

EMBARGOED UNTIL 11.30 AM WEDNESDAY 18 OCTOBER 2017

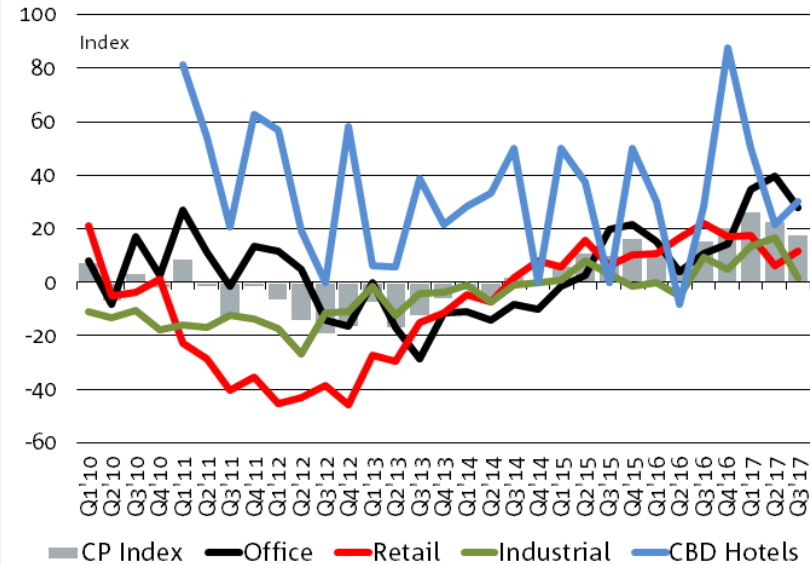


NAB COMMERCIAL PROPERTY SURVEY Q3 2017

KEY FINDINGS

- Overall sentiment in commercial property markets moderated for the second consecutive quarter, with **NAB's Commercial Property Index** down 5 points to +18 in Q3, but still well above long-term average levels (+2).
- **By sector**, CBD hotels re-emerged as the most positive sector as the uptrend in Office sentiment that began in mid-2016 reversed. Retail market sentiment was also higher, but Industrial sentiment softened.
- **By state**, overall sentiment was dragged down by NSW and VIC (but still best overall). Sentiment improved in WA and SA/NT (but negative) and QLD steady.
- **Confidence** lifted in all sectors - most noticeably CBD hotels. Office slightly higher as weaker (but still very strong) outcomes in NSW and VIC offset by improvements in all other states (particularly WA).
- By state, confidence moderated in NSW and VIC (but still most upbeat of all states). QLD bridging the gap, with higher confidence reported in all sectors.
- On average, **expectations for capital growth** lifted in all sectors. Outlook strongest for CBD hotels and Office next best, led by NSW & VIC. QLD to provide the best returns in Industrial markets, with QLD & VIC the stand outs in Retail.
- Office to property to deliver the best **rental income returns** in next 1-2 years, led by VIC and NSW. Outlook for Retail rents weak with little growth expected in all states. QLD tipped to be leading state for industrial rental growth.
- National **Office vacancy rate** unchanged in Q3 (9.7%). Vacancy rates lowest in VIC and NSW where strong demand and take-up is continuing, but still very high in SA/NT, QLD and WA. Vacancy rates expected to continue falling in VIC & NSW. Modest tightening also expected in QLD, SA/NT and WA, but vacancy will remain relatively high amid still elevated supply, especially in WA.
- CBD Hotels "somewhat" under-supplied, but market to balance in 3-5 years as new supply comes on-stream. Office "neutral" - but big differences by state - over-supply still a big issue in WA (and will remain so in the next 1-3 years).
- The number of **property developers** targeting residential projects fell to 51% in Q3 (59% in Q2 and 64% at the same time last year) - lending further support to NAB's view that the dwelling construction cycle may have peaked.
- **Debt and equity funding** is still difficult to obtain and property experts on balance don't expect to see any improvement over the next 6-12 months.
- For the first time, property experts were asked to estimate **pre-commitment requirements** in residential and commercial markets. The average required to meet their funding requirements was 62.3% for residential and 57.3% for commercial property.

NAB COMMERCIAL PROPERTY INDEX



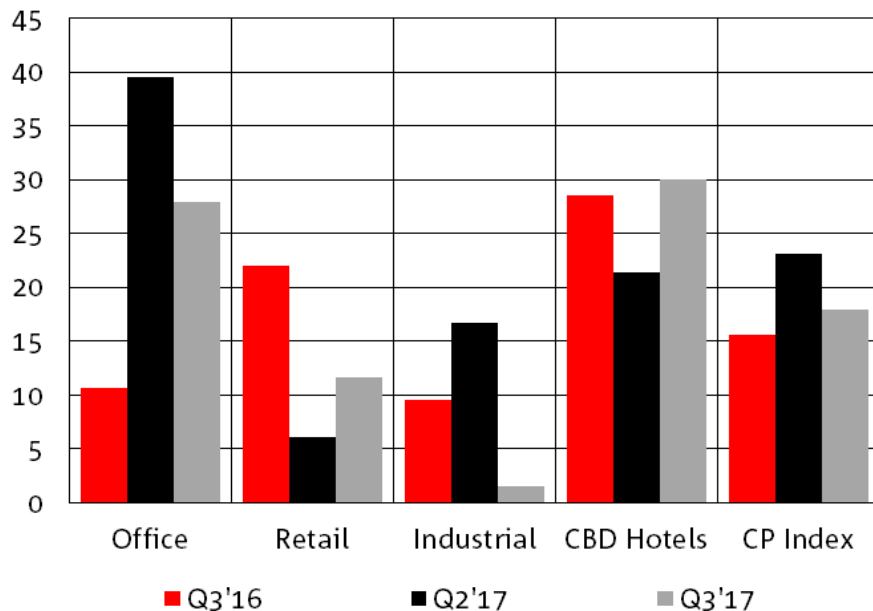
	Q1 2017	Q2 2017	Q3 2017	Next 12m	Next 2yrs
Office	35	39	28	47	51
Retail	17	6	12	24	28
Industrial	14	17	2	27	42
CBD Hotels	50	21	30	60	60
CP Index	27	23	18	38	43

MARKET OVERVIEW - NAB COMMERCIAL PROPERTY INDEX

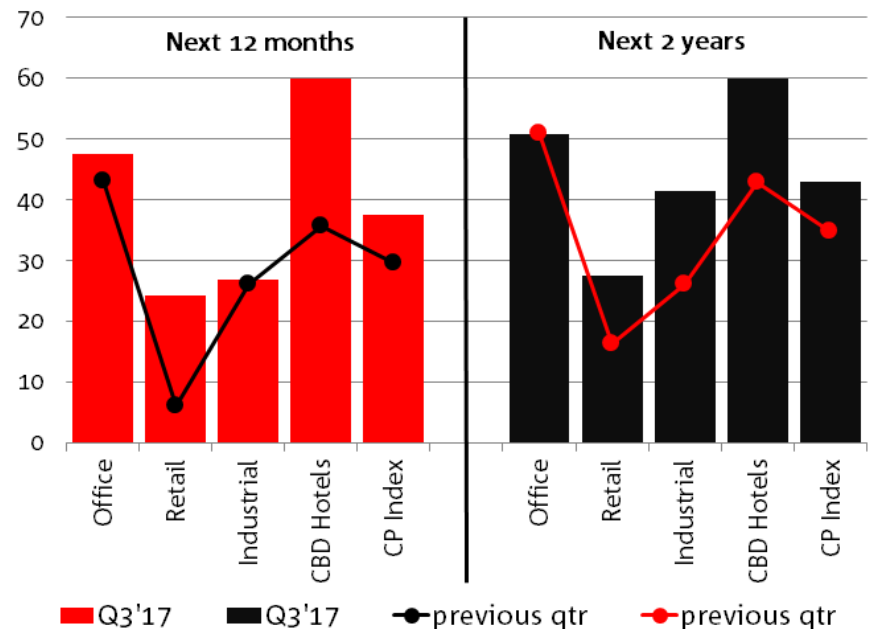
Overall sentiment in commercial property markets (measured by NAB's Commercial Property Index) moderated for the second consecutive quarter in Q3 (down 5 to +18), but remains well above long-term average levels (+2). Although sentiment was above long-term averages in all markets (except CBD hotels), it continues to vary widely by property type. The uptrend in Office that started in mid-2016 reversed in Q3 (down 11 to +28), with weaker outcomes reported in all states except WA (but still negative). Despite moderating, NSW continues to lead the way in Office markets (with sentiment at very high levels), followed by VIC - see table on next page for more state detail. CBD hotels re-emerged as the most positive sector (up 9 to +30). Retail market sentiment was also higher (up 6 to +12) and lifted in all states (bar WA & NSW) with QLD leading the way. Industrial sentiment softened (down 15 to +2) - with sentiment lower in all states except WA (but negative).

Overall confidence levels in commercial property markets improved in the September quarter - the index is now expected to rise to +38 in the next 12 months (from +30 previously) and +43 in 2 years' time (+35 previously). Confidence levels among surveyed property experts lifted in all sectors - most noticeably in the CBD hotels sector - which is likely reflecting strong fundamentals in key CBD markets, especially Sydney. Overall confidence levels in Office were also slightly higher in Q3 as weaker (but still very strong) outcomes in NSW and VIC were offset by improvements all other states (particularly WA). In Retail markets, confidence increased, with gains in all states. In the Industrial property sector, gains were largely contained to WA & QLD, with experts in the industrial property sector in QLD also still the most confident of all states, and confidence levels in WA improving the most (but from very low levels).

NAB COMMERCIAL PROPERTY INDEX



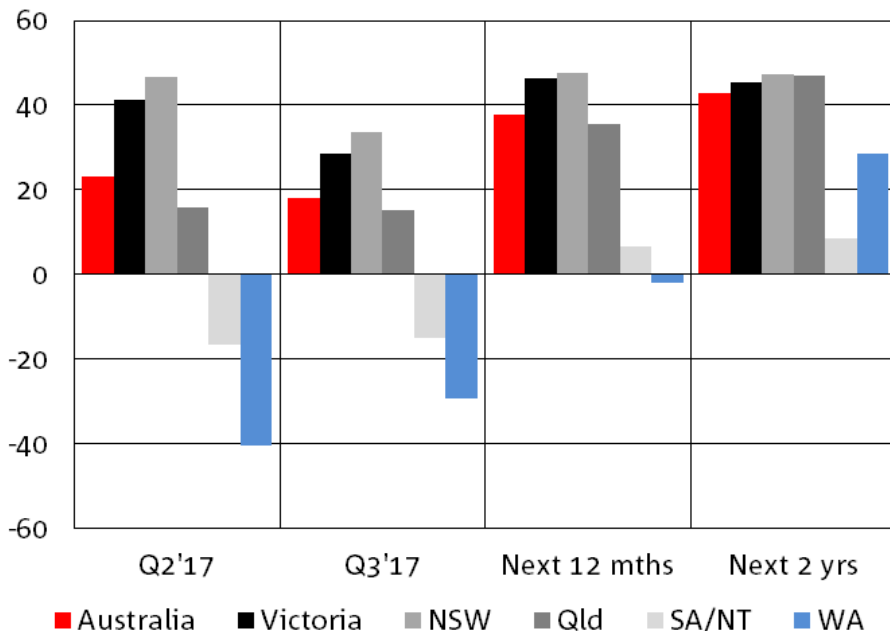
NAB CP INDEX - NEXT 1-2 YEARS



MARKET OVERVIEW - INDEX BY STATE

By state, lower overall sentiment was dragged down by NSW and VIC. Sentiment lifted in SA/NT and WA (but negative) and was steady in QLD. The state index for NSW fell (13 to 34), and was lower in all sectors. In VIC (down 13 to +29) the index fell in Office and Industrial, offsetting an improvement in Retail. Sentiment continued to recover in WA (up 11 to -29), recording its strongest read since late-2014 (but still negative). Property experts in NSW and VIC were also less confident in the Q3 survey - but remain the most upbeat of all states in the next 1-2 years. QLD is however bridging the gap, with confidence levels rising in all market sectors. Confidence in SA/NT also lifted solidly (from a small sample size) led by better outcomes in Office and Retail. In WA, confidence levels also improved - and in all sectors with a particularly big uplift in the Office segment.

COMMERCIAL PROPERTY INDEX - STATE



OFFICE PROPERTY MARKET INDEX - STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'17	33↓	68↓	3↓	-25↑	-17↔	28↓
Q3'18	58↓	80↓	29↑	13↑	0↑	47↑
Q3'19	58↓	66↓	50↑	50↑	0↑	51↔

RETAIL PROPERTY MARKET INDEX - STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'17	19↑	13↓	25↑	-21↓	-20↑	12↑
Q3'18	25↑	20↑	34↑	7↑	10↑	24↑
Q3'19	19↓	33↑	31↑	21↑	20↑	28↑

INDUSTRIAL PROPERTY MARKET INDEX - STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'17	23↓	13↓	33↓	-65↑	-25↓	2↓
Q3'18	27↓	48↓	67↑	-45↑	-6↓	27↑
Q3'19	32↑	54↓	88↑	10↑	-13↓	42↑

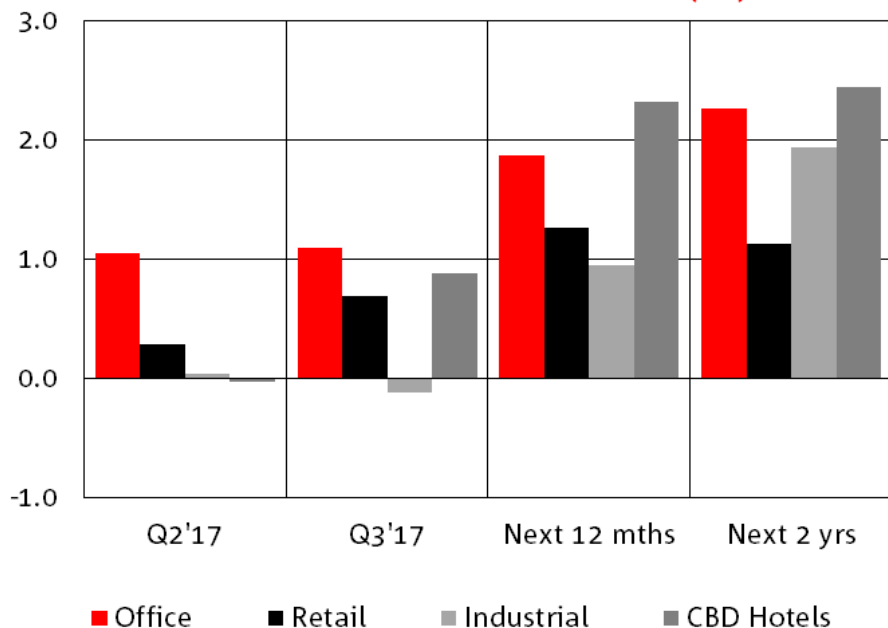
LEGEND: ↑ up since last survey ↓ down since last survey ↔ unchanged

MARKET OVERVIEW - CAPITAL & VACANCY EXPECTATIONS

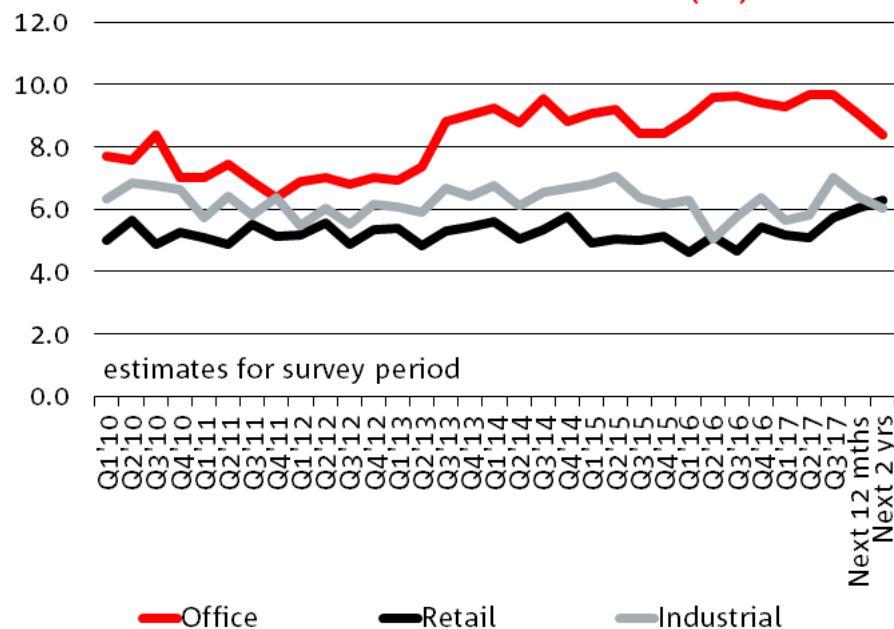
On average, property experts have lifted their expectations for capital growth in the next 1-2 years in all sectors. Expectations are strongest for CBD Hotels (2.3% & 2.4%), followed by Office (1.9% & 2.3%), Industrial (0.9% & 1.9%) and Retail (1.3% & 1.1%). Capital growth expectations for Office property were pared back but are still highest in NSW (3.4% & 3.2%) and VIC (1.8% & 2.8%). They were revised up in QLD (0.8% & 1.5%) and in WA (-0.1% & 1.9%). QLD is expected to provide the best capital returns in Industrial markets (2.0% & 3.5%), followed by NSW (2.1% & 2.8%). Industrial capital values in WA are tipped to fall heavily next year (-1.9%) and grow in 2 years' time (0.4%), with weaker growth also predicted for VIC (0.9% & 1.2%). Overall capital growth expectations in Retail improved again in Q3 (1.3% & 1.1%), with QLD & VIC the stand out states (see p.10).

The national Office vacancy rate was unchanged at 9.7% in Q3. Vacancy rates were reportedly lowest in VIC (4.3%) and NSW (6.3%) where strong tenant demand and take-up is continuing. Vacancy rates in SA/NT (12.3%), QLD (13.0%) and WA (15.0%) were however still elevated. In Retail, overall vacancy climbed to 5.7% in Q3 to its highest level since late-2014. Vacancy increased most in WA (8.0%) and was lowest in QLD (4.7%). In Industrial markets, vacancy also climbed to a survey high 7.0%, mainly reflecting a significant increase in available space in WA (10.0%). Looking forward, Office vacancy is expected to drift down in the next 1-2 years, with market tightness most apparent in VIC & NSW. Vacancy is also expected to improve in QLD, SA/NT and WA, but remain high amid large supply over-hangs in WA (see p.10).

CAPITAL VALUE EXPECTATIONS (%)



VACANCY RATE EXPECTATIONS (%)

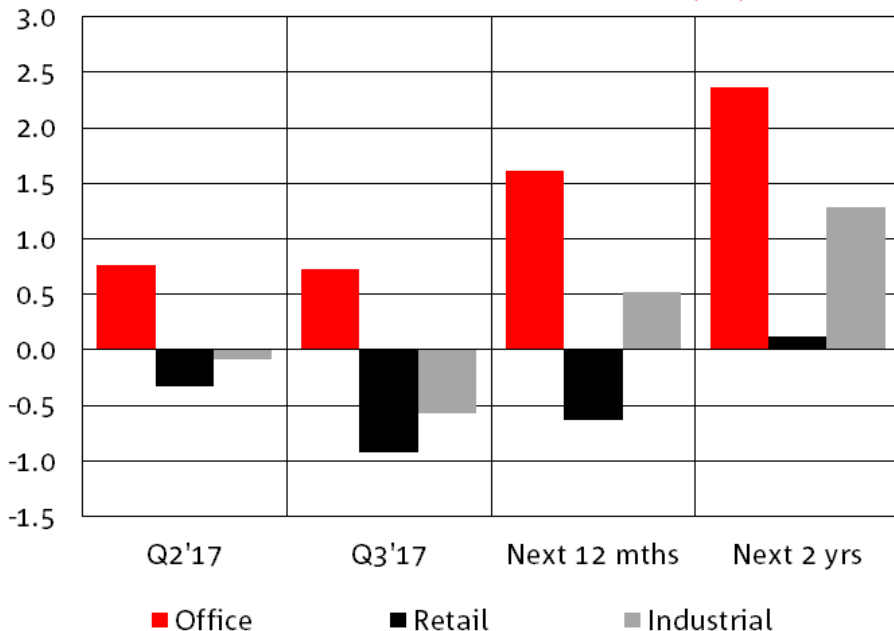


MARKET OVERVIEW - RENTS & SUPPLY

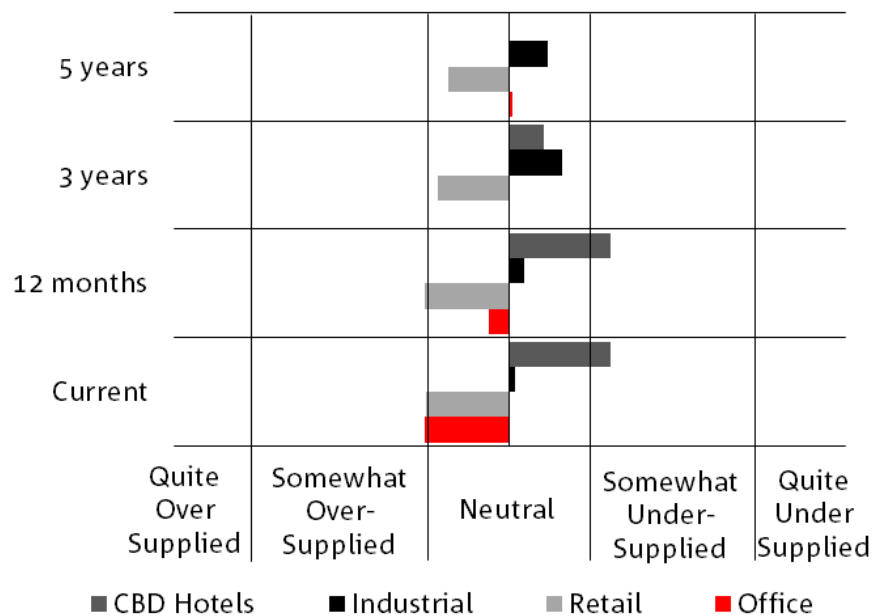
Office property continued to record the fastest growth in nominal rents in Q3 (0.7%), with NSW (2.1%) and VIC (1.8%) still leading the way. Rental growth slowed in all other states, led by SA/NT (-1.3%). Property experts believe that Office property will continue provide the best income returns over the next 1-2 years (1.9% & 2.3%), with the best returns expected in VIC (3.4% & 4.5%) and NSW (3.3% & 3.8%). Income returns for Retail property were weakest of all sectors in Q3 (-0.6%). The rental outlook for Retail also remains weak (-0.6% & 0.1%), with very little growth expected in all states. Overall, rental growth for Industrial property contracted in Q3 (-0.6%), dragged down mainly by falling rents in WA, which offset modest gains in QLD, NSW & VIC. Looking ahead, QLD (2.0% & 2.9%) is expected to be leading state for industrial rental growth in the next 1-2 years and WA (-2.4% & 0.0%) and SA/NT (-0.7% & -1.4%) weakest.

Property experts believe the CBD hotel market is currently “somewhat” under-supplied and will remain so in the next 12 months, before returning to balance in the next 3-5 years as new supply comes on stream. Overall, Office market supply was assessed as “neutral” and is set to remain so over the outlook horizon. But this hides big differences by state. Over-supply is still a big issue in WA (and will remain so in the next 1-3 years), and will also be a feature in Office markets in QLD next year and SA/NT (next 1-3 years). In NSW however, market is expected to be “somewhat” under-supplied (next 1-3 years). Modest over-supply is also expected to be a feature of all state Retail markets in the next 1-5 years, except in QLD & VIC (“neutral”). Nationally, the outlook for the industrial market is broadly “neutral”, but shortages will begin to emerge in VIC in the next 3-5 years.

GROSS RENTAL EXPECTATIONS (%)



SUPPLY CONDITIONS

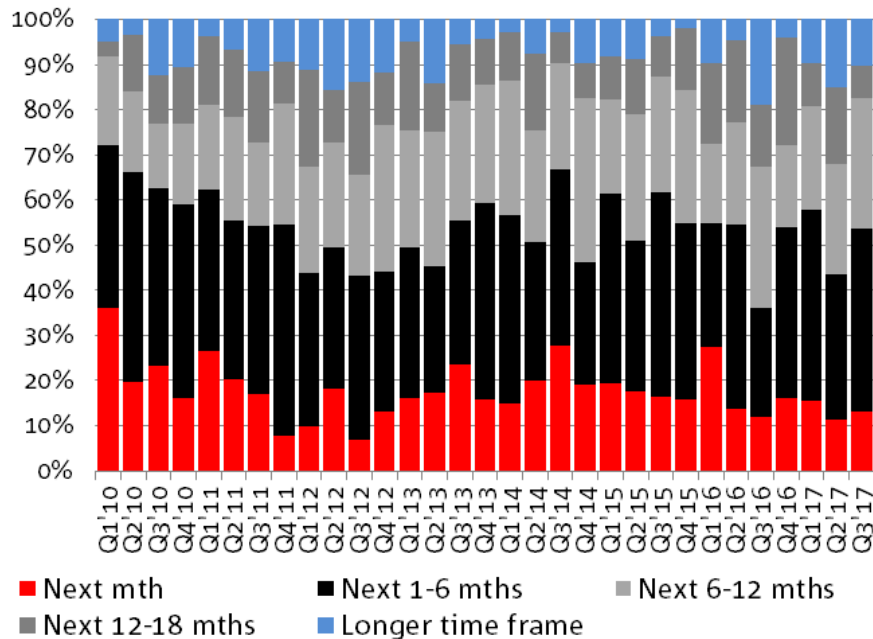


MARKET OVERVIEW - DEVELOPMENT INTENTIONS

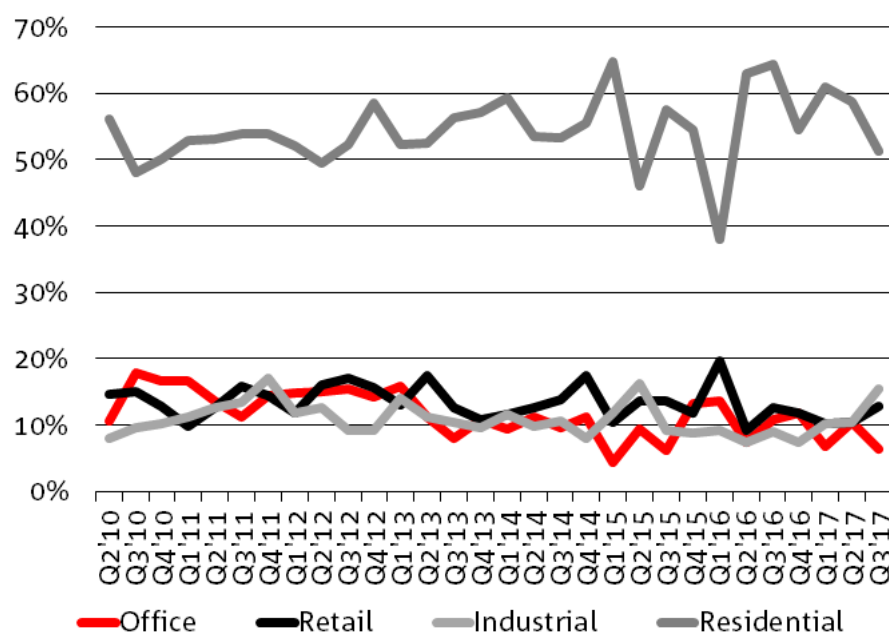
Australia wide, the number of surveyed property developers that said they were intending to commence new building works in the next 6 months increased to 49% in the September quarter. While this number was up from 42% in the previous quarter, it was below its long-term survey average level (51%). This result appears consistent with NAB's own view that the dwelling construction has possibly already peaked - with the June quarter national accounts data pointing to a more elongated cycle as dwelling construction holds steady at a high level for some time. More than 1 in 4 (27%) property developers also said they plan to start new projects in the next 6-12 months (24% in Q2), 7% in the next 12-18 months (16% in Q2) and 9% a longer timeframe (15% in Q2).

The number of property developers who said they were planning to start new works and were targeting residential development projects fell to 51% in Q3, down from 59% in Q2 and 64% at the same time last year. This adds further support to NAB's view that the dwelling construction cycle may have peaked. In commercial property markets however around 15% of property developers said they were looking at starting new projects in the Industrial space (up from 10% in Q2) and 13% in the Retail sector (up from 10% in Q2). In contrast, the number of property developers who indicated they were looking to start new works in the Office property sector fell to 6% (down from 10% in Q2).

COMMENCEMENT INTENTIONS - TIME



COMMENCEMENT INTENTIONS - SECTOR

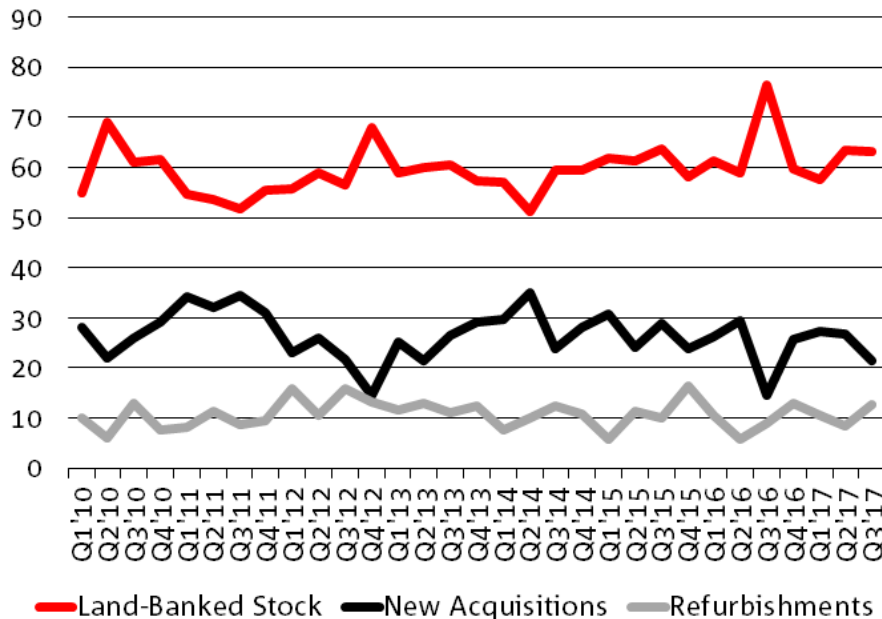


MARKET OVERVIEW - LAND SOURCES & CAPITAL INTENTIONS

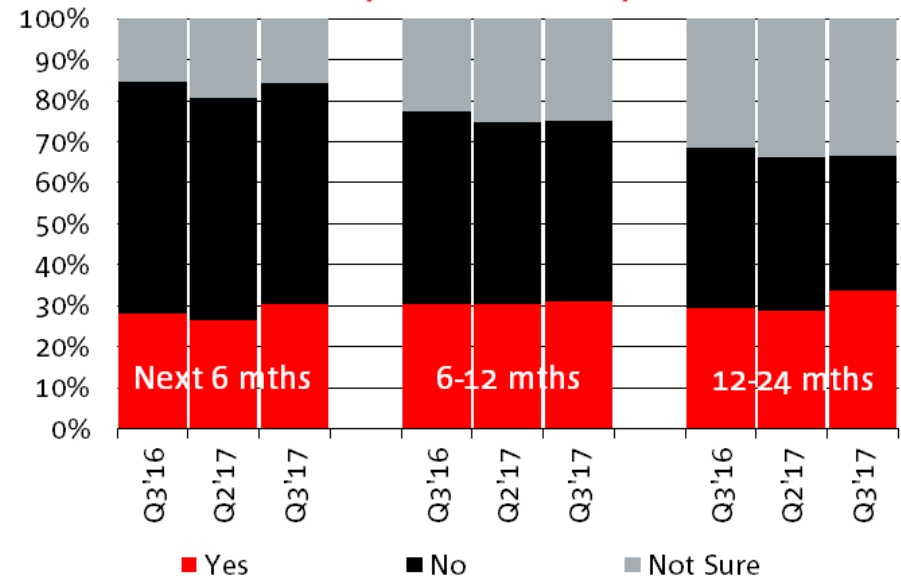
The number of property developers who said they were looking to use land-banked stock for their new projects was unchanged at 63% in Q3 - but remains above long-term average levels of 59%. The number of developers who were seeking new acquisitions fell to 22% (27% in Q2), while the number that looking at refurbishments climbed to 13% (up from 8% in Q2).

Around 30% of developers in Q3 were planning to source more capital to fund their development in the next 6 months in Q3 (up from 26% in Q2). Around 54% had no intention to source capital in the short-term and 16% were unsure. Sourcing intentions in the next 6-12 months were broadly unchanged - 31% yes, 44% no and 25% unsure. But 34% of developers said they will be looking to source capital in the next 1-2 years, up from 29% in Q2.

SOURCES OF LAND DEVELOPMENT (%)



INTENT TO SOURCE MORE CAPITAL FOR DEVELOPMENT/ACQUISITIONS/PROJECTS

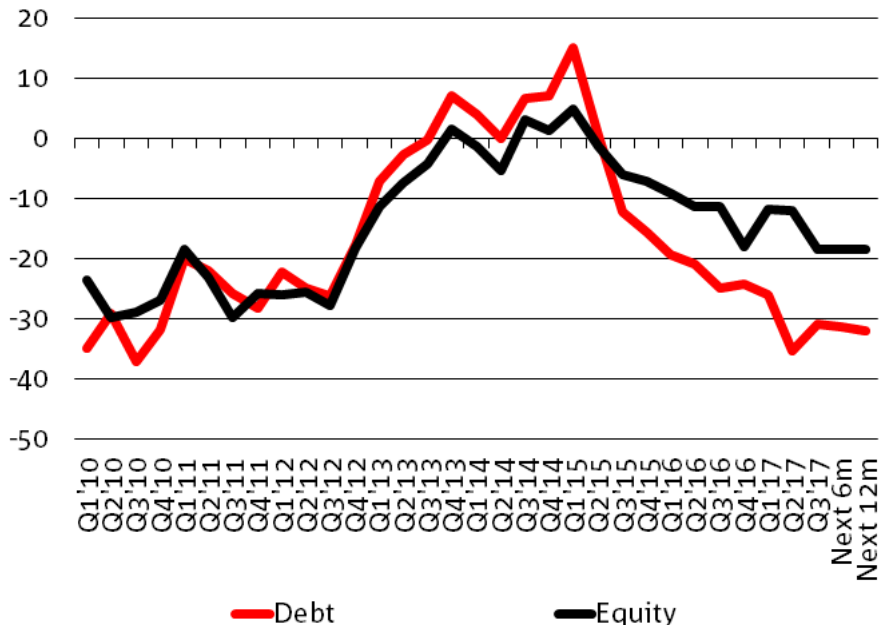


MARKET OVERVIEW - FUNDING & PRE-COMMITMENTS

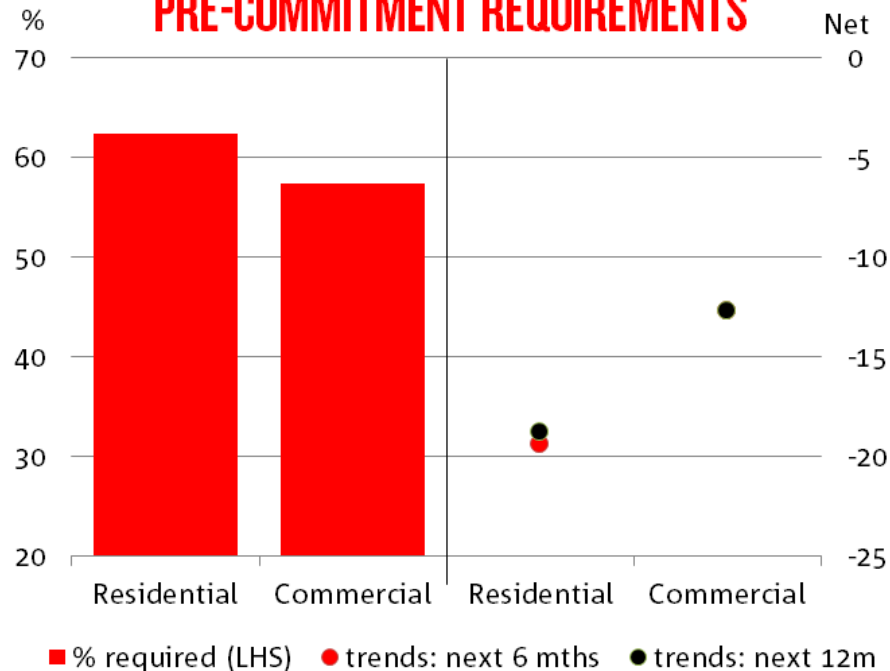
In net balance terms, -31% of surveyed property experts said it was harder to obtain borrowing or loans (debt) needed for their business. While this was a marginally better result than in Q2 (-36%), it continues to suggest that debt funding is difficult to obtain. Equity funding conditions have however worsened according to a net -19% of property experts (-12% in Q2). Looking forward, property experts on balance do not expect to see any improvement in their funding conditions over the next 6-12 months - a net -32% see debt funding conditions worsening in the next 6-12 months and -18% think it will be harder to obtain equity financing.

For the first time, we asked property experts for their opinions on pre-commitment requirements in both residential and commercial property markets. The average required to meet external debt funding requirements stood at 62.3% for residential and 57.3% for commercial property. By state, requirements ranged widely. In residential markets, it was highest in VIC (66.0%) and lowest in QLD (58.4%). For commercial property, it ranged from 62.2% in VIC to 51.9% in QLD. Overall, property experts do not see lending terms improving with a net -19% expecting it to worsen in the residential sector over the next 6-12 months and a net -13% expecting it to deteriorate further in commercial markets.

EASE OF ACQUIRING DEBT/EQUITY (NET)



PRE-COMMITMENT REQUIREMENTS



SURVEY RESPONDENTS EXPECTATIONS (AVG) Q3 2017

OFFICE CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'17	0.4	2.5	0.3	-0.9	0.3	1.1
Q3'18	1.8	3.4	0.8	-0.1	1.0	1.9
Q3'19	2.8	3.2	1.5	1.9	1.0	2.3

OFFICE RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'17	1.8	2.1	-0.2	-0.9	-1.3	0.7
Q3'18	3.4	3.3	0.7	-0.5	-1.4	1.6
Q3'19	4.5	3.8	1.4	1.4	-1.0	2.4

RETAIL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'17	0.8	1.0	1.3	-1.5	0.0	0.7
Q3'18	1.4	0.9	1.9	0.6	0.7	1.3
Q3'19	1.4	0.5	1.5	1.3	0.7	1.1

RETAIL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'17	0.1	-1.6	-0.6	-1.8	-1.9	-0.9
Q3'18	-0.2	-1.7	0.1	0.3	-2.6	-0.6
Q3'19	0.2	0.0	0.2	1.3	-2.3	0.1

INDUSTRIAL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'17	0.4	0.9	0.8	-3.6	-0.5	-0.1
Q3'18	0.9	2.1	2.0	-1.9	-0.3	0.9
Q3'19	1.2	2.8	3.5	0.4	-0.3	1.9

INDUSTRIAL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'17	0.1	0.1	0.8	-4.2	-0.7	-0.6
Q3'18	0.9	1.3	2.0	-2.4	-0.7	0.5
Q3'19	1.4	1.8	2.9	0.0	-1.4	1.3

SURVEY RESPONDENTS EXPECTATIONS (AVG) Q3 2017

OFFICE VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'17	4.3	6.3	13.0	15.0	12.3	9.7
Q3'18	3.7	5.8	11.9	15.0	12.3	9.1
Q3'19	3.7	5.6	10.8	14.0	12.0	8.4

RETAIL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'17	5.9	5.6	4.7	8.0	6.2	5.7
Q3'18	6.8	5.9	4.5	8.3	7.0	6.0
Q3'19	8.1	6.1	4.2	7.7	8.0	6.3

INDUSTRIAL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'17	4.8	5.2	8.1	10.0	8.7	7.0
Q3'18	4.3	4.9	7.2	9.0	8.4	6.4
Q3'19	4.0	5.1	6.8	7.4	7.9	6.0

NOTES:

Survey participants are asked how they see:

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

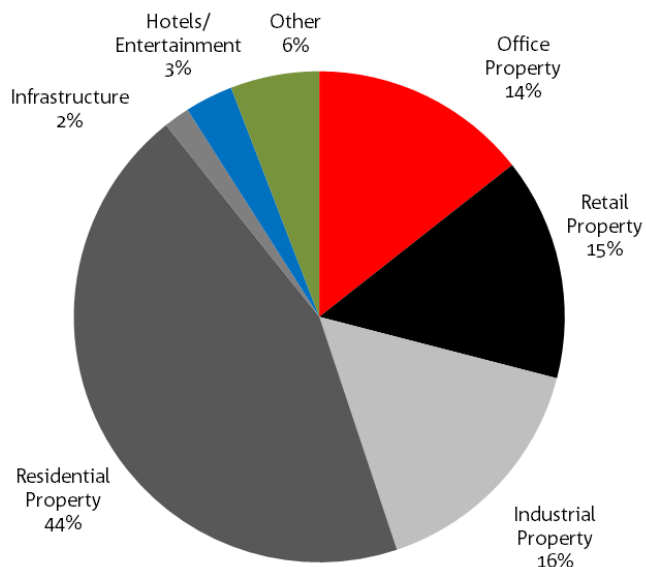
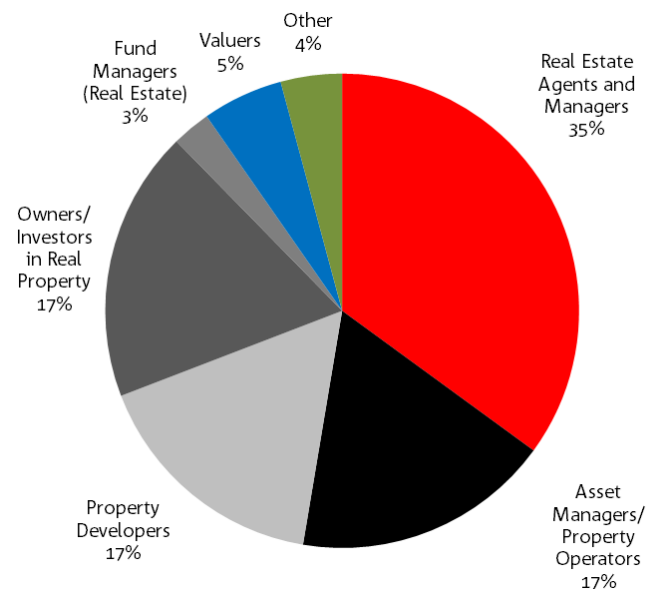
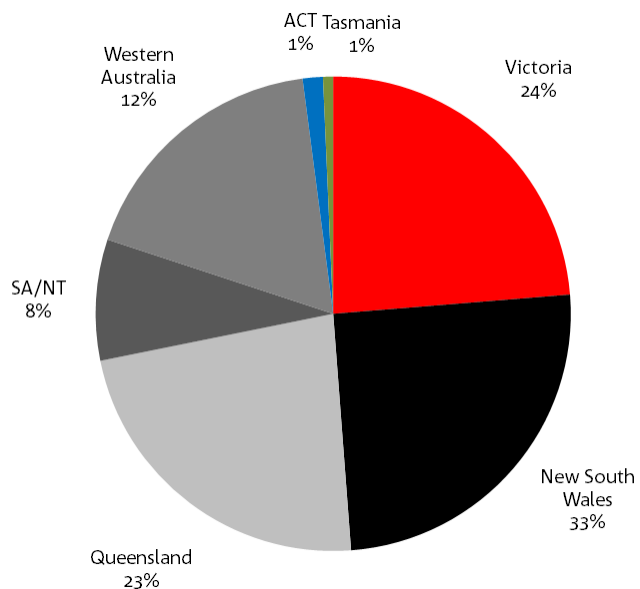
In each of the commercial property markets for the following timeframes:

- 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 290 panellists participated in the Q3 2017 Survey.

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