

Q4 2018: New Zealand Commercial Property Monitor

Outlook for capital values revised higher amidst more accommodative credit conditions

The Q4 2018 results show that sentiment surrounding commercial property in New Zealand remained modestly positive for the fourth consecutive quarter. Despite some concerns about the broader global economy, respondents in New Zealand were relatively upbeat about how commercial property will perform in 2019. Twelve month capital value growth forecasts were revised higher across the board from Q3 while the outlook for rents was little changed.

Occupier Market

- The Occupier Sentiment Index (an amalgamated measure of occupier market indicators) was unchanged at +10 in Q4, indicating a continuation in steady, positive occupier market momentum (Chart 1).
- Headline occupier demand remained positive in Q4 and continued to be driven by the office and industrial segments. That said, respondents reported a contraction in demand for retail space.
- At the national level, office and retail properties saw space available to rent increase for the sixth consecutive quarter. This was largely driven by Christchurch, as headline availability was reported to have declined in Auckland. Meanwhile, development starts were reported to have increased across the board, while respondents noted little change in incentives to let being offered by landlords.
- Respondents broadly maintained rental growth expectations for the next three months, as shown in Chart 2. By city, rents are expected to grow quicker in Auckland and Wellington than in Christchurch (in net balance terms). By market segment, office and industrial rents are expected to expand over the next quarter while retail rents are expected to be little changed.
- As shown in Chart 6, rental growth forecasts for the next twelve months remained broadly positive and little changed from Q3. At the city level, respondents from Christchurch revised headline rent expectations to be flat over the next year after forecasting a 1.8% decline in Q3.
- At a national level, industrial rents are still expected to see the fastest growth over the next twelve months. In net balance terms, respondents see rental growth for prime properties accelerating over the medium term.

Investment Market

- The Investment Sentiment Index (an amalgamated measure of investment market indicators) was little changed at +12 in Q4 vs +15 in Q3, indicating momentum in the investment market remains positive (Chart 1).
- Headline investor demand increased moderately in Q4, though investor demand for retail space was unchanged. Contributors reported a similar dynamic for foreign demand.
- The headline supply of properties available for sale was flat for the fourth consecutive quarter, though, for the first time since Q4 of 2017, respondents reported a contraction in the supply of industrial properties for sale. Geographically, supply was nuanced, as headline stock available on the sales market declined in Auckland but increased in Christchurch.
- Valuations perceptions continue to be skewed towards being expensive (Chart 4), although nearly half of respondents (49%) felt property was fairly valued. Meanwhile, 42% of respondents reported some degree of improvement in credit conditions, the most since Q1 of 2016.
- Respondents maintained a positive outlook for headline capital values over the next three months (Chart 2), though they did moderate somewhat in net balance terms. Capital values in Christchurch are now expected to be little changed over the next quarter.
- Respondents broadly revised twelve month forecasts for capital values higher during Q4, as shown in Chart 5. Headline values are now expected to increase 2% over the next year (vs 1.2% forecast in Q3), and the pace of growth is seen increasing over the medium term.

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Commercial Property Market

Chart 1: Occupier, Investment Sentiment Indexes

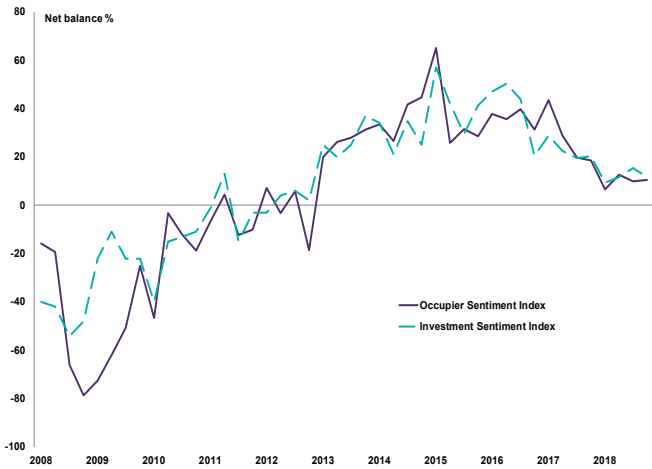


Chart 2: 3-month Rents, Capital Values

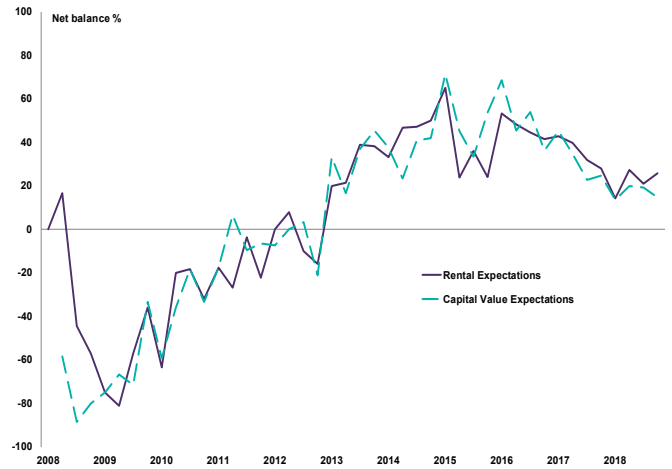


Chart 3: Credit Conditions

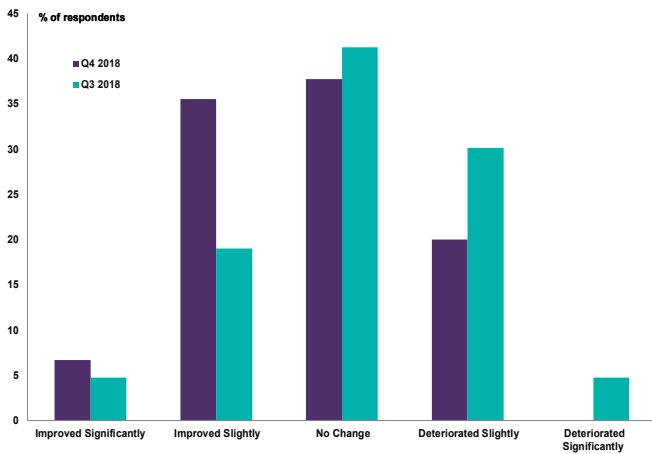


Chart 4: Valuations

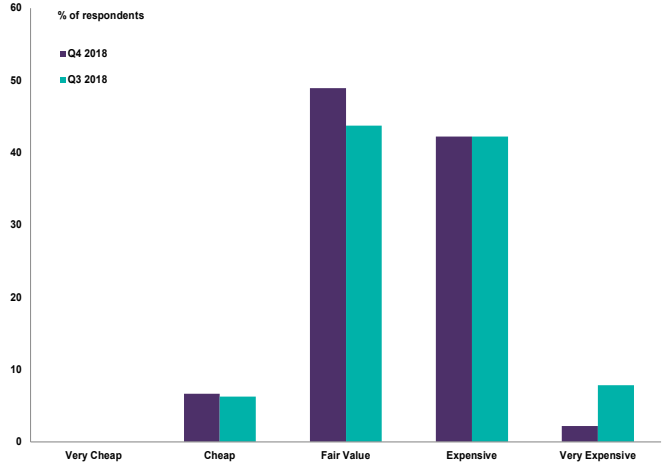


Chart 5: 12-month Capital Values Forecast

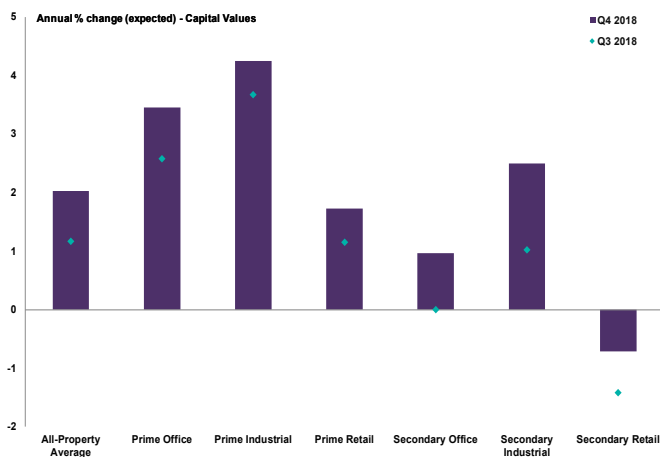
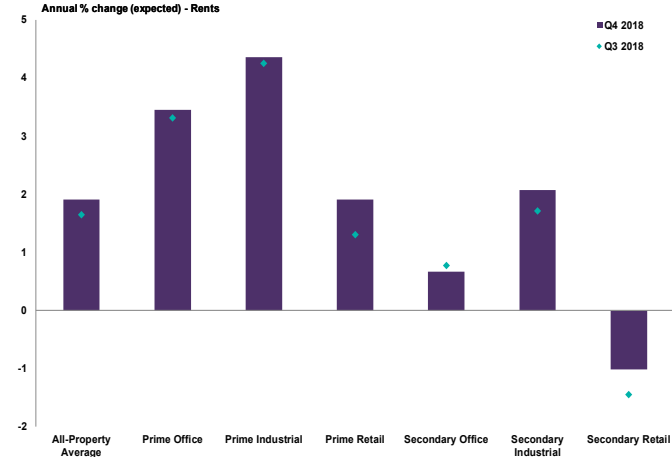


Chart 6: 12-month Rent Forecast



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 December 2018 with responses received until 11 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 2665 company responses were received, with 692 from the UK. 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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