

NAB Commercial Property Survey - Market Overview

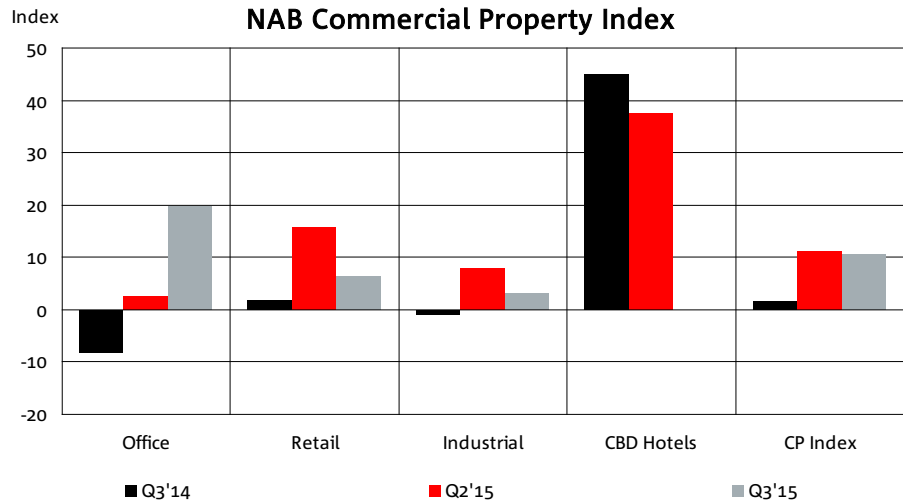
Q3 2015 by NAB Group Economics

Embargoed until: 11.30am Wednesday 18 November 2015



Summary

- **Sentiment in commercial property markets softened a little in Q3, but was still robust.** NAB's Commercial Property Index fell to +10 points (from a survey high +11 in Q2) as sentiment slipped in most sectors. Office was the exception, re-emerging as the strongest sector overall after lagging all other sectors since mid-2013. Sentiment fell most in CBD hotels and is now weakest overall.
- **Property professionals operating in the office and industrial sectors are the most confident over the next year.** However, confidence levels are expected to converge across all market segments in 2 years time.
- **Commercial property market sentiment continues to vary widely across states.** Sentiment remains deeply negative in WA & SA/NT and neutral in QLD. Softer in VIC (but still positive) and higher in NSW (and strongest overall). NSW is easily the most optimistic state in next 1-2 yrs and WA by far the most pessimistic state (negative but improving).
- **Capital returns were strongest in office** (1%) in Q3, led by NSW (2.3%) and flat for retail (0.1%) & industrial (0.2%). CBD hotels negative (-2.8%). Office markets tipped to provide the best returns in the next 1-2 yrs (1.5% & 1.4%), led by NSW & VIC. Industrial (1.1% & 1.3%) the next best, followed by retail (0.9% & 1.2%), with NSW & QLD leading gains in both markets. Expectations for capital growth in CBD hotels revised down (-0.6% & 0.3%) and now weakest overall.
- **Rents fell in all markets in Q3**, but outlook positive in all sectors in next 1-2 years, led by big upward revision in expectations for office rents (especially in VIC). Outlook also stronger for industrial (underpinned by higher returns in QLD & NSW). Retail unchanged, but positive in all markets except SA/NT.
- **Vacancy rates edged down in office and industrial, but were unchanged in retail in Q3.** Office vacancies to climb next year as higher vacancies in NSW, WA, & SA/NT impact market. Industrial improving in next 1-2 yrs and across most states (bar WA). Retail steady, but vacancies up slightly in NSW & VIC.
- **Short-term developer confidence improves.** Around 60% of developers are planning to start new works in next 6 months (48% in Q2). Around 58% of developers now targeting residential property (after falling to a low of 46% in Q2). Fewer developers targeting office and industrial.
- **Property developers noted a further deterioration in their debt and equity funding situations in Q3** and think it will continue to worsen over the next 6 months. Average pre-commitment percentage required to meet external debt funding has also risen and is expected to tighten further in next 6-12 months.



	Q2'15	Q3'15	Next Qtr	Next 12mths	Next 2 yrs
Office	3	20	20	28	29
Retail	16	6	9	18	28
Industrial	8	3	10	25	31
CBD Hotels	38	0	-10	10	30
CP Index	11	10	12	23	29

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

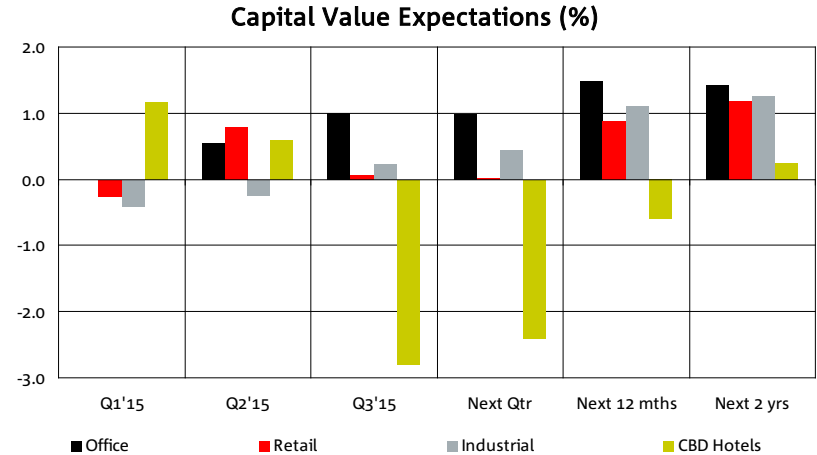
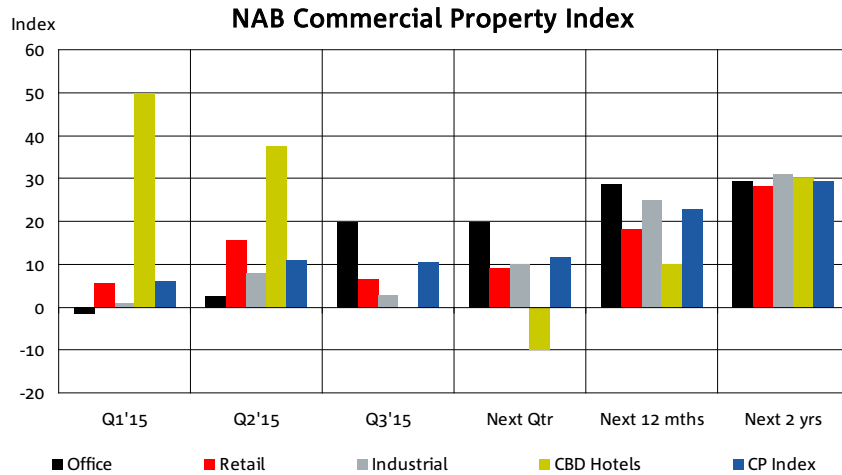
Robert De lure
Senior Economist - Behavioural & Industry Economics
(03) 8634 4611

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

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

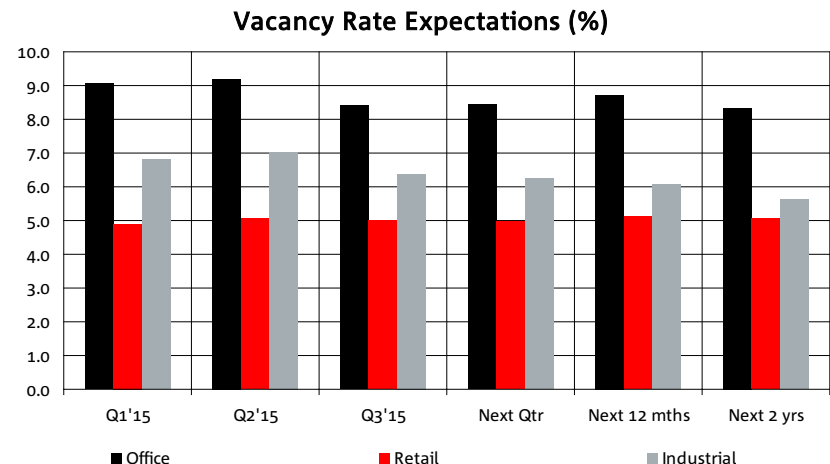
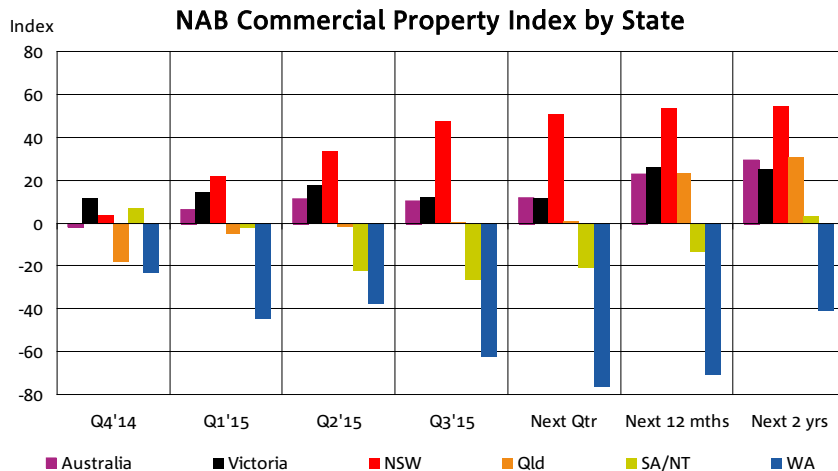
Market sentiment slips in all sectors except office which re-emerged as highest overall. Outlook strongest for office & industrial next year, but all sectors converging in 2 years time.

Capital returns highest for office and flat for retail & industrial. CBD hotels negative. Office to provide best capital returns in next 1-2 yrs. Outlook for CBD hotels revised down heavily and now weakest overall.



Sentiment still deeply negative in WA & SA/NT and neutral in QLD. Softer in VIC (but still positive) and higher in NSW (strongest overall). NSW easily the most optimistic state in next 1-2 yrs and WA by far the most pessimistic state (negative but improving).

Vacancy edged down in office & industrial; unchanged for retail. Office vacancies to climb next year as higher vacancies in NSW, WA, & SA/NT impact market. Industrial improving in next 1-2 yrs and in most states (bar WA). Retail steady, but vacancies up slightly in NSW & VIC.

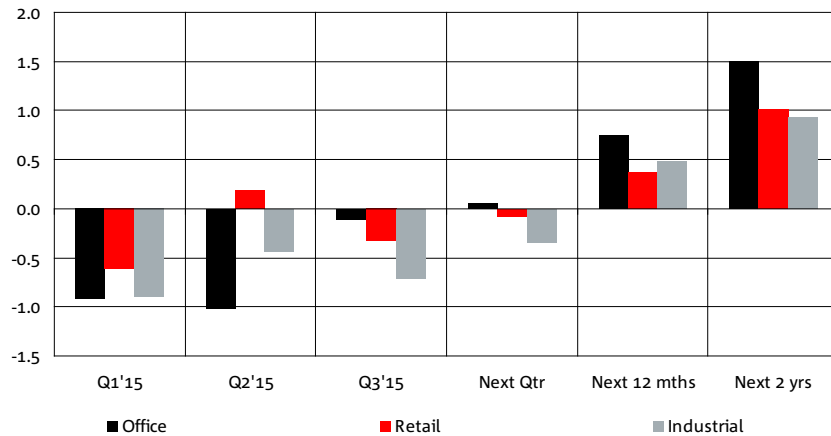


Market Overview - Rental Expectations, Supply & Development Intentions

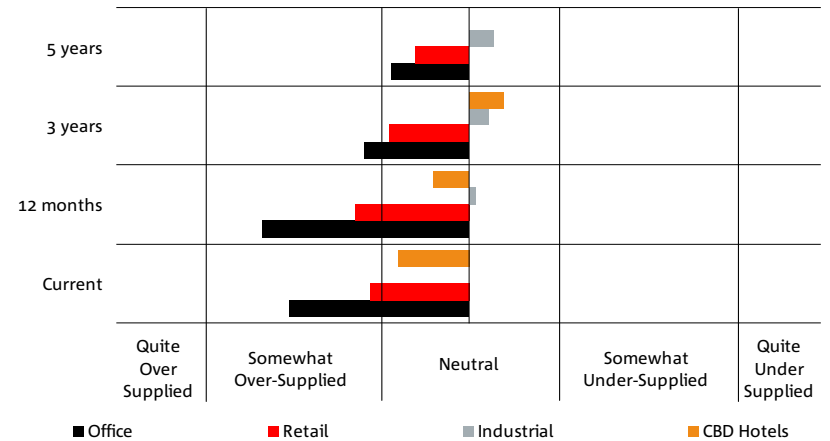
Rental growth negative in all markets in Q3. Outlook positive in all sectors in next 1-2 yrs, led by big upward revision in expectations for office rents (esp. in VIC). Outlook also stronger for industrial; unchanged for retail.

Office market "somewhat" over-supplied in next 1-3 yrs (WA & SA/NT). Retail over-supply in short-term (SA/NT, VIC & NSW). Industrial balanced (under-supply in NSW offset by SA/NT & WA). CBD hotels "neutral".

Gross Rental Expectations (%)



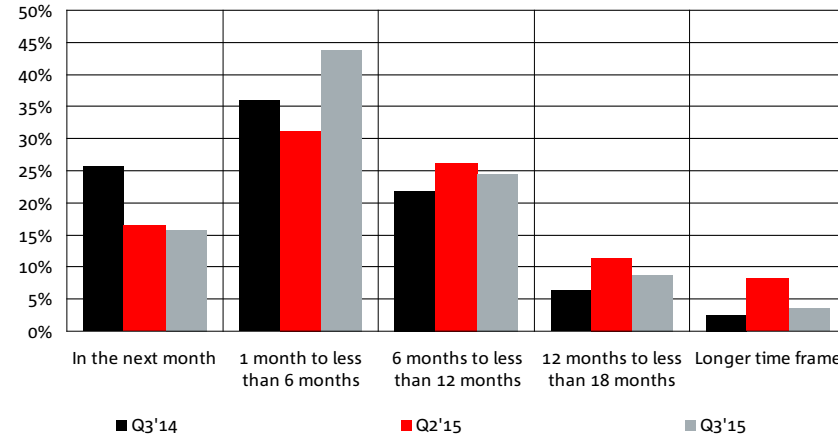
Supply Conditions



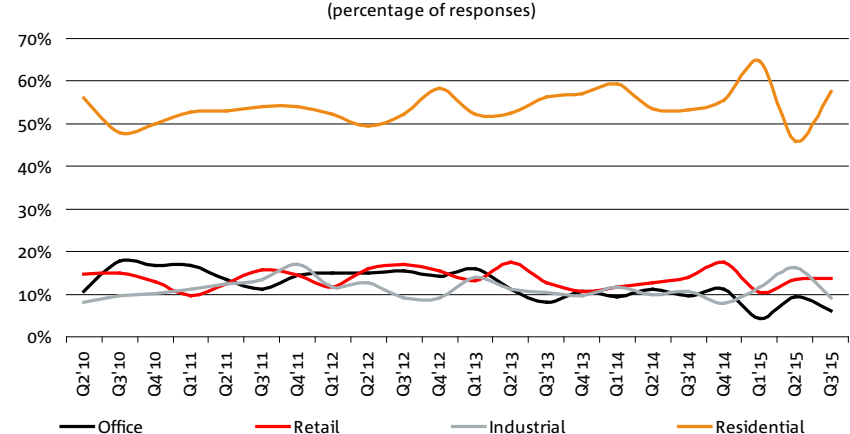
Short-term developer confidence improves. Around 60% of developers said they plan to start new works in the next 0-6 months, up from 48% in the previous quarter.

For those developers intending to start new projects, around 58% were targeting residential property (after having fallen to a low of 46% in the last survey). Fewer targeting office and industrial; retail unchanged.

Development Commencement Intentions



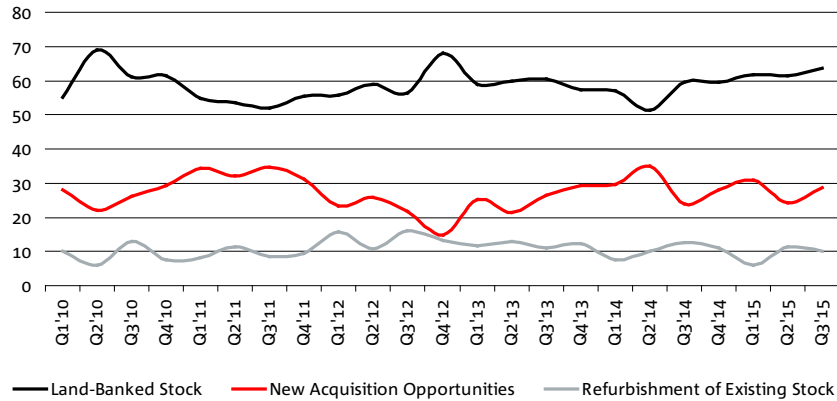
Development Commencement Intentions by Sector



Overview - Land Development, Funding, Capital Intentions & Pre-Commitments

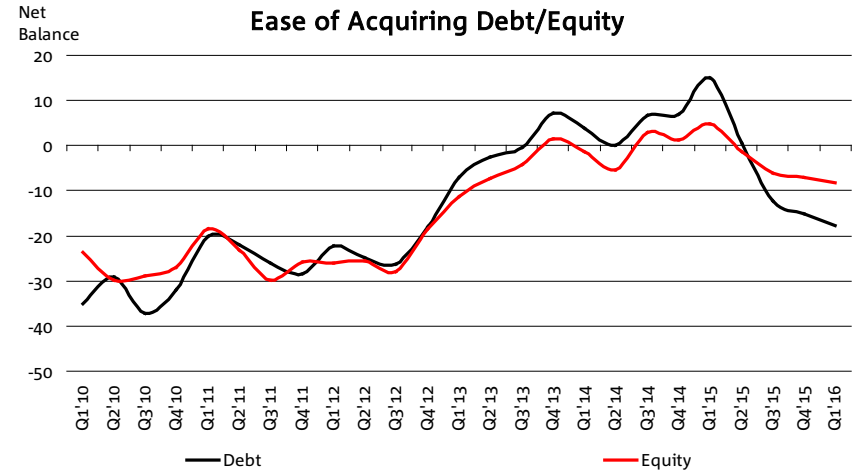
Around two-thirds of new developments expected to be underpinned by land-banked stock. More developers (29%) are looking for new acquisitions, while fewer are looking to refurbish existing stock (10%).

Sources of Land Development
(percentage of responses)



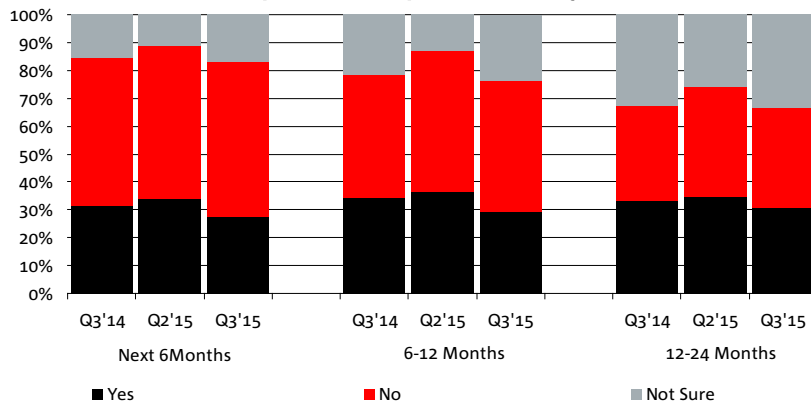
Property developers noted a further deterioration in their debt and equity funding situations in Q3 (now net negative overall) and expect this situation to continue to worsen over the next 6 months.

Ease of Acquiring Debt/Equity



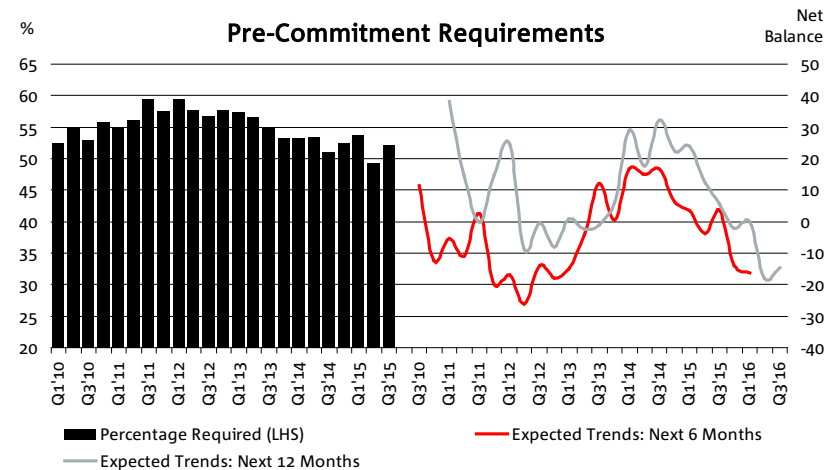
Fewer developers intend to source capital in the short-term, despite an increase in the number of developers also planning to start new works. This may indicate an improvement in underlying capital positions.

Intent to Source More Capital for Developments/Acquisitions/Projects



The average pre-commitment percentage required to meet external debt funding requirements for new developments rose to 52.1% in Q3. Survey on balance expect this situation to worsen in next 6-12 months.

Pre-Commitment Requirements



Market Overview - Survey Respondents Expectations: Q3 2015

Office Capital Values (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'15	0.8	2.3	0.0	-2.7	-0.5	1.0
Q4'15	1.0	2.4	-0.2	-3.9	-0.5	1.0
Q3'16	1.3	3.5	0.2	-4.8	-0.7	1.5
Q3'17	1.5	2.8	0.0	-3.3	0.8	1.4

Office Rents (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'15	0.6	1.0	-0.4	-7.3	-1.3	-0.1
Q4'15	0.5	1.4	-0.7	-7.1	-1.3	0.1
Q3'16	2.2	2.1	-0.2	-7.1	-0.8	0.7
Q3'17	3.5	2.5	0.7	-4.8	-0.6	1.5

Retail Capital Values (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'15	-1.0	0.9	0.6	0.1	-3.2	0.1
Q4'15	-1.3	1.1	0.7	-0.9	-2.6	0.0
Q3'16	-0.9	2.1	1.8	-0.4	-2.3	0.9
Q3'17	-0.6	1.6	2.8	0.9	-2.3	1.2

Retail Rents (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'15	-1.7	0.9	-0.5	-0.4	-2.4	-0.3
Q4'15	-1.2	1.3	-0.4	-1.1	-1.8	-0.1
Q3'16	-0.5	1.7	0.0	-1.3	-1.1	0.4
Q3'17	0.1	2.0	0.8	0.4	-0.1	1.0

Industrial Capital Values (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'15	-0.7	2.0	0.7	-3.2	-1.5	0.2
Q4'15	-0.3	2.3	0.9	-3.4	-1.5	0.4
Q3'16	0.5	3.0	1.5	-3.7	-0.8	1.1
Q3'17	0.6	2.3	2.2	-1.8	-0.4	1.3

Industrial Rents (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'15	-0.5	0.5	0.2	-4.3	-3.0	-0.7
Q4'15	0.0	1.0	0.4	-4.5	-2.1	-0.3
Q3'16	0.4	1.7	1.8	-4.2	-1.8	0.5
Q3'17	0.6	2.0	2.3	-3.5	-0.9	0.9

Market Overview - Survey Respondents Expectations: Q3 2015

Office Vacancy Rates (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'15	5.6	7.0	12.3	13.0	10.1	8.4
Q4'15	5.3	6.9	12.0	14.3	10.7	8.5
Q3'16	5.3	7.7	11.5	14.3	10.4	8.7
Q3'17	5.0	7.3	10.5	13.0	11.7	8.3

Retail Vacancy Rates (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'15	4.8	5.4	4.8	3.0	5.0	5.0
Q4'15	4.8	5.2	5.0	3.0	5.5	5.0
Q3'16	5.0	5.8	4.6	3.0	5.5	5.1
Q3'17	5.3	5.9	4.4	2.3	5.0	5.1

Industrial Vacancy Rates (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'15	6.0	5.1	7.3	6.3	10.5	6.4
Q4'15	5.8	4.8	7.0	7.8	10.0	6.3
Q3'16	5.6	4.9	6.1	7.8	9.5	6.1
Q3'17	5.7	4.0	5.9	7.8	9.0	5.6

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.

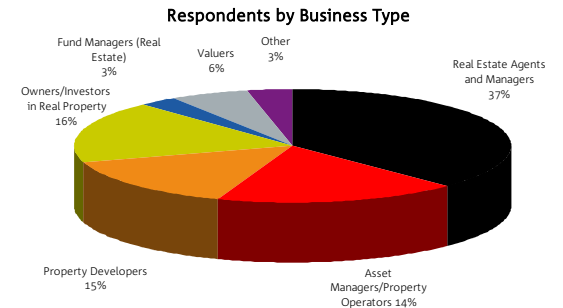
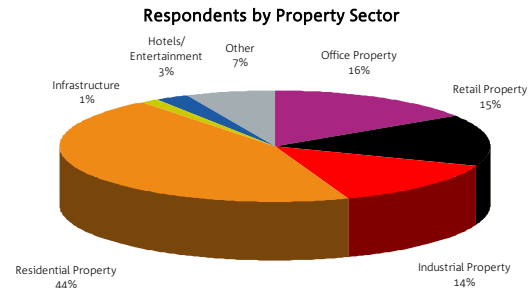
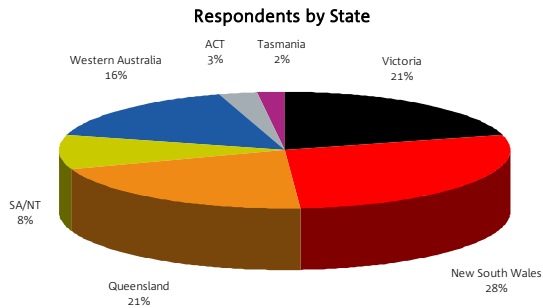
*Results for SA/NT may be biased due to a smaller sample size.

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 250 panellists participated in the Q3 2015 Survey and the breakdown of 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

Riki Polygenis
Head of Australian Economics
+61 3 8679 9534

James Glenn
Senior Economist - Australia
+61 3 9208 8129

Vyanne Lai
Economist - Australia
+61 3 8634 0198

Amy Li
Economist - Australia
+61 3 8634 1563

Phin Ziebell
Economist - Agribusiness
+61 4 75 940 662

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

Behavioural & Industry Economics

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

Robert De Iure
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

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

Tapas Strickland
Economist
+61 2 9237 1980

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

Andrew Jones
Credit Analyst
+61 3 8641 0978

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.