SUNDAY STAR★TIMES
www.sundaystartimes.co.nz

HD **FOREIGN INVESTORS EYE UP NZ**

WC 1,374 words

PD 10 August 2014

SN Sunday Star-Times

SC SUNSTT

PG 20

LA English

LP

Fund managers, new media companies and a slew of foreign investors are set to become key players in New Zealand's **commercial property** market, reports Catherine Harris .

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NEW ZEALAND has become one of the top Asia-Pacific destinations for **commercial property** investors as they search globally for better yields, an expert says.

In a seminar outlining **property** trends in Australia and New Zealand, JLL's New Zealand research head Justin Kean said overseas investors had got to know Australia in the last investment cycle and were now comfortable about venturing across the Tasman.

"We're seeing capital come in from Canada, Switzerland, Germany, Singapore and indeed some **Chinese** investors who are all currently active in the New Zealand market. No Australians, more or less, which is interesting. But also very little else from other Asia. But the fact that the Canadians and Swiss will come down to New Zealand indicates there is a real genuine reach and indeed a search for yield."

Asked whether Middle Eastern investors would become more prominent here, Kean said it was less likely than in Australia because Middle Eastern money tended to take the form of sovereign wealth funds. "They are after trophy assets, of which there's only a limited amount in this country."

He pointed to the $57m **sale** of 125 Queen St, an 18,000 square metre office building which had been owned by a sovereign wealth fund but largely vacant for the last five years.

"The owner couldn't get around to sorting it out. It also couldn't get around to selling it because it was not an significant enough asset to warrant their time. The new owner will hopefully refurbish and reinvigorate it and it will be a really good thing for Queen St.

"Unlisted funds will come here because they'll be savvy and will look for value-add opportunities, but for a lot of those larger sovereign wealth [funds], it's about getting the money away . . . and there's bigger fish to fry than assets in New Zealand, I'd suggest."

However, his Australian counterpart, Dr David Rees, said there was quite a lot of interest from the Middle East in Australia, although not as much activity as that interest would suggest. About 70 per cent of the money from sovereign wealth funds was in Europe and 10 per cent in Australia, some through Singapore.

Rees and Kean also outlined which industries they thought would drive demand for **commercial property** in future.

New media businesses and fund management companies were Kean's pick. In 2004, funds under management had been $56 **billion** generating a revenue for the managers of around $840 **million**.

Today, thanks to KiwiSaver, there were about $93b of funds under management generating $1.4b in revenue, and by 2021 they would grow to $132b, earning $2b. Kean said managers' needs would grow: fund managers would necessarily employ as many people as their growth suggested.

"There is capacity for employment growth in that sector, demand growth and trust me, these guys like to be in the best buildings in town".

Another growth area was new media, the likes of Xero and Trade Me.

"They like large footprints, they like 2000sqm floor plates, they like flexible space - cool, funky, fussball in the lunch room-type space.

"You only need to look out the window to see the kind of building that new media companies and tech companies will demand and Wellington's prime for the adoption of space for these kind of companies. "The question is, can the **property** market as a whole supply it?"

In Auckland, there was a significant amount of new supply about to arrive which was campus- style, Kean said.

"It's slightly outside of the CBD and its large floorplates and it's exactly the kind of space that these occupiers tend to take. I think that you can provide it here in Wellington as well, but the answer is not so much a cookie-cutter solution, it's about renovating existing space to meet the demands and needs of these companies."

On the other hand, the businesses whose **property** needs were shrinking included the insurance and **business** services sector. "These are two sectors which have come to terms with their real **estate** and are working quite efficiently to reduce their footprint," said Kean.

One trend that Kean felt was likely to cross the Tasman was the increasing use of rent-free incentives by institutional owners.

Public and private institutions loved guaranteed growth and inflation-adjusted rent reviews and they were increasingly offering longer rent-free periods on leases in Sydney and Melbourne.

"They are very clever at using incentives as financial mechanisms," he said.

A 10-year lease on a prime building in Australia was now offering on average 32 months rent-free, as an incentive for taking a longer lease.

"This is significantly larger than what you'd see in most New Zealand markets but don't be surprised if you start to see this," Kean said.

There were 45 A-Grade **commercial** buildings in New Zealand, and four premium buildings compared to Sydney's 14, but 80 per cent of Sydney's stock was owned by financial institutions.

"So that institutional model of ownership is likely to creep into New Zealand over the medium to long-term," he said.

Capital flows into Australia and New Zealand's **commercial property** markets are likely to break records this year, with a quarter of the deals going to foreign buyers.

Rees said **property transactions** in Australia were at an all-time high.

"There's more investment because there is more confidence but importantly . . . we're seeing a significant portfolio shift by global investors, by sovereign wealth funds towards real **estate**."

Rees said that the rise of Australia's pension industry had seen local investors **buy** back a lot of properties from overseas investors who bought up big in the 1990s.

Ten per cent of many funds was allocated to real **estate**.

Now the cycle had turned again and foreign investors were moving back into Australia "big-time" and he was expecting 2014 to be a record breaker for **property transactions**.

Singapore was the biggest investor in Australia, accounting for 31 per cent of all foreign capital, and 23 per cent was from the rest of Asia although **China** was not yet a big player, followed by the US and Canada.

Kean said 2014 was also shaping up to be a good one in New Zealand.

"We're starting to see a significant growth in the amount of **transactions** undertaken, and these are **transactions** in the $5m-plus space in the New Zealand market."

At least half of the capital invested this year would be foreign investment, with office buildings being the key target. Kean said in both countries, investors tended to go to the biggest cities initially but eventually, they would move out to other cities.

"A lot of these investors are either transacting in Auckland today or can't find suitable stock or can't justify coming to New Zealand for the kind of yields that they have to pay to get into the Auckland market. Where will they go next?

"They'll come down here to Wellington and they'll scratch around in Christchurch.

"But I'd argue Wellington is the prime target for a lot of this investment as we head into 2014-15."

Kean said one major point of difference between New Zealand's **commercial property** market and Australia's was the dominance of commodity sectors.

"The Brisbane and Perth markets which correspond very highly with the performance of the commodity story . . . they're highly connected because the companies which take in the hard commodities - **iron ore**, **coal**, bauxite - are large users of office space."

New Zealand's commodity story was **dairy**-related.

"And the largest **company** involved in the **dairy** industry in New Zealand, in fact a **company** which controls something like 90 per cent of the marginal export activity of **dairy** across the world, occupies about 20,000sqm of office space across the country.

"That **company** could quadruple in size and it still wouldn't have a significant impact on New Zealand office markets.

NS gcat : Political/General News

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PUB Fairfax New Zealand Limited

AN Document SUNSTT0020140809ea8a00035