

OWN AND OCCUPY

AS INDUSTRIAL RENTS INCREASE ON THE BACK OF EXCEEDINGLY LOW VACANCY RATES, HIGHER COSTS OF CONSTRUCTION, AND CONTINUED STRONG TENANT DEMAND, OWNER-OCCUPIER ACTIVITY IS RAMPING UP.

OWNER-OCCUPIERS HAVE BEEN particularly active in recent months with stable, well-established businesses seeing ownership as insulation from rental hikes and uncertainty around tenure or lease structures, and allowing them to be fully in control of the premises occupied.

Those businesses with assured cashflows and the capital to invest in an appreciating asset, have been finding banks receptive to ownership desires, albeit with higher interest rates than most owners would like in an ideal world.

Bayleys national director industrial Scott Campbell says the risk appetites of banks do keep changing though, and he expects more caution to creep in – particularly in light of some value shifts in the market.

“Industrial sales prices have come off their peaks, and in some areas we’ve seen reductions of up to 20 percent for existing stock.

“Nationwide, owner-occupiers in the logistics sector have been the most active, although in Christchurch, there’s been an uptick for manufacturing premises but overall demand is particularly high for anything up to 5,000sqm in size.”

The market is multi-layered with wide variation across industrial asset classes, and Campbell says new-build industrial units have been favoured by owner-occupiers.

“The main driver for this is the fact that developers bought land when the market was hot and then construction prices soared which has often made delivery costs of new stock out of investors’ tolerance ranges given the banks’ interest cover ratios.

“Investors are struggling to make the numbers work on new-build stock that’s selling down off plans, while well-financed businesses with strong balance sheets are getting across the line with banks – despite arguably tougher lending thresholds.”

Bayleys North Shore sales and leasing director Matt Mimmack says in west Auckland and north of the Harbour Bridge, new-build industrial units have been selling well, with precincts like Westgate and Hobsonville experiencing strong activity.

“We’ve found that owner-occupier purchasers are now preferring to see a new development coming out of the ground before committing, rather than previously buying off the plans, given the time lag and a desire to have some certainty.

“It would appear that banks are open to working with business owners to find a funding solution and demand is especially high for generic warehouse storage and distribution space on the back of continued strong ecommerce fundamentals.



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MATT MIMMACK, BAYLEYS NORTH SHORE SALES AND LEASING DIRECTOR

“There’s very little in the way of vacant industrial stock on the market and anything that does come to the market is hotly-contested, and we’re seeing increased numbers of owner-occupiers getting across the line.”

Mimmack says some business owners looking for a building for their own operations are prepared to consider buying an existing tenanted building with a condensed lease timeframe if it’s in their preferred location, and accepting that they will need to ride out that lease before occupying the building themselves.

“Bayleys clients are kept up-to-date with market trends and data to help them make informed decisions around property acquisition and we can provide introductions to finance experts, and racking consultants to work out how to optimise space while future-proofing for growth or other change.

“It is also really important for owner-occupiers to keep abreast of the latest

rental rate trends to ensure that when an arm’s length lease agreement is put in place within the business structure, it is in line with market rents.

“This should be reviewed at least every two years as the rental market is moving quickly, and a business owner should not get out of step with it.”

Naturally, there’s always a flip side to the coin and for owner-occupiers, committing to a property can impact on how nimble they can be with their business operation, and ownership comes with full outgoing responsibilities, says Campbell.

“But businesses with strong cashflow, good credit and trading history can channel cashflow into a business asset to build wealth and provide certainty.”

ACTIVELY OWNING PROPERTY

A purpose-built modern high-specification facility in Arrenway Drive, Rosedale on Auckland’s North Shore is home to leading electronic components distributor, Active Components which was established in 1983.

The business distributes components to almost all New Zealand manufacturers of electronic products, across all market segments from security to the dairy industry.

Just as Active has always taken a long-term view to business decisions and partnerships, since the late-1980s, the company has owned the buildings it occupies providing it with the flexibility to grow and adapt.

Active Components director Rob Mackley says it’s important that the building they own reflects who they are as a business.

“This Rosedale property, in a high-end precinct with its large dust-free warehouse, streamlined access for inwards and outwards goods and container movements, plus modern office and reception – does just that.”

Financing premises as an owner-occupier has never been particularly difficult for the business, but Mackley says there have been some challenges.

“Negotiating an interest rate which we believe better reflects the risk of lending to us, as an established and proven owner-occupier, has sometimes been an interesting exercise.”

He says having owned business premises for 30-plus years, there are some insights to pass on to those considering owner-occupation.

“Empty buildings always look much bigger than you think so take the time to figure out exactly what you need in terms of space and layout to meet not only your current needs, but also in the future.

“Moving buildings, combined with initial setup costs, can be big money so it’s important to balance those costs against the ongoing cost of the extra space you have allowed for future growth.

Accepting that for a rapidly expanding business, it may be more practical to rent rather than constantly buying and selling, and to have the capital working in the business rather than locked up in bricks and mortar, Mackley appreciates the security ownership allows.

“Being an owner means you don’t have the uncertainty of an expiring lease, and the equity you accumulate in a building can be used as collateral to borrow against should a sudden opportunity present itself.

“You also have the capacity to configure a fitout to your specific business needs without having to return the building to its original state on lease expiry and can invest in things to benefit the business’ bottom line.

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NATIONAL DIRECTOR INDUSTRIAL
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“We installed a large solar farm on our roof and harvest 90 percent of our electricity needs, and by collecting water from the roof we are also 100-percent self-sufficient with water.

“It would be unusual for a landlord to invest in this type of infrastructure, because they would probably never recoup the investment.

“There’s also a constant reminder of your business achievements when you own your own castle.”

SUPERSITE IN KUMEU

Auto Super Shoppe Kumeu is a member of the nationwide network of Super Shoppes and is an automotive repair and servicing business with clientele ranging from farmers to urban dwellers.

Its premises are pivotally-located in the heart of Kumeu, northwest Auckland, which is undergoing significant catchment growth and development.

After leasing the high-profile corner site for a year and recognising the strategic position and operational advantages it provided, the business owners successfully tendered for the building when it was put on the market for sale late last year as a fully-tenanted investment opportunity.

The 2,044sqm freehold Business – Mixed Use zoned parcel of land underpins the value of the property long term, while the well-maintained industrial buildings are ideally suited to both Auto Super Shoppe, and another established and complementary tyre business tenant.

Spokesperson for Auto Super Shoppe Kumeu Suzanne Harper says the core benefit of owning its premises are related to security of tenure and the ability to leverage the value of the business against an asset.

“When you invest and grow your business you know that it will take time to reap any reward and while having a secure lease does enable a business to thrive, as a tenant, there are inherent constraints.

“Being an automotive business, if we say needed to reconfigure the layout of a workshop as a tenant, it would come at quite some cost which we may or may not recoup within a lease’s timeframe.

“Owning this Kumeu building means that we can now invest in a new roof and get the benefit and the added value of that, and we’d also like to upgrade the staff amenities and improve the property’s access when the road is widened.

“Other ambitious plans include the potential installation of an advertising billboard to develop another form of revenue.”

Harper says it is always a secure advantage to own the building you lease as a business – especially one that requires specific council and legal requirements.

“This building was purpose-built for an automotive business with high stud, generous parking and main road visibility, so the core fundamentals were in place.

“Having an established business with a record of proven cashflow was helpful in convincing the financing partner that we had both sufficient equity and the capacity to service any loan and put us in a solid position to tender for the property against investors who may not have had that same strength.”

