Do Elections Influence Property Market Activity?

We have analysed sales activity and confidence surveys coinciding with the past six elections to assess if Election 2020 will have an impact on property investing.

Residential

Analysis of residential sales activity surrounding the last six elections shows that the level of sales activity generally varies little from its existing trend, unless there is a significant government property-related policy in the limelight.

In five election campaigns out of the six since 2000, there has been little influence on sales activity. However, the one exception was the 2014 election campaign.

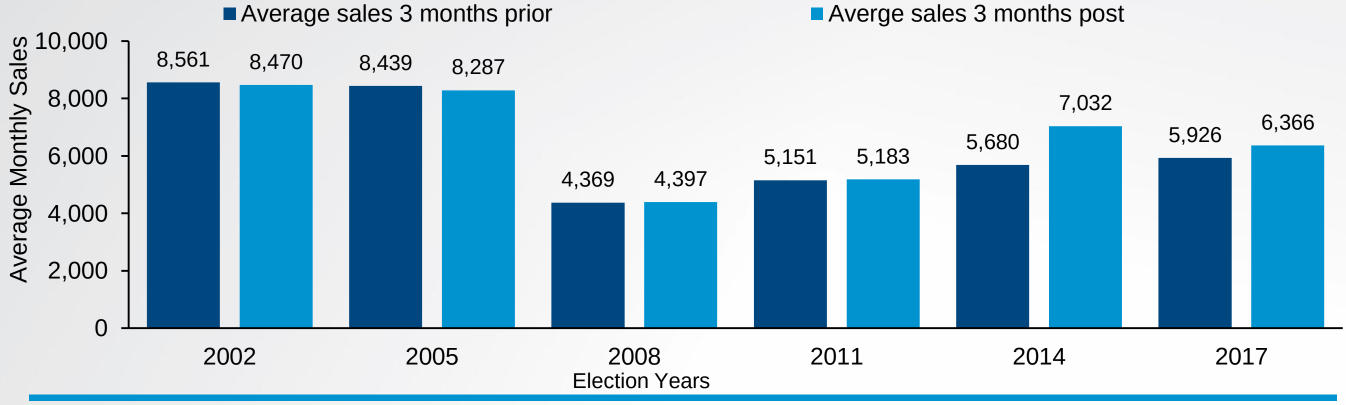
In 2014, Labour promoted a Capital Gains Tax and restrictions on the ability of overseas entities to purchase residential property. These policies contrasted with National's, which were viewed as supporting the status quo. This divergence saw a slowing of sales prior to the election date and a surge following it when the emergence of a National government removed uncertainty in outcomes.

The prospect of potential changes to housing policy will, in most cases, influence the residential investor sector to a greater extent than owner-occupiers. By way of example, total mortgage lending to investors increased from $1.167 billion in August 2014, a month prior to the election, to $1.421 billion in October, an increase of 21%. The uplift for first home buyers and other types of owner-occupiers was just 8.6%.

Market dynamics during other campaigns post-2000 have been influenced more significantly by regulatory, economic, financial and demographic drivers such as changes to LVRs, interest rates, access to finance, migration and the availability of housing. It is interesting to note that the recent removal of LVR restrictions and a further reduction in interest rates have resulted in investors and first home buyers lifting their share of mortgage lending, despite the current economic backdrop.

Looking ahead to the 2020 election and the lack of 'restrictive' housing policies and regulatory changes that have been announced, we can expect little influence from Election 2020 on residential market activity. This suggests that economic, financial and demographic drivers will be key considerations for residential sales activity over the remainder of 2020. At the time of writing, lending and sales activity were extremely buoyant, defying many economic forecasts of more subdued activity.

Residential Property Sales Pre-Election and Post-Election



Commercial

Analysis of commercial and industrial property sales activity since 2000 shows little divergence in purchasing trends when analysed against election campaign periods, potentially a result of the sector's being less influenced by policy outcomes than the residential sector.

However, when analysing sentiment, commercial property investors seem to indicate there is some influence. Colliers' commercial and industrial property investor confidence survey results surrounding the 2011 election showed an increased from a net positive 4.4% (optimists minus pessimists) in the December quarter of 2011 to 15.6% in the March quarter of 2012. Following the 2014 election, the September quarter figure of a net positive 25.1% increased to a net positive 30.6% in the December quarter. This indicates that commercial and industrial investors hold back slightly before elections but are quick to resume their pre-election activity levels soon after.

One slight exception to this was following the 2017 election. The lift in confidence was not as immediate, with confidence falling in the December quarter before lifting in March. This result may have been influenced by the lengthy coalition negotiations which followed the September election, with the make-up of the government only finalised in October 2017. There was also some discussion around business confidence surveys under Labour governments typically being lower than under National governments.

Therefore, the influence of election campaigns on the commercial and industrial sectors is typically secondary to the general economic and financial backdrop. In 2008 for example, the November election result did little to shift confidence, instead businesses were grappling with the fallout from the Global Financial Crisis.

While we are likely to be in a technical recession and unemployment is most likely to double before reducing again due to COVID-19, current investment activity indicates these are not enough of a deterrent to significantly reduce sales activity.

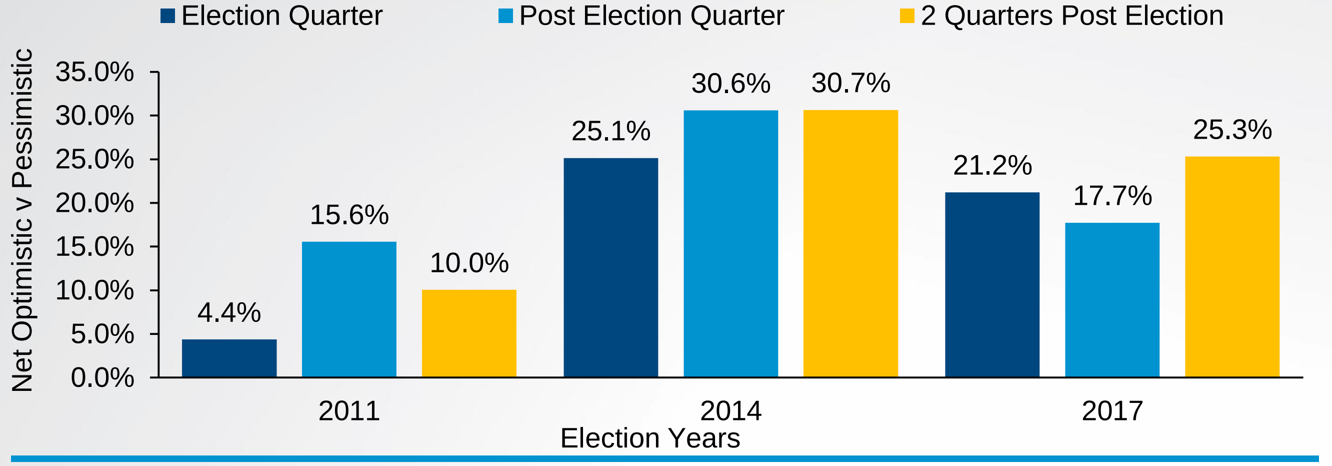
While sales volumes are lower, prices are holding up. Low interest rates are driving investor sentiment with the search for prime assets that have strong tenant-covenants rising above pre-COVID-19 levels. Higher volumes and prices paid for land acquisitions have also been a trend, indicating investors are looking past the potential short-term disruption and eyeing potential long-term gains.

Indicative Commercial Lending Rates

Commercial Interest Rate Guide	
Date	3 Year Term (Indicative Borrowing Rate)
Nov-19	4.05%
Dec-19	4.25%
Jan-20	4.29%
Feb-20	4.18%
Mar-20	3.70%
Apr-20	3.60%
May-20	3.27%
Jun-20	3.26%
Jul-20	3.27%
Aug-20	3.21%

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.

Commercial Investor Confidence Pre-Election v Post-Election



Office

Some normality in workspaces might begin to show as Auckland Transport's latest data on public transport patronage highlights new trends. July-20 recorded an 18.1% increase in public transport patronage to 6.2 million trips compared to June-20 at 5.2 million. The July growth is an indicator of Aucklanders returning to their workspaces, particularly on days later in the week (Thursday and Fridays) albeit a touch lower than what was recorded in the same month last year. Globally, COVID-19 has been a large impetus for firms to reassess their corporate real estate strategies and to explore new workspace alternatives. In Colliers' recent survey of commercial property occupiers, some of these changing workspace dynamics were highlighted with almost two thirds of respondents indicating they intend to work from home one or two days a week. This sentiment is echoed in Auckland Transport's data, noticeably, less patronage in all public transportation means recorded on Mondays and Tuesdays of July 2020 compared to last year. Whilst there is a clear indication of change, it is still too early to attribute these shifts purely to changes in corporate real estate strategies as other economic uncertainty are at play. In the coming months, Auckland City will likely see an increase in patronage as tenants move into new premises. Recent tenant movements into new premium buildings such as PwC and MinterEllisonRuddWatts into the new PwC Tower will likely see some resurgence in workplace attendance as occupiers enjoy their new workspaces.

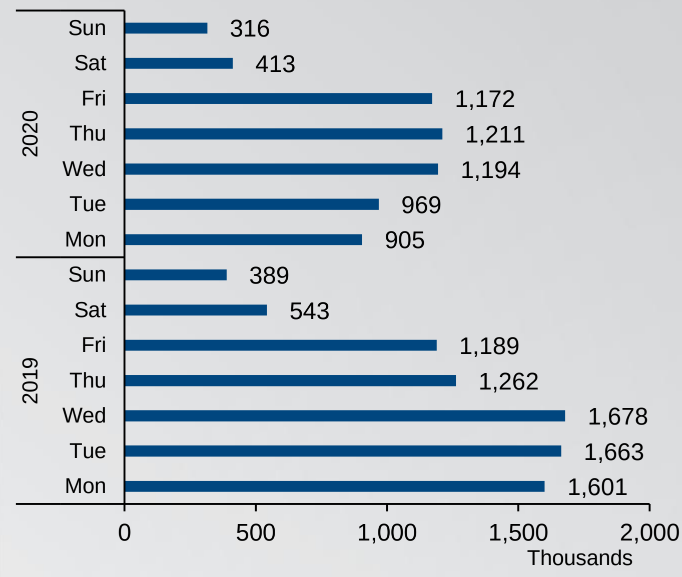
Industrial

Industrial property development remains active across New Zealand. The latest monthly consents data from StatsNZ highlights continued activity as the value of industrial property consented peaked to a new high of $180 million in June 2020, the highest since March 2018 and well above the 5-year historical monthly average of $100 million. On-going demand for industrial investment property is strong, supported by the low interest rate environment and perceived defensive qualities in periods of uncertainty. Hawke's Bay region had one of the largest increases both in value and no. of consents, suggesting future growth potential. This comes as the region achieved a new record high price for a recent transaction. The food and processing hub Tomoana Food Hub that spans approximately 10.4 ha transacted for $41.1 million to Queenstown-based property syndicate Mitchell Mackersy in June when the scheme closed.

Retail

Google Mobility data displays changes in the number of visits to places based on users who have enabled location history tracking. Latest data gleams some signs of recovery with the July month recording an average -5.2% decrease in retail and recreational store visits compared to -16.0% in June and -87.4% in April when New Zealand was in level 4 lockdown. Regionally, the data points towards a quicker recovery in tourism hotspots, particularly South Island regions who have benefited from increased activity, despite on-going closure of New Zealand borders to international tourists. Instead, activity in July largely came from domestic tourism, coinciding with national school holidays and winter ski seasons. Air New Zealand estimated approximately 16,100 travellers to arrive or depart the Auckland Airport Domestic terminal on each of the busiest school holiday days, representing approximately 57% of 2019 domestic traveller numbers. While West Coast had the quickest recovery for monthly change, recording a net increase of 15.7% from -38.7% in June 2020 to -23.0% in July 2020, Otago had the quickest recovery back to baseline at a net increase of 14.5% from -27.1% in June 2020 to -12.5% in July 2020.

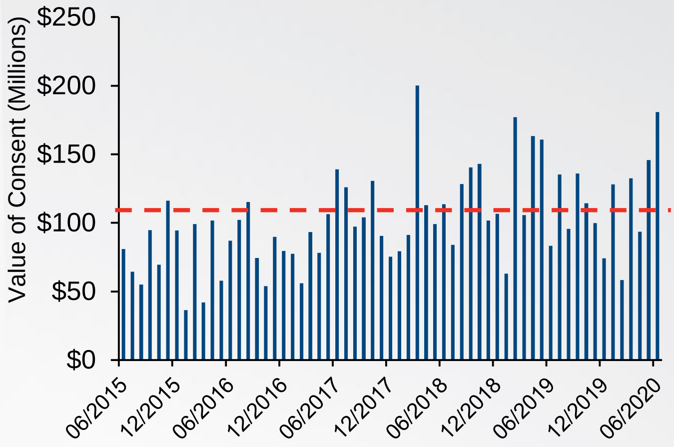
Daily Patronage* – Auckland Public Transport (July)



*Patronage is only for HOP patronage, excluding events and includes Bus, Train, Train Transfers and Ferry

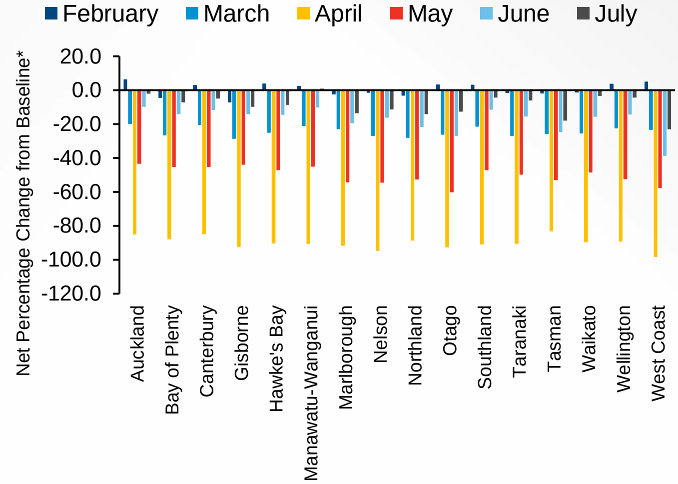
Source: AT Metro Patronage Report, Colliers International Research

National Monthly Building Consents – Industrial Property



Source: StatsNZ ,Colliers International Research

Google Mobility Report – Retail and Recreational Visits*



**Baseline is defined as the median value of visit between a 5-week period of 3rd Jan 2002 to 6th Feb 2020*

Source: Google COVID-19 Mobility Report ,Colliers International Research

Recent Commercial, Industrial Property Sales

Mitre 10 MEGA, New Lynn
Auckland | $32,500,000

464 Rakanui Road, Rotokawa
Taupo | $10,370,000

437- 441 Great North Road, Henderson
Auckland | $6,150,000

New Zealand Key Economic Indicators – August 2020

	Mar-20 (yr rate)	Mar-20 (qtr rate)	Dec-19 (qtr rate)	Q-o-Q Change	Mar-19 (yr rate)	Y-o-Y Change	2021F*	2022F*	2023F*
GDP Growth	-0.2%	-1.6%	0.5%	-2.1%	3.0%	-3.2%	-0.3%	-0.5%	1.6%
Current Account (% of GDP)	-2.7%	NA	NA	NA	-3.6%	0.2%	-6.5%	-5.3%	-5.7%
	Jun-20 (yr rate)	Jun-20 (qtr rate)	Mar-20 (qtr rate)	Q-o-Q Change	Jun-19 (yr rate)	Y-o-Y Change	2021F*	2022F*	2023F*
CPI Inflation	1.4%	-0.6%	0.8%	-1.3%	1.7%	-0.3%	0.9%	0.9%	2.2%
Net Migration Gain (000's)	68	10	25	-15	51	17	-23	-37	-20
Retail sales (ex-auto)	4.7%	0.2%	1.6%	-1.4%	3.9%	0.9%	1.7%	1.3%	3.7%
Unemployment Rate	4.0%*	4.0%	4.2%	-0.2%	4.1%	-0.1%	6.6%	7.7%	7.8%
	May-20 (yr rate)	Apr-20 (yr rate)	M-o-M Change	May-19 (yr rate)	Y-o-Y Change	10 Year Average	2021F*	2022F*	2023F*
Tourist Numbers Growth	-99.0%	-99.0%	-82.3%	2.4%	-101.4%	-33.8%	-16.1%	-5.3%	4.2%
	May-20 (yr rate)	Apr-20 (yr rate)	M-o-M Change	Mar-19 (yr rate)	Y-o-Y Change	10 Year Average	2021F*	2022F*	2023F*
Official Cash Rate	0.25%	0.25%	0 bps	1.5%	-125 bps	2.16%	0.25%	0.25%	0.25%
90 Day Bank Bill Rate	0.3%	0.3%	2 bps	1.6%	-132 bps	2.3%	0.4%	0.4%	0.4%
10 Year Government Bond	0.9%	0.6%	26 bps	1.6%	-73 bps	3.1%	1.1%	1.0%	1.4%
Floating Mortgage Rate	0.0%	4.5%	-450 bps	5.7%	-573 bps	5.9%	4.4%	4.4%	4.4%
3 Year Fixed Housing Rate	3.8%	4.1%	-28 bps	4.7%	-91 bps	5.7%	NA	NA	NA
Consumer Confidence	105	97	7%	123	-15%	119	NA	NA	NA
NZD vs US	0.61	0.61	0%	0.66	-8%	0.74	0.65	0.65	0.65
NZD vs UK	0.49	0.49	0%	0.52	-5%	0.51	0.47	0.46	0.45
NZD vs Australia	0.93	0.93	0%	0.95	-2%	0.89	0.90	0.87	0.85
NZD vs Japan	65	65	-1%	71	-9%	75	65	68	71
NZD vs Euro	0.55	0.56	-1%	0.58	-5%	0.61	0.55	0.63	0.65

* The latest unemployment rate number has been influenced by the lockdown and is regraded as understating current conditions.
Source: NZIER, Colliers International Research

For more information contact:

Chris Dibble
National Director
Colliers Partnerships,
Research & Communications

Ian Little
Associate Director
Research

Adrian Goh
Research Analyst

Alan McMahon
National Director
Strategic Advisory

David White
Director
Strategic Advisory

Chris Farhi
Director
Strategic Advisory

Caity Pask
Senior Analyst
Strategic Advisory

Colliers International
Level 27, SAP
Tower
151 Queen Street
Auckland
+64 9 358 1888

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