EMBARGOED UNTIL 11.30 AM THURSDAY 29 APRIL 2021

NAB COMMERCIAL PROPERTY SURVEY Q1-2021

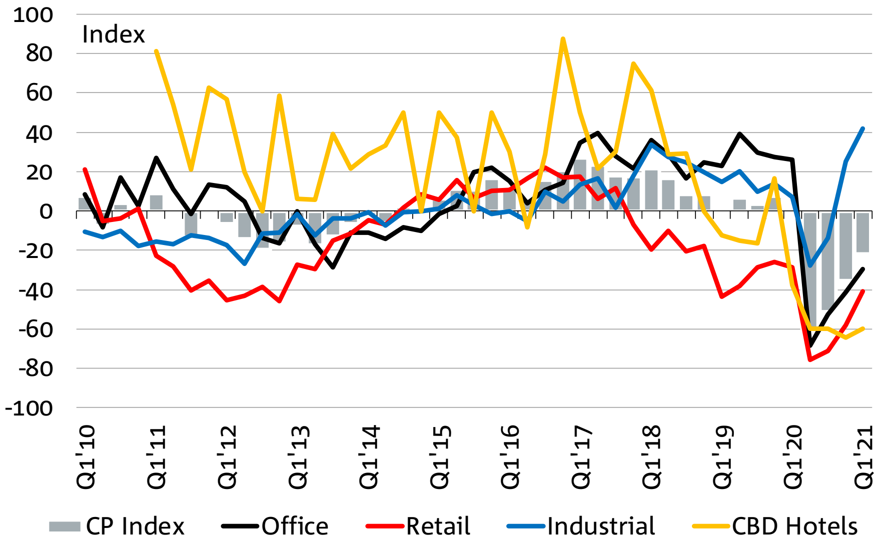
Date April 2021 | NAB Behavioural & Industry Economics

KEY FINDINGS

- Despite a rapidly recovering economy and record high business conditions, the recovery in the local commercial property market continues on a slow burn. In Q1'20, the NAB Commercial Property Index lifted for the third straight quarter, but remained negative (-22 pts) and well below average (-1 pt).
- Sentiment improved in all sectors, but remains disparate with Industrial the only sector to weather the challenges of COVID, with sentiment reaching a survey high +42 pts. Sentiment in Office (-30 pts) and Retail (-41 pts) is still very weak, with CBD Hotels continuing to under-perform (-60 pts) amid ongoing challenges facing the tourism sector. Overall market sentiment improved across the country, but was also negative in all states bar QLD (+8 pts).
- Overall confidence edged higher, with the 12-month measure rising to -6 pts and 2-year measure to +10 pts, suggesting recovery will remain slow with positive outcomes not anticipated until 2022. Confidence is being underpinned by Industrial (which lifted to survey highs), where the pandemic has created boom conditions due to demand for logistics and warehousing. COVID is still weighing on Office (-16 pts in 12 months), but the 2-year measure turned positive (+11 pts) likely reflecting vaccine rollout and more office workers expected to return to work. Confidence in Retail and CBD Hotels is negative.
- Expectations for capital growth are highest in Industrial (3.1% in 12 months and 3.5% in 2 years' time). Office values are expected to fall -0.4% in 12 months and grow 0.3% in 2 years' time (with QLD leading the way). Retail, values are tipped to fall -1.4% and -0.5%, with CBD Hotels weakest (-3.9% & -3.1%).
- Office vacancy rose to a survey high 9.8% nationally in Q1. It rose in all states (except WA) and is expected to remain elevated at 9.8% in 12 months' and 8.8% in 2 years' time, with above average vacancy in all states bar WA. Amid strong demand, Industrial vacancy fell to a survey low 4.6% in Q1, with shortages most apparent in the Eastern seaboard states.
- The outlook for rents is mixed. In the next 1-2 years, rents are expected to fall most in Retail (-3.0% & -2.2%), with negative returns across most of the country. Higher vacancy continues to impact Office rents (-1.7% in 12 months and -0.4% in 2 years' time), with the outlook weakest in VIC and NSW. Industrial rents were however revised up (2.1% & 2.9%) and tipped to grow in all states bar SA/NT, with the Eastern states out-performing.
- On the development front, an above average 86% of developers plan to start new works within the next 18 months (from a low of 68% in mid-2020 during the height of COVID), suggesting the initial disruption to intentions caused by COVID has dissipated.
- The survey also continues to highlight a shift in emphasis among developers from residential to commercial building, with the number of developers targeting residential developments down to just 41% - the weakest result since Q1 2016 (38%), and well below the survey average (53%).

- Funding conditions continue to improve. Overall, the net number who said it was harder to obtain debt out-weighed those who said it was easier, but improved to -16 from -19 in Q4'20 (the best result since Q4'15). Perceptions of equity funding conditions also improved with the net number who said it was harder to obtain equity funding falling to a multi-year low -6. Property professionals expect debt (-10) and equity (-3) funding conditions to improve further in the next 3-6 months, bringing them back to levels last seen in mid-2015.

NAB COMMERCIAL PROPERTY INDEX



	Q4'20	Q1'21	Next 12m	Next 2y
Office	-41	-30	-16	11
Retail	-58	-41	-27	-11
Industrial	25	42	63	66
CBD Hotels	-64	-60	-40	-40
CP Index	-35	-22	-6	10

MARKET OVERVIEW - NAB COMMERCIAL PROPERTY INDEX

Despite the Australian economy recovering at a rapid pace and business conditions reaching a record high in March, recovery in the local commercial property market continued on a slow burn. In the March quarter survey, the NAB Commercial Property Index (a measure of sentiment based on expectations for capital values and rents) lifted for the third straight quarter, but still printed a negative result (-22 pts) to remain well down on the survey average (-1 pt).

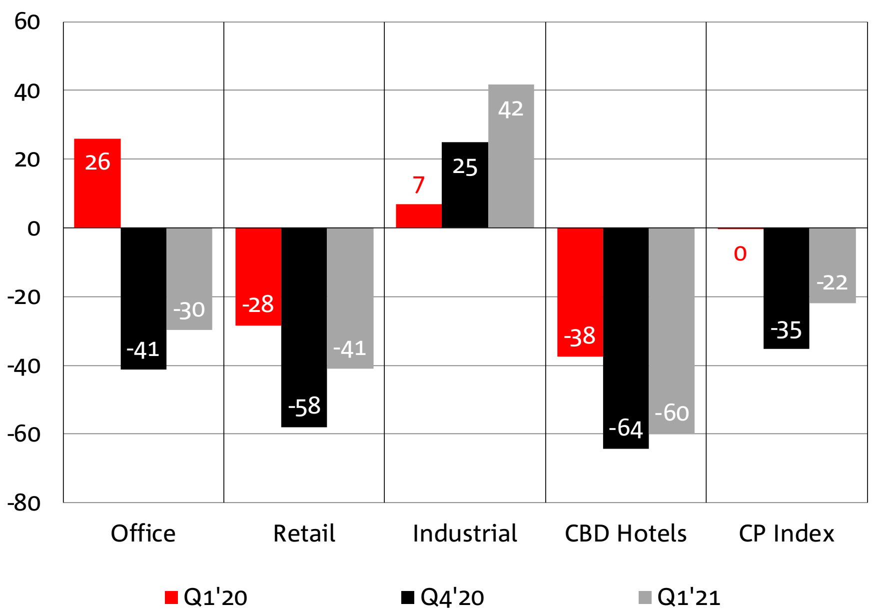
Sentiment improved in all commercial property sectors, but remains very disparate with Industrial the only sector to successfully weather the challenges of COVID. In Q1, Industrial sentiment rose to a survey high +42 pts. Sentiment also lifted in Office (up 11 pts to -30) and Retail (up 17 pts to -41) but is still very weak. Sentiment in the CBD Hotel sector inched up a little, but amid the many challenges facing the tourism sector, continued to under-perform the broader market (up 4 pts to -60).

Market confidence among property professionals edged higher, with the 12 month measure up 17 pts to -6 and the 2 year measure up 8 pts to +10, suggesting the recovery will remain slow with positive outcomes not anticipated until 2022.

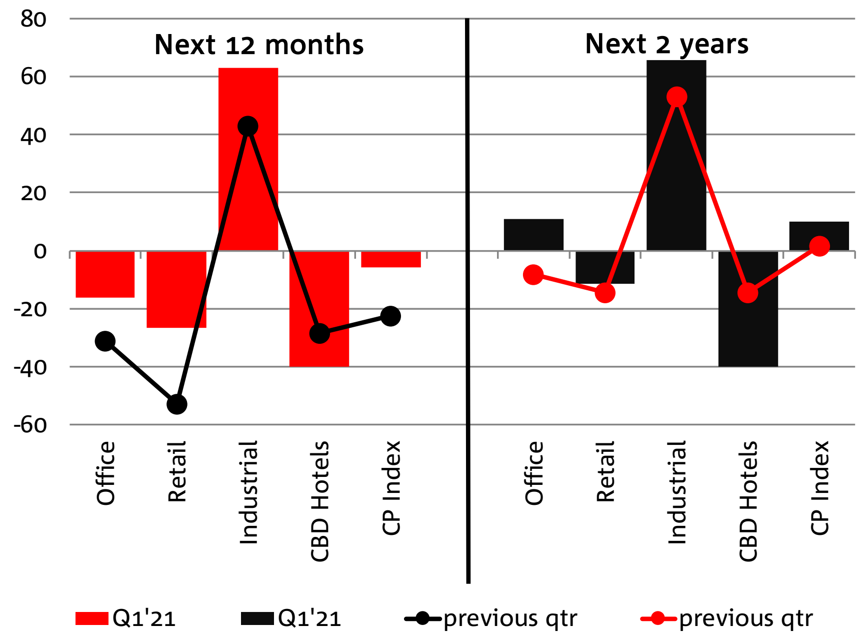
Overall market confidence was again carried by Industrial, where the pandemic has created boom conditions because of very strong demand for logistics and warehousing requirements. In Q1, both the 12 month (up 20 pts to +63) and 2-year (up 13 pts to +66) confidence measures in this sector reached new survey highs.

Confidence measures remain at contractionary levels in Retail (-27 pts in 12-months & -11 pts in 2 years) and CBD Hotels, where it sank further (-40 pts in the next 12-24 months). The impact of COVID is still weighing on short-term Office confidence (-16 pts in 12 months), but the 2 year measure is positive (+11 pts), likely reflecting vaccine rollout and more workers returning to the office.

NAB COMMERCIAL PROPERTY INDEX



NAB CP INDEX - NEXT 1-2 YEARS



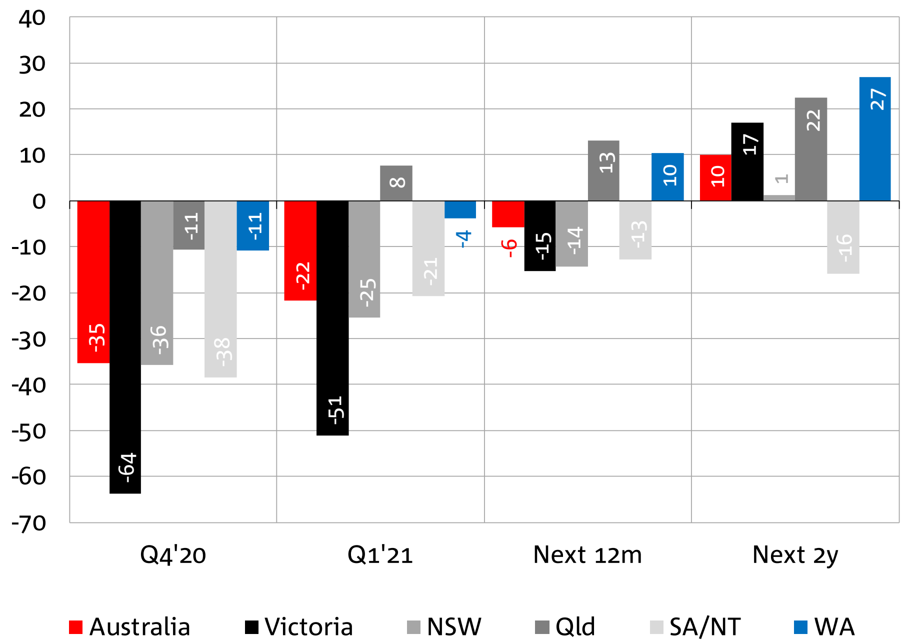
MARKET OVERVIEW - INDEX BY STATE

Overall market sentiment lifted across the country, but remained negative in all states bar QLD (+8pts), with VIC still lagging other states by some margin (-51 pts). Market conditions are expected to be negative in VIC (-14 pts), NSW (-14 pts) and SA/NT (-13 pts) in the next 12 months but positive in QLD (+13 pts) and WA (+10). Longer-term confidence is positive in all states except for SA/NT (-16 pts), with confidence highest in WA (+27 pts).

While the table on the right shows an uplift in confidence in all states in most sectors relative to the previous quarter, Office confidence is still much weaker in VIC and NSW, and now highest in QLD. Retail sentiment has improved across much of the country, but is very weak in SA/NT and VIC.

Confidence levels in Industrial is positive, has lifted and is very strong in all states (except SA/NT), particularly QLD.

COMMERCIAL PROPERTY INDEX - STATE



OFFICE PROPERTY MAKET INDEX: STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'21	-81↑	-33↑	9↑	-22↔	-7↓	**-30↑**
Q1'22	-53↑	-33↔	22↑	-6↓	-7↓	**-16↑**
Q1'23	13↑	-6↑	31↑	11↓	-7↓	**11↑**

RETAIL PROPERTY MARKET INDEX: STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'21	-53↑	-42↑	-26↑	8↑	-60↑	**-41↑**
Q1'22	-45↑	-15↑	-16↑	0↑	-40↑	**-27↑**
Q1'23	-29↑	0↑	3↑	25↓	-50↓	**-11↑**

INDUSTRIAL PROPERTY MARKET INDEX: STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'21	36↑	53↑	59↓	13↑	0↑	**42↑**
Q1'22	46↑	68↑	95↑	63↑	10↓	**63↑**
Q1'23	54↑	68↑	95↑	75↑	10↓	**66↑**

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

MARKET OVERVIEW - CAPITAL & VACANCY EXPECTATIONS

Property professionals see capital values falling in all sectors in the next 1-2 years, except Industrial where the average expectation lifted to 3.1% in 12 months and 3.5% in 2 years' time (1.9% & 3.0% in the previous quarter). Growth is expected in all states, with QLD leading the way (5.4% & 5.7%).

Office is expected to record a small fall of -0.4% in 12 months but grow 0.3% in 2 years' time (-1.5% & -0.2% previously). Expectations are highest in QLD (1.9% in both years), and weakest in VIC in 12 months (-2.2%), and NSW (-0.6%) and SA/NT (-0.7%) in 2 years' time.

In Retail, values are tipped to fall -1.4% and -0.5% (-2.5% & -0.7% in Q4), with larger falls in VIC (-2.6%) and NSW (-2.1%) next year.

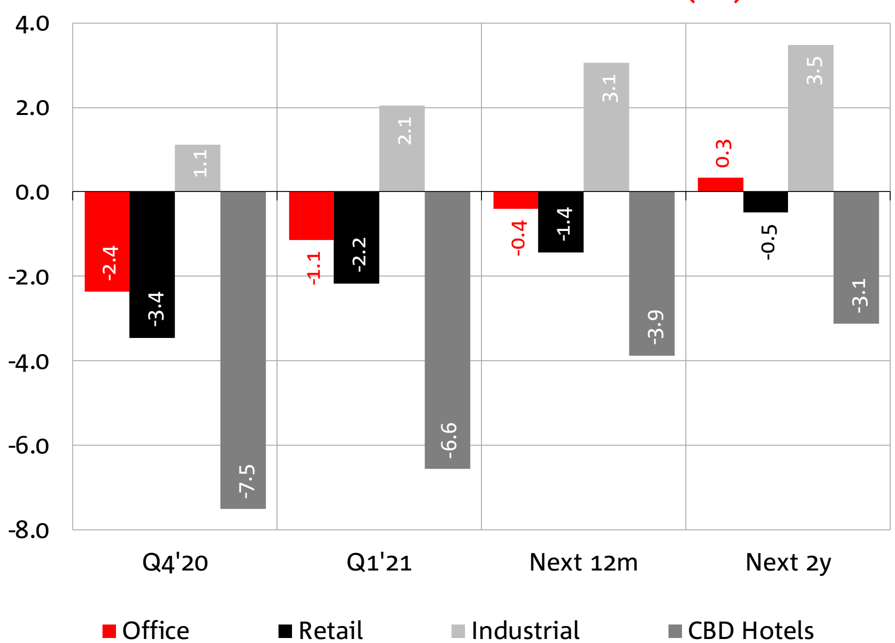
Expectations for CBD Hotels are weakest overall (-3.9% & -3.1%) and lower than expected in Q4'20 (-1.8% & -0.8%) - **see page 10**.

National Office vacancy remains under pressure, and increased to a survey high 9.8% in Q1. All states reported higher vacancy except WA. The national vacancy rate is expected to remain high at 9.8% in the next 12 months' and 8.8% in 2 years' time with all states following a broadly similar path. Vacancy is expected to remain above survey average levels in all states bar WA.

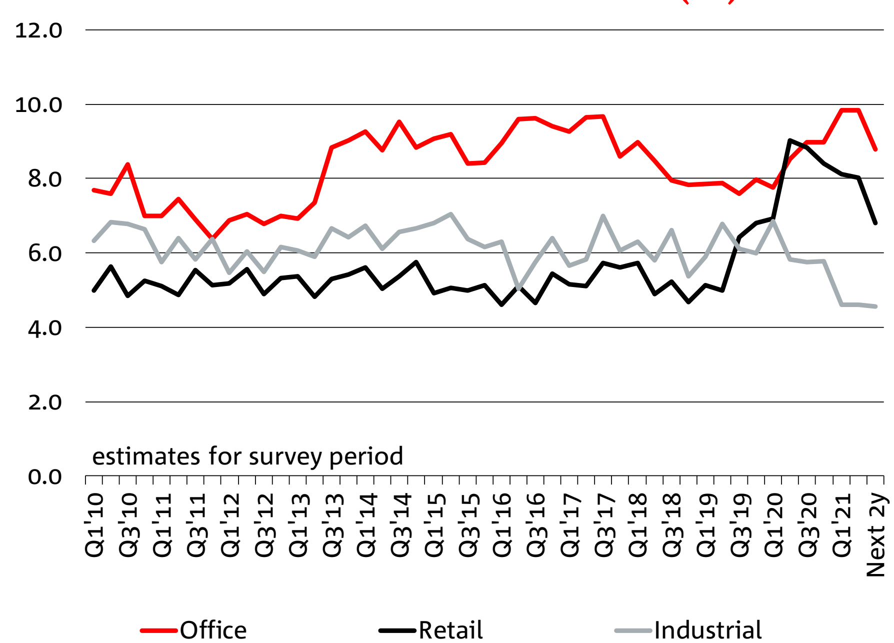
Retail vacancy improved a little to 8.1% in Q1 (8.4% in Q4), with reduced vacancy in all states except NSW and WA. Overall Retail vacancy is expected to fall over the next 1-2 years (8.0% & 6.8%), with improved or stable outcomes in all states.

Amid strong demand, Industrial vacancy fell to a survey low 4.6% in Q1, with shortages most apparent in the Eastern seaboard states. Expectations are unchanged at 4.6% in the next 1-2 years, and lowest in NSW (3.4% & 3.5%) and VIC (3.7% & 3.8%) - **see page 11**.

CAPITAL VALUE EXPECTATIONS (%)



VACANCY RATE EXPECTATIONS (%)



MARKET OVERVIEW - RENTS & SUPPLY

The rental outlook in commercial markets remains mixed.

In the next 1-2 years, rents are expected to fall most in Retail (-3.0% & -2.2%), with returns negative across the country (except in WA in 2 years' time at 0.3%). The outlook for rents remains weakest in SA/NT (-3.5% & -5.0%) and VIC (-4.8% & -3.2%).

On average, Office property rents are expected to fall a smaller -1.7% in 12 months and -0.4% in 2 years' time (-2.7% & -1.4% forecast in Q4'20). Expectations for rents are weakest in VIC (-4.0% & -0.9%) and in NSW (-2.9% & -1.8%), with QLD expected to lead the way (1.1% & 1.7%).

The outlook for Industrial rents remains positive and was revised up to 2.1% & 2.9% (1.4% & 2.1% in Q4). Rents are expected to grow in all states (bar SA/NT), with Eastern states out-performing- **see page 10**.

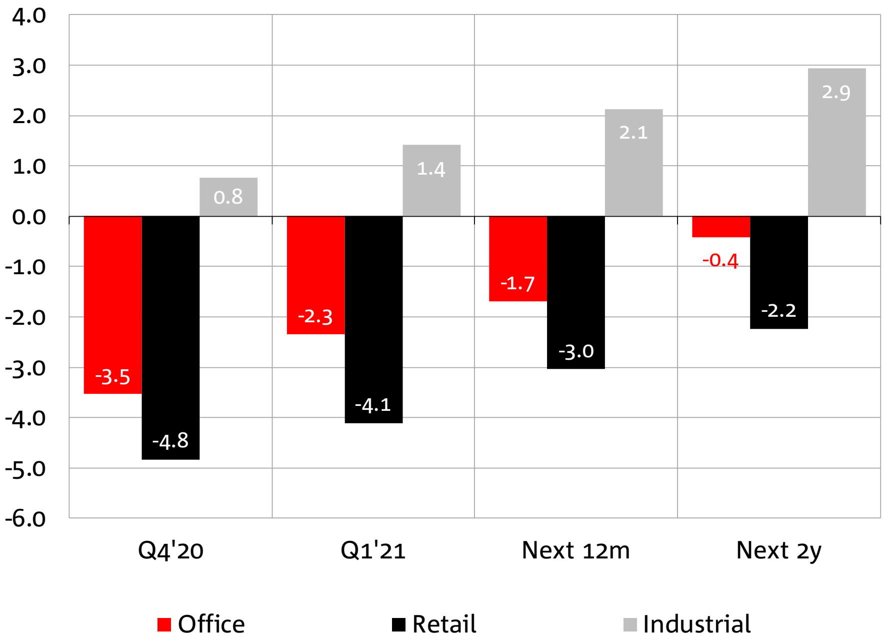
Amid still low occupancy (50%) and persistent uncertainties around international travel, large supply over-hangs in the CBD Hotels sector are expected to persist over the next 1-3 years.

The national Office market is expected to remain "somewhat" over-supplied in the next 1-3 years, but "quite" over-supplied in WA and QLD and "somewhat" over-supplied in in NSW and VIC.

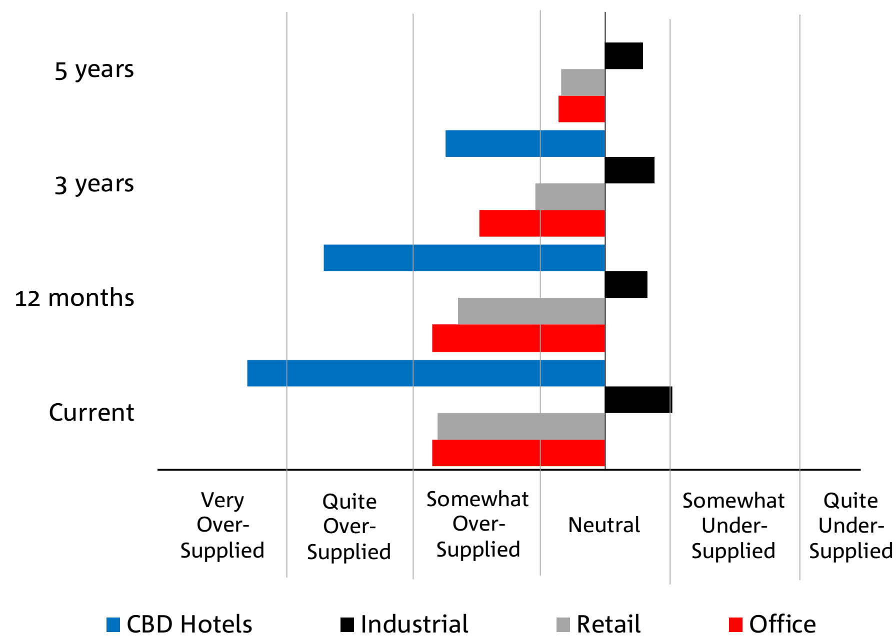
All state Retail markets are currently over-supplied, but particularly so in WA and QLD. Property professionals expect the market to remain over-supplied in the next 1-3 years in all states, but will remain much more prevalent in WA and QLD were markets are tipped to be "quite" over-supplied.

National supply conditions for Industrial property are currently "neutral" and expected to remain so in the next 1-5 years, except in NSW where the market is tipped to be "somewhat" under-supplied.

GROSS RENTAL EXPECTATIONS (%)



SUPPLY CONDITIONS



MARKET OVERVIEW - DEVELOPMENT INTENTIONS

The number of property developers expecting to start new works in the next month increased to 14% (12% in Q4), but those planning to start in the next 1-6 months fell sharply to 27% (42% in Q4) - the lowest number since Q1 2016.

Overall, a below survey average 41% said they plan to start new works in the short-term (next 6 months), down from 54% in the previous quarter.

Around 28% plan to start in the next 6-12 months (17% in Q4) and 17% the next 12-18 months (20% in Q3).

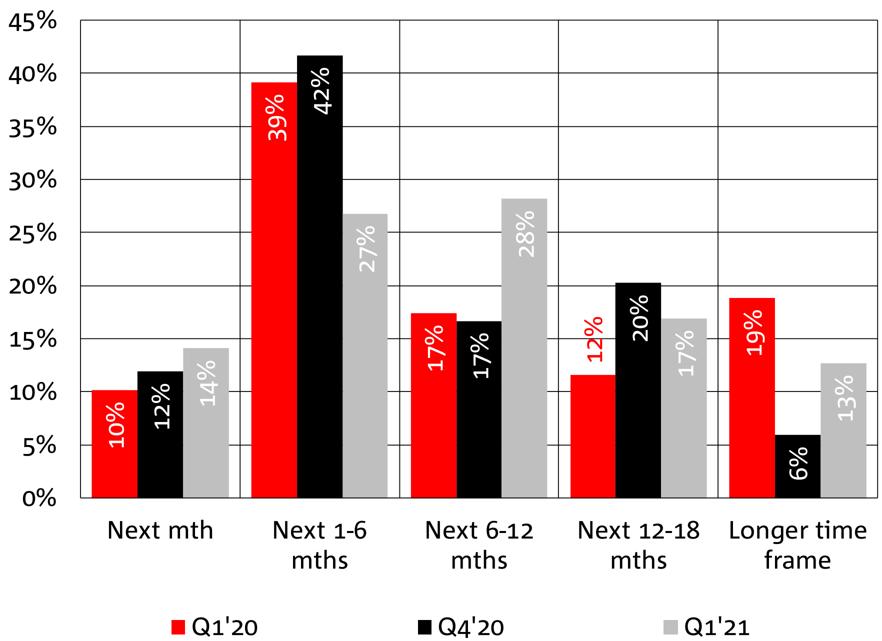
In total, an above average 86% of developers still plan to start works within the next 18 months (up from a low of 68% in mid-2020 during the height of COVID), suggesting the disruption to the intentions caused by the pandemic has dissipated.

The survey again highlighted a large shift in emphasis among property developers planning to start new works from residential to commercial building.

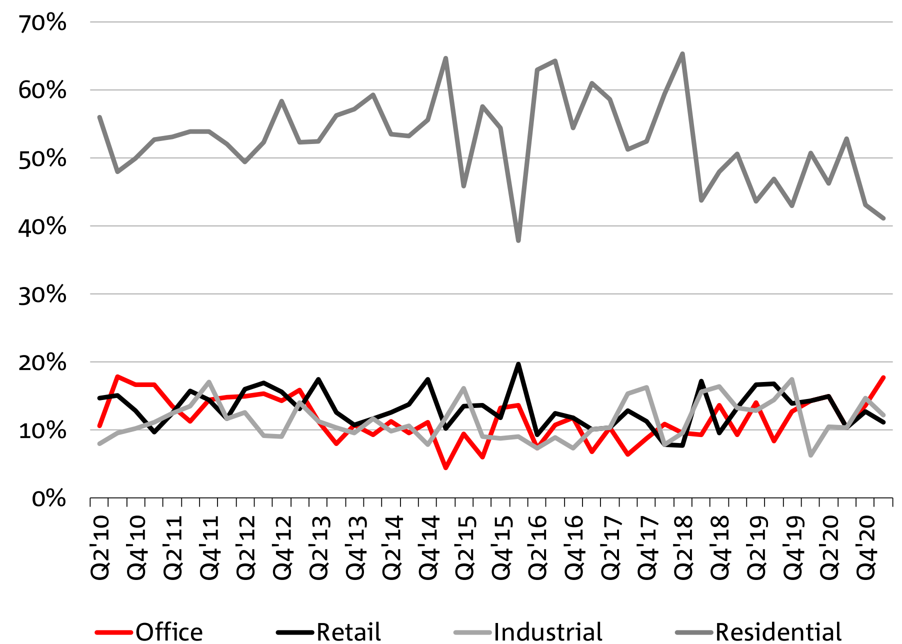
In Q1, the number of property developers who said they were targeting residential developments fell to just 41%. This was down from 43% in the Q3. This was the lowest result since Q1 2016 (38%), and well below the survey average (53%).

In contrast, the number of developers who were planning to start new works in the Office sector climbed to an equal survey high 18% (up from 14% in the previous quarter and above the survey average 12%). The number of developers targeting Retail property however fell slightly to 11% (13% in Q4'20) and in Industrial property to 12% (15% in Q4'20).

COMMENCEMENT INTENTIONS - TIME



COMMENCEMENT INTENTIONS - SECTOR



MARKET OVERVIEW - LAND SOURCES & CAPITAL INTENTIONS

The number of surveyed property developers looking to use land-banked stock for their new projects rose for the second consecutive quarter to an above average 60% in Q1. This was up from 58% in Q4’20 and 56% at the same time last year.

The number seeking new acquisitions fell for the second straight quarter to 24% (28% in Q4’20) but was still well above the 17% reported in Q1’20. That said, the number of property developers seeking new acquisition in Q1 fell below the survey average (26%) after tracking higher in the previous two surveys.

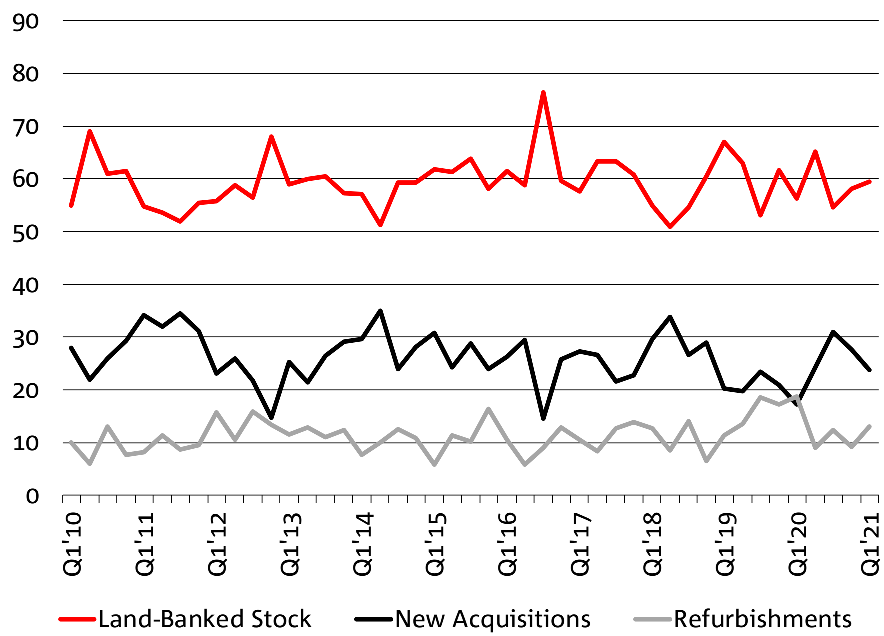
The number of developer looking at refurbishment opportunities climbed to 13%, up from 9% in Q4’20, but was down from 19% at the same time last year.

Despite the sharp fall in the number of property developers planning to commence new works over the next 6 months, the number who said they were planning to source more capital to fund their developments increased to 28% (25% in the previous quarter). Around 58% had no intention to source capital in the short-term (unchanged from 59% in Q4).

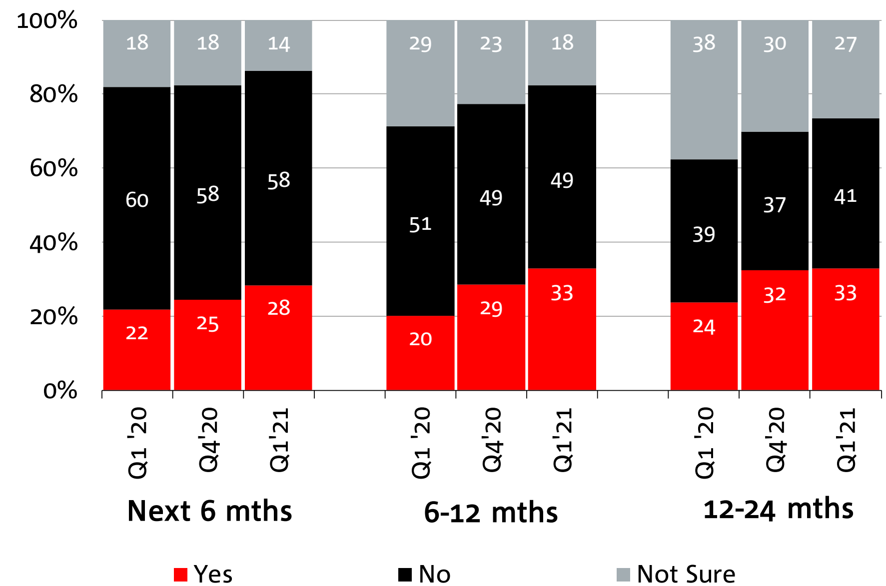
The number of developers planning to source capital in the next 6-12 months increased to 33% (39% in Q4’20), 49% had no intention to source funds (unchanged), and 18% were unsure (23% in Q3).

The number intending to source more capital in the next 12-24 months was broadly unchanged at 33% (32% in Q4’20).

SOURCES OF LAND DEVELOPMENT (%)



INTENT TO SOURCE MORE CAPITAL FOR DEVELOPMENT/ACQUISITIONS/PROJECTS



MARKET OVERVIEW - FUNDING & PRE-COMMITMENTS

Surveyed property professionals pointed to a further improvement in in debt and equity funding conditions in Q1. Although the overall number who said it was harder to obtain borrowing or loans (debt) continued to out-weigh those who said it was easier, the net overall number improved to -16 from -19 in Q4’20 - the best result since Q4’15.

Perceptions of equity funding conditions also improved with the net number who said it was harder to obtain equity funding falling to a multi-year low -6 (from -8 in Q4’20 and -15 in Q1’20).

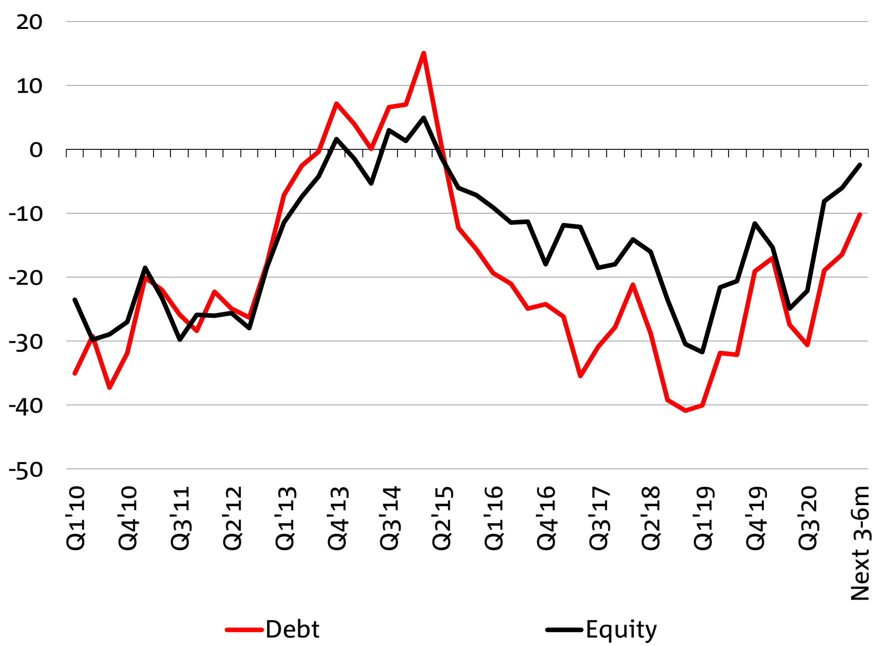
Property professionals expect debt (-10) and equity (-3) funding conditions to continue improving in the next 3-6 months, bringing them back to levels last seen in mid-2015.

The average pre-commitment to meet external debt funding requirements for new developments in Australia fell for residential (62.3%) and commercial (57.2%) property in Q1.

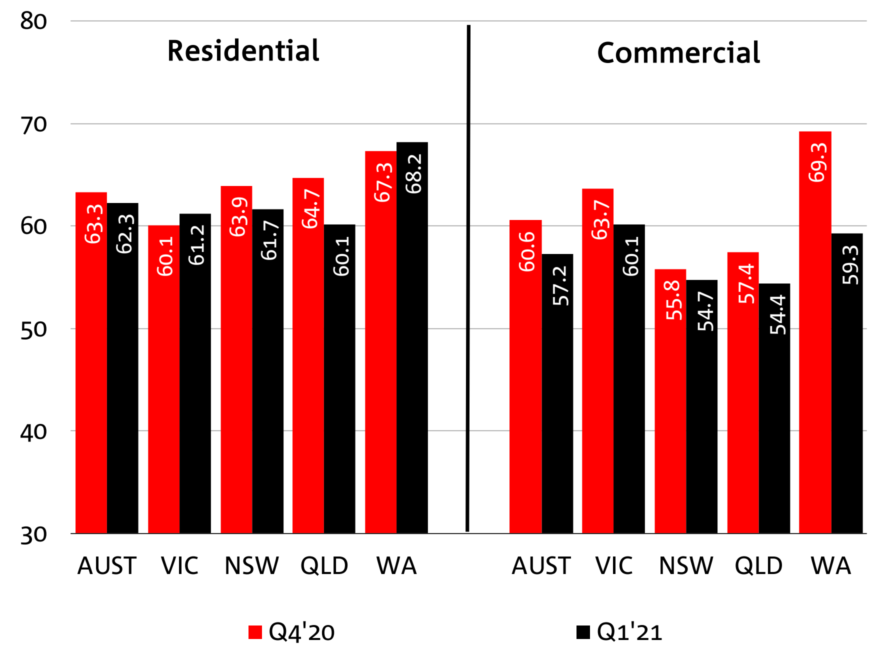
Residential requirements rose in VIC (highest overall at 61.2%) and WA (68.2%), but fell sharply and was lowest in QLD (60.1%), and in NSW (61.7%). In commercial markets, requirements fell in all states, particularly WA (59.3% vs. 69.3% in the previous quarter). They were lowest in QLD (54.4%) and highest in VIC (60.1%).

Looking ahead, the net number who expect requirements to improve outweighed those who expect it a deteriorate in both residential (+20% in next 6 months & +17% in next 12 months) and commercial (+16% & +19% respectively) property markets.

EASE OF ACQUIRING DEBT/EQUITY (NET)



PRE-COMMITMENT REQUIREMENTS (%)



SURVEY RESPONDENTS EXPECTATIONS (AVG) Q1-2021

OFFICE CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'21	-3.1	-1.8	1.4	-0.6	-1.1	-1.1
Q1'22	-2.2	-1.4	1.9	-0.4	1.0	-0.4
Q1'23	0.2	-0.6	1.9	0.7	-0.7	0.3

OFFICE RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'21	-4.8	-3.3	0.6	-1.3	-2.5	-2.3
Q1'22	-4.0	-2.9	1.1	-0.4	-1.6	-1.7
Q1'23	-0.9	-1.8	1.7	0.5	-1.3	-0.4

RETAIL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'21	-2.5	-3.2	-1.0	0.9	-2.5	-1.4
Q1'22	-2.1	-2.6	-0.2	1.0	-1.5	-1.4
Q1'23	-1.2	-0.8	0.6	0.7	-0.7	-0.5

RETAIL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'21	-5.9	-4.5	-2.0	-1.5	-5.0	-4.1
Q1'22	-4.8	-2.9	-1.6	-0.6	-3.5	-3.0
Q1'23	-3.2	-1.9	-0.8	0.3	-5.0	-2.2

INDUSTRIAL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'21	1.3	2.1	4.1	0.4	0.8	2.1
Q1'22	2.8	2.5	5.4	1.8	3.8	3.1
Q1'23	4.0	2.6	5.7	2.3	0.9	3.5

INDUSTRIAL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'21	1.3	2.1	1.9	0.0	-0.9	1.4
Q1'22	2.0	2.3	3.2	1.4	-0.5	2.1
Q1'23	3.7	2.6	3.8	2.9	0.0	2.9

SURVEY RESPONDENTS EXPECTATIONS (AVG) Q1-2021

OFFICE VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'21	8.9	7.5	12.4	11.0	12.4	9.8
Q1'22	9.1	7.5	12.4	10.6	12.4	9.8
Q1'23	7.5	6.9	11.4	9.3	11.3	8.8

RET9.8AIL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'21	6.8	10.1	6.9	10.3	10.6	8.1
Q1'22	6.9	9.8	7.0	9.3	10.6	8.0
Q1'23	5.3	8.0	6.1	8.3	9.8	6.8

INDUSTRIAL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'21	4.1	3.0	5.7	7.5	15.0	4.6
Q1'22	3.7	3.4	5.2	7.0	15.0	4.6
Q1'23	3.8	3.5	4.8	6.0	15.0	4.6

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 330 property professionals participated in the Q1 2021 Survey.

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