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WELLINGTON RETAIL

LOCATION, LOCATION

Consumer retail spending has slowed considerably in light of the high interest rate environment in New Zealand and encouraged retailers to re-consider the importance of being located in the best retail premises that offer high pedestrian counts, low vacancy rates and a quality retail environment. Wellington's CBD precincts are performing well under these criteria versus the outer Wellington shopping precincts where vacancy rates are increasing. The demand for quality premises and an "up-to-date" retail environment is reflected by the fact that throughout Wellington, it is the attractive, more expensive retail environments which are experiencing very low vacancy rates and strong enquiry, whilst the less attractive and older environments, which tend to be outside of the CBD, are experiencing a rise in vacant premises and weaker enquiry.

The CBD precincts are however, to some extent, receiving legislative protection that is hindering the potential growth and development of the outer Wellington retail precincts.

Lambton Quay remains Wellington's premier retail location, commanding the highest rents and generating the region's highest pedestrian counts according to the Wellington Pedestrian Count 2007 carried out by the Property Institute of New Zealand in November last year. Eight out of the top ten retail spots with the highest pedestrian counts fell within the Lambton Quay precinct with the survey counting approximately 66,000 pedestrians per hour in total in the Wellington CBD, down 5% from the 2006 count.

The latest Wellington Retail vacancy survey carried out by *Bayleys Research* has provided a varied result with the overall vacancy rate in the CBD precincts falling to the lowest levels in the past five years whilst the outer Wellington suburbs have experienced an overall increase in vacancy.

In central Wellington vacancy rates have fallen for the second consecutive year to sit at 3.1%, down considerably since the peak levels reached in 2006 at 5.4%. Subsequently, in 2007 the vacancy rate fell by 1.7% to 3.7% and in 2008 fell a further 0.6%. The drop in the vacancy rate over the 2007/08 period represents a strong uptake of retail property in the CBD precincts over the last 12-14 months. This is due to exceptional growth in local retail businesses over the last few years and an increasing number of Australian retailers seeking expansion within New Zealand's prime retail locations.

Vacancy fell in three of the four precincts surveyed, being Lambton Quay, Courtenay, Cuba and the Willis precincts. The highest precinct vacancy rate this year was just 4.2% in the Willis Precinct.

Lambton Quay

In the Lambton Quay precinct, the vacancy rate increased from 1.1% in the past year to 3.6% in 2008 due to an increase in retail premises on Featherston Street, between Balance Street and Hunter Street, which held the majority of the precinct's vacancy. The survey counted one vacancy on the Lambton Quay strip where the previous tenant relocated just two doors further down. It is unlikely that these premises will remain untenanted for very long given the strong enquiry levels for Lambton Quay premises and that it can take up to 12 months or more for leasing opportunities to arise on the strip.

The strength of the Lambton Quay precinct has resulted in expansion of retail opportunities on the streets connected to

WELLINGTON CBD PEDESTRIAN COUNT - TOP 10 RETAIL LOCATIONS

Pedestrian Count Location	Retailer	Rankings 2007	Rankings 2006	Rankings 2005	Average Over 3 Years	Ranking Over 3 Years
292 Lambton Quay	Jacqui-E	1	2	7	3.3	2
206-218 Lambton Quay	Farmers	2	3	5	3.3	2
280-290 Lambton Quay	Equip	3	1	1	1.7	1
318-324 Lambton Quay	Westpac	4	5	2	3.7	4
78 Manners Street	KFC	5	9	4	6.0	5
250 Lambton Quay	Bags of Difference	6	7	8	7.0	7
182 Lambton Quay	Flight Centre	7	6	6	6.3	6
342 Lambton Quay	Principals	8	4	9	7.0	8
162 Lambton Quay	Jean Jacques Hair Design	9	10	12	10.3	9
83 Cuba Streeet	The CD & DVD Store	10	14	13	12.3	10

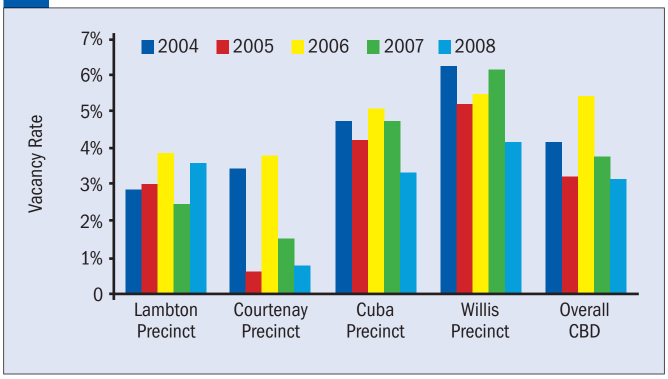
Source: PINZ, Bayleys Research

Lambton Quay as developers include retail elements to mixed use buildings. The new IRD office building at One Featherston St which is currently under construction will have a ground floor retail component and will add a few prime retail units to the precinct's inventory. The retail offering on Featherston Street is generally on the increase as new retail premises are rolled out further along towards the railway station.

A few retail units in the precinct have been absorbed by the reconfiguration of the Borders store at Capital on Quay. The premises were transformed from their previously secondary configuration which had multiple tenancies over two levels of the mall - which proved difficult to lease – to one large, two-level premium retail premises. The current store is a much larger than average-sized store for Lambton Quay with a total of 2,029m^2 of space accessed on both Lambton Quay and Level 1 of the mall.

The Wellington City Council (WCC) is playing their part in creating an attractive and quality retail environment and is currently undertaking a $3.2 million aesthetic overhaul of Lambton Quay to give the street a more elegant look whilst improving pedestrian safety and making provision for easier access to public transport.

WELLINGTON CBD VACANCY RATES



Source: Bayleys Research

Courtenay Precinct

The Courtenay precinct with the lowest vacancy rate just below 1% has fallen from 1.5% last year having only one premise available on Courtenay Place and three premises which are currently under refurbishment. The precinct is renowned as the city's entertainment hub, having streets lined with cafes, restaurants and takeaways occupying 43% of the precinct's total number of retail units.

Rental growth in the Courtenay precinct has continued to meet expectations with an overall increase in the rental bracket over the last year of approximately 11% to sit within the current rental range for premium space between $900 and $1100 per square metre. The low vacancy rate and strong enquiry in this precinct will continue to support future rental growth.

Willis Precinct

The Willis precinct is a popular location for fashion retailers and has experienced strong tenant uptake over the last 12 months which has resulted in the vacancy rate falling by nearly 2 percentage points to sit at 4.14%. The majority of the vacancy is located on Manners St. The Willis precinct inventory has been expanded this year with the inclusion of 16 new prime retail units in the Chews Lane redevelopment with the majority leased prior to completion of the project. The project, undertaken by Willis Bond & Co, was completed in June 2008 and incorporates retail, office and residential accommodation.

The street level retail offering is a commendable tenant mix including high quality fashion, footwear and travel brands along with a number of eating and entertainment establishments. Amongst the tenant mix are high end fashion brands Calvin Klein, Kimberleys, Veronika Maine, Farrys Menswear, Stax, Identity, Stable and Hush Puppies fronting onto Willis St. Along Chews Lane are travel brand Flight Centre, Coffee Club, Midland Sushi, Fresh Take, Emporio Gotham and the new 3Cs bar and restaurant. The gross rental rates in Chews Lane are at the high end of the precinct's rental rate range reaching $1,500psm in some cases, particularly for the fashion retail premises fronting onto Willis St. This is a reflection of the exceptional quality, style and location of premises that are demanded in Wellington's CBD.

Kimberleys, Chews Lane Redevelopment

Premium rental rates in the Willis precinct have not moved since last year and are currently between $1,000 and $1,500psm gross. The rates for secondary premises have shifted to a wider bracket which reflects a larger gap in the quality and location of secondary space available in the precinct. Secondary rental rates range from $400 to $1,000 per square metre gross compared with 2007 where they ranged from $500 to $700 per square metre gross.

Future plans within the precinct include the possibility of redesigning pedestrian-only Manners Mall to allow buses and possibly private motorists to travel through from Courtenay Place to Willis St and it could also be suitable for a light rail system. The WCC is undertaking consultation on a draft proposal plan which aims to reduce the amount of time it takes to travel from Courtenay Place to Willis St and also create several new car parking spaces on Dixon St, Lower Cuba St and Wakefield St.

Cuba Precinct

The Cuba precinct's vacancy rate was 3.3% in 2008, down from last year's vacancy of 4.7%. The majority of the vacancy is in the James Smith Corner Arcade.

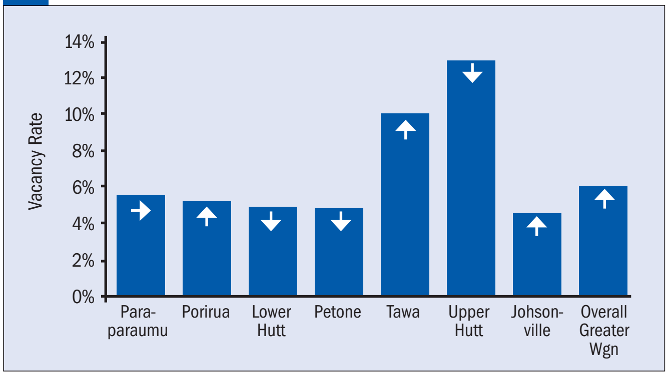
The prime section of retail real estate in this precinct is Cuba Street running from Wakefield Street south through to Webb Street. Cuba Mall is a streetscape retail environment dominated by two major retail categories, namely cafés, restaurants and takeaways which occupy 29%, and fashion retailers occupying 18% of the precinct. The Mall is one of the busiest streets in the CBD with the pedestrian counts surveyed in three spots along Cuba St ranking in the top five spots in the CBD (excluding Lambton Quay).

Both premium and secondary rentals have grown over the past year. Premium space is currently in the range of $850 to $1,200 per square metre gross compared with $900 to $1,100 per square metre gross last year. Rents in secondary locations currently range from $700 to $850 per square metre gross, which is a rather significant increase from the $400 to $600 range experienced in 2007.

GREATER WELLINGTON SHOPPING MALL VACANCY RATES ON THE UP

A wide scope of premises in shopping centres/arcades and strip retail locations were surveyed in selected retail hubs in the Greater Wellington suburbs of Upper Hutt, Lower Hutt, Petone, Tawa, Johnsonville, Porirua, and the Kapiti Coast. The overall vacancy rate increased marginally to just over 6% from last year. Shopping centres generally tend to have lower vacancy rates than the strip retail in these areas, however this year vacancy rates in shopping malls have increased in several cases. Strip retail vacancies have remained relatively high recording very similar rates to last year's vacancy or falling slightly in some cases.

GREATER WELLINGTON PRECINCTS VACANCY RATES



Source: Bayleys Research

The most significant adverse changes to the overall vacancy rate are reflected in the Dress Smart Mall in the Tawa precinct which has one of the highest vacancy rates of 10% this year compared with no vacancies last year. An increase in vacant premises in the Porirua precinct includes four recently vacated premises in the North City Shopping Centre and an increase in available space in the Canopy Connection resulting in the precinct's vacancy jumping up 3.9 percentage points to 5.19%. Currently there is limited tenant demand within this precinct and therefore it is not expected that the vacancy rate will fall in the near future.

The Johnsonville precinct vacancy rate is just under 5%. Last year vacancy was limited to the strip retail outside Johnsonville Mall. This year there are three vacant tenancies in the Mall and one on the strip. Approval of plans to expand the 10,000 sqm Johnsonville Mall to a 35,000-to-40,000sqm complex have come under threat as the WCC, in a bid to protect the CBD retail precincts, pushed through an urgent change to the district plan in May 2008 that gives power to council officials to reject any large retail projects that could lure shoppers away from the CBD shopping precincts. It is therefore possible that the Council will view the Johnsonville expansion as one such threat.

The Lower Hutt precinct has had an overall positive impact on the Greater Wellington vacancy rate recording 4.9% compared with 6.7% in 2007. However, within the precinct, the Queensgate Mall is continuing to have an adverse effect on the vacancy rate of the surrounding strip retail premises which are experiencing low enquiry levels. This year, Queens Drive had three vacancies towards the Laings Road end of Queens Drive whilst High St had 12 vacant premises. However the precinct vacancy rate is considerably lowered because the Queensgate Mall was fully tenanted and accounts for more than half the total stores surveyed in the Lower Hutt precinct. With the exclusion of the Mall, the vacancy rate of the strip retail premises in Queens Drive and High Street combined is significantly higher at 10.2%.

The Petone precinct primarily comprises the Jackson St strip retail running between Hutt St and Cuba St. Petone is a regional shopping hub sufficiently servicing the local community with a range of services from local healthcare to entertainment. The survey included 167 premises along Jackson Street with the dominant retail categories comprising cafes, restaurants and takeaways, food retail and giftware/souvenir and clothing. The vacancy rate has fallen by 2.7 percentage points to 4.8% in the last year which is a good result for Petone given the limited demand for leasing premises in the area.

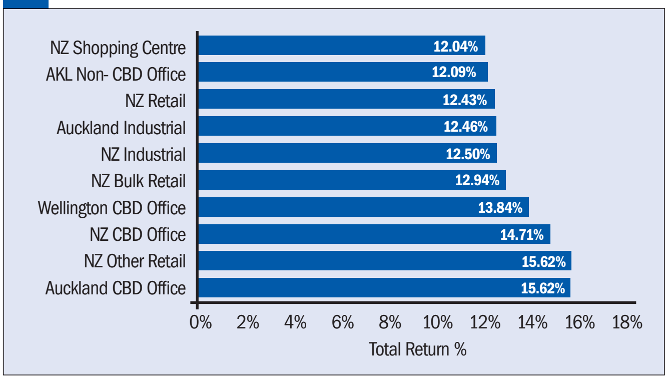
The Coastlands shopping mall on the Kapiti Coast has remained the same as last year with five vacant premises available.

LEASING AND INVESTMENT

Between 2002 and 2007 the retail property investment market in New Zealand experienced strong growth and offered competitive returns to its investors. Whilst income returns have remained fairly steady, capital returns have grown considerably over the prolonged period of steady growth in retail spending prior to 2008. The Wellington retail investment market has shifted notably from the trends experienced in 2007 given the tightened economic conditions experienced this year. The retail property market is faced with weakened confidence amongst investors and lenders and as a result funding continues to be more difficult and expensive to obtain. Values are taking a hit and yield rates have softened by between 1% and 1.5% since last year.

The Property Council of New Zealand (PCNZ) IPD Investment Performance Index shows the rolling annual total return in the June 2008 quarter for New Zealand retail property - defined by PCNZ as an amalgamation of shopping centres, bulk retail and other retail - at 12.43%. Comparison of the rolling annual total returns based on the June quarter each year has generally fluctuated between 12% and 18% over the past 5 years, with the exception of a relatively inflated 28.7% return recorded for the June 2007 quarter.

INVESTMENT PERFORMANCE INDEX TOTAL RETURNS % (TWELVE MONTHS TO JUNE 2008)



Source: PCNZ, Bayleys Research

Total returns on New Zealand shopping centres, at 12.04%, have also reduced considerably for the year ending June 2008 when compared to the year ending the previous quarter. The annual income return has firmed slightly, however the annual return on capital has reduced to 4.96%. New Zealand Other Retail – defined by PCNZ as retail strip shops, supermarkets and other retail stores that fail to meet the requirement for "shopping centres" or "bulk retail" - has produced the highest equal total return of 15.62% over the year to June 2008.

In the CBD retail investment opportunities remain thin on the ground which is in contrast to the outer Wellington suburbs where there is sufficient retail investment property available. Courtenay Place is singled out as the only precinct forecasted to remain steady given its low vacancy rate and high levels of enquiry for investment property.

WELLINGTON RETAIL INVESTMENT TRENDS 2008

Precinct	Capitalisation Rate: Yield	Capitalisation Rate: Forecast	Investment Market: Trend	Investment Market: Availability
Lambton Quay	7.25-8%	Softening	Sufficient	Scarce
Willis Street	7.5-8.5%	Softening	Sufficient	Scarce
Cuba Street	8-9.5%	Softening	Sufficient	Scarce
Courtenay Place	7.5-8.5%	Steady	Sufficient	Scarce
Thorndon Quay	8-9%	Softening	Sufficient	Sufficient
Lower Hutt	8.5-10.5%	Softening	Sufficient	Sufficient
Porirua	8.5-10.5%	Softening	Sufficient	Sufficient
Kapiti	8-9.5%	Softening	Sufficient	Sufficient

Source: Bayleys Research

Leasing trends illustrate the fact that the prime inner city retail precincts are proving to be very resilient in the face of the general economic slow down. Rental rates in the CBD are continuing to rise whilst in the outer Wellington suburbs rates have remained static over the last year. Continued rental growth in the premium retail precincts is being supported by consistently high levels of occupier enquiry despite the fact that retail spending in 2008 is sharply down on that recorded in recent years.

The premium rental levels are heavily sustained by competition from Australian retailers wanting to secure the best retail spots with high foot traffic count in a bid to maximise their brand exposure and they also have the ability to accept higher rentals than would otherwise be accepted by New Zealand retailers.

WELLINGTON RETAIL LEASING TRENDS 2008

Precinct	Rental Rates (Gross)$/m²: Premium	Rental Rates (Gross)$/m²: Secondary	Rental Trend	Leasing Market: Demand	Leasing Market: Supply
Lambton Quay	2000-2800	1000-2000	Firming	Strong	Scarce
Willis Street	1000-1500	100-1000	Firming	Strong	Scarce
Cuba Street	850-1200	700-850	Steady	Strong	Scarce
Courtenay Place	900-1100	500-900	Firming	Strong	Scarce
Thorndon Quay	250-480	180-250	Steady	Steady	Sufficient
Lower Hutt	500-800	250-350	Steady	Strong	Sufficient
Porirua	275-375	175-275	Firming	Steady	Scarce
Kapiti	350-450	220-300	Firming	Strong	Scarce

Source: Bayleys Research

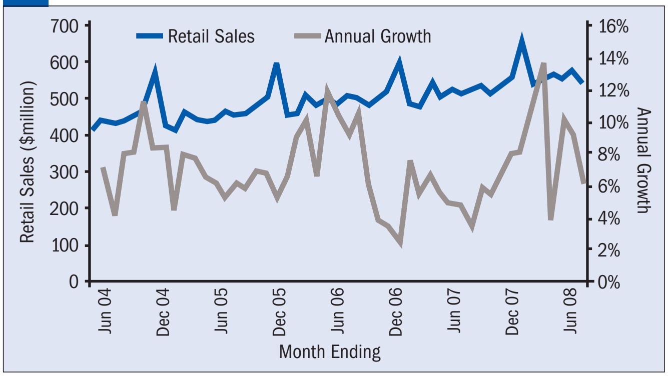
Secondary rental rates are discounted from premium rental rates by between approximately 25% and 50%, depending on the location. Rental rates for secondary premises have increased on Lambton Quay, Cuba Street and Courtenay Place with decreases on Willis Street and Thorndon Quay.

CONSUMERS TIGHTEN THE PURSE STRINGS

In 2008, retail spending has slowed considerably with the pressure of high interest rates and the high global food and fuel prices filtering down into the pockets of consumers who have been pressured into pushing discretionary spending to the bottom of their priority list. The annual growth trend in actual core retail sales volumes (excluding motor vehicles sales) in New Zealand has generally been falling over the last year according to Statistics New Zealand's ("StatsNZ") latest Retail Trade Survey. Annual month on month growth in retail spending for the month of June 2008 was up 3.8% on June 2007 – an increase of $170 million.

The Wellington region, however, is performing better than New Zealand overall and is exhibiting a resilience when compared with other regions. Actual core retail sales (excluding motor vehicle retailing) for the June quarter 2008 in the Wellington region were up 8.3% compared with a 4.2% increase across the country. This is possibly attributable to an increase in visitor numbers to Wellington over the quarter.

WELLINGTON RETAIL SPENDING ACTUAL SALES v ANNUAL GROWTH IN SALES



Source: StatsNZ, Bayleys Research

In general, retailers are no doubt looking toward proposed reductions in interest rates in the coming months, falling petrol prices and personal tax cuts to provide consumers with some relief and help to boost their discretionary spending over the coming months. A positive signal that interest rate decreases are on the horizon came with the Reserve Bank of New Zealand's (RBNZ) decision in September 2008 to reduce the Official Cash Rate (OCR) from 8.0% to 7.5%. The RBNZ implied that further softening of monetary policy is possible if inflationary pressures in the medium term reduce.

BAYLEYS RESEARCH: FOR MORE INFORMATION CONTACT US:

Gerald Rundle
B.Com, B.P.A, Registered Valuer, ANZIV, SNZPI
Email: gerald.rundle@bayleys.co.nz

Ian Little
B.Sc (Hons), MRICS
Email: ian.little@bayleys.co.nz

Sarah Davidson
BBS
Email: sarah.davidson@bayleys.co.nz

Bronwyn Harverye
B.Com
Email: bronwyn.harverye@bayleys.co.nz

Stephen Smith
BBS
Email: stephen.smith@bayleys.co.nz

Neil Prentice
LLB, Dip Journalism
Email: neil.prentice@bayleys.co.nz

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FREEPHONE 0800 BAYLEYS
0800 (229539)

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