

# New Zealand Research Report

## July 2021

### COMMERCIAL AND INDUSTRIAL PROPERTY SALES ON A ROLL

The total value of commercial and industrial property transactions totalled \$8.936 billion in 2020, falling less than 12% short of 2019's total of \$10.117 billion, in what has turned out to be a strong period of sales activity. The smaller than anticipated variance reflects the sharp rebound in investor sentiment and accompanying lift in market activity apparent over the closing quarter of 2020. Analysis of 2021 data indicates the momentum has continued over the first half of 2021.

#### 2020: A volatile year

After a strong opening to 2020, sales activity unsurprisingly declined sharply in the June quarter as New Zealand entered its COVID-19 enforced lockdown. The uncertainty which surrounded the economy at the time meant that investors adopted a wait and see approach.

The latter part of the year however saw investor sentiment rebounding as the release of economic data supported projections of a 'V-shaped' recovery that was underpinned by historically low interest rates. It was, however, the final quarter of 2020 that was the standout. The total value of commercial and industrial property transacting reached \$3.222 billion, the highest fourth quarter figure recorded since 2015.

#### Momentum building for stellar 2021

Total commercial and industrial sales values for 1Q 2021 will likely be one of the highest on record. Momentum built strongly on the final quarter of 2020 with the opening quarter of 2021 reaching a provisional total sales value of \$1.731 billion. While slightly behind the Q1 2020 figure of \$1.832 billion, the gap will reduce due to data reporting lags. However, 1Q 2021 sales values have already exceeded those recorded in the opening quarter of 2019.

#### Surge in sales turnover in 2021

While the total number of sales recorded in 2020 was around 30% under the 2019 figure due to lockdowns, sales data for 1Q2021 show the market has rebounded strongly. With almost 1,000 commercial and industrial properties sold in the first quarter of 2021, this is already on par with 2019 data records, and given the data lags in reporting, will potentially prove to be a record breaker once the data is finalised.

#### Safe haven industrial assets in demand

The demand for defensive assets has driven high levels of sales activity within the industrial sector. Over 2020 the combined value of transactions reached \$4.35 billion, accounting for 48.7% of all commercial and industrial property sales. The annual transaction count of 1,700 comprised 54.4% of all sales. These results were achieved due to sales activity that accelerated in the final quarter of 2020 with \$1.777 billion of sales transacting, 38% ahead of the same quarter in 2020. Momentum has carried through to 2021 with the value of sales likely to set a new record for the first quarter of a year when complete data is available.

Activity has been underpinned by strong demand and supply fundamentals. The industrial sector has seen demand across many occupier industries strengthening over the COVID-19 period attracting high levels of investor competition. Property funds and syndicators have been prominent purchasers allowing them to bring a number of single asset syndications and multi-unit industrial funds to the market over the last year.

## Office a two-tier market

Office market indicators moved in opposite directions over 2020. Total sales value of \$1.142 billion was up \$250 million on 2019's total. The total number of transactions, however, declined by approximately a third to 360.

In the first quarter of 2021, there have been 124 sales, providing \$263.7 million in total sales. This is down on the first quarter of all but one year since 2015. Quarterly sales values though are volatile as they are heavily influenced by the timing of large-scale assets sales. Disruption to the office sector caused by the national lockdown, which forced businesses to adapt to having staff working from home and the speculation about how work practices will evolve over the long-term.

While office vacancy rates have risen in the major centres, a flight to quality is apparent. Well located, prime grade properties which provide strong occupier profiles have continued to generate high levels of investor demand. Premises which fail to meet these criteria are being viewed more cautiously.

## Retail LFR leads the way

The retail sector witnessed a decline in both the total value and volume of sales in 2020 compared with 2019. The combined value of 2020 sales totalled \$1.473 billion, down from the 2019 total of \$2.044 billion. The 2020 transaction count of 752 was down from the 1,331 recorded in 2019.

The early part of 2021, however, has seen a rebound in activity. Just over 260 sales were recorded in the first quarter of the year, up on the 2019 total of 185.

The overall figures though obscure the fact that investor appetite for some classes of retail assets remains strong. As with other assets, investors have shown a strong preference for properties that offer strong defensive qualities. As a result, demand for Large Format Retail (LFR) premises, both stand alone, and centres has been elevated. The sector has seen a strong lift in consumer spending over the last year which has underpinned tenant demand. This has seen vacancy rates holding at low levels.

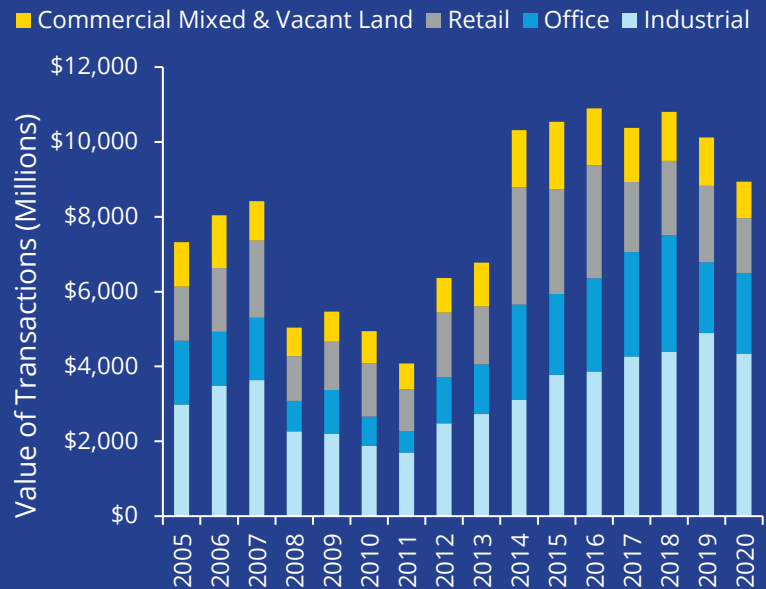
By contrast the strip retail sector faces significant headwinds with changing shopping habits and increasing competition from online retailers resulting in increasing vacancy, particularly outside of prime locations.

## Auckland's share of activity grows

Auckland continues to be a popular location for purchasers.

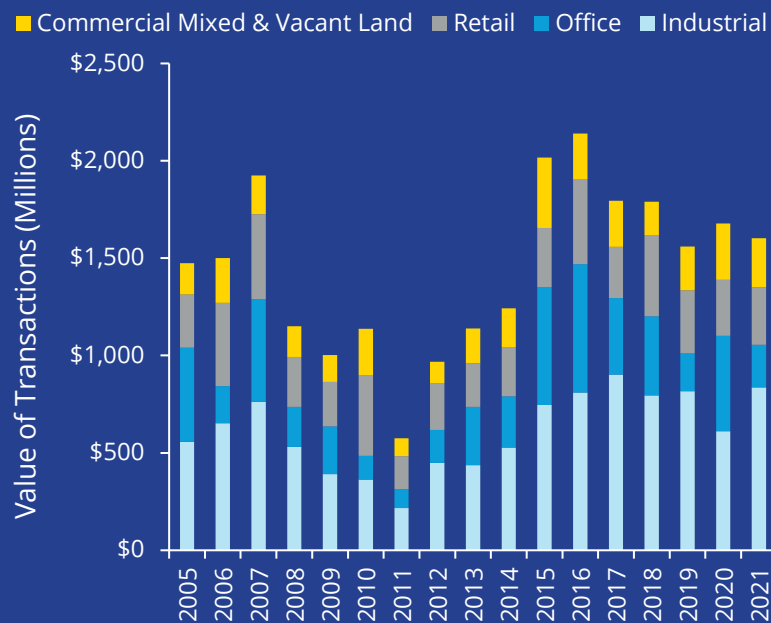
Auckland located assets comprised 34% of sales by volume over 2020, up from 30% in 2019 and 25% in 2018. With a combined sales value of nearly \$5 billion, Auckland sales accounted for 56% of the national total up from 50% in 2019

## National Sales Value by Sector (2005-2020)



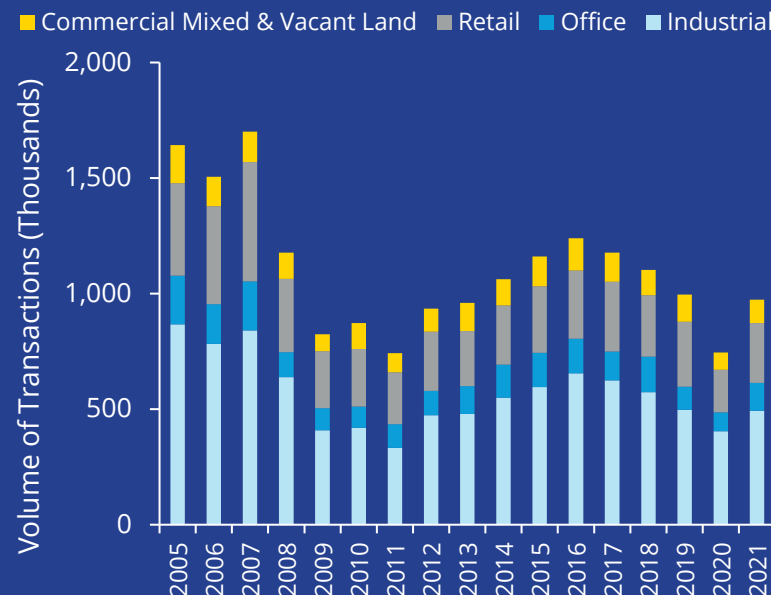
Source: Corelogic, Colliers Research

## Q1 National Sales Value by Sector (2005-2020)



Source: Corelogic, Colliers Research

## Q1 National Sales Volume by Sector (2005-2020)



Source: Corelogic, Colliers Research

Other major centres also saw significant market activity over 2020. Wellington generated sales with a combined value of \$949 million accounting for 11% of the annual total.

A total of just over 500 sales were recorded in Canterbury accounting for 16% of the national total. The region's total sales value of \$1.026 billion comprised 12% of the annual total.

The Waikato region saw high levels of activity with approximately 375 sales comprising 12% of all sales. The total value of sales recorded across the region reached just over \$638 million, approximately 7% of the national total.

## Outlook

Commercial and industrial property sales activity is likely to remain strong over 2021, and new record sales will likely be achieved. However, there are some key features of the market that will need to be carefully considered as time passes.

March quarter GDP figures provided further evidence that New Zealand's economy continues to outperform expectations. While this is a positive, increasing discussions on rising inflation, and that interest rates have potentially reached their cyclical low, will likely see some investors act more cautiously.

However, increases in interest rates will likely be incremental. This suggests a low interest rate environment for an extended period that will buoy investor activity.

A continuation in rising construction and labour costs, along with rises in land values, will also likely drive investor sentiment.

Further, the ramping up of vaccination programmes, locally and internationally, will enable a progressive relaxation of border restrictions, facilitating greater international involvement in the market. While defensive assets such as industrial and large format retail properties will remain popular, increased competition and growing confidence will likely encourage an increase in the allocation of funds to a wider range of assets and locations.

### New Zealand Key Economic Indicators – June 2021

	Mar-21	Dec-20	Q-o-Q	Mar-21	Mar-20	Y-o-Y	March Quarter		
	(vs. previous quarter)	(vs. previous quarter)	Change	Vs Mar-20	vs. Mar-19	Change	2022F	2023F	2024F
GDP	1.6%	-1.0%	-14.8%	2.4%	0.0%	2.4%	2.8%	3.4%	3.8%
Current Account (% of GDP)	NA	NA	NA	-2.2%	-2.8%	0.6%	-8.7%	-9.5%	-9.7%
Retail Sales (ex-auto)	2.5%	-1.8%	4.3%	7.0%	4.0%	3.0%	7.0%	3.8%	4.6%
CPI Inflation	0.8%	0.5%	-0.3%	1.5%	2.5%	-1.0%	1.9%	1.7%	2.0%
Net Migration Change (000's)	1	1	0	7	90	-84	7	14	23

	Mar-21	Dec-21	Q-o-Q	Average Year To	Y-o-Y	10 Year	March Quarter		
			Change	Mar-21	Mar-20		Change	2022F	2022F
Unemployment Rate	4.7%	4.9%	-0.2%	4.7%	4.1%	0.6%	4.2%	3.9%	3.7%

	Apr-21	Mar-21	M-o-M	Apr-20	Y-o-Y	10 Year	March Quarter		
			Change	(yr rate)	Change	Average	2022F	2023F	2024F
Tourist Numbers Growth	1755.4%	1755.4%	588.3%	-99.3%	1854.7%	-17%	-57.9%	0.0%	11.0%

	May-21	Apr-21	M-o-M	May-20	Y-o-Y	10-Year	March		
			Change		Change	Average	2022F	2023F	2024F
Official Cash Rate	0.25%	0.25%	0 bps	0.3%	0 bps	1.99%	0.25%	0.25%	0.25%
90 Day Bank Bill Rate	0.35%	0.30%	1 bps	0.3%	9 bps	2.1%	0.4%	0.4%	0.4%
10 Year Government Bond	1.8%	1.7%	13 bps	0.6%	117 bps	2.9%	1.5%	1.9%	2.1%
Floating Mortgage Rate	0.04%	0.04%	-1 bps	4.5%	-13 bps	5.7%	4.5%	4.5%	4.5%
3 Year Fixed Housing Rate	3.4%	3.4%	2 bps	4.1%	-69 bps	5.4%	NA	NA	NA
Consumer Confidence	114	115	-1%	97	17%	119	NA	NA	NA
NZD vs:									
US	0.73	0.72	1%	0.61	20%	0.73	0.69	0.67	0.66
UK	0.53	0.52	0%	0.49	6%	0.51	0.50	0.47	0.45
Australia	0.93	0.93	0%	0.93	-1%	0.90	0.90	0.88	0.86
Japan	76	76	0%	65	17%	76	71	71	71
Euro	0.59	0.60	0%	0.56	7%	0.61	0.61	0.63	0.65

# Recent Transactions



92 Beachcroft Place, Onehunga

Auckland Region | \$10,075,000 | 5.17%



20-28 Duke Street, Hamilton

Waikato Region | \$23,750,000 | 4.54%



2-12 Titirangi Road, New Lynn

Auckland Region | \$55,570,000



1404 Omaha Road, Hawke's Bay

Hawke's Bay Region | \$4,300,000 | 6.00%



2 Parkhead Place, North Harbour

Auckland Region | \$6,850,000 | 4.43%



149 Totara Street, Mount Maunganui

Bay of Plenty Region | \$2,270,000 | 2.15%



133C Central Parl Drive, Henderson

Auckland Region | \$2,835,000 | 5.29%



Unit 13, 23 Roxanne Place, Tauranga

Bay of Plenty Region | \$1,140,000



102 Birch Avenue, Judea

Tauranga Region | \$2,830,000 | 4.60%

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