

EMBARGOED UNTIL 11.30 AM THURSDAY 8 AUGUST 2019

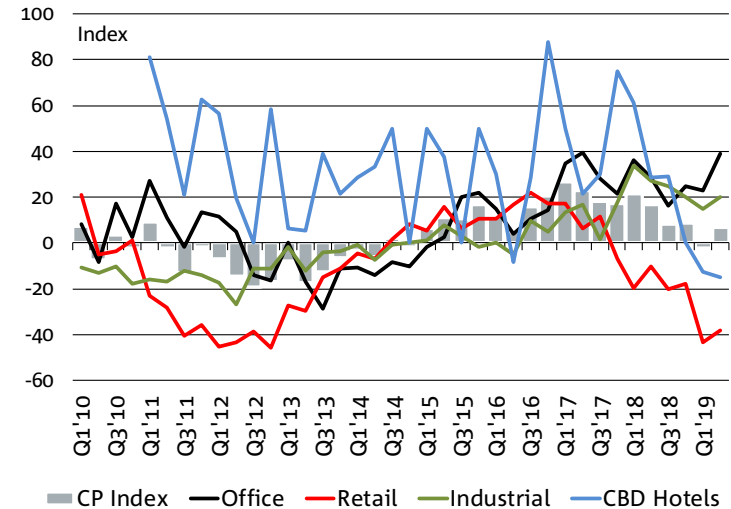


NAB COMMERCIAL PROPERTY SURVEY Q2-2019

KEY FINDINGS

- Overall market sentiment (measured by the **NAB Commercial Property Index**) lifted 9 points to +7 in Q2. It rose in all states (bar SA/NT), and was highest in VIC & NSW.
- By sector, sentiment was highest in Office (led by VIC & NSW). Industrial also out-performed with solid gains in the Eastern states. Retail improved but is still weak amid difficult Retail business conditions and subdued household spending. In the CBD Hotels sector, it fell to a survey low and has been falling steadily since Q3'18.
- A strong lift in confidence was noted in Q2. It remains highest in the Office and Industrial sectors. Retail also improved (but still negative) perhaps reflecting the outcome of the Federal election and firming expectations around rate cuts. Confidence slipped deeper negative in the CBD Hotels sector, possibly reflecting the potential impact of higher supply expectations.
- Capital growth expectations for the next year are highest for Office (1.9%), with the best prospects in VIC & NSW. Industrial values to grow 1.0% on average, with SA/NT and VIC out-performing. Capital values in Retail (-1.7%) and CBD Hotels (-1.8%) are expected to fall. Office (2.0%) and Industrial property (1.5%) tipped to lead the way in 2 years' time, led by the Eastern seaboard states. Retail and CBD Hotels values are on average expected to fall a further by -1.7% and -2.6% respectively.
- National office vacancy rate was steady at 7.9% in Q2, with vacancy in VIC falling to 4.3%. Market tightness still evident in NSW (5.3%), but available space still high in WA (15.0%), SA/NT (12.5%) and QLD (10.7%). National vacancy rate is expected to inch down to 7.7% in 2 years' time, with rising vacancy NSW and VIC (to still very low levels) offset by modest improvements in QLD, SA/NT and WA.
- Office property expected to provide the highest rental returns the next 1 -2 years (2.0% & 1.9%), with VIC out-performing. Industrial rents also tipped to grow over this period (1.1% & 1.9%), with VIC generating the highest returns in the next year and QLD in 2 years' time. The outlook for Retail is negative (-1.4% & -1.1%) and expected to fall in all states (bar QLD with modest returns in 2 years' time).
- The number of property developers planning to start new works in the next 6 months fell to 38% - well below average (49%). Only 44% of developers plan to start new works in the residential sector- also well below average (54%). These results are consistent with other activity indicators (such as housing approvals) which continue to suggest a slowing in residential construction.
- Property professionals signalled an improvement in their ability to access credit in Q2 - although the net number who said it was harder to obtain debt (-32%) or equity (-22%) continued to outweigh those who said it was easier. They also expect conditions to improve in the next 3-6 months (but still remain harder on balance).

NAB COMMERCIAL PROPERTY INDEX



	Q4 2018	Q1 2019	Q2 2019	Next 12m	Next 2yrs
Office	25	23	39	47	46
Retail	-18	-44	-38	-29	-12
Industrial	20	15	20	33	43
CBD Hotels	0	-13	-15	-25	-40
CP Index	9	-2	7	14	20

MARKET OVERVIEW - NAB COMMERCIAL PROPERTY INDEX

Overall sentiment (measured by NAB's Commercial Property Index) lifted 9 points to +7 in Q2, after posting its first negative read in over 4 years in the previous quarter (-2). The Index is now tracking above its long-term average (+3).

Office property led the way (up 16 points to +39), led by strong gains in VIC and NSW. Industrial also out-performed the broader market (up 5 points to +20), with solid gains in the Eastern states.

Retail sentiment also improved a little, but is still very weak (up 6 points to -38). Clearly, difficult Retail business conditions seen in NAB's Q2 Business Survey and ongoing weakness in household spending are continuing to weigh on market sentiment.

In the CBD Hotels sector, sentiment fell again (down 2 points to a survey low -15), as property professionals revised down their estimates for capital growth during the quarter.

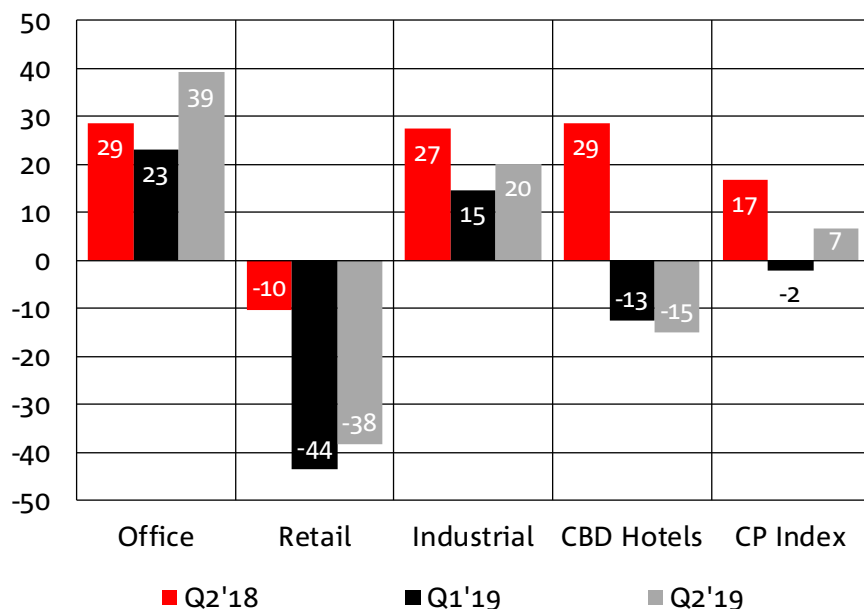
Overall confidence levels in commercial property markets bounced back to +14 in the next 12 months and +20 in 2 years' time in Q2.

Confidence remains highest in the Office (+47 in 12 months and +46 in 2 years time) and Industrial property sectors (+33 in 12 months and +43 in 2 years time).

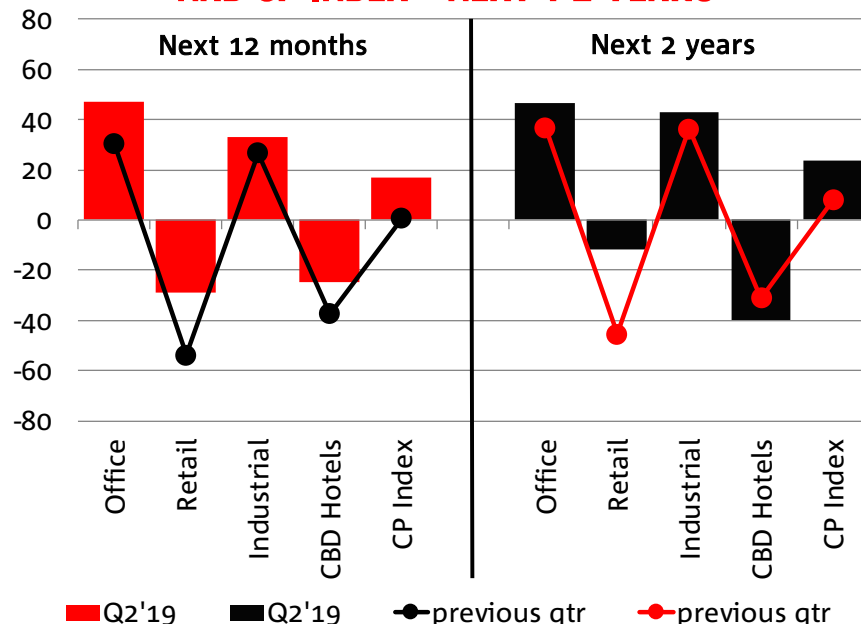
It remained negative for Retail property (-29 in 12 months and -12 in 2 years' time), albeit much less so than in the last survey. This may likely reflect a post election bounce as NAB still sees weak wages restraining household income and spending growth in the face of an already low savings rate and high debt levels.

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

NAB COMMERCIAL PROPERTY INDEX



NAB CP INDEX - NEXT 1-2 YEARS



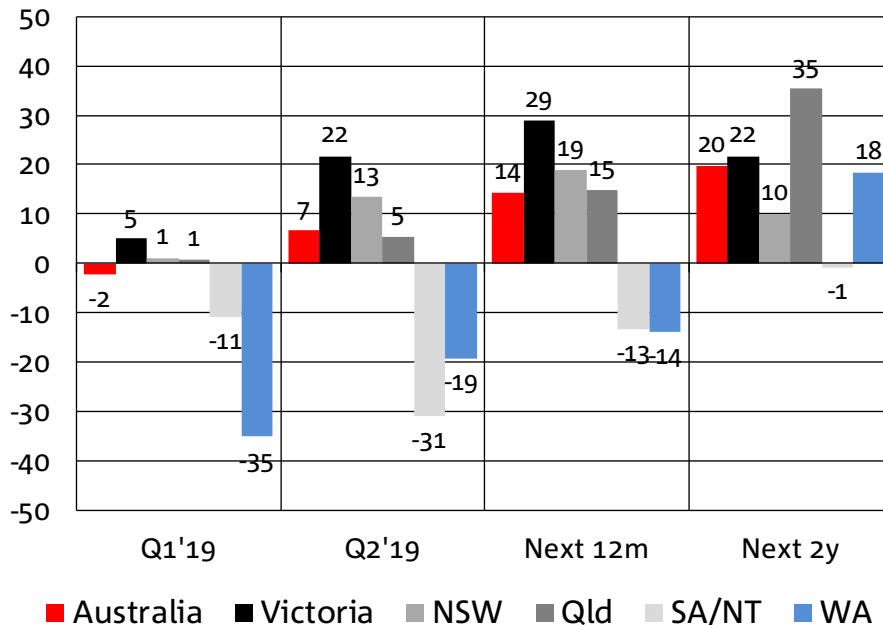
MARKET OVERVIEW - INDEX BY STATE

Overall sentiment in Q2 rose in most states. It was highest in VIC (up 17 to +22) and NSW (up 12 to +13), led by solid gains for Office and Industrial property. QLD was also positive (up 4 to +5), but sentiment was negative in WA (up 16 to -19) and SA/NT (down 20 to -31).

Overall confidence levels for the next 12 months are strongest in VIC (+29), followed by NSW (+19) and QLD (+15). Confidence is highest in VIC in all sectors, particularly Office where demand and low vacancy is reportedly driving very strong rental growth.

Overall, VIC (+64) and QLD (+50) are the most optimistic states in 2 years' time. VIC is also the most confident state for Office property, while QLD is the only state with positive expectations for Retail property. WA (+43) is the big improver, and it is the most confident state for Industrial property in the next 2 years.

COMMERCIAL PROPERTY INDEX - STATE



OFFICE PROPERTY MARKET INDEX - STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'19	64↑	55↑	27↓	-7↑	-13↓	39↑
Q2'20	77↑	58↑	37↓	0↓	13↑	47↑
Q2'21	64↑	40↑	50↓	43↑	2↑	46↑

RETAIL PROPERTY MARKET INDEX - STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'19	-31↑	-50↓	-37↑	-50↑	-38↓	-38↑
Q2'20	-28↑	-41↓	-29↑	-50↑	-13↑	-29↑
Q2'21	-22↑	-31↑	8↑	-50↔	13↑	-12↑

INDUSTRIAL PROPERTY MARKET INDEX - STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'19	46↑	26↑	29↑	-6↑	-60↓	20↑
Q2'20	50↑	46↑	44↑	6↓	-60↓	33↑
Q2'21	33↓	41↑	65↑	81↑	-60↓	43↑

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

MARKET OVERVIEW - CAPITAL & VACANCY EXPECTATIONS

Expectations for capital growth in the next 12 months improved for Office (1.9% vs. 1.1% in Q1), with returns tipped to be highest in VIC (2.7%) and lowest in SA/NT (-0.1%) and WA (0.3%). Industrial is expected to grow faster (1.0% vs. 0.8%), with SA/NT (3.8%) and VIC (2.9%) out-performing and WA under-performing (flat). Retail also improved (-1.7% vs. -2.3%), but values are expected to fall in all states. CBD Hotel values are tipped to fall -1.8% (-1.2% in Q1).

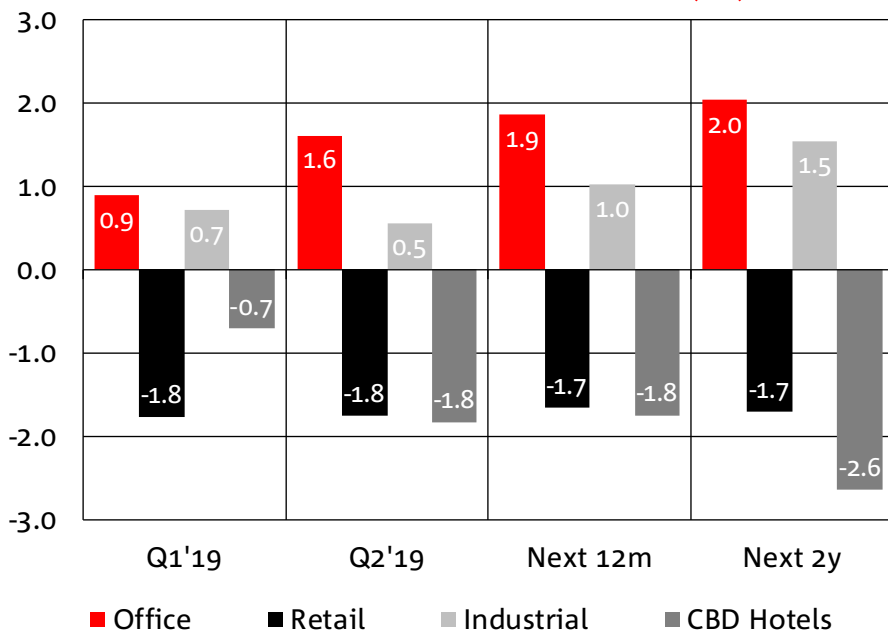
Capital growth is expected to be fastest for Office in 2 years' time (2.0%), ahead of Industrial (1.5%). VIC (2.8%) and QLD (2.3%) lead the way for Office. VIC (3.2%) and QLD (2.1%) also to out-perform for Industrial property. Overall Retail values are tipped to fall -1.7%, with the heaviest falls in NSW (-3.0%). CBD Hotels are also predicted to fall -2.6% in 2 years' time - see page 10 for detail.

The national office vacancy rate was steady at 7.9% in Q2. Lower vacancy was reported in VIC (4.3%) and SA/NT (12.5%), it rose in NSW (5.3%) and QLD (10.7%) and was steady in WA (15.0%). Vacancy is expected to inch down to 7.7% in 2 years' time, with rising vacancy in NSW and VIC (to still very low levels) offset by modest tightening in QLD, SA/NT and WA.

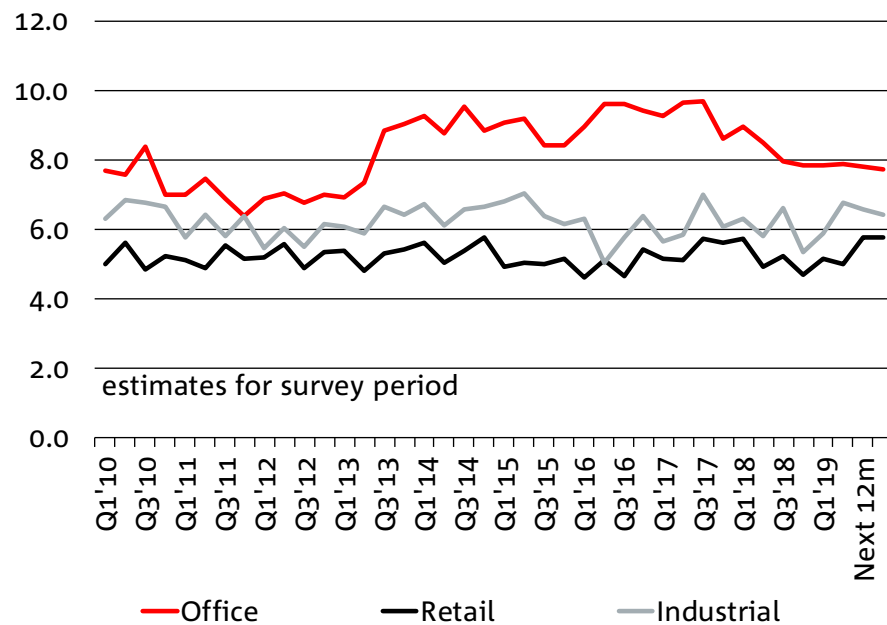
Overall Retail vacancy was broadly unchanged at 5.0% in Q2. Retail vacancy rose in QLD (5.6%), but fell in all others states. Vacancy was highest in SA/NT (8.3%) and lowest in VIC (4.1%).

In the Industrial sector, national vacancy rose to 6.8% (5.9% in Q1), with vacancy higher in all states bar WA (10.1%). The national market is however expected to tighten over the next 1-2 years - see page 11 for detail.

CAPITAL VALUE EXPECTATIONS (%)



VACANCY RATE EXPECTATIONS (%)



MARKET OVERVIEW - RENTS & SUPPLY

Office property is expected to lead the way for rental growth over the next 1-2 years, growing by 2.0% in 12 months time and 1.9% in the following year. Expectations in the next 12 months are strongest in VIC (2.7%) and weakest in SA/NT (-0.5%). VIC (2.9%) also leads the way in 2 years' time, followed by QLD (2.1%).

Industrial rents are tipped to grow 1.1% nationally over the next 12 months and by 1.9% in the following year. VIC (2.2%) is expected to generate the highest income returns in the next year and QLD (2.9%) in 2 years' time.

The outlook for Retail rents remains negative (-1.4% & -1.1%), Retail rents are expected to fall in all states over this period, except in QLD where modest returns of 0.6% are predicted in 2 years' time - **see page 10 for detail.**

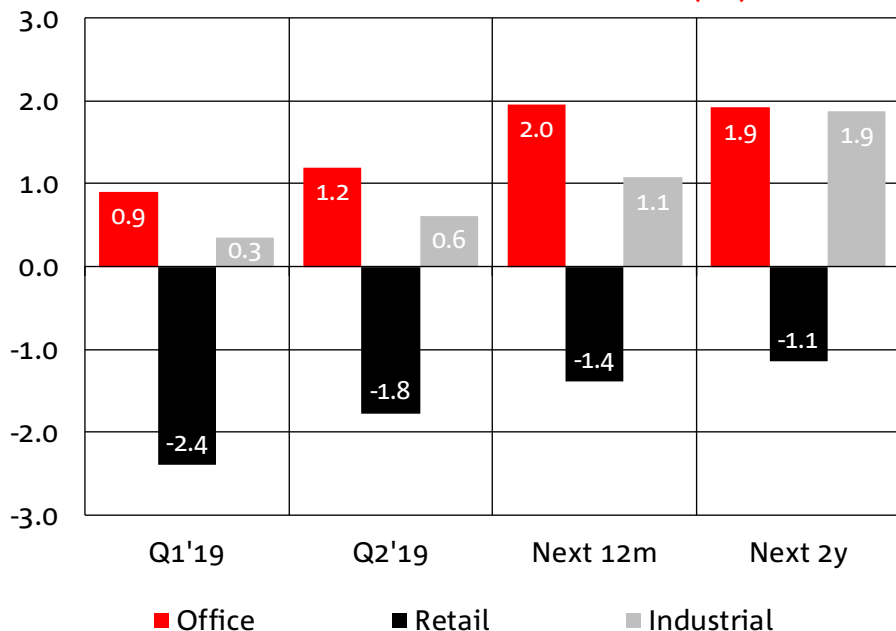
Supply conditions in Office, Industrial and CBD Hotels were 'neutral' in Q2, with Office and Industrial markets expected to stay balanced over next 1-5 years. Some over-supply in the CBD Hotels market is anticipated in the next 1-5 years. Retail currently over-supplied and will remain so in the next 1-3 years, but balance in 5 years' time.

By state, Office markets are broadly balanced in VIC and NSW. Some over-supply is still prevalent in QLD, but large overhangs will persist in WA and SA/NT over the next 1-3 years.

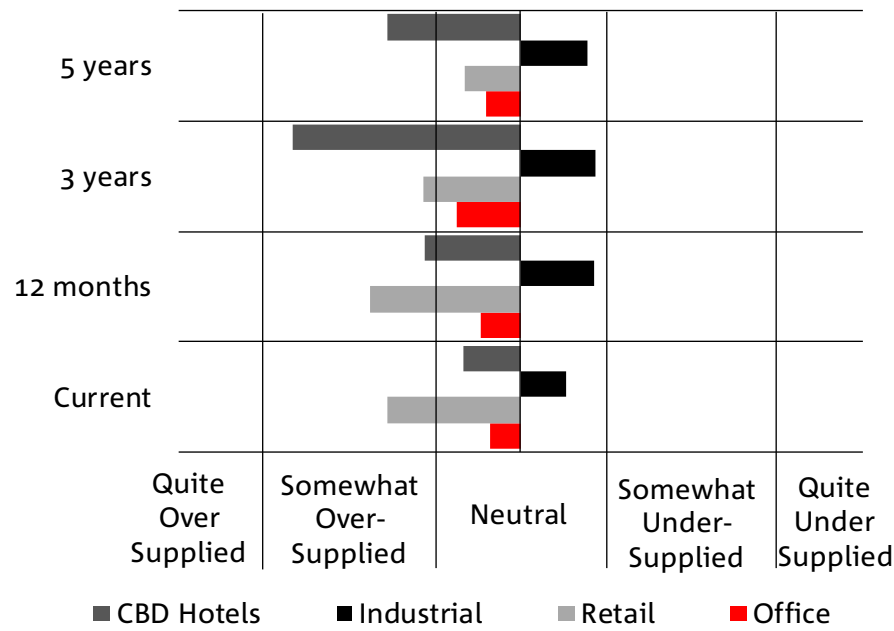
In Retail, property professionals see modest over-supply persisting in most states over the next 1-3 years.

In Industrial, VIC and NSW are expected to remain under-supplied in the next 1-5 years. Shortages are also expected to emerge in WA in 3-5 years' time with QLD balanced.

GROSS RENTAL EXPECTATIONS (%)



SUPPLY CONDITIONS



MARKET OVERVIEW - DEVELOPMENT INTENTIONS

The number of property developers expecting to begin new works in the next month rose to 13% in Q2 (6% in Q1), and those planning to start in the next 1-6 months fell to 26% (35% in Q1). Overall, just 38% plan to start new works in the next 6 months (41% in Q4) - well below the Survey average (49%).

The number who said they plan to start new projects in the next 6-12 months rose to 27% (22% in Q1). Those planning to start in the next 12-18 months fell to 17% (19%) and those indicating a longer time frame increased to 13% (from 8% in Q1).

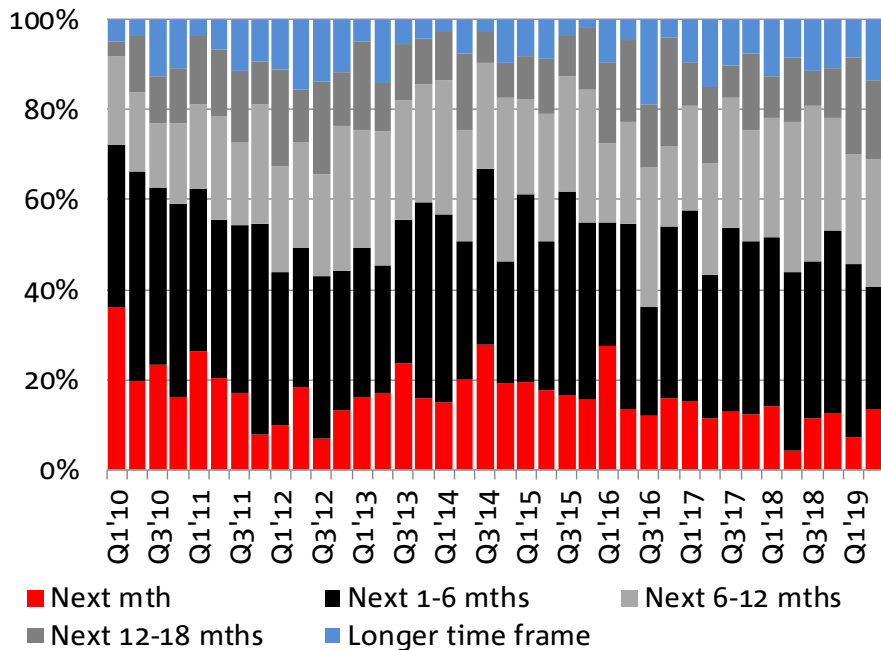
These results appear consistent with activity indicators which also continue to suggest a slowing in construction with approvals having fallen and the high rate of work done seeing the remaining pipeline of work completed relatively quickly.

For developers planning to commence new works, the number targeting residential development projects fell 44% in Q2 (51% in Q1) - well below long-term average levels (54%).

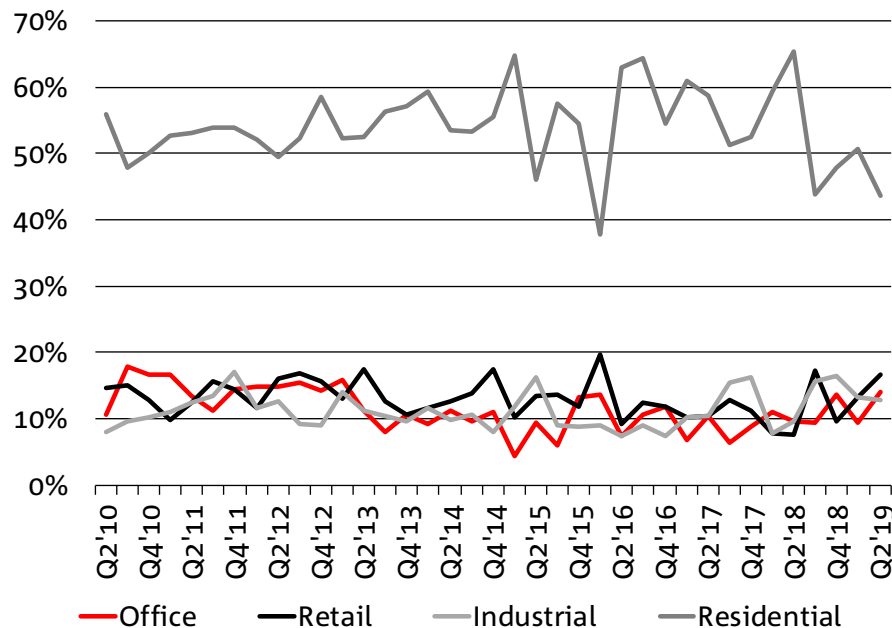
These results reinforce the view residential building activity has passed its peak. The latest data for dwelling approvals also shows the overall downtrend in approvals persisting (-19.6% y/y in May). Moreover, the decline in approvals seen over the past year has already fed into lower construction levels, which NAB expects to persist for the next couple of years

In other sectors, property professionals pointed to below average numbers of developers targeting Office (11%) property, but a higher than average number targeting both Retail (17%) and Industrial property (13%) during the quarter.

COMMENCEMENT INTENTIONS - TIME



COMMENCEMENT INTENTIONS - SECTOR



MARKET OVERVIEW - LAND SOURCES & CAPITAL INTENTIONS

The number of property developers looking to use land-banked stock for their new projects in Q2 fell slightly to 63% (67% in Q1), but remains above long-term Survey average levels (60%).

The number who said they were seeking new acquisitions was unchanged over the quarter at 20%, but this was well down from at the same time last year (34%).

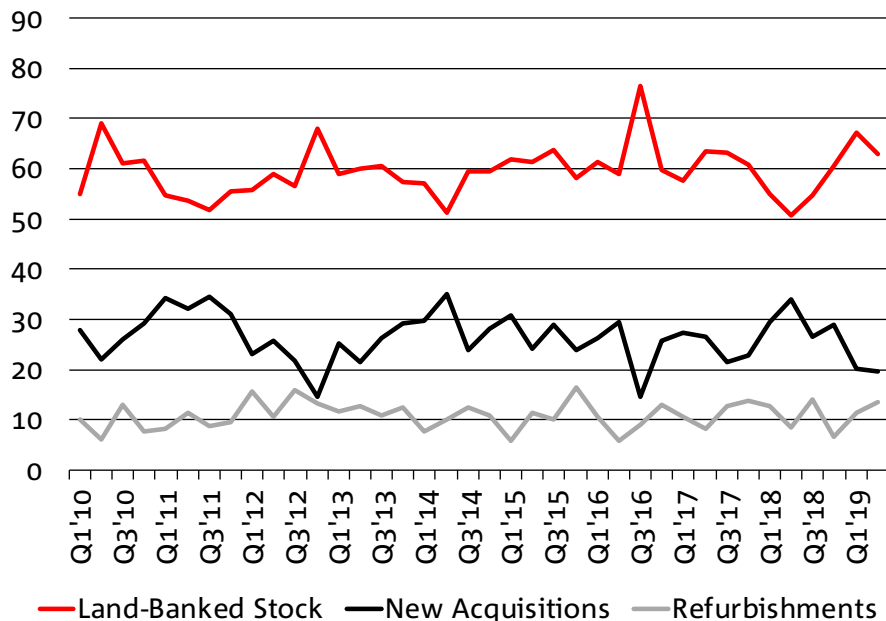
The number of developers looking at refurbishment opportunities however climbed to 14% (11% in Q1 and 8% at the same time last year).

The number of property developers planning to source more capital to fund their developments in the next 6 months was broadly unchanged at 24% in Q2. Around 59% had no intention to source capital in the short-term (63% in Q1) and 17% were unsure (14% in Q4).

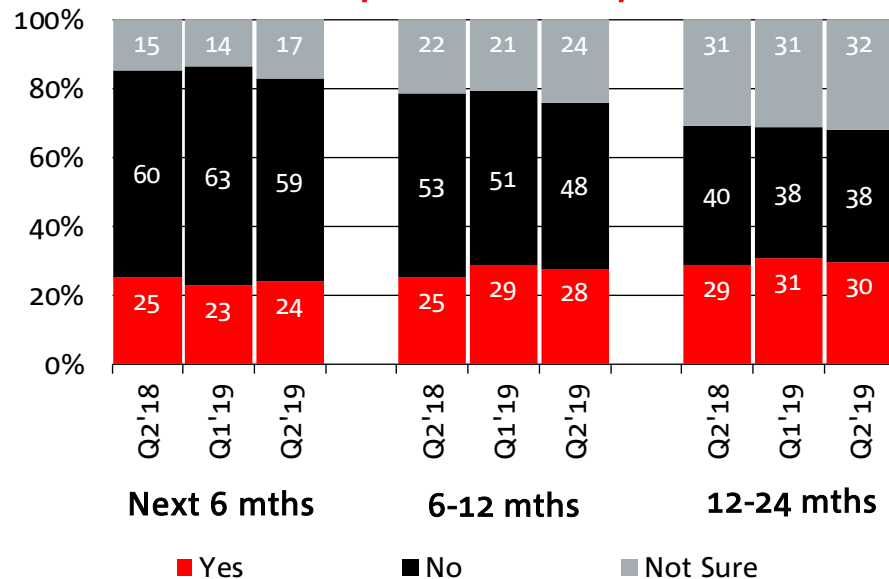
The number of developers planning to source capital in the next 6-12 months also fell to 28% in Q2 (29% in Q1), Around 48% had no intention to source funds and 24% were unsure.

Fewer developers also intended to source more capital in the longer-term (12-24 months) - 30% yes, 38% no and 32% unsure.

SOURCES OF LAND DEVELOPMENT (%)



INTENT TO SOURCE MORE CAPITAL FOR DEVELOPMENT/ACQUISITIONS/PROJECTS



MARKET OVERVIEW - FUNDING & PRE-COMMITMENTS

Accessing credit is still difficult, but eased a little in Q2.

In Q2, the net number who said it was harder to obtain debt financing fell to its lowest level since Q2'18. In net terms, -32% said it was harder to obtain borrowing or loans (debt) needed for their business, down from -40% in Q1.

Property professionals were also more optimistic about equity funding, with the net number who said it was harder falling to -22%, down from a Survey high -31% in Q1.

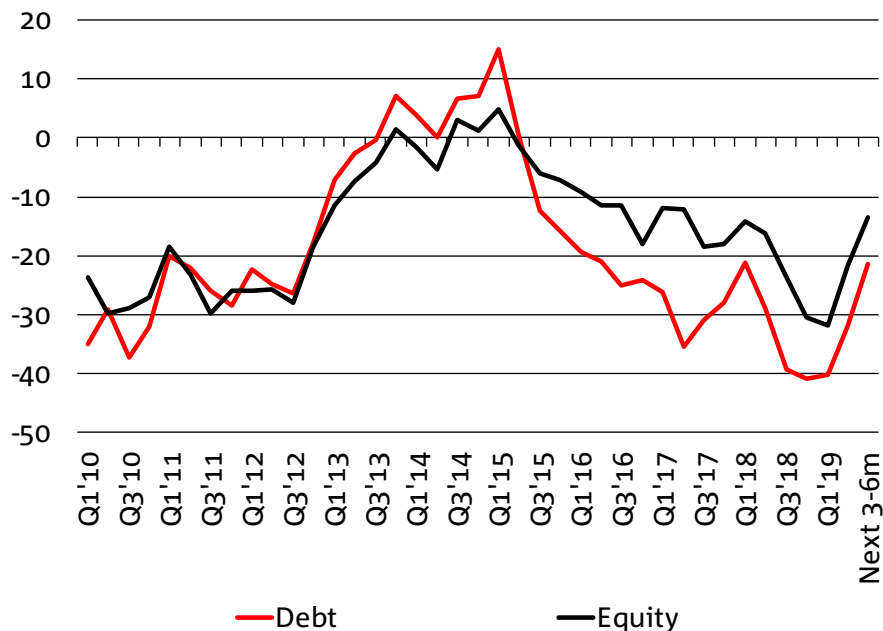
Looking ahead, the outlook is for further improvement over the next 3-6 months. A net -21% of property professionals see debt funding conditions worsening, and just -13% said it will be harder to obtain equity financing.

Australia wide, the average pre-commitment to meet external debt funding requirements for new developments rose to 65.6% for residential property in Q2 (64.0% in Q1), but fell to 58.0% for commercial property (58.9% in Q1).

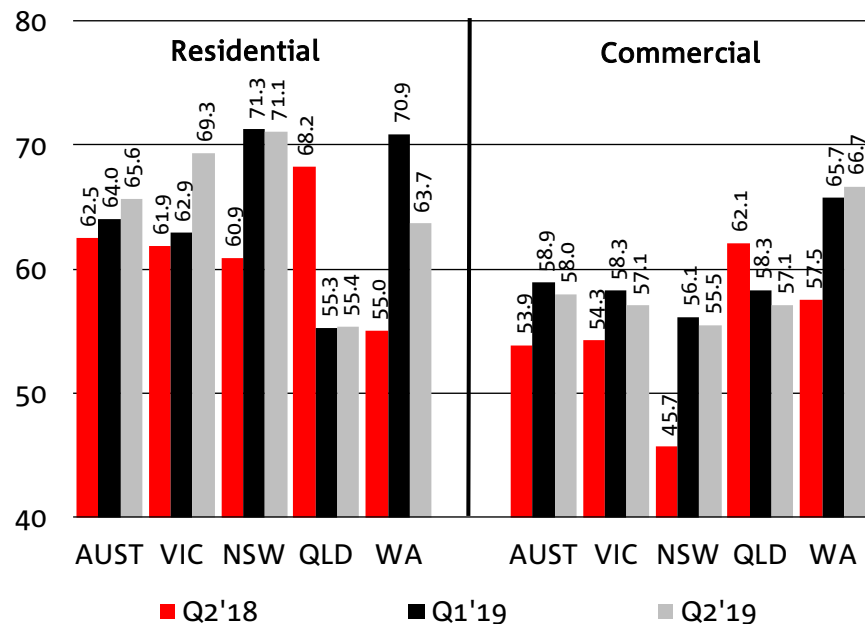
Residential requirements rose in VIC (69.3%), and were broadly unchanged in NSW (71.1%) and QLD (55.4%), and in WA (63.7%). Commercial property pre-commitments were lower in VIC (57.1%), NSW (55.5%) and QLD (57.1%) but rose in WA (66.7%).

On balance, more property professionals now expect pre-commitment requirements to improve going forward - a net +5% for residential property in the next 6 months and +21% in 12 months, and +7% in 6 months and +21% in 12 months for commercial.

EASE OF ACQUIRING DEBT/EQUITY (NET)



PRE-COMMITMENT REQUIREMENTS (%)



SURVEY RESPONDENTS EXPECTATIONS (AVG) Q2-2019

OFFICE CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'19	1.8	2.1	1.6	0.3	0.0	1.6
Q2'20	2.7	2.3	1.7	0.3	-0.1	1.9
Q2'21	2.8	2.0	2.3	1.3	0.9	2.0

OFFICE RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'19	1.8	1.8	0.6	0.0	-0.9	1.2
Q2'20	2.7	2.4	1.7	0.8	-0.5	2.0
Q2'21	2.9	1.8	2.1	1.8	0.0	1.9

RETAIL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'19	-1.4	-2.6	-1.5	-1.9	-1.6	-1.8
Q2'20	-2.1	-1.9	-1.3	-1.9	-1.1	-1.7
Q2'21	-2.0	-3.0	-0.8	-1.9	-0.3	-1.7

RETAIL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'19	-1.5	-3.5	-0.7	-1.9	-1.4	-1.8
Q2'20	-1.7	-2.5	-0.3	-1.9	-0.9	-1.4
Q2'21	-2.0	-2.5	0.6	-1.9	-0.5	-1.1

INDUSTRIAL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'19	1.7	0.3	1.3	-0.5	-1.9	0.5
Q2'20	2.9	1.1	1.6	0.0	3.8	1.0
Q2'21	3.2	1.5	2.1	1.3	-2.8	1.5

INDUSTRIAL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'19	1.8	0.9	0.5	0.0	-1.9	0.6
Q2'20	2.2	1.6	1.3	0.2	-2.8	1.1
Q2'21	2.7	1.7	2.9	1.5	-1.9	1.9

SURVEY RESPONDENTS EXPECTATIONS (AVG) Q2-2019

OFFICE VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'19	4.3	5.3	10.7	15.0	12.5	7.9
Q2'20	4.1	5.6	10.1	14.7	12.0	7.8
Q2'21	4.6	6.4	9.0	13.3	10.5	7.7

RETAIL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'19	4.1	4.9	5.6	5.0	8.3	5.0
Q2'20	5.4	5.6	5.6	6.0	9.7	5.8
Q2'21	5.7	6.2	4.9	5.0	9.7	5.8

INDUSTRIAL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'19	5.0	5.5	6.9	10.1	10.0	6.8
Q2'20	5.0	5.6	6.2	9.6	10.5	6.6
Q2'21	5.0	5.8	5.7	8.1	11.0	6.4

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 350 property professionals participated in the Q2 2019 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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