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MEDIA RELEASE

NAB Commercial Property Survey - Q1 2019

The NAB Commercial Property Index fell 11 points to -2 in Q1 2019 - its first negative read in over 4 years.

NAB Chief Economist Alan Oster said: "Sentiment was led down by a very weak Retail sector, with CBD Hotels also posting its first negative read since mid-2016".

Office and Industrial property market sentiment was also mildly softer, but continued to track well above their long-term average.

By state, sentiment moderated quite sharply in VIC (+5), NSW (+1) and QLD (+1). It rose in SA/NT and was steady in WA, but remained negative in both states.

Overall confidence levels also dipped to new survey lows in Q1, with confidence levels weakest (and deeply negative) for Retail property.

"This will have been influenced by the slowing economic growth momentum into the March quarter, with the situation in discretionary retail and consumption more generally deteriorating even further" said Alan.

Confidence also slipped deeper into negative territory in the CBD Hotels sector on the back of weakening expectations for both capital and revPar growth in the next 1-2 years.

It also fell below average for Office and Industrial, but these sectors are still tipped to out-perform by a large margin.

Overall, property professionals in VIC are the most confident about commercial property over the next year, but WA leads the way in 2 years' time. In NSW, confidence has slipped into negative territory for the first time since the survey began, led by a very weak outlook for Retail property.

In other key findings:

- Capital growth expectations for the next year are strongest for Office property, with QLD and WA expected to lead the way after a long period of under-performance. Industrial to overtake Retail as best performer in 2 years' time. But capital returns in the Retail sector are expected to remain very weak over the next 1-2 years with values tipped to fall in all states.
- Income returns are expected to be highest for Office property in the next 1-2 years, with rents to grow fastest in VIC next year and QLD in 2 years' time. Industrial rents are also set to grow with VIC providing the best returns. Retail rents are expected to fall in all states.
- The number of developers expecting to start new works over next 6 months fell to 41% in Q1 2019 (well below Survey average). The number of developers targeting residential projects also remains below average - reinforcing the view that residential building activity has passed its peak.
- Accessing credit - both debt and equity - is still very difficult and property professionals expect their funding conditions to worsen further in next 3-6 months.

Over 300 property professionals participated in the Q1 2019 survey.

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