



Q1 2020: New Zealand Commercial Property Monitor

Demand for commercial property stalls amid coronavirus lockdowns

Demand for commercial property from both occupiers and investors has stalled to begin 2020, according to respondents to the RICS New Zealand Commercial Property Monitor. Uncertainty surrounding the global outbreak of Covid-19 was cited for the reversal in sentiment.

Market momentum as measured by the Occupier Sentiment Index (OSI) and Investment Sentiment Index (ISI), reversed sharply to start 2020, falling to -19 and -11 respectively in Q1. This is indicative of a moderate pullback in momentum. However, as can be seen in Chart 1, both indicators are still not as negative as they were during the GFC.

Charts 3 and 4, which detail the supply/demand dynamics of the occupier and investment markets offer some clues as to why this may be the case. Both show that demand has levelled off in Q1 - Chart 3 shows a slight contraction in occupier demand while Chart 4 indicates respondents saw

little change in investment demand from Q4 to Q1. This result appears to be somewhat indicative of occupiers and investors maintaining a sort of 'holding pattern' in Q1 given the uncertain duration of the coronavirus lockdowns.

Both rents and capital values are still expected to decline over the next three months (Chart 2). Perhaps unsurprisingly, in net balance terms, the pullback in rents and capital values for retail properties are expected to be more severe than those for industrial and office properties.

This dynamic is echoed in respondent's one-year expectations for rents and capital values, shown in Charts 7 and 8. Prime office and industrial properties are expected to be more resilient than retail, with the former seeing little change in rental and capital values. The charts also indicates that the spread between primary and secondary assets is expected to widen significantly.

Chart 1: RICS OSI and ISI

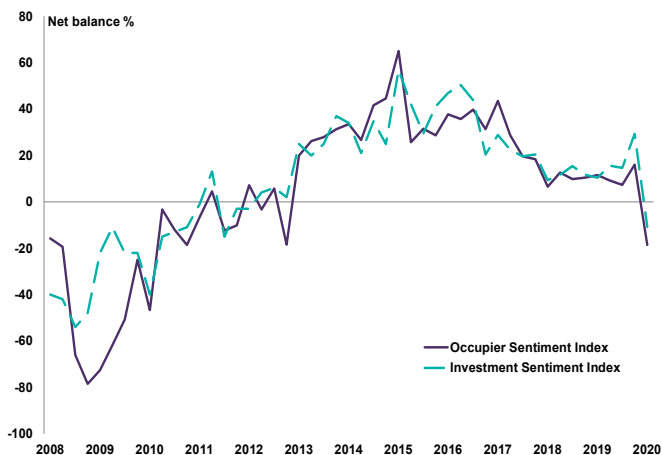


Chart 2: Three Month Rents, Capital Values

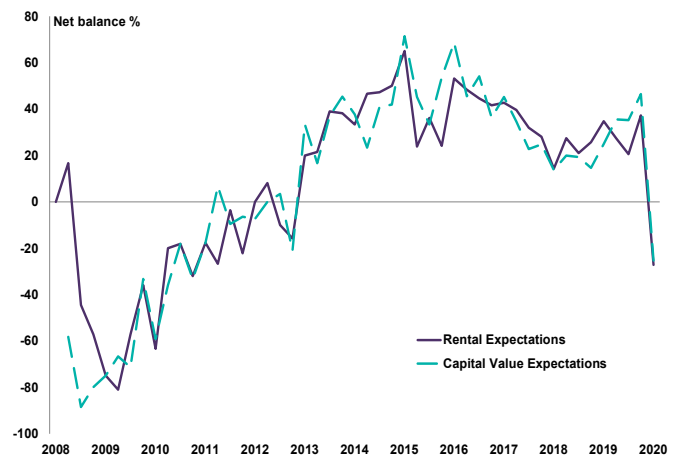


Chart 3: Occupier Market

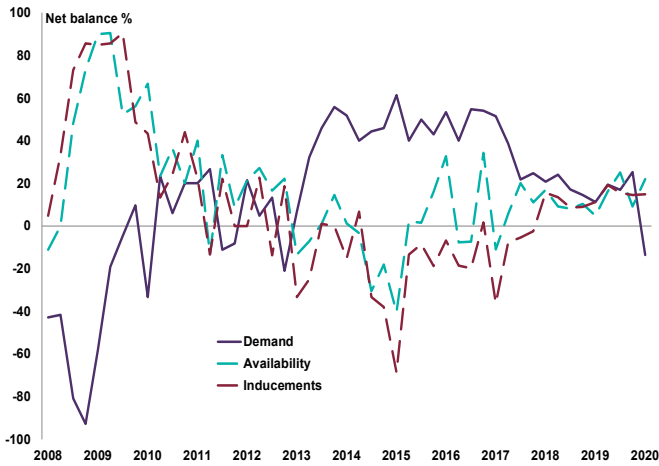


Chart 4: Investment Market

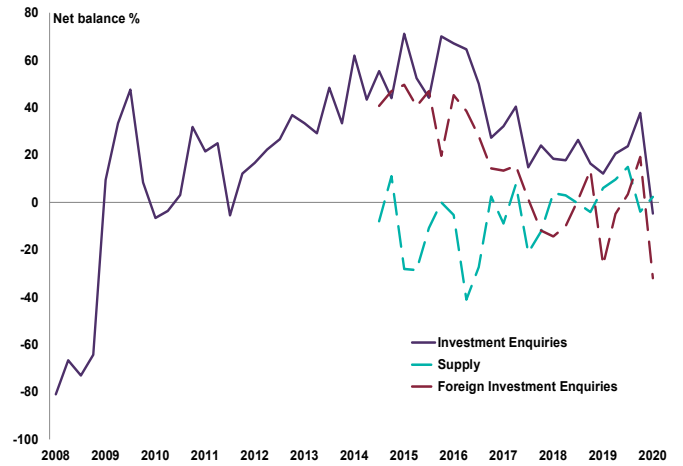


Chart 5: Credit Conditions

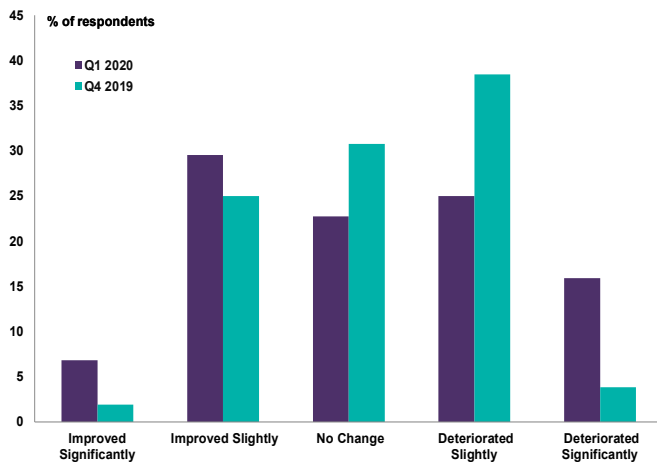


Chart 6: Stage of the Cycle

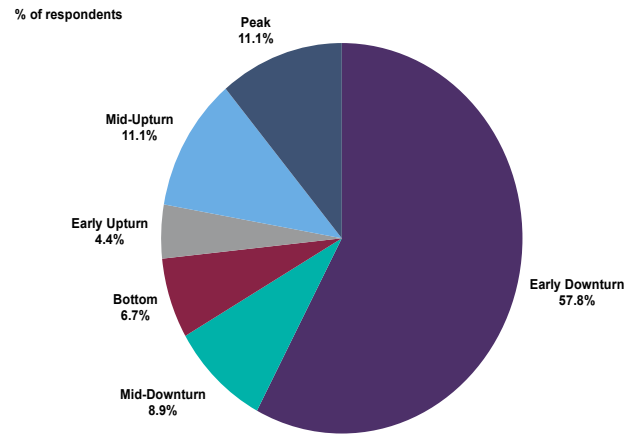


Chart 7: Twelve Month Capital Value Projections

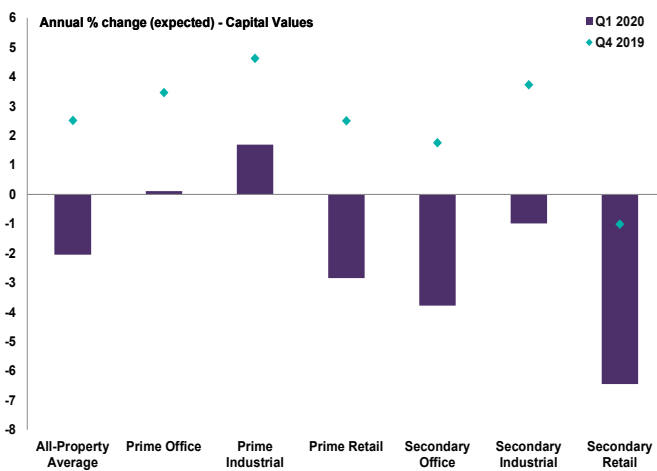
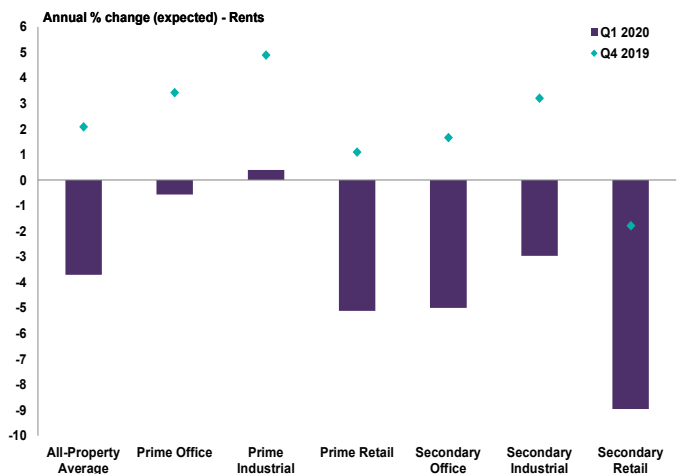


Chart 8: Twelve Month Rental Value Projections



Comments from Survey Participants in New Zealand



“Key fact in Wellington will be the attractiveness of Long WALT, Government Backed, Prime Office buildings.”
- Wellington



“With the current coronavirus pandemic background, the global economy may require several months for recovering, which slows down the commercial property market growth. Many small & medium businesses are facing cash flow risks. Due to the uncertainty of this event, this may result in a consistent market stagnancy.”
- Auckland



“The current global Covid-19 pandemic is impacting the market and it is difficult at this stage to see the longer term impacts of this. It is likely that the domestic market will see an increase in liquidations in the short-term, increasing vacancy rates and reducing rents and capital values. However, the speed of the recovery and the time taken for foreign investors to re-enter markets is less certain.”
- Christchurch



“Significant impact from Covid-19 on retail, F&B, hotel sectors. Lower interest rate increasing investment demand via syndicators. Will emphasise differential between good tenant covenants and risky covenants. Increased ‘flight to quality’ - with more weighting than usual on tenant strength versus, location, building quality etc.”
- Christchurch



“Dunedin is currently experiencing its strongest commercial market in many years. A combination of strong inward migration (from other parts of New Zealand) and new development starts (including the \$1 billion plus new Dunedin hospital) are driving demand across the property asset classes.”
- Dunedin

RICS Consensus 12-month Rent Expectations

	Total	Prime Office	Prime Industrial	Prime Retail	Secondary Office	Secondary Industrial	Secondary Retail
Asia Pacific	-6.2%	-4.4%	-2.9%	-8.6%	-6.3%	-4.9%	-10.0%
Australasia	-5.0%	-2.9%	-1.0%	-7.2%	-5.6%	-3.5%	-9.8%
Australia	-5.5%	-3.7%	-1.6%	-8.0%	-5.7%	-3.8%	-10.0%
Brisbane	-5.7%	-3.5%	-1.3%	-7.3%	-7.0%	-3.9%	-11.3%
Melbourne	-6.1%	-3.8%	-1.4%	-8.4%	-6.0%	-4.4%	-12.8%
Perth	-6.3%	-3.6%	-3.5%	-9.6%	-7.1%	-4.4%	-9.8%
Sydney	-4.5%	-4.1%	-0.9%	-7.2%	-4.1%	-3.0%	-7.8%
New Zealand	-3.7%	-0.6%	+0.4%	-5.1%	-5.0%	-3.0%	-9.0%
Auckland	-4.0%	-0.7%	+0.4%	-5.3%	-5.4%	-4.1%	-9.1%
East Asia	-7.5%	-5.3%	-3.9%	-10.5%	-7.3%	-6.0%	-11.7%
China	-4.5%	-1.0%	-1.8%	-2.3%	-7.0%	-6.0%	-8.9%
Beijing	-6.0%	-0.7%	-1.5%	-4.5%	-8.9%	-8.3%	-12.0%
Shanghai	-3.7%	-0.4%	-1.3%	-1.3%	-5.7%	-5.0%	-8.4%
Hong Kong	-9.6%	-8.1%	-5.8%	-14.3%	-8.6%	-7.1%	-13.8%
Japan	-3.5%	-1.3%	+0.3%	-7.2%	-3.7%	-1.7%	-7.4%
Tokyo	-3.7%	-1.5%	+0.1%	-7.3%	-3.3%	-1.3%	-8.8%
South Korea	+0.5%	+3.9%	+3.9%	+0.4%	-1.4%	+0.7%	-4.6%
Seoul	+2.6%	+5.8%	+5.8%	+2.5%	+0.4%	+2.1%	-0.8%
South Asia	-0.5%	-0.5%	+0.3%	-0.6%	-0.4%	-0.5%	-1.1%
India	-1.5%	-1.2%	-0.7%	-2.0%	-1.2%	-1.6%	-2.1%
Bengaluru	+0.2%	-2.3%	+1.7%	-0.4%	+0.4%	+1.2%	+0.6%
Delhi CNCR	-4.5%	-2.6%	-5.3%	-5.6%	-2.8%	-5.6%	-5.0%
Mumbai	-2.5%	-0.3%	-0.3%	-4.4%	-2.5%	-1.7%	-5.8%
Sri Lanka	+3.3%	+1.6%	+2.9%	+5.3%	+3.2%	+3.1%	+3.7%
Colombo	+2.8%	+2.0%	+2.7%	+5.2%	+1.7%	+1.8%	+3.4%
Southeast Asia	-7.1%	-5.2%	-3.6%	-9.2%	-7.7%	-6.0%	-10.8%
Malaysia	-9.8%	-7.6%	-6.0%	-11.7%	-10.5%	-8.8%	-14.0%
Kuala Lumpur	-9.0%	-7.3%	-6.0%	-10.6%	-9.6%	-8.1%	-12.1%
Singapore	-5.3%	-1.9%	-3.0%	-8.7%	-5.7%	-5.2%	-7.2%
Thailand	-1.8%	-1.1%	-0.0%	-2.8%	-0.8%	-1.7%	-4.4%
Bangkok	-1.8%	-1.1%	-0.0%	-2.8%	-0.8%	-1.7%	-4.4%
Vietnam	-4.6%	-6.4%	+0.6%	-9.2%	-1.4%	+0.3%	-11.7%

RICS Consensus 12-month Capital Value Expectations

	Total	Prime Office	Prime Industrial	Prime Retail	Secondary Office	Secondary Industrial	Secondary Retail
Asia Pacific	-5.3%	-3.3%	-2.6%	-7.0%	-5.4%	-4.6%	-5.1%
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Brisbane	-3.8%	-1.3%	+0.1%	-5.1%	-4.3%	-2.5%	-1.9%
Melbourne	-3.8%	-0.2%	-0.8%	-5.2%	-4.2%	-4.0%	-2.2%
Perth	-3.4%	-0.9%	-0.6%	-3.5%	-4.2%	-2.1%	-1.7%
Sydney	-5.3%	-2.7%	-2.2%	-8.2%	-5.1%	-3.9%	-2.2%
New Zealand	-2.0%	+0.1%	+1.7%	-2.8%	-3.8%	-1.0%	-1.2%
Auckland	-2.2%	-0.3%	+1.8%	-2.3%	-3.8%	-1.6%	-1.6%
East Asia	-6.6%	-4.8%	-3.7%	-9.1%	-6.3%	-5.6%	-7.7%
China	-1.9%	+0.8%	+0.9%	-0.9%	-3.4%	-3.6%	-2.8%
Beijing	-4.0%	+0.0%	-1.0%	-3.4%	-4.5%	-6.3%	-4.1%
Shanghai	+0.4%	+2.3%	+3.6%	+1.3%	-1.6%	-0.9%	-2.5%
Hong Kong	-8.8%	-7.5%	-6.1%	-12.7%	-7.6%	-6.8%	-10.2%
Japan	-4.6%	-2.3%	-0.3%	-6.8%	-5.0%	-3.4%	-2.7%
Tokyo	-4.4%	-2.2%	+0.2%	-7.0%	-5.0%	-2.7%	-2.9%
South Korea	+1.5%	+4.3%	+4.6%	+2.1%	+0.7%	+1.4%	-2.5%
Seoul	+3.1%	+6.3%	+6.7%	+3.8%	+2.1%	+2.9%	-2.5%
South Asia	-0.2%	+0.8%	+0.8%	-0.7%	-0.4%	-0.7%	+2.1%
India	-0.9%	+0.2%	-0.0%	-1.6%	-1.1%	-1.1%	+1.6%
Bengaluru	-1.2%	-0.7%	+0.4%	-1.9%	-2.5%	+0.2%	+0.0%
Delhi CNCR	-2.8%	-1.1%	-3.2%	-3.8%	-1.4%	-4.0%	+1.4%
Mumbai	-0.9%	+1.1%	+1.7%	-3.6%	-1.6%	-0.9%	-0.5%
Sri Lanka	+2.7%	+3.4%	+3.5%	+2.5%	+2.7%	+1.5%	+3.6%
Colombo	+2.8%	+3.9%	+3.9%	+1.8%	+3.2%	+1.6%	+5.3%
Southeast Asia	-5.7%	-4.0%	-2.5%	-5.9%	-7.2%	-5.2%	-2.8%
Malaysia							-5.0%
Kuala Lumpur	-7.6%	-5.5%	-3.9%	-7.2%	-9.7%	-6.9%	-6.5%
Singapore	-6.9%	-5.1%	-3.8%	-6.7%	-9.1%	-6.0%	-1.1%
Thailand	-6.5%	-3.8%	-5.7%	-7.5%	-6.4%	-7.2%	-0.2%
Bangkok	-1.9%	-0.6%	+0.6%	-2.8%	-2.5%	-1.1%	-0.2%
Vietnam	-1.9%	-0.6%	+0.6%	-2.8%	-2.5%	-1.1%	+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 11 March 2020 with responses received until 15 April 2020. 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 2323 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 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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