

# RIDING OUT THE STORM

## THE MARKET WILL NEED TO BRACE ITSELF FOR TURBULENCE AS A MIXED BAG OF GLOBAL AND DOMESTIC FORCES START TO ROCK THE ECONOMIC BOAT.



RYAN JOHNSON,  
NATIONAL DIRECTOR COMMERCIAL  
AND INDUSTRIAL

A STELLAR RUN IN THE COMMERCIAL and industrial property market in the 2021/22 financial year is reflected in the big numbers we've seen in reconciling the books for the period.

Both the volume of sales and the value of transactions were off the charts, mirroring a bull(ish) market that is now starting to pull its head in.

Last financial year, values and numbers of transactions were at record levels; rents up, cap rates firmed, vacancy rates and incentives were down.

That perfect storm – which swelled on the back of things like low cost of debt, lack of stock across asset classes, and weight of capital looking to invest – is now mutating into a maelstrom of a different type.

The narrative has turned and if the commentators and forecasters are right, investor appetites for risk could be sorely tested this year.

The pandemic's long tail continues to sting, and economic volatility is weaving its way into all facets of the fiscal equation, with inflation rudely marching on, climate change policies and challenges within the labour market impacting bottom lines and cost of debt rising.

As if that wasn't enough, along comes a tense geopolitical situation in Europe,

which, in addition to the human toll it's taking, will have significant ramifications for global relations, terms of trade, commodity prices, and already-ugly and fractured supply chains.

The market is seeing structural changes happen very quickly, with the playing field morphing dramatically from November 2021 to February.

It's since moved into another gear and with some trepidation; we suggest that we ain't seen nothing yet.

Given the inflationary environment and associated rise in the cost of debt, there'll be a significant reset of cap rates, a softening of yields, and return hurdles for institutional capital.

Interestingly, the rising cost of debt may in some instances favour ultra-high net worth individuals who have strong balance sheets and will go up the risk curve to secure quality investment-grade real estate.

We do expect to see rents for prime real estate escalate – particularly for industrial and large-format retail property – while how the office sector will ultimately perform is still the unknown.

After two years of varying takes on the work-from-home model, companies are signalling that fragmentation and distance are undermining corporate and team culture.

That impacts on brand value, the retention of valued people and the chase for talent. Not to mention, the economic health of CBD businesses due to the severe contraction of office worker footfall.

However, despite volatility and structural change, it's important to avoid paralysis by analysis.

If there's one thing we do know, even with tweaks upwards, money in the bank remains in negative-return territory and given inflationary pressures, will continue to languish there relative to bricks-and-mortar investments.

In this edition of *Total Property*, we spotlight 89 new commercial and industrial property opportunities for sale nationwide spanning asset classes and value bands.

In our insights pieces, we tap into the minds of industry experts for their take on the current inflationary environment and how it's likely to unfold this year.

No-nonsense economist Cameron Bagrie suggests the Reserve Bank of New Zealand will find itself headed towards “an awkward juncture” in an attempt to rein in inflation, while he suggests investors will need a strong focus on extracting additional income from, and adding value to, their assets.

We also delve further into the significance of ESG pillars – environmental, social and governance – that are finding accelerated traction in the commercial property sector.

There's evidence of a far more holistic approach with the sustainability or “green” component well-established, and the “people” elements now taking the limelight.

Well-being, values, social conscience, and giving back to the community are all featuring strongly in corporate frameworks and are now important reporting requirements for stakeholders.

Industrial property continues to dominate the value-equation for investors but, with the Auckland region running out of suitable development land, the sector is under strain and occupier demand is unrelenting – we explore this in more depth.

Although the commercial and industrial market is backdropped by some front-and-centre headwinds and undercurrents, one thing remains steady – Bayleys' commitment to doing the right thing by our clients and optimising market opportunities.

Don't be a stranger – talk to us and let's navigate the current climate together.

## 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.