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NAB Commercial Property Survey

Q2 2023

NAB Behavioural & Industry Economics

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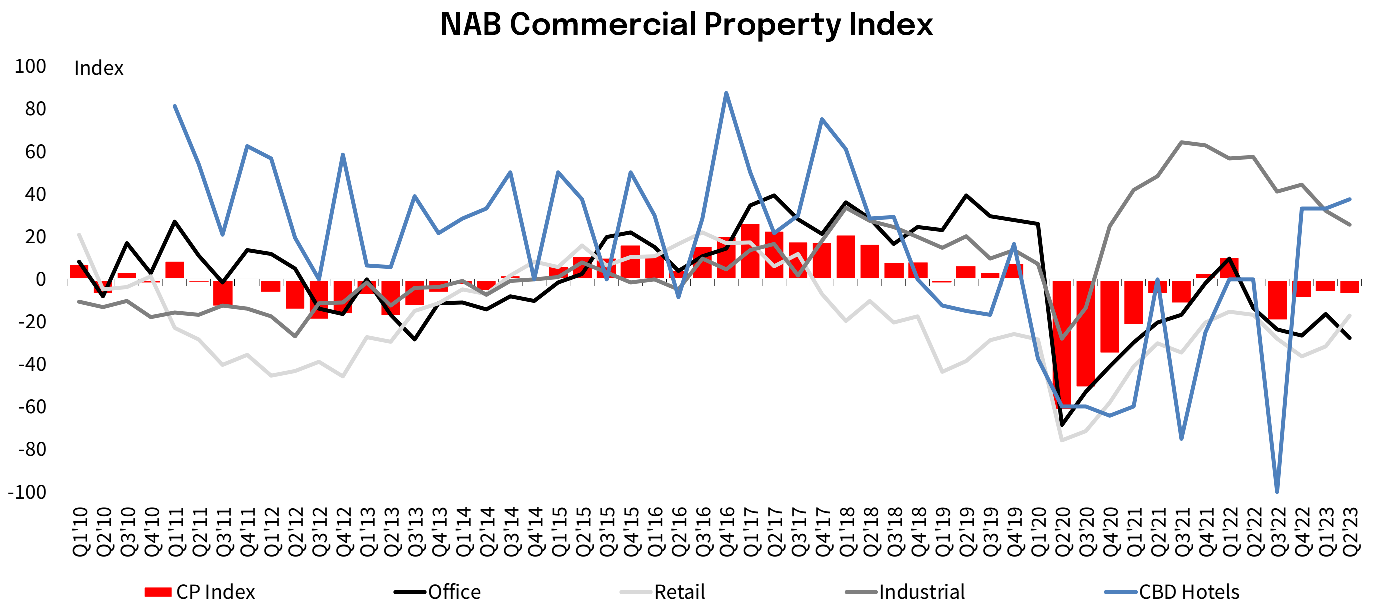
Commercial property market sentiment and confidence moderates in Q2 amid growing economic uncertainty…

NAB's Commercial Property Index weighed down by fading sentiment in Office markets in Q2 as Industrial and CBD Hotels markets continue to out-perform. Amid growing economic uncertainty and higher rates, the number of developers planning to start new building works in the next 18 months now below levels seen at the height of COVID uncertainty in mid-2020. Funding (debt & equity) remained difficult in Q2 and accessing funds in the next 3-6 months now expected to be harder than any time since early-2019.

Key Messages

- Commercial property market sentiment (as measured by NAB's Commercial Property Index), continued to languish in Q2 with the Index inching down to -7 pts from -6 pts in the previous quarter and printing below the long-term survey average (-2 pts).
- By sector, sentiment remains elevated and lifted further in the bouncy CBD Hotel sector (+38 pts), with property professionals reporting a big uplift in RevPAR growth and solid occupancy rates. After significantly out-performing since late-2020, the Industrial index is starting to "normalise", falling to a 2½ year low +26 pts - though still printing well above average levels as capital values and rents continue to grow on the back of structural tailwinds. The Office Index fell quite sharply (-28 pts), with property professionals reporting lower capital and rental growth. The Retail index bounced but was still very weak at -17 pts, amid rising economic headwinds and sluggish consumer spend.
- NAB is now seeing increasing signs that activity is slowing sharply after a very strong period of growth in 2022. And with rates moving higher, the risks to growth continue to rise. Against this backdrop, overall commercial property confidence levels eased in Q2, with the 12 month measure falling to -3 pts and 2-year measure to +11 pts. Short-term confidence levels are highest among property professionals operating in CBD Hotels (+25 pts) and Industrial (+22 pts) property markets, and lowest in the Office sector (-18 pts). Longer-term confidence levels are highest for Industrial property (+30 pts), ahead of Office (+10 pts) and Retail (+3 pts).
- Market sentiment was negative in all states bar QLD (+8pts) in Q2, and lowest in VIC by a big margin at (-22 pts). Property professionals in WA (+14 pts) and QLD (+12 pts) are most confident about market conditions next year, and VIC least so (-12 pts). QLD is the only state with positive confidence readings for all market sectors in the next 12 months. VIC was the only state with a negative confidence print in the next 2 years (-4 pts) and the only state to print negative in all market sectors, particularly Office (-25 pts).
- Capital growth expectations are highest for Industrial property in the next 1-2 years (0.8% & 1.4%), with prospects highest in NSW (2.3% & 3.3%) and lowest in VIC (-1.2% & -1.9%). Expectations for CBD Hotel values were scaled back and now expected to fall (-1.3% & -4.9%). The outlook for Office property values also cut further (-3.4% & -1.5%) and falling in all states next year (from -2.1% in QLD to -5.1% in VIC). QLD is the only state where values are expected to grow in the next 2 years (0.6%) with the biggest falls predicted in VIC (-3.6%). The overall outlook for Retail is basically unchanged (-2.7% & -1.5%), with values falling in all states bar WA in 2 years' time (2.3%).
- National Office vacancy eased to 9.6% in Q2 (9.9% in Q1) but is still trending above average (8.5%). Vacancy was reportedly lower in all states in Q2 and remained highest in WA (11.9%) and VIC (11.3%) and lowest in NSW (8.2%). Retail vacancy rose to 7.0% in Q2 (6.7% in Q1) but ranged from 13.7% in SA/NT to 5.9% in QLD. The national Industrial vacancy rate remained steady at a survey low 2.8% in Q2, with very low vacancy levels reported in all states ranging from 2.3% in NSW to 4.0% in SA/NT.
- Office rental markets expected to remain under pressure in the next 12 months (and incentives elevated), with average rents expected to fall -0.1%, and moderately positive returns in 2 years' time (0.7%). QLD is expected to out-perform all states for income growth in the next 1-2 years (3.6% in both years), with VIC the clear under-performer (-3.0% & -1.9%). Property professionals are somewhat more buoyant about Retail rents, with average rents now expected to decline a more modest (-0.4% & -0.1%), with positive returns forecast in all states bar NSW (-1.5% & -1.6%) and VIC (-1.5% & -0.6%). Structural under-supply and strong demand continue to underpin a positive outlook for rental growth in the Industrial sector (2.5% & 2.0%), and in all states led by NSW (3.2% & 2.5%).

- NAB Survey findings for Q2 reinforce the continuing slow-down seen in construction and building approvals data, with the number of property developers expecting to start new building works in the next 6 months falling a survey low 26% in Q2 (33% in Q1). With a further 37% planning to start within 6-18 months, a record low 63% of developers now plan to start within the next 18 months - below the previous low set during the height of COVID uncertainty in mid-2020 (68%).
- Recent ABS building approvals data points to further weakness in construction activity/dwelling investment down the track, with total approvals now well below their early-2021 peak. NAB's survey results also highlighted a lower number of developers planning to start new building works in the residential sector in Q2 to 47% (51% in Q1), and a below average 10% targeting Office and Retail space. But with ongoing shortages and strong demand still being reported for Industrial property, an above average 1 in 5 (18%) developers are looking to start new works in this sector.
- Funding conditions remain difficult. In Q2, the net number of property professionals who said was harder to obtain debt to fund their businesses improved but remained elevated at -34% (-20% at the same time last year). The number who found it harder to get equity funding inched up to -27% (almost doubling from -14% at the same time last year). Looking ahead to the next 3-6 months, more property professionals believe debt funding conditions will be worse than now (-37%), with the net number expecting equity funding conditions to be worse also higher (-31%). This would make both debt and equity funding harder than at any time since early-2019.

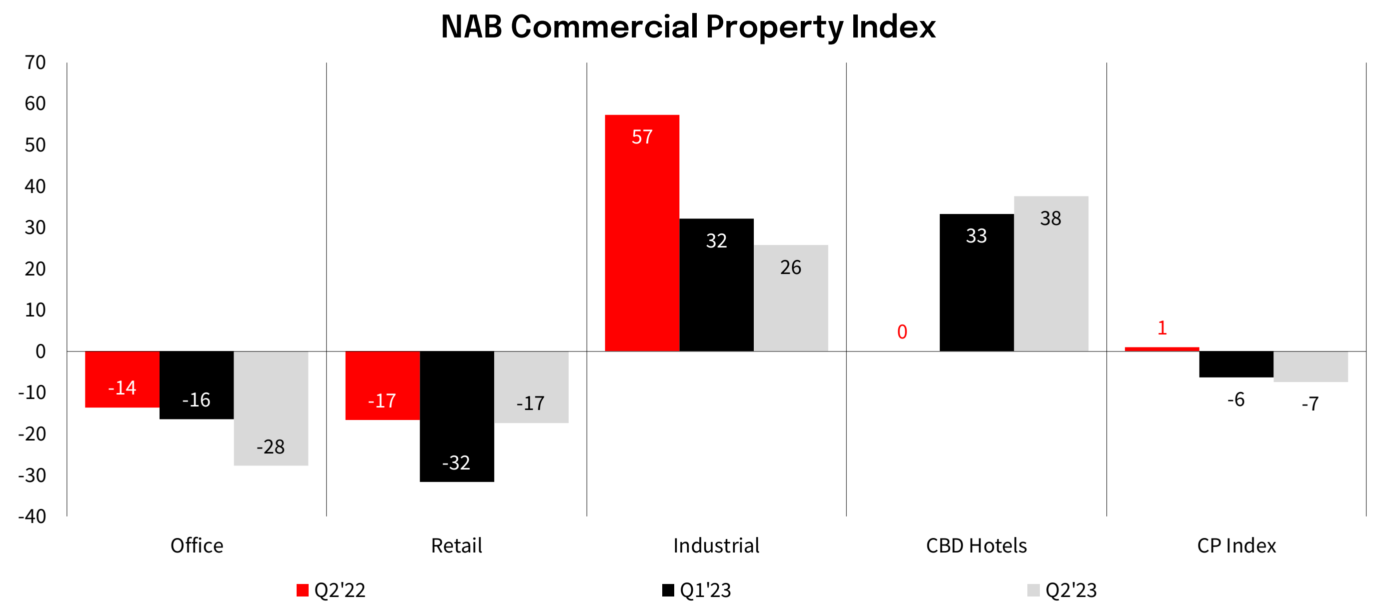


NAB Commercial Property Index

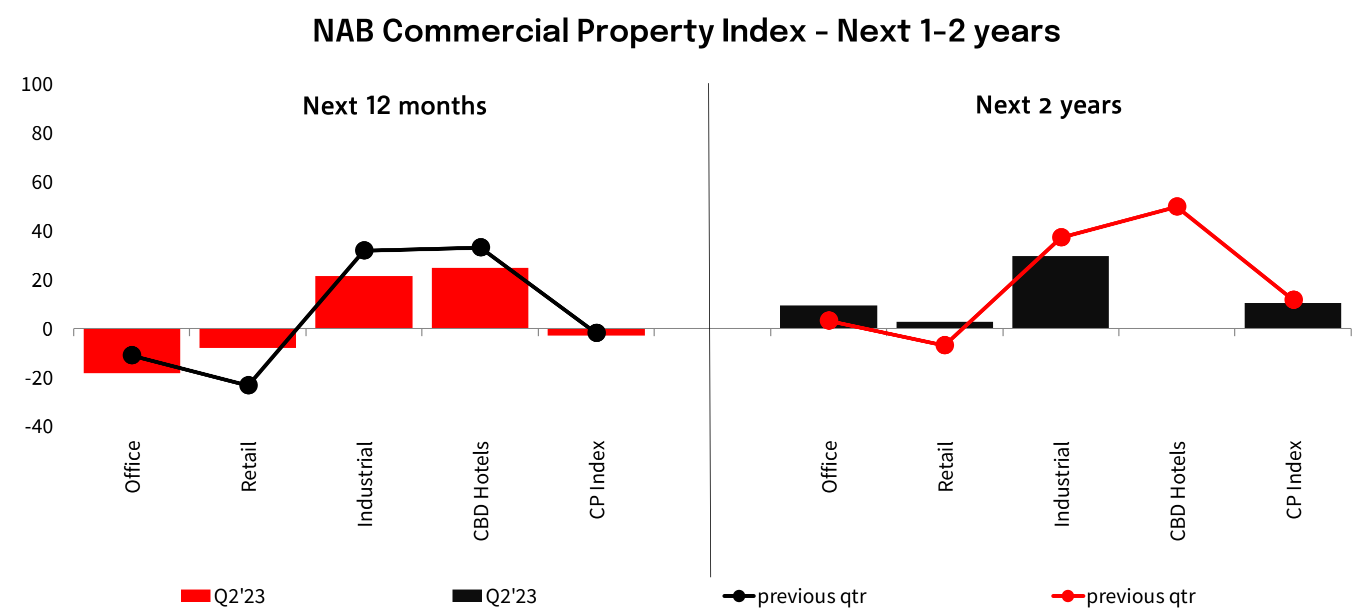
	Q1 2023	Q2 2023	Next 12 months	Next 2 years
Office property	-16	-28	-18	10
Retail property	-32	-17	-8	3
Industrial property	32	26	22	30
CBD Hotels property	33	38	25	0
NAB Commercial Property Index	**-6**	**-7**	**-3**	**11**

Market Overview - NAB Commercial Property Index

The NAB Commercial Property Index inched down to -7 pts in Q2, from -6 pts in Q1 and +1 pts at the same time last year. Sectoral trends however continue to vary. Sentiment remained highest and lifted further in the CBD Hotels sector to +38 pts, with property professionals reporting a big uplift in RevPAR growth and solid occupancy rates in Q2. The Industrial index continued to soften, falling to its lowest level since late-2020 (+26 pts) - albeit still printing well above the survey average (+9 pts) as structural tailwinds continue to support solid growth in capital values and rents. The Office Index fell quite sharply to -28 pts (-16 pts in Q1), with property professionals in this sector reporting lower capital and rental growth during this period. The Retail index bounced but is still very weak at -17 pts (-32 pts in Q1), amid growing economic headwinds and sluggish consumer spending.



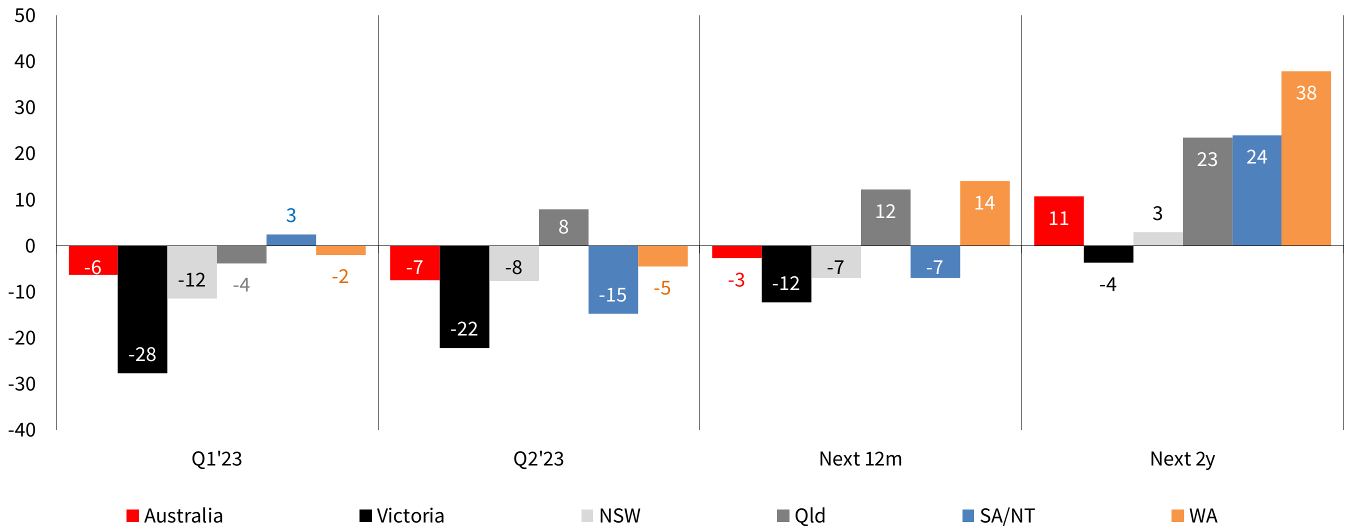
We are seeing increasing signs that economic activity is slowing sharply after a very strong period of growth in 2022. At the same time, the labour market has remained very tight and inflation elevated. NAB now sees the cash rate rising to 4.6%. We have also slightly revised down our GDP growth forecasts as a result (0.5% for 2023 and 0.9% for 2024). Slower growth sees unemployment rising in the second half of the year as the economy slows more materially. With rates moving higher, the risks to growth continue to rise with a recession now a 50/50 bet. Against this backdrop, overall commercial property confidence levels for both the next 12 months and 2 years softened to -3 pts and +11 pts respectively. Confidence in the next 12 months is highest among property professionals operating in CBD Hotels (+25 pts) and Industrial (+22 pts) property markets, and lowest in the Office sector (-18 pts). Longer-term confidence levels are highest for Industrial property (+30 pts), ahead of Office (+10 pts) and Retail (+3 pts).



Market Overview - Commercial Property Index by State

Overall commercial property market sentiment in Q2 was negative in all states bar QLD, where the state index printed at +8 pts (-4 pts in Q1). Sentiment was lowest in VIC by a large margin at -22 pts (-28 pts in Q1). It lifted in NSW to a still negative -8 pts (-12 pts in Q1), with the biggest fall reported in SA/NT (down 18 pts to -15 pts). Confidence levels for the next 12 months are highest in WA (+14 pts) and QLD (+12 pts), and lowest in VIC (-12 pts) but also negative in NSW (-7 pts) and SA/NT (-7 pts). QLD is the only state with a positive confidence read in all market segments for the next 12 months, with confidence levels remaining lowest in VIC in all sectors bar Retail (lowest in NSW). Positive confidence outcomes were recorded in all states in the next 2 years, apart from VIC (-4 pts) which was also the only state to print negative confidence levels in all market sectors. Longer-term confidence was also positive in all other states in all market sectors, expect for Retail property in NSW (-19 pts) - see table below.

Commercial Property Index - States



Office Property Market Index: States

	VIC	NSW	QLD	WA	SANT	AUS
Q2'23	-57↓	-24↓	6↑	-50↓	-21↓	**-28↓**
Q2'24	-46↔	-19↓	22↑	-6↓	-21↓	**-18↓**
Q2'25	-25↑	10↑	44↑	17↓	29↓	**10↑**

Retail Property Market Index: States

	VIC	NSW	QLD	WA	SANT	AUS
Q2'23	-28↑	-25↑	5↑	25↑	-38↓	**-17↑**
Q2'24	-13↑	-22↑	5↑	38↑	0↓	**-8↑**
Q2'25	-9↑	-19↓	5↑	88↑	25↔	**3↑**

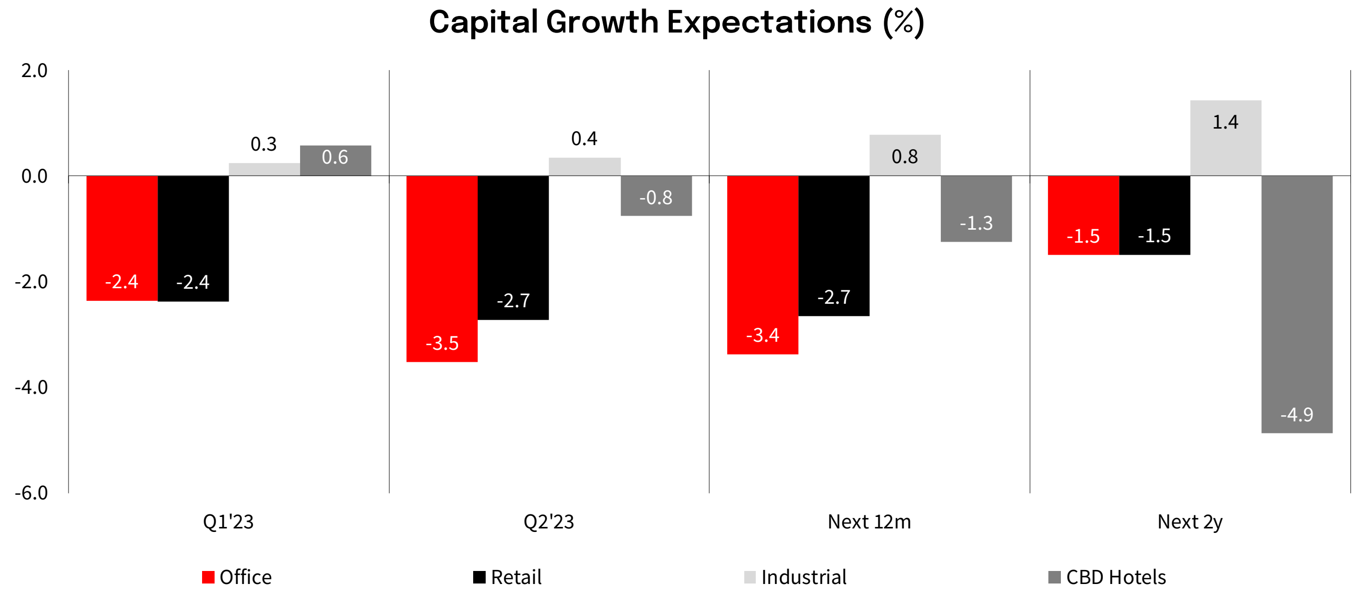
Industrial Property Market Index: States

	VIC	NSW	QLD	WA	SANT	AUS
Q2'23	-4↓	35↑	21↓	40↑	25↓	**26↓**
Q2'24	0↓	37↑	9↓	25↑	8↓	**22↓**
Q2'25	-4↓	48↑	21↓	25↓	25↓	**30↓**

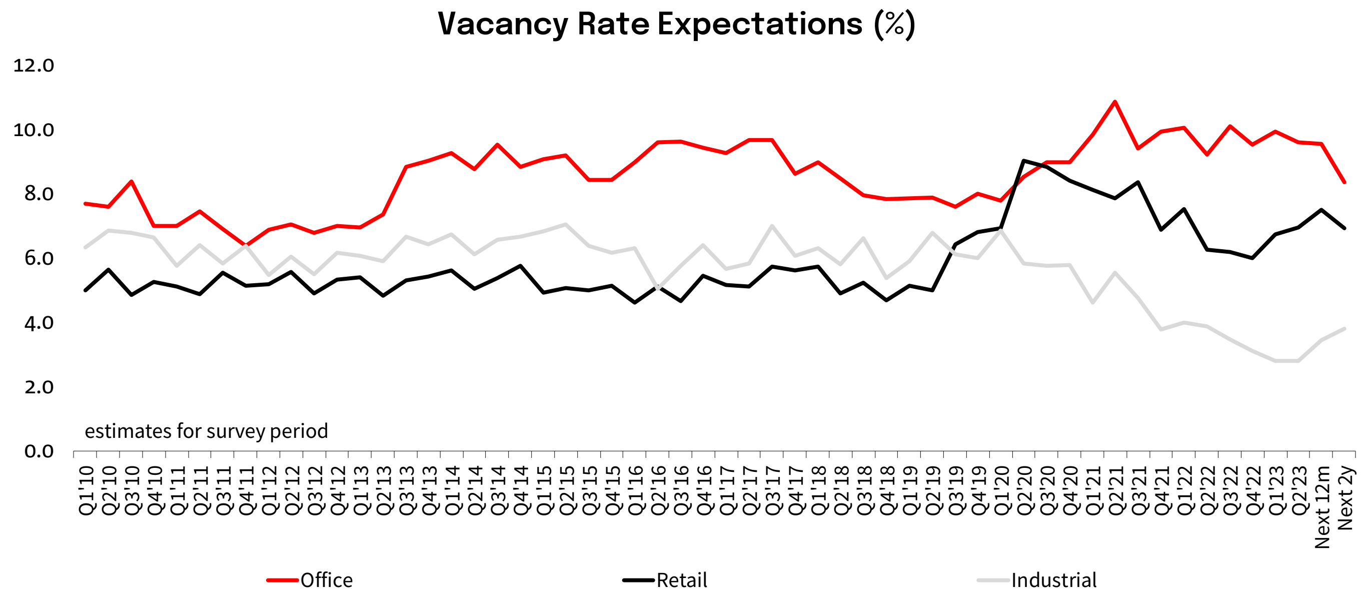
LEGEND:
↑ up since last survey
↓ down since last survey
↔ unchanged

Market Overview - Capital Growth & Vacancy Expectations

Capital growth expectations for the next 1-2 years are highest for Industrial property and were revised up to 0.8% & 1.4% (0.4% & 1.0% forecast in Q1). Prospects are strongest in NSW (2.3% & 3.3%) and weakest in VIC (-1.2% & -1.9%). Expectations for CBD Hotel values were scaled back in Q2 and now expected to fall -1.3% & -4.9% in the next 1-2 years (0.6% & 1.8% forecast in Q1). Capital expectations for Office property were also cut further to -3.4% & -1.5% (-2.5% & -1.3% in Q1). Values are expected to fall in all states next year, ranging from -1.9% in WA to -5.1% in VIC. QLD is the only state where values are expected to grow in the next 2 years (0.6%), with the biggest falls predicted in VIC (-3.6%). The outlook for Retail capital values is basically unchanged, with average values predicted to fall -2.7% & -1.5% (-2.5% & -1.4% in Q1). Retail values are expected to decline in all states over the next year, led by NSW (-3.8%). Values are expected to grow in WA in 2 years' time (2.3%) but continue falling across the rest of the country led by NSW (-2.5%) -see page 11.

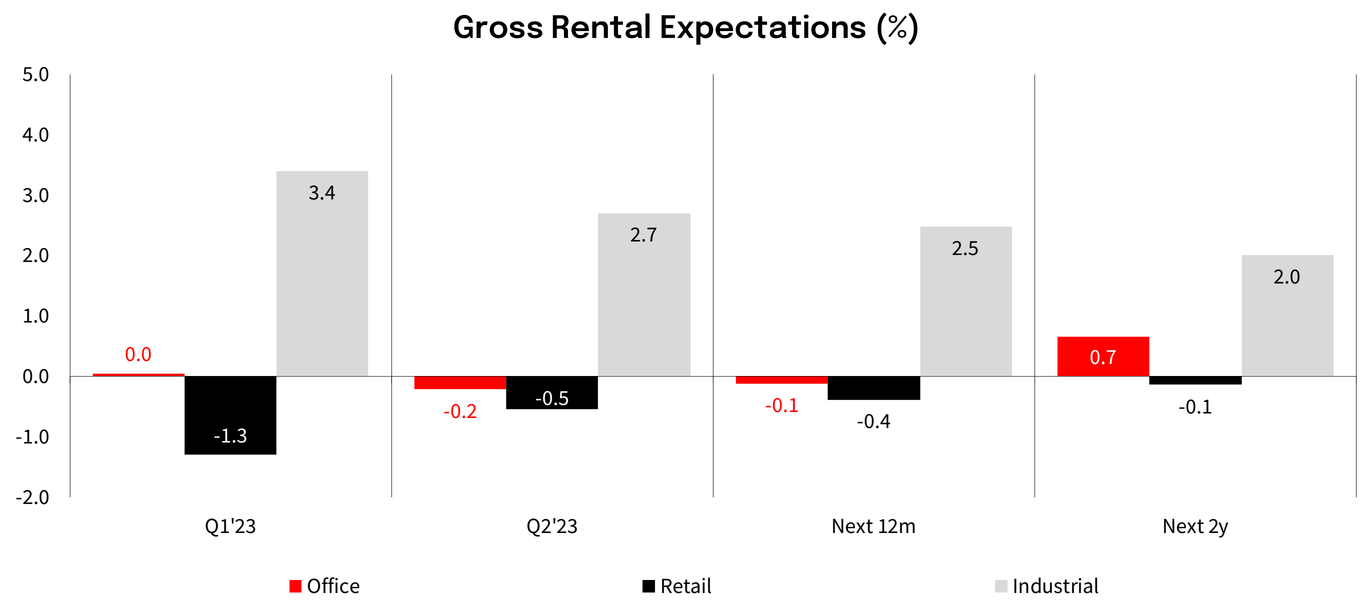


The national Office vacancy rate fell slightly to 9.6% in Q2 (9.9% in Q1) but is still trending above the survey average (8.5%). Vacancy was reportedly lower in all states in Q2 and remained highest in WA (11.9%) and VIC (11.3%), and lowest in NSW (8.2%). National Office vacancy is expected to be unchanged at 9.6% next year but fall to 8.3% in 2 years' time. Vacancy is tipped fall in all states bar NSW next year, with VIC (10.4% & 8.7%) and NSW (8.7% & 7.8%) the only states still reporting above average vacancy levels over the outlook period. Retail vacancy rose to 7.0% in Q2 (6.7% in Q1) but ranged from 13.7% in SA/NT to 5.9% in QLD. Overall vacancy is expected to rise next year (7.5%) but fall in 2 years' time (6.9%) - with vacancy above average in all states bar WA In 2 years' time. The national Industrial vacancy rate was steady at a survey low 2.8% in Q2, with very low vacancy reported in all states - ranging from 2.3% in NSW to 4.0% in SA/NT. Vacancy is however expected to rise a little in the next 1-2 years (3.4% & 3.8%) but remain below average in all states - see page 11.

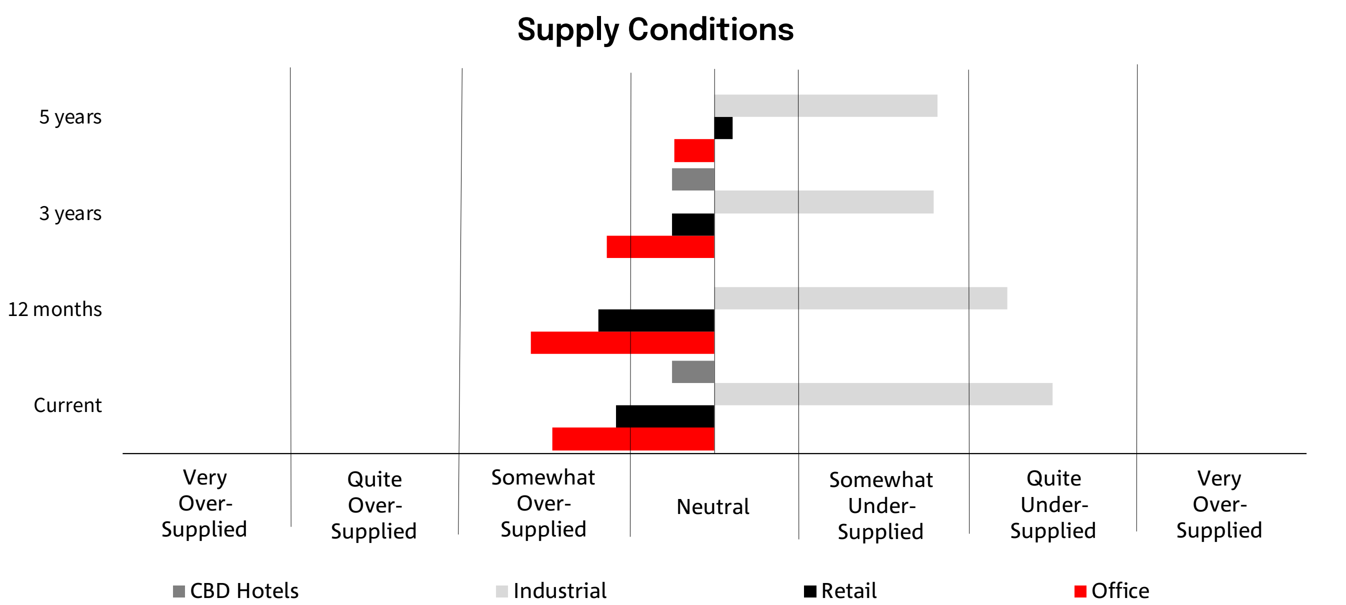


Market Overview – Rental Growth & Supply

Office rental markets are expected to remain under pressure in the next 12 months (and incentives elevated), with average rents expected to fall -0.1% (0.4% forecast in Q1). Moderately positive returns are however expected in 2 years' time (0.7%). QLD is expected to out-perform all states for income growth in the next 1-2 years (3.6% in both years), with VIC the clear under-performer (-3.0% & -1.9%) and the only state where rents are predicted to fall over the outlook horizon. Property professionals are somewhat more buoyant about the outlook for Retail rents, with average rents expected to fall by a more modest -0.4% & -0.1% (-1.0% & -0.6% in Q1). Positive returns are forecast in all states except NSW (-1.5% & -1.6%) and VIC (-1.5% & -0.6%). The outlook for rental growth in the Industrial sector remains favourable, albeit revised down nationally to 2.5% & 2.0% (3.2% & 2.8% in Q1). The outlook is also favourable in all states with rents continuing to grow over the next 1-2 years amid structural under-supply and strong demand. The highest returns are forecast for NSW (3.2% & 2.5%) and the lowest for VIC (0.9% & 1.4%) - see page 11.

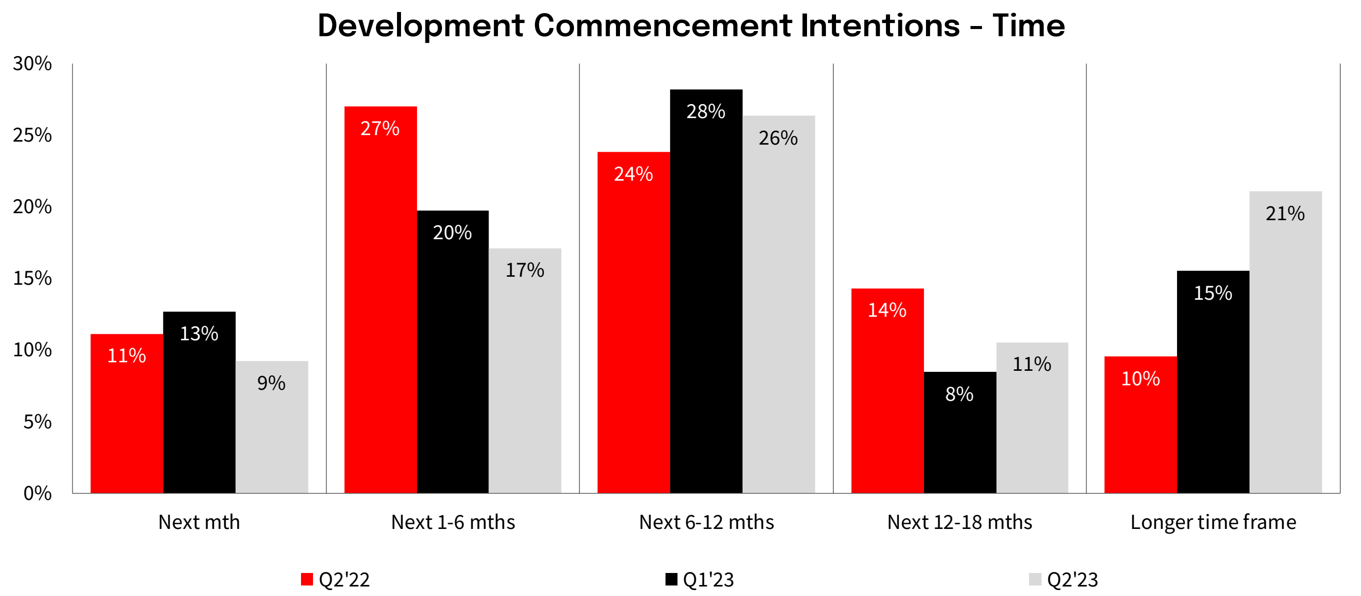


The national Office market is still "somewhat" over-supplied and expected to stay that way in the next 1-3 years. Over-supply to be most prevalent in VIC and WA in the next 12 months ("quite"), with modest over-supply in all other states bar QLD ("neutral"). The national Retail market is currently "somewhat" over-supplied, and in most markets bar NSW and QLD ("neutral"). Modest supply overhangs are expected to persist in all states in the next 12 months, with most markets moving towards balance in 3 years' time except QLD (mild under-supply) and WA (mild over-supply). Industrial property markets are currently "quite" under-supplied in all states bar SA/NT. The Industrial property market is expected to remain under-supplied for the next 1-5 years - with shortages of available space biggest in NSW and QLD. In the CBD Hotels sector, supply conditions are currently "neutral" and are expected remain "neutral" over the next 1-5 years.

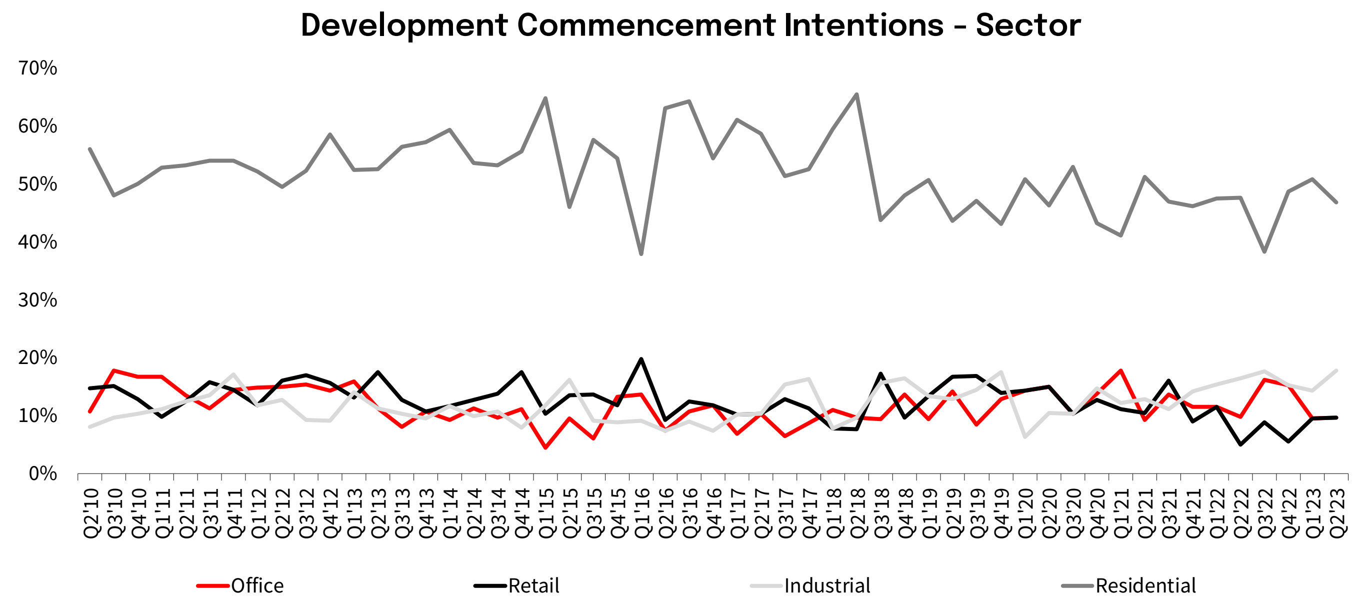


Market Overview – Development Intentions

Amid a continuing slow-down in construction and building approvals data and a subdued economic outlook, the number of property developers expecting to commence new works in the next 6 months fell to a survey low 26% in Q2 (9% in the next month and 17% in next 1-6 months), down from a 3½ year low 33% in Q1 and significantly below the survey average (48%). A largely unchanged 37% of developers still intend to commence new development works in the next 6-18 months, but the number with a longer time frame climbed noticeably to 21% - its highest level since mid-2020 (22%). In total, a record low 63% of developers plan to commence new building works within the next 18 months (down from 69% in Q1 and 76% at the same time last year). This is significantly below the survey average (84%), and now also below the previous low set during the height of COVID uncertainty in mid-2020 (68%).

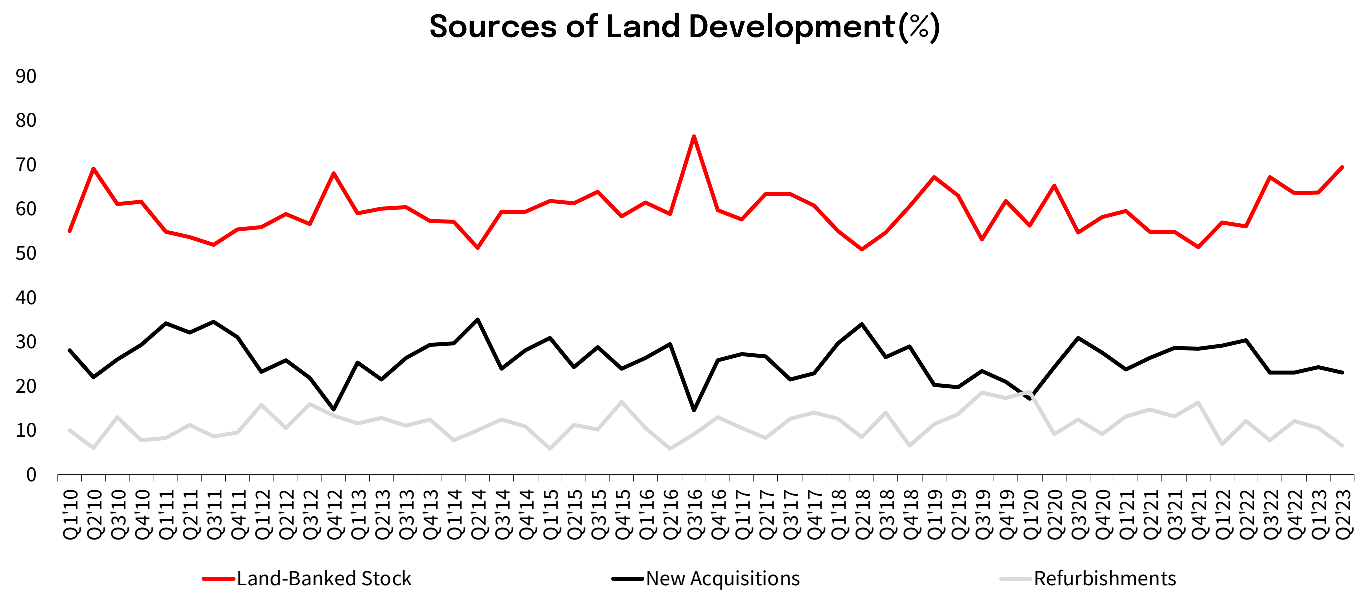


Recent building approvals data points to further weakness in construction activity/dwelling investment down the track, with total approvals now well below their early -2021 peak. With approvals weakening, the NAB survey also noted a decline in the number of property developers planning to commence new building works in the residential property sector to 47% in Q2 (51% in Q1). A below average 10% also had plans to commence new works in both the Office and Retail sectors in Q2. But with ongoing shortages and strong demand for Industrial space persisting, almost 1 in 5 (18%) developers plan to start new building works in the Industrial space, up from 14% in the previous quarter and well above the survey average (12%).

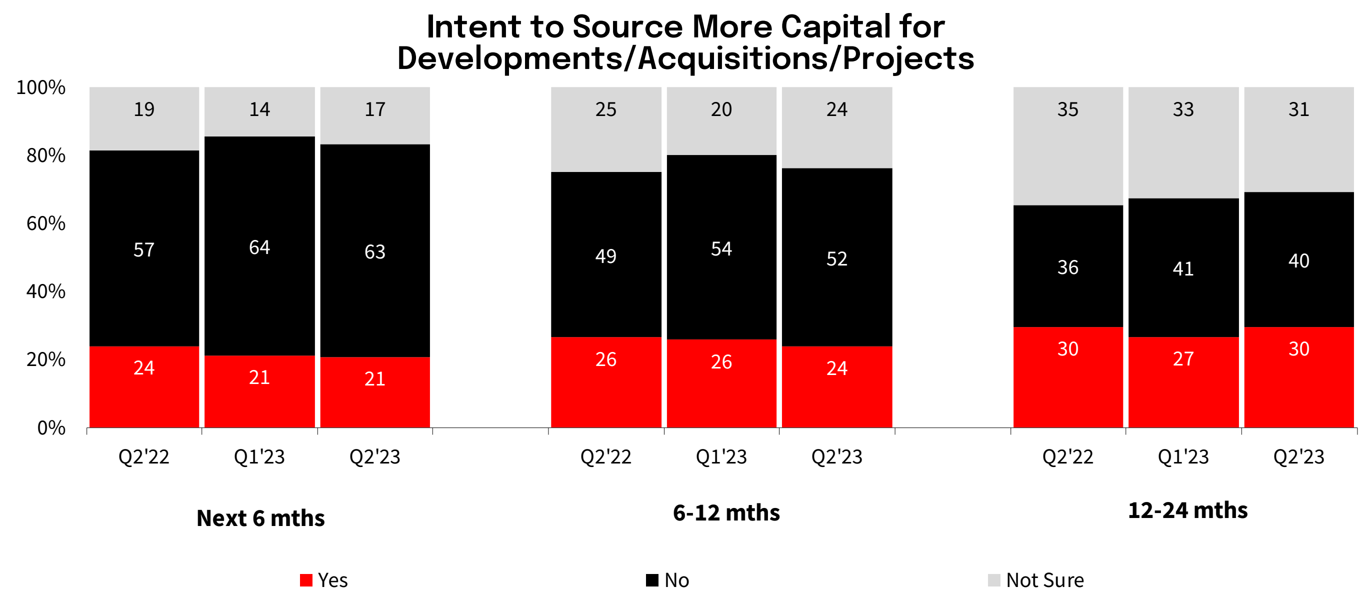


Market Overview – Land Sources & Capital Intentions

The Q2 survey highlighted an increasing number of property developers that will be sourcing land for their new developments by using land-banked stock under existing ownership (undeveloped sites), with this number climbing to a near 7-year high 69% (64% in Q1) and well above the survey average (59%). The number of developers looking at new acquisitions for their projects was broadly unchanged over the quarter at 23% (24% in Q1) and remains slightly below average (26%). The number of property developers looking at refurbishment opportunities in Q2 fell to an equal survey low 6% in Q2. This was around half the level reported in the previous quarter (11%), and well below the survey average (11%).

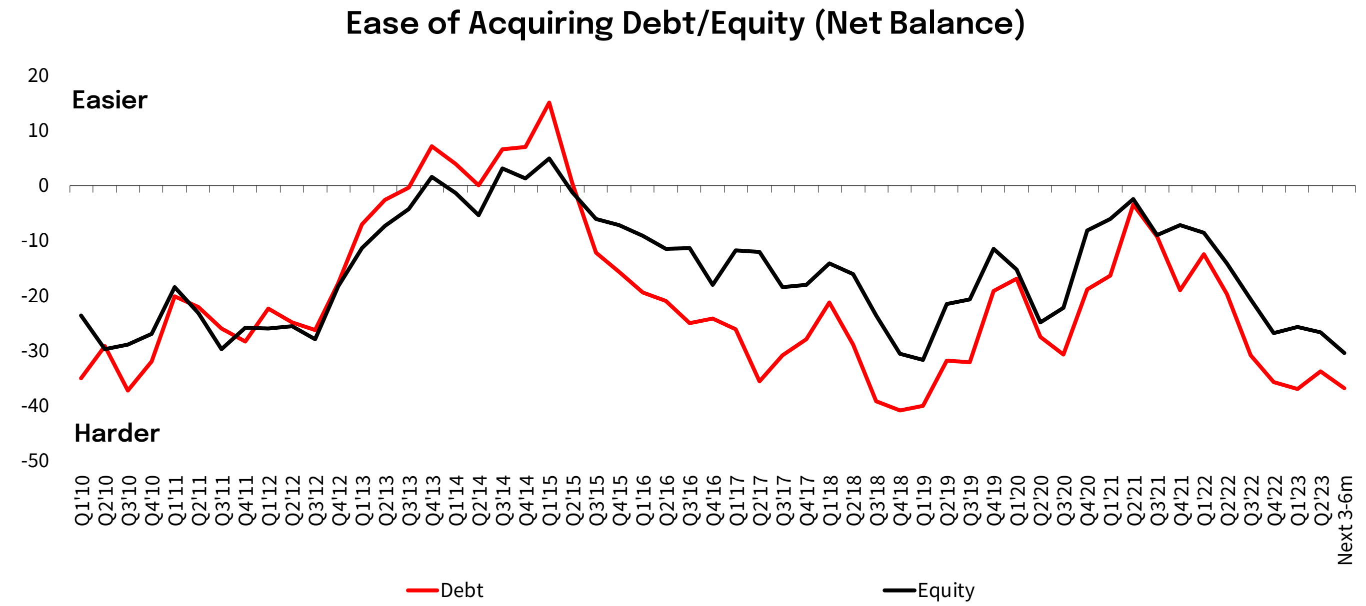


Intentions to source capital to fund new developments were little changed over the quarter but somewhat weaker than at the same time last year. The number planning to source more capital in the next 6 months was unchanged 21% and eased to 24% in the next 6-12 months (26% in the previous quarter and at the same time last year). Around 63% had no intention to source capital in the next 6 months (64% in Q1 but up from 57% at the same time last year), and 52% had no intention to source capital in the next 6-12 months (54% in Q1 but up from 49% in Q2'22). Around 17% were unsure of their intentions in the next 6 months and 24% in the next 6-12 months (up from 14% and 20% respectively in Q1). The number intending to source more capital in the next 12-24 months however increased a little to 30% (27% in Q1), and a broadly unchanged 40% did not intend to source capital over this period (41% in Q1). Just over 3 in 10 (31%) developers were unsure about their longer-term intentions.

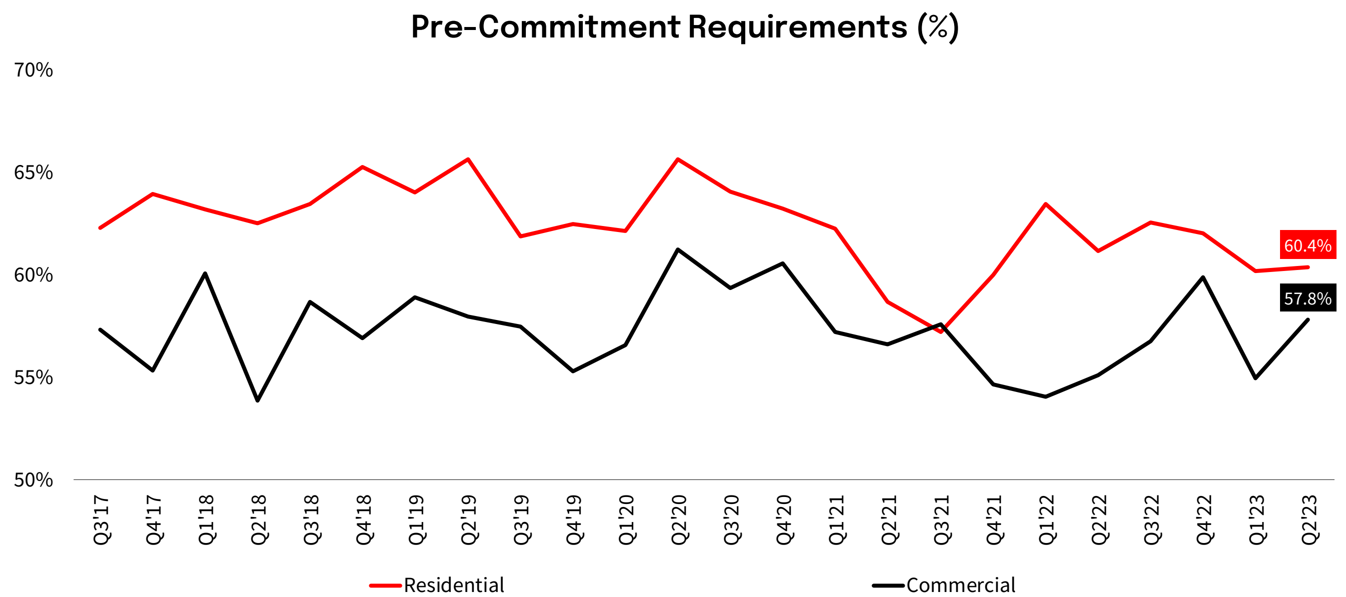


Market Overview - Ease of Funding & Pre-Commitments

A significant number of surveyed property professionals continue to suggest that accessing funds for their business has become harder. In Q2, the net number who said it was harder to obtain borrowing or loans (debt) improved a little but remained elevated at -34%, down from -37% in Q1 but significantly higher than at the same time last year (-20%). The net number that indicated equity funding conditions were harder however inched up to -27% (-26% in Q1 but almost doubled from -14% at the same time last year). Looking ahead to the next 3-6 months, more property professionals believe debt funding conditions will be worse than now (-37%), with the net number expecting equity funding conditions to be worse also higher (-31%). This suggests both debt and equity conditions will be harder than at any time since early-2019.



The average pre-commitment to meet funding requirements for new residential property developments increased slightly to 60.4% in Q2 (60.4% in Q1). Requirements increased in all states (except WA) and trended within a narrow range from 58.7% in NSW to 61.7% in QLD. However, pre-commitment requirements are expected to be less onerous in the future, with the net number expecting requirements to worsen dipping to -32% in the next 3-6 months (-45% in Q1) and -23% in 6-12 months' time (-28% in Q1) The average pre-commitment requirement for commercial property also rose to 57.8% in Q2 (55.0% in Q1), with requirements higher in most states, particularly VIC (57.5% from 50.1%). Requirements remain highest in WA (63.0%) and lowest in NSW (54.5%) and QLD (54.6%). Fewer property professionals also see commercial requirements worsening in the next 3-6 months (-33% from -45% in Q1) and 6-12 months (-24% from -30%).



Survey Respondents Expectations (Average) Q2 2023

Office Capital Values (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q2’23	-5.6	-3.3	-2.5	-2.4	-4.4	**-3.5**
Q2’24	-5.1	-3.3	-2.1	-1.9	-3.9	**-3.4**
Q2’25	-3.6	-1.3	0.6	-0.6	-2.0	**-1.5**

Office Rents (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q2’23	-3.2	-0.5	3.3	-1.6	2.6	**-0.2**
Q2’24	-3.0	-0.5	3.6	-0.7	2.3	**-0.1**
Q2’22	-1.9	0.8	3.6	0.0	1.6	**0.7**

Office Vacancy Rates (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q2’23	11.3	8.2	10.1	11.9	10.7	**9.6**
Q2’24	10.4	8.7	9.9	11.9	9.9	**9.6**
Q2’25	8.7	7.8	9.0	9.9	8.7	**8.3**

Retail Capital Values (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q2’23	-2.9	-3.4	-1.8	-1.7	-2.4	**-2.7**
Q2’24	-2.4	-3.8	-2.8	-0.6	-1.6	**-2.7**
Q2’25	-1.7	-2.5	-1.9	2.3	-1.1	**-1.5**

Retail Rents (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q2’23	-2.0	-1.2	1.3	2.9	-0.6	**-0.5**
Q2’24	-1.5	-1.5	1.4	3.4	0.4	**-0.4**
Q2’25	-0.6	-1.6	0.3	3.3	1.5	**-0.1**

Retail Vacancy Rates (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q2’23	6.7	6.5	5.9	7.5	13.7	**7.0**
Q2’24	7.0	7.2	6.8	7.5	14.3	**7.5**
Q2’25	6.4	6.1	8.1	5.0	13.0	**6.9**

Industrial Capital Values (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q2’23	-0.5	1.2	-0.2	0.4	-1.5	**0.4**
Q2’24	-1.2	2.3	-0.1	0.5	3.8	**0.8**
Q2’25	-1.9	2.3	1.0	1.1	0.0	**1.4**

Industrial Rents (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q2’23	0.6	3.3	3.5	1.9	2.8	**2.7**
Q2’24	0.9	3.2	2.1	2.6	2.3	**2.5**
Q2’25	1.4	2.5	1.3	2.1	2.3	**2.0**

Industrial Vacancy Rates (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q2’23	3.2	2.3	3.1	2.6	4.0	**2.8**
Q2’24	3.7	3.3	3.4	3.4	4.5	**3.4**
Q2’25	4.0	3.7	3.5	4.4	4.0	**3.8**

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 350 property professionals participated in the Q2 2023 Survey.

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Contact the authors

Alan Oster
Group Chief Economist
Alan.Oster@nab.com.au
+(61 0) 414 444 652

Dean Pearson
Head of Behavioural & Industry Economics
Dean.Pearson@nab.com.au
+(61 0) 457 517 342

Robert De Iure
Senior Economist - Behavioural & Industry Economics
Robert.De.Iure@nab.com.au
+(61 0) 477 723 769

Brien McDonald
Senior Economist - Behavioural & Industry Economics
Brien.McDonald@nab.com.au
+(61 0) 455 052 520