

NAB Commercial Property Survey - Market Overview Q1 2016

by NAB Group Economics

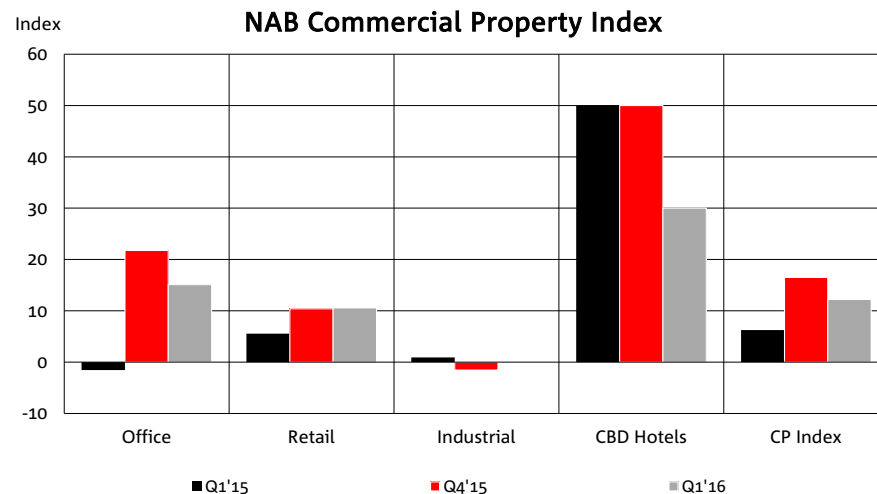
Embargoed until: 11.30am Wednesday 27 April 2016



Key Findings

- **Commercial property market sentiment softened**, with NAB's Commercial Property Index falling to +12 in Q1'16 - from a Survey high +17 in Q4'15 but above the Survey average (-4). Outcomes were however mixed across sectors. Sentiment eased in CBD Hotels and Office, was broadly unchanged for Retail and up slightly for Industrial.
- **By sector, most markets are tracking above Survey average levels**, except CBD Hotels (but it continues to out-perform the broader market). Property professionals in this sector are also the most confident going into next year, but confidence levels are broadly similar in all market sectors in 2 years' time.
- **Big differences remain apparent across states**. Sentiment improved in NSW and it continues to lead the country. Further gains were also reported in WA, although it is still deeply negative and by far the weakest of all states. Sentiment eased in all other states, with very big falls in SA/NT. NSW is still the most optimistic state over the next 1-2 years, VIC the big improver and WA the most pessimistic, but only just ahead of SA/NT.
- **Capital values to increase most for CBD hotels in the next 1-2 years** (1.4% & 3.4%). Office (1.1% & 1.3%) next best with positive returns in NSW & VIC masking weakness elsewhere, particularly in WA & SA/NT. Retail capital growth (1% & 1.3%) underpinned by NSW, QLD & WA, with modest returns for Industrial property (0.4% & 0.8%) dragged down by heavy falls in WA & SA/NT.
- **Office rental market improving**. On average, Office rents to grow 1.1% & 1.5% in the next 1-2 years, with positive returns in NSW & VIC offsetting falls in other states, particularly WA & QLD where vacancy rates are expected to remain at double digit levels. Overall outlook for Industrial rents also positive (0.5% & 0.9%), but solid gains in VIC, NSW & QLD being offset by falls in SA/NT & WA. Retail rents broadly stable (-0.1% & 0.4%), with NSW out-performing.
- **Fewer developers are looking to enter the market in the near term** - around 50% plan to start new works in next 0-6 months (52% in Q4 and 58% a year ago). For developers intending to start new projects, a Survey low 38% are targeting Residential (54% in Q4), 14% targeting Office (highest level since Q1'13) and 20% looking at Retail opportunities (new Survey high).
- **Property developers noted a further deterioration in their debt and equity funding situations** (net negative overall) and expect it to worsen in the next 6 months, particularly for debt financing. The average pre-commitment percentage required to meet external debt funding requirements for new developments has also risen for the fourth straight quarter to 54%.

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



	Q4'15	Q1'16	Next Qtr	Next 12mths	Next 2 yrs
Office	22	15	20	29	29
Retail	10	11	10	28	29
Industrial	-2	0	7	19	28
CBD Hotels	50	30	30	40	30
CP Index	17	12	15	28	29

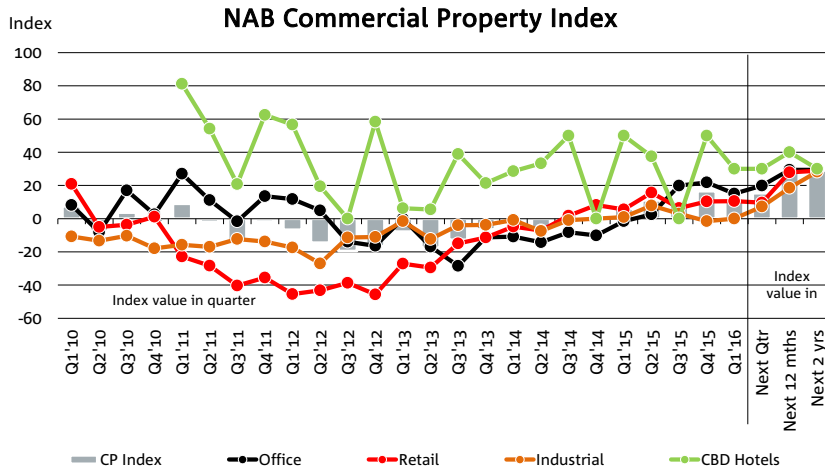
Alan Oster
Chief Economist
(03) 8634 2927
0414 444 652 (mobile)

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

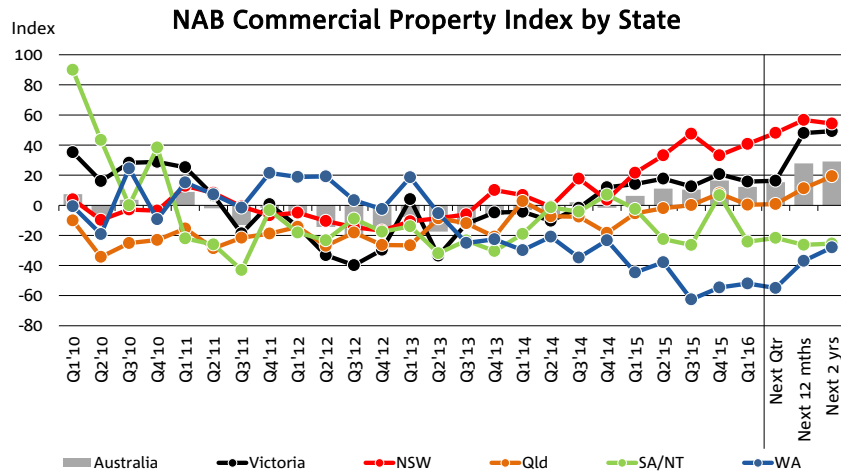
Robert De Iure
Senior Economist - Behavioural & Industry Economics
(03) 8634 4611

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

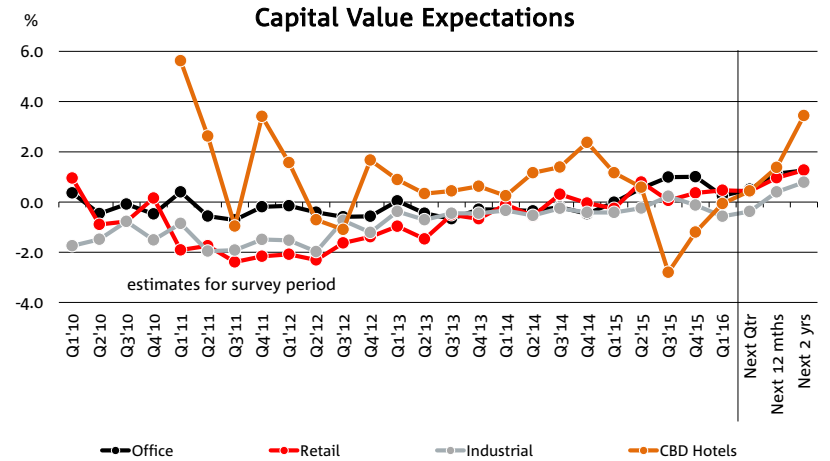
NAB's commercial property index fell +12 in Q1'16 from a survey high +17 in Q4. Sentiment eased in CBD Hotels and Office, was unchanged for Retail and up slightly for Industrial. Outlook for the next year is strongest for CBD Hotels, but all sectors to converge in 2 years time.



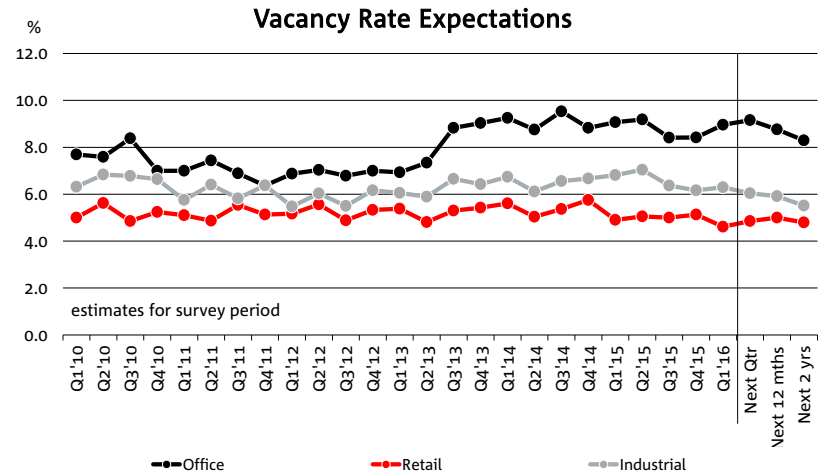
Market sentiment was mixed across states. It improved in NSW (still strongest overall), fell in VIC (next best), QLD & SA/NT (heavily) and remains very weak in WA. NSW is still the most optimistic state looking forward and WA the most pessimistic, but only just ahead of SA/NT.



Capital returns for Retail & Office property positive in Q1, but fell for Industrial & CBD Hotels. CBD Hotels expected to provide the best capital returns in the next 1-2 yrs. Steady growth is expected for Office & Retail property with modest returns also forecast for Industrial property.



National vacancy rates edged up for Office (led by NSW & SA/NT) & Industrial property in Q4, and fell in Retail. Office vacancy to tighten over the next 1-2 years, with lower rates in all states except WA. Industrial vacancy also tighter (and in most states), but Retail steady.

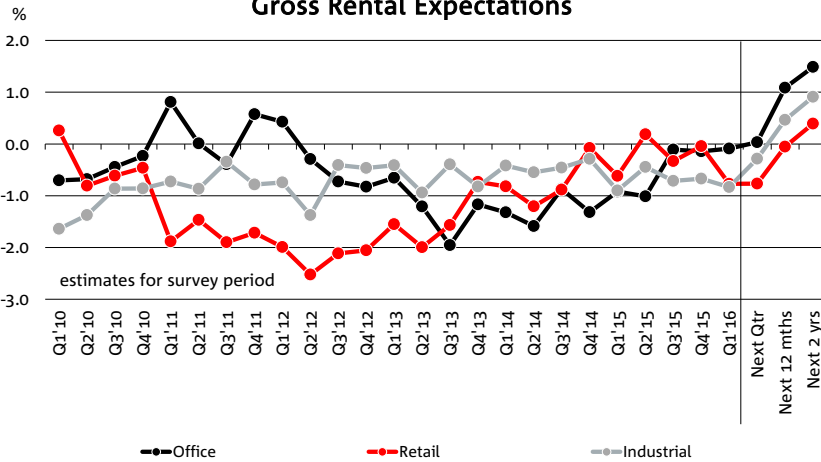


Market Overview - Rental Expectations, Supply & Development Intentions

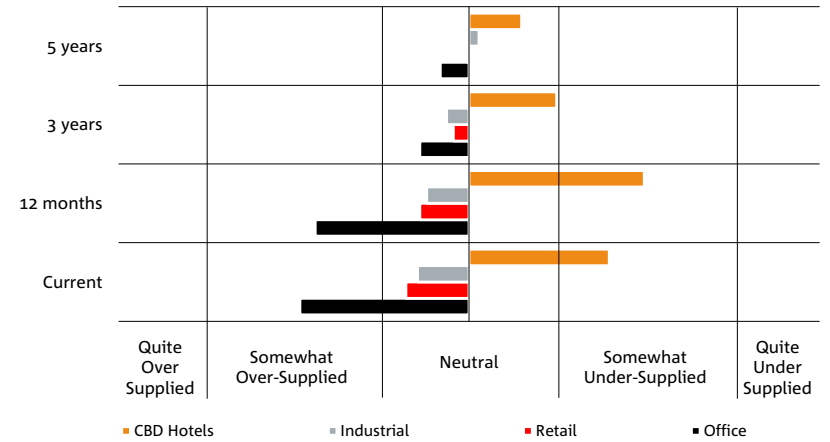
Momentum in Office rental market continues to improve, with growth outlook over next 1-2 years strongest overall (led by NSW & VIC, and falling in WA & SA/NT). Outlook for Industrial rents also positive (led VIC). Income returns tipped to be weakest for Retail, with NSW out-performing.

CBD Hotels market currently assessed as "somewhat under-supplied". Office markets are "somewhat" over-supplied" and expected to remain so next year (reflecting large supply overhangs in WA & QLD). Retail & Industrial markets "neutral" and expected to remain so in next 1-5 years.

Gross Rental Expectations



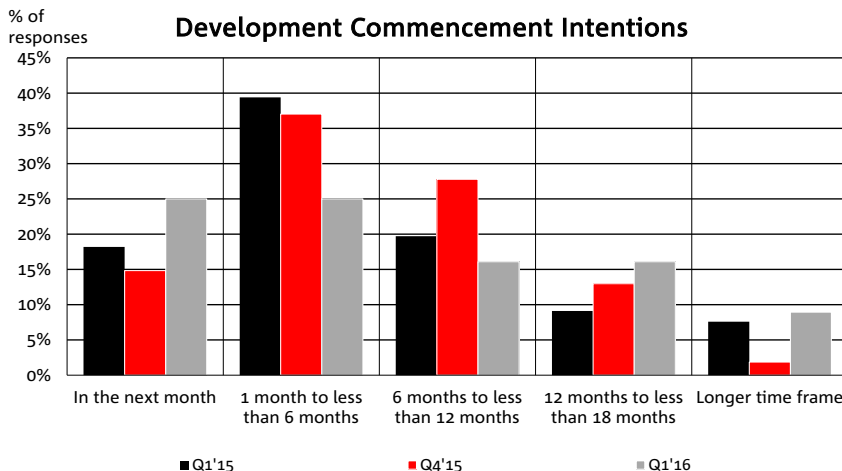
Supply Conditions



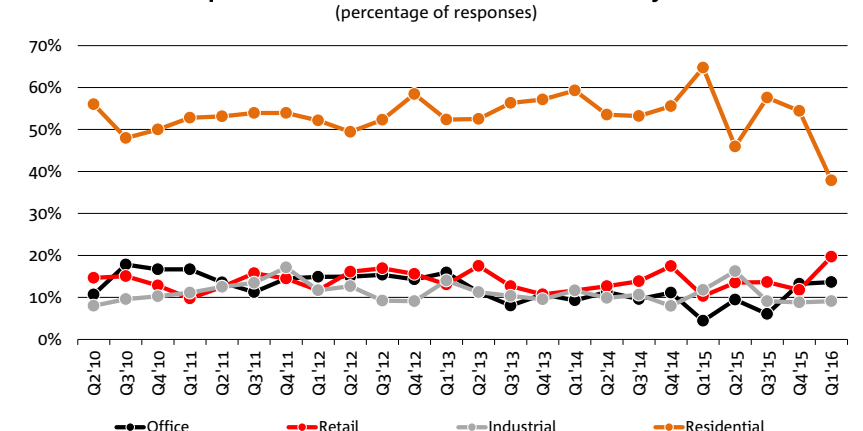
Short-term developer confidence weakened further in Q1. Around 50% of developers said they plan to start new works in the next 0-6 months (down from 52% in Q4 and 58% a year ago). Around 32% are planning to commence works in the next 6-18 months (also down from 41% in Q4).

For developers intending to start new projects, a Survey low 38% are targeting Residential property (54% in Q4). Around 14% of developers are targeting Office property development (the highest level since Q1'13, with 13% and a Survey high 20% now looking at Retail opportunities).

Development Commencement Intentions



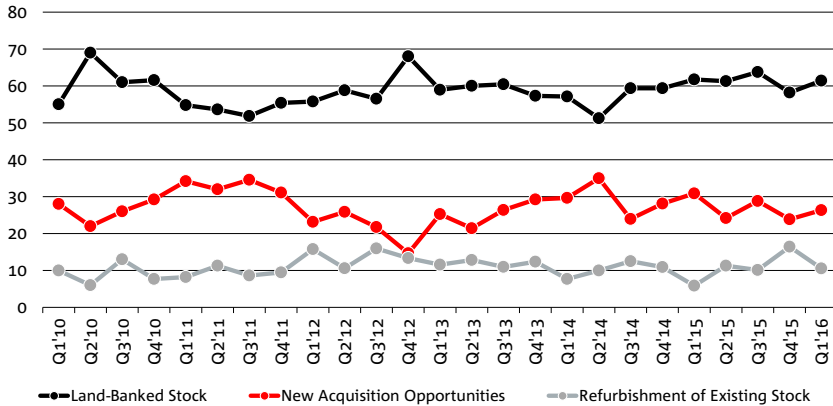
Development Commencement Intentions by Sector



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

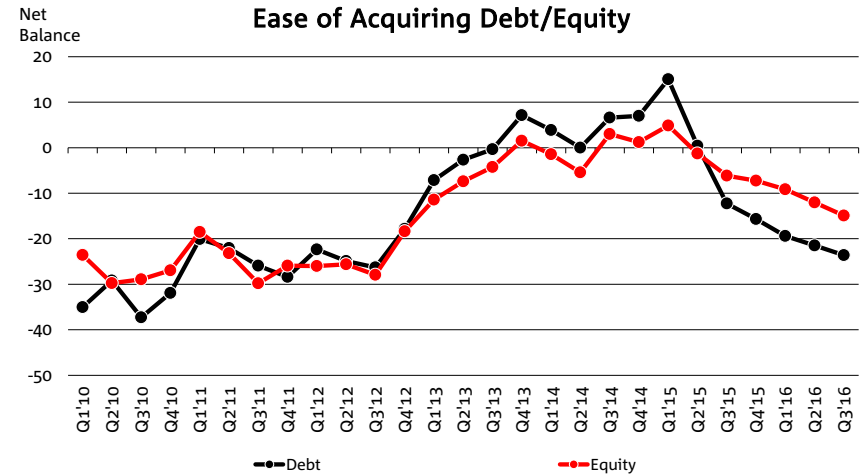
Around 61% of new developments expected to be underpinned by land-banked stock (58% in Q3). More developers (26%) also looking at new acquisitions, but fewer are looking to refurbish existing stock (11%).

Sources of Land Development
(percentage of responses)



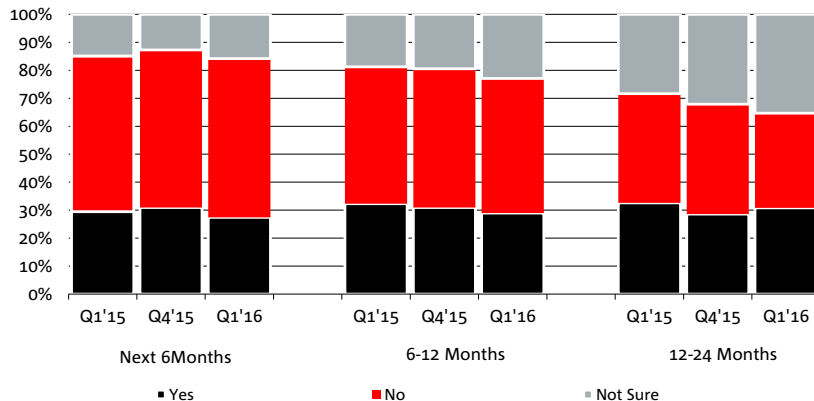
Property developers are continuing to see deterioration in their debt and equity funding situations (net negative overall) and expect it to continue worsening over the next 6 months, particularly for debt financing.

Ease of Acquiring Debt/Equity



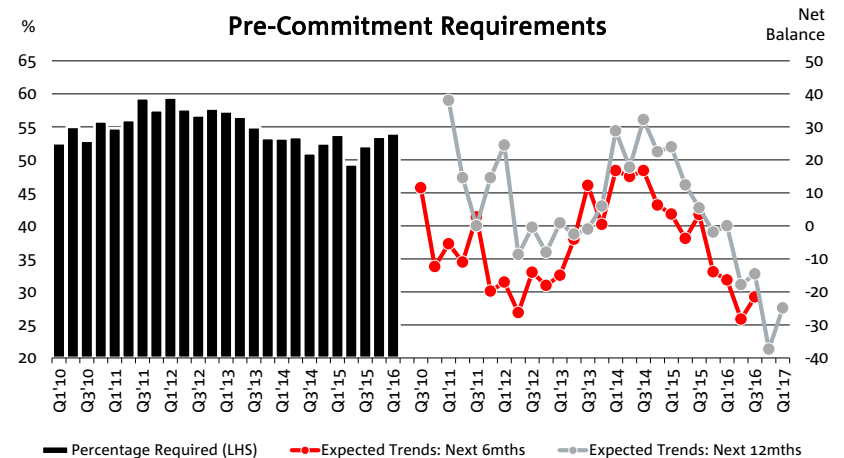
With fewer property developers looking to start new works in the near-term, it is not surprising that fewer developers are also intending to source capital in the short-term. Only 27% said they plan to source capital in the next 6 months, down from 31% in Q4 and 29% a year ago.

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 for the fourth straight quarter to 54% in Q1. On balance, more developers expect the situation to worsen in the next 6-12 months (albeit fewer than in Q4).

Pre-Commitment Requirements



Market Overview - Survey Respondents Expectations (average): Q1 2016

Office Capital Values (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'16	0.4	1.3	-0.2	-5.3	-0.4	0.3
Q2'16	0.4	1.5	-0.2	-3.4	-0.4	0.5
Q1'17	1.1	2.7	-0.2	-3.0	-0.9	1.1
Q1'18	2.0	2.2	0.4	-1.3	-0.4	1.3

Office Rents (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'16	-0.9	1.5	-0.9	-4.5	-3.0	-0.1
Q2'16	-0.9	1.8	-1.1	-4.0	-3.0	0.0
Q1'17	0.7	3.2	-0.2	-4.1	-2.6	1.1
Q1'18	1.5	3.4	-0.4	-1.4	-2.7	1.5

Retail Capital Values (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'16	-0.9	1.0	1.5	1.8	-0.6	0.5
Q2'16	-1.1	1.0	1.7	1.4	-0.6	0.4
Q1'17	0.0	2.0	1.3	1.8	-1.3	1.0
Q1'18	0.5	2.1	1.8	1.9	-1.3	1.3

Retail Rents (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'16	-2.0	0.3	0.0	-3.8	0.6	-0.8
Q2'16	-1.8	0.2	0.0	-3.8	0.6	-0.8
Q1'17	-0.4	0.8	0.2	-2.8	0.0	-0.1
Q1'18	0.2	0.9	0.4	-1.1	0.7	0.4

Industrial Capital Values (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'16	0.2	1.2	-0.7	-4.4	-5.0	-0.6
Q2'16	0.5	1.2	-0.1	-4.3	-4.4	-0.4
Q1'17	1.6	1.7	1.3	-3.3	-4.4	0.4
Q1'18	1.6	1.7	2.4	-1.2	-5.6	0.8

Industrial Rents (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'16	1.1	0.5	-1.3	-5.0	-4.5	-0.8
Q2'16	1.4	0.8	-0.5	-4.3	-2.8	-0.3
Q1'17	1.9	1.6	0.5	-2.7	-3.4	0.5
Q1'18	2.5	1.5	1.7	-1.2	-4.1	0.9

Market Overview - Survey Respondents Expectations (average): Q1 2016

Office Vacancy Rates (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'16	5.0	7.4	12.0	11.5	13.0	9.0
Q2'16	4.5	7.3	12.0	15.0	13.0	9.2
Q1'17	3.5	7.1	11.2	15.0	12.2	8.8
Q1'18	3.0	6.6	11.0	15.0	11.4	8.3

Retail Vacancy Rates (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'16	4.1	4.6	5.2	5.7	3.7	4.6
Q2'16	3.7	5.3	5.4	5.7	4.3	4.9
Q1'17	3.9	5.5	5.2	5.7	5.7	5.0
Q1'18	3.4	5.5	5.0	5.7	5.7	4.8

Industrial Vacancy Rates (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'16	3.9	5.9	8.1	8.3	7.0	6.3
Q2'16	3.9	5.6	7.9	7.8	7.5	6.0
Q1'17	4.2	5.7	6.7	7.0	8.0	5.9
Q1'18	3.8	5.6	5.7	5.8	8.5	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.

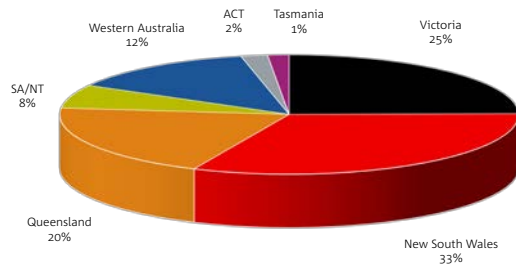
About the Survey

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.

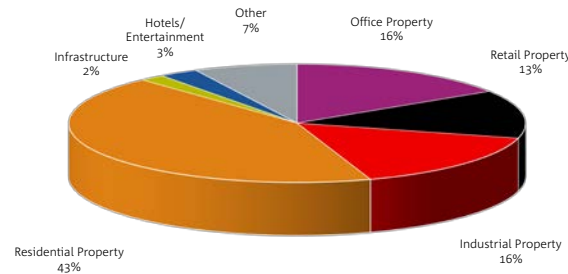
The large external panel of respondents consisted of Real Estate Agents/Managers, Property Developers, Asset/Fund Managers and Owners/Investors.

Around 270 panellists participated in the Q1 2016 Survey and the breakdown of Survey respondents - by location, property sector and business type - are shown below.

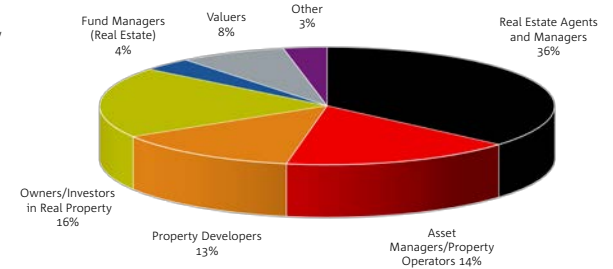
Respondents by State



Respondents by Property Sector



Respondents by Business Type



Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

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

Steven Wu
Senior Analyst – Behavioural & Industry Economics
+(613) 9208 2929

Australian Economics and Commodities

Riki Polygenis
Head of Australian Economics
+61 3 8679 9534

James Glenn
Senior Economist - Australia
+(61 2) 9237 8017

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

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.