



PROPERTY RESEARCH

Developer Perceptions

Greenfield industrial subdivisions

REPORT OBJECTIVE

This report was commissioned as input in to the Hamilton Sub-Regional Growth Strategy being undertaken by Hamilton City Council (HCC), Waikato District Council, Waipa District Council and Environment Waikato. The report focuses on developer perceptions for Greenfield industrial subdivisions and needs to be read in conjunction with our reports on Greenfield residential and the intensification of Greenfield residential subdivisions.

This report investigates the key land economic drivers for Greenfield industrial subdivisions in the sub-region. It investigates the future market opportunities and constraints for promoting Greenfield industrial subdivisions in the sub-region, and the key economic and financial pre-requisites to achieve successful Greenfield industrial subdivisions. To the extent possible it also contains information on the indicative development cost factors to enable locational comparisons for industrial land development requirements.

This report focuses on industrial land which, in our assessment, is the major land challenge facing the sub-region. It does however touch on the Hamilton retail and commercial land markets. Reports by other people have covered the Hamilton retail market and the revitalisation of the Hamilton CBD, so this report does not investigate in any detail either the retail or the commercial/office land markets.

By permitting bulk retailers and commercial service industries to occupy the land in Te Rapa previously zoned industrial it created a close link between the industrial and retail/commercial land markets. With retail and other commercial end-users often able to pay more for land than industrial end-users the result has been a severe shortage of land available for industrial use and asking prices for industrial land well above levels affordably by most industrial users. Once cheaper land is found for industrial end-users there is likely to be some rationalization that will mean some of the industrial land in Te Rapa currently occupied by industrial users will become available for retail and commercial user (e.g. the Porter site is probably a prime example of this) Consequently, we do not see Hamilton facing the same challenge with retail/commercial land that it currently faced with industrial land, which justifies our focus being almost exclusively on the industrial land market.

Much of the information contained in this report was gained by interviewing local, Auckland-based and Tauranga-based developers and relevant property professional, including one Wellington-based developer. The relevant people to interview were identified in preliminary discussions with several local property professionals, based on our knowledge of relevant developers and included some suggestions from Gary Knighton (Team Leader City Strategy, Strategic Group, Hamilton City Council). It was not possible to interview all of the people identified but the vast majority of people identified as being relevant were interviewed, including what we believe to be a representative sample of local and out-of-town developers. Interviewees were asked a standard list of questions we designed to extract the relevant information, while we also offered the people interviewed the opportunity to express opinions about any relevant or related matters. We would like to express our thanks to the people interviewed who were generous with their time and provided many valuable insights.

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The current competitiveness of the Sub-Region's industrial land

There is a view held by a number of people we interviewed that Auckland is running out of industrial land and that the sub-region and especially North Hamilton are well placed strategically to meet medium and longer-term demand for industrial land in the broader South Auckland-Hamilton market.

In the opinion of one experienced developer that operates nationally and has significant land holdings in Hamilton, Hamilton is strategically better placed than South Auckland. The industrial land being released in South Auckland was said to be owned by a small group that has implications for pricing, while the geography or lie of the land was not seen as being favourable, there was said to be transport limitations and much of the land was said to be peaty, all of which was seen as limiting supply increases.

Another experienced developer said, "Auckland doesn't have a land shortage. It has more of an issue about leasehold versus freehold than a supply issue. AIAL have around 120 ha to develop." This person gave the example of a block of Business 6 industrial land his firm owns in South Auckland – Business 6 allowing heavy industry usage while Business 5 is more like the Hamilton industrial zoning – for which buyers were in the market willing to pay \$250-300/m². We understand that the scarcity of Business 6 land means it is priced higher than Business 5 land which was said to be "in ample supply in South Auckland" including some "aggressive vendors". This means vendors of industrial land in Hamilton are currently asking (but not achieving) prices as high as what buyers are willing to pay for a block of scarce Business 6 land in a part of South Auckland we believe offers a relevant comparison for the sub-region.

It was not in our brief to do an in-depth comparison of Hamilton relative to South Auckland industrial land prices nor to offer an opinion on whether South Auckland was facing a medium or longer-term supply problem with industrial land. But based on the research we have done it suggests current industrial land prices in Hamilton may be somewhat uncompetitive relative to the relevant parts of South Auckland we believe Hamilton should be compared with, especially because we suspect local industrial land prices need to be at something of a discount relative to South Auckland prices to attract firms away from South Auckland. And it suggests South Auckland may not face a near-term shortage of industrial land and possibly not even a medium-term shortage, although our findings must be viewed as provisional.

One local consultant estimated that the average industrial site in Te Rapa sold at \$330/m² last year. And a number of people interviewed said prices have fallen around \$50/m² this year. As way of example of asking prices in Te Rapa sites, the left photo is of land that was said to have sold for \$220/m² to an investor but we were told has been put back on the market asking \$300/m². The right photo shows two 4,000 m² sites said to have sold for \$250/m² but also said to be back on the market asking around \$300-350/m². At these sorts of asking prices land does not appear to be selling because it has got beyond what most end-users can afford to pay. These examples show the roll investors have played in the market in recent years driving prices up to beyond economic or healthy levels, just as has happened in the residential subdivision market (and as has happened in other parts of the country and in other parts of the property market).



Local industrial land prices still look cheap if they are compared to the likes of East Tamaki. In the eight sites we found advertised in East Tamaki with asking prices, which involved a total of 21.9 ha, prices ranged from \$315/m² to \$785/m², with an average of \$494/m². We found another 4.1 ha for sale in four sites but without asking prices, while many sites are sold on a developed basis so total supply of new industrial sites currently in the market is significantly more than 26 ha. Aside from the fact that these prices are also potentially at unaffordable levels, having been driven up during the property boom much as local prices have, we do not believe this is the market the sub-region will necessarily compete with in the future. The places the sub-region may compete against in South Auckland in the future could include Wiri, Auckland Airport land, Mangare, Manukau, Taukau, Takanini, Papakura and Waiuku. And asking prices in Te Rapa do not look cheap relative to asking prices in these areas.

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In the existing industrial areas of Wiri, the airport, Mangere and Manukau we found 20.3 ha of zoned industrial land for sale, although the majority without asking prices. The supply will be significantly more than this once spec buildings and land for sale on a design-and-build basis are taken into account. Only 4 ha of this land was Business 6 or heavy industry zoning. The prices around the airport, based on a small sample of three, were one asking “under \$210/m²” and two sites in another subdivision asking \$357/m². In Wiri one 2.2 ha site had prices advertised “from \$150/m²”, two adjacent sites were both asking \$300/m², while a 1.2 ha site was advertised asking \$250/m² for the back site and \$280/m² for the front site. A site of 18 ha in Mangere was asking \$249/m². While this is a small sample, it suggests that prices in some of the parts of South Auckland that we think are most relevant to the sub-region have asking prices for zoned industrial land that are in the ballpark of Te Rapa asking prices and in some cases cheaper.

We understand that many of the industrial sites in South Auckland are sold to spec builders or offered as build-to-order sites, so there is in effect much more land for sale or available for occupation on a leasehold basis than we found by searching various websites for industrial-commercial land for sale. On searching the various websites for spec industrial sites or build-to-order sites we found lots.

In the same way Hamilton developers are looking to see if there are cheaper options for industrial land in the likes of Pokeno and Meremere, the Auckland focus for cheaper industrial land appears to be on the likes of Taukau, Takanini, Papakura and Waiuku. And it is possible that these are the areas that the sub-region will find itself competing against in the future.

In Tuakau we found four blocks of land for sale totalling 60.8 ha, one already zoned industrial, two “identified for future industrial zoning” and the fourth “adjacent to the plan change area”. Only one of the blocks “identified for future industrial zoning” had an asking price, which was \$92/m² for 7.07 ha (this is probably the price for raw, un-developed land). In Waiuku we found 17.6 ha in a business and industrial park with “industrial zoning imminent”. In Takanini-Papakura we found 50.6 ha of land for sale, including 2,500-5,807m² sites already zoned and with asking prices of \$225-300/m² (average of \$270/m²), and three larger blocks comprising 47.8 ha that are not zoned industrial yet but two of which are on the border of an existing industrial area. In Hanua a 4,828m² site was asking \$220/m².

Asking land prices in Te Rapa are however, a bit cheaper than asking prices in the main industrial subdivision in Tauranga. One person said the only real option for industrial land currently available in Tauranga was the IMF New Zealand subdivision at Tauriko that involves around 180 ha of industrial land (the link below will take you to the information related to the plan change application for the subdivision, including a map showing the staging plan for the subdivision). Stage one was said to have been sold and titles issued, and stage two was said to be now selling for around \$350/m². One contact said there were “quite a few speculators and very few end-users buying” (i.e. investors may have bid prices above levels justified by end-user demand, as has been the case in Hamilton).

<http://www.wbopdc.govt.nz/Publications/TaurikoBusinessEstate-PlanChange36.htm>

Based on a search of the REINZ website (www.realestate.co.nz) for zoned industrial land for sale in Tauranga, Mount Manganui and Papamoa we found less than 10 blocks of land for sale. Based on the five with asking prices listed, the average land area was 1,427m² and the average asking price was \$293/m². This compares to average asking prices of \$232/m² for the four small sized sites we found advertised for sale in Hamilton – two in Te Rapa and two in Hillcrest, with an average size of 2,133 m². Again, Hamilton prices seem to be moderately lower or more competitive than Tauranga prices, although making conclusions from such small samples is questionable while we see South Auckland much more than Tauranga as the market most relevant to the sub-region in assessing competitiveness.

While our research casts some doubt over whether the benchmark Te Rapa market is competitively priced relative to some parts of the South Auckland market, this is potentially understandable given the current minute stock of vacant zoned industrial land not only in Te Rapa but also in the sub-region. Of importance to the longer-term competitiveness and attractiveness of the sub-region in meeting demand for industrial land in the broader Waikato-South Auckland-Bay of Plenty market, is the amount of land that will be rezoned industrial in coming years and the price of this land. Certainly in terms of the amount of land in the pipeline for rezoning industrial in the sub-region it could be well placed to compete. However, our research identifies that the current starting point in the sub-region is on in which industrial land is priced well above levels that traditional industrial end-users can afford. So while making relative price comparisons is of significant importance, we believe the future health of the sub-regional economy relies on its ability to deliver much cheaper industrial land than is currently on offer.

When industrial land was selling for an average of \$95/m² in Te Rapa and \$60/m² in Frankton in 2002 Hamilton offered a competitive and affordable location for industrial businesses. However, with land prices

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having risen 247% to an estimated \$330/m² in Te Rapa in 2007 and 233% to an estimated \$200/m² in Frankton, and with these prices having impacted on expectations for industrial land prices in other parts of the sub-region, it is now questionable whether the sub-region is competitive compared to parts of South Auckland, while it is clear that in absolute terms (i.e. relative to what many industrial end-users can afford or are willing to pay) that local industrial land is unaffordable.

Partly in response to the high level of local industrial land prices is the fact that buyers have largely deserted the market, although interest rate increases and the economic downturn will have also played a part. Even allowing for the economic downturn if local land prices were competitive relative to other markets and, most importantly, if they were affordable, a larger amount of building activity should be occurring now than the limited amount that is underway. While there is a limited amount of industrial land on offer for sale it is struggling to find buyers. This is in part because investors who swooped to buy the scarce land lost sight of the underlying value of the land. As one person interviewed put it, "Recent decisions to buy land and properties were not founded on economics. They were silly decisions."

It is not just that investors have pushed up prices in a tight market it is also questionable whether the prices paid by the investors (i.e. \$220-250/m²) were at levels that are healthy for job creation and economic growth in the sub-region. Critical in this assessment is what the more traditional manufacturing, engineering and distribution firms can afford to pay because these are the industries that lay the golden eggs (i.e. create the new jobs that fuel housing demand and demand for retailing and other commercial services). We know that some retailers and higher value-adding commercial service firms can afford to pay current high land prices, and in some cases even higher prices, but it is also clear that land prices are now well beyond the level that many of the golden egg laying industries can afford. The challenge we see the Councils in the sub-region face is whether they can rezone enough industrial land in the near-term to medium-term to restore industrial land prices to levels that attract the golden egg laying industries.

It is our assessment that the extended property boom has taken prices in most markets beyond levels justified by end-user affordability. So we would expect downward pressure to emerge on prices in many places, certainly in inflation-adjusted terms, meaning that if industrial land prices do not fall significantly in the sub-region it will most likely struggle to attract a significant number of golden egg laying firms.

More research could be warranted to make sure like is being compared with like to properly assess the competitiveness of sub-region's industrial land prices relative to prices in the relevant parts of South Auckland. More research could also be useful in assessing what levels land prices need to be to make industrial land affordable and attractive to the golden egg laying industries. From the research we have done we believe we have busted the myth that Auckland will run out of industrial land any time soon, while we believe we have cast doubt on whether local industrial land prices are competitive relative to South Auckland prices. And to attract industrial firms away from Auckland, with close proximity to over 1,000,000 consumers, we believe the sub-region needs to be able to offer industrial land at prices moderately if not significantly below South Auckland prices.

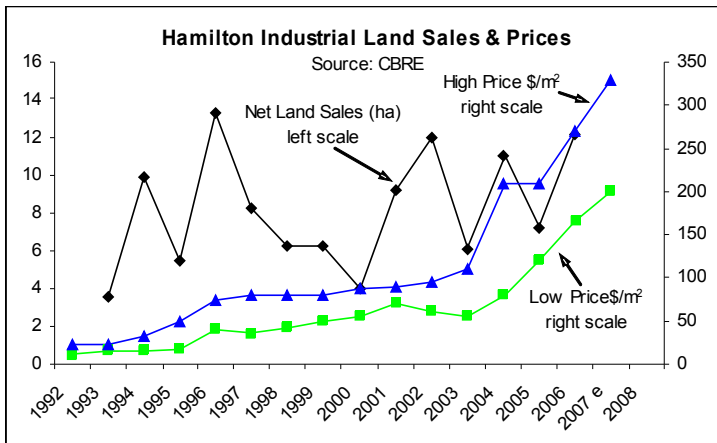
If the sub-region does not find more competitively priced industrial land soon it faces not only the risk of losing out to South Auckland and Tauranga, where industrial land is currently available, but there could also be an element of leakage to some of the smaller Waikato towns outside the sub-region. More industrial land was said to be coming in Morrinsville, although we don't have any details on this and when we searched the REINZ website we found only one commercial property advertised for sale in Morrinsville and that was a hairdressing salon. But in Matamata there were three blocks of industrial land of 3,110-4,480m² in an industrial subdivision on Mangawhero Road on the eastern side of Matamata all priced at \$120/m². The Tirau Industrial Park also needs to be considered in terms of a place some businesses may decide to locate given the much cheaper land prices. The 18 industrial sections in the Park are sized 1,000-3,000m² and are priced \$70-100/m². Reflecting the competitiveness of property prices in Tirau, a hugely experienced bakery operator from New Plymouth has moved to town, redeveloping an old industrial site.

Recent developments in the Sub-Region's industrial land market

This section focuses on the Hamilton market where the major developments have been in recent years, but also because it is the market, especially Te Rapa, that sets benchmark prices for the sub-region.

Demand for industrial land in Hamilton by end-users was said to "go in fits and starts", which is reflected in the chart on the next page which shows estimates of the net sale of industrial land in Hamilton (the black line). The data were kindly supplied by Theo de Leeuw, Managing Director of CB Richard Ellis (CBRE) Hamilton and show sales net of resales, largely reflecting sales by developers to end-users but including some sales to spec buyers. The average since 1993 has been 8.2 ha per annum.

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Some people interviewed suggested the annual demand for land was significantly more than 8.2 ha, but this will partly reflect the double counting of land sales (i.e. sales by developers to investors plus the resales by investors to end-users), while it is possible that the CBRE data does not include some of the land sales outside Te Rapa and Frankton.

The **Hamilton Industrial Land Study** by Andrew Mead, dated May 2007, estimated that industrial land take up based on building consents data averaged 11.95 ha per annum over 2002-06.

The **Hamilton Industrial Land Study** identified that as at November 2006 Hamilton had 55 ha of vacant industrial land and underdeveloped industrial land (of which 40 ha was vacant) and only 16 ha of vacant industrial land available for industrial development. The 24 ha of vacant land not available for industrial development appeared to mainly reflect land “to be developed for non-industrial users (primarily commercial offices and retail)”. We understand that another study identified around 30 ha of vacant industrial land, over 10 ha of vacant land held by adjoining owners for expansion and approximately another 20 ha set aside for future commercial/retail development.

The **Hamilton Industrial Land Study** report concluded that, “The amount of vacant industrial land in Hamilton has reduced dramatically in recent years to a point where only 16 ha of vacant land is available for industrial development. ... If land ... is not rezoned industrial, industrial development in the city will be constrained with flow-on consequences for employment opportunities and city growth. ... Industrial land shortages will not only affect the development of ‘greenfield’ business land, it will also affect the redevelopment of industrial sites in the city as it constrains the ability of growing businesses to move to larger ‘greenfield’ locations. Since November 2006 there has been no increase in supply but a moderate uptake of the vacant land identified.

de Leeuw estimated that just under 9 ha of vacant industrial land is available for industrial use in Te Rapa Park, the Pukete Industrial Estate and Frankton, which is equal to around one year of average demand by end-users. However, with high land prices and the economic downturn inhibiting demand by end-users the 9 ha of land could be enough to satisfy more than one year of end-user demand, but this is still very little from the perspective of what is needed to achieve sensible or affordable land prices for end-users.

A common comment was that the decision by HCC to allow bulk retail and other commercial developments in the Te Rapa industrial area has had a major impact on land prices and the demand-supply balance for industrial land. It allowed the needed development of retail and other commercial services, but one person estimated it has resulted in a 60-70% drop in the supply of vacant land available for industrial use. Retailers and commercial service industries can in general afford to pay much more for land than traditional manufacturing and warehousing operations. Consequently, land prices in Te Rapa have been bid well above levels affordable by traditional businesses that created jobs and enabled the growth of the service industry, with Te Rapa then setting the benchmark for prices in Frankton and elsewhere.



It is not just that industrial land has been consumed for retail and other commercial use, but that land that might otherwise be used by traditional industrial businesses has been priced above levels affordable by these industries and is sitting vacant awaiting eventual retail use. The land that Jonmer Developments planned for a retail centre appears to be a prime example (see the photo). It seems that rather than be made available for industrial use at a price reflecting the affordability of industrial users the land is sitting vacant. It seems that users of land that can pay the higher prices have set the land price for all users in Te Rapa.



While there is a chronic shortage of land available for industrial development at affordable prices there does not appear to be a major shortage of land for retail and other commercial use. The Base retail centre in Te Rapa has a large block of land set aside for expansion, some of which is not far from being developed. There is the Jonmer land now we understand owned by AMP. Some land is earmarked for retail development adjacent to The Base, while a number of people expect that retail will eventually encroach on all of the area on the eastside of Te Rapa Road from The Base because retailers will be able to outbid industrial users for this property.

Owner-occupiers of industrial buildings have been a major source of end-user demand in recent years, with one person interviewed suggesting that around 75% of industrial buildings built have been done so for owner-occupiers. Low interest rates had added to the attractiveness of buying land and building for owner-occupiers, while they were said to be willing to pay a premium to own land relative to leasing, no doubt encouraged by the prospect of appreciating land values. But the rise in land prices, large increases in interest rates and the likely realisation that capital gains might be a thing of the past was said to have meant that demand for land/new premises by owner-occupiers had largely gone.

Current conditions in the Sub-Region's industrial land market

We understand that rising interest rates, the economic downturn, dwindling appetite by investors and a dose of commonsense have resulted in industrial land prices falling in Te Rapa by possibly \$50/m² (e.g. "they have fallen from \$300/m² to \$250/m² because they got ahead of themselves"). We do not have access to sales data to confirm this, although we understand that sales have largely dried up so such comments may reflect the perception of what land prices have done in the benchmark Te Rapa market. We were told that industrial land is not selling at auction while investors that bought land with the intention of building spec properties are realising that this is not economic. A 7,000m² block of land on SH1 in Te Rapa was said to have originally sold at \$250/m² but was said to have been turned it at auction recently because offers didn't reach \$250/m². On searching websites and other sources we found that asking prices for industrial sites in Hamilton were generally in the \$250-300/m² range.

On the RealtyPlus website (www.realtyplus.co.nz) we found five lots in the Trinity Heights business park on Church Street, Te Rapa advertised for sale, 1,545-2,656m² asking \$290-315/m². We found 44 Gallagher Drive, a 7,976m² site asking \$280/m², and three lots at 40 Gallagher Drive of 4,000-4,694m² asking \$185-195/m². The owner of a block of land on the ridge on Church Road was said to have not accepted an offer for \$330/m² a few months ago but since then the market had turned down and the owner was said to be now asking \$260/m². In the RealtyPlus Autumn 2008 commercial property booklet we found a proposed lot of 5,185m² at 20 Grasslands Place in West Hamilton advertised for sale for \$154/m², and a 12,355m² site on Kahikatea Drive in Dinsdale asking \$225/m². In the REINZ website we found only six blocks of freehold industrial land advertised for sale in Hamilton, with one being 10 acres where the price was by "negotiation" and was on the outskirts of Hamilton in an area due for rezoning. The remaining five were mainly sub-2,500m² sites, with one of 5,106m², with an average asking price of \$242/m² and a range of \$172-300/m².

Land at Hautapu was said to be priced at around \$150m² versus \$250m² in Te Rapa by one person interviewed, but this was not seen as being attractive to firms employing staff at this stage because of the lack of services (i.e. couriers, lunch options). In searching the REINZ website www.realestate.co.nz we found 16 ads for industrial land in Waipa District, one was for 25 sections in a "Prime Industrial Subdivision" in Te Awamutu 955-5550m² lots starting from \$200,000. One person indicated that developed land in one Te Awamutu industrial subdivision that is in the pipeline was likely to be around \$150/m². In Cambridge we found a 5,000m² site asking \$130/m², a 2,182m² site asking \$151/m² and a 12,780m² site asking \$120/m², and in Hautapu we found two 3,543m² sites by negotiation and 21,000m² of "proposed industrial land" asking \$48/m². While these prices may seem low or cheap relative to current Te Rapa and Frankton prices, certainly the ones in Waipa District are high compared to the prices that prevailed in Hamilton as recently as 2003 when Hamilton last offered competitively-priced industrial land. In the Waikato District we found 13 industrial sites advertised for sale. Ten of which were at the Hampton Downs Business Park, most sized close to 5,000m² and priced \$250-290/m². One was in Huntly, 1,102m² with an indicative price of \$99/m², one was 11,284m² at Ngarawahia asking \$87/m² and the other was a 4,072m² site in Te Kawhata asking \$250,000 or \$6/m² (we suspect this was a lifestyle block that had been miscategorised). The numbers may understate supply because not all properties are advertised on this website.

One person observed that, "At the moment there is limited supply and limited demand so it only takes a slight change in either to have a big potential impact on prices. Almost all of the land for sale at the moment is in the secondary market but it is priced too high to sell. But vendors might well have to reconsider prices." "If banks cut what they will lend on industrial land from 60% to 40% and land valuations

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fall from \$250/m² to \$200/m² some owners may be under pressure to sell because they will struggle to fund the land.” Another person said that, “there isn’t a land shortage so much as tightly held land and too high price expectations.”

Another person observed that, “There is not much land around and it is held by a few people with low gearing, some wanting moonbeams for it. One owner wants \$350-400/m². Rather than sell some owners are offering leasehold deals with rents low relative to the high land prices. If they can do this it means they have no incentive to cut land prices.” We understand that four land owners are looking at doing these sorts of deals, which could mean that the “owner-occupier market will die as there will be no freehold land.”

Large retailers wanting street frontage profile were said to be able to pay \$350-400/m² and in some cases even up to 500/m². With limited land supply what appears to have happened is that land owners have understandably set their sights on selling to the end-users that can afford the high prices rather than “discount” significantly to be able to sell the land to traditional manufacturing and distribution end-users.

Having stage one of the rezoning of industrial land in Rotokauri in the pipeline was said to have “halted the rise in land prices, as has the general economic downturn”. The obvious implication of this is that if more land was in the pipeline it could play a part in improving the current competitiveness of local industrial land prices. But most people interviewed suggesting that no industrial land will be ready to occupy in Rotokauri for up to two years given the time it will take to get infrastructure in place. There will be some new supply available at Titanium Park and Hampton Downs (see pages 14 and 15), and possibly some near Cambridge and Te Awamutu, but the lack of affordable industrial land means Hamilton especially is at a risk of experiencing sub-national economic growth even with the rosy prospects for the dairy industry.

The lack of land and high prices in Te Rapa are inhibiting growth in some existing businesses. We were told that businesses currently in Frankton that wanted to expand were unable to do so because the old 60% coverage rule versus the new lower coverage rule meant they couldn’t expand on their existing sites, while they were said to end up having to pay too high a premium to buy neighbouring sites. One person interviewed suggested that some firms had left town because of limited supply of land and high prices, but it seems that if this has occurred it was very limited. Hynds Pipes was said to have sold land it had around Hamilton and moved to Pokeno because of an inability to get the land rezoned.

The bigger issue seemed to be the business Hamilton and the sub-region had missed out on. One person interviewed suggested that if Hamilton had the land available it may have been able to attract the Morgan Furniture factory that has gone to Tauranga and the Lion Breweries plant that has gone to South Auckland. Another person said the high land prices in Hamilton were pushing some firms, like transport firms and those that need large yards for parking and/or storage, to look for cheaper land at the likes of Pokeno and Meremere, but that this was not a good outcome regarding staff travel/housing. However, a developer said he had investigated buying land for a large plant between Auckland and Hamilton but said that the land prices, including at Pokeno, were not low enough to make it economic given the lack of services, distance for staff to travel and trouble getting gas. He said land prices would have to be “hugely discounted” relative to Hamilton to make it economic, but the land options available were “not cheap”.

Insights from the Hamilton industrial building market

The industrial building market provides an opportunity to see how land prices stack up relative to what end-users can afford to pay for industrial buildings. “Existing buildings are selling at 1/3 below replacement costs, reflecting how uneconomic it is to build today.” “Very few developers are buying land because they can’t get a return.” Rising building costs have played a part as have the economic downturn but at the heart of the problem identified by people directly involved in the industrial building market are land prices that are significantly too high relative to what most industrial end-users can afford or can justify paying.

One person gave the example of a 2,000m² industrial site that would allow a building of 1,000m², with a land price of \$250/m² and building costs of \$850/m² for tilt-slab construction, the finished building would cost \$1.35m excluding reserve contributions and interest/carrying costs, and would rent for \$100/m² or \$100,000 per annum. Based on all-up costs including the developer’s margin the gross rental yield was ending up around 6.5%, a level that buyers were not interested in. To get the yield up to the current market benchmark of around 8% would require, assuming all of the adjustment was in land prices, a land price below \$125/m². This example may exaggerate how much land prices are out of kilter with end-user affordability, although industrial land in Te Rapa was selling for less than \$125/m² prior to 2004.

We were given another example of a building with approximately 2,000m² of warehouse space renting for \$75/m² per annum, 200m² of office space renting for \$130/m² and some covered storage space renting for \$50/m² per annum. We were told that to build the same building today, at current land prices, the

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warehouse rental would have to be \$100/m² and the office rental \$160/m² to generate an acceptable yield (i.e. the total rental would have to be 32% higher than current rates). It is not possible from this example to estimate how much land prices would have to fall to achieve an acceptable yield on this property given current rents, but the answer is “a lot”.

We were supplied another example of a warehouse-office building constructed around 18 months ago that was economic to build at the time because the land price had been well below current market prices. At current market land prices of \$250-300/m² this property would generate a yield of only 6.5% versus current market yields of around 8%, implying that the rent had to be 23% higher to make it a viable development at current land prices or land prices needed to be around \$200-220/m² (i.e. 33% below recent peak prices). On top of that this property was tenanted by a business that was said to be able to pay more than what is affordable by many local businesses (i.e. around \$95/m² for warehousing and \$150/m² for office space).

One person interviewed suggested that as rule of thumb industrial space in Te Rapa rented for \$90-100/m² per annum and retail space for \$200/m². Another person quoted \$90-110/m² for warehouse space and around \$150/m² for modern office space in Te Rapa. A third person said that some rents were as high as these numbers and even higher, but in general they were lower on average (e.g. \$160/m² for retailers). It was said that some rents were artificially high because they didn't take into account “inducements”, while it was said that in a number of cases the transactions were between related parties where an incentive existed to have artificially high rents because this made it possible for building owners to borrow more.

Consistent with the view of the third person, the four bulk retail properties being marketed by DTZ in Maui Street, Te Rapa, are renting for \$152-186/m² (plus GST and outgoings – it seems to be industry standard to quote rates and prices on a pre-GST basis, which is done throughout this report). But there were said to be a range of sub-markets (e.g. carpet and other retailers in King Street were said to be paying \$100-110/m² per annum for rent but not far away “over the railway line” it was generally \$65/m²).

One contact provided information on five factories in Te Rapa, as representative of actual industrial rentals, and the rental for warehouse floor space was \$70-85/m², while the office space on the same sites rented for \$120-145/m². The three representative examples provided for Frankton had warehouse space renting for \$70-75/m² and office space renting for \$100-130/m². But some rents are lower than this. The top two photos below show examples of the sorts of buildings that were said to be rented in the vicinity of \$65/m². The second two photos are examples of properties that might rent for around \$80/m² for the factory/warehouse space, while the right one was said to rent for around \$120/m² for office space.



Investors have played a part in driving up land prices with some investors buying land to build spec buildings. The left photo on the next page is of two spec units in Te Rapa advertised for rent at \$108.64/m²



and \$112.47/m² respectively for combined warehouse and office space. The second photo is of another spec building in the same vicinity. The third photo is of a new/spec industrial property in Kaimiro Street, Te Rapa and is for sale for \$590,000 (8% gross rental yield based on asking rental) or for rent for at \$96.5/m² for 487m². The fact that these buildings are not being gobbled up gives an indication that rents at these levels are not ringing end-users' bells.



We are not able to assess what different types of end-users of industrial buildings can afford to pay, but we can use the industrial rental market to provide insights into the economics of industrial land prices. The examples above suggest that actual (and affordable) market rents for a range of traditional end-users of industrial land are moderately to significantly below the levels that make developing new buildings at current land prices viable. Our fact finding and analysis suggest that to restore competitiveness and affordability industrial land prices in Hamilton need to be significantly below current levels. And that land prices in the rest of the sub-region, other than in specialised niche markets like Hampton Downs and Titanium Park, need to be at moderate to significant discounts to Te Rapa prices to be attractive. We were also told that the economic downturn will make it harder to achieve rent increases, so in the near-term the disequilibrium between what most end-users can afford to pay in rent and industrial land prices is unlikely to be restored by rising rents.

As an aside, it seems that the existing industrial building market will play a part in meeting potential demand for new industrial buildings in the near-term. Some supply of industrial buildings has come on the market or is expected to come on the market, including "4 or 5 2,000m² sites vacated by people moving to new buildings", and "a 1.3 ha site and a 5,000m² site that will become available in the next 12 months because the current tenants/owners are moving elsewhere". Another person suggested that the economic downturn could result in some closures and a resulting increase in supply of industrial property.

One response to the high land prices has been increasing stud heights in warehouses from six to eight metres and using "rack and staking systems". One person suggested that in the future industrial property could be priced on a m³ rather than m² basis. There was said to be limited redevelopment of existing sites in part because there were "lots of small titles" which made it hard to accumulate land for larger projects. However, one person we spoke with gave the example of two industrial buildings between Te Rapa and Frankton where redevelopment was planned.

The economics of industrial land development

The 1/3, 1/3, 1/3 rule used in the residential market appears to also be relevant to industrial land (i.e. 1/3 raw land price, 1/3 development costs including council levies and marketing cost etc and 1/3 budgeted margin for the developer). An experienced developer suggested that to make the development of land for bulk retail and warehousing an economic proposition raw land prices needed to be around \$60/m². This would generate developed land at around \$180/m² and would produce a resale price of around \$200/m², which is where he assessed the retail price needed to be based on what this group of upper-market end-users could afford. But critical in this assessment is what the more traditional manufacturing, engineering and distribution firms can afford to pay because these are the industries that lay the golden eggs (i.e. create the new jobs that fuel housing demand and demand for retailing and other commercial services).

There is a significant amount of guesstimation involved, but to be competitive or affordable to the golden egg laying industries we speculate that developed land prices need to be closer to the level that prevailed in Te Rapa in 2003 (i.e. \$110/m²) than the 2004 level (i.e. and 209/m²). If say \$150/m² is the ballpark then based on the 1/3, 1/3, 1/3 rule it implies raw land prices of around \$50/m², which we understand is well below the level owners of land designated for industrial zoning in Rotokauri have in mind.

Unfortunately, the scarcity of information on raw land prices mean we can't accurately ascertain how much prices might have to fall to achieve the sort of end-product prices that would make the Hamilton and sub-regional industrial land markets competitive and affordable again, but we suspect the answer is "a lot".

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An assessment of what stage one in Rotokauri will deliver

At face value the 70 ha in stage one of the Rotokauri industrial growth cell that is supposed to be able to be developed ahead of the Te Rapa Bypass (that is scheduled for completion in 2016) should be enough to meet 6-8 years of demand based on the historical average annual uptake by end-users. However, the bypass is expected to consume 4 ha and result in some of the 70 ha not being accessible, while after allowing for other land needed for roads the net amount left for industrial development will be significantly less than 70 ha.

There is also a large question mark over when even the land earmarked as stage one in Rotokauri will be developed. A problem associated with Rotokauri is the peak hour traffic movement constraints imposed by Transit that are too restrictive for a number of businesses (i.e. 14.1 trips per hour per ha at am peak times and 15 trips at pm peak traffic). We were told that many businesses, like traditional manufacturing businesses, would require significantly more trips per hour at peak times than the Transit maximums. We were told that one deal to buy land in Rotokauri had fallen over because of this and in general the traffic restrictions Transit has announced were seen as materially undermining the potential offered by the planned stage one release of Rotokauri industrial land. The consequence of the traffic restriction is that some firms would have to buy more land than they need to satisfy the restrictions, which is uneconomic in an environment of elevated land prices. One developer even questioned whether the land in stage one would be available prior to the completion of the bypass because of the stance taken by Transit over traffic movements.

The staged rezoning of industrial land in the Rotokauri growth cell came under attack on many fronts. One person interviewed said it reflected the interests of Transit winning out over what was best for Hamilton, which was a common opinion. Others saw it as leaving the near-term supply of industrial land in the hands of a small group of owners who may have limited incentive to supply land at the sort of price level needed to restore affordability. A rationing of supply, if it occurs, is likely to mean that prices are set at levels the end-users that can afford to pay the most will pay, which would mean that industrial land could remain expensive relative to what the bulk of industrial end-users can afford.

We understand that a block of raw land in the Rotokauri industrial growth cell has been offered to a developer for \$100/m², which puts it well above the level we assess as being affordable for the bulk of potential end-users, noting that this was the price for raw, un-developed land. We understand that in general the land in stage one of the Rotokauri industrial growth cell, which is largely owned by two parties, is not available for sale at the moment. It is therefore not possible for us to assess the extent to which stage one in Rotokauri, assuming it is available within 2-3 years, will restore industrial land prices to levels affordable by the bulk of end-users.

As one person put it, "Don't expect land prices to come down significantly or in a timely fashion because of the state of land ownership. It will be a long and painful process of rent increases to get yields back up to realistic levels during which it will not be economic for business/employment growth." As another person put it, "The Rotokauri structure plan could have a big impact on land prices, but there is the question of whether the land owners will sell at lower prices." A problem in a market where supply is constrained or is being rationed out by the owners in understandable economic rent seeking behaviour is that prices end up reflecting what the higher paying marginal end-user can afford to pay.

But not everyone expects land prices to stay as high as they are currently. There was said to be 20-30 ha of land planned for industrial zoning outside the ownership of the major landholders, with land prices being set at the margin. So one person argued that the fact that most of the land to be rezoned industrial in Rotokauri was owned by a relatively small group didn't necessarily mean land prices wouldn't fall if market conditions deteriorated. "It only takes one person to get needy to drive prices down. And with the industrial land in Rotokauri only zoned for industrial use not retail, this person argued that prices would end up reflecting the affordability of demand from industrial users. However, even this person recognised that land owners will try and identify the buyers able to pay the highest prices.

Between Rotokauri, Hautapu, Horotiu and Titanium Park there is over 400 ha of land earmarked for rezoning industrial by Councils and/or developers over the next decade or so, which is in excess of the projection of 210 ha of required industrial land in the ten years to 2016 in the **Hamilton Industrial Land Study**, May 2007, based on the high demand scenario. However, unless the Councils fast track some of the rezoning the sub-region faces the risk that land prices may be uncompetitive for some years to come. In our assessment it would be a leap of faith to expect industrial land prices in the sub-region to return to competitive/affordable levels without significant additional rezoning of industrial land in addition to that planned in Rotokauri.

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Other options for future industrial land in the Sub-Region

With a large question mark over whether stage one in Rotokauri will provide the cheaper industrial land needed to make Hamilton and the sub-region more generally competitive again, and the remaining stages likely to be some years away, we see good reason for the Councils to urgently assess the other options available for delivering affordable industrial land within the next few years. It is our assessment that the sub-region needs a more competitive market for the supply of industrial land, and that gaining a wider mix of owners of land planned for industrial rezoning is as important if not more important than the amount of land earmarked for industrial rezoning.

As one experienced consultant put it, “it will be two years before any more industrial land is available for sale in Rotokauri. In the meantime the city will grind to a halt. Employment growth in the industrial sector will halt and the building sector, which a recent Waikato University report showed drives up to 30% of Hamilton economic activity, will be impacted.” It would appear to be an imperative that the Councils make finding additional land for industrial rezoning a top priority, most importantly competitively-priced industrial land. As one person put it, “If the current land price prevails for much longer things will break out, people will look at private plan changes on the western periphery of Rotokauri”, which means the sub-region faces the risk of potentially unhelpful fragmentation of the industrial land market if it doesn’t promptly deliver a master plan to deal with the pressing problem.

Opinions are split on which locations offer the best options for near-term industrial land. This is partly because not all people we interviewed about the matter were in possession of all the relevant facts, partly reflected vested interests and partly reflected perceived wisdoms that were not always well founded. Equally our assessment will not take into account all the relevant factors because we are no experts in drainage, roading and other relevant issues. However, based on the insights we gained the areas we see as potentially offering more competitively priced industrial land are the Horotiu-Te Rapa area, east of Hamilton in the vicinity of Ruakura and Hautapu, while we expect Titanium Park and surrounds to be an option for some firms, while Hampton Downs will play a niche role, and Te Awatutu will play some part.

Our understanding of the issues relevant to the Horotiu-Te Rapa area

After the original application to get industrial zoning in the Te Rapa-Horotiu area by Fonterra, Riverlea Sands (possibly now known as Northgate Developments) and the Perry Group was opposed by Transit because of the roading implications, we understand that an appeal is underway with the Waikato District Council working with the other three parties. Between Northgate Developments, Perry Development Limited and Fonterra they have in the vicinity of 200 ha of land that could be available for future development.

We understand that Fonterra are developing a position statement on the land around the Te Rapa factory which could be approved by management soon. We estimate that this could result in 30-40 ha of land being available for development, but with the land being in the vicinity of a major food processing factory we envisage that Fonterra would be fussy about what sorts of neighbours it had.

A private scheme change is being co-ordinated by Waikato District Council with Northgate Developments and Perry Development Limited involving around 160 ha of land between the Te Rapa dairy factory and Ngarawahia. Negotiations have been underway for around 3.5 years so far and we understand that the rezoning of the land for mainly industrial but also some residential use is subject to mainly roading issues. We understand that existing roading is sufficient to allow around 14 ha to be developed. Beyond this we understand that further development is subject to the Te Rapa Bypass proceeding, work on the intersection of Horotiu Road with SH1, and the intersection of Onion Road with SH1. In Transit’s November 2007 Waikato newsletter it identified that, “The investigation stage of the Bypass is nearing completion, construction could begin by 2010/11 if a suitable funding plan can be agreed”.

Despite some heavy industry existing in the area already we understand that further heavy industry is not favoured in this area because of the proximity to the Waikato River, the proximity to Fonterra’s food processing plant and plans for some residential development in the area. We understand that Perry Development’s sand plant has around 12 years of life left in it.

A common view on Horotiu was expressed by a couple of people, “There could be resistance to firms moving to Horotiu because of lack of amenities” and “there is no sense trying to develop in Horotiu while Transit is imposing restrictions”. Similar attitudes were expressed towards Hautapu/Cambridge: “attempts to lease land at the old Aotearoa freezing works at Cambridge has been terribly slow”. But from the insights we have gained we see such views about Horotiu as being misplaced. Interestingly, it wasn’t that



many years ago that the Te Rapa area lacked services, but an inevitable consequence of industrial development is subsequent growth in the service sector, while it shouldn't be overlooked that this area is only minutes from both The Base and Ngarawahia township. Also when viewed in the context of the subdivision activity underway at Ngarawahia that is offering sections at much lower prices than available in Hamilton and the potential to better use and/or expand the residential housing west of the Horotiu freezing works, and the future road access and the closer proximity to Auckland, it seems reasonable to conclude that the Horotiu area will play a major part in the sub-region's future growth. When the Te Rapa and Ngarawahia bypasses are completed, including a major interchange, this area will become the northern gateway to Hamilton.

The Horotiu area would appear to have the potential to offer competitively priced industrial land compared to the going rates in Hamilton and compared to the prices we understand are being asked for land in the Rotokauri industrial area. It would appear to be ideal for businesses wanting to expand onto larger, more competitively priced sites (e.g. businesses wanting to move from 1.5 ha sites in Te Rapa to 4 ha sites). It may even have the potential to offer some industrial land for occupation prior to Rotokauri.

We believe that the opportunity exists for the Councils to work with these developers, and with developers that own land in the Rotokauri growth cell where the Te Rapa Bypass is designated, to achieve cost effective and earlier development of the bypass and other roading needs in the area. The relationship between Grasshopper Developments and Transit NZ in The Lakes subdivision in Tauranga offers a prime example of the benefits of developers, Council and Transit working together to achieve mutually beneficial outcomes (Northgate Developments is a subsidiary of Grasshopper Developments).

Our understanding of the issues relevant to the Ruakura area

We understand that Tainui Group Holdings (TGH) owns around 500 ha in Ruakura and could be interested in developing this land for mixed use, excluding heavy industry. As with Horotiu, the Ruakura area, including TGH's land and the land owned by another developer at the end of the extension of Wairere Road, potentially offers the option for the development of competitively priced industrial and residential land, which we see as a major advantage over Rotokauri based on our understanding of what land owners in that area are willing to sell land for (although more investigation of this could be warranted).

As one person put it, "Rotokauri is the next obvious growth cell" but "the east side of the river needs to be looked at for future development. It is flat, has access to sewage and storm water and access to main arterials. The only negative is that some parts have peat." "Tramway Road/east of the city is where the Council should look for future industrial land. It has no hills versus the hills in Rotokauri and will be near the new motorway." Another perspective was that, "Strategically there needs to be industrial land options on the east of Hamilton to balance the land ownership issue at Rotokauri."

One person observed that, "over 50% of the population lives east of the river but only 5% of the employment is on that side, so there is a major transport reason for rezoning industrial land on the east side of the city". These numbers are probably ballpark estimates and it could be a large ballpark, but the point this person was making seems to be a valid one to us.

It was pointed out to us that one obvious use for the TGH land at Ruakura was for an inland port. The proximity of the land to the planned Eastern Bypass and the rail line, and being on the Tauranga side of Hamilton, points to it having a comparative advantage for inland port and distribution type functions. The presence of the Innovation Park, AgResearch and the University already provide an employment focus in the area that could be complemented by further industrial-commercial development, although the area may not be the ideal long-term home for AgResearch.

Not every one favoured the east of Hamilton for industrial land: "not at Ruakura because we don't want trucks back and forward between Ruakura and Rotokauri". One person raised an issue with respect to TGH's land around Ruakura, questioning the market appetite for leasehold versus freehold land on the assumption that TGH would only offer leasehold land. We do not know what TGH's intentions are with respect to leasehold versus freehold land. We know that in general around the country there is a noticeable preference for freehold ownership over leasehold, but at the right price there is a market for leasehold land.

But the majority opinion was positive: "the eastern side of town, the Tainui land, is not silly". The timing of the Eastern Bypass was said by one developer to be relevant to the desirability of industrial land east of Hamilton and in Hautapu. He was sceptical of the timing of the bypass happening - a common and seemingly understandable scepticism - but viewed the development of the TGH land around Ruakura as "making sense even without the bypass". Our own assessment is that the Councils should seriously

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consider the option available on the east side of Hamilton for industrial, commercial and residential development.

Our understanding of the issues relevant to the Hautapu area

Between Fonterra's Hautapu factory and the planned route for the Cambridge Bypass is an area of 63.43 ha identified by the Waipa District Council as an industrial growth cell (CB1), while to the north of this Fonterra has a farm used for irrigating factory waste water of 147 ha that Fonterra has identified for potential use for industrial development, potentially including heavy industry.

A comparative advantage this position was said to have over Hamilton as a potential distribution site at the south end of the Hamilton-Auckland-Tauranga "golden triangle" was that it, unlike Hamilton, it could be reached from the Hawke's Bay by truck drivers within the maximum time they were supposed to be on the road. It could also potentially offer a site for the likes of transport firms and potentially most importantly in terms of the Fonterra land it may offer a home for heavy industry.

Hautapu was an area one person interviewed thought could be good for trucking firms for overnight storage, which is the sort of activity that is completely uneconomic in the likes of Te Rapa. Another view was that it is, "Not a bad spot. It is one of the few areas that has potential for heavy industry. It will compete mainly with the airport." However, it is viewed by some as a secondary area with limited services.

As documented in the **Waipa Urban Growth Strategy** report, page 15, "the rate of industrial development in Cambridge has been steady and moderate, with an average of 5.75 building consents for new industrial buildings each year". After reviewing the current supply of vacant industrial land the Growth Strategy report goes on to identify that "Cambridge has a significant shortage of industrial land". Based on historical trends it is estimated that Cambridge will need a further 115 industrial lots by 2021. The CB1 Growth Cell at Hautapu is expected to have 317 industrial lots, which will cater for Cambridge's needs for the long-term even prior to considering the further potential for industrial land at Fonterra's irrigation farm. The infrastructure requirements for the Hautapu CB1 Growth Cell seem quite manageable as documented in the **Waipa Urban Growth Strategy** report, page 32.

While Hautapu may not appeal to end-users with a focus on Auckland, in addition to meeting Cambridge's needs if the land prices are competitive it should have a roll to play for the likes of trucking firms needing storage, possible for heavy industry, and as a potential distribution base for firms focused on the likes of Rotorua, New Plymouth, Rotorua, Tauranga, Taupo and potentially the Hawke's Bay, as well as Hamilton and north. Reflecting this, Carters, the building materials company, has a truss factory at Hautapu. It is viewed by some as a long way from Hamilton and lacking services, but it is on the doorstep of Cambridge, with planned future residential development in north Cambridge heading in Hautapu's direction, while when the Eastern Bypass is eventually built it will provide much improved roading access north.

Our understanding of the issues relevant to the Titanium Park and the airport area

The Titanium Park development at the Hamilton International Airport is a JV between HIAL and McConnell Properties, with a net land area of almost 50 ha. We understand that the private plan change could deliver developed lots by March or April next year and that it will offer a mix of freehold and leasehold lots. It is not seen as a home for "wet or dirty" industries because of "limitations around water supply". It will allow for expansion of the existing aviation industries in the Aviation Park, an area for hotel development, and areas for industrial-commercial-retail development (www.titaniumpark.co.nz).

One developer saw Titanium Park as the obvious home for "DHL-type" firms, as occurs around Auckland Airport. It was said to challenge the paradigm that industrial land needs to be north of Hamilton, and offers an option for firms focused on servicing Rotorua, Taranaki, Cambridge and Te Awamutu and even Tauranga. It should in our assessment fulfil the needs of at least two niche markets, but we do not expect it to offer the cheaper land the sub-region needs to reclaim its status as a cost-competitive alternative to South Auckland for manufacturers and distribution firms. There is scope for further industrial development around the airport, we understand that TGH own 6 ha near the airport earmarked for future development and that Brian Hermann of Narrows Landing is promoting industrial, commercial, residential and rural development between the airport and the river but has not lodged a plan yet.

Our understanding of the industrial land in the pipeline at Te Awamutu

As documented in the **Waipa Urban Growth Strategy** report, page 15, "there has been a low but steady growth in the industrial zones of Te Awamutu, corresponding to an average of 8.25 building consents for new industrial buildings per year". After reviewing the current supply of vacant industrial land the Growth



Strategy report goes on to identify that “Te Awamutu has a reasonably adequate supply of industrial land (including land zoned Dairy Industrial)”.

The Waipa District Council has identified the Bond Road Industrial Growth Cell (TA6) for development, comprising 11.92 ha. It was described as “a small industrial cell of 60 lots located in east Te Awamutu off Bond Road”. It is not far from the Picquet Hill residential subdivision planned by the Council on the north east side of town. We were also told that, “24 ha of industrial land subject to rezoning and Transit approval is planned at Te Awamutu, which may be priced at around \$150m² and is separate from the area planned for the supermarket” In addition there is the small industrial subdivision identified on page 7.

Our understanding of the issues relevant to the Hampton Downs development

The Hampton Downs Motorsport Park has already sold all of its 12 industrial units (240m²) and all of the 80 apartments to motorsport enthusiasts. Two of the three retail sites have been sold for use by a hotel operator and for café-restaurant use, with these priced at \$350/m². Five of the 16 Business Park sites have sold, priced \$230-295/m², with most of the sites remaining for sale being around 5,100m² and priced around \$250-295/m². Work and live units are planned for the remaining 34,800m of the Business Park area. Fourteen of the 15 lifestyle blocks have been sold. Other than the retail area, the demand for sites has come from motor-related industries, with this demand likely to grow given that the track is already well booked for training and weekend national racing events.

There has been no demand as yet from industrial-commercial businesses seeking Hampton Downs as a “strategic site”. We believe this will in part reflect the prices that are understandably being set at levels consistent with the niche nature of the development rather than to offer a cheap alternative to Hamilton. While there is spare land for expansion we understand that the developer sees it as too much of a battle to try and get consent to develop more industrial land.



Other longer-term options for industrial land in the Sub-Region

Waikato District Council has a consultant working on a new industrial plan for Te Kauwhata, but this is a longer-term project.

The developer of Hampton Downs sees this area as a desirable area for future industrial and residential development based on superior road and rail access.

We understand that when the new road goes west of Peacockes, linking the airport and West Hamilton, land west of Peacockes which was said to be less peaty, could be an option for longer-term industrial zoning.

Finding a home for heavy industry

A supplementary request in our briefing for this project was to find a home for “heavy” industry in the sub-region (i.e. a site or sites that developers perceived might be suitable for heavy industry). By heavy industry was meant noisy, wet, dirty or toxic industries like asphalt plants and abattoirs. We are not experts in what criteria make an area suitable for heavy industry and what follows is based on the observations by the developers and property professionals we interviewed who expressed opinions regarding what site or sites might be suitable for heavy industry. It is possible that other sites might be more suitable while the sites suggested by the developers may not be suitable for one reason or another.

The story about land for heavy industrial use was generally “not in my back yard”. It is understandably not wanted near food processing plants (e.g. Fonterra’s Te Rapa factory), nor in areas of likely mixed industrial-commercial-residential use (e.g. Horotiu and Ruakura), nor near residential areas. However, there are two

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areas that several people interviewed suggested might offer homes for heavy industry in the sub-region, albeit that one is a potential long-term option but the other could be a near-term option. The longer-term option suggested for heavy industry was the Fonterra land at Hautapu (see page 14).

The one area suggested as a potential nearer-term option for heavy industry by a few people interviewed was “off the end of Higgins Road”. This area was said to be in Waipa District and is probably in the vicinity of the area encompassed by the purple line in the map below. There was said to be something like 74-77 ha in this vicinity that could potentially be used for heavy industry. The area was said to have peat but we were told that at the right land prices peat up to a certain depth could be commercially viable. The area suggested was said to be adjacent to a number of existing heavy industry sites.

One developer said that in this area the “peat problem is major, with 3-4 metres of peat”, but another developer said that while there was peat in the area, “between three and eight metres”, that peat at 3m could be developed economically provided land prices reflected the cost of dealing with the peat. Another developer put the cost of rejuvenating peat land at \$80/m², involving a combination of using piles and digging out the peat.

