Auckland Property Market Update

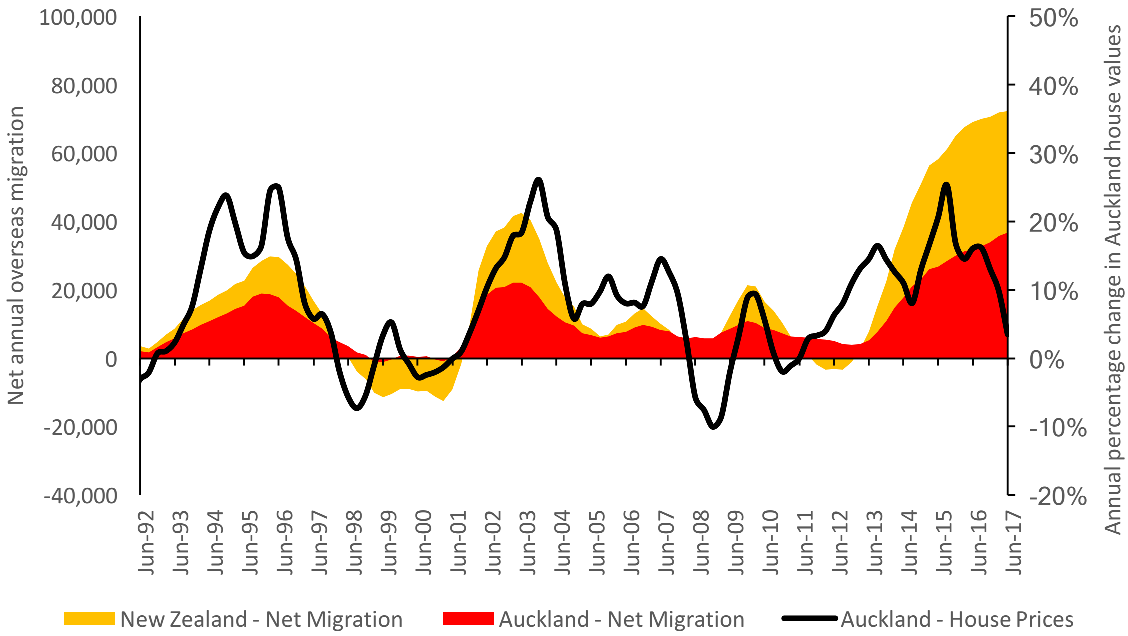
Auckland's commercial and industrial property markets have experienced another strong 12 months. The underlying market fundamentals remain robust with low vacancy rates, strong tenant demand, and low yields. However, the availability of credit is starting to impact on some potential operators particularly those looking to buy development sites. An overview of the key sectors within the market includes:

- Strong regional economic growth combined with increases in the number of people employed in the key office occupying sectors has resulted in further expansion in the demand for office space both in the CBD and metropolitan office markets. Tenant relocation has impacted on the central City's vacancy rate with a small increase in overall vacancy rates. For example, Vodafone has relocated its head office from the central city out to Smales Farm Office Park on the North Shore. However overall vacancy rates remain low and as a consequence rents have continued to increase over the last 12 months. Auckland's metropolitan office market has continued to strengthen and vacancy rates are now close to 7%. Significant growth in demand from the from the social services sector has resulted in uptake of secondary quality office space in suburban sites as health service providers locate close to their client base. For example, health service providers have been active leasing space to provide mental health services in the suburbs.
- The industrial property market continues to experience strong market fundamentals with increasing demand, low vacancy rates, increased rents, limited land supply and strong investor demand. These conditions are typical of a late cyclical upswing. Demand is continuing to increase driven by robust regional economic growth. Land values for development sites remain high and combined with rising construction costs makes development feasibilities tight. Although rents have increased and yields have declined there are building pressures for further rental growth. At the same time banks are becoming more risk averse. Anecdotal evidence suggests banks are rationing credit to developers which is impacting on their ability to respond to demand. Tight industrial land markets in the traditional greenfield precincts has resulted in increased interest in locations such as Drury to the south and Silverdale on the northern edge of the city. Improvements in the city's transport infrastructure is likely to further redistribute industrial demand. Competition from residential developers is continuing to impact on light industrial redevelopment sites within the isthmus in locations that have been rezoned mixed use under the unitary plan
- The retail sector is continuing to evolve with retailers further developing their online sales capacity. Expectations are for further growth in demand for space from the entertainment, cafe and hospitality sectors whilst retailers more exposed to online sales competition may struggle. Ongoing population growth should continue to drive overall sales growth however this is likely to be unevenly distributed across different store types. Investor demand for well-located retail building investment opportunities remains strong and yields remain at historical lows.

New Zealand's economy grew in line with market expectations in the June 2017 quarter, increasing by 0.8%. The quarter's growth benefited from a one-off boost in tourist spending (partly from spending by Lion's rugby tour supporters and the World Masters Games) and a rebound from temporary disruptions in some sectors. The current cycle continues to be supported by accommodative monetary policy, strong population growth driven by high net gains from overseas migration and robust expansion in the tourism sector. Uncertainty of the result of the outcome of September's general election on the stability of any coalition formed may impact on the economy's ability to expand. Auckland region's economy is expected to continue to grow at above average rates.

Figure 1 presents the trend in net annual overseas migration combined with Auckland house values growth.

Figure 1: Net Overseas Migration and House Value Growth



Source: Statistics New Zealand and Corelogic

Strong population growth and the economic activity it generates are likely to continue to support growth in the region. The growth outlook remains positive and will, in the short term, support continued growth in Auckland's commercial and industrial property markets.

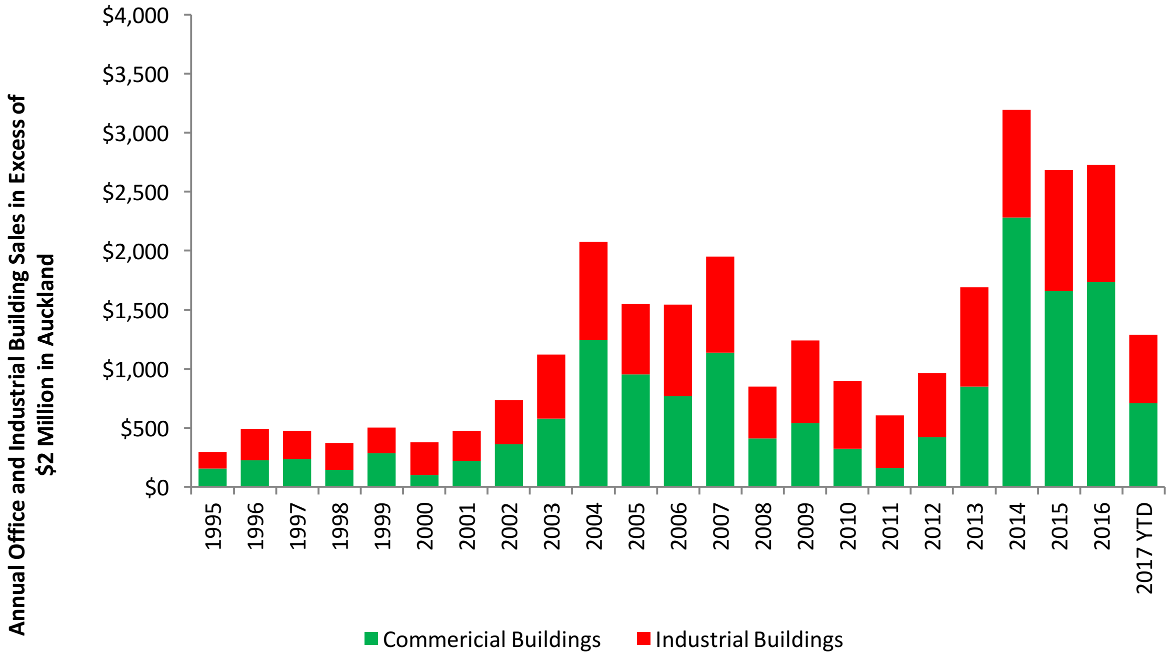
Table 1 presents the trend in key market indicators by market sector.

Table 1: Property Market Indicators

	Office Market		*Industrial*		*Retail*	
	Last 12 Months	***Next 12 Months***	***Last 12 Months***	***Next 12 Months***	***Last 12 Months***	***Next 12 Months***
Vacancies	*Flat*	*Up*	*Steady at low levels*	*Steady*	*Steady at low levels*	*Flat*
Rents	*Prime Up* *Secondary Up*	*Up*	*Up*	*Up*	*Steady*	*Steady*

Figure 2 presents the growth in the value of commercial and industry building sales in Auckland region with sale prices more than $2 million.

Figure 2: Commercial and Industrial Building Sales (properties selling for more than $2m in Auckland)



The volume of sales remains robust however a lack of good quality stock available for sale is limiting the volume of sales activity. Current low interest rates are continuing to support investor demand. Table 2 summarises current yields by sector, their outlook over the next six months and the level of investor demand.

Table 2: Yields and Investor Demand by Sector

Sector	Yields			Investor Demand
	Typical Prime Quality Building	Typical Secondary Quality Building	Outlook	
Retail	4.00% to 7.00%	4.0% to 7.00%	Steady	Strong
Office	5.50% to 6.75%	6.50% to 7.50%	Steady	Strong
Industrial	5.00% to 6.25%	5.75% to 7.00%	Steady	Strong

Investment market conditions are expected to remain robust in the short term. A number of factors are supporting current market conditions and these include current low interest rates, reasonable access to credit, strong growth in tenant demand for space resulting in low vacancy rates and strong competition between potential purchasers for buildings being offered for sale.