

# NEW ZEALAND RESEARCH REPORT

April 2019

## Industrial Shining Bright

*New Zealand's industrial property sector remains in a strong position. Expanding corporates and owner-occupiers are driving tenant demand, and a balanced supply outlook will mean space availability will remain tight in Auckland and Wellington. Christchurch has gone through a recalibration and 2019 is seeing stronger sector fundamentals. Investment conditions look bright across the country.*

### Auckland

High levels of tenant demand pushed the overall vacancy rate to a record low of 1.5% in our February survey. There is less than 182,000 sqm of vacant space available in Auckland. This is half of the vacant space available just six years ago.

Limited space and a balanced supply outlook are leading to higher levels of rental growth. Auckland experienced combined industrial office and warehouse rental growth of 5% over the past year. Average prime net face warehouse rent is at \$130 per sqm, while average net face industrial office rents are at \$263 per sqm. We broadly expect rents to continue increasing by around 2%-3% p.a. Some locations may experience top end rents increasing by 4% p.a.

Positive financial conditions are boosting investor confidence in the industrial sector. The low interest rate environment has supported the industrial sector with average prime yields ranging between 4.7% and 5.7% in Auckland.

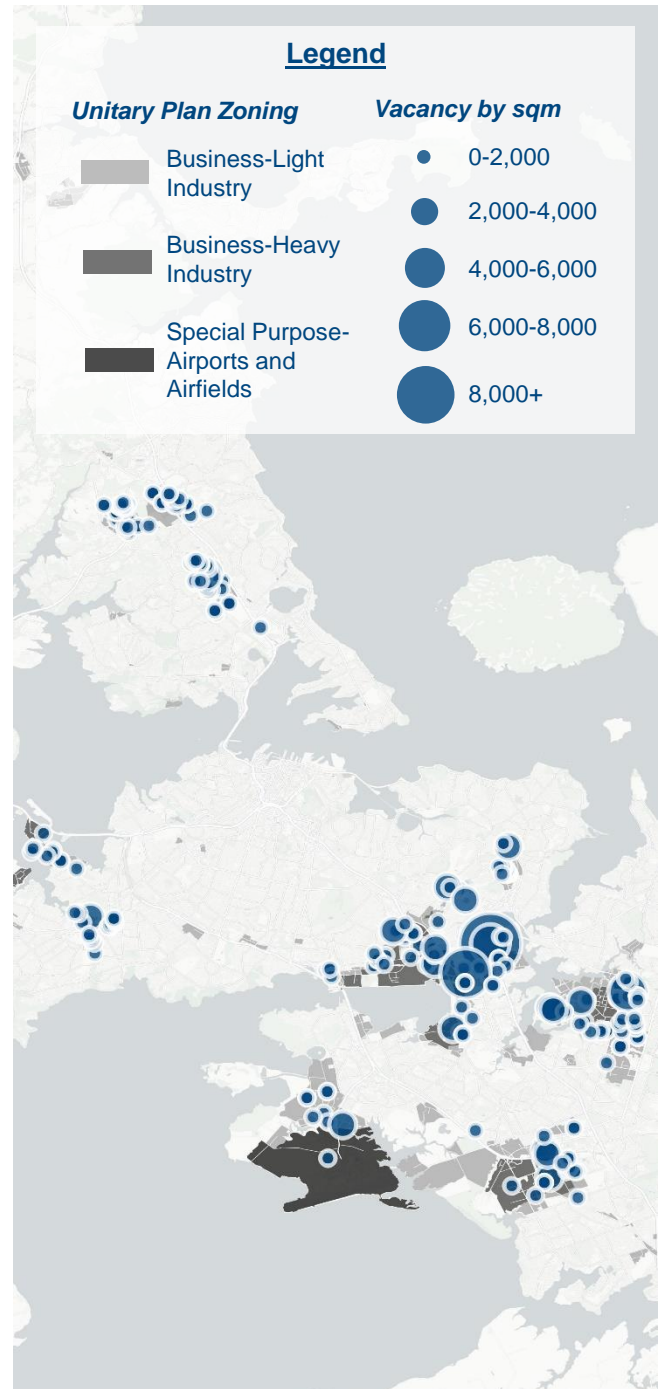
Given rising rents and firming yields in a low interest rate environment, we expect Auckland sales activity to continue to remain buoyant over 2019.

### Wellington

Tenant demand for Wellington industrial space is also at an all-time high, and at the same rate as Auckland at just 1.5%. This represents vacant space of just under 39,000 sqm. This is the lowest result recorded since the annual survey commenced a decade ago, and down further from the already critical shortage seen in late 2017 of 2.1%.

The region's largest industrial precinct, Seaview/ Gracefield, has an unprecedented vacancy rate of less than 1%. In 2012 it was surveyed at 12.5%.

### Auckland Industrial Building Vacancy



Source: Colliers International Research

Strong uptake of vacant industrial land and new build activity is increasing in precincts such as Porirua and Upper Hutt where land values are lower than more centrally located precincts. New build activity is up and there has been stronger enquiry for design builds typically coming from corporates in search of quality, earthquake compliant and resilient premises.

Major infrastructure development has also been a significant catalyst to the upswing in demand. High anticipation of the completion of Transmission Gully – already benefitting most of Wellington’s industrial precincts – seems to be creating a cyclical boom that shows no signs of slowing.

## Christchurch

A more balanced demand and supply profile is assisting with stronger market fundamental expectations in Christchurch. After a flat leasing market through 2018 vacancy rates have been declining in the first quarter of 2019 with local business expansion being the main driver. Vacancy is estimated at sub-5%.

Land is still very tightly held and next to no spec-building is occurring in the market, supply is only being provided via design-builds of which there has been an increase in the past 12 months.

Prime industrial warehouse net face rents have remained the same since mid-2016 at \$100 - \$115 per sqm, secondary rents are at \$80 - \$90 per sqm.

A more stable sector with low interest rates continues to drive positive investor sentiment. With very few prime investment opportunities it is hard to analyse true prime yields, however, some of the yields on the better-quality assets have firmed further over the last quarter of 2018, with multiple investments selling in the sub 6% yield bracket.

*New Zealand provincial industrial indicators will be available at the end of April at:*

<https://www.colliers.co.nz/find%20research/industrial>

Commercial Interest Rate Guide	
Date	3 Year Term (Indicative Borrowing Rate)
Oct-18	4.62%
Nov-18	4.62%
Dec-18	4.71%
Jan-19	4.47%
Feb-19	4.45%
Mar-19	4.47%
Apr-19	4.15%

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 – April 2019

	Dec-18 (yr rate)	Dec-18 (qtr rate)	Sep-18 (qtr rate)	Q-o-Q Change	Dec-17 (yr rate)	Y-o-Y Change	2019F*	2020F*	2021F*
GDP Growth	2.3%	0.6%	0.3%	0.3%	3.4%	-1.1%	2.7%	2.7%	2.7%
Current Account (% of GDP)	-3.6%	NA	NA	NA	-2.9%	-0.7%	-3.5%	-3.8%	-4.1%
	Dec-18 (yr rate)	Dec-18 (qtr rate)	Sep-18 (qtr rate)	Q-o-Q Change	Dec-17 (yr rate)	Y-o-Y Change	2019F*	2020F*	2021F*
CPI Inflation	1.9%	0.1%	0.9%	-0.8%	1.6%	0.3%	1.8%	1.8%	2.0%
Net Migration Gain (000's)	42	9	10	-1	53	-10	39	24	17
Retail Sales (ex-auto)	4.4%	2.3%	0.6%	1.7%	6.3%	-1.9%	4.1%	4.6%	5.1%
Unemployment Rate	4.3%	4.3%	4.0%	0.3%	4.7%	-0.4%	4.2%	4.1%	4.1%
	Jan-19 (yr rate)	Dec-18 (yr rate)	M-o-M Change	Jan-18 (yr rate)	Y-o-Y Change	10 Year Average	2019F*	2020F*	2021F*
Tourist Numbers Growth	4.3%	4.1%	-0.1%	2.5%	1.8%	5.4%	4.5%	4.0%	4.7%
Official Cash Rate	1.75%	1.75%	0 bps	1.8%	0 bps	2.40%	1.75%	1.75%	2.25%
90 Day Bank Bill Rate	1.9%	2.0%	-7 bps	1.9%	3 bps	2.6%	1.9%	1.9%	2.3%
10 Year Government Bond	2.3%	2.5%	-12 bps	2.9%	-55 bps	3.7%	3.0%	3.2%	3.4%
Floating Mortgage Rate	5.9%	5.9%	0 bps	5.8%	1 bps	6.0%	5.8%	5.8%	6.1%
3 Year Fixed Housing Rate	5.1%	5.1%	0 bps	5.3%	-23 bps	6.1%	NA	NA	NA
Consumer Confidence	122	122	0%	127	-4%	120	NA	NA	NA
NZD vs US	0.68	0.68	0%	0.73	-6%	0.74	0.68	0.65	0.65
NZD vs UK	0.53	0.54	-1%	0.53	2%	0.50	0.53	0.48	0.47
NZD vs Australia	0.94	0.95	-1%	0.91	4%	0.86	0.93	0.87	0.86
NZD vs Japan	77	77	0%	81	-5%	74	76	74	73
NZD vs Euro	0.60	0.60	0%	0.59	1%	0.59	0.60	0.61	0.62

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

## Office

Ahead of the New Zealand Green Property Summit on 11 April we have analysed the latest vacancy rates in Green star rated buildings versus the overall market. The results show landlords with Green star rated buildings are winning big when it comes to retaining tenants, adding sustained income benefits and long-term value to their buildings. The December 2018 Auckland CBD office overall vacancy rate of 5.2% is a record low, but Green star rated buildings have an overall vacancy rate of just 4.0%. In metropolitan Auckland, which covers all office space outside of the CBD, there is a vacancy rate of 6.7% compared with the green vacancy rate of 3.0%. In Wellington CBD, the overall vacancy rate is 6.2%, while there are currently no vacancies in Green star rated buildings. The most recent office premises to receive a Green star rating was Argosy Property Ltd's 82 Wyndham Street in February 2019. The building received a 5-star green office built (v3) rating. Argosy Property has also received green star ratings for 15 Stout Street and Te Puni Kokiri House. Mansons TCLM are one of the most prolific building owners/developers to achieve green star ratings. According to Green Building Council records, Mansons TCLM has received 16 Green star ratings for various buildings and fit-outs.

## Retail

Electronic card transactions data from Statistics NZ shows continued growth in retail spending. Core retail industries aggregated to \$55,487 million for the annual year to February, climbing 4.4% from the previous year. Consumables and durables increased in total transaction value by 4.4% and 4.3%, respectively, whilst apparel transactions decreased -1.1% compared to a year ago. Hospitality spending recorded the greatest increase at 6.3%.

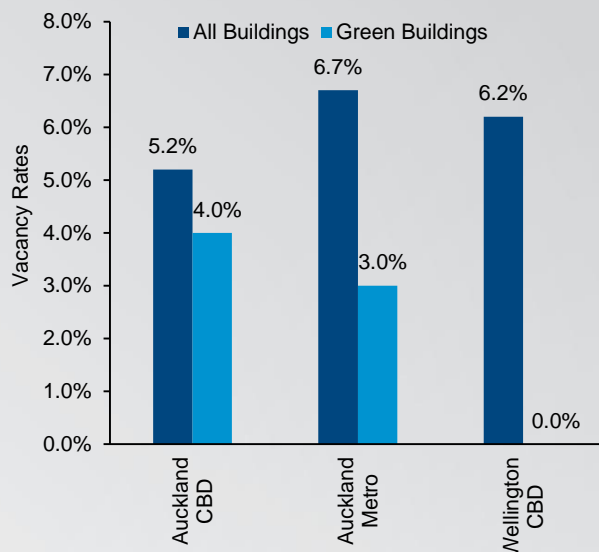
The increasing trend of electronic card transactions is not uncommon with the rise of e-commerce and online stores. Premier Investment, the parent company of Smiggle, Just Jeans, Portmans and Jacqui E have plans to establish an online platform for these brands by 2H 2019 in addition to its existing online stores for Peter Alexander and Dotti.

## Industrial

Our latest Commercial Property Investor Confidence survey shows that industrial investors continue to be the most optimistic in Auckland (62%) and Christchurch (2%). In Wellington, industrial investor confidence is tracking slightly behind the office sector but is still high at a net positive 55%.

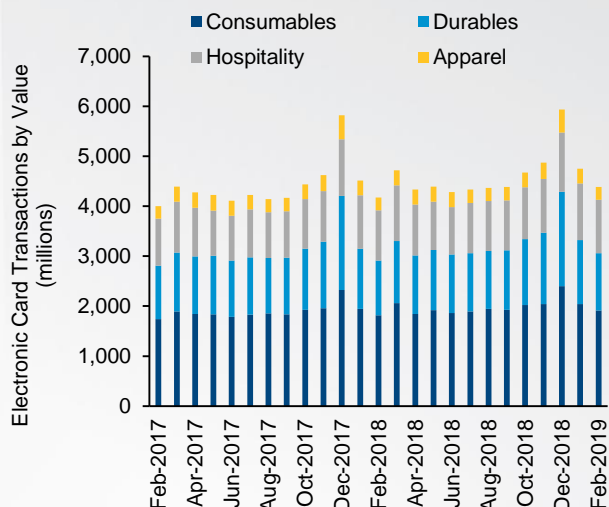
Non-residential building consents nationally for new industrial buildings (factories, industrial, and storage buildings), dropped 2% in February 2019 compared to a year earlier. Albeit, the total floor area for industrial buildings consented shows a 29% increase from a year ago, reaching a peak unseen since 2005. Auckland is particularly active, making up 36% of total consents.

### Green Building Rated Vacancy Rates



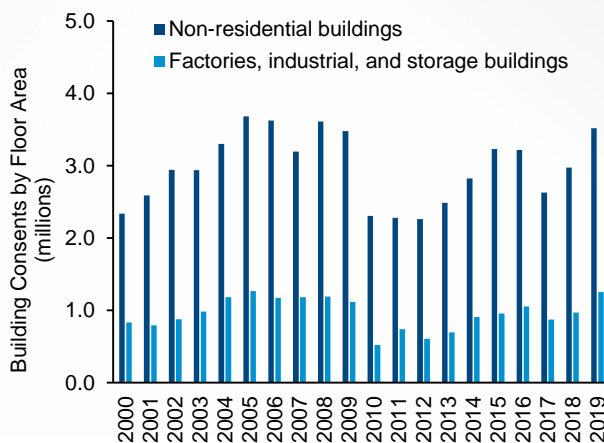
Source: Colliers International Research

### Electronic Card Transactions by Value (millions)



Source: StatsNZ, Colliers International Research

### Non-Residential Building Consents by Floor Area – Annual to Feb



Source: StatsNZ, Colliers International Research

# Annual Market Indicator Review – Q4 2018

Property Sector	Prime Rents (% Change)	Prime Capital Values (% Change)	Vacancy Rate	
	12-Months to Dec-18	12-Months to Dec-18	2017	2018
Office	Net Face	Based on Net Face	Overall (December)	
Auckland CBD	1.5%	9.9%	5.9%	5.2%
Office	Gross Face	Based on Net Face	Overall (December)	
Wellington CBD	6.0%	5.7%	7.4%	6.2%
Office	Net Face	Based on Net Face	Overall (September)	
Auckland Metropolitan	3.8%	11.4%	5.1%	6.7%
Industrial*	Net Face	Based on Net Face	Overall (February)	
Auckland	5.0%	9.0%	2.1% (2018)	1.5% (2019)
Industrial*	Gross Face	Based on Net Face	Overall (November)	
Wellington	4.8%	5.3%	2.1%	1.5%
Industrial*	Net Face	Based on Net Face	Overall (September)	
Christchurch	0.0%	7.5%	1.9% (2016)	N/A
Retail	Net Face	Based on Net Face	Overall (December)	
Auckland CBD	0.0%	0.0%	3.6%	1.5%
Retail	Gross Face	Based on Net Face	Overall (December)	
Wellington CBD	0.9%	1.2%	6.9%	6.1%

Source: Colliers International Research

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

Note: The Wellington CBD office gross rents and yields annual percentage change has been influenced by the introduction of a Premium grade.

## Recent Commercial Property Sales



C:Drive Albany (Syndication Fully Subscribed)  
Auckland | \$50,500,000 | 5.88%



745 Te Rapa Road  
Hamilton | \$17,000,000 | 6.05%



21 Andrew Baxter Drive  
Auckland | \$5,380,000 | 5.29%

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