

4th Quarter 2009

Auckland Median Industrial Yield Touching 9%

➔ Increased Vacancies Keep Investors on Cautious Footing

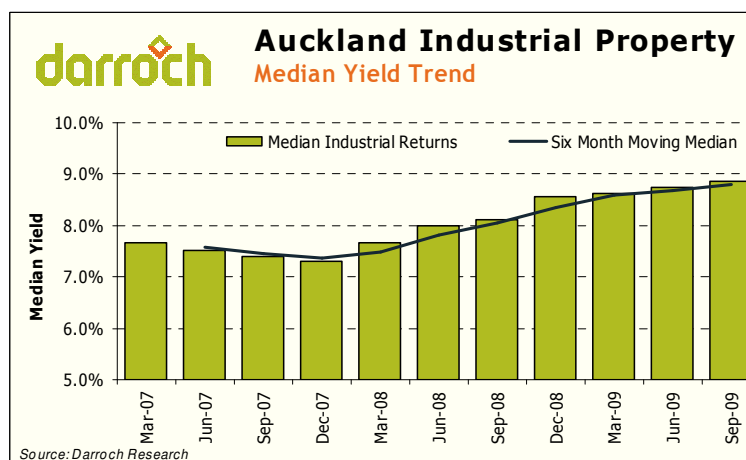
Investment demand for industrial property in Auckland remains guarded as higher vacancies, subdued tenant demand, and softening rents keep investors on a cautious footing. In our latest Commercial Investment Returns (CIR) analysis, industrial yields have tracked up again but are rising at a progressively slower rate. This could be a sign that prices are beginning to stabilise in this market.

According to Darroch's CIR analysis for Q3 2009, the median yield for Auckland industrial property rose to 8.86% (6 months ending September 2009), up 12 basis points (0.12%) from 8.74% (6 months ending June 2009). The analysis is based entirely on tenanted market sales.



Vacancies in the Auckland industrial sector are having a cautionary effect on investment demand.

Generally, the market still remains in a fairly unsettled state. Weaker tenant demand, elevated vacancy levels and higher yields mean that investors and lenders are scrutinizing investment property more closely. Investors are more discerning towards building quality and location, as well as price and tenant quality. The slowdown in tenant demand is best illustrated by development activity which has eased. The number of industrial building consents issued fell approximately 30.0% over the year to July 2009.



Industrial yields have risen throughout 2009, but the rate of increase is slowing

- The median yield was 8.86% for the 6 months ending September 2009
- 3 months earlier the median yield was 8.74%
- In Sept 2008 the median yield was 8.13%

Industrial vacancy rates have increased across Auckland industrial markets over the past year. The increase in vacancy has, in part, been driven by the ongoing contraction in the manufacturing sector. This was particularly evident in Manukau and Auckland City industrial precincts.

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The Darroch industrial vacancy survey covers over 7,850,000 square metres of industrial space. This comprises 3,380,000 square metres in Manukau, 3,090,000 square metres in Auckland, and 1,410,000 in North Shore. Key results from our 2009 industrial vacancy rate survey include:

- The overall industrial vacancy rate as at June 2009 for Manukau City was 3.6%, up 0.6 percentage points from the 3.0% vacancy rate recorded in June 2008. This is the same vacancy rate that was recorded for Manukau City in June 2007.
- The overall industrial vacancy rate as at June 2009 for Auckland City was 5.5%, up 2.8 percentage points from the 2.7% vacancy rate recorded in June 2008.
- The overall industrial vacancy rate as at June 2009 for North Shore City was 8.7%, up 5.0 percentage points from June 2008.

Looking to 2010, the market may take some time to absorb this vacant space. Businesses are looking for sustained evidence of economic recovery before committing to new leases. However, some optimistic signs are appearing in warehousing and distribution circles. Consumer demand for retail goods and services has improved in the latter half of 2009 due to a high NZD making imports cheaper and news of the economy moving out of recession. If retail trade figures continue to improve, we anticipate that distribution businesses will seek more warehousing space. Many businesses will look to Q1 2010 as a key indicator of market demand.

For full details on Industrial property, visit www.Darroch.co.nz/research for Darroch's latest Property Times reports. The Darroch website contains a chronological record of all Darroch reports released over the past few years.