3rd Quarter 2009

Inertia Remains In Key Industrial Markets

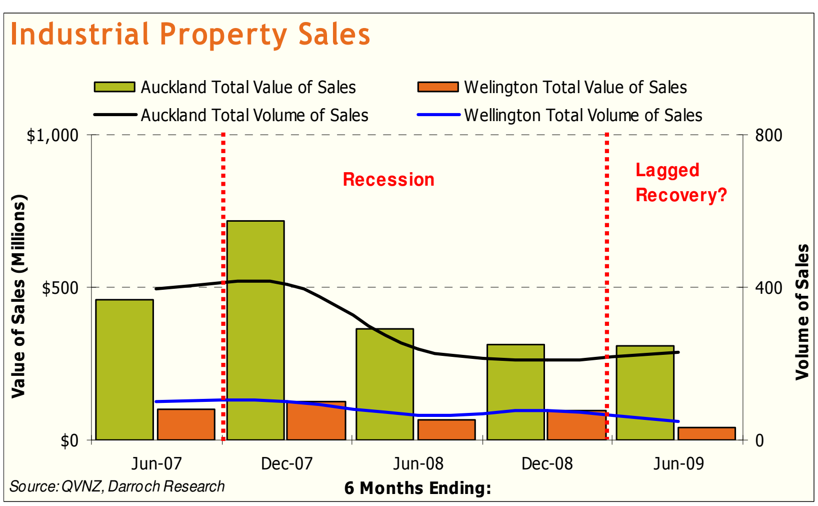
➲ Auckland & Wellington Transaction Numbers Remain Weak

The industrial property market in Auckland and Wellington remains in a fairly weakened state, despite news the economy has moved out of recession and commercial property is showing some improvement. The industrial sector is displaying its classic 'lag' after property markets experience a downturn. New demand for goods and services is immediately evident in retail trade, but the flow-on effects to industrial markets are expected to take longer to filter through.

Industrial property sales in Auckland & Wellington remain slow. This sector is not as responsive as retail.

Take a drive around some of the key industrial precincts in Auckland, and you will get an immediate picture of market health. "For Lease" and/or "For Sale" signs are still common-place, suggesting that all has not been rosy in industrial circles.

Latest statistics from QV reiterate market observations. In Auckland in the first half of 2009, the total value of industrial property sales was static with volume marginally up over H2 2008. In Wellington, value and volume was down -50% and -40% respectively. Geographically, Hamilton and Christchurch bucked this trend. In Hamilton, sales values were up over 100% and volume was up a quarter. In Christchurch industrial activity has rebounded strongly in 2009, replicating activity across the commercial sector. Total value of industrial sales in Christchurch is up over 100% and volume has climbed by 50% on H2 2008. By comparison, industrial sales activity in Auckland and Wellington has been very flat.



The number of industrial property transactions in Auckland & Wellington has fallen since late 2007 and remain fairly weak.

Continued >>

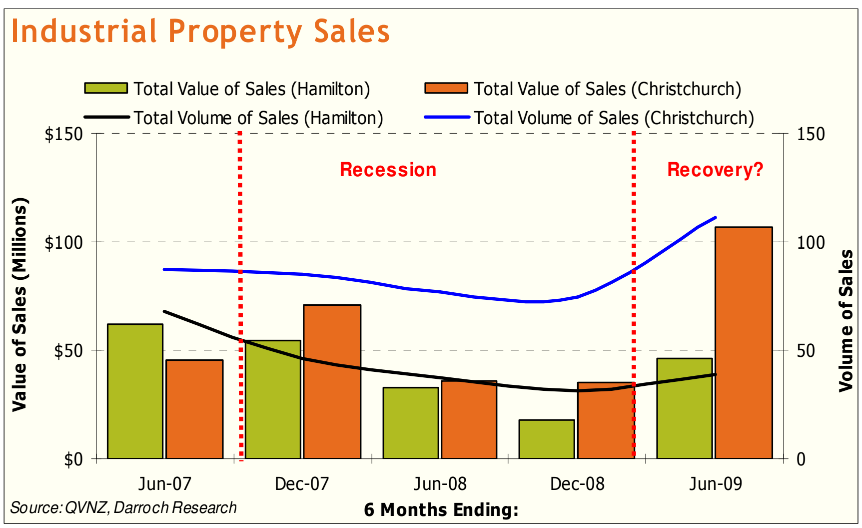
Peter Sluyter of Darroch Research said; "Our research division has been analysing sales transactions across Auckland for several years now and over the past 12 to 18 months we have observed a notable increase in the number of properties being sold vacant, particularly warehousing/factory accommodation, but also secondary offices located in industrial precincts".

"Uncertainty over tenant viability and product demand has generated nervousness from investors, and with nervousness comes inertia. There is still a lot of inertia in the industrial investment market at present, but we are optimistic that this will improve over the latter part of this year and early next year" said Mr Sluyter.

"Having said that we are aware that well leased, well located properties with strong tenant covenants - particularly in the $2 million plus price band are selling well. However, there is a scarcity of this product presented to the market. Less secure properties appear more common at the moment. " said Mr Sluyter.

Still, a few positive signs are emerging which should benefit the wider industrial property sector in due course. Retail spending is up - given the economic recession is less severe than forecasted, and an elevated NZ Dollar is making imports cheaper. Consumer demand for manufactured goods is likely to increase, particularly with the imminent and traditional Christmas trade.

In the case of Auckland especially, there is anticipation of some improvement in industrial leasing activity later this year or early next year as product demand flows onto industrial warehousing. Improved leasing demand is usually the catalyst for renewed investor interest.



There is also renewed interest from cashed up mum-and-dad investors who are dissatisfied with returns from banks and are now looking at commercial and industrial property as an alternative investment option. At present interest rates are favourable, however economists are predicting interest rates (and mortgage rates) to increase over the next 12 months, possibly testing ongoing demand.