NBR

NBR NZ PROPERTY INVESTOR TUESDAY APRIL 21, 2015

Empty North Shore industrial premises few and far between

Finding a warehouse and factory on Auckland's North Shore is becoming challenging.

The number of empty North Shore industrial properties is at an all-time low and compounding the problem is the drop in development caused by the shortage of industrial land and the impact this has had on prices.

Figures from Bayleys' latest research show vacancies for Albany Basin – including North Harbour, Rosedale and Mairangi Bay industrial precincts – sit at 2.9%, while empty space in North Harbour totals 2.9% of stock, a drop from last year's figure of 5.4%. Further south, in Wairau Valley, vacancy levels are close to zero.

Land prices have reached a point where it is hard to make an industrial development stack up financially, particularly if a business needs a high percentage of warehousing. This is having a flow-on effect on industrial property prices which are rising, fuelled by strong competition for limited investment stock.

Bayleys says yields are already ultra-low. Recently, an Albany 3231m2 building on a 5856m2 site tenanted by Pacific Brands Workwear, a subsidiary of Wesfarmers, sold for $8.5 million, a yield of 6.5%.

Results from the latest Investment Property Databank index show industrial property generated returns of 12.3% – income plus capital growth – in the year to December 2014. These levels of returns were last seen pre-global financial crisis. The index shows capital returns have almost doubled over the past year from 2.4% to 4.2%, pushed by significant cap rate pressure as owner-occupiers and local and foreign investors aggressively compete for stock.

Income returns over the same period have remained constant at 7.8%, slightly below the long-term average of 8.3%.

Although it is good news for owner-occupiers and investors, tenants are being hit in the pocket as landlords and developers seek better returns in a market where demand for leased space is outstripping supply by a considerable margin.

Rents for new warehouses and factories have risen sharply across Auckland because of escalating land and construction costs.

Bayleys says whether tenants are prepared to accept hikes in occupancy costs will be a key factor in the industrial market this year.

The space squeeze in Wairau Valley and Albany is forcing tenants to look for alternative locations in Silverdale to the north and Hobsonville/Westgate to the west, where big land holdings have been secured by Neil Group and Jomac.

Hobsonville industrial expansion

Neil Group is developing sites for sale at its Hobsonville Workspace business park, as North Shore businesses wanting to expand or move to new premises look further afield.

The company has 23 sites from 2500m2 zoned for light industrial and commercial uses.

Titles are expected to be available later this year.

The business park sits between the $1 billion Westgate town centre and residential development at Hobsonville Point.

Auckland Council calls the area “North West Transformation” and is investing more than $325 million into the biggest urbanisation project in New Zealand to encourage regional economic growth.

The council has partnered with New Zealand Retail Property Group (NZRPG) to build the Westgate town centre and is spending about $200 million on roading, a town square, parks and community facilities, including a new $27 million library.

It is not all plain sailing, though. Auditor-General Lyn Provost has launched an inquiry into the council’s involvement in the project after receiving several complaints, particularly about the council’s purchase of the road running through the shopping centre for about $7 million. Other complaints include the council buying land for the library and town square at $630m2, the top end of the market, and NZRPG receiving a council project management fee of 8.5%.