CYCLES ARE A PROPERTY REALITY

THE RISING COST OF DEBT AND INFLATIONARY PRESSURE IS STARTING TO IMPACT SEGMENTS OF THE COMMERCIAL PROPERTY MARKET, BUT IT'S ALL PART OF THE TERRITORY.

RYAN JOHNSON,
NATIONAL DIRECTOR COMMERCIAL AND INDUSTRIAL

ALMOST SIX MONTHS INTO THE YEAR and the answer to that perennial ol' chestnut "how's the market?" is become trickier to answer.

What we do know is that overall commercial and industrial deal numbers were down year-on-year for the March quarter – however, that in itself is not a fair barometer of the market out there.

A new property cycle has started, and how long it will last is anyone's guess.

We can't definitively say what inflation's going to do to yields relative to the cost of debt as it's an evolving playing field and returns from commercial and industrial property need to be viewed from a risk-adjusted position.

The latest MSCI analysis for the March quarter points to a reduction in industrial capital growth but accelerating income returns, and picks that strong retail income returns will remain that way due to inflation.

Maybe property cap' rates have reached the top of the cycle – but there are lots of moving parts with rising rents, different sectors and grades of property coming into play, and credit and lease structures to consider.

Regardless of which way you look at it, real returns from commercial and industrial assets are still very attractive relative to fixed interest, with after-tax returns on money in the bank remaining firmly in the negative.

In a tightening economic cycle, owners of commercial and industrial property assets need to weigh up the pros and cons of doing a deal now versus sitting on their hands.

Some owners will tap the brakes, assess risk and rejig balance sheets, while others will bite the bullet and divest – knowing that on a relative basis, they have captured value at the point in time of the cycle.

The good news is that offshore buyer interest is back, and there's still a lot of capital out there looking for a home, with significant interest being shown in the New Zealand market.

Everyone seems to be regrouping post-pandemic and, having recently spent some work time across the Tasman, it was great to see Sydney and Melbourne CBDs cranking back to life.

Given they're around three months ahead of us in the pandemic cycle, we can take heart from that.

There will inevitably be labour market challenges ahead – something New Zealand needs to get a handle on, particularly as we're banking on a strong bounce-back in the tourism and leisure markets.

However, while there is clearly some uncertainty in the market at a monetary level, there is plenty of certainty being demonstrated in the occupier market.

We've seen a huge lift in leasing activity and a stabilising or lift in benchmark rents across the various property sectors.

Staff are returning to the office, with corporate occupiers reacquainting themselves with the water cooler and enjoying conversations in the corridors and lifts – a far cry from virtual meetings.

At one extreme we see US-based Elon Musk insisting that all Tesla employees stop remote work and come back to their core office for at least 40 hours per week or they will be dismissed – and at the other, corporates declaring a gradual return to the office with a mix of remote working and in-person.

Along with a surge in leasing enquiry, lease structures are also changing with a swing to shorter terms, inherent flexibility, and rent reviews moving away from CPI benchmarking.

These are interesting times, for sure, and for the first time in more than two years, there's been a resurgence in the business sales sector, with business owners transacting with far more confidence.

In this edition of *Total Property* we have 66 new commercial and industrial property opportunities for sale around the country, along with commentary on how commercial lease structures are changing, a look at the dynamics at play in South Island markets, and how Tauranga CBD will benefit from a committed $1.5 billion of investment before 2030.

So – ups and downs, swings and roundabouts, changing cycles and fresh opportunities – that's property for you and we're here for it.

WHO ARE WE?

Bayleys is New Zealand's largest commercial and industrial real estate agency and is the only significant national real estate business in this sector of the market that is New Zealand owned and operated.

We operate in a family-founded and values based corporate environment that demands integrity, excellence and results. In today's changing world we continue to innovate and focus on strong working relationships to deliver results that exceed our clients' expectations.

Knight Frank

Bayleys have developed a true global partnership with Knight Frank, through our acquisition of their local business and their representation globally. This gives our clients access to a globally-connected network spanning 60 markets. Our closest connections are to the Knight Frank Asia Pacific Group with 8,265 people in 154 offices all working collaboratively to find the right buyer for your property.

OUR INDUSTRY RECOGNITION

#1 RICS

Agency Team of the Year NZ 2020 & 2017
As awarded by the Royal Institute of Chartered Surveyors (RICS) at the RICS Awards.

Industrial Agency Team of the Year NZ 2018
As awarded by the Royal Institute of Chartered Surveyors (RICS) at the 2018 Sales Awards.

#1 REINZ REAL ESTATE INSTITUTE OF NEW ZEALAND

Bayleys is proud to have been recognised at the REINZ Awards for Excellence in Real Estate.

- Large Commercial and Industrial Office of the Year (2018-2021)
- Commercial and Industrial Salesperson of the Year (2018-2019)
- Small Business Broking Office of the Year (2019)
- Best Multi-Media Marketing Campaign of the Year (2018 & 2020)

2,550	$3.6B	230
SALES AND LEASING TRANSACTIONS	OF PROPERTY SOLD OR LEASED	COMMERCIAL SALES AND LEASING AGENTS

*For the period 1st April 2020 - 31st March 2021.