

May 2017

ONWARDS AND UPWARDS

Construction costs for new residential and commercial buildings will continue to rise in 2017, as increasing project costs and capacity constraints create major headaches for developers.

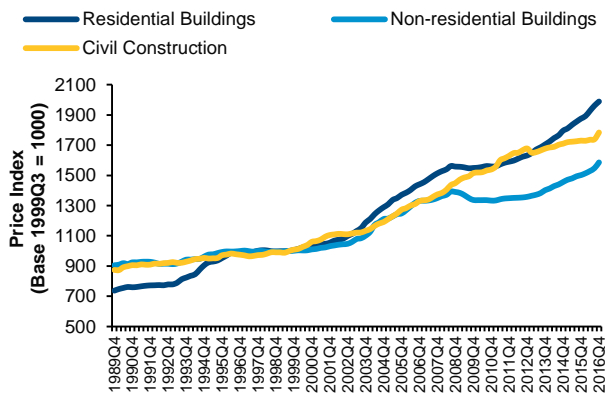
The Capital Goods Price Index, which tracks cost escalation nationally, showed annual growth in residential construction costs reaching 6% in the December 2016 quarter, which is well above the 26 year average of 3.7% per annum. The commercial sector recorded 5.6%, slightly lower, but showed a much sharper increase in the latest quarter.

Anecdotally, developers and their consultants report much higher cost inflation on specific projects, particularly in Auckland, and particularly from specialist sub-contractors. Some relief is likely in cost inflation, as development finance becomes more difficult and expensive to secure, which will likely lead to deferment of some projects. Interest rates have already edged up over the last six months, as banks pass on the cost of their overseas borrowing, and major contractors are also cautious about the projects they commit to. Existing construction industry capacity will be spread slightly less thinly over the remaining projects, potentially easing inflation pressures.

Capacity pressures shouldn't come as a surprise, considering that a record 72 cranes dominate the skyline of Auckland alone, according to the latest Rider Levett Bucknall data. Christchurch and Wellington report strong numbers also, with 25 cranes and 11 cranes respectively. Overall this represents 15 more cranes across New Zealand over the last six months.

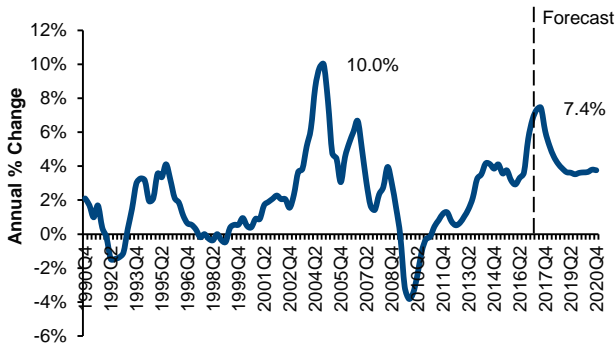
New non-residential building consents issued in Auckland reached a record high of \$1.82 billion in value in the year to March 2017. This was boosted by the consent on the Park Hyatt Hotel in Auckland of \$141 million in March.

Construction Cost Price Index



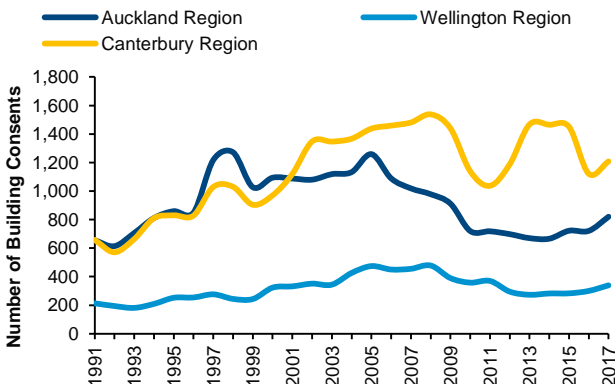
Source: Stats NZ, Colliers International Research

Non-Residential Building Cost Escalation Forecast



Source: Stats NZ, NZIER, Colliers International Research

Non-Residential Building Consents – Annual March



Source: Stats NZ, Colliers International Research

ONWARDS AND UPWARDS (continued...)

Construction activity in Canterbury has continued to soften over the past year as post-earthquake rebuilding activity winds down.

NZIER forecasts non-residential construction cost inflation to peak at 7.4% by September 2017, moderating to around 4% by the end of 2018. Record low vacancy across the office, retail and industrial sectors will continue to stimulate construction activity, especially in Auckland.

Fletcher Building's downgrade in earnings highlights the major issues the construction industry is facing. The increase in build costs has cut into margins, where maximum prices are fixed.

Now that inflation has increased to 2.2% annually for the March 2017 quarter, the highest in five years, the case for the Reserve Bank to lift the Official Cash Rate upward is strengthened, but the consensus is still for no increase this year at least.

We have released our Auckland Residential Development Report which provides some interesting analysis of the New Zealand residential market. Our new apartment map highlights a new wave of developments in the pipeline. Please find a copy on our website at www.colliers.co.nz/find-research.

Commercial Interest Rate Guide

Date	3 Year Term (Indicative Borrowing Rate)
May-16	4.85%
Jun-16	4.88%
Jul-16	4.77%
Aug-16	4.59%
Sept-16	4.52%
Oct-16	4.57%
Nov-16	4.81%
Dec-16	4.96%
Jan-17	5.22%
Feb-17	5.10%
Mar-17	5.10%
Apr-17	5.10%

Source: ANZ Bank, Colliers International Research

Note: the lending rate quoted in the table is not necessarily what you will be offered, and should be regarded as indicating medium term trends.

New Zealand Key Economic Indicators – May 2017

	Dec-16 (yr rate)	Dec-16 (qtr rate)	Sep-16 (qtr rate)	Q-o-Q Change	Dec-15 (yr rate)	Y-o-Y Change	2017F*	2018F*	2019F*
GDP Growth	2.7%	0.4%	0.8%	-0.4%	2.2%	0.5%	3.1%	2.9%	3.4%
Current Account (% of GDP)	-2.7%	NA	NA	NA	-3.4%	0.6%	-3.2%	-4.0%	-4.5%
	Dec-16 (yr rate)	Dec-16 (qtr rate)	Sep-16 (qtr rate)	Q-o-Q Change	Dec-15 (yr rate)	Y-o-Y Change	2017F*	2018F*	2019F*
CPI Inflation	1.3%	0.4%	0.3%	0.1%	0.1%	1.3%	1.0%	1.8%	1.8%
Net Migration Gain (000's)	70	18	18	1	65	5	71	69	62
Retail Sales (ex-auto)	5.0%	0.8%	0.4%	0.4%	4.9%	0.1%	5.6%	5.0%	5.4%
Unemployment Rate	5.1%	5.2%	4.9%	0.3%	5.4%	-0.3%	5.0%	4.8%	4.8%
	Feb-17 (yr rate)	Jan-17 (yr rate)	M-o-M Change	Feb-16 (yr rate)	Y-o-Y Change	10 Year Average	2017F*	2018F*	2019F*
Tourist Numbers Growth	6.9%	10.0%	-1.9%	5.2%	1.7%	3.8%	7.0%	6.5%	4.9%
Official Cash Rate	1.75%	1.75%	0 bps	2.5%	-75 bps	3.61%	1.75%	1.75%	2.50%
90 Day Bank Bill Rate	2.0%	2.0%	4 bps	2.6%	-60 bps	3.9%	2.0%	1.9%	2.5%
10 Year Government Bond	3.3%	3.2%	6 bps	3.1%	23 bps	4.6%	3.0%	3.5%	3.8%
Floating Mortgage Rate	5.7%	5.7%	1 bps	5.8%	-5 bps	6.8%	5.1%	5.1%	5.6%
3 Year Fixed Housing Rate	5.5%	5.5%	0 bps	5.4%	16 bps	6.9%	NA	NA	NA
Consumer Confidence	127	129	-1%	120	6%	119	NA	NA	NA
NZD vs US	0.72	0.71	1%	0.66	9%	0.75	0.70	0.69	0.67
NZD vs UK	0.58	0.58	0%	0.46	25%	0.47	0.57	0.53	0.50
NZD vs Australia	0.94	0.95	-1%	0.93	1%	0.85	0.92	0.91	0.87
NZD vs Japan	82	82	0%	76	7%	74	79	80	81
NZD vs Euro	0.68	0.67	1%	0.60	14%	0.57	0.66	0.68	0.69

Source: NZIER, Colliers International Research

*March year forecast

Office

Between 2000 and 2016, the national employment count for office based industries increased by approximately 43% (157,700 jobs). Despite an approximate 5% decline between 2008 and 2010 equating to 23,700 jobs, according to Statistics New Zealand. Since then, there has been a strong pick up in the economy and a surge of employers hiring as businesses expanded. National employment counts increased by 3% over the last year, to approximately 521,000 jobs.

New Zealand's overall employment growth is off to a good start for 2017 with unemployment rate falling lower than expected to 4.9% in the March 2017 quarter from 5.2% in December 2016 quarter. New Zealand's employment grew 1.2% to 2.54 million workers, according to Statistics New Zealand.

Retail

The retail climate continues to evolve with the growth in online transactions overtaking spending at physical stores, confirming e-commerce growth is changing the way consumers make purchasing decisions.

According to the latest BNZ research, total online spending by New Zealanders increased 14% in the year leading up to February 2017. A solid performance, BNZ said, considering last year was a leap year which can affect sales up to 3% depending on the day of the week the extra day falls on among other factors.

Amazon's recent expansion into the Australian market will no doubt shake things up for established 'brick and mortar' retailers in Australia. New Zealand retailers will have a firm eye on the impact that the imminent arrival of Amazon in Australia will have on New Zealand spending patterns.

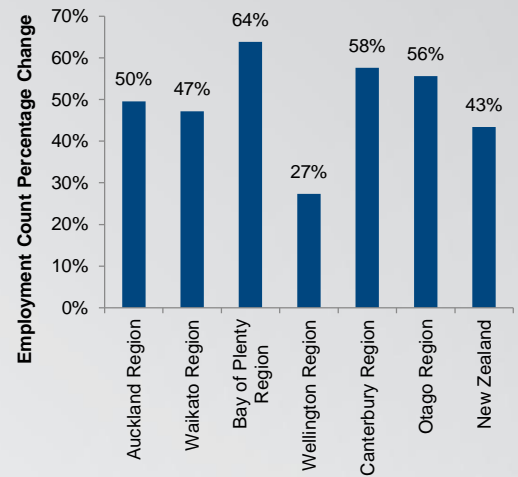
Industrial

The industrial sector stood out as a high performer yet again providing the highest number of sales in 2016 of all sectors. No surprises here as this has been the case since the start of our records in 1998.

In the 'Rest of New Zealand', which includes all regions outside of Auckland, Wellington and Christchurch, industrial sales have now reached pre-GFC levels with 1,174 sales recorded in 2016, the highest they have been since 2007. This could be attributed to the growth and strength of the industrial sector overflowing from the main regions to the other parts of the country.

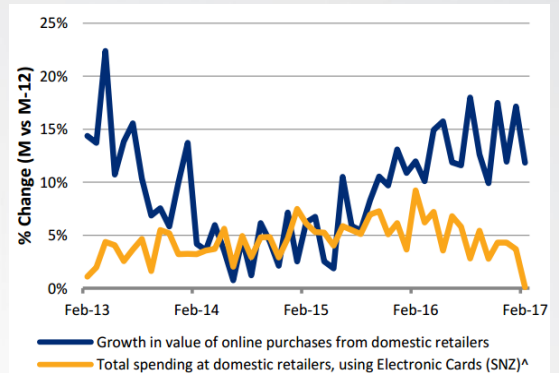
Our Q1 2017 investor confidence survey also shows investors are most confident about the industrial sector. National investor confidence for industrial is a net positive 32.9%, which is higher than office and retail confidence and also than overall national confidence.

Office Sector Employment Count Percentage Change (2000 to 2016)



Source: Stats NZ, Colliers International Research

NZ Domestic Online vs Electronic Card Transactions

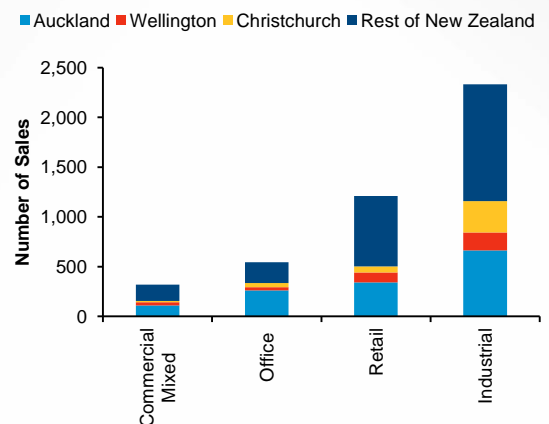


Source: BNZ, Marketview & Stats NZ

^^"SNZ" refers to official figures released by Stats NZ.

Electronic Card Transactions is from Stats NZ and is for core retail excluding hospitality. NZ Domestic Online data is from BNZ & Marketview.

2016 Commercial Property Sales – By Sector and Region



Source: CoreLogic, Colliers International Research

Recent New Zealand Commercial Property Sales Activity

Address	Location	Property Type	Date	Price
The Warehouse Site, 74 Broadway	Newmarket, Auckland	Retail / Development Site	Apr-17	\$65,000,000
9 Bostock Place	East Tamaki, Auckland	Industrial	Apr-17	\$5,650,000
43 Wilkinson Road	Ellerslie, Auckland	Development Site	Apr-17	\$4,000,000
433-441 Rangitikei Street	Palmerston North	Industrial	Apr-17	\$2,800,000
75 Aviation Avenue	Mount Maunganui	Industrial	Apr-17	\$2,060,000
184 Kapiti Road	Paraparaumu, Kapiti Coast	Commercial Mixed	Apr-17	\$1,830,000
26-29 Marine Parade	Paraparaumu, Kapiti Coast	Retail / Development Site	Apr-17	\$1,300,000
90 Lady Ruby Drive	East Tamaki, Auckland	Industrial	Mar-17	\$1,930,000

Recent New Zealand Commercial Property Leasing Activity

Address	Location	Property Type	Date	NFA (m ²)	Lessor	Lessee
Catalina Bay	Hobsonville Point, Auckland	Office	Mar-17	N/A	Willis Bond & Co.	Homes. Land. Community. (Formerly Hobsonville Land Company)



The Warehouse Site, 74 Broadway
Newmarket, Auckland



9 Bostock Place
East Tamaki, Auckland



184 Kapiti Road
Paraparaumu, Kapiti Coast

New Zealand Prime Indicators

Property Sector	Prime Rents (% Change)		Prime Capital Values (% Change)		Prime Vacancy Rate		
	12-Months to Mar-17	12-Month Forecast	12-Months to Mar-17	12-Month Forecast	Historical	Current	12-Month Forecast
Office					Mar-16	Mar-17	Mar-18
Auckland Metropolitan***	5.8%	1.1%	9.7%	4.8%	5.7%	6.1%	8.9%
Office					Dec-15	Dec-16	Dec-17
Auckland CBD	7.6%	6.5%	14.7%	7.7%	1.2%	2.8%	5.4%
Wellington CBD**	4.4%	24.5%	8.8%	31.3%	2.1%	1.2%	N/A
Industrial*					Feb-16	Feb-17	Feb-18
Auckland	3.6%	2.0%	12.6%	2.0%	1.7%	1.4%	2.2%
Industrial*					Sep-15	Sep-16	Sep-17
Christchurch	1.0%	0.0%	6.1%	0.0%	0.3%	0.3%	0.5%
Industrial*					Nov-15	Nov-16	Nov-17
Wellington**	3.9%	5.0%	6.7%	5.0%	4.0%	0.6%	1.0%
Retail					Dec-15	Dec-16	Dec-17
Auckland CBD	1.7%	4.0%	11.2%	4.0%	2.5%	2.4%	2.2%
Wellington CBD**	6.7%	-0.6%	9.6%	-2.1%	7.3%	8.8%	7.1%
Auckland Shopping Centre	7.0%	5.1%	13.0%	5.1%	1.3%	1.7%	1.6%

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.

NZ Listed Property Update | May 2017

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Dividend guidance will be the focus on the May reporting season

We are expecting earnings per share growth of +3.7% (median) in the upcoming May reporting season, where seven LPV's will report full-year results. Growth will be driven by both revenue gains from acquisitions and developments, as well as lower debt costs, which is a continuing theme in recent years. Dividend guidance will be particularly important as the market is becoming increasingly focussed on cash earnings and dividend sustainability.

NPT dominates the headlines in a quiet month

April 2017 has been a slow month for company announcements with most listed property vehicles (LPV's) gearing up for the May reporting season. The NPT shareholder meeting dominated headlines with the Kiwi Property proposal being voted down and significant changes to NPT's Board being put into effect. We now await a new proposal from Augusta Capital which has cited its intention to externalise NPT's management and reduce corporate costs in a new deal.

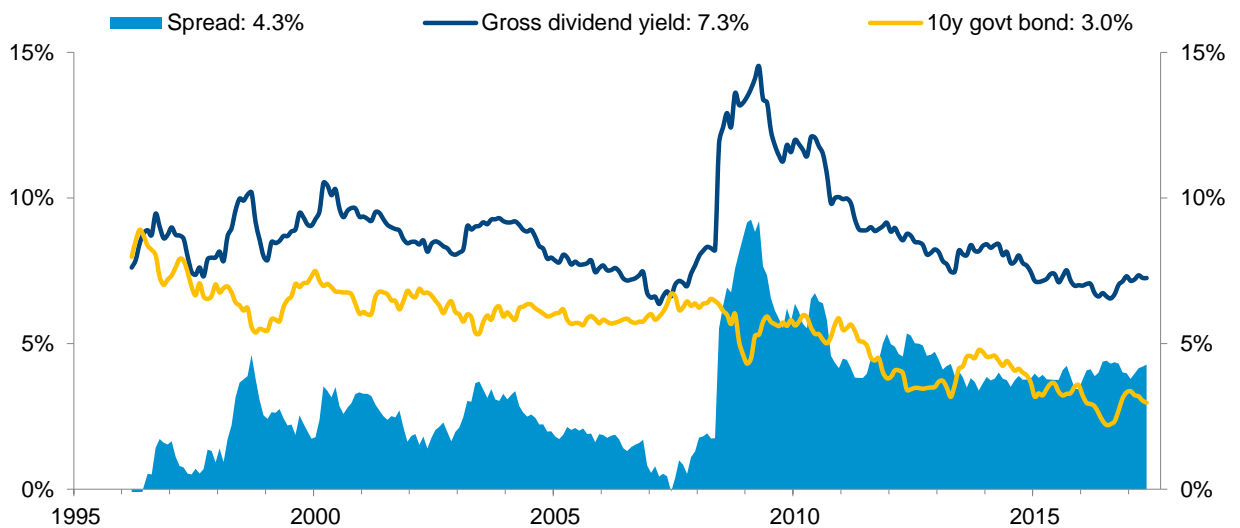
Soft LPV returns continue

LPV's have underperformed the broader equity market by -4.5% year-to-date, returning +2.7% versus the broader New Zealand share market which is up +7.2%. Vital Healthcare was the top performer in April (+7.1%) following news of a takeover bid for Generation Healthcare, an ASX-listed property vehicle with a very comparable portfolio to Vital, and the same manager. NPT also performed strongly (+6.8%), rebounding off very soft share price performance in March (-7.1%).

Sector still looks fair value

In-line with April metrics, the core LPV's continue to trade at a -2% discount to asset backing (NTA per share). We expect further NTA expansion is likely in the May reporting season, meaning this discount is likely deeper on up-to-date NTAs. Underlying property fundamentals remain sound with a number of LPV's being successful in managing lease expires in recent weeks. The spread between LPV dividend yields and 10-year government bond yields remains steady at +430bps.

Spread between LPV dividend yields and 10-year bond rates



Note: Gross dividend yield is the PIE yield from September 2007
Source Forsyth Barr analysis.

Recent New Zealand Research Reports



Colliers International New Zealand Research Residential Development Report | 1H 2017

First the Demand, Now the Supply

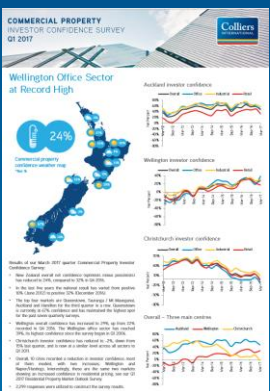
Auckland's new apartment market is booming, with a record number of apartments due to be completed over the next two years.



Colliers International New Zealand Research Report | April 2017

Wellington Office Market Bounces Back

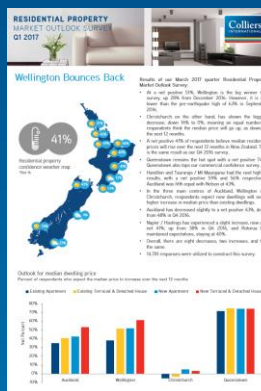
In this edition we provide a snapshot of our quarterly Commercial Investor Confidence survey results, with some surprising results in the capital.



Colliers International Commercial Property Investor Confidence Survey | Q1 2017

Wellington Office Sector at Record High

Colliers' quarterly confidence survey asks commercial property market participants about their views on the outlook for commercial property investment over the next 12 months across New Zealand.



Colliers International Residential Property Market Outlook Survey | Q1 2017

Wellington Bounces Back

Colliers' quarterly market outlook survey asks residential property market participants if the median house price will stay the same, decrease, increase by less than 5%, or increase by more than 5% over the next 12 months across New Zealand.

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