

PROPERTY ON THE Election Agenda

COMMERCIAL PROPERTY INVESTORS FACE UNPRECEDENTED TIMES AS ELECTIONS SET THE SCENE IN A POST-COVID WORLD.

HISTORICALLY, GENERAL ELECTIONS are a source of uncertainty for investors, and this year COVID-19 has added extra layers of instability and doubt.

While the immediate challenges of COVID-19 have been felt by commercial landlords and tenants, some potentially bigger challenges lie ahead.

We asked New Zealand's two leading parties plus economist Cameron Bagrie and Property Council chief executive Leonie Freeman what they consider to be the major challenges facing the sector and the winning party.

Grant Robertson, Finance Minister

We have always known that a strong health response was also our best economic response to COVID-19. New Zealand now finds itself in a privileged position of having much of our economy back up and running. This position is a springboard as we move from the initial response to now recover and rebuild from COVID-19.

And we're already rolling out our five point plan to keep New Zealand moving.

First, we're investing in our people, through the wage subsidy which supported around 1.7 million people, increasing incomes for the most vulnerable and investing in extra mental health and wellbeing support.

Second, we're focused on getting Kiwis back to work and training those who are out of work. We've made apprenticeships free, creating jobs in construction, infrastructure and supporting job creation that benefits the environment.

Third, we're preparing for the future by building back better and taking on the challenges that lie ahead by investing in clean energy, housing and our environment.

Fourth, we've supporting small businesses, entrepreneurs and job creators through the COVID outbreak and continue to support them to grow and export, with tax refunds, interest-free loans, support to get on-line and more.

Fifth, we're positioning ourselves globally by helping exporters connect with overseas markets and negotiating trade deals with the UK and the EU.

As a country, we've had huge success in our health response.

Now's not the time to slow down or change course. We're already rolling out a successful plan to keep New Zealand moving. We have an opportunity now to build back New Zealand even better than before.



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GRANT ROBERTSON, FINANCE MINISTER

Tim van de Molen, National Spokesperson for Building and Construction

COVID-19 has shaken communities and destabilised our economy.

We have traversed the health challenges reasonably well but it is vital that our focus now shifts squarely to rebuilding our economy.

National announced a large-scale infrastructure programme which will provide visionary investment over the next 20 years. This helps to give greater confidence to the construction sector, local government, and the broader private sector.

The building and construction sector can play a major role in our recovery. Core infrastructure investment will provide prompt support to a languishing employment market, and the completed infrastructure will encourage private sector growth.

This work doesn't happen without a stable workforce – this means providing greater support for transitioning roles and retraining, but it also means accessing the necessary international skills and experience to support our growth.

The Resource Management Act is a significant impediment to efficient development and we have committed to replacing it with two separate pieces of legislation to better facilitate the progress and development we desperately need, whilst ensuring appropriate maintenance of our natural environment.

Alongside this, we will streamline the consenting and compliance challenges projects face. Adopting technological advances, including changes to construction processes will assist with developing innovative and more efficient solutions.



“CORE INFRASTRUCTURE INVESTMENT WILL PROVIDE PROMPT SUPPORT TO A LANGUISHING EMPLOYMENT MARKET, AND THE COMPLETED INFRASTRUCTURE WILL ENCOURAGE PRIVATE SECTOR GROWTH.”

TIM VAN DE MOLEN, NATIONAL SPOKESPERSON FOR BUILDING AND CONSTRUCTION

With tens of thousands of jobs being lost per month and many businesses struggling, we are facing a recession and can expect that there will be an impact on the property market.

We can minimise this by acting decisively, providing mechanisms to support business growth, and giving clear signals to businesses and communities on a vision for investment and growth.

**Cameron Bagrie, Economist
Bagrie Economics**

Commercial property players face challenges from longer-term structural changes as well as more immediate effects from COVID-19.

There are ongoing structural changes in the market such as the growth of online shopping and moving away from traditional retail footprints. COVID-19 is just a lightning rod accelerating that.

More retail operators were already setting up super sites. For example, Bunnings has just completed its largest ever outlet at Westgate in Auckland, and more than 70 high profile retailers from 14 chains have closed this year, including stores within The Warehouse, Michael Hill Jewellery, Max, and Bunnings groups.

Traditional retailing was always undergoing these changes and COVID-19 has just pulled it forward.

We've also had a step change in the way people are working from home more. How much space will organisations need in the central business districts? The answer is less, but how much less is evolving.

The flip side to this is what it means for property in the suburbs. There might be demand for more suburban services so there will be substitution as people's behaviour shifts, especially in the two main centres, Auckland and Wellington.

People may not be working from home

all the time but they will be doing it more often and they'll walk around the road to a local cafe rather than go to the central city. Less cafes in the city and more in the suburbs.

The commercial property market generally follows broader economic performance.

We've handled the initial lockdown and we're slowly getting back on our feet but there will still be pretty big challenges.

The tourism sector hasn't seen the real hit yet. It will happen in summer when the lack of international tourists will be felt. Kiwis go overseas for holidays to get some sun in winter and now they can't so there are more people who may have extra cash to spend on a holiday here. Some of that money will go elsewhere. Spa pool sales have gone nuts recently. So the money is being recycled but the tourism sector is not sweeping it all up.

The acid test for tourism will be from November to March.



“FOR SOME SECTORS THE WORLD DOESN'T LOOK TOO DIFFERENT BUT FOR OTHERS, LIKE TOURISM, IT'S A NEW ENVIRONMENT.”

CAMERON BAGRIE, ECONOMIST
BAGRIE ECONOMICS

The wage subsidy was to support businesses through crisis. It can't support them indefinitely. The tourism sector needs to reset for a different world. For some sectors the world doesn't look too different but for others, like tourism, it's a new environment.

The risk of rising interest rates is low but banks are looking more carefully at property deals, strength of tenants and terms of leases. Finance is tougher to get but that started pre COVID.

I suspect over the next two years we won't see much new commercial development but there is still work from projects begun over the past two years.

We'll see a lot of uncertainty, and I think commercial building consents will be weak as we head into 2021 and vacancy rates rise.

However, eventually, if you haven't been building supply, the market will come back when we come out the other side of this.

Industrial property will be favoured over offices and retail property but there will be a point at which valuations become so attractive they will entice people back to the market.

One size doesn't fit all. There will be opportunities for people to take a punt. On a global scale New Zealand looks a good place to park some capital.

The good news is that the risk premium in the commercial property sector (the gap between yields and interest rates) looks fair enough which removes one point of vulnerability but tenancy risk and how much floor space firms need will be the main problem given economic and secular shifts.

**Leonie Freeman, Chief Executive
Property Council New Zealand**

The Property Council represents commercial property owners and investors, and the election is a critical time to shift the conversation from problems to solutions, focusing on the outcomes we want to achieve, and how to get there.

The Property Council has crafted an election platform proposing a range of policy initiatives that aim to shape thriving cities and communities.

These include reforming the planning system, increasing housing supply, encouraging smarter investment and improving the sustainability and resilience of our building stock.

Our aim is to spark conversation and engage policy makers to consider alternative solutions to the hurdles we are facing, for the good of all New Zealanders.

The property industry shapes our cities, one property at a time. As an industry, we are committed to getting policy settings right so we can get on with building our nation.

New Zealanders need confidence in our economy to prepare for future growth. We need investment in robust infrastructure and sustainable and resilient cities that can weather future storms.



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LEONIE FREEMAN, CHIEF EXECUTIVE
PROPERTY COUNCIL NEW ZEALAND