

The Wellington retail market is picking up, with growing activity in the prime end of the market.

## Demand

Demand for retail space in Wellington experienced a slight uplift in 2H15, enjoying a break from escalating vacancy rates seen in 1H15. Primary drivers of this increased retail activity originate from the David Jones takeover of the Kirkcaldie & Stains department store, which stems from an increased consumer interest in prime retail goods. The slight uplift of the market in 2H15 provided a needed break for landlords; however, it is unlikely that this signals the end of retail problems within Wellington.

*Demand driven by prime retail growth*

Total stock decreased by around 7% in 2H15, due to refurbishments including the David Jones conversion. Despite tough trading conditions, premium retail has enjoyed an increase in consumer activity. Other notable entries to the

market include Jamie's Italian restaurant, which will take space in the Old Public Trust Building after refurbishment. Vendors such as these are helping to boost the retail environment, bringing some much-needed revitalization to the Wellington retail market. Vacancy decreased to 5.8% in 2H15, the result of refurbishments and the uplift in leasing activity. The Southern CBD also enjoyed a decrease in vacancy, dropping from 7.5% to 4.6% during the same period.

## Supply

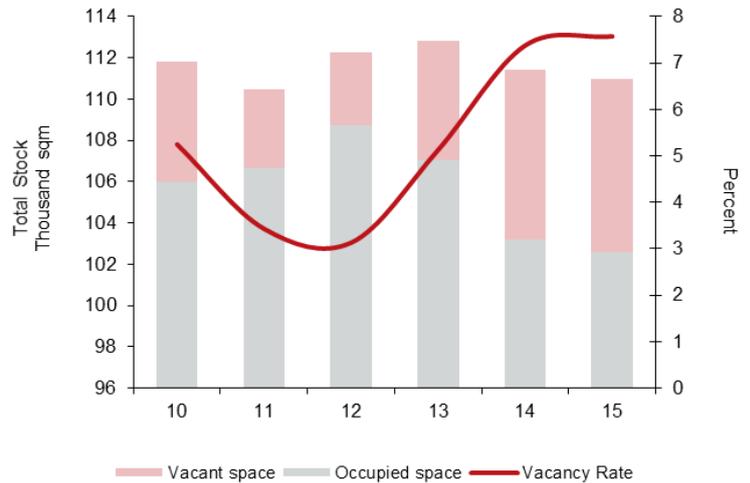
The Wellington retail environment experienced an increase in refurbishment and upgrading activity in the 2H15. This was primarily based in the CBD, where stock experienced a significant decrease, the result of various refurbishments and stock removed from the market while buildings undergo seismic strengthening or redevelopment work. Activity remained at a complete minimum in the Southern CBD, with no change in total stock recorded throughout 2H15.

Supply is set to undergo an increase in 1H16 and 2H16 when space currently undergoing work re-enters the market. Large spaces such as David Jones is forecast to increase supply greatly in 2016. In 2H15, additional space re-entered the market on Lambton Quay, which has seen the redevelopment of several properties.

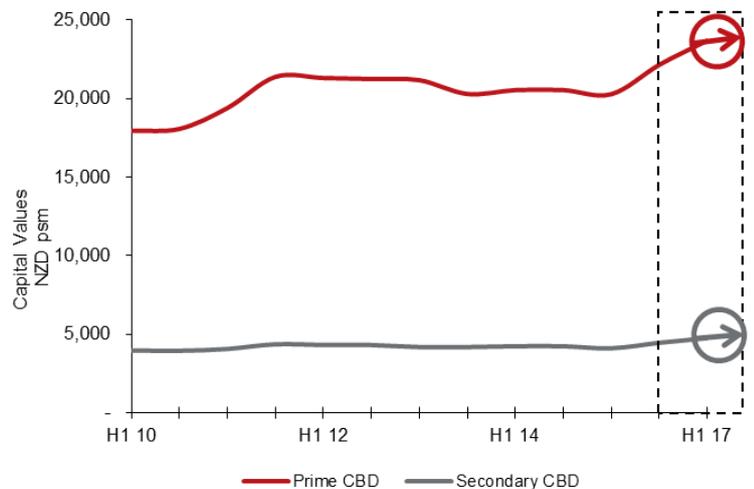
*Refurbishment work main source new supply*

Development within the CBD has remained minimal, with majority of construction work occurring within existing buildings. However, outside of the CBD larger amounts of retail space has been added to the stock base, with large industrial premises being converted into bulk retail offerings.

Vacancy



Capital Values



Steady Prime rents



Yields remain steady



Positive net absorption

## Asset Performance

A prolonged period of increasing vacancy and unfavorable market conditions has ensured rents remain flat throughout 2H15. Property owners have kept a focus on retaining existing tenants by keeping rents unchanged. Gross face rents remained flat in all main retail areas, such as the CBD and Southern CBD.

The gap between prime and secondary retail rents has remained prominent in 2H15, with a NZD1,025psm difference between upper and lower average rents in Lambton Quay, and NZD 775psm difference on Willis Street. This disparity depicts the relative success of prime retail, as it continues to withstand the pressures that secondary retail have not been able to bear. Prime rents are not likely to remain flat in 1H16.

*High level of large retail assets transacted in 2H15*

The Wellington retail market experienced a period of high sales volumes in 2H15, with a focus on large assets outside the CBD. Some NZD 364 million worth of large assets (NZD 5 million and over) transacted during this period. Westfield Queensgate was the largest sale to take place in the 2H15, with Diversified NZ Property Fund purchasing two Westfield shopping centres. Stride Property purchased 18 Countdown supermarkets across New Zealand, with five located in the region. This marks an unusually high level of activity for Wellington retail, and is likely to stimulate more investor interest in the market.

## 12-Month Outlook

Wellington retail is forecast to plateau in 2016, as increased activity within premium retail helps stabilize the market. Further remedy may come from mid-high end international retailers as they seek to establish a presence in the Wellington, with brands such as Zara and H&M speculated to enter the market in the near future.

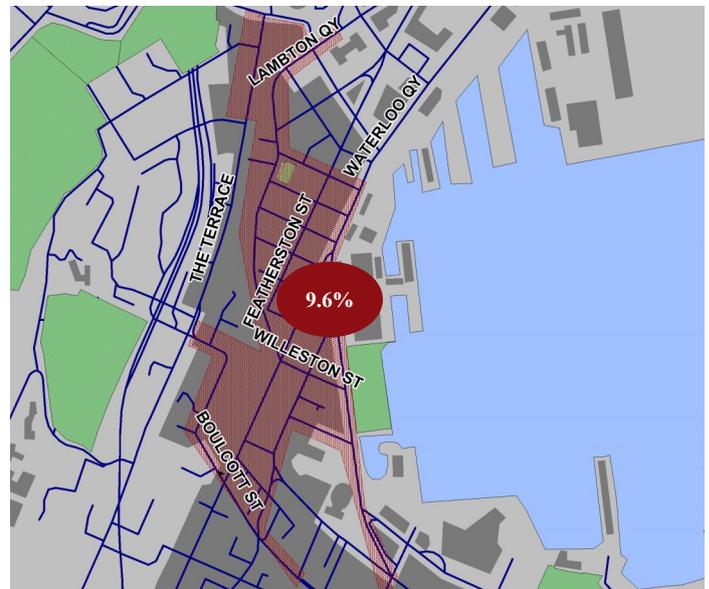
*Yields are set to firm with increased investor interest*

Rents are forecast to remain flat for secondary retail, with a revitalization of this market unlikely in 1H16. Yields are predicted to firm as investor interest continues to grow.

**Tenants/ occupiers:** A real opportunity exists to negotiate preferable terms with your landlord.

**Landlords/ owners:** Take advantage of the future supply base, position yourself to attract quality tenants as the need for space increases in coming terms.

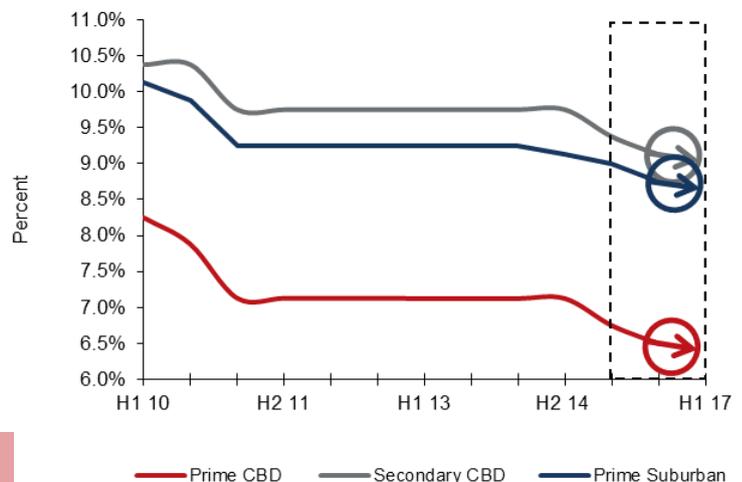
Prime CBD Retail Total Return (LTM)



Wellington Retail Leasing Transactions

Address	Suburb	Lessee	NLA
133 Tory Street	Te Aro	Bike Barn	715
13 Manners Street	Wellington CBD	The Bead Store	79
58 Cambridge Terrace	Te Aro	Oriental Thai Restaurant	268

Yields



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