BAYLEYS | IN ASSOCIATION WITH Knight Frank

ACTIVE CAPITAL

REPORT 2019

Bayleys' international partner, Knight Frank, has released its latest Active Capital report which provides, insight into trends currently influencing the flow of international funds into commercial property assets, and forecasts how this global market may evolve.

A number of the trends highlighted in the Knight Frank report are already apparent within New Zealand. As is the case in much of the industrialised world the post GFC low interest rate environment looks set to remain in play for an extended period of time. Given this backdrop the demand for higher yielding assets is extending the property cycle. New Zealand has been on the investment radar of investors from countries such as Singapore, Canada and the United States for a number of years but sources of finance look set to expand further with superannuation funds, property funds and private equity from a wide range of jurisdictions having mandates to secure New Zealand based assets.

CBD locations within gateway cities such as Auckland remain the favoured investment destinations, but with assets within prime locations currently tightly held search areas have been extended to include city fringe precincts with interest bolstered as blue chip tenants, particularly those from the IT and utility industries, choose to base their head offices in amenity rich areas.

OVERSEAS INVESTMENT GAINING MOMENTUM

Since our last analysis on capital flows to June 2018, an additional $1.1bn of off-shore investment has been allocated to New Zealand taking all off-shore investment over the last five years (January 2014 to March 2019) to $6.7bn, or just under 50% of total transactional activity of $13.8bn for sales greater than $20m.

As illustrated in Figure 1 commercial office has been the preferred sector followed by retail, reflecting the fact these two sectors provide the scale sought by large global investors.

To date Singapore based investors have been the most active buyers representing 29% of all offshore transactions (>$20m) over the past five years. North American investors totalled 34%, followed by 12% for Hong Kong investors and 11% for Australian investors.

MAJOR SOURCES OF OVERSEAS BUYING

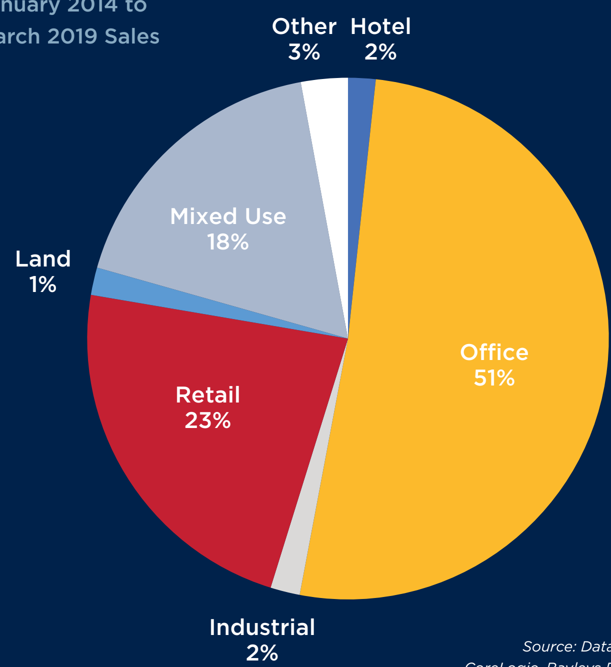
Singapore	29%	Germany	3%
Australia	11%	Hong Kong	12%
Canada	18%	US	16%
China	2%	Other	9%

Figure 2 *Based on sales >NZ$20million January 2014 to March 2019*

Figure 1

OFFSHORE BUYING OF NEW ZEALAND COMMERCIAL PROPERTY (>$20 MILLION)

Total Off-Shore Sales $6.7bn
January 2014 to
March 2019 Sales



Source: Data Insight, CoreLogic, Bayleys Research

INTERNATIONAL INVESTORS THAT HAVE BEEN ACTIVE IN NEW ZEALAND OVER THE PAST FEW YEARS AND HAVE EXISTING EXPOSURES INCLUDE:

- Blackstone (American)
- GIC (Singaporean)
- Canadian Pension Plan Investment Board (PSP Investments)
- Invesco (American)
- Investec (South African)
- Fu Wah (Chinese)
- Deka Immolbien Gmbh (German)
- PAG (Hong Kong)
- Credit Suisse

Going forward Ryan Johnson, Bayleys National Director Commercial and Industrial expects capital flows to remain elevated with competition between local and offshore investors intensifying. New Zealand's attractive fundamentals are likely to draw new offshore players to the market over coming months. The most likely emerging investment sources are noted in Figure 3. These include Japan which is a signatory country to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and will be allowed to purchase New Zealand commercial and industrial assets up to NZ$200m rather than the usual OIO cap of $100m before approval is required. The CPTPP came into effect in December 2018. Other sources could include the circa US$1 trillion Norwegian Government Pension Fund Global (GPFG) via its manager Norges Bank Investment Management and other sovereign wealth funds from the Middle East and Europe. Various other global property funds and private equity groups such as Logos, Mirae and M&G are also making their presence known.

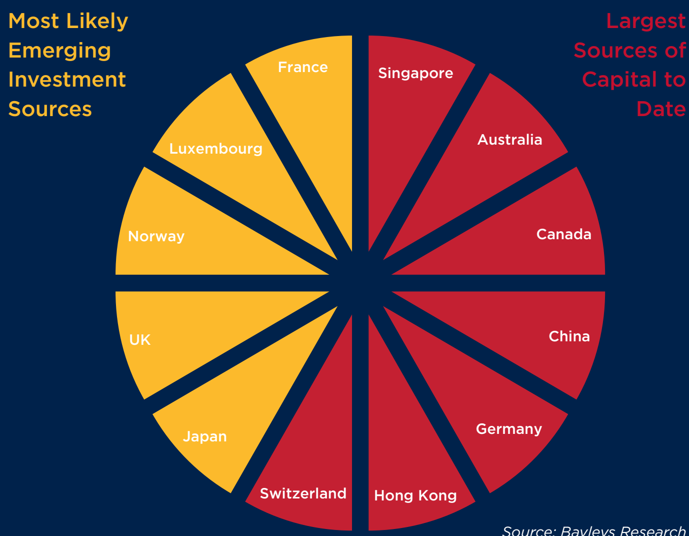
Search areas extending with CBD opportunities becoming more scarce investors are having to extend their search parameters to include city fringe and suburban locations. Increasingly, capital is following tenant movements out of the CBD. This is particularly the case for high profile tenants in the IT and utility sectors. Recent examples of tenant moves within these sectors include Xero to Parnell, Mercury Energy to Newmarket, Watercare to Remuera and Genesis Energy to Ellerslie.

New Zealand's double digit returns attracting significant interest. High relative returns and a desire for greater global diversification has seen increasing levels of off shore capital flow to New Zealand. In an environment where inflation and interest rates worldwide are at historical lows, countries generating double digit returns remain firmly on the radar for global investors. New Zealand is currently generating some of the highest total returns amongst first world countries.

MSCI data shows that over a 1, 5 and 15 year period, New Zealand's annualised total returns for office and industrial property sectors have consistently remained above 10%. The retail sector has shown some recent performance weakness as competition amongst super regionals and other retail types intensifies.

Figure 3

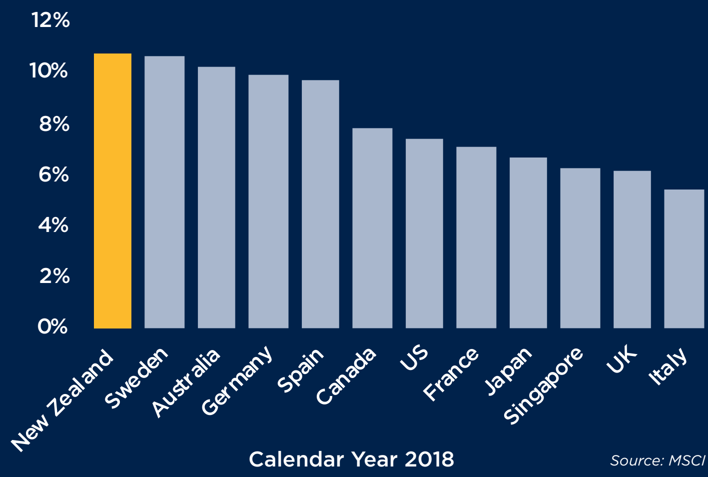
CAPITAL FLOWS OUTLOOK



Source: Bayleys Research

Figure 4

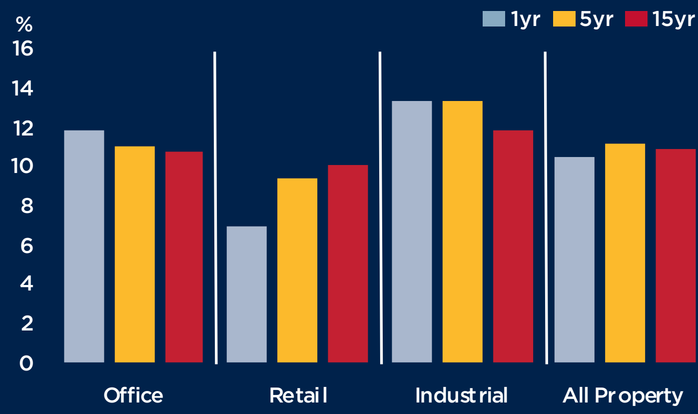
MSCI CALENDAR 2018 TOTAL RETURNS BY SELECTED COUNTRY



Source: MSCI

Figure 5

ANNUALISED NEW ZEALAND TOTAL RETURNS BY PROPERTY SECTOR (YEARS TO MARCH 2019)



Source: MSCI

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