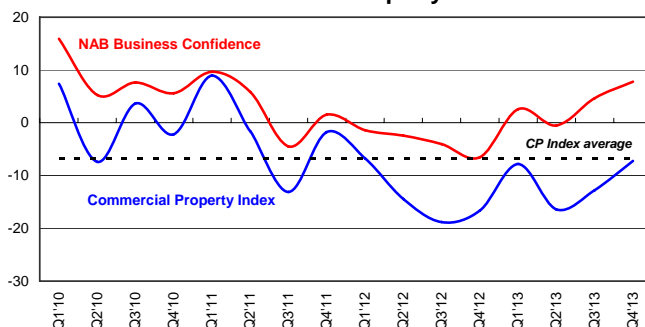


Quarterly Australian Commercial Property Survey: Q4 2013

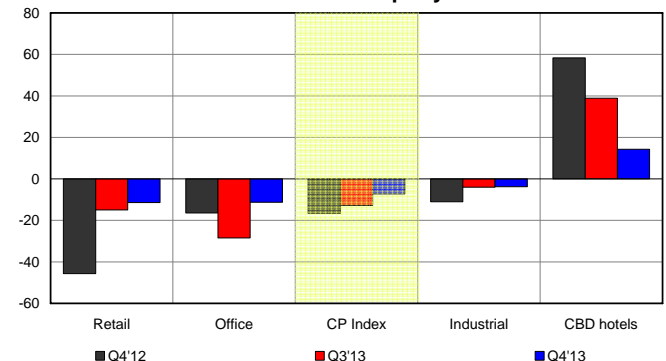
Sentiment rises further in Q4, with NAB's Commercial Property Index reaching a 2-year high (but still negative overall). Improvement driven mainly by office and retail, although both segments still under-performing. Sentiment edged up in all states bar Qld and SA/NT. NSW most optimistic state and set to remain so in next 1-2 years, but biggest improvement to occur in Qld. Industrial property to out-perform in next 1-2 years, with recovery in retail gathering steam. Capital and rental expectations generally lower in all markets (bar retail), but confidence among developers improving as financing conditions ease. Stock availability now the biggest challenge for property firms with concerns over financial/economic volatility and interest rates also up sharply.

- NAB's Commercial Property Index rose to -7 points in Q4 (-13 in Q3) - a result largely attributed to improved sentiment in office and retail markets and consistent with a pick in business confidence also seen in NAB's latest Quarterly Business Survey. Forward expectations largely unchanged over next year but somewhat softer in 2 years time as outlook for capital and rental growth also weakens. Overall sentiment now strongest for industrial over the next 1-2 years, replacing CBD hotels.
- Sentiment edged up in all states except SA/NT and Queensland in Q4. Sentiment improved most in NSW (also the only state to return a positive index reading). Property professionals in most states more confident about short-term outlook, but expectations in 2 years time scaled back in Victoria, NSW and Queensland. NSW remains most optimistic state for commercial property over next 1-2 years, but biggest improvement expected in Queensland.
- Capital values fell in all markets in Q4 except CBD hotels, but pace of decline slowed in office and industrial sectors. Outlook for capital values mixed with expectations scaled back for industrial (1.2% and 2.3%) and CBD hotels (1.8% and 2.3%) in next 1-2 years. Expectations for office values stronger over next year (1.2%) but weaker in 2 years time (1.8%). Capital value expectations for retail property also stronger over next 12 months (0.6%) but unchanged in 2 years time (1.3%).
- Gross rents fell in Q4, but at slower rate in all markets except industrial. Expectations for rental growth over next year lowered for industrial (0.7%), but higher for retail (-0.1%) and office (-0.4%). Rental expectations in 2 years time also scaled back for industrial (1.4%) and office (0.3%), but raised for retail (0.5%). Importance of leasing incentives in office markets continued growing in Q4 and highest in commercial property space by some margin. Property professionals also identified higher incentives in industrial market in Q4, but said incentives less important in retail property markets.
- The office market remains "somewhat over-supplied", with excess supply seen as being most abundant in Victoria ("quite over-supplied"). Supply conditions in CBD hotel sector have loosened with market conditions now assessed as "neutral" after a long period of under-supply. "Neutral" supply conditions also prevailing in industrial and retail markets.
- Vacancy rates in the office market climbing as available space rises. National office vacancy rate reached 9% in Q4, with vacancy approaching 12% in Queensland. Office vacancy expected to fall moderately over the outlook period, but remain at relatively elevated levels. Industrial and retail vacancies relatively stable in Q4, but expected to trend down in next 1-2 years.
- Significant increase in number of developers planning to increase works in next 1-6 months, with most seeking to develop residential property (especially in NSW). Majority of developers seeking to develop land-banked stock but increasing number also looking for new acquisition opportunities, suggesting confidence among developers continued to improve in Q4.
- The ability of property developers to access debt and equity funding continued to improve in Q4, while the average pre-commitment requirement to meet external funding requirements for new developments has fallen to its lowest level since Q1'10. Stock availability has replaced consumer confidence (down significantly) as the main challenge facing property businesses in the next year. Concerns around financial/economic volatility also much higher and in nearly all states.

**NAB Quarterly Business Confidence vs
NAB Commercial Property Index**



NAB Commercial Property Index



NAB Commercial Property Index: Q4 2013

	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13	Q4'13	Q2'14	Q4'14	Q4'15
Office	11	-2	14	12	5	-14	-16	0	-17	-28	-11	1	21	30
Retail	-28	-40	-36	-45	-43	-39	-46	-27	-30	-15	-11	2	23	40
Industrial	-17	-12	-14	-17	-27	-11	-11	-2	-12	-4	-4	10	44	58
CBD Hotels	58	21	63	57	19	6	58	6	17	39	14	29	43	43
CP Index	-2	-13	-2	-7	-14	-19	-17	-8	-16	-13	-7	6	29	40

For more information contact:

Alan Oster, Chief Economist
(03) 8634 2927 0414 444 652

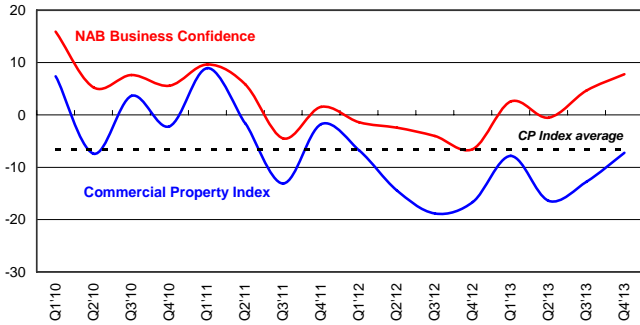
Robert De lure, Senior Economist -
Industry Analysis (03) 8634 4611

Dean Pearson, Head of Industry
(03) 8634 2331

Commercial Property Market Overview

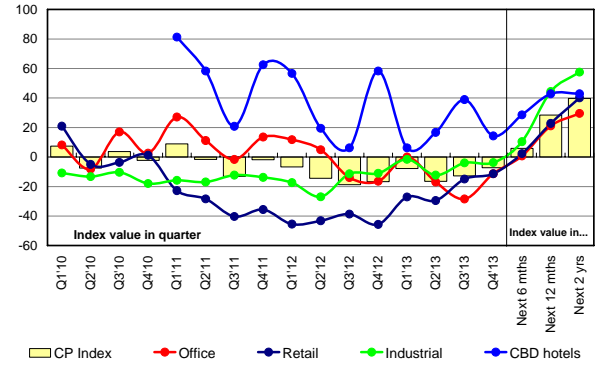
NAB Commercial Property Index tracking business confidence up, but at a much lower level.

NAB Quarterly Business Confidence vs NAB Commercial Property Index



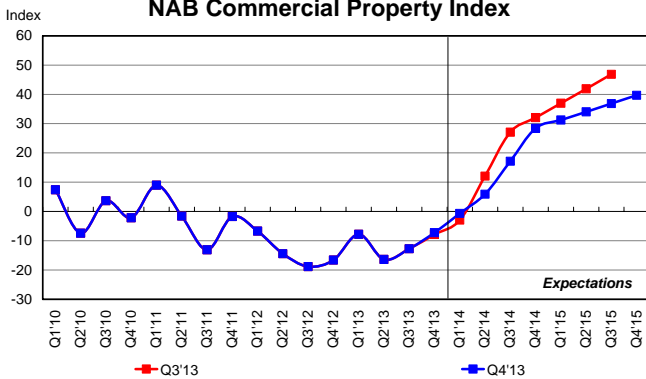
Sentiment up in retail & office but negative. CBD hotels lower but strongest overall. Industrial to lead in 2 years.

NAB Commercial Property Index



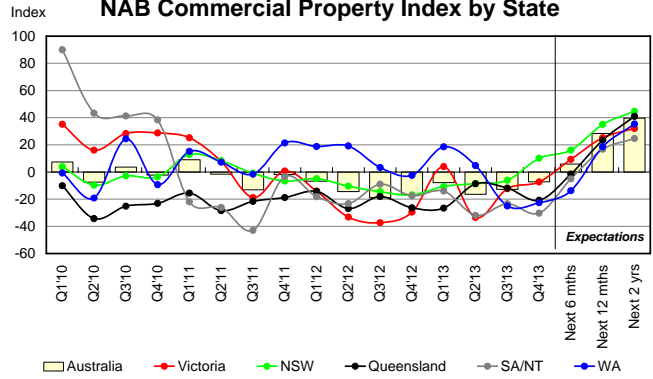
Forward expectations marginally softer.

NAB Commercial Property Index



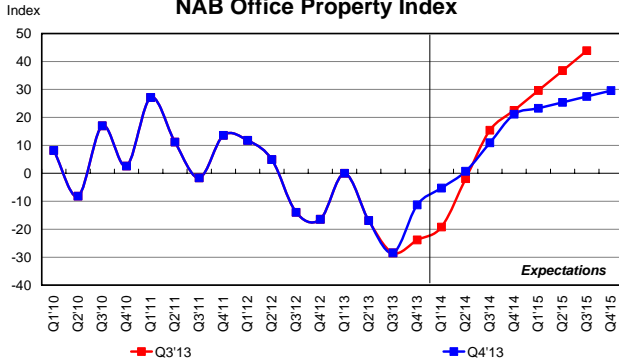
Sentiment negative in all states, except NSW.

NAB Commercial Property Index by State



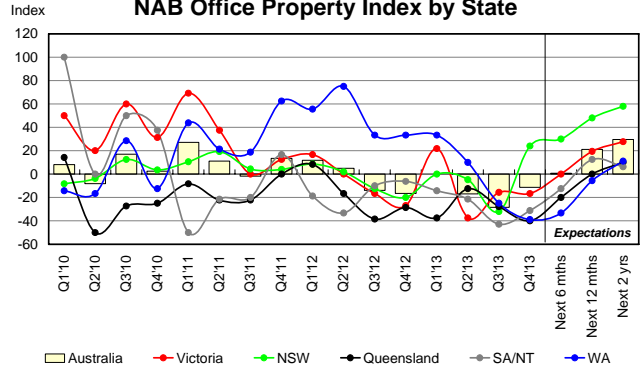
Office market sentiment lifts but still negative. Outlook positive, but less so than in Q3.

NAB Office Property Index



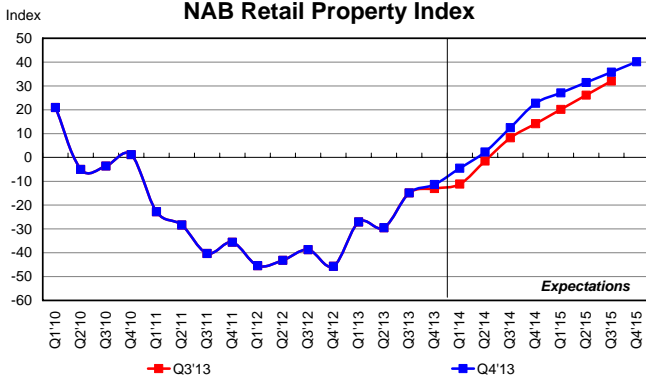
NSW the most optimistic state for office property. Queensland lagging and big downward revision in WA.

NAB Office Property Index by State



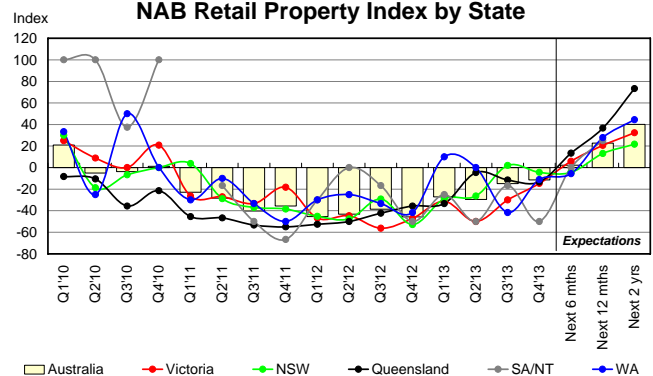
Sentiment in retail market marginally higher (although still negative) but forward expectations improve.

NAB Retail Property Index

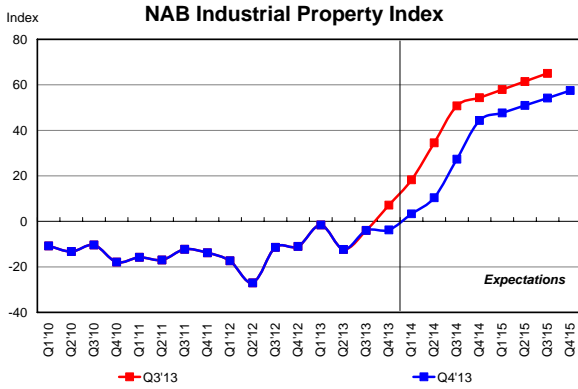


Retail sentiment negative in all states. Outlook for retail property strongest in Queensland.

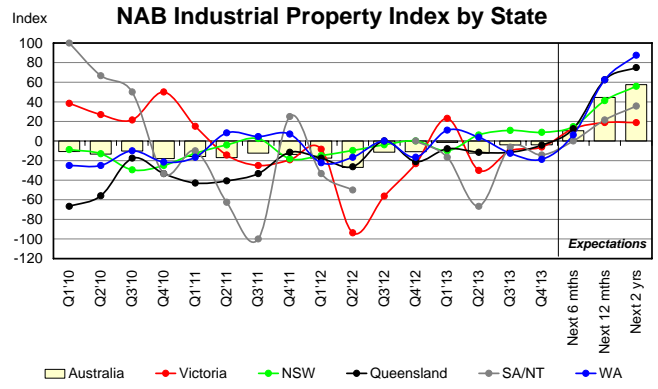
NAB Retail Property Index by State



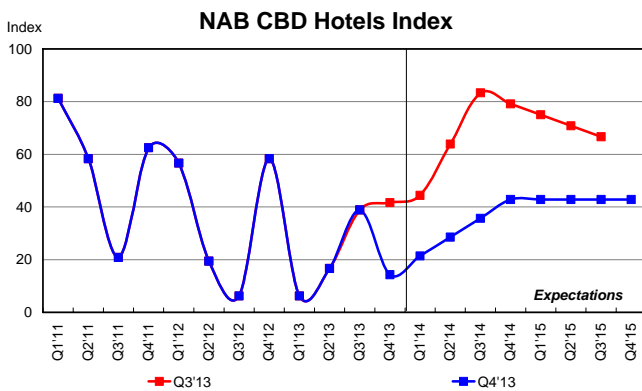
Industrial property index stable in Q4 but outlook is notably softer compared to previous survey.



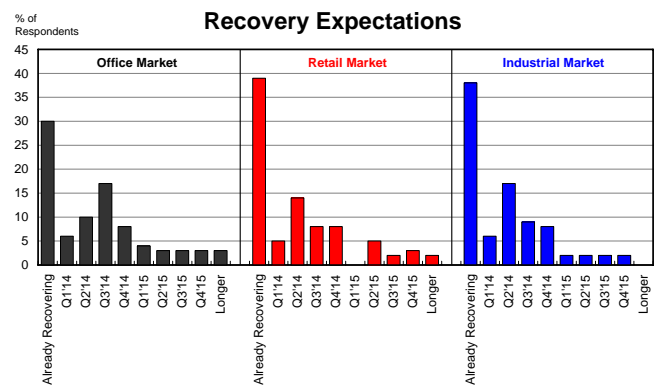
Sentiment currently weakest in WA but expected to recover strongly in the next 1-2 years.



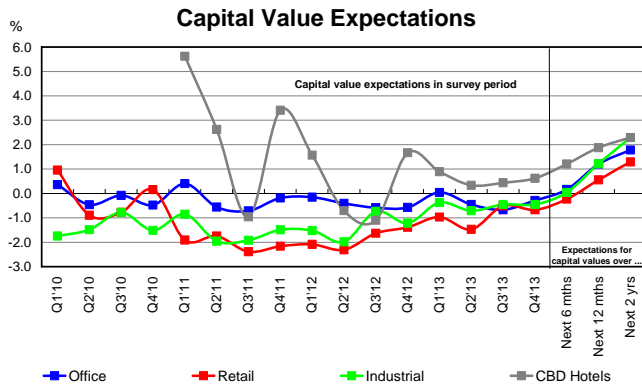
Sentiment in CBD hotel market down sharply and expectations scaled down heavily



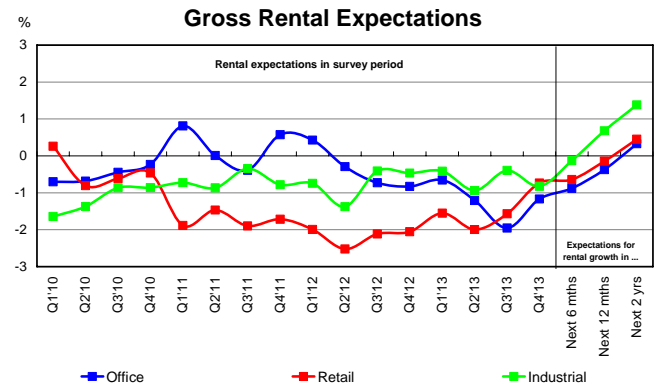
Industrial and retail property markets more advanced in the cycle, with office market lagging.



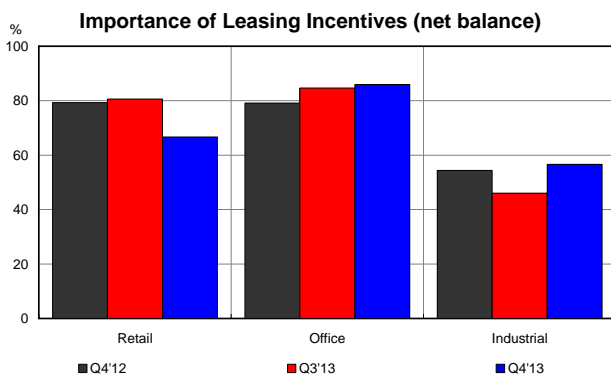
CBD hotels only sector reporting capital growth. Positive returns expected for all types of property in next 1-2 years, led by CBD hotels and industrial.



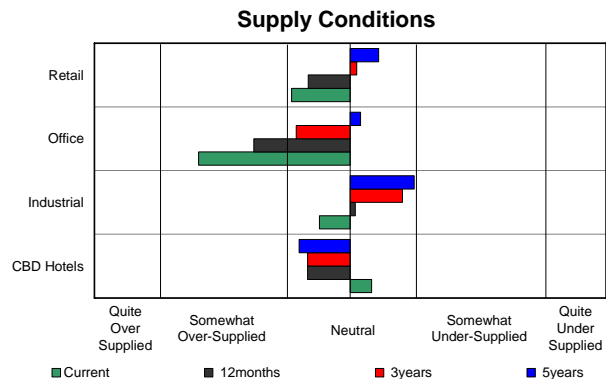
Rents still falling in all markets in Q4. Modest returns forecast in next 1-2 years, but expectations weaker than in Q3 in all market segments (except retail).



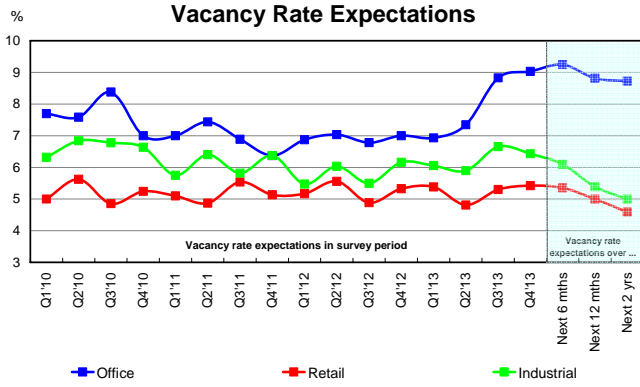
Leasing incentives very important in office market, rising for industrial property but falling for retail.



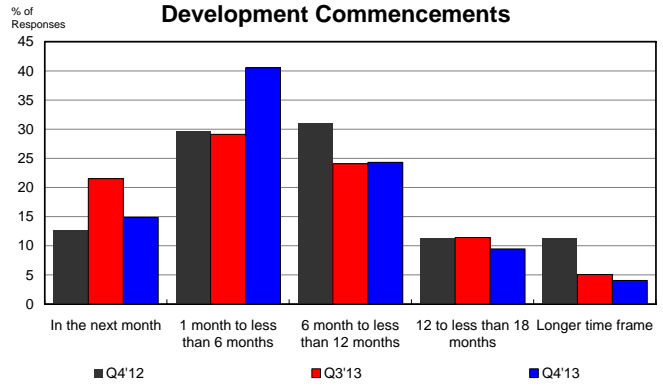
Over-supply prevalent in office market. Supply conditions and outlook much looser for CBD hotels.



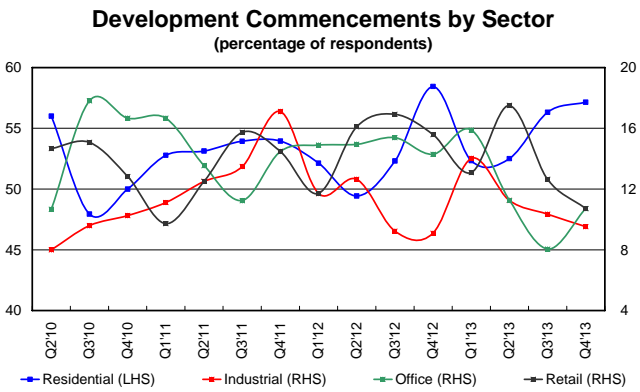
Available space growing in the office market and expected to remain high over the next 1-2 years.



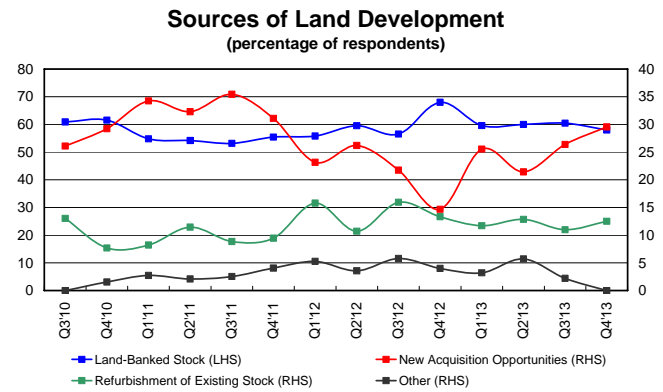
There was a big increase in the number of developers planning to commence works in the next 1-6 months.



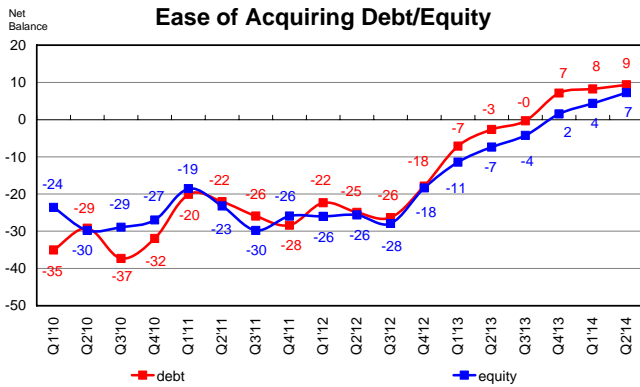
More developers looking to build residential and office property in Q4.



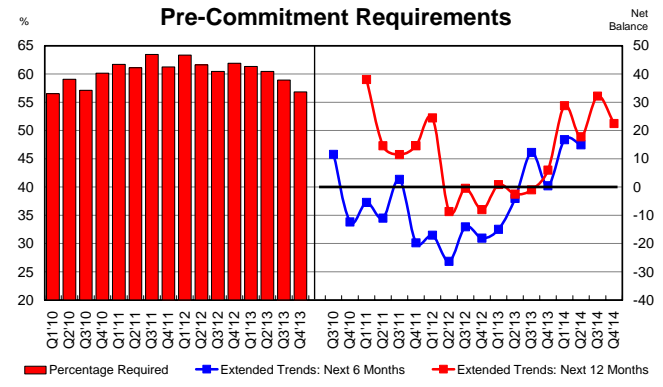
More developers looking to acquire land, signalling improved confidence in market.



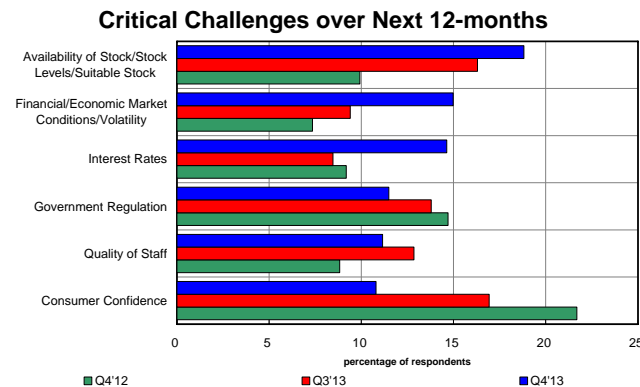
Debt and equity funding situation for property developers improved in Q4.



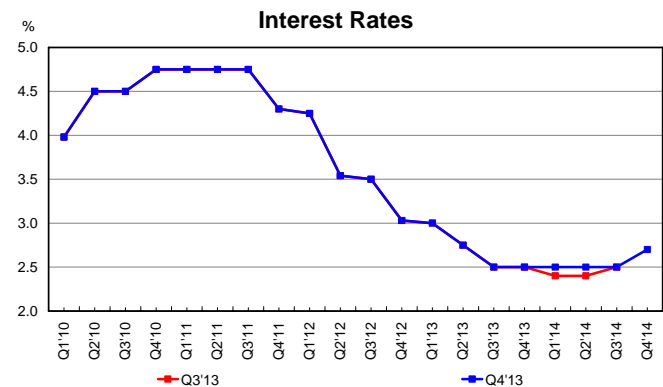
Financing conditions ease further with average pre-commitment requirements falling. Highest in QLD.



More see stock availability, market volatility & rates as biggest challenges to property businesses next year.



On average, property professionals believe interest rate cutting cycle has come to an end.

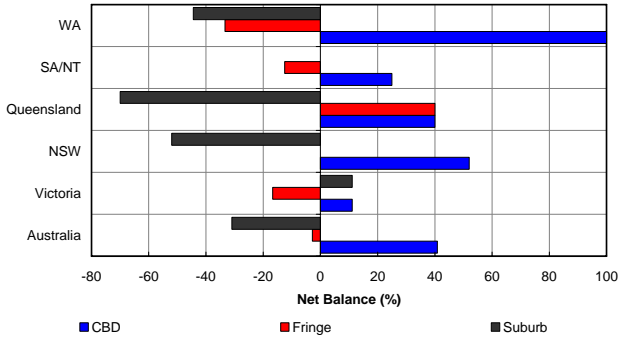


Office Property Market

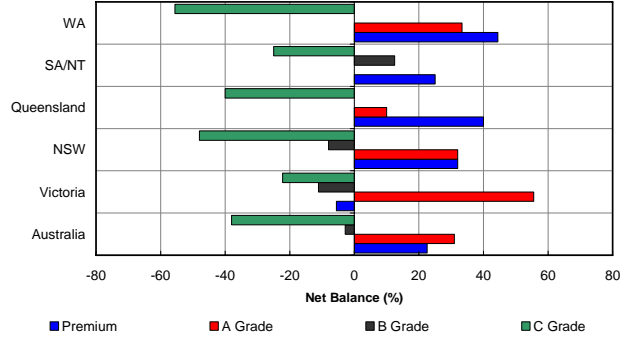
CBD the best performing location for office property in all states, but Suburbs (Victoria) and Fringe (Queensland) also positive.

"A" Grade stock most preferred at national level, led by Victoria. However, "premium" stock most preferred in WA, Queensland and SA/NT.

Current Office Performance by Location



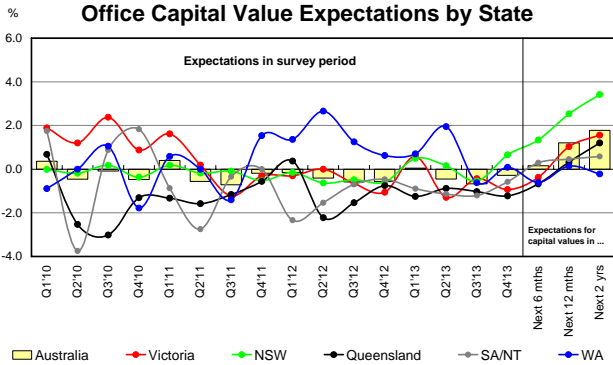
Current Office Performance by Grade



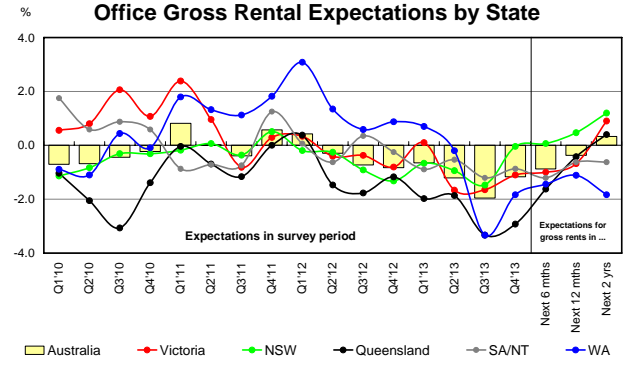
Capital values fell in Q4 - except NSW and WA.

Pressure on rents significant in all states except NSW.

Office Capital Value Expectations by State



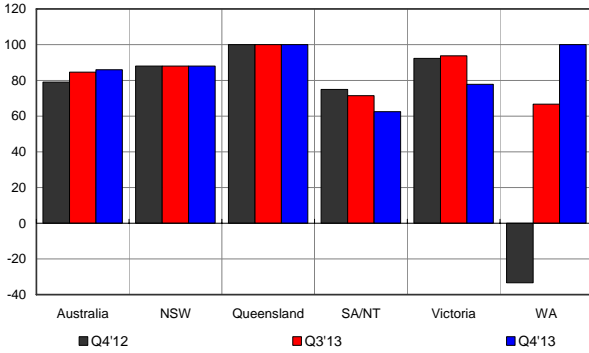
Office Gross Rental Expectations by State



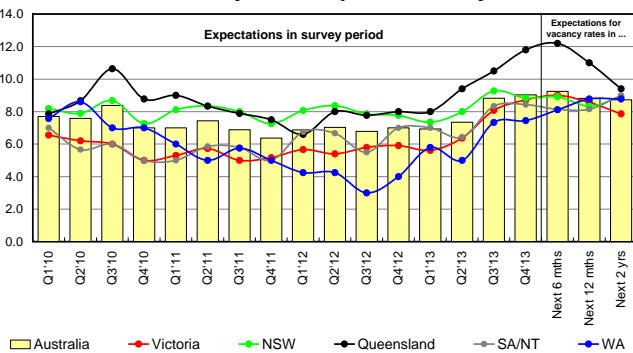
Leasing incentives important in all state markets, especially Queensland and WA.

Vacancy climbed in all states (bar NSW) in Q4, with big increase in QLD. Outlook weaker but trending down.

Importance of Leasing Incentives (net balance)

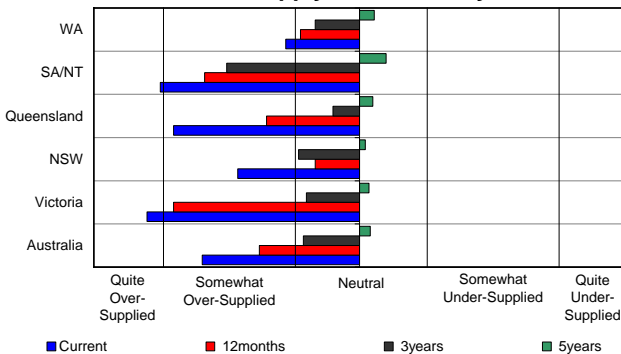


Office Vacancy Rate Expectations by State



Office markets "somewhat over-supplied" in all states bar Victoria ("quite over-supplied").

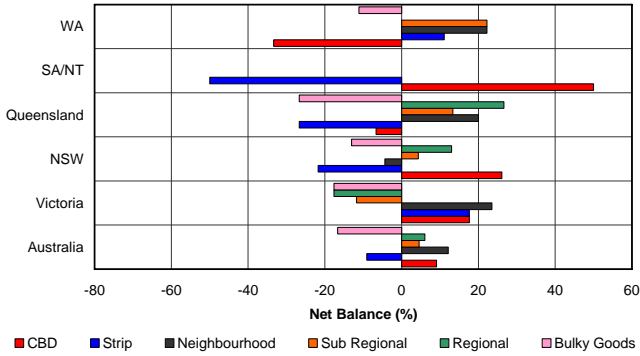
Office Market Supply Conditions by State



Retail Property Market

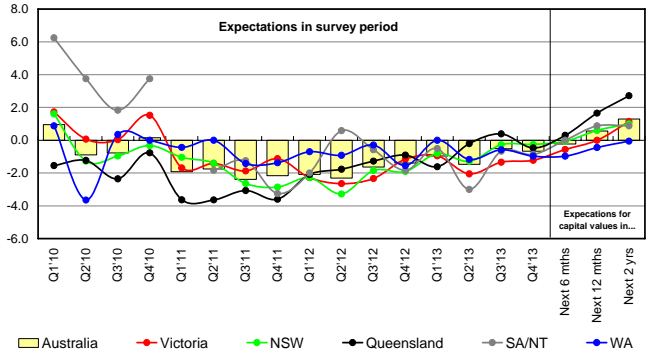
Neighbourhood and CBD seen as the best performing retail locations nationally. Bulky goods and Strip the worst. National average hides significant variance in performance profile across states.

Retail Performance by Property Type



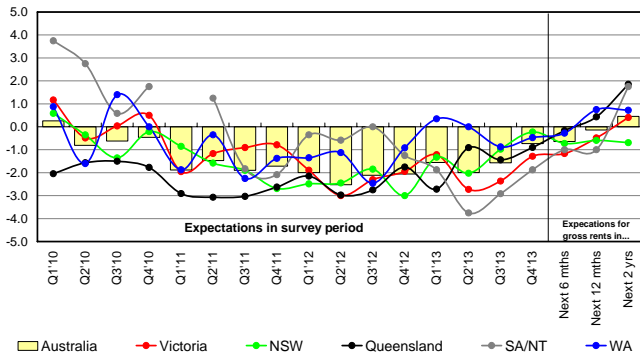
Capital returns lower all states with biggest fall in Queensland. Forward expectations weaker with modest rental growth forecast across all states over next 1-2 years. Returns expected to be highest in Queensland.

Retail Capital Value Expectations by State



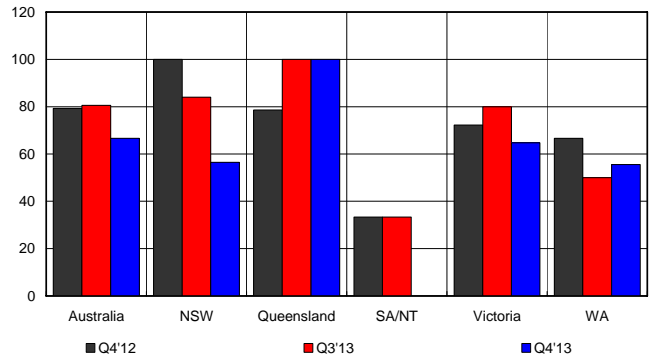
Rent profile improved in all states in Q4, but still negative across the board. Rents to fall next year in all states bar WA and Queensland. Positive returns anticipated in all states in 2 years (except NSW).

Retail Gross Rental Expectations by State



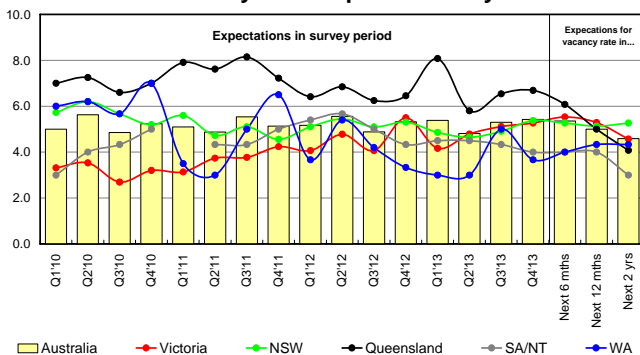
Leasing incentives in the retail property market seen as less important in all states except Queensland and WA. Leasing incentives seen as being most important in Queensland and Victoria.

Importance of Leasing Incentives (net balance)



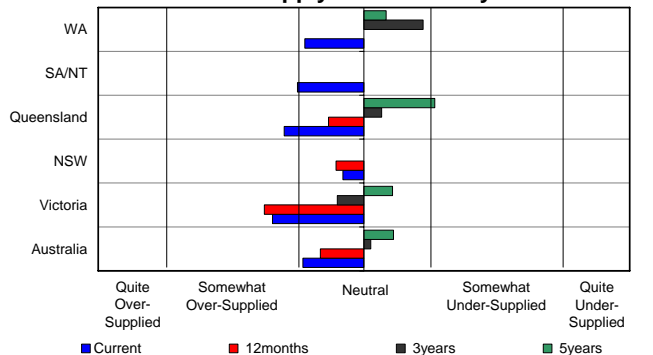
Retail vacancies up in all states except WA and SA/NT. Vacancy rate to drift down in Victoria, Queensland and SA/NT, but climb in WA and NSW.

Retail Vacancy Rate Expectations by State



Supply conditions in national market "neutral" in Q4, but "somewhat oversupplied" in Victoria and Queensland. Supply shortages emerging in Queensland in 5 years.

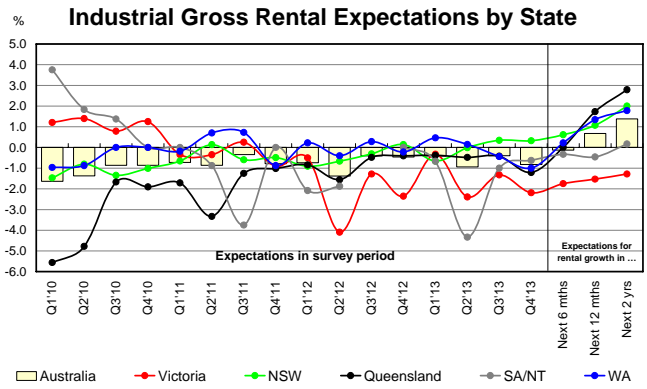
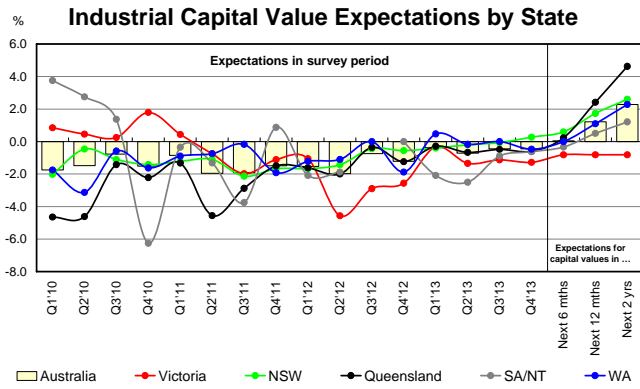
Retail Market Supply Conditions by State



Industrial Property Market

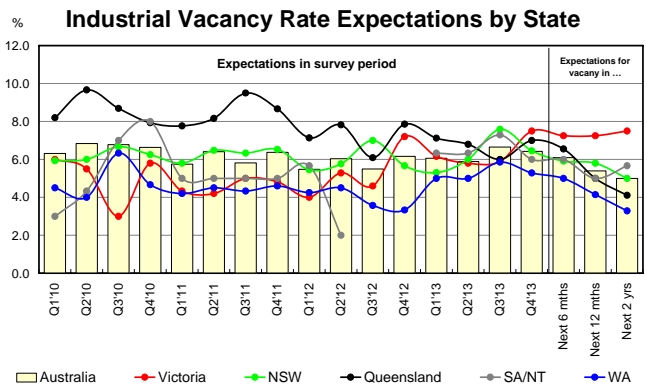
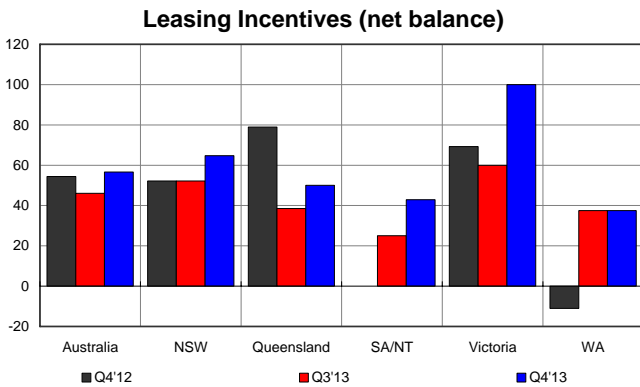
Capital value growth negative in all states except NSW in Q4. Outlook for next 1-2 years weaker for all states (bar Queensland). Queensland to out-perform in next 1-2 years with Victoria lagging.

Industrial rents fell at a faster rate in most states. NSW the only state to report positive income growth in Q4. Expectations revised down, especially in Victoria, with negative returns forecast for the next 2 years.

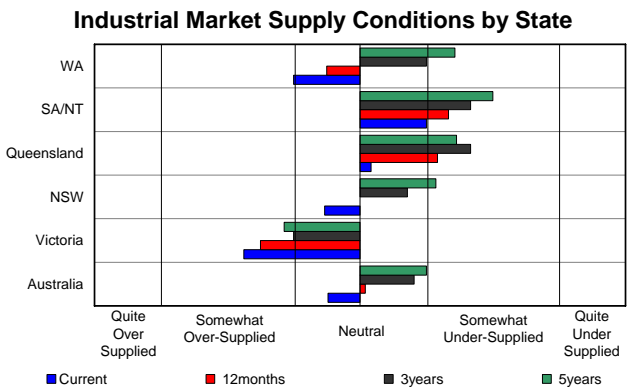


Leasing incentives in the industrial property market considered to be more important in all states except WA. Incentives highest in Victoria.

National vacancy rate for industrial property down slightly in Q4. Vacancy rates to fall in all states except Victoria over next 1-2 years.



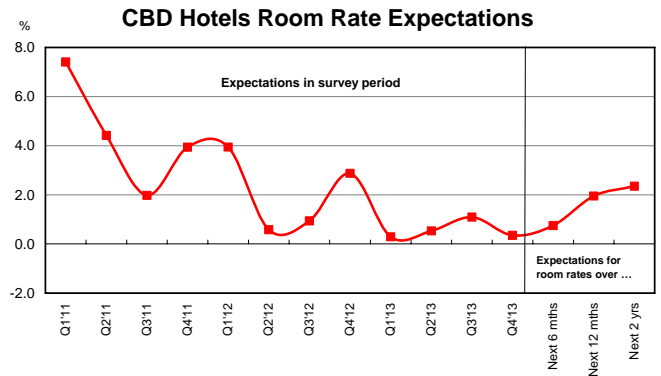
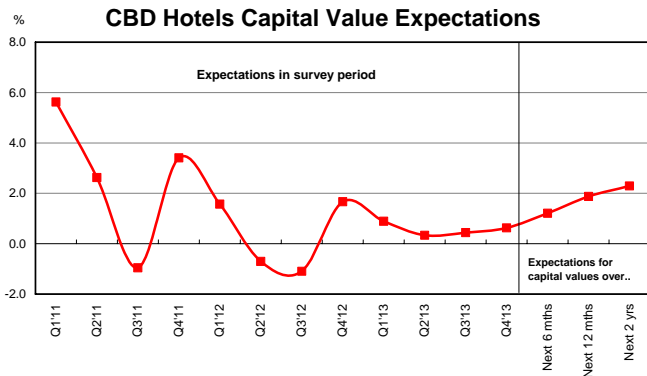
Supply increased significantly in Victoria and WA compared to Q3. Supply shortages to be most apparent in Queensland and SA/NT in the next 3-5 years, but Victorian market to be "somewhat over-supplied".



CBD Hotel Market

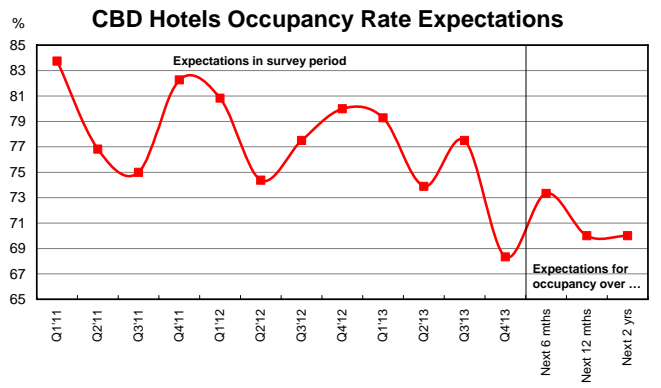
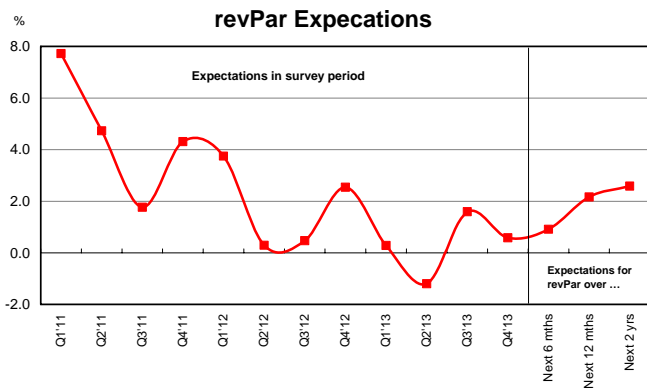
Capital values improved in Q4, but expectations have been revised down with more modest growth expected in the next 1-2 years.

Room rate growth slowed in Q4 (as occupancy fell). Expectations for room rate growth also revised down in the next 1-2 years.



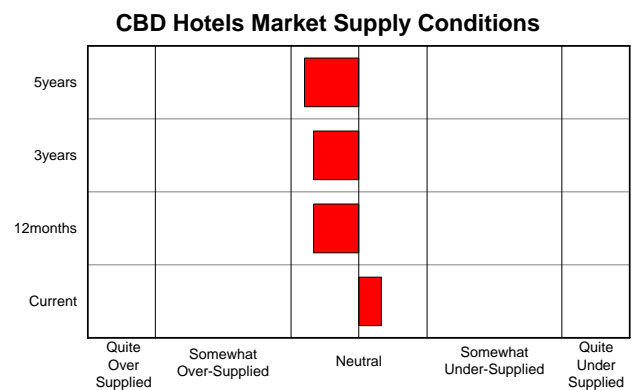
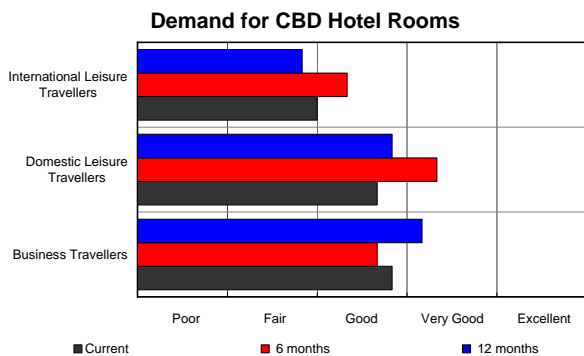
revPar growth slower in Q4 and outlook more conservative compared to Q3.

National occupancy decreased sharply in Q4 and expected to remain below average in next 1-2 years.



Demand from business travellers still good albeit lower than in Q3. Demand for rooms to be dominated by domestic leisure travellers in next 6 months.

Supply conditions improve in CBD hotel market. Supply now "neutral" and set to remain "neutral" in the next 5 years, after being "somewhat under-supplied" in Q3.



Tables

Survey Respondents Expectations: Q4 2013

Capital Values (%)

OFFICE	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q4'13	-0.9	0.6	-1.2	0.1	-0.6	-0.3
Q2'14	-0.4	1.4	-0.7	-0.6	0.3	0.2
Q4'14	1.0	2.5	0.3	0.1	0.5	1.2
Q4'15	1.6	3.4	1.2	-0.2	0.6	1.8
RETAIL	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q4'13	-1.2	-0.3	-0.5	-1.0	-0.9	-0.7
Q2'14	-0.6	-0.1	0.3	-1.0	0.0	-0.2
Q4'14	-0.5	-0.6	0.4	0.8	-1.0	-0.1
Q4'15	0.4	-0.7	1.9	0.7	1.8	0.5
INDUSTRIAL	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q4'13	-1.3	0.3	-0.6	-0.5	-0.6	-0.4
Q2'14	-0.8	0.6	0.2	0.0	-0.3	0.0
Q4'14	-0.8	1.7	2.4	1.1	0.5	1.2
Q4'15	-0.8	2.6	4.6	2.3	1.2	2.3

Gross Rents (%)

OFFICE	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q4'13	-1.1	0.0	-2.9	-1.8	-0.9	-1.2
Q2'14	-1.0	0.1	-1.6	-1.4	-1.2	-0.9
Q4'14	-0.7	0.5	-0.4	-1.1	-0.6	-0.4
Q4'15	0.9	1.2	0.4	-0.6	-1.8	0.3
RETAIL	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q4'13	-1.3	-0.2	-0.9	-0.5	-1.9	-0.7
Q2'14	-1.2	-0.7	-0.2	-0.3	-1.0	-0.6
Q4'14	-0.5	-0.6	0.4	0.8	-1.0	-0.1
Q4'15	0.4	-0.7	1.9	0.7	1.8	-0.5
INDUSTRIAL	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q4'13	-2.2	0.3	-1.2	-1.0	-0.6	-0.8
Q2'14	-1.8	0.6	0.0	0.2	-0.3	-0.1
Q4'14	-1.5	1.1	1.7	1.3	-0.5	0.7
Q4'15	-1.3	2.0	2.8	1.8	0.2	1.4

Vacancy Rates (%)

OFFICE	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q4'13	8.7	8.8	11.8	7.4	8.4	9.0
Q2'14	9.0	8.9	12.2	8.1	8.1	9.2
Q4'14	8.6	8.3	11.0	8.8	8.1	9.0
Q4'15	7.9	8.9	9.4	8.8	9.0	8.7
RETAIL	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q4'13	5.3	5.4	6.7	3.7	4.0	5.4
Q2'14	5.5	5.3	6.1	4.0	4.0	5.4
Q4'14	5.3	5.1	5.0	4.3	4.0	5.0
Q4'15	4.6	5.3	4.1	4.3	3.0	4.6
INDUSTRIAL	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q4'13	7.5	6.5	7.0	5.3	6.0	6.4
Q2'14	7.3	5.9	6.6	5.0	6.0	6.1
Q4'14	7.3	5.8	5.0	4.1	5.0	5.4
Q4'15	7.5	5.0	4.1	3.3	5.7	5.0

* Limited sample size

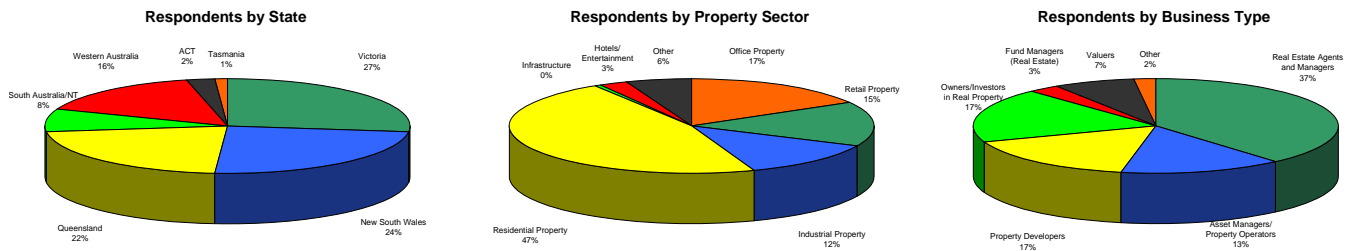
About the Survey

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 290 panellists participated in the Q4 2013 Survey and the breakdown of our Survey respondents - by location, property sector and business type - are shown below.



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