INDUSTRIAL

land goes through the roof

PRICES FOR INDUSTRIAL LAND IN THE AUCKLAND REGION ARE BOOMING DUE TO A COMBINATION OF COMPELLING FACTORS.

THE WELL-DOCUMENTED DREAM run for Auckland industrial property continues with investors, owner-occupiers, listed entities and syndicates all vying for a stake in the constrained market.

However, it's the battle to secure industrially-zoned land that's really heated up and in the last five years pricing on industrial land has more than doubled.

Backdropped by the COVID-19 environment, rising construction costs and supply chain nightmares are adding to development woes for landowners within the sector and where this cannot be immediately bridged by higher rents, it is anticipated that parties will tend to delay development rather than sell the land.

While this is unlikely to put any downward pressure on land prices in the short term, it may slow the growth in prices relative to what has been seen in recent years.

The Auckland region primarily covers a narrow isthmus, constrained geographically in all directions, and making it difficult to identify and acquire large-scale contiguous land parcels.

There's little evidence of Auckland Council fast-tracking any rezoning of peripheral land to industrial use, or of any new areas with scale coming on-stream to meet the burgeoning demand.

Add infrastructural bottlenecks and limitations into the mix, and strangled growth is the reality.

Scott Campbell, Bayleys' national director industrial and logistics, says prices for industrial land are multiplying due to a combination of fundamentals.

"It's a melting pot of strong demand for existing industrial space, constrained supply of vacant land, particularly on a large scale, and the land supply pool being dominated by a small number of parties who prefer not to sell and develop for a long-term hold which is also a positive for the occupier market.

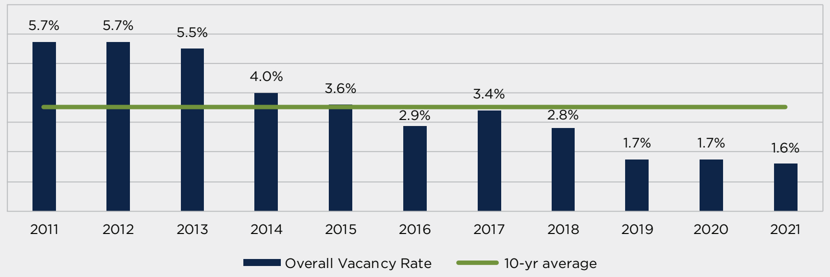
"Similarly, other parties will only sell property as land and building packages.

"The ecommerce explosion is driving demand for massive sites, the big sheds are getting bigger, and heavyweight occupiers with demanding criteria are proactively searching for suitable space that will future-proof business operations in logistics, fast moving consumer goods, and distribution-related fields."

"AS THE COUNTRY LOOKS AT WAYS TO DECARBONISE TRANSPORT, RAIL COULD PLAY A CRUCIAL PART IN PROVIDING A DURABLE LOWER EMISSION TRANSPORT SYSTEM TO CONNECT FREIGHT HUBS."

SCOTT CAMPBELL, BAYLEYS' NATIONAL DIRECTOR INDUSTRIAL AND LOGISTICS

OVERALL VACANCY RATE OVER TIME: AUCKLAND INDUSTRIAL PREMISES



Source: Bayleys Insights & Data

Campbell says securing contiguous industrial land is becoming a fiercely competitive sport with the market in constant catchup mode.

Having resilient infrastructure and streamlined, efficient means of moving goods around the country from an Auckland regional base remains a handbrake to the industrial sector's real progress.

"Leveraging the strategic efficiencies that better coordination of road, rail and air freight distribution would bring, could bolster the distribution network," says Campbell.

"As the country looks at ways to decarbonise transport, rail could play a crucial part in providing a durable lower emission transport system to connect freight hubs and remove big rigs from the roading network.

"KiwiRail is upping the game and relooking at its network after what has been described as a period of managed decline, with investment initially focused on fundamental nuts and bolts issues.

"If that part of the transport equation can be more effectively utilised, then investors/developers would be able to leverage existing nodes and add value to industrial occupiers."

Campbell says industry intel suggests that for now, there's been enough land acquired for hyperscale datacentres in Auckland, after sizeable wallets were opened for big sites by key players in Hobsonville, Westgate, Silverdale, Takanini and the North Shore.

"Data centres were the next big thing for a while there, but that baton has now been handed to an emerging segment of the market – property with capability to meet growing demand from health-related, research and development, and food technology enterprises.

"Given the current availability – or lack of – land, this could be a new test of the industrial sector's mettle."

As the country pokes its head above the relentless intrusion of pandemic-related conundrums, New Zealand's supply chains are being stressed and, in many cases, found wanting.

This is forcing businesses to be hardcore about their property requirements across all strands of their operations.

Warehousing, storage capacity and distribution channels are all being scrutinised, and Campbell says the already under-pressure industrial property sector is having to flex and adapt within tight parameters.

"Supply chain demand for well-located industrial space used to be dubbed "just-in-time", referring to the prioritising and importance of the last-mile portion of the delivery sequence and the associated need for logistics/distribution-based property to be close to end users.

"Now, we are increasingly seeing demand for "just-in-case" space – as supply chain challenges force wholesalers, distributors, retailers, and construction firms to fine-tune how they track, stock and store inventory."

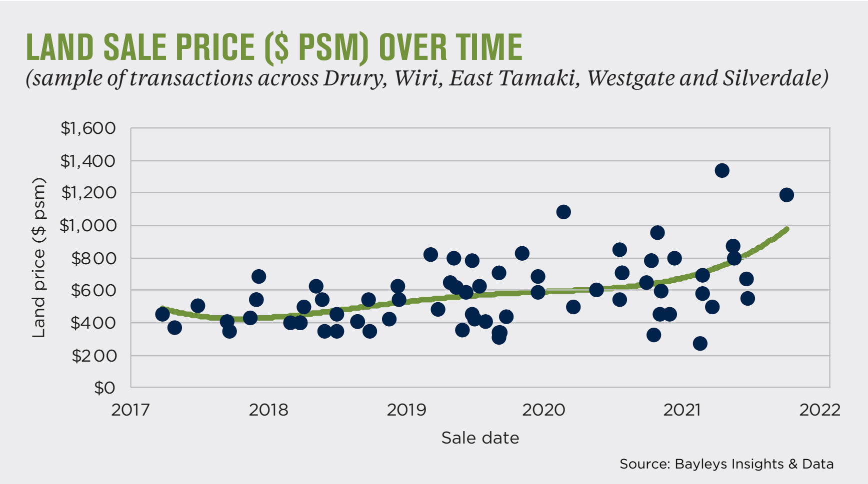
Furthermore, the shortage of available land and properties for sale and super-low vacancy rates mean occupier search perimeters are expanding outwards from the traditional industrial hubs like Mt Wellington, East Tamaki and Penrose.

Areas like Tuakau, Drury South, and even Northgate Industrial Park in central Waikato are coming into their own, closing the gap between regions and feeding into the economic Golden Triangle dynamics.

Campbell says despite – or perhaps, because of – the critical shortage of industrial stock, investor confidence is high on the back of strong long-run income returns and capital growth.

"This is particularly true for premium, A-grade stock, while secondary stock will be more of a wait-and-see situation.

"Rising interest rates are in the wings, yields are holding firm, and rents are on the rise due to low vacancy and to offset the impact of higher construction costs.



Technical notes: This sample of transactions does not represent the minimum or maximum price rates in the market. Land area varies across transactions. Lower price rates generally relate to very large parcels. Trendline uses polynomial function.

"Properties are often leasing well in advance of actual lease expiry dates or physical vacancies and this is providing tangible confidence to developers and investors when acquiring development sites.

"We're starting to see growth nodes where significant infrastructural improvements have been made, and believe that with New Zealand's borders opening back up to the rest of the world, there will be an uptick in overseas interest and investment here.

"This is expected particularly from large institutional buyers who will come over from Australia to scope out opportunities."

Scale has allowed flexibility

Almost half of New Zealand's population lies within one hour's driving distance of Drury South Crossing – the $800 million masterplanned 361-hectare precinct originally conceived 15 years ago.

Adjoining properties have been acquired, roads have been built, infrastructure connections shored up, complicated earthworks undertaken, comprehensive wetlands initiated, large recreation areas formulated, and land delivered for industrial, housing, office and retail occupiers.

Initially designed as a standalone industrial precinct to cater primarily to the strapped industrial market, Drury South Crossing chief executive officer Stephen Hughes says the enormous scale of the landholding has provided significant flexibility and allowed plans to pivot according to market and social demand.

"We have had the benefit of time and room to adapt land uses, to provide for a range of occupier footprints and create a more integrated mixed-use precinct.

"We have seen significant uptake of large parcels of land for sophisticated industrial users within Drury South Crossing, but in the last five years, we have adapted plans to also introduce residential and other commercial land uses.

"This will ultimately provide more live-work opportunities and allow better use of the hard and soft infrastructure."

Hughes says the property market in its entirety has evolved considerably since Drury South Crossing was hatched back in 2007.

"Mixed-use capability would ideally have been included in our initial concepts, however the market and regulatory framework was simply not ready at that time.

"Large projects like Drury South Crossing are inherently complex, but the market has responded and verified the need for a precinct such as this.

"One of the significant issues for Auckland moving forward is a shortage of large blocks of land in single ownership suitable for industrial use and close to infrastructure.

"As the Auckland-Hamilton-Tauranga economic triangle strengthens even further there are definite advantages to being strategically located at Drury.

"We are fortunate to be positioned right on State Highway 1 with on-ramps providing access at Ramarama and Drury and while acquiring and piecing together multiple properties was a challenge, it is something that will likely be considerably more difficult across the region in the future."

As it approaches the final stages of the development, Hughes cautions that there will be limited large industrial sites available, with the rapid uptake and strong demand for land exceeding expectations.

"There are a number of very large buildings proposed for the precinct and the biggest surprise has been the strong demand from New Zealand owner-occupiers.

"It's nice to be able to offer these businesses security of tenure and ownership opportunities."