

TIME FOR recalibration

THE COMMERCIAL AND INDUSTRIAL MARKET IS LOOKING FOR MORE CERTAINTY POST-PANDEMIC, AND IT'S TIMELY TO START LOOKING AHEAD – RATHER THAN BACK.



RYAN JOHNSON,
NATIONAL DIRECTOR COMMERCIAL
AND INDUSTRIAL

WELCOME TO THE FIRST EDITION of Bayleys' *Total Property* portfolio for 2023 – the year Bayleys marks its half-century in business.

Recalibration is well underway in the commercial and industrial sector and while we can't gloss over lingering volatility and fragile business confidence polls, on the pure investment side, there are glimmers that construction costs,

inflationary pressures and the cost of debt could be peaking.

Medium to long-term swap rates have softened significantly since the start of 2023, and globally there are very early signs that structurally, the market is pricing in the potential of the peak approaching.

Evidence is building that inflation is cooling in the U.S., U.K. inflation eased for a second month in December, and with Australia looking to ride out the next couple of months before confidently calling peak inflation, New Zealand may have to weather some more inflationary pain before real confidence gain.

Markets don't like uncertainty, but ironically, the escalating cost of everything has provided some certainty as to where the pricing now sits.

No one can really know how 2023 will play out on the economic front, but I feel buyers and sellers are in a better position to make decisions now than they were a year ago when the freefall commenced.

In the world of commercial and industrial property, there's a marked difference between the way the listed and the direct markets have been operating.

Last year, the listed sector was trading at a deep discount and clearly indicated portfolio value reductions of up to 22 percent, and imminent revaluations will continue to put pressure on the sector.

Meanwhile, the direct market was in a bid-ask standoff while waiting for market evidence and hence the volume of sales dropped.

We have to go back to 1990-91 to see overall commercial and industrial sector sales counts as low as we had in 2022 and on a normalised data basis, last year actually saw the lowest volume of sales ever.

I think we must draw a line under 2022 and move with the market as best we can and, even with volatility, decisions can – and will be made.

Buyers and sellers can't keep kicking the can down the road forever and when considering the big money, there's billions

quietly sitting on the sidelines with superannuation funds and private equity needing to make commitments this year.

While banks are reluctant to say too much, refinancing will be the big pinch point for property participants this year as loans roll off fixed terms and loan-to-value ratios see material changes against asset revaluations.

Talking of structural change, the occupier leasing market is rapidly evolving as environmental, social and governance (ESG), wellness and work lifestyles take precedence with occupiers reformulating their workplace strategies after putting forward planning on hold as the pandemic played out.

There's an element of sophistication as the experiential side of the office and retail sector adapts to changed worker expectations, market fundamentals and consumer demands.

The workplace is being viewed very differently today and in the office market particularly, the employee is at the helm.

The attraction and retention of good people is vital for business growth, productivity and brand perception – meaning that talent is now having a bigger say across the office market.

This trend is only going to accelerate as the flight to quality clicks into yet another gear.

Something else to keep an eye on is increased interest and activity in alternative property assets.

The student accommodation market will hopefully rebound given that borders are fully open and there's a revised international education strategy aiming to develop a more high-value, resilient and innovative education sector for both international and domestic students.

While healthcare assets for listed entities have not been immune to value drops, an aging population and a broader and higher emphasis on health and wellbeing will help accelerate a move towards newer buildings with higher green credentials in key health precincts.

Meanwhile, growth in cloud computing and advanced technologies is expected to underpin growth in the data centre market which is ramping up across New Zealand.

To kick off *Total Property* insights for 2023, Bayleys' business line leaders across our full-service agency give their take on the year ahead, we look at office sector dynamics in the main CBD markets, and reflect on some of the standout deals concluded in 2022.

While there are no crystal balls here, Bayleys has the depth of experience, cumulative knowledge and transactional reputation to be strategically positioned to navigate the waters ahead for our clients.

Pick up the phone or tap us a message if you want to talk commercial and industrial property – we're standing by.

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 51 markets. Our closest connections are to the Knight Frank Asia Pacific Group with 9,625 people in 146 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 (2018-2022)
- Medium Agency of the Year - All Disciplines (2022)
- 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)

2,968
SALES AND LEASING
TRANSACTIONS

\$5.28B
OF PROPERTY SOLD
OR LEASED

240
COMMERCIAL SALES
AND LEASING AGENTS

*For the period 1st April 2021 - 31st March 2022.