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Buyers still see strong opportunity in Auckland's industrial property

Despite recent changes in the property market, there remains strong appetite from the investment community for industrial and related assets - potentially over any other asset class, CBRE industrial and logistics experts say.

Bruce Catley, managing director of capital markets, industrial and logistics at CBRE, says that despite the current challenging environment, both investment capital and lenders are still pursuing opportunities and prime industrial remains one of the most highly sought-after asset types.

However, the challenge - and the opportunity - centres around pricing levels as buyers, sellers, tenants and landlords grapple with a much-altered playing field, he says.

"A key theme in the wider commercial property market now is the search for a meeting of the minds, where both buyers and sellers shift to a general acceptance of the inflationary and rising interest rate environment and consequential pricing. We believe this will see more investment opportunities coming to the market in 2023."

James Appleby, director of capital markets, industrial and logistics at CBRE, says given the uncertainty around where yields, inflation and interest rates will stabilise, the natural reaction from vendors is to wait it out.

"At the same time purchasers are trying to form a view on current yield levels, particularly as rental growth is captured. With no significant industrial transactions in Auckland for the past several months, there isn't a lot to go on."

The key certainty for purchasers is that debt is getting more expensive, which is resulting in a significant amount of capital searching the industrial market for add-value opportunites over purely passive acquisitions, says Catley.

"This creates an opportunity for those vendors who have accepted that the market has changed and that the extremely low yields reached in 2020 and 2021 are unlikely to be seen again, as we shift well away from that abnormally low yield, interest rate-driven point in the cycle."

The most significant investment and development land sales in the Auckland industrial market from 2020-22 were negotiated by CBRE and achieved market-leading yields.

In May 2022, 2.3ha of industrial land on Great South Rd sold for $47.25m ($2000/sq m), while in November 2021, 35 Hugo Johnston Drive sold to Goodman for $60.5 million, representing a 3.75 per cent yield. In April 2020, the $188 million sale of Toll's freight forwarding terminal in Ōtāhuhu to Logos was concluded at a 3.65 per cent yield.

CBRE and Savills also acted for Fisher & Paykel Healthcare on its recent agreement to acquire a 104ha site in Karaka for $275 million, conditional on Overseas Investment Office approval. If approved, it will be the highest value un-zoned land sale ever achieved in Auckland.

The CBRE capital markets, industrial and logistics team is also involved in three other large-scale land transactions currently being negotiated, totalling over 60ha of future urban and industrial zoned land, Appleby says.

Prime industrial-zoned land in and around Auckland continues to be sought-after due to its scarcity, although the cost of development is creating some pricing pressure, according to CBRE.

"Industrial zoned land continues to be sought after due to its scarcity, although development economics are creating some pricing pressure in this sector of the market."

CBRE Research reports yields for prime industrial property were 4.78 per cent as at September 2022, representing an increase of 67 basis points over the past year.

CBRE New Zealand head of research Zoltan Moricz says while this is a significant increase, prime industrial yields remain lower than both prime CBD office property (5.33 per cent) and prime CBD retail (5.4 per cent).

Average prime industrial rents were $178/sq m at September, up 20.3 per cent over the past year.

This is the result of very limited vacancy, ongoing strong demand and quickly escalating development costs.

"While rental growth at this level is unsustainable into the longer term, CBRE's projections indicate that industrial property will still provide investors with an attractive long term rental growth rate," he says.

Catley says CBRE has continued its ongoing engagement with major capital sources during 2022. A key change this year is the re-emergence of private capital, with institutional money moving to the sidelines.

"Private capital is moving to the forefront, having been outbid by institutions and syndicators over the past couple of years. Now, interest rate pressure is causing some institutional buyers to take a more cautious approach to acquisitions.

"These groups are likely to return to the market from next year, once price expectations on the sell side and buy side move closer together."

North American capital is also now looking more closely at opportunities in New Zealand, given the current weakness in our dollar, he adds.

As is the case in any market downturn, a flight to quality has resulted in prime, well-located industrial property being most desirable to buyers, whether private or institutional. Portfolio owners planning to sell in this environment need to consider this when deciding which assets to divest, as secondary stock is more likely to stagnate on the market.

Another ongoing trend apparent since the beginning of 2020, in part due to strong prices, is an increase in sale and leaseback deals, Appleby says.

"We are engaging with a number of industrial property owner occupiers about sale and leaseback potential into 2023.

Bruce Catley

James Appleby

Zoltan Moricz

Pricing has altered, but the drivers have also changed. Many business owners facing staff shortages and other cost pressures are looking to invest in technological innovations to achieve a better level of operational automation, Appleby says.

"Selling their land and buildings and continuing to occupy them on a long-term, well-structured lease is in many cases a highly attractive proposition, freeing up capital to reinvest in their business and achieve greater efficiencies."

– Article supplied by CBRE