EMBARGOED UNTIL 11.30AM AEST, 4 AUGUST 2022

NAB COMMERCIAL PROPERTY SURVEY Q2-2022

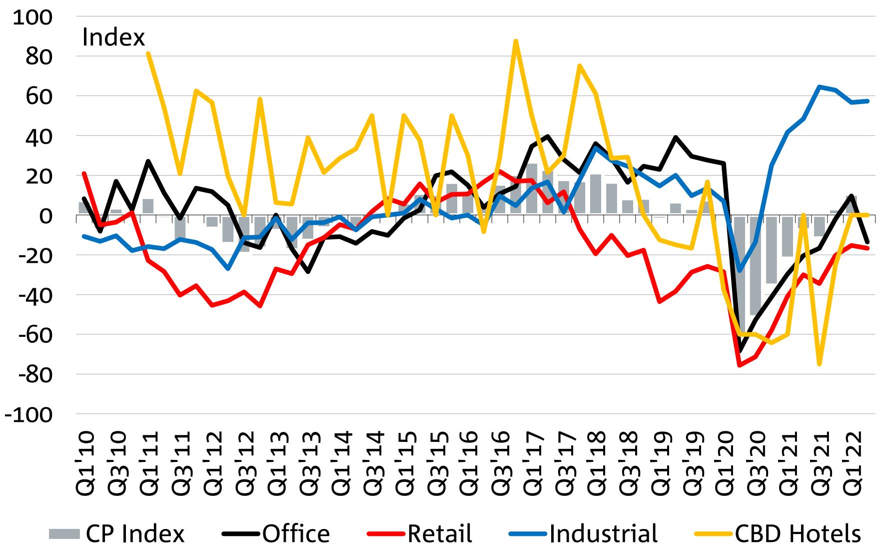
Date: August 2022| NAB Behavioural & Industry Economics

KEY FINDINGS

- The NAB Commercial Property Index eased to +1 pt in Q2 (+11 in Q1) amid reports market is starting to respond to higher inflation and interest rates. The Index was led down by a big shift in Office sentiment that saw the sectoral index drop to -14 pts (+10 in Q1). Retail sentiment was also more negative (-17 pts), but Industrial sentiment remained at high levels (+57 pts). CBD Hotels Index neutral with survey showing big pick up in occupancy to 71.7% (58.3% in Q1).
- Confidence weakened in Q2 with the 12-month measure down to +8 pts (+19 in Q1) and 2-year measure to +22 pts (+29 in Q1). Confidence held up by Industrial sector, with Office back in negative territory and Retail also negative.
- Market sentiment lower in all states in Q2 bar QLD (and highest overall). It was neutral in NSW & SA/NT and negative in WA & VIC. Short-term confidence now negative in WA & VIC, and positive (but lower) in all other states led by QLD.
- By sector, Office confidence eased across the country, with a very negative outlook reported for WA & VIC in the next 12 months, and remaining negative in VIC in the next 2 years. Retail confidence was higher in the Eastern seaboard states, and Industrial continued to out-perform the broader market in all states.
- Industrial capital growth to out-perform other sectors in the next 1-2 years (2.8% & 2.7%), led by NSW but also tipped to grow in other states. Outlook for Office values now negative (-1.0% & -0.6%), and wound back and expected to fall in all states bar QLD, with VIC weakest. The outlook for Retail growth also revised down (-1.1% & -0.4%), and expected to fall in all states, except SA/NT.
- The survey pointed to lower Office vacancy in Q2 at 9.2% (10.1% in Q1), with higher vacancy in WA (12.4%) & VIC (11.2%) offset by falls in NSW (7.1%), QLD (11.0%) & SA/NT (7.0%). National vacancy expected to fall to 9.0% & 8.3% in the next 1-2 years, but range from 7.1% & 6.9% in NSW to 11.6% & 10.4% in WA.
- Outlook for Office rents pared back in Q2 to -0.3% & 0.5% in the next 1-2 years (0.6% & 1.4% in Q1). QLD & NSW to out-perform, with expectations weakest in VIC. Retail rents expected to continue falling (but at a slower -0.9% & -0.3%), with rents falling in all states bar WA & QLD. The outlook for Industrial rents is a touch softer but still strong (3.5% & 3.7%), with rents expected to grow in all states with the biggest increases expected in the Eastern seaboard states.
- Number of developers planning to start new works in next 6 months fell to a 3 year low 38% in Q2, with below average numbers starting on residential (48%), Office (10%) or Retail (5%) property. But with Industrial supply still very limited, the number planning to start works in this sector remains above average (16%).
- With interest rates rising and expected to continue rising into 2023, more property professionals said it was harder to obtain debt (-20% from -13% in Q1) or equity (-14% from -9% in Q1) funding. The number expecting debt and equity funding conditions to worsen in next 6 & 12 months was also sharply higher.

Special questions show **(1)** Fewer white collar workers expected to return to CBD offices post-Covid in next 12 months (72.9% overall and as low as 67.8% in VIC). **(2)** Key considerations for most owners and investors if selling a commercial asset are the ability to recycle capital into another acquisition (65%), the impact of increasing interest rates (57%), and expectations of softening yields (52%). **(3)** Top 3 challenges property businesses currently face are stock availability (46%), rising rates (46%) & staff shortages (45%).

NAB COMMERCIAL PROPERTY INDEX



	Q1'22	Q2'22	Next 12m	Next 2y
Office	10	-14	-6	11
Retail	-15	-17	-9	9
Industrial	57	57	64	57
CBD Hotels	0	0	0	33
CP Index	**11**	**1**	**8**	**22**

MARKET OVERVIEW - NAB COMMERCIAL PROPERTY INDEX

NAB's Commercial Property Index eased to +1 pt in Q2 (+11 pts in Q1), amid reports the market is beginning to respond to higher inflation and interest rates. The index was led down by a significant weakening in Office market sentiment that saw the sectoral index fall to -14 pts (+10 pts in Q1). Retail market sentiment also more negative at -17 pts (-15 pts in Q1).

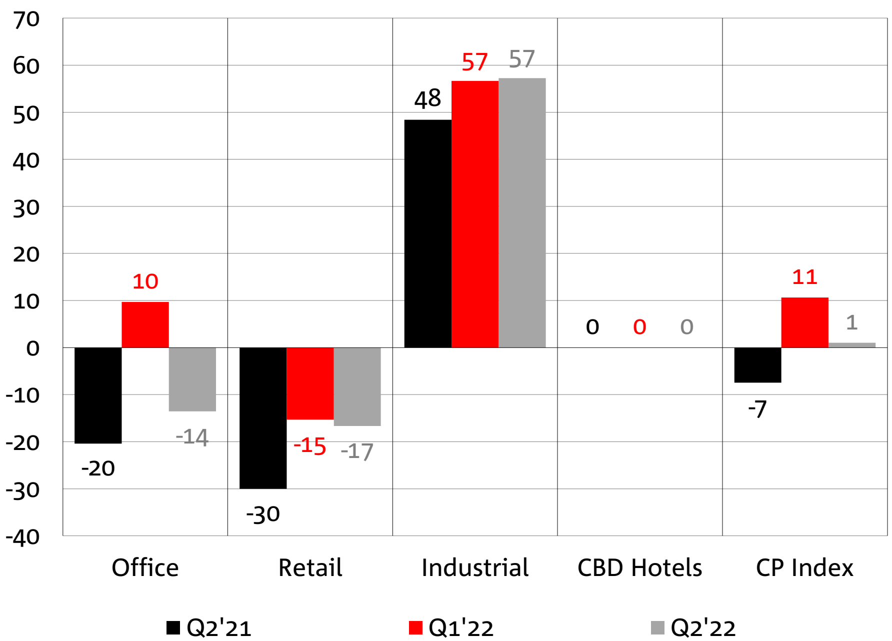
In contrast, sentiment in Industrial property markets remained elevated at an unchanged +57 pts, and continued to trend well above the survey average (+7 pts) with strong demand for industrial property underpinning very high occupancy rates, particularly along the Eastern seaboard states.

The CBD Hotels Index was unchanged a neutral 0 pts in Q2, as property professionals pointed to a further increase in the average CBD Hotel occupancy rate to 71.7% its highest level since end-2019.

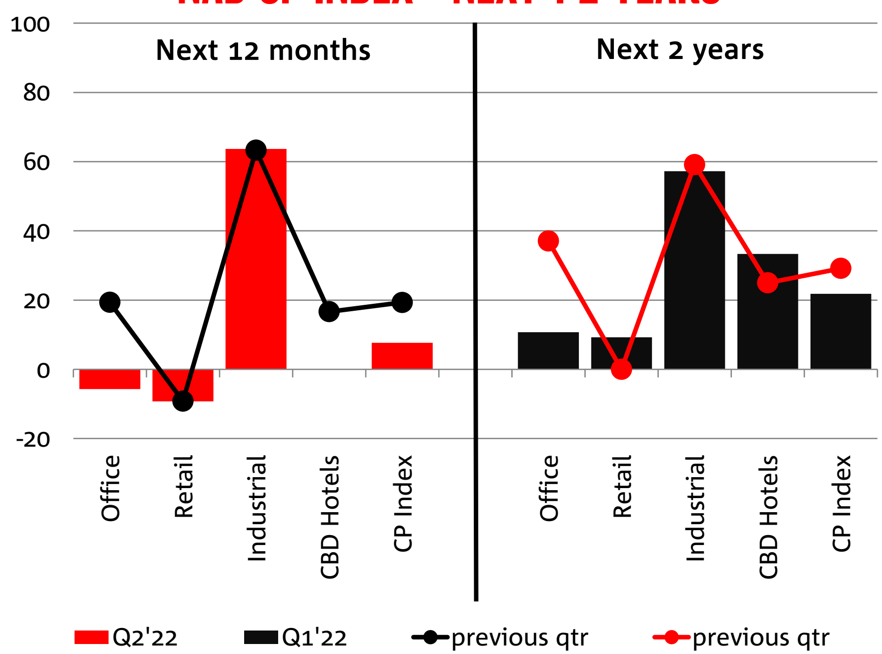
Confidence in commercial property markets weakened in Q2 with the 12-month measure falling to +8 pts (+19 pts in Q1) and 2-year measure to +22 pts (+29 pts in Q1) - with both measures now printing below their respective survey averages (+20 pts & +30 pts).

Overall confidence was supported by Industrial property where both short (+64 pts) and long-term (+57%) confidence measures continue to print at very high levels (+63 pts & +59 pts in Q1 respectively). Office confidence however fell with the short-term measure moving back into negative territory at -6 pts (+19 pts in Q1) and 2-year measure lower at +11 pts (+37 pts in Q1). Retail confidence was unchanged at -9 pts for the next 12 months, but improved to +9 pts in the next 2 years (0 pts in Q1). Short-term confidence in the CBD Hotels sector was neutral at 0 pts (+17 pts in Q1), but the longer-term measure lifted to +33 pts (+25 pts in Q1).

NAB COMMERCIAL PROPERTY INDEX



NAB CP INDEX - NEXT 1-2 YEARS



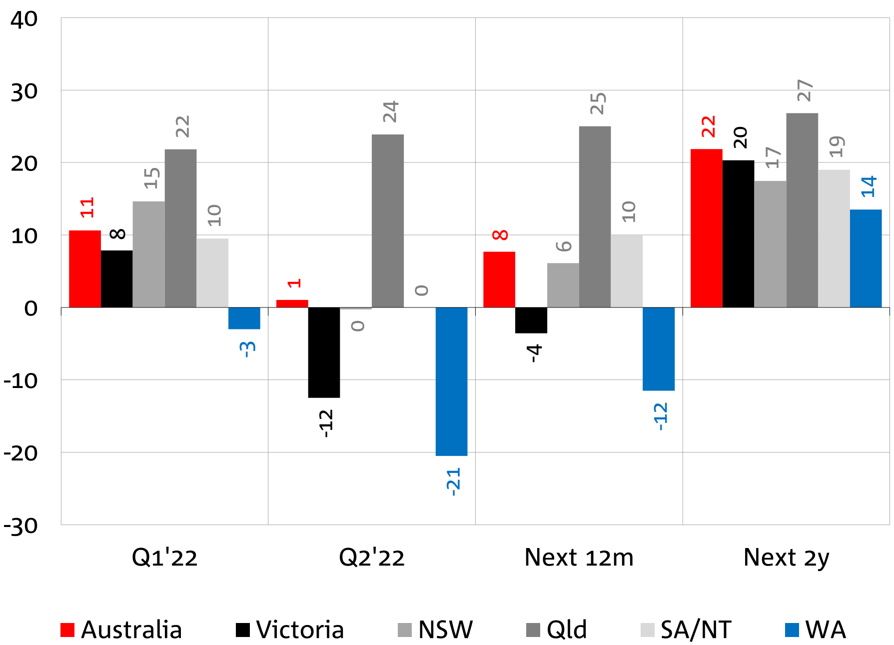
MARKET OVERVIEW - INDEX BY STATE

Overall commercial property market sentiment fell in all states in Q2 bar QLD (up 2 to +24 pts) where it was also highest. It was neutral in NSW & SA/NT (0 pts), and negative in WA (-21 pts) & VIC (-12 pts).

Short-term confidence was negative in WA (-12 pts) and VIC (-4 pts), but positive (though lower) in all other states led by QLD (+25 pts). Longer-term confidence was positive in all states, again led by QLD (+27 pts), followed by VIC (+20 pts). It was lowest in WA (+14 pts).

By sector, Office confidence eased across most of the country, with negative readings in WA (-56 pts) & VIC (-30 pts) in the next 12 months, and remaining negative in VIC in the next 2 years (-7 pts). Retail confidence improved in the Eastern seaboard states, with Industrial outcomes out-performing the broader market (by some margin) in all states - **see accompanying table.**

COMMERCIAL PROPERTY INDEX - STATE



OFFICE PROPERTY MAKET INDEX: STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'22	-40↓	-7↓	25↓	-56↓	0↑	**-14↓**
Q2'23	-30↓	0↓	25↓	-56↓	0↑	**-6↓**
Q2'24	-7↑	12↓	25↓	19↓	10↓	**11↓**

RETAIL PROPERTY MARKET INDEX: STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'22	28↔	0↑	5↑	-10↓	-83↓	**-17↓**
Q2'23	-15↑	8↑	0↔	-10↓	-67↓	**-9↔**
Q2'24	7↑	17↑	23↑	0↓	-33↓	**9↑**

INDUSTRIAL PROPERTY MARKET INDEX: STATES

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'22	60↓	62↓	63↑	25↑	75↑	**57↔**
Q2'23	65↑	68↓	75↑	20↓	100↑	**64↑**
Q2'24	55↑	64↓	50↓	30↑	100↑	**57↓**

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

MARKET OVERVIEW - CAPITAL & VACANCY EXPECTATIONS

Industrial capital growth is still forecast to out-perform the broader market in the next 1-2 years (2.8% & 2.7%), though slowing from 3.1% forecast in the Q1 survey. Prospects are best in NSW (4.0% & 4.4%), but values are also expected to grow in all other states.

Expectations for Office value growth in the next 1-2 years turned negative at -1.0% & -0.6% in Q2 (1.0% & 1.8% in Q1). Expectations were wound back in all states, and are now also tipped to fall in all states bar QLD (0.8% & 1.3%), with VIC weakest (-2.3% & -1.6%).

The outlook for Retail values was also revised down to -1.1% & -0.4% (0.4% & 0.8% forecast in Q1). Retail capital values are expected to fall in all states, except SA/NT where value growth is flat in 2 years' time, with the biggest falls in WA (-2.6% & -2.1%).

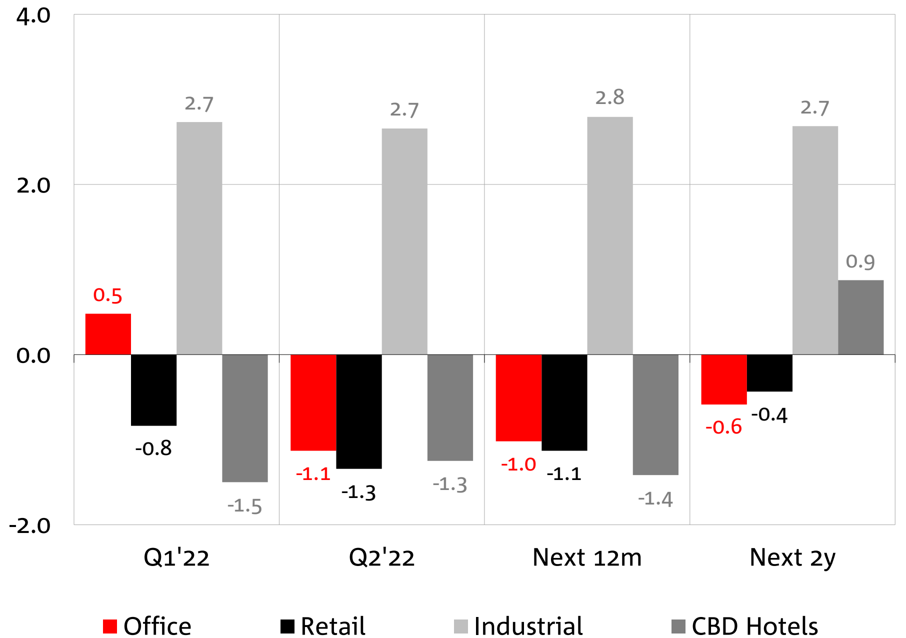
Expectations for CBD Hotels were scaled back to -1.4% & 0.9%. (0.8% & 2.3% forecast in Q1) - **see page 11**.

The survey pointed to a fall in the national Office vacancy rate to 9.2% in Q2 (10.1% in Q1), with higher vacancy in WA (12.4% vs. 11.9%) and VIC (11.2% vs. 10.5%) offset by falls in NSW (7.1% vs. 8.6%), QLD (11.0% vs. 11.2%) and SA/NT (7.0% vs. 9.0%). National vacancy is tipped to ease to 9.0% & 8.3% in the next 1-2 years, and be lowest in NSW (7.1% & 6.9%) and highest in WA (11.6% & 10.4%).

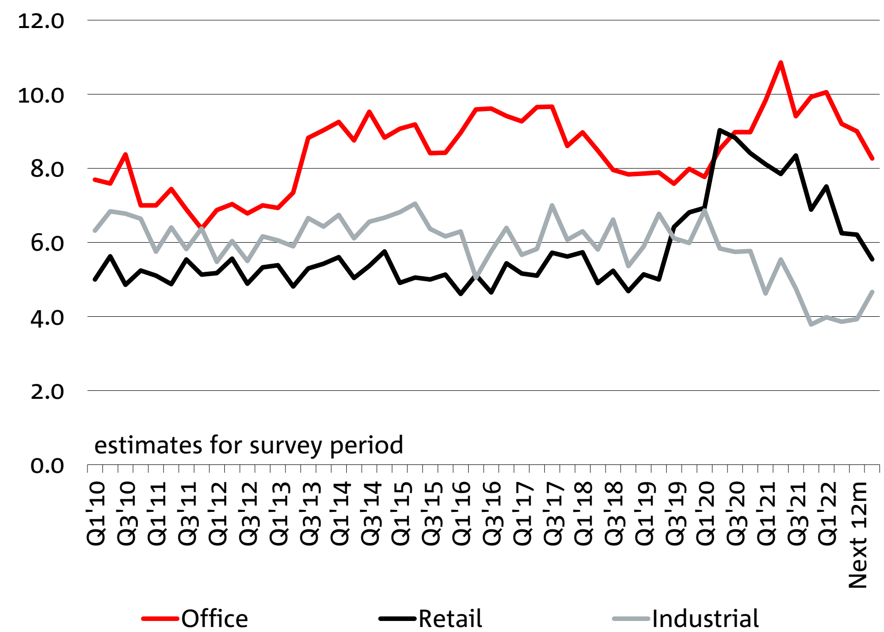
Retail vacancy also fell to 6.3% in Q2 (7.5% in Q1), and was lower in all states bar SA/NT & WA. Overall vacancy is expected to moderate in the next 1-2 years (6.2% & 5.5%), with vacancy lowest in QLD (4.8% & 5.5%) and highest in SA/NT (10.3% & 9.0%).

Industrial vacancy fell slightly to 3.9% in Q2 (4.0% in Q1), and was lowest in NSW (1.9%) and VIC (4.0%). It is expected to be stable next year (3.9%), but climb in 2 years' time (4.7%), and be higher in all states (though still below average levels) - **see page 12**.

CAPITAL VALUE EXPECTATIONS (%)



VACANCY RATE EXPECTATIONS (%)



MARKET OVERVIEW - RENTS & SUPPLY

The outlook for Office rents weakened in Q2 to -0.3% & 0.5% in the next 1-2 years respectively (0.6% & 1.4% forecast in Q1). QLD (2.0% & 2.4%) and NSW (0.1% & 0.9%) are expected to out-perform, with expectations weakest in VIC (-2.7% & -1.8%).

In Retail markets, rents are still expected to continue falling, but at a slower -0.9% & -0.3% (-1.1% & -0.2% forecast in Q1). Rents are expected to fall most in SA/NT (-4.8% & -3.3%), followed by VIC (-1.4% & -0.8%) and NSW (-0.5% & -0.2%), with positive growth predicted in WA (0.8% & 1.7%) and QLD (0.1% & 0.6%).

The outlook for Industrial rents for the next 1-2 years was pared back slightly to a still strong 3.5% & 3.7% in Q2 (3.7% & 4.1% forecast in Q1). Rents are tipped to grow in all states, with the biggest gains in the Eastern seaboard states (over 4%), and more modest growth in WA (0.9% & 0.5%) and SA/NT- (2.8% & 3.4%) - **see page 11**.

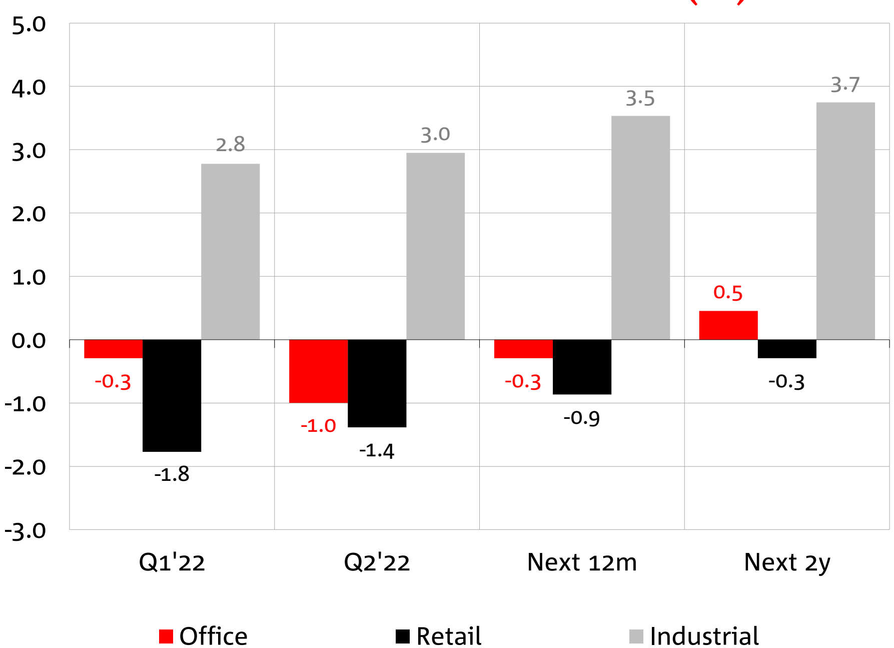
The national Office market is currently 'somewhat' over-supplied and set to remain so in the next 1-3 years in VIC, QLD & SA/NT, with WA 'quite' over-supplied, and conditions 'neutral' in NSW.

The national Retail market is 'somewhat' over-supplied now and set to remain so in the next 12 months. In VIC & WA, where over-supply is now most prevalent, markets are expected to return to 'neutral' conditions in line with all other states in the next 3-5 years.

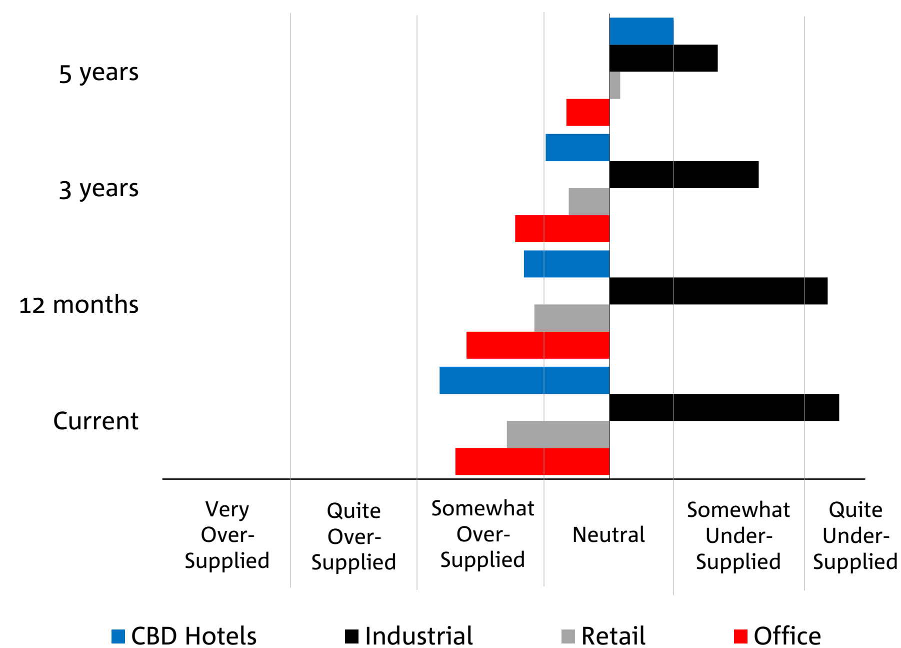
Industrial markets were assessed as 'quite' under-supplied now and expected to remain so next year, and be 'somewhat' under-supplied in the next 3-5 years. Under-supply to expected to persist in all states (bar SA/NT) over the outlook period, led by NSW & QLD.

In the CBD Hotels sector, over-supply is expected to be worked out of the market in the next 3-5 years, with the market returning to 'neutral' conditions.

GROSS RENTAL EXPECTATIONS (%)



SUPPLY CONDITIONS



MARKET OVERVIEW - DEVELOPMENT INTENTIONS

The number of property developers expecting to commence new works in the next month fell sharply to 11% in Q2 (24% in Q1) - the lowest number since the outbreak of Covid in Q1 2020. The number that planned to start in the next 1-6 months however rose to 27% (23% in Q1). As a result, 38% said they planned to start new works in the short-term (next 6 months) - the lowest result in 3 years.

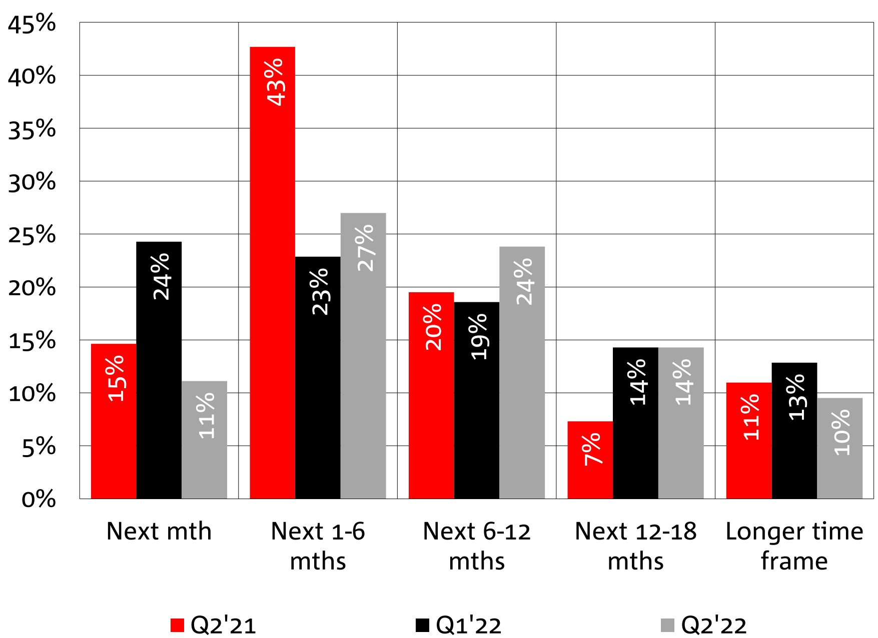
But 24% intend to start new works in the next 6-12 months (19% in Q1). An unchanged 14% were looking to commence in the next 12-18 months, and 10% had a longer time frame (13% in Q1).

In total, 76% of developers were planning to commence works within the next 18 months. This was down from 80% in the previous quarter but still well above the low of 68% in mid-2020 when Covid uncertainty was rising quickly.

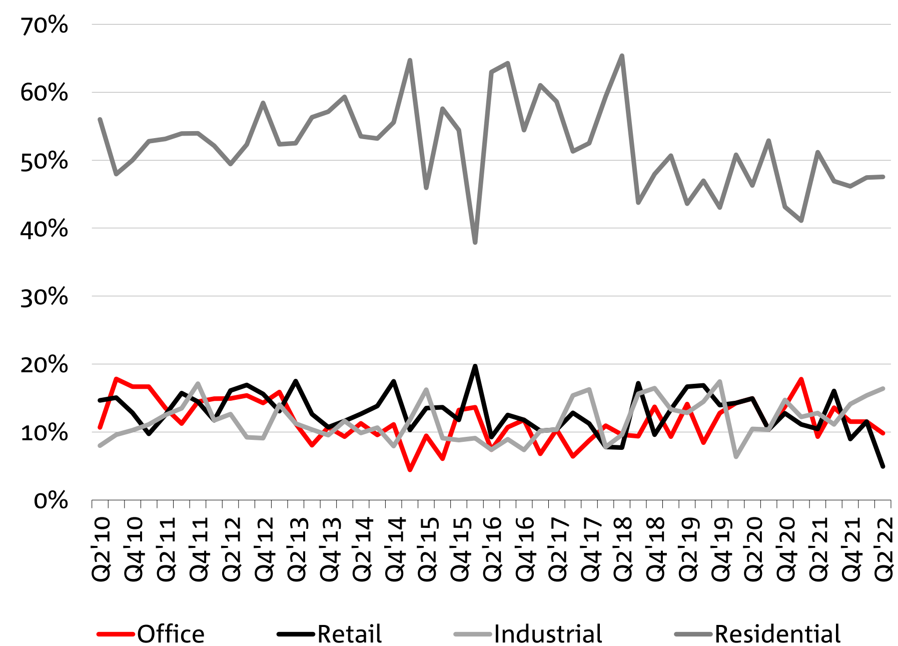
While price and activity indicators have turned in established housing markets, NAB thinks the construction side will likely stay strong but challenged by supply shortages and raw materials and labour prices. Against this, the Q2 survey found a below average 48% of developers planning to commence residential projects (47% in Q1).

With the rising cost of funds also likely weighing on commercial market buyer expectations as well as significant construction cost risk, a below average 10% plan to start new projects in the Office space (12% in Q1). The survey also pointed to a well below average 5% targeting Retail property (12% in Q1). But with over-supply still very prevalent in the Industrial sector, the number planning to start new works in this sector continued to trend at an above average 16% in Q2 (15% in Q1).

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 declined slightly to a below average 56% in Q2 (57% in Q1 and 55% at the same time last year).

The number of developers seeking new acquisitions in Q2 however increased slightly to 30% (29% in Q1), and was above the survey average (26%).

In contrast, the number of developers looking at refurbishment opportunities increased to 12% (7% in Q1).

This trend (particularly in the Office space) is likely being influenced by the need to provide greater levels of tenant-friendly features (such as appealing fit-outs and common spaces, end-of-trip facilities etc.) to entice more workers back to the workplace.

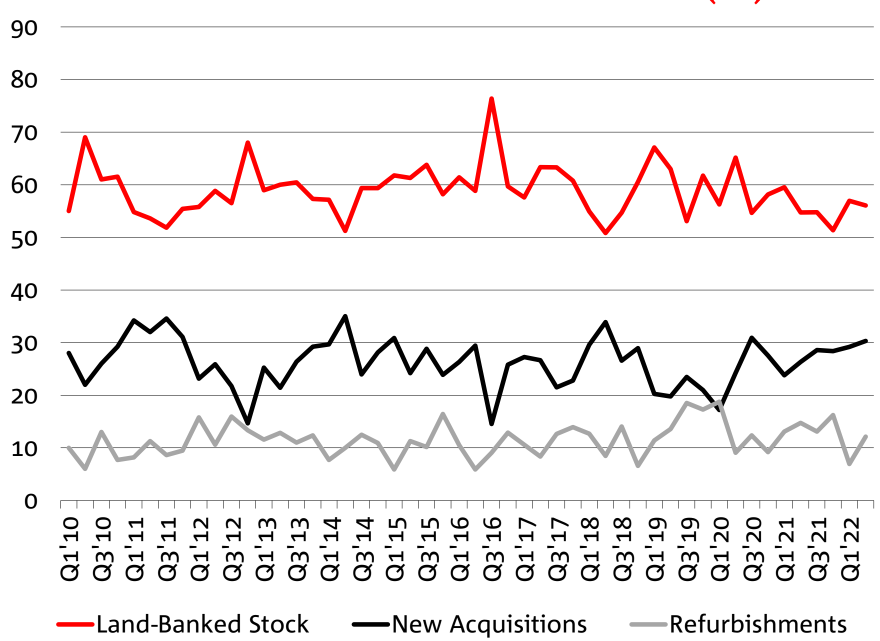
With fewer developers planning to start new projects over the next 6 months, the number who were planning to source more capital to fund their developments during this timeframe also fell to 24% (27% in Q4 and 26% at the same time last year).

Around 57% had no intention to source capital in the short-term (down from 58% in Q4), while the number who were unsure lifted to 19% (16% in Q1).

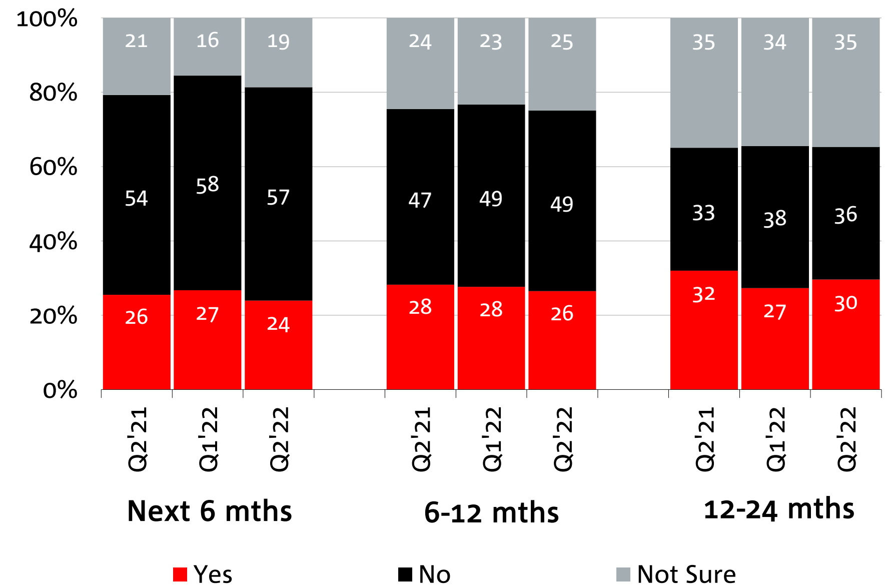
The number planning to source capital in the next 6-12 months also fell to 26% (28% in Q1), but an unchanged 49% had no intention to source funds, while 25% were unsure (23% in Q1).

The number intending to source more capital in the next 12-24 rose to 30% (27% in Q1), but 36% did not intend to source capital over this period (38% in Q1).

SOURCES OF LAND DEVELOPMENT (%)



INTENT TO SOURCE MORE CAPITAL FOR DEVELOPMENT/ACQUISITIONS/PROJECTS



MARKET OVERVIEW - FUNDING & PRE-COMMITMENTS

Property professionals said funding conditions worsened in Q2 and will continue worsen in the next 3-6 months. With interest rates rising and widely expected to continue rising into 2023, the net number of surveyed property professionals who said it was harder to obtain borrowing or loans (debt) increased in Q2 to -20% (-13% in Q1 and -4% at the same time last year).

Perceptions around equity funding also worsened with the net number who said it was harder to obtain equity rising to -14% (-9% in Q1 and -3% at the same time last year).

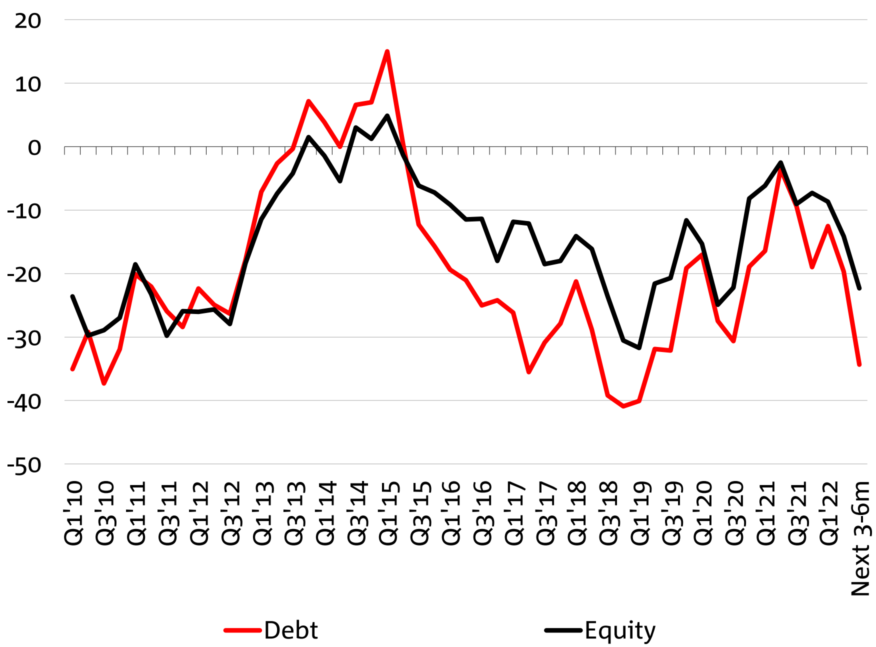
Looking forward, the net number who expect debt funding to worsen over the next 3-6 months increased sharply to -34% (-23% in Q1), with the net number expecting equity funding conditions to worsen also climbing steeply to -22% (-10% in Q1).

Nationally, the average pre-commitment to meet external debt funding requirements for new developments fell for residential property (61.2%), but was higher for commercial (55.1%).

Residential requirements fell sharply in VIC to 56.1% (66.8% in Q1), were slightly lower in NSW (60.5% vs. 62.9%) & QLD (60.8% vs. 61.6%), and rose steeply in WA (66.7% vs. 59.3%). In commercial markets, requirements fell to 50.6% in VIC (57.5% in Q1), but rose in all other states and was highest in QLD (60.7% vs. 55.9% in Q1).

The net number who expect requirements to worsen in the next 6 months rose sharply for both residential (-32% vs. -8% in Q1) and commercial (-45% vs. -9%) property. A broadly similar number also expect requirements to worsen in the next 12 months for both residential (-29%) and commercial (-46%) property.

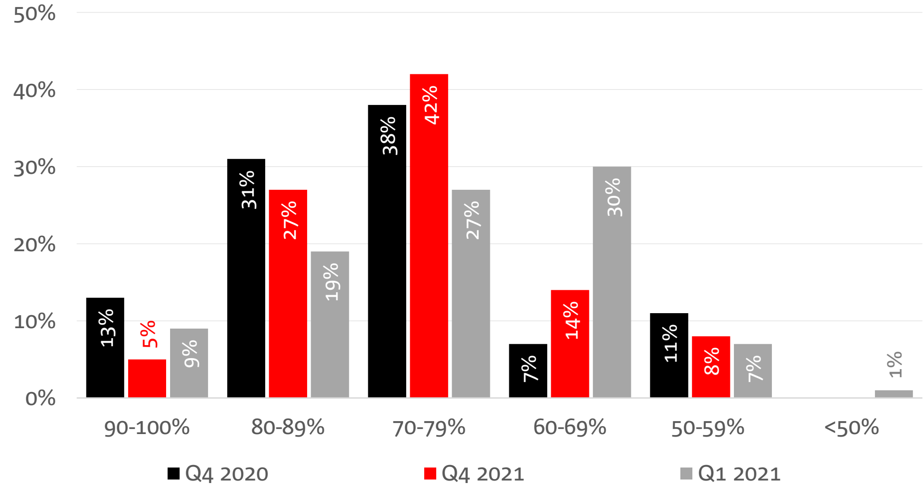
EASE OF ACQUIRING DEBT/EQUITY (NET)



PRE-COMMITMENT REQUIREMENTS (%)

SPECIAL QUESTIONS

PROPORTION OF WHITE COLLAR WORKERS EXPECTED TO RETURN TO CBD OFFICES POST-COVID IN THE NEXT 12 M

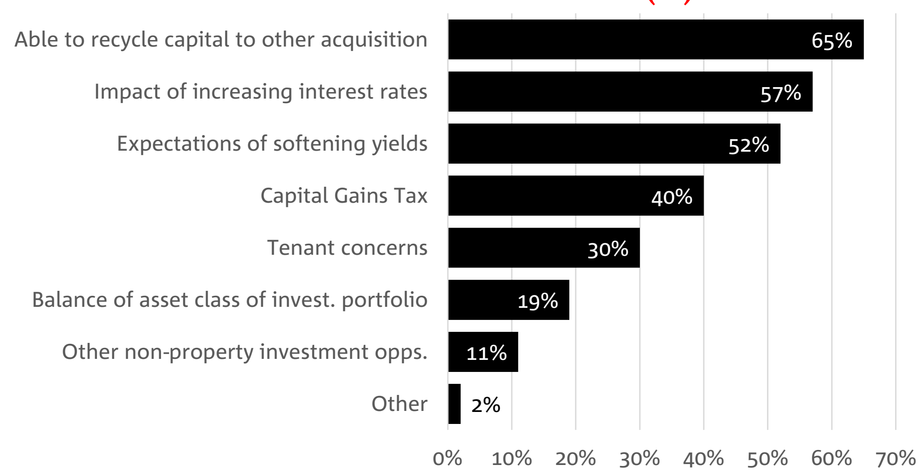


Surveyed property professionals expect fewer white collar workers to return to CBD offices post-Covid in the next 12 months - with survey returning a mean average score of 72.9% in Q2. This was down from 75.3% in Q4 2021 and 77.4% in Q4 2020. In the main states, the average number was highest in QLD (77.9%) and WA (77.4%), and lowest in VIC by some margin (67.8%), followed by NSW (72.5%).

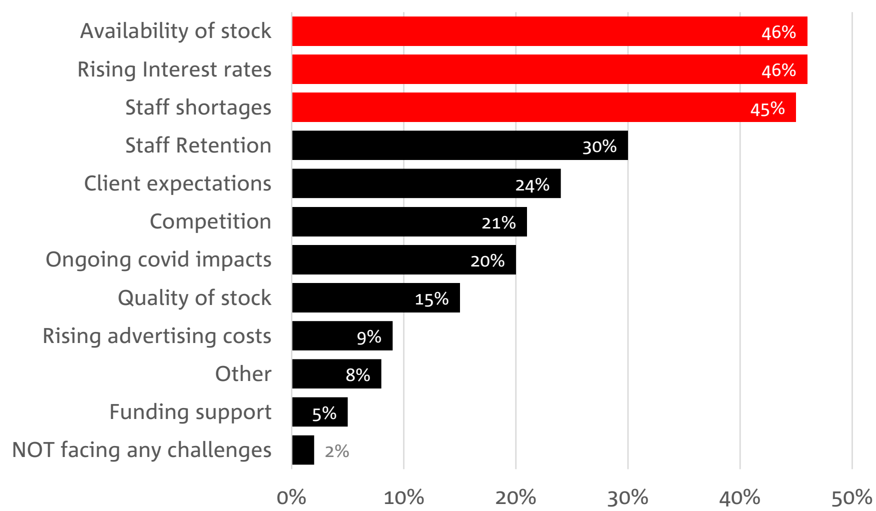
Surveyed owners and investors operating in the commercial property space were asked about what were their key considerations if selling a commercial property asset now. Most (2 in 3 or 65%) pointed to the ability to recycle capital into another acquisitions, 57% the impact of increasing interest rates and 52% expectations of softening yields.

Property professionals were also asked to identify the top 3 challenges their business were currently facing. Around 1 in 2 pointed to stock availability (46%), rising rates (46%) and staff shortages (45%), Though rated as the top 3 challenges in all key states, stock availability was a somewhat bigger issue according to property professionals operating in SA (55%), rising interest rates in NSW (58%) and staff shortages in WA (58%).

ASPECTS YOU WOULD CONSIDER IF SELLING A COMMERCIAL PROPERTY ASSET (%)



TOP 3 CHALLENGES YOUR BUSINESS IS FACING (%)



SURVEY RESPONDENTS EXPECTATIONS (AVG) Q2-2022

OFFICE CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'22	-2.7	-0.6	0.3	-3.0	-0.9	**-1.1**
Q2'23	-2.3	-0.8	0.8	-2.1	-1.4	**-1.0**
Q2'24	-1.6	-0.8	1.3	-0.6	-1.0	**-0.6**

OFFICE RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'22	-3.6	-0.4	0.8	-1.5	-0.5	**-1.0**
Q2'23	-2.7	0.1	2.0	-1.0	0.4	**-0.3**
Q2'24	-1.8	0.9	2.4	0.7	-0.7	**0.5**

RETAIL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'22	-1.7	-0.5	0.2	-4.0	-2.5	**-1.3**
Q2'23	-1.4	-0.6	-0.4	-2.6	-1.3	**-1.1**
Q2'24	-0.4	-0.1	-0.2	-2.1	0.0	**-0.4**

RETAIL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'22	-2.0	-1.1	-0.2	0.4	-5.4	**-1.4**
Q2'23	-1.4	-0.5	0.1	0.8	-4.8	**-0.9**
Q2'24	-0.8	-0.2	0.6	1.7	-3.3	**-0.3**

INDUSTRIAL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'22	2.0	3.3	2.5	1.7	1.8	**2.7**
Q2'23	1.4	4.0	2.9	0.6	3.8	**2.8**
Q2'24	0.6	4.4	2.6	0.4	3.9	**2.7**

INDUSTRIAL RENTS (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'22	3.4	3.4	3.4	1.3	1.3	**3.0**
Q2'23	4.1	4.1	4.2	0.9	2.8	**3.5**
Q2'24	4.3	4.5	4.7	0.5	3.4	**3.7**

SURVEY RESPONDENTS EXPECTATIONS (AVG) Q2-2022

OFFICE VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'22	11.2	7.1	11.2	12.4	7.0	9.2
Q2'23	10.3	7.1	11.0	11.6	8.0	9.0
Q2'24	8.5	6.9	10.0	10.4	9.0	8.3

RETAIL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'22	6.0	5.8	5.0	8.0	11.7	6.3
Q2'23	6.1	5.8	4.8	8.5	10.3	6.2
Q2'24	5.4	5.4	4.5	7.0	9.0	5.5

INDUSTRIAL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SA/NT	AUS
Q2'22	4.0	1.9	4.7	6.2	7.0	3.9
Q2'23	4.5	2.1	4.8	5.6	5.5	3.9
Q2'24	5.0	3.4	5.2	6.3	5.5	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.

Over 320 property professionals participated in the Q2 2022 Survey.

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