

# Industrial Property Christchurch

**Introduction**

This electronic news bulletin culminates the latest industrial property market news and focuses on Christchurch. The overview is followed by analysis of land demand.

**Christchurch Industrial Property Outlook**

- The Christchurch industrial market has always been a steady performer and will remain a good investment as part of a diversified portfolio.
- Overall values have peaked at this stage of the property cycle reflecting similar trends in Wellington, Auckland & overseas.
- Yield gaps will widen between the property classes.
- Quality is now more important and strength of tenant and lease term paramount.
- There remains a shortage in land supply which may be alleviated with the ongoing development of the Regional Policy Statement (RPS), and private plan changes requesting rezoning of significant sites in the western areas.
- With reducing capital values in the longer term and reduced prospects of rent growth, and construction costs continuing to rise, pressure will be put on land values to decrease in the short term. However, the counter balance is a continued shortage of available land in sought after locations.

**Table 1. Key Performance Indicators**

	Property Class	
	Prime	Secondary
<b>Land Value</b> (\$/sqm)	\$350 to \$450	\$215 to \$280
Trend YTD	▲ / ▼	▲ / ▼
<b>Rental Range Net</b> (\$/sqm)	\$85.00 to \$110.00	\$60.00 to \$80.00
Trend YTD	▲	▲ / ▼
<b>Yield Range</b> (%)	7.25 to 8.25	7.75 to 9.00
Trend YTD	▲	▲
<b>Vacancy</b>	Very Low	Low
Trend YTD	▼	▲

Increase in values	▲
Decrease in values	▼
Values stable	▲ / ▼

**New Developments**

An identified shortage of small industrial stock around 150-350 sqm, saw construction of such warehouses over the last 2-3 year period. There remains good demand for larger warehouse/distribution type buildings. While there may be demand, investors are giving greater weight to due diligence, banks have tightened up their lending criteria, institutional investors are reviewing current stock and are far less active. Incomes need to stack up with debt servicing. No longer are values being influenced to the same extent by expected capital gain.

**Tenant Demand Overview**

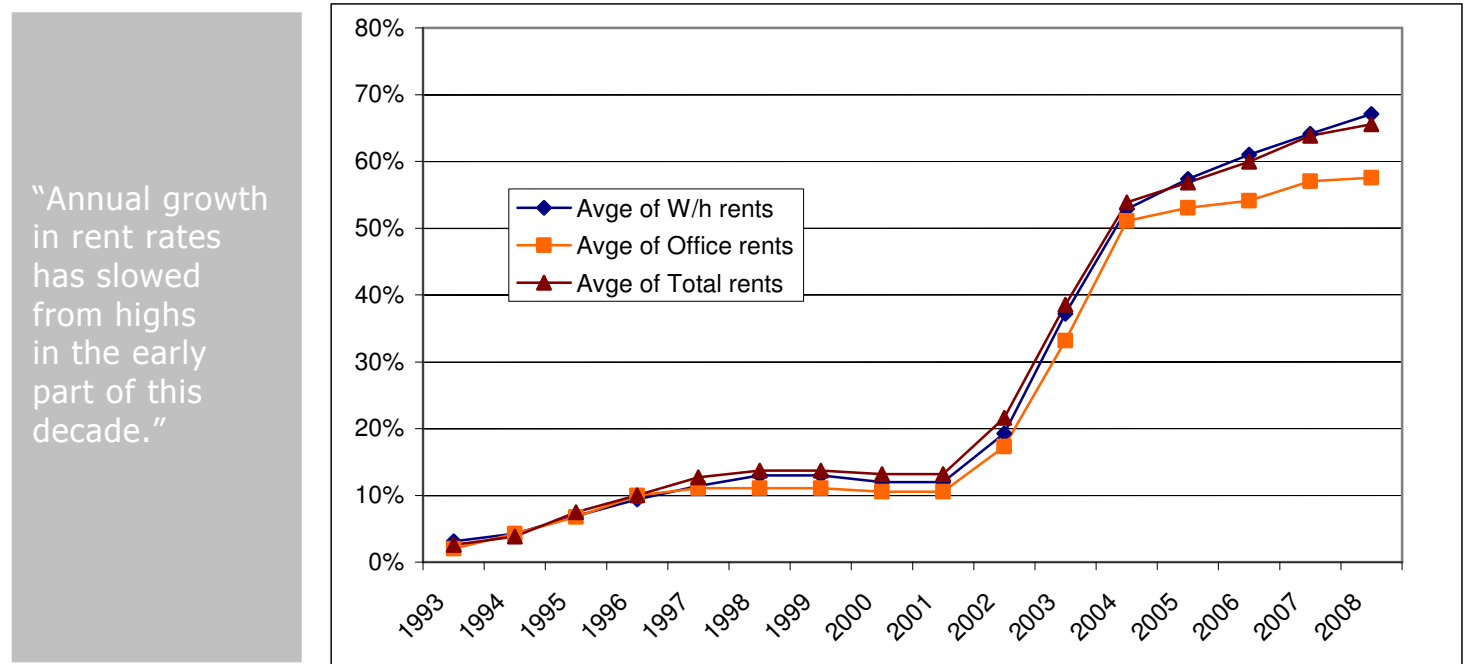
Market activity reduced early this year, reflecting uncertain market conditions. Enquiry has gained momentum during the last 2-3 months. The leasing market has stayed buoyant in part due to debt being more difficult to obtain, high interest rates and increased construction costs. Tenants are preferring new, functional premises to older and cheaper stock, and it has been more difficult to find tenants for poorer quality properties. Demand continues for functional 6m+ stud, standalone warehouses.

Annual growth in rent rates has slowed from highs in the early part of this decade. Pressure on rents will come from increasing costs of providing good quality modern premises and availability of credit. Conversely with an economic slowdown, tenants will increasingly be looking at their cost structures and in some cases rent increases will be unaffordable.

**Table 2. Sample new leases in the rental market**

Property	Tenant	Date	Rate*	Area (m <sup>2</sup> )					
				Warehouse	Showroom	Office	Surplus Land	Canopy	Car Parks
185 Antigua Street <b>Christchurch Central</b>	Cemac Southern	Aug	\$100	110.7	249.76	33	-	-	6
5 Canada Crescent <b>Hornby</b>	Pipe & Infrastructure	Jul	\$65	875	-	-	-	-	-
20 Senior Place <b>Bromley</b>	Sandvik NZ	Jun	\$103	820	-	115	-	-	16
75 Barnes Road <b>Redwood</b>	Elldex Packaging	Apr	\$85	1,129.10	-	48.3	792	-	20
Glassworks Industrial Park 55 Shands Road <b>Hornby</b>	Fisher & Paykel	May	\$80	3,500	-	400	-	290	30

**Graph 1. Cummulative Growth % Christchurch Industrial Rentals**



**Investor Demand Overview**

For the investor, there remains a shortage of good quality functional industrial properties in most size ranges, however patient bargain hunters may take advantage of motivated vendors. The yields have tended to rise some 0.5 % for quality property. Higher yields are required for B, C and D grade investments creating a greater yield gap between these grades. This is a return to more rational market levels following buoyant conditions which saw unsustainable sale prices when considered on the basis of income generation (experiencing low growth) and debt servicing costs (continuing to increase). Consequently, we have seen significantly fewer sub 7 % yield sales in the current market.

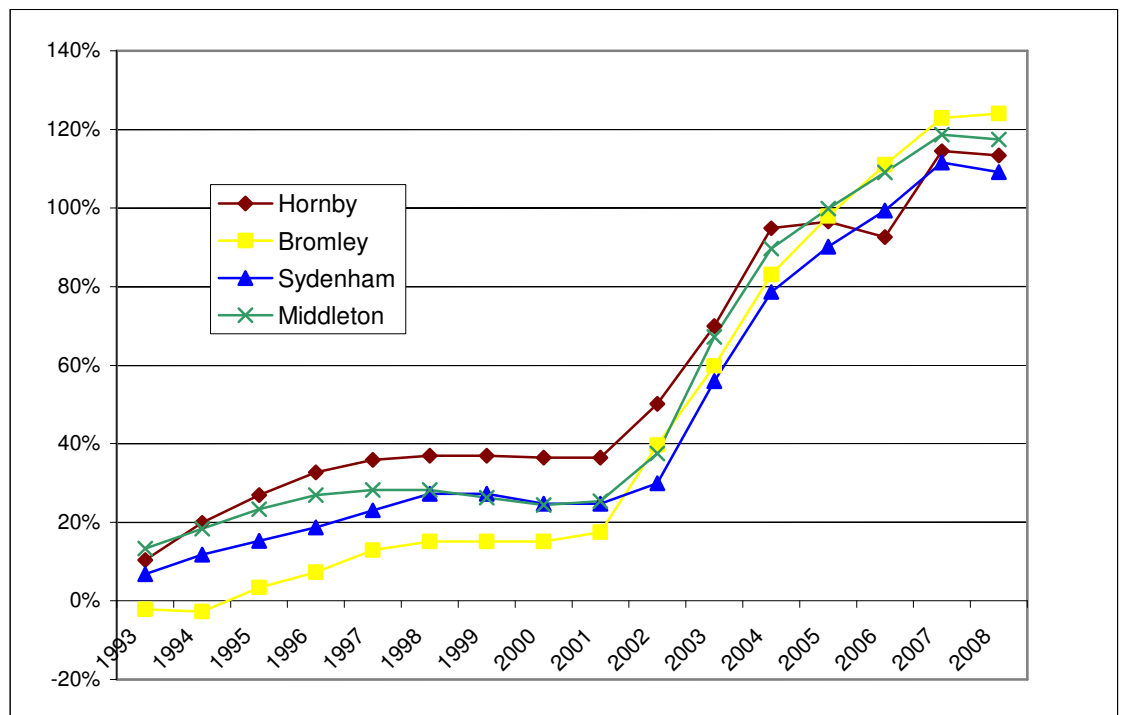
From the national point of view, capital growth has not only reduced for industrial property but also in other commercial property sectors. According to the PCNZ/IPD Property Performance Index June 2008 figures, the industrial property market has softened reducing to a total annualised return @ June 2008 12.5% compared with 16.2% for the same period @ June 2007, mainly due to a reduction in capital growth rates. Capital growth (NZ Industrial) is 4.0 % (March 2008 4.1 %) and the income return is now 8.2 %, unchanged from the March figures and some 10 bps lower than in the December 2007 quarter.

**Table 3. Examples of analysed yields from recent transactions**

Property Address	Date	Price	Yield
49 Shands Road <b>Hornby</b>	Aug	\$1,710,000	7.99%
52 Hickory Place <b>Hornby</b>	Jul	\$1,150,000	7.84%
3 Dalziel Place <b>Woolston</b>	Aug	\$765,000	7.84%
5-9 Hickory Place <b>Hornby</b>	Mar	\$5,125,000	7.77%
214 Main South Road <b>Hornby</b>	Feb	\$3,000,000	7%
18 Tanya Street <b>Bromley</b>	Feb	\$2,100,000	8.89%
20 Kotzikas Place <b>Sockburn</b>	Feb	\$920,000	7.28%
8 Foundry Drive <b>Hillsborough</b>	Feb	\$14,550,000	8.67%

**Graph 2. Cummulative Growth % Capital Values Christchurch Industrial Property**

“We have seen significantly fewer sub 7 % yield sales in the current market.”



### Vacant Land Overview

Vacant Industrial land is in short supply. Much of the existing zoned land available is only available with building commitment. This has been the case for a number of years. A continued shortage has seen land values climb dramatically in the last decade. Current problems in world markets in particular the credit squeeze is affecting the NZ economy and development activity has slowed.

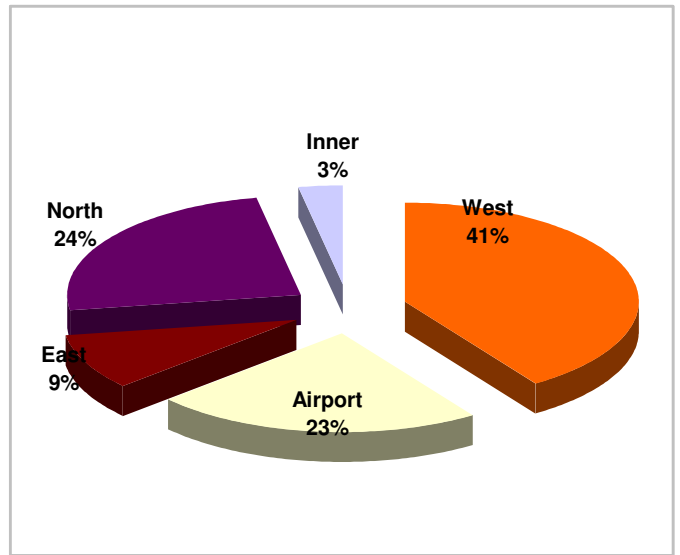
Vacant Land is spread across Christchurch in the proportions shown in graph 3. Demand is illustrated (Graph 4) by averaging the recorded take-up for the regions since 1992 (Airport land take-up p.a. not recorded so estimated by Simes). Demand for land is heavily weighted to the West region. The land availability to the West is not in balance with demand and will be consumed at a proportionally faster rate potentially creating/exacerbating a shortage. These factors have contributed to land value escalations of the past decade. The current economic climate, higher rent rates and much higher construction costs mean land price rises are less likely in the shorter term

### Industrial Land Supply – existing and potential

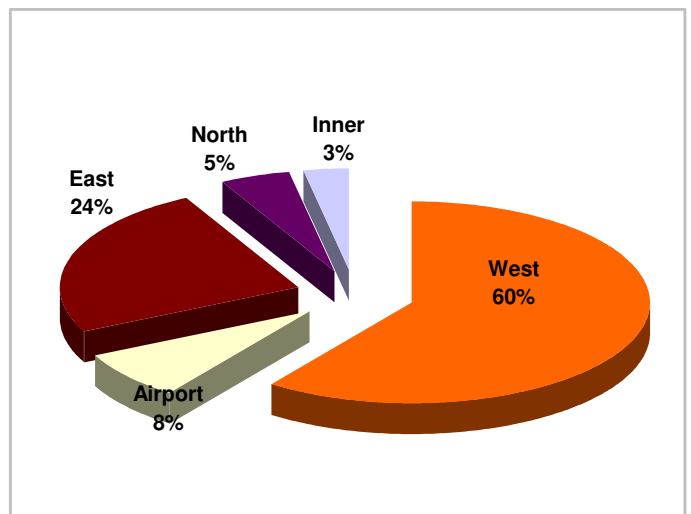
According to the CCC Vacant Industrial Land report released late June 2007, Christchurch currently has 1,838 hectares of industrially zoned land of which 288.3 hectares is officially vacant (not including airport zoned land). Future provision as planned for in the form of the Regional Policy Statement, (RPS) proposes an additional 383 hectares of land be rezoned for industrial purposes within the Christchurch City Urban Limits. A further 113.7 hectares of land is proposed to be rezoned in Rolleston (the existing Izone development comprises approximately 82.5 hectares of zoned land, with approximately 57 hectares vacant, some un-serviced) and Lincoln. This proposed zoning of land may or may not be adopted, depending on the results of planning hearings, due to commence early 2009.

This makes the Christchurch industrial property market the country's second largest after Auckland. However, significant areas of identified vacant land are not immediately available for development due to zoning, ownership or physical constraints. The new land proposed for rezoning will be added over the 35 year planning period, thus not all will be immediately available.

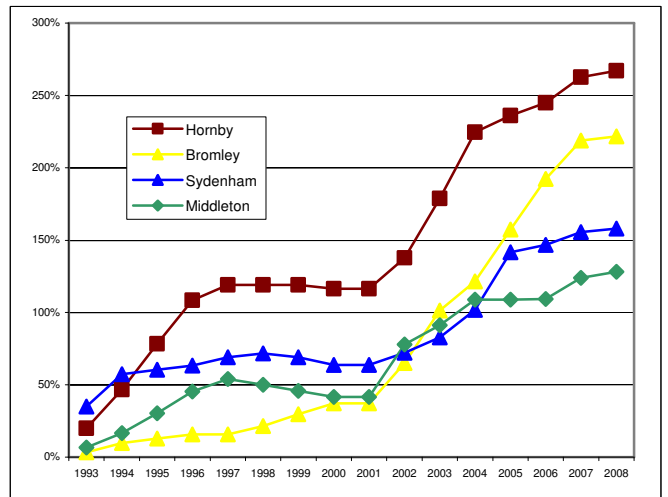
Graph 3. Existing Vacant Land Stock by Region



Graph 4. Property Take-up of Existing Vacant Land Stock by Region (Average 1992-2007)



Graph 5. Cumulative Land Value % Growth by Location



The pie graph includes 238.7 hectares vacant land zoned Special Purpose Airport. We estimate approx 1/3rd or only 80 hectares of this is actually available for industrial type development, and that land is restricted to airport related uses under current planning rules.

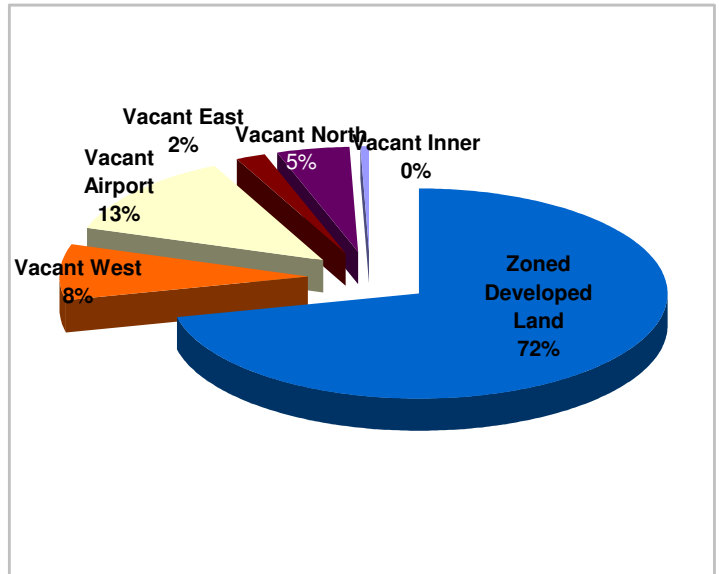
Simes Ltd have physically surveyed the existing vacant land as recorded and we estimate actual and current vacant land stock, as at October 2007, at some 271.6 hectares in the Christchurch region, plus an estimated 80 hectares of Airport zoned land and some 57 hectares in Rolleston. Developments since the survey will have reduced this stock. More land will have been developed since our survey so that the current available vacant land stock is even less.

The West region continues to be the most significant and active, from Blenheim Road to the suburbs Middleton, Sockburn, Wigram, Islington and Hornby. Predominantly zoned Business 4, take-up in the West region averages 65.1%p.a of the total land stock, (excluding Airport) while this west region makes up 52.6% of existing vacant land stock across Christchurch.

**Table 4. Demand and take-up of vacant land**

Take up rates of vacant greenfields land developed p.a. in Christchurch (figures exclude Selwyn district and Airport zoned land) ->

**Graph 6. Current Zoned stock and Makeup**



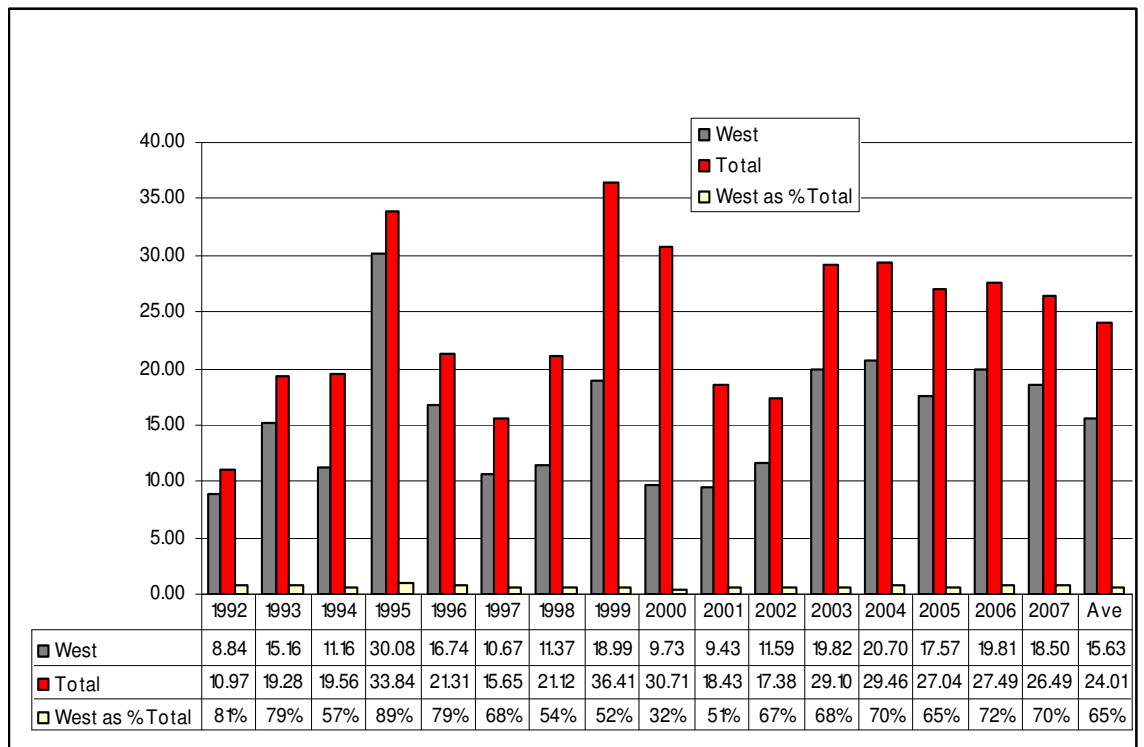
**Table 4**

Take-Up Range	Hectares	
	Christchurch	West Region
1992-2007	19 - 36	8.8 - 30
2003-2007	27 - 30	17.6 - 20.7
1992-2007 (Annual Average)	24	15.6

**Graph 7. Land Takeup West as % of Total City-wide**

“The existing vacant industrial land supply in Christchurch is short in relation to demand.

The West Region continues to be the most significant and active.”

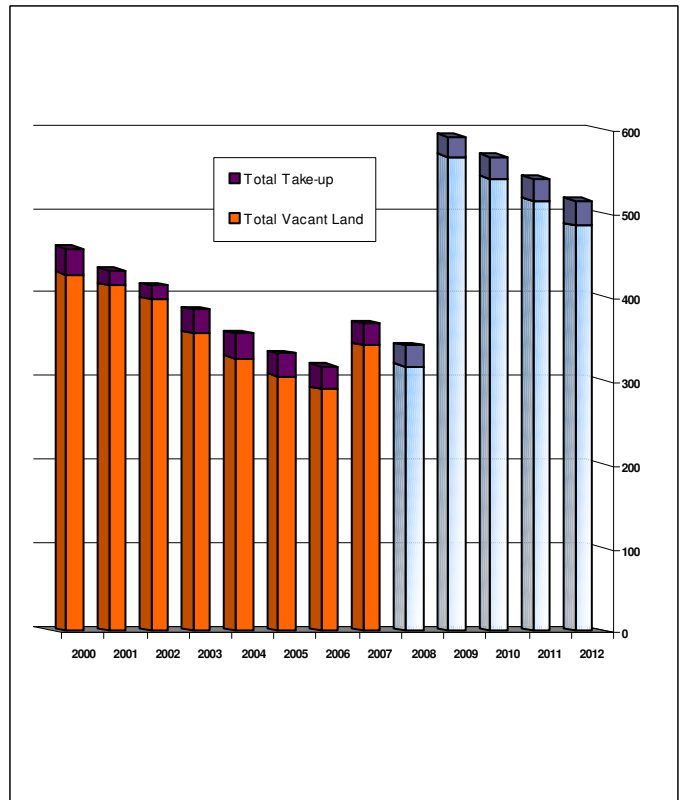


**Analysis: Potential Supply and Demand by Location**

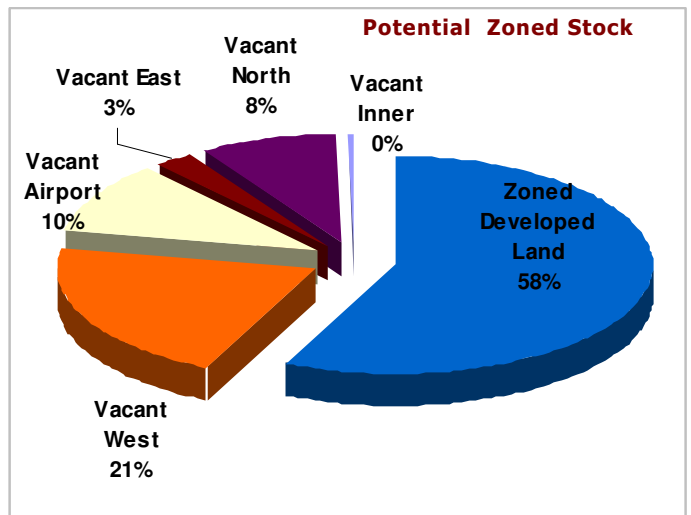
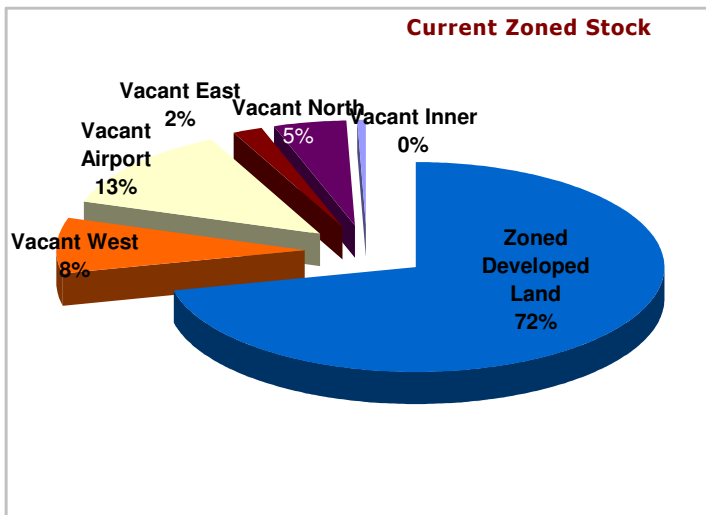
The existing vacant industrial land supply in Christchurch is limited. The total vacant Business zoned land supply is analysed as at October 2007, to be 271.5992 hectares. Subject to planning hearings, zoning changes could add up to 592.7 hectares industrial land in Christchurch including Rolleston. However, our research indicates that this still underestimates the need for vacant industrial land, when considered on a location basis particularly in the western area. It is by no means certain that all the land proposed to be zoned will be included or if other land could be added

The RPS Change No1 as amended by the ECan Officer recommendations would, if fully adopted, add approximately 596.7 hectares to the total Business/industrial land stock. However, for the immediate period to 2016, just 275 hectares is sequenced to be added in Christchurch of which 135 hectares is in the West, 110 hectares is in the Belfast area and a further 100 hectares is proposed in Rolleston. Two significant areas of land which may come on stream next year following private plan changes or RPS hearings include approx 90 hectares at the back of Produce Park, owned by Calder Stewart Industries Ltd, and approximately 73 hectares of land in Islington, former freezing works and currently mostly zoned Rural. Currently the RPS as notified includes only 45 hectares of these two land holdings to be available prior to 2016.

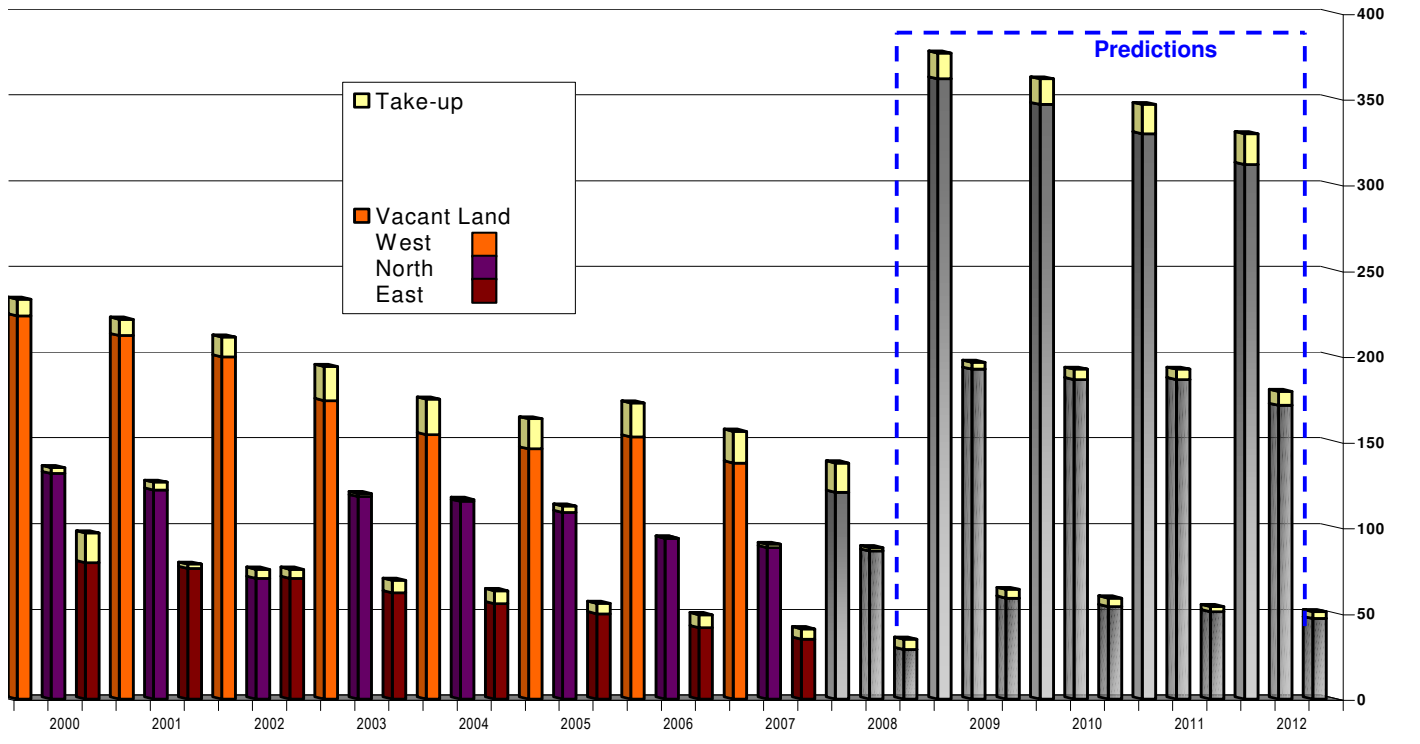
**Graph 8. Christchurch Vacant Industrial Land Stock and Take-up (hectares) – predicted increase supply 2009 due to RPS/Plan Change additions.**



**Graphs 9. Current Zoned Stock & Makeup vs. Christchurch Industrial Property Potential zoned stock and mark-up for next 35 years should all of RPS be adopted. Note land rezoning to be sequenced over the 35 year planning period. (Not all available at once).**



**Graph 10. Analysis: Christchurch Vacant Industrial Land Stock by Key Location & Take-up (hectares) predicted increase in supply 2009 due to RPS/Plan Change additions**



**West**

- Some existing vacant land sites have development impediments –in the short-term creating a land supply shortage.
- Existing vacant land supply as effectively available, in the west location could provide for 6.5 to 7.8 years supply. (excl Airport, Rolleston)
- Business land proposed to be included by the RPS could supply land in the west for 31.2 years of the 35 year planning period, if land take-up continues at current rates. Excluding the sites that we have identified as having impediments to development reduces the land supply in this west location to 25.6 years supply for a 35 year planning period.
- West location remains the prime location for industry to locate.
- Potential competition will come from new industrial land in Rolleston, and a proportion of that land zoned Special Purpose Airport.

**North**

- Take up of land in the north has been historically slow due to B6 zoning, much being owned by Ecan and only available for lease, lack of services and ownership constraints. The average annual take-up represents only 5.2% of the Christchurch total.
- A large proportion of the vacant land is in the Kainga locality, zoned B6, is vested as Environment Canterbury land (38.4 hectares), held for river protection works and is unserviced.

- Historic take-up rates suggest that the land in the North sector is not sought after for development, due to leasehold tenure, low profile of Belfast sites held as large blocks by the Freezing Works historically unavailable for development/ redevelopment.
- New land proposed to be zoned under the RPS will be more suited to development where it is located on main roads at the northern limit of the Christchurch built up area and adjacent to the proposed motorway extension.
- Potential opportunity for significant development in the north of Christchurch around Belfast.
- Insignificant historic take-up rates in the North indicate that on a locational analysis, more than sufficient land is proposed to be provided for this area.

**East**

- Comprises approx 32 hectares of vacant B4 and 5 zoned land, incorporating Opawa, Woolston, Ferrymead and Bromley. Much of the land is held in small parcels with existing old housing stock in place, acting as an impediment to development.
- The vacant land in this area has reduced by some 50% in the last 8 years.
- There is limited land available to be added to the supply, and such land that is proposed to be added is in single ownership and with some constraints due to amenity values in the area.
- A short land supply will likely result in more redevelopment of brownfields sites.

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For more information contact:

**Will Blake**

03 377 1460 | 027 229 7427

[will.blake@simes.co.nz](mailto:will.blake@simes.co.nz)

### About The Author – Fiona Stewart

Fiona is a Registered Valuer with Simes Valuation Research and Consulting Division and has over fifteen years experience in the property industry providing strategic advice for internal and external clients, as well as contributing to various regular and topical research pieces in relation to the industrial market.



For more information contact:

**Fiona Stewart**

03 377 1460 | 027 485 2145

[fiona.stewart@simes.co.nz](mailto:fiona.stewart@simes.co.nz)

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