

NEW ZEALAND RESEARCH REPORT

February 2020

The Big New Zealand Upgrade

In late 2019 the government announced a \$12 billion injection for infrastructure. In late January 2020, \$6.8 billion of transport projects were announced as part of the Big New Zealand Upgrade. We detail the projects and consider the influences.

While there is still \$4 billion of announcements to come, the latest announcement shows a significant emphasis on roading infrastructure, accounting for \$5.6 billion, or just over 80% of the transport programme. Auckland will receive around \$3.5 billion or 52% of the transport programme. Some of the projects are a continuation of existing or previously investigated projects. Of the 20 projects announced, 55% are expected to commence construction by the end of 2021. Many of the projects (60%) are forecast to complete in 2024 and 2025.

Location	Funding (\$000s)	Type	Project	Start	Completion
Northland	\$692	Road	Four-lane 22km corridor with separated shared walking and cycling path	2023/24	2025/26
Auckland	\$411	Road	Penlink: two-lane, tolled 7km corridor with separated shared walking and cycling path	Late 2021	Late 2025
	\$1,354	Road	Mill Road: four-lane corridor with separated walking and cycling path	Late 2022	2025/26
	\$423	Road	Papakura to Drury South: add a third lane in each direction, interchange improvements shared walking and cycling path and allowing future dedicated public transport services	Late 2020	Late 2025
	\$360	Road	Northern Pathway: 2km shared path over the Auckland harbour Bridge with 3km of shared path from Northcote to Esmonde Rd in Takapuna	Early 2021	2023/24
	\$315	Rail	Wiri to Quay Park: 5.2km of new track completing Third main Line between Westfield Junction and Wiri Inland Port	Late 2020	Mid-late 2024
	\$371	Rail	Papakura to Pukekohe: 19km track electrification and upgrade to Pukekohe Station	Late 2020	Mid-late 2024
	\$247	Rail	Drury: new rail stations at Drury Central and Drury West	2023	Late 2024
Waikato & BOP	\$58	Road	SH1/SH29 intersection relocation and construction of a roundabout	2022	2024
	\$478	Road	Tauranga Northern Link (TNL): 68km four-lane corridor with overbridge interchanges, new bridge crossing, new west-bound single land connection at Takitimu Drive and separated pedestrian and cycling	Late 2020	Late 2025
	\$455	Road	Te Puna to Omokoroa: 7km four-lane corridor with new overbridges which will connect into TNL	Late 2023	Late 2027
Wellington	\$59	Road	SH58: 5.5km of safety improvements including two new roundabouts. Stage 1 is already underway.	Mid-2020	Mid-2023
	\$258	Road	Melling Interchange: As part of the RiverLink Programme, a new over bridge and river bridge, railway relocation and walking and cycling paths	Late 2020	2026
	\$817	Road	Otaki to north of Levin: 24km four-lane corridor along SH1 continuing the Kapiti Expressway with separated walking and cycling shared path	Late 2025	2029
	\$211	Rail	Wellington Rail Upgrade: Upgrades to increase line capacity and support increased frequency of Metlink and Capital Connection with additional tracks, platforms, level crossing upgrades and removals, signalling systems, storage facilities and refurbishment of existing rolling stock	Late 2020	Phased 2022 to 2025
Canterbury	\$60	Road	Rolleston: two-lane overbridge to connect SH1 and the Main South Line to the industrial zone and four intersection upgrades between Burnham and Rolleston	2022	2025
	\$40	Road	Bougham St: SH76 upgrade with priority bus, multi-passenger and/or freight lanes with dedicated public transport routes	Late 2022	2024
	\$25	Road	Halswell Rd: Two dedicated bus lanes over 2.5km on SH75 connecting Christchurch Southern Motorway with Halswell	2022	Mid-2024
	\$34	Road	Tinwald, Ashburton and West Melton: Intersection safety improvements	2021	2022/23
Queenstown	\$90	Road	SH6/6A: New bus hub and bus lanes to prioritise public transport, new roundabout, intersection upgrades and better cycling and walking connections	Late 2021	2023/24
Total	\$6,758				

Source: NZTA, Colliers International Research

If undertaken as currently detailed, there will be a number of economic benefits that arise from this infrastructure programme. Current estimates suggest the economy could grow by an additional \$10 billion over the first five years.

To deliver this growth and cope with the scale and the similar timeframes of the projects across the country, companies looking to participate may need to consider employing more people. Industry expansion will likely lead to additional office and industrial space requirements and the retail and accommodation sector could also benefit. There is potential that an increase in government employment may be required alongside the private sector to manage the projects appropriately. Space shortages in some markets could be exacerbated.

With employment near record highs, capacity and labour cost inflation will need to be considered so that the potential for excessive price rises are mitigated. Likewise, a sharp rise in the demand for materials to meet projects of these size could elevate costs for other commercial, industrial and residential projects in the pipeline. If not assessed appropriately, unintended consequences could be rising development costs, rents and asset prices across the property sector.

We look forward to hearing more as plans progress.



New Zealand Key Economic Indicators – February 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	-3.6%	-3.6%	-0.9%	4.2%	-7.8%	4.7%	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	2.26%	1.00%	1.00%	1.00%
90 Day Bank Bill Rate	1.2%	1.1%	13 bps	2.0%	-80 bps	2.4%	1.2%	1.2%	1.2%
10 Year Government Bond	1.4%	1.2%	19 bps	2.5%	-110 bps	3.4%	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	121	2%	122	1%	120	NA	NA	NA
NZD vs US	0.66	0.64	3%	0.68	-4%	0.74	0.65	0.65	0.65
NZD vs UK	0.50	0.50	1%	0.54	-7%	0.51	0.47	0.47	0.47
NZD vs Australia	0.96	0.94	2%	0.95	1%	0.88	0.90	0.90	0.90
NZD vs Japan	72	70	3%	77	-6%	75	73	73	73
NZD vs Euro	0.59	0.58	2%	0.60	-1%	0.61	0.62	0.62	0.62

*March year forecast

Source: NZIER, Colliers International Research



Office

Over 182,000 sqm of office space was consented in the year to Dec-19, up 24.5% from 146,000 sqm recorded in the year to Dec-18. The growth is a welcomed response to recent record low vacancy rates experienced across major cities in New Zealand, but still below the 20 Year-average sqm consented.

As Commercial Bay completes in the coming months, Auckland's office market will receive its first injection of Premium Office space in five years, since the completion of 151 Victoria Street West (NZME House) in late 2015. Commercial Bay will add over 39,000 sqm of premium office space and is already over 82% committed. The backfill of space from tenants moving to Commercial Bay and a development pipeline of approx. 50,000 sqm of space currently under construction (over and above Commercial Bay) will provide occupiers with some opportunities ahead.

In Wellington's office market, supply is scarce. Approximately 18,000 sqm of office space is currently under construction, but all 18,000 sqm of the space is committed. Refurbishment of stock will provide tenants some options but are quickly being pre-committed. One example is 7 Waterloo Quay (New Zealand Post Head Office) that will provide over 20,000 sqm of office space but is already 82% committed.

Industrial

2019 was another year of strong performance and growth for the industrial sector. Despite increasing levels of developer activity, many projects are design-build and therefore pre-committed. However, speculative-builds are becoming increasingly popular in some locations when compared to the previous year. This is assisting with strong levels of tenant demand, however, many premises become leased before completion.

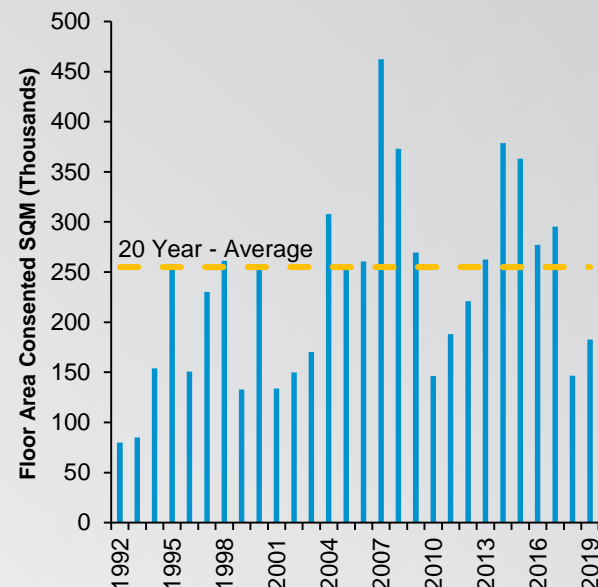
Data derived from Stats NZ suggests an increase in the value of building consents for factories, industrial and storage buildings in recent years, most significantly in Auckland. Some reprieve was experienced for Auckland between 2018 and 2019. We will monitor for changes over the year.

Retail

The January 2020 ANZ-Roy Morgan NZ Consumer Confidence survey found confidence has held steady at 123 points, following 3 consecutive increases since September 2019. The survey also found a net 49% of respondents believe it's a good time to buy a major household item, up significantly from the 36% found in the October 2019 survey.

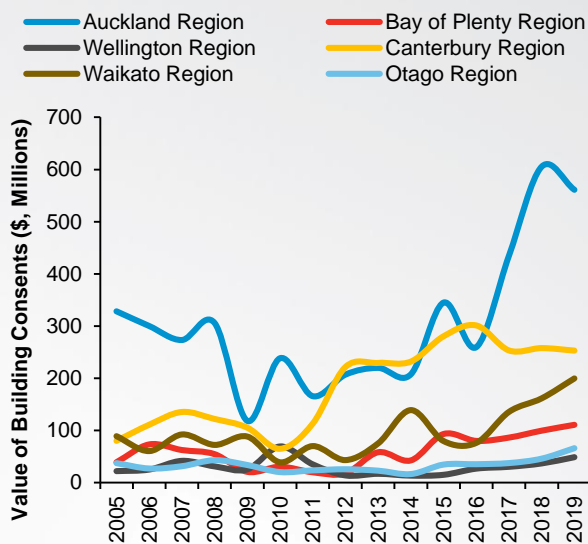
The positive outlook of New Zealand households is being driven by more signs of wage growth, low interest rate environments and the current rise in the housing market. A correlation can be seen between the house price index and private consumption, likely to be influenced by consumers who own their own home. As the housing market takes approximately 12 months to have an impact on consumer spending habits, the rise in private consumption is likely to have a flow-on effect on retail sales, suggesting potentially more positive times ahead.

Building Consents for Office, Administration and Public Transport Buildings (Year to December)



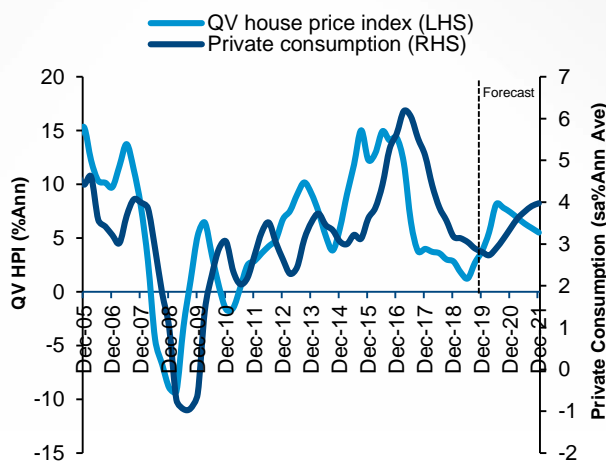
Source: StatsNZ, Colliers International Research

Building Consents for Factories, Industrial and Storage Buildings (Year ending December)



Source: StatsNZ, Colliers International Research

House Price Index vs. Private Consumption



Source: QV, StatsNZ, Westpac Bank, 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



42 Upper Queen Street, Auckland
Auckland | \$14,000,000



7 Falcon Street, Parnell
Auckland | \$10,250,000 | 5.3%



3 Pacific Rise, Auckland
Auckland | \$6,650,000 | 5.5%

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