

NAB Commercial Property Survey: Office Market Q1 2016

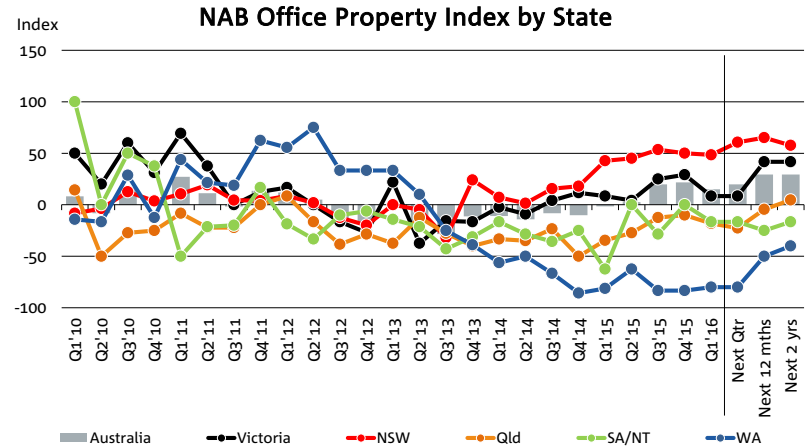
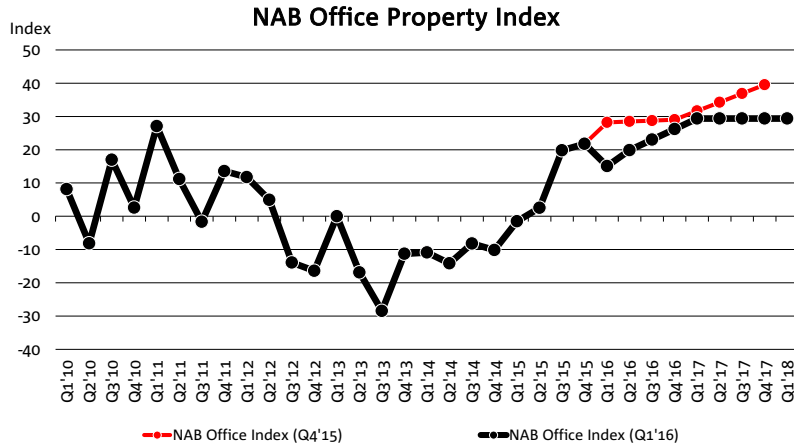
by NAB Group Economics



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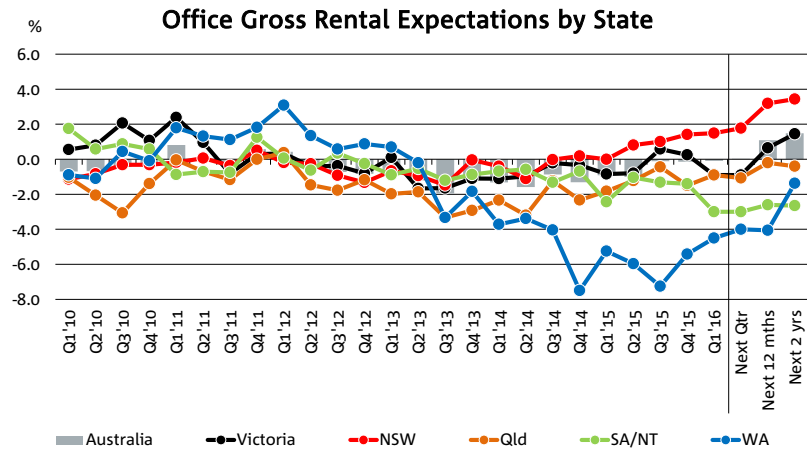
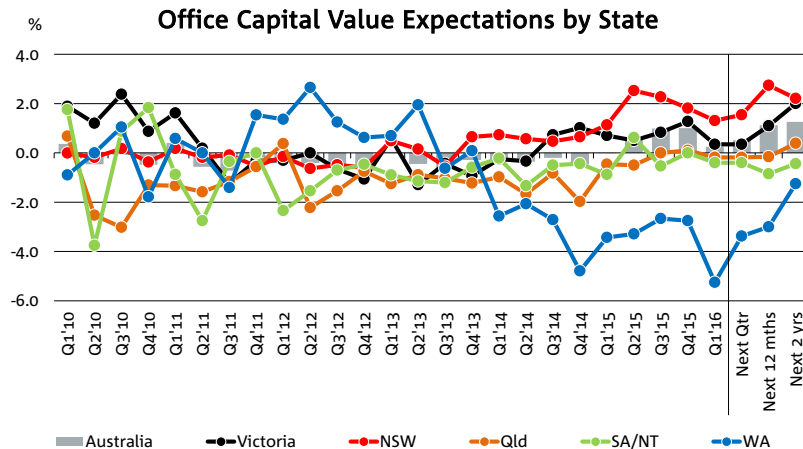
National Office market sentiment softened. NAB's Office Property Index fell to +15 to (+22 in Q4) but remains well above its long-term average (+1). Forward looking indicators for the next 1-2 years softened, suggesting that confidence has also moderated a little.

Office market sentiment fell in all states (except WA) and continues to be underpinned by NSW (strongest overall) & VIC. All other states negative, especially WA where sentiment remains at near record lows. Looking forward, confidence strongest in NSW & VIC, and lagging in WA & SA/NT.



Capital growth in Q1 strongest in NSW (1.3%) & VIC (0.4%) in Q1. It fell mildly in QLD (-0.2%) & SA/NT (-0.4%) and heavily in WA (-5.3%). NSW & VIC to provide the biggest capital gains in the next 1-2 years, with values tipped to continue falling heavily in WA and to a lesser extent in SA/NT.

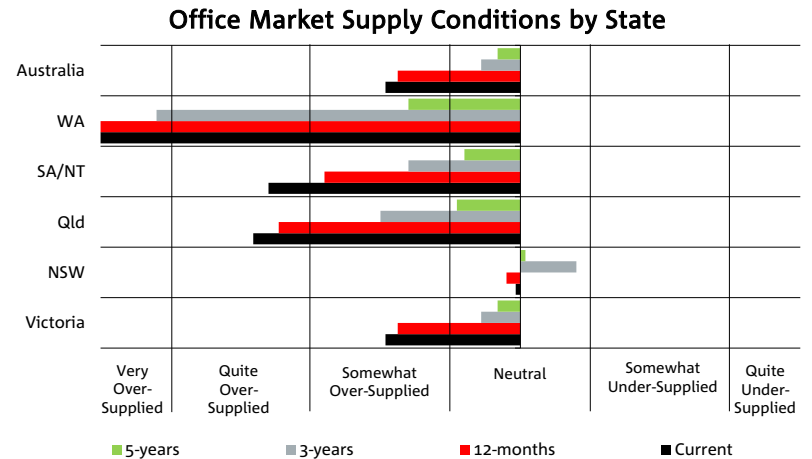
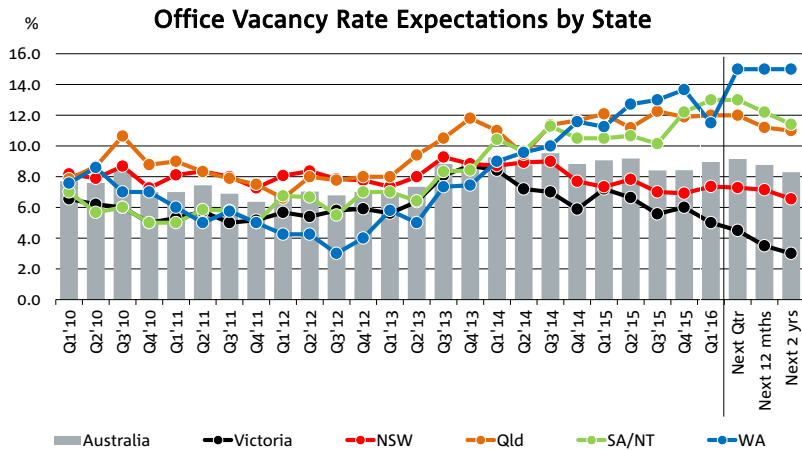
NSW clearly out-performing for rental growth (the only state reporting positive returns). Rents falling in all other markets - particularly in WA & SA/NT. Best returns expected in NSW & VIC in next 1-2 years, with SA/NT to overtake WA for weakest rental returns in 2 years' time.



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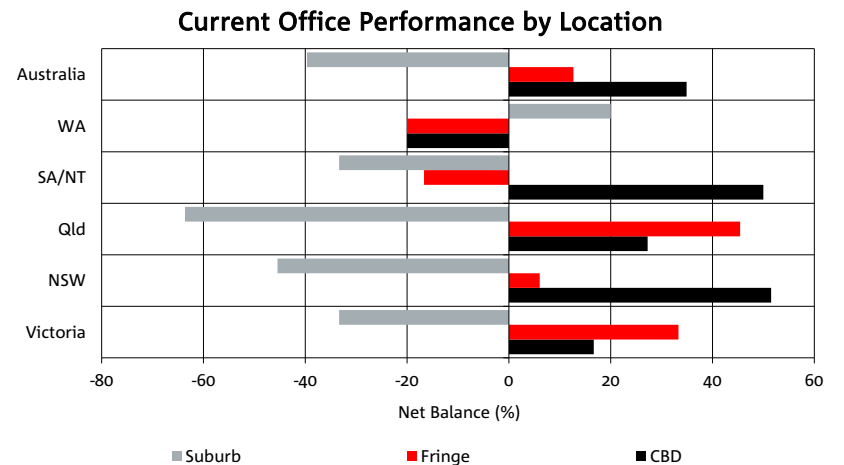
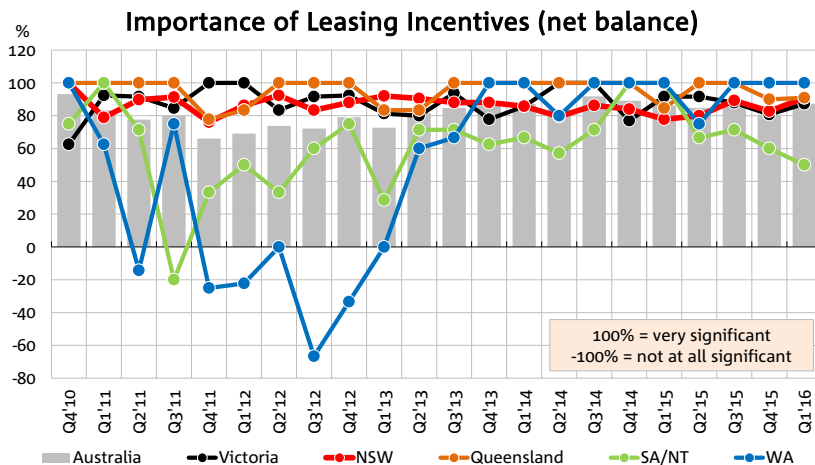
VIC & NSW remain the tightest markets in terms of available space and are expected to remain so over the next 1-2 yrs. Vacancy holding steady in QLD (at elevated levels), but excess supply and weak tenant demand keeping vacancy rates elevated in WA.

Over-supply a feature in Office property markets in all states, bar NSW ("neutral"). Over-supply is a big issue in WA, where a large over-hang is expected to persist for the next 3 years. QLD also "quite over-supplied" and tipped to remain so next year.



Importance of leasing incentives remains elevated or have risen in most states, (except SA/NT but from a smaller sample size). Incentives continue to be highest in WA (where over-supply also most prevalent).

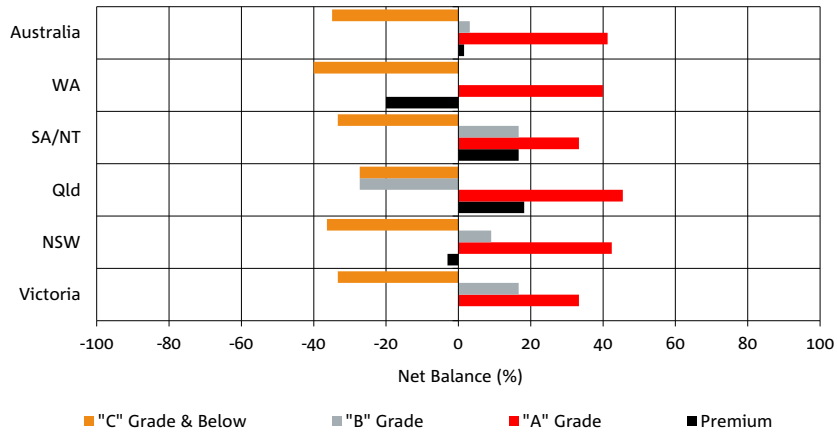
CBD seen as the best performing location for Office property in NSW & SA/NT. Fringe best in VIC and Suburbs in WA. Suburbs the worst location in all states except WA (CBD & Fringe worst).



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“A” grade stock considered the best performing grade of Office property in all states. Office property graded “C” and below identified as the worst performer in all states, along with “B” grade property in QLD and Premium property in WA.

Current Office Performance by Grade



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