REGIONAL FOCUS

property Research

Annual 2010
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BAYLEYS RESEARCH

Region's rapid growth continues | North Shore residential property still in demand | Slow down in development caps vacancy

NORTH SHORE REGIONAL FOCUS

A combination of demographic, lifestyle, business and locational advantages make Auckland's North Shore a desirable place to live and work, a situation which has positioned the region's property markets well to take advantage of the improving economy.

North Shore City is the fourth largest city in the country and it has continued to experience strong population growth over recent years. North Shore City Council estimated in 2009 the resident population to have reached over 225,000, an increase of nearly 10% since the 2006 Census.

North Shore City Population

Year	Source	Population
2001	Census	184,821
2006	Census	205,605
2009	Council Estimate	225,800

The population growth is driven by high levels of inward migration both from other areas within New Zealand and overseas. The latter point is well illustrated by the fact that 40.8% of North Shore residents were born overseas, a figure which compares with the national average of 22.9%.

People are attracted to the area by a combination of factors such as the diversity of housing environments, excellent education, good employment prospects, lifestyle opportunities and proximity and ease of access to Auckland's CBD.

Few regions in the country offer the choice of living in coastal, urban or rural surroundings whilst being close to a wide range of transport, work and leisure amenities.

The area offers amongst the best schooling in the country with approximately 85% of local schools having a government decile rating of 9 or 10, the highest proportion in New Zealand. In addition, the City also has campuses for both Massey University and Auckland University of Technology.

Proximity to beaches, the countryside and a wide range of entertainment, retail and leisure facilities provide residents with a sought after lifestyle, while also offering ease of access to Auckland's CBD via State Highway 1, the recently completed Northern Busway park and ride system or the ferry network.

North Shore City has also, in recent years, become a significant

North Shore City Education

School Type	Number
State Primary	42
Intermediates	8
State Secondary	8
Private	5
Percentage with Decile Rating of 9 or 10	85%

Source: Enterprise North Shore

regional business hub with a number of national and international companies such as Telstra Clear, Air New Zealand and Toll having established a significant presence in the area. The addition of companies such as these demonstrates the continuing evolution of the local economy from being predominantly industrial and local servicing in nature to being much broader based.

The region's strong business growth is illustrated in the table below which shows the number of business units within North Shore City to have grown from just over 20,000 in 2000 to over 27,300 in 2009. During this same period the City's total employment count grew by over 27%.

North Shore City Business Units and Employment

Year	Business Units	Employment Count
2000	20,084	67,740
2005	24,964	81,630
2009	27,348	86,350

Source: Statistics New Zealand

Whilst the impact of the global recession has been felt by local businesses, recent surveys indicate that vacancy rates, which have increased over recent years across all sectors, now appear to have stabilised as development and leasing activity has come into line. With the economy now emerging from recession and stronger growth forecast over the latter part of 2010 onwards, it is likely that these rates will begin to fall in the short to medium term.

The regional residential market has been showing signs of recovery for some time with a recent QV survey finding six North Shore suburbs to be amongst the fastest growing in the Country.

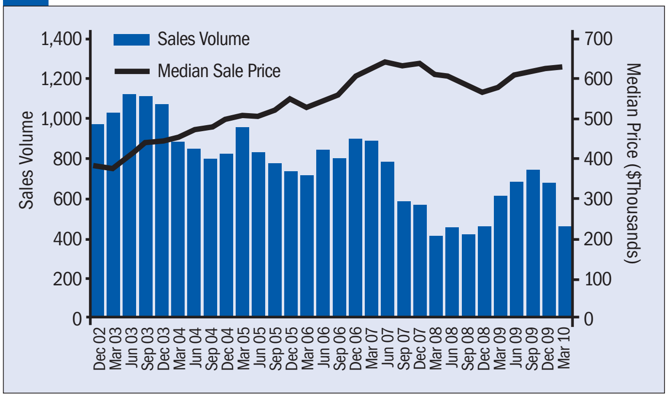
Residential Review

ECONOMIC FORECASTS POINT TO RECOVERY

Residential property trends have generally mirrored those of the wider Auckland region over the last three years reflecting the changing dynamics of the property cycle.

High levels of sales activity from the early part of the decade through to mid 2007 drove values up with the median sales price peaking in the June quarter of 2007 at $638,500 according to sales statistics released by the Real Estate Institute of New Zealand (REINZ).

NORTH SHORE COAST & ALBANY MEDIAN SALE PRICE v SALES VOLUME



Source: REINZ, Bayleys Research

By late 2007, however, the impact of the cooling economy became apparent with sales numbers falling as purchaser confidence waned. During the opening three months of 2008 sales recorded by REINZ totalled just 389 having sat at 874 a year earlier and just over 1,000 in 2003. The downturn in activity resulted in values falling from peak levels with the median reaching a cyclical low of $560,000 at the end of 2008, a reduction of approximately 12% from the June 2007 peak.

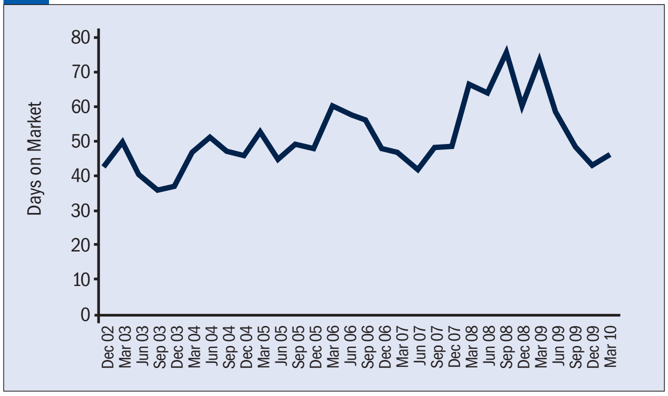
In response to the global recession and the “credit crunch’ the Reserve Bank of New Zealand aggressively reduced interest rates from mid 2008 until April 2009 with the result being that the Official Cash Rate (OCR) dropped form 8.25% to 2.5%. Coincidentally with this New Zealand’s net immigration figures began to increase, driven predominantly by a reduction in the number of people leaving the country as overseas employment opportunities were limited. The result was positive net immigration rising from 4,643 in the year ending February 2008 to 21,618 in the corresponding period to 2010.

The combination of cheaper home loans and population growth at a time when new housing development was at an historic low resulted in renewed competition for stock being brought to market evidenced initially by an increase in sales volumes and subsequently by a recovery in values.

In the last quarter of 2009, 664 sales were recorded, an increase of 275 on March 2008 quarter while the median sales value stood at $620,000, just 3% down on the June 2007 peak.

The renewed confidence in the residential market is also well illustrated by the time that it takes for a property to sell as shown in the following graph.

NORTH SHORE COAST & ALBANY RESIDENTIAL AVERAGE DAYS ON MARKET



Source: REINZ, Bayleys Research

As market activity became more subdued the average days on market figure increased reaching a maximum of 75 days during the third quarter of 2008. The figure remained at elevated levels until mid 2009 when greater competition for property saw a fall in the average sales period. During the final three months of 2009 the figure had fallen to 42 days, the lowest recorded since the June quarter of 2007.

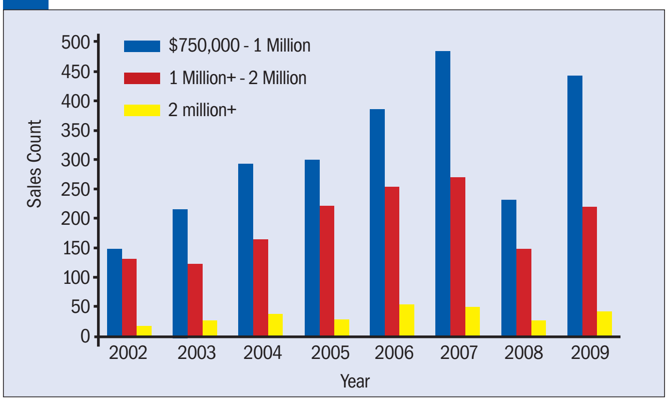
The early part of 2010 has been marked by relatively subdued sales figures, although the March month’s figures show a marked increase in the levels of activity noted in January and February. The slowing of activity early in the year was caused, in part, by uncertainty over possible changes to the taxation policy relating to investment property, which has led to many potential investors delaying purchasing decisions.

Later in the year it is probable that interest rates will begin to rise, however this will be in response to firm evidence that the economy is strengthening and therefore concerns over security of employment will abate. On balance the indicators are that values will remain fairly flat over 2010 with sales volumes improving in the latter part of the year.

RECOVERY SEES RENEWED INTEREST IN “UPPER END”

The recovery in the housing market activity throughout 2009 is well illustrated by levels of purchaser activity seen within

RESIDENTIAL SALES VOLUME BY PRICE BRACKET



Source: REINZ, Bayleys Research

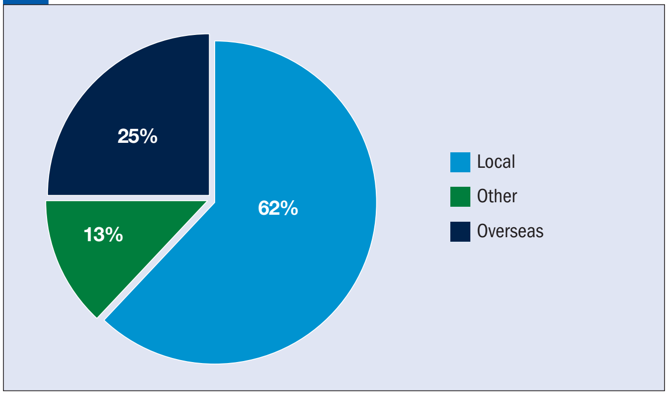
the upper end of the market. Sales of properties within price brackets over $750,000 trended up throughout the 2002-2007 period.

Annual sales in the $750,000-$1 million bracket increased from 150 to 481 whilst the volume of houses in the $1 million to $2 million price range peaked at 270 in 2007.

As with the wider market, 2008 witnessed a significant downturn in activity with volumes falling by 51% in the $750,000 to $1 million bracket, 45% for properties in the $1 million to $2 million price range and by 43% for properties selling for in excess of $2 million.

As confidence returned to the market in 2009 activity at the upper end picked up considerably with the total sales count of properties over $750,000 totalling 706, a figure surpassed only once previously in 2007 when 805 sales were recorded.

WHERE THE BUYERS CAME FROM LAST 100 SALES TO APRIL 2010



Source: Bayleys Takapuna Residential

Lifestyle Review

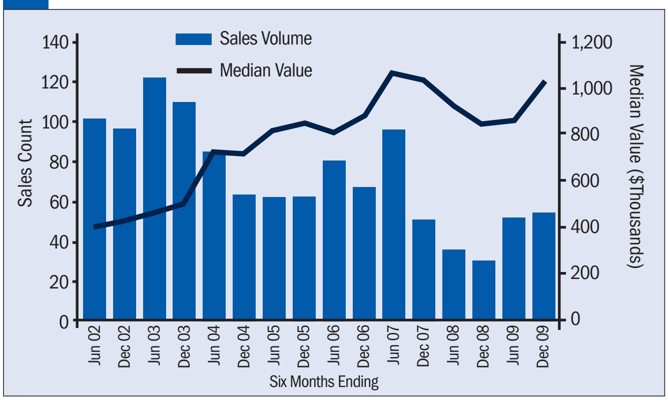
LIFESTYLE PROPERTY STILL IN DEMAND

North Shore Lifestyle property market trends have, to a great extent, mirrored those of the wider residential market over recent years. High levels of purchaser activity in the early and middle part of the decade forced up sales values until late in 2007 when the cooling economy resulted in falling sales volumes and prices. Market activity continued to decline throughout 2008 followed by recovery in both sales volumes and prices in 2009.

The area's primary lifestyle property locations are centred on Albany, Albany Heights, Coatesville and Dairy Flat. The lifestyle property within these areas commands amongst the highest values in the country. As tends to be the case on a national basis, the premium value is driven by proximity to metropolitan areas which provide employment opportunities.

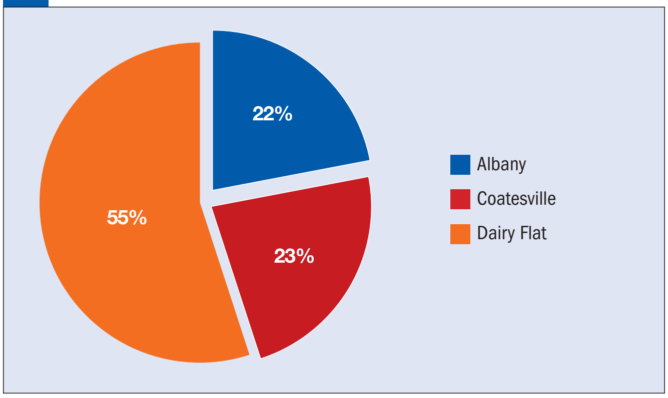
Having regard to the latter point, the local area provides an almost unique combination of locational advantages. Purchasers are able to live within a rural environment whilst being close to some of the North Shore's major employment and service centres such as Albany and Takapuna. In addition, proximity to the State Highway network provides easy access to the Auckland CBD.

NORTH SHORE LIFESTYLE SALES VOLUME vs MEDIAN VALUE



Source: REINZ, Bayleys Research

LIFESTYLE SALES BY SUBURB 2009



Source: REINZ, Bayleys Research

The median prices finished 2009 at $1,025,000, just $50,000 below the peak level attained during the first half of 2007 and up 22% on the December 2008 figure of $840,000.

The suburbs with the greatest number of sales within the local region are Albany, Coatesville and Dairy Flat, all of which have experienced significant development over the last ten years.

Of these, Dairy Flat experienced the highest level of sales activity in 2009 with REINZ reporting 52 sales

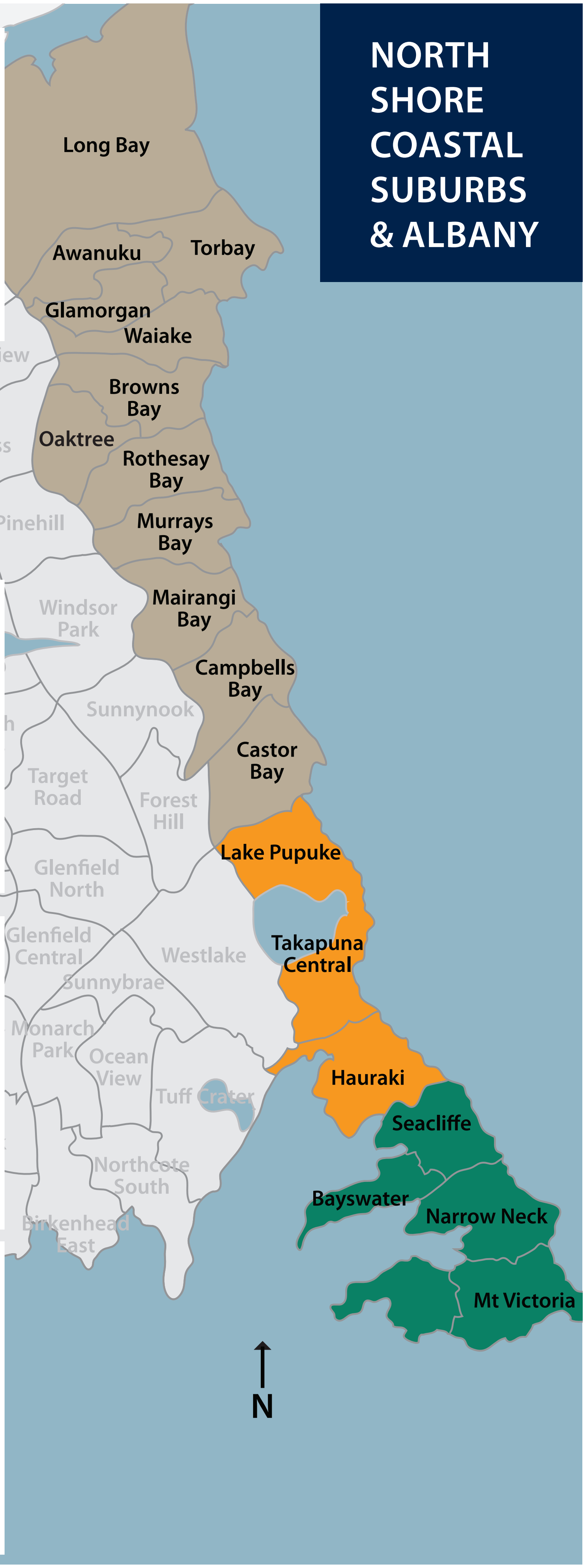
It is however Coatesville which achieved the highest median sales value during the latter half of 2009 recording a figure of $1,120,000.

Median Sales Values 2nd Half 2009

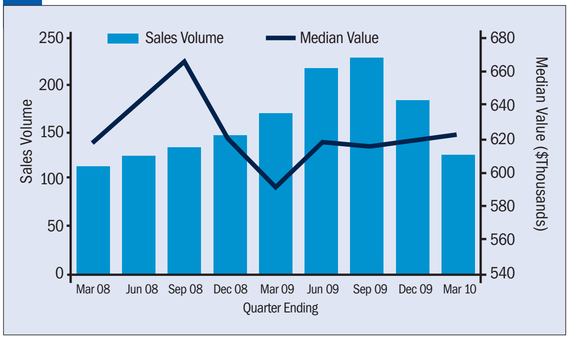
Suburb	Median Value
Albany	$1,035,000
Coatesville	$1,120,000
Dairy Flat	$965,500

Source: REINZ

NORTH SHORE COASTAL SUBURBS & ALBANY

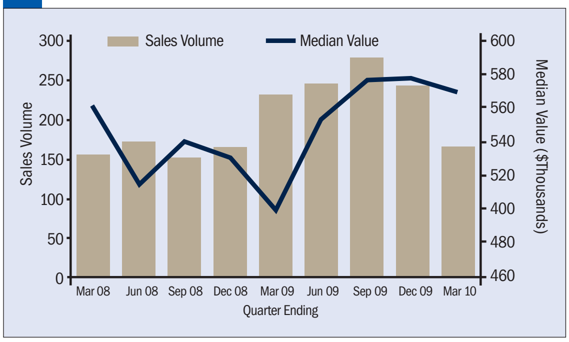


ALBANY RESIDENTIAL TRENDS



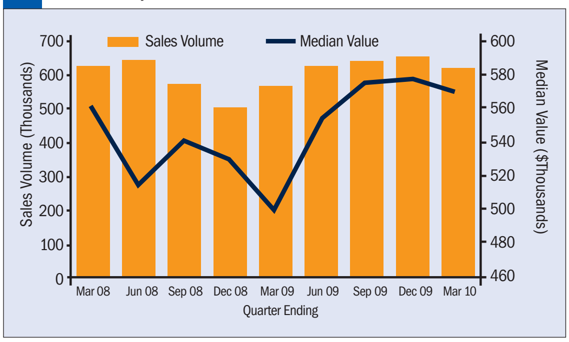
Source: REINZ, Bayleys Research

EAST COAST BAYS RESIDENTIAL TRENDS



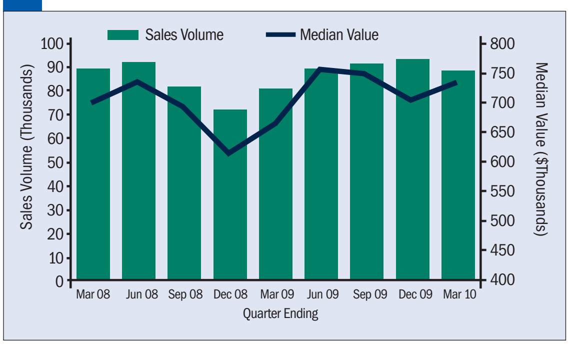
Source: REINZ, Bayleys Research

MILFORD/TAKAPUNA RESIDENTIAL TRENDS



Source: REINZ, Bayleys Research

DEVONPORT PENINSULA RESIDENTIAL TRENDS



Source: REINZ, Bayleys Research

Commercial Review

COMMERCIAL, INDUSTRIAL & RETAIL INVESTMENT & LEASING TRENDS

Sector	Location	Grade	Rental ($/m²)	Rental Trend	Leasing Market Demand	Leasing Market Supply	Yield Range	Investment Market Demand	Investment Market Supply
Office Sector	Takapuna	Prime	250-350	→	Scarce	Scarce	6.5-7%	Steady	Scarce
		Secondary	130-180	→	Steady	Sufficient	7-8%	Steady	Scarce
	Albany/ North Harbour	Prime	240-300	→	Scarce	Sufficient	7-8%	Steady	Steady
		Secondary	130-200	→	Steady	Sufficient	8-9.5%	Steady	Steady
Industrial Sector	Wairau Valley	Prime	WH 95-105 Office 140-160	→	Steady	Sufficient	8-9%	Strong	Scarce
		Secondary	WH 85-95 Office 100-120	→	Steady	Sufficient	8.5-9.5%	Strong	Scarce
	Albany/ North Harbour	Prime	WH 100-118 Office 200-230	→	Scarce	Sufficient	7-8.5%	Strong	Scarce
		Secondary	WH 95-100 Office 150-180	→	Scarce	Sufficient	7.75-9%	Strong	Scarce
	Silverdale	Prime	WH 90-100 Off 150-170	→	Scarce	Sufficient	7.5-9%	Steady	Scarce
		Secondary	WH 80-90 Off 100-130	→	Scarce	Sufficient	8.5-10%	Steady	Scarce
Retail Sector	Takapuna	Prime	600-700	→	Scarce	Sufficient	6-7%	Strong	Scarce
		Secondary	350-450	→	Steady	Sufficient	7-8%	Strong	Scarce
	Albany	Prime	400-500	→	Steady	Scarce	6.5-8%	Strong	Scarce
		Secondary	250-350	→	Steady	Scarce	7-9%	Strong	Scarce
Bulk Retail Sector	Wairau Valley	Prime	180-230	→	Steady	Sufficient	7%-7.75%	Steady	Scarce
		Secondary	140-180	→	Steady	Sufficient	7.75%-8.5%	Steady	Scarce
	Albany	Prime	225-325	→	Steady	Scarce	7-8%	Strong	Scarce
		Secondary	200-250	→	Steady	Scarce	7.5-8.5%	Strong	Scarce

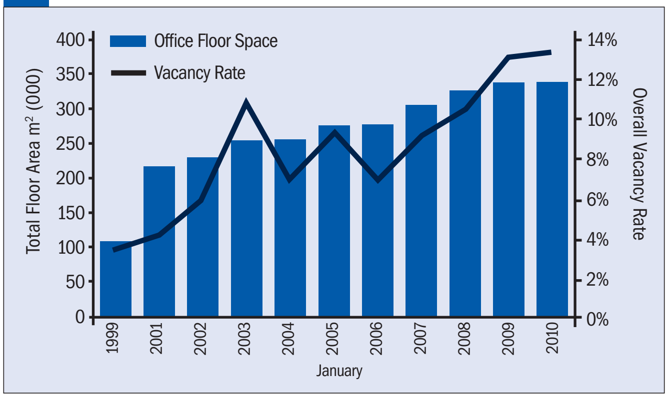
LACK OF DEVELOPMENT CAPS VACANCY

The slow down in development activity witnessed over the last two years has helped cap North Shore commercial and industrial vacancy rates according to the findings of the latest *Bayleys Research* vacancy surveys.

Between January 2004 and January 2008 the North Shore's office inventory grew by 71,250m², reaching a total of approximately 326,000m². The rapid expansion of the area's office stock was driven by increased tenant demand resulting from high levels of business formation and expansion during the mid part of the decade and changing land use patterns. A shortage of development land saw land values escalating making industrial development in many precincts financially unviable. Developers therefore had to seek a higher value end use product with offices one of the chosen options.

Sector	Location	Grade	Land Value ($/m²)	Land Market Demand	Land Market Supply
Business Land (* Under the North Shore District Plan, Business incorporates retail, industrial and commercial use)	Takapuna	Prime	1200-2000	Strong	Scarce
		Secondary	700-900	Strong	Scarce
	Wairau Valley	Prime	600-800	Strong	Scarce
		Secondary	300-500	Strong	Scarce
	Albany/ North Harbour	Prime	400-600	Steady	Steady
		Secondary	275-350	Steady	Steady
	Silverdale	Prime	200-300	Steady	Steady
		Secondary	150-200	Steady	Steady

OFFICE MARKET TOTAL FLOOR AREA vs OVERALL VACANCY RATE



Source: Bayleys Research

Despite the addition of a significant amount of floor space, the overall vacancy rate fell from the 10.8% recorded at the start of 2003 to 9.1% in early 2007. The latter part of 2007 however, saw the economy sliding into recession at which time many companies changed their priority from expansion to survival with many looking to shed un-needed space. At that time though there was still a considerable amount of new office space in the development pipeline. This saw approximately 35,000m² being added to the total inventory by the start of 2009. This combination of events saw the vacancy rate rising sharply to stand at 13% in January 2009.

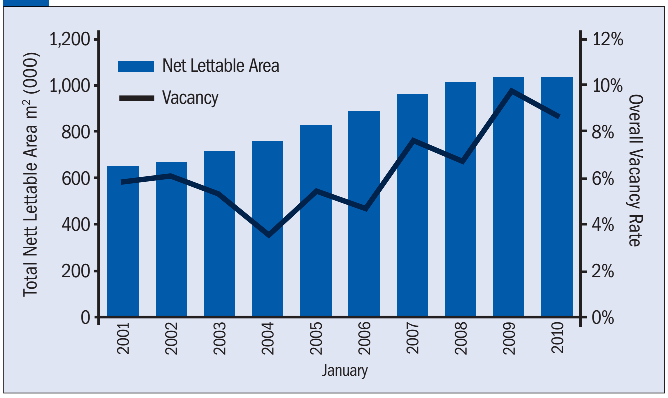
As projects were completed, however, development activity, in the face of greatly reduced occupier demand, and the fact that development funding became increasingly difficult to source, was put on hold. In fact, in the year to January 2010, the total inventory available to the market has shrunk as a result of refurbishment programmes which are being undertaken to upgrade premises with the total floorspace sitting at 336,375m^2.

The results of the latest *Bayleys Research* survey show that the vacancy rate over the last 12 months has remained almost unchanged at 13.3% suggesting that the cessation of development activity has balanced the market albeit at elevated vacancy rates.

With the economy now improving however, and development activity still muted, it is likely that the vacancy rate will begin to fall again over the next year. There are previous examples of this. Between 1999 and 2003 the office market witnessed significant growth, however by 2003 it was clear that development had got ahead of leasing demand with the vacancy rate increasing from 5.8% at the start of 2002 to 10.8% by the start of 2003. Over the next 12 months only 1,300m^2 was added to the office inventory and this hiatus in building saw the vacancy rate fall back to 6.7%.

Trends within the North Shore's industrial sector are similar to that witnessed within the commercial office market. Between 2001 and 2008 new construction resulted in an annual average of an additional 56,500m^2 of industrial floorspace being added to the region's inventory.

ALBANY BASIN TOTAL INDUSTRIAL FLOOR AREA vs OVERALL VACANCY RATE



Source: REINZ, Bayleys Research

Whilst the vacancy rate during this period fluctuated on an annual basis, it had by 2009 reached 9.7% having been 3.5% in 2004. Once again the trend of increasing vacancy resulted in a reduced appetite for development. Between 2008 and 2009 total floorspace increased by 27,100m^2, less than half the average recorded over the previous seven years. In the year to January 2010 only 1,000m^2 of new space was added to the inventory.

The reduction in development has again impacted upon vacancy with recent leasing activity resulting in a reduction in the overall rate to 8.6%.

Once again development activity throughout 2010 is likely to remain subdued and, as the economy improves, an increasing appetite for space will continue to put downward pressure on the vacancy rate.

RETAIL VACANCY RATES FALL

The overall retail vacancy rate across North Shore City fell to 2.5% in January 2010, down from 5.9% a year earlier. The result comes due to a sharp fall in the vacancy rate within strip retail locations. This however, is again primarily due to the shelving of development plans which is common across all sectors.

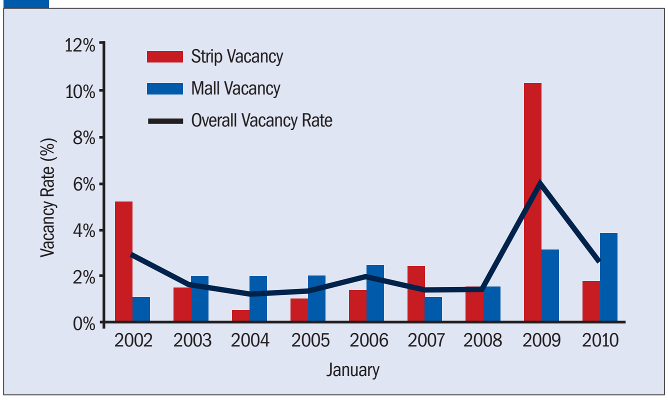
Prior to 2008 ambitious plans to redevelop significant parts of Hurstmere Road in Takapuna were put in place. Sites were assimilated through the purchase of blocks of buildings and as tenancies came to an end premises were either deliberately left vacant, pending development, or the space was let subject to development clauses.

The economic downturn has led to the delay of any such redevelopment plans with in some instances building holdings having been sold on. Owners have therefore changed their emphasis from simplifying the development process to maximising cash flow, therefore releasing property for leasing.

The position within the region's malls is different with vacancy having trended up for the third consecutive year to sit at 3.82%. The increased vacancy is unsurprising given the number of Malls that there are within the area which includes Westfield's Albany mall, the largest in the country. The Albany mall opened in 2007 adding approximately 140 stores to the areas inventory. The success of the Mall has placed neighbouring malls under pressure particularly during a period when consumer spending has been reigned in.

There has already, however, been evidence of management teams taking steps to differentiate their Malls from Albany in order to attract tenants and shoppers. A good example being in Milford where significant internal redevelopment has taken place and the Mall now has a strong emphasis on high end fashion retailing thereby attracting a different category of customer to that which Albany Mall caters.

NORTH SHORE RETAIL VACANCY



Source: Bayleys Research

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