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North Shore Industrial Land Disappearing Fast

➤ Potential Problems If Supply Not Addressed

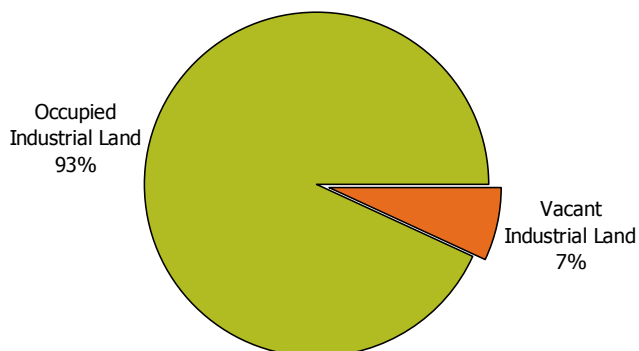
An uncertain future is looming for North Shore's industrial sector. A shortage of vacant industrial land is hindering new development and limiting accommodation choice for industrial businesses. On top of this, many developers are opting to build commercial premises rather than industrial and the whole situation is starting to cast doubt over North Shore's ability to cater to new industrial growth.



North Shore's industrial land supply is facing depletion

According to Darroch Valuations, vacant industrial land stocks on the North Shore (land zoned Business 9 & 10) are now down to just 30 hectares – the equivalent of two to three years supply remaining. In last year's survey, vacant land totalled 43 hectares. Approx 93% of available land is situated in Albany Basin but reserves are depleting quickly. With no major green field alternatives readily available, the North Shore is in danger of facing the unacceptable prospect of having to turn new industrial business away. The situation should be a wake up call for local and regional government to address the issue urgently.

North Shore Industrial Land Supply



Source: Darroch Research

Industrial land on the North Shore is scarce. Scarcity is a bi-product of excess demand and limited supply but this has wider implications for North Shore and Auckland. Darroch Valuations believes that if the current course is allowed to run unchecked the following could happen:

- New industrial businesses and employment opportunities will be lost by the North Shore to other cities; most notably Manukau where land prices are comparatively cheaper and there is a greater supply of

land. This is already happening owing to land shortages across Metropolitan Auckland. Over the past five years Manukau has been the primary beneficiary of industrial growth.

- There will be opportunity for “Brownfields” redevelopment in older established areas like the Wairau Valley. However, land values here are rising so fast owing to commercial competition - in particular bulk retail premises - that in a lot of cases industrial development will be uneconomic.
- Remaining industrial tenancies could be subject to steep rent rises resulting from excess demand for premises and diminishing supply. In effect they will need to compete with commercial tenants for the same space.
- As supply tightens, ground leases could emerge and with this an additional “ground rent” occupancy cost may be passed on to tenants.

While it is envisaged that common sense will prevail and Council takes steps to accommodate growth, the above serves as an indication of how the market place can change over time if demand and supply factors are not kept in equilibrium.

Part of the problem is attributable to zoning changes where the Business 9 & 10 zones allow a wide range of activities from traditional industrial to office/commercial, whereas in the past these activities were strictly segregated by zoning.

Industrial developments are becoming rarer on the Shore owing to the rising cost of business land (supply scarcity) and lower rental returns associated with industrial property as compared to commercial/office. Albany land values have tripled in the last five years; from \$160-\$210 per square metre in 2002 to \$550-\$650 psm today. Developers who pay a “commercial” rate for land have little option but to build commercial offices returning \$200 psm as opposed to warehouses where rents are just \$100-\$110 psm. Under the old system price competition was removed and land prices had some regard to achievable rents for each sector.

Albany - Five Year Land Price Comparison				
Location	Date	Price	Area	\$/m ²
Tarndale Gr	Feb-02	\$220,000	1,078	\$204
Omega St	Mar-02	\$600,000	3,271	\$183
Dallan Pl	May-02	\$382,000	2,313	\$165
Cowley Pl	Jul-02	\$417,000	2,034	\$205
Arrenway Dr	Oct-02	\$499,000	2,628	\$190
Triton Dr	Nov-02	\$222,000	1,232	\$180
Apollo Dr	May-06	\$1,220,000	2,042	\$597
Rosedale Rd	Oct-06	\$3,060,000	5,074	\$603
Canaveral Dr	Mar-07	\$1,147,200	1,912	\$600

Source: Darroch Research, QV

The current situation might be described by some as “market forces” at work, but with office vacancy rates in Albany notably rising and developers continuing to build commercial products, demand and supply forces seem incongruent. Coupled with the fact that New Zealand is manufacturing less and importing more, market forces to supply warehousing and distribution centres appear not to be working either.