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New Zealand | Industrial | 2015
HIGHLIGHTS

Industrial Forges On

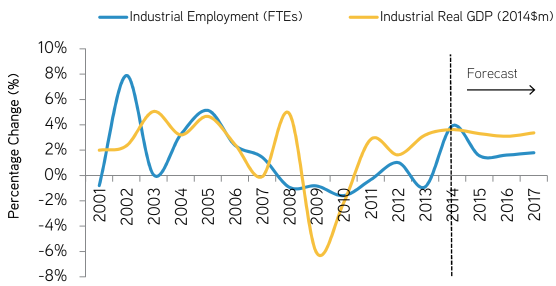
The strength in the industrial sector forges on in New Zealand. It is supported by high occupational demand, rising rents and yield-hungry investors competing for limited stock availability. Forecasts for further employment and industrial business growth has spurred development activity. However this continues to be hampered by suitable land supply, which in some areas remains in a critical shortage. The main centres of Auckland, Wellington and Christchurch keep hitting new highs across most indicators, with provincial cities also reporting solid demand. Short-term fluctuations in dairy pricing are not impacting the industrial sector's transport and storage facility prices. Positive indicators keep emerging in many markets and sectors – especially construction, distribution and trade.

Key Findings

- The health of the industrial sector is a reflection of the health of the New Zealand economy. There are around 640,000 full time equivalents (FTEs) working in the industrial sector, accounting for a third of New Zealand's employment and a third of its GDP.
- Occupational demand for industrial premises in Auckland is high, with the vacancy rate achieving another record low, now at 2.6%. Prime rents are growing and yields are firming. Forecasts are for further rent rises between two per cent and three per cent p.a. with yields firming by 25 to 50 basis points p.a.
- Wellington is an industrial investor hotspot as purchasers look outside traditional markets and back a positive long-term growth story, while owner-occupiers take advantage of cyclically low interest rates.
- The rebuild of Christchurch continues, adding significant pressure on resources, however, as construction peaks, recent rampant double-digit value growth for industrial rents has slowed and plateaued as supply catches up to demand.
- The best performing provincial industrial markets are those which remain dedicated to a shrinking, but substantial manufacturing sector, where growth opportunities develop from rising residential housing construction and rising transport and storage requirements.

KEY INDICATORS	12 MONTH CHANGE	12 MONTH FORECAST
OVERALL PERFORMANCE	↑	↔ ↑
NEW SUPPLY	↔ ↑	↔ ↑
VACANCY	↓	↔
RENTS	↔ ↑	↔ ↑
INCENTIVES	↔ ↓	↔ ↓
CAPITAL VALUES	↑	↑
YIELDS	↓	↓

New Zealand industrial sector economy



Source: BERL and Colliers International Research

New Zealand Industrial Market Indicators Q1 2015

Precinct	Vacancy Rate (%)	Net Prime Rents ($/m²)***				Net Secondary Rents ($/m²)***				Prime Capital Value ($/m²)*		Secondary Capital Value* ($/m²)		Prime Market Yields (%)**		Secondary Market Yields (%)**	
	OVERALL	OFFICE		WAREHOUSE		OFFICE		WAREHOUSE									
AUCKLAND	**Feb-15**	**LOW**	**HIGH**	**LOW**	**HIGH**	**LOW**	**HIGH**	**LOW**	**HIGH**	**LOW**	**HIGH**	**LOW**	**HIGH**	**LOW**	**HIGH**	**LOW**	**HIGH**
Airport Corridor	0.9%	200	230	100	115	130	170	70	85	1,635	2,175	955	1,405	6.35%	7.35%	7.25%	8.60%
East Tamaki	2.3%	200	240	100	115	140	180	80	95	1,750	2,205	1,100	1,575	6.35%	6.85%	7.10%	8.35%
Manukau/Wiri	3.0%	200	230	100	115	140	170	70	85	1,690	2,175	975	1,435	6.35%	7.10%	7.10%	8.60%
Mt Wellington	3.3%	200	245	100	120	150	185	80	100	1,750	2,320	1,095	1,650	6.25%	6.85%	7.10%	8.60%
Penrose / Onehunga	3.7%	200	235	100	120	150	190	80	100	1,750	2,290	1,095	1,660	6.25%	6.85%	7.10%	8.60%
Rosebank / Avondale	2.3%	200	235	100	115	120	160	70	95	1,690	2,105	930	1,520	6.60%	7.10%	7.10%	8.60%
New Lynn	2.3%	190	230	100	115	150	180	70	85	1,605	2,015	1,000	1,340	6.85%	7.35%	7.75%	8.60%
Henderson	2.1%	190	230	100	115	150	180	70	85	1,605	2,015	970	1,340	6.85%	7.35%	7.75%	8.85%
Mairangi Bay	1.4%	205	250	105	120	170	200	100	110	1,825	2,300	1,450	1,895	6.35%	6.85%	6.75%	7.85%
North Harbour	1.7%	200	245	100	120	150	190	95	110	1,750	2,375	1,350	1,865	6.10%	6.85%	6.75%	7.85%
Wairau Valley	1.6%	180	200	100	110	130	160	80	100	1,695	2,100	1,080	1,660	6.10%	6.85%	6.75%	8.35%
WELLINGTON	**Nov-14**																
Seaview	5.6%	133	163	103	123	83	108	58	83	1,070	1,440	435	755	7.50%	8.50%	9.00%	11.00%
Grenada	4.3%	125	160	95	115	93	118	73	88	975	1,345	590	870	7.50%	8.50%	8.50%	10.50%
Miramar / Rongotai	4.5%	115	135	85	105	93	108	63	78	715	1,040	445	620	8.00%	9.50%	9.50%	11.00%
Ngauranga	5.5%	143	172	113	133	108	143	83	103	1,130	1,610	680	1,010	7.00%	8.50%	8.50%	10.00%
Petone / Alicetown	4.1%	133	163	103	123	118	143	88	103	1,010	1,470	705	1,010	7.00%	8.50%	8.50%	10.50%
Porirua	2.9%	123	143	98	108	88	103	63	73	945	1,225	480	655	7.50%	9.00%	9.00%	11.00%
Naenae/Wingate	4.4%	118	148	88	108	78	88	48	68	845	1,165	355	580	8.00%	9.00%	9.00%	11.00%
Upper Hutt	11.7%	108	128	73	93	70	85	45	63	685	1,000	320	520	8.00%	9.50%	9.50%	11.50%
CHRISTCHURCH	**Sep-14**																
Hornby / Islington	1.6%	170	230	90	120	135	175	70	90	1,415	2,185	950	1,380	6.50%	7.50%	7.75%	8.75%
Middleton / Sockburn	2.2%	170	230	90	120	135	175	70	90	1,370	2,105	950	1,380	6.75%	7.75%	7.75%	8.75%
Sydenham	6.5%	170	250	90	125	135	175	70	95	1,370	2,220	950	1,430	6.75%	7.75%	7.75%	8.75%
Riccarton / Addington	-	170	250	90	125	135	175	70	95	1,370	2,220	950	1,430	6.75%	7.75%	7.75%	8.75%
Bromley	-	140	170	75	95	95	125	50	70	880	1,375	470	855	8.00%	10.00%	9.50%	12.50%
Woolston	-	170	220	90	120	125	165	65	85	1,370	2,075	855	1,265	6.75%	7.75%	8.00%	9.00%
HAMILTON																	
Hamilton	-	140	200	75	110	90	120	50	70	1,100	1,895	645	1,000	6.75%	8.00%	8.00%	9.00%
TAURANGA																	
Tauranga	-	140	160	90	100	100	120	70	80	1,430	1,790	895	1,215	6.25%	7.00%	7.25%	8.50%
DUNEDIN																	
Inner City	-	130	200	75	120	70	100	45	75	1,010	1,875	455	940	7.25%	8.50%	8.50%	11.00%
Kaikorai Valley	-	100	160	60	95	50	80	40	65	755	1,395	365	800	7.75%	9.00%	9.00%	12.00%
Mosgiel	-	90	140	55	90	55	75	40	55	655	1,290	360	620	7.75%	9.50%	9.50%	12.00%

Source: Colliers International Research
Assuming 2,000m² building with 50% site coverage
*Based on net combined rents of warehouse and office rents (assumes warehouse/office ratio of 80/20) and assuming fully leased at market rates
**Assumes freehold where appropriate
***Wellington is based on gross face rents
Note: figures are rounded

Outlook

- The fortunes of the industrial sector are commensurate with the fortunes of the economy, and current forecasts point to a continued run of positive growth for New Zealand. This will keep the sector running strongly over the next few years.
- Landlords will continue to focus on the growth sectors of the industrial market – transport, storage, construction and trade – where new build activity is rising along with rents. The manufacturing sector will provide a solid, but diminishing, level of occupational demand over time, primarily for older stock.
- The two-tier rental market gap between new and old properties is widening, influenced by the rise in construction costs and land values. Benchmark rents for new builds will be a growing occurrence in most markets.
- Investor appetite for good quality property anywhere in New Zealand is strong, with investment yields in the industrial sector forecast to firm further despite being at record lows. Investors have re-weighted risk appetite in a growing economy with low interest rates and competitive funding rates.

MAIN CENTRES

Auckland

Demand

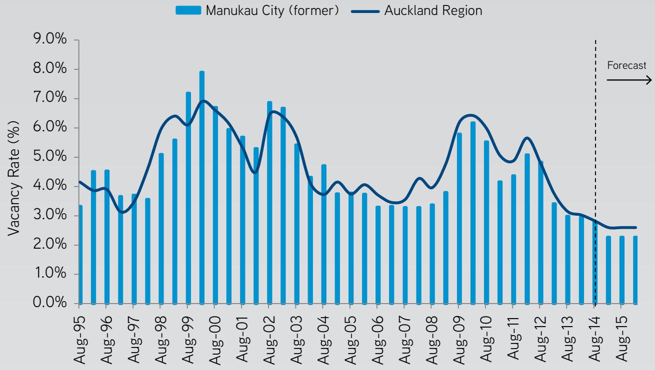
The unrelenting squeeze on industrial space in the Auckland market remains, with the latest vacancy rate showing market conditions have never been as tight in the last two decades. The Auckland regional vacancy rate is at 2.6% as at February 2015 compared to 3.0% a year ago, which was a record at the time. The pressure on prime space remains, which is at 1.3%, or just 31,000m². Secondary vacant space is at 3.0%, or 255,000m².

Auckland's industrial growth continues across all regions. However the largest area of industrial space, centred on south Auckland, continues to drive the market's overall performance – see top chart on the right.

On the North Shore, vacant industrial space remains in short supply, with only pockets of small scale development activity leading to a continued demand and supply imbalance. Tenants looking for new or expansion space, who start the searching process early, are having reasonable success.

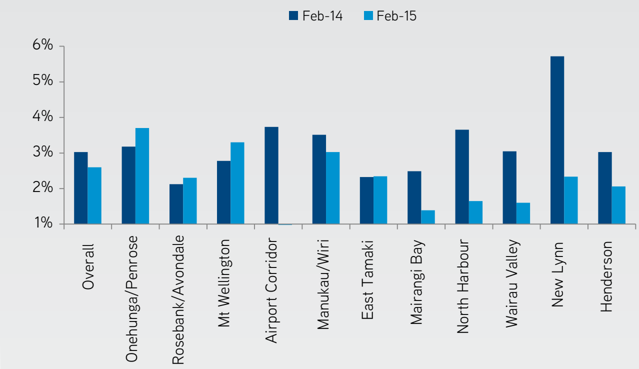
Out west, vacancy is at an all-time low, and prime space is virtually absent in the market. The pockets of secondary space available are receiving strong enquiry, and this is likely to be a feature of the market for some time.

Industrial vacancy – Auckland region vs. Manukau City*



Source: Colliers International Research
*Former Manukau City territory authority

Auckland industrial vacancy by precinct



Source: Colliers International Research

Enterprise Park

44 Dalgety Drive, Wiri, Auckland

Goodman Property Trust has sold its South Auckland based industrial property, Enterprise Park in Wiri to an undisclosed buyer for $53.23 million. Enterprise Park was formerly the Wiri Woolstore and it has been reconfigured by Goodman into a multi-unit industrial facility and extended with an adjoining office building for PMP Print.

Auckland Industrial Market Review

2015 compared to 2014

* Overall vacancy

Activity & Demand

2015 compared to 2014

Occupier Demand

Enquiry = ↑
Business confidence = ↑
Supply = ↓ Demand = ↑

Vacancy

Prime grade = 1.3% (Feb 2015)
Secondary grade = 3.0% (Feb 2015)
Spec build activity = ↑

Rentals

Average Prime grade = Warehouse ↑ $108/m²
Office ↑ $215/m²
Incentives = 2 weeks/year of term

Investment Sales

Average prime yields ‹ 7.0% (2014 record: 5.90%)
Average secondary yields = 7.8%

Investor Demand

Record levels = ↑ demand, ↑ prices
Funding ↑ = sustained demand
Buyer groups = private, institutions, syndicators

Land Supply

Enquiry = ↑
Value pressure = ↑
Available land for sale = ↓

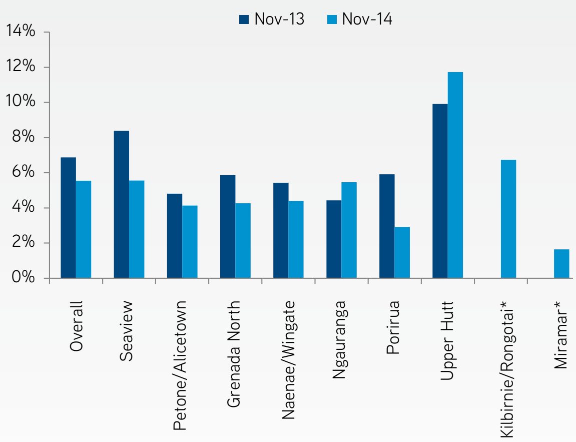
33 Birmingham Road
East Tamaki, Auckland

Roli Properties Ltd has acquired 33 Birmingham Rd in East Tamaki for $9.3 million with a returning yield of 10%. The 1970's industrial building comprises 9,860m² and sits on 1.8ha site with subdivision potential. This property is fully occupied with a 10 year lease which started in August 2013 by the anchor tenant.

21-23 Vestey Drive
Mt Wellington, Auckland

Landlord Lewis Holdings have leased 21-23 Vestey Drive in Mt Wellington to Ricoh NZ on a nine year lease term. The property has a net floor area of 3,017m² which includes 792m² of office (showroom and amenities included), 417m² of DG storage, 1,729m² of warehouse and 663m² of canopy.

Wellington industrial vacancy



Source: Colliers International Research
* New addition to the 2014 vacancy survey

Construction

Developers are responding to the higher demand environment. Over the last year there has been a net supply increase in overall stock by 163,00m². Total industrial stock in the Auckland market aggregates to almost 11 million square metres. There are 19 premises comprising 150,000m² of industrial space currently under construction with an expected completion date by the end of 2015. The majority of new development activity is in the Manukau area and will be undertaken by Goodman Property Trust and Auckland Airport. Zoning under the Proposed Auckland Unitary Plan (PAUP) to restrict uses within zones is being carefully monitored by owners of sites currently operating under a different use.

Rents

The extended pressure on the occupational market with relatively little alternatives for tenants has meant that landlords are more confident in pushing up rents to new highs. This has been exacerbated by the increases in construction costs which have elevated costs for new builds. While the differential between existing and new builds remains between $20 and $30/m², the existing market is now catching up, with faster rates of growth than experienced in previous years. Rents for prime warehouse space increased by 1.4% in the year to March 2015, and a further increase of between 2.0% and 3.0% p.a over 2015 and 2016 is forecast as the economy grows and business and consumer confidence continues to bounce along at all-time highs.

Investment market

The boost to investor cash flow from higher rents along with low interest rates will keep yields low and values high. The search for high income yielding investments in the current environment will drive up competition from purchasers, as evidenced by the recent 72 basis points of yield compression which was one of the highest recorded. Average prime yields, which are already at a record low 6.7% in the prime sector, is forecast to reach low 6.0% by 2015 and 2016.

Wellington

Demand

Clear indications of a rebound in Wellington's industrial market are emerging which is leading to a rise in demand for all types of space. The number of industrial related employees – while still marginally lower than the peak in 2007 – continues to grow, now pushing almost 50,000 FTEs. Given the limited development in recent years, this has kept the market in a steady position.

The recent round of increases in occupational demand is pushing vacancy rates down. More than 30,000m^2 was leased between surveys periods - excluding our recently added Kilbirnie/Rongotai and Miramar precincts. The overall Wellington industrial vacancy rate is just 5.6% down from 6.9% a year earlier. The increase in leased space is arising from confident businesses looking to expand along with tenants looking for more appropriate space. Recent examples include, Smart Energy Solutions, LG Anderson Transport, Fusion Interiors, Nuplex Holdings, Tanker Solutions, Saeco Wilson, Naylor Love, Smith & Smith Glass and Thermosash. There have also been many tenants recommit to their existing space such as NCR in Porirua, NZ Van Lines, Jets Transport, Tile Trends and Haus Nobel in Seaview, The Regional Council in Wingate and Transfield in Upper Hutt. Vacancy rates are forecast to remain low over the remainder of 2015 and into 2016 given the momentum in the industrial market, as well as increases in new orders, exports and imports all being supported by a general economic expansion.

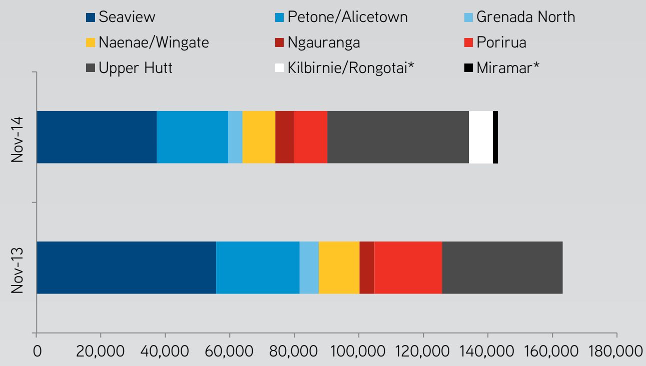
Rents

Greater levels of demand and the reduction in options for tenants searching for new or alternative space, provides the perfect positive storm for landlords to review their stance on rental growth. The economy is performing well, and business confidence is near all-time highs. Landlords have looked to recoup income lost in recent years, which is only now recovering to levels seen at the peak of the last cycle. Further reductions in insurance costs over the last six months have also assisted some landlords in the gross lease market, which will keep some pressure off tenants. Gross rents for new or modern space as well as existing established premises are up by 3.0% p.a. and 2.0% p.a. respectively.

Investment market

Typically characterised by local private purchasers, Wellington's industrial sector has emerged as a hotspot for national listed sector buyers. One example is a five property industrial portfolio purchase totalling $59 million by listed property company Argosy Property. The purchase, which comprises 42,000m^2 of space, provided a blended yield of over 8.2%, and follows the recent purchase of the Masterpet store in 2014 for $15.3 million at a 7.6% yield by PFI. Examples of other significant purchases such as Amourguard at 13 Jarden Mile and Fonterra at 12 Tyers Road, Ngauranga as well as Printlink at 33-43 Jackson Street, Petone had yields ranging between 6.74% and 11.58%, indicating a wide variety of opportunities for passive and add-value investment.

Wellington industrial vacant space



Source: Colliers International Research
*New addition to the 2014 vacancy survey.

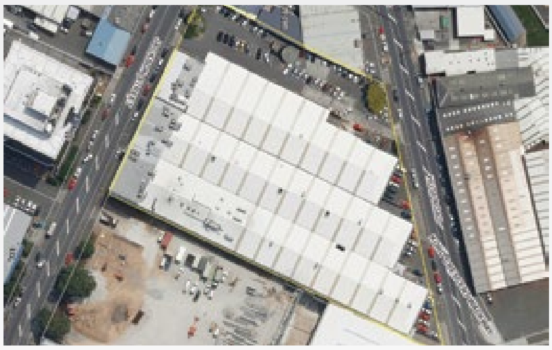
Amourguard

13 Jarden Mile, Ngauranga, Wellington

A private investor purchased 13 Jarden Mile from DNZ Property Fund for just under $3 million with a passing yield of 6.74%. Amourguard Security has over two years remaining on lease. The 1,182m^2 building sits on 968m^2 of land with a location that enjoys a high profile to Hutt Road and motorway flyovers to Ngauranga.

Printlink

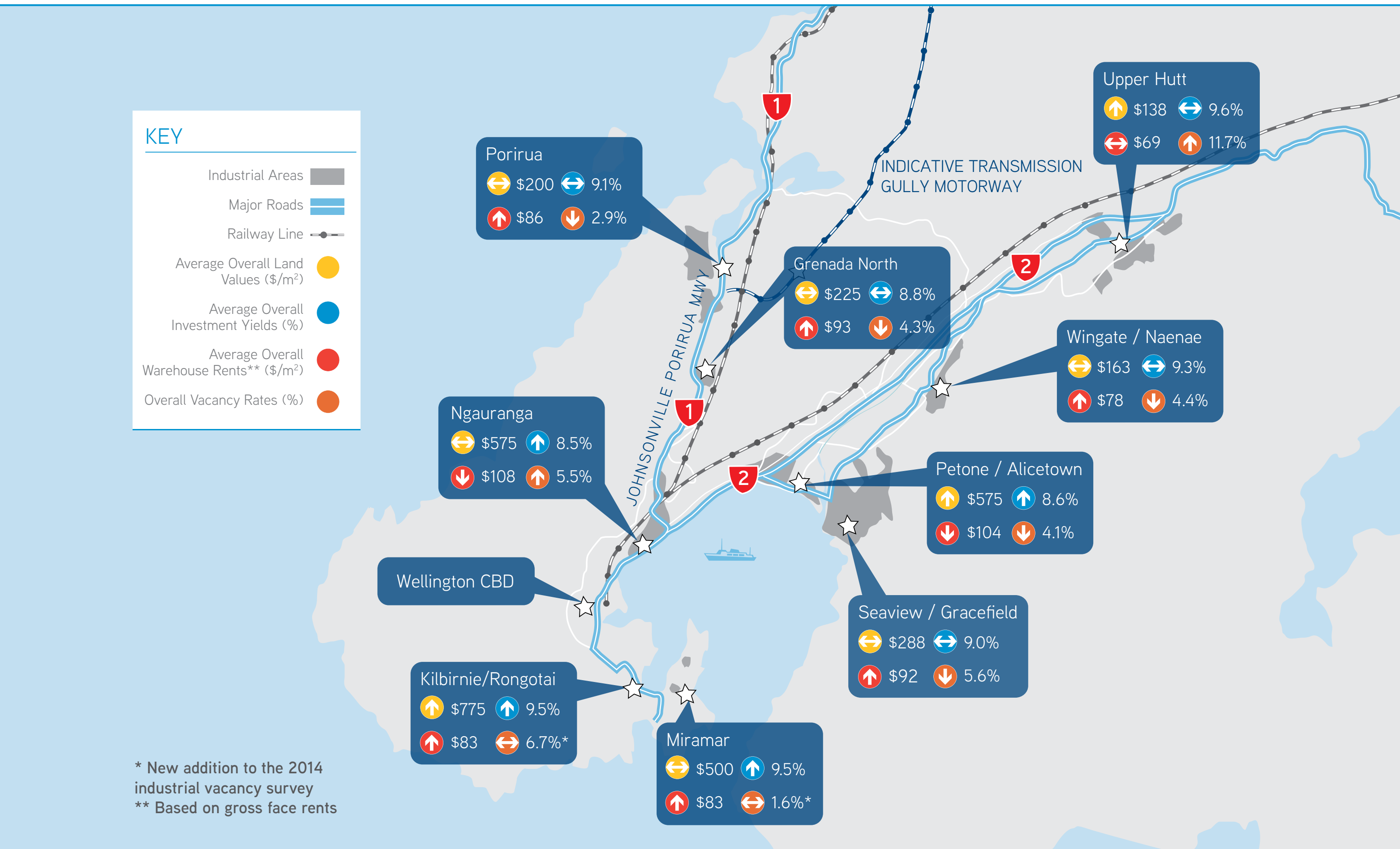
33-43 Jackson Street, Petone, Wellington



A substantial 11,907m^2 industrial site with 9,985m^2 of building at 33-43 Jackson Street in Petone has been sold by Foodstuffs to Seaview HP for $9.5 million reflecting a yield of 11.58%. The lease had just over three years remaining. The buildings had low seismic scores as indicated by an engineer's IEP report, represents a longer term redevelopment opportunity likely to involve bulk retail given recent zoning change in this area.

Wellington Industrial Market Review

2015 compared to 2014



Activity & Demand

2015 compared to 2014

Occupier Demand

Enquiry = ↔ ↑
Business confidence = ↑
Supply = ↓ Demand = ↔

Vacancy

Prime grade = 3.0% (Nov 2014)
Secondary grade = 5.8% (Nov 2014)
New build activity = ↔

Rentals

Overall average*: Warehouse ↑ $90/m²
Office ↑ $113/m²

* Based on gross face rents

Investment Sales

Average prime yields < 8.0% (2014 record: 7.6%)
Average secondary yields = 9.0%

Investor Demand

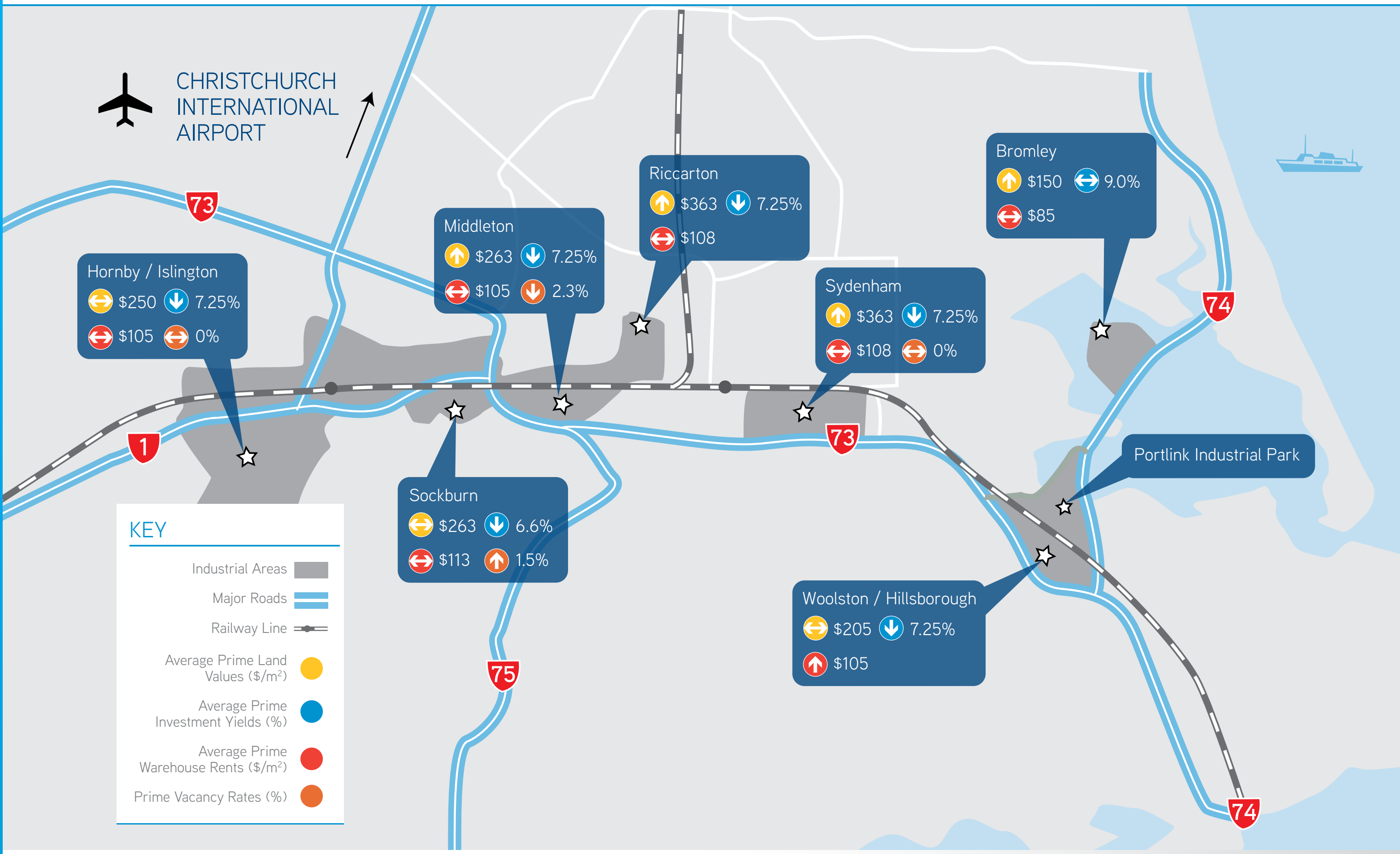
Record levels = ↔ demand, ↔ ↑ prices
Buyer groups = private, institutions

Land Supply

Enquiry = ↔
Value pressure = ↔
Available land for sale = ↔

Christchurch Industrial Market Review

2015 compared to 2014



Activity & Demand

2015 compared to 2014

Occupier Demand

Enquiry = ↑
Business confidence = ↑
Supply = ↓ Demand = ↑

Vacancy

Prime grade = 1.5% (Sep 2014)
Secondary grade = 3.2% (Sep 2014)
Spec build activity = ↑

Rentals

Prime Grade: Warehouse ↔ $103/m²
Office ↑ $195/m²

Investment Sales

Average prime yields = 7.6%
Average secondary yields = 8.75%

Investor Demand

Record levels = ↑ demand, ↑ prices
Buyer groups = private, institutions

Land Supply

Enquiry = ↑
Value pressure = ↑
Available land for sale = ↓

Christchurch

Demand

Economic growth in Christchurch of 4.6% for the year to September 2014, continues to underpin the strength of the occupational market. Construction is at the forefront of industry sectors in growth mode, with construction activity increasing 11.0% over the same period. Employment in the construction sector is also up by 28.0% over 2014. Manufacturing and wholesale trade industries, which comprise around 18% of the local workforce, are recording higher levels of output. This signals support for a continued, but more moderate, expansion to occur as the rebuild activity dissipates over time. The resultant demand from the current phase of growth has led to industrial vacancy rates halving over the last two years, now at 3.1% overall. All sub-precincts monitored in Christchurch have experienced this rate of decrease in available space, creating an undersupply situation in many parts of the region. However, the increasing number of industrial lots for sale, whether lease or design build, along with the 900ha of land available (as noted in the Land Use Recover Plan, LURP) should alleviate some of the short to medium term pressure.

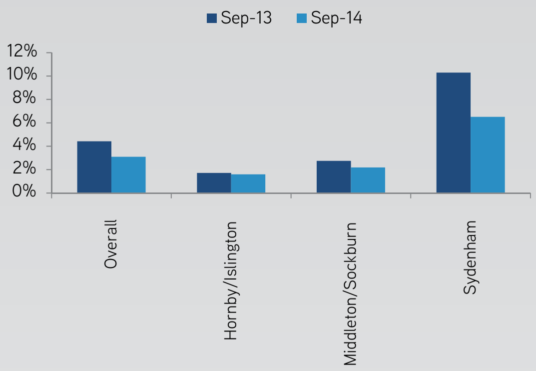
Rents

Average rents for warehouse and industrial office space have plateaued, with the rate of growth slowing considerably in comparison to immediately following the earthquakes. Typical prime warehouse rents range between $90/m² pa and $125/m² pa, barely increasing over the year compared to the annual double-digit growth between 2012 and 2014. Given the number of workers and businesses in the industrial sector continues to grow coupled with a low vacancy rate, but better prospects for supply over the medium term, average rental growth is expected to remain in a holding pattern over the next few years as the market takes stock of the new rates.

Investment

Local industrial settled sales topped $234 million in 2014, including 22 sales of $2 million and over with an aggregated value of $110 million. Industrial settled sales of $2 million and under totalled 222 with an aggregated value of $124 million. More data on settled sales will likely push total sales for Christchurch further, nearing $300 million for the year. This is similar to 2013, and indicates an active market with healthy turnover activity. The high levels of activity is also appreciable with prime investment yields now ranging between 6.75% and 7.75%.

Christchurch industrial vacancy



Source: Colliers International Research

74 Branston St

Hornby, Christchurch

Amcor Flexible Packaging sold their Hornby property at 74 Branston Street to Augusta Funds Management for $9.5 million with a returning yield of 8.44%. Amcore has leased back the 10,291m² property on a 10 year term.

Placemakers

69 Shands Road, Hornby, Christchurch

Goodman Property Trust sold 69 Shands Road in Hornby to a local private investor for $7.2 million at a yield of 5.8%. The property was constructed post earthquake and was well leased on a long term arrangement to Fletcher Building Company, Placemakers.

PROVINCIAL AREAS

Hamilton

Solid business confidence across all industries continues to boost the property sector in Hamilton. This is showcased by the BNZ–BusinessNZ performance of manufacturing index (PMI) in February 2015 which was at 55.8 in central North Island. A rate above 50 is postitve, and this was one of the highest monthly rates recorded in the past year. The importance of the transport and storage sector for the health of the industrial sector in the Waikato continues, creating additional demand for warehousing and yard space. A slight rise in residential and non-residential construction work has also spurred leasing activity.

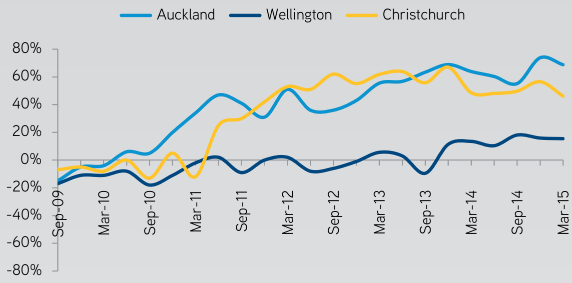
While occupational demand has been edging up, a range of options for prospective tenants to pursue and a sizeable land supply for new builds keeps demand and supply in balance. Short-term fluctuations in the dairy sector have yet to moderate demand in transport and storage sectors. Combined with a very low inflation rate environment, this has restricted the majority of landlords from pushing up rents significantly. The rental uplift that has been recorded has primarily been at the top end of the market driven by new build premises, customised for incoming tenants and influenced by the rise in construction costs.

The positive trends emerging from the sector, along with the strong appetite for industrial property investment nationally, has kept average prime yields between 6.75% and 8.0%, some of the firmest rates in the country. Industrial property with a strong lease in place receives significant enquiry as investors chase what limited stock is available, pushing rates below 6.0%. Given the performance, size and importance of the region's industrial market – comprising the third highest industrial-related employment and the fourth highest proportion of industrial-related businesses – we expect investment activity to remain buoyant in the years ahead.

Tauranga/ Mt Maunganui

Tauranga/Mt Manganui has the perfect storm of underlying fundamentals supporting the growth of its industrial sector. The area has one of the highest proportions of manufacturing employees in the country which provides significant demand for older and more established industrial premises. The port and major arterial transport networks feed the expansion for transport and storage requirements, particularly for warehousing and yard space. The region also continues to enjoy some of the highest population growth rates in the country, and with it comes the

Industrial investor confidence* – three main centres



Source: Colliers International Research
* Net %

20 Vestey Drive

Mt Wellington, Auckland

Vestey Property sold their 6898m² industrial property at 20 Vestey Drive, Mt Wellington to a private investor for $8.75 million with a returning yield of 6.1%. This industrial building is leased to Forman Building Systems with an annual rent of $535,000 for six years with six year right of renewal.

709 Te Rapa Road

Hamilton

DNZ Property Fund sold their industrial property at 709 Te Rapa Road in Hamilton to a private investor for $12.4 million. The property has 14,000m² of floor area on a 2.29ha site with redevelopppment potential on the existing buildings. The property achieves an 8.5% yield however, with the inclusion of surplus development land, the initial passing yield is 7.25%.

Brother

27 Matarawa Place, Tauriko, Tauranga

An out-of-town investor purchased 27 Matarawa Place in Tauranga for $10.25 million with a returning yield of 6.3%. The 7,186m^2 building is leased to Brother International Limited for 10 years with five year right of renewal and a net rental of $650,000 p.a.

79-89 Poturi Street

Tauriko, Tauranga

This property was sold for $6.35 million with a returning yield of 6.7%. The property is split into four tenancies with the net lettable areas ranging from 440m^2 to 1,859m^2 with an average lease term of 4.5 years. Total annual net rental is just over $427,000.

New Zealand Post

5 Strathallan Street, South Dunedin, Dunedin

New Zealand Post sold their depot site at 5 Strathallan Street in South Dunedin to NB Properties for $5 million with a returning yield of 8.8%. The property has a current NBS rating of 100%. New Zealand Post has leased back the building on a nine year lease with an annual rental of over $400,000.

demand for industrial space to service construction activity. These characteristics will continue to support the sector for the long-term.

Rents for existing, high quality, industrial warehouse space continue to trade between $90/m^2 pa and $100/m^2 pa, albeit the pressure is mounting for rates to rise due to the buoyant market conditions. Increasing construction costs and rising land values are pushing up prices for new build space, typically by another $10/m^2 pa over existing space.

Our latest investor confidence survey for Tauranga/Mt Maunganui is the third highest in the country behind Auckland and Queenstown, with a net positive 48.0%. The low interest rate environment continues to fuel the owner occupier market, which has kept absorption rates high for property and land, especially noticeable at Tauriko. Combined with cyclically high investor activity, investment yields across the region now range between 6.25% and 7.0%, with further pressure likely to see this firm by another 25 basis points over the year ahead.

Dunedin

Location, topography, multiple transport and distribution networks and limited freehold sites are key characteristics of Dunedin that keep demand fundamentals strong in the industrial property sector for now and for the long-term.

Prime continues to be the sector of choice for many tenants, especially national companies, often needing customised space to accommodate their specific, and expanding, requirements. This has resulted in a number of design builds of late, and with construction costs continually rising, rents have risen proportionately. This has meant the gap between prime and secondary premises remains inflated, and this is likely to be a long-term market characteristic. Prime industrial rents in the inner city of Dunedin range between $130 to $200/m^2 pa for industrial office space and between $75 and $120/m^2 pa for industrial warehouse space. Further afield, prime rents in Mosgiel range between $90 and $140/m^2 pa and between $55 and 90/m^2 pa for industrial office and warehouse space respectively.

While development activity in the industrial precincts is on the rise, the repositioning of Carisbrook stadium into multiple sites by Calder Stewart provides freehold options for tenants/owner occupiers not previously readily available so close to the CBD.

Sales activity continues to be limited which is a result of investor reluctance to sell rather than buy. Any properties brought to market with security in cash flow receive an oversubscribed investor response. However, like many situations, certainty around tenure is a key consideration for investors.

Investment activity

The industrial sector remains one of the most popular sectors of investment in the commercial real estate market. Since Colliers International's records began in the mid-1990s, half of all annual transactions have been industrial properties, with the total value accounting for between 40.0% and 50.0%.

In 2014 this trend changed. Half of all transactions were still industrial, but the sector now only accounted for 26% of total value. This was due to a record year of sales activity boosted by the sale of high priced individual retail and office assets.

The total value of all commercial property sold reached an unprecedented $8.2 billion in 2014. High-valued properties included Canadian PSP Investments' $1 billion acquisition of the AMP Capital Property Portfolio and Singapore's GIC's $1.3 billion purchase of a 49% share of five Westfield shopping centres and Goodman Property Trust's offices in Viaduct Harbour and Wynyard Quater.

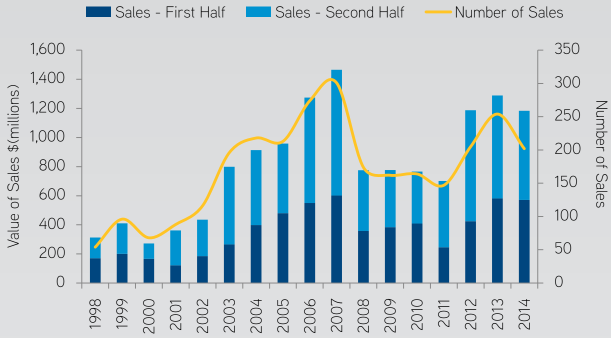
Almost $2.2 billion of sales were recorded in the industrial sector with activity at different price levels showing prices are rising, and a lack of stock is available to purchase.

In the under $2 million segment, approximately $1 billion of industrial property was transacted, however the number of properties sold, dipped to one of the lowest in the last two decades. It is still well below the activity experienced in the heights of the last cycle between 2001 and 2007. While the first half of 2014 was strong, with one of the highest total values since 2009, the second half of the year was one of the weakest. This was reflected across all of the commercial property sectors in this price segment.

In the over $2 million price range, another year of strong results were recorded. There were approximately 200 sales, comprising almost $1.2 billion of sales.

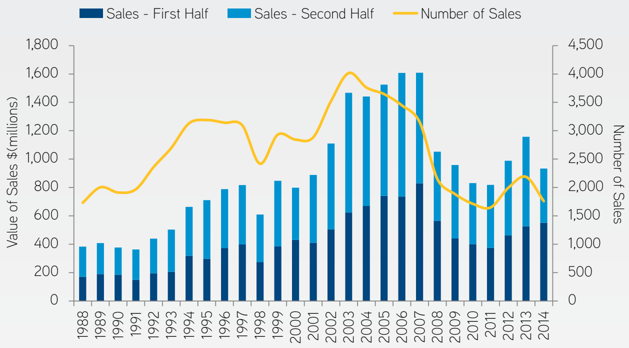
The limited options to purchase and high investor demand will boost capital appreciation. Given low interest rates and the projected increase in cash flow through rental increases, the industrial sector will continue to provide positive results for investors over the next 12 months at least.

New Zealand industrial property sales – over $2 million



Source: CoreLogic & Colliers International Research
Note: Settled sales over $2 million only
Main Centres includes Auckland, Wellington and Christchurch
Regional centres includes Whangarei, Hamilton, Hawke's Bay/Gisborne, Palmerston North, Tauranga, Dunedin, Nelson/Marlborough and Queenstown

New Zealand industrial property sales – under $2 million



Source: CoreLogic & Colliers International Research
Note: Settled sales under $2 million only
Main Centres includes Auckland, Wellington and Christchurch
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Infrastructure and industrial development updates

Infrastructure update

INFRASTRUCTURE PROJECT	TYPE	STATUS	ESTIMATED COMPLETION	CURRENT DESCRIPTION AND STATUS
AUCKLAND				
Rail Network Electrification	Rail	Under Construction	Q3 2015	Electrification of the rail network from Papakura to Swanson will result in a more quiet, consistent and sustainable system. Trains will be powered by an overhead wire on a 25kv AC power system.
Western Ring Route	Road	Under Construction	2021	The 48km alternative Western route started construction in 2010 with an aim to reduce the dependency and congestion around Auckland. The Western Ring Route is estimated to cost $100 million + and will be substantially completed by 2017 and fully completed when the Lincoln Rd to Westgate and Upper Harbour Highway upgrades are finished in 2021.
Albany Highway North Upgrade	Road	Design/land purchase	2017	This highway services a number of sectors including the North Harbour Industrial Estate, office space and local schools with approximately 15,000 vehicles travelling along it everyday. The upgrade aims to improve congestion, make the route safer as well as encouraging non-automotive transportation methods.
City Rail Link	Rail	Design	2021	The CRL will lengthen the current rail network, extending it from Britomart to Mt Eden. Travel time will decrease and more people will use rail as a means of transport.
SH1 Victoria Park Tunnel	Road	Under Construction	TBC	The Victoria Park Tunnel will help traffic flow on Auckland's central motorway network and provide assistance to other significant projects to improve travel reliability to and around the Auckland CBD.
Southern Corridor Improvements	Road	Design	TBC	The Southern Corridor Infrastructure upgrade aims to address the existing safety risks, traffic flow issues and provide a more reliable trip for motorist and commercial vehicles travelling along the Southern Motorway from the SH20/SH1 connection.
HAMILTON				
Hamilton Ring Road Extension Project E1	Road	Partial Completion	2015	The Hamilton City Ring Rd is an important component of the Access Hamilton Strategy, extending from SH1 Te Rapa Rd to SH1 Cobham Dr and including the existing SH1 western corridor to enable the management of congestion around the city.
Waikato Expressway - Cambridge Section	Bypass	Under construction	Late 2016	Waikato expressway is designed to provide a continuous divided four-lane highway between Auckland and Cambridge that will improve safety and reduce travel times and congestion on SH1. Once completed, it is expected to reduce the travel time between Auckland and Tirau by 35 minutes.
Southern Links	Road	Investigation	TBC	The Southern Links purpose is create a well-connected and integrated state highway and urban arterial routes. This new link will reduce congestion and improve safety on SH1 and SH3.
TAURANGA				
Eastern Link	Road	Under Construction	2016	A main arterial route in the early stages of development. Once completed it will reduce travel time between Tauranga and Paengaroa and provide more efficient connections for business, industry and tourism.
Hairini Link, State Highway 29	Major urban highways	Investigation	TBC	Due to the predicted growth in the southern suburbs the Hairini Link aims is to reduce safety risks and travel times on SH29.
WELLINGTON				
Ngauranga to Aotea Quay	Road	Under Construction	Q3 2016	The Ngauranga to Aotea Quay project is designed to improve traffic congestion, user safety and reliable journey times on SH1 between Ngauranga Gorge and the Aotea Quay on and off-ramps.
Wellington Northern Corridor	Road	Investigation, Construction and Design	TBC	Wellington's Northern Corridor comprises eight sections. Streching from Wellington Airport to Levin, it will allow for increasing freight volumes in the region. It will help to improve access to Wellington's port, CBD, airport and hospital, and will relieve congestion on the highways and local road networks.
CHRISTCHURCH				
SH1 Johns Road from The Groynes to Sawyers Arms Road	Road	Under Construction	2016	As part of the Western Corridor improvements, this project will improve travel time and reliability to and from Christchurch International Airport, greater Christchurch and the wider Canterbury region.
Christchurch Northern, Western and Southern Corridors	4 lane highway	Investigation	TBC	Encompassing the North, West and South corridors, these roads of national significance will be the largest undertaken in Christchurch. Costing an estimated $800 million, it will improve safety, reduce congestion and improve access to Lyttelton Port and the International Airport.
DUNEDIN				
Caversham Highway improvements	4 lane highway	Under Construction	Q2 2015	Stage one of the two stage project involves the Camersham Highway four-laning bypass from the King Edward St over bridge and Barnes Dr which was completed in October 2012. The second stage is the $20M and $25M Caversham Valley Safety Improvements project, which will see upgrades on State Highway 1 from Barnes Drive to Lookout Point by completion in late May 2015.

Source: NZTA and Colliers International Research

A selection of industrial developments

PROJECT NAME/ADDRESS	PRECINCT	NLA (M²)	STATUS	ESTIMATED COMPLETION	COMMENTS
AUCKLAND					
Steel & Tube, Highbrook Business Park	East Tamaki	7,770	Completed	Q1 2015	Steel & Tube's new development was completed in February 2015.
210 Roscommon Road	Wiri	5,500	Completed	Q2 2015	Design and build facility for Penske Commercial Vehicles NZ on a 12-year lease, completed in April 2015.
LSG Sky Chef, 1 Laurence Stevens Drive	Airport Corridor	11,600	Under Construction	Q2 2015	Redevelopment of existing facility to 1,000m² basement, 9,000m² ground and 1,600m² first level office.
Ford, Underwood Street	East Tamaki	10,150	Under Construction	Q2 2015	Goodman announced 10-year lease to Ford with lease commencement from April 2015.
106 Pavilion Drive	Airport Corridor	8,500	Under Construction	Q2 2015	NZ New Milk's Development.
Flex2, 28 Verissimo Drive, The Landing	Airport Corridor	7,280	Under Construction	Q2 2015	Eight spec build logistics / warehousing units ranging from 724m² – 917m².
The Duplex, 32 Verissimo Drive, The Landing	Airport Corridor	6,810	Under Construction	Q2 2015	6810m² spec build development designed for logistics and warehousing operators and will be split into two tenancies.
63 Hugo Johnston Drive	Penrose	5,500	Under Construction	Q2 2015	Eight industrial units varying from 250m² – 1,100m².
25 Aerovista Place	Wiri	3,500	Under Construction	Q2 2015	A development for EIF International.
9 Narek Place	Wiri	3,300	Under Construction	Q2 2015	A development for Z-Energy.
22-24 Jomac Place	Rosebank	2,800	Under Construction	Q2 2015	To be occupied by manufacturer Bon Accord.
Cnr George Bolt Memorial Dr & Landing Dr	Airport Corridor	12,500	Under Construction	Q3 2015	A new head office, warehouse and logistics facility for Hellmann Worldwide Logistics.
144 Westney Road	Airport Corridor	7,573	Under Construction	Q3 2015	An extension to CEVA Logistic's existing facility of 7573m² of warehouse, office and breezeway canopy.
Farmers Trading Co, 21 Laidlaw Way	East Tamaki	25,000	Under Construction	Q4 2015	Extension to existing Farmers premises.
10-13 Maurice Wilson Avenue	Airport Corridor	10,000	Under Construction	Q4 2015	10,000m² spec build development designed for logistics and warehousing operators and will be split into two tenancies.
2 Waiouru Road	East Tamaki	4,600	Under Construction	Q4 2015	New design and build industrial facility for Machinery House.
Goodman's spec build in Highbrook	East Tamaki	3,400	Under Construction	Q4 2015	Goodman's new spec build of 3,400m², construction will start in April 2015.
31 & 33 Business Parade North	East Tamaki	3,450 - 6,950	Proposed	Q4 2015	Two warehouse and office developments at Highbrook to be undertaken by Goodman on an uncommitted basis.
Hobsonville Workplace, 102 Hobsonville Road	Hobsonville	92,893*	Under Construction	Q4 2015	Land subdivison of 23 freehold site with options from approximately 2,500m². Zoned for light industrial and commercial uses.
Expansion of The Landing Precinct	Airport Corridor	86,000*	Under Construction	Q4 2015	8.6ha of industrial-zoned developable land.
15 Waiouru Road	East Tamaki	7,793	Proposed	Q4 2015	Extension to existing warehouse for Viridian Glass.
6-10 Jomac Place	Rosebank	3,772	Proposed	Q4 2015	A warehouse and office development of 3,772m² to be undertaken by Jomac Construction on a speculative basis. Completion date will be November 2015.
Westney Industry Park, Westney Road	Mangere	9,000	Proposed	TBC	2,000 - 22,000m² aimed at distribution and logistics firms.
CHRISTCHURCH					
Portlink Industrial Park	Woolston	300,000*	Proposed	Q4 2015	Land development that's zoned Busiess 4, offering large tailor-made sites to prospective tenants.
HAMILTON					
Cnr Ruffell Road and Arthur Porter Dr	Te Rapa	12,000	Under Construction	Q2 2015	Mainfreight is investing more than $30 million in a new circa 12,000m² freight terminal at Te Rapa, which includes a rail siding.
Innovation Way	Northgate	~4,000	Under Construction	TBC	An extension of the recently developed industrial building for Waikato Milking Systems.
19 The Boulevard	Te Rapa	11,000*	Proposed	Q3 2015	Proposed design build for Top Town Tyres, which will accommodate a showroom and tyre distribution facility on a 1.1ha site in Te Rapa Park.
DUNEDIN					
Timaru Street (Nicholls Development)	City	2,000	Completed	Q1 2015	Mixed use site.
Forth Street	North Dunedin	1,050	Under Construction	2015	Purpose built building for Cerebos Greggs Coffee. Owner occupier. New building on existing site.
Carisbrook	City	15,000	Proposed	TBC	Former stadium site to be developed.

Source: Colliers International Research * Site area

370 offices in 62 countries on 6 continents

United States: **140**
Canada: **42**
Latin America: **20**
Asia Pacific: **83**
EMEA: **85**

$2
billion in annual revenue

1.12
billion square feet under management

13,500
professionals and staff

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