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MEDIA RELEASE

NAB Commercial Property Survey - Q3 2017

Overall sentiment in commercial property markets moderated for the second straight quarter, with NAB's Commercial Property Index down 5 points to +18 in Q3, but still well above long-term average levels (+2).

NAB Group Chief Economist Alan Oster said that CBD hotels re-emerged as the most positive sector (+30) as the uptrend in Office sentiment (+28) that began in mid-2016 reversed. Retail market sentiment was also higher (+12), but it softened for Industrial property (+2).

"By state, overall sentiment was dragged down by NSW (+34) and Victoria (+29), but they continue to out-perform. Sentiment rose in WA (-29) and SA/NT (-15), but is still very weak, with Queensland (+15) steady."

Overall confidence lifted in all sectors - particularly in CBD hotels. Office was slightly higher as weaker (but still strong) outcomes in NSW and Victoria were offset by improvements in other states (particularly WA).

By state, confidence moderated in NSW and Victoria (but they are still the most upbeat of all states). Queensland is however bridging the gap, with higher confidence reported in all sectors.

The survey found that average expectations for capital growth also lifted in all sectors, with the outlook strongest for CBD hotels and Office (led by NSW & Victoria). Queensland is expected to provide to provide the best returns in Industrial markets, with Queensland and Victoria the stand outs for Retail property.

Other findings include the expectation that Office property will deliver the best rental income returns in next 1-2 years, led by Victoria and NSW. The outlook for Retail rents is weak with little growth expected in all states. Queensland is expected to provide the best income returns for Industrial property.

The national Office vacancy rate was unchanged in Q3 (9.7%). Vacancy rates were lowest in VIC and NSW where strong demand and take-up is continuing, but still very high in SA/NT, Queensland and WA.

Among other key survey findings, the number of property developers targeting residential projects fell to 51% in Q3 (59% in Q2 and 64% at the same time last year).

"This lends further support to NAB's view that the dwelling construction cycle may have peaked" said Mr Oster.

Property experts said that debt and equity funding was still difficult to obtain and on balance don't expect to see any improvement in the next 6-12 months.

For the first time, property experts were also 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.

Around 290 panellists participated in the Q3 2017 Survey.

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