

## Market Overview

Wellington’s industrial market, over the last 12 months, has seen tenant demand weaken, credit availability reduce, lending criteria tighten and money become more expensive. Market conditions are unlikely to improve until the economy experiences a number of quarters of strong economic growth.

Tenant demand and enquiry has eased over the last 12 months as occupiers adopt a much more conservative stance around relocation. The level of development activity has also reduced, with the number of industrial building consents falling 36% over the year to July 2009.

Over the last six months yields have begun to stabilise although investor demand remains relatively weak in the face of broader financial market volatility. Returns have declined dramatically and investors have become more discerning in terms of not only building quality and location, but also price and tenant quality.

Table 1 presents a summary of indicative prime gross building rents and land values for Wellington’s key industrial sub-markets as at September 2009.

**Table 1: Market Summary by Sub-Market – September 2009**

Location	Prime Building Rents (gross)		Land Values (\$psm)*
	Office (\$psm)	Warehouse (\$psm)	
Ngauranga	\$160 - \$200	\$130 - \$160	\$500 - \$700
Petone	\$150 - \$180	\$120 - \$140	\$500 - \$650
Seaview	\$120 - \$150	\$90 - \$120	\$250 - \$350
Porirua	\$120 - \$160	\$90 - \$130	\$150 - \$200

Source: Darroch Research

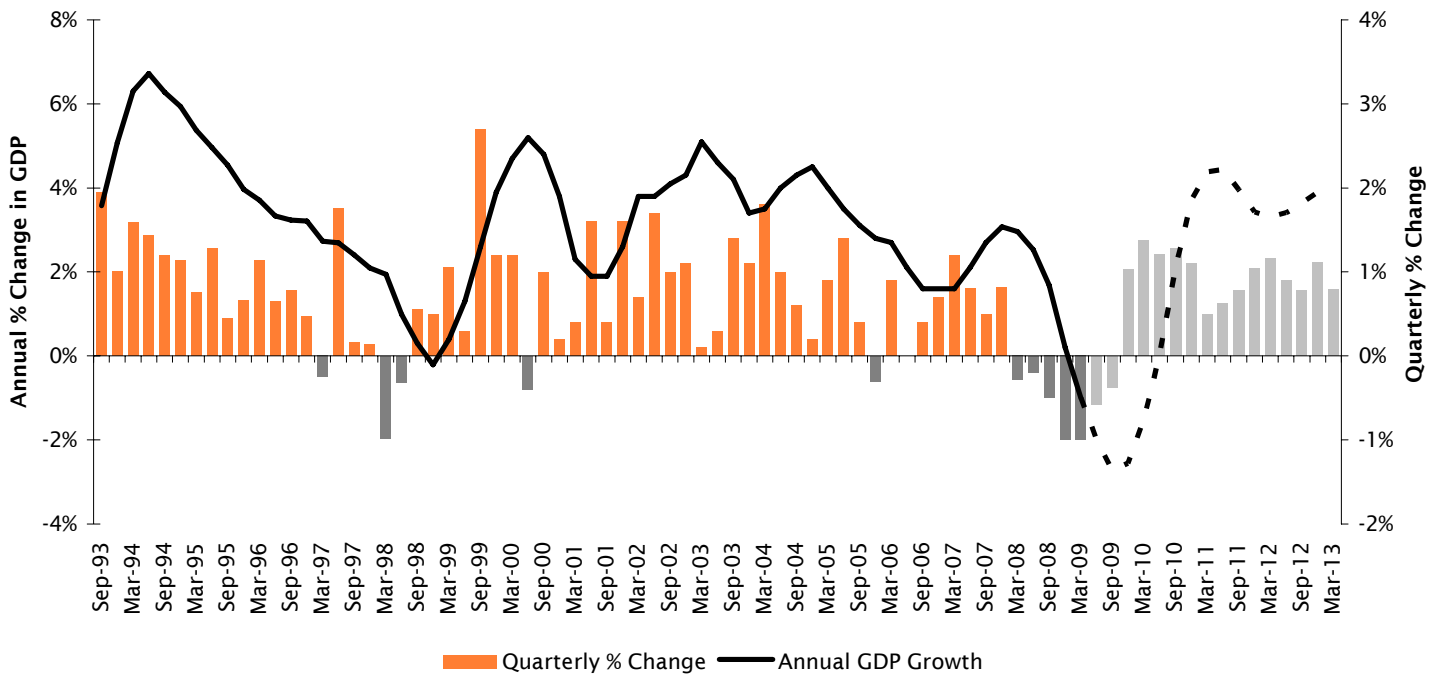
Industrial rents, after a number of years of continuous growth, have eased since early 2009 and, over the last 18 months land value growth has turned negative with land values across all key industrial locations experiencing a decline.

# The Economy

New Zealand’s economy experienced a consumer led slowdown over 2008. The economy contracted by 0.9% in the nine months to September 2008 and a further 0.9% in the December 2008 quarter. Growth has remained negative over the first quarter of 2009 (-1.0%) and is forecast to remain negative over the second and third quarters of 2009. The outlook is for growth to start to recover by late 2009, albeit at a slow rate, with GDP, on an annual basis, forecast to be positive by the third quarter in 2010.

Figure 1 demonstrates the trend in annual and quarterly economic growth (GDP) since 1993 and in addition presents the growth forecast up to, and including, March 2014.

**Figure 1: National Economic Growth**



Source: NZIER

The economy remains vulnerable to the downstream financial and economic impact of the ‘sub-prime’ mortgage crisis and the associated ‘credit crunch.’ Over the last 12 months bank lending criteria has tightened, there has been a sharp reduction in credit availability and money has become more expensive. Expectations of future economic growth remain soft, with most commentators expecting negative growth to continue until late 2009.

The New Zealand economy is forecast to see positive growth return from late 2009 as a result of:

- Increased government expenditure;
- The stimulus provided by the October 2008 and April 2009 tax cuts;
- The fall in the relative value of the New Zealand dollar, from early 2008 to early 2009, will assist exporters profitability, offset the decline in some commodity prices and assist in reigning in our current account deficit, unfortunately, approximately half of this foreign exchange gain has, since March 2009, been given up;
- The fall in transport costs driven by lower petrol and diesel prices;
- Lower residential mortgage interest rates may take some pressure off household’s budgets; and
- Stronger global economic growth and a forecast bottoming in the housing market.

However, some of these benefits will be offset by:

- A continuing softening in labour market conditions and rising unemployment. The extent of the softening in the labour market will be a critical indicator of the strength of the economic recovery and duration of this cycle;
- Interest rates for the non residential sector are likely to remain high with tighter lending criteria and restrictions on the availability of credit and residential interest rates are likely to rise;
- Net migration remains below New Zealand's long term average and tourist arrivals continue to decline;
- Weak dairy prices; and
- Continued volatility in overseas and domestic capital markets.

The forecast recovery is expected to be export led. The growth that does occur is unlikely to be evenly distributed around the country. Regions with an export oriented economy are likely to do better than those with a domestic consumption focus, for example Wellington. Prospects over the short to medium term for Wellington will be driven to a large extent by changes within the public sector.

## Land Supply

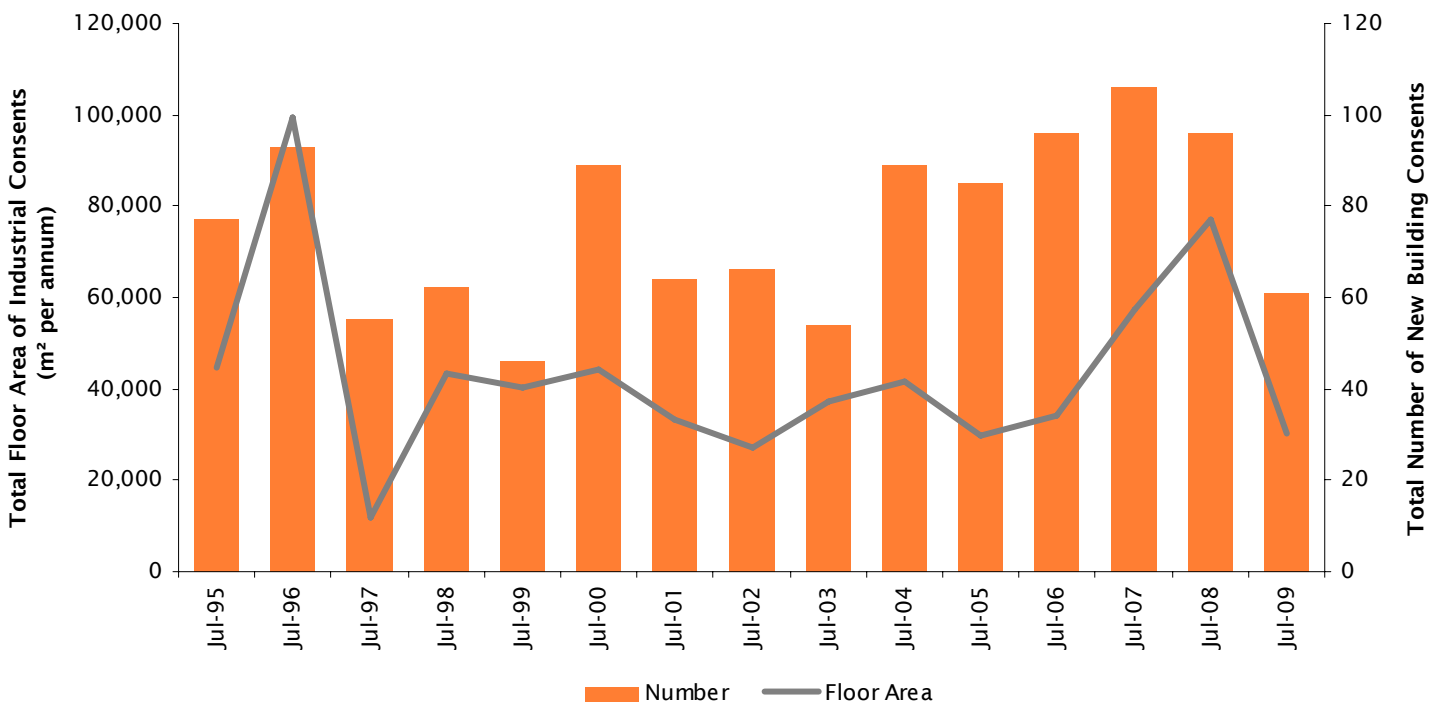
Land values in the region over the past 18 months have fallen, following several years of very strong growth. There have been limited sales of vacant industrial land over the last six months. Examples of recent land sales include:

- A 1,115 square metre site at 94-98 Nelson Street, Petone sold in August 2009 for \$702,000 or \$629 per square metre;
- A 1,272 square metre site at 19-21 North Point Street, Plimmerton sold in August 2009 for \$250,000 which equates to a per square metre rate of \$235; and
- A 574 square metre site at 8-10 Sydney Street, Petone sold in February 2009 for just over \$300,000 or \$530 per square metre.

## Development Activity

Industrial development activity has fallen significantly in the Wellington region over the last 2 years and in particular over the last 12 months. Figure 2 presents the trend in the number, and total area, of consents issued for industrial buildings in the Wellington region since 1995.

**Figure 2: Industrial Building Consents**



Source: Statistics New Zealand

In the year to July 2009, the number of industrial building consents issued declined by 36% compared to the previous corresponding period. Over the same period the total floor area of consents issued fell from 76,910 square metres in the year to July 2008 to 30,063 square metres in the year to July 2009, a decrease of 61%.

Recent development has focused primarily on the refurbishment of existing buildings, although some smaller new builds have been completed over the past 18 months. Examples of recent and current industrial development include:

- North City Business Units, Matiu Close, Porirua. Seven units have been constructed for owner occupation and investment. Units range from 127 square metres to 137 square metres;
- The Trentham Industrial Park, Upper Hutt, comprises 45 industrial lots ranging in size from 1,400 to 8,000 square metres. The development is being released over two stages; and
- Seaview Business Park, 48 - 56 Seaview Road, Seaview, is marketing several units ranging from 500 square metres to 5,500 square metres. Bridgestone is the anchor tenant.

Grenada North is becoming an attractive location for industrial development as smaller businesses have been forced out of sites in Newtown, Rongotai and Te Aro because of high land values and competing non-industrial uses. Although Seaview and Petone remain options for larger tenants, the very limited land supply and higher rents means many businesses are increasingly considering alternate locations further a field, such as Trentham, Levin and Palmerston North.

## Leasing Activity

Prime and secondary rents for industrial property have eased since the beginning of 2009. Table 2 presents significant recent leasing and lease renewal activity.

**Table 2: Leasing Activity**

Tenant	Location	Area Leased (sqm)	Term (Yrs)	Start Date	Office (Net \$psm)	Warehouse (Net \$psm)
Billionaires Catering	Miramar	356	3	Sep 09	-	\$125 - \$135
Avinesh Baldeo	Rongotai	500	4	Jun 09	-	\$55 - \$65
Greenfreight Limited	Rongotai	847	5	May 09	-	\$100 - \$110
Novus Wellington	Newton	186	3	May 09	-	\$145 - \$155
Cable Price Downer	Seaview	3,530	2	Feb 09	\$105 - \$115	\$75 - \$85
Colgate Palmolive	Seaview	8,574	3	Nov 08	\$145 - \$155	\$95 - \$105
Waiwhetu Distributors	Lower Hutt	1,666	6	Nov 08	\$145 - \$155	\$105 - \$115

Source: Darroch Research

### Comments include:

- Cable Price Downer has signed for a further two years on their lease of warehouse and office space on Port Road, Seaview. The recent review set the new rental at \$289,250 per annum;
- Billionaires Catering has leased an industrial property located on Tauhinu Road, Miramar. The lease is for a term of three years at a rental of \$49,000 per annum;
- Avinesh Baldeo has leased an industrial property located on Tirangi Road, Rongotai. The lease is for a term of four years at a rental of \$30,000 per annum;
- Greenfreight Limited has leased an industrial property located on Tirangi Road, Rongotai. The lease is for a term of five years at a rental of \$90,000 per annum;
- Novus Wellington has leased an industrial property located on Adelaide Road, Newton. The lease is for a term of three years at a rental of \$37,000 per annum. The property comprises of a low stud warehouse component and associated onsite carparking;
- Price Downer has signed for a further two years on their lease of warehouse and office space on Port Road, Seaview. The recent review set the new rental at \$289,250 per annum;
- Colgate Palmolive has leased an industrial property located on Barnes Street, Seaview. The property comprises a high stud, column free distribution warehouse facility with substantial canopy and associated yards, with additional offices and amenities. The lease is for a term of three years at a rental of \$747,000 per annum; and
- Waiwhetu Distributors has leased over 1,666 square metres of office, warehouse, showroom and carparks at 6 Gear Street, Petone, Lower Hutt. The site has an annual rental of approximately \$185,000 with a lease term of six years effective November 2008.

## Investment Market

Yields across all grades of industrial property have stabilised over the last six months after significant increases over the previous 18 months, in particular across yields for secondary quality property.

Recent investment sales include:

- 1 Glover Street, Ngauranga, was sold in August 2009 for \$1.32 million. The property comprises of a large 1,342 square metre warehouse with a stud height of six metres and full height roller doors. Office and showroom areas have separate access with frontage to Glover Street;
- 1 Lower Tyers Road, Ngauranga, was sold with a sale and leaseback agreement in June 2009 for \$8.3 million on a yield of 7.89%. The property is a document storage facility which was purpose built for the tenant – Online Security;
- 180-202 Hutt Road, Thorndon, was sold in February 2009 for \$9.28 million with a 10 year lease to Fletchers. The property comprises three separate buildings providing warehouse / showroom accommodation with sealed yard and parking areas;
- 6 Fifeshire Avenue, Te Aro, was sold in February 2009 for \$1.05 million on a yield of 5.69%. The property comprises of a reception area, an eight metre stud warehouse area and mezzanine offices;
- 228 Gracefield Road, Lower Hutt, was sold in December 2008 for \$760,000 on a yield of 8.7%. The property incorporates a high stud workshop / warehouse and office accommodation. The property is leased to Komatsu Australia with 5.5 years remaining on the lease; and
- 22 Annie Huggan Grove, Petone, was sold in November 2008 for \$4.9 million on a market yield of 9.3%. The property comprises warehouse, showroom and storage facilities, together with associated office and amenities. The property is leased to Carter Holt with 7.5 years remaining on the lease.

Table 3 presents a summary of investment trends in the Wellington area.

**Table 3: Wellington Industrial Investment Trends**

Location	Market Rate		Investment Market	
	Yield	Market Outlook	Demand	Availability
Ngauranga	7.50% - 9.00%	Stable	Easing	Average
Petone	8.00% - 9.50%	Stable	Easing	Average
Seaview	8.50% - 9.50%	Stable	Easing	Average
Porirua	8.50% - 9.50%	Stable	Easing	Average

Source: Darroch Research

Table 4 presents the total return delivered by retail, industrial and CBD office property over the last year, two years, five years and ten years.

**Table 4: Retail, Office and Industrial Annual Compound Returns**

To March 2009	Retail	Industrial	Wellington Office (CBD)
1 Year	-1.3%	2.6%	2.6%
2 Years	10.6%	8.0%	14.8%
5 Years	14.1%	13.2%	18.1%
10 Years	13.1%	11.8%	13.0%

Source: Darroch Research and The New Zealand Property Council

N.B. Return series are based on the New Zealand Property Council's Index up to March 2006, and since then Darroch's return series.

Returns across all New Zealand property sectors have been relatively strong over the last five years, however, the past 12 months has seen a significant decrease in returns across all property sectors. With the exception of the past year, industrial property investments have provided annual average returns (rental income and capital gains) in excess of 8% over the last ten years.

## Market Outlook

Table 5 presents the change in the Auckland industrial market since its peak in 2007 together with the market outlook over the short and medium term.

**Table 5: Wellington Industrial Market Outlook**

	Development Land Values	Development Activity	Rents	Yields	Returns
Change since June 2007	-40%	-75%	-10%	From 7.5% to 9.0%	From 16.5% to 2.6%
Short term outlook	Stable	Down	Down	Stable	Down
Medium term outlook	Stable	Up	Stable	Down	Up

Source: Darroch Research

The significant realignment of financial markets coupled with questions around the strength of the anticipated economic recovery, has resulted in an uncertain operating environment for many businesses. Market conditions are unlikely to improve until the economy experiences a number of quarters of strong economic growth.

As a consequence, we anticipate that development activity, despite recent increases in business confidence, will be constrained for some time to come. We would expect industrial development activity in the Wellington region, over the next year, to be well below its five year average. Whilst the recession will continue to have a significant impact over the short term, the demand for vacant development sites is likely to strengthen over the medium to longer term.

Our expectation is that rental values will continue to ease over the next six months and we would also expect land values to ease further over the same period. The investor market too, over the short term, will be constrained by the increased cost and reduced availability of credit while the occupier market will continue to be characterised by weaker growth and a more cautious approach to relocation.

Yields have begun to stabilise over the past six months and we expect this trend to consolidate over the next year. The reality of still minimal industrial vacancy in the region coupled with limited greenfield land will, however, to some extent underpin the market going forward.

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