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NAB Commercial Property Survey

Q4 2023

NAB Behavioural & Industry Economics



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Commercial property sentiment improved in Q4 but remained weak and below average.

Industrial and CBD hotel markets continued to out-perform in Q4, while retail and office weigh down the overall result. Office vacancies continued to creep up and capital growth expectations for office property over the next 2 years remain weak, particularly in Vic and to a lesser extent NSW. Notably, Q4 marked the highest print for office vacancies in Vic and NSW in the survey's history.

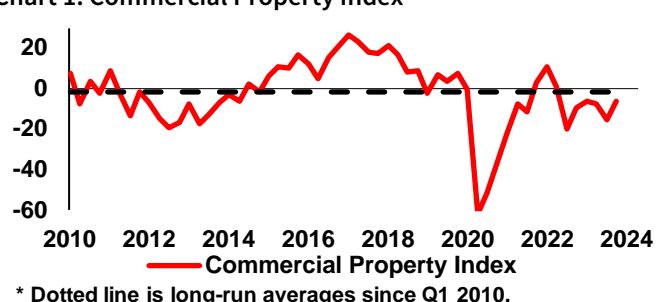
Key findings

- **Commercial property market sentiment** improved in Q4 despite moderation in NAB's Business Survey conditions during the quarter. The Commercial Property Index rose 10pts to -6 index points, remaining weak and below average. The 12-month measure turned positive, rising 12pts to +3 index points, and longer-term confidence also lifted to +16 index points.
- **By industry**, sentiment lifted in all property sectors with the largest gains in CBD hotels (up 28pts to +38 index points) and the industrial sector (up 19pts to +49). There were smaller rises in office (up 6pts to -32) and retail (up 2pts to -23), but sentiment in both sectors remains below average and deeply negative. Confidence in the short and longer-term rose in all sectors except CBD hotels.
- **By state**, the commercial property market index lifted in all states except in WA due to deteriorating local office and retail market conditions. The index is now weakest in WA at -27 index points, followed closely by Vic at -26 with NSW also printing negative at -6. QLD (+11) and SA/NT (+28) were the only states in positive territory and above their long-run averages.
- **Capital growth** expectations improved in retail and industrial markets but continued to deteriorate in office property (due largely to WA). Current expectations and expectations for the future remain strongest in the industrial sector, with only industrial property expected to see positive capital growth in the next 12 months to 2 years. Expectations for office property remained very weak, particularly in Vic and to a lesser extent in NSW.
- **Office vacancy** continued to rise, edging up from 10.2% to 10.5% and remaining well above the survey average 8.6%, with vacancy in VIC (12.1%) and NSW (9.8%) printing at survey high levels. Office vacancies are expected to dip slightly to 10.2% next year and 8.8% in 2 years' time, with vacancies highest in WA (12.7%) and VIC (12.1%). National retail vacancies were unchanged at 6.8% in Q4, remaining elevated with above-average vacancy expected over the next 2 years. The industrial vacancy rate fell slightly and remains well-below average at 3.2% with vacancies forecast to creep up over the next 2 years.
- **Office rents** continued to decline but the rate of decline slowed from -1.4% to -1.2% in Q4. Retail rents remain unchanged at -0.9%. Office and retail rents are expected to stabilise and begin to grow in the next 1-2 years. Industrial rents growth continues to accelerate, with growth expected to be slightly higher over the next 1-2 years.
- **Most developers** still plan to commence works in the next 1-6 months, though this number is less than average. There was also a notable rise in those planning to start in 18 months' time. While most developers were seeking to develop residential property, this proportion has steadily declined from 51% in Q1 to 42% in Q4. The bulk of new development to be underpinned by land-banked stock, although more developers were chasing new acquisitions and refurbishments.
- **Funding conditions** were still challenging, with the net number of surveyed property professionals who said it was harder to obtain loans or equity continuing to outweigh those who said it was easier. The ease of acquiring debt in the last 3 months, on balance was largely unchanged in Q4 at -35%, but perceptions about the next 3-6 months improved 4ppts to -31%. The net number who said it was harder to obtain equity funding however continued to ease to -22% (-26% in Q3), with expectations about the future also somewhat more positive (-19%).

Table 1: Key Commercial Property Survey Statistics

	Q3'23	Q4'23	Next 12 months	Next 2 years
Commercial property index	-16	-6	3	16
Office property index	-38	-32	-20	10
Retail property index	-25	-23	-9	6
Industrial property index	30	49	56	63
CBD hotels property index	10	38	25	-25

Chart 1: Commercial Property Index



Market Overview

The Commercial Property Index rose 10pts to -6 index points but remains below the long-run average of -2. The 12-month measure rose 12pts to +3 index points - the first positive print in 18 months. Longer-term confidence also lifted but remains below average at +16 index points.

Sentiment lifted across all sectors with the largest gains in CBD hotels (up 28pts to +38) and the industrial sector (up 19pts to +49), and smaller rises in office and retail. Sentiment also remained highest in the industrial sector at +49 index points, followed by the bouncy CBD hotels at +38. The office index rose 6pts to -32 index points - the first improvement in the index in nearly two years. The retail index also edged up, from -25 to -23 index points but remains below average amid elevated economic uncertainty and slowing spending. Confidence in the short and longer-term rose across all sectors except for CBD hotels.

Chart 2: Sentiment by Industry

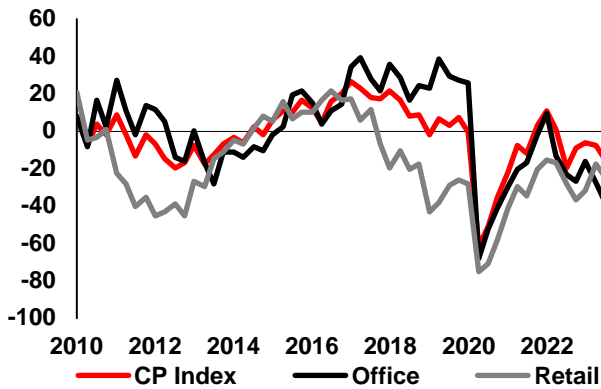


Chart 3: Sentiment and Expectations by Industry

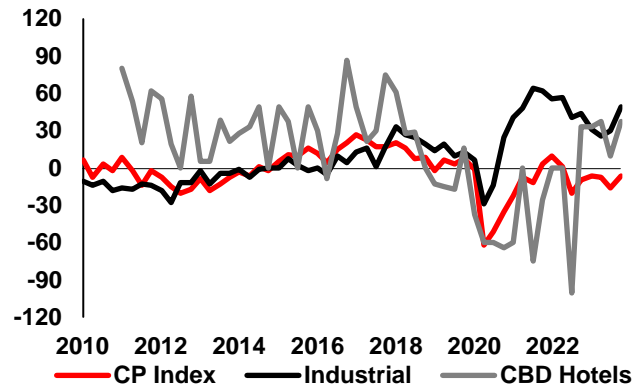
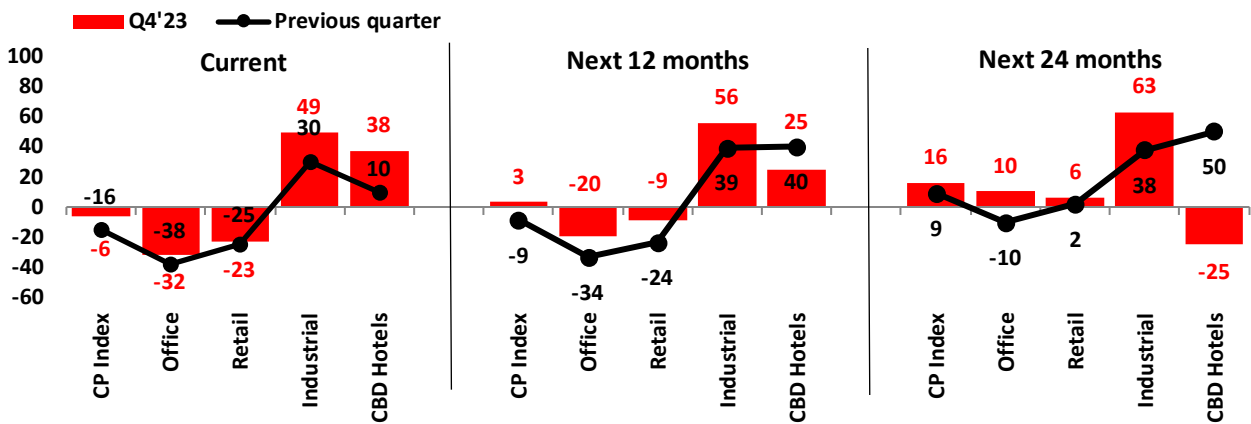


Chart 4: Sentiment and Expectations by Industry



Abbreviations: CP Index – commercial property index

By State

Commercial property market sentiment lifted in all states except for WA due to declining conditions in office and retail markets. The index was weakest in WA at -27 index points, followed closely by VIC at -26 with NSW also negative at -6. Despite the broad-based strengthening in sentiment, QLD and SA/NT were the only states in positive territory and above their long-run averages.

Confidence about the future remained weakest in VIC by a significant margin, again driven by weakness in office and Retail property markets. Expectations about 2024 fell notably in WA (down 24pts) but remains lowest in VIC (-22). In QLD, the office index turned negative in Q4 and the retail index declined to 0 index points. Sentiment and confidence were strongest in SA/NT followed by QLD.

Table 2: Commercial Property Indexes by State and Industry

	Q3'23	Q4'23	Next 12 months	Next 2 years		Q3'23	Q4'23	Next 12 months	Next 2 years
Commercial Property Index					Retail Property Index				
AUS	-16	-6	3	16	AUS	-25	-23	-9	6
VIC	-38	-26	-22	-6	VIC	-56	-40	-40	-23
NSW	-17	-7	1	12	NSW	-18	-25	-19	-9
QLD	6	11	23	29	QLD	4	0	45	55
SA & NT	-9	28	29	42	SA & NT	-30	25	0	0
WA	-4	-27	-13	26	WA	0	-50	-25	25
Office Property Index					Industrial Property Index				
AUS	-38	-32	-20	10	AUS	30	49	56	63
VIC	-79	-50	-43	-20	VIC	25	7	37	47
NSW	-56	-50	-40	-4	NSW	38	52	64	80
QLD	6	-5	-5	5	QLD	15	67	58	53
SA & NT	-25	17	39	72	SA & NT	50	67	67	67
WA	-9	-36	-14	43	WA	46	63	50	56

Table 5: Commercial Property Index by State

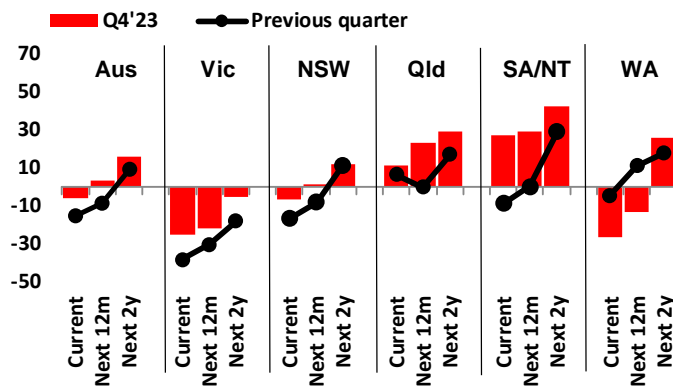


Chart 6: Office Property Index by State

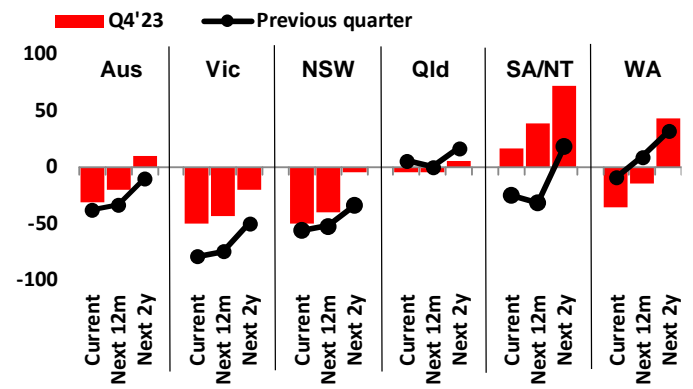


Chart 7: Retail Property Index by State

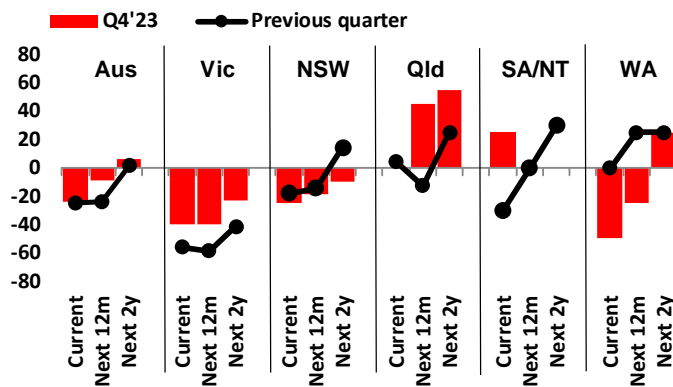
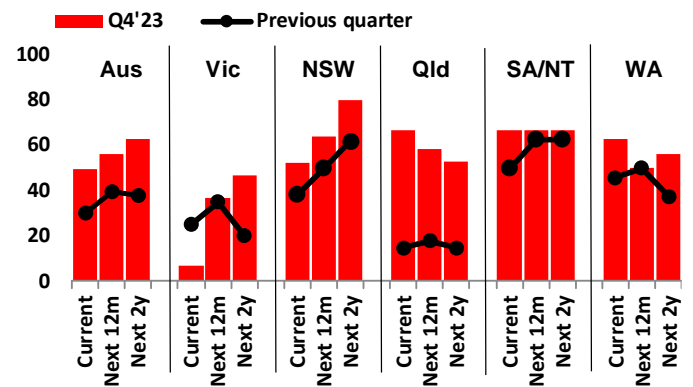


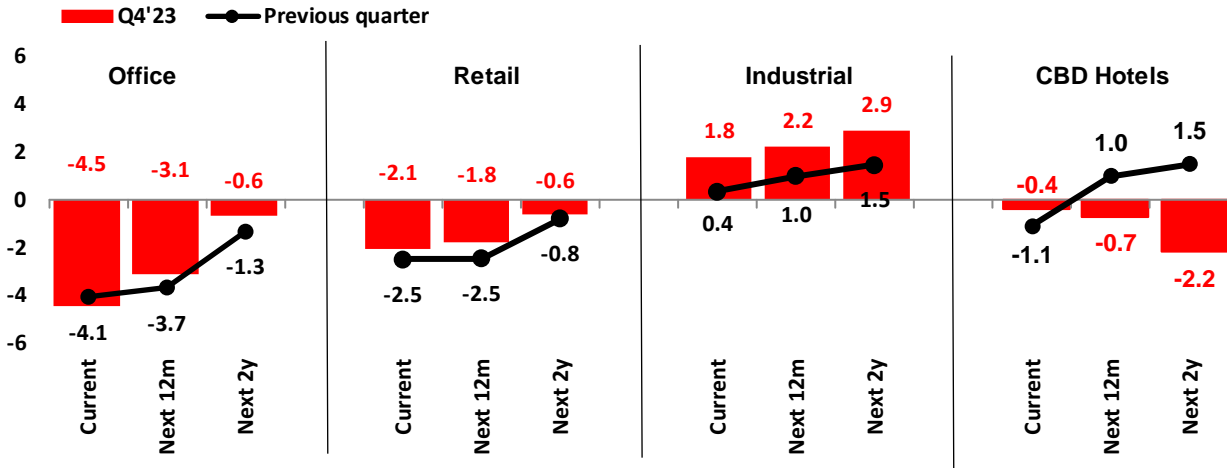
Chart 8: Industrial Property by State



Capital Growth

Capital growth prospects improved in all markets except office (due largely to WA). Current expectations and expectations over the next 1-2 years remain strongest and only positive in the industrial sector. Capital expectations for office property remain very weak, particularly in VIC and to a lesser extent in NSW.

Chart 9: Capital Growth Expectations by Industry (%)



Vacancy

The office vacancy rate rose to 10.5% in Q4 (from 10.2% in Q3), remaining well above the survey average of 8.6%. Office vacancies are expected to dip slightly to 10.2% in 2024 and 8.8% in 2025 with vacancies highest in WA (12.7%) and VIC (12.1%). Notably, Q4 marked the highest print for office vacancies in VIC (12.1%) and NSW (9.8%) in the history of the survey. The retail vacancy rate was unchanged at 6.8% in Q4, remaining elevated with above-average vacancies expected over the next 2 years. The national industrial vacancy rate fell slightly and remains well-below average at 3.2% with vacancies forecasted to creep up over the next 2 years.

Chart 10: Vacancy Rate Expectations by Industry (%)

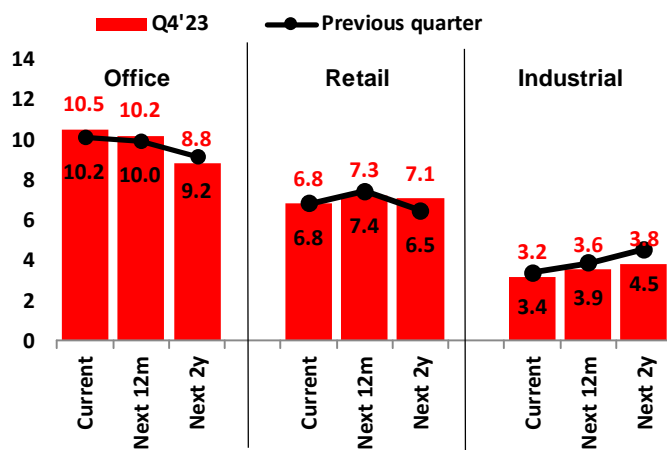
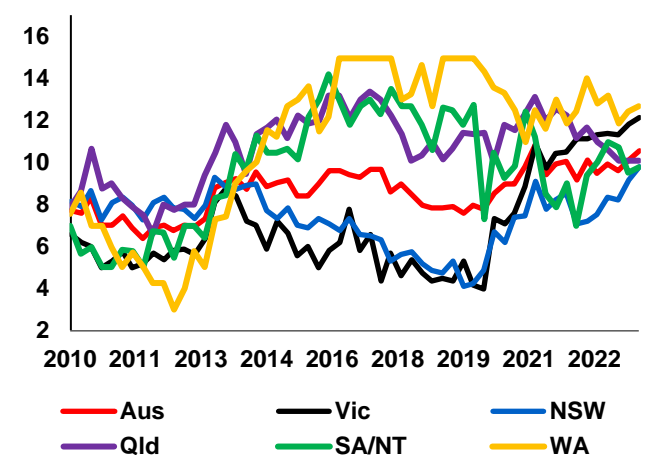


Chart 11: Office Vacancy Rate by State (%)



Rental & RevPAR Growth

Rental performance in commercial property markets was mixed in Q4. The rate of rent decline for office property slowed (from -1.4% to -1.2%) but edged down for retail property to -1.0%. Office and retail rents are expected to stabilise and begin to grow in the next 1-2 years. Industrial rents continued to grow solidly, with growth accelerating slightly over the 1-2 year mark. RevPAR (revenue per available room) growth fell from -0.3% to -1.1% in Q4 with negative growth expected in 2024 and 2025.

Chart 12: Rent Growth Expectations by Industry (%)

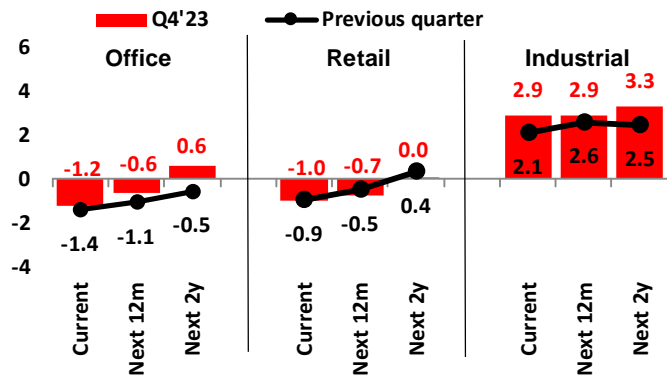
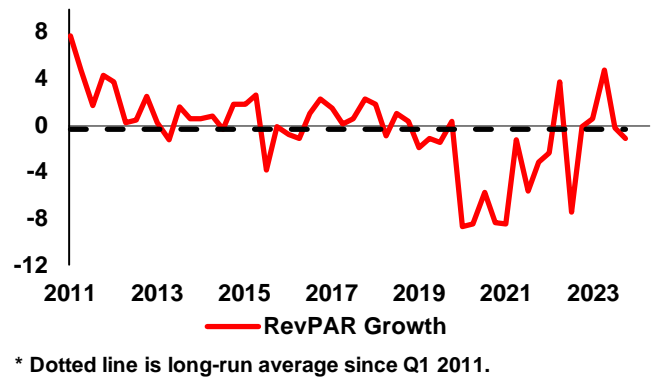


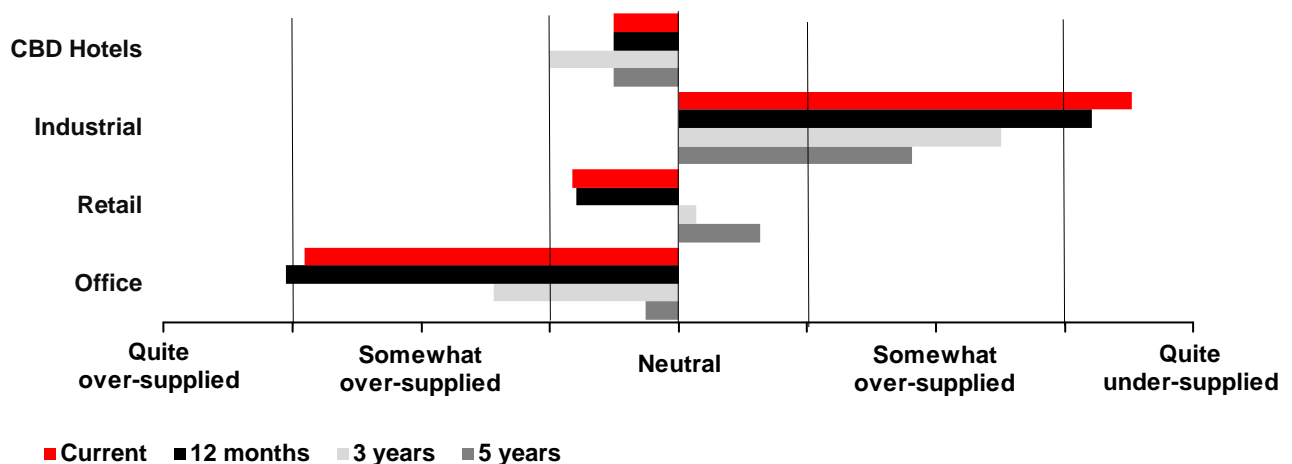
Chart 13: CBD Hotels RevPAR Growth Expectations (%)



Supply Conditions

National office markets are still “somewhat” over-supplied and expected to stay that way in the next 1-5 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 industrial property market is currently assessed as “quite” under-supplied with conditions easing over the next 1-5 years. Industrial markets were under-supplied in all states with QLD experiencing the most severe shortages. The retail market was neutral (neither oversupplied nor undersupplied) with retail markets in WA currently “somewhat” undersupplied. In the CBD hotels sector, the market is also neutral and expected to remain that way in the next 1-5 years with NSW expected to be oversupplied in the next three years.

Chart 14: Supply Conditions by Industry



Development Intentions & Land Sources

The number of surveyed property developers expecting to commence new works in the next 6 months continued to climb to 44% in Q4 (39% in Q3) after falling to a survey low 26% in Q2, though it is still trending below the survey average (47%). The number of developers planning to start new development works in the next 6-18 months declined noticeably, falling below average at 30% (38% in Q3), while the number with a longer time frame lifted to 18% (15% in Q3). In total, almost 3 in 4 (74%) 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 subdued in the period ahead.

The sources of land development were broadly unchanged in Q4. The number of property developers looking to use land-banked stock for their new projects was 57% (56% in Q3). The proportion seeking new acquisitions in Q4 fell slightly to 29% (30% in Q3 and 23% in Q4'22). The number looking at refurbishment opportunities was unchanged at 14%.

Chart 15: Development Commencement Intentions by Timing (%)

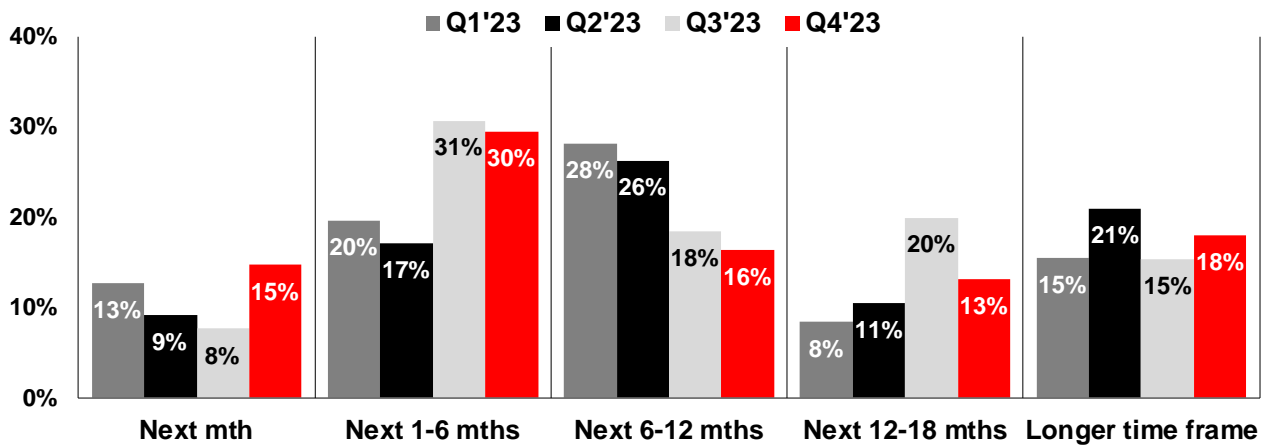


Chart 16: Development Intentions by Industry & State (%)

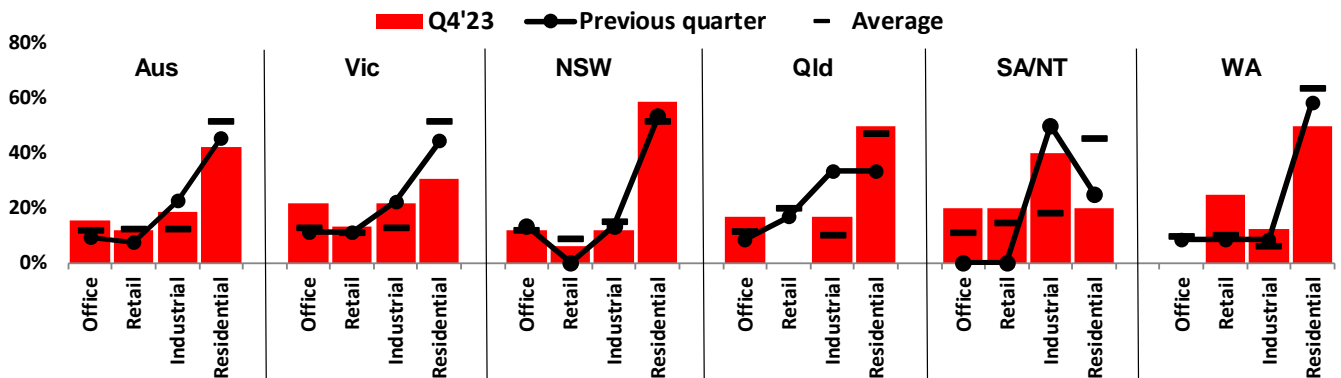


Chart 17: Development Commencement Intentions by Sector (%)

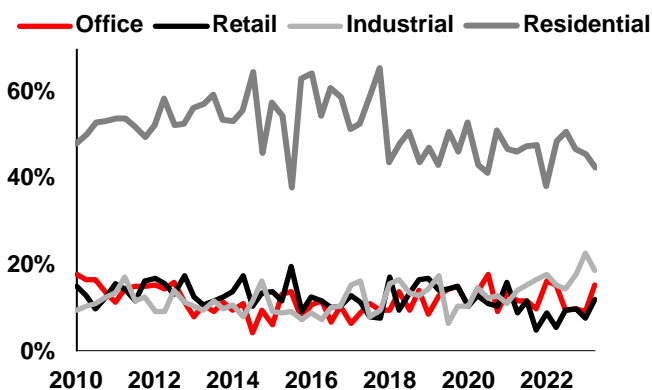
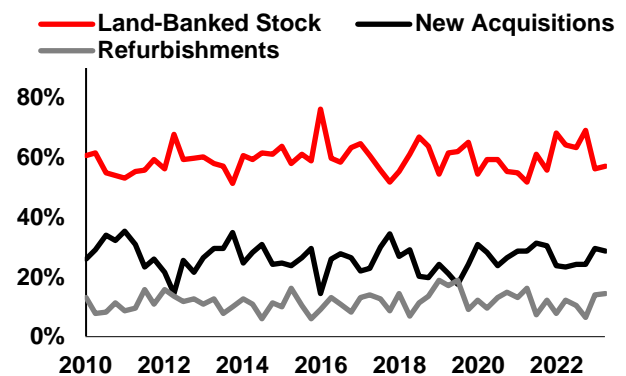


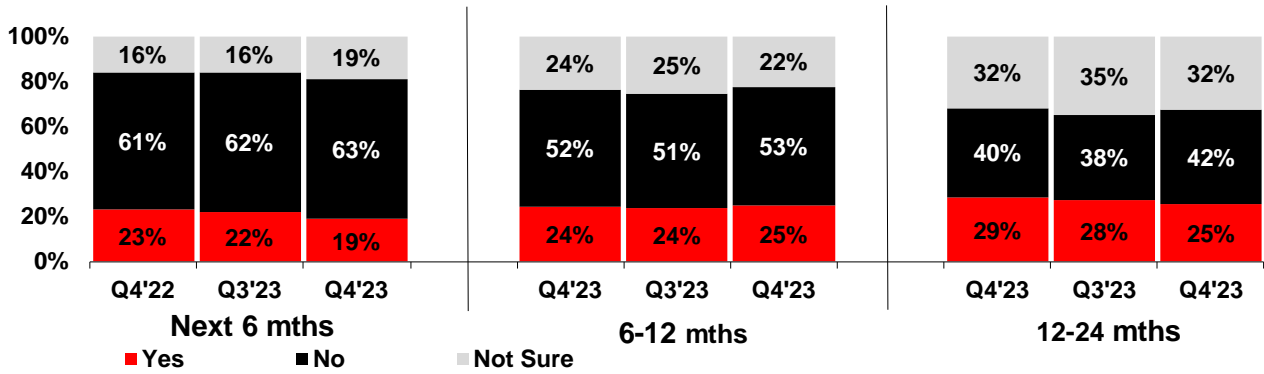
Chart 18: Sources of Land Development (%)



Capital Intentions

Intentions to source capital to fund new developments were little unchanged over the quarter but remain weaker than at the same time last year. The proportion of surveyed property professionals planning to source more capital in the next 6 months declined slightly from 22% to 19% in Q4. Around 63% had no intention to source capital in the short-term (broadly unchanged from 62% in Q3). The number planning to source capital in the next 6-12 months edged up to 25% (from 24% in Q3) with 53% indicating they had no intention to source funds (51% in Q3). The number intending to source more capital in the next 12-24 months fell to 25% (28% in Q3 and also lower than this time last year).

Chart 19: Intent to Source More Capital for Developments/Acquisitions/Projects (%)



Ease of Funding & Pre-Commitments

Overall, the net number of surveyed property professionals who said it was harder to obtain loans or equity continued to outweigh those who said it was easier, with current conditions and expectations about the future below average. The ease of acquiring debt in the last 3 months, on balance was relatively unchanged in Q4 at -35%, but perceptions about the next 3-6 months improved 4ppts to -31%. In Q4, the net number who indicated it was harder to obtain equity funding continued to ease to -22% (from -26% in Q3), with expectations about the future also somewhat more positive (-19%).

Survey participant perceptions of the average precommitment percentage of projects required to meet external debt funding requirements for new residential developments decreased to 59% in Q4 (63% in Q3). Requirements were lower in all states in Q4, ranging from 61% in QLD to 55% in VIC. The average pre-commitment requirement for commercial developments however rose to 60% in Q4 (56% in Q3), with requirements higher in all states.

Chart 20: Ease of Acquiring Debt/Equity (Net Balance)

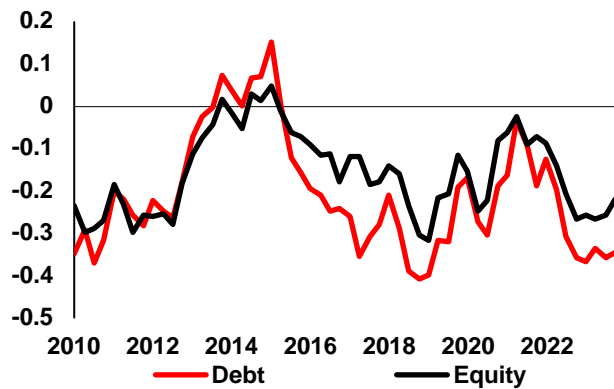
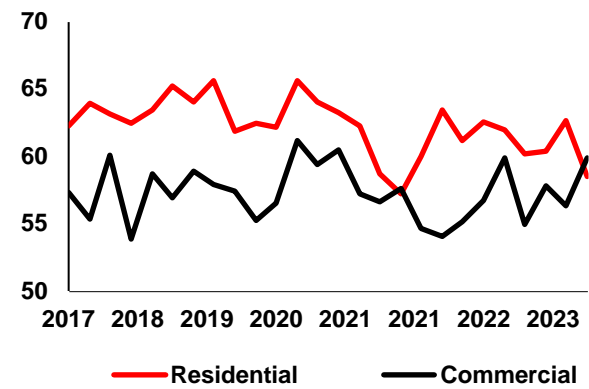


Chart 21: Pre-Commitment Requirements (%)



Data Appendix:

Table 3: Capital Values by State (%)

	Q3'23	Q4'23	Next 12 months	Next 2 years
Office Capital Values (%)				
AUS	-4.1	-4.5	-3.1	-0.6
VIC	-7.4	-6.7	-5.9	-3.3
NSW	-4.8	-5.2	-3.9	-0.6
QLD	-3.2	-3.7	-1.7	-0.4
SA & NT	-2.6	-1.9	0.2	2.2
WA	-1.4	-2.6	-1.2	0.7
Retail Capital Values (%)				
AUS	-2.5	-2.1	-1.8	-0.6
VIC	-3.5	-2.3	-3.0	-2.0
NSW	-2.0	-3.5	-2.5	-1.6
QLD	-1.9	-0.4	0.7	1.7
SA & NT	-2.5	0.0	0.0	0.0
WA	-1.2	-2.3	-2.5	1.9
Industrial Capital Values (%)				
AUS	0.4	1.8	2.2	2.9
VIC	-0.4	-1.1	1.1	2.2
NSW	1.1	2.2	2.8	4.3
QLD	-0.5	3.3	2.9	2.4
SA & NT	0.9	1.8	1.5	1.9
WA	1.1	1.6	1.4	1.6

Table 4: Rental Growth by State (%)

	Q3'23	Q4'23	Next 12 months	Next 2 years
Office Rent Growth (%)				
AUS	-1.4	-1.2	-0.6	0.6
VIC	-4.5	-2.9	-2.4	-0.8
NSW	-2.0	-1.9	-1.2	0.4
QLD	1.8	-0.5	-0.2	0.3
SA & NT	0.4	1.8	1.6	1.5
WA	-1.2	-0.5	0.5	2.4
Retail Rent Growth (%)				
AUS	-1.0	-0.9	-0.5	0.4
VIC	-3.5	-1.5	-1.6	-0.5
NSW	-0.8	-1.9	-0.7	0.0
QLD	1.0	0.2	1.3	1.9
SA & NT	-0.8	1.9	0.0	0.0
WA	3.3	-1.4	-1.1	0.4
Industrial Rent Growth (%)				
AUS	2.1	2.9	2.9	3.3
VIC	2.9	1.8	2.2	3.3
NSW	3.6	3.4	3.2	4.0
QLD	1.1	4.0	3.8	3.3
SA & NT	0.9	1.5	1.2	1.9
WA	1.7	1.8	2.3	2.0

Table 4: Vacancy Rates by State (%)

	Q3'23	Q4'23	Next 12 months	Next 2 years
Office Vacancy Rates (%)				
AUS	10.2	10.5	10.2	8.8
VIC	11.8	12.1	12.0	10.7
NSW	9.2	9.8	9.5	7.9
QLD	10.1	10.1	9.7	8.3
SA & NT	9.5	9.8	9.8	9.0
WA	12.5	12.7	11.9	9.9
Retail Vacancy Rates (%)				
AUS	6.8	6.8	7.4	6.5
VIC	6.5	6.2	6.7	6.3
NSW	6.2	7.9	8.6	7.8
QLD	8.2	6.3	7.3	6.0
SA & NT	9.4	9.0	7.0	7.0
WA	3.5	7.0	8.0	4.3
Industrial Vacancy Rates (%)				
AUS	3.4	3.2	3.6	3.8
VIC	4.0	4.2	4.2	4.6
NSW	2.2	2.6	3.0	2.9
QLD	4.3	2.6	3.1	3.4
SA & NT	5.0	4.7	5.4	5.4
WA	3.2	3.3	4.0	5.6

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 300 property professionals participated in the Q4 2023 Survey.

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