

3rd Quarter 2009

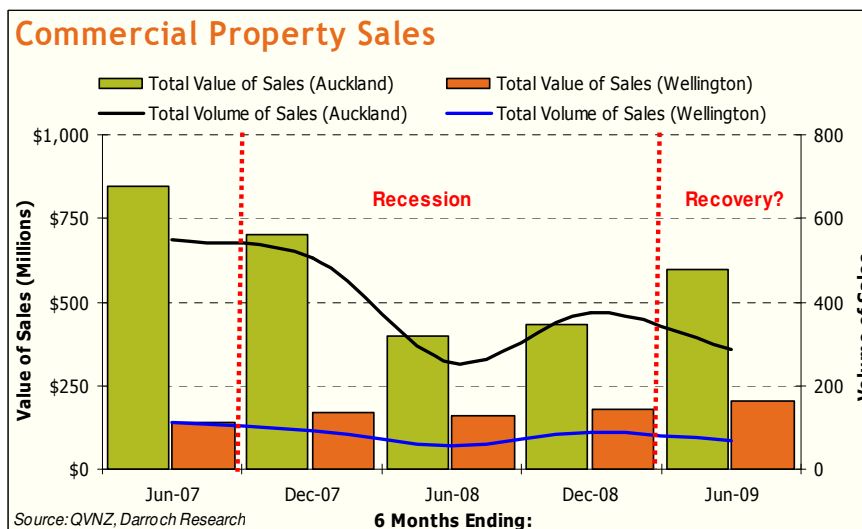
Commercial Property Tries to Recover

➔ 1st Half 2009 Sales Value Up, but Transaction Numbers Down

The commercial property market is showing signs it is striving for recovery amidst the backdrop of improving economic news and rising business confidence. According to QV data, most key cities recorded an increase in the total value of commercial sales during 2009. However, the direction of the market remains slightly mixed given total transaction numbers were generally down over the same period. The data also suggests that higher value transactions are now occurring. These latest results need to be kept in perspective, as 2009 activity levels are still below those achieved two years ago.

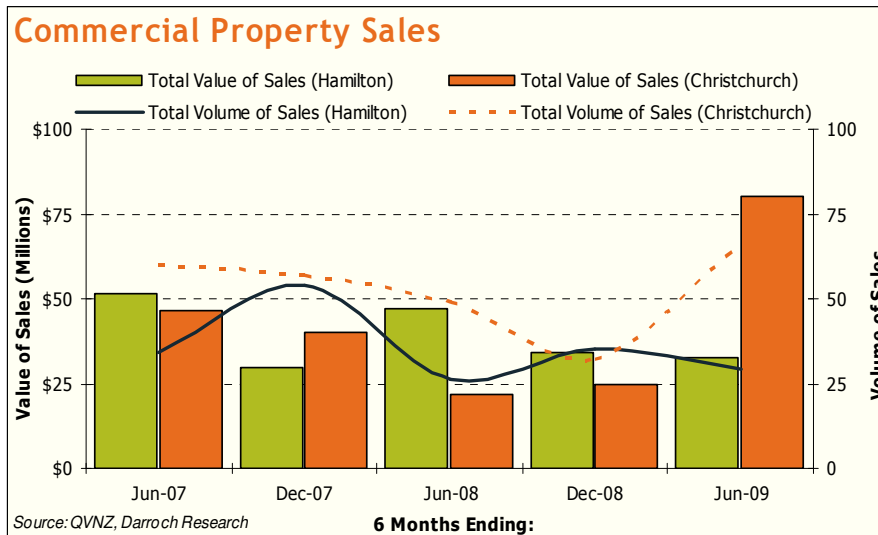
It seems that Auckland, Hamilton and Wellington actually experienced the beginnings of an upturn in late 2008. This is perhaps not surprising given most investment markets experienced some form of “bounce back” from extreme low levels of early/mid 2008.

The first half of 2009 has seen total sales rise almost 40% over H2 2008 in Auckland, but volume of sales was down by almost a quarter. In Wellington, total value of sales is up 10% but transaction numbers are down -20%. In Hamilton, sales value is on par with H2 2008, but again volume is down -17%. Only in Christchurch has the market activity shown a remarkable rebound. Both value and volume are up over 100% on market activity in H2 2008. However, this is partly due to the fact that Christchurch didn't experience any signs of a bounce back for six consecutive quarters.



In both Auckland & Wellington, total value of commercial property sales is up in 2009, but transaction numbers have dipped.

It could be said that part of the market activity in 2008 pertained to lower-valued commercial property, including financially troubled, smaller investors taking the opportunity to exit the market. On the other hand, medium/large investment groups refrained from selling unless forced to - given a dearth of readily available buyers. Also, capital value erosion was quite noticeable in 2008, so average values could be expected to be down during that period.



Commercial activity in Christchurch has been very strong in first half of 2009, according to QV's latest data.

In 2009 there appears to be a little more optimism in this market. Darroch Auckland Manager, John Darroch, said; "We are noticing a lot more interest in commercial property, particularly from high net-worth investors and experienced New Zealand investors who had otherwise been reluctant to purchase property during the peak of 2006/2007. Now they are coming back into the fold and looking for good buys".

Some of the key factors which have helped revive the market in 2009 include:

- New Zealand's recession has not been as severe or as lengthy as initially forecasted, with signs of recovery emerging earlier than anticipated. Business confidence has improved markedly over 2009. According to NZIER, optimism has replaced pessimism with a net 36% of respondents now expecting general conditions to improve in Q3. Previous surveys in Q1 (65%) and Q2 (25%) were net pessimistic.
- Commercial lending rates/interest rates have been near historical low levels. This has helped new investors achieve a positive return gap - where net rental exceeds borrowing costs.
- The trade weighted index (NZD) has risen 20% so far in 2009. Some overseas investors took advantage of a low NZD at the beginning of the year to invest, thus achieving currency appreciation in the process.

However, despite some signs of improved activity in the commercial sector this year, the general outlook remains a little uncertain. A number of headwinds remain on the horizon including:

- Interest rates are starting to rise and medium and long term rates could be considerably higher in 12 months time. Investors will have to weigh up the cost of borrowing against income returns for property.
- The NZ Dollar is currently elevated by historic levels, meaning potential overseas investors risk a currency loss if the NZ dollar tracks down. Overseas investors are likely to refrain from property investment until dollar fluctuations settle.
- Unemployment is still forecasted to rise from 6% (currently) towards 8%. Therefore tenancy downsizings remain a threat, and investors are likely to be wary of potential rising vacancy rates, particularly in the office sector.