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Industrial Development in Hamilton Slows

➔ Land Uptake is Down on Previous Years

Demand for industrial land across Hamilton has slowed significantly in the past year as uncertainty arising from the current economic downturn takes effect. Reduced uptake of land and flatter land prices are part and parcel of a softening market and both factors are evident across Hamilton at present.

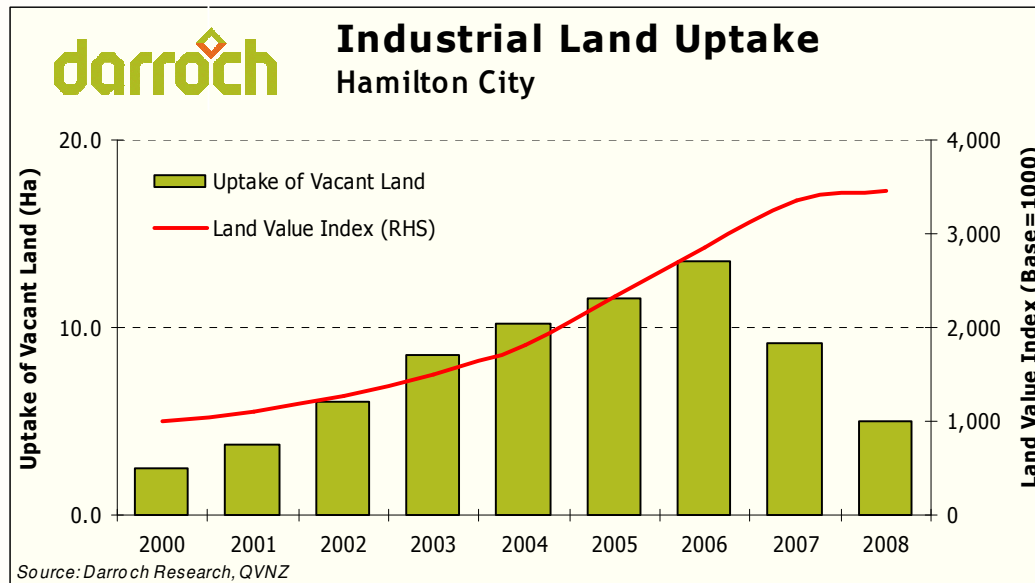
The situation represents a turnaround from early 2007 when Hamilton's industrial market was in an upbeat phase. The preceding three year period had witnessed strong take up of industrial sites, steady land price escalation and substantial new floor space developed. Activity was so strong; most market players were talking of an impending land shortage on the cards. Now with fallout from the global credit crunch, market dynamics have changed and so has outlook. Industrial land supply is now considered less problematic, even "adequate" for the time being.



Demand for vacant industrial land has slowed

According to Darroch Valuation's latest survey, vacant industrial land supply across Hamilton City currently stands at 89 hectares. Five or six years ago supply stocks were closer to 140 hectares indicating fairly robust uptake over the interim. During that time industrial land prices more than doubled as competition from developers pushed prices to new levels. The increased demand for industrial land coincides with Hamilton's emergence as a major distribution centre for the North Island.

With New Zealand importing more and more finished products from overseas, Hamilton has taken on greater importance as an industrial location. In many respects it is the major gateway to the Central North Island market. Hamilton also provides distribution businesses with a cost effective alternative to establishing an Auckland operation because of cheaper premises and lower land costs. Darroch has tracked uptake of industrial land and land prices since 2000 and latest data shows prices levels have hit a plateau.



Darroch Waikato’s Manager, Jamahl Williams says “there has been a noticeable drop off in new developments since late 2007 which has carried on into 2008. The economic downturn has hurt commercial retailers and the flow on effects to industrial markets is obvious. If retailers are taking longer to sell stock then warehouses are holding stock longer. Product supply from offshore is therefore likely to reduce. If sustained the possibility of some businesses downsizing premises might occur”. Mr Williams also notes “Industrial land prices peaked at the end of 2007 and we have seen very little upward movement since then”.

The current drop off in industrial activity is not specific to Hamilton. It reflects general uncertainty in business and investment circles at present. Auckland is also experiencing a softening in industrial land uptake after many years of strong growth. For developers, the impact of the global credit crunch and shake up in financial markets had a dramatic impact on outlook and performance. Lending institutions have tightened criteria for borrowing and many developers are finding it difficult to source funding for new projects. Along with weaker business confidence, many warehousing and manufacturing businesses have simply put capital expenditure plans on hold, meaning demand for new premises has softened. The exit of land speculators from the market has impacted on demand and therefore land values, with present market conditions dictating a flight to cashflow producing assets.

Although Darroch notes that current supply of “pure vacant” sites is down to 89 hectares, Hamilton still has potential for some infill development as a number of sites are underutilised in terms of building platform. Closer analysis reveals an additional 20 hectares is being utilised in some yard capacity – whether timber yard, scrap metal yard or general storage - and is essentially “semi-vacant”. Realistically these sites have future development potential, especially those situated in prime locations. Total potential vacant land across Hamilton therefore is closer to 110 hectares.

Hamilton Vacant Industrial Land Supply					
Year	<0.2000 ha	0.2000-1.0 ha	1.0 -5.0 ha	>5.0 ha	Total
Pure Vacant	4.6	33.6	29.8	21.3	89.3
Semi Vacant	6.3	7.2	6.4	0.0	19.9
Combined	10.9	40.8	36.2	21.3	109.2

Source: Darroch Valuations

In addition to this, Hamilton has further "future urban" reserves currently used in a rural capacity. Hamilton contains three principal areas of rural land within its boundaries. These are located at Rototuna (1,107 ha), Rotokauri (748 ha) and Peacocke (702 ha). Rotokauri, which lies west of Te Rapa straight has been identified as suitable for both industrial and residential development. Future supply in Hamilton is a lot more assured. It does not face the same land constraints some other local authorities endure in terms of restrictive geography or tight urban environs. For Hamilton the main challenge is being able to quantify demand and ensure supply to match.

The current slowdown in industrial circles therefore presents a rare opportunity for stakeholders to get a better handle on future growth. Too often contingency plans on land supply are activated when demand pressures are well advanced - often with knee-jerk results. The other side of the coin is to be able to recognise "false" pressure from land owners/land bankers and even political pressure. After all - how much new supply should a local authority release on to the market at any given time?

One of the key factors often ignored in land use planning is land price. Research Manager for Darroch Valuations, Peter Sluyter, says land values can play an important role in shaping future growth but its implications are not widely understood. "Land value is the critical component in determining the feasibility of any project. If land becomes too expensive then design tends to gravitate towards uses where rent returns are greater. An example may be office buildings appearing in neighbourhoods predominantly used for industrial purposes".

"The intricate balance of demand for land, supply of land and cost of land are all interlinking factors which need to be monitored with accuracy. It is something Darroch has a good understanding of. If we can measure demand and supply and track price, we are in a better position to forecast for the future on where that local authority wants to be and whether their long term plans are achievable" says Mr Sluyter.

Competition from neighbouring authorities is also an impacting factor. In Waipa District, Hamilton Airport has major plans to extend its runway and expand its air freight capacity. In addition, a joint venture between McConnell International and local authorities is behind a proposed plan change likely to see 100 hectares of rural land in Waipa rezoned to industrial and renamed Titanium Park.