

EMBARGOED UNTIL 11.30 AM FRIDAY 8 FEBRUARY 2019

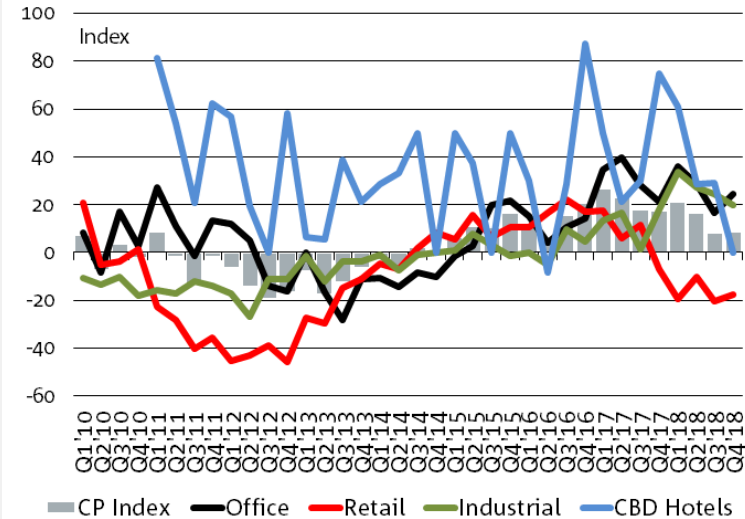


NAB COMMERCIAL PROPERTY SURVEY Q4-2018

KEY FINDINGS

- The **NAB Commercial Property Index** increased marginally in Q4 - up 1 point to +9 - and remains above long-term average levels (+3).
- Market **Sentiment** supported by solid improvement in Office (now highest of all sectors). Retail also up a little but negative and weakest sector overall. Sentiment in bouncy CBD hotels much weaker. Industrial also lower but above market average.
- **Confidence** levels for next 12 months unchanged at Survey low levels. Outlook for 2 years' time a little stronger but well below Survey average levels. Confidence again weakest (and negative) in Retail and fell further for CBD Hotels (first ever negative read as expectations for capital growth in this sector cut sharply). Confidence remains strongest for Office and Industrial property.
- **By state**, sentiment up strongly in VIC, a little higher in NSW and steady in QLD. Still very weak (and negative) in SA/NT and WA and in all sectors. Confidence also picked up sharply in VIC, marginally higher in NSW but slipped in QLD. WA now the most confident state in 2 years, led by much brighter outlook for local Office market.
- Average expectations for **capital growth** ease for Office property in next 12 months (1.0% vs. 1.1%) and trimmed in all states. Growth to pick up in 2 years' time (1.3% vs. 1.1% in Q3) led by VIC, NSW and WA. Industrial expectations also shaved (0.9% & 1.1%), Retail negative (-1.1% & -1.0%) and CBD Hotels cut heavily (-2.8% & -4.6%).
- National Office **vacancy** fell to 7.8% in Q4. Vacancy lowest in VIC (4.3%) and NSW (4.9%) and set to remain so. Vacancy to fall to single digit levels in QLD (9.9%) and Adelaide (8.6%) by end-2020 and to 11.9% in WA. Retail vacancy fell to 4.7% in Q4 (with higher uptake typically seen before Xmas) and also lower for Industrial (5.4%).
- Property professionals believe Office (1.6% & 1.9%) and Industrial (1.4% & 1.7%) **rents** will out-perform the broader market in next 1-2 years. Retail leasing conditions will remain difficult with rents falling (-0.9% & -0.8%) - and in all states.
- Significantly fewer developers plan to start **new projects** in next 6-12 months. We suspect challenging funding conditions are making it harder to get new projects up and running and causing projects to be shelved.
- The number of developers looking to use land-banked stock for their new projects rose to 61% in Q4 - it's highest level in a year. Declining land values may be the catalyst driving this trend as developers look to re-build stock ahead of next upturn.
- Property professionals said getting **access to credit** was harder in Q4 than at any time since Survey began in 2010. **Equity funding** also harder than it has been since the Survey started. Looking ahead, property professionals expect both debt and equity funding conditions to worsen further over the next 3-6 months.

NAB COMMERCIAL PROPERTY INDEX



	Q2 2018	Q3 2018	Q4 2018	Next 12m	Next 2yrs
Office	29	16	25	34	42
Retail	-10	-20	-18	-21	-18
Industrial	27	25	20	30	36
CBD Hotels	29	29	0	-13	-13
CP Index	17	8	9	12	17

MARKET OVERVIEW - NAB COMMERCIAL PROPERTY INDEX

Overall sentiment (measured by NAB's Commercial Property Index) increased marginally in Q4 - up 1 point to +9 - and it remains above long-term average levels (+3).

A solid improvement in sentiment around Office property underpinned the index in Q4 (up 9 points to +25). Consequently, it also replaced Industrial as the leading market sector.

Retail property market sentiment also improved a little (up 2 to -18), but is still heavily negative and the weakest sector overall as business conditions in the Retail industry continue to lag.

In contrast, sentiment in the bouncy CBD hotels sector fell 29 points to 0 (it's lowest read since mid-2016).

Industrial market sentiment also softened (down 5 to +20) but continued to out-perform the broader market average.

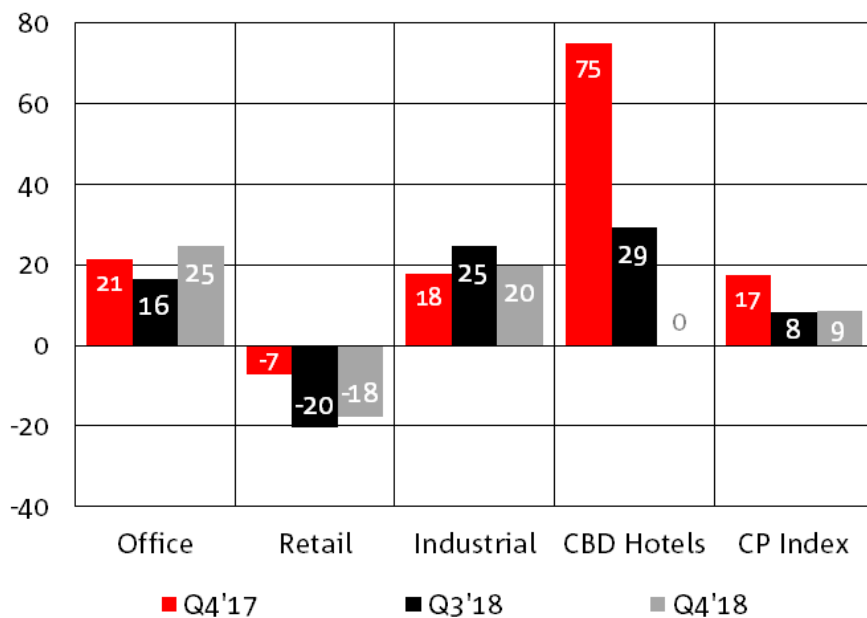
Overall confidence levels in commercial property markets for the next 12 months were unchanged at Survey low levels of +12 in Q4. But the outlook for 2 years' time was a little stronger (up 3 to +17), although well below survey average levels (+37).

Confidence was again weakest (and negative) in Retail - a result that does not surprise as we also expect the headwinds of slow income growth, high debt levels and weaker growth in household wealth to weigh on consumption over the coming years.

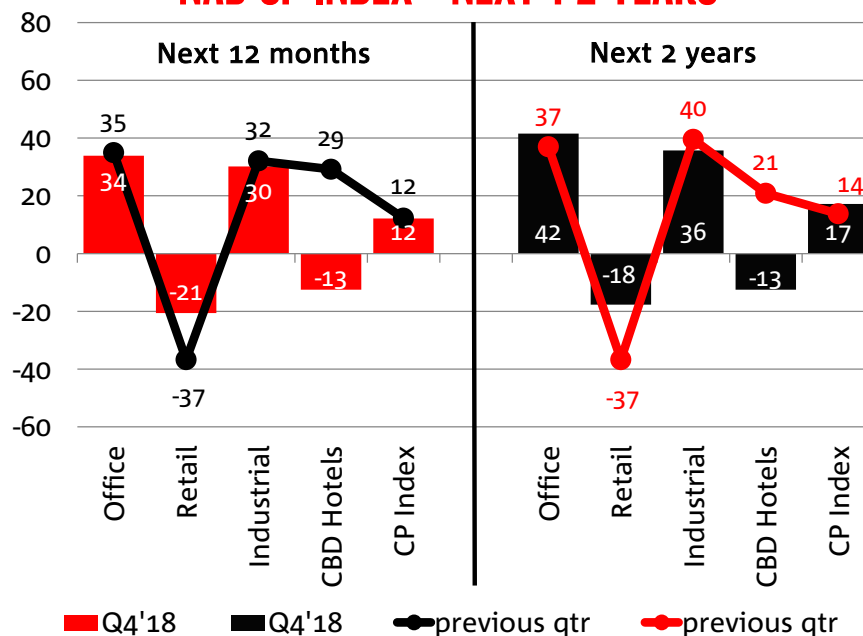
Confidence fell further in the CBD Hotels sector, recording its first ever negative read as property professionals significantly back their expectations for capital growth in this sector.

Industrial confidence slipped below average in Q4, while Office improved a little. Both sectors are however still expected to be the best performing asset classes in the next 1-2 years.

NAB COMMERCIAL PROPERTY INDEX



NAB CP INDEX - NEXT 1-2 YEARS

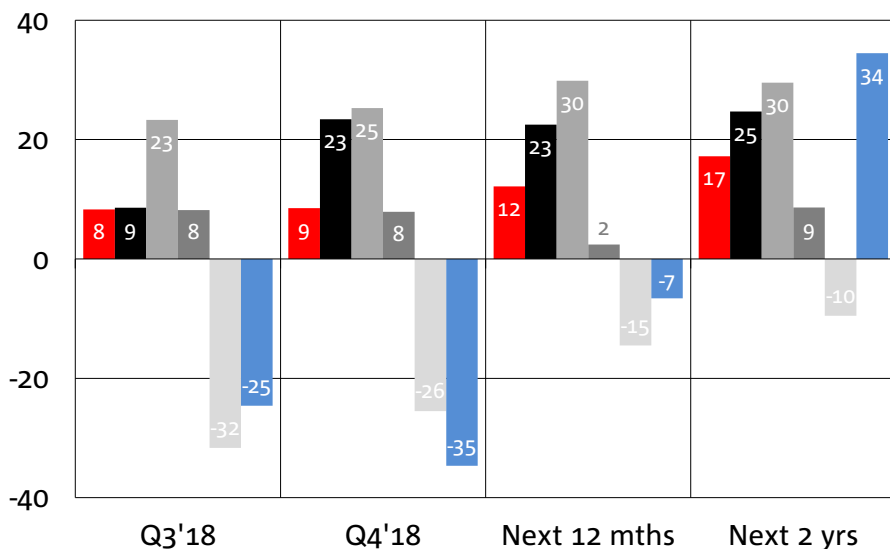


MARKET OVERVIEW - INDEX BY STATE

Overall sentiment rose strongly in VIC (up 14 to +23) in Q4 and was higher in all sectors. It also rose a little in NSW (up 2 to +25), led by Office and Retail. Sentiment was unchanged in QLD (+8) as improved outcomes for Office and Industrial were offset by weaker Retail. Overall market sentiment remains very weak in SA/NT (up 6 to -26) and WA (down 10 to -35), and negative (or flat) in all sectors.

Confidence improved in VIC (after being scaled back heavily in Q3), and is stronger in all sectors (bar Industrial in 2 years' time). Overall confidence was also higher in NSW, led by an improved (albeit still very negative) outlook for Retail. In QLD, confidence was dragged down by Office and Retail. Overall confidence levels in WA for the next 12 months was less negative, but are highest in the country in 2 years' time, underpinned by a much brighter outlook for Office.

COMMERCIAL PROPERTY INDEX - STATE



■ Australia ■ Victoria ■ NSW ■ Qld ■ SA/NT ■ WA

OFFICE PROPERTY MARKET INDEX - STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'18	50↑	48↑	17↑	-43↓	-20↓	25↑
Q4'19	58↑	53↓	14↓	-7↔	20↑	34↓
Q4'20	75↑	41↓	28↓	64↑	20↑	42↑

RETAIL PROPERTY MARKET INDEX - STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'18	-8↑	-27↑	-13↓	-38↑	-50↑	-18↑
Q4'19	-3↑	-27↑	-31↓	-25↑	-50↑	-21↑
Q4'20	-6↑	-14↑	-31↓	-13↑	-50↑	-18↑

INDUSTRIAL PROPERTY MARKET INDEX - STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'18	55↑	21↓	25↑	-31↓	0↔	20↓
Q4'19	50↑	33↓	31↑	19↑	-25↓	30↓
Q4'20	32↓	35↓	34↓	63↑	0↔	3↓

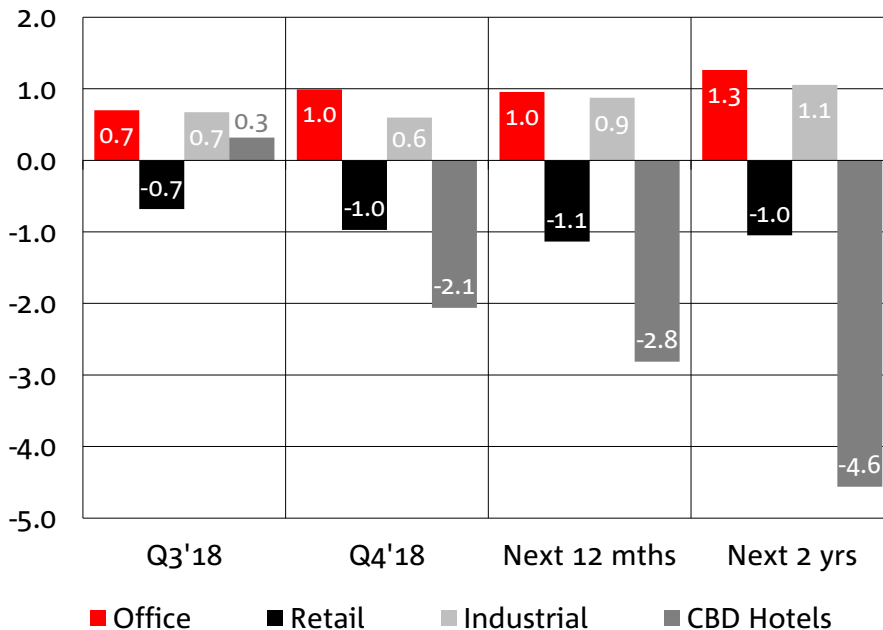
LEGEND: ↑ up since last survey ↓ down since last survey ↔ unchanged

MARKET OVERVIEW - CAPITAL & VACANCY EXPECTATIONS

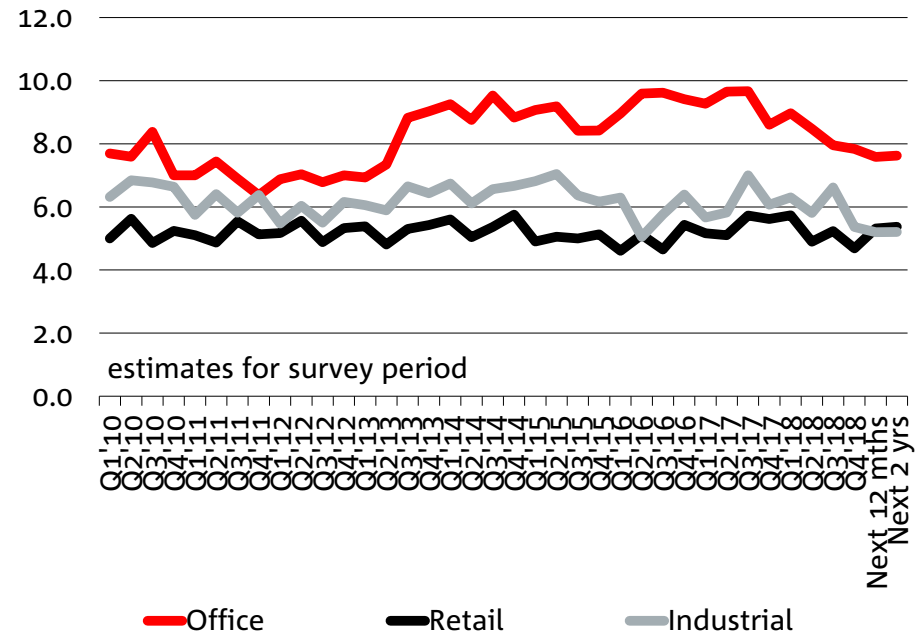
On average, expectations for capital growth were lowered further for Office property in the next 12 months to 1.0% (1.1% in Q3). Expectations were trimmed in all states (but still highest in NSW (1.7%) and VIC (1.1%). Stronger growth is expected in 2 years' time (1.3% vs. 1.1% in Q3), led by VIC (2.8%), NSW (1.7%) and WA (1.5%). Industrial capital expectations were also shaved back (0.9% & 1.1%), as a weaker outlook in NSW (0.7% & 1.3%) was offset by a much stronger VIC (2.7% & 2.5%). Retail, expectations are negative (-1.1% & -1.0%) but less so than in Q3. Retail values are tipped to fall in all states, led by NSW (-2.3% & -1.5%) and SA/NT (-1.9% in both years). In the CBD Hotel sector, expectations were cut back sharply to -2.8% & -4.6% (1.0% & 0.7% forecast in Q3) - see page 12 for detail.

Office markets tightened in Q4 with national vacancy falling to 7.8% (8.0% in Q3). Lower vacancy was reported all states bar QLD (11.0%). Vacancy was lowest in VIC (4.3%) and NSW (4.9%) and they are expected to remain lowest over the outlook period. Vacancy is expected to fall to single digit levels in QLD (9.9%) and Adelaide (8.6%) by end-2020 and to 11.9% in WA from a high of 15% in 2017. Retail vacancy fell to 4.7% in Q4 (5.2% in Q3), with higher uptake typically seen before Xmas. It fell in VIC (4.0%), QLD (4.9%) and SA/NT (6.0%), was unchanged in NSW (4.6%) but rose in WA (6.0%). In the Industrial sector, national vacancy fell to 5.4% (6.6% in Q3), and further modest tightening is expected in the next 1-2 years - see page 13 for detail.

CAPITAL VALUE EXPECTATIONS (%)



VACANCY RATE EXPECTATIONS (%)



MARKET OVERVIEW - RENTS & SUPPLY

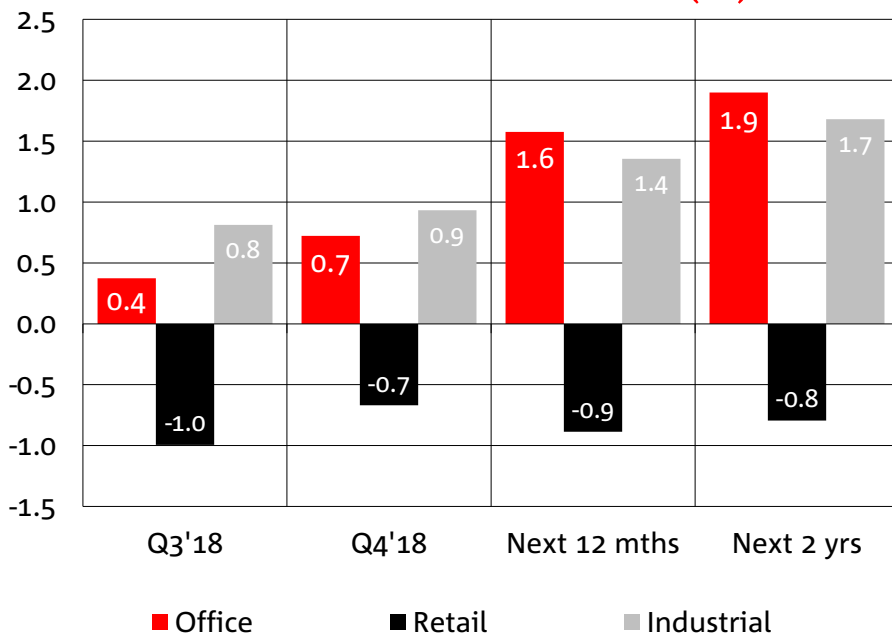
Industrial property continued to lead the way for rental growth in Q4 with rents up 0.9% (0.8% in Q3). Growth was fastest in VIC (2.7%) and slowest in SA/NT (-1.1%). Office rents grew 0.7% (0.4% in Q3), with VIC (2.3%) and NSW (1.6%) out-performing. Retail leasing conditions remain challenging, with rents falling -0.7% (-1.0% in Q3), with rents falling in all states.

Looking ahead, property professionals believe Office (1.6% & 1.9%) and Industrial (1.4% & 1.7%) rents will out-perform in the next 1-2 years. VIC (3.7% & 5.1%) is expected to generate the highest income returns in Office and also lead the way for Industrial property (2.9% & 3.0%). The outlook for Retail remains negative (-0.9% & -0.8%) but is less negative than the last survey. Retail rents are expected to fall in all states (except WA in 2 years' time) - see page 12 for detail.

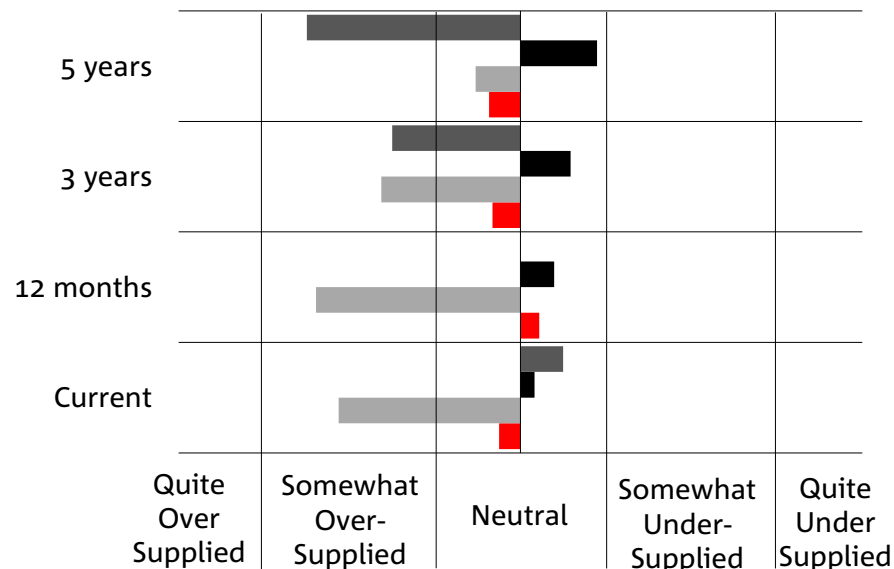
Property professionals said supply conditions in Office and Industrial markets were 'neutral' in Q4 and will remain that way in the next 1-5 years. Retail markets are still 'somewhat' over-supplied and set to stay so in the next 1-3 years. Supply conditions in the CBD Hotels sector will move from 'neutral' in the next 12 months to 'somewhat' over-supplied in 3-5 years as new stock enters the market.

In Office markets, over-supply will moderate in WA but remain a feature of the market in the next 1-5 years. Under supply will persist in NSW in the near-term and over-supply in QLD. All markets are expected to be in 'neutral' positions thereafter. Over-supply will feature in most state Retail markets in the next 1-5 years, particularly in SA/NT, NSW and WA. Industrial markets will be mostly balanced, but under-supply will emerge in VIC in the next 3-5 years.

GROSS RENTAL EXPECTATIONS (%)



SUPPLY CONDITIONS



MARKET OVERVIEW - DEVELOPMENT INTENTIONS

Overall, the number of property developers expecting to begin new works in the next month was largely unchanged at 12% (11% in Q3), while the number planning to start in the next 1-6 months rose to 38% (32% in Q3). Overall, 50% said they planned to start new works in the next 6 months - in line with the Survey average (50%).

However, the number of developers who said they planned to start new projects in the next 6-12 months fell to just 23% in Q4 (32% in Q3), with those planning to start in the next 12-18 months (10%) also below Survey average levels (12%).

We suspect challenging funding conditions are making it harder to get new projects up and running resulting in the shelving of some projects.

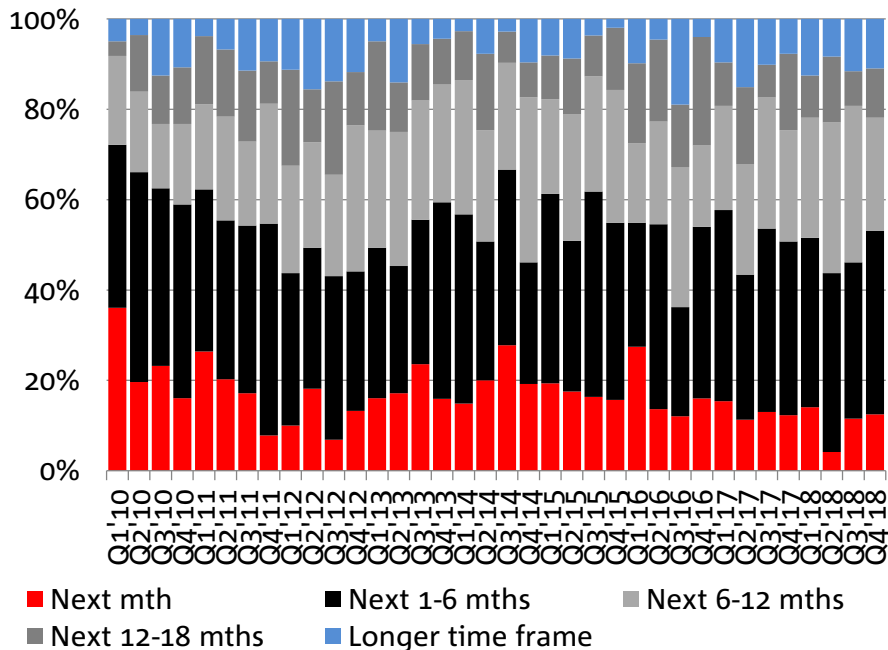
Among developers planning to commence new works, the number targeting residential development projects rose to 48% in Q4 (44% in Q3) - but remains well below long-term average levels (54%).

This result is consistent with the latest data from the ABS which also shows approvals for new dwellings falling to a 5-year low in November, driven down mainly by multi unit homes.

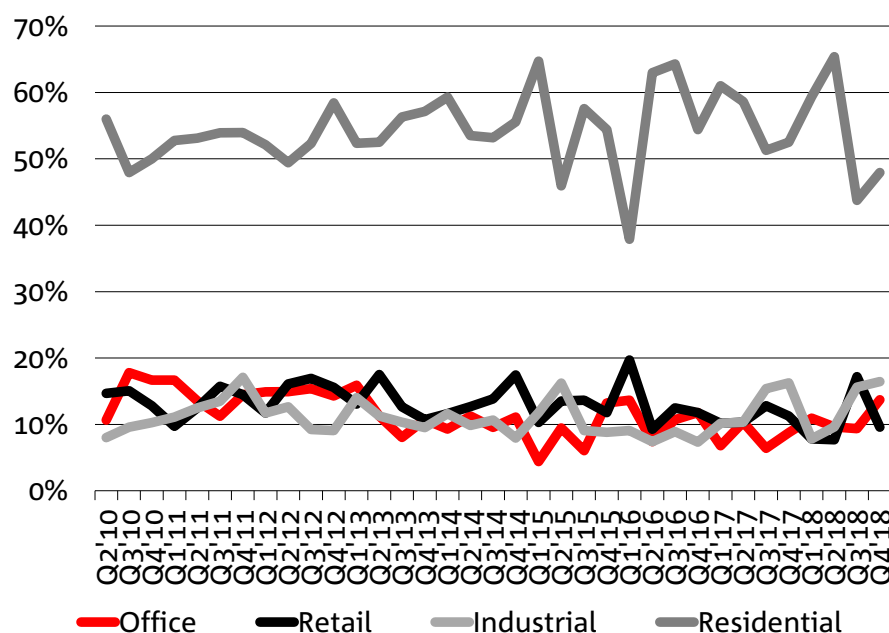
NAB's latest Survey results also reported an above average number of developers targeting Office (14%) and Industrial property (16%).

But the number of looking at Retail opportunities fell to (10%), below Survey average levels of 13%, amid reports some owners have been scaling back extension projects in a challenging Retail environment.

COMMENCEMENT INTENTIONS - TIME



COMMENCEMENT INTENTIONS - SECTOR



MARKET OVERVIEW - LAND SOURCES & CAPITAL INTENTIONS

The number of developers looking to use land-banked stock for their new projects in Q4 rose to 61% (55% in Q3). This number has now risen above Survey average levels (59%) for the first time since Q4 2017.

The number who said they were seeking new acquisitions in Q4 also rose to 29% (from 27% in Q3 and 23% at the same time last year). Declining land values may be the catalyst driving this trend as developers look to increase stock ahead of the next upturn.

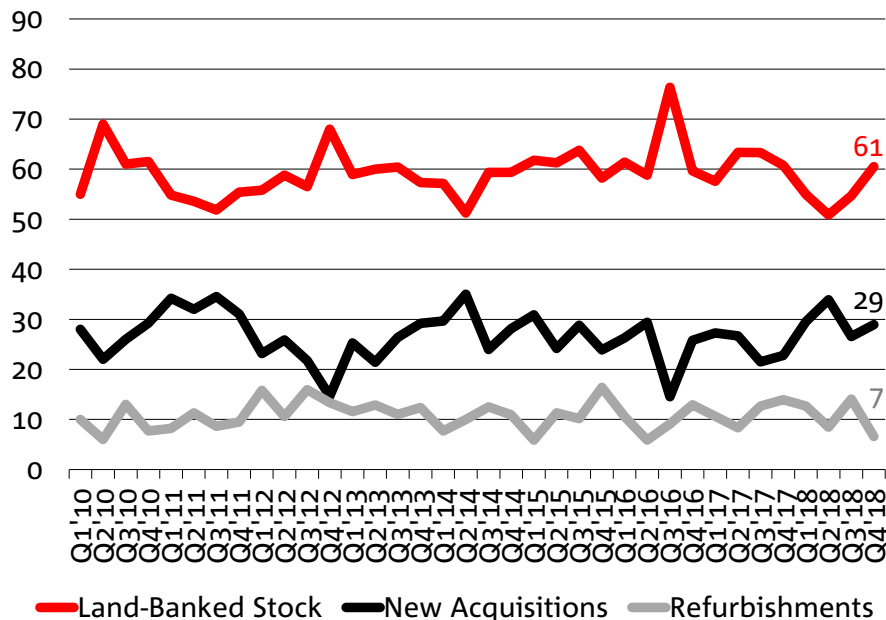
However, the number of developers looking at refurbishment opportunities halved to just 7% in Q4 (14% in Q3), its lowest level since mid-2016.

The number of property developers planning to source more capital to fund their developments in the next 6 months was unchanged at 23% in Q4. Around 59% had no intention to source capital in the short-term (58% in Q3) and 19% were unsure (20% in Q3).

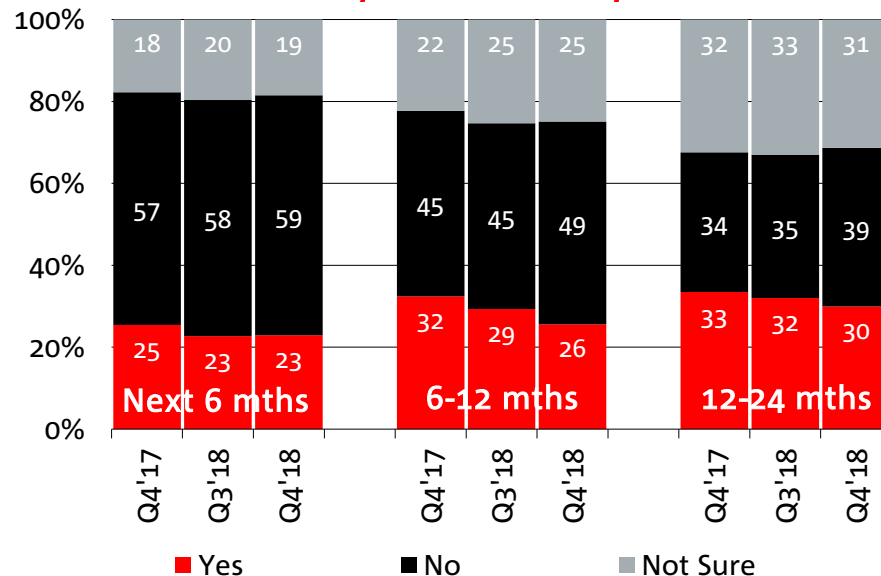
With fewer developers planning to commence new projects in the next 6-12 months, it was not unexpected that fewer developers also planned to source more capital in the next 6-12 months. The number who planned to do so fell to 26% in Q4 (29% in Q3).

Fewer developers also intend to source more capital in the longer-term (12-24 months) - 30% yes, 39% no and 31% unsure.

SOURCES OF LAND DEVELOPMENT (%)



INTENT TO SOURCE MORE CAPITAL FOR DEVELOPMENT/ACQUISITIONS/PROJECTS



MARKET OVERVIEW - FUNDING & PRE-COMMITMENTS

Property professionals said getting access to credit was harder in Q4 than at any time since the Survey began in 2010 and they see it getting worse in the next 3-6 months.

In net balance terms, -41% said it was harder to obtain borrowing or loans (debt) needed for their business in Q4 (-39% in Q3).

Equity funding was also harder than it has been since the Survey started according to a net -31% of property professionals (-24% in Q3).

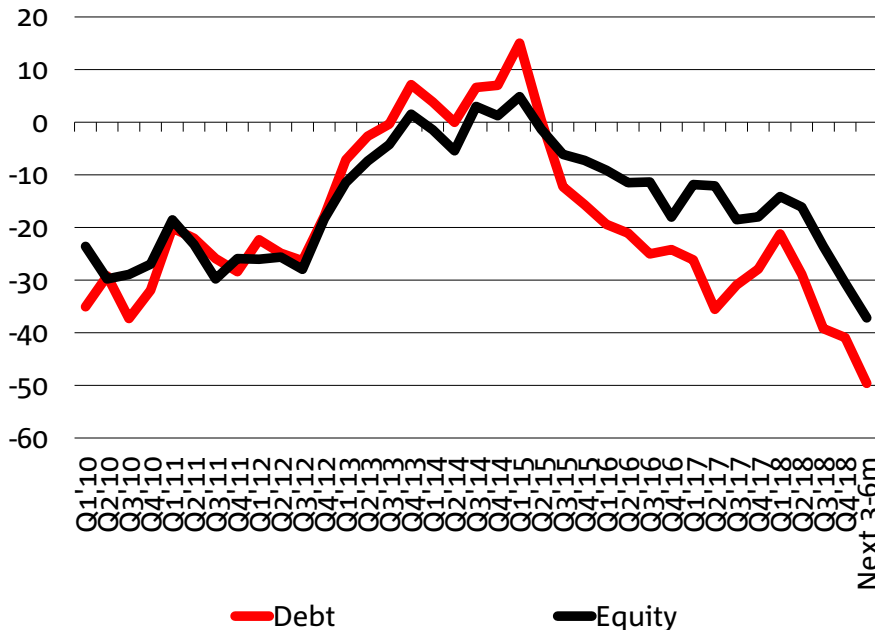
Looking ahead, property professionals expect funding conditions to worsen further over the next 3-6 months - a net -50% see debt funding conditions worsening and -37% said it will be harder to obtain equity financing.

Australia wide, the average pre-commitment to meet external debt funding requirements for new developments rose to 65.3% for residential property in Q4 (63.5% in Q3), but fell to 56.9% for commercial (58.7% in Q3).

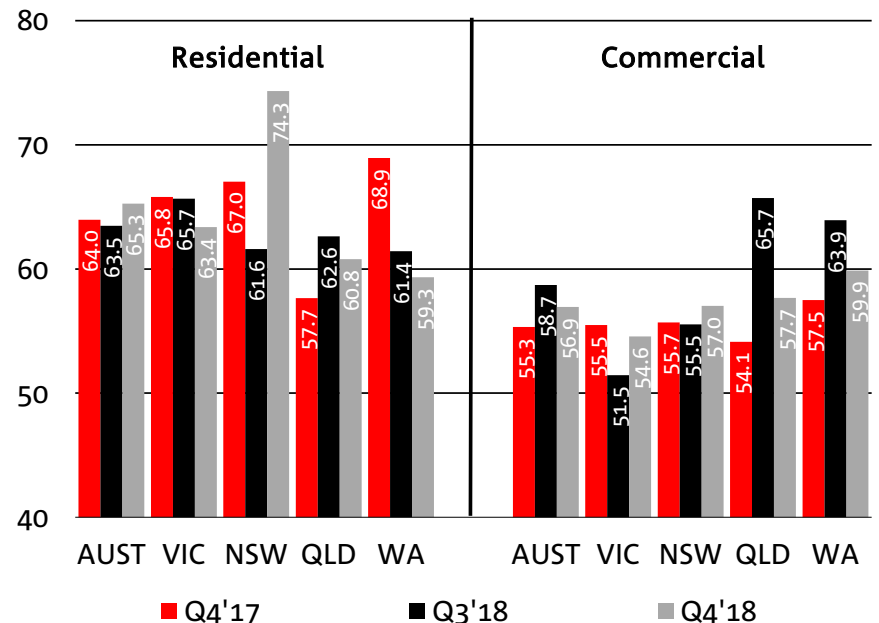
Residential requirements fell in VIC (63.4%), QLD (60.8%) and WA (59.3%), but were noticeably higher in NSW (74.3%). Commercial property pre-commitments fell in QLD (57.7%) and WA (59.9%), but increased in VIC (54.6%) and NSW (57.0%).

On balance, more property professionals expect pre-commitment requirements to worsen going forward - a net -47% for residential property in the next 6 months and -42% in 12 months, and -42% in 6 months and -39% in 12 months for commercial property.

EASE OF ACQUIRING DEBT/EQUITY (NET)



PRE-COMMITMENT REQUIREMENTS (%)



SURVEY RESPONDENTS EXPECTATIONS (AVG) Q4-2018

OFFICE CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'18	1.1	1.8	1.1	-1.3	-0.8	1.0
Q4'19	1.1	1.7	0.3	-0.3	0.4	1.0
Q4'20	2.8	1.7	0.2	1.5	0.4	1.3

OFFICE RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'18	2.3	1.6	0.4	-1.4	-1.8	0.7
Q4'19	3.7	2.2	1.1	-0.3	-0.1	1.6
Q4'20	5.1	2.0	1.3	1.3	0.4	1.9

RETAIL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'18	-1.3	-2.0	-0.1	-0.4	-0.9	-1.0
Q4'19	-1.0	-2.3	-0.6	-0.4	-1.9	-1.1
Q4'20	-1.0	-1.5	-0.9	-0.4	-1.9	-1.0

RETAIL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'18	-0.6	-0.5	-0.7	-1.4	-0.9	-0.7
Q4'19	-0.7	-1.0	-1.0	-0.9	-0.9	-0.9
Q4'20	-1.1	-0.7	-0.9	0.5	-0.9	-0.8

INDUSTRIAL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'18	2.6	0.3	0.8	-0.9	-0.6	0.6
Q4'19	2.7	0.7	0.6	0.2	3.8	0.9
Q4'20	2.5	1.3	0.2	1.1	0.0	1.1

INDUSTRIAL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'18	2.7	0.9	1.0	-0.2	-1.1	0.9
Q4'19	2.9	1.1	1.7	0.7	-0.9	1.4
Q4'20	3.0	1.2	1.9	2.1	-0.5	1.7

SURVEY RESPONDENTS EXPECTATIONS (AVG) Q4-2018

OFFICE VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'18	4.3	4.9	11.0	12.7	10.6	7.8
Q4'19	4.3	4.7	10.8	12.4	9.4	7.6
Q4'20	4.3	5.7	9.9	11.9	8.6	7.6

RETAIL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'18	4.0	4.6	4.9	6.0	6.0	4.7
Q4'19	4.6	5.6	5.4	6.0	7.0	5.3
Q4'20	4.6	5.7	5.7	6.0	6.0	5.4

INDUSTRIAL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q4'18	4.5	3.9	7.0	8.3	4.0	5.4
Q4'19	4.5	4.2	6.5	7.3	4.0	5.2
Q4'20	5.0	4.3	6.5	6.7	3.5	5.2

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:

- annual growth to the current quarter
- annual growth in the next 12 months
- annual growth in the 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.

Over 300 property professionals participated in the Q4 2018 Survey.

CONTACT THE AUTHORS

Alan Oster

Group Chief Economist

Alan.Oster@nab.com.au

+613 8634 2927

Dean Pearson

Head of Behavioural & Industry Economics

Dean.Pearson@nab.com.au

+613 8634 2331

Robert De Iure

Senior Economist - Behavioural & Industry Economics

Robert.De.Iure@nab.com.au

+613 8634 4611

Brien McDonald

Senior Economist - Behavioural & Industry Economics

Brien.McDonald@nab.com.au

+613 8634 3837

Steven Wu

Economist - Behavioural & Industry Economics

Steven.A.Wu@nab.com.au

+(613) 9208 2929

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