



## Q2 2017: New Zealand Commercial Property Monitor

# Sentiment remains positive though valuations are a concern as credit conditions deteriorate

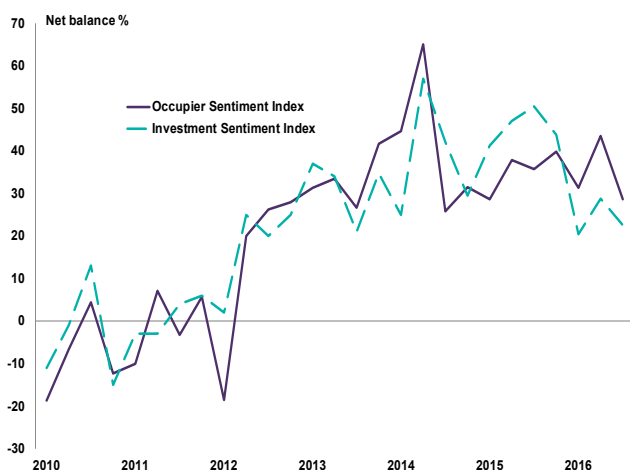
### Occupier Market

- The Q2 2017 results show more 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). Although all three segments continued to show an increase in demand, positive momentum in the office and retail segments paled slightly.
- Supply of leaseable space was flat in Q2, though respondents reported a modest increase in retail space. Meanwhile, landlord incentives were flat across all market segments. Rent free periods remain the most popular incentive offered by landlords.
- Respondents reported a net increase in new development starts for the sixteenth consecutive quarter. The strength was spread evenly over all three market segments.
- Three-month rent expectations remained robust, as a net balance of 40% of respondents see rents increasing over the next quarter. The net balance for twelve months ahead eased slightly, but remained firmly in positive territory.
- The Occupier Sentiment Index moderated to +29 in Q2 from +44 in Q1, but remained in positive territory for the eighteenth consecutive quarter.

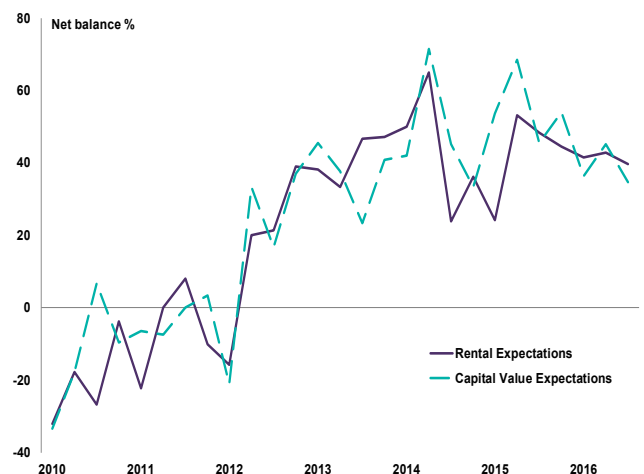
### Investment Market

- The Q2 2017 data shows the pace growth in headline investor demand (measured in net balance terms) quickened modestly across all segments of the market. Foreign enquiries also increased across all segments, but were slightly more nuanced.
- The supply of properties available for sale remained relatively flat at the headline level. A slight majority of respondents reported an increase in retail properties available for sale.
- Capital value expectations remained positive for both the three and twelve month time horizons. However, the positive net balance for the retail segment continued to trail that of the office and industrial segments.
- A majority of respondents, 78%, see the market at its peak, little changed from the 80% of respondents who held the same view in Q1. Meanwhile, 17% of respondents still see the market in some stage of an upturn, the lowest in more than eight quarters.
- The Investor Sentiment Index (an amalgamated measure of three investment market indicators) eased modestly to +22 in Q1 from +29 in Q4. This indicates positive momentum in the investment market for the twenty-first consecutive quarter.

### Occupier and Investment Sentiment Index



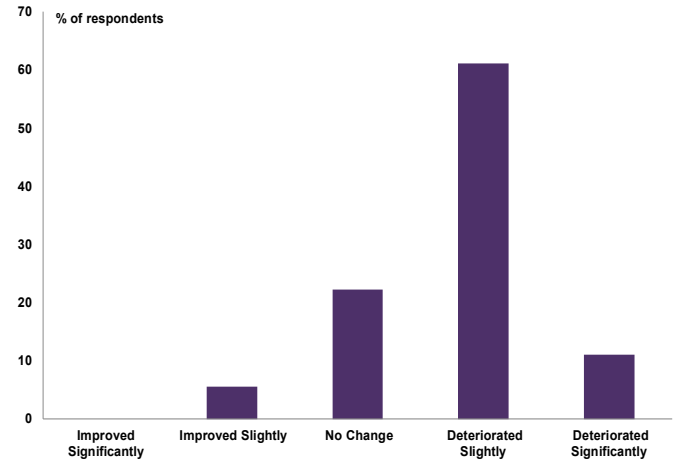
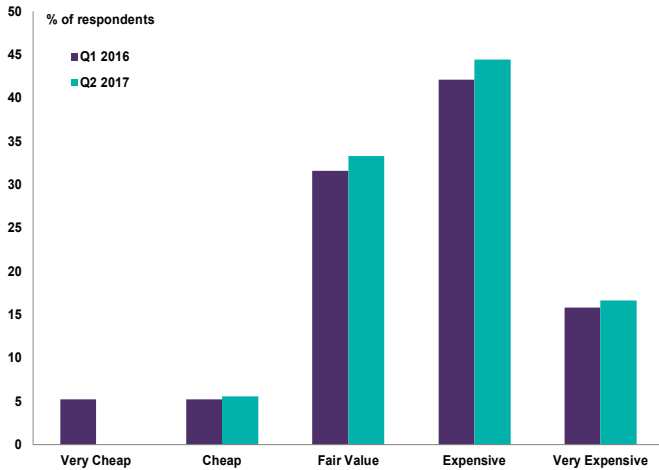
### 3-month Rental and Capital Value Expectations



# Commercial Property Market

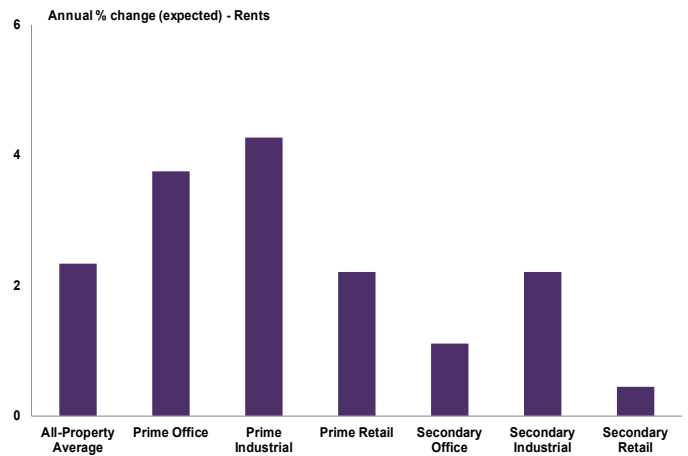
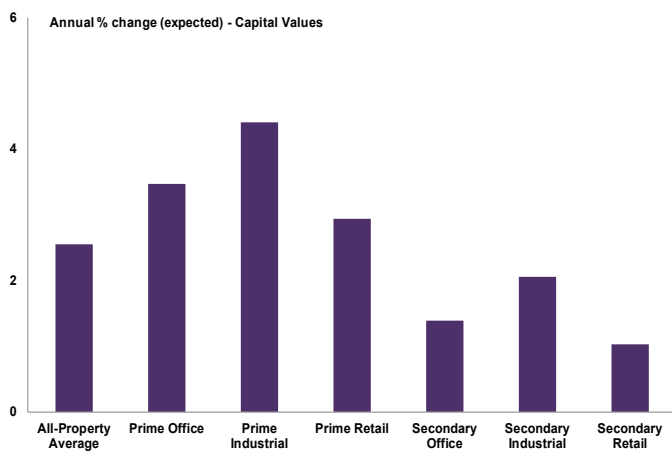
**Market Valuations** - The majority (61%) of respondents continue to perceive property to above fair value to some degree, little changed from the prior quarter. Only 6% of respondents see valuations below fair value, down from 10% the previous quarter.

**Credit Conditions** - The majority of respondents (72%) saw some degree of deterioration in credit conditions. This was the second consecutive quarter that a majority of respondents reported some deterioration.



**12m Capital Value Expectations** - Headline capital values are expected to increase 2.6% in the next year, little changed from Q1. Forecasts were little changed across all market segments and for both prime and secondary space.

**12m Rental Expectations** - Headline rent expectations moderated for the second consecutive quarter, though remained firmly positive at 2.3%. Forecasts were trimmed across all segments, with respondents significantly lowering expectations for the office and retail segments.



# 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](http://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 June 2017 with responses received until 10 July 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 1427 company responses were received, with 316 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](mailto:economics@rics.org)

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