Colliers
INTERNATIONAL

2019
An Outstanding Year

New Zealand Transaction Review

Accelerating Success

Introduction

2019 is another outstanding year for commercial and industrial property in New Zealand. Transaction activity has been bolstered by positive market dynamics including supply and demand imbalances, solid employment rates, benign tax requirements, high transparency and low interest rates.

Private, local investors remain the lifeblood of sales activity in the commercial and industrial sector for many parts of New Zealand. However, importantly for the long-term stability, health of the sector and the additional depth and liquidity it provides, New Zealand real estate has been actively pursued by offshore investors.

The global hunt for higher yielding assets has propelled New Zealand onto the world stage. Access to flagship property with market-leading returns, diversified and defensible property portfolios and the creation of new, international grade property in New Zealand are pivotal to this. Given global market conditions and the attractiveness of our stock, it is hard to see this enquiry slowing.

Obstacles to the ongoing growth of the sector are global economic fluctuations and the potential for a slowdown in economic activity locally, predominantly driven by lower business sentiment. Presently, while growth is slowing from super highs, a floor slightly below long-term averages seems to be achievable which will alleviate risk concerns.

Indeed, the foremost challenge to increasing sales turnover is the ability for investors to source properties to purchase. While activity is solid, and opportunities do arise, it will be testing for investors looking to grow their portfolios. Along with the view that interest rates will remain low for an extended period, investors waiting in the wings will add to pent-up demand that will drive value further upwards, especially in the $20 million plus market. Active investors seeking out prospects, both on- and off-market will be presented with the most opportunities - fortune favours the brave.

Given this year's stellar run well into the last few months of the year, and the property deals forecast to transact early next year, we expect a fast start to 2020 that will likely set the scene for another buoyant year for commercial and industrial property sales.

Sales Turnover

There is now approximately $10 billion of commercial office, retail and industrial sales activity transacted a year in New Zealand, and around 5,000 to 6,000 sales per year.

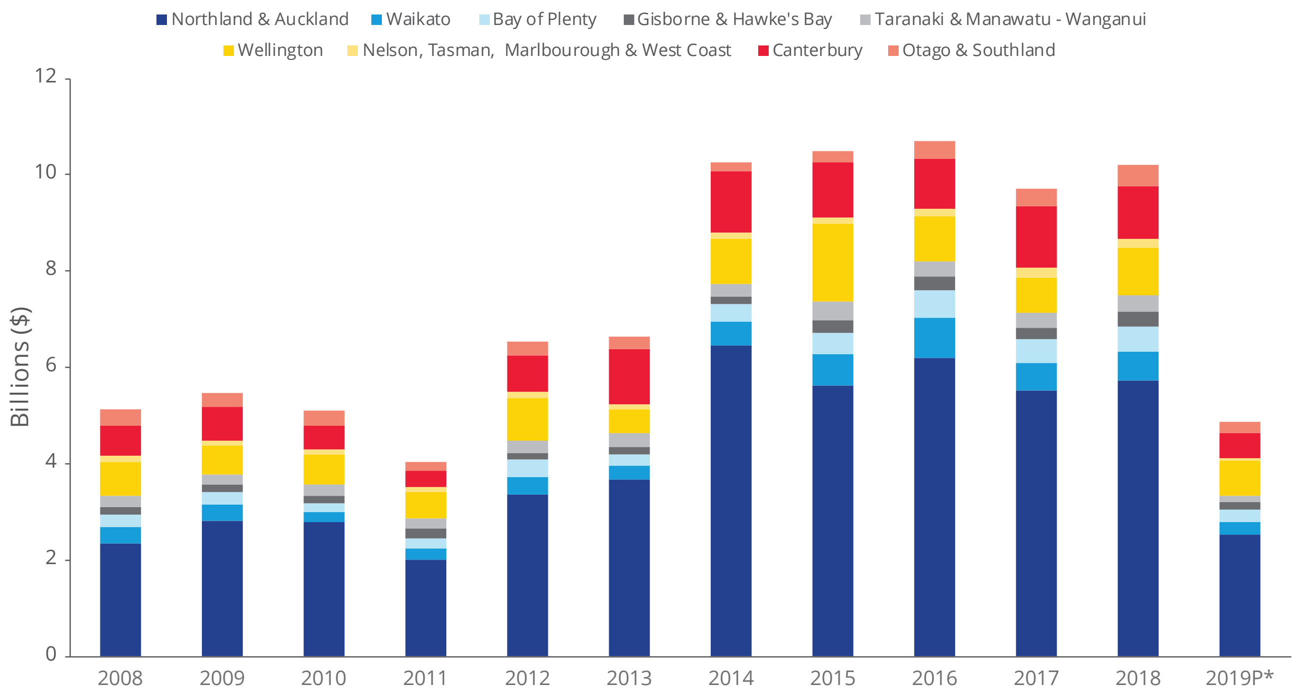
The total value of commercial office, retail and industrial property in New Zealand is around $217 billion, suggesting an annual turnover of around 5% by value. This is approximately the same turnover percentage as New Zealand's $1.1 trillion residential sector.

Approximately 50% of annual commercial and industrial sales activity is in the industrial sector. This reflects the typically lower value size of the industrial market and the higher representation of both investors and owner-occupiers.

There is a relatively consistent number of retail sales, typically representing around one in every four sales per year. There has been no significant variation in retail sales activity despite reports of more challenging conditions for some retailers.

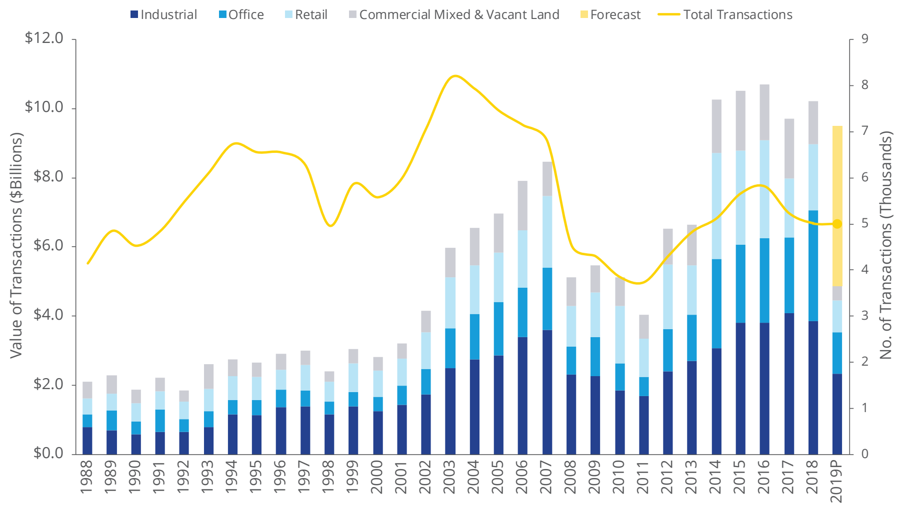
The office sector has lower turnover than the industrial and retail sector, but higher aggregate price volumes. This reflects the scale and higher value of office premises, especially in main city CBD markets. The Auckland, Wellington and Canterbury regions typically account for 86% of the total value of office property transactions per year.

Sales Transaction by Regions - Commercial and Industrial

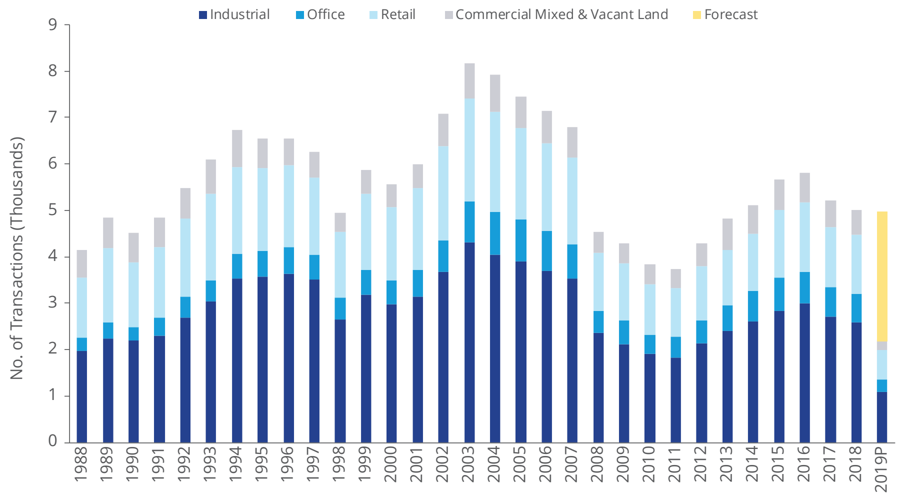


*Six months to June 2019, Provisional results
Total New Zealand Transaction Activity ($10,000 +)
Source: CoreLogic, Colliers International Research

Sales Value by Sector - Commercial & Industrial



Sales Volume by Sector - Commercial & Industrial



Total New Zealand Transaction Activity ($10,000 +)
Source: CoreLogic, Colliers International Research

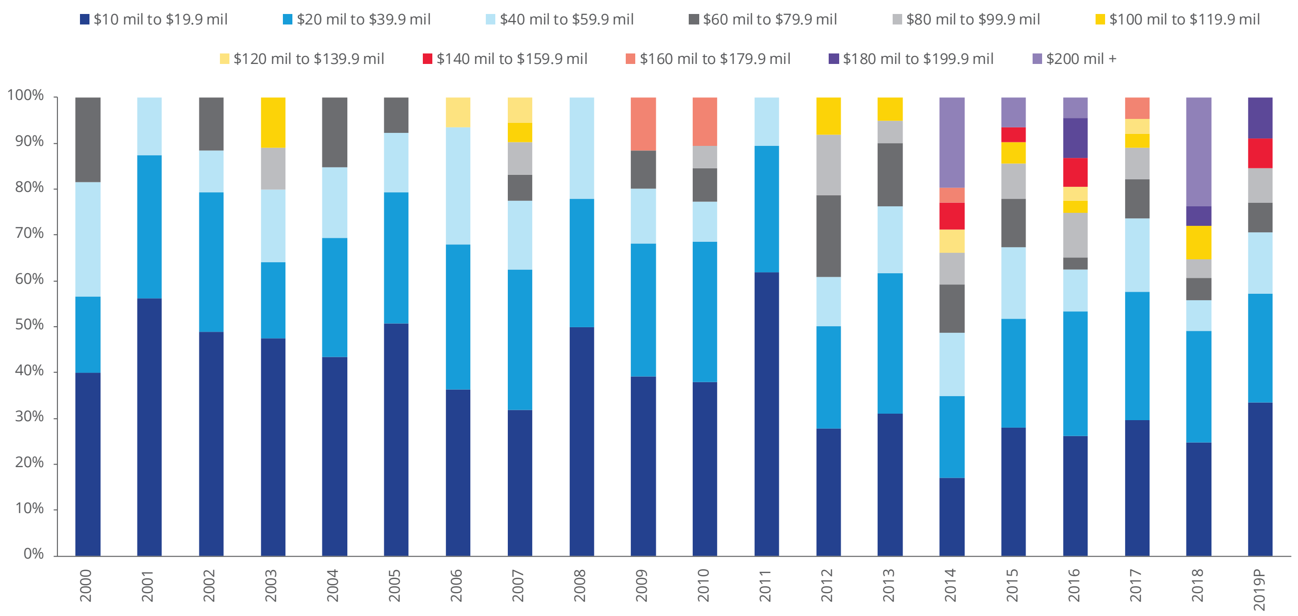
Sales Values

Strong growth in the $2 million to $4.9 million market since 2011 highlights the attractiveness of this price-point for investors as well as the incremental price creep, especially in the past decade.

There is increasing depth and steady growth in transactional numbers above $5 million. There is also less cyclical volatility in sales activity for properties selling at or above this price point.

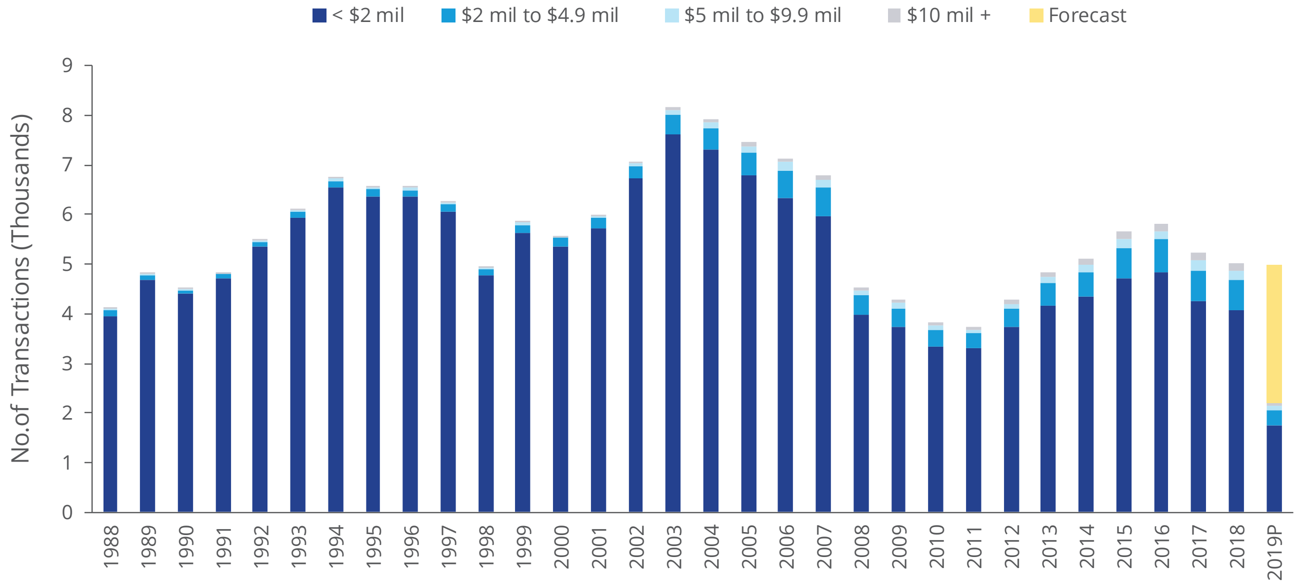
There has been an increasing proportion of $40 million or more property sales since 2012 with the appearance of $200 million deals from 2014 which included Scentre Group's Westfield Shopping Centre sales.

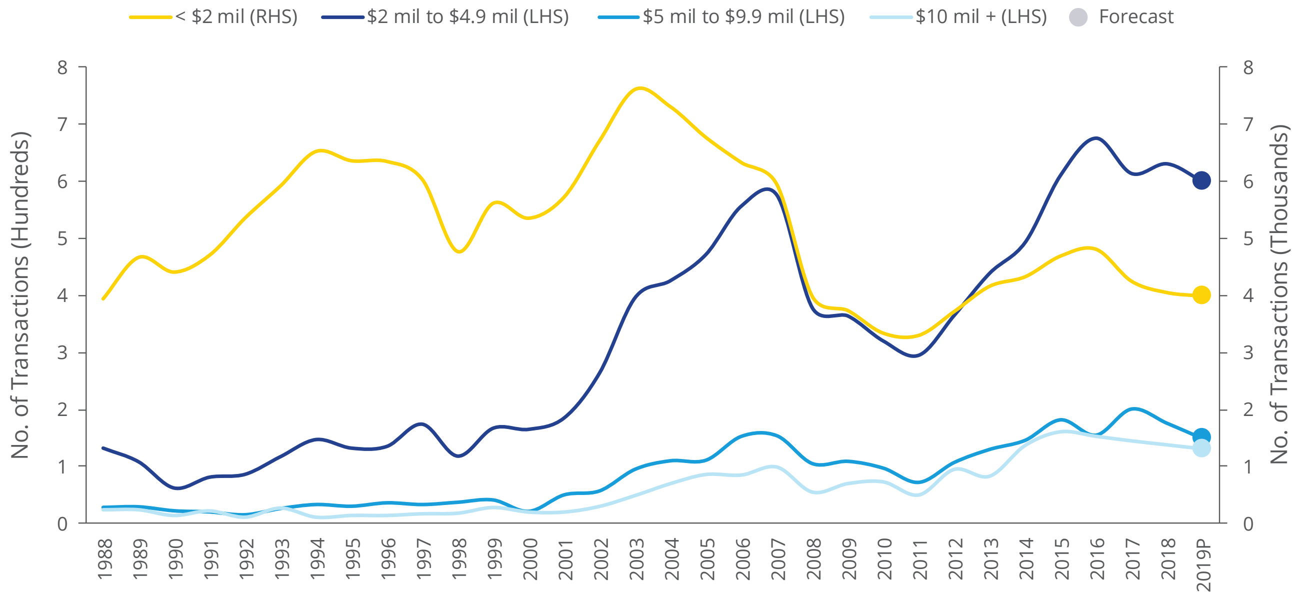
Sales Value by Price Segment - Commercial and Industrial



Total New Zealand Transaction Activity ($10,000 +)
Source: CoreLogic, Colliers International Research

Sales Volume by Price Segment - Commercial and Industrial





Total New Zealand Transaction Activity ($10,000 +)
Source: CoreLogic, Colliers International Research

Purchaser Types

A review of the types of purchasers seeking properties $5 million and above since 2016 shows sizeable growth in syndication, listed property vehicles and offshore parties. However, private local purchasers remain the most prolific purchaser group.

The hunt for higher total returns from a growing number of investment vehicles globally has seen a rise in the number of offshore parties enter New Zealand's commercial and industrial sector. This was increasingly noticeable from 2014, with a focus on flagship retail and office assets. More recently, offshore parties are also targeting industrial properties, both vacant land and buildings.

Nationally, offshore investors accounted for 72% of all office sales of $50m or more between 2017 and June 2019.

Current negotiations on prominent, high value properties and portfolios in the office, retail and industrial sector could be concluded in late 2019 with settlement expected in 2020. This will enable another strong year of commercial and industrial sales activity by value.

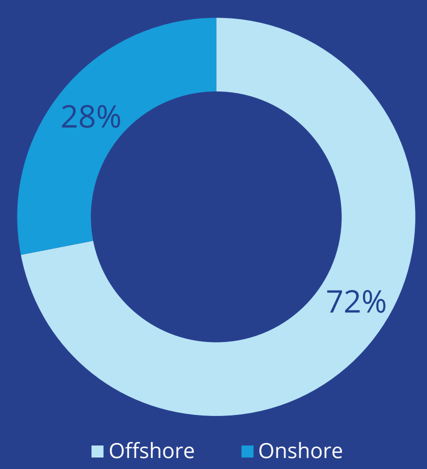
Despite maintaining a similar total value of property turnover in 2020, tightly controlled stock in a lower total return environment as well as tighter lending conditions from banks limits the potential for greater deal volumes in 2020, which has been an ongoing trend since 2016.

However according to respondents to the latest Colliers International Commercial Property Investor Confidence survey, there should be another solid year of activity ahead. A net positive 24% (optimists minus pessimists) of respondents expect investment conditions to get better over the next 12 months. This is comparable to the five-year average of a net positive 25%.

Why investing in NZ makes sense from an offshore perspective:

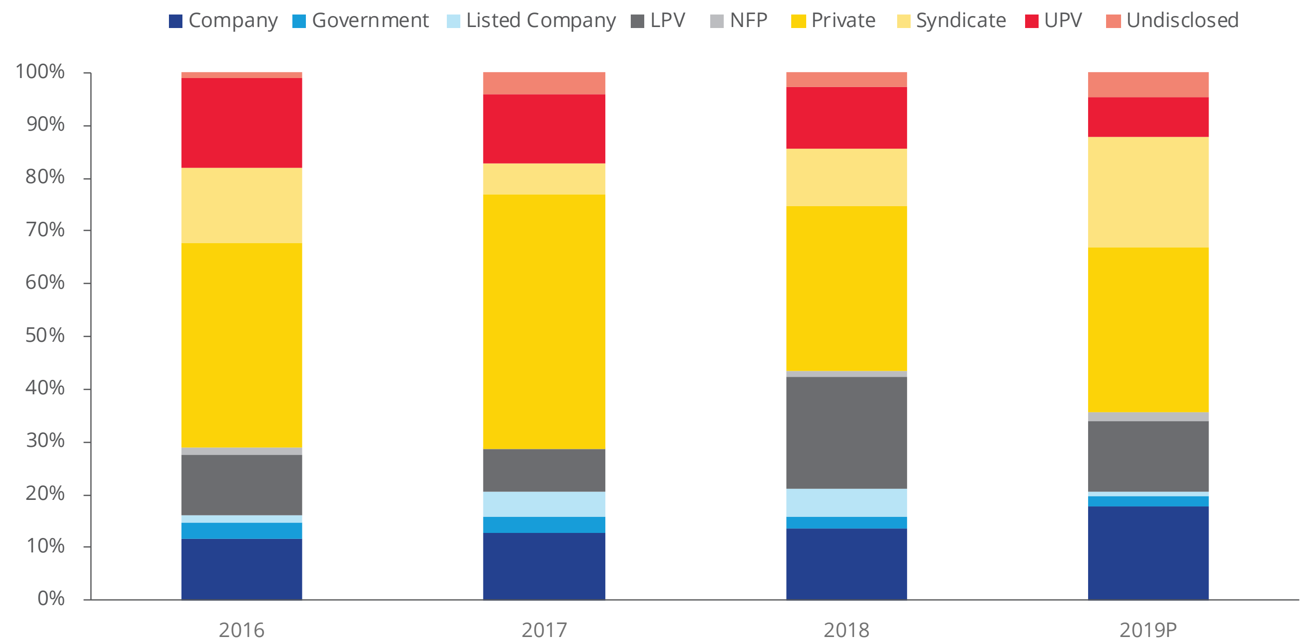
- A benign tax structure and limited property associated taxes:
  - Limited capital gains tax
  - No stamp duty or conveyance duty
- Positive net migration and demographic profiles
- Supportive investment for foreign and local ownership
- Favourable current debt to yield spreads
- Transparent real estate sector: indefensibility of title
- Favourable long-term economic indicators
- Solid, long-term total returns with relatively low volatility
- A stable political regulatory environment

NZ Office Sales $50m+ (2017 to June 2019)



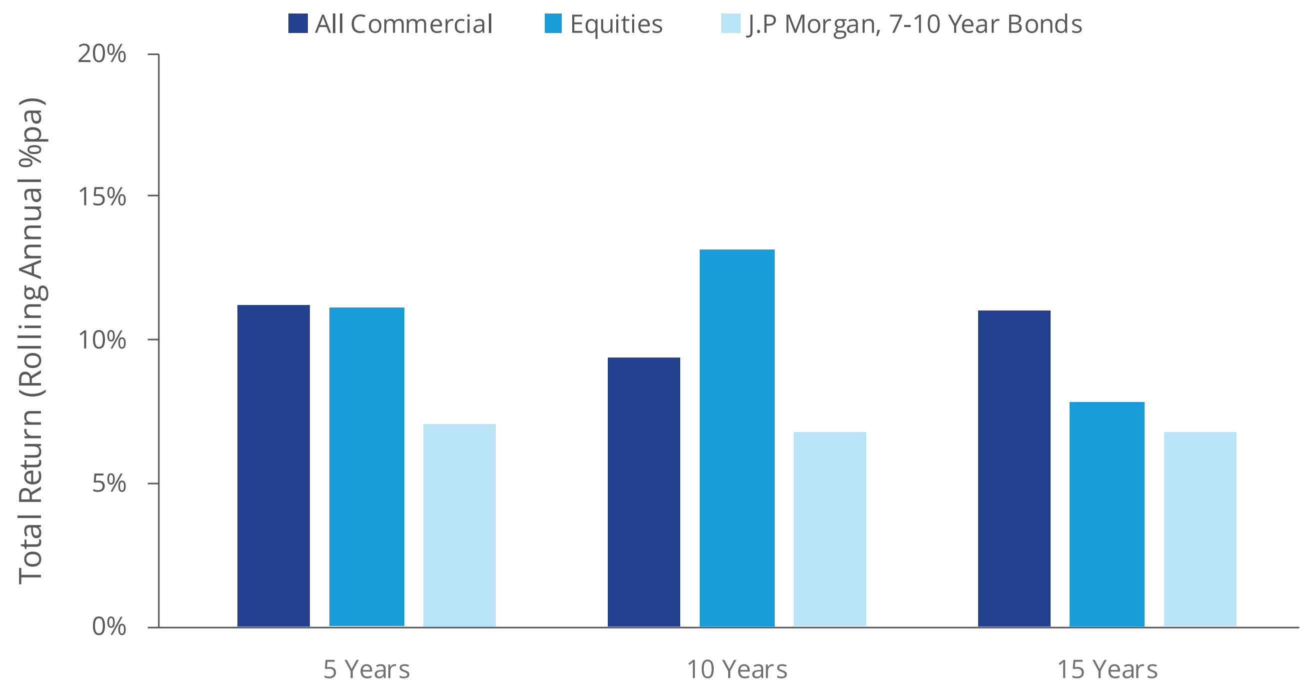
Source: CoreLogic, Colliers International Research

Purchaser Types - Commercial and Industrial



Total New Zealand Transaction Activity ($5 million sales or more)
Source: CoreLogic, Colliers International Research

Investment Returns



Source: MSCI - Q1 2019 , Colliers International Research

Recent Major Transactions

Chorus House, 66 Wyndham Street, Auckland CBD

Early 2019, the 23,000 sqm office building sold for $144.5 million to a fund managed by Invesco, reflecting approximately a 5% yield.

110 Symonds Street, Auckland CBD

In April 2019, the property sold for $38.5 million to a local private investor, reflecting a yield in the low 5% range.

General Building, 29-33 Shortland Street, Auckland CBD

In June 2019, the General Building sold for $42 million to a local private investor, reflecting a yield in the low 5% range.

155 Fanshawe Street, Auckland CBD

In late 2019, the 16,800 sqm office building still under construction sold for $235 million to offshore investor PAG Asia.

Hoyts Entx Christchurch, Christchurch

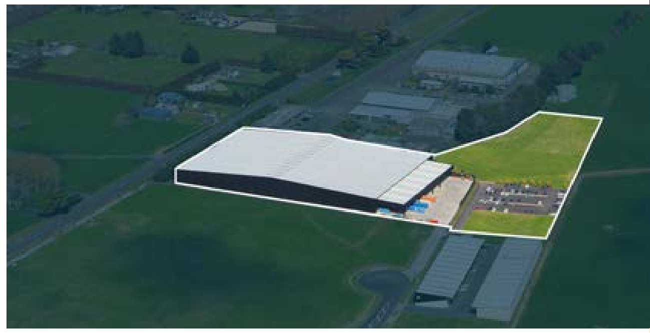
Early 2019, developers Calder Stewart sold the centre for $48.8 million to local private investors, reflecting a yield of 6.5%.

39-59 Miami Parade, Auckland

In mid-2019, the 18.8 ha land at 39-59 Miami Parade was sold for $56.0 million to a private investor, representing a yield of 5.2%.

33 Corinthian Drive, Auckland

Tenanted by ASB Bank, Stride Property Group sold the property for $50.5 million, representing a yield of 5.8%. Property and Funds Manager Oyster Management purchased the premises earlier this year.



26 Sharpe Road, Hamilton

In late 2019, the 13,800 sqm industrial building transacted for $27.7 million, reflecting a yield of 5.5% and was sold to property fund manager PMG Capital.

97 Taranaki Street, Wellington

Settled in mid-2019, the site transacted for $25.0 million to an offshore Australian investor. The site will be redeveloped into 150 townhouses called The Paddington.

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