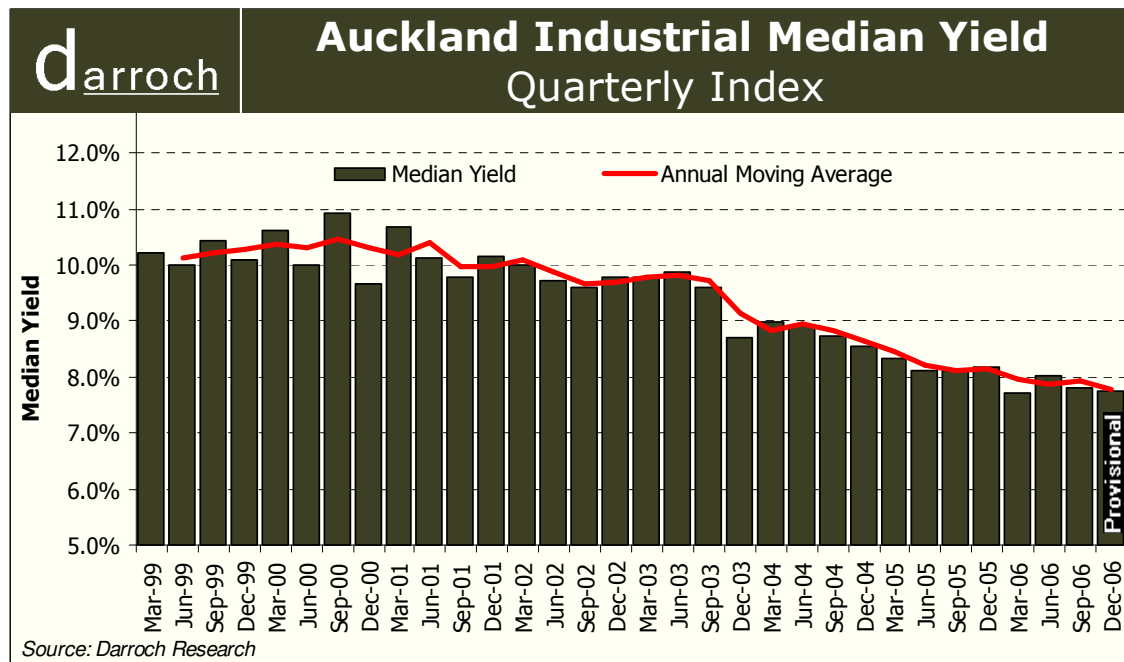


# Auckland Industrial Yields Trend Down Again

December 2006

**Investment yields for Auckland industrial property remain extremely competitive according to latest analysis by Darroch Research.** Darroch monitors industrial investment transactions across Auckland on a quarterly basis dating back to 1999. For the September 2006 quarter, Darroch calculated that the median yield for Auckland industrial property was 7.80% - the second lowest quarterly result on record. Despite a slowdown in the New Zealand economy this year, the latest results appear to defy any suggestions that this market is starting to level out. Moreover, provisional results for the December quarter of 2006 indicate that industrial yields have firmed (i.e. reduced) further - to 7.75%.



Historically, Auckland industrial yields have settled in the 9.0% to 11.0% band but over the last 24 months we have witnessed many sales concluded below the 9.0% threshold. A combination of strong demand from local and overseas buyers coupled with a scarcity of investment stock has helped to drive yields into "unchartered" territory. Globalisation has played an important part and led to greater international investment across world property markets. Listed Property Companies and superannuation based investment trusts are active players in the New Zealand market. Over the last five years companies like Macquarie Goodman and ING have consolidated their portfolio position in New Zealand. International demand is contributing to downward pressure on capitalisation rates. Moreover, most overseas investors are purchasing for medium/long term hold, leading to further scarcity of investment stock and increased competition among buyers.

For many investors at present *capital gain* appears to be the key performance measure for property at present. They will accept a lower return now for the prospect of future capital growth. This means that current rents would need to lift and yields will have to firm further. The prospects of this will largely depend on demand/supply factors, the future performance of the New Zealand economy and the continued involvement of foreign investors.