

NEW ZEALAND RESEARCH REPORT

May 2018

A Steady Performer

Auckland's latest industrial vacancy, rents and confidence data continues to paint a strong picture for the industrial sector. Strong investment demand for industrial property has pushed yields to record low levels. Can these go lower?

Trucking On

The overall industrial vacancy rate in Auckland reached a historic low at the start of 2017, at 1.9%. The latest rate in February 2018 has nudged higher, to 2.2%, but not enough to alleviate the pent up demand. At the same time, prime combined net rents have grown strongly at 4.3%.

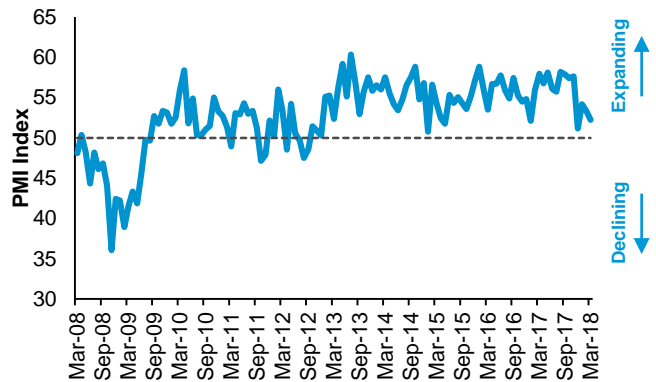
The BNZ - BusinessNZ Performance of Manufacturing Index (PMI), and the ANZ Truckometer points to an expansionary economy, another key indicator of demand for industrial space. GDP forecasts have been dialled down but nothing to suggest a sharp slowdown in the industry in the short term.

Will It Last?

Interest rates have been at cyclically low levels and forecasts suggest that increases are a while away – maybe Q3 2019. This encourages initial yields towards future compression. The spread between average prime yield and an indicative cost of debt (taking the 90-day bank bill rate plus a 2% margin) is 2% as at March 2018. Average prime industrial yields in Auckland are at 5.8%, less cost of debt plus margin at 3.8%. During the market lull in September 2009, the gap was 3.6%. In the most active years (2015-2016), the spread was between 1.1% and 1.9%. The current spread, although tightening, still provides an acceptable return for many investors or owner occupiers and enables them to bid at higher prices while still achieving a margin over debt cost.

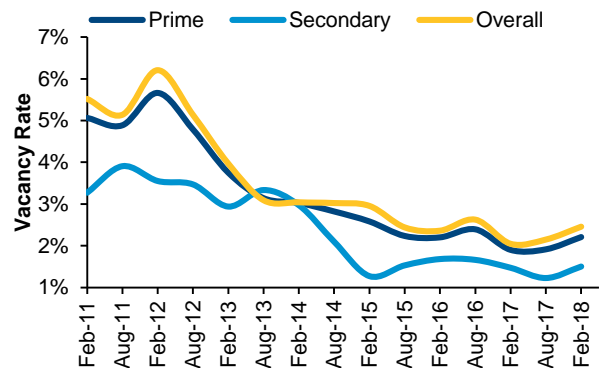
Looking at other industrial indicators, the yields achieved in recent industrial sales certainly shows momentum for prime industrial yields to dip further. Industrial properties sold in Wiri and Airport Corridor have achieved yields recently between 4.8% and 5.5% for assets within the popular sub \$10 million bracket.

BNZ-Business Performance of Manufacturing Index



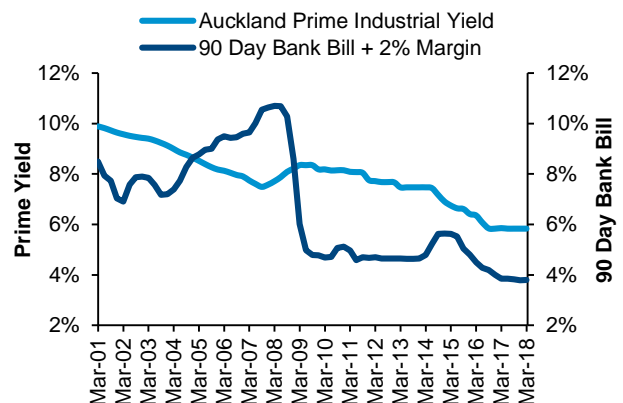
Source: BNZ-Business NZ

Auckland Industrial Vacancy



Source: Colliers International Research

Indicative Cost of Debt v Prime Industrial Yield



Source: RBNZ, Colliers International Research

A Steady Performer (continues...)

Another reason for yields to track lower is positive rental growth expectations, encouraged by the low vacancy. The latest building consent values in Auckland totalled \$135 million for factories and industrial buildings in the year to January 2018, nearly double that from 2017, suggests some relief may be on the horizon.

Unlocking New Areas

The government last month released a revised Auckland Transport Alignment Package (ATAP), setting out how it will spend \$28 billion on key transport priorities for Auckland over the next decades. The announcement didn't bring too many surprises, with light rail, Penlink, Mill Road and various roading/bus upgrades all getting the green light. Back on the table is the East West Link, but at a much reduced project cost. From an industrial property perspective, the Mill Road corridor upgrade will provide an additional strategic north-south corridor for southern Auckland, connecting Manukau and Drury to the east of the Southern Motorway. It will be help to unlock new developments to the south in Drury, and support the growth in property demand over the long term.

Commercial Interest Rate Guide

Date	3 Year Term (Indicative Borrowing Rate)
Dec-17	4.82%
Jan-18	4.94%
Feb-18	4.93%
Mar-18	4.91%
Apr-18	4.90%
May-18	4.98%

Source: ANZ, Colliers International Research

Note: the lending rate quoted in the table is not necessarily what you will be offered, and should be regarded as indicating medium term trends.

INDUSTRIAL COLLIERS ESSENTIALS | 2018

Market Snapshot - 12 Month Comparison



**Colliers Essentials –
Industrial 2018 report is out now.**
To gather the latest insights into the Auckland
and Wellington industrial market visit:
<http://www.colliers.co.nz/find-research/industrial>

New Zealand Key Economic Indicators – May 2018

	Dec-17 (yr rate)	Dec-17 (qtr rate)	Sep-17 (qtr rate)	Q-o-Q Change	Dec-16 (yr rate)	Y-o-Y Change	2018F*	2019F*	2020F*
GDP Growth	2.9%	0.6%	0.6%	0.0%	3.5%	-0.5%	2.9%	2.9%	3.1%
Current Account (% of GDP)	-2.7%	NA	NA	NA	-2.3%	-0.5%	-2.3%	-3.1%	-3.6%
	Mar-18 (yr rate)	Mar-18 (qtr rate)	Dec-17 (qtr rate)	Q-o-Q Change	Mar-17 (yr rate)	Y-o-Y Change	2018F*	2019F*	2020F*
CPI Inflation	1.1%	0.5%	0.1%	0.4%	2.2%	-1.1%	1.6%	2.1%	2.0%
Net Migration Gain (000's)	68	17	17	0	71	-3	60	45	34
Retail Sales (ex-auto)	6.3%	1.5%	1.8%	-0.3%	6.8%	-0.5%	6.0%	5.5%	5.3%
Unemployment Rate	4.6%	4.4%	4.5%	-0.1%	5.0%	-0.5%	4.3%	4.4%	4.4%
	Mar-18 (yr rate)	Feb-18 (yr rate)	M-o-M Change	Mar-17 (yr rate)	Y-o-Y Change	10 Year Average	2018F*	2019F*	2020F*
Tourist Numbers Growth	4.2%	9.0%	-2.1%	7.1%	-2.9%	4.4%	5.0%	4.0%	4.2%
Official Cash Rate	1.75%	1.75%	0 bps	1.8%	0 bps	3.03%	1.75%	2.50%	3.25%
90 Day Bank Bill Rate	1.9%	1.9%	0 bps	2.0%	-10 bps	3.3%	1.9%	2.5%	3.2%
10 Year Government Bond	2.9%	2.9%	0 bps	3.3%	-40 bps	4.3%	3.5%	3.9%	4.2%
Floating Mortgage Rate	5.8%	5.8%	0 bps	5.8%	5 bps	6.4%	5.7%	6.3%	7.0%
3 Year Fixed Housing Rate	5.5%	5.5%	0 bps	5.5%	0 bps	6.5%	NA	NA	NA
Consumer Confidence	128	128	0%	125	2%	120	NA	NA	NA
NZD vs US	0.73	0.73	-1%	0.70	4%	0.74	0.70	0.68	0.67
NZD vs UK	0.52	0.52	-1%	0.57	-9%	0.48	0.51	0.49	0.45
NZD vs Australia	0.93	0.93	1%	0.92	2%	0.86	0.90	0.87	0.83
NZD vs Japan	77	79	-2%	79	-3%	73	80	80	78
NZD vs Euro	0.59	0.59	-1%	0.66	-10%	0.58	0.64	0.67	0.69

Source: NZIER, Colliers International Research
*March year forecast

Office

There is only around 103,000 sqm of available stock in the Auckland Metropolitan office market, despite around 36,000 sqm of new prime office supply across eight buildings being completed in 2017 and the beginning of 2018.

- Overall vacancy decreased from 6.4% in March 2017 to 6.1% in March 2018.
- Prime vacancy decreased from 6.2% to 5.8% and secondary vacancy decreased from 6.5% to 6.2%.
- Prime vacancy on the North Shore increased the most, especially in Takapuna with the recent completion of the B:Hive.
- Vacancy in the City Fringe precincts decreased the most, especially in K’Road, as buildings have been removed from the stock for redevelopment or refurbishment.

Retail

Tauranga Crossing is a multi-staged development in Tauriko. The first stage opened in late 2016. The second stage is expected to partially open in October 2018 with 20 new stores. April 2019 is the target for full completion with a cinema and entertainment precinct as well as international fashion retailers. Stage three is in the pipeline and will add a further 12,000 sqm of retail space making it the largest retail drawcard in the region, with a total of 73,000 sqm.

Northlands Shopping Centre in Christchurch is currently undergoing a \$18.8 million redevelopment. Kiwi Property will develop a new dining and entertainment precinct called ‘Langdons Quarter’. Two new buildings will accommodate 12 new licensed casual dining operators and is scheduled for completion in October 2018.

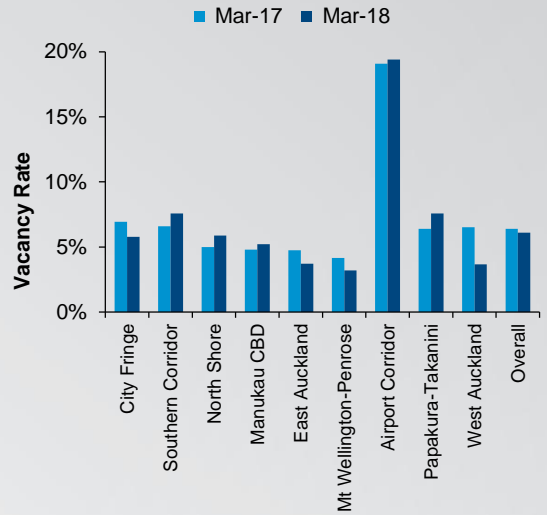
The development of Queenstown Central is underway in Frankton. Stage one will comprise of 10,000 sqm of retail and 4,500 sqm of office space. The development is anchored by Kmart, speciality shops, restaurants and bars and is expected to be completed in Q3 2018.

Industrial

The ANZ Truckometer Index tracks traffic flow as a proxy for the country’s economic activity. The index shows a strong correlation with GDP. The Heavy Traffic Index corresponds with current GDP, while the Light Traffic Index gives a six month lead in the direction of the economy.

The March 2018 data shows the Heavy Traffic Index dropping 0.3% month on month while Light Traffic Index increased by 2.2%. This index is giving softer signal for growth from mid-year.

Auckland Metropolitan Vacancy Survey



Source: Colliers International Research

Regional Shopping Centres



Northlands Shopping Centre, Christchurch
 Kiwi Property
 Completed



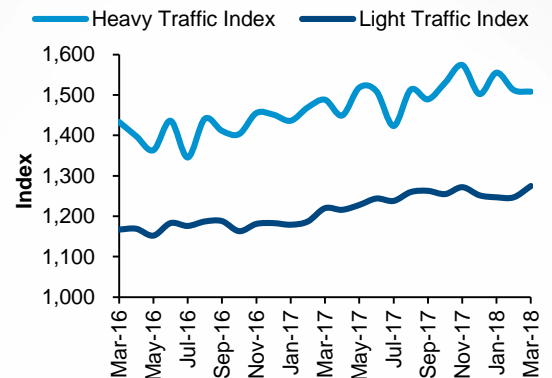
Queenstown Central, Frankton, Queenstown
 Queenstown Central Limited
 Completed



Tauranga Crossing, Tauriko, Tauranga
 Oyster
 Completed

Source: Colliers International Research

ANZ Truckometer Index



Source: ANZ Bank

Annual Market Indicator Review – Q1 2018

Property Sector	Prime Rents (% Change)	Prime Capital Values (% Change)	Vacancy Rate	
	12-Months to Mar-18	12-Months to Mar-18	2016	2017
Office	Net Face	Based on Net Face	Overall (December)	
Auckland CBD	3.3%	3.7%	5.2%	5.9%
Office	Gross Face	Based on Gross Face	Overall (December)	
Wellington CBD	3.3%	5.2%	7.8%	7.4%
Office	Net Face	Based on Net Face	Overall (March)	
Auckland Metropolitan	3.3%	5.3%	6.4%	6.1%
Industrial*	Net Face	Based on Net Face	Overall (February)	
Auckland	4.3%	4.6%	1.9%	2.2%
Industrial*	Gross Face	Based on Net Face	Overall (November)	
Wellington	6.0%	10.1%	3.6%	2.1%
Industrial*	Net Face	Based on Net Face	Overall (September)	
Christchurch	0.0%	0.0%	1.9%	N/A
Retail	Net Face	Based on Net Face	Overall (December)	
Auckland CBD	0.0%	2.4%	2.4%	3.6%
Retail	Gross Face	Based on Net Face	Overall (December)	
Wellington CBD	1.4%	3.8%	8.8%	6.9%

Source: Colliers International Research

*Combination of industrial office & warehouse at a ratio of 20:80.

Recent Commercial Property Sales



43 Poturi Street, Tauriko
Tauranga | \$2,475,000



Tauriko Business Estate Stage 2,
204 Taurikura Drive, Tauriko
Tauranga | \$2,155,000



8-12 McBride Street, Frankton
Queenstown | \$1,810,000

For more information contact:

Alan McMahon
National Director
Research & Consulting

David White
Director | Consulting

Leo Lee
Research Manager

Elena Christodoulou
Research Analyst

Emily Duncan
Research Analyst

Josh Lee
Research Co-ordinator

Chris Farhi
Director
Strategic Consulting

Caity Pask
Senior Analyst
Strategic Consulting

Colliers International
Level 27, SAP Tower
151 Queen Street
Auckland
+64 9 358 1888



Disclaimer: Whilst all care has been taken to provide reasonably accurate information within this report, Colliers International cannot guarantee the validity of all data and information utilised in preparing this research. Accordingly Colliers International New Zealand Ltd, do not make any representation of warranty, expressed or implied, as to the accuracy or completeness of the content contained herein and no legal liability is to be assumed or implied with respect thereto.

© All content is Copyright Colliers International New Zealand Ltd 2018, Licensed REAA 2008 and may not be reproduced without expressed permission.



Accelerating success.