BAYLEYS | RESEARCH COMMERCIAL & INDUSTRIAL

INFRASTRUCTURE SERIES 2019 | ISSUE 2

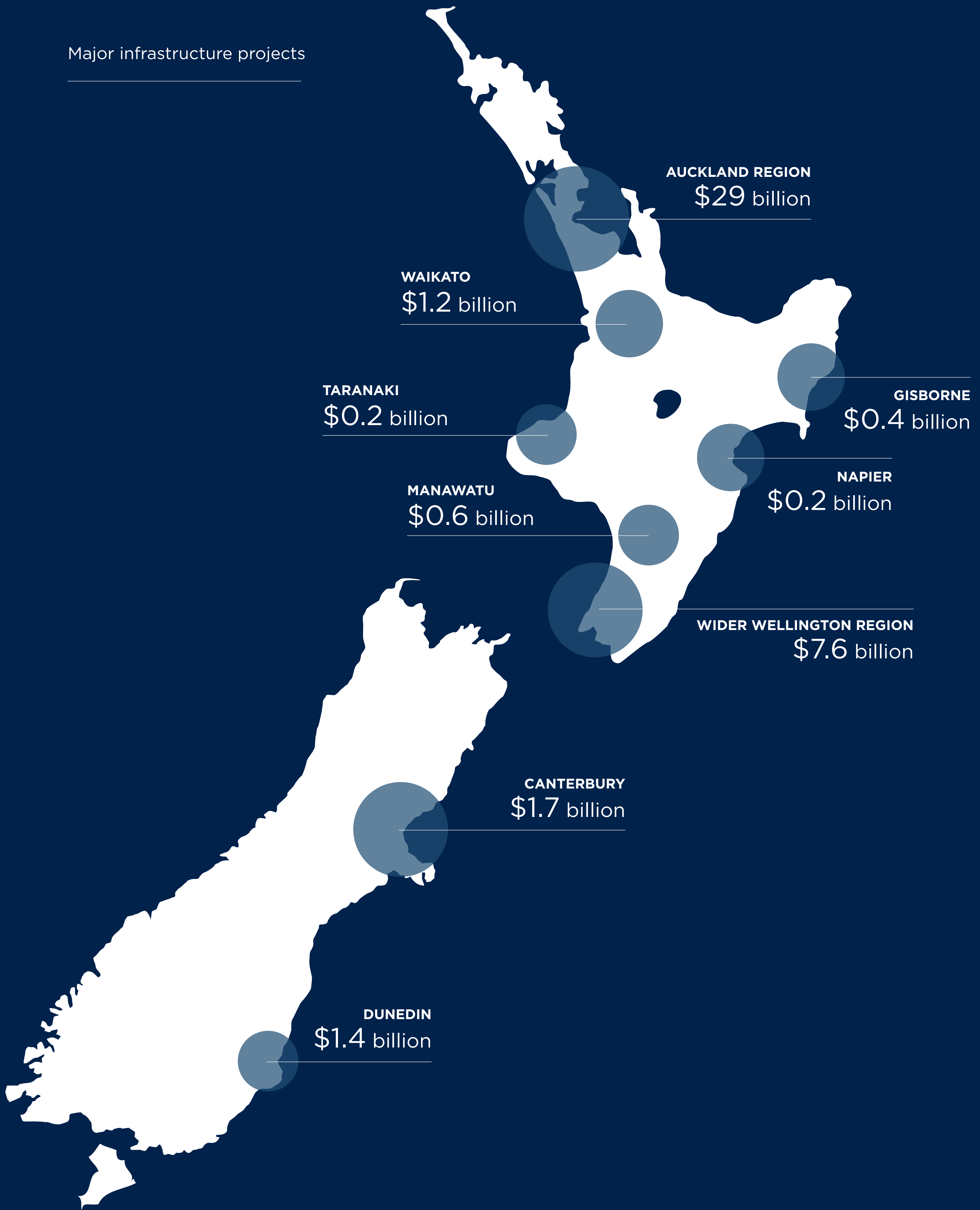
NEW ZEALAND INFRASTRUCTURE DRIVING REAL ESTATE OPPORTUNITIES

BAYLEYS

IN ASSOCIATION WITH Knight Frank

Sustained underinvestment in New Zealand's core infrastructure is triggering a wave of catch-up projects aimed over coming years at either replacing or significantly enhancing the country's critical infrastructure assets. From a real estate perspective these large infrastructure projects have the potential to generate multiple opportunities for both developers and investors going forward.

Major infrastructure projects



Source: Bayleys Research

New Zealand infrastructure in desperate need of upgrading

New Zealand's existing infrastructure assets are struggling to keep up with recent high levels of population growth and increased demand. Significant underinvestment over many decades has compounded the problem and will require an unprecedented level of investment to catch-up. By Treasury's own estimates NZ$129bn of capital spending on infrastructure will be needed over the next 10 years, and this may not be enough!

In order to address the challenges the Government has recently set up The New Zealand Infrastructure Commission – Te Waihanga with the purpose of coordinating, developing and promoting an approach to infrastructure that improves the wellbeing of New Zealanders. As part of this process an Infrastructure Transactional Unit will also be established (effective November 2019) which will be responsible for procurement and delivery of infrastructure projects via public-private partnerships. This will provide greater certainty and clarity as to the timing of major projects mitigating growing concerns by the construction sector and others in managing gaps in the development pipeline.

Timing is right

A unique combination of influences has created a compelling argument for the launch of a wider ranging and long term infrastructure programme.

- Years of underinvestment alongside record population growth has created a significant infrastructure shortfall
- A surge in infrastructure spending would bring fresh momentum to a slowing economy in the short term while laying the foundation for sustained growth in the future
- Historically low interest rates have made funding projects via debt more affordable and more attractive
- The search for yield and diversification opportunities has made investing in infrastructure appealing to national and international superannuation funds, increasing opportunities to fund projects via public-private partnerships

What's in the pipeline

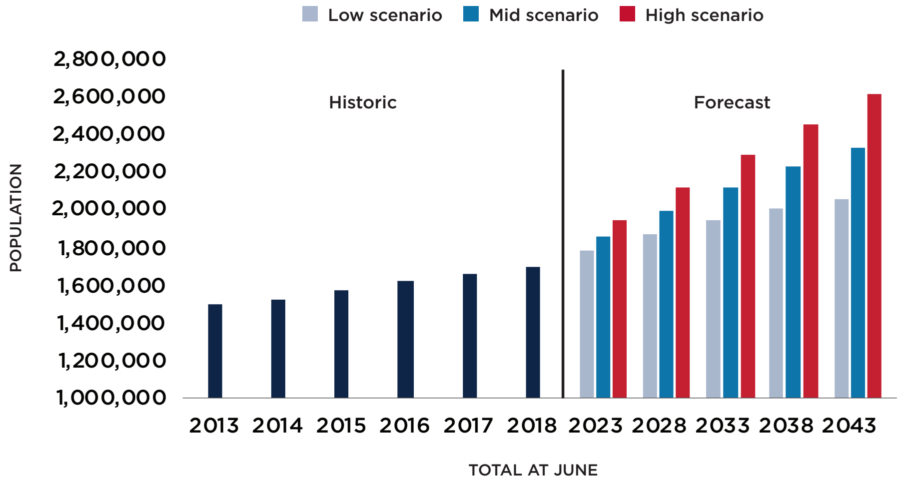
Table's one and two highlight 34 larger infrastructure projects totalling circa NZ$44 billion either underway or planned to commence in New Zealand over coming years. The majority, around three quarters by value, relate to either road or rail projects. Not surprisingly two thirds of the projects by value are located in New Zealand's largest urban area, Auckland, which has recorded significant population growth over the past few years. As a destination Auckland's desirability as a place to live will continue to attract migrants (as will New Zealand generally). This is already being reflected within a growing number of global ranking surveys.

New Zealand and Auckland on the global ranking stage

Ranking	Award	Source
3rd	World's most liveable city (Auckland)	Mercer Quality of Living Survey 2019
4th	Expat's best countries in the world to live in	Lonely Planet 2019
5th	Most reputable country	Reputation Institute 2018
5th	Best country to do business	Forbes 2019
6th	Most friendly city (Auckland)	Travel and Leisure 2019

Statistics NZ expects Auckland's population to grow by almost a million people over the next 25 years to circa 2.6 million (high scenario). New Zealand, as a whole, by as much as a further 1.7 million people to up to 6.5 million. If achieved, this level of population growth on its own would require a significant amount of new infrastructure.

Auckland population trend



Source: Statistics NZ

Table 1

PROJECTS CURRENTLY UNDERWAY	Type	Estimated cost NZ$m	Estimated Completion
NEW ZEALAND WIDE			
Ultrafast broadband roll-out	Telecom	2,200	2022
AUCKLAND			
City Rail Link*	Rail	4,400	2024
Auckland Airport (part of long term expansion plans)	Aviation	2,000	2022
Waikato Expressway Auckland to Cambridge	Road	2,000+	End 2021
New Zealand International Convention Centre	Event facility	703	Mid 2020
Puhoi to Warkworth motorway*	Road	700+	End 2021
Auckland Northern Corridor*	Road	700	Mid 2022
Auckland Southern Corridor improvement*	Road	317	End 2019
WAIKATO			
Waikeria Prison	Justice	500	2022
WELLINGTON			
Transmission Gully	Road	850	2020
Peka Peka to Otaki Expressway (Kapiti Coast)	Road	330	2021
CANTERBURY			
Te Pae – Christchurch Convention Centre	Event facility	475	Late 2020
Metro sports facility	Sports	301	2021
Christchurch Northern Corridor	Road	240	Mid 2020
Christchurch Southern Motorway stage 2	Road	195	Mid 2020

* Committed project (part of NZ$28bn Auckland Transport Alignment Project - ATAP over next 10 years)

Table 2

PROJECTS PLANNED	Type	Estimated cost NZ$m	Estimated Completion
AUCKLAND			
Auckland central interceptor	Water	1,200	2025
SH1 Papakura to Bombay (stage 1)	Road	300+	2020
Auckland Transport Alignment Projects			
Light Rail (city to airport, northwest corridor)	Rail	16,700	TBA
Eastern busway (Panmure-Botany)	Road		
Airport to Puhinui motorway upgrade and improvements	Road		
Eastern West Link (lower cost option)	Road		
Pukekohe rail electrification and new electric trains	Rail		
Papakura to Drury motorway widening	Road		
Mill Road (First phase)	Road		
Penlink toll road and Albany to Silverdale bus improvements	Road		
WAIKATO			
Southern links - Hamilton	Road	600	>2021
New rail service: Auckland to Hamilton	Rail	92	Mid 2020
MANAWATU			
Te Ahu a Turanga: Manawatu to Tararua highway	Road	620	2024
GISBORNE			
Tairawhiti land transport upgrades	Road	369	2021
NAPIER			
Napier Port – six wharf development	Port	180	2022
TARANAKI			
Mount Messenger Bypass	Road	200	2022
WELLINGTON			
Let's Get Wellington Moving	Transport	6,400	Next 30 yrs
CANTERBURY			
Multi-Use Arena Christchurch	Sport/ Entertainment	470+	2023
DUNEDIN			
Dunedin Hospital	Health	1,400	2028

Source: NZTA, media, various

Global trends driving demand for new infrastructure

Population growth

Technological changes

Ageing of existing infrastructure assets

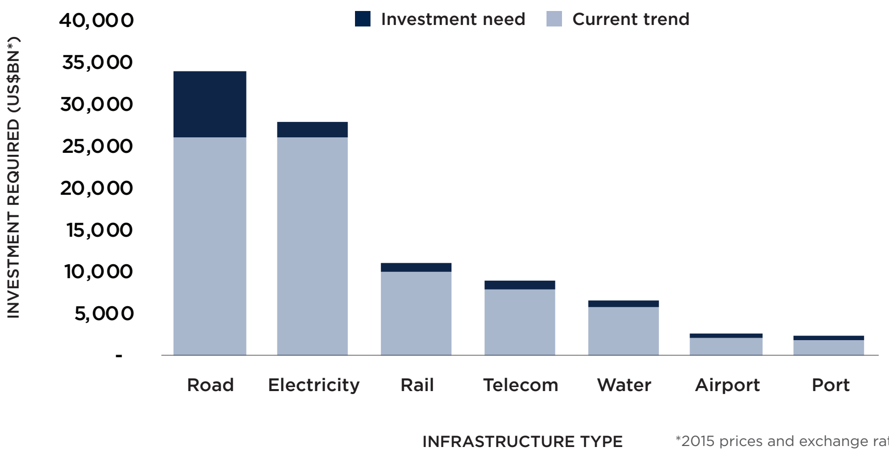
A growing need to respond to climate change

Research from Global Infrastructure Hub (GIH) suggests the need for infrastructure investment is forecast to reach US$94 trillion by 2040 with roads and power utilities making up the lion's share of need.

GIH's analysis also highlights a shortfall of almost US$15 trillion between projected investment and the amount needed to provide adequate global infrastructure by 2040.

Global infrastructure investment requirement

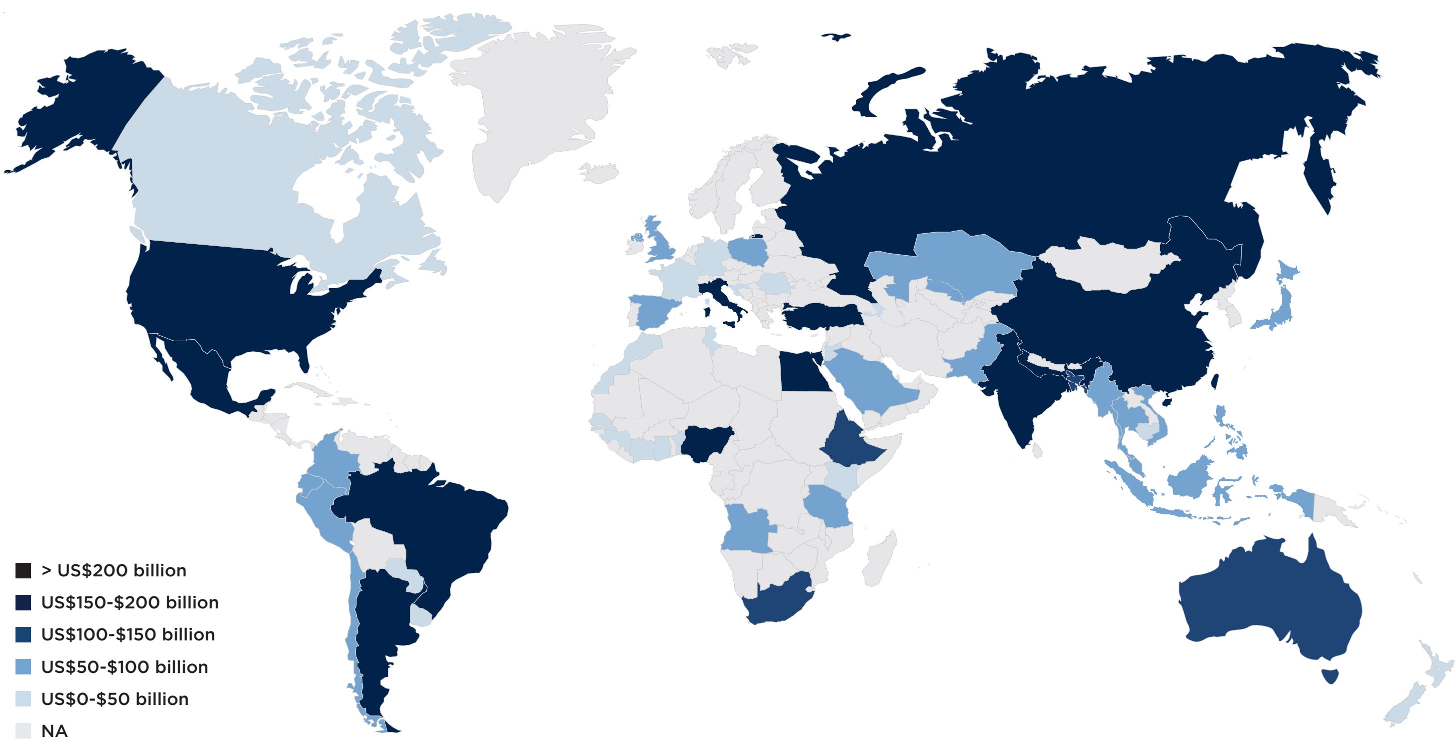
2016-2040 cumulative



*2015 prices and exchange rates

Source: Global Infrastructure Hub

Total forecast infrastructure investment gaps 2016 to 2040



Source: Global Infrastructure Hub (US$'s), Infrastructure NZ

Infrastructure spend as a global buffer

Importantly, ramping up infrastructure spend in New Zealand could well buffer the country from a growing list of issues affecting global growth at present, be they trade wars, Brexit or other political shocks. Until now most central bankers have been aggressively using monetary policy levers to stimulate economic activity. But as interest rates fall ever lower the economic punch they generate also weakens. Another option, suggested by Philip Lowe (Australia's Reserve Bank Governor) at a recent Central Bankers symposium is to use fiscal policy through extra spending on "quality infrastructure". This option could boost aggregate demand and support future productivity at a time when funding such projects using debt has never been cheaper.

Driving investment opportunities

Road upgrades and developments, in particular, have historically generated a significant multiplier effect by making areas more accessible, boosting economic activity and attracting more people and jobs. A 2012 study by the Federal Reserve Bank of San Francisco showed that on average every US$1 of road infrastructure spending boosts the economy by US$2. In fact the multiplier increases by more than two times during periods of softer economic activity.

The sheer scale of funding required is unlikely to be met by governments alone and will require additional sources. One promising source of capital are sovereign wealth/pension funds who have a ready appetite for defensive investment opportunities that deliver attractive, consistent returns and provide diversification benefits to their asset allocations. The public-private partnership model is one that is likely to be increasingly used, particularly for larger infrastructure projects.

Infrastructure benefits

Better infrastructure makes it easier to do business as the cost of transportation, communication, energy and water usage all decrease. Improving transportation infrastructure, in particular, increases a country's potential for future economic growth and this takes many forms. For example:

Mass public transport is increasingly being viewed as a priority investment, especially within urbanised areas. High-quality, high capacity, safe and affordable public transport is being seen as the only way for congested cities to accommodate sustained and sustainable growth.

Improved road and rail infrastructure facilitates the movement of goods and services from initial to final destination points improving travel times and productivity. Improved port and airport connectivity to major road and rail links is critical in this process.

Strong knock-on effect onto real estate

Not only does investment in infrastructure feed economic activity and job growth it also acts as a catalyst, having significant knock-on effects to surrounding real estate. Improved road and rail networks, strong telecom systems along with efficient and affordable utilities (electricity, water) are all viewed as fundamental to most real estate developments, whether they are residential or non-residential.

Infrastructure type	Potential real estate opportunity
Road	• Distribution and logistics facilities close to off-ramps of new arterial roads/motorways • New greenfield residential subdivisions • Further new office/retail/mixed-use development as residential population grows • Upgrading of existing business centres due to improved travel times
Rail	• Inner-city rail – new higher density residential and mixed-use/retail space in or within close proximity of metro stations • Suburban rail – emerging new residential and commercial precincts • Catalyst for development of new inland freight ports, business/industrial parks
Sea/Air Ports	• Clustering of logistics and distribution facilities within immediate proximity to key import/export locations • Tourism (via air, cruise ships) could support additional retail, food and beverage offerings
Health	• New hospitals could generate demand for specialist support housing (retirement villages, visitor accommodation, medical staff accommodation) within close proximity • Complementary specialist private medical facilities
Tourism/Hospitality	• Tourism destinations supporting new visitor accommodation, new retail and food and beverage offerings

'Timing' is one of the biggest challenges for real estate developers and investors wanting to benefit from infrastructure. Typically a significant amount of time lapses from announcement to completion, or even the start of construction. Reasons for delays include finance availability, regulatory approvals, consultations, environmental issues, changes in local and central government. In many cases rezoning mechanisms may also be required to fully capitalise on the impact of infrastructure.

In short, each real estate opportunity is unique and would need to be assessed on a case-by-case basis in order to maximise demand and end value.

Ryan Johnson
National Director - Commercial & Industrial
ryan.johnson@bayleys.co.nz
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Ankur Dakwale
Bayleys Research Analyst
ankur.dakwale@bayleys.co.nz
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0800 BAYLEYS
bayleys.co.nz/research