

# NEW ZEALAND RESEARCH REPORT

November 2019

## What our latest survey results mean for 2020

We have recently completed two of our largest occupier surveys covering the Auckland Industrial and Auckland Metropolitan office markets. We review the results to showcase potential opportunities ahead in 2020.

**Auckland Industrial** - The latest Auckland industrial vacancy survey shows leasing conditions remain tight. However, there is a glimpse of opportunity for some tenants searching for new premises to occupy that could assist with their 2020 planning.

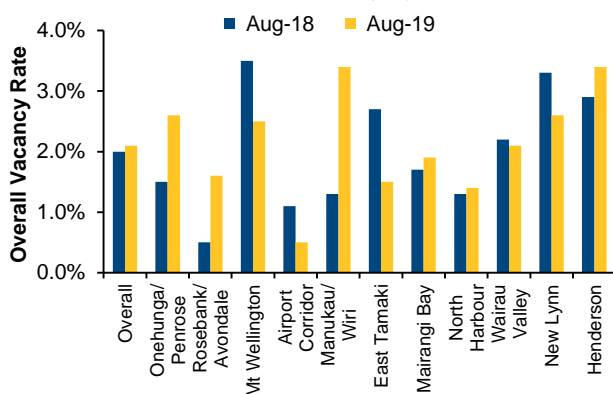
The overall Auckland industrial vacancy rate remained at a low of 2.1%, below the decade average of 3.3%, but up slightly in the past year. When we look into the overall results further, some options have become available within the secondary sector, with the vacancy rate increasing to 2.3% from 1.5% at the beginning of the year. There are also situations where some of the secondary premises that have become vacant show signs of 'stickiness', not leasing up within normal expected timeframes. We will wait to see if this becomes an ongoing trend.

However, in the higher-quality end of the market, it remains tight. Solid levels of leasing and expansion activity combined with a considered supply response has pushed prime vacancy to a low 1.5%, down from 2.0% a year ago. Tenants looking for higher quality space will need to time their move and consider their options well in advance. It may also be prudent to consider relocation as an alternative means to securing space.

Location continues to play a significant role when it comes to tenant opportunities. With less than 1% vacancy in the Airport Corridor, finding any quality of existing space is challenging, however, design-build could be an option for some. East Tamaki, which comprises 20% of total Auckland industrial space, has a vacancy rate of 1.5%. Spec-building has risen, but demand has seen strong pre-leasing activity. The more traditional industrial precinct of Onehunga/ Penrose, which accounts for 18% of total supply, has a vacancy rate of 2.6%, still low, but up slightly and this is almost 60,000 sqm of available space, one of the largest on offer in any one precinct. For those looking for higher quality space, Manukau/Wiri is where the most prime vacant space is available at the moment.

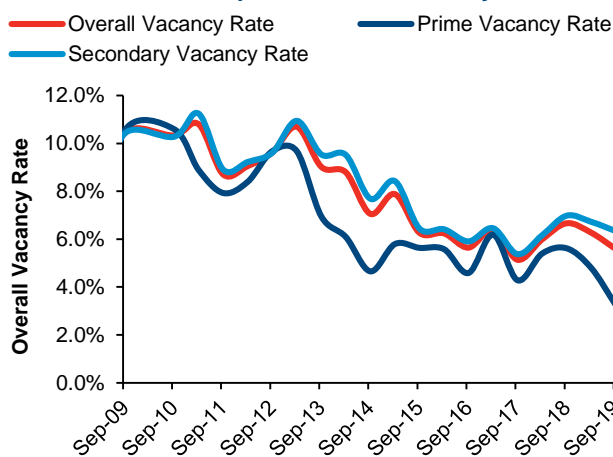
The first chart shows market conditions for tenants in other locations... (continued on page 3).

**Auckland Industrial Vacancy by Precinct**



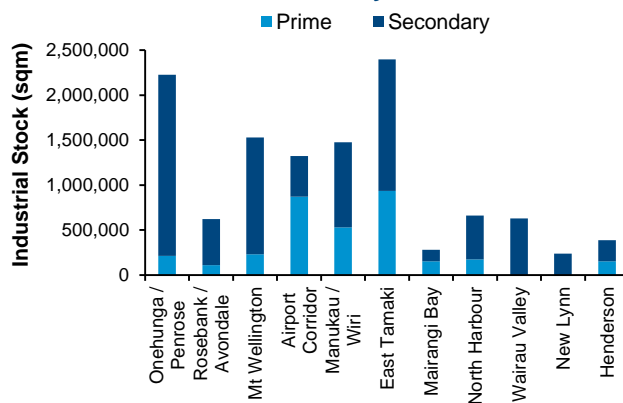
Source: Colliers International Research

**Auckland Metropolitan Office Vacancy Rate**



Source: Colliers International Research

**Auckland Industrial Stock by Precinct**



Source: Colliers International Research

**Auckland Metropolitan Office** - The latest Auckland metropolitan office survey shows an overall vacancy rate of 5.6%, the lowest in a decade. This showcases current leasing conditions in the office sector remains tight, but some larger office vacancies that will become available over the next 12-24 months may assist some tenants.

Covering over 1.7 million sqm of office space outside of the CBD, there is now less than 100,000 sqm of space available for tenants to consider. The prime vacancy rate is at 3.3%, a record low. The secondary vacancy rate is at a more manageable 6.3%, however, this is still quite low in comparison to previous surveys in the past decade.

What we do know is that there are a number of larger occupiers on the move that could help ease the imbalance. The recently announced move of Genesis to Mansons TCLM's 155 Fanshawe St development in Wynyard Quarter is one example. Some landlords may consider breaking up the space vacated into smaller tenancies to assist with leasing activity, which is where a significant amount of tenant demand lies for existing non-CBD space.

The middle chart on Page 1 shows there are differing demand dynamics by different precincts. (continued on page 3),

## Indicative Commercial Lending Rates

Commercial Interest Rate Guide	
Date	3 Year Term (Indicative Borrowing Rate)
Nov-18	4.62%
Dec-18	4.71%
Jan-19	4.47%
Feb-19	4.45%
Mar-19	4.47%
Apr-19	4.15%
May-19	4.06%
Jun-19	4.51%
Jul-19	4.41%
Aug-19	4.30%
Sep-19	3.95%
Oct-19	3.90%
Nov-19	4.05%

Source: ANZ, 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 – November 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%
Retail Sales (Ex-auto)	3.9%	0.7%	0.2%	0.4%	4.3%	-0.5%	3.6%	4.6%	4.6%
Unemployment Rate	4.1%	3.9%	4.2%	-0.3%	4.5%	-0.4%	3.9%	3.9%	3.9%
	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)	47	9	11	-1	49	-2	35	24	24
	Aug-19 (yr rate)	Jul-19 (yr rate)	M-o-M Change	Aug-18 (yr rate)	Y-o-Y Change	10 Year Average	2020F*	2021F*	2022F*
Tourist Numbers Growth	2.4%	2.4%	1.3%	2.3%	0.1%	4.5%	4.5%	4.0%	4.7%
	Sep-19 (yr rate)	Aug-19 (yr rate)	M-o-M Change	Sep-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%	0.75%	0.75%	0.75%
90 Day Bank Bill Rate	1.2%	1.3%	-10 bps	1.9%	-75 bps	2.5%	1.0%	0.9%	0.9%
10 Year Government Bond	1.2%	1.1%	3 bps	2.6%	-144 bps	3.5%	2.3%	2.4%	2.4%
Floating Mortgage Rate	5.3%	5.3%	0 bps	5.9%	-59 bps	6.0%	5.0%	4.9%	4.9%
3 Year Fixed Housing Rate	4.6%	4.7%	-7 bps	5.1%	-49 bps	6.0%	NA	NA	NA
Consumer Confidence	114	118	-4%	118	-3%	120	NA	NA	NA
NZD vs US	0.63	0.64	-1%	0.66	-4%	0.75	0.65	0.65	0.65
NZD vs UK	0.51	0.53	-3%	0.51	2%	0.50	0.49	0.47	0.47
NZD vs Australia	0.93	0.95	-2%	0.92	2%	0.87	0.89	0.86	0.86
NZD vs Japan	68	68	0%	74	-8%	75	73	73	73
NZD vs Euro	0.58	0.58	0%	0.57	2%	0.60	0.60	0.62	0.62

Source: NZIER, Colliers International Research

\*March year forecast

## Office

(continued from page 1)... In the City Fringe, where 40% of total non-CBD office supply is located, the vacancy rate has edged down further with just 40,000 sqm of available space at the moment. This is a similar trend across most precincts, with the exception being Auckland's third largest non-CBD office precinct, central Auckland, that includes Greenlane's Southern Corridor and Mt Wellington/Penrose. The vacancy rate here is at 7.2%, which is one of the highest rates, and has also been relatively flat over the past 24 months. With additional pockets of office space becoming available in the area due to upcoming tenant moves, this could signal some opportunity for tenants searching for space. It may also assist with tenant negotiations in securing the best deal.

From an investment perspective, there are many positives. Generally, underlying tenant demand fundamentals alongside the low interest rate within an economy that is still experiencing solid growth and low unemployment has kept investor activity buoyant. Given current market conditions and little forecast change to the upside or downside over the next 12 months, we expect investment conditions to remain steady over 2020. We will release our second half of 2019 Auckland Metropolitan Office Essentials research report in the next few weeks for more information.

## Industrial

(continued from page 1)...It also shows market conditions for investors. As noted in the latest [Colliers International Australasian Research Forecast Report \(RFR\)](#), investors remain confident and conditions remain competitive.

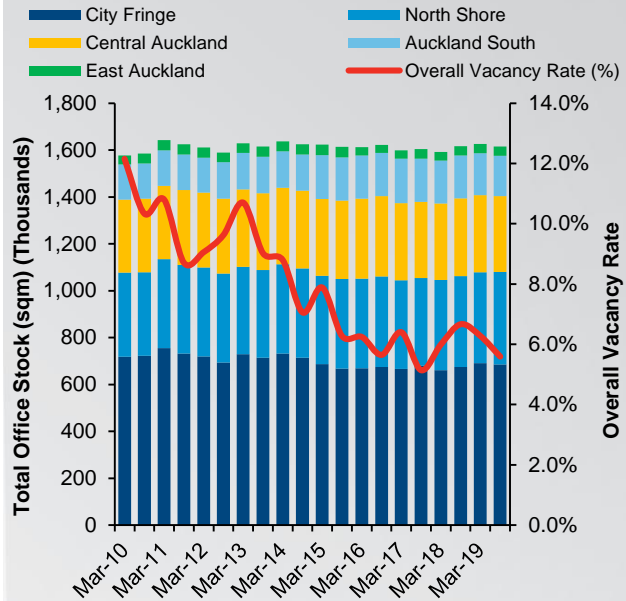
The 3Q 2019 Colliers International investor confidence survey found the Auckland industrial sector to achieve a net positive (optimists minus pessimists) score of 70 per cent, the highest recorded since Q2 2016. Over the past three years, the industrial sector has consistently achieved the highest confidence scores. A breakdown of our latest investor confidence survey results for the main centres is shown in the accompanying chart. For more information on the industrial sector's solid market outlook for 2020, the full report can be found [here](#).

## Retail

Our analysis of commercial and industrial sales data shows purchasing interest remains strong for retail assets, with just under 30 per cent of all 2019 transactions in the retail sector. This has been growing gradually year-on-year, signalling the sectors prominence in the market. In Auckland, investors are strategically accepting sub-5 per cent yields to secure their positions in highly sought-after retail precincts such as Parnell, Ponsonby and Takapuna.

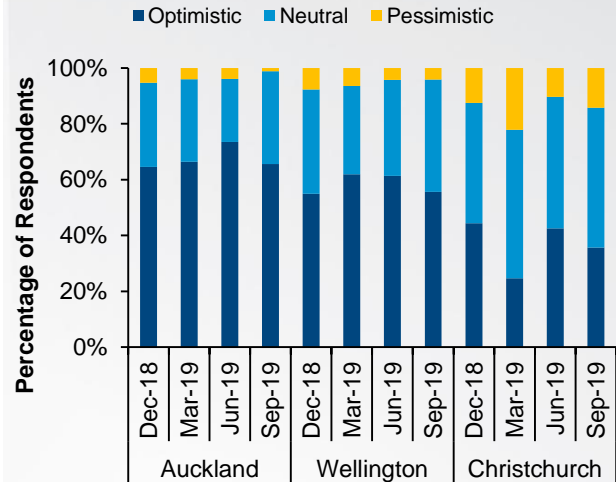
Provisional data suggests \$921 million dollars' worth of assets have been transacted in 2019 so far. The recent marketing of the NZ\$350 million plus portfolio of three prominent retail properties across New Zealand owned by Lend Lease, could lift sales well into the billion dollar mark.

### Auckland Metro Office Supply by Precinct



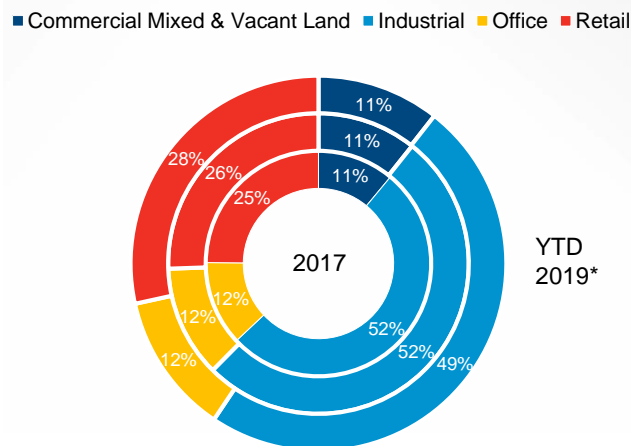
Source: Colliers International Research

### Industrial Investor Confidence Breakdown



Source: Colliers International Research

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



\*Provisional

Source: CoreLogic, 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



126 Lambton Quay, Wellington  
Wellington | \$15,000,000 |



5 Nelson Street, Auckland CBD  
Auckland | \$9,500,000 | 5.0%



20 – 22 Anvil Road, Silverdale  
Auckland | \$4,375,000 | 5.3%

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