

MarketView Auckland Office, Retail, Industrial

Quick Stats

	Change from last	
	½ yr	1yr
Prime Office		
Vacancy	↑	↓
Rent	↑	↑
Yield	↓	↓
Prime Industrial		
Vacancy	↓	↓
Rent	↔	↑
Yield	↓	↓
Prime Retail		
Vacancy	↔	↓
Rent	↔	↑
Yield	↔	↔

*The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.) They also seek to capture movement at the broad market level which can be inconsistent with trends in individual submarkets.

Hot Topics

- New Zealand's economic growth outlook remains positive although opinions diverge regarding timing and magnitude of rebound.
- Leasing market conditions continue to improve in many sectors.
- Effective market rents are stabilising to improving.
- While the investment market remains generally risk averse liquidity is improving and sales volumes are expected to improve in 2012.

Downside risks remain but the recovery established in the past year has provided a positive momentum for the Auckland commercial and industrial property market into 2012. CBRE's assessment in the first quarter of 2012 showed a further stabilisation and improvement of market rents and yields for the overall commercial and industrial property market.

The occupier market continues to rebound with increasing leasing activity. Some tenants with specific requirements for size

and location at the Prime end of the market are now more limited for choice.

Due to the flow on effect of this momentum, some Secondary property sectors have started to experience effective rental improvements, through reducing incentive levels, following earlier rental growth for Prime assets. The office market experienced the most improvement in recent quarters after posting some of the largest rent falls during the previous three years. Over the past, year all sectors apart

The recovery momentum continues as reflected in a general improvement of effective rents and yields into 2012...

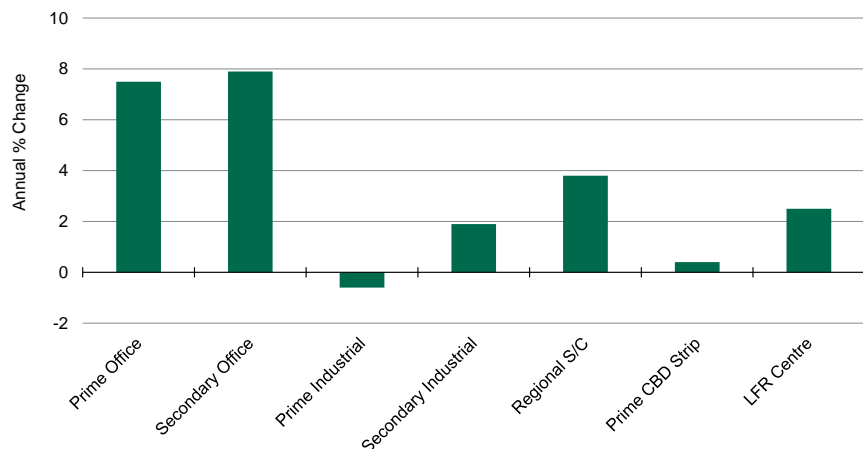
from Prime industrial have recorded increasing market rents. The development market for new industrial buildings remains competitive as developers compete for tenants and this has capped Prime rents for the time being in South Auckland.

Despite a general increase in leasing activity some submarkets remain exposed to adverse net absorption trends and others experienced continued vacancy increases due to the impact of new supply.

Risk aversion remains a general feature of the investment market although there have been instances of vendors looking at selling lower risk Prime investments, which are currently achieving premium prices, and looking at reinvesting funds into higher return and risk properties/projects.

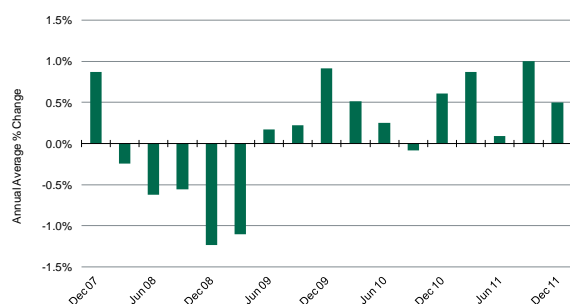
At the level of individual assets, building quality, location, tenure, lease term and covenant have a large bearing on values. Riskier property in unpromising settings continues to under perform in 2012.

Comparative Net Effective Market Rent Growth - Annual Change To March 2012



Market	Stock (sqm)	Vacancy (%)	Net Rent (\$/sqm)	Yield (%)
Prime CBD Office	570,561	8.8	290	8.69
Secondary CBD Office	845,301	17.5	163	10.03
Prime Industrial	3,900,330	2.5	108	7.94
Secondary Industrial	7,557,294	5.0	70	9.93
Prime CBD Retail	45,126	2.7	2,410	6.65
Regional Shopping Centre	347,567	1.0	1,052	7.67
LFR Centre	401,101	1.1	242	8.30

New Zealand GDP



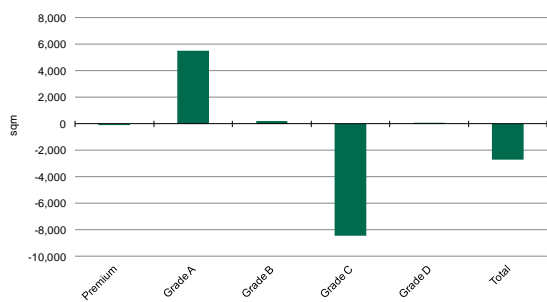
source: Statistics New Zealand

New Zealand's growth expectations remain positive

The New Zealand economy continues its gradual recovery amidst global volatility. Gross domestic product increased by 1.4% last year, following 1.3% growth in 2010. The recovery has been slower than previously expected due to the impacts of the Canterbury earthquake, global market volatility, domestic deleveraging and fiscal restraint. While the downside risks are real within the volatile global environment, apart from the Christchurch rebuild, supportive factors expected to aid economic growth over the next three years include a rebounding housing market resulting in increased construction activity, a lift in consumption due to improving labour market conditions and supportive export sector performance. The consensus across the range of economic forecasts shows that the New Zealand economy will grow by 2.5% in 2012 and 3.4% in 2013.

Regional variations in economic performance have been strong. Auckland has benefited from a number of supportive factors with the rebounding housing market flowing through into the broader regional economy, although the recent slow down in retail sales has also been strongly felt in Auckland.

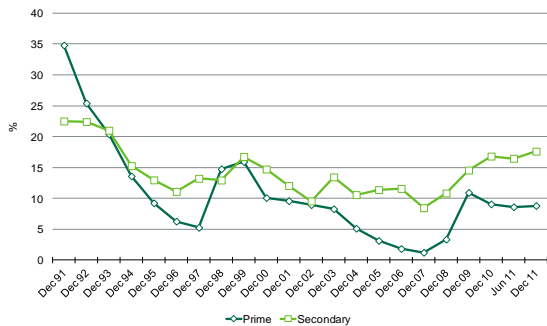
CBD Office Net Absorption (Second Half 2011)



Secondary absorption loss driven by company relocations

Net Absorption was negative 2,700 sqm in the second half of 2011, which was the first negative absorption in two years. This was mainly due to Grade C where net absorption was negative 8,400 sqm, while Grade A absorption was positive 5,500 sqm in the second half of 2011. The main drivers behind this were the relocation of tenants upgrading their premises from Secondary grade buildings to Prime grade buildings, such as Westpac moving its remaining staff to Britomart, and the relocation of PMP out of the CBD to Wiri. The total negative absorption for the CBD hides a difference between the Core precinct where net absorption was negative and the Fringe precinct where net absorption was positive as at December 2011. The largest positive absorption was recorded in the K’rd precinct, due to a number of new leases in Secondary buildings.

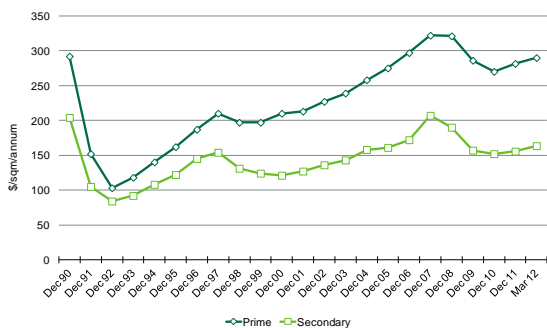
CBD Office Vacancy



Overall vacancy increases due to an excess of supply over demand

The overall Auckland CBD office vacancy rate is 14.0% or 198,776 sqm as at December 2011. This represents an increase of 0.7% or 10,811 sqm in the second half of 2011. Prime (Premium and Grade A) vacancy increased from 8.6% to 8.8% during the six months to December 2011. This increase by 1,600 sqm of vacant space in the Prime market hides a difference between the Core and Fringe markets. The Core market has improved by 5,400sqm with substantial take up in 21 Queen Street where nearly 3,000 sqm has been taken up and in 151 Queen Street where 1,500sqm have been taken up. On the other hand, the completion of the new speculative building at 162 Victoria Street West has had a major effect on the Fringe vacancy which increased by 7,000sqm. Secondary vacancy (Grades B, C and D) increased over the six months to December 2011. Vacant space increased by around 9,100 sqm, representing an increase of 1.1% as at December 2011. The largest move in the Fringe market was 3,400sqm vacated by PMP relocating its offices from 39 Market Place and 106 Customs Street to Wiri.

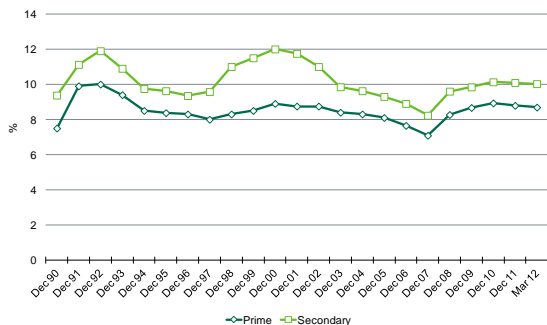
CBD Office Rent



Effective rents continue to increase from cyclical lows

In our assessment Prime and Secondary net effective rents both improved in in the first quarter of 2012. Net effective Prime rents have been continually improving over the last 4 quarters with a 7.5% growth rate achieved between March 2011 and March 2012. In the latest quarter, net effective Prime rent improved by 3.0% and sit at \$290 per sqm. Net effective Secondary market rents increased by 5.1% in the March 2012 quarter after remaining stable in the last two quarters of 2011. Net effective Secondary rents currently sit at \$163 per sqm. Rent increases mainly occurred through decreasing incentives. Currently, incentives are assessed at the equivalent of 12.8 months on a 9 year lease for Prime and 13.1 months on a 6 year lease for Secondary property.

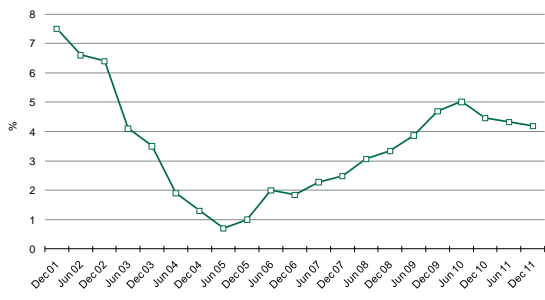
CBD Office Yield



Yields firm slightly

In CBRE’s assessment, both Prime and Secondary office yields have firmed in the last quarter. On an annual basis, yields for Prime office have firmed 24 basis points, while Secondary office yields have firmed 10 basis points. Prime yields currently stand at 8.69%, while Secondary yields currently stand at 10.02%. Private investors who have financial stability remain the main buyer group and are making the most of low interest rates and cyclically high yields. Compared to the market’s peak in June 2007, Prime and Secondary yields have softened in the order of 171 and 193 basis points respectively. The CBD office investment market has been reasonably active. The largest transaction of the past two years was the sale of 21 Pitt St concluded in April of this year. The \$55 million transaction of this 16,800 sqm office building to a New Zealand private investor reflects an 8% initial yield based on a WALT of 7.9 years to a major engineering firm and local government.

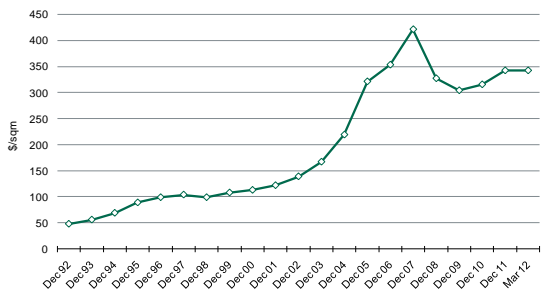
Industrial Vacancy



Vacancy continues to decline

Overall Auckland industrial vacancy is 4.2% or 480,000 sqm. This represents a decrease from 4.3% in June 2011 and continues the trend of declining vacancy since mid 2010. The improvement has been due to a subdued supply pipeline complemented by increasing demand. Net new supply in the second half of 2011 totaled only 39,500 sqm, continuing the trend of low levels of new supply. The largest completion has been in Wiri where PMP has consolidated its head office, printing plant and warehousing in one 23,000 sqm refurbished building. In Albany, EBOS Group moved in a new 4,800 sqm building at 14-18 Lovell Court. Overall take up of space has been positive 56,000 sqm in the second half of 2011. Net absorption has been positive during every six monthly period over the past two years after a contraction in 2009. Absorption has been driven by both the take up of new supply and declining vacancy in existing buildings.

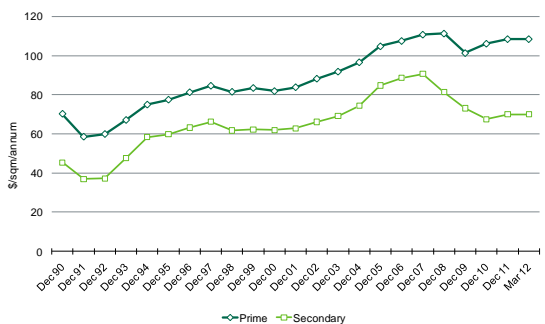
Industrial Land Value



Owner occupiers driving land values

In CBRE's opinion indicative industrial land values remained stable in the first quarter of 2012 after increasing 8.5% over the course of 2011. Since December 2009, there has been gradual growth after the large falls recorded following March 2008. However, land values remain 19% below their March 2008 peak when they reached \$424 per sqm. Interest in land is returning, mainly driven by owner occupiers. Those developers/land bankers who are in the market for land have mainly been interested in development sites which have additional secure holding income over the short term while they attempt to secure a tenant. Only large developers with significant financial backing are seeking large land holdings to position themselves for the future. Take up of industrial land in the Auckland Region has been volatile over the past 3 years as take up rates have been low and individual developments have affected trends. Development activity has focused in East Tamaki and the Airport Corridor.

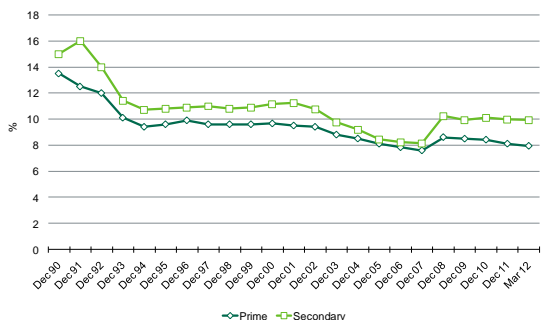
Industrial Rent



Rental trends are mixed

Recent rental changes have been mixed. After some increases at the start of 2011, rent growth stalled in the second half of the year. During this time the development market for new design build premises has intensified amongst larger South Auckland developers and, as a result, rents for recent design builds have also been lower than otherwise could have been achieved. Rentals in the first quarter of 2012 have remained stable, although they decreased on an annual basis. Currently, net effective rents for Prime industrial property are at a blended office and warehouse rate of \$108 per sqm and Secondary at \$69 per sqm. Incentives for Prime industrial sit at an indicative 6.4 months on a 9 year lease with 8 months on a 6 year lease for Secondary. Broker feedback indicates that confidence in the leasing market is increasing hence the improving vacancy, however not yet to the extent where material rental growth is being achieved.

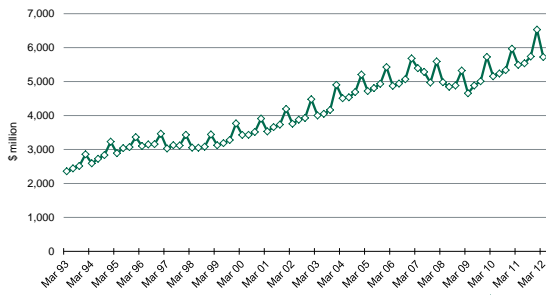
Industrial Yield



Increased investment market activity

The investment market continues to improve with top prices being paid for quality Prime assets and this momentum is starting to flow through to better quality Secondary properties. Interest from purchasers, including some institutions and overseas high net worth individuals, has been encouraging for the market. With current low interest rates and a market in the earlier stages of a growth cycle, there is motivation to buy. Catching hold of this growth cycle are some vendors who have taken the position of looking at selling low risk Prime investments, which at the present time carry a strong yield premium, and looking at reinvesting funds into higher returning/higher risk properties/projects. Prime yields have firmed 17 basis points over the quarter to 7.94% and Secondary yields have firmed 4 basis points to 9.93%. Recent sale evidence includes APN News and Media on Wilkinson Road in Ellerslie which was sold at a 10.06% yield for around \$25.5 million and the Croxley distribution centre in Ha Crescent, Wiri which was sold at an 8.0% yield for around \$21.7 million. Both of these properties have long term leases with strong tenant covenants.

Retail Sales

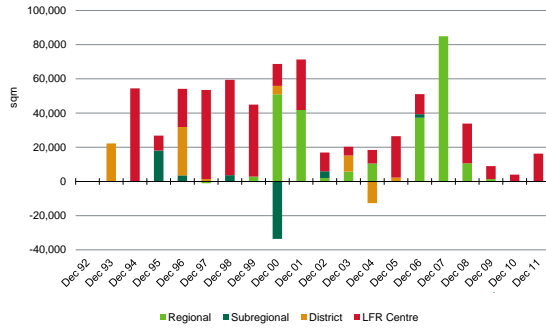


Source: Statistics New Zealand

Retail sales stall

In the March 2012 quarter, the volume of core retail sales fell, following a boost from the Rugby World Cup in the previous two quarters. Sales volumes for the core retail industries (which exclude vehicle-related industries) fell 2.5% in the March 2012 quarter. This was the largest seasonally adjusted retail sales decrease since this series began in 1995. Auckland did not escape the reversal in retailing fortunes. Its trend line of retail sales flattened in the March 2012 quarter, following 11 quarters of continuous growth. In contrast to the latest retail sales data, general market sentiment amongst retailers appears to be positive with a steady level of retailer inquiry. Newmarket's fortunes seem to be turning around with a pick up in inquiry for space from both overseas and national retailers. Kathmandu has recently opened a new flagship store on Broadway, and high-fashion woman's clothing label Gorman opened their first international store outside of Australia on Nuffield Street.

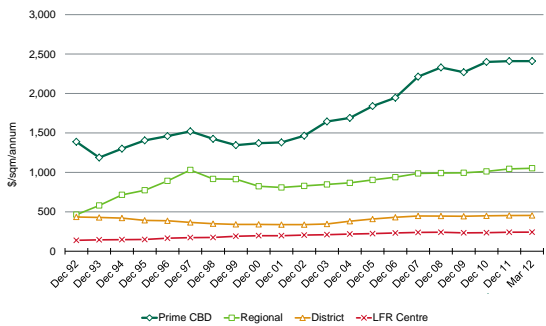
Retail Centre Supply



Retail development market is active

The only recent centre completion of significance was the APEX Mega Centre which opened at the end of last year, adding a further 16,000 sqm of large format retail space. In the CBD, several retail projects were completed in the December quarter in time for the Christmas trading period. They include the Queen Street Markets, formerly the old Mid City Cinema complex, featuring 92 stores and a food court, the Imperial and Everybody's building redevelopment, which links Fort Lane with Queen Street, two new supermarkets, and stage one of the Victoria Park Market upgrade. We expect increased retail centre development over the next three years. Stage one construction of the new Massey North Town Centre is underway. Recently commenced construction is a new 10,000 sqm neighborhood shopping centre at 22 Stoddard Road in Mt Roskill, which will be anchored by The Warehouse together with a McDonald's and 20 specialty stores. Also currently under construction is the Merchant Quarter project in New Lynn, which involves the development of two mixed-use buildings with a ground floor retail component of around 1,400 sqm.

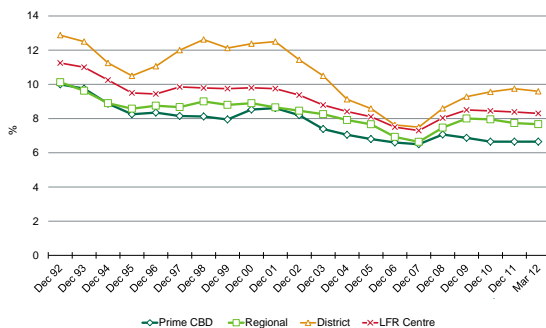
Retail Rent



Regional and LFR Centres drive rent growth

Regional shopping centres and Large Format Retail have been the standout rental performers over the past year. On an annual basis, indicative rents for Regional centres and Large Format Retail have firmed in the order of 3.8% and 2.5% respectively, currently sitting at an indicative rate of \$1052 and \$242 per sqm. District centre rents have also increased, albeit only slightly, over the past year by 0.7% to reach an indicative rate of \$454 per sqm. Similarly, Prime CBD strip retail rents have increased slightly over the past year by 0.4%, but have remained stable since Q3 2011. Current indicative rents for Prime CBD strip retail are \$2,410 per sqm, ranging between \$1,700 and \$3,250 per sqm. Rents along the Broadway strip in Newmarket have remained stable over the last three quarters, but have firmed since the previous March quarter by 3.8%, currently sitting at an indicative rate of \$1,175 per sqm.

Retail Yield



Yields are stable to firming

Mirroring trends seen in the rental market, our estimate of market yields indicates good performance by both large format retail and regional shopping centre yields over the past year. Investment activity has picked up with several shopping centre plays, although details remain mostly confidential. Indicative yield movements over the past year range from a 15 and 27 basis point firming for regional and large format retail, which presently sit at an indicative yield of 7.67% and 8.30% respectively. On an annual basis, District Centres showed a slight firming in yields to reach an indicative 9.59%. Conversely, Prime and Secondary CBD retail strip yields have remained stable over the past year. The current indicative yield for Prime CBD strip retail is 6.65%, ranging from 6.00% to 7.25% with Secondary CBD yields at an indicative 7.38%, ranging between 6.50% to 8.00%

MARKET OUTLOOK

The global economic environment remains highly volatile and there are several risk factors that could have significant negative impacts on the New Zealand economy and property market. However, while acknowledging the risk, there is broad agreement between economists, evident from the NZIER's Consensus Forecasts, that New Zealand's recovery will continue.

Conversely, economists' opinions diverge on the timing of the Canterbury reconstruction and the strength of the broader recovery. Some expect a material increase in GDP during 2012, others expect a delay until 2013. This is resulting in a wide range of opinion regarding the GDP growth rate in 2012, from forecasts that are little different to 2011 to a more significant uplift.

The Auckland CBD office supply pipeline is reducing. In the past five years 167,000 sqm of new office space was completed in the CBD. The current supply pipeline comprises two projects totaling 30,500 sqm, completed by mid 2013. Given the consensus economic growth outlook, CBRE expects that the positive occupier demand experienced in the past year will prevail over the next few years. In our view, demand will be sufficient to offset the moderate amount of new supply forecast and result in improving vacancies, although with some periodic fluctuations following new building completions. Broadly, a positive demand environment combined with reducing vacancies will be supportive of rent growth through 2015 to recover rent declines experienced between 2008 and 2010.

We expect that the development market for Prime industrial premises will remain competitive for the foreseeable future and the competition between developers will hinder rent growth. At the same time, rents are forecast to increase, driven by cost increases for new development, the particularities of occupier requirements and developer/investor focus on enhancing asset and portfolio values. As a result, Prime Auckland industrial is one of the few property market sectors where net effective rents in 2015 are forecast to be ahead of their previous cyclical peak.

While retail sales have taken a step backward in Q1 2012, we expect that moderate growth will resume later in the year. The new supply pipeline is active over the next few years and could well exceed aggregate demand growth which will likely lead to increased differentiation in retail property market performance at the submarket and asset level.

We expect transaction volumes to increase this year with improving liquidity, although Australian institutions remain net sellers. While building quality, tenure, lease term and lease covenant continue to have a large bearing on yields, buyers are becoming more comfortable with risk as long as the fundamentals of the property are promising for value add. This will shift more emphasis towards Secondary assets. Most of these will remain the domain of opportunistic private buyers and could represent some of the better buying opportunities in 2012 as properties benefit from the uplift in occupier market conditions.

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