Seaview/Gracefield... the heart of Wellington's industrial sector.

TURNAROUND TIME
FOR WELLINGTON INDUSTRIAL

It's been a long time coming but a recovery is now evident in the Wellington industrial property market, with a combination of factors pointing to a more positive outlook for the region. Ian Little, *Bayleys Research* senior analyst, reports.

A pick up in leasing activity and continuing demand for vacant premises from owner occupiers has resulted in an increase in the amount of space being absorbed by businesses in Wellington's leading industrial suburbs over the past three years.

This has put a brake on the sharp increase in vacancy levels that occurred following the Global Financial Crisis, with the overall vacancy rate in these precincts decreasing this year for the first time since 2006. This has occurred despite an increase in the overall supply of floor space resulting from increased development of new premises and the refurbishment of older premises.

Hutt City Council is helping to stimulate activity in the region through a proactive incentive package for developers while work has finally commenced on the long awaited Northern Corridor, a new highway between Levin and Wellington which will significantly assist businesses with speed to market. Part of this highway will link with an expanded regional airport at Paraparaumu with associated plans for a major business hub for the Kapiti Coast.

Regional vacancy edges down

Wellington industrial vacancy rates are retreating from their 2012 peak, despite the total inventory increasing. While the Wellington economy has remained subdued over the last year, the overall vacancy rate within key industrial precincts has fallen, albeit by a relatively modest amount.

Bayleys Research's latest Wellington Industrial Survey shows the total vacancy rate across Seaview/Gracefield, Petone, Grenada, Ngauranga and Miramar/Rongotai edged down to 7.2% from the 2012 total of 7.5%. This broke a run of six annual increases which more than doubled the rate from a low of under 3% in 2006. The decline was the result of substantial falls within the Grenada and Miramar/Rongotai precincts – which previously had double digit vacancy rates – offsetting small increases elsewhere.

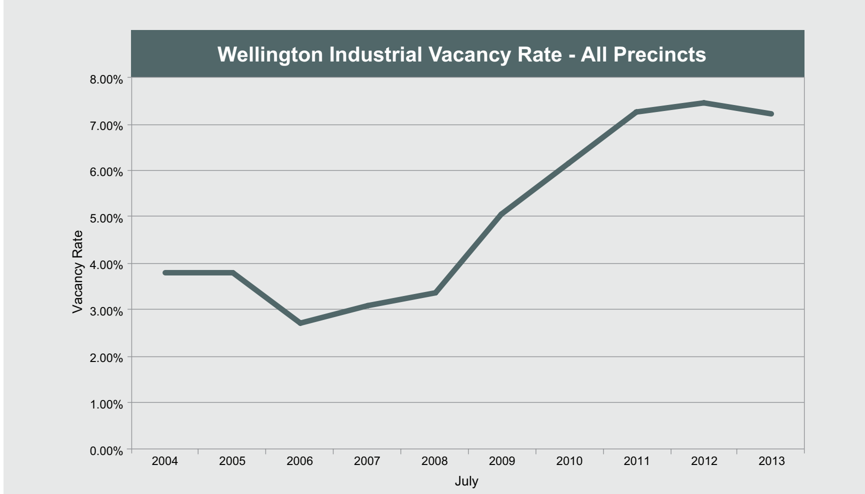
While it experienced the most significant increase in vacancy following the departure of a number of occupiers, the biggest of which was Hot Chilly, Ngauranga still has the region's equal lowest vacancy rate, at 6.6%.

The precinct has now experienced vacancy rises in two consecutive surveys since bucking the overall trend in 2011 when it was the only one to register a decline in vacancy. While its vacancy rate does tend to be fairly volatile due to its relatively small scale, Ngauranga has lost a number of notable tenants over recent years. The specialised nature of many of the buildings, which feature high office components, has resulted in them being hard to re-let.

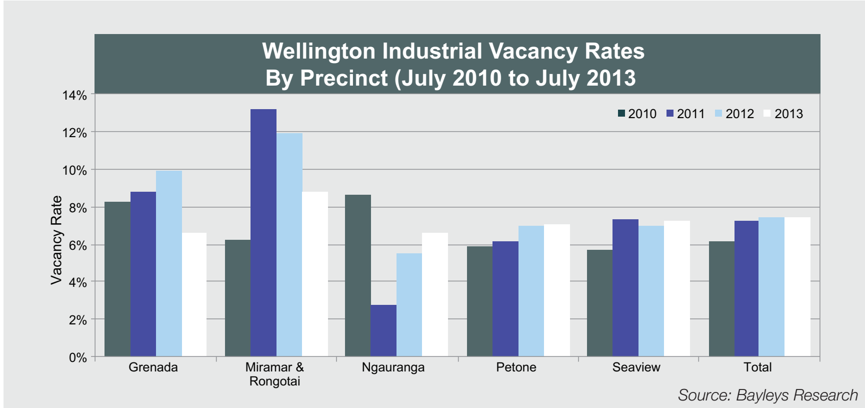
The latest increase would have been more pronounced had approximately 1,500m² of space vacated by Interserve not been leased to Lewis's Home Fabrics. That company has relocated from its original Tawa base where the land is required for the Transmission Gully project.

The precinct, however, enjoys a number of key benefits such as excellent access to the regional motorway network, a high profile, centrally positioned location, and a modern high quality supply of buildings that will continue to attract both tenant and investment interest.

Heading up State Highway One, halfway between Ngauranga and Porirua, Grenada experienced the most significant decline in vacancy, falling to 6.6% from 9.9% in 2012, and putting it on level pegging with Ngauranga.



Source: Bayleys Research



Source: Bayleys Research

Ngauranga Investment Trends				
Yield	Forecast	Demand	Availability	Land Value $/m²
7.25% - 9.25%	→	Sufficient	Scarce	350 - 500
Leasing Trends				
W/House ($/m²)	Office/Show ($/m²)	Rental Trend	Demand	Supply
80 -150	140 - 200	→	Steady	Sufficient

Grenada Investment Trends				
Yield	Forecast	Demand	Availability	Land Value $/m²
7.5% - 10.5%	→	Sufficient	Scarce	180 - 250
Leasing Trends				
W/House ($/m²)	Office/Show ($/m²)	Rental Trend	Demand	Supply
80 -150	90 - 160	↓	Soft	Surplus

Source: Bayleys Research

The precinct's total inventory has grown over the past two years as a result of new development, the most significant being purpose-built premises for Coca Cola, New Zealand Micrographic Services Ltd (NZMS) and Initial Rentokil in Jamaica Drive.

The precinct has also seen a lift in leasing activity over the past 12 months, attracting new occupiers such as Hot Chilly which has expanded into new premises of approximately 2,500m², vacating just under 1,000m² in Ngauranga.

The region's two largest industrial precincts, Petone and Seaview/Gracefield in Lower Hutt, experienced little change in overall vacancy. Seaview's rate increased marginally, however, most of its vacancy is concentrated within the precinct's older and poorer quality buildings. Agency reports suggest that there is strong demand for smaller premises within the 200m² to 1,500m² range, which are in short supply within Seaview.

A number of owners of older, large scale premises are adopting a holding position accepting lower rental rates →

in order to attract and retain tenants. Recent leases of dated, low stud buildings have been concluded at rentals as low as $30-$40 per m².

Petone's vacancy rate remains largely unchanged from the 2012 total, reflecting the on-going popularity of the generally smaller workshops which make up a majority of the precinct's inventory. No other precinct within the region offers small engineering and manufacturing companies the range of accommodation options that Petone does.

There are fewer larger properties available resulting in some migration of tenants from the area when they are looking to expand. A recent example of this is Label and Litho which has moved to Gracefield in search of larger space having traded from Petone for more than 30 years. This move has been replicated by Crown Forklifts which has decided to move on from its Gear Street base, which it has occupied since 1995, to larger, more modern premises in Gracefield Road.

While vacancy has increased slightly, the total floor space occupied within Petone has actually risen as premises have been reintroduced to the survey following the completion of refurbishment projects.

Within the Eastern suburbs of Miramar and Rongotai, near Wellington airport, vacancy fell, primarily as a result of the clearance of formerly vacant premises at 113 Tirangi Road. This land owned by Wellington International Airport Limited adjoins the company's retail park. It is considered unlikely that it will be redeveloped for industrial use, continuing the trend of declining industrial influence within the precinct.

The reduction in the region's overall vacancy has been achieved despite the total inventory within the area surveyed by Bayleys Research increasing slightly. The increase is a result of new development and reinstatement of premises which were removed last year while they were under refurbishment. The total occupied space now stands at its highest figure since 2010 and has increased by just under 53,000m² since reaching a cyclical low in 2010.

Hutt City Council incentivises new development

In a move which is helping to stimulate industrial development activity in Lower Hutt, Hutt City Council, which encompasses the Lower Hutt and Wainuiomata areas, has developed a package of incentives to encourage economic development and job creation which encompass:

- A waiving of building and resource consent fees and development contributions on all qualifying development applications lodged prior to 30th June 2014. This applies to the construction of a new commercial or industrial building of at least 500m², including the development of a new building following demolition or removal of existing buildings. It also includes an extension to an existing building by at least 500m².
- A waiving of rates for three years where a project is of strategic importance for the city's future economic development. It must involve investment of at least $2,500,000 and create at least 50 jobs – or, in the case of an existing business, increase the number of jobs by at least 50% – and not be in competition with other businesses.

In addition, the council's development department has attempted to simplify and streamline the consent process to reduce delays. It is encouraging developers to meet with it prior to submitting resource consent applications to ensure that they are fully aware of what information the council will require to process the application. It is hoped that these meetings will avoid the consent process being slowed due to the council having to request missing information or documentation.

The council's proactive approach has paid early dividends with Big Save Furniture and Masterpet having committed to large scale projects in the city. In both cases the companies are to occupy properties previously utilised by substantial employers that have shut down operations on the sites.

Seaview Investment Trends

Yield	Forecast	Demand	Availability	Land Value $/m²
8.5% - 11.0%	→	Sufficient	Scarce	150 - 350

Leasing Trends

W/House ($/m²)	Office/Show ($/m²)	Rental Trend	Demand	Supply
50 - 110	90 - 140	→	Steady	Sufficient

Petone Investment Trends

Yield	Forecast	Demand	Availability	Land Value $/m²
7.5% - 9.0%	→	Strong	Scarce	500 - 700

Leasing Trends

W/House ($/m²)	Office/Show ($/m²)	Rental Trend	Demand	Supply
80 -120	100 - 140	→	Soft	Sufficient

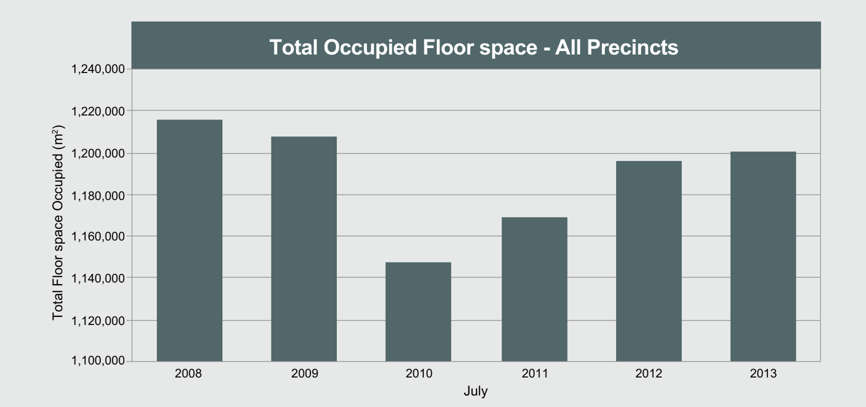
Eastern Suburbs Investment Trends

Yield	Forecast	Demand	Availability	Land Value $/m²
8..0% - 9.0%	↑	Strong	Scarce	500 - 900

Leasing Trends

W/House ($/m²)	Office/Show ($/m²)	Rental Trend	Demand	Supply
80 -150	100 - 200	→	Steady	Scarce

Source: Bayleys Research



Source: Bayleys Research

Big Save Furniture has purchased premises previously occupied by Feltex Carpets at Waiu Street in Wainuiomata. The company acquired the site and 10,000m² factory for $1,000,000 with a view to relocating its national distribution centre from Porirua because the property offers more space for future expansion which Big Save believes will be necessary in the next few years.

Masterpet is to occupy newly developed premises on a 1.9 hectare site at 143-149 Hutt Park Road, Lower Hutt formerly occupied by Exide. The property was purchased for $3,800,000 by Auckland based developer Kea Developments which has previously worked in conjunction with Masterpet on other projects. Kea will demolish the existing buildings on the site and develop a purpose-built 9,455m² distribution centre for Masterpet.

Infrastructure Upgrades

Longer term, the 100 kilometre Wellington Northern Corridor from Levin to Wellington Airport is one of seven roads of national significance which will help drive future business development in the Wellington region. As a result of the decision to debt fund the Transmission Gully section of the corridor by way of a Private Public Partnership (PPP), funding of $1 billion earmarked for the section can now be used to bring forward other state highway projects over the next five years.

This includes two other sections of the Northern Corridor (MacKays to Peka Peka and Peka Peka to Otaki), which means 60 kilometres of new highway will be available by 2020. The Northern Corridor will deliver economic and safety benefits and significantly improve travel times between Wellington and the lower North Island and assist businesses with distribution centres in the Wellington region with speed to market.

Transmission Gully

The last year has seen significant progress towards work starting on the long awaited Transmission Gully project. In November last year, Cabinet gave the New Zealand Transport Agency (NZTA) approval to finance and build the Transmission Gully highway using a PPP. The NZTA was also given approval to borrow up to the estimated costs of traditional procurement as part of the PPP.

In April, NZTA announced a shortlist of two consortia to deliver the project. The selected parties now move to the final tendering stages of the process and it is anticipated that the PPP contract will be awarded in mid 2014.

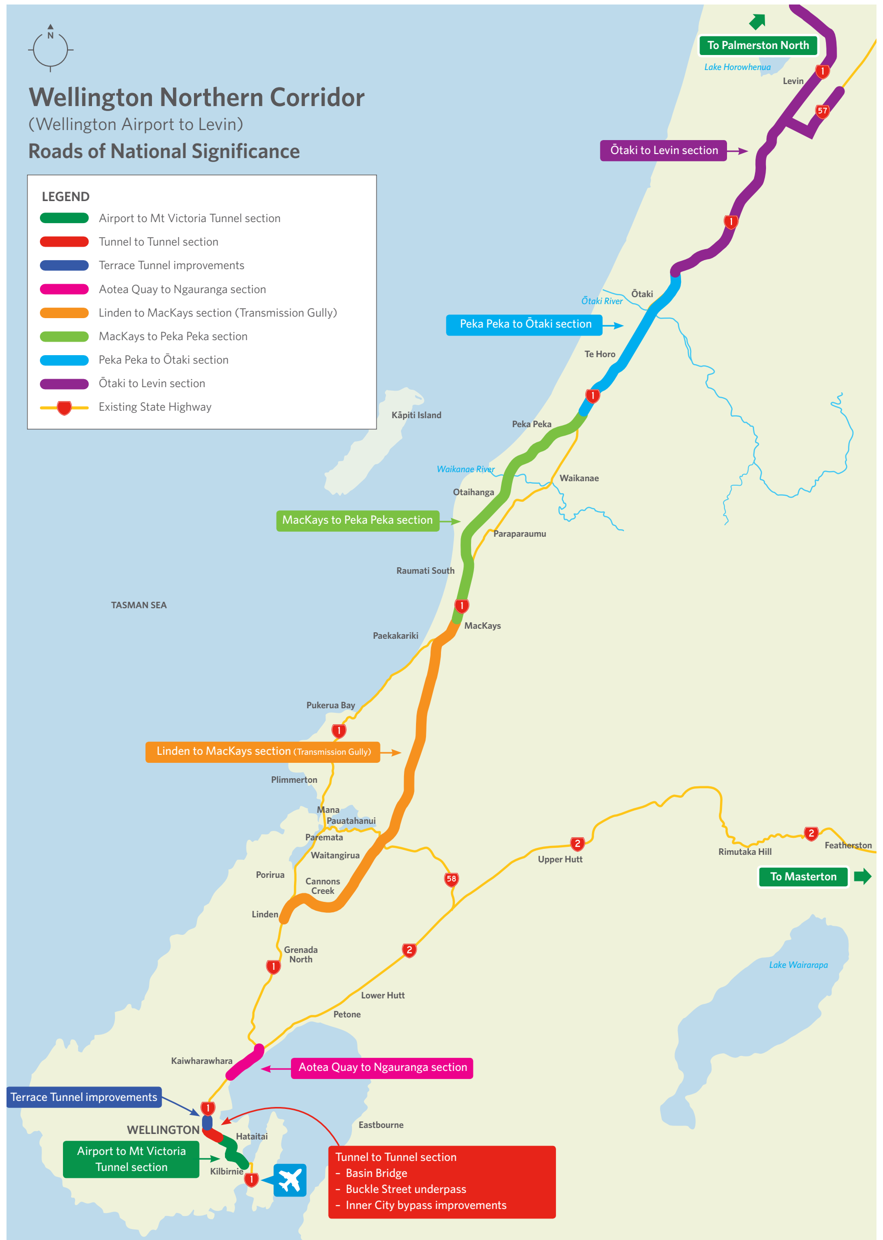
The two consortia are made up of New Zealand-based and international organisations. Each has a construction firm working in partnership with road designers, investors and companies able to maintain and operate the road. The Wellington Gateway Partnership's lead organisation is Leighton Contractors Pty Ltd, while John Laing Investments Ltd has taken the lead role for the other consortium, Positive Connection.

Transmission Gully is a 27 kilometre section of the Wellington Northern Corridor Road. It will be an important connector for freight travelling between Wellington's ports and the lower and central North Island, bypassing many existing bottle necks and more hazardous stretches of State Highway 1.

Kapiti Coast Airport

The improvement in the highway network will be particularly beneficial to business precincts north of the city such as Porirua, Upper Hutt and the Kapiti Coast. In the case of the latter, business activity will be further bolstered by confirmation that direct daily flights to Christchurch from Kapiti Airport at Paraparaumu are to begin in November adding to the existing Auckland service.

The airport's mixed use business park – known as Kapiti Landing – has been the primary focus of commercial development in the area over recent years. Approximately 70 hectares of the 127 hectare Paraparaumu airport site has been designated for a range of light industrial, commercial and retail activities.→



Upper Hutt Investment trends				
Yield	Forecast	Demand	Availability	Land Value $/m²
8.5% - 15.0%	➡	Soft	Surplus	60 - 150
Leasing Trends				
W/House ($/m²)	Office/Show ($/m²)	Rental Trend	Demand	Supply
40 - 70	50 - 90	➡	Soft	Surplus

Porirua Investment Trends				
Yield	Forecast	Demand	Availability	Land Value $/m²
8.5% - 11.0%	➡	Sufficient	Sufficient	75 - 220
Leasing Trends				
W/House ($/m²)	Office/Show ($/m²)	Rental Trend	Demand	Supply
50 - 120	120 - 200	➡	Steady	Sufficient

Kapiti Investment trends				
Yield	Forecast	Demand	Availability	Land Value $/m²
8.5% - 9.5%	➡	Strong	Scarce	200 - 350
Leasing Trends				
W/House ($/m²)	Office/Show ($/m²)	Rental Trend	Demand	Supply
80 -120	140 - 220	➡	Soft	Sufficient

Source: Bayleys Research

Much of the development to date has revolved around improving the airport terminal and infrastructure and building new bulk retail premises. Stage two of the development is now well advanced with New World, having taken occupation of a new supermarket on site and Mitre 10 Mega committing to an 18-year lease on another new building. Kitchen Things and Smiths City are to begin trading there in November.

Todd Property became the major shareholder in the airport and business park last year, and in May announced a $1 billion, 10-year master plan to create up to 8,000 jobs at Kapiti Landing. The company has advised that negotiations for leasing of business and further retail space are well advanced. It is envisaged that the site will be of interest to logistics and freight companies, given its proximity to airport operations, particularly once the improvements to the local and regional state highway network are further advanced. Earth works have just commenced on the McKays to Peka Peka section of the Northern Corridor which will pass by the entrance to the airport.

Ready for take off... Kapiti Coast's revamped airport at Paraparaumu will also became a major business hub for the region.

Industrial property investment performance improves

Latest data released by the International Property Databank (IPD) and the Property Council of NZ shows returns from industrial investment property have continued their post recession improvement over the last 12 months.

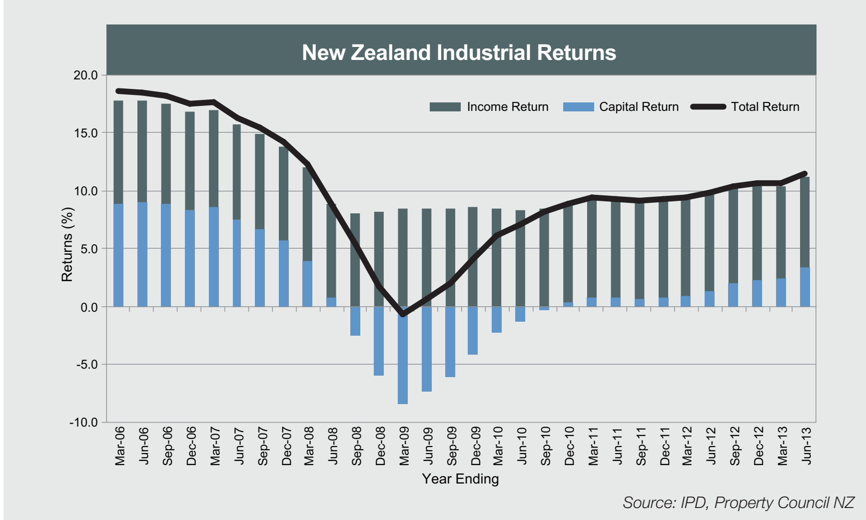
Total industrial returns, the combination of returns from income plus changes in capital values, reached 11.5% in the year to June 2013, up from 9.9% a year earlier. The improved performance has been driven by capital value growth which has increased from 1.3% in the year to June 2012 to 3.3% in the 12 months ending June 2013.

Capital appreciation is now at its highest level since the opening quarter of 2008 when values rose by 4.0% over the previous year. Capital values then fell for nine successive quarters between September 2008 and September 2010 reflecting the adverse impact of the Global Financial Crisis and New Zealand's recession.

Modern, well leased and well located Wellington industrial premises in the sub $1,000,000 price bracket are commanding yields of below 8%. As the purchase price rises, however, yields tend to soften as illustrated by the recent sale of a modern high stud warehouse and air conditioned office premises on a site in Meachen Street, Seaview. The 3,314m² premises sold for $4,183,000, at a 9.1% yield, with an eight-year lease back to a national transport business Strait Freight, a privately owned company which had previously been an owner occupier in the premises.

However, two other larger sales by Bayleys Wellington in the Ngauranga Gorge at yields of under 8% reflect increasing investor demand for higher value properties with strong tenant convenants. Both premises have large multinational tenants on long-term leases.

A 2,916m² building at 33 Jarden Mile on a 5,575m² site with high profile exposure to the Hutt motorway sold for $5,208,333 at a 7.2% yield. B.J. Ball Limited, in occupation since the building's completion in 1990, has entered into a new 10-year lease from March 2014.



Source: IPD, Property Council NZ

14 Tyers Road... one of two substantial Ngauranga sales over the past two years at yields of under eight percent. Below, Seaview property which sold for $4,183,000.

At 14 Tyers Road, a 2,732m² industrial building on 8,642m² sold for $4,480,000 at a 7.9% yield. The former Fisher & Paykel premises is leased to ACM NZ Ltd for 12 years from April 2010.

Secondary grade investment premises, particularly those featuring older buildings, have been much harder to sell. There is evidence, however, of add value purchasers looking to secure land holdings in order to position them for future development while benefitting from a holding income in the short term. The sale of 138 Hutt Park Road in Lower Hutt illustrates this approach. The property which is returning a rental of $279,000pa has 5,450m² of old, low-stud workshops but on a high profile site of 9,230m² within Gracefield. The purchase price of $1,600,000 largely reflects land value, with the purchaser securing long-term development options. ←