

July 2017

New Zealand on the Global Stage

We take a look this month at the latest Colliers International global industrial and office surveys and see how New Zealand ranks against cities around the world.

Colliers International's global industrial property survey of more than 140 cities for December 2016 showed average prime net rents in Auckland, Wellington and Christchurch ranked 37th, 63rd and 50th respectively. All three New Zealand locations moved up in industrial rental rankings over the past year. Christchurch surged up eight places, while more modest increases were seen in Auckland and Wellington, both moving up one place.

In the office survey, Auckland and Wellington climbed 20 and 18 places to 34th and 55th respectively, when ranked by prime net rent, which is a reflection of the strong conditions experienced in these markets over the past 12 months.

The average prime yield for the top 10 cities was 5.3% for industrial and 4.4% for office. Major cities such as Hong Kong, London, Tokyo continue to demand the highest rentals in the world for both asset classes. Hong Kong for the last few years has taken out the number one spot, reaching \$3,014 per sqm or 6.6 times Auckland prime office rents. These major hubs tend to have very low yields too, indicating the market's confidence in continuing rental growth.

Our Trans-Tasman neighbour, Sydney, ranks amongst the top 10 internationally by rent – 10th for industrial and 7th for office. Prime rents are on average about \$882 per sqm (office) and \$166 per sqm (industrial). Despite incentives being higher on average in Sydney, net effective rents are still much higher than the main centres in New Zealand. Note that these rents are all converted from the USD amount used in the global survey.

Colliers Global Industrial Survey - Top 10 Ranking

Rank	City	Prime Warehouse Rent (NZD/sqm p.a.)	Average Prime Yield
1	Hong Kong	\$358.47	4.0%
2	Tokyo	\$257.90	5.3%
3	San Francisco Peninsula, CA	\$233.21	NA
4	Honolulu, HI	\$225.75	NA
5	London (Greater London)	\$210.91	4.8%
6	Singapore	\$208.83	3.4%
7	Oslo	\$208.73	5.3%
8	Stockholm	\$174.40	5.5%
9	Long Island, NY	\$167.76	8.0%
10	Sydney	\$166.37	6.2%
37	Auckland	\$117.96	5.8%
50	Christchurch	\$102.96	6.8%
63	Wellington	\$94.97	7.7%

Source: Colliers International Research
*December 2016 results. **Ranking based on USD/NZD conversion rate of 1.44.

Colliers Global Office Survey - Top 10 Ranking

Rank	City	Average CBD Class A / Prime Net Rent (NZD/sqm p.a.)	Average Prime Yield
1	Hong Kong	\$3,014.05	2.55%
2	London - West End	\$1,753.76	3.50%
3	Tokyo	\$1,227.87	3.50%
4	Manhattan	\$966.81	4.60%
5	Paris	\$957.20	3.15%
6	Moscow	\$883.68	9.50%
7	Sydney	\$882.14	5.71%
8	Beijing	\$869.26	4.10%
9	Singapore	\$866.27	3.60%
10	Stockholm	\$856.14	3.50%
34	Auckland	\$459.84	6.64%
55	Wellington	\$368.87	6.88%

Source: Colliers International Research
*December 2016 results. **Ranking based on USD/NZD conversion rate of 1.44.

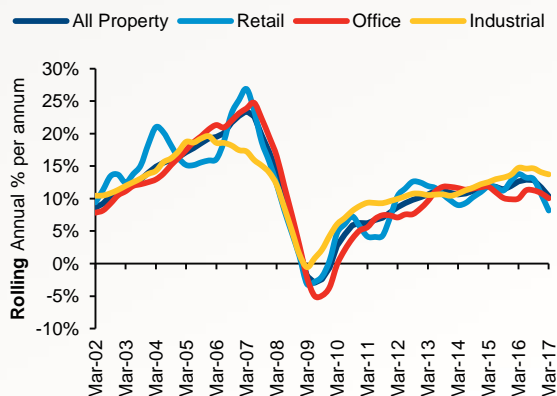
New Zealand on the Global Stage (continued...)

The spread in yield and rents all adds to New Zealand's appeal offshore, especially for investors seeking out higher yielding assets. New Zealand's growing economy, booming population and political stability is attracting growing international investment interest, helped by investments in infrastructure.

The latest IPD data results from MSCI show New Zealand's commercial property sector is performing strongly with total return of 10.4% for the year to March 2017, well above the 10-year average of 8.5%. The most recent financial results from the listed property funds have seen positive rental growth and yield compression across portfolio revaluations, although the rate of yield compression is slowing typically.

Globally, MSCI's total return number put industrial in front at 13.7% total return, followed by office at 10% and retail at 8.2%. This hierarchy is mirrored in our Commercial Investor Confidence survey June quarter results. Copies of that, and the Residential Outlook Survey released at the same time are available on our website at <http://www.colliers.co.nz/find%20research/surveys/>

Property Council / IPD New Zealand Total Returns



Source: MSCI, Colliers International Research

Commercial Interest Rate Guide	
Date	3 Year Term (Indicative Borrowing Rate)
Apr-17	5.10%
May-17	5.10%
Jun-17	4.96%
Jul-17	5.07%

Source: ANZ Bank, 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 – July 2017

	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*
GDP Growth	2.5%	0.5%	0.4%	0.1%	2.9%	-0.4%	3.0%	2.7%	3.4%
Current Account (% of GDP)	-3.1%	NA	NA	NA	-3.1%	0.0%	-3.1%	-2.9%	-3.3%
	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%
	May-17 (yr rate)	Apr-17 (yr rate)	M-o-M Change	May-16 (yr rate)	Y-o-Y Change	10 Year Average	2017F*	2018F*	2019F*
Tourist Numbers Growth	8.4%	12.2%	-3.0%	10.6%	-2.1%	4.1%	7.0%	6.5%	4.9%
Official Cash Rate	1.75%	1.75%	0 bps	2.3%	-50 bps	3.46%	1.75%	1.75%	2.50%
90 Day Bank Bill Rate	2.0%	2.0%	1 bps	2.4%	-40 bps	3.7%	2.0%	1.9%	2.5%
10 Year Government Bond	2.9%	3.1%	-12 bps	2.7%	26 bps	4.5%	3.3%	3.8%	4.1%
Floating Mortgage Rate	5.8%	5.8%	1 bps	5.6%	17 bps	6.7%	5.7%	5.3%	5.8%
3 Year Fixed Housing Rate	5.5%	5.5%	0 bps	5.2%	32 bps	6.8%	NA	NA	NA
Consumer Confidence	124	122	2%	116	7%	119	NA	NA	NA
NZD vs US	0.70	0.70	0%	0.68	3%	0.75	0.70	0.69	0.68
NZD vs UK	0.56	0.57	-1%	0.47	20%	0.47	0.57	0.53	0.50
NZD vs Australia	0.92	0.92	0%	0.93	-1%	0.85	0.92	0.92	0.88
NZD vs Japan	79	79	0%	74	7%	74	79	80	81
NZD vs Euro	0.66	0.66	0%	0.60	10%	0.58	0.66	0.68	0.69

Source: NZIER, Colliers International Research
*March year forecast

Office

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

Provisional office sales over \$5 million in FY17 are well above the other commercial sectors. Our analysis of sales shows there were 56 office transactions worth over NZD \$1.515 billion, with the majority occurring in Auckland.

High-profile office buildings are highly attractive to both local and offshore purchasers, especially properties with attractive lease terms, high occupancy and low capital expenditure requirements. The current difficulty for prospective parties is finding flagship offices to purchase, therefore some parties are seeking to buy developments off the plans.

Retail

Growth in e-commerce has raised questions about the stability and future of traditional brick and mortar stores, with the fear of 'ghost malls' a hot topic at the moment, as the fortunes of traditional department stores come under pressure internationally. However, unlike malls in, for example the US, New Zealand malls are not typically anchored by one or two large department stores, for the very good reason that we don't have any large department store operators. New Zealand malls have tended to be anchored in the past by a smaller department store such as Farmers and a supermarket.

The retail development pipeline also isn't showing signs of slowing with several large shopping malls planning to undergo refurbishment or expansion. Many of these will include either an office component or apartments, which will enhance retail spending within the area.

A prime example are Kiwi Property's plans to build an office tower above "The Grove", their new retail dining precinct opening later this year in Sylvia Park, effectively servicing their own assets. It is clear that those who adapt to the times will continue to grow and prosper.

Industrial

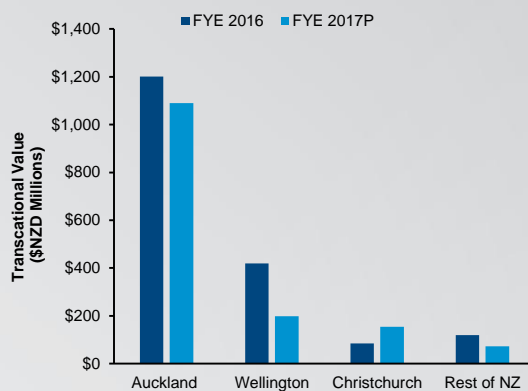
Our latest Commercial Investor confidence survey shows that while the retail and office sectors have seen a reduction in all three main centres, industrial has come back stronger with increased confidence across the board.

This level of positivity reflects the sector's solid performance over the past year, with the expectation that similar conditions will continue. A shortage of prime stock will put upward pressure on rents, fueling demand for further development.

Of the three main centres, Auckland's industrial investor confidence was the highest at a net positive 60%, backed by record low vacancy, and competition amongst purchasers pushing average yields to a record 5.83% in June 2017.

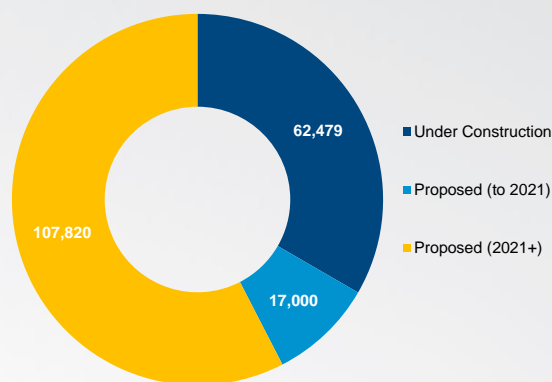
Investor confidence in both Wellington & Christchurch has increased by three percentage points, now at 33% and 14% respectively.

Major Office Sales by Value



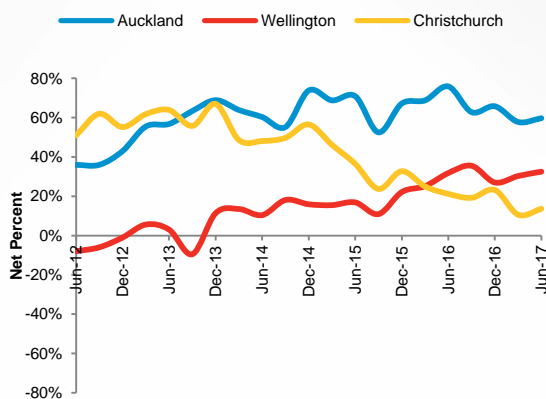
Source: Colliers International Research, CoreLogic
Note: Property of NZD \$5m or more only. Provisional for FYE 2017

Auckland Retail Development



Source: Colliers International Research

Industrial Investor Confidence – Three Main Centres



Source: Colliers International Research

Recent New Zealand Commercial Property Sales Activity

Address	Location	Property Type	Date	Price
Bunnings Warehouse, 276 Great North Road	Grey Lynn, Auckland	Retail	Jun-17	\$37,770,000
6-14 Parkinson Place	Hamilton	Office	Jun-17	\$10,750,000
45-55 Courtenay Pl	Wellington Central	Retail	Jun-17	\$8,250,000
3 Stonehill Drive	Wiri, Auckland	Industrial	Jun-17	\$7,025,000
11 Silverdale Street	Silverdale, Auckland	Retail	Jun-17	\$3,575,000
18 Ormiston Road	East Tamaki, Auckland	Industrial	Jun-17	\$3,205,000
6 Target Court	Wairau Valley, Auckland	Industrial	Jun-17	\$3,200,000
11 Neales Road	East Tamaki, Auckland	Industrial	Jun-17	\$2,385,000
16 Ashley Place	Papamoa, Tauranga	Development Site	Jun-17	\$1,349,000
28 Birmingham Street	Kapiti Coast	Industrial/Development Site	Jun-17	\$1,200,000
23A & 23B Gordon Road	Wanaka, Otago	Industrial	Jun-17	\$1,022,000

Recent New Zealand Commercial Property Leasing Activity

Address	Location	Property Type	Date	NFA (m ²)	Lessor	Lessee
17 Hargreaves Street	St Marys Bay, Auckland	Office	Jun-17	3,300	Mansons TCLM	Gentrack



Bunnings, 276 Great North Road
Grey Lynn, Auckland



6-14 Parkinson Place
Hamilton



16 Ashley Place
Papamoa, Tauranga

New Zealand Prime Indicators

Property Sector	Prime Rents (% Change)		Prime Capital Values (% Change)		Prime Vacancy Rate		
	12-Months to Jun-17	12-Month Forecast	12-Months to Jun-17	12-Month Forecast	Historical	Current	12-Month Forecast
Office					Mar-16	Mar-17	Mar-18
Auckland Metropolitan***	11.0%	1.5%	16.5%	1.5%	5.7%	6.1%	8.9%
Office					Dec-15	Dec-16	Dec-17
Auckland CBD	8.1%	5.1%	14.9%	5.1%	1.2%	2.8%	5.4%
Wellington CBD**	3.6%	25.0%	7.9%	34.9%	2.1%	1.2%	N/A
Industrial*					Feb-16	Feb-17	Feb-18
Auckland	2.5%	2.0%	6.8%	2.0%	1.7%	1.4%	2.2%
Industrial*					Sep-15	Sep-16	Sep-17
Christchurch	0.3%	0.0%	3.3%	0.0%	0.3%	0.3%	0.5%
Industrial*					Nov-15	Nov-16	Nov-17
Wellington**	7.8%	6.0%	12.0%	6.0%	4.0%	0.6%	1.0%
Retail					Dec-15	Dec-16	Dec-17
Auckland CBD	1.7%	4.0%	8.8%	4.0%	2.5%	2.4%	2.2%
Wellington CBD**	7.6%	-0.03%	8.9%	-0.05%	7.3%	8.8%	7.1%

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 | July 2017

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Listed property sector still underperforming

The listed property vehicles (LPVs) continue to be out-of-favour among equity investors, underperforming the broader market year-to-date, with total returns of just +5.5% versus +10.6% for the S&P/NZX50G. The top performer's year-to-date have been Vital Healthcare (VHP), which continues to experience strong property revaluations, and Augusta Capital (AUG), which has had a solid uplift in recurring fees for its funds management business. Stocks lagging the sector include NPT Limited (NPT), which has struggled amidst failed proposals for a restructure, and Stride Property (SPG), which continues to underperform post its demerger with Investore (IPL) in July 2016.

Dividend growth expected to slow

Seven LPV's reported financial results in May. Solid dividend growth averaging +3.4% was achieved in 2017; however, this is expected to slow to +0.8% in 2018. Only Argosy (ARG) and Kiwi Property (KPG) provided guidance for a lift in dividends heading into 2018. Six LPV's disclosed adjusted funds from operations (AFFO) for the first time in 2017. AFFO is a better measure of operating performance which adjusts underlying profit for additional items such as maintenance capital expenditure and lease incentives. While we are positive on this improved disclosure, it highlighted very full dividend pay-out ratios. We believe it's appropriate for LPV's to move to more conservative pay-out ratios which allow for inevitable capital expenditures which are required to maintain building quality. This will limit dividend growth in the near-term.

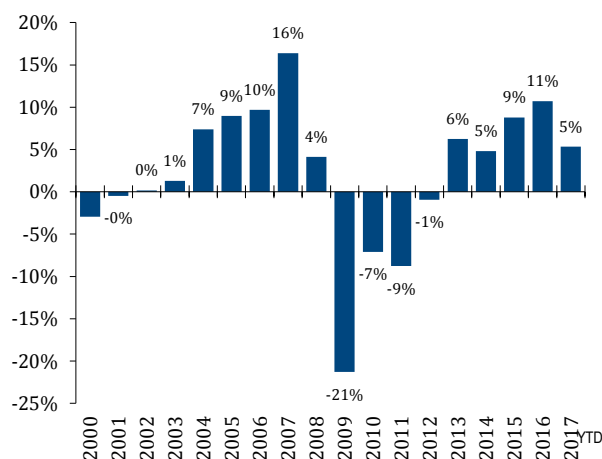
Portfolio metrics weaken for smaller property vehicles

While most LPV's have enjoyed near-full portfolios in 2015 and 2016, vacancy in the smaller LPV's has increased in 2017. Large-caps KPG and Goodman (GMT) improved portfolio occupancy over the past year as buoyant occupier demand for prime assets prevailed, developments were completed fully-leased and non-core assets were divested (in the case of GMT). Two of the smaller LPV's, SPG and NPT have both seen occupancy fall to 96% as lease expiries and vacant developments have weighed on these portfolios.

NTA expansion continues with cap rates at all-time lows

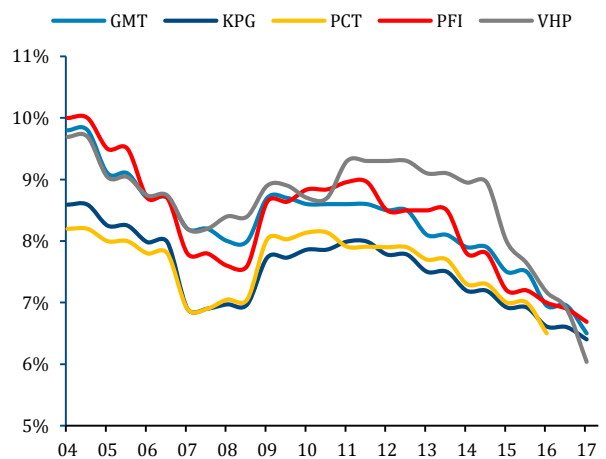
The material cap rate compression seen in recent years has continued for most LPV's in 2017 with cap rates now well-below GFC levels (see Figure 2). Cap rates compressed an average -23bps for the NZ-focussed LPV's in 2017. Cap rates for VHP's largely-Australian healthcare portfolio compressed a record -113bps to 6.04% - now the firmest among the LPVs. These movements have driven further net tangible assets (NTA) expansion of +5% year-to-date (see Figure 1), albeit this remains below what was achieved in 2016.

Figure 1. Sector NTA Expansion Slowing



Note: Sector average is weighted by market capitalization
Source Forsyth Barr analysis.

Figure 2. Cap Rates at All-Time Lows



Source Forsyth Barr analysis, Company Reports

Recent New Zealand Research Reports



Colliers International Auckland Metropolitan Office Research Report | June 2017

Developments Take Shape

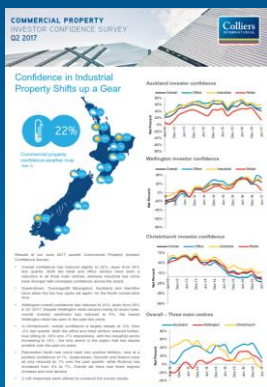
Record low vacancy rates in the CBD have made it difficult for businesses to find affordable office space. The spill over effect has seen strong demand for metropolitan office accommodation.



Colliers International New Zealand Research Report | June 2017

Economic Growth Drives Market Along

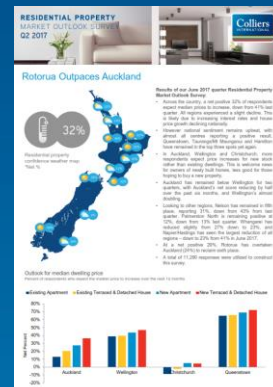
As we head into the second half of 2017, strong economic performance continues to drive the commercial property sector to new records, but this is not without its challenges.



Colliers International Commercial Property Investor Confidence Survey | Q2 2017

Confidence in Industrial Property Shifts up a Gear

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 | Q2 2017

Rotorua Outpaces Auckland

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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