Is the Hawke's Bay Commercial Market Valuing Up?

Recently we have seen our residential real estate market gain some real momentum with consistently high volumes of sales transactions which has led to an improvement in residential property values. So is the commercial sector going to follow a similar pattern? Currently the signs are looking positive, however, unlike the residential sector growth is not as comprehensive. The commercial investment market continues to be more discerning with purchasers being more aware of what affects value such as location, quality of space and tenant covenant.

The commercial investment market is strong at present with investors looking for superior returns given the low interest rate environment we find ourselves in. In general, the strength of the market is dependent on a particular property's quality. Regionally, there continues to be a wide gap between properties of varying quality and strong demand for good quality investments with yields ranging between 6% and 8%.

Out of town buyers

An evolving trend is the increasing interest of 'out of town' investors. These investors are prepared to go further afield to buy property as they seek superior returns which they are currently unable to achieve in the larger centres. However, any commercial property that is of a more secondary nature such as average locality, lesser quality improvements, low seismic rating, short lease term with inferior tenant covenant or vacant, appears to lack market interest. These properties have been slow to sell and at increasing capitalisation rates of 9% to 12% plus.

These 'out of town' investors are also contributing to another dynamic in the marketplace which has seen yields being driven down rapidly consequently increasing values. The Auckland/Wellington investor is driven by seeking superior returns than they are able to gain within their own localities. It makes good sense to look at good quality Hawke's Bay commercial investment property at a yield return of between 7% and 8% when you are only able to gain 5% to 6% in Auckland. These investors have spread their wings and are looking nationally for good quality commercial investments and are purchasing property strictly on yield returns of which 7% has quickly become the norm which is now pushing into the 6% yield range.

Does property type matter?

Historically, we used to be able to group property types like retail, offices and industrial and each property type would have its own yield range. However, the market does not appear to recognise the property type differentiations as much. Factors such as the location, age of premises and the tenant covenant appear to be more influential in the investors attitude towards assessing the risk and the resulting yield.

Our marketplace is now seeing good quality industrial investment properties selling at 6% yield which is extremely low for the Hawke's Bay industrial sector. Traditionally, this yield would normally only have been seen within the commercial CBD environs or the smaller sought after localities of Havelock North and Taradale.

Recent good quality commercial investments include:

- Lyndon Road, Hastings - $2,200,000 7.5%
- Ruahapia Road, Hastings – circa $1,540,000 6.73%
- St Aubyn and Nelson Streets, Hastings – circa $2,153,000 7.2%
- Eastbourne Street Hastings - $1,425,000 7.75%
- Leyland Street, Napier - $1,900,000 6%
- Karamu Road, Hastings – circa $1,930,000 6.22%

These sales show a strong commercial investment market for a good quality commercial property, however the same cannot be said for commercial property that is older, vacant or partly vacant, needs modernisation or has seismic issues. In general, there has been excellent development activity throughout both Hastings and Napier cities in regards to retail, office and to a lesser extent industrial.

The main challenge for both cities is how to address the high levels of vacancies of the older retail accommodation within each city that are left behind by tenants who relocate to superior quality accommodation. Generally, these premises are older, dated and also have seismic issues that require addressing.

Based on the low interest rate environment we are in and whilst the 'out of town' investors continue to gain returns in Hawke's Bay commercial property they are unable to gain in the larger centres, the expectation is that these positive market conditions will continue. In the short term we will see a proclivity for blue chip commercial investments and further lowering of yields.

HASTINGS
T 06 871 0074

NAPIER
T 06 835 1617

PO Box 232, Hastings 4156, New Zealand
valuers@williamsharvey.co.nz
www.williamsharvey.co.nz

WILLIAMS'HARVEY