



National Australia Bank

NAB Commercial Property Survey - Market Overview

Q1 2015 by NAB Group Economics

Embargoed until: 11.30am Thursday 14 May 2015

Summary

Positive signs emerge as NAB' Commercial Property Index rises to a 4-year high of +6 points (-2 in Q4'15). The lift in sentiment most notable in CBD hotels (after a surprising fall in Q4), but also improved in office (but still negative) and industrial (up slightly). Sentiment a touch weaker in retail, but out-performing.

Confidence continues to vary by sector. CBD hotels strongest by some margin, followed by retail and industrial. Confidence in office markets has improved (driven mainly by NSW), but is still weakest overall.

There was a big pick up in sentiment in NSW (all markets). Sentiment was positive but lower in VIC (dragged down by industrial & office). WA was downgraded heavily and QLD is still negative. NSW & VIC most optimistic in next 1-2 yrs. Confidence in WA moving deeper negative and more subdued in QLD.

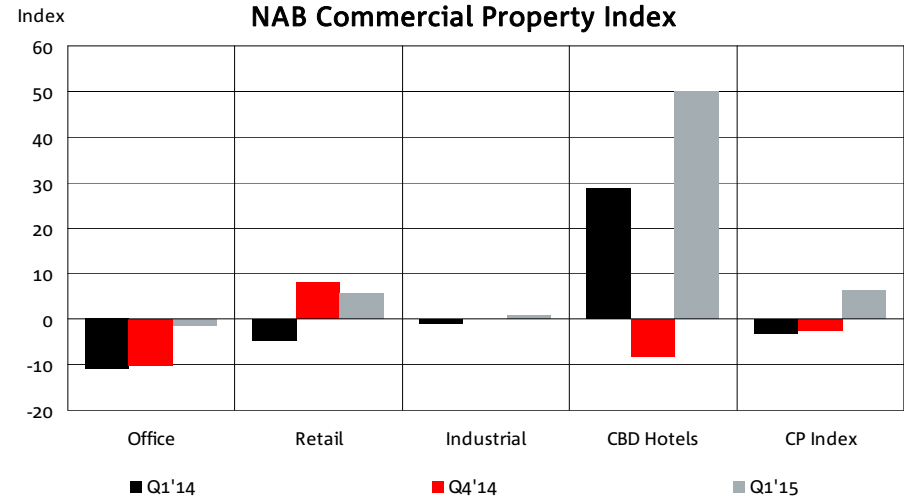
Capital growth expectations revised up in office but still moderate (0.9% next year & 1% in 2 years) with growth driven by NSW & VIC and falling heavily in WA & SA/NT. CBD hotels to provide the best returns (1.8% & 3.1%). Higher returns for industrial (0.9% & 2.1%) reflecting stronger outlooks in NSW & QLD. Retail (0.8% & 1.1%) softer on the back of weaker outlooks in WA & QLD.

Outlook for rents strongest for industrial (0.2 & 1%), led by QLD & NSW, with retail returns (0.3% & 0.8%) underpinned by SA/NT & NSW. Office rents negative in next 1-2 years (-0.4% & -0.2%) as positive returns in NSW & VIC offset by big falls in WA, SA/NT and to lesser extent QLD. Leasing incentives up notably for industrial (as vacancy climbs) and also very high in office where big supply overhangs (especially in WA & QLD) are keeping vacancy rates elevated.

Short-term confidence among developers has improved, with 58% planning to start new works within the next 6 months. A buoyant housing market is clearly prompting more developers to divert resources to residential property, with around 65% now looking to start new residential projects (highest since survey began). Around 65% of new developments underpinned by land-banked stock, but 31% also chasing new acquisitions.

Developers reported an improvement in their debt and equity funding situations in Q1'15, although the average pre-commitment required to meet external debt funding rose slightly. Consumer confidence continues to be the biggest concern among property firms, but fewer firms now concerned about stock availability, govt regulation/red tape and financial & economic volatility.

Individual reports for Office, Retail, Industrial & CBD Hotels markets available on request.



NAB Commercial Property Index

	Q4'14	Q1'15	Next Qtr	12 mths	2 years
Office	-10	-2	7	19	21
Retail	8	6	19	31	42
Industrial	0	1	8	24	44
CBD Hotels	-8	50	38	50	75
CP Index	-2	6	14	27	37

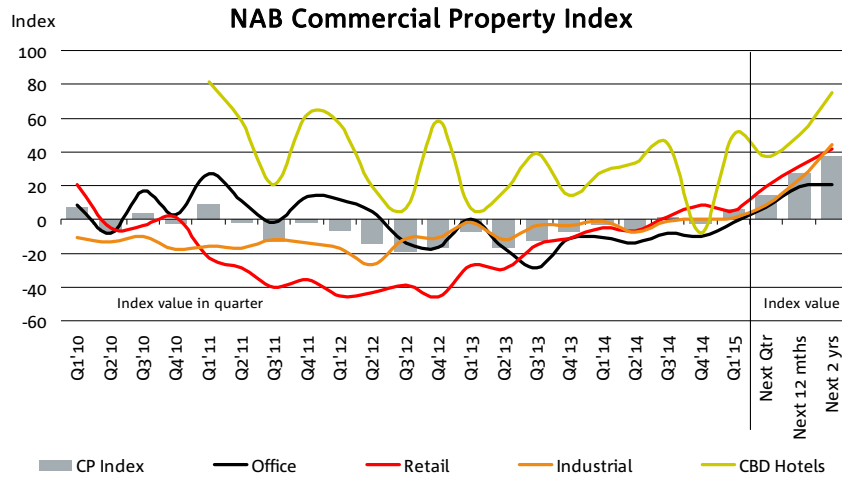
Alan Oster
Chief Economist
(03) 8634 2927
0414 444 652 (mobile)

Robert De Iure
Senior Economist - Behavioural & Industry Economics
(03) 8634 4611

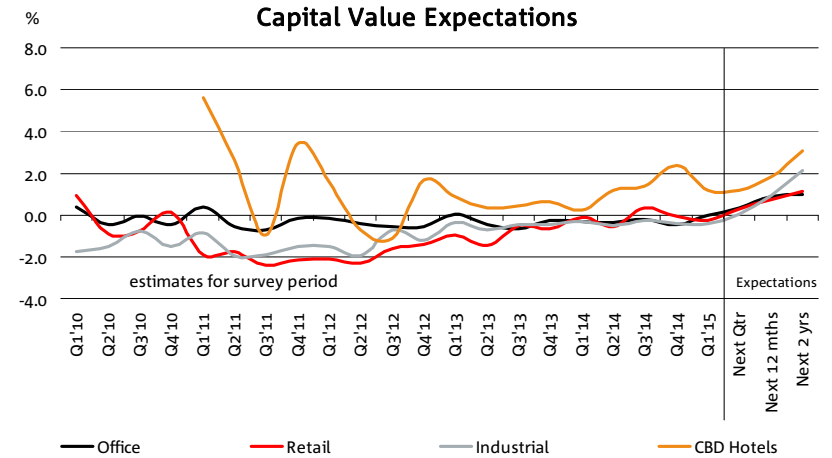
Dean Pearson
Head of Behavioural & Industry Economics
(03) 8634 2331

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

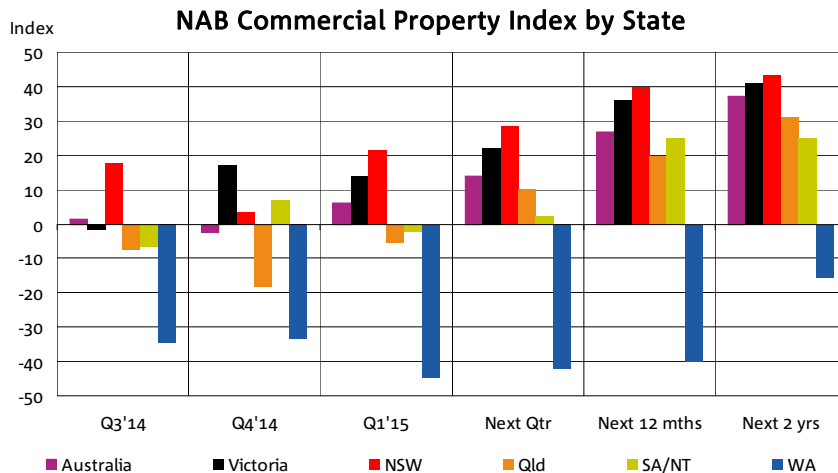
Sentiment up strongly in CBD Hotels (best overall), weaker but positive in retail, unchanged for industrial and improving but negative in office. Outlook best for CBD hotels; office weakest.



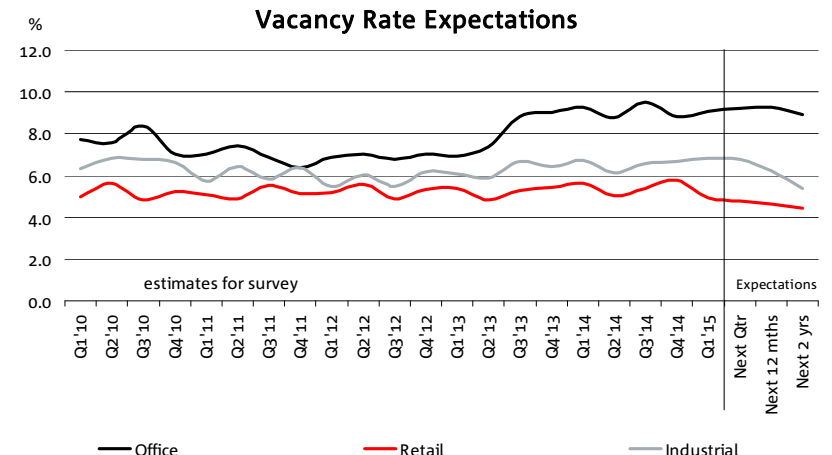
Capital returns strongest for CBD hotels in next 1-2 years (but scaled back), followed by industrial. Returns weakest for office property, but outlook better than in Q4'14.



Sentiment still falling heavily in WA and also negative in QLD & SA/NT. NSW & VIC positive and most optimistic in next 1-2 yrs. Expectations scaled back notably in QLD (previously best in next 2 yrs) and in WA.



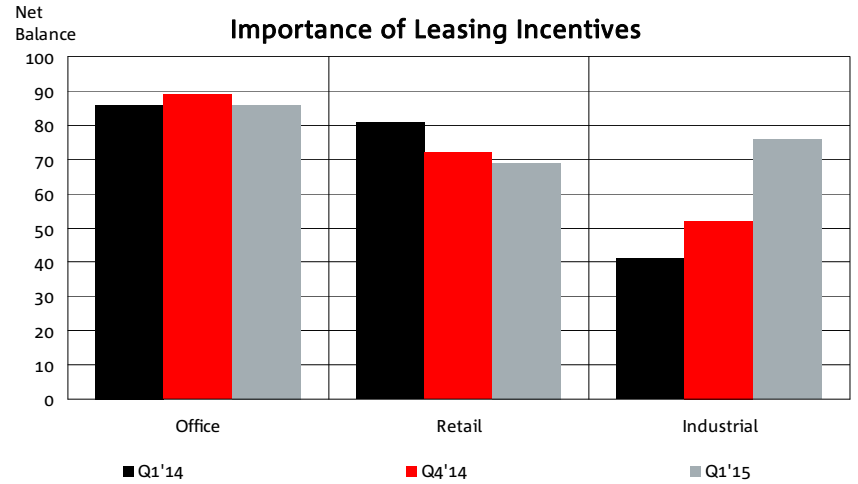
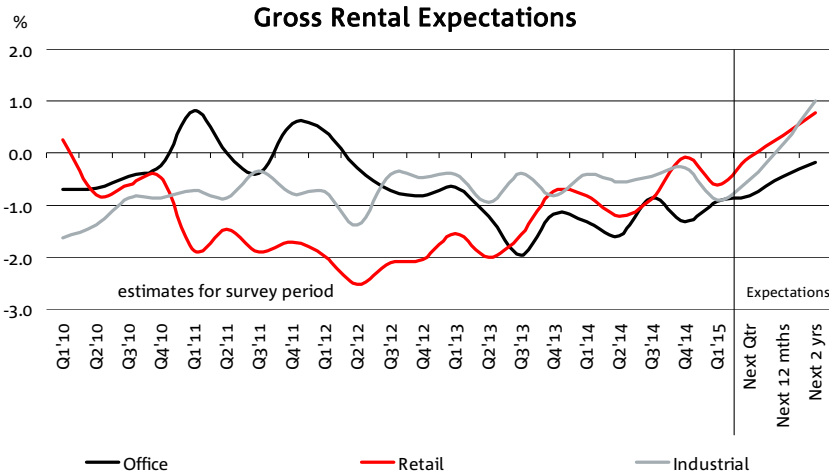
Office vacancy climbs in Q1 and set to be higher than forecast in Q4'14 as supply overhang persists. Outlook for industrial also weaker (but still improving). In contrast, retail vacancy falling and set to tighten faster.



Market Overview - Rental & Recovery Expectations, Incentives & Supply

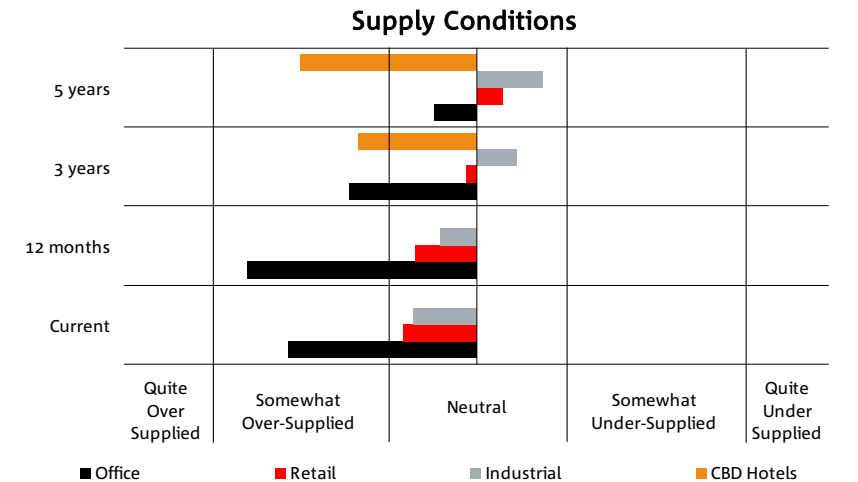
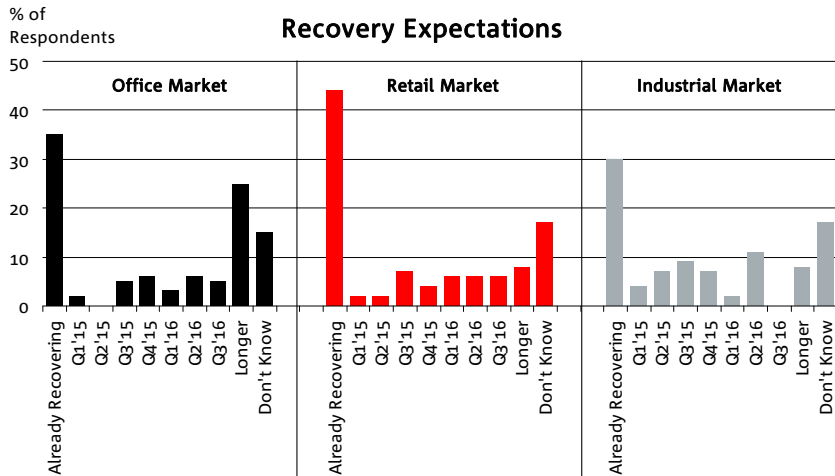
Rents falling in all markets in Q1'15. Positive returns forecast for retail & industrial in next 1-2 years, although expectations have softened since Q4. Office rents to continue falling over next 1-2 years.

The importance of leasing incentives remains very high in office markets, but becoming less important in retail (although still elevated). Leasing incentives in industrial have risen sharply over the past year.



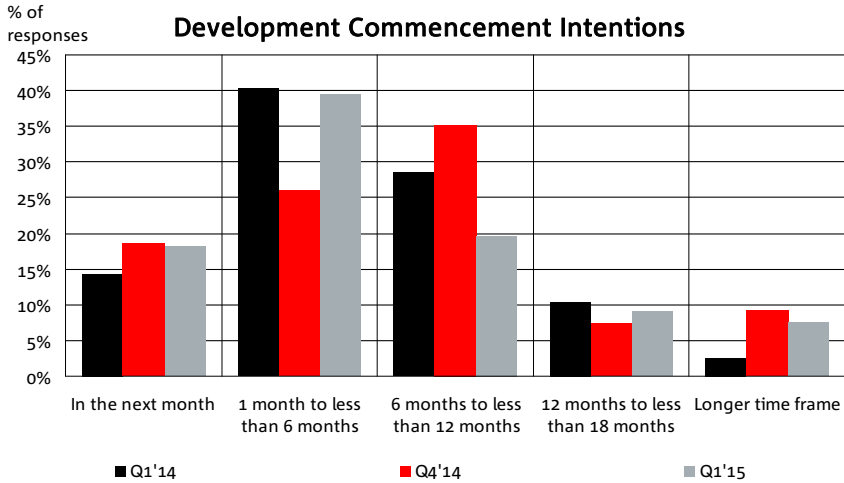
Survey suggests retail property market is well into its recovery phase. In contrast, perceptions of office market are mixed with more than 25% not expecting recovery to commence any time soon.

National office market "somewhat" over-supplied and expected to remain so over next 1-3 years. Retail & industrial markets basically in balance. Over-supply expected to emerge in CBD hotels over next 3-5 years.

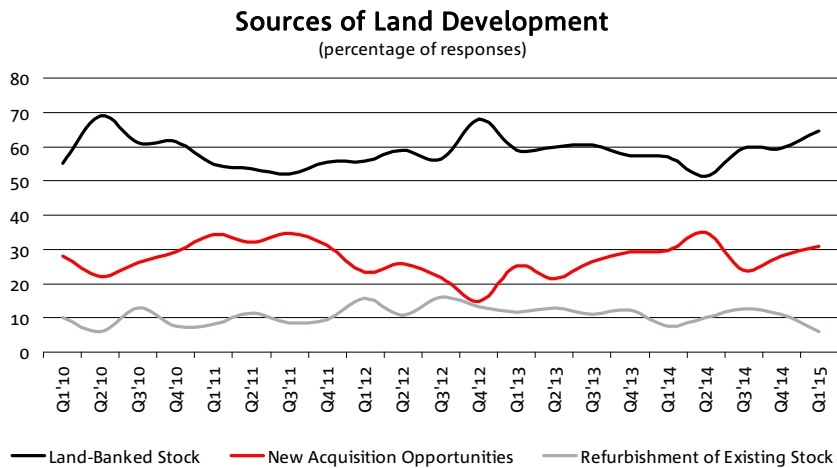


Market Overview - New Development Intentions, Sources of Land & Funding

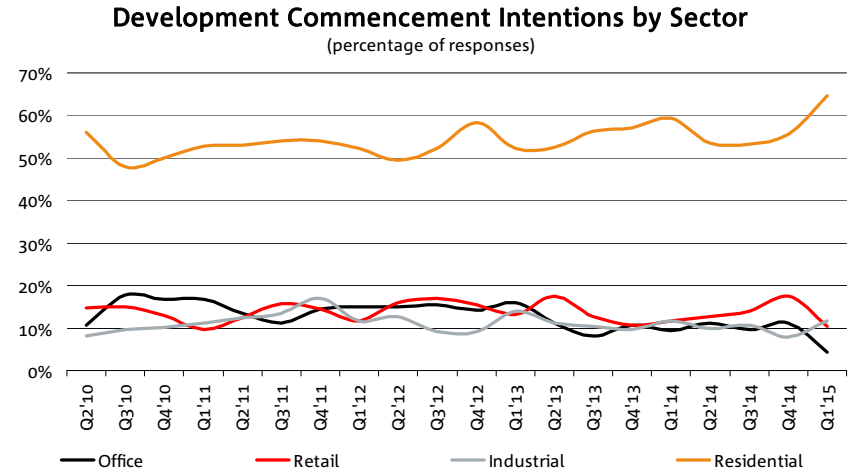
Short-term developer confidence appears to have improved. Around 58% of developers planning to start new works in the next 0-6 months, up from 44% in the previous quarter.



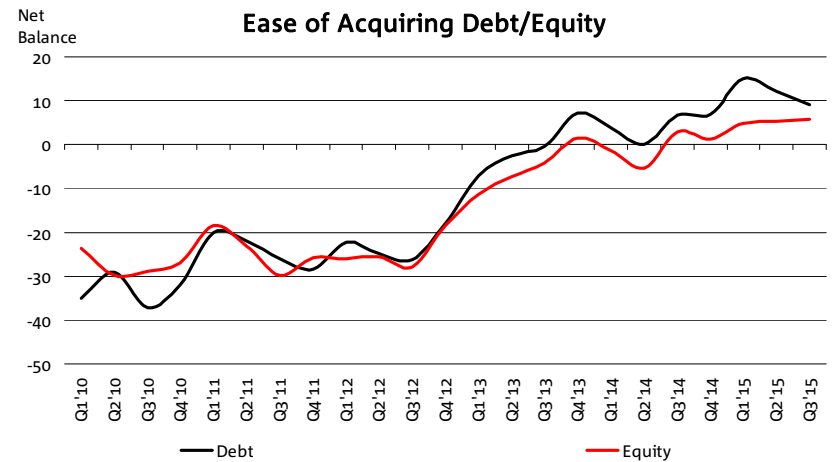
Around 65% of new developments are expected to be underpinned by land-banked stock. More developers (31%) are also looking at new acquisitions, but only 6% looking at refurbishments.



Strong housing markets may be prompting some developers to divert resources to residential property. Around 65% of developers now looking to start new residential projects - its highest levels since survey began.

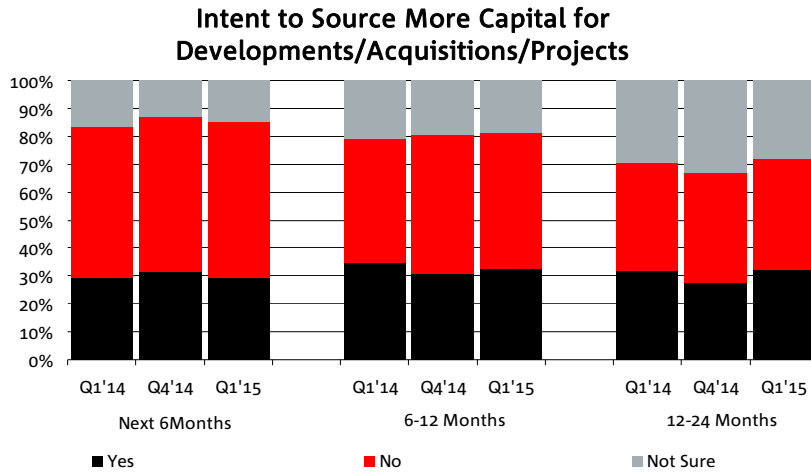


Debt and equity funding situations for developers improves in Q1'15. Debt funding conditions to moderate over next 6 months (but still positive), but access to equity to continue improving.

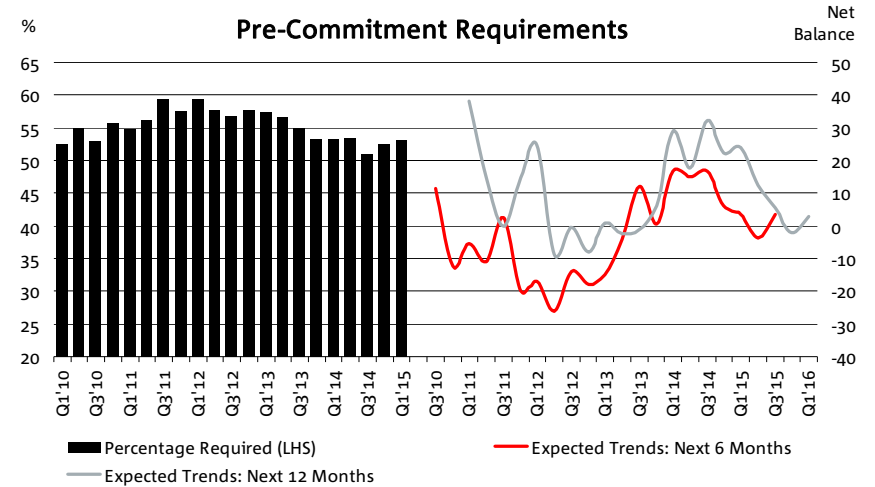


Market Overview - Capital Intentions, Pre-Commitments, Interest Rates, Challenges

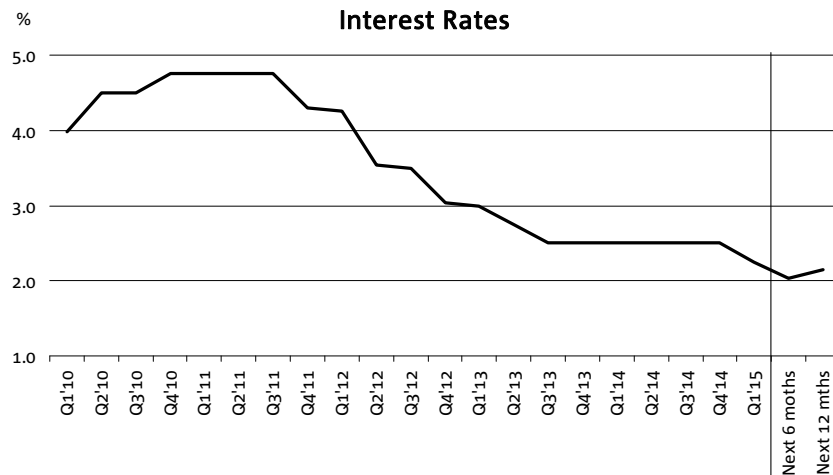
Notwithstanding stronger short-term development intentions, fewer developers are planning to access capital (29%) over the next 6 months. This may suggest stronger underlying capital/asset positions.



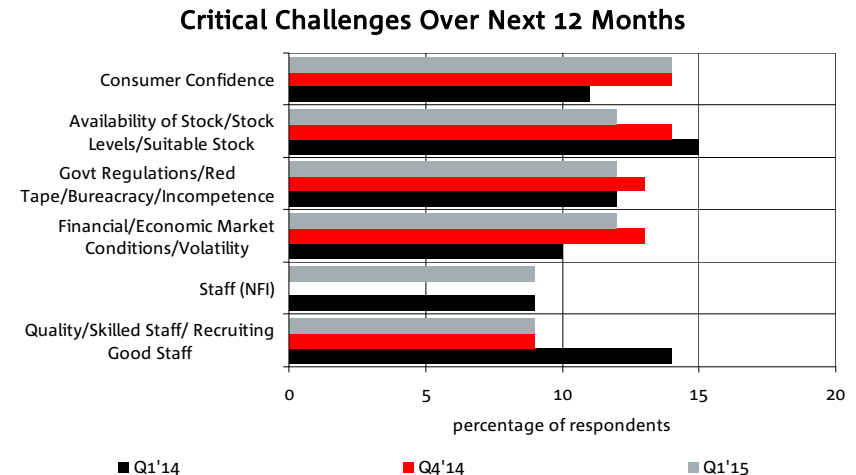
The average pre-commitment percentage required to meet external debt funding requirements for new developments rose to over 53% in Q1, but requirements are expected to loosen somewhat in the next 6-12 months.



On average, surveyed property professionals expect a decrease in interest rates over the next year. In contrast, NAB Economics currently sees interest rates starting to turn up in late-2016.



Consumer confidence identified as the biggest concern for property firms, but fewer firms now concerned about stock availability, government regulation/red tape and financial & economic volatility.



Market Overview - Survey Respondents Expectations: Q1 2015

Office Capital Values (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'15	0.7	1.1	-0.5	-3.4	-0.9	0.0
Q2'15	1.0	1.8	0.2	-4.1	-1.4	0.3
Q1'16	1.8	2.5	0.5	-4.0	-1.4	0.9
Q1'17	2.2	2.5	0.9	-4.1	-2.5	1.0

Office Rents (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'15	-0.8	1.1	-1.8	-5.3	-2.4	-0.9
Q2'15	-0.6	1.2	-1.8	-4.7	-2.9	-0.8
Q1'16	-0.2	1.8	-1.3	-5.7	-2.7	-0.4
Q1'17	0.1	2.2	-0.9	-5.8	-4.2	-0.2

Retail Capital Values (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'15	-0.6	-0.3	0.6	-1.2	1.8	-0.3
Q2'15	0.2	0.1	1.3	-1.2	3.8	0.3
Q1'16	1.1	0.8	1.1	-1.2	3.8	0.8
Q1'17	1.7	0.9	1.5	-0.6	3.8	1.1

Retail Rents (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'15	-1.5	-0.1	0.2	-1.7	1.8	-0.6
Q2'15	-0.6	0.3	0.5	-1.7	3.8	-0.1
Q1'16	0.2	1.0	0.1	-1.7	3.8	0.3
Q1'17	0.8	1.4	0.5	-1.3	3.8	0.8

Industrial Capital Values (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'15	0.4	0.6	0.4	-4.2	-1.4	-0.4
Q2'15	0.2	1.1	0.7	-3.3	-0.6	0.0
Q1'16	1.3	1.9	1.5	-2.3	0.6	0.9
Q1'17	1.7	2.8	3.3	-0.1	0.6	2.1

Industrial Rents (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'15	-0.6	-0.2	-0.1	-4.0	-0.9	-0.9
Q2'15	-0.4	0.3	0.1	-3.4	0.0	-0.5
Q1'16	-0.2	1.0	0.4	-1.8	0.6	0.2
Q1'17	-0.3	1.5	2.1	0.0	0.6	1.0

Market Overview - Survey Respondents Expectations: Q1 2015

Office Vacancy Rates (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'15	7.2	7.3	12.1	11.3	10.5	9.1
Q2'15	7.0	7.5	11.9	12.0	11.5	9.2
Q1'16	7.0	8.0	10.8	12.4	12.0	9.3
Q1'17	6.8	8.0	9.5	12.4	12.3	8.9

Retail Vacancy Rates (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'15	4.2	5.0	6.0	4.0	5.0	4.9
Q2'15	4.3	4.7	5.8	4.0	3.0	4.8
Q1'16	4.1	5.1	5.0	4.0	3.0	4.7
Q1'17	4.2	5.1	4.2	3.5	3.0	4.4

Industrial Vacancy Rates (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'15	6.8	6.4	6.0	7.7	8.3	6.8
Q2'15	6.8	6.6	6.0	7.7	7.0	6.8
Q1'16	6.1	5.9	6.0	7.0	7.0	6.2
Q1'17	5.8	5.6	3.6	5.5	8.0	5.4

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.

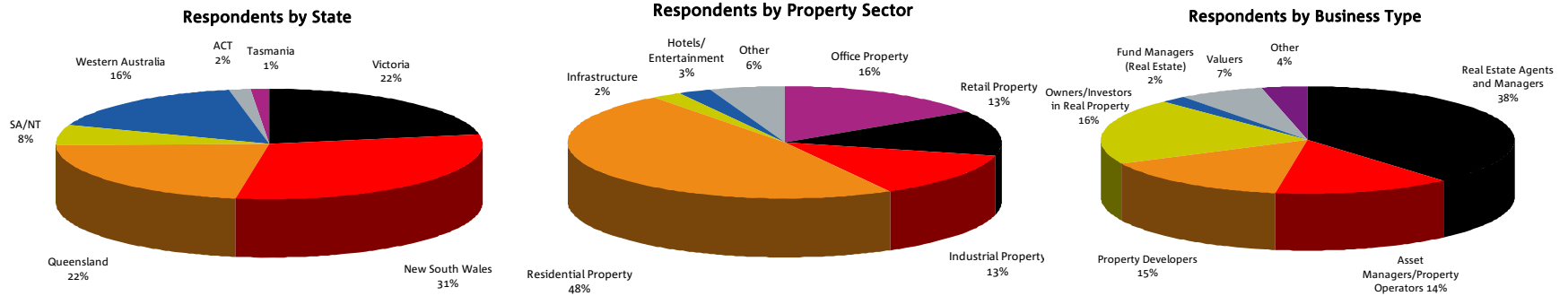
*Results for SA/NT may be biased due to a smaller sample size.

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 Q1 2015 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

Vacant
Head of Australian Economics

James Glenn
Senior Economist - Australia
+(61 3) 9208 8129

Vyanne Lai
Economist - Australia
+(61 3) 8634 0198

Phinn Ziebell
Economist - Agribusiness
+(61 4) 75 940 662

Amy Li
Economist - Australia
+(61 3) 8634 1563

Industry Analysis

Dean Pearson
Head of Behavioural & Industry
Economics
+(61 3) 8634 2331

Robert De lure
Senior Economist - Behavioural &
Industry Economics
+(61 3) 8634 4611

Brien McDonald
Senior Economist - Behavioural &
Industry Economics
+(61 3) 8634 3837

Karla Bulauan
Economist - Behavioural & Industry
Economics
+(61 3) 86414028

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

Ivan Calhoun
Chief Economist, Markets
+61 2 9237 1836

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

Derek Allassani
Research Production Manager
+44 207 710 1532

Asia

Christy Tan
Head of Markets Strategy/Research, Asia
+ 852 2822 5350

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it. Please click [here](#) to view our disclaimer and terms of use.