

Bayleys Research

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Auckland Industrial

Running on High Octane

The Auckland industrial property market is firing on all cylinders with both occupier and investor demand at unprecedented levels. Spurred on by low interest rates and strong local economic drivers, namely high levels of manufacturing and construction activity, 2016 looks set to be another record breaking year.

Highlights

Stock shortages at extreme levels – a surge in both occupier and investor demand since the new year for all grades of industrial space has lead to shortages across the board pushing rents higher and leading to further cap rate compression.

- Ultra tight vacancies and unprecedented competition amongst industrial space users has seen rents rise across both prime and secondary grades with landlords firmly in control.
- Unsatisfied investor demand is now flowing through to poorer grades of industrial space where prices have moved higher and are providing owners with an attractive window to sell non-core, secondary property for maximum value.

New supply edging up, finally - Driven in large part by local heavy weights such as Goodman Property Trust (GMT) and Auckland Airport who have significant land holdings and are taking full advantage of the acute shortage of industrial space by increasing their development pipelines. Unfortunately for many smaller developers the toxic combination of rising land values and rising construction costs has seen a growing number priced out of the market.

Future recycling of inner city industrial areas to mixed use – over coming years the highest and best use for a growing number of traditional inner city industrial areas, especially those close to rail-bus links, will be residential usage. As with many cities off-shore expect more industrial storage and logistics facilities to be based on the outskirts of Auckland close to the major road infrastructure projects currently underway. Cheaper land to the north-west (Hobsonville-Westgate-Riverhead) and south of the city (Takanini-Drury) is likely to draw increasing developer interest going forward.

Vacancies at unprecedented lows

Reflecting the current tight conditions the latest Bayleys Research annual Auckland vacancy survey shows a further reduction in overall vacancies to a historically low 3% from 3.6% a year earlier.

Auckland Industrial Vacancy Rates

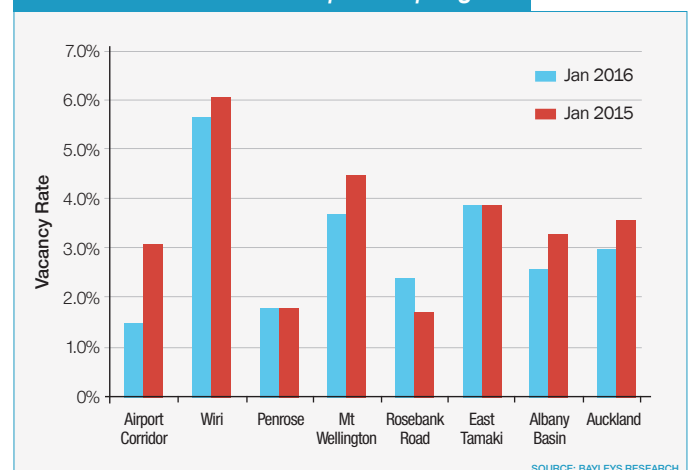
	Jan 2016	Jan 2015	Trend
Airport Corridor	1.5%	3.1%	▼
Wiri	5.7%	6.1%	▼
Penrose	1.8%	1.8%	▶
Mt Wellington	3.7%	4.5%	▼
Rosebank Rd	2.4%	1.7%	▲
East Tamaki	3.9%	3.9%	▶
Albany Basin	2.6%	3.3%	▼
AUCKLAND	3.0%	3.6%	▼

SOURCE: BAYLEYS RESEARCH

Vacancies showed the steepest declines at the Airport Corridor, Mt Wellington and Albany Basin and remained relatively static in Penrose and East Tamaki. They rose marginally along Rosebank Road driven by a few major tenant relocations, the largest being Croxley vacating 12,000m² at 460 Rosebank Rd of which around 6,000m² has been subsequently relet to date.

The 50% drop in vacancies at the Airport Corridor to an all-time low of 1.5% was due to high levels of new construction activity and take up. One of the largest recent completions between surveys was 20,000m² at 81 Westney Road leased to Fonterra. An even larger development in the Airport Corridor due for completion later this year is the 50,000m² state-of-the-art Sistema manufacturing and warehouse facility on Oruarangi Road. The site will be New Zealand's largest privately owned manufacturing facility covering 25 hectares and will operate 24/7.

Auckland Industrial Vacancy Rate by Region



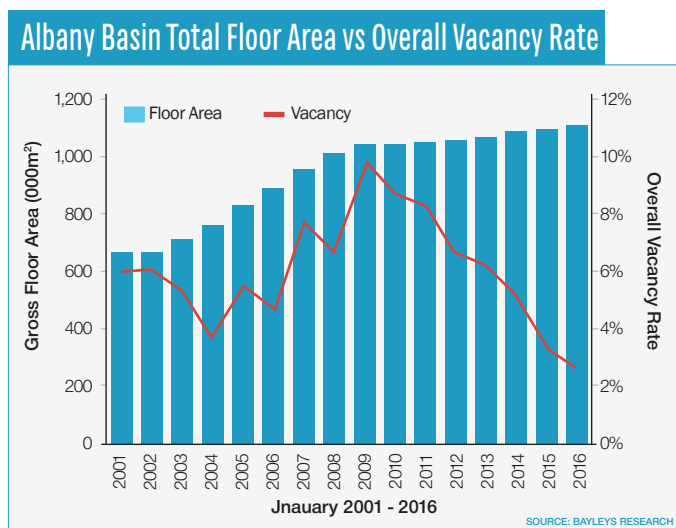
SOURCE: BAYLEYS RESEARCH

Wiri's vacancy decreased slightly from 6.1% to 5.7% with the major movers being Tasman Liquor vacating 11,500m² at 30 Ash Road and Fruehauf moving into 14,900m² of space at 21 Hobill Avenue.

Vacancy movements in Albany, Penrose and Mt Wellington were more the result of many smaller tenancy changes.

North Shore – strong demand but all built up

The amount of empty space on the North Shore remains at all-time lows. Vacancies for Albany Basin, encompassing the North Harbour, Rosedale and Mairangi Bay industrial precincts, sits at just 2.6% down from 3.3% a year earlier. Mairangi Bay recorded the largest fall in vacancies, from 3.2% in 2015 to just below 1% in 2016, driven by a mix of new tenants moving into the area. Little change in vacancies was recorded in both North Harbour and Rosedale over the year at 2.1% and 4.6% respectively.



Current tight vacancy conditions coupled with continued strong occupier demand are placing further upward pressure on rents across the board. Competition amongst tenants remains intense, especially those seeking smaller warehouse premises on the North Shore. In many cases agents are receiving multiple offers on properties and securing rents, in some cases, well above expectations.

Demand strong across the board

Agency feedback points to an unprecedented surge in both occupier and investor demand since the new year for all grades of industrial space. This is leading to shortages across the board pushing rents higher and leading to further cap rate compression. An increasing number of industrial properties are now selling on sub 7% yields and in many cases sub 6.5%.

Occupiers who previously rented space are competing aggressively with investors for stock. This battle is being played out most visibly in demand for older, secondary warehouse properties in the more established industrial precincts. In some cases the prices being paid on a \$ rate per sqm basis are moving closer to residential than industrial properties, especially in areas zoned for mixed-use.

An acute shortage of available land in the more heavily developed industrial precincts of Wairau Valley, Albany/North Harbour and increasingly Silverdale is constraining new build activity. Add to that a sharp increase in land values + escalating constructions costs + growing Watercare/ compliance charges and it is becoming next to impossible for developers to make their numbers stack.

Increasingly more development activity is migrating to lower cost areas such as Hobsonville/Westgate and Riverhead to the north-west. Developers such as Neil Group and Jomac Construction are becoming increasingly active in the region.

Hobsonville Workspace at 102 Hobsonville Road is a recent 23 lot development by Neil Group (with lot sizes ranging between 2,212m² to 6,145m²) which has been successfully sold down to a mix of owner occupiers, developers and investors. The subdivision is part of nearly 70 hectares of land located between Hobsonville and the Upper Harbour Motorway that has been zoned for industrial use, in what has become known as the Hobsonville Corridor.

Jomac Construction is developing a site at 110 Hobsonville Road (adjacent to Neil Group's Hobsonville Workspace) with civil works currently underway on around 7ha of the 15ha landholding. The initial 2 stages are expected to be completed mid to late 2016 and will also target owner occupiers, developers/investors. The balance of the landholding (circa 8ha) will be retained by Jomac for design-build opportunities.

New supply edging up, finally

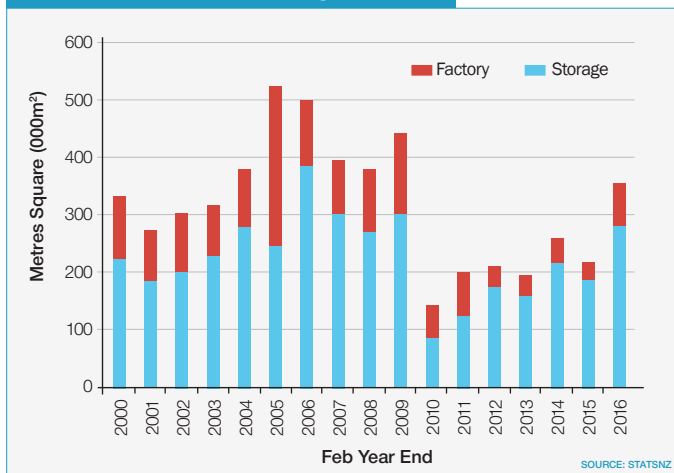
At the corporate end of the market large property groups with significant landbanks such as Goodman Property Trust (GMT) and Auckland Airport are taking full advantage of the current shortage of new space with a growing development pipeline. This is now coming through in industrial building consent numbers which are showing an increase in storage consents in particular.

A further breakdown of storage consents into Auckland Wards confirms that much of the activity is occurring in the Howick Ward which includes GMT's Highbrook Estate and Manukau Ward which includes Auckland Airport and GMT's M20/Savill Link Estates.

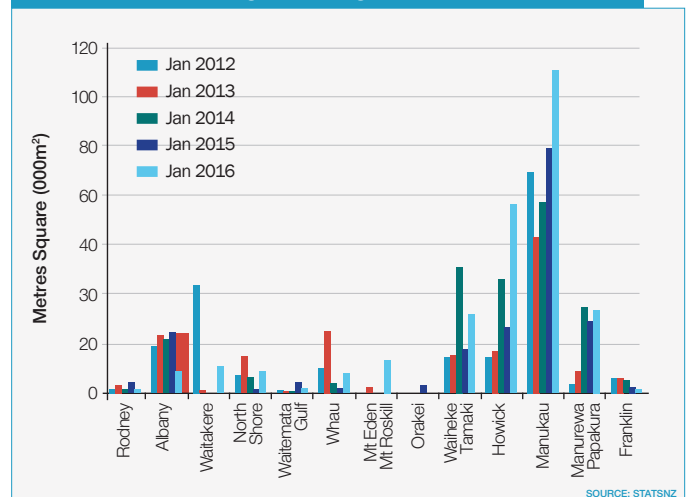
Currently Goodman has six new projects underway totalling more than 46,000m² and costing \$93.3m, the largest projects being warehouse/storage facilities for CODA Group (11,450m²) at Savill Link and Orora Packaging (11,324m²) at M20 Business Park.

A number of astute investors are proactively seeking to secure older inner city industrial sites whose ultimate highest and best use will be future residential under the Proposed Auckland Unitary Plan. Many of these properties are located close to key infrastructure such as railway/bus links and major arterial roads. Goodman recently acquired a 5.8ha site for \$30.3m at 127 Pilkington Road Panmure adjacent to the eastern railway line in an area designated by Auckland Council for high density development. The site currently provides 20,400m² of functional warehouse and showroom space in the heart of the Tamaki Regeneration Area.

Auckland Industrial Building Consents



Auckland New Storage Building Consents - Annualised



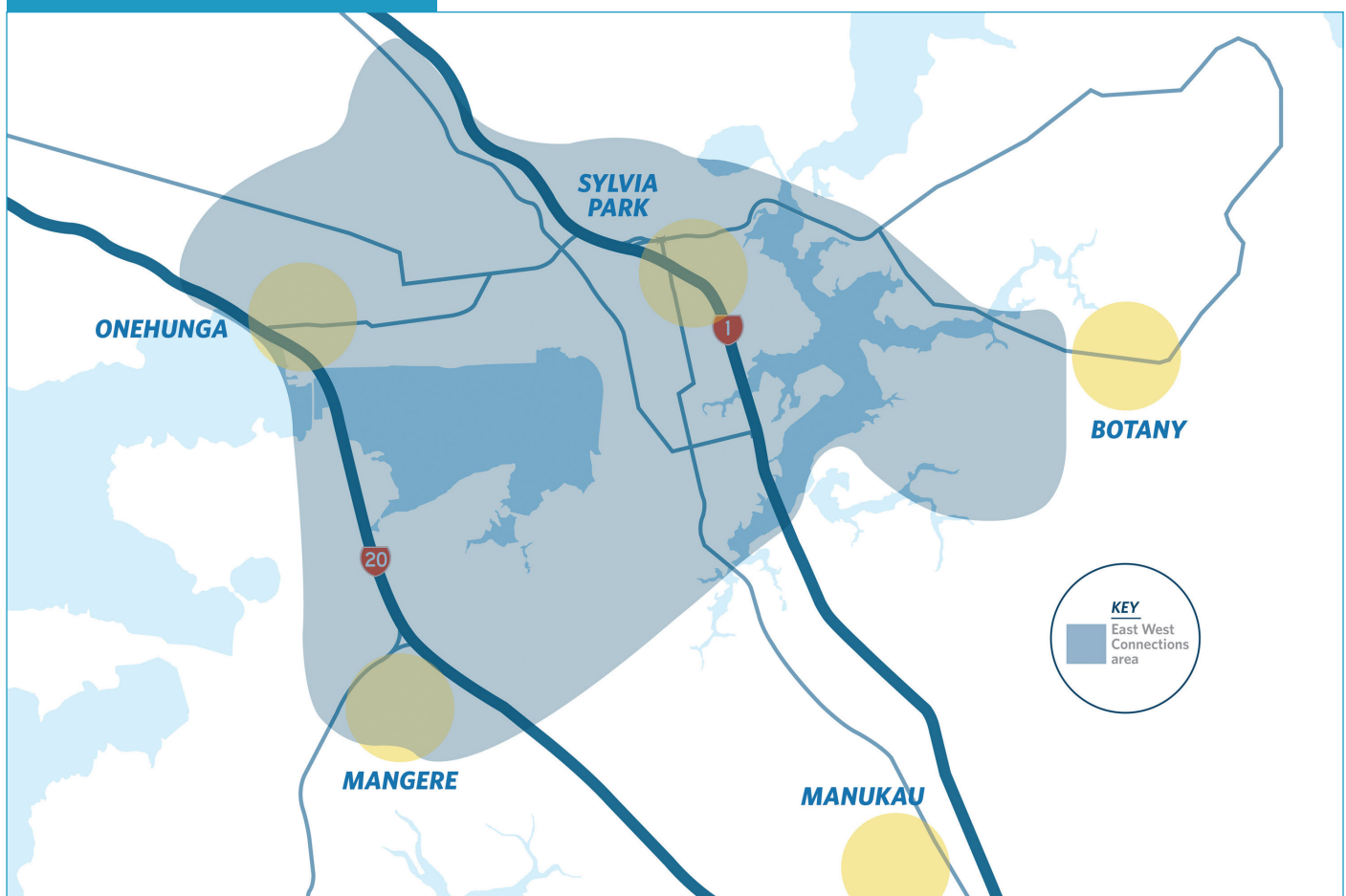
Auckland Airport, has over the last 6-12 months, completed significant builds for Hellmann Worldwide Logistics (12,500m²), Fuji Xerox (6,400m²) and Coca-Cola Amatil (12,000m²) at The Landing Business Park. A pipeline of new projects including a 4,750m² design and build for Agility Logistics at The Landing and a speculative development on Timberly Road involving 4 x 2,500m² industrial units are currently underway.

In the more established industrial areas of East Tamaki, Penrose-Mt Wellington and further out in West Auckland development activity at the smaller end of the market is virtually non-existent due to rising land

values coupled with rising construction/compliance costs. Many smaller developers are exploring cheaper emerging locations on the outer fringes of the city.

Although not yet visible in the consent statistics, new industrial subdivision activity is gathering pace in areas such as Hobsonville, Westgate and Riverhead to the north-west and Takanini/Drury in the south. This will become more apparent as development activity commences on these greenfield sites especially when much of the critical road infrastructure works currently underway are completed.

East West Connections (Shaded Area)



SOURCE: NZTA, AT

Outlook

Auckland's industrial property market looks unstoppable in 2016. With ultra low vacancies and unprecedented demand from both investors and occupiers another year of solid price appreciation and rental growth can be expected. A strengthening economic backdrop, especially in Auckland, with rising levels of construction activity, low interest rates and historically high net migration should underpin this performance.

The manufacturing sector has also been in expansion mode for the past 3.5 years with the latest BNZ-Business NZ PMI survey showing both

National PMI Indices

	Feb 2016	Feb 2015	Feb 2014
BNZ Business NZ PMI	56.0	56.6	56.0
Production (sa)	56.6	53.8	60.1
Employment (sa)	48.5	52.7	54.3
New Orders (sa)	61.0	62.7	56.2
Finished Orders (sa)	57.1	53.2	48.7
Deliveries (sa)	56.8	58.1	56.6

(sa) seasonally adjusted

SOURCE:BNZ



Apollo Drive Albany sold by tender for \$3.308m on a 6.6% yield

production and finished stock sub-indices at February 2016 recording further growth when compared to the same period last year. Capacity utilisation rates also remain well above long term averages.

The government's decision to fast track a number of the new road and transport infrastructure initiatives should also act as a major growth catalyst for further industrial property development on the outskirts of the city. In total around \$4.2bn is expected to be invested in transport related activities in and around Auckland over the next few years. The major projects being

the completion of the 48km \$2.4bn western ring route which should be operational by 2017/18 and the \$1.4bn 4.8km Waterview connection due early 2017. The recently announced "East West Connections" programme, will also improve freight efficiencies and travel time between Onehunga-Penrose and State Highways 1 and 20. This area of Auckland between Onehunga, East Tamaki and Auckland Airport employs over 130,000 people and generates more than \$10bn a year in GDP, second only to the Auckland CBD.

Auckland Industrial Trends 2016

District	Lease Type	Rental Market (\$/m ²)		Rental Trend	Leasing Demand	Market Supply	Cap Rate (Yield)		Investment Market		Land value \$/m ²
		Warehouse	Office/Show				Yield	Forecast	Demand	Supply	
Wairau Valley	Net	\$90-\$145	\$150-\$250	Rising	Strong	Scarce	5.5%-6.5%	Steady	Strong	Scarce	\$650 - \$1,300*
Albany / North Harbour	Net	\$110-\$130	\$170-\$265	Rising	Strong	Scarce	5.5%-7.0%	Steady	Strong	Scarce	\$400 - \$600
Silverdale	Net	\$100-\$110	\$160-\$200	Rising	Strong	Scarce	6.0%-7.0%	Steady	Steady	Sufficient	\$300 - \$400
Penrose	Net	\$90-\$125	\$140-\$240	Rising	Steady	Scarce	6.5%-7.5%	Firming	Strong	Scarce	\$400 - \$500
Mt Wellington	Net	\$90-\$125	\$140-\$240	Rising	Steady	Scarce	6.5%-7.5%	Firming	Strong	Scarce	\$400 - \$500
West Auckland	Net	\$100-\$120	\$150-\$200	Rising	Strong	Scarce	7.0%-8.5%	Firming	Strong	Scarce	\$400 - \$550
Rosebank Road	Net	\$110-\$130	\$150-\$200	Rising	Strong	Scarce	7.0%-8.0%	Firming	Strong	Scarce	\$400 - \$600
East Tamaki	Net	\$100-\$125	\$130-\$240	Rising	Strong	Scarce	6.0%-7.0%	Steady	Strong	Scarce	\$400 - \$500
Airport Corridor	Net	\$100-\$120	\$160-\$225	Rising	Strong	Scarce	6.0%-7.5%	Steady	Strong	Scarce	\$380 - \$430
Manukau/Wiri	Net	\$90-\$115	\$120-\$180	Rising	Strong	Scarce	6.5%-7.75%	Steady	Strong	Scarce	\$350 - \$400

* Estimated due to scarcity of transactions

SOURCE: BAYLEYS RESEARCH

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