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property pulse

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DARROCH VALUATIONS
VALUERS & PROPERTY ADVISERS

Wellington Industrial Land Supply Down

Reserves Fall Below 100 Hectares for the First Time

Industrial land supply across Wellington is tighter than ever according to Darroch Valuations latest survey. Across Wellington City, Hutt City, Porirua and Upper Hutt, the combined supply of land having potential for industrial development has fallen below 100 hectares for the first time on record – at a time when demand for warehousing across New Zealand is stronger than ever. Furthermore, a combination of current council zoning, rising land costs and geographical constraints are inadvertently conspiring to discourage industrial development in some locations.

Darroch's February survey shows that Wellington's combined vacant industrial land reserves currently stand at 98 hectares. Just ten years earlier reserves were closer to 160 hectares. At first glance the figures don't seem overly concerning but closer analysis shows that industrial land is being used for commercial purposes, suggesting that projected reserves could in fact be far less. Nowhere is this more evident than in Wellington City, where industrial land supply has fallen from 50 hectares in 1998 to just 16 hectares in 2008. This uptake didn't result in new industrial development over the period. In fact, industrial floor space actually declined - from circa one million square metres to just over 900,000 square metres. The reality is that commercial uses and apartment developments displaced many industrial uses in and around Central Wellington, forcing businesses and employees to relocate to outer suburbs like Porirua, Plimmerton, Grenada and the Hutt.

One of the key catalysts has been Council policy on zoning. Zonings such as "suburban centre" and "central area" in Wellington City generate price competition, stifle orderly growth and marginalise industrial uses because commercial and residential options have competitive advantage. A typical industrial



developer is forced to compete financially with commercial and residential counterparts to secure land yet the rent returns from an industrial building are far inferior. In past District Plans competition was removed and prices for "industrial" zoned land were lower than its "commercial" counterpart. Under the old guide, land prices also had some regard to achievable rents for each sector.

To date, Greater Wellington has been able to accommodate the exodus of tenants from the city side thanks to existing land supply and surplus accommodation particularly around the Hutt Valley. Manager of Darroch Wellington, Chris Orchard says "Following economic restructuring in the late 1980s and early 1990s, the Hutt Valley went through a very depressed period with significant vacancy and falling rent levels. Since 1998, the injection of "relocated" tenants has helped to revitalise the area without depleting too many land reserves in the process. While a number of new developments have appeared, it is the absorption of existing space which characterises the ten year period to 2008 and includes both refurbishments and conversions". Mr Orchard says "the current market is now in

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Welcome New Staff

Darroch Valuations extends a warm welcome to Mark McNamara and Eri Taylor who both join our North Shore office.

Mark comes to us from CB Richard Ellis where he held a senior role in their North Shore branch. He is a vastly experienced valuer with a strong background in commercial and industrial property. Manager John Darroch says "we are delighted to have a professional of Mark's calibre join our team. His all round ability and vast knowledge makes him a valuable member and he will play a major part in making our team stronger".

Eri Taylor joins Darroch from Preston Rowe Patterson NZ Ltd where she has been involved in inner city and apartment valuations over the past two years. Mr Darroch says "Eri is a promising young valuer who will work in both our commercial and residential teams.

Jamahl Williams, who has been with Darroch North Shore for the past eight years, has moved south to join Darroch Waikato. He is excited about his Hamilton move and says "Hamilton is a growing city which has a very positive future ahead of it. It is great to be part of an established valuation company, which has good personnel and an excellent reputation".

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far better shape with low vacancy, steady rental growth and good demand for high stud warehousing”.

But looking forward respective councils need to be more diligent on what land reserves are actually available. The survey also showed that parcels of remaining vacant industrial land having an area less than 2,000 square metres in size, total almost 16 hectares. This means that land suitable for decent sized industrial activity like warehousing/distribution is actually closer to 82 hectares.

The reality is that Wellington is geographically constrained and initiating wholesale rezoning of land is not a straight forward matter. As land supply tightens and competition increases, each TLA will need to reconsider the merits of a general “business” zoning. Councils also need to keep pace with national business initiatives. Warehousing and distribution



is still in a growth phase. Almost monthly there are news reports of New Zealand manufacturing companies moving part or all of their business to China where production costs are lower. If New Zealand is manufacturing less, it must be importing more – yet we are faced with an anomaly of Councils seemingly marginalising industrial warehousing by making them compete for land with higher alternative land uses. Mr Orchard says “It is becoming clear that to protect any new supply of land intended for future industrial development; a reintroduction of a pure “industrial” category may be required. The long term risk of not addressing this issue is to lose businesses to other locations and cities”.

Insurance - Building Costs Set to Rise Again

Commercial building costs have risen dramatically in the past five years and are expected to rise even further according to latest forecasts. Darroch Valuations is advising all building owners to check that their current level of insurance cover is adequate for reinstatement of their property asset. Auckland Manager John Darroch says “It’s astonishing how quickly building costs have escalated in the past few years and the impact this has had on reinstatement cost. Owners need to ensure they stay abreast of rising construction costs”.

The Capital Goods Price Index (CGPI) provides an official measure of cost movements in the non-residential building sector. It is tracked by Statistics New Zealand and according to their latest analysis the index currently stands at 1340 points. Rising costs in structural steel work and fit out of electrical services are cited as two key factors behind escalating building costs. Looking forward, international company Rider Levett Bucknall (RLB) are forecasting non-



residential building costs to rise to 1465 points by March 2009 and over 1500 points by March 2010.

This means that a non-residential development which hypothetically might cost \$1,500 per square metre today will rise to \$1,650 psm to replace by 2010 (index = 1500). An average building of 400 square metres costing say \$600,000 to build today, will cost \$660,000 in two years time.

Mr Darroch believes that most owners try to keep an eye on costs and generally seek out expert assistance. He says Darroch clients are in good hands “Our advanced systems activate reminder letters to our clients that an insurance update is due. This way, our clients are able to manage their assets effectively. Our clients are always appreciative of this important reminder. It’s part of our dedicated service.”

Property Yields Softening?

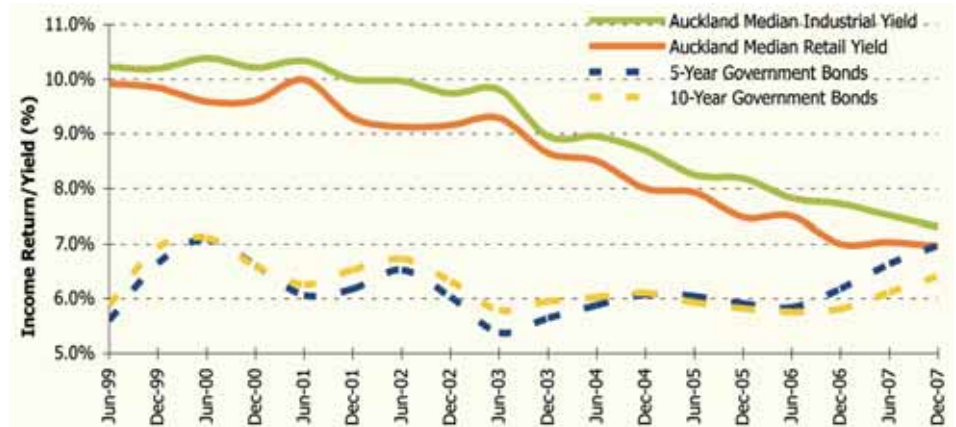
Coming into 2008, rental returns for Auckland commercial property remain at very competitive levels but latest analysis suggests that the downward movement in yields experienced over the past five years has slowed.

According to Darroch Research, the median yield for Auckland retail property for the six months ending 31 December 2007 was 6.95%. This is virtually identical to the preceding June 2007 and December 2006 half year results and suggests that investment demand for retail property is starting to plateau. Demand for prime retail property remains very positive but buyers are more discerning about secondary stock, especially in light of the current shake out in the sub-prime lending sector and its potential repercussions on wider business markets.

Interestingly, the cautionary mood in retail was not mirrored across the Auckland industrial market.

Investment sales in this sector have remained very competitive. For the last six months of 2007, Darroch calculates the median yield for Auckland industrial property to be just under 7.3% - the lowest result on record. Further analysis shows prime industrial yields are now down to 7.1% with secondary yields fractionally over the 7.3% average.

Darroch's Research Manager, Peter Sluyter,



Source: Darroch Research, Reserve Bank of New Zealand

believes investors still see growth prospects with industrial property. "The dynamics of New Zealand business is rapidly changing. NZ is importing more from Asia where production costs are lower. Distribution is a growth industry and looking forward, investors visualize a growing tenant base, low vacancy and upside in rental growth" says Sluyter.

The levelling off in retail yields suggests the retail sector is perhaps more responsive to economic trends. Discretionary spending suffers when cost of living factors like mortgage interest rates and petrol prices rise, with retail businesses usually the first to feel this. While it is anticipated that investor interest in prime retail property will remain strong over 2008, more caution will be exercised

with secondary property. Tighter lending rules are also likely to impact. The shakeout in lending markets has meant a tightening in access to funding - on balance requiring investors to have a greater equity ratio. Reduced borrowing levels will effectively limit the amount an investor can pay for an investment property, therefore testing the resolve of vendors in the negotiation process.

Overall, the confidence shown in investment property in recent years is clearly evident in the attached chart. Buyer behaviour suggests that many investors view property as near "risk free" and are purchasing at yields marginally above long term government bonds, a situation unseen in New Zealand in the past two decades.

Auctions Highlight Buyer Sentiment

With 2008 upon us it will be very interesting to see the mood of the commercial market when normal business activity resumes mid to late February. Over the Christmas period buyer sentiment becomes something of an "unknown" factor while the property market takes a two month rest. It is often over this period that people reflect on last 12 months and formulate opinions on the coming year. To a degree ones thoughts on the property market are influenced by newspapers, business confidence, economic performance and even local gossip. At the end of the day proof of

market performance lies with buyer behaviour.

One of the key indicators of market behaviour is auctions and in particular the mood of the auction room. The number of attendees and bidders is testimony to the strength of the market. Bayleys Total Property Auction set down for April will be keenly watched by various market commentators and players. Last year, buyer interest in Bayleys December Total Property Auction was fairly strong although there were some signs of a "two tier" market appearing where demand for

prime properties outperformed their secondary counterparts. Auckland recorded a hammer clearance rate of 48% and Wellington 53%.

Bayleys Dave Stanley believed the market for prime properties remained strong but second-tier properties was softening with yields for this class starting to rise. Vacant buildings were becoming more difficult to sell owing to a slowing economy, higher interest rates and uncertain cash flow. It will be interesting to see if this observation is sustained.

Property news from Australia

Courtesy of Darroch Valuations alliance partner
Egan National Valuers



ACT

- Development in ACT /Canberra very strong with \$2.16 billion under construction and a further \$1.43 billion under consideration.
- Two record prices with a penthouse in Kingston selling for \$3,500,000 and an executive residence in Red Hill for \$4,075,000
- Australian record price for a vacant city site (26,844 sq m) selling at Auction in Dec 2007 for \$92 million

NSW

- Strong demand for CBD commercial property with the sale of an older style office building at 99 Elizabeth Street for circa \$76.5m at a 5.21% yield
- Yields are tightening on Sydney CBD office accommodation now ranging from 5% to 5.75% on prime assets
- Prime industrial yields continue to tighten in Sydney reflecting demand for investment grade property, which remains in relatively short supply. These yields range from 6.25% to 6.75%

VIC

- Residential auction clearance rate continues to exceed 80% on large volumes

WA

- New 34 ha industrial estate for Hazelmere with up to 24 warehouses ranging from 5,000sqm to 10,000sqm planned by Goodman
- Industrial rents have doubled over the last two years from an average of \$40-\$60/sqm to \$80-\$130/sqm. WA has now caught up to Brisbane and Adelaide and is approaching Sydney levels
- Prime CBD retail rents now close to \$4,000/m², up 20% from last year with demand still strong

我们的公司也有讲普通话的估价师。如果您有任何發網，請聯絡劉先生 021-828-808。

Our company also has a mandarin speaking valuer. If you have any enquires regarding our range of services please call William Liew on 021-828-808.

About Darroch Valuations

Darroch is one of New Zealand's leading independent Property Consultancy & Valuation firms with an excellent reputation for providing quality advice to a wide range of clients. Our professional expertise is highly sought after in the market place and our qualified staff consistently deliver superior services on a timely and confidential basis.

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Darroch Contact Details

www.darrochvaluations.co.nz
0800 DARROCH or 0800 327 762

Auckland

Level 1, Cnr Shea Tce & Tarahoto Rd
P O Box 33-227, Takapuna, North Shore 0740
Ph: 09 486 1677 Fax: 09 486 3246
enquiries@darrochvaluations.co.nz

Manukau

Level 1, Fountain Lane South
Botany Town Centre, Manukau City
P O Box 51262, Pakuranga, Auckland 2140
Ph: 09 271 6858 Fax: 09 271 6854
manukau@darrochvaluations.co.nz

Waikato

3rd Floor, 410 Victoria Street
P O Box 9247, Hamilton
Ph: 07 834 0671 Fax: 07 834 0310
waikato@darrochvaluations.co.nz

Wellington

Level 4, 342 Lambton Quay
PO Box 25-334, Wellington 6146
Ph: 04 499 3192 Fax: 04 499 3193
wellington@darrochvaluations.co.nz

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