Industrial Space Squeeze

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The amount of empty industrial property space on the North Shore is close to an all-time low.

A survey conducted earlier this year by Bayleys Research shows the industrial vacancy rate for Albany – encompassing the North Harbour, Rosedale and Mairangi Bay industrial precincts – sat at just 2.9%. North Harbour had the least amount of empty space at 2.6%, a big drop from the previous year's figure of 5.4%. Further south in the Wairau Valley, the vacancy level is close to zero.

Bayleys North Shore Commercial's industrial managers – Laurie Burt and Matt Mimmack – say while this is great news for industrial property owners on the Shore, it is not such good news for tenants who face higher rentals and a diminishing choice of premises options.

Laurie Burt says the supply of industrial accommodation is the tightest it's been in the 14 years he's been working in the North Shore industrial property market. "Vacancy rates are below what we would consider to be a healthy level and this is cramping business activity on the Shore. It's the result of a crowded market with tenants having to now compete with investors and owner occupiers for vacant premises in a strong economy where demand for business premises is continuing to increase.

"Compounding the problem is the low level of new development activity which is a reflection of both the shortage of industrial zoned land on the North Shore and the impact this has had on values. Land prices have reached a point where it is hard to make an industrial development stack up financially, particularly where a high percentage of warehousing is required."

Matt Mimmack says it's very difficult for businesses wanting more than 3,000m² of industrial space to find suitable, affordable premises on the Shore, while companies involved in heavy manufacturing are having to look north to Silverdale for suitably zoned properties.

"That's a big loss to the North Shore business community when long standing tenants are relocating because they can find better options elsewhere. A case in point is a distribution company which needed more space for expansion and has recently moved from Albany to 4000m² in a new industrial building near Auckland airport. This offered what they needed at a cheaper cost than premises here.

Mimmack says North Shore businesses will inevitably face rental increases as landlords and developers justifiably look for better returns in a market where demand is outstripping supply by a considerable margin. "It means tenants with reviews 'to market' in their leases should budget for increases at their next reviews, while those looking to relocate may need to pay more if they are serious about moving. This is already happening with multiple offers being received on some better quality premises, with tenants in some cases being prepared to offer above the asking rental to secure premises."

A proposed industrial complex by long standing North Shore developer Kea Group at 59 Corinthian Drive, Albany gives a good indication of what tenants and owner occupiers can now expect to pay for brand new premises, says Mimmack. The four building complex alongside the northern motorway in the Orchard Business Park has buying and lease options. The asking rental on the minimum eight-metre high warehouse space is $125/m², canopy space is $65/ m² and office space $265/m², with car parks $20 a week. The units are also being offered for sale at a land and building cost of $2,566 to $2,866/m².

Kea is offering two size options with two buildings comprising 757m² of warehousing plus a 40m² canopy and 291m² of offices over two levels plus 20 car parks. Two smaller buildings have 463m² of warehousing plus a 40m² canopy and 145m² of offices, also over two levels, with 10 car parks. Mimmack says there is some flexibility to alter these configurations to suit occupants' requirements.

Prices of industrial investment properties on the North Shore are also on the rise, says Burt, fuelled by strong competition for limited offerings. “Yields on industrial properties have firmed to a greater extent than for retail and office over the past 12 months and this is pushing sale prices up. We are now achieving yields of less than seven percent on strong offerings, something we haven’t seen in a long time. Yields may tighten a little further in the current low interest rate environment but we would expect most future capital growth to come from a significant lift in rentals.”

Bayleys has been involved in some substantial industrial sales transactions in recent months, the latest of which is the $8,500,000 sale of a 3,231m² building on a 5,856m² site at 16–22 Omega Street, Albany, by Matt Mimmack, Daryl Devereux and Brian Caldwell to a private syndicate of investors. The modern complex, with 8.6 to 10 metre high, clearspan warehousing and air conditioned office and showroom space plus 92 car parks, sold at a 6.5% yield. It has a new five year and two months lease to Pacific Brands Workwear, a subsidiary of giant multinational Wesfarmers.

Other recent big Bayleys Albany industrial transactions include the sale of a property in Bush Road for $6,600,000 at a 7.4% yield and a partly tenanted building in Apollo Drive for $7,127,000. In the Wairau Valley, a 2,776m² industrial building on a 3,811m² site in Poland Road sold to an investor for $3,700,000, with a short term lease back to its relocating owner occupier, through Matt Mimmack, Laurie Burt and Ranjan Unka.

Burt says the space squeeze in the Wairau Valley and Albany has pushed many businesses further north to Silverdale where a more abundant and cheaper supply of land has been reflected in lower occupancy costs for tenants. But Silverdale is filling up fast as well, says Rosemary Wakeman, Bayleys North Shore’s Silverdale specialist, with only a handful of industrial units currently available for occupation. The development land supply is also dwindling with 1.3 hectares at 2183 East Coast Bays Road the only heavy industrial zoned land she has on the books. The 60 hectare Highgate Business Park alongside State Highway One is offering sites from 4,000m² to 1.2 hectares but its General Business zoning under the proposed Auckland Unitary Plan will restrict its use to light industrial with a 65 decibel limit because of its proximity to residential areas.

So where is the next big industrial frontier? Go North West seems to be the catch cry. Matt Mimmack says North Shore development companies Neil Holdings and Jomac have secured strategically located big blocks of land close to the motorway in Hobsonville, while sites are also being opened up as part of the development of the Westgate area and around Riverhead and Kumeu.

“The completion of the Western Ring Road from Manukau via the airport to Albany will be key to the further development of these areas and will make the North West a much more connected part of Auckland,” says Mimmack.