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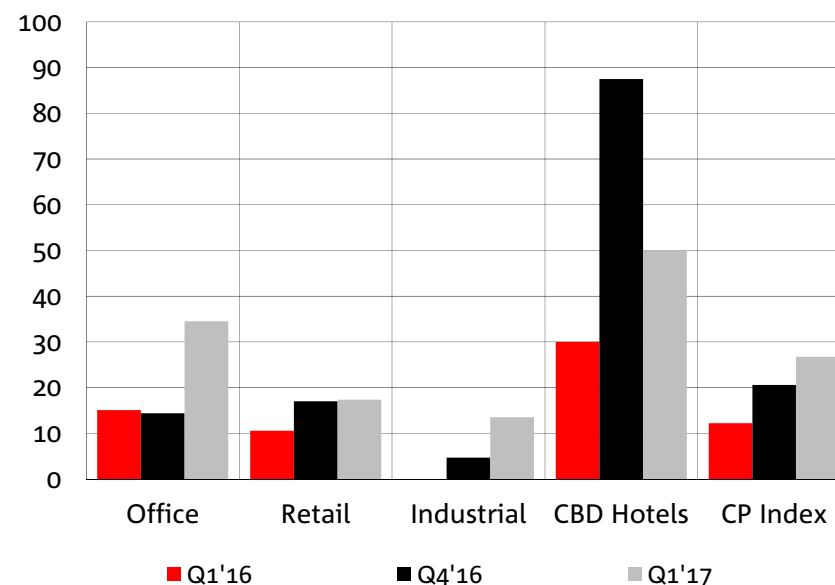
NAB COMMERCIAL PROPERTY SURVEY Q1 2017

Date April 2017 | NAB Behavioural & Industry Economics

KEY FINDINGS

- Commercial property market sentiment climbed to a new high in Q1'17, with **NAB's Commercial Property Index** rising +6 to +27.
- **By sector**, gains were driven by much higher sentiment in Office and a modest improvement in Industrial. CBD Hotels down, but still very solid and highest across all sectors. Sentiment in Retail was unchanged.
- **Confidence** also lifted in Office, Industrial and CBD Hotels, but fell in Retail where household consumption continues to slow to a moderate pace across most states and territories.
- **By state**, sentiment is still highest in NSW (a new high) and VIC. It rallied in WA (but still negative) and fell in SA/NT and QLD. Confidence was highest in NSW and VIC and lowest in WA (and negative).
- **Capital growth expectations** revised up in CBD Hotels, Office and Industrial. Retail unchanged. Stronger growth predicted for Office in NSW, VIC and QLD, with Industrial gains led by VIC and NSW. In Retail, positive growth in NSW, VIC and WA to offset falls in QLD and SA/NT.
- Office tipped to provide best **income growth**, with solid growth in NSW and VIC continuing amid reports of strong competition for space and shortages. Expectations also lifted in Industrial, especially in NSW, but Retail rents to soften, led by weaker outcomes in QLD and WA.
- National Office **vacancy** tightened in Q1'17 with falls in VIC and NSW offsetting rises in QLD and SA/NT and persistently high rates in WA.
- Office **market supply conditions** rated "neutral" overall with large over-hangs in WA offset by tight supply in NSW and VIC. Supply "neutral" in Industrial and Retail and set to remain so in the next 1-5 years. CBD Hotels "somewhat" over-supplied and expected to remain so over next 1-5 years amid reports of an injection of new supply in 2017.
- Short-term confidence among **property developers** rose, with just over 1 in 2 (52%) looking to start new projects in the next 6 months. Development pipeline still dominated by residential projects - with just over 6 in 10 projects expected to commence in this sector.
- More than 1 in 4 (28%) developers are looking to source more capital in the next 6 months. But **funding conditions** now considered to be harder than at any time since Q4'11 - particularly for debt borrowing - and are expected to become even harder in the next 6-12 months.

NAB COMMERCIAL PROPERTY INDEX



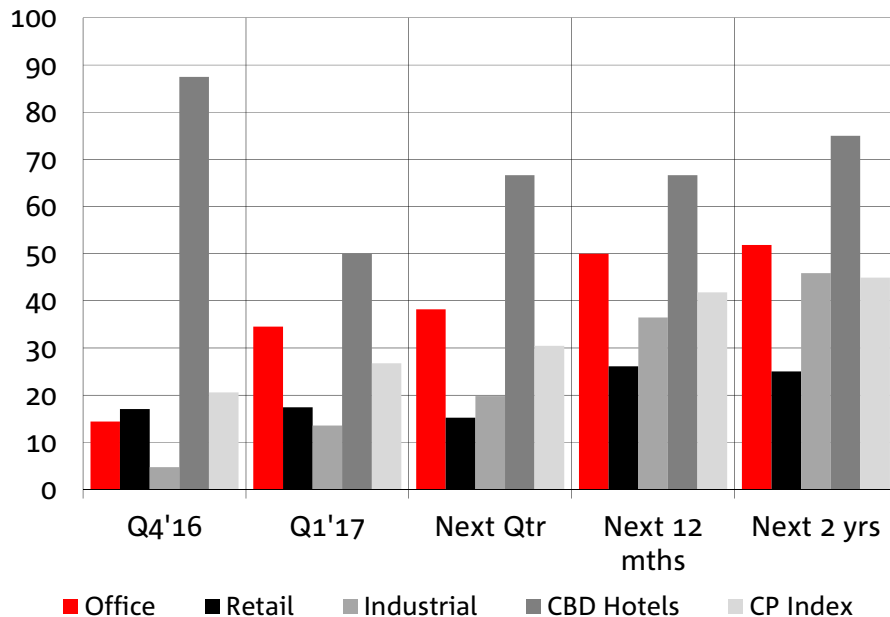
	Q4 2016	Q1 2017	Next Qtr	Next 12m	Next 2yrs
Office	14	35	38	50	52
Retail	17	17	15	26	25
Industrial	5	14	20	36	46
CBD Hotels	88	50	67	67	75
CP Index	21	27	30	42	45

MARKET OVERVIEW - INDEX BY SECTOR & STATE

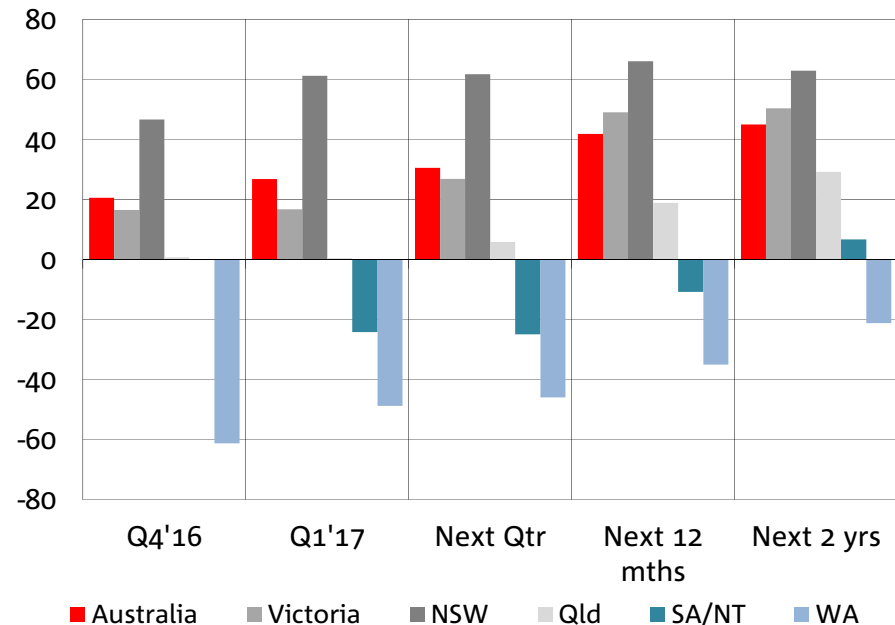
NAB's Commercial Property Index reached a new peak in Q1'17 (up +6 to +27). This was mainly driven by much higher sentiment in Office (up +21 to +35), particularly in the eastern seaboard states. CBD hotels continues to out-perform, although sentiment fell -38 to a still very solid +50. Modest gains were also seen in Industrial (up +9 to +14) but unchanged in Retail (+17). Confidence also stronger in Office, Industrial and CBD Hotels, but lower in Retail where household consumption continues to slow to a moderate pace across most states and territories.

Sentiment in commercial property markets continues to vary widely across states. It remains strongest in NSW, where it climbed +14 to an all time high +61 (led by boom conditions in Office) and VIC (up +1 to +17). It improved in WA (up +12 to -49) but remains very weak. Sentiment fell steeply in SA/NT (down -24 to -24) and was modestly lower in QLD (down -1 to 0). Property experts in NSW and VIC remain the most confident looking ahead followed by QLD. WA still the most pessimistic (and negative) state, with the outlook negative in all sectors.

NAB COMMERCIAL PROPERTY INDEX



COMMERCIAL PROPERTY INDEX - STATE

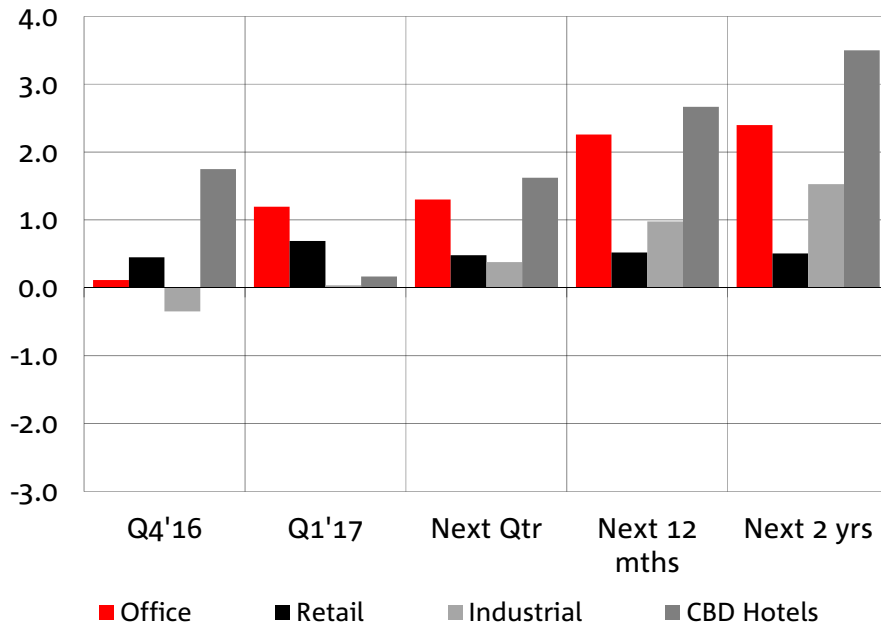


MARKET OVERVIEW - CAPITAL & VACANCY EXPECTATIONS

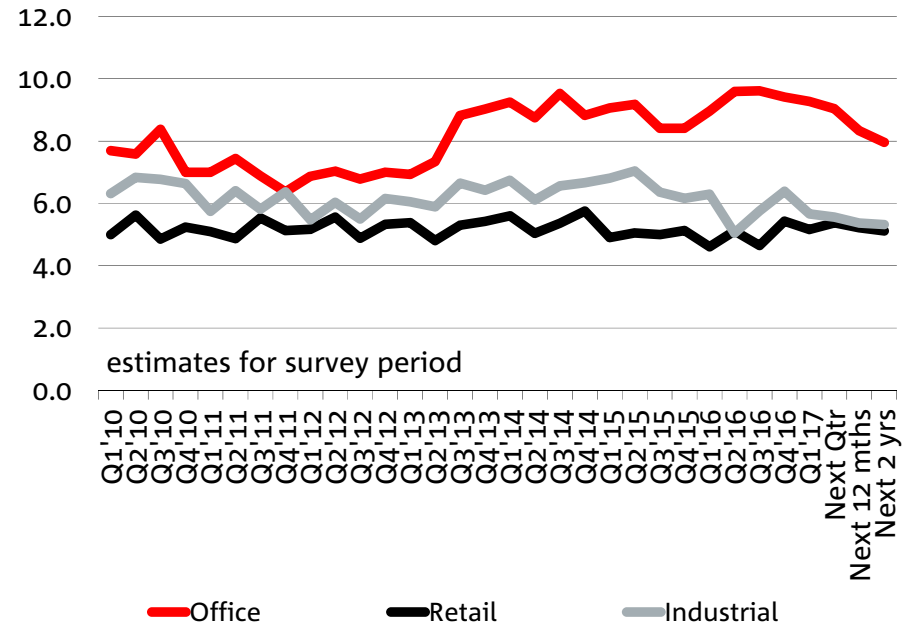
Property experts have lifted their expectations for capital growth in the next 1-2 years for CBD Hotels (2.7% & 3.5%), Office (2.3% & 2.4%) and Industrial (1.0% & 1.5%), Retail expectations (0.5% in both years) were however unchanged. Office expectations lifted in NSW (4.2% & 3.9%), VIC (1.8% & 2.6%) and QLD (1.2% & 1.8%), while better outcomes in Industrial reflected gains in VIC (1.7% & 2.4%) and NSW (2.4% in both years). In Retail, positive returns in NSW (1.1% & 1.0%), VIC (0.7% & 0.9%) and WA (0.7% in both years) to offset falls in QLD & SA/NT.

The national Office vacancy rate fell to 9.3% in Q1'17, to 5.2% in Retail and 5.7% in Industrial. Lower Office vacancy in VIC (5.8%) and NSW (6.6%), offset increases in QLD (13%) and SA/NT (12.7%), and persistently high rates in WA (15%). Retail vacancy fell in VIC (4.3%), QLD (4.8%) and WA (7.0%), but rose in NSW (5.7%). Industrial, vacancy rose in QLD (8.5%) and WA (7.9%), but fell in NSW (4.4%) and VIC (4.8%). Overall, vacancy rates in Office and Industrial markets are expected to fall in the next 1-2 years and remain unchanged in Retail.

CAPITAL VALUE EXPECTATIONS (%)



VACANCY RATE EXPECTATIONS (%)

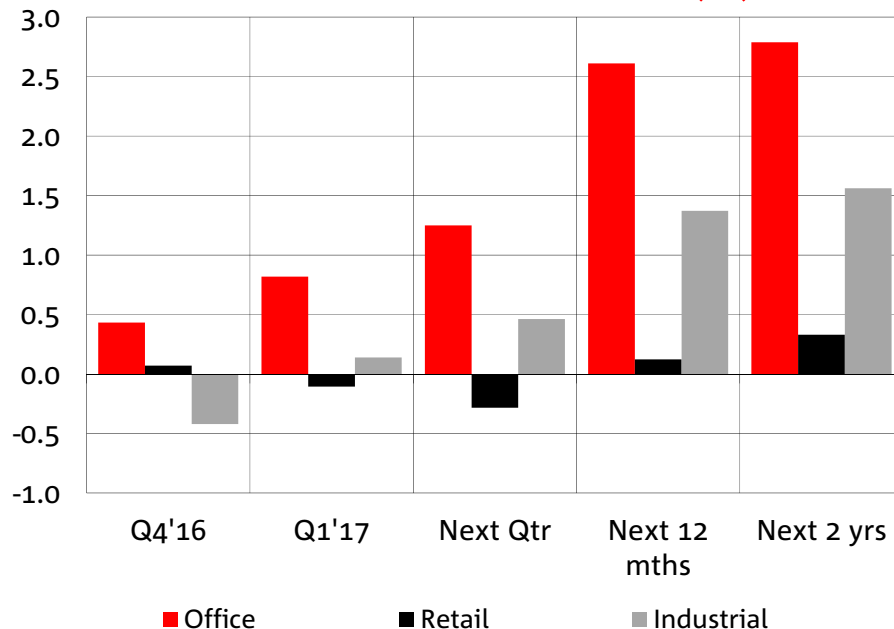


MARKET OVERVIEW - RENTS & SUPPLY

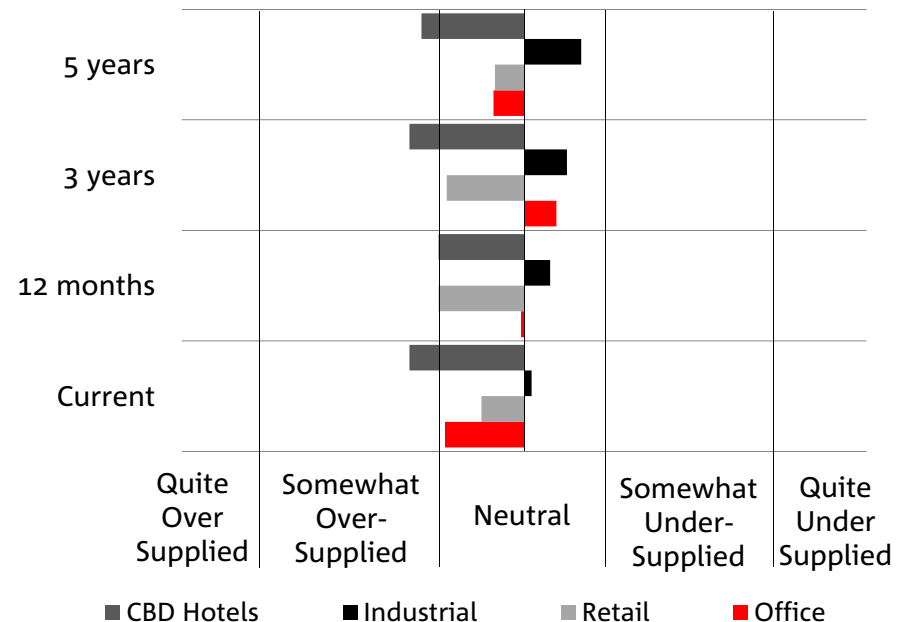
Office property continued to record the fastest growth in rents in Q1'17, with NSW (2.3%) and VIC (1.3%) leading the way and WA (-1.8%) and SA/NT (-1.8%) trailing. It is also tipped to provide the best returns in the next 1-2 years, led by very solid growth in NSW (4.7% in both years) and VIC (3.0 & 3.4%). Expectations have also lifted for Industrial property, with growth led by NSW (2.9% & 2.8%) and VIC (2.0% & 2.3%). The outlook for Retail rents has however softened, mainly reflecting weaker outcomes in SA/NT (-3.1% & -2.3%) and WA (-3.8% in both years).

Property experts believe that national Office market supply conditions are broadly “neutral”, as large overhangs in WA (and to a lesser extent QLD and SA/NT) continue to offset by shortages in NSW and a balanced market in VIC. Supply conditions in all other sectors were also broadly “neutral” in Q1'17 and are expected to remain so in the next 1-5 years - except CBD Hotels where the market is currently “somewhat” over-supplied and predicted to remain so over the next 1-5 years amid reports of an injection of new supply in 2017.

GROSS RENTAL EXPECTATIONS (%)



SUPPLY CONDITIONS

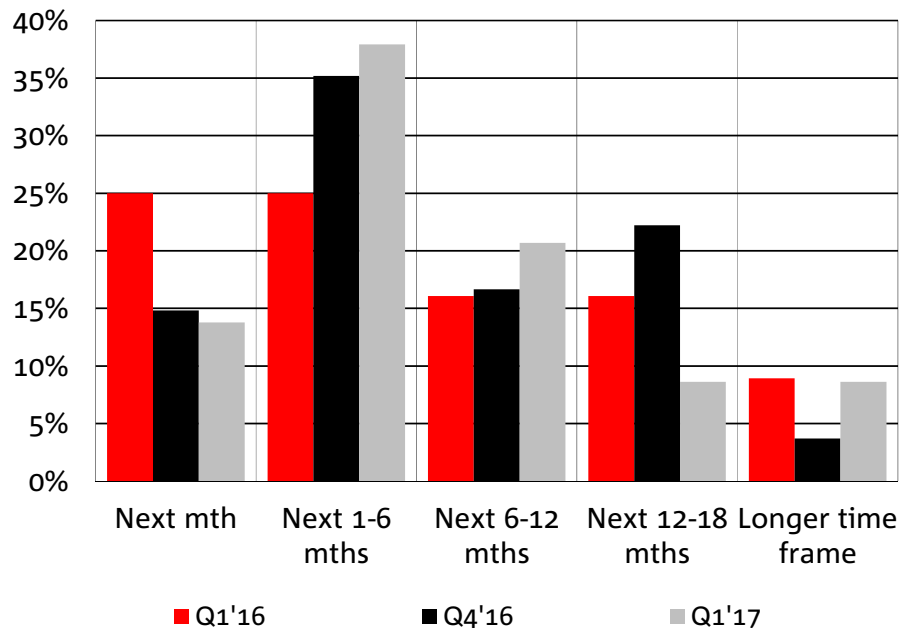


MARKET OVERVIEW - DEVELOPMENT INTENTIONS

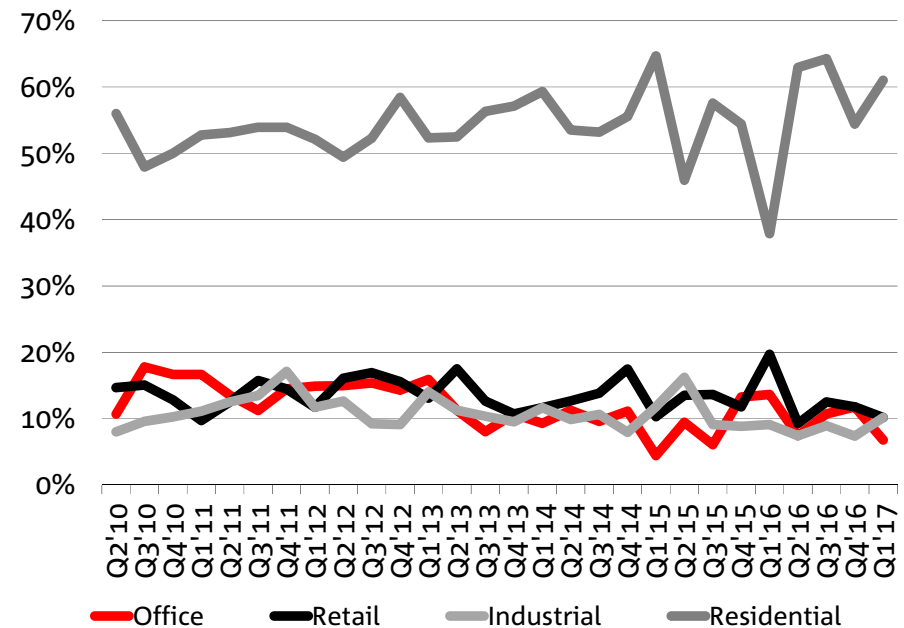
Confidence levels among developers in the short-term, remains high. Just over 1 in 2 surveyed property developers (52%) indicated that they are looking to start new projects in the next 6 months. This is up slightly from 50% in the previous survey and is currently at its highest level since Q3'15. The longer-term outlook appears a little less certain, with only 29% expecting to commence new works in the next 6-18 months (down from 39% in Q4'16), while 9% said they were looking to start over a longer time frame.

The development pipeline continues to be dominated by residential projects. Among those developers who indicated that they were planning to start new works, more are targeting residential property. In Q1'17, just over 6 in 10 (61%) developers said they intended to start work on new residential projects, up from 54% in Q4'16. In commercial property markets, around 7% said they were looking a projects in the Office sector (down from 12% in Q4'16), 10% in Retail (12% in Q4'16) and 10% in Industrial (up from 7% in Q4'16).

COMMENCEMENT INTENTIONS



COMMENCEMENT INTENTIONS - SECTOR

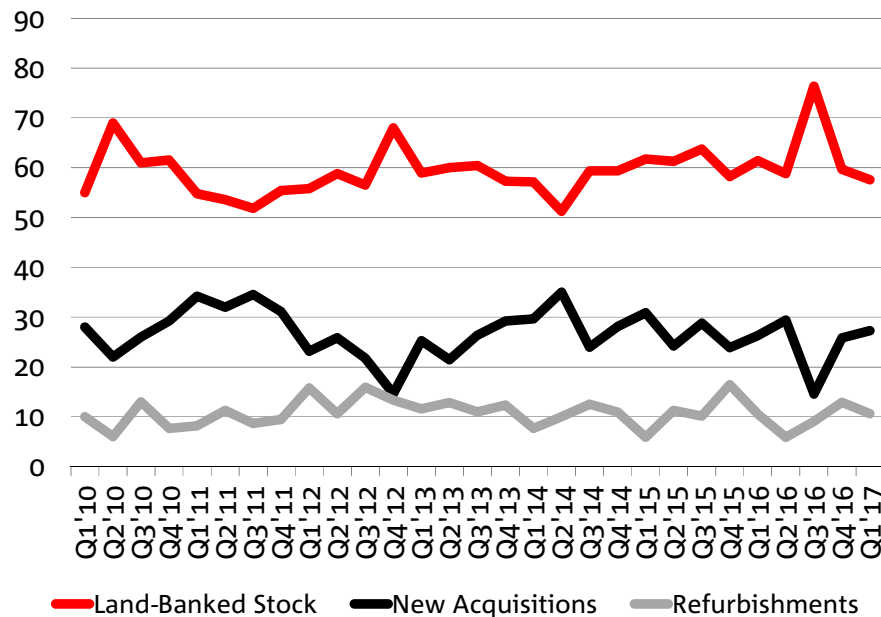


MARKET OVERVIEW - LAND SOURCES & CAPITAL INTENTIONS

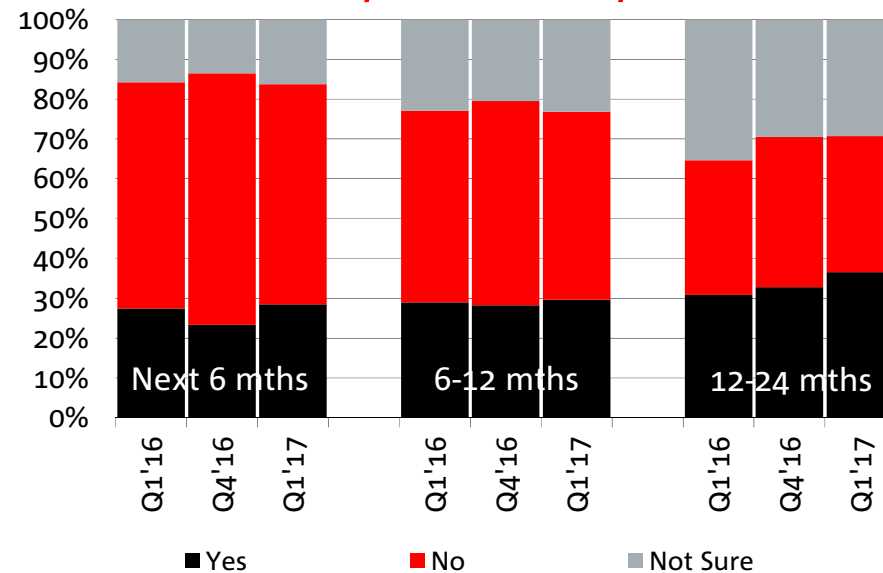
The number of property developers using land-banked stock for their new projects fell to 58% in Q1'17, down from 60% in the previous quarter and now at its lowest level since mid-2014. More developers (27%) said they were looking at new acquisitions, which could be suggesting that property developers may have run down their land stocks in this current cycle and are seeking new land to develop. Around 11% of developers were also looking to refurbish existing stock (13% in Q4'16).

With more developers intending to start new projects in the near-term, the number of developers looking to source more capital within the next 6 months also rose to 28% in Q1'17 (23% in Q4'16). Around 30% were planning to source more capital in the next 6-12 months (28% in Q4'16) and 37% in the next 12-24 months (33% in Q4'16). Around 39% were "unsure" of their intentions in the next 0-12 months (34% in Q4'16), indicating that more developers may be exercising some caution.

SOURCES OF LAND DEVELOPMENT (%)



INTENT TO SOURCE MORE CAPITAL FOR DEVELOPMENT/ACQUISITIONS/PROJECTS

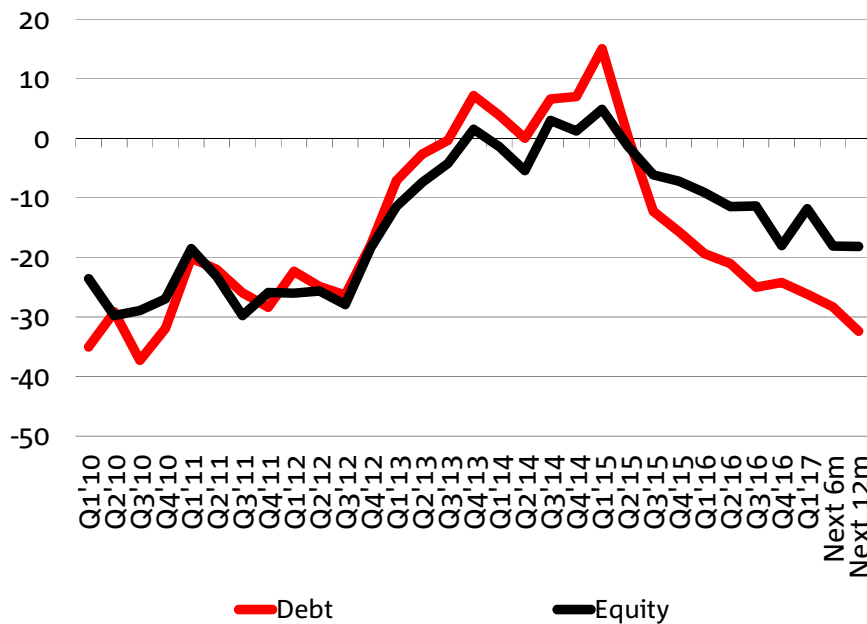


MARKET OVERVIEW - FUNDING & PRE-COMMITMENTS

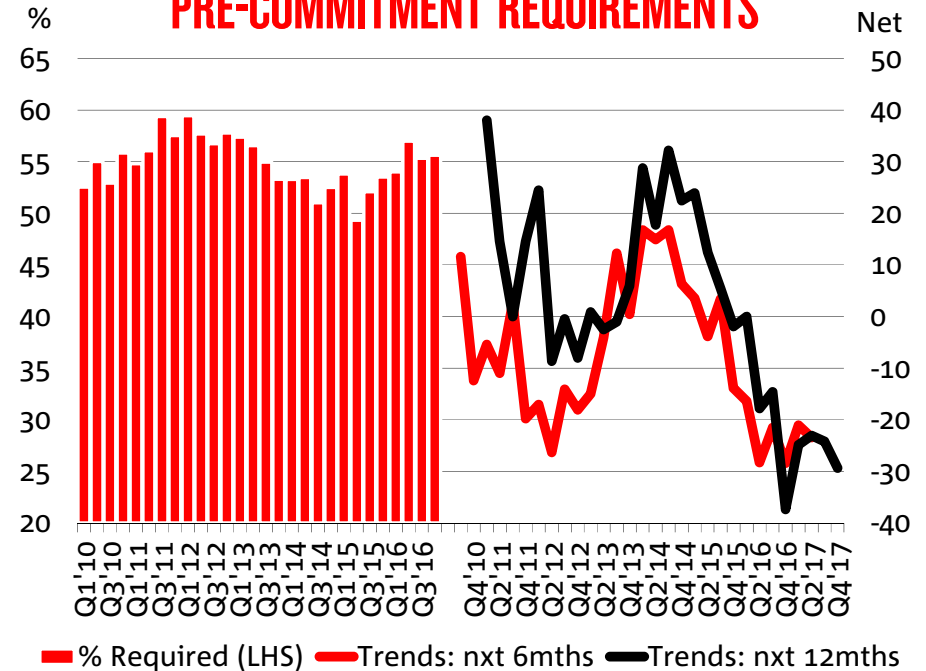
Funding conditions are still very difficult. In net balance terms, -26% of surveyed property experts said it was harder to obtain borrowing or loans (debt) needed for their business - the weakest result since Q4'11. Obtaining equity was also considered to be difficult by a net -12% of property experts. Looking forward, property experts on balance are expecting funding conditions to become even harder in the next 6-12 months.

Property developers said that the average pre-commitment required to meet their external debt funding requirements fell slightly to 55.3% in Q1'17 (55.6% in Q4'16, but still above year earlier levels (54.0%). This situation is not expected to improve any time soon, with a net -24% of property experts expecting it to worsen over the next 6 months (compared to now) and a net -26% expecting it to worsen in the next 12 months.

EASE OF ACQUIRING DEBT/EQUITY (NET)



PRE-COMMITMENT REQUIREMENTS



SURVEY RESPONDENTS EXPECTATIONS (AVG) Q1 2017

OFFICE CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'17	0.3	2.6	0.6	-2.7	-0.4	1.2
Q2'17	0.6	2.7	0.6	-1.8	-0.4	1.3
Q1'18	1.8	4.2	1.2	-1.8	-0.3	2.3
Q1'19	2.6	3.9	1.8	-1.2	0.0	2.4

OFFICE RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'17	1.3	2.3	-0.2	-1.8	-1.8	0.8
Q2'17	1.5	2.9	0.1	-1.8	-1.6	1.3
Q1'18	3.0	4.7	1.1	-0.6	-1.3	2.6
Q1'19	3.4	4.7	1.7	0.0	-1.3	2.8

RETAIL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'17	-0.2	1.7	0.0	1.3	0.0	0.7
Q2'17	0.0	0.9	0.1	1.3	0.0	0.5
Q1'18	0.7	1.1	-0.3	0.7	-1.0	0.5
Q1'19	0.9	1.0	-0.4	0.7	-1.0	0.5

RETAIL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'17	0.1	1.4	-0.9	-4.3	-2.8	-0.1
Q2'17	0.3	1.2	-1.3	-4.3	-4.0	-0.3
Q1'18	1.1	1.4	-1.2	-3.8	-3.1	0.1
Q1'19	1.5	1.6	-1.0	-3.8	-2.3	0.3

INDUSTRIAL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'17	0.3	1.8	-0.3	-4.4	-1.3	0.0
Q2'17	0.5	2.2	-0.3	-3.8	-0.6	0.4
Q1'18	1.7	2.4	0.2	-2.6	-0.6	1.0
Q1'19	2.4	2.4	1.2	-1.4	0.0	1.5

INDUSTRIAL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'17	0.4	2.0	0.3	-4.4	-1.9	0.1
Q2'17	1.0	2.1	0.3	-3.8	-1.3	0.5
Q1'18	2.0	2.9	0.8	-2.1	-0.6	1.4
Q1'19	2.3	2.8	1.3	-1.9	0.0	1.6

SURVEY RESPONDENTS EXPECTATIONS (AVG) Q1 2017

OFFICE VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'17	5.8	6.6	13.0	15.0	12.7	9.3
Q2'17	5.8	6.3	12.5	15.0	13.0	9.0
Q1'18	4.6	5.7	11.3	15.0	12.7	8.3
Q1'19	4.5	5.5	10.5	15.0	11.7	8.0

RETAIL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'17	4.3	5.7	4.8	7.0	7.0	5.2
Q2'17	4.3	5.7	5.4	7.0	8.0	5.4
Q1'18	4.0	5.5	5.4	6.3	9.0	5.2
Q1'19	3.3	5.5	5.4	5.7	10.0	5.1

INDUSTRIAL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'17	4.8	4.4	8.5	7.9	6.3	5.7
Q2'17	4.6	4.3	8.5	7.9	6.3	5.6
Q1'18	4.5	4.5	7.0	6.7	7.0	5.4
Q1'19	3.9	4.8	7.0	6.4	7.0	5.3

NOTES:

Survey participants are asked how they see:

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

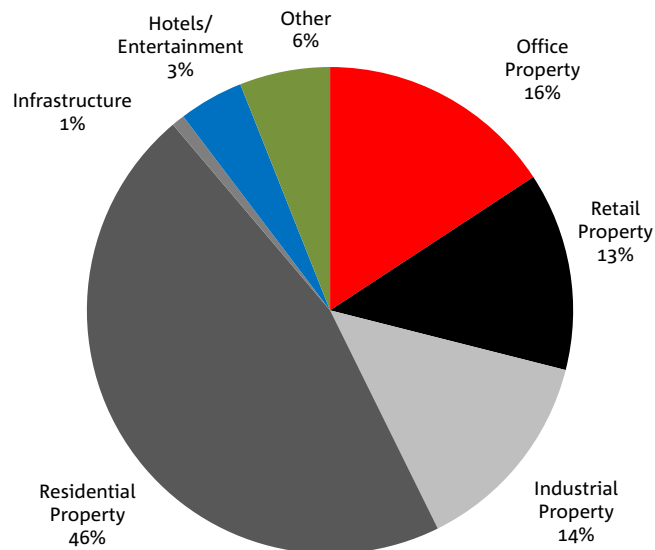
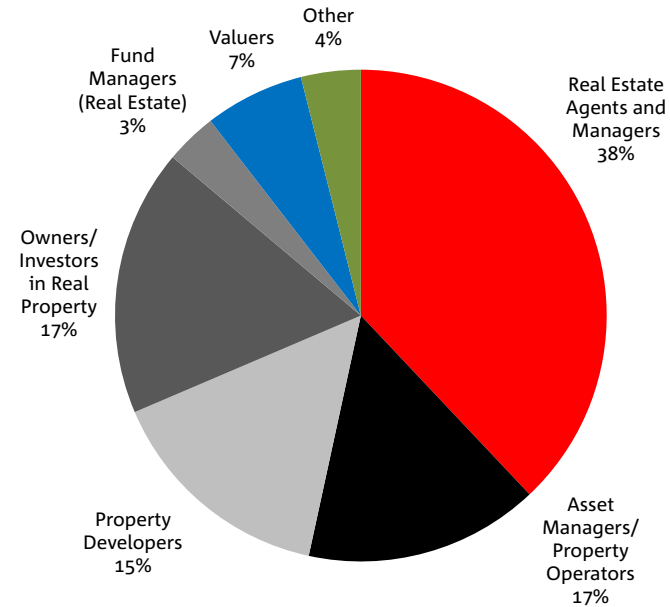
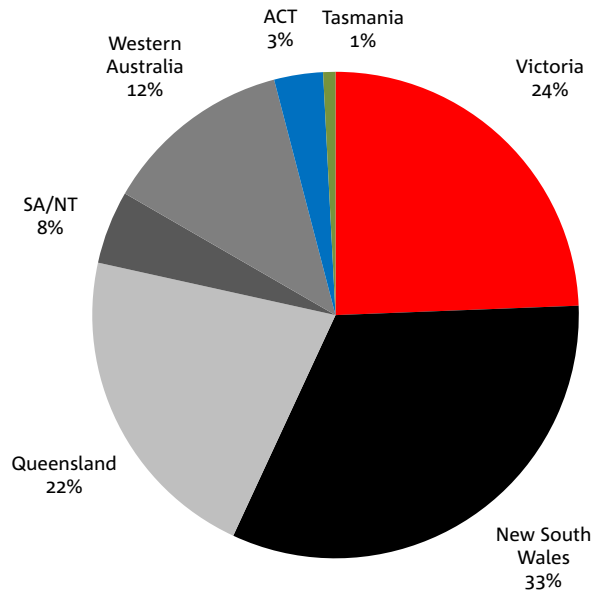
In each of the commercial property markets for the following timeframes:

- 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 Q1 2017 Survey.

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