Latest survey sheds light on the impact of COVID-19

The results of our new investor and occupier sentiment survey sheds some light on how landlords, tenants and investors have reacted to the impacts from COVID-19 and expectations for the future.

Investor appetite remains

While current economic conditions remain uncertain, approximately half of the respondents believe that conditions will stabilise within a year. Many potential purchasers see the year ahead providing new opportunities with 58% of respondents indicating that they would like to make their next acquisition within the year. Creating some potential imbalance is that some vendors are choosing to delay divestment until the second half of 2021.

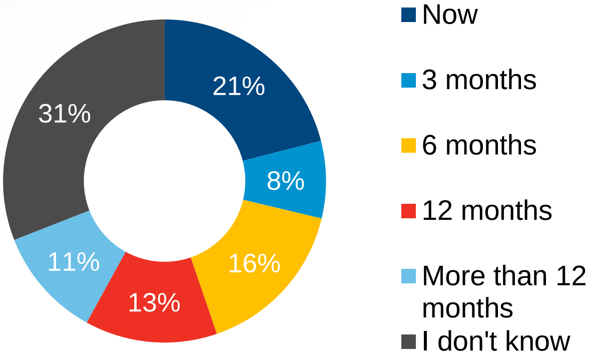
Enthusiasm amongst purchasers has clearly been bolstered due to a general belief that values will ease over the short term from the peaks apparent over the latter part of 2019. Approximately 80% of respondents are picking a decline in values, but some may be disappointed. Transactional evidence to date suggests that high quality properties with premier tenant covenants remain in demand with limited shifts in pricing.

Rent relief common and likely to continue

Rent relief during lockdown has been a significant issue and is clearly illustrated by responses to the survey with 82% of landlords and 55% of occupiers confirming that rental assistance packages have been agreed. In April, 84% of occupiers reported paying of 50% or more.

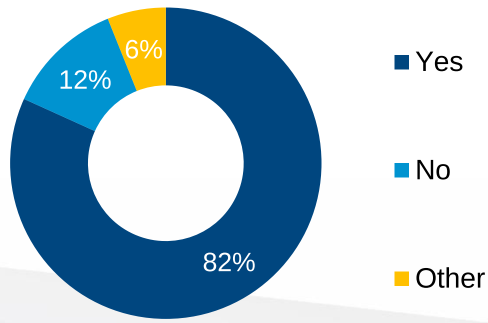
It is likely that the May statistics will be similar with 67% of landlords and 76% of tenants expecting rental payments to be the same as they were in April. With lockdown restrictions eased and a move to level 1 being touted, this could also assist with a greater proportion of tenants capturing higher cashflows enabling a resumption of full rental contract payments in the future. Smaller companies experiencing ongoing cashflow constraints that have been unable to negotiate what is a 'fair and reasonable' amount of rent and outgoings to pay, will now be able to access arbitration services via a new government subsidised scheme announced on June 4th.

When are you looking to make your next acquisition?



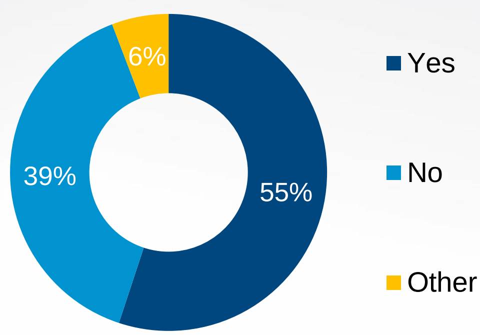
Source: Colliers International Research

Did you negotiate a change in rental payment with your tenant? (Landlord)



Source: Colliers International Research

Did you negotiate a change in rental payment with your landlord? (Occupier)



Source: Colliers International Research

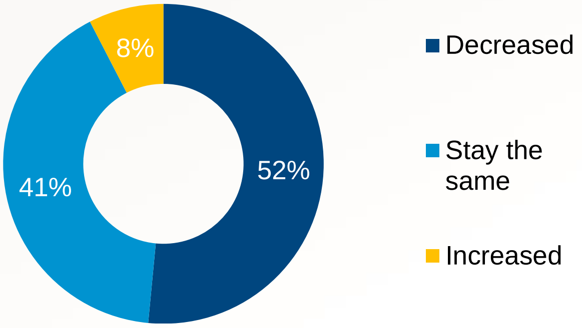
Working from home popular but not fulltime

The lockdown has enforced a massive change in working habits with a vast majority of office workers conducting business from home. Survey results show that the move has proved popular with many employees indicating that they would like to have working from home as part of their future working arrangements. The question as to whether productivity can be maintained while working at home remains unresolved with respondent opinion split almost down the middle; 49% of respondents felt that productivity was unchanged or had increased (8%). Conversely, 52% indicated that productivity had declined.

Although working from home is likely to be an ongoing topic of discussion, a majority of respondents would prefer a more flexible approach to working remotely. Approximately 77% of respondents indicated that they would like to work from home for one or two days per week. However, productivity concerns may still be an issue (see chart). This change to working remotely may not necessarily translate into a reduction in office space with changes to hot-desking and appropriate floor space ratios potentially counterbalancing the situation. It was also interesting to note that 75% of respondents to the occupier survey indicated that they would retain the same or increase their footprint over the next 12 months.

Further, the traditional office setting continues to offer many advantages. According to respondents, being able to collaborate with colleagues in person (34%), bumping into co-workers (13%) and the ability to have spontaneous meetings (12%) were rated as key benefits. Another common view was that working from the office made it easier to separate work and home life balance (19%).

How has your work productivity been since working remotely?



Source: Colliers International Research

Indicative Commercial Lending Rates

Commercial Interest Rate Guide	
Date	3 Year Term (Indicative Borrowing Rate)
Mar-20	3.70%
Apr-20	3.60%
May-20	3.27%
Jun-20	3.26%

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 – June 2020

	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*
GDP Growth	1.8%	0.6%	0.7%	-0.1%	3.3%	-1.5%	-4.3%	-2.1%	5.5%
Current Account (% of GDP)	-3.0%	NA	NA	NA	-3.8%	0.9%	-4.8%	-2.0%	-2.5%
	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*
CPI Inflation	2.5%	0.8%	0.5%	0.3%	1.5%	1.1%	1.2%	1.2%	1.8%
Net Migration Gain (000's)	71	25	17	8	49	21	-23	-37	-20
Retail sales (ex-auto)	4.1%	0.8%	0.5%	0.3%	4.7%	-0.5%	0.8%	0.8%	3.9%
Unemployment Rate	4.1%	4.2%	4.0%	0.2%	4.2%	-0.1%	6.5%	8.0%	8.0%
	Mar-20 (yr rate)	Feb-20 (yr rate)	M-o-M Change	Mar-19 (yr rate)	Y-o-Y Change	10 Year Average	2021F*	2022F*	2023F*
Tourist Numbers Growth	-52.1%	-52.1%	-40.9%	1.0%	-53.1%	-2.3%	-6.1%	-5.3%	4.2%
	Apr-20 (yr rate)	Mar-20 (yr rate)	M-o-M Change	Apr-19 (yr rate)	Y-o-Y Change	10 Year Average	2021F*	2022F*	2023F*
Official Cash Rate	0.25%	0.25%	0 bps	1.8%	-150 bps	2.19%	0.25%	0.25%	0.25%
90 Day Bank Bill Rate	0.4%	0.7%	-32 bps	1.8%	-142 bps	2.4%	0.4%	0.4%	0.4%
10 Year Government Bond	1.0%	1.1%	-13 bps	2.0%	-101 bps	3.2%	1.1%	1.0%	1.4%
Floating Mortgage Rate	4.5%	4.5%	0 bps	5.9%	-135 bps	5.9%	4.4%	4.4%	4.4%
3 Year Fixed Housing Rate	4.4%	4.4%	0 bps	4.8%	-48 bps	5.8%	NA	NA	NA
Consumer Confidence	85	106	-20%	123	-31%	120	NA	NA	NA
NZD vs US	0.60	0.60	0%	0.67	-10%	0.74	0.65	0.65	0.65
NZD vs UK	0.49	0.49	0%	0.52	-6%	0.51	0.47	0.46	0.45
NZD vs Australia	0.97	0.97	0%	0.95	2%	0.88	0.90	0.87	0.85
NZD vs Japan	65	65	-1%	75	-14%	75	65	68	71
NZD vs Euro	0.54	0.55	-1%	0.60	-9%	0.61	0.55	0.63	0.65

Source: NZIER, Colliers International Research

Office

The Auckland and Wellington office markets have been characterised by low vacancy rates and upward pressure on rentals over recent years as increases in demand have outpaced the provision of new supply despite a marked increase in development activity. The economic impact of COVID-19 will likely see vacancy rates lift from their current lows. Mitigating factors are however in play, In Auckland, particularly at the prime end of the market, occupation is dominated by a mixture of growth sectors such as IT, Government and Health along with resilient sectors such as accountants, lawyers and finance. Between them these sectors occupy approximately 50% of the CBD's stock. Wellington's market will be insulated, to a greater degree, from the economic impact as a result of the high levels of government occupation which strongly underpins the city's office sector. Confidence in the capital has also been bolstered by confirmation that major development schemes including 1 Whitmore Street and phase 2 of Bowen Campus are to proceed with BNZ, EY and Fujitsu committing to space.

Industrial

As stated above, the industrial property sector is viewed by investors as being the most resilient in the current economic climate. While there will be some disruption in the short term due to the impact of COVID-19, history shows the resilience of the industrial sector in periods of uncertainty and market disruption. At the heart of the industrial sector, goods-producing industries such as manufacturing and construction accounted for around one-fifth of New Zealand's $300 billion economy in 2019, according to Statistics New Zealand. In addition services such as transport, warehousing and postal services, industries in growth pre-Covid-19, has been boosted significantly in recent months as people shift to online and 'click and collect' services more than ever before. Additional depth comes from rising public infrastructure spend on major transport, rail and other 'shovel ready' projects with the government having, to date, set aside $15 billion or around 5% of GDP.

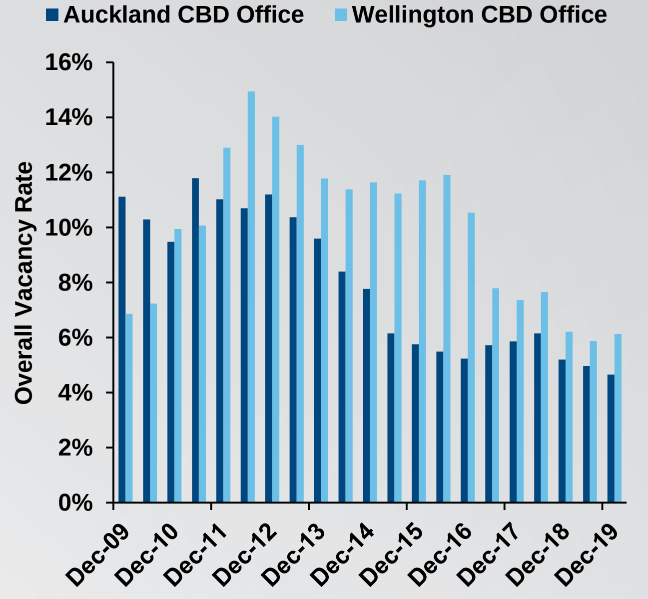
Retail

The retail and hospitality sector has been hardest hit by the lockdown with a vast majority of operators experiencing cashflow constraints. Electronic card spending data clearly illustrates the impact with overall spending, in April, falling by 44% compared with April 2019 while spending in the hospitality sector fell by just under 95%.

Exceptions to the general trend have been those retailers that were classified as essential services, primarily supermarkets and pharmacists. Companies with an established online presence where also shielded, to an extent, from the downturn.

As a result, the supermarket sector, in particular, has bolstered its reputation as a defensive investment asset and therefore likely to attract greater investor interest during current volatile times.

CBD Office Vacancy Rate

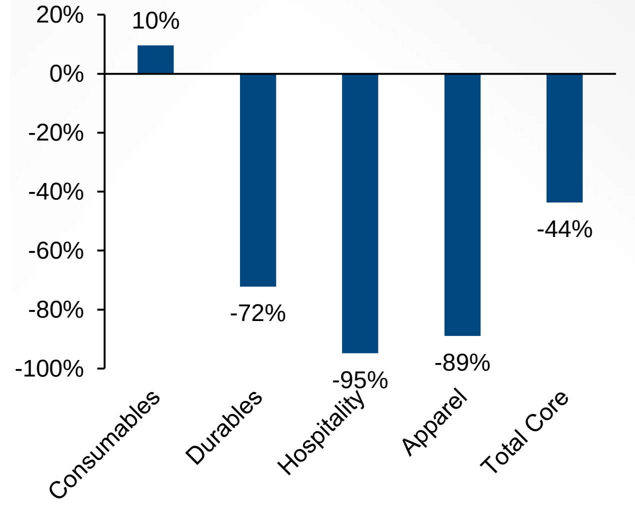


Source: Colliers International Research

The Big New Zealand Infrastructure Upgrade

For more information about the government announcement on the $12 billion Infrastructure projects visit Colliers' February monthly report

Monthly Electronic Card Transactions – April 2020



Source: StatsNZ, Colliers International Research

Recent Commercial & Industrial Property Sales

52-54 Grant Road, Frankton Flats
Queenstown | $13,100,000 | 4.5%

Home Straight Park Syndication, Te Rapa
Hamilton | Capital Raised $39,450,000 | Projected Initial Return 6.0%

Pastoral House Syndication, Wellington
Wellington | Capital Raised $44,150,000 | Projected Initial Return 6.0%

8-10 Volkner Place, Albany
Auckland | $4,589,000 | 4.4%

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

Tomoana Food Hub | Hastings
Hawke's Bay | $41,000,000 | 6.2%

Z Silverdale, Silverdale
Auckland | $6,870,000 | 4.6%

39 Whakakake Street, Tauriko
Tauranga | $5,850,000 | 4.9%

18 Broadlands Road, Taupo
Taupo | $3,300,000 | 5.0%

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

Colliers INTERNATIONAL
Accelerating success.