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.

Still Upbeat

Results from our recent Q3 2017 Colliers Investor Confidence Surveys found sentiment in both the commercial and residential markets remain upbeat. Nationally, commercial sentiment reached a net positive 20%, a slight dip from 22% in the previous quarter. The residential survey, not dissimilar, found that a net positive 31% of respondents expect median house prices to increase over the next 12 months, only a marginal reduction from the previous quarter's 32%.

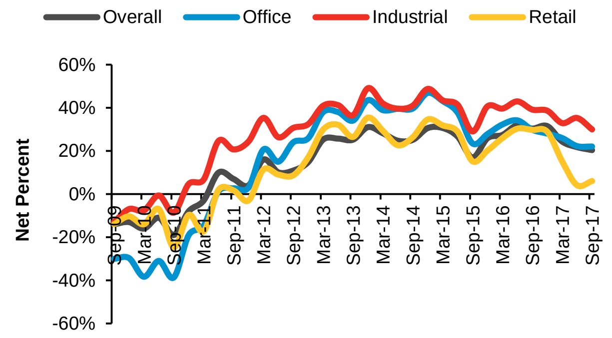
Industrial Flying High

The industrial sector continues to thrive. Our recent industrial vacancy survey conducted in August 2017 showed yet another decline in vacancy rate. Prime vacancy declined to 1.3% from 1.7% a year ago. Secondary vacancy is currently 2.3%, down from 2.6% a year ago. Areas such as Mt Wellington and East Tamaki have virtually no prime stock available. Businesses seeking warehousing or manufacturing space may not revel in all this positivity, but some relief is at hand with over 125,000 sqm of new space to be completed by the end of 2018.

Auckland Offices Getting More Expensive

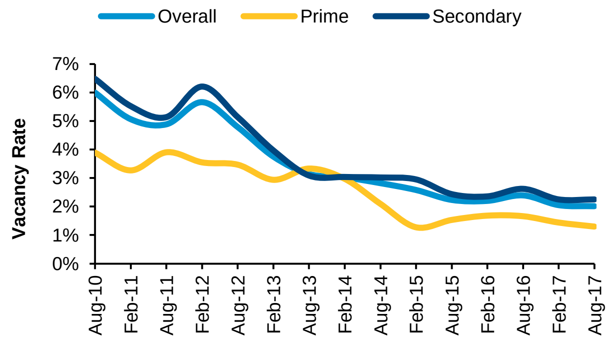
Auckland CBD office tenants, who have seen both prime and secondary net rents move up quite strongly in recent years, are likely to take little comfort from the findings of our new 1H 2017 Global Office survey, which finds for example, that rents in Hong Kong are nearly six times the level in Auckland. Even Stockholm is double. Wellington remains at number 55 of the over 140 cities surveyed, while Auckland is up three places to number 30. Our annual CBD office report published last week includes a detailed analysis of office markets around the country.

New Zealand Investor Confidence by Sector



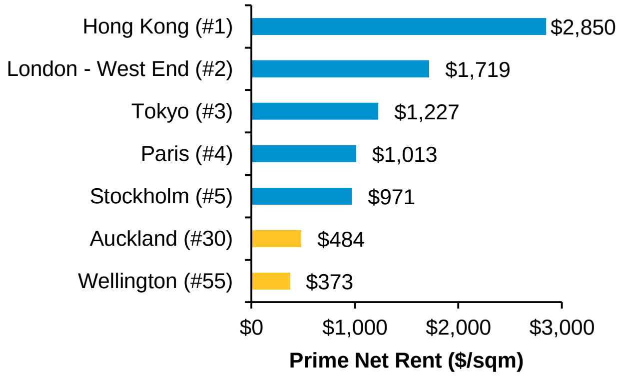
Source: Colliers International Research

Auckland Industrial Vacancy



Source: Colliers International Research

Global Office Rents – Top 5 v New Zealand



Source: Colliers International Research
*June 2017 results.
**Ranking based on USD/NZD conversion rate of 1.37.

Election Jitters Conspicuous by their Absence (continued...)

The general picture, particularly in the bigger markets, is of new supply racing to keep up with demand, and consequently rising rents and low vacancy in the meantime.

Overall, average CBD office cap rates have remained firm across the major cities over the last six months. A few have softened. The higher yields available in New Zealand cities continue to draw much more investor demand than can be satisfied.

Retail Subdued

The latest Electronic Card Transaction seasonally adjusted data from Statistics New Zealand shows a fourth consecutive monthly fall in retail card spending, down 0.2% in August 2017, keeping the retail sector relatively subdued.

Fashion retailer, Topshop has gone into receivership in the last month in New Zealand, joining a small but growing list of retail failures this year. Even long standing household names such as Toys 'R' Us have given up the struggle, filing for bankruptcy in the USA in September. But where some have failed, others are stepping in, keeping vacancy low and maintaining rental cashflow for landlords. For example, H&M is scheduled to open its third store in New Zealand at Queensgate Mall in Wellington this month. Christmas can't come soon enough for the sector.

Colliers Global Office Survey – Summary

Rank	City	Average CBD Class A / Prime Net Rent (NZD/sqm p.a.)	Average Prime Yield
1	Hong Kong	$2,850	2.5%
2	London - West End	$1,719	3.5%
3	Tokyo	$1,227	3.4%
4	Paris	$1,013	3.2%
5	Stockholm	$971	3.5%
30	Auckland	$484	6.4%
55	Wellington	$373	6.9%

Source: Colliers International Research
*June 2017 results. **Ranking based on USD/NZD conversion rate of 1.37.

Commercial Interest Rate Guide

Date	3 Year Term (Indicative Borrowing Rate)
May-17	5.10%
Jun-17	4.96%
Jul-17	5.07%
Aug-17	4.87%
Sep-17	4.87%
Oct-17	4.94%

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 – October 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	2.4%	0.7%	0.5%	0.2%	3.6%	-1.2%	3.0%	3.6%
Current Account (% of GDP)	-2.7%	NA	NA	NA	-2.9%	0.2%	-1.8%	-2.5%
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%	1.6%	1.7%
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%	4.7%	4.8%
	Aug-17 (yr rate)	Jul-17 (yr rate)	M-o-M Change	Aug-16 (yr rate)	Y-o-Y Change	10 Year Average	2018F*	2019F*
Tourist Numbers Growth	5.8%	4.8%	-0.3%	11.4%	-5.6%	3.9%	6.5%	4.9%
Official Cash Rate	1.75%	1.75%	0 bps	2.0%	-25 bps	3.30%	1.75%	2.50%
90 Day Bank Bill Rate	2.0%	2.0%	-1 bps	2.2%	-29 bps	3.5%	1.9%	2.5%
10 Year Government Bond	2.9%	3.0%	-9 bps	2.2%	69 bps	4.4%	3.7%	4.1%
Floating Mortgage Rate	5.8%	5.8%	0 bps	5.6%	25 bps	6.6%	5.4%	5.9%
3 Year Fixed Housing Rate	5.5%	5.5%	0 bps	5.2%	32 bps	6.7%	NA	NA
Consumer Confidence	126	125	1%	118	7%	119	NA	NA
NZD vs US	0.73	0.73	-1%	0.72	1%	0.74	0.71	0.68
NZD vs UK	0.56	0.57	0%	0.55	2%	0.48	0.53	0.50
NZD vs Australia	0.92	0.94	-2%	0.95	-3%	0.85	0.91	0.88
NZD vs Japan	80	83	-3%	73	10%	73	81	81
NZD vs Euro	0.62	0.64	-3%	0.65	-4%	0.58	0.65	0.69

Source: NZIER, Colliers International Research
*March year forecast

Office

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.

Strong population and employment growth, plus investment in infrastructure all point to a positive outlook for Auckland and its central business district.

A consequence of last year's Kaikoura earthquake was a large reduction in Wellington CBD office stock, and noticeable tenant churn over the last 12 months.

Christchurch's CBD rebuild is moderating. Investor confidence is starting to pick up to pre-2011 earthquake levels and both private and public sector tenants are now settling into new premises.

For more information check out our New Zealand CBD Office Report available for download on our website.

Retail

According to the latest Paymark spending data, Aucklanders have been slow to start on DIY projects. The purchase of housing related goods from merchants such as hardware stores, carpet suppliers, and garden centres saw only 3.5% growth in the year to September 2017.

There is usually an increase in house related spending in September, continuing to a peak in December. However, it appears the easing housing market may be causing Auckland home owners to hold back on renovations. Northland also saw reduced annual spending growth in housing related goods, while the rest of the country experienced an increase.

Looking at spending across all sectors, Marlborough experienced the largest increase in spending of all regions, at 10.4%, with Hawkes Bay and Wairarapa close behind.

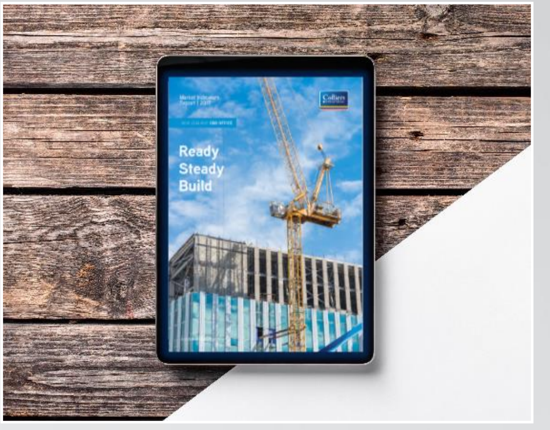
Industrial

National industrial building consents reached almost $440 million in value for the year to August 2017, the highest level since records began in 1991. The chart to the right shows strong industrial construction activity nationally since 2007, remaining above the long-term average of $271 million almost every year.

At $83 million, Auckland Region had the highest value of building consents approved during this period. Canterbury had the second highest at $79 million, with Waikato third at $77 million.

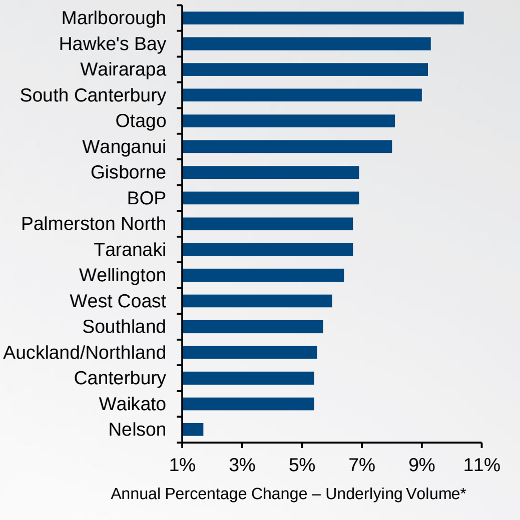
According to our records, over 190,000 sqm of industrial development was completed over the past year. This included a large number of speculatively built developments, and considering industrial vacancy also reduced to another record low of 2.0% in our August industrial vacancy survey, there is clear evidence of strong demand over the past 12 months.

New Zealand CBD Office Report
"Ready Steady Build"



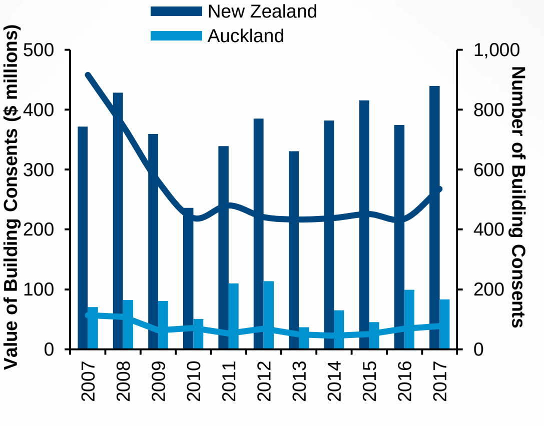
Available Now - Download a copy at:
http://www.colliers.co.nz/find-research/office

Paymark - All Cards Data (Sept 17 v Sept 16)



Source: Paymark, Colliers International Research
*Underlying spending excludes large clients moving to or from Paymark within the last 12 months

Industrial Building Consents (New Buildings) – Number and Value



Source: Stats NZ, Colliers International Research
*Annual to August 2017.

Recent New Zealand Commercial Property Sales Activity				
Address	Location	Property Type	Date	Price
2-4 Fred Thomas Drive	Takapuna, Auckland	Office	Sept-17	Confidential
Tait Communications Campus, Wooldridge Road	Burnside, Christchurch	Industrial	Sept-17	$57,700,000
1047-1049 Coatesville-Riverhead Highway	Riverhead, Auckland	Retail	Sept-17	$5,175,000
31 McNulty Road	Cromwell, Central Otago	Industrial	Sept-17	$1,945,000
4-6 Greenpark Road	Penrose, Auckland	Industrial	Sept-17	$1,630,000
29a McNulty Road	Cromwell, Central Otago	Industrial	Sept-17	$1,625,000
5 Liddell Street	Invercargill	Industrial	Sept-17	$1,001,500

Recent New Zealand Commercial Property Leasing Activity				
Address	Location	Property Type	NFA (m^2)	Lessee
Gate Industry Park, 395 Church Street	Penrose, Auckland	Industrial	6,723	Easy2C Ltd
17-19 Patiki Road	Avondale, Auckland	Industrial	4,878	Glidepath Ltd
164 Foundry Road	Stanmore Bay, Auckland	Industrial	3,610	Private Transport Company
High Street	Rangiora, Christchurch	Retail	2,500	Briscoes Group
255 Broadway, Newmarket	Newmarket, Auckland	Retail	446	Farmers


2-4 Fred Thomas Drive
Takapuna, Auckland


Tait Communications Campus
Burnside, Christchurch


1047-1049 Coatesville-Riverhead Highway
Riverhead, 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					Mar-17	Mar-18
Auckland Metropolitan***	9.6%	1.5%	14.1%	7.1%	6.1%	7.5%
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-16	Aug-17
Auckland	2.2%	2.0%	2.3%	2.0%	1.7%	1.3%
Industrial*					Sep-15	Sep-16
Christchurch	0.0%	0.0%	0.7%	0.0%	0.3%	0.3%
Industrial*					Nov-15	Nov-16
Wellington**	8.2%	7.5%	11.4%	7.5%	4.0%	0.6%
Retail					Jun-16	Jun-17
Auckland CBD	1.8%	3.0%	9.1%	3.0%	2.5%	2.7%
Wellington CBD**	5.7%	-0.02%	6.6%	-0.03%	8.9%	5.6%

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 List Property Update | October 2017

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Dividend growth slowing across the sector

Following the August reporting season, all ten listed property vehicles have reported 2017 results. Only four have provided guidance for a lift in dividends heading into FY18 (Argosy, Kiwi Property, Precinct Properties and Property for Industry). This has slowed from FY17 guidance a year prior, of which seven guided to a lift in dividends. As a result, dividend growth is slowing from +1.9% in FY17 to +1.2% in FY18E. With an increased focus on sustainable pay-out ratios, there is risk that dividend growth tempers again into FY19E. The sector is still paying out between 105% and 110% of underlying cash earnings (after allowing for maintenance capex), which is not sustainable in the long-term.

Capital management becoming increasingly important

We continue to pick-up anecdotes of credit conditions tightening, which have been reflected in bank margins lifting 30–50bps in the past 18 months. Most listed property vehicles have been refinancing bank facilities annually for the past few years. However, Argosy is the only one which has refinanced in 2017 thus far. Precinct Properties has successfully raised NZ$150m of convertible notes which were issued on 27 September. The notes have an initial term of four years, at which point they convert to shares, subject to Precinct's option to pay-out cash. The notes add to Precinct's diverse funding book of bank debt, retail bonds and USPP's.

E-commerce channels grow for listed retailers

Although it is debatable whether e-commerce giant Amazon will enter the New Zealand market after its Australian endeavours, it is clear that local retailers are increasing focus on e-commerce channels. E-commerce sales growth for listed retailers has lifted to +37% in FY17, up from +27% last year (listed retailers include Briscoe Group, Hallenstein Glassons, Kathmandu, Michael Hill and The Warehouse). These online sales now represent 7.1% of turnover, which is comparable with the market penetration rate across all retailers in New Zealand of 7.7% (BNZ Marketview).

Property stocks stuck in a holding pattern

September marks the fourth consecutive month in which listed property vehicles have underperformed the broader equity market, with the sector up +0.5% versus +1.4% for the S&P/NZX50G. The industrial-focussed portfolios outperformed over the month with Goodman and Property for Industry up +1.6% and +2.7% respectively. NPT and Vital Healthcare were the underperformers in September, both down -0.8%. Year-to-date the property sector has returned +5.9% (including cash dividends), well behind the S&P/NZX50G which is up +15.2%. The sector continues to trade at a small discount to book values, in-line with its long run average (see figure below).

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

Source: Company reports, IRESS, Forsyth Barr analysis

Recent New Zealand Research Reports

Colliers International NZ CBD Office Research Report | September 2017

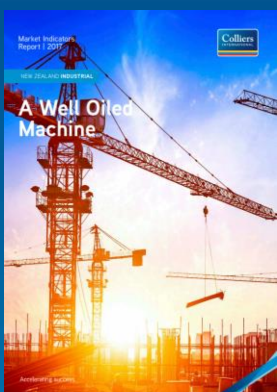
Ready Steady Build

The office sector continues to provide investors with solid returns, the consequence of strong demand growth across the country.

Colliers International New Zealand Research Report | September 2017

No Room in the Shed

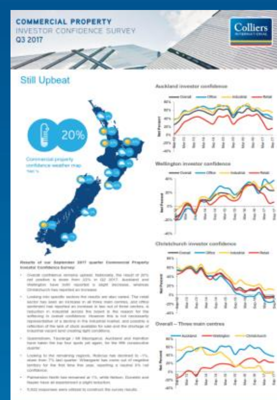
In this edition, we provide an industrial market snapshot ahead of the release of our annual national report this month.



Colliers International NZ Industrial Research Report | September 2017

A Well Oiled Machine

The New Zealand industrial market has powered on over the past 12 months, with continued momentum in all centres. Investor confidence remains strongly positive.



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.

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Market in a Minute – September 2017

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