

# GLOBAL

IN A NEW ZEALAND CONTEXT

# trends

Leading international business advisors PwC recently released Emerging Trends in Real Estate 2016 for the US and Canadian markets based on extensive research among the commercial and industrial property sector in North America.

With the commercial and industrial property sector in New Zealand making great strides and attracting robust national and international investment capital based on its strong fundamentals, PwC New Zealand partner, Robert Cameron puts these global trends into a New Zealand context.





## THE RISE OF THE 18-HOUR CITY

Hong Kong, New York and London are true metropolitan, around-the-clock cities. Auckland and Wellington fall somewhere between 18-24 hours on the business/social clock.

“At the heart of the 18-hour city is downtown revitalisation,” says Cameron.

“We are seeing this in Auckland and Wellington where inner city residential real estate is finding favour and where retail/hospitality hubs are springing up to support these new residents. The CBD is not just a workplace in forward-thinking cities.”

Cameron says the revitalised post-quake Christchurch

is being strongly master-planned to be an 18-hour city and Tauranga and Hamilton could be suitable contenders in the future.

“It’s a question of scale – more modest cities may need to cut their CBD footprint cloth to suit the dynamics at play. However, a contraction in the size of the city heart can lead to a high quality urban environment that acts as a magnet drawing residents and businesses to its core,” explains Cameron.

“With many of our cities having sub-100,000 populations, will the emergence of further 18-hour cities in New Zealand be market-led or local authority-led? Time will tell.”



## THE IMPORTANCE OF SUBURBS

In North America, the trend points to the millennials (generation Y) preferring to relocate from city centre living to the suburbs in their child-rearing years. The interaction between jobs and homes comes into play and is reliant on good, reliable transport links from suburban locations to CBD workplaces.

“The rise of suburban downtowns is also significant,” says Cameron.

“Self-contained, sophisticated suburban hubs are emerging with facilities and amenities designed to mimic those of the CBD work environment albeit at a descaled level. The isolated

suburban office parks of 15 years ago are disappearing.”

Cameron says the “live in suburbia – commute to the CBD” scenario still needs to be attainable and efficient and will see suburban areas rise and fall on the strength of this functionality.

“Infrastructural works like Transmission Gully along Wellington’s northern corridor will see Porirua and Kapiti Coast locations come into their own – possibly at the expense of the Hutt Valley. The status of suburbs will be a direct reflection of investment, infrastructure and connectivity,” he says.



## OFFICE MARKET

The trend globally is for office accommodation to take up less space but have greater functionality. The office building of today will be a higher-quality, higher-performing, more sophisticated space where the whole of the office footprint is the workplace. Gone are the silo-ed offices and the vast, open lobbies. Walls and partitions are disappearing – and not just for start-ups. Corporates are following suit. Collaborative, connected spaces where workers move fluidly between physical work stations and have the option of private configurations when the job demands it, are in.

Co-working dynamics are also at play with traditional office buildings morphing into shared work spaces with fluid boundaries.

Cameron says in North America, the office sector is

benefitting from strengthening employment figures thanks to a recovering and maturing economy. Office vacancy is low; rents are up.

“Major cities in New Zealand are also experiencing decreasing levels of office vacancy but the winds of change continue to blow through,” he says.

“It will be an interesting test of the depth of the market in central Auckland when the new Precinct Properties development – Commercial Bay – emerges.

“In the capital, it is a moving market, too. Wellington has weathered change with the consolidation of government office space and reduced head office footprints in the city.”



## PARKING

As temporary versus long-term parking needs are weighed up, cities will inevitably go through stages of flux.

“The major planning trend we are seeing in New Zealand is a swing from standards dictating minimum parking spaces per commercial building, to maximum spaces allowed in an attempt to cap the amount of private vehicular traffic entering and exiting a city at key times,” explains Cameron.

“Planning and zoning requirements in light of emerging trends in transportation and land use are evolving.

“A lot of work has been done with the evolving Wynyard Quarter in Auckland to address traffic and parking concerns.

An escalation of sound transport plans and strategies, and an education process around transport options for those working in the Wynyard precinct is underway.”

New Zealanders love their cars. Long-held patterns of transport behaviour need to be changed.

“In Sydney, inner city carparking is levied in an effort to discourage the use of private cars,” Cameron says.

“To a large extent, commuting behaviours are generational. Millennials are increasingly willing and open to using public transport – as long as it’s comfortable, reliable and efficient.”



## CLIMATE CHANGE

It seems that climate change per se is not high on the list of concerns for those involved in commercial real estate in North America. The more tangible and immediate issues of job growth, construction costs, and economic fundamentals are more pressing day-to-day.

“Perhaps the feeling is that actual climate change impacts like rising sea levels, elevated global temperatures, and potential water shortages exist beyond the investment horizon for most real estate projects, although central and local

governments are mindful of these issues,” says Cameron.

“Environmental sustainability, energy efficiency and corporate social responsibility are now par for the course in the commercial property sector. Developers see these factors as a badge of honour when progressing new commercial projects.

“Sustainable features are now embedded in new building designs, they’re deemed as acceptable costs with inherent long-term benefits, and are no longer an overlay on projects as they were even five years ago.”



## INFRASTRUCTURE

Everyone wants progress but no-one wants change – the inconvenience of major infrastructural projects can cause frustration, and the inevitable questions around costs. High frequency bus networks, rapid transport options and more streamlined routes in and out of cities take priority in infrastructural discussions and actions.

“Auckland is feeling those pains currently with the start of the city rail link enabling works. Balancing the short-term needs with long-term goals is a challenge,” Cameron says.

“This is a new era of investment in infrastructure in New Zealand. Central government, local government and the end user all have plenty to say about it.

“Private Public Partnerships (PPPs) for delivering infrastructure are now better understood; they’re historically expensive to procure, but the current flows of capital are driving some prices down and investors recognise the long-term value that infrastructural projects deliver.”



## CONSOLIDATION/SPECIALISATION

Size and scale have traditionally brought advantages to the commercial property sector – with deeper pockets better able to withstand economic cycles. But in today’s commercial environment, well-executed smaller projects are also

proving viable. “It all comes back to quality, however,” Cameron points out.

“Quality has risen to the surface and meeting the quality demands of conservative lenders is crucial.”



## THE FLOW OF CAPITAL

There are record flows of capital into the US real estate market and questions are being asked as to where all this new capital will be invested.

There has also been significant global capital flow from Chinese, Indian and European investors into the New Zealand commercial property market. This injection of capital has been across the market – from existing buildings to new builds.

“Investors are casting their net widely and cannot be pigeon-holed as exclusively core, value-add or opportunistic,” says Cameron.

“The providers and intermediaries of real estate capital are also looking across the property spectrum.

“Less traditional property markets, alternative assets, alternative property types and the upgrading of older buildings are all attracting attention.”



## THE HUMAN TOUCH

The importance of human interface in the wake of unprecedented technological advances cannot be underestimated. Computers were not responsible for the global financial crisis nor was a lack of mathematical aptitude on the part of those

who got into financial trouble.

“Good judgement, an ability to foresee consequences, and attention to the needs of consumers and clients will ultimately be rewarded,” says Cameron.

Robert Cameron is a PwC real estate partner providing specialist property and project advisory services to a wide range of corporate, institutional and government clients. Previously at Wareham Cameron & Co, Robert works as an advisor to a range of organisations, including a number of New Zealand universities, the Crown’s Property Management Centre of Expertise, a number of government agencies, Pānuku Development Auckland, and Willis Bond & Co.