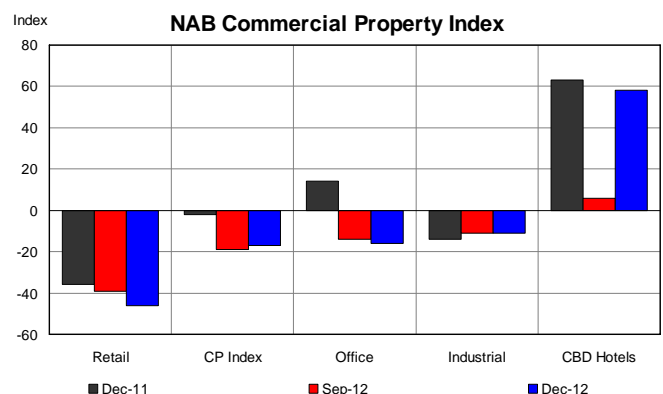
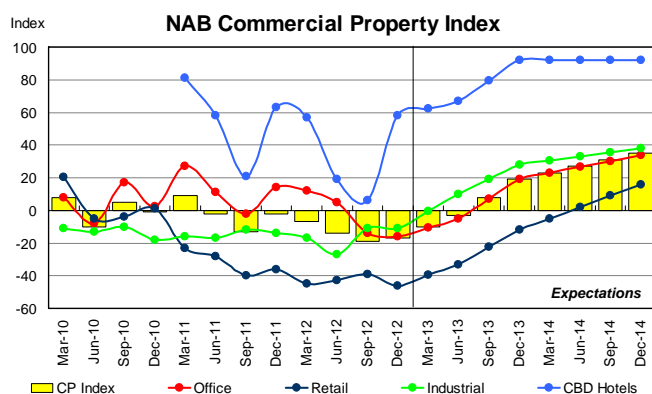


Quarterly Australian Commercial Property Survey: December 2012

NAB Commercial Property Index increased slightly to -17 points in Q4'12 but performance varied across individual property markets. CBD hotel index rose strongly, but retail and office indices hit new lows as economy slowed. Recovery expectations also postponed in all markets, with property professionals less optimistic about prospects for longer-term capital and income growth. WA identified as strongest market nationally, but NSW the most optimistic state by end-2014 with Victoria lagging. Debt and equity funding still a problem for developers and consumer confidence continues to be identified as the main challenge for property firms in the next year.

- Capital values fell in all sectors in Q4'12 except CBD hotels (1.7%). Values fell most for retail (-1.4%) and industrial (-1.2%) property. Office slipped -0.6%. CBD hotels enjoy strongest outlook (3% by Q4'13 and 4% by Q4'14). Modest growth predicted for industrial (0.3% and 1.2%) and office (0.1% and 1.2%). Retail least optimistic with values to fall -0.2% in next year and rise 0.8% by Q4'14.
- Rents also contracted in all markets in Q4'12 led by retail (-2.1%) with rents down in all states. More subdued expectations in office market with rents to remain flat in next year and grow 1% by Q4'14. Rental expectations for industrial property also revised down with rents to grow 0.8% in next year and 1.7% by Q4'14. Retail participants slightly less pessimistic this quarter with average rents to fall -1.5% in next year and -0.4% by Q4'14.
- With income returns falling further, rental incentives have become more important in all property markets.
- Office market supply currently "neutral" and expected to remain so in all states in next 1-5 years. Retail markets "somewhat over-supplied" but "neutral" conditions to emerge in 3-5 years. Industrial market balanced in all states except WA (modestly under-supplied), but set to tighten in next 3-5 years. CBD hotel market currently under-supplied but situation expected to rectify in 3-5 years.
- Vacancy rates rose in all markets in Q4'12 and are expected to improve only gradually in all markets over the next 2 years reflecting a subdued development pipeline and softer conditions in all property segments.
- Despite difficult market conditions, slightly more developers are planning to commence works in the near-term according to the survey. Consequently, more survey participants also plan to source funds in the next 6 months. Residential property remains the most favoured property type for new development.
- Debt and equity funding is still seen as a problem for property developers, but less so than in Q3'12. Funding seen as most difficult for Victorian developers.
- Expectations on bank pre-commitment requirements for new developments rose to 58% in Q4'12 after falling in the 2 preceding quarters. Queensland and Victoria are the most negative states with regards to average pre-commitment expectations to secure development funding. WA and NSW the most positive states.
- Consumer confidence still the main challenge for property firms but concerns over regulation/red-tape growing.



NAB Commercial Property Index: December Quarter 2012

| | Jun-10 | Sep-10 | Dec-10 | Mar-11 | Jun-11 | Sep-11 | Dec-11 | Mar-12 | Jun-12 | Sep-12 | Dec-12 | Jun-13 | Dec-13 | Dec-14 |
|-----------------|------------|----------|-----------|----------|-----------|------------|-----------|-----------|------------|------------|------------|-----------|-----------|-----------|
| Office | -8 | 17 | 3 | 27 | 11 | -2 | 14 | 12 | 5 | -14 | -16 | -5 | 19 | 34 |
| Retail | -5 | -4 | 1 | -23 | -28 | -40 | -36 | -45 | -43 | -39 | -46 | -33 | -12 | 16 |
| Industrial | -13 | -10 | -18 | -16 | -17 | -12 | -14 | -17 | -27 | -11 | -11 | 10 | 28 | 38 |
| CBD Hotels | -- | -- | -- | 81 | 58 | 21 | 63 | 57 | 19 | 6 | 58 | 67 | 92 | 92 |
| CP Index | -10 | 5 | -1 | 9 | -2 | -13 | -2 | -7 | -14 | -19 | -17 | -3 | 19 | 35 |

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(03) 8634 2927 0414 444 652

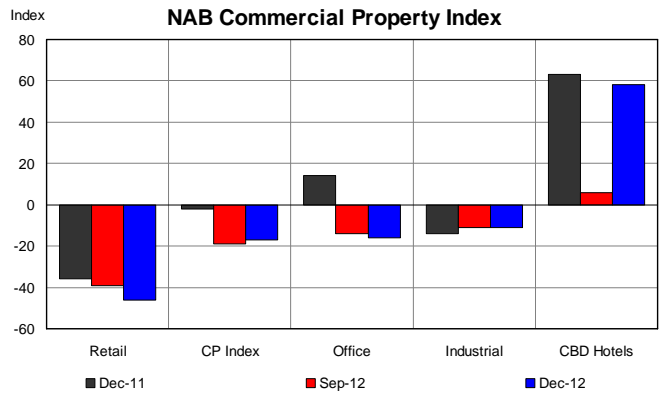
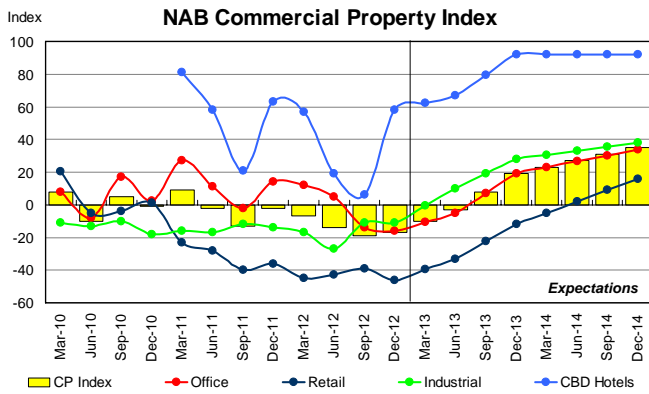
Robert De Lure, Senior Property Economist
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Commercial Property Market Overview

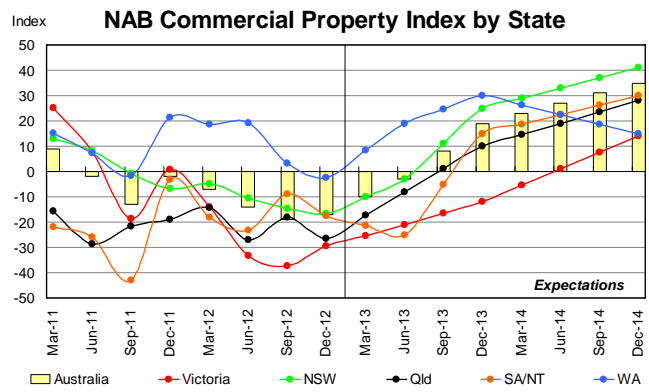
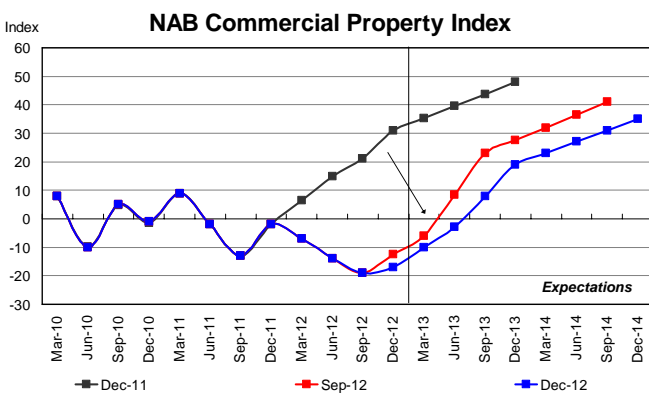
Commercial Property Index rises slightly in Q4'12

..solely on the back of CBD hotels



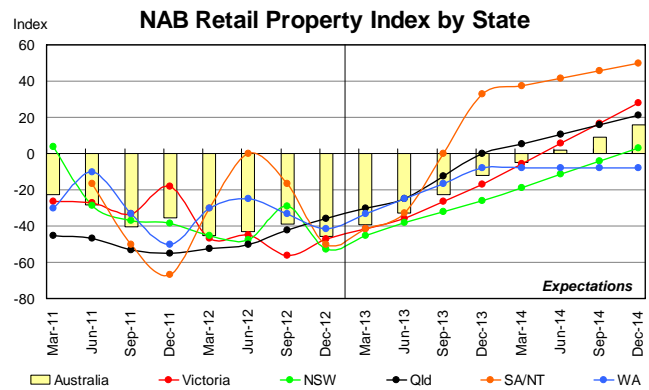
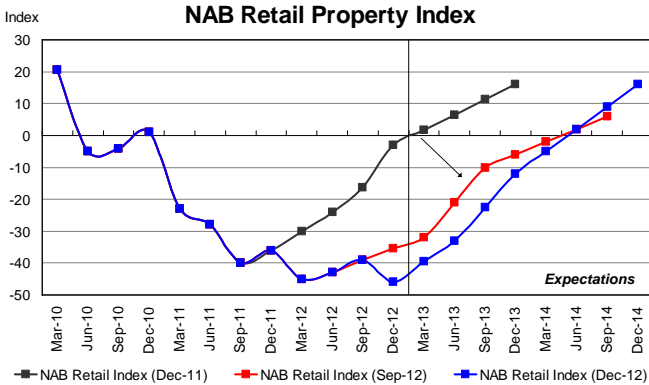
Forward expectations soften

...and index lower in all states bar Victoria



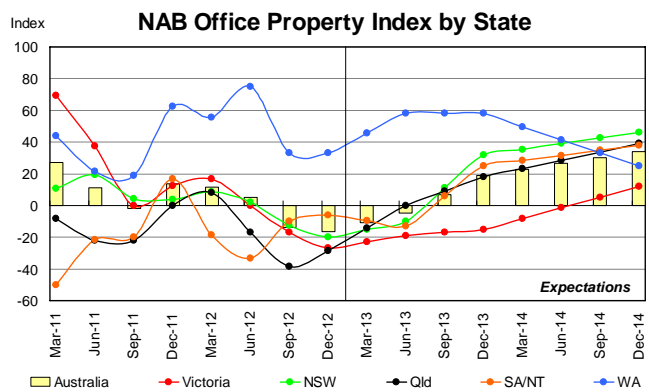
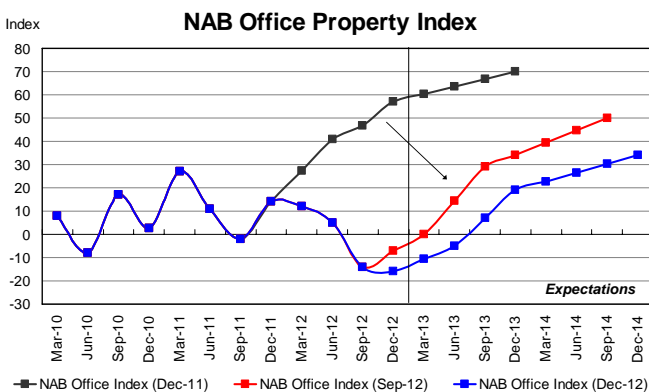
NAB retail index slips to new low in Q4'12

...and retail markets very weak in all states

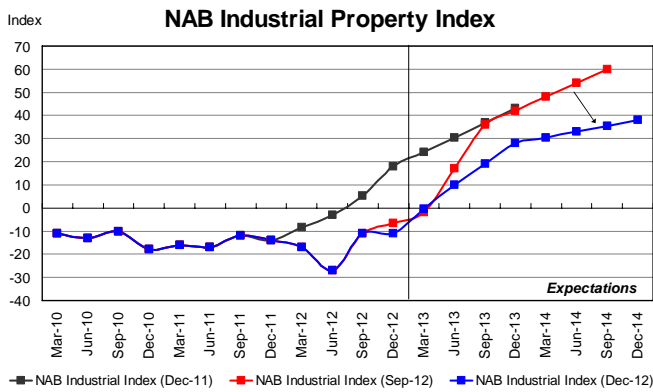


Office index hits a new low in Q4'12 and forward expectations also soften

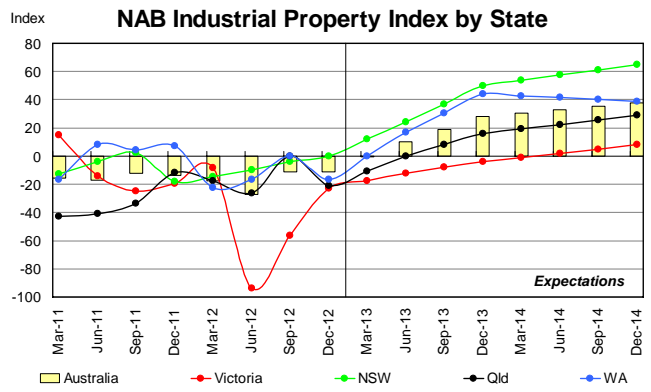
WA the most resilient state for office in Q4'12 but NSW strongest by end-2014 and Victoria weakest



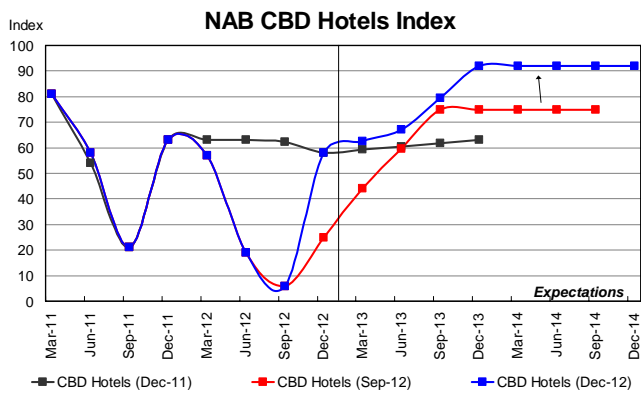
Industrial index unchanged in Q4'12 but forward expectations pared back



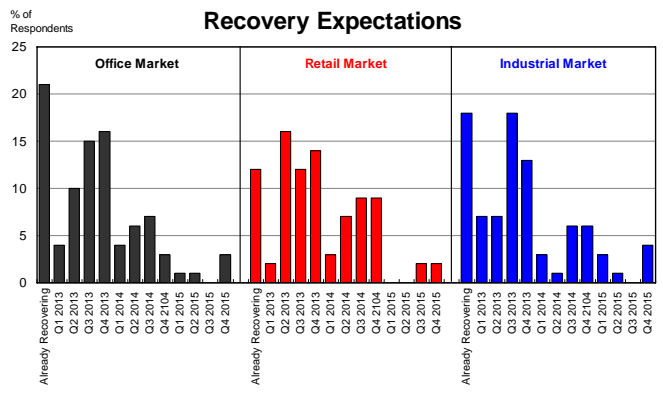
NSW seen as the best state for industrial property in Q4'12 with Victoria the weakest



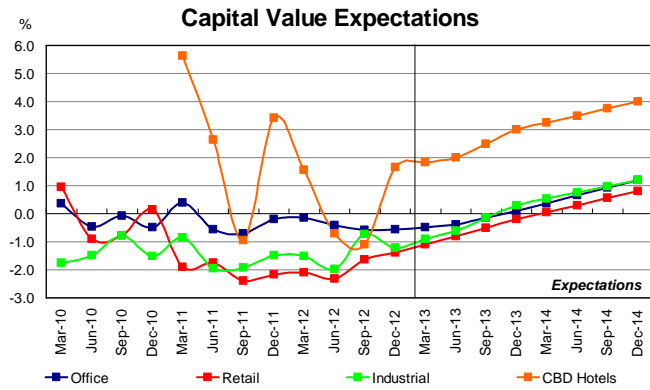
CBD hotel index rises strongly in Q4'12 and remains the most optimistic sector going forward



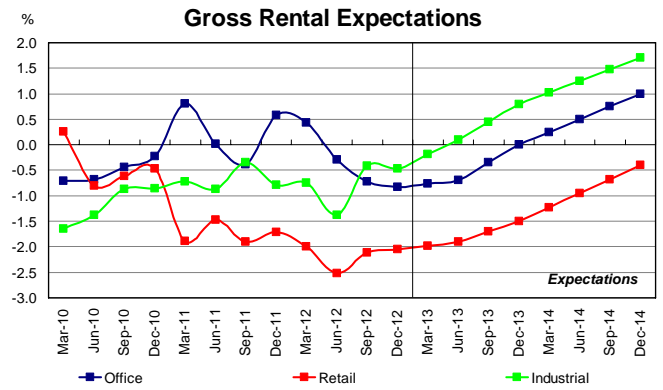
There is wide variance in opinion as to where each market is in the current cycle



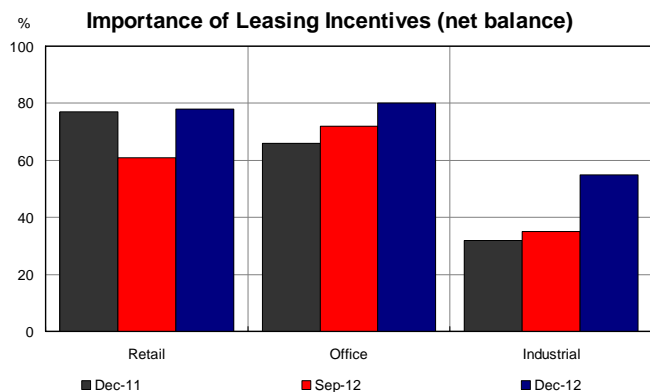
Average capital values fell for all property segments in Q4'12 bar CBD hotels; outlook weaker



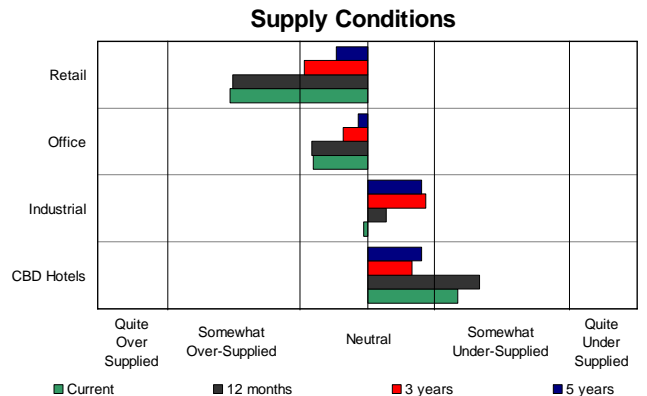
Rental returns also negative in all markets in Q4'12 and outlook subdued in all markets



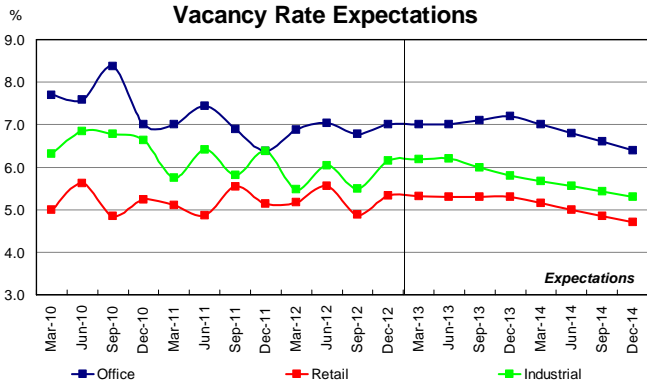
Leasing incentives more important in all markets.



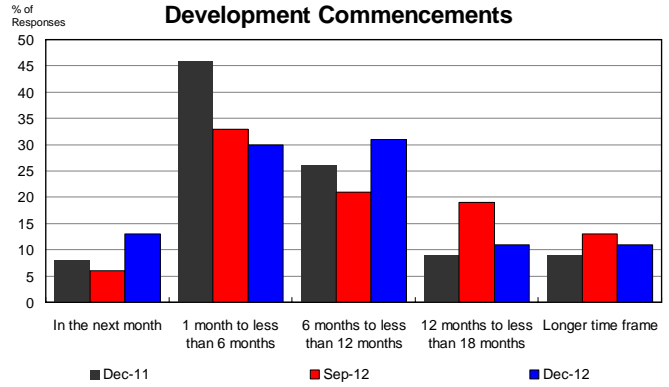
Retail over-supplied; CBD hotel shortage persisting



Vacancy rates creep up in all markets in Q4'12

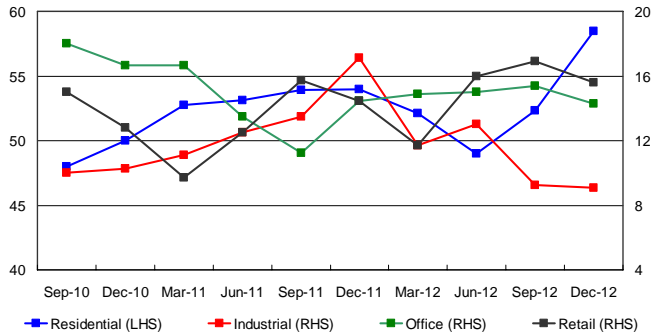


More planning new developments in the short-term



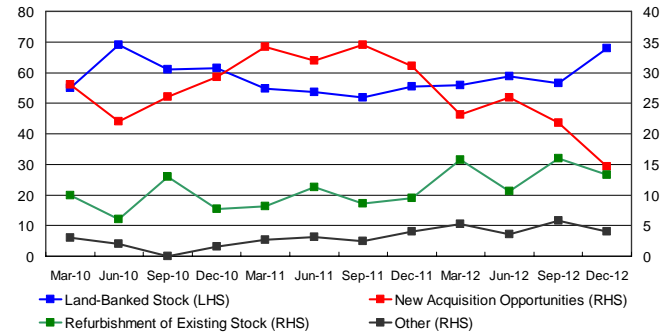
...but majority of developers still seeking to develop new projects in the residential space

Development Commencements by Sector
(% of respondents)



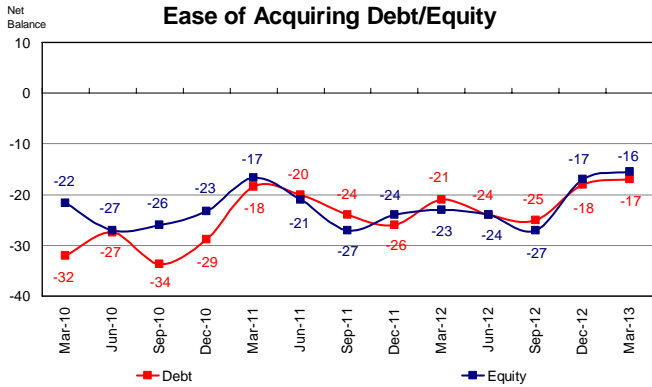
More developers looking to cash in on land-banked stock for new projects

Sources of Land Development
(% of respondents)



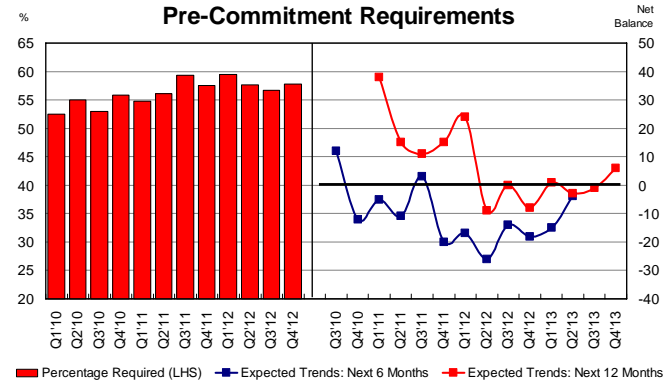
Debt and equity funding still a problem for property developers but less so than in Q3'12;

Ease of Acquiring Debt/Equity



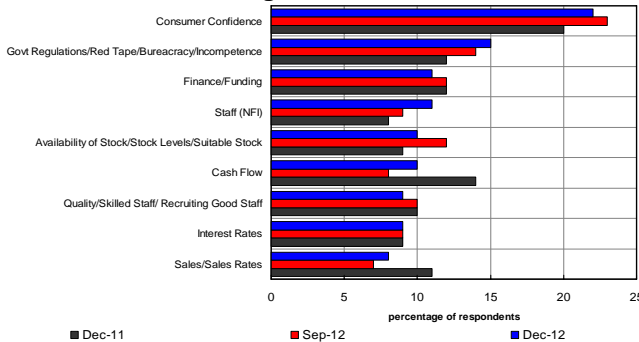
Bank pre-commitment requirements rise in Q4'12 but expected to soften in next 3-6 months

Pre-Commitment Requirements



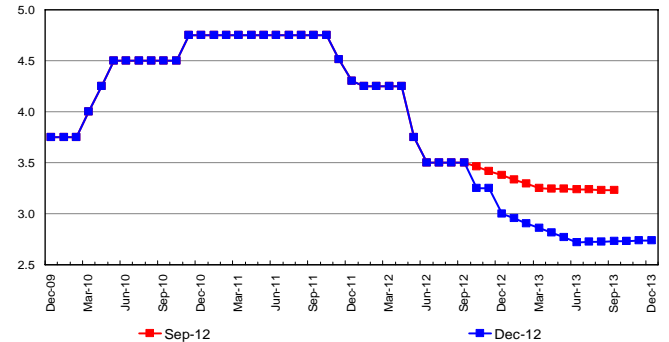
Consumer confidence still the main challenge for property firms but regulation/red-tape also rising

Critical Challenges over Next 12-months



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

Interest Rates



Tables

Survey Respondents Expectations: December 2012

Capital Values (%)

| OFFICE | Victoria | NSW | Queensland | WA | SA/NT* | AUSTRALIA |
|------------|----------|------|------------|------|--------|-------------|
| Dec-12 | -1.1 | -0.6 | -0.8 | 0.6 | -0.5 | -0.6 |
| Jun-13 | -0.8 | -0.5 | -0.1 | 0.8 | -0.5 | -0.4 |
| Dec-13 | -0.7 | 0.5 | 0.7 | 1.2 | -0.9 | 0.1 |
| Dec-14 | 0.4 | 1.7 | 1.8 | 1.3 | 0.1 | 1.2 |
| RETAIL | Victoria | NSW | Queensland | WA | SA/NT* | AUSTRALIA |
| Dec-12 | -1.2 | -1.9 | -0.9 | -1.5 | -1.8 | -1.4 |
| Jun-13 | -0.9 | -1.5 | -0.1 | -1.0 | -0.6 | -0.8 |
| Dec-13 | -0.2 | -1.0 | 0.8 | -1.6 | 1.3 | -0.2 |
| Dec-14 | 1.8 | -0.5 | 1.5 | -1.3 | 2.1 | 0.8 |
| INDUSTRIAL | Victoria | NSW | Queensland | WA | SA/NT* | AUSTRALIA |
| Dec-12 | -2.6 | -0.6 | -1.2 | -1.9 | 0.0 | -1.2 |
| Jun-13 | -1.9 | 0.1 | -0.6 | -1.0 | -0.9 | -0.6 |
| Dec-13 | -1.4 | 1.0 | 0.4 | 0.1 | -0.9 | 0.3 |
| Dec-14 | -0.6 | 2.4 | 0.9 | 1.0 | -1.9 | 1.2 |

Gross Rents (%)

| OFFICE | Victoria | NSW | Queensland | WA | SA/NT* | AUSTRALIA |
|------------|----------|------|------------|------|--------|-------------|
| Dec-12 | -0.8 | -1.3 | -1.2 | 0.9 | -0.3 | -0.8 |
| Jun-13 | -0.6 | -1.3 | -0.8 | 1.1 | -0.5 | -0.7 |
| Dec-13 | -0.1 | -0.4 | -0.2 | 1.5 | 0.7 | 0.0 |
| Dec-14 | 1.7 | 1.1 | 0.7 | -0.1 | 1.3 | 1.0 |
| RETAIL | Victoria | NSW | Queensland | WA | SA/NT* | AUSTRALIA |
| Dec-12 | -1.9 | -3.0 | -1.8 | -0.9 | -1.3 | -2.1 |
| Jun-13 | -1.9 | -2.7 | -1.7 | -0.8 | -0.6 | -1.9 |
| Dec-13 | -1.5 | -2.5 | -1.3 | -0.6 | 1.3 | -1.5 |
| Dec-14 | -0.1 | -1.7 | -0.3 | -0.3 | 2.7 | -0.4 |
| INDUSTRIAL | Victoria | NSW | Queensland | WA | SA/NT* | AUSTRALIA |
| Dec-12 | -2.4 | 0.1 | -0.4 | -0.2 | 0.0 | -0.5 |
| Jun-13 | -1.9 | 0.8 | 0.0 | 1.1 | -0.9 | 0.1 |
| Dec-13 | -1.6 | 1.7 | 0.7 | 1.3 | -0.9 | 0.8 |
| Dec-14 | -0.9 | 2.9 | 1.5 | 2.2 | -0.9 | 1.7 |

Vacancy Rates (%)

| OFFICE | Victoria | NSW | Queensland | WA | SA/NT* | AUSTRALIA |
|------------|----------|-----|------------|-----|--------|------------|
| Dec-12 | 5.9 | 7.8 | 8.0 | 4.0 | 7.0 | 7.0 |
| Jun-13 | 6.1 | 7.9 | 8.7 | 4.0 | 7.0 | 7.2 |
| Dec-13 | 6.5 | 7.4 | 7.8 | 4.7 | 6.7 | 7.0 |
| Dec-14 | 6.1 | 7.1 | 6.7 | 4.3 | 6.0 | 6.4 |
| RETAIL | Victoria | NSW | Queensland | WA | SA/NT* | AUSTRALIA |
| Dec-12 | 5.5 | 5.3 | 6.5 | 3.3 | 4.3 | 5.3 |
| Jun-13 | 5.8 | 5.2 | 6.2 | 3.3 | 4.3 | 5.3 |
| Dec-13 | 5.8 | 5.2 | 6.0 | 4.0 | 3.7 | 5.3 |
| Dec-14 | 4.9 | 5.0 | 5.4 | 3.7 | 3.0 | 4.7 |
| INDUSTRIAL | Victoria | NSW | Queensland | WA | SA/NT* | AUSTRALIA |
| Dec-12 | 7.2 | 5.7 | 7.9 | 3.3 | n/a | 6.2 |
| Jun-13 | 7.2 | 6.2 | 7.1 | 3.3 | n/a | 6.2 |
| Dec-13 | 7.2 | 5.6 | 6.1 | 4.0 | n/a | 5.8 |
| Dec-14 | 7.7 | 5.2 | 4.7 | 3.0 | n/a | 5.3 |

* Limited sample size

About the Survey

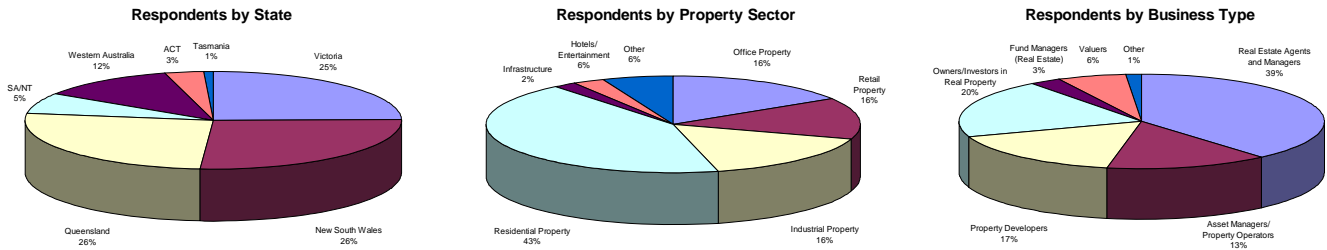
In April 2010, NAB launched the inaugural NAB Quarterly Australian Commercial Property Survey with the aim of developing Australia's pre-eminent survey of market conditions in the Commercial Property market.

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 270 panellists participated in the December 2012 Survey.

The breakdown of our Survey respondents - by location, property sector and business type - are shown below.



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