

## Q4 2017: New Zealand Commercial Property Monitor

# Demand for industrial space remains strong even as foreign enquiries decline

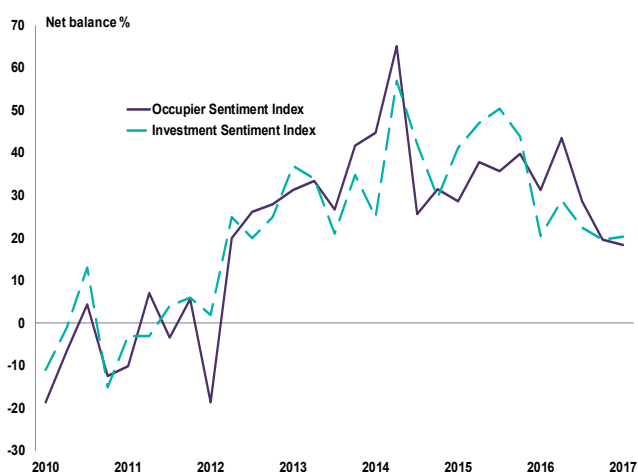
### Occupier Market

- The Q4 2017 results indicate a continued modest increase in headline demand (in net balance terms), roughly unchanged from that in Q3. Demand for retail properties remained flat for the second consecutive quarter.
- Supply of leasable space increased for retail properties, while respondents continued to report a modest decline of industrial space available for rent. The supply of office space to rent also saw momentum slow as contributors only reported a modest increase in availability.
- Landlord inducements were flat at a headline level, though industrial properties did see a decrease in incentives provided. New development starts were reported to have increased slightly in Q4 across all segments of the market (office, industrial, retail).
- Rents are projected to rise over the next three and twelve months at a headline level. Unsurprisingly given the backdrop of supply and demand fundamentals, contributors see rents on industrial space increasing at a faster pace than those for office or retail properties.
- The Occupier Sentiment Index (an amalgamated measure of three occupier market indicators) moderated slightly to +18 in Q4 from +20 in Q3.

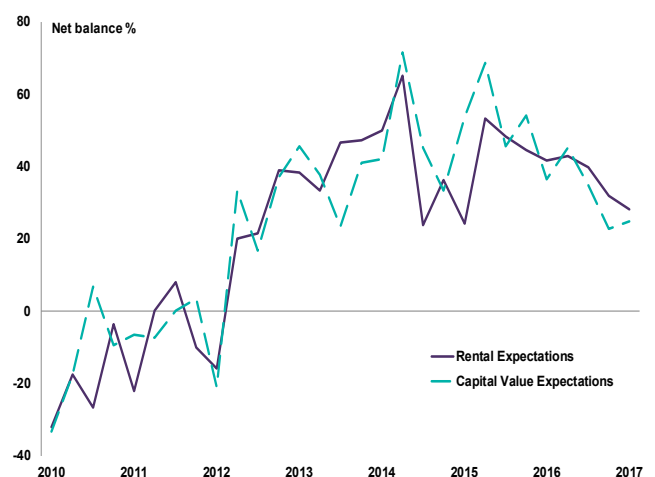
### Investment Market

- The Q4 2017 data show that headline investor demand picked up modestly from Q3. This was broadly driven by more investor interest in office space, while the increase in enquiries for industrial properties remained robust and that for retail space was little changed.
- Respondents reported a decline in foreign interest across all market segments. This was the first time that respondents reported a pullback in foreign enquiries since this metric began to be tracked in Q3 of 2014.
- Supply available to sale continued to provide some support to capital values, as respondents reported scarcer supply across all three segments. Against this backdrop, headline capital values are still expected to show a modest increase over the next three and twelve months.
- The majority of respondents, 56%, see the market as being at its peak for the sixth consecutive quarter. However, this was down slightly from previous quarters, as the share of participants who see the market in some stage of an upturn increased from 10% in Q3 to 18% in Q4.
- The Investor Sentiment Index (an amalgamated measure of three investment market indicators) was unchanged in Q4 from Q3 at +20.

### Occupier and Investment Sentiment Index



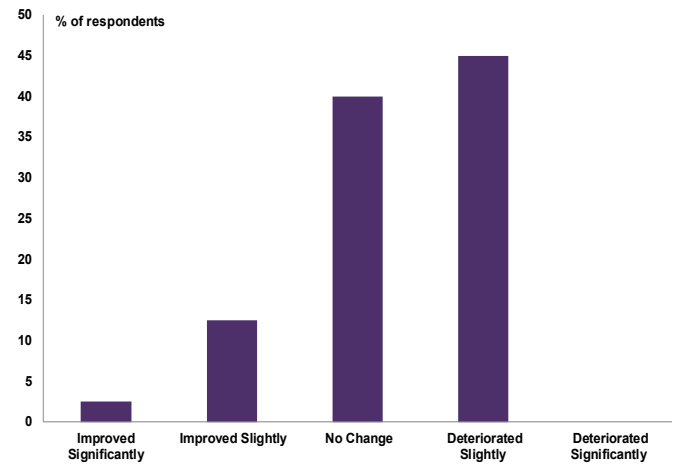
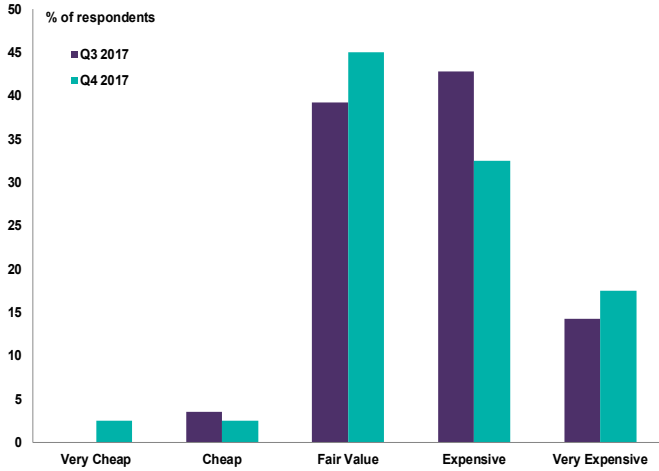
### 3-month Rental and Capital Value Expectations



# Commercial Property Market

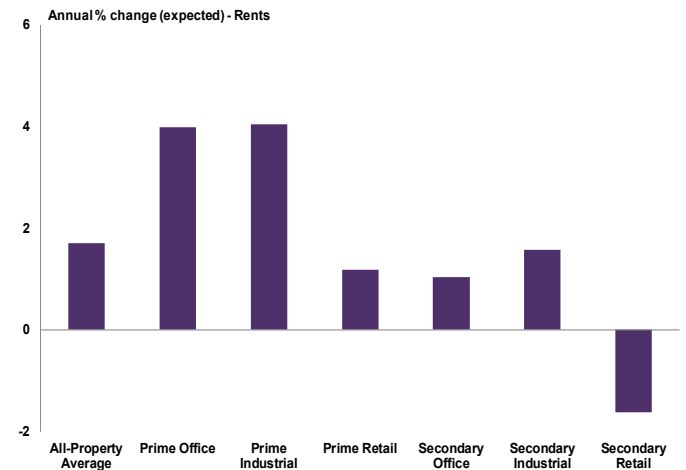
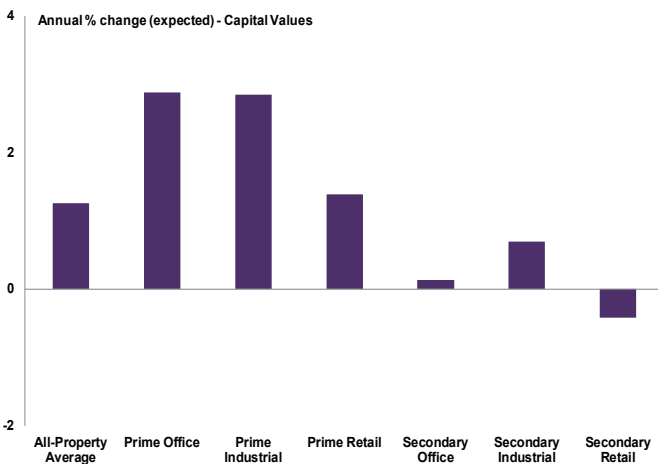
**Market Valuations** - Most respondents (48%) see valuations above fair value to some degree, though this has decreased in recent quarters while the share of those who see the market at fair value, 45% of respondents in Q4, has been steadily increasing.

**Credit Conditions** - For the second consecutive quarter, 45% of respondents saw some deterioration in credit conditions, 40% reported no change in credit conditions, while the remainder saw some degree of improvement.



**12m Capital Value Expectations** - Headline capital value forecasts were little changed in Q4 from Q3, expected to rise 1.3% over the next year. Respondents were moderately more bullish on secondary industrial and retail space in Q4 than they were in Q3.

**12m Rental Expectations** - Headline rents are seen rising 1.7% over the next year, up from the 1.4% forecast in Q3. The forecasts were buoyed by more bullish expectations for office and retail space, while respondents held a more bearish outlook for retail rents.



# 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 13 December 2017 with responses received until 12 January 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 1570 company responses were received, with 434 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.

## 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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