

NAB Commercial Property Survey: Office Market Q2 2016

by NAB Group Economics

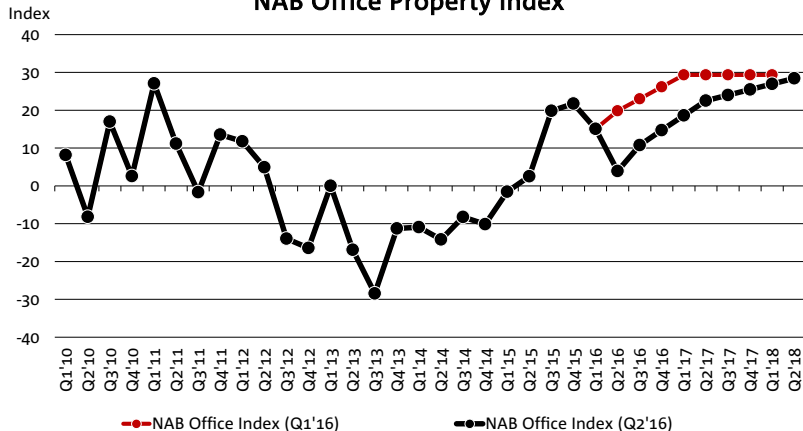


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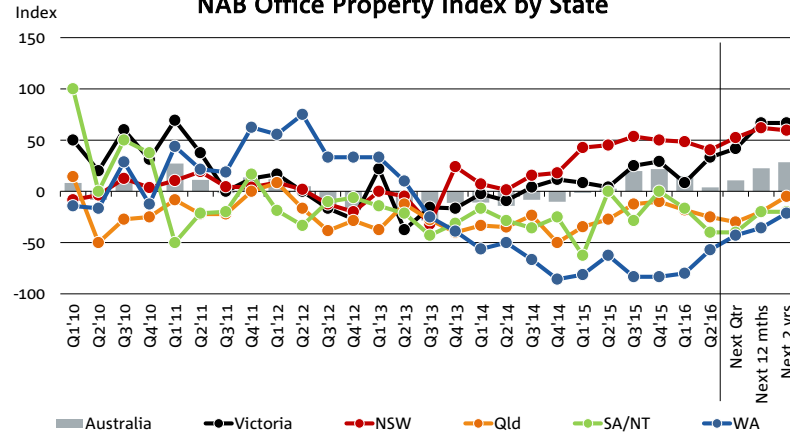
National Office market sentiment fell again in Q2 - down 11 points to +4 but still above long-term average levels (+1). Property professionals also less confident looking ahead to the next 12 months, with the index tipped to rise to +23 (+29 in Q1), and be broadly unchanged in 2 years' time (+28).

Office market sentiment up sharply in VIC. NSW lower but still strongest overall. Big gains in WA but still very negative and lowest overall. Sentiment down (and negative) in QLD & SA/NT. Looking ahead, VIC & NSW most confident. WA & SA/NT least confident but improving.

NAB Office Property Index



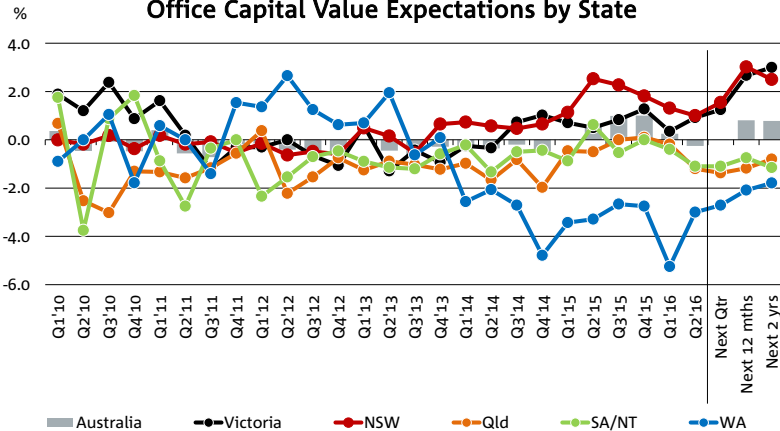
NAB Office Property Index by State



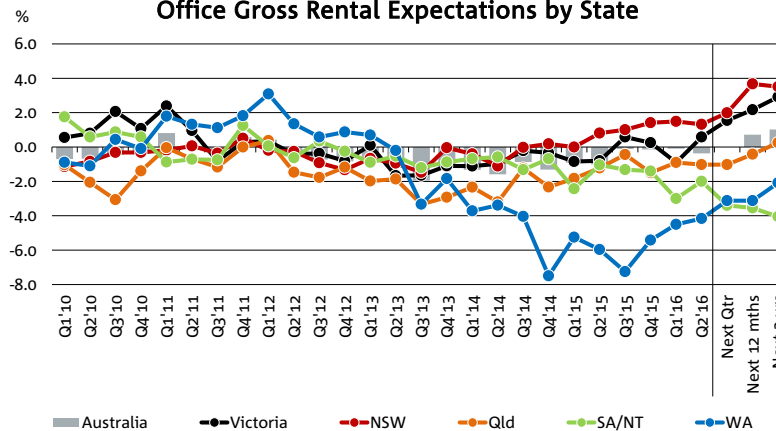
NSW (1%) & VIC (0.9%) only states to report capital growth in Q2. Office capital values fell in SA/NT (-1.1%), QLD (-1.2%) & in WA (-3%). VIC & NSW to provide the highest capital gains in the next 1-2 years, with values to continue falling heavily in WA and to a lesser extent in SA/NT & QLD.

NSW & VIC the only states reporting positive income returns. Rents falling in all other markets - particularly WA & SA/NT. Best returns still expected in NSW & VIC in next 1-2 years. Modest growth to resume in QLD in 2 years time, with SA/NT overtaking WA for weakest rental returns.

Office Capital Value Expectations by State



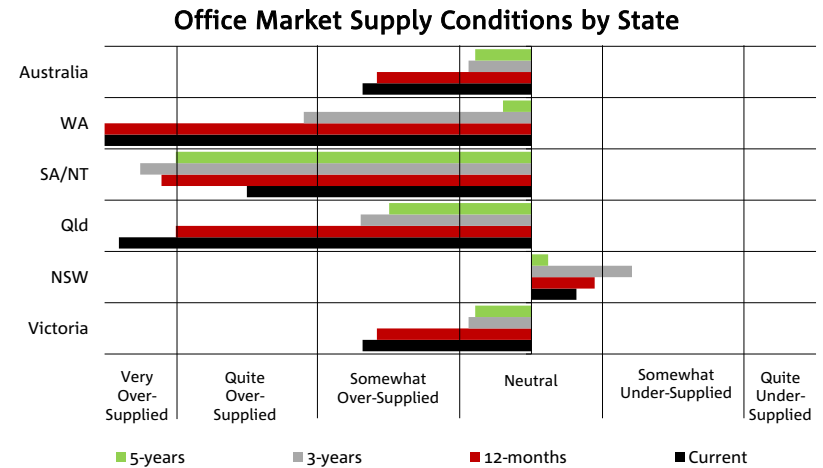
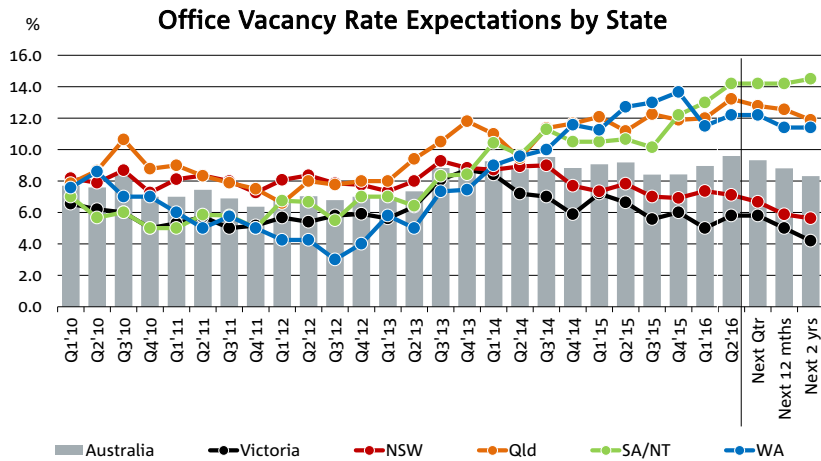
Office Gross Rental Expectations by State



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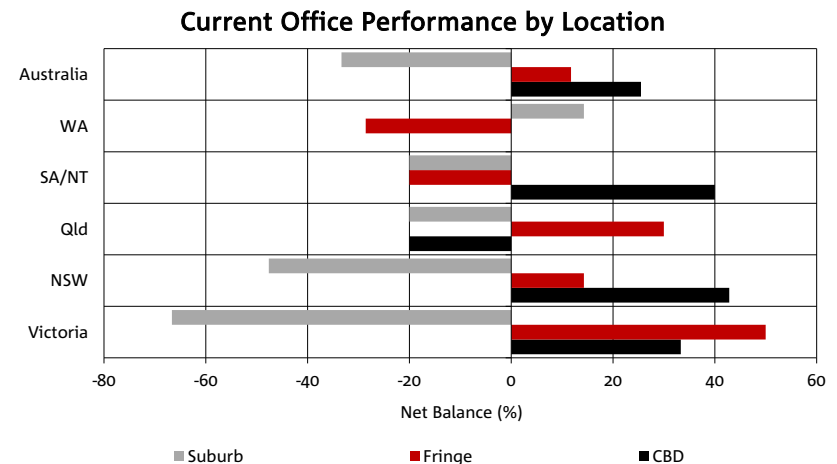
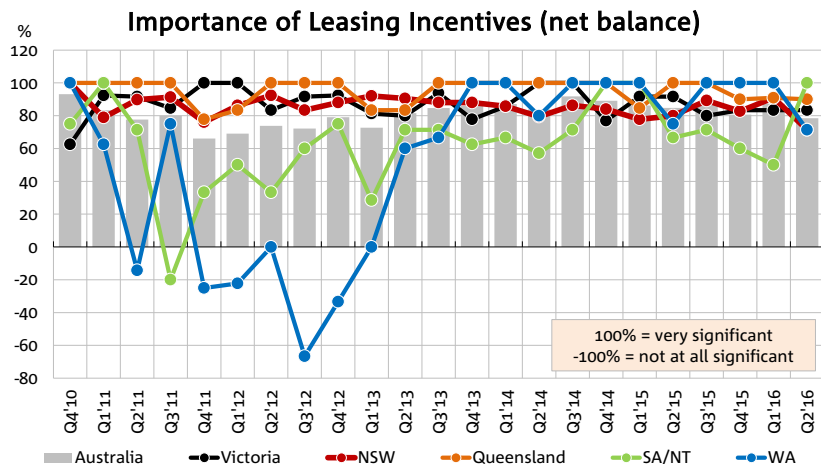
VIC & NSW remain the tightest markets in terms of available space and are expected to remain so over the next 1-2 years. Vacancy has risen in all other states, reaching new Survey highs in WA, QLD & SA/NT and are expected to remain elevated in these markets over the outlook period.

Over-supply still a feature of Office markets in all states, except NSW ("neutral"). Markets "very" over-supplied in WA & QLD. Supply over-hang over-hang to persist - but with some excess to be absorbed over the next 3-5 years QLD & in WA. SA/NT to remains "very" over-supplied.



The majority of property professionals consider lease incentives to be important in all states (with a particularly big increase in SA/NT but from a smaller sample size).

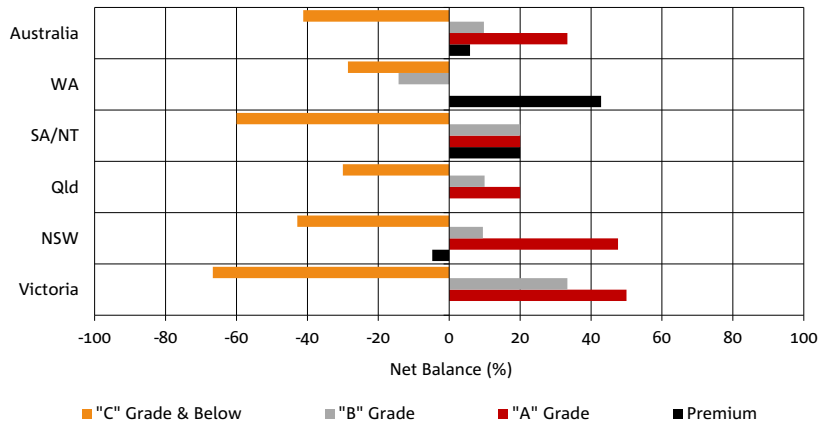
CBD seen as the best performing location for Office property in SA/NT & NSW. Fringe best in VIC & QLD. Suburbs the worst location in VIC, NSW, & QLD (along with CBD) & SA/NT (along with Fringe property).



NAB Commercial Property Survey: Office Market

“A” grade stock considered the best performing grade of Office property in all states, except WA where “premium” stock is out-performing. Office property graded “C” and below identified as the worst performer in all states, along with “B” grade property in WA and “premium” in NSW.

Current Office Performance by Grade



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