

NAB Commercial Property Survey - Market Overview Q3 2014



Summary

NAB Commercial Property Index records its first positive read since Q1'11 (rising to +2 points in Q3). Sentiment up in all sectors led by CBD hotels. Retail sentiment also positive (first time since Q4'10), but still negative in office (weakest) and industrial (marginally).

Forward expectations broadly unchanged in all sectors, except industrial (down). Confidence remains highest for CBD hotels, with industrial property now only marginally ahead of retail.

WA sentiment hits an all time low with longer term outlook deteriorating further as gap between WA and other states widens. Sentiment higher in all states, bar WA & SA/NT (negative). NSW strongest and most optimistic in next 1-2 years.

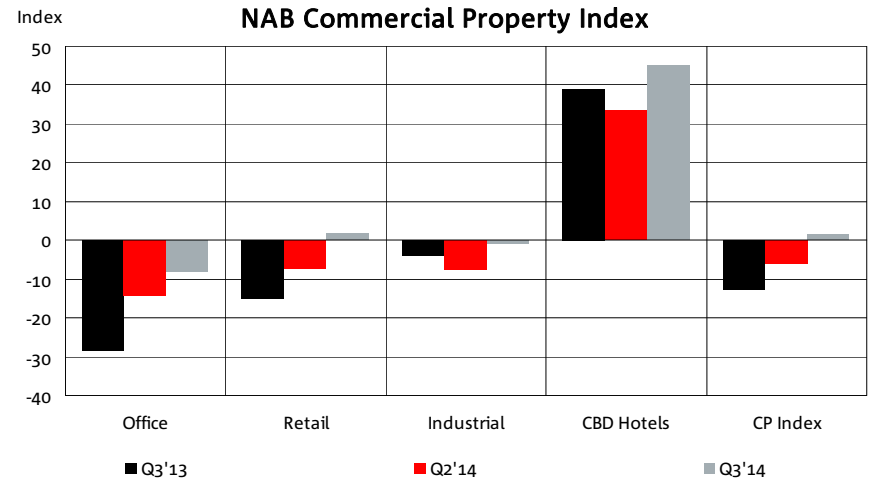
Capital value expectations improve in Q3 but still negative in all sectors, except CBD hotels. Growth to resume in all markets in next 1-2 years, with best returns in CBD hotels and office weakest.

Leasing market conditions remain difficult with rents falling in Q3 (but less than in Q2), incentives higher in all markets, weak tenant demand and rising vacancy rates (especially in office markets where over-supply is persisting). Expectations for rents in next 1-2 years positive in all markets, with returns best for industrial.

Developer confidence improved in Q3 with a big increase in numbers planning to start new works in short-term. Pipeline dominated by residential (53%). More developers also looking at new acquisitions to source developments as land banked stock at lowest levels since early-2010. Funding conditions improve in Q3 and expected to remain positive in next 6-12 months.

Property firms continue to cite stock availability as the biggest challenge facing their business in the next 12 months, followed by consumer confidence.

More detail on the Office, Retail, Industrial & CBD Hotels available upon request.



	Q2'14	Q3'14	Nxt Qtr	12mths	2yrs
Office	-14	-8	-3	21	29
Retail	-7	2	16	34	39
Industrial	-8	-1	12	32	41
CBD Hotels	33	45	40	65	70
CP Index	-6	2	10	31	39

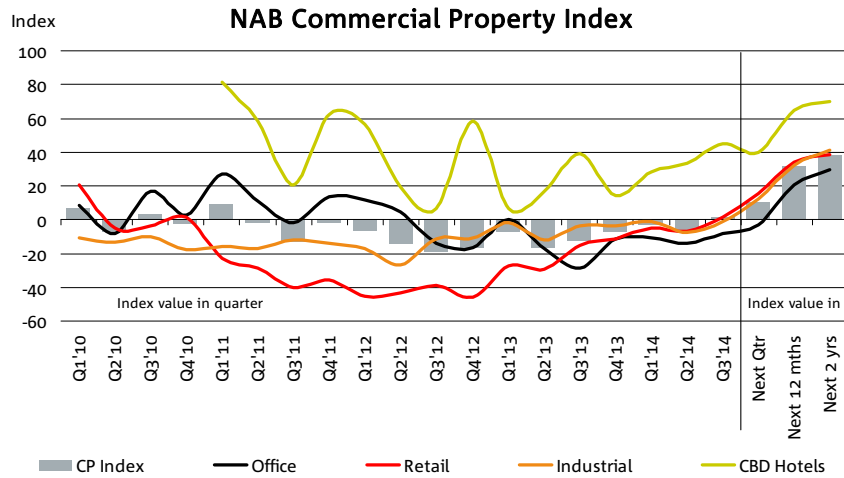
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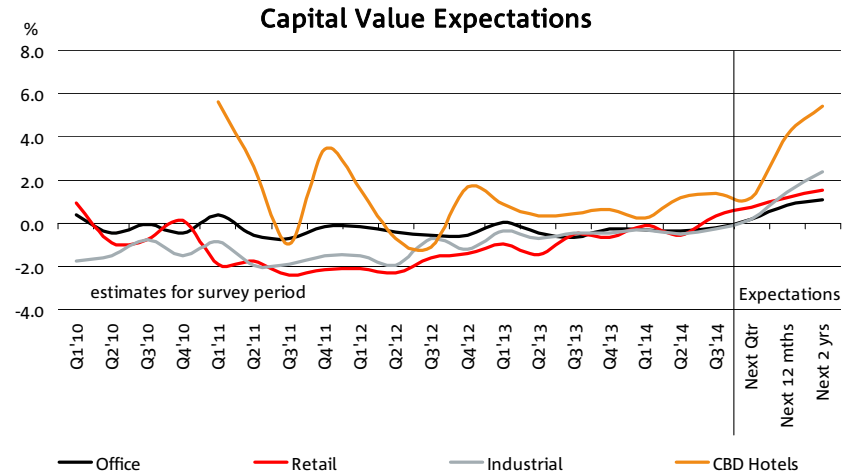
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Market Overview - Index, By State, Capital Value & Vacancy Expectations

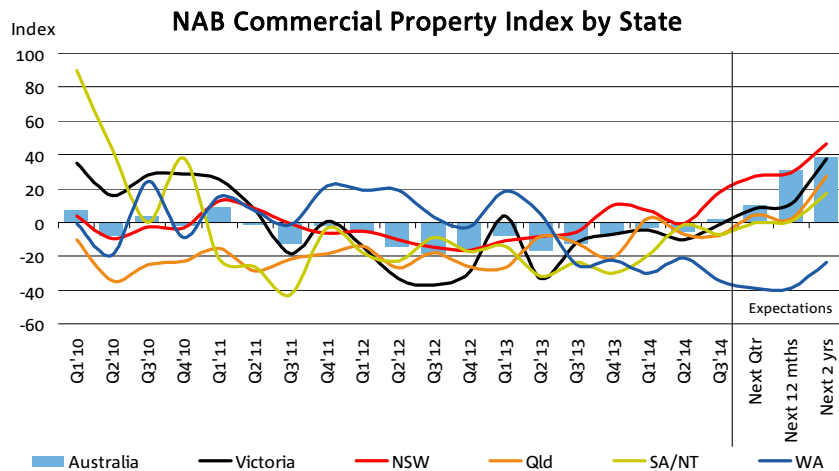
Market sentiment strongest for CBD hotels in next 1-2 years, followed by industrial and retail. Office weakest.



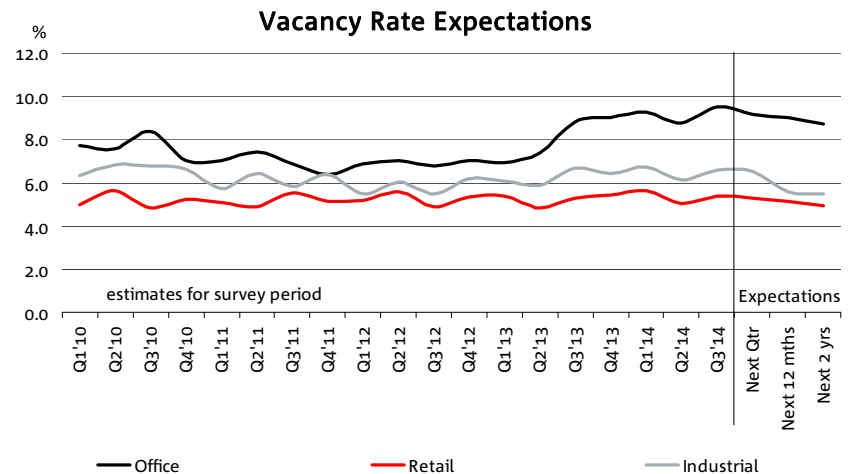
Capital returns strongest for CBD hotels in next 1-2 years - and by some margin; positive returns also expected in other sectors.



Sentiment improves in all states in Q3, bar WA where state index at all time low. NSW most optimistic in 2 years time; WA lagging.



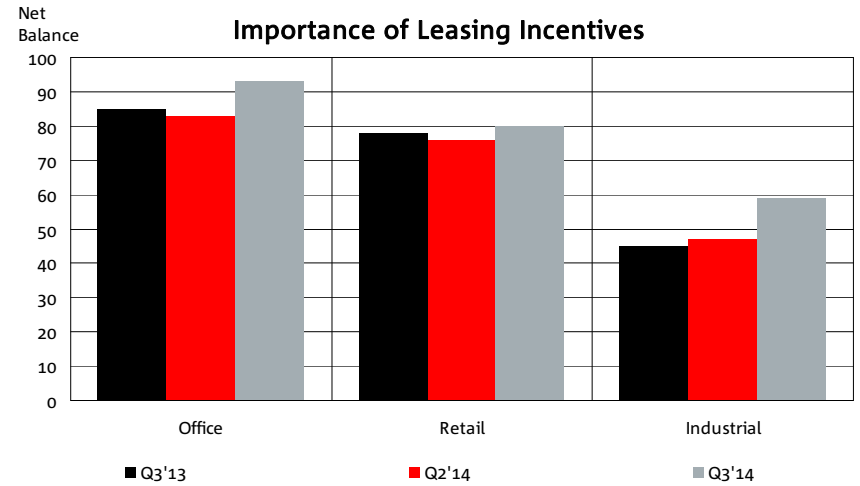
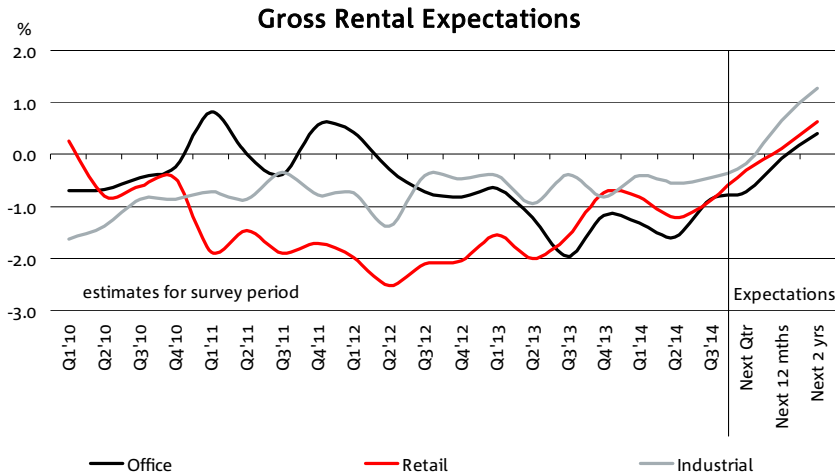
Vacancy rates rise in all markets in Q3, with new highs in office. Vacancy to fall in next 1-2 years, but still elevated in office.



Market Overview - Rental & Recovery Expectations, Incentives & Supply

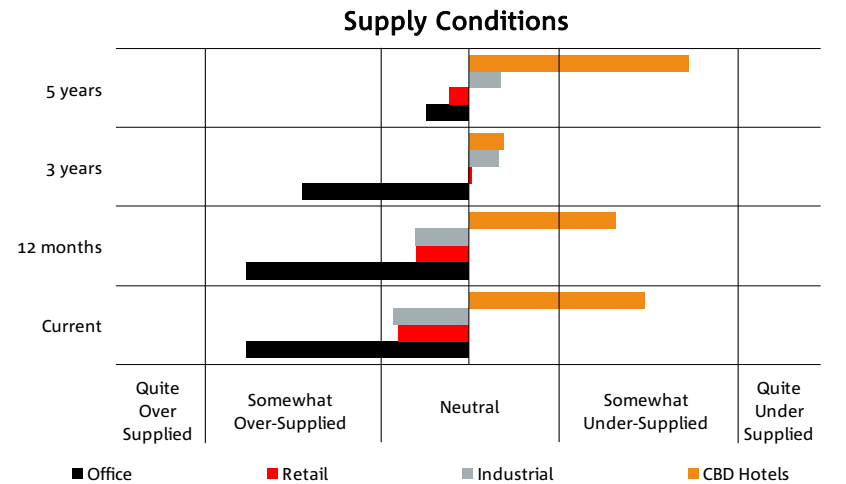
Prospects for rents improve in all markets. Outlook strongest for industrial in next 1-2 years; retail & office positive but subdued.

Leasing incentives more important in all markets in Q3. Incentives highest for office property and lowest for industrial.



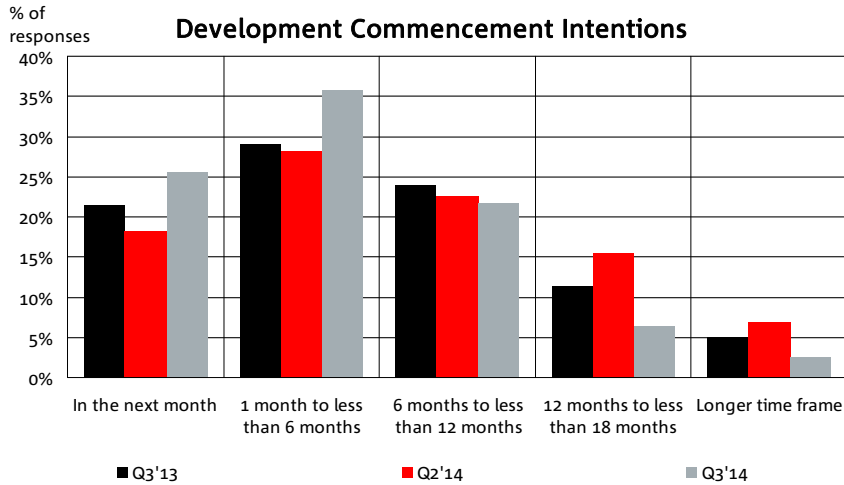
Survey suggests retail and industrial markets are well into the recovery phase of the current property cycle; office lagging.

Over-supply of office space to persist in next 1-3 years. CBD hotels "somewhat" under-supplied. Retail & industrial balanced.

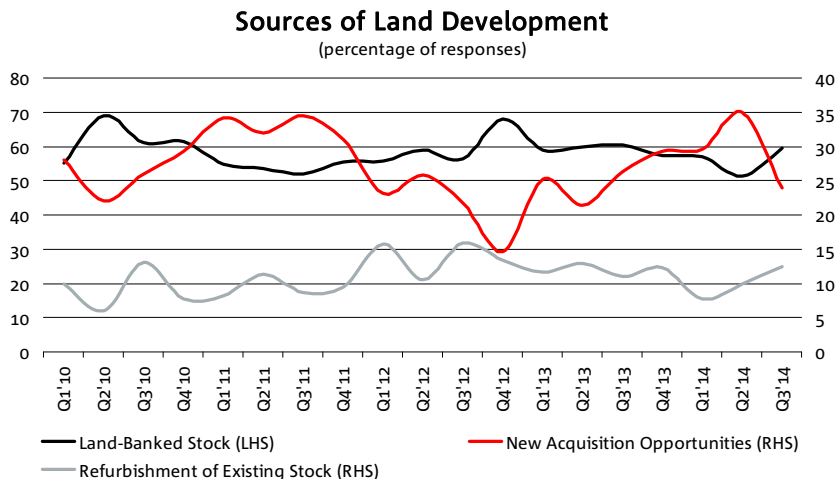


Market Overview - New Development Intentions, Sources of Land & Funding

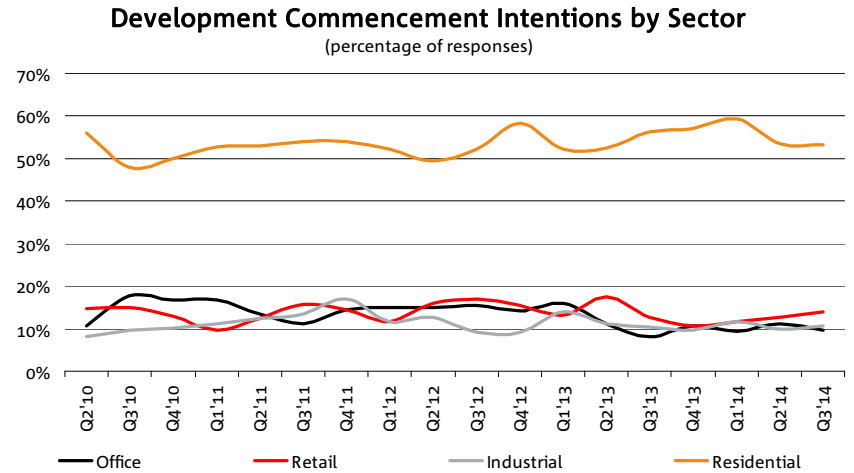
Developer confidence improves with a significant increase in the number of developers planning to start new works in next 1-6 months - up to 62% in Q3 from 46% in Q2.



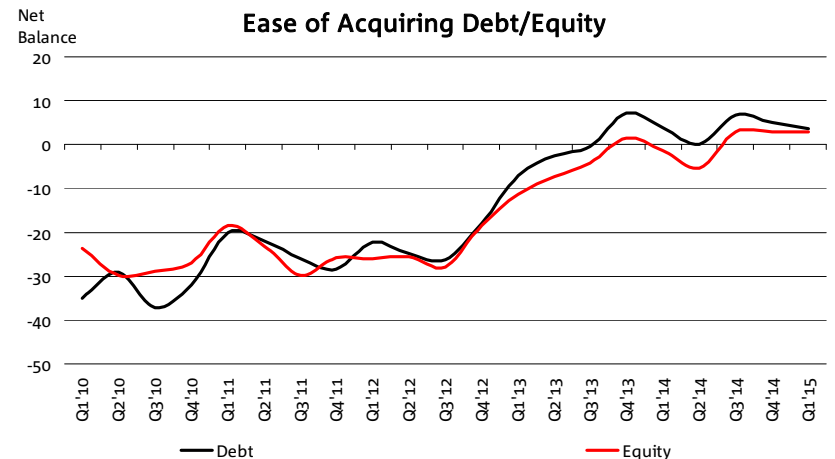
Around 51% of new developments expected to be underpinned by land-banked stock (lowest since early-2010), as more developers (35%) look at new acquisitions and refurbishments (13%).



Number of developers looking to start new residential projects broadly unchanged (53%). Small increase in developers looking at new retail (14%) & industrial (11%) projects; office lower (10%).

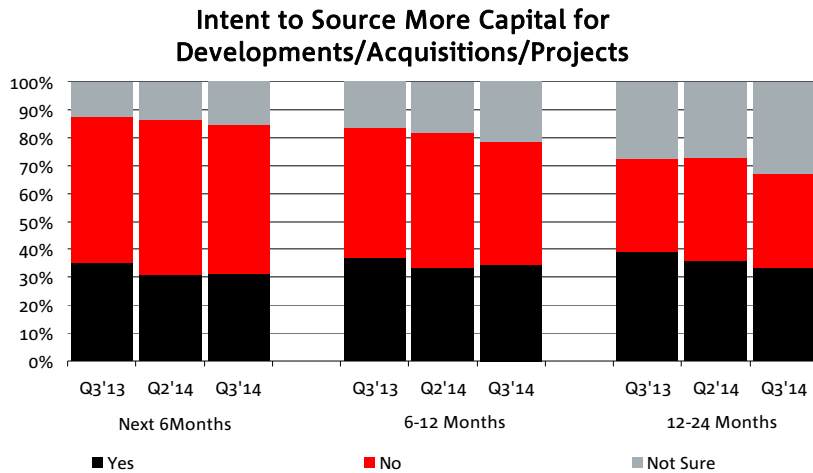


Debt and equity funding situation for developers improved in Q3 after a deterioration in Q2. Debt & equity funding conditions positive over next 6 months, although marginally weaker.

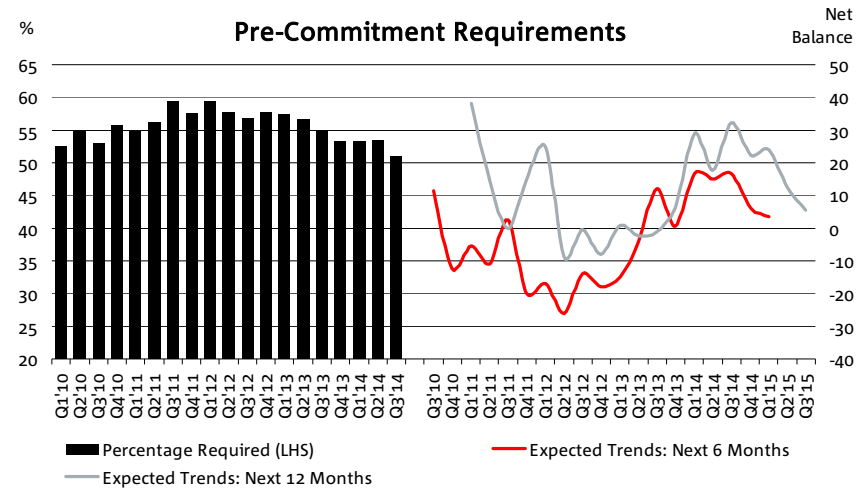


Market Overview - Capital Intentions, Pre-Commitments, Interest Rates, Challenges

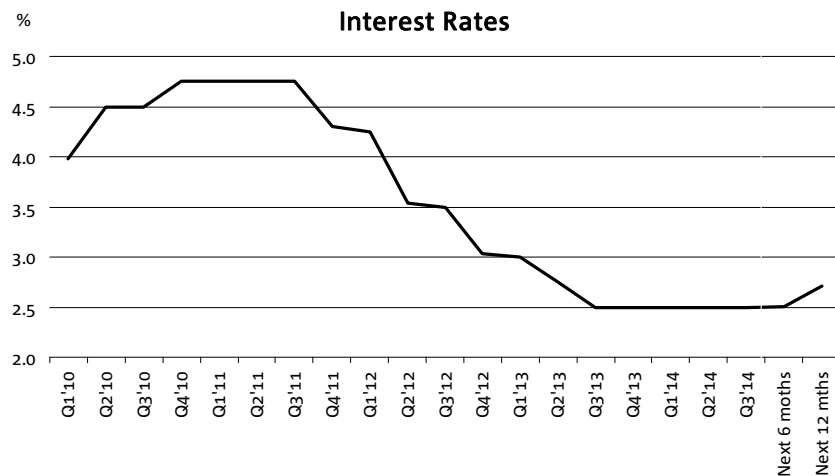
Around 65% of developers intending to access capital over the next year, up from 64% in Q2 and consistent with plans to commence more works in the short-term.



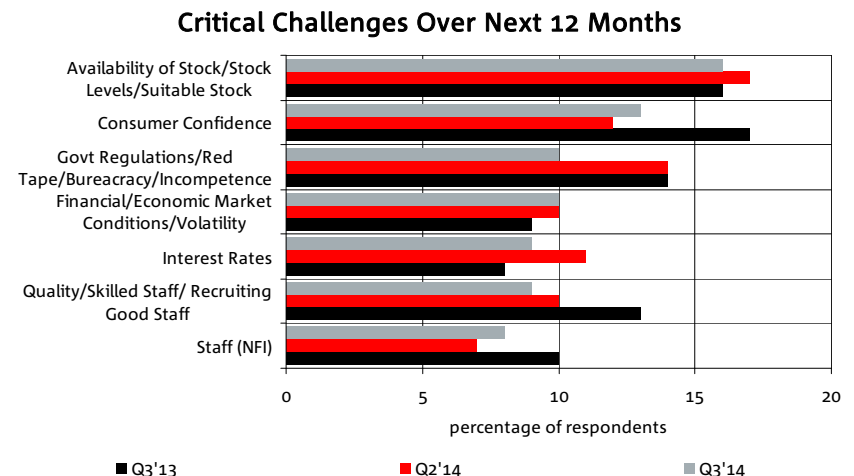
Average pre-commitment percentage required to meet external debt funding requirements for new developments fell to 51% in Q3 (53% in Q2); requirements to improve in next 6-12 months.



On average, surveyed property professionals expect interest rates to rise by 25 bps over the next year.



Property firms most concerned over stock availability. Consumer confidence rising, but govt red tape/regulation concerns fall.



Market Overview - Survey Respondents Expectations: Q2 2014

Office Capital Values (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'14	0.7	0.5	-0.8	-2.7	-0.5	-0.2
Q4'14	1.0	1.1	-0.5	-2.7	-0.5	0.2
Q3'15	2.2	2.1	0.3	-4.1	0.1	0.8
Q3'16	2.3	2.4	0.9	-4.9	0.0	1.1

Office Rents (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'14	-0.2	0.0	-1.2	-4.0	-1.3	-0.9
Q4'14	0.3	0.1	-1.1	-4.3	-1.3	-0.7
Q3'15	1.1	1.0	-0.5	-4.4	-1.2	-0.1
Q3'16	2.2	1.0	0.0	-3.5	-0.9	0.4

Retail Capital Values (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'14	0.3	-0.6	0.5	1.2	1.5	0.3
Q4'14	0.4	-0.2	1.2	1.5	2.1	0.8
Q3'15	0.7	0.6	2.4	1.5	1.0	1.2
Q3'16	0.9	1.0	2.8	1.5	1.3	1.5

Retail Rents (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'14	-0.5	-1.2	-1.0	-1.8	0.3	-0.9
Q4'14	-0.1	-0.3	-0.3	-1.5	0.6	-0.3
Q3'15	0.1	0.5	0.6	-1.9	0.3	0.1
Q3'16	0.2	1.2	1.6	-1.6	0.6	0.6

Industrial Capital Values (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'14	-1.1	1.4	-0.1	-3.6	-0.4	-0.3
Q4'14	-0.8	1.8	0.4	-2.9	-0.4	0.2
Q3'15	0.7	2.7	1.6	-0.8	0.6	1.4
Q3'16	0.4	3.8	2.6	0.4	0.6	2.4

Industrial Rents (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'14	-1.6	0.7	0.1	-3.5	0.4	-0.5
Q4'14	-0.9	1.1	-0.1	-3.0	0.9	-0.2
Q3'15	-0.6	1.6	0.9	-1.2	0.9	0.6
Q3'16	-0.2	1.9	1.6	-0.1	1.8	1.3

Market Overview - Survey Respondents Expectations: Q2 2014

Office Vacancy Rates (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'14	7.0	9.0	11.4	10.0	11.3	9.5
Q4'14	7.0	8.4	11.3	8.7	11.3	9.2
Q3'15	6.2	8.4	10.4	11.3	11.3	9.0
Q3'16	5.8	8.7	9.6	9.7	11.3	8.7

Retail Vacancy Rates (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'14	4.3	5.4	6.6	4.0	5.3	5.4
Q4'14	4.6	5.3	5.9	4.5	5.7	5.3
Q3'15	4.8	5.2	5.4	4.5	5.7	5.1
Q3'16	5.0	4.8	4.8	3.5	6.0	4.9

Industrial Vacancy Rates (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'14	7.4	5.3	8.0	5.3	7.5	6.6
Q4'14	7.0	5.4	8.0	5.7	6.5	6.5
Q3'15	6.6	4.3	6.8	5.7	5.0	5.6
Q3'16	6.5	4.3	7.0	5.0	5.0	5.5

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.

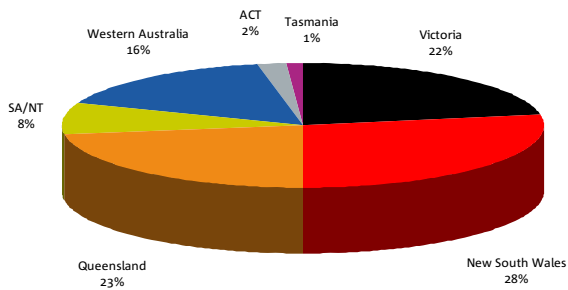
About the Survey

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.

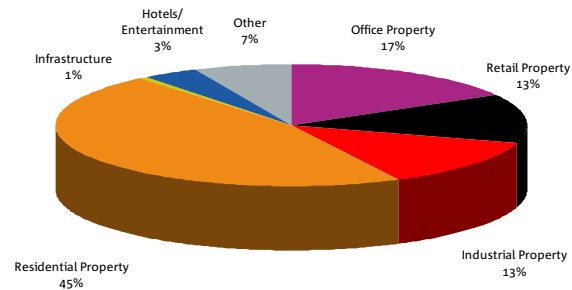
The large external panel of respondents consisted of Real Estate Agents/Managers, Property Developers, Asset/Fund Managers and Owners/Investors.

Around 300 panellists participated in the Q3 2014 Survey and the breakdown of our Survey respondents - by location, property sector and business type - are shown below.

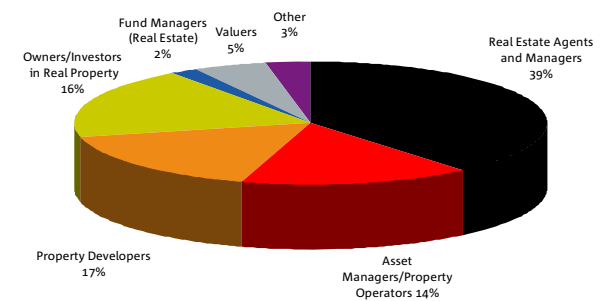
Respondents by State



Respondents by Property Sector



Respondents by Business Type



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