EMBARGOED UNTIL 11.30AM AEDT, 3 MARCH 2022

# NAB COMMERCIAL PROPERTY SURVEY Q4-2021

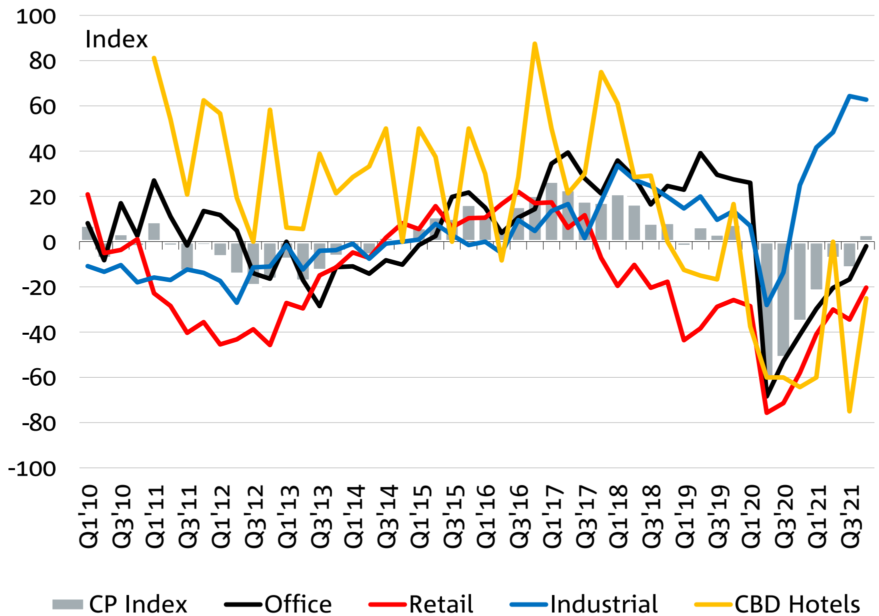
Date: March 2022| NAB Behavioural & Industry Economics

# KEY FINDINGS

- The Q4 survey saw commercial property market sentiment move into positive territory for the first time in 2 years, with the NAB Commercial Property Index at +3 pts (-12 pts in Q3). Industrial sentiment is still hovering at near record highs (+63 pts), but Q4 also saw gains in other sectors (but negative) - Office (-2 pts vs. -17 in Q3 ), CBD Hotels (-25 pts vs. -75) and Retail at a 3 year high -20 pts.
- NAB's 12-month confidence measure also rose to +13 pts and the 2-year measure to +23 pts, as lockdowns were lifted in key states and vaccination targets met. Confidence around Industrial property remains very high, with Office now also positive (+6 pts & +20 pts). Short-term confidence in Retail is still however negative but gained some ground (-7 pts), but the 2-year measure printed positive (+5 pts) for first time in 4 years. CBD Hotels was also stronger.
- Overall market sentiment was higher in all states in Q4 bar WA (lowest of all states at -23 pts). NSW the only other state printing negative (but up 25 to -2 pts). Sentiment was highest in SA/NT (+24 pts) & QLD (+19 pts), with VIC (+3 pts) positive for the first time in over 2 years. Short and long-term confidence levels are now positive in all states. By sector, confidence in Office markets improved in all states bar WA, Retail confidence was higher in SA/NT, VIC & NSW, but lower in QLD and WA. Industrial confidence remains very high in all states.
- Survey expectations for capital growth are still highest for Industrial property in the next 1-2 years (3.4% & 2.9%). Best prospects are in QLD & SA, but values to also grow in other states. Prospects for Office values were revised up (0.7% & 1.1%), led by QLD, with WA weakest, VIC rebounding strongly in 2 years, with relatively modest growth in NSW. Retail values are also tipped to grow (0.4% & 0.8%) led by VIC, with CBD Hotels rebounding in 2 years after falling next year.
- Office vacancy rate rose to 9.9% in Q4 (9.4% in Q3), but is expected to ease mildly to 9.8% and 9.2% in next 1-2 years with lower (but above average) vacancy in all states. Retail vacancy returned to pre-pandemic levels in Q4 (6.9%), but is still well above average, with vacancy highest in SA/NT & VIC. Industrial vacancy fell to a survey low 3.8% in Q4, with markets reportedly tightest in NSW & SA/NT. Industrial vacancy is expected to be unchanged in the next 1-2 years, with below survey average vacancy rates in all states except VIC.
- Rental growth in Office markets is tipped to recover slowly in the next 1-2 years (-0.6% & 0.6%) as take-up and headcount grows and more workers return, but NSW to under-perform. Retail rents expected to keep falling, but at a slower rate (-1.6% & -0.4%), with WA & VIC under-performing. Outlook for Industrial rents unchanged at a solid 3.3% over next 1-2 years, with occupier demand supporting relatively strong rental growth in all states over the next 1-2 years.
- An above average 55% of developers intend to commence new projects in next 6 months (47% in Q3), with this spike likely reflecting the emergence from long periods of lockdown in NSW and VIC. Survey also showed a further decline in the number of developers planning to start new works in the residential space (46%), and a large drop in the number looking at Retail projects (9%).

With the prospect of higher rates looming in 2022, noticeably more survey respondents (net terms) said it was harder to obtain debt in Q4 (-19% vs. -9% in Q3). Perceptions for equity funding however improved a little with the net number saying it was harder easing to -7% (-9% in Q3). Looking ahead, noticeably more now also expect debt funding conditions to worsen in the next 3-6 months (-24% vs. -5% in Q3), but remain unchanged for equity (-8%).

## NAB COMMERCIAL PROPERTY INDEX




| | Q3'21 | Q4'21 | Next 12m | Next 2y |
|---|---|---|---|---|
| Office | -17 | -2 | 6 | 20 |
| Retail | -34 | -20 | -7 | 5 |
| Industrial | 64 | 63 | 63 | 60 |
| CBD Hotels | -75 | -25 | 0 | 17 |
| CP Index | -12 | 3 | 13 | 23 |

# MARKET OVERVIEW - NAB COMMERCIAL PROPERTY INDEX

The Q4 survey saw commercial property market sentiment move into positive territory for the first time in 2 years, with NAB's Commercial Property Index lifting to +3 pts (-12 pts in Q3).

The overall result was buoyed by near record high levels of sentiment in Industrial property markets (+63 pts). But Q4 also saw large gains in other sectors, though still overall negative.

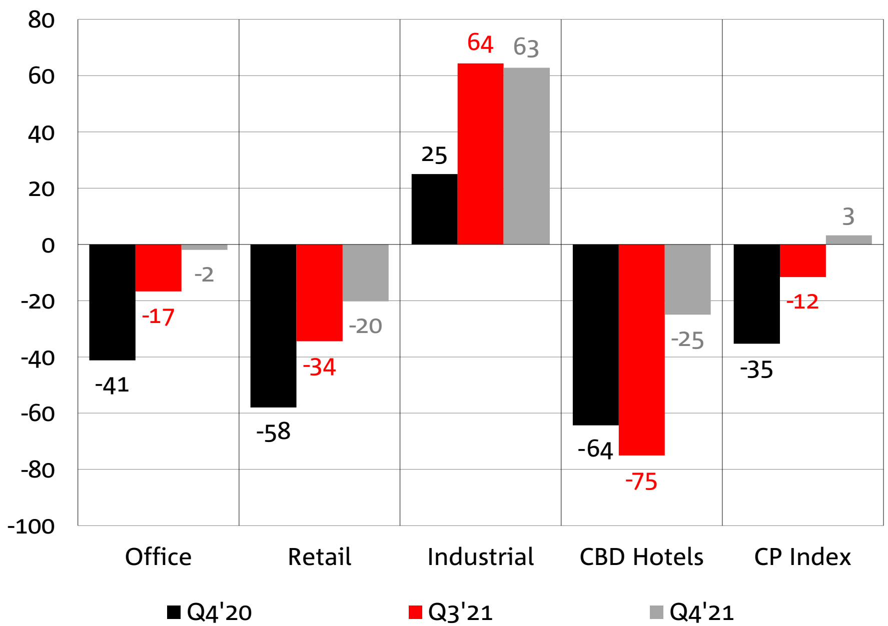
With tentative signs market conditions are stabilising with strong employment growth and as firms adjust to greater workplace flexibility, Office sentiment improved to -2 pts in Q4 (-17 pts in Q3).

The bouncy CBD Hotels Index also climbed sharply to -25 pts (-75 pts in Q3), with surveyed property professionals also pointing to higher occupancy rates in Q4. In Retail markets, sentiment remains very weak amid ongoing structural challenges, though also lifted to a 3-year high -20 pts (-34 pts in Q3), as key states emerged from lockdowns and consumers returned to physical stores.

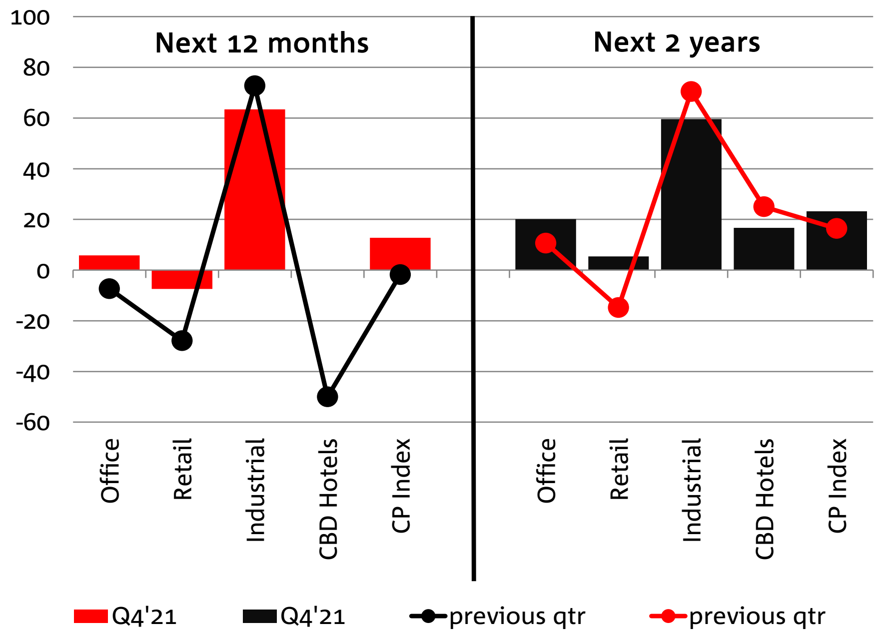
NAB's Q4 2021 Quarterly Business Survey showed a dramatic rebound in business confidence as lockdowns were lifted in major states and vaccination rates hit key milestones. Confidence in commercial property markets also lifted with the 12-month measure rising to +13 pts (-2 pts in Q3) and 2-year measure to +23 pts (+16 pts in Q3).

Overall confidence is still being carried by Industrial, though both the short (+63 pts) and long-term (+73 pts) measures moderated a little from survey highs in Q3. The impact of COVID appears to be weighing less heavily on Office markets, with short short-term confidence at +6 pts (-7 pts in Q3), and the 2 year measure at +20 pts (+11 pts in Q3). Short-term confidence readings are still negative in Retail, but also improved further to -7 pts (-28 pts in Q3), while the 2 year measure rose to +5 pts (-15 pts in Q3) - the first positive read since Q3 2017.

## NAB COMMERCIAL PROPERTY INDEX




## NAB CP INDEX - NEXT 1-2 YEARS



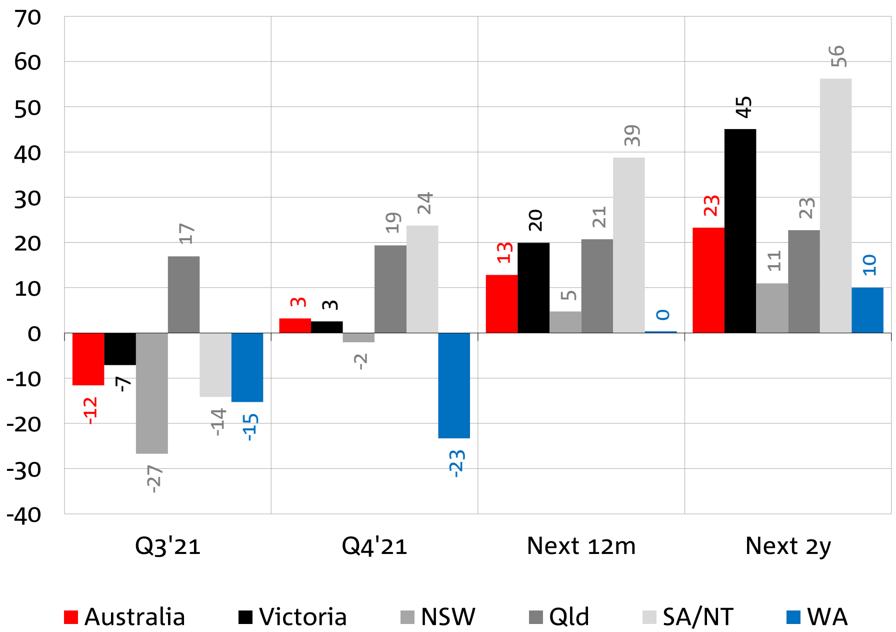
# MARKET OVERVIEW - INDEX BY STATE

Overall commercial property market sentiment rose in all states in Q4 bar WA (down 8 to -23 pts), which was also lowest of all states. NSW was the only other state to report a negative result (but was up 25 to -2 pts). Sentiment was highest SA (+24 pts) and QLD (+19 pts), with VIC (+3 pts) turning positive for the first time in more than 2 years.

Both short and long-term confidence measures turned positive in all states. SA (+39 pts), QLD (+21 pts) and VIC (+20 pts) are the most positive about the next 12 months, with WA (0 pts) and NSW (+5 pts) trailing. SA (+56 pts) and VIC (+45 pts) lead the way in 2 years' time, with WA (+10 pts) and NSW (+11 pts) still trailing.

By sector, Office confidence improved in all states bar WA. Retail confidence levels were higher in SA, VIC and NSW, but lower in QLD and WA. Industrial outcomes were mixed, though confidence levels remain very high across the country - see table.

## COMMERCIAL PROPERTY INDEX - STATE




## OFFICE PROPERTY MAKET INDEX: STATES

| | VIC | NSW | QLD | WA | SA/NT | AUS |
|---|---|---|---|---|---|---|
| Q4'21 | -23↑ | -2↑ | 20↑ | -33↓ | 19↑ | **-6↑** |
| Q4'22 | 0↑ | -2↑ | 23↑ | -17↓ | 31↑ | **2↑** |
| Q4'23 | 47↑ | 2↑ | 33↑ | 0↓ | 38↑ | **20↑** |

## RETAIL PROPERTY MARKET INDEX: STATES

| | VIC | NSW | QLD | WA | SA/NT | AUS |
|---|---|---|---|---|---|---|
| Q4'21 | -26↑ | -24↑ | -2↓ | -70↓ | -13↑ | **-20↑** |
| Q4'22 | -14↑ | 0↑ | -4↓ | -20↔ | -13↑ | **-7↑** |
| Q4'23 | 14↑ | 10↑ | -9↓ | -10↓ | 38↑ | **5↑** |

## INDUSTRIAL PROPERTY MARKET INDEX: STATES

| | VIC | NSW | QLD | WA | SA/NT | AUS |
|---|---|---|---|---|---|---|
| Q4'21 | 74↑ | 53↓ | 60↓ | 55↑ | 100↑ | **63↓** |
| Q4'22 | 71↓ | 52↓ | 63↓ | 65↑ | 100↑ | **63↓** |
| Q4'23 | 61↑ | 50↓ | 60↓ | 65↓ | 100↑ | **60↓** |

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

# MARKET OVERVIEW - CAPITAL & VACANCY EXPECTATIONS

On average, capital growth to out-perform for Industrial property at 3.4% in 12 months and 2.9% in 2 years' time (but down from 4.5% & 4.6% in Q3). Prospects next year are highest in QLD (4.3%) and in the next 2 years in SA (4.5%), with values to also grow in all other states.

Office values now also tipped to grow faster at 0.7% and 1.1% in the next 1-2 years (0.1% & 1.0% in Q3). Prospects are best in QLD (2.2% in 12 months and 2 years' time). Office values to continue falling in VIC (-0.3%) next year, but rebound strongly in 2 years time (1.8%), and remain weakest in WA (-1.0% & flat). Property professionals in NSW are predicting relatively modest growth (0.6% & 0.3%).

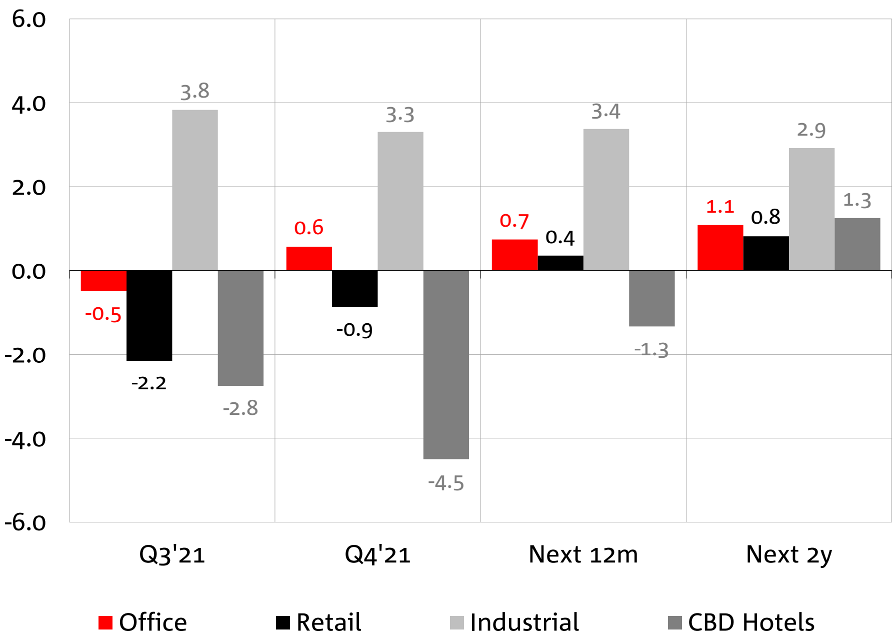
Retail values are expected to grow 0.4% next year and 0.8% in 2 years), led by VIC (1.3% & 2.4%), and weakest in WA (-1.6% & -1.7%) and QLD (-0.1% & -0.9%). CBD Hotels values also set to rebound in 2 years' (1.3%), after falling -1.3% in the next 12 months - **see page 10**.

On average, property professionals pointed to a small rise in national Office vacancy to 9.9% in Q4 (9.4% in Q3) and in all states bar SA/NT. It was highest in WA (13.0%), ahead of QLD (12.6%) and VIC (10.4%). National vacancy expected to remain elevated but ease slightly to 9.8% and 9.2% in the next 1-2 years, with lower vacancy in all states - though at above average levels - **see page 11 for detail**.

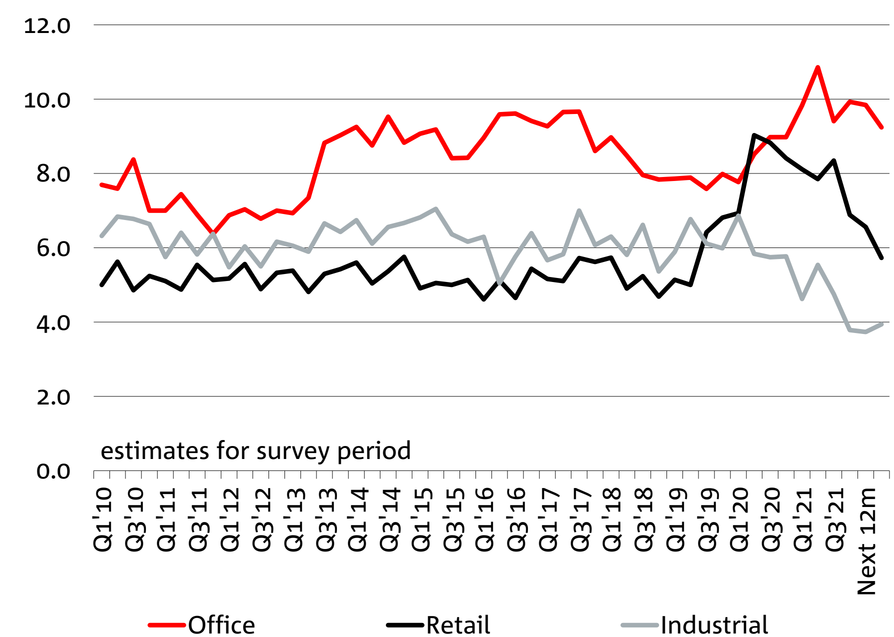
Retail vacancy eased to pre-pandemic levels in Q4 at 6.9% (8.3% in Q3), but was still above average (5.7%). Vacancy highest in SA/NT (8.5%) and VIC (7.3%). Overall vacancy is expected to fall in the next 1-2 years (6.6% & 5.7%), and in all states bar QLD (unchanged).

Industrial vacancy fell to a survey low 3.8% in Q4 (4.8% in Q3), with market tightness most apparent in NSW (2.8%) and SA/NT (2.5%). Vacancy is expected to be broadly unchanged in the next 1-2 years, with below survey average vacancy rates in all states except VIC.

## CAPITAL VALUE EXPECTATIONS (%)




## VACANCY RATE EXPECTATIONS (%)



# MARKET OVERVIEW - RENTS & SUPPLY

Rental growth in Office markets to recover to -0.6% and 0.6% in the next 1-2 years (-2.0% & -0.9% in Q3) as take-up and headcounts grow and as more workers return. NSW expected to under-perform (-1.3% & -0.5%) and QLD (0.8% & 2.0%) out-perform, with positive returns in all states in 2 years' time except NSW and WA (flat).

In Retail, nationwide rents to continue falling but at a slower -1.6% & -0.4% (-3.4% & -2.3% in Q3). Rents expected to fall in all states next year, led by VIC (-2.5%), SA/NT and WA (-2.1%). Professionals see rents still falling in WA (-1.8%) and VIC (-0.4%) in 2 years' time, with basically flat outcomes projected elsewhere.

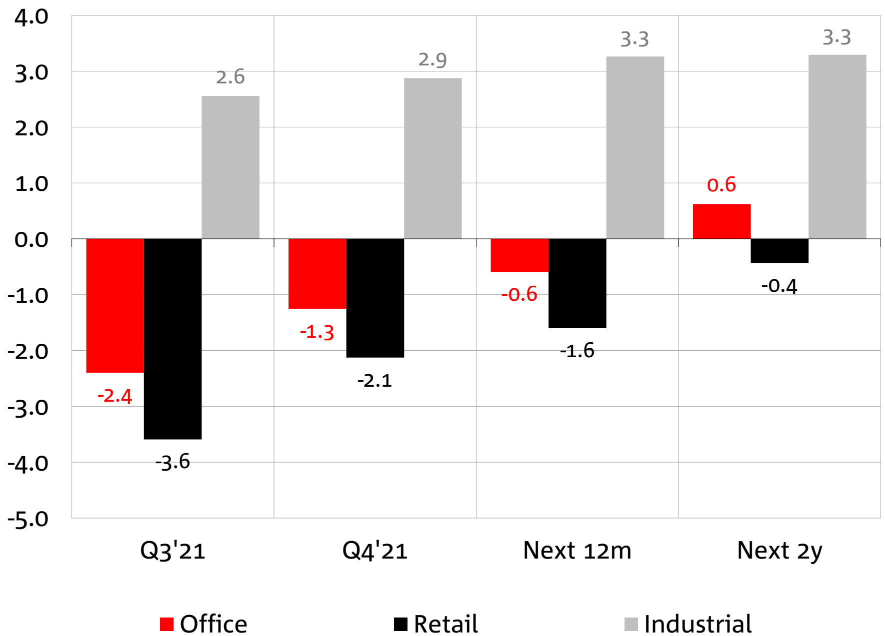
The outlook for Industrial rents was basically unchanged at a solid 3.3% over the next 1-2 years, led by SA/NT (4.5% & 5.8%) and QLD (4.2% & 3.7%). Strong occupier demand expected to also support relatively strong income growth in all other states - **see page 10**.

Office, Retail and CBD Hotel markets now "somewhat" over-supplied and will stay so next year in Retail and CBD Hotels, before balancing, with Office balancing in 3 years' time. Industrial markets however "quite" under-supplied now and will remain so next year, before improving in 3 years time - though still "somewhat" under-supplied.

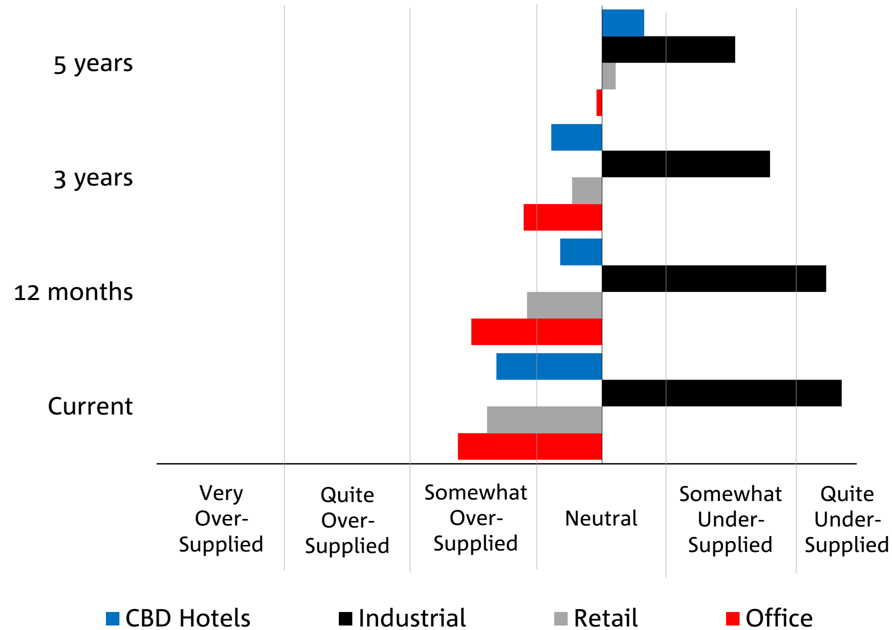
Supply conditions in Office are most challenging in WA ("very" over-supplied now and next year and "quite" over-supplied in 3 years). VIC, NSW and QLD also "somewhat" over-supplied now and expected to remain so in the next 1-3 years.

All state Retail markets currently over-supplied (led by VIC) and set to remain "somewhat" so next year before balancing. WA the exception, with market "somewhat" over-supplied in 5 years' time. Industrial markets "quite" under-supplied" now and set to remain so, with shortages most apparent in NSW and QLD in the next 1-3 years.

## GROSS RENTAL EXPECTATIONS (%)




## SUPPLY CONDITIONS



# MARKET OVERVIEW - DEVELOPMENT INTENTIONS

The number of developers expecting to commence new works in the next month fell slightly to 17% in Q4 (19% in Q3), but those that planned to start in the next 1-6 months increased sharply to 38% (29% in Q3). Consequently, an above survey average 55% said they plan to start new works in the short-term (next 6 months), up from just 47% in the last quarter. We suspect the emergence from long periods of lockdown in NSW and VIC during the survey period may have contributed to this spike.

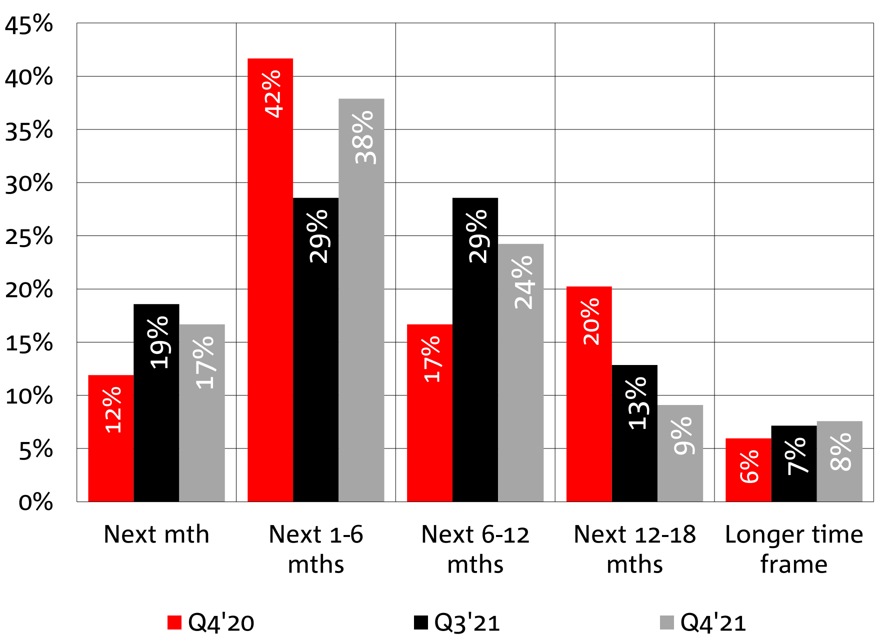
Around 24% now also intend to start in the next 6-12 months (down from 29% in Q3) and 9% in the next 12-18 months (13% in Q3).

In total, around 9 in 10 (88%) developers plan to start works within the next 18 months - a significant turnaround from the low of 68% in mid-2020 when COVID uncertainty was rising quickly.

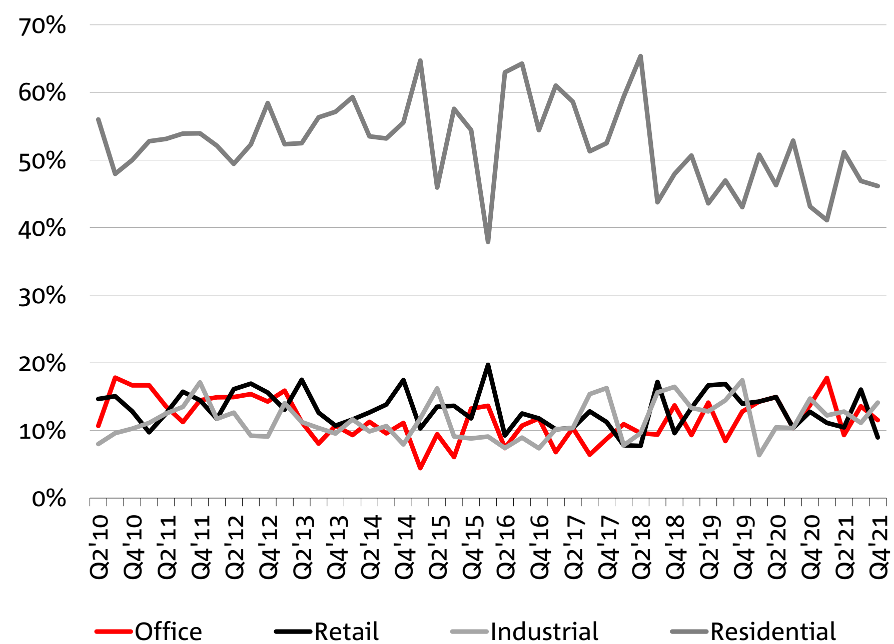
The falls in building approvals seen since mid-2021 would normally suggest a decline in residential investment. But, due to capacity constraints (including labour and access to building materials) as well as the delays to work from lockdowns, a big gap has opened between the value of approvals/work commenced and the value of work done. This resulting pipeline will take a while to work through although how quickly this will be done is highly uncertain. Against this backdrop, the Q4 survey pointed to a further small decline in the number of developers planning to start new works in the residential space to a below average 46% (47% in Q3).

With over-supply still prevalent, the number of developers planning to start new works in Office (12%) and Retail (9%) also fell, but those targeting Industrial (where space shortages remain) increased (14%).

## 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 new projects fell to an equal survey low 51% in Q4, down from 55% in the the previous quarter and 58% at the same time last year.

This has occurred against a backdrop of rapidly escalating land prices in 2021, constrained land supplies in capital cities and constraints involved in bringing newly subdivided land to the market.

Consequently, the number of developers seeking new acquisitions in Q4 remained at an above average 28% (29% in Q3), while the number looking at refurbishment opportunities rose to an above average (and near 2-year high) 16%, from 13% in Q3 and 9% at the same time last year.

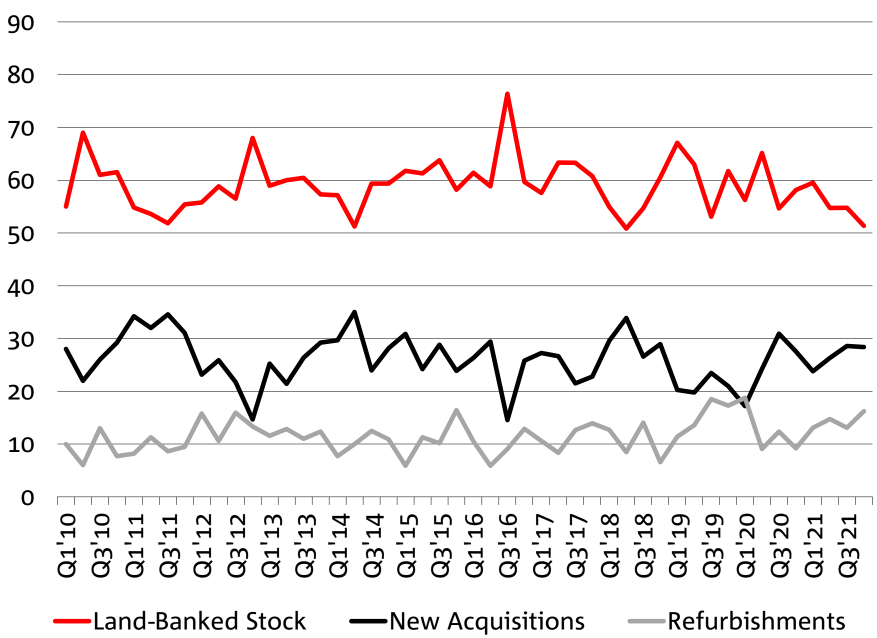
With a higher number of developers planning to start new projects over the next 6 months, the number who said they were planning to source more capital to fund their developments during this timeframe also increased to 30% (25% in Q3).

Around 55% had no intention to source capital in the short-term (up slightly from 53% in Q3), while the number who were unsure fell to 15% (22% in Q3).

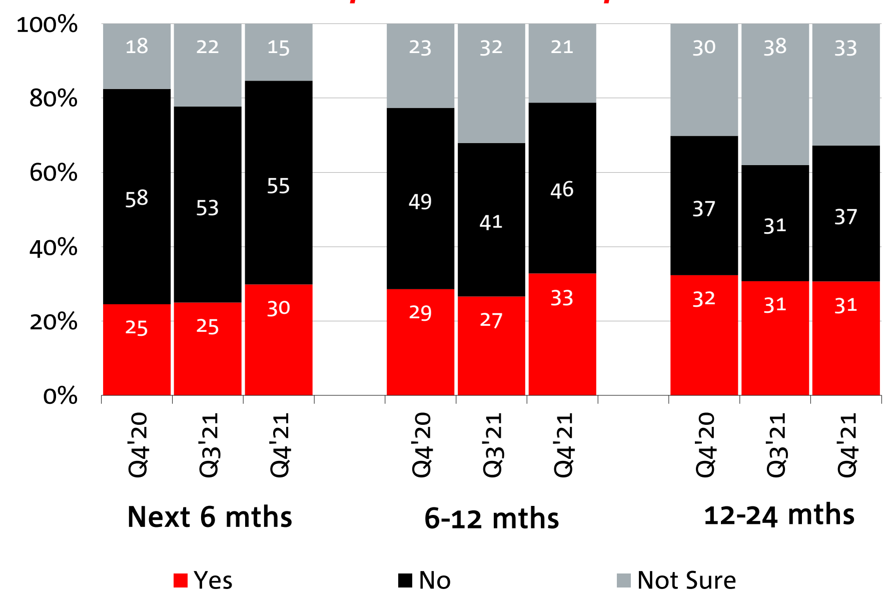
The number planning to source capital in the next 6-12 months also lifted to 33% (27% in Q3), but 46% had no intention to source funds (up from 41% in Q3), and just 21% were unsure (32% in Q3).

The number intending to source more capital in the next 12-24 months was unchanged at 31%, but noticeably more did not intend to source capital over this period (37% in Q3).

## SOURCES OF LAND DEVELOPMENT (%)




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



# MARKET OVERVIEW - FUNDING & PRE-COMMITMENTS

RBA data shows that total business credit growth picked up strongly over 2021, driven by lending to large firms, while lending to small firms was little changed. But with prospects of higher interest rates in 2022 growing, the net number who said it was harder to obtain borrowing or loans (debt) stretched for the second straight quarter to -19% (-9% in Q3).

Perceptions around equity funding however improved somewhat with the net number indicating it was harder to obtain equity falling slightly to -7% (-9% in Q3).

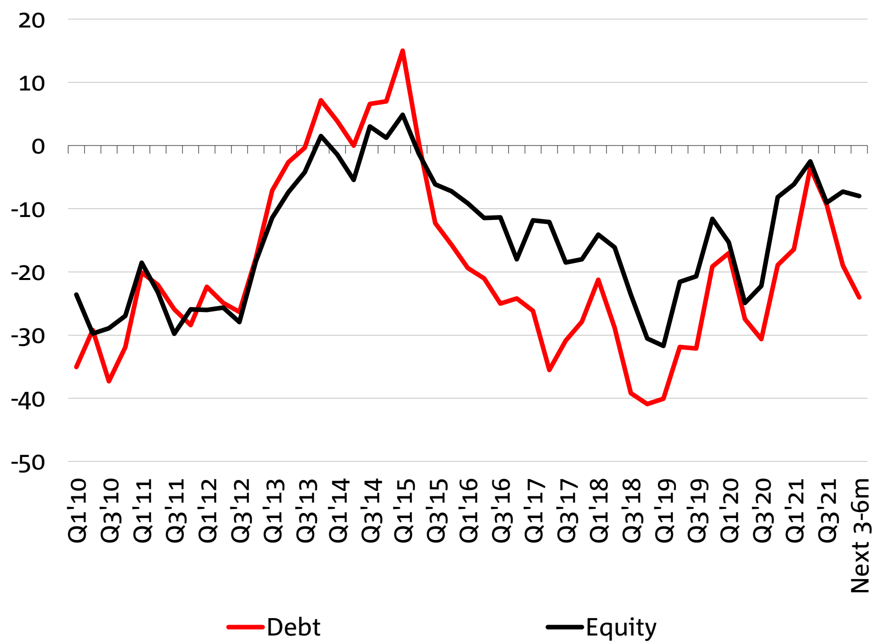
Looking forward, the net number of property professionals who expect debt funding to worsen over the next 3-6 months has widened sharply to -24% (-5% in Q3). But in terms of equity funding, only -8% expect conditions to worsen (unchanged from (Q3).

Nationally, the average pre-commitment to meet external debt funding requirements for new developments increased for residential property (60.0%), but was lower for commercial (54.7%).

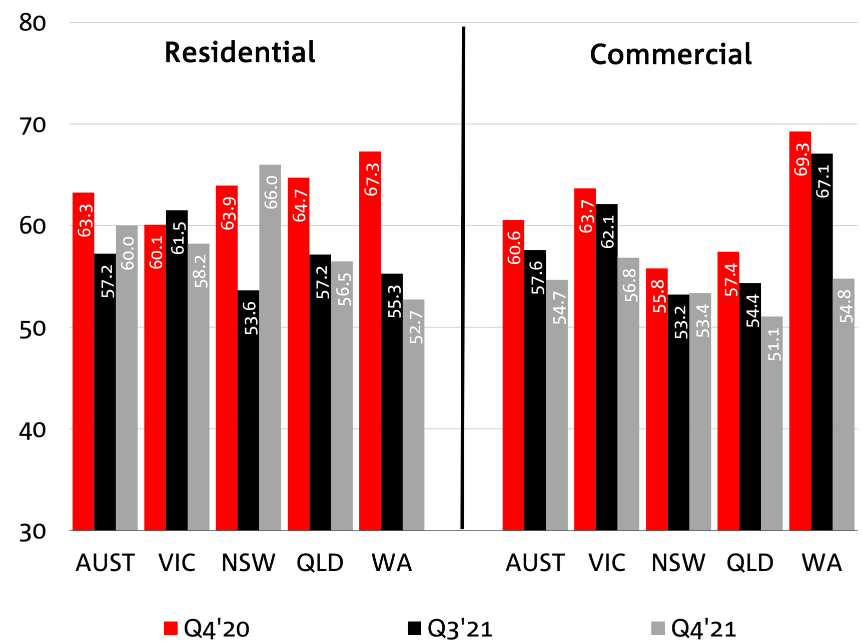
Residential requirements fell in all states bar NSW where it rose sharply to 66.0% (53.6% in Q3) and is now highest of all states. It was lowest in WA (52.7%). In commercial markets, requirements fell in all states, except NSW (broadly unchanged at 53.4%). Requirements were highest in VIC (56.8%) and lowest in QLD (51.1%).

The net number of property professionals who expect residential requirements to improve in the next 6 months worsened for residential (-6%) and commercial (-5%) property. And noticeably more see pre-commitment requirements worsening over the next 12 months for residential (-28%) and commercial (-25%) property.

## EASE OF ACQUIRING DEBT/EQUITY (NET)




## PRE-COMMITMENT REQUIREMENTS (%)



# SURVEY RESPONDENTS EXPECTATIONS (AVG) Q4-2021

## OFFICE CAPITAL VALUES (%)

| | VIC | NSW | QLD | WA | SA/NT | AUS |
|---|---|---|---|---|---|---|
| Q4'21 | -0.7 | 0.6 | 1.7 | -2.2 | 2.8 | 0.6 |
| Q4'22 | -0.3 | 0.6 | 2.2 | -1.0 | 1.9 | 0.7 |
| Q4'23 | 1.8 | 0.3 | 2.2 | 0.0 | 1.4 | 1.1 |

## OFFICE RENTS (%)

| | VIC | NSW | QLD | WA | SA/NT | AUS |
|---|---|---|---|---|---|---|
| Q4'21 | -2.7 | -1.6 | 0.7 | -2.5 | 0.1 | **-1.3** |
| Q4'22 | -0.7 | -1.3 | 0.8 | -0.6 | -0.1 | **-0.6** |
| Q4'23 | 1.6 | -0.5 | 2.2 | 0.0 | 0.9 | **0.6** |

## RETAIL CAPITAL VALUES (%)

| | VIC | NSW | QLD | WA | SA/NT | AUS |
|---|---|---|---|---|---|---|
| Q4'21 | -0.8 | -1.2 | 0.2 | -3.7 | -0.6 | **-0.9** |
| Q4'22 | 1.3 | 0.3 | -0.1 | -1.6 | -0.1 | **0.4** |
| Q4'23 | 2.4 | 0.9 | -0.9 | -1.7 | 2.0 | **0.8** |

## RETAIL RENTS (%)

| | VIC | NSW | QLD | WA | SA/NT | AUS |
|---|---|---|---|---|---|---|
| Q4'21 | -3.5 | -2.4 | -0.4 | -2.8 | -2.1 | **-2.1** |
| Q4'22 | -2.5 | -1.1 | -1.0 | -2.1 | -2.1 | **-1.6** |
| Q4'23 | -0.7 | -0.2 | -0.1 | -1.8 | -0.1 | **-0.4** |

## INDUSTRIAL CAPITAL VALUES (%)

| | VIC | NSW | QLD | WA | SA/NT | AUS |
|---|---|---|---|---|---|---|
| Q4'21 | 3.3 | 3.3 | 4.0 | 1.7 | 4.0 | **3.3** |
| Q4'22 | 3.4 | 3.4 | 4.3 | 1.2 | 3.8 | **3.4** |
| Q4'23 | 3.1 | 2.8 | 3.5 | 1.5 | 4.5 | **3.1** |

## INDUSTRIAL RENTS (%)

| | VIC | NSW | QLD | WA | SA/NT | AUS |
|---|---|---|---|---|---|---|
| Q4'21 | 2.4 | 2.8 | 3.6 | 2.1 | 4.5 | **2.9** |
| Q4'22 | 2.7 | 2.9 | 4.2 | 3.5 | 4.5 | **3.3** |
| Q4'23 | 2.8 | 2.8 | 3.7 | 4.0 | 5.8 | **3.3** |

# SURVEY RESPONDENTS EXPECTATIONS (AVG) Q4-2021

## OFFICE VACANCY RATE (%)

| | VIC | NSW | QLD | WA | SA/NT | AUS |
|---|---|---|---|---|---|---|
| Q4’21 | 10.4 | 8.2 | 12.6 | 13.0 | 7.9 | 9.9 |
| Q4’22 | 9.6 | 8.4 | 12.9 | 11.7 | 8.4 | 9.8 |
| Q4’23 | 8.2 | 8.0 | 12.7 | 10.3 | 8.7 | 9.2 |

## RETAIL VACANCY RATE (%)

| | VIC | NSW | QLD | WA | SA/NT | AUS |
|---|---|---|---|---|---|---|
| Q4’21 | 7.3 | 7.0 | 6.1 | 6.6 | 8.5 | 6.9 |
| Q4’22 | 6.6 | 6.7 | 6.2 | 5.8 | 8.5 | 6.6 |
| Q4’23 | 5.3 | 5.8 | 6.0 | 5.0 | 6.5 | 5.7 |

## INDUSTRIAL VACANCY RATE (%)

| | VIC | NSW | QLD | WA | SA/NT | AUS |
|---|---|---|---|---|---|---|
| Q4’21 | 4.4 | 2.8 | 4.1 | 5.6 | 2.5 | 3.8 |
| Q4’22 | 4.6 | 3.0 | 3.7 | 5.0 | 2.5 | 3.7 |
| Q4’23 | 5.3 | 3.2 | 3.9 | 4.8 | 2.0 | 3.9 |

## 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 370 property professionals participated in the Q4 2021 Survey.

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