



**Embargoed until 11.30 a.m. Wednesday 25 July 2018**

# MEDIA RELEASE

## NAB Commercial Property Survey - Q2 2018

Overall sentiment in commercial property markets (measured by the NAB Commercial Property Index) moderated in Q2. The Index fell 4 points to +17 but remains well above its long-term average (+3).

NAB Group Chief Economist Alan Oster said: "Lower sentiment was evident in all states except Victoria, with particularly sharp falls in both SA/NT and WA."

Sectoral indices for CBD Hotels, Office and Industrial property fell in Q2 and converged for the first time since the Survey began.

"Retail sentiment was again negative as subdued retail business conditions and slow wages growth continued to hurt consumer sentiment," said Mr Oster.

Overall confidence in commercial property markets also softened in Q2.

It fell most in the CBD Hotels sector (from very high levels), but property professionals in this sector are still the most optimistic overall. Confidence in the Industrial sector also turned down and is now on par with Office property after having out-performed in the previous quarter.

"Confidence in Office markets was little changed with the sector continuing to benefit from strong demand in key states and nascent signs of recovery in previously under-performing states," said Mr Oster.

Retail market confidence improved a little but is still negative and by far the weakest of all sectors.

In other findings, Office property is expected to lead the way for capital and rental growth in the next 1-2 years, with Office markets in NSW and Victoria providing the best returns.

The number of property developers planning to start new projects and targeting residential development projects also increased to a survey high 65% in Q2.

But the recent improvement in accessing funds reversed in Q2, with more property professionals indicating that it was harder to obtain loans and equity.

"More property professionals are now also expecting their funding conditions to worsen in next 6-12 months," said Mr Oster.

Property professionals were also asked for their views on interest rates and hedging strategies.

Around 62% think the next RBA move on rates will be up. Only 4% see a cut and 23% no change. Around 53% also believe the next move will occur in 6-12 months.

"The majority view is consistent with our own view that the RBA will start increasing rates in mid-2019," said Mr Oster.

Most property professionals (51%) said that if medium to long-term interest rates continue to rise, it will cause property values to fall by less than 10%, while 18% said the impact will be more than 10%.

Less than 1 in 10 (9%) surveyed property professionals currently use interest rate hedging to mitigate risk. But 59% said they did not hedge and did not expect to do so in the future.

About 300 property professionals participated in the Q2 2018 survey.

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