NAB Commercial Property Survey: Office Market Q3 2015

by NAB Group Economics

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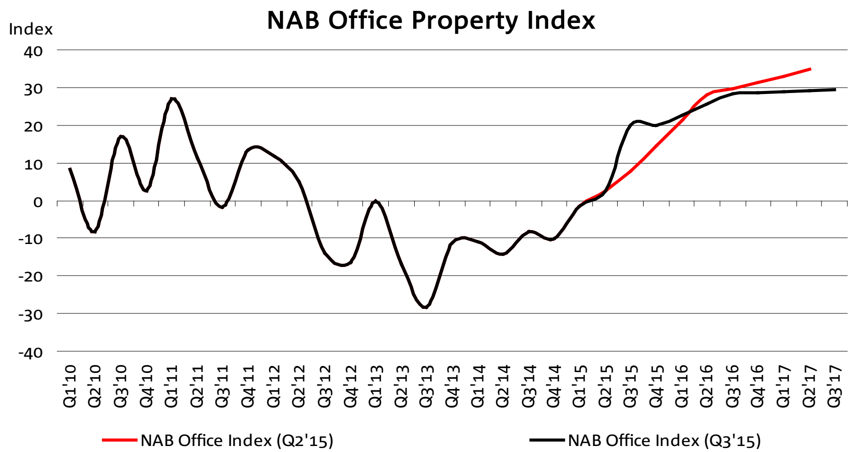
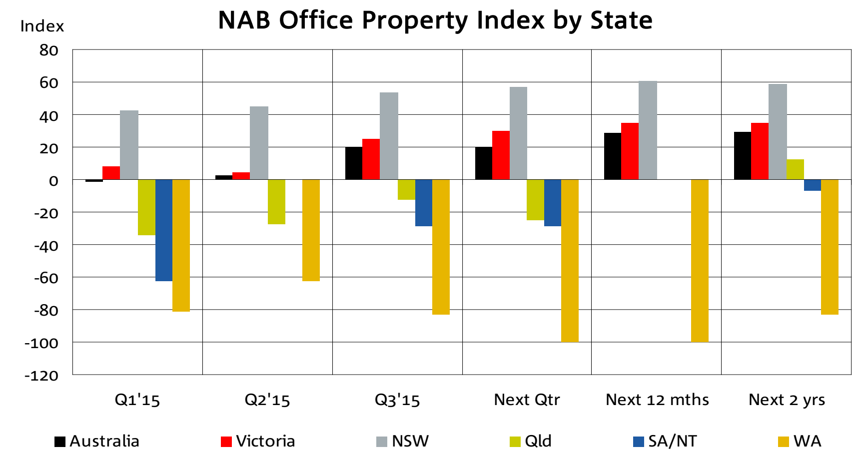
National Australia Bank

National office sentiment turned up sharply in Q3, led by NSW & VIC. Outlook for next 1-2 years pared back a little. Property professionals in most states positive in next 1-2 years (NSW still best by some margin). WA an exception, with confidence deeply negative. SA/NT also negative.

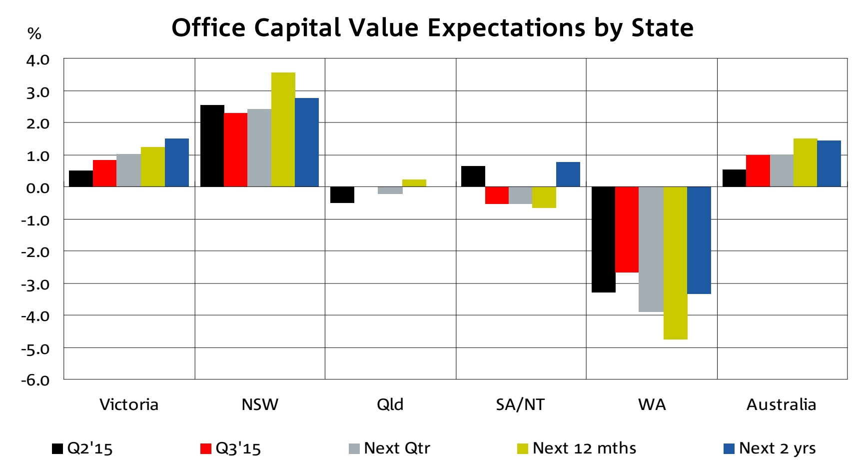
Office market sentiment strongest in NSW by some margin, followed by VIC. All other states negative, especially WA. Outlook revised up heavily in VIC, but scaled back in all other states. Overall, however, confidence still strongest in NSW and languishing in WA.

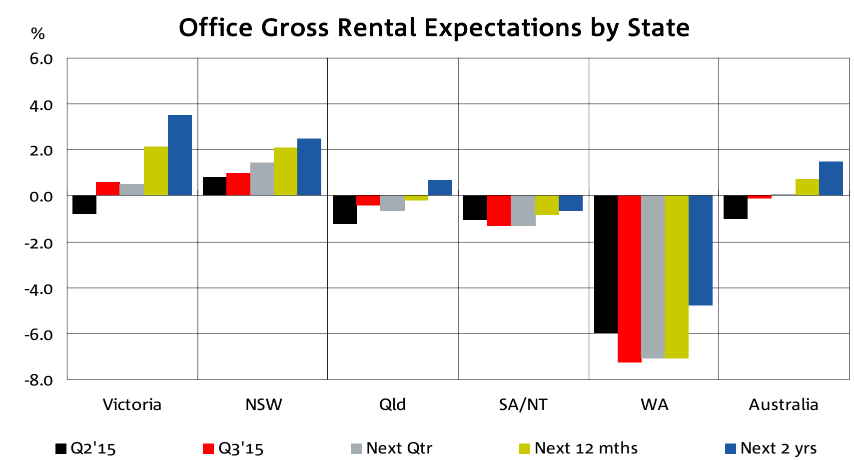




Expectations for capital growth improve in VIC, but were scaled back in all other states. Best returns are however still forecast for NSW, followed by VIC. Capital returns to be flat in QLD and tipped to continue falling heavily in WA. SA/NT to resume growing in 2 years time.

NSW & VIC the only states to report positive income returns in Q3. Rents in WA continue to move lower as vacancies climb. Best income returns expected in VIC & NSW in next 1-2 yrs, with growth resuming in QLD in 2 yrs. Expectations for rents in WA to fall heavily (and more so than in Q2).





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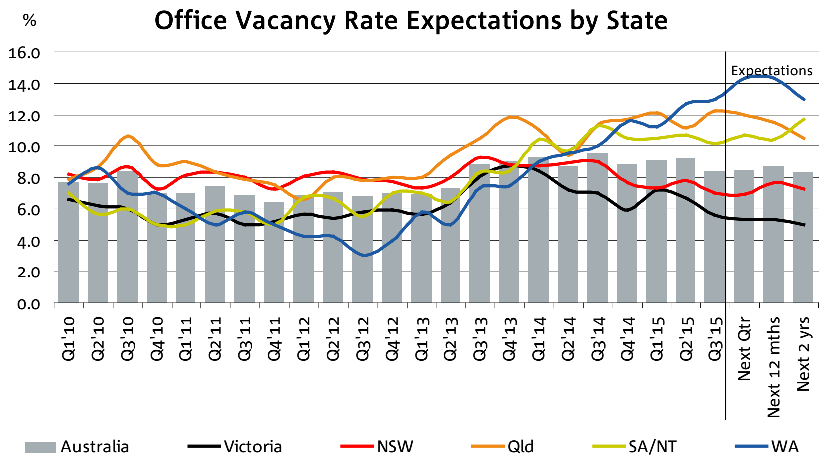
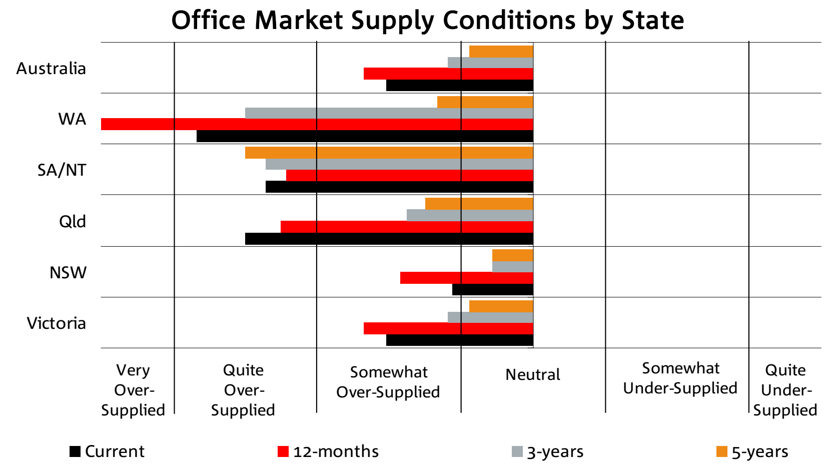
VIC & NSW remain the tightest markets in terms of available space. Further signs of a tentative recovery in QLD, but excess supply keeping rates elevated. Weak demand and significant over-supply continuing to impact negatively on vacancy in WA.

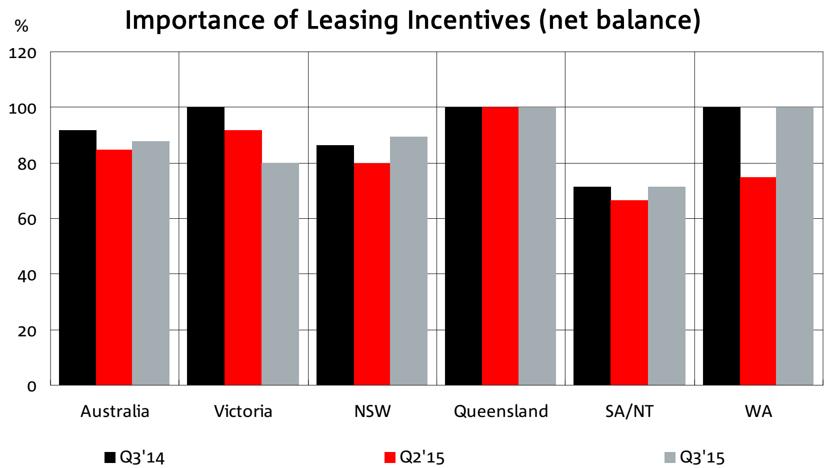
Over-supply a key feature of office markets in all states. It remains a very big issue in WA, where a large supply over-hang is expected to persist for next 3 yrs. SA/NT also “quite” over-supplied over next 5 yrs, but QLD moving closer to “neutral” in next 3-5 years.

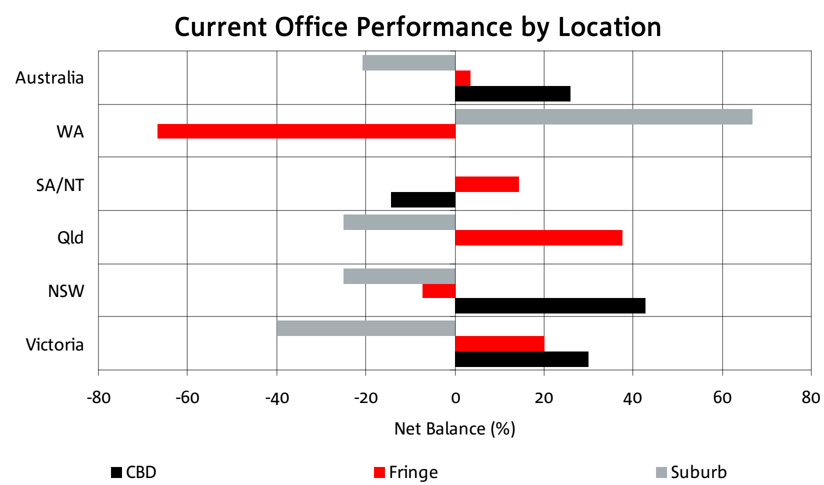




Leasing incentives more important in all states except VIC in Q3. Incentives highest in WA & QLD (where over-supply most prevalent) and least important in SA/NT (but results may reflect smaller sample size).

CBD considered to be the best performing location for office property in NSW & VIC. Fringe considered best in QLD & SA/NT, with suburban office property identified as the best performer in WA.





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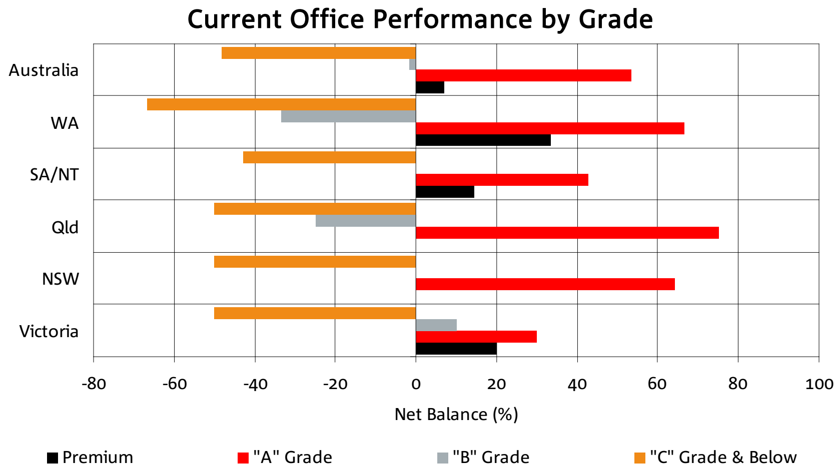
"A" grade stock considered the best performing grade of office property in all states. Premium property next best, led by WA, VIC & NSW. "B" grade property under-performing in all states, except VIC. "C" grade and below identified as the worst performer in all states.



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