

EMBARGOED UNTIL 11.30 AM WEDNESDAY 22 FEBRUARY 2017

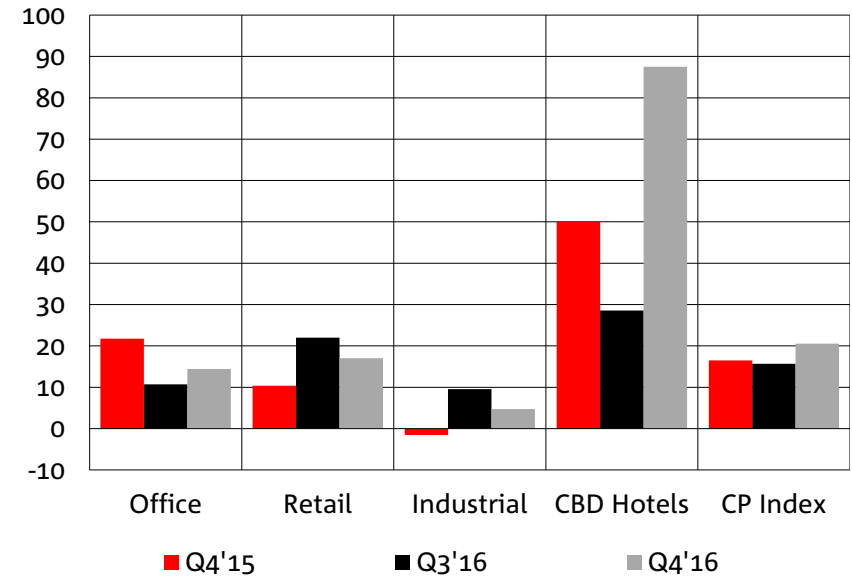


NAB COMMERCIAL PROPERTY SURVEY Q4 2016

KEY FINDINGS

- Commercial property market sentiment has continued to build on the positive gains seen in our last survey. **NAB's Commercial Property Index** rose 5 points to +21 in Q4 - its highest level since the Survey began in early-2010.
- But this improvement masks a very **uneven performance across sectors**, with very big gains in CBD Hotels and small gains in Office offsetting lower sentiment in both Retail and Industrial markets.
- **Confidence** has also wavered in all sectors, except CBD Hotels where it rose sharply among very strong expectations for occupancy, capital and revPar growth. Property experts in Office, Retail and Industrial are now reporting lower (but broadly similar) levels of confidence.
- **By state**, sentiment and confidence also continues to be much stronger in NSW & VIC. QLD showed some improvement, but WA still very weak.
- Prospects for **capital growth** in next 1-2 years improved (and are best) for CBD Hotels, and were scaled back (but still growing) in all other sectors. Retail is being led by NSW & VIC, Office by NSW and Industrial by NSW & QLD. Capital returns are expected to fall in all sectors in WA.
- Office property is expected to provide the best **income returns** in the next 1-2 years, led by very strong growth in NSW. Retail and Industrial rents are predicted to grow modestly in all states except WA.
- Overall office **vacancy** fell a little as a small tightening from high levels in QLD & SA/NT offset Survey high vacancy rates in WA and small increases in NSW & VIC (but from low levels). Vacancy in Office and Industrial markets are set to fall in the next 1-2 years and rise in Retail.
- More **developers** are looking to begin new projects in the short-term, although fewer are looking at residential property - possibly reflecting the large apartment pipeline already in place.
- Fewer **developers** plan to use land-backed stock for their new projects, while almost 1 in 4 are now looking at new acquisitions, suggesting they may have run down their stocks in this current cycle.
- **Funding conditions** for property businesses remain difficult and are expected to become even more challenging in the next 12 months.

NAB COMMERCIAL PROPERTY INDEX



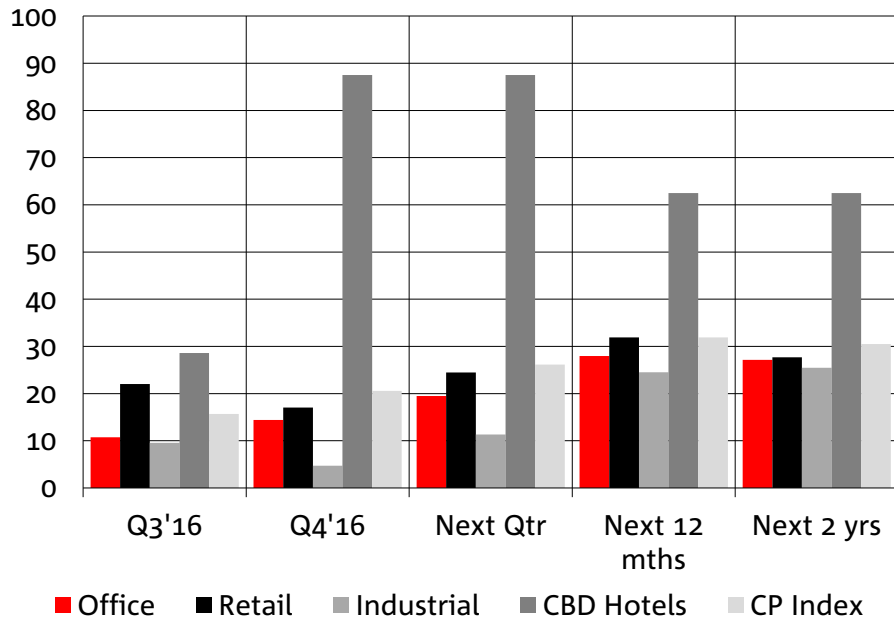
	Q3 2016	Q4 2016	Next Qtr	Next 12m	Next 2yrs
Office	11	14	19	28	27
Retail	22	17	24	32	28
Industrial	10	5	11	25	25
CBD Hotels	29	88	88	63	63
CP Index	16	21	26	32	30

MARKET OVERVIEW - INDEX BY SECTOR & STATE

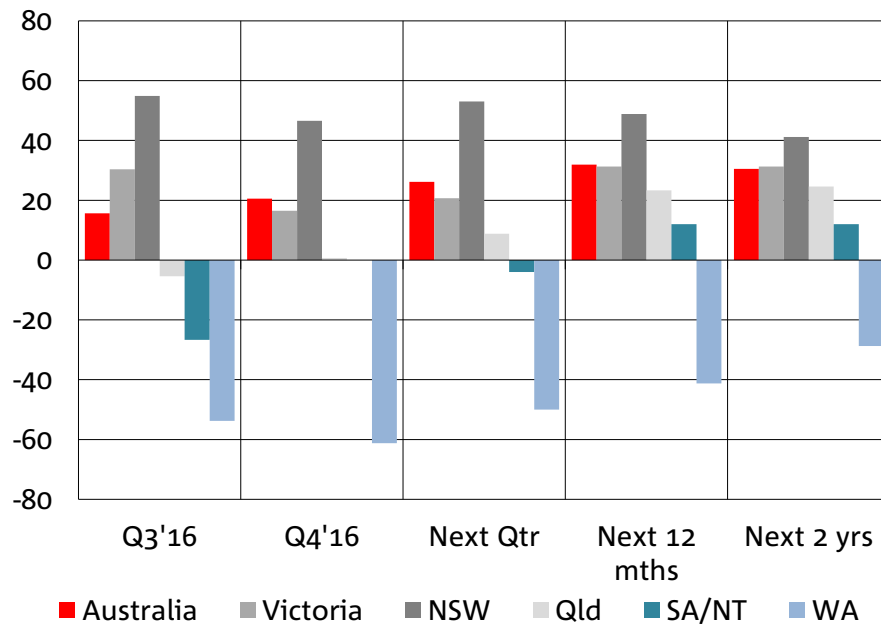
NAB's Commercial Property Index rose 5 points to +21 in Q4 - a new high. This was driven by sharply higher sentiment in CBD Hotels (up 34 to +88) and a small gain in Office (up 3 to +14) which offset falls in Retail (down 5 to +17) and Industrial (down 5 to +5). Confidence has however wavered in all sectors, except CBD Hotels, where it rose strongly and leads the market by some margin. Property experts in Office, Retail and Industrial markets reported lower (and broadly similar) confidence levels.

Positive sentiment in commercial property markets continues to be very narrowly based across states. Sentiment remains strongest in NSW (but down 8 to +47) and VIC (down 14 to +16). It improved most in SA/NT (up 27 to 0) and also rose in QLD (up 6 to +1), but remains very weak in WA (down -7 to -61). NSW and VIC continue to be the most optimistic states looking ahead followed by QLD. Property experts in WA are still by far the most pessimistic (and negative).

NAB COMMERCIAL PROPERTY INDEX



COMMERCIAL PROPERTY INDEX - STATE

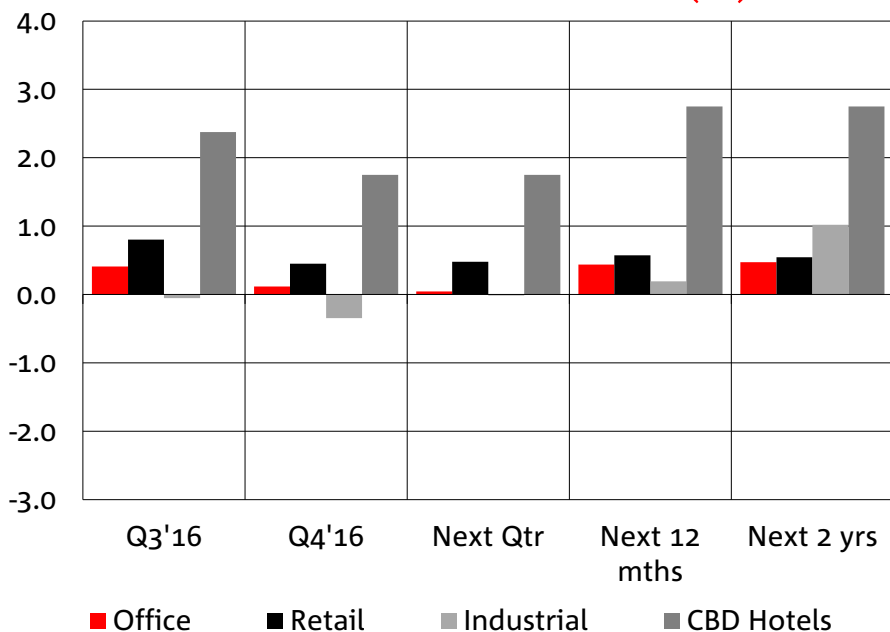


MARKET OVERVIEW - CAPITAL & VACANCY EXPECTATIONS

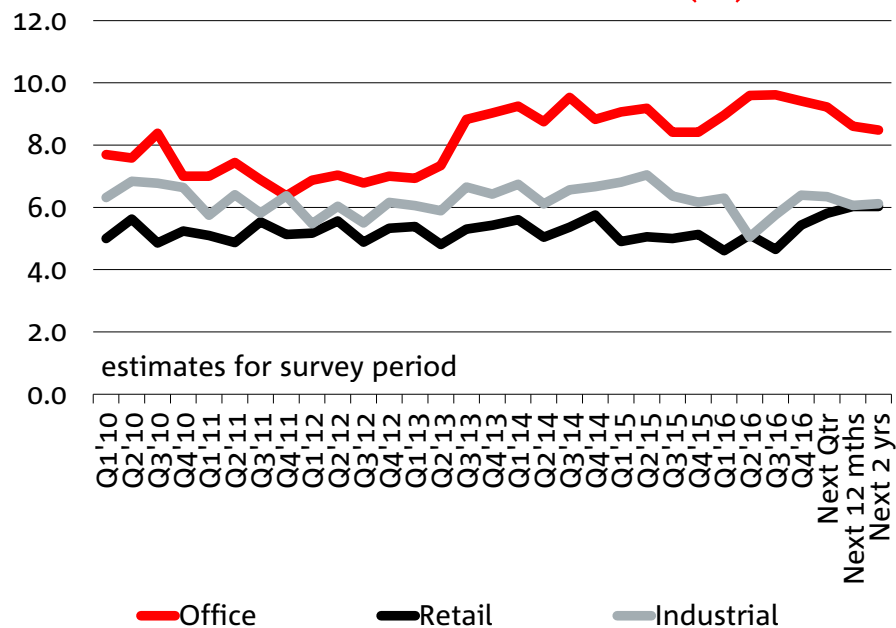
The outlook for capital growth in the next 1-2 years was revised up for CBD Hotels (2.8% in both years), but scaled back for Office (0.4% & 0.5%), Retail (0.6% & 0.5%) and Industrial (0.2% & 1.0%). Cutbacks in Office expectations were most apparent in VIC (0.0% & 0.3%) and WA (-5.9% & -5.3%), with the best returns forecast in NSW (1.8% & 1.5%). In Retail, expectations were strongest in NSW (1.2% & 1.1%) and VIC 1.1% & 1.4%). NSW (0.9% & 1.5%) and QLD (0.8% & 1.6%) lead the way for Industrial property.

The national Office vacancy rate fell to 9.4% in Q4, but it rose in Retail (5.4%) and Industrial (6.4%). Office vacancy was lowest in NSW (7.3%) and VIC (7.8%) and highest in WA (15.0%), QLD (12.1%) and SA/NT (11.8%). Retail vacancy rose in all states, bar NSW (5.4%), but was still lowest in VIC (4.6%). Industrial, vacancy (6.7%) rose in NSW (5.9%) and VIC (6.8%) but fell in WA (7.5%) and QLD (6.1%). Overall, vacancy in Office and industrial markets is expected to fall in the next 1-2 years and rise in Retail.

CAPITAL VALUE EXPECTATIONS (%)



VACANCY RATE EXPECTATIONS (%)

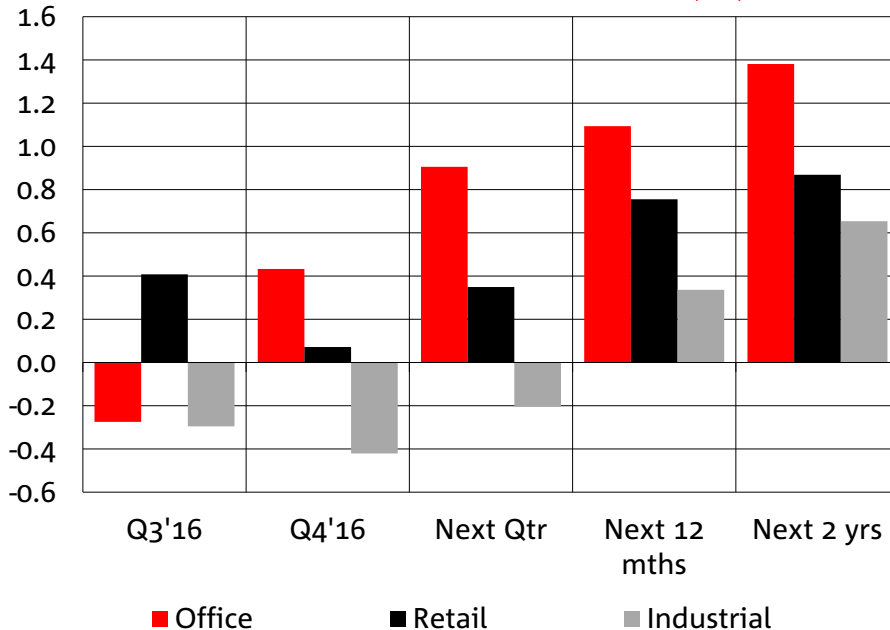


MARKET OVERVIEW - RENTS & SUPPLY

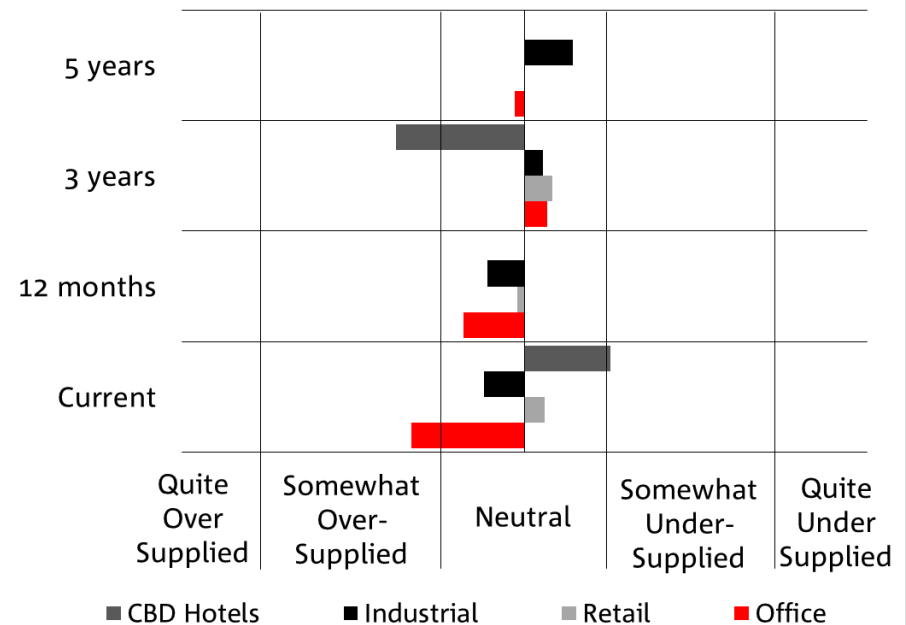
Office property replaced Retail for best income returns in Q4, with NSW (2.6%) leading the way and WA (-5.6%) trailing. Overall, office property is also expected to provide the best income returns in the next 1-2 years, with much stronger growth in NSW (3.5% & 3.7%) offsetting big falls in WA (-4.2% & -3.1%). Retail rents are predicted to grow in all states except WA (-2.3% & -0.6%). Property experts also see Industrial rents growing in all states (except WA), with VIC (1.1% & 1.3%) out-performing.

National Office markets were “somewhat” over-supplied in Q4 as large over-hangs in WA (and to a lesser extent QLD and SA/NT) offset shortages in NSW and a balanced market in VIC. Supply conditions in all other sectors was broadly “neutral” in Q4 and are expected to remain so in the next 1-5 years - except in the CBD Hotels where modest over-supply is predicted in 3 years’ time, and in Retail and Industrial markets in WA & SA/NT where over-supply is also expected to be an issue in the longer-term.

GROSS RENTAL EXPECTATIONS (%)



SUPPLY CONDITIONS

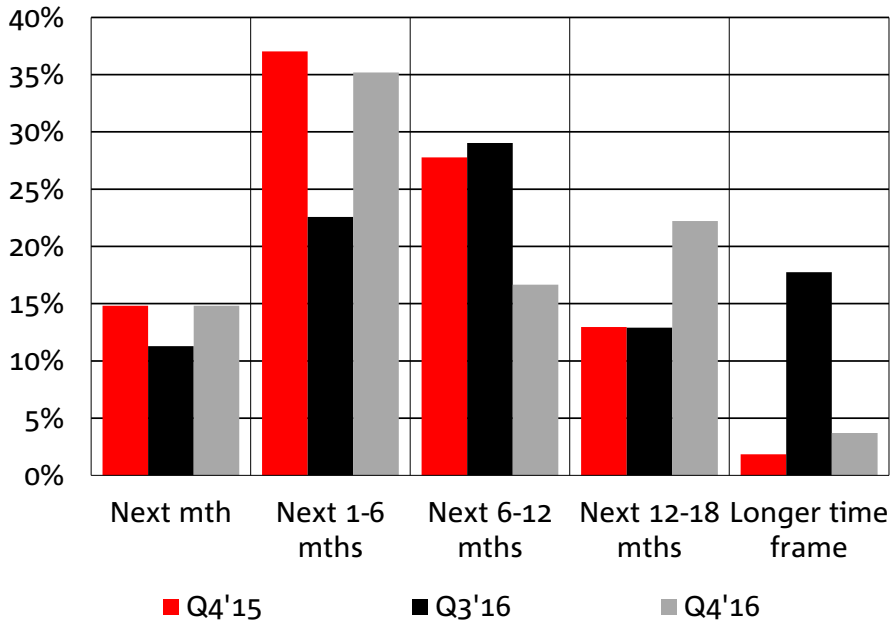


MARKET OVERVIEW - DEVELOPMENT INTENTIONS

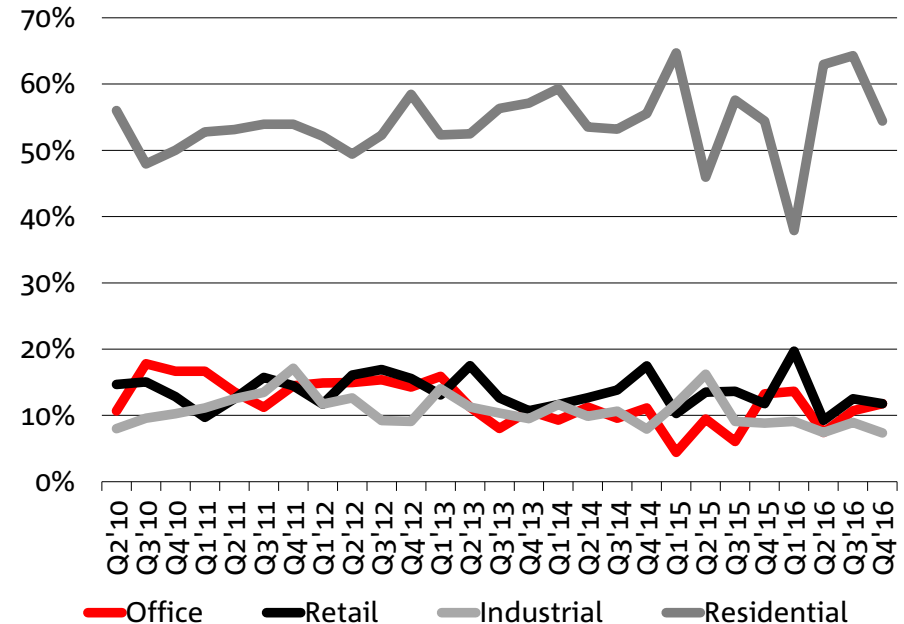
More property developers are looking to start new projects in the short-term. According to the latest survey results, around 50% of property developers said that they were planning to commence new works in the next 6 months - up from a Survey low 34% in the previous quarter. Around 39% also expected to commence new works in the next 6-18 months (down from 42% in Q3), while just 4% said they were looking to start over a longer time frame.

For those developers planning to start new works, there was a noticeable fall in the number targeting residential property in the last 6 months. In Q4, just 54% said they intended to start new residential projects, down from 64% in Q3 - possibly reflecting the large apartment pipeline already in place. In commercial markets, intentions were largely unchanged - 12% said they were looking a projects in the Office sector (11% in Q3), 12% in Retail (13% in Q3) and 7% in Industrial (9% in Q3).

COMMENCEMENT INTENTIONS



COMMENCEMENT INTENTIONS - SECTOR

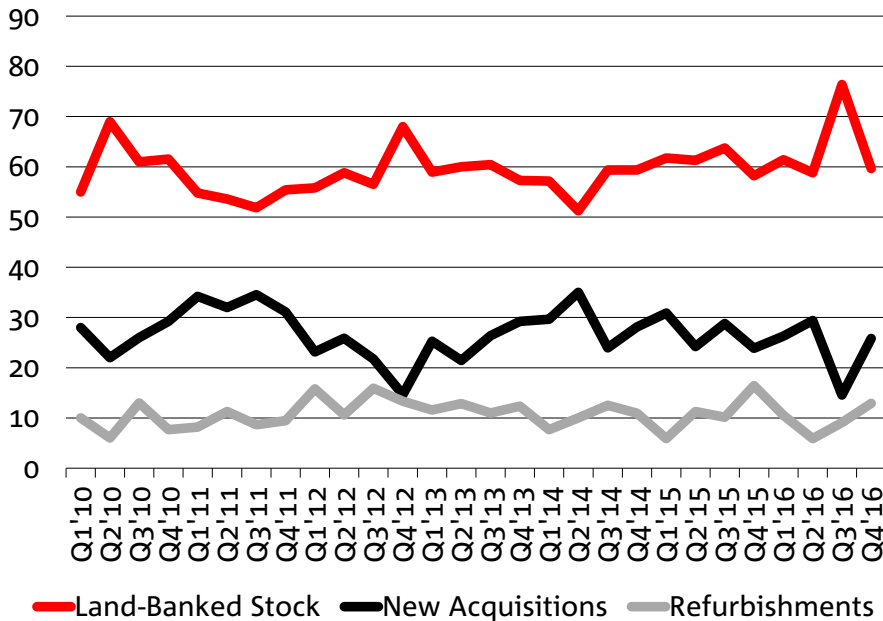


MARKET OVERVIEW - LAND SOURCES & CAPITAL INTENTIONS

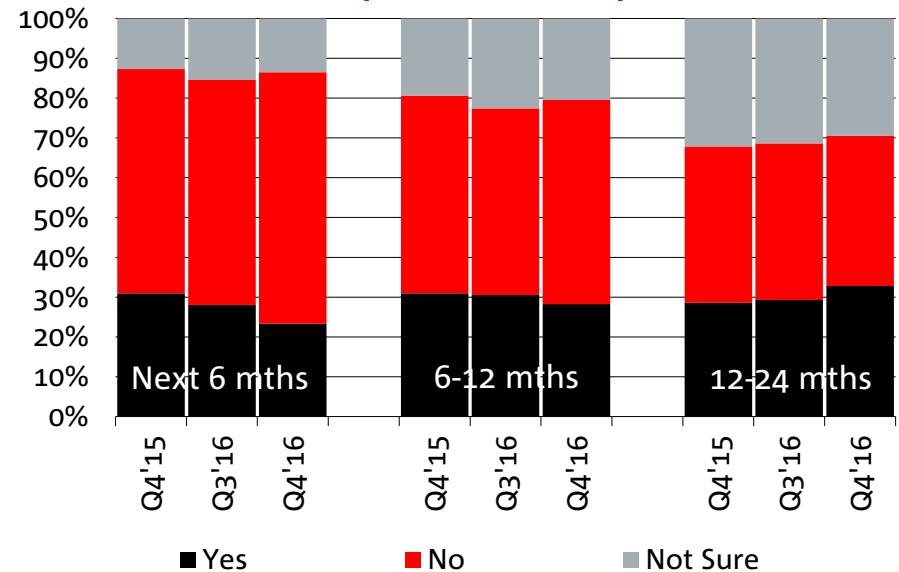
The number of property developers using land-banked stock for their new projects fell to 60% in Q4, down from a Survey high 76% in the previous quarter. But around 26% also said they were looking at new acquisitions, up from 15% in the previous quarter. Together, this could suggest that property developers may have run down their land stocks in this current cycle and are seeking new land to develop. Around 13% of developers were also looking to refurbish existing stock (9% in Q3).

The number of developers looking to source more capital within the next 6 months fell to 23% in Q4 (28% in Q3), consistent with the softening also seen in short-term development commencement intentions. Around 28% were planning to source more capital in the next 6-12 months (31% in Q3) and 33% in the next 12-24 months (29% in Q3). Around one-third (34%) were “unsure” of their intentions in the next 0-12 months, indicating that a large number are also exercising some caution.

SOURCES OF LAND DEVELOPMENT (%)



INTENT TO SOURCE MORE CAPITAL FOR DEVELOPMENT/ACQUISITIONS/PROJECTS

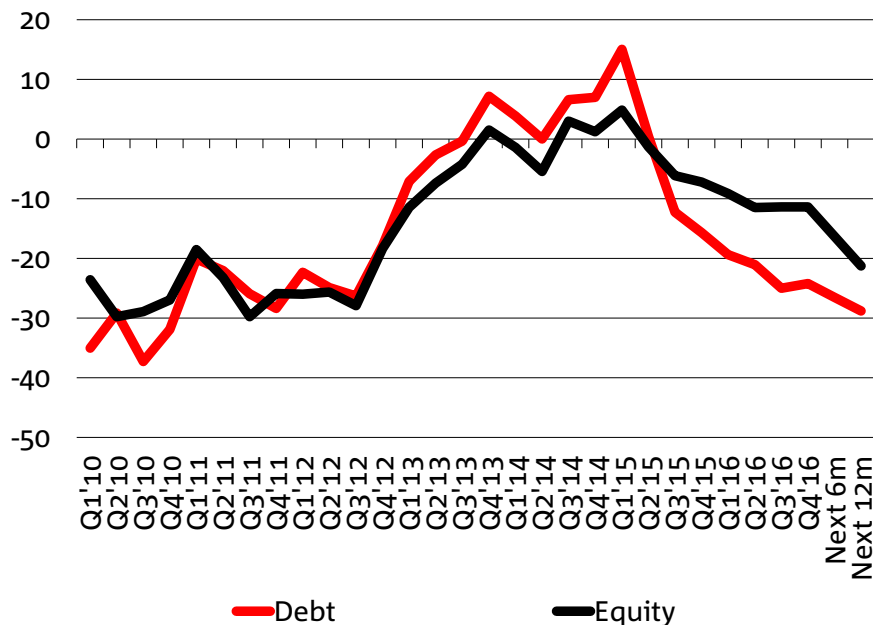


MARKET OVERVIEW - FUNDING & PRE-COMMITMENTS

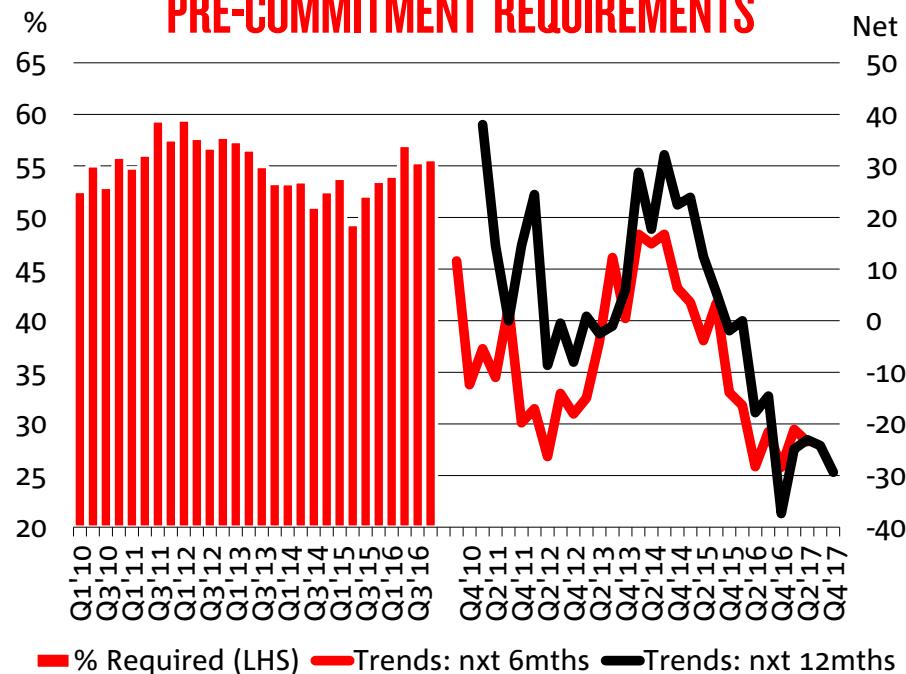
Funding conditions remain difficult. In net balance terms, -24% of surveyed property experts said it was harder to obtain borrowing or loans (debt) needed for their business - near the weakest results in over 4 years. Obtaining equity was also harder according to a net -11% of property experts (unchanged from Q3 but still at 4-year low levels). Moreover, surveyed property professionals on balance are expecting it to become even harder to acquire debt or equity in the next 6-12 months.

In addition to difficult funding conditions, property developers also said that the average pre-commitment requirements rose slightly to 55.6% in Q4, (55.3% in Q3), and well above year earlier levels (53.5%). This situation is not expected to improve any time soon, with a net -23% expecting it to worsen over the next 6 months (compared to now) and a net -29% expecting it to worsen in the next 12 months.

EASE OF ACQUIRING DEBT/EQUITY (NET)



PRE-COMMITMENT REQUIREMENTS



SURVEY RESPONDENTS EXPECTATIONS (AVG) Q4 2016

OFFICE CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'16	0.6	1.5	0.0	-7.0	-0.8	0.1
Q1'17	0.6	1.3	0.0	-6.6	-0.8	0.0
Q4'17	0.0	1.8	-0.1	-5.9	0.3	0.4
Q4'18	0.3	1.5	0.4	-5.3	0.7	0.5

RETAIL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'16	1.3	1.0	0.9	-2.8	-5.6	0.5
Q1'17	0.4	1.6	1.0	-2.8	-5.6	0.5
Q4'17	1.1	1.2	1.0	-1.3	-5.6	0.6
Q4'18	1.4	1.1	0.9	-1.8	-5.6	0.5

INDUSTRIAL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'16	0.0	0.5	0.0	-2.8	-0.8	-0.3
Q1'17	-0.2	1.1	0.5	-2.5	-0.8	0.0
Q4'17	0.4	0.9	0.8	-2.2	-0.1	0.2
Q4'18	0.9	1.5	1.6	-0.7	0.9	1.0

OFFICE RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'16	-0.3	2.6	-0.1	-5.6	-1.3	0.4
Q1'17	0.0	3.3	0.1	-4.7	-1.6	0.9
Q4'17	0.0	3.5	0.5	-4.2	-2.1	1.1
Q4'18	0.6	3.7	0.7	-3.1	-2.1	1.4

RETAIL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'16	-0.4	1.1	0.4	-5.1	1.9	0.1
Q1'17	-0.4	1.2	0.6	-2.8	1.9	0.4
Q4'17	0.0	1.5	1.0	-2.3	1.9	0.8
Q4'18	0.2	1.4	1.0	-0.6	1.9	0.9

INDUSTRIAL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'16	0.7	0.3	-0.3	-2.9	-1.2	-0.4
Q1'17	0.9	0.6	-0.5	-2.1	-1.2	-0.2
Q4'17	1.1	0.7	0.0	-0.7	0.4	0.3
Q4'18	1.3	0.8	0.3	-0.3	1.7	0.7

SURVEY RESPONDENTS EXPECTATIONS (AVG) Q4 2016

OFFICE VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'16	7.8	7.3	12.1	15.0	11.8	9.4
Q1'17	8.2	7.1	11.5	15.0	11.8	9.2
Q4'17	7.0	6.3	10.8	15.0	11.4	8.6
Q4'18	7.0	6.2	10.3	15.0	11.4	8.5

RETAIL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'16	4.6	5.4	5.7	8.3	7.0	5.4
Q1'17	5.2	5.5	6.0	9.0	8.0	5.8
Q4'17	5.3	6.1	6.3	7.7	9.0	6.0
Q4'18	5.3	6.3	5.7	7.0	10.0	6.0

INDUSTRIAL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'16	6.8	5.9	6.1	7.5	6.0	6.4
Q1'17	6.8	5.8	6.1	7.5	6.0	6.3
Q4'17	6.3	6.1	5.4	6.5	6.0	6.1
Q4'18	7.0	6.1	5.4	6.3	6.0	6.1

NOTES:

Survey participants are asked how they see:

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

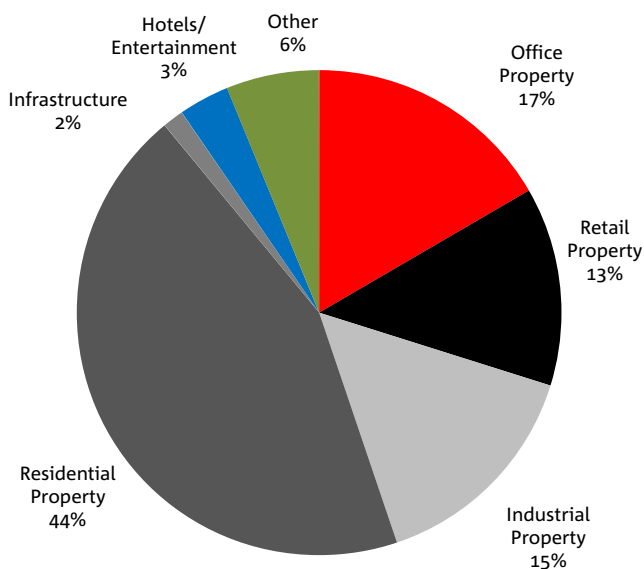
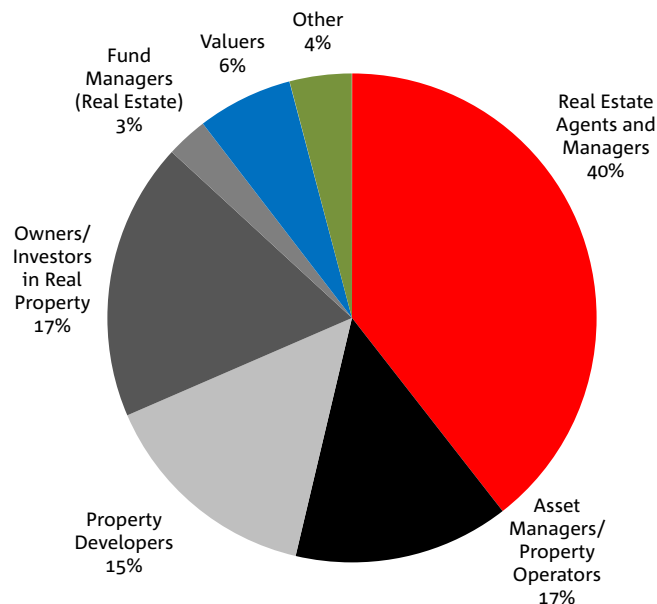
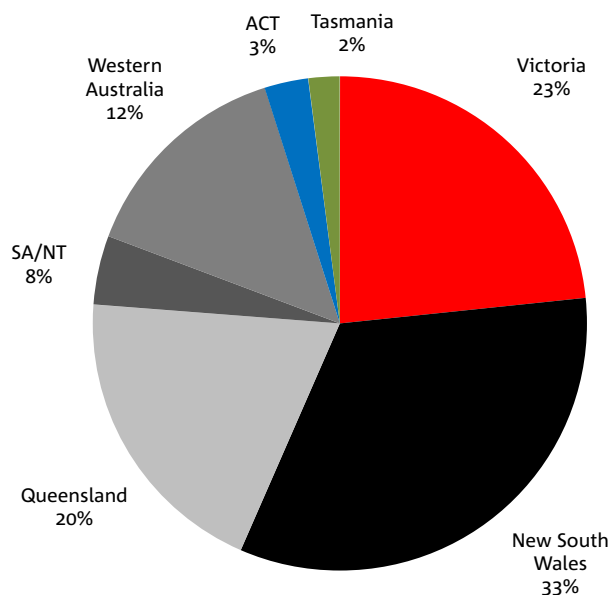
In each of the commercial property markets for the following timeframes:

- 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 250 panellists participated in the Q4 2016 Survey.

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