EMBARGOED UNTIL 11.30AM AEDT, 10 NOVEMBER 2022

NAB COMMERCIAL PROPERTY SURVEY Q3-2022

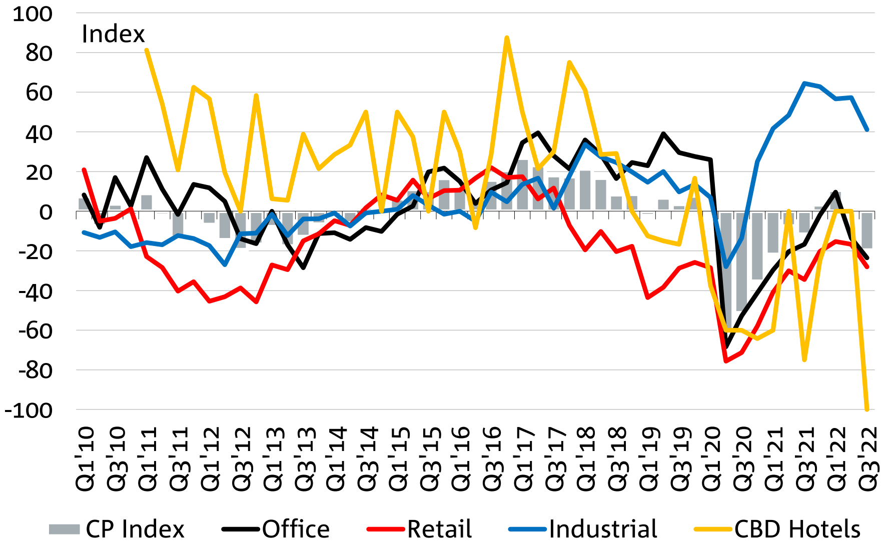
Date: November 2022| NAB Behavioural & Industry Economics

KEY FINDINGS

- Amid headwinds from rising inflation and interest rates, NAB's Commercial Property Index shifted back into negative territory in Q3 to a well below average -20 pts. Sentiment was lower and negative in all sectors, bar Industrial (though also easing to a near 2-year low +41 pts).
- Confidence fell in Q3, with the 12-month (-16 pts) and 2-year (+5 pts) measures printing at 3-year lows (and well below average). Confidence moderated in all sectors. It was highest for Industrial and weakest (and negative) for Retail.
- Sentiment fell in all states in Q3 bar SA/NT. QLD (+13 pts) & SA/NT (+5 pts) the only states to print positive. Lowest in VIC (-27 pts), but down most in NSW (-20 pts). Short-term confidence negative in VIC (-28 pts), WA (-12 pts) & NSW (-6 pts). VIC (-15 pts) & WA (-5 pts) also only states still negative in 2 years' time.
- Office confidence fell in VIC & NSW - and only states printing negative in next 1-2 years. Retail confidence down in all states, bar SA/NT (but weakest overall). Industrial confidence positive in all states, but moderated in most states.
- Best prospects for capital growth in next 1-2 years in Industrial (but scaled back heavily to 0.3% & 0.9%). Prospects positive in all states bar VIC. Office values to fall -1.9% & -0.9%, with biggest falls in VIC & NSW. Retail also contracting (-2.3% & -1.5%) and negative in all states led by NSW (next 12m) & QLD (next 2 years). Relatively large falls also predicted for CBD Hotel property (-3.5% & -1.3%).
- National Office vacancy rose to 10.1% in Q3 (9.2% in Q2), and higher in all states bar VIC (unchanged at 11.2%). Still highest in WA (14.0%) and lowest in NSW (7.2%). Overall vacancy to ease to 9.6% & 8.8% in next 1-2 years - and lowest in NSW (7.3% & 7.0%) & highest in WA (13.0% & 11.8%). Industrial vacancy fell to a survey low 3.5% in Q3 (3.9% in Q2) and expected to stay very low in next 1-2 years (3.6% & 3.9%), with markets tightest in NSW & QLD.
- Office rents to fall -0.5% in the next year, but grow 0.2% in 2 years' time. Outlook strongest in SA/NT & QLD, and weakest by some margin in VIC. Retail rents also expected to fall a larger -1.2% & -0.7%, and fall most in SA/NT. Outlook for Industrial rents pared back slightly to still strong 3.1%, with rents predicted to grow in all states, led by NSW & QLD.
- The number of developers planning to start new works in near-term (next 6m) fell to 37% in Q3 - lowest since Q3 2019. An unchanged 76% to start in next 18 months, but down from 89% a year ago. With housing markets continuing to adjust to higher rates, number of developers planning to start new residential works fell to a survey low 38% in Q3 - well below survey average (52%).
- In net terms, the number of property professionals who said it was harder obtain debt (-31%) or equity (-21%) rose to a 2-year highs. More also expect conditions in next 3-6 months to be worse than now (-36% debt; -24% equity).

- New research finds despite lower demand for Office space because of new hybrid and remote working models associated with COVID, the impact on Office conversions to new uses (e.g. apartments etc.) has been very low. When asked to rate the extent they had seen this happening, property professionals scored on average 1.6 pts out of 10 (10 = significantly). It was also scored quite low across the country - ranging from 0.8 pts in SA/NT & 1.0 pts in VIC, to 2.0 pts in QLD, 1.8 pts in WA & 1.6 pts in NSW.

NAB COMMERCIAL PROPERTY INDEX



	Q2'22	Q3'22	Next 12m	Next 2y
Office	-14	-24	-16	3
Retail	-17	-28	-23	-11
Industrial	57	41	40	38
CBD Hotels	0	-100	0	0
CP Index	**1**	**-20**	**-5**	**5**

MARKET OVERVIEW - NAB COMMERCIAL PROPERTY INDEX

Amid headwinds from rising inflation and interest rates, the NAB Commercial Property Index moved back into negative territory in Q3, printing at a well below average -20 pts (+1 pt in Q2).

Sentiment weakened in all sectors, particularly the bouncy CBD Hotels sector (-100 pts), where survey participants pointed a sharp fall in capital value growth in Q3.

Despite positive business conditions reported in NAB's latest Quarterly Business Survey, office market sentiment slipped to -24 pts (-14 pts in Q2), with Retail property market sentiment also sinking to -28 pts (-17 pts in Q2).

Industrial property market sentiment remained positive, with the sector continuing to benefit from strong demand, low vacancy rates and robust development activity. That said, the sectoral index fell to a near 2-year low +41 pts in Q3 (+57 pts in Q2), though still well above the long-term survey average (+8 pts).

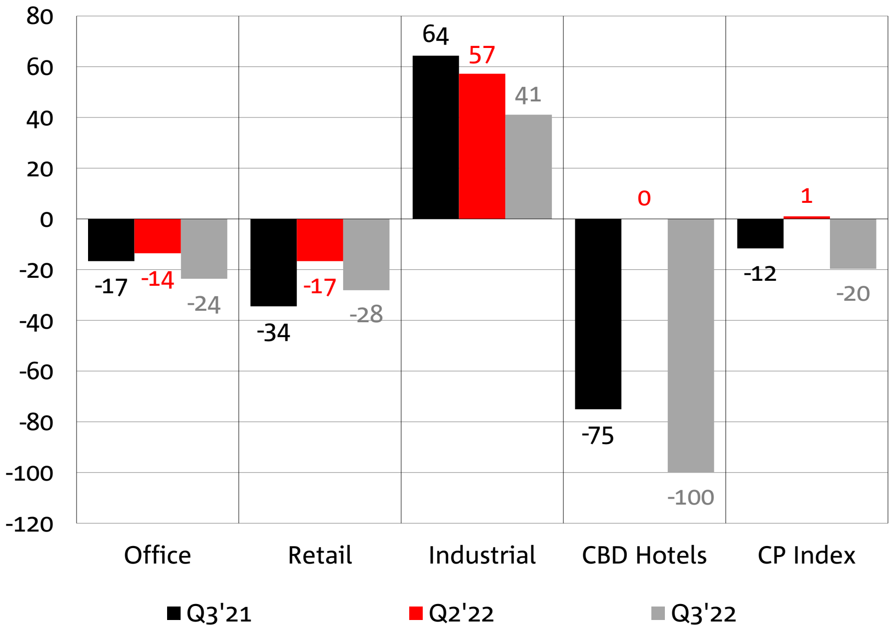
Confidence in commercial property markets continued to soften in Q3, with the 12-month measure falling to a near 3-year low -16 pts (+8 pts in Q2) and 2-year measure to a 3-year low +5 pts (+22 pts in Q2). Both measures are now well below their respective survey averages (+19 pts & +27 pts).

Confidence levels moderated in all sectors in Q3, but remained highest for Industrial property at +40 pts in the next 12 months and +38 pts in the next 1-2 years. (+64 pts & +57 pts respectively in Q2).

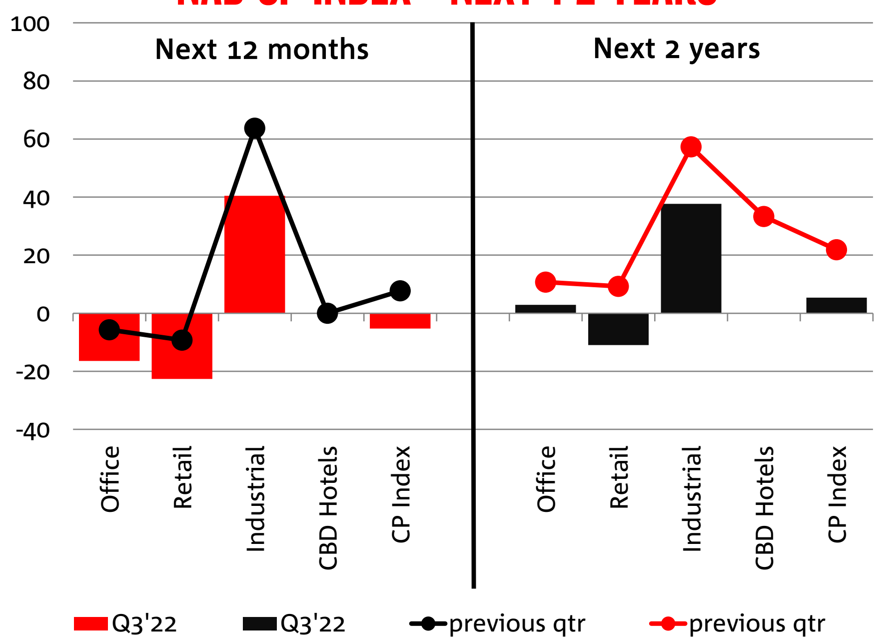
Office confidence moved deeper into negative territory in Q3 at -16 pts in the next 12 months (-6 pts in Q2), and also eased to a mildly positive +3 pts in the next 2 years (+11 pts in Q2).

Retail confidence fell more sharply to -23 pts in the next 12 months (-9 pts in Q2) and to -11 pts in the next 2 years (+9 pts in Q2). Short-term confidence in the CBD Hotels sector remained neutral at 0 pts, with the longer-term measure also neutral (+33 pts in Q2).

NAB COMMERCIAL PROPERTY INDEX



NAB CP INDEX - NEXT 1-2 YEARS



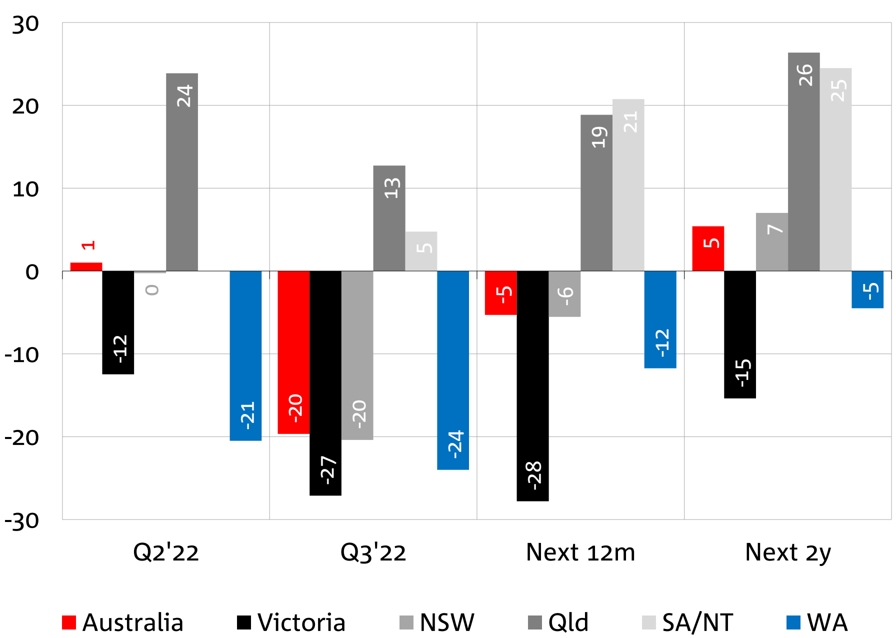
MARKET OVERVIEW - INDEX BY STATE

Commercial property market sentiment softened in all states in Q3, except SA/NT (+5 pts from 0 pts in Q2). Sentiment remained positive in QLD (+13 pts from +24 pts in Q2) and it was the only other state to report a positive outcome. Sentiment was lowest in VIC (-27 pts from -12 pts in Q2), but fell most in NSW to -20 pts (0 pts in Q2).

Short-term confidence was negative in VIC (-28 pts), and significantly more so than in WA (-12 pts), and NSW (-6 pts). It was highest in SA/NT (+21 pts) and QLD (+19 pts). VIC (-15 pts) and WA (-5 pts) are the only states to print negative long-term confidence readings.

By sector, Office confidence weakened in VIC and NSW, and they are the only states with negative readings in the next 1-2 years. Retail confidence also softened across the country except in SA/NT (though weakest overall). Industrial confidence levels remained positive in all states, but softened relative to Q2 in most states - **see table**.

COMMERCIAL PROPERTY INDEX - STATE



OFFICE PROPERTY MAKET INDEX: STATES

	VIC	NSW	QLD	WA	SANT	AUS
Q3'22	-63↓	-18↓	4↓	-40↑	30↑	**-24**↓
Q3'23	-59↓	-16↓	31↑	-45↑	50↑	**-16**↓
Q3'24	-38↓	-6↓	54↑	0↓	50↑	**3**↓

RETAIL PROPERTY MARKET INDEX: STATES

	VIC	NSW	QLD	WA	SANT	AUS
Q3'22	-33↓	-35↓	0↓	-50↓	-38↑	**-28**↓
Q3'23	-29↓	-21↓	-12↓	-13↓	-38↑	**-23**↓
Q3'24	-12↓	3↓	-19↓	-25↓	-25↑	**-11**↓

INDUSTRIAL PROPERTY MARKET INDEX: STATES

	VIC	NSW	QLD	WA	SANT	AUS
Q3'22	38↓	37↓	56↓	35↑	20↓	**41**↓
Q3'23	23↓	35↓	50↓	50↑	60↓	**40**↓
Q3'24	15↓	43↓	53↑	15↓	60↓	**38**↓

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

MARKET OVERVIEW - CAPITAL & VACANCY EXPECTATIONS

Capital growth for Industrial property is still forecast to out-perform the broader market in the next 1-2 years (0.3% & 0.9%), though cut sharply from 2.8% & 2.7% in Q2. Prospects are best in SA/NT (3.8% & 2.0%) and QLD (1.5% & 1.8%), and worst in VIC (-1.9% & -1.0%).

Office value growth was revised down to -1.9% & -0.9% in Q3 (-1.0% & -0.6% in Q2). Expectations were lowered in all states. The outlook was weakest in VIC (-3.7% & -2.4%) and NSW (-2.6% & -1.8%), and strongest in SA/NT (1.1% & 2.1%) and QLD (0.6% & 2.0%).

The outlook for capital growth for Retail property was scaled back sharply to -2.3% & -1.5% (-1.1% & -0.4% forecast in Q2), with values expected to fall in all states. The heaviest falls in the next 12 months are expected in NSW (-2.6%) and QLD (-2.5%) in 2 years' time.

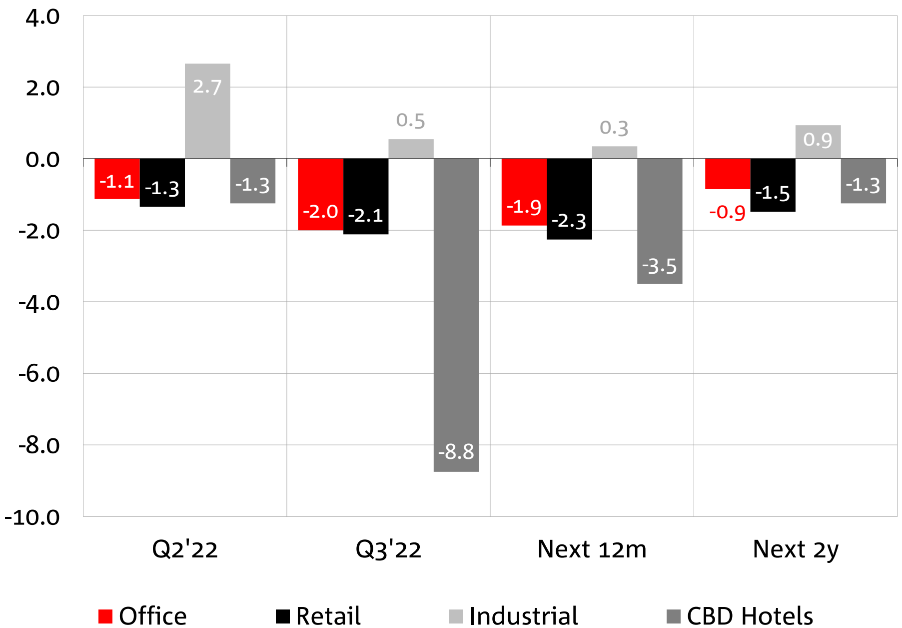
Expectations for CBD Hotels were also revised down sharply to -3.5% & -1.3% (-1.4% & 0.9% forecast in Q2) - **see page 11**.

Vacancy in the national Office market rose to 10.1% in Q3 (9.2% in Q2), and was higher in all states bar VIC (unchanged at 11.2%). It remained highest in WA (14.0%) and lowest in NSW (7.2%). National vacancy is tipped to ease to 9.6% & 8.8% in the next 1-2 years, and be lowest in NSW (7.3% & 7.0%), and highest in WA (13.0% & 11.8%).

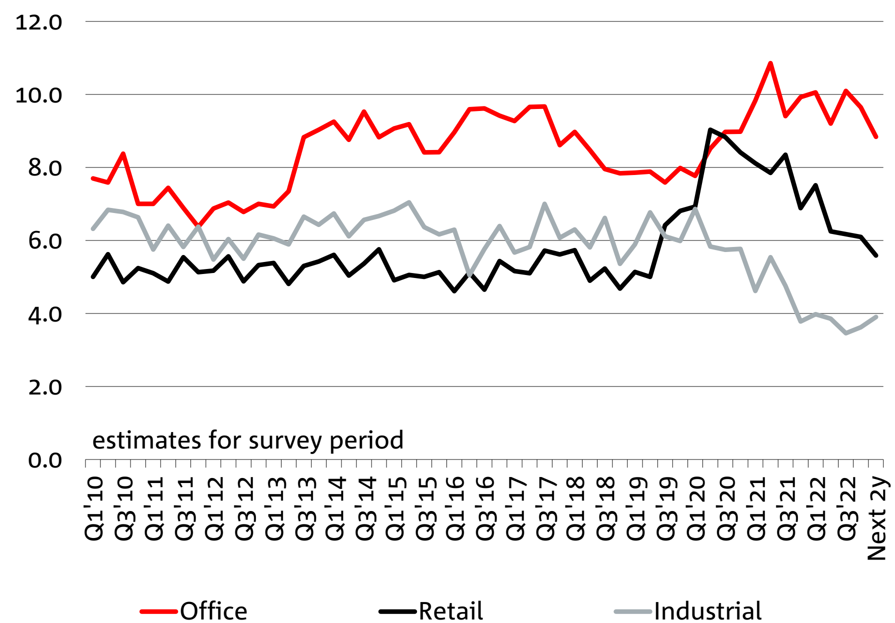
Retail vacancy fell a little to 6.2% in Q3 (6.3% in Q2). Vacancy fell in VIC (5.7%) and SA/NT (9.0%) though still highest in the country. It rose but was still lowest in QLD (5.2%). Overall vacancy is tipped to moderate in the next 1-2 years (6.1% & 5.6%), with vacancy lowest in QLD (5.0% & 4.8%) and highest in SA/NT (8.5% & 9.7%).

Industrial vacancy fell to a survey low 3.5% in Q3 (3.9% in Q2). It remained lowest in NSW at 2.4% (1.9% in Q2) and QLD at 3.6% (4.7% in Q2). Vacancy is expected to remain very low over the next 1-2 years (3.6% & 3.9%), and lowest in NSW & QLD - **see page 12**.

CAPITAL VALUE EXPECTATIONS (%)



VACANCY RATE EXPECTATIONS (%)



MARKET OVERVIEW - RENTS & SUPPLY

Office rents in the next 1-2 years are now expected to fall -0.5% in the next year (-0.3% in Q2), and grow 0.2% in 2 years time (0.5% in Q2). The outlook is strongest in SA/NT (2.5% & 1.5%) and QLD (1.4% & 2.6%), and weakest by some margin in VIC (-3.3% & -1.4%).

Retail rents are expected to fall a larger -1.2% & -0.7% (-0.9% & -0.3% in Q2). They are expected to fall most in SA/NT (-4.2% in both years), followed by VIC in the next 12 months (-1.7%) and WA (-2.1%) in 2 years' time. Very modest growth is forecast in QLD in the next 12 months (0.3%) and NSW (0.1%) in 2 years' time.

The outlook for Industrial rents in the next 1-2 years was pared back slightly to a still strong 3.1% (3.5% & 3.7% forecast in Q2). Rents are predicted to grow in all states led by NSW & QLD (3.5%) in the next 12 months and QLD (3.8%) in 2 years' time, with the slowest growth expected in WA (2.3% & 1.6%) - **see page 11**.

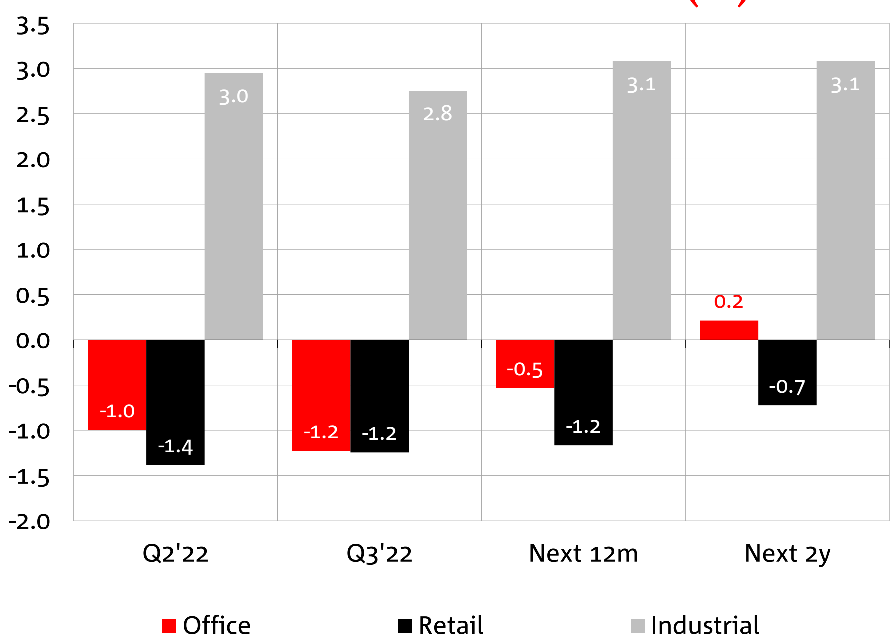
The national Office market is now 'somewhat' over-supplied, and expected to stay that way in the next 1-3 years. WA however is 'very' over-supplied now and the next 12 months, and 'quite' over-supplied in 3 years. QLD set to balance in 3 years and VIC & NSW in 5 years.

Retail markets also 'somewhat' over-supplied now, and expected to remain so in the next 12 months. The WA market is 'quite' over-supplied now and in 12 months, and 'somewhat' so in 3-5 years. QLD & SA/NT to remain "neutral" over the outlook horizon, with VIC and NSW achieving 'neutral' conditions in 3 years' time.

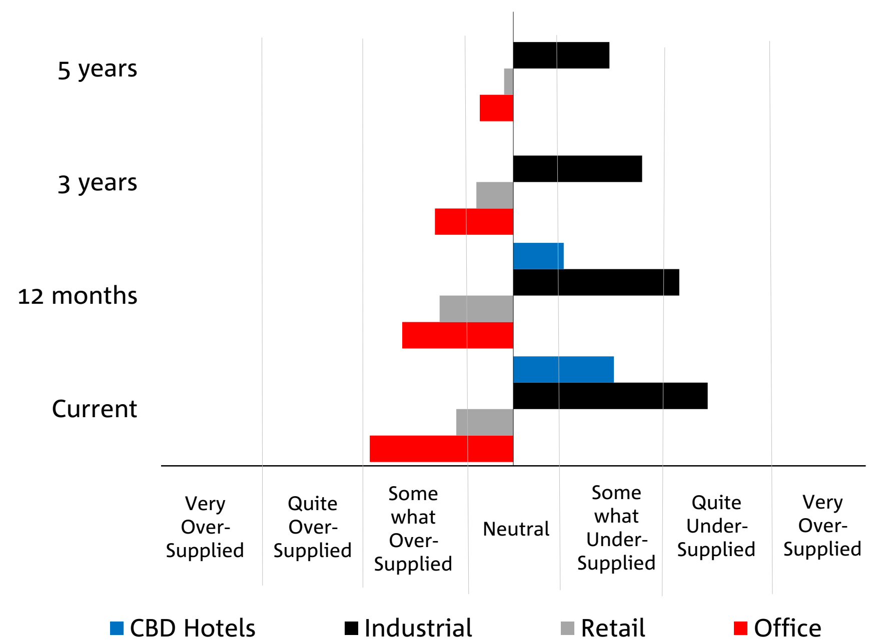
Industrial markets are 'quite' under-supplied now and next year, and 'somewhat' so in 3-5 years' time. Under-supply to persist in all states, (bar VIC) in the outlook period, with VIC 'neutral' in 3-5 years' time.

In the CBD Hotels sector, supply shortages are expected to feature in the next 1-5 years.

GROSS RENTAL EXPECTATIONS (%)



SUPPLY CONDITIONS



MARKET OVERVIEW - DEVELOPMENT INTENTIONS

The number of property developers expecting to commence new works in the next month increased sharply to 19% (11% in Q2). The number that planned to start in the next 1-6 months however fell to a survey low 18% (27% in Q2). As a result, 37% said they planned to start new works in the short-term (next 6 months) - the lowest result since Q3 2019.

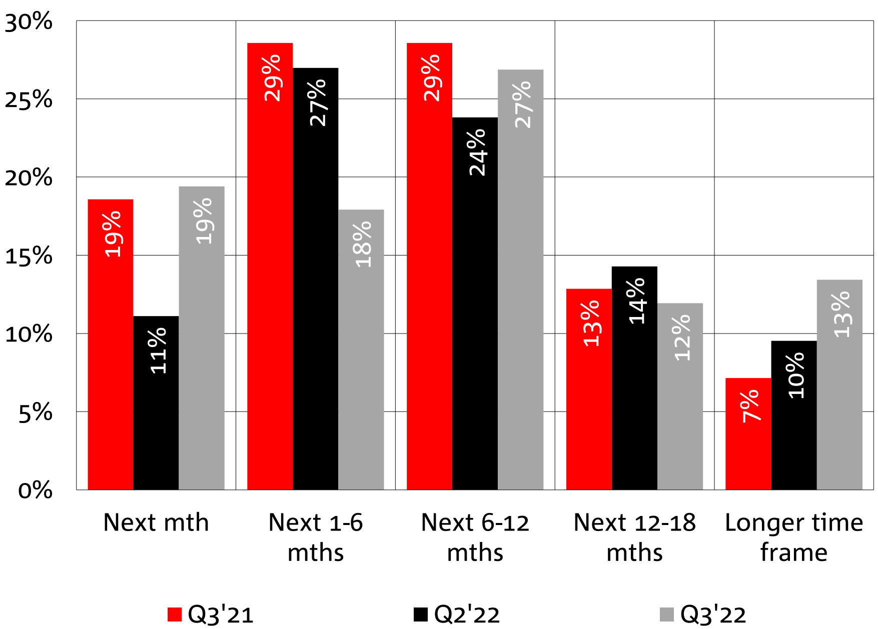
In contrast, an above average 27% intended to start new works in the next 6-12 months (24% in Q2). Only 12 % however were looking to commence in the next 12-18 months (14% in Q2), and 13% had a longer time frame (10% in Q2).

In total, an unchanged 76% of developers planned to start new works within the next 18 months. Though down from 89% at the same time last year, it remains well above the low of 68% in mid-2020 when COVID uncertainty was rising quickly.

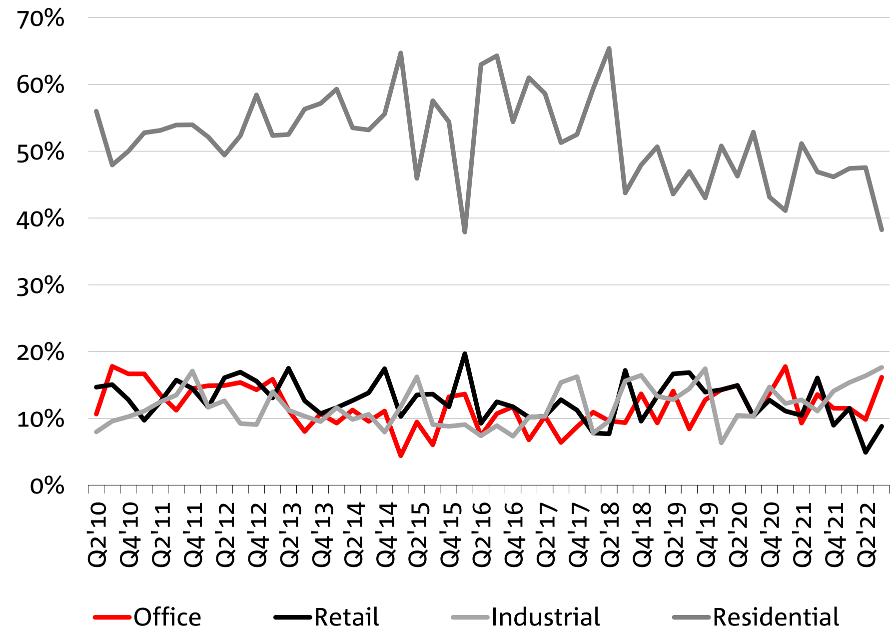
The Australian housing market is continuing to adjust to higher interest rates, and this looks set to continue as the impact of higher rates continue to flow through. On the construction side, work done remains volatile as supply chain disruptions continue to recover and weather impacts. Building approvals have trended lower over the past year and are now around pre-COVID levels (though appear to be stabilising). In terms of financing activity, new loan approvals (ex-refinancing) also continues to decline.

Against this backdrop, the number of developers planning to commence new residential property works fell to a survey low 38% in Q3 (48% in Q2) - and well down on the survey average (52%). An above average 16% plan to start in the Office space (10% in Q2), and a survey high 18% in Industrial (16% in Q2). The number looking at Retail also lifted to 9% (5% in Q2), but is still below average (13%).

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 increased noticeably to a 2½-year high 67% (56% in Q2 and 55% at the same time last year), and was well above the survey average (59%).

The number of developers seeking new acquisitions in Q3 however fell noticeably to 23% (30% in Q2 and 29% at the same time last year), and was below the survey average (26%).

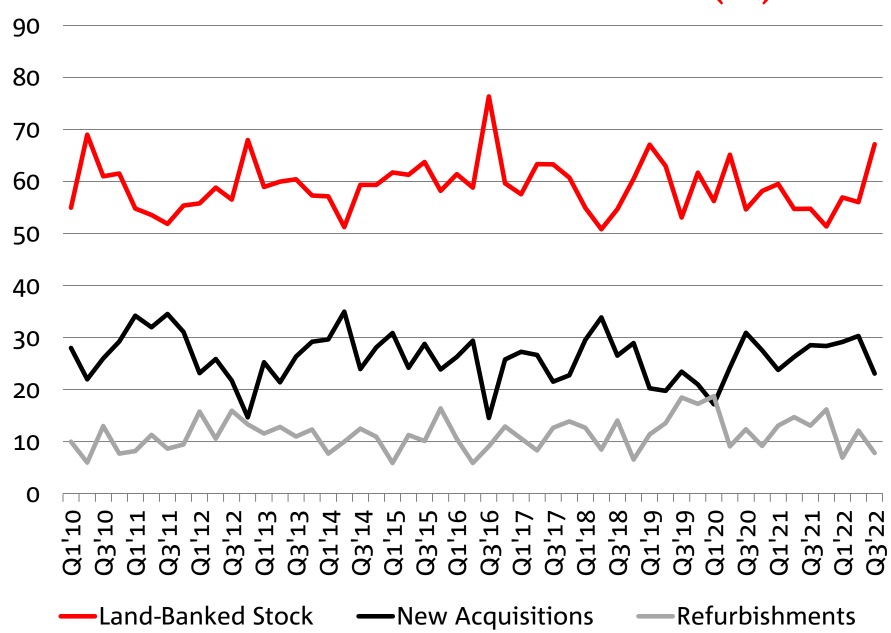
The number of developers looking at refurbishment opportunities in Q3 dipped 8% (12% in Q2 and 13% at the same time last year), and also tracked below the survey average (11%).

Intentions to source capital were little changed in Q3. The number planning to source more capital in the next 6 months to fund their developments was unchanged at 24%, and in the next 6-12 months unchanged at 26%.

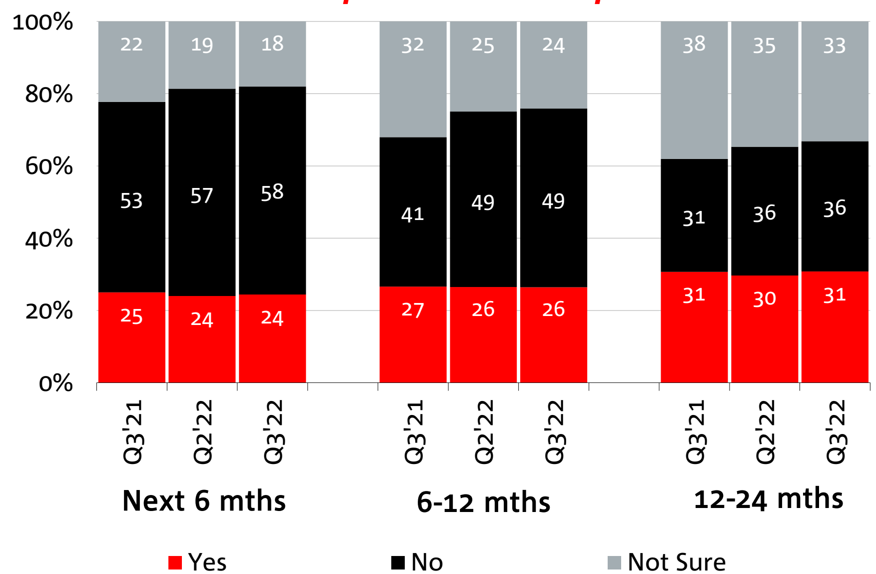
Around 58% had no intention to source capital in the next 6 months (57% in Q2), and an unchanged 49% no intention to source capital in the next 6-12 months. Around 1 in 5 developers were unsure of their intentions for the next 6 months and 1 in 4 in 6-12 months

The number intending to source more capital in the next 12-24 months rose a little to 31% (30% in Q2), and an unchanged 36% did not intend to source capital over this period. Around 1 in 3 developers (33%) however were unsure.

SOURCES OF LAND DEVELOPMENT (%)



INTENT TO SOURCE MORE CAPITAL FOR DEVELOPMENT/ACQUISITIONS/PROJECTS



MARKET OVERVIEW - FUNDING & PRE-COMMITMENTS

Property professionals said funding conditions continued to worsen in Q3, and they expect them to worsen further in the next 3-6 months. With interest rates continuing to rise, the net number of surveyed property professionals who said it was harder to obtain borrowing or loans (debt) rose to a 2-year high -31% in Q3 (-20% in Q2 and -9% at the same time last year).

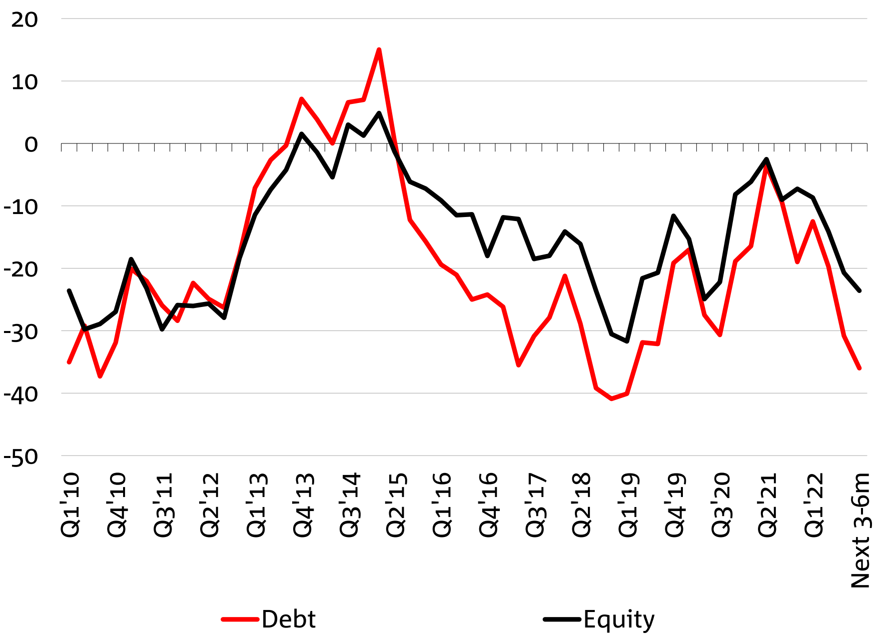
Equity funding perceptions were also much weaker in Q3, with the net number of property professionals who said it was harder to obtain equity rising sharply to -21% (-14% in Q2 and -9% at the same time last year).

Looking ahead, more property professionals expect funding conditions in the next 3-6 months to be worse than now, with the net number for debt funding rising to -36% and equity -24%.

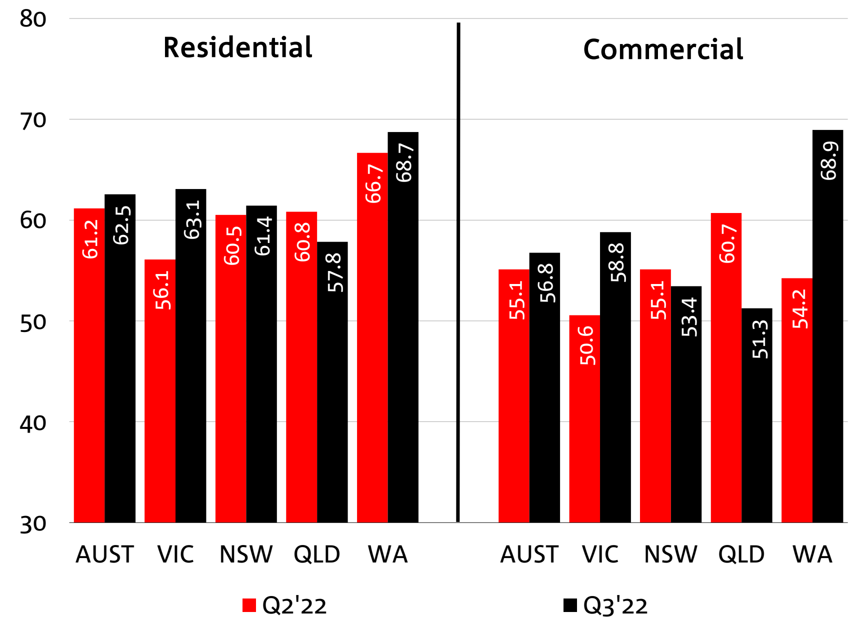
The average pre-commitment to meet funding requirements for new residential developments rose to 62.5% in Q3 (61.2% in Q2), and to 56.8% for commercial property (55.1% in Q2), Residential requirements are trending close to average (62.6%), but commercial somewhat lower (57.2%). Residential requirements lifted in all states bar QLD (57.8% vs. 60.8% in Q2). It was highest in WA (68.7% vs. 66.7% in Q2), but rose most in VIC (63.1% vs. 56.1% in Q2). Commercial requirements were highest and rose most in WA (68.9% vs. 54.2% in Q2), and fell most and lowest in QLD (51.3% vs. 60.7%).

More property professionals (-40%) see residential requirements worsening in the next 6 months, but less (-40%) in 6-12 months (-32% and -45% forecast respectively in Q2). In commercial markets, -40% expect requirements to worsen in the next 6 months (-29% in Q2), and -41% in 12 months' time (-46% in Q2).

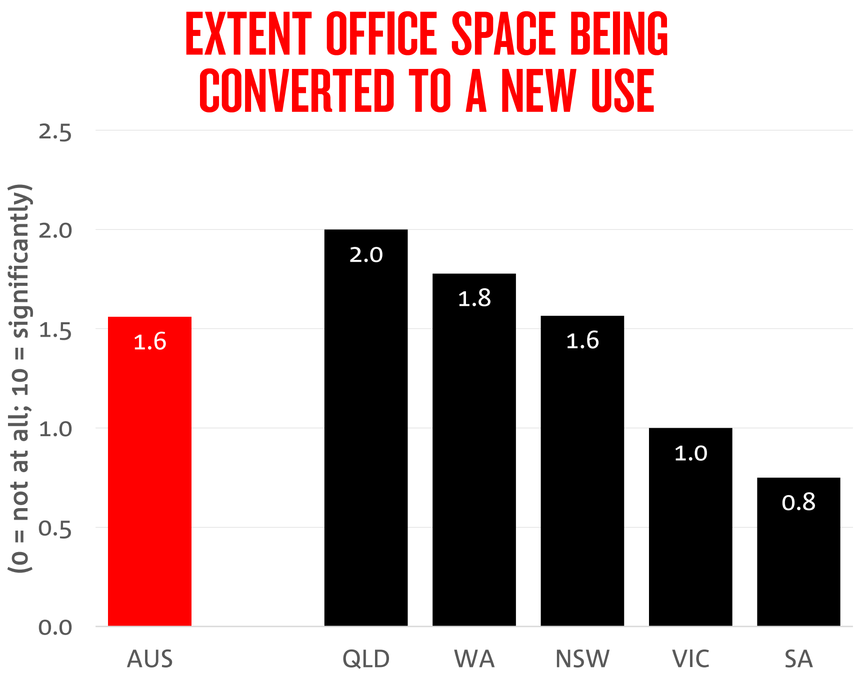
EASE OF ACQUIRING DEBT/EQUITY (NET)



PRE-COMMITMENT REQUIREMENTS (%)



SPECIAL QUESTION



The COVID pandemic has prompted many to re-imagine the future of commercial Office property. With evolving workplace strategies such as hybrid and remote working, Office workers now need less space.

Subsequent surpluses in the Office property market have prompted some to consider whether to re-adapt this surplus stock for other uses, such as apartments, affordable housing, hotels etc.

But to what extent is this occurring in Australian Office markets? In this survey property professionals operating in the Office sector were asked to rate the extent they have seen Office space being converted to a new use.

Overall, they indicated it was not very common at all, scoring on average just 1.6 pts out of a possible 10 (where 0 is not at all and 10 is significantly).

Moreover, it was not considered a common occurrence across the country, although the extent is was occurring ranged from just 0.8 pts in SA/NT and 1.0 pts in VIC, to 2.0 pts in QLD, 1.8 pts in WA and 1.6 pts in NSW.

SURVEY RESPONDENTS EXPECTATIONS (AVG) Q3-2022

OFFICE CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q3'22	-3.4	-1.7	-1.0	-2.9	0.4	**-2.0**
Q3'23	-3.7	-2.6	0.6	-2.1	1.1	**-1.9**
Q3'24	-2.4	-1.8	2.0	-1.0	2.1	**-0.9**

OFFICE RENTS (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q3'22	-4.7	-0.4	0.6	-1.9	1.6	**-1.2**
Q3'23	-3.3	-0.4	1.4	-0.8	2.5	**-0.5**
Q3'24	-1.4	-0.5	2.6	0.6	1.5	**0.2**

RETAIL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q3'22	-2.1	-2.9	-0.9	-2.9	-2.2	**-2.1**
Q3'23	-2.3	-2.6	-2.3	-2.1	-0.6	**-2.3**
Q3'24	-1.3	-1.4	-2.5	-0.9	-0.8	**-1.5**

RETAIL RENTS (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q3'22	-2.2	-1.2	1.4	-0.4	-4.3	**-1.2**
Q3'23	-1.7	-0.8	0.3	-0.6	-4.2	**-1.2**
Q3'24	-0.7	0.1	-0.6	-2.1	-4.2	**-0.7**

INDUSTRIAL CAPITAL VALUES (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q3'22	0.0	-0.2	1.7	0.8	0.8	**0.5**
Q3'23	-1.9	0.0	1.5	1.0	3.8	**0.3**
Q3'24	-1.0	1.0	1.8	0.8	2.0	**0.9**

INDUSTRIAL RENTS (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q3'22	2.3	3.0	3.9	1.5	0.8	**2.8**
Q3'23	2.8	3.5	3.5	2.3	2.0	**3.1**
Q3'24	2.6	3.6	3.8	1.6	2.0	**3.1**

SURVEY RESPONDENTS EXPECTATIONS (AVG) Q3-2022

OFFICE VACANCY RATE (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q3'22	11.2	7.2	11.7	14.0	9.4	**10.1**
Q3'23	10.1	7.3	11.2	13.0	9.4	**9.6**
Q3'24	8.1	7.0	10.2	11.8	9.8	**8.8**

RETAIL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q3'22	5.7	6.3	5.2	8.0	9.0	**6.2**
Q3'23	5.8	6.3	5.0	7.5	8.5	**6.1**
Q3'24	5.1	6.0	4.8	5.7	9.7	**5.6**

INDUSTRIAL VACANCY RATE (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q3'22	4.4	2.4	3.6	4.1	6.5	**3.5**
Q3'23	4.2	3.0	3.5	3.4	7.0	**3.6**
Q3'24	5.4	3.2	3.5	3.4	7.5	**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 340 property professionals participated in the Q3 2022 Survey.

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