



# New Zealand Research Report | February 2017

## Back to Work

Welcome to the first issue of our monthly report for 2017. In this issue we provide an extract of our New Zealand Office Workplace Report, "[Workplace & Occupational Trends across New Zealand](#)" released late last year. 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.

### Workplace Trends

1. The workplace is changing. There is on-going demand for more efficient, agile and flexible space to meet the needs of a new workforce.
2. Tenants are implementing new designs to meet demand, increase density and keep costs down.
3. Focusing on workplace and demographic trends will help tenants plan their whole-of-life leasing strategy.
4. Despite the change in demographic mix, there will need to be delivery of space that meets all cohorts of the workforce.
5. New Zealand is joining in on global trends with a rise in shared space and co-working facilities. At present, more than 40 co-working facilities are in operation across New Zealand with more expected soon.

#### Demand Drivers

The demand for more efficient, agile and flexible space is increasing. The following trends are the drivers and influencers of this demand:

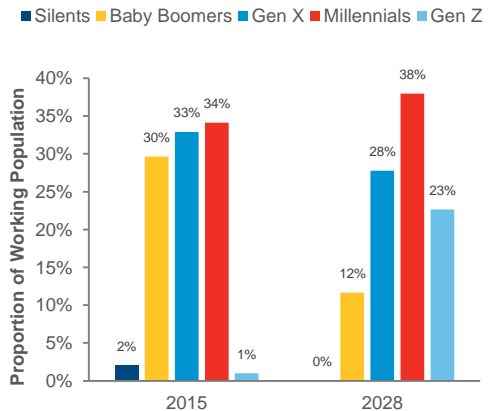
A new generation of workers with different wants and needs.	Increasing demand for technology and cyber security.	The fundamental importance of innovation and staff collaboration.	A culture of sharing and community.

#### Meeting Demand

Ways tenants can meet this demand within the built workplace environment include:

	<ul style="list-style-type: none"> <li>✓ Collaborative Workstations</li> <li>✓ Breakout Rooms</li> <li>✓ Quiet Spaces</li> <li>✓ Relaxation Rooms</li> <li>✓ Social Open Space</li> <li>✓ Thinner Walls</li> <li>✓ Wall Art &amp; Graphics</li> </ul>	<ul style="list-style-type: none"> <li>✓ Outdoor Amenities</li> <li>✓ High Ceilings</li> <li>✓ Adjustable Desks</li> <li>✓ Plants &amp; Greenery</li> <li>✓ Project Rooms</li> <li>✓ Glass and Flexi Walls</li> </ul>
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#### New Zealand Working Population by Generation

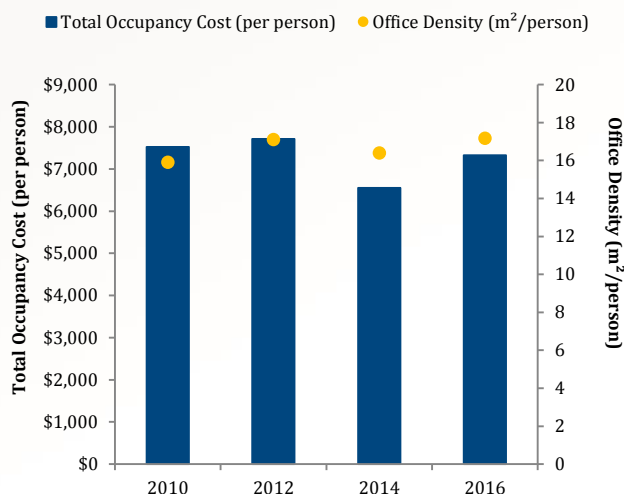


Source: Statistics NZ, Colliers International Research  
National labour force projections (15-79 years), by age and sex, 2015(base)-2068  
Silents: 1925-1945, Baby Boomers: 1946-1964, Gen X: 1965-1980, Millennials: 1981-1998 and Gen Z: 1999-2015

## Workplace Occupational Survey Results

- Comparing leases signed in the last two years with the previous two years, CBD office density for the four regions has reduced (i.e. more space per person). Density is now 17.2 sqm per person compared to 16.4 sqm per person.
- The legal sector continues to have one of the lowest average density ratings than other major sectors at 22.2 sqm per person.
- Total occupancy cost (TOC) per sqm has increased from \$399/sqm to \$427/sqm and \$6,550 to \$7,328 per person between the two survey periods.
- In the private sector, office density is 18.1 sqm per person and TOC is at \$8,159 per person p.a. and \$451/sqm.
- In the public sector, office density is 16.0 sqm per person and TOC is \$6,267 per person p.a. and \$392/sqm.
- Leases which have been signed but where tenants are still to move in, show increased levels of density in comparison to existing premises. New buildings will show the highest density.
- TOC are rising, which is why density has become a major consideration. However, not all space available suits a tenant's need for immediate occupation. This has been especially noticeable in the prime sector – particularly in Auckland.

### National Office CBD Occupational Results



### Office Occupational Survey Results by Region

National CBD Results**						
Survey period	Office Density (m <sup>2</sup> /person)	Total Occupancy Cost (\$/m <sup>2</sup> )	Total Occupancy Cost (\$/person)	Proportion of Private Offices	Sample size	
					m <sup>2</sup>	Number of People
2008-2010*	15.9	\$472	\$7,526	6.9%	410,000	25,730
2010-2012	17.1	\$450	\$7,713	4.8%	320,015	18,672
2012-2014	16.4	\$399	\$6,550	8.2%	186,768	11,367
2014-2016*	17.2	\$427	\$7,328	1.9%	207,910	12,113

Source: Colliers International Research \*Includes Christchurch CBD \*\*Figures excludes Auckland metropolitan office

### New Zealand Key Economic Indicators – December 2016

	Sep-16 (yr rate)	Sep-16 (qtr rate)	Jun-16 (qtr rate)	Q-o-Q Change	Sep-15 (yr rate)	Y-o-Y Change	2017F*	2018F*	2019F*
GDP Growth	3.5%	1.1%	0.7%	0.4%	2.2%	1.3%	3.4%	3.2%	3.6%
Current Account (% of GDP)	-2.9%	NA	NA	NA	-3.5%	0.6%	-3.0%	-4.5%	-5.4%
Retail Sales (ex-auto)	5.8%	0.6%	2.4%	-1.8%	5.5%	0.3%	6.0%	5.4%	5.4%
	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%	1.9%	1.9%
Net Migration Gain (000's)	70	18	18	1	65	5	71	68	57
Unemployment Rate	5.1%	5.2%	4.9%	0.3%	5.4%	-0.3%	5.0%	4.8%	4.8%
	Dec-16 (yr rate)	Nov-16 (yr rate)	M-o-M Change	Dec-15 (yr rate)	Y-o-Y Change	10 Year Average	2017F*	2018F*	2019F*
Tourist Numbers Growth	10.1%	10.9%	-1.3%	10.2%	-0.1%	4.1%	8.5%	6.5%	4.9%
Official Cash Rate	1.75%	1.75%	0 bps	2.5%	-75 bps	3.70%	1.75%	1.75%	2.50%
90 Day Bank Bill Rate	2.0%	2.1%	-4 bps	2.8%	-76 bps	4.0%	2.0%	1.9%	2.5%
10 Year Government Bond	3.3%	3.0%	34 bps	3.6%	-22 bps	4.7%	3.0%	3.5%	3.8%
Floating Mortgage Rate	5.6%	5.6%	0 bps	5.8%	-16 bps	6.9%	5.1%	5.1%	5.6%
3 Year Fixed Housing Rate	5.4%	5.3%	7 bps	5.4%	-2 bps	7.0%	NA	NA	NA
Consumer Confidence	125	127	-2%	119	5%	119	NA	NA	NA
NZD vs US	0.70	0.72	-1%	0.67	5%	0.75	0.70	0.69	0.67
NZD vs UK	0.56	0.58	-2%	0.45	26%	0.46	0.55	0.52	0.50
NZD vs Australia	0.96	0.95	1%	0.93	3%	0.85	0.95	0.90	0.87
NZD vs Japan	82	77	6%	82	0%	74	81	80	81
NZD vs Euro	0.67	0.66	1%	0.62	8%	0.57	0.67	0.67	0.69

Source: NZIER, Colliers International Research \*March year forecast

## Office Property Market

We have just completed the latest Auckland CBD office vacancy survey (more detailed results out soon). Vacant office space in Auckland's CBD is the lowest it has been for more than 20 years, with overall vacancy at an all-time low of 5.3%. Prime vacancy is at just 2.8%, while secondary vacancy is at a record low 6.7%.

In the six months to December 2016, three secondary office buildings were removed from the office supply due to apartment conversions. However, prime stock has seen an increase with the completion of Mason Brothers in Wynyard Quarter. Over the next five years, 105,700 sqm of prime office stock an additional (7.5% of existing supply) is expected to be completed. Vacancy has likely reached a cyclical low.

## Retail Property Market

The latest retail spending statistics available for the December 2016 period highlight shoppers were out in force, but Christmas on a Sunday had an impact on the usual spending patterns. According to MarketView data, spending (excluding fuel) was up 8.8% in the week ending 25 December and up 9.9% in the week ending 1 January 2017 compared with the same period last year. This provided a strong six-day lead up to Christmas Eve as well as a stronger than normal period of spending up to the 30th of December.

Paymark data noted that non-fuel spending growth was up 7.9% over the 12 months of 2016, recorded the fourth consecutive year of growth. Annual total transactions saw on average 255 transactions per person and \$12,230 per person in 2016. This averages to just under \$50 per transaction which correlates with Statistics New Zealand's Electronic Card Transaction data. According to their data, since 2007, the average value per transaction has been \$51. This highlights how important population growth is to the successful performance of the retail sector.

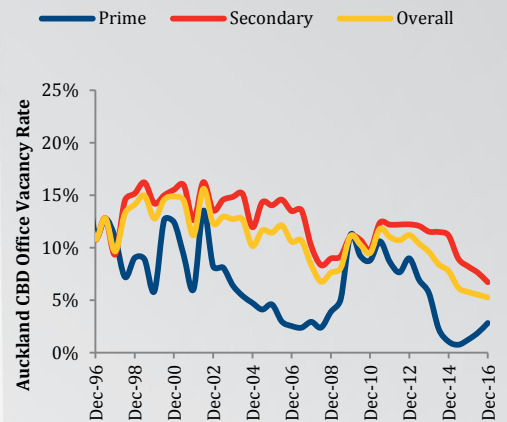
## Industrial Property Market

Our latest Wellington Industrial vacancy survey demonstrates strong demand with vacancy reducing to 2.9%, from 3.6% 12 months ago. Prime vacancy has reduced to 0.6%, from 4.0% last year (the lowest in five years) and secondary is now at 3.1%, down from 3.6%.

The record low prime vacancy proves the need for more industrial space with increased demand in Seaview, Petone/Alicetown, Ngauranga, and Upper Hutt.

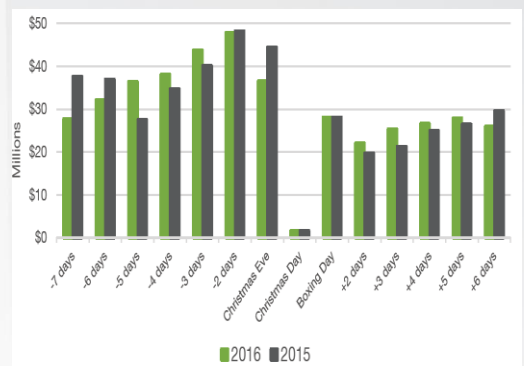
A net reduction in stock of approximately 50,000 sqm has also narrowed the gap between supply and demand. The reduction in stock was due to conversions of office premises into residential and retail properties.

### Auckland CBD Office Vacancy



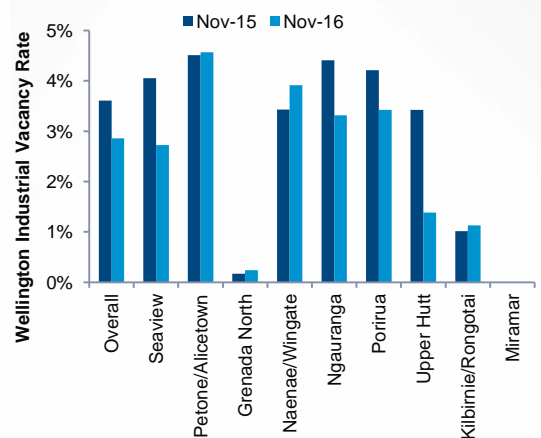
Source: Colliers International Research

### Spending over the Christmas Period 2016/15



Source: MarketView, Colliers International Research

### Wellington 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 <sup>2</sup> )	Yield (%)
60 Hugo Johnston Drive	Penrose	Industrial	\$5,450,000	Syndicator	Private Investor	\$2,473	6.72%
6-8 Civil Place	Mairangi Bay, Auckland	Industrial	\$5,265,000	Civil Place Ltd	Private Investor	\$2,691	5.39%
67 Druces Road	Wiri, Auckland	Industrial	\$3,480,000	Private Vendor	Private Investor	\$1,655	5.25%
25 Rennie Drive	Auckland Airport	Industrial	\$3,400,000	Private Vendor	Private Investor	\$2,020	5.44%
Texas Chicken, 301 Lincoln Road	Henderson, Auckland	Retail	\$3,236,000	Private Vendor	Private Investor	\$12,446	5.1%
80 Hotuhotu Street & 120 Whakakake Street	Tauranga	Industrial Land	\$3,090,555	Private Vendor	Private Investor	N/A	N/A
53-59 Princes Street	Dunedin Central	Mixed-Use Commercial	\$995,000	Local Family Trust	Private Investor	\$2,108	7.8%

### Recent New Zealand Commercial Property Leasing Activity

Address	Location	Property Type	NFA (m <sup>2</sup> )	Lessor	Lessee
3-15 Wakefield Street	Auckland Central	Office	1,630	Gordon Family Trust	Galaxy Education
55 Shortland Street	Auckland Central	Office	649	Robt. Jones Holdings Limited	Oyster Management Limited



55 Shortland Street  
Auckland Central



60 Hugo Johnston Drive  
Penrose, Auckland



360 Albert Street  
Palmerston North

### New Zealand Prime Indicators

Property Sector	Prime Rents (% Change)		Prime Capital Values (% Change)		Prime Vacancy Rate		
	12-Months to Dec-16	12-Month Forecast****	12-Months to Dec-16	12-Month Forecast	Historical	Current	12-Month Forecast
Office							
Auckland Metropolitan***	2.8%	1.6%	9.9%	5.0%	Sep-15	Sep-16	Sep-17
Office							
Auckland CBD	5.8%	3.0%	12.5%	5.3%	Dec-15	Dec-16	Dec-17
Wellington CBD**	2.3%	2.1%	13.1%	2.1%			
Industrial*							
Auckland	3.6%	1.6%	14.3%	2.3%	Aug-15	Aug-16	Aug-17
Industrial*							
Christchurch	1.0%	0.0%	9.1%	0.0%	Sep-15	Sep-16	Sep-17
Industrial*							
Wellington**	3.5%	2.5%	7.9%	5.0%	Nov-15	Nov-16	Nov-17
Retail							
Auckland CBD	3.4%	3.3%	13.1%	3.8%	Dec-15	Dec-16	Dec-17
Wellington CBD	6.6%	-1.0%	9.0%	-3.8%			
Auckland Shopping Centre	3.4%	3.0%	12.4%	3.7%			

Source: Colliers International Research \* A combination of industrial office and warehouse space at a ratio of 20:80 \*\* Gross rents and pre-earthquake vacancy figures  
NB: Wellington capital values based on net rent \*\*\*Financial indicators are Auckland City Fringe \*\*\*\*Provisional data

# NZ Listed Property Update

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The listed property vehicle (LPV) sector continues to offer defensive cash flows underpinned by strong underlying property market conditions and well positioned portfolios. Asset quality improved over 2016 as LPVs divested lower quality assets and reinvested capital into new developments and acquisitions. We expect this will continue into 2017 as LPVs take advantage of strong market conditions to divest non-core assets. However, announcement of new development activity will temper as rising construction costs and funding constraints impact returns on cost.

## Strong property fundamentals can't fend rising rates

Despite a buoyant underlying property market, the LPV sector underperformed the broader equity market over 2016, with the S&P/NZX gross property index returning +2.7%, well below the +8.8% for the broader equity market (NZX50G). We view this underperformance as macro in nature as higher interest rates have driven yield-focussed stocks out of favour in 2H16. While a key risk for returns in 2017 is a continuation of rising interest rates, yields are still near all-time lows in an absolute sense. Current interest rate hedging and little movement in short-term floating interest rates mean the risk for near-term earnings is low. Year-to-date, the LPV sector has returned +2.7%, in-line with the broader market (+2.5%).

## Kaikoura earthquake – impact for LPVs minimal

In our view, the economic impact of the November 14 Kaikoura earthquakes on the LPVs is minor given (1) most assets have been cleared with minimal damage and reoccupied (2) portfolios are well insured with both asset replacement and loss of rents insurance (3) early indications suggest no major change to supply will arise. The extent of damage to Deloitte House (owned by Precinct Properties) and NZ Post House (owned by Argosy) is still unknown and detailed building assessments are currently being undertaken on these assets. Both companies have full replacement and loss of rents insurance for these buildings.

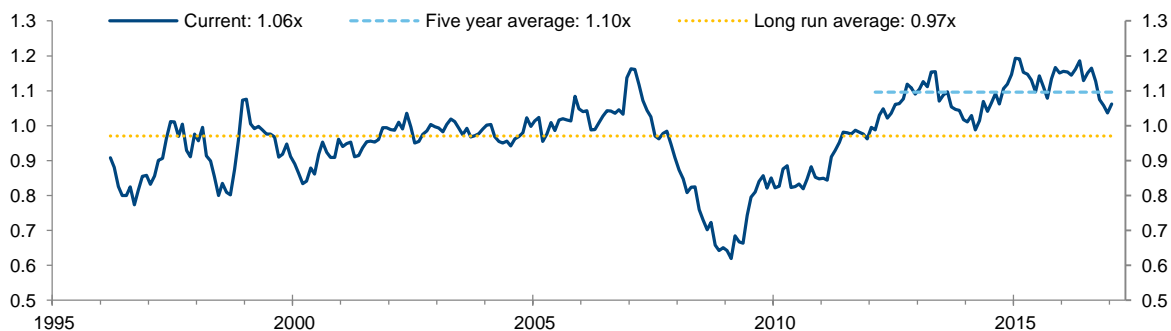
## Corporate activity – external vehicles in vogue

It was a busy year in 2016 for corporate activity with large equity capital raisings completed for Vital Healthcare and new listing Investore, record levels of property transactions, and the recently announced proposals for NPT Limited. These include proposals from Augusta Capital and Kiwi Property Group which involve significant restructures of NPT's business, centred on externalising its management contract and vending assets into the new vehicle. We are positive on the proposals that have been brought forward for NPT as they provide options for a company which has been hamstrung by its lack of scale. Both Investore and the proposed structures for NPT are externally managed, which reverses the trend seen in recent years for LPVs to internalise management structures.

## Premium rating for the sector eases in 2H16

After trading at a material premium for most of 2015 and 2016 (115% to 120%), the sector price to book value (share price to net tangible assets per share) has pulled back to 106%. This has been driven by both a fall in LPV stock prices (-9% versus September 2016 highs) as well as continued NTA per share growth, with modest gains seen in the November 2016 reporting season. We expect a more subdued 2017 with respect to asset valuations, with current market cap rates suggesting some cap rate firming is still likely in portfolios, albeit movements are modest versus those seen over 2015 and 2016.

## Listed property price to net tangible assets



Source: Company reports, Forsyth Barr analysis. Note: Series reflects stock P/NTA's weighted by market capitalisation.

# Recent New Zealand Research Reports



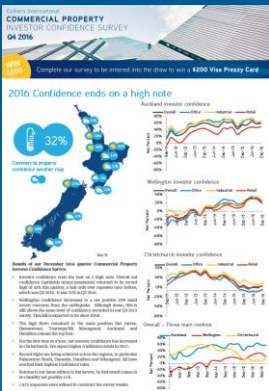
## Colliers International New Zealand Research Report | December 2016 Top Ten Predictions for 2017

*In the last edition of the New Zealand Research Report for 2016 we take a look at the top 10 predictions for 2017, along with a review of the ANZ Business Outlook survey, the IoD-ASB Directors Sentiment survey and the Reserve Bank's Financial Stability Report.*



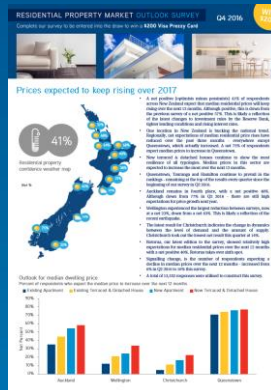
## Colliers International New Zealand Research Workplace Report | December 2016 Workplace & Occupational Trends across New Zealand

*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.*



## Colliers International Commercial Property Investor Confidence Survey | Q4 2016 2016 Confidence ends on a high note

*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 | Q4 2016 Prices expected to keep rising over 2017

*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.*

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