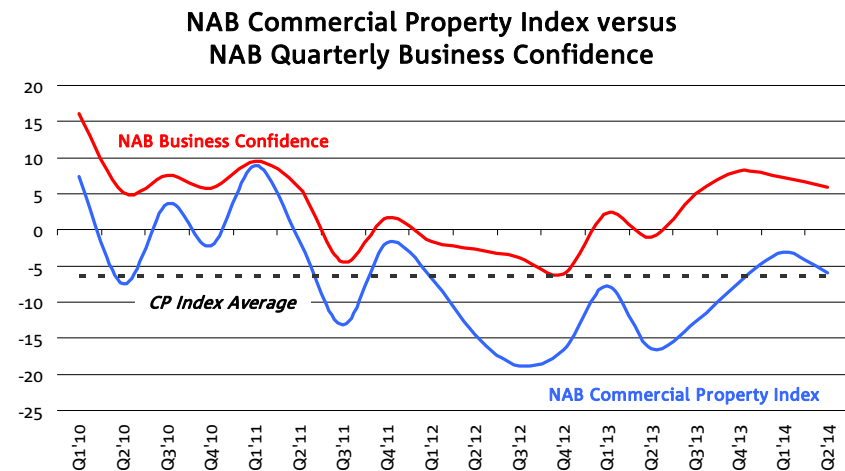
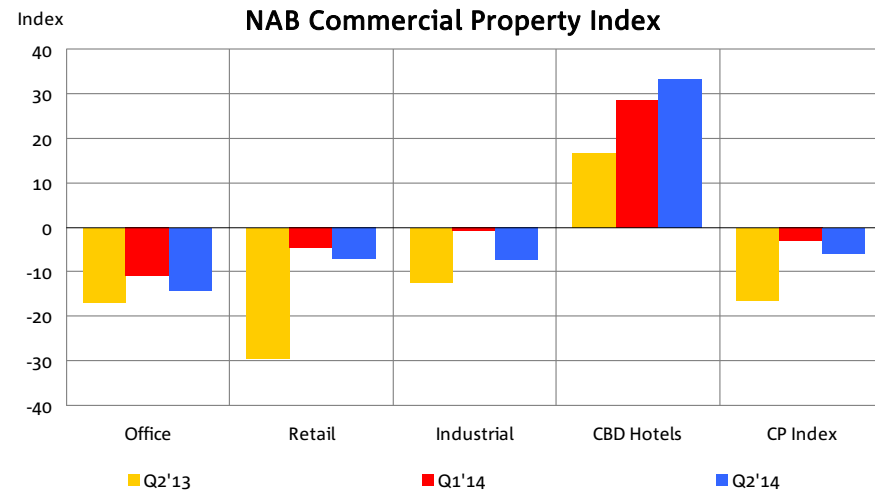


NAB Commercial Property Survey - Market Overview Q2 2014



Summary

- NAB Commercial Property Index fell -3 to -6 points in Q2 and continues to track below business confidence, with sentiment weaker in all markets bar CBD hotels.
- Forward expectations also softer for office and industrial property, but stronger for CBD hotels and retail (marginally).
- Overall sentiment negative in all states (especially WA and to a lesser extent Victoria). NSW tipped to replace Queensland as the most optimistic state in the next 2 years, with WA significantly lagging national average.
- Capital values fell in all property sectors (except CBD hotels), with rents also falling faster (led by office).
- Capital growth expectations are positive in all sectors in the next 1-2 years, led by CBD hotels.
- Modest income returns forecast in all sectors in 2 years time, except office where average vacancy rate set to remain elevated and over-supply to persist.
- Property firms now most concerned about stock availability, especially in Victoria, but concerns over government red tape / regulation / bureaucracy and consumer confidence also rising.
- **More detail on the Office, Retail, Industrial & CBD Hotels market is available upon request.**



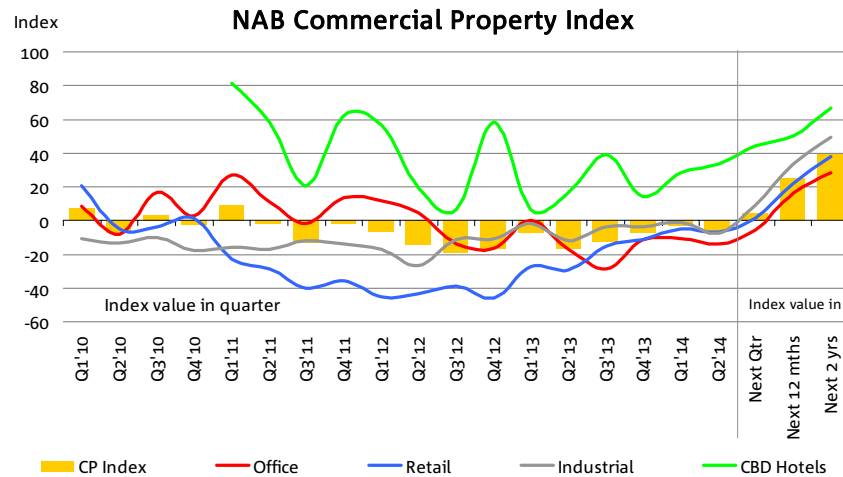
Alan Oster
Chief Economist
(03) 8634 2927 0414 444 652

Robert De Iure
Senior Economist - Industry
(03) 8634 2331

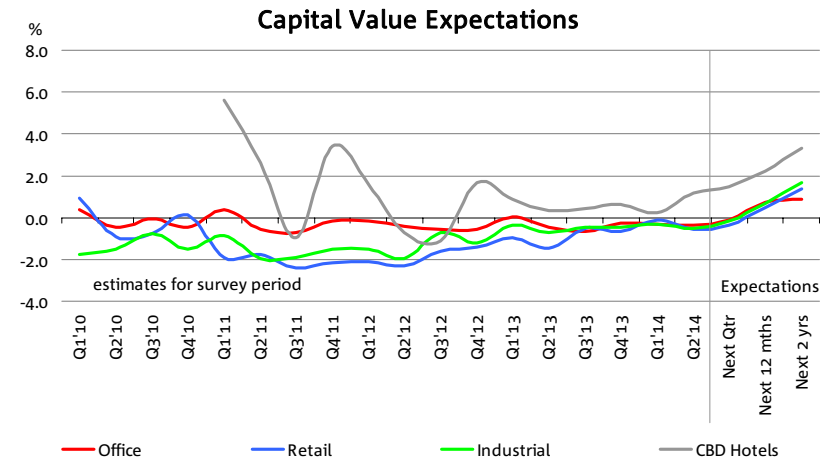
Dean Pearson
Head of Industry Analysis
(03) 8634 2331

Market Overview - Index, By State, Capital Value & Vacancy Expectations

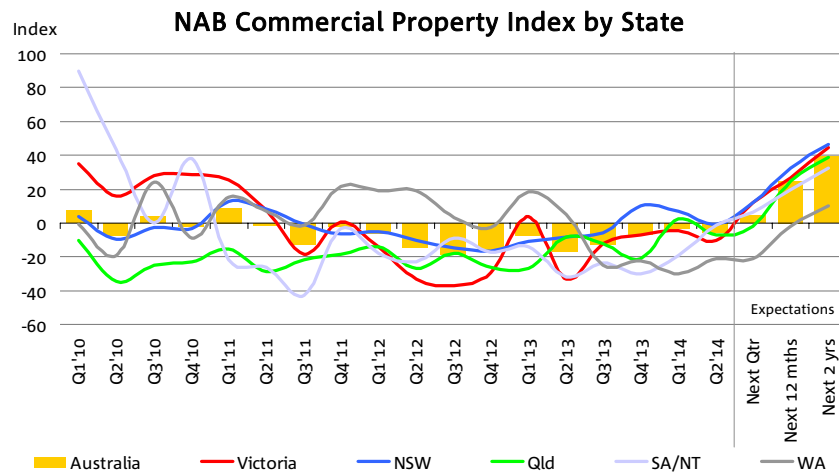
Market sentiment expected to remain strongest for CBD hotels in the next 1-2 years, followed by industrial. Office weakest.



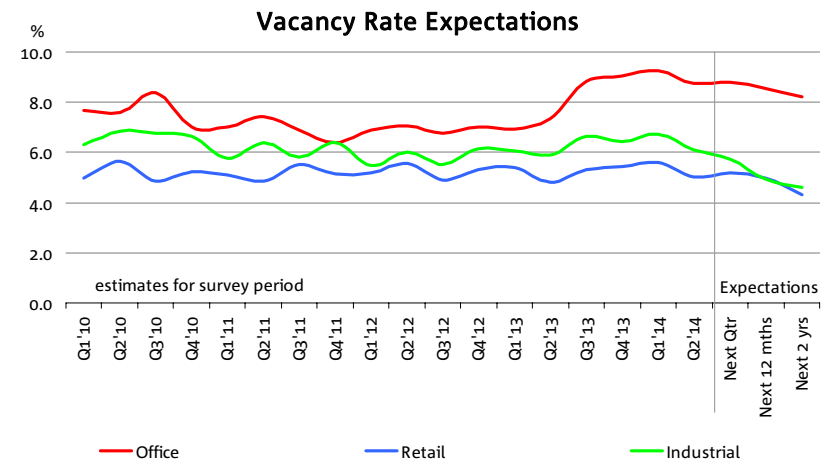
Capital values fell in all sectors in Q2, except CBD hotels. Growth to resume in all markets in next 1-2 years, led by CBD hotels.



Sentiment negative in all states in Q2 (especially WA). NSW replaces Queensland as the most optimistic state in 2 years time.

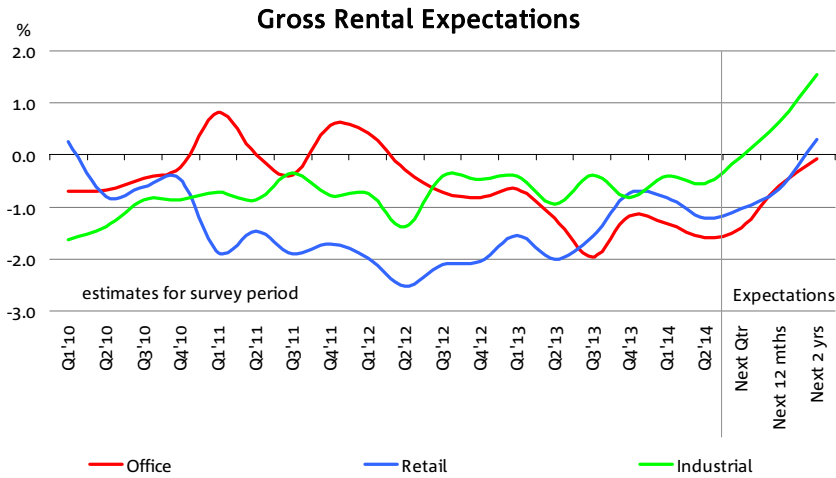


Vacancy rates marginally down in office in Q2 but still elevated. Vacancy to drift down in retail and industrial in next 1-2 years.

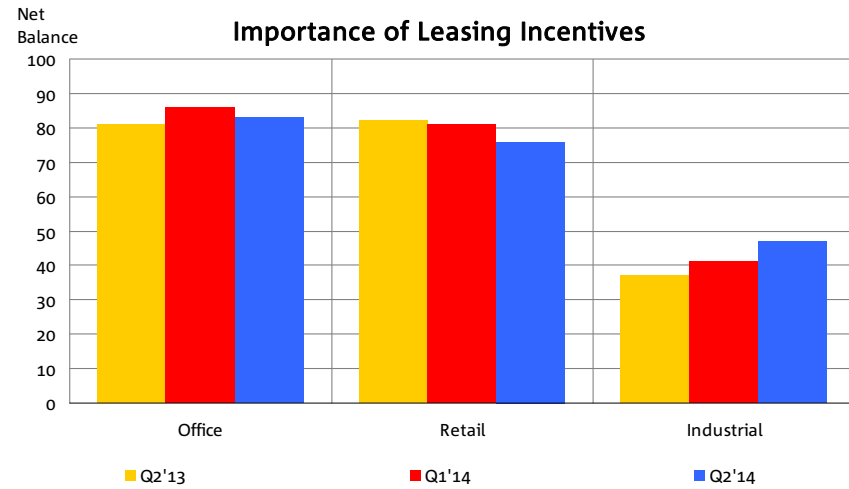


Market Overview - Rental & Recovery Expectations, Incentives & Supply

Rents fell further in Q2, with returns weakest for office. Outlook strongest for industrial in next 1-2 years; office & retail subdued.



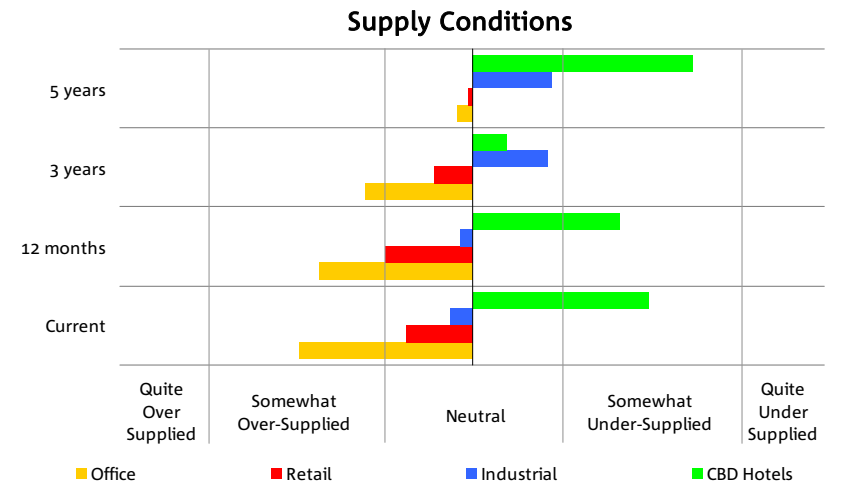
Leasing incentives very important in office and retail (but lower than in Q1). Incentives higher for industrial, but lowest overall.



Majority of survey participants indicate all markets already recovering, with industrial most advanced in the current cycle.

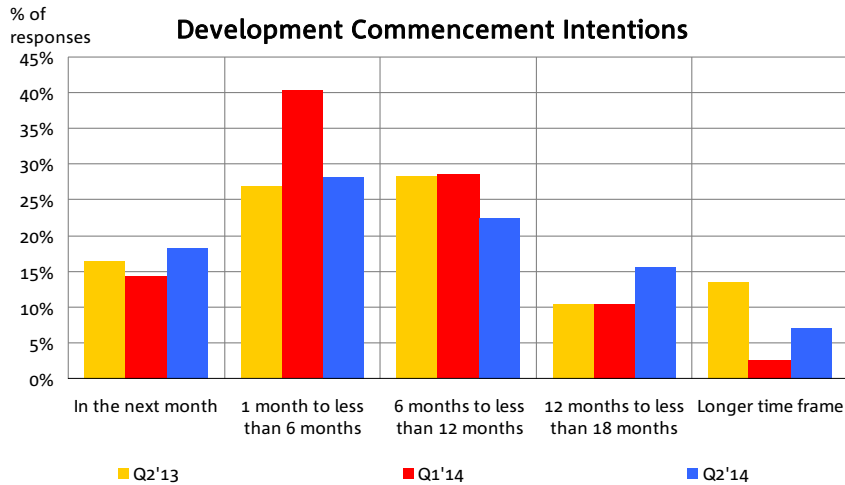


Over-supply of office space in next 1-3 years. Retail and industrial broadly neutral, but CBD hotels "somewhat" under-supplied.

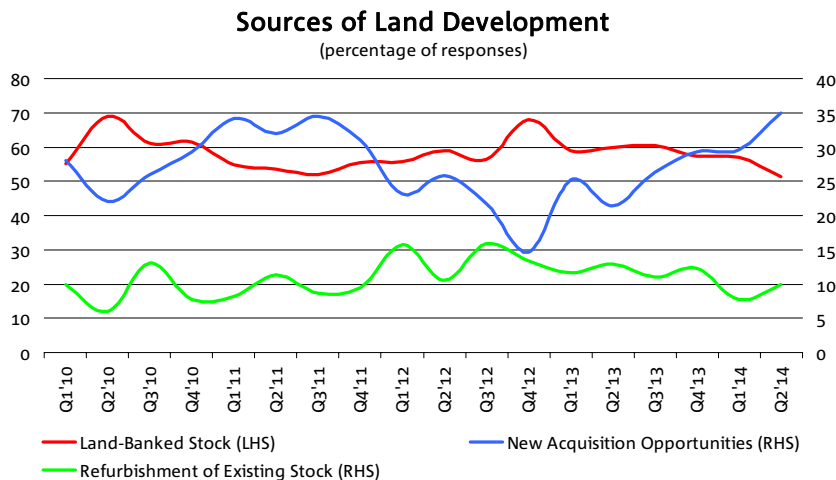


Market Overview - New Development Intentions, Sources of Land & Funding

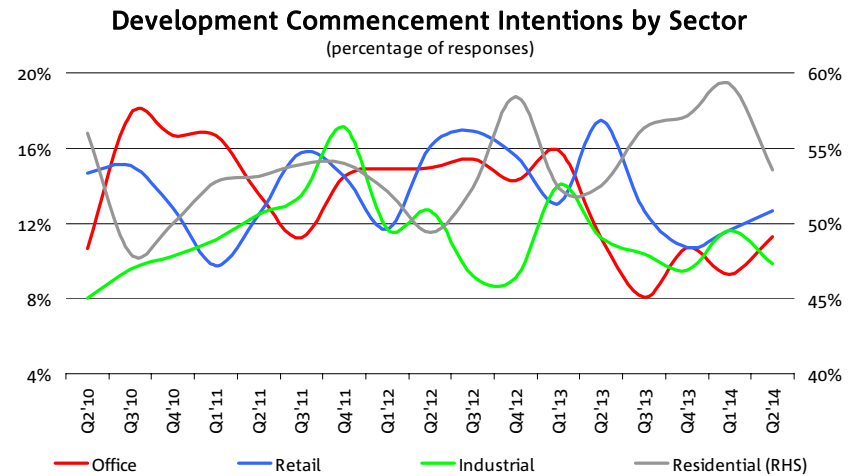
Fewer developers (46%) planning to start new works in next 1-6 months, while more (23%) pushing out their development plans beyond 12 months.



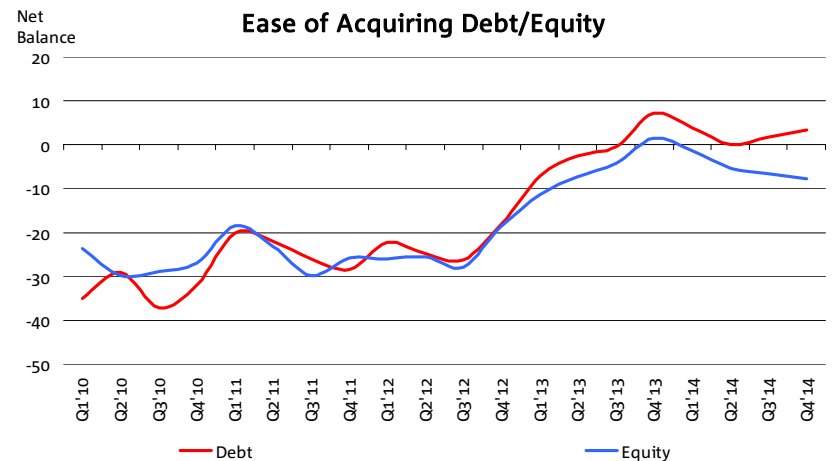
Around 51% of new developments expected to be underpinned by land-banked stock (lowest since early-2010), as more developers (35%) look at new acquisitions.



Number of developers looking to start new residential projects (54%) at its lowest level since mid-2013. However, more looking at new retail (13%) and office (11%) projects.

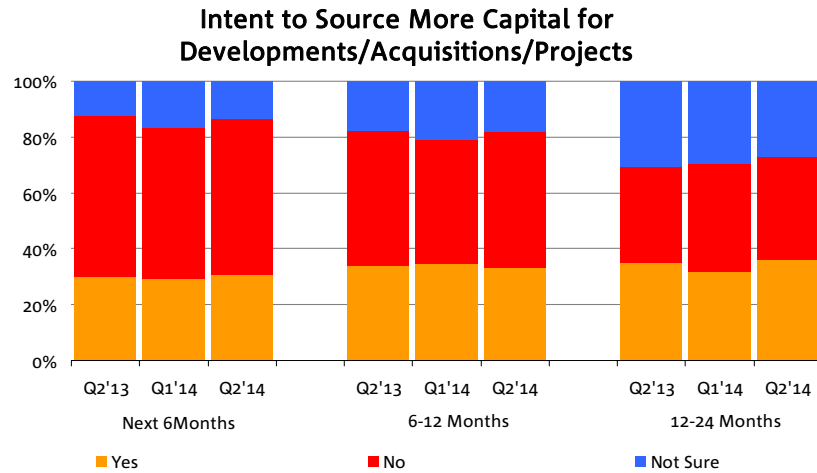


Debt and equity funding situation for developers deteriorated in Q2. Debt funding to improve slightly over next 6 months, but equity situation expected to worsen somewhat.

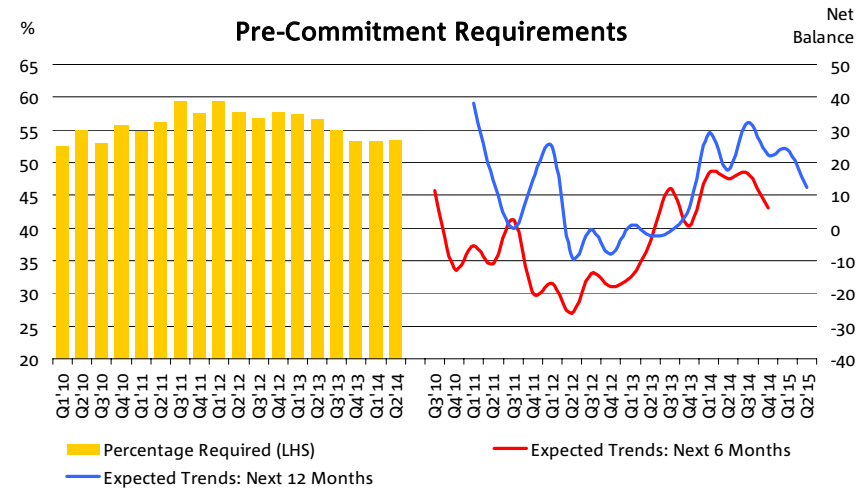


Market Overview - Capital Intentions, Pre-Commitments, Interest Rates, Challenges

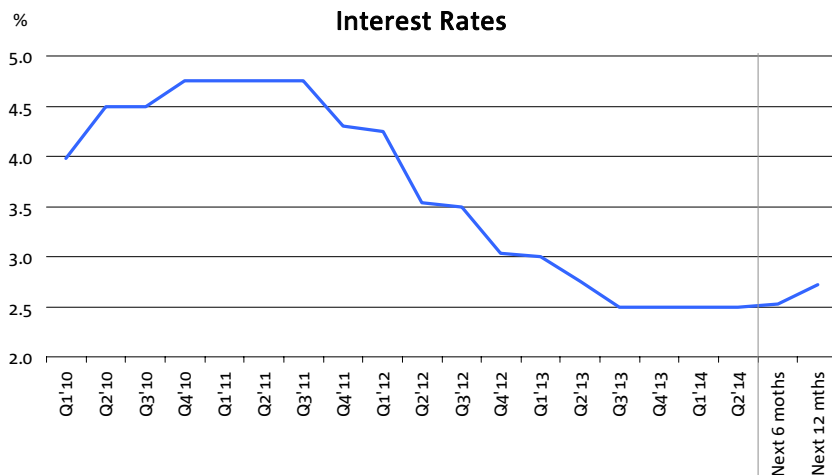
More developers (36%) intending to access capital in long-term, consistent with plans to commence more works over the next 12+ months.



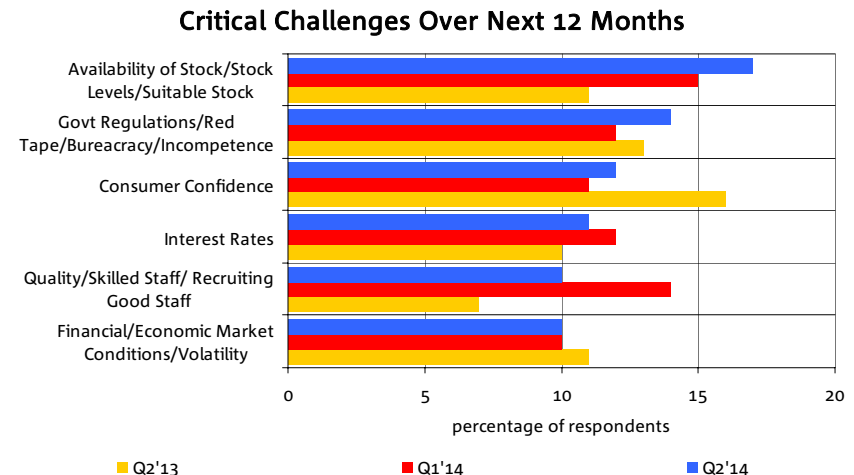
Average pre-commitment percentage required to meet external debt funding requirements for new developments was slightly higher in Q2 (53.5%), but is expected to fall in next 6 months.



On average, survey expect interest rates to rise 25 bps over the next year.



Property firms most concerned over stock availability, but worries over gov't red tape/regulation & consumer confidence also rising.



Market Overview - Survey Respondents Expectations: Q2 2014

Office Capital Values (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'14	-0.3	0.6	-1.7	-2.1	-1.3	-0.4
Q3'14	0.0	1.0	-1.4	-2.5	-0.6	-0.1
Q2'15	0.6	2.1	-0.8	-1.8	-0.7	0.7
Q2'16	1.0	2.6	-0.6	-3.1	-0.7	0.9

Office Rents (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'14	-1.0	-1.1	-3.2	-3.4	-0.6	-1.6
Q3'14	-1.1	-0.7	-3.0	-3.4	-0.6	-1.4
Q2'15	-0.3	0.5	-2.2	-3.8	-0.3	-0.6
Q2'16	0.5	1.0	-1.4	-3.1	-0.8	-0.1

Retail Capital Values (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'14	-0.8	-1.3	0.2	0.4	1.2	-0.6
Q3'14	-0.6	-1.3	0.7	0.4	1.8	-0.3
Q2'15	0.1	-0.2	1.0	1.8	2.4	0.5
Q2'16	1.0	0.9	1.9	2.3	3.1	1.4

Retail Rents (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'14	-1.3	-1.7	-0.9	0.0	-0.7	-1.2
Q3'14	-1.2	-1.5	-0.8	0.0	0.6	-1.0
Q2'15	-1.0	-1.5	0.1	1.3	0.6	-0.7
Q2'16	-0.4	0.1	0.7	1.8	1.9	0.3

Industrial Capital Values (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'14	-1.9	0.5	-0.6	-1.4	-0.9	-0.5
Q3'14	-1.1	0.9	-0.4	-1.2	-0.9	-0.2
Q2'15	0.1	1.5	0.5	0.4	-1.8	0.7
Q2'16	1.9	2.2	1.4	1.3	0.0	1.7

Industrial Rents (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'14	-0.9	-0.1	-0.7	-1.0	-0.9	-0.5
Q3'14	0.3	0.3	-0.1	-0.8	-0.9	0.0
Q2'15	0.8	0.8	0.6	0.3	0.0	0.6
Q2'16	2.3	1.8	1.2	1.1	0.9	1.5

Market Overview - Survey Respondents Expectations: Q2 2014

Office Vacancy Rates (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'14	7.2	8.9	9.4	9.6	9.7	8.8
Q3'14	6.8	8.9	9.9	9.6	10.0	8.8
Q2'15	7.0	8.6	9.0	10.4	9.7	8.5
Q2'16	6.2	8.2	8.1	10.7	10.3	8.2

Retail Vacancy Rates (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'14	4.9	4.6	6.5	3.5	4.3	5.0
Q3'14	5.0	4.8	6.2	4.0	6.3	5.2
Q2'15	4.9	4.9	5.3	4.0	6.3	5.0
Q2'16	4.1	4.3	4.5	3.5	6.3	4.3

Industrial Vacancy Rates (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'14	4.3	5.9	7.5	5.3	7.7	6.1
Q3'14	4.3	5.6	6.8	5.3	7.0	5.7
Q2'15	4.0	4.9	5.6	4.7	6.0	5.0
Q2'16	3.8	4.5	5.0	4.7	5.0	4.6

NOTES:

Survey participants are asked how they see:

- Capital values;
- Gross rents; and
- Vacancy rates

In each of the commercial property markets for the following timeframes:

- current quarter
- next quarter
- next 12 months
- next 12-24 months

Average expectations for each state are presented in the accompanying tables.

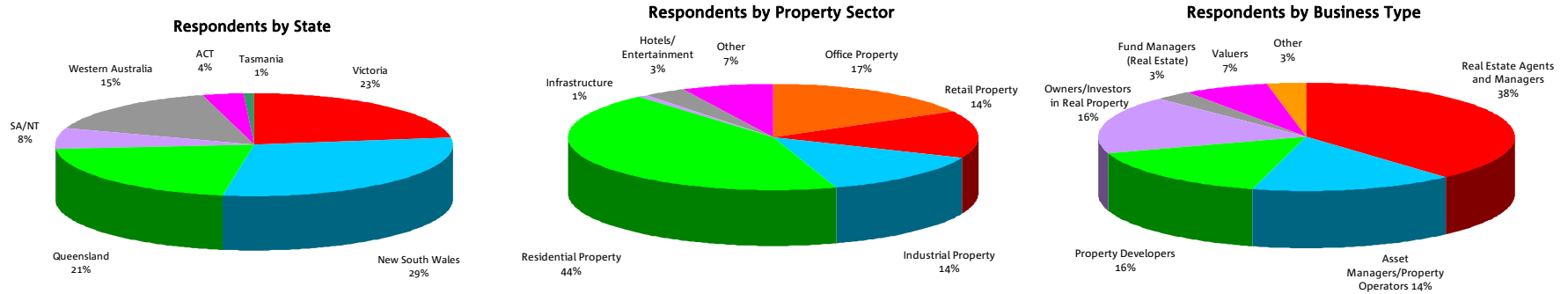
*Results for SA/NT may be biased due to a smaller sample size.

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.

Around 280 panellists participated in the Q2 2014 Survey and the breakdown of our Survey respondents - by location, property sector and business type - are shown below.



Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Australian Economics and Commodities

Rob Brooker
Head of Australian Economics
+61 3 8634 1663

James Glenn
Senior Economist – Australia
+61 3) 9208 8129

Vyanne Lai
Economist – Agribusiness
+61 3) 8634 0198

Karla Bulauan
Economist – Australia
+61 3) 86414028

Industry Analysis

Dean Pearson
Head of Industry Analysis
+61 3) 8634 2331

Robert De lure
Senior Economist – Industry Analysis
+61 3) 8634 4611

Brien McDonald
Economist – Industry Analysis
+61 3) 8634 3837

Amy Li
Economist – Industry Analysis
+61 3) 8634 1563

International Economics

Tom Taylor
Head of Economics, International
+61 3 8634 1883

Tony Kelly
Senior Economist – International
+(61 3) 9208 5049

Gerard Burg
Senior Economist – Asia
+(61 3) 8634 2788

John Sharma
Economist – Sovereign Risk
+(61 3) 8634 4514

Global Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406

Australia Economics
Spiros Papadopoulos
Senior Economist
+61 3 8641 0978

David de Garis
Senior Economist
+61 3 8641 3045

FX Strategy
Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848

Emma Lawson
Senior Currency Strategist
+61 2 9237 8154

Interest Rate Strategy
Skye Masters
Head of Interest Rate Strategy
+61 2 9295 1196

Rodrigo Catril
Interest Rate Strategist
+61 2 9293 7109

Credit Research
Michael Bush
Head of Credit Research
+61 3 8641 0575

Simon Fletcher
Senior Credit Analyst – FI
+61 29237 1076

Equities
Peter Cashmore
Senior Real Estate Equity Analyst
+61 2 9237 8156

Distribution
Barbara Leong
Research Production Manager
+61 2 9237 8151

New Zealand

Stephen Toplis
Head of Research, NZ
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Markets Economist
+64 4 474 6923

Kymerly Martin
Senior Market Strategist
+64 4 924 7654

Raiko Shareef
Currency Strategist
+64 4 924 7652

Yvonne Liew
Publications & Web Administrator
+64 4 474 9771

UK/Europe

Nick Parsons
Head of Research, UK/Europe,
and Global Co-Head of FX Strategy
+ 44207710 2993

Gavin Friend
Senior Markets Strategist
+44 207 710 2155

Tom Vosa
Head of Market Economics
+44 207710 1573

Simon Ballard
Senior Credit Strategist
+44 207 710 2917

Derek Allassani
Research Production Manager
+44 207 710 1532

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