

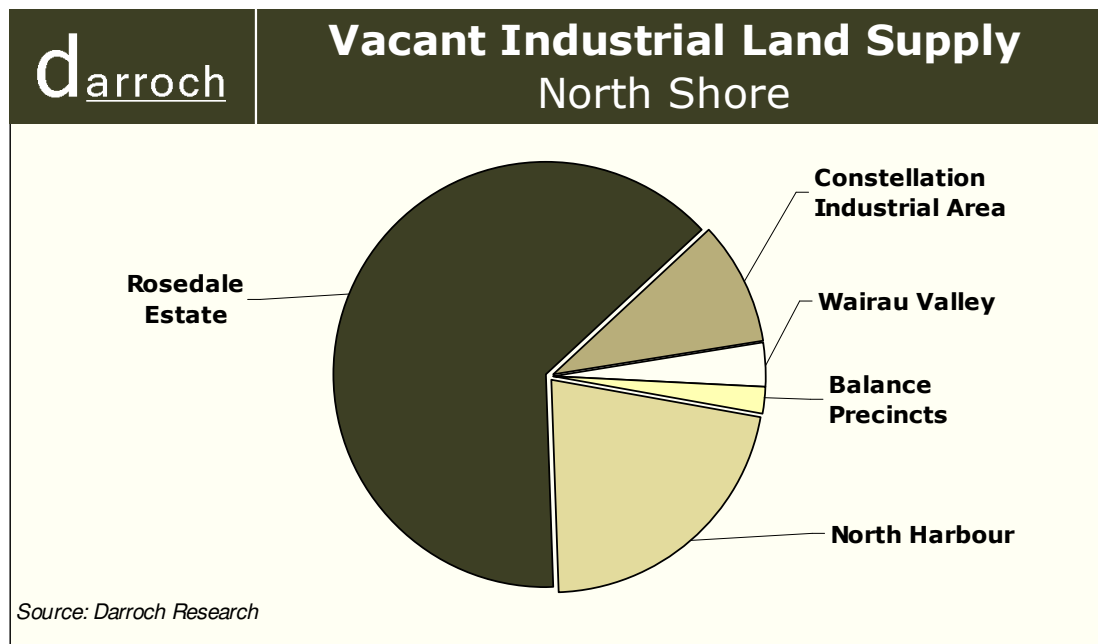
North Shore Industrial Land Supply Near Critical

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Vacant industrial land supply on Auckland's North Shore is approaching critical levels and this is impacting on both price and form of development.

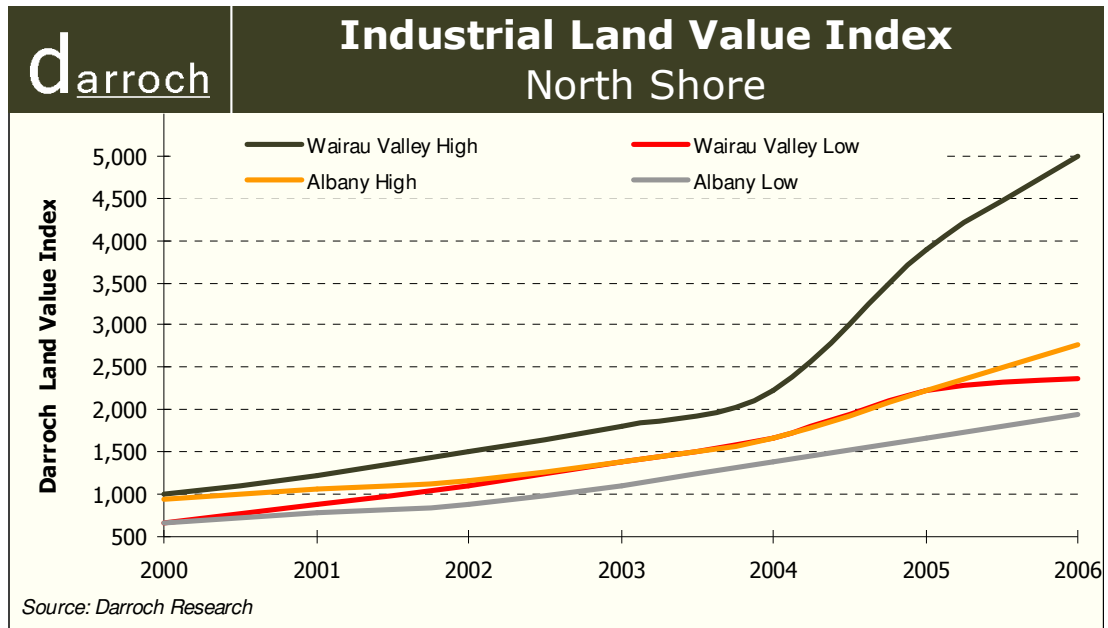
According to *Darroch Research's 2006 Industrial Land Survey*, just under 50 hectares of vacant land deemed suitable for industrial purposes remains undeveloped with the bulk of this situated in the Albany Basin. Outside of Albany, vacant industrial land is scarce with less than three hectares scattered from Takapuna to Birkdale. The lack of reserves must be a concern for North Shore City Council. As supply dwindles developers are forsaking industrial development in favour of commercial accommodation.

Over the past two decades industrial development on the North Shore has been expansive. Ever since Albany emerged as a new greenfields area in the early 1990's, close to 200 hectares of land has been assimilated for industrial use. In fact in the last five years the average rate of uptake of land for industrial development in Albany has been around 15-20 hectares per annum. Currently there is around 45 hectares of vacant "business" zoned land available for development, according to the Darroch survey. Almost 65% of North Shore's vacant land reserves are located within Rosedale's Interplex subdivision. If the current rate of uptake continues, then the North Shore has just three years industrial land supply remaining.



Of concern for North Shore industrial businesses is the impact supply is having on price. Land is a finite resource and therefore has scarcity value. At the moment vacant industrial land on the North Shore is becoming scarce and the rising cost of land is forcing developers to focus more on commercial rather than industrial development. Ultimately this means fewer industrial premises are being built and this could lead to an increase in rents as demand to lease outstrips supply.

According to *Darroch Research's Industrial Land Value Index for North Shore*, Industrial land values have on average more or less trebled since 2000 with very notable acceleration in prices since 2003.



The index shows that the price band (high/low) paid for land in the main industrial precincts of Wairau Valley and Albany have widened appreciably since the new millennium. Back in 2000 when the market was softer, the value per square metre between prime and secondary sites in the Wairau Valley had a difference of around \$80. Today, this difference has widened to over \$500 psm with some high profile prime sites worth close to \$1,000 psm and secondary sites valued at under half that rate. A similar pattern is evident in Albany. In 2000 it wasn't uncommon for vacant prime sites to sell at \$180 psm and secondary sites at \$120 psm indicating a \$60 differential. Now, with land in scarce supply, prime sites are up around the \$500 psm mark and secondary sites around \$350 psm – pointing to a \$150 difference.

The rising cost of land in Albany has been an issue for developers and speculators. To recapture site outlay, construction is focusing more on commercial premises and less on industrial because of the higher rental returns associated with commercial use. Unless something is done to alleviate the situation, Albany could witness an undersupply of industrial premises for future growth and a short term oversupply of commercial accommodation. Businesses who are demanding more "pure warehouse" will need to compensate the developer for lost opportunity cost. In short, this means paying higher rents for new warehouse premises, particularly those with higher stud heights which offer better volume capacity.

The current situation really highlights the need for local authorities to keep on top of growth and to ensure an adequate supply of suitably zoned land for a variety of future developments. An adequate land supply helps reduce scarcity and therefore limit the chances of sharp price rises. A shortage of land has the opposite effect. The impact of market dynamics is more acute where land is zoned "Business" as opposed to straight forward "commercial" & "industrial". In the case of Business 9 & 10 zones, which permit both industrial and commercial office development, symbiotic development exists more easily where there is a plentiful land supply. But when allotments are scarce, developers will naturally seek out higher returns i.e. commercial particularly if they are already paying a commercial rate for acquiring the site. In this situation the industrial sector becomes marginalised.

It is arguable that perhaps the issues facing the industrial property sector wouldn't arise as quickly if land was specifically zoned "industrial". The market dynamics associated with scarcity wouldn't be apparent until that specific zoning was approaching exhaustion. Similarly, the type/form of development would be more certain rather than uncertain due to land price escalation under a "business" zone environment.

Considering the current shortage in land supply there is potential for vacant land values on the North Shore to rise further, especially given the fact there are no major green fields alternatives readily available. Even the Silverdale precinct, which was identified as taking some of the overflow from North Shore is now nearing capacity and doubt remains over rezoning of land in that area. If this imbalance of demand and supply is not corrected, then developers could shift their focus to other Auckland TLA's where land is cheaper, or alternatively look at brownfields redevelopment of "older" industrial stock in the Wairau Valley. However, there are still a number of challenges to overcome here including fragmented ownership, generally smaller sites, access & traffic issues and rapid competition from bulk retail.