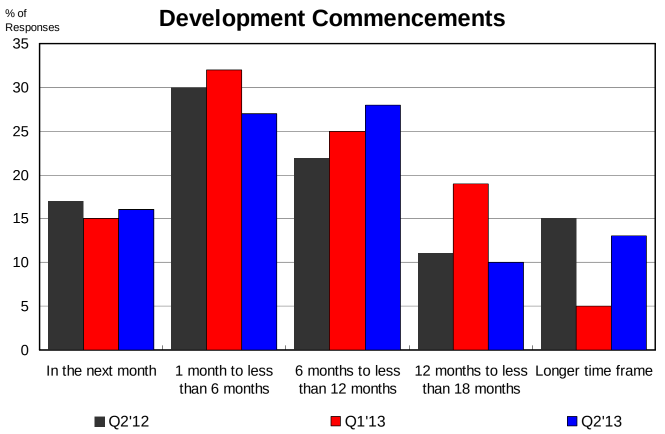

## New Property Developments

Survey respondents in the property development space are asked when they plan to commence new works. Responses in Q2'13 indicate that fewer developers were planning to commence works in the near-term.

The number of respondents planning new developments in the next 0-6 months fell to 43% in Q2'13, from 47% in Q1'13. This reflected a bigger fall in the number of new commencements planned in the 1-6 months to 27% (32% in Q1'13), which offset a smaller rise in those expecting to commence works in the next month. Developers are most optimistic in Victoria and NSW where 57% and 50% respectively expect to commence new developments in the next 0-6 months, and least optimistic in Queensland (23%).

The share reporting new developments in 6-12 months rose to 28% (25% in Q1'13). Those starting in the next 12-18 months fell to 10% (19% in Q1'13), while those with a longer time frame rose to 13% (5% in Q1'13).

***Slightly fewer property developers planning to begin new projects or developments in the near-term.***



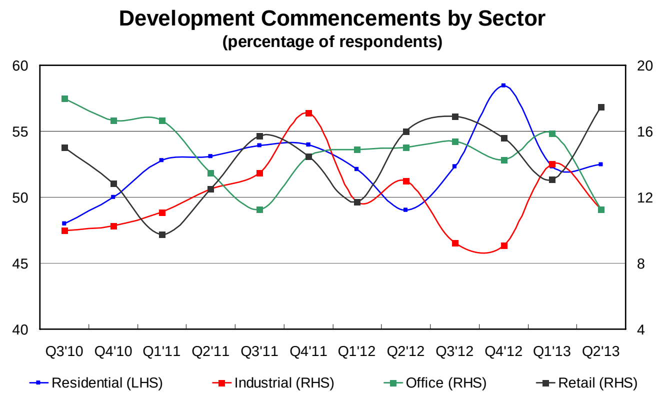

When asked to nominate which sectors developers were seeking to develop new projects, residential property was again the most favoured type according to 53% of survey respondents (52% in Q1'13).

Weaker sentiment was apparent among office property developers with only 11% expecting to develop new projects in this sector (16% in Q1'13), with developers most optimistic in WA.

The share of respondents looking to develop industrial property also fell to 11% in Q2'13 (14% in Q1'13), with industrial developers most optimistic in WA.

Prospects for new retail developments however increased notably this quarter, with 18% of survey respondents planning new developments in Q2'13 (13% in Q4'12). Developers from Queensland were the most optimistic in this space, reportedly driven by population growth and heightened investment activity.

***Majority of property developers seeking to develop residential projects, but prospects improve most among retail developers.***



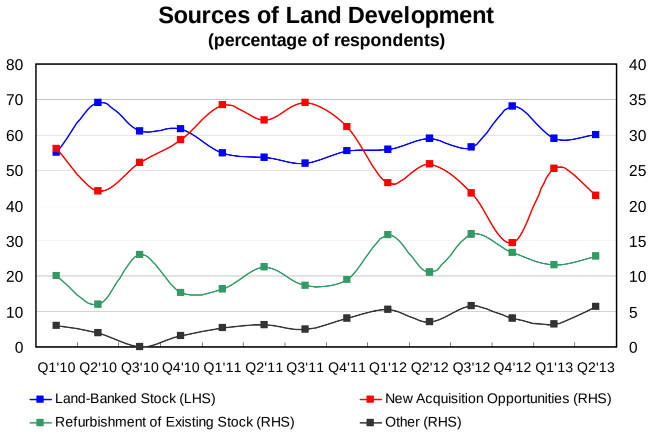
Of the survey respondents looking to undertake new works, 60% were looking to do so with land-banked stock held for future development (59% in Q1’13). Victorian (38%) and NSW (26%) developers hold the lion’s share of land slated for future development.

The share of national developers chasing new acquisitions fell to 21% in Q2’13, down from 25% in Q1’13, but ahead of the lows of late-2012. Developers from WA (33%) and Victoria (21%) were most likely to be chasing new stock this quarter.

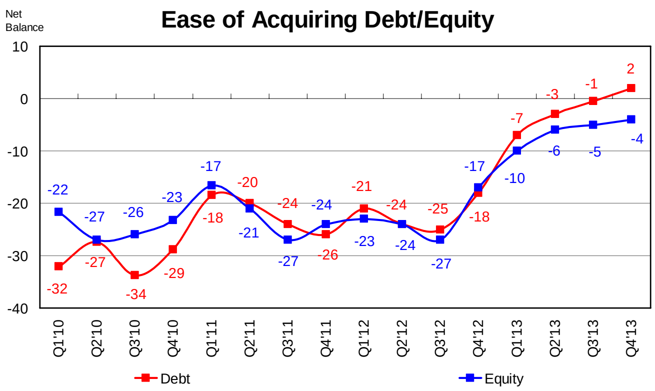
The number of national survey respondents looking to refurbish existing stock was broadly unchanged at 13% in Q2’13, with refurbishments more likely to occur in Victoria and NSW.

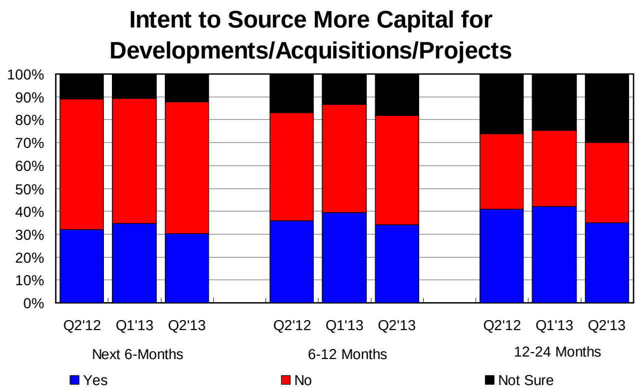
Overall, these trends suggest that property developers were more pessimistic about entering the market this quarter.

***Majority of developers entering market are looking to cash in on land-banked stock, but fewer chasing new acquisitions.***




***Debt and equity funding still a problem for property developers in Q2’13, but conditions have been improving since late-2012. Capital sourcing intentions also suggest developers have become more uncertain about the future operating environment.***




Fewer developers saw debt funding as a problem in Q2’13 and conditions have been slowly improving since the second half of 2012. A net balance of -3% of survey respondents reported more difficult conditions for sourcing debt in Q2’13, compared with -7% in Q1’13. However, developers in Queensland (-14%) and NSW (-6%) were more pessimistic this quarter compared to Q1’13, whereas conditions improved in Victoria (-10%), WA (+13%) and SA/NT (+5%). Around 22% of respondents also reported no new borrowing requirements in the past 3 months, but this share is expected to fall to 19% in the next 3-6 months.

Debt conditions are expected to improve in the next 3-6 months, with a net balance of +2% seeing better conditions by Q4’13. Queensland (-5%) remains the most pessimistic state, with WA (+12%) and NSW (+4%) the most optimistic states.

Raising equity was also less difficult in Q2’13, with a net balance of -6% anticipating more difficult conditions (-10% in Q1’13). Queensland (-12%) was the most pessimistic state for equity financing (and more so than in Q1’13), followed by NSW (-8%) and Victoria (-6%), although less so than in Q1’13. SA/NT (+5%) was the most optimistic state, but from a smaller sample size, followed by WA (0%). Raising equity is expected to be easier in the next 3-6 months, with the net balance falling to a low of -4% by Q4’13. SA/NT (-8%) and NSW (-6%) are the most pessimistic states, while developers from WA (+7) and Queensland (-2%) are the most optimistic. Around 27% of said they had no equity requirements this quarter, but that share is expected to fall to 24% in the next 3-6 months.

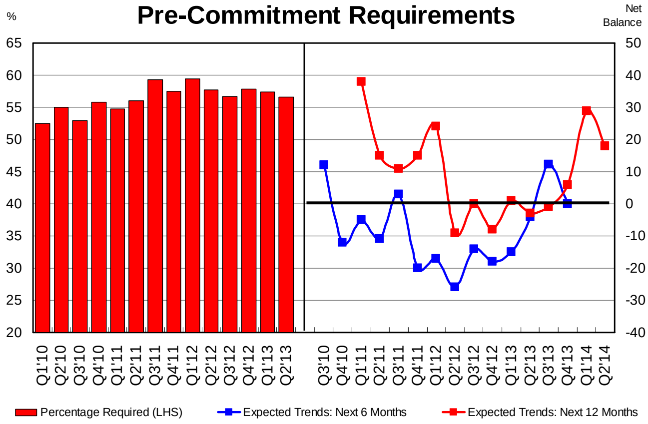
Fewer survey participants plan to source funds in the next 6 months (30% versus 35% in Q1’13) and in the next 6-12 months (34% versus 40% in Q1’13), consistent with a drop in the number also planning to start new developments in this period. Those with no sourcing intentions rose slightly, while those with longer-term intentions fell to 35% (42% in Q1’13). There was also an increase in the number of developers who were “not sure”. These trends suggest that developers have become uncertain about the future operating environment.

Expectations for bank pre-commitment requirements for new developments continued falling according to 56.5% of property professionals in Q2'13 (57.4% in Q4'12). Queensland (59.5%), Victoria (58.5%) and NSW (57.3%) were the most negative states for bank conditions. WA (48.3%) and SA/NT (51.4%) were the most positive with regards average pre-commitment expectations to secure development funding.

Of those electing to predict the next 6 month period, a net balance of 0% expect to see looser pre-commitment requirements from banks in the next 6 months, down from +12% in Q1'13. Property professionals in Queensland (+7%) were the most optimistic, with those from SA/NT (-17%) the least optimistic.

Pre-commitment requirements are expected to ease further in the next year with a net balance of +18% expecting conditions to improve (+29% in Q1'13). NSW (+24%) and Queensland (+24%) have replaced WA (+7%) as the most positive states.

***Expectations on bank pre-commitment requirements fell again in Q2'13 and will continue to improve, but at a slower rate than predicted in the last survey.***



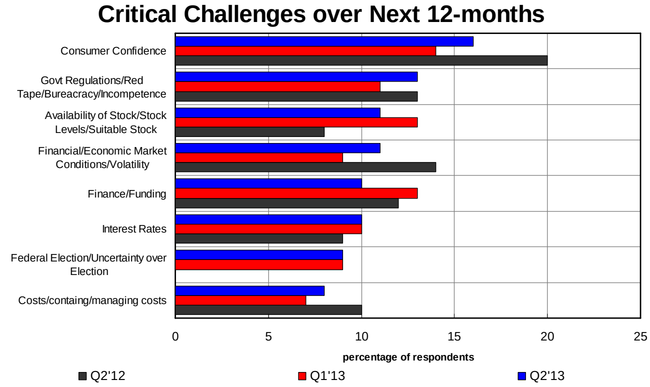

More survey respondents (16%) identified consumer confidence as the main challenge facing property businesses in the next 12 months this quarter, although the level of concern was well down on year-earlier levels. Victorians (19%) were the most concerned, while SA/NT (8%) was least concerned.

Government regulation / red tape / bureaucracy was seen as the next biggest challenge by 13% of respondents (11% in Q1'13). These concerns were most pronounced in WA (19%).

Availability of stock is still a challenge according to 11% of survey respondents nationally (13% in Q1'13), with Victorians (17%) the most concerned.

There was a pick up in the number of national respondents reporting more concern over financial / economic volatility (11%). This was driven mainly by heightened concerns in WA (16%) which is currently facing headwinds from slower mining activity.

***Consumer confidence is still the biggest challenge for property firms (more so than in Q1). Concern about govt regulation and financial/economic volatility also higher.***

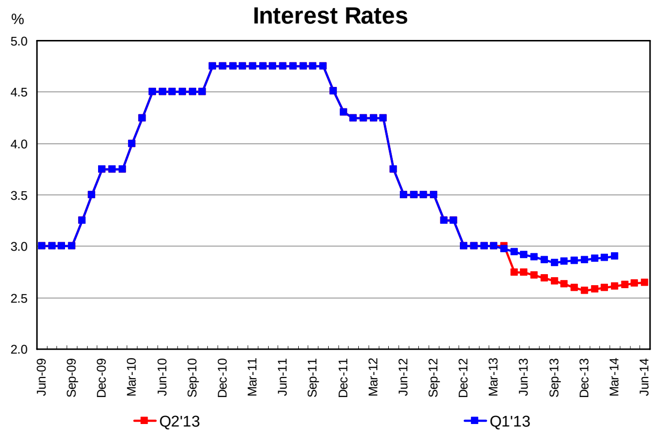



Around 14% of the survey panel anticipate lower interest rates in the next 6-12 months. On average, interest rates are tipped to fall by 18 bps in the next 6 months and 12 bps in the next year. Around 53% expect rates to be cut in the next 6 months, while 39% expect rates to be cut in the next year.

NAB also sees interest rates falling further in the near-term. The weakness in the domestic economy confirmed by the latest NAB survey, along with the softness in Chinese activity data, the lower track for the terms of trade and the heightened volatility in financial markets have encouraged us to bring our next expected rate cut forward to August (previously November).

We see the risks for the remainder of 2013 beyond August as skewed towards another cut, but heavily data dependent, particularly relative to the labour market deterioration we have currently factored in.

***Survey respondents expect interest rates to continue falling in the next 12 months.***



# Tables

## Survey Respondents Expectations: Q2 2013

### Capital Values (%)

| OFFICE | Victoria | NSW | Queensland | WA | SA/NT* | AUSTRALIA |
|---|---|---|---|---|---|---|
| Q2'13 | -1.3 | 0.2 | -0.9 | 2.0 | -1.1 | **-0.5** |
| Q4'13 | -1.0 | 0.7 | -0.7 | 2.3 | -0.5 | **-0.1** |
| Q2'14 | 0.4 | 1.2 | 0.7 | 3.6 | 0.0 | **0.9** |
| Q2'15 | 2.4 | 2.7 | 1.9 | 4.5 | 1.6 | **2.5** |
| | | | | | | |
| **RETAIL** | **Victoria** | **NSW** | **Queensland** | **WA** | **SA/NT*** | **AUSTRALIA** |
| Q2'13 | -2.1 | -1.3 | -0.2 | -1.2 | -3.0 | **-1.5** |
| Q4'13 | -2.2 | -0.7 | 0.1 | -0.8 | -2.9 | **-1.2** |
| Q2'14 | -1.5 | -0.1 | 0.4 | -0.4 | -1.7 | **-0.6** |
| Q2'15 | 0.0 | 0.6 | 0.8 | 0.4 | -0.4 | **0.3** |
| | | | | | | |
| **INDUSTRIAL** | **Victoria** | **NSW** | **Queensland** | **WA** | **SA/NT*** | **AUSTRALIA** |
| Q2'13 | -1.3 | -0.2 | -0.7 | -0.2 | -2.5 | **-0.7** |
| Q4'13 | -0.7 | 0.5 | -0.4 | -0.2 | -2.5 | **-0.3** |
| Q2'14 | 0.1 | 2.0 | 0.3 | -0.1 | -2.5 | **0.5** |
| Q2'15 | 0.7 | 2.9 | 1.1 | 1.2 | 0.8 | **1.6** |

### Gross Rents (%)

| OFFICE | Victoria | NSW | Queensland | WA | SA/NT* | AUSTRALIA |
|---|---|---|---|---|---|---|
| Q2'13 | -1.7 | -0.9 | -1.9 | -0.2 | -0.5 | **-1.2** |
| Q4'13 | -1.1 | -0.6 | -1.1 | -0.6 | -0.5 | **-0.8** |
| Q2'14 | -0.2 | 0.0 | -0.3 | 0.1 | 0.3 | **-0.1** |
| Q2'15 | 1.3 | 1.1 | 0.8 | 0.9 | 1.6 | **1.2** |
| | | | | | | |
| **RETAIL** | **Victoria** | **NSW** | **Queensland** | **WA** | **SA/NT*** | **AUSTRALIA** |
| Q2'13 | -2.7 | -2.0 | -0.9 | 0.0 | -3.8 | **-2.0** |
| Q4'13 | -2.8 | -1.8 | -0.5 | -0.3 | -4.3 | **-1.9** |
| Q2'14 | -2.1 | -1.2 | -0.1 | 0.6 | -2.9 | **-1.3** |
| Q2'15 | -0.6 | -0.9 | 0.4 | 2.4 | -0.8 | **-0.3** |
| | | | | | | |
| **INDUSTRIAL** | **Victoria** | **NSW** | **Queensland** | **WA** | **SA/NT*** | **AUSTRALIA** |
| Q2'13 | -2.4 | 0.0 | -0.5 | 0.1 | -4.3 | **-0.9** |
| Q4'13 | -1.0 | 0.4 | -0.2 | 0.3 | -3.5 | **-0.4** |
| Q2'14 | -0.3 | 1.4 | 0.2 | 0.9 | -2.9 | **0.3** |
| Q2'15 | -0.4 | 2.4 | 0.5 | 1.7 | 0.3 | **1.1** |

### Vacancy Rates (%)

| OFFICE | Victoria | NSW | Queensland | WA | SA/NT* | AUSTRALIA |
|---|---|---|---|---|---|---|
| Q2'13 | 6.4 | 8.0 | 9.4 | 5.0 | 6.4 | **7.3** |
| Q4'13 | 6.5 | 8.5 | 9.6 | 5.8 | 7.3 | **7.8** |
| Q2'14 | 6.3 | 8.2 | 9.8 | 5.8 | 7.3 | **7.6** |
| Q2'15 | 5.4 | 7.8 | 9.0 | 5.8 | 6.4 | **7.0** |
| | | | | | | |
| **RETAIL** | **Victoria** | **NSW** | **Queensland** | **WA** | **SA/NT*** | **AUSTRALIA** |
| Q2'13 | 4.8 | 4.6 | 5.8 | 3.0 | 4.5 | **4.8** |
| Q4'13 | 5.0 | 4.9 | 6.0 | 3.7 | 4.5 | **5.0** |
| Q2'14 | 5.1 | 4.9 | 5.6 | 3.7 | 4.5 | **5.0** |
| Q2'15 | 3.9 | 4.8 | 5.0 | 3.7 | 4.5 | **4.4** |
| | | | | | | |
| **INDUSTRIAL** | **Victoria** | **NSW** | **Queensland** | **WA** | **SA/NT*** | **AUSTRALIA** |
| Q2'13 | 5.8 | 6.0 | 6.8 | 5.0 | 6.3 | **5.9** |
| Q4'13 | 5.4 | 5.5 | 6.4 | 5.5 | 6.3 | **5.7** |
| Q2'14 | 5.2 | 5.0 | 5.6 | 5.4 | 5.0 | **5.2** |
| Q2'15 | 5.2 | 5.2 | 5.7 | 5.0 | 4.3 | **5.1** |

** Limited sample size*

# About the Survey

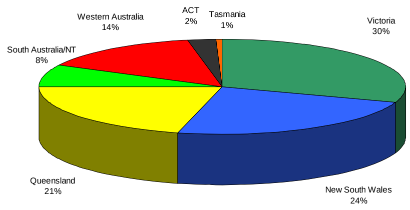
In April 2010, NAB launched the inaugural NAB Quarterly Australian Commercial Property Survey with the aim of developing Australia's pre-eminent survey of market conditions in the Commercial Property market.

The large external panel of respondents consisted of Real Estate Agents/Managers, Property Developers, Asset/Fund Managers and Owners/Investors.

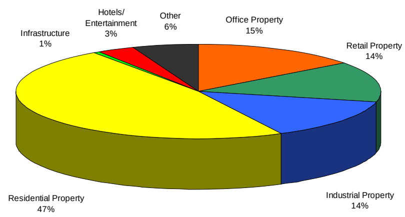
Given the large number of respondents who are also directly exposed to the residential market, NAB expanded the survey questionnaire to focus more extensively on the Australian Residential market.

Around 300 panellists participated in the Q2 2013 Survey and the breakdown of our Survey respondents - by location, property sector and business type - are shown below.

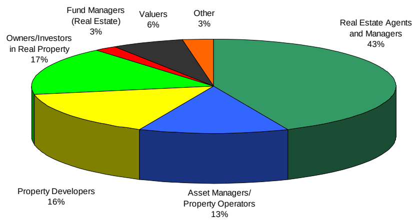
**Respondents by State**




**Respondents by Property Sector**




**Respondents by Business Type**



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# Important Notices