

## Economic Growth Drives Market Along

As we head into the second half of 2017, strong economic performance continues to drive the commercial property sector to new records, but this is not without its challenges. We take a look at how the asset classes are performing so far and what tenants and landlords can expect over the remainder of the year.

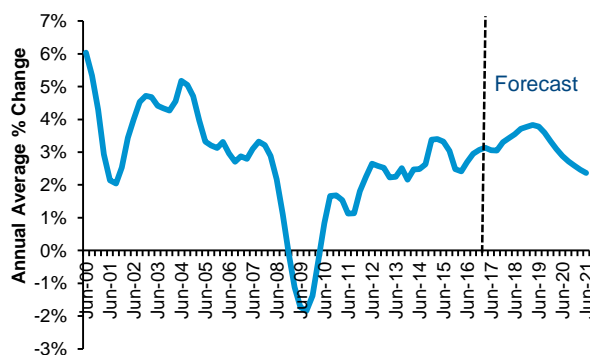
Strong population growth, a boom in the tourism market, and investment in construction projects have been some of the key contributors to New Zealand's success so far. Based on Treasury forecasts, average GDP growth will average around 3.1% over the next five years. Population growth is expected to remain elevated over the short term with net annual migration expected to peak at 72,500 in mid-2017, before beginning to ease. Unemployment will remain low.

New Zealand's success brings challenges. One of the Government's priorities in the latest Budget announcement is investment in infrastructure. About one third of the Government's \$32.5 billion investment will be spent on new roads and rail upgrades over the next four years. Another challenge has been the construction industry's struggle with capacity constraints which have pushed up the cost of construction. This may ease somewhat, as interest rates continue to increase, potentially slowing the number of new buildings built.

### Highly Skilled Workers Wanted

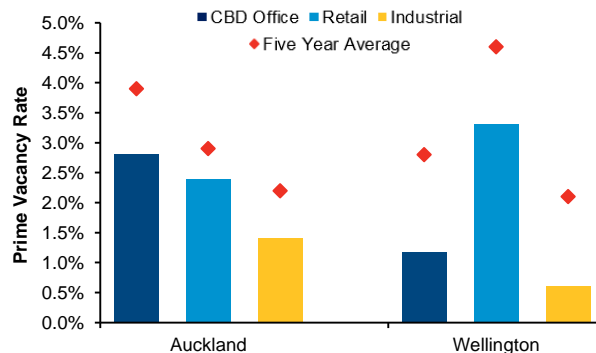
Ministry of Business, Innovation and Employment's latest Short-Term Employment Forecast report suggests that demand will be strongest for highly skilled workers in the three years to 2020. Highly skilled occupations (mostly managers and professionals) will grow faster (2.9%) than overall employment growth (2.0%) on average between 2017 and 2020. Auckland will make up 43% (or 67,100 workers) of New Zealand's total employment growth over the next three years. Growth in white collar jobs

New Zealand GDP Growth



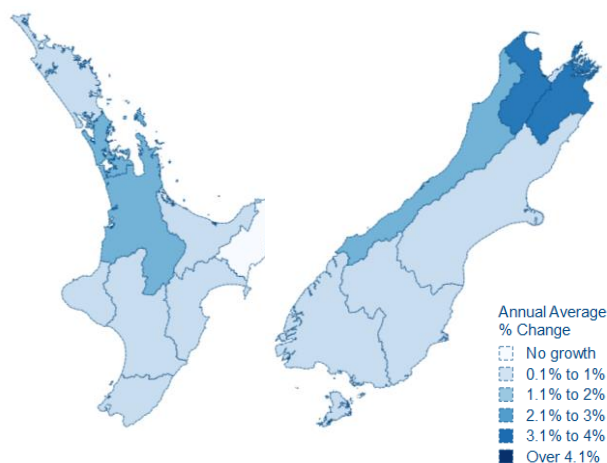
Source: Stats NZ, RBNZ, Colliers International Research

Prime Vacancy Rate by Sectors



Source: Colliers International Research

Employment Growth by Region (2017-2020)



Source: MBIE, Colliers International Research

## Economic Growth Drives Market Along (Continued...)

...will continue to drive demand for office space especially in Auckland, where overall vacancy is at its lowest ever level of 5.3%. The completion of a major CBD office tower is still more than two years away, allowing prime CBD rents to remain buoyant in the short term. Even when the new office buildings are completed, we don't see vacancy blowing out. We will be releasing our annual Auckland Metropolitan Office Report for 2017 later this month, including more insights on what is happening in this space.

Despite the adverse impacts from the quake in Wellington, commercial investor confidence in Q1 2017 remained strong, at 39% (net positive) for the Wellington office sector. The market still heavily favours landlords with the removal of stock pushing up rental rates for the remaining prime office space in the Wellington CBD.

### A Mixed Bag

The retail environment is proving more challenging to some retailers than others. The demise of Banks Group (which runs brands including Banks Shoes and Shoe Connection) and PK Furniture, adds to a growing list of retailers which have gone out of business this year. It highlights the cost burden associated with establishing brick and mortar stores including high rents in prime areas, wages, shop

expenses and freight costs. At the same time, trying to compete in a crowded retail market (especially in fashion), where there is a growing presence of online retailers – Amazon for example – is challenging.

Being on the main street with high exposure still matters a great deal to retailers, with prime CBD retail rents up 1.7% and 6.7% over the past year in Auckland and Wellington respectively. Prime retail vacancy remains tight, and provides an opportunity for landlords to push rents higher in these areas.

### Trucking Along Nicely

Goodman Property Trust's latest annual results have seen the listed property fund investing more in industrial, repurposing approximately 14 hectares of land from office to industrial across Highbrook Business Park. Demand for prime industrial property remains strong with the Goodman portfolio reporting 100% occupancy across its entire industrial estates. Our vacancy survey in February 2017 also highlights record low overall vacancy across suburbs such as Onehunga / Penrose (1.8%) and Rosebank / Avondale (1.6%).

Industrial buildings that have been speculatively built are strongly in demand. Increasing land values and construction costs will moderate the amount of new industrial development in the short term, but expect more speculative development. This all bodes well for rental growth.

New Zealand Key Economic Indicators – June 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%	-2.9%	-2.6%	-3.1%
	Mar-17 (yr rate)	Mar-17 (qtr rate)	Dec-16 (qtr rate)	Q-o-Q Change	Mar-16 (yr rate)	Y-o-Y Change	2017F*	2018F*	2019F*
CPI Inflation	1.8%	0.6%	0.4%	0.2%	0.4%	1.3%	1.0%	1.7%	1.8%
Net Migration Gain (000's)	71	18	18	0	67	4	71	70	63
Retail Sales (ex-auto)	5.6%	1.6%	1.0%	0.6%	3.8%	1.8%	5.8%	5.3%	5.4%
Unemployment Rate	5.0%	4.9%	5.2%	-0.3%	5.3%	-0.3%	5.0%	4.6%	4.5%
	Apr-17 (yr rate)	Mar-17 (yr rate)	M-o-M Change	Apr-16 (yr rate)	Y-o-Y Change	10 Year Average	2017F*	2018F*	2019F*
Tourist Numbers Growth	11.8%	6.7%	4.1%	11.1%	0.7%	4.3%	7.0%	6.5%	4.9%
Official Cash Rate	1.75%	1.75%	0 bps	2.3%	-50 bps	3.51%	1.75%	1.75%	2.50%
90 Day Bank Bill Rate	2.0%	2.0%	-1 bps	2.3%	-37 bps	3.8%	2.0%	1.9%	2.5%
10 Year Government Bond	3.1%	3.3%	-23 bps	2.9%	19 bps	4.6%	3.0%	3.5%	3.8%
Floating Mortgage Rate	5.8%	5.8%	1 bps	5.6%	16 bps	6.8%	5.7%	5.3%	5.8%
3 Year Fixed Housing Rate	5.5%	5.5%	0 bps	5.3%	27 bps	6.9%	NA	NA	NA
Consumer Confidence	125	125	0%	120	4%	119	NA	NA	NA
NZD vs US	0.70	0.70	0%	0.69	2%	0.75	0.70	0.69	0.68
NZD vs UK	0.57	0.57	-1%	0.48	17%	0.47	0.57	0.53	0.50
NZD vs Australia	0.92	0.92	0%	0.90	2%	0.85	0.92	0.92	0.88
NZD vs Japan	79	79	0%	76	5%	74	79	80	81
NZD vs Euro	0.66	0.66	0%	0.61	8%	0.58	0.66	0.68	0.69

Source: NZIER, Colliers International Research

\*March year forecast

## Office

We will be releasing our annual Auckland Metropolitan Office Report, "Development Takes Shape", later this month. Here is a sneak preview of the report:

Auckland is the economic powerhouse of New Zealand – contributing 37% of the national GDP. Growth in population, employment and increased construction activity brings new challenges.

Record low vacancy rates in the CBD have made it difficult for businesses to find affordable office space. The spill over effect has seen strong demand for metropolitan office accommodation where only 108,000 sqm (6.3%) is still available, well below the 10-year average of 8.2%.

Business confidence remains high, with many companies over the last few years enjoying a pattern of steady growth. There is a greater focus on improving office efficiency and cost savings.

Demand for more efficient, agile and flexible space is on the rise.

## Retail

The latest Retail Trade Survey from Stats NZ shows retail spending (value) is up 7.5% in March 2017 from the same quarter last year. This is the largest increase since 2007.

Retail sales for bulky goods have outpaced all other categories achieving annual growth in national spending of 8.2% in the year to March 2017. High Street Retail continues achieving high levels of retail spending growth, with an upward trend since mid 2012. Supermarket & Grocery Retail has remained relatively steady over the past year.

According to Stats NZ, nine of the 15 industries had higher sales volumes than the previous quarter, with the motor vehicle and parts industry recording the largest increase of 5.9%, with electrical and electronic goods close behind at 5.3%.

## Industrial

The ANZ Truckometer is an economic index tracking traffic flow as a proxy for the country's economic activity. Given the index has a strong correlation with current and future GDP, it also provides an insight into investment activity in the commercial property market and therefore expected movement on prime industrial yields (see chart to the right).

The heavy traffic index corresponds with current GDP with the light traffic index indicating GDP in six months time.

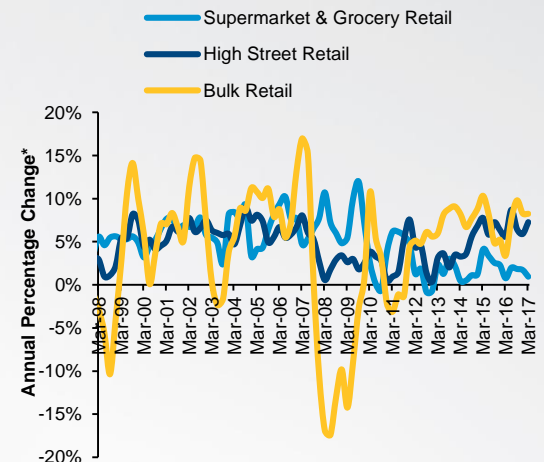
The light traffic index has reduced by 1.5% in the month to April 2016. However ANZ stated that this mild flattening would only suggest an easing in growth, and could just be due to the dire weather experienced in April.

## Auckland Metropolitan Office Report "Developments Take Shape"



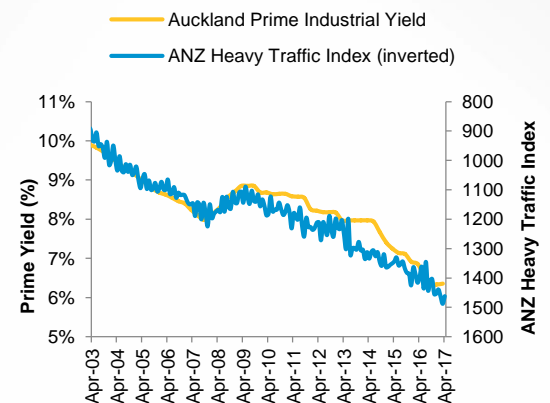
Releasing in June - Download a copy at <http://www.colliers.co.nz/find-research/office/>

## New Zealand Retail Sales by Category



Source: Stats NZ, Colliers International Research  
\*Seasonally adjusted

## ANZ Truckometer vs Prime Yields



Source: ANZ, Colliers International Research

### Recent New Zealand Commercial Property Sales Activity

Address	Location	Property Type	Date	Price
Bayleys House, 30 Gaunt Street	Wynyard Quarter, Auckland	Office	May-17	\$63,300,000 (GIC/GPT JV)
4 Maui Street	Pukete, Hamilton	Retail	May-17	\$3,260,000
6 Target Court	Wairau Valley, Auckland	Industrial	May-17	\$3,200,000
42-44 Hurstmere Road	Takapuna, Auckland	Retail	May-17	\$3,125,000
193 Shakespeare Road	Milford, Auckland	Development Site / Office	May-17	\$3,100,000
24A Harris Road	East Tamaki, Auckland	Retail	May-17	\$1,850,000
31-33 Bridge Street	Nelson	Retail	May-17	\$1,600,000
39D Lady Ruby Drive	East Tamaki, Auckland	Industrial	May-17	\$1,410,000
3 Omahi Street	Waikana, Kapiti Coast	Mixed Use	May-17	\$1,390,000
11 Donnelly Street	Havelock North, Hastings	Office	May-17	\$1,135,000

### Recent New Zealand Commercial Property Leasing Activity

Address	Location	Property Type	Date	NFA (m <sup>2</sup> )	Lessor	Lessee
82 Wyndham Street	Auckland Central	Office	Apr-17	2,656	Argosy Property	Panuku Development Auckland



Bayleys House, 30 Gaunt Street  
Wynyard Quarter, Auckland



42-44 Hurstmere Road  
Takapuna, Auckland



4 Maui Street  
Pukete, Hamilton

### 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.

# NZIER QUARTERLY PREDICTIONS | June 2017

Text reproduced with permission from Christina Leung, Senior Economist & Head of Membership Services, NZIER. Published 31 May 2017.

## Inflation lifting against positive domestic backdrop

Recent developments continue to point to a bright domestic outlook. The construction pipeline remains solid, reflecting strong demand from the continued surge in net migration. Tourists are flocking to New Zealand from a wide range of countries, boosting regional growth. In addition, Fonterra's upward revision to its dairy payout points to a key sector of the New Zealand economy being back in the black. We expect annual GDP growth to average 3.2 percent over the next five years, and unemployment to keep falling to around 4.3 percent.

## Downside risks to global growth outlook

In contrast, the global backdrop remains highly uncertain. Although economic activity and inflation in the major economies are starting to pick up, heightened geopolitical tensions present a downside risk to the global growth outlook. As a small open economy, New Zealand will not be immune to any downturn in the major economies.

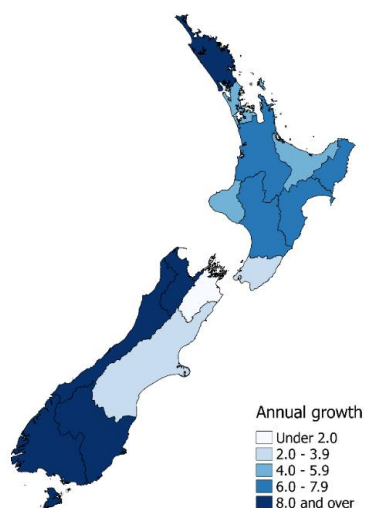
## TPP11 still beneficial for New Zealand exporters

On a positive note, despite the United States' withdrawal from the Trans-Pacific Partnership, negotiations are to take place on a new agreement amongst the remaining 11 countries in the form of TPP11. Whilst the exclusion of the US means the TPP11 will not have the same level of benefits for New Zealand exporters as the original agreement, if negotiations succeed it will nonetheless improve access into key markets such as Japan, Canada and Mexico.

## We expect RBNZ to lift OCR from mid-2018

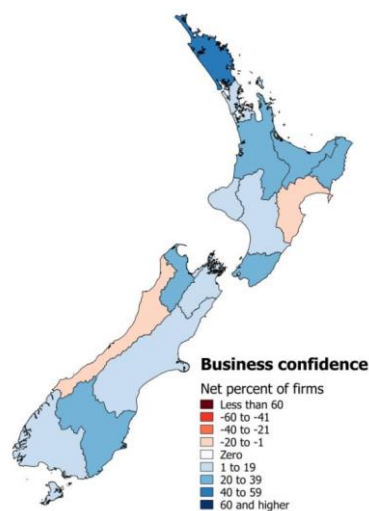
The lift in CPI inflation back to around the mid-point of the Reserve Bank's 1 to 3 percent target band has taken some of the pressure off the central bank. This, combined with inflation expectations lifting, means the focus has turned to when the Reserve Bank will begin lifting the OCR. Although the central bank has indicated it expects to remain on hold until later in 2019, recent developments suggest an earlier tightening. We continue to expect the Reserve Bank will begin lifting the OCR in mid-2018.

Tourism Spending (past year)



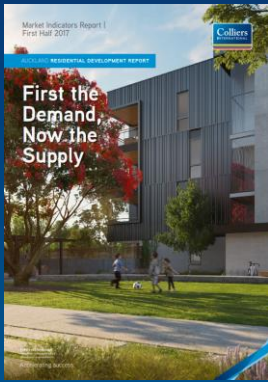
Source: MBIE, NZIER

Quarterly Survey of Business Opinion



Source: Statistics NZ, NZIER

# Recent New Zealand Research Reports



## Colliers International New Zealand Research Residential Development Report | 1H 2017

### First the Demand, Now the Supply

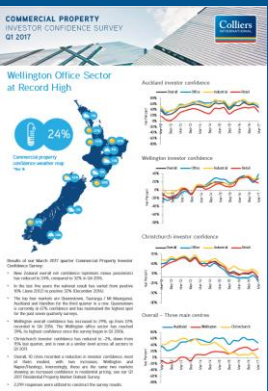
Auckland's new apartment market is booming, with a record number of apartments due to be completed over the next two years.



## Colliers International New Zealand Research Report | May 2017

### Onwards and Upwards

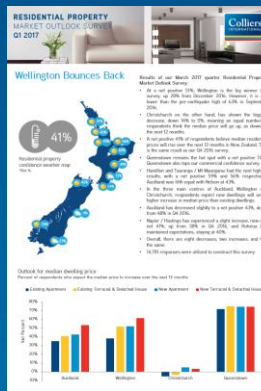
In this edition, we take a look at the effects of rising construction costs in the residential and commercial sectors.



## 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.

## For more information contact:

**Alan McMahon**  
National Director  
Research & Consulting

**Chris Farhi**  
Director  
Strategic Consulting

**Leo Lee**  
Research Manager

**Caity Pask**  
Senior Analyst  
Strategic Consulting

**Elena Christodoulou**  
Research Analyst

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

**Emily Duncan**  
Research Analyst

**WINNER:** Colliers International  
2015 & 2016 RICS Award  
Research & Consulting  
Team of the Year

**2**  
YEARS  
RUNNING

## Colliers International Research and Consulting offers a range of property solutions:

- Property Investment Strategies
- Demand and Supply Studies
- Market Analysis and Forecasts
- Feasibility Analysis
- GIS Mapping and Spatial Analysis
- Catchment Analysis
- Lease Audit and Benchmarking
- Site Options Analysis
- Corporate Real Estate Strategy
- Financial Analysis
- Transaction Negotiation



www.colliers.co.nz/  
find-research

To sign up to research and/or participate in our surveys please contact:  
[aimie.simpson@colliers.com](mailto:aimie.simpson@colliers.com)



Accelerating success.

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 2017. Licensed REAA 2008 and may not be reproduced without expressed permission.