

EMBARGOED UNTIL 11.30AM AEDT, WEDNESDAY 3 NOVEMBER 2021



# NAB COMMERCIAL PROPERTY SURVEY Q3-2021

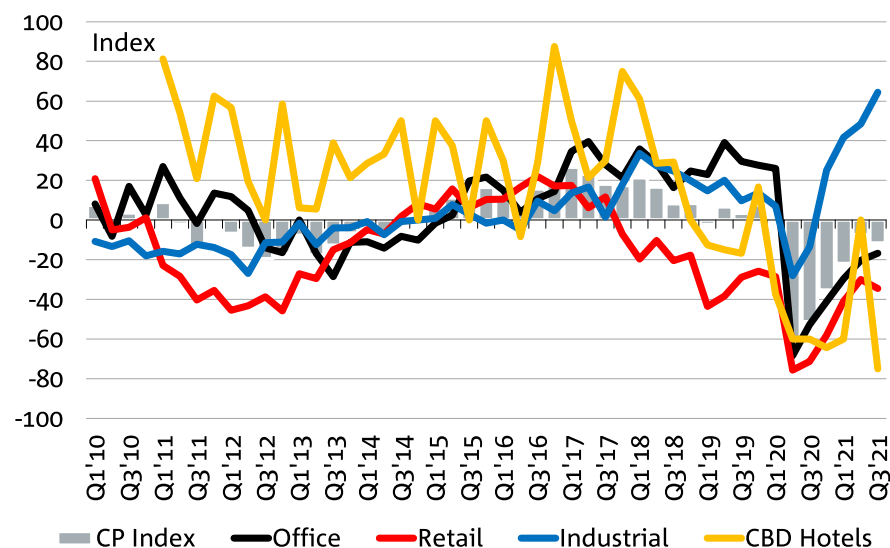
Date November 2021 | NAB Behavioural & Industry Economics

## KEY FINDINGS

- While lockdowns saw NAB business confidence and conditions fall sharply in Q3, sentiment in commercial property markets also floundered with the NAB Commercial Property Index falling to -12 pts (after rising in the past 4 quarters).
- Overall result however disproportionately impacted by sharp fall in CBD Hotels (-75 pts), with Retail also lower (-34 pts). Office sentiment lifted a little (-17 pts), but still negative and well below average as working from home and social distance requirements continued to impact demand for Office space. Industrial sentiment lifted to new survey high (+64 pts) supported by ongoing strong demand for logistics and warehousing requirements.
- Confidence also softened with the 12-month gauge slipping back into negative territory (-2 pts) and 2-year read easing (+16 pts). Confidence still being carried by Industrial, which rose to new survey highs. Short-term confidence in CBD Hotels down sharply, but 2-year outlook lifted, likely buoyed by the prospect of border re-openings. Lockdowns seem to have further shaken already weak Retail confidence which slipped further, with Office also well below average.
- Market sentiment now weakest in NSW (-27 pts), with QLD the only state to record a positive result (+17 pts). Overall confidence also now weakest in NSW - but still very strong for Industrial property. QLD the most confident state in the short-term (+22 pts) and WA in 2 years' time (+31 pts) where property professionals much more upbeat about prospects for Industrial and Office.
- Average survey expectation for Industrial value growth in next 1-2 years lifted (4.5% & 4.6%), with growth predicted in all states (led by QLD). Outlook for Office also stronger (0.1% & 1.0%), with growth weakest in VIC and NSW. Retail values expected to fall faster (-1.6% & -0.5%), and are very weak in NSW and SA/NT, with prospects brightest in QLD.
- Office vacancy fell to 9.4% nationally (down from a survey high 10.9% in Q2), and lower in all states (but still above survey average levels). Retail vacancy rose to 8.3%, and also historically elevated - particularly in SA/NT and WA. Industrial vacancy fell (4.8%) with market tightness most evident in NSW (3.5%). Industrial vacancy to remain low in next 1-2 years, with below survey average vacancy enduring in all states except VIC.
- Outlook for rents in next 1-2 years weakest (and revised down) in Retail (-3.4% & -2.3%) with biggest falls in SA/NT and NSW. Office rents also tipped to fall faster (-2.0% & -0.9%), with expectations again weakest in VIC (-4.0% & -1.9%), and NSW (-2.5% & -1.5%). Outlook for Industrial rents revised up (3.4% & 3.7%) and expected to grow in all states (led by QLD).
- Long lockdowns in NSW and VIC likely weighed on developer intentions in Q3, with a below average 47% indicating they plan to start new works in next 6 months (from a 6-year high 57% in Q2). Survey also pointed to a decline in number of developers planning to start new projects in the residential space to a below average 47% (51% in Q2).

With new headwinds emerging in the form of a tightening in APRA's macro-prudential controls, the net number of property professionals who said it was harder to obtain borrowing or loans (debt) stretched to -9% in Q3 (-4% in Q2), after having fallen sharply in the previous 3 quarters. Perceptions around equity funding also worsened with the net number who indicated it was harder to obtain equity also climbing to -9% (-3% in Q2).

## NAB COMMERCIAL PROPERTY INDEX



	Q2'21	Q3'21	Next 12m	Next 2y
Office	-20	-17	-7	11
Retail	-30	-34	-28	-15
Industrial	48	64	73	70
CBD Hotels	0	-75	-50	25
CP Index	-7	-12	-2	16

# MARKET OVERVIEW - NAB COMMERCIAL PROPERTY INDEX

Commercial property market sentiment floundered in Q3 after rising in the previous 4 quarters. The NAB Commercial Property Index (a measure of sentiment based on expectations for capital values and rents) fell to -12 pts, from -7 pts in Q2 and below average (-1 pt).

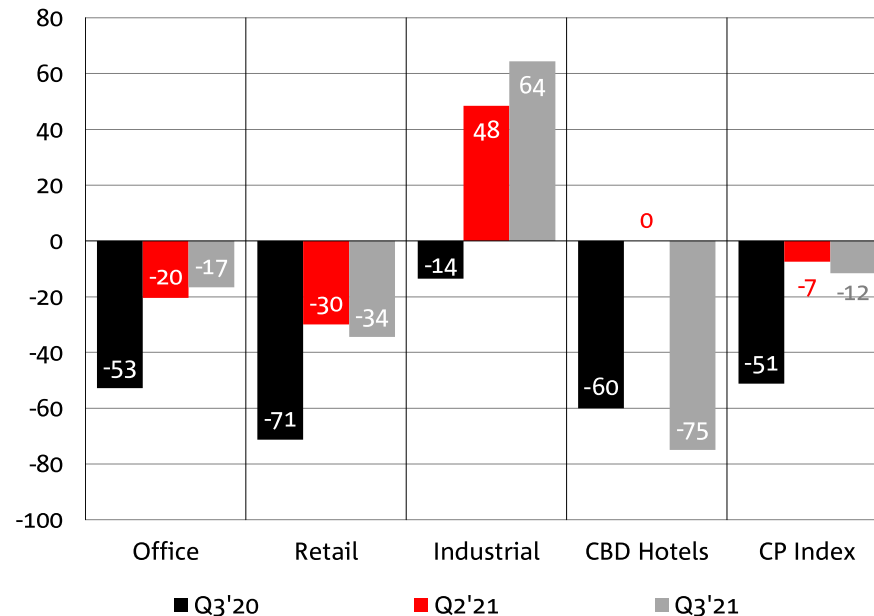
The overall result was disproportionately impacted by a sharp fall in the CBD Hotels sector to -75 pts (0 pts in Q2) as NSW and VIC entered hard lockdowns. Sentiment also fell slightly in Retail to -34 pts (-30 pts in Q2) as the pandemic continued to accelerate the shift towards online retailing and away from retail outlets. Office sentiment lifted a little to -17 pts (-20 pts) but remains negative and still well below average (+11 pts) as working from home and social distance requirements continued to impact demand for Office space. Industrial sentiment however lifted to a new survey high +64 pts (from a previous high +48 pts in Q2) as strong demand for logistics and warehousing continued to support demand and value growth.

With NABs QBS showing business conditions and confidence hit by lockdowns in Q3, confidence levels in commercial property markets also moderated, with the 12-month measure slipping back into negative territory (-2 pts) and the 2-year measure easing to +16 pts.

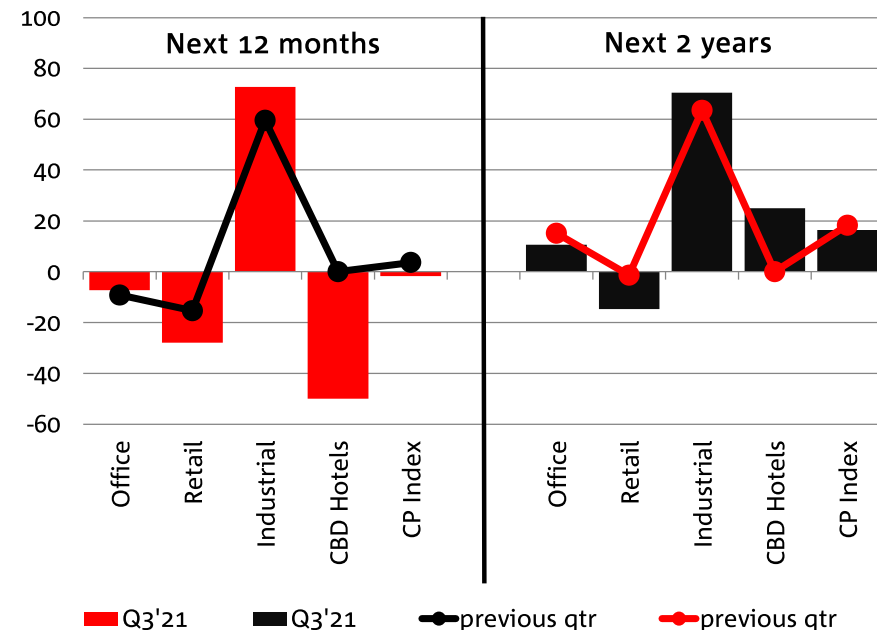
Overall confidence is still being carried by Industrial, with both the short (+73 pts) and long-term (+70 pts) measures hitting new survey highs. In contrast, short-term confidence in CBD Hotels fell sharply to -50 pts, though the 2 year measure lifted to +25 pts, presumably buoyed by the prospect of border re-openings.

Confidence remained at contractionary levels in Retail and slipped further to -28 pts in 12 months (-15 pts in Q2) and -15 pts in 2 years (-1 pt in Q2). The impact of COVID is still also weighing on Office markets, but confidence is slowly improving with the short-term measure now at -7 pts (-9 pts in Q2), and the 2 year measure at +11 pts, though down slightly from +15 pts in Q2.

## NAB COMMERCIAL PROPERTY INDEX



## NAB CP INDEX - NEXT 1-2 YEARS



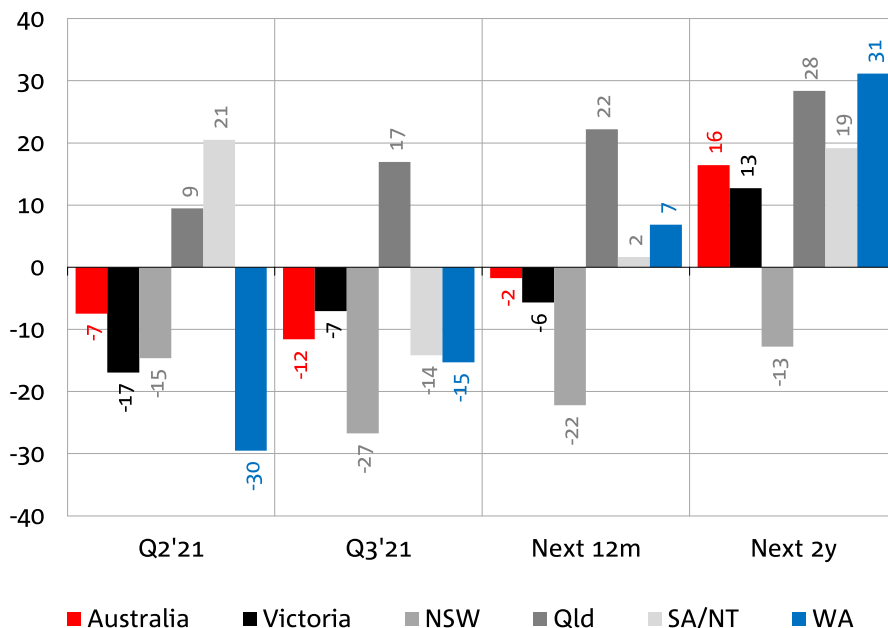
# MARKET OVERVIEW - INDEX BY STATE

Overall commercial property market sentiment in Q3 fell sharply in SA/NT (down 35 pts to -14) and was also noticeably lower in NSW (down 12 pts to -27). It improved most in WA (up 15 pts to -15 pts) and VIC (up 10 pts to -7). QLD was the only state to report a positive result, with sentiment lifting 8 pts to +17.

Confidence levels were weakest in NSW at -22 pts and -13 pts over the next 1-2 years respectively, and down in all property sectors - though still very strong in Industrial but very weak for Retail (see table). Confidence levels were negative in VIC in the next 12 months (-6 pts), and lowest in Office with Retail also weak.

Property professionals in QLD were the most confident in the next 12 months (+22 pts), supported by very high levels of confidence in the Industrial space. WA was the most confident state in 2 years' time (+31 pts), with property professionals much more upbeat around the outlook for Industrial and Office property.

## COMMERCIAL PROPERTY INDEX - STATE



## OFFICE PROPERTY MARKET INDEX: STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'21	-32↑	-21↓	-4↓	-15↑	0↓	-17↑
Q1'22	-32↑	-11↓	0↓	0↑	19↓	-7↑
Q1'23	7↑	-4↓	15↓	35↑	19↓	11↓

## RETAIL PROPERTY MARKET INDEX: STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'21	-28↑	-63↓	0↑	-50↓	-75↓	-34↓
Q1'22	-25↓	-67↓	13↑	-20↔	-75↓	-28↓
Q1'23	-15↓	-60↓	13↑	0↑	-50↓	-15↓

## INDUSTRIAL PROPERTY MARKET INDEX: STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'21	70↑	54↔	92↑	29↑	67↑	64↑
Q1'22	73↑	60↓	92↑	64↑	83↑	73↑
Q1'23	57↓	58↓	92↑	86↑	83↑	70↑

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

# MARKET OVERVIEW - CAPITAL & VACANCY EXPECTATIONS

On average, expectations for Industrial capital value growth lifted to 4.5% in 12 months and 4.6% in 2 years' time (2.3% & 3.0% in Q2). Prospects in the next 1-2 years are highest in QLD (6.1% & 5.7%), with positive outcomes also expected in all other states.

Property professionals are more positive about Office values - now expected to grow 0.1% and 1.0% in the next 1-2 years (-0.3% & 0.8% in Q2). QLD (0.9%) is expected to lead the way in the next 12 months, with VIC (-1.1%) and NSW (flat) trailing. Values are tipped to rise all states in 2 years, led by WA (2.3%), with NSW and VIC (0.4%) lagging. In Retail, values are expected to fall -1.6% and -0.5% in the next 1-2 years respectively (-0.2% & 0.4% in Q2). Retail expectations are very weak in NSW and SA/NT, with prospects brightest in QLD.

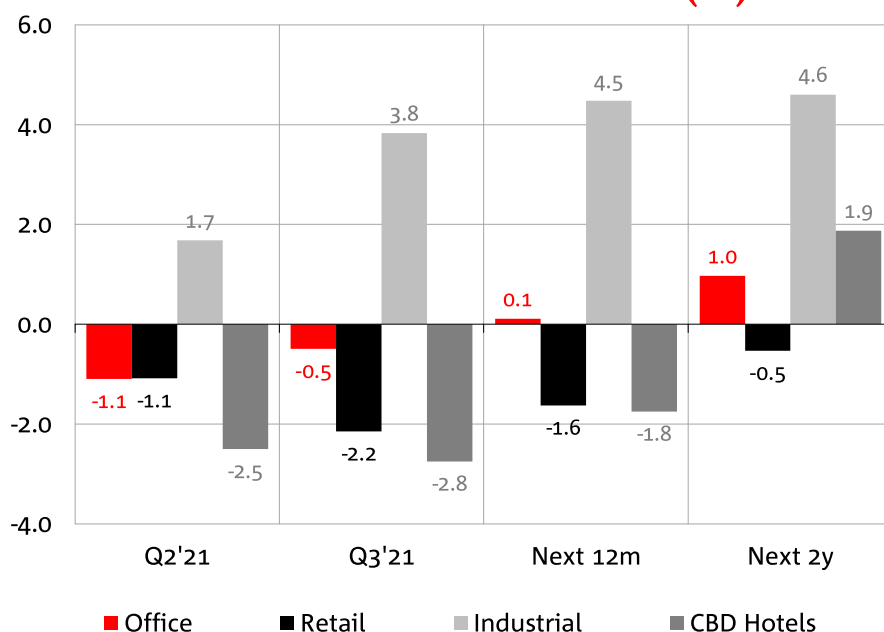
CBD Hotels value growth also lowered to -1.8% in 12 months (-0.6% in Q2), but lifted to 1.9% in 2 years' (0.5% in Q2) - see page 10.

National Office vacancy fell to 9.4% in Q3 from a survey high 10.9% in Q2. Vacancy was lower in all states though at above survey average levels, and highest in QLD (12.0%) and WA (11.6%). National vacancy is expected to remain elevated but ease slightly to 9.2% and 8.6% in the next 1-2 years. Lower vacancy is predicted in all states, but will remain above average levels - see page 11 for detail.

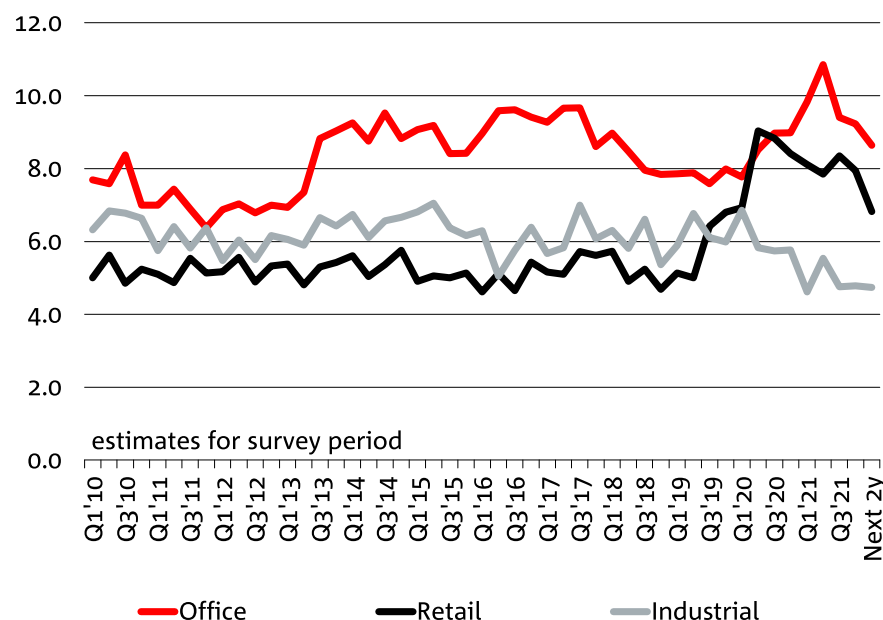
Retail vacancy increased to 8.3% in Q3 (7.8% in Q2), and is still historically elevated - particularly in SA/NT and WA. Overall vacancy is expected to fall over the next 1-2 years (7.9% & 6.8%), with improved outcomes in all states.

Industrial vacancy fell to 4.8% in Q3 (5.5% in Q2), with market tightness most apparent in NSW (3.5%) and VIC (5.3%). Vacancy is expected to be broadly unchanged in the next 1-2 years, with below survey average vacancy rates expected in all states except VIC.

## 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 (-3.4% & -2.3%), and at faster rate than predicted in Q2 (-2.2% & -1.0%). Rents are expected to fall in most states, led by SA/NT (-6.1% & -5.6%) and NSW (-5.0% & -4.5%) More modest falls are predicted in QLD and WA next year with flat outcomes in 2 years' time.

On average, Office rents are now also tipped to fall by a larger -2.0% in the next 12 months and -0.9% in 2 years' time (-1.3% & -0.1% forecast in Q2). Expectations for rents are still weakest in VIC (-4.0% & -1.9%) and NSW (-2.5% & -1.5%). WA is the only state where property professionals see rents growing (0.2% & 1.1%).

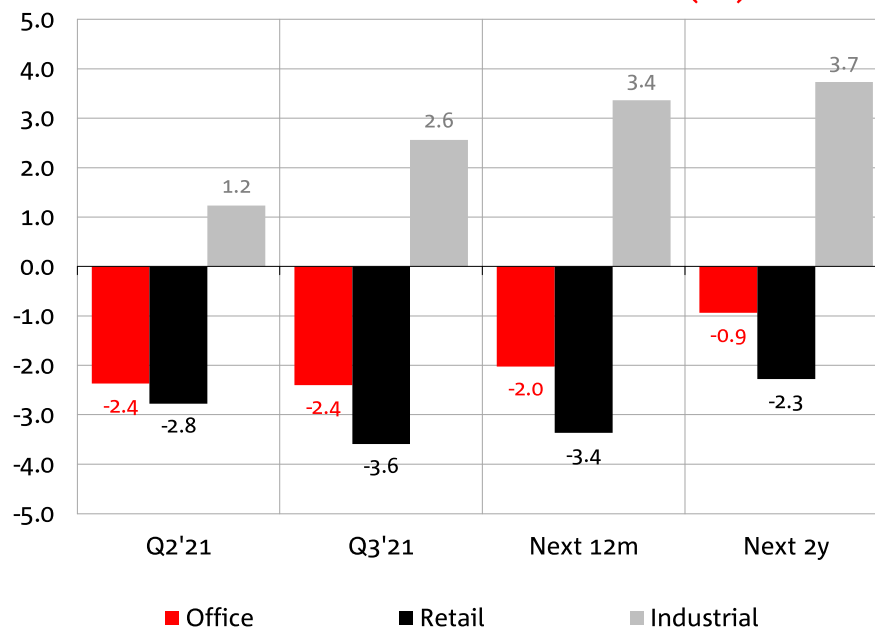
The outlook for Industrial rents is more positive at 3.4% in 12 months and 3.7% in 2 years' time (2.1% & 2.4% in Q2). Rents are expected to grow in all states, led by QLD (5.9% & 6.3%) - see page 10.

Supply conditions are currently very challenging in the CBD Hotels sector, with over-supply set to remain a feature in the next 1-3 years. Office markets are also seen as "somewhat over-supplied" and tipped to stay that way for 1-3 years before balancing. Over-supply is highest in WA and QLD, and set to remain so over the outlook period, with NSW and VIC the only states in balance in 5 years' time.

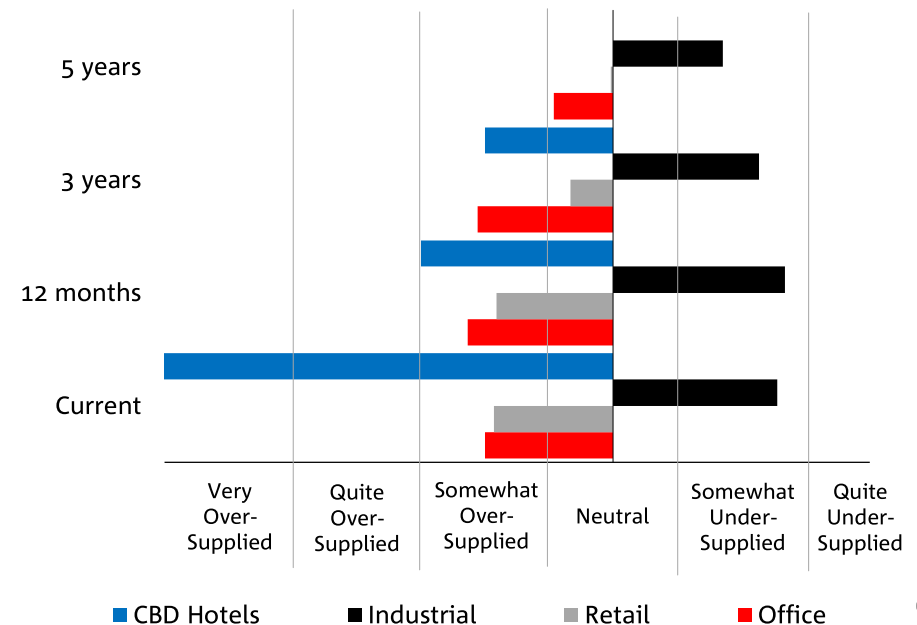
All state Retail markets are over-supplied, led by SA/NT, with QLD the exception (balanced). The market is expected to remain over-supplied over the next year before balancing, but modest supply overhangs are expected to persist in NSW.

Industrial markets remain "somewhat under-supplied" and expected to remain so. Under-supply is expected to be a feature in all state markets in the next 1-5 years, with shortages most apparent in NSW over the short-term and WA and QLD in the longer-term.

## GROSS RENTAL EXPECTATIONS (%)



## SUPPLY CONDITIONS



# MARKET OVERVIEW - DEVELOPMENT INTENTIONS

The number of developers expecting to commence new works in the next month rose to 19% in Q3 (15% in Q2), while those planning to start in the next 1-6 months fell sharply to 29% (43% in Q2). Consequently, a below average survey average 48% said they plan to start new works in the short-term (next 6 months), down from a near 6-year high 57% in the last quarter. We suspect long periods of lockdown in NSW and VIC during the survey period weighed on developer intentions.

Around 29% now also intend to start in the next 6-12 months (20% in Q2) and 13% in the next 12-18 months (7% in Q2).

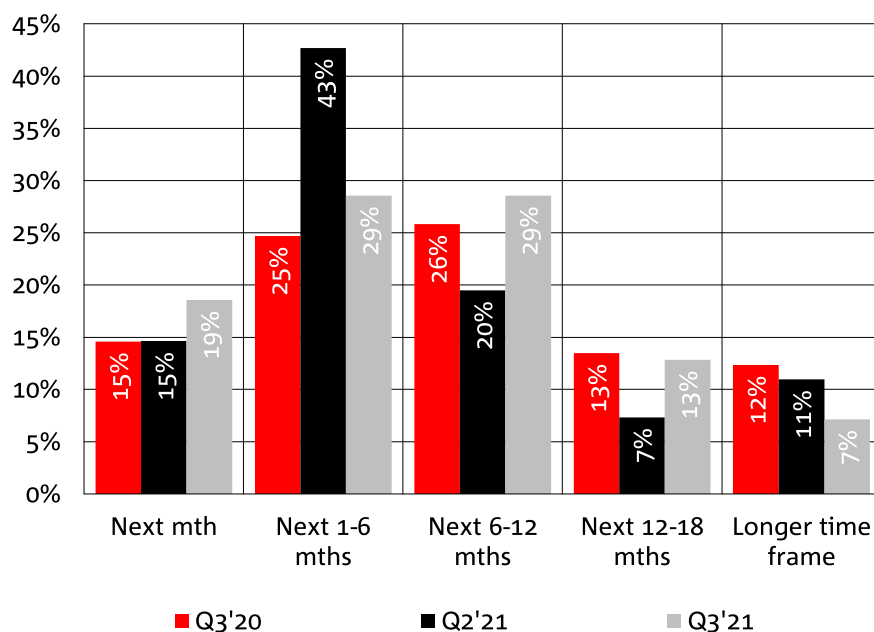
In total, around 89% of all developers plan to start works within the next 18 months - a significant uplift from the low of 68% in mid-2020 when COVID uncertainty was rising quickly.

Housing markets are still strong - approvals have come off their peak but remain high and house prices are still growing rapidly. There are signs that the run off in approvals due to the end of Homebuilder is close to done, but a new headwind has emerged in the form of a tightening in APRA's macro-prudential controls.

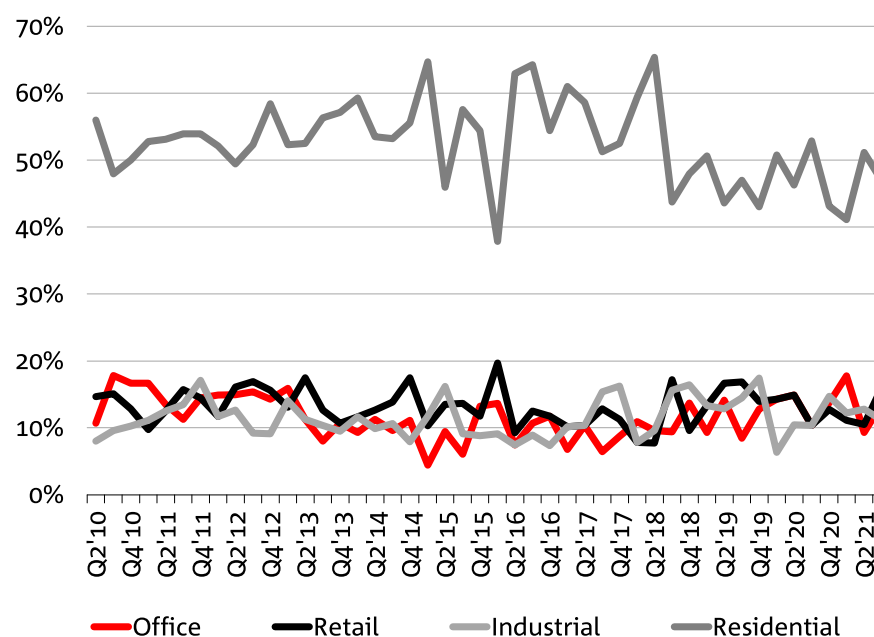
Against this backdrop, the Q3 survey pointed to a decline in the number of property developers planning to start new developments in the residential property space to a below average 47% (51% in Q2).

In contrast, the number of developers planning to start new works in Retail (16%) and Office property (14%) increased from 9% and 10% respectively in the previous quarter. The number targeting Industrial developments however fell slightly to 11% (13% in Q2).

## 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 was unchanged at a below average 55%, over the quarter.

This may suggest developers expect land prices to stabilise or fall moving forward, causing land holding costs to exceed the level of capital appreciation and negative returns from land banking. Indeed, NAB's view of house prices has them slowing sharply in 2022 as the impact of lower interest rates fades and affordability constraints begin to bind.

The number of developers seeking new acquisitions however rose to an above average 29% in Q3 (26% in Q2), with those looking at refurbishment opportunities falling slightly to 13%, from 15% in Q2, but broadly on par with the same time last year (12%).

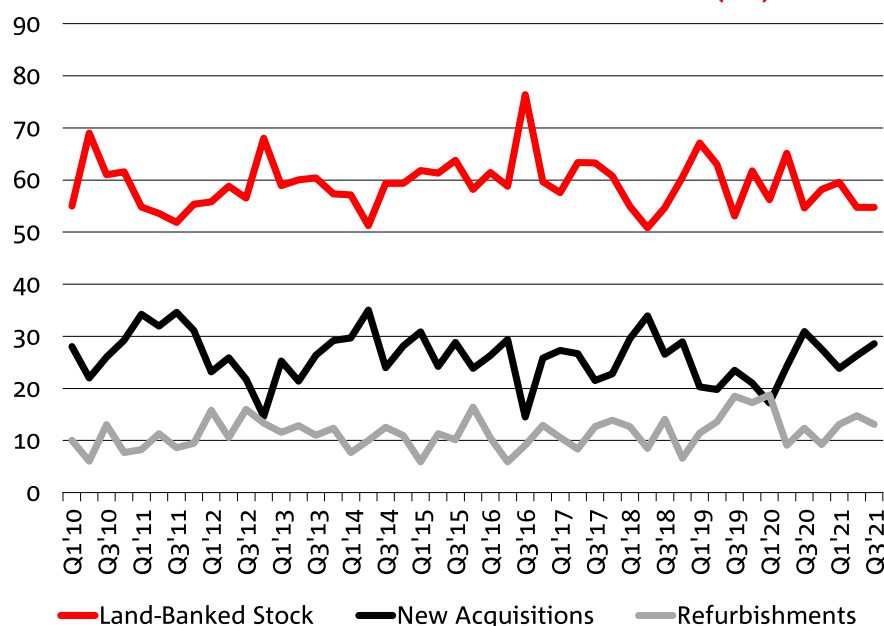
Despite a lower number of developers planning to start new projects over the next 6 months, the number who said they were planning to source more capital to fund their developments during this timeframe was largely unchanged at 25% (26% in Q2).

Around 53% had no intention to source capital in the short-term (also largely unchanged from 54% in Q2), with 22% unsure (21% in Q2).

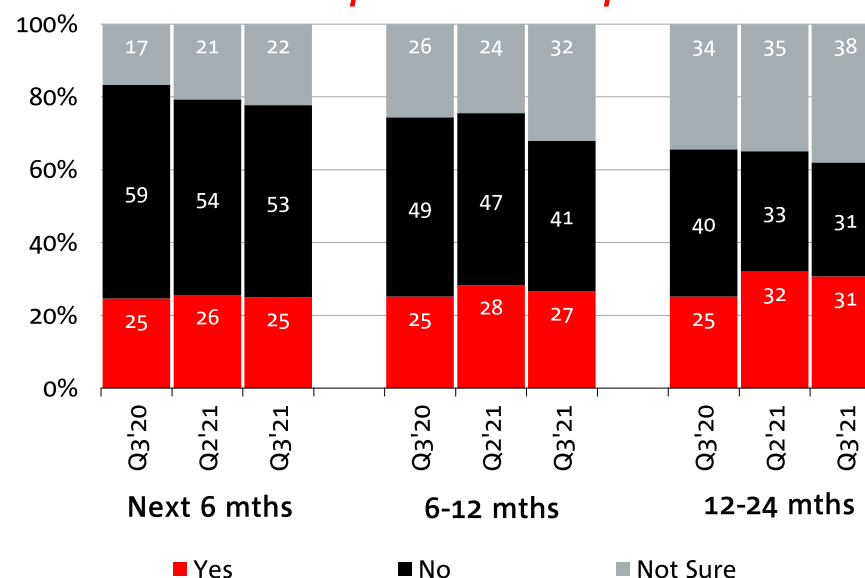
The number who said they were planning to source capital in the next 6-12 months was also broadly similar at 27% (28% in Q2), but 41% had no intention to source funds (down from 47% in Q2), and 32% were unsure (24% in Q2).

The number intending to source more capital in the next 12-24 months was steady at 31% (32% in Q2) but noticeably higher than at the same time last year (25%).

## SOURCES OF LAND DEVELOPMENT (%)



## INTENT TO SOURCE MORE CAPITAL FOR DEVELOPMENT/ACQUISITIONS/PROJECTS



# MARKET OVERVIEW - FUNDING & PRE-COMMITMENTS

As new headwinds emerged in the form of a tightening in APRA's macro-prudential controls, the net number of property professionals who said it was harder to obtain borrowing or loans (debt) stretched to -9% in Q3 (-4% in Q2), after having fallen sharply in the previous 3 quarters.

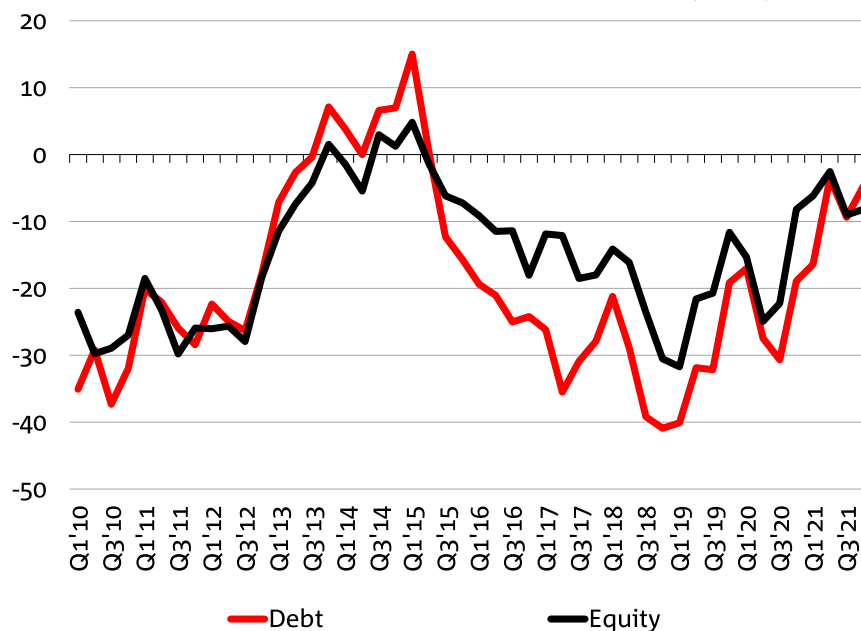
Perceptions around equity funding also worsened with the net number who indicated it was harder to obtain equity also climbing to -9% (-3% in Q2).

Looking forward, the net number of property professionals who expect debt funding to worsen over the next 3-6 months fell slightly to -5%. In terms of equity funding, a net -8% now expect conditions to worsen, after expectations had turned positive in Q2 (+2%) for the first time since late-2015.

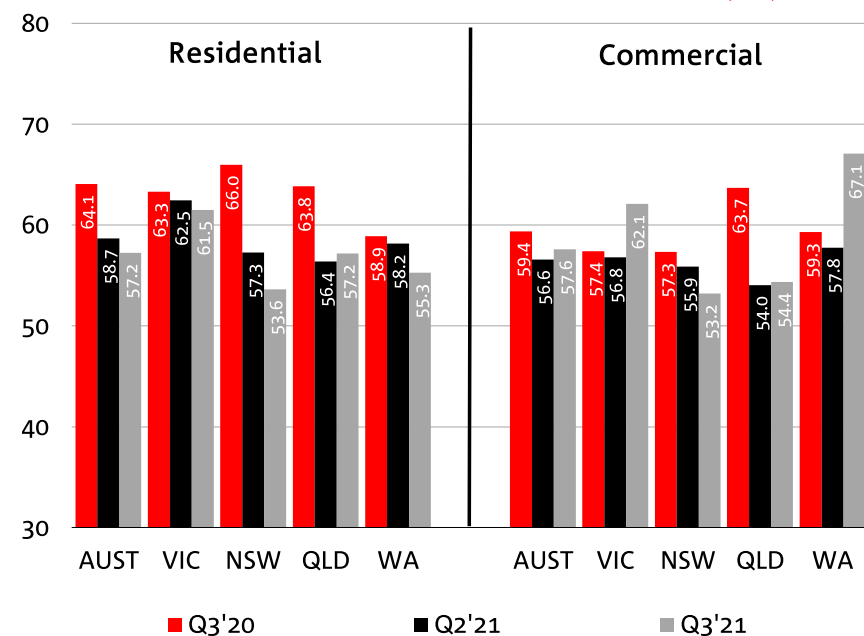
Nationally, the average pre-commitment to meet external debt funding requirements for new developments fell again in Q3 for residential property (57.2%) but was higher for commercial (57.6%). Residential requirements fell slightly in VIC to 61.5% but was highest of all states, and NSW lowest (53.6%). In commercial markets, requirements rose sharply and were highest in WA (67.1%). They also lifted in VIC (62.1%), were basically unchanged in QLD (54.4%) and fell (and were lowest) in NSW (53.2%).

The net number of property professionals who expect residential requirements to improve in the next 6 months was broadly balanced for both residential (-1%) and commercial (+1%) property. But more see requirements worsening in the next 12 months (-6% & -2% respectively).

## EASE OF ACQUIRING DEBT/EQUITY (NET)



## PRE-COMMITMENT REQUIREMENTS (%)



# SURVEY RESPONDENTS EXPECTATIONS (AVG) Q3-2021

## OFFICE CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'21	-1.8	-0.3	0.1	-0.3	0.1	-0.5
Q3'22	-1.1	0.0	0.9	0.3	0.6	0.1
Q3'23	0.4	0.4	1.5	2.3	1.2	1.0

## OFFICE RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'21	-5.4	-2.6	-1.0	-0.2	-2.5	-2.4
Q3'22	-4.0	-2.5	-1.0	0.2	-2.1	-2.0
Q3'23	-1.9	-1.5	-0.4	1.1	-1.2	-0.9

## RETAIL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'21	-1.4	-4.5	0.0	-2.1	-4.8	-2.2
Q3'22	-0.6	-4.8	0.9	-0.9	-4.8	-1.6
Q3'23	0.4	-3.2	1.3	0.5	-3.1	-0.5

## RETAIL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'21	-4.3	-4.8	-1.2	-2.3	-6.1	-3.6
Q3'22	-4.0	-5.0	-0.8	-1.5	-6.1	-3.4
Q3'23	-2.2	-4.5	0.0	0.0	-5.6	-2.3

## INDUSTRIAL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'21	4.1	3.4	5.9	0.5	4.1	3.8
Q3'22	5.2	4.1	6.1	1.3	3.8	4.5
Q3'23	5.4	4.0	5.7	3.9	3.5	4.6

## INDUSTRIAL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'21	2.6	1.7	5.1	0.5	2.7	2.6
Q3'22	3.3	2.2	5.9	2.4	3.1	3.4
Q3'23	3.8	2.5	6.3	3.6	2.6	3.7

# SURVEY RESPONDENTS EXPECTATIONS (AVG) Q3-2021

## OFFICE VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'21	9.8	7.8	12.0	11.6	8.5	9.4
Q3'22	9.3	7.7	11.7	11.2	8.8	9.2
Q3'23	7.9	7.3	11.5	9.39	8.4	8.6

## RETAIL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'21	7.2	9.1	6.8	11.4	11.5	8.3
Q3'22	7.1	8.7	6.5	9.4	11.5	7.9
Q3'23	6.1	7.4	6.1	7.0	10.0	6.8

## INDUSTRIAL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q3'21	4.7	3.5	6.4	6.0	5.0	4.8
Q3'22	5.3	3.7	5.8	5.7	5.0	4.8
Q3'23	5.7	4.2	5.0	4.6	4.5	4.7

## 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 Q3 2021 Survey.

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