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Wellington Market View

Wellington (October 2007)

The occupancy market continues to show growth in both demand and rentals according to recent research undertaken by CB Richard Ellis.

"The economy has recently been running better than expected and is underpinning an active occupational demand. However, during the last quarter a more cautious attitude has emerged in the investment market", said CBRE Wellington Research Analyst Frank Fa.

Director of Research at CB Richard Ellis, Zoltan Moricz further commented that the eventual outturn for the global credit turmoil and the crises in the New Zealand finance company sector remains uncertain.

"Its effect to date, coupled with interest rate hikes, has seen a dent in investor confidence and some loss in liquidity. This may result in a re-rating of risk with a negative impact principally on values for secondary property and land," commented Mr. Moricz.

Vacancy rates in the Wellington office market have dropped to the second lowest level recorded in the last five years; the high levels of pre-commitment to new builds and strong space take-up in mainly B grade space has resulted in above average net absorption according to recent survey undertaken by CB Richard Ellis.

In terms of rents and yields, the prime office market is robust whilst the secondary market is in need of smart solutions. Part of the reason was said Mr. Fa, that "some lower grade office buildings have however struggled to find new tenants after being vacated by large government occupiers".

Mr. Fa said that Prime grade office buildings are likely to flourish over the next two years and pre-commitment to new stock being completed over this period is high. CBRE forecasts that rental growth in this sector will continue.

In the industrial market, CBRE's research shows that a number of new developments have been launched in most industrial submarkets, but the general land shortage is reflected in continued land value appreciation.

"This development activity is creating extra industrial capacity in Wellington, and should be beneficial in setting some new rental benchmarks at the top end of the market to drive medium term rental growth," said Mr. Fa.

"We also predict an increase in sale/leaseback transactions due to the lower economic growth/higher interest rate environment, as some owner occupiers elect to free up capital for business use," Mr. Fa added.

In the retail sector, CBRE forecasts that increased interest rates and the cooling housing market will have a negative influence on retail spending. This will be offset to some extent by high employment rates and wage increase expectations.

The retail sector has not seen any centre space completed since early 2007, although new projects and mall extensions are in the pipeline over the greater Wellington area.

"The lack of major new supply of retail over the next two years will help the trading performance of existing retail centres," Mr. Fa said.

The long term trends supporting investment are however positive. The weight of money continues to build and an increasing number of overseas investors are looking at the New Zealand property market.

"In addition to overseas capital, factors such as KiwiSaver and the NZ Super Fund will also benefit the weight of domestic capital flowing into commercial property. Therefore, beyond the current cyclical events the structural factors underpinning the property market are looking favourable," said Mr. Moricz.