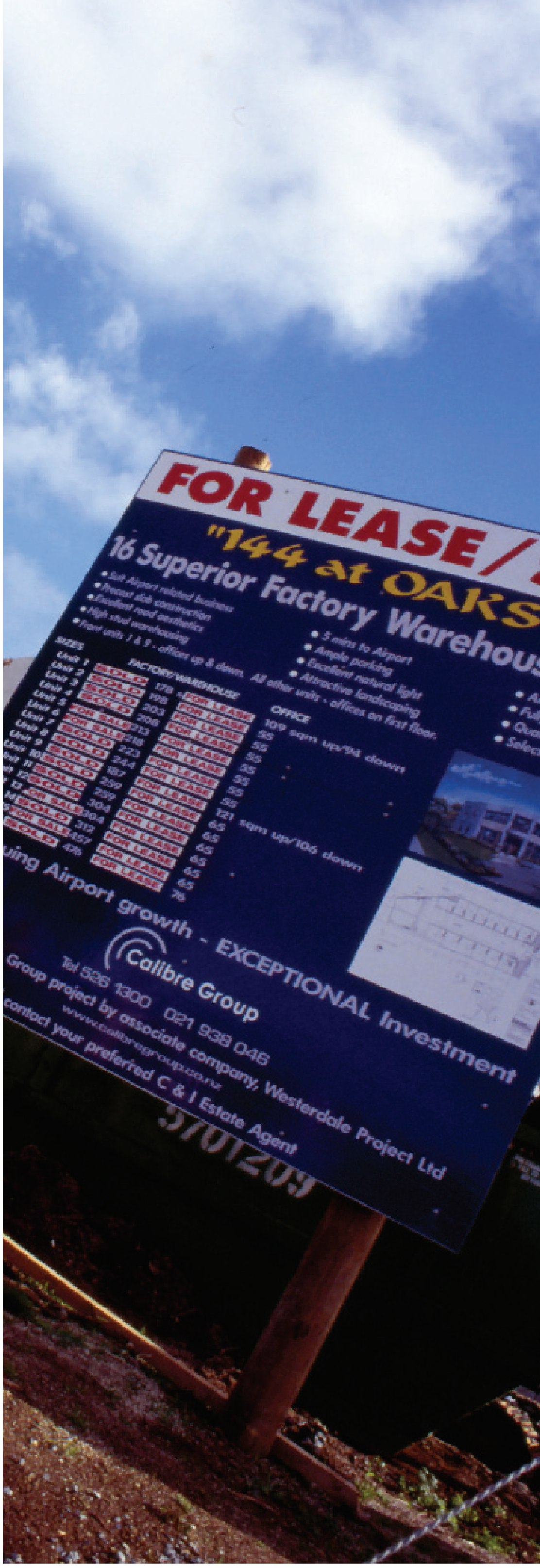

HELLO BOYS!

KPICOMMERCIAL EDITOR GEZ JOHNS GETS THE LOWDOWN ON THE SMALL-TO-MEDIUM-SIZED INDUSTRIAL REVOLUTION HAPPENING IN THE SHADOW OF AUCKLAND AIRPORT FROM TWO MEN LEADING THE CHARGE: NEIL POWELL, OF THE CALIBRE GROUP AND SCOTT CAMPBELL OF CB RICHARD ELLIS INDUSTRIAL SERVICES …

Here's a question for you. How do you make industrial property sexy? We're talking a world of warehouses, factories, functional design and generally unfashionable locations; a sort of inverted Logan's Run where only the less fit and beautiful things in life are allowed to survive, aren't we? Well, if Auckland's airport precinct is anything to go by, not any more we're not. And given one of the area's major new tenants is Bendon, even the warehouses themselves are beginning to look good.

Beyond the seemingly endless façades of uber-brand warehouses lies an Atlantis of smaller warehouse/office developments, that have only really been discovered by investors over the last five years. Since word got out however, the race to secure a slice of the industrial market in what is now a highly sought-after location has started in earnest, with land prices within the area known as Airport Oaks doubling over the last two years.

So long as the development is a quality one, the attraction of an airport-side location is obvious, as Neil Powell of the Calibre Group, a development company specialising in creating small-to-medium units in the area, explains.

"We have two bites of the cherry out here for tenants. On the one hand you have your ordinary tenant, with an ordinary business that could be located pretty much anywhere around the city; then you also have the airport-related tenancies … In our latest complex here we have a large printing company, a tourist-oriented gift company that sells through the airport, a Danish seed company, an Australian distributor and a firm that specialises in Pacific Island freight transportation."

That Auckland airport is in the process of adding a second runway, to be operative within the next five years, has only added to the demand for space in the area. Even without the new runway, turnover in air freighting has increased dramatically over the last twelve months – and with the current economic climate encouraging more start up or expanding businesses, the need for small-to medium sized warehousing and office space in close proximity could hardly be greater. This is something that has not been lost on investors, as Neil, again, explains.

"Whilst we always like to create a mix of owner-occupiers and investors in our developments, I think that only one out of the thirteen sold in our latest one has gone to an owner-occupier. Investors are prepared to purchase without guaranteed tenancies, but in the knowledge that there's a pent-up demand for smaller units."

There is another dynamic behind the hunt, specifically, for the smaller units. Most of the land around the Airport is restricted by covenant, preventing smaller mixed-use developments in all but a few remaining pockets. According to CBRE Associate Director, Scott Campbell, who has sold over 70% of land available in the surrounding area, for the "haves", this should simply be music to their ears.

"Shortage of industrial land can be attributed to offshore investment banks acquiring large blocks and the low interest rates now attracting owner occupiers. In turn, this is pumping up the land values meaning rents will need to rise in the foreseeable future."

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Industrial property is a pretty broad term and one that should perhaps be defined in more detail with regards to the Airport Oaks area. For Neil and the Calibre Group, currently concentrating on a development at 144 Montgomerie Road (the prime access road between the Airport and Airport Oaks), having completed similar projects at 71 and 117, this means warehouse / office combinations of varying ratios: 200-250m2 warehouse / 50m2 office; 260-300m2 / 60m2; 450m2 / 60-70m2; and 200m2 / 100m2 plus 100m2 showroom – with rentals ranging from $35 to $80K.

According to Scott, "Prospective investors are likely to benefit from healthy income and capital returns on their investments, and owner-occupiers can expect their capital investment to rise steeply over the coming years, as the area progresses further, while profiting from their ideal location."

Obviously as the supply and demand ratio has shifted over the last five years, trends have changed. "We started off with investors wanting a smaller type of unit, because that was all their dollars could afford," says Neil. "But now we've got investors looking for anything up to 10, 12, 15,000 square feet, which translates to, say, $2.5m."

Scott Campbell elaborates on another defining aspect of such industrial developments. "Small, 2000sqm freehold titles are by no means as readily available today, rather most are on unit titles. For investors, they're getting the same sort of return and it is strictly regulated by a body corp to ensure that the environment is not compromised by undesirable neighbours."

Both believe that today's investor is more educated about what is realistically achievable. If a body corp does its job properly, which for the Calibre Group, through its property management arm, means ensuring a high calibre of tenant, optimised security, regularly cleaned buildings and pristine grounds, then the tenant or occupier will be happy to part with money for the fees. "And come rent review time the investor will be able to achieve top rents," says Neil. So everyone's happy.

Furthermore, with industrial land having doubled in price over the last two years, there are huge cost savings to be made on purchase. "The cost of everything has gone up so much: land, construction, steel – which is why the unit development concept really works," suggests Scott.

Of course, as with all developments, the area

boasts its fair share of frustrations – not least the three or four months it takes to get through a 20-day building consent and the additional fees and levies the government has imposed on developers. Not that this would be enough to put Neil off further projects:

"We've got about a two year projection ahead of us. Our next project is a 9 unit one in a particularly good location in Airpark One, to commence in October. After that, we're merging two north-facing sites with great traffic flow over in Airpark Two, where we'll put five units, with a predominance of two-storeyed offices, to cater for a possible head office for a company, after which we've another development for six units …"

With much of the land owned by "holders" rather than developers – mostly Auckland International Airport, Airpark Business Centre and Macquarie Goodman – critical mass has been reached in terms of available land. And of course the existing covenants will remain in place. In fact the only possibilities will come from individual land owners who might decide that they've made their margin and want to get out. And as far as future-proofing today's buildings, Scott suggests the basis of the formula is pretty simple.

"The market is not just square footage driven now, it's volume driven – particularly where warehousing is a predominant occupier usage. Even if the first tenant isn't a warehousing company, the next one may well be, therefore a high stud is generally a definite requirement."

Neil concurs: "In 10 years' time, if you've got a high stud, good natural lighting, and it's clean and crisp with good access, you will score another good tenant. And remember, it's all about location, location, location: New Zealand has just one major international airport. Of course Christchurch will take some of the South Island business, but we get logistics business right from Invercargill to Kaitaia through here, I'd say we're sitting pretty."

Just like the girl in the Bendon ad. ■

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