

# NAB Commercial Property Survey - Market Overview Q2 2016

## by NAB Group Economics

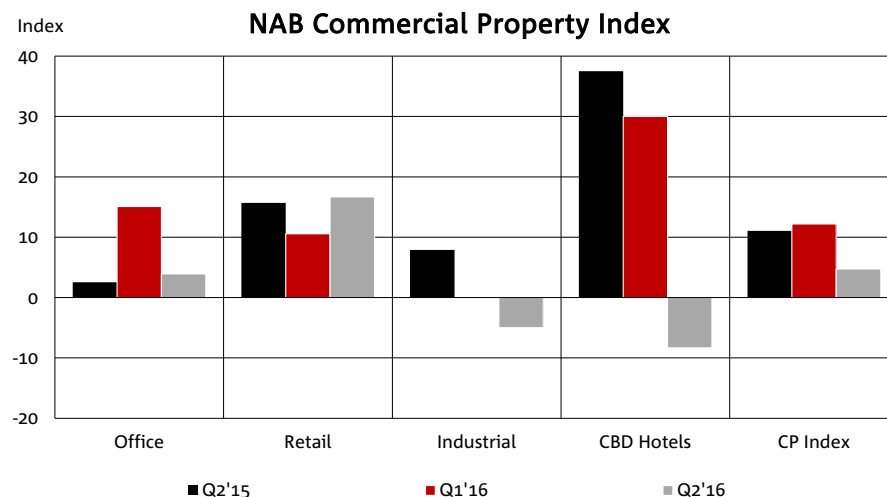
Embargoed until: 11.30am Thursday 11 August 2016



### Key Findings

- Commercial property market sentiment fell to its lowest level since late-2014.** The NAB Commercial Property Index fell 7 points to +5 in Q2'16. Sentiment was lower across all market sectors, except Retail where it rose to its highest level since early-2010 and is now strongest overall.
- Confidence levels broadly unchanged for the next 1-2 years,** but drivers have shifted. Retail property now expected to out-perform, with industrial property and CBD hotels weakest (previously strongest).
- Big differences are still evident across states.** Market sentiment remains strongest in NSW & VIC. It fell heavily in SA/NT (from a small sample size). QLD also lower, with WA improving but still very weak. VIC now marginally ahead of NSW as the most to optimistic state over the next 1-2 years, while SA/NT has replaced WA as the most pessimistic.
- Outlook for capital growth now strongest for Retail** (1.5% next year & 1.7% in 2 years' time). Expectations cut back heavily for CBD hotels (-2.2% & -0.7%) and now weakest overall. Office a touch weaker (0.8% in both years), with outlook for Industrial property unchanged (0.5% & 0.8%).
- Retail expected to provide the best income returns in the next 1-2 years** (1.2% & 1.5%), led by NSW. Office the next best (0.7% & 1%), with positive returns in NSW & VIC offsetting falls in SA/NT & WA. Expectations for Industrial rents upgraded modestly (0.3% & 0.6%) with returns strongest in NSW & QLD.
- National vacancy rates still edging up in Office markets** - now at a new Survey high (9.6%) - led by SA/NT (14.2%), QLD (13.2%) & WA (12.2%). Retail vacancy (5.1%) also slightly higher, but lower in Industrial (5%).
- Around 1 in 2 developers still planning to start new works in next 0-6 months.** And, with residential house price growth continuing, the number of developers intending to commence new residential projects rose to 63%, up from a Survey low 38% in Q1.
- Funding becoming more difficult.** Property developers have reported a further deterioration in their debt and equity funding situations and expect it to continue worsening in the next 6 months.
- Lenders seeking greater pre-commitments.** The average pre-commitment percentage required to meet external debt funding requirements for new developments rose for the fifth straight quarter to 57% - its highest level since Q1'13. On balance, more developers are also expecting this situation to worsen in next 6-12 months.

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



### NAB Commercial Property Index

	Q1'16	Q2'16	Next Qtr	Next 12mths	Next 2 yrs
Office	15	4	11	23	28
Retail	11	17	26	45	45
Industrial	0	-5	-2	17	18
CBD Hotels	30	-8	0	17	17
<b>CP Index</b>	<b>12</b>	<b>5</b>	<b>12</b>	<b>28</b>	<b>30</b>

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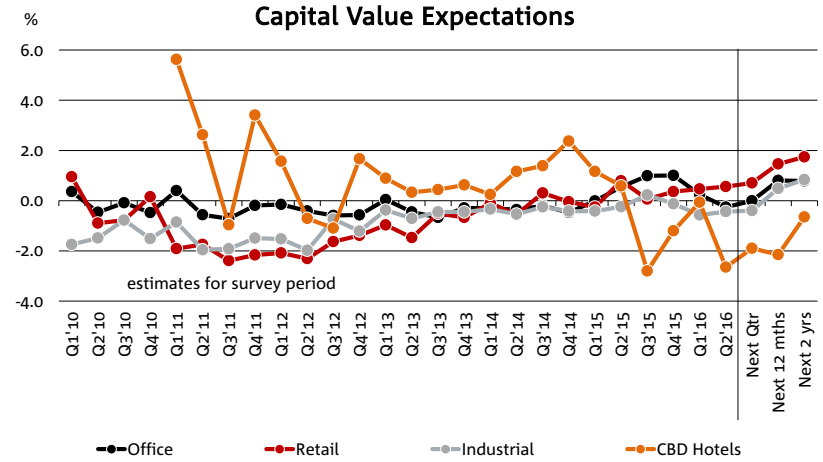
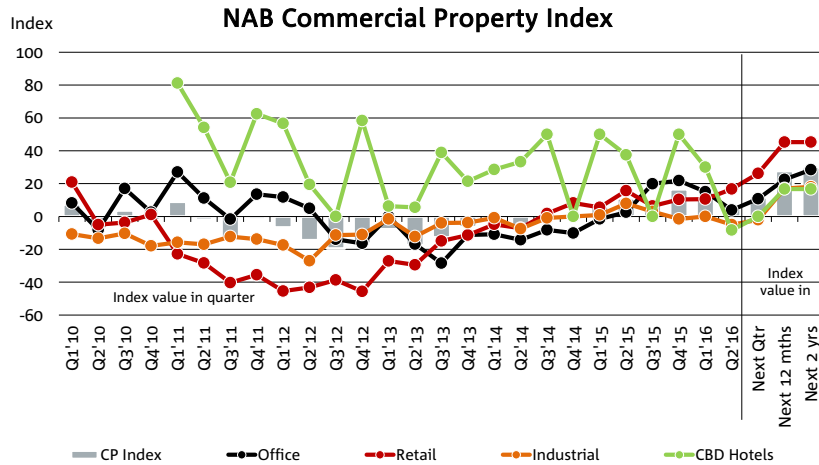
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# Market Overview - Index, By State, Capital Value & Vacancy Expectations

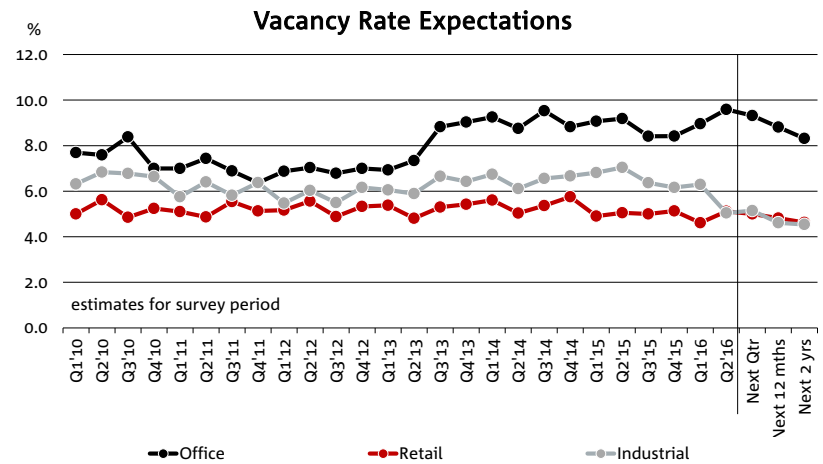
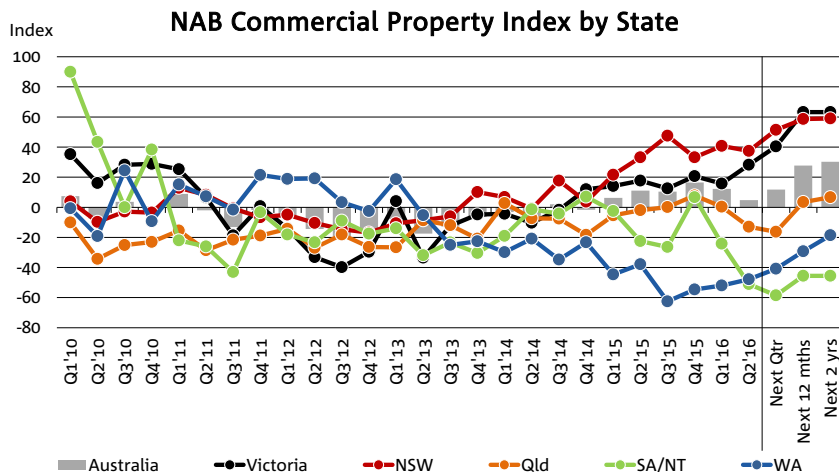
NAB's commercial property index fell 7 points to +5 in Q2'16. Sentiment fell across all sectors except Retail. Overall confidence levels are broadly unchanged over next 1-2 years, but drivers have shifted. Retail to outperform, with industrial & CBD hotels weakest (previously strongest).

Outlook for capital growth revised up and now strongest for Retail. But expectations were cut back heavily for CBD hotels (now negative and weakest overall). Office a touch weaker (but still positive) with outlook for Industrial property unchanged.



Market sentiment still strongest in NSW (down -3 to 37) & VIC (up 13 to 28). SA/NT down heavily (-27 to -51), with QLD also lower (-13). WA improving but still very weak (up +4 to -48). VIC replaces NSW as the most optimistic state looking forward. SA/NT replaces WA as most pessimistic.

National vacancy rates still edging up in Office markets - now at new survey high (led by QLD, SA/NT & WA). Retail vacancy also higher, but lower in Industrial. Office vacancy to fall in next 1-2 years in all states bar SA/NT. Overall Industrial & Retail vacancy to also edge down.

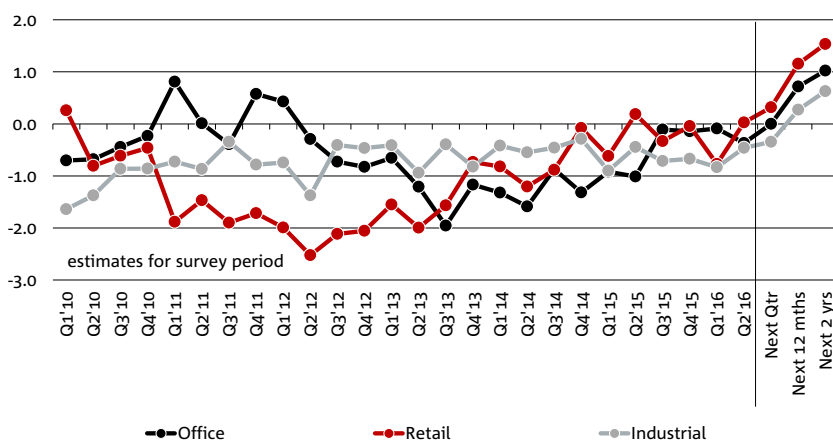


# Market Overview - Rental Expectations, Supply & Development Intentions

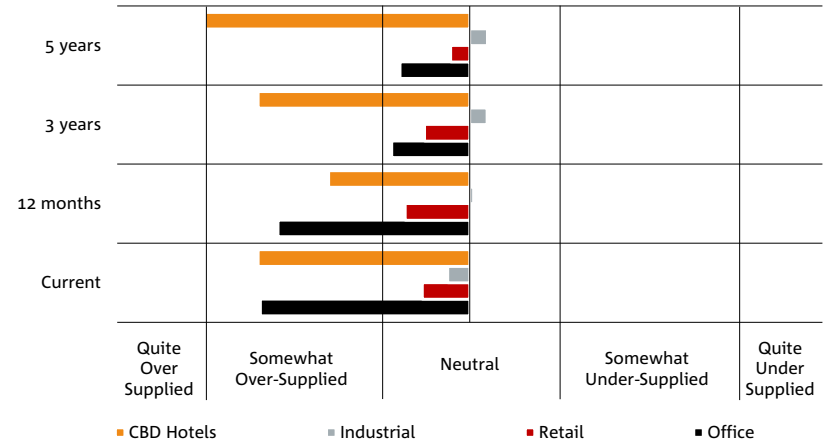
Retail overtakes Office for best rental growth in next 1-2 years (led by NSW). Momentum in Office softened a little in Q2, but outlook stronger (led by NSW & VIC with rents falling in SA/NT & WA). Expectations for Industrial rents also upgraded (with returns strongest in NSW & QLD).

CBD Hotels & Office property (led by WA, QLD & SA/NT) assessed as "somewhat over-supplied", with Retail & Industrial markets "neutral". Over-supply to persist in CBD Hotel markets in next 1-5 years, but Office markets to balance in next 3-5 years.

### Gross Rental Expectations



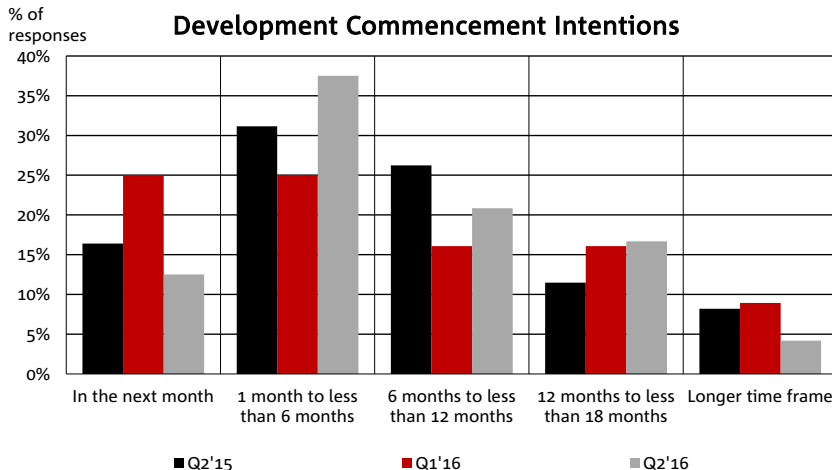
### Supply Conditions



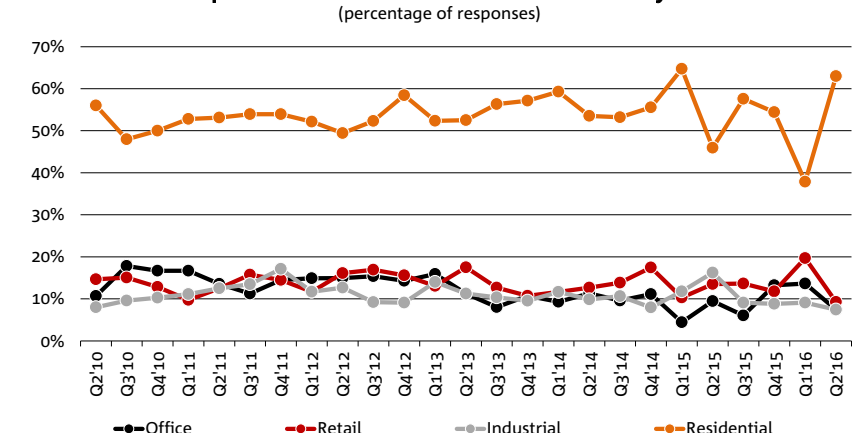
Around 50% of developers said they plan to start new works in the next 0-6 months (unchanged from the previous quarter but up from 48% a year-ago). Around 38% are planning to commence works in the next 6-18 months (up from 32% in the previous quarter).

There was a sharp increase in the number of developers intending to start new residential projects in Q2 - 63% from a Survey low 38% in Q1. Around 7% are targeting Office property development (14% in Q1), with 9% looking at Retail opportunities (20% in Q1) and 7% Industrial (9% in Q1).

### Development Commencement Intentions



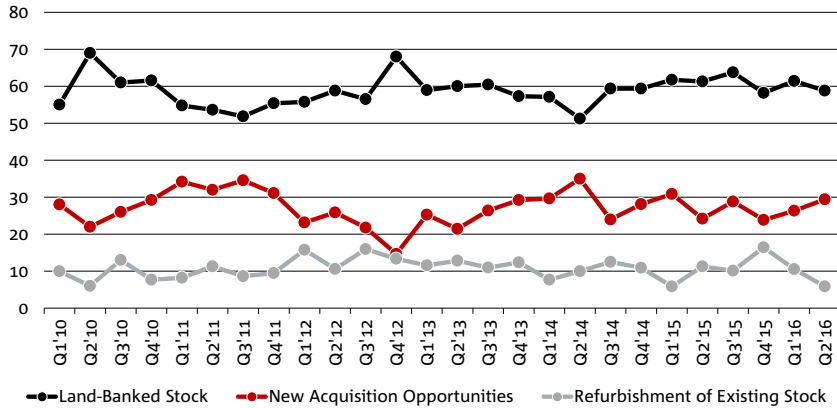
### Development Commencement Intentions by Sector



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

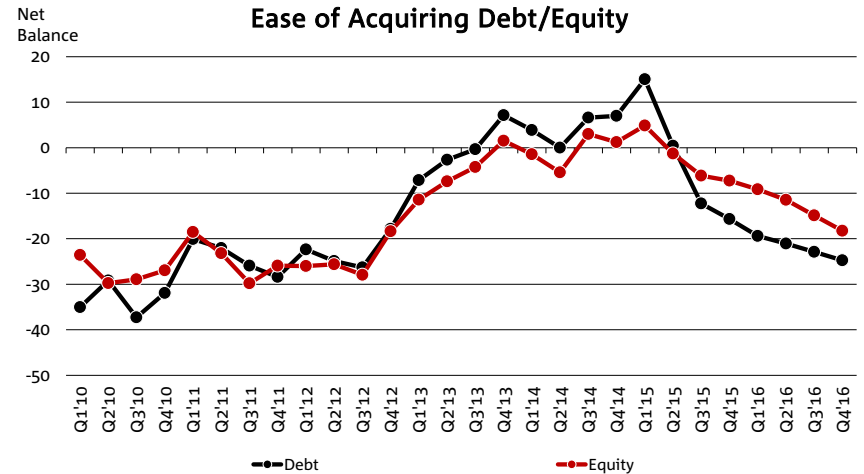
Around 59% of new developments expected to be underpinned by land-banked stock (61% in Q1). More developers (29%) looking at new acquisitions, but fewer looking to refurbish existing stock (6%).

**Sources of Land Development**  
(percentage of responses)



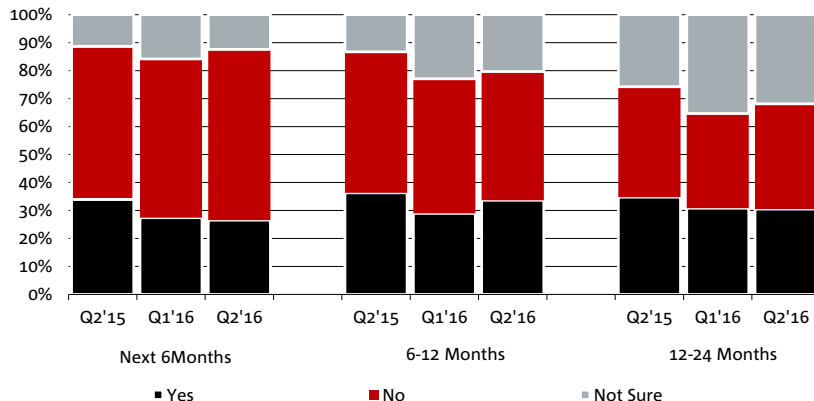
Property developers have indicated further deterioration in their debt and equity funding situations (net negative overall) and expect it to continue worsening over the next 6 months.

**Ease of Acquiring Debt/Equity**



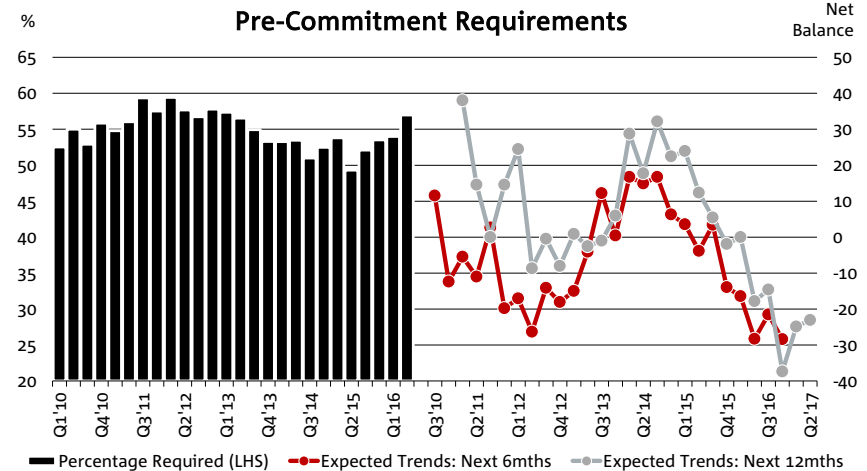
The number of property developers intending to source capital in the short-term was unchanged at 27%. Slightly more are planning to source capital in the next 6-12 months (34% up from 29% in Q1), with 31% planning to do so in the next 12-24 months (unchanged from Q1).

**Intent to Source More Capital for Developments/Acquisitions/Projects**



Average pre-commitment percentage required to meet external debt funding requirements for new developments up for the fifth straight quarter to 57% - highest since Q1'13. On balance, more developers still expecting situation to worsen in next 6-12 months.

**Pre-Commitment Requirements**



## Market Overview - Survey Respondents Expectations (average): Q2 2016

### Office Capital Values (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'16	0.9	1.0	-1.2	-3.0	-1.1	-0.3
Q3'16	1.3	1.5	-1.4	-2.7	-1.1	0.0
Q2'17	2.7	3.0	-1.2	-2.1	-0.8	0.8
Q2'18	3.0	2.5	-0.8	-1.8	-1.2	0.8

### Office Rents (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'16	0.6	1.3	-1.0	-4.2	-2.0	-0.4
Q3'16	1.5	2.0	-1.0	-3.1	-3.4	0.0
Q2'17	2.2	3.7	-0.4	-3.1	-3.6	0.7
Q2'18	2.9	3.5	0.3	-2.1	-4.1	1.0

### Retail Capital Values (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'16	0.8	0.3	0.6	1.3	-0.9	0.6
Q3'16	1.2	0.6	0.6	1.3	-1.9	0.7
Q2'17	1.9	2.2	0.9	1.3	-1.9	1.5
Q2'18	2.6	1.8	1.3	1.8	-1.9	1.7

### Retail Rents (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'16	0.0	0.7	-0.5	0.1	-0.9	0.0
Q3'16	0.7	1.1	-0.1	-0.6	-2.8	0.3
Q2'17	2.0	2.2	0.4	0.0	-3.8	1.2
Q2'18	2.4	3.0	0.5	0.7	-5.0	1.5

### Industrial Capital Values (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'16	0.9	0.5	-0.3	-3.5	-3.1	-0.4
Q3'16	0.8	0.8	-0.3	-3.6	-3.1	-0.4
Q2'17	1.4	1.5	0.9	-2.1	-3.9	0.5
Q2'18	2.0	1.7	1.6	-1.5	-3.9	0.8

### Industrial Rents (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'16	0.0	1.3	-0.2	-4.1	-2.4	-0.5
Q3'16	0.0	1.9	-0.2	-4.1	-3.9	-0.3
Q2'17	0.1	2.4	0.9	-3.2	-3.9	0.3
Q2'18	0.6	2.4	1.6	-2.0	-4.6	0.6

## Market Overview - Survey Respondents Expectations (average): Q2 2016

Office Vacancy Rates (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'16	5.8	7.1	13.2	12.2	14.2	9.6
Q3'16	5.8	6.7	12.8	12.2	14.2	9.3
Q2'17	5.0	5.9	12.6	11.4	14.2	8.8
Q2'18	4.2	5.6	11.9	11.4	14.5	8.3

Retail Vacancy Rates (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'16	4.2	5.2	5.0	5.0	10.0	5.1
Q3'16	4.2	5.2	4.6	5.0	10.0	5.0
Q2'17	3.6	5.4	4.1	5.0	11.0	4.8
Q2'18	3.4	5.4	3.7	4.0	12.0	4.6

Industrial Vacancy Rates (%)						
	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'16	4.5	4.9	5.9	4.7	8.0	5.0
Q3'16	4.7	4.7	5.9	5.3	8.0	5.1
Q2'17	4.1	4.1	5.0	5.0	9.0	4.6
Q2'18	4.0	4.2	4.7	4.7	9.0	4.5

### 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.

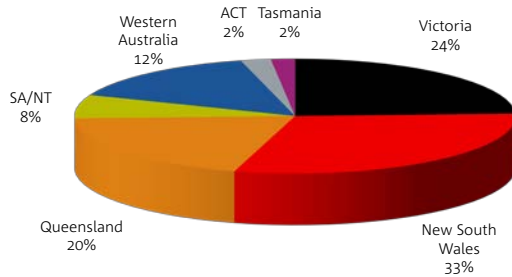
# About the Survey

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.

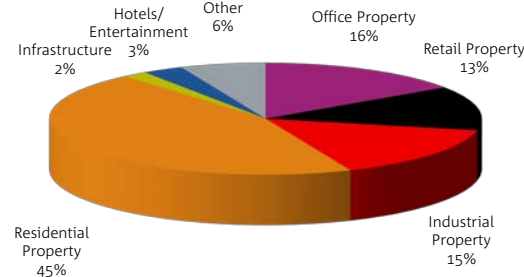
The large external panel of respondents consisted of Real Estate Agents/Managers, Property Developers, Asset/Fund Managers and Owners/Investors.

Around 230 panellists participated in the Q2 2016 Survey and the breakdown of Survey respondents - by location, property sector and business type - are shown below.

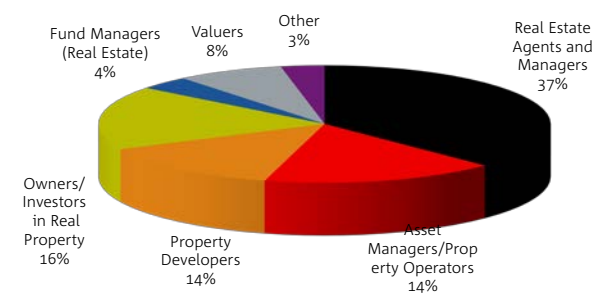
Respondents by State



Respondents by Property Sector



Respondents by Business Type



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