

Q2 2019: New Zealand Commercial Property Monitor

Commercial property continues to defy late-cycle signals

Data from the Q2 2019 New Zealand Commercial Property Monitor indicates a persistence in positive momentum. Unlike several global real estate markets, commercial property in New Zealand does not appear to be entering a period of slower growth. Chart 1, showing the Occupier and Investment Sentiment Indices, amalgamated measures of market sentiment, points to continuation positive market impetus.

As shown by Charts 3 and 4, respondents indicate that demand from both occupiers and investors continued to increase in the second quarter. Chart 4 also indicates that foreign demand appears to have stabilized during the quarter. However, both charts do point to an increase in available space to rent and buy over the past three months.

Against this backdrop, respondents expectations for capital value growth were revised higher for the next three months (Chart 2) as well as for

the next 12 months (Chart 7 and 8). Industrial properties appear to be in favour as respondents expect a 6% appreciation in capital values over the next twelve months (Chart 7).

At the city-level, respondents continue to report increasing demand for office and industrial properties, both to occupy and to purchase. Interestingly, sentiment seems to have shifted in Christchurch. Although rents are seen declining over the next three months, expectations for the next twelve months signal robust growth in rents and capital values on prime properties.

A more benign outlook for credit conditions may have also contributed to the positive sentiment. Note that the Reserve Bank of New Zealand cut interest rates by 25 basis points during the quarter, and there is some speculation of a further reduction before the end of 2019.

Chart 1: RICS OSI and ISI

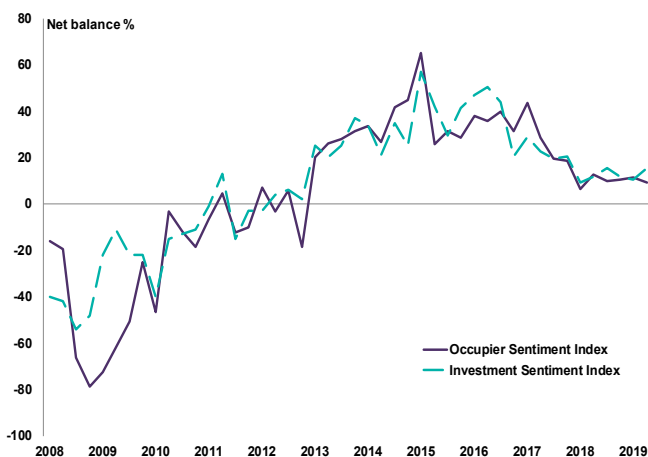
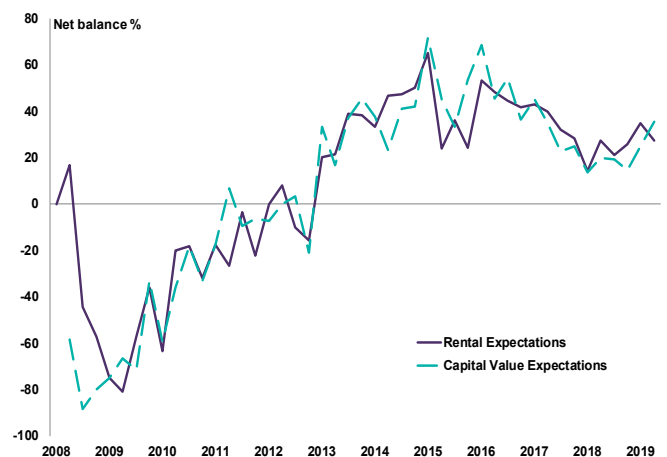


Chart 2: Three Month Rents, Capital Values



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Chart 3: Occupier Market

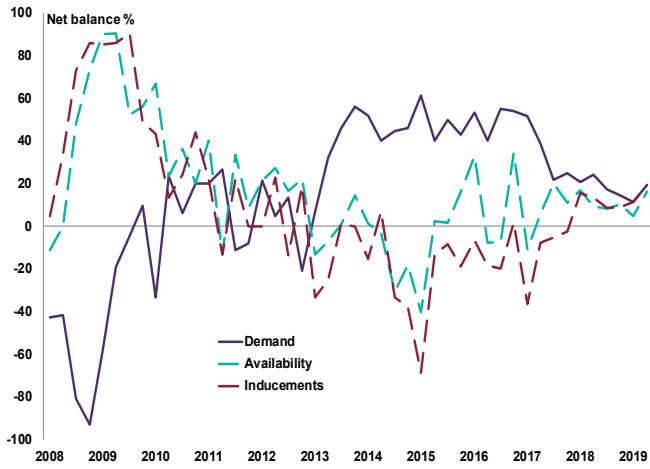


Chart 4: Investment Market

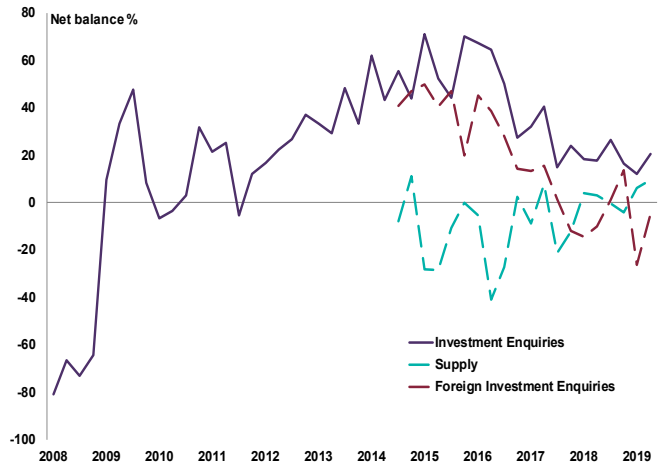


Chart 5: Credit Conditions

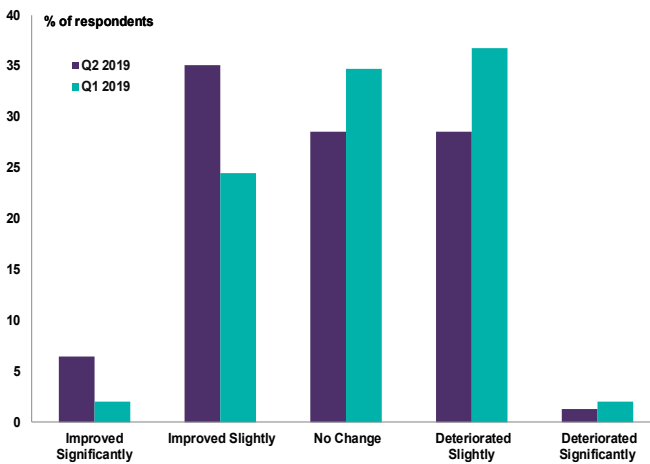


Chart 6: Property Cycle

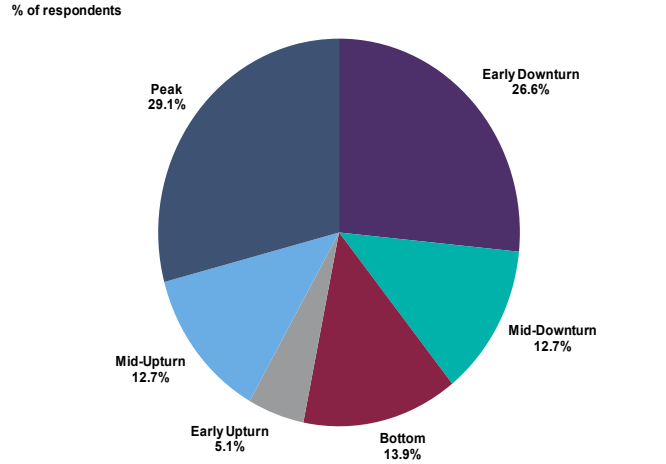
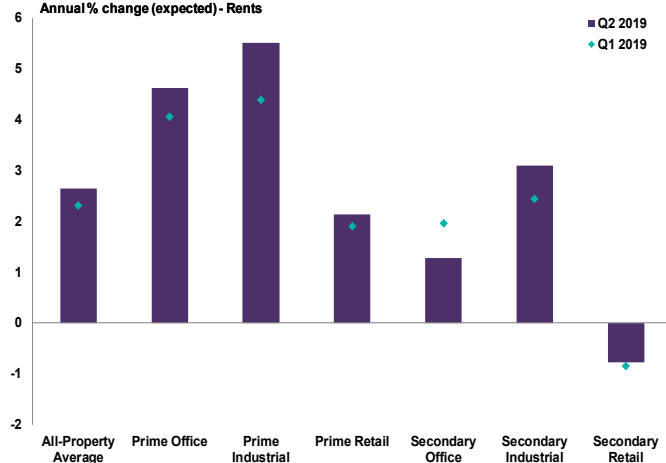


Chart 7: Twelve Month Capital Value Projections



Chart 8: Twelve Month Rental Value Projections



Comments from Survey Participants in New Zealand



"Record low interest rates, low vacancy rates and a general lack of 'good' stock are the main drivers of a buoyant market and record low yields. The high land and construction costs are also having a flow on affect. The political and economic issues overseas will have an impact on the New Zealand economy, as will the current Governments performance over the next 12-18 months. The reduced business confidence and wage rise settlements will also have a flow on effect to various business operations."

-Auckland



"Peak(ish) characteristics but with continued strong underlying occupier and investor demand anticipated to support prime property values."

- Auckland



"Auckland's strength is its population. Most influence it gets is from overseas capital influx or withdrawal."

- Auckland



"Activity stifled due to lower population growth projections in comparison to other key centres in NZ."

- Christchurch

RICS Consensus Australasia 12-month Rent Expectations

	Total	Prime Office	Prime Industrial	Prime Retail	Secondary Office	Secondary Industrial	Secondary Retail
Australia	+0.4%	+2.8%	+2.4%	-0.4%	+0.9%	+0.3%	-3.8%
Brisbane	-0.4%	+1.7%	+1.3%	-0.4%	+0.2%	-1.1%	-4.2%
Melbourne	+1.6%	+4.3%	+3.6%	+0.4%	+3.0%	+2.0%	-3.8%
Newcastle*	-0.9%	+2.5%	+1.5%	-1.5%	-2.5%	-1.5%	-4.0%
Perth	-2.3%	+1.2%	0.0%	-3.1%	-3.1%	-2.4%	-6.4%
Sydney	+1.3%	+3.6%	+3.1%	+0.4%	+0.4%	+1.3%	-2.7%
New Zealand	+2.6%	+4.6%	+5.5%	+2.1%	+1.3%	+3.1%	-0.8%
Auckland	+2.1%	+4.2%	+5.1%	+1.3%	+1.3%	+2.9%	-2.2%
Christchurch	+1.8%	+4.5%	+4.5%	+3.6%	-1.8%	+0.7%	-0.4%
Wellington*	+3.6%	+3.5%	+6.0%	+3.5%	+3.8%	+3.0%	+1.7%

RICS Consensus Australasia 12-month Capital Value Expectations

	Total	Prime Office	Prime Industrial	Prime Retail	Secondary Office	Secondary Industrial	Secondary Retail
Australia	+0.4%	+2.5%	+2.4%	-0.4%	+0.1%	+0.5%	-2.8%
Brisbane	+0.7%	+2.5%	+2.6%	+0.3%	-0.2%	+0.9%	-2.1%
Melbourne	+1.3%	+3.4%	+3.7%	-0.6%	+1.6%	+2.3%	-2.6%
Newcastle*	-1.9%	+1.0%	+0.5%	-2.5%	-4.0%	-2.0%	-4.5%
Perth	-0.6%	+1.3%	+1.0%	-1.0%	-0.7%	-0.6%	-3.5%
Sydney	+0.4%	+3.1%	+2.6%	-0.9%	+0.7%	+0.5%	-3.3%
New Zealand	+2.9%	+4.6%	+6.0%	+2.5%	+1.8%	+2.6%	-0.1%
Auckland	+2.0%	+3.6%	+5.2%	+1.5%	+1.0%	+2.1%	-1.6%
Christchurch	+2.8%	+5.8%	+6.5%	+3.1%	+0.0%	+0.8%	+0.4%
Wellington*	+4.7%	+5.0%	+7.0%	+4.0%	+5.4%	+3.5%	+3.3%

*These estimates are drawn from small sample sizes [n<10]

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 10 June 2019 with responses received until 7 July 2019. 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 3324 company responses were received. 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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Responses were gathered in conjunction with the following organisations:



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