July/August 2008

Shore Industrial Land Supply Critically Low

➲ Redevelopment of Wairau Valley Unlikely Solution

Vacant industrial land supply on Auckland's North Shore has now reached critically low levels, raising serious doubts whether the city is interested in attracting and retaining industrial businesses. Despite repeated warnings over the past three years by various commentators of the impending land crisis, contingency plans to address the situation have yet to appear.

Redevelopment Sites are becoming harder to find

According to Darroch Valuations latest survey, vacant industrial land stocks (land zoned Business 9 & 10) are now down to just 22 hectares with 90% situated in the Albany Basin. Last year vacant industrial land totalled 30 hectares and in 2005 there was 43 hectares – suggesting there is just two years supply remaining. The long term implications for the North Shore are worrying. Industrial tenants could be forced out of the city.

As at June 2008, only five percent of North Shore's total "industrial" land holding is all that remains available for new development. At such a low ratio, high land costs and limited choice is discouraging many industrial businesses from locating on the Shore. More significantly, existing industrial businesses are coming under threat from alternative users. This situation has reared its head on the North Shore over the past three years and is most concerning. While some established precincts like the Wairau Valley have been targeted for urban renewal, most redevelopment there has been more "commercial" in nature than industrial. Coupled with the reality that no major "green fields" alternatives are readily available, North Shore's relationship with industrial businesses is likely to come under serious strain. The situation should be a wake up call for local and regional government to address the issue urgently.

Rising land costs are also discouraging industrial development. In Albany, land values have tripled over the past six years; from $160-$210 per square metre in 2002 to $600-$750 psm today. At these price levels, developers are effectively paying a "commercial" rate for land and have little option but to incorporate a higher proportion of offices into new developments or build offices outright. Commercial offices return $240-$270 psm in rent as opposed to warehouses where rentals are just $110-$130 psm. A plentiful land supply keeps prices in check and encourages new businesses into an area. But on the North Shore, the opposite is happening.

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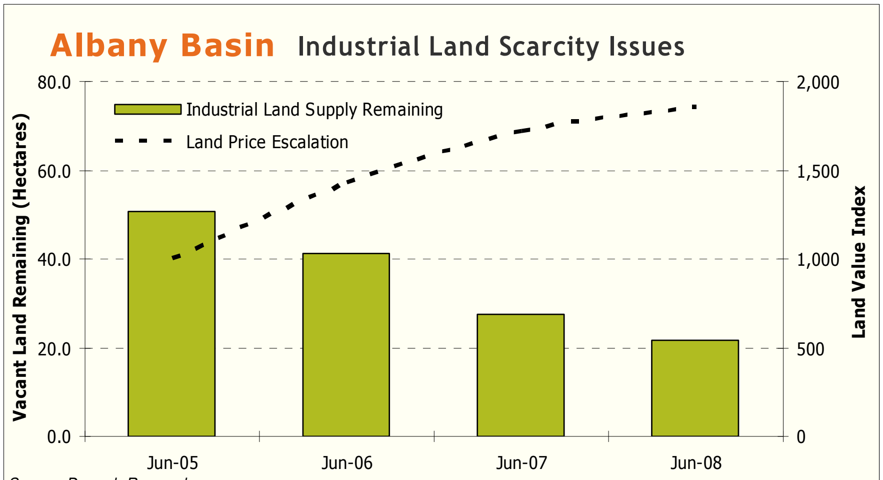
Part of the problem is also attributable to zoning where the Business 9 & 10 zones allow a wide range of activities from traditional industrial to office/commercial. In past District Plans, these activities were strictly segregated by zoning and price competition was removed as land prices had some regard to achievable rents for each sector. To ensure protection for industrial businesses, planners may need to reconsider a return to "pure" industrial zones if a suitable new land supply can be found.



Source: Darroch Research

Darroch Valuations believes that unless a better balance between demand and supply is found the following will continue to intensify:

- New industrial businesses and employment opportunities will continue to be lost by North Shore to other cities; most notably Manukau where land prices are comparatively cheaper and there is a greater supply of land. Manukau has been the primary beneficiary of industrial expansion, on average absorbing a whopping 60 hectares each year for the past five years. Manukau has approximately 410 hectares of vacant land remaining.
- "Brownfields" redevelopment in older established areas like the Wairau Valley will happen but won't be enough to accommodate natural growth. Land Values here are already in excess of $1,000 psm and at this price redevelopment to industrial uses is uneconomic. Decent redevelopment sites are also under pressure from commercial competition - in particular bulk commercial/retail premises. Prime examples in recent years include: Mitre 10 Mega, Epicentre, and Pak 'n Save developments. In the main, redevelopment of the Wairau Valley will only force existing industrial tenants out. Now three major local industries have recently announced they will be vacating their premises; 3M, Kohler and Morgan Furniture – the latter has sold to Bunnings for commercial use.
- Remaining industrial tenants 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. Those unable to pay will be forced out to other locations - most probably out of the city.

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Darroch Valuations is concerned that planners are pinning hopes of catering to future industrial growth on redevelopment of the Wairau Valley. We feel this is a bit misguided and ignores simple economics and practicalities. Originally established in the 1950's and 1960's the Wairau Valley has already undergone urban renewal in the 1970's and 1980's. Most of the large "parent" sites have already been redeveloped to house industrial units. Finding a large site today is not easy and it is not a simple case of demolishing an old warehouse and building a new one – this is uneconomic. With land prices high, multi-unit development is the only feasible option open to developers looking to build industrial. One recent example is Kea's 37 unit redevelopment of the old Thunderbird Tavern site at 89 Ellice Road. But here lies the problem - such sites are extremely difficult to source and there are also a number of challenges to overcome including fragmented ownership and generally smaller sites (requiring amalgamation), access & traffic issues and rapid competition from bulk retail. Identifying new tracts of land appears the best way to solve the problem.

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