

# NAB Commercial Property Survey – Market Overview

## Q4 2014 by NAB Group Economics

Embargoed until: 11.30am Wednesday 11 February 2015



### Summary

**NAB Commercial Property Index slips back into negative territory, with index falling 4 points to -2 points in Q4.** Improved sentiment in retail (which looks to have entered the early stages of an upturn) offset by falls in CBD hotels and office. Overall, sentiment now strongest in retail sector and weakest for office property.

**Forward expectations scaled back in all sectors, except industrial (up).** Confidence highest industrial & retail sectors next year, with industrial & CBD hotels leading in 2 years time. Office clearly lagging.

**Sentiment in WA (-33) still very weak, but also notably softer in QLD (-18) & NSW (+4).** Sentiment up in VIC (+17) and strongest overall. VIC & QLD most optimistic in next 1-2 years; WA weakest by some margin.

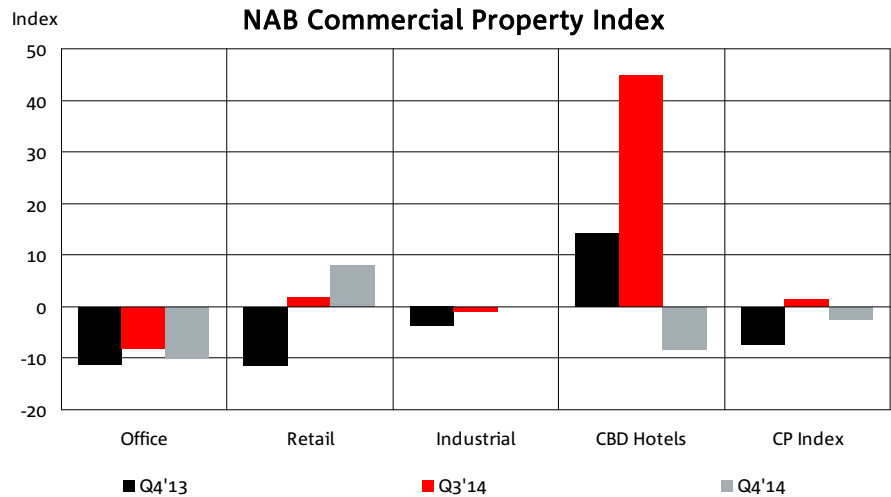
**Expectations for capital growth over next 1-2 years scaled back in all sectors, but positive returns expected in all markets.** Best returns in CBD hotels (3.3% & 4.6%), followed by industrial (1.3% & 1.9%) with lowest returns expected for office property (0.2% & 0.7%).

**Leasing conditions remain difficult in Q4 with rents falling in all sectors, but at slower rates for retail (-0.1%) and industrial (-0.3%).** High vacancies and over-supply hurting office, where rents fell -1.3%. Importance of leasing incentives very high in office and retail markets. Expectations for rents in next 1-2 years positive for industrial (1% & 1.6%) and retail (1% & 1.5%); downward pressure persisting in office.

**Developers less confident in Q4 with fewer planning to start new works in short-term.** Increase in number of developers looking at residential and retail opportunities, with more also looking to acquire new properties for development. Funding conditions unchanged but average pre-commitment requirements up slightly.

**Property firms still most concerned over stock availability** (much less so than in Q3), but concerns over consumer confidence rising sharply.

More detail on the Office, Retail, Industrial & CBD Hotels available upon request.



### NAB Commercial Property Index

	Q3'14	Q4'14	Nxt Qtr	12mths	2yrs
Office	-8	-10	-3	8	21
Retail	2	8	19	37	39
Industrial	-1	0	15	42	51
CBD Hotels	45	-8	-8	17	50
CP Index	2	-2	7	24	35

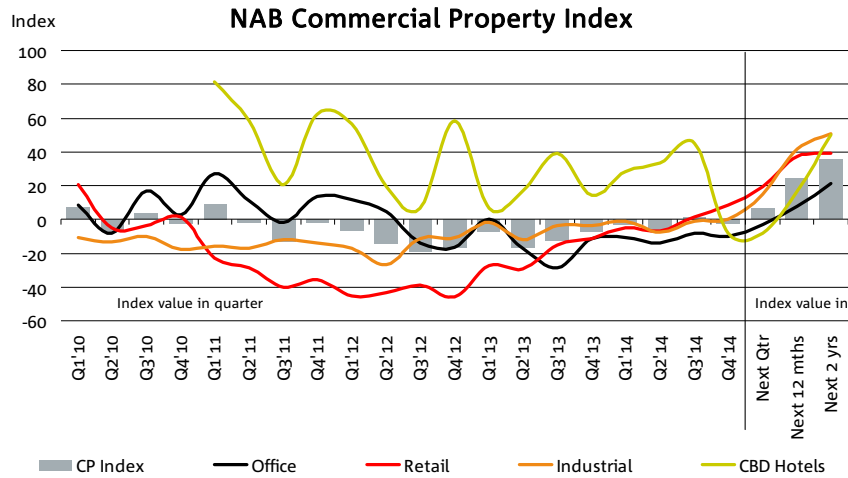
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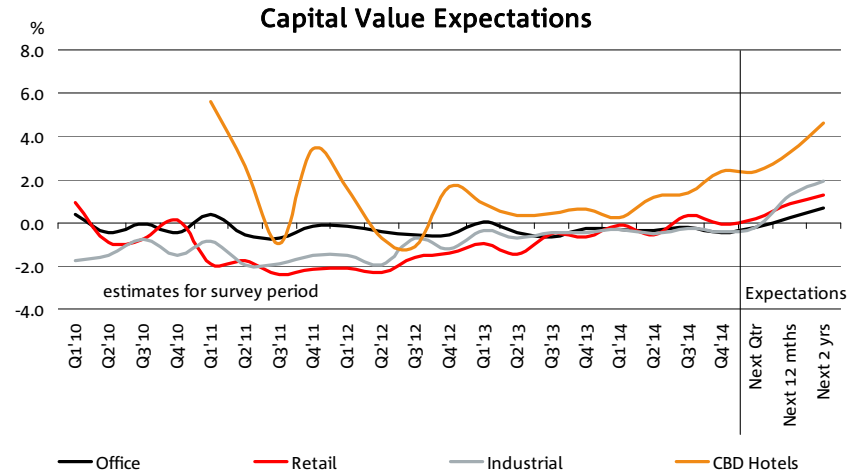
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# Market Overview - Index, By State, Capital Value & Vacancy Expectations

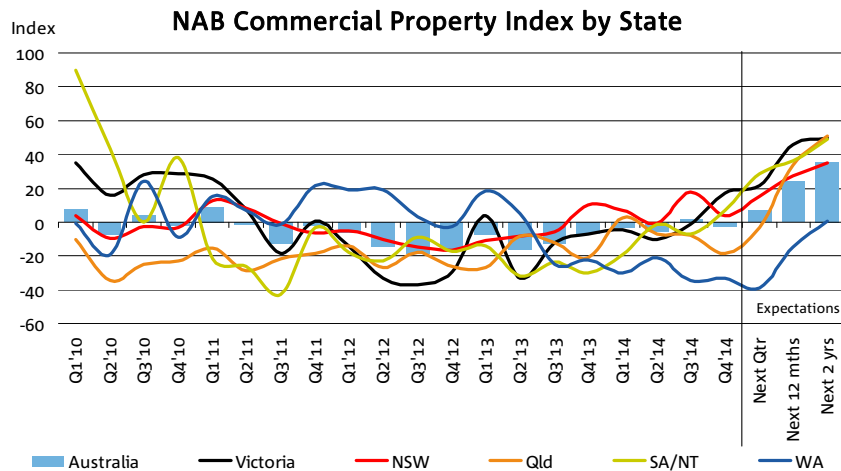
Sentiment improves in retail and strongest overall in Q4 (replaces CBD hotels. Outlook best for industrial in 1-2 years; office weakest.



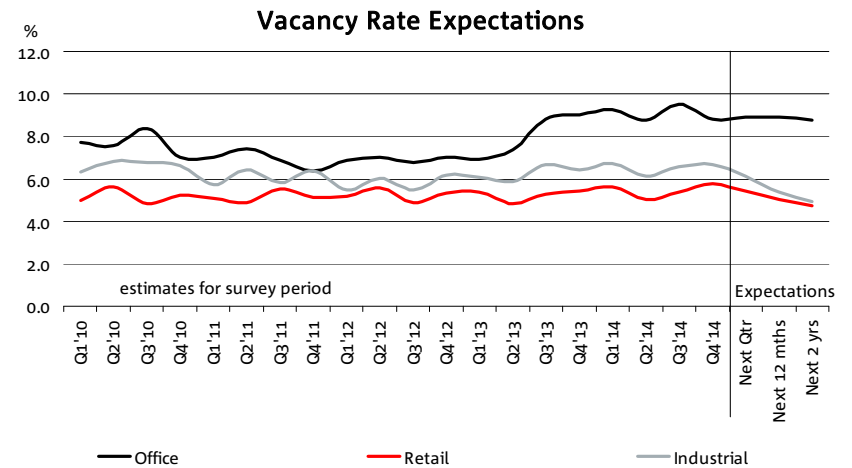
Capital returns strongest for CBD hotels in next 1-2 years, followed by industrial. Returns weakest for office property.



Sentiment still falling heavily in WA; also down in QLD & NSW. VIC most optimistic next year; QLD best in 2 years; WA weakest.



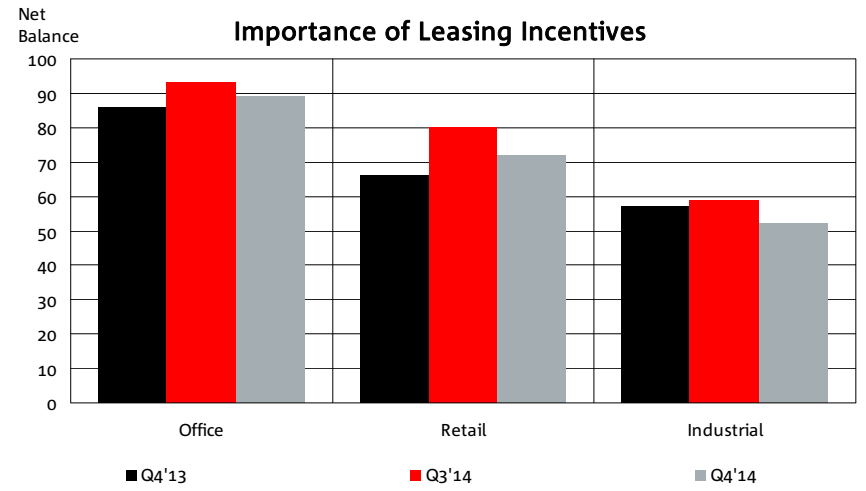
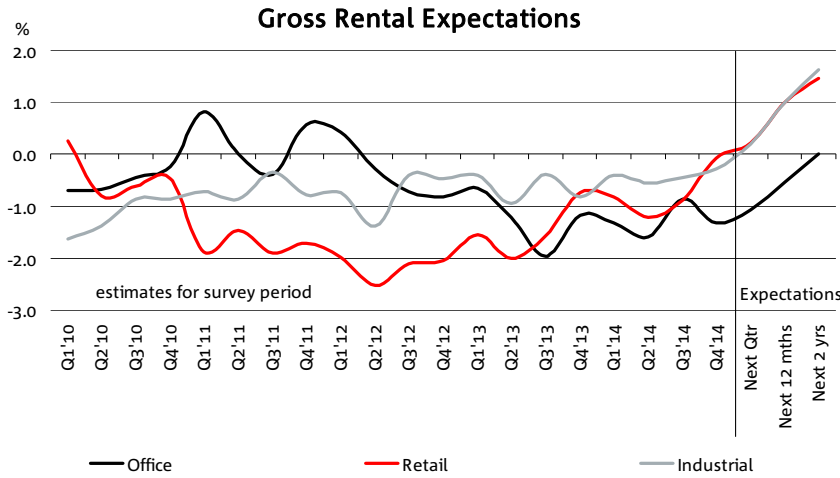
Office vacancy rates fall slightly in Q4 but set to remain elevated. Vacancy to fall in industrial and retail next 1-2 years.



# Market Overview - Rental & Recovery Expectations, Incentives & Supply

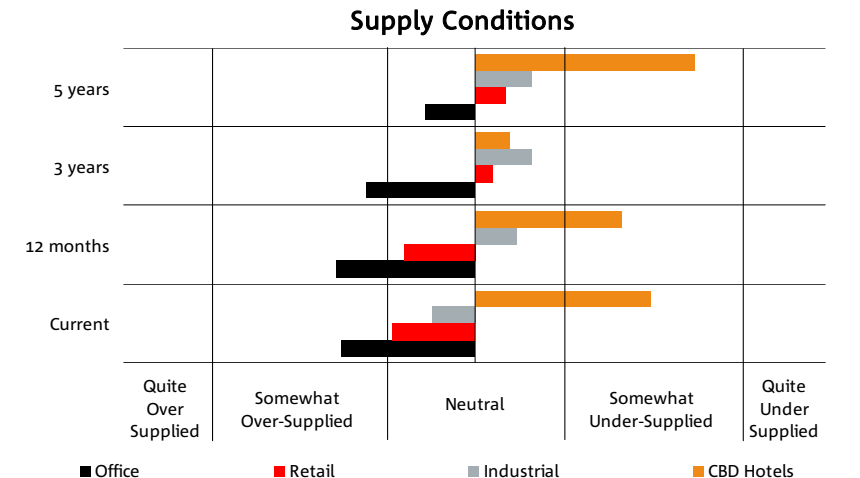
Rents still falling in all markets. Positive returns forecast for retail & industrial in next 1-2 years; outlook for office subdued.

Leasing incentives lower in all markets in Q4 but still very important, especially in office & retail.



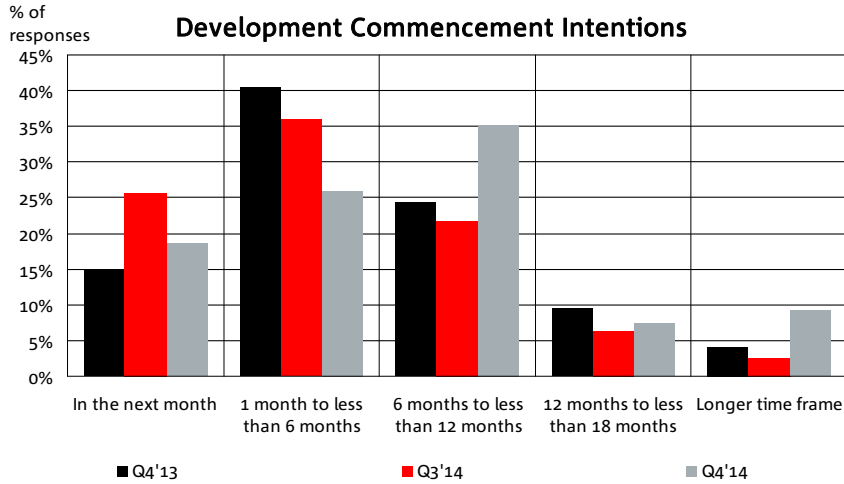
Survey suggests industrial well into recovery phase; office lagging, but some uncertainty to where retail currently sits in this cycle.

Over-supply of office space to persist in next 1-3 years. CBD hotels "somewhat" under-supplied. Retail & industrial balanced.

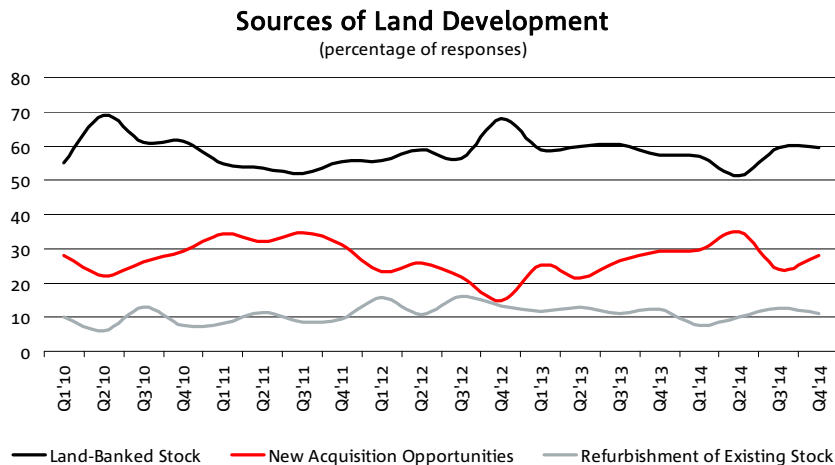


# Market Overview - New Development Intentions, Sources of Land & Funding

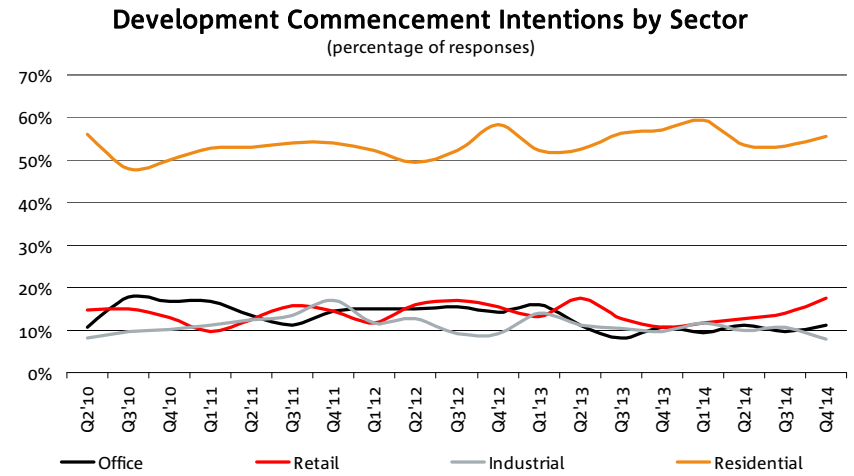
Developer confidence wanes with a big fall in number of developers planning to start new works in next 1-6 months. Also a significant rise in numbers planning to start in 6-12 months.



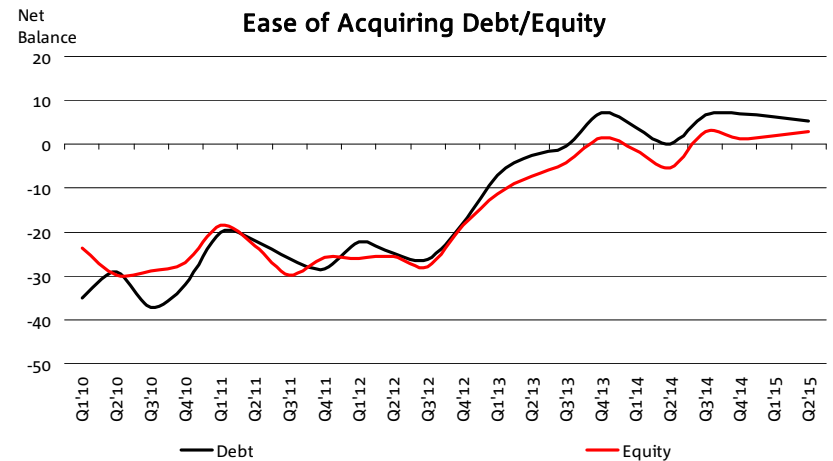
Around 59% of new developments expected to be underpinned by land-banked stock. More developers (28%) looking at new acquisitions, but fewer looking at refurbishments (11%).



Number of developers looking to start new residential projects rises (56%). Notable increase in developers looking at new retail projects (17%); industrial (8%) lower.

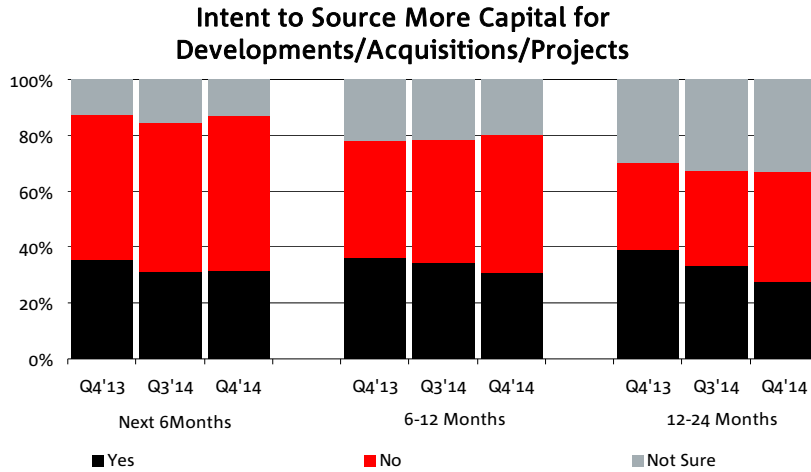


Debt funding situation for developers unchanged in Q4, but equity funding slightly weaker. Debt & equity funding conditions to remain positive over next 6 months.

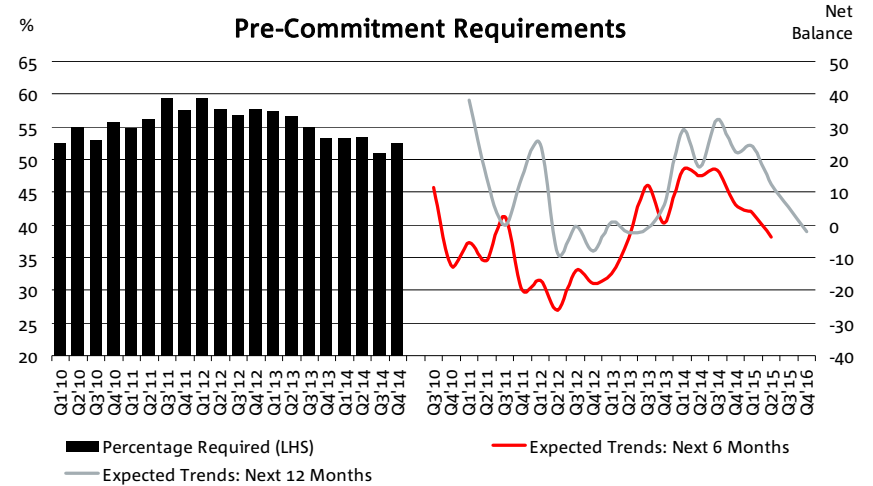


# Market Overview - Capital Intentions, Pre-Commitments, Interest Rates, Challenges

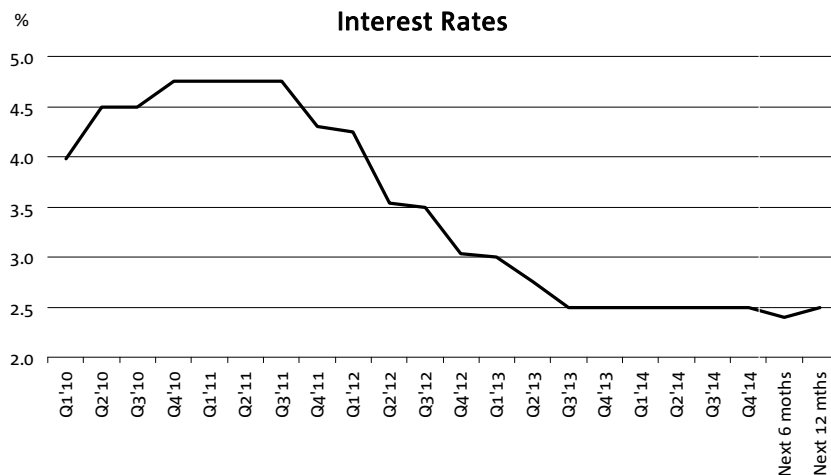
Fewer developers (55%) are intending to access capital over the next 6 months - consistent with fewer plans to commence works in the short-term.



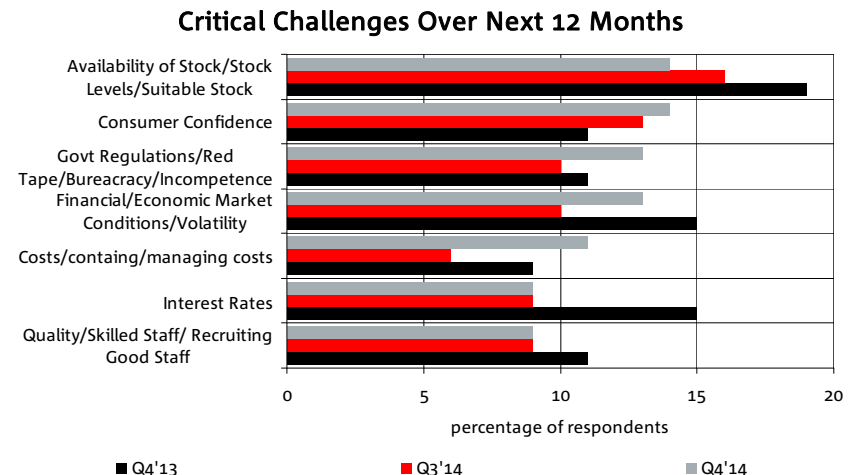
Average pre-commitment percentage required to meet external debt funding requirements for new developments rises to 53% in Q4; requirements expected to rise further in next 6-12 months.



On average, surveyed property professionals expect a small reduction in rates over the next year.



Property firms still most concerned over stock availability. Concern over consumer confidence, volatility & gov't notably higher.



## Market Overview - Survey Respondents Expectations: Q4 2014

### Office Capital Values (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'14	1.0	0.6	-2.0	-4.8	-0.4	-0.5
Q1'15	0.6	1.0	-1.5	-3.7	-0.2	-0.2
Q4'15	1.0	1.4	0.2	-2.9	-1.2	0.2
Q4'16	1.4	1.3	1.5	-1.9	-1.1	0.7

### Office Rents (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'14	-0.3	0.2	-2.3	-7.5	-0.7	-1.3
Q1'15	0.0	0.2	-1.9	-6.3	-0.9	-1.1
Q4'15	0.6	0.7	-0.2	-5.6	-1.9	-0.5
Q4'16	1.3	1.1	0.8	-5.0	-1.7	0.0

### Retail Capital Values (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'14	0.8	-1.3	1.0	-0.7	0.0	0.0
Q1'15	1.2	-1.0	1.0	-1.1	1.8	0.2
Q4'15	1.0	-0.3	2.6	0.6	1.8	0.9
Q4'16	1.7	-0.1	3.2	0.6	1.8	1.3

### Retail Rents (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'14	-0.8	0.4	-0.4	0.8	1.8	-0.1
Q1'15	-1.0	0.9	0.4	0.8	3.8	0.2
Q4'15	-0.2	1.4	1.6	1.8	6.3	1.0
Q4'16	-0.3	1.6	2.9	2.6	8.8	1.5

### Industrial Capital Values (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'14	0.4	0.0	-0.4	-2.5	0.0	-0.4
Q1'15	-2.4	0.3	0.3	-1.8	0.0	-0.2
Q4'15	2.3	1.0	1.7	0.6	1.1	1.3
Q4'16	3.4	0.6	2.3	1.9	1.5	1.9

### Industrial Rents (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'14	0.4	-0.1	0.3	-3.4	0.8	-0.3
Q1'15	1.4	0.4	0.7	-2.9	1.1	0.2
Q4'15	2.8	0.7	1.3	-0.8	2.2	1.0
Q4'16	3.4	1.1	1.9	0.6	2.6	1.6

## Market Overview - Survey Respondents Expectations: Q4 2014

### Office Vacancy Rates (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'14	5.9	7.7	11.7	11.6	10.5	<b>8.8</b>
Q1'15	5.7	7.4	11.9	12.4	11.3	<b>8.9</b>
Q4'15	5.7	7.5	10.6	13.9	11.5	<b>8.9</b>
Q4'16	5.9	7.7	9.4	13.3	11.3	<b>8.8</b>

### Retail Vacancy Rates (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'14	4.8	6.6	6.3	4.6	3.0	<b>5.8</b>
Q1'15	5.0	6.1	5.7	4.2	3.0	<b>5.4</b>
Q4'15	4.8	5.6	5.0	4.0	3.0	<b>5.0</b>
Q4'16	4.5	5.5	4.1	4.0	3.0	<b>4.7</b>

### Industrial Vacancy Rates (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'14	4.3	5.9	6.8	8.2	8.6	<b>6.7</b>
Q1'15	4.3	5.2	6.5	7.8	7.8	<b>6.1</b>
Q4'15	3.5	4.9	5.2	7.0	7.4	<b>5.4</b>
Q4'16	3.5	4.5	4.2	7.0	7.4	<b>5.0</b>

### NOTES:

Survey participants are asked how they see:

- Capital values;
- Gross rents; and
- Vacancy rates

In each of the commercial property markets for the following timeframes:

- current quarter
- next quarter
- next 12 months
- next 12-24 months

Average expectations for each state are presented in the accompanying tables.

\*Results for SA/NT may be biased due to a smaller sample size.

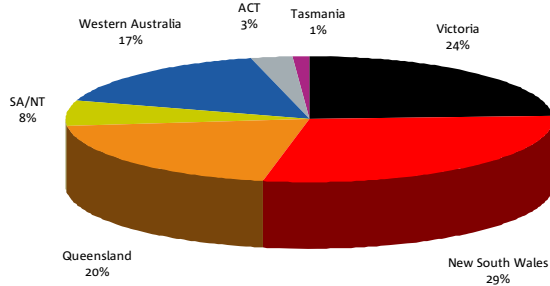
# About the Survey

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.

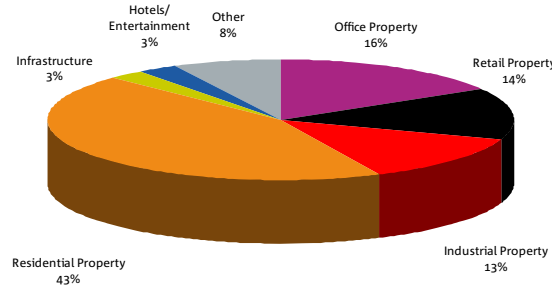
The large external panel of respondents consisted of Real Estate Agents/Managers, Property Developers, Asset/Fund Managers and Owners/Investors.

Around 300 panellists participated in the Q4 2014 Survey and the breakdown of our Survey respondents - by location, property sector and business type - are shown below.

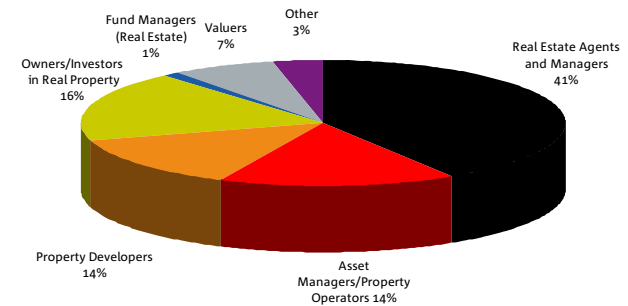
**Respondents by State**



**Respondents by Property Sector**



**Respondents by Business Type**





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