CAPITAL *crunch*

UNSURPRISINGLY, CAUTION HAS BEEN A KEY FEATURE OF THE COMMERCIAL MARKET IN THE FIRST HALF OF THE YEAR WHEN IT COMES TO INVESTING CAPITAL, BUT THAT COULD ALL BE ABOUT TO CHANGE.

NEW ZEALAND'S COMMERCIAL property market in the first half of 2022 has been marked by a cautiousness not seen since the 2007 credit crunch.

That has played out in the widening of bid-ask spreads and a circa-65 percent drop in high-value transactions from the last year, according to Bayleys market experts.

The cautiousness is not surprising given rapid rises in inflation and the cost of debt, and puts the country on par with what is happening in almost every developed economy in the world, says Bayleys national director commercial and industrial Ryan Johnson.

The key difference is that the Reserve Bank of New Zealand's (RBNZ) aggressive approach to moving interest rates in March of this year, puts New Zealand about three months ahead of most other key economies.

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"The Reserve Bank of Australia moved their rates in June, and are following the same pattern we experienced, just later," Johnson says.

The recent *Rising Capital in Uncertain Times; Active Capital Asia-Pacific Perspective* report for June-July 2022, by Bayleys' global real estate partner Knight Frank outlined the key issues for investors as:

- increasing caution and risk aversion as a result of geopolitical and economic uncertainty
- limited stock for investment
- widening bid-ask spreads
- a downturn in activity due to inflation and cost of debt.

Those are playing out in conjunction with other, related trends such as a flight to quality, high demand for distribution and logistics warehousing, softening yields against higher interest rates, and the ongoing rise of construction costs.

In response to those issues and trends, Asia-Pacific countries are seeing increasing allocations from cross-border investors towards prime grade offices and sustainable assets, alongside diversification and inflation hedging strategies.

The US is expected to be the largest capital source in APAC at 66 percent, with Singapore (16%), Hong Kong SAR (6%), Germany (4%) and the UK (3%) rounding out the top five.

Most of those trends and issues can be found in the New Zealand market with some subtle local differences in the level of impact, particularly cross-border flows from Australia, Johnson says.

BID-ASK SPREADS AND TRANSACTION VOLUMES

"Bid-ask spreads are particularly large at the moment. That clearly illustrates that vendors and investors are in different places with very different expectations which is largely down to the higher refinancing costs and re-rating of asset risks at a sector and sub-sector level," says Johnson.

With vendors and investors struggling to agree on price, there is an obvious and fairly immediate hand-brake effect on transaction volumes, which is what has been seen in the New Zealand market over the past quarter.

"We've seen a drop of about 30 percent in transaction volume since mid-March," Johnson says, adding that the next question is just how long this phase of the cycle, with its higher refinancing costs, will last and what impact that will have on capitalisation rates.

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RYAN JOHNSON, BAYLEYS NATIONAL DIRECTOR COMMERCIAL AND INDUSTRIAL