

1<sup>st</sup> Quarter 2009

## Wellington Industrial Land Still Tight

### ➔ Pure Vacant Sites Down to 80 Hectares

**In keeping with national trends, demand for industrial land across Wellington weakened over the past year as uncertainty arising from the economic recession took effect.** A reduced uptake of land and flatter land prices are part and parcel of a softening market, with both factors evident across the country at present, including in Wellington.

According to Darroch Valuations' latest survey, Wellington's combined vacant industrial land reserves still remains below 100 hectares. However, recent concerns over an impending shortage have abated for now, as developers and investors refrain from new construction while leasing demand is weak.



*Despite falling reserves, demand for industrial land in Wellington has weakened owing to the recession*

Across Wellington City, Hutt City, Porirua and Upper Hutt, the combined supply of "pure vacant" land available for industrial development is now down to 80 hectares, despite just three hectares being absorbed in the past 12 months. On top of this, Wellington has the added potential for infill development, as a number of sites are underutilised in terms of building platform. The Darroch survey showed circa 16 hectares are utilised in some yard capacity (as timber yard, scrap metal yard, general storage or temporary carparking) and is essentially "semi-vacant". Realistically, these sites have future development potential, especially those situated in prime locations.

Despite the onset of weaker demand, Wellington's industrial land supply is at its lowest level in at least two decades. Wellington is geographically constrained and therefore wholesale rezoning is not a straight forward matter. The protection of remaining reserves for industrial use is paramount for the region.

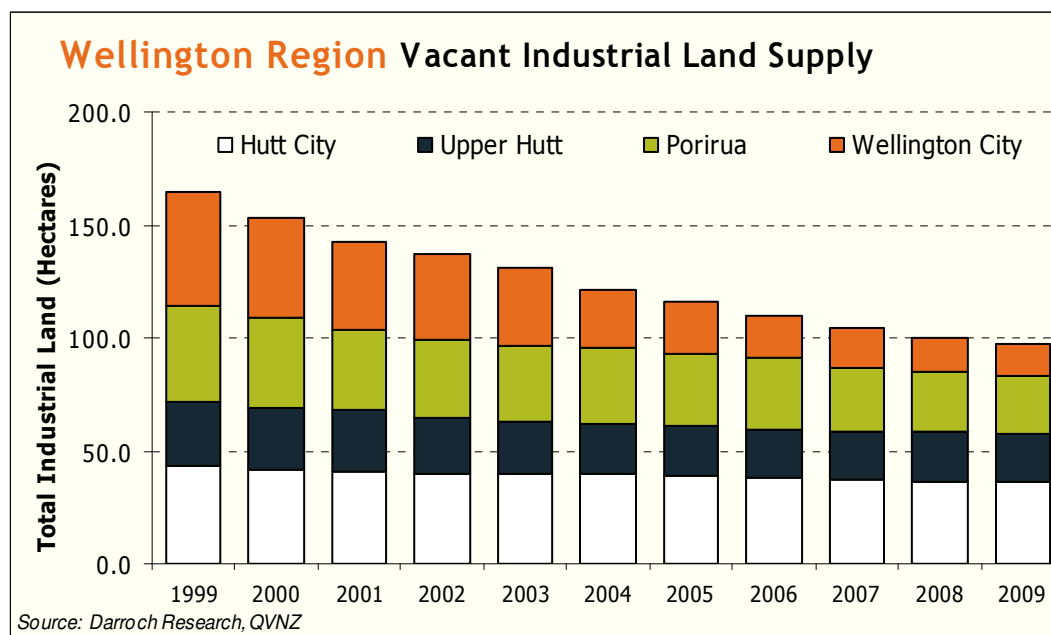
Darroch Wellington's industrial specialist Stephen McColl said; "Industrial land supply across Wellington remains historically low but balancing this for now is the impact of the recession which is affecting new demand. Businesses remain hesitant about committing to new projects and many have deferred any expansion plans. As a result, fewer developments have been constructed in the past year which is understandable".

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Manager of Darroch Wellington, Chris Orchard said; "As expected in a recession, demand for land and buildings is weak. There have been very few sales of vacant industrial land over the past 6 to 12 months. Weak demand for land generally corresponds to falling price and it is our expectation that business land prices have eroded at least 10% so far; down from a peak in early 2008. A worsening economy and continued weak confidence could see land prices fall further".

"The situation is perhaps not dissimilar to the early 1990's and the after effects of the 1987 share market crash. During the boom of the mid 1980's, land prices skyrocketed; carried along by massive commercial and industrial development. But once the crash hit and recession set in, weaker demand and weak confidence saw land prices plummet and in some cases land values halved" said Mr Orchard.

However, Mr Orchard believes the current situation presents an opportunity for planners to re-evaluate long term demand/supply dynamics. "We know that demand is currently weak but as in past downturns, this situation will not remain the case forever. Industrial land supply, particularly around Central Wellington, has declined at a remarkable rate over the past decade, with many sites absorbed by commercial and residential uses. The current downturn presents an opportunity for planners to review rules around remaining reserves and to ensure planned industrial areas are not lost to other uses" said Mr Orchard.



The current drop off in industrial development is not specific to Wellington. It reflects general uncertainty in business and investment circles at present. Auckland & Hamilton are also experiencing downturns in industrial land uptake after many years of strong growth, and these cities are also seeing falls in land prices. In line with weaker business confidence, many warehousing and manufacturing businesses have simply put capital expenditure plans on hold, softening demand for new premises. The exit of land speculators from the market has impacted on demand, and therefore land values, with present market conditions ensuring a flight to cash-flow producing assets.

Darroch monitors industrial land supply levels across Metropolitan Auckland, Hamilton and Wellington. Details of previous surveys and analysis can be found on the company website at [www.darrochvaluations.co.nz](http://www.darrochvaluations.co.nz).