

New Zealand Research Report

January February March April May June July August September October November **December 2006**

Christmas comes early

Welcome to our December report covering activity in November 2006.

We commented last month on the slow turning of some indicators from negative to positive through 2006. This trend is continuing, in areas such as migration, dwelling consents and business optimism. Markets which have remained positive through the year include the residential and commercial property markets.

The Property Council of New Zealand (PCNZ) have just published their investment return figures for the year to September 2006. These show continuing strength in all sectors. The overall or composite

return was 18.98%, an all time high. CBD Office was the best individual sector at 23.49% with retail also performing well at 19.38%. Industrial exhibited a bit of a slowdown particularly in capital growth, but still recorded over 15% for the year.

Within the best sector, CBD offices, C grade offices actually outperform A grade, a feature we have not seen for a long time. At 27.07% total return including 16.48% capital return in 12 months, it looks like C grade is playing catch-up after a sustained period of better growth in higher quality office properties.

With best wishes for a great Christmas and a restful break, we will be back in 2007 with an expanded range of research publications.

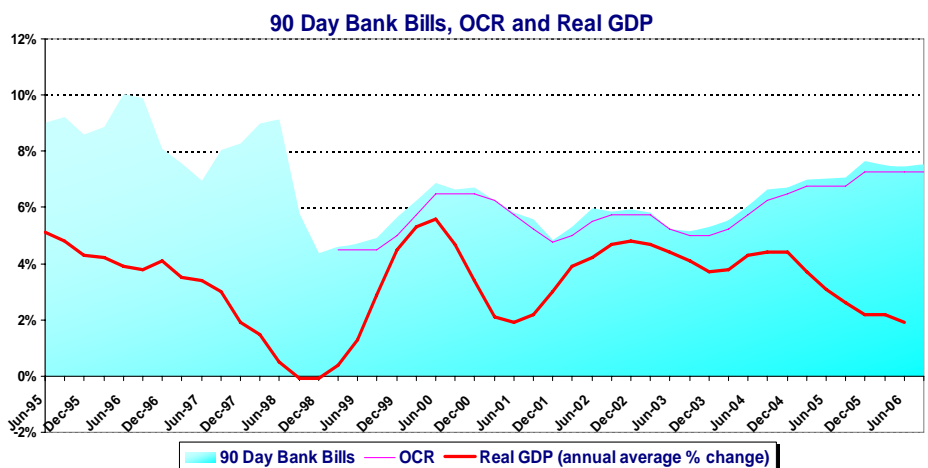


Alan McMahon
Director, Research and Corporate Services

The economy

There was some easing in the labour market in the September quarter, as a fall in employment led to a small rise in unemployment. Annual growth in hours worked, slowed to its lowest rate since 1999. Nevertheless, labour market conditions are still tight on an historical basis. Labour productivity growth has risen to its highest rate in 2.5 years.

Dwelling consents issued rose by 6.1% month on month in September, which was the third consecutive month of growth. While a large proportion of this growth is attributable to more permits for apartments, the numbers excluding



Source: RBNZ, Statistics NZ and Colliers International

apartments are still up 14% in the last 3 months. Continued positive and stable net migration has provided important support for growth in consents.

According to the BNZ Confidence Survey and National Bank Business Outlook, optimism became more widespread among firms in November after the pessimistic start to the year.

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The latest level of activity expectations is near the average of the last decade and points to moderate business growth over the next year. This cautious view is supported by the fact that despite high levels of capacity utilisation, firms' investment intentions remain low. Profitability is under pressure too, according to the New Zealand Institute of Economic Research, which predicts flat profitability (excluding agriculture) for 2006 followed by a fall of 4% in 2007. In the agriculture sector, 2006 profitability is forecasted to be down nearly 10% in 2006, but to bounce back in 2007.

Economic Indicators

	Jun 06	Mar 06	Q-o-Q Change	Jun 05	Y-o-Y Change	2006F	2007F
GDP Growth	0.5%	0.8%	-0.3%	1.1%	-0.6%	2.2%	2.3%
Current Account (% of GDP)	-9.7%	-9.5%	-0.2%	-8.0%	-1.7%	-9.8%	-9.8%
Net Migration Gain	10,690	10,200	490	8599	2091	NA	NA
Retail Sales (ex-auto)	0.7%	0.8%	-0.1%	2.0%	-1.3%	NA	NA
	Sep 06	Jun 06	Q-o-Q Change	Sep 05	Y-o-Y Change	2006F	2007F
Unemployment Rate	3.8%	3.6%	0.2%	3.7%	0.1%	4.0%	4.3%
CPI Inflation	3.5%	4.0%	-0.5%	3.4%	0.1%	3.1%	3.6%
Consumer Confidence	111.7	106.0	5.7	120.2	-8.5	NA	NA
	Current (yr rate)	Mth ago (yr rate)	M-o-M Change	Year ago	Y-o-Y Change	2006F	2007F
Tourist Numbers Growth	5.9%	1.7%	4.2%	-2.8%	8.7%	NA	NA
Official Cash Rate	7.25%	7.25%	0 bps	7.00%	+25 bps	7.25%	6.75%
90 Day Bank Bill Rate	7.62%	7.55%	+7 bps	7.68%	-6 bps	7.60%	6.81%
10 Year Government Bond	5.75%	5.82%	-7 bps	5.84%	-9 bps	5.90%	5.90%
Floating Mortgage Rate	9.55%	9.55%	0 bps	9.00%	+55 bps	NA	NA
3 Year Fixed Housing Rate	7.99%	7.89%	+10 bps	7.60%	+39 bps	NA	NA

Source: BNZ, NZIER, RBNZ, Westpac McDermott Miller and Colliers International

Office property market

Key Issues

In Auckland's leasing news, Quintiles Pty leased 334m² at 49 Symonds Street on the fringes of the CBD. Perpetual Trust took 356m² with three car parks in the AMP NZ Office Trust's Quay Tower in downtown CBD for a 9-year lease. Telnet Services committed 1188m² with four car parks at Synergy House in the centre of CBD on a 6-year lease. In addition, Right Hemisphere leased 962m² at The Millennium Centre in Greenlane.

In the sales market, AMP subsidiary Capital Properties NZ sold its undivided 50% share in The National Bank Centre at 209 Queen Street to Kiwi Income Property Trust for \$55.6 million. The sale price represents an

New Zealand Prime CBD Office Indicators

Vacancy*	Jun 06	Dec 05	6 months to Jun 06	Jun 05	12 months to Jun 06	2006F	2007F
Auckland	3.0%	4.0%	-1.0%	4.4%	-1.2%	2.8%	4.1%
Wellington	0.6%	2.3%	-1.7%	3.2%	-2.6%	0.6%	2.5%
Christchurch	0.1%	0.1%	0.0%	1.1%	-1.0%	0.1%	0.5%
Rental Index (% Change)	3 months to Sep 06	6 months to Sep 06	12 months to Sep 06	18 months to Sep 06	24 months to Sep 06	2006F	2007F
Auckland	1.9%	4.2%	8.4%	13.3%	17.6%	7.2%	4.9%
Wellington	2.5%	6.9%	11.0%	15.7%	19.8%	10.2%	5.2%
Christchurch	1.8%	4.0%	8.2%	11.0%	14.6%	7.5%	6.5%
Capital Value Index (% Change)	3 months to Sep 06	6 months to Sep 06	12 months to Sep 06	18 months to Sep 06	24 months to Sep 06	2006F	2007F
Auckland	2.0%	6.0%	10.5%	19.2%	21.1%	7.3%	5.1%
Wellington	2.8%	7.4%	12.2%	18.6%	28.3%	11.1%	5.3%
Christchurch	1.8%	4.3%	9.3%	13.9%	18.5%	13.2%	6.8%

* Refers to Grade A office vacancy only
Source: Colliers International

initial yield of 7.58%. Callplus House, a 10-storey office building at 110 Symonds Street, has been bought by Southside Group for \$21 million.

Macquarie Goodman Property Trust

(MGPT) has sold the HSBC Centre in Albany for \$24.383 million, representing a 7.99% initial yield.

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In Wellington CBD, Connell Wagner committed to 2563m² office space on two floors at Old Bank Chambers on a 6-year term. Intergen leased two floors of 1436m² at 132-138 Lambton Quay on a 12-year lease. Lexis Nexis NZ took 1088m² at 181 Wakefield

Street for a 6-year lease. Intergen leased two floors of 1436m² at 132-138 Lambton Quay on a 12-year lease.

In Christchurch, rents have continued to increase in most building

categories, with quality buildings averaging a 10% to 15% increase. More rises are predicted in the Grade A sector bringing the construction of a new high quality office building closer to reality.

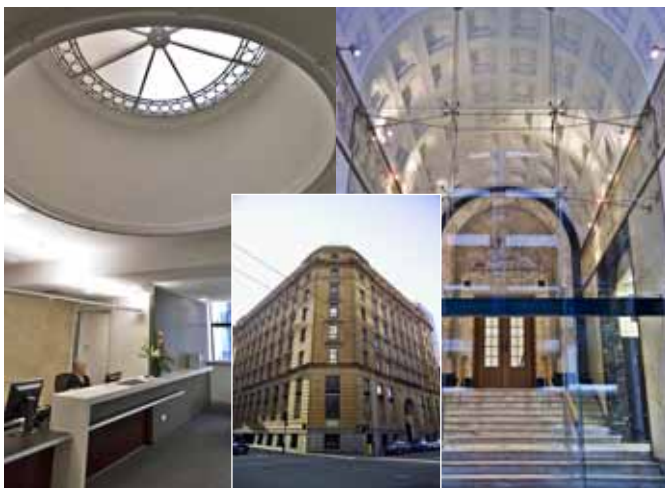
A Selection of Office Sales Activity

Property	Location	Price	Yield
National Bank Centre	City, Auckland	\$55.6 million	7.58%
Callplus House	City, Auckland	\$21 million	Undisclosed information
HSBC Centre	Albany, Auckland	\$24.383 million	7.99%
Dental Association Building	Newmarket, Auckland	\$1.35 million	Vacant possession
Level 6, 42 Victoria Street	City, Wellington	\$1.025 million	Undisclosed information
Aorangi House	Thorndon, Wellington	\$6.7 million	Undisclosed information
Lincoln House	City, Christchurch	\$3.2 million	4.06%

Source: Colliers International

A Selection of Office Leasing Activity

Property	Location	NLA (m ²)	Tenants
49 Symonds Street	City, Auckland	334	Quintiles Pty Ltd
Quay Tower	City, Auckland	356	Perpetual Trust
Synergy House	City, Auckland	1188	Telnet Services
The Millennium Centre	Greenlane, Auckland	962	Right Hemisphere
Old Bank Chambers	City, Wellington	2563	Connell Wagner
6 Roxburgh Street	Mt Victoria, Wellington	180	M & T Distributors Ltd
Gillies Group House	City, Wellington	1088	Lexis Nexis NZ
Sovereign House	City, Wellington	170	Line 2 Line Concepts Ltd
Terrace Legal House	City, Wellington	275	Building Research Association of NZ Inc
Central House	City, Wellington	135	Life Unlimited Charitable Trust
Axon House	City, Wellington	265	Starfish Consulting Ltd
264 Cuba Street	Te Aro, Wellington	360	New Zealand Radio School
Majestic Centre	City, Wellington	352	Fusions Ltd
Prestige Print Building	City, Wellington	578	Landmark Education Inc
Forsyth Barr House	City, Wellington	439	Applied Law Ltd
132-138 Lambton Quay	City, Wellington	1436	Intergen
Gillies Group House	City, Wellington	300	Toshiba (Australia) Pty Ltd
147 Hereford Street	City, Christchurch	1098	Multicultural Learning Centre
Te Waipounamu House	City, Christchurch	470	Ministry for the Environment
Amuri Courts	City, Christchurch	200	Provincial Finance Ltd



86 Customhouse Quay

Wellington

Style, Character and Quality

Features:

- Substantial, prominent, heritage property
- Naming rights available
- Upgraded services
- Major refurbishment 2006
- Institutionally owned
- New lifts and foyer
- Only mezzanine floor (784m²) and ground floor (1105m²) available

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Industrial property market

Key Issues

In the capital, a shortage of land for industrial development is likely to continue to push up land values, especially in traditional industrial suburbs such as Miramar, Te Aro, Seaview and Ngauranga. The increases in land value in addition to low vacancy rates and high construction costs will continue to exert upward pressure on rentals in the industrial sector in the near term.

In Auckland, strong investor appetite has continued to put upward pressure on prices. During the month, the former DHL Danzas building at 38 Richard Pearse Drive, Airport Oaks was sold for \$3.25 million to Bell Investments, which manufactures, imports and distributes Don Oliver gym equipment. A 2991m² distribution warehouse with office facilities at 44 Richard Pearse Drive, Airport Oaks, has been sold for \$3.65 million. The property has been leased to Schenker Logistics, returning

New Zealand Prime Industrial Indicators

Vacancy	Jun 06	Dec 05	6 months to Jun 06	Jun 05	12 months to Jun 06	2006F	2007F
Auckland	3.7%	3.6%	0.1%	3.7%	0.0%	3.7%	3.8%
Rental Index (% Change)	3 months to Sep 06	6 months to Sep 06	12 months to Sep 06	18 months to Sep 06	24 months to Sep 06	2006F	2007F
Auckland	1.6%	3.9%	9.2%	14.5%	18.5%	8.2%	7.5%
Wellington	1.5%	3.9%	7.6%	12.6%	14.0%	7.5%	7.1%
Christchurch	2.1%	5.3%	8.7%	14.3%	16.0%	9.5%	9.5%
Capital Value Index (% Change)	3 months to Sep 06	6 months to Sep 06	12 months to Sep 06	18 months to Sep 06	24 months to Sep 06	2006F	2007F
Auckland	1.6%	3.4%	9.0%	19.2%	24.4%	8.3%	7.5%
Wellington	1.6%	4.1%	12.7%	22.9%	28.2%	7.6%	6.9%
Christchurch	2.1%	5.7%	10.6%	18.4%	21.0%	9.7%	9.7%

Source: Colliers International

\$314,750 net annually for an 8.6% yield. A 2420m² factory and office building on 8675m² of road frontage land at 88 Harris Road, producing net annual income of \$308,000 was sold for \$5.1 million. The property is occupied by Bundy Refrigeration on a lease expiring next July while another 1000m² of factory workshop space is leased to Matespray until 2012.

Sentiment in the industrial leasing market remained buoyant with tenants seeking space to expand or relocate. In the largest leasing transaction of the

month, MGPT has leased 120 Pavilion Drive in Airport Oaks, Auckland to UPS Supply Chain Solutions on a 6-year term. Spinny Trust has signed up to a 9-year lease of 950m² at 6 Tyers Road in Ngauranga, Wellington.

In Christchurch, a lack of land appears to have constrained new development. Generally there appears to be no lack of tenants for the sought after areas of Hornby / Middleton / Sockburn. Demand for industrial investment remains strong but a lack of stock impedes sales.

A Selection of Industrial Property Sales Activity

Property	Location	Price	Yield
Arwen Place	East Tamaki, Auckland	\$3.6 million	Vacant possession
289 Rosebank Road	Avondale, Auckland	\$1.15 million	Vacant possession
701H Great South Road	Penrose, Auckland	\$1.12 million	Vacant possession
22 Aerovista Place	Manukau, Auckland	\$3.5 million	Owner occupied
71 Wiri Station Road	Manukau, Auckland	\$1,887,256	7.80%
38 Richard Pearse Drive	Airport Oaks, Auckland	\$3.25 million	9.72%
44 Richard Pearse Drive	Airport Oaks, Auckland	\$3.65 million	8.62%
415 East Tamaki Road	East Tamaki, Auckland	\$11.5 million	7.30%
22 Rennie Drive	Airport Oaks, Auckland	\$1,136,698	Owner occupied
88 Harris Road	East Tamaki, Auckland	\$5.1 million	6.04%
115 Harris Road	East Tamaki, Auckland	\$1.7 million	6.18%
41 Hutt Road	Thorndon, Wellington	\$1.8 million	Vacant possession
15 Barker Street	Te Aro, Wellington	\$1.55 million	Undisclosed information

Source: Colliers International

A Selection of Industrial Property Leasing Activity

Property	Location	GFA (m ²)	Tenants
120 Pavilion Drive	Airport Oaks, Auckland	4730	UPS Supply Chain Solutions
233 Bush Road	Albany, Auckland	1825	Undisclosed information
Yoga in Daily Life Building	Te Aro, Wellington	274	Mikes Autoglass Ltd
10 Lorne Street	Te Aro, Wellington	633	Excell Corporation
421-423 Cuba Street	Te Aro, Wellington	224	Tinsleys Ltd
Unit A, 2 Centennial Highway	Ngauranga, Wellington	223	Re Creations Building Contractors
6 Tyers Road	Ngauranga, Wellington	950	Spinny Trust
521 Blenheim Road	Addington, Christchurch	290	Vision Aluminum

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Retail property market

Key Issues

The strength of the housing market, combined with a tight labour market and falling petrol prices has meant that consumer spending has remained firm. This was reflected in the September quarter retail sales data, which bounced back to 1.0% QoQ after a disappointing -0.4% QoQ in Q2. Total retail sales rose 1.2% in September 2006 (seasonally adjusted), compared to the market expectation for a 0.1% fall. Should this rebound be prolonged, the Reserve Bank expectations for rapid further slowing in domestic demand could be tested.

There was a net addition to New Zealand's population from permanent and long-term (PLT) migration flows in October of 2360 people. This compared with a net gain of 1790 a year ago and is the ninth month in a row when the net gain has exceeded that of a year earlier. Should net PLT migration continue to trend upwards, this would pose upside risk to consumer spending and activity in the

New Zealand Prime CBD Retail Indicators

Vacancy	Jun 06	Dec 05	6 months to Jun 06	Jun 05	12 months to Jun 06	2006F	2007F
Auckland	3.3%	3.1%	0.2%	3.1%	0.2%	3.4%	3.5%
Rental Index (% Change)	3 months to Sep 06	6 months to Sep 06	12 months to Sep 06	18 months to Sep 06	24 months to Sep 06	2006F	2007F
Auckland	1.0%	2.5%	3.8%	15.1%	17.9%	3.2%	2.5%
Wellington	0.9%	2.2%	7.6%	11.9%	14.5%	1.5%	1.2%
Christchurch	0.8%	1.9%	4.1%	9.7%	13.3%	3.5%	3.1%
Capital Value Index (% Change)	3 months to Sep 06	6 months to Sep 06	12 months to Sep 06	18 months to Sep 06	24 months to Sep 06	2006F	2007F
Auckland	1.0%	2.5%	3.8%	15.1%	22.3%	2.8%	2.5%
Wellington	0.9%	2.1%	8.1%	12.9%	18.1%	1.5%	1.0%
Christchurch	0.8%	1.8%	4.7%	12.0%	17.3%	3.6%	3.0%

Source: Colliers International

housing market. Visitor arrivals in the year ended October 2006 were flat compared to the previous period. Visitor arrivals have plateaued as renewed strength in the New Zealand dollar continues to pressure the tourism sector.

There were few significant sales in the retail sector, but that reflects a lack of opportunity rather than a lack of demand. With PCNZ rolling annual returns showing over 10% capital return in the retail sector to September 2006, it is not surprising that investors like shops, despite slowing rental

growth.

On the leasing front, Kitchen House leased 777m² of retail space at Shop A1, Corner Lincoln Road and Universal Drive in Henderson, Auckland. In the capital, the Organic Grocer leased 600m² at 15 Kaiwharawhara Road for 12 years. In Christchurch, 387m² retail space at 70 Moorhouse Avenue has leased to BRG Investments for 6 years at \$48,000pa.

A Selection of Retail Property Sales Activity

Property	Location	Price	Yield
Unit W, 61 Lambie Drive	Manukau, Auckland	\$6,660,465	Undisclosed information
356 and 364 Rangatira Road	Beach Haven, Auckland	\$810,000	Vacant possession
241 Broadway	Newmarket, Auckland	\$4.45 million	6.30%
160 Adelaide Road	Newton, Wellington	\$490,000	Owner occupied
142-152 Somerfield Street	Beckenham, Christchurch	\$2.6 million	Undisclosed information
466 and 466a Papanui Road	Bryndwr, Christchurch	\$820,000	Undisclosed information

Source: Colliers International

A Selection of Retail Property Leasing Activity

Property	Location	GFA (m ²)	Tenants
Century Arcade	Takapuna, Auckland	85	Selenga Galina
75D Corinthian Drive	Albany, Auckland	160	Undisclosed information
Shop A1, Corner Lincoln Road and Universal Drive	Henderson, Auckland	777	Kitchen House Ltd
34 Hurstmere Road	Takapuna, Auckland	130	Yang Wang
1/F, Te Aro Court	Te Aro, Wellington	123	Pulsar Entertainment Ltd
G/F, 23 Kent Terrace	Mt Victoria, Wellington	232	Mojo Coffee Cartel Ltd
128 Featherston Street	City, Wellington	103	de Nada Ltd
Terenco House	Te Aro, Wellington	278	Wellington Trade Aid
Open Networks House	Te Aro, Wellington	298	Shanton Apparel Ltd
Old Press House	City, Wellington	100	Sharpies Golf Shop
15 Kaiwharawhara Road	Kaiwharawhara, Wellington	600	The Organic Grocer Ltd
174b Montreal Street	Beckenham, Christchurch	288	4WD Accessories
Part G/F, 70 Moorhouse Avenue	Addington, Christchurch	387	BRG Investments

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Projects in focus



Te Pania Hotel, Marine Parade, Napier *Mortgagee Sale*

- For Sale:** By Tender Closing 4pm,
9 February 2007
- Contact:** John Goddard
021 947 566 09 356 8837
Peter Herdson
021 654 323 09 356 8836
- Features:**
- For sale – 96 strata titled units in one parcel
 - Freehold land area – 2496m²
 - Prime tourist waterfront location
 - All hotel units leased to Scenic Circle for 10 years from December 2002 (+ROR)

as seen on www.propertylook.co.nz & www.colliersales.co.nz



5 Henry Rose Place, Albany, Auckland *Extremely Rare Albany Land*

- For Sale:** By Private Treaty Negotiation
- Contact:** Josh Coburn
021 990 691 09 488 4777
- Features:**
- 7600m² Business 9 land
 - No onerous covenants
 - Subdivisible with 2 entrances
 - 1 minute to motorway

as seen on www.propertylook.co.nz & www.colliers.co.nz



Resort Pacifica, Katikati, Bay of Plenty *Outstanding Golf Course / Residential Opportunity*

- For Sale:** By Private Treaty
Closing 14 February 2007
- Contact:** John Goddard
021 947 566 09 356 8837
Phil Lipscombe
0274 342 200 07 571 4125
- Features:**
- Fully developed 18 hole golf course + club house, driving range and other facilities on 64ha (approx)
 - Thermal hot water available – envisage the spa complex
 - Freehold
 - Significant add-value opportunity for further development
 - A further 110 lots + completed residential sections next to golf course ranging from 380m² – 1150m²



as seen on www.propertylook.co.nz & www.colliersales.co.nz

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