NEW ZEALAND
RESEARCH REPORT

November 2017

Not Enough to Go Around

The value of New Zealand's commercial property sales so far this year is lower than recent years, but this isn't a surprise, considering the previous three years have been New Zealand's most active. In the last few years, interest rates have been at historic lows, spurring commercial investment interest locally and globally. In this edition, we take a look at the latest commercial property sales data and the patterns that are emerging across the country.

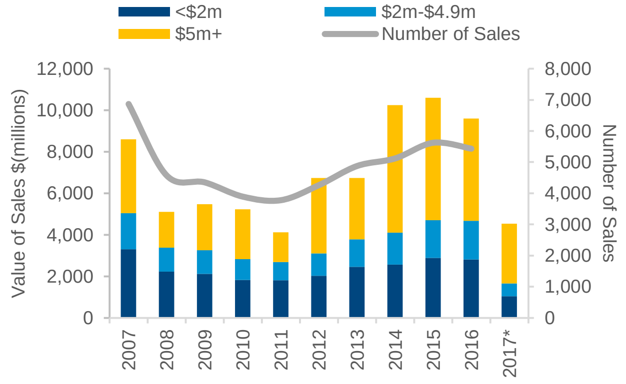
$5 million plus the sweet spot
The aggregate value of New Zealand commercial sales for the ten months to October 2017 has reached $4.5 billion, made up of 2,099 sales. At the same time last year, sales were 73% higher ($7.8 billion), and the year finished at $9.6 billion of total sales.

Investors this year have been purchasing assets at the higher end of the value spectrum ($5 million and more) accounting for over 63% of total sales value. There has been a corresponding decline in the $2 million to $4.9 million segment.

Auckland unstoppable
Auckland continues to be the dominant force, accounting for 59% ($2.7 billion) of all commercial sales activity by total value so far this year, eclipsing the other main centres. Canterbury grew to 12% ($522 million) and Wellington dropped to 6% ($270 million). Hamilton and Tauranga continue to be the regional hotspots.

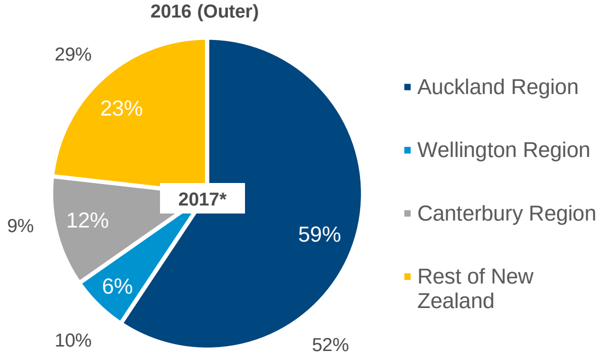
Industrial sector still a favourite
Industrial property is still the favourite among investors, making up 38% ($1.7 billion) of the total value of commercial sales so far this year – 52% of which have transacted in the $5 million plus price segment. The proportion of office sales is 26% so far this year, compared to 22% in 2016 (full year). These increases come at the expense of the retail sector, which has struggled both in total value and volume, reflecting sluggish dynamics in the retail market presently.

NZ Commercial Property Sales

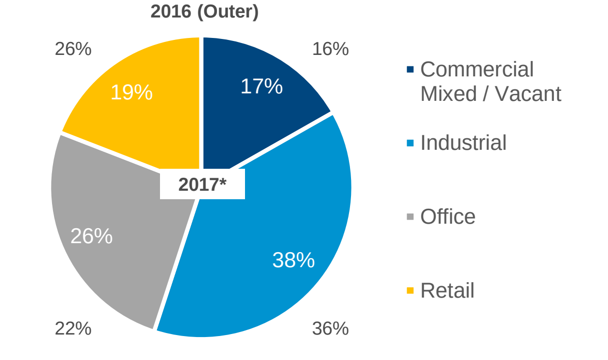


Source: CoreLogic, Colliers International Research
*2017 sales data up to October only (not full year).

NZ Commercial Property Sales 2017 v 2016* By Region



NZ Commercial Property Sales 2017 v 2016* By Property Type



Source: CoreLogic, Colliers International Research
*2017 sales data up to October only (not full year).
**2016 sales data is full year.

Not Enough to Go Around (continued...)

A new phase of the cycle

The availability of prime assets for sale will continue to be scarce. 2016 saw some of the largest commercial sales ever, including the sale of The Millennium Centre in Auckland at $210 million. Sales in 2015 were even stronger peaking at $10.5 billion, with the big ex-Westfield shopping centres changing hands.

Against that backdrop, the decline in sales volume and value expected this year should not be construed as a lack of investment appetite. The reason is simply the lack of assets for sale. Demand for investment remains buoyant. When a quality asset is offered for sale, there are usually multiple bids, there are just not enough to go around.

The new government is tightening rules around foreign ownership of property and land. While the suggestions so far have mainly been concerned with residential and farms, overall property sentiment is bound to be affected until details are known.

ANZ's latest Business Outlook survey for October 2017, shows a marked increase in sentiment around residential and commercial construction. Most survey responses were received in the first half of October before the final government coalition was decided. The residential construction index moved up to 31.3 from 17.6 a month ago, while the commercial construction index moved up to 42.8 from 17.7.

ANZ Business Outlook – October 2017

Indicator	Oct-17	Sept-17
Business Confidence	-10.1	0.0
Investment	12.3	13.2
Employment	14.2	15.1
Ease of Credit	-30.7	-26.2
Residential Construction	31.3	17.6
Commercial Construction	42.8	17.7

Source: ANZ

Commercial Interest Rate Guide

Date	3 Year Term (Indicative Borrowing Rate)
Jun-17	4.96%
Jul-17	5.07%
Aug-17	4.87%
Sep-17	4.87%
Oct-17	4.94%
Nov-17	4.86%

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.

New Zealand Key Economic Indicators – November 2017

	Jun-17 (yr rate)	Jun-17 (qtr rate)	Mar-17 (qtr rate)	Q-o-Q Change	Jun-16 (yr rate)	Y-o-Y Change	2018F*	2019F*
GDP Growth	2.5%	0.8%	0.6%	0.2%	3.5%	-1.0%	3.1%	3.6%
Current Account (% of GDP)	-2.8%	NA	NA	NA	-2.7%	-0.1%	-2.0%	-2.6%
Retail Sales (ex-auto)	5.4%	2.0%	1.8%	0.2%	6.5%	-1.1%	6.0%	5.2%
	Jun-17 (yr rate)	Jun-17 (qtr rate)	Mar-17 (qtr rate)	Q-o-Q Change	Jun-16 (yr rate)	Y-o-Y Change	2018F*	2019F*
CPI Inflation	1.7%	0.0%	1.0%	-1.0%	0.4%	1.3%	1.8%	1.8%
Net Migration Gain (000's)	72	18	18	0	69	3	69	61
Unemployment Rate	5.0%	4.8%	4.9%	-0.1%	5.2%	-0.2%	4.4%	4.3%
	Sep-17 (yr rate)	Aug-17 (yr rate)	M-o-M Change	Sept-16 (yr rate)	Y-o-Y Change	10 Year Average	2018F*	2019F*
Tourist Numbers Growth	3.3%	5.8%	0.3%	11.5%	-8.2%	4.2%	6.5%	4.9%
Official Cash Rate	1.75%	1.75%	0 bps	2.0%	-25 bps	3.25%	1.75%	2.50%
90 Day Bank Bill Rate	2.0%	2.0%	0 bps	2.2%	-28 bps	3.5%	1.9%	2.5%
10 Year Government Bond	2.9%	2.9%	3 bps	2.4%	51 bps	4.4%	3.6%	4.1%
Floating Mortgage Rate	5.8%	5.8%	0 bps	5.6%	25 bps	6.6%	5.5%	6.1%
3 Year Fixed Housing Rate	5.5%	5.5%	0 bps	5.2%	32 bps	6.7%	NA	NA
Consumer Confidence	130	126	3%	121	7%	120	NA	NA
NZD vs US	0.72	0.73	-1%	0.73	-1%	0.74	0.71	0.68
NZD vs UK	0.55	0.56	-3%	0.56	-2%	0.48	0.53	0.50
NZD vs Australia	0.91	0.92	-2%	0.96	-6%	0.85	0.91	0.88
NZD vs Japan	80	80	0%	74	8%	73	81	81
NZD vs Euro	0.61	0.62	-2%	0.65	-7%	0.58	0.65	0.69

Source: NZIER, Colliers International Research
*March year forecast

Office

Our Auckland metropolitan office vacancy rate for September 2017, has reach record lows reducing to 5.1% overall with prime at 4.2% and secondary at 5.4%.

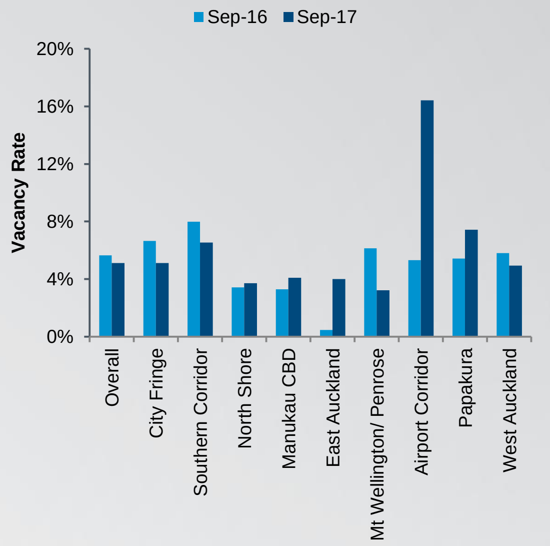
Precincts such as City Fringe and the Southern Corridor have experienced the largest reduction in vacancy with take up of space in the Cider Building, Millennium Centre and properties along Carlton Gore Road particularly notable.

The strong demand for metropolitan office accommodation has lead to only 87,000 sqm of available stock, the lowest in eight years. This despite over 22,000 sqm of new prime office supply across five buildings being completed in 2017.

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.

Landlords are also undertaking building refurbishments and upgrades to capture higher rentals and longer lease terms.

Auckland Metropolitan Office Vacancy Rate



Source: Colliers International Research

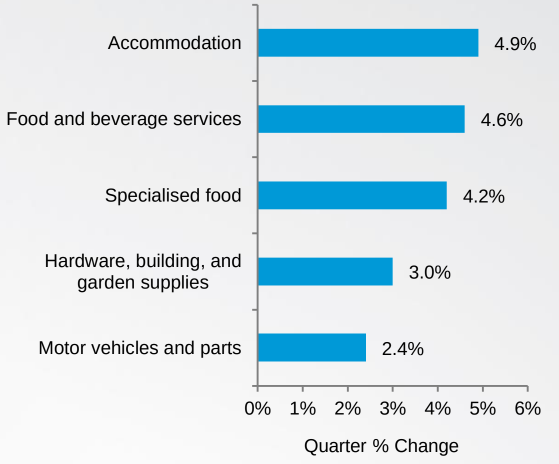
Retail

Retail sales in New Zealand rose 1.4% ($309 million) in the June 2017 quarter. Accommodation and food and beverage services had the largest increases in retail sales at 4.9% ($117 million) and 4.6% ($47 million). The increase reflected the influx of visitors for the World Masters Games and the Lions rugby tour held in New Zealand during the June quarter.

On a year to year comparison, all regions have experienced an increase since June 2015. Waikato had the strongest growth at 7.1%, followed by Auckland at 6.3%, Wellington at 6.2% and Christchurch at 2.4%.

Based on previous years, retail sales across all regions are expected to see a boost of around 12% to 15% around the Christmas period.

Retail Sales Values by Industry – Quarterly % Change



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

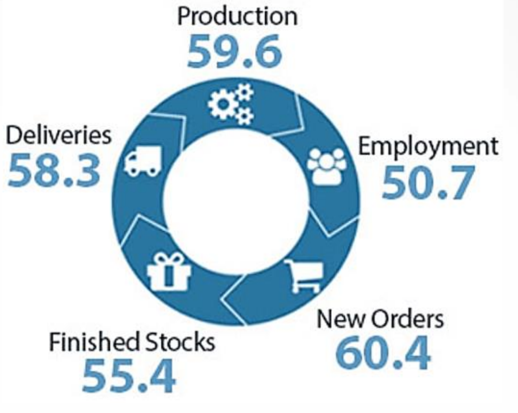
Industrial

The seasonally adjusted BNZ – Business NZ Performance of Manufacturing Index (PMI) for September 2017 was 57.5 (a PMI reading above 50.0 indicates that manufacturing is generally expanding; below 50.0 that it is declining). This was 0.4 points lower than August figure, but 0.3 points higher than the September 2016. The manufacturing sector has remained in expansion since October 2012.

In the last month, the employment index declined 5.9 points to 50.7. It is likely manufacturing firms were holding off on hiring until the new government was announced. In addition, firms have reported they are still hunting for employees but are having difficulty finding skilled staff.

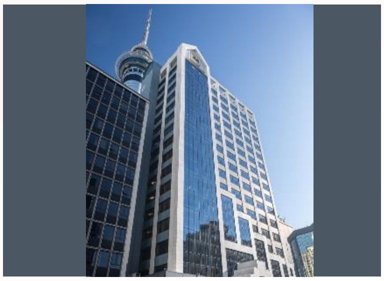
J.P. Morgan released the Global Manufacturing PMI for October 2017 (note: a different measure to BNZ). New Zealand (57.5) is currently above UK (56.9), Australia (54.2), US (53.0), Japan (52.6), China (51.6), and behind the Eurozone (58.2).

BNZ – Business NZ Performance of Manufacturing Index (PMI) – Main Indices



Source: BNZ, Business NZ

Recent New Zealand Commercial Property Sales Activity				
Address	Location	Property Type	Date	Price
Property for Industry Nine Property Portfolio Purchase	Nationwide	Industrial	Oct-17	$69,500,000
AA Centre, 99 Albert Street	Auckland Central	Office	Oct-17	$47,000,000
PlaceMakers, 24 Oteha Valley Road Extension	Albany, Auckland	Retail	Oct-17	$14,000,000
101-103 Fred Taylor Drive	Westgate, Auckland	Development Site	Oct-17	$10,500,000
17 Saleyards Road	Otahuhu, Auckland	Industrial	Oct-17	$6,300,000
22 William Pickering Drive	Albany, Auckland	Industrial	Oct-17	$6,030,000
1370-1376 Dominion Road	Mt Roskill, Auckland	Commercial Vacant	Oct-17	$3,950,000
Caltex Service Station, 21 Constellation Drive	Mairangi Bay, Auckland	Retail	Oct-17	$3,475,000
Unit 4, 35 William Picking Drive	Albany, Auckland	Industrial	Oct-17	$2,765,000
127 Newton Street	Mt Maunganui, Tauranga	Industrial	Oct-17	$1,200,000
Lumino, 28-42 Totara Avenue	New Lynn, Auckland	Retail	Oct-17	$1,175,000
54 Salisbury Street	Christchurch Central	Commercial Vacant	Oct-17	$775,000



AA Centre, 99 Albert Street
Auckland Central

17 Saleyards Road
Otahuhu, Auckland

28-42 Totara Avenue
New Lynn, Auckland

New Zealand Prime Indicators						
Property Sector	Prime Rents (% Change)		Prime Capital Values (% Change)		Prime Vacancy Rate	
	12-Months to Sep-17	12-Month Forecast	12-Months to Sep-17	12-Month Forecast	Current	12-Month Forecast
Office					Sep-17	Sep-18
Auckland Metropolitan***	9.6%	1.5%	14.1%	7.1%	4.2%	N/A
Office					Jun-17	Jun-18
Auckland CBD	7.4%	6.5%	11.7%	11.3%	3.8%	2.1%
Wellington CBD**	5.5%	22.7%	5.3%	33.8%	0.1%	0.2%
Industrial*					Aug-17	Aug-18
Auckland	2.2%	2.0%	2.4%	2.0%	1.3%	1.9%
Industrial*					Sep-15	Sep-16
Christchurch	0.0%	0.0%	0.7%	0.0%	0.3%	0.3%
Industrial*					Nov-15	Nov-16
Wellington**	7.9%	7.5%	11.1%	7.5%	4.0%	0.6%
Retail					Jun-17	Jun-18
Auckland CBD	1.8%	3.0%	9.1%	3.0%	2.8%	3.3%
Wellington CBD**	5.7%	-0.02%	6.6%	-0.03%	5.6%	5.2%

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 List Property Update | November 2017

Text reproduced with permission from Hayden Strickett, Equity Analyst, Forsyth Barr. Published 03 November 2017.

Listed property sector stuck in a holding pattern

Listed property vehicles (LPVs) continue to trade sideways while the broader equity market steams ahead. The S&P/NZX property benchmark was flat in October, while the S&P/NZX50 lifted +2.7%. Year-to-date, the sector has returned +5.7%, well behind the S&P/NZX50 which is up +18.4%, albeit still ahead of property stocks on the ASX, which are up just +0.2%. Despite long bond yields rising in 2H17, they are still down 30-40bps year-to-date, meaning the dividend yield spread has risen during the year (currently 420bps). The sector continues to trade at a small discount to book values (see figure below), which enhances the defensive characteristic of the sector.

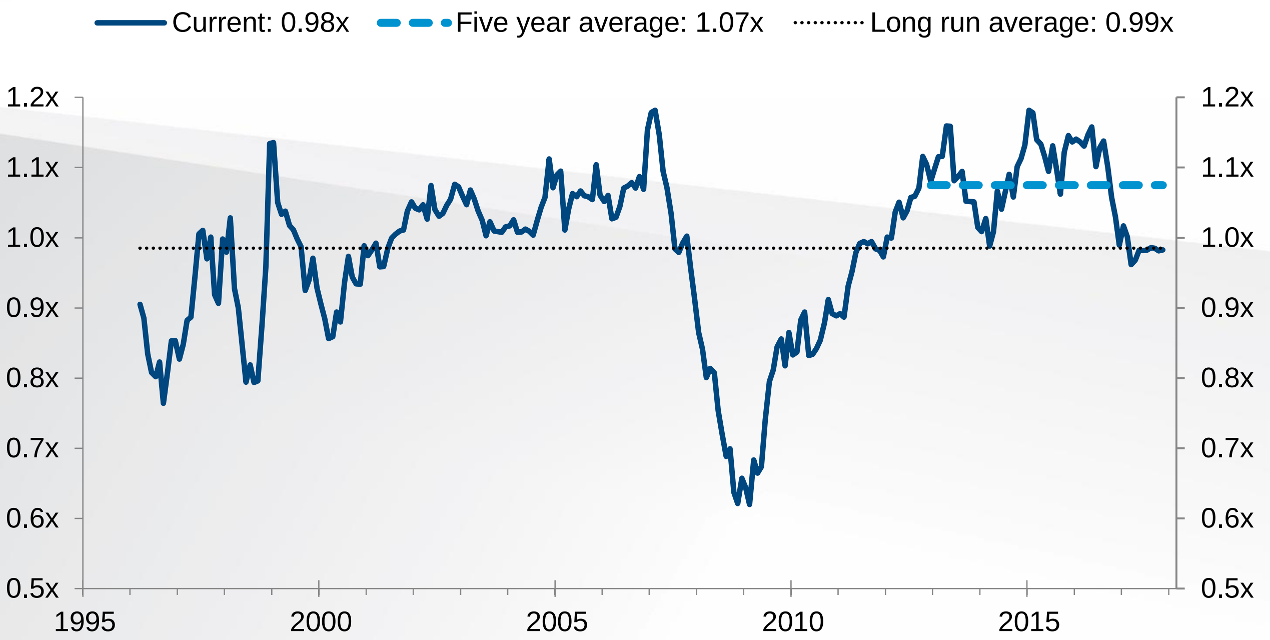
External managers outperform in 2017

The top performing LPV's year-to-date have been Goodman Property Trust (+12.7%), Precinct Properties (+12.2%) and Vital Healthcare (+12.7%). All three LPVs have external management structures, and broadly speaking, specialised portfolios focussing on one property type. Conversely the internalised property vehicles with diversified portfolios have underperformed in 2017. While we have a preference for internalised management structures, given there is better alignment between shareholders and management in our view, asset selection, development expertise and skilled management are equally as important.

Reporting season will be the focus for the sector in November

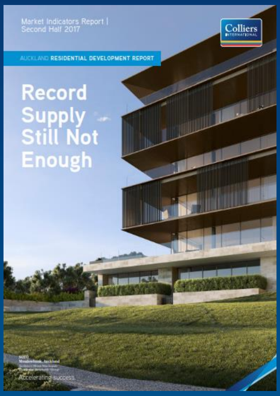
Seven LPVs will report interim results in November. It has been a messy period with a number of abnormal items making it hard to draw comparisons across the sector. A number of stocks have no comparable prior period numbers (Investore and Stride Property), while others are cycling abnormally strong comparable periods in 2016 which will impact headline growth rates (Augusta Capital and Argosy). We expect a flat cost of debt for most LPV's in 1H18, meaning lower interest will no longer provide a sticking plaster for softer revenues as it has done in recent years. We don't expect any changes to dividend guidance.

Listed Property Sector Price to Book Values (NTA per share)



Source: Company reports, IRESS, Forsyth Barr analysis

Recent New Zealand Research Reports



Colliers International Auckland Residential Development Report | 2H 2017

Record Supply Still Not Enough

A record number of apartments are due to be completed in Auckland over the coming three years. A total of 5,033 units in 75 projects are due for completion in 2017-2018, while a further 5,922 units in 62 projects are expected in 2019-2020.

Colliers International New Zealand Research Report | October 2017

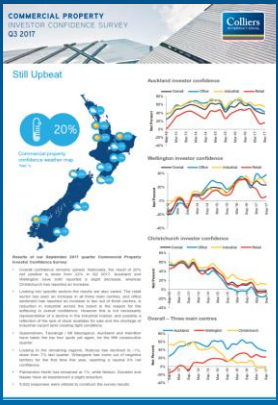
Election Jitters Conspicuous by their Absence

Our pre-election surveys showed little nervousness around the election outcome, reflecting a view in the business community, we think, that radical change affecting property in the short term is highly unlikely.

Colliers International NZ CBD Office Research Report | September 2017

Ready Steady Build

The office sector continues to provide investors with solid returns, the consequence of strong demand growth across the country. Employment growth is keeping tenant demand strong and high absorption rates are driving rental growth upwards.



Colliers International Commercial Property Investor Confidence Survey | Q3 2017

Still Upbeat

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.

Visit us on YouTube
Market in a Minute – October 2017

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

WINNER: Colliers International 2015 & 2016 RICS Award **Research & Consulting Team of the Year** | **2 YEARS RUNNING**

www.colliers.co.nz/find-research

To sign up to research and/or participate in our surveys please contact: josh.lee@colliers.com

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

- Property Investment Strategies
- Demand & Supply Studies
- Market Analysis & Forecasts
- Feasibility & Financial Analysis
- GIS Spatial Analysis
- Catchment Analysis
- Lease Audit & Benchmarking
- Site Options Analysis
- Corporate Real Estate Strategy
- Business Cases

Colliers INTERNATIONAL
Accelerating success.