Pulse

First Quarter 2016

Wellington Industrial

Industrial yields have remained steady, amidst increased vacancy and growing rents.

Demand

The Industrial market in Wellington remained relatively steady, with vacancy seeing a slight increase in the 2H15. Overall vacancy has increased by some 1,600sqm, which combined with the removal of several large sites has pushed vacancy higher. The 2H15 has been characterised by high activity in the smaller end of the market, with occupiers shifting premises.

Leasing activity drives vacancy figures lower

The negative net absorption over the period belies the current demand for Prime property. Limited options for occupiers is keeping vacancy relatively stable, with vacancy holding around the long-term average. There is potential opportunity for some secondary properties in the Wellington market, with proposed plan changes giving more options to property owners.

Petone saw a strong increase in vacancy over the 2H15. The combination of several smaller premises across the market coming up for lease and large properties being removed from the stock base has pushed vacancy up almost 2%.

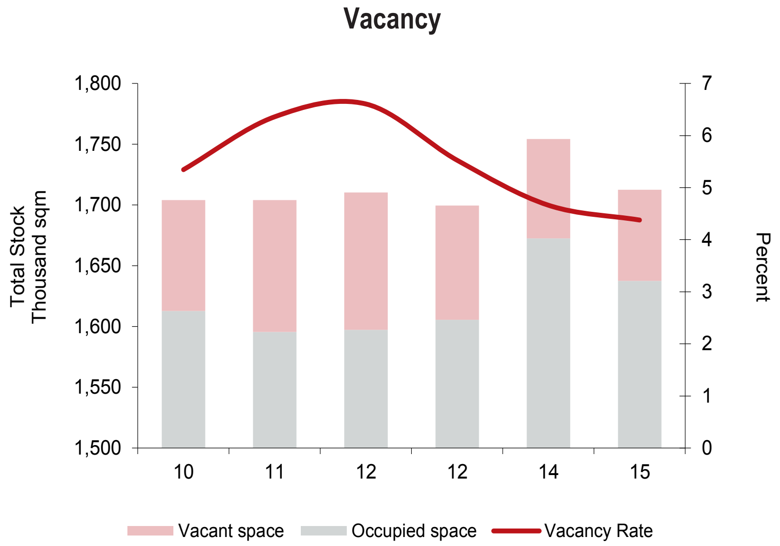
Supply

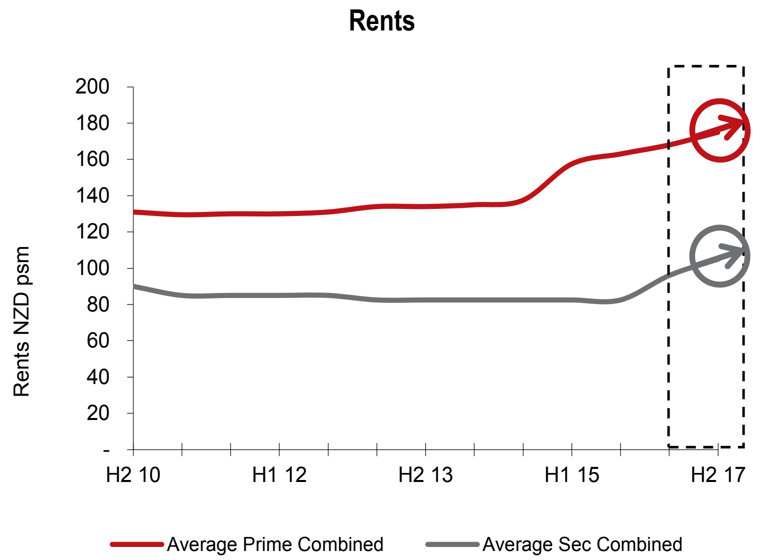
In 2H15 there were several withdrawals from the industrial market, as large sites across the Petone area were removed from the supply base, primarily due to conversion and refurbishment activity. Large sites such as the ex Colgate and the Te Puni Mail centre have been removed from the market to be converted into bulk retail offerings, a trend that has picked up pace in 2015.

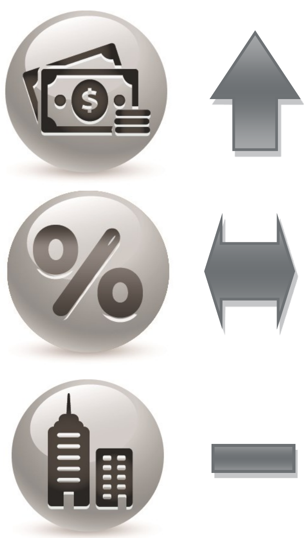
Limited available Prime premises drive rental growth

While Petone is likely to experience the majority of the conversion activity over the next few years, other areas in the Wellington industrial market are likely to see upgrade and conversion activity. A proposal by the Hutt City Council is to redevelop the area around the coastline into an operational marina. By establishing a vibrant waterfront destination with commercial, recreational and storage facilities, the council hopes to revitalise the area and stimulate demand for all types of real estate.

The bifurcation of the industrial market is likely to intensify over the next few years. While demand for Prime premises is increasing, the outlook for older and secondary properties is placing strain on the owners of these sorts of assets.







Increase in Prime rentals

Yields remain stable

Negative net absorption

Pulse

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Wellington Industrial

Asset Performance

Following from the strong performance in 1H15, investment activity in the Wellington Industrial market is holding strong. Recent flows of capital and stronger demand for higher yielding assets is driving more interest in the Wellington industrial market.

Three large (NZD+5m) industrial properties changed hands over the 2H15. Investment activity remains focused on assets around the waterfront industrial precincts, the largest being the former Todd Park which transacted at NZD 33million. Investment yields remain steady in the 2H15, despite the increase in investment activity. This is likely to change in the near term with investment options becoming harder to find.

Popularity of prime assets drives yields lower

The increase in Prime industrial rents was noted at the top end of the market during the 2H15, with both the warehouse and office components experiencing an uplift, driving the average to NZD 163psm. Rental figures for Secondary properties have held steady during this period at NZD 83psm.

12-Month Outlook

The overall positive environment is likely to remain healthy in the short term, keeping vacancy stable. However from 2017 onward, with slowing general economic growth and reducing levels of interest from occupiers, vacancy is expected to increase, reaching a forecast 6.3% by the end of 2018.

The bifurcation of the industrial market is likely to intensify over the next few years.

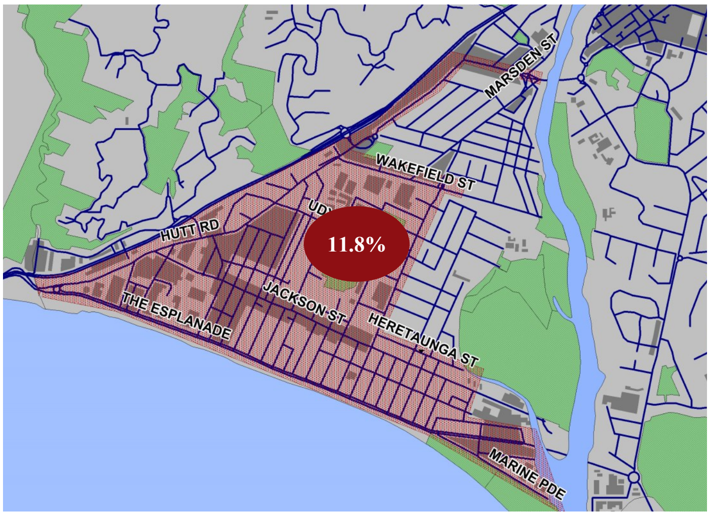
Positive outlook for prime industrial properties

With increasing pressure for Prime properties across the Wellington industrial market, we expect that rents will continue to move steadily up to the end of 2018, with redevelopments and new build activity. This is also expected to drive yields lower in coming years, with prime and secondary compressing to 8.5% and 9.1% respectively by the end of 2016.

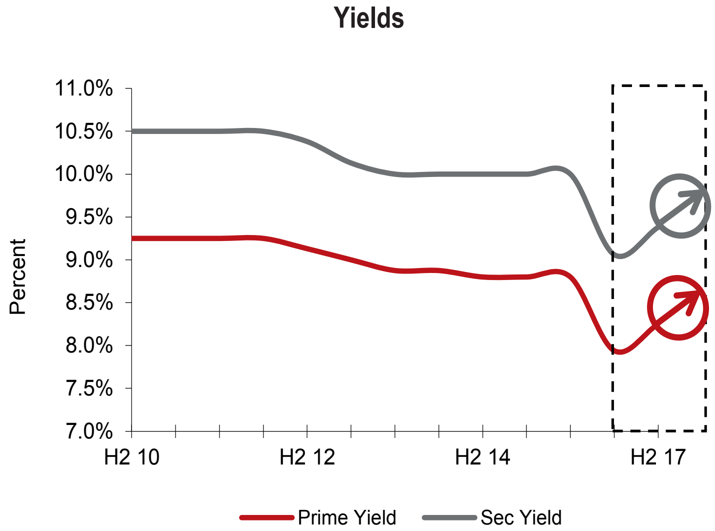
Occupier/ tenant: If suitable space is made available, be quick to secure before rental figures start to hike.

Landlord/owner: Consider adjusting asking rentals to reflect market conditions if permitted. For Secondary buildings, consider refurbishment before excess demand flows through to the secondary market.

Petone Total Return (LTM) using Prime industrial rents and yields



Wellington Industrial Leasing Transactions			
Address	**Suburb**	**Lessee**	**NLA**
13 Jean Batten St	Rongotai	LBO Productions	1,463
2 Jarden Mile	Ngauranga	Ecopoint Ltd	184
6 Malvern Road	Ngauranga	Aspend Landscapes Ltd	360



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