Fork in the road for industrial and office market dynamics

Results of two major vacancy surveys show a softening of market conditions within both the Auckland industrial and metropolitan office markets. From here though, trends look likely to diverge. Strong leasing demand indicates that vacancy rates in the industrial market are at, or close to peaking, while a combination of tenant movements, contraction and adoption of flexible working options will see metropolitan office vacancy rates rising over the year ahead.

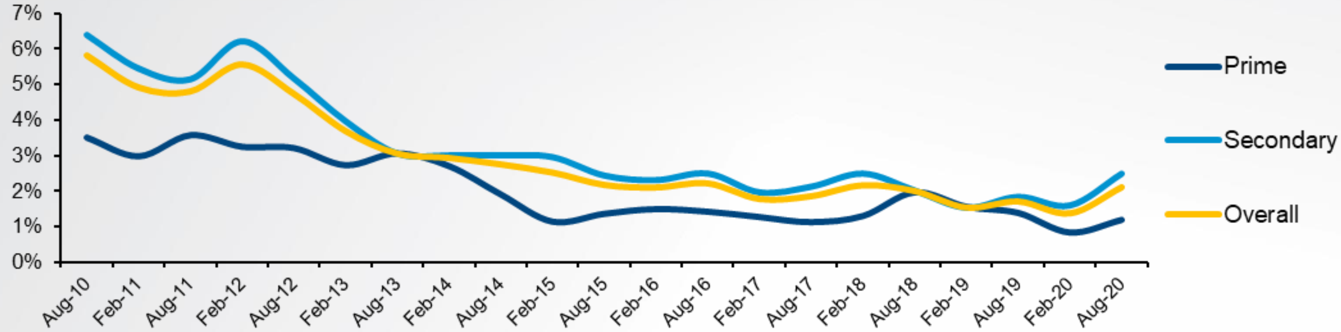
Industrial vacancy rises but probably at peak…

Despite COVID-19 enforced lockdowns and the resultant downturn in the economy, increases in vacancy rates across Auckland's industrial precincts have been limited and look to be at, or close to, peak levels. Overall vacancy edged up over the six months to August 2020 rising to 2.1% from the 1.4% recorded in February, equating to an additional 90,850 sq m of stock becoming available for lease. Over the same period, a total floor area of 67,135 sq m was added to the survey . Despite the increase in vacancy, the current rate continues to sit below the ten-year average of 2.1%. Of the 13 precincts surveyed, vacancy increased in nine. In the city's largest precinct, East Tamaki, vacancy increased to 1.7% from 1.2% in February. In Mount Wellington, vacancy increased to 2.2% from 1.3%, while within the Airport corridor vacancy was steady, holding at just under 0.5%. Vacancy within the prime grade sector of the market remains very low at 1.2%, unchanged since February, while secondary space has seen vacancy increase from 1.6% to 2.5%. Prospects for further increases in the regional vacancy rate appear limited with agency reports advising that leasing demand is strong across a wide range of industry sectors.
(CONT. Page 3)

Investors and owner occupiers compete for a limited number of assets

Economic stimulation packages launched by governments and central banks across the globe, to combat the economic damage caused by the COVID-19 pandemic, has driven interest rates to historic lows, a position that is likely to persist for an extended period. This has led to increased appetite for higher yielding investment assets, particularly for those that present strong defensive qualities. As a result, competition for industrial property has increased with high net worth individuals, property companies and syndicators all active in the market. Low interest rates have also resulted in business owners taking opportunities to purchase the buildings they occupy, insulating themselves against increasing rents while benefitting from future capital gain. The latter trend runs contrary to that which was widely expected during the national lockdown in the early part of the year. At that stage it was anticipated that the market would see a sharp increase in sale and leaseback offerings. Given the resilience of the industrial sector and the shift in market dynamics driven by record low interest rates, the market is now being constrained by a shortage of stock, with property owners needing a compelling reason to sell.

Auckland Industrial Vacancy Rate



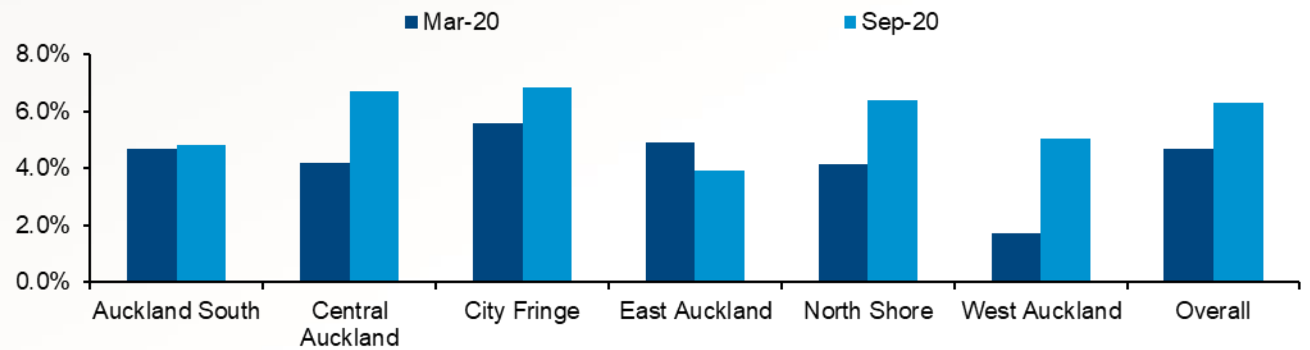
Metro Office vacancy on the rise

The six-month period to September 2020 has seen a rise in vacancy, reversing a trend which had seen the vacancy rate fall to below 5% for the first time in the history of Colliers' survey. Overall vacancy rose from the February reading of 4.7% to 6.3% equating to an increase of 28,120 sq m. Total vacant space available is now 108,970 sq m. The latest survey also highlighted prime vacancy increased from the 2.0% registered in March to 3.3% in September while, over the same period, vacancy across the secondary grade increased to 7.3% from 5.5%. The easing of market conditions is evident across all city fringe and metropolitan precincts, with the exception of East Auckland, the smallest of those surveyed, comprising Botany, Howick and East Tamaki. Overall vacancy across the CBD fringe precincts, which comprise 40% of the metropolitan market, increased by 120 basis points to 6.8% similar to the North Shore's primary office markets which recorded a combined vacancy of 6.4%. In the southern part of the city, conditions remained tight within Manukau's CBD where just 1.7% of total stock was vacant.

Tenancy moves and sublease space add to total

The financial impact of COVID-19 has resulted in a number of companies seeing their office space requirements reducing via a reduction in employee counts or a move to more flexible working practices. This has seen them making space available to the market. Significant offerings of over 1,000 sq m have introduced over 5,500 sq m of space to the market.. (CONT. Page 3)

Auckland Metropolitan Office Vacancy by Precinct



Central Auckland Includes: Mt Wellington – Penrose and Southern Corridor

City Fringe Includes: Grafton, K'Road, Newmarket, Newton, Parnell and Ponsonby-Freemans Bay

New Zealand Key Economic Indicators – November 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%
	Aug-20 (yr rate)	Jul-20 (yr rate)	M-o-M Change	Aug-19 (yr rate)	Y-o-Y Change	10 Year Average	2021F*	2022F*	2023F*
Tourist Numbers Growth	-97.6%	-97.6%	104.7%	2.2%	-99.8%	-28.1%	-68.7%	2.0%	14.2%
	Sep-20 (yr rate)	Aug-20 (yr rate)	M-o-M Change	Sep-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	2.10%	0.25%	-0.25%	-0.25%
90 Day Bank Bill Rate	0.3%	0.3%	1 bps	1.2%	-85 bps	2.3%	0.4%	-0.1%	-0.1%
10 Year Government Bond	0.6%	0.7%	-12 bps	1.2%	-60 bps	3.0%	1.1%	1.4%	1.7%
Floating Mortgage Rate	0.0%	4.4%	-443 bps	5.3%	-526 bps	5.8%	4.4%	3.9%	3.9%
3 Year Fixed Housing Rate	3.5%	3.6%	-9 bps	4.6%	-111 bps	5.7%	NA	NA	NA
Consumer Confidence	100	100	0%	114	-12%	119	NA	NA	NA
NZD vs US	0.67	0.66	1%	0.63	5%	0.74	0.65	0.65	0.65
NZD vs UK	0.51	0.50	2%	0.51	0%	0.51	0.47	0.46	0.45
NZD vs Australia	0.92	0.92	1%	0.93	-1%	0.89	0.90	0.87	0.85
NZD vs Japan	70	70	1%	68	3%	75	65	68	71
NZD vs Euro	0.57	0.56	1%	0.58	-2%	0.61	0.55	0.63	0.65

Source: NZIER, Colliers International Research

Office (CONT. from Page 2)

Tenant movements will also bring additional space to market within the metropolitan markets over the year ahead. The completion of 136 and 155 Fanshawe Street will see companies such as 2 Degrees and Fidelity Life moving staff from their current premises to the CBD's Wynyard Quarter releasing over 10,000 sq m of space in the Newmarket and Grafton precincts.

Investors looking at longer term fundamentals

Investors continue to look through the disruption to office occupier conditions caused by COVID-19 with strong levels of interest for well-located properties with strong tenant fundamentals. By way of example, 22 Amersham Way, Manukau recently sold for $11.0 million reflecting a yield of 6.44% while 15 Lambie Drive sold to a private investor for $12.0 million equating to a yield of 6.1%.

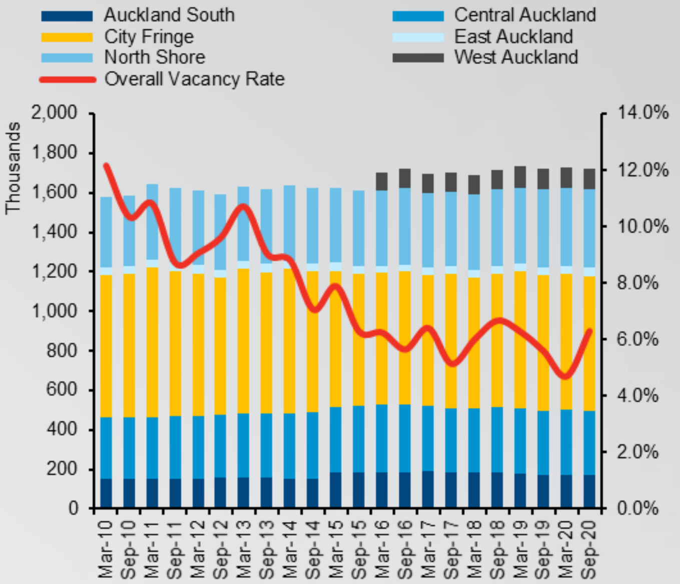
Industrial

Building consent data, recently released by Statistics New Zealand, provides a vivid illustration of the confidence which developers have in the future prospects for the industrial sector. The value of building consents for industrial sector activity issued in September was at a record high for both the Auckland region and the remainder of New Zealand. In the case of Auckland, the value of consents, which had reached a record of $115 million in August, surpassed $119 million in September. The combined value of the last two months exceeded that of the previous six months combined. Nationally, September saw consents to the value of $210 million being issued, surpassing the previous record of $200 million recorded in March of 2018. Total floor space of 223,200 sq m for the months of August and September was the highest two monthly total recorded since May 2019.The surge in consent issuance over the last two months has lifted rolling annual totals to new record levels. The Auckland region has seen just short of $615 million worth of new development given the green light over the 12 months to September while nationally the figure has topped $1.5 billion for the first time.

Retail

A rebound in consumer confidence and a more positive outlook for the future is becoming apparent as illustrated by the results of the latest ANZ – Roy Morgan Consumer Confidence survey. The index rose by nine-points in October to 108.7. The rebound is a welcomed indicator and marks the highest confidence level registered since the initial level 4 lockdown in March, albeit still below the historical average of 120.0. When asked about respondent's current financial situation compared to last year, a net 5.5% indicated they are better off, an improvement after three months of consecutive declines. More respondents also believe now is a good time to purchase a major household item, the first positive result since June. Confidence on the outlook is also improving with a net 28% (up 6 points) of respondents believing they will be better off financially this time next year.

Auckland Metropolitan Office Stock by Precinct



Industrial Building Consents by Value (Annual to Sep)

Source: StatsNZ, Colliers International Research

ANZ – Roy Morgan Consumer Confidence

Source: ANZ- Roy Morgan Consumer Confidence

Recent Commercial, Industrial Property Sales

8-14 Mt Richmond Drive &
2 Doraval Place
Auckland | $70,000,000

88 Fred Taylor Drive, Westgate
Auckland | $40,000,000

157 Lincoln Road, Henderson
Auckland | $3,400,000

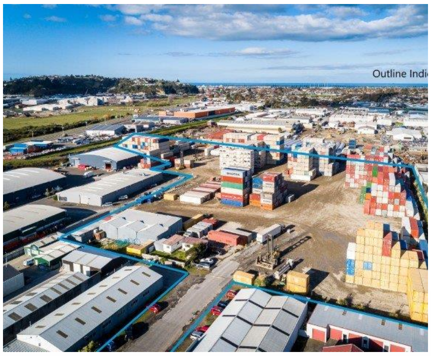
103 Glenda Drive, Frankton
Queenstown | $1,935,000

4 Ellis Street, Frankton
Hamilton | $1,950,000

60D Clarence Street, Hamilton Lake
Hamilton | $1,615,000

13 Gladstone Road, Mosgiel
Dunedin | $1,589,000

5 Te Koha Road, Botany Downs
Auckland | $6,420,000



96 Austin Street, Napier
Hawke's Bay | $6,200,000 | 3.68%

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