

## → Industrial Property Market Report 27 | 27 July 2018

1 of 4 Macro-Office-Industrial-Retail Reports | Celebrating 20 Years!

### **Key observations:**

- 63 hectares of Omaha Rd newly industrial zoned land 2018 – 181 hectares for Hastings including Irongate.
- Hawke's Bay Airport land new access is likely to lead to an expanding alternative industrial hub at this location (long planned).
- Prime industrial property investments are keenly contested – albeit now not as keenly as in 2016 at 6-6.5% yields.
- Whakatapu will likely increasingly become more popular as an industrial locality (centrally located between Napier-Hastings), after \$26M Arterial Link completion.
- Heightened level of new industrial buildings in 2016-17 spurred by optimistic conditions locally and occupier requirements horticulture led (high-quality builds).
- We anticipate continuance of economic growth in the near term for Hawke's Bay, but are wary as first said by us in mid-2017.

**Hawke's Bay based Turley & Co** is continuously engaged in high-quality commercial property analysis and valuation as a **Registered Valuer** and **Registered Property Consultant**.

Principal property strategist and projects leader since 2009 for acquisitions **\$120M** and disposals **\$30M** for corporate, Crown and Council clients nationally.

Since 1998 acquisitions-disposals **\$0.5B** nationally alongside considerable volumes of valuation work, litigation and related advisory.

TCL © 1998-2018 | Published 27 July 2018

Office 116 Te Mata Mangateretere Road, Havelock North, Hawke's Bay | Postal RD 10, Hastings 4180

Company Turley & Co Ltd | P +64 (6) 650 3569 | E [people@turley.co.nz](mailto:people@turley.co.nz) | W [www.turley.co.nz](http://www.turley.co.nz)

Streamside reserved land planting of +2,000 native seedlings funded | MTT volunteer Trustee 2009-18 | Chair 2015-18 [www.maraetotaratreustrust.co.nz](http://www.maraetotaratreustrust.co.nz)

## Industrial Market Indicators for Napier | Hastings | Havelock North

Industrial Category	Rental Range Gross   TOC (\$/m <sup>2</sup> )	Forecast Rental Growth Next 24 Months (%)	Yield Range (%)	Forecast Yield Change Next 24 Months (%)
Prime	\$60 - \$100	0 to +5%	6.0-8.5%	0.0 to 0.5%
Secondary	\$20 - \$60	0 to +5%	8.5-11.0%	0.0 to 1.0%

**Vacancy Rates:** - Industrial 5.0% - 15.0% estimate  
Micro-locality considerations and quality dependant  
Overall ~8.0% approx

**Inducements:** - Newly-built 0 to 3 months rent free equivalent  
Existing 3 to 6 months rent free equivalent  
Depending on premises, term and tenant



Sunfruit Irongate Hastings | Photo TCL

### HB Industrial Market | News | Quick Summary

- Prime industrial property investments are keenly contested – albeit now not as hotly as in 2016 at 6-6.5% yields
- Investors have been favouring industrial property investment in part due to construction simplicity (usually less downstream capital expenditure)
- Continuing Havelock North and Ahuriri reduced industrial use contrasts with increases for Whakatu, Irongate, Elwood Road and Omahu Road Hastings
- Bare industrial land supply is good including recent industrial land offered at Irongate, Elwood Road and elsewhere, Waitangi Road, Napier etc
- Whakatu will become a more popular industrial locality (centrally located between Napier-Hastings), after \$26M Arterial Link completion
- 63 hectares of Omahu Rd newly industrial zoned land 2018 – 181 hectares for Hastings including Irongate
- Heightened level of new industrial buildings in 2016-17 spurred by optimistic conditions locally and occupier requirements horticulture led (high-quality builds)
- Industrial stock vacancy has moderated 2017-18
- Rent value divergence new v. existing industrial is pronounced and is more broadly differentiated than any time since the 1990s
- Fonterra's exit of 1 Pandora Rd left a particularly large vacancy to backfill (oversupply of large dry stores) – accentuated by surplus wool scouring facilities
- Water bottling developments with large water take consents add a new layer to the industrial property market
- Hawke's Bay Airport land new access is likely to lead to an expanding alternative industrial hub at this location (long planned)

Refer to March 2018 “Industrial Focus” report by Turley & Co [www.turley.co.nz/2018/03/15/industrial-focus-report-march-2018](http://www.turley.co.nz/2018/03/15/industrial-focus-report-march-2018)

## Industrial Property

### Industrial Land

Havelock North and Ahuriri industrial activity has considerably decreased. Progressively industrial land use has increased at Whakatu, Irongate, Elwood Road, Omahu Road and elsewhere.

63 hectares of Omahu Rd rural land was newly zoned to industrial in 2018. Irongate rural land rezoned industrial was proposed at 70 hectares and confirmed at 118 hectares. HDC opted out of Irongate reticulated stormwater that is to be managed between developer and the Regional Council.

181 hectares of raw industrial land has been added to Hawke’s Bay supply in 2018, enough for ~360 developments of 0.5 ha land each (or ~900,000m<sup>2</sup> new industrial buildings at 50% site cover). HDC has new land services development underway in the Omahu Road precinct.

Hawke’s Bay industrial land that remains land-banked is no longer a market constraint. Council development contributions (levies or charges), and other land development expenses as usual will be priced into market values for raw land.

Two adjoining industrial subdivisions at Irongate were brought to the market in early 2018 by Property Brokers, providing for approx. 8 lots each at approx. 1 ha. Three lots are reportedly sold. Irongate subdivisions are proposed and being offered as at June 2018.

The well-advanced Whakatu \$26M Arterial Link roadway will substantially enhance the connection between Havelock North State Highway 2, Pakowhai Road, the Expressway and Napier Port. The new road will elevate the importance and popularity of the Napier-Hastings centrally-located industrial and commercial hub of Whakatu. Refer to Turley & Co prior reports for recent years Whakatu industrial property activity.

Napier Port in late 2017 bought 8.1ha of Whakatu raw industrial-zone land that transacted at \$46/m<sup>2</sup>. It adjoins Port owned land and as a standalone block has leg-in access from Groome Place.

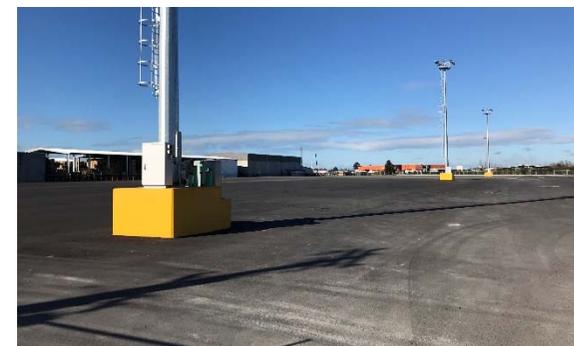
The Elwood Road Tomoana Food Hub (16.5ha) accommodates industrial heavyweights including Heinz, Jamestrong, Tomoana Warehousing and Chep Pallet. Development that is proposed on 9.7 ha remaining would complement the nearby Whakatu industrial hub. Refer to Tomoana Food Hub press:

[www.nzherald.co.nz/index.cfm?objectid=12087700&ref=twitter](http://www.nzherald.co.nz/index.cfm?objectid=12087700&ref=twitter)

11 hectares of raw industrial land in Awatoto (Napier) was brought to the market in September 2017 and was more recently purchased for \$24/m<sup>2</sup>. It is proposed for development.

The Airport Business Park of approximately 20 hectares is an added layer of Napier/ Hawke’s Bay land supply for industrial and possibly commercial uses. It will be offered ground leasehold land that could increasingly compete for new development tenants. The Airport Business Park has the potential to attract new businesses to Hawke’s Bay. Completion of underway Watchman Road roading works providing a new airport access route will provide improved development impetus.

Napier Port has substantially developed 4.4 ha at 73-75 Thames Street for container activity as depicted below.



At 50 Mersey Street ContainerCo has leased 8.4 ha effective that is under development and in use as a container park.

Napier Port also operates a container park at 90 Thames Street.

Mana Ahuriri will own two landholdings at Prebensen Drive industrial zone covering 30 ha and 6 ha that it proposes \$40-\$60M development projects

[www.nzherald.co.nz/business/news/article.cfm?c\\_id=3&objectid=12088379](http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=12088379)

Industrial land values for some Hawke's Bay land were mildly elevated in 2017 but with sales in 2018 indicating industrial land values are flat to diminished mid-2018. Moderating land values could follow considerable new land supply (refer earlier 181 hectares newly-zoned plus Tomoana Food Hub). Hawke's Bay's industrial land supply is very good.

The effects of good land supply could be industrial property values and costs containment including the land content of premises rent. Firm cap rates in the recent past tend to underpin land affordability (all else being equal premises rent, build costs and finance rates). Higher cap rates might cause some land values downward pressure in addition to good land supply.

#### Industrial Leasehold Napier

Ground leasehold land is prevalent for the primary industrial precincts of Napier. Land leasing was a popular land economy property tool in New Zealand in the 1950s-1960s, when a majority of existing perpetual ground leases were struck. Substantial property developments occurred on perpetual leasehold land at many locations in New Zealand. Leasing was a form of land financing in New Zealand. Modern times land leasing tends to only occur in situations of high land scarcity.

The popularity and success of land leasing in the 1950s-1960s in New Zealand coincided with mainly 4.5% or 5% per annum formula rent rates per land value and for the life of a perpetual lease with 21-year reviews (usually 5% rack rate). In 1964-1969, New Zealand 90 day bill yields were around 5%. Term deposit rates were below 5% until 1974. With 21-year ground rent rates set at 5%.

Since 2012, New Zealand 90 day bill rates have been mostly sub-2% and term deposits sub-4%. And coinciding with other well-traded low market rates/ yields and borrowing costs. Mortgage interest rates are lower now than in the 1960s, when the prevailing rack rate for a 21-year review perpetual ground lease was 5% per annum.

In the past ten years or more for Napier, ground rent rates for industrial land under market reviews determination have been mostly 6.5-7.5% per annum plus Council rates and GST. Land leasing is modern times unpopular. This is mainly because of rent rate risk and high rent review levels relative to other economic factors. Land leasing with few exceptions has priced itself out of the market usually only occurring in cases of land category scarcity where purchase alternatives are unavailable.

A Napier industrial ground leaseholder has allowed its interest to be auctioned towards potential forfeiture to the ground landlord. The land is over 7,000m<sup>2</sup> with buildings over 5,000m<sup>2</sup> valued by Quotable Value at more than \$2M. The potential forfeiture indicates the ground rent level has compromised property economy viability for the leaseholder.

Napier City has been reviewing its leasehold landholdings strategy and has commented on leasehold negativity and development constraints:

[www.nzherald.co.nz/business/news/article.cfm?c\\_id=3&objectid=11984550](http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11984550)

### Industrial Premises Rent

We reported in mid-2008: *Curbed industrial rental value growth is more likely over the next 12-24 months, if not a flat to declining market ...* We have reiterated this projection since and that generally holds in 2018, with the major exception of newly-built industrial premises at cost-led rents.

Industrial premises reviews and lease renewal rents have in many cases, rolled over without increase, a minimal rent change or occasionally a rent reduction.

The industrial premises supply is generally good for Napier-Hastings 2017-18, although very good-quality modern industrial premises are scarce. Industrial vacancy has declined marginally in 2018, except for very basic and poor-quality stock.

Low-grade large-scale warehouse supply remains good. The 19,000m<sup>2</sup> vacancy left by Fonterra's 2015 exit of 1 Pandora Road (Napier), has attracted much smaller area requirements and tenants on mainly monthly leases (partially vacant). Added to this supply is surplus wool scouring buildings at Clive and Whakatu.

Demand by owner-occupiers for good features small to mid-scale Hastings-Napier industrial property has considerably spiked in 2018. At keen borrowing rates, being an owner has appeal over leasing and buoyant economic conditions underpins commercial confidence.

In summary: for sub-par industrial premises there is stiff landlord competition for tenants. Rents for industrial accommodation are generally quite subdued still (excepting newly-built), and leasing-up periods can be extended. But for smaller industrial premises and of moderate to good quality, rent values are elevated in 2018. Momentum for most industrial premises rents generally moved to the upside in 2018, although may be stalling a little mid-year.

### Napier | Hastings | HN Industrial Rents

Sample industrial rents per Total Occupancy Cost (refer to *TOC Definition* later):

Property	Date	Area (m <sup>2</sup> )	Rate \$/m <sup>2</sup> TOC
Omahu Rd	Feb-17	3,156	\$60
Rangitane Rd	May-17	4,369	\$63
Irongate Rd	Mar-18	1,000	\$70
Niven St	May-18	200	\$74
Niven St	Mar-18	150	\$93

Refer to Turley & Co for more data and most recent transactions. TOC rent rates cited above are mostly for the principal component. The added value of offices, yard or parking are additional.

Refer to Turley & Co for information specific to a property, and for Registered Valuer and Registered Property Consultant advisory [www.turley.co.nz](http://www.turley.co.nz)

Market rent is principally objective over subjective and is determined according to valuation law principles. Turley & Co Registered Valuer assistance should be preferred. Face rents are potentially misleading. Turley & Co is a successful negotiator and litigator of “market rent” and lease structures advisory.

#### Developing Industry

Hawke’s Bay’s new and existing industries that are providing a local economy boost and underpinning industrial property activity include:

- Two water bottling exporters constructed plants at Elwood Road Hastings (Miracle Water) and in Awatoto (One Pure)
- Substantial landmark winery developments Delegat Group 19,000 sqm and Villa Maria Gimblet Gravels 16,000 sqm (viticulture sector investment is very strong)
- Strong activity in the apple industry is sparking a wave of new storage and processing facilities (includes cool storage). Refer to “Industrial Focus” report.
- Craft beer and cider brewing are heavily trending in Hawke’s Bay, this includes state of the art facilities being built in the National Tobacco Company building in Ahuriri
- Dannevirke’s re-use of the former freezing works by San Francisco Intrepid Semiconductor (pending)
- Kiwifruit industry resurgence includes Hawke’s Bay investments of significant magnitude
- Rockit Apples proposed coolstore and packhouse at Irongate by Apollo Projects
- Napier Port has developed 4.4 ha at 73-75 Thames Street for container activity
- ContainerCo 8.4 ha container park at 50 Mersey Street

Refer to Turley & Co for other proposed new industry. The Napier Port plans a new 350 metre wharf to facilitate volume growth and larger vessels. It coincides with record-setting export volumes led by high growth in local viticulture, horticulture and forestry. The new wharf is estimated to cost \$100M, which would be the largest ever single investment by the Port. More information at [www.projects.napierport.co.nz/the-project](http://www.projects.napierport.co.nz/the-project)

Newly-built industrial stock includes (refer also to *Macro Report* developments schedule):

- Sunfruit Orchards development at Irongate (over 25,000 sqm)
- Taylor development at Tomoana Food Hub for Jamestrong, Miracle Water and food grade warehouse (over 22,000 sqm)

- Crasborn development at Omahu Rd for NZL Group and Orora (over 16,000 sqm)
- Bostock Coolstores development Henderson Road (over 11,000 sqm)
- Apollo development at Whakatu (over 6,000 sqm)
- Delgat's winery development Ormond Rd (19,000 sqm building on Plains Production zone land)
- Villa Maria/ Te Awa Estate Winery – 2375 State Highway 50, Roy's Hill, Hastings (over 15,000 sqm building)
- Hustler Motus – Cnr Omahu and Jarvis Roads, Twyford, Hastings (over 6,000 sqm)

Refer to Turley & Co "Industrial Focus" report March 2018 for details of the most significant developments [www.turley.co.nz/2018/03/15/industrial-focus-report-march-2018](http://www.turley.co.nz/2018/03/15/industrial-focus-report-march-2018).

Hawke's Bay manufacturing, fruit-growing and viticulture industries improved considerably 2013-18. This coupled with low interest rates and a generally stable NZ dollar, points to further Hawke's Bay industrial development, including further specialised food crops facilities. New-builds are sometimes on land zoned for food production and not industrial zone land. The newest buildings are generally of a very high standard (refer to Industrial Focus report link above).

### Industrial Property Investment

Our macro-market commentaries (refer to *Macro Report*), broadly hold for Hawke's Bay industrial investment property.

Good calibre tenant and strongly leased modern industrial properties have been characterised by particularly firm yields. Competition to secure best traits industrial property in the \$1-\$4M bracket has been heated with some properties transacting off-market or not advertised. Refer to Turley & Co. Investors sometimes prefer industrial property for simpler construction and lower capital expenditure/ upgrade risks.

It is obvious that borrowing rates sub 5.0% lowered prime industrial property investments cap rates. There has been a decline in industrial investment properties transacting in 2017-18. We expect this sector to remain off-its-peak in 2018/19. Industrial investments being marketed in mid-2017 remain unsold. Refer to Turley & Co.

The yield difference for investment property quality, tenant-calibre, lease term/s and any vacancy aspects, had considerably narrowed in recent years. We expect change is already underway and the yields spread is increasing.

### Industrial Investment Yields

Sample industrial investment property transactions include:

Location	Price	Date	Yield
Hyderabad Rd	\$2,000,000	Oct 17	6.26%
Niven St	\$2,550,000	Mar-18	7.06%
Stoneycroft St	\$300,000	May-18	8.00%
Manchester St*	\$1,000,000	Mar-18	8.47%
Omahu Rd	\$925,000	Mar-18	9.71%

\*Sale-and-leaseback

Other insight:

→ Refer to Turley & Co for most recent transactions data, lease durations, etc

Refer to Turley & Co for information specific to a property, and for Registered Valuer and Registered Property Consultant advisory [www.turley.co.nz](http://www.turley.co.nz)



Tim Whittaker Te Mata Peak Millennium Sunrise

## Report Authors

M +64 (21) 33 33 93 | E [pat@turley.co.nz](mailto:pat@turley.co.nz)



### Pat Turley

Property Strategist | Director

Reg. Valuer, Reg. Prop. Consultant, BBS, ANZIV, SPINZ, AREINZ,  
LINZ Accredited



M +64 (22) 089 1908 | E [nikki@turley.co.nz](mailto:nikki@turley.co.nz)



### Nikki Whelpton

Property Analyst | Valuer

BBS (Valuation & Property Management) | PINZ member



**Assisted by:** Dayna Campbell

## Turley & Co Profile

Hawke's Bay based Turley & Co was formed in 1998 employing **five professionals** [www.turley.co.nz](http://www.turley.co.nz)

Pat is a *Registered Valuer* and *Registered Property Consultant*. He was an Auckland based practitioner with Jones Lang LaSalle and Darroch & Co for five years until 1995, before moving to Hawke's Bay. Pat has over 25 years of property consultancy and valuation experience focused on commercial and specialised property. He started his property career shortly after the crash of 1987. He has undertaken detailed appraisals and valuations, for single property assets \$4,000 value to plus \$100M in the Auckland CBD. He is an experienced valuation arbitration and Court expert witness.

Turley & Co services a loyal group of prime clients across the private, corporate and public sectors in New Zealand. Turley & Co is LINZ Accredited and a division of the firm is a longstanding preferred property acquisitions, technical and statutory services provider to Government and Council clients nationally including Ministries of the Crown. Turley & Co is continuously engaged in commercial property analysis and valuation as a **Registered Valuer** and **Registered Property Consultant** in Hawke's Bay and nationally including Auckland.

**Current team:** Pat Turley, Wayne Smith, Nikki Whelpton and Dayna Campbell. Sue Turley is a co-director and commercial manager. Three people have been with the firm for 20 years. Refer to [www.turley.co.nz/our-people](http://www.turley.co.nz/our-people)

## Turley & Co Analytics

Turley & Co is a publisher of property market analytics and commentary before 1998, and for over 20 years maintains an extensive private database of market transactions/valuation evidence for Hawke’s Bay and NZ – publishing nine biannual reports 2005-2009 plus:

Q1-2   2010 Hawke’s Bay Market Report - 11	Q1-2   2013 Hawke’s Bay Market Report – 17	Q1-2   2016 Hawke’s Bay Market Report - 23
Q3-4   2010 Hawke’s Bay Market Report - 12	Q3-4   2013 Hawke’s Bay Market Report – 18	Q3-4   2016 Hawke’s Bay Market Report - 24
Q1-2   2011 Hawke’s Bay Market Report - 13	Q1-2   2014 Hawke’s Bay Market Report - 19	Q1-2   2017 Hawke’s Bay Market Report - 25
Q3-4   2011 Hawke’s Bay Market Report - 14	Q3-4   2014 Hawke’s Bay Market Report - 20	Q3-4   2017 Hawke’s Bay Market Report - 26
Q1-2   2012 Hawke’s Bay Market Report - 15	Q1-2   2015 Hawke’s Bay Market Report - 21	<b>Q1-2   2018 Hawke’s Bay Market Report – 27   this report...</b>
Q3-4   2012 Hawke’s Bay Market Report - 16	Q3-4   2015 Hawke’s Bay Market Report - 22	

And one-off market metrics updates and occupancy survey data since 2012 [www.turley.co.nz/news](http://www.turley.co.nz/news)



## Definitions | Warnings | Disclaimers | Copyright

### Definition Gross Rent | TOC

Gross rent or TOC (Total Occupancy Cost) values cited in this report:

- Include tenant outgoing costs: Council rates, building insurance and may include unique occupancy costs.
- Exclude tenant opex.
- For office and retail premises reflect a sealed shell net of the added value of landlord fitout: flooring treatments, subdivision partitioning, air-conditioning, etc.
- Are net of car parking and possibly excess yard value.
- Generally adjusted for corner site value and known letting inducements (frequently an undisclosed item).

The TOC definition above applies to most sample rent evidence cited in this report. Reliable values interpretation requires Turley & Co Registered Valuer and property specific advisory. The data herein should otherwise be considered unreliable.

### Sources | Reliability

Turley & Co has been a valuer analyst or advisor for usually a majority of the transactions cited. Whilst all property data represented is believed to be correct Turley & Co does not warrant the accuracy of information published in this report. Transaction samples details may be incomplete and include: dated and newly-built premises, ground and upper-floor, first-lettings and sitting-tenant agreements, properties of various location strength, scale, lease content and seismic status, etc. The forgoing factors substantially influence relative market value and reliable application of data. In the absence Turley & Co Registered Valuer assistance, values or information in this report may be erroneously interpreted.

### Purpose | Reliance | Copyright

The purpose of this report is market conditions review and oversight. The information in this report is therefore for general information purposes only and is a summary based on selective information that may be deficient for your purposes. No aspect of this report should be relied upon for any investment, purchase, property or commercial decisions. Please refer first to Turley & Co for property specific written valuation or consultancy advice.

Turley & Co or its staff cannot accept liability for erroneous predictions (forecasts or projections). Turley & Co or its staff cannot accept professional responsibility where Turley & Co has not been commercially engaged for a specific property valuation or advisory, or property strategy assignment. Turley & Co will only accept professional responsibility for client engagements involving property case specific written advisory on Turley & Co letterhead.

To the extent that any information or recommendations in this publication constitute financial or property advice, they do not take into account any person's particular financial or property situation or goals. Turley & Co recommends that you seek advice specific to your circumstances from your financial advisor and independent property advisor. Neither Turley & Co nor any person involved in this publication accepts any liability for any loss or damage whatsoever that may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

Neither the whole nor any part of this market review report or any reference to it may be included in any published document, circular or statement without the written approval of a director of Turley & Co Ltd (TCL) as to the form and context in which it may appear.

**TCL © Copyright:** This work is confidential and subject to the copyright of Turley & Co Ltd (TCL). All rights reserved. Items of this document may not be adopted, reused or disseminated in any form without the written consent of a Turley & Co director.

**Distribution:** This report is generally a purchase item for other than key Turley & Co supporters or contacts. Please purchase current and prior full market reports at [www.turley.co.nz/News](http://www.turley.co.nz/News)