

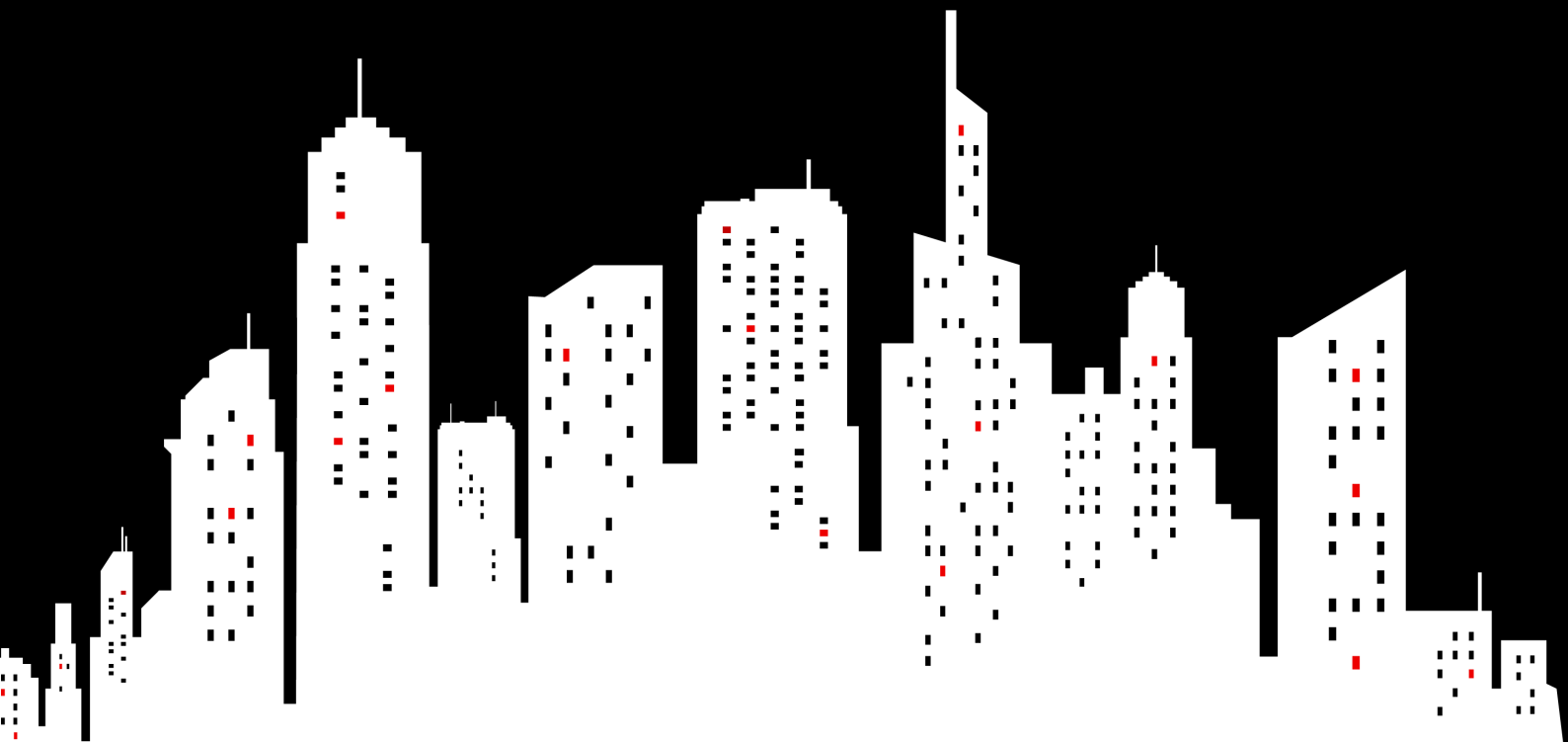
more
than
money



NAB Commercial Property Survey

Q3 2024

NAB Behavioural & Industry Economics



Commercial Property Survey Q3 2024

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The NAB Commercial Property Index recovered some ground in Q3 but continued to print negative as sentiment picked up but remained relatively downbeat for office and retail property. Amid softening business conditions and subdued economic growth, confidence levels for the next 12 months also reduced slightly. Office vacancy rates tightened or levelled out across much of the country in Q3, except in Victoria where it jumped sharply to survey high levels.

Survey Findings

- With softening business conditions and economic growth subdued, commercial property market sentiment remained negative in the September quarter, with NAB's Commercial Property Index printing at -2 index points. However, the index lifted from -11 in the June quarter as property professionals pointed to smaller falls in capital and rent growth in Office and Retail markets in Q3.
- Sentiment is still disparate across sectors. Though improving, it printed negative for Office (up 7 to -18) and Retail (up 29 to -10) property. It was strongest and basically unchanged for Industrial (+40), with sentiment in the bouncy CBD hotels sector neutral. Overall sentiment improved in all states in the September quarter but ranged widely from -24 in VIC to +52 in WA. Office sentiment improved in all states bar NSW. It also lifted in all states in the retail (except VIC) and industrial (except NSW and SA/NT) sectors - see Table 3.
- Confidence in the near-term was subdued with the 12-month measure easing slightly to +8 (+9 in Q2). Long-term confidence however improved to +28 (+22 in Q2). Confidence levels about the next 12 months was highest in the industrial sector but moderated for the second straight quarter to +45 (+49 in Q2). It remained lowest (and negative) for office property at a basically unchanged -6 but turned positive in Retail (+4) for the first time since Q4 2017. Confidence levels in the office sector in the next 12 months was highest in WA (+50) and lowest in NSW (-36). For retail property, it ranged from +67 in WA to -43 in VIC and for industrial property from +60 in VIC and QLD to +10 in SA/NT - see Table 3.
- The average survey outlook for capital growth in the next 12 months is still highest for industrial property (2.3%), with values expected to fall for CBD hotels (-2.3%), office (-1.6%) and retail (-0.7%) property. Office capital values are expected to fall in most states led by NSW (-2.8%) and VIC (-2.7%), with SA/NT (1.7%) and WA (0.5%) the exceptions. The outlook for retail is highest in WA (2.4%) and lowest in VIC (-2.8%). Industrial capital values are expected to grow over the next year in most states led by QLD (3.8%) with SA/NT (-1.9%) the exception. Property professionals on average also predict that capital values will resume growing in office (0.2%), retail (0.5%) and CBD Hotel (1.8%) markets in 2 years' time, with industrial property continuing to out-perform (3.1%). Values are expected to grow in all state markets except office in NSW (-1.3%) and VIC (-1.0%), retail in VIC (-2.2%) and industrial in SA/NT (-0.9%) - see Data Appendix.
- Survey participants estimated overall office vacancy at 11.1% in Q3 (11.2% in Q2). Vacancy fell in all states except VIC where it climbed to a survey high 14.6% (11.7% in Q2) amid the biggest supply overhangs in the country. National office vacancy is expected to fall to 10.1% and 9.3% in the next 1-2 years respectively and remain highest in VIC and WA (double digits). Industrial vacancy inched up to 3.2% in Q3, though space is still quite limited particularly in WA (1.9%). Industrial vacancy is expected to rise further in the next 1-2 years (3.4% & 3.8% respectively) amid reports of steady supply additions and moderating tenant demand. Overall retail vacancy held steady at 6.3% but is expected to ease to 5.8% in the next year, ranging from 4.6% in QLD to 7.0% in SA/NT - see Data Appendix.
- The outlook for rents remains strongest for industrial property and expected to grow 2.2% and 3.0% in the next 1-2 years respectively, with expectations highest in QLD (3.8% & 3.6%) and VIC (3.6% in both years). In office markets, property professionals on average still see rents falling -0.2% in the next year but expect them to grow 0.5% in 2 years' time. Office rents are expected to grow in all states bar NSW (-1.4% & -0.7%) and VIC (-0.1% in both years). The outlook for retail rents is negative in the near-term (-0.2%) but expected to grow 0.6% in 2 years' time. Property professionals see the highest returns in WA (2.8% & 3.6%), with VIC the only state where retail rents are expected to continue falling (-2.2% & -1.6%) - see Data Appendix.
- A below average 44% of property developers planned to start new projects within the next 6 months, with a below average number looking to start in the residential sector (49%) but a well above average number in the industrial sector (20%). With continued interest rate stability and expectations for the cash rate to moderate through 2025, the number of property professionals who plan on sourcing more capital to fund development, acquisitions or projects in the next 6 months increased to 29% (24% in Q2).
- Perceptions about the ease of obtaining debt funding improved in Q3, with a net -14% of property professionals reporting it was more difficult than easier during the quarter, down from -24% in Q2. Perceptions about acquiring debt in the next 3-6 months also improved with the net number expecting it to be more difficult falling to -10% (-20% in Q2). Accessing equity funding was also easier in Q3, with the net number who reported it was harder halving to -11% (-20% in Q2). Looking ahead, more property professionals still believe accessing equity will be harder in the next 3-6 months, though the net number who think so fell noticeably to -7% (-17% in Q2).
- The average pre-commitment needed to meet external debt funding requirements for new developments in Q3 was steady at 55% for residential (56% in Q2) and 58% for commercial property (59% in Q2) property. Looking ahead, more survey respondents still see residential requirements worsening in the next 3-6 (-8%) and 6-12 months (-9%). More respondents on balance also expect requirements for commercial property to worsen in the next 3-6 months (-7%), but more see them improving in 6-12 months (+3%).

Table 1: NAB Commercial Property Index

	Jun-24	Sep-24	Next 12 months	Next 2 years
NAB Commercial Property Index	-11	-2	8	28
Office Property Index	-25	-18	-6	13
Retail Property Index	-39	-10	4	22
Industrial Property Index	41	40	45	52
CBD Hotels Property Index	25	0	0	50

Market & State Overview

Chart 1: Commercial Property Index

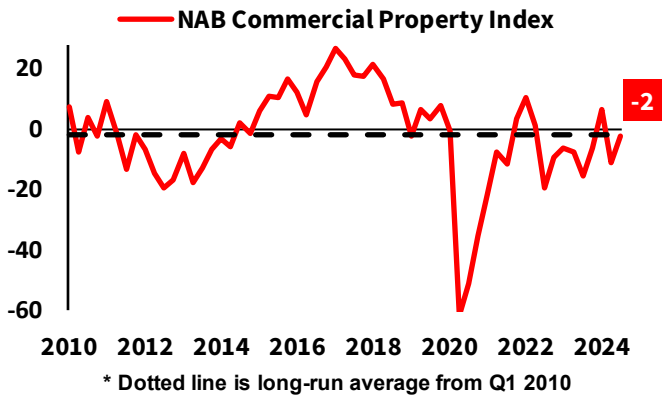


Chart 2: Commercial Property Index by Sector

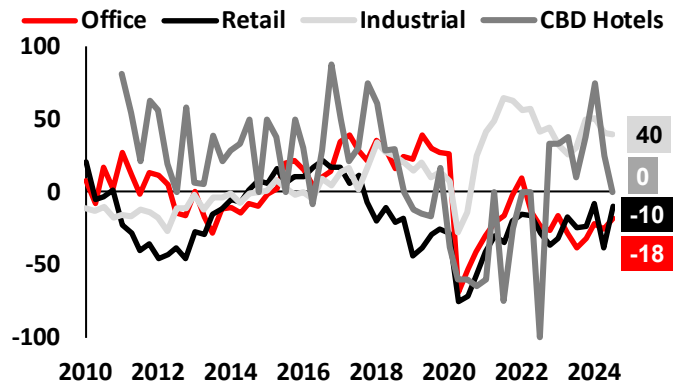


Chart 3: Commercial Property Sentiment and Confidence by Sector

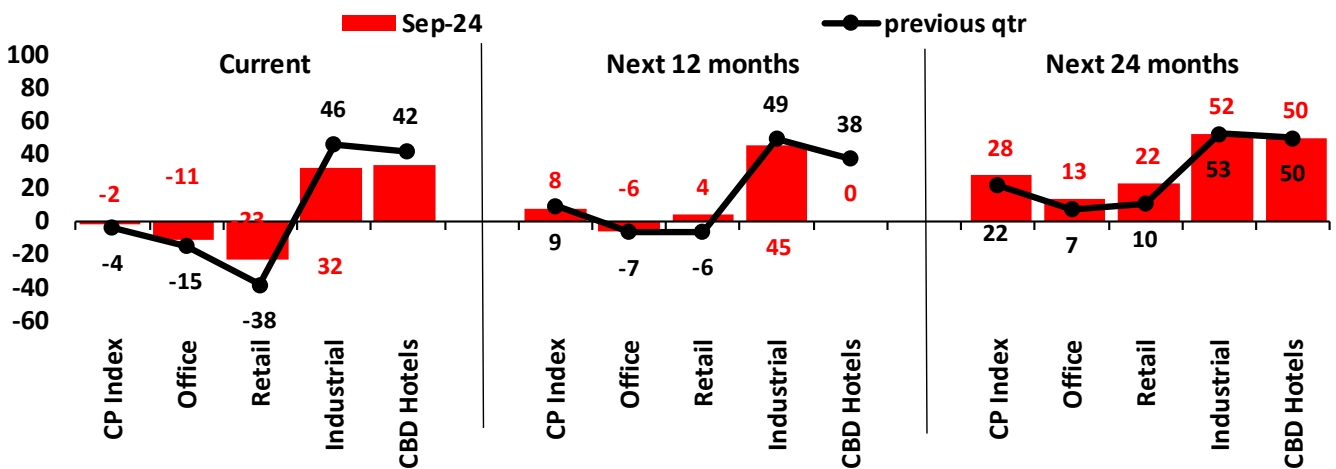


Chart 4: Commercial Property Index by State

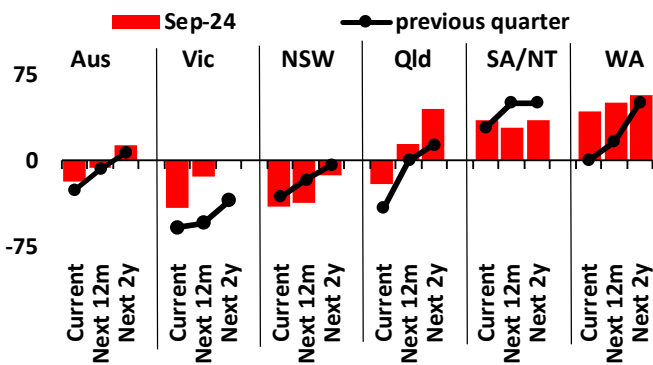


Chart 5: Office Property Index by State

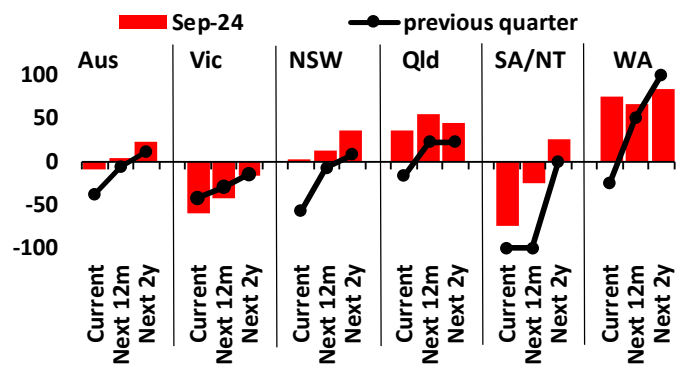


Chart 6: Retail Property Index by State

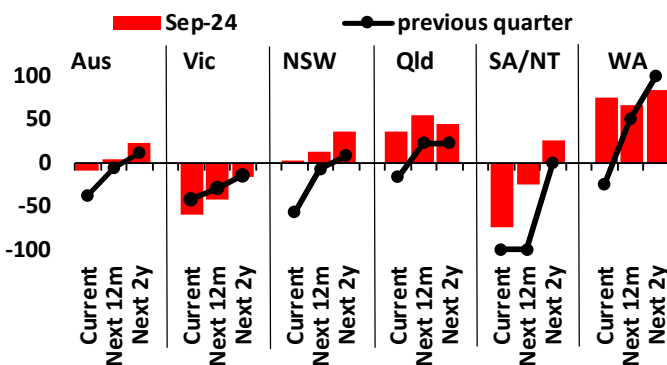


Chart 7: Industrial Property Index by State

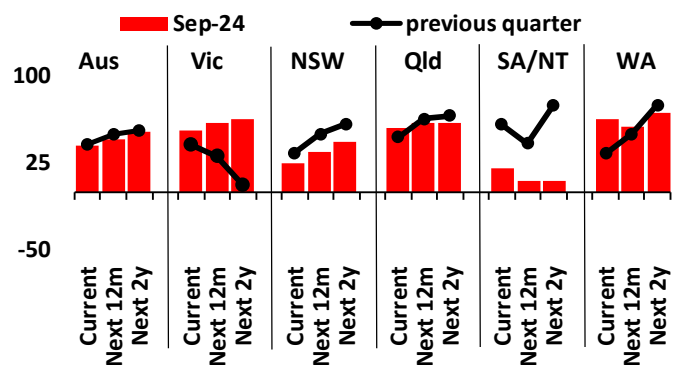


Table 2: Commercial Property Indices by State and Sector

	Jun-24	Sep-24	Next 12 months	Next 2 years		Jun-24	Sep-24	Next 12 months	Next 2 years
Commercial Property Index					Retail Property Index				
AUS	-11	-2	8	28	AUS	-39	-10	4	22
VIC	-38	-24	-6	13	VIC	-43	-60	-43	-17
NSW	-23	-10	-4	20	NSW	-58	3	12	35
QLD	-2	14	35	44	QLD	-17	35	55	45
SA & NT	-7	-4	6	24	SA & NT	-100	-75	-25	25
WA	9	52	51	62	WA	-25	75	67	83
Office Property Index					Industrial Property Index				
AUS	-25	-18	-6	13	AUS	41	40	45	52
VIC	-58	-41	-14	0	VIC	41	53	60	63
NSW	-31	-40	-36	-12	NSW	34	25	34	44
QLD	-41	-20	15	45	QLD	47	55	60	60
SA & NT	29	36	29	36	SA & NT	58	20	10	10
WA	0	43	50	57	WA	33	63	56	69

Capital Growth, Vacancies, Rents & Supply Conditions

Chart 8: Capital Growth Expectations by Sector (%)

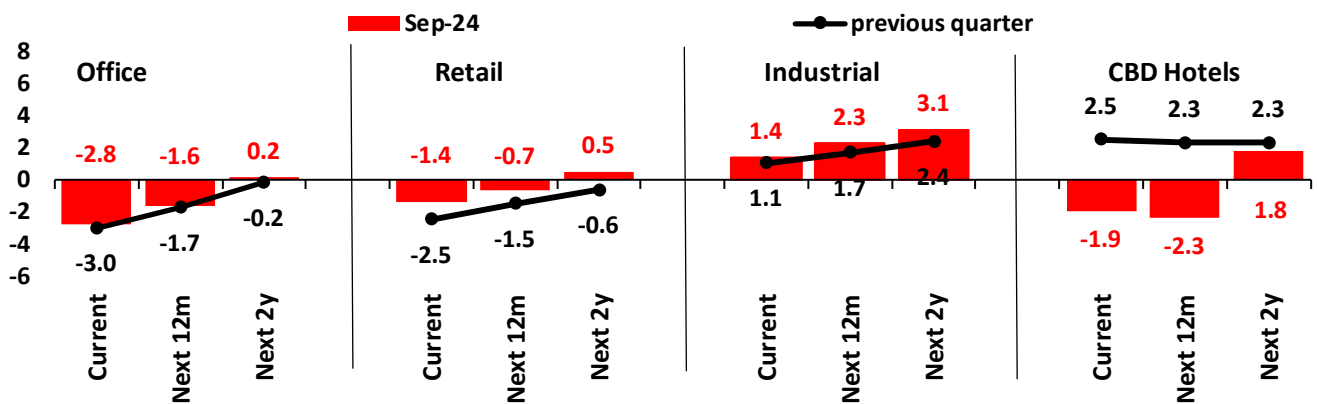


Chart 9: Vacancy Rate Expectations by Sector (%)

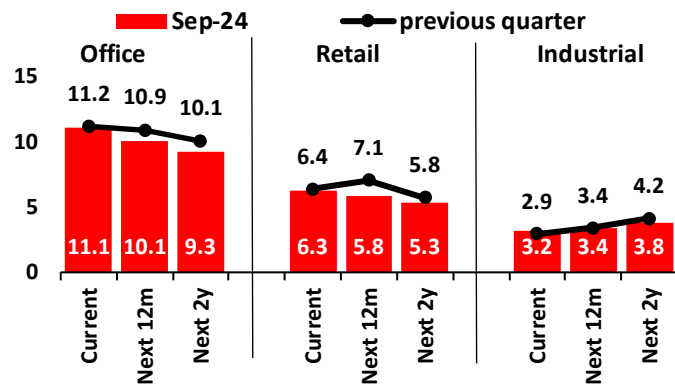


Chart 10: Office Vacancy Rate by State (%)

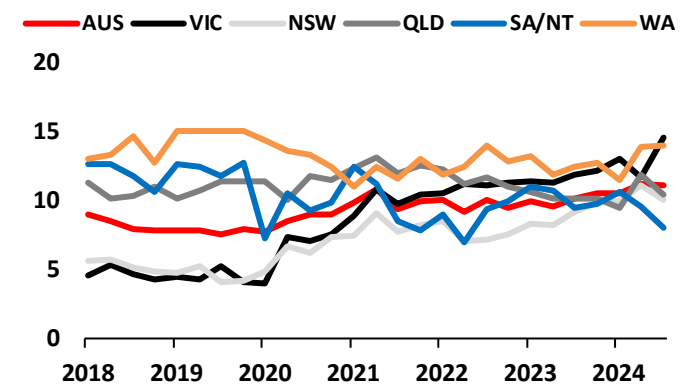


Chart 11: Rent Growth Expectations by Sector (%)

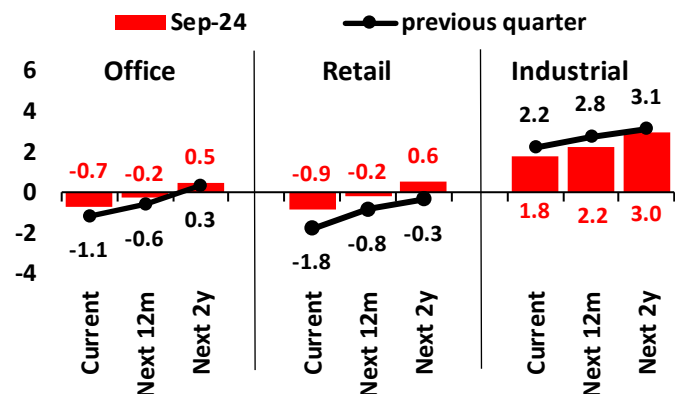


Chart 12: Office Supply Conditions by State

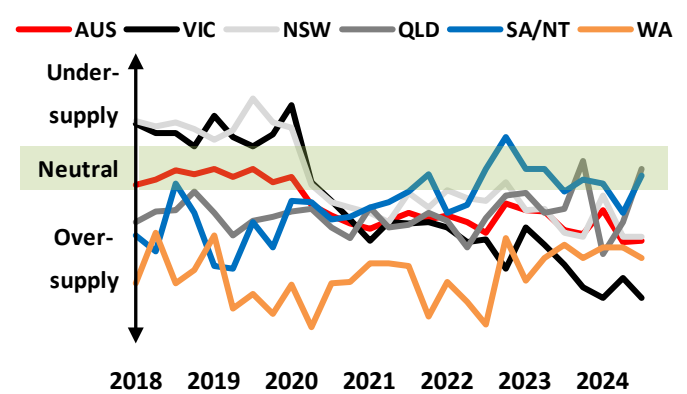
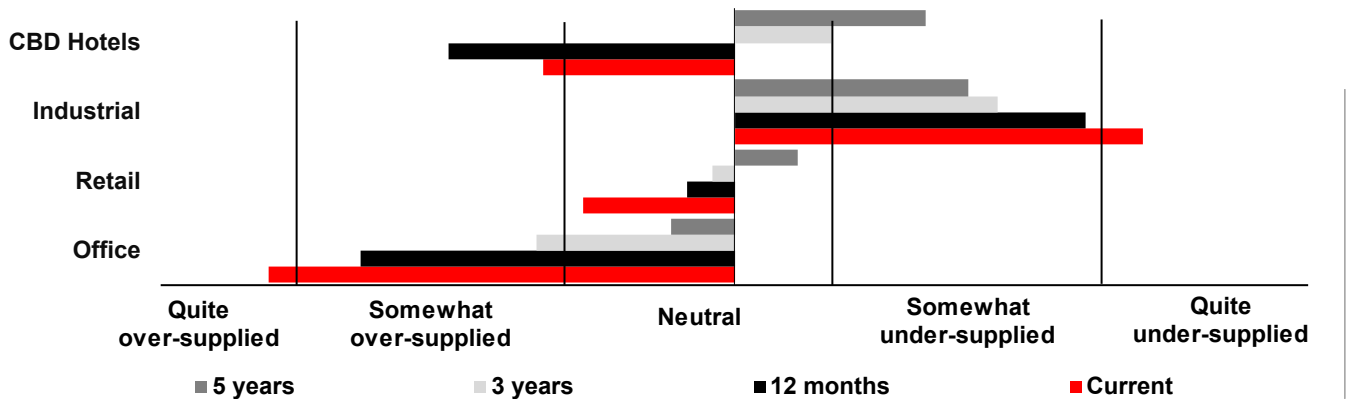


Chart 13: Supply Conditions by Sector



Development Intentions, Capital Funding & Pre-Commitments

Chart 14: Development Commencement Intentions by Timing (%)

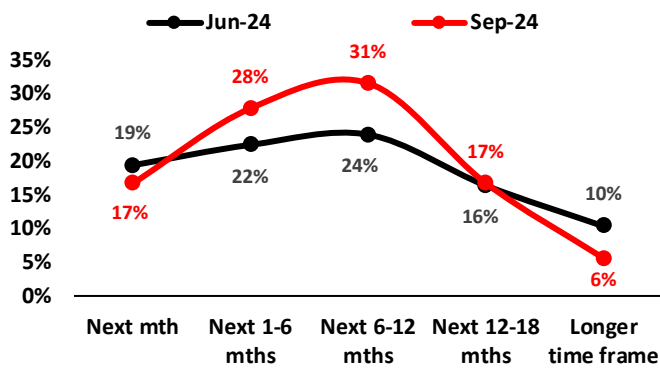


Chart 15: Development Commencement Intentions by Sector (%)

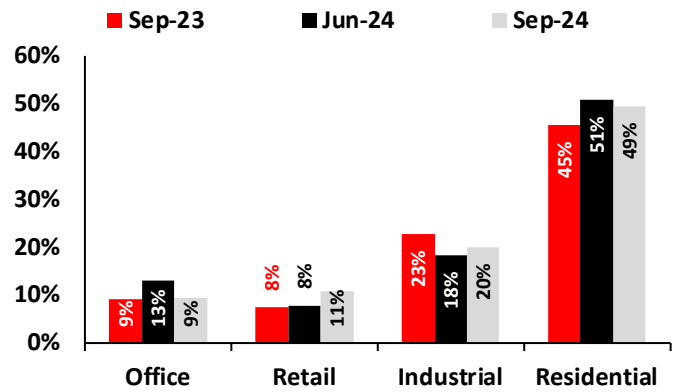


Chart 16: Sources of Land Development (%)

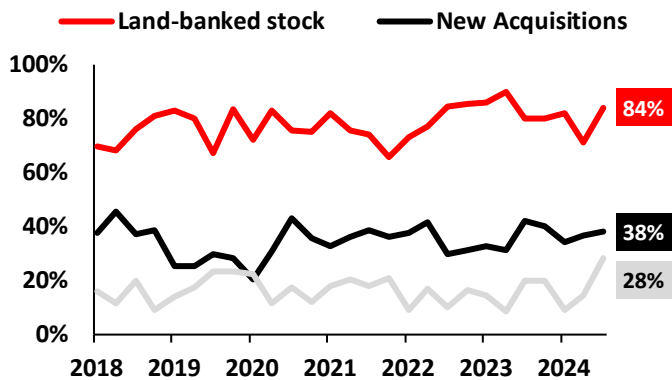


Chart 17: Intent to Source More Capital (%)

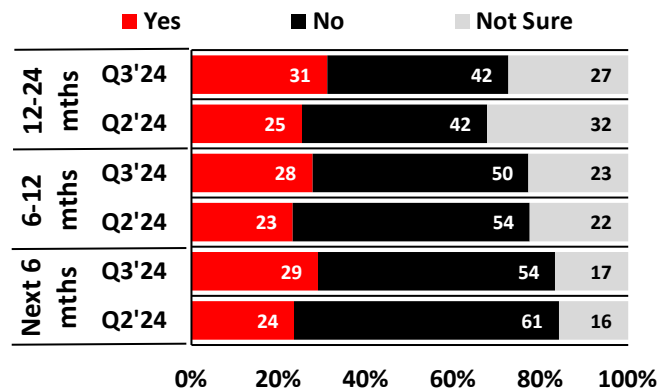


Chart 18: Ease of Acquiring Debt & Equity (net)

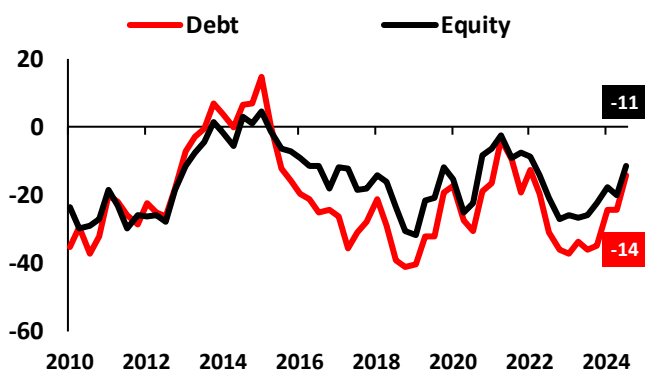
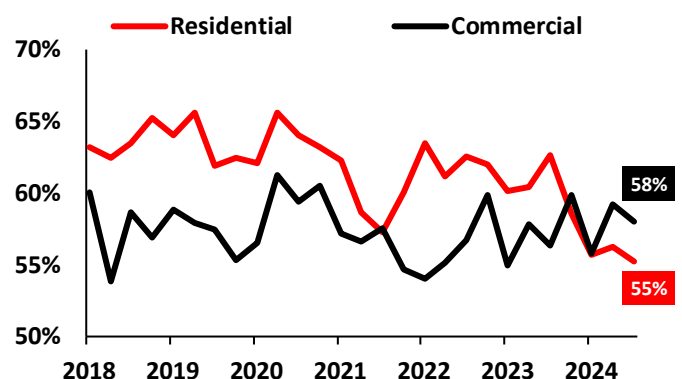


Chart 19: Pre-Commitment Requirements (%)



Data Appendix

Table 3: Capital Value Growth by Sector and State (%)

	Jun-24	Sep-24	Next 12 months	Next 2 years
Office Capital Values (%)				
AUS	-3.0	-2.8	-1.6	0.2
VIC	-5.5	-4.4	-2.7	-1.0
NSW	-3.5	-3.8	-2.8	-1.3
QLD	-3.6	-3.8	-1.2	1.8
SA & NT	-0.4	0.8	1.7	0.9
WA	0.0	1.5	0.5	3.5
Retail Capital Values (%)				
AUS	-2.5	-1.4	-0.7	0.5
VIC	-2.8	-3.4	-2.8	-2.2
NSW	-4.0	-1.0	0.0	1.4
QLD	-0.7	0.0	1.2	2.8
SA & NT	-3.8	-5.0	-0.9	0.0
WA	-0.9	3.1	2.4	4.8
Industrial Capital Values (%)				
AUS	1.1	1.4	2.3	3.1
VIC	0.1	0.9	1.6	3.6
NSW	1.4	1.2	2.6	3.3
QLD	1.5	2.8	3.8	3.6
SA & NT	-0.3	-2.3	-1.9	-0.9
WA	2.2	2.7	1.9	2.8

Table 4: Rent Growth by Sector and State (%)

	Jun-24	Sep-24	Next 12 months	Next 2 years
Office Rent Growth (%)				
AUS	-1.1	-0.7	-0.2	0.5
VIC	-2.8	-1.8	-0.1	-0.1
NSW	-1.4	-1.4	-1.4	-0.7
QLD	-0.7	-0.5	0.4	2.6
SA & NT	0.4	1.4	0.9	1.4
WA	-0.3	0.5	1.5	1.3
Retail Rent Growth (%)				
AUS	-1.8	-0.9	-0.2	0.6
VIC	-2.3	-2.8	-2.2	-1.6
NSW	-3.3	-0.3	0.4	1.5
QLD	0.7	0.2	1.5	2.1
SA & NT	-6.3	-1.9	0.0	0.9
WA	0.0	2.8	2.8	3.6
Industrial Rent Growth (%)				
AUS	2.2	1.8	2.2	3.0
VIC	1.7	2.4	3.6	3.6
NSW	2.3	1.0	1.4	2.7
QLD	2.8	3.6	3.8	3.6
SA & NT	1.2	0.2	-0.7	1.4
WA	2.8	1.7	2.0	2.6

Table 4: Vacancy Rates by Sector and State (%)

	Jun-24	Sep-24	Next 12 months	Next 2 years
Office Vacancy Rates (%)				
AUS	11.2	11.1	10.1	9.3
VIC	11.7	14.6	13.2	11.7
NSW	11.1	10.0	9.5	9.5
QLD	11.9	10.4	9.2	7.8
SA & NT	9.6	8.0	7.0	6.3
WA	13.9	14.0	12.0	10.3
Retail Vacancy Rates (%)				
AUS	6.4	6.3	5.8	5.3
VIC	5.9	6.8	6.4	6.2
NSW	7.6	6.5	5.8	5.3
QLD	5.8	5.0	4.6	3.9
SA & NT	5.0	7.0	7.0	6.0
WA	6.0	6.2	5.8	4.2
Industrial Vacancy Rates (%)				
AUS	2.9	3.2	3.4	3.8
VIC	3.3	2.7	2.9	3.2
NSW	3.1	3.4	3.4	3.8
QLD	2.3	4.2	4.3	4.5
SA & NT	4.0	2.2	3.8	3.0
WA	2.0	1.9	2.4	4.7

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 Q3 2024 Survey.

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