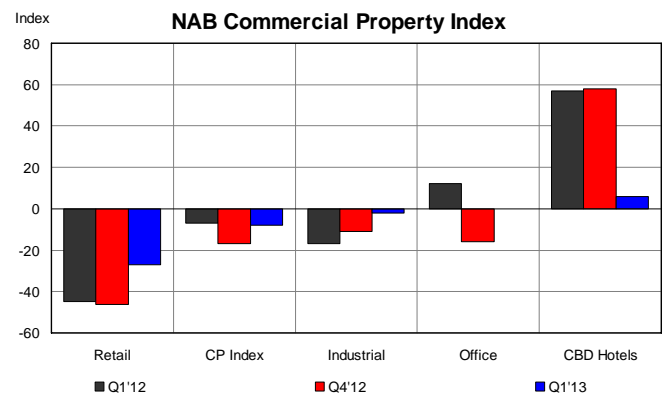
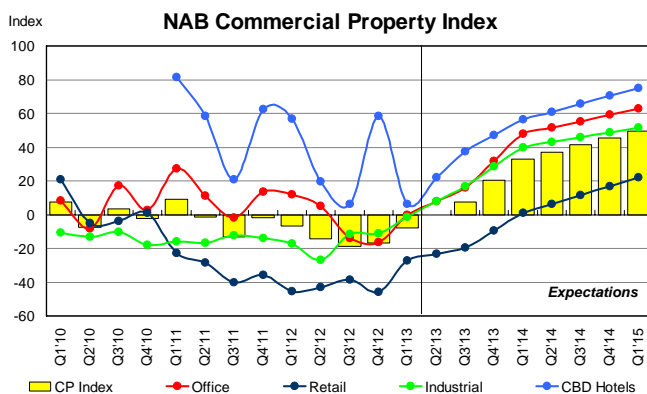


Quarterly Australian Commercial Property Survey: Q1 2013

The NAB Commercial Property Index rose in Q1'13 (but still remained negative), driven by an uplift in sentiment in the office, retail and industrial property markets. Sentiment improved in all states, bar Queensland. WA was the most optimistic state, but the biggest movement was seen in Victoria which is now expected to surpass WA in the next 1-2 years as the most optimistic state. More property developers reported plans to start new projects or developments in the near-term as fewer property professionals identified debt/equity funding as a problem. Consumer confidence continues to be noted as the main challenge facing property firms in the next year but concerns about stock availability and the upcoming federal election are also growing.

- The NAB Commercial Property Index rose to -8 points in Q1'13 (-17 points in Q4'12). Sentiment improved most in the retail market (but still negative overall), but remains highest for CBD Hotels. With a higher net balance more optimistic about capital and rental prospects in the next 1-2 years, the NAB Commercial Property Index is set to rise to +33 points by Q1'14 and +50 points in Q1'15 (higher than forecast in Q4'12 but still below expectations reported last year).
- Sentiment improved in all states in Q1'13, except Queensland. Sentiment was strongest in WA but Victoria was the biggest mover and Queensland the most downbeat state. Expectations in Victoria improved significantly, underpinned by much stronger sentiment in office and industrial markets. The outlook in the next 1-2 years is weakest in Queensland, with a softer resources market likely having a negative impact on sentiment in that state, especially in the state office market.
- Average capital values for retail property fell -1% in Q1'13. Capital values for industrial property also declined -0.4%. Office values were flat, while CBD Hotels grew 0.9%. Office property enjoys the strongest outlook for capital growth, with values forecast to rise by 2.1% by Q1'14 and 3.9% by Q1'15. Modest growth in retail capital values to resume in the next 2 years.
- Gross rents fell in all markets in Q1'13 but at a slower rate. Rents fell most for retail (-1.6%), with the best returns reported for industrial (-0.4%). Expectations have strengthened, with industrial rents to grow 0.9% in the next year and 1.9% in the next 2 years. Office rents are tipped to rise 0.4% and 1.5%, while retail rents are predicted to fall -1% and -0.1% in this period. With income returns improving, a lower net balance in office and industrial markets said leasing incentives were important in Q1'13 compared with Q4'12, but they were still higher than year earlier levels.
- Supply conditions were broadly neutral in all markets in Q1'13, except retail where the market was "somewhat" over-supplied. All markets are expected to be "neutral" in the next 3-5 years. National vacancy rates were also broadly unchanged in all markets in Q1'13, but a steady improvement in operating conditions should push vacancy lower in next 1-2 years.
- Slightly more property developers are planning to commence new projects/developments in the near-term. Although the majority of property developers are still seeking to develop residential projects, more office and industrial property is also earmarked for development. Most developers entering the market are looking to cash in on land-banked stock, but more are also chasing new acquisitions, as fewer developers saw debt/equity funding as a problem in Q1'13. Consumer confidence remains the main challenge facing property businesses in the next 12 months. Finance/funding was identified as the next biggest challenge, but concerns about stock availability and the upcoming federal election have also risen.



NAB Commercial Property Index: Q1 2013

	Q3'10	Q4'10	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q3'13	Q1'14	Q1'15
Office	17	3	27	11	-2	14	12	5	-14	-16	0	16	48	63
Retail	-4	1	-23	-28	-40	-36	-45	-43	-39	-46	-27	-19	1	22
Industrial	-10	-18	-16	-17	-12	-14	-17	-27	-11	-11	-2	17	40	52
CBD Hotels			81	58	21	63	57	19	6	58	6	38	56	75
CP Index	4	-2	9	-2	-13	-2	-7	-14	-19	-17	-8	8	33	50

For more information contact:

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(03) 8634 2927 0414 444 652

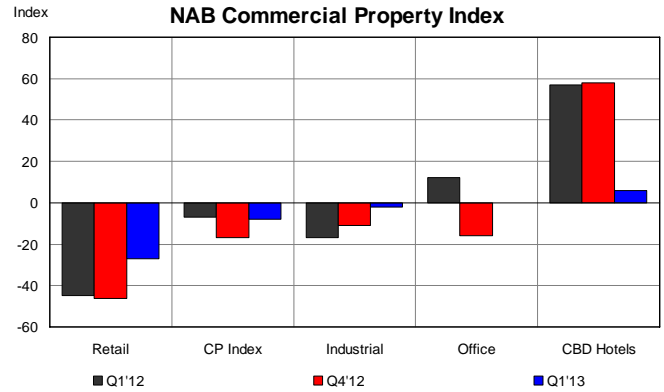
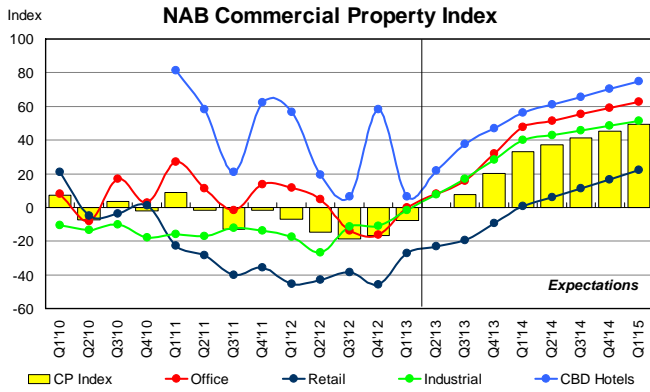
Robert De lure, Senior Economist -
Industry Analysis (03) 8634 4611

Dean Pearson, Head of Industry
(03) 8634 2331

Commercial Property Market Overview

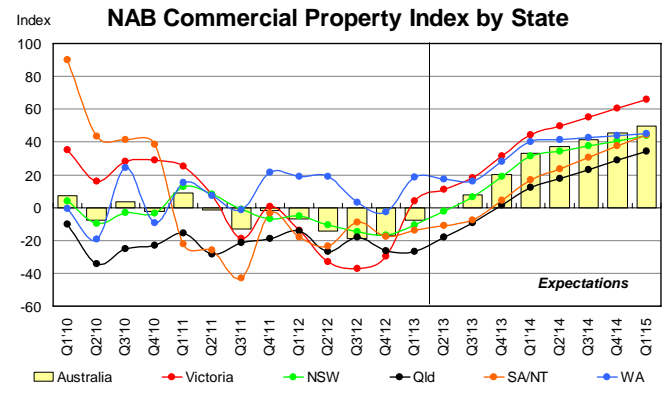
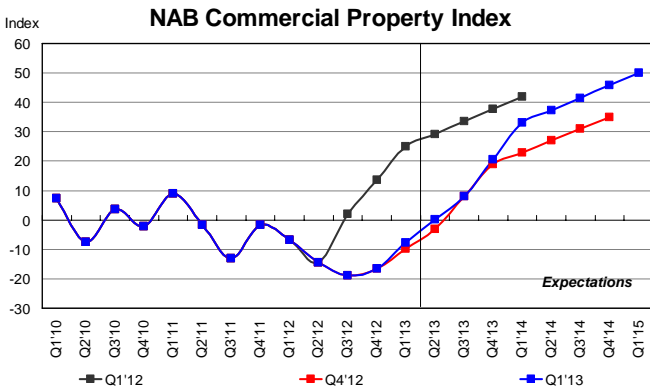
NAB Commercial Property Index rises in Q1'13 but still negative.

Improvement driven by uplift in sentiment in office, retail and industrial property markets.



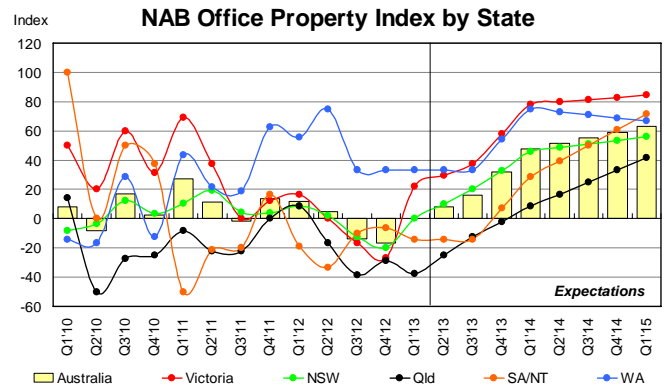
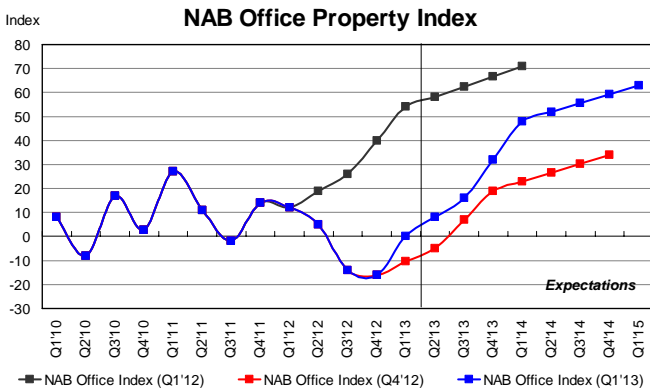
Forward expectations somewhat stronger.

Sentiment improved in all states except Qld.



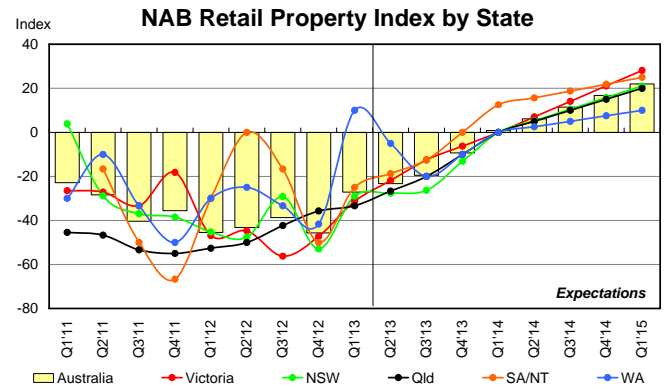
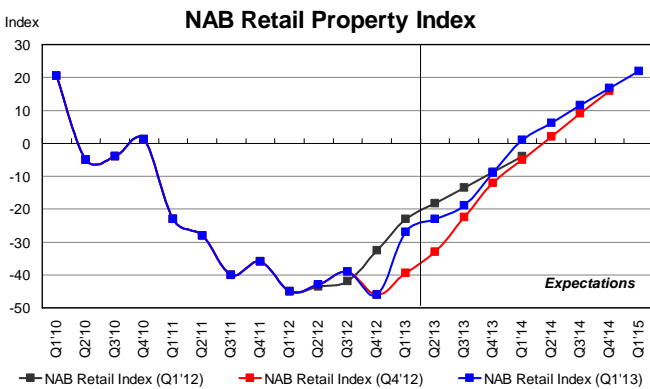
Office index rises in Q1'13; expectations rise.

Victoria big improver; sentiment strongest in WA.

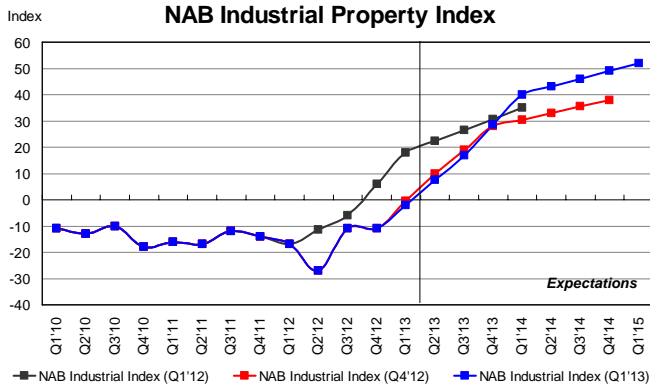


Retail index rises in Q1'13, but still negative.

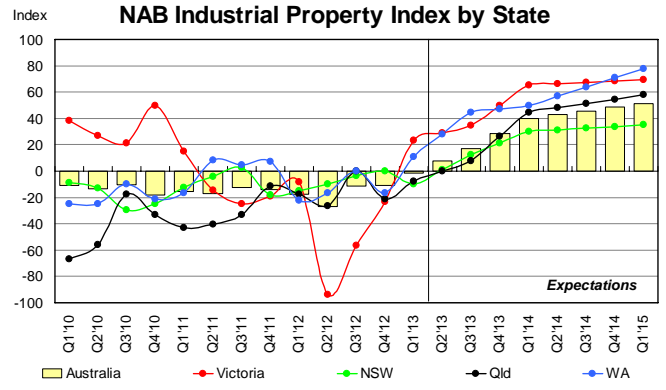
Sentiment negative in all states bar WA in Q1'13.



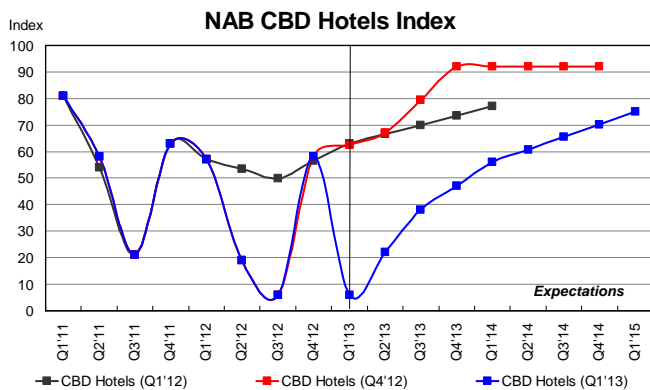
Industrial index hits high in Q1'13 (but negative).



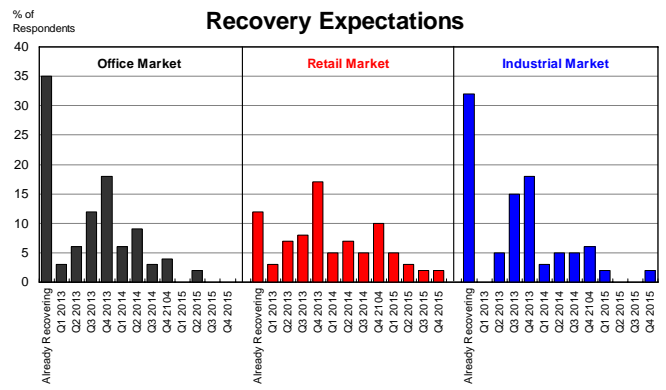
Victoria most optimistic for industrial property.



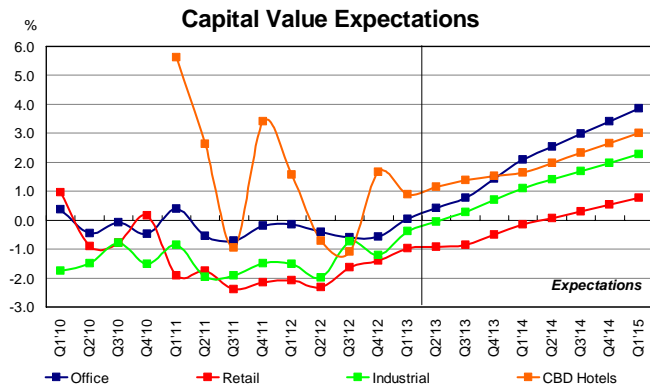
CBD hotel index slips back in Q1'13, but still most optimistic in the commercial property market.



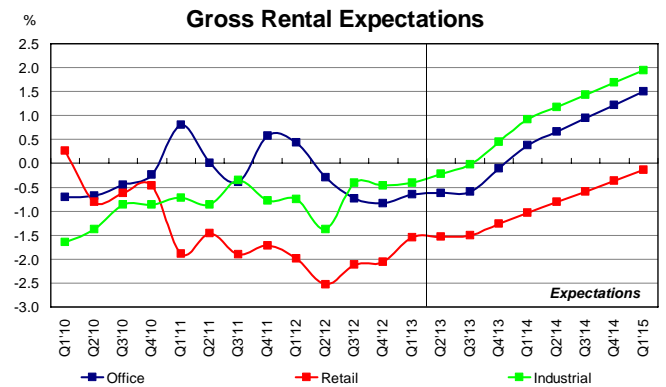
Majority believe a recovery is already underway in office & industrial markets; retail lagging.



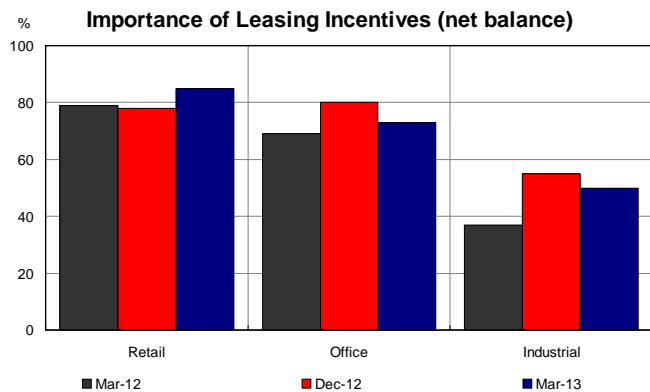
Capital return negative in industrial & retail markets.



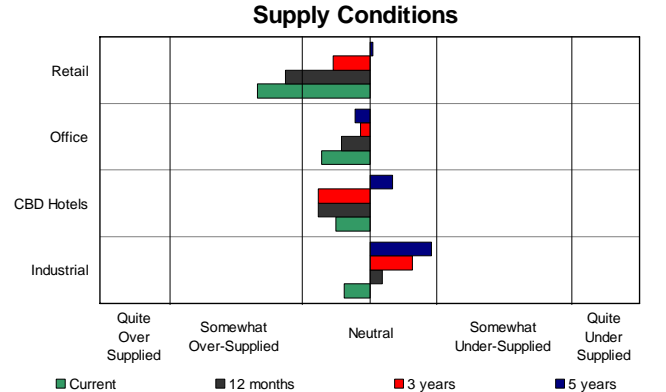
Rental returns negative in all markets in Q1'13.



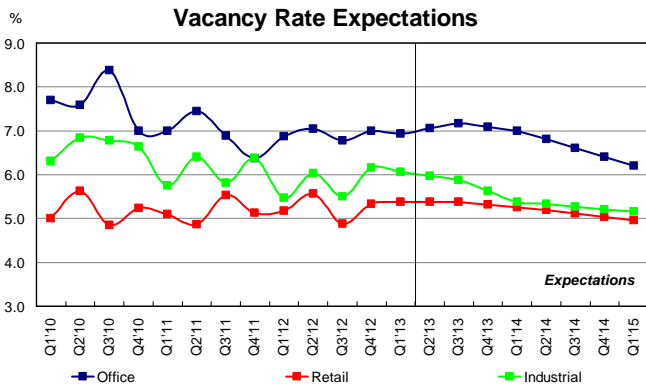
Leasing incentives reduce in office & industrial markets but more important in retail.



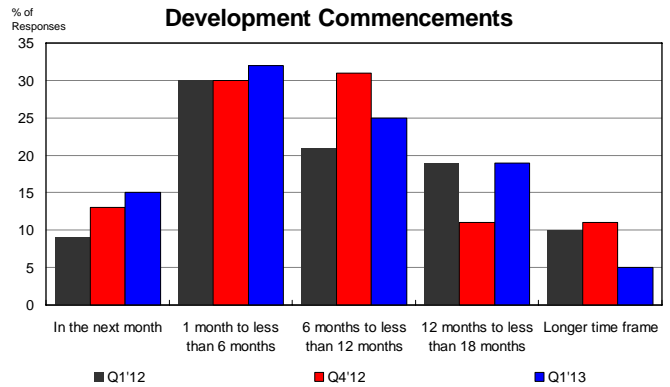
Retail market over-supplied. Industrial, office & CBD hotels neutral. All markets neutral in 3-5 years.



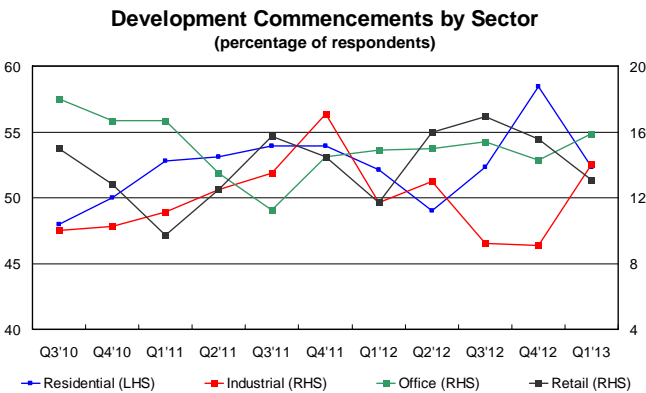
Vacancy rates to fall in all commercial property markets in the next 1-2 years.



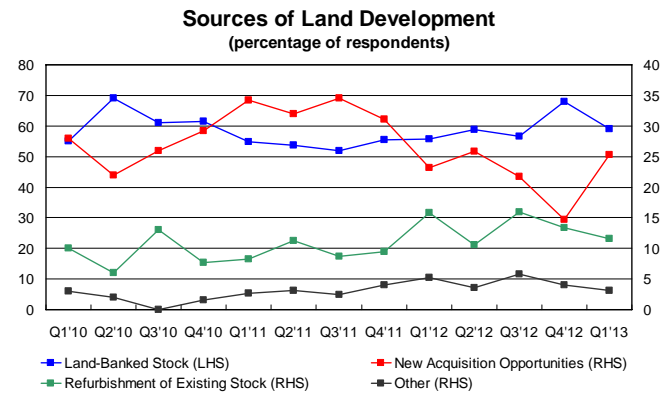
More developers planning to commence new projects in the near-term.



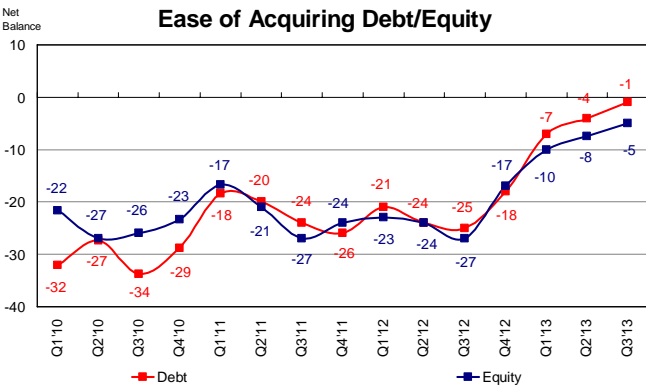
Majority seeking to develop residential; but more office & industrial also slated for development.



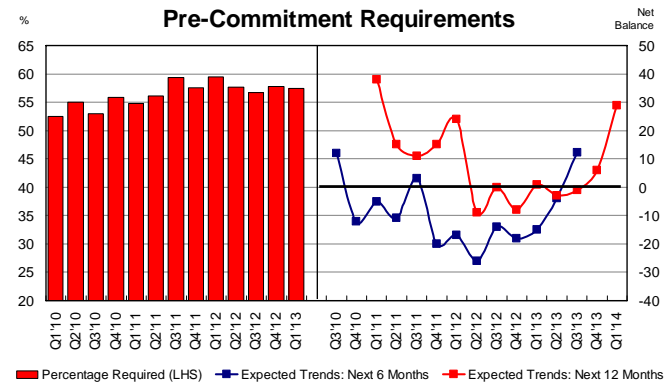
Most developers to cash in on land-banked stock, although more also chasing new acquisitions.



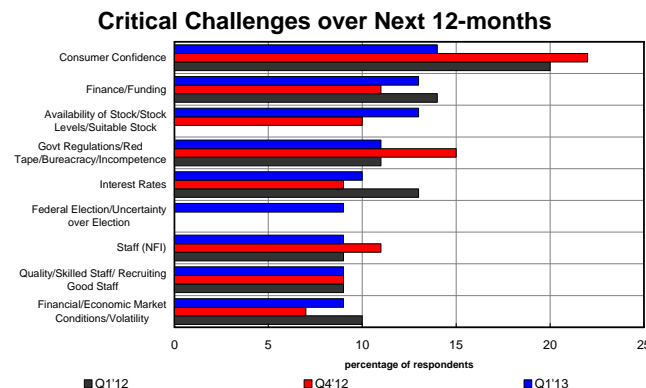
Debt/equity funding still a problem for developers.



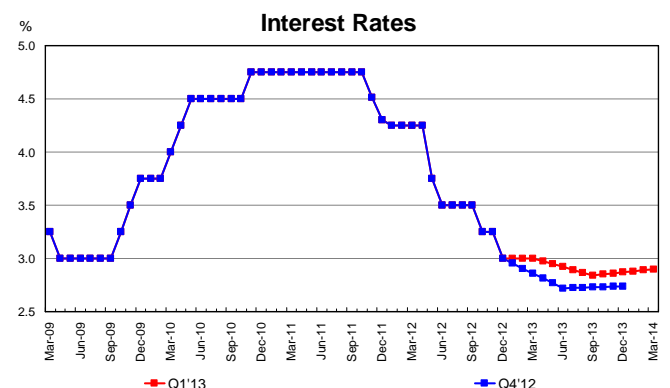
Bank pre-commitment requirements fell in Q1'13.



Concerns rise over upcoming federal election.



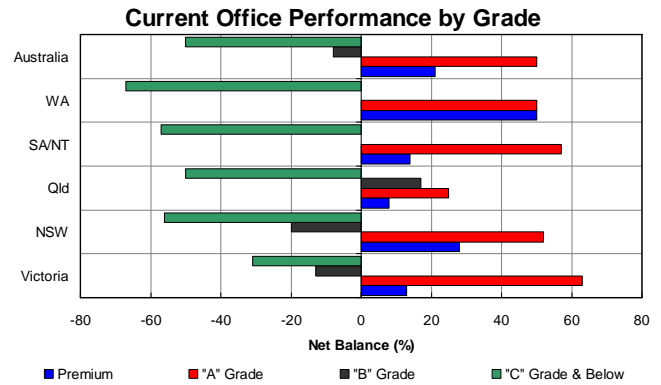
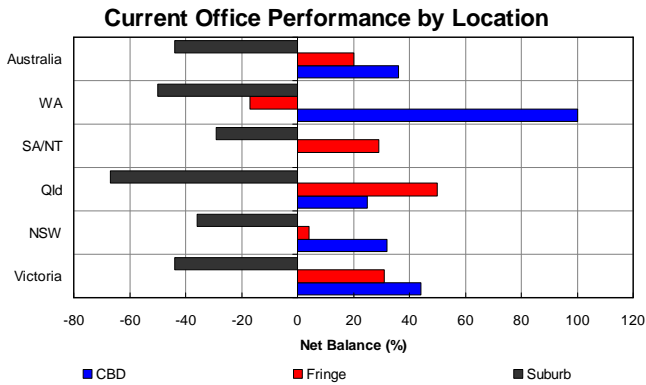
Interest rates to continue falling in next 12 months.



Office Property Market

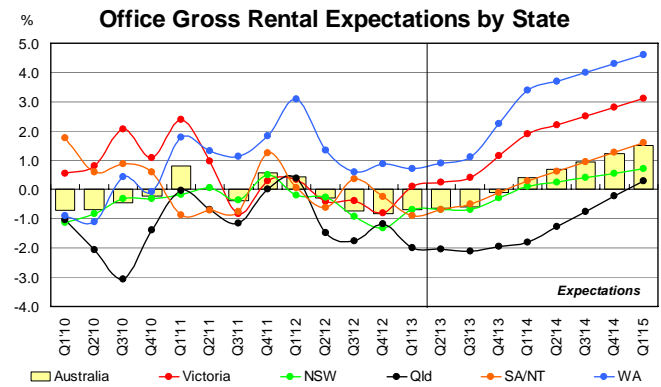
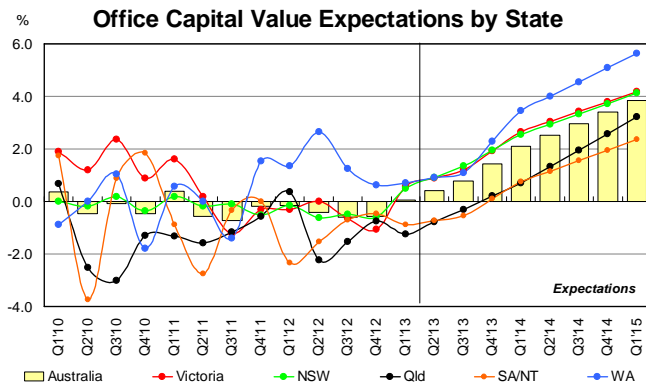
CBD best location for office property in all cities.

"A" grade the front-runner by grade.



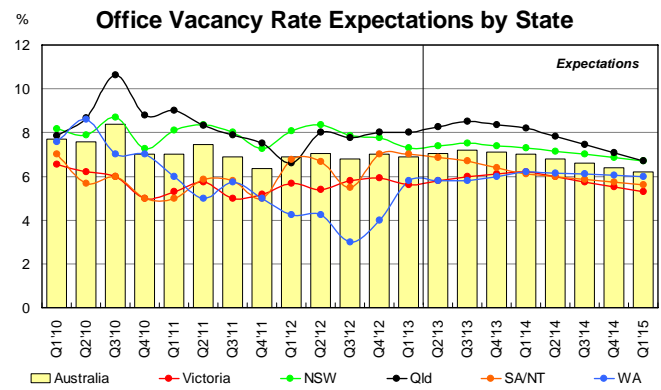
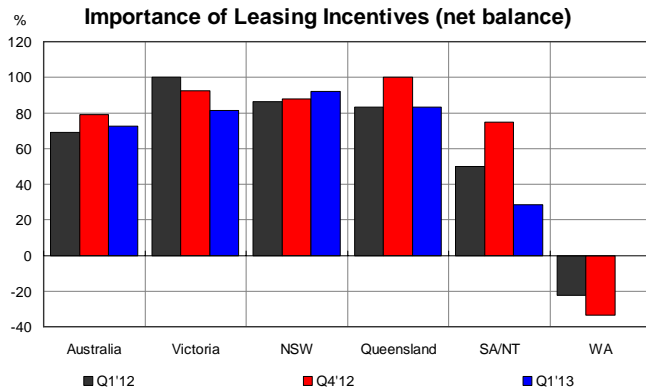
WA & Vic the best prospects for capital growth.

Prospects for rents best in WA; weakest in Qld.

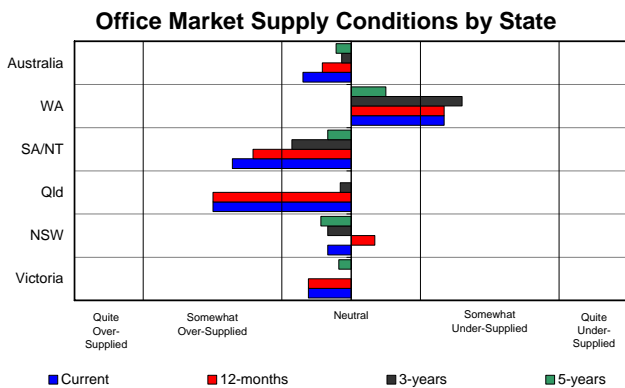


Decline in importance of leasing incentives in Vic, Qld & SA/NT offset by increase in NSW & WA.

Vacancy rate expectations mixed across states in Q1'13. Markets tightest in Victoria and WA.

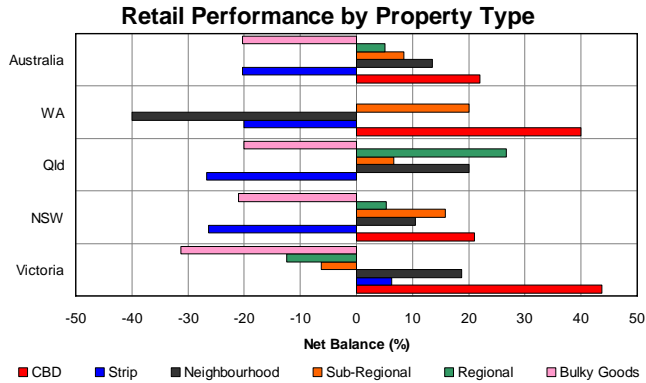


Qld and SA/NT markets somewhat over-supplied.

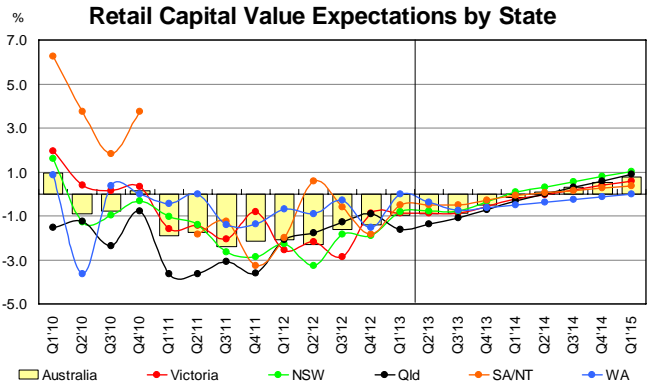


Retail Property Market

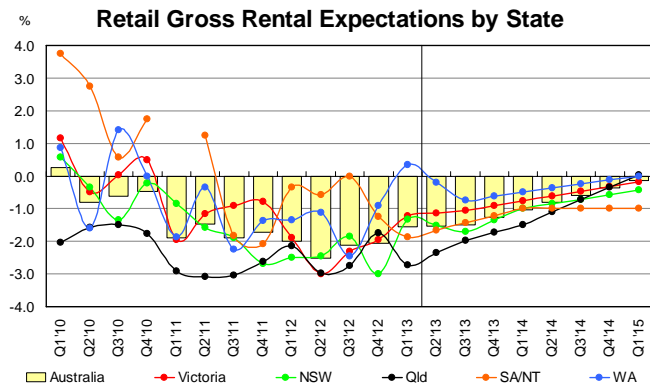
CBD the best performing location for retail property nationally. Bulky Goods and Strip retail the worst.



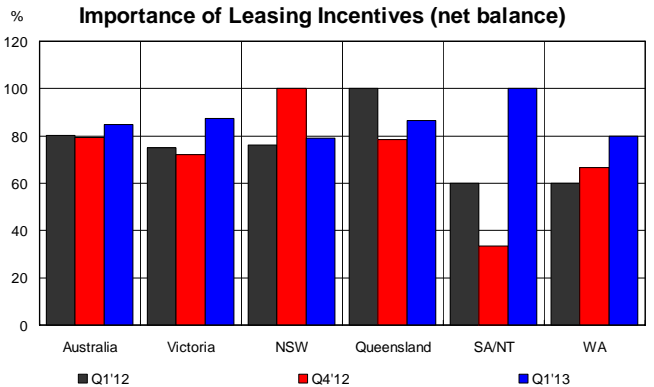
Retail values fell in all states in Q1'13 bar WA (flat). Modest growth to resume in most states in 2 years.



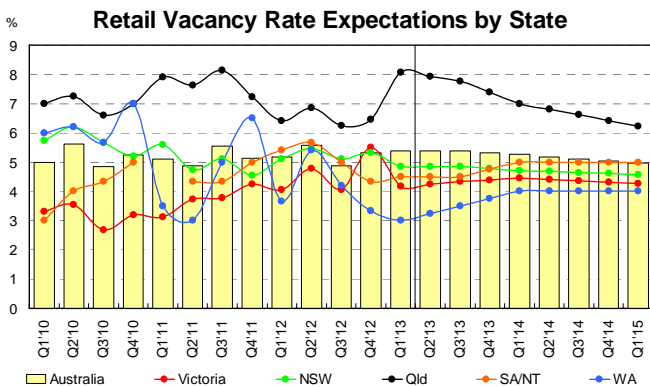
Rate of decline for retail rents slowed in Q1'13. Property professionals more optimistic with regards to rents, but will remain negative in most states.



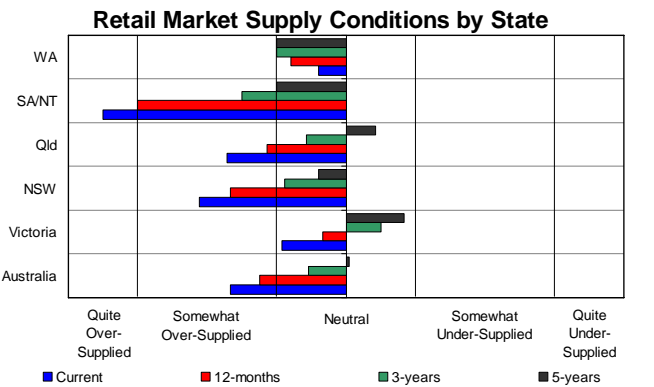
Property professionals indicate rental incentives still playing a very important role in the retail leasing market in all states.



Vacancy rates for retail rose slightly in Q1'13 but expected to trend down gradually over next 2 years as market conditions improve.



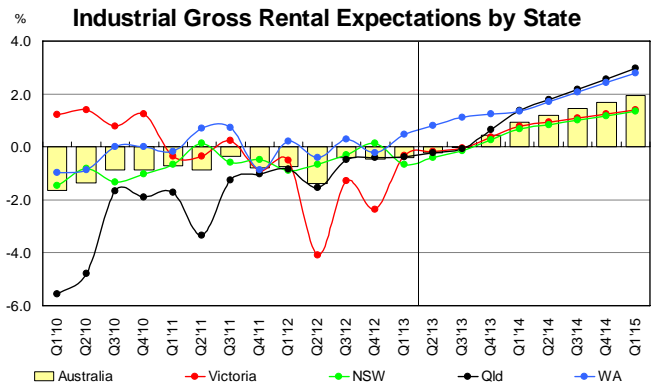
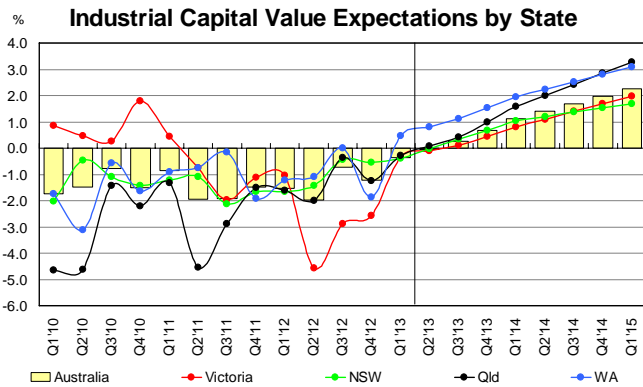
National market considered to be somewhat over-supplied in Q1'13. Victoria and WA bucked the national trend with neutral conditions prevailing.



Industrial Property Market

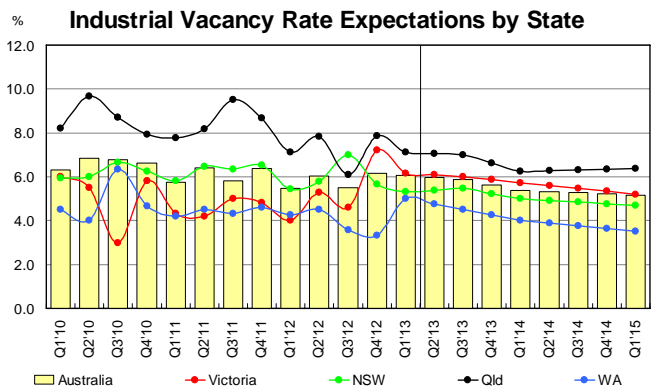
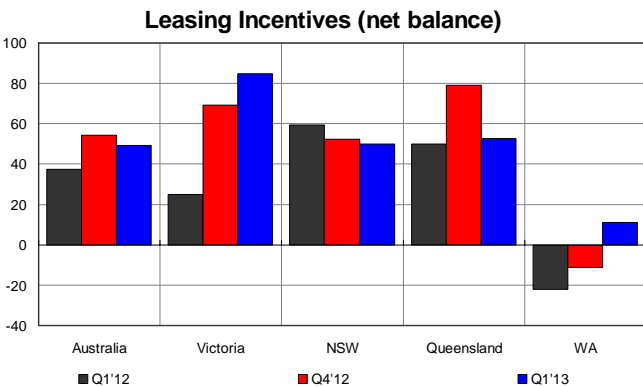
Rate of decline in capital values slows in Q1'13. Growth set to resume in all states over next 1-2 years, led by Queensland and WA.

Rents still falling in all states bar WA. Rental expectations broadly unchanged in next 1-2 years, although outlook in Victoria revised up heavily.

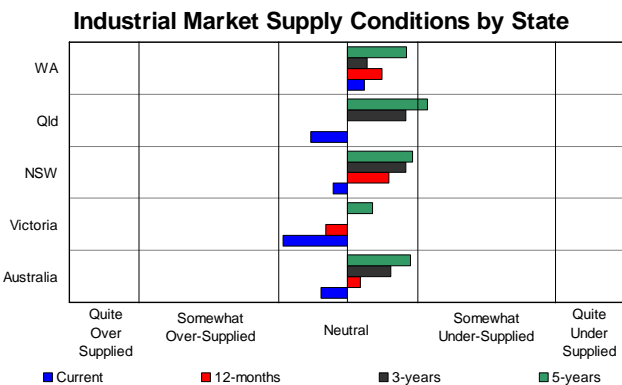


Leasing incentives slightly less important in Q1'13, especially in Queensland and less so in NSW. Incentives were most important in Victoria.

National vacancy rate broadly unchanged in Q1'13. Vacancy to drift down in all states in the next 1-2 years, with most space available in Queensland.



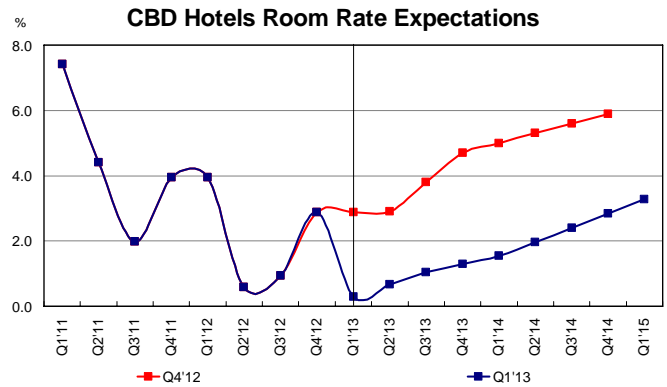
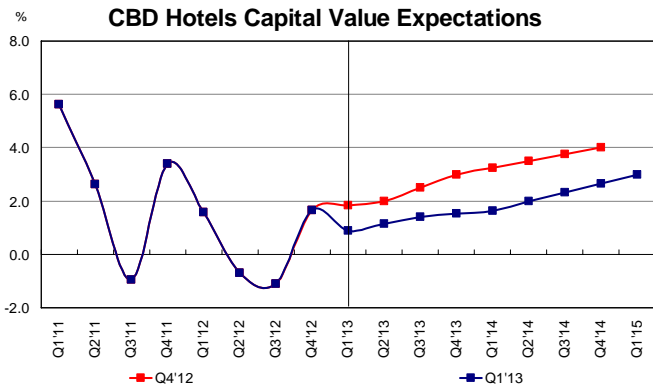
State supply conditions in the industrial market neutral in Q1'13. Modest supply tightening seen in next 3-5 years, but market to stay broadly neutral.



CBD Hotel Market

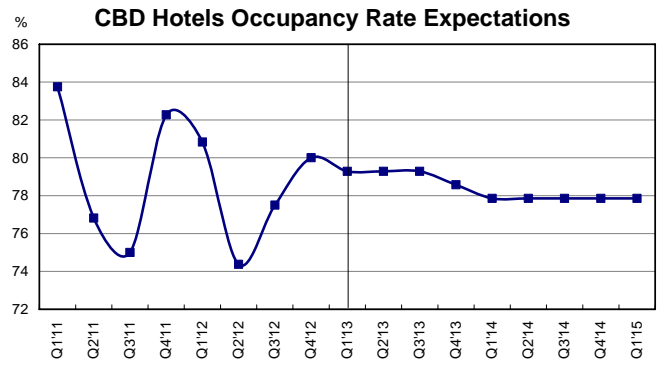
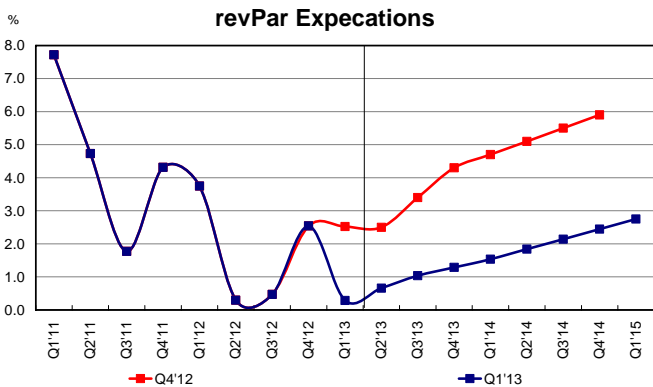
Average capital returns for CBD hotels slowed in Q1'13 and expectations for capital growth in the next 1-2 years softer.

Hotel room rate growth also slowed in Q1'13 according to surveyed property professionals. Softer growth forecast going forward.



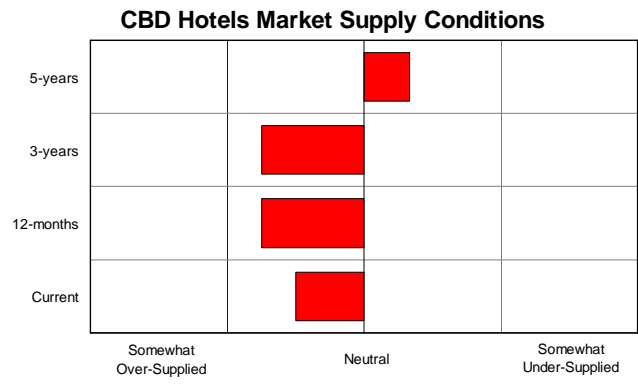
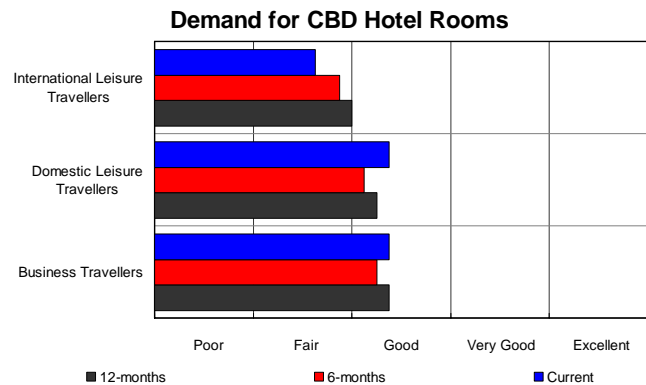
revPar growth slowed in Q1'13, while forward expectations were pared back.

National occupancy rate fell slightly in Q1'13, with a further small decline forecast in the next 1-2 years.



Demand for CBD rooms currently being driven by business & domestic leisure travellers. International leisure travellers more important next year.

Market supply conditions in CBD hotel market currently seen as "neutral" after a long period of under-supply.



Tables

Survey Respondents Expectations: Q1 2013

Capital Values (%)

OFFICE	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q1'13	0.6	0.5	-1.3	0.7	-0.9	0.0
Q3'13	1.2	1.4	-0.3	1.1	-0.5	0.8
Q1'14	2.7	2.5	0.7	3.5	0.8	2.1
Q1'15	4.2	4.1	3.2	5.6	2.4	3.9
RETAIL	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q1'13	-1.0	-0.8	-1.6	0.0	-0.5	-1.0
Q3'13	-0.9	-0.8	-1.1	-0.8	-0.1	-0.9
Q1'14	-0.2	0.1	-0.3	-0.5	0.4	-0.2
Q1'15	0.6	1.0	0.9	0.0	-2.1	0.8
INDUSTRIAL	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q1'13	-0.3	-0.4	-0.3	0.5	-2.1	-0.4
Q3'13	0.1	0.3	0.4	1.1	-1.3	0.3
Q1'14	0.8	1.0	1.6	1.9	-1.4	1.1
Q1'15	2.0	1.7	3.3	3.1	0.0	2.3

Gross Rents (%)

OFFICE	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q1'13	0.1	-0.7	-2.0	0.7	-0.9	-0.7
Q3'13	0.4	-0.7	-2.1	1.1	-0.5	-0.6
Q1'14	1.9	0.1	-1.8	3.4	0.3	0.4
Q1'15	3.1	0.7	0.3	4.6	1.6	1.5
RETAIL	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q1'13	-1.2	-1.3	-2.7	0.4	-1.9	-1.6
Q3'13	-1.1	-1.7	-2.0	-0.8	-1.4	-1.5
Q1'14	-0.8	-1.0	-1.5	-0.5	-1.0	-1.0
Q1'15	-0.2	-0.4	0.0	1.6	-1.0	-0.1
INDUSTRIAL	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q1'13	-0.3	-0.7	-0.4	0.5	-0.7	-0.4
Q3'13	0.0	-0.1	-0.1	1.1	-0.8	0.0
Q1'14	0.8	0.7	1.4	1.3	0.0	0.9
Q1'15	1.4	1.3	3.0	2.8	0.6	1.9

Vacancy Rates (%)

OFFICE	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q1'13	5.6	7.3	8.0	5.8	7.0	6.9
Q3'13	6.0	7.5	8.5	5.8	6.7	7.2
Q1'14	6.2	7.3	8.2	6.2	6.1	7.0
Q1'15	5.3	6.7	6.7	6.0	5.6	6.2
RETAIL	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q1'13	4.2	4.9	8.1	3.0	4.5	5.4
Q3'13	4.3	4.9	7.8	3.5	4.5	5.4
Q1'14	4.5	4.7	7.0	4.0	5.0	5.3
Q1'15	4.3	4.6	6.2	4.0	5.0	5.0
INDUSTRIAL	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q1'13	6.2	5.3	7.1	5.0	6.3	6.1
Q3'13	6.0	5.5	7.0	4.5	5.0	5.9
Q1'14	5.7	5.0	6.3	4.0	5.0	5.4
Q1'15	5.2	4.7	6.4	3.5	5.7	5.2

* Limited sample size

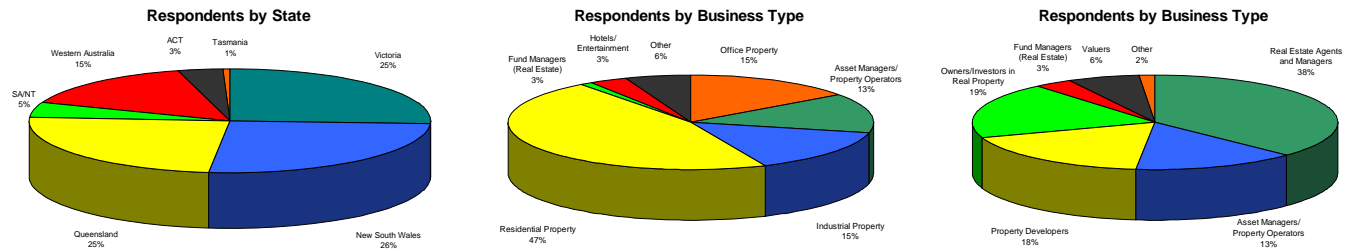
About the Survey

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 Q1 2013 Survey and the breakdown of our Survey respondents - by location, property sector and business type - are shown below.



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