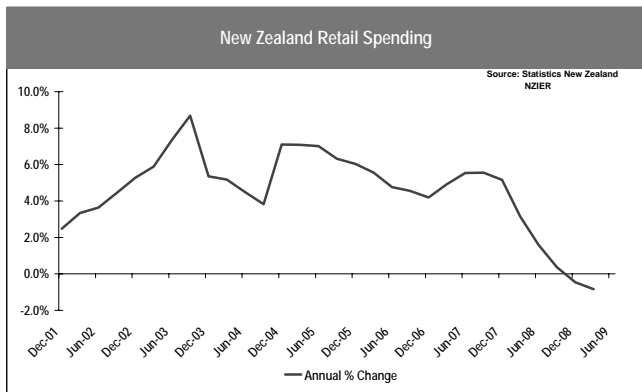


Market Summary Auckland Retail

Executive Summary

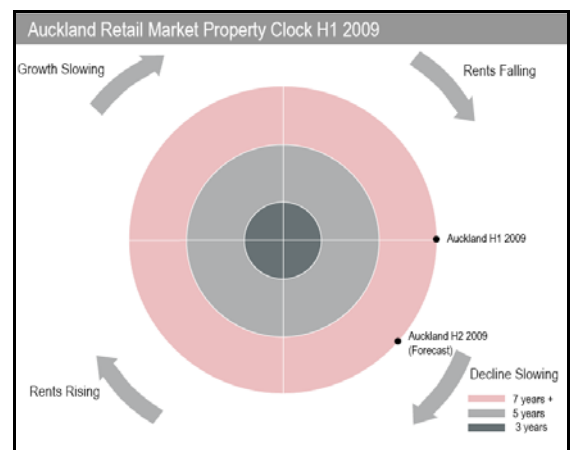
- The Auckland region's retail market has experienced a difficult first half of 2009.
- Weak economic conditions are affecting consumer confidence and retail sales.
- Tenant demand over the first half of 2009 has continued to soften.
- Auckland retail rents have declined over the first half of 2009 with the largest decline experienced at the top-end of the monitored sector.
- Supply in retail precincts monitored continued to be relatively stable.
- A transition towards the tenant in the tenant-landlord relationship is taking place as occupier demand decreases.
- More positive signals are expected to emerge over the next 12 months.



Overview

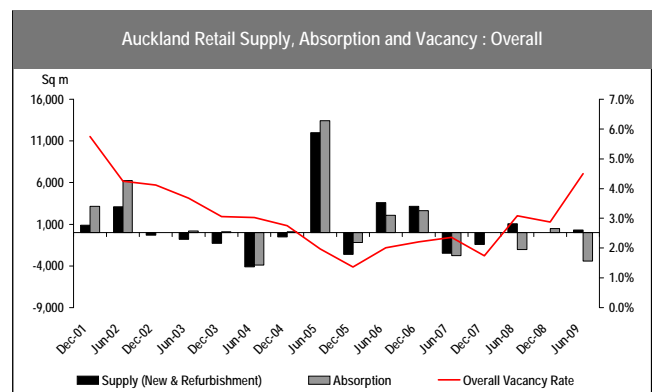
The retail sector is being hit by the economic recession, leading to an overall decrease in consumer spending. Many retailers are looking to entice consumers with large sales including discounts, interest free periods and deferred repayment schemes. However, the decline in consumer spending is impacting retailers and decreasing occupier demand is apparent. Vacancy rates have increased to the highest level recorded since 2001 and rents and yields continue to soften. Many retailers, who do not wish to continue under current business conditions, are only remaining open due to lease agreements. New supply has been limited in recent years, which is more a result of restricted development opportunities in the areas monitored rather than a reluctance to build. However, a slowdown in development activity across most sectors is apparent as developers act cautiously.

H1 2009 (Actual)		H2 2009 (Forecast)	
Upper Prime CBD	\$2,200	Upper Prime CBD	\$2,150
Lower Prime CBD	\$1,475	Lower Prime CBD	\$1,450
Prime CBD Yield	7.88%	Prime CBD Yield	7.88%
Total Vacancy	2.87%	Total Vacancy	4.50%



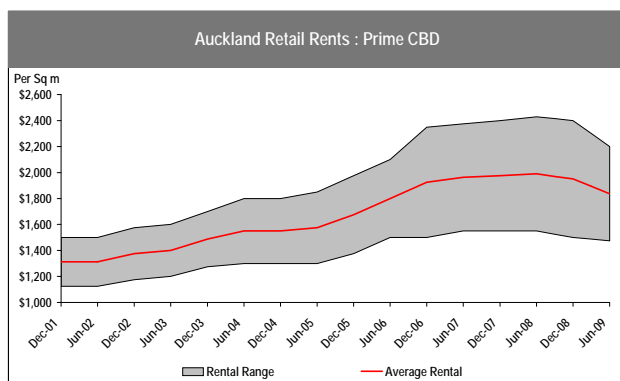
Tenant Demand

Tenant demand in the Auckland region's retail market has fallen during the first half of 2009. Net absorption has decreased by 3,400 sqm, compared to an increase of 485 sqm in the previous 6 month period ending December 2008. The CBD and Takapuna precincts had negative net absorption of 1,400 sqm and 1,700 sqm respectively, while in comparison Newmarket only had a decrease of 365 sqm. The CBD and Suburban vacancy rates increased by 1.6 percentage points to an overall rate of 4.5%, the highest rate recorded since December 2001. The CBD vacancy increased from 1.3 percentage points to 4.2% over the first half of 2009. However, it was the Suburban vacancy, and more specifically Takapuna, that had the most impact on the overall increase. The vacancy in Newmarket and Takapuna increased from 2.5% and 3.2% to 3.5% and 6.3% respectively. It is noted that while vacancy rates are still low, a number of retailers are still bound by lease agreements. Given the choice of being able to terminate the contract many may choose to do so.



Rents

Rents for all retail sectors recorded in the survey have continued to soften over the first half of 2009. Prime CBD rents have decreased by an average of \$56 psm to \$1,838 psm. The average Prime Suburban and Secondary Suburban retail rents both fell by 5% now sitting at \$1,263 psm and \$486 psm. The biggest impact of the rental declines has been felt at the upper end of the rental range. The upper end rents have fallen 4.3% and 6.1% compared to 0.9% and 2.9% for the lower end rents for the Prime CBD and Suburban market respectively. Looking forward, retail rents are expected to continue to soften as the threat of recession, increased vacancies, decreasing retail spending, and rising unemployment hit retailer's confidence and profit margins.



Yields

Overall average yields for the Auckland region's retail market have continued to soften by between 6 to 19 percentage points over the first 6 months of 2009 in the CBD and Suburban precincts. Prime CBD yields increased by around 13 percentage points on average to 7.88%, which was fairly consistent with previous periods. Prime suburban yields, did not experience as much impact from the current economic environment, only softening by around 6 percentage points to 8.25% as investors continue to purchase 'trophy properties' in prime locations at low yields. However, the Secondary Suburban market yields softened by up to 19 percentage points to 9.38%. Recent retail sales include 50 Fort Street for \$640,000 at an initial yield of 7.2%, 239 Queen Street for \$2,670,000 at 6.7%, 2 Hobson Street for \$390,000, 35 Cook Street in Howick for \$12,000,000 at 8.3%, 76-80 Broadway for \$14,200,000 at 8.3% and 6 Kingdon Street for \$906,800 at 6.7%. It is forecast that average rents will continue to soften over the latter half of 2009.



Recent Leasing Evidence

No	Location	Rental	Lease Term
75	Queen Street	\$176,900	n/a
11-15	Northcroft Street, Takapuna	\$93,000	n/a
1	Henry Rose Place, North Harbour	\$66,000	3 years
6	Homezone, Constellation Drive, Albany	\$61,080	6 years
18a	Link Drive, Wairau Valley	\$53,683	n/a
5-9	Captain Scott Road, Glen Eden	\$50,750	n/a
11	Pearn Crescent, North Harbour	\$40,000	n/a

Recent Sales Evidence

No	Location	Sale Price	Yield
76-80	Broadway, Newmarket	\$14,200,000	8.33%
35	Cook Street, Howick	\$12,000,000	8.3%
239	Queen Street, Auckland City	\$2,670,000	6.36%
626	New North Road, Morningside	\$950,000	7.40%
6	Kingdon Street, Newmarket	\$906,800	6.70%
50	Fort Street, Auckland City	\$640,000	7.2%
2030	Great North Road, Avondale	\$635,000	6.90%

Outlook

It is unlikely that retail spending will return rapidly to the high growth rates evidenced between 2003 and 2006. This is primarily a result of depressed economic conditions and short-term employment concerns. A further decline in tenant demand is likely to occur, with the rents and yields expected to continue softening over the next few years and then begin to stabilise there after. In the short term this should provide more options to prospective tenants searching for premium locations with good visibility and high pedestrian counts. Anecdotal evidence suggests suburban areas, such as Takapuna, may attract more interest over the second half of 2009 as renewed interest occurs. The economic recovery signalled by many economists to start mid to late 2009, should help soften the extent of weakening in the sector providing a boost in confidence and retail sales in certain areas.

For more information, please contact:

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