Big

SHEDS TURN HEADS

INDUSTRIAL PROPERTY'S STAR CONTINUES TO RISE AS ECOMMERCE DYNAMICS INTENSIFY, OUR PRIMARY PRODUCTS REMAIN IN DEMAND GLOBALLY, AND NEW SEGMENTS OF THE MARKET FLOURISH.

AS AN ASSET CLASS, INDUSTRIAL property has shown resilience, reliability and long-run returns like no other.

In the post-pandemic landscape, its credentials have only been heightened and industrial property is proving to be the preferred investment vehicle for a broad range of both seasoned and newcomer investors.

Investment research firm MSCI has reported that total industrial property returns rose to 21.8 percent over the year to March – the highest total recorded since the inception of its industrial index 27 years ago.

This latest MSCI data demonstrates how record-low interest rates have escalated the competition for industrial property assets leading to yield compression which has lifted values and, in turn, total returns.

In launching Bayleys Research's latest Auckland industrial market update, Scott Campbell, Bayleys' national director of industrial sales and leasing, says the "big shed" industrial sector has taken everything the global pandemic threw at it, and emerged a winner.

"It's a sector that barrels onwards, with industry data confirming that on 15-year long-run income return averages and capital growth indices, industrial property heads the league table."

Campbell says Auckland industrial land values went up circa-22 percent in the past 12 months and developable land is still very hard to come by, with the majority held in institutional or high-net-worth ownership.

"In one way or another, online shopping is driving the majority of activity in the industrial market today," he says.

"Bullish eCommerce consumer patterns and the demand for last-mile fulfilment space have been accelerated by the COVID-factor – as has the requirement for cloud-based data providers – which is translating to demand for large sites in core locations.

"International research by global management consultants McKinsey, estimates that in an eight-week period, the pandemic outbreak accelerated business adoption of digital tools and services by the equivalent of five years."

Campbell says keeping up with the demand for well-located, quality industrial property is becoming increasingly fraught and the development pipeline is largely pre-committed.

"GIVEN THE SHEER DEMAND FOR INDUSTRIAL PROPERTY AND THE EVER-GROWING ECOMMERCE MARKET, DEVELOPERS, OCCUPIERS AND INVESTORS ARE HANGING OUT TO SEE MORE INDUSTRIAL LAND RELEASED."

SCOTT CAMPBELL, BAYLEYS' NATIONAL DIRECTOR OF INDUSTRIAL SALES AND LEASING

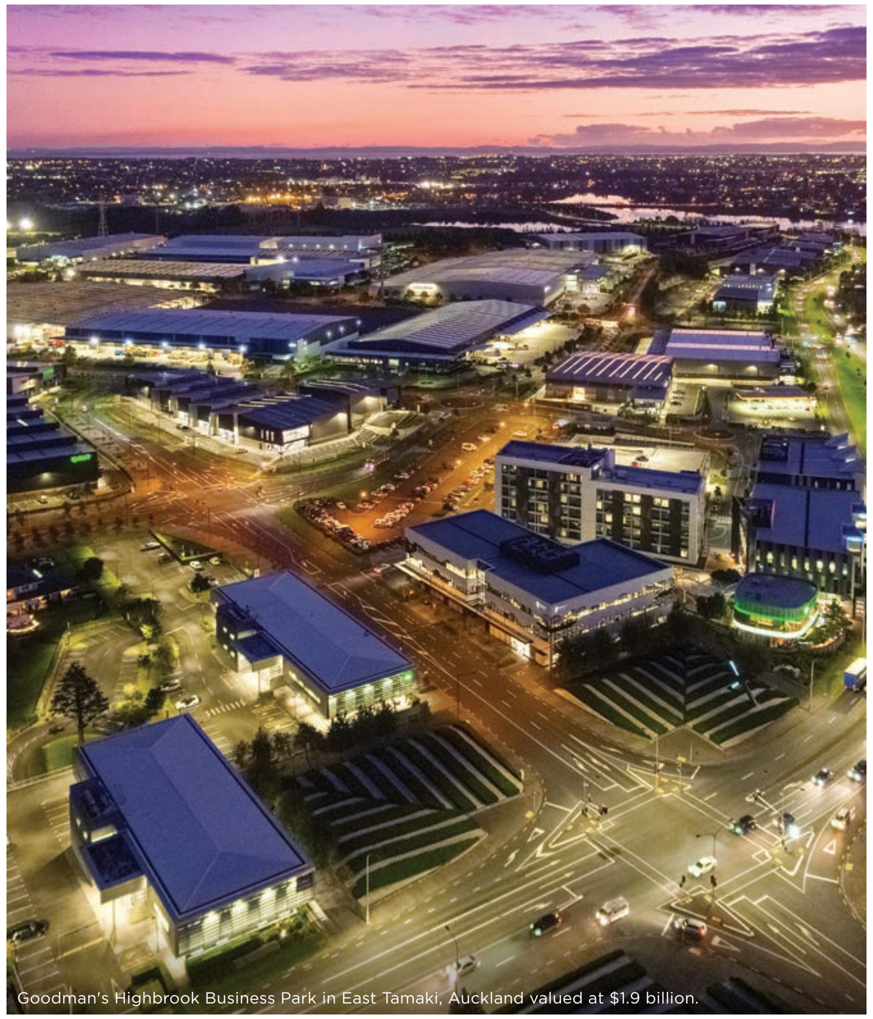
"According to Stats NZ, building consent approval was issued for 1.14 million square metres of new industrial development across the country during the year to April 2021, up 16.6 percent on the total recorded a year prior.

"In the Auckland region, land zoned for industrial use is pretty much all spoken for – even as far south as Drury where all titled land has been snapped up and developers are awaiting the next tranche to come to the market.

"Given the sheer demand for industrial property and the ever-growing eCommerce market, developers, occupiers and investors are hanging out to see more industrial land released – or other land rezoned – to meet this surge."

Bayleys Research estimates that there is around 500,000 square metres of new industrial development on the drawing board in the Auckland market, to be cycled out over the next two years – generally for new warehouse space in developments larger than 10,000 square metres.

"Much of the new space that will come on stream between now and 2024, is pre-committed, with business operators working closely with developers on build-to-spec' projects," says Campbell.



Goodman's Highbrook Business Park in East Tamaki, Auckland valued at $1.9 billion.

"The huge uptick in eCommerce is fuelling the urban logistics component of the market, with the growth of non-customer-facing dark stores for grocery fulfilment just one of the areas gaining traction.

"Global eCommerce platform Shopify reports a record number of new New Zealand eCommerce stores opened via them in 2020, with strong growth in the last five years further accelerated by the pandemic.

"As of mid-July 2021, there were 15,900 live Shopify stores in New Zealand, and this is just one of the contributors to the unprecedented demand for physical warehousing."

URBAN LOGISTICS

The continued growth of Auckland city and the increasing penetration of eCommerce are the unique demand drivers for the urban logistics segment of the Auckland industrial market.

NZX-listed investment vehicle Goodman Property Trust has been a proactive contributor to this supply-constrained market and John Dakin, chief executive officer for Goodman's New Zealand operations, says the decision to concentrate its portfolio in the industrial sector has been deliberate and well-timed.

"WE'VE REPOSITIONED OUR $3.8 BILLION PORTFOLIO OVER THE LAST FIVE TO 10 YEARS, FOCUSING OUR INVESTMENT STRATEGY ON THE URBAN LOGISTICS SECTOR."

JOHN DAKIN, CHIEF EXECUTIVE OFFICER, GOODMAN PROPERTY TRUST

"We've repositioned our $3.8 billion portfolio over the last five to 10 years, focusing our investment strategy on the urban logistics sector," he says.

"The outperformance of the industrial sector has reinforced the benefits of this strategy, which has delivered great results for our investors and customers, with the future growth profile looking equally strong."

Undeterred by the competition for sites in the Auckland market, Dakin says as it is New Zealand's gateway city and the country's largest consumer market, it remains Goodman's preferred investment location.

"Appropriately-zoned greenfield development opportunities are becoming rare and are highly sought after in the Auckland region," he says.

"Our own development programme is increasingly focused on well-located infill sites, close to transport infrastructure and large consumer populations.

"We currently have over $250 million of development projects underway, with around 75 percent of these on infill sites."

The redevelopment of the former Foodstuffs distribution centre in Mt Roskill is a prime example of Goodman's strategy.

"Alongside State Highway 20 and the Waterview Tunnel, it's an ideal location for fulfilment and logistics businesses hence we're intensifying the site with a highly sustainable development masterplan anchored by NZ Post."

Dakin says Goodman Property Trust's connection with the ASX-listed Goodman Group provides valuable insights into emerging trends allowing it to stay relevant and competitive.

"Goodman Group is a global investor and fund manager with around $55 billion of funds under management in Asia, Australasia, Europe and North America.

"The growth in demand for distribution space associated with eCommerce is more progressed in European and Asian markets, where online sales make up a higher proportion of total retail sales.

"In New Zealand, it's around 11 percent compared to more than 20 percent in many of these other markets.

"The potential growth in demand from fulfilment and delivery services is directing our investment decision making."

Also in line with global trends, Dakin says Goodman expects these occupiers to have increasing requirements around automation, incorporating warehouse systems and technologies that provide them with a competitive advantage, along with clear sustainability goals.

"The demand from customers for highly sustainable and carbon neutral property solutions is a well-established offshore trend that is now emerging in New Zealand.

"We see immense benefits in decarbonising our business and offering highly sustainable, energy efficient solutions for our customers.

"This is reflected in our development programme where we are now targeting a 5 Green Star rating for all our new projects and adopting practices and materials that reduce greenhouse gas emissions in the construction phase.

"Any embodied carbon within these projects will also be offset."

Another international trend, yet to hit our shores, is vertical industrial development.

"With land even more constrained in many of the offshore markets where Goodman operates, multi-level industrial development is becoming more common," explains Dakin.

"The trend could potentially come to Auckland as the development of the city intensifies."

Goodman's portfolio includes 1.1 million square metres of high-quality urban logistics space, located across Auckland.

With an average occupancy rate of over 99 percent, the portfolio includes more than 210 customers and has a current value of $3.8 billion, with the largest estate being Highbrook Business Park in East Tamaki, which has a value of $1.9 billion.

Along with a record profit last year, Goodman Property Trust recorded a 17.3 percent valuation increase, which contributed $560 million of fair value gains to the profit result, and the market cap rate across the portfolio is now 4.7 percent.

The development pipeline within its portfolio is expected to support the creation of a further 250,000 square metres of urban logistics space, with an expected completion value of around $1 billion.

THE WHOLE PACKAGE

NZ Post's latest eCommerce research *The Full Download* shows New Zealanders spent more than $5.8 billion online last year – an increase of 25 percent on the year prior.

More Kiwis clicking 'add to cart' means more parcels for NZ Post to deliver, hence it is investing $180 million in parcel processing infrastructure over the next 10 years, working with established development companies to get the facilities built, then leasing them.

This includes new sites currently under construction in South Auckland, Mount Roskill, Wellington, and an extension to its existing site at Christchurch International Airport's Dakota Park.

Greg Morris, group property and procurement manager for NZ Post, says these new sites and the technology that drives them, will help double NZ Post's parcel processing capacity to 190 million items annually by 2033 – and deliver more visibility and efficiency.

"We'll eventually grow from our current two automated sorting centres in Auckland and Christchurch to 11 centres of varying sizes across the country, if parcel volumes continue to grow," he says.

"The investment in technology will improve our visibility of parcels, giving us a greater ability to scale our business to match the growth of parcels into the future."

"THIS COMBINED WITH STRONG OVERALL DEMAND FOR INDUSTRIAL SPACE MEANS EARLY MARKET ENGAGEMENT AND PERSISTENCE HAVE BEEN REQUIRED TO ACHIEVE OUR GOALS."

GREG MORRIS, GROUP PROPERTY AND PROCUREMENT MANAGER, NZ POST

Morris says construction of the new Wellington Super Depot at Grenada is progressing well and will be NZ Post's first processing hub in the lower North Island.

"Inside the building, the 11,000 square metre processing floor is about one and a half times the size of a rugby field, and the developer is working towards the equivalent of a 4 Green Star level facility."

"In March this year, construction started in Christchurch to expand our current Southern Operations Centre and we are on track for 'go live' early- to mid-next year."

Meanwhile, at Wiri Logistics Estate in South Auckland, LOGOS is developing NZ Post's new processing centre that is due to open in 2023, handling domestic and international items.

"This facility has a net lettable area of 40,700 square metres (excluding hardstand) and we are targeting a 5 Green Star rating to continue delivering on NZ Post's commitment to lower our carbon footprint and positively influence the New Zealand market's adoption of more sustainable buildings," explains Morris.

"We have also entered into an agreement for a super depot at Mount Roskill with Goodman which is in the early stages of design and will have a net lettable area of 22,300 square metres (excluding hardstand) and will also target a minimum 5 Green Star rating."

With the well-documented shortage of industrial land around the country, Morris says finding sites with the scale required in NZ Post's desired locations has been challenging.

"With increasing demand for shorter delivery times, we ideally need to be located close to population centres of gravity which often means industrial space is limited.

"This combined with strong overall demand for industrial space means early market engagement and persistence have been required to achieve our goals."

With New Zealanders' penchant for online shopping growing year-on-year, Morris says it is hoped the investment in new world-class facilities will allow NZ Post to be the best delivery partner for New Zealand.

"One thing the COVID-19 pandemic has shown us, is how quickly things can change," says Morris.

"These sites, and the investment in the technology that drives them, will give us the capacity to process more parcels, the ability to scale to support our customers' businesses as they grow, and the ability to process parcels more quickly and efficiently to reach customers quicker.

"We will also have enhanced visibility of where items are at any one time, and there will be proactive management of priority and perishable items in the case of unexpected events."

Artist's impression: NZ Post's new processing centre in Wiri, Auckland is due to open in 2023.