

P R E S S R E L E A S E

CB Richard Ellis Pty Ltd
ABN 57 057 373 574

Level 14, 21 Queen, Street, Auckland,
New Zealand

T 64 93553333
F 64 93553330

www.cbre.co.nz

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For further information:
Sally Lindsay
Communications Manager
64 93595436
64 212804641

Raising the roof sends costs plunging

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Gone are the days when warehouses were assessed on a square metre basis. It is now the cost per pallet and it can have huge savings as Auckland-based Simply Logistics has discovered.

The warehousing company is moving from a 4000sq m Aintree Ave, Mangere building with a seven metre stud to a better property around the corner at 120 Pavilion Drive that has the warehousing on the same footprint but a 11 metre stud.

It enables Simply Logistics to increase its warehouse capacity by 44 per cent and at the same time reduce its premises costs by more than 15 per cent.

CB Richard Ellis industrial and logistics director Hayden Bryant and broker Tim Boyle, who negotiated the deal, say the extra stud height has given Simply Logistics the ability to create an extra 2000 pallet spaces. "The company will run more efficiently and achieve considerable savings in property costs."

Simply Logistics has taken over the head lease at Pavilion Drive from an international freight forwarder after it downsized. Half of the warehouse had sat empty for three years and while the freight forwarder expected to grow into it the global financial crisis took its toll.

Bryant and Boyle say Simply Logistics came along at the right time. "It is taking 3800sq m of warehousing, half of the 800sq m office space and retaining the freight forwarder as a sub-tenant in 2000sq m of warehousing and the other half of the office for three years.

Simply Logistics director Stuart Hughey says the company has 15 months to run on its lease at Aintree Ave and had been looking for new premises. "This is ideal. We are able to put in more pallets and grow with our customers."

The company will move from 5000 pallets to nearly 7000 pallets and when the freight forwarder leaves the property it will be able to fit in 10,000 pallets.

Hughey says the extra stud height allows the company to put in narrow aisle racking. "Instead of racking at the usual three metre aisle width we have been able to reduce it to 1.7 metres wide and use a turrett truck that can do the work of three forkhoists."

"Density and efficient use of every cubic metre is crucial in efficient warehousing," says Hughey. Simply Logistics has cut a centre strip through the racking and put in a series of wires and magnets to run the turrett truck, which is controlled electronically from an onboard computer. It moves backwards and forwards at 12 kilometres an hour and lifts a man up and down the racks at nearly one metre a second."

The company deals mainly with food, much of it having a short shelf life. "In an average day we would move 150-200 pallets in and out of the warehouse. At busy times we can move 400 to 500 pallets a day," says Hughey.

Nearly all the food and other products Simply Logistics handles are imported and include olive oil, soya milk, dry fruits, mueslis and health products.

When the company moves into Pavilion Drive it will immediately use 60 per cent of its new \$300,000 racking, but expects to have products stacked on the rest in a short timeframe.

Hughey says one of Simply Logistics bigger customers, an Australian nappy manufacturer, expects to double its New Zealand business within the next two months, by bringing in a bigger range of products. "Another client expects 500 per cent growth in its New Zealand operation in the next three years. Moving to better premises will ensure we grow with our clients."

Bryant says modern warehouse design has seen a tendency towards larger yard areas offering better truck access with some properties having drive-through capabilities. Large canopies for all weather loading and unloading of containers are also a feature of new designs.

"A trend in the past decade is for companies to contract out their warehousing and distributions requirements. The design of big sheds has developed to cope with this third party logistics trend.

"Floor space is too valuable and high stud premises used by third party logistics businesses provide storage solutions at a cost substantially lower than owner operators," Bryant says.

"Companies are now making smarter use of their warehouse space and premises with modern facilities offer significantly improved economies of scale."

Bryant says apart from ensuring its future, Simply Logistics also read the market well and moved at a time when good incentives are being offered by landlords.

He says many corporate tenants have started looking for new premises, particularly those with 12 to 24 months to run on their existing leases. "They are putting steps in place to source new premises that can give them cost savings and efficiencies."

CBRE's South Auckland office has close to 80,000sq m of property to source for corporate tenants in the coming six months to a year.

"The industrial market is at the bottom of the cycle and many tenants are aware of this. They are making the most of opportunities on offer and many want to move as soon as possible.

"We have found the economic climate, in many cases, has been the catalyst for relocation as businesses seek to maximise cost-efficiency and take advantages of the deals available from landlords.

Simply Logistics has signed an 11 year lease on its new premises and the landlord has given an attractive rental incentive upfront plus fitout costs.

The company's warehousing rent has also dropped by 12 per cent for better premises. Hughey says this will generate 15 per cent plus savings on the bottom line.

He formed the company in 2001 and has built Simply Logistics from a \$157,000 loss in the first year to profits every year since. "It took us six months to put the Pavilion Drive deal together but it will cover the business for most eventualities."

The company's new premises are in the Airpark II subdivision originally developed by Trans Tasman Properties and bought out by Dines Group and Murdoch Newell, who sold down sites to private investors and owner-occupiers.

Opposite Simply Logistics is a Foodstuffs distribution centre and Villa Maria is nearby.

Boyle says the airport industrial precinct has become a popular destination for companies wanting modern premises offering a better work environment along with 'more bang for their buck' by cutting down their use of inefficient space.

"This has been the catalyst for relocation as many businesses seek to maximise cost efficiency."

CBRE's research shows that the airport industrial precinct has been one of the most active over the past decade with more than 200,000m² of new industrial buildings being erected.

This has slowed considerably recently and CBRE's research shows new industrial property is at long term lows and building permits are at their lowest levels since the early 1990s, meaning the supply of new industrial space will be slow until at least the end of next year.

The precinct is part of Mangere, Manukau city's third most populous ward. The city houses 17 per cent of Auckland's industrial buildings. Almost 90,000sq m of floor space was been added to Manukau's industrial stock in three years to 2009.

Industrial vacancy rates have remained fairly steady at under five per cent for five years. CBRE's latest property performance index shows over the three years to March 2010, the industrial sector led prime rental growth followed by office and then CBD retail. Boyle says recent falls in industrial rents have flattened off and prime warehouse rents sit at between \$95/sq m and \$120/sq m.

Roading improvements have also increased the attraction of the Mangere and the airport precinct. "In the past the airport was perceived as an undesirable area for warehousing because of its distance to Auckland CBD, but the completion of the Western Ring Route, now under construction, will make a huge difference," says Boyle.

The completed route will comprise a single 48 kilometre motorway running north-south, providing an alternative to SH1, bypassing Auckland city to the west and linking Manukau, Auckland, Waitakere and North Shore cities.

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