NEW ZEALAND RESEARCH REPORT

April 2017

Wellington Office Market Bounces Back

In this edition we provide a snapshot of our quarterly Commercial Investor Confidence survey results, with some surprising results in the capital.

Our Q1 2017 commercial investor confidence survey has seen a dramatic spike up in Wellington office sector confidence reaching 39%, the highest result recorded since the survey began in 2006.

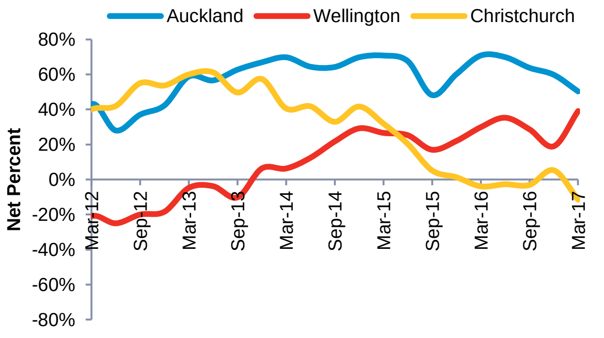
Post-quake activity in Wellington has seen a 7% reduction in office stock, pushing vacancy rates down in the CBD. Prime office vacancy rates are at an all-time low of 1.2% - less than 3,000 sqm of space. The disruption to the demand and supply equation will see the market swinging heavily in favour of the landlord, with rents expected to go up over the next 12 months.

There is a resurgence of retail activity in Wellington CBD with a flurry of new store openings both from national and international retailers. Prime retail space is scarce in central Wellington. Since the arrival of David Jones last year, retail vacancy on Lambton Quay has declined from 4.0% (Dec-15) to 3.5% (Jun-16) and now 3.3% (Dec-16).

Nationally in comparison to Wellington, commercial investor confidence dropped. However it remains robustly positive at plus 24%, and there is no shortage of new projects in the pipeline across a variety of property sectors. Supply can be slow to react to demand, and it is no surprise that developers are increasingly confident in undertaking development projects in times of shortage of commercial space.

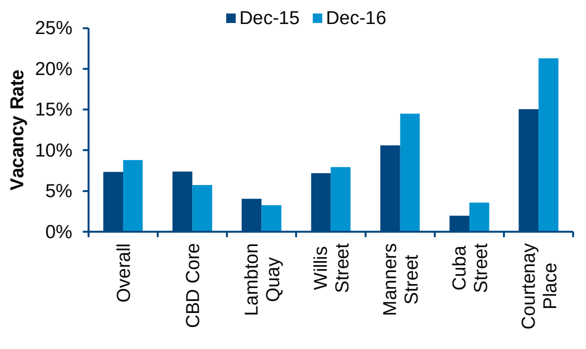
In Auckland, Goodman has recently announced it will be investing in excess of $44 million across five developments at Highbrook Business Park. Two of those will be industrial facilities, as well as future stages of The Crossing (offices), and a Quest serviced apartment expansion.

Office Investor Confidence – Three Main Centre



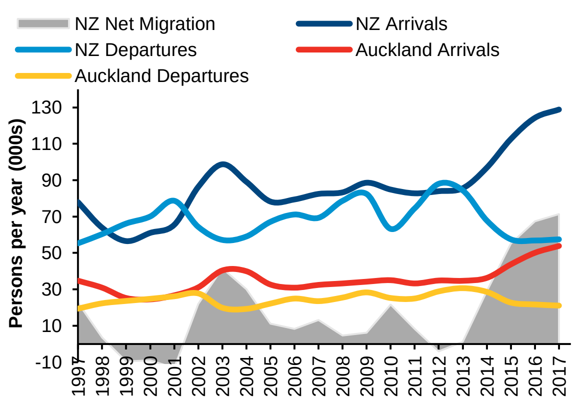
Source: Colliers International Research

Wellington Retail Vacancy



Source: Colliers International Research

Permanent Arrivals and Departures



Source: Statistics New Zealand, Colliers International Research

Wellington Office Market Bounces Back (continued...)

Spark is committing to a new 5,085 sqm purpose built, four level office development in Cathedral Square, being developed by Nexus Point, signaling a return to the CBD in Christchurch.

Strong net migration in the year to February rose to 71,333, the fifth consecutive month of net migration gains, setting a record yet again.

The tourism boom has stimulated increased overseas investor interest with four hotel developments announced in the last month. The developments includes a $60 million, Holiday Inn Express in Queenstown, 21 level, Four Points by Sheraton Hotels in central Auckland, a 6 level, Sebel Hotel in Manukau City, and a 7 level, Hilton DoubleTree in Wellington.

The combination of these developments will add a much needed 742 additional guest rooms to the accommodation supply. There are no signs of a slow down in visitor numbers, as more arrive for the World Masters Games and the British and Irish Lions Tour, which will add further pressure to the accommodation supply.

Commercial Interest Rate Guide

Date	3 Year Term (Indicative Borrowing Rate)
Apr-16	4.83%
May-16	4.85%
Jun-16	4.88%
Jul-16	4.77%
Aug-16	4.59%
Sept-16	4.52%
Oct-16	4.57%
Nov-16	4.81%
Dec-16	4.96%
Jan-17	5.22%
Feb-17	5.10%
Mar-17	5.10%

Source: ANZ Bank & Colliers International

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.

New Zealand Key Economic Indicators – April 2017

	Dec-16 (yr rate)	Dec-16 (qtr rate)	Sep-16 (qtr rate)	Q-o-Q Change	Dec-15 (yr rate)	Y-o-Y Change	2017F*	2018F*	2019F*
GDP Growth	2.7%	0.4%	0.8%	-0.4%	2.2%	0.5%	3.1%	2.9%	3.4%
Current Account (% of GDP)	-2.7%	NA	NA	NA	-3.4%	0.6%	-3.2%	-4.0%	-4.5%
	Dec-16 (yr rate)	Dec-16 (qtr rate)	Sep-16 (qtr rate)	Q-o-Q Change	Dec-15 (yr rate)	Y-o-Y Change	2017F*	2018F*	2019F*
CPI Inflation	1.3%	0.4%	0.3%	0.1%	0.1%	1.3%	1.0%	1.8%	1.8%
Net Migration Gain (000's)	70	18	18	1	65	5	71	69	62
Retail Sales (ex-auto)	5.0%	0.8%	0.4%	0.4%	4.9%	0.1%	5.6%	5.0%	5.4%
Unemployment Rate	5.1%	5.2%	4.9%	0.3%	5.4%	-0.3%	5.0%	4.8%	4.8%
	Jan-17 (yr rate)	Dec-16 (yr rate)	M-o-M Change	Jan-16 (yr rate)	Y-o-Y Change	10 Year Average	2017F*	2018F*	2019F*
Tourist Numbers Growth	6.9%	9.9%	-1.9%	5.1%	1.7%	3.7%	7.0%	6.5%	4.9%
Official Cash Rate	1.75%	1.75%	0 bps	2.5%	-75 bps	3.61%	1.75%	1.75%	2.50%
90 Day Bank Bill Rate	2.0%	2.0%	4 bps	2.6%	-60 bps	3.9%	2.0%	1.9%	2.5%
10 Year Government Bond	3.3%	3.2%	6 bps	3.1%	23 bps	4.6%	3.0%	3.5%	3.8%
Floating Mortgage Rate	5.7%	5.7%	1 bps	5.8%	-5 bps	6.8%	5.1%	5.1%	5.6%
3 Year Fixed Housing Rate	5.5%	5.5%	0 bps	5.4%	16 bps	6.9%	NA	NA	NA
Consumer Confidence	127	129	-1%	120	6%	119	NA	NA	NA
NZD vs US	0.72	0.71	1%	0.66	9%	0.75	0.70	0.69	0.67
NZD vs UK	0.58	0.58	0%	0.46	25%	0.47	0.57	0.53	0.50
NZD vs Australia	0.94	0.95	-1%	0.93	1%	0.85	0.92	0.91	0.87
NZD vs Japan	82	82	0%	76	7%	74	79	80	81
NZD vs Euro	0.68	0.67	1%	0.60	14%	0.57	0.66	0.68	0.69

Source: NZIER, Colliers International Research
*March year forecast

Office

Auckland metropolitan office vacancy reached 5.6%, an eight-year low in September 2016. Developers that had the foresight and ability to absorb higher levels of risk and plan for this a few years ago, are now receiving strong enquiry for their new premises. By March 2019, we expect overall stock to increase by 5% and vacancy to only peak at 8.2% (lower than the March 2014 vacancy rate).

In the last quarter, we have seen the completion of Auckland Airport's Quad 7, Mitre 10's Albany head office and EMA's employment campus in Newmarket. Increasing the office stock by 18,600 sqm. A further 17,500 sqm is expected to be completed by the end of this year.

Retail

A new 590 sqm dining precinct at 125 Queen Street has been completed and is now is in the process of being leased.

The developer, Special Situations Assets Limited, acquired the building in 2014 after it had been vacant for five years, with the goal to bring premium retail, dining and office space to the Auckland CBD market.

New World supermarket is in the basement of the building, with the ground floor hosting ASB along with further retail space still available for lease. The dining precinct is located on level 1, with a gym, crèche and 28 level office tower directly above. The exterior also has a giant LED signage screen for tenant use.

The laneway style dining precinct is similar to the already established Elliot Stables and can be accessed through the iconic façade on Queen Street or at street level on Swanson Street.

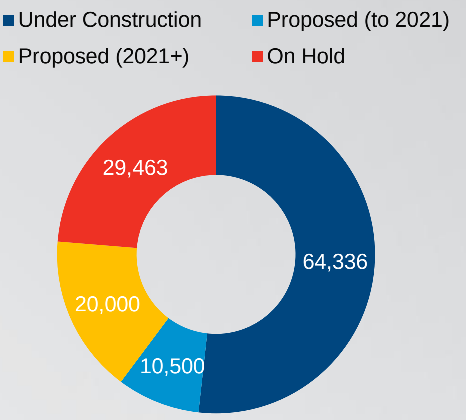
Industrial

The strength in the Auckland Industrial market continues with our latest survey showing 2.1% overall vacancy, the lowest on record since our survey began over 20 years ago. In the last six months, prime vacancy has declined from 1.7% to 1.4%, and secondary vacancy from 2.4% to 2.3%.

Despite over 250,000 sqm of new development being completed in the past 12 months, the amount of prime space available remains tight, causing an overflow of demand into the secondary sector, particularly concentrated in Mt Wellington, Onehunga / Penrose and Rosebank / Avondale Areas.

This recent crop of developments includes the new state of the art Sistema factory of 53,000 sqm completed Q3 2016 at Auckland Airport.

Auckland Metropolitan Office Development Pipeline (sqm)

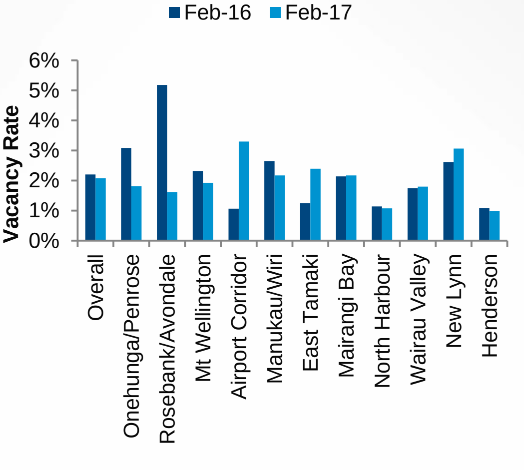


Source: Colliers International Research

Queen's Rise, 125 Queen Street, Auckland

Source: Colliers International Research

Auckland Industrial Vacancy



Source: Colliers International Research

Recent New Zealand Commercial Property Sales Activity							
Address	Location	Property Type	Price	Vendor	Purchaser	Floor Area Sale Price ($/m^2)	Yield (%)
67 Dalgety Drive	Wiri, Auckland	Industrial	$6,850,000	Argosy Property Ltd	Owner Occupier	$1,853	N/A
25 Hargreaves Street	Freemans Bay, Auckland	Industrial	$5,400,000	Wilberforce (Hargreaves St) Ltd	Private Investor	$3,800	4.5%
22 Ryan Place	Manukau, Auckland	Industrial	$4,435,000	SHSR Holdings Ltd	Private Investor	N/A	N/A
46 Andrew Baxter Drive	Airport Corridor, Auckland	Industrial	$3,900,000	Private Vendor	Private Trust	$2,148	5.08%
422-430 Ngongotaha Road	Rotorua	Industrial	$2,400,000	Private Vendor	Private Investor	N/A	Vacant Possession
227 Maunganui Road	Mount Maunganui, Tauranga	Commercial Mixed	$1,725,000	Maunganui Investments Ltd	Private Investor	N/A	N/A
22-26 Tuwharetoa Street	Taupo	Retail	$1,250,000	Family Trust	Family Trust	N/A	6.8%

Recent New Zealand Commercial Property Leasing Activity					
Address	Location	Property Type	NFA (m^2)	Lessor	Lessee
14 Macrae Avenue	Mount Maunganui, Tauranga	Industrial	2,827	Confidential	Confidential

46 Andrew Baxter Drive
Airport Corridor, Auckland

22-26 Tuwharetoa Street
Taupo

227 Maunganui Road
Mount Maunganui, Tauranga

New Zealand Prime Indicators							
Property Sector	Prime Rents (% Change)		Prime Capital Values (% Change)		Prime Vacancy Rate		
	12-Months to Mar-17	12-Month Forecast	12-Months to Mar-17	12-Month Forecast	Historical	Current	12-Month Forecast
Office					Mar-16	Mar-17	Mar-18
Auckland Metropolitan***	5.8%	1.1%	9.7%	4.8%	5.7%	6.1%	8.9%
Office					Dec-15	Dec-16	Dec-17
Auckland CBD	7.6%	6.5%	14.7%	7.7%	1.2%	2.8%	5.4%
Wellington CBD**	4.4%	24.5%	8.8%	31.3%	2.1%	1.2%	N/A
Industrial*					Feb-16	Feb-17	Feb-18
Auckland	3.6%	2.0%	12.6%	2.0%	1.7%	1.4%	2.2%
Industrial*					Sep-15	Sep-16	Sep-17
Christchurch	1.0%	0.0%	6.1%	0.0%	0.3%	0.3%	0.5%
Industrial*					Nov-15	Nov-16	Nov-17
Wellington**	3.9%	5.0%	6.7%	5.0%	4.0%	0.6%	1.0%
Retail					Dec-15	Dec-16	Dec-17
Auckland CBD	1.7%	4.0%	11.2%	4.0%	2.5%	2.4%	2.2%
Wellington CBD**	6.7%	-0.6%	9.6%	-2.1%	7.3%	8.8%	7.1%
Auckland Shopping Centre	7.0%	5.1%	13.0%	5.1%	1.3%	1.7%	1.6%

Source: Colliers International Research *A combination of industrial office and warehouse space at a ratio of 20:80
**Wellington rental figures are gross and capital values based on net rent. Wellington Retail Vacancy figures are overall. ***Financial indicators are Auckland City Fringe.

NZ Listed Property Update | April 2017

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Property stocks underperform the broader equity market

The listed property (LPV) sector materially underperformed the broader equity market over 2016, with the gross property benchmark up +2.7%, below the +8.8% total return for the NZX50G. This underperformance has continued in 2017 with LPV's returning +1.7% YTD, driven predominantly by dividends, lagging the broader equity market which is up +5.9%. We view this underperformance as macro in nature with long term interest rates rising materially since August 2016 lows (+100bps), which has driven defensive yield stocks such as the LPV's out of favour. Despite these macro headwinds, the sector is in good shape from a bottom-up perspective. Portfolios remain near fully occupied with strong tenant demand across a number of sectors, and LPV's continue to take advantage of strong investment market conditions by recycling lower quality assets.

The sector looks fair value from a bottom-up perspective

The sector continues to benefit from net tangible asset (NTA) expansion, with Property for Industry (PFI), Vital Healthcare (VHP), Goodman Property (GMT) and Kiwi Property Group (KPG) all announcing positive revaluation gains in 2017 thus far. While we expect market cap rate compression to slow (and similarly rising commercial property prices to slow), a number of listed portfolios still reflect lagged valuations from March or June 2016 and thus the outlook for NTA's is still positive. Following the recent pull-back in share prices, the core NZ LPV's are now trading at a discount to net tangible assets (NTA), which does provide a degree of downside support (see chart below).

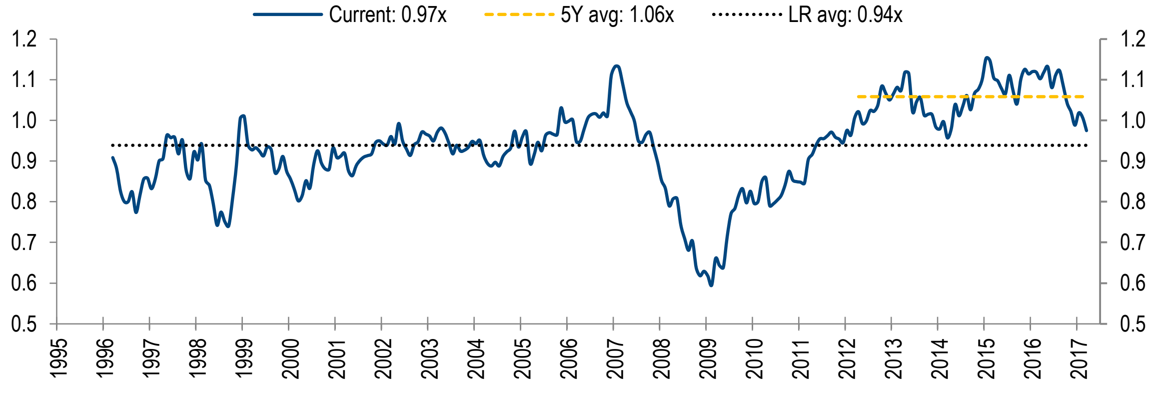
Rising interest rates impact dividend yields but not earnings

The LPV dividend yield spread to interest rates has stayed relatively constant over the past year, and the recent move higher in interest rates has already been reflected in stock prices in our view. Another risk of rising interest rates is the impact this can have on earnings as interest is the largest cost for LPV's. Despite the significant rise in long term interest rates seen in recent months, these still remain lower than the average rates LPV's have been paying as a result of historic interest rate hedging, and we are of the view there is still downside to the base cost of debt for some LPV's. In addition, floating base rates remain at historic lows and are forecast to remain low for some time.

Portfolio activity heats up in 2017

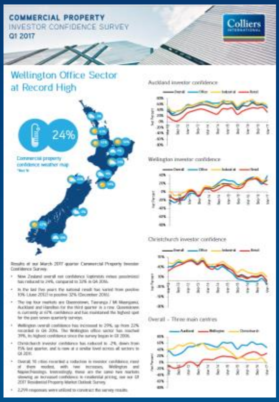
The sector has seen an unprecedented level of active portfolio management in recent years and this has continued in 1Q17. VHP has extended its acquisition strategy, purchasing two private medical hospitals for ~NZ$55m (Abbotsford Private Hospital in Perth and Ormiston Hospital in Auckland) as well as its fifth aged care facility in Australia for A$9m, while GMT has pushed ahead on NZ$50m of developments at Highbrook Business Park. This includes an extension to the Quest Hotel, a new office building, a new car park building and two spec industrial developments. A number of key existing projects have also progressed in 1Q17, with KPG completing large refurbishments and seismic strengthening for three Wellington office buildings (44 The Terrace, The Aurora Centre and The Majestic Centre) and Precinct Properties (PCT) completing the new Mason Brothers Building in Wynyard Quarter, as well as achieving 64% pre-commitment for the Commercial Bay office tower due for completion in 2019.

Core LPV price to net tangible assets



Note: Average P/NTA for core LPV stocks (Argosy Property, Investore, Goodman Property, Kiwi Property, Precinct Properties and Property for Industry).
Source: Company reports, Forsyth Barr analysis.

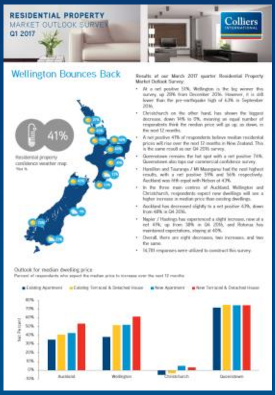
Recent New Zealand Research Reports



Colliers International Commercial Property Investor Confidence Survey | Q1 2017

Wellington Office Sector at Record High

Colliers' quarterly confidence survey asks commercial property market participants about their views on the outlook for commercial property investment over the next 12 months across New Zealand.



Colliers International Residential Property Market Outlook Survey | Q1 2017

Wellington Bounces Back

Colliers' quarterly market outlook survey asks residential property market participants if the median house price will stay the same, decrease, increase by less than 5%, or increase by more than 5% over the next 12 months across New Zealand.

New Zealand Research Report | March 2017

Wellington CBD Office - what you need to know

In this edition we provide a snapshot of the Wellington CBD office's post-quake vacancy survey results that Colliers International has just completed.

Colliers International New Zealand Research Workplace Report | December 2016

Workplace & Occupational Trends across New Zealand

The workplace is changing. There is on-going demand for more efficient, agile and flexible space to meet the needs of a new workforce. Tenants are implementing new designs to meet demand, increase density and keep costs down.

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