

NEW ZEALAND RESEARCH REPORT

June 2018

Approaching Half Way

As we head towards the half way mark in 2018, we take a look at the latest income and capital returns in the New Zealand commercial property market, and review what direction the economy is going to take over the remainder of the year.

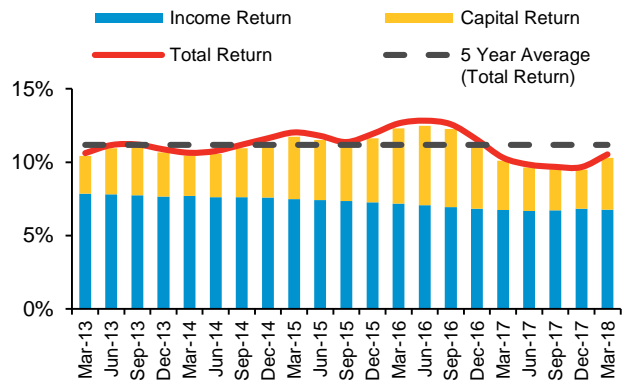
The top chart on the right illustrates the total returns from the \$13 billion of office, industrial and retail property monitored by MSCI in New Zealand. Overall, total returns which have been slowly declining since September 2016, but edged up in the quarter ending March 2018 to 10.5%. The main driver during that period was the slowing of cap rate tightening. Recent profits results from the major listed property trusts have pushed those cap rates lower resulting in increased capital value gains.

Splitting these out to individual sectors reveals a divergence between the sectors (see middle chart). Industrial leads the charge, recording 12.8% in total annual return in the quarter ending March 2018, an increase from 12.2% six months ago. Office is not far behind at 12.0%, growing 2.5% compared to six months ago by growth in both income and capital returns. This is not a surprise, considering the cyclical low vacancy rate and strong tenant demand in the Auckland and Wellington markets.

However, the performance in the retail sector is muted, with total annual returns reaching 7.5% in the quarter ending March 2018, a slight dip from 7.6% six months prior. Margins are still being squeezed exacerbated by lacklustre recent retail sales growth, and increasing labour cost. A high proportion of retail lease rent reviews are based on CPI or turnover provision, and are less reflective of market rental growth compared to the office and industrial sectors.

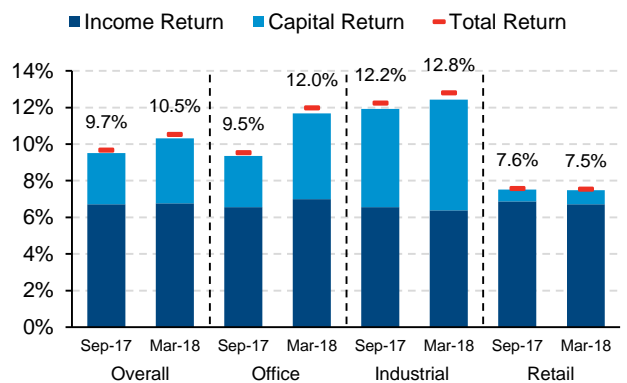
Food and beverage and experiential services appear to offer the best growth path in the retail sector, and are areas that mall owners are concentrating on in their expansion plans. Strip retail vacancy across our main centres remains low, highlighting the fact that retailers still prefer to be in high profile areas.

PCNZ / IPD Property Index – Return for Direct Commercial Property



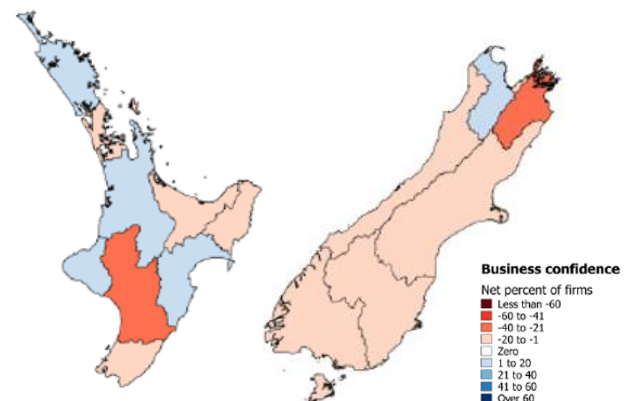
Source: MSCI, Colliers International Research

PCNZ / IPD Property Index – Property Sector Performance (6 Month Comparison)



Source: MSCI, Colliers International Research

NZIER QSBO – Business Confidence



Source: NZIER, Colliers International Research

Approaching Half Way (continues...)

Financial Stability Review

The general theme in the Reserve Bank of New Zealand's latest Financial Stability Report released on May 30 is that the New Zealand financial system remains sound and financial risks have reduced.

Key risks remains in housing, dairy sector (the Mycoplasma Bovis outbreak in particular), and the reliance of banks on foreign funding. Overall, economic outlook remains positive with still a disconnect between sentiment results (which have become less positive) and actual economic data, which are still relatively strong.

None of this seems to be affecting the commercial property market. Vacancy rates remain at low levels and there isn't enough new supply coming to change vacancy much. There is a solid pipeline of non-residential consent issuance in 2018, supported by strong underlying demand.

Next month's report will feature our latest commercial property investor confidence data, and residential pricing outlook.

Commercial Interest Rate Guide

Date	3 Year Term (Indicative Borrowing Rate)
Jan-18	4.94%
Feb-18	4.93%
Mar-18	4.91%
Apr-18	4.90%
May-18	4.98%
Jun-18	4.90%

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.



Colliers Essentials – Industrial 2018 report is out now.
To gather the latest insights into the Auckland and Wellington industrial market visit:
<http://www.colliers.co.nz/find-research/industrial>

New Zealand Key Economic Indicators – June 2018

	Dec-17 (yr rate)	Dec-17 (qtr rate)	Sep-17 (qtr rate)	Q-o-Q Change	Dec-16 (yr rate)	Y-o-Y Change	2018F*	2019F*	2020F*
GDP Growth	2.9%	0.6%	0.6%	0.0%	3.5%	-0.5%	2.9%	2.8%	3.3%
Current Account (% of GDP)	-2.7%	NA	NA	NA	-2.3%	-0.5%	-2.3%	-3.1%	-3.6%
	Mar-18 (yr rate)	Mar-18 (qtr rate)	Dec-17 (qtr rate)	Q-o-Q Change	Mar-17 (yr rate)	Y-o-Y Change	2018F*	2019F*	2020F*
CPI Inflation	1.1%	0.5%	0.1%	0.4%	2.2%	-1.1%	1.6%	2.1%	2.0%
Net Migration Gain (000's)	68	17	17	-1	71	-3	60	45	34
Retail Sales (ex-auto)	6.3%	1.5%	1.8%	-0.3%	6.8%	-0.5%	6.0%	5.5%	5.3%
Unemployment Rate	4.6%	4.4%	4.5%	-0.1%	5.0%	-0.5%	4.3%	4.4%	4.4%
	Apr-18 (yr rate)	Mar-18 (yr rate)	M-o-M Change	Apr-17 (yr rate)	Y-o-Y Change	10 Year Average	2018F*	2019F*	2020F*
Tourist Numbers Growth	-1.7%	4.6%	-1.3%	12.3%	-14.0%	4.3%	5.0%	4.0%	4.2%
Official Cash Rate	1.75%	1.75%	0 bps	1.8%	0 bps	2.87%	1.75%	2.50%	3.25%
90 Day Bank Bill Rate	2.0%	1.9%	8 bps	2.0%	4 bps	3.1%	1.9%	2.5%	3.2%
10 Year Government Bond	2.8%	2.9%	-7 bps	3.1%	-23 bps	4.2%	3.5%	3.9%	4.2%
Floating Mortgage Rate	5.9%	5.8%	1 bps	5.8%	5 bps	6.3%	5.7%	6.3%	7.0%
3 Year Fixed Housing Rate	4.8%	4.9%	-15 bps	5.5%	-75 bps	6.4%	NA	NA	NA
Consumer Confidence	121	128	-6%	122	-1%	120	NA	NA	NA
NZD vs US	0.73	0.73	0%	0.70	4%	0.74	0.68	0.67	0.67
NZD vs UK	0.51	0.52	-1%	0.55	-7%	0.49	0.51	0.49	0.45
NZD vs Australia	0.94	0.93	1%	0.93	2%	0.86	0.90	0.87	0.83
NZD vs Japan	78	77	1%	77	2%	73	80	80	78
NZD vs Euro	0.59	0.59	0%	0.65	-9%	0.58	0.64	0.67	0.69

Source: NZIER, Colliers International Research
 *March year forecast

Office

Wynyard Precinct Holdings Limited, a joint venture between Goodman Property Trust (51%) and Singapore sovereign wealth fund, GIC (49%) have sold their VXV office portfolio in Auckland's Wynyard Quarter to US asset management company Blackstone Group LP for \$635 million.

The sale price is \$165 million above the estimated value after two buildings were added to the portfolio in June 2017 and reflects a passing yield of 6.6%.

The portfolio includes seven low-rise office buildings, listed below and future development sites:

- HP & Microsoft, 22 Viaduct Harbour
- Auckland Transport, 85 Fanshawe Street
- Datacom, 58 Gaunt Street
- Bayleys House, 30 Gaunt Street
- Fonterra, 109 Fanshawe Street
- Air New Zealand, 185 Fanshawe Street
- KPMG, 18 Viaduct Harbour Avenue

Retail

Statistics New Zealand released their March 2018 retail trade survey. The survey showed that on an annual basis, spending on liquor grew the most, by 14.5%. This was followed by electrical and electronic goods (up 9.5%) and non-store / commission-based retailing (up 8.6%).

On a quarterly basis, the total volume of retail sales increased by 0.1% and the total value of retail sales increased by 0.2% (\$58 million)

The largest increases in retail trade value in the last quarter were in Auckland, up 0.7% (\$62 million), Canterbury, up 1.4% (\$43 million), Bay of Plenty, up 1.0% (\$15 million) and Southland, up 2.3% (\$11 million).

Industrial

The latest annual industrial building consent numbers and value have jumped significantly in the year to March 2018. The value of new industrial building consents in New Zealand totalled around \$595 million, a 51% increase compared to 2017.

Auckland region grew to \$193 million in March 2018, compared to \$77 million a year prior (growing more than 1.5 times). Wellington region grew to \$22 million, compared to \$8 million a year prior (growing more than 1.6 times). Canterbury region remained stable, with a total value of \$95 million.

VXV Portfolio Sale - \$635 million



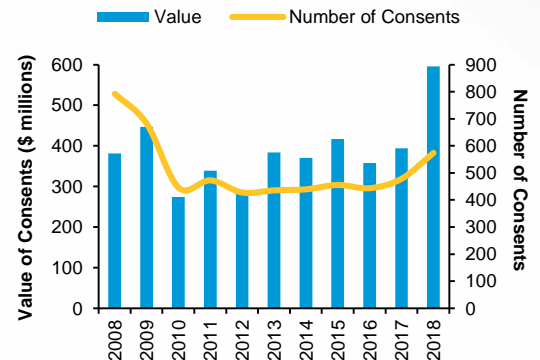
Source: Goodman Property

Retail Sale Volumes – March 2018



Source: Stats NZ, Colliers International
Actual retail sales values for March 2018 year.
Data label is the annual percentage change from same quarter previous year

New Zealand Industrial Building Consents (New) – March 2018



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

Annual Market Indicator Review – Q1 2018

Property Sector	Prime Rents (% Change)	Prime Capital Values (% Change)	Vacancy Rate	
	12-Months to Mar-18	12-Months to Mar-18	2016	2017
Office	Net Face	Based on Net Face	Overall (December)	
Auckland CBD	3.3%	3.7%	5.2%	5.9%
Office	Gross Face	Based on Gross Face	Overall (December)	
Wellington CBD	3.3%	5.2%	7.8%	7.4%
Office	Net Face	Based on Net Face	Overall (March)	
Auckland Metropolitan	3.3%	5.3%	6.4%	6.0%
Industrial*	Net Face	Based on Net Face	Overall (February)	
Auckland	4.3%	4.6%	1.9%	2.2%
Industrial*	Gross Face	Based on Net Face	Overall (November)	
Wellington	6.0%	10.1%	3.6%	2.1%
Industrial*	Net Face	Based on Net Face	Overall (September)	
Christchurch	0.0%	0.0%	1.9%	N/A
Retail	Net Face	Based on Net Face	Overall (December)	
Auckland CBD	0.0%	2.4%	2.4%	3.6%
Retail	Gross Face	Based on Net Face	Overall (December)	
Wellington CBD	1.4%	3.8%	8.8%	6.9%

Source: Colliers International Research

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

Recent Commercial Property Sales



96 St Georges Bay Road, Parnell
Auckland | \$116,000,000



65-71 Federal Street, Auckland CBD
Auckland | \$40,000,000



157-171 Parnell Road, Parnell
Auckland | \$10,900,000

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