EMBARGOED UNTIL 11.30 AM WEDNESDAY 6 MAY 2020

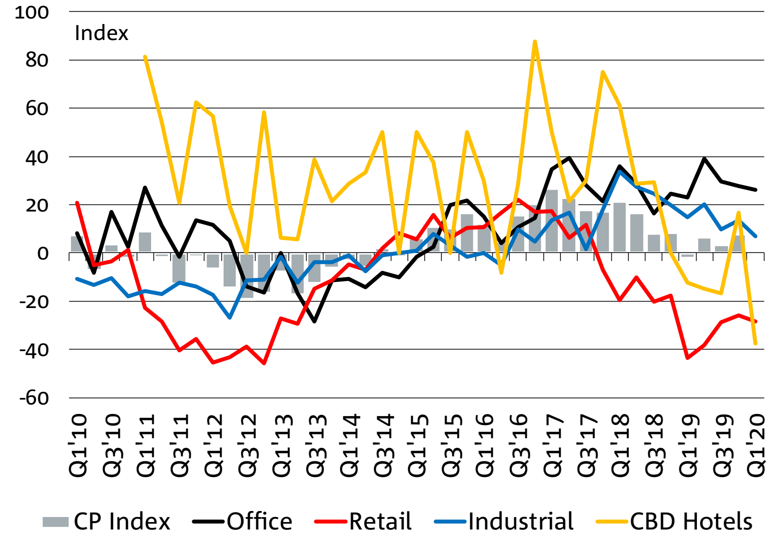
NAB COMMERCIAL PROPERTY SURVEY Q1-2020

Date May 2020 | NAB Behavioural & Industry Economics

KEY FINDINGS

- NAB's Commercial Property Index fell 8 points to be flat (0) in Q1 2020. While coronavirus is likely to have played some role, the survey was conducted between 25 February and 23 March and pre-dates the impact to the economy and business confidence from stricter containment measures.
- Sentiment fell modestly for Office (down 2 to +26), Industrial (down 7 to +7) and Retail (down 2 to -27). But CBD Hotels hit particularly hard (down 55 to -38), as travel restrictions and quarantine measures staring impacting the market. Property professionals estimate CBD hotel occupancy in Q1 fell to 68% from 83% in Q4 2019.
- The hit to confidence from coronavirus has so far been relatively muted. The 12 month measure was down 4 to +9, and the 2 year outlook down 1 to +17. But if the coronavirus impact on the broader economy is sustained, it is likely to feed through into much lower commercial property market confidence in the future.
- Confidence remains highest in Office markets and weakest in CBD Hotels which fell heavily - not unexpected given expectations border/travel restrictions will be among the last coronavirus restrictions to be lifted.
- Capital growth expectations for the next 12 months have softened in Office (0.9%) and Industrial (0.9%) but remain positive. In Retail, they are expected to fall -1.4%, with values lower in all states. Values expected to fall most for CBD Hotels (-2.8%).
- Office vacancy fell slightly to 7.8% in Q1 and is expected to hold steady at 8% over the next 1-2 years, with modest rises in NSW and VIC (to still low levels) offset by falls in QLD, SA/NT and WA. The risk remains vacancy could be much higher if the coronavirus impact on the economy and employment is sustained. Retail vacancy climbed to a survey high 6.9% in Q1, and is expected to increase further in the next 12 months (8.0%), likely due to Coronavirus-related shutdowns and business failures. The industrial sector currently seen to be the most insulated.
- With many tenants reportedly struggling due to the coronavirus-led economic downturn, the rental outlook for the next year is notably weaker for Retail (-2.5%), with bigger expected in falls in all states. In contrast, rental expectations for Office (1.0%) and Industrial (0.5%) are broadly unchanged. The rental outlook for Office property is strongest for VIC (3.2%) and for Industrial property in QLD (2.5%).
- The number of property developers expecting to commence new works in the near-term has fallen, but those planning to start in the next 12-18 months or beyond has risen sharply, which may indicate growing uncertainty surrounding the outlook for construction from the coronavirus-led economic downturn.
- In line with the falling number of developers planning to commence works in the near-term, fewer property developers are also planning to source more capital to fund their developments.
- Debt funding conditions improved in Q1, but property professionals said it was harder to obtain equity funding. This may have reflected sharp falls in equity markets due to the coronavirus outbreak. Looking ahead, the outlook for debt and equity funding conditions in the next 3-6 months, is now weaker than predicted in the previous survey.

NAB COMMERCIAL PROPERTY INDEX



	Q4'19	Q1'20	Next 12m	Next 2y
Office	28	26	38	49
Retail	-26	-28	-24	-12
Industrial	14	7	28	37
CBD Hotels	17	-38	-50	-63
CP Index	**8**	**0**	**9**	**17**

MARKET OVERVIEW - NAB COMMERCIAL PROPERTY INDEX

NAB's Commercial Property Index fell 8 points to a below average 0 in Q1 2020. While the coronavirus is likely to have played some role, the survey was conducted between 25 February and 23 March and pre-dates the impact to the economy and business confidence from stricter containment measures.

While sentiment fell in all sectors, CBD Hotels were hit hard (down 55 to -38), as travel restrictions and quarantine measures started impacting the market. Surveyed property professionals estimated CBD hotel occupancy in Q1 fell to 68% from 83% in Q4 2019.

Office markets have held up best (down 2 to +26), with sentiment still strongest in VIC and NSW. Industrial sentiment eased (down 7 to +7) but is still positive overall, particularly in QLD and VIC.

Sentiment around Retail property fell (down 2 to -28) after improving for 3 straight quarters as retail spending was hampered by forced business closures and social isolation measures.

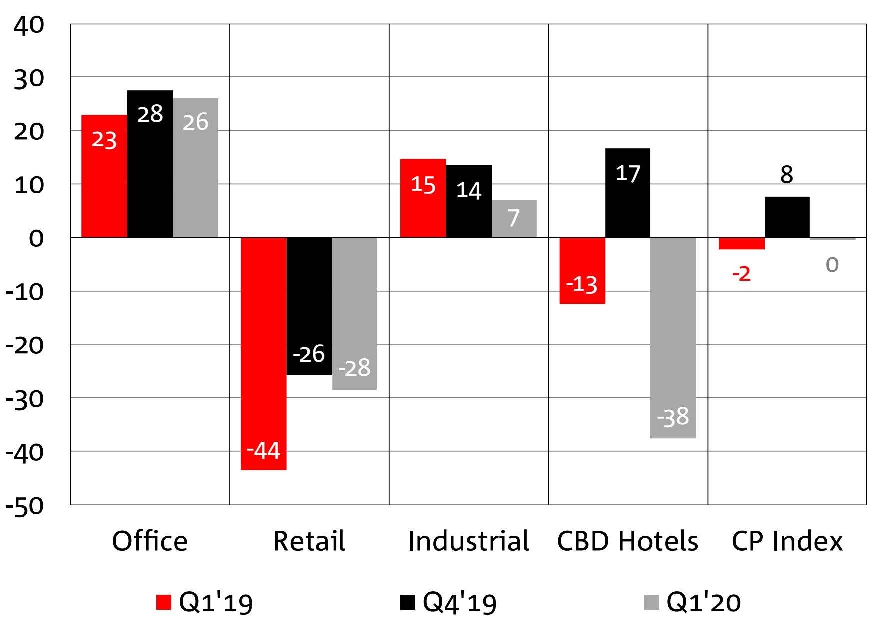
The hit to confidence from coronavirus has so far been relatively muted. The 12 month measure was down 4 points to +9, and the 2 year outlook down 1 point to +17. But if the coronavirus impact on the broader economy is sustained, it is likely to feed through into much lower commercial property market confidence in the future.

Confidence remains highest in Office markets (down 4 to +38 in 12 months and up 7 to +49 in 2 years), then Industrial (up 2 to +28 in 12 months and down 2 to +37 in 2 years).

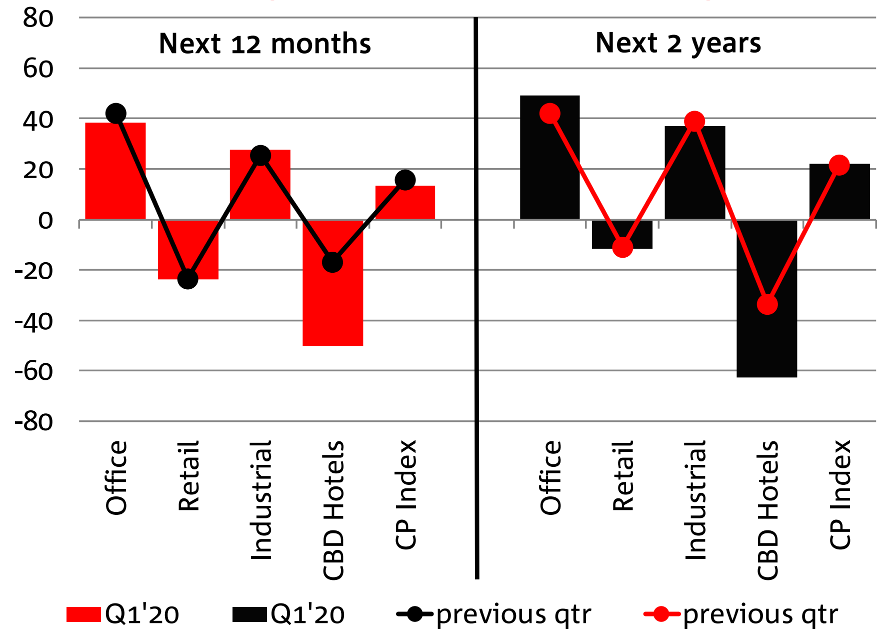
Confidence levels in the CBD Hotels sector have however fallen sharply (down 33 to -50 in 12 months and down 30 to -63 in 2 years). This heavy fall in confidence is not totally unexpected given expectations that border/travel restrictions will be among the last coronavirus restrictions to be lifted.

Confidence in Retail markets is however broadly unchanged at low levels (down 1 to -24 in 12 months and down 1 to -12 in 2 years).

NAB COMMERCIAL PROPERTY INDEX



NAB CP INDEX - NEXT 1-2 YEARS



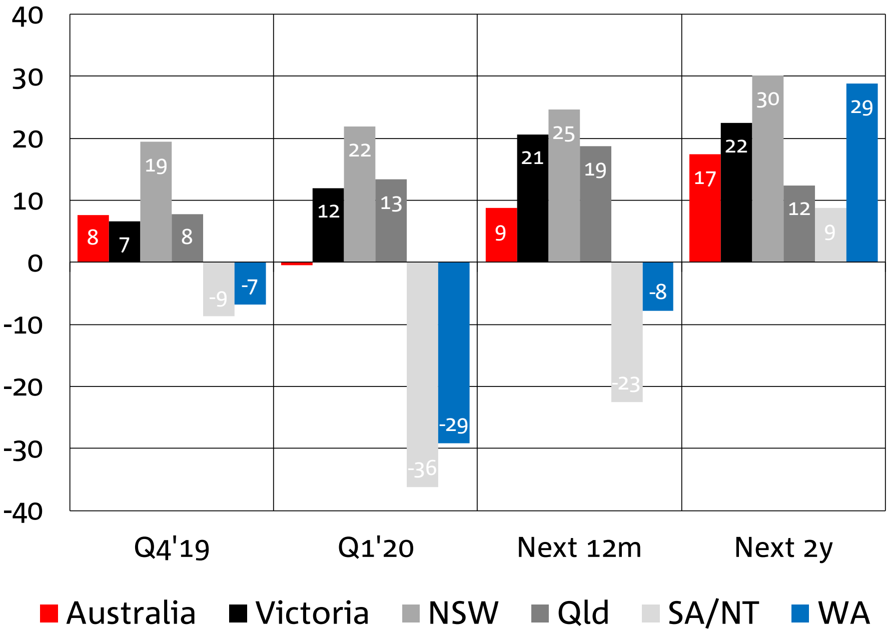
MARKET OVERVIEW - INDEX BY STATE

Market sentiment rose slightly in NSW (up 3 to +22), QLD (up 5 to +13) and VIC (up 5 to +12), but fell heavily in SA/NT (down 27 to -36) and WA (down 22 to -29), with sentiment lower in all sectors. By sector, VIC led the way for Office property (+63), NSW for Retail (+16) and QLD for Industrial (+50).

Confidence levels for the next 12 months varied by state. It rose in VIC (up 7 to +21) and QLD (up 6 to +19) and was basically unchanged in NSW (up 1 to +25). VIC was the most confident state for Office property (+63), NSW for Retail (0) and QLD for Industrial (+65).

Property professionals in NSW (up 12 to +30) are the most optimistic in 2 years' time, particularly for Retail property (+13). Overall confidence fell heavily in WA (down 16 to +29), but it remains the most optimistic state for Office property (+65). Property professionals in QLD are the most confident about Industrial property (+50).

COMMERCIAL PROPERTY INDEX - STATE



OFFICE PROPERTY MAKET INDEX – STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'20	63↑	41↓	25↑	-20↓	-6↑	**26↓**
Q1'21	63↑	47↔	39↓	20↓	-6↓	**38↓**
Q1'22	63↑	42↑	39↓	65↓	56↑	**49↑**

RETAIL PROPERTY MARKET INDEX – STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'20	-29↑	16↑	-39↓	-57↓	-75↓	**-28↓**
Q1'21	-12↑	0↑	-33↑	-43↓	-58↓	**-24↓**
Q1'22	-3↑	13↑	-28↔	-7↓	-42↓	**-12↓**

INDUSTRIAL PROPERTY MARKET INDEX - STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'20	29↓	5↓	50↑	-20↓	-56↓	**7↓**
Q1'21	46↓	30↓	65↑	-15↓	-13↑	**28↑**
Q1'22	42↓	48↑	50↑	25↓	-6↑	**37↓**

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

MARKET OVERVIEW - CAPITAL & VACANCY EXPECTATIONS

Expectations for capital growth in the Office sector over the next 12 months softened to 0.9% (1.6% in Q4), with the highest returns tipped in VIC (1.8%) and lowest in WA (0.2%). Industrial values are also expected to be lower (0.9% vs. 1.1% in Q4) with SA/NT (3.8%) and QLD (3.1%) out-performing. In Retail, values are tipped to fall in all states, led by SA/NT (-3.2%) and QLD (-2.6%). CBD Hotels values are also expected to fall by a heavier -2.8% (0.3% forecast in Q4).

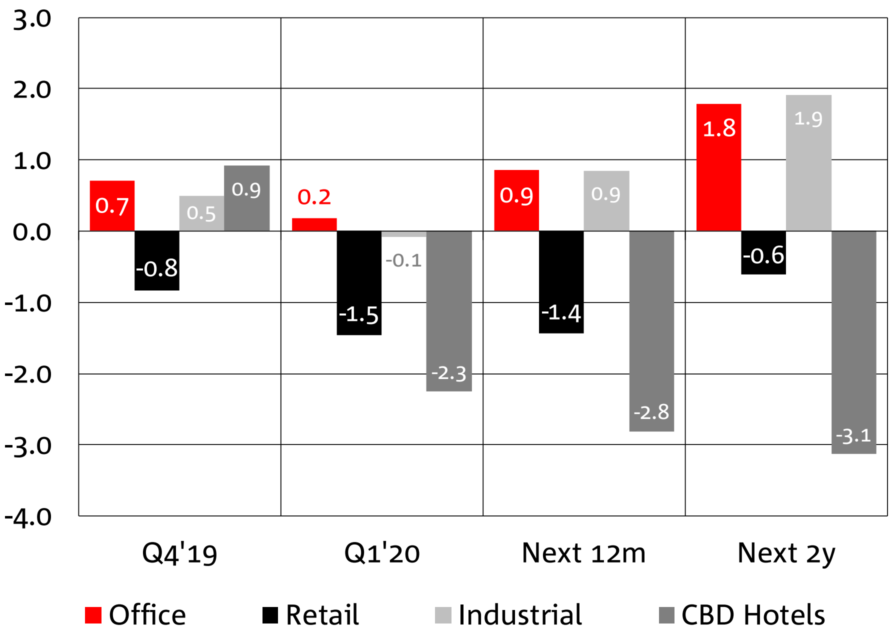
The outlook in 2 years' time remains strongest for Industrial property (1.9% vs. 1.7% in Q4), with QLD (3.1%) the standout. Office values are expected to grow (1.8% vs. 1.6% in Q4), led by SA/NT (3.4%) and VIC (2.4%). The outlook for Retail is a little weaker (-0.6% vs. -0.3% in Q4), with NSW (0.7%) and WA (0.3%) out-performing. Expectations for CBD Hotels are however much weaker (-3.1% vs. -1.0% in Q4) - **see page 10 for detail**.

Office vacancy fell to 7.8% in Q1 (8.0% in Q4). It was steady in VIC (4.0%) and QLD (11.4%), fell in WA (14.3%) and increased in NSW (4.9%). Overall, vacancy is expected to hold steady at 8% in the next 2 years, with rising vacancy in NSW and VIC (to still low levels) offset by tightening in QLD, SA/NT and WA. Vacancy could however be much higher if the coronavirus impact on employment is sustained,

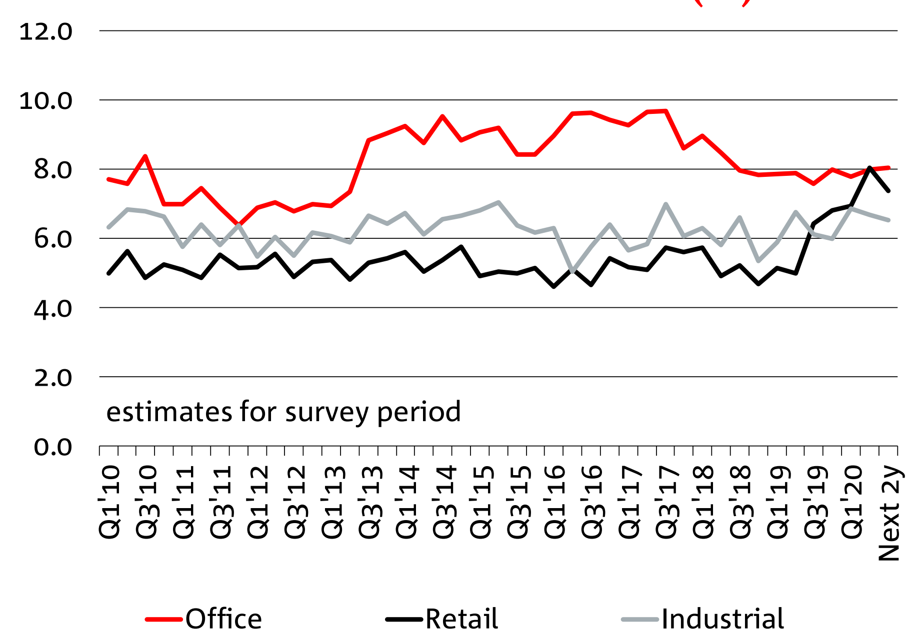
Overall Retail vacancy rose to a survey high 6.9% in Q1, with vacancy higher in all states bar VIC (unchanged at 6.2%). Vacancy is expected to climb sharply to 8.0% in the next 12 months, likely impacted by Coronavirus related shutdowns and business failures.

The industrial sector seems to be the most insulated, with vacancy steady at 6.9%, and predicted to fall to 6.7% in the next 12 months' and 6.5% in 2 years' time - **see page 11 for detail**.

CAPITAL VALUE EXPECTATIONS (%)



VACANCY RATE EXPECTATIONS (%)



DESPITE MARKET OVERVIEW - RENTS & SUPPLY

With many commercial tenants struggling in the wake of the coronavirus led economic downturn, the rental outlook has weakened sharply in Retail. Over the next 12 months, rents are expected to fall -2.5% on average (-1.4% in Q4), and fall more sharply in all states, led by SA/NT (-4.5%) and QLD (-3.0%). In contrast, rental expectations in Office (1.0%) are unchanged and positive in all states bar SA/NT (-1.6). Industrial rents also basically unchanged (0.5%), and positive in most states bar SA/NT (-1.6%) and WA (-0.7%),

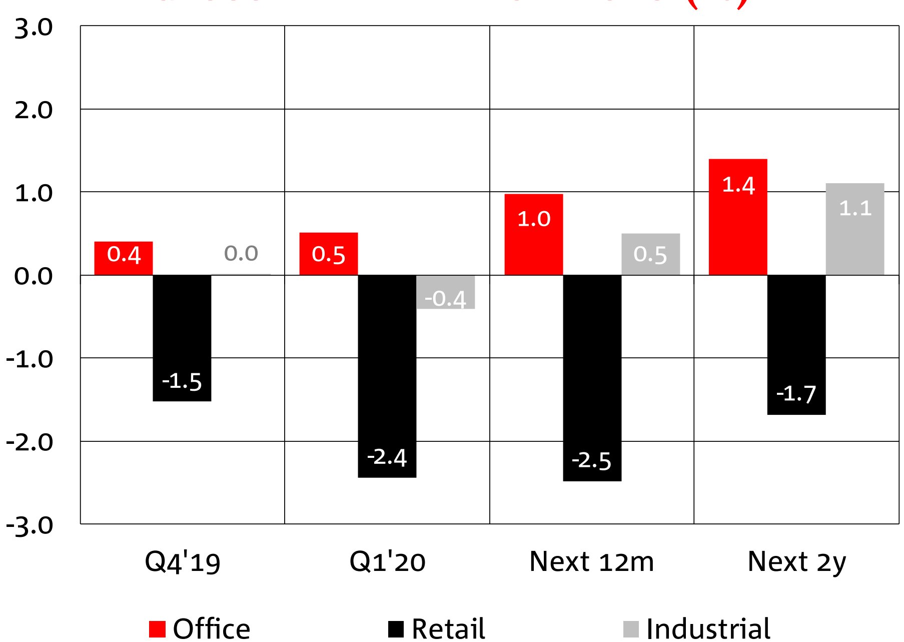
Office property rents are tipped to grow fastest in 2 years' time (1.4%), led by VIC (3.2%) and WA (2.4%) Industrial rents also forecast to grow 1.1% on average, with QLD out-performing (2.5%). In Retail, the outlook is much weaker (-1.7% vs. -1.0% in Q4), Retail rents are expected to fall in all states over this period, with the smallest falls expected in WA (-0.6%) and NSW (-0.8%) - **see page 10 for detail**.

National supply conditions are currently 'neutral' in all sectors bar Retail (over-supplied). Retail markets in all states are currently over-supplied (except in VIC). Over-supply expected to remain prevalent in all state Retail markets in the next 1-5 years, bar VIC (neutral).

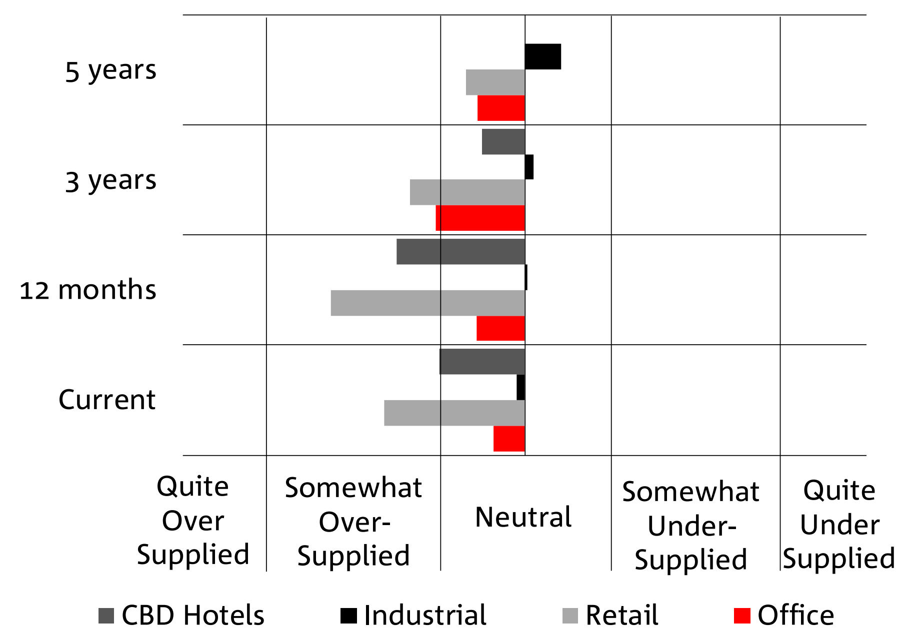
In Office markets, over-supply is currently evident in all states bar VIC (neutral) and NSW (under-supplied). Over supply is expected to remain an issue in WA and QLD in the next 1-5 years, and under-supply in NSW in the next 12 months, before balancing in the next 3-5 years. VIC Office market to remain 'neutral' in next 1-5 years.

Industrial market supply is currently balanced in VIC and QLD, under-supplied in NSW, and over-supplied in WA. All state markets are expected to be broadly balanced in the next 1-5 years. The CBD Hotels markets is also currently balanced, but will be somewhat over-supplied in the next 12 months before returning to balance.

GROSS RENTAL EXPECTATIONS (%)



SUPPLY CONDITIONS



MARKET OVERVIEW - DEVELOPMENT INTENTIONS

The number of property developers expecting to start new works in the next month fell to a below average 10% in Q1 (13% in Q4), but those planning to start in the next 1-6 months rose to 39% (37% in Q4). Overall, 49% plan to start new works in the short-term (or next 6 months), and is at the survey average level (49%).

But the number of developers who said they plan to start new projects in the next 6-12 months fell to 17% (26% in Q4). Those planning to start in the next 12-18 months rose sharply to 12% (3% in Q4), and those with a longer time increased to 19% (12% in Q4).

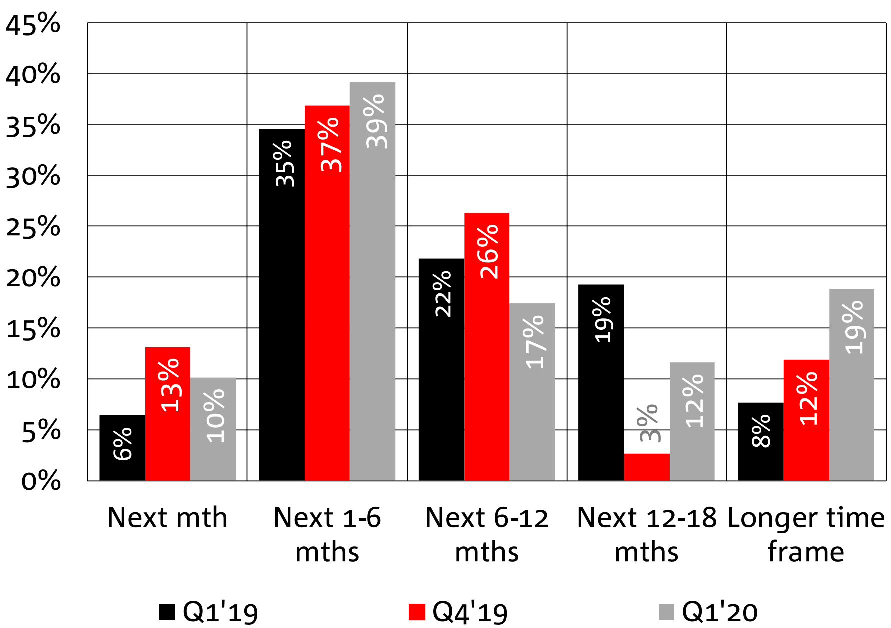
This widening in timeframes may indicate growing uncertainty surrounding the outlook for construction as a result of the coronavirus-related economic downturn.

For property developers planning to commence new works, the number targeting residential development increased to 51% (43% in Q4), but remains below the survey average (53%).

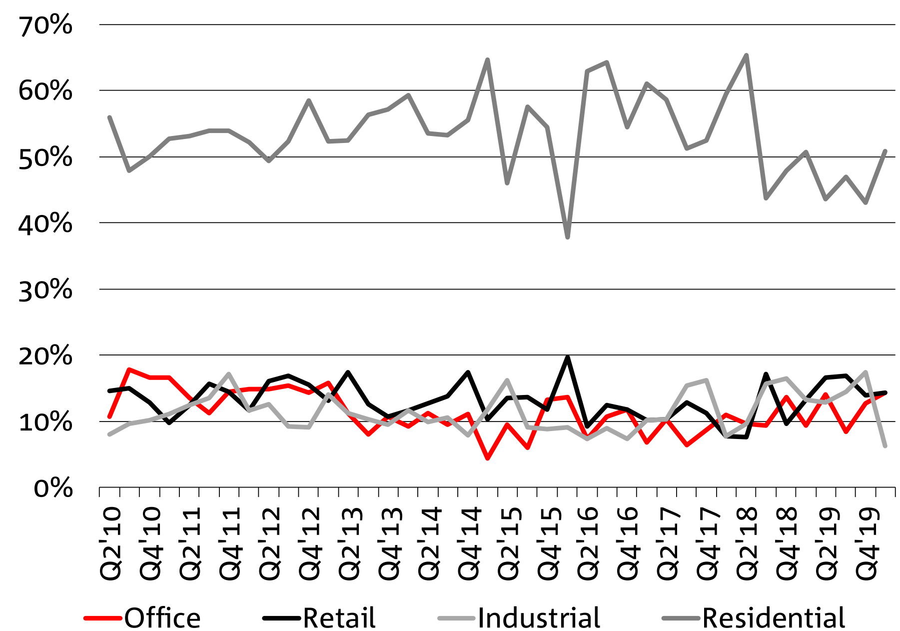
NAB also sees dwelling investment continuing to fall this year, after 9.7% decline over 2019, amid weak approvals and a significant reduction in the pipeline of outstanding work, particularly in the high density segment. There is also a risk disruptions to construction activity due to coronavirus containment measures may see an even sharper fall in activity in the near-term.

In other sectors, below average levels of developers are targeting Industrial (6%) and Retail (14%), but slightly more are looking at Office projects (14%).

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 fell to a below average 56% in in Q1 (62% in Q4 and 67% at the same time last year).

The number who said they were seeking new acquisitions also fell to 17% (from 21% in Q4 and 20% at the same time last year). It also remains well below average (26%).

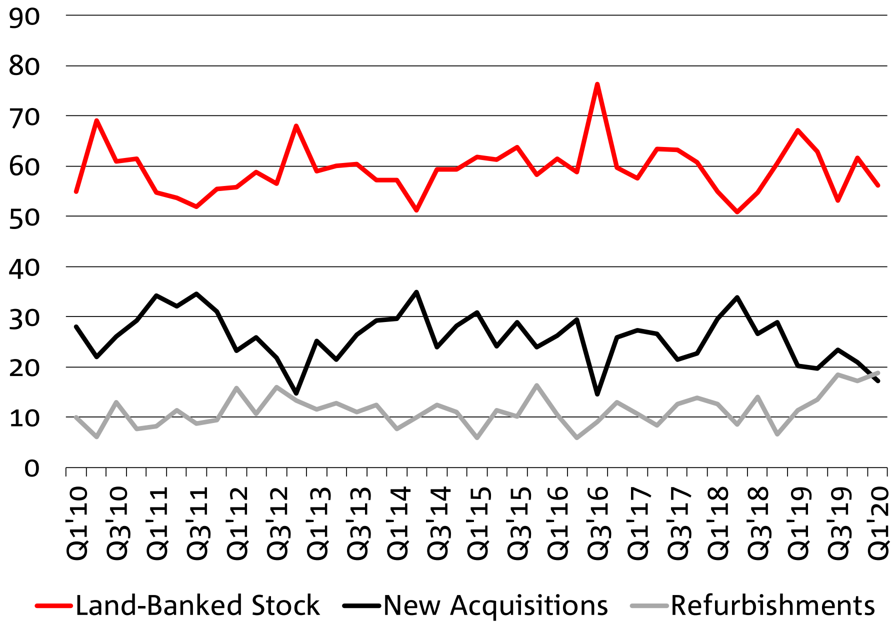
The number of developers looking at refurbishment opportunities however increased slightly to an equal survey high 19% (up from 17% in Q4 and 11% at the same time in 2019. It is now significantly above average (11%).

In line with the falling number of developers planning to commence works in the next 6 months, the number of property developers planning to source more capital to fund their developments in this time period also fell to 22% in Q1 (26% in Q4). Around 60% said they had no intention to source capital in the short-term (56% in Q3).

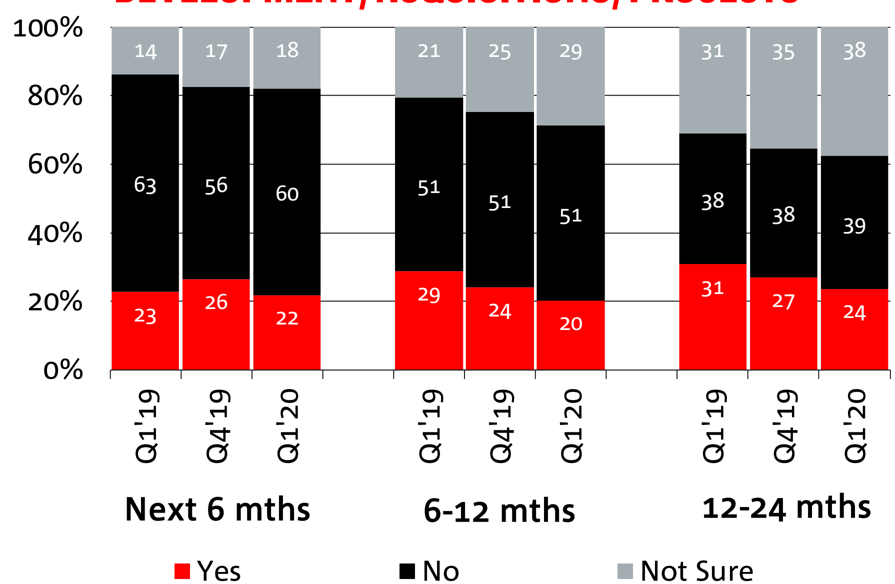
The number planning to source capital in the next 6-12 months also fell to 20% (24% in Q4). Around 51% had no intention to source funds (unchanged) and 29% were unsure (25% in Q4).

Fewer developers also intend to source more capital in the next 12-24 months (24% vs. 27% in Q4), while the number who were unsure climbed to a survey high 38%.

SOURCES OF LAND DEVELOPMENT (%)



INTENT TO SOURCE MORE CAPITAL FOR DEVELOPMENT/ACQUISITIONS/PROJECTS



MARKET OVERVIEW - FUNDING & PRE-COMMITMENTS

Debt funding conditions continued to improve in Q1, with the net number of property professionals who indicated it was harder to obtain borrowing or loans (debt) needed for their business falling to -17% (-19% in Q3) - its strongest result since Q4 2015.

After improving recently, the net number of property professionals who said it was harder to obtain equity funding however worsened slightly to -15% (-12% in Q4). This is likely to have reflected sharp falls in equity markets due to the coronavirus outbreak.

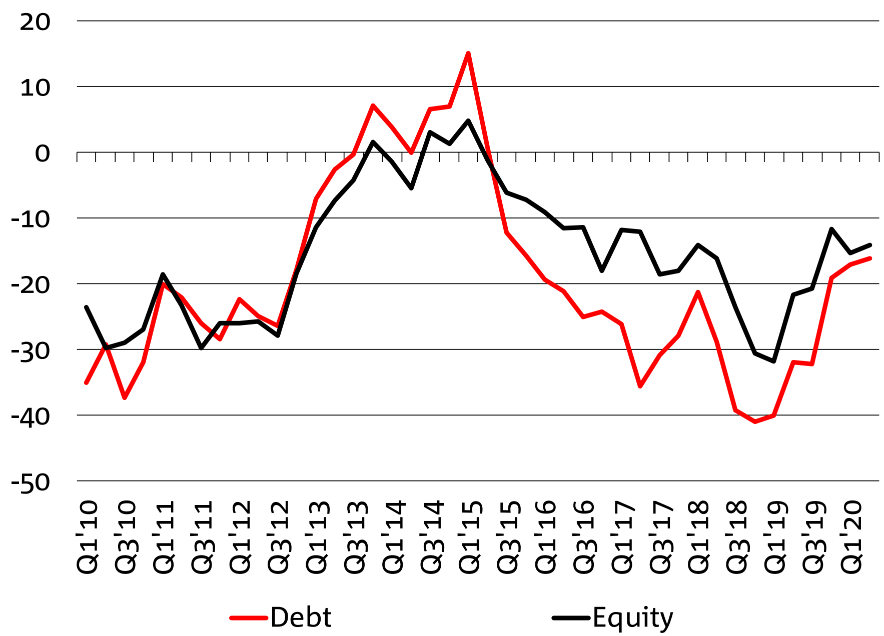
The outlook is for debt and equity funding conditions is basically unchanged from current levels in the next 3-6 months, but are much weaker than predicted in the previous survey. A net -16% said it will be harder to obtain debt (-7% in Q4), and -14 said it will be harder to obtain equity financing (-8% in Q4) in the next 3-6 months.

The average pre-commitment to meet external debt funding requirements for new developments across Australia in Q1 inched up for both residential (62.1% vs. 62.5% in Q4) and commercial (56.6% vs. 55.3% in Q4) property.

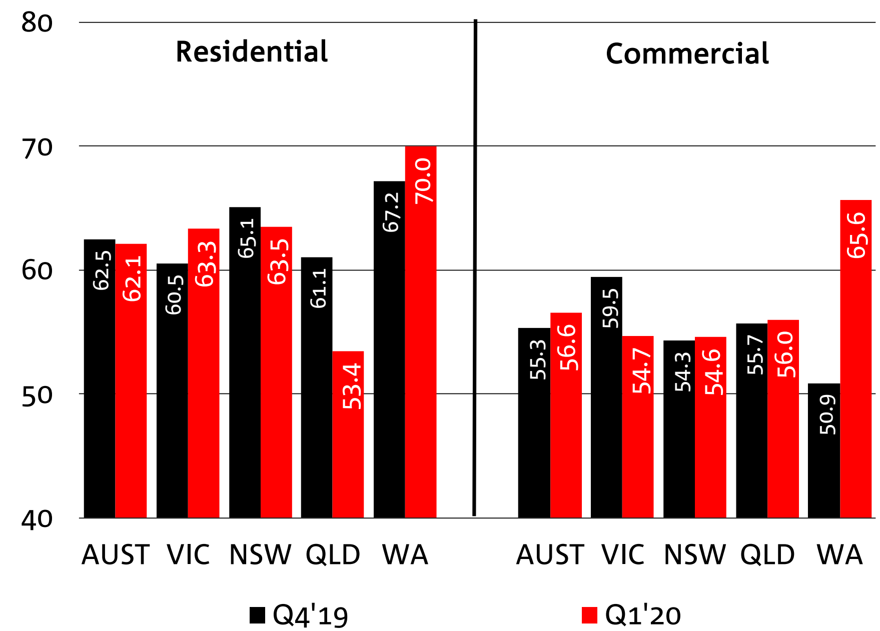
Residential requirements increased in VIC (63.3%) and WA (70.0%), but fell in NSW (63.5%) and QLD (53.4%). Commercial property pre-commitments were lower in VIC (54.7%), broadly unchanged in NSW (54.6%) and QLD (56.0%), but much higher in WA (65.6%).

On balance, more property professionals now expect pre-commitment requirements to worsen than improve going forward - a net -12% for residential property in the next 6 months and -1% in 12 months' time (+3% & +4% respectively in Q4), and -7% in 6 months and +6% in 12 months for commercial (+2% & +4% in Q4).

EASE OF ACQUIRING DEBT/EQUITY (NET)



PRE-COMMITMENT REQUIREMENTS (%)



SURVEY RESPONDENTS EXPECTATIONS (AVG) Q1-2020

OFFICE CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1’20	1.5	0.1	0.3	-0.9	0.2	0.2
Q1’21	1.8	0.8	0.9	0.2	0..8	0.9
Q2’22	2.4	1.4	1.3	1.9	3.4	1.8

OFFICE RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1’20	1.5	1.5	-0.1	-1.3	-0.9	0.5
Q1’21	2.5	1.5	0.8	0.6	-1.6	1.0
Q2’22	3.2	1.2	1.0	2.4	0.0	1.4

RETAIL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1’20	-1.3	-0.2	-2.3	-1.5	-3.5	-1.5
Q1’21	-0.7	-0.5	-2.6	-1.2	-3.2	-1.4
Q2’22	-0.6	0.7	-2.0	0.3	-1.3	-0.6

RETAIL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1’20	-2.8	-0.2	-2.6	-3.7	-6.4	-2.4
Q1’21	-2.2	-1.5	-3.0	-2.7	-4.5	-2.5
Q2’22	-1.8	-0.8	-2.2	-0.6	-3.6	-1.7

INDUSTRIAL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1’20	-0.3	0.2	2.0	-0.6	-3.2	-0.1
Q1’21	0.5	1.1	3.1	-0.7	3.8	0.9
Q2’22	1.9	2.3	3.1	0.1	1.2	1.9

INDUSTRIAL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1’20	0.0	-0.6	1.8	-0.7	-3.4	-0.4
Q1’21	0.8	0.4	2.5	-0.7	-1.6	0.5
Q2’22	1.1	1.0	2.9	0.7	-0.7	1.1

SURVEY RESPONDENTS EXPECTATIONS (AVG) Q1-2020

OFFICE VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'20	4.0	4.9	11.4	14.3	7.3	7.8
Q1'21	4.7	5.7	11.1	13.2	7.6	8.0
Q2'22	4.7	6.6	10.4	12.1	7.9	8.0

RETAIL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'20	6.2	6.5	7.2	7.7	9.0	6.9
Q1'21	7.3	8.5	7.9	7.7	10.2	8.0
Q2'22	7.7	6.6	7.4	7.0	9.8	7.4

INDUSTRIAL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'20	4.4	4.9	8.6	9.0	10.4	6.9
Q1'21	4.4	5.0	8.0	9.2	9.3	6.7
Q2'22	4.4	5.2	8.4	8.1	8.7	6.5

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.

Around 320 property professionals participated in the Q1 2020 Survey.

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