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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.

Industrial businesses have been forced out of Wellington CBD to Seaview & Petone

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.

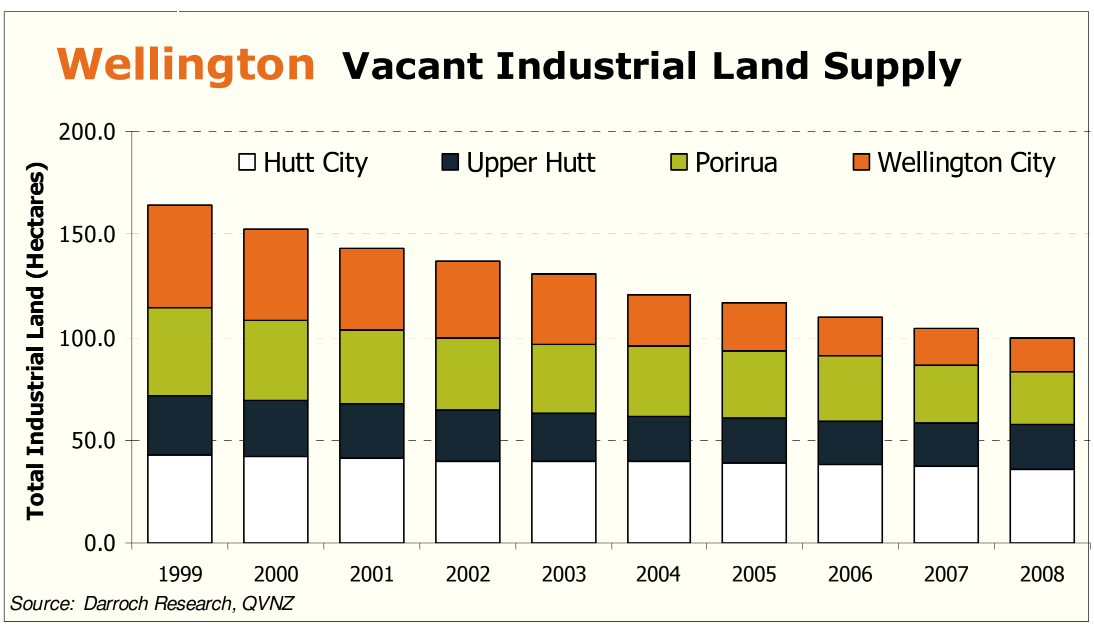
Nowhere is this more evident than in Wellington City, where industrial land supply has fallen from 50 hectares in 1998 to just 16 hectares in 2008. This uptake didn't result in new industrial development over the period. In fact, industrial floor space actually declined - from circa one million square 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 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".



Wellingtons industrial land supply is on the decline.