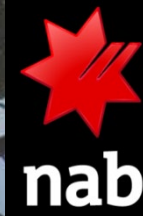


EMBARGOED UNTIL 11.30AM AEST, 19 MAY 2022



# NAB COMMERCIAL PROPERTY SURVEY Q1-2022

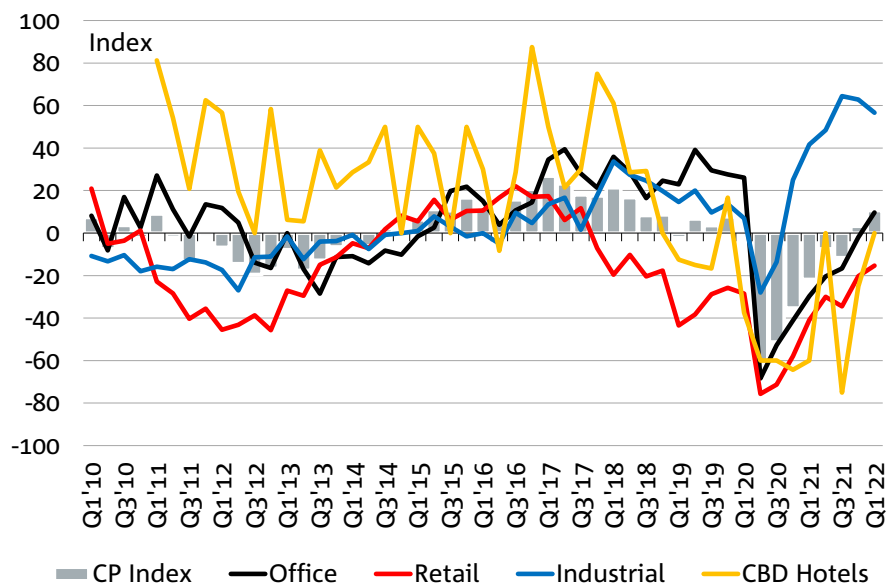
Date: May 2022 | NAB Behavioural & Industry Economics

# KEY FINDINGS

- NAB's Commercial Property Index rose to +11 pts in Q1 building on the gains seen in the last quarter when the index moved back into positive territory for the first time in 2 years (+3 pts).
- The overall result was again underpinned by elevated (though mildly softer) levels of sentiment in Industrial property markets (+57 pts), where demand for logistics space continued unabated and drove accelerating rental growth.
- The recovery in commercial property market sentiment continued as Covid restrictions eased in sectors highly impacted by restrictions. The Office Index was positive (+10 pts) for the first time since the Covid outbreak in Q1 2020 (and in all states bar SA/NT). The CBD Hotels Index improved to 0 pts (-25 pts in Q4), with occupancy rates lifting as domestic and international travel resumed. Retail market sentiment while still weak at -15 pts amid ongoing structural challenges also lifted from -20 pts in Q4 to its highest level since Q2 2018.
- Forward looking indicators were more optimistic with NAB's 12-month confidence measure rising to +19 pts (+13 pts in Q4) and 2-year measure to +29 pts (+23 pts in Q4) - with both now in line with survey averages and highest since H1 2018. Confidence is still being driven by a very strong outlook for Industrial property, with confidence in Office & CBD Hotels markets also lifting.
- Prospects for capital growth over the next 1-2 years still highest for Industrial property (led by NSW), with Office values also tipped to grow faster (led by QLD). Outlook for CBD Hotels also revised up, but property professionals less buoyant about growth prospects in Retail markets, on average predicting a small fall in the next year and flat in 2 years' time (with returns weakest in VIC).
- Survey suggests national Office vacancy rose to 10.1% (9.9% in Q4), but will ease to 9.5% and 9.0% in next 1-2 years, with lower (but above average) vacancy in all key states. Retail vacancy also up in Q1 (7.5%) and in all states bar QLD, but will drop in next 1-2 years (7.1% & 6.4%). Industrial vacancy up slightly to 4.0% (from survey low 3.8%) but with developers reportedly unable to keep up with demand for warehousing space, vacancy very low in NSW (2.8%) & VIC (3.4%).
- Rental growth expected to resume in Office markets in next 1 -2 years (0.6% & 1.4%), with QLD leading. The outlook for Industrial rents is more positive (3.7% & 4.1%), with particularly rapid growth predicted in Eastern seaboard states where markets also assessed as "quite" under-supplied. National Retail rents however tipped to continue falling but at a slower rate (-1.1% & -0.2%).
- Survey pointing to a wavering supply pipeline, with the number of developers expecting to start works within the next 18 months falling to 80% from 88% in the previous quarter and below the survey average (85%). However, this is well above the low of 68% in mid-2020 when COVID uncertainty was rising quickly.
- Despite prospect of rising rates in 2022, a net -13% of all property professionals said it was harder to obtain debt in Q1 (-19% in Q4) and -9% equity (-7% in Q4). Looking ahead, a net -23% see debt conditions worsening in the next 3-6 months, with a net -10% also expecting equity funding conditions to worsen.

Special survey questions also found: Covid support assistance packages for commercial rent deferrals and reductions did not have a 'significant' impact on commercial property leases (4.1 pts out of 10); supply chain and shipping issues played a 'significant' role driving demand for warehousing space as retailers and logistics companies tried to stockpile goods to hedge against these problems (6.7 pts out of 10); and low yields are playing a 'significant' role in driving commercial property market sales (6.6 pts out of 10).

## NAB COMMERCIAL PROPERTY INDEX



	Q4'21	Q1'21	Next 12m	Next 2y
Office	-2	10	19	37
Retail	-20	-15	-9	0
Industrial	63	57	63	59
CBD Hotels	-25	0	17	25
CP Index	3	11	19	29

# MARKET OVERVIEW - NAB COMMERCIAL PROPERTY INDEX

NAB's Commercial Property Index improved to +11 pts in Q1 building on the gains seen in the last quarter when the index moved back into positive territory for the first time in 2 years (+3 pts).

The overall result continued to be underpinned by elevated (though mildly softer) sentiment in Industrial markets (+57 pts). Office also contributed in Q1, with the sectoral Index also turning positive (+10 pts) for the first time since the Covid outbreak in Q1 2020.

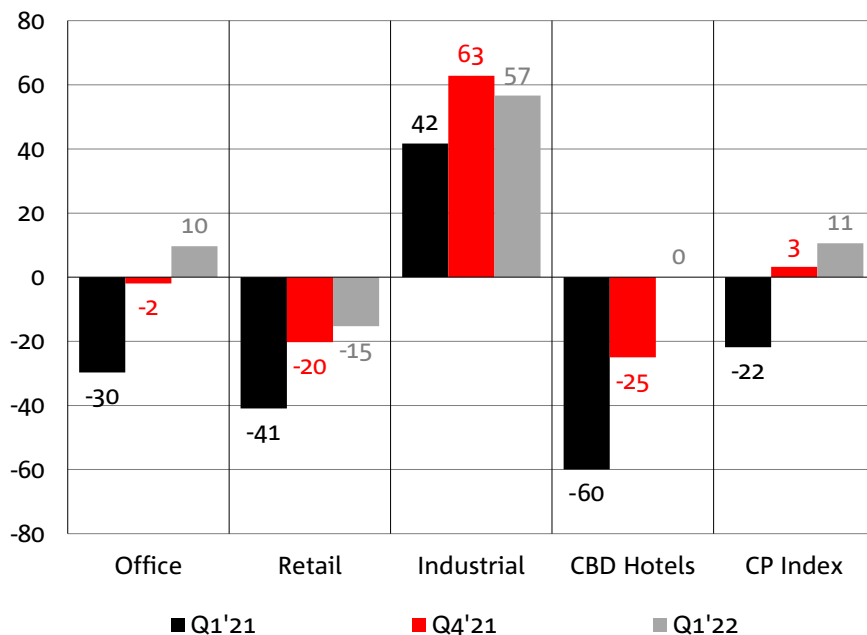
The bouncy CBD Hotels Index also improved further to a neutral 0 pts (-25 pts in Q4), with surveyed property professionals pointing to a further increase in CBD Hotel occupancy rates as domestic and international travel resumed.

In Retail markets, sentiment was still relatively weak at -15 pts amid ongoing structural challenges, though also lifted from -20 pts in the previous quarter and now sitting at its highest level since Q2 2018.

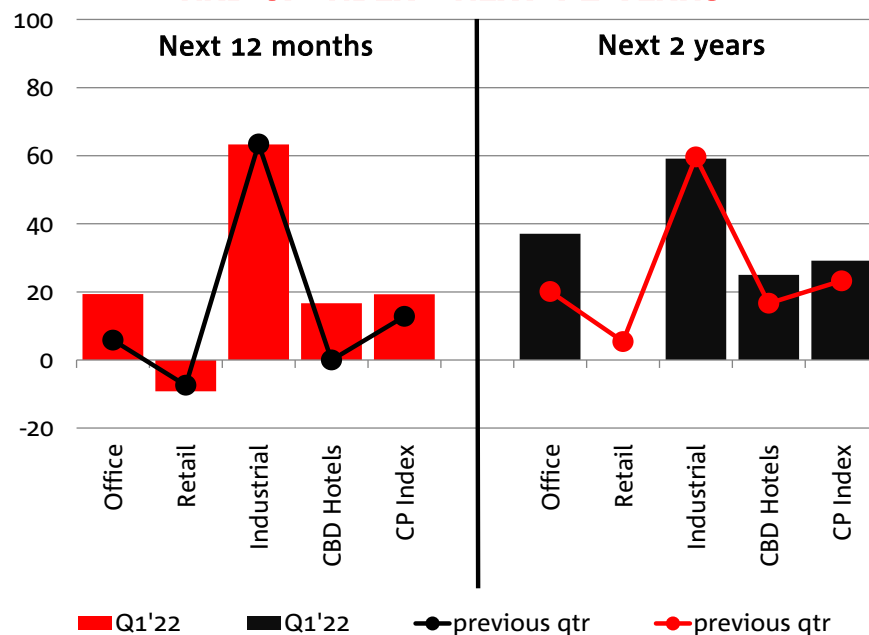
Confidence in commercial property markets improved with the 12-month measure rising to +19 pts (+13 pts in Q4) and 2-year measure to +29 pts (+23 pts in Q4) - with both measures now broadly in line with their survey averages and printing at their highest levels since the first half of 2018.

Overall confidence is still being carried by Industrial, with both short (+63 pts) and long-term (+59 pts) measures basically unchanged from the last quarter. With more workers returning to work, Office confidence continued to build, with the short-term measure rising to +19 pts (+6 pts in Q4) and 2 year measure to +37 pts (+20 pts in Q4). Retail confidence went backwards, falling to -9 pts (-7 pts in Q4) and neutral at 0 pts (+5 pts in Q4) in the next 1-2 years respectively. But a resumption of travel and brighter outlook for tourism seems to have boosted confidence in the CBD Hotels sector.

## NAB COMMERCIAL PROPERTY INDEX



## NAB CP INDEX - NEXT 1-2 YEARS





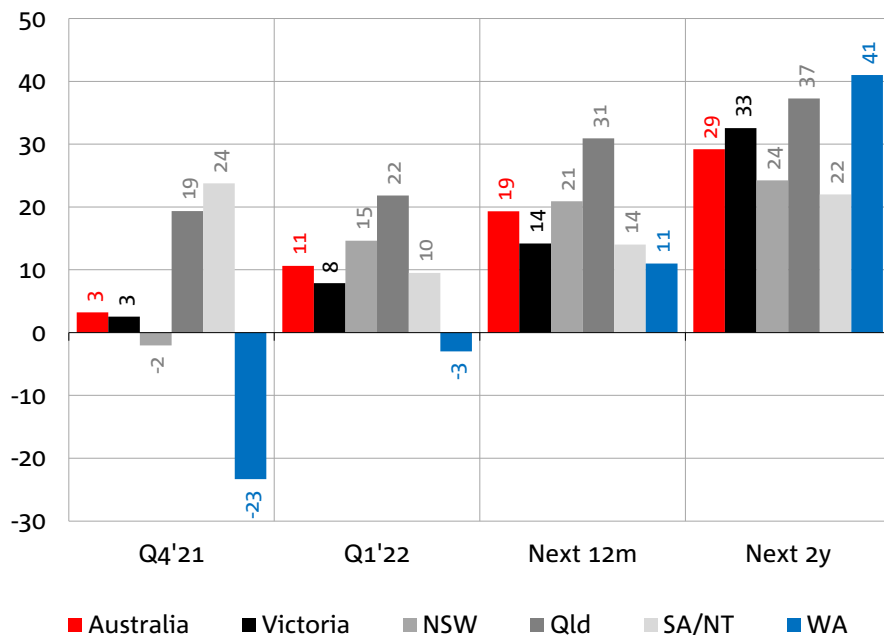
# MARKET OVERVIEW - INDEX BY STATE

Overall commercial property market sentiment lifted in all states in Q1 bar SA/NT (down 14 to +10 pts). Sentiment was highest in QLD (+22 pts), followed by NSW (+15) and lowest in WA - the only state to print negative (up 20 to -3 pts).

Both short and long-term confidence measured positive in all states. QLD (+31 pts) was the most positive about the next 12 months, and WA lowest (+11 pts). But WA (+41 pts) leads the way in 2 years' time, with SA/NT (+22 pts) and NSW (+24 pts) trailing.

By sector, Office confidence improved in NSW, QLD and WA, but softened in VIC and SA/NT. Office confidence levels are highest in QLD over the next 1-2 years, and lowest in VIC (1 year) and NSW (2 years). Retail confidence sank in VIC and NSW but rose in WA and QLD. Industrial outcomes softened (but still strong) in VIC and WA, but rose in NSW and highest of all states by some margin - see table.

## COMMERCIAL PROPERTY INDEX - STATE



## OFFICE PROPERTY MARKET INDEX: STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'22	-6↑	15↑	36↑	-5↑	-20↓	10↑
Q1'23	-6↓	23↑	45↑	10↑	10↓	19↑
Q1'24	39↓	21↑	64↑	55↑	30↓	37↑

## RETAIL PROPERTY MARKET INDEX: STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'22	-28↓	-14↑	-9↓	0↑	25↑	-15↑
Q1'23	-18↓	-9↓	0↑	0↑	0↑	-9↓
Q1'24	-10↓	5↓	0↑	30↑	0↓	0↓

## INDUSTRIAL PROPERTY MARKET INDEX: STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'22	67↓	80↑	50↓	20↓	0↓	57↓
Q1'23	58↓	89↑	64↑	35↓	0↓	63↔
Q1'24	50↓	89↑	59↓	25↓	0↓	59↓

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

# MARKET OVERVIEW - CAPITAL & VACANCY EXPECTATIONS

Industrial capital growth is forecast to out-perform the broader market at 3.1% in the next 1-2 years. Prospects are best in NSW (5.2% & 5.5%), and tipped to grow in all states bar SA/NT in 2 years' time.

On average, nation Office values expected to also grow faster at 1.0% & 1.8%. Prospects are best in QLD (4.0% & 4.6%), with values set to fall in SA./NT (-1.6%) and VIC (-1.2%) in the next year, but resume growing in VIC in 2 years time (1.1%). Expectations in NSW (1.4% & 1.2%) and WA (0.7% & 1.9%) are positive.

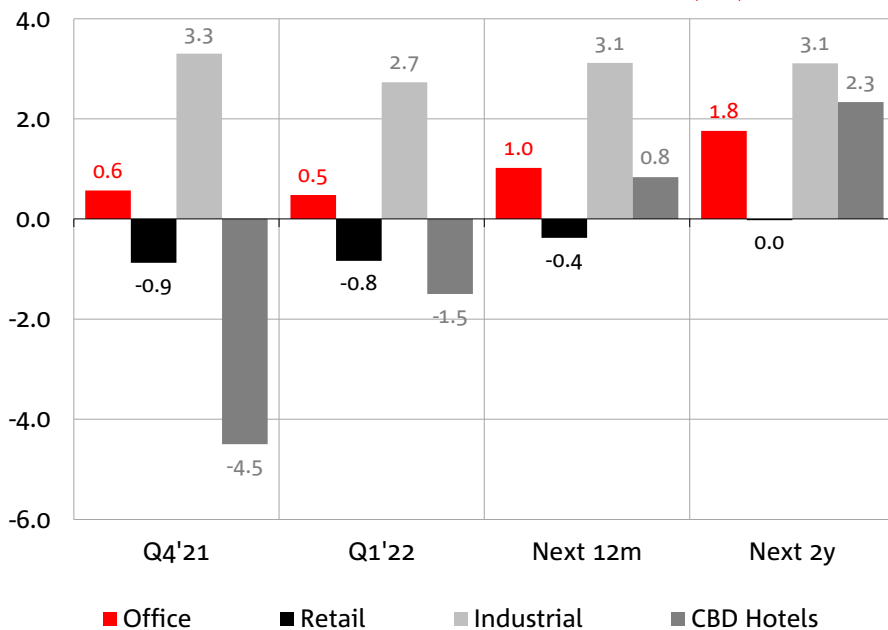
The outlook for Retail was revised down to -0.4% & flat in next 1-2 years (0.4% & 0.8% in Q4), with SA/NT and WA out-performing. VIC now weakest (-0.6% in both years), after leading the way in Q4.

Expectations for CBD Hotels however were revised up (0.8% & 2.3%) - **see page 11.**

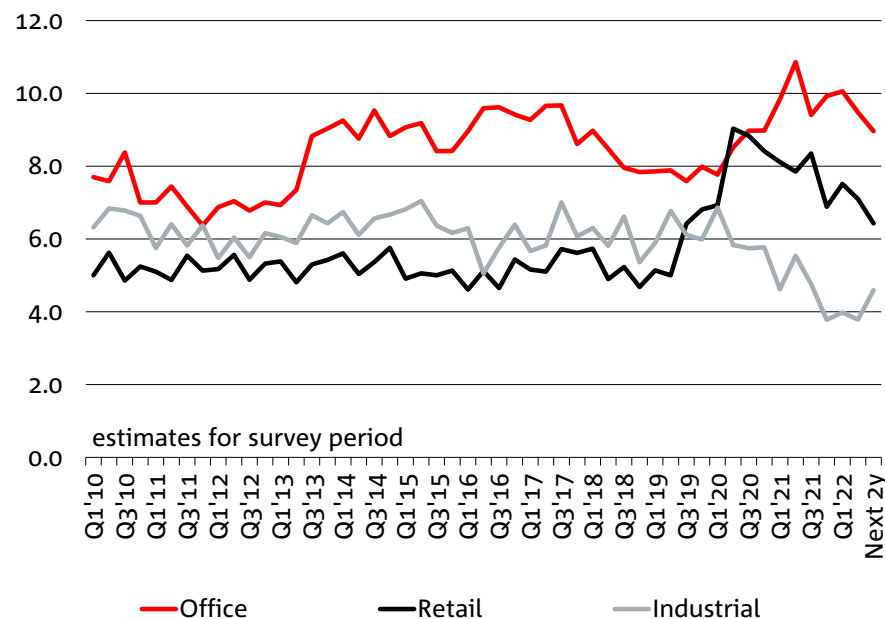
On average, property professionals pointed to a further small rise in national Office vacancy to 10.1% in Q1 (9.9% in Q4). It was highest in QLD (12.3%), ahead of WA (11.9%) and VIC (10.4%). National vacancy is expected to ease slightly to 9.5% and 9.0% in the next 1-2 years, with lower (but still above average) vacancy in all states bar SA/NT - **see page 11 for detail.**

Retail vacancy rose to 7.5% in Q1 (6.9% in Q4), and was higher in all states bar QLD. Overall vacancy is expected to moderate in the next 1-2 years (7.1% & 6.4%), and in all states bar SA/NT. Vacancy rates are tipped to be lowest in QLD (5.7% & 6.0%) and VIC (6.3% & 5.2%). Industrial vacancy rose slightly to 4.0% (from survey low 3.8% in Q4), with vacancy lowest in NSW (2.8%) and VIC (3.4%). Industrial vacancy is expected to stay broadly unchanged next year (3.8%), but climb to 4.6% in 2 years and be higher in all states - **see page 12.**

## CAPITAL VALUE EXPECTATIONS (%)



## VACANCY RATE EXPECTATIONS (%)



# MARKET OVERVIEW - RENTS & SUPPLY

Rental growth is expected to resume in Office markets, growing 0.6% & 1.4% in the next 1-2 years (-0.6% & 0.6% in Q4). QLD is expected to out-perform (1.7% & 2.8%) and SA/NT (-2.0% & -1.2%) under-perform. Rental growth is tipped to accelerate in WA (0.7% & 2.7%), remain steady in NSW (0.8% & 0.9%) and recover in VIC (-0.3% & 1.4%).

In Retail, rents are expected to continue falling but the rate of decline is tipped to slow to -1.1% & -0.2% (-1.6% & -0.4% in Q4). Rents are expected to fall in VIC (-2.1% & -0.6%) and NSW (-1.3% & 0.7%), but rise in SA/NT (1.0% in both years) and WA (0.4% & 0.5%), with rents in QLD recovering (-0.3% & 0.4%).

The outlook for Industrial rents is more positive at 3.7% & 4.1% in the next 1-2 years (3.3% forecast in both years in Q4). Rental growth is expected to be particularly rapid in the Eastern seaboard states, with modest growth in WA and falling in SA/NT- **see page 11.**

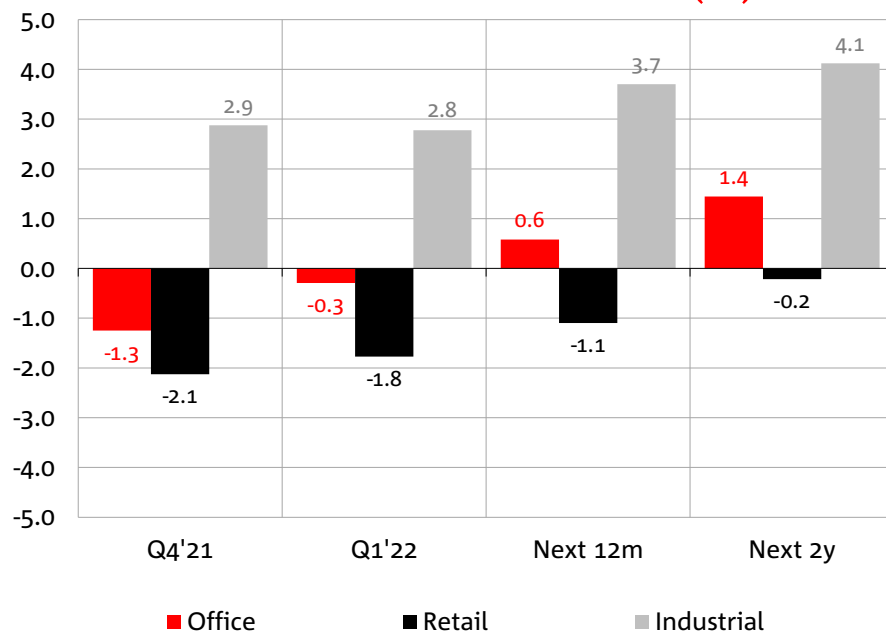
National Office market is currently 'somewhat' over-supplied and expected to remain so in the next 1-3 years in VIC, QLD and SA/NT, with WA 'quite' over-supplied and, and conditions 'neutral' in NSW.

National Retail market assessed as 'neutral,' and expected to stay that way over the outlook period. While VIC and NSW are expected to be 'somewhat' over-supplied in the next year, QLD tipped to be 'somewhat' under-supplied, and WA and SA/NT 'neutral'.

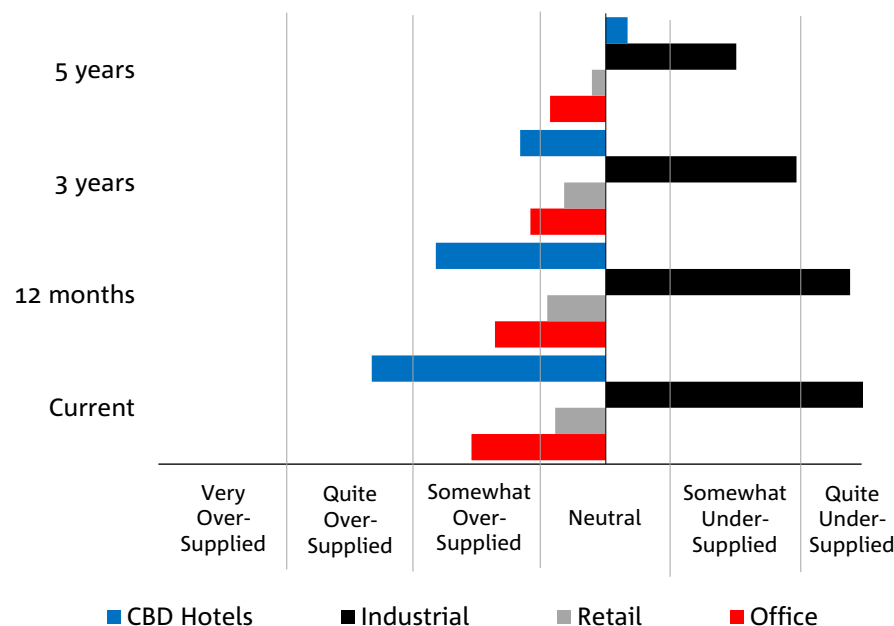
Industrial markets however were assessed as 'quite' under-supplied now and expected to remain so next year, and 'somewhat' under-supplied in the next 3-5 years. Under-supply is expected to persist in most state Industrial property markets over the outlook horizon, particularly in NSW and QLD.

In the CBD Hotel market, currently high levels of over-supply are expected to be worked out of the market over the next 1-5 years.

## GROSS RENTAL EXPECTATIONS (%)



## SUPPLY CONDITIONS



# MARKET OVERVIEW - DEVELOPMENT INTENTIONS

The number of developers expecting to commence new works in the next month rose to 24% in Q1 (17% in Q4), but those that planned to start in the next 1-6 months fell sharply to 23% (38% in Q4). As a result, a below survey average 47% said they planned to start new works in the short-term (next 6 months), down from 55% in Q4.

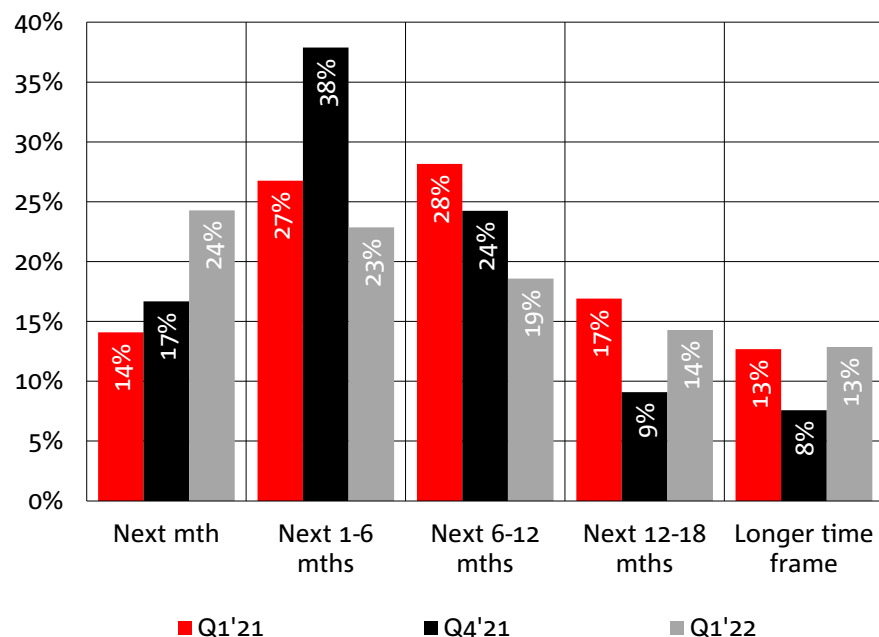
Only 19% intend to start in the next 6-12 months (down from 24% in Q4 and 28% one year ago). But more developers planned to start in the next 12-18 months (14%) than in the last quarter (9%), with more also looking at longer time frames (13% up from 8% in Q4).

In total, 8 in 10 (80%) developers plan to start works within the next 18 months. This was down from 88% in the previous quarter but still well above the low of 68% in mid-2020 when COVID uncertainty was rising quickly.

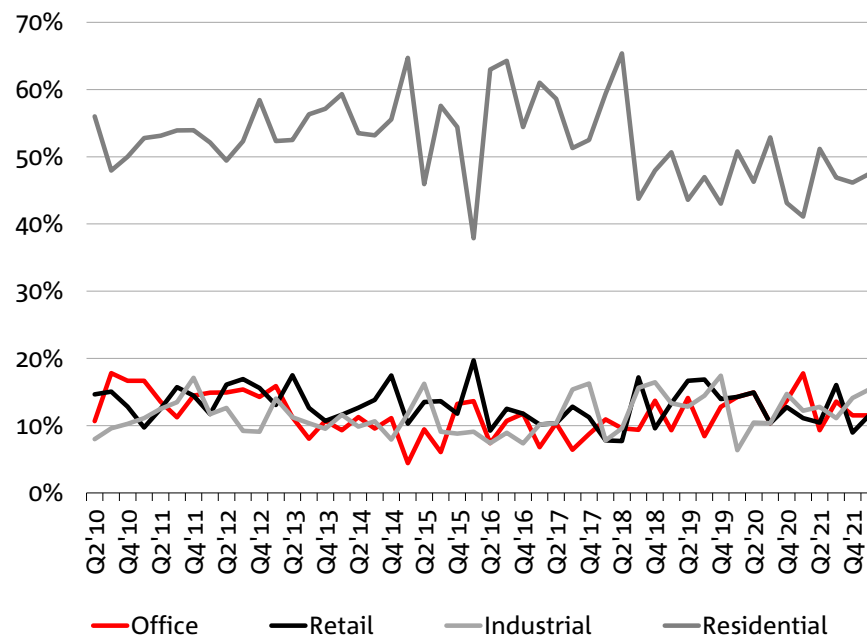
With HomeBuilder likely to have pulled forward some demand, construction costs high and the RBA soon expected to start raising rates, NAB thinks further falls in building approvals are likely. But labour and material shortages and periodic Covid-19 disruptions mean there is also still a large pipeline of work, which should result in only modest falls in residential investment this year, with the level of activity remaining solid as the backlog of work is completed. Against this, the Q1 survey also a broadly unchanged 47% of developers planned to start new residential projects (46% in Q4).

With over-supply still prevalent, the number planning to start new works in Office (12%) was unchanged, but those targeting Retail (where market supply is 'neutral') rose to 12%, and those targeting Industrial (where shortages remain) also rose to 15% (14% in Q4).

## 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 increased to 57% in Q1, after having fallen to an equal survey low 51% in Q4, but was down from 60% in the at the same time last year.

The number of developers seeking new acquisitions in Q1 also increased slightly to 29%, up from 28% in Q4 and above the survey average (26%).

In contrast, the number of developers looking at refurbishment opportunities fell steeply to 7%, down from 16% in the previous quarter and 13% at the same time last year. This was also the lowest print since Q4 2018 (7%).

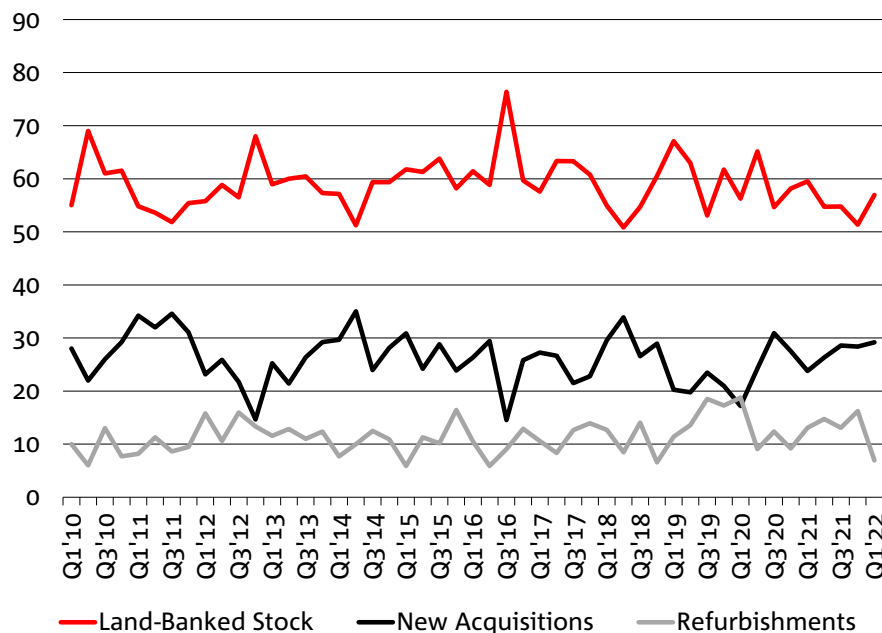
With fewer developers planning to start new projects over the next 6 months, the number who were planning to source more capital to fund their developments during this timeframe also fell to 27% (30% in Q4).

Around 58% had no intention to source capital in the short-term (up from 55% in Q4), while the number who were unsure was broadly unchanged at 15% (16% in Q4).

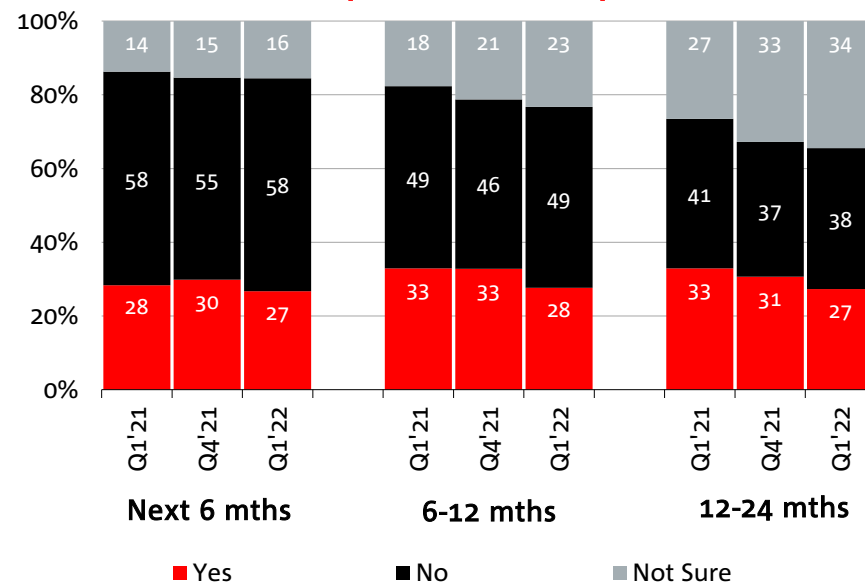
The number planning to source capital in the next 6-12 months also declined to 28% (33% in Q4), but 49% had no intention to source funds (up from 46% in Q4), and 23% were unsure (21% in Q4).

The number intending to source more capital in the next 12-24 also fell to 27% (31% in Q4), and slightly more (38%) 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

Despite the prospect of higher interest rates in 2022, the net number of surveyed property professionals who said it was harder to obtain borrowing or loans (debt) narrowed in Q1 to -13%, from -19% in the previous quarter and -16% at the same time last year.

Perceptions around equity funding however worsened a little with the net number indicating it was harder to obtain equity rising slightly to -9% (-7% in Q4).

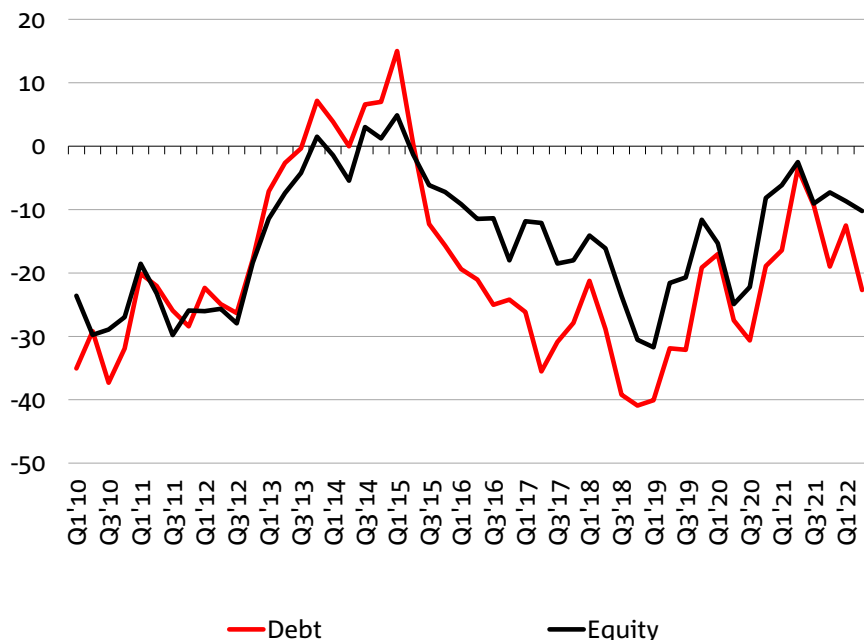
Looking forward, the net number of property professionals who expect debt funding to worsen over the next 3-6 months was broadly unchanged at -23% (-24% in Q4), but the net number expecting equity funding conditions to worsen rose slightly to -10% (up from -8% in Q4).

Nationally, the average pre-commitment to meet external debt funding requirements for new developments increased for residential property (63.5%), but was slightly lower for commercial (54.0%).

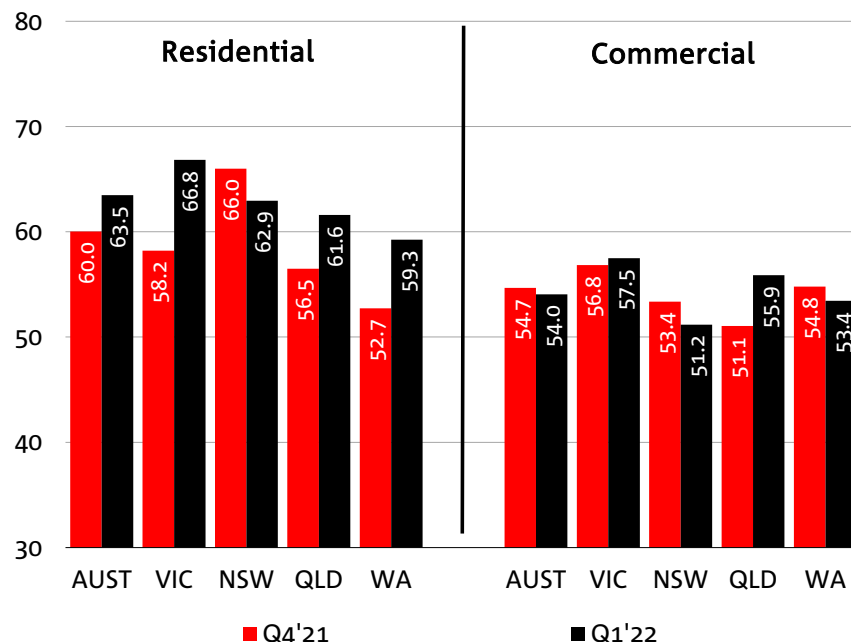
Residential requirements rose quite sharply in all states bar NSW where it fell to 62.9% (66.0% in Q4). Requirements were highest in VIC (66.8%) and lowest in WA (59.3%). In commercial markets, requirements fell modestly to 54.0% (54.7% in Q4), and were highest in VIC (57.5%) and lowest in NSW (51.2%).

The net number of property professionals who expect requirements to worsen in the next 6 months increased slightly for both residential (-8%) and commercial (-9%) property. Similar numbers see pre-commitment requirements worsening over the next 12 months for both residential (-27%) and commercial (-27%) property.

## EASE OF ACQUIRING DEBT/EQUITY (NET)



## PRE-COMMITMENT REQUIREMENTS (%)



# SPECIAL QUESTIONS

## EXTENT RENT DEFERRALS & REDUCTIONS AS PART OF COVID ASSISTANCE PACKAGES TO BUSINESSES ARE AFFECTING COMMERCIAL LEASES

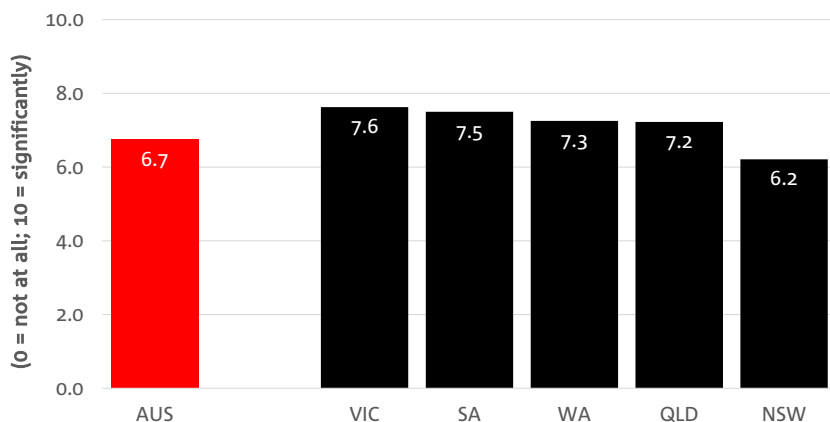


Covid support assistance packages for rent deferrals and reductions for commercial tenants 'modestly' impacted commercial property leases. On average, property professionals rated their impact at 4.1 pts out of 10 (10 is 'significant') - though the impact was somewhat higher in VIC (5.3 pts) and NSW (4.6 pts), than in SA (0.4 pts), QLD (2.7 pts) and WA (2.9 pts).

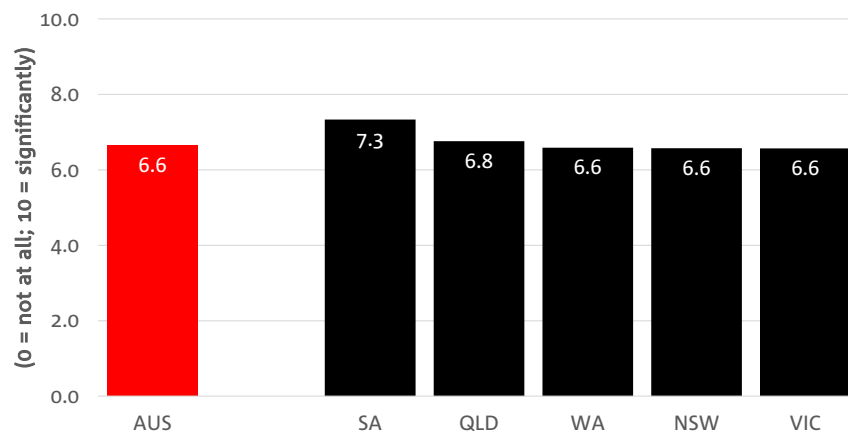
Supply chain and shipping issues played a key role in helping drive demand for warehousing space as retailers and logistics companies tried to stockpile goods to hedge against supply chain and shipping problems. When asked the extent demand was being driven by these issues, property professionals on average scored a much higher 6.7 pts out of 10. The impact was rated highest in VIC (7.6 pts), ahead of SA (7.5 pts), WA (7.3 pts) and QLD (7.2 pts), but was somewhat lower in NSW (6.2 pts).

Property professionals also believe low yields are currently playing an important role in driving commercial property market sales, on average scoring its impact 6.6 pts out of 10. The impact on markets was biggest in SA (7.3 pts), and somewhat lower (but significant) in VIC (6.6 pts), NSW (6.6 pts), WA (6.6 pts) and QLD (6.8 pts).

## EXTENT DEMAND FOR WAREHOUSING SPACE BEING DRIVEN BY SUPPLY CHAIN & SHIPPING ISSUES



## EXTENT LOW YIELDS ARE DRIVING SALES IN THE COMMERCIAL PROPERTY MARKET



# SURVEY RESPONDENTS EXPECTATIONS (AVG) Q1-2022

## OFFICE CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'22	-0.6	0.5	3.0	0.2	-1.8	0.5
Q1'23	-1.2	1.4	4.0	0.7	-1.6	1.0
Q1'24	1.1	1.2	4.6	1.9	-0.4	1.8

## OFFICE RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'22	-2.7	0.5	0.7	-0.3	-2.8	-0.3
Q1'23	-0.3	0.8	1.7	0.7	-2.0	0.6
Q1'24	1.4	0.9	2.8	2.7	-1.2	1.4

## RETAIL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'22	-1.3	-1.0	-0.8	0.1	1.9	-0.8
Q1'23	-0.6	-0.6	-0.4	0.4	1.0	-0.4
Q1'24	-0.6	0.3	-0.3	1.8	1.0	0.0

## RETAIL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'22	-2.9	-1.8	-1.3	0.4	1.0	-1.8
Q1'23	-2.1	-1.3	-0.3	0.4	1.0	-1.1
Q1'24	-0.6	-0.7	0.4	0.5	1.0	-0.2

## INDUSTRIAL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'22	2.9	4.3	3.0	0.3	-1.1	2.7
Q1'23	3.3	5.2	3.4	0.1	3.8	3.1
Q1'24	2.0	5.5	2.6	0.8	-1.5	3.1

## INDUSTRIAL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'22	4.1	3.7	3.2	0.1	-0.6	2.8
Q1'23	4.9	4.4	4.7	1.1	-0.8	3.7
Q1'24	4.6	4.9	5.2	2.0	-0.8	4.1

# SURVEY RESPONDENTS EXPECTATIONS (AVG) Q1-2022

## OFFICE VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'22	10.5	8.6	12.3	11.9	9.0	10.1
Q1'23	9.3	8.3	11.2	11.0	8.6	9.5
Q1'24	7.0	8.2	10.6	10.3	9.4	9.0

## RETAIL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'22	7.4	8.8	5.9	7.4	10.0	7.5
Q1'23	6.3	9.0	5.7	7.0	11.0	7.1
Q1'24	5.2	8.1	5.9	6.6	11.0	6.4

## INDUSTRIAL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q1'22	3.4	2.5	4.6	6.3	6.3	4.0
Q1'23	3.8	2.7	4.1	5.0	6.3	3.8
Q1'24	4.3	3.7	5.2	5.5	6.3	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.

Over 320 property professionals participated in the Q1 2022 Survey.

## CONTACT THE AUTHORS

### **Alan Oster**

Group Chief Economist

[Alan.Oster@nab.com.au](mailto:Alan.Oster@nab.com.au)

+(61 0) 414 444 652

### **Dean Pearson**

Head of Behavioural & Industry Economics

[Dean.Pearson@nab.com.au](mailto:Dean.Pearson@nab.com.au)

+(61 0) 457 517 342

### **Robert De lure**

Senior Economist - Behavioural & Industry Economics

[Robert.De.lure@nab.com.au](mailto:Robert.De.lure@nab.com.au)

+(61 0) 477 723 769

### **Brien McDonald**

Senior Economist - Behavioural & Industry Economics

[Brien.McDonald@nab.com.au](mailto:Brien.McDonald@nab.com.au)

+(61 0) 455 052 520

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