Into the light

Bayleys core commercial and industrial business line leaders reflect on the year that was.

The narrative for 2024 in terms of the economic landscape, and the commercial property market, has been a classic tale of two halves; constrained activity hampered by high interest rates, followed by cautious optimism following August's cut to the official cash rate, the first since March 2020.

Looking back on market conditions through the year, Bayleys' senior directors across each commercial property sector report challenging conditions prior to the Reserve Bank's OCR cut in August, with drops in consumer spending, and a slow down on new commercial development and investment.

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>
> **SCOTT CAMPBELL**
> BAYLEYS NATIONAL DIRECTOR - INDUSTRIAL AND LOGISTICS

Following the first OCR cut in August, and the second in October, there has been some renewed optimism and signs of activity in the market, with the proviso that recovery will be cautious and slow.

RYAN JOHNSON
BAYLEYS NATIONAL DIRECTOR COMMERCIAL AND CAPITAL MARKETS

The mood for 2024 has really been 'let's put this one behind us'. It marks the end of an almost three-year period dating back to early 2022 that, when we look back, will rightfully have earned its place in history. Certainly, in terms of commercial property sales it has been worse than the period following the GFC.

Everything this year has hinged on inflation and interest rates from the investment point of view, and the cost of living/work from home from an occupier point of view. That then had downstream effects into logistics and industrial, hospitality and high street retail.

The first OCR change in August gave the market hope rather than huge confidence or suprise, with swap markets having priced in the change as expected.

By the second change in October that hope was morphing into confidence and toward the end of the year, with the prospect of another .50 or .75 cut, that will be turning into structural confidence where action is being taken. While changes to monetary policy typically take about 15 months to make an impact on the market, people do have more confidence to transact without fear of detrimental results and don't have time to wait another 12 to 15 months for further change.

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> **RYAN JOHNSON**
> BAYLEYS NATIONAL DIRECTOR COMMERCIAL AND CAPITAL MARKETS

On the upside, what is different from the post-GFC environment is that there is real depth in the capital markets and debt markets with a significant amount of capital sitting on the sidelines. Another positive has been that the levels of distress we've seen this year, have not been as deep as expected at the start of the year, which most likely comes down to good planning and strong, positive balance sheets.

One of the things we are seeing is the increasing call for a return to "work from work". With bottom lines and P&L stress, businesses need to be more productive. While there will still be an element of work from home in certain industries and sectors, it won't be at the percentage seen in the last few years.

SCOTT CAMPBELL
BAYLEYS NATIONAL DIRECTOR - INDUSTRIAL AND LOGISTICS

In the leasing market, through 2024 we saw a shadow sublease market open up as lots of spaces became available, directly related to the drop in consumer spend.

With limited leasing activity always a tell-tale sign of a subdued market and that was reflected in sales levels which were down 10 to 15 percent on what was already a lighter market in 2023, thanks to ongoing higher interest rates and construction costs.

The OCR change in August did mark a change. Since then, we've seen more people starting to acquire, with increasing activity towards the end of the year and we expect that to continue into the start of next year, with plenty of equity circling the market. Confidence is improving as seen in the September ANZ Roy Morgan report, which showed confidence at 95.1, its highest since January 2022 based on expectations for the future.

The biggest challenge over the past year has probably been the misalignment of pricing between the divestment/investment perspective and the rental perspective. There's been a disconnect there, which always happens in a changing market.

The other challenge has been the drop in consumer spending which was probably more severe than anticipated and has an impact on the commercial market, across every sector. One of the best things the government has done is urge everyone back to the office so they're buying coffee, or heading out at lunchtime to spend money.

Looking ahead, there is opportunity now to start building for the future because you can make the most of the fact that speculative construction has been at a standstill. By the time building is complete there is confidence the economy will be in a better place.

By the end of the first quarter of 2025 we can expect to see an ongoing

increase in sales. Leasing might take slightly longer but overall, we should see improvement throughout the year.

CHRIS BEASLEIGH
BAYLEYS NATIONAL DIRECTOR
RETAIL SALES & LEASING

It's been a tough year in retail, but established businesses like Kmart are still smashing it, while the introduction and rise of new retailers such as Panda Mart and Foodie have shown there is room for new players to thrive. That's largely driven by the cost of living crisis which has encouraged consumers to explore different options.

Food and beverage businesses have been finding it hard as consumers stay home to save money, but they've also been impacted by an unwillingness among central and local governments to support and promote big events that gives these businesses, and retailers, a boost.

The recent OCR changes have injected some positivity and confidence after the Reserve Bank's announcement early in the year that we shouldn't expect any interest rate cuts until 2025. While the benefits of a lower OCR probably won't filter through to retail straight away, we can expect some impact in 2025.

The improved viability of new projects for major retailers as land, infrastructure and construction costs reduce, is also cause for confidence and should present opportunities in 2025.

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> **CHRIS BEASLEIGH**
> BAYLEYS NATIONAL DIRECTOR
> RETAIL SALES & LEASING

STEVEN RENDALL
BAYLEYS NATIONAL DIRECTOR
OCCUPIER STRATEGY AND SOLUTIONS

Many major occupiers and investors have taken a wait-and-see approach through 2024, meaning transaction volumes have remained relatively low.

In the corporate occupancy market, lower profitability has driven a generally conservative approach to new capital expenditure and a focus on controlling operating costs. Access to the necessary capital to facilitate a move has remained an ongoing challenge for some occupants. These factors have made it harder to justify a business case for major new premises acquisitions and have contributed to some inertia in the occupancy market. Landlords and developers with access to capital and the development/fitout skill set to meet occupant demand have had a competitive advantage.

The government's mandate that public service staff return to the office is having a direct flow-on effect to the private sector, with many employers feeling more confident following suit. This should help to stimulate more movement in the Auckland office market.

In relation to the investment market, the OCR shift has generally been perceived positively, with a number of unlisted funds, syndicators and family office investors signalling an intention to return to the market in the expectation of further rate cuts. Based on investor feedback, core investment locations (such as South Auckland industrial) are expected to benefit first, with many funds signalling an intention to properly re-enter the market in these locations from Q4 2024 onwards. Looking back over the past 12 months, the best investment opportunities have been secured by high-equity purchasers acquiring good quality real estate at competitive prices, without having to rely on expensive debt.

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> **STEVE RENDALL**
> BAYLEYS NATIONAL DIRECTOR
> OCCUPIER STRATEGY AND SOLUTIONS

WAYNE KEENE
BAYLEYS NATIONAL DIRECTOR
HOTELs, TOURISM & LEISURE

Improved flight schedules and gradually rebounding international visitor numbers have helped bolster the Hotel, Tourism & Leisure (HTL) sector through 2024.

Although inbound visitor numbers to New Zealand are hovering around 80 percent of pre-pandemic figures, the Australian and US markets remain strong and the Asian market is returning incrementally.

Tourism New Zealand wants to grow tourism by $5 billion over the next four years by attracting more visitors in the off-season and is planning a marketing strategy to promote our dark sky credentials and eclectic dining and hospitality scene, in order to build a resilient year-round tourism sector.

Latest RevPar and ADR figures confirm that the market is somewhat muted, with Auckland showing signs of an oversupply of rooms, Queenstown tracking pretty well, and Christchurch outperforming other main centres with arguably an undersupply of rooms.

With several new Auckland hotels having opened in recent months, and more rooms coming, operators will want to leverage the SailGP regatta's Auckland debut in January – one of only a few big events on the horizon. Large-scale sporting, cultural and music events are essential to the wider HTL sector, with the success of last year's FIFA Women's World Cup a good example.

On the transaction side, Bayleys' HTL team is noting an uplift in buyer enquiry for tourism-related property assets, particularly from offshore, and we have a number of deals in progress.

Getting these bigger deals across the line has been taking longer than usual, but good things take time.

Despite a weaker NZD against many currencies, some funding challenges remain, although buyer interest in the $10-million-plus market shows that private wealth is circulating.

There are signs that the domestic market is starting to turn, and further cuts to the OCR and lending rates will be welcomed by buyers and sellers alike.

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> **WAYNE KEENE**
> BAYLEYS NATIONAL DIRECTOR
> HOTELS, TOURISM & LEISURE