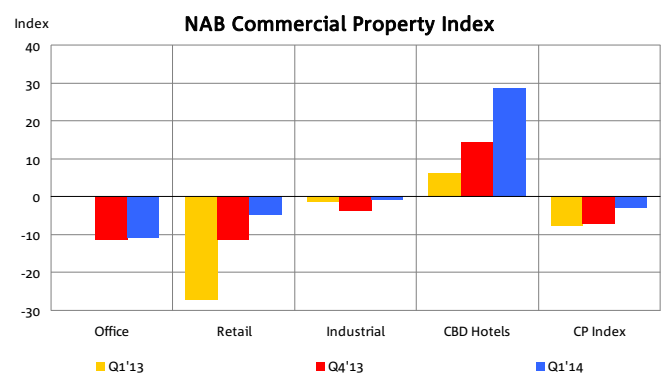
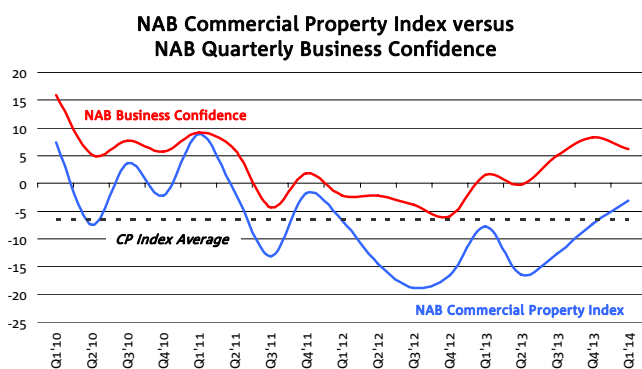


## Quarterly Australian Commercial Property Survey: Q1 2014

**NAB Commercial Property Index rises above long-term average, but overall still negative (-3 points) and below NAB Business Confidence. Sentiment stronger in all markets, except office (unchanged) and in all states (except NSW and WA). Forward expectations however softer. Outlook remains strongest for industrial and weakest for office. Qld still the most optimistic state and WA the most pessimistic (by some margin). Expectations for capital growth mildly positive in all sectors in next 1-2 years, led by CBD hotels and industrial. Modest income returns also forecast for all sectors in 2 years time, with best returns for industrial. While concerns over stock availability, interest rates and financial/economic volatility have eased, retaining/recruiting quality staff seen as a growing challenge over the next year.**

- ❑ NAB's Commercial Property Index rose from -7 to -3 points in Q1 2014 - its highest read since Q4 2011. Sentiment rose in all sectors except office (unchanged), with biggest improvements in CBD hotels and retail. Sentiment rose in most states (bar NSW and WA) with Qld big improver. Industrial most optimistic looking forward; office market least optimistic.
- ❑ Office sentiment down heavily in WA and negative in all states except NSW. Qld and Victoria to lead in next 1-2 years, with WA negative. CBD best location for office in all states, except Qld where Fringe preferred. "A" Grade best performing grade in all states bar WA, where "premium" out-performed. Capital values lower in all states bar NSW, with returns expected to be strongest in Victoria & NSW in next 2 years. Downward pressure on rents persisting in all states (as vacancy rises), especially in WA. All state office markets over-supplied (especially Qld).
- ❑ Retail sentiment improved but overall still negative. Expectations softer with retail spending still weak. Sentiment turned positive in Qld and Victoria, but Qld and WA most optimistic going forward. CBD best performing location for retail in Victoria. Neighbourhood best in SA/NT and Qld and regional best in NSW. Bulky goods worst in Victoria and SA/NT, with Strip worst in Qld. Qld only state to report capital returns in Q1, but outlook over next 1-2 years positive in most states except NSW and SA/NT, led by Qld. Qld also strongest for income returns in next 1-2 years.
- ❑ Industrial sentiment fell in manufacturing states (Victoria & SA/NT), while NSW & Qld most optimistic in 1-2 years. Capital values grew in NSW and Qld but fell in other states. Capital growth to resume in all states in next 1-2 years (bar Victoria), with returns strongest in Qld and NSW. Rents to grow in all states next year (except Victoria and WA) but all states positive in 2 years time, led by Qld. Industrial market viewed as "somewhat over-supplied" in Qld and Victoria.
- ❑ Majority of developers still planning to commence works in next 1-6 months, but there was also a notable rise in those planning to start in next 6-12 months. Housing market recovery has prompted more developers to look at starting residential projects, although more are also looking at retail and industrial. Bulk of new development to be underpinned by land-banked stock, although more developers also chasing new acquisitions.
- ❑ Debt and equity funding situation for developers deteriorated slightly in Q1 2014, with no material improvement anticipated in the next 6 months. Fewer developers intending to access capital in both short and long-term, while the average pre-commitment requirement to commence new developments fell again.
- ❑ Concerns over stock availability, interest rates and financial/economic volatility, abated in Q1 2014, but there was a big increase in the number identifying ability to recruit/retain quality staff as a critical challenge next year.



### NAB Commercial Property Index\*: Q1 2014

	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13	Q4'13	Q1'14	Q3'14	Q1'15	Q1'16
Office	-2	14	12	5	-14	-16	0	-17	-28	-11	-11	-3	16	31
Retail	-40	-36	-45	-43	-39	-46	-27	-30	-15	-11	-5	-1	18	33
Industrial	-12	-14	-17	-27	-11	-11	-2	-12	-4	-4	-1	12	37	56
CBD Hotels	21	63	57	19	6	58	6	17	39	14	29	29	43	43
<b>CP Index</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>-13</b>	<b>-7</b>	<b>-3</b>	<b>4</b>	<b>24</b>	<b>38</b>

\*The NAB Commercial Property Index is a weighted index of the four areas of Commercial Property measured in this survey: Office, Retail, Industrial and CBD Hotels. An index is calculated for each of these four areas by taking an average of the expected changes in capital values and gross rental prices and then weighting these according to their relative importance to the Commercial Property market as a whole.

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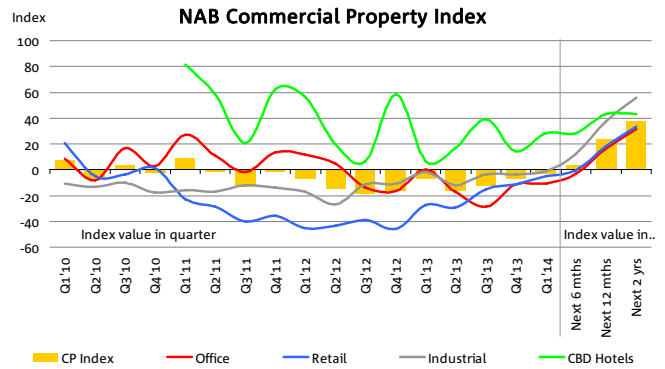
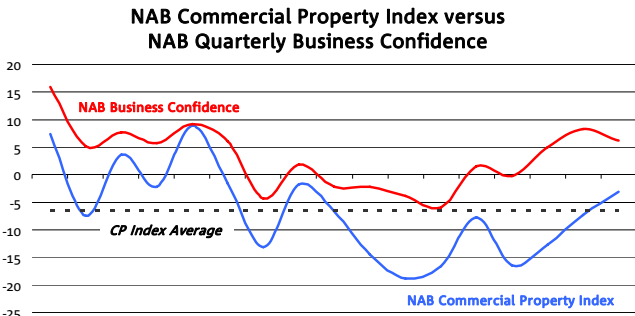
Robert De lure, Senior Economist - Industry  
Analysis (03) 8634 4611

Dean Pearson, Head of Industry  
(03) 8634 2331

# Commercial Property Market Overview

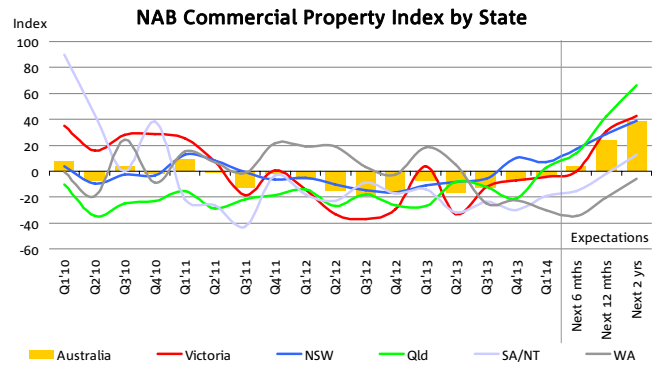
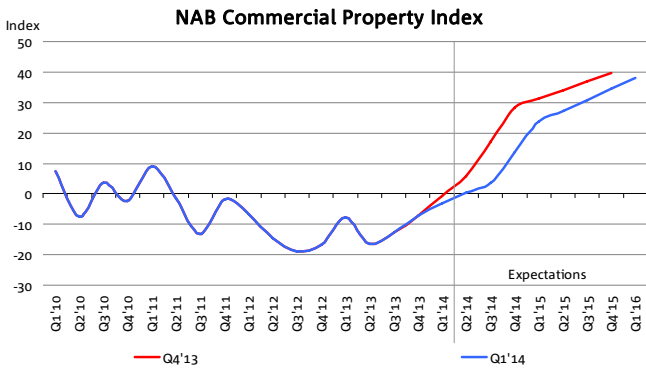
NAB Commercial Property Index rises above long-term average in Q1 2014, but still negative (-3 points) and tracking below quarterly business confidence.

Market sentiment up in all markets in Q1 2014, bar office (unchanged). Sentiment strongest in CBD Hotels sector, but industrial to lead in next 2 years.



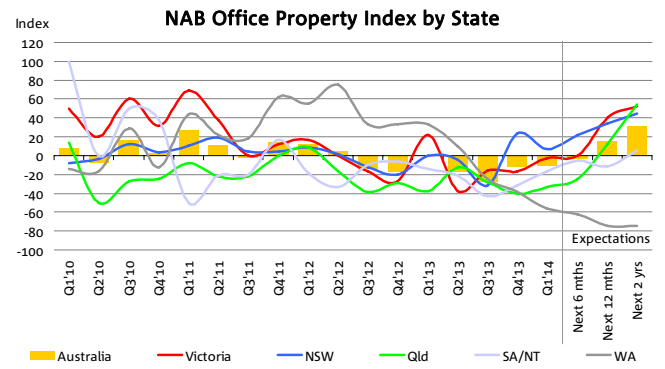
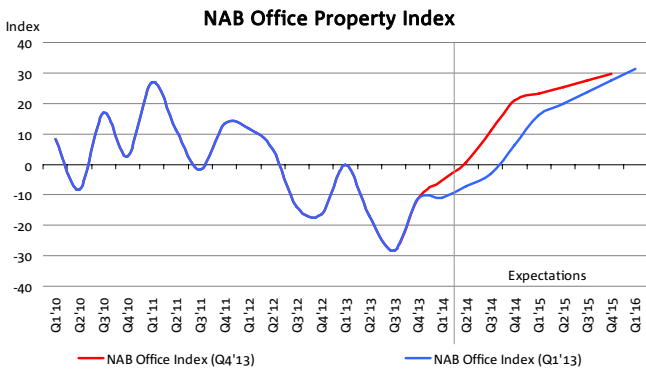
Forward expectations in the commercial property market pared back again in Q1 2014.

Sentiment up in all states, bar NSW and WA. Qld the big improver and most optimistic in next 1-2 years.



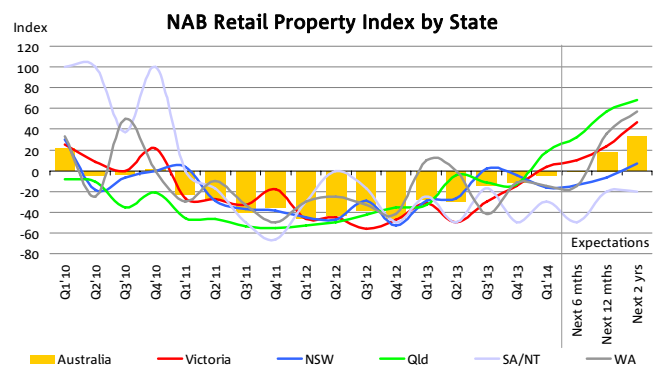
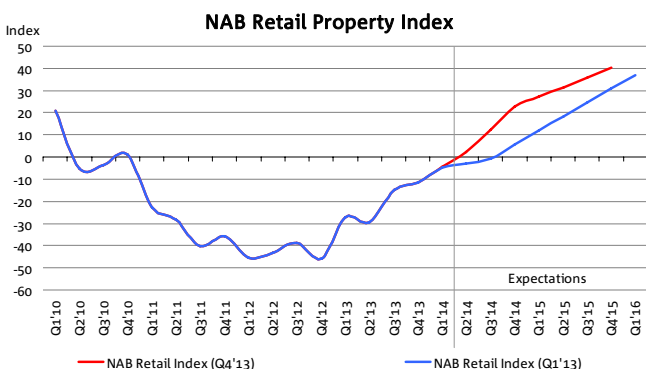
Office market sentiment tracks sideways in Q1 2014, while forward expectations weaken.

Office sentiment plummets in WA and set to fall further in next 1-2 years. Qld and VIC the standouts.

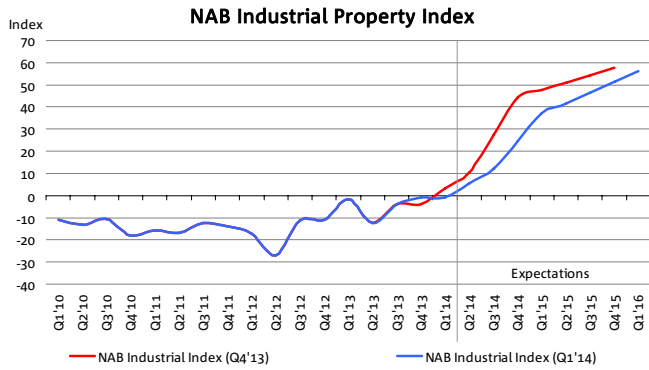


Retail sentiment up in Q1 but negative. Expectations soften as retail spending still weak.

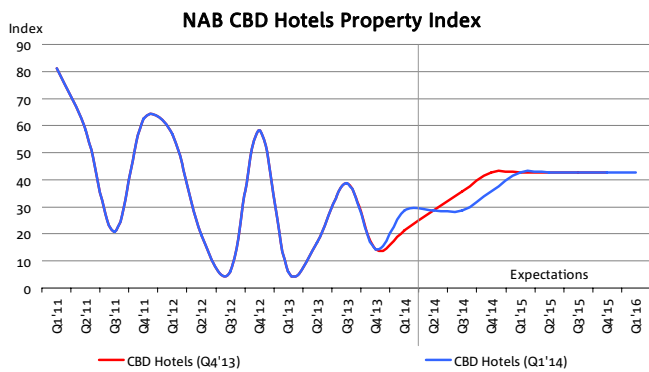
Retail sentiment turns positive in Qld and VIC in Q1 2014, but Qld and WA most optimistic going forward.



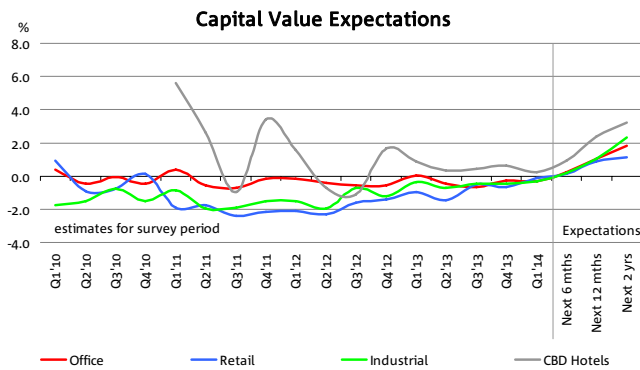
Sentiment in industrial market rises slightly in Q1 2014, but outlook softer compared to last survey.



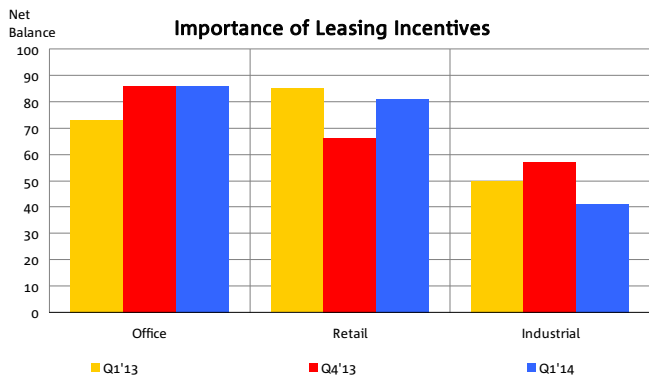
Sentiment in CBD hotel market rises in Q1 2014, but outlook for next 12 months less positive.



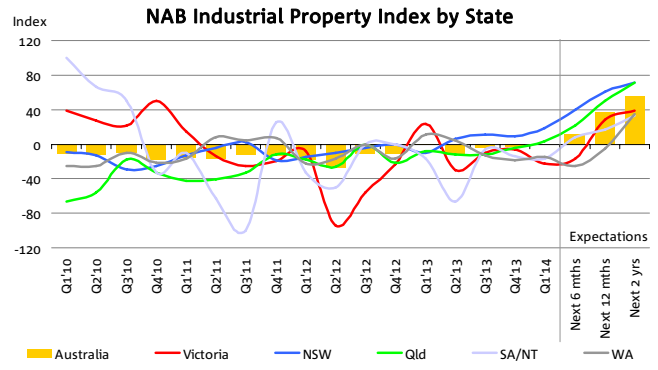
CBD hotels only sector reporting capital growth in Q1 2014, but positive returns expected across all sectors in next 1-2 years, led by CBD hotels and industrial.



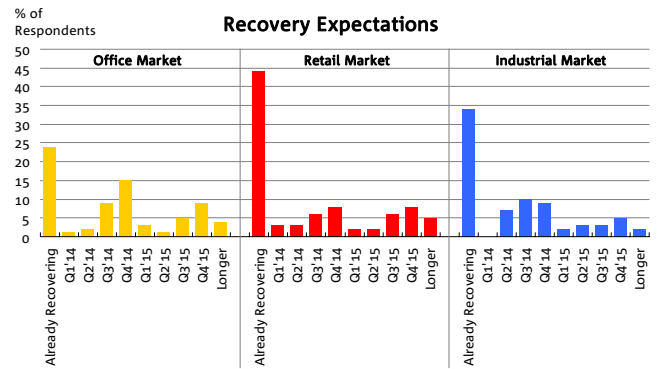
Leasing conditions are challenging, with incentives very important in office and up for retail property in Q1 2014. However, incentives down for industrial.



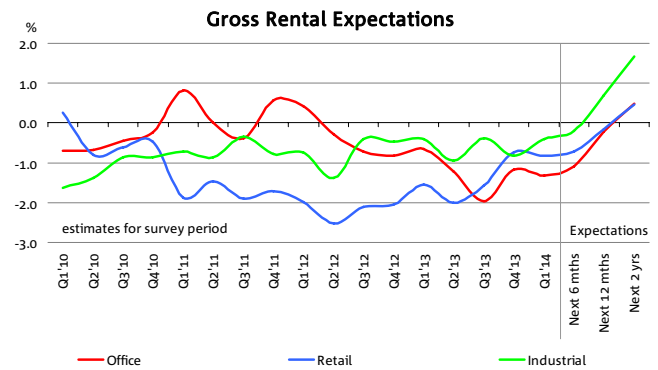
Industrial sentiment falls in manufacturing states (VIC & SA/NT). NSW & QLD most optimistic in 1-2 years.



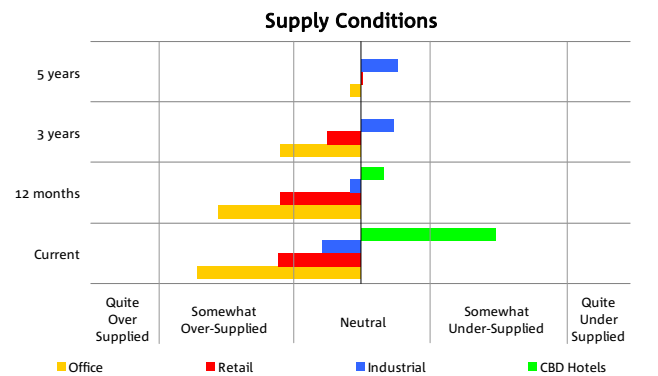
Industrial and retail property markets most advanced in current cycle, with office market lagging.



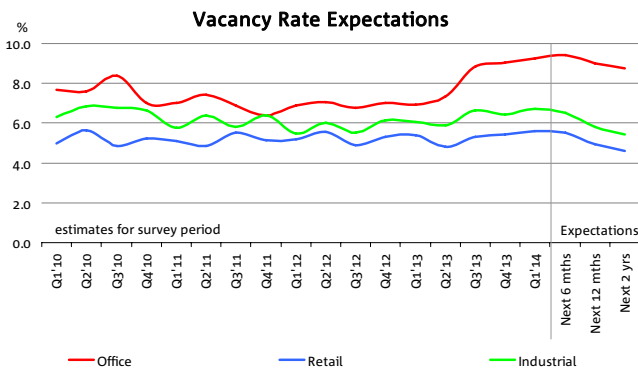
Rents fall in all sectors in Q1 2014, with office most subdued. Modest returns forecast for industrial next year, but retail and office also positive in 2 years.



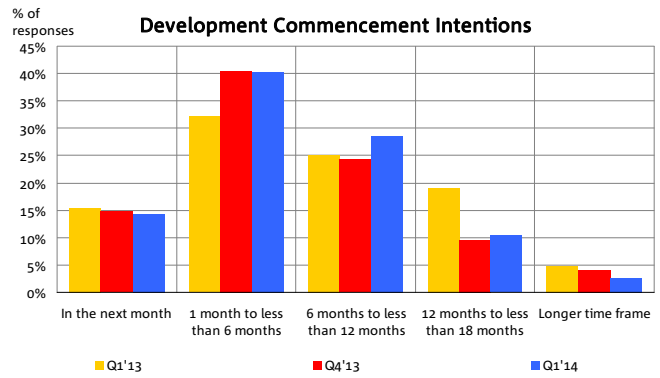
Over-supply prevalent in office and rising in retail, but CBD Hotels under-supplied. Over-supply to persist in office and retail over next 1-3 years.



Available space continues to rise in the office market in Q1 2014, with vacancy rates also drifting up in retail and industrial markets.

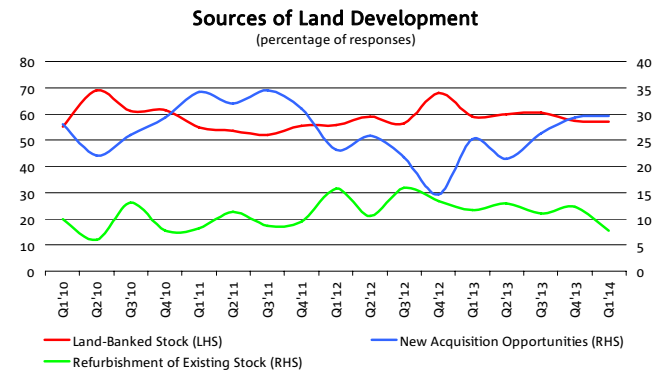
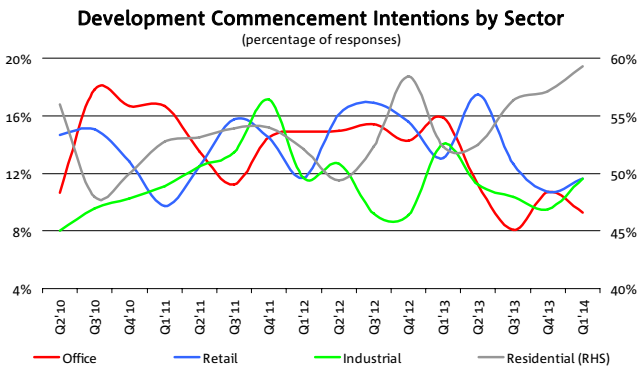


Majority of developers still planning to commence works in the 1-6 months, but also a notable increase in those planning to start in the next 6-12 months.



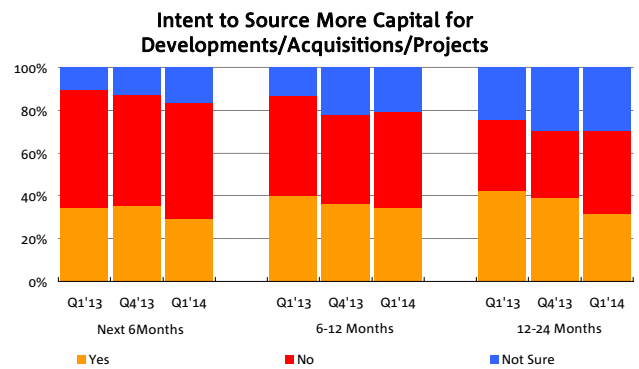
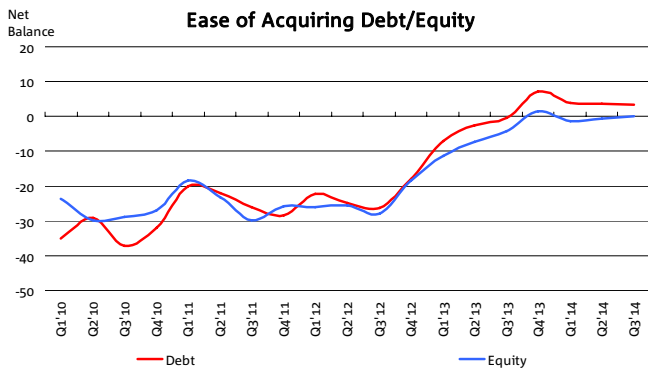
Housing market recovery prompting more developers to look at starting residential projects. More developers also looking at retail and industrial.

The bulk of new development expected to be underpinned by land-banked stock, although more developers also chasing new acquisitions.



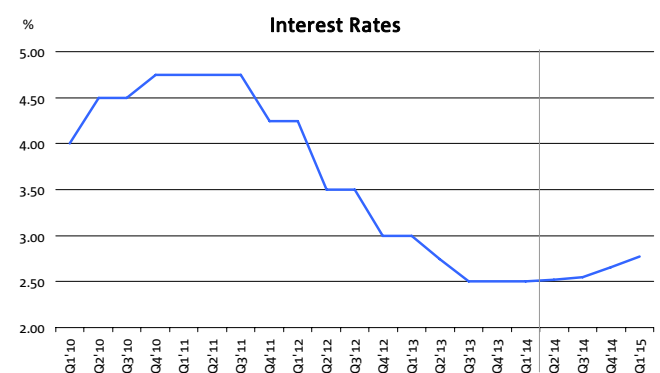
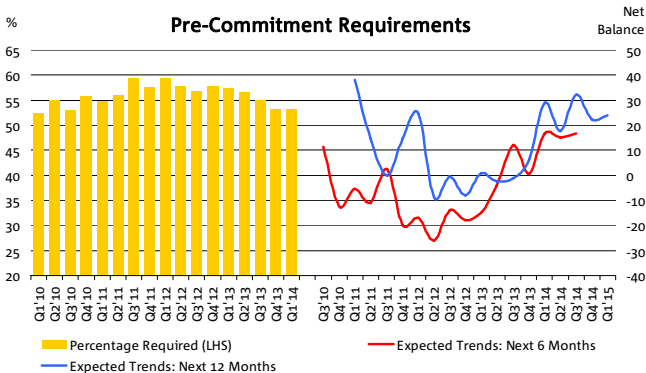
Debt and equity funding situation for developers deteriorated slightly in Q1 2014, with no material improvement anticipated over next 6 months.

Fewer developers intending to access capital in both short and long-term. Higher proportion of "not sure" responses suggests more uncertainty in the market.



Average pre-commitment requirements falling.

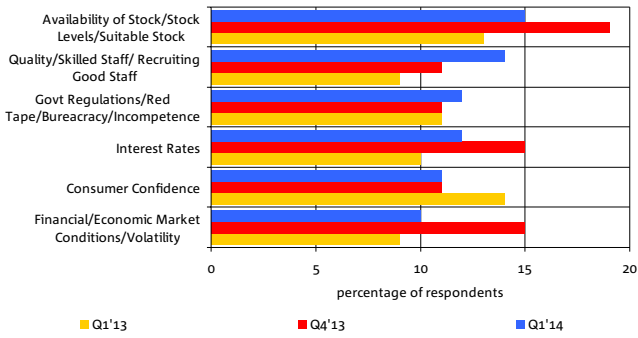
Survey suggests interest rate cutting cycle has ended.



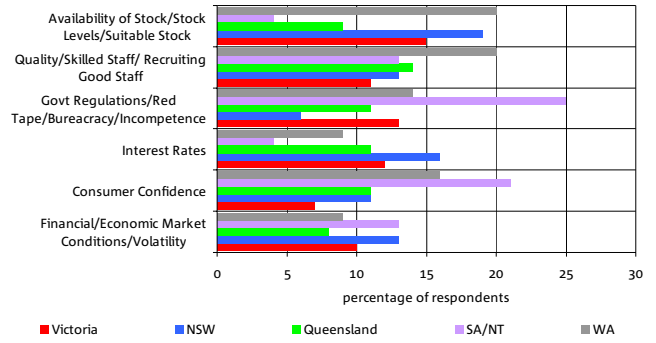
Concerns abate over stock availability, interest rates and financial/economic volatility, but growing over ability to recruit quality staff.

Stock concerns highest in WA, NSW and Victoria. Qld most concerned about staff, with SA/NT most worried about government and consumer confidence.

**Critical Challenges Over Next 12 Months**



**Critical Challenges Over Next 12 Months: States**



## Tables

## Survey Respondents Expectations: Q1 2014

## Capital Values (%)

OFFICE	Victoria	NSW	Qld	WA	SA/NT*	AUSTRALIA
Q1'14	-0.3	0.7	-1.0	-2.6	-0.2	-0.3
Q3'14	0.1	1.2	0.2	-1.9	0.0	0.2
Q1'15	1.4	1.9	1.6	-1.3	-0.5	1.0
Q4'16	2.8	2.5	2.7	-1.6	0.0	1.8

RETAIL	Victoria	NSW	Qld	WA	SA/NT*	AUSTRALIA
Q1'14	-0.1	-0.9	1.1	0.0	-0.4	-0.1
Q3'14	0.3	-0.9	1.7	0.0	-0.7	0.1
Q1'15	0.8	-0.3	2.8	1.1	0.1	0.9
Q4'16	1.4	-0.5	3.3	1.6	-0.4	1.1

INDUSTRIAL	Victoria	NSW	Qld	WA	SA/NT*	AUSTRALIA
Q1'14	-1.4	0.8	0.1	-0.9	-2.1	-0.3
Q3'14	-1.3	1.3	0.4	-0.8	0.4	0.2
Q1'15	-0.5	1.9	1.9	-0.2	0.4	1.0
Q4'16	-0.3	3.6	3.0	1.3	1.9	2.3

## Gross Rents (%)

OFFICE	Victoria	NSW	Qld	WA	SA/NT*	AUSTRALIA
Q1'14	-1.1	-0.4	-2.3	-3.7	-0.7	-1.3
Q3'14	-0.9	-0.1	-2.4	-3.6	-0.2	-1.1
Q1'15	0.3	0.8	-0.8	-3.4	-0.5	-0.2
Q4'16	1.5	1.3	1.1	-4.0	-0.3	-0.5

RETAIL	Victoria	NSW	Qld	WA	SA/NT*	AUSTRALIA
Q1'14	-1.0	-1.0	0.0	-1.5	-0.7	-0.8
Q3'14	-1.0	-0.9	0.4	-1.5	-1.1	-0.7
Q1'15	-0.8	-1.1	1.3	0.5	0.1	-0.2
Q4'16	0.2	-0.3	1.8	1.0	-0.4	0.5

INDUSTRIAL	Victoria	NSW	Qld	WA	SA/NT*	AUSTRALIA
Q1'14	-1.4	0.1	-0.3	-0.8	0.0	-0.4
Q3'14	-1.4	0.4	0.3	-0.8	0.0	-0.2
Q1'15	-0.3	1.0	1.6	-0.2	0.4	0.7
Q4'16	0.7	1.9	2.8	0.6	0.9	1.7

## Vacancy Rates (%)

OFFICE	Victoria	NSW	Qld	WA	SA/NT*	AUSTRALIA
Q1'14	8.4	8.7	11.0	9.0	10.4	9.3
Q3'14	8.2	8.7	11.4	9.6	11.3	9.4
Q1'15	7.8	8.1	9.7	11.3	11.0	9.0
Q4'16	6.9	8.1	9.4	10.7	11.9	8.7

RETAIL	Victoria	NSW	Qld	WA	SA/NT*	AUSTRALIA
Q1'14	4.6	6.3	6.1	4.2	6.2	5.6
Q3'14	4.4	6.6	5.9	4.2	6.2	5.5
Q1'15	3.4	6.3	5.2	4.2	5.8	4.9
Q4'16	3.3	5.7	4.7	3.8	6.2	4.6

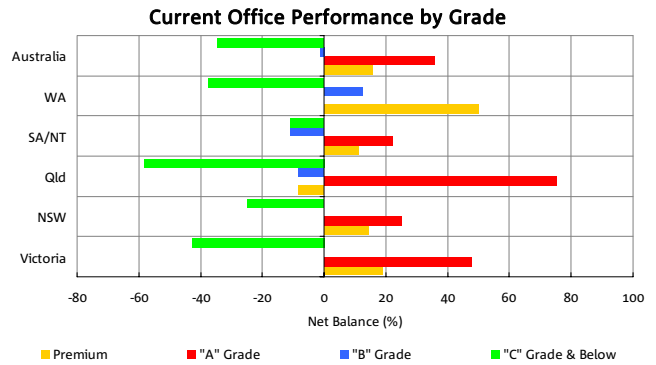
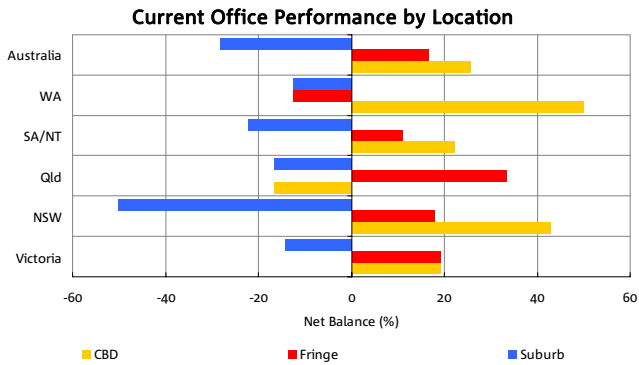
INDUSTRIAL	Victoria	NSW	Qld	WA	SA/NT*	AUSTRALIA
Q1'14	7.0	7.3	7.2	5.0	7.0	6.7
Q3'14	6.7	6.5	6.8	5.9	6.6	6.5
Q1'15	7.3	5.3	5.2	5.8	6.6	5.8
Q4'16	7.3	4.8	4.5	5.5	6.6	5.4

\* Limited sample size

## Appendix 1: Office Property Market

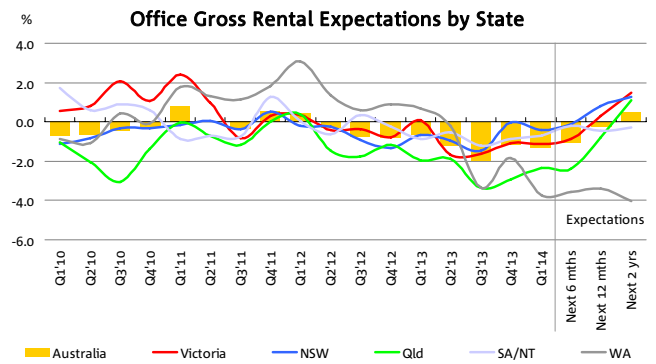
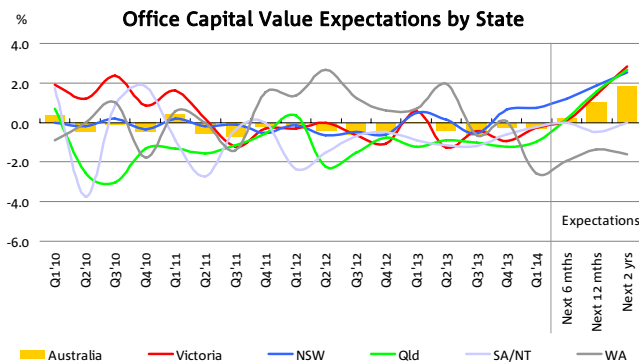
CBD the best performing location for office property in all states, except Qld where Fringe was preferred. Suburban office property least preferred in all states.

"A" Grade stock seen as best performing grade of office property in all states except WA, where Premium property out-performed.



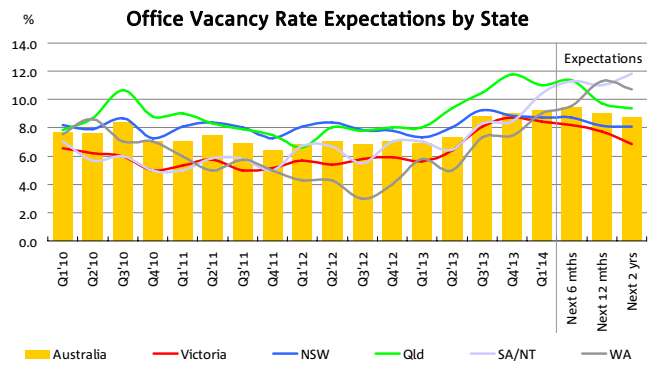
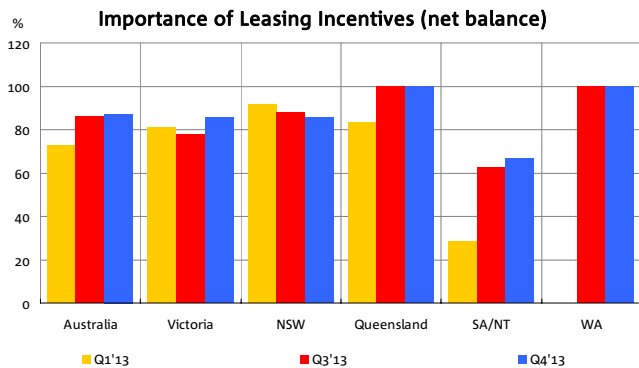
Capital values fell in all states bar NSW. Returns strongest in VIC & NSW in next 2 years. WA negative.

Downward pressure on rents persisting in all states, especially in WA where vacancy rising quickly.

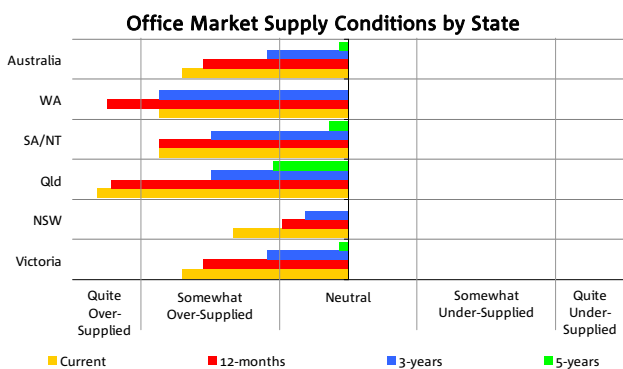


Leasing incentives important in all state markets, but especially in Qld and WA.

Vacancy up sharply in SA/NT and WA in Q1 2014, with upward trend to persist over next 1-2 years.

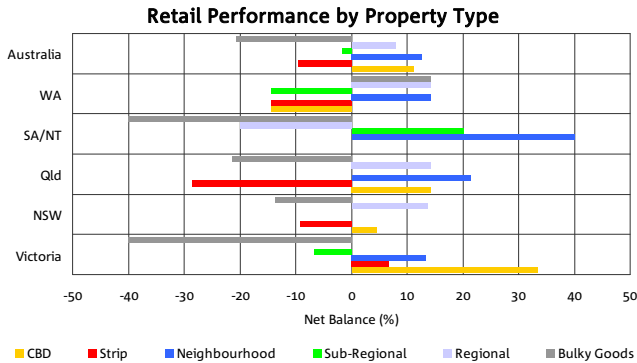


All state markets over-supplied (especially Qld) and expected to remain so in next 1-3 yrs (except NSW).

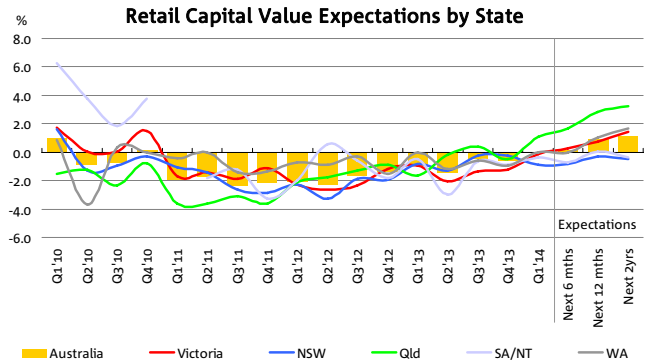


## Appendix 2: Retail Property Market

CBD seen as best performing location for retail property in Victoria, while neighbourhood the best in SA/NT and Qld and regional the best in NSW. Bulky goods the worst in Victoria and SA/NT, with Strip retail the worst in Qld.

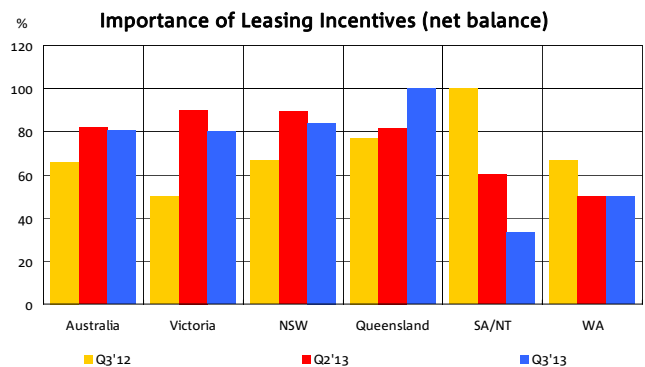
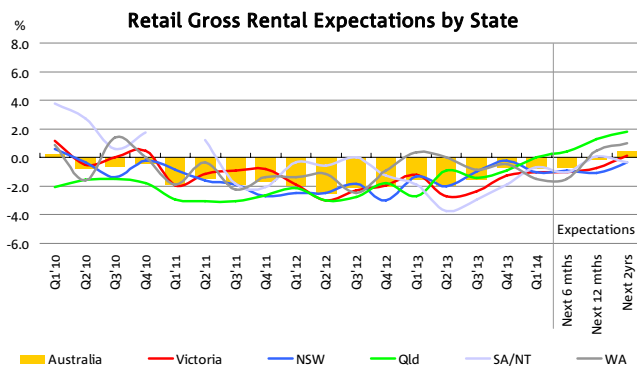


Qld the only state to report capital returns for retail property in Q1 2014. However, outlook for capital growth over the next 1-2 years positive in all states except NSW and SA/NT. Highest returns forecast in Qld.



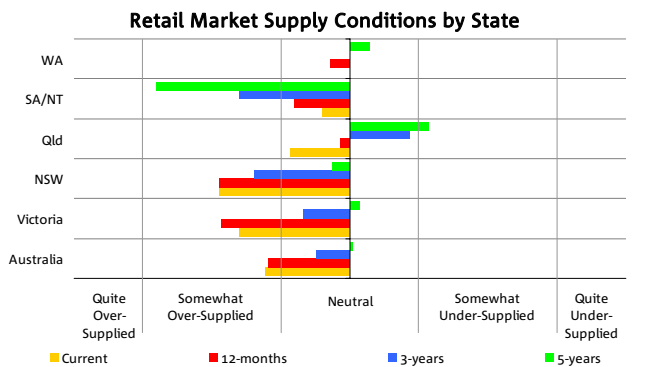
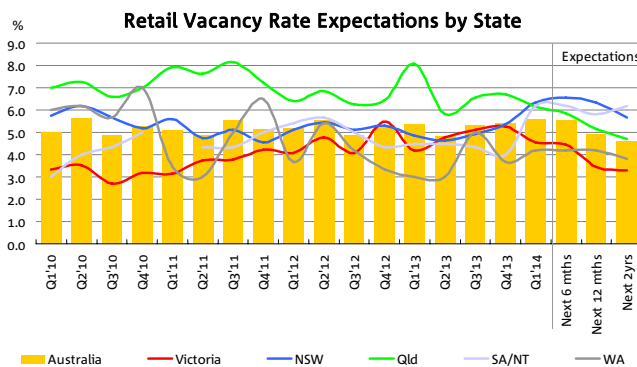
Expectations for rents deteriorated in NSW and WA in Q1 2014. Some improvement seen in other states, but overall still negative, except Qld (flat). Rental growth to resume in Qld, WA and SA/NT next year, with outlook weakest in Victoria. Qld to lead the country for income returns in next 1-2 years.

Leasing incentives in the retail property market seen as less important in all states except Qld and WA in Q1 2014. Despite the having best outlook for rents, leasing incentives are also seen as being most important in Qld. Incentives reduced most in SA/NT, Victoria and NSW.



The retail vacancy rate climbed sharply in SA/NT, with an increase in available space also reported in NSW and WA in Q1 2014. Vacancy rates are however expected to drift down in all states over the next 1-years, except in SA/NT.

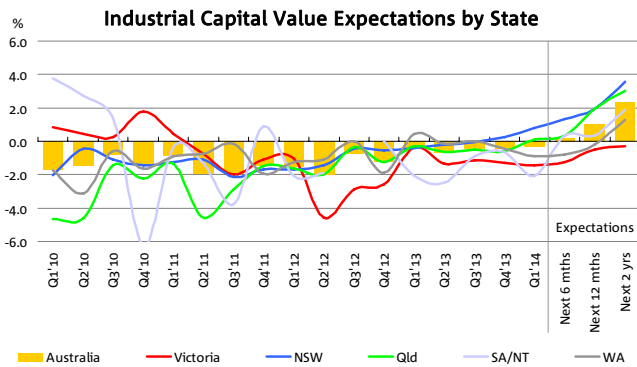
Retail property market seen as "somewhat over-supplied in NSW and Victoria in Q1 2014. Market in NSW to remain over-supplied in next 1-3 years, but supply shortages to begin emerging in Qld in the next 5 years.



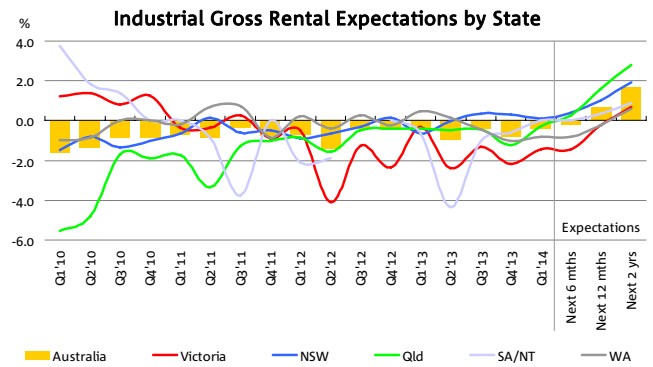


## Appendix 3: Industrial Property Market

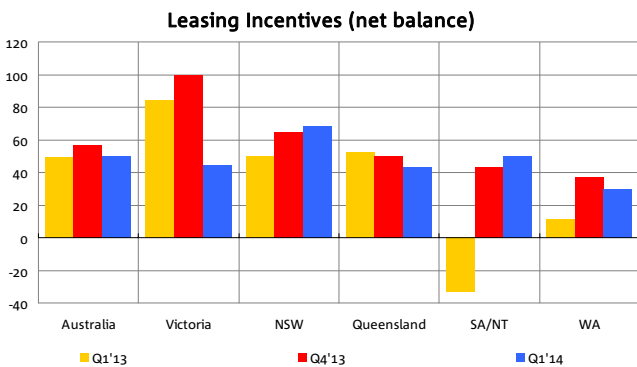
Capital values for industrial property grew in NSW and Qld in Q1 2014 and fell in all other states, with the biggest falls seen in the manufacturing states of SA/NT and Victoria. Capital growth to resume in all states over next 1-2 years (except Victoria), with returns strongest in Qld and NSW.



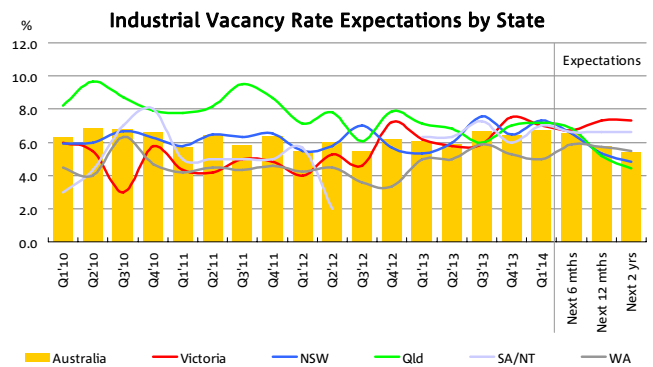
Victoria identified as the weakest state for rental returns in Q1 2014, with NSW the strongest and the only state to report positive returns. Industrial rents are expected to grow in all states next year, except Victoria and WA, but all states reporting positive growth in 2 years time, with Qld most optimistic.



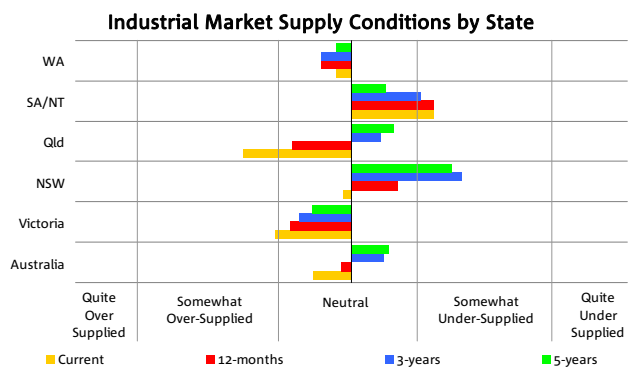
Leasing incentives in the industrial property market assessed as much less important in Victoria. Incentives were also lower in Qld and WA, but higher in NSW and SA/NT.



Vacancy rates rise in all states except Victoria and WA in Q1 2014, although available space still historically elevated in both states. Vacancy rates to fall in all markets except Victoria over next 1-2 years.

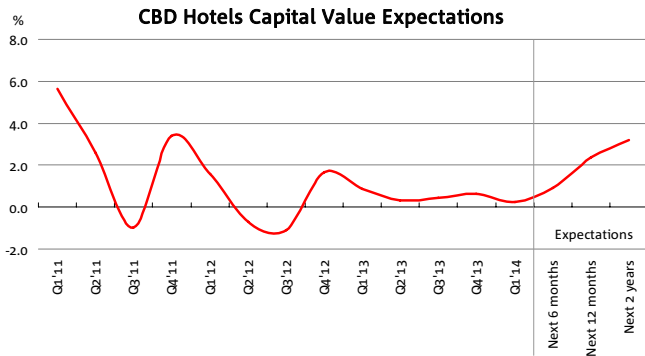


Industrial property markets currently viewed as "somewhat over-supplied" in Qld and Victoria and balanced in the other main markets. Key markets to remain "neutral" in long-term, except NSW where market expected to be "somewhat under-supplied".

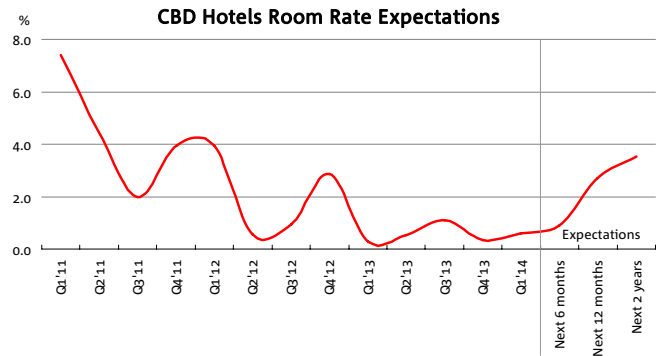


## Appendix 4: CBD Hotel Market

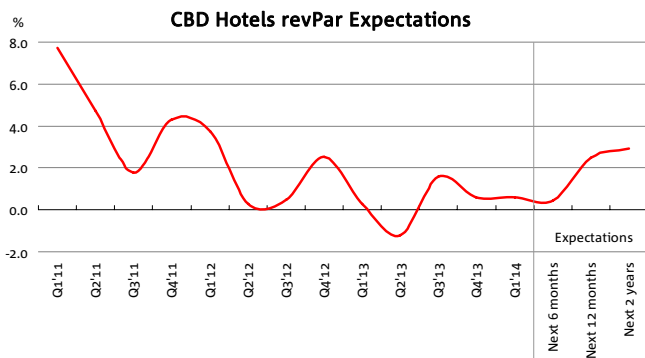
Capital value growth for CBD Hotels slowed modestly in Q1 2014, but expectations for future capital growth over the next 1-2 years have strengthened.



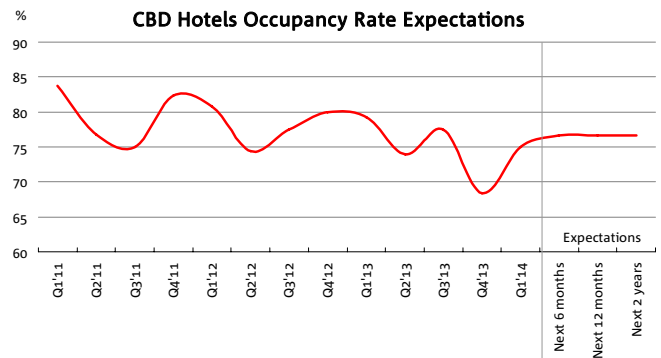
Room rate growth picked up in Q1 2014 as occupancy rates improved. Expectations for room rate growth also revised up in the next 1-2 years.



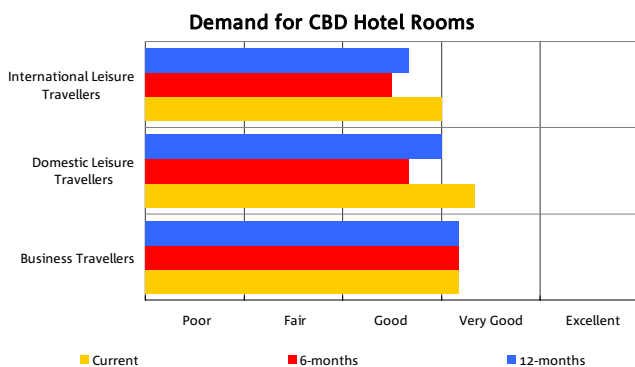
revPar growth remained steady in Q1 2014, but outlook for revPar over the next 1-2 years stronger compared to previous survey.



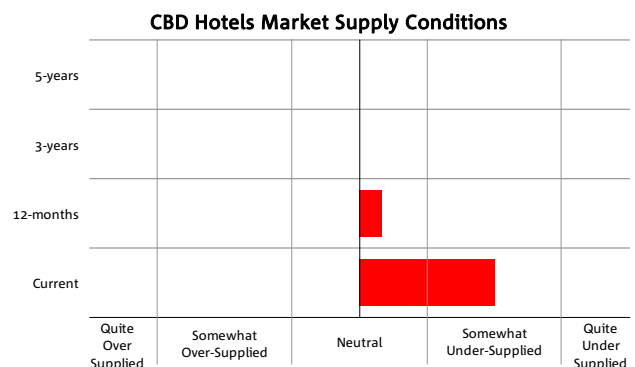
National occupancy rate increased sharply in Q1 2014 supported by stronger room demand from both domestic and international tourists.



Demand for CBD Hotel rooms seen as strongest among domestic leisure travellers, but also assessed as “very good” for business and international leisure travellers. Demand for CBD hotel rooms expected to be dominated by business travellers in next 6-12 months.



The CBD Hotel market is currently assessed as “somewhat over-supplied”, reflecting a combination relatively modest supply additions in recent years and high occupancy rates. Survey respondents estimate that the market will return to “neutral” conditions in the next year.

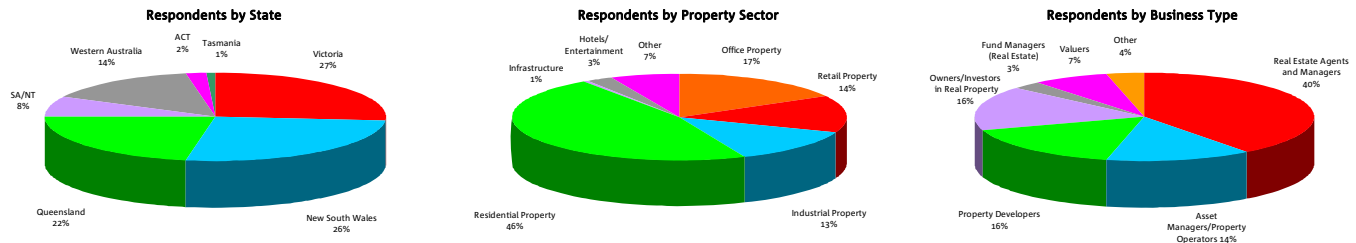


## About the Survey

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.

Around 310 panellists participated in the Q1 2014 Survey and the breakdown of our Survey respondents - by location, property sector and business type - are shown below.



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