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## Market Conditions HBT



**CHANGE:** The leasing market for commercial and industrial property is likely to see further vacancy.

# Market conditions still 'frigid'

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Yields for good-quality commercial investment properties remain firm and supply is short in Hawke's Bay, research from a local valuation firm shows.

But commercial and industrial property vacancy has increased and rents are under pressure.

The Turley & Co *Hawke's Bay Commercial and Industrial Property Market Report* for the second quarter of the year revealed market conditions are as frigid as they were in mid-winter last year.

It said the leasing market for commercial and industrial property is likely to see further vacancy and with more intense competition for tenants, rents are likely to fall before stabilising in 2011-12.

While investment yields are off their peak of 2006-08, demand for good commercial

### THE OUTLOOK

- The Napier, Hastings and Havelock North office investment market is oversupplied, constraining rental growth outlook for all but high-end offices.
- Land value and rental growth for Hawke's Bay industrial property is likely to be negative from now until 2012.
- Hastings prime location retail vacancies over the quarter have been modest

and rentals are stable, but the CBD fringes have softened.

- Vacancies are low in Napier's Emerson Street but side-street and fringe retail is seeing some decline.
- Havelock North retail vacancies "have been close to non-existent," the Turley & Co *Hawke's Bay Commercial and Industrial Property Market Report*

said. Rents have been static and may be softening slightly, but the outlook remains good underpinned by Havelock's increased commercial significance and tight commercial land supply.

- Well-established retail is the most buoyant property investment sub-sector, particularly at values up to \$1.5 million, with purchaser competition brisk.

property investments up to \$3 million continues, the report said.

The yield spread of 2-3 per cent compares to a much tighter spread during the market peak period.

This is because of greater risks perceived by investors and their bankers.

The recently announced

tax system changes removing or reducing building depreciation allowances could reduce commercial property post-tax revenues by as much as 8-10 per cent.

Commercial and industrial property development activity has all but ceased because of lack of demand and funding paucity, and vacant land

values are considerably reduced.

The report said property market adjustments are still playing out.

It predicted properties rarely offered for sale to be available because of pressure from banks, as non-performing loans are increasingly addressed.

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*Maratotara Tree Trust streamside reserved land planting of over 650 native seedlings funded since 2006.*