

NEW ZEALAND OFFICE

2019 REVIEW & 2020 FORECAST



Colliers International NZ

Positive economic conditions driven by population gains and high employment rates have delivered another year of solid activity in the office property sector. This is forecast to continue.

Difficulties for occupiers searching for suitably available prime space ready for occupation is an ongoing trend, which is enabling a supply response from developers. Refurbishment, strengthening, repositioning and new build activity is underway, but challenging construction sector conditions mean the pace of new space becoming available has not always met expectations. In many central office hotspots, conditions are tight, but there are opportunities for tenants to consider, more depending on the level of tenant flexibility.

The key occupiers driving office sector growth continue to be the FIRE sectors (finance, insurance and real estate) as well as local and central government. The contribution from technology-related services is also growing.

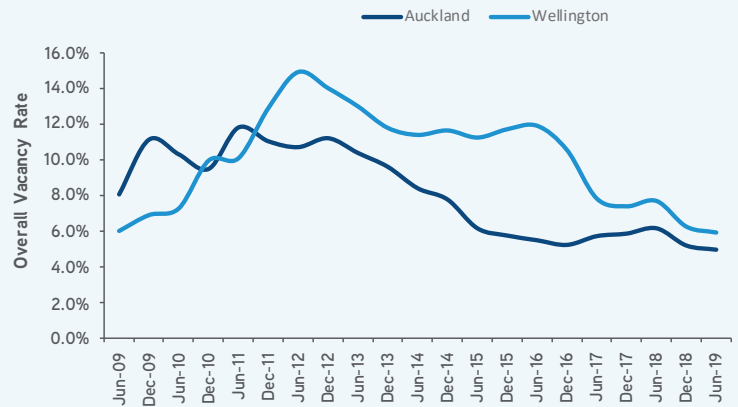
Many tenants searching for space remain focussed on traditional forms of leasing. However, the rise in coworking, serviced office space and other variations - focussing on the SME and start-up sectors - have proven popular. Colliers International APAC research shows this sector accounts for between 2% and 9% of total office space in major cities.

It is no surprise that the locations facing the most imbalance between demand and supply are where average prime face rents are escalating the fastest. Current growth rates of between 3% and 5% p.a. are above long-term averages, especially in a low inflation environment. Insurance costs are rising in some cities. Incentives are available for the best tenants offering the best terms. The high cost of fit-outs has seen a renewed focus in this area, especially in centres where construction sector constraints are high.

While many locations are experiencing strong growth, there are options for tenants to pursue to reduce the impact of rising rents and operating expenses. Shorter-lease terms is an area we are seeing tenants chase, perhaps in response to new IFRS requirements as well as reducing long-term commitments.

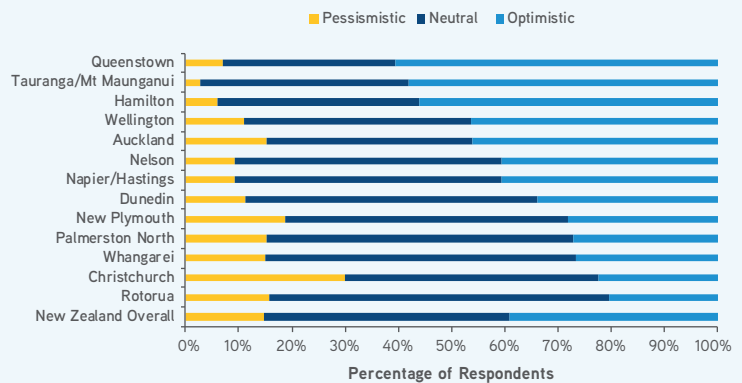
Investors remain confident and are focussed on economic and property drivers, the ability to increase cashflow through negotiations and/or asset repositioning, lower interest costs and pent-up purchaser demand. The rejection of a more comprehensive capital gains tax earlier in the year has also been a key motivator. The global hunt for higher returns has seen more active offshore purchasers and adds depth to our transactional activity. Overall, the outlook for office remains solid, supported by our net positive survey responses in the latest Colliers International Investor Confidence Survey.

Auckland & Wellington Overall Vacancy Rates



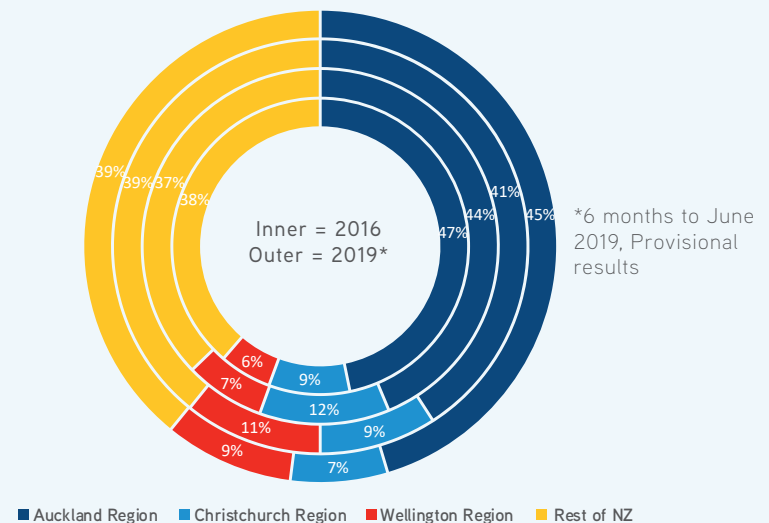
Source: Colliers International Research

Commercial Investor Confidence Survey Q3 2019



Source: Colliers International Research

Regional Percentage of Transactions 2016-2019



Source: CoreLogic, Colliers International Research

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NEW ZEALAND OFFICE MARKET INDICATORS Q3 2019

Grade	Precinct	Average Net Face Rentals (\$/sqm pa)***		Outgoings** (\$/sqm pa)		Incentives (%)		Capital Value (\$/sqm)*		Market Yields (%)	
		Low	High	Low	High	Low	High	Low	High	Low	High
Auckland CBD											
Premium	All Precincts	480	650	110	185	4	10	8725	13000	5.00%	5.50%
	New Build	575	795	110	160	8	30	10455	15900	5.00%	5.50%
A-Grade	Core	380	565	110	130	6	12	6610	10760	5.25%	5.75%
	Mid Town	325	425	110	125	6	15	5000	7390	5.75%	6.50%
	Western Corridor	335	420	120	135	6	15	5155	7305	5.75%	6.50%
	Viaduct Harbour	335	455	115	240	6	15	4620	7915	5.75%	7.25%
	Britomart	430	575	130	160	6	10	6615	10950	5.25%	6.50%
	Quay Park	345	495	120	145	10	15	4760	8250	6.00%	7.25%
	Wynyard Quarter	455	525	100	125	6	15	6500	9545	5.50%	7.00%
	Victoria Quarter	435	535	100	125	6	15	6960	9725	5.50%	6.25%
B-Grade	Core	315	440	100	125	5	13	5040	7650	5.75%	6.25%
	Mid Town	280	400	95	115	10	13	4150	6555	6.10%	6.75%
	Western Corridor	265	360	100	120	12	16	3925	6260	5.75%	6.75%
	Viaduct Harbour	250	390	115	250	12	16	3450	6000	6.50%	7.25%
	Upper Queen	250	325	90	110	15	20	3570	5415	6.00%	7.00%
	Britomart	295	425	100	125	12	16	4370	7085	6.00%	6.75%
	Quay Park	300	375	110	125	12	18	4140	5770	6.50%	7.25%
	Wynyard Quarter	325	395	95	115	6	10	5000	6870	5.75%	6.50%
Victoria Quarter	325	395	95	115	6	10	5200	7180	5.50%	6.25%	
Hamilton CBD											
Prime / New Build	CBD	220	380	50	70	0	6	3825	7600	5.00%	5.75%
Secondary	CBD	80	185	40	55	8	25	1375	3085	6.00%	8.00%
Tauranga CBD											
Prime / New Build	CBD	250	350	60	75	3	6	3845	7000	5.00%	6.50%
Secondary	CBD	165	200	60	65	8	25	2200	3075	6.50%	7.50%
Hawke's Bay											
Prime	CBD	275	320	35	55	4	6	3930	5245	6.10%	7.00%
Rotorua CBD											
Prime	CBD	220	300	50	60	1	3	3235	5000	6.00%	6.80%
New Plymouth CBD											
Prime	CBD	250	310	12	15	0	0	3570	5635	5.50%	7.00%
Wellington CBD											
Premium / New Build	Core	660	850	150	200	0	6	8085	12855	5.25%	6.00%
	Core	550	660	150	200	0	6	5770	8820	5.50%	6.50%
A-Grade	Fringe	450	560	100	150	0	6	4485	6960	6.25%	7.25%
	Thorndon	450	535	100	135	0	6	4750	6960	6.00%	7.00%
B-Grade	Core	385	535	100	150	0	8	3715	6310	6.50%	7.00%
	Fringe	330	470	85	120	0	12	2845	4900	7.50%	8.00%
	Thorndon	310	435	80	100	0	8	2935	4930	7.00%	7.50%
Christchurch CBD											
Prime / New Build	CBD	300	365	65	100	8	16	4445	5840	6.25%	6.75%
Secondary	CBD	250	320	65	75	8	18	3335	4570	7.00%	7.50%
Queenstown CBD											
Prime	CBD	350	425	120	180	0	0	N/A	N/A	N/A	N/A
Dunedin CBD											
Prime	CBD	190	240	45	75	3	6	2450	3555	6.75%	7.75%

Source: Colliers International Research
Face rents, yields and capital values are based on averages across all precincts and does not represent the minimum or maximum rates being achieved.

*Assuming fully leased at market rates and all capital values are based on net face rents

**Includes ground rent component, where appropriate

***Wellington is based on gross face rents

Note: Some figures may be rounded

FOR MORE INFORMATION:

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