

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

Spec industrial builders leading rivals

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Corporate tenants are returning after an absence of two to three years and those developers who have continued to erect spec industrial buildings will benefit as the market slowly emerges from the recession, says Hayden Bryant, industrial and logistics national director for CB Richard Ellis.

"Developers who are taking a punt and building industrial properties before signing up tenants are getting the jump on their rivals," Bryant says.

"We know of tenants looking for a total of 120,000 sq m of new industrial space in Auckland and increasing demand from big tenants for quality property."

"The industrial market is at, or near, the bottom of the cycle and many tenants are aware of this. They are making the most of opportunities on offer and there is a growing pool of companies looking for new premises of up to 10,000 sq m."

Bryant says many companies put off plans to move but rising manufacturing activity as well as growing business and consumer confidence is giving them the assurance to draw up new 2010 budgets that include relocation to new premises.

"Even though industrial property is coming out of the recession in better shape than other property sectors, some developers have gone belly-up and others elected to remain dormant. The brave few who have carried on with spec projects will reap the benefits of attracting new tenants on long-term leases," he predicts.

"Those developers who did not sit on their hands and money have taken advantage of lower construction and labour costs while being prepared to wear the risk of having a finished but vacant building on the market for 12 months. They will be first cab off the rank when corporate tenants hit the market again."

Three of Auckland's well-known industrial developers, Kirkpatrick Goup, Euroclass and Synergy Group have put up nearly 50,000 sq m of spec buildings across three sites at Airport Oaks and Otahuhu. They looked at the recession as an opportunity and a substantial amount of the space is already leased. Kirkpatrick Group has spec developed and leased 40,000 sq m at Manu Industrial Estate, Otahuhu over the past two years. It is now in the process of developing a further 15,000 sq m on the same site.

The group started building at Manu Industrial Estate in 2005 and had put a four to five year timeframe on its completion, irrespective of the recession. Bryant says the recession hasn't so much rocked the boat for Kirkpatrick Group, but slowed it down.

"As the market changed Kirkpatrick Group rolled with it," says Bryant's colleague Tim Boyle. "It has looked five years ahead instead of 12 months to put it in front of its competitors when the market improves. There have been advantages in this strategy."

Kirkpatrick Group's engineer Lloyd Morris says as the recession hit more building companies tendered for the group's development work giving it a wider range of prices and quality contractors to choose from.

Whether it has been competitive is still an open question for the group as it believes spec buildings by nature have to be at the top end to cater for every eventuality a tenant might require. Gibson O'Connor has build a 15,000 sq m of tilt slab buildings with an 11.5 metre stud at Manu Industrial Estate. Morris says the quality of construction and specifications future-proofs the property. CBRE has tenant interest in the space. "It was quiet last year and tenants looking for more than 10,000 sq m were nowhere to be seen," says Boyle.

"In the past couple of months as business improved they have reared their heads above the parapet and we are now working with a number of tenants actively looking for 10,000-20,000 sq m.

"Most want to move as soon as possible and not wait 12 months or more for design and build premises. This is the only business park in the South Auckland with new buildings for lease that can accommodate bigger tenants."

The low levels of building activity are also reflected in CBRE's research data. New industrial supply is at long term lows as are building permits. Figures show building permits are at their lowest levels since the early 1990s, meaning the supply of new industrial space will be low until at least the end of next year.

CBRE's research team says the rapid fall in new industrial buildings is positive for the supply/demand balance of the overall market and will help the recovery of the rental market once demand strengthens. Kirkpatrick Group, a privately owned family company, has been developing industrial property in Penrose, Otahuhu, Onehunga and the airport for 25 years. It has owned the Manu St site for about 13 years where NZL Containers was the tenant during much of that time.

Bryant says it is easier for a private company to carry on spec building in a recession. "Listed property trusts find it difficult to operate in a spec market during a recession, because it is harder to quantify to investors, particularly if a building sits vacant for some time."

He says less experienced private developers and investors have also struggled to find any silver lining in the recession and will miss out as a fresh wave of tenants come back into the market seeking new, high quality premises to expand or build their profile and brand.

"The recession is comparable to the property crash after the 1987 sharemarket melt-down. It has affected tenants and in turn developers and investors quite hard. There has been nothing easy about it; tenants are difficult to find, rent reviews are tough and demands for incentives are increasing.

CBRE research shows industrial rents remained stable for the third quarter at a blended office/warehouse average of \$104 per sq m. This stability came after a fall of 8.2 per cent in the first half of the year. Secondary net effect rents continued to fall in the last quarter. However at minus .6 per cent the drop was the lowest since the turn of the industrial rental market in the June quarter last year.

CBRE's figures show that on an annual basis, the average secondary market rent, at \$75 per sq m, reflects a 20 per cent plus decline. Most of the softening has taken place through increasing incentives. The company's researchers say some of the bigger industrial landlords are looking at reducing the levels of incentives offered as the market picks up, but that has not yet translated into market rent changes.

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