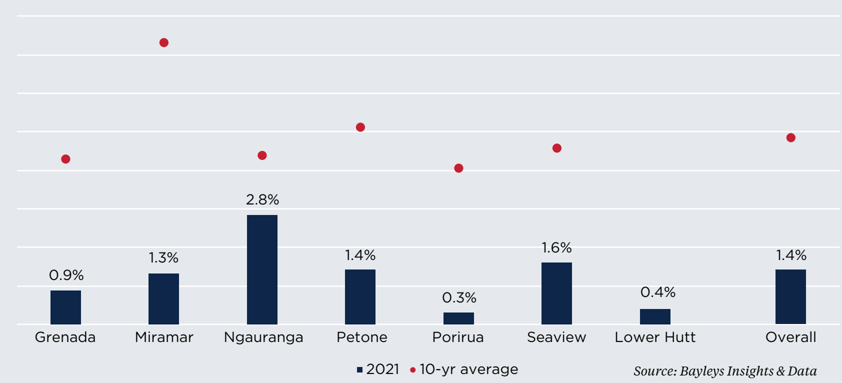
RELENTLESS DEMAND FOR INDUSTRIAL SPACE

Artist's impression - Tākapu Rise Industrial Park, Grenada, Wellington

WELLINGTON INDUSTRIAL VACANCY



Source: Bayleys Insights & Data

UNDERPINNED BY SIGNIFICANT E-COMMERCE GROWTH AND AN ACTIVE REGIONAL ECONOMY, THERE'S STRONG DEMAND FOR PRIME QUALITY INDUSTRIAL SPACE LEADING TO LOW VACANCY RATES AND UPWARDS PRESSURE ON RENTS.

THE INDUSTRIAL SEGMENT OF THE property market has been on steroids for the last few years, consistently outrunning other asset classes for the returns it delivers to owners, and for capital gains achieved in the sales' side of the equation.

The Wellington industrial market is one of the tightest in the country, with a well-documented shortage of available existing stock, and a constrained pipeline of future development land.

The continued demand for distribution warehousing driven by Kiwi's love of online shopping, a flight-to-quality as tenants seek seismically-sound and fit-for-purpose premises, and the emergence of several new industrial business parks have all contributed to upwards pressure on rental rates.

Fraser Press, director industrial sales and leasing with Bayleys Wellington says the flurry of new-build activity seen through 2021 for accessibly-priced and design-led industrial business park developments has been a standout trend in the market.

"Owner-occupiers and investors responded quickly when these developments were launched as there is a real gap in the market Wellington-wide for high-quality, purpose-built units close to main roading arterials and amenities," he says.

"These good-looking and thoughtfully-designed industrial business parks are well-advanced now in Grenada, Newlands, Seaview, Petone and Upper Hutt and will go some way to meeting the heightened demand for smaller workspaces that suit a wide range of businesses.

"By early 2023, these units should all be operational, adding to the region's inventory and hopefully, giving some options for businesses looking to lease space."

The self-contained individual units tend to feature a 50-70 square metre floorplan with good accessibility from arterials, decent stud heights, roller door access, adaptable base fitout – usually with kitchenettes, options for mezzanines, allocated parking and workable transit areas.

Some of the developments offer larger units with additional customisable features and extra parking.

Design credentials are high, with landscaping and amenity elevating them in the market and introducing a new take on industrial sheds.

Press says there's been roughly an 80-20 percent split between owner-occupier and investor uptake respectively, so the leasing opportunities for these contemporary industrial units will still be on the lean side for tenants.

FRASER PRESS,
DIRECTOR INDUSTRIAL
SALES AND LEASING
BAYLEYS WELLINGTON COMMERCIAL

"We would expect that the leasing market will snap up any available units with trade-based occupiers particularly active and on the hunt for a functional, well-located base that gives them streamlined access to state highways."

With a dearth of available and suitably-zoned land for future industrial development, Press says overall vacancy across the region is sub-2-percent, with the likes of Upper Hutt seeing vacancy into 3-percent and the premium precincts like Seaview/Gracefield at 1.6%, and Porirua and Grenada at sub-1%.

"Those high demand areas are unlikely to see much of an increase in vacancy, as the fundamentals are not easily-replicated and businesses are likely to become less-bullish as the COVID-19 situation shakes itself out," he says.

"I'm not foreseeing any big holes vacancy-wise in the market across the region, as let's face it – even if a business is keen to relocate, there simply isn't the available stock for them to be picky."

Rental values have risen in the Wellington region on the back of the scarcity of stock and a flight-to-quality, with Bayleys data showing prime warehouse tenancies are attaining $130 to $150 gross per square metre, per annum.

"Any new-build stock, once it hits the open leasing market, will inevitably command a premium because of the widespread increase in the construction and material costs that we're witnessing nationwide right now," explains Press.

"Conservatively, the cost-to-build has risen around 17-percent in the last 18 months and when this is added on top of the rise in land values, and construction supply chain challenges, owners of industrial property will need to raise rents to cover the capital investments made."

Press says Bayleys' leasing team is also seeing sustained rental rates for secondary grade stock – again due to the shortage of available industrial space.

"The lack of land in the Wellington region, coupled with lower seismic risk perceptions and soon-to-be-realised transport network efficiencies is prompting some movement northwards for distribution and logistics-related businesses," he says.

"There's growing interest being shown in the Kāpiti Coast, and the Horowhenua towns of Ōtaki and Levin as the Transmission Gully project and new regional expressways inch closer to opening.

"Streamlined roading infrastructure will always bring operational benefits for those businesses that need to shift loads, or connect with other links in the distribution network, and being able to shave minutes off journeys matters."