

Q3 2018: New Zealand Commercial Property Monitor

Sentiment remains positive despite more modest expectations for rents and capital values

Sentiment surrounding New Zealand's commercial property market remained modestly positive in Q3 of 2018, despite some measures of business sentiment indicating otherwise. Expectations for rents and capital values continue to point towards a soft landing as markets enter the later stages of the current cycle. This is particularly true for New Zealand's largest market, Auckland, which continued to attract foreign interest in Q3.

Occupier Market

- The Occupier Sentiment Index (an amalgamated measure of occupier market indicators) was little changed at +10 in Q3 from +13 in Q2, indicating a continuation in positive occupier market momentum (Chart 1).
- Headline occupier demand remained positive in Q3, although demand for office space moderated slightly. Office and retail saw an increase in space available to rent during the quarter, while that for industrial properties was flat.
- New development starts were mainly seen for industrial properties. Meanwhile, landlord inducements increased for retail space, with a rent-free period continuing to be the most popular type of incentive offered.
- Chart 2 indicates a very slight dip in rent expectations over the next three months. However at the headline level, rental growth is seen to remain positive over both the next quarter and year.
- Isolating market segments, growth is only seen in industrial and office properties while rents on retail space are seen as flat over the next quarter.
- Chart 6 shows that rent forecasts were revised lower across all market segments. Office and industrial properties are still expected to outperform retail in both primary and secondary markets.
- Against this backdrop, the majority of respondents (58%) see the market at its peak, while a substantial minority (22%) believe that the market is entering the early stages of a downturn. Geography does appear to affect this, however, as 61% of respondents from Auckland see the market as peaking, while 88% of respondents from Christchurch believe it is in some stage of a downturn.

Investment Market

- The Investment Sentiment Index (an amalgamated measure of investment market indicators) increased modestly to +15 in Q3 from +12 in Q2, indicating a continuation of positive momentum in the investment market (Chart 1).
- Headline investor demand increased at a slightly quicker pace than in Q2. This was primarily driven by the retail segment as the pullback in demand for retail properties seen in Q2 disappeared in Q3.
- After seeing three consecutive quarters of declining foreign demand, foreign investment enquiries were flat in Q3. This was fairly uniform across market segments, though foreign demand for Auckland office and industrial space increased for the second consecutive quarter.
- The headline supply of properties available for sale was flat for the third consecutive quarter. Respondents in Christchurch noted an increase in the supply of industrial and retail properties for sale.
- Valuations continue to be skewed towards being expensive (Chart 4), although slightly less so than in Q2. There was also relatively little change in credit conditions during Q3.
- Respondents maintained a positive outlook for capital values over the next three months (Chart 2). At a headline level this has been little changed for the past three quarters, as more bullish expectations for industrial values have been offset by a more bearish outlook for retail.
- Similar to rents, capital value forecasts moderated across the board in Q3 (Chart 5). This was particularly true in Auckland, though headline values are still expected to increase over the next year.

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Commercial Property Market

Chart 1: Occupier, Investment Sentiment Indexes

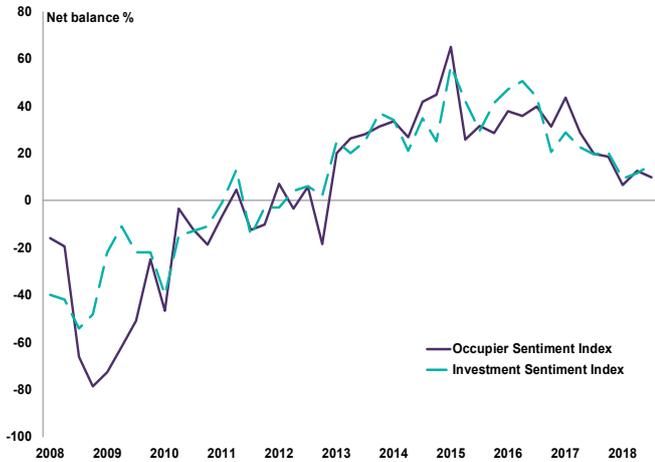


Chart 2: 3-month Rents, Capital Values

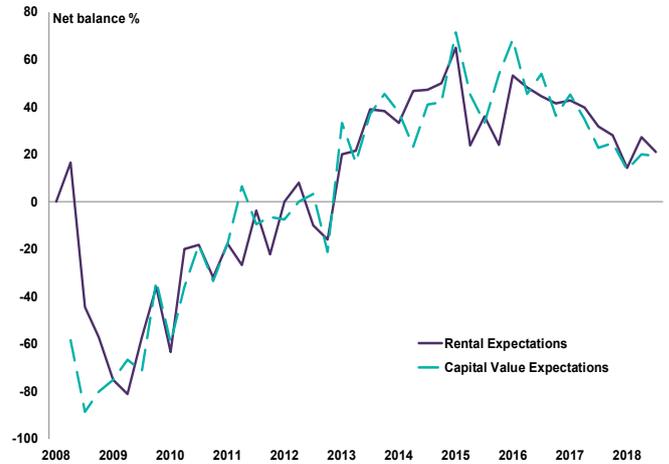


Chart 3: Credit Conditions

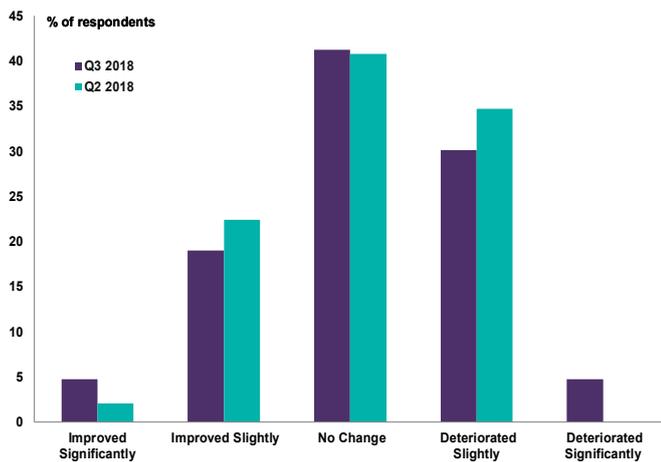


Chart 4: Valuations

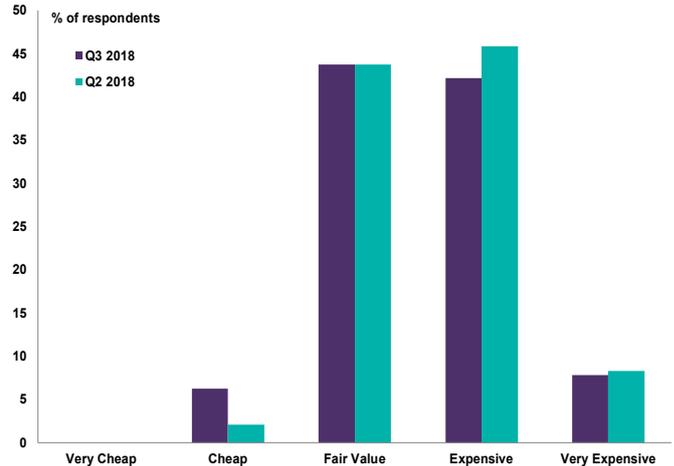


Chart 5: 12-month Capital Values Forecast

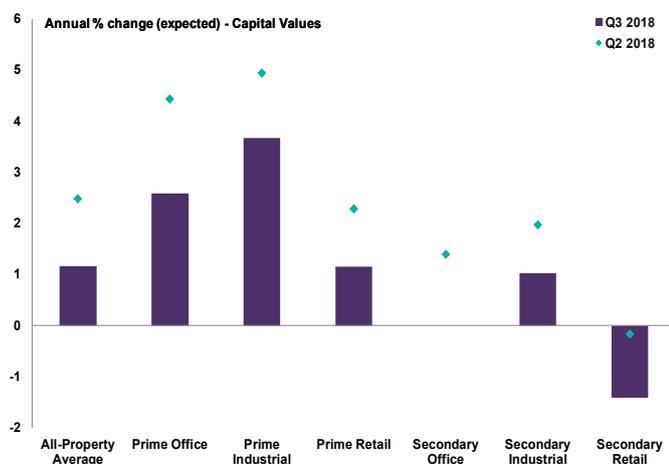
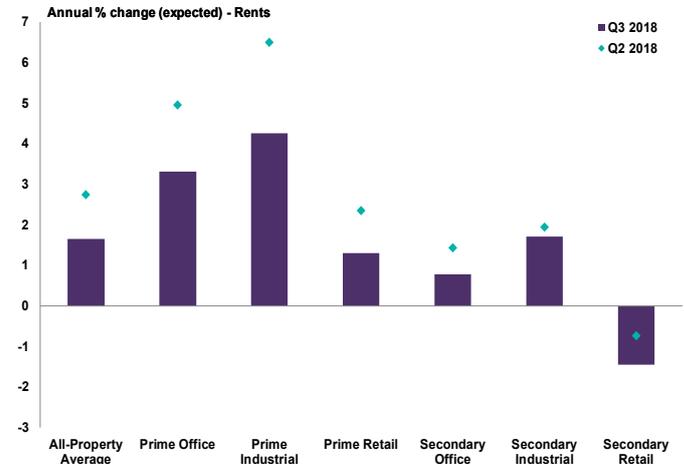


Chart 6: 12-month Rent Forecast



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 September 2018 with responses received until 14 October 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 1791 company responses were received, with 341 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 for Malaysia were collated in conjunction with the Royal Institution of Surveyors Malaysia.

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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