NEW ZEALAND RESEARCH REPORT

December 2020

21 Predictions for 2021

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

All sectors

1. Interest rates will remain low as the Reserve Bank and government continue to prioritise protection of employment and expansion of the economy. While the latest economic data releases have reduced the likelihood of further reductions in the OCR, large scale quantitative easing and a high NZD is likely to continue to place downward pressure on interest rates throughout 2021.
2. An additional significant tailwind for the economy will be provided by massive fiscal stimulus as the government rolls out its infrastructure programme, boosting employment and strengthening occupier fundamentals.
3. Border restrictions will continue to be a drag on the economy, particularly in regions heavily reliant upon international tourism. The shortage of skilled workers will also persist until such time as border restrictions are fully relaxed. This will increase project timelines and place further upward pressure on build costs.
4. However, as international vaccination programmes gather pace, an easing of border restrictions will become increasingly feasible particularly towards the end of 2021 and into 2022. More people visiting and spending will strengthen property sector fundamentals. The success which New Zealand has had in controlling the COVID-19 pandemic will further enhance New Zealand's already strong perception as a safe haven. A greater ability to visit New Zealand and thereby physically inspect properties will see increased international interest in local property investment assets.

Industrial

5. The impact of COVID-19 has accelerated trends evident prior to the outbreak of the pandemic. Greater adoption of online shopping options has driven an increased requirement for logistics facilities. Cold chain delivery is an expanding sub-sector driven by a number of factors such as the surge in online grocery shopping. The roll out of vaccines, many of which need to be stored in climatically controlled conditions, will see demand from pharmaceutical companies grow in 2021.
6. A rise in the integration of technology within industrial premises will become increasing apparent over 2021 and 2022 as businesses look to maximise space efficiency.
7. Ongoing demand for new industrial premises and a shortage of suitably zoned land will see further upward pressure on land values, particularly within established precincts.

Office

8. 2021 will see a greater number of employees returning to the office. This will be driven in part by a change in mandate from organisations headquartered overseas as the threat of COVID-19 abates within their local jurisdictions. While companies will continue to allow a degree of flexibility, they will promote a return to the office as the advantages inherent in working from the office versus the limitations of working from home become increasingly apparent.

9. An increase in leasing options will emerge as corporates complete their post COVID-19 "right-sizing" assessments. Space may be released to the market via sublease offerings or upon lease expiries. In both cases, lessors will need to meet market requirements in terms of fit-out and size. This may result in large floorplates being divided into a number of smaller units.

10. Growth in flexible workspace options will be seen as co-working and serviced office operators take the opportunity to lease space in prime offices where opportunities have previously been limited. Larger office owners will increasingly opt to offer their own flex facilities either in competition with established operators or in partnership with them via a profit-sharing model.

Retail

11. Retail sector trends prevalent pre-COVID-19 like online retailing will be a driving force in 2021. Retailers that are not equipped for a more online world are likely to struggle in the future retail landscape. Retail services such as supermarkets, which were classed as an essential service, will remain a popular sub-sector of the retail property sector.

12. Lease agreement conditions and rental payments will remain a significant focus for landlords and tenants moving forward. While there has been some respite in rental growth, some declines and some incentives for retailers, more positive economic conditions, which may gain further pace in late 2021, could see a reversal in this trend for prime properties.

13. Retail investment activity will remain highly targeted in 2021 with purchasers looking to mitigate risk while they maximise their returns. This will mean a competitively cautious investment environment in 2021, with high calibre retail premises benefiting from strong tenant covenants and long lease terms even more sought after than pre-COVID-19. The potential for lending to become more available for retail property purchasers in 2021 if more positive economic conditions emerge here and abroad, could boost this trend further.

Residential

14. Value gains across the country will be strong in the opening quarter of 2021 driven by limited listings and low interest rates. The reimposition of LVR restrictions in March 2021 will see price appreciation slowing as the ability of investors to transact becomes constrained.

15. New project sales in Auckland will be dominated by suburban developments which will account for more than half of all sales.

16. The success of projects will be influenced significantly by location and the typology of property offered. The inclusion of affordable homes within a project will drive sales at a significantly higher rate than those which do not cater to this sector of the market.

Hotels

17. The first stages of international travel in the latter half of 2021 will mean strong domestic demand will drive business over the 2020/21 summer period, particularly in Auckland which will host the 36th America's Cup Regatta series in Q1 2021.

18. Whilst disruption will continue to impact the sector in the short term, the majority of hotel owners remain well capitalised and in a strong position to ride out the global pandemic. Despite overall revenue & returns having fallen from historical highs in 2019, hotel yields are anticipated to remain firm for quality assets on the back of lower cost of capital and continued demand for prime, well-located strategic assets. Transactional activity is likely to remain subdued as hotel assets are tightly held, although we are likely to see increasing activity in H2 2021, particularly for assets most impacted by a lack of inbound international demand.

Rural and Agribusiness

19. Prices for dairy farm properties are expected to stabilise over the next 12 months following a sustained period of reduced confidence, limited access to bank finance and increased environmental oversight. The industry has shown strong resilience in the face of the Covid-19 pandemic and there is a general sentiment among dairy farm purchasers that the industry is as good a place as any for their capital. We anticipate that sales volumes will improve this year, now that values have stabilised.

20. Forestry land and mid-rotation tree crop has continued to attract significant investment in 2020 and we expect this to continue into 2021. With carbon now pushing through $35/NZU there is continued interest in land suitable for carbon farming and with the change in liability rule for all post-1989 forestland registered in the ETS the risks in these investments are now significantly reduced. We expect to see a further firming of values in 2021 for forestry land classes.

21. The Kiwifruit industry continues to be fuelled by syndication and investor demand. Future prices and fundamentals appear strong with transaction numbers limited by availability. Development in secondary locations becomes more prevalent as land availability diminishes.

New Zealand Key Economic Indicators – December 2020

	Jun-20 (yr rate)	Jun-20 (qtr rate)	Mar-20 (qtr rate)	Q-o-Q Change	Jun-19 (yr rate)	Y-o-Y Change	2021F*	2022F*	2023F*
GDP Growth	-12.4%	-12.2%	-1.4%	-10.7%	2.1%	-14.5%	-1.8%	1.5%	2.1%
Current Account (% of GDP)	-1.9%	NA	NA	NA	-3.8%	1.9%	-1.7%	-3.5%	-4.4%
	Sep-20 (yr rate)	Sep-20 (qtr rate)	Mar-20 (qtr rate)	Q-o-Q Change	Jun-19 (yr rate)	Y-o-Y Change	2021F*	2022F*	2023F*
CPI Inflation	1.4%	0.7%	-0.5%	1.1%	1.5%	0.0%	1.0%	0.9%	1.6%
Net Migration Gain (000's)	57	-5	10	-15	59	-2	-23	-37	-20
Retail sales (ex-auto)	-11.9%	1.6%	-14.7%	16.3%	5.4%	-17.3%	-11.9%	3.9%	5.9%
Unemployment Rate	5.3%	5.3%	4.0%	1.3%	4.2%	1.1%	7.0%	6.9%	6.3%
	Sep-20 (yr rate)	Aug-20 (yr rate)	M-o-M Change	Aug-19 (yr rate)	Y-o-Y Change	10 Year Average	2021F*	2022F*	2023F*
Tourist Numbers Growth	-97.4%	-97.4%	9.0%	-1.6%	-95.7%	-27.4%	-37.1%	10.6%	23.4%
	Oct-20 (yr rate)	Sep-20 (yr rate)	M-o-M Change	Oct-19 (yr rate)	Y-o-Y Change	10 Year Average	2021F*	2022F*	2023F*
Official Cash Rate	0.25%	0.25%	0 bps	1.0%	-75 bps	2.08%	0.25%	-0.25%	-0.25%
90 Day Bank Bill Rate	0.3%	0.3%	-3 bps	1.2%	-88 bps	2.3%	0.4%	-0.1%	-0.1%
10 Year Government Bond	0.5%	0.6%	-2 bps	1.2%	-62 bps	3.0%	1.1%	1.4%	1.7%
Floating Mortgage Rate	4.4%	4.4%	-1 bps	5.3%	-85 bps	0.0%	4.4%	3.9%	3.9%
3 Year Fixed Housing Rate	3.4%	3.5%	-12 bps	4.5%	-111 bps	5.6%	NA	NA	NA
Consumer Confidence	109	100	9%	118	-8%	119	NA	NA	NA
NZD vs US	0.66	0.67	-1%	0.63	5%	0.74	0.67	0.65	0.65
NZD vs UK	0.51	0.51	-1%	0.50	2%	0.51	0.47	0.46	0.45
NZD vs Australia	0.93	0.92	1%	0.93	0%	0.89	0.90	0.88	0.87
NZD vs Japan	70	70	-1%	68	2%	75	65	68	71
NZD vs Euro	0.56	0.57	0%	0.57	-2%	0.61	0.55	0.63	0.65

Source: NZIER, Colliers International Research

Office

Despite business disruptions caused by COVID-19, the office development sector delivered a healthy injection of supply in Auckland and saw new projects committed/ commenced in Wellington over the second half of this year.

Over 63,185 sqm of space was added in Auckland with the recent completions of the new PwC Tower, 155 Fanshawe (Kiwibank House) and 10 Madden Street (Media Design School). The three developments had a weighted average pre-commitment rate of 96% representing just under 2,500 sqm of vacant space at completion.

Underpinned by historically low availability of quality office space and strong government occupier growth, Wellington now has the largest supply pipeline. Approximately 53,483 sqm of space is currently under construction over five projects, with the earliest major project expected to complete in two years' time (2022). Refurbished and seismically strengthened stock makes up approximately 48% of the current supply pipeline, with just over 50,000 sqm of space. Notable refurbishment projects such as 7 Waterloo Quay and Mayfair Building are expected to complete early in 2021 with elevated levels of pre-commitment. In total, Wellington's current supply pipeline (under construction and under refurbishment) represents 7.3% of the current total stock.

Industrial

The Capital Goods Price Index for Q32020 shows costs for the industrial sector are still rising, which is likely to keep pricing up from a development perspective, as well as from a rental and value perspective.

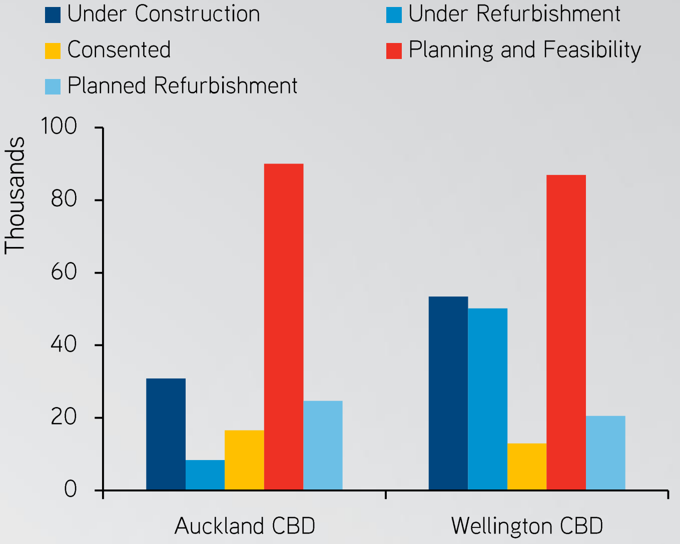
The index from Statistics New Zealand that provides information on the change in the general price level of fixed capital assets, showed costs for warehouse and factories steadily increasing since the index started in the late 1970s, all the way up to 2008. While a short period of decline followed due to the GFC, it has been increasing steadily since 2012.

Perhaps most notable is that the cost of civil construction and land improvements, according to the index, have always trended upwards, with just the rate of increase changing. While COVID-19 has provided a lot of disruption this year, there seems to be a signal that the underlying costs for growth in the industrial sector will likely continue rising.

Retail

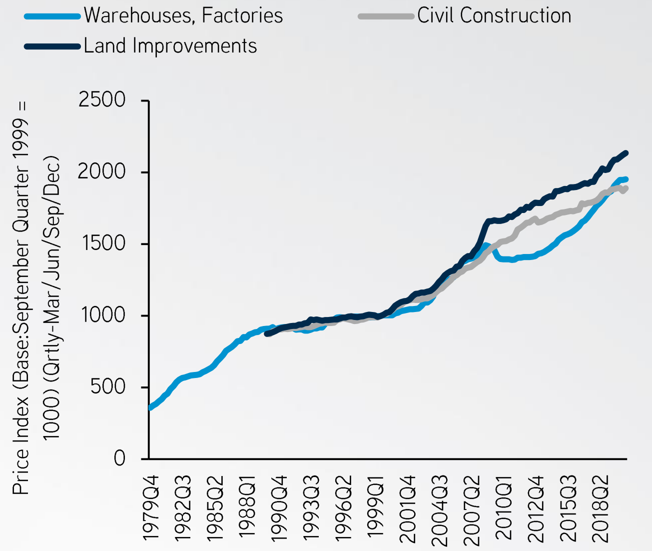
With the bump in retail spending occurring, and the potential for more positive conditions in 2021, purchasers are re-evaluating retail investment opportunities. While this remains targeted towards prime assets, and lending can be more challenging to secure than for other asset classes, purchasers are cautiously competitive. One sub-sector of note is Large Format Retail, especially in the DIY and supermarket categories, which were highly sought-after assets pre-COVID-19. The defensive characteristics, land extensive nature and typically supportive catchment fundamentals are providing the right combination of factors for prospective purchasers. This is a trend that is likely to continue.

Auckland CBD and Wellington CBD Office Development Pipeline



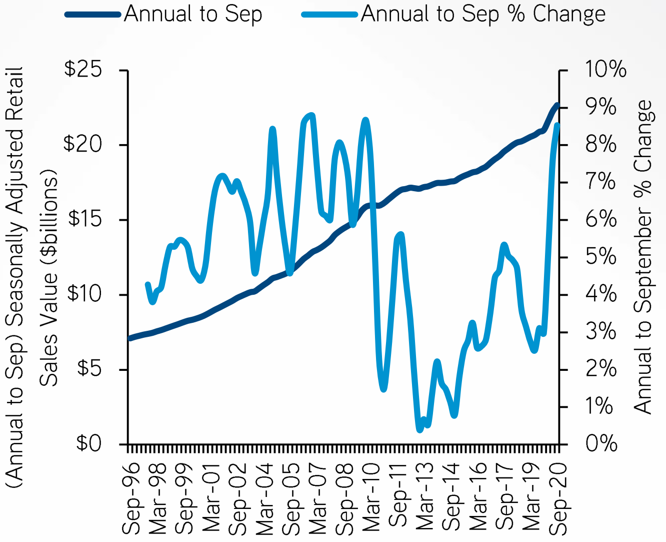
Source: Colliers International Research

Capital Goods Price Index by Item Q32020



Source: StatsNZ, Colliers International Research

Retail Spending – RTS 3Q2020



Source: StatsNZ, Colliers International Research

Recent Commercial, Industrial Property Sales

30 Apollo Drive, Rosedale
Auckland | $12,942,000 | 3.90%

49 Grayson Avenue, Manukau
Auckland | $2,727,800 | 5.28%

546 River Road, Hamilton
Waikato | $2,150,000 | 5.0%

126 Hastings Street | Napier
Hawke's Bay | $3,100,000 | 5.52%

400 Arthur Porter Drive, Burbush
Hamilton | $6,500,000

63 Maleme Street, Greerton
Tauranga | $3,045,000 | 5.5%

53 Paul Matthews Road, North Harbour
Auckland | $5,610,000 | 4.62%

26 Setters Line, Milson
Palmerston North | $3,760,350

9 Cathedral Square, Central
Christchurch | $8,100,000

For more information contact:

Chris Dibble
National Director
Colliers Partnerships, Research & Communications

Ian Little
Associate Director
Research

Adrian Goh
Analyst
Research

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