Actions and reactions

Inflation and interest rates remain pesky handbrakes on the commercial and industrial sector but we expect to see more action on the sales front this year.

RYAN JOHNSON
BAYLEYS NATIONAL DIRECTOR
COMMERCIAL AND INDUSTRIAL

With 130 new commercial and industrial property offerings across the country, this edition of *Total Property* rounds out the financial year and gives us an opportunity to further reflect on the market.

What has become very clear is that trying to second-guess the Reserve Bank of New Zealand or the "Big Four" banks' decision-making comes with many opportunities to stumble.

To a large extent, we can only play the ball immediately in front of us because beyond that, it gets a bit murky. Has inflation peaked, will interest rates track down this year, have valuations found their floor and commercial rents a ceiling?

The most recent announcement by the RBNZ to hold the OCR at 5.5 percent was less hawkish than many predicted but with headline inflation still well above the one-to-three percent target band, I'm leaving the rose-tinted glasses off – for now.

That OCR no-change seems to support interest rates remaining higher for longer – and it's the longer bit that's important.

While in itself the OCR level doesn't make too much material difference to the commercial property market, what is compelling is the percentage of non-performing commercial loans as a percentage of total commercial loans.

Latest data shows that figure has climbed from around 0.20 percent midway through last year to one percent at the end of February 2024. In context, that one percent may not look so bad, but the direction sharply north is of note.

Admittedly we were coming off a very low base, but some banks have started to reduce their exposure to commercial lending and we could see heavily indebted investors with significant valuation falls needing to rejig portfolios or even exit the market this year.

Balance sheet management is pivotal for all commercial and industrial property owners regardless of size, debt-loading and location.

While nowhere near the valuation declines seen post-GFC, listed property development business Precinct Properties recently cited valuation falls of seven-to-eight percent across its portfolio, leading them to sell some property assets, seek some alternative sources of funding, form new capital partnerships and enter the residential development space which is a swing away from its usual commercial precinct focus.

There will be lessons for every property investor from these moves by an astute, innovative and dominant listed player with broad exposure in the market.

The message is we can't afford to simply navel gaze in the current property market, or just get wound up in the endless monetary policy versus inflation data whirlpool where even seasoned economists and those at the banking frontline can't agree on outcomes. Proactive steps to manage debt levels and get set up for the next cycle are required.

On the transaction side of our commercial and industrial business in the last quarter, we saw the number of sales and the amount of listings rise significantly. Sales in the sub-$20 million bracket were up on previous quarters last year, and there was also a lot of activity in the over $20 million segment of the market.

This demonstrates that the wide bid-ask spread has closed somewhat and vendors have adjusted their pricing more in line with purchasers' expectations. Institutional and global capital is also back in circulation becoming more inquisitive about potential assets for acquisition which signals some early optimism.

On the leasing side, we're noting some downward pressure in the logistics and wider industrial sector as muted domestic retail spending, lessening international trade due to freight costs and tightening of business belts takes effect, along with some plateauing of prime office rents.

In this edition of *Total Property* we look at the concept of walkable cities and what that means for developers, residents, workers and property values. We check in with economist Cameron Bagrie for his take on New Zealand's macro-economic forces and report on market sentiment across our sales and leasing teams. We also look at the Government's new bill aimed to help fast-track consents.

While we won't be launching a "been there, done that" corporate shirt, our clients can take heart in the fact that Bayleys has been around the real estate block for more than 50 years and dips, dives, rebounds and surges are all part of the fabric.

Tougher times mean the toughest get going and our interconnected, market-savvy and industry-recognised team has deep reach and intel to optimise results for you – so don't be a stranger.

WHO ARE WE?

Bayleys is New Zealand's largest commercial and industrial real estate agency and is the only significant national real estate business in this sector of the market that is New Zealand owned and operated.

We operate in a family-founded and values based corporate environment that demands integrity, excellence and results. In today's changing world we continue to innovate and focus on strong working relationships to deliver results that exceed our clients' expectations.

Bayleys have developed a true global partnership with Knight Frank, through our acquisition of their local business and their representation globally. This gives our clients access to a globally-connected network spanning 51 markets. Our closest connections are to the Knight Frank Asia Pacific Group with 9,625 people in 146 offices all working collaboratively to find the right buyer for your property.

OUR INDUSTRY RECOGNITION

#1 RICS

Agency Team of the Year NZ 2020 & 2017
As awarded by the Royal Institute of Chartered Surveyors (RICS) at the RICS Awards.

Industrial Agency Team of the Year NZ 2018
As awarded by the Royal Institute of Chartered Surveyors (RICS) at the 2018 Sales Awards.

#1 REINZ REAL ESTATE INSTITUTE OF NEW ZEALAND

Bayleys is proud to have been recognised at the REINZ Awards for Excellence in Real Estate.

- Large Commercial and Industrial Office of the Year (2018-2022)
- Medium Agency of the Year - All Disciplines (2022-2023)
- Commercial and Industrial Salesperson of the Year (2018-2019)
- Small Business Broking Office of the Year (2019)
- Best Multi-Media Marketing Campaign of the Year (2018 & 2020)

2,500
SALES AND LEASING TRANSACTIONS

$2.8B
OF PROPERTY SOLD OR LEASED

240
COMMERCIAL SALES AND LEASING AGENTS

*For the period 1st April 2022 - 31st March 2023.