New Zealand Research Report | March 2017

Wellington CBD office – what you need to know

We provide a snapshot of the Wellington CBD office market's first 'post-quake' vacancy survey results.

What a difference a couple of weeks can make! We started the physical inspections for our half yearly Wellington CBD office vacancy survey in early November 2016. Shortly afterwards, the Kaikoura earthquake changed the Wellington CBD office market overnight.

Despite this, we went on to complete the survey shortly thereafter, effectively providing a 'pre-quake' comparison, enabling us to subsequently measure the true extent of the impact from the earthquake.

Upon final completion of the 'pre-quake' survey in December 2016, our analysis showed overall vacancy had surprised slightly to the upside with a reduction from 11.9% in June 2016 to 10.5% in December 2016. This was a positive result, with tenant demand proving to be slightly above predictions.

We then undertook a 'post-quake' survey in January 2017 to reflect accurate market conditions and compare results with the 'pre-quake' survey. The market had quickly become a game of musical chairs, with the Colliers International Wellington office leasing team commenting that they had never seen anything like it before. The results of the 'post-quake' survey showed that total stock had reduced by 97,125 sqm and vacant space had reduced by 46,200 sqm. The overall 'post-quake' vacancy was 7.8%.

A CBD office market staring down the barrel of a 15% vacancy rate within a few years will now likely see vacancy rates at nearly half this level. There is now an acute shortage of available space, and a complete change of direction for the capital is underway.

The reduction in total stock and available space will see rents rise at a faster rate than we forecast previously. What was going to be growth of approximately 2% p.a. for existing prime assets will likely be double that over the next few years until market conditions normalise. New build office buildings completed over the next 12 months will boost underlying prime rents significantly (see page 4).

Key findings of the January 2017 'post-quake' survey:

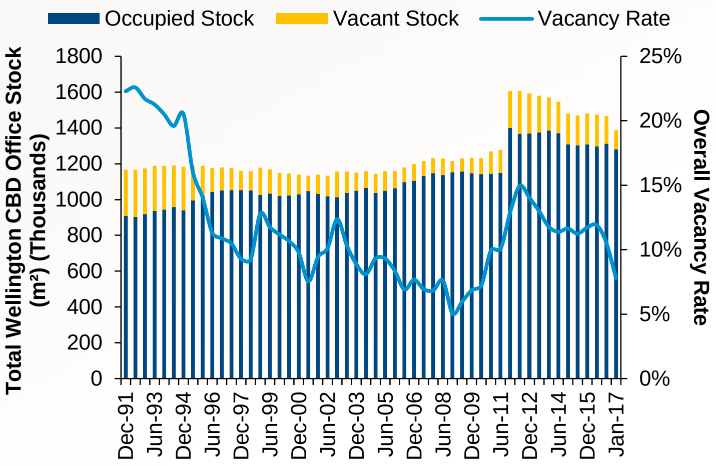
- The vacancy rate has reduced from 10.5% pre-quake to 7.8% post-quake. This is the first time the vacancy rate has dipped below 10% since December 2010.
    - A grade vacancy reduced from 2.0% to 1.2%.
    - B grade vacancy reduced from 4.5% to 2.4%.
    - C grade from reduced vacancy 17.1% to 12.9%.
- Approximately 97,125sq m (7%) of total office stock was removed, with seismic damage being the largest factor.
- A sample of affected buildings: Statistics House, Defence House, BNZ Harbour Quays, Deloitte House and Revera House.

Wellington CBD is full (continued..)

Vacant Stock Change between Dec-16 and Jan-17		
Precinct	**Net Change (m²)**	**Net Change (%)**
Core	-28953	-40%
CBD Fringe	-7263	-24%
Thorndon	-3898	-62%
Harbour Quays	0	0%
Te Aro	-6123	-13%
Overall	**-46236**	**-30%**

Total Stock Change between Dec-16 and Jan-17		
Precinct	**Net Change (m²)**	**Net Change (%)**
Core	-36125	-5%
CBD Fringe	1415	1%
Thorndon	-8989	-6%
Harbour Quays	-30036	-78%
Te Aro	-5090	-2%
Overall	**-78826**	**-5%**

Wellington CBD Office Post-quake Vacancy Survey Results



Source: Colliers International Research

Commercial Interest Rate Guide	
Date	3 Year Term (Indicative Borrowing Rate)
Mar-16	5.10%
Apr-16	4.83%
May-16	4.85%
Jun-16	4.88%
Jul-16	4.77%
Aug-16	4.59%
Sept-16	4.52%
Oct-16	4.57%
Nov-16	4.81%
Dec-16	4.96%
Jan-17	5.22%
Feb-17	5.10%

Source: ANZ Bank & Colliers International. 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 – March 2017									
	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%	3.3%	3.4%
Current Account (% of GDP)	-2.9%	NA	NA	NA	-3.5%	0.6%	-3.0%	-3.3%	-3.8%
	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%	1.7%	1.8%
Net Migration Gain (000's)	70	18	18	1	65	5	71	69	62
Retail Sales (ex-auto)	5.0%	0.8%	0.4%	0.4%	4.9%	0.1%	5.6%	5.0%	5.4%
Unemployment Rate	5.1%	5.2%	4.9%	0.3%	5.4%	-0.3%	5.0%	4.7%	4.7%
	Jan-17 (yr rate)	Dec-16 (yr rate)	M-o-M Change	Jan-16 (yr rate)	Y-o-Y Change	10 Year Average	2017F*	2018F*	2019F*
Tourist Numbers Growth	10.0%	10.1%	1.9%	13.3%	-3.4%	4.2%	8.5%	6.5%	4.9%
Official Cash Rate	1.75%	1.75%	0 bps	2.5%	-75 bps	3.65%	1.75%	1.75%	2.50%
90 Day Bank Bill Rate	2.0%	2.0%	-5 bps	2.7%	-75 bps	3.9%	2.0%	1.9%	2.5%
10 Year Government Bond	3.2%	3.3%	-10 bps	3.3%	-8 bps	4.6%	3.0%	3.5%	3.8%
Floating Mortgage Rate	5.7%	5.6%	10 bps	5.8%	-6 bps	6.9%	5.1%	5.1%	5.6%
3 Year Fixed Housing Rate	5.4%	5.4%	0 bps	5.4%	-2 bps	7.0%	NA	NA	NA
Consumer Confidence	129	125	3%	121	6%	119	NA	NA	NA
NZD vs US	0.71	0.70	1%	0.65	9%	0.75	0.72	0.69	0.67
NZD vs UK	0.58	0.56	2%	0.45	28%	0.46	0.57	0.53	0.50
NZD vs Australia	0.95	0.96	0%	0.93	3%	0.85	0.94	0.90	0.87
NZD vs Japan	82	82	0%	77	6%	74	82	80	81
NZD vs Euro	0.67	0.67	0%	0.60	12%	0.57	0.68	0.68	0.69

Source: NZIER, Colliers International Research *March year forecast

Office – rising rents and capital values

Rising rents and capital values are likely to be the outcome from the latest Statistics New Zealand's Capital Goods Price Index (CGPI). The price of a new commercial property (shops and offices) experienced annual inflation of 4.5%, albeit this was less than the residential (dwellings and outbuildings) sector at 6.4% and industrial (warehouses and factories) at 4.8%.

Developers may suggest costs are escalating at a much faster rate. The pace of the price of change accelerated strongly in 2016, and is up 27%, 15% and 17% in the past five years in the residential, commercial and industrial sectors respectively. The capacity constraints in the market suggest cost escalation will continue, and along with it, rents and capital values.

Retail – yields to firm to record lows

The latest unemployment rate forecasts for New Zealand may provide a sneak peek into the future for Auckland average prime CBD retail yields. The accompanying chart tracks the unemployment rate with the yield series with a visual correlation in trends. The forecast suggests that average prime CBD yields will continue to firm over the next couple of years, experience a slight adjustment between 2020 and 2022, and then head for another period of yield sharpening.

Some purchasers may look to 'time the market' during this short period of adjustment, but it may be foregone by others looking to secure stock that rarely becomes available. This will likely result in yields flattening out at record lows over the next few years.

Industrial – land ahoy!

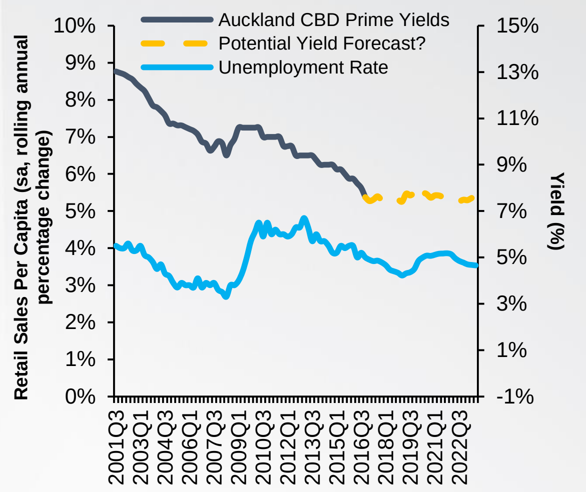
Auckland stands out as a region with one of the highest annual industrial zoned vacant land absorption rates nationally. Approximately 82 ha was absorbed between November 2015 and November 2016. This was also one of the fastest rates of land take-up experienced post-GFC. Over half of this take-up was in the former Territorial Authority of Manukau City.

Other findings from our Auckland survey show that there is only 406 ha of industrial zoned vacant land lots of 5ha or more in size, representing just 21 sites. Further re-zoning is expected, which will assist with some of the capacity constraints in Auckland, especially with the operative Auckland Unitary Plan (PAUP) in sight. However much of the new supply will likely be controlled by a small number of owners.

Capital Goods Price Index (CGPI)

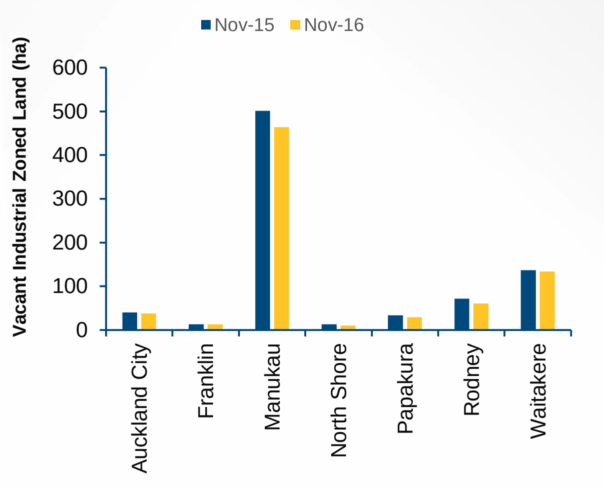
Source: StatsNZ, Colliers International Research

Unemployment Rate versus Retail Yields



Source: StatsNZ, Colliers International Research

Vacant Industrial Zoned Land Survey 2016



Source: CoreLogic, Colliers International Research

Recent New Zealand Commercial Property Sales Activity							
Address	Location	Property Type	Price	Vendor	Purchaser	Floor Area Sale Price ($/m^2)	Yield (%)
WestCity Shopping Mall, 7 Catherine Street	Henderson, Auckland	Retail	Approx. $155m	Scentre Group	Angaet Group	N/A	N/A
176 Dickens Street	Napier	Commercial Mix	$7,100,000	Private Vendor	Private Investor	$2,637	N/A
108 Mount Eden Road	Mount Eden, Auckland	Office	$4,550,000	Private Vendor	Private Investor	$4,252	N/A
132 Portage Road	Ōtāhuhu	Industrial	$4,500,000	Private Vendor	Private Investor	$1,936	6.5%
7 Edgerly Avenue	Newmarket, Auckland	Commercial Mix	$3,450,000	Private Vendor	Private Investor	$7,435	N/A
155-161 King Edward Street	Dunedin	Retail	$1,940,000	Morton Mercantile Ltd	Private Investor	$3,593	7.2%
922 George Street	Dunedin	Retail	$750,000	7MM Investments Ltd	Private Investor	$636	Vacant Possession

Recent New Zealand Commercial Property Leasing Activity					
Address	Location	Property Type	NFA (m^2)	Lessor	Lessee
7-11 Simsey Place	Hamilton	Industrial	4,420	Erinic Investments Ltd	Confidential Lessee
Citibank Building, 23 Customs Street East	Auckland Central	Office	325	Argosy Property Ltd	Potentia Recruitment

176 Dickens Street
Napier

23 Customs Street East
Auckland Central

WestCity Shopping Centre
Henderson, Auckland

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					Sep-15	Sep-16	Sep-17
Auckland Metropolitan***	2.7%	1.6%	8.3%	5.4%	5.8%	4.7%	6.9%
Office					Dec-15	Dec-16	Dec-17
Auckland CBD	5.8%	7.9%	12.5%	9.2%	1.2%	2.8%	5.4%
Wellington CBD**	2.2%	25.6%	13.1%	32.7%	2.1%	2.0%	6.5%
Industrial*					Aug-15	Aug-16	Aug-17
Auckland	3.6%	1.6%	14.3%	2.3%	1.5%	1.7%	2.7%
Industrial*					Sep-15	Sep-16	Sep-17
Christchurch	1.0%	0.0%	9.1%	0.0%	0.3%	0.3%	0.5%
Industrial*					Nov-15	Nov-16	Nov-17
Wellington**	3.5%	2.5%	7.9%	5.0%	4.0%	0.6%	1.0%
Retail					Dec-15	Dec-16	Dec-17
Auckland CBD	3.5%	3.3%	13.1%	3.4%	2.5%	2.4%	2.2%
Wellington CBD**	3.2%	2.0%	9.0%	-3.8%	7.3%	8.8%	7.1%
Auckland Shopping Centre	6.7%	7.1%	10.1%	7.5%	1.3%	1.7%	1.6%

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

NZIER QUARTERLY PREDICTIONS,

MARCH 2017

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Domestic outlook solid, but global risks intensify

The domestic outlook is broadly unchanged and continues to look very robust, but against a backdrop of increasing global risks. Net migration remains exceptionally strong, and this is boosting demand across a wide range of sectors. Construction and tourism remain key drivers of growth in the New Zealand economy with activity broadening beyond Auckland, while the continued recovery in global dairy prices is also underpinning improved confidence in the rural regions.

Government books in good shape

Although some cities directly affected by the earthquakes such as Kaikoura are still rebuilding, the effects have largely been contained. A strong Government balance sheet will comfortably absorb the costs of damage, with room still left for sweeteners heading into an election year.

Housing market softens

Housing market activity has softened in recent months. This partly reflected further macro-prudential measures taking effect late last year requiring increased deposits for property investors taking out new mortgages. Interest in housing continues to broaden across the regions. The dampening effects of the macro-prudential measures are likely to be modest as new housing construction continues to fall short of increased demand from the population surge.

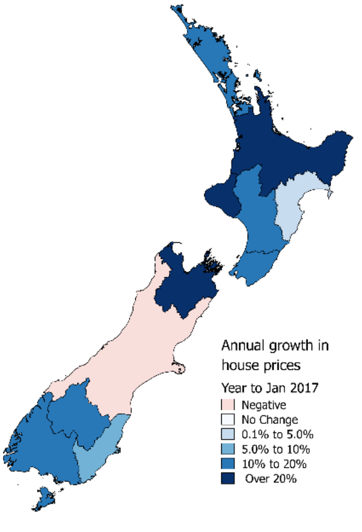
Interest rates lifting, but from very low levels

Interest rates have started lifting but remain historically low, and the low interest rate environment should continue to support house prices at high levels over the next year. We expect the Reserve Bank to start lifting the Official Cash Rate from mid-2018, and the slowing effect on house prices should be more apparent.

Heightened global uncertainty

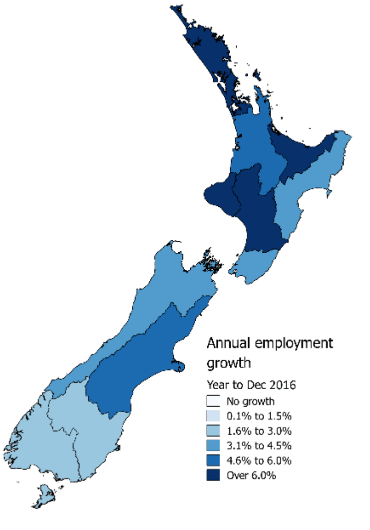
In contrast to the solid momentum in the domestic economy, the geo-political risks stemming from offshore developments have increased. From the unpredictability of US President Trump's policy actions, to the ongoing political uncertainty across Europe, the risks are skewed to the downside.

Annual % Change in Median House Prices by Region



Source: REINZ, NZIER

Annual % Change in Employment by Region



Source: Statistics NZ, NZIER

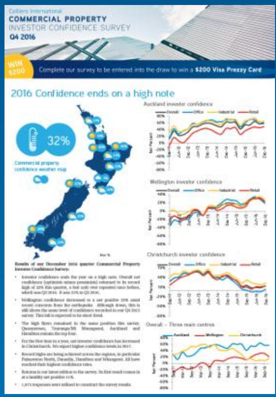
Recent New Zealand Research Reports

Colliers International New Zealand Research Report | February 2017
Back to Work

In the first edition of the New Zealand Research Report for 2017 we provide an update on the latest workplace trends, what Auckland's latest CBD office vacancy rates, Wellington's industrial vacancy rate and the retail spending surge in 2016 will mean for 2017.

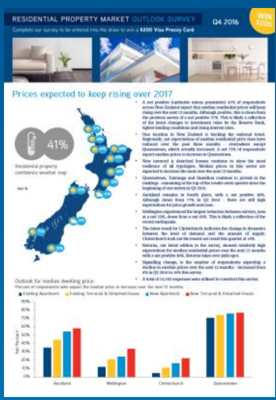
Colliers International New Zealand Research Workplace Report | December 2016
Workplace & Occupational Trends across New Zealand

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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