

Turning THE CORNER



THE END OF THE YEAR IS IN SIGHT AND INVESTORS NEED TO ASK THE QUESTION – IF NOT NOW, THEN WHEN?



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OTHER THAN WELL-CAPITALISED private investors, the broader commercial real estate investment market has had a bout of stage fright this year.

Prospective buyers have been nervous to transact due to lack of transactional data to get a gauge on pricing and value, and an interest rate environment that kept promising to improve yet couldn't deliver.

We've seen the lowest number of transactions in 30-plus years, with a particularly sluggish last 18 months – but really it comes as no surprise to see a market lull.

New Zealand's long-term interest rate curve against government 10-year bond rates had been tracking downwards for 35 years – from the peaks of more than 18 percent in the mid-1980s to the almost-free 0.54 percent seen in October 2020.

And then the game changed – quickly. We're now in the over-five-percent realm

which is unfamiliar and disconcerting territory for many.

Although the latest CPI data was weaker than expected, many commentators are now predicting that the OCR could stay at its current 5.5 percent for the next year – at least.

That thinking has effectively quashed earlier expectations that things could improve markedly by the end of this year, with the likely scenario now being we'll need to wait until at least Q4 2024 to see useful cuts.

The super-low 2020-2021 interest rate environment effectively hid a lot of risk. Fast forward to today, when the cost of debt has bolted and that higher-for-longer interest rate sentiment is rife, and investors are grappling with their risk-returns thinking.

It's not an ideal playing field, but greater clarity on potential timelines

is likely to kick-start decision-making because procrastination can be exhausting!

The bid-ask disconnect was heightened at the start of the year when no-one wanted to show their cards first. Sellers and buyers stared each other down with doubt over where values would land and the meet-you-in-the-middle dynamic was needed to close gaps.

The lack of transactions created a value void but thankfully, the bid-ask spread has closed somewhat in the last six weeks and deals are happening – so we're winding down to the end of the year in a better position than we started.

There are some other bright spots, too. Construction costs have come back from their peaks which bodes well for progressing new development pipelines, there's been some repricing against returns, and we're seeing solid leasing activity across all asset classes.

Factors like location, quality, amenity, ESG, and new styles of working are motivating the occupier market, and there's been some strong rental growth for landlords as rent

reviews and new leasing structures work to heighten returns.

The latest Knight Frank (*YOUR SPACE*) survey of commercial real estate office occupiers showed 57 percent of those Australian and New Zealand businesses canvassed expect to increase or maintain their real estate footprint in the next three years.

Further, around 80 percent of surveyed office businesses say their corporate environmental, social and governance (ESG) philosophy will influence their real estate decisions in the next three years to a great or moderate extent.

Having a new government in play has tentatively given the market some confidence, the cycle is turning – and we wait to see how this will impact deal numbers and values across the property sector.

This has been a challenging year – but with 50 years of business under the

Bayleys belt, we've navigated multiple market cycles and worked hard to optimise the value of our clients' real estate assets regardless of external forces at play.

There's always opportunity around the corner.

Along with profiling 131 commercial and industrial properties for sale around the country in this portfolio, we bring you some topical industry commentary around market fundamentals, investor patterns and occupier sentiment.

There's a year-in-review check-in with Bayleys' commercial sector leaders, a look at what it will take to mobilise active capital investment in the current market, and office occupancy trends from the latest global research.

While this is the final edition of *Total Property* for 2023, Bayleys' commercial and industrial team is always on and we'd love to chat – so get in touch.

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



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.



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.