EMBARGOED UNTIL 11.30 AM THURSDAY 18 AUGUST 2021

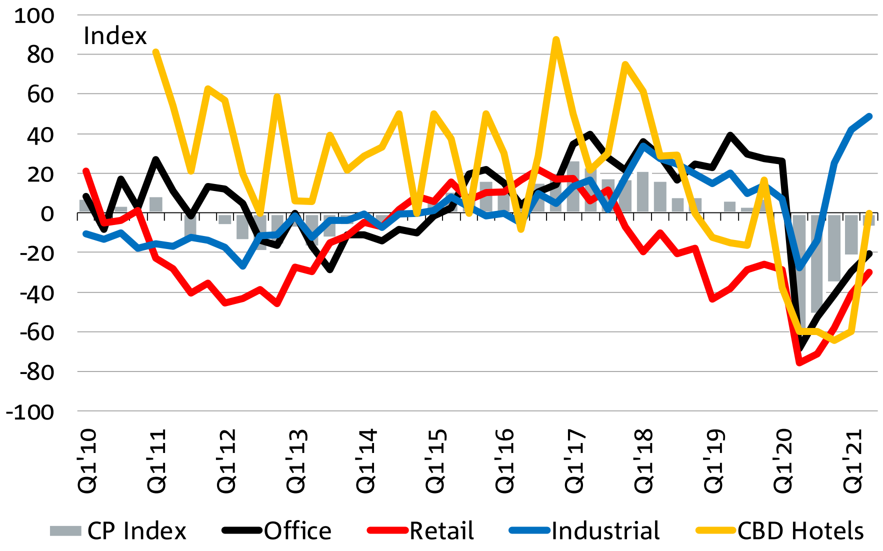
NAB COMMERCIAL PROPERTY SURVEY Q2-2021

Date August 2021 | NAB Behavioural & Industry Economics

KEY FINDINGS

- Commercial property market sentiment is still negative but continuing the slow recovery from the COVID-induced downturn in mid-2020. The NAB Commercial Property Index lifted for the fourth straight quarter in Q2, but is still negative (-7 pts), after falling to -62 pts one year ago. It should be noted the survey pre-dates lockdown in NSW (but captures VIC) which saw business conditions and confidence take a hit in NAB's June Business Survey.
- Sentiment improved in all sectors but is still disparate with Industrial the only sector to weather and thrive through COVID. In Q2, Industrial sentiment rose to a survey high +48. It also lifted in Office (-20) and Retail (-30) - though still negative, and bounced for CBD Hotels (0) despite ongoing tourism challenges.
- Confidence lifted with the 12-month measure positive for the first time since Q1 20 at +4 pts and the 2-year read up to +22. Confidence is still being carried by Industrial - particularly in Eastern seaboard states . It remains negative in Retail (-15 pts & -1 pts) and flat in CBD Hotels. COVID still also weighing on short-term Office confidence (-9 pts), but the 2-year measure was up 4 pts to +15.
- Sentiment lifted in all states in Q2 bar WA where it fell to -30 pts (and lower in all sectors), to replace VIC (-17) as the weakest state. QLD (+9) and SA (+21) the only positive states. Short-term confidence negative in WA (-17 pts), VIC (-9 pts) and NSW (-1 pts) in next 12 months and positive in QLD (+20 pts) and SA/NT (+24 pts). Longer-term confidence positive in all states, and highest in SA/NT (+38 pts) and QLD (+26 pts) and lowest in NSW (+10 pts) and WA (+11 pts).
- On average, the survey sees Industrial values rising (2.3% in 12 months & 3.0% in 2 years), and in all states with NSW (3.3% & 3.9%) and QLD (3.5% & 3.3%) highest. Office values to fall -0.3% in 12 months and grow 0.8% in 2 years' time, but negative in VIC (-2.0% & -0.1%). In Retail, values set to fall -0.2% in 12 months and grow 0.4% in 2 years, with CBD Hotels at -0.6% & 0.5%.
- National Office vacancy lifted to a survey high 10.9% in Q2. All states saw higher vacancy bar SA/NT, with rates in VIC now having more than doubled to 10.9% from 4.0% in Q1 2020. National vacancy is expected ease to 10.6% in the next 12 months' and 9.7% in 2 years' time with most states improving - but remaining higher than survey average levels in all states.
- Rents in the next 1-2 years expected to fall most in Retail (-2.2% & -1.0%) and down in all states bar QLD. Office rents now expected to fall a smaller -1.3% in 12 months and -0.1% in 2 years, with the outlook weakest in VIC (-4.2% & -1.9%) and NSW (-1.5% & -0.7%). Outlook for Industrial is positive at 2.1% & 2.4%, with rents expected to grow in all states, led by QLD (4.1% & 3.6%).
- The number of developers expecting to start new works in the next 6 months up sharply to 57% (highest since Q3 2015), suggesting construction sector should stay robust in near-term. Large pipeline of work already put in place means dwelling investment should also continue to grow over much of 2021, with Q2 survey also indicating 51% of developers planning to start new projects are targeting residential developments (41% in Q1).
- Funding conditions improved again, with survey respondents indicating debt and equity funding conditions in Q2 were at their easiest since mid-2015. Property professionals also see debt conditions improving further in the next 3-6 months, with the number who think access will be easier for equity funding outweighing those who think it will be harder (+2%) - the first time expectations have been positive since late-2015.

NAB COMMERCIAL PROPERTY INDEX



	Q1'21	Q2'21	Next 12m	Next 2y
Office	-30	-20	-9	15
Retail	-41	-30	-15	-1
Industrial	42	48	60	63
CBD Hotels	-60	0	0	0
CP Index	-22	-7	4	18

MARKET OVERVIEW - NAB COMMERCIAL PROPERTY INDEX

Commercial property market sentiment in Australia is still negative, but is continuing its slow recovery from the sharp COVID-induced downturn in mid-2020. In Q2, the NAB Commercial Property Index (a measure of sentiment based on expectations for capital values and rents) lifted for the fourth straight quarter, but still printed a negative result (-7 pts), after having fallen to a survey low -62 pts one year ago. The Index however is still tracking below the survey average (-1 pt).

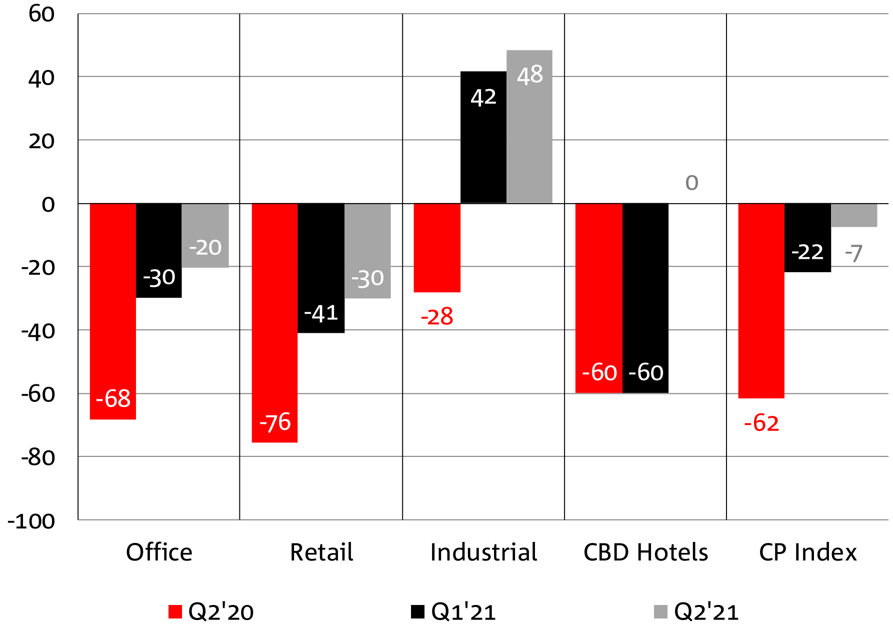
Sentiment improved in all commercial property sectors, but remains very disparate with Industrial the only sector to successfully weather and thrive despite the challenges of COVID. In Q2, Industrial sentiment rose to a survey high (up 6 pts to +48). Sentiment also lifted in Office (up 10 pts to -20) and Retail (up 11 pts to -30). Sentiment in the CBD Hotel sector also bounced sharply, despite ongoing challenges facing this sector, with the CBD Hotels index climbing to a neutral 0 pts (-60 pts in Q1).

Confidence also lifted, with the 12-month measure in positive territory for the first time since Q1 2020 at +4 pts (-6 pts in Q1) and the 2-year measure up 6 pts to +22. It should be noted the survey pre-dates lockdown in NSW (but captures VIC) which saw business confidence take a hit in NAB's June Business Survey.

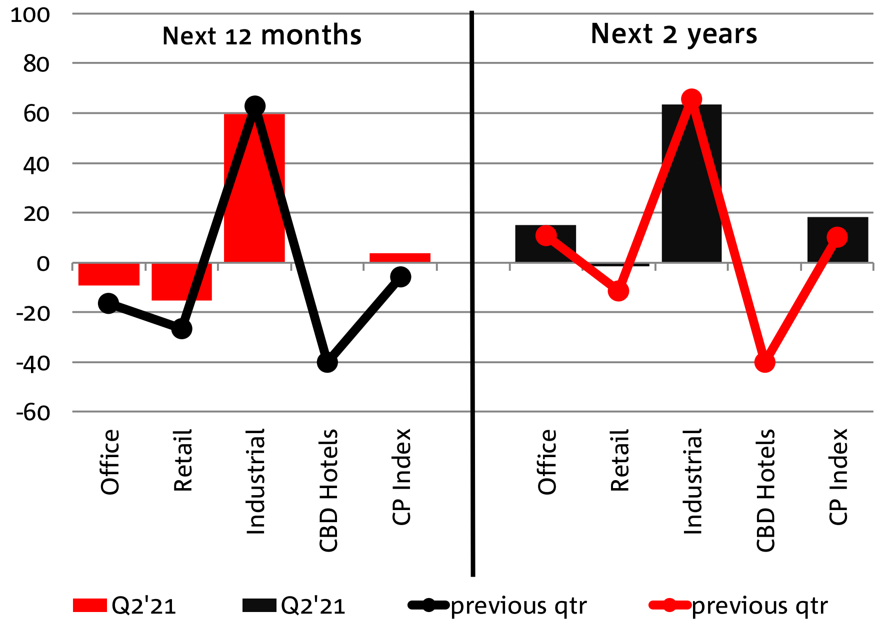
Overall confidence is still being carried by Industrial, where continued strong demand for logistics and warehousing is supporting demand and value growth - particularly in the Eastern seaboard states. In Q2, both the 12 month (+60) and 2-year (+63) confidence measures in this sector remained at near survey highs.

Confidence remained at contractionary levels in Retail (-15 pts in 12-months & -1 pts in 2 years) and flat in CBD Hotels after sinking in the previous quarter. The impact of COVID is still weighing on short-term Office confidence (-9 pts in 12 months), but the 2-year measure was a little more positive (up 4 pts to +15).

NAB COMMERCIAL PROPERTY INDEX



NAB CP INDEX: NEXT 1-2 YEARS

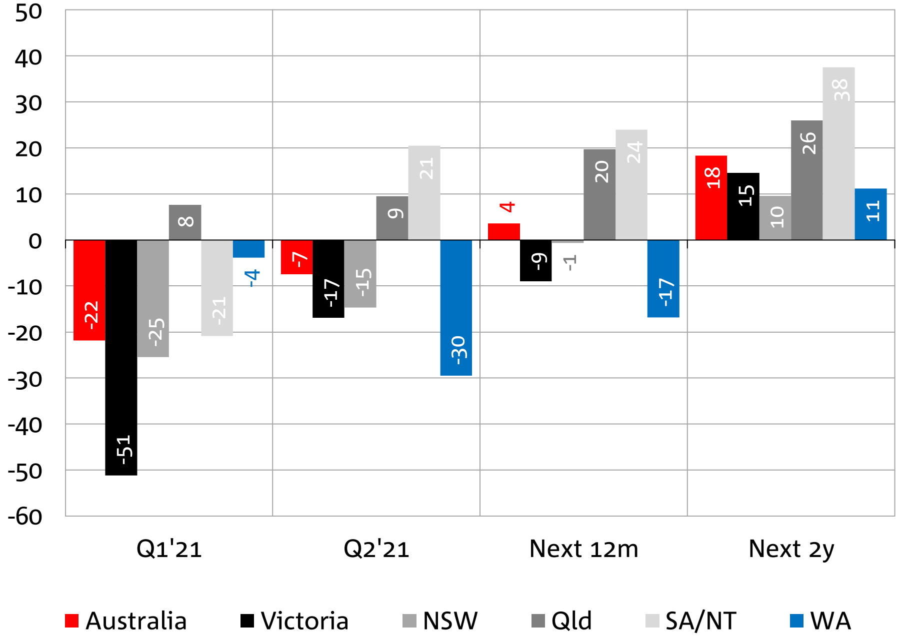


MARKET OVERVIEW - INDEX BY STATE

Overall market sentiment in Q2 lifted in all states bar WA where it fell by 26 pts to -30 (with sentiment lower in all sectors), to replace VIC (up 34 pts to -17) as the weakest state. QLD (+9) and SA (+21) were the only positive states. Market conditions are expected to stay negative in WA (-17 pts), VIC (-9 pts) and NSW (-1 pts) in the next 12 months but positive in QLD (+20 pts) and SA/NT (+24 pts). Longer-term confidence is positive in all states, and highest in SA/NT (+38 pts) and QLD (+26 pts) and lowest in NSW (+10 pts) and WA(+11 pts).

Confidence levels in Office is much weaker (and negative) in VIC over the next 1-2 years, with all other states reporting positive outcomes in 2 years' time. Retail confidence is weakest in all states, with QLD the most confident. Confidence levels in the Industrial sector remain very strong across the country, led by the Eastern seaboard states - although it moderated a little in NSW and QLD.

COMMERCIAL PROPERTY INDEX - STATE



OFFICE PROPERTY MAKET INDEX: STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'21	-72↑	-15↑	0↓	-50↓	44↑	-20↑
Q1'22	-63↓	-2↑	12↓	-44↓	38↑	-9↑
Q1'23	-16↓	17↑	24↓	13↑	44↑	15↑

RETAIL PROPERTY MARKET INDEX: STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'21	-34↑	-31↑	-12↑	-40↓	-50↑	-30↑
Q1'22	-20↑	-17↓	0↑	-20↓	-30↑	-15↑
Q1'23	-4↑	-7↓	12↑	-10↓	0↑	-1↑

INDUSTRIAL PROPERTY MARKET INDEX: STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'21	60↑	54↑	65↑	13↔	40↑	48↑
Q1'22	60↑	68↔	75↓	33↓	40↑	60↓
Q1'23	60↑	74↓	65↓	46↓	50↑	63↓

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

MARKET OVERVIEW - CAPITAL & VACANCY EXPECTATIONS

On average, property professionals see capital values rising for Industrial property in the next 12 months - though pared back to 2.3% (3.1% in Q1), led by SA/NT (3.8%), QLD (3.5%) and NSW (3.3%). Values are expected to grow 3.0% in 2 years' time (3.5% in Q1), and in all states with NSW (3.9%) and QLD (3.3%) leading the way.

Office values are expected to fall -0.3% in 12 months and grow 0.8% in 2 years' time (-0.4% & 0.3% in Q1). Expectations are highest in SA/NT (1.8%) and weakest in WA (2.3%) in 12 months, and highest in SA/NT (2.1%) and weakest in VIC (-0.1%) in 2 years' time.

In Retail, values are tipped to fall -0.2% in 12 months but grow 0.4% in 2 years' (-1.4% & -0.5% in Q1). Retail expectations are highest in VIC and QLD in 12 months (flat), and best in SA/NT (1.6%) in 2 years.

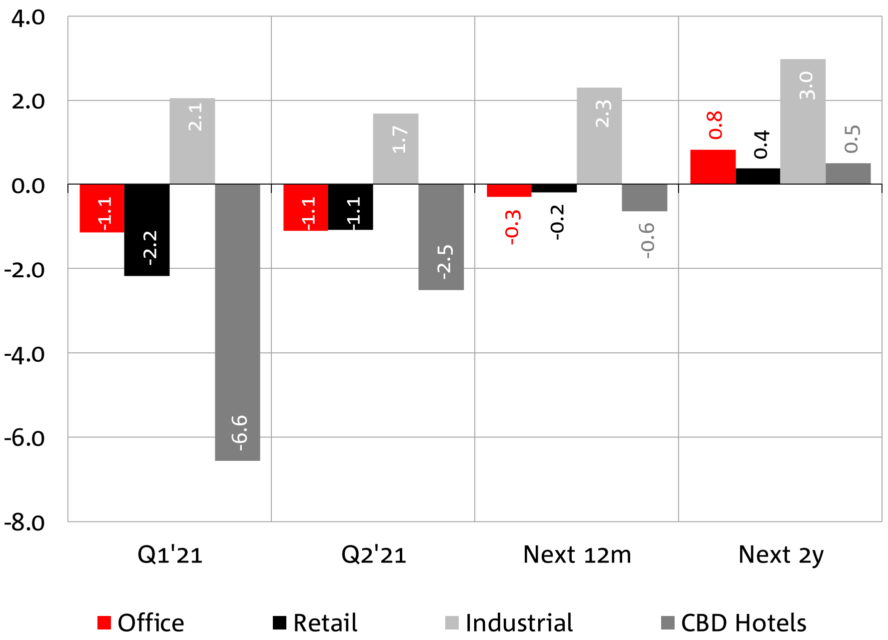
Expectations for CBD Hotels were revised up to -0.6% & 0.5% (-3.9% & -3.1% in Q1 - **see page 10**.

National Office vacancy rose to a survey high 10.9% in Q2 (9.8% in Q1). All states reported higher vacancy bar SA/NT, with rates in VIC now having more than doubled to 10.9% from 4.0% in Q1 2020. National vacancy is expected ease to 10.6% in the next 12 months' and 9.7% in 2 years' time with most states improving. However, it is expected to remain above survey average levels in all states.

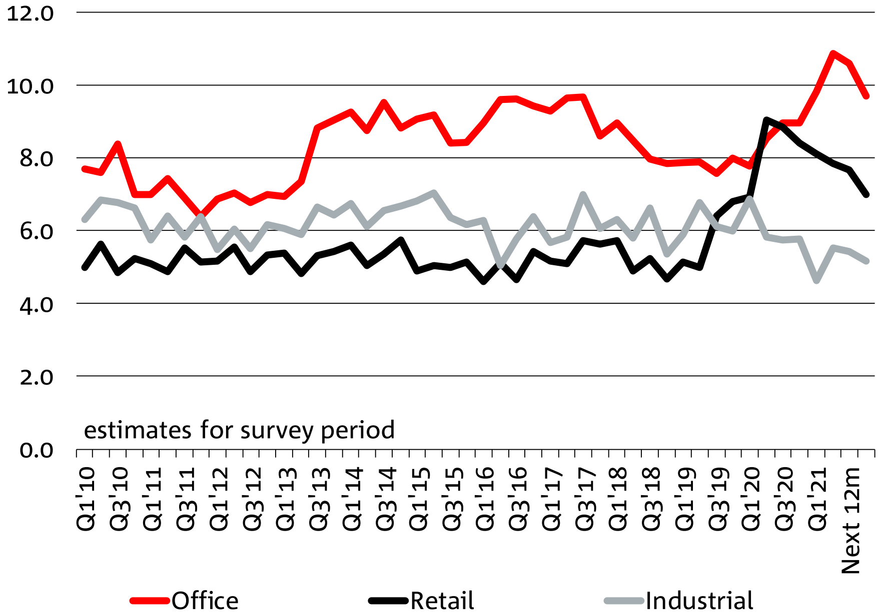
Retail vacancy improved a little further to 7.8% (8.1% in Q1), with mixed results across states. Overall vacancy is expected to fall over the next 1-2 years (7.7% & 7.0%), with improved outcomes in all states, except SA/NT (unchanged at 11.0%).

Industrial vacancy lifted a little to a still low 5.5% in Q2 (4.6% in Q1), with shortages still most apparent in the Eastern seaboard states. Vacancy is expected to fall a little over the next 1-2 years, and remain lowest in the Eastern seaboard states - **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 (-2.2% & -1.0%), but at a slower pace than predicted in Q1 (-3.0% & -2.2%). Rents are expected to fall in all states, led by SA/NT (-5.1% & -3.0%) and VIC (-3.4% & -2.1%), with QLD the only state expecting positive returns (0.1% & 0.8%).

On average, Office rents are now expected to fall a smaller -1.3% in the next 12 months and -0.1% in 2 years' time (-1.7% & -0.4% forecast in Q1). Expectations for rents are weakest in VIC (-4.2% & -1.9%) and NSW (-1.5% & -0.7%), and strongest in SA/NT (2.9% & 3.8%) and QLD (-0.4% & 0.5%).

The outlook for Industrial rents remains positive at 2.1% & 2.4% (2.1% & 2.9% in Q1). Rents are expected to grow in all states, led by QLD (4.1% & 3.6%) - **see page 10**.

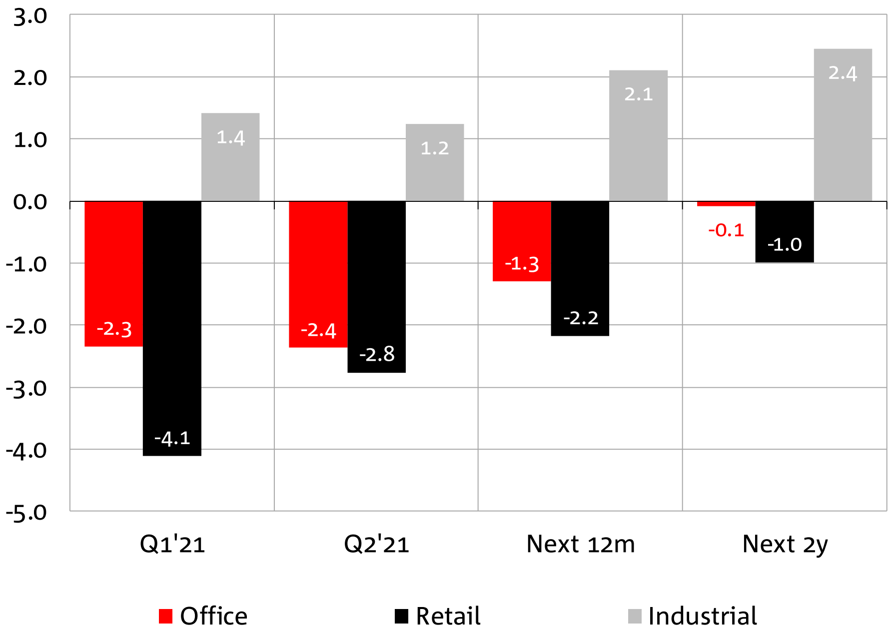
The national Office market is expected to remain "somewhat" over-supplied in the next 1-3 years in all states, bar WA ("quite" over-supplied). Eastern seaboard markets are expected to balance in 5 years, with modest supply overhangs persisting in WA and SA/NT.

All state Retail markets are currently over-supplied, led by SA/NT and WA. The market is expected to remain over-supplied in the next 1-3 years in VIC and NSW but balance in 5 years, over-supplied in WA in the next 1-5 years and balance in QLD and SA/NT in 3 years' time.

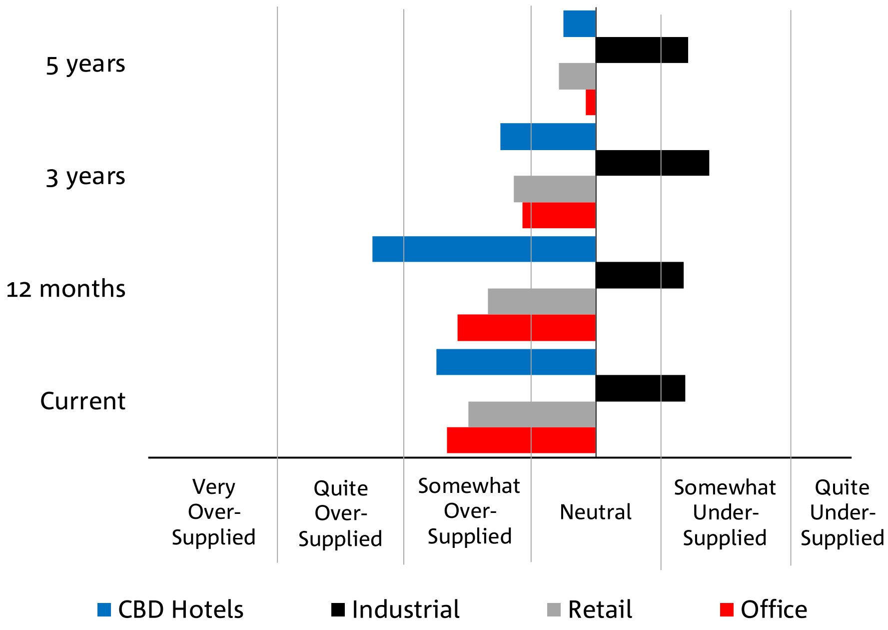
The national Industrial market is currently "somewhat" under-supplied, and in all states bar SA/NT and WA. Under-supply is expected to remain a feature of the market in the next 1-5 years, and most prevalent in NSW and QLD.

In the CBD Hotels market, over-supply is expected to persist over the next 1-3 years, before the market balances in 5 years' time.

GROSS RENTAL EXPECTATIONS (%)



SUPPLY CONDITIONS



MARKET OVERVIEW - DEVELOPMENT INTENTIONS

The number of developers expecting to commence new works in the next month rose slightly to 15% in Q2 (14% in Q1), with those planning to start in the next 1-6 months rising sharply to 43% (27% in Q1). Consequently, an above survey average 57% said they plan to start new works in the short-term (next 6 months), up from 41% in the last quarter. This was the highest number expecting to start works in the short-term since Q3 2015 (60%), suggesting activity in the construction sector should stay robust in the near-term.

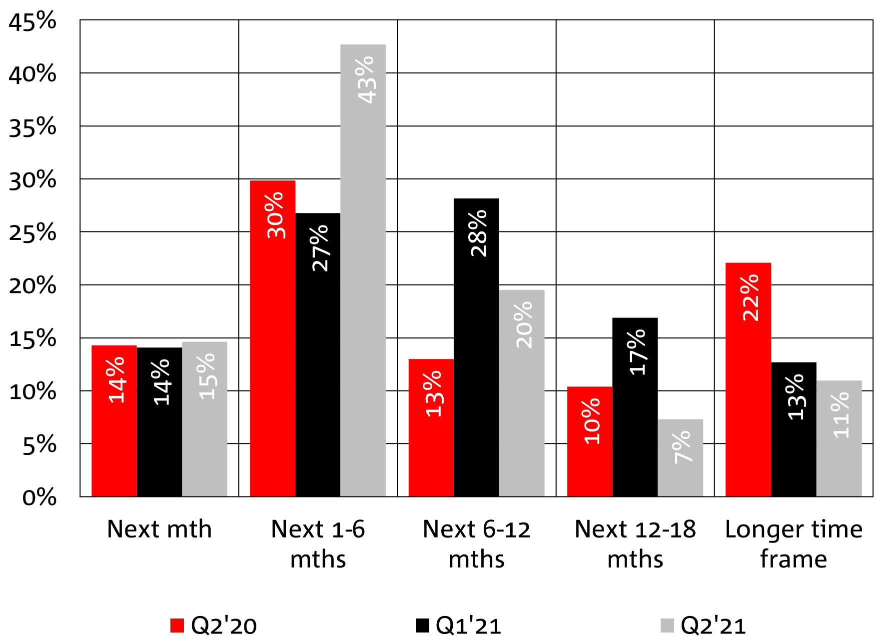
Around 20% plan to start in the next 6-12 months (28% in Q1) and 7% the next 12-18 months (17% in Q1).

In total, around 84% of all developers plan to start works within the next 18 months (up from a low of 68% in mid-2020 when COVID uncertainty was rising quickly).

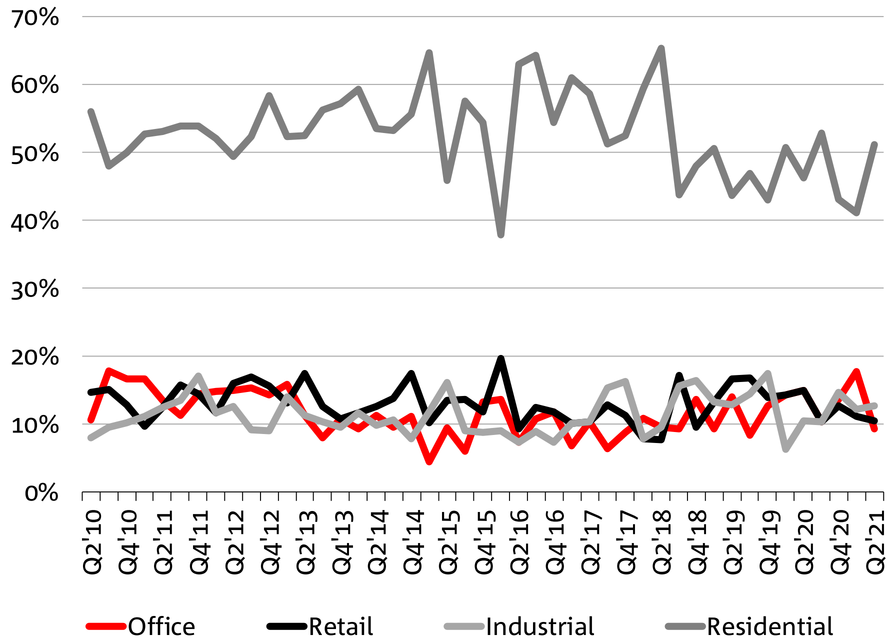
Building approvals fell again in May, but this likely reflected the lagged impact of the March 2021 end to the Government's HomeBuilder programme. Despite the recent declines, approvals remain at high levels, and the large pipeline of work that has already been put in place means dwelling investment should continue to grow over much of 2021. Indeed, the Q2 survey also showed that 51% of property developers planning to commence new projects were targeting residential developments, up from 41% in Q1.

In contrast, the number of developers who were planning to start new works in Retail (10%) or Industrial property (13%) was basically unchanged. We did however note a large fall in the Office sector to just 9%, after having climbed to a survey high 18% in the previous 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 fell to a below average 55% in Q2, from 60% in Q1 and 65% at the same time last year. This may suggest developers could be expecting land prices to stabilise or fall causing their land holding costs to exceed the level of capital appreciation and negative returns from land banking. This result would also be consistent with NAB's view of house prices which are expected to slow in 2022 as the impact of low rates and strong income support that has underpinned growth in 2021 begins to fade.

The number of developers seeking new acquisitions rose to 26% in Q2 (24% in Q1), with those looking at refurbishment opportunities also climbing for the second straight quarter to 15% (13% in Q1 and just 9% at the same time last year).

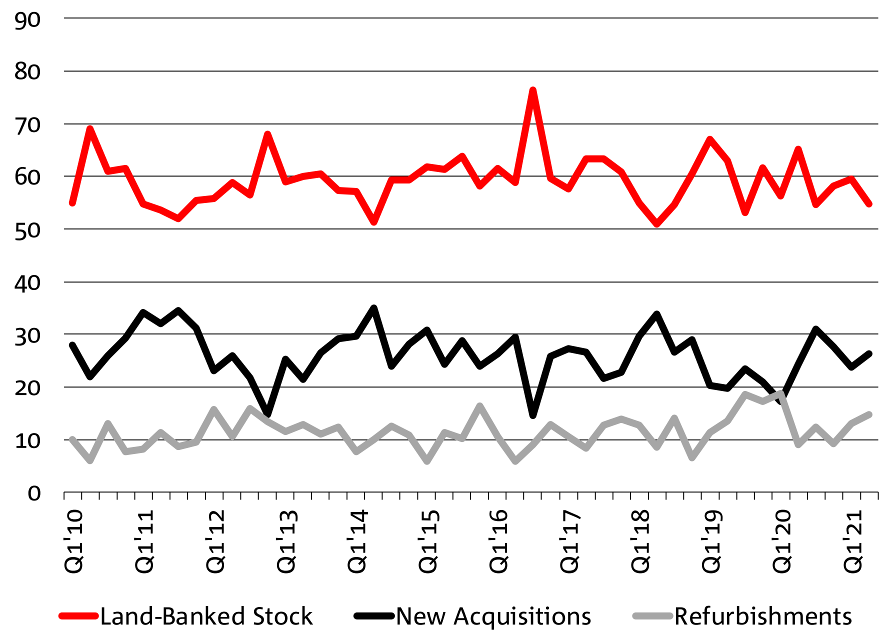
Despite a large increase in the number of surveyed property developers planning to commence new works over the next 6 months, the number who said they were planning to source more capital to fund their developments fell slightly to 26% (28% in the previous quarter).

But around 54% had no intention to source capital in the short-term (also down from 58% in Q1), with 21% unsure (14% in Q1).

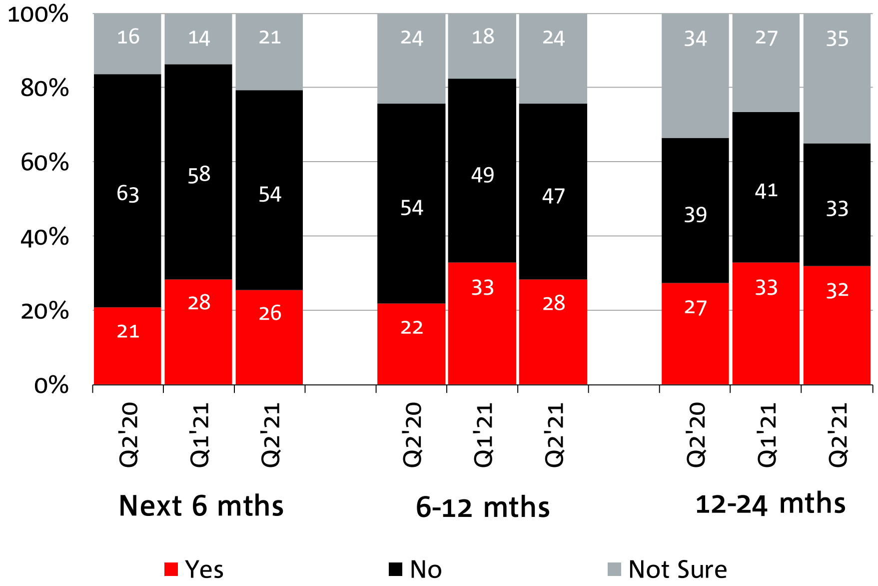
The number of property developers who indicated they were planning to source capital in the next 6-12 months fell to 28% (33% in Q1), around 47% had no intention to source funds (49% in Q1), and 24% were unsure (18% in Q1).

The number intending to source more capital in the next 12-24 months was broadly unchanged at 32% (33% in Q1).

SOURCES OF LAND DEVELOPMENT (%)



INTENT TO SOURCE MORE CAPITAL FOR DEVELOPMENT/ACQUISITIONS/PROJECTS



MARKET OVERVIEW - FUNDING & PRE-COMMITMENTS

Funding conditions continue to improve. In Q2, the overall number who said it was harder to obtain borrowing or loans (debt) continued to out-weigh those who said it was easier, but the net overall number improved sharply to -4% (-16% in Q1), signalling that debt funding conditions were at their easiest since Q2 2015.

Perceptions around equity funding also continued to improve with the net number who said it was harder to obtain equity also falling to -3% (-6% in Q1), meaning that equity funding was seen as being easier to obtain than at any time since mid-2015.

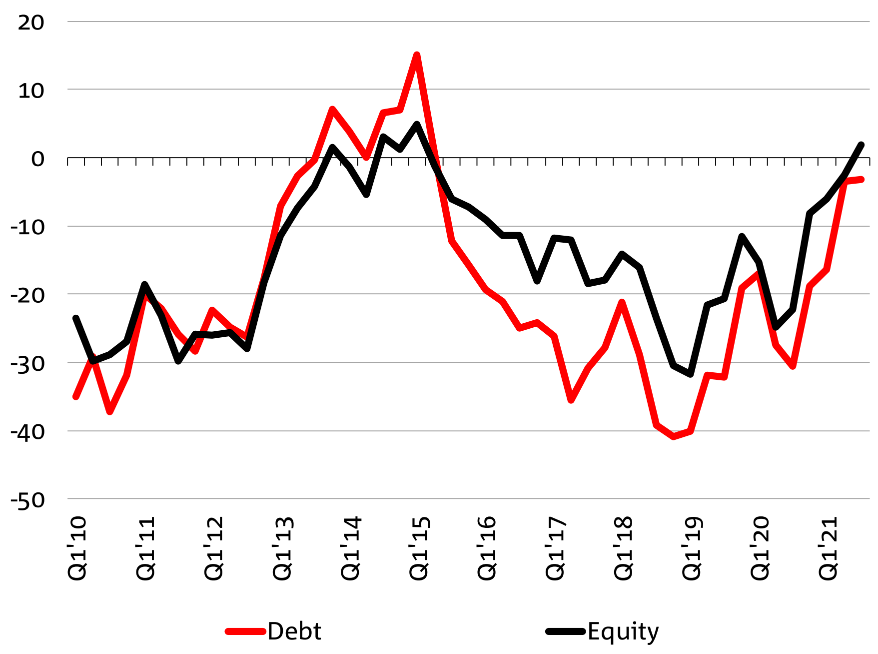
Property professionals see debt (-3%) conditions improving further in the next 3-6 months. For equity funding, the number who expect access to be easier outweighed those who think it will be harder (+2%) - the first time expectations have been positive since late-2015.

The average pre-commitment to meet external debt funding requirements for new developments in Australia fell again for residential (58.7%) and commercial (56.6%) property in Q2.

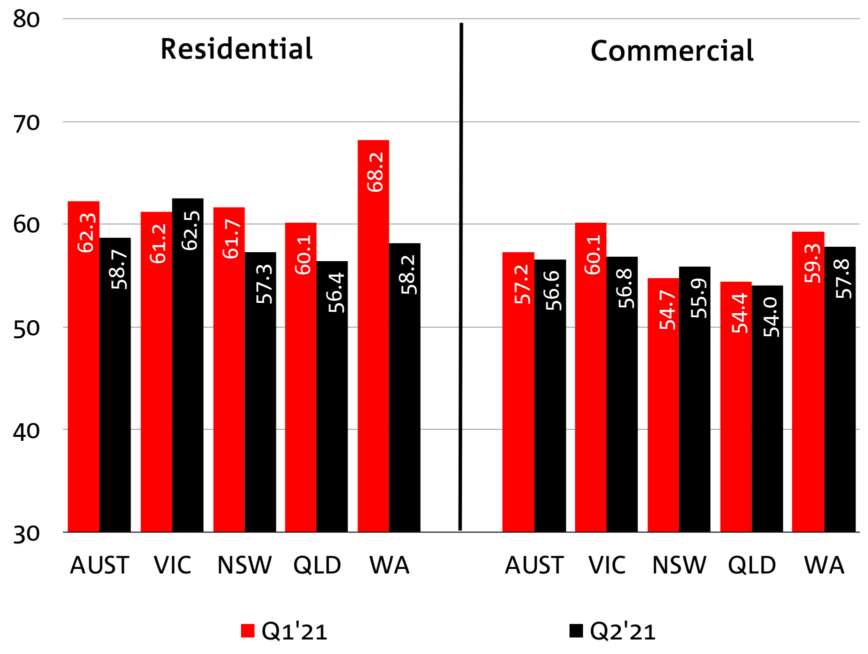
Residential requirements however rose again in VIC (highest overall at 62.5%), but fell in other key states and remained lowest in QLD (56.4%) and in NSW (57.3%). In commercial markets, requirements fell in VIC (56.8%) and WA (57.8%), with WA replacing VIC with the highest requirements. Requirements rose in NSW (55.9%) and were down slightly (and lowest) in QLD (54.0%).

Looking ahead, the net number who expect requirements to improve in 6 months was positive for residential (+10%) and commercial (+13%). But in a reversal of expectations from Q1, more now see them worsening in the next 12 months (-7% & -1% respectively).

EASE OF ACQUIRING DEBT/EQUITY (NET)



PRE-COMMITMENT REQUIREMENTS (%)



SURVEY RESPONDENTS EXPECTATIONS (AVG) Q2-2021

OFFICE CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'21	-3.6	-0.7	0.0	-2.8	1.2	-1.1
Q2'22	-2.0	0.0	0.6	-2.3	1.8	-0.3
Q2'23	-0.1	0.8	1.4	0.0	2.1	0.8

OFFICE RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'21	-5.9	-2.4	-1.2	-3.2	2.7	-2.4
Q2'22	-4.2	-1.5	-0.4	-1.7	2.9	-1.3
Q2'23	-1.9	-0.7	0.5	-0.3	3.8	-0.1

RETAIL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'21	-0.9	-1.2	-1.0	-2.1	-1.8	-0.2
Q2'22	0.0	-0.6	0.0	-0.7	-0.1	-0.2
Q2'23	0.4	0.0	0.6	0.0	1.6	0.4

RETAIL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'21	-4.4	-1.7	-0.4	-2.4	-5.6	-2.8
Q2'22	-3.4	-1.9	0.1	-1.8	-5.1	-2.2
Q2'23	-2.1	-0.6	0.8	-1.3	-3.0	-1.0

INDUSTRIAL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'21	1.8	2.4	2.4	-0.5	1.5	1.7
Q2'22	2.1	3.3	3.5	-0.2	3.8	2.3
Q2'23	2.7	3.9	3.3	1.3	2.4	3.0

INDUSTRIAL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'21	1.8	1.2	3.0	-0.4	0.4	1.2
Q2'22	2.3	2.1	4.1	0.4	1.5	2.1
Q2'23	2.8	2.7	3.6	1.1	1.5	2.4

SURVEY RESPONDENTS EXPECTATIONS (AVG) Q2-2021

OFFICE VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2’21	10.9	9.1	13.1	12.5	9.3	10.9
Q2’22	9.9	9.1	13.1	12.5	10.5	10.6
Q2’23	8.3	8.6	12.2	11.0	10.3	9.7

RETAIL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2’21	7.8	7.8	5.9	10.5	11.4	7.8
Q2’22	7.4	8.3	5.9	9.0	11.0	7.7
Q2’23	6.5	7.5	5.6	7.7	11.0	7.0

INDUSTRIAL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2’21	4.8	3.9	6.0	7.8	15.0	5.5
Q2’22	5.3	4.0	5.6	7.2	15.0	5.4
Q2’23	5.9	4.1	4.6	6.3	15.0	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.

Around 370 property professionals participated in the Q2 2021 Survey.

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