

Office Construction Offers Business Some Relief

In this edition, we take a look at our latest CBD office and retail vacancy for Auckland and Wellington, as well as trends in commercial property sales.

Office

Prime CBD office vacancy has increased in Auckland rising to 3.6% in June 2017 from 1.9% a year ago. Since 2014, businesses seeking prime office space have had very few options. Now they have a little relief. Outside of the CBD a few new projects underway will also help to relieve the pressure.

Vacancy in Wellington remains unchanged overall, sitting at 7.8% in June 2017 compared to six months ago, with virtually no prime stock (0.1%) available, as a consequence of buildings being removed from the total stock due to seismic damage.

Retail

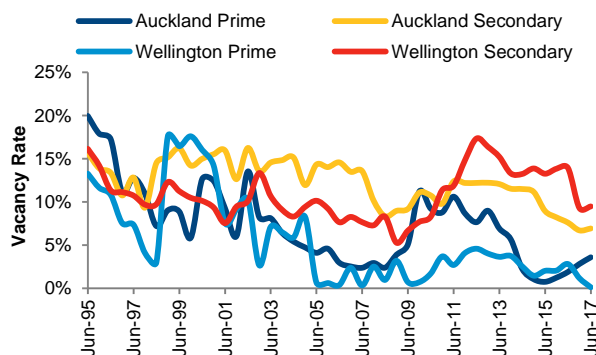
New data for Auckland and Wellington retail vacancy shows market demand continues to be strong. Since June 2016, overall retail vacancy has fallen to 3.3% (down 0.9%) in Auckland and 5.6% (down 3.3%) in Wellington.

Sales

Looking at the commercial property sales data (\$5 million or more) our analysis shows the office sector as a major stand out. Provisional data for June 2017 year showed more office sales recorded than any other sector, most of which in Auckland.

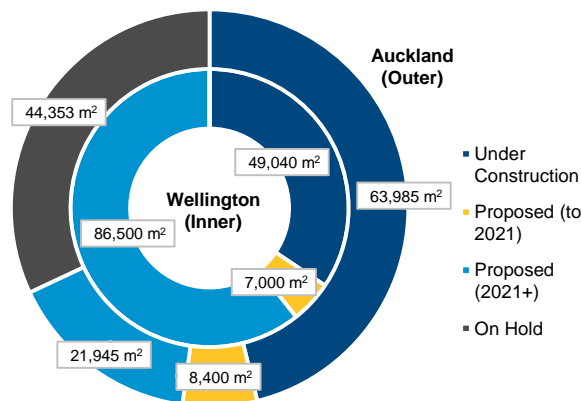
The value of industrial property sales level has eased somewhat despite positive investment conditions over the past 12 months. Provisional data for June 2017 year shows an aggregate of \$869 million of industrial property sales across New Zealand, down from the peak in June 2016 year of over \$1.3 billion. This is due to a lack of stock currently available for sale rather than a shift in investor sentiment.

CBD Office Vacancy Rates



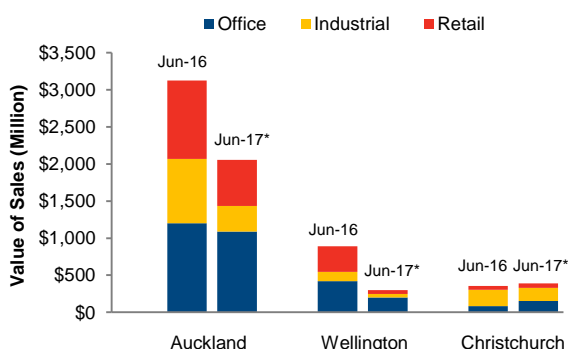
Source: Colliers International Research

CBD Office Development Pipeline



Source: Colliers International Research

Commercial Property Sales – \$5 million or more



Source: CoreLogic, Colliers International Research
*June 2017 year figures are provisional.

Office Construction Offers Business Some Relief (continued...)

In retail sales, Auckland was once again the main player, making up 60% of total retail sales volume of \$5 million and above.

These sales data included some substantial investments by offshore investors. Canada Pension Plan Investment Board brought a 50% stake in the PSP portfolio and Angaet Property Group from Australia purchasing WestCity Waitakere, an Auckland shopping centre, at a price of \$153 million.

Constraints in the lending market may dampen the ability of some investors to purchase at yields which will provide a neutral or positive cashflow. However many of the larger groups seeking New Zealand assets don't rely on local debt funding and their appetite is undiminished.

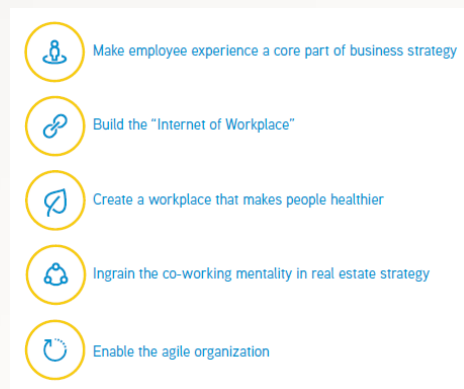
Workplace

Workplaces are changing rapidly as new technologies and ways of working reshape how and where we work. A recent Colliers report has identified five major shifts that business need to consider (summarised on the right).

Download a full copy of the report on our website at:

http://www.colliers.com.au/find_research/speciality_reports_and_white_papers/colliers_global_workplace_trends_report_july_2017/

Global Workplace Trends



Source: Colliers Global Workplace Trends – July 2017

Commercial Interest Rate Guide	
Date	3 Year Term (Indicative Borrowing Rate)
Mar-17	5.10%
Apr-17	5.10%
May-17	5.10%
Jun-17	4.96%
Jul-17	5.07%
Aug-17	5.28%

Source: ANZ Bank, 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 – August 2017

	Mar-17 (yr rate)	Mar-17 (qtr rate)	Dec-16 (qtr rate)	Q-o-Q Change	Mar-16 (yr rate)	Y-o-Y Change	2017F*	2018F*	2019F*
GDP Growth	2.5%	0.5%	0.4%	0.1%	2.9%	-0.4%	2.7%	2.9%	3.5%
Current Account (% of GDP)	-3.1%	NA	NA	NA	-3.1%	0.0%	-3.0%	-3.0%	-3.3%
Retail Sales (ex-auto)	5.6%	1.6%	1.0%	0.6%	3.8%	1.8%	5.2%	5.4%	5.3%
	Jun-17 (yr rate)	Jun-17 (qtr rate)	Mar-17 (qtr rate)	Q-o-Q Change	Jun-16 (yr rate)	Y-o-Y Change	2017F*	2018F*	2019F*
CPI Inflation	2.1%	0.3%	1.0%	-0.6%	0.4%	1.7%	1.5%	1.9%	1.8%
Net Migration Gain (000's)	72	18	18	0	69	3	72	69	61
Unemployment Rate	5.0%	4.8%	4.9%	-0.1%	5.2%	-0.2%	5.0%	4.7%	4.7%
	Jun-17 (yr rate)	May-17 (yr rate)	M-o-M Change	Jun-16 (yr rate)	Y-o-Y Change	10 Year Average	2017F*	2018F*	2019F*
Tourist Numbers Growth	15.8%	8.4%	6.2%	9.1%	6.6%	4.7%	7.0%	6.5%	4.9%
Official Cash Rate	1.75%	1.75%	0 bps	2.3%	-50 bps	3.46%	1.75%	2.00%	2.75%
90 Day Bank Bill Rate	2.0%	2.0%	0 bps	2.4%	-39 bps	3.7%	2.0%	2.1%	2.7%
10 Year Government Bond	2.9%	2.9%	0 bps	2.5%	42 bps	4.5%	3.4%	3.9%	4.2%
Floating Mortgage Rate	5.8%	5.8%	0 bps	5.7%	14 bps	6.7%	5.2%	5.4%	6.0%
3 Year Fixed Housing Rate	5.5%	5.5%	0 bps	5.2%	35 bps	6.8%	NA	NA	NA
Consumer Confidence	128	124	3%	119	7%	119	NA	NA	NA
NZD vs US	0.72	0.69	4%	0.70	3%	0.75	0.72	0.69	0.68
NZD vs UK	0.56	0.54	5%	0.50	14%	0.47	0.56	0.52	0.50
NZD vs Australia	0.96	0.93	2%	0.95	1%	0.85	0.96	0.91	0.88
NZD vs Japan	80	78	3%	74	8%	74	80	79	81
NZD vs Euro	0.64	0.63	2%	0.63	3%	0.58	0.64	0.66	0.69

Source: NZIER, Colliers International Research
*March year forecast

Office

The Colliers International Office Insight Survey gathers information from office workers about how their offices can be improved. It also asks workers what they would want to be close to if they were choosing their office location.

The top three preferences in almost all cases are a cafes and lunch options, public transport and car parking. Preferences change dramatically when an office is located near a supermarket.

Supermarkets rise to the top as the most desirable feature. They are higher than cafes and lunch options and also higher than public transport and car parking, but only for workers who are already near a supermarket.

For more information see: [3 Reasons Why Office Workers Love Supermarkets](#)

Retail

Our latest vacancy survey for Wellington retail shows a reduction of vacant space in almost all streets of the capital's CBD. Courtenay Place has had the largest decrease reducing from 21.6% in June 2016 down to 9.2%, with the majority of this change due to damage of the Reading Cinema's after the November 2016 earthquake, effectively removing it from the available stock.

Manners Street vacancy has also reduced significantly, now at 8.4%, down from 12.2% a year ago, with the Post Office demolished on the corner to make way for the Lombard Lane upgrade. This development is now nearing completion with some retail tenancies already open.

Vacancy on the CBD's main strip Lambton Quay has become even tighter over the past year reducing from 3.5% to 3.3%. Other noteworthy changes include Mecca Maxima absorbing vacancy on Willis Street to open their first New Zealand store earlier this year, and Dixon Street having vacant space for the first time since 2009.

Industrial

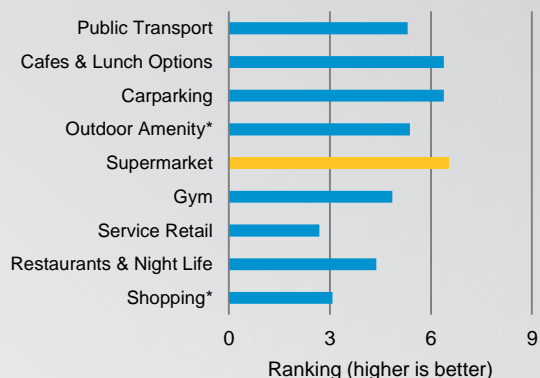
According to the BNZ-BusinessNZ Performance of Manufacturing Index (PMI), New Zealand's manufacturing sector has remained in continuous expansion since October 2012. The seasonally adjusted PMI for June 2017 was 56.2, which was 2.0 points lower than May, however this is still positive as a PMI above 50.0 is considered to be expanding.

This expansion is hugely beneficial for the industrial property sector as manufacturing businesses provide a large portion of tenants for industrial premises.

The BNZ-BusinessNZ Performance of Services Index (PSI), which measures New Zealand's service sector (such as supplier deliveries) has also remained in expansion long term (see chart to the right). This sector is another key provider of tenants for industrial premises.

With the industrial property sector built on businesses that provide core goods and services nationally, this is yet another strong fundamental backing it's strong performance.

"If you could choose the location of your offices, what would you want to be close to?" (response from offices workers at businesses close to supermarkets)



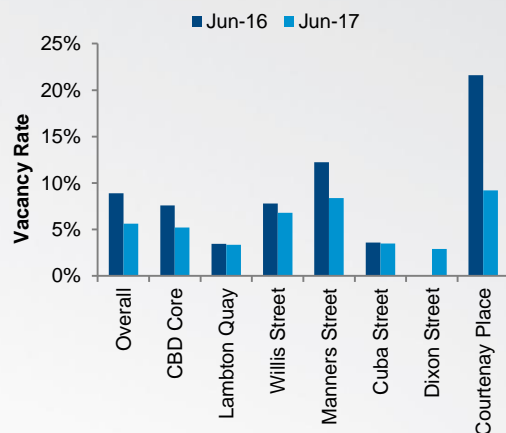
Source: Colliers International Strategic Consulting

*Outdoor amenity include parks, waterfront, etc

*Service retail include hair dressers, doctors, childcare, etc

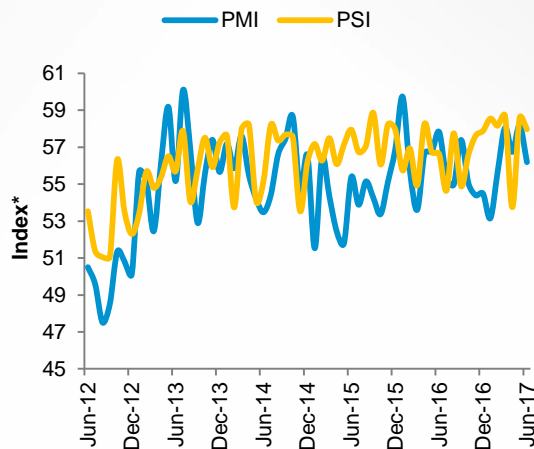
*Shopping include fashion, gifts, etc

Wellington Retail Vacancy Survey



Source: Colliers International Research

BNZ-BusinessNZ Performance Indices



Source: BNZ-BusinessNZ, Colliers International Research

*Seasonally adjusted

Recent New Zealand Commercial Property Sales Activity

Address	Location	Property Type	Date	Price
8 Croftfield Lane	Wairau Valley, Auckland	Retail	Jul-17	\$5,600,000
BP, 47 Jervois Road	Ponsonby, Auckland	Industrial	Jul-17	\$2,825,000
33 Newton Street	Mount Maunganui, Tauranga	Industrial	Jul-17	\$2,600,000
24 Aerodrome Road	Mount Maunganui, Tauranga	Industrial	Jul-17	\$2,500,000
5 Mill Road	Helensville, Auckland	Development/Land	Jul-17	\$2,350,000
Hunting & Fishing, The Landings	Timaru	Retail	Jul-17	\$1,724,000
5-7 Lower Tyers Road	Ngauranga, Wellington	Industrial	Jul-17	\$1,200,000
630 Heretaunga Street West	Hastings	Vacant Retail Site	Jul-17	\$975,000
20 Fitzherbert Avenue	Palmerston North	Office	Jul-17	\$940,000
15 Leslie Hills Drive	Riccarton, Christchurch	Office	Jul-17	\$902,500

Recent New Zealand Commercial Property Leasing Activity

Address	Location	Property Type	Date	NFA (m ²)	Lessor	Lessee
92 Albert Street	Auckland Central	Office	Jul-17	722	Queen Fern Holdings	Regus



8 Croftfield Lane
Wairau Valley, Auckland



5 Mill Road
Helensville, Auckland



Hunting & Fishing, The Landings
Timaru

New Zealand Prime Indicators

Property Sector	Prime Rents (% Change)		Prime Capital Values (% Change)		Prime Vacancy Rate		
	12-Months to Jun-17	12-Month Forecast	12-Months to Jun-17	12-Month Forecast	Historical	Current	12-Month Forecast
Office					Mar-16	Mar-17	Mar-18
Auckland Metropolitan	11.0%***	N/A***	16.5%***	N/A***	5.7%	6.1%	N/A
Office					Jun-15	Jun-17	Jun-18
Auckland CBD	8.1%	N/A	14.9%	N/A	1.9%	3.6%	N/A
Wellington CBD**	3.6%	N/A	7.9%	N/A	2.8%	0.1%	N/A
Industrial*					Feb-16	Feb-17	Feb-18
Auckland	2.5%	2.0%	6.8%	2.0%	1.7%	1.4%	2.2%
Industrial*					Sep-15	Sep-16	Sep-17
Christchurch	0.3%	0.0%	3.3%	0.0%	0.3%	0.3%	0.5%
Industrial*					Nov-15	Nov-16	Nov-17
Wellington**	7.8%	6.0%	12.0%	6.0%	4.0%	0.6%	1.0%
Retail					Dec-15	Dec-16	Dec-17
Auckland CBD	1.7%	4.0%	8.8%	4.0%	2.5%	2.4%	2.2%
Wellington CBD**	7.6%	-0.03%	8.9%	-0.05%	7.3%	8.8%	7.1%

Source: Colliers International Research

*A combination of industrial office and warehouse space at a ratio of 20:80

**Wellington rental figures are gross and capital values based on net rent. Wellington Retail Vacancy figures are overall.

***Financial indicators are Auckland City Fringe.

NZ List Property Update | August 2017

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Listed property sector still out of favour

While the sector generated a flat return in July (-0.6%), divergence in returns among the LPVs has increased. Precinct Properties (PCT) and Augusta (AUG) were top performers over the month (+2.4%/+1.9%), following a material uplift in on-completion values for PCT's developments, and settlement progress for AUG's sale of The Finance Centre. Stride Property Group (SPG) and Kiwi Property Group (KPG) underperformed in July, returning -4.6% and -2.8% respectively, as retail-focussed portfolios were out of favour.

Divergence in returns increases

Just three LPVs — PCT, Property for Industry (PFI) and VHP — will announce results in the August reporting season. Development and leasing progress for Commercial Bay and Bowen Campus will be of most interest for PCT, which is deep into its ~NZ1bn development pipeline. Development progress will also be a focus for VHP which has four Brownfield developments expected to be completed in late-2017.

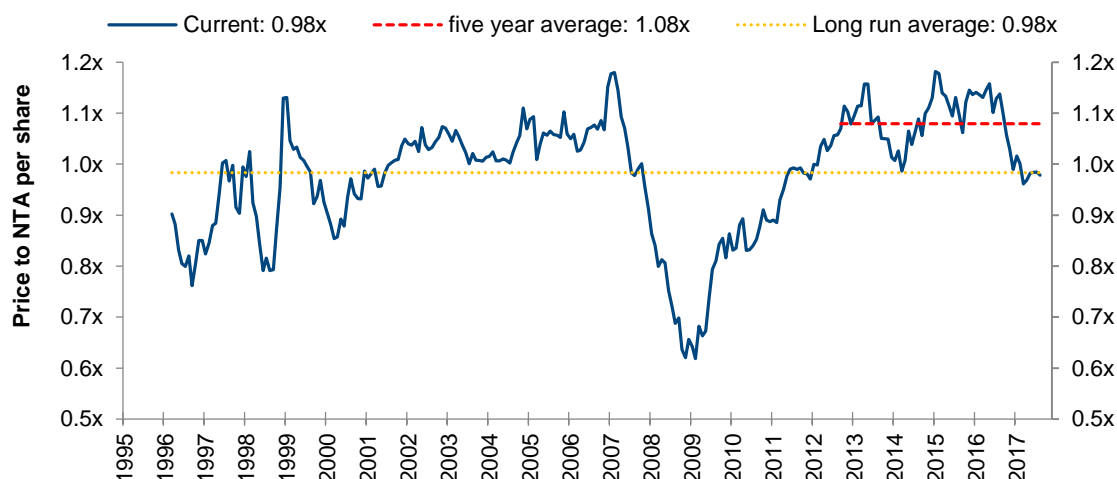
Development progress will be the focus of the August reporting season

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Amazon could increase ecommerce risks for retail property

In our recent sector report Amazon—From A(ustralia) to (New) Z(ealand), dated 26 July 2017, we discuss the potential impacts of an Amazon entry into New Zealand over the next five years. In our view, Amazon could have a material impact on various commercial property sectors, most notably retail property and industrial property. Amazon is the largest ecommerce player globally, and its entry has the potential to accelerate ecommerce penetration in NZ and exacerbate this structural headwind for traditional bricks and mortar retail offerings. Faster ecommerce delivery options will result in more warehousing and logistics space in key locations. This will increase demand for well-located industrial property, albeit these impacts are minor relative to the risks for retail property.

Listed property sector price to book values (NTA per share)



Source: Company reports, IRESS, Forsyth Barr analysis

Recent New Zealand Research Reports



Colliers International New Zealand Research Report | July 2017

New Zealand Research Report July 2017

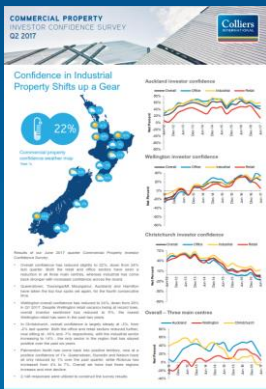
We take a look this month at the latest Colliers International global industrial and office surveys and see how New Zealand ranks against cities around the world.



Colliers International Auckland Metropolitan Office Research Report | June 2017

Developments Take Shape

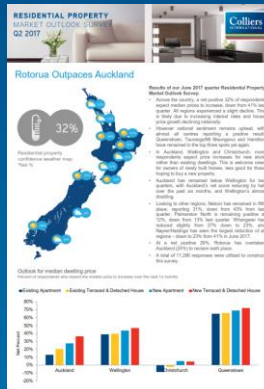
Record low vacancy rates in the CBD have made it difficult for businesses to find affordable office space. The spill over effect has seen strong demand for metropolitan office accommodation.



Colliers International Commercial Property Investor Confidence Survey | Q2 2017

Confidence in Industrial Property Shifts up a Gear

Colliers' quarterly confidence survey asks commercial property market participants about their views on the outlook for commercial property investment over the next 12 months across New Zealand.



Colliers International Residential Property Market Outlook Survey | Q2 2017

Rotorua Outpaces Auckland

Colliers' quarterly market outlook survey asks residential property market participants if the median house price will stay the same, decrease, increase by less than 5%, or increase by more than 5% over the next 12 months across New Zealand.

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