800 Bourke Street
Docklands VIC 3008
AUSTRALIA

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MEDIA RELEASE

NAB Commercial Property Survey - Q1 2018

- The NAB Commercial Property Index rose 4 points to +21 in Q1 and sits comfortably above its long-run average (+3).
- By segment, CBD Hotels continues to out-perform, aided by international tourism and favourable global economic conditions. Industrial property rose again, supported by transport & logistics firms, warehousing, fulfilment and distribution centres. The Office market also bounced back with healthy demand in key eastern states and supported by strong business conditions and employment growth. Retail fell deeper into negative territory as challenging retail trade conditions continued to bite.
- While confidence around Industrial and Office property has lifted, Retail confidence was down heavily and negative for the first time since mid-2013. This is consistent with NAB's Business Surveys which also show an under-performing retail sector along with our own forecasts for subdued household spending in 2018 and 2019. Confidence was also a little lower in the CBD Hotels sector, but still highest overall.
- By state, sentiment rose strongly in WA (but was still negative overall). Sentiment was also higher in NSW and SA/NT, but fell in QLD and was unchanged in VIC.
- Property experts in all states are more confident about the overall commercial property market in next 1-2 years (bar QLD), with NSW and VIC the most upbeat and WA least confident (but also the biggest improver).
- Expectations for capital growth in Office markets in the next 1-2 years have improved in all states bar QLD. The outlook for Industrial property is also stronger, but expectations for Retail capital growth were scaled back with negative or slow growth anticipated in all states. Overall, expectations for capital growth are still strongest for CBD Hotel property.
- Overall Office vacancy rose to 9.0% in Q1 with a small rise in NSW. But NSW along with VIC are still the tightest markets for Office space (and set to remain so over outlook period). Office vacancy fell in WA, SA/NT and QLD and is expected to keep tightening in next 1-2 years (but remain relatively high), with over-supply to remain a key issue in these states.

- Rental growth is expected to be fastest for Industrial and Office commercial property in the next 1-2 years, with VIC and NSW out-performing. Property experts also see rents recovering in WA, especially in Office. The outlook for rents in the Retail sector however remains very weak with negative growth expected in all states bar NSW (flat).
- For the first time, Retail property experts were asked to assess the strategy acquisitions of A-REIT and 'Other' investors for next 12 months. Most (over 1 in 2) think they will focus on acquisitions and holding assets. But 1 in 5 also said 'Other' investors will likely divest, significantly more than in A-REITS where just 1 in 10 think they will divest.
- Retail acquisition strategies are expected to be driven by concerns over the economy and consumer confidence, opportunities to acquire traditionally tightly held assets, concerns over online retail and entry of new players (like Amazon), all time high cap rates and concerns over changing consumer spending patterns. Most experts operating in the Retail property segment also think these changes will impact landlords negatively, especially large neighbourhood, sub-regional and regional areas.
- Fewer property developers are looking to use land-banked stock for their new projects and an increasing number are also seeking new acquisitions, pointing to a period of stock rebuild. A higher than usual number of developers are also looking to refurbish existing property, suggesting more developers are also seeing this as a cost effective solution for their development needs.
- Accessing funds (both debt and equity) needed for their property business is still a major challenge but less so than in Q4. But survey participants expect their debt funding and equity conditions to worsen again over the next 6-12 months.

About 300 property professionals participated in the Q1 2018 survey.

For more information, please contact

Alan Oster, NAB Group Chief Economist
+(61 3) 8634 2927