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NAB Commercial Property Survey

Q3 2023

NAB Behavioural & Industry Economics



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Challenging conditions (particularly in Office and Retail markets) weighed further on commercial property market sentiment in Q3...

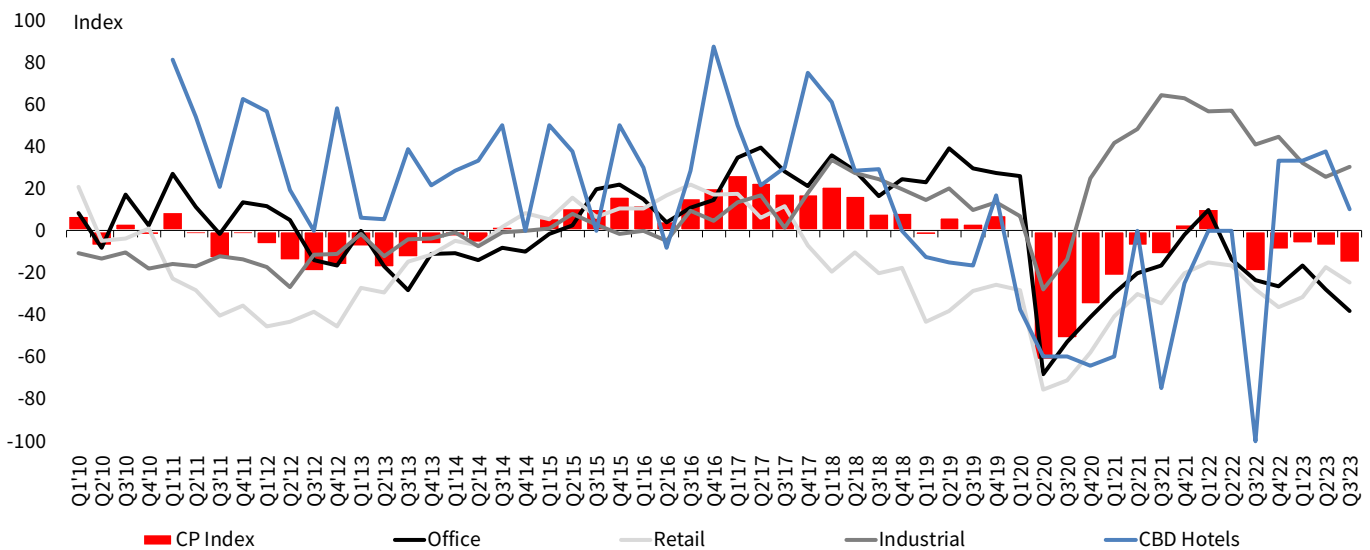
The NAB Commercial Property Index stumbled deeper into negative territory in Q3 as weakening sentiment in volatile Office and Retail property markets offset an improvement in the Industrial sector. Confidence also slipped, particularly in VIC where property professionals see capital values and rents falling quite sharply over the next 1-2 years (particularly in Office markets). Funding conditions remained challenging in Q3 but are expected to improve in the next 3-6 months.

Key Messages

- Challenging conditions (particularly in Office and Retail property markets) have weighed further on commercial property market sentiment in Q3, with the NAB Commercial Property Index slipping deeper negative to -16 pts (-7 pts in Q2) to sit well below the long-term survey average (-2 pts).
- By sector, the Office market index fell to a near 3-year low (-38 pts) amid rising vacancy and weak capital growth. After bouncing in Q2, the Retail index also slipped back (-25 pts) as retail trading conditions remained soft and consumption growth slowed. The bouncy CBD Hotels index fell but printed positive (+10 pts). The Industrial index rebounded (+30 pts) after having fallen in the previous 2 quarters as solid fundamentals supported growth in capital values and rents.
- Recent data points to continued resilience in the economy, but the ongoing pass through of higher rates and inflation still suggest consumption growth will be soft in H2 2023. NAB expects to see below trend growth of 1-1.5% in 2023 and 2024. We also see one more rate hike in November before staying on hold until H2 2024 as inflation continues to moderate. Against this backdrop, commercial property market confidence softened in Q3. The 12-month measure fell to -9 pts (lowest since Q4'20), with the 2-year measure also down (+9 pts). Short-term confidence fell sharply for Office (-34 pts) and Retail (-24 pts) property, but lifted for CBD Hotels (+40 pts) and Industrial (+39 pts) property. The longer-term confidence measure is positive for CBD Hotels (+50 pts), Industrial (+38 pts) and Retail (+2 pts) property, but turned negative for Office property (-10 pts).
- Overall commercial property market sentiment in Q3 was negative in all states except QLD (+6 pts). It was lowest by a considerable margin (and fell further) in VIC (-38 pts), driven by very weak sentiment for Office (-79 pts) and Retail (-56 pts) property. Short-term confidence was highest in WA (+11 pts), which was also the only state reporting a positive result (and in all sectors). It remained much lower in VIC (-31 pts), particularly for Office (-75 pts) and Retail (-59 pts) property. Longer-term confidence levels printed positive in all states apart from VIC where it fell sharply (-18 pts).
- Capital growth expectations over the next 1-2 years were highest (and revised up) in the Industrial (1.0% & 1.5%) and CBD Hotels (1.0% & 1.5%) sectors. Expectations for Industrial property were positive in all states led by SA/NT and NSW and lowest in QLD and VIC. Capital expectations for Office property remain very weak (-3.7% & -1.3%), particularly in VIC (-6.6% & -3.1%) and NSW (-5.4% & -2.9%). WA is the only state where property professionals see values growing in the next 1-2 years. The outlook in the Retail property sector is also subdued (-2.5% & -0.8%), with values tipped to fall most heavily in VIC (-3.9% & -2.4%).
- The national Office vacancy rate rose to 10.2% in Q3 (9.6% in Q2) and increased in most states. It was highest in WA (12.5%) and VIC (11.8%) and lowest in NSW (9.2%). Office vacancy is expected to dip slightly to 10.0% next year and 9.2% in 2 years' time, and remain highest in VIC (11.7% & 10.5%). Retail vacancy eased to 6.8% in Q3 (ranging from 9.4% in SA/NT to 3.5% in WA), but property professionals see above average vacancy persisting over the next 1-2 years in all states except WA. The national Industrial vacancy rate increased to a still well below average 3.4% in Q3 from a survey low 2.8% in Q2, and was higher in all states bar NSW (2.2%). The average survey forecast is for Industrial vacancy to creep up to 3.9% & 4.5% in the next 1-2 years), but remain below average in all states.

- Office rents are expected to be under more pressure in the next 1-2 years, with average rents to fall -1.1% & -0.5%. Rents are expected to fall in most states in the next 12 months, led by VIC (-4.6%). QLD (2.6%) and WA (2.1%) are expected to out-perform in 2 years' time, with VIC (-3.4%) and NSW (-1.9%) clear under-performers. The outlook for Retail rents in the next 1-2 years was also scaled back (-0.7% & 0%), with rents growing in all states except VIC (-3.2% & -2.4%) and NSW (-0.5% & -0.2%). Property professional see Industrial rents growing faster (2.6% & 2.5%), with prospects best in NSW (3.9% & 3.6%) and VIC (3.0% & 3.1%), and lowest in QLD (1.6% & 1.4%).
- The number of property developers expecting to start new works in the next 6 months rose to 39% in Q3 after falling to a survey low 26% in Q2 (though still trending well below average), and a largely unchanged 38% plan to start in the next 6-18 months. In total, a below average 77% plan to start new works within 18 months, suggesting construction activity may be relatively subdued in the period ahead.
- The Q3 survey pointed to a further decline in the number of property developers planning to start new works in the residential sector to a below average 45% in Q3. Amid ongoing sectoral challenges, a below average number also planned to commence new works in the Office (9%) and Retail (8%) sectors. But with historically low vacancy, strong rental growth and ongoing imbalance between supply and demand for industrial space expected to persist in the near-term, a survey high 23% plan to start new works in this sector - around twice the survey average level (12%).
- Funding conditions remained challenging in Q3 but are expected to improve in the next 3-6 months. The net number who said it was harder to obtain borrowing or loans (debt) increased to -36% in Q3, while the number who said equity funding was harder was largely unchanged (-26%). Looking ahead, fewer property professionals on balance expect funding conditions to be worse in the next 3-6 months, with net number expecting debt funding to be worse falling to -27% and equity funding to -19%. Property professionals' perceptions of the average precommitment percentage of projects required to meet external debt funding requirements for new residential developments increased to 62.7% in Q3 (60.4% in Q2) but inched down for commercial property (56.4%) in Q3.

NAB Commercial Property Index



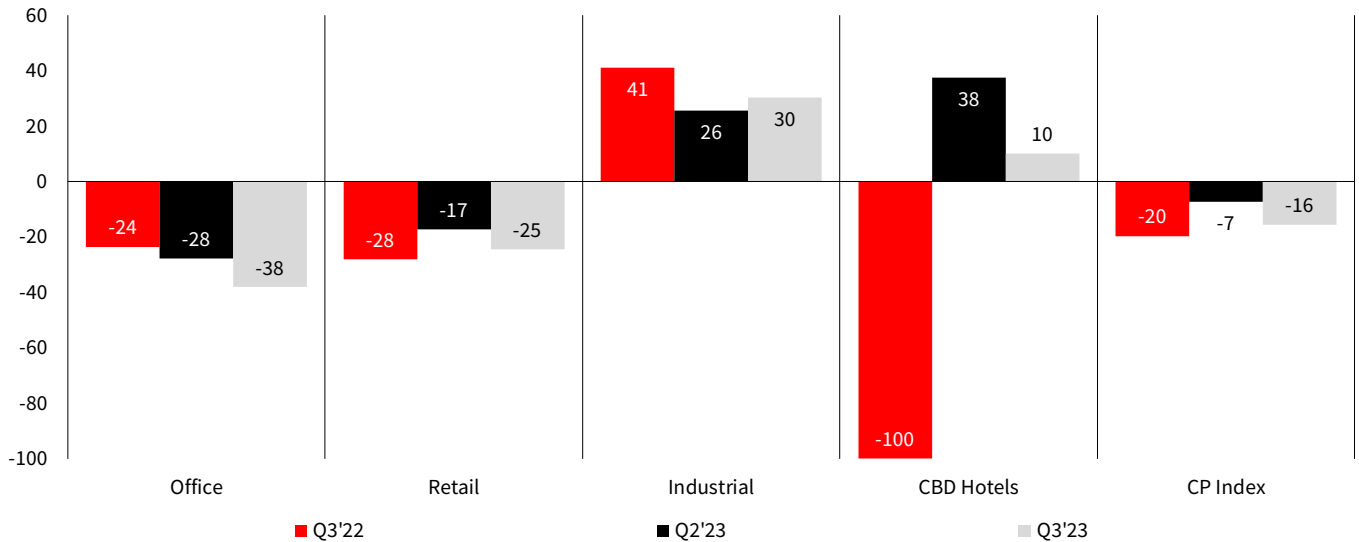
NAB Commercial Property Index

	Q2 2023	Q3 2023	Next 12 months	Next 2 years
Office property	-28	-38	-34	-10
Retail property	-17	-25	-24	2
Industrial property	26	30	39	38
CBD Hotels property	38	10	40	50
Commercial Property Index	-7	-16	-9	9

Market Overview - NAB Commercial Property Index

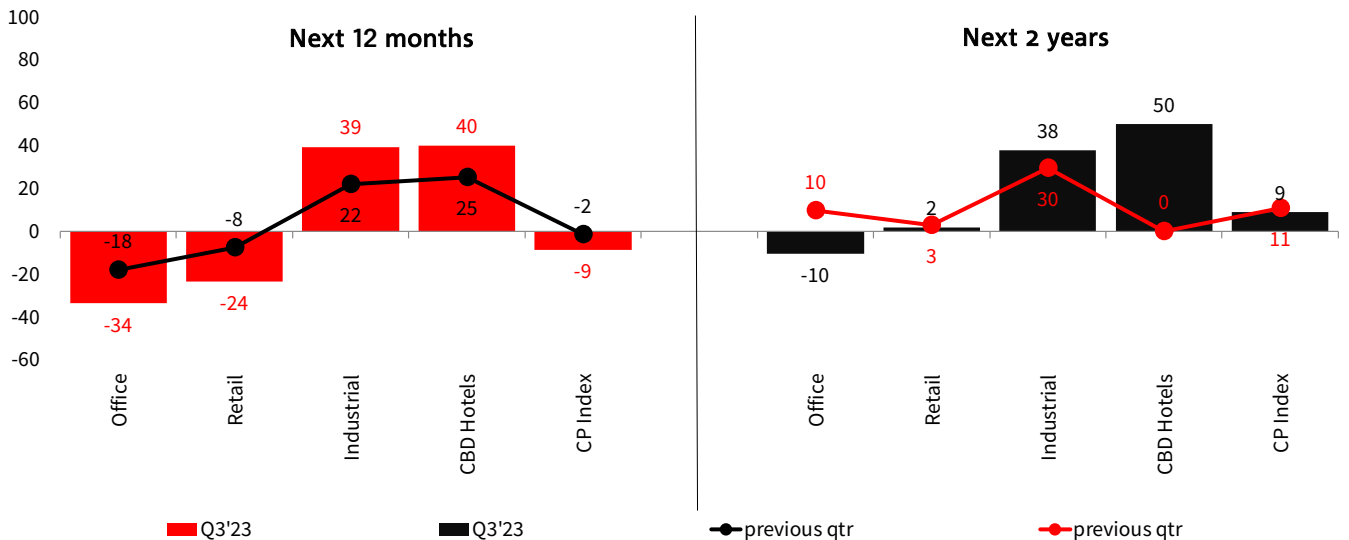
Challenging conditions weighed further on commercial property market sentiment in Q3, with the NAB Commercial Property Index slipping deeper negative to -16 pts (-7 pts in Q2) to sit well below the long-term survey average (-2 pts). Sectoral trends however continue to vary. The Office market index fell to a near 3-year low -38 pts (-28 pts in Q2) amid rising vacancy and weak capital growth. After bouncing in Q2, the Retail index slipped back to -25 pts in Q3 (-17 pts in Q2), as retail trading conditions remained soft and consumption growth slowed. The bouncy CBD Hotels index also fell but printed positive +10 pts (+38 pts in Q2), but fell below the average (+14 pts). The Industrial index however rebounded to +30 pts in Q3, after having fallen in the previous 2 quarter quarters, with solid fundamentals continuing to support growth in capital values and rents in this sector.

NAB Commercial Property Index



Recent data all point to continued resilience in the economy, but the ongoing pass through of higher rates and high inflation still suggest consumption growth will be soft in H2 2023. NAB continues to expect below trend GDP growth of 1-1.5% in 2023 and 2024. We also see the RBA hiking rates a further 25bps in November before staying on hold until the second half of 2024 as inflation continues to moderate - but domestic factors including wages will be a central focus. Against this backdrop, overall commercial property confidence levels also softened. The 12-month measure fell to -9 pts (its lowest point since Q4'20), with 2-year measure also lower at +9 pts. Confidence in the next 12 months fell sharply in both the Office (-34 pts) and Retail (-24 pts) sectors but lifted noticeably for CBD Hotels (+40 pts) and Industrial (+39 pts) property. Longer-term confidence levels are positive for CBD Hotels (+50 pts), Industrial (+38 pts) and Retail (+2 pts) property, but turned negative for Office (-10 pts from +10 pts in Q2).

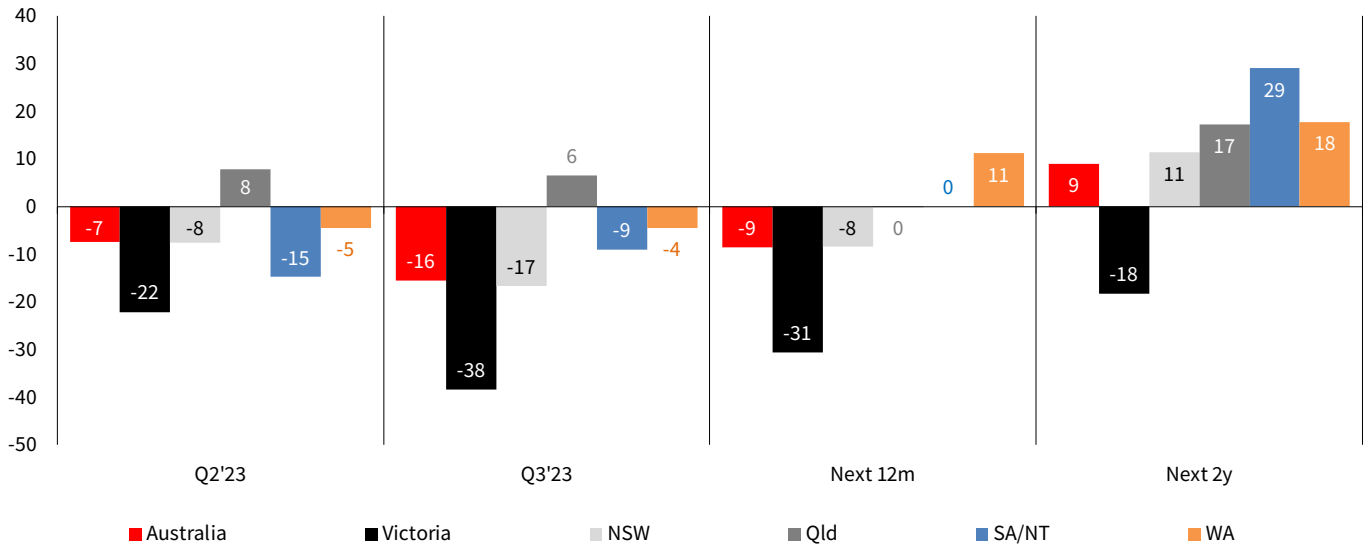
NAB Commercial Property Index - Next 1-2 years



Market Overview – Commercial Property Index by State

Overall commercial property market sentiment in Q3 was negative in all states bar QLD, where the state index printed at +6 pts (+8 pts in Q2). It was also the only state to print positive readings in all sectors bar Retail (flat). Overall sentiment was lowest among property professionals in VIC by a significant margin, and also fell further to -38 pts (-22 pts in Q2) driven by very weak sentiment for Office and Retail property. Confidence levels over the next 12 months were highest in WA (+11 pts) - also the only state to print positive (and in all market sectors). Confidence levels remain significantly lower in VIC (-31 pts), particularly for Office and Retail property. Confidence levels printed positive in all states over the next 2 years, apart from VIC where it fell to -18 pts (-4 pts in Q2). VIC was also the state only where longer-term confidence levels printed negative for Office and Retail property. Overall, longer-term confidence was highest in SA/NT (+29 pts), and printed positive in all other states (aside from VIC) and in all market sectors (except for Office property in NSW) - see table below.

Commercial Property Index – States



Office Property Market Index: States						
	VIC	NSW	QLD	WA	SANT	AUS
Q2'23	-79↓	-56↓	6↔	-9↑	-25↓	-38↓
Q2'24	-75↓	-52↓	0↓	9↑	-31↓	-34↓
Q2'25	-50↓	-34↓	17↓	32↑	19↓	-10↓

Retail Property Market Index: States						
	VIC	NSW	QLD	WA	SANT	AUS
Q2'23	-56↓	-18↑	4↓	0↓	-30↑	-25↓
Q2'24	-59↓	-14↑	-13↓	25↓	0↔	-24↓
Q2'25	-41↓	14↑	25↑	25↓	30↑	2↓

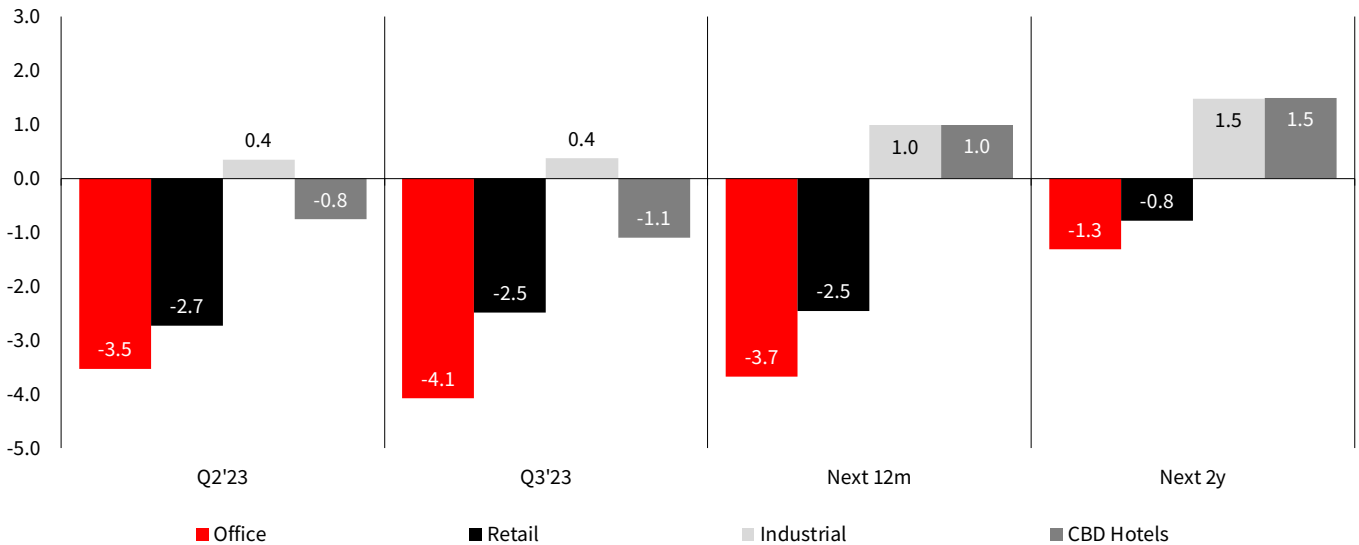
Industrial Property Market Index: States						
	VIC	NSW	QLD	WA	SANT	AUS
Q2'23	25↑	38↑	15↓	46↑	50↑	30↑
Q2'24	35↑	50↑	18↑	50↑	63↑	30↑
Q2'25	20↑	62↑	15↓	38↑	63↑	39↑

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

Market Overview - Capital Growth & Vacancy Expectations

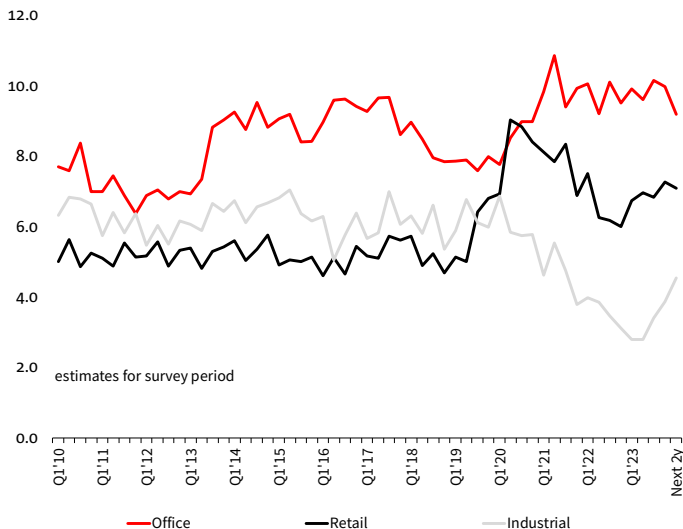
Capital growth expectations for the next 1-2 years are highest for Industrial property (1.0% & 1.5%) and CBD Hotels (1.0% & 1.5%), with expectations revised up from 0.8% & 1.4% for Industrial and -1.3% & -4.9% for CBD Hotels in Q2. Industrial expectations are positive in all states led by SA/NT (3.8% & 3.9%) and NSW (1.6% & 2.7%), and lowest in QLD (0.1% & 0.4%) and VIC (0.6% & 0.5%). Expectations for Office property remain negative at -3.7% & -1.3% (-3.4% & -1.5% in Q2), led by much weaker expectations in VIC (-6.6% & -3.1%) and NSW (-5.4% & -2.9%). WA is the only state where property professionals anticipate value growth in Office markets in the next 1-2 years (0.4% & 2.3%), and QLD in 2 years' time (0.1%). The outlook for Retail capital growth is also still weak (-2.5% & -0.8%), but somewhat less so than in Q2 (-2.7% & -1.5%). Expectations however vary across states, with values tipped to fall most heavily in VIC (-3.9% & -2.4%), and WA the only state with positive expectations in the next 12 months (1.9%) and QLD (0.8%) and SA/NT (0.1%) in 2 years' time - see page 11.

Capital Growth Expectations (%)

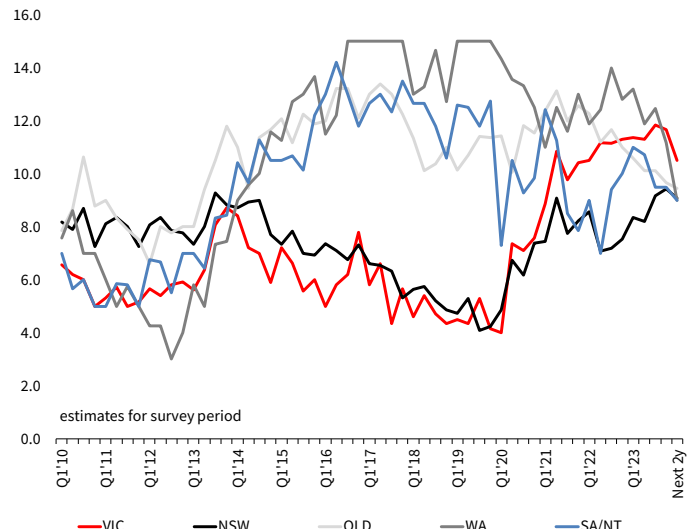


National Office vacancy rose to 10.2% in Q3 (9.6% in Q2) and continues trending above the survey average (8.6%). Vacancy lifted in most states in Q3 and remained highest in WA (12.5% up from 11.9%) and VIC (11.8% up from 11.3%) and was lowest in NSW (9.2% up from 8.2%). National Office vacancy is expected to remain broadly unchanged at 10.0% next year, easing to 9.2% in 2 years' time. Vacancy is expected to be highest in VIC in the next 1-2 years (11.7% & 10.5%), and lowest in NSW next year (9.4%) and SA/NT and WA (9.0%) in 2 years' time. Retail vacancy eased to 6.8% in Q3 (7.0% in Q2), but ranged from 9.4% in SA/NT to 3.5% in WA. Overall Retail vacancy is expected to rise to 7.3% next year and 7.1% in 2 years' time. - with vacancy trending above average in all states bar WA (4.3% & 4.0%). The national Industrial vacancy rate rose to 3.4% in Q3 (from a survey low 2.8% in Q2). It was higher in all states bar NSW (2.2%). The overall Industrial vacancy rate is expected to rise further in the next 1-2 years (3.9% & 4.5%) but remain below average in all states - see page 11.

Vacancy Rate Expectations (%)



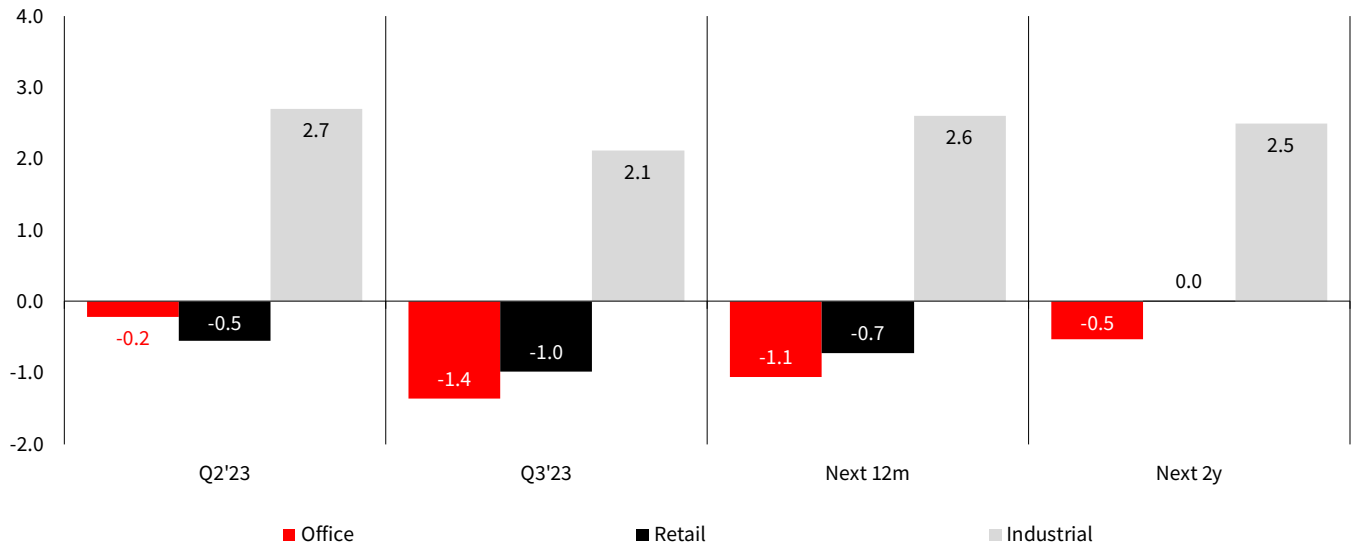
Vacancy Rate Expectations: Office (%)



Market Overview – Rental Growth & Supply

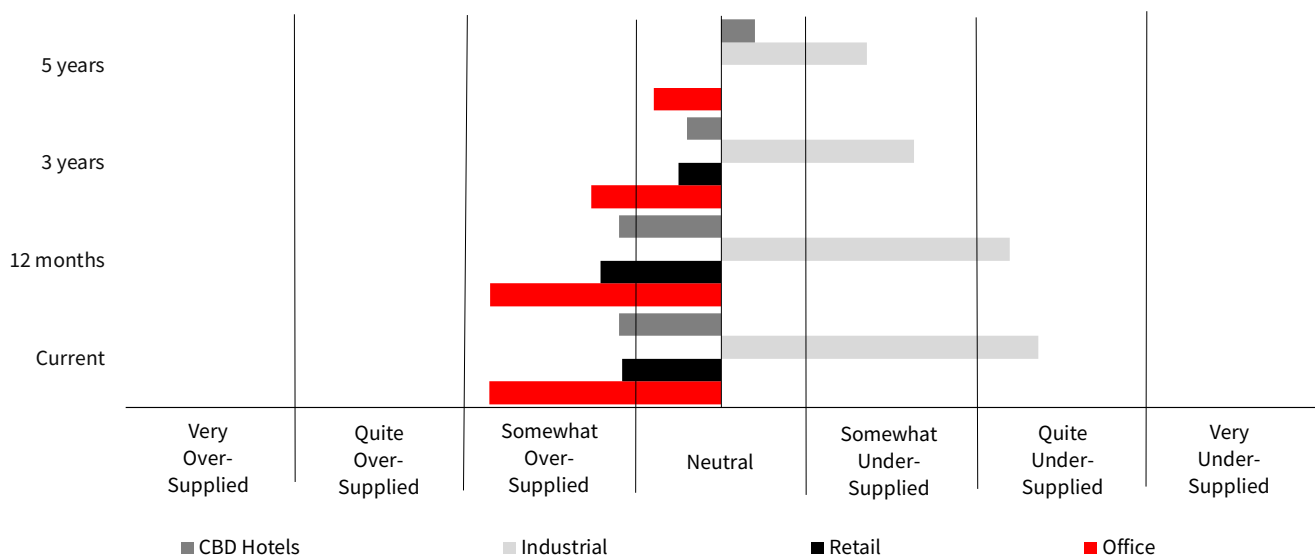
Office rents are expected to be under more pressure in the next 1-2 years, with average rents predicted to fall -1.1% & -0.5% (-0.1% & 0.7% forecast in Q2). Rents are expected to fall in most states in the next 12 months, led by VIC (-4.6%), with growth in QLD (1.8%) and SA/NT (0.5%). QLD (2.6%) and WA (2.1%) are expected to out-perform in 2 years' time, with VIC (-3.4%) and NSW (-1.9%) clear under-performers and the only states where rents are predicted to fall. Property professionals are less buoyant about the outlook for Retail rents, with average rents now expected to fall -0.7% in the next 12 months (-0.4% in Q2), with no growth in 2 years' time (0%). Property professionals see rents growing in all states in the next 1-2 years, except VIC (-3.2% & -2.4%) and NSW (-0.5% & -0.2%). The outlook for Industrial rents was revised up in Q3 and now expected to grow 2.6% & 2.5% over the next 1-2 years (2.5% & 2.0% forecast in Q2). The outlook is positive in all states, with prospects highest in NSW (3.9% & 3.6%) and VIC (3.0% & 3.1%), and lowest in QLD (1.6% & 1.4%) - see page 11.

Gross Rental Expectations (%)



National Office markets are still “somewhat” over-supplied and expected to stay that way in the next 1-3 years. Over-supply is currently most prevalent in VIC, NSW and WA with these markets “quite” over-supplied and expected to remain that way in the next 12 months. The national Retail market is also currently “somewhat” over-supplied, with Retail markets in VIC and NSW to remain that way in the next 1-3 years, while shortages emerge in WA. The national Industrial property market is currently assessed as “quite” under-supplied and is expected to be under-supplied for the next 1-5 years - with shortages of available space in all states during this time frame except in VIC where markets are expected to be in balance in 3-5 years, and WA in 5 years' time. In the CBD Hotels sector, the market is currently “somewhat” under-supplied” and expected to remain that way next year before returning to “neutral” conditions in the next 3-5 years.

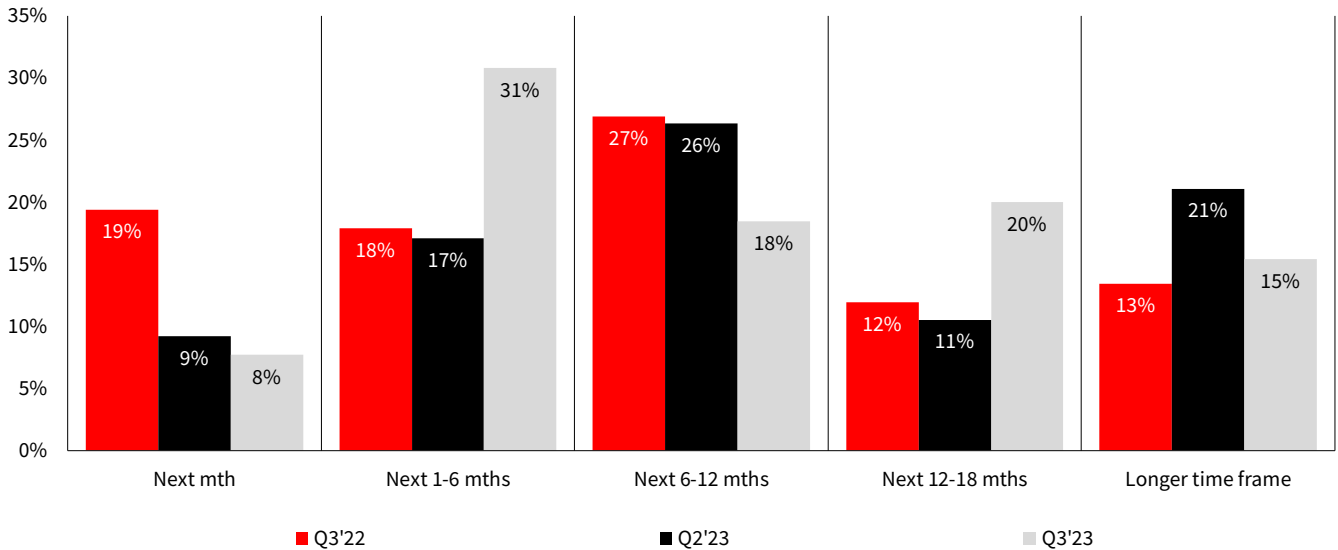
Supply Conditions



Market Overview - Development Intentions

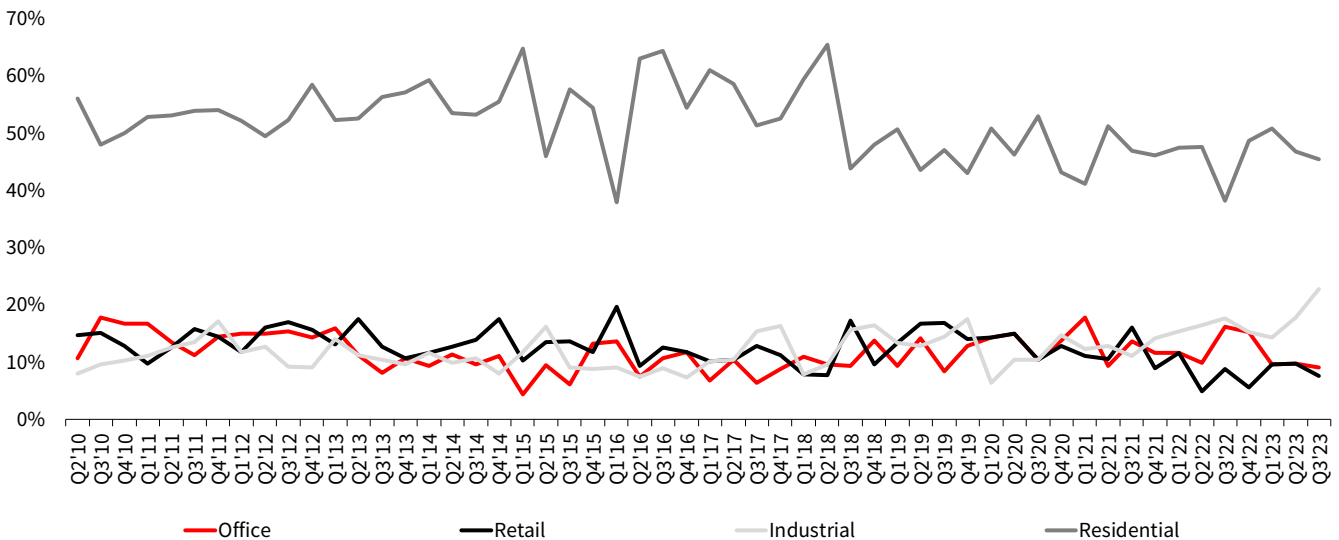
Building approvals rose 7% in August, with both houses (6.8%) and higher-density (9.4%) rising in the month. Total building approvals however remain 23% lower over the past year and appear to have stabilised at a decade low rate of around 13.5k monthly amid ongoing supply side challenges. Despite this, the number of surveyed property developers expecting to commence new works in the next 6 months increased sharply to 39% in Q3 after falling to a survey low 26% in Q2, though it is still trending significantly below the survey average (48%). A largely unchanged 38% of developers plan to start new development works in the next 6-18 months (37% in Q2), but the number with a longer time frame fell noticeably to 15% (21% in Q2). In total, almost 8 in 10 (77%) developers plan to start new works within the next 18 months (after falling to a record low 63% in Q2). However, this is still well below the survey average (83%), suggesting construction activity may be relatively subdued in the period ahead.

Development Commencement Intentions - Time



With total approvals well down on year earlier levels and demand for new housing being impacted by higher rates and construction costs, the NAB survey noted a further decline in the number of property developers planning to start new building works in the residential property sector to 45% in Q3 (47% in Q2). Though still above a survey low 38% reported at the same time last year, it continued to trend below average (52%). Amid elevated vacancy, a below average number of developers also had plans to start new works in the Office (9%) and Retail (8%) sectors in Q3. With historically low vacancy, strong rental growth, and imbalance between supply and demand for industrial space widely expected to continue in the near-term, a survey high 1 in 4 (23%) developers plan to start new building works in the Industrial sector, up from 18% in the previous quarter and now sitting at double the survey average level (12%).

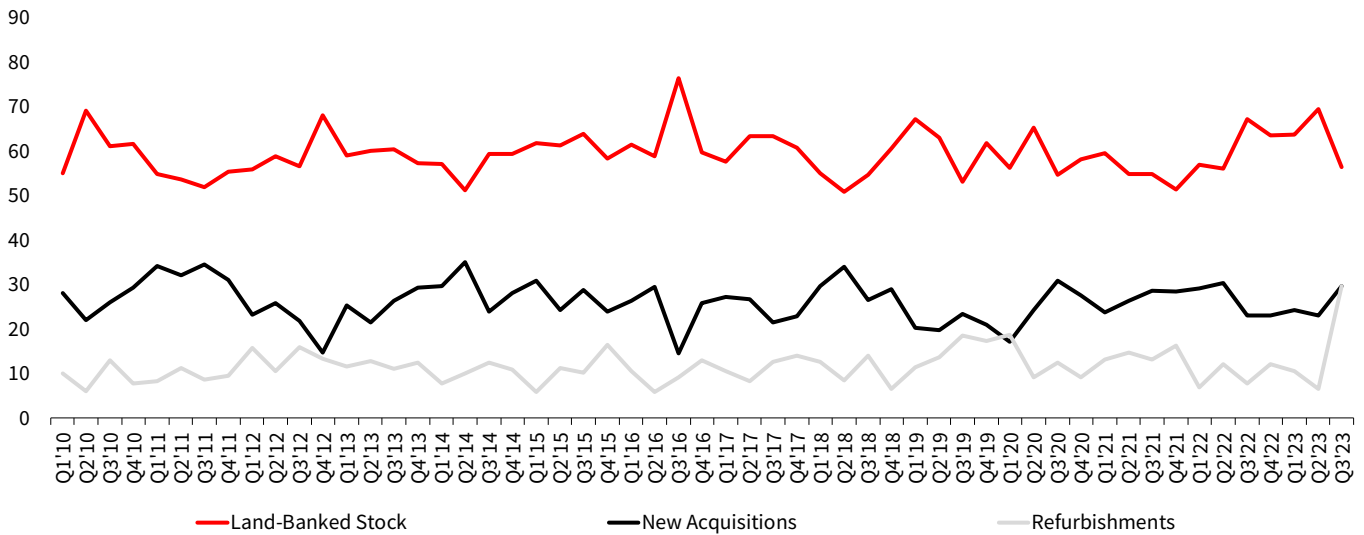
Development Commencement Intentions - Sector



Market Overview – Land Sources & Capital Intentions

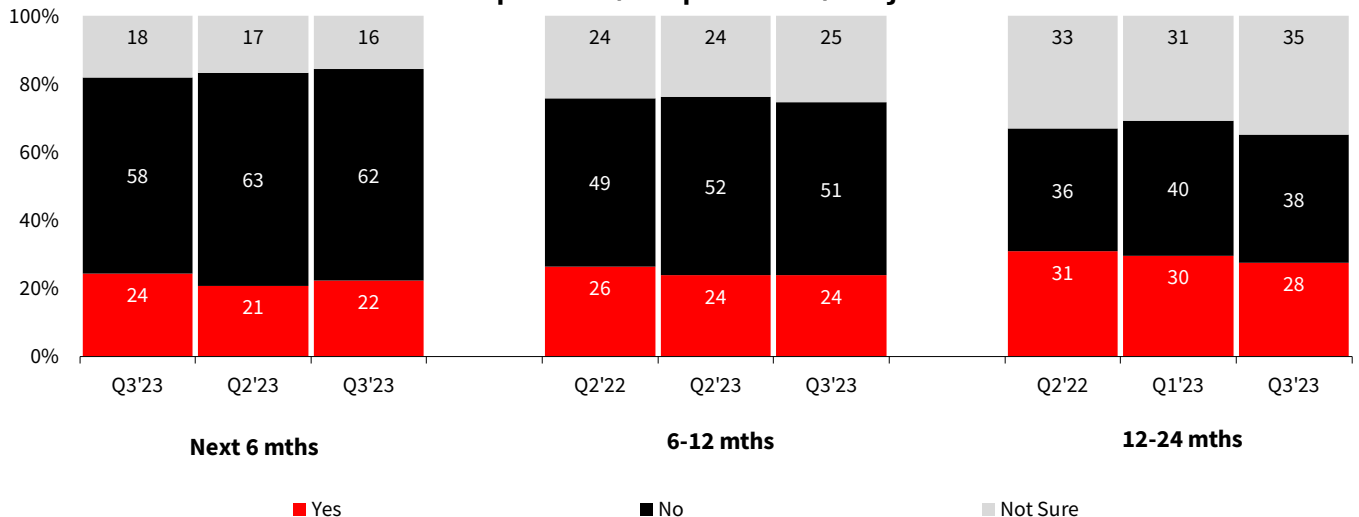
When property developers with plans to start new building works within the next 18 months were asked how they will be sourcing land for their developments, a lower number indicated they will use land-banked stock under existing ownership (or undeveloped sites). In Q3, the number of developers planning to release land fell to 56% after having risen to a near 7-year high 69% in Q2 to now be also trending below average (59%). In contrast, the number of developers looking at new acquisitions for their projects increased to an above average 30% in Q3 (23% in Q2). The number of developers looking at refurbishment opportunities in Q3 also climbed noticeably from an equal survey low 6% in Q2 to 30% in Q3.

Sources of Land Development (%)



Intentions to source capital to fund new developments were little changed over the quarter but still somewhat weaker than at the same time last year. In Q3, the number planning to source more capital in the next 6 months inched up to 22% in Q3 (21% in Q2 but down from 24% at the same time last year). Around 62% had no intention to source capital in the next 6 months (down from 63% in Q2 but up from 58% at the same time last year), while 16% were unsure of their intentions. The number intending to source more capital in the next 6-12 months was unchanged over the quarter at 24%, but down slightly from 22% one year ago. Around 1 in 2 (51%) had no intention to source capital during this timeframe, while 1 in 4 (25%) were uncertain about obtaining funds in the next 6-12 months. The number intending to source more capital in the next 12-24 months also fell to 28% (30% in Q2), while those who did not plan to do so fell to 38% (40% in Q2). However, the number of property developers who were unsure about their longer-term funding intentions increased to 35% (31% in the previous survey).

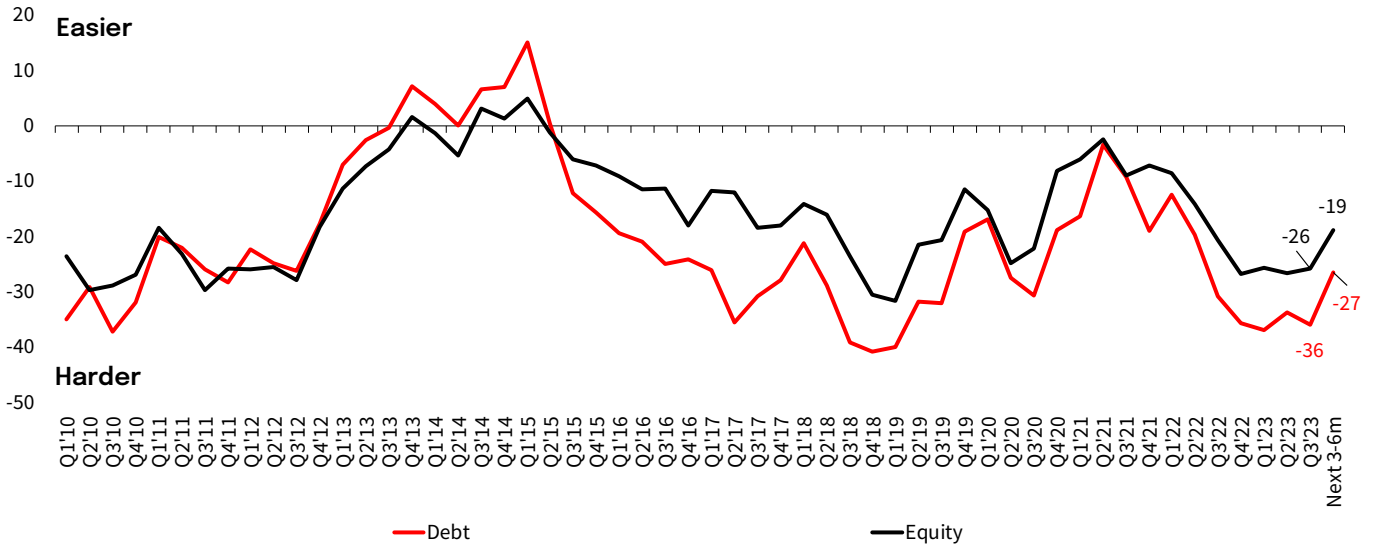
Intent to Source More Capital for Developments/Acquisitions/Projects



Market Overview – Ease of Funding & Pre-Commitments

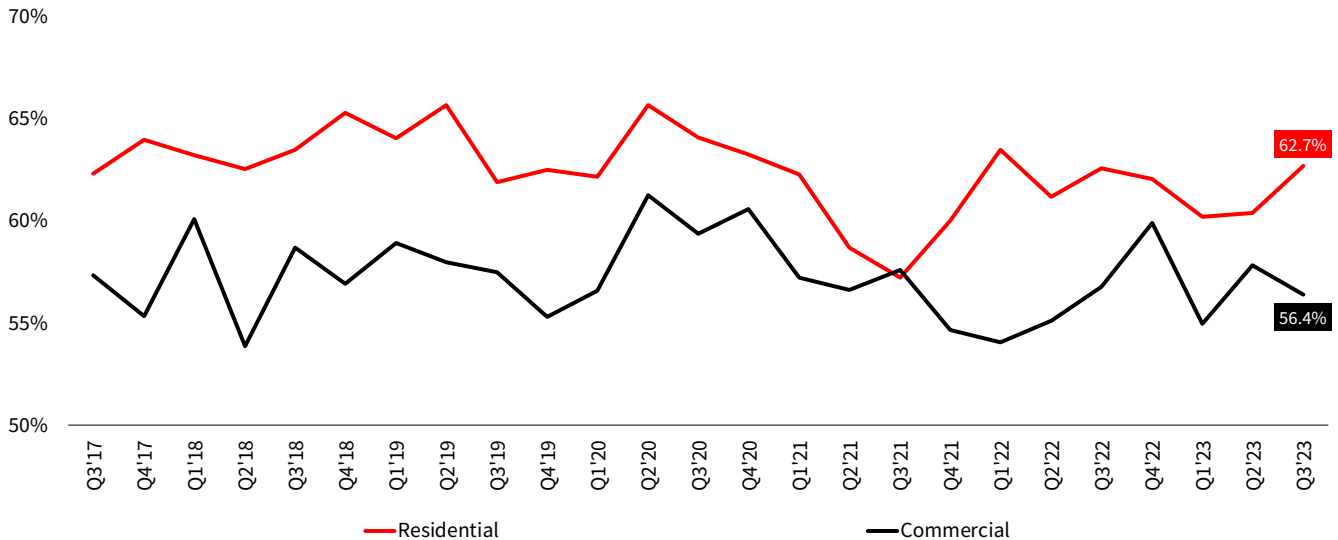
A higher number of surveyed property professionals indicated that accessing loans for their business was harder in Q3. Overall, the net number who said it was harder to obtain borrowing or loans (debt) increased to -36%, up from -34% in the previous quarter and -31% at the same time last year. However, the net number who said equity funding conditions were harder inched down to -26% in Q3, from -27% in Q2 but still down from -21% at the same time last year. Looking ahead 3-6 months, fewer property professionals on balance expect finance conditions to be worse, with net number expecting debt funding conditions to be worse falling to -27%, and the number expecting equity funding conditions to be worse also lower at -19%.

Ease of Acquiring Debt/Equity (Net Balance)



Survey participant perceptions of the average precommitment percentage of projects required to meet external debt funding requirements for new residential developments increased to 62.7% in Q3, up from 60.4% in the previous quarter and slightly above the survey average (62.4%). Requirements were higher in all states in Q3, ranging from 61.5% in VIC to 63.9% in QLD. However, residential pre-commitment requirements are expected to be less onerous in the future, with the net number expecting requirements to worsen falling to -12% in the next 3-6 months (-32% in Q2) and -1% in 6-12 months' time (-23% in Q2). The average pre-commitment requirement for commercial developments however inched down to 56.4% in Q3 (57.8% in Q2) and printed below the survey average (57.2%). Commercial pre-commitment requirements were lower in QLD (49.3%), NSW (53.4%) and WA (60.1%) compared to the previous quarter but increased in VIC (59.9%). Looking ahead, fewer property professionals see commercial requirements worsening in the next 3-6 months (-11% from -33% in Q2) and 6-12 months (0% from -24%).

Pre-Commitment Requirements (%)



Survey Respondents Expectations (Average) Q3 2023

Office Capital Values (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q3'23	-7.4	-4.8	-3.2	-1.4	-2.6	-4.1
Q3'24	-6.6	-5.4	-2.6	0.4	-2.0	-3.7
Q3'25	-3.1	-2.9	0.1	2.3	-0.5	-1.3

Office Rents (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q3'23	-4.5	-2.0	1.8	-1.2	0.4	-1.4
Q3'24	-4.6	-1.7	1.8	-0.1	0.5	-1.1
Q3'25	-3.4	-1.9	2.6	2.1	0.3	-0.5

Office Vacancy Rates (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q3'23	11.8	9.2	10.1	12.5	9.5	10.2
Q3'24	11.7	9.4	9.7	11.2	9.5	10.0
Q3'25	10.5	9.1	9.4	9.0	9.0	9.2

Retail Capital Values (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q3'23	-3.5	-2.0	-1.9	-1.2	-2.5	-2.5
Q3'24	-3.9	-2.7	-2.3	1.9	-1.4	-2.5
Q3'25	-2.4	-0.5	0.8	-0.7	0.1	-0.8

Retail Rents (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q3'23	-3.5	-0.8	1.0	3.3	-0.8	-1.0
Q3'24	-3.2	-0.5	0.9	3.3	0.5	-0.7
Q3'25	-2.4	-0.2	1.7	3.8	1.8	0.0

Retail Vacancy Rates (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q3'23	6.5	6.2	8.2	3.5	9.4	6.8
Q3'24	6.6	7.2	8.8	4.3	8.6	7.3
Q3'25	6.6	6.6	9.6	4.0	7.8	7.1

Industrial Capital Values (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q3'23	-0.4	1.1	-0.5	1.1	0.9	0.4
Q3'24	0.6	1.6	0.1	1.4	3.8	1.0
Q3'25	0.5	2.7	0.4	1.5	3.9	1.5

Industrial Rents (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q3'23	2.9	3.6	1.1	1.7	0.9	2.1
Q3'24	3.0	3.9	1.6	2.1	2.5	2.6
Q3'25	3.1	3.6	1.4	1.7	3.3	2.5

Industrial Vacancy Rates (%)

	VIC	NSW	QLD	WA	SANT	AUS
Q3'23	4.0	2.2	4.3	3.2	5.0	3.4
Q3'24	4.5	2.4	4.9	3.7	5.0	3.9
Q3'25	6.1	3.0	5.4	4.5	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 330 property professionals participated in the Q3 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 lure

Senior Economist - Behavioural & Industry Economics

Robert.De.lure@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