



ADVISORY REPORT

Palmerston North Commercial Market Survey 2022 Palmerston North City

Client
Survey date

Palmerston North City Council
31 December 2022

CONTENTS

1	EXECUTIVE SUMMARY	3
1.1	BUSINESS ZONES.....	3
1.2	INDUSTRIAL ZONES	3
2	SCOPE OF WORK.....	4
2.1	OUR CLIENT	4
2.2	PURPOSE.....	4
2.3	BASIS OF SURVEY	4
2.4	DATE OF SURVEY	5
2.5	EXTENT OF INVESTIGATIONS.....	5
2.6	NATURE AND SOURCE OF INFORMATION RELIED UPON	5
3	MARKET SECTORS FINDINGS.....	6
3.1	BUSINESS ZONES (IBZ + OBZ + FBZ + LBZ)	6
3.2	INDUSTRIAL ZONES (INZ + AIZ + NEIZ)	9
4	STATEMENT OF LIMITING CONDITIONS AND ADVISORY POLICY	12

17 May 2023

Palmerston North City Council
Private Bag 11034
Manawatu Mail Centre
Palmerston North 4442

michael.duindam@pncc.govt.nz

Attention: Michael Duindam

ADVISORY REPORT

PALMERSTON NORTH COMMERCIAL MARKET SURVEY 2022

PALMERSTON NORTH CITY

In accordance with instructions, we have now completed the Palmerston North City Council (PNCC) commissioned Palmerston North Commercial Property Market Survey. Summary reporting follows below. More detailed findings are recorded in the enclosed spreadsheet.

1 EXECUTIVE SUMMARY

1.1 BUSINESS ZONES

- There is 127.7302 ha land zoned for commercial purpose in four business zones:
 - + Inner Business.
 - + Outer Business.
 - + Fringe Business
 - + Local Business.
- Currently 112.6699 ha (88.21%) has been developed and is offering 784,515 m² of floor space in the business zones. Said floor space is in Grade A buildings (25.34%), Grade B buildings (54.08%), and Grade C buildings (20.58%).
- As of December 2022, the overall vacancy rate across all business zones is 65,603 m², this represents 8.36% of total floor space.
- In terms of floor area, the highest vacancy is in Grade C buildings (31,890 m²), followed by Grade B buildings (21,315 m²), and Grade A buildings (12,398 m²).
- The Inner Business zone has the highest vacancies at 44,831 m², followed by Outer Business zone at 19,953 m².

1.2 INDUSTRIAL ZONES

- There is 870.0971 ha land zoned for industrial purpose in three industrial zones:
 - + Airport.
 - + Industrial.
 - + North East Industrial.
- Currently 547.2998 ha (62.91%) has been developed and is offering 1,197,884 m² of floor space in the industrial zones. Said floor space is in Grade A buildings (33.71%), Grade B buildings (56.22%), and Grade C buildings (10.07%).
- As of December 2022, industrial premises vacancies are very low at 13,251 m² (or 1.11% of total floorspace) and associated with the industrial zone only. There are no vacancies in the Airport and North East Industrial zones.
- Within the Industrial zone the highest vacancy is in Grade B buildings (7,896 m²), followed by Grade A buildings (3,479 m²), and Grade C buildings (1,876 m²).

2 SCOPE OF WORK

2.1 OUR CLIENT

Palmerston North City Council.

Other than the client or addressee, the report may not be relied upon by any third party. We accept no liability to third parties. Written consent is required for any third party wishing to rely on this report. We reserve the right to withhold that consent, or to review the contents of the report if consent for third party use is sought.

2.2 PURPOSE

Vacancy survey of properties within the industrial and business zones in Palmerston North City.

Survey has included capture of individual property:

- Land use activity on a tenancy-by-tenancy basis.
- Building frontage photograph.

2.3 BASIS OF SURVEY

- Vacancy assessments are carried out on all properties where there is a building(s) that is rated as non-residential.
- Vacancy levels are assessed by reference to known floor area measure, scaled from records held, and lease advertising information.
- Vacancy levels are shown as a ratio of assessed vacant floor area to District Valuation Roll floor areas i.e., percentage (0%, 25%, 50%, 75%, 100%) against floor area from District Valuation Roll for ground floor and upper floors.
- Where property was being advertised for lease or sublease but was still occupied it was treated as occupied.
- Buildings are graded into the following categories:
 - + Grade A – built post year 2000.
 - + Grade B – built between 1960s to 1990s.
 - + Grade C – built pre-1960s.
 - + Adjustments are made to finalise grading by reference to physical viewing i.e., refurbished, modernised may be B grade rather than C grade.
- Where there is no significant building(s) i.e., where the building(s) > 50m², properties are classified into the following non-graded categories:
 - + CP – Carpark.
 - + OC – Occupied (e.g., land used for storage without building, car yard where it could not be assigned to a business such as car rental).
 - + R – Residential or rural rated properties.
 - + UC – Under construction.
 - + V – Vacant Land.

2.4 DATE OF SURVEY

31 December 2022.

2.5 EXTENT OF INVESTIGATIONS

- Survey incorporated a viewing of all property identified in the Palmerston North City District Valuation Roll with zoning:
 - + Inner Business.
 - + Outer Business.
 - + Local Business (Terrace End only).
 - + Fringe Business.
 - + Industrial.
 - + Airport.
 - + North East Industrial.
- Initial property viewings were undertaken with an external inspection from roadsides and pedestrian ways.
- Where possible internal inspections were undertaken.
- Land areas that are used as road reserves and utilities are excluded. This includes water, electricity, and telecommunications facilities, plus land where wastewater treatment plant, and resource recovery centre are situated.

2.6 NATURE AND SOURCE OF INFORMATION RELIED UPON

Property data and market information has been sourced from but is not limited to:

- TelferYoung from CBRE property viewings and in-house database.
- PNCC.
- Real Estate Institute of New Zealand.
- Property Guru: CoreLogic New Zealand.
- Headway Systems Limited.
- Local Property Professionals.

No other information or documentation of particular significance to the exercise has been relied upon without specific verification by TelferYoung from CBRE.

3 MARKET SECTORS FINDINGS

3.1 BUSINESS ZONES (IBZ + OBZ + FBZ + LBZ)

3.1.1 Overview

Grade	No. of Properties	Total Land Area (ha)	Total Floor Area (m ²)	Buildings Vacancy (%)
Grade A	103	34.1604	198,771	6.24%
Grade B	429	56.6181	424,284	5.02%
Grade C	246	21.8914	161,640	19.75%
Total	778	112.6699	784,515	8.36%

- There is 784,515 m² of floor space in the combined business zones. They consist of the following building grades:
 - + Grade A – 25.34%.
 - + Grade B – 54.08%.
 - + Grade C – 20.58%.
- The overall vacancy rate (combining all business zones) is 8.36% of total floor space. The highest to lowest vacancy rates are as follows:
 - + Grade C buildings – 19.75%.
 - + Grade A buildings – 6.24%.
 - + Grade B buildings – 5.02%.

3.1.2 Ground Floor Vacant Area & Vacancy Rates

Grade	Total Floor Area (m ²)	Total Floor Area (%)	Vacant Floor Area (m ²)	Vacant Floor Area (%)
Grade A	155,882	27.59%	2,091	1.34%
Grade B	288,213	51.01%	11,722	4.07%
Grade C	120,924	21.40%	17,984	14.87%
Total	565,019	100.00%	31,796	5.63%

- There is 565,019 m² of ground floor space in the combined business zones. They consist of the following building grades:
 - + Grade A – 27.59%.
 - + Grade B – 51.01%.
 - + Grade C – 21.40%.
- The overall ground floor vacancy rate (combining all business zones) is 31,796 m² or 5.63% of total floor space. The highest to lowest ground floor vacancy rates are as follows:
 - + Grade C buildings – 14.87% (17,984 m² is available).
 - + Grade B buildings – 4.07% (11,722 m² is available).
 - + Grade A buildings – 1.34% (2,091 m² is available).

3.1.3 Upper Floor Vacant Area & Vacancy Rates

Grade	Total Floor Area (m ²)	Total Floor Area (%)	Vacant Floor Area (m ²)	Vacant Floor Area (%)
Grade A	42,889	19.54%	10,307	24.03%
Grade B	136,071	61.99%	9,635	7.08%
Grade C	40,536	18.47%	13,224	32.62%
Total	219,496	100.00%	33,166	15.11%

- There is 219,496 m² of upper floor space in the combined business zones. They consist of the following building grades:
 - + Grade A – 19.54%.
 - + Grade B – 61.99%.
 - + Grade C – 18.47%.
- Larger vacancy rates are evident with upper floor space. The overall upper floor vacancy rate (combining all business zones) is 33,166 m² or 15.11% of total floor space. The highest to lowest ground floor vacancy rates are as follows:
 - + Grade C buildings – 32.62% (13,224 m² is available).
 - + Grade A buildings – 24.03% (10,307 m² is available).
 - + Grade B buildings – 7.08% (9,635 m² is available).

3.1.4 Zone Vacant Floor Area & Vacancy Rates

Grade	Vacant Floor Area (m ²)					Vacant Floor Area (%)				
	IBZ	OBZ	FBZ	LBZ	Total	IBZ	OBZ	FBZ	LBZ	Total
Grade A	11,963	435	-	-	12,398	16.10%	0.39%	0.00%	0.00%	6.24%
Grade B	12,912	8,183	220	-	21,315	6.88%	4.28%	0.54%	0.00%	5.02%
Grade C	19,957	11,335	421	178	31,890	29.27%	13.32%	7.18%	7.66%	19.75%
Total	44,831	19,953	641	178	65,603	13.57%	5.13%	1.11%	2.34%	8.36%

- The INZ has the highest total vacant floor area at 44,831 m², and total vacancy rate at 13.57%.
 - + Although there is 16.10% vacancy in Grade A buildings (11,963 m² available) in this zone, this is entirely associated with one building i.e., 47 Ashley Street (the former IRD Building).
- Within each zone, there is consistent trend showing Grade C buildings has the highest vacant floor area, followed by Grade B, and Grade A buildings i.e., there is more vacant floor areas in older buildings compared to newer buildings.
 - + In the Inner Business zone there is 29.27% vacancy in Grade C buildings (19,957 m² available), 105-112 The Square (the former High Flyers Building) accounts for the largest part at 4,810 m².
 - + In the Outer Business zone there is 13.32% vacancy in Grade C buildings (11,335 m² available), 2-14 Rangitikei Street (the former Phoenix Insurance Building) accounts for the largest part at 3,948 m².

3.1.5 Rental & Investment Market

Assessment	Rental Market			Investment Market			
	Rent \$/m ² Net	Trend	Supply	Demand	Availability	Yield Range	Trend
Office	\$120-\$400/m ²	Stable	Moderate	Average	Limited	6.50-8.50%	Weakening

Assessment	Rental Market			Investment Market			
	Rent \$/m ² Net	Trend	Supply	Demand	Availability	Yield Range	Trend
Retail*	\$150-\$400/m ²	Stable	Average	Average	Average	6.50-9.50%	Weakening

* Excludes Shopping Centre Rents e.g., The Plaza, and Downtown Shopping Centre.

- Over the past two-year period (from 2020 to 2022), the Palmerston North Commercial Property Market Survey shows vacancy levels have generally increased across combined business zones.
- In the current market, property sales that have occurred still achieve relatively strong investment yields particularly where property fundamentals such as building compliance and tenancy arrangements remain sound. Older or weaker tenanted properties require higher returns to attract purchaser support.
- In terms of the office rental market, as of late 2022 there is a wide divergence of rentals in Palmerston North. There is evidence of corporate and institutional tenants seeking new compliant office space, preferably with larger floor plates. Rentals established for modern purpose-built accommodation are largely development cost driven and are at levels exceeding that for older and/or less versatile space.
- Mid-Broadway and Terrace End commercial (Outer/Local Business) continue to benefit from sound tenancy support.
- The Central Business District remains with significant vacancies.
- Conventional strip or ribbon development retailing areas evidence a spread of restaurant/food, vape and pop-up outlets; and there has been little or no rental growth in the sector over recent years. This is influenced by a combination of factors including escalating property operating costs, competition from big box retailing, The Plaza Shopping Centre and internet shopping.

3.2 INDUSTRIAL ZONES (INZ + AIZ + NEIZ)

3.2.1 Overview

Grade	No. of Properties	Total Land Area (ha)	Total Floor Area (m ²)	Buildings Vacancy (%)
Grade A	150	134.4650	403,826	0.86%
Grade B	473	368.8286	673,437	1.17%
Grade C	127	44.0062	120,621	1.56%
Total	750	547.2998	1,197,884	1.11%

- There is 1,197,884 m² of floor space in the combined industrial zones. They consist of the following building grades:
 - + Grade A – 33.71%.
 - + Grade B – 56.22%.
 - + Grade C – 10.07%.
- The overall vacancy rate (combining all industrial zones) is 1.11% of total floor space. The highest to lowest vacancy rates are as follows:
 - + Grade C buildings – 1.56%.
 - + Grade B buildings – 1.17%.
 - + Grade C buildings – 0.86%.

3.2.2 Ground Floor Vacant Area & Vacancy Rates

Grade	Total Floor Area (m ²)	Total Floor Area (%)	Vacant Floor Area (m ²)	Vacant Floor Area (%)
Grade A	387,756	33.84%	3,479	0.90%
Grade B	639,664	55.82%	7,896	1.23%
Grade C	118,472	10.34%	1,876	1.58%
Total	1,145,892	100.00%	13,251	1.16%

- There is 1,145,892 m² of ground floor space in the combined industrial zones. They consist of the following building grades:
 - + Grade A – 33.84%.
 - + Grade B – 55.82%.
 - + Grade C – 10.34%.
- The overall ground floor vacancy rate (combining all industrial zones) is 13,251 m² or 1.16% of total floor space. The highest to lowest ground floor vacancy rates are as follows:
 - + Grade C buildings – 1.58% (1,876 m² is available).
 - + Grade B buildings – 1.23% (7,896 m² is available).
 - + Grade A buildings – 0.09% (3,479 m² is available).

3.2.3 Upper Floor Vacant Area & Vacancy Rates

Grade	Total Floor Area (m ²)	Total Floor Area (%)	Vacant Floor Area (m ²)	Vacant Floor Area (%)
Grade A	16,070	30.91%	-	0.00%
Grade B	33,773	64.96%	-	0.00%
Grade C	2,149	4.13%	-	0.00%
Total	51,992	100.00%	-	0.00%

- There is 51,992 m² of upper floor space in the combined industrial zones. They consist of the following building grades:
 - + Grade A – 30.91%.
 - + Grade B – 64.96%.
 - + Grade C – 4.13%.
- The overall upper floor vacancy rate (combining all industrial zones) is zero i.e., across all industrial zones there is no vacant upper floor space.

3.2.4 Zone Vacant Floor Area & Vacancy Rates

Grade	Vacant Floor Area (m ²)				Vacant Floor Area (%)			
	INZ	AIZ	NEIZ	Total	INZ	AIZ	NEIZ	Total
Grade A	3,479	-	-	3,479	1.36%	0.00%	0.00%	0.86%
Grade B	7,896	-	-	7,896	1.21%	0.00%	0.00%	1.17%
Grade C	1,876	-	-	1,876	1.56%	0.00%	0.00%	1.56%
Total	13,251	-	-	13,251	1.29%	0.00%	0.00%	1.11%

- There are no vacant buildings in the Airport and North East Industrial zones.
- Building vacancies are associated with the Industrial zone only. The highest to lowest vacancy rates are as follows:
 - + Grade C buildings – 1.56% (1,876 m² is available).
 - + Grade B buildings – 1.17% (7,896 m² is available).
 - + Grade A buildings – 0.86% (3,479 m² is available).

3.2.5 Rental & Investment Market

Assessment	Rental Market			Investment Market			
	Rent \$/m ² Net	Trend	Supply	Demand	Availability	Yield Range	Trend
Office	\$120-\$250/m ²	Improving	Limited	Strong	Limited	6.00-8.00%	Stable

Assessment	Rental Market			Investment Market			
	Rent \$/m ² Net	Trend	Supply	Demand	Availability	Yield Range	Trend
Warehouse	\$80-\$150/m ²	Improving	Limited	Strong	Limited	6.00-8.00%	Stable

- Over the past two-year period (from 2020 to 2022), the Palmerston North Commercial Property Market Survey shows vacancy levels have decreased across industrial zoned properties and are now very low.
- There remains strong demand in industrial locations, particularly for modern versatile property. Owner occupiers are active in take up of property where available for purchase.
- Industrial land is characterised by short supply and construction costs have escalated significantly. This has influenced upward pressure on existing property rents and sale prices.
- The North East and East Terrace Industrial Estates are continuing strong growth sectors.
- Availability of land in the North East Industrial area remains complicated by developer land-banking and a volume of unserviced land holdings. The future KiwiRail regional transport hub development in the location will further diminish such supply in the location.
- There remains other vacant industrial zoned land within the City boundaries. However, a volume is compromised e.g., there is capacity at Longburn but a large area is held by Fonterra and is currently not available to the market, whilst nearby Works Road has infrastructural constraints.
- In our opinion the long-term outlook for the local property market is bright, associated with Palmerston North and the wider Manawatu area having a strong local economy underpinned by investment revolving around farming, education, research institutes, health, defence forces establishment, and industrial activities. Significantly, its strategic location in the lower North Island has led to Palmerston North City becoming a major distribution and logistics hub over the past 15 years.

4 STATEMENT OF LIMITING CONDITIONS AND ADVISORY POLICY

Purpose

This report has been completed for the specific advisory purpose stated. No responsibility is accepted in the event that this report is used for any other purpose. We do not accept liability for losses arising from reliance on our value estimate.

This report is indicative in nature and should not be relied upon as a basis for any contract that relies upon this indication as a statement of value for the purpose of rental, sale, or purchase of a property or as an asset value to be relied upon by any other third party.

Responsibility to third party

Our responsibility in connection with this report is limited to the client to whom the report is addressed and to that client only. We disclaim all responsibility and will accept no liability to any other party without first obtaining the written consent of CBRE Limited t/a TelferYoung from CBRE and the author of the report. CBRE Limited t/a TelferYoung from CBRE reserves the right to alter, amend, explain, or limit any further information given to any other party.

Reproduction of report

Neither the whole nor any part of this report or any reference to it may be included in any published document, circular or statement without first obtaining our written approval of the form and context in which it may appear. Our report is only valid when bearing the Valuer's signature.

Date of advice

Unless otherwise stated, the effective date of the advice is the date of the report. The advice provided is current as at the effective date only. The market may change significantly and unexpectedly over a relatively short period (including as a result of general market movements or factors specific to the particular property).

Reliability of data

The data and statistical information contained herein was gathered for survey purposes from reliable, commonly utilised industry sources. Whilst we have endeavoured to ensure that the data and information is correct, in many cases, we cannot specifically verify the information at source and therefore cannot guarantee its accuracy.

Assumptions

This report contains assumptions believed to be fair and reasonable at the date of reporting. In the event that assumptions are made, based on information relied upon which is later proven to be incorrect, or known by the recipient to be incorrect at the date of reporting, CBRE Limited t/a TelferYoung from CBRE reserves the right to reconsider the report, and if necessary, alter content.

Please contact the writer should you wish to discuss any matters raised in this report.

Yours faithfully

CBRE Limited t/a TelferYoung from CBRE



Garry Dowse

FNZIV | FPINZ

Registered Valuer

E garry.dowse@telferyoung.com

NATIONWIDE

NATIONAL OFFICE

Level 37, ANZ Centre, 23-29 Albert Street, Auckland 1010

TelferYoung Northland

17 Hatea Drive
PO Box 1093, Whangarei 0140
E WhangareiOffice@cbre.com
T +64 9 438 9599

TelferYoung Auckland

L37, ANZ Centre, 23-29 Albert Street
PO Box 2723, Auckland 1140
E AucklandSwansonStOffice@cbre.com
T +64 9 379 8956

Unit I, 40-42 Constellation Drive
Rosedale 0632
E NorthShoreOffice@cbre.com
T +64 9 480 2330

TelferYoung Waikato

7 London Street
PO Box 616, Hamilton 3240
E HamiltonOffice@cbre.com
T +64 7 839 2030
+64 7 889 5990 (Morrisonville)
+64 7 827 2030 (Cambridge)

TelferYoung Tauranga

L2, 49-51 The Strand
PO Box 455, Tauranga 3144
E TaurangaOffice@cbre.com
T +64 7 578 4675

TelferYoung Rotorua

1243 Ranolf Street
PO Box 2121, Rotorua 3040
E RotoruaOffice@cbre.com
T +64 7 348 1059

TelferYoung Taranaki

143 Powderham Street
PO Box 713, New Plymouth 4340
E TaranakiOffice@cbre.com
T +64 6 757 5753

TelferYoung Hawkes Bay

25 Pandora Road
PO Box 572, Napier 4140
E NapierOffice@cbre.com
T +64 6 835 6179

TelferYoung Manawatu

L2, 162 Broadway Avenue
PO Box 259, Palmerston North 4440
E ManuwatuOffice@cbre.com
T +64 6 357 2700

7 Gladstone Road, Gisborne 4010
E GisborneOffice@cbre.com
T +64 6 868 8596

TelferYoung Wellington

L4, 94 Dixon Street
Wellington 6011
E WellingtonDixon@cbre.com
T +64 4 472 3683

TelferYoung Nelson Marlborough

L3, 105 Trafalgar Street
PO Box 621, Nelson 7040
E NelsonOffice@cbre.com
T +64 3 546 9600

TelferYoung Canterbury

L1, 58 Armagh Street
PO Box 2532, Christchurch 8140
E ChristchurchArm@cbre.com
T +64 3 379 7960

TelferYoung Central Lakes

L3, 36 Grant Road, Queenstown
9300
E CentralLakesOffice@cbre.com
T +64 3 477 5796

L1, 18 Ihakara Street
Paraparaumu 5032
E KapitiOffice@cbre.com
T +64 4 472 3683

L1, 1 Hutcheson Street
Blenheim 7201
E BlenheimOffice@cbre.com
T +64 3 577 6060

L1, 130A Percival Street
Rangiora 7440
E RangioraOffice@cbre.com
T +64 3 313 5355

157 Stafford Street
Timaru 7910
E TimaruOffice@cbre.com
T +64 3 687 1220

TelferYoung Otago

L3, 8 The Octagon
PO Box 497, Dunedin 9054
E OtagoOffice@cbre.com
T +64 3 477 5796

TelferYoung Southland

135 Spey Street
PO Box 370, Invercargill 9840
E SouthlandOffice@cbre.com
T +64 3 218 4299



telferyoung.com