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Land shortage underpins land value appreciation in Wellington industrial market

Wellington (November 2007)

The general land shortage of the industrial market has been reflected in continued land value appreciation according to the latest research undertaken by CB Richard Ellis.

During the September quarter, Grenada North and Porirua land values have appreciated by 9.5 per cent each. Plimmerton and Seaview increased by 6.6 per cent and 5.1 per cent respectively.

“Constrained supply of industrial land has kept upward pressure on land values. Compared to September 2006, land price has gone up by double digits in most suburbs” said CBRE Wellington Research Analyst Frank Fa.

By area, Grenada North’s land values have increased the most, having increased by 26.1 per cent since September 2006.

A rarely found vacant site of 773 square metres on Kaiwharawhara Road sold for \$815 per square metre in June.

Director of Research at CB Richard Ellis, Zoltan Moricz commented that the high prices realised recently for industrial land reflect the degree of demand for development sites within close vicinity to the city.

“With more development land coming on stream, for example Heriot Drive and Raiha Street in Porirua, the rapid growth in land experienced in the last two years is likely to ease,” noted Mr Fa.

However, Mr Fa said that increased development activity in Wellington is creating extra industrial capacity.

The development pipeline comprises a number of small to medium sized industrial projects spread over the Wellington region, with Seaview/Gracefield being the busiest precincts.

“This development activity should be beneficial in setting some new rental benchmarks at the top end of the industrial market to drive medium term rental growth,” Mr Fa said.

According to CBRE research, Secondary industrial rent growth exceeded Prime industrial rental growth by a large margin.

During the September quarter, Secondary industrial rents grew by 6.1 per cent to \$85 per square metre (net), whereas Prime rents rose by 2.5 per cent to \$113 per square metre (net) over the same period.

Prime and Secondary yields both firmed strongly during 2007, but have remained stable in recent months commented Mr Moricz.

“Over the past year, Secondary yields out-performed Prime yields, firming by 72 points as opposed to Prime’s 65 points,” said Mr Moricz.

In the Secondary market, a multi-tenanted property at 34 Seaview Road sold in September for an 8 per cent initial yield, and two well-tenanted high-stud warehouses in Paraparaumu and an industrial unit in Ngauranga both sold for around 7 per cent initial yields.

Due to the lower economic growth environment, Mr Fa forecasts that sale/leaseback transactions are likely to increase, as some owner occupiers elect to free up capital for business use.

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