



The immigration equation

With borders open, staff shortages are becoming a thing of the past for some businesses, but what does surging immigration mean for supply and inflation?

Surging net migration in New Zealand in 2023 has gone some way to address economic activity issues related to COVID-19 closed borders, but with higher immigration comes the risk of additional pressure on both buildings and interest rates.

Severe skills shortages across multiple economic sectors, fewer tourism dollars and an inflation-driven surge in interest rates are just some of the challenges commercial entities have grappled with in recent years.

Since borders fully re-opened in mid-2022, a steady flow of people have both arrived and left the country. Figures from Statistics NZ show a net migration gain of 127,400 for the 12 months ending November 2023, amongst the highest gains on record since at least 2001.



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CHRIS FARHI
BAYLEYS HEAD OF INSIGHTS,
DATA & CONSULTING

The figure is made up of a gain of 171,900 non-New Zealanders arriving, and a loss of 44,500 New Zealand citizens. By comparison, between 2015 and 2019, according to Statistics NZ figures, net immigration averaged a gain of around 57,000 per annum. To date, most new immigrants to New Zealand have come from India, the Philippines, China, Fiji, and South Africa.

Bayleys head of insights, data and consulting Chris Farhi says the figures show the current migration gain is substantially higher than New Zealand has seen in the past.

“In broad terms, that is positive for the commercial property sector, though there remain concerns about the impact on inflation,” he says.

“The amount of immigration will increase demand for goods and services, as well as the demand for some types of property such as education and training facilities, which are often located in secondary office space.

“But, there is quite a lot of uncertainty around the impact of high levels of immigration on inflation and therefore interest rates,” Farhi says. “It could be a double-edged sword. Even the Reserve Bank has highlighted uncertainty about exactly how immigration will affect inflation.”

In its November 2023 statement, the Reserve Bank noted that net immigration was higher than previously assumed, commenting in the report: “This has increased the supply of workers into a tight labour market. However, the demand side effects are becoming apparent. Strong population growth has contributed to an increase in housing rents. Rent increases, and any increases in construction costs in response to greater housing requirements, affect inflation directly, as rental prices and construction costs are accounted for in the consumer price index.”



DIGGING DEEPER

Alastair McClymont, immigration law specialist for McClymont & Associates, says he expects current net migration numbers to continue in 2024, but the numbers on their own don't offer much insight into economic impacts. Instead, the devil is in the details.

“Net migration is the balance between new migrants coming in and Kiwis leaving indefinitely, so it can be high if there is a large influx of temporary migrants coming in on short-term work and student visas, which is precisely what we are seeing now,” McClymont says.

“There are large numbers of Kiwis leaving and very large numbers of semi-skilled work visa holders arriving who have little prospect of becoming permanent residents, and international students who will be four to five years away from becoming residents.”

McClymont says the majority of future new migrants are likely to come from China and India and most are still likely to be on temporary work or student visas.

“They struggle to obtain residency unless there are drastic changes to the Skilled Migrant policy, which we may not see until the second, or third term of a National-led government.”

At present the prime drivers for permanent migration globally are income levels, career opportunities and cost of living, and at present, New Zealand struggles to compete in those areas, McClymont says.

“It's critical we have the housing, employment and infrastructure in place to attract migrants in a range of professions and with the right skills, who can eventually become residents.” McClymont says the key to changing that will be about getting the balance of policy settings right.

“If we were to design and implement policies that highly incentivised skilled migrants to make the move here,

and to work and live in areas of the greatest need, we may be able to resurrect our international reputation and start attracting highly skilled migrants again.”

McClymont believes the current government will need to reverse changes made to overseas investment policies under the previous Labour government – and improve on them before New Zealand sees a notable increase in investor immigration.

THE INDUSTRIAL STORY

One of the immediate impacts of the recent surge in immigration has been some easing of chronic skills shortages, particularly those skills required by trades, industrial businesses, retailers and hospitality.

Bayleys national director industrial Scott Campbell says open borders have shifted focus in the industrial/logistics sector from staff shortages to warehouse supply shortages.

“There was obviously a slowdown in development over recent years, because of closed borders, but now construction costs have gotten away from us,” Campbell says.



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SCOTT CAMPBELL
BAYLEYS NATIONAL DIRECTOR INDUSTRIAL

With industrial vacancies at record lows that will inevitably mean pinch points where demand outstrips supply.

“We know that every person that comes into New Zealand creates demand that ultimately needs to be supported by warehouse footprint, so we do expect supply to be tight in the short to medium term.”

Campbell says supply will stay constrained until there is an alignment of rental returns, construction costs and land pricing. “We’ve seen a little bit of retraction in land but it’s not enough yet to make development worthwhile on the scale needed to address the supply shortage.”

In 2022, the Productivity Commission’s report, *Immigration - Fit for the Future* recommended the government develop a policy statement for immigration, to allow the country to better plan for future infrastructure and services.

Campbell says that data would be useful for industrial business planning, and addressing supply issues, particularly in New Zealand’s main centres.

“New migrants typically gravitate to the Auckland region when they first arrive in New Zealand, and while it’s likely the Auckland market will continue to be under pressure to supply future industrial stock, particularly for logistics and warehousing in the first instance, the tight rental housing market could be a deterrent and see more movement of people around the country.”

Despite the hold on large industrial development, Campbell says the overall outlook for the sector is positive. “There’s no indication yet that this wave of immigrants are investing in industrial land or businesses, but there is plenty of interest in New Zealand’s industrial sector from offshore investors. Everyone is just waiting for better conditions.”

THE RETAIL STORY

The story is similar in the retail sector, with staffing shortages one of the biggest issues resulting from two years of closed borders.

With that problem largely solved now borders are open, Bayleys national director retail Chris Beasleigh says the sector will also grapple with the supply of buildings as a result of high construction costs through the pandemic period - and, in some cases, construction companies struggling to find enough staff to deliver building projects.

“Construction costs are still high. We might see them ease a bit, but now we have high interest rates which will probably keep development constrained through this year. It’s just still too risky,” Beasleigh says.



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CHRIS BEASLEIGH

BAYLEYS NATIONAL DIRECTOR RETAIL

The positive aspect of increased immigration for retail, he says, is that it may help mitigate New Zealand’s drop in consumer spending.

“People are paying more on their mortgage so they’re spending less. That extra 120,000-odd people coming into the country might help lessen the impact of that.

“We are seeing people moving here who want to start their own business, which is positive, but those new immigrants are going to need to spend in places like Briscoes to set up their new home, or business.”

Overall, Beasleigh predicts tough conditions to remain for retail through 2024, despite record net migration.

“There are still retailers out there looking to expand, and there are those still in a position to make the most of opportunities that arise, but you’ll need to be a really good retailer this year. That means ticking off the basics like good e-commerce, market penetration, and understanding your consumer.”

Beasleigh agrees “uncertainty” sums up the potential impact of immigration on inflation. “Some

commentators say we should expect more increases and it won’t start to come down until 2025. Others are saying they think it’s peaking, and rates may drop in mid-2024.

“People just want some certainty before they make a move. At the moment most of those mid-tier developers are sitting on their hands waiting for a change in conditions.”

THE OFFICE LEASING STORY

Bayleys national director commercial leasing Matt Lamb says the recent surge in immigration hasn’t yet had an impact on demand for office space in New Zealand.

That may change, he says, if the trend continues and creates demand from new long-term residents looking to establish businesses. With the ongoing flight to premium office space and a tight supply for prime office space, an increase in demand could overflow into the secondary commercial building market.

“For now, most corporates are focused on trying to ‘right size’ themselves and look at how they can encourage their teams back to the office,” he says.

“In particular medium to large-size tenants are looking at correcting office environments and reconfiguring spaces with the right mix of open plan and collaboration spaces, to encourage employees back. Because of that, commercial leasing continues to be a busy, active market.

“When it comes to immigration we haven’t seen much of a flow-on effect,” he says, noting the return of international students is likely to spark some demand for space suited to training and education.

“It is a specialised sector that was hit particularly hard through the pandemic, with a lot of international schools closing down. Overseas students returning to New Zealand has a positive impact, not only on commercial property but on accommodation and the economy generally.”