



SAFEGUARDING VALUE

OWNERS OF COMMERCIAL AND INDUSTRIAL
PROPERTY NEED TO TAKE PROACTIVE STEPS
TO PROTECT THE VALUE OF THEIR ASSETS.

BACKDROPPED BY KEY TRENDS like an increasingly sophisticated industrial sector, an ongoing flight-to-quality in the office market, escalating construction costs, and heightened sustainability expectations from occupiers and lenders, landlords must ensure the inherent value of their assets is protected now and into the future.

No one wants to own an effectively stranded asset – a property that fails to meet occupier, investor, lender, or legislative standards and essentially becomes unsaleable and/or unlettable.

While for many building owners that may not be an immediate concern, industry experts say it's a fast-moving game and astute forward planning can safeguard property values.

New-build stock that meets current physical compliance thresholds, and which is increasingly overlaid with sustainability benefits has intrinsic value for lending and leasing purposes, however existing buildings need to be thoughtfully maintained and managed – and often repositioned in the market – to remain relevant and financially viable.

Refurbishment programmes informed by occupier preferences and environmental, social and governance (ESG) principles, smart leasing strategies, and sound asset/facility management all have their place and across Bayleys' service lines, the wider team works closely with its clients to optimise a property's value in today's marketplace and beyond.

ALIGNING SPACE WITH OCCUPIER GOALS

Bayleys national director commercial leasing Matt Lamb says there are several crucial factors to consider when structuring leases to enhance the value of a commercial property asset.

"The length of the initial lease term is pivotal as the longer the term, the lower the risk of vacancy, which ultimately increases the value of that property.

"Additionally, annual rental escalation helps align the rental figure with inflation or market fluctuations and is typically by way of fixed annual percentage increases or tied to the consumer price index (CPI).

"Lease security is also important and is standard market practice, with the lease secured against a bank guarantee or bond."

Lamb says there's no room for complacency from landlords, and keeping up-to-date with the latest market trends and maintenance of the property is a given.

"Regular renovations and capital expenditures are necessary to preserve the asset's competitiveness and attractiveness to tenants, as businesses



"REGULAR RENOVATIONS AND CAPITAL EXPENDITURES ARE NECESSARY TO PRESERVE THE ASSET'S COMPETITIVENESS AND ATTRACTIVENESS."

MATT LAMB, BAYLEYS NATIONAL
DIRECTOR COMMERCIAL LEASING

gravitate to quality and prioritise sustainable practices.

"Occupiers want to lease spaces that align with their brand and stakeholder sustainability goals, save on outgoings, enhance employee well-being and productivity, help attract talent, and comply with regulations.

"They value certifications like Green Star, NABERSNZ and Net Zero Buildings, want energy-efficient systems and waste management processes, and place a strong emphasis on amenity to encourage staff into the office.

"It's inescapable – landlords are having to invest in their properties to improve new building standard (NBS) thresholds, upgrade heating and air-conditioning systems, install LED lighting, improve security and access, modernise common areas and provide quality end-of-trip facilities."

Lamb says although there are significant upfront costs for landlords to cater to the raised sustainability ethos, the impact on value is very positive, with

recent statistics suggesting an increase in rental income of three to 13 percent, enhanced yield return, higher occupancy and retention, and lower OPEX.

To help drive sustainability and reduce emissions footprint, the government has proposed amendments to the Building Act to be phased in from 2024, mandating energy performance ratings on bigger scale commercial, public, and industrial property, along with large multi-level apartments, and requiring a waste minimisation plan before any remediation work is undertaken.

EFFECTIVE MANAGEMENT

Bayleys national director property management services Stuart Bent says as responsible investment gains more prominence, assets demonstrating positive environmental responsibility, management and track record will eventually have a competitive advantage and increased value.

"Bayleys Property Services (BPS) has assisted several local and offshore clients on their sustainable development pathways through key initiatives such as Green Star design and in-use accreditations, NABERSNZ energy efficiency ratings, improved waste management, reduced water consumption and solar panel installation," he says.

"These initiatives have helped reduce building operating expenses, without compromise to an enjoyable and healthy workplace, and have resulted in improved asset performance, higher net rental and increased capital value."

Bent says proactive tenant retention strategies are essential in today's market, and BPS works alongside its clients to identify and implement effective tactics.

"It's common for competing landlords to court large occupiers and incentivise



“COMPREHENSIVE AND PROACTIVE CAPITAL EXPENDITURE PLANNING BEYOND THE IMMEDIATE 12 MONTHS CAN HAVE A POSITIVE IMPACT ON LONGER-TERM CAPITAL VALUE.”

STUART BENT, BAYLEYS NATIONAL DIRECTOR PROPERTY MANAGEMENT SERVICES

them with attractive terms to leave their current building and take up alternative space, which can potentially create huge vacancy, loss of rental income and in turn, capital value for the affected building owner.

“Comprehensive and proactive capital expenditure planning beyond the immediate 12 months can have a positive impact on longer-term capital value.

“Detailed lifecycle planning to identify when certain asset equipment may need upgrading to avoid incurring larger, unexpected, and unbudgeted, replacement costs is one example.

“A well-constructed operating expense budget will keep the asset competitive in the market, optimise net income to an owner, and not compromise the overall service delivery and occupancy experience for each tenant.”

It might sound basic, but Bent says having up-to-date documentation such as lease registers and tenancy schedules can make a huge difference to a valuer engaged to assess capital value for an owner, and perception can become reality.

“Poor housekeeping by a building owner creates problems for a valuer, as disclaimers are often then required to account for gaps in record-keeping and lack of clarity around income.

“Likewise, a good track record in compliance and risk management by an owner is crucial as even a publicly-visible expired building warrant of fitness can create nervousness for existing and potential occupiers, and lead to doubts around effective management capability.”

BPS general manager Michael Thornton says good management is central to a well-performing, proven and appealing asset.



“Ensuring rental and OPEX are recovered from tenants on time, any payment defaults dealt with quickly and communicated with the owner as soon as possible, contractors and suppliers paid on time – these are all factors underscoring reliable and ongoing service to an asset.

“Managing lease-critical dates is also key to maintaining and adding value to the asset, and early engagement with both the owner and tenants on upcoming rent reviews and renewals will ensure deals are settled, or alternative leasing strategies put in place, well before lease anniversary dates.

“Additionally, owners should have a well-managed, well-maintained and well-communicated operating cost budget to ensure tenants don’t get any nasty surprises.

“Tenants should always know what their OPEX contribution covers, ensuring they are getting value for money in terms of how the building is maintained and what services are included – happy tenants will provide long-term tenure which de-risks the value of the property.”

BPS national portfolio manager Michael Gillon says innovative management strategies to activate the common areas of office buildings have upside for a landlord as these keep tenants engaged and committed to a building, thereby supporting the ongoing income return.

“With corporate tenants actively encouraging staff back into the office to improve team culture and drive productivity, office buildings can adopt similar initiatives seen in retail environments to entice customers and increase dwell time.

“At Harbour Grounds, an office precinct in Wynyard Quarter which BPS manages and where it has its corporate headquarters, there are numerous events and activations organised by the management team within the common areas from food trucks, live music and market days to sustainability-linked events such as guided e-bike tours and Bokashi composting workshops.

“Providing these types of events and activations contributes towards the ‘earning the commute’ philosophy where, if you’re going to ask people to spend time on busy motorways or public transport to come into the office, you’ve got to make it worthwhile.”

BEYOND THE SAWTOOTH SHED

In the industrial sector, Bayleys national director industrial Scott Campbell says he’s seeing more innovation in lease structures, amenity offerings, design and functionality as landlords look to protect asset values and meet changing occupier demands.



“DRIVEN LARGELY BY TENANTS WANTING SECURITY AND SURETY EVERGREEN LEASES ARE BECOMING MORE COMMON.”

SCOTT CAMPBELL, BAYLEYS NATIONAL DIRECTOR INDUSTRIAL

“There’s an enduring lack of industrial stock which has led to extremely low vacancy rates, fierce competition for any space that comes to the leasing market and rising rental rates,” he says.

“However, the sector is not resting on its laurels and with increased focus on sustainability and energy efficiency, landlords are being proactive around future-proofing leases and the physical buildings to ensure they remain fit-for-purpose in a rapidly-changing business landscape and to sustain asset values over time.”

Campbell said proactive leasing strategies are supporting occupancy levels.

“Driven largely by tenants wanting security and surety in what is a particularly tight market, evergreen leases are becoming more common.

“Leases are being renewed in advance which benefits both parties as occupiers want guaranteed tenure and landlords can plan on locked-in income.

“It’s now common to see 10-12-year leases where even just a few years ago, an eight-year lease would have been considered long, and review mechanisms have also changed with regular CPI and to-market reviews standard.”

Industrial landlords are also taking major steps to improve their assets, fulfilling occupier requirements now and underpinning the appeal and value of the asset down the line.

“For what was a traditionally gritty sector, industrial property has come a long way with staff well-being and team culture being embraced along with structural retrofitting to meet occupier operational needs,” says Campbell.

“Some landlords of existing property are upgrading floors to accommodate heavier equipment and loadings, they’re creating narrower aisles so that more efficient racking systems for greater cubic capacity can be installed, and they’re implementing sustainability practices and features like using grey water, harnessing solar energy, and providing electric car charging.

“Some are enclosing canopies to create functional breezeways that counter inclement weather conditions, and addressing office conditions by letting in more natural light, installing better air-conditioning, and creating breakout rooms for staff.

“We’re also seeing ESG initiatives like communal vegetable gardens and beehives with staff having access to the produce, bring-dogs-to-work policies, plus well-being programmes – which is a real step change for the industrial sector.”

TECHNICAL REPORTING

Bayleys’ newest service line is its building consultancy team, providing detailed and market-relevant reporting to building owners.



“WHILE NEWER BUILDINGS ARE INHERENTLY CODE COMPLIANT, OLDER BUILDINGS ARE PERCEIVED AS HIGHER RISK WITHOUT A DETAILED SEISMIC ASSESSMENT.”

DAVID GUY, BAYLEYS MANAGING DIRECTOR BUILDING CONSULTANCY

“The team can prepare vendors’ technical due diligence reports, which although prepared on behalf of the vendor, can be transferred to the successful purchaser,” explains Bayleys managing director building consultancy David Guy.

“The reports advise on the condition, life expectancy and future maintenance costs on all aspects of the building fabric, and can be extended to incorporate the findings of other consultants including structural engineers, building services, fire engineers, geotechnical engineers, and planning consultants.

“Additionally, our reports include a review of all available existing information such as land information memorandums (LIMs), council property files and building consents.”

Guy says there is often a lack of information on seismic performance of buildings which can frustrate the selling or buying process.

“While newer buildings are inherently code compliant, older buildings are perceived as higher risk without a

detailed seismic assessment (DSA).

“Although a more-common initial seismic assessment (ISA) is a useful guide, these cannot be relied upon for transactional purposes, and additionally, many occupiers simply won’t enter a lease without knowing the seismic rating in advance.”

One emerging issue in the commercial and industrial market is the fire performance of the external wall cladding, in particular aluminium composite panels (ACP).

“Due to several recent high-profile fires in buildings clad in ACP, insurers are now viewing this as high risk,” says Guy.

“In some cases, buildings clad in ACP cannot be insured so landlords should take action to identify and remediate this cladding to reduce insurance and leasing risks.”

As the market becomes more sophisticated, and sustainability is increasingly embedded in operational and ESG plans, occupiers are becoming acutely aware of the need to reduce embodied carbon in buildings and many of these features can be retrofitted into existing buildings to improve their appeal, says Guy.

“We are seeing fundamental changes in new building design with a move away from mass concrete construction, a lot of new ‘lower carbon’ developments using ‘green’ concrete, and the emergence of timber framed buildings.

“Although cost is a major factor at present, this trend is likely to increase.

“Occupiers are also actively seeking buildings which have reduced operation emission levels and typical features might include EV charging infrastructure, end-of-trip facilities, solar roof panels, automated LED lighting, low-E double glazing, rainwater harvesting, electrical sub-metering to measure and monitor performance, and more extensive landscaping.”

