Colliers INTERNATIONAL

NEW ZEALAND
RESEARCH REPORT

December 2019

19 Predictions for 2020

For the last monthly report of each year we provide our top predictions for the following year.
In no particular order:

All sectors

1. The Reserve Bank of New Zealand's pursuit for financial stability and resilience has seen major banks required to increase 'tier-1' capital within a seven-year timeframe from 1 July 2020. While we may see a lower or stable OCR in 2020, interest rate margins are likely to rise as well as term deposit rates. This may see more properties come to market as owners look to take advantage of the strong gains made in recent years.

2. As is typical in an election year, there will be a period of disruption before and after the 2020 election here and in the US as people absorb the political promises and the eventual outcomes. Those focussed on long-term performance will benefit the most.

3. The New Zealand Government's announcement to take advantage of low lending rates and increase infrastructure spending will likely boost economic activity in 2020 and provide further support for high employment rates. This will enhance occupier fundamentals.

4. The property industry will benefit from measuring the sustainability and societal impacts of the sector through environmental, social and governance initiatives. As is apparent abroad, investigation and implementation of recommendations from the Financial Stability Board's Task Force on Climate-Related Financial Disclosures could also feature.

Office

5. The convergence in tenants nationally searching for higher quality, more flexible, productive, well-priced and environmentally sustainable premises will grow. Many main cities will need more supply, but construction sector complexities and constraints highlight only a handful of companies with big balance sheets may be able to provide the right solutions.

6. There is little currently forecast that could interrupt the current positive path in rental growth and solid sales activity in the office sector in 2020. The biggest hurdles the sector is likely to face in 2020 are rising operating costs and suitable stock for investors to purchase.

Industrial

7. Industrial vacancy is at, near or approaching lows in Auckland, Wellington and Christchurch. Many locations regionally also face similar constraints. This will likely result in an increase in the demand for land and the continuation of new-build construction. The markets that have delivery constraints and can't cater to demand within a suitable timeframe is where the greatest level of price growth will eventuate.

8. The industrial sector's resilience in the hard times and strong performance in the good times is why it is a favoured asset class for many investors globally. Rental growth and firm yields for prime property are likely to continue in 2020. This will lead to a resurgence in investor appetite for secondary premises where greater financial rewards could eventuate in 2020.

Retail

9. 2020 will likely see a growing divide between the 'haves' and the 'have nots' as customers become increasingly selective in their spending. Flagship shopping centres, large format retail, and easily accessible, centralised destination strip retail will remain popular amongst consumers and continue to report positive metrics for owners. Others will find conditions testing.

10. Data and technological advancements will play an important role in retail next year. There will be a rise in capturing customer data to provide greater levels of personalisation and improving the customer journey. Further, if a 5G network is successfully implemented in 2020, it would lead to a number of new initiatives to explore. These include more immersive customer experiences, stock and delivery efficiencies and a smoother transition between online and offline purchasing.

Residential

11. Residential price growth outside of Auckland will remain positive in 2020 but will most likely start to slow from significant highs. It is also likely that 2020 will mark the start of the next growth phase in Auckland. Annual price rises in Auckland are likely to remain modest to start with, but it sets the scene for higher rates of growth in 2021.
12. Developers will continue to focus on delivering higher density, more affordable homes, catering to the ongoing demand from first home buyers and the re-emergence of investors who are being driven by historically low interest rates. Those providing the right product in the right place at the right price will outperform in 2020.
13. There is likely to be more announcements of build to rent projects in 2020 in Auckland. This is due to the solutions the sector solves for a changing demographic, ongoing increases in rents and the return of capital value growth.

Hotels

14. Many of NZ's key markets remain at or near record performance levels in 2019, with further growth anticipated in 2020, albeit at more modest levels than seen in recent years. Growth will come from increasing international visitor arrivals, forecast to reach 4 million by the end of 2020, robust domestic demand and sustainable new supply/inventory coming to market.
15. The Auckland hotel market which is experiencing increasing levels of new supply, fewer marquee events and another deferment in the NZICC opening, has had a fall in both occupancy and room rates in 2019 with a moderate improvement anticipated in 2020. However, a resurgence in 2021 is expected due to an array of events including the 36th Americas Cup, APEC and many World Cup sporting fixtures.
16. Momentum in sales activity is anticipated to improve in 2020, as a number of hotel owners look to divest assets to take advantage of buoyant trading conditions and a strong appetite from investors to place capital into this asset class. Low interest rates and strong returns are likely to sharpen yields in 2020.

Rural & Agribusiness

17. Pastoral: Bank lending criteria will remain tighter continuing to have an impact on sales volumes in all sectors, but predominantly in the $5m pastoral sector. However, more buyers will enter the market as they realise opportunities for securing quality farming assets are at their best value level for some years.
18. Forestry: The One Billion Trees Programme and carbon pricing will continue to influence the demand for land suitable for afforestation in 2020. International pressure for sustainably produced timber will see forest returns rebound from the May 2019 price correction with further demand for mid and late-rotation forest crops.
19. Viticulture and Horticulture: The demand for grapes and grape land appears to be in balance with limited liquidity and Overseas Investment office restrictions for overseas purchases to acquire. 2020 will see the continued unsatisfied land demand for kiwifruit in the Bay of Plenty, pip fruit in Tasman and Hawke's Bay, cherries in Central Otago and hops in Tasman.

New Zealand Key Economic Indicators – December 2019

	Jun-19 (yr rate)	Jun-19 (qtr rate)	Mar-18 (qtr rate)	Q-o-Q Change	Jun-18 (yr rate)	Y-o-Y Change	2020F*	2021F*	2022F*
GDP Growth	2.1%	0.5%	0.6%	-0.1%	3.2%	-1.1%	2.3%	2.5%	2.5%
Current Account (% of GDP)	-3.4%	NA	NA	NA	-3.2%	-0.2%	-2.7%	-3.8%	-3.8%
	Sep-19 (yr rate)	Sep-19 (qtr rate)	Jun-19 (qtr rate)	Q-o-Q Change	Sep-18 (yr rate)	Y-o-Y Change	2020F*	2021F*	2022F*
CPI Inflation	1.5%	0.7%	0.6%	0.1%	1.9%	-0.4%	1.6%	1.9%	1.9%
Net Migration Gain (000's)	54	12	12	0	50	5	46	36	36
Retail sales (ex-auto)	4.7%	1.2%	0.7%	0.5%	3.5%	1.2%	4.0%	4.9%	4.9%
Unemployment Rate	4.2%	4.2%	3.9%	0.3%	4.3%	-0.2%	4.1%	4.1%	4.1%
	Sep-19 (yr rate)	Sep-19 (yr rate)	M-o-M Change	Sep-18 (yr rate)	Y-o-Y Change	10 Year Average	2020F*	2021F*	2022F*
Tourist Numbers Growth	2.3%	2.3%	-0.1%	5.5%	-3.2%	4.6%	4.5%	4.0%	4.7%
	Oct-19 (yr rate)	Sep-19 (yr rate)	M-o-M Change	Oct-18 (yr rate)	Y-o-Y Change	10 Year Average	2020F*	2021F*	2022F*
Official Cash Rate	1.00%	1.00%	0 bps	1.8%	-75 bps	2.31%	1.00%	1.00%	1.00%
90 Day Bank Bill Rate	1.2%	1.2%	0 bps	1.9%	-74 bps	2.5%	1.2%	1.2%	1.2%
10 Year Government Bond	1.2%	1.2%	0 bps	2.6%	-146 bps	3.5%	1.4%	1.8%	1.8%
Floating Mortgage Rate	5.3%	5.3%	0 bps	5.9%	-59 bps	6.0%	5.1%	5.1%	5.1%
3 Year Fixed Housing Rate	4.6%	4.6%	0 bps	5.0%	-44 bps	6.0%	NA	NA	NA
Consumer Confidence	118	114	4%	115	3%	120	NA	NA	NA
NZD vs US	0.64	0.63	0%	0.65	-3%	0.74	0.64	0.65	0.65
NZD vs UK	0.51	0.51	0%	0.50	2%	0.51	0.50	0.47	0.47
NZD vs Australia	0.93	0.93	0%	0.92	1%	0.87	0.92	0.87	0.87
NZD vs Japan	68	68	1%	74	-7%	75	70	73	73
NZD vs Euro	0.58	0.58	0%	0.57	2%	0.60	0.59	0.62	0.62

Source: NZIER, Colliers International Research
*March year forecast

Office

The current CBD office development pipeline indicates a strong pipeline of projects as more space is expected to be added in 2020 addressing shortages of quality office space in Auckland and Wellington.

In Auckland, the imminent completions of Commercial Bay, One 55 Fanshawe Street and 10 Madden Street will add over 63,000 sqm of prime office space to the market. Average weighted pre-commitment of space across the three buildings are already at 82%, reflecting occupiers demand for prime office space. The completion of these buildings will also mark the first time since 2016, that a Premium graded building is added to Auckland's Office market.

In the capital, refurbishment and seismic strengthening of stock continues to dominate the supply pipeline. However, successful pre-commitments for new-builds could see development of new spaces such as Bowen Campus Stage 2, One Whitmore and Site 9 Kumutoto. Recently completed Bowen State Building now renamed as Defence House is fully tenanted by Defence Force New Zealand and Ministry of Defence.

Industrial

Our analysis of commercial and industrial sales data suggests investors have a strong focus for industrial properties, with almost 50% of the total value of 2019 transactions.

In Auckland, initial yields are hitting record lows with a recent transaction in Albany for just under 3.5%. However, the range is more consistent between 4.8% and 6.5%. In Wellington, yields continue to edge down as well as in Christchurch where industrial active remains particularly strong. Sales activity in the regions show similar, strong market conditions.

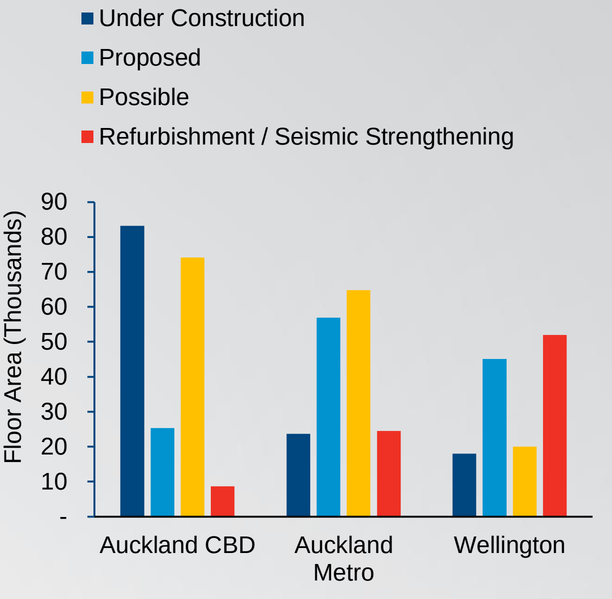
Solid activity in manufacturing, imports and exports, the growth of the transport and storage sector due to online retail growth and a significant pipeline of infrastructure announced by the Government will all assist occupier fundamentals and strengthen investor confidence further.

Retail

Growing optimism underpins the retail sector as we enter the festive season. The November 2019 ANZ-Roy Morgan NZ Consumer Confidence survey found confidence to lift 3 points to 121 following on from a 4 point rise last month, lifting the series just above the historical average of 120. Confidence rose most sharply in Canterbury, while Wellington remains the most optimistic region.

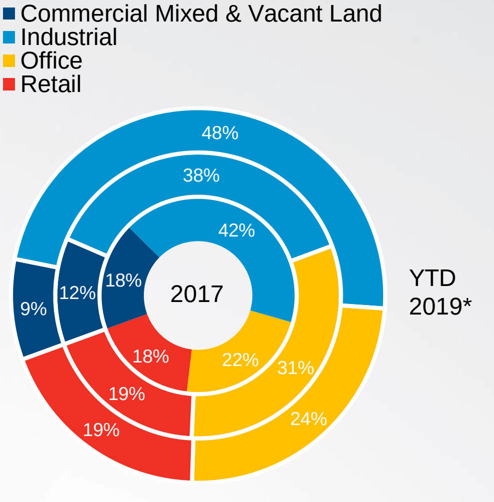
Sales data from Stats NZ supports the well-performing sector. Total volume of retail sales rose 1.6% in the September 2019 quarter, while value rose 1.4%, representing an increase of $333 million in retail sales nationally. The largest increase was in electrical and electronic goods, up 4.4%, followed by department stores, up 3.5%. We expect these positive trends to lead us into the new year.

Office development pipeline by development stage



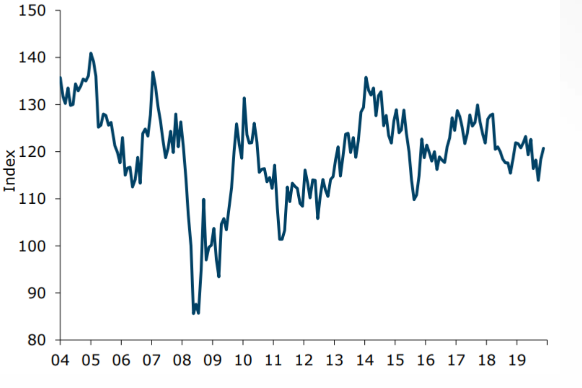
Source: Colliers International Research

Transaction Activity by Sector 2017 – 2019 YTD (Value of Transactions)



*Provisional
Source: CoreLogic, Colliers International Research

ANZ-Roy Morgan Consumer Confidence Index



Source: ANZ Research, Roy Morgan, Colliers International Research

Annual Market Indicator Review – Q3 2019

Property Sector	Prime Rents (% Change)	Prime Capital Values (% Change)	Vacancy Rate	
	12-Months to Sep-19	12-Months to Sep-19	2018	2019
Office	Net Face	Based on Net Face	Overall (June)	
Auckland CBD	1.1%	14.4%	6.2%	5.0%
Office	Gross Face	Based on Net Face	Overall (June)	
Wellington CBD	4.2%	3.0%	7.7%	5.9%
Office	Net Face	Based on Net Face	Overall (September)	
Auckland Metropolitan	1.4%	11.4%	6.7%	5.6%
Industrial*	Net Face	Based on Net Face	Overall (August)	
Auckland	2.2%	11.8%	2.0%	2.1%
Industrial*	Gross Face	Based on Net Face	Overall (November)	
Wellington	8.4%	15.1%	2.1% (2017)	1.5% (2018)
Industrial*	Net Face	Based on Net Face	Overall (September)	
Christchurch	-1.6%	3.1%	1.9% (2016)	N/A
Retail	Net Face	Based on Net Face	Overall (June)	
Auckland CBD	0.0%	0.0%	3.8%	5.7%
Retail	Gross Face	Based on Net Face	Overall (June)	
Wellington CBD	2.7%	3.0%	6.8%	4.2%

Source: Colliers International Research
*Combination of industrial office & warehouse at a ratio of 20:80.

Recent Commercial Property Sales

26 Sharpe Road, Hamilton
Hamilton | $27,765,521 | 5.57%

186 Queen Street, Auckland
Auckland | $15,000,000 | 5.0%

25 Broadway, Auckland
Auckland | $19,450,000 | 5.8%

For more information contact:

Chris Dibble
Director
Research & Communications

Adrian Goh
Research Analyst

Anna Sizova
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