Pulse

First Quarter 2016

Auckland High Street Retail

International retailers set their sights on scarce premium downtown retail space, driving Prime rents upwards.

Demand

Competition amongst high-end retailers for prime retail space remains fierce in the Auckland CBD. Changing consumer trends, the entrance of luxury retailers, and rising tourist numbers have further intensified demand for premium brands within the CBD. The continuation of this trend from 1H15 into 2H15 has seen rents rise further. High-end international retailers remain the primary source of upward demand pressure, illustrated in 2H15 with Tiffany & Co and Chanel both acquiring space in the Britomart Precinct.

International retailers drives demand for premium space

Vacancy in the secondary end of the market has likewise declined in 2H15, which is positive news for owners of secondary properties. However, small floor plates and limited shop frontage offered by the majority of secondary stock remains a large factor in the elevated vacancy rates and disinterest from tenants.

Auckland suburban retail enjoyed a stable period during 2H15, with the majority of markets holding fast throughout this period. Vacancy rose slightly across the region, increasing marginally higher from 3.8% 1H15 to 3.9% in 2H15. Encouraging factors such as strong economic conditions, increased disposable income and strong migration have created a favouring environment for many suburban retailers.

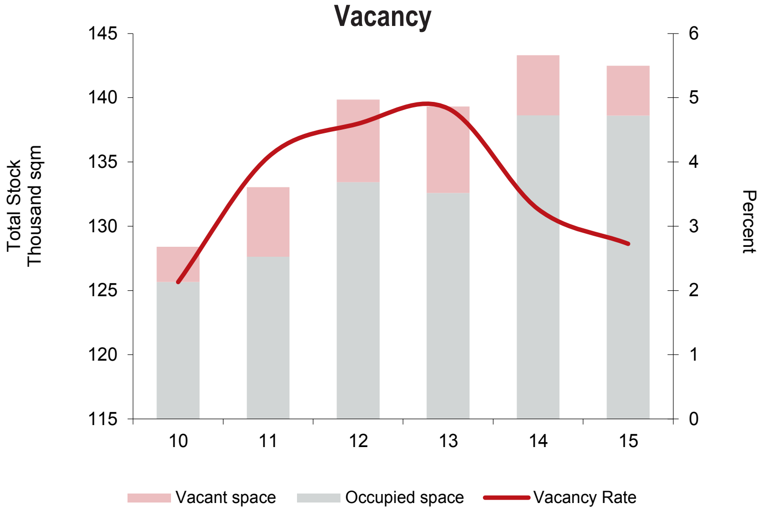
Supply

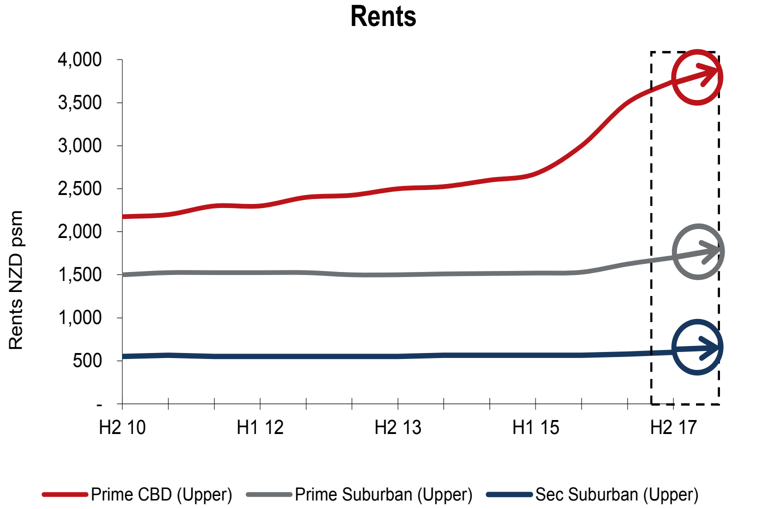
Retail stock within the CBD decreased in 2H15, as several sites were withdrawn from the market for refurbishment. Total stock decreased by roughly 2.7% to just under 142,500sqm.

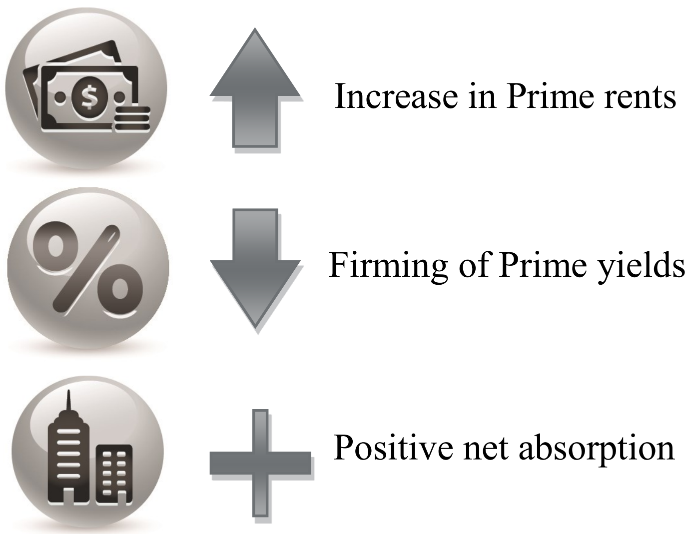
A substantial office development pipeline will have a dramatic effect on supply levels within the CBD, with almost all new current planned projects incorporating some retail space. The Downtown Shopping Centre will accommodate a large portion of the influx in available space, with an anticipated 18,000sqm of retail space. Any new stock entering the market is likely to be absorbed by competitive tenants almost immediately, as favourable economic conditions and increased tourist numbers continue to encourage growth.

Limited prime CBD space is driving some tenants out of the city

Supply remained largely unchanged for suburban retail locations throughout 2H15, with majority of activity occurring due to refurbishment activities. Total stock experienced an increase during this period with refurbishments re-entered the stock base.







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Asset Performance

Prime retail rents within the CBD continued to climb, further increasing pressure on tenants and creating a landlord favoured market. Upper prime rents remained persistently strong, increasing again in 2H15 to NZD 3,000sqm. This has also filtered into the lower end of the spectrum with rents moving up to NZD 1,600psm.

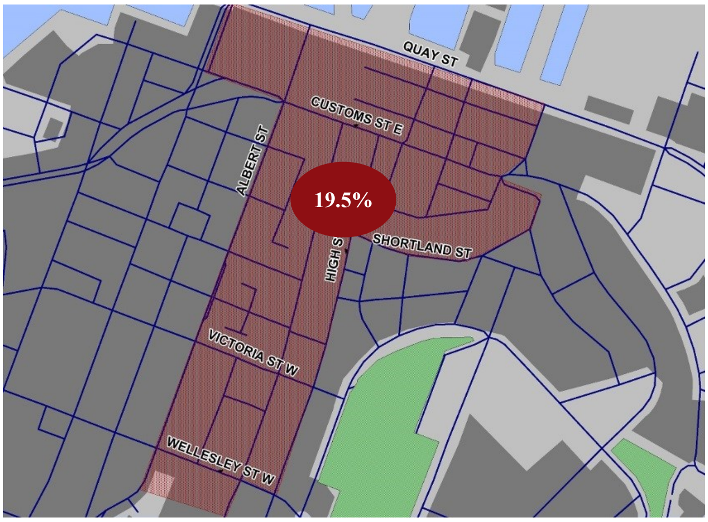
Prime suburban rents performed well over 2H15, with growth primarily derived from the upper end of the market. Upper prime rents increased to NZD 1,530psm in 2H15 up from NZD 1,520psm in 1H15, while lower prime rents remained stable at NZD 775psm. Rising prime rents are a reflection of strong market conditions within the high-end retail environment, as property owners respond to strong premium retailer demand and increased consumer spending.

Rental growth growing for prime retail premises

Despite only one transaction taking place in the CBD, equivalent investment yields firmed further in 2H15 as demand for premium retail space remained strong. Investor confidence and a strong high -end retail market helped increase the popularity of retail assets, driving average prime yields to 6.4%.

Increased demand for prime retail assets has seen investors seek options in fringe markets such as Takapuna and Newmarket. As a result, average prime suburban yields have moved lower to 6.6%, down from 6.7% in 1H15.

Prime CBD Retail Total Return (LTM)



Auckland Retail Leasing Transactions			
Address	**Suburb**	**Lessee**	**NLA**
36 Custom St East	Auckland CBD	Tiffany & Co	430
255 Broadway	Newmarket	Body Shop	99
163 Broadway	Newmarket	Cotton On	187

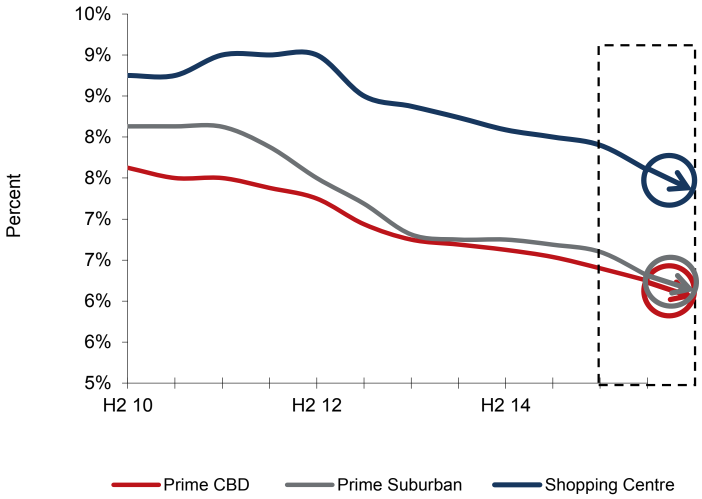
12-Month Outlook

High demand for premium retail space will remain, with a lack of new stock entering the market. A substantial development pipeline will have a dramatic effect on supply levels within the CBD, with almost all new current planned city projects incorporating some retail space. The Downtown Shopping Centre will accommodate a large portion of the influx in available stock, with an anticipated 18,000sqm of retail space.

Yields forecast to compress further

Yields are forecast to continue firming into 1H16, as strong investor demand and supportive economic conditions are predicted to remain intact.

Yields



Occupier/ tenant: Secure suitable stock if available, before further rental uplift.

Owner/ landlord: Position your unit to take advantage of the restrictions in future supply and capitalise on the uplift in rents.

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