

December 2017

Top 10 Predictions for 2018

This is the last edition of the Colliers New Zealand Research Report for 2017. As is traditional, we provide our top 10 predictions for next year. Check out how we think we fared for last years' predictions overleaf. In no particular order, our top ten predictions for 2018 are:

Investment

1. The official cash rate (OCR) isn't expected to go up until late 2018 at the earliest but debt cost will increase due to increased funding costs offshore. Shortage of quality stock for sale in a high demand environment will be a more powerful influence than marginally higher debt costs, driving further yield compression in the commercial sector.
2. New Zealand investment groups will be the dominant players in rural investment, in contrast to recent years, as changes to the Overseas Investment Act take effect. Even more overseas capital will chase urban New Zealand assets, due in part to their exclusion from rural opportunities, but mainly due to New Zealand's attractive returns.

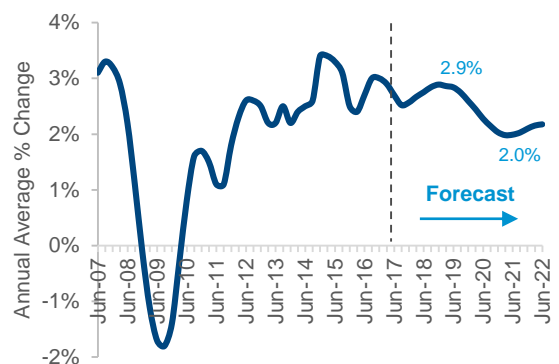
Office

3. Actual or imminent supply additions in Auckland and Wellington won't stop rental and capital value rises in 2018. Syndicators and overseas funds will continue to be the dominant buyers of substantial city centre properties, as domestic institutions find it hard to justify buying at current price levels.

Industrial

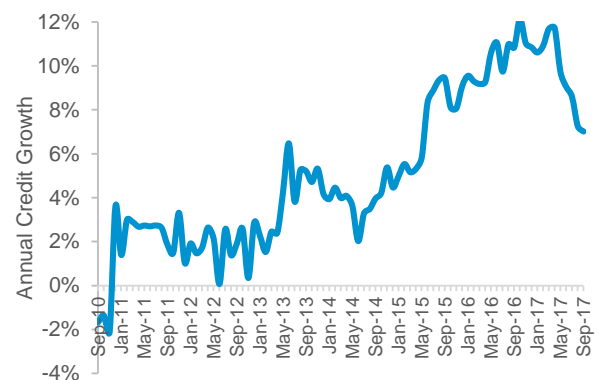
4. The high level of confidence shown by industrial investors in 2017 will prove to be justified, with more rental rises and steady (already very low) yields, particularly in the main centres.

New Zealand GDP – Annual % Growth



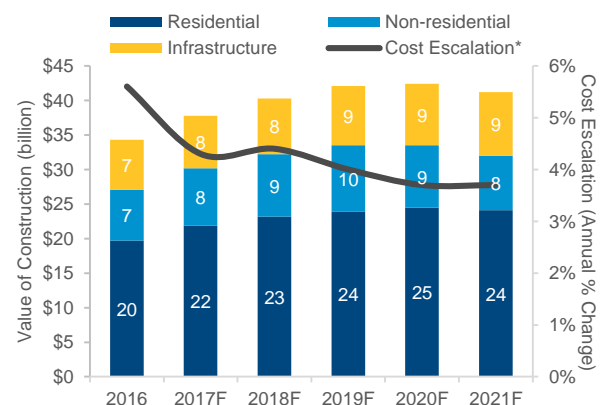
Source: Westpac, Colliers International Research

Commercial Property – Annual Credit Growth



Source: RBNZ, Colliers International Research

New Zealand Construction Activity – by Value



Source: MBIE, NZIER, Colliers International Research
*Non-residential cost escalation (December forecasts).

Top Ten Predictions for 2018 (continued...)

Industrial

- Increasing on-line retail activity will boost demand for warehousing from retail logistics providers, aided by continuing low fuel prices. In Auckland, a regional fuel tax will concentrate demand close to arterial roads.

Retail

- A more stringent application of GST to offshore on-line purchases will boost domestic on-line sales, which will grow more quickly in 2018 than for any of the last few years.
- Increasing staff costs combined with lower immigration will begin to prey on the minds of retailers particularly those in the food and beverage sector. However, the lag effect of these measures and continued positive consumer confidence will defer any negative effects beyond 2018.

Longer term any potential downturn will be counteracted by robust tourism growth, but in markets where tourists are thin on the ground, food and beverage demand for more and more floor space will cool from 2019.

Housing

- At the end of 2018 the national median price will be higher than it is now. Downside protection will be provided by base demand, which remains robust, low interest rates and, at the margins, easing of loan to value restrictions (LVR).
- Concentrating overseas buyers on new homes plus a bit of government buying, will begin to boost 'off plan' sales, allowing supply in the following years to increase.

Construction Cost

- Government efforts to increase skilled labour for the construction industry may be constrained by other policies, such as free tertiary education for a year, and reduced immigration. Construction cost inflation isn't going to go away in the short term.

How well did we do in our predictions for 2017?

Check it out on our website at:

http://www.colliers.co.nz/research/monthly_reports

New Zealand Key Economic Indicators – December 2017

	Jun-17 (yr rate)	Jun-17 (qtr rate)	Mar-17 (qtr rate)	Q-o-Q Change	Jun-16 (yr rate)	Y-o-Y Change	2018F*	2019F*
GDP Growth	2.5%	0.8%	0.6%	0.2%	3.5%	-1.0%	3.5%	3.2%
Current Account (% of GDP)	-2.8%	NA	NA	NA	-2.7%	-0.1%	-1.4%	-2.2%
	Sep-17 (yr rate)	Sep-17 (qtr rate)	Jun-17 (qtr rate)	Q-o-Q Change	Sep-16 (yr rate)	Y-o-Y Change	2018F*	2019F*
CPI Inflation	1.9%	0.5%	0.0%	0.5%	0.4%	1.5%	1.9%	2.0%
Net Migration Gain (000's)	71	16	18	-2	70	1	52	42
Retail Sales (ex-auto)	6.1%	1.2%	2.0%	-0.8%	5.7%	0.4%	5.0%	4.7%
Unemployment Rate	4.9%	4.6%	4.8%	-0.2%	5.0%	-0.1%	4.5%	4.4%
	Oct-17 (yr rate)	Sep-17 (yr rate)	M-o-M Change	Oct-16 (yr rate)	Y-o-Y Change	10 Year Average	2018F*	2019F*
Tourist Numbers Growth	3.9%	3.4%	1.9%	14.3%	-10.4%	4.4%	6.5%	4.9%
Official Cash Rate	1.75%	1.75%	0 bps	2.0%	-25 bps	3.25%	2.00%	2.75%
90 Day Bank Bill Rate	2.0%	2.0%	0 bps	2.2%	-20 bps	3.5%	2.1%	2.8%
10 Year Government Bond	2.9%	2.9%	0 bps	2.5%	38 bps	4.4%	3.8%	4.2%
Floating Mortgage Rate	5.8%	5.8%	0 bps	5.6%	25 bps	6.6%	5.7%	6.3%
3 Year Fixed Housing Rate	5.5%	5.5%	0 bps	5.2%	31 bps	6.7%	NA	NA
Consumer Confidence	126	130	-3%	123	3%	120	NA	NA
NZD vs US	0.71	0.72	-3%	0.72	-1%	0.74	0.68	0.67
NZD vs UK	0.53	0.55	-2%	0.58	-8%	0.48	0.51	0.49
NZD vs Australia	0.91	0.91	0%	0.94	-4%	0.85	0.89	0.87
NZD vs Japan	80	80	-1%	74	7%	73	81	82
NZD vs Euro	0.60	0.61	-1%	0.65	-7%	0.58	0.69	0.69

Source: NZIER, Colliers International Research

*March year forecast

Office

Looking at 2017, we have seen the completion of several high quality office buildings across Auckland. In Auckland's CBD, 51,300 sqm of new office space has come into the market, with the completion of Datacom, 12 Madden Street, 46 Sale Street and the retrofit of 125Q. Outside of the CBD, 22,820 sqm of new office space came to the market with the completion of Quad 7, 119 GNR, Mitre 10's head office, 28 Corinthian Drive and Candida Office Park - Building 4.

We expect another 19,650 sqm to be completed by Christmas with completion of the B:Hive in Takapuna and 22 Pollen Street in Ponsonby. In 2016, 54,220 sqm of office space was completed compared to 2017 when 93,770 sqm will be completed.

Looking forward, we have another 55,700 sqm under construction and estimated to be completed in 2018, including No.1 Sylvia Park, St Georges Corporate Centre and Vocus House.

Retail

We have recently released our [New Zealand Retail Report](#). Here are some key findings:

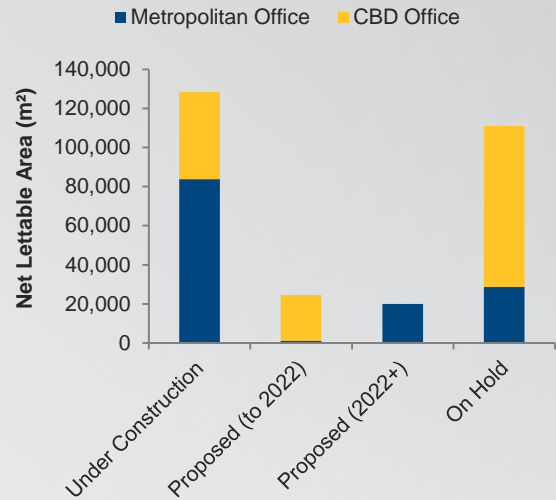
- Strong visitor numbers into New Zealand are helping boost retail sales, especially in the food and beverage sector. Tenant demand remains buoyant on the main CBD strips in Auckland and Wellington.
- The demise of some high-profile retailers highlights the competitive nature of the retail market and threats from growing e-commerce. This may limit landlords' ability to increase rents significantly over the short term.
- Consumer preferences are ever changing. Online shopping, 'click and collect' services, same day delivery orders, food subscription boxes, are all gaining traction, and diverting traffic away from physical stores.
- Shopping centres have been evolving, with mall owners continuing to invest heavily in expansion to reinvigorate tenancy mix and enhance shoppers' experience, through improved amenities like free Wi-Fi, retail laneways, outdoor dining areas and well-designed shared spaces.

Industrial

Strong demand for housing and infrastructure, especially in Auckland, is having an impact on the industrial sector. Consent values and numbers for both residential and non-residential are at record highs reaching \$6.15 billion in the year to October 2017, and 11,257 consents, close to pre-GFC levels.

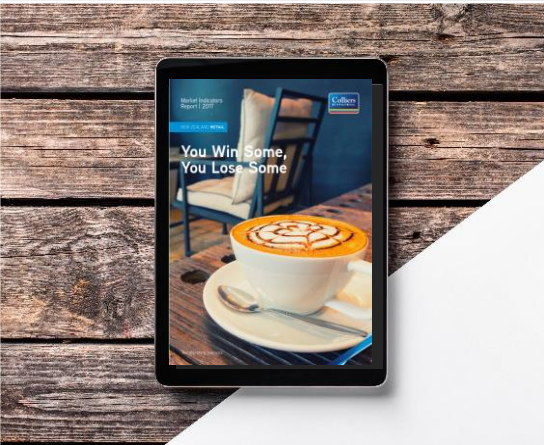
The market is responding by developing new purpose builds for construction businesses. An example is the recent opening of Firth Concrete's new plant at 489 Hunua Road, replacing their current plant at 27 Smales Road. Firth, a subsidiary of Fletcher Building has invested more than \$400 million on local manufacturing in the past five years. The new \$30 million plant in Hunua was built as a direct response to the rise in construction demand in Auckland.

Auckland's Office Development Pipeline



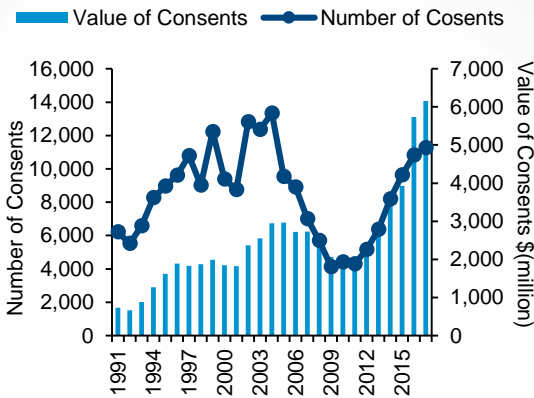
Source: Colliers International Research

New Zealand Retail Report - 2017
"You Win Some, You Lose Some"



For more information download a copy at <http://www.colliers.co.nz/find-research/retail>

Auckland Region – All Building Consents



Source: Stats NZ, Colliers International Research
Annual to October.



Recent New Zealand Commercial Property Sales Activity

Address	Location	Property Type	Date	Price
Central Park Corporate Centre, 666 Great South Road	Greenlane, Auckland	Office	Nov-17	\$209,000,000 (Conditional Sale)
Steel & Tube, 65 Seymour Street	Hornby, Christchurch	Industrial	Nov-17	\$20,400,000
7 Tennyson Street	Rolleston, Christchurch	Retail	Nov-17	\$3,215,000
248 Cumberland Street	Dunedin	Office	Nov-17	\$2,825,000
66 Hillside Road	Wairau Valley, Auckland	Office	Nov-17	\$1,920,000
133 Newton Street	Mount Maunganui, Tauranga	Industrial	Nov-17	\$1,910,000
Lot 232 Kennedy Road	Tauriko, Tauranga	Industrial Vacant	Nov-17	\$1,775,630
U11& U13, 175 Millwater Parkway	Millwater, Auckland	Retail	Nov-17	\$1,501,000
Lots 2 & 11, 180 Dukes Road	North Taieri, Dunedin	Industrial	Nov-17	\$1,150,000 & \$881,000



Central Park Corporate Centre
Greenlane, Auckland



133 Newton Street
Mount Maunganui, Tauranga



Units 11 & 13, 175 Millwater Parkway
Silverdale, Auckland

New Zealand Prime Indicators

Property Sector	Prime Rents		Prime Capital Values		Prime Vacancy Rate	
	(% Change)		(% Change)		Current	12-Month Forecast
	12-Months to Sep-17	12-Month Forecast	12-Months to Sep-17	12-Month Forecast		
Office					Sep-17	Sep-18
Auckland Metropolitan***	9.6%	1.5%	14.1%	7.1%	4.2%	N/A
Office					Jun-17	Jun-18
Auckland CBD	7.4%	6.5%	11.7%	11.3%	3.8%	2.1%
Wellington CBD**	5.5%	22.7%	5.3%	33.8%	0.1%	0.2%
Industrial*					Aug-17	Aug-18
Auckland	2.2%	2.0%	2.4%	2.0%	1.3%	1.9%
Industrial*					Sep-15	Sep-16
Christchurch	0.0%	0.0%	0.7%	0.0%	0.3%	0.3%
Industrial*					Nov-15	Nov-16
Wellington**	7.9%	7.5%	11.1%	7.5%	4.0%	0.6%
Retail					Jun-17	Jun-18
Auckland CBD	1.8%	3.0%	9.1%	3.0%	2.8%	3.3%
Wellington CBD**	5.7%	-0.02%	6.6%	-0.03%	5.6%	5.2%

Source: Colliers International Research

*A combination of industrial office and warehouse space at a ratio of 20:80

**Wellington rental figures are gross and capital values based on net rent. Wellington retail vacancy figures are overall.

***Financial indicators are Auckland City Fringe.

NZIER QUARTERLY PREDICTIONS |

December 2017

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New Government, new policies

While there is uncertainty over many of the new Government's policy changes, more expansionary fiscal policy will be a feature of the next few years. This will provide a short-term stimulus to the economy. This stimulus, combined with the lagged effects of strong population growth in recent years, will continue to support solid economic activity for the next year. However, tighter migration policy settings will see the number of permanent arrivals start to drop faster. Labour supply growth will also decline, with more acute labour shortages likely to see a lift in wage growth from 2019.

Overall, we expect a softer economic outlook, with annual GDP growth averaging below 3 percent over the next five years. We expect GDP growth per capita to lift to around 1.3 percent on average over the next few years.

Tourism activity continues to underpin growth

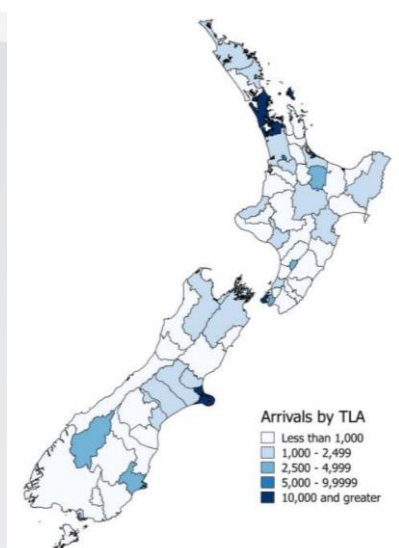
Tourism activity remains very strong, with international visitors totalling 3.7 million over the past year. Increased flight capacity continues to bring more tourists to New Zealand, as well as helping more Kiwis to travel abroad.

The influx of international visitors has placed pressure on infrastructure, with demand for new hotel developments driving an increase in non-residential construction activity over the past year. We expect further strength in tourism activity will support economic growth through the next few years.

Lift in inflation

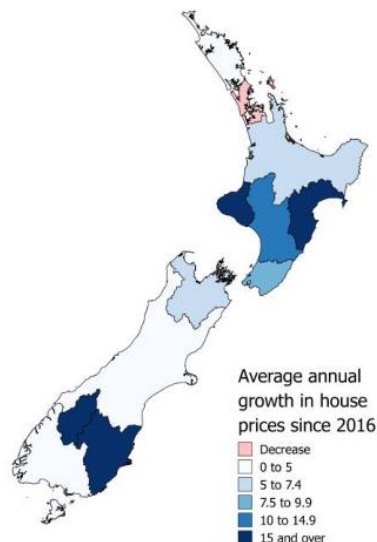
The combination of increased fiscal stimulus from the Government and more acute capacity pressures, as lower migration inflows weigh on labour supply, is likely to see a slightly faster pick-up in inflation. However, inflation remains contained for now, and the continued easing in housing market activity and uncertainty over the global outlook gives the Reserve Bank time to assess when monetary policy will need to be tightened. We continue to expect the Reserve Bank will start lifting the OCR from November 2018.

Annual change in permanent arrivals
for year to October 2017



Source: NZ Stats, NZIER

Annual % change in median house
prices over past year



Source: REINZ, NZIER

Thanks to all subscribers, readers and respondents. We hope you enjoy the festive season ahead. The monthly report is scheduled for the first Friday of every month in 2018, excluding January. Stay tuned for our exciting new 2018 research reports. If you would like to see the year's worth of research, check out the list below:



Industrial Market Research

- [Australasian Industrial Second Half 2017](#)
- [New Zealand Industrial Research Report 2017](#)
- [Australasian Industrial First Half 2017](#)

Office Market Research

- [New Zealand CBD Office Report 2017](#)
- [Australasian CBD Office Second Half 2017](#)
- [Auckland Metropolitan Office Research Report 2017](#)
- [Australasian CBD Office First Half 2017](#)

Retail Market Research

- [New Zealand Retail Report 2017](#)
- [Australasian Retail Second Half 2017](#)
- [Australasian Retail First Half 2017](#)

Residential Market Research

- [Auckland Residential Development Report 2H2017](#)
- [Auckland Residential Development Report 1H2017](#)

Property Surveys

- [Commercial Property Investor Confidence Survey Q3 2017](#)
- [Residential Property Market Outlook Survey Q3 2017](#)
- [Commercial Property Investor Confidence Survey Q2 2017](#)
- [Residential Property Market Outlook Survey Q2 2017](#)
- [Commercial Property Investor Confidence Survey Q1 2017](#)
- [Residential Property Market Outlook Survey Q1 2017](#)

Monthly Commercial Property Research

- [New Zealand Research Report February 2017](#)
- [New Zealand Research Report March 2017](#)
- [New Zealand Research Report April 2017](#)
- [New Zealand Research Report May 2017](#)
- [New Zealand Research Report June 2017](#)
- [New Zealand Research Report July 2017](#)
- [New Zealand Research Report August 2017](#)
- [New Zealand Research Report September 2017](#)
- [New Zealand Research Report October 2017](#)
- [New Zealand Research Report November 2017](#)

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