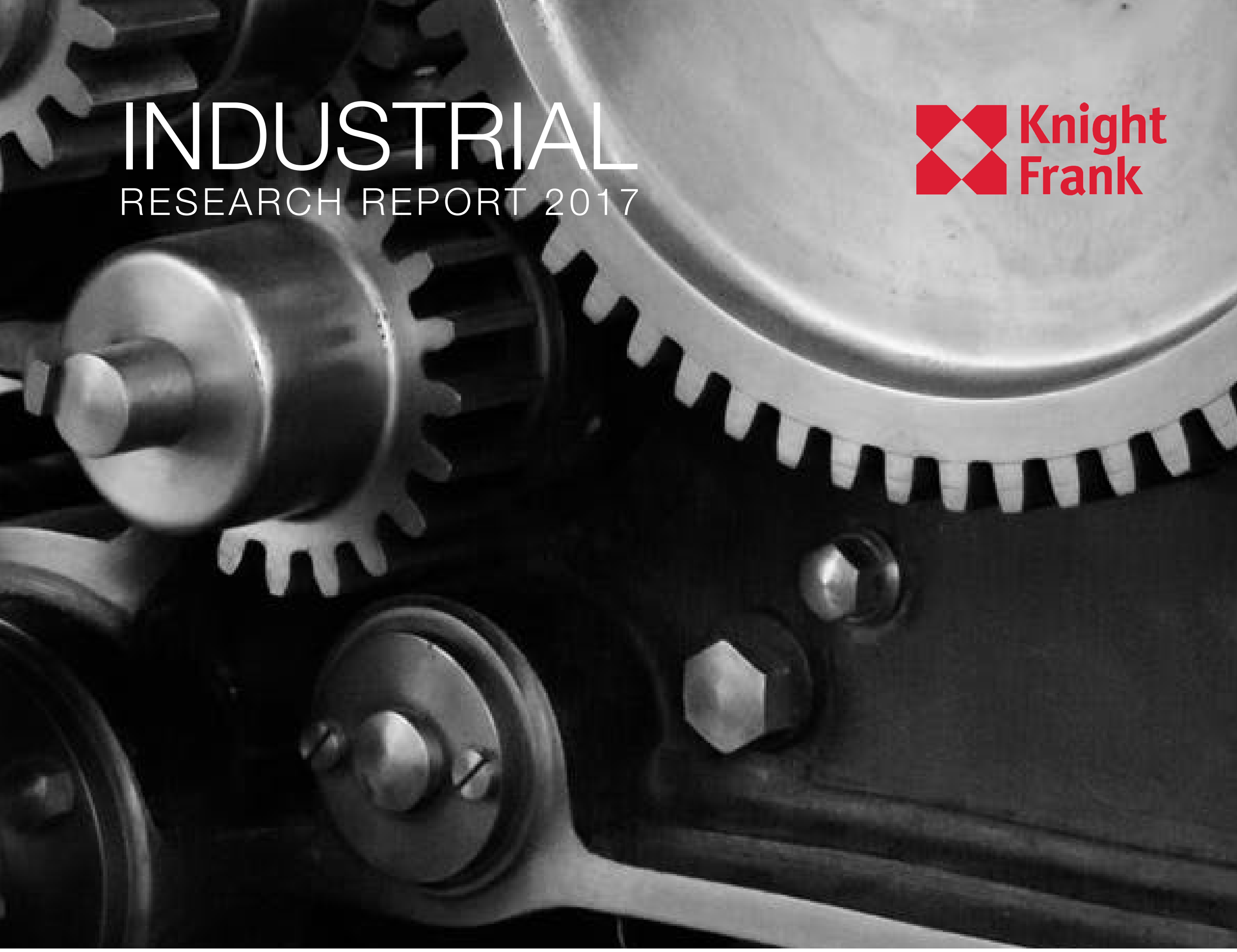


INDUSTRIAL
RESEARCH REPORT 2017

Knight Frank

AUCKLAND

The Auckland industrial market has remained relatively undeterred moving into the second half of 2017.

The positive outlook has been underpinned by strong investor confidence, an accommodative low interest rate environment and competition between owner occupiers and investors which continues to drive this sector.

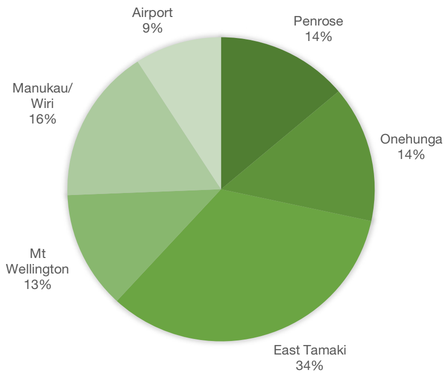
Demand Outstripping Supply

A shortage of good quality stock has resulted in the stabilisation of record low vacancy levels across the major industrial hubs and in turn created pressure for a rise in market rental levels.

Vacancy levels have contracted throughout the central suburbs. Penrose/Onehunga has dropped 0.8% from our analysis a year ago, whilst Mt. Wellington and Manukau/ Wiri have shown slight decreases at 0.2% and 0.6% respectively.

Conversely, East Tamaki and Airport Oaks increased slightly at 0.8% and 0.6% respectively which we believe is attributed to a number of new industrial developments brought to the market The under supply of stock has been seen across all grades of industrial property prompting investors, owner occupiers and budding tenants further down the investment grade toward alternative properties, as competition has turned up or alternatively with the option of remaining idle until more opportunities arise.

% of Properties per Suburb



Tenants be Wary

The evident shortage has led to a steady increase in rental levels over the past few months, as competition increases for existing quality space that accommodates tenant needs.

Our analysis of industrial properties shows that within the South-Central suburbs properties ranging from 100 to 500 square metres have shown an increase in rent of 5.0% overall from 2016 to 2017.

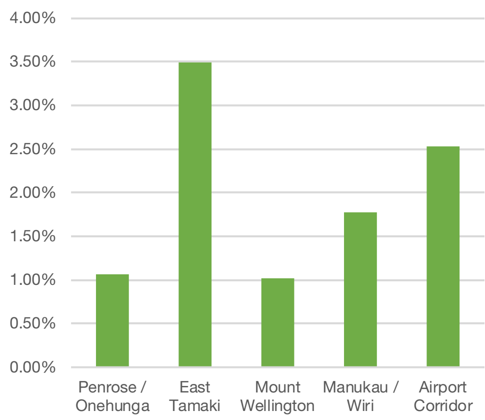
Knight Frank is aware of newly built industrial properties achieving rental levels of $140 per square metre, over medium sized warehouse components with smaller industrial units achieving in excess of $170 per square metre overall.

Newly built industrial office space has also been recording returns of up to $240 per square metre.

Higher rentals rates have had the effect of pushing investors and occupiers down the grade scale into more secondary stock, with the occupiers settling from refurbishment of dated space, if required.

Secondary South Auckland precincts are generally returning from $85 to $110 per square metre over warehouses. Incentives have not been frequently noted however we are seeing a shift towards more stepped rental agreements, given the uncertainty associated with CPI movements and the low inflationary environment prompting landlords for more security going forward.

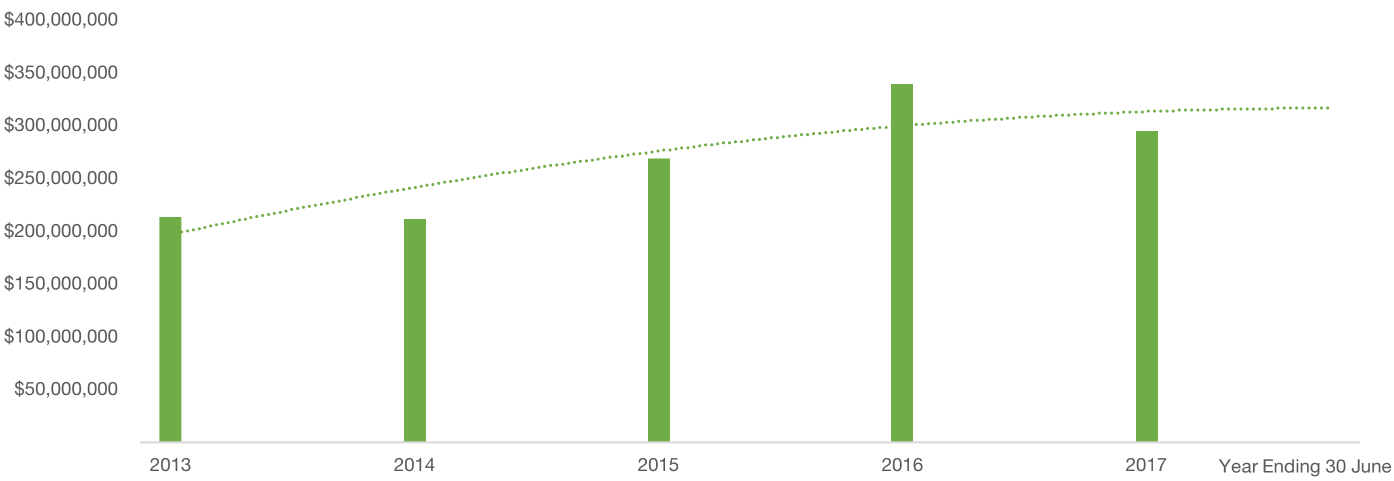
Vacancy by Suburb - August 2017



2017 Vacancy Outlook

Suburb	Vacancy m²	Total Stock m²	August 2017 - Percentage
Penrose/Onehunga	19,658	1,836,867	1.07
East Tamaki	75,190	2,156,512	3.49
Mount Wellington	11,559	1,140,480	1.01
Manukau/ Wiri	25,578	1,442,615	1.77
Airport	26,301	1,039,359	2.53

Auckland Building Consent Values - Factories, Industrial and Storage



Development

Landlords controlling supply are considered instrumental to further development.

Rising land values and construction costs in addition to construction labour constraints evident throughout the entire Auckland market, have resulted in landlords either holding until conditions improve or pushing developments further southward where the development margins justify the capital investment.

Building consents have dropped from levels seen in 2016 whilst speculative stock gets built and absorbed by the market. A shortage of industrial land following the change in the Unitary Plan and pre-existing developments have undermined this.

Furthermore, financial constraints continue to affect the future pipeline of new builds with construction costs forecast to remain elevated in the short term hovering at around 5.0%.

Impacts of the Unitary plan

The Auckland Unitary Plan became operative in part in November 2016.

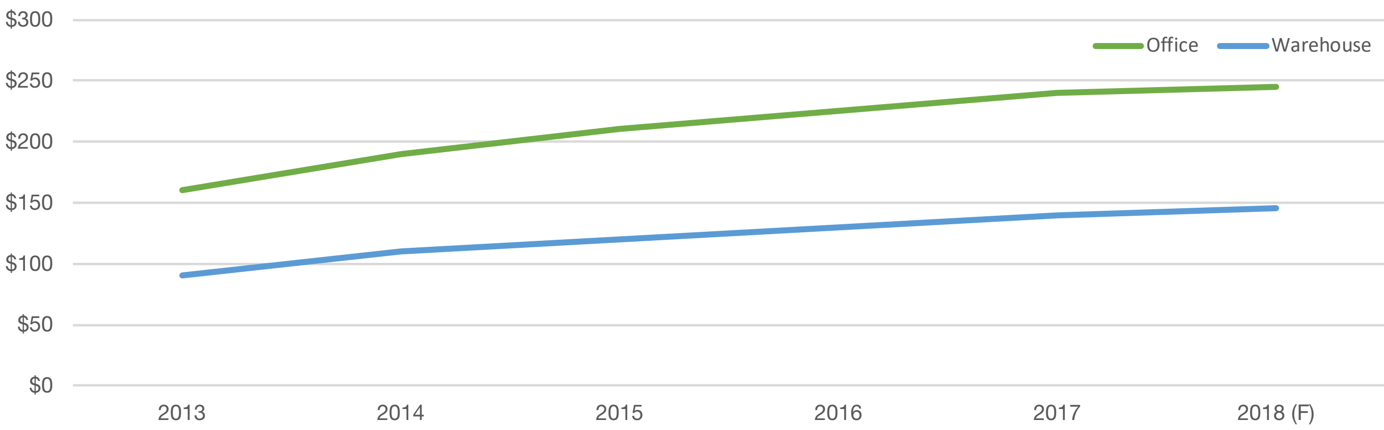
The impact has been profound on properties that formerly had an industrial use and have now been subject to a change in zoning to either Mixed Use or Terraced Housing and Apartments.

This has been most evident in more centrally located suburbs around the fringe of the Auckland Central Business District.

The consequence of these changes are that industrial users are now competing with residential developers for these properties which has pushed land values in excess of $3,000 per square metre in neighbourhoods such as Eden Terrace, Grey Lynn and Grafton reflective of the level of housing achievable in those areas.

Southern Corridor suburbs are generally achieving in excess of $1,000 per square metre relative to their particular zoning.

South Auckland - Prime Industrial $ psm Rates



Power of the Dollar

The attractiveness of industrial property has seen yields contract. This has been fuelled in part by the low interest rate environment, strong investor confidence and demand.

Knight Frank has recently sold a 1980s industrial building at 12-16 Harris Road, East Tamaki for $4,750,000 in July 2017, reflecting an initial yield of 5.64% on a two year leaseback.

This sale demonstrates the desirability of industrial space even with a limited lease term in place.

Competition for quality space between owner occupiers and investors continues to contract yields. Our analysis is finding that market equivalent yields are achieving in the range from 5.0% to 6.5%.

This is calculated with an assessment of market net income over the sale price with adjustments made for over/under renting, vacancy and capital expenditure. In industrial unit market our analysis has recorded substantial increases year on year out for units between 100 to 500 square metres.

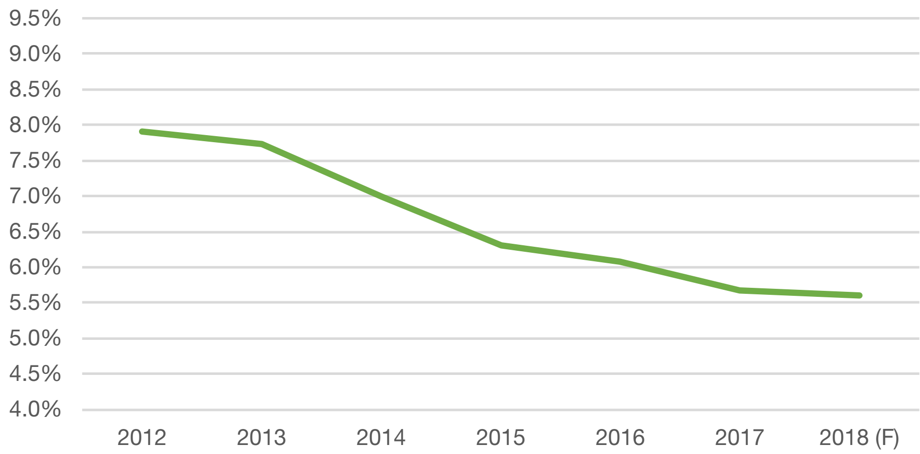
On a per square metre basis industrial units increased from an average of just under $2,000 psm in 2015 to just over $2,750 psm in 2016 representing appreciation of 39.7%.

The current year has continued to be strong with an average of $3,200 per square metre however there have been notably less sales publicly advertised than in previous years.

Knight Frank has been involved in multi-unit industrial developments where new units at 22 Polaris Place and 417 East Tamaki Road, East Tamaki have achieved consistently over $3,300 per square metre on average.

This shows the considerable popularity of industrial units in addition to the generally limited supply.

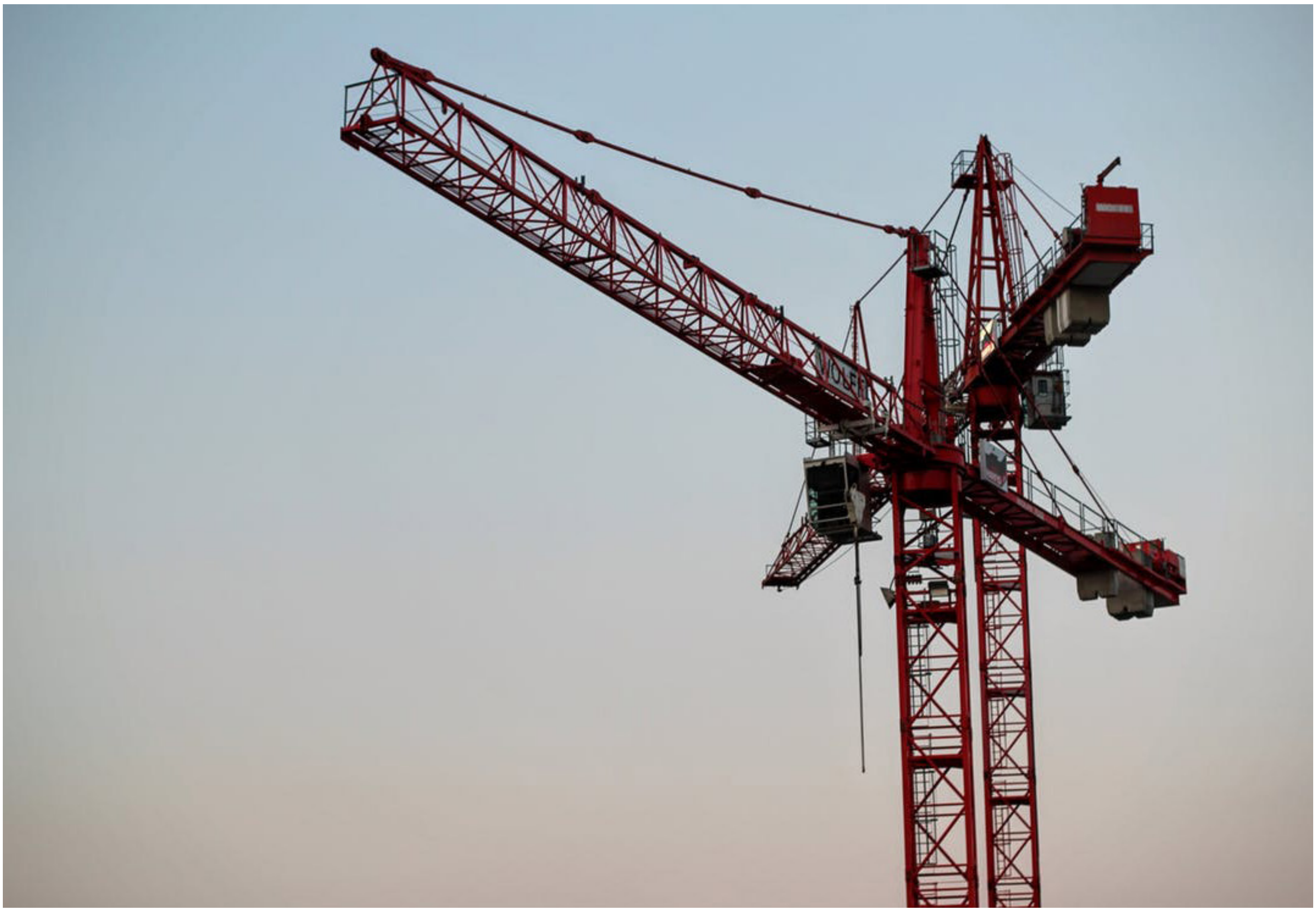
South Auckland - Average A-Grade Industrial Yield



Examples of Industrial Sales and Investment Yields					
Address	Price	Floor Area	Yield%	Date	Prime/Secondary
90 Lady Ruby Drive, East Tamaki	$1,930,000	724	5.70	Mar 17	Secondary
12 - 16 Harris Road, East Tamaki	$4,750,000	2,289	5.64	Jul 17	Secondary
5 Greenmount Drive, East Tamaki	$4,050,000	2,748	6.04	Mar 17	Secondary
3 Stonehill Drive, Wiri	$7,025,000	2,301	4.86	May 17	Prime
46 Andrew Baxter Dr, Airport Oaks	$3,900,000	1,816	5.08	Mar 17	Prime
11 Turin Place, Otara	$14,233,077	8,565	6.50	Dec 16	Secondary
100 Carbine Road, Mt Wellington	$36,800,000	29,526	V/P	Jun 17	Secondary
154 Captain Springs Rd, Onehunga	$2,476,000	1,321	4.93	May 17	Secondary
60 Johnston Drive, Penrose	$5,560,000	1,117	6.72	Feb 17	Secondary
3 Donnor Place, Mt Wellington	$4,300,000	1,600	5.52	April 17	Secondary

Market Analysis

	Warehouse		Office		Market Yield		Land Value	
	Prime	Secondary	Prime	Secondary	Prime	Secondary	Less 1ha	More 1ha
Penrose/Onehunga	$120 - $135	$85 - $110	$220 - $250	$175 - $215	5.50 - 6.25%	6.25 - 7.00%	$550 - $650	$450 - $550
East Tamaki	$105 -$130	$80 - $100	$190 - $240	$150 - $185	5.25 - 6.00%	6.00 - 6.75%	$525 - $575	$400 - $525
Mount Wellington	$120 - $130	$85 - $105	$220 - $240	$175 - $215	5.50 - 6.25%	6.25 - 7.00%	$550 - $600	$450 - $550
Maunkau/Wiri	$105 - $130	$85 - $95	$190 - $235	$155 - $175	5.00 - 5.75%	5.75 - 6.50%	$475 - $625	$400 - $475
Airport Oaks	$110 - $125	$85 - $100	$190 - $240	$160 - $185	5.25 - 6.00%	6.00 - 7.00%	$500 - $600	$400 - $500



CANTERBURY

BUILDING CONSENT ACTIVITY

Following the steady increase of building consent values in Canterbury post-earthquake, we are now seeing a decline in value levels over the past year across most property sectors, except for storage which appears to be increasing. Building consent values for the industrial sector have ranged from $9,950,000 to $54,402,900 per quarter since the start of 2011.

Quarter two of 2017 saw a decrease to $20,101,400 from $21,182,058 in quarter one, this was also down from $23,075,650 in quarter two 2016. New supply continues to filter into the market, however the general consent trends reflect a market which is returning to base levels after significant post-earthquake activity, and we expect development activity to slow over the remainder of 2017 and 2018.

Building consent numbers across property sectors rose from the period of 2010 - 2015, however, have since declined. On average, the office sector has the highest number of consents per quarter with storage and industrial sectors close behind. Since the first quarter of 2010 the number of consents per quarter for industrial buildings has ranged from 11 to 36.

There was a decrease in industrial consent numbers to 18 in quarter two of 2017 from 20 in quarter one 2017. Overall, the general trend for building consent numbers across all sectors is on the decline, though remains stronger than pre-earthquake levels.

2017 TRENDS

General building consent trends are on the decline in 2017 for industrial property following the post-earthquake peak, however they remain stronger than pre-earthquake levels.

Investor demand remains strong for quality, well leased space, but sale volumes have been steadily declining since 2015. There is caution in the market with investors taking more time for due diligence and being more selective.

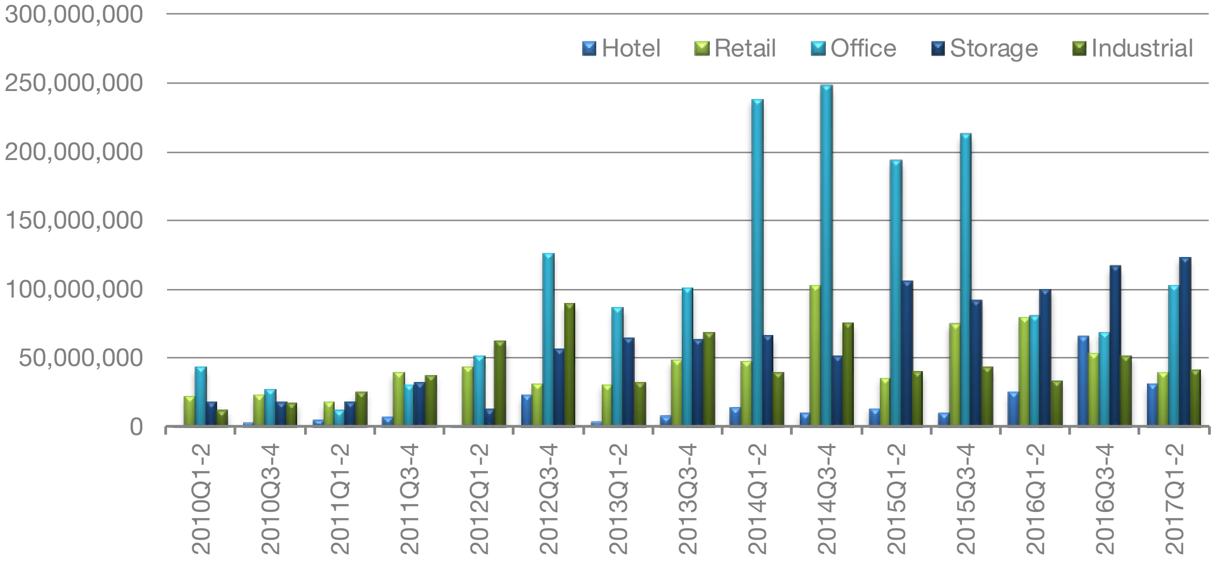
Yields are trending down as interest rates remain low.

Increase in the number and amount of available industrial space for lease.

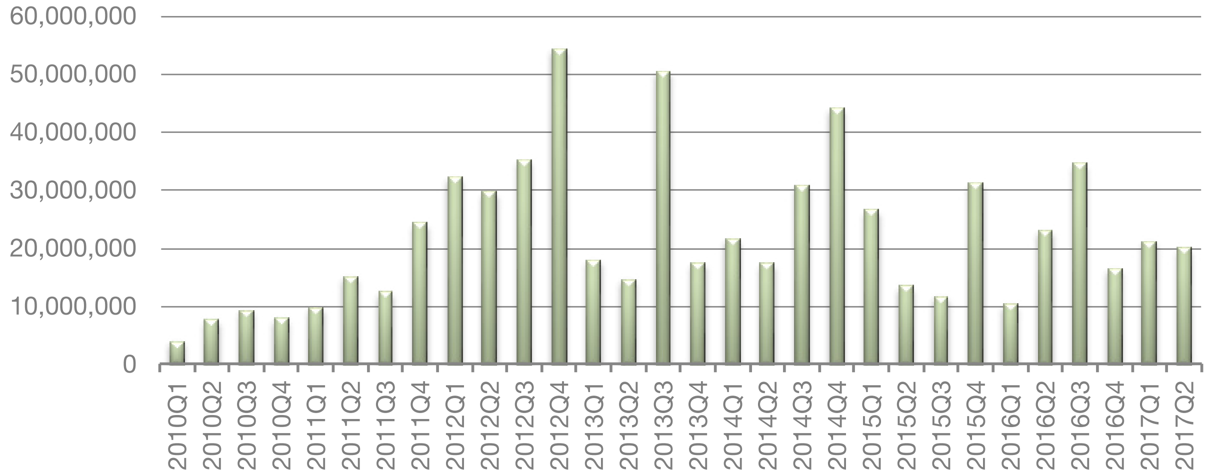
Rental levels are unlikely to see further growth in the short term, with possible decreases in rental rates for secondary and lower quality space.

Building Consent Activity

Building Consent Values Canterbury - Source: Statistics NZ



Building Consent Values Canterbury - Industrial - Source: Statistics NZ



Building Consent Numbers Canterbury - Source: Statistics NZ

Tenant Demand

Occupier Demand and Rents

There has been an increase in the supply of industrial buildings over the past 12 months.

We have also seen a reversion to original use for industrial buildings that had previously been converted to other uses such as offices, in the period of displacement following the earthquakes.

This is expected to continue, albeit at a slower pace until 2021, when the policy for temporary businesses that do not comply with the rules in the Christchurch District Plan expires.

Additionally, some tenants are relocating and downsizing due to increases in online sales, coupled with competitive new build prices, allowing businesses the opportunity of a bespoke building for less cost.

Consequently, we have observed a softening in rental rates and an increase in incentives, given that supply is currently outweighing demand.

Some landlords have been prepared to heavily discount from rents previously payable in order to secure new tenants.

Examples include a building in Clarence St, recently leased at $140,000 pa, down from $167,200 payable from late 2011.

Another in Canada Crescent has been leased at an effective net rent of $115,000, compared to a 2014 assessment of $205,000.

In 2017 prime rents for warehouse space typically range from $90 - $110 per square metre, with secondary space ranging from $65 - $90.

Looking ahead rental levels are unlikely to see further growth in the short term.

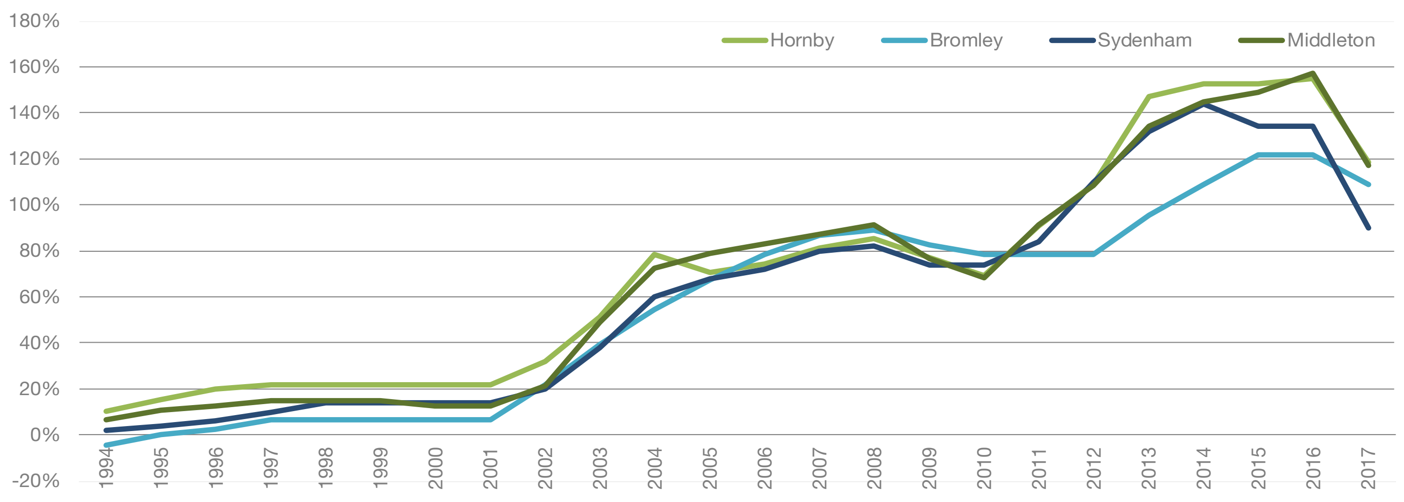
Sample of new warehouse leases in the rental market

Address	Rent $/m²	Area m²	Term (years)
Iversen Terrace, Waltham	$80	646	2
Antigua Street, Addington	$85	1,827	3
Nga Mahi Road, Sockburn	$100	1,800	6
Branston Street, Hornby	$95	962	6
Waltham Road, Sydenham	$100	774	3
Jones Road, Rolleston	$105	252	3
Avenger Crescent, Wigram	$120	260	2

Cumulative Growth Christchurch Industrial Rentals

Knight Frank has monitored rental growth in the main industrial locations since 1993. Strong growth occurred through the early to mid-2000's, with some levelling off and dropping during the period just prior to the earthquakes. Post-earthquake rents again increased at some pace, however appeared to then flatten over the previous three-year period, remaining largely unchanged since 2014. We are now seeing a downward trend in rental growth profiles, given the current levels of supply being in favour of tenants.

Cumulative Industrial Rent Growth by Location



Tenant Demand

Cummulative Growth Capital Values Christchurch Industrial Property

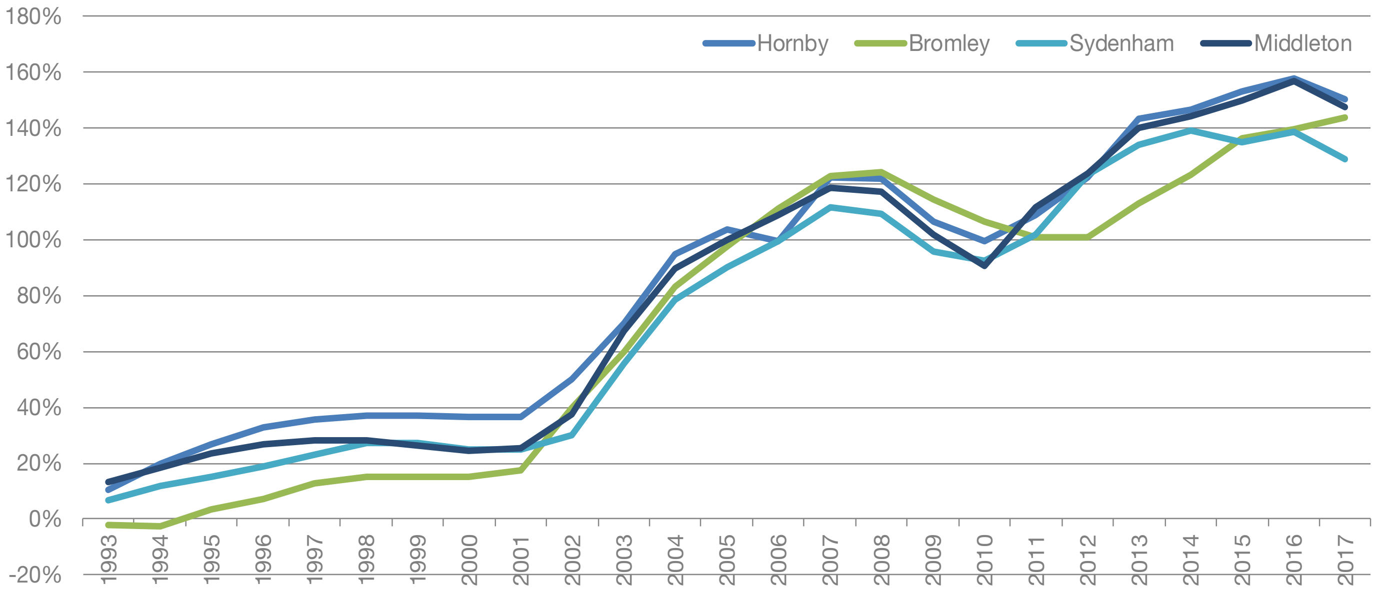
Cumulative growth of capital values in Christchurch underwent strong growth throughout the early and mid-2000's, levelling out across the period of 2007-2009.

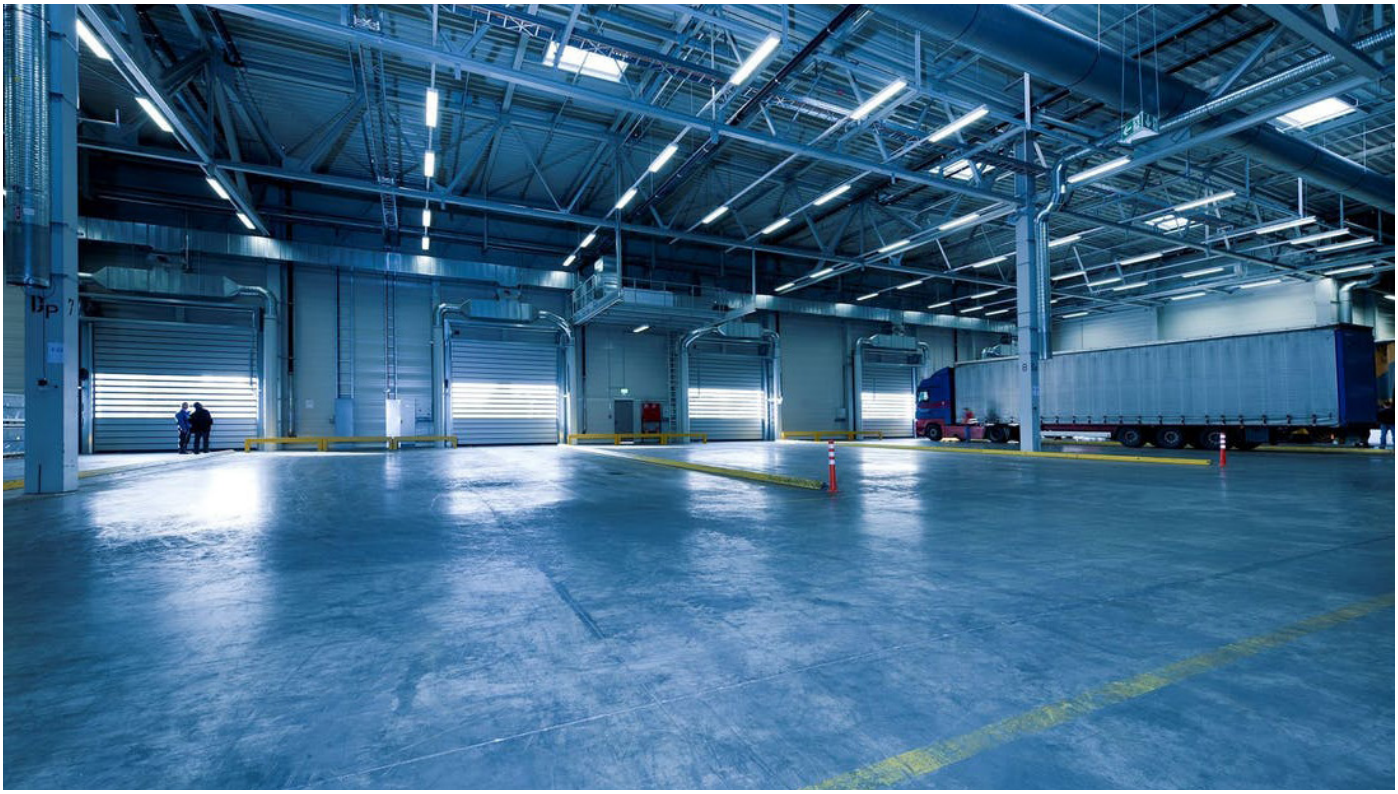
Values again underwent an increase post-earthquakes, however, the rate of increase has been slowing and in some areas declining between 2016 - 2017.

The strongest areas of growth continue to be in the western suburbs of Hornby and Middleton, where new industrial subdivisions are developing.

This slight downturn in values is occurring due to reduction in market rent levels, rather than increases in yields or capitalisation rates which remain firm in a low interest rate environment.

Cumulative Growth - Capital Values Christchurch Industrial Property





Investor Demand

Sales and Investment Yields

Sales volumes are down considerably from the elevated levels recorded in 2015.

Prime industrial yields in 2017 generally ranged from 6.0% to 7.00%, with secondary yields ranging from 7.00% to 9.00%.

In 2016 there was a consistent trend of low yields and we are again seeing this in 2017.

There remains strong demand for good quality industrial investment property, particularly new builds at new building codes with strong tenancies in place, and less demand for secondary stock.

There appears to be some caution in the market, with investors taking more time for due diligence and being more selective with increased concern regarding vacancies. Banks have also imposed tighter financing restrictions.

Examples of analysed yields from recent warehouse transactions

Address	Price	Building Area	Yield
Tanner Street, Woolston	$360,000	142	8.16%
Parkhouse Road, Sockburn	$830,000	344	7.17%
Blenheim Road, Sockburn	$755,000	460	6.70%
Phillips Street, Phillipstown	$825,000	640	6.66%
Buchan Street, Sydenham	$1,115,000	1,760	8.16%
Alloy Street, Sockburn	$1,504,000	546	6.12%
Dakota Crescent, Wigram	$2,825,000	1,912	6.55%
Waterloo Road, Hornby	$4,100,000	1,400	6.00%
Epsom Road, Sockburn	$1,200,000	482	6.25%

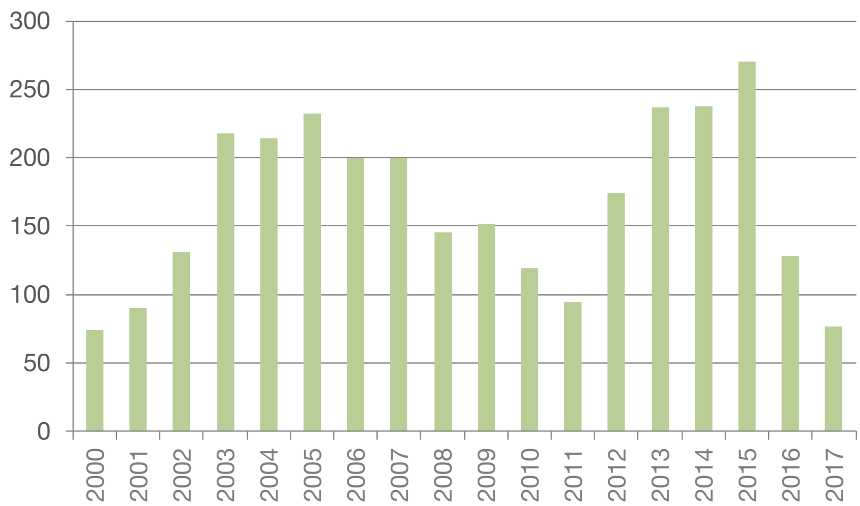
Number of Industrial Sales in Christchurch

The number of industrial sales has fluctuated year to year, with a spike in sales over the post-earthquake period of 2013 through to 2015 with numbers peaking at 270 in 2015, averaging 23 sales per month.

In the year to date, we have seen 71 industrial properties sold, averaging 10 sales per month, the lowest annual number recorded since the year 2000.

This decrease in turnover is predominantly due to the limited supply of good quality industrial space on the market, and concern surrounding the opportunities available for further capital gain following increased appreciation in recent years.

Number of Sales



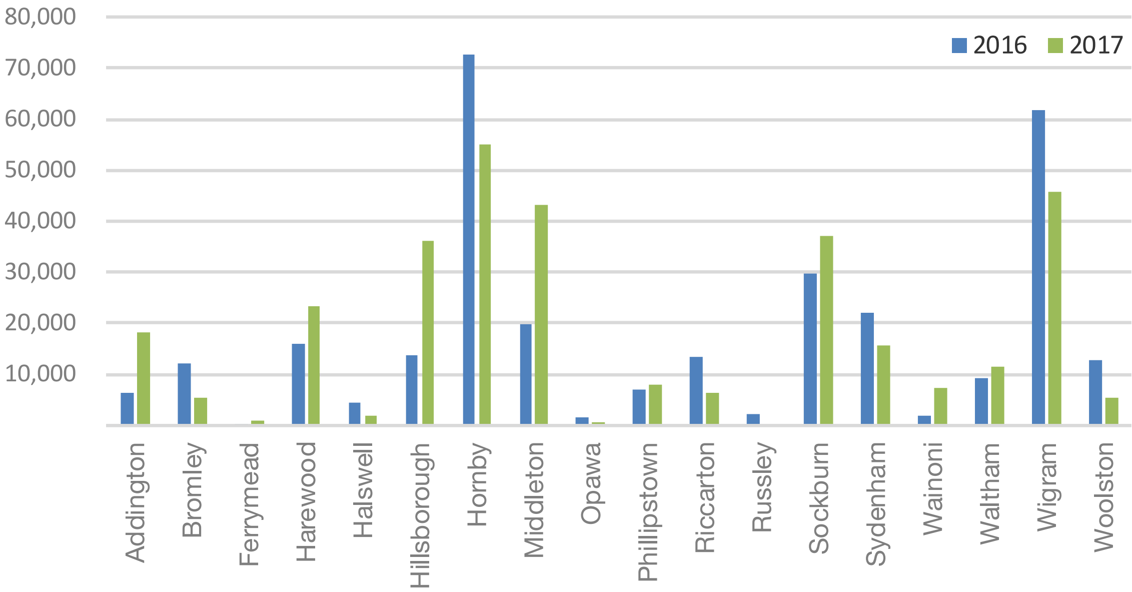
Investor Demand

Snapshot For Lease on the Market in the Main Industrial Locations

Excluding Rolleston and Central City

Knight Frank researched Industrial property on the market for lease as at August 2017 and found approximately 368 properties actively being marketed, reflecting approximately 321,488 square metres of floor space. This compares with August 2016 when we found 351 properties on the market for lease, approximating 307,162 square metres of space. The increase in properties for lease is predominately due to newly completed industrial developments coming onto the market across the city, coupled with the expiry of six year leases that commenced immediately following the earthquakes. The graph shows where this space was available:

Area For Lease



Snapshot For Lease on the Market in the Main Industrial Locations

Excluding Rolleston and Central City

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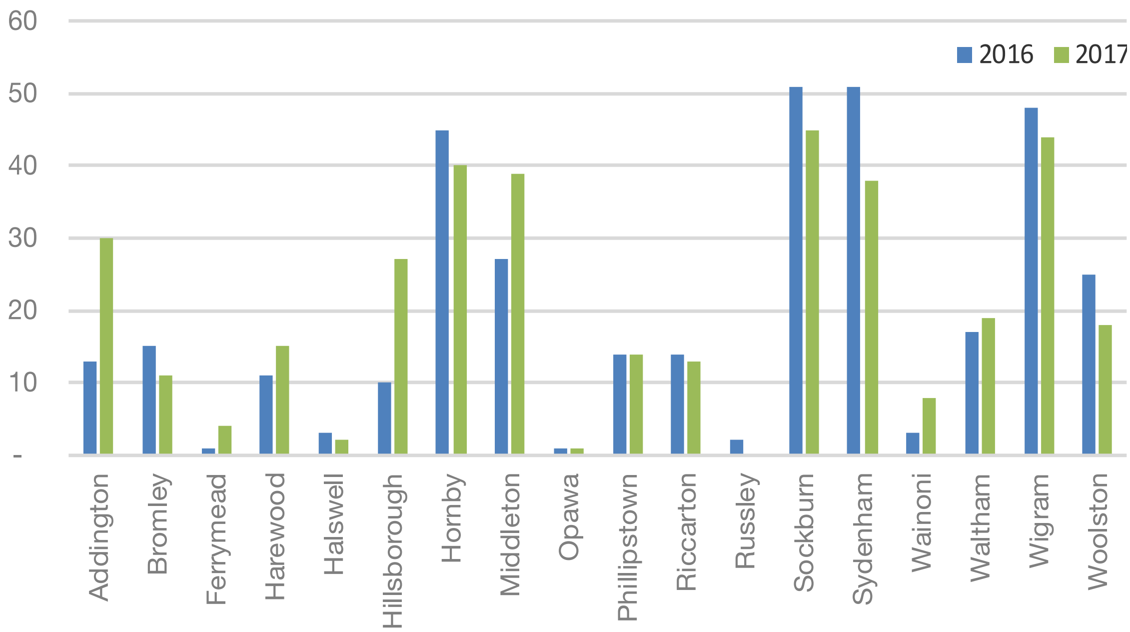

Development Activity

Knight Frank has monitored take up of vacant land in Christchurch since 1993. Vacant Land is defined in the City Plan as undeveloped areas where potential future development is allowed. Take up occurs when a new building or resource consent, public works or parks and reserve contribution is lodged against a parcel of vacant industrial land.

The majority of land take-up has been and continues to be in the West of the city. There was a significant reduction in development activity during 2008 to 2010, a result of the Global Financial Crisis coupled with a scarcity of available land. The period from 2010 to 2012 resulted in low levels of industrial land take up following the Christchurch Earthquakes, when there was significant uncertainty in the market and in land conditions.

Levels of take up have picked up since the earthquakes from 6.1 hectares in June 2010, to 26 hectares in June 2017 of vacant industrial land taken up by new industrial buildings, the majority of which was in the South West of the city. Land supply for new developments as a factor of land value growth has been removed with the decisions relating to land rezoning effectively increasing the supply of land for business uses.

We see limited pressure on land prices to increase at present while increases in construction costs remain the strongest driver of growth.

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Vacant Industrial Land

Conclusion

Overall, the strength of the New Zealand economy bodes well for industrial property heading into 2018.

Election uncertainty and potential measures such as Debt to Income controls by the Reserve Bank of New Zealand present some minor concerns going forward but the fundamentals have not changed.

A low interest rate environment, strong investor confidence and steady competition continues to make the commercial market an attractive place for both owner occupiers and investors.

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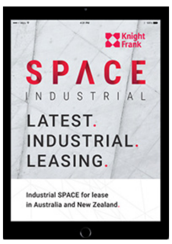

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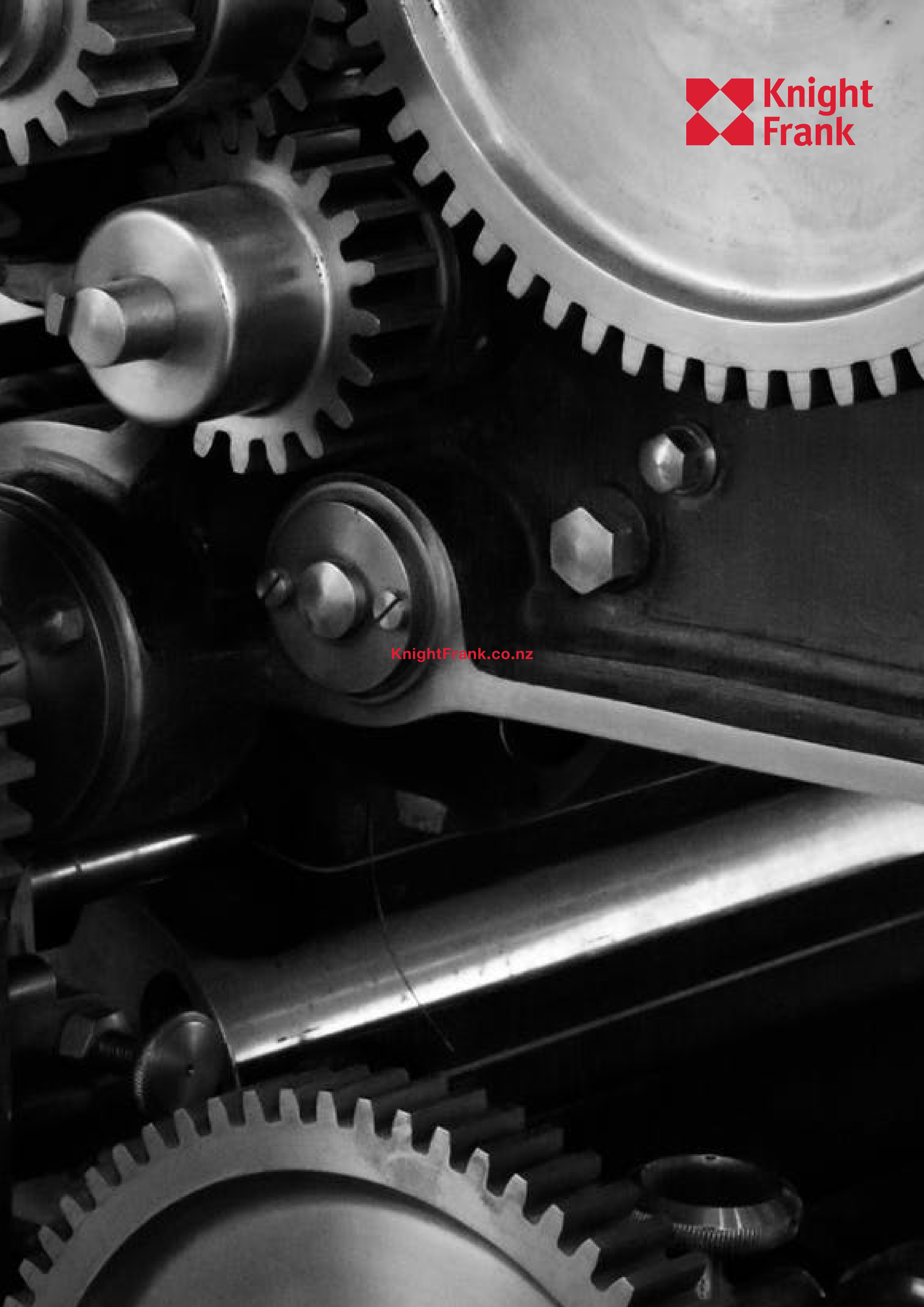

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