

## Q3 2019: New Zealand Commercial Property Monitor

# Momentum remains elevated despite increasing external risks

Respondents to the Q3 2019 New Zealand Commercial Property Monitor indicate that conditions remain relatively upbeat. This is in spite of mounting downside risks, including a further downward revision to global economic growth by the IMF.

Chart 1 shows the Occupier and Investment Sentiment Indices, composite measures capturing overall market momentum, remained in positive territory during the third quarter. This is more or less the same level that has been recorded since the beginning of 2018, indicating a persistent, albeit modest, expansion.

The upbeat assessment is evident in the outlook for rents and capital values. As shown in Chart 2, both are expected to continue to increase over the next quarter. As in previous quarters, office and industrial properties are expected to outperform retail.

There are signs that the current expansion is beginning to wane however. For the first time since 2012, available space to rent increased at a quicker pace than occupier demand, in net balance terms (Chart 3). There is some nuance to this at the sector level. Changes in demand and supply across the office sector were evenly matched in Q3, while demand for industrial space rose significantly faster than supply. Finally, demand to rent retail space fell, alongside an increase in availability within the sector.

Several contributors noted that the 50 basis points cut in interest rates was supporting the outlook for property. Unsurprisingly, more than half (54%) of respondents said that access to credit improved during Q3 (Chart 5). Against this backdrop, respondents continue to expect rental and capital values to increase over the next year, although at a slightly slower rate than was forecast during Q2 (Charts 7 and 8).

Chart 1: RICS OSI and ISI

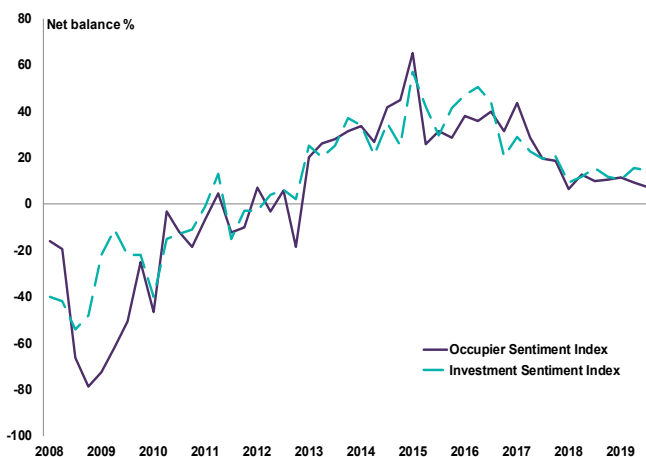
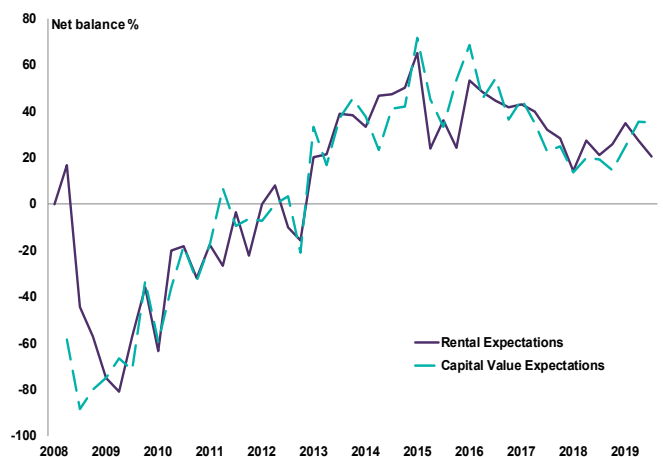


Chart 2: Three Month Rents, Capital Values



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Chart 3: Occupier Market

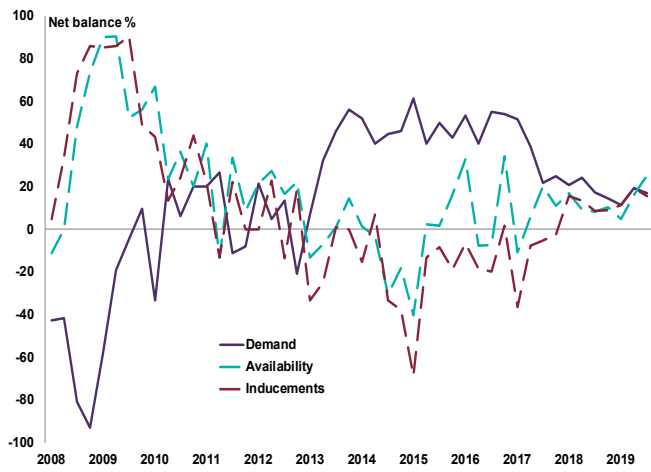


Chart 4: Investment Market

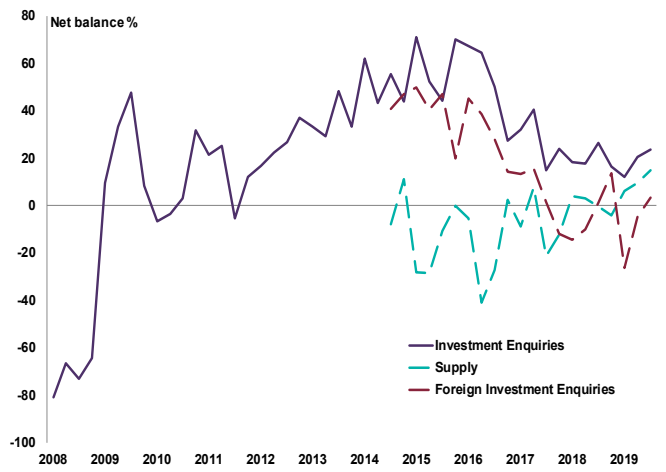


Chart 5: Credit Conditions

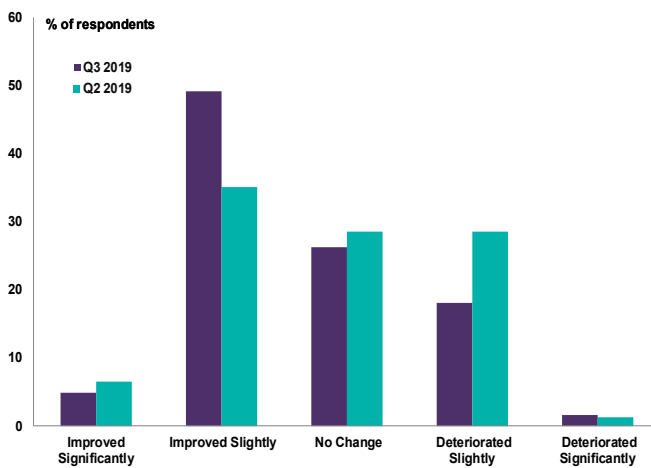


Chart 6: Property Cycle

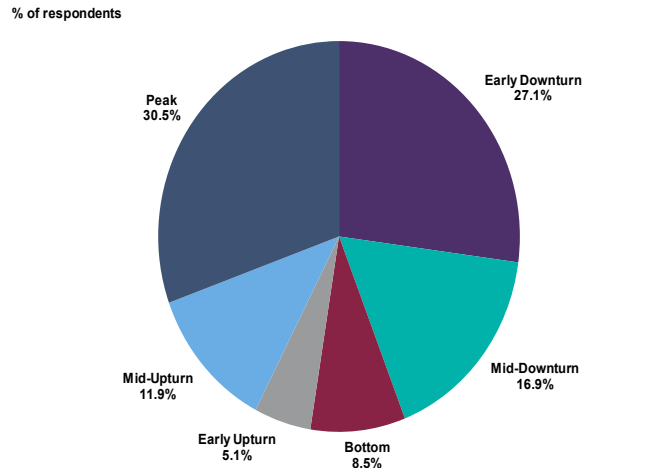


Chart 7: Twelve Month Capital Value Projections

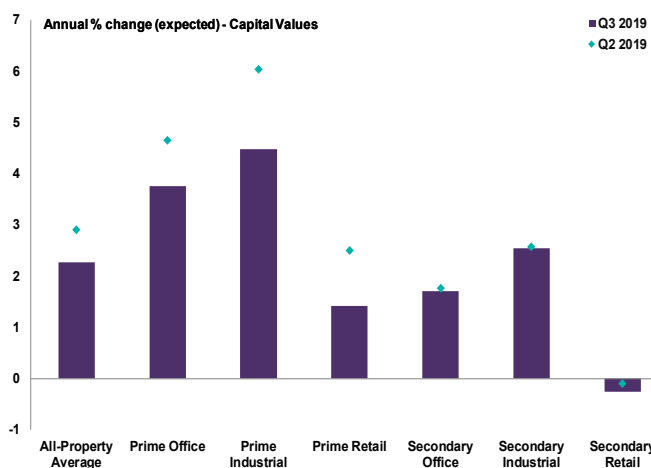
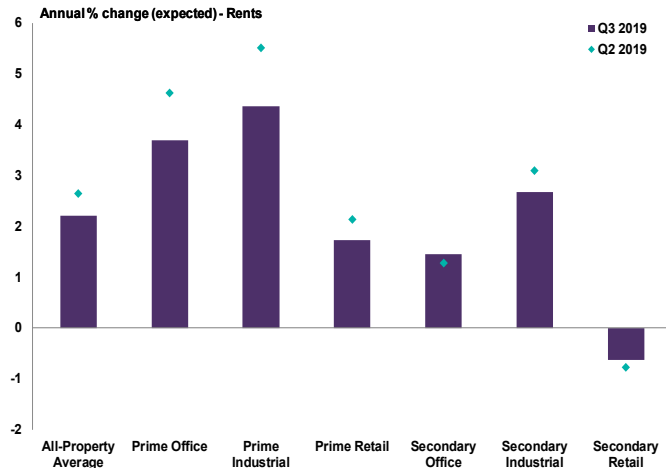


Chart 8: Twelve Month Rental Value Projections



Comments from Survey Participants in New Zealand



"Trade war may impact global markets with talk of recessionary conditions. Interest rates are reducing in NZ as a partial response. Reduction in road infrastructure spending. Americas Cup will stimulate income for Auckland businesses."  
-Auckland



"Easier access to borrowing is driving up prices and yields lower. Retail in some turmoil with new entrants and online sales increasing."  
- Auckland



"Strong commercial office demand with limited supply. Over supplied retail market in Auckland, there will be winners and losers."  
- Auckland



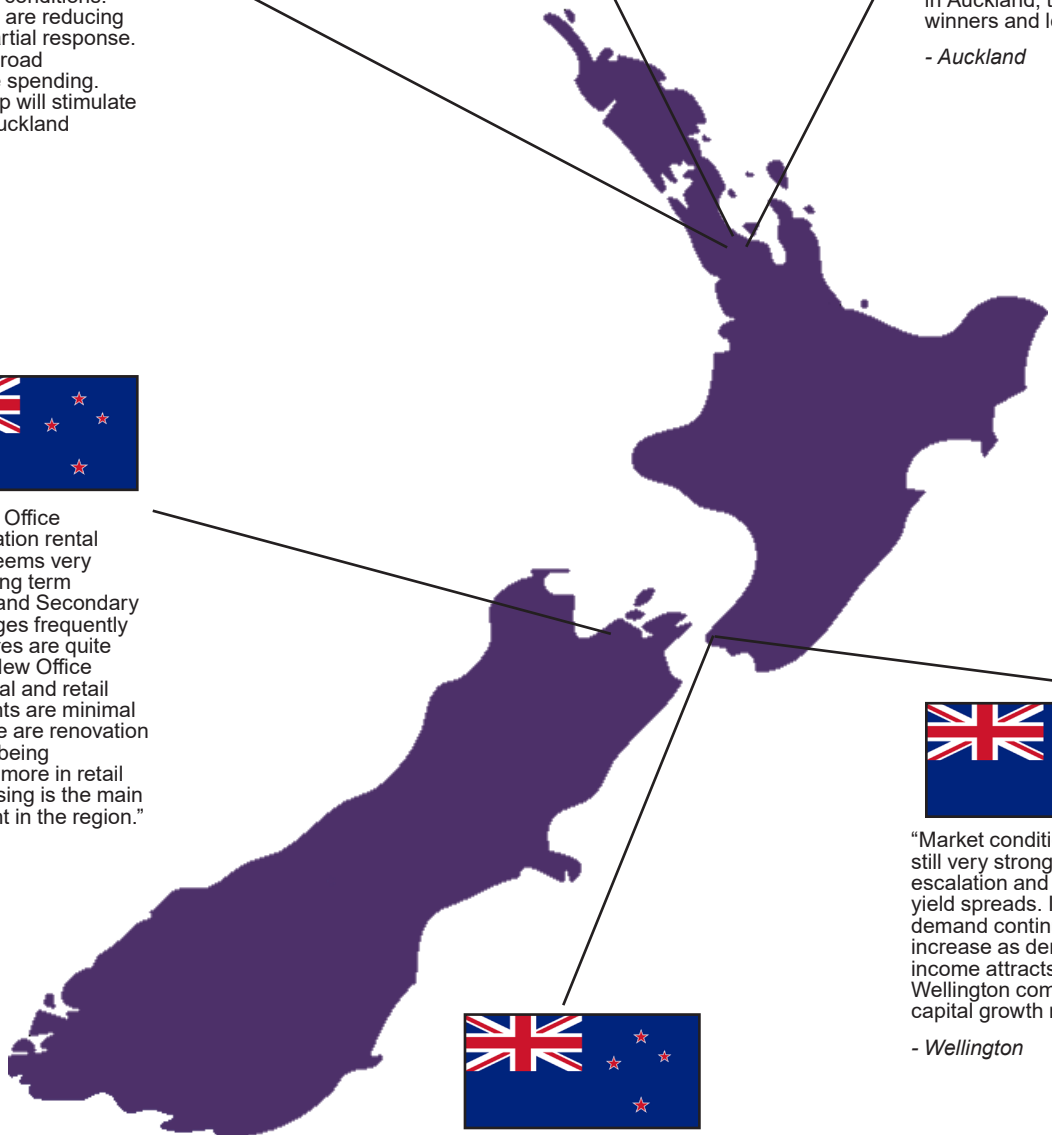
"Secondary Office accommodation rental in Nelson seems very stagnant (long term vacancies) and Secondary Retail changes frequently (pop up stores are quite common). New Office and Industrial and retail developments are minimal though there are renovation and fit outs being undertaken more in retail sector. Housing is the main development in the region."  
- Nelson



"Market conditions are still very strong with rental escalation and elevated yield spreads. International demand continues to increase as demand for income attracts people to Wellington compared to a capital growth mandate."  
- Wellington



"Seems to be holding up but who knows given trade wars, Brexit and some uncertainty."  
- Wellington



## RICS Consensus 12-month Rent Expectations

	Total	Prime Office	Prime Industrial	Prime Retail	Secondary Office	Secondary Industrial	Secondary Retail
<b>Asia Pacific</b>	<b>-2.6%</b>	<b>+0.1%</b>	<b>-0.3%</b>	<b>-4.5%</b>	<b>-2.3%</b>	<b>-2.4%</b>	<b>-6.3%</b>
<b>Australasia</b>	<b>+1.3%</b>	<b>+3.4%</b>	<b>+3.5%</b>	<b>+0.5%</b>	<b>+1.2%</b>	<b>+1.6%</b>	<b>-2.4%</b>
<b>Australia</b>	<b>+0.9%</b>	<b>+3.2%</b>	<b>+3.0%</b>	<b>-0.1%</b>	<b>+1.1%</b>	<b>+1.1%</b>	<b>-3.2%</b>
Brisbane	+0.9%	+3.9%	+3.0%	-0.4%	+0.5%	+2.3%	-4.1%
Melbourne	+2.5%	+4.3%	+4.6%	+1.4%	+2.7%	+3.3%	-1.3%
Perth	-0.5%	+1.8%	+2.6%	-1.5%	-0.6%	-0.6%	-4.4%
Sydney	+0.4%	+3.2%	+2.8%	-0.6%	+1.1%	+0.2%	-4.2%
<b>New Zealand</b>	<b>+2.2%</b>	<b>+3.7%</b>	<b>+4.4%</b>	<b>+1.7%</b>	<b>+1.4%</b>	<b>+2.7%</b>	<b>-0.6%</b>
Auckland	+3.1%	+4.9%	+5.8%	+2.3%	+2.6%	+3.8%	-0.9%
<b>East Asia</b>	<b>-4.1%</b>	<b>-1.5%</b>	<b>-1.5%</b>	<b>-6.4%</b>	<b>-3.7%</b>	<b>-3.6%</b>	<b>-7.7%</b>
<b>China</b>	<b>+0.1%</b>	<b>+2.7%</b>	<b>+1.5%</b>	<b>+1.5%</b>	<b>-1.6%</b>	<b>-1.5%</b>	<b>-2.2%</b>
Beijing	-0.1%	+2.7%	+0.9%	+1.4%	-1.5%	-2.1%	-2.1%
Shanghai	+0.2%	+2.4%	+2.1%	+1.6%	-1.6%	-0.4%	-2.8%
<b>Hong Kong</b>	<b>-6.6%</b>	<b>-3.9%</b>	<b>-3.5%</b>	<b>-11.0%</b>	<b>-5.3%</b>	<b>-5.1%</b>	<b>-11.1%</b>
<b>Japan</b>	<b>+1.7%</b>	<b>+2.7%</b>	<b>+2.2%</b>	<b>+2.0%</b>	<b>+2.5%</b>	<b>+0.6%</b>	<b>+0.3%</b>
Tokyo	+2.1%	+3.3%	+2.3%	+2.3%	+3.3%	+0.7%	+0.6%
<b>South Korea</b>	<b>-0.9%</b>	<b>+0.0%</b>	<b>+1.0%</b>	<b>+0.2%</b>	<b>-1.7%</b>	<b>-2.1%</b>	<b>-2.9%</b>
Seoul	-1.1%	+0.3%	+1.3%	+0.0%	-2.0%	-2.5%	-3.5%
<b>South Asia</b>	<b>+4.7%</b>	<b>+6.7%</b>	<b>+4.7%</b>	<b>+6.3%</b>	<b>+4.7%</b>	<b>+2.6%</b>	<b>+3.2%</b>
<b>India</b>	<b>+3.3%</b>	<b>+5.7%</b>	<b>+3.2%</b>	<b>+4.9%</b>	<b>+3.1%</b>	<b>+1.0%</b>	<b>+2.1%</b>
Bengaluru	+3.2%	+5.8%	+3.3%	+2.8%	+4.6%	+1.6%	+1.3%
Delhi CNCR	+3.8%	+7.0%	+3.5%	+6.4%	+2.8%	+0.5%	+2.5%
Mumbai	+2.9%	+4.6%	+3.4%	+4.7%	+1.7%	+1.0%	+2.1%
<b>Sri Lanka</b>	<b>+7.1%</b>	<b>+8.5%</b>	<b>+7.1%</b>	<b>+8.7%</b>	<b>+7.4%</b>	<b>+5.8%</b>	<b>+5.5%</b>
Colombo	+7.4%	+9.4%	+7.6%	+9.1%	+7.6%	+5.6%	+5.2%
<b>Southeast Asia</b>	<b>+0.9%</b>	<b>+3.0%</b>	<b>+2.6%</b>	<b>+1.1%</b>	<b>+0.3%</b>	<b>+0.1%</b>	<b>-1.7%</b>
<b>Malaysia</b>	<b>-0.3%</b>	<b>+1.6%</b>	<b>+1.8%</b>	<b>+0.6%</b>	<b>-1.7%</b>	<b>-0.7%</b>	<b>-3.2%</b>
Kuala Lumpur	+0.4%	+1.9%	+1.9%	+1.1%	-0.8%	+0.2%	-2.0%
<b>Singapore</b>	<b>-0.0%</b>	<b>+3.6%</b>	<b>+0.4%</b>	<b>-2.0%</b>	<b>+1.0%</b>	<b>-0.4%</b>	<b>-2.7%</b>
<b>Thailand</b>	<b>+1.7%</b>	<b>+4.5%</b>	<b>+2.8%</b>	<b>+1.5%</b>	<b>+2.3%</b>	<b>+1.0%</b>	<b>-1.8%</b>
<b>Vietnam</b>	<b>+4.8%</b>	<b>+6.0%</b>	<b>+8.1%</b>	<b>+4.5%</b>	<b>+3.9%</b>	<b>+4.7%</b>	<b>+1.9%</b>

## RICS Consensus 12-month Capital Value Expectations

	Total	Prime Office	Prime Industrial	Prime Retail	Secondary Office	Secondary Industrial	Secondary Retail
<b>Asia Pacific</b>	<b>-2.3%</b>	<b>+0.1%</b>	<b>-0.3%</b>	<b>-3.6%</b>	<b>-2.2%</b>	<b>-2.3%</b>	<b>-5.3%</b>
<b>Australasia</b>	<b>+1.5%</b>	<b>+3.5%</b>	<b>+3.5%</b>	<b>+0.4%</b>	<b>+1.6%</b>	<b>+1.6%</b>	<b>-1.5%</b>
<b>Australia</b>	<b>+1.2%</b>	<b>+3.4%</b>	<b>+3.0%</b>	<b>-0.1%</b>	<b>+1.6%</b>	<b>+1.2%</b>	<b>-2.0%</b>
Brisbane	+2.1%	+4.2%	+3.5%	+1.3%	+2.9%	+1.5%	-0.8%
Melbourne	+2.7%	+5.3%	+5.2%	+0.6%	+2.8%	+3.2%	-0.5%
Perth	+0.1%	+1.8%	+1.1%	+0.8%	+0.0%	-1.2%	-1.7%
Sydney	+0.5%	+2.7%	+2.8%	-1.5%	+1.3%	+1.3%	-3.8%
<b>New Zealand</b>	<b>+2.3%</b>	<b>+3.8%</b>	<b>+4.5%</b>	<b>+1.4%</b>	<b>+1.7%</b>	<b>+2.5%</b>	<b>-0.3%</b>
Auckland	+2.6%	+4.4%	+5.3%	+1.0%	+2.6%	+3.2%	-0.9%
<b>East Asia</b>	<b>-3.6%</b>	<b>-1.2%</b>	<b>-1.5%</b>	<b>-5.0%</b>	<b>-3.6%</b>	<b>-3.5%</b>	<b>-6.7%</b>
<b>China</b>	<b>+0.1%</b>	<b>+2.8%</b>	<b>+1.7%</b>	<b>+1.3%</b>	<b>-1.2%</b>	<b>-1.5%</b>	<b>-2.6%</b>
Beijing	-0.5%	+2.5%	+0.2%	+0.9%	-1.4%	-2.4%	-3.0%
Shanghai	-0.1%	+2.5%	+2.4%	+0.3%	-1.5%	-1.1%	-3.4%
<b>Hong Kong</b>	<b>-5.9%</b>	<b>-3.5%</b>	<b>-3.5%</b>	<b>-8.8%</b>	<b>-5.2%</b>	<b>-4.9%</b>	<b>-9.3%</b>
<b>Japan</b>	<b>+1.2%</b>	<b>+2.5%</b>	<b>+2.2%</b>	<b>+2.7%</b>	<b>+1.3%</b>	<b>-0.8%</b>	<b>-0.5%</b>
Tokyo	+1.7%	+3.3%	+2.5%	+3.1%	+1.9%	-0.6%	-0.2%
<b>South Korea</b>	<b>-0.7%</b>	<b>+1.9%</b>	<b>+0.9%</b>	<b>+1.0%</b>	<b>-1.6%</b>	<b>-1.9%</b>	<b>-4.5%</b>
Seoul	-0.5%	+2.3%	+1.7%	+1.8%	-1.7%	-2.0%	-5.3%
<b>South Asia</b>	<b>+4.0%</b>	<b>+5.7%</b>	<b>+4.3%</b>	<b>+4.9%</b>	<b>+3.5%</b>	<b>+2.4%</b>	<b>+3.0%</b>
<b>India</b>	<b>+2.8%</b>	<b>+4.6%</b>	<b>+3.0%</b>	<b>+3.6%</b>	<b>+2.4%</b>	<b>+1.2%</b>	<b>+1.9%</b>
Bengaluru	+2.0%	+3.4%	+2.4%	+2.5%	+2.2%	+0.7%	+0.7%
Delhi CNCR	+3.4%	+5.9%	+4.2%	+4.6%	+2.4%	+0.7%	+2.8%
Mumbai	+2.5%	+4.5%	+2.4%	+2.6%	+1.7%	+1.5%	+1.9%
<b>Sri Lanka</b>	<b>+6.1%</b>	<b>+7.7%</b>	<b>+6.5%</b>	<b>+7.3%</b>	<b>+6.0%</b>	<b>+4.3%</b>	<b>+4.9%</b>
Colombo	+6.4%	+8.0%	+6.8%	+7.5%	+6.7%	+4.5%	+5.0%
<b>Southeast Asia</b>	<b>+1.4%</b>	<b>+2.9%</b>	<b>+2.6%</b>	<b>+1.9%</b>	<b>+0.6%</b>	<b>+0.9%</b>	<b>-0.6%</b>
<b>Malaysia</b>	<b>+0.2%</b>	<b>+1.4%</b>	<b>+2.3%</b>	<b>+1.1%</b>	<b>-1.4%</b>	<b>-0.0%</b>	<b>-1.9%</b>
Kuala Lumpur	+0.8%	+1.6%	+2.7%	+1.7%	-0.9%	+0.6%	-1.0%
<b>Singapore</b>	<b>+0.5%</b>	<b>+3.3%</b>	<b>+0.2%</b>	<b>-0.2%</b>	<b>+1.5%</b>	<b>-0.3%</b>	<b>-1.2%</b>
<b>Thailand</b>	<b>+2.6%</b>	<b>+4.3%</b>	<b>+3.3%</b>	<b>+3.0%</b>	<b>+3.8%</b>	<b>+1.3%</b>	<b>+0.3%</b>
<b>Vietnam</b>	<b>+5.0%</b>	<b>+7.2%</b>	<b>+6.3%</b>	<b>+3.3%</b>	<b>+4.7%</b>	<b>+6.6%</b>	<b>+1.7%</b>

# 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](http://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 2019 with responses received until 13 October 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 3363 company responses were received. 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](mailto:economics@rics.org)

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Responses were gathered in conjunction with the following organisations:



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## Confidence through professional standards

RICS promotes and enforces the highest professional qualifications and standards in the valuation, development and management of land, real estate, construction and infrastructure. Our name promises the consistent delivery of standards – bringing confidence to markets and effecting positive change in the built and natural environments.

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