NEW ZEALAND
RESEARCH REPORT

February 2019

Office’s time to shine

Auckland and Wellington office landlords will hold the balance of power in 2019, while tenants will likely have more room for negotiation in Christchurch.

In Auckland, there is strong tenant demand, a shortage of available office space across the region and static net supply created from a development pipeline keeping pace with ongoing stock reductions from refurbishments and conversions.

Both Auckland CBD and the metropolitan market of the city fringe and suburban precincts are already under pressure. Colliers’ September 2018 survey of the larger metropolitan market of 1.7 million sq m found a vacancy rate of just 6.7 per cent, representing 114,000sq m of vacant space. This is well below the two-decade average of 8.5 per cent.

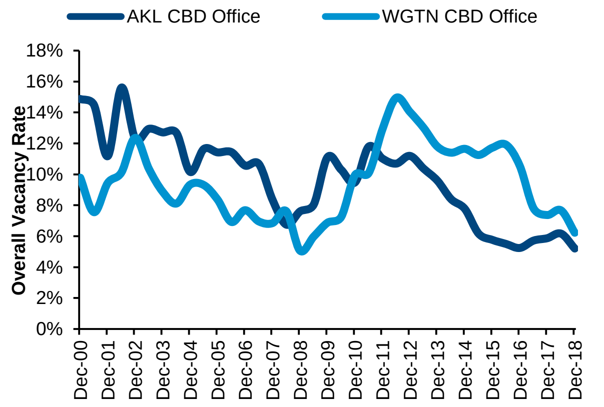
A new record low Auckland CBD vacancy rate of 5.2 per cent (75,000sq m of vacant space) across total stock of 1.3 million sq m in the December 2018 survey showcases the pressure on tenants who are already finding it challenging to source suitable accommodation.

With demand likely to overspill from the CBD into an already popular, but constrained metropolitan office market, tenants will likely face higher rent rises, upwards of 3-4% p.a. over the next few years.

Tenants searching for good quality office space of scale anywhere in Auckland will find the challenge harder and the rental rises higher. In Auckland’s CBD there is just 18,000 sqm of prime (premium and A-grade) vacant space. The metropolitan prime office market provides just under 21,000 sqm.

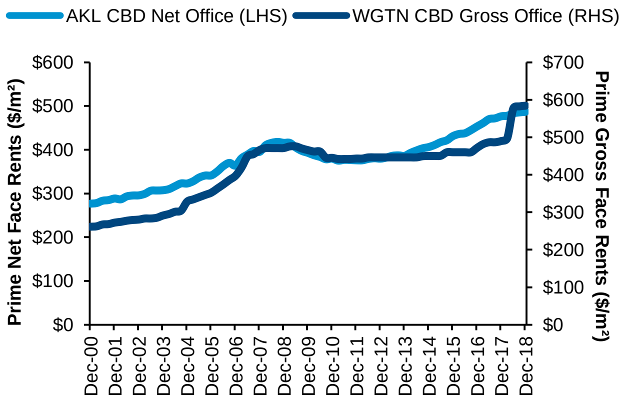
While challenging for tenants, this will be a positive for landlords who will likely experience greater total returns from higher rents and firming yields in a bullish investment environment spurred on by low interest rates and strong offshore investor interest. Auckland prime office yields range between 5.50% and 6.75%, firming by an average 25 basis points in the past six months.

CBD Office Overall Vacancy Rates



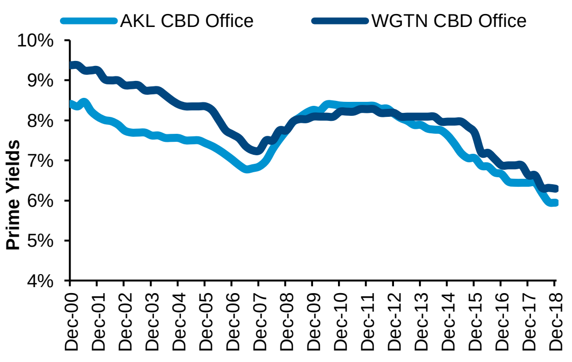
Source: Colliers International Research

CBD Office Prime Face Rents ($/m²)



Source: Colliers International Research

CBD Office Prime Yields



Source: Colliers International Research

Not to be outdone, in Wellington, Colliers' December 2018 survey shows a 10-year low vacancy rate of 6.2 per cent has also been achieved. There is currently just 86,000 sqm of vacant space available.

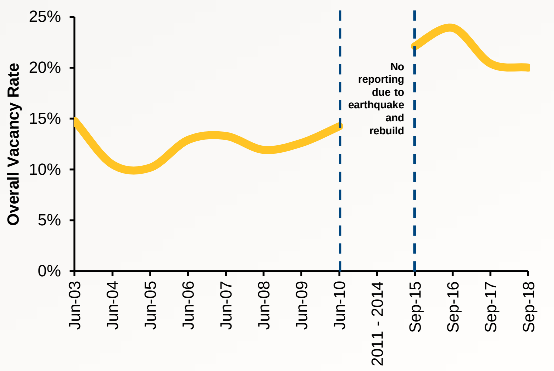
Office space in Wellington's CBD remains tight after the significant reduction in total supply following the Kaikoura earthquake. Prime office vacancy is at 1.2% with secondary vacancy at 7.6%.

Strong pre-commitment of new buildings will assist with short-term market growth. The addition of 99,000 sqm of premises either under construction or being refurbished over the next five years will assist in alleviating acute supply shortages.

In Christchurch, there has been a sharp decline in CBD office development over the past year. The peak of development activity in 2015 of approximately 142,500 sqm is just 9,500 sqm in 2018. With 356,000 sqm of total CBD office space, expected to increase to just under 370,000 sqm of space by 2019, the market is entering a more stable phase of activity.

Continued tenant relocations from the suburbs, the internal CBD churn of existing tenants and small tenant leasing activity will mean some tenant's will need to forego their exact requirements. Leasing activity in Christchurch will grow, however, a 20% vacancy rate means tenants will continue some flexibility in lease negotiations.

Christchurch CBD Office Vacancy Rate



Source: Colliers International Research

Commercial Interest Rate Guide	
Date	3 Year Term (Indicative Borrowing Rate)
Aug-18	4.83%
Sep-18	4.64%
Oct-18	4.62%
Nov-18	4.62%
Dec-18	4.71%
Jan-18	4.47%
Feb-18	4.45%

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 – February 2019									
	Sep-18 (yr rate)	Sep-18 (qtr rate)	Jun-18 (qtr rate)	Q-o-Q Change	Sep-17 (yr rate)	Y-o-Y Change	2019F*	2020F*	2021F*
GDP Growth	2.6%	0.3%	1.0%	-0.6%	3.0%	-0.4%	2.7%	2.8%	3.0%
Current Account (% of GDP)	-3.6%	NA	NA	NA	-2.7%	-1.0%	-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	1.6%	-0.2%	0.9%	-1.1%	1.6%	0.0%	1.7%	1.9%	2.0%
Net Migration Gain (000's)	59	13	14	-1	70	-11	55	40	33
Retail Sales (ex-auto)	2.8%	0.9%	0.3%	0.6%	6.3%	-3.5%	3.6%	4.3%	4.8%
Unemployment Rate	4.2%	3.9%	3.9%	0.0%	4.7%	-0.5%	4.0%	4.0%	4.1%
	Nov-18 (yr rate)	Oct-18 (yr rate)	M-o-M Change	Nov-17 (yr rate)	Y-o-Y Change	10 Year Average	2019F*	2020F*	2021F*
Tourist Numbers Growth	5.9%	5.5%	2.1%	6.6%	-0.7%	5.4%	4.5%	4.0%	4.7%
Official Cash Rate	1.75%	1.75%	0 bps	1.8%	0 bps	2.42%	1.75%	1.75%	2.25%
90 Day Bank Bill Rate	1.9%	1.9%	0 bps	1.9%	-4 bps	2.6%	1.9%	2.1%	2.5%
10 Year Government Bond	2.6%	2.6%	0 bps	2.9%	-23 bps	3.8%	3.1%	3.3%	3.5%
Floating Mortgage Rate	0.0%	0.0%	0 bps	5.8%	-584 bps	6.1%	5.8%	5.9%	6.3%
3 Year Fixed Housing Rate	0.0%	0.0%	0 bps	5.3%	-530 bps	6.2%	NA	NA	NA
Consumer Confidence	119	115	3%	124	-4%	120	NA	NA	NA
NZD vs US	0.68	0.65	4%	0.69	-2%	0.74	0.68	0.65	0.65
NZD vs UK	0.52	0.50	5%	0.52	1%	0.49	0.53	0.48	0.47
NZD vs Australia	0.93	0.92	2%	0.90	3%	0.86	0.93	0.87	0.86
NZD vs Japan	77	74	4%	78	-1%	73	76	74	73
NZD vs Euro	0.60	0.57	5%	0.59	1%	0.59	0.60	0.61	0.62

Source: NZIER, Colliers International Research
*March year forecast

Office

The Auckland and Wellington office sectors' low vacancy rates over the past 12-18 months along with the positive demand outlook has helped drive new development and refurbished activity.

In Auckland and Wellington there is almost 150,000 sqm of office space currently under construction and a further 67,000 sqm under refurbishment.

Auckland CBD is where the most new-build activity is underway, providing 42% of the space under construction. In Wellington CBD, refurbishment activity is the underlying driver of additional office space, representing 84% of total refurbishment space.

The additional 217,000 sqm of new and refurbished space in Auckland and Wellington is likely to be completed by 2021. While this will alleviate some of the pressure, the record low vacancy rates will cushion the market from any significant medium-term impacts.

There is also a significant number of premises in the proposed category that will likely proceed and be completed by ~2025 once certain criteria are met. We estimate approximately 100,000 sqm of additional office space in Auckland and Wellington could be announced in the next 12-18 months.

Retail

Major retail asset sales helped boost the total value of transactions in 2018. While still provisional, and likely to rise over the next few months as more data is officially reported, retail property sales reached $600 million in 2018, representing a 2 per cent increase from 2017 for assets sold over $5 million.

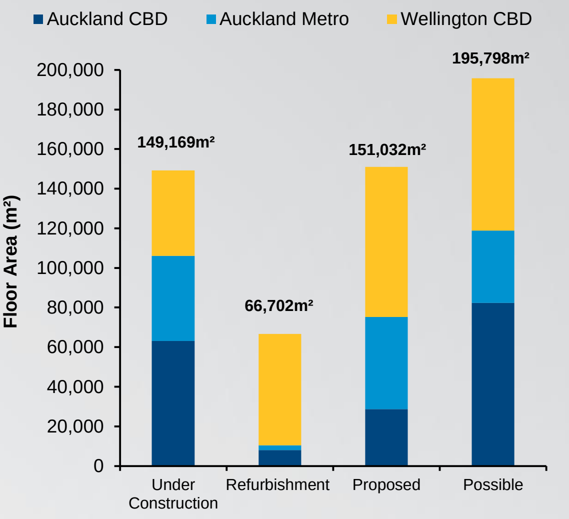
While total sales value increased, the total number of sales declined in 2018 to 34 from 44 in 2017, suggesting investors' appetites are leaning towards the higher end of the value spectrum. Auckland had the majority share of retail property sales for 2018 with provisional data showing 44 per cent of total sales by value transacted in Auckland.

Industrial

The latest annual industrial building consents suggest continued growth in the sector, both by number and value. In the year to November 2018, the value of national industrial building consents totalled 1.37 billion, representing a 16% increase from 2017 and attaining an all-time high since 1991 when the numbers were first recorded.

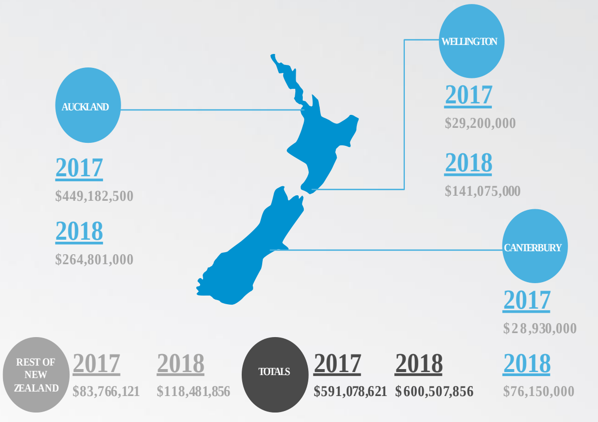
Auckland region reached a record-breaking $604 million, a significant increase, up 46% relative to 2017. Wellington followed in similar fashion growing to $37 million, eclipsing $29 million in 2017. Canterbury shows a slight slowing down, albeit, this is off the back of strong rebuild activity and with $226 million in consents in 2018, suggests plenty of construction still ahead.

Auckland and Wellington Office Development Tracker



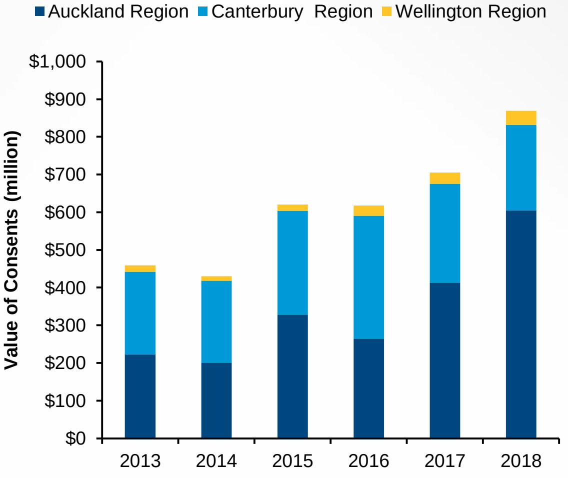
Source: Colliers International Research

Major Retail Sales – By Value



Source: CoreLogic,Colliers International Research
Note: Provisional sales for property in NZD $5 million or more for 2018

Value of Industrial Building Consents (New) in the Three Main Regions – November 2018



Source: Stats NZ, Colliers International Research
* Industrial includes factories, storage and industrial buildings only.

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	2.1%	10.7%	5.9%	5.2%
Office	Gross Face	Based on Gross Face	Overall (December)	
Wellington CBD	19.2%	25.5%	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 (August)	
Auckland	5.0%	9.0%	1.9%	1.7%
Industrial*	Gross Face	Based on Net Face	Overall (November)	
Wellington	4.8%	5.3%	2.1% (2017)	1.5% (2018)
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 (June)	
Auckland CBD	0.0%	0.0%	2.4%	3.1%
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

223 Maunganui Road
Tauranga | $16,000,000 | 4.9%

Two Caltex Service Stations
Christchurch | $8,600,000

410 Victoria Street & 12 Alma Street
Hamilton | $8,000,000

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