

# NEW ZEALAND RESEARCH REPORT

March 2020

## Spotlight on Syndications

*Syndication companies were the second largest purchaser group for commercial and industrial property sold for \$5m and over in 2019. The outlook for low interest rates suggests more of the same ahead.*

Asset prices have risen steadily over the last few years driven by solid occupier fundamentals, low interest rates and competition for a limited supply of properties available to purchase.

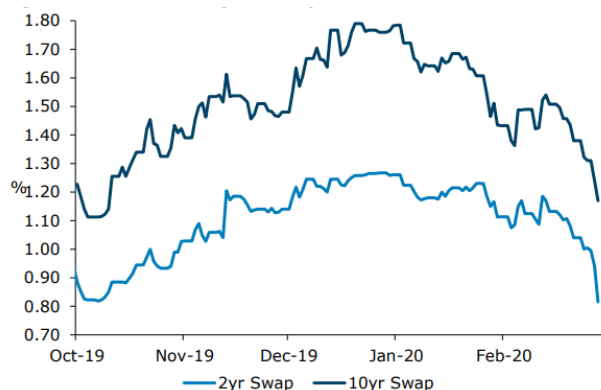
While local private investors remain one of the most active purchaser groups in New Zealand, the syndication sector's presence has increased strongly over the past few years. While annual sales results are still provisional due to lags in official data reporting, we can already see that syndication companies accounted for 21% of commercial and industrial properties sold for \$5m and over in 2019 - the second largest purchaser group by value.

The syndication sector has been particularly active in the commercial office and industrial space. This has seemingly squeezed out purchasing activity that more recently would have been taken-up by the private sector market as well as Unlisted Property Vehicles (UPV).

The ability of syndicators to tap into a wide and varied source of funds from investors continues to be a key driver of ongoing activity. We assess that approximately \$1.5 billion of investor funds have been collected for various commercial and industrial property schemes across New Zealand over the past four years.

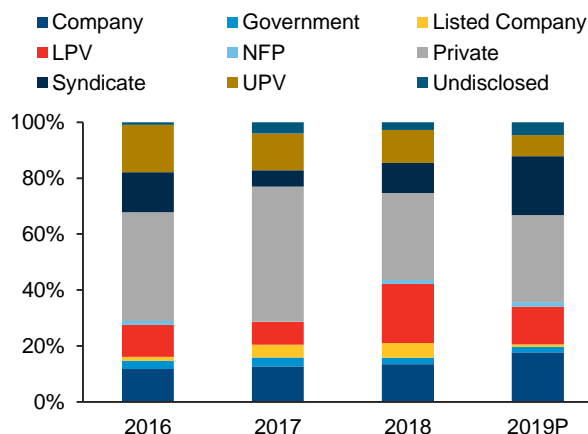
Given the high levels of syndication activity already this year, and the outlook for low interest rates to continue, we expect syndicators will remain active in 2020. This is likely to impact the share of the private sector's purchasing activity to one of the lowest on record in the past five years.

NZ 2 and 10-year Swap Rates



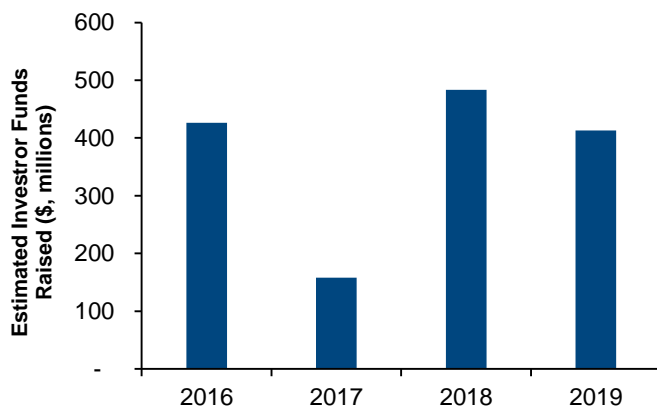
Source: ANZ, Colliers International Research

Purchasing Activity by Type, \$5m+ Sales



Source: CoreLogic, Colliers International Research

Estimated Investor Funds Raised for Syndication Schemes (2016 to 2019)

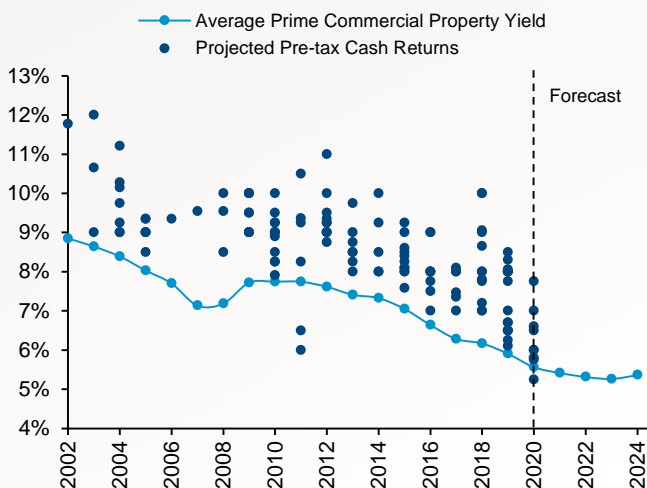


Source: Companies Office, Company Websites, Colliers International Research

## Spotlight on Syndications (cont...)

The low interest rate environment is also likely to have an impact on projected pre-tax cash returns advertised for future schemes. The reduction in interest rates has been a key driver of asset value growth and yield firming over the past few years. Syndicators have had to follow suit to remain competitive, impacting the level of returns to be able to be distributed to investors. Given the current level and pace of take-up in schemes by investors, despite the potential for the projected returns to move lower, we expect that demand will remain solid. Given short-term volatility in economic and financial markets at the moment, popularity will be high for schemes with sensible returns, low risk attributes and strong tenant covenants.

### Projected Pre-tax Cash Return vs Indicative Property Yield



Source: Companies Office, Company Websites, Colliers International Research

### Indicative Commercial Lending Rates

Commercial Interest Rate Guide	
Date	3 Year Term (Indicative Borrowing Rate)
Aug-19	4.30%
Sep-19	3.95%
Oct-19	3.90%
Nov-19	4.05%
Dec-19	4.25%
Jan-20	4.29%
Feb-20	4.18%
Mar-20	3.70%

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 – March 2020

	Sep-19 (yr rate)	Sep-19 (qtr rate)	Jun-18 (qtr rate)	Q-o-Q Change	Sep-18 (yr rate)	Y-o-Y Change	2021F*	2022F*	2023F*
GDP Growth	2.3%	0.7%	0.1%	0.6%	3.0%	-0.7%	2.4%	2.4%	2.4%
Current Account (% of GDP)	-3.4%	NA	NA	NA	-3.6%	0.2%	-4.0%	-4.0%	-4.0%
	Dec-19 (yr rate)	Dec-19 (qtr rate)	Sep-19 (qtr rate)	Q-o-Q Change	Dec-18 (yr rate)	Y-o-Y Change	2021F*	2022F*	2023F*
CPI Inflation	1.9%	0.5%	0.7%	-0.2%	1.9%	0.0%	2.6%	2.6%	2.6%
Net Migration Gain (000's)	49	11	12	-1	54	-6	36	36	36
Retail sales (ex-auto)	3.2%	1.1%	1.2%	-0.1%	4.6%	-1.4%	4.9%	4.9%	4.9%
Unemployment Rate	4.1%	4.0%	4.1%	-0.1%	4.3%	-0.2%	4.0%	4.0%	4.0%
	Nov-19 (yr rate)	Oct-19 (yr rate)	M-o-M Change	Nov-18 (yr rate)	Y-o-Y Change	10 Year Average	2021F*	2022F*	2023F*
Tourist Numbers Growth	0.0%	0.0%	1.0%	4.3%	-4.3%	4.5%	4.5%	4.0%	4.7%
	Dec-19 (yr rate)	Nov-19 (yr rate)	M-o-M Change	Dec-18 (yr rate)	Y-o-Y Change	10 Year Average	2021F*	2022F*	2023F*
Official Cash Rate	1.00%	1.00%	0 bps	1.8%	-75 bps	2.25%	1.00%	1.00%	1.00%
90 Day Bank Bill Rate	1.3%	1.2%	4 bps	1.9%	-64 bps	2.4%	1.2%	1.2%	1.2%
10 Year Government Bond	1.5%	1.5%	-5 bps	2.3%	-85 bps	3.3%	1.8%	1.8%	1.8%
Floating Mortgage Rate	5.3%	5.3%	0 bps	5.9%	-59 bps	5.9%	5.2%	5.2%	5.2%
3 Year Fixed Housing Rate	4.5%	4.5%	0 bps	5.1%	-57 bps	5.9%	NA	NA	NA
Consumer Confidence	123	123	0%	122	1%	120	NA	NA	NA
NZD vs US	0.66	0.66	0%	0.68	-3%	0.74	0.65	0.65	0.65
NZD vs UK	0.50	0.50	0%	0.53	-5%	0.51	0.47	0.47	0.47
NZD vs Australia	0.95	0.96	-1%	0.95	1%	0.88	0.90	0.90	0.90
NZD vs Japan	72	72	0%	74	-2%	75	73	73	73
NZD vs Euro	0.59	0.59	0%	0.59	0%	0.61	0.62	0.62	0.62

\*March year forecast

Source: NZIER, Colliers International Research

## Office

Strong occupier demand for Auckland CBD office space persists as our latest December overall vacancy rate recorded a drop to 4.7% compared to 5.0% in June 2019. The 4.7% represents less than 66,000 sqm of space available and is the lowest on record. Both prime and secondary vacancy rates dropped 30 basis points to 2.5% and 6.3% respectively. Upcoming supply response from completions of Commercial Bay, One55 Fanshawe Street and 10 Madden Street by the end of this year will provide some opportunities for occupiers.

The overall vacancy rate in Wellington increased marginally to 6.1%, up 20 basis points from June 2019's 5.9%, but well below the 20-Year average of 9.5%. Prime vacancy rate remains unchanged at 0.4% highlighting the lack of quality office space, whilst the secondary vacancy rate increased slightly from 7.3% in June 2019 to 7.7%. The slight increase in vacancy rate arises as buildings complete their scheduled refurbishment and strengthening works. Notable examples include 73-89 Boulcott Street and 29 Brandon Street that comprises approximately 11,000 sq m of office space but is now over 75% leased.

## Industrial

Nationally, construction costs for non-residential buildings are on the rise again with the increasing number of non-residential buildings consents and healthier pipelines in the commercial building sector. The latest Stats NZ construction cost index indicates 5.4% annual growth to December 2019, which is well above the 20-year average of 2.9%.

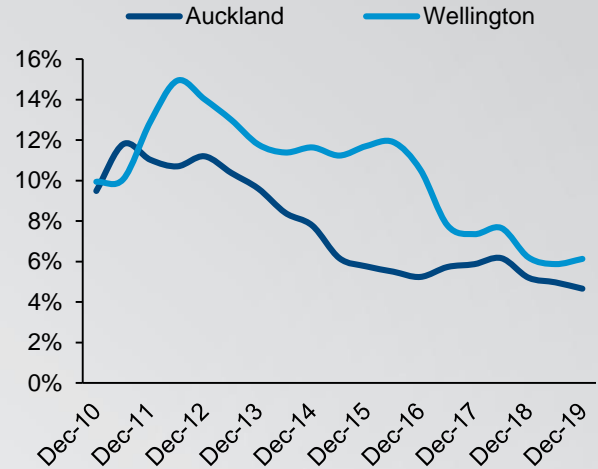
Recent announcements of tightening credit availability and increasing costs of labour could see construction costs rise in the short-term. However, cost management and quantity surveying firm Rider Levett Bucknall has forecasted costs to moderate to 3.0% by the end of 2024.

## Retail

New Zealanders welcomed the American-based Black Friday shopping event with open arms, as sales from the four-day promotion, along with a busy Christmas period, supported a 0.7 percent lift in total retail sales in the December 2019 quarter after being adjusted for price and seasonal effects. Stats NZ reported the largest increase in spending was for electronic goods retailing, up 4.3 percent in the December 2019 quarter, followed by pharmaceutical and other store based retailing, up 4.1 percent. Precinct Properties and their retailers will be looking forward to boosting upcoming retail spending with over 100 retailers in Commercial Bay which is scheduled to open soon.

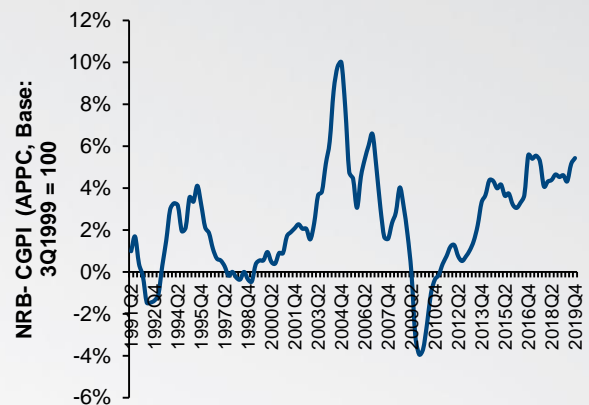
While the full effects of COVID-19 are yet to be understood, some retailers are preparing for a potential spending downturn. In Auckland we are aware of one F&B business owner adding a COVID-19 clause to their tenancy agreement, allowing them to pay a reduced rent if the number of cases surpasses a specific number.

## CBD Office Vacancy Rates



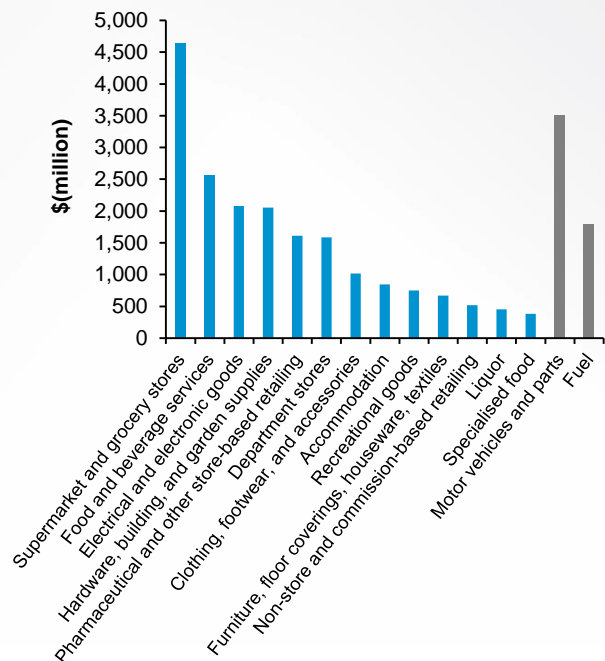
Source: Colliers International Research

## Non-Residential Construction Cost Index



Source: StatsNZ, Colliers International Research

## Retail Spending by Industry Q4 2019 (Seasonally adjusted sales volumes)



Source: StatsNZ, Colliers International Research

# Annual Market Indicator Review – Q4 2019

Property Sector	Prime Rents (% Change)	Prime Capital Values (% Change)	Vacancy Rate	
	12-Months to Dec-19	12-Months to Dec-19	2018	2019
Office	Net Face	Based on Net Face	Overall (December)	
Auckland CBD	1.7%	8.9%	5.2%	4.7%
Office	Net Face	Based on Net Face	Overall (September)	
Auckland Metropolitan	1.7%	9.1%	6.7%	5.6%
Office	Gross Face	Based on Net Face	Overall (December)	
Wellington CBD	6.4%	12.0%	6.2%	6.1%
Office	Net Face	Based on Net Face	Overall (June)	
Christchurch CBD**	-10.1%	-2.8%	20.0%	16.9%
Industrial*	Net Face	Based on Net Face	Overall (August)	
Auckland	2.1%	7.1%	2.0%	2.1%
Industrial*	Gross Face	Based on Net Face	Overall (November)	
Wellington	7.5%	18.4%	1.5%	0.9%
Industrial*	Net Face	Based on Net Face	Overall (September)	
Christchurch	-0.7%	1.5%	1.9% (2016)	N/A
Retail	Net Face	Based on Net Face	Overall (December)	
Auckland CBD	0.0%	0.0%	1.5%	2.1%
Retail	Gross Face	Based on Net Face	Overall (December)	
Wellington CBD	3.6%	5.8%	6.6%	3.9%

Source: Colliers International Research

\*Combination of industrial office & warehouse at a ratio of 20:80.

\*\* Data based on 12-months to Jun-19

## Recent Commercial Property Sales



134 Manawapou Road, Hawera  
Taranaki | \$3,000,000 |



25 Langley Road, Wiri  
Auckland | \$35,990,283 | 5.6%



8 – 10 Volkner Place, Albany  
Auckland | \$4,589,000 | 5.4%

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