

# Hawke's Bay's commercial market

*The Hawke's Bay commercial market in general is showing mixed results with subdued transaction levels. There continues to be a wide gap between properties of varying quality with reasonably strong demand for good quality investments with yields ranging between 7% and 9%.*

By Paul Harvey Registered Valuer/Director

However, any commercial property that is of a more secondary nature, that is, average locality, lesser quality improvements, short lease terms/ vacant or inferior tenant covenant appears to lack market interest and has been slow to sell at increasing capitalisation rates of 9% to 20% plus at lowering value levels.

Activity levels through all sectors, such as office space, industrial, retail have been subdued although there has been activity in the large format retailing sector with the development of The Park Mega Centre (the old Nelson Park site in Hastings) which has seen three head tenants comprising Mitre 10 Mega, The Warehouse and Fishing Camping Outdoors (FCO). Also Farmers has embarked on large scale redevelopments in both Hastings and Napier cities CBD.

All apart from FCO, who is a new Australian entrant into the New Zealand market, have left large vacancies behind in other parts of the city and it is difficult to see where the tenants will come from to fill these vacancies. This has created increased activity and redevelopment of sites that surround The Park Mega Centre, especially along Karamu Road North in Hastings.

Napier City's activity was largely focused in Ahuriri with the redevelopment of the ex Rothmans site by Big Save and the development of a business



park tailored to offices. However Napier's CBD is also now enjoying a large scale Farmers development, redevelopment of the museum, redevelopment of the old Cosmopolitan Club and redevelopment of other sites within close proximity. Hastings Street in Napier City is currently experiencing large scale redevelopment, some of which are due to seismic issues.

Generally tenant demand for most property types has slipped due to the uncertainty in the market conditions and businesses are not relocating to bigger or alternative space. It also appears that if the landlords wish to be successful in attracting or retaining tenants to the buildings, in some instances they have had to lower their expectations with regard to the rental return and provide some incentives to the tenants by providing initial rent free terms, contributing to fit outs or spending money on the properties

to bring them to a better standard before leasing again.

A major factor now appearing in the commercial market is the age and construction of the structure and its seismic strength. Insurance premiums for, especially, pre 1935 structures have increased substantially, some to unaffordable levels. Also occupiers of buildings are showing concern for their staff if the structures are deemed earthquake prone and choosing to vacate. We are aware of larger corporates and government tenancies that have made policy decisions, whereby if the building does not meet the current building code, they move out immediately or will not be renewing their lease and will locate elsewhere. Looking forward we expect this to particularly influence the office and retail market where demand for single level, modern, fringe premises will increase. We are starting to see increased office premises in fringe

WILLIAMS' HARVEY

localities where occupiers can secure up to code buildings located on main traffic routes and therefore gain increased visual awareness for their business's , easier access and better parking than in the CBD.

In the short term I expect these market conditions to continue however I am optimistic of a gradual improvement in the overall market place looking forward. To give an example of the wide divergence in the Hawke's Bay commercial property market I quote some recent sales. 206 Ellison Road sold in December 2012 for \$1,710,000 at 7.19% yield. This property was a renovated building with a new six year lease to an

international tenant. Another sale of 530 Karamu Road North, sold in August 2012 for \$382,000 at 7.13% yield. This property is a new building forming part of the Park Mega Centre with a new seven year lease. Both these properties are seen as desirable investments with good rental growth prospects and sold with low yields.

Conversely, 105 Market Street North sold in October 2012 for \$380,000 at a notional yield of 16.32%. A two storey, 1950's premises where the ground floor was leased and the first floor was vacant. 308 Eastbourne Street West sold in May 2012 for \$325,000 at a notional yield of 19.02%. This property was a 1950's

single level warehouse sold with vacant possession and is considered a second tier quality asset requiring renovation.

As the commercial market is mixed it requires specialist consideration and I would suggest a prudent investor should seek independent advice prior to sale or purchase.

*All material and opinions in this article are not market specific and should be used as a guide only. Williams' Harvey should be consulted before relying on, or acting on this information!*

#### ACCEPTABLE USE

- The attached market reports are the property of Williams' Harvey Registered Valuers.
- Permission is required for certain commercial use including media

*articles or for use in tenders or legal documents.*

- Please contact Paul Harvey or more information about acceptable use.

#### USAGE GUIDELINES

- Williams' Harvey will allow use of and reproduction of market reports on the following basis:
- Permission is first obtained from Paul Harvey

- Purpose of use is provided
- The source of the reports are quoted i.e. Williams' Harvey Registered Valuers and our logo used.
- All material and opinions in these newsletters are not market specific and should be used as a guide only. Williams' Harvey should be consulted before relying on or acting on this information.

■ HASTINGS ■ NAPIER  
T 06 871 0074 T 06 835 1617

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

WILLIAMS' HARVEY

We value this country every single day  
www.valgroup.co.nz

