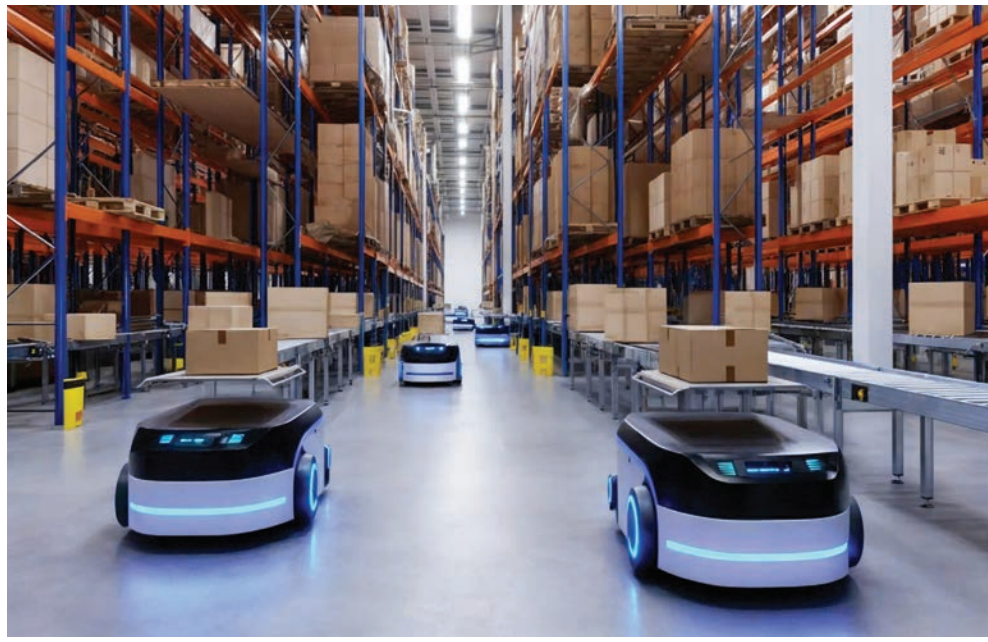

Logistical fortitude

Sustainability and automation are high on industrial property wish lists, so what's the market doing and what does 2025 hold?

The industrial sector has navigated the last real estate cycle relatively well, according to Bayleys Insights & Data: *New Zealand Industrial Market Update 2025* which highlights key trends, market performance and future outlook.

With long-term sector fundamentals positive and ongoing infrastructure developments supporting future expansion, there are opportunities for investors, developers, owner-occupiers and tenant businesses to consolidate a strong workable position in the industrial market.

Referencing the report, Bayleys national director industrial and logistics Scott Campbell says overall, the market remains relatively tight.

> "Irrespective of recent downward shifts in interest rates, occupiers are still exercising caution around big changes to real estate footprints.
>
> **SCOTT CAMPBELL**
> BAYLEYS NATIONAL DIRECTOR INDUSTRIAL AND LOGISTICS

"Persistently low vacancy levels led to strong rental growth in recent years, but rents have stabilised now. There's high demand for A-grade space, however there's been significant uptick in sublease space in some regions and this is giving occupiers more choice plus keeping a lid on rental escalations for now.

"Irrespective of recent downward shifts in interest rates, occupiers are still exercising caution around big changes to real estate footprints, and business confidence remains somewhat tenuous. Rental budgets are under scrutiny and in some cases, out of step with landlord expectations.

"It is clear that security on leases is important to building owners, so occupiers need to build bank guarantees into their business plans to strengthen their position with landlords."

On the investment side, Campbell says yields are stabilising at higher levels, and while lower interest rates should bring yields down, there will not be huge drops as lingering economic, employment and growth concerns still prevail, despite the central bank's more dovish forecasts.

Bayleys' global real estate partner Knight Frank's *Asia-Pacific H2 2024 Logistics Highlights* report outlines key trends in the wider region's logistics sector and emphasises that occupiers are continuing to plan for supply chain contingencies and optimising the use of technology in their operations.

The report says occupiers are prioritising cost management and supply chain resilience, especially in response to potential U.S. tariff changes, but demand for well-connected logistics hubs remains strong, with vacancy rates expected to stay stable.

The market is shifting from being landlord-favourable to more balanced across the APAC region says Knight Frank, with Auckland's market similarly more balanced due to the rise in vacant spaces and sublease opportunities, primarily associated with reduced freight movements leading to less demand from logistic operators.

With businesses prioritising energy efficiency, supply chain resilience and efficiency, sustainability and automation are key drivers in industrial real estate. This is demonstrated by the ongoing flight to quality with preference for modern, well-performing buildings – particularly for larger corporate tenants headquartered offshore with demanding stakeholder-led ESG thresholds to be met.

"The automation story is also quickly gaining momentum, with early adopters of new technologies having a market advantage. Advanced automated storage and retrieval systems (ASRS) are improving efficiency, inventory control, and safety in manufacturing, distribution, and retail-driven logistics businesses.

"It's also escalated the need for purpose-built world-class industrial buildings for some of the country's largest occupiers, and the development sector has responded."

Campbell says in the last couple of years, speculative industrial builds have been thwarted by construction cost pressure, high financing costs and economic uncertainty, with developers reluctant to carry the risk of a potentially empty building.

"However, enquiry on bare land sites has increased lately and with construction costs reportedly 10-15-percent down on market highs, the development sector could reignite

Calder Energy panels on a project completed for Fletcher Comfortech in Christchurch

off the back of a more favourable economic outlook.

"The country's economic recovery is realistically 12-18 months away, but we're seeing the return of institutional capital and strong levels of activity from high-net-worth buyers in the industrial sector which is encouraging.

"Our latest sentiment surveys show more optimism from Bayleys industrial sales and leasing agents based on their interpretation of market conditions and activity, which points to a busy year ahead."

ENERGY SECURITY

National property and construction business Calder Stewart, New Zealand's largest developer/builders of industrial property on a square-metre basis, champions the industrial sector.

Calder Stewart associate director property, Ben Stewart, says the firm owns New Zealand's largest industrial-zoned greenfield land portfolio to convert into projects for tenants and owner-occupiers, giving it unparalleled capability through design, construction, manufacturing, plant, and delivery.

Driven to providing its customers with the best industrial property solutions, Stewart says sustainability outcomes are at the core of delivering best-in-class new development stock.

"Energy security is an under-considered risk in the industrial sector, and we're seeing this play out with some operators closing facilities due to high energy costs.

"We're challenging the status quo by including solar as standard, paid for and operated by Calder Stewart Energy. Over time we see our greenfield developments transitioning into 'energy precincts', where we establish generation at the same time as new consumption is created.

> "Energy security is an under-considered risk in the industrial sector, and we're challenging the status quo by including solar as standard, paid for and operated by Calder Stewart Energy.
>
> **BEN STEWART**
> CALDER STEWART ASSOCIATE DIRECTOR PROPERTY

"Since we primarily develop on greenfield sites, we can take a broader systemic perspective and create underlying infrastructure to enable aggregation and trading between occupiers within the same precinct."

Stewart says sustainability outcomes are often driven by its customers' suppliers or stakeholders, so Calder Stewart needs to be a big picture thinker.

"Ultimately those needs, be it low embodied carbon, or tracking energy usage, become another need we must be responsive to. Whether that's via Greenstar or NABERSNZ, our role is to understand all the different options and provide the solution that best fits our customers' requirements."

An example of Calder Stewart's advanced thinking on energy generation in the industrial space, is its plans for a strategic landholding near Invercargill in the lower South Island.

"We are an intergenerational family business, and Awarua Quadrant is an intergenerational project, in a region we've been operating in for a long time. The property is over 500ha of heavy industrial zoned land, which provides a blank canvas for a variety of uses and occupiers.

"As part of the development, we have identified that a wind farm could be used to generate power to occupiers and for export purposes, making Awarua Quadrant a self-reliant energy precinct.

"Initial LiDAR testing (remote light detection and ranging sensing technology) was positive, so we have now progressed to installing a 100m mast which records data for 12-24 months and the first few months of data from the wind mast is promising."

With the industrial sector becoming more sophisticated given demand for ASRS-enabled warehousing, Stewart says business and site consolidation is occurring around the country.

"We've seen a focus of consolidation for several of our customers, often vacating a number of sites into one efficient, purpose-built facility to maximise business outcomes, and we will see more of this happening, particularly given the cost and limited land availability in Auckland.

"Location is important because higher automation and racking requirements require geotechnically solid ground conditions, strong concrete foundations, and availability of power.

"These types of buildings are based on a pallet or cubic metre volume as opposed to square metres of space, hence in other parts of the world where land is scarce, industrial buildings are becoming multi-level as occupiers aim to maximise site efficiency."

Demand for ASRS-enabled warehouse facilities is driving demand for land in Drury on Auckland's southern border, where Calder Stewart acquired 15ha for forward projects.

"There is a shortage of quality industrial land supply in Auckland and while we've had to take several of our other landholdings around the country through a private plan change, the Drury South land was already zoned industrial which provided certainty of use, infrastructure and roading so we could focus on attracting occupiers.

"We purchased several 'super lots' which enabled us to adjust boundaries to suit occupiers' requirements, with two projects currently underway being warehousing and distribution centres for NZ Safety Blackwoods and Briscoes – two companies that have strategised for long-term operational business needs."

STRATEGIC PLANNING

End-to-end global supply chain consultancy TMX Transform notably helped NZ Post integrate automation, technology, and sustainability into its 30,000sqm Auckland Processing Centre in Wiri, South Auckland – the country's largest parcel processing facility.

While New Zealand does not have the population or scale of many of our international counterparts, global executive director of supply chain at TMX Transform, Tom Fitz-Walter says this country faces the same challenges and operating circumstances as larger territories regarding supply chains.

"In terms of scale, there may be differences in what is required with Asian and European cities having built multi-storey facilities for years due to land constraints and population densities, whereas New Zealand cities have always had more land to utilise for distribution centres.

"However, customer expectations are the same regardless of territory. A retailer in New Zealand must meet the same demands as a retailer in the U.S. or Europe, such as same day delivery or ease and cost of returns (reverse logistics).

"Infrastructure needs to become more sophisticated so organisations can deliver on customer experience and to anticipate and meet future demand. We find speed, growth, and flexibility are what is needed and valued across the board, and key to this is strategic planning."

Fitz-Walter says TMX always starts with the client's immediate problems, and how resourced and positioned they are to solve them.

"Prioritising the areas of improvement or transformation will then lead to solutions, which range from minor to large scale. Sometimes a solution involves automation, but only if it is fit-for-purpose.

"For example, significant cost savings might be achieved by changing up shipping and freight routes or providers ahead of automation."

With advances in technology racing ahead, Total Property asked Fitz-Walter if the industrial sector is at risk of not keeping pace or being "stuck" with redundant infrastructure.

"Automation solutions are not typically at risk of becoming outdated because they are foundational to operations. For example, migrating a company's data from siloed spreadsheets to a secure cloud system is a digital transformation that a business won't reverse.

> "Sophisticated infrastructure, particularly with automation, takes time to plan, build, and deliver. That is why long-term strategic planning is so valuable.
>
> **TOM FITZ-WALTER**
> TMX TRANSFORM GLOBAL EXECUTIVE DIRECTOR SUPPLY CHAIN

"But there may be the risk of not doing enough. Deciding on the 'right' amount of investment requires understanding of how a supply chain is aligned to a business's overall growth strategy. Sophisticated infrastructure, particularly with automation, takes time to plan, build, and deliver – it is a multi-year process. That is why long-term strategic planning is so valuable."

TMX uses simulation models – an example of automation itself – to map a business's future supply chain requirements.

"The technology can test and generate the outcomes and impacts of different scenarios automatically in response to many different inputs. That includes testing the introduction, expansion, or implementation of automation into a facility or into any part of a supply chain operation.

"It gives business owners and executives more confidence in their decisions since they've been able to test the solution beforehand. Automation is often about reducing cost, increasing speed and efficiency, and redirecting workforce labour to higher-skilled and higher-value work.

"Simulation can test the impact of these changes in a warehouse – for example, what automating a process will do to the pick rate or cartons dispatched per hour, but simulation can apply to any part of the end-to-end supply chain."

With the high cost of industrial land/construction, and in some parts of New Zealand, a shortage of suitably zoned land, many businesses need to repurpose or reposition an existing industrial asset for budgetary or continuity reasons.

Fitz-Walter says TMX works with occupiers, taking a long-term strategic view and advising the best site selection, whether that it is to optimise an existing site or to relocate.

"If it is a new site, we follow a similar process to ensure their sustainability goals are met, such as a new building targeting a 5 or 6-Green Star rating.

"As an example, we worked with Maersk on their 18,000sqm coolstore which opened in Hamilton's Ruakura Superhub last year. Maersk's ambition is to be net zero by 2040, so that objective guided the design. The site is solar powered and utilises the largest CO_2 refrigeration system in the world.

"On the other hand, optimising an existing site starts with looking at where improvements can be made, in line with what the client values and where the business is headed, then developing solutions from there."

Calder Stewart's development for NZ Safety Blackwoods at Drury South is progressing