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MEDIA RELEASE

NAB Commercial Property Survey - Q3 2018

Overall sentiment in commercial property markets (measured by the NAB Commercial Property Index) fell 9 points to a 2-year low +8 in Q3, but is still well above long-term average levels (+3).

NAB Group Chief Economist Alan Oster said: "The fall was consistent with weaker business conditions also seen in NAB's September Quarter Business Survey".

Sentiment fell in all sectors except CBD hotels (unchanged) which continues to benefit from booming international tourism.

Industrial property was the next best performer, supported by e-commerce demand (particularly along the Eastern seaboard), although sentiment moderated a touch.

Sentiment in the Office property sector fell quite sharply, recording its weakest read in almost 2 years, while sentiment in Retail markets dipped deeper into negative territory.

Overall confidence in commercial property markets slipped to survey low levels, with the biggest falls in Retail property.

"As has also been the case for some time in NAB's Business Survey, retail trade has been the weakest sector and we're expecting it to remain under pressure from modest wages growth, cost of living concerns and wealth impacts from a cooling housing market" said Mr Oster.

More moderate falls in confidence were seen in Office and Industrial property markets, and they're expected to remain the best performing asset classes over the next 1-2 years.

In other findings, the number of property developers who said they were planning to start new projects and targeting residential projects fell to a survey low 44% in Q3.

"This result is consistent with the latest official data which showed that approvals for new dwellings dropped to their lowest level in two years in August, with apartment approvals falling hardest" said Alan.

On funding, property professionals said obtaining debt was harder in Q3 than at any time since the Survey began in 2010, while equity funding was the hardest it's been for 6 years.

"And they don't expect credit conditions to improve over the next 3 to 6 months" said Alan.

Amid tougher funding conditions, the average pre-commitment to meet external debt funding requirements for new developments rose for both residential (63.5%) and commercial (58.7%) property.

In this report, we also asked property professionals to identify the biggest risks facing commercial property investors and developers in next 12 months.

For investors, changing bank risk appetite was the biggest risk, followed by increased debt funding costs and domestic/international political uncertainty.

For developers, the availability of debt capital for development finance affecting the ability to start new projects was the number one risk, followed by availability of debt capital for unit purchasers affecting end demand, delays in obtaining satisfactory pre-sale levels and rising construction costs.

Over 300 property professionals participated in the Q3 2018 survey.

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