



CHRISTCHURCH INDUSTRIAL MARKET OVERVIEW

July 2013

HIGHLIGHTS

The closure of the CBD for a prolonged period post the 2010/2011 earthquake sequences has altered the industrial landscape in Christchurch, supporting strong growth in specific industrial locations with changes in use for many buildings and accelerating plans for land development in the north and west locations. The Wairakei Road and Airport surrounds have become stronger business hubs. A recent sale in Wairakei Road where office use has been developed saw the land sell at \$675 per square metre, a record high compared with the pre earthquake market. While in general land values are steady, inner industrial area land values have increased to reflect more intensive business uses.

Commercial building consents have increased, initially on the back of relocating CBD office based businesses and retailers, while industrial building consent numbers showed a more steady trend. As the reconstruction phase ramps up in the next 2 years, industrial new build activity is expected to rise.

Rent values across the board are on an upward trend. Demand has outstripped supply forcing rents up and at the same time, rising construction costs require higher levels of rental to make new developments feasible.

Investor demand is high for good quality industrial property and there is a marked preference for new builds at new building codes. Uncertainty remains around existing or retrofitted property, so that there is a definite two-tier market with frustrated demand for that limited prime stock, forcing prime yields to a 6.0%-7.5% range, driving value growth.

JULY 2013 CHRISTCHURCH INDUSTRIAL MARKET OVERVIEW

ECONOMIC SNAPSHOT

The New Zealand economy continues to recover at a modest pace from the recession in 2008/2009. Real Gross Domestic Product (GDP) increased by 1.5 percent in the December 2012 Quarter, but growth has slowed more recently. Inflation remains low, with measures of core inflation in the bottom half of the target band which is 1 – 3 percent.

Annual Consumer Price Index (CPI) inflation fell by 0.2 percent in the March 2013 quarter, and is expected to move back inside the target range in the next quarter.

Driven by reconstruction in Canterbury and continued low interest rates, inflation is

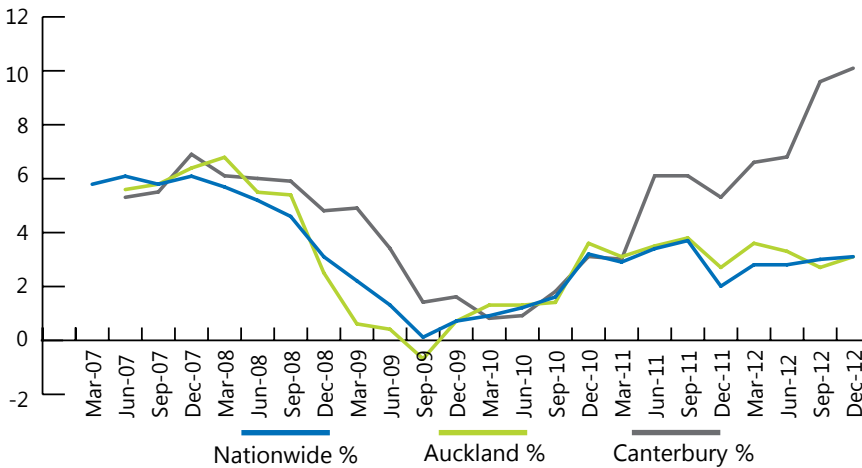
Table 1.
Key Performance Indicators

Key
Increase in value ▲
Decrease in value ▼
Value stable ▲ / ▼

	Property Class	
	Prime	Secondary
Land Value (\$/sqm)	\$500 to \$675	\$110 to \$250
Trend YTD	▲	▲ / ▼
Rental Range Net (\$/sqm)	\$100.00 to \$130.00	\$70.00 to \$90.00
Trend YTD	▲	▲
Yield Range (%)	6.0 to 7.5	7.5 to 9.0
Trend YTD	▼	▼
Vacancy	Low	Low
Trend YTD	▼	▼

Figure 1.
Regional Construction Cost Inflation (Annual)

Source: Reserve Bank Of New Zealand



expected to increase over the medium term. Construction cost growth is escalating at a much faster rate within Canterbury compared with other centres, as outlined in Figure 1.

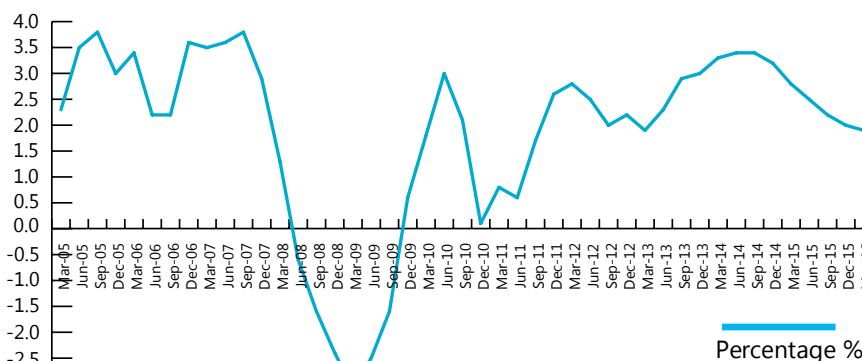
Real GDP is forecast to be slow but steady. NZIER forecasts 2.3% growth in 2013 while Reserve Bank forecasts about 3% growth towards the end of 2013. Key factors influencing the outlook include:

- Repairs and reconstruction in Canterbury are expected to substantially boost construction sector activity and will be a key investment driver.
- Global economic activity and inflation are expected to remain subdued, with trading partner GDP growth heavily reliant on policy support.
- The New Zealand dollar is assumed to remain high, export growth at low levels, interest rates expected to remain low.
- Unemployment rates expected to slowly decline with weak job growth
- Fiscal policy is forecast to tighten markedly, dampening aggregate demand.

Negatively affecting the outlook is the projection for continued subdued activity in Europe and the United States. This weak outlook manifests itself through continued high bank funding margins and persistent strength in the New Zealand dollar.

Figure 2.
GDP Growth Projection (annual)

Source: Reserve Bank Of New Zealand



Building consent activity

Building consent applications have increased remarkably since quarter 4 2011, with the increases initially focused on retail, shifting to office and industrial in the year 2012. Both the quantity and value of new building consents is showing an upward trend.

The office sector shows the highest levels of activity and values. Some consented work has not yet started and some consented work is for refurbishments and strengthening of buildings.

Figure 3.
Building Consent Numbers
Source: Statistics New Zealand

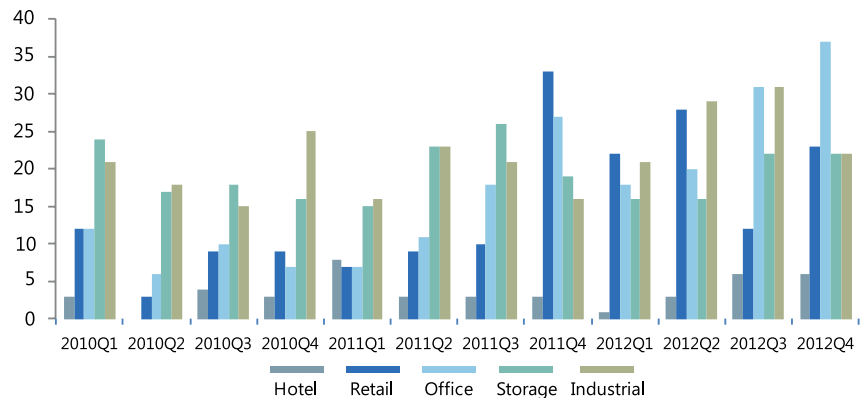
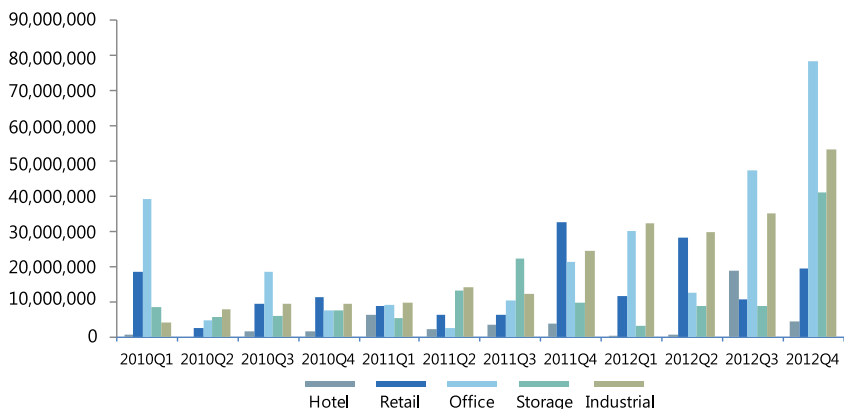


Figure 4.
Building Consent Values
Source: Statistics New Zealand



INDUSTRIAL OVERVIEW

The Christchurch industrial market has experienced somewhat of a recovery in the past year, following the economic downturn in 2008 / 2009. The global economic financial crisis beginning in 2008, resulted in a significant decline in the property market, across most classes and locations throughout New Zealand. The ramifications of the crisis were still being felt prior to the earthquakes in 2010 & 2011. Those events had a major impact on the Christchurch commercial property market.

Its effects have been most significant on the industrial and office sectors. The Central Business District has remained closed since

February 2011, while large scale demolition is carried out. The businesses occupying retail and office space in the CBD prior to the earthquake have in some cases, been forced to compete for any remaining useable space. Both retail and office space users have in some instances, adapted what was previously industrial warehouse space.

These pressures have resulted in capital and rent growth due to demand pressures on reduced property stocks. Prime rent for warehouse space is now in the region of \$100 - \$130, with secondary space in the region of \$70 - \$90. Factors affecting the market include reduced vacancy rates,

increasing construction costs both due to labour shortages, increased competition for resources and materials, and higher standards for building adopted.

Building activity is on the increase, construction costs are rising, rents are on the increase both due to competition for spaces and as a requirement to cover new build costs, and investors are preferring new builds. With limited property available, that is pushing yields down. Balancing these factors, the amount of industrial land available for new development and in the pipeline for such has increased markedly so that overall land values are remaining static, except in high demand areas.

JULY 2013

CHRISTCHURCH INDUSTRIAL MARKET OVERVIEW

TENANT DEMAND

Occupier Demand & Rents

The leasing market stabilised somewhat through 2012 and into the first half of 2013, after a flurry of activity following the February 2011 earthquake. Industrial space that was either undamaged, or quickly repaired, experienced strong demand from industrial users, but additionally had pressure from displaced office and retail users, who adapted some premises for their use.

Prime rents for warehouse space range from \$100 - \$130 per square metre, with secondary space ranging from \$70 - \$90. The limited amount of available space, coupled with increased demand has been the major factors influencing the increase. Construction cost increases are also driving higher rent rates, without which many new developments would not be feasible.

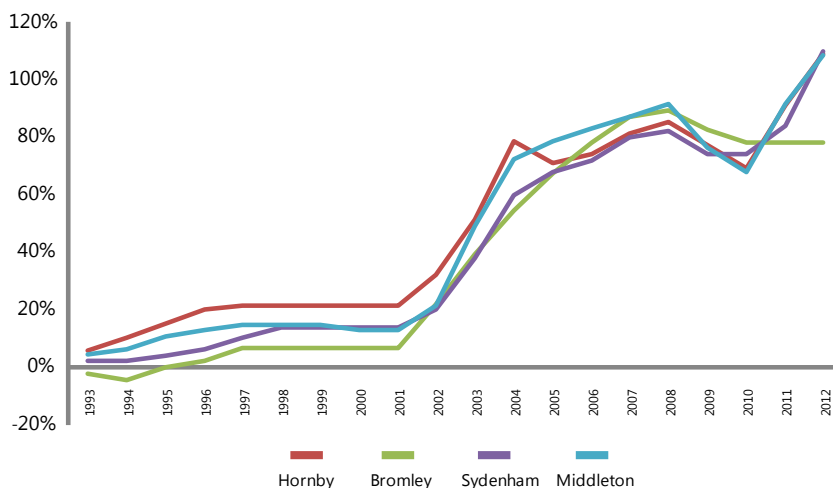
As a result of the market pressures, we have observed a drive from property owners for longer lease terms. The Knight Frank Commercial Agency have observed that where new stock has come to the market, and where building work has actually commenced or been substantially programmed in, it has leased up very well.

Table 2.
Sample new leases in the rental market

Address	Area	Warehouse Rent (\$/sqm)	Area (sqm)	Term (Years)	Transaction Type	Commencement Date
Hazeldean Road	Addington	\$ 113	140	3	New Lease	Sep-12
Main South Road	Hornby	\$ 74	270	4	New Lease	Oct-12
Clarence Street	Riccarton	\$ 77	350	2	New Lease	Oct-12
Coleridge Street	Sydenham	\$ 100	70	3	New Lease	Oct-12
Buchanans Road	Hornby	\$ 72	1300	3	New Lease	Nov-12
Parkhouse Road	Wigram	\$ 83	1205	6	New Lease	On completion
Treffers Road	Sockburn	\$ 85	960	8	New Lease	On completion
Nga Mahi Rd	Sockburn	\$ 95	227	4	New Lease	Dec-12
Brisbane St	Sydenham	\$ 115	195	4	New Lease	Jan-13
Treffers Rd	Wigram	\$ 85	960	8	New Lease	Feb-13
Dakota Crescent	Wigram	\$ 85	815.2	5	Review	Mar-13
Halswell Junction Rd	Halswell	\$ 100	1500	8	New Lease	Mar-13
Nga Mahi Rd	Sockburn	\$ 115	220	5	New Lease	Apr-13
Blenheim Rd	Riccarton	\$ 100	110	2	New Lease	Apr -13
Montreal St	City	\$ 145	349.5	6	New Lease	Apr-13

Knight Frank have monitored rental growth in the main industrial locations since 1993. Strong growth occurred through the early to mid 2000's levelling off and dropping during the period just prior to the earthquakes. Rents are again on the increase. Demand remains the strongest in the west regions of Middleton, Hornby and Sockburn. Rental returns have not increased as much in the inner east and towards Bromley which bore the brunt of land and building damage. There remains uncertainty around land quality and ability to repair or rebuild so there is limited real rental data for these Eastern locations.

Figure 5.
Cumulative Rent Growth % By Location



INVESTOR DEMAND

Sales & Investment Yields

Sales activity over the last 5 years has remained at a low to moderate level. The effects of the global financial crisis continue to be a challenge for investors. The earthquake activity in 2010/2011 added to the uncertainty, effectively halting sales activity through 2011.

Sales slowly increased in 2012, as investors returned to the market. We have observed a significant increase in enquiry and sales from owner occupiers, especially those seeking smaller warehouse and workshop space. The developments in Nga Mahi Road are selling well, comprising a number of smaller units sold off plans to owner occupiers and investors.

Prime industrial yields now range from 6.0% to 7.5%, with secondary yields ranging from 7.5% to 9.0%. There is strong demand for good quality industrial investment property, particularly new builds at new building codes. Figure 6 shows Knight Frank research tracking the value growth of four Modal buildings in four locations across Christchurch. Capital value growth has rebounded strongly after falling through the 2007-2010 years.

Figure 7.
PCNZ/IPD NZ Property Index
Results for the year to 31 March 2013



Property Council NZ track NZ commercial property performance by sector. The most recent release of data in relation to Industrial property provides returns for the year ended March 2013. The results for Industrial property indicate that this sector has kept pace with

Table 3.
Examples of analysed yields from recent transactions

Address	Price (\$)	Building Area (sqm)	Core Market Yield	Date
Hayton Road, Wigram	\$1,800,000	1360	6.89%	Jun-12
Mandeville Street, Riccarton	\$320,000	100	8.75%	Jun-12
Buchanans Road, Hornby	\$7,750,000	12538	8.62%	Aug-12
Langdons Road, Papanui	\$444,000	1419	7.50%	Sep-12
Waterman Place, Woolston	\$600,000	1100	8.08%	Sep-12
Nga Mahi Road, Sockburn	\$510,000	320	7.62%	Oct-12
Klondyke Drive, Hornby	990,000	775	7.75%	Nov-12
Kennaway Road, Woolston	\$1,475,000	2000	9.41%	Feb-13
Nga Mahi Road, Sockburn	\$590,000	328	7.99%	Feb-13
Waterloo Road, Hornby	\$2,500,000	35670	8.24%	Feb-13
Falsgrave Street, Waltham	\$205,000	300	8.50%	May-13
Main South Road, Hornby	\$420,000	867	8.75%	May-13

Figure 6.
Cumulative Growth % Capital Values Christchurch Industrial Property

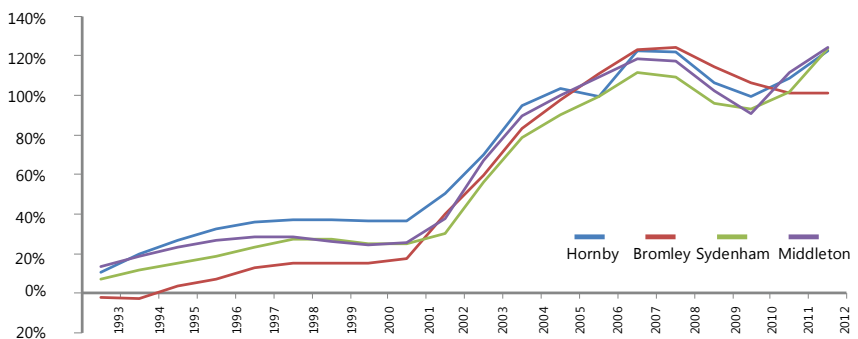


Table 4.
PCNZ/IPD Property Performance Index - Comparative Returns Over Time

	Annualised Return	Capital Return	Income Return
Q1 2013	+10%	+2.00%	+7.8%
Q4 2012	+10.3%		
Q1 2012	+9.4%		
Q3 2011	+9%	+0.6%	+8.4%
Q3 2010	+2.46%	-5.57%	+8.47%
Q1 2009	+0.80%	-7.00%	+6.90%
Q1 2008	+12.50%	+4.10%	+8.20%

other property classes, all showing positive returns, retail leading the pack with office showing the lowest rates of return. According to the PCNZ/IPD Property Performance Index March 2013 figures, the industrial property market saw a total annualised return at 10%

. This compares with a total annualised return @ March 2012 at 9.4%. These returns are an improvement on the returns @ September 2010 of 2.46% and @ March 2009 of 0.80%. The return is made up of Income return (+7.8%) and Capital return (2.0%).

JULY 2013 CHRISTCHURCH INDUSTRIAL MARKET OVERVIEW

INDUSTRIAL ACTIVITY IN THE CHRISTCHURCH MARKET

Table 5.
Estimated Total Stock In Chch/Rolleston

	Sqm
Heavy Industrial	640,000
Industrial, Light Manufacture, Suburban	1,140,000
Industrial, Service, Suburban	450,000
Industrial, Warehouse, Suburban	2,120,000
Industrial, Other/Mixed, Suburban	210,000
Industrial, Noxious/Dangerous, Suburban	0
Total	4,650,000

Table 6.
Estimated Stock In Rolleston

	Sqm
Heavy Industrial	8,000
Industrial, Light Manufacture, Suburban	33,000
Industrial, Service, Suburban	9,000
Industrial, Warehouse, Suburban	88,000
Industrial, Other/Mixed, Suburban	1,000
Total	139,000

Knight Frank have researched the quantity of industrial activity in the Christchurch Market and Rolleston. We estimate the current stock of developed industrial property in Christchurch to equate to approximately 4,650,000 square metres of space including 139,000 square metres of space in Rolleston, represented by category as:

Figure 8.

Christchurch Industrial Stock

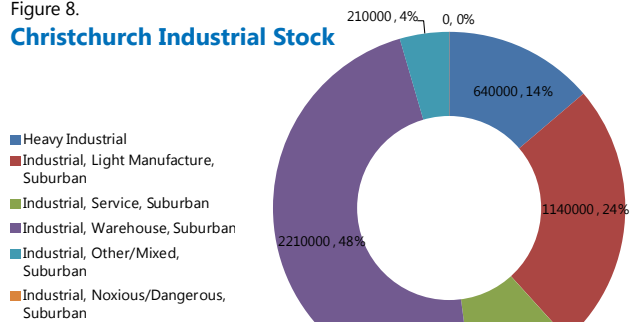
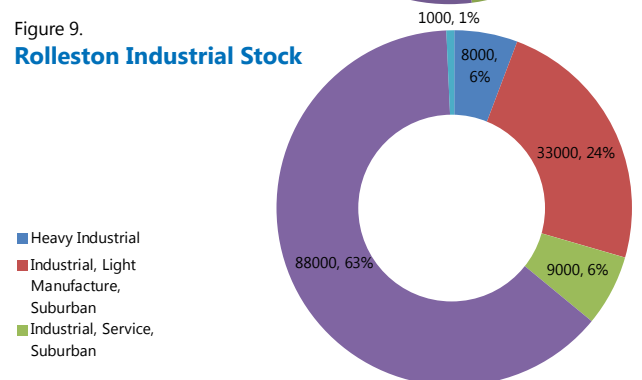


Figure 9.

Rolleston Industrial Stock



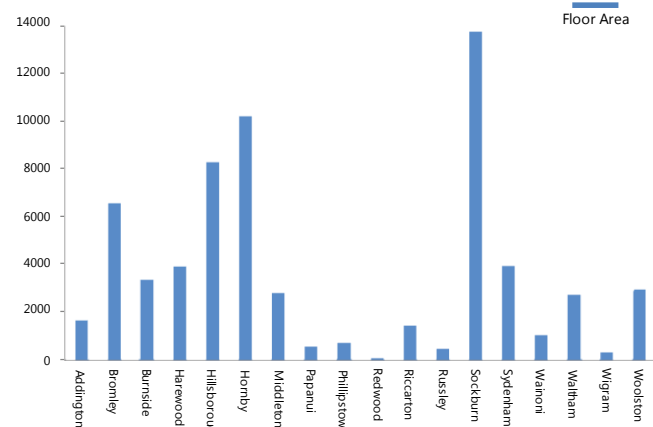
SNAPSHOT: FOR LEASE ON THE MARKET

in the main four industrial locations excluding Rolleston and Central City

Knight Frank researched industrial property on the market for lease as at May 2013 and found approximately 71 properties actively being marketed for lease reflecting approximately 65,000 square metres of existing space. The graph to the right shows where this space was available at that snapshot of time.

Figure 10

Industrial Floor Area For Lease



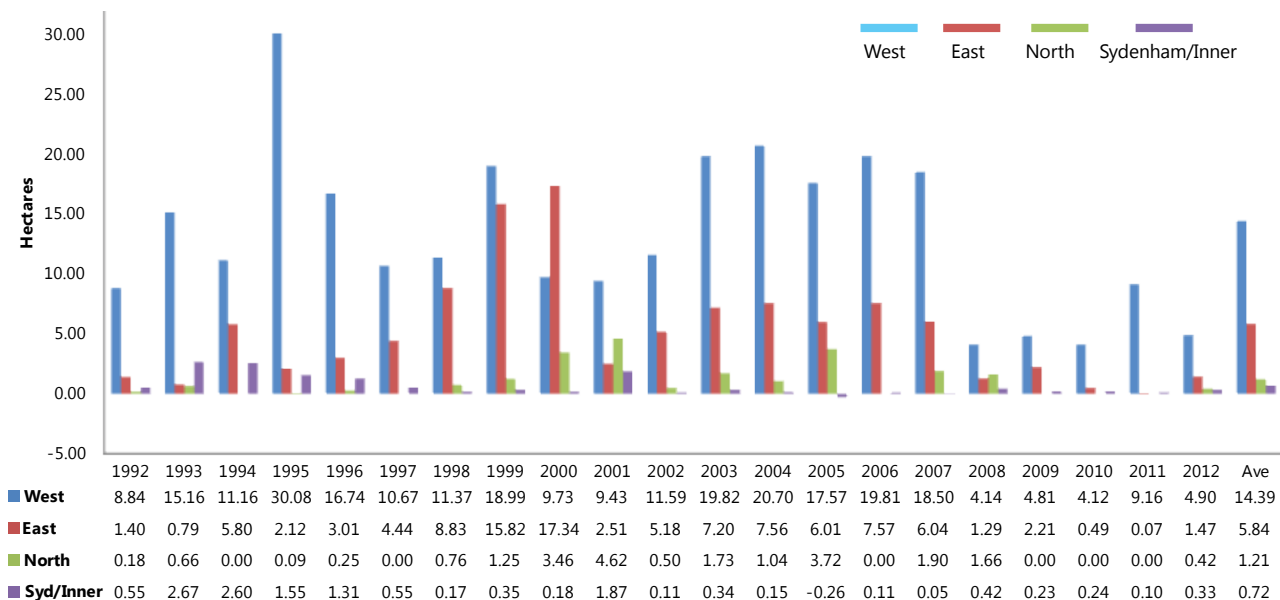
VACANT LAND & DEVELOPMENT ACTIVITY

We have monitored take up of vacant land for 19 years. The average annual take-up over that 19 year period is 22.2 hectares per annum. The majority of the land take up has been and continues to be in the west region which has averaged 14.39 hectares per

annum. There was a hefty reduction in development activity over the 2008/9 years representing the effect of the recession and the global liquidity crisis. During that time, land availability was also scarce especially at affordable price levels and for larger sites.

Figure 11.
Industrial Land Takeup by Region

Source: CCC VLR 2012

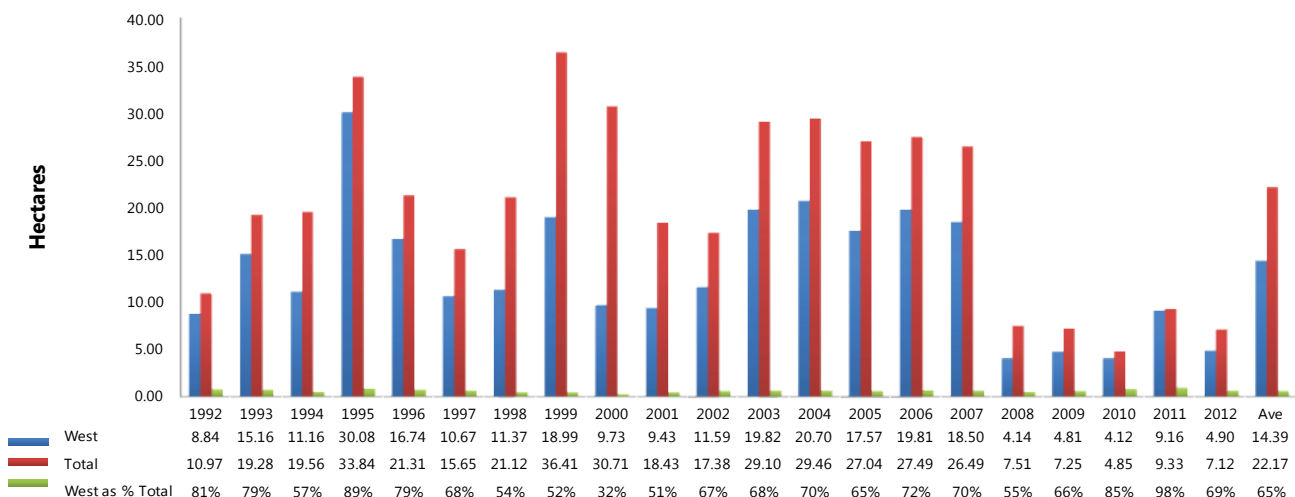


The West region continues to be the most significant in terms of activity, from Blenheim Road to the suburbs of Middleton, Sockburn, Wigram, Islington and Hornby. Take-up in the West region as a proportion of the

Christchurch land supply, continues to average 65% p.a. of the land stock. These figures exclude Selwyn & Airport zoned business land.

Figure 12.
Land Takeup West as % of Total City-Wide

Source: CCC VLR 2012



JULY 2013

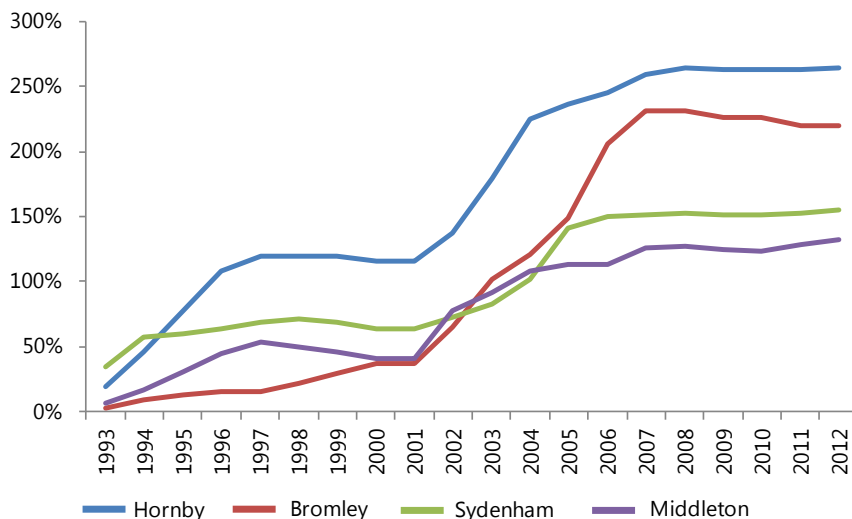
CHRISTCHURCH INDUSTRIAL MARKET OVERVIEW

Vacant Land & Development Activity (Continued)

Land value growth flattened through 2006 to 2012. Land supply for new developments as a factor of land value growth has now 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 construction cost increases remain the strongest driver of growth.

Figure 13.
Cumulative Land Value % Growth by Location

Source: CCC VLR 2012



Potential Vacant Land Stock to 2041

The following land data is sourced from the Christchurch City Council Vacant Land Register, the Decisions of the Commissioners to Plan Change 1 and Knight Frank research:

Existing Vacant Zoned Business Land in Christchurch adds to 464 ha (of which 330 hectares (72%) is in the West) This land excludes some areas to be set aside for business development including 98 hectares in Belfast, Special Purpose Airport Zoned land of 237.8 ha (of which only 1/3rd likely for Industrial use) and smaller parcels in the East. There is an additional 428 hectares of land which will be available for future development in Rolleston, so that the actual land stock for business activity is now well ahead of the indicated area in the Vacant Land Register.

Not all will be available at any one time. Of the developments noted in Table 7, only approximately 40ha is available as bare land. The rest is either future capacity or only available as design/build developments.

Figure 14.
Vacant Industrial Land

Source: CCC VLR 2012



Table 7.
Current developments either proposed or in development

Industrial Park	Total Land Area	Number of Lots
Izone	180ha	79+
Waterloo Business Park	91ha	88
Portlink	17ha	28
Wigram	25ha	52
Dakota	80ha	Unknown
Airspace	16ha	17
Glassworks	10ha	Unknown
Hornby Quadrant	200ha	Unknown
CBP Racecourse Rd	12ha	19

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Fiona is a Registered Valuer with Knight Frank Valuation Research and Consulting Division and has over 18 years experience in the property industry providing strategic advice for internal and external clients, as well as contributing to various regular and topical research pieces in relation to the industrial market. Fiona has been closely involved with consultations and evidence for various submitters in relation to PC1.

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