Property Council New Zealand
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Q2 2018: New Zealand Commercial Property Monitor

Respondents more bullish on outlook for rents, capital values

Sentiment surrounding New Zealand's commercial property markets improved in Q2. Although three-quarters of respondents see the market at its peak or in an early phase of a downturn, forecasts suggest that contributors expect a soft landing. There is, meanwhile a degree of uncertainty around the potential impact over the Australian Royal Commission into banking, as 63% of those surveyed said that they were unsure how this will affect commercial property in New Zealand.

Occupier Market

- The Occupier Sentiment Index (an amalgamated measure of occupier market indicators) increased to +13 in Q2 from +7 in Q1, indicating a modest pickup in occupier market momentum (Chart 1).
- Headline occupier demand remained positive in Q2, driven mainly by robust demand for office and industrial space. Meanwhile, demand for retail space was flat for the fourth consecutive quarter.
- Space available to let increased only modestly in Q2 as respondents reported a decline in the availability of industrial properties to rent.
- Inducements rose modestly for the second consecutive quarter as contributors noted an increase in inducements on office and retail properties. A rent-free period continued to be the most popular type of incentive offered.
- Against this backdrop, respondent's rent expectations for the next quarter increased from Q1, as shown in Chart 2. This was mainly driven by a pickup in expectations for office and industrial space. Expectations for the next twelve months exhibited a similar trend.
- Chart 6 shows that respondents revised up rent forecasts for the next twelve months from Q1 across all property segments and on both primary and secondary locations.
- Respondents increased forecasts across the board for Auckland rents, while those in Christchurch were less negative. Contributors in Wellington remained exceptionally bullish on the outlook for rents.
- Headline development starts were also little changed for the second consecutive quarter. However, respondents did report a modest increase in office starts in Wellington and Auckland.

Investment Market

- The Investment Sentiment Index (an amalgamated measure of occupier market indicators) increased to +12 in Q2 from +9 in Q1, indicating a continuation of positive momentum in the investment market (Chart 1).
- Investor demand increased at a similar pace to Q1 in net balance terms, as a pickup in demand for office space was offset by a decline in demand for retail space.
- Foreign investment enquiries were reported to have declined for the third consecutive quarter. This was primarily driven by areas outside of Auckland, as foreign enquiries into Auckland, particularly office and industrial assets, increased at a modest pace in Q2.
- The supply of properties available for sale was little changed in Q2, though there was a modest increase in retail space for sale reported.
- As shown in Chart 2, respondents maintained a positive outlook for capital values over the next three months, and were similarily bullish for the next twelve months in net balance terms. Similar to rents, capital values forecasts were revised higher across the board (Chart 5).
- The bulk of respondents, 41%, reported no change in credit conditions, shown in Chart 3. However 35% reported some degree of deterioation in credit conditions during Q2, up from 26% in Q1.
- Similar to previous quarters, respondents were more optimistic about the outlook for Auckland and Wellington capital values than for Christchurch. However, forecasts for Christchurch were significantly less negative than during Q1.
- Valuations continue to be skewed towards being above fair value, as shown in Chart 4, particularly in Auckland.

Commercial Property Market

Chart 1: Occupier, Investment Sentiment Indexes

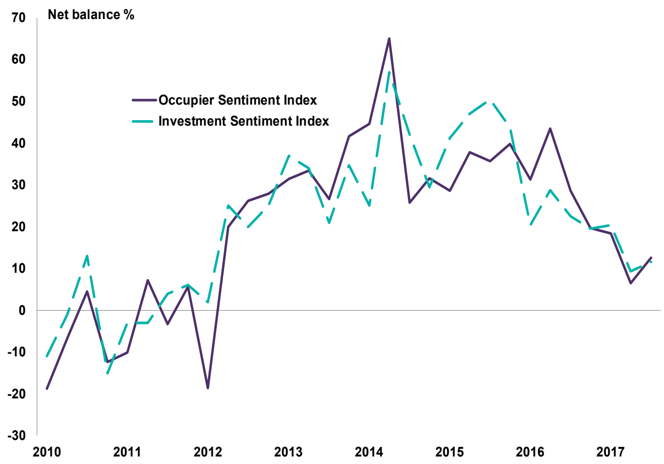


Chart 2: 3-month Rents, Capital Values

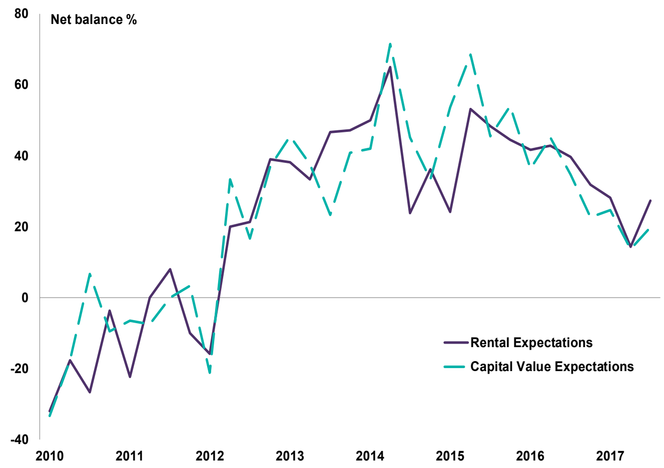


Chart 3: Credit Conditions

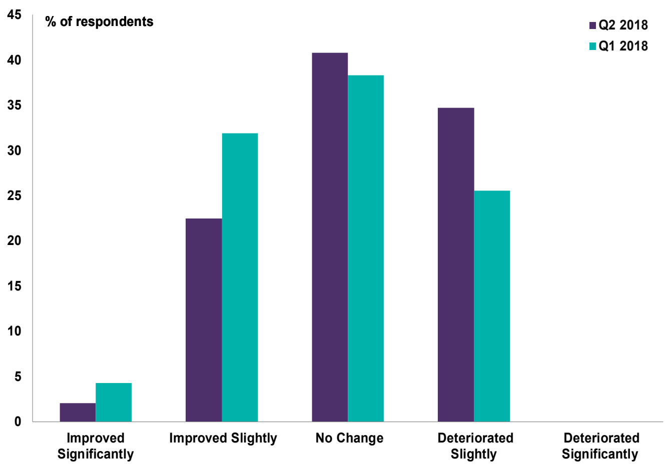


Chart 4: Valuations

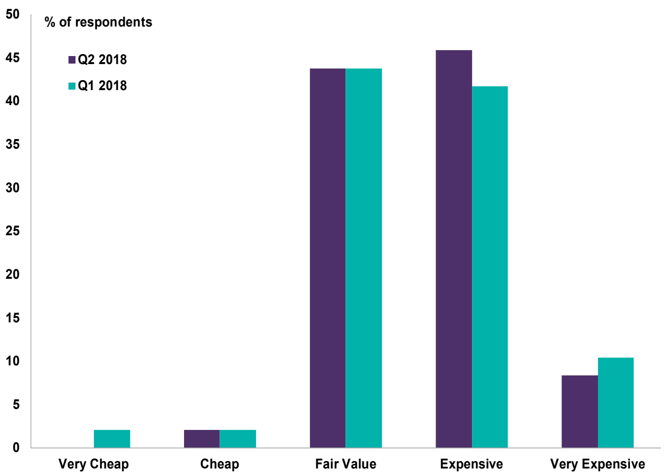


Chart 5: 12-month Capital Values Forecast

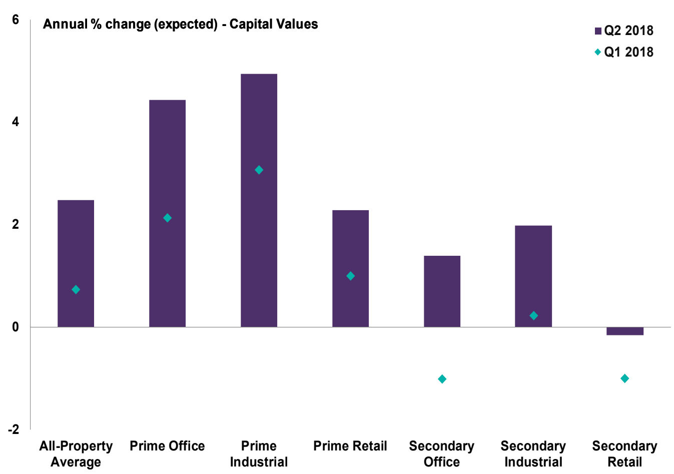
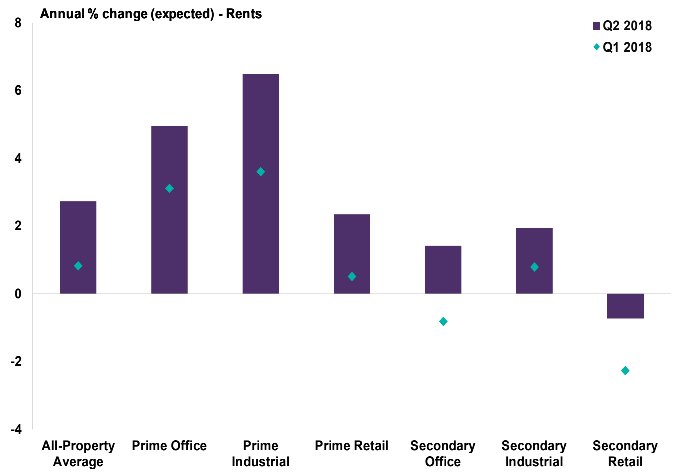


Chart 6: 12-month Rent Forecast



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 13 June 2018 with responses received until 8 July 2018. 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 1965 company responses were received, with 371 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland. Responses for Spain and Portugal were collated in conjunction with Iberian Property. Responses for New Zealand were collated in conjunction with Property Council New Zealand.

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.

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