Longburn Farm north of Auckland sold for $74.5 million in 2022. Boundary lines are indicative only

REAL deals

2022 WAS A YEAR OF LAND SALES, HEIGHTENED ACTIVITY IN THE INDUSTRIAL SECTOR AND SOME RECORD-BREAKING LEASING DEALS FOR BAYLEYS' BROADER COMMERCIAL TEAM.

AS TALK OF A TECHNICAL RECESSION in New Zealand takes hold, and investors and lenders exercise caution, the road ahead for the commercial and industrial property market could be bumpy with 2022 foretelling some of the story.

Bayleys national director commercial and industrial, Ryan Johnson says sales volumes last year were down around the country as the gap between a buyer's ability to purchase and what vendors thought their property was worth widened.

"Transaction numbers dropped significantly and it was quite confronting to see how quickly the game changed as risk appetites wobbled and confidence was rattled.

"There have been different gears operating across the market and we have to go back to the early-1990s to see overall commercial and industrial sector sales counts as low as we had in 2022.

"The market has been sticky as the central bank has continued to tighten its monetary policy, but it's the speed of market change that's been the biggest surprise.

"Total transactional values plunged from roughly $12 billion nationwide in 2021, to around $4 billion in 2022."

Coming off the back of two very strong years when the cost of debt was historically low and demand was off the charts as investors sought to place capital, it's been a wake-up call.

"That said, some market segments performed well, with properties in the sub-$10 million bracket continuing to see strong yields, either side of five percent.

"With the cost of debt sitting at around 7.5 to eight percent, seeing that part of the market hold its own highlights the significant amount of capital circling – as opposed to post-global financial crisis when the money dried right up."

It's the upper end of the market that Johnson says largely languished throughout 2022.

"The sales numbers take a dive when we look at the volumes transacted in the $20 million-plus value range.

"Economic uncertainty out of Europe and the US is a major contributor as it's affecting sentiment and confidence and has prevented institutional capital transacting at the levels we'd grown accustomed to."

The volatility of the cost of debt and a significant disconnect between valuations and market pricing hasn't helped.

"A lot of institutional capital has opted not to transact as that disconnect sits outside of tolerances, with the listed market trading at a deep discount of around 25 percent," explains Johnson.

Adding fuel to the fire, valuers have been slow to move as they wait for market evidence meaning valuations are out of step with the current reality, and lenders are being far more selective about the types of loans they are writing.

"Refinancing is also tricky with some property owners finding the bank may not now want that loan on their books and needing to find a different lender," Johnson points out.

"Loan-to-value ratios (LVRs) and interest coverage ratios (ICRs) have been thrown into sharp focus as banks adjust their stress tests and it's particularly tough where banks are firmly focused on customer ICRs.


Bayleys' largest deal in 2022 was 90ha of residential-zoned land in Feilding's Precinct 4

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"The lending scenario coupled with a drop in property values has delivered a double whammy to the market so we're saying focus on the income side of the asset because the quality of cash flow is crucial in a touchy market.

"Property still provides a hedge to inflation via income, particularly when fixed or CPI-benchmarked rental growth is built into leases."

Johnson stresses that no one knows with any certainty exactly where the cost of debt will go but indicators point to figures not seen for many years.

"First-tier lending is likely to have an eight in front of it, while for second-tier lending, we can expect to see figures in the low-teens.

"Amid growing concerns over a global recession it remains to be seen whether the Reserve Bank of New Zealand backs down from its aggressive rate-hike plan."

THE NUMBERS

Despite handbrakes being applied to the market in 2022, Johnson says there were some standout deals concluded and there was still strong appetite for developable land – even in the face of construction sector challenges, labour shortages and rising costs.

"The largest sale for Bayleys in 2022 was 90ha of residential-zoned land in Feilding's Precinct 4, which sold for $81.5 million to an established developer in a deal facilitated by Bayleys Manawatu commercial broker Karl Cameron."

Johnson understands it will be 10-year development project and potentially include a commercial component to support the residential community, and possibly a retirement village.

The next biggest sale for Bayleys was Longburn Farm in the-once rural Silverdale/Wainui area north of Auckland – a deal finalised by Ben Clare and Graeme Perigo of Bayleys Silverdale, and Bayleys Auckland.

"The intergenerational owners of the property took advantage of money circulating in development circles, selling to an established developer with capacity to see through the current cycle and take a 10-20-year view of developing the land," explains Johnson.

"At $74.5 million, the offering comprised almost 62ha of future urban-zoned land with an additional 130ha of rural land with potential for a private plan change or future rezoning to residential use."

Johnson says Bayleys received nearly $1 billion in offers overall when the property was taken through a tender campaign, confirming that development opportunities with real scale still held significant appeal in the marketplace.

“Underpinned by new roading infrastructure and an ever-growing Auckland population, this was billed as a ‘once in a generation' transaction and the property attracted strong interest from outside of New Zealand, with 22 offshore enquiries.

"That was the first genuine, deep interest from offshore we'd really had in a couple of years.

“With Fulton Hogan Land Developments’ precedent set directly over the road in the new suburb of Milldale and with a housing shortage still facing wider Auckland, Longburn Farm has potential to add thousands of new homes on the northern fringes of the city.”

Industrial land fetched good prices in 2022, and although the development cycle will likely be extended due to headwinds in the market, as a sector, it’s proven to be almost bullet-proof thanks largely to ecommerce drivers and rental resilience.

“The non-cyclical nature of the industrial sector with strong tenant covenants and a very low vacancy rate – around one-percent nationally – made it a popular investment choice,” says Johnson.

Land has continued to sell well within Stevenson Group’s 361-hectare master-planned development Drury South Crossing which will feature a town centre and focus on the logistics, manufacturing, distribution, and wider industrial and commercial sectors.

In Jack Stevenson Drive, Bayleys transacted 23ha across multiple deals in one month for a total value of $169 million brokered by Scott Campbell, Ben Bayley, James Hill and Sunil Bhana, with a 3.49ha site selling for $28,373,645.

“These sales illustrate the lack of available industrial stock and the southward drift of industrial occupiers looking to leverage the locational advantages of being within the economic golden triangle of Auckland, Hamilton and Tauranga,” says Johnson.

With the hotel and tourism sector recalibrating after the pandemic maelstrom, the standout sale for Bayleys’ Hotels, Tourism and Leisure team (HTL) was the freehold going concern for the boutique Chateau Marlborough in Blenheim.

Brokered by Wayne Keene, head of Bayleys HTL team based in Auckland and Gill Ireland of Bayleys Nelson, the property and business sold to offshore interests – retaining all existing local staff – for $29,800,000.

The circa-4,560sqm CBD hotel on 5,039sqm is built over two levels and boasts 80 keys, conference rooms, food and beverage component, day spa and health and fitness facilities and has a 100 percent new building standard rating.

Meanwhile in the leasing market, a continued flight to quality across all sectors defined activity in 2022.

Office occupiers are seeking higher amenities, modern buildings with strong design and sustainability credentials and prime locations to help draw staff back to the office.

In Wellington, seismic issues plague the office sector as confusion reigns over building assessment regulations.

The biggest 2022 office lease for Bayleys Wellington was for offices for the Ministry of Education (MoE) in Gilmer Street in the CBD, with the deal was brokered by Luke Frecklington and Luke Kershaw.

Having exited its offices at 33 Bowen Street due to seismic issues, MoE committed to 7,651sqm in the Gilmer Terrace building which previously housed Stats New Zealand, so was already fitted-out to ministry requirements making for a seamless transition.

“WE’VE SEEN CHALLENGING CYCLES BEFORE AND WE’LL SEE THEM AGAIN, SO USE OUR KNOWLEDGE AND EXPERIENCE TO DEVELOP A WORKABLE PROPERTY STRATEGY.”

RYAN JOHSON, BAYLEYS, NATIONAL DIRECTOR COMMERICAL AND INDUSTRIAL

Industrial leasing was top of class, and vacancy rates continued to be at historically low levels.

The largest industrial lease for Bayleys was a James Kirkpatrick Group new-build project in Mangere, Auckland where a high-profile international occupier committed to a lease for two sizeable buildings across two neighbouring sites totalling 27,748sqm of space.

Johnson says a deal was brought together involving buildings in Kirkbride and Ascot Roads to achieve the occupier’s overall footprint requirement.

“This deal, which was cleverly negotiated by Lloyd Budd and Greg Hall of Bayleys Auckland Central and South Auckland offices, showcases the flight to quality being seen by top-tier occupiers.

“Both buildings are designed to very high specifications including 13.7m stud, 50kpa floors and full height tilt slab construction and will be ideal for the multinational tenant which is ramping up its New Zealand operation.”

Johnson says coupled with the economic headwinds that 2023 looks certain to deliver, the New Zealand public will be heading to the general election polling booths later this year which adds another twist in the commercial and industrial property road.

“However, that’s all the more reason for buyers, sellers and occupiers to partner with Bayleys given our 50 years in the market – we’ve seen challenging cycles before and we’ll see them again, so use our knowledge and experience to develop a workable property strategy.”

Bayleys' largest industrial lease for 2022 was a James Kirkpatrick Group new-build project in Mangere, Auckland. Boundary lines are indicative only