nab **Group Economics**

Quarterly Australian Commercial Property Survey - September 2010

Business conditions in the Australian Commercial Property market improved in the September qtr, driven by gains in the Office and Hotels segments. Conditions in the Retail and Industrial markets, however, remain negative.

NAB's Commercial Property Index rose by 15 points, to total +5 points, compared with -10 in the June quarter. However, the survey highlights considerable variance across sectors. The index is now positive for both Office and Hotels but remains negative for Industrial and Retail. The rebound in Office was largely anticipated in the June survey, however the improved performance of Hotels has been driven by a better than expected profile for room rates. Confidence has also improved, particularly in Hotels. Expectations remain strongest in Office, followed by Hotels, with Retail and Industrial significantly weaker. Melbourne is the most confident across all sectors (excluding Hotels), while Brisbane remains depressed in most markets. Despite improvements in both current conditions and expectations, new development plans have been pushed out further. Sourcing debt has become more challenging over recent quarters and respondents believe that debt conditions will remain tight. Developers expect worsening pre-commitment requirements to contribute to funding constraints in the short term. Rising interest rates are seen as a critical challenge for property firms over the next year.

Highlights

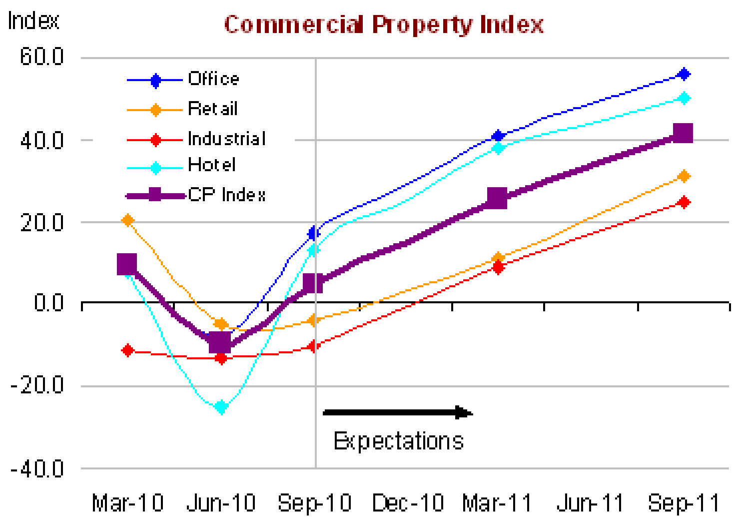
- **NAB's Commercial Property Index rose by 15 points** in September to total +5 points. The gains were driven by improved conditions in the Office (+17) and Hotel (+13) sectors.
- **By state, VIC remains the strongest market** in terms of current conditions (+28). This strong performance is driven by the Office and Industrial sectors.
- **In contrast, QLD recorded steeply negative conditions** (-27) across all commercial property categories, with Retail and Office markets recording the weakest readings. While overall conditions in NSW remain above the national average, this was driven by the strength of the Office market, with both Retail and Industrial sectors comparatively weaker.
- **Confidence for all property sectors is relatively positive** (in terms of our index), with improvements tipped over the next 6 to 12 months.
- **Broadly recovery expectations remain similar to those reported in the June survey**. Respondents anticipate a recovery in Office and Industrial in either the June or September quarters of 2011, while expectations for the Retail sector are split across 2011.
- **Melbourne remains the most confident market** in all sectors (except Hotels), while **Brisbane is particularly weak**.
- Despite improvements in both conditions and confidence, **developers continue to delay new projects** - 57% of respondents report new developments in the next 6 months, compared with 79% in June.
- **Access to funding** (both debt and equity) **has become more challenging** in recent quarters (net balances of -34% and -26% reporting more difficult access respectively), and conditions are not expected to improve in the short term.
- Developers expect **worsening precommitment requirements** (currently at around 52%) to contribute to funding constraints in the short term, while **interest rates and funding/finance are the critical challenges over the next year**.
- In the Office market, **Melbourne continues to outperform** other markets, with **Brisbane conditions remaining poor**. **Melbourne CBD stock - particularly A grade and Premium -** is the standout best performer.
- **Capital value and net rental expectations are largely unchanged** in the Office and Retail markets, but substantially weaker in the Industrial space. Capital value growth for Office is expected to be around 3.1% by September 2011. Over the same period, Retail and Industrial are expected to record growth of 0.9% and 0.4% respectively.
- **Estimated Office market vacancies rose to 8.4%** (from 7.6% in June), with QLD vacancies rising to over 10.5%. In contrast, reported Retail vacancies dipped in September, to around 4.9% from 5.6% in June.
- **Vacancies are tipped to trend downwards** in the Office and Industrial space over the next 12 months, while Retail is trending sideways.

NAB Australian Commercial Property Index – September Qtr 2010

	Mar-10	Jun-10	Sep-10	Mar-11 (f)	Sep-11 (f)
Office	9.0	-8.0	17.0	41.0	56.0
Retail	20.5	-5.0	-4.0	11.0	31.0
Industrial	-11.0	-13.0	-10.0	9.0	25.0
Hotels	8.0	-25.0	13.0	38.0	50.0
CP Index	9.6	-9.8	4.9	25.3	41.7

NAB Australian Commercial Property Index – June vs. September

	Current period		6 month expectations		12 month expectations	
	June survey	Sept survey	June survey	Sept survey	June survey	Sept survey
Office	-8.0	17.0	31.0	41.0	57.0	56.0
Retail	-5.0	-4.0	4.0	11.0	18.0	31.0
Industrial	-13.0	-10.0	2.0	9.0	40.0	25.0
Hotels	-25.0	13.0	-13.0	38.0	0.0	50.0
CP Index	-9.8	4.9	12.7	25.3	36.2	41.7



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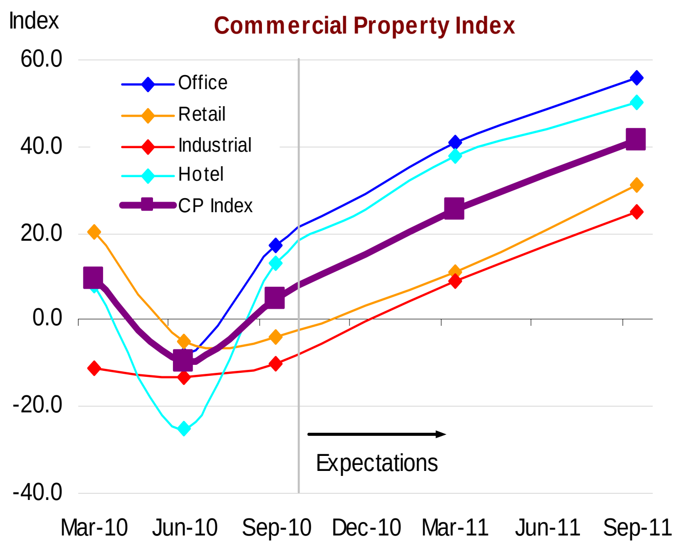
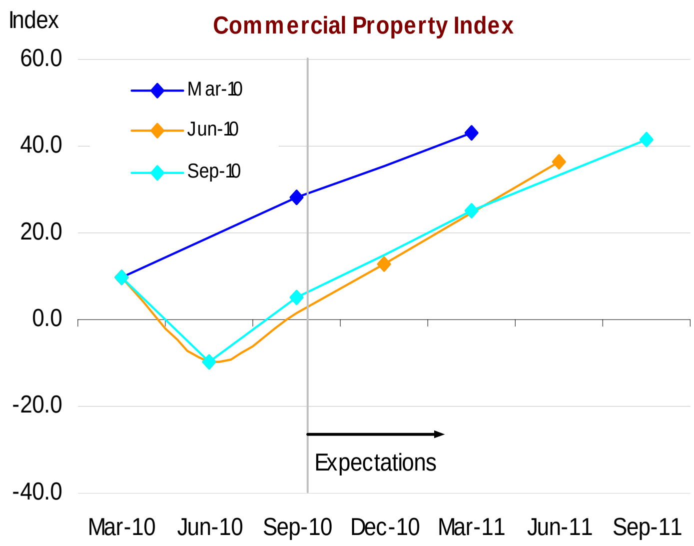
NAB Commercial Property Index recovers in September – driven by improved conditions in Office & Hotels





Overall business conditions in the Australian Commercial Property sector improved considerably in the September quarter, according to NAB's Commercial Property Index. The index – which is derived from capital value and rental pricing expectations in each of the sub-sectors – rose to +5 points in September, compared with -10 in June 2010.

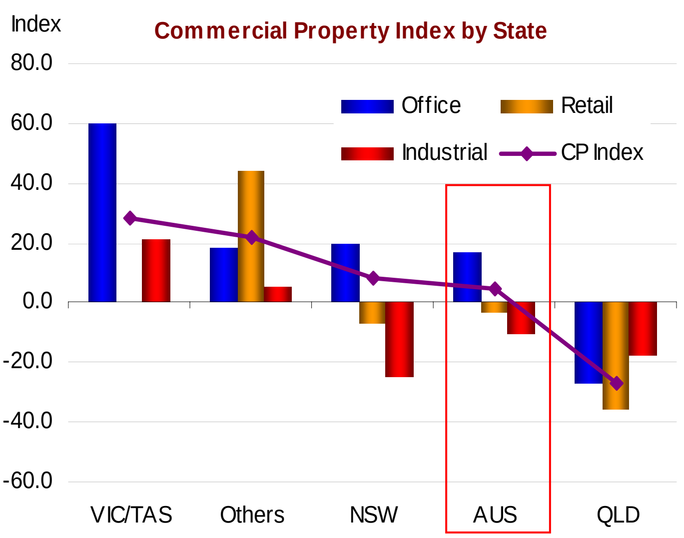
However, the index also shows considerable variance by sector. The gains this quarter were driven primarily by improved conditions in the Office and Hotels/Entertainment categories. In contrast, conditions in the Retail and Industrial space were broadly unchanged, and remain negative.

The outlook for all property sectors is relatively positive, with respondents to our survey anticipating improvements over the next 6 to 12 months across the board. That said, the strongest improvements are tipped in the Office and Hotel/Entertainment markets.

The rebound in conditions in September was broadly anticipated in the June survey. This however follows a significant downward adjustment to confidence in the June quarter survey when compared with the March survey (see chart opposite).

Confidence over the next 6 and 12 months remains very similar to that of the June quarter survey. Overall, respondents expect the recovery in the commercial property market to gather significant momentum.

Victoria leads the pack – driven by the state's office market – while Queensland is weak across the board



By state, Victoria remains the strongest market in terms of current commercial property conditions, with the index totalling +28 points. This comparatively strong performance is driven by the Office market in the state, which far outpaces the rest of the country. Conditions in the Industrial sector are also considerably stronger in Victoria than elsewhere.

In contrast, Queensland recorded steeply negative conditions across all commercial property categories in our latest survey. The Commercial Property Index for the state was -27 per cent, with Retail and Office markets recording the weakest readings.

While overall conditions in New South Wales remain above the national average, this was driven by the strength of the Office market, with both Retail and Industrial sectors in New South Wales weaker.

National Australia Bank

Commercial Property Overview

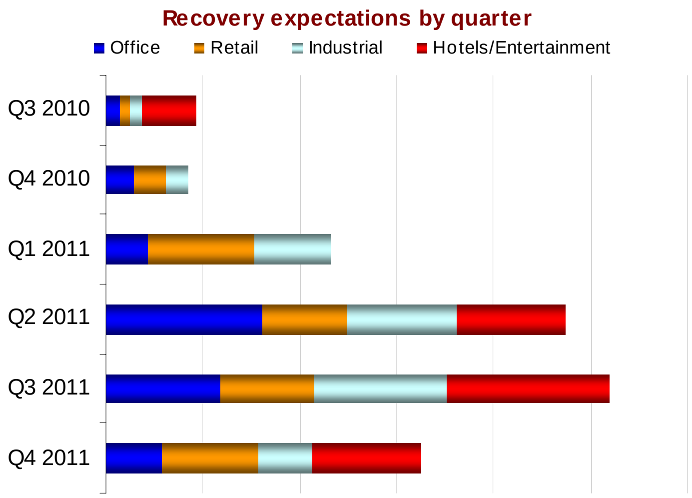
Residential property continues to outpace Commercial property, as Hotels overtake Retail & Industrial

According to the respondents of our Quarterly Property Survey, the Residential sector remains the strongest performing property category in Australia. When asked to quantify the performance of each sub-sector, respondents reported 'good' conditions (on average) in the Residential sector at present.

In contrast, the performance of other segments – including Infrastructure and Commercial Property – was classed as 'fair' by our survey respondents, with Infrastructure recording the strongest conditions and the Industrial sector faring the worst.

Over the next year, the performance of all property sectors is anticipated to improve – with Office and Industrial property recorded the strongest improvement over the current conditions.

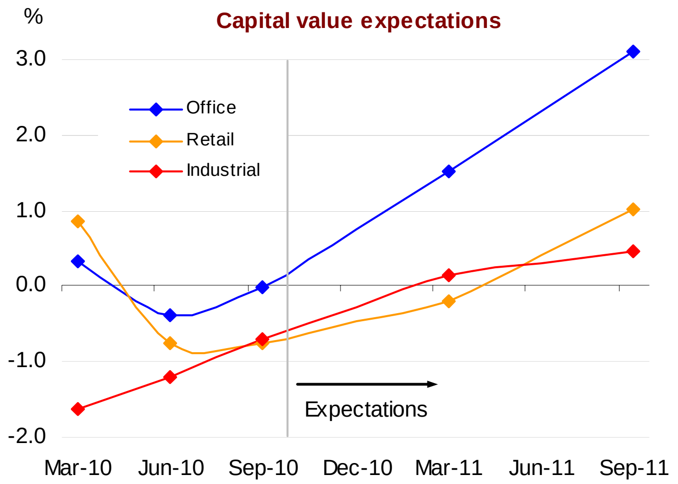
Market recovery expectations have remained broadly similar to those reported in the June survey



Our survey respondents were asked to nominate the quarter that they anticipated a recovery in each of the major commercial categories.

Broadly recovery expectations remain similar to those reported in our June survey. The bulk of office market participants – 56 per cent – anticipate a recovery in either the June or September quarters of 2011. Most respondents expect a recovery for Industrial property over the same period, while expectations for the Retail sector are split across 2011.

Capital values continue to soften at present, but a recovery is tipped in all markets over the next 12 months

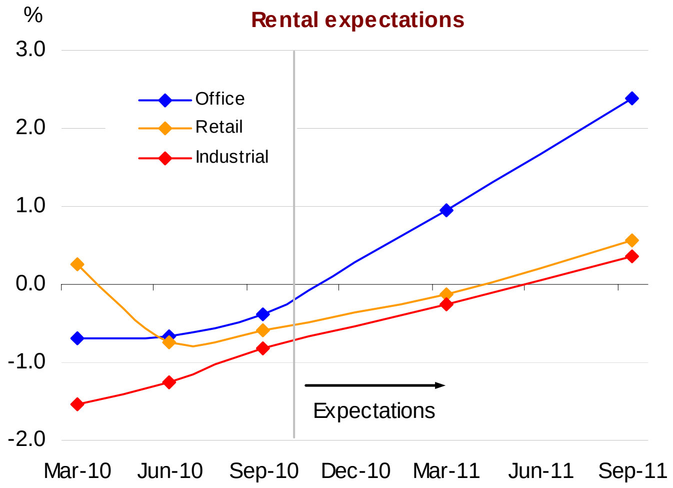


Capital values dipped noticeably in the June quarter, with a modest turn around in trends for the September quarter.

Capital values for Office are currently the strongest – at 0 per cent – up from -0.4% in June, and this sector has the most favourable outlook, with growth near 3.1 per cent by September 2011. The strongest growth is tipped in Victoria (5.0 per cent) and New South Wales (3.8 per cent).

In contrast, both the Retail and Industrial are considerably weaker, with capital values currently down by around 0.7 per cent. The six month outlook sees values return towards neutral levels, before growth by September 2011. In this period, Retail and Industrial are expected to record growth of 0.9 per cent and 0.4 per cent respectively. As with other markets, Victoria and New South Wales are tipped to record the strongest growth, while Qld is the laggard.

Net rentals currently negative in all markets, but are expected to recover over the next year

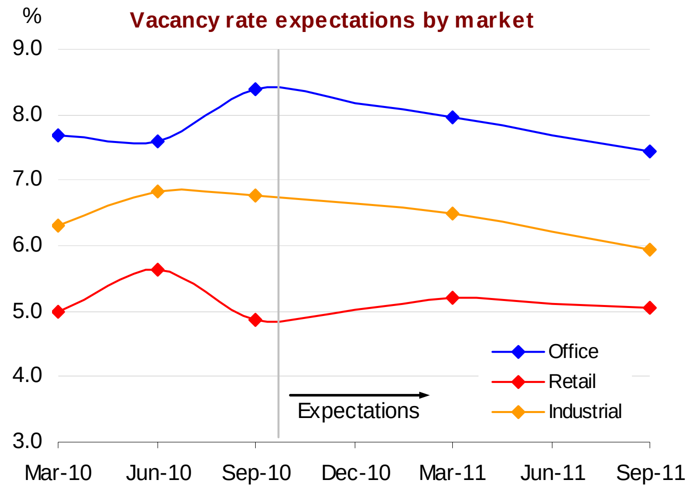


Rental returns for the main commercial property categories remain negative, albeit marginally less negative than was recorded in June.

Over the next six months, Office is the only sector that is tipped to record any growth in rental returns – at around 1 per cent in March 2011, compared with around -0.1 per cent and -0.3 per cent for Retail and Industrial respectively.

By September 2011, all sectors are expected to record positive rental growth, with Office outpacing the pack. Office rents are expected to increase by around 2.4 per cent. In contrast, Retail and Industrial property rentals are tipped to rise by just 0.6 per cent and 0.4 per cent respectively. For Office and Retail, the path of rental growth is broadly similar to the expectations from our previous survey (and significantly weaker than in March 2010), while expectations for the Industrial market are somewhat weaker in September.

Trends in estimated vacancies vary by sector, with office and industrial set to fall over the next 12 months



Trends in estimated vacancy rates have been somewhat divergent in September, according to our respondents.

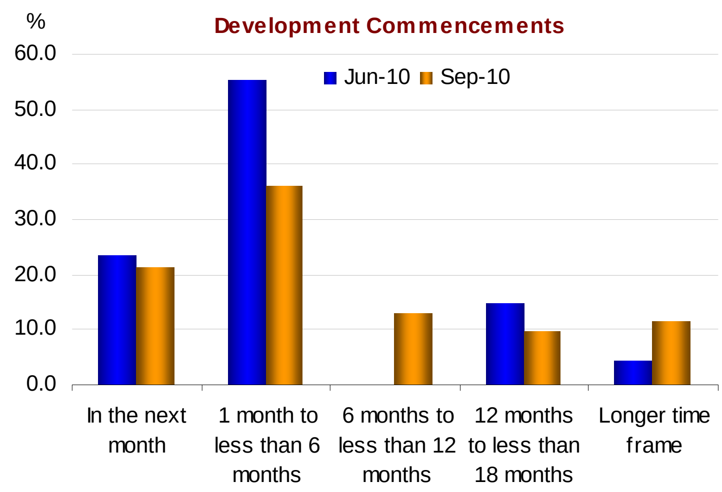
Office market respondents reported vacancy rates climbing to around 8.4 per cent in September (from around 7.6 per cent in June), with Queensland vacancies – the highest recorded in our survey – rising to over 10.5 per cent.

In contrast, reported retail vacancies dipped in September, to around 4.9 per cent from 5.6 per cent in June. Lower estimated vacancies in Victoria and Queensland were the main contributors. That said, over the next 6 months, respondents anticipate an increase in retail vacancies, and vacancies in September 2011 are tipped to be marginally above 5 per cent.

Industrial vacancy rates are tipped to decline over the next twelve months, falling from an estimated 6.8 per cent in September 2010 to around 5.9 per cent in September 2011.

New property developments

Despite improvements in both conditions and confidence, developers have further delayed their commencement plans



Respondents who operate within the property development space were asked to indicate the timeframe for their development plans.

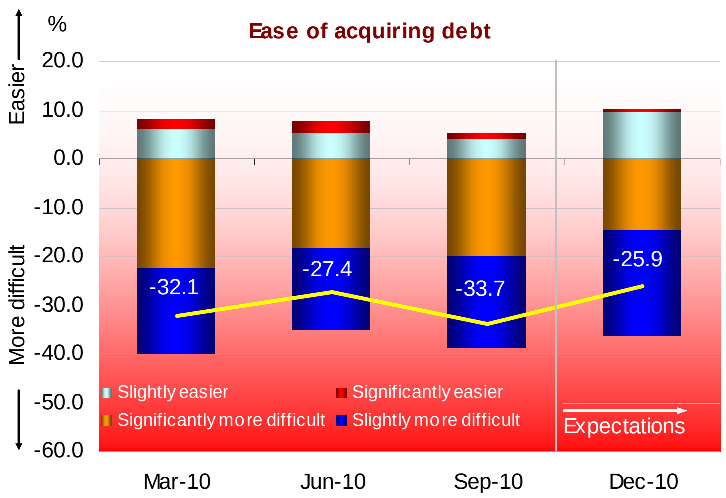
Developers report that they are further delaying new projects, with the share of respondents reporting new developments occurring in the next 6 months declining from around 79 per cent in our June survey to 57 per cent in September.

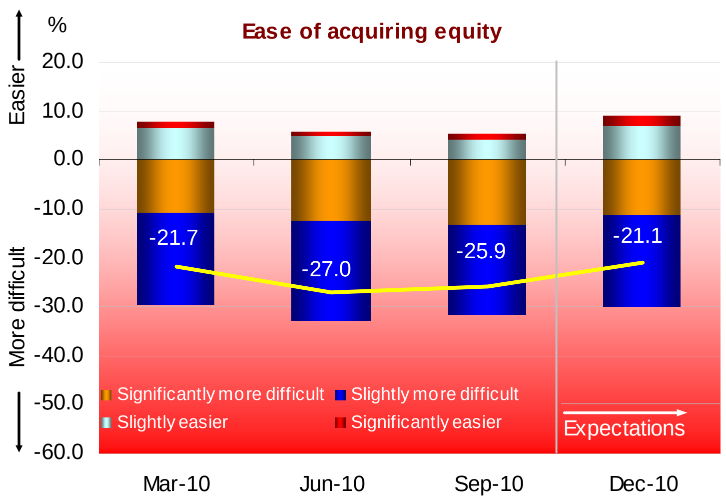
When asked to nominate the sectors in which developers are seeking to commence new projects, Residential was the most favoured – accounting for 48 per cent of the total, and broadly in line with our previous survey.

An increasing share of respondents are now seeking to develop in the Office space – around 18 per cent, compared with just 10 per cent in June.

Respondents who reported development intentions over the next 12 months were also asked to nominate the source of land for these projects. Around 61 per cent nominated existing landbanked stock, 26 per cent nominated new acquisition opportunities and 13 per cent reported refurbishment of existing stock.

Developers report that access to funding has become more challenging in recent quarters





Our survey asked respondents to nominate the ease of acquiring debt or equity for funding new development projects.

Sourcing debt has become considerably more challenging over recent quarters, with a net balance of 34 per cent of respondents reporting that acquiring debt has become more difficult – up from 27 per cent in the June quarter, and worse than respondents expectations in our last survey.

Around 19 per cent of respondents reported that they had no borrowing requirements at present – up from 17 per cent in June.

Respondents also believe that debt conditions will remain tight, with a net balance of 26 per cent anticipating more difficult debt conditions for the December quarter.

NAB's Monthly Business Survey confirms that access to credit is considerably more challenging for the construction industry than the broader economy at present.

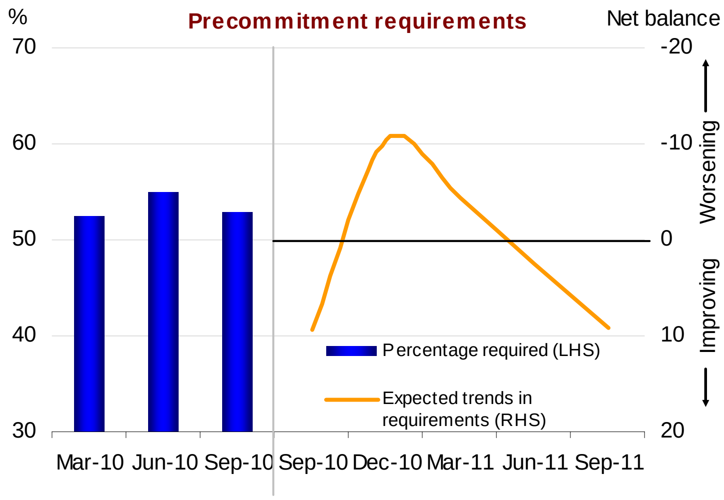
Raising debt is expected to be more difficult than acquiring equity – however this funding source is also challenging to source at present.

A net balance of 26 per cent of respondents reported that acquiring equity was more challenging in September, marginally less negative than in our last survey.

Access to equity is expected to remain difficult, with a net balance of 21 per cent of respondents expecting this funding source to be more difficult in December 2010.

In total, around 38 per cent of respondents planned to source more capital over the next 12 months.

Precommitment requirements are a major contributor to funding constraints

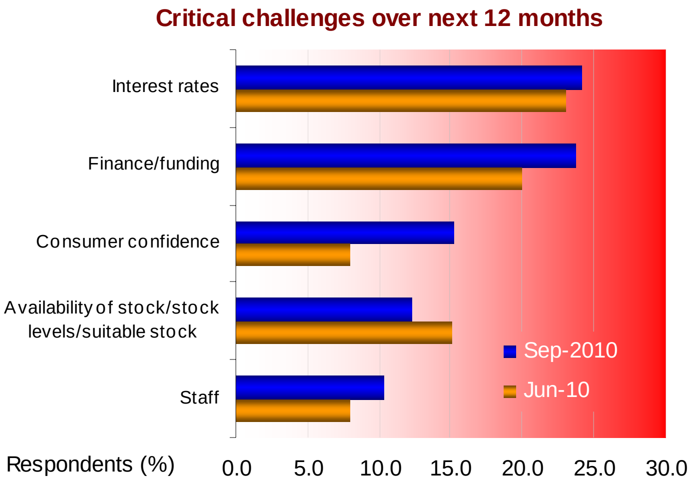


According to our respondents in the development space, bank precommitment requirements remain above 50 per cent at present, although marginally softer than in June.

In terms of expectations, respondents expect conditions to become tighter over the next six months – with a net balance of 4.4 per cent anticipating worsening precommitment requirements for March 2011.

In contrast, the twelve month expectation is for improvement in these requirements – with a net balance of 9 per cent of respondents expecting softer conditions by September 2011. It should be noted that this is a marginally weaker result than our previous survey – when 12 per cent expected improvements.

Interest rates and finance/funding are seen as the critical challenges for property firms over the next year

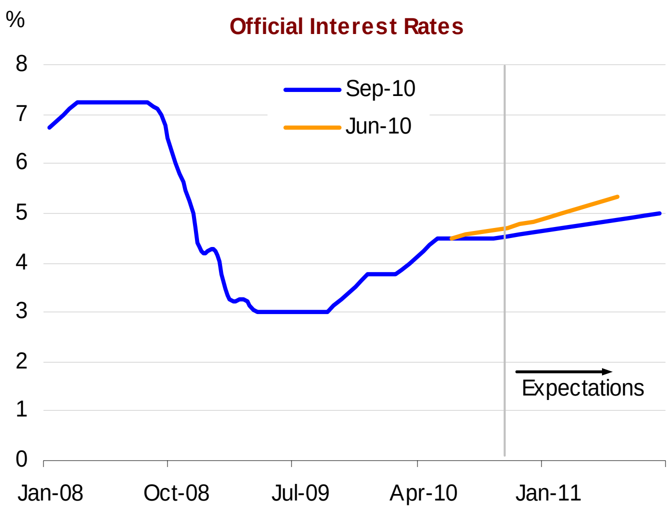


When asked to identify the major concerns for their businesses over the next twelve months, respondents overwhelmingly cited interest rates and finance/funding (24 per cent for each option). In the case of the latter, this has become an increasing concern since our previous survey.

Consumer confidence was also perceived as a negative for property firms – with 15 per cent of respondents noting this option, up from around 8 per cent in June.

There was a reduction in the number of respondents noting availability of stock as an issue – with a total of 12 per cent citing this option. This may reflect the easing in development plans and increased difficulty of funding.

Interest rate expectations have eased over the past quarter, rates tipped to reach 5% by September 2011



Although interest rates are the leading concern for property firms at present, their expectations for interest rates have eased somewhat in our latest survey.

Participants expect interest rates to rise by 25 basis points in both the six and twelve months time, which would bring official interest rates to 5 per cent by September 2011.

In our previous survey, rates were tipped to rise to almost 5.5% by June 2011.

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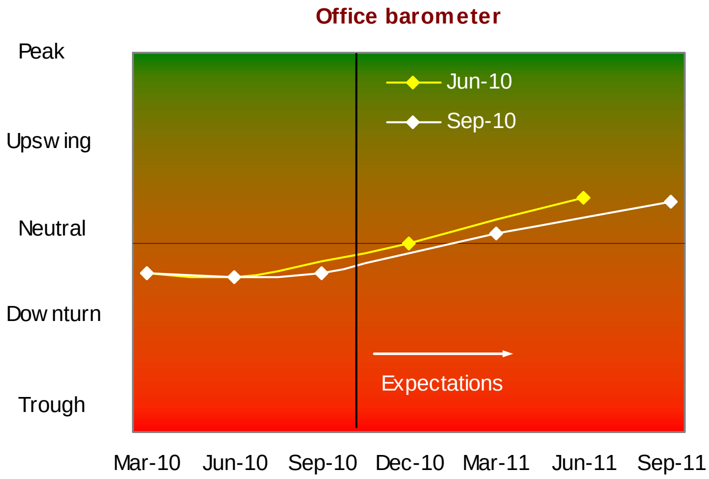
Australian Office Market

Office barometer pushed back by a quarter, with the cycle now expected to move beyond neutral and into positive territory from the March Quarter of 2011

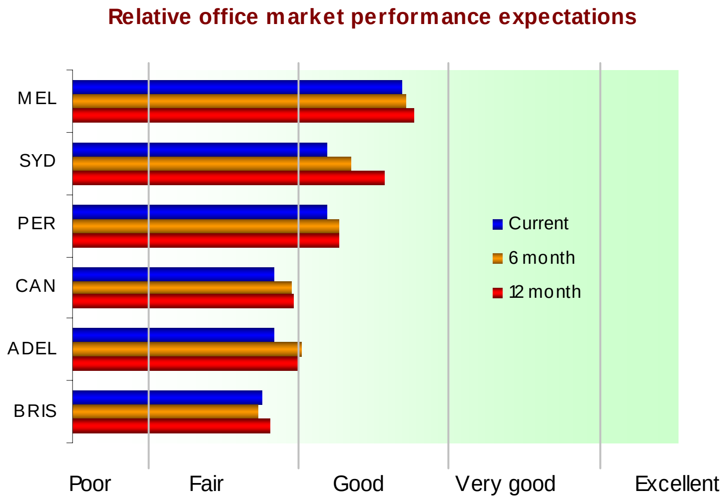


Respondents were asked to identify where the Office market currently sits in terms of the property cycle and to anticipate how the cycle will unfold. In June, our respondents anticipated that the market would move beyond neutral and into positive territory from the December quarter 2010 onwards. This expectation has now shifted to the March Quarter of 2011. Survey participants anticipate the Australian office market to record a mild upswing by September 2011.

Victoria is currently the most positive state, with respondents already suggesting that the state is recording a modest upswing, while Queensland and New South Wales remain comparatively negative – with both states recording mild downturns.

All states are expected to record improving conditions over the next twelve months, albeit Queensland is expected to continue to lag – with the market remaining neutral in September 2011.

Melbourne and Sydney remain the strongest markets for office property, while Brisbane is tipped to remain weak

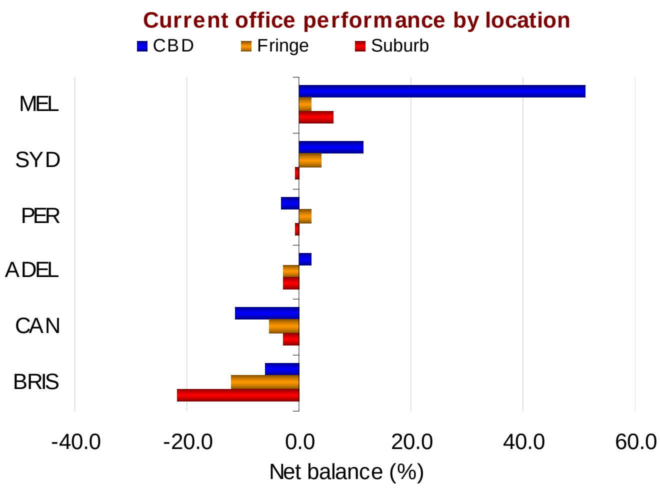


Consistent with the results of our previous surveys, Melbourne is identified by respondents as having the strongest Office market performance, both currently and over the next twelve months. On average, respondents classified conditions in the Melbourne market as 'good'.

Performance conditions in both Sydney and Perth markets are currently classified as 'good', and Sydney is tipped to record the strongest improvement over the next twelve months.

In contrast, conditions in Canberra, Adelaide and Brisbane are currently classified as 'fair' (albeit from a limit sample size for the former two). Unsurprisingly, Brisbane is currently the weakest performer, and is expected to remain so over the next twelve months.

Melbourne CBD dominates current office performance – with 51% of respondents favouring this stock

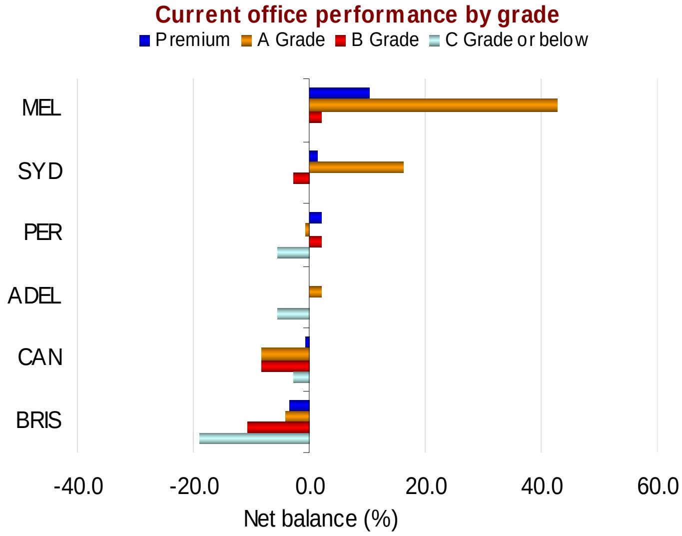


Respondents were asked to nominate the best and worst performing cities at present, and the location of the best and worst performing property. Overwhelmingly, Melbourne was identified as the best performer – with a net balance of 63 per cent of respondents nominating the city – with the city's CBD stock being the clear standout by location.

A net balance of 12 per cent of respondents nominated Sydney as the best performer, with the city's CBD recording the second best performance of any location in the country – albeit a distant second.

Brisbane was the considered to be the weakest – with a net balance of -43 per cent. Brisbane's suburban and fringe property were considered the weakest stock overall, followed by Canberra CBD.

Melbourne A grade property is the clear frontrunner in performance by grade



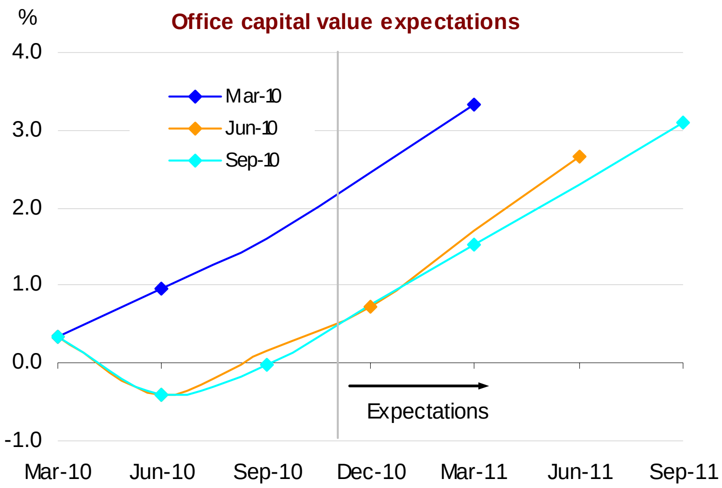
In terms of grade, respondents to our survey once again preferred A grade stock over Premium, with Melbourne based A grade properties being the clear favourite, receiving a net balance of 43 per cent of nominations.

It has been widely noted that there has been a flight to quality witnessed in the office market over the past two years – helping to support these higher graded sectors.

Sydney based A grade stock were also favoured, recording a net balance of 16 per cent, followed by Melbourne Premium properties with 10 per cent.

The most negative views for grades are located in Brisbane, with C grade and B grade properties recording net balances of -19 per cent and -11 per cent respectively.

Capital values expectations for Office are unchanged in the near term but mildly softer at the tail end of the outlook

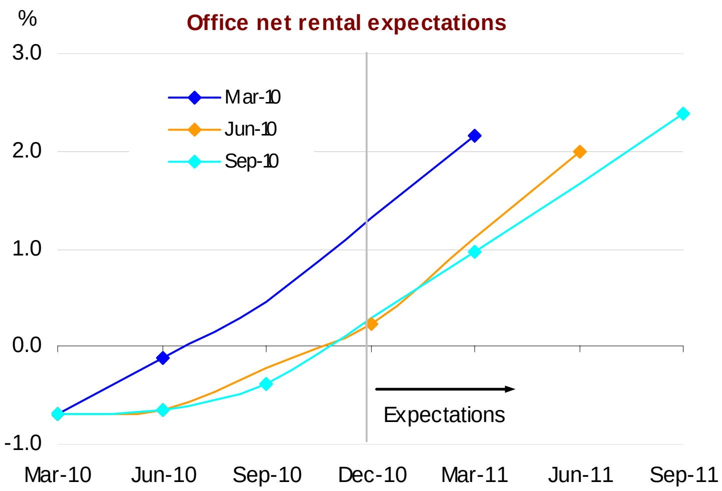


The capital value expectations of our survey respondents were little changed in September – with the path of values over the next twelve months marginally softer towards the end of the period. That said, they remain substantially weaker than those recorded in our survey in March 2010.

In September 2011, respondents anticipate a national average growth of around 3.1 per cent year on year, compared with neutral conditions at present.

Reflecting the relative performance expectations of the respective office markets over this period, Melbourne and Sydney lead the pack in terms of capital value expectations. Melbourne capital values are tipped to rise by around 5.0 per cent year on year in September 2011, while Sydney values are expected to rise by 3.8 per cent. In contrast, the weakness in the Brisbane market is reflected in subdued capital value expectations, with respondents anticipating growth of just 1.0 per cent year on year in September 2011. (For more details, see tables on page 14).

Rents to are tipped to follow a similar path to values, with expectations moderately weaker in our current survey

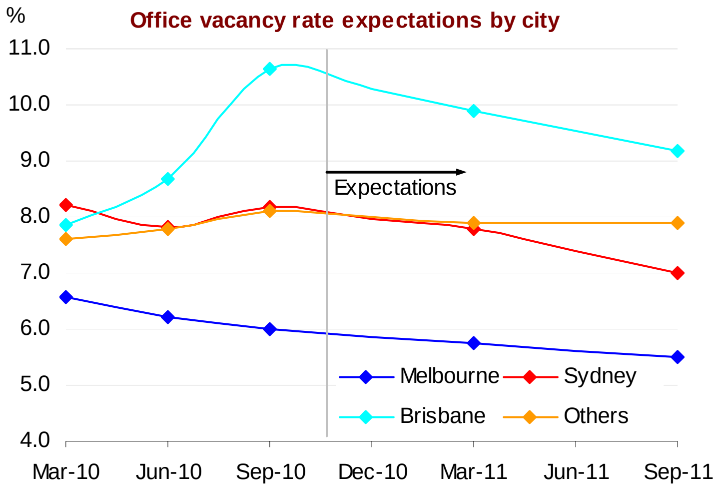


Net rental returns follow a similar path to capital values, albeit growth rates are more moderate for rents than values over the next twelve months. On a national basis, rentals are expected to rise by 2.4 per cent year on year in September 2011, compared with an estimated contraction of around 0.4 per cent at present.

By city, trends remain similar to that of capital values, with Melbourne and Sydney recording the strongest growth expectations over the next twelve months, at 4.1 per cent and 3.4 per cent year on year respectively.

Similarly, Brisbane is expected to be the weakest market for rental returns over the next year, with net rents tipped to record no growth over the period. (For more details, see tables on page 14).

Office vacancy rates tipped to ease in major markets over the next twelve months



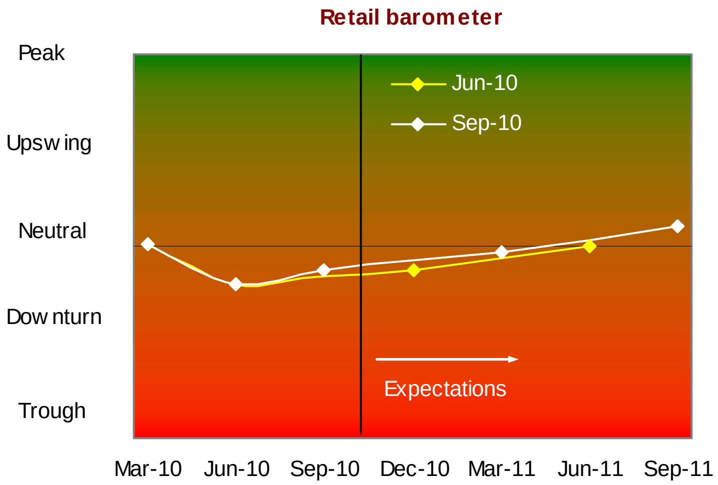
Estimated vacancy rates, at a national level, rose in September 2011, driven by a substantial increase in the estimated level for Queensland. Respondents nominated vacancy rates at around 10.6 per cent for Brisbane – compared with around 8.7 per cent in June.

Over the next twelve months, vacancy rates in the major office markets are expected to decline – reflecting the poor state of the construction sector at present as well as expectations of improving demand.

Vacancy rates are expected to be tightest in the strongest performing markets – Melbourne and Sydney – with rates of around 5.5 per cent and 7.0 per cent respectively. Vacancy rates in Brisbane are expected to remain comparatively high – albeit falling from current peaks – down to around 9.2 per cent in September 2011.

Australian Retail Market

Retail barometer largely unchanged, with a long, slow path back to recovery



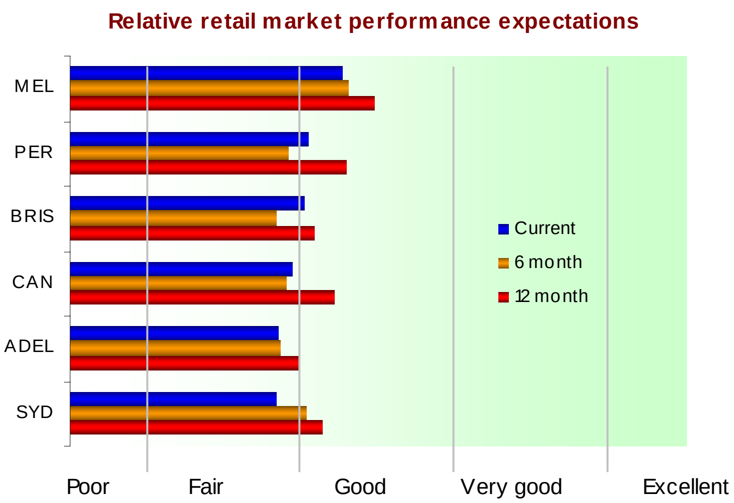
Respondents were asked to identify where the Retail market currently sits in terms of the property cycle and to anticipate how the cycle will unfold. The Retail property cycle looks broadly similar to the June survey – with the market currently experiencing a mild downturn. This is consistent with relatively poor conditions for Retail operators over the past six months, particularly for discretionary items, such as household goods.

Our survey respondents suggest that at a national level, retail property will remain weak until the second half of next year, with only a very modest upswing anticipated in September 2011.

Over the next twelve months, the strongest improvements in the Retail property cycle are expected in Western Australia – the state benefiting most strongly from the mining driven economic growth – with respondents anticipating a moderate upswing.

Queensland is also expected to record a strong improvement over the next twelve months, moving from a moderate downturn to neutral conditions in September 2011.

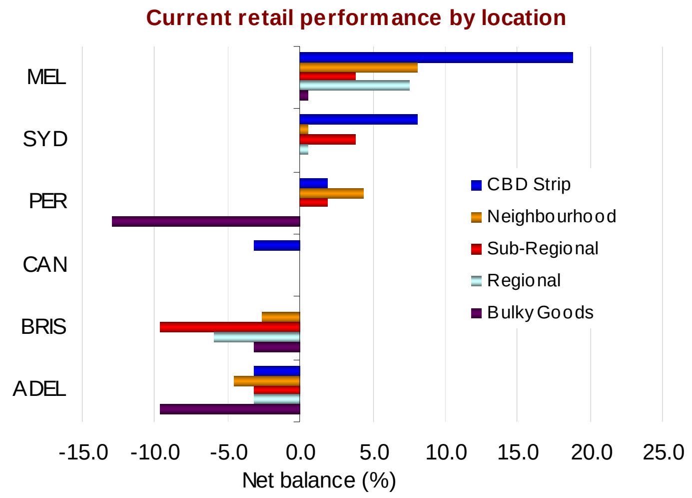
Melbourne leads the retail pack across the outlook period, however Perth, Canberra and Sydney to record strong growth



According to our respondents, Melbourne remains the strongest performing Retail property market – in terms of capital values – with the city's conditions classified as 'good'. Both Perth and Brisbane are also classified as 'good', however conditions are tipped to deteriorate over the next six months in these markets, to 'fair'.

All markets are expected to improve by September 2011, with conditions in all cities (excluding Adelaide) expected to be 'good'. Melbourne is expected to be the strongest market, followed by Perth, Canberra and Sydney (which is currently the weakest performing Retail property market).

CBD strips are the most favoured locations, while most categories in Melbourne outperform the other markets

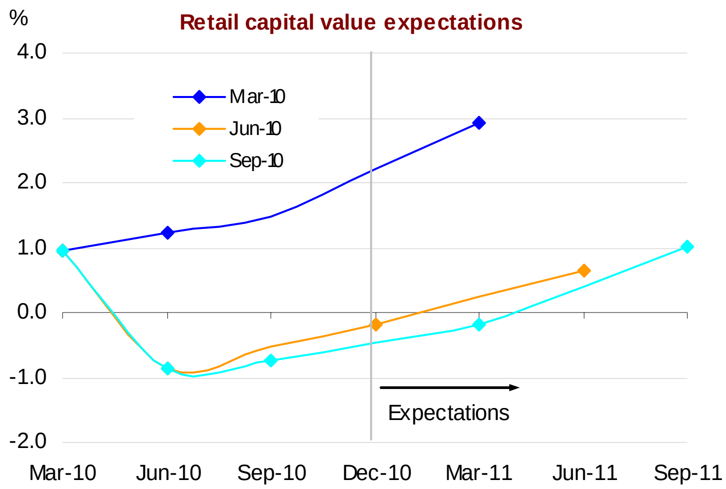


Respondents were asked to identify the best and worst performing retail property markets, and the location of this stock. Melbourne was overwhelmingly identified as the strongest performer, with a net balance of 46 per cent of participants nominating the city.

The CBD strips are the most favoured locations, with Melbourne and Sydney's CBDs the top ranked locations, with a net balance of 18 per cent and 8 per cent respectively. Melbourne's neighbourhood retail property also received a net balance of 8 per cent.

In contrast, Adelaide and Brisbane were the cities most commonly identified as the weakest performer, with net balances of -27 per cent and -22 per cent respectively. In the former, the bulky goods category was identified as the weakest, while Brisbane respondents disliked the sub-regional category.

Capital value expectations for the retail property sector dipped marginally in this survey, with the recovery shifted out

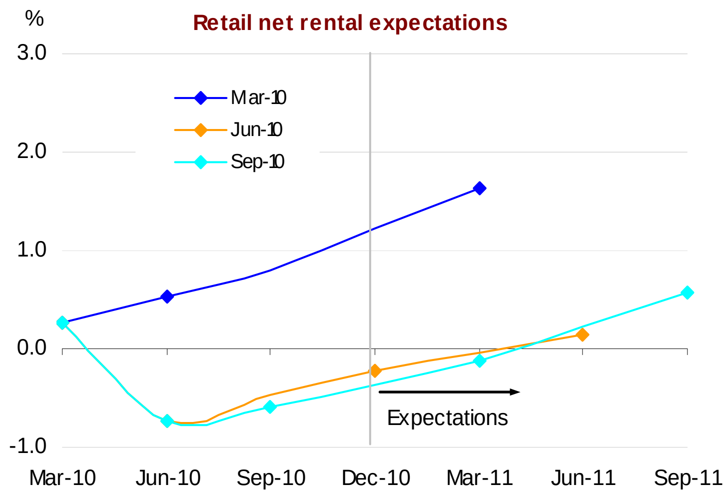


Capital value expectations for Retail property were marginally weaker in our latest survey, compared with the results in June. On a national basis, respondents report values down around 0.75 per cent year on year in September – broadly similar to the level in June.

The expected recovery in capital values has essentially been shifted out a quarter, with respondents tipping growth from the June quarter 2011. By September 2011, retail capital values are expected to rise by around 1.0 per cent year on year.

Queensland is currently the weakest state in terms of capital value expectations. Respondents report values declining by 2.3 per cent year on year in September, and do not anticipate a recovery within our forecast time frame – with falls of 0.3 per cent expected in September 2011. (For more details, see tables on page 14).

Retail rental growth expectations are essentially unchanged, with a slightly higher trend at the tail end of the outlook



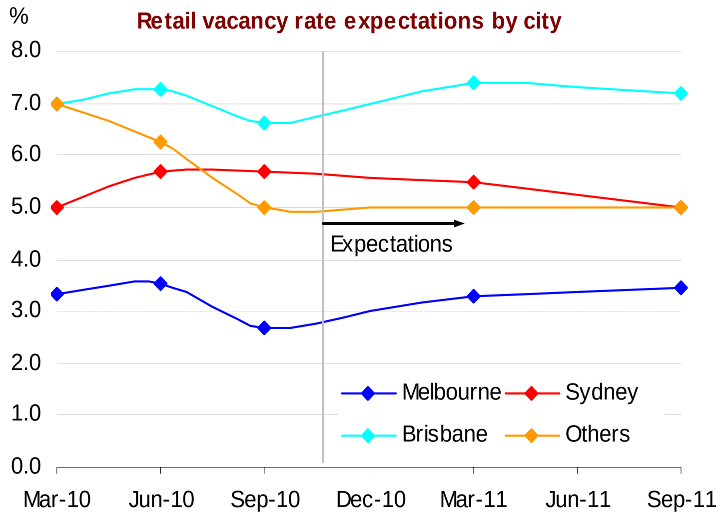
Expected net rental returns in the Retail property sector also remain weak at present. According to our respondents, national average rents fell by around 0.6 per cent year on year in September – lead by declines in QLD and NSW (around -1.4 per cent in both markets).

The path of expected rents is largely unchanged, with respondents anticipating year on year growth in returns from June 2011 onwards.

By September 2011, rental returns are expected to reach around 0.6 per cent year on year. This was the level anticipated by respondents for June 2010 in our initial survey – highlighting how sharply expectations were wound back over the past six months. The strongest state is expected to be WA, with returns in the three eastern seaboard states near zero. (For more details, see tables on page 14).

National Australia Bank

Estimated vacancy rates differ widely across the country, by are generally tipped to drift sideways



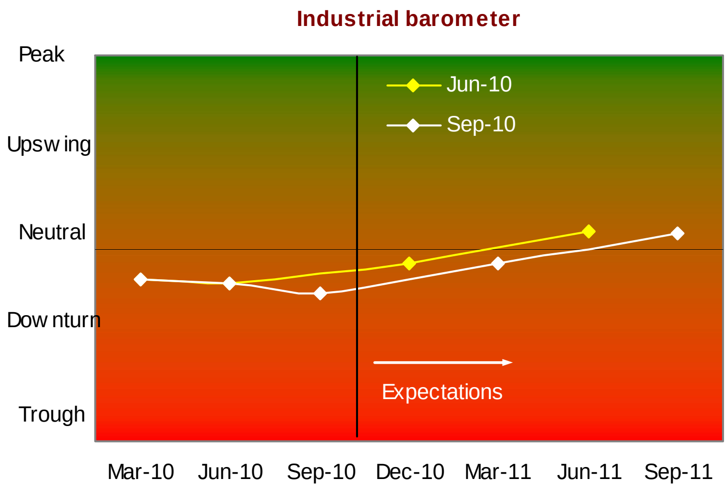
Trends in estimated Retail property vacancies are highly divergent at present, with a significant range between individual cities. Estimated vacancy rates in Melbourne, Brisbane and other markets (comprising SA, WA and ACT due to a limited sample size) declined in September, pushing down the national average.

National average rates expected to move marginally higher over the next six months and remain relatively stable.

This trend is driven by expectations of higher retail vacancies in Melbourne and Brisbane – with rates in both cities higher in twelve months time (at 3.5 per cent and 7.2 per cent respectively) than at present. The marginally higher vacancy rates are consistent with the relatively slow return to positive market conditions for the retail property sector.

Australian industrial market

Industrial property cycle weakened in September with a very mild upswing now expected in the September quarter 2011

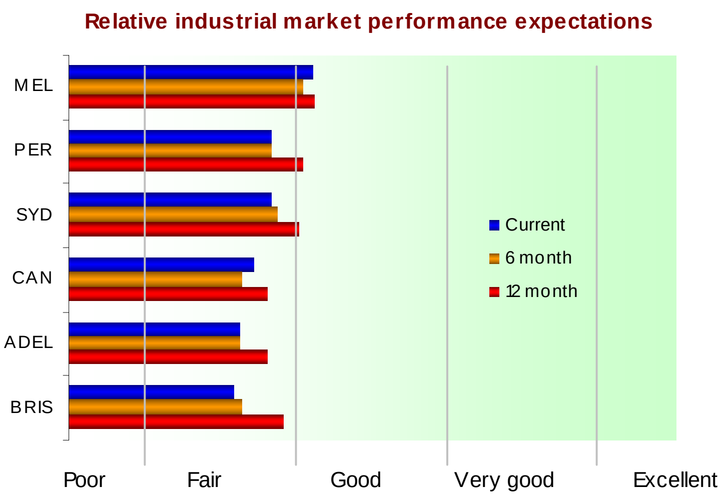


Respondents were asked to identify where the Industrial market currently sits in terms of the property cycle and to anticipate how the cycle will unfold. The Industrial cycle weakened somewhat in the September quarter, with respondents reporting a mild downturn in market performance. The weakest markets at present are New South Wales and Queensland, however there is relatively little divergence between individual states.

At a national level, respondents see a weaker outlook for the sector, with the recovery in conditions shifting out by a quarter to September 2011, when a very mild upswing is expected.

All markets are anticipated to recover by this period, with minimal deviation between individual states. Western Australia is nominally the strongest – with respondents anticipating a very mild upswing – while Queensland is the weakest, with essentially neutral conditions expected.

Market performance in Industrial property is tipped to remain relatively weak, with Melbourne the strongest market

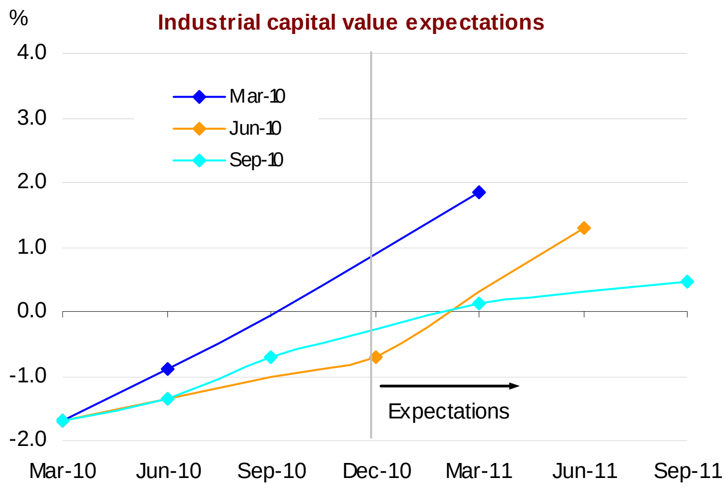


In terms of market performance, Melbourne is the only market at present that is classified as 'good' – and it should be noted that it only just reaches this category. All other cities record 'fair' conditions. As noted in the overview, industrial property is currently ranked as the weakest commercial property sector.

All markets are expected to improve over the next twelve months, with Perth and Sydney industrial property expected to join Melbourne in the 'good' category.

Brisbane is expected to record the strongest improvement – remaining classified as 'fair' in September 2011 – but overtaking both Adelaide and Canberra.

Capital value expectations have deteriorated sharply at the end of the outlook period, with minimal growth anticipated

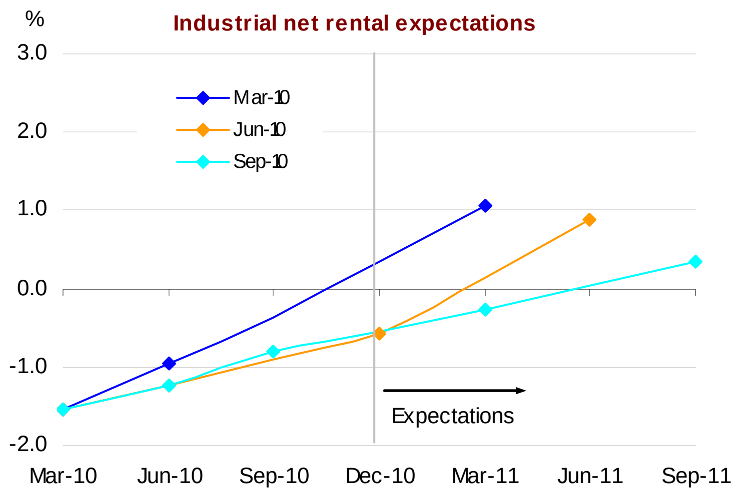


Expectations for industrial capital values are mixed when compared with our previous survey. According to our respondents, current conditions marginally outperformed their previous expectations, declining by just 0.7 per cent year on year. Queensland is the weakest market at present, with values dipping by 1.3 per cent.

However, the profile for expectations has deteriorated off this better base. Although a recovery in capital values is still anticipated from March 2011, the year on year growth tipped for September 2011 is just 0.5 per cent.

Both Victoria and New South Wales are expected to be stronger than the national average, with expected capital value growth of around 1.0 per cent and 0.8 per cent respectively. In contrast, Queensland is tipped to remain weak, with zero growth in September 2011. (For more details, see tables on page 14).

In line with weaker values, net rental expectations have fallen markedly compared with our last survey

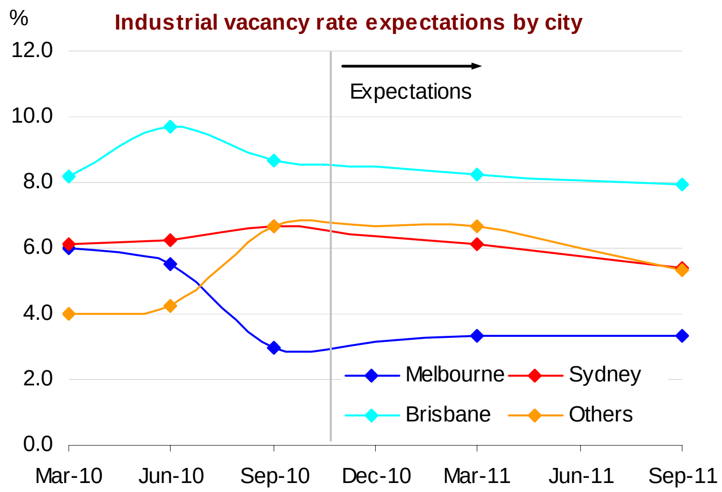


Expectations for net rental returns have deteriorated for the industrial sector in our latest survey. Current conditions are broadly in line with previous expectations, with rents dipping by around 0.8 per cent year on year in September. This result was driven by relatively strong falls in Queensland (-1.5 per cent) and New South Wales (-1.3 per cent).

The expected recovery in rents has shifted out a quarter (compared with the June survey), to June 2011. Rents are tipped to rise by just 0.4 per cent in September 2011 – in line with the softer outlook for capital values.

The strongest market is expected to be Victoria – recording growth of 1.3 per cent year on year in twelve months time – while conditions in both New South Wales and Queensland are expected to be relatively neutral. (For more details, see tables on page 14).

Estimated vacancy rates for the industrial sector are tipped to gradually decline over the next twelve months

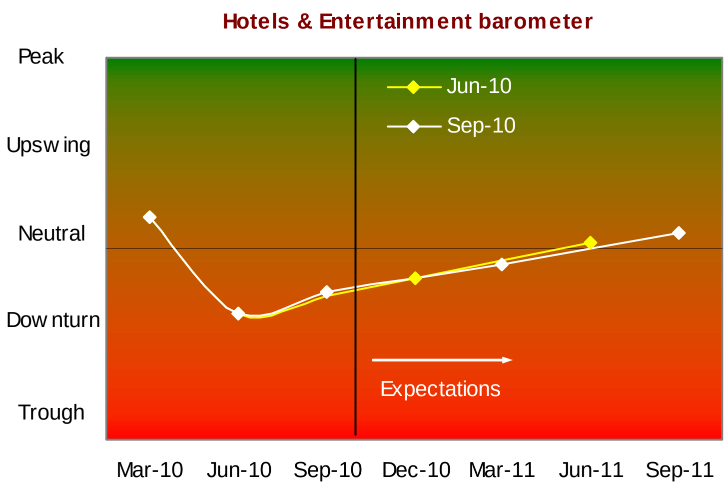


At a national level, vacancy rates were largely unchanged in the September quarter, however this masks moves in underlying markets. Estimated vacancies in Melbourne fell significantly – down to 3.0 per cent – while Brisbane dipped to 8.7 per cent. Countering this, rates in other cities (comprising SA, WA and the ACT) rose to around 6.7 per cent.

Estimated vacancy rates are expected to decline marginally across the country over the next year – with moderate falls in all markets, excluding Melbourne.

Australian Hotels & Entertainment market

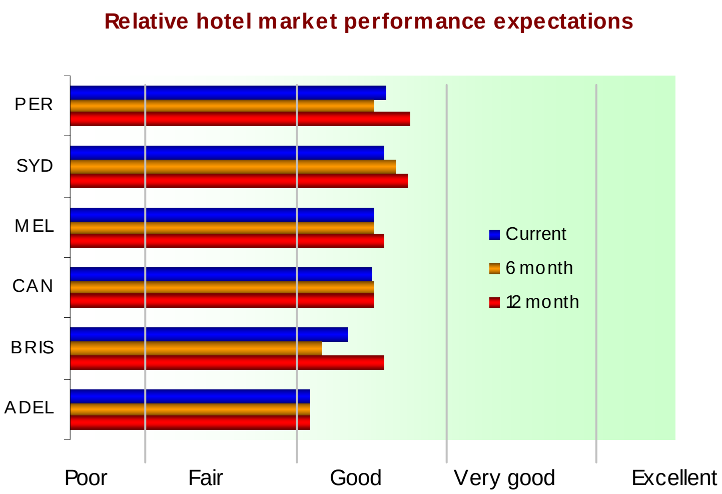
Little change to Hotel property barometer, with a very mild upswing in store in twelve months time



Respondents were asked to identify where the Hotels market currently sits in terms of the property cycle and to anticipate how the cycle will unfold. Surprisingly, given the significant improvement in room rate expectations (see charts below), the Hotel property barometer looks largely unchanged in our latest survey, with the sector not expected to recover before June 2011.

Respondents anticipate a very mild upswing in the hotels sector by September 2011.

'Good' conditions in all markets, with Perth and Sydney seen as the best prospects going forward…

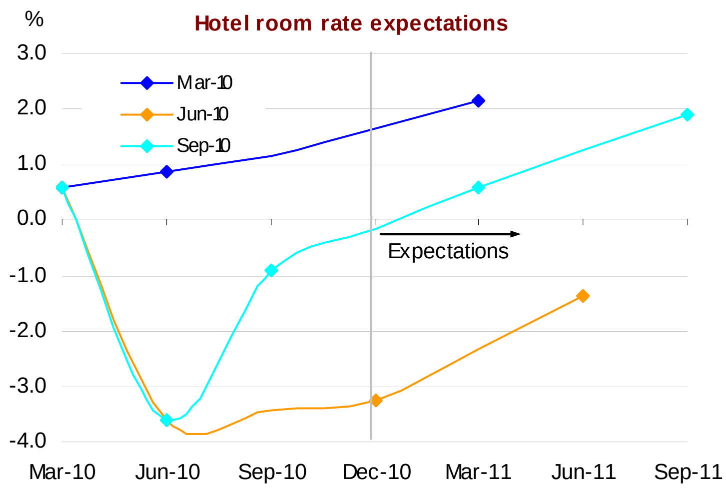


Respondents were asked to classify the current performance of the hotel sector. At an aggregated, national level, our survey participants reported that Hotels were outperforming both Retail and Industrial property.

In our previous survey, the sector was considered to be the weakest category of Commercial property however expectations around room rates have been sharply revised upwards, driving the improvement.

By market, Perth and Sydney are the most preferred cities at present, while Brisbane is tipped to record the strongest improvement over the next twelve months. Comparatively Adelaide is the weakest market and is not expected to improve over the period.

…driven by a sharp turn around in hotel room rate expectations



Critical to the improved market performance of the hotel sector is the stronger outlook for hotel room rates. In our previous survey, estimated room rates plunged, with June 2010 rates recorded at -3.6 per cent year on year (compared with expectations of +0.9 per cent), along with substantial declines across the outlook period.

In our latest survey, expectations for room rates have been dramatically revised upwards. Respondents note that rates declined in the September quarter – down by around 0.9 per cent year on year – but that a recovery is expected in March 2011. By September 2011, room rates are tipped to rise by around 1.9 per cent year on year – considerably stronger than rental returns in the retail and industrial markets.

Tables

Survey Respondents expectations

Capital values

Office	VIC/TAS	NSW	QLD	Others*	Average
Sep-10	2.38	0.40	-2.80	0.30	-0.03
Mar-11	3.69	1.71	-0.48	1.39	1.53
Sep-11	4.97	3.81	1.02	2.07	3.09

Retail	VIC/TAS	NSW	QLD	Others*	Average
Sep-10	0.04	-0.96	-2.27	0.91	-0.75
Mar-11	0.16	-0.11	-1.43	1.22	-0.19
Sep-11	0.96	1.61	-0.32	2.44	1.02

Industrial	VIC/TAS	NSW	QLD	Others*	Average
Sep-10	0.25	-0.96	-1.28	0.25	-0.70
Mar-11	1.04	0.20	-0.60	0.91	0.14
Sep-11	1.04	0.84	-0.15	0.69	0.46

Net rental returns

Office	VIC/TAS	NSW	QLD	Others*	Average
Sep-10	2.06	0.00	-2.84	-0.25	-0.39
Mar-11	3.13	1.31	-1.32	0.84	0.96
Sep-11	4.09	3.44	0.05	1.34	2.39

Retail	VIC/TAS	NSW	QLD	Others*	Average
Sep-10	0.04	-1.36	-1.41	1.09	-0.59
Mar-11	0.02	-0.54	-0.73	1.38	-0.13
Sep-11	0.23	0.48	0.23	1.88	0.57

Industrial	VIC/TAS	NSW	QLD	Others*	Average
Sep-10	0.79	-1.32	-1.54	0.47	-0.81
Mar-11	0.79	-0.70	-0.59	0.44	-0.26
Sep-11	1.32	-0.25	0.34	0.69	0.36

*Others consists of responses from SA/NT, WA and ACT, aggregated due to a limited sample size.

Appendix: About the survey

Since April this year, NAB has been conducting the Quarterly Australian Property Survey, with the aim of developing Australia's pre-eminent survey of market conditions in the Commercial and Residential Property market. The large external panel of respondents comprised of Real Estate Agents/Managers (48%), Property Developers (18%), Owners/Investors (15%), Asset/Fund Managers (12%) and Valuers (7%). In September 2011, there was a total of 270 respondents to the survey, up from 248 in June.