DARROCH VALUATIONS
VALUERS & PROPERTY ADVISERS

2nd Quarter 2009

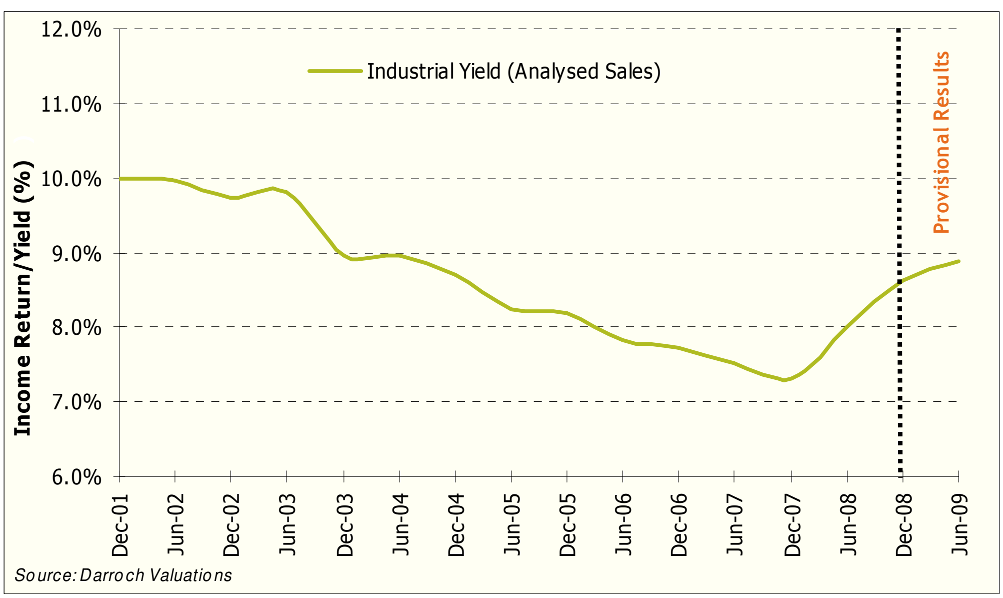
Industrial Yields Up 150 Basis Points Since Peak

➲ Returns Now on Par With 2004 Levels

Returns for industrial property continue to rise as investors factor in higher risk margins when purchasing. A downturn in trade sales and uncertainty over tenant viability is affecting investor confidence, with yield expansion continuing into 2009. Industrial returns are now on par with 2004 yield levels.

Returns for industrial property are now on par with 2004

According to Darroch Valuations' latest analysis (provisional), the median yield for Auckland industrial property increased to 8.85% during the first half of 2009. This is up 0.25% on the preceding December when an 8.6% yield was recorded. Moreover, this is a huge turnaround from December 2007 when a competitive 7.30% median yield was then achieved. The median yield has therefore softened by 150 basis points (1.5%) in just 18 months.



Since the onset of 2008, yields have been rising at twice the rate they had fallen at during 2002-2007

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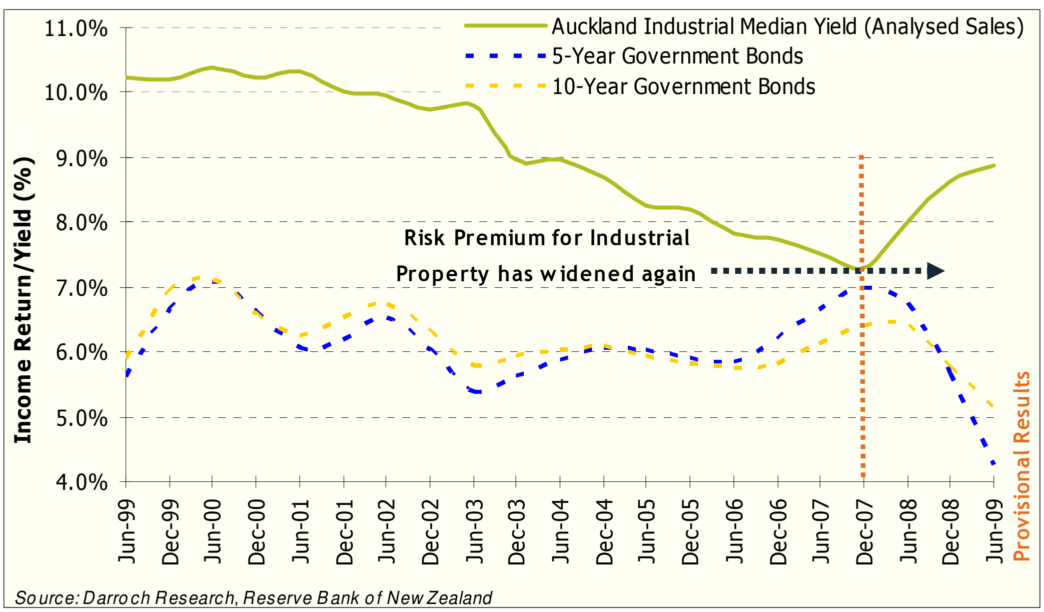
Research Manager for Darroch Valuations, Peter Sluyter said; "The impact of the global credit crunch and onset of economic recession on investment - including property - has been significant. Yields have been rising faster than many people anticipated".

"Since the beginning of 2008 industrial yields have averaged a half a percent (0.5%) rise at each 6 month interval. This is in contrast to the boom of 2002-2007, where our analysis shows yields were declining at a rate of a quarter of a percent (0.25%) every 6 months. The market turnaround has therefore been severe, with yields basically rising at twice the rate they had previously fallen at" said Mr Sluyter.

There is no doubt that the market is strongly factoring in risk. The "risk premium" for Auckland industrial property has widened considerably in the past 18 months. Investors have now adopted a much stricter approach to risk/return. A fall in retail trade and the flow-on impact to manufacturers and warehousing/distributors means many businesses are enduring a downturn in sales performance. If sustained, the viability of some businesses will be put to the test. Under such conditions rental growth prospects remain extremely weak and in some cases rent levels have headed back to pre 2007 levels. The overwhelming factor is that economic uncertainty is at the forefront of investors' minds, and they are now seeking higher returns to compensate for risk.

We have previously mentioned that some equity analysts had predicted yield expansion of up to 200 basis points (2.0%) from the market peak in 2007, and as each month passes, sales suggest we are moving towards that target.



Our analysis shows that the risk-premium has opened to around 4.6% (against five-year Government Bonds) which is the highest margin since 1999. Historically, a margin of close to 3% was typical for industrial property. In 2004 this began to narrow, and continued to do so over the following three years, whittling down to just 0.35% at the peak of the market in late 2007. Now investors are looking for protection from market threats such as poor rent growth prospects and the possibility of yields rising further.