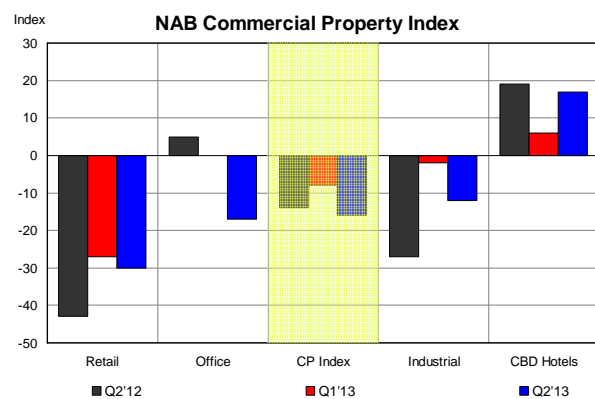
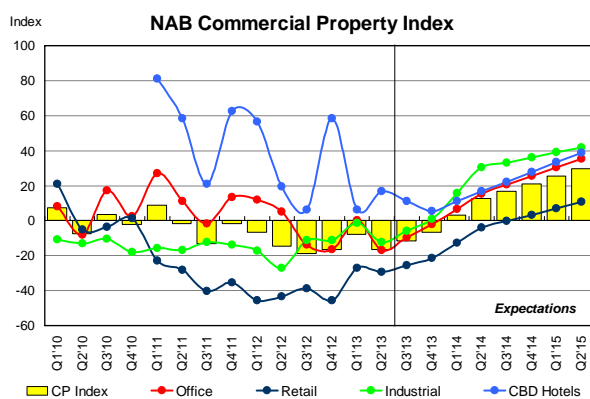


### Quarterly Australian Commercial Property Survey: Q2 2013

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
<b>CP Index</b>	<b>-2</b>	<b>9</b>	<b>-2</b>	<b>-13</b>	<b>-2</b>	<b>-7</b>	<b>-14</b>	<b>-19</b>	<b>-17</b>	<b>-8</b>	<b>-16</b>	<b>-7</b>	<b>13</b>	<b>30</b>

#### For more information contact:

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(03) 8634 2927 0414 444 652

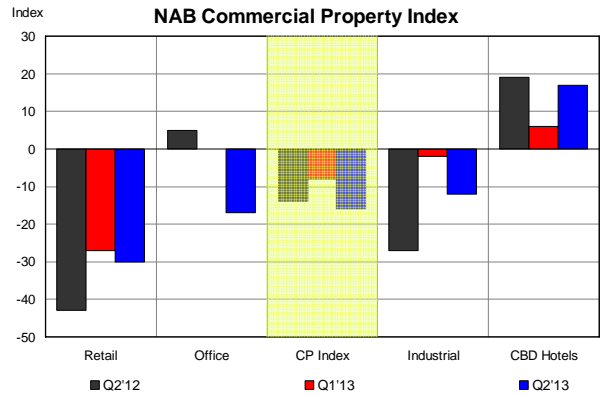
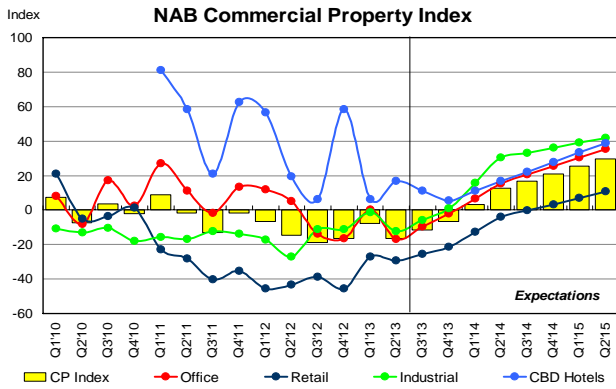
Robert De lure, Senior Economist -  
Industry Analysis (03) 8634 4611

Dean Pearson, Head of Industry  
(03) 8634 2331

# Commercial Property Market Overview

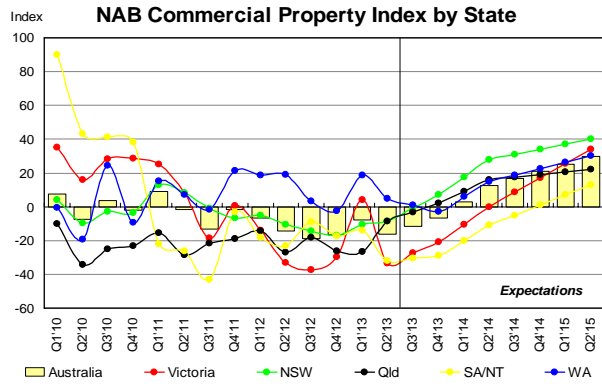
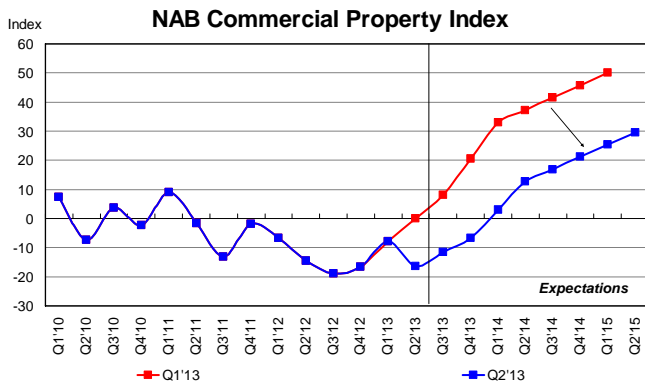
**NAB Commercial Property Index dips in Q2 ...**

**... led by weaker sentiment in office and industrial.**



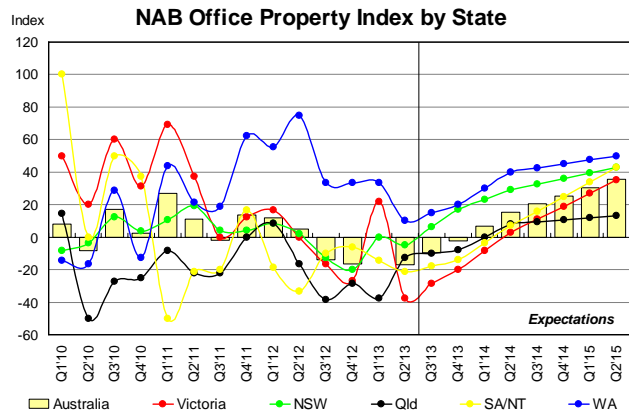
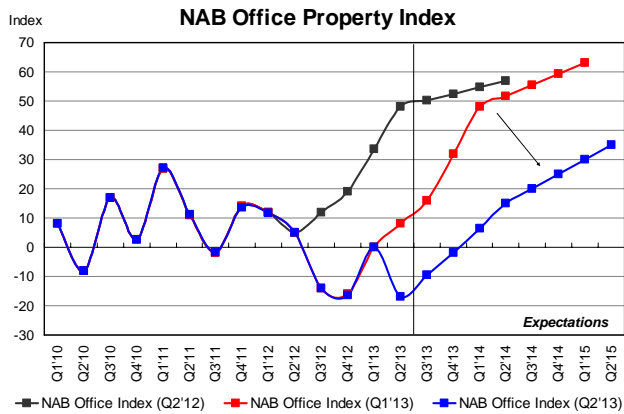
**Forward expectations weaken...**

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



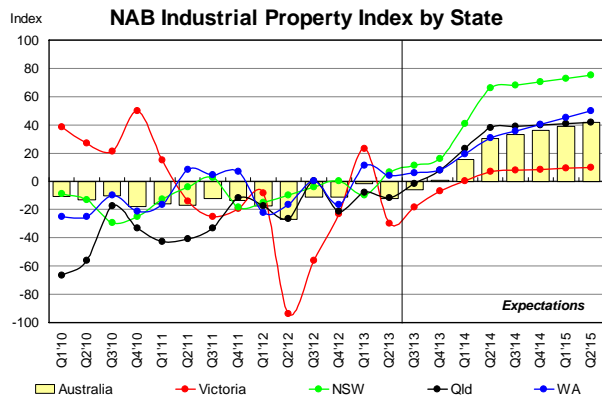
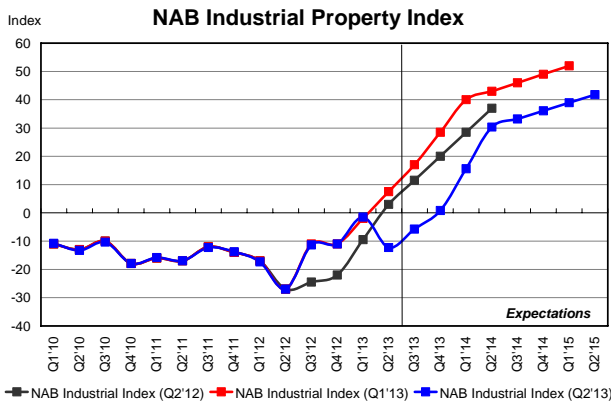
**NAB Office Property Index falls to a new low...**

**... with sentiment down heavily in Victoria.**

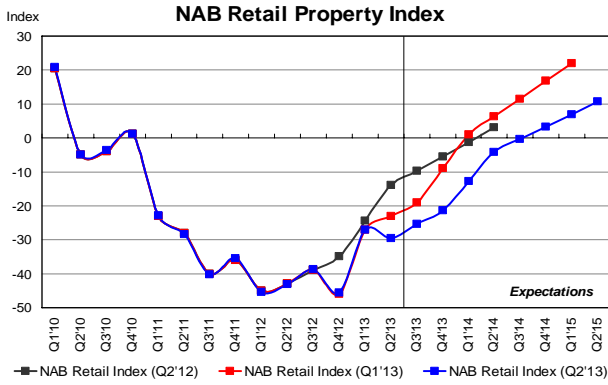


**Industrial property index also falls in Q2'13...**

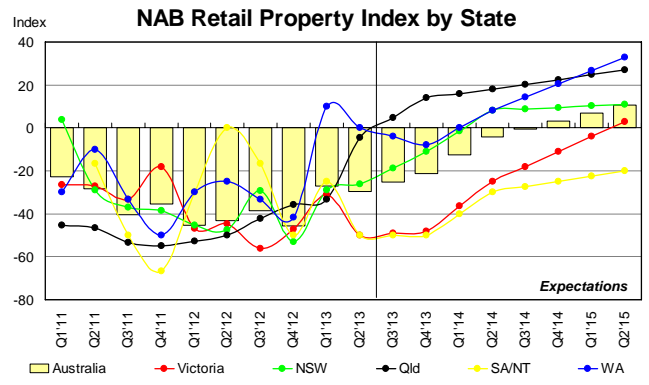
**... with sentiment down in all states except NSW.**



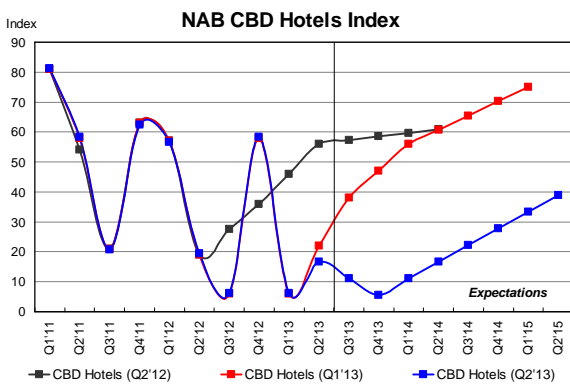
Retail property index remains subdued...



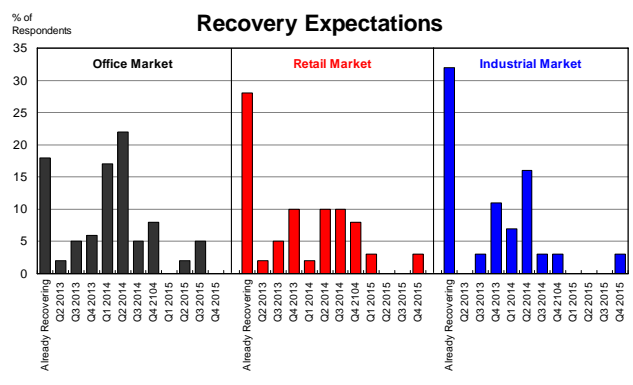
... sentiment negative in all states bar WA (flat).



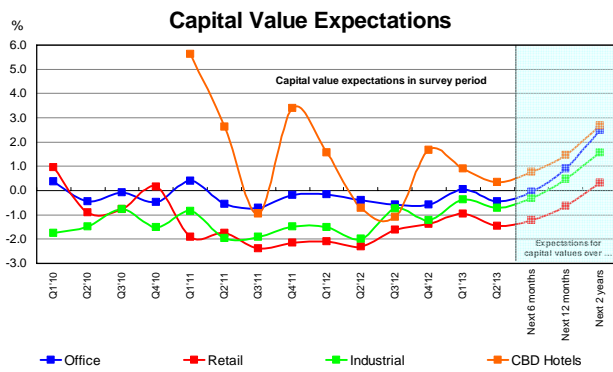
CBD hotel index improves but below long-term average. Expectations considerably weaker.



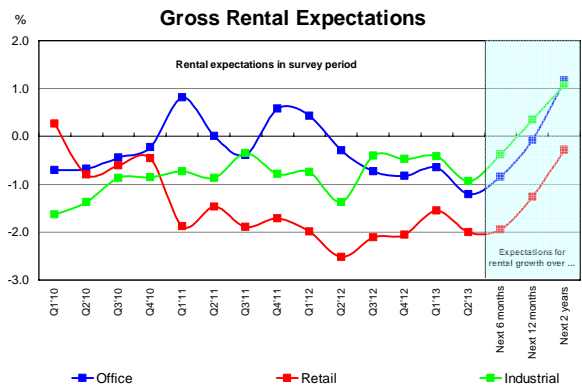
Property professionals still divided as to where each market segment currently sits in this cycle.



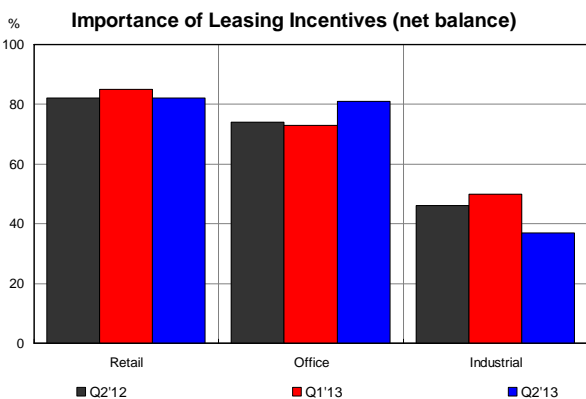
Capital growth weaker in all markets. Expectations also pared back.



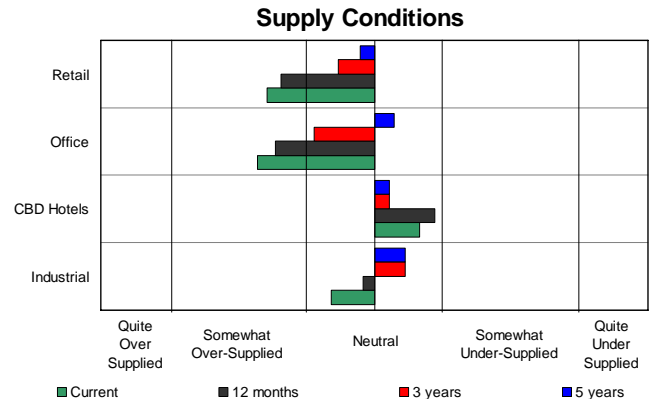
Rental returns negative in all markets in Q2'13 with outlook for future returns softer.



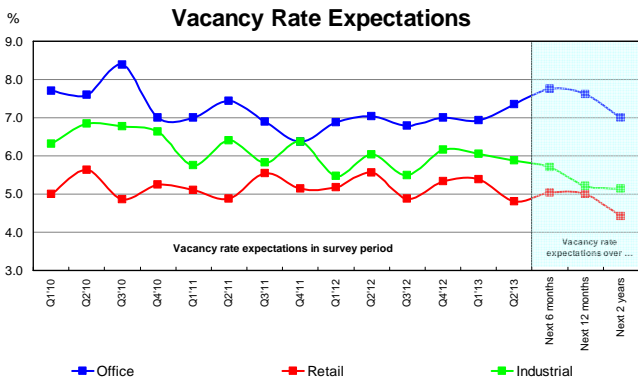
Leasing incentives rising in office and still very high for retail property.



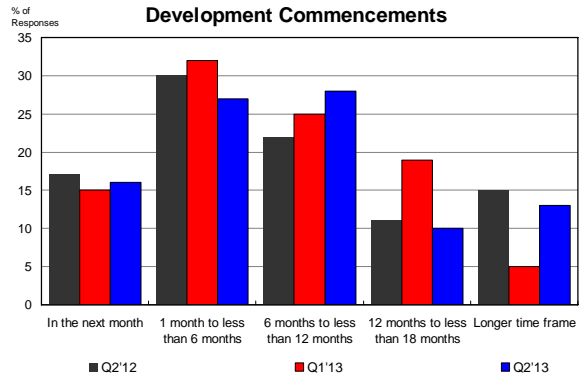
Supply conditions soften notably in office market. Retail also "somewhat" over-supplied.



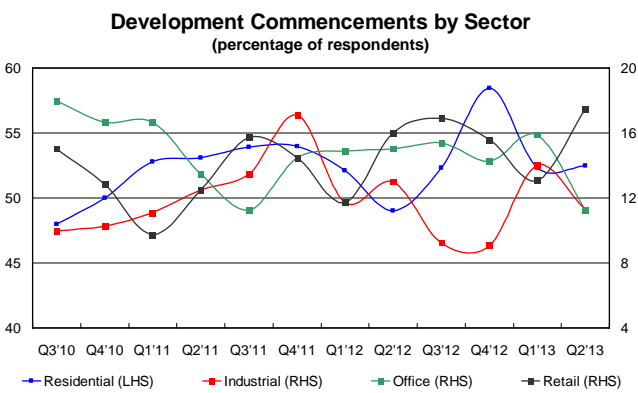
**Vacancy fall slightly in industrial and retail in Q2'13 but increases in office.**



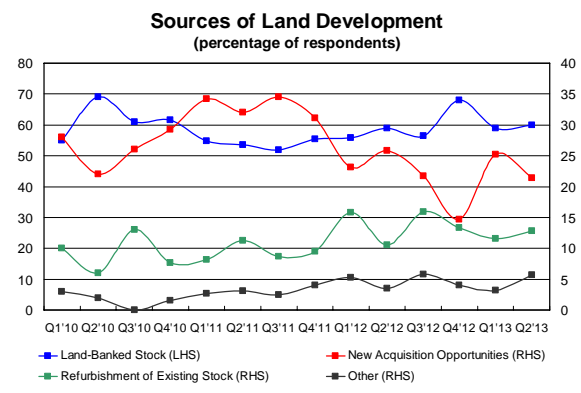
**Fewer property developers planning to begin new projects or developments in the near-term.**



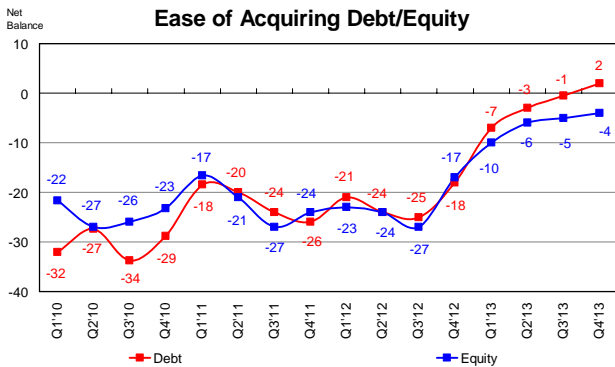
**Majority of developers looking at developing residential projects ...**



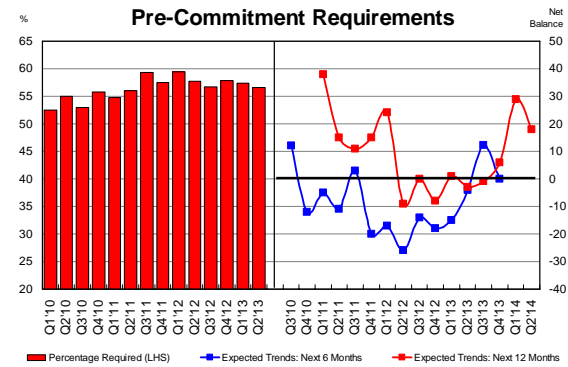
**... and cashing in on land-banked stock. Fewer chasing new acquisitions.**



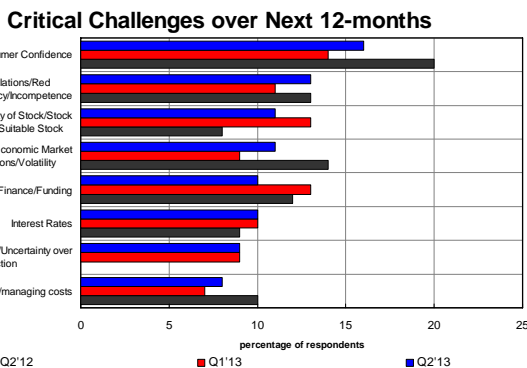
**Debt/equity funding still a problem for developers.**



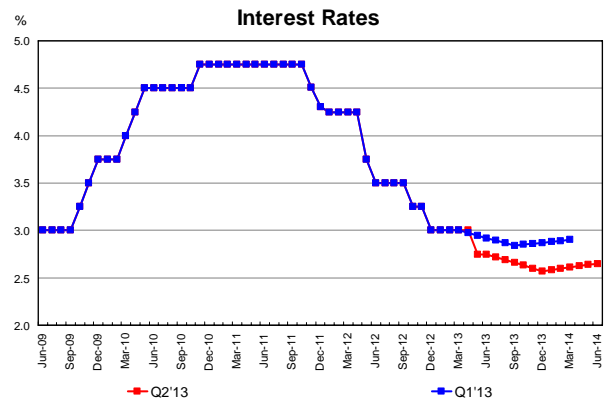
**Bank pre-commitment requirements fell in Q2'13.**



**Consumer confidence still seen as the biggest challenge for property firms.**



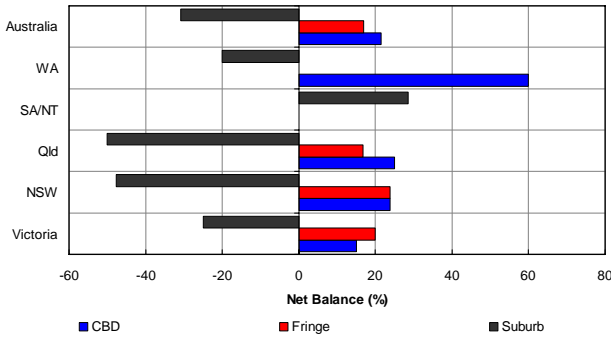
**Survey respondents expect interest rates to continue falling in the next 12 months.**



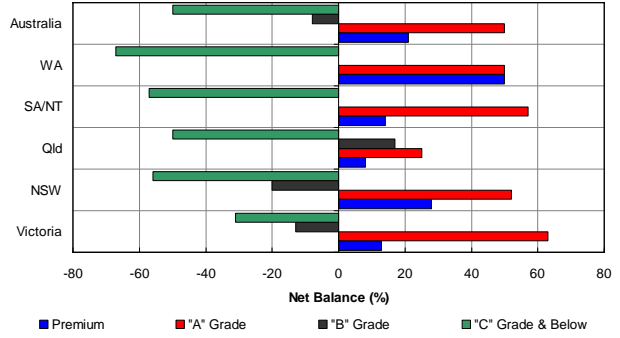
# Office Property Market

**CBD best location for office but “fringe” improving. “A” grade stock the front-runner by grade.**

**Current Office Performance by Location**

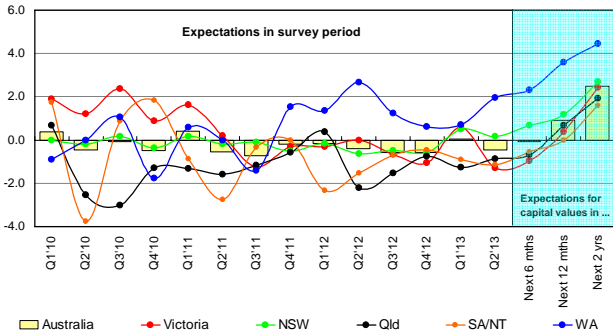


**Current Office Performance by Grade**



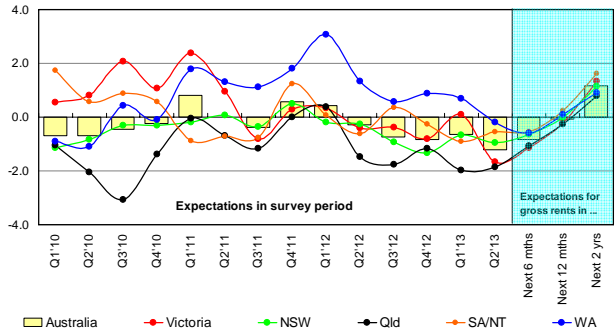
**Capital values fell in Q2'13 and expectations were scaled back.**

**Office Capital Value Expectations by State**



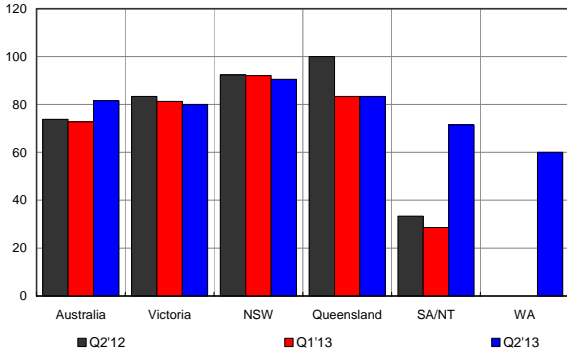
**Pressure on rents rose in Q2'13. Rents basically flat in next year with modest growth thereafter.**

**Office Gross Rental Expectations by State**



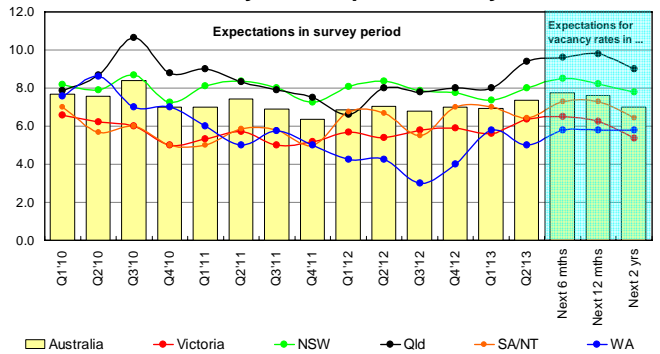
**Tenants have upper hand in most states.**

**Importance of Leasing Incentives (net balance)**



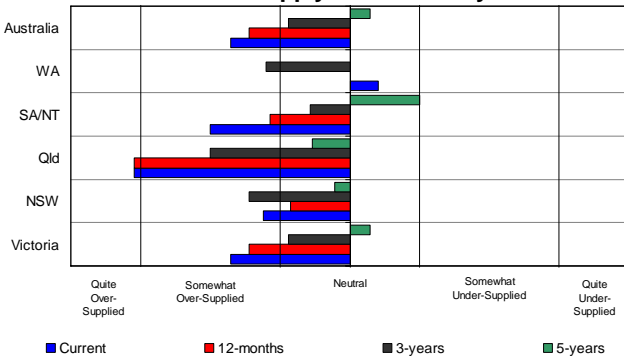
**Vacancy up in Q2'13 and tipped to climb next year.**

**Office Vacancy Rate Expectations by State**



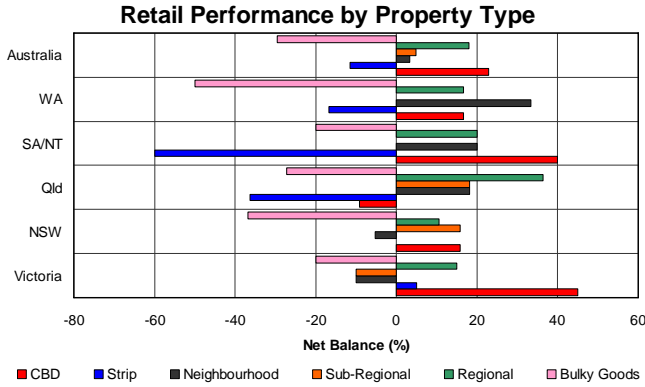
**Office markets over-supplied; stock over-hang to persist next 1-3 years.**

**Office Market Supply Conditions by State**

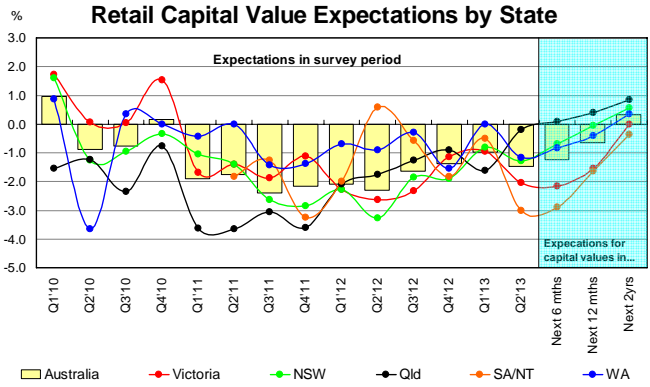


# Retail Property Market

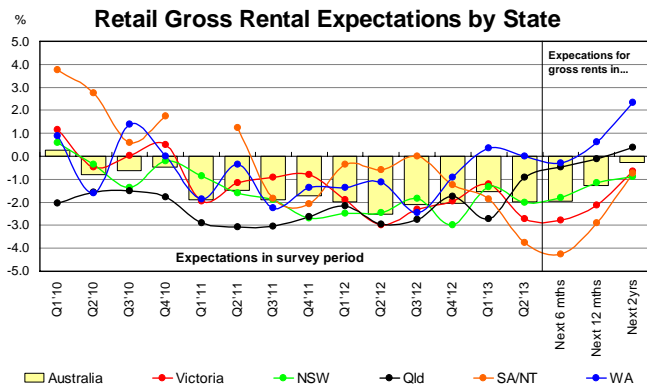
Retail market performance fragmented. CBD the best performing location for retail property nationally. Bulky goods and Strip retail the worst performers.



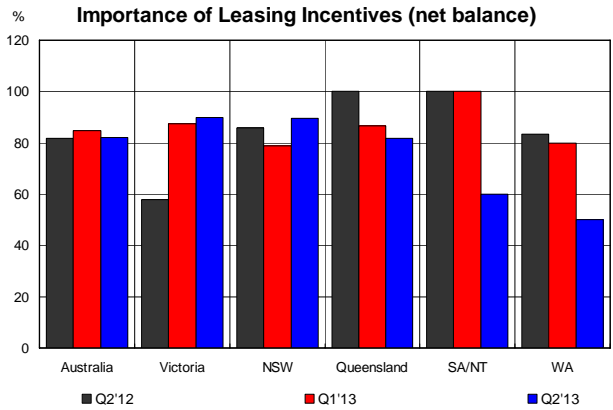
Retail capital values fell in all states in Q2'13. The outlook for capital values in the next year is uniformly weak, with only modest growth tipped in the next 2 years.



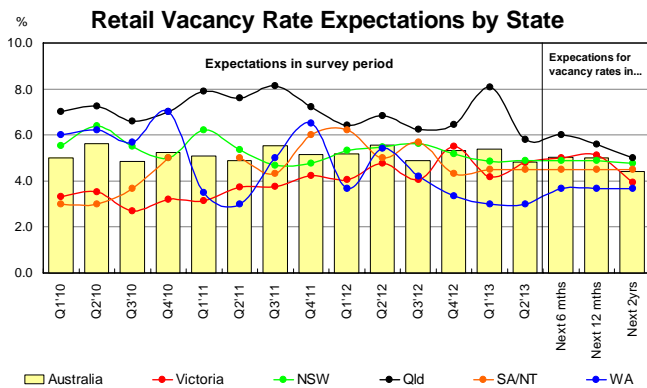
Gross rents fell in all states in Q2'13. Survey respondents less optimistic with regards to average rents, with leasing market not expected to show significant improvement in the next 1-2 years.



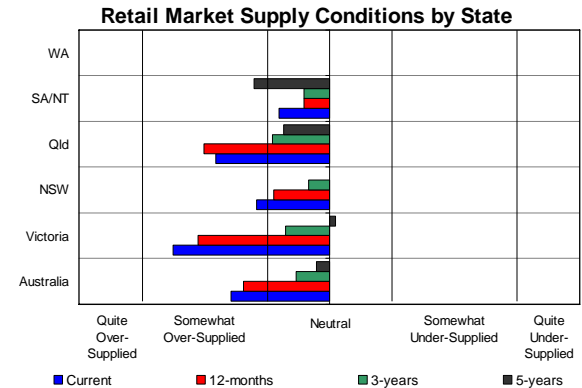
With tenant demand for retail property still weak, the importance of incentives in the retail leasing market remains very high, especially in Victoria, NSW and Queensland.



Vacancy rates for retail property declined in Q2'13. Despite uncertain outlook for retail trade, retail vacancy rates to trend down in the next 2 years in all state markets.



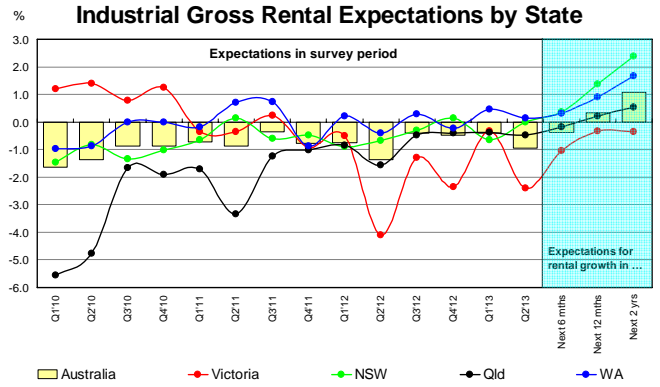
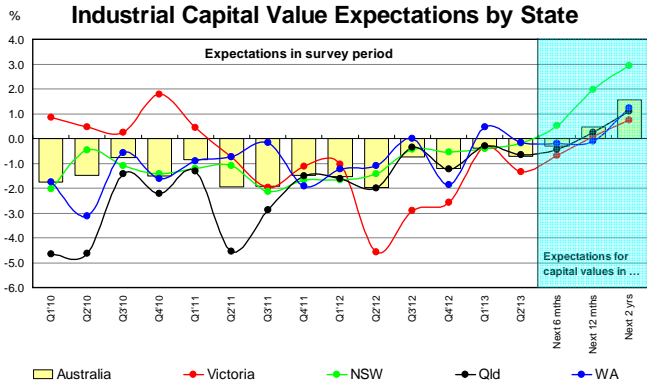
National retail property market considered to be "somewhat over-supplied" in Q2'13 with over-supply most prevalent in Victoria, Queensland and NSW.



# Industrial Property Market

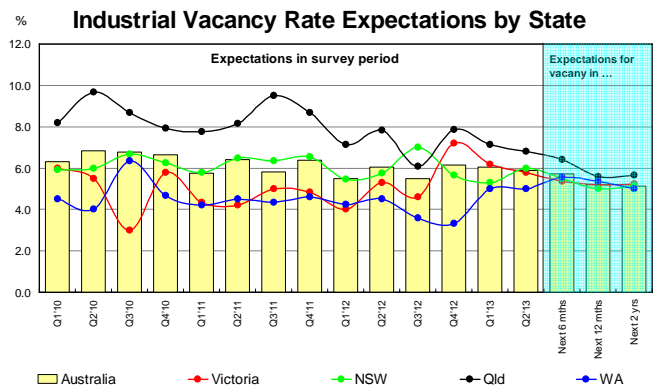
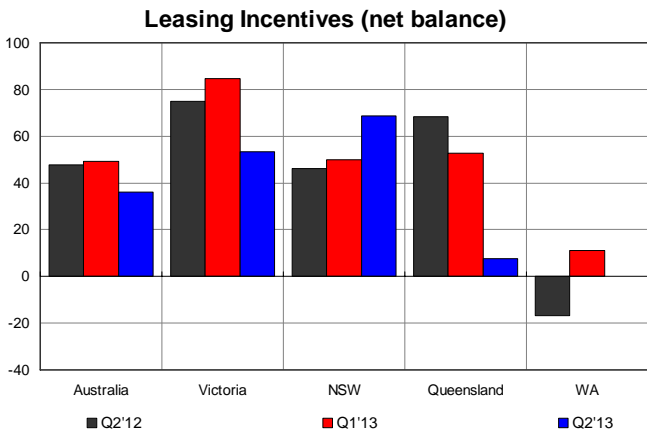
Capital growth slowed in all states in Q2'13 (bar NSW) and expectations for the next 1-2 years have softened. NSW the strongest market for capital growth.

There was limited income growth in Q2'13 with rents down in most states. Short-term forecasts have also weakened in all states bar NSW where the outlook has improved.

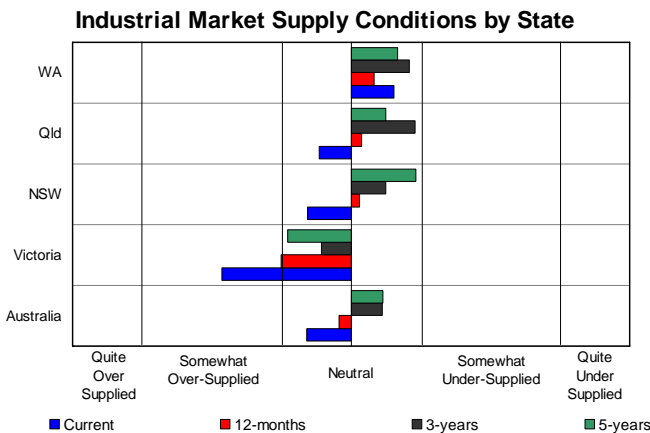


Leasing incentives in the industrial property market seen as slightly less important in all states except NSW.

National vacancy rate for industrial property dips in Q2'13 and is expected to continue falling (slightly) over next 2 years.



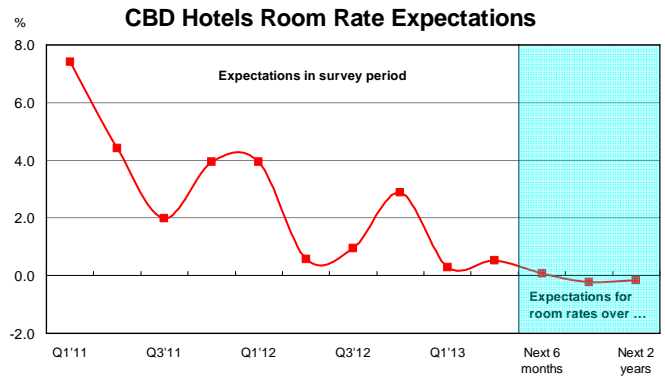
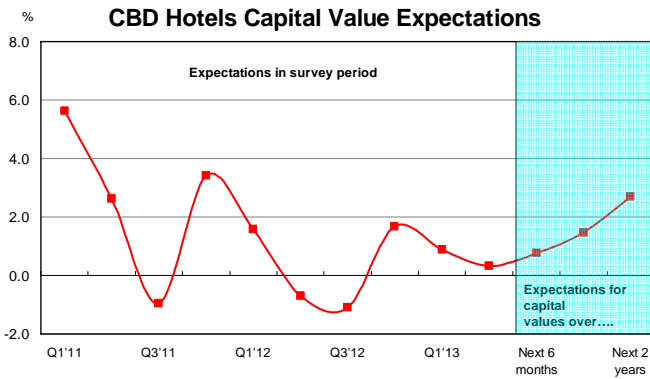
State supply conditions “neutral” in Q1'13 in all states bar Victoria, where market “somewhat” over-supplied.



# CBD Hotel Market

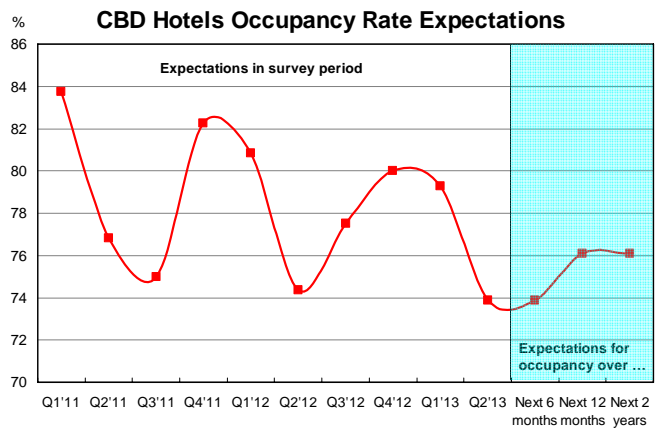
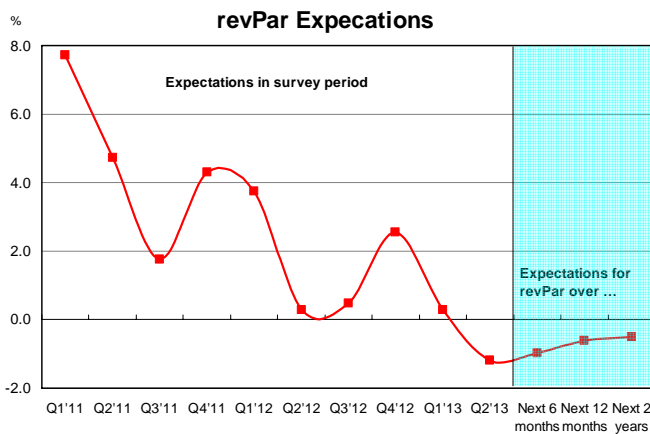
Average capital value expectations less positive in Q2'13, but expectations for next 1-2 years softer are broadly unchanged.

Modest hotel room rate growth estimated in Q2'13 and room rate growth is now tipped to fall over the next 1-2 years.



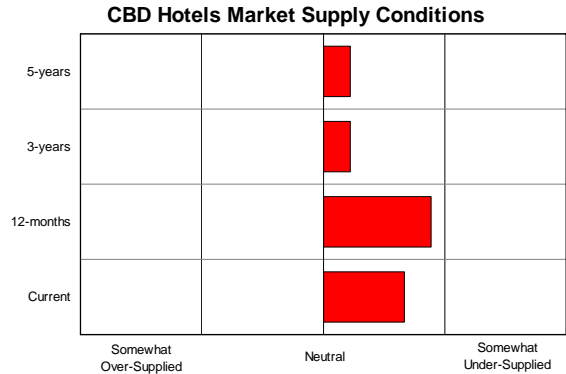
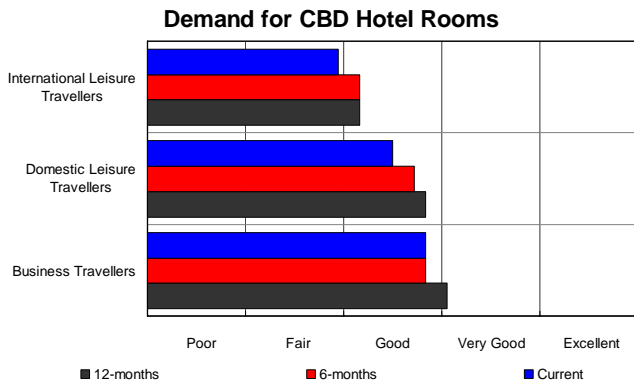
revPar growth was lacklustre in Q2'13, and forward expectations softer.

National occupancy rate fell in Q2'13, but set to rise in the next 1-2 years as demand outstrips supply.



Room demand mainly being supported by business and domestic leisure travellers. Demand expected to improve from all sources in the next year.

CBD hotel market nearing "somewhat" over supply in the next year, but new supply to bring market back to "neutral" in 3-5 years.





## 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

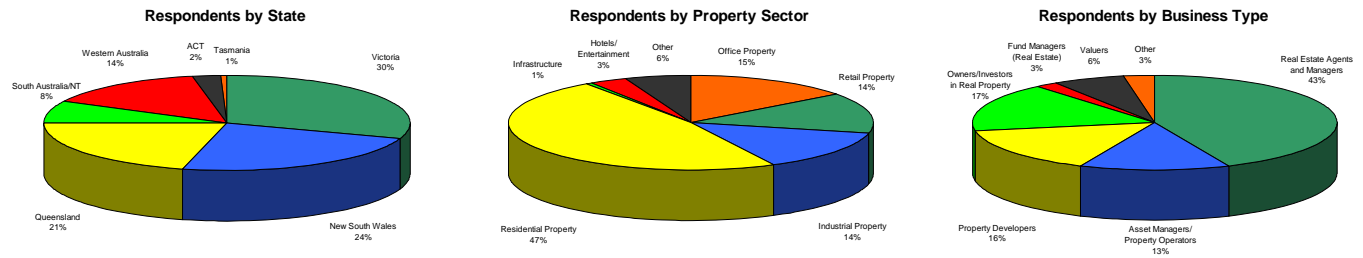
## About the Survey

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.



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### Fixed Interest/Derivatives

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