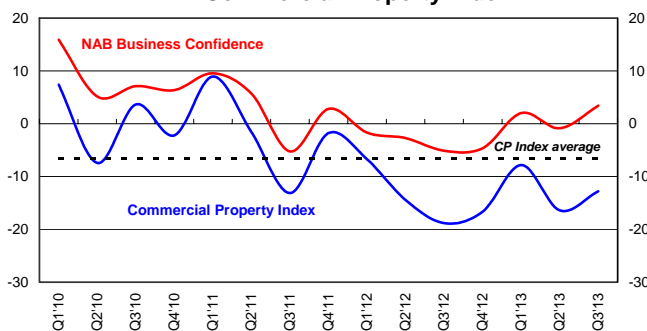


Quarterly Australian Commercial Property Survey: Q3 2013

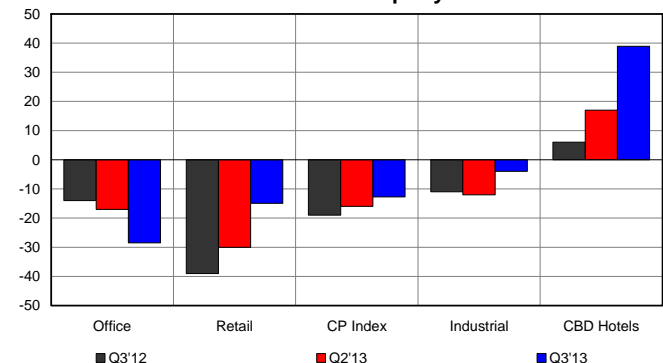
Commercial property market sentiment improved slightly in Q3, in line with a modest pick-up in confidence also seen in NAB's Quarterly Business Survey. However, NAB's Commercial Property Index is still deeply negative (-13) and below its long-term average (-7). **The index was weighed down by a weaker office market (weakest overall).** Sentiment improved in other markets (but still negative for retail and industrial) and edged up in most states (bar WA and Queensland). Victoria is set to overtake NSW as the most optimistic state in 2 years time, with WA the least optimistic. Expectations for capital and rental growth in the next 1-2 years improved in all markets (except office). More developers are looking to start new projects in the near-term (mostly residential). Improved debt and equity funding and lower average pre-commitments to meet external funding requirements suggest financing conditions have improved. Consumer confidence is still seen as the key challenge for property firms, but stock availability now also a big issue.

- NAB's Commercial Property Index rose to -13 in Q3 (-16 in Q2). The overall Index was weighed down by further weakening in office sentiment. Measured optimism seen in NAB's Q3 Business Survey may have spilled over into commercial property markets, with property professionals in all markets (bar office) raising their expectations for capital and income growth in the next 1-2 years. As a result, NAB's Commercial Property Index is now expected to rise to +27 by Q3'14 and +47 in Q3'15.
- Sentiment edged up in most states in Q3. WA and Queensland were the exceptions with weaker sentiment likely impacted by slower mining investment activity. Sentiment improved most in Victoria, but overall was highest in NSW. Survey participants in most states are more confident about the next 1-2 years, with Victoria to overtake NSW as the strongest state in 2 years time. Expectations were scaled back heavily in WA, which is now the least optimistic state over the next 1-2 years.
- Capital values grew for CBD hotels (0.4%) in Q3, but were down for industrial (-0.5%), retail (-0.5%) and office (-0.7%). CBD hotels to lead capital returns with stronger growth of 2.8% and 3.8% forecast for the next 1-2 years. Property professionals also see stronger capital returns for industrial (1.5% and 2.8%) and retail (0.3% and 1.3%) property, but have scaled back their expectations for capital growth in the office market to 0.6% and 2.1% in next 1-2 years.
- Gross rents fell in all markets in Q3. The rate of decline slowed for industrial (-0.4%) and retail (-1.6%) property, but accelerated for office (-2%), Average industrial rents are forecast to grow 1.3% in the next year, but fall for retail (-0.9%) and office (-0.8%). National industrial rents are expected to rise 2.2% in the next 2 years, with growth also resuming for retail (0.4%) and office (0.6%). Incentives remain very important in the office and retail leasing markets.
- Supply conditions have softened in office and retail property markets, but tightness is evident in the CBD hotel market. Vacancy rates climbed in all market segments in Q3, with the office market under most pressure.
- More property developers are planning to commence works in the near-term, with most seeking to develop residential property (especially in NSW and Victoria). The majority of developers entering the market are looking to cash in on land-banked stock, but more developers are now also chasing new acquisitions.
- The ability of property developers to access debt and equity funding improved further in Q3. The survey results indicate that the average pre-commitment requirement to meet external funding requirements for new developments has now also fallen to its lowest level since early-2011. Consumer confidence continues to be seen as the main challenge facing property businesses in the next year, but concerns over stock availability have also risen sharply, especially in WA.

NAB Quarterly Business Confidence vs NAB Commercial Property Index



NAB Commercial Property Index



NAB Commercial Property Index: Q3 2013

	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13	Q1'14	Q3'14	Q3'15
Office	27	11	-2	14	12	5	-14	-16	0	-17	-28	-19	15	44
Retail	-23	-28	-40	-36	-45	-43	-39	-46	-27	-30	-15	-11	8	32
Industrial	-16	-17	-12	-14	-17	-27	-11	-11	-2	-12	-4	18	51	65
CBD Hotels	81	58	21	63	57	19	6	58	6	17	39	44	83	67
CP Index	9	-2	-13	-2	-7	-14	-19	-17	-8	-16	-13	-3	27	47

For more information contact:

Alan Oster, Chief Economist
(03) 8634 2927 0414 444 652

Robert De Iure, Senior Economist -
Industry Analysis (03) 8634 4611

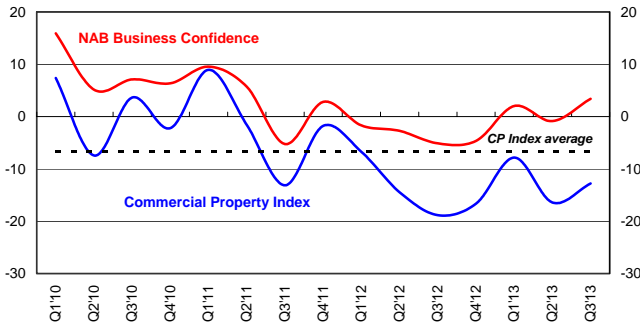
Dean Pearson, Head of Industry
(03) 8634 2331

Commercial Property Market Overview

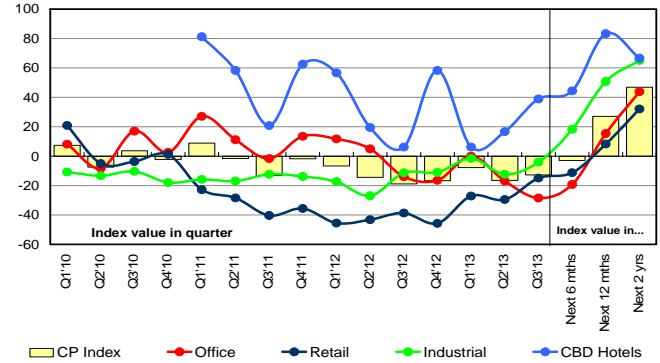
NAB Commercial Property Index rose slightly in Q3 as business confidence improved.

Overall sentiment improved in all markets in Q3 except for office property.

NAB Quarterly Business Confidence vs NAB Commercial Property Index



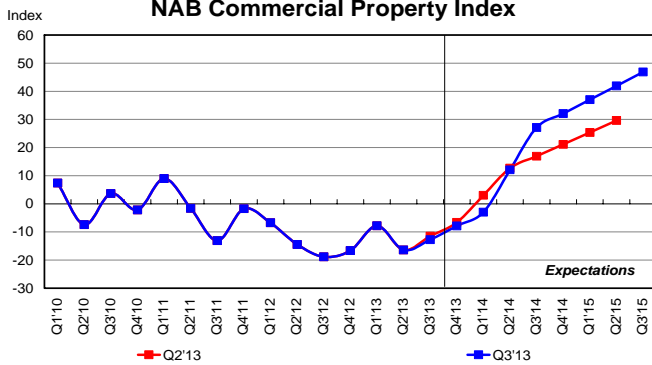
NAB Commercial Property Index



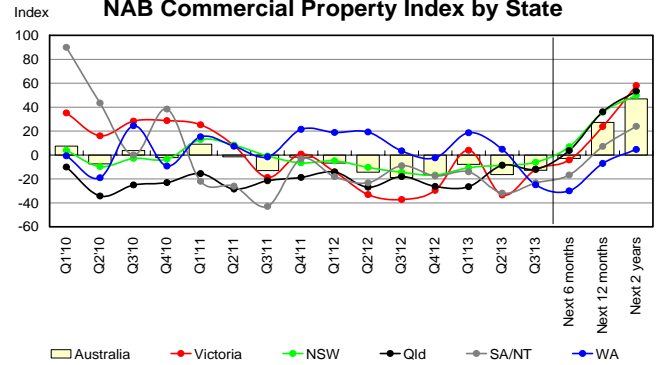
Forward expectations have also strengthened.

... and has edged up in most states.

NAB Commercial Property Index



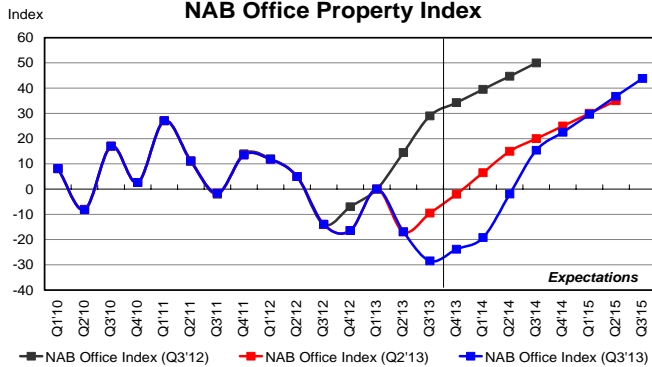
NAB Commercial Property Index by State



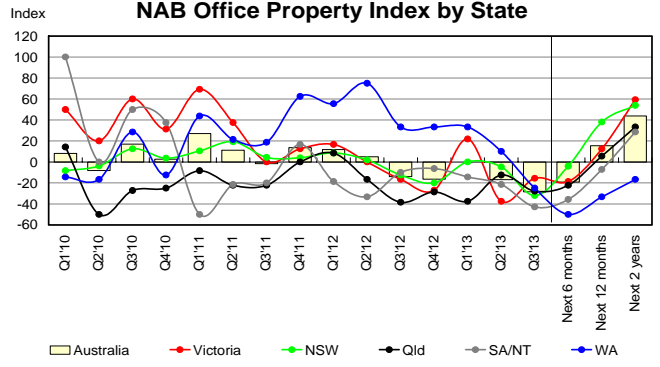
Office market sentiment fell to a new low Q3. Near-term improvement expected to be very measured.

Sentiment weaker in all states (bar Victoria) in Q3. Victoria & NSW most optimistic for office property.

NAB Office Property Index



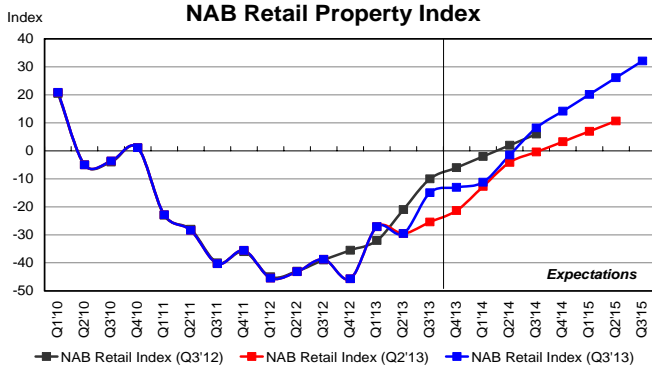
NAB Office Property Index by State



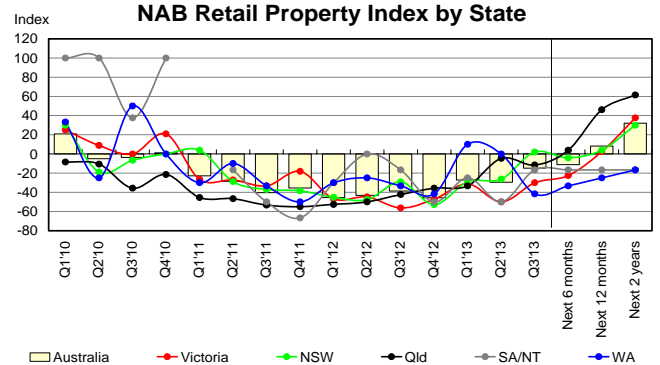
Sentiment in retail property market continues to improve, but is overall still very poor.

Retail market sentiment negative in all states (bar NSW) and fell heavily in WA.

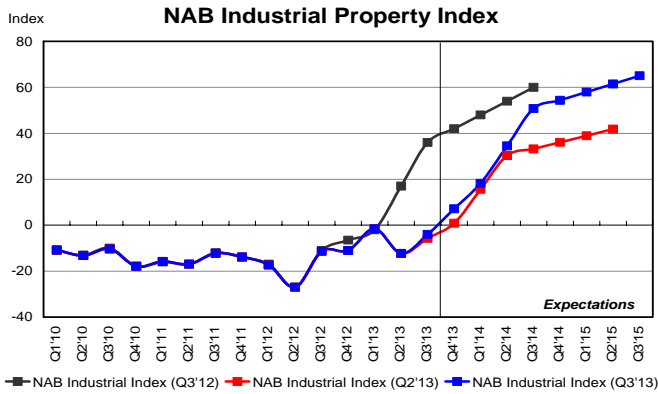
NAB Retail Property Index



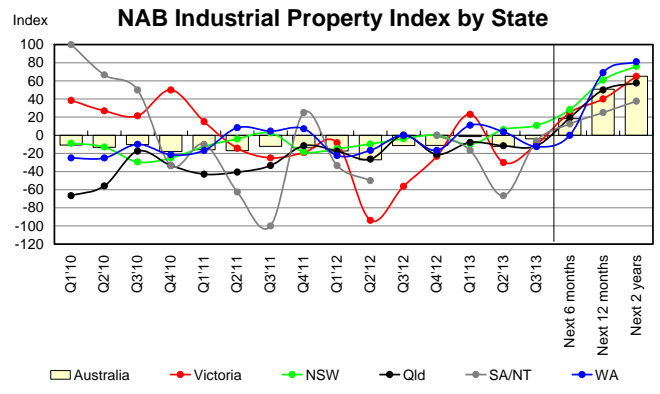
NAB Retail Property Index by State



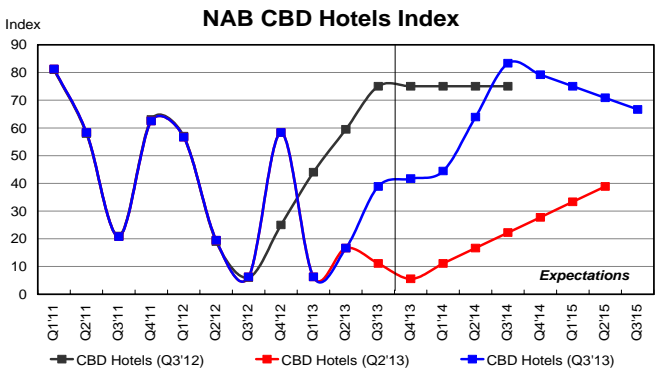
Industrial property index rose in Q3 but overall still negative.



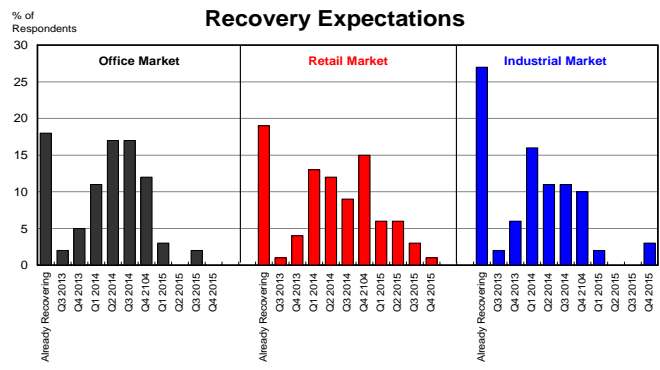
Sentiment up in all states (bar WA) in Q3, but WA to overtake NSW as best state in next 1-2 years.



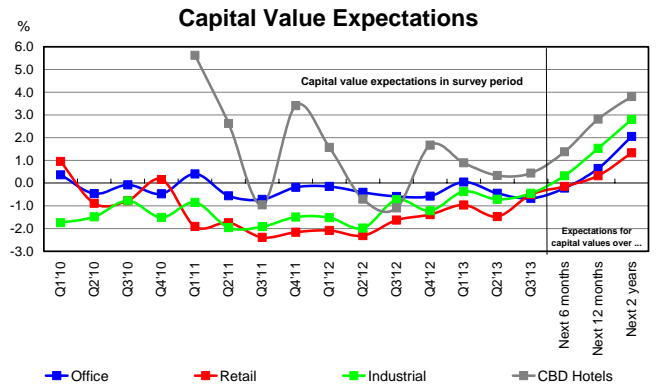
CBD hotel index up strongly in Q3 and expected to out-perform broader market index in next 1-2 years.



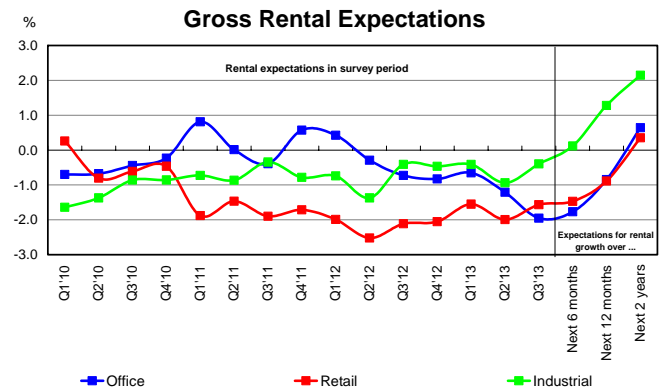
Industrial property market the most advanced in the current cycle according to property professionals.



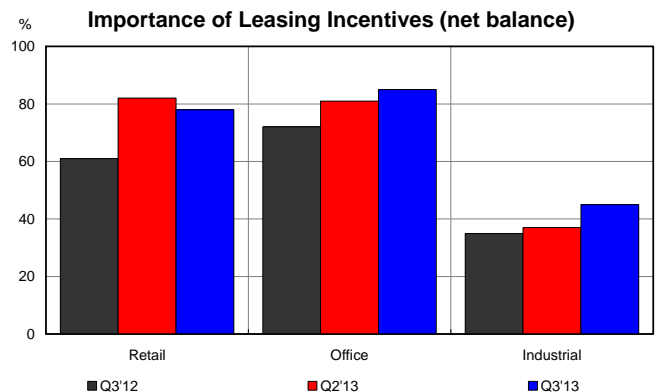
Capital values up in all markets bar office in Q3. Outlook stronger in all segments except office.



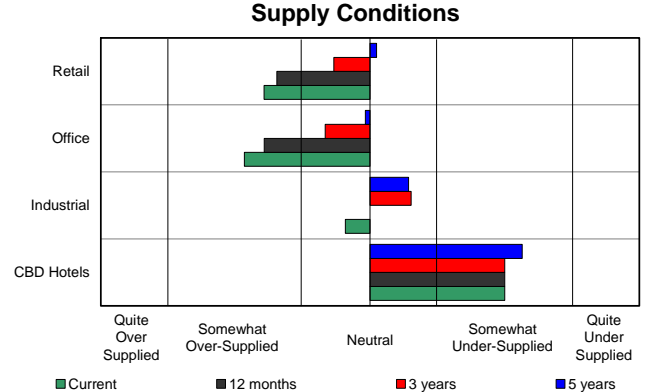
Rents fall in all markets in Q3, but outlook for future returns improves in all markets except office.



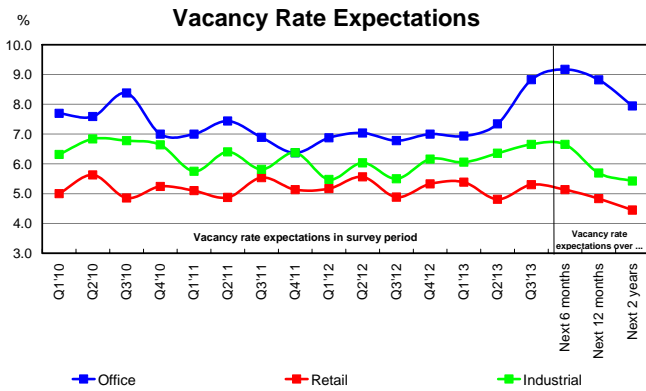
Leasing incentives rising in office market.



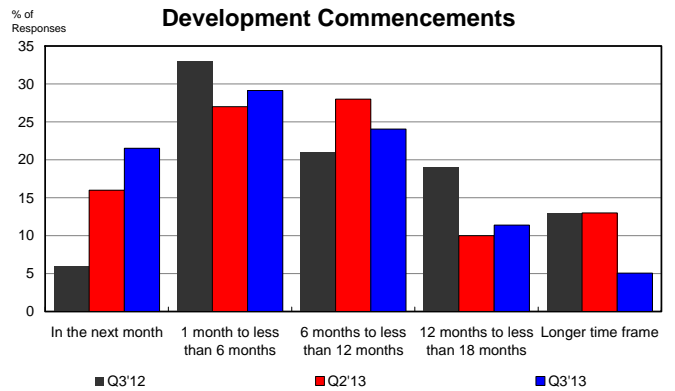
Supply conditions soft in office and retail markets.



Vacancy rates climbed in all market segments in Q3. Office market under most pressure.

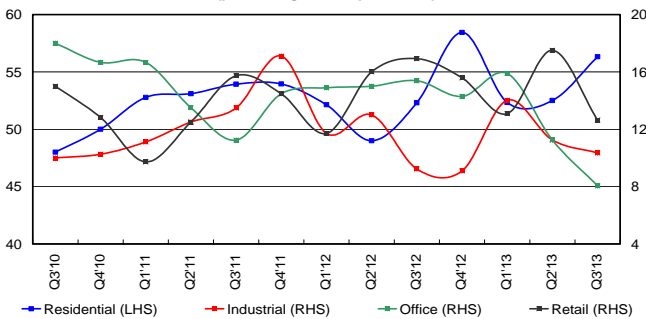


More property developers are planning to begin new projects or developments in the near-term.



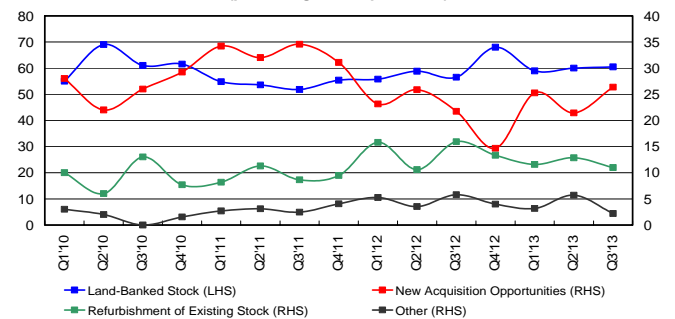
Property developers most confident in residential space. Fewer looking to develop in other sectors.

Development Commencements by Sector (percentage of respondents)



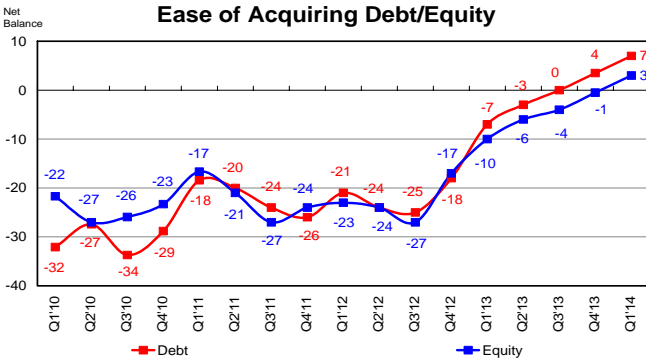
Most developers looking to cash in on land-banked stock, but more also chasing new acquisitions.

Sources of Land Development (percentage of respondents)



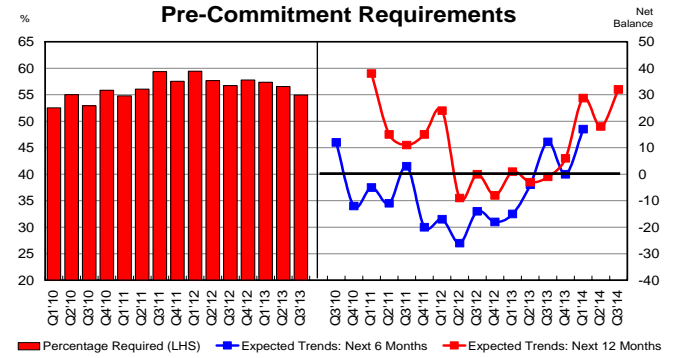
Debt and equity funding situation for property developers continued to improve in Q3.

Ease of Acquiring Debt/Equity



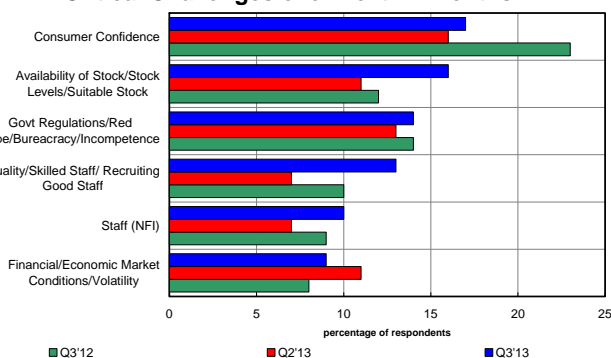
Financing conditions becoming easier and average pre-commitment requirements falling.

Pre-Commitment Requirements



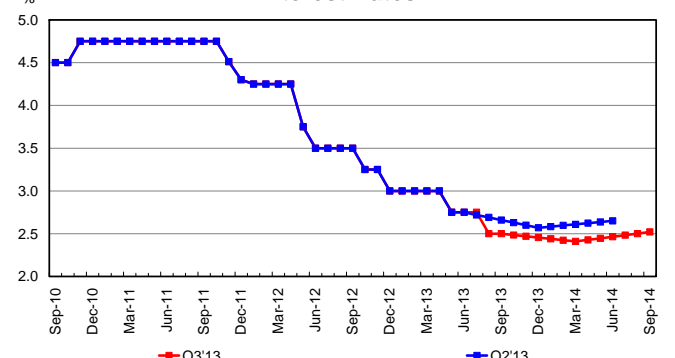
Consumer confidence still biggest challenge for property firms, but stock availability a bigger issue.

Critical Challenges over Next 12-months



Survey suggests we are close to seeing the end of the RBA's easing cycle.

Interest Rates

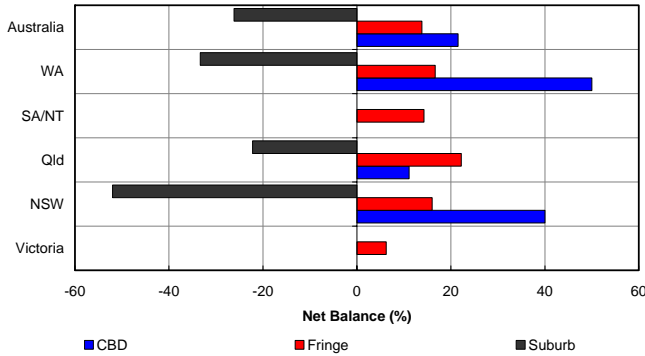


Office Property Market

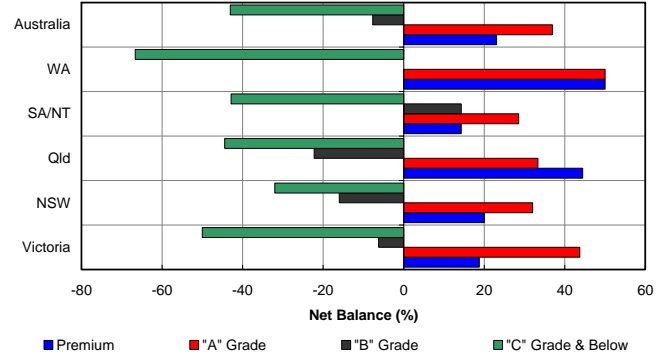
CBD seen as the best performing location for office property in most states.

"A" grade stock is the front-runner in performance by grade in most states.

Current Office Performance by Location



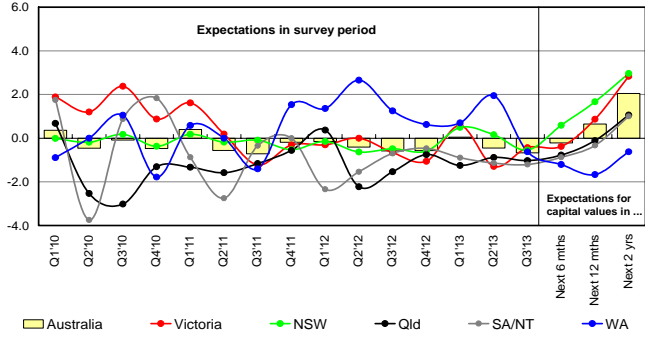
Current Office Performance by Grade



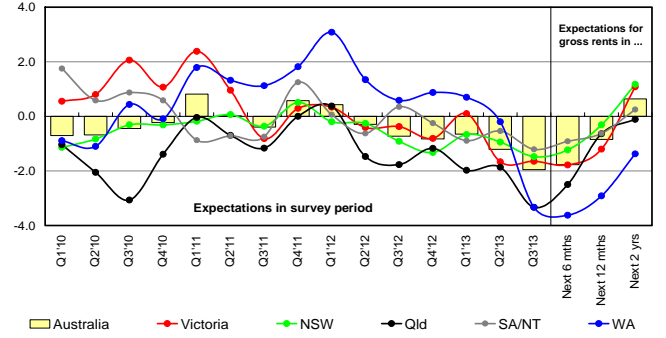
Capital values fall further in Q3 with a heavy pull back in WA.

Pressure on rents continued to mount in Q3, especially in the mining states.

Office Capital Value Expectations by State



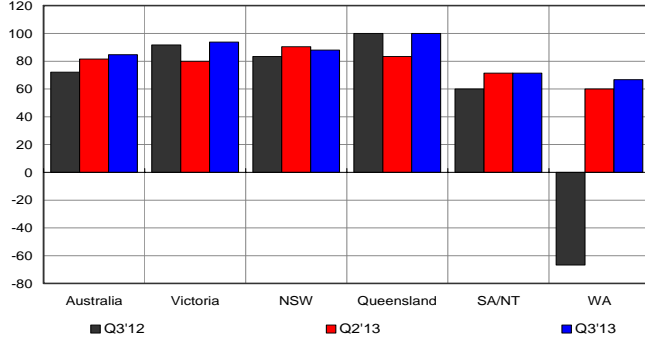
Office Gross Rental Expectations by State



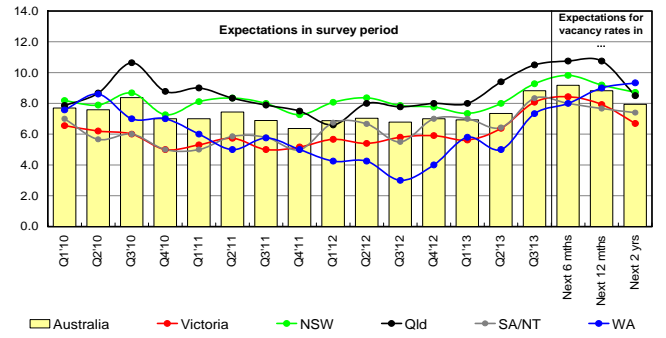
The net balance of respondents identifying leasing incentives as important in office market is climbing.

Vacancy rates rose in Q3 (esp. in WA). Vacancy tipped to fall in all markets in next 2 years (bar WA).

Importance of Leasing Incentives (net balance)

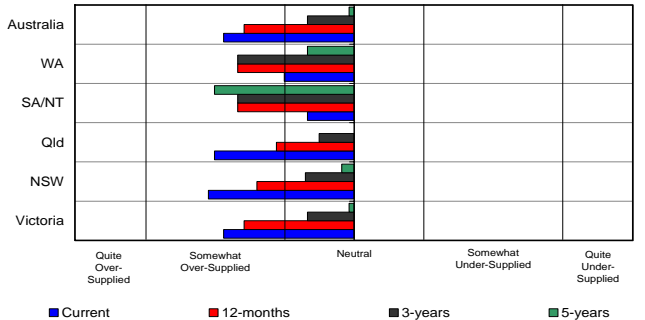


Office Vacancy Rate Expectations by State



Office "somewhat over-supplied". Over-supply next year but falling in most states in 3-5 years.

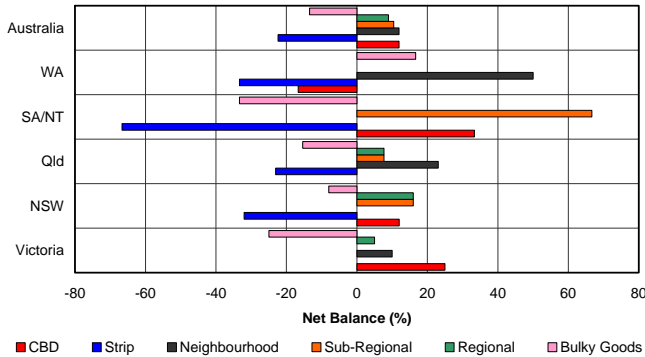
Office Market Supply Conditions by State



Retail Property Market

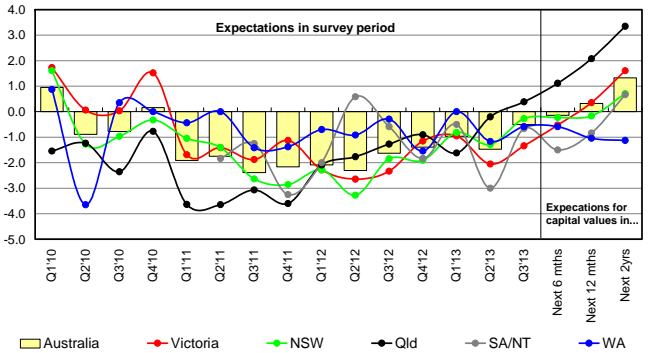
CBD and Neighbourhood the best performing locations for retail property in Q3 nationally. Strip and Bulky Goods retail the worst performers.

Retail Performance by Property Type



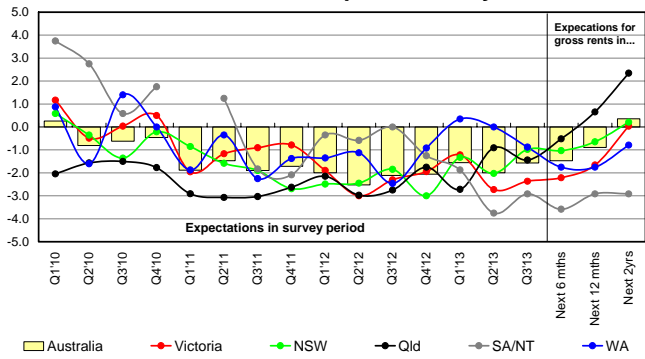
Capital returns for retail property increased in Queensland in Q3, but negative in all other states. The outlook for capital returns has improved.

Retail Capital Value Expectations by State



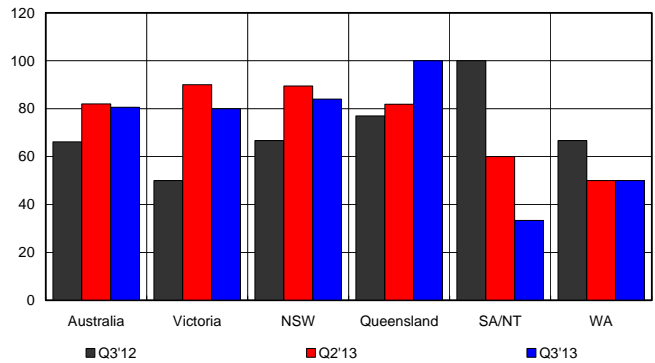
Gross rents fell in all states in Q3. Most states slightly more optimistic about future returns, except WA where expectations were revised down.

Retail Gross Rental Expectations by State



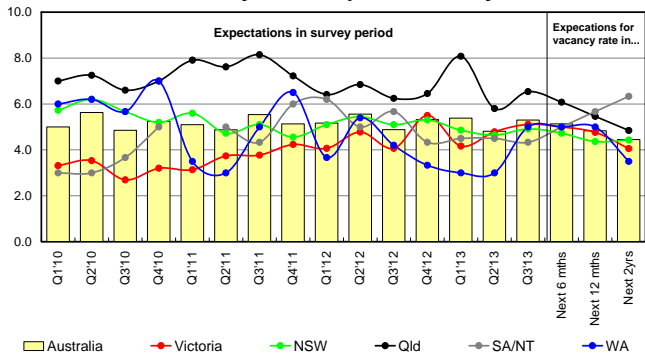
Leasing incentives seen as marginally less important in the retail market, but there is wide variance between the states.

Importance of Leasing Incentives (net balance)



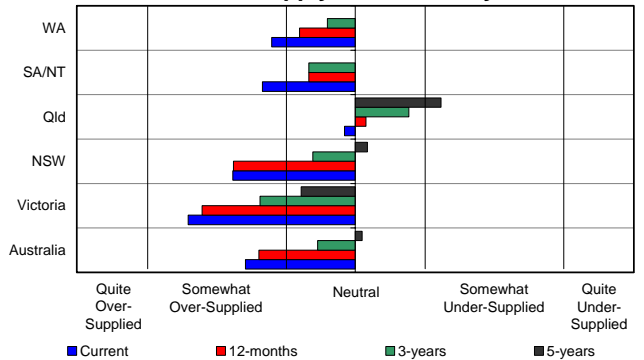
Vacancy rates for retail property rose in most states in Q3 but are expected to fall over the next 1-2 years in all markets except SA/NT.

Retail Vacancy Rate Expectations by State



National retail property market considered to be "somewhat over-supplied" in Q3 with over-supply most prevalent in Victoria and NSW.

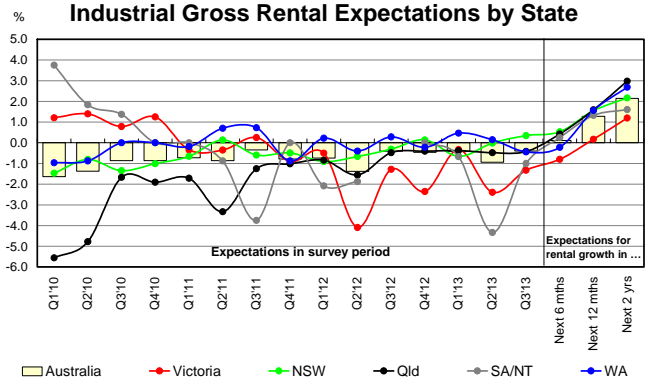
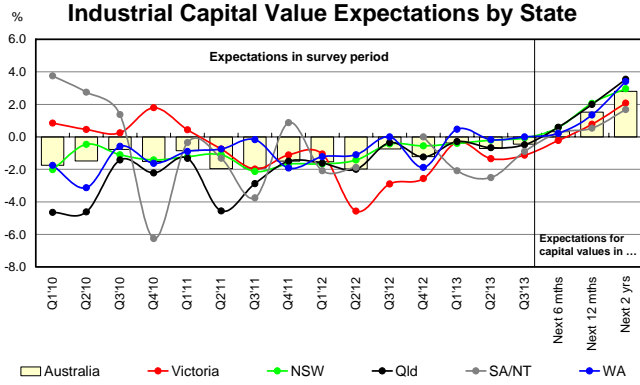
Retail Market Supply Conditions by State



Industrial Property Market

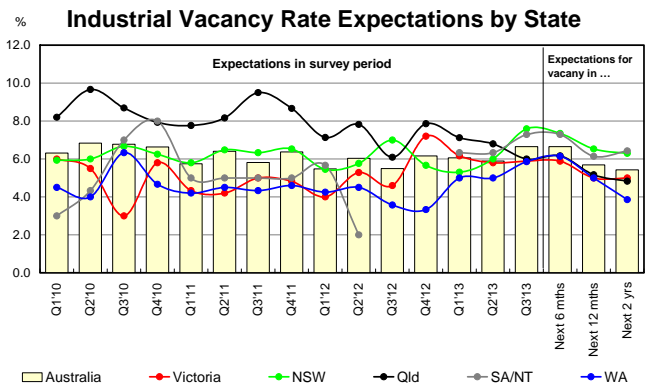
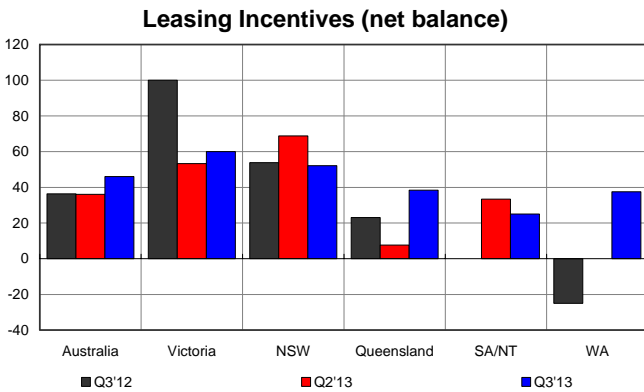
Capital values fell in all states bar WA in Q3. Expectations for the next 1-2 years have strengthened, with Queensland tipped as the best market for capital growth.

Industrial rents continued to fall in Q3 but at a slower rate. Expectations were revised up with income returns expected to improve in all states in the next 1-2 years.

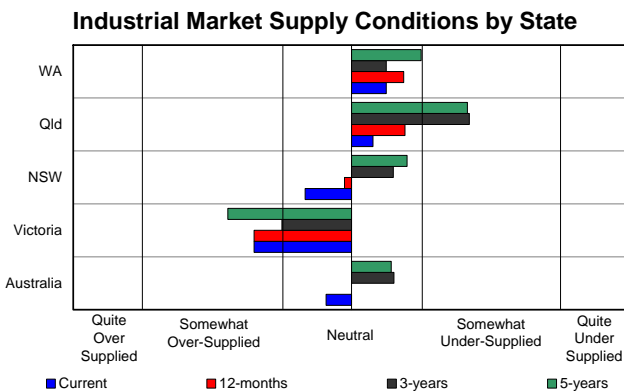


Leasing incentives in the industrial property market in Q3 were considered to be more important in Victoria, Queensland and WA.

National vacancy rate for industrial property increased in Q3 in all states except Queensland. Vacancy to fall in all states over next 1-2 years.

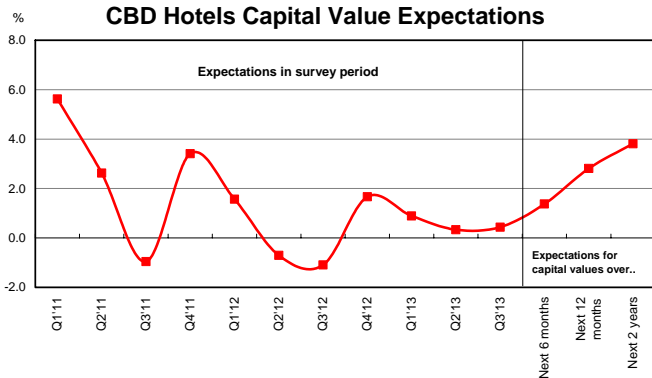


Supply conditions remained "neutral" in Q3 in all states bar Victoria, where the market was "somewhat over-supplied". Market tightness most apparent in Queensland in the next 3-5 years.

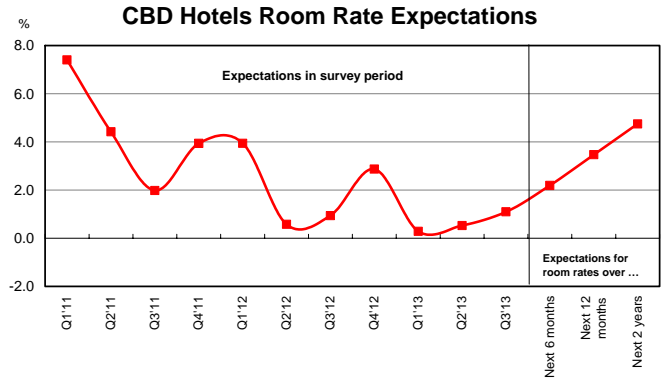


CBD Hotel Market

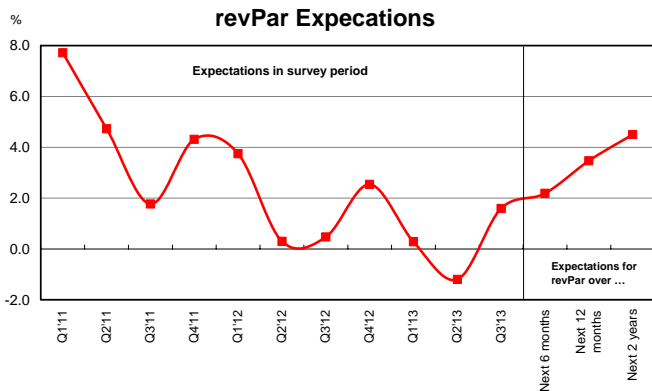
Average capital value expectations more positive in Q3 and expectations have been revised up.



Room rates grow faster in Q3 and are expected to accelerate in the next 1-2 years.



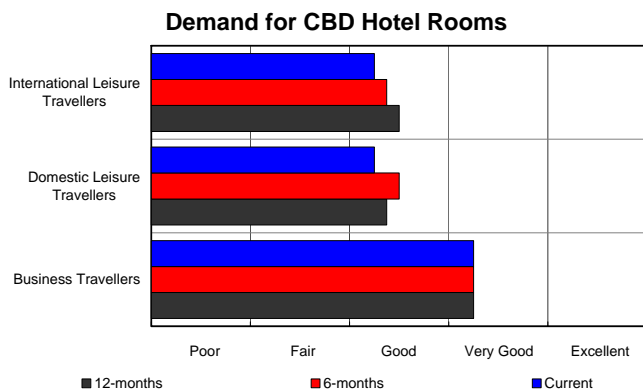
revPar growth improved in Q3 and expectations are for much faster growth over the next 1-2 years.



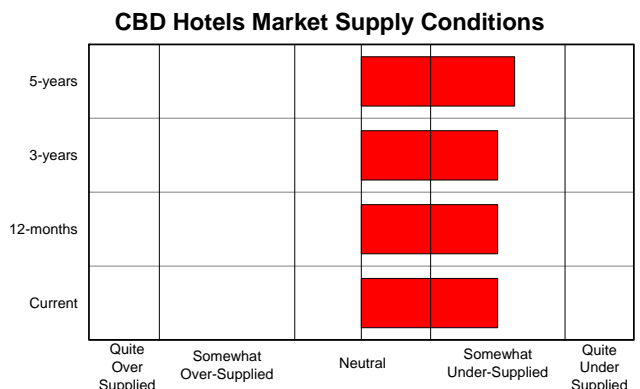
National occupancy increased in Q3 and is expected to remain elevated over the next 1-2 years.



Demand for CBD hotel rooms mainly driven by business travellers, but demand from leisure travellers is growing.



CBD hotel market currently "somewhat over-supplied" and expected to remain "somewhat over-supplied" over the next 3-5 years.



Tables

Survey Respondents Expectations: Q3 2013

Capital Values (%)

OFFICE	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q3'13	-0.4	-0.5	-1.0	-0.6	-1.2	-0.7
Q1'14	-0.4	0.6	-0.8	-1.2	-0.9	-0.2
Q3'14	0.9	1.7	-0.1	-1.7	-0.3	0.6
Q3'15	2.8	3.0	1.1	-0.6	1.0	2.1
RETAIL	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q3'13	-1.3	-0.3	0.4	-0.6	-0.7	-0.5
Q1'14	-0.5	-0.2	1.1	-0.6	-1.5	-0.1
Q3'14	0.4	-0.2	2.1	-1.0	-0.8	0.3
Q3'15	1.6	0.7	3.3	-1.1	0.7	1.3
INDUSTRIAL	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q3'13	-1.1	-0.1	-0.5	0.0	-0.9	-0.5
Q1'14	-0.2	0.6	0.6	0.2	0.3	0.3
Q3'14	0.8	2.1	2.0	1.3	0.5	1.5
Q3'15	2.1	3.0	3.5	3.4	1.7	2.8

Gross Rents (%)

OFFICE	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q3'13	-1.7	-1.5	-3.3	-3.3	-1.2	-2.0
Q1'14	-1.8	-1.2	-2.5	-3.6	-0.9	-1.8
Q3'14	-1.2	-0.3	-0.6	-2.9	-0.6	-0.8
Q3'15	1.1	1.2	-0.1	-1.4	0.3	0.6
RETAIL	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q3'13	-2.4	-1.0	-1.4	-0.9	-2.9	-1.6
Q1'14	-2.2	-1.0	-0.5	-1.8	-3.6	-1.5
Q3'14	-1.7	-0.6	0.7	-1.8	-2.9	-0.9
Q3'15	0.0	0.2	2.3	-0.8	-2.9	0.4
INDUSTRIAL	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q3'13	-1.3	0.3	-0.4	-0.4	-1.0	-0.4
Q1'14	-0.8	0.5	0.4	-0.2	0.3	0.1
Q3'14	0.2	1.5	1.6	1.6	1.3	1.3
Q3'15	1.2	2.2	3.0	2.7	1.6	2.2

Vacancy Rates (%)

OFFICE	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q3'13	8.1	9.3	10.5	7.3	8.3	8.8
Q1'14	8.4	9.8	10.8	8.0	8.0	9.2
Q3'14	7.9	9.2	10.8	9.0	7.7	8.8
Q3'15	6.7	8.7	8.5	9.3	7.4	7.9
RETAIL	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q3'13	5.1	4.9	6.5	5.0	4.3	5.3
Q1'14	5.0	4.7	6.1	5.0	5.0	5.1
Q3'14	4.8	4.4	5.5	5.0	5.7	4.8
Q3'15	4.1	4.4	4.8	3.5	6.3	4.4
INDUSTRIAL	Victoria	NSW	Queensland	WA	SA/NT*	AUSTRALIA
Q3'13	5.9	7.6	6.0	5.9	7.3	6.7
Q1'14	5.9	7.4	6.2	6.1	7.3	6.7
Q3'14	5.0	6.5	5.2	5.0	6.1	5.7
Q3'15	5.0	6.3	4.8	3.9	6.4	5.4

* Limited sample size

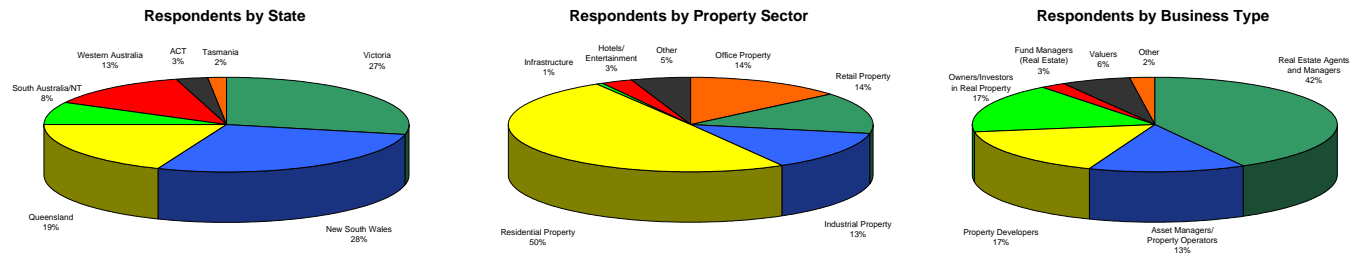
About the Survey

In April 2010, NAB launched the inaugural 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 consisted of Real Estate Agents/Managers, Property Developers, Asset/Fund Managers and Owners/Investors.

Given the large number of respondents who are also directly exposed to the residential market, NAB expanded the survey questionnaire to focus more extensively on the Australian Residential market.

Around 320 panellists participated in the Q3 2013 Survey and the breakdown of our Survey respondents - by location, property sector and business type - are shown below.



Macroeconomic, Industry & Markets Research

Australia

Alan Oster	Group Chief Economist	+(61 3) 8634 2927
Jacqui Brand	Personal Assistant	+(61 3) 8634 2181
Rob Brooker	Head of Australian Economics & Commodities	+(61 3) 8634 1663
Alexandra Knight	Economist - Australia	+(61 3) 9208 8035
Vyanne Lai	Economist - Agribusiness	+(61 3) 8634 0198
Dean Pearson	Head of Industry Analysis	+(61 3) 8634 2331
Robert De Iure	Senior Economist - Industry Analysis	+(61 3) 8634 4611
Gerard Burg	Economist - Industry Analysis	+(61 3) 8634 2788
Brien McDonald	Economist - Industry Analysis & Risk Metrics	+(61 3) 8634 3837
Tom Taylor	Head of International Economics	+(61 3) 8634 1883
John Sharma	Economist - Sovereign Risk	+(61 3) 8634 4514
Tony Kelly	Economist - International	+(61 3) 9208 5049
James Glenn	Economist - Asia	+(61 3) 9208 8129

Global Markets Research - Wholesale Banking

Peter Jolly	Head of Markets Research	+(61 2) 9237 1406
Robert Henderson	Chief Economist Markets - Australia	+(61 2) 9237 1836
Spiros Papadopoulos	Senior Economist - Markets	+(61 3) 8641 0978
David de Garis	Senior Economist - Markets	+(61 3) 8641 3045

New Zealand

Tony Alexander	Chief Economist - BNZ	+(64 4) 474 6744
Stephen Toplis	Head of Research, NZ	+(64 4) 474 6905
Craig Ebert	Senior Economist, NZ	+(64 4) 474 6799
Doug Steel	Markets Economist, NZ	+(64 4) 474 6923

London

Nick Parsons	Head of Research, UK/Europe & Global Head of FX Strategy	+(44 20) 7710 2993
Tom Vosa	Head of Market Economics - UK/Europe	+(44 20) 7710 1573
Gavin Friend	Markets Strategist - UK/Europe	+(44 20) 7710 2155

Foreign Exchange

Sydney	+800 9295 1100
Melbourne	+800 842 3301
Wellington	+800 64 642 222
London	+800 747 4615
New York	+1 800 125 602
Singapore	+(65) 338 0019

Fixed Interest/Derivatives

	+(61 2) 9295 1166
	+(61 3) 9277 3321
	+800 64 644 464
	+(44 20) 7796 4761
	+1877 377 5480
	+(65) 338 1789

Important Notices

Disclaimer: This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it. Products are issued by NAB unless otherwise specified.

So far as laws and regulatory requirements permit, NAB, its related companies, associated entities and any officer, employee, agent, adviser or contractor thereof (the "**NAB Group**") does not warrant or represent that the information, recommendations, opinions or conclusions contained in this document ("**Information**") is accurate, reliable, complete or current. The Information is indicative and prepared for information purposes only and does not purport to contain all matters relevant to any particular investment or financial instrument. The Information is not intended to be relied upon and in all cases anyone proposing to use the Information should independently verify and check its accuracy, completeness, reliability and suitability obtain appropriate professional advice. The Information is not intended to create any legal or fiduciary relationship and nothing contained in this document will be considered an invitation to engage in business, a recommendation, guidance, invitation, inducement, proposal, advice or solicitation to provide investment, financial or banking services or an invitation to engage in business or invest, buy, sell or deal in any securities or other financial instruments.

The Information is subject to change without notice, but the NAB Group shall not be under any duty to update or correct it. All statements as to future matters are not guaranteed to be accurate and any statements as to past performance do not represent future performance.

The NAB Group takes various positions and/or roles in relation to financial products and services, and (subject to NAB policies) may hold a position or act as a price-maker in the financial instruments of any company or issuer discussed within this document, or act and receive fees as an underwriter, placement agent, adviser, broker or lender to such company or issuer. The NAB Group may transact, for its own account or for the account of any client(s), the securities of or other financial instruments relating to any company or issuer described in the Information, including in a manner that is inconsistent with or contrary to the Information.

Subject to any terms implied by law and which cannot be excluded, the NAB Group shall not be liable for any errors, omissions, defects or misrepresentations in the Information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the Information. If any law prohibits the exclusion of such liability, the NAB Group limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable.

This document is intended for clients of the NAB Group only and may not be reproduced or distributed without the consent of NAB. The Information is governed by, and is to be construed in accordance with, the laws in force in the State of Victoria, Australia.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

For distribution by WealthHub Securities: Where you have received this document via the nabtrade service (nabtrade), it is distributed to you by WealthHub Securities Limited ABN 83 089 718 249 AFSL No. 230704 ("WealthHub Securities"). WealthHub Securities is a Participant of the Australia Securities Exchange and a wholly owned subsidiary of National Australia Bank Limited ABN 12 004 044 937 AFSL No. 230686 ("NAB"). NAB doesn't guarantee the obligations or performance its subsidiaries, or the products or services its subsidiaries offer. Any material provided to you by WealthHub Securities will contain factual information or general advice. This factual information or general advice does not take into account your particular objectives, financial situation and needs, and a statement of advice will not be provided. WealthHub Securities will not give you any legal, tax, financial or accounting advice or any advice or recommendation regarding the suitability or profitability about your transactions. Before you make a decision about whether to acquire a financial product, you should obtain and read the Product Disclosure Statement available at nabtrade.com.au and consider the appropriateness of the information having regard to your particular circumstances. You agree that you will not solely rely on the information provided by WealthHub Securities or elsewhere on nabtrade.com.au when making investment and/or financial decisions. WealthHub Securities does not provide personal advice to online retail clients. WealthHub Securities receives commission from dealing in securities and from its authorised representatives. Introducers of business may directly share in this commission. WealthHub Securities and its associates may hold shares in the companies that it distributes research/information on.

The value of investments and future returns may rise or fall and, at times, returns may be negative. Past performance is not a guarantee of future performance. Please note, this material has not been verified by WealthHub Securities. WealthHub Securities does not make any representation or warranty as to the timeliness, reliability, accuracy or completeness of the material, nor does it accept any responsibility arising in any way for errors in, or omissions from, that material.

United Kingdom: If this document is distributed in the United Kingdom, such distribution is by National Australia Bank Limited, 88 Wood Street, London EC2V 7QQ. Registered in England BR1924. Head Office: 800 Bourke Street, Docklands, Victoria, 3008. Incorporated with limited liability in the State of Victoria, Australia. Authorised and regulated by the Australian Prudential Regulation Authority. Authorised in the UK by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein. **Hong Kong:** In Hong Kong this document is for distribution only to "professional investors" within the meaning of Schedule 1 to the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO") and any rules made thereunder and may not be redistributed in whole or in part in Hong Kong to any person. Issued by National Australia Bank Limited, a licensed bank under the Banking Ordinance (Cap. 155, Laws of Hong Kong) and a registered institution under the SFO (central entity number: AAO169).

New Zealand: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication. National Australia Bank Limited is not a registered bank in New Zealand.

Japan: National Australia Bank Ltd. has no license of securities-related business in Japan. Therefore, this document is only for your information purpose and is not intended as an offer or solicitation for the purchase or sale of the securities described herein or for any other action.