more than money

NAB Commercial Property Survey

Q1 2023

NAB Behavioural & Industry Economics

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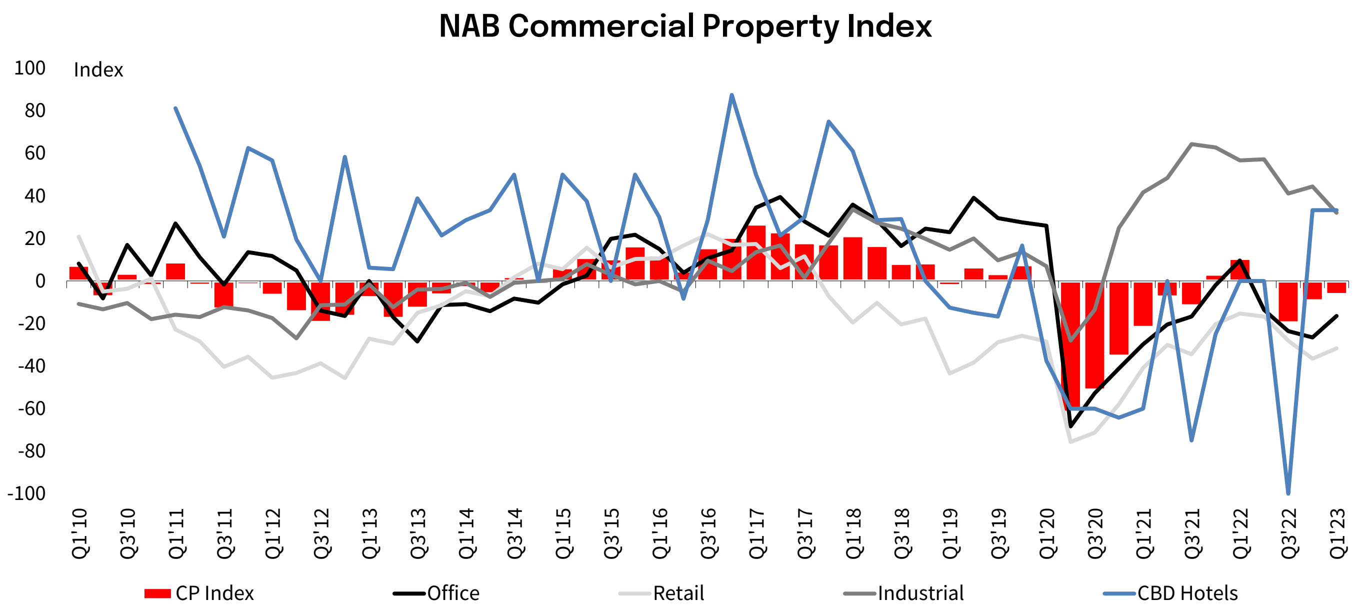
The NAB Commercial Property Index improved a little further in Q1 but economic uncertainty seems to be weighing on confidence.

The overall Index continues to be weighed down by negative sentiment in Retail and Office markets amid elevated economic uncertainty and slowing spending. A well below average 1 in 3 property developers plan to start new building works in the next 6 months, and more property professionals said funding conditions (both debt and equity) were harder in Q1.

Key Messages

- The NAB Commercial Property Index improved a little further in Q1 2023 but still printed negative (-6 pts). Though the index was up from -9 pts in Q4'22, it was well down from the same period last year (+11 pts) and still trending below the long-term survey average (-1 pt).
- Sentiment was unchanged and highest in the CBD Hotels sector (+33 pts), with property professionals reporting positive capital and RevPAR growth during the quarter. The Industrial Property index fell to its lowest level in over 2 years (+32 pts), but remains well above the survey average (+9 pts). Office market sentiment is still very weak, but improved to -16 pts (-27 pts in Q4'22), with the Retail index also up a little but still deeply negative (-32 pts from -37 pts in Q4'22), amid elevated economic uncertainty and slowing spending.
- Economic uncertainty remains elevated. How quickly inflation moderates is a key unknown as domestic pressures - including wage and rents growth - continue to build. On the other hand, the full impact of the rapid tightening in monetary policy is yet to be seen, and there is a risk that activity could slow more sharply than expected. Against this backdrop, commercial property confidence levels for the next 12 months continued to print negative (-2 pts), with the 2-year measure unchanged at a well below average +12 pts.
- Confidence in the next 12 months is highest for CBD Hotels (+33 pts) and Industrial property (+32 pts), though down from +42 pts and +46 pts in Q4'22 respectively. Confidence remains relatively weak for Office property (-11 pts & +3 pts), and still lowest overall for Retail property (-23 pts & -7 pts) - though somewhat higher than in the previous quarter (-38 pts & -14 pts) .
- Commercial property market sentiment was negative in all states bar SA/NT where the state index rose to +3 pts (0 pts in Q4'22). It remained lowest in VIC by a very large margin but did ease somewhat to -28 pts (-37 pts in Q4'22). Sentiment fell in all other states, with the biggest fall in WA (down 16 pts to -2 pts). Confidence levels for the next 12 months are strongest in SA (+15 pts) and WA (+11 pts), and lowest in VIC (-30 pts) and also negative in NSW (-6 pts).
- Capital growth expectations for the next 1-2 years are highest for CBD Hotels in Q1 (0.6% & 1.8%), with Industrial values also expected to grow (0.4% & 1.0%) - though shaved from the previous quarter (1.2% & 1.7%). Expectations for Office property also cut (-2.5% & -1.3%), and weakest in VIC (-6.4% & -4.7%) and NSW (-3.2% & -2.0%). Retail expectations a little better but still deeply negative (-2.5% & -1.4%), with values to fall in all states next year, led by NSW (-4.0%) and VIC (-3.0%).
- National Office vacancy rose to 9.9% in Q1 (9.5% in Q4'22), and continues trending above average (8.5%). Vacancy now expected to ease more slowly to 9.6% & 9.1% in the next 1-2 years (9.1% & 8.3% previously). Despite this, Office rents are now expected to grow 0.4% & 0.9% in the next 1-2 years (-0.8% & -0.2% in Q4'22), and in all states bar VIC (-1.2% & -0.8%). The outlook for Retail rents is still negative, but the pace of decline is expected to slow to -1.0% & -0.6% (-1.8% & -0.9% in Q4'22). Industrial rents expected to remain very buoyant (3.2% & 2.8%), and grow in all states led by NSW (3.5% & 3.2%), QLD (3.4% & 2.7%) and VIC (3.2% & 3.6%).
- Amid a broader slow-down in new construction and building approvals data, the number of property developers planning to start new works in the next 6 months was unchanged at a 3½ year low 33%, and continues to sit well below the survey average (48%). Only 37% of now also intend to commence new building works in the next 6-18 months, down from 42% in the previous quarter.

- With an apparent stabilisation in house prices, and very strong pickup in housing demand as population growth rebounded since the reopening of international borders, Q1 saw a further up-tick in the number of developers planning to start new building works in the residential sector to 51%. However, below average numbers plan to start new works in the Office (12%) and Industrial sectors (14%) - despite expectations for ongoing shortages of Industrial space. The number planning to start new works in the Retail sector however improved to 10% after dipping to a near survey low 6% in Q4’22, but is still trending below the survey average (13%).
- Funding conditions remain difficult. The net number of property professionals who said it was harder to obtain borrowing or loans (debt) rose for the fourth straight quarter to a 4-year high -37% (-36% in Q4’22 and -20% in Q1’22). Equity funding conditions were also more difficult, with the number who said it was harder to obtain equity climbing (quite sharply) for the fifth consecutive quarter to a survey high -39% (-27% in Q4’22 and -9% at the same time last year). Looking ahead, more property professionals believe debt funding conditions in the next 3-6 months will be worse than now (-39%), but the net number expecting equity funding conditions to be worse is lower (-25%).

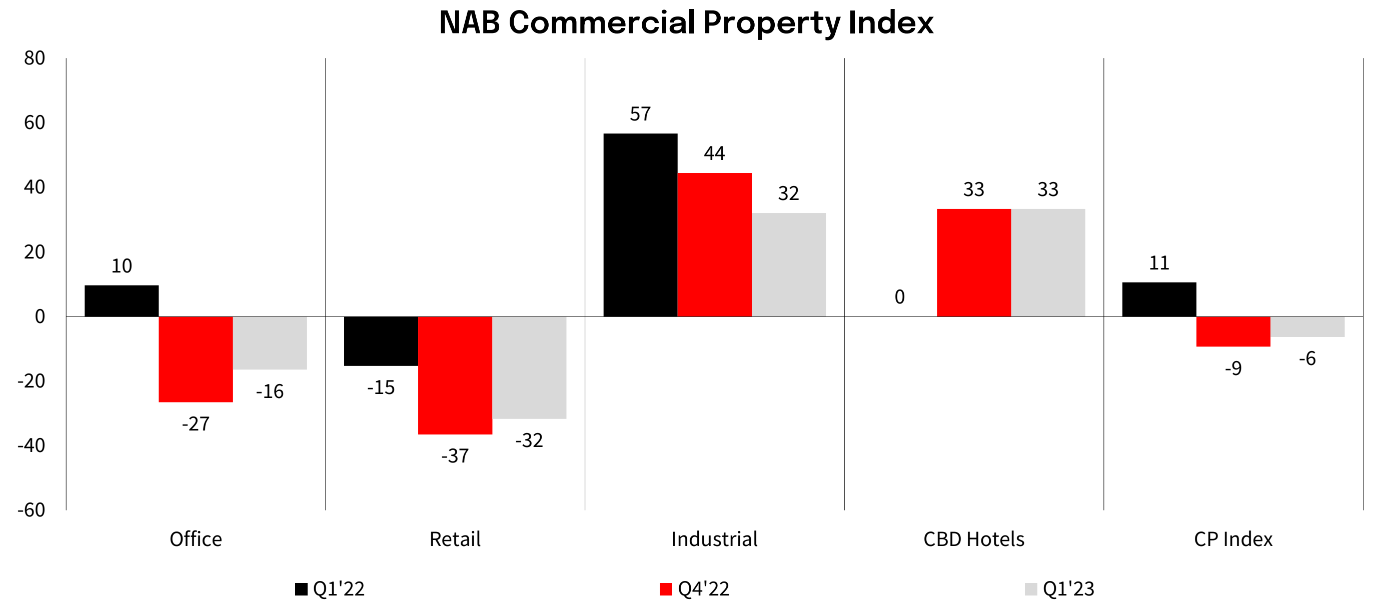


NAB Commercial Property Index

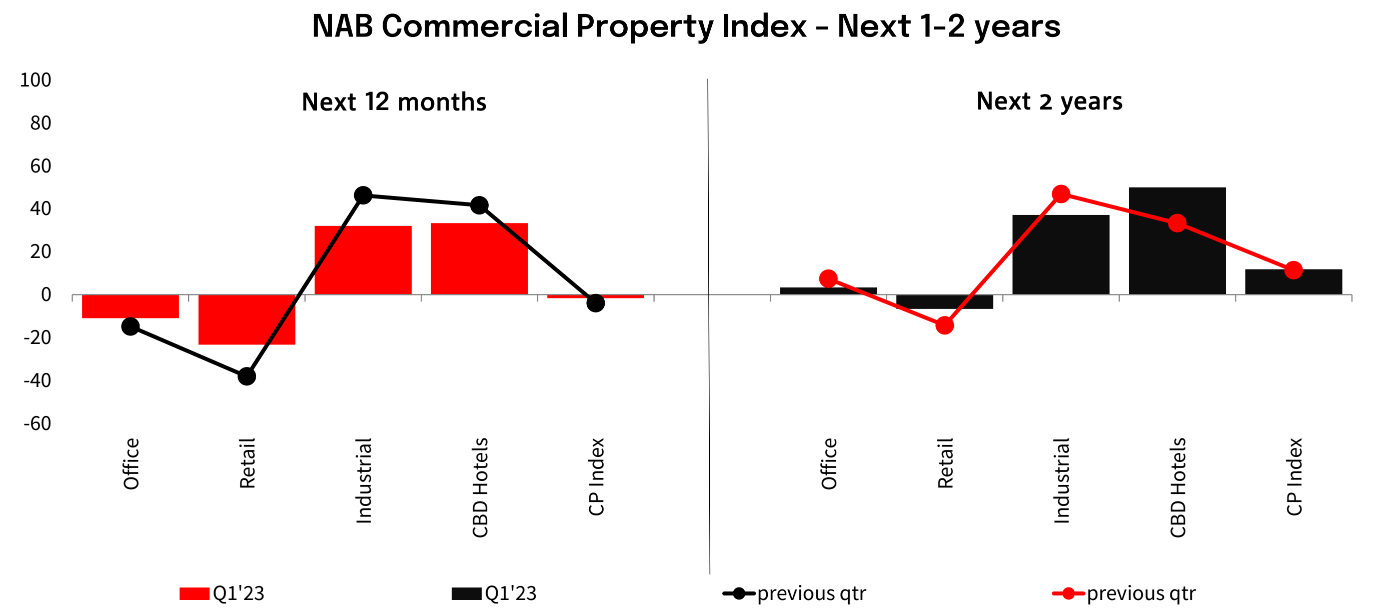
	Q4'22	Q1'23	Next 12 months	Next 2 years
Office property	-27	-16	-11	3
Retail property	-37	-32	-23	-7
Industrial property	44	32	32	37
CBD Hotels property	33	33	33	50
NAB Commercial Property Index	**-9**	**-6**	**-2**	**12**

Market Overview - NAB Commercial Property Index

The NAB Commercial Property Index improved a little further in Q1 2023 but still printed negative at -6 pts. Though the index rose from -9 pts in the previous quarter, it remains well down from the same period last year (+11 pts) and is still trending below the long-term survey average (-1 pts). Sectoral trends continue to vary. Sentiment was unchanged and highest in the CBD Hotels sector (+33 pts), with property professionals reporting positive capital and RevPAR growth during the quarter. The Industrial Property index fell to its lowest level in over 2 years (+32 pts), but continues to trend well above the survey average (+9 pts). Office property market sentiment remains very weak, though improved to -16 pts (-27 pts in the previous quarter), with the Retail index also up a little but still deeply negative (-32 pts from -37 pts in Q4'22), amid elevated economic uncertainty and slowing spending.

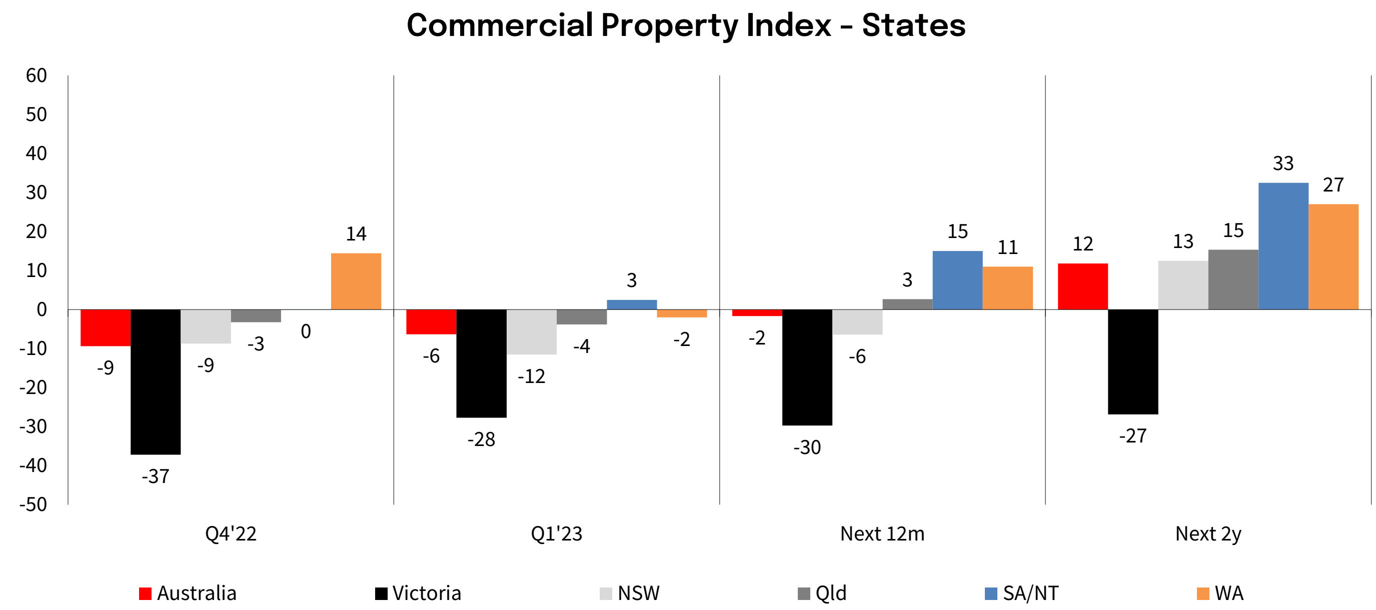


Economic uncertainty remains elevated. How quickly inflation moderates is a key unknown as domestic pressures - including wage and rents growth - continue to build. On the other hand, the full impact of the rapid tightening in monetary policy is yet to be seen, and there is a risk that activity could slow more sharply than expected. Against this backdrop, commercial property confidence levels for next the 12 months continued to print negative (-2 pts), with the 2-year measure unchanged at a well below average +12 pts. Confidence in the next 12 months is highest for CBD Hotels (+33 pts) and Industrial property (+32 pts), though down from +42 pts and +46 pts in Q4'22 respectively. Confidence levels remain relatively weak for Office property (-11 pts & +3 pts), but is still lowest overall for Retail property (-23 pts & -7 pts) though somewhat higher than in the previous quarter (-38 pts & -14 pts).



Market Overview - Commercial Property Index by State

Overall commercial property market sentiment was negative in all states bar SA/NT where the state index rose to +3 pts (0 pts in Q4'22). It remained lowest in VIC by a very large margin but did ease to -28 pts (-37 pts in Q4'22). Sentiment fell in all other states, with the biggest fall in WA (down 16 pts to -2 pts). Confidence levels for the next 12 months are strongest in SA (+15 pts) and WA (+11 pts), and are lowest in VIC (-30 pts) and also negative in NSW (-6 pts). Office market confidence lifted in all states bar SA/NT, but WA was the only state to print positive (+20 pts). Positive outcomes were reported for all states in the next 2 years except VIC (-46 pts) and NSW (-8 pts). In Retail, confidence levels for the next 12 months were negative in all states except SA/NT (+17 pts) and WA (flat). Confidence is however somewhat stronger and positive in most states in 2 years' time, except in VIC (-50 pts) and QLD (-12 pts). Industrial confidence levels in the next 1-2 years remain positive (but fell) in all states, except VIC (+18 pts) where despite improving remains much softer than in other states - see table below.



Office Property Market Index: States						
	VIC	NSW	QLD	WA	SANT	AUS
Q1'23	-46↑	-22↑	-15↓	10↑	-19↓	**-16↑**
Q1'24	-46↑	-18↑	0↑	20↑	-13↓	**-11↑**
Q1'25	-46↑	-8↓	30↓	35↓	38↓	**3↓**

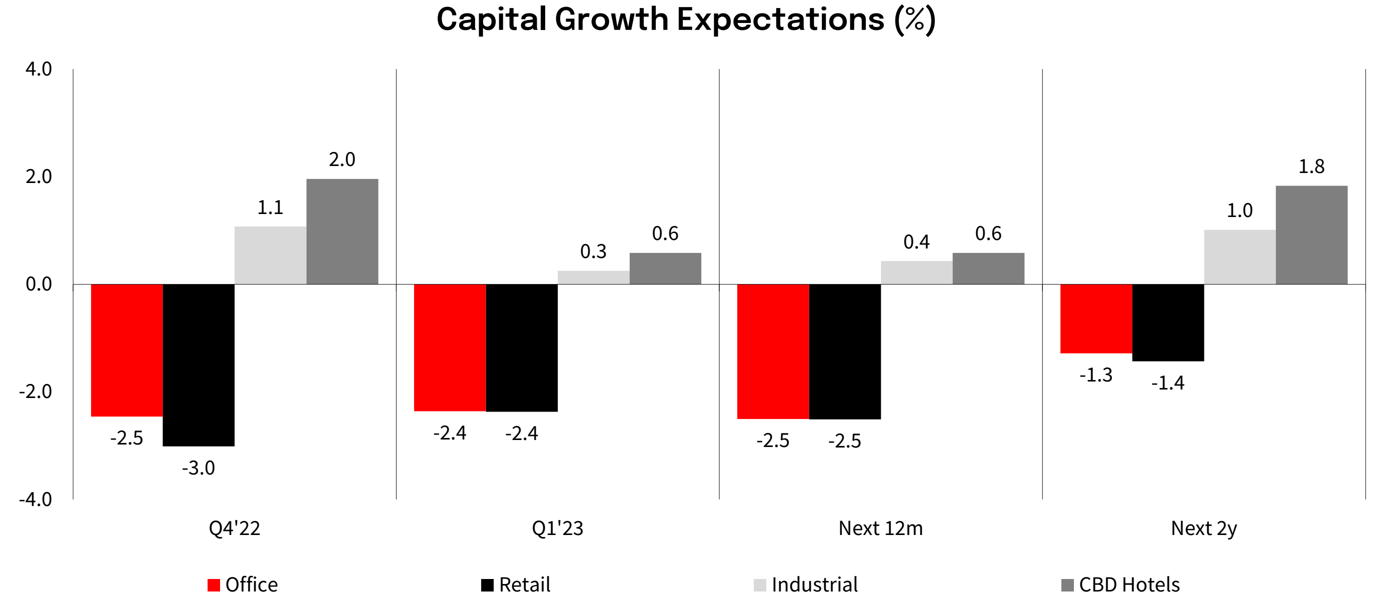
Retail Property Market Index: States						
	VIC	NSW	QLD	WA	SANT	AUS
Q1'23	-52↑	-42↑	-15↑	-30↓	-8 ↑	**-32↑**
Q1'24	-50↑	-29↔	-15↑	0↔	17↑	**-23↑**
Q1'25	-40↓	8↑	-12↔	30↓	25↑	**-7↑**

Industrial Property Market Index: States						
	VIC	NSW	QLD	WA	SANT	AUS
Q1'23	32↓	32↓	34↔	15↓	63↑	**32↓**
Q1'24	18↓	32↓	36↓	15↓	75↓	**32↓**
Q1'25	18↑	42↓	34↓	40↓	50↔	**37↓**

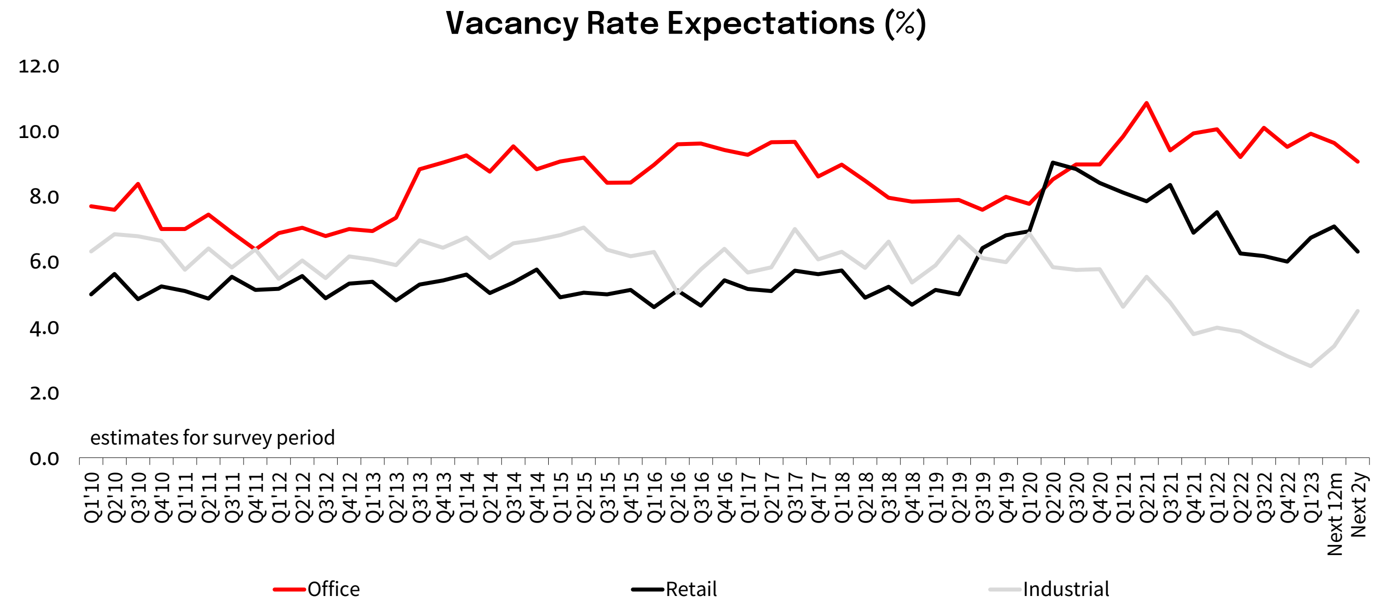
LEGEND:
↑ up since last survey
↓ down since last survey
↔ unchanged

Market Overview - Capital Growth & Vacancy Expectations

Capital growth expectations for the next 1 and 2 years are highest for CBD Hotels in Q1 (0.6% & 1.8%). Industrial values are also set to grow (0.4% & 1.0%), but shaved from the last quarter (1.2% & 1.7%). Prospects are strongest in SA/NT (3.8% & 1.8%) and NSW (0.8% & 1.4%), and weakest in VIC (-1.0% & -0.6%). Capital expectations for Office property were also cut to -2.5% & -1.3% (-2.3% & -0.8% in Q4'22). Expectations were weakest and cut to -6.4% & -4.7% in VIC (-5.6% & -3.9% in Q4'22) and NSW to -3.2% & -2.0% (-2.7% & -0.8% in Q4'22). It is strongest (and positive) in WA (0.3% & 1.2%), with modest falls in QLD (-1.0%) and SA/NT (-0.7%) in the next 12 months, before growing 0.5% in both states state in 2 years' time. In Retail, the outlook was revised up a little to a still negative -2.5% and -1.4% (-2.7% & -1.7% previously). Retail values are predicted to fall in all states over the next year, led by NSW (-4.0%) and VIC (-3.0%), Values are expected to start growing in SA/NT (1.5%) and WA (0.4%) in 2 years' time, but continue falling across the rest of the country -see page 11.

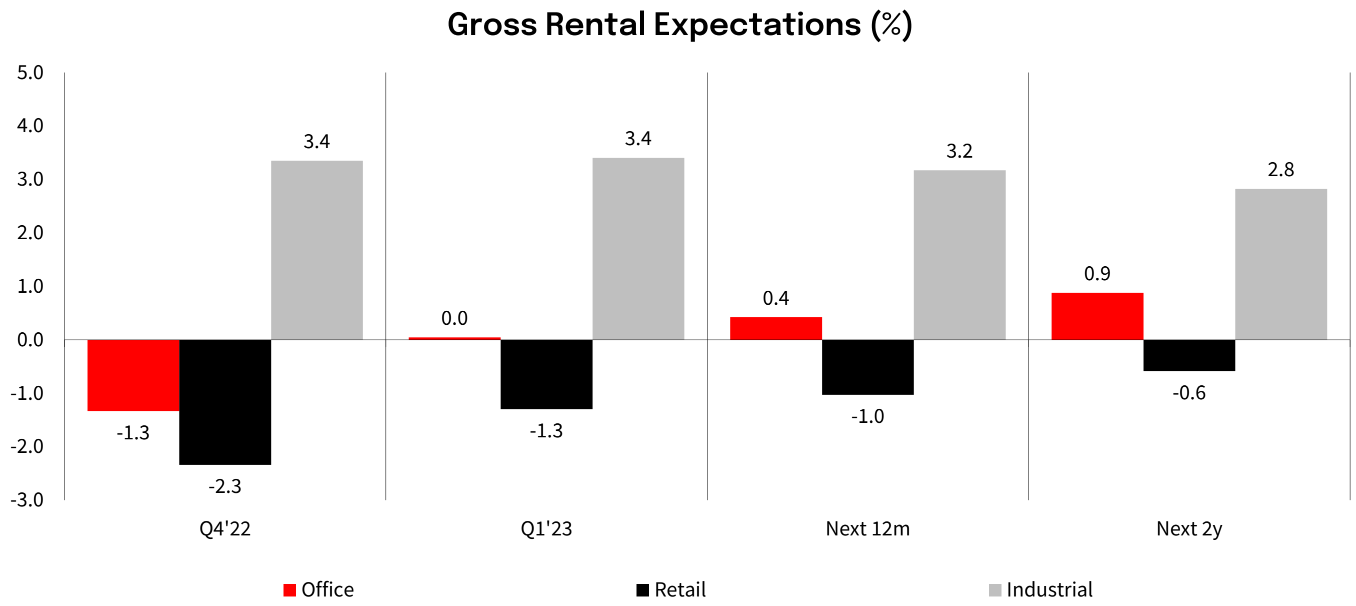


The national Office vacancy rate rose to 9.9% in Q1 (9.5% in Q4'22), and continues to trend above the survey average (8.5%). It lifted in all states bar QLD (10.6%). It was highest in WA (13.2%) and VIC (11.4%) and lowest in NSW (8.4%). Vacancy is now expected to ease more slowly to 9.6% & 9.1% in the next 1-2 years (9.1% & 8.3% previously), and remain above average in all states bar QLD. Retail vacancy also climbed to 6.7% in Q1 (6.0% in Q4'22). It was highest in SA/NT (9.8%) and NSW (8.2%), and lowest in VIC (5.0%). Overall Retail vacancy is expected to rise next year (7.1%), but fall in 2 years' time (6.3%) - with vacancy above average in all states bar VIC. The national Industrial vacancy rate fell to a survey low 2.8% in Q1 (3.1% in Q4'22), with the market particularly tight in NSW (2.0%) and QLD (2.7%). Industrial vacancy is expected to start rising in the next 1-2 years (3.4% & 4.5%), but remain below average in all states except VIC - see page 11.

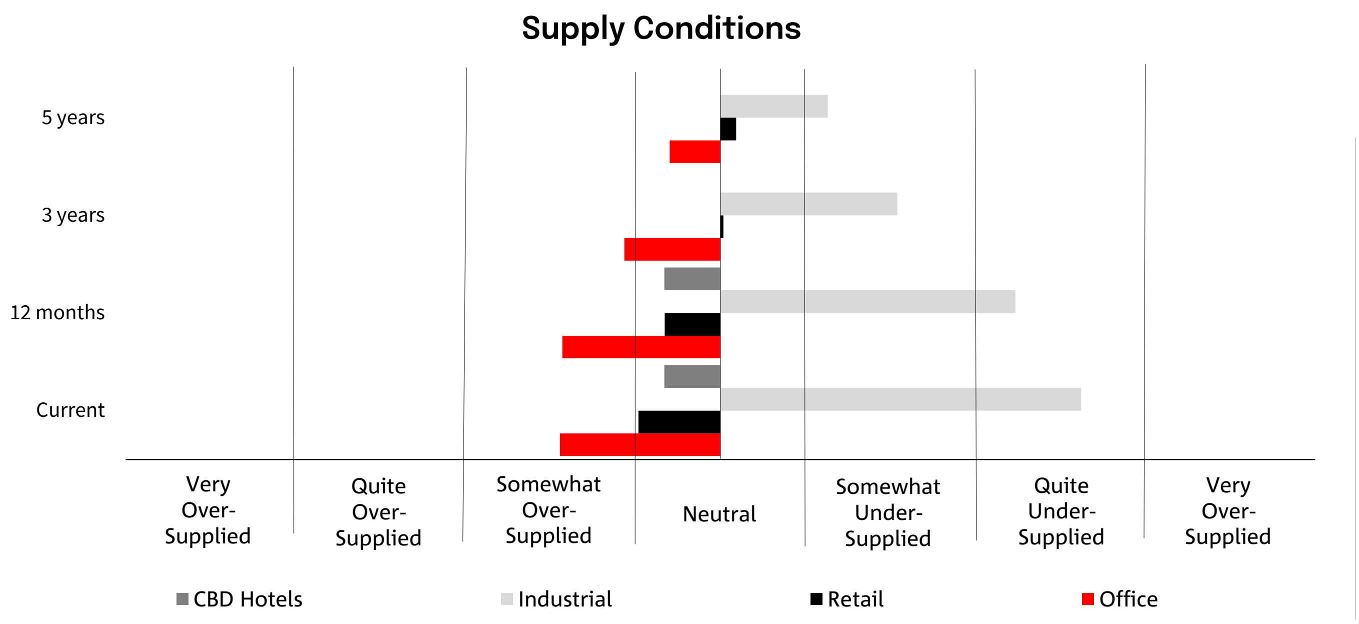


Market Overview – Rental Growth & Supply

Though vacancy is expected to recover at a slower rate in the next 1-2 years, national Office rents are expected to grow 0.4% & 0.9% (-0.8% & -0.2% in Q4'22). Growth is forecast in all states bar VIC (-1.2% & -0.8%), with the outlook strongest in WA (2.1% & 2.5%) and SA/NT (0.5% & 3.3%). The outlook for Retail rents remains negative, though the rate of decline is now expected to slow to -1.0% & -0.6% in the next 1-2 years (-1.8% & -0.9% in Q4'22). Rents are expected to fall in all states over the outlook period, except in SA/NT in 2 years' time (0.4%), with VIC leading the way (-2.1% & -1.6%). The outlook for Industrial rents remains very buoyant at 3.2% & 2.8%, though was revised down from 3.5% & 3.9% in Q4'22. Industrial rents are predicted to grow in all states led by NSW (3.5% & 3.2%), QLD (3.4% & 2.7%) and VIC (3.2% & 3.6%) - see page 11.

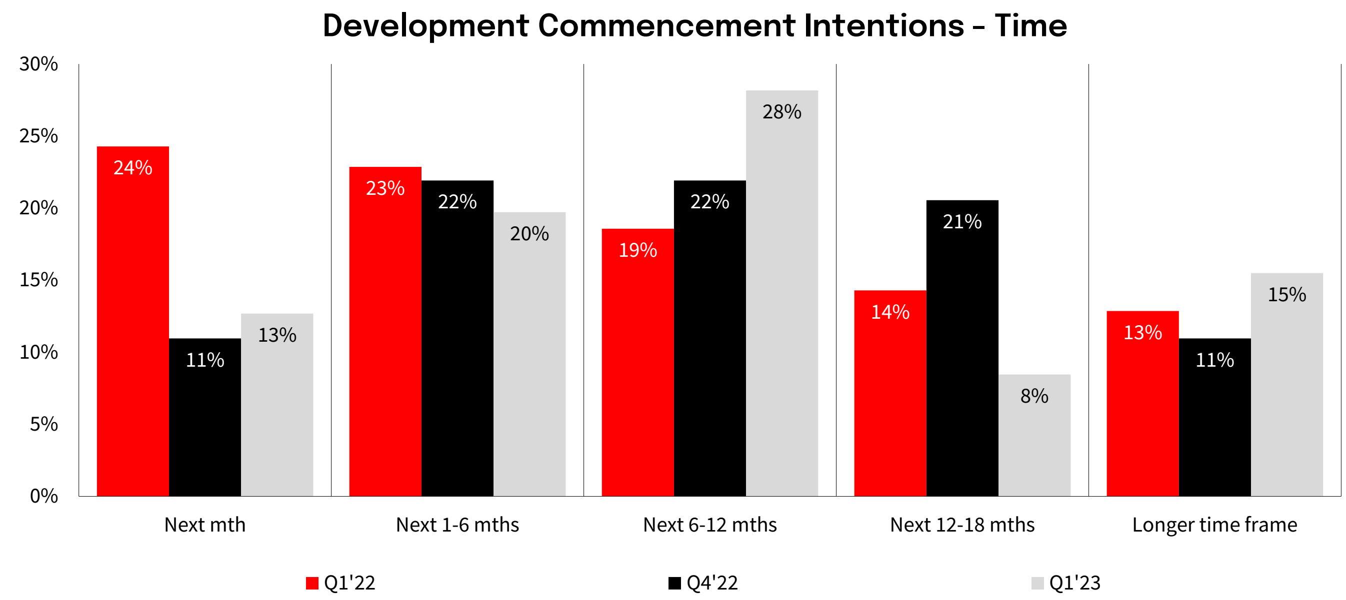


The national Office market is still currently "somewhat" over-supplied and is expected to stay that way in the next 1-3 years before returning to "neutral" conditions in 5 years' time - though property professionals still see modest supply overhangs persisting in NSW and QLD in 5 years' time. Nationwide Retail market supply conditions are currently "neutral", despite supply overhangs in WA, SA/NT and VIC. Supply conditions in all states are expected to be in balance in 3-5 years, except in QLD ("somewhat" over-supplied). Industrial property markets are currently "quite" under-supplied (particularly in NSW), with a lack of supply continuing to impact this market for the next 1-3 years in VIC and WA, and the next 1-2 years in all other states. In the CBD Hotels sector, supply conditions are currently "neutral" and are expected remain "neutral" over the next 1-5 years.

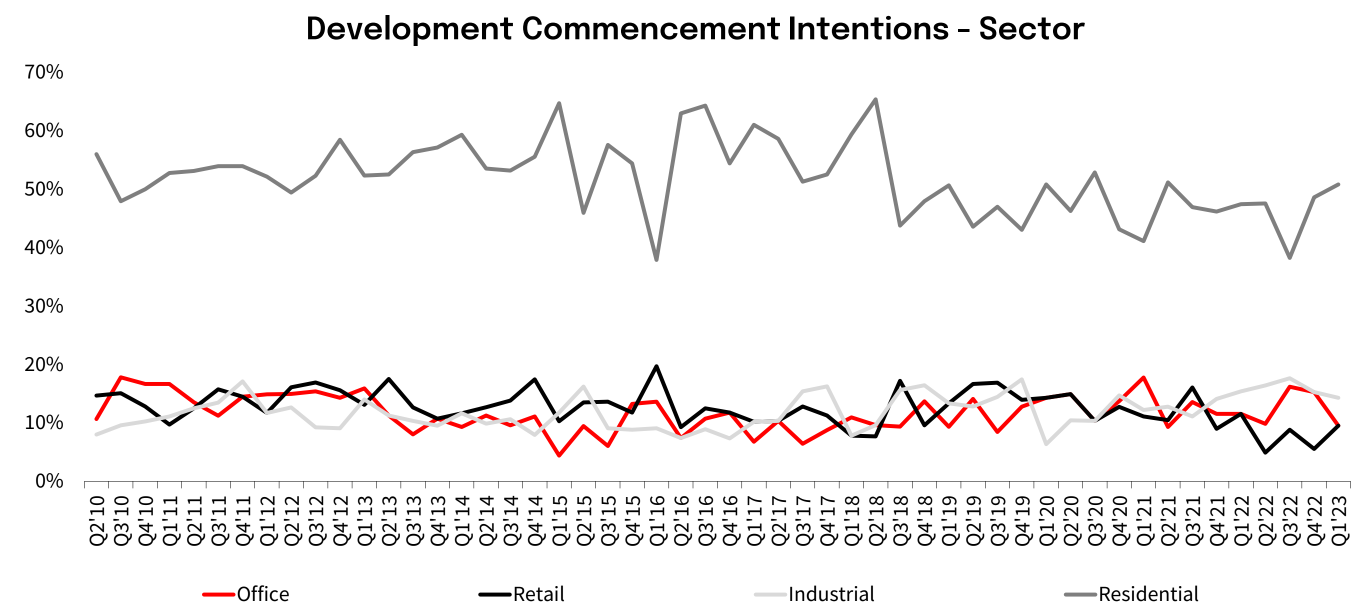


Market Overview – Development Intentions

Amid a broader slow-down in new construction and building approvals data, the number of property developers expecting to commence new works in the next 6 months was unchanged at a 3½ year low 33% (13% in the next month & 20% in the next 1-6 months), and continues to sit well below a survey average 48%. Only 37% of developers now also intend to commence new development works in the next 6-18 months, down sharply from 42% in the previous quarter. The number of developers that were unsure of their intentions also climbed to 15% - the highest level of uncertainty since mid-2020. In total, only 69% of developers planned to commence new building works within the next 18 months - down from 75% in the previous quarter and 80% at the same time last year. This remains well below the survey average level (84%).

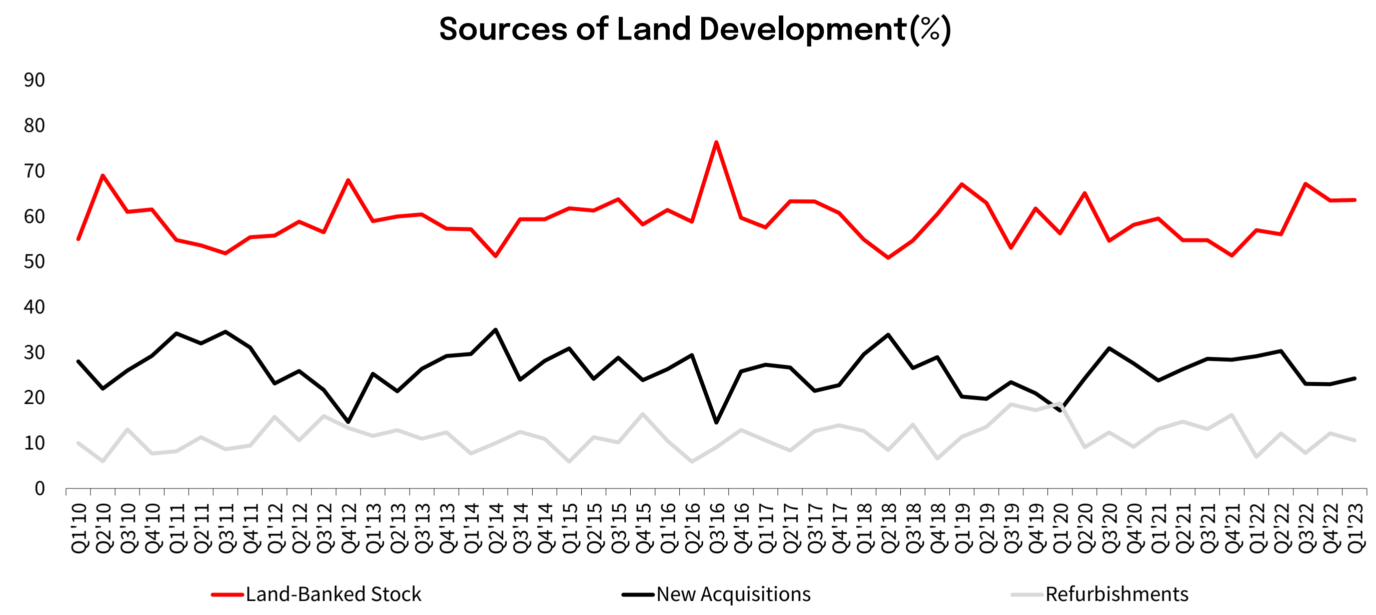


With an apparent stabilisation in house prices, and very strong pickup in housing demand as population growth rebounded since the reopening of international borders, Q1 saw a further up-tick in the number of property developers planning to commence new building works in the residential property sector to 51%, from 49% in the previous quarter and a survey low 38% in Q3'22. However, a below average 12% had plans to commence new works in the Office sector (15% in Q4'22), and below average 14% in the Industrial sector (15% in Q4'22) despite expectations for ongoing shortages of available Industrial space. The number of developers planning to start new building works in the Retail sector however improved to 10%, after dipping to a near survey low 6% in the previous quarter, though is still trending below the survey average (13%).

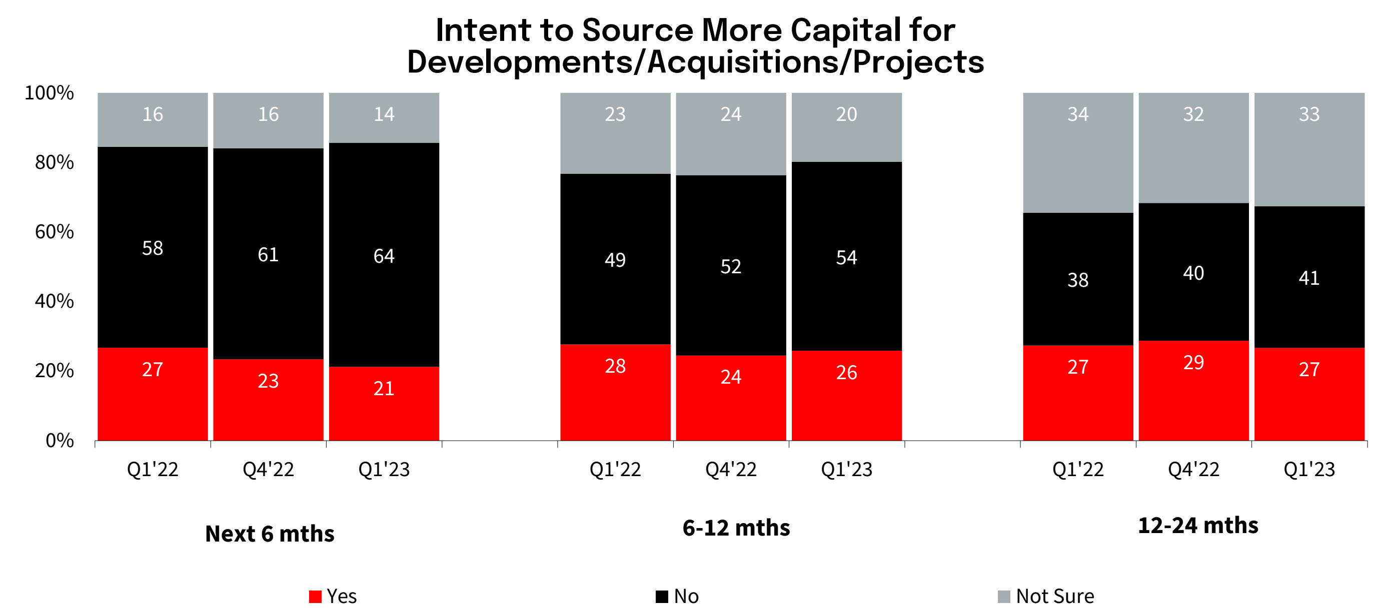


Market Overview – Land Sources & Capital Intentions

The Q1 survey found little change in sourcing intentions for land development among property developers. The number of property developers looking to use land-banked stock for their new projects was unchanged at 64% and remains above the survey average (59%). The number seeking new acquisitions was broadly unchanged over the quarter at 24% (23% in Q4'22), and slightly below survey average levels (26%). The number looking at refurbishment opportunities in Q1 was also broadly steady at 11%, after having kicked up sharply to 12% in the previous quarter, and tracked in line with the survey average (11%).

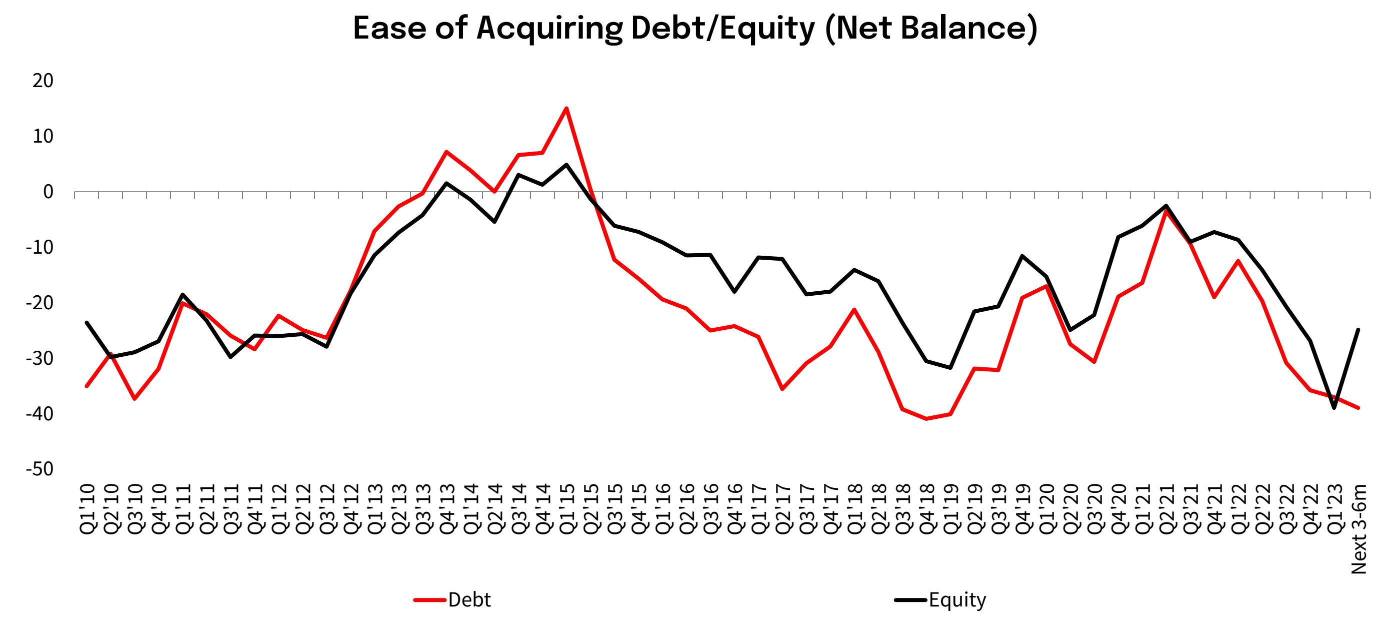


Intentions to source capital to fund new developments were also little changed over the quarter, but remain somewhat weaker than at the same time last year. The number planning to source more capital in the next 6 months eased to 21% (23% in Q4'22 and 27% % in Q1'22), and in the next 6-12 months to 26% (24% in Q4'22 and 28% in Q1'22). Around 64% had no intention to source capital in the next 6 months (up from 61% in Q4'22 and 58% at the same time last year), and 54% had no intention to source capital in the next 6-12 months (up from 52% in Q4'22 and 49% in Q1'22). Around 14% were unsure of their intentions in the next 6 months and 20% in the next 6-12 months. The number intending to source more capital in the next 12-24 months also fell a little to 27% (29% in Q4'22), and a broadly unchanged 41% did not intend to source capital over this period (40% in Q4'22). Around 1 in 3 (33%) developers remain unsure.

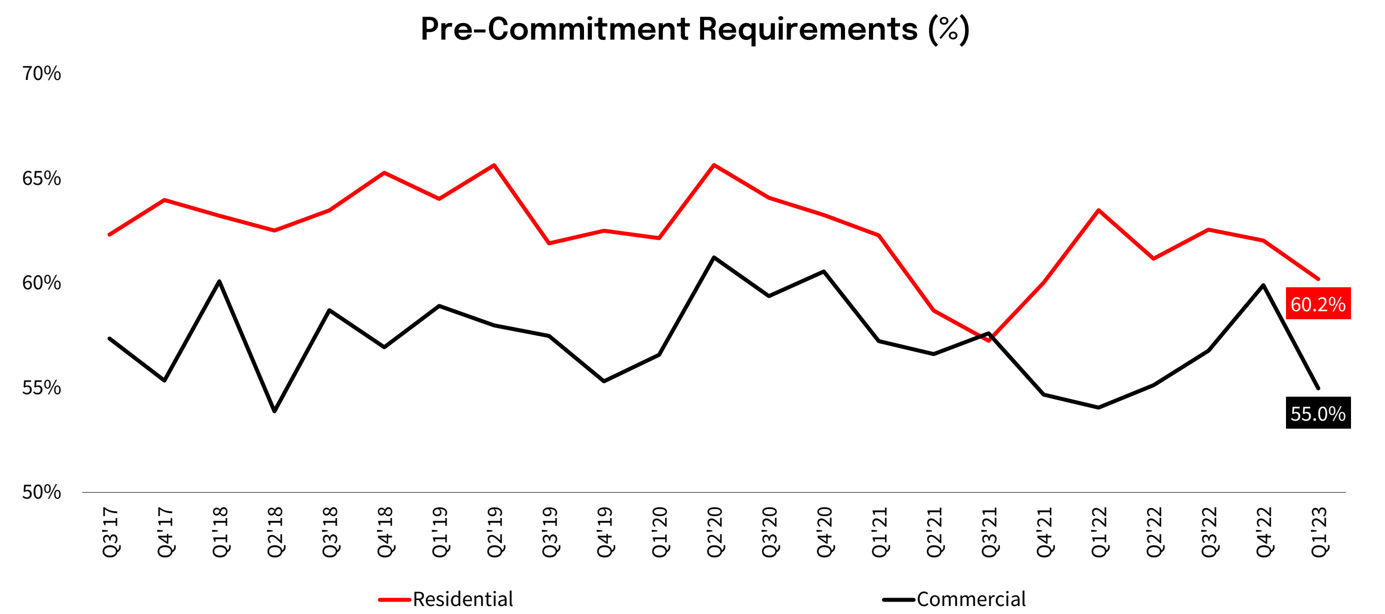


Market Overview - Ease of Funding & Pre-Commitments

The net number of surveyed property professionals who indicated it was harder to obtain borrowing or loans (debt) increased for the fourth consecutive quarter in Q1 to a 4-year high -37% (-36% in Q4'22 and -20% at the same time last year). Equity funding conditions were also more difficult, with the net number who said it was harder to obtain equity also climbing (and quite sharply) for the fifth straight quarter to a survey high -39% (-27% in Q4'22 and -9% at the same time last year). Looking ahead, more property professionals believe that debt funding conditions in the next 3-6 months will be worse than now (-39%), but the net number that expect equity funding conditions to be worse is lower (-25%).



The average pre-commitment to meet funding requirements for new residential property developments fell to 60.2% in Q1 (62.0% in Q4'22). Requirements remain highest in WA at 65.9% (68.8% in Q4'22), followed by QLD at 61.4% (56.9 pts in Q4'22). They were lowest and fell in VIC to 56.7 pts (down sharply from 64.4% in Q4.22) and NSW at 57.8% (also down sharply from 61.7% in Q4'22). Despite the overall improvement, more property professionals believe residential pre-commitment requirements will worsen in the next 6 months (-45% from -30%) and 6-12 months (-28% from -27%). The average pre-commitment for commercial property also fell to 55.0% in Q1 (59.9% in Q4'22), with requirements highest in WA at 61.1% (66.7% in Q4'22) and lowest in VIC at 50.1% (63.4% in Q4'22). More property professionals also see commercial requirements worsening in the next 6 months (-45% from -29%) and 6-12 months (-30% down from -24%).



Survey Respondents Expectations (Average) Q1 2023

Office Capital Values (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q1'23	-5.3	-3.0	-1.2	0.5	-1.9	**-2.4**
Q1'24	-6.4	-3.2	-1.0	0.3	-0.7	**-2.5**
Q1'25	-4.7	-2.0	0.5	1.2	0.5	**-1.3**

Office Rents (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q4'22	-1.8	0.2	-0.1	0.4	0.5	0.0
Q4'23	-1.2	0.2	0.5	2.1	0.5	0.4
Q4'24	-0.8	0.2	1.1	2.5	3.3	0.9

Office Vacancy Rates (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q1'23	11.4	8.4	10.6	13.2	11.0	**9.9**
Q1'24	9.9	8.5	10.4	12.2	11.3	**9.6**
Q1'25	9.2	7.9	10.2	11.6	9.8	**9.1**

Retail Capital Values (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q1'23	-3.1	-3.8	-1.8	-1.1	-1.3	**-2.4**
Q1'24	-3.0	-4.0	-2.6	-0.8	-0.6	**-2.5**
Q1'25	-2.5	-2.3	-1.5	0.4	1.5	**-1.4**

Retail Rents (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q1'23	-2.2	-2.3	-0.6	-0.8	-1.3	**-1.3**
Q1'24	-2.1	-1.4	-0.5	-0.5	-1.0	**-1.0**
Q1'25	-1.6	-0.3	-0.9	-0.2	0.4	**-0.6**

Retail Vacancy Rates (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q1'23	5.0	8.2	5.9	7.5	9.8	**6.7**
Q1'24	5.5	8.2	6.7	8.0	9.0	**7.1**
Q1'25	5.1	6.6	6.4	6.5	8.2	**6.3**

Industrial Capital Values (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q1'23	-0.9	0.1	0.6	0.4	1.8	**0.3**
Q1'24	-1.0	0.8	0.5	-0.4	3.8	**0.4**
Q1'25	-0.6	1.4	0.8	0.9	1.8	**1.0**

Industrial Rents (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q1'23	3.0	3.6	4.0	2.2	2.4	**3.4**
Q1'24	3.2	3.5	3.4	1.8	3.1	**3.2**
Q1'25	3.6	3.2	2.7	1.4	1.8	**2.8**

Industrial Vacancy Rates (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q1'23	3.9	2.0	2.7	3.0	5.0	**2.8**
Q1'24	4.3	2.7	3.4	3.4	5.0	**3.4**
Q1'25	5.5	3.5	4.8	5.0	5.0	**4.5**

NOTES:
Survey participants are asked how they see capital values, gross rents and vacancy rates in each commercial property market sector in the following timeframes: annual growth to the current quarter; annual growth in the next 12 months; and annual growth in the next 12-24 months. Average expectations for each state are presented in the tables above (results for SA/NT may be biased due to a smaller sample size).

About the Survey

In April 2010, NAB launched the first NAB Quarterly Australian Commercial Property Survey with the aim of developing Australia's pre-eminent survey of market conditions in the commercial property market.

The large external panel of respondents consists of Real Estate Agents/Managers, Property Developers, Asset/Fund Managers and Owners/Investors.

Around 370 property professionals participated in the Q1 2023 Survey.

Important Notice

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