Emerging real estate trends in New Zealand

DLA Piper | New Zealand

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DLA PIPER

Real estate emerging trends

Introduction

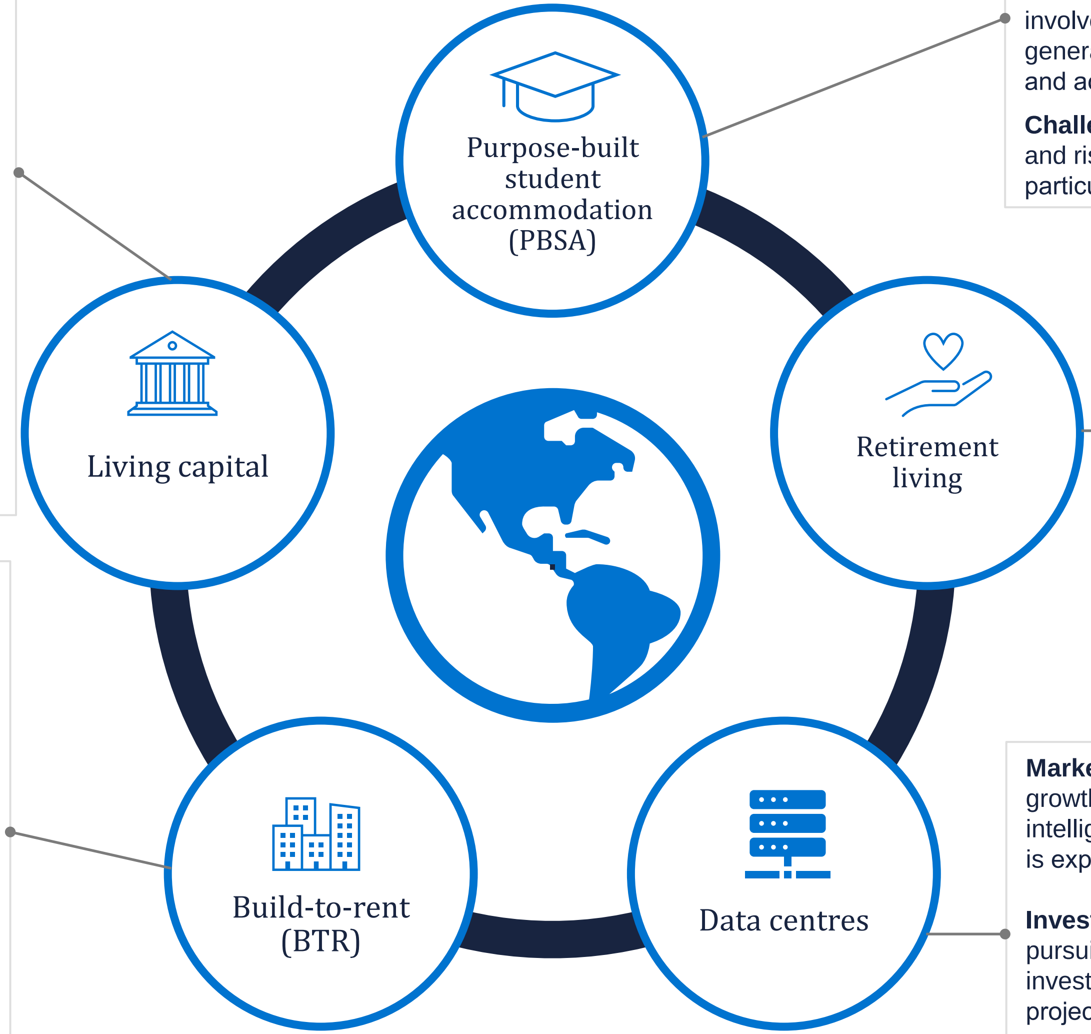
Our Real Estate practice provides strategic business solutions and tailored legal advice. Through actively engaging with key market participants and collaborating with our international colleagues, we regularly gain insights into global and regional real estate trends. We are often among the first to hear and evaluate emerging market trends that may be of interest to our clients.

Drawing from the experiences of our colleagues across the DLA Piper international platform, along with our own insights into the New Zealand market, we have identified five emerging trends in the real estate sector that are likely to be prevalent in 2025. These emerging trends complement ongoing market features such as renewable energy infrastructure and industrial property performance.

1. Living capital
2. Build-to-rent
3. Purpose-built student accommodation
4. Retirement living
5. Data centres

These insights are based on our work experience, feedback from market participants, new legislation, and publicly available data. We hope this summary is both useful and thought-provoking.

Global market trends and patterns



Market dynamics: The living capital asset class, including build-to-rent (BTR), purpose-built student accommodation (PBSA), and retirement living, is expanding globally due to demographic shifts like urbanisation, an aging population, and rising student mobility. These sectors cater to demand for flexible, long-term rental housing, student accommodation needs and integrated healthcare solutions, with government support driving additional growth.

Investment trends: Investor interest is increasing due to the sector's stability, low vacancy rates, and long-term income potential. Environmental, Social, and Governance (ESG) compliance is a key factor, with investments focused on sustainable, energy-efficient developments. Major players like Allianz and Blackstone are investing heavily in BTR, PBSA, and healthcare real estate, capitalising on these trends and the demand for sustainable, community-oriented living solutions.

Market dynamics: BTR is gaining traction due to increased demand for flexible and affordable housing options in urban centres. As populations grow and rental culture strengthens, BTR is seen as a long-term stable investment due to its high occupancy and steady rental income.

Investment trends: Institutional investors are attracted to BTR for its resilience, particularly during periods of economic uncertainty. The sector is experiencing significant expansion across Europe, with new projects driven by the growing urban population and changing living preferences.

Challenges: Rising construction costs and land scarcity in major cities could pose challenges to BTR growth, requiring more innovative solutions like mixed-use developments.

Growth drivers: PBSA remains a strong sub-sector of living capital, driven by increasing student populations, especially international students. Major cities with top universities are key markets for PBSA developments.

Investment trends: Institutional investors are increasingly involved in this market due to its resilience and the ability to generate consistent returns. Partnerships between developers and academic institutions are fostering growth.

Challenges: Despite the strong demand, affordability concerns and rising construction costs could impact future growth, particularly in mature markets.

Market overview: Retirement living is seeing a surge in demand as populations age. Investors are focusing on creating integrated communities that provide healthcare and lifestyle services for seniors.

Investment potential: This sector (part of the broader "living capital" framework) is favoured for its stable returns and alignment with ESG goals. Countries with rapidly aging populations are seeing the highest growth.

Trends: Senior housing developments are focusing on wellness, assisted living, and memory care, with a growing trend towards upscale retirement communities.

Market dynamics: The data centre market has seen rapid growth, driven by increasing demand for cloud services, artificial intelligence, and the Internet of Things (IoT). Europe, in particular, is experiencing a surge in data centre investments.

Investment trends: Both debt and equity investors are actively pursuing data centre projects, with 92% expecting a rise in investment over the next 24 months. The focus is on greenfield projects, energy efficiency, and environmental performance.

Challenges: Despite the strong fundamentals, challenges include ESG considerations relating to energy use and rapid technological changes that require ongoing upgrades.

Implications for the New Zealand market

Trend	Details
Living capital	Living capital markets in New Zealand are experiencing significant growth, driven by rising demand for build-to-rent (BTR), purpose-built student accommodation (PBSA), and retirement living. These sectors attract institutional investors with their long-term rental stability and alignment with ESG goals. Demographic factors, such as a growing population and aging demographic, further boost the appeal of these asset classes, while sustainability and community-focused developments are becoming key investment priorities. New Zealand's living capital market offers substantial opportunities for growth in 2025 and beyond.
Purpose-built student accommodation	We have observed a surge in interest in purpose-built student accommodation facilities, likely spurred by the return of international students post-pandemic. Currently, we are assisting an institutional lender with the financing of a significant purpose-built student accommodation development in Auckland. Additionally, we have been approached by an offshore capital client who is interested in partnering with a local New Zealand developer on a similar project.
Build-to-rent	Interest in the build-to-rent (BTR) sector remains strong, with continued investment anticipated later this year and into 2025. This growth is further supported by increasing government support for the sector. On June 6, 2024, Hon David Seymour issued a ministerial directive letter to the Overseas Investment Office (OIO), instructing them to prioritise investments that enhance housing supply and support the operation of large-scale housing developments. These investments are now viewed favourably under the **"Benefit to New Zealand"** test. This directive is expected to streamline OIO approvals for overseas investments in assets (BTR and similar rental developments) until the **Overseas Amendment Bill** is passed into law. Property Council New Zealand October data shows 807 BTR units are under construction, with an additional 3,177 units in the pipeline, supported by major players, including Simplicity Living.
Retirement living	Given the aging population in New Zealand and many other first-world countries, retirement village developments are becoming an increasingly attractive investment. Some recent high-profile examples include **Winton's Northbrook Wynyard Quarter** - this is New Zealand's first vertical retirement village development (valued at **$750 million**) and **Summerset's St Johns Retirement Hub** in Auckland (valued at **$350 million**).
Data centres	Site selection for artificial intelligence (AI) infrastructure is becoming increasingly driven by the need for locations with lower energy prices and land costs. As the AI era advances, data centres must also evolve to accommodate changes in hardware needs, such as advanced cooling systems. In 2025, navigating the unique opportunities and risks of this sector will require strategic and operational expertise. While many major hyperscale data centre operators have already established a presence in the New Zealand market, the continued growth in data demand suggests that high levels of investment will persist. This may include the development of smaller data centres on the outskirts of cities, designed to address latency concerns. In 2022, DLA Piper released a report highlighting rising transaction volumes and increased investor interest in data centres, while forecasting continued growth in the sector. A follow-up report, set for release by the end of 2024, will provide updated insights. • Read more on the Global data centre investment outlook | DLA Piper • Read more on New Zealand Data Centres A case for New Zealand | DLA Piper

Accelerating renewable energy investments

Exploring the surge in solar, wind, and green hydrogen developments as New Zealand advances towards decarbonisation

Alongside the five emerging trends, 2024 has been a significant year for investment in renewable energy developments. For example, Aquila Capital (via its joint venture with Far North Solar Farm Limited), is progressing with the development of its first land-based solar farm. The **Pukenui Solar Farm** will cover 19 hectares of land on Lamb Road and produce 20.8 megawatts of power, enough to supply approximately 2,000 homes. Overall, the **Aquila/Far North** partnership plans to invest in a portfolio of 11 utility-scale solar projects, with a total of 1.4GW in the pipeline.

Despite considerable investment and development activity in this sector, offshore capital continues to flow into New Zealand, attracted by opportunities in this dynamic field. Specifically, there is increasing interest in wind farm development and green hydrogen.

Currently, **New Zealand's largest wind farm generates around 2%** of the country's electricity, but there remains substantial untapped potential to expand renewable energy production. Investors are well aware of this opportunity.

In line with global trends, New Zealand is actively promoting green hydrogen to bridge the gap between electrification and complete decarbonisation, using electricity from renewable sources to produce hydrogen fuels. Although the green hydrogen industry is still in its early stages, significant growth is expected. Recently, we were approached by a global client with established expertise in green energy development overseas, who is interested in exploring investment opportunities in New Zealand, particularly in solar energy and green hydrogen.

It is encouraging to see interest from experienced international players in an otherwise slightly subdued broader real estate market, and we expect this interest to continue into 2025. Anecdotally, we understand that solar developers are facing adverse pricing conditions in other markets, such as Australia, due to excess electricity supply. Comparatively, New Zealand can be seen as a more attractive investment option.

Finally, we continue to observe significant activity in rooftop solar installations. This includes landlords and tenants agreeing to install solar panel arrays on the roofs of existing leased premises, often as part of lease renewal or lease extension agreements. Tenants typically benefit from some or all of the electricity generated post-installation. Additionally, larger-scale solar installations on commercial properties by third-party developers are becoming more common, with most of the electricity generated generally benefiting the developer. We anticipate this trend will continue into 2025, especially among listed entities that are captured by ESG reporting obligations.

- Read more on the New Zealand green energy landscape | DLA Piper
- Read more on overseas investment hurdles for solar developers | DLA Piper

Industrial property sector and other movements

Global investments and supply chain expansion fuelling market activity

Industrial property sector

The industrials sector has arguably been one of the standout performers among real estate asset classes over the last few years. We anticipate this trend will continue into 2025, especially as efforts to diversify supply chains intensify. Recent significant investments from global shipping and logistics companies, underscore this growth. Maersk's newly completed large-scale cool store facility at **Hamilton's Ruakura Superhub** is set to enhance New Zealand's supply chain capacity significantly. Other shipping and logistics clients are also taking steps to expand their capacity.

Additionally, key investors, including institutional fund managers such as BlackRock, continue to demonstrate a robust appetite for investing in premium industrial developments. For instance, **BlackRock's recent $110 million acquisition** of land in Wiri, South Auckland, for an industrial development signals that the market is likely to remain vibrant in the near term. Lowering interest rates should further facilitate investment in industrial assets.

Other noteworthy movements:

Markets to watch: Based on insights from DLA Piper colleagues, Japan is experiencing significant levels of market activity largely due to low interest rates and a pressing need to find investment-worthy assets.

Across the Tasman, the Australian market is described as 'big getting bigger.' New Zealand often experiences similar benefits a few years later as a natural next jurisdiction in the region, making this a positive leading indicator.

Watch for significant ongoing activity in both markets.

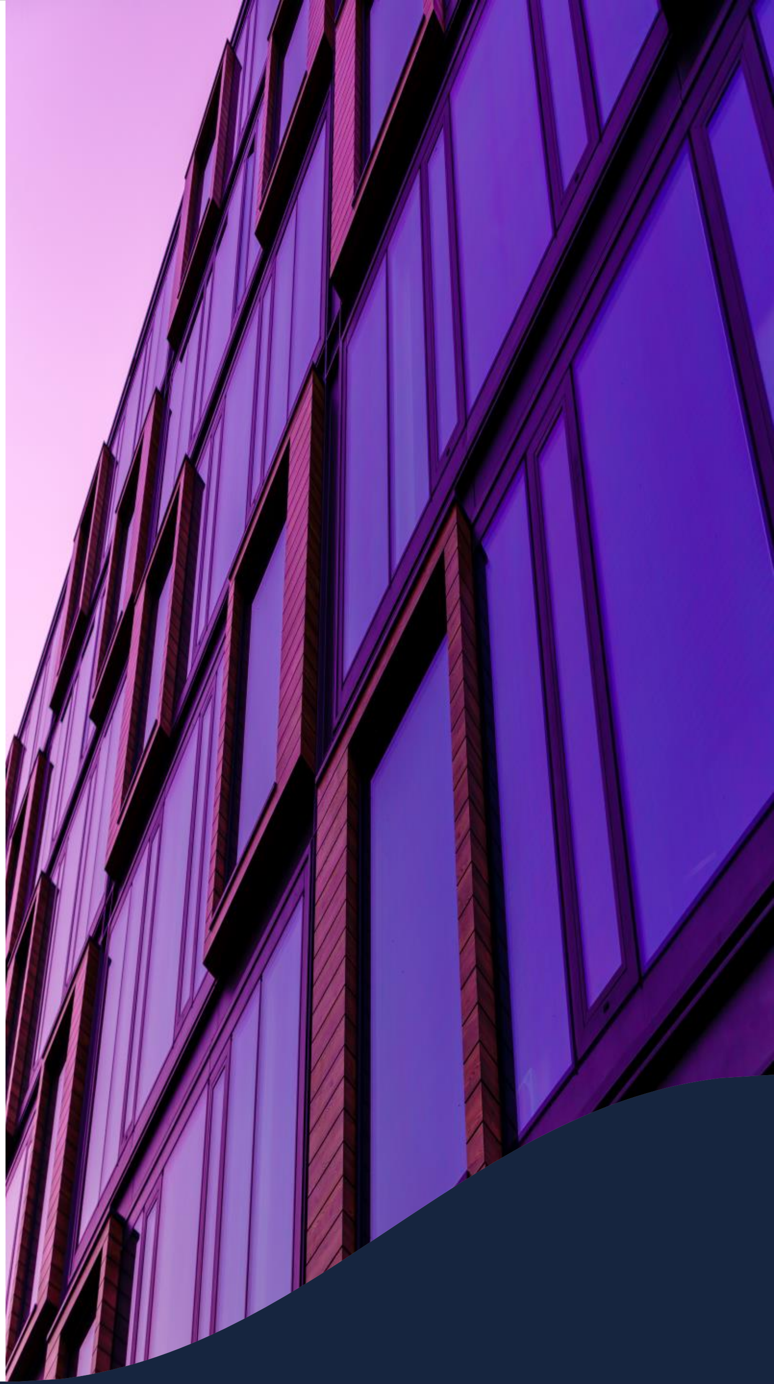
Office market and retail trends: In the US, the office market appears to be declining. Conversely, in New Zealand, activity persists, mainly from corporate occupiers restructuring their office setups, with many moving to **smaller premises**.

The global retail market shows varied stability, with strong demand for high-quality suburban and open-air spaces in the US and Europe regions, where vacancy rates remain low and rents are steady. In contrast, regions like Asia Pacific face supply surpluses and slower growth, with high interest rates and selective lending practices adding challenges.

ESG influence: A significant ESG layer underpins all of these trends. Most clients are well-versed in ESG issues, supported by sophisticated in-house teams or specialist consultants. However, real estate lawyers need to be familiar with ESG concepts, particularly as the New Zealand real estate market becomes more sophisticated in this area. For example, we anticipate that green leasing regimes will become increasingly prominent in certain types of lease transactions.

Recent Deal Activity:

- **PAG** made a substantial investment by acquiring **Manson's and PCT properties**, with transactions noted at **$1.6 billion**.
- **BlackRock** has committed **$235 million** to investing in New Zealand RPG, signalling strong confidence in the local market.



Summary

A case for cautious optimism

Global trends and markets:
The global real estate market is expected to see steady growth in 2025, with several promising opportunities emerging across different sectors. Living capital continues to attract attention, influenced by demographic trends and growing demand for multi-family and rental housing. The build-to-rent sector remains on an upward trajectory, supported by institutional interest and favourable government policies. The purpose-built student accommodation market is expanding, driven by increased international student mobility. Meanwhile, the senior living sector is benefiting from aging populations, and data centres are seeing growth due to advancements in AI and technology. Overall, these sectors present strategic investment opportunities within a supportive policy environment.

Positive outlook for New Zealand real estate market:
As we approach 2025, the real estate market is expected to demonstrate both growth and resilience. Key sectors such as living capital, Build-to-rent, and data centres are attracting solid investment, driven by shifting demographic demands and technological progress. With global interest in multi-family housing, senior living, and data infrastructure continuing to grow, investors are in a strong position to take advantage of these developments. Additionally, New Zealand's supportive regulatory framework, combined with a heightened focus on sustainability and ESG initiatives, further enhances the investment landscape. Overall, the outlook for the real estate market heading into 2025 could be described as cautiously optimistic, offering a range of opportunities across various regions and asset types.

Want to hear more?
If you'd like to hear more or are interested in any of the topics covered, please reach out to our team.

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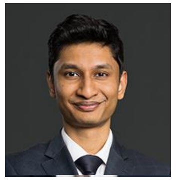

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Information sources:
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2. Global data centre investment outlook | DLA Piper
3. New Zealand Data Centres A case for New Zealand | DLA Piper
4. Overseas investment hurdles for solar developers | DLA Piper
5. Nationwide Map & Supply Tracker | Where Is BTR? | Build To Rent (buildtorentnz.co.nz)
6. Property Insider: Largest new retirement village opening - NZ Herald

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