

EMBARGOED UNTIL 11.30 AM WEDNESDAY 9 NOVEMBER 2016

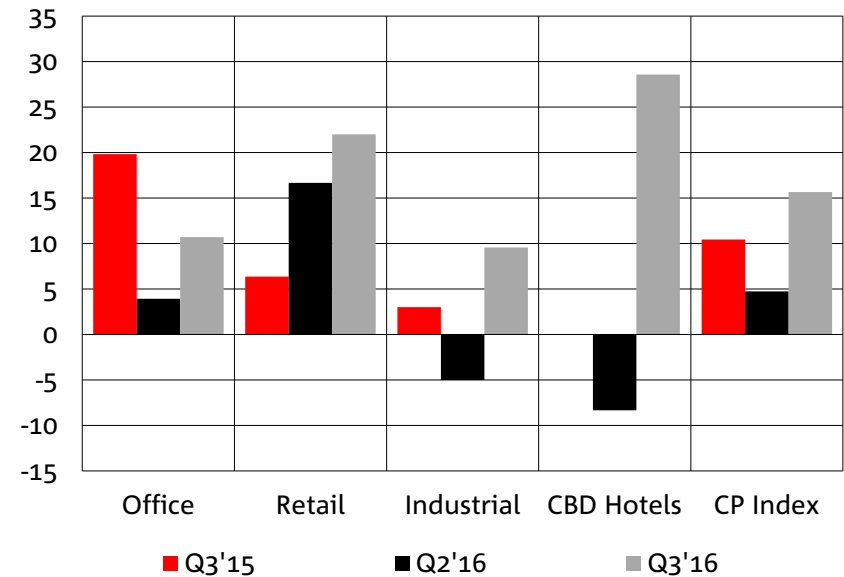


NAB COMMERCIAL PROPERTY SURVEY Q3 2016

KEY FINDINGS

- **Commercial property market sentiment improved in Q3** despite a slight moderation in NAB's Business Survey conditions during the quarter. The Commercial Property Index rose 11 points to +16, with sentiment higher in all market sectors.
- **Confidence also held up** in Q3 with gains in the CBD Hotels, Office and Industrial sectors offsetting lower confidence in Retail (amid weaker retail business conditions and lacklustre consumer spending).
- **Gains were however narrowly based across states.** Sentiment was positive in NSW and VIC, but negative in all other states (especially WA). Confidence was also noticeably stronger in VIC and NSW.
- **Capital growth prospects in the next 1-2 years were revised up in all markets, except Retail** (due largely to VIC). In other markets, expectations are being led by the Eastern seaboard states, with Office property to provide the highest capital returns (particularly in VIC).
- **Office property is also expected to deliver the best income returns,** driven by strong growth in VIC and NSW (offsetting big falls in WA and SA/NT). In Retail markets, modest or flat growth is predicted in most states (bar SA/NT), with Industrial rents set to fall in SA/NT and WA.
- **National office vacancy remained steady at Survey high levels** in Q3, with elevated rates persisting in WA, SA/NT and QLD on patchy demand. Overall, Industrial vacancy rose, but was lower for Retail.
- **Around 64% of developers planning to start new projects were looking at the residential sector.** A Survey high 76% intended to use land-banked stock for these new works - likely reflecting high levels of residential building and/or land shortages in some cities.
- **However, only 34% of developers (a Survey low) planned to start new works in the next 6 months and 18% in more than 18 months time.** This may suggest that the current housing construction cycle (particularly high density) is set to slow in the future.
- **Property professionals on balance said it was harder to obtain financing (debt and equity) needed for their business in Q3** - and they expect it to remain difficult in the next 12 months.

NAB COMMERCIAL PROPERTY INDEX



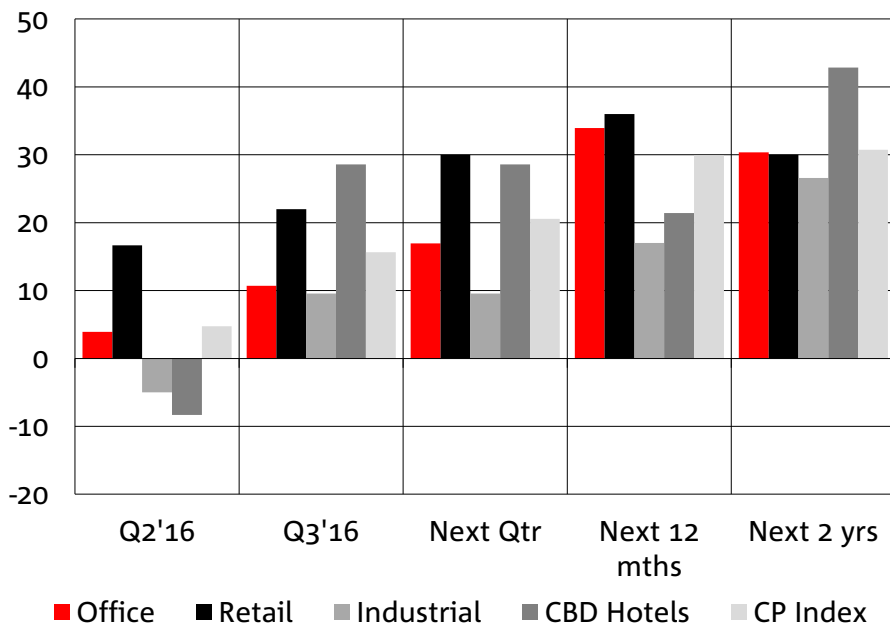
	Q2 2016	Q3 2016	Next Qtr	Next 12m	Next 2yrs
Office	4	11	17	34	30
Retail	17	22	30	36	30
Industrial	-5	10	10	17	27
CBD Hotels	-8	29	29	21	43
CP Index	5	16	21	30	31

MARKET OVERVIEW - INDEX BY SECTOR & STATE

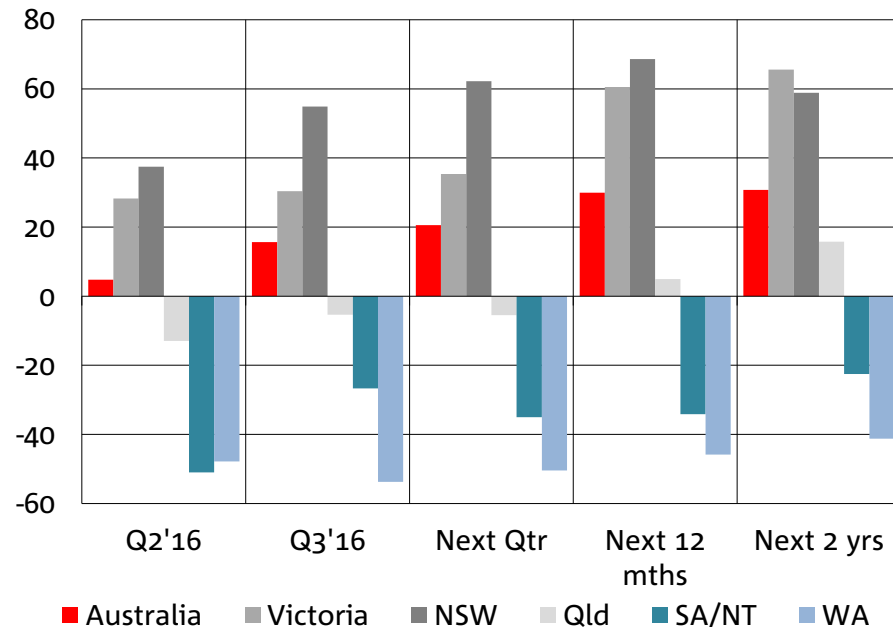
Despite a slight moderation in NAB's Business Survey conditions in the September quarter, NAB's commercial property index rose 11 points to +16, with sentiment higher in all sectors. Confidence also held up, with gains in the CBD Hotels, Office and Industrial sectors offsetting a pull back in Retail (but still strongest overall next year). Property professionals in the CBD Hotels sector are most confident in 2 years' time, and Industrial weakest (with key economic drivers likely to be less supportive).

Market sentiment across states show the overall improvement was narrowly based. Sentiment remains strongest in NSW (up 17 to 55) and VIC (up 2 to 30), where overall business conditions are also strongest in the country. Sentiment improved (but was still negative) in QLD (up 8 to -5) and SA/NT (up 24 to -27) and fell further in WA (down 6 to -54). VIC and NSW remain the most optimistic states looking ahead (by some margin), and WA and SA/NT the most pessimistic (and negative).

NAB COMMERCIAL PROPERTY INDEX



COMMERCIAL PROPERTY INDEX - STATE

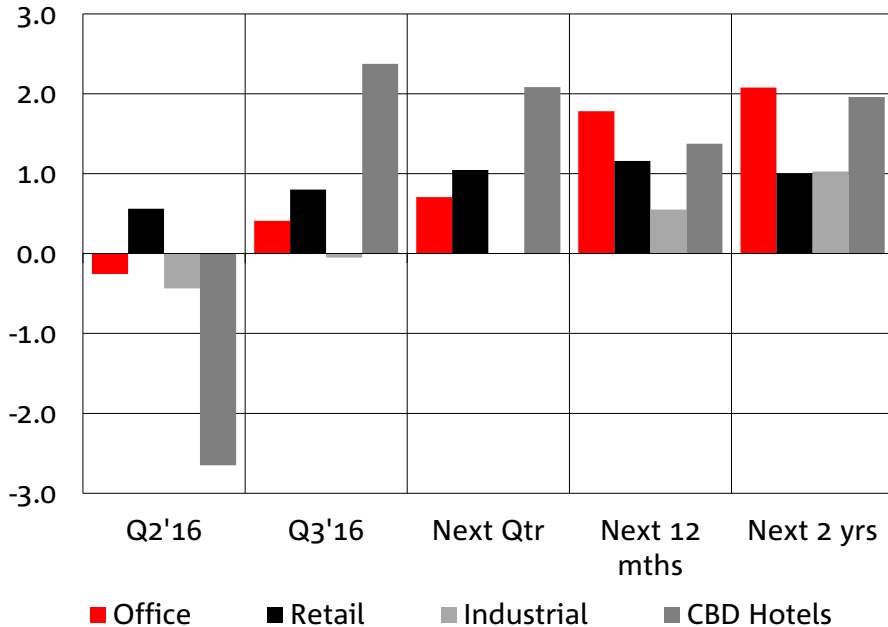


MARKET OVERVIEW - CAPITAL & VACANCY EXPECTATIONS

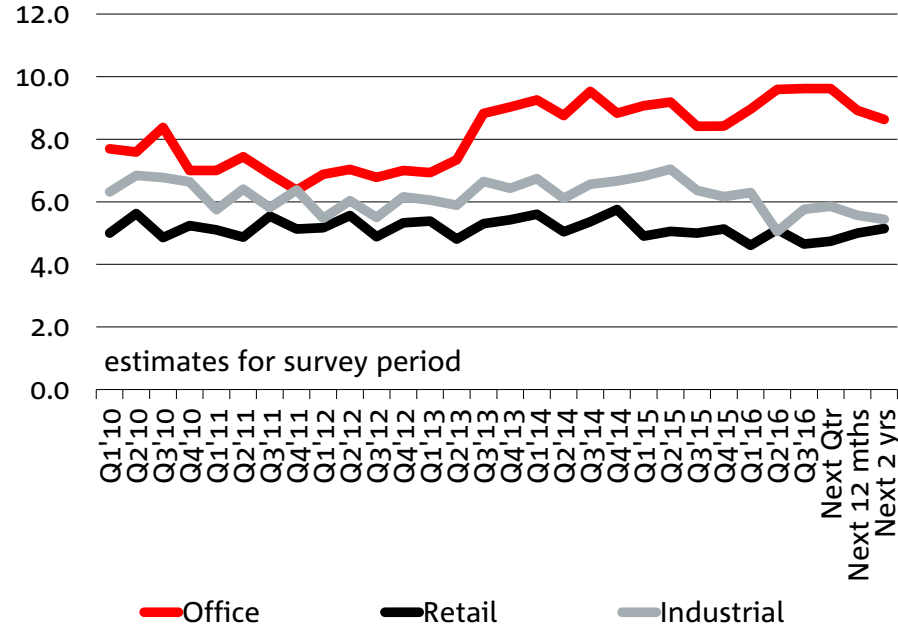
The outlook for capital growth in the next 1-2 years was revised up for CBD Hotels (1.4% & 2.0%), Office (1.8% & 2.1%) and Industrial (0.6% & 1.0%) property, but scaled back for Retail (1.2% & 1.0%). Expectations in the Office sector are being supported by VIC (6.3% & 7.9%) and NSW (3.3% & 3.3%) and remain negative in WA (-3.2% & -2.6%). Expected returns for Industrial property were lowered in all states except NSW (2.6% & 2.9%), with NSW (1.9% & 1.5%) and QLD (1.0% & 1.1%) leading the way for Retail.

National vacancy rates were unchanged for Office (9.6%), lower for Retail (4.7%) and up for Industrial (5.8%) in Q3. Office vacancy was lowest in VIC (6.2%) and NSW (6.8%), highest in WA (15.0%) and elevated in QLD (13.2%) and SA/NT (13.0%) amid weak or patchy demand. In Retail, VIC (3.5%) and QLD (4.8%) tightened, but there was more Industrial space available in WA (7.8%), QLD (6.7%) and VIC (5.0%). Overall, vacancy rates in Office and Industrial markets are set to fall in 1-2 years, but rise in Retail.

CAPITAL VALUE EXPECTATIONS (%)



VACANCY RATE EXPECTATIONS (%)

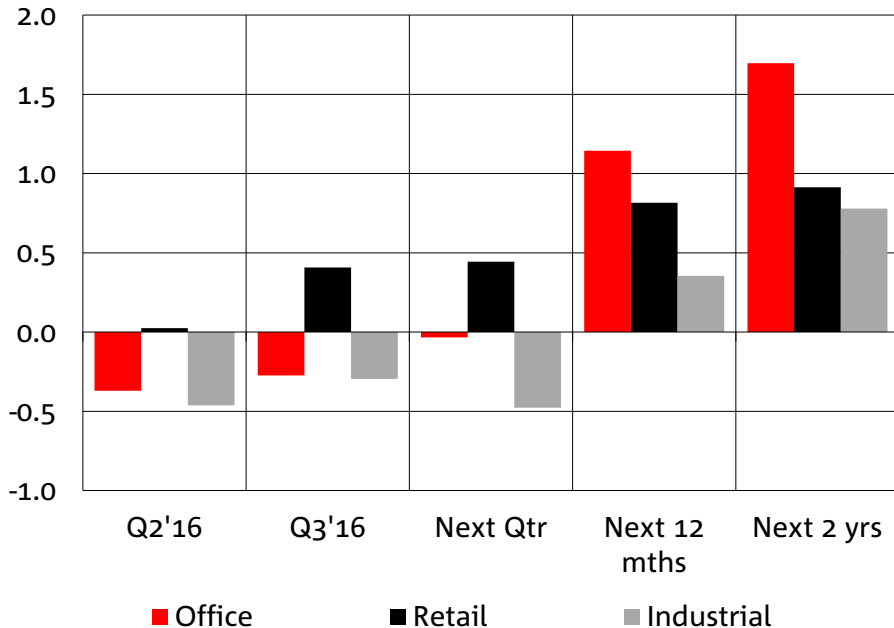


MARKET OVERVIEW - RENTS & SUPPLY

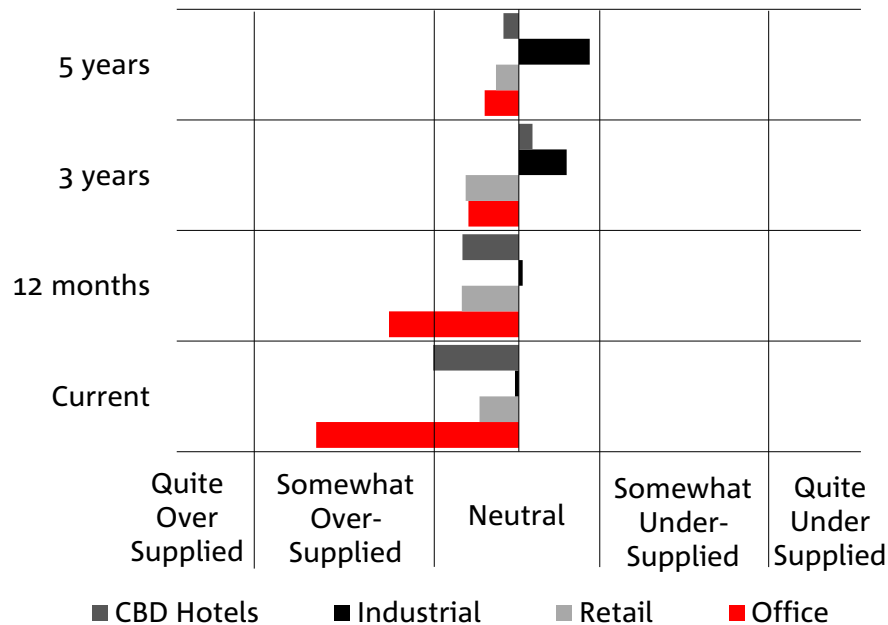
Retail provided the best income returns in Q3, but were weak outside NSW (0.8%) and VIC (0.3%) on still high vacancy. Office and Industrial rents fell, dragged down by big falls in WA. Office has now replaced Retail for income prospects in the next 1-2 years, with strong growth in VIC (4.0% & 6.3%) and NSW (3.8% & 4.2%) offsetting further declines in WA (-4.0% & -3.6%). Modest or flat returns are predicted in all state Retail markets (bar SA/NT), while industrial rents are tipped to fall in SA/NT and WA.

National Office property markets were assessed as “somewhat” over-supplied in Q3 and are expected to remain so in the next 12 months as big supply over-hangs in WA (and to a lesser extent QLD and SA/NT) persist and offset shortages in VIC & NSW. Supply in all other sectors was broadly “neutral” in Q3 and expected to remain so over the next 1-5 years - except in NSW where property professionals see shortages of industrial property emerging in the next 1-5 years.

GROSS RENTAL EXPECTATIONS (%)



SUPPLY CONDITIONS

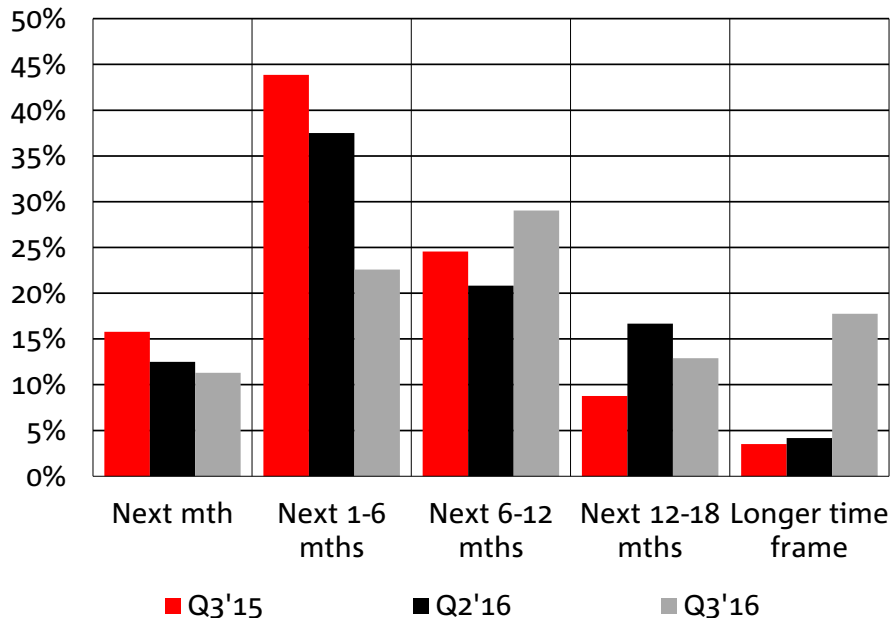


MARKET OVERVIEW - DEVELOPMENT INTENTIONS

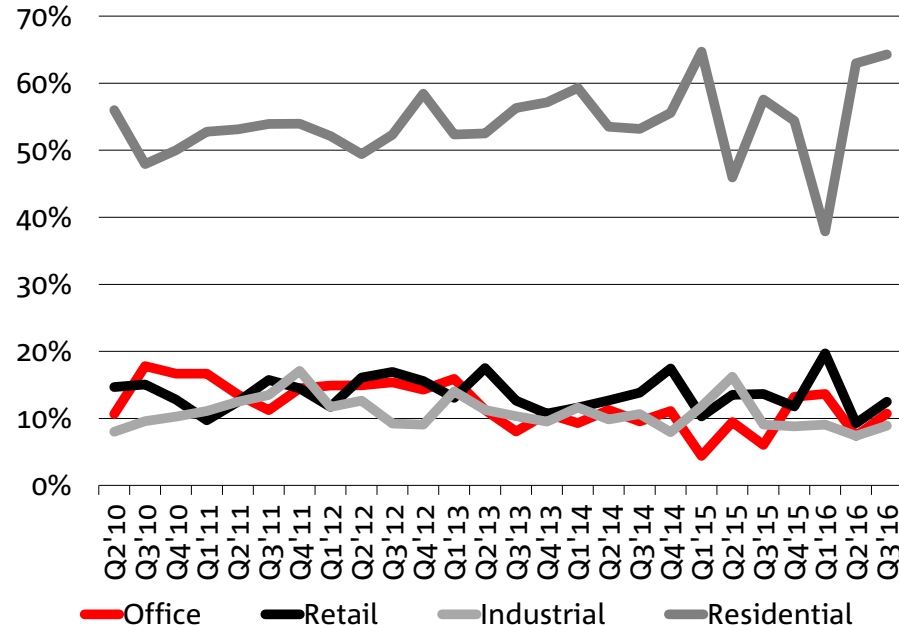
Around 34% of surveyed property developers said they plan to commence new projects in the next 6 months - down from 50% in the previous quarter and the lowest response since NAB's Commercial Property Survey first started in early-2010. Around 42% of property developers expected to commence new works in the next 6-18 months (up from 38% in Q2), while almost 1 in 5 (18%) said they were looking at a longer time frame (also a new Survey high).

Among developers planning to start new works, there has been a noticeable increase in the number targeting residential property in the last 6 months. In Q3, a near Survey high 64% intending to start new projects were looking to do so in residential markets. There was however also a small increase in appetite for commercial projects - around 11% of developers said they were looking at projects in the Office sector (7% in Q2), 13% in Retail (9% in Q2) and 9% in Industrial (7% in Q2).

COMMENCEMENT INTENTIONS



COMMENCEMENT INTENTIONS - SECTOR

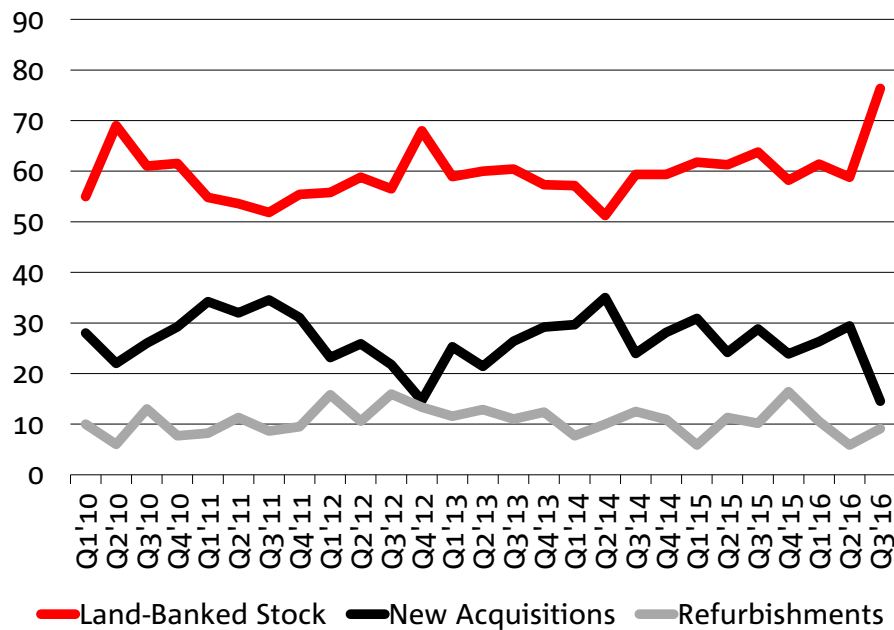


MARKET OVERVIEW - LAND SOURCES & CAPITAL INTENTIONS

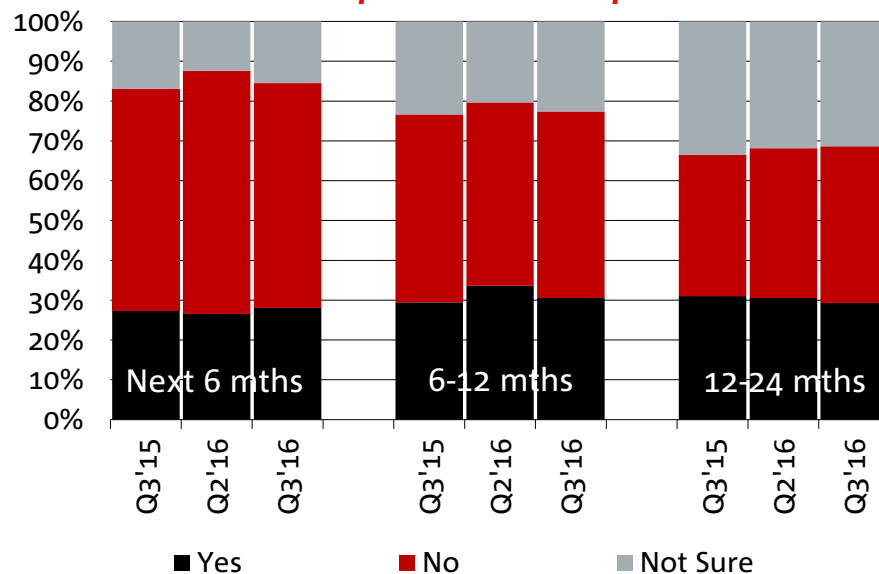
More property developers than at any time since the Survey began are using land-backed stock to start new works - possibly reflecting high levels of building activity in the residential sector and/or land shortages in some key cities. Just over 3 in 4 (76%) surveyed developers said their projects would utilise previously purchased land (59% in Q2). Around 9% of developers were looking at refurbishing existing stock (6% in Q2), and those seeking new acquisitions fell to a near 4-year low of just 15%.

The number of property developers planning to source more capital to fund their developments, acquisitions or projects within the next 6 months was broadly unchanged at 28% (27% in Q2). Around 31% were planning to source more capital in the next 6-12 months (34% in Q2) and 29% in the next 12-24 months (31% in Q2). Interestingly, around 48% were “unsure” of their intentions in the next 0-12 months, up from 32% in Q2, possibly suggesting a greater degree of caution.

SOURCES OF LAND DEVELOPMENT (%)



INTENT TO SOURCE MORE CAPITAL FOR DEVELOPMENT/ACQUISITIONS/PROJECTS

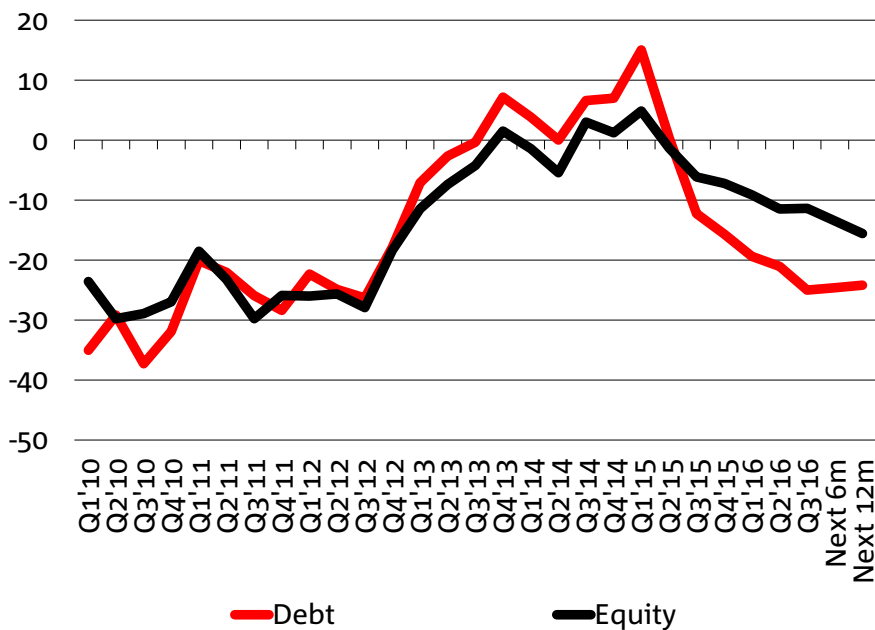


MARKET OVERVIEW - FUNDING & PRE-COMMITMENTS

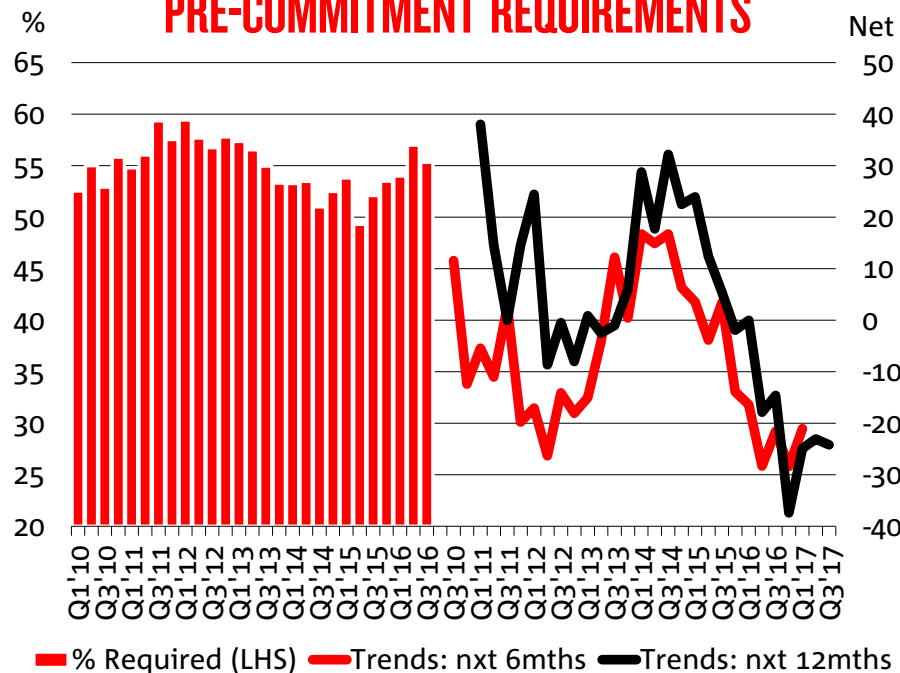
Funding conditions were more difficult in Q3. In net balance terms, -25% of surveyed property professionals said it was harder to obtain borrowing or loans (debt) needed for their business - the weakest result in 4-years. Equity was also difficult to obtain according to a net -11% of property professionals (unchanged from Q2 but near to 4-year low levels). On balance, property professionals expect debt and equity funding for their business to remain difficult in the next 6-12 months.

Despite more difficult debt funding conditions, property developers on average said the pre-commitment required to meet their external debt funding requirements for new developments fell to 55.3% in Q3, down from 57% in Q2, but still well above year earlier levels (52.1%). This situation is not expected to improve any time soon, with a net -21% expecting it to worsen over the next 6 months (compared to now) and a net -24% expecting it to worsen in the next 12 months.

EASE OF ACQUIRING DEBT/EQUITY (NET)



PRE-COMMITMENT REQUIREMENTS



SURVEY RESPONDENTS EXPECTATIONS (AVG) Q3 2016

OFFICE CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'16	2.2	2.3	-0.4	-5.6	0.0	0.4
Q4'16	2.5	2.4	0.0	-4.9	0.0	0.7
Q3'17	6.3	3.3	0.2	-3.2	0.0	1.8
Q3'18	7.9	3.3	0.5	-2.6	-0.3	2.1

RETAIL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'16	0.4	1.2	0.7	0.0	0.0	0.8
Q4'16	0.2	1.7	1.2	0.0	0.0	1.0
Q3'17	0.6	1.9	1.0	0.0	0.0	1.2
Q3'18	0.6	1.5	1.1	0.0	0.0	1.0

INDUSTRIAL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'16	-0.3	1.9	0.3	-3.4	-2.8	-0.1
Q4'16	-0.3	2.1	0.3	-3.3	-3.4	0.0
Q3'17	0.3	2.6	0.5	-2.1	-3.6	0.6
Q3'18	1.2	2.9	1.0	-1.6	-2.9	1.0

OFFICE RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'16	2.0	2.0	-1.4	-6.3	-2.0	-0.3
Q4'16	2.0	2.5	-1.2	-5.9	-2.4	0.0
Q3'17	4.0	3.8	-0.2	-4.0	-2.9	1.1
Q3'18	6.3	4.2	0.0	-3.6	-2.4	1.7

RETAIL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'16	0.3	0.8	-0.1	0.0	0.0	0.4
Q4'16	0.1	1.1	-0.2	0.0	-0.9	0.4
Q3'17	0.9	1.4	0.1	0.0	-0.9	0.8
Q3'18	0.9	1.3	0.9	0.0	-1.0	0.9

INDUSTRIAL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'16	-0.3	1.8	-0.3	-4.1	-2.8	-0.3
Q4'16	-0.3	1.8	0.0	-4.8	-3.9	-0.5
Q3'17	0.6	2.4	0.3	-3.3	-2.3	0.4
Q3'18	0.9	2.6	0.9	-2.5	-1.9	0.8

SURVEY RESPONDENTS EXPECTATIONS (AVG) Q3 2016

OFFICE VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'16	6.2	6.8	13.2	15.0	13.0	9.6
Q4'16	6.2	6.8	13.2	15.0	13.0	9.6
Q3'17	5.0	5.8	12.1	15.0	12.7	8.9
Q3'18	4.6	5.8	11.2	14.7	12.2	8.6

RETAIL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'16	3.5	5.6	4.8	5.0	3.0	4.7
Q4'16	3.7	5.6	5.0	5.0	3.0	4.7
Q3'17	4.1	5.6	5.2	5.7	5.0	5.0
Q3'18	4.3	5.8	5.4	5.7	5.0	5.1

INDUSTRIAL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'16	5.0	4.3	6.7	7.8	8.0	5.8
Q4'16	5.7	4.2	6.7	7.5	9.0	5.9
Q3'17	5.0	4.2	6.0	6.8	9.5	5.6
Q3'18	5.0	4.3	5.3	6.5	9.0	5.4

NOTES:

Survey participants are asked how they see:

- Capital values;
- Gross rents; and
- Vacancy rates

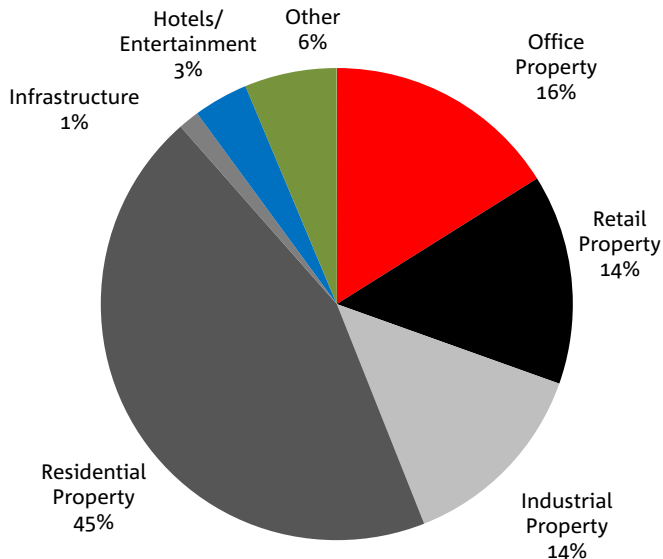
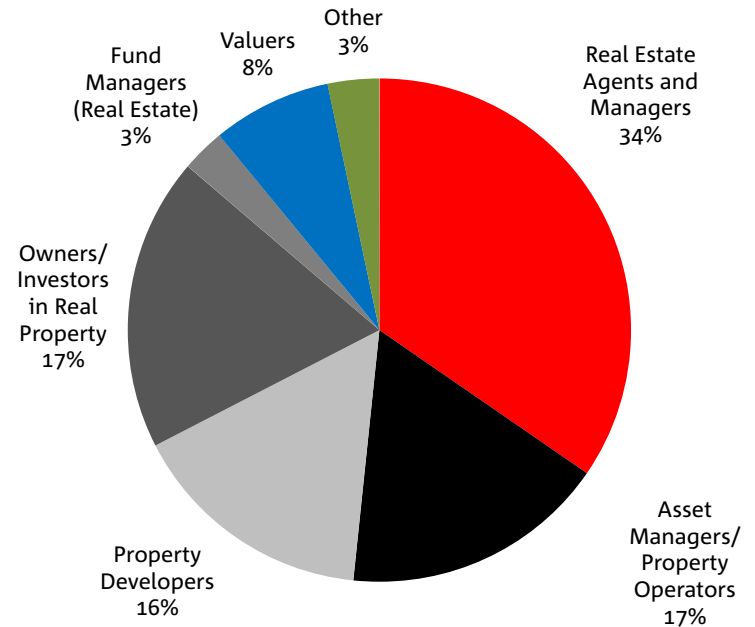
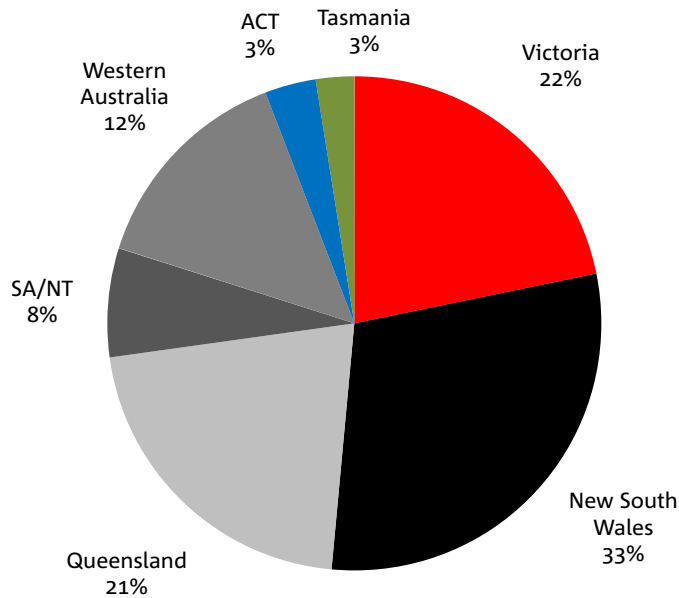
In each of the commercial property markets for the following timeframes:

- 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 first 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 consists of Real Estate Agents/Managers, Property Developers, Asset/Fund Managers and Owners/Investors.

Around 240 panellists participated in the Q3 2016 Survey.

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