Pulse

First Quarter 2015

Auckland Industrial South

Increasing occupier demand has driven vacancy to a historically low level which is encouraging new development to take place...

Demand

Vacancy in the Auckland Region has stabilised sitting at just below the 4%. With vacancy approaching structural levels, occupiers are finding space requirement harder to fill. With this we are finding that leasing opportunities are skewing towards secondary stock and in many cases unsuitable for some tenants, resulting in occupiers looking to build-to-suit options to supply their accommodation needs.

Demand for new build space increases

The Auckland precinct has seen a slight decrease in vacancy although remains at a fairly stable level. While Auckland remains inflated compared to the Manukau and North Shore precincts we are seeing this gap begin to close as the push for space gets tighter.

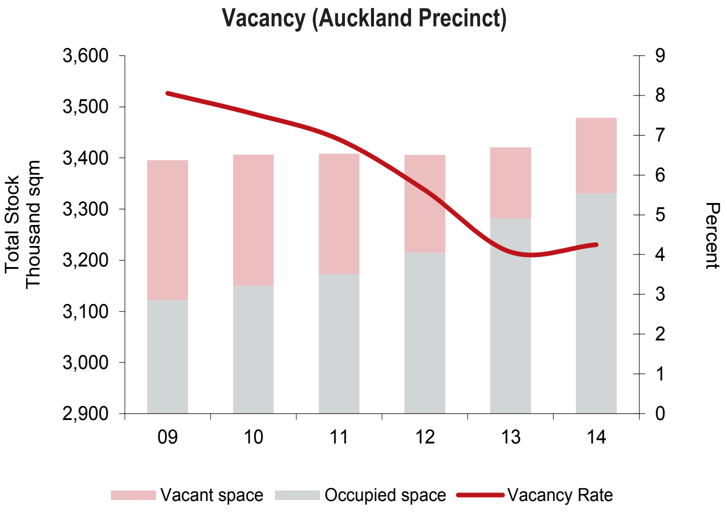
Supply

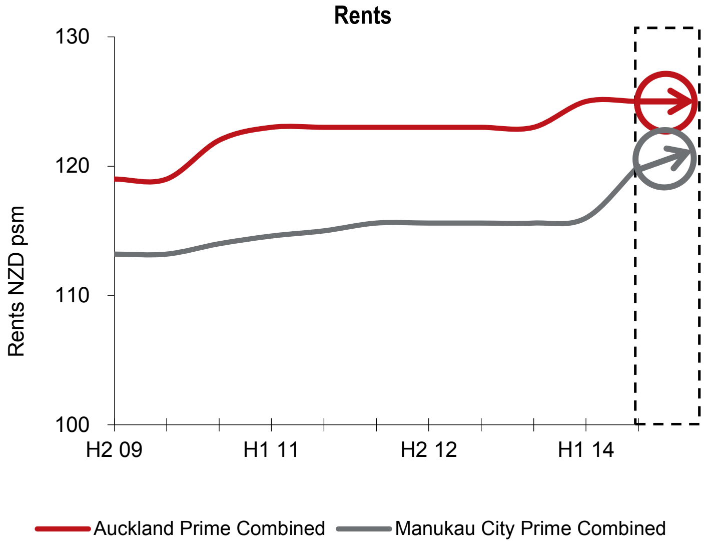
Vacancy in the East Tamaki precinct has remained flat at 2.9% with new tenants and outgoing occupiers cancelling each other out. Recent additions of stock reveal the strong attraction to the area being close to main transport arterials, supporting infrastructure and other industrial businesses. Vacancy is likely to fall with several new build projects currently under construction which are expected to be completed in the next 12 to 24 months.

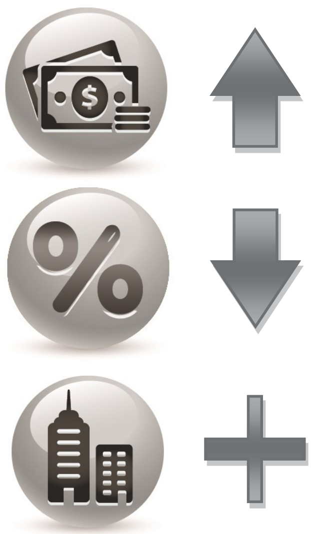
Strong leasing activity combined with the completion of new builds in the area for tenants wanting larger, specialised space has resulted in positive absorption for the Manukau Region. These included DHL's new building and Hobbs Global Logistics buildings in the Airport Corridor along with Metroglass's building in East Tamaki collectively introducing more than 57,000sqm to the total supply.

Around 100,000sqm of space is said to be currently under construction across the Southern Auckland market which is expected to be completed over the next six to 12 months. However with limited Prime space, we expect that significantly more new build space will be announced over the coming year. While the majority of this new space is pre-committed design build, speculative builds have also started to be constructed as vacancy levels have returned to historic lows and we expect at least several thousand square meters of speculative space to be completed in the next twelve months.

Strong increase in new design build activity







Increases in Prime and Secondary rents

Firming of Prime yields

Positive net absorption

Pulse

First Quarter 2015

Asset Performance

Occupier demand backed by stronger economic performance is being felt in the Auckland Industrial market, triggering new development and helping rental levels move higher. Rental growth is starting to pick up, with landlords now in a position to drive increases in rentals along with dropping of incentives.

Office rentals for the majority of areas across the South Auckland are continuing to increase with rising levels of tenant activity, falling vacancy levels and a strong development pipeline. This has recently started to filter through to the Secondary market and rents have increased for the first time since 2010. Structural vacancy continues to hinder the possibility of more robust growth however, we expect this to become less of a problem in the future as the market continues to strengthen and more stock is put into refurbishment. The gap between Prime and Secondary has seen little movement but is expected to decline over the medium term.

Limited stock and high demand driving rental growth

The Prime sector of the Auckland Industrial market has proven a popular choice for investors. Yields have continued to firm over the 2H14 on the back of strong investor demand with two transactions (including Bell Tea HQ) in the Manukau area achieving yields in the upper 5% range.

12-Month Outlook

Several large development projects have either started or are expected to come online over the next twelve months, with over 100,000sm predicted to reach the market by the end of the year. This indicates that strong demand should be expected over the coming year, boosting absorption going forward.

Ever increasing demand will support development activity

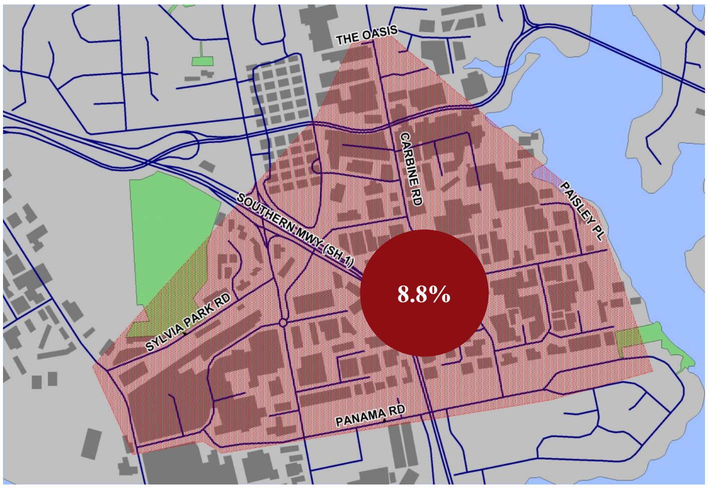
Improving occupier interest is expected to help vacancy remain at low levels and in turn drive rentals values higher over the medium term.

Increasingly strong demand from investors is predicted to continue firming upper Prime yields and is projected to fall to a new low around 6.4% in 2016.

Occupiers: Secure available leasing opportunities before imminent rental hikes.

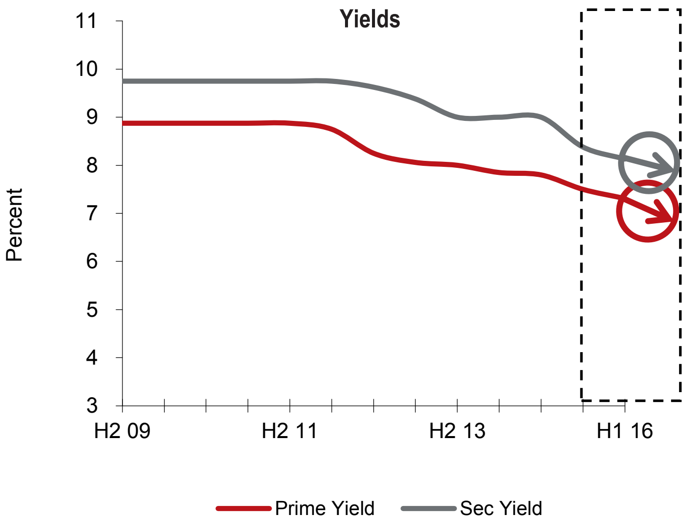
Owners: Refurbish and remediate buildings to take advantage of compressing yields.

Mt Wellington Total Return (LTM)



Auckland Industrial Sales Transactions

Address	Suburb	NLA	Initial Yield
44 Dalgety Drive	Wiri	61,734	7.7%
11 Dalgety Drive	Wiri	13,871	8.5%
3 Monahan Road	East Tamaki	6,596	7.4%
71 Westney Road	Manukau	14,015	7.5%



FOR MORE INFORMATION, PLEASE CONTACT:
Research & Capital Markets

Director, Justin Kean
Justin.Kean@ap.jll.com
+ 64 9 363 0226

Consultant, Sarah Dominey
Sarah.dominey@ap.jll.com
+64 9 363 0306

Analyst, Ryan Woock
Ryan.woock@ap.jll.com
+ 64 9 363 0279