

# VIEW

through an inflationary lens

## WITH ANNUAL INFLATION KNOCKING ON SEVEN-PERCENT'S DOOR, THESE ARE INTERESTING TIMES FOR NEW ZEALAND.



RYAN JOHNSON,  
NATIONAL DIRECTOR COMMERCIAL  
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THE WORD “UNPRECEDENTED” HAS been thrashed during the pandemic, so how shall we refer to the current set of factors at play in New Zealand’s economic and property realm?

We could go with anomalous, or run with independent economist Cameron Bagrie’s term “hellish” which is how he described our rising annual inflation.

When you combine the increasing official cash rate, inflation and the ensuing cost of debt, migration, digitisation, and supply chain disruption – then throw in geopolitical instability, global share market plunges and flux in international monetary policies – I’m sure you’ll have your own word to sum things up.

We’re now arguably seeing the highest combined levels of volatility since the early-1970s when agri-export prices nosedived and oil prices flew high.

It’s different from the share market crash or the global financial crisis because every touchpoint of the economy – and every person – is being impacted by the current hot mess.

Despite – or even because of – the uncertainties of 2021, the financial year-end numbers are in and it was another stellar year for Bayleys with commercial and industrial sales’ volumes up 43

percent on FY2021, which in turn had been a record-setter.

However, like our clients, we’re buckling in for the ride ahead.

The last couple of weeks in Auckland have seen a real tide change in the CBD as the corporates have begun to come back to work in numbers.

Work-from-work – what a novel idea!

Increased footfall and activity around the CBD and core commercial precincts will lead to a resurgence of central city hustle and bustle and facilitate economic recovery.

Wellington’s still relying on the public sector workforce to get back to the office, perhaps waiting for a directive like the UK’s when government departments were emphatically told to rapidly get back to “full occupancy” after the lifting of pandemic restrictions.

From what we’re hearing across the Tasman, Sydney and Melbourne are

heading back to full speed in the office sector as corporate activity resumes in the CBDs.

Last month we welcomed clients from Australia back to Auckland, with the first wave of fund managers scoping out opportunity and looking to place a significant weight of capital.

We know that industrial property is still riding high, however, best-in-class A-grade office space is expected to do well as an asset class.

But, there are mountains to climb in this sector, with Precinct Properties’ interim results showing that for new-build office construction in stage one of its Wynyard Quarter project, costs are up from initial project rates of \$3,500 per sqm to \$5,000 per sqm in 2021.

That’s a 45-percent increase and reflects the escalation of construction costs and supply chain delays in the pandemic-impacted environment.

Disrupted timelines and pricing issues will inevitably impact feasibilities in the development sector and affect the value of the asset at completion – what will cap rates do?

One of the few remaining levers at an owner’s disposal is increasing rentals and, while asking rents for new builds are definitely on the rise, this will only go some way to offsetting the other factors at play.

This shines a new light on B-grade and C-grade stock which starts to look like very good value for investors prepared to value-add and work around market influences.

In this edition of *Total Property*, we delve into a valuable resource from our global real estate partners. The 2022 issue of Knight Frank’s *The Wealth Report* gives us an insight to global private wealth creation, and how that wealth is influencing the commercial and industrial property market.

*The Wealth Report* clearly identifies private capital as the main - and growing - source of global real estate investment, with ultra-high-net-worth individuals’ (UHNWI) money really doing some serious talking.

We also look at New Zealand’s hotel sector where the signs are good for investment and acquisition, as the Asia-Pacific market is a key growth node for big players.

As costs of construction and access to labour continue to thwart many segments of the property market, a healthy appetite for fully-fitted or “turn-key” office suites is being seen among astute business owners with landlords responding with high-end product – we look at some of the influencing factors in *Total Property*.

Plus, there are 81 new property opportunities for sale in this edition, spread throughout the country and across sectors.

Whatever words you come up with to describe the current volatility in market conditions, make sure Bayleys is in your investment vocab as we’re altogether better at commercial and industrial property.

## 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.



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



**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.



**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**  
SALES AND LEASING  
TRANSACTIONS

**\$3.6B**  
OF PROPERTY SOLD  
OR LEASED

**230**  
COMMERCIAL SALES  
AND LEASING AGENTS

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