

## → Industrial Property Market Report 29 | 31 July 2019

1 of 4 Macro-Office-Industrial-Retail Reports | Celebrating 21 Years!

### **Key observations:**

- *Heightened level of new industrial buildings in 2016-19 spurred by optimistic conditions locally and occupier requirements (horticulture led, high-quality builds).*
- *Rent value divergence new v. existing industrial is pronounced and is more broadly differentiated than any time since the 1990s.*
- *Bare industrial land supply is good including recent industrial land offered at Irongate, Elwood Road, Waitangi Road Napier and elsewhere. Napier industrial land supply is tight.*
- *Hawke's Bays' economic conditions remain exceptionally buoyant. Confidence is high driven by a coincidence of fortunes across most sectors that lead the region's economy, underpinned by persistently low interest rates.*
- *We anticipate continuance of good rates economic growth in the near term for Hawke's Bay. NZ growth is projected to be more modest in 2019/20.*
- *Slowing global growth with uncertainties is potentially a moderating factor however.*

**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.

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

Refer to separate same date reports for: *Macro, Office and Retail.*

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	\$70 - \$100	0 to +10%	6.0-8.5%	-0.5 to 0.5%
Secondary	\$25 - \$70	0 to +10%	8.5-10.0%	0.0 to 1.0%

**Vacancy Rates:** - Industrial 5% - 10% estimate  
Micro-locality considerations and quality dependant  
Overall ~7% approx.

**Inducements:** - Newly-built 1 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
- Investors have been favouring industrial property investment in part due to construction simplicity (usually lesser future capex)
- 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 has become a more popular industrial locality with the \$26m Arterial Link completed (centrally located between Napier-Hastings)
- 63 hectares of Omahu Rd newly zoned industrial land 2018 – 181 hectares for Hastings including Irongate – mostly unserviced raw land
- Heightened level of new industrial buildings in 2016-19 spurred by optimistic conditions locally and occupier requirements are horticulture led (high-quality builds)
- Industrial stock vacancy moderated 2017-19
- Rent value divergence new v. existing industrial is pronounced and is more broadly differentiated than any time since the 1990s
- Hawke's Bay Airport land new access is likely to lead to an expanding alternative industrial hub at this location (long planned)
- Good supply still of rudimentary older dry store/ wool store space persists
- Heinz Watties Distribution Centre changes hands for \$29.1m

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 district (Napier) industrial activity is considerably decreased. Progressively industrial land use has increased at Whakatu, Irongate, Elwood Road, Omaha Road and elsewhere.

63 hectares of Omaha 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. Most of the newly zoned land is unserved.

181 hectares of raw industrial land has been added to Hawke’s Bay supply in 2018, enough for ~360 developments of 0.5 hectare land each (or ~900,000m<sup>2</sup> new industrial buildings at 50% site cover). HDC has new land services development underway in the Omaha 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 1 ha lots were sold and recently a 6ha lot has sold. Irongate subdivisions are proposed and being offered.

The \$26M Whakatu Arterial Link roadway completed late 2018 substantially enhances the connection between Havelock North, State Highway 2, Pakowhai Road, the Expressway and Napier Port. The new road elevates 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 commentary.

Napier Port assisted by Turley & Co in 2017, bought 8.1 ha of Whakatu raw industrial-zone land that transacted at \$46/m<sup>2</sup>. It adjoins Port owned rail-siding serviced land and as a standalone block has a newly formed leg-in access from Groome Place.

The Elwood Road Tomoana Food Hub (16.5 ha) 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 purchased in 2017 for \$24/m<sup>2</sup>. It is proposed for subdivision development and is the subject of current land works.

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 that could increasingly compete for new development tenants. The Airport Business Park has the potential to attract new businesses to Hawke's Bay. The new Watchman Road airport access route completed late 2018 will provide improved airpark 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 for notable tenants

[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 mid-2018 indicating industrial land values are flat to diminished at year end albeit there are with some exceptions. We said in reporting for Q3-4 2018: Moderating land values could follow considerable new land supply (refer earlier 181 hectares newly-zoned plus Tomoana Food Hub). Hawke's Bays' industrial land supply is very good. This commentary holds Q1-2 2019 and will hold for a decade or more.

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 if occurring could induce land values downward pressure given the coinciding very good land supply.

#### Industrial Leasehold Napier

Refer to Turley & Co prior reporting on this topic and to us for leasehold property insights.

Turley & Co in late 2018 were valuation arbitration experts for a Napier industrial land tenant. The awarded rent rate was 5.5% p.a. vs. lessor contention 7.0% p.a. ground rent per land value.

96 Austin Street reportedly sold for a total of \$15.62M, being one of the largest industrial sales for Hawke's Bay in many years

[www.nzherald.co.nz/business/news/article.cfm?c\\_id=3&objectid=12236390](http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=12236390)

#### Industrial Premises Rent

We reported 10 years ago 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, that held until 2018 with the major exception of newly-built industrial premises at cost-led rents. **More generally now industrial rents are edging upwards.**

The industrial premises supply is generally good for Napier-Hastings 2018/19, although very good-quality modern industrial premises are scarce. Industrial vacancy has declined marginally in 2018/19, 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), 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, one of the Whakatu buildings is now owner-occupied by a fertiliser business.

Demand by owner-occupiers for good features small to mid-scale Hastings-Napier industrial property considerably spiked in 2018/19. At keen borrowing rates, being an owner of realty has appeal over leasing and bolstered by confidence boosting buoyant economic conditions in Hawke's Bay.

In summary: for sub-par industrial premises there remains quite stiff landlord competition for tenants. Rents for industrial accommodation are generally quite subdued (excepting newly-built), and leasing-up periods can be extended. However, for smaller industrial premises and of moderate to good quality, rent values trended upwards in 2018/19. Momentum for most industrial premises rents generally moved to the upside in 2018/19.

### 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
Irongate Rd	Feb-19	4,635	\$81
Taradale Rd	Feb-19	592	\$81
Manchester St	Mar-19	4,335	\$85
Johnston Way	Jan-19	742	\$86
Pakowhai Rd	Sep-19	1,190	\$108
Wakefield St	Sep-18	906	\$113

Refer to Turley & Co for more data and the most recent transactions. TOC rent rates cited are mostly for the principal accommodation 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 a lease settings advisor.

### Developing Industry

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

- Substantial landmark winery developments Delegat Group 19,000 sqm and Villa Maria Gimblet Gravels 15,000 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 [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)
- Craft beer and cider brewing are trending positively in Hawke’s Bay, this includes state of the art facilities at National Tobacco Company building in Ahuriri
- Two water bottling exporters constructed plants at Elwood Road Hastings (Miracle Water) and in Awatoto (One Pure)

- Kiwifruit industry resurgence includes Hawke's Bay investments of significant magnitude
- Rockit Apples underway 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 insights. 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 was estimated to cost \$100M, which would be the largest ever single investment by the Port. More information at [www.stuff.co.nz/business/108381200/napier-port-gets-green-light-to-build-new-wharf](http://www.stuff.co.nz/business/108381200/napier-port-gets-green-light-to-build-new-wharf). HBRC determined to part privatise Napier Port with an IPO, the share offer is open for applications.

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)
- Delegat'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 2013-19. 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 post-harvest 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).

## Industrial Property Investment

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

Good calibre tenant and strongly leased modern industrial properties have been particularly well-supported at firm yields. Competition to secure best traits industrial property in the \$1-\$4M bracket has been heated with some properties transacting off-market. Refer to Turley & Co. Investors sometimes prefer industrial property for simpler construction and lower capital expenditure/ upgrade risks. The yield difference for investment property quality, tenant-calibre, lease term/s and any vacancy aspects, had considerably narrowed in recent years. Change was underway with the industrial yields spread increasing. This may now be paused.

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 2017-19 v. 2016. Refer to Turley & Co for more insight.

The Heinz Watties Distribution Centre at 113 Elwood Road Hastings changed hands in July 2019 for \$21.9M. Sold by Asset Plus to syndicators Erskine and Owen. Refer to NBR.

At present masses of local and global capital is pursuing prime attributes investment property and evidenced by competing bidder substantial oversubscription, e.g. Visy at Hamilton ~\$70m sale July ~5% yield. Refer to *Macro report*.

## Industrial Investment Yields

Sample industrial investment property transactions include:

Location	Price	Date	Yield
Wellesley Rd	\$1,615,000	Dec-18	5.15%
Havelock Rd	\$1,750,000	May-19	5.56%
Manchester St	\$6,300,000	Mar-19	6.03%
Heretaunga St West	\$2,135,000	May-19	6.62%
Severn St	\$2,200,000	Nov-18	6.68%
Elwood Rd	\$29,100,000	Jul-19	TBC

Other insight: Refer to Turley & Co for most recent transactions data, lease durations, etc. Other transactions: Refer to us.

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)

## Turley & Co Analytics + Market Metrics

Turley & Co is a publisher of property market analytics, metrics and commentary prior to 1998, and for over 21 years maintains an extensive private database of market transactions/ valuation evidence for Hawke's Bay and NZ.

Turley & Co has published **28 prior biannual reports 2005-2019**, plus one-off market metrics updates and occupancy surveys regularly [www.turley.co.nz/news](http://www.turley.co.nz/news)



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## Turley & Co Profile

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

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 CBD Auckland. 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. This included over 400 Crown landbanking acquisitions NZ-wide for 19 years as sole services contractor to Office of Treaty Settlements (MoJ). Turley & Co is continuously engaged in high-quality commercial property analysis and valuation as a **Registered Valuer** and **Registered Property Consultant** in Hawke's Bay and **NZ-wide including Auckland**.

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### 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.

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