

# New Zealand Research Report

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

## Crisis? What crisis?

Welcome to our November report covering activity in October 2006.

Experience has taught us that interpreting economic data as a guide to the future performance of the property market is a dangerous practice - even for economists. We have been experiencing a slowing economy, currency woes, and talk of a possible recession all year. But in this report we touch on rising net immigration, falling inflation, a resilient housing market, and increasing business confidence. Of course there are issues - lower rates of growth in the economy, tourism, and retail spending for example - but talk of hard landings seems to have been slowly replaced in the last few months by talk of soft landings.

Turning to the more familiar world of the property market, we report continued high levels of activity in all sectors in the three main cities. Colliers International has some excellent new investment offerings, a few of which are featured in this report. This ongoing supply reflects vendors' confidence that very good prices continue to be achievable. Investors who threw caution to the wind in the last couple of years have rediscovered that virtue, but that does not imply a slow market, just a well-balanced one.

Next month we will distribute our last monthly report of the year, and will start 2007 with a more in-depth report looking forward to the year ahead.

**We hope you find the report useful and look forward to your feedback.**

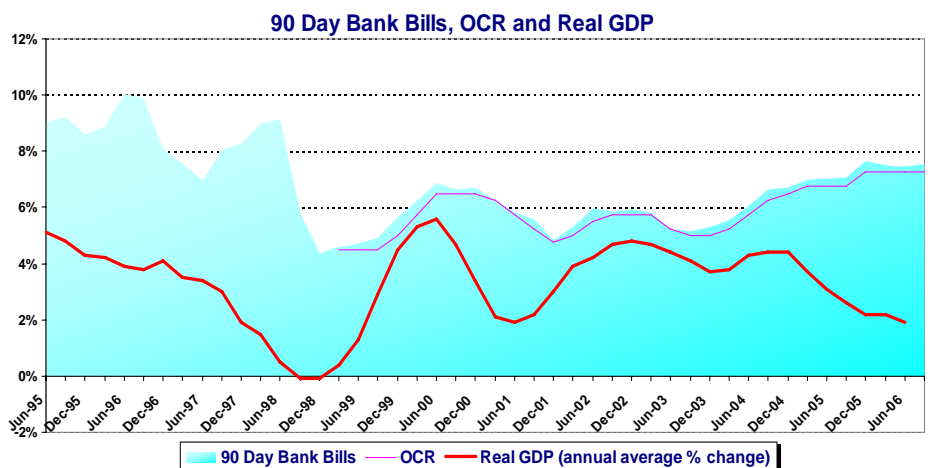


**Alan McMahon**  
Director, Research and Corporate Services

## The economy

The Reserve Bank left the Official Cash Rate (OCR) unchanged at 7.25% at its October OCR Review but said that the risks to the medium-term inflation outlook remain skewed to the upside. This is underlined by the latest New Zealand Institute of Economic Research's Quarterly Survey of Business Opinion (QSBO) where capacity utilisation increased to a near record high after trending downward over 2005 and the start of 2006. Firms also reported increasing cost pressures in the September quarter, although recent petrol price falls are expected to alleviate some of these concerns.

Headline business confidence, as



indicated by the QSBO, increased in the September quarter. This was supported by firms' own activity expectations in the National Bank Business Outlook where a net 18% of

companies expect their own activity to improve in the next 12 months, compared with a net 15% in the previous survey.

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Latest REINZ housing market data suggests that although the housing market has slowed, this slowing has been reasonably modest, with activity remaining at a relatively high level. Further housing-related inflation is possible over the next 12 months.

Annual CPI inflation fell to 3.5% in the September quarter, from 4.0% in June. It is expected to fall further in the December quarter due to falls in petrol prices and an expected reduction in some food prices. Although inflation is expected to fall further, inflationary pressures remain, courtesy of capacity constraints in the manufacturing and building sectors as well as persistent strength in the housing market.

### Economic Indicators

	Jun 06	Mar 06	Q-o-Q Change	Jun 05	Y-o-Y Change	2006F	2007F
<b>GDP Growth</b>	0.5%	0.8%	-0.3%	1.1%	-0.6%	1.8%	1.5%
<b>Current Account (% of GDP)</b>	-9.7%	-9.5%	-0.2%	-8.0%	-1.7%	-9.8%	-9.8%
<b>Net Migration Gain</b>	10,690	10,200	490	8599	2091	NA	NA
<b>Unemployment Rate</b>	3.6%	3.9%	-0.3%	3.6%	0.0%	3.7%	4.0%
<b>Retail Sales (ex-auto)</b>	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
<b>CPI Inflation</b>	3.5%	4.0%	-0.5%	3.4%	0.1%	3.2%	3.6%
<b>Consumer Confidence</b>	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
<b>Tourist Numbers Growth</b>	1.7%	3.3%	-1.6%	1.6%	0.1%	NA	NA
<b>Official Cash Rate</b>	7.25%	7.25%	0 bps	6.75%	+50 bps	7.25%	6.75%
<b>90 Day Bank Bill Rate</b>	7.65%	7.63%	+2 bps	7.34%	+31 bps	7.42%	6.81%
<b>10 Year Government Bond</b>	5.87%	5.64%	+23 bps	5.95%	-8 bps	5.90%	5.90%
<b>Floating Mortgage Rate</b>	9.55%	9.55%	0 bps	9.00%	+55 bps	NA	NA
<b>3 Year Fixed Housing Rate</b>	7.89%	7.89%	0 bps	7.60%	+29 bps	NA	NA

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

## Office property market

### Key Issues

The shopping spree for local high quality assets from across the ditch continues. In Auckland, Australian fund MFS brought the 15-level Q&V Tower on Queen Street for \$33 million. In the biggest CBD deal of the year, Australia-based Multiplex have bought 80 Queen Street from the Bank of New Zealand (BNZ). They are developing an office and retail property, to be owned and managed by Multiplex, which is forecast to have an end value in excess of \$170 million. 60% of the building will be leased to BNZ with the balance, around 8000m<sup>2</sup> of office space, to be offered on the market.

In Auckland CBD, some of the more

### 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
<b>Auckland</b>	3.0%	4.0%	-1.0%	4.4%	-1.2%	2.8%	4.1%
<b>Wellington</b>	0.6%	2.3%	-1.7%	3.2%	-2.6%	0.6%	2.5%
<b>Christchurch</b>	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
<b>Auckland</b>	1.9%	4.2%	8.4%	13.3%	17.6%	7.2%	4.9%
<b>Wellington</b>	2.5%	6.9%	11.0%	15.7%	19.8%	10.2%	5.2%
<b>Christchurch</b>	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
<b>Auckland</b>	2.0%	6.0%	10.5%	19.2%	21.1%	7.3%	5.1%
<b>Wellington</b>	2.8%	7.4%	12.2%	18.6%	28.3%	11.1%	5.3%
<b>Christchurch</b>	1.8%	4.3%	9.3%	13.9%	18.5%	13.2%	6.8%

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

notable leasing transactions during the period included Deutsche Bank taking over 1250m<sup>2</sup> at Vero Centre and Macquarie New Zealand committing to 1275m<sup>2</sup> at Lumley Centre. Also,

law firm Duncan Cotterill took the first floor (NLA: 830m<sup>2</sup>) in the former Chief Post Office building in the

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Britomart precinct. In Wellington, Landing Zone occupied 1100m<sup>2</sup> of office space at 76-80 Adelaide Road in Newton. Further south in Christchurch, Department of Corrections leased 1098m<sup>2</sup> of office space and nine carparks at 48 Peterborough Street.

The movers in the Christchurch market of recent times have been in the government sector. These include the Department of Education, Police Department, Land Transport New Zealand, Department of Labour, Department of Internal Affairs and IRD. Others have been in the

professional sector, with a number of accountants and solicitors taking on larger space at strong rentals. Also, watch out for the potential return of language schools – but this time more specialised and more regulated.

### A Selection of Office Sales Activity

Property	Location	Price	Yield
Fisher Building	City, Auckland	\$10.645 million	6.81%
152-156 Vincent Street	City, Auckland	\$4.35 million	Vacant possession
Q&V Building	City, Auckland	\$33 million	Undisclosed information
20 Augustus Terrace & 59 The Strand	Parnell, Auckland	\$5.0 million	10.60%
Axon House	Newmarket, Auckland	\$17.745 million	8.13%
Wakefield House	City, Wellington	\$1.06 million	Vacant possession
Capiche House	Te Aro, Wellington	\$4.3 million	9.50%
256 Lambton Quay	City, Wellington	\$6.0 million	Vacant possession

Source: Colliers International

### A Selection of Office Leasing Activity

Property	Location	NLA (m <sup>2</sup> )	Tenants
181 Khyber Pass Road	Grafton, Auckland	1290	Wedding World Ltd
103 Carlton Gore Road	Newmarket, Auckland	655	Neuren
Forsyth Barr Tower	City, Auckland	514	VTL Group
5-7 Kingdon Street	Newmarket, Auckland	502	VE Commerce Ltd
Chief Post Office Building	City, Auckland	830	Duncan Cotterill Lawyers
Vero Centre	City, Auckland	1250	Deutsche Bank
Lumley Centre	City, Auckland	1275	Maquarie New Zealand
Ericsson House	Thorndon, Wellington	461	NZ Council of Legal Education
Capiche House	Te Aro, Wellington	200	MED
76-80 Adelaide Road	Newton, Wellington	1100	Landing Zone Ltd
Symes de Silva House	Te Aro, Wellington	452	Silverstripe Ltd
Agriculture House	City, Wellington	108	Fresh NZ Ltd
Fujitsu House	City, Wellington	192	City Dentists Ltd
Mountain Safety House	Te Aro, Wellington	264	South Pacific Press Ltd
The LG Centre	City, Wellington	165	Nursery & Garden Industry Assoc
Crombie Lockwood House	Te Aro, Wellington	150	Capella Consulting Ltd
48 Peterborough Street	City, Christchurch	1098	Department of Corrections
17 Sir William Pickering Drive	Russley, Christchurch	572	Bayleys
Manchester Unity Buildings	City, Christchurch	160	Affiliate Business Consultants



## Millennium Centre Phase Two

600 Great South Road, Greenlane, Auckland

### Features:

- Brand new office park on Great South Road, Greenlane
- Flexible office space available
- Areas from 300 to 2400m<sup>2</sup>
- Comprehensive on-site amenities including gym, childcare centre and cafe
- Secure underground car parking
- Centrally located with convenient access to the motorway, CBD and airport

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## Industrial property market

### Key Issues

Property trusts remain upbeat on the outlook for Auckland's industrial market. Property for Industry has bought a 1.9594ha site and industrial property at 61-69 Patiki Road in Avondale for \$6.475 million on a 10.03% yield, with a lease in place to G.U.D. NZ. In Mt Wellington, two industrial properties at 515 Mt Wellington Highway and 174B Marua Road were acquired off-market by Property for Industry at \$2.8 million on a 8.3% yield and \$2.32 million on a 5.12% yield respectively. C Force Textiles and Waste Management remain as tenants at 515 Mt Wellington Highway and 174B Marua Road respectively.

The active investment market emphasises that there is still a huge quantum of investment money looking for a home in the industrial market.

**New Zealand Prime Industrial Indicators**

Vacancy	Jun 06	Dec 05	6 months to Jun 06	Jun 05	12 months to Jun 06	2006F	2007F
<b>Auckland</b>	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
<b>Auckland</b>	1.6%	3.9%	9.2%	14.5%	18.5%	8.2%	7.5%
<b>Wellington</b>	1.5%	3.9%	7.6%	12.6%	14.0%	7.5%	7.1%
<b>Christchurch</b>	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
<b>Auckland</b>	1.6%	3.4%	9.0%	19.2%	24.4%	8.3%	7.5%
<b>Wellington</b>	1.6%	4.1%	12.7%	22.9%	28.2%	7.6%	6.9%
<b>Christchurch</b>	2.1%	5.7%	10.6%	18.4%	21.0%	9.7%	9.7%

Source: Colliers International

In the capital, record low vacancy rates and higher property values are squeezing industrial users out of traditional industrial and central Wellington suburbs such as Miramar, Te Aro, Seaview and Ngauranga. Industrial users are having to look further away. Upper Hutt and the Kapiti Coast are logical destinations.

In Christchurch, Ngai Tahu Property and the Armstrong Motor Group have

unveiled plans for an \$11 million new salerooms development on Moorhouse Avenue near Blenheim Road. Armstrong currently has two sites in Riccarton Road and these operations will be transferred to the new development, increasing capacity by about 70%. Construction is due to begin early November, with an estimated completion date in early to mid-2007.

**A Selection of Industrial Property Sales Activity**

Property	Location	Price	Yield
3C Edinburgh Street	Onehunga, Auckland	\$1.05 million	Owner occupied
50 Andrew Baxter Drive	Manukau, Auckland	\$1.2 million	8.30%
98 Hillside Road	Glenfield, Auckland	\$1.44 million	8.33%
6A Wagener Place	St Lukes, Auckland	\$2.0 million	9.55%
187-189 Archers Road	Wairau Valley, Auckland	\$1.625 million	8.18%
46 Patiki Road	Avondale, Auckland	\$1.55 million	Owner occupied
17A William Pickering Drive	Albany, Auckland	\$1.885 million	Vacant possession
28 Tarnsdale Grove	Albany, Auckland	\$1.45 million	6.90%
106 Rockfield Road	Penrose, Auckland	\$1.25 million	Vacant possession
7 Crooks Road	East Tamaki, Auckland	\$1.23 million	Undisclosed information
5A Ryan Place	Manukau, Auckland	\$1.065 million	7.50%
3 Piermark Drive	Albany, Auckland	\$4.525 million	6.85%
3 Rideway	Albany, Auckland	\$1.75 million	Vacant possession
19a William Pickering Drive	Albany, Auckland	\$2.115 million	Vacant possession
Unit 6, 37 Target Court	Glenfield, Auckland	\$1.65 million	Vacant possession
61-69 Patiki Road	Avondale, Auckland	\$6.475 million	10.03%
515 Mt Wellington Highway	Mt Wellington, Auckland	\$2.8 million	8.30%
174B Marua Road	Mt Wellington, Auckland	\$2.32 million	5.12%
99-103 Kerrs Road	Manukau, Auckland	\$5.07 million	Vacant possession
156 Adelaide Road	Newton, Wellington	\$2.6 million	6.35%

Source: Colliers International

**A Selection of Industrial Property Leasing Activity**

Property	Location	GFA (m <sup>2</sup> )	Tenants
70 Kerrs Road	Manukau, Auckland	1654	Metalfab Industries Ltd
Part 16 Copey Place	Avondale, Auckland	1200	Wales Mackinlay
Unit B, 31 Constellation Drive	Mairangi Bay, Auckland	1300	Premier Books Ltd
2-4 Sultan Street	Ellerslie, Auckland	1250	Taylor Equipment
27 Rennie Drive	Airport Oaks, Auckland	1850	DeLonghi
44 Rennie Drive	Airport Oaks, Auckland	1050	Burkert
86 Ascot Road	Airport Oaks, Auckland	3772	Cotton On Clothing Pty Ltd
Rollex Building, Part 27 Jarden Mile	Ngauranga, Wellington	304	Next Electronic Servicing Ltd
339 St Asaph Street	City, Christchurch	548	Undisclosed information
Unit B, 161 Wordsworth Street	Beckenham, Christchurch	238	Personal Mobility Services

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## Retail property market

### Key Issues

In nominal seasonally adjusted terms retail spending was unchanged in August after rising 0.5% in July and 0.2% in June. Total sales were only 2.6% ahead of a year earlier mainly because of weakness in the motor vehicle sector. Still solid momentum in the housing and labour markets suggests that retail sales are likely to post solid, though modest, growth ahead.

There was a net addition to New Zealand's population from permanent and long-term migration flows in September of 2660 people. This was 710 more than the net gain of a year earlier and took the annual net migration gain to 13,210 from 12,500 in the year to August and 6398 year ago. With the labour market remaining very healthy, an improvement in consumer confidence and stable conditions in New Zealand, these modest net immigration gains seem likely to continue, barring any

**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
<b>Auckland</b>	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
<b>Auckland</b>	1.0%	2.5%	3.8%	15.1%	17.9%	3.2%	2.5%
<b>Wellington</b>	0.9%	2.2%	7.6%	11.9%	14.5%	1.5%	1.2%
<b>Christchurch</b>	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
<b>Auckland</b>	1.0%	2.5%	3.8%	15.1%	22.3%	2.8%	2.5%
<b>Wellington</b>	0.9%	2.1%	8.1%	12.9%	18.1%	1.5%	1.0%
<b>Christchurch</b>	0.8%	1.8%	4.7%	12.0%	17.3%	3.6%	3.0%

Source: Colliers International

change in government policy.

In Auckland, Kiwi Income Property Trust has leased 91% of the 65,200m<sup>2</sup> Sylvia Park retail project in Mt Wellington. Zilla Holdings leased 182m<sup>2</sup> of retail space at 142 Broadway in Newmarket and Hill & Stewart leased 696m<sup>2</sup> of retail space at Unit 4, 80 Lunn Avenue in Mt Wellington.

On the sales front, a shop at 15-23 O'Connell Street, Auckland CBD was sold for \$3.35 million. A two-level

retail space with six to eight carparks at 20-22 Anzac Street in Takapuna, Auckland was sold by Eggleton Family Trust at \$1.43 million, with leases in place to Burger Fuel, Fatimas and Internet Café returning \$73,000pa. A three-storey building at 13 Dixon Street in Te Aro, Wellington was sold by a private investor to an investment trust for \$1.25 million on a yield of 8.8%, with a lease in place to Merge Holdings for six years at \$110,000pa net and used as a nightclub.

**A Selection of Retail Property Sales Activity**

Property	Location	Price	Yield
116 Valley Road	Mt Eden, Auckland	\$2.0 million	Undisclosed information
15-23 O'Connell Street	City, Auckland	\$3.35 million	2.81%
20-22 Anzac Street	Takapuna, Auckland	\$1.43 million	5.13%
100 & 102 Richmond Road	Ponsonby, Auckland	\$1.0 million	5.17%
13 Dixon Street	Te Aro, Wellington	\$1.25 million	8.80%

Source: Colliers International

**A Selection of Retail Property Leasing Activity**

Property	Location	GFA (m <sup>2</sup> )	Tenants
366 Onehunga Mall	Onehunga, Auckland	780	All About Fun Ltd
31 Northcote Road	Northcote, Auckland	700	Undisclosed information
142 Broadway	Newmarket, Auckland	182	Zilla Holdings
Century Arcade	Takapuna, Auckland	43	Duc Lee
22 Viaduct Harbour	Viaduct Harbour, Auckland	45	Leslie McPhail Chamley
Cnr Lambie & Cavendish Drives	Manukau, Auckland	120	CCNZ Ltd
Unit 4, 80 Lunn Avenue	Mt Wellington, Auckland	696	Hill & Stewart Ltd
Courtenay Central	Te Aro, Wellington	140	TelstraClear Ltd
287 Tinakori Road	Thorndon, Wellington	140	Juakall World Ltd
80 Adelaide Road	Newton, Wellington	550	The Plumbing Store
St Laurence Building	City, Wellington	306	Tetra NZ Ltd
46 Cambridge Terrace	Te Aro, Wellington	529	Steven Dyke Motors Ltd
Cnr Shop, 166 Featherston Street	City, Wellington	81	Vigi Ltd
Unit C, 60 Victoria Street	City, Christchurch	145	Surreal Holdings

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## Projects in focus



### Foodtown Auckland City, Quay Street, Auckland

#### Absolute "Blue Chip" Investment

**For Sale:** By Deadline Private Treaty closing  
15 December 2006

**Contact:** Peter Herdson  
021 654 323 09 356 8836  
John Green  
021 994 273 09 358 9882

- Features:**
- Near new building with net rental of \$2,131,235pa
  - 15 year lease from 28 June 2004 with guaranteed rental growth
  - Prominent CBD waterfront corner site
  - High growth area adjacent to Britomart

as seen on [www.propertylook.co.nz](http://www.propertylook.co.nz) & [www.collierssales.co.nz](http://www.collierssales.co.nz)



### 1208 Omaha Road, Hastings

#### High Profile Industrial Complex

**For Sale:** By Deadline Private Treaty closing  
12 noon, 15 December 2006 (unless sold prior),  
Colliers International, 132 Dickens Street  
Napier

**Contact:** Jude Minor  
027 552 2996 06 834 0599  
Caroline Cornish  
021 390 759 09 358 9890

- Features:**
- 1535m<sup>2</sup> of modern coolstore
  - 1800m<sup>2</sup> of warehouse plus offices
  - Separate 92m<sup>2</sup> of offices
  - All on approximately 8400m<sup>2</sup> site

as seen on [www.colliersselect.co.nz](http://www.colliersselect.co.nz)



### 141 Cashel Street, Christchurch CBD

#### Fantastic Frontage

**For Sale:** By Private Treaty

**Contact:** Hamish Doig  
021 320 149 03 363 6909  
Nick Doig  
021 944 722 03 365 7887

- Features:**
- 400-500 bay public carparking building immediately above feeding through the retail tenancy
  - Dual access to both Hereford Street and the corner of Cashel and High Streets
  - 2 major hotels in the immediate vicinity
  - Located close to popular hospitality precinct
  - High pedestrian foot traffic counts

## Colliers International offers a full range of property solutions

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