



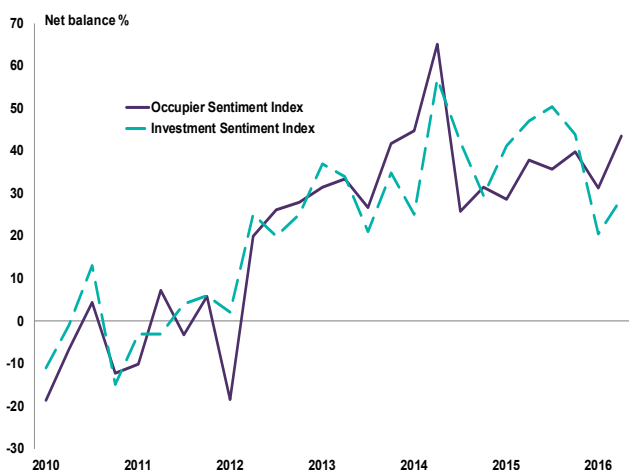
Q1 2017: New Zealand Commercial Property Monitor

Sentiment remains firmly positive despite valuation concerns

Occupier Market

- The Q1 2017 results show a significant majority of respondents reporting an increase (rather than a decrease) in occupier demand. This is the seventeenth consecutive quarter in which this series has produced a positive reading (in net balance terms). Strength was spread relatively evenly across all three sectors (office, industrial, retail).
- Contributors reported a modest pullback in aggregate leaseable space in Q1, though this was mainly driven by the industrial sector.
- The mix of robust demand and tighter supply appears to have continued to push down landlord incentives. A net balance of 36% of respondents reported headline inducements decreased in Q1.
- Three-month rent expectations remained robust, as a net balance of 43% of respondents see rents increasing over the next quarter. At the twelve month time horizon, the positive net balance reading climbed to 65% with particularly solid increases envisaged in prime industrial and office space.
- The Occupier Sentiment Index (an amalgamated measure of three occupier market indicators) rose to +44 in Q1 from +31 in Q4. This signals positive momentum in the occupier market.

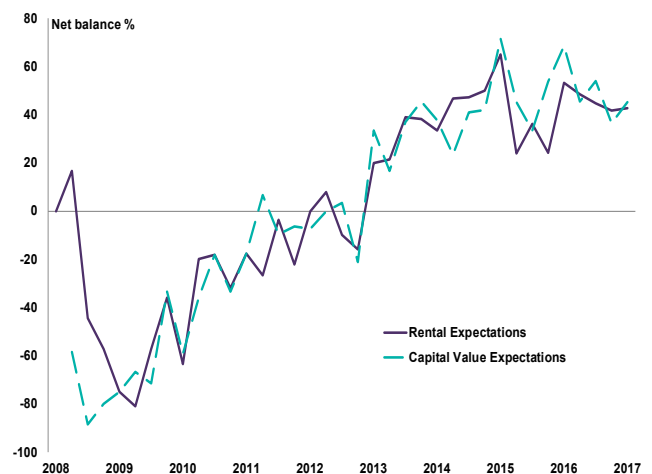
Occupier and Investment Sentiment Index



Investment Market

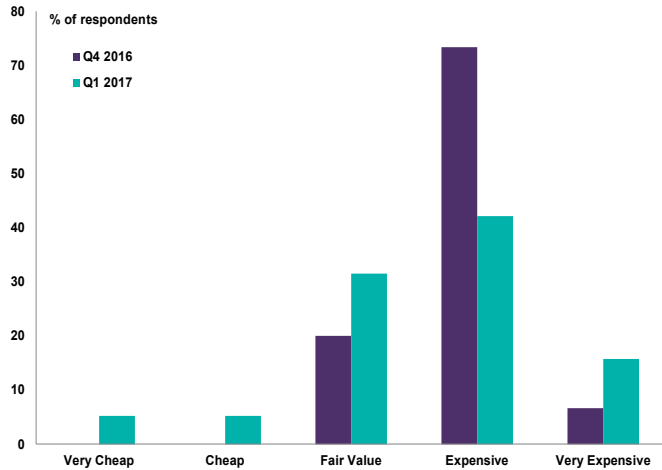
- The Q1 2017 data shows that the pace of the increase in headline investor demand (measured in net balance terms) remained stable across all segments of the market. This was true for both domestic and foreign enquiries.
- The supply of properties available for sale moderated slightly at a headline level, but remained relatively flat. The office segment did report some supply tightness, with a net balance of 21% of contributors reporting a decrease in office properties available for sale.
- Capital value expectations remain solidly positive over the twelve month time horizon with prime industrial and office space projected to outperform. However there is some evidence of medium term concerns building as reflected in the three year forecast for capital values. Although the headline reading for this series is still comfortably in positive territory, it has moderated in recent quarters.
- Consistent with this is the increase in the proportion of respondents who perceive the market to now be at the peak phase of the cycle. This climbed to 80% in Q1 from around 70% in the two preceding quarters..
- The Investor Sentiment Index (an amalgamated measure of three investment market indicators) increased to +29 in Q1 from +20 in Q4.

3-month Rental and Capital Value Expectations

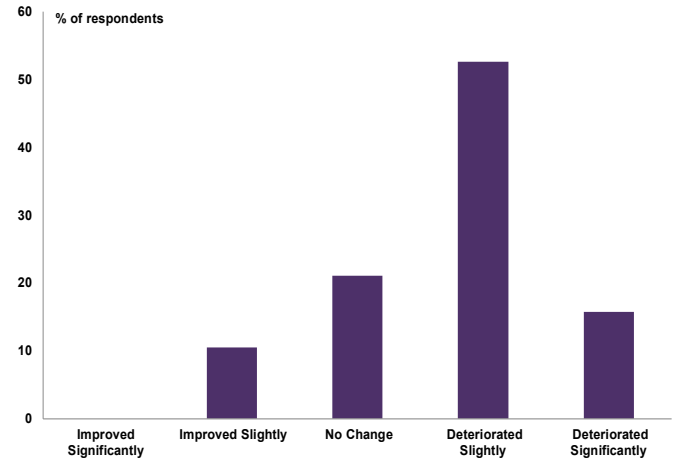


Commercial Property Market

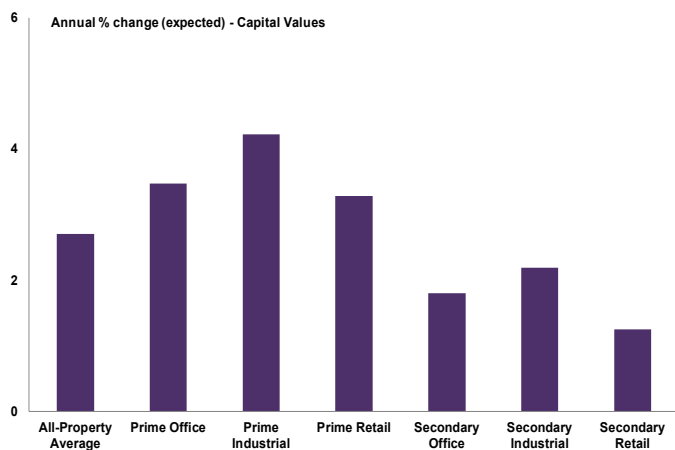
Market Valuations - The majority (58%) of respondents continue to perceive property to above fair value to some degree, though this is significantly below the 80% that saw valuations as expensive in Q4.



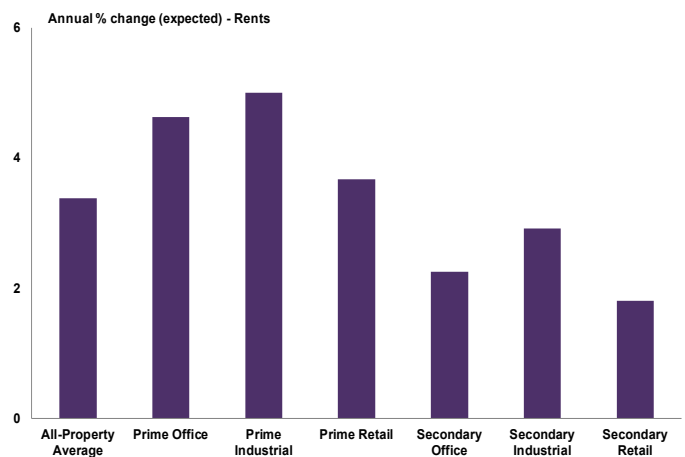
Credit Conditions - The majority of respondents who saw some deterioration in credit conditions increased from 51% in Q4 to 69% in Q1. Note that the Reserve Bank of New Zealand highlighted concerns surrounding credit to the commercial property sector in its last Financial Stability Report.



12m Capital Value Expectations - Headline capital values are expected to increase 2.7% in the next year, unchanged from Q4. Although forecasts for prime space were revised modestly higher across all sectors, it was offset by softer forecasts for secondary space.



12m Rental Expectations - Rent expectations were pared slightly in Q1. They are now expected to increase 3.4% over the next twelve months, down from the 4.3% increase predicted last quarter. The downgrading of forecasts was most noticeable in the retail sector. Prime retail rents are seen up 3.7% in the next year (vs 5.6% forecast in Q4) with secondary is seen up 1.8% (vs 3.8% in Q4).



Information

Global Commercial Property Monitor

RICS' Global Commercial Property Monitor is a quarterly guide to the trends in the commercial property investment and occupier markets. The report is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity and the rural land market.

Methodology

Survey questionnaires were sent out on 14 March 2017 with responses received until 7 April 2017. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 1699 company responses were received, with 362 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland.

Responses have been amalgamated across the three real estate sub-sectors (offices, retail and industrial) at a country level, to form a net balance reading for the market as a whole.

Net balance = Proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100.

A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline. The RICS Occupier Sentiment Index (OSI) is constructed by taking an unweighted average of readings for three series relating to the occupier market measured on a net balance basis; occupier demand, the level of inducements and rent expectations. The RICS Investment Sentiment Index (ISI) is constructed by taking an unweighted average of readings for three series relating to the investment market measured on a net balance basis; investment enquiries, capital value expectations and the supply of properties for sale.

Contact details

This publication has been produced by RICS. For all economic enquiries, including participation in the monitor please contact: economics@rics.org

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We believe that standards underpin effective markets. With up to seventy per cent of the world's wealth bound up in land and real estate, our sector is vital to economic development, helping to support stable, sustainable investment and growth around the globe.

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