

Q4 2019: New Zealand Commercial Property Monitor

Commercial property ends year on a strong note amid buoyant demand

Market sentiment ticked higher at the end of 2019, according to respondents to the RICS-PCNZ New Zealand Commercial Property Monitor for Q4 of 2019. The Occupier Sentiment Index (OSI) and Investment Sentiment Index (ISI), composite measures of market momentum shown in Chart 1, both edged higher in Q4 with both indices registering the highest reading since 2017.

Survey participants indicated that in net balance terms, growth of demand outpaced that of supply for both the occupier (Chart 3) and investment (Chart 4) markets. The gap between demand and supply was larger for the investment market, as is evident in Chart 4. The increase in investment demand appears to be fuelled by both domestic and international investors; participants reported the quickest increase in foreign investment demand since 2016.

Against this backdrop, short-term expectations for

rental and capital value growth increased over the past three months, shown in Chart 2. Meanwhile, longer-term expectations were fairly stable from Q3 to Q4 with rents and capital values expected to increase between 2-2.5% over the next twelve months.

As in previous quarters, commercial property in the North Island is expected to outperform those in the South Island. Headline rental and capital values are expected to increase between 2.5-3% in the North Island but only 0-1% on the South Island.

As sentiment ticked higher during Q4, the share of respondents who saw the market in the downturn phase declined from 44% in Q3 to 23% in Q4. This was even more acute in Auckland, where only 14% of respondents see the market at some stage of a downturn, and 81% see it at some stage of an upturn or at its peak.

Chart 1: RICS OSI and ISI

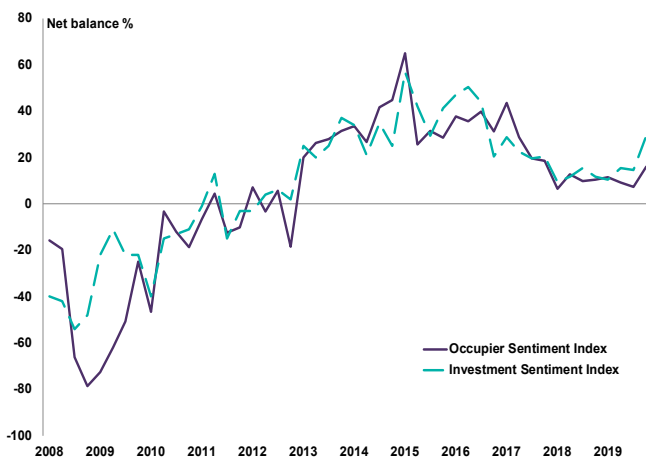


Chart 2: Three Month Rents, Capital Values

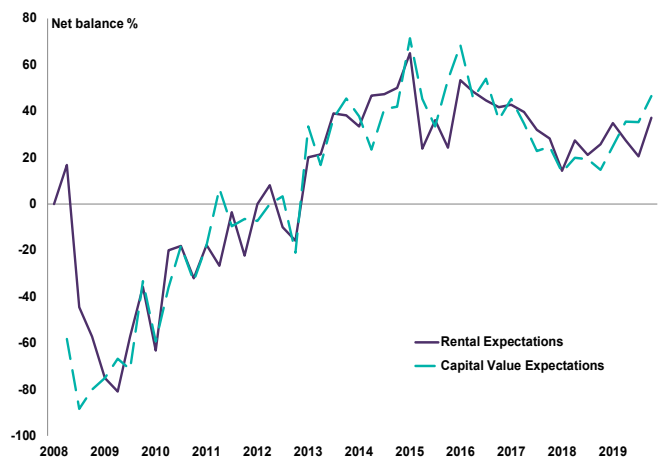


Chart 3: Occupier Market

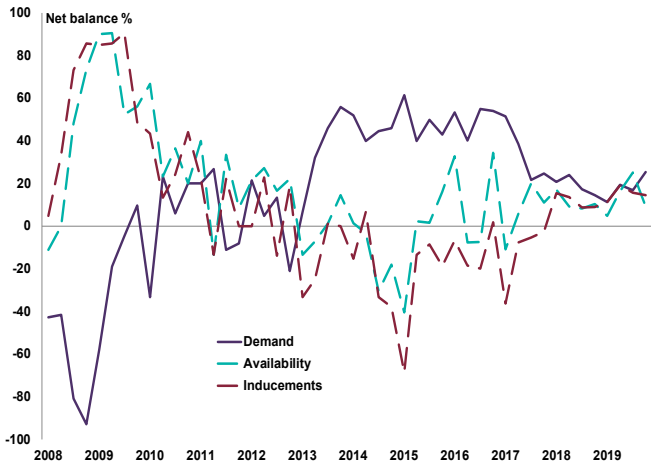


Chart 4: Investment Market

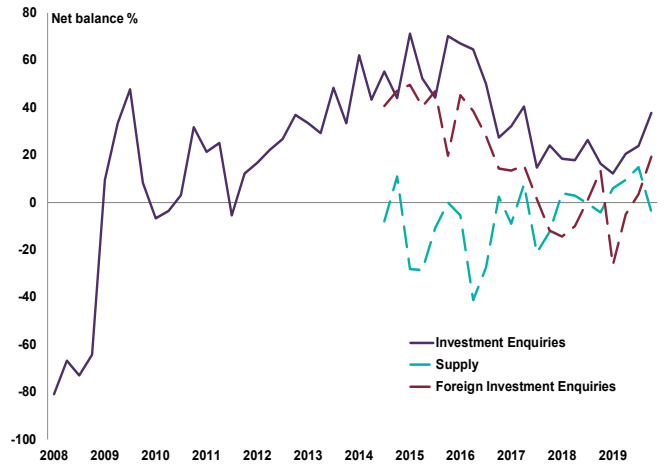


Chart 5: Credit Conditions

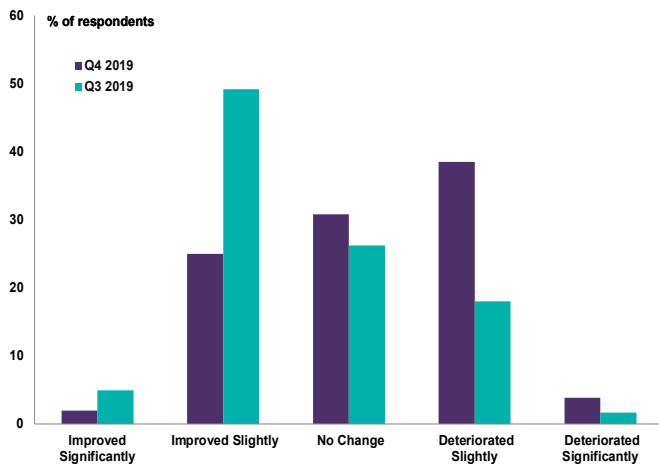


Chart 6: Stage of the Cycle

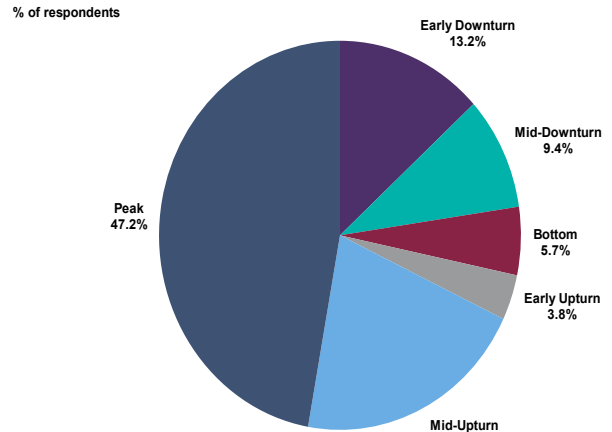
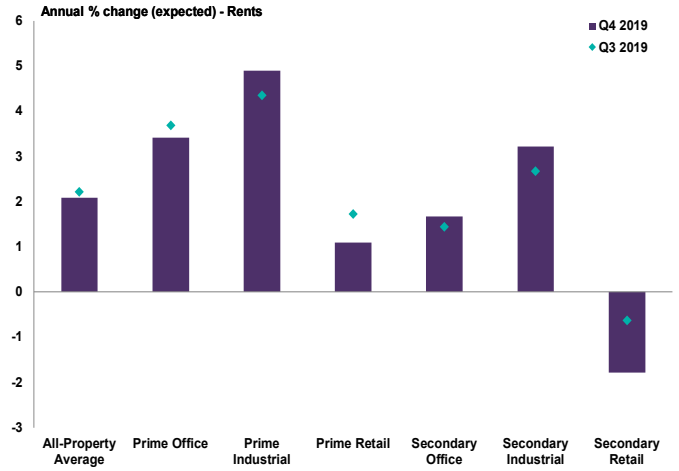


Chart 7: Twelve Month Capital Value Projections



Chart 8: Twelve Month Rental Value Projections



Comments from Survey Participants in New Zealand



"Investor demand remains high although lending restrictions creating hurdles for some. Tenant demand still buoyant. Vacancies low particularly industrial space. Low interest rates creating owner occupier demand although funding becoming an issue."
 - Hamilton



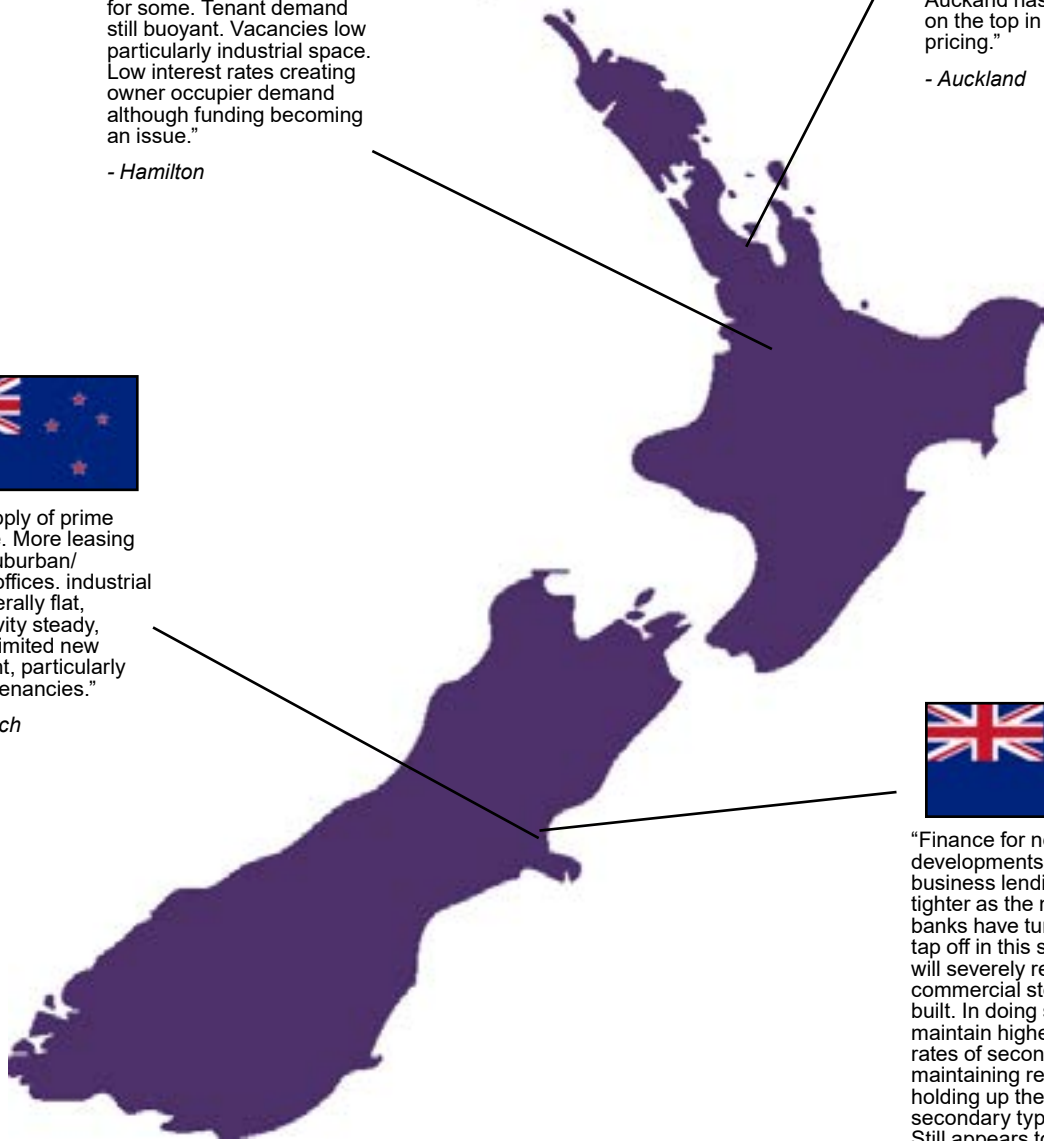
"Residential property market offering greater offers on first home buyers. Auckland has always been on the top in level the pricing."
 - Auckland



"Limited supply of prime office space. More leasing activity in suburban/secondary offices. Industrial market generally flat, leasing activity steady, however, v.limited new development, particularly for smaller tenancies."
 - Christchurch



"Finance for new developments (and business lending) has got tighter as the main trading banks have turned the tap off in this sector. This will severely restrict new commercial stock being built. In doing so, it will maintain higher occupancy rates of secondary stock, maintaining rental rates and holding up the values of secondary type buildings. Still appears to be finance for good quality investment stock."
 - Christchurch



RICS Consensus 12-month Rent Expectations

	Total	Prime Office	Prime Industrial	Prime Retail	Secondary Office	Secondary Industrial	Secondary Retail
Asia Pacific	-2.0%	+0.2%	+0.6%	-4.1%	-1.7%	-1.1%	-6.1%
Australasia	+1.4%	+3.3%	+3.4%	+0.4%	+1.7%	+1.8%	-2.1%
Australia	+1.1%	+3.2%	+2.6%	+0.1%	+1.8%	+1.0%	-2.2%
Brisbane	+1.5%	+2.6%	+2.3%	+1.6%	+1.8%	+0.5%	+0.1%
Melbourne	+1.8%	+5.7%	+4.7%	+0.3%	+2.9%	+1.1%	-3.7%
Perth	+0.3%	+2.1%	+2.1%	-0.5%	+0.3%	+0.7%	-2.9%
Sydney	+1.2%	+3.3%	+2.4%	-0.1%	+2.2%	+1.4%	-2.0%
New Zealand	+2.0%	+3.4%	+4.9%	+0.9%	+1.5%	+3.3%	-2.0%
Auckland	+2.3%	+3.3%	+4.8%	+1.2%	+2.4%	+3.9%	-1.6%
East Asia	-4.6%	-2.5%	-1.6%	-7.9%	-3.7%	-2.8%	-9.3%
China	-1.2%	+1.0%	+1.8%	+0.7%	-3.7%	-1.9%	-4.7%
Beijing	-1.5%	+0.6%	+0.8%	+0.8%	-4.7%	-1.9%	-4.5%
Shanghai	-1.3%	+0.8%	+2.5%	+0.3%	-3.3%	-2.3%	-5.8%
Hong Kong	-6.7%	-4.3%	-3.3%	-12.4%	-4.4%	-3.7%	-12.0%
Japan	+0.9%	+1.8%	+3.0%	+0.6%	+0.7%	+1.0%	-1.8%
Tokyo	+0.9%	+1.9%	+3.0%	+0.6%	+0.8%	+1.1%	-1.9%
South Korea	-0.2%	+0.4%	+0.7%	+2.9%	-1.7%	-0.7%	-2.5%
Seoul	-0.2%	+0.4%	+0.7%	+2.9%	-1.7%	-0.7%	-2.5%
South Asia	+4.7%	+7.4%	+5.1%	+6.2%	+4.1%	+2.1%	+3.7%
India	+3.7%	+5.5%	+3.7%	+6.5%	+2.9%	+1.1%	+2.3%
Bengaluru	+2.0%	+4.0%	+3.1%	+5.6%	+2.5%	-1.5%	-1.7%
Delhi CNCR	+2.7%	+2.9%	+2.9%	+6.2%	+0.6%	+0.8%	+3.1%
Mumbai	+3.1%	+5.2%	+1.3%	+4.7%	+4.2%	+0.9%	+2.5%
Sri Lanka	+6.9%	+11.1%	+7.3%	+6.5%	+6.2%	+3.9%	+6.7%
Colombo	+8.2%	+11.7%	+9.2%	+8.5%	+8.4%	+4.0%	+7.5%
Southeast Asia	-0.5%	+1.8%	+1.6%	-0.5%	-1.2%	-1.0%	-3.9%
Malaysia	-2.7%	-0.5%	+0.1%	-1.6%	-4.4%	-3.4%	-6.1%
Kuala Lumpur	-3.6%	-1.5%	-0.3%	-2.2%	-5.6%	-4.1%	-7.8%
Singapore	+1.5%	+3.8%	+3.0%	-0.6%	+2.7%	+2.3%	-2.3%
Thailand	+1.0%	+4.0%	+1.9%	+1.5%	+1.7%	-0.4%	-2.5%
Bangkok	+1.0%	+4.0%	+1.9%	+1.5%	+1.7%	-0.4%	-2.5%
Vietnam	+4.6%	+6.3%	+6.3%	+2.8%	+5.7%	+5.4%	+1.3%

RICS Consensus 12-month Capital Value Expectations

	Total	Prime Office	Prime Industrial	Prime Retail	Secondary Office	Secondary Industrial	Secondary Retail
Asia Pacific	-1.4%	+0.7%	+1.1%	-2.8%	-1.4%	-1.2%	-5.1%
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Brisbane	+1.1%	+3.5%	+2.8%	+1.4%	+0.9%	+0.0%	-1.9%
Melbourne	+1.9%	+4.1%	+4.4%	-0.7%	+3.3%	+2.5%	-2.2%
Perth	+0.1%	+1.8%	+1.1%	+0.8%	+0.0%	-1.2%	-1.7%
Sydney	+1.8%	+4.2%	+4.2%	+0.6%	+2.2%	+1.8%	-2.2%
New Zealand	+2.5%	+3.6%	+4.8%	+2.3%	+1.5%	+3.7%	-1.2%
Auckland	+2.8%	+4.0%	+5.4%	+2.7%	+1.8%	+4.4%	-1.6%
East Asia	-3.8%	-1.7%	-1.1%	-6.4%	-3.2%	-2.9%	-7.7%
China	+0.0%	+1.9%	+1.8%	+1.4%	-1.1%	-1.2%	-2.8%
Beijing	-0.8%	+0.5%	+0.7%	+0.3%	-0.8%	-1.6%	-4.1%
Shanghai	+0.5%	+2.2%	+2.7%	+2.3%	-1.6%	-0.3%	-2.5%
Hong Kong	-5.9%	-3.6%	-2.6%	-10.0%	-4.7%	-4.0%	-10.2%
Japan	+0.9%	+2.5%	+3.2%	+0.5%	+1.0%	+0.9%	-2.7%
Tokyo	+0.9%	+2.7%	+3.3%	+0.5%	+1.1%	+1.0%	-2.9%
South Korea	+1.1%	+2.1%	+2.5%	+0.7%	+1.8%	+1.8%	-2.5%
Seoul	+1.1%	+2.1%	+2.5%	+0.7%	+1.8%	+1.8%	-2.5%
South Asia	+4.4%	+7.5%	+5.4%	+6.3%	+3.1%	+2.2%	+2.1%
India	+3.3%	+6.2%	+3.7%	+5.4%	+2.0%	+1.0%	+1.6%
Bengaluru	+3.2%	+6.4%	+5.7%	+5.0%	+1.8%	+0.2%	+0.0%
Delhi CNCR	+2.0%	+2.7%	+1.6%	+4.1%	+0.7%	+1.3%	+1.4%
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Sri Lanka	+6.9%	+9.8%	+8.7%	+8.4%	+6.0%	+5.1%	+3.6%
Colombo	+7.9%	+9.7%	+10.5%	+9.1%	+7.2%	+5.5%	+5.3%
Southeast Asia	+0.1%	+2.5%	+2.2%	+0.5%	-0.9%	-1.0%	-2.8%
Malaysia	-1.9%	+0.3%	+0.5%	-0.6%	-3.4%	-3.4%	-5.0%
Kuala Lumpur	-2.7%	-0.2%	-0.2%	-0.9%	-4.1%	-4.0%	-6.5%
Singapore	+1.5%	+3.6%	+3.1%	-0.8%	+2.0%	+2.0%	-1.1%
Thailand	+2.2%	+5.6%	+2.9%	+2.7%	+1.7%	+0.2%	-0.2%
Bangkok	+2.2%	+5.6%	+2.9%	+2.7%	+1.7%	+0.2%	-0.2%
Vietnam	+5.1%	+8.1%	+6.9%	+4.1%	+3.2%	+5.0%	+3.6%

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 9 December 2019 with responses received until 13 January 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 2956 company responses were received, with 748 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

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