

NAB Commercial Property Survey - Market Overview

Q2 2015 by NAB Group Economics

Embargoed until: 11.30am Wednesday 12 August 2015



Summary

Sentiment in commercial property markets continues to strengthen, with NAB's Commercial Property Index rising to a new high of +11 points in Q2 (+6 in Q1). Encouragingly, sentiment is now positive in all market sectors, led by CBD hotels. Retail was the biggest improver, followed by industrial and office.

Property professionals in the CBD hotels sector are the most confident over the next year. However, the retail sector is expected to lead in 2 years time with office the biggest improver (driven mainly by NSW). Industrial weakest overall.

Market sentiment improved in most states in Q2, but NSW and VIC the only positive states. Sentiment is still very weak in WA, where markets (particularly office) continue to be impacted by the mining investment slowdown. NSW also the most optimistic state over the next 1-2 years, while QLD has replaced VIC as the next most optimistic. Confidence in WA and SA/NT remains negative.

Capital returns highest for retail in Q2 (0.8%), ahead of CBD hotels (0.6%) and office (0.5%), with industrial negative (-0.2%). Highest capital returns are expected for CBD hotels in the next 1-2 years (2.7% in both years). Office the next best (1.5% & 1.7%) after big upward revisions in expectations in NSW and QLD, followed by industrial (0.8% & 1.5%) and retail (1% & 1.3%).

Modest rental growth has also resumed for retail property (led by NSW and VIC), but rents still falling in office and industrial, where positive returns in NSW in both markets were offset by falling rents in all other states, particularly WA. Rental growth is forecast for retail and industrial property in the next 1-2 years. Office rents to resume growing modestly in 2 years time (except in WA & SA/NT).

National vacancy rates edged up in all markets in Q2. Vacancy rates were lowest in retail where leasing activity has reportedly started improving in some segments. In contrast, supply overhangs and weak tenant demand in WA and QLD are continuing to weigh heavily on national office vacancies.

Developer confidence waned in Q2. Only 48% of developers are now planning to start new works in the next 6 months (58% in Q1).

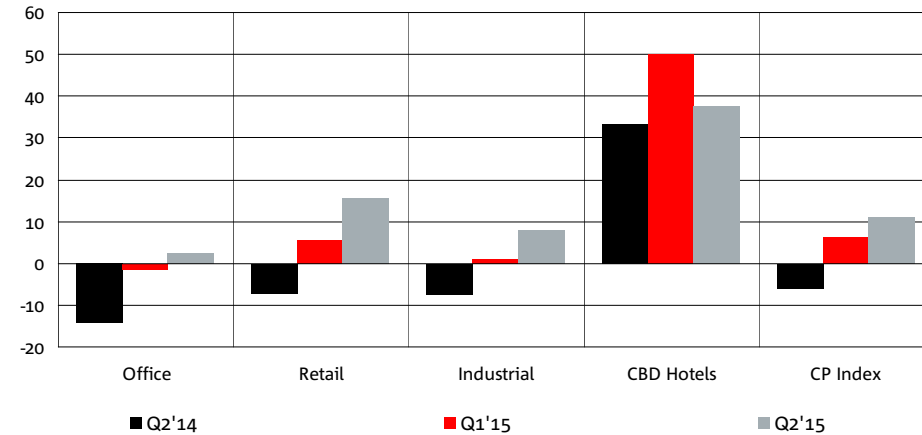
But more developers looking at commercial projects. Around 46% said they intend to start new residential projects (lowest since survey began), but 39% were looking at new industrial (16%), retail (14%) & office (9%) projects (up from a total of 26% in Q1).

Property developers also noted a deterioration in their debt and equity funding situations in Q2 and expect this to worsen in the next 6 months.

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

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NAB Commercial Property Index



NAB Commercial Property Index

	Q1'15	Q2'15	Next Qtr	Next 12mths	Next 2 yrs
Office	-2	3	8	28	35
Retail	6	16	17	34	42
Industrial	1	8	13	24	32
CBB Hotels	50	38	25	38	38
CP Index	6	11	13	30	37

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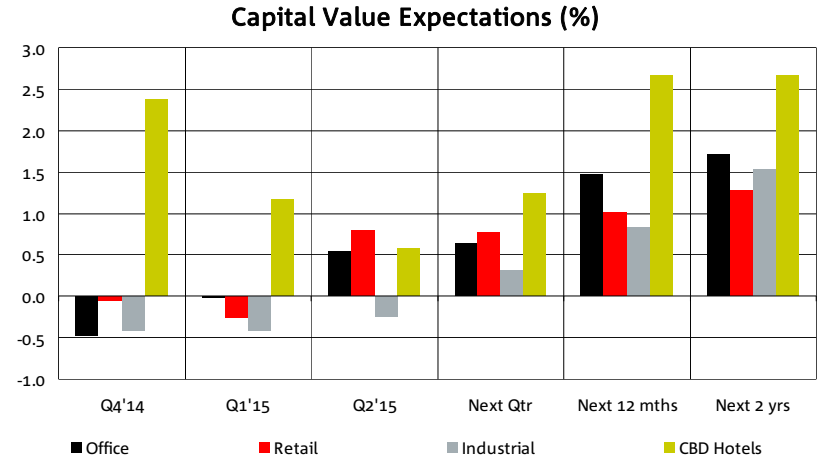
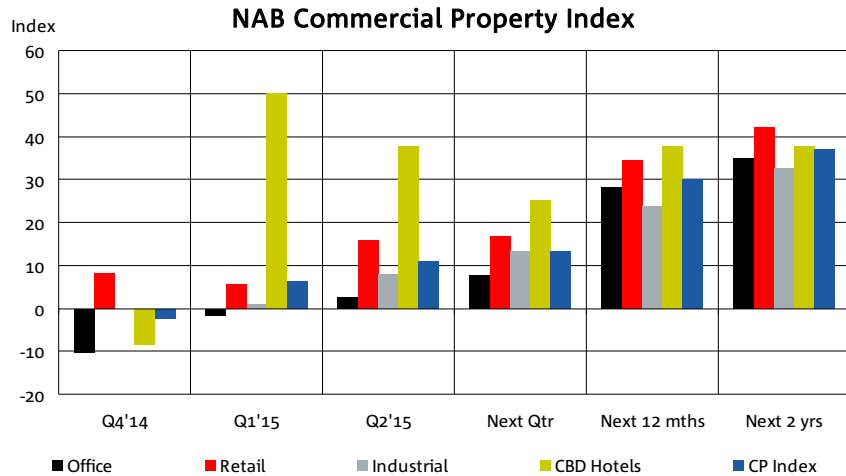
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Market Overview - Index, By State, Capital Value & Vacancy Expectations

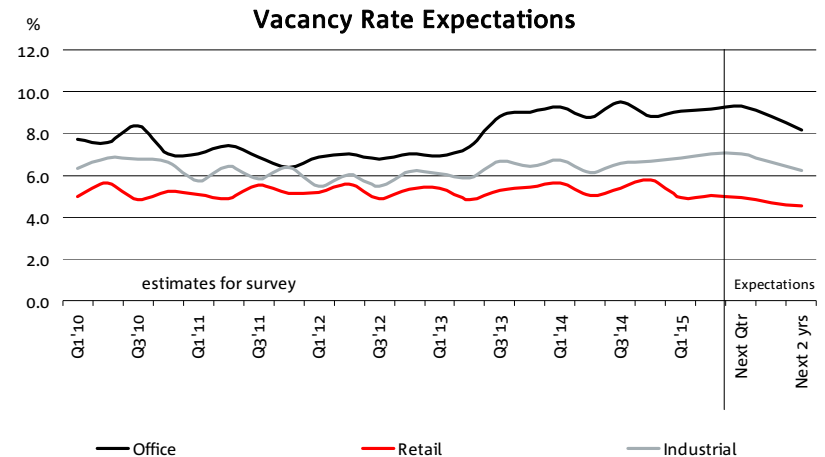
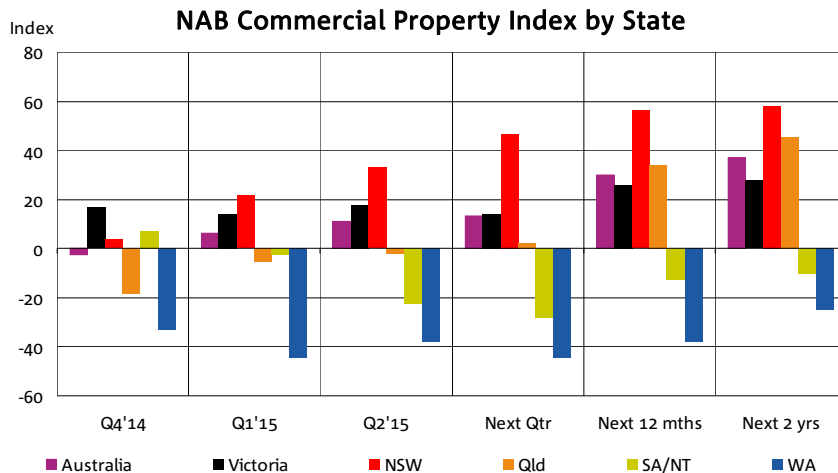
Market sentiment improves (and now positive) in most sectors, except CBD hotels (although still strongest overall). Outlook best for CBD hotels next year, but retail strongest in 2 years time. Office the biggest improver.

Capital returns highest for retail, ahead of CBD hotels & office in Q2, with industrial negative. Best returns expected for CBD hotels in next 1-2 yrs. Office the next best after a big upward revision in expectations.



Sentiment deeply negative in WA (but less weak than in Q1), falling faster in SA/NT and mildly negative in QLD. NSW up most and with VIC, the only positive states. NSW most optimistic in next 1-2 yrs. QLD replaces VIC as next most optimistic, with confidence in WA & SA/NT remaining negative.

Vacancy rates edge up in all markets. Supply overhangs and weak demand in WA & QLD weighing on national office market, but outlook improving. Industrial also improving in next 1-2 yrs. Vacancy rates lowest in retail where leasing activity improving in some segments.

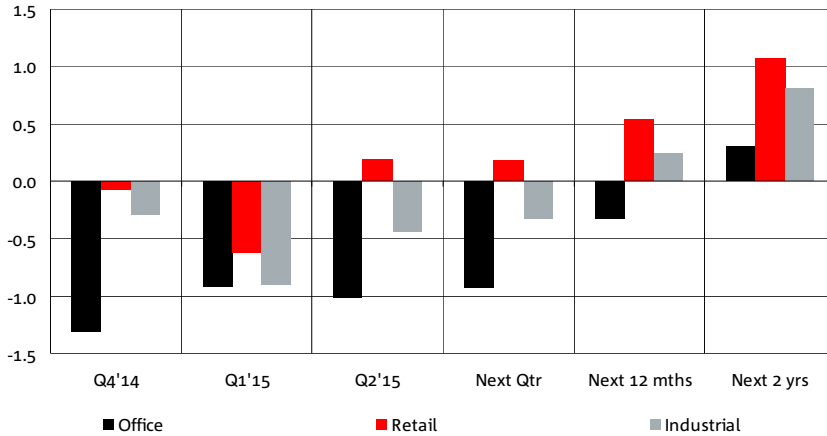


Market Overview - Rental & Recovery Expectations, Incentives & Supply

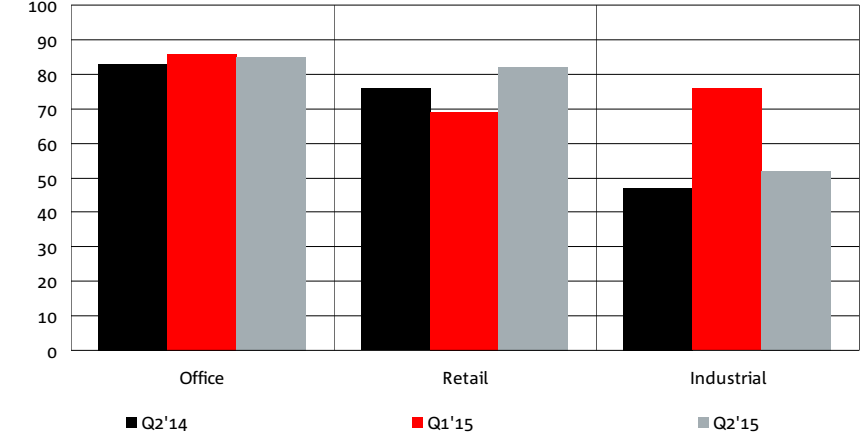
Rental growth resumes in retail, but still falling in office & industrial. Positive returns forecast for retail & industrial in next 1-2 years. Office rents to also resume growing modestly in 2 years time.

The importance of leasing incentives remains very high in office markets, and has increased in retail markets. Despite still weak rents, importance of leasing incentives for industrial property less important in Q2.

Gross Rental Expectations (%)



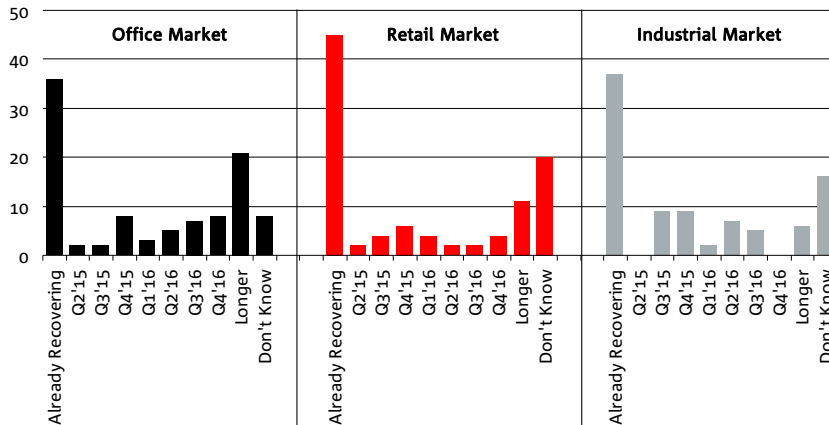
Importance of Leasing Incentives



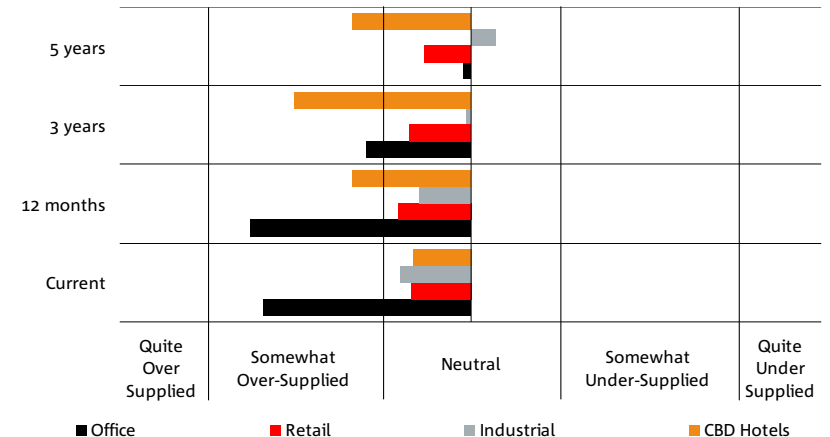
Majority of property professionals believe retail property market well into its recovery phase. Perceptions of office market quite mixed with more than 1 in 5 not expecting recovery to commence until at least 2017.

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 1-5 years.

Recovery Expectations

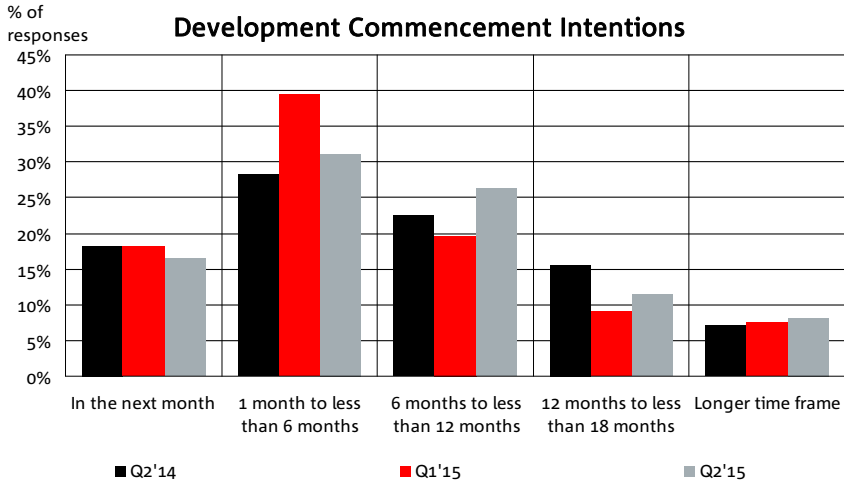


Supply Conditions

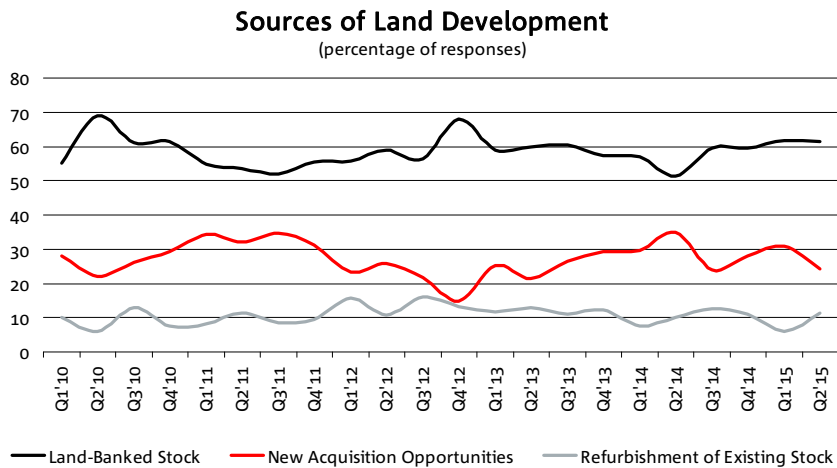


Market Overview - New Development Intentions, Sources of Land & Funding

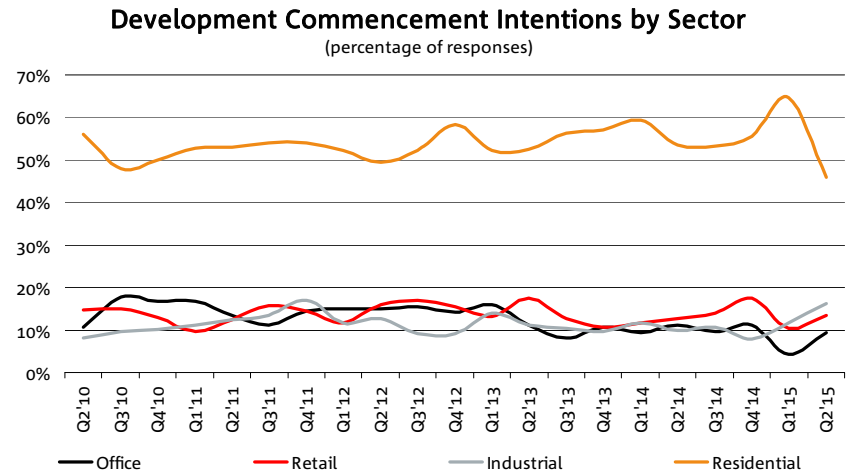
Short-term developer confidence has waned. Around 48% of developers planning to start new works in the next 0-6 months, down from 58% in the previous quarter.



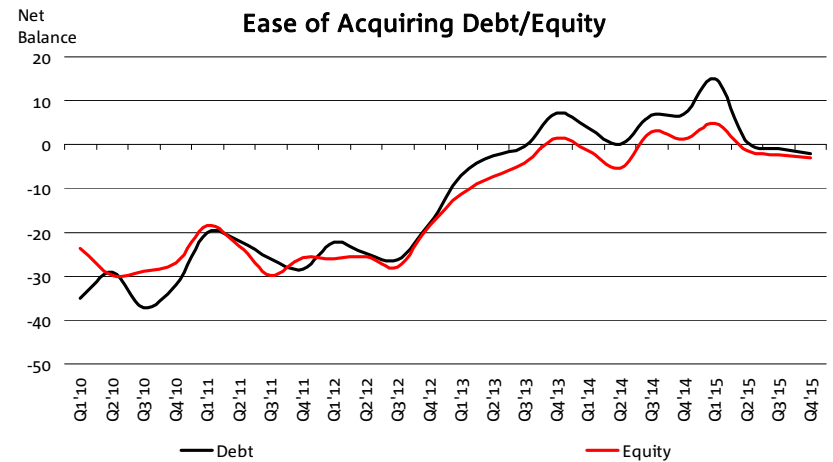
Almost two-thirds of new developments expected to be underpinned by land-banked stock. More developers (11%) are looking at refurbishments, while fewer are looking for new acquisitions (24%).



More developers intending to move away from residential and into commercial property. Only 46% of developers now intend to start new residential projects - its lowest level since survey began.

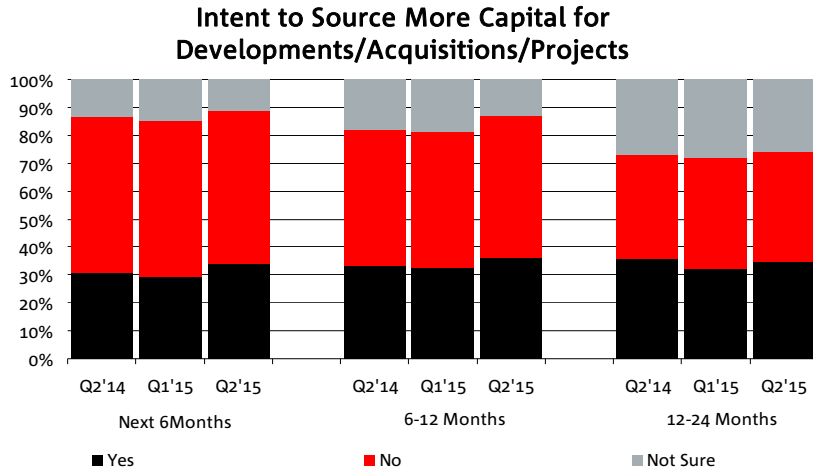


Property developers noted a deterioration in their debt and equity funding situations in Q2 and expect this situation to worsen over the next 6 months.

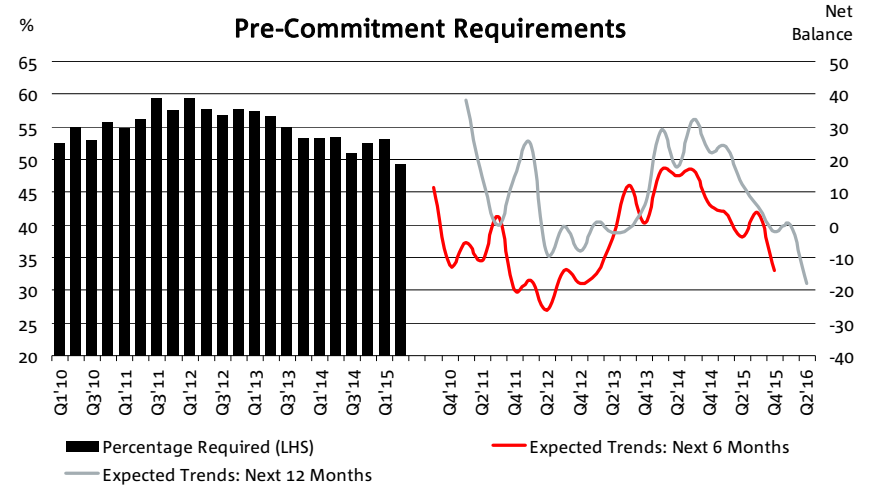


Market Overview - Capital Intentions, Pre-Commitments, Interest Rates, Challenges

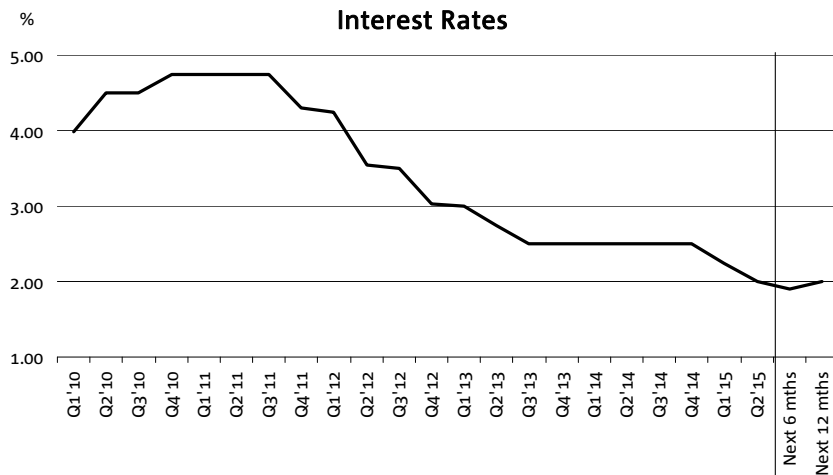
Despite a deterioration in their debt and equity funding situations in Q2, slightly more developers have nevertheless signalled an intent to source more capital over the next year.



The average pre-commitment percentage required to meet external debt funding requirements for new developments fell to 49.3% in Q2, but requirements are expected to tighten noticeably in the next 6-12 months.



On average, surveyed property professionals expect interest rates to turn up next year following an incremental fall in the next 6 months. NAB Economics also expect interest rates to be rising in late-2016.



Market Overview - Survey Respondents Expectations: Q2 2015

Office Capital Values (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'15	0.5	2.5	-0.5	-3.3	0.6	0.5
Q3'15	0.3	2.8	0.0	-3.2	0.0	0.6
Q2'16	0.7	4.5	1.1	-3.3	0.3	1.5
Q2'17	0.5	4.1	2.0	-2.0	0.6	1.7

Office Rents (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'15	-0.8	0.8	-1.2	-6.0	-1.0	-1.0
Q3'15	-1.0	1.2	-0.8	-6.6	-1.1	-0.9
Q2'16	-0.2	2.0	0.0	-5.9	-1.6	-0.3
Q2'17	0.3	2.3	0.7	-4.4	-1.3	0.3

Retail Capital Values (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'15	1.0	0.0	1.8	0.4	-1.8	0.8
Q3'15	1.2	0.2	1.5	0.0	-1.8	0.8
Q2'16	1.4	0.3	2.2	-0.6	-3.8	1.0
Q2'17	1.9	0.5	2.7	-1.1	-3.8	1.3

Retail Rents (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'15	0.1	1.3	0.0	-3.1	-1.8	0.2
Q3'15	-0.1	1.6	0.1	-3.8	-1.8	0.2
Q2'16	-0.1	2.1	1.2	-3.8	-3.8	0.5
Q2'17	0.4	2.8	1.8	-3.8	-3.8	1.1

Industrial Capital Values (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'15	-0.7	2.1	-0.4	-6.0	-3.3	-0.2
Q3'15	-0.7	2.9	0.4	-5.5	-3.3	0.3
Q2'16	-0.3	3.9	0.6	-5.5	-3.1	0.8
Q2'17	-0.9	4.2	1.6	-2.5	-2.6	1.5

Industrial Rents (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'15	-1.7	1.6	0.1	-5.0	-2.8	-0.4
Q3'15	-1.2	1.7	0.1	-5.1	-2.8	-0.3
Q2'16	-0.8	2.3	0.4	-4.3	-1.4	0.2
Q2'17	-1.4	2.7	1.3	-2.5	-1.4	0.8

Market Overview - Survey Respondents Expectations: Q2 2015

Office Vacancy Rates (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'15	6.6	7.8	11.2	12.7	10.7	9.2
Q3'15	6.6	7.7	11.2	13.3	11.7	9.3
Q2'16	5.9	7.5	10.1	13.3	11.7	8.8
Q2'17	4.8	7.2	9.2	12.4	11.0	8.1

Retail Vacancy Rates (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'15	5.2	5.0	5.0	3.7	7.0	5.1
Q3'15	5.2	4.6	5.0	3.7	7.0	4.9
Q2'16	4.8	4.4	4.2	4.3	8.0	4.7
Q2'17	5.0	4.8	3.2	3.7	8.0	4.5

Industrial Vacancy Rates (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'15	6.3	5.9	7.8	8.3	10.0	7.0
Q3'15	6.3	5.6	7.6	9.3	10.0	7.0
Q2'16	6.5	4.7	7.7	9.0	10.0	6.6
Q2'17	6.7	4.4	7.5	8.2	8.5	6.2

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.

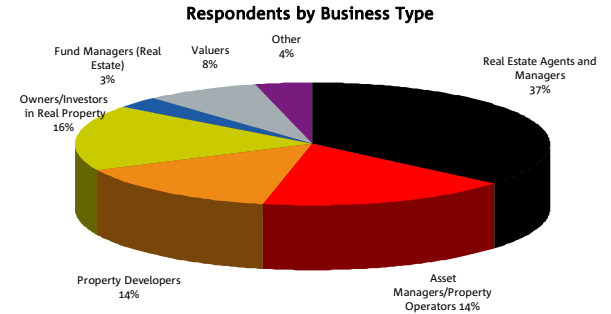
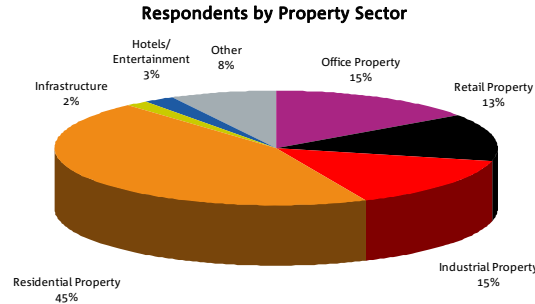
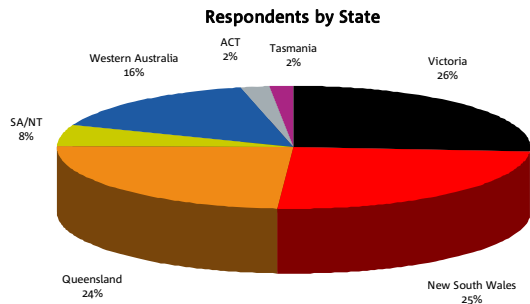
*Results for SA/NT may be biased due to a smaller sample size.

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 Q2 2015 Survey and the breakdown of Survey respondents - by location, property sector and business type - are shown below.



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