

→ Industrial Property Market Report 26 | 9 February 2018

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

Key observations:

- Prime industrial property investments are keenly contested – albeit now not as keenly as in 2016 at 6-6.5% yields.
- Whakatu 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).
- Hawke's Bay property values have escalated impressively, although are not as hyped as Auckland and elsewhere. It seems to Turley & Co that the commercial-industrial property investment market for most regional/ smaller centres New Zealand possibly peaked in 2017.
- The effect of recent global stock market jitters is yet to play out, but could indicate an economic fragility stemming from quantitative easing measures that was perhaps "kicking the can down the road".

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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Streamside reserved land planting of +2,000 native seedlings funded | MTT volunteer Trustee 2009-18 | Chair 2015-18 www.maraetotaratreetrust.co.nz

Industrial Market Indicators for Napier | Hastings | Havelock North

Industrial Category	Rental Range Gross TOC (\$/m ²)	Forecast Rental Growth Next 24 Months (%)	Yield Range (%)	Forecast Yield Change Next 24 Months (%)
Prime	\$60 - \$100	0 to +5%	6.0-8.0%	0.0 to 0.5%
Secondary	\$20 - \$60	0 to +5%	8.0-11.0%	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 4 months rent free equivalent
Existing 3 to 8 months rent free equivalent
Depending on premises, term and tenant



Inside Warehouse at Whakatu | Photo TCL

HB Industrial Market | News | Quick Summary

- Prime industrial property investments are keenly contested – albeit now not as keenly as in 2016 at 6-6.5% yields
- More investors are favouring industrial property investment 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
- Bare industrial land supply is good including recent industrial land offered at Irongate and elsewhere
- Whakatu will likely increasingly become more popular as an industrial locality (centrally located between Napier-Hastings), after \$26M Arterial Link completion
- 63 hectares of Omahu Rd newly industrial zoned land becomes operative after appeals settled
- Heightened level of new industrial buildings in 2016-17 spurred by optimistic conditions locally and occupier requirements horticulture led (high-quality builds)
- Ordinary or poor quality industrial stock vacancy remains high in some areas including Onekawa (Napier)
- Rent value divergence new v. existing industrial premises continues to accentuate and is now more broadly differentiated than any time since the 1990s
- Fonterra’s exit of 1 Pandora Rd leaves a particularly large vacancy to backfill (oversupply of large dry stores) – accentuated by surplus wool sourcing facilities
- Water bottling developments with large water take consents add a new dynamic 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)

Industrial Land and Leasing Markets

Industrial Land

Havelock North and Ahuriri industrial occupancy has considerably decreased over the past decade, whilst progressively increasing at Whakatu, Irongate, Elwood Road and Omaha Road (and other localities). 63 hectares of Omaha Rd plains land newly industrial zoned becomes operative after appeals settled. Irongate rezoned industrial land that is subject to appeal, was varied from 70 to 118 hectares and at the same time, HDC has opted out of providing reticulated stormwater to reduce costs (to be managed between developer and the Regional Council).

Two adjoining industrial subdivisions at Irongate were recently brought to the market by Property Brokers, providing for approx. 8 lots each at approx. 1 ha. 3 are reportedly sold.

Considerable industrial land remains tightly held or land banked, so much remains long-term unavailable for development. Council development contributions (levies) and other land development expenses are significant factors. In some locations, the HDC cost will be a major hurdle for potential development and suppressing bare land values.

There is industrial land for sale at Whakatu with much of the industrial zone for the locality still in productive rural uses. Some land at Whakatu has changed hands in the past 5 years including this year a strategically located 8 ha site. Other land has been developed including HB Towing, Nimon Buses, East Coast Packaging, Amcor, Diamond Apparelmaster, David Trubridge and a packaged beverages plant in 2017 (and others). Whakatu and parts of Omaha Road have relatively high bare land services costs (plus development contributions).

Whakatu's \$26M Arterial Link project will substantially enhance the connection between Havelock North State Highway 2, Pakowhai Road, the Expressway and Napier Port. This project has elevated the importance and popularity of what is a centrally located to Napier-Hastings industrial and commercial hub at Whakatu. Road development works are progressing. We expect the status of Whakatu industrial property to elevate further.

Nearby on Elwood Road, the Tomoana Food Hub rezoned land has associated industrial facilities including Heinz, Jamestrong, Tomoana Warehousing and Chep Pallet. Further development is proposed. This is complementary to Whakatu.

11 hectares of industrial land in Awatoto was brought to the market in September as multiple proposed sites but remains unsold.

The ground leasehold Airpark of approximately 20 hectares is an added layer of land supply for commercial and industrial uses. This offering is set to increasingly compete for tenants. The Airport Business Park may attract new businesses to Hawke's Bay. The completion of Watchman Road works and new airport access will provide added impetus.

Overall, Hawke's Bay industrial land values are trending upwards. Moderating this, as always, will be considerable new land supply. Hawke's Bay is well-catered in this respect in 2018.

The net effects of good land supply could be industrial property values containment including the land content of premises rent. This would be beneficial to Hawke's Bay businesses and employment, and the province's relative competitiveness. Relatively low cap rates make land more affordable all else being equal (rent and build costs).

Industrial Rent Values

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 2017-18, with the major exception of newly-built industrial premises at cost-led rents. Existing industrial tenant rent reviews and lease renewal rents have in many cases, rolled over without increase, minimal rent change or reductions. Momentum for industrial rents has, however, generally moved toward the upside.

In summary: existing industrial premises good supply is mostly the case for Napier-Hastings, although very good quality modern industrial units are considerably scarcer. Low grade warehouse oversupply is prevalent. The 19,000 sqm vacancy left by Fonterra's 2015 exit of 1 Pandora Road, has attracted much smaller footprint tenants on monthly leases (remains partially vacant). Added to this supply is now surplus wool scouring buildings.

Competition for poor to average quality industrial premises tenants is considerable. Rents for most industrial accommodation remain off their peak still (except newly built), and leasing-up periods are often extended.

Newly built stock includes:

- 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)

Hawke's Bay manufacturing, fruit growing and viticulture industries have improved considerably 2013-18. These trends coupled with low interest rates and a generally stable NZ dollar, points to further Hawke's Bay industrial premises demand upside, including further specialised crop harvests storage new buildings. Albeit sometimes on land zoned for food production, so not at industrial zone or cluster locations. And for generally new or best quality buildings.

Developing Industries

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)
- 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
- Infant formula plant in Waipawa by NZ Dairy products Ltd proposed - \$80M farm based dairy factory and goat milk processing plant proposed (pending)
- Auckland based company Fresco Nutrition is reportedly building a \$30M spray drying and canning facility in Hawke's Bay (pending)
- 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

A new 350 metre wharf is planned by Napier Port to facilitate projected volume growth and larger vessels in the future. This comes off the back of 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 <http://projects.napierport.co.nz/>

Napier | Hastings | Havelock North Industrial

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

Property	Date	Area (m ²)	Rate \$/m ² TOC
Pandora Rd	Jun-16	4,000	\$31
Edmundson St	Jan-17	1,000	\$53
Omahu Rd	Feb-17	3,200	\$60
Rangitane Rd	May-17	4,400	\$63



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Refer to Turley & Co for more data and more recent transactions. TOC rates cited are mostly for the principal warehouse/ dry-store component. The added value of offices, yard or parking components 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

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

Industrial Investment Market

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, e.g. Onekawa’s BOC Gas at 6.0% in 2016. Competition to secure best traits industrial property in the \$1-\$4M bracket has been hot and often transacting off-market (e.g. Red Steel Napier, GEMCO Havelock North and Peter Baker Transport Napier). Investors sometimes prefer industrial property, given simpler construction and lower capital expenditure/ upgrades risk.

There is no doubt that borrowing rates sub 5.0% lowered prime industrial property investments cap rates. There has been a drop-off in the number of industrial investment properties transacting in 2017. We expect this sector to remain off-its-peak in 2018. Industrial investments being marketed in mid-2017 were unsold (Invictus Dairies, FPG and Halls Transport). Refer to Turley & Co.

Industrial Investment Transactions

Sample industrial investment property transactions include:

Location	Price	Date	Yield
Leyland St	\$1,900,000	Jun-16	6.00%
Karamu Rd	\$1,914,560	Aug-16	6.25%
Hyderabad Rd	\$2,000,000	Oct-17	6.26%
Niven St	\$4,510,000	Jul-16	7.00%
Omahu Rd	\$2,400,000	May-17	7.54%

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Other transactions insight

- Refer to Turley & Co for more data, lease durations and more recent transactions.

Refer to Turley & Co for information specific to a particular property, and Registered Valuer and Registered Property Consultant advisory www.turley.co.nz



Tim Whittaker Te Mata Peak Millennium Sunrise



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Turley & Co Profile

Hawke's Bay based Turley & Co was formed in 1998 employing **six professionals** 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 from \$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.

Turley & Co's professional team: Pat Turley, Wayne Smith, Kurt Richards, Nikki Whelpton and Dayna Campbell. Sue Turley is a co-director and commercial manager since 1998.

TCL Analytics and Research ¹⁹⁹⁸

Publisher of market research papers 1998-2018 including:

Q1-2 2005 Hawke's Bay Market Report - 1	Q3-4 2009 Hawke's Bay Market Report - 10	Q1-2 2014 Hawke's Bay Market Report - 19
Q3-4 2005 Hawke's Bay Market Report - 2	Q1-2 2010 Hawke's Bay Market Report - 11	Q3-4 2014 Hawke's Bay Market Report - 20
Q1-2 2006 Hawke's Bay Market Report - 3	Q3-4 2010 Hawke's Bay Market Report - 12	Q1-2 2015 Hawke's Bay Market Report - 21
Q3-4 2006 Hawke's Bay Market Report - 4	Q1-2 2011 Hawke's Bay Market Report - 13	Q3-4 2015 Hawke's Bay Market Report - 22
Q1-2 2007 Hawke's Bay Market Report - 5	Q3-4 2011 Hawke's Bay Market Report - 14	Q1-2 2016 Hawke's Bay Market Report - 23
Q3-4 2007 Hawke's Bay Market Report - 6	Q1-2 2012 Hawke's Bay Market Report - 15	Q3-4 2016 Hawke's Bay Market Report - 24
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Q1-2 2009 Hawke's Bay Market Report - 9	Q3-4 2013 Hawke's Bay Market Report - 18	Plus bi-annual <i>Metrix</i> single-page updates and occupancy survey data since 2012 www.turley.co.nz/news

Turley & Co is a publisher of property market analytics and commentary predating 1998, and for 20 years, maintains an extensive private database of market transactions/ valuation evidence for Hawke's Bay and nationally.





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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.

Sources | Reliability

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