



A research report prepared for
AUCKLAND CITY

Business Property Market Analysis for Penrose – Te Papapa Precinct Plan

April 2008

Contents

	Page
1	Introduction 4
2	Executive Summary 5
2.1	Auckland Property market..... 5
2.2	Penrose Property Market 5
2.3	Development Activity..... 6
2.4	Future Trends & Issues 7
3	Auckland Property Market 9
3.1	Overview..... 9
3.2	Auckland Urban Area and Penrose Precinct..... 9
3.3	Market Shares 11
3.4	Market Drivers..... 12
4	Penrose – Te Papapa Property Market 19
4.1	Penrose – Te Papapa Business Property Market Composition..... 19
4.2	Penrose Occupier Market..... 20
4.3	Penrose Vacancy 23
4.4	Greenfield, Potential Vacant, and Brownfield Land 24
4.5	Land Value..... 26
4.6	Industrial Rental Trends..... 30
4.7	Industrial Value Trends 32
4.8	Major Property Owners in Penrose 34
5	Zones of Activity 37
6	Overview of Development Activity..... 39
6.1	Formation of industrial parks 39
6.2	Appearance of major spec building 40
6.3	Transition from low to high stud heights 40
6.4	Showrooms taking advantage of street frontage 41

6.5	Refurbishment and start of gentrification	41
6.6	Appearance of modern office/warehouses in established areas.....	42
6.7	Planned incremental redevelopment	43
6.8	Introduction of terraced housing and townhouses.....	43
6.9	Transition from dirty to clean industrial.....	44
6.10	Expansion on site.....	44
7	Greenfield, Potential Vacant, and Brownfield Development.....	46
7.1	Greenfield development land.....	46
7.2	Potential vacant development.....	46
7.3	Brownfield development land.....	47
8	Future Trends & Issues	51
8.1	Auckland Business Property Market.....	51
8.2	Penrose - Te Papapa Market.....	51
9	Conclusions.....	55

1 Introduction

The research requirement, as detailed in the brief prepared by Alicia Taylor of Auckland City Council is to provide a property market analysis of the Penrose/Te Papapa business area within the context of the broader Auckland business property market and investigate the likely future trends in the evolution of this business precinct. The study provides the following analysis of market trends based on our insights into and knowledge of the property market:

1. Auckland's Property Market
 - o An overview of the Auckland property market.
 - o Identification of the key market-wide business property market drivers.
 - o A market level comparative analysis of the study area.
2. Penrose Precinct
 - o The current business property market situation.
 - o An overview of recent property market activity and developments.
 - o Our thoughts on the likely future evolution of the area.

DISCLAIMER

This document contains information which is directly derived from outside sources, without verification by us. Where the content of this document has been derived, in whole or in part, from sources other than CB Richard Ellis, CB Richard Ellis does not warrant or represent that such information is accurate or correct.

It should be noted in relation to the assessments and forecasts contained in the report that some property market variables cannot be estimated with certainty and our assessments and forecasts represent assumptions which are not guaranteed to hold. Accordingly, our assessments and forecasts should only be considered in an illustrative rather than definitive context and no warranties are provided as to their actual and eventual accuracy.

This confidential document is for the sole use of persons directly provided with it by CB Richard Ellis. Use by, or reliance upon this document by anyone other than these persons is not authorised by CB Richard Ellis and CB Richard Ellis is not liable for any loss arising from such unauthorised use or reliance. The document should not be reproduced without our written authority.

© CB Richard Ellis April 2008

Level 9 PwC Tower
188 Quay St Auckland City
PO Box 2723 Auckland
Phone 64 9 355 3333
Fax 64 9 355 3330

2 Executive Summary

2.1 Auckland Property market

- The Auckland property market monitored by CBRE comprises 2.3 million sqm of office space (including the CBD), 10 million sqm of industrial space and 1.2 million sqm of retail centre space.
- In the CBRE monitored stock there are 4,250 industrial business units located in the main Auckland industrial markets with an average floor space of 2,100 sqm (the survey does not cover industrial units under 500 sqm so the average occupied floor space is biased on the high side). In the office sector we capture 3,450 businesses with an average floor area of 424 sqm.
- Penrose/Te Papapa represents 44% of the CBRE monitored industrial stock in Auckland City and 20% of the stock in Auckland Region.

2.2 Penrose Property Market

- The Penrose/Te Papapa industrial market amounts to 1.7 million sqm. It is mature, with 58% of its stock considered Grade C/D (built prior to 1980). There has been limited opportunity in this precinct to develop top quality industrial space as this has typically been developed on Greenfield land. Consequently the proportion of Grade A stock is low compared to newer industrial suburbs in South Auckland and the North Shore. Nevertheless, the area has experienced some notable modern industrial development.
- Manufacturing, Transport and Storage, Wholesale Trade and Retail Trade represent around 84% of all occupiers. The largest industry classification is manufacturing which represents 49% of the market. This is the result of its history with the location of major industrial companies in the area some time ago who continue to remain here as well as the older nature of the building stock which is often not compatible with modern distribution and warehousing technologies and practices.
- Of the Manufacturing related occupiers only 24% are located in Grade A or Prime buildings. There is a

comparatively higher proportion of Transport and Storage occupiers in Prime/Grade A buildings than Manufacturing.

- The Penrose vacancy rate has been low at around 2%-4% for much of the last four years. This reflects moderate new supply coupled with ongoing occupier demand.
- CBRE estimates that there are some 51 Ha of Greenfield business zoned land with an additional 67.4 Ha of Brownfield land. CBRE considers that much of the land is not readily available for development due to either tenancy or ownership restrictions.
- Land values are a significant input cost to new development. Land values have increased significantly over recent years, particularly since late 2004 (by about 75%) when the growth rate accelerated. Penrose indicative land value growth has risen lower than the Auckland Region average although the cost of land remains above this average.
- Penrose industrial rent growth has matched the regional average. However the magnitude of rental growth has lagged behind land value growth and also construction cost growth. This creates pressures for either further strong industrial rental growth or for higher value commercial use of the land.
- Several large property owners have holdings in the precinct. A number of these own key sites or multiple adjoining sites which enhance the value of their holding and increases the opportunity for future redevelopment. Many of these owners also have significant balance sheet backing and/or development experience, which adds to the likelihood of their sites being optimally developed.

2.3 Development Activity

- A number of development trends have been evident over the last five years in the Penrose/Te Papapa area. These are;
 - The partial redevelopment of existing properties, to provide more modern facades and office/showroom facilities or to expand their warehousing/manufacturing facilities.

- The development of new modern industrial office/warehouse buildings.
- The redevelopment of larger older industrial facilities into smaller showroom/office/warehouse units.
- Introduction of residential redevelopment on industrial sites.
- The development market is active with a number of projects underway/being marketed in Penrose. These projects are a mixture of new builds and refurbishments/redevelopments of existing properties.
- While some projects point to the future evolution of higher value uses such as retail and showroom facilities, the development of more traditional industrial office/warehousing buildings continues in the precinct.

2.4 Future Trends & Issues

- The cost of locating in Penrose for industrial occupiers is likely to rise relative to many other industrial precincts as the area becomes an increasingly higher value location.
- The area will experience continued development with increasing focus on positioning assets to their highest and best use over time. This will mean an increasingly non traditional industrial development focus in many parts of Penrose.
- The ownership structure of properties in the precinct will have significant influence on development. There are large/multiple adjoining sites in common ownership, which will expedite development. On the other hand large owner occupiers also dominate and this will likely hinder redevelopment and change of use. The overall result of this is that the Precinct will go through a fragmented, piecemeal transformation with varying types of uses co existing over a prolonged time.
- Apart from ownership, the relative merits of certain parts of the Penrose area will also have a bearing on the nature of development. These include the value of Gt South Rd frontages for retailing and showroom use and the potential for residential encroachment in some areas.

- There will likely be emerging conflict between some of the more “dirty” operations in the precinct’s Business 6 zoned land and cleaner, higher value uses. New developments on Business 6 land may require rezoning to avoid land use clashes with actual developments that warrant Business 5 zone classification.
- A high proportion of older Grade C/D industrial buildings are located on small sites and these units tend to have an undesirable low stud height unsuitable for today’s industrial market. A number of these buildings are falling into disrepair and eventually will need to undergo refurbishment or be redeveloped. Consolidation of a series of adjacent sites would enable a more economically efficient redevelopment. Some developers have already purchased adjacent sites and have adopted a planned incremental redevelopment approach by demolishing and rebuilding in response to the dictates of the market.
- New developments tend to provide for storage and redistribution instead of light or heavy industrial manufacturing. The proportion of office space to total floor space is greater in these developments and typical new office/warehouses have a substantial two storey, high quality office in front with an 8 m to 9 m stud height warehouse behind.
- The potential for additional development on Greenfield land and redevelopment on Brownfield land is sizeable, although ownership and lease structures mean that some of the land is not readily available for development.
- Additional and higher intensity development on Greenfield and Brownfield land will exacerbate current traffic congestion problems within the precinct. Traffic engineering strategies to cope with increases in traffic volume will be necessary.
- There is a possibility that a number of small scale light manufacturing tenants will be eased out as the land value of the cleared site in a new and higher use justifies demolition and redevelopment. Owner/occupiers are likely to stay put, especially when the use value of the property to the owner exceeds its market value.

3 Auckland Property Market

3.1 Overview

The Auckland property market is the largest in the country and roughly comprises 2.3 million sqm of office space (including the CBD), 10 million sqm of industrial space and 1.2 million sqm of retail space.

CB Richard Ellis routinely surveys the office and industrial occupier market. The office survey captures all significant stand alone office buildings built since 1960 as well as some buildings built earlier but refurbished so as to be in our Premium to Grade D quality category range. The industrial survey includes all buildings larger than 500 sqm, are industrially classified by Quotable Value and are located in the 11 principal industrial markets of Penrose is one.

Analysis of this survey data indicates there are at least 4,250 industrial business units¹ located in the main Auckland industrial markets with an average floor space of 2,100 sqm (the survey does not cover industrial units under 500 sqm so the average occupied floor space is biased on the high side). In the office sector we capture 3,450 businesses with an average floor area of 424 sqm.

3.2 Auckland Urban Area and Penrose Precinct

3.2.1 Auckland Urban Area

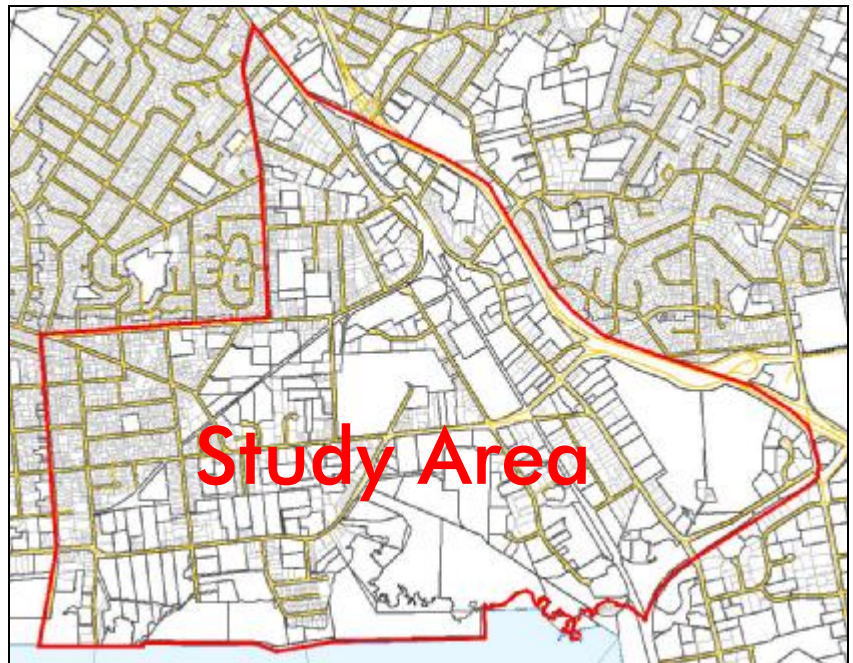
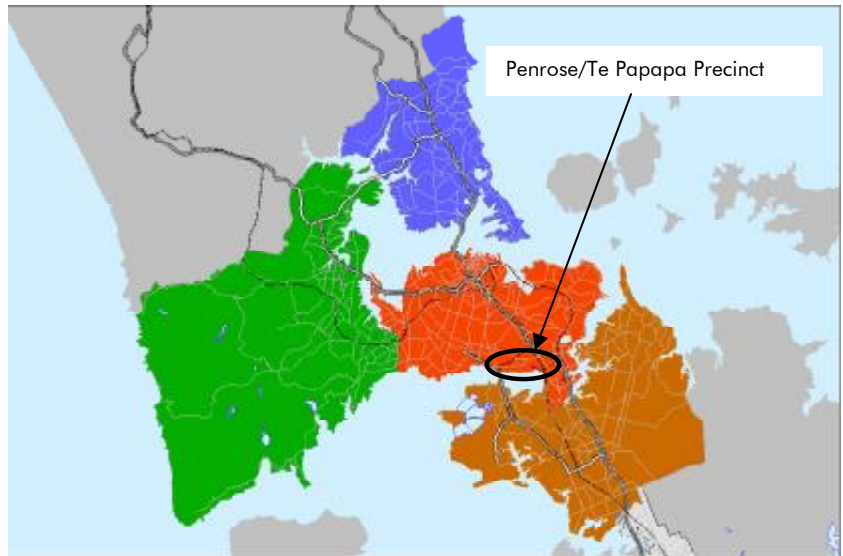
For the purposes of this report, we have defined the Auckland Urban Area the four main urban cities being North Shore, Waitakere, Auckland and Manukau. When talking about the wider Auckland business property market the convention we adopt is to limit the extent of the markets boundaries to those of these four territorial authorities as these areas account for the vast majority of the Auckland Region's business space. The following map highlights the CBRE Auckland Urban Area.

3.2.2 Penrose/Te Papapa Precinct

The Penrose Te Papapa Precinct is the industrially zoned area on the north of the Mangere Inlet bound by Onehunga to the west, Greenlane/Ellerslie to the north and the southern motorway to the east. The general location of the precinct within the Auckland Urban Area as

¹ In this context a business unit represents the occupancy by a business in a property. If a business has several locations, for example wholesale distribution centres, each location is counted as a separate business unit.

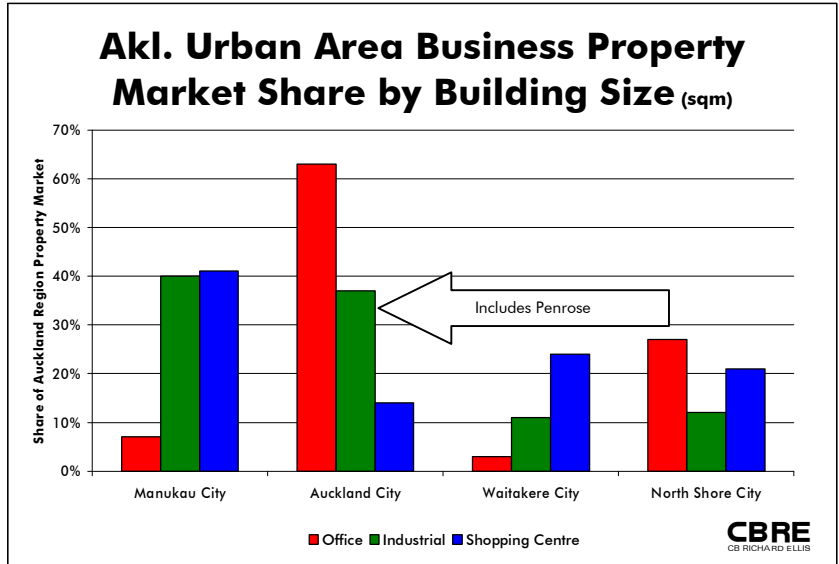
well as the boundaries of the actual study area are highlighted in the maps below.



The Penrose/Te Papapa industrial area is a well established industrial market, sometimes referred to as the industrial heartland of Auckland, with good access to the major road and rail infrastructure of the city. Buildings in this area range from low quality properties dating back a number of decades to very recently completed projects exhibiting the latest trends in industrial design.

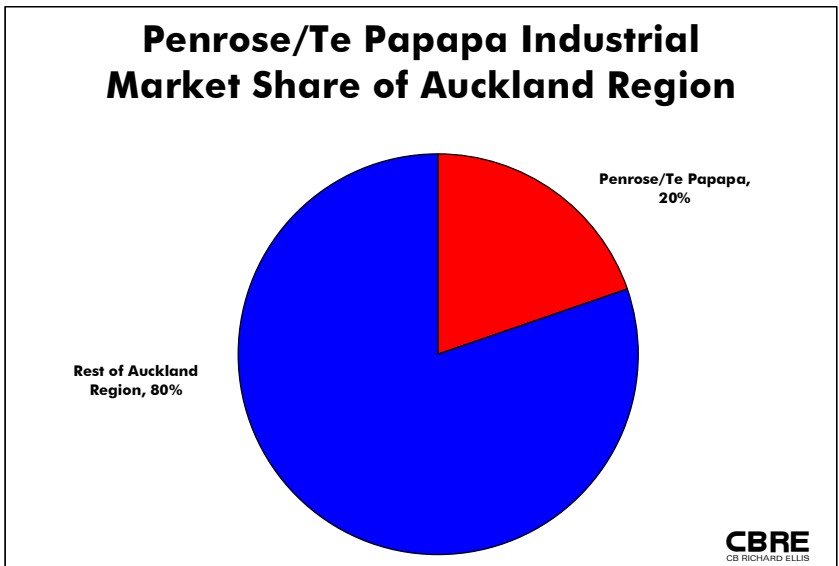
3.3 Market Shares

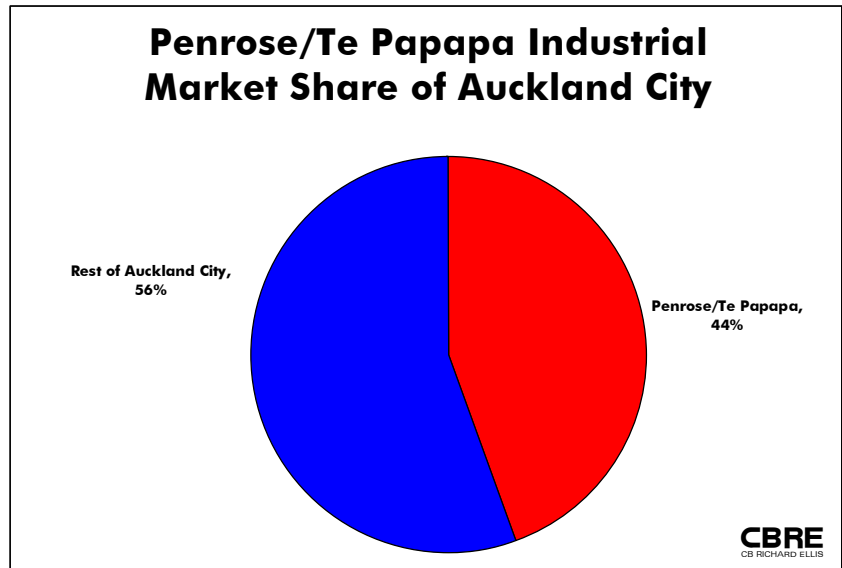
The following chart provides an overview of the composition of the various property markets in Auckland Region. It highlights the relative position of Auckland City's property market.



Auckland City enjoys the highest proportion of office space in the region and almost as much industrial space as traditionally industrial Manukau.

The following two charts compare the size, measured in square metres, of the Mt Wellington industrial market against the Auckland City and Auckland Region industrial markets.





Penrose represents 44% of the industrial stock in Auckland City² and 20% of the stock in Auckland Region. It is the largest single industrial precinct in the Auckland Region.

3.4 Market Drivers

This section of the report will provide an overview of the current market situation, the main drivers currently shaping the property market and their current and likely future impact on the market. This provides the broad context within which the various geographic sub markets operate.

3.4.1 The Auckland Commercial/Industrial Property Market in early 2008

Following six years of largely positive and buoyant conditions, the property market is currently at the cross roads.

The investment market is delicately poised following an extended period of unprecedented buoyancy and benchmark values. The eventual outturn for the crises in the local and global financial markets remains uncertain but their effect to date has been a dent in investor confidence and some loss in liquidity. This has resulted in some investors being taken out of the market, a closer scrutiny of risk for secondary and development property and expectations of better deals by some investors. However, there is also a paucity of true quality stock available for purchase.

Balanced against the cooling investment market are generally favourable conditions in the occupier market.

² The aggregation of Penrose, Rosebank, Mt Wellington and Otahuhu.

The office market is experiencing good demand and the overall vacancy rate is the lowest since the 1980s. Rents are also recording robust increases in both the CBD and suburban markets. The current strong performance of the Secondary sector is noteworthy.

Industrial vacancy has been around 2% over the last three years. While occupier demand is steady rather than strong, industrial development activity has also slowed and the overall result is sustained low vacancies which will underpin demand for new premises. Notwithstanding this, the industrial rental market has been fairly subdued.

Retailer demand remains strong for prime locations. Retail centre vacancies are low with 0.17% or 1,375 sqm vacant over the 822,000 sqm of centre space monitored by CBRE. Recently completed major centres have leased up well and retailers in them are reportedly performing satisfactorily. Demand has however eased back in non prime locations. Retail rents generally exhibited moderate growth in 2007 however new supply has resulted in rentals stagnating in weaker centres most exposed to the increased competition.

Industrial land value growth has been rapid at the top end of the market in 2007 underpinned by a more commercial land use potential. Recent quarters however have seen the substantial growth level off. This partly represents a plateauing following a period of rapid growth as the market catches its breath, as well as a reaction to the increased uncertainty in the investment market since mid 2007.

3.4.2 Economic Growth

There is a broad correlation between business space demand (as measured by net absorption) and economic growth (as measured by GDP or employment growth) however it is not a precise relationship for calculating the exact quantum of actual demand. Variables such as capacity utilisation or space worker ratios in the office markets and increasing stud heights and cubic areas in the industrial markets are also at play in determining the sqm quantum of demand for space.

Current economic conditions remain supportive for occupier demand. While growth eased, it hasn't disappeared and as a result net absorption is remaining positive. Economic growth is expected to ease further in the near term but CBRE foresees moderately positive occupier demand conditions at lower levels than experienced during the last five years.

3.4.3 Capital Markets

Rapid capital accumulation during the last five years has been a major driver of the investment market globally. It has manifested itself as easy credit, increased equity capital and created a deeper investor base, significantly firmed yields and raised property values. All these trends manifested themselves in the Auckland property market. Australian investors have become a major feature of the market in addition to an active local investor base and property values in some cases doubled since the early 2000s.

More recently, liquidity issues globally and finance company collapses locally had a negative impact on the commercial property market. This reduced risk appetite and access to capital which, with non institutional New Zealand developers being heavily reliant on mezzanine finance, makes property developments more difficult to undertake. These factors are impacting adversely on property values and development volumes.

While the current financial market woes have an adverse impact on the property market and the situation could worsen during 2008, this is likely to be a relatively short term situation.

Increased focus by governments on financing aging populations through various, often compulsory, savings vehicles is creating an ever increasing weight of investment capital. For instance, Australian superannuation funds under management reached AUD1 trillion in 2006. They are forecast to reach AUD5 trillion by 2025. Locally, both the NZ Super Fund and Kiwisaver will provide material increases to the size of available investment funds by the end of this decade. With property traditionally receiving an asset allocation of around 10% of managed funds, the capital markets will continue to support both property investment and development.

3.4.4 Land Use Maximisation and Change of Use

Land is being increasingly developed into its highest value use possible within planning regulations. This has meant that in areas where planning regulations allow, land has been passing from industrial to commercial and residential uses. This has resulted in lower value property development being increasingly uneconomic and being squeezed from the prime industrial locations.

Auckland's central industrially zoned land is coming under increased intensification pressure. Greenfield business zoned land in Hobsonville, Highbrook, East Tamaki, Takanini and Papakura will increasingly cater for large industrial occupiers. These areas will attract occupiers of secondary premises in more central locations who will be leaving

redevelopment opportunities behind. These redevelopment sites will come under pressure to increase the intensity of their land use.

However, these trends are not universal and are also temporally variable. The drive for land use maximisation is greatest when the market is buoyant and developer confidence in achieving the highest and best use is the greatest. In addition, different ownership structures and agendas are also at play. This ensures that large scale change of use of whole precincts in fragmented ownership is a long term process and there is a co-existence of various land use types over extended periods.

3.4.5 Land Value Growth

Following a period of stagnation between 1999 and 2001, since 2002, the rate of industrial land value growth has intensified Auckland wide. Since early 2002, average industrial land values have increased by over 300%. This strong value increase was driven by a combination of a number of factors including;

- good overall economic growth and favourable property market conditions,
- an increasing proportion of owner occupiers and developer/investors participating in the land market both of whom being able to pay higher land prices than traditional developers
- a perception of limited and reducing business zoned land in Auckland.

Much of the recent growth has been driven by the North Shore with transactions in the Interplex subdivision. It is noteworthy that none of the sites are going into industrial uses, with the highest values being achieved for a planned office park.

3.4.6 Gap Between Industrial Market Rents and Economic Rents

Economic rent is the rental level required to support new construction. Market rent is the prevailing rental level observed in the property market. Economic rent is based on the input costs of property development, mainly land and construction costs. These input costs translate into economic rents based on the return requirements of developers/investors.

The rise of land values and construction costs during the last few years has been rapid, exceeding the rise in market rentals. As a result, a gap

has opened up between economic and market rents in the industrial property market. This gap means that it has become uneconomic to develop industrial properties in large areas of Auckland's industrial markets based on the current level of input costs.

This does not mean that industrial development is wholly precluded because different developer entities (eg owner occupiers, developer/investors, pure developers, developers who bought land at current prices versus having historical land banks) have varying return requirements and thus economic rent thresholds. Some industrial occupiers are also able and willing to pay above the prevailing market rental levels. However, the gap that emerged between market and economic rents has had a negative impact on industrial building development. Given the more subdued outlook for the property investment market, some moderation in land values is possible during the coming year. This, in combination with some expected rental growth is likely to narrow the gap between economic and market rents.

3.4.7 Changes in Market Participants

In the previous sections we eluded to the impact of the weight of money, the greater involvement of overseas, mainly Australian investors, and the impact of owner occupiers and developer/investors on land values and economic rents. Market participant changes in development and investment can have important consequences.

The increased market participation of developer/investors and owner occupiers has reinforced high land values and while ensured the continued development of industrial product at those land values, in general, it has squeezed out traditional developers from the industrial market through the decoupling of market and economic rents.

However, some of these developers have switched focus to more commercial developments, sometimes initiating land use changes and creating value through undertaking commercial/residential developments in industrial locations. While the current financial market situation has adverse implications for property developers, well conceived developments by well resourced developers able to secure occupier commitment are still occurring.

With the current cost of capital being in excess of yields on property, some owner/occupiers who have in the past leveraged favourably, but heavily against personal assets or businesses to fund property purchases, may now be in a position of negative leveraging and will have to dispose of those properties, most likely under a sale and leaseback transaction to maximise returns. Reduced market

participation by owner occupiers is likely to dampen the upward pressure on land values and help close the gap between economic and market rents.

With the weight of superannuation funds being largely directed at institutional investors, their involvement in the property market is expected to grow. This will see property being owned by organisations with large resources and significant management skills enabling the property to be optimally positioned.

3.4.8 Infrastructure Developments

The development of new infrastructure shapes property market opportunities. For instance the Rosebank and Highbrook motorway interchanges and the various components of the Western Ring Route have impacted adjacent business property markets. These impacts allowed a more intensive and higher value development leading to the gradual transformation of the business areas around them. Continuing infrastructure developments, including roading such as AMETI, new planning regulations and initiatives such as subregional centre intensification and MUL boundary changes and key transforming projects, such as Sylvia Park shopping centre will serve as a catalyst in directing property investment and development and transforming adjacent business areas.

3.4.9 Environmental Issues

In the property market environmental issues are manifesting themselves in the green building phenomena. Green buildings are gradually moving from a catchphrase to a market reality. As public awareness and support of, green issues intensifies the corporate and government sectors are taking them increasingly seriously. This is resulting in an increased drive towards green buildings incorporating sustainable design and technologies. The biggest move in New Zealand so far has come from central government who announced that all A grade office buildings to house government staff in Central Business Districts must have a 5 star green rating and a 4 star rating is required for all B and other grade office buildings in either CBD or Non CBD locations. By 2012 all central government departments are required to be housed in green buildings. Many corporates have similar agendas.

One of the implications of the drive towards green building principles, especially when it comes to occupiers' requirements to locate in 4-5 star green rated buildings, is the possible looming obsolescence of large parts of the current building stock. While green building features can be retrofitted, the costs are generally high and in many cases existing

buildings cannot be brought up to a 4 star standard due to structural limitations. This would result in increased demand for new built as opposed to existing premises by occupiers seeking 4-5 star green buildings.

4 Penrose – Te Papapa Property Market

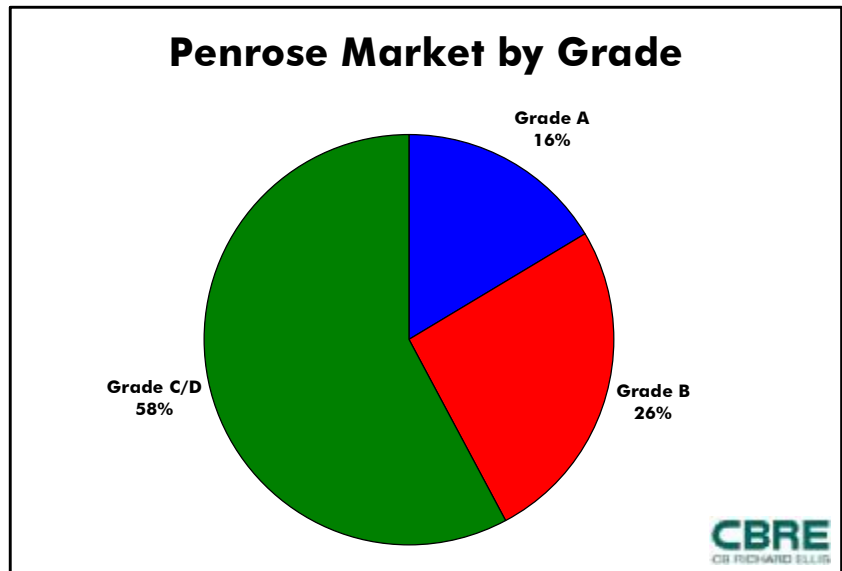
The following analysis relates to the Penrose – Te Papapa precinct as defined earlier.

4.1 Penrose – Te Papapa Business Property Market Composition

CB Richard Ellis grades industrial properties by considering several factors, including a building’s age and size. Grade A buildings are built since 1990 and are over 1,500 sqm. Grade B buildings have been built since 1980 and are over 500 sqm, but under 1,500 sqm. Grade C/D buildings have been built prior to 1980 and are over 500 sqm.

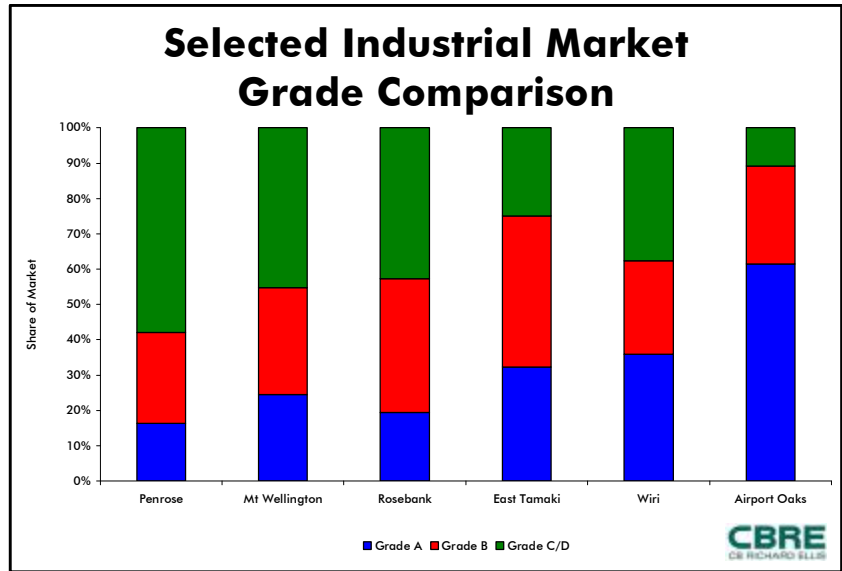
This criterion generally encapsulates occupier requirements at different levels of the market. For example, buildings built since 1990 and over 1,500 sqm typically have a good standard of office space and high stud, column free warehouse space, both of which are demanded by occupiers at the top end of the market.

The following chart details the distribution of various quality industrial properties in Penrose.



- Penrose is the largest industrial precinct in the Auckland Region with a stock of 1.7 million sqm. It is dominated by older buildings with about 58% of the industrial stock being Grades C/D, having been built prior to 1980. This high proportion of older building reflects that Penrose is one of the earliest industrial areas in Auckland.

The following chart compares the composition of Penrose’s industrial stock with other industrial suburbs.



- Penrose’s profile is most similar to Mt Wellington’s, its nearest major neighbour to the East. Both precincts are mature markets with a significant proportion of lower quality stock. In Penrose’s case the proportion of pre ‘80s versus ‘80s stock is higher. In fact, Penrose has the highest proportion of pre 1980 built Grade C/D stock of any regionally significant industrial precinct in Auckland.
- In comparison, the Airport Oaks, Wiri and East Tamaki precincts have a high proportion of Grade A industrial buildings that is driven by the interest of distribution orientated firms in locating close to the airport, coupled with the release of Greenfield industrial land over the past few years.
- While the proportion of Grade A stock in Penrose is low (16.3%) compared to these newer industrial suburbs in South Auckland [Wiri (35.9%) and especially Airport Oaks (61.5%)] Penrose has undergone substantial development and redevelopment since 1990. Since this time about 270,000 sqm of industrial space in buildings larger than 1,500 sqm were built compared to the 318,500 sqm built in Airport Oaks.

4.2 Penrose Occupier Market

The occupiers of industrial premises in the Penrose - Te Papapa area have been analysed according to their ANZSIC classifications. We have

analysed both the size of the various industry sectors in terms of their total space occupied as well as providing a breakdown of the quality of buildings that these firms occupy.

The table below shows the breakdown of occupiers at the ANZSIC Division level.

Table 1. Penrose Occupier Market by Industry Classification

	Size (sqm)	Number	Average (sqm)	%
Agriculture, Forestry, and Fishing	0	0	0	0.0%
Mining	10,953	1	10,953	0.7%
Manufacturing	718,527	312	2,303	49.1%
Electricity, Gas and Water Supply	5,905	6	984	0.4%
Construction	89,084	58	1,536	6.1%
Wholesale Trade	205,066	155	1,323	14.0%
Retail Trade	128,913	116	1,111	8.8%
Accommodation and Food Services	0	0	0	0.0%
Transport and Storage	176,924	46	3,846	12.1%
Communication Services	10,277	5	2,055	0.7%
Finance and Insurance	1,782	1	1,782	0.1%
Property and Business Services	67,398	40	1,685	4.6%
Education	683	1	683	0.0%
Health and Community Services	4,189	4	1,047	0.3%
Cultural and Recreational Services	2,499	2	1,250	0.2%
Personal and Other Services	40,521	12	3,377	2.8%
OVERALL	1,462,721	759	1,927	100.0%

Source: CB Richard Ellis

- Five predominant industries out of the sixteen industry divisions account for 90% of the Penrose industrial area monitored by CBRE.
- Manufacturing firms occupy 49% (718,000 sqm) of the total industrial space in the Penrose area. The average space each Manufacturing firm occupies is 2,300 sqm compared to the 1,900 sqm average for all firms.
- Wholesale trade is the next biggest industry which occupies 14% of the total space, closely followed by Transport and Storage at 12%, and Retail Trade at almost 9%. The average size of Wholesale Trade firms is 1,300 sqm compared to 3,800 sqm for Transport and Storage firms and 1,100 sqm for Retail Trade firms.
- The minor industries of Construction and Property and Business Services occupy between 5% and 6% each of the total space and each of these firms occupies 1,500 sqm and 1,700 sqm on average respectively.

The next table relates building quality to occupier activity and details occupiers by both ANZSIC division and by the quality of the building they occupy.

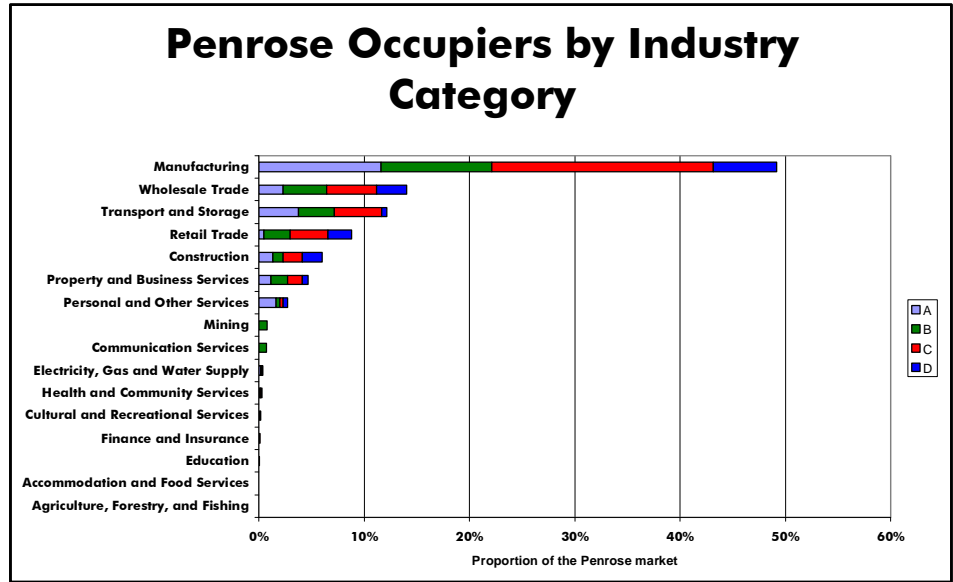
Table 2. Penrose Occupier Market by Industry Classification and Quality Rating

	Quality Rating			
	A	B	C	D
Agriculture, Forestry, and Fishing	0%	0%	0%	0%
Mining	0%	100%	0%	0%
Manufacturing	24%	21%	43%	12%
Electricity, Gas and Water Supply	39%	24%	26%	11%
Construction	22%	16%	30%	32%
Wholesale Trade	16%	30%	34%	20%
Retail Trade	5%	28%	41%	25%
Accommodation and Food Services	0%	0%	0%	0%
Transport and Storage	31%	28%	37%	4%
Communication Services	0%	100%	0%	0%
Finance and Insurance	0%	0%	100%	0%
Property and Business Services	25%	33%	30%	12%
Education	0%	100%	0%	0%
Health and Community Services	40%	22%	39%	0%
Cultural and Recreational Services	66%	34%	0%	0%
Personal and Other Services	59%	15%	10%	16%

Source: CB Richard Ellis

- A major proportion of Manufacturing firms (55%), Wholesale Trade firms (54%), and Retail Trade firms (66%) occupy Grade C and Grade D buildings built prior to 1980 compared to 41% for Transport and Storage firms. These high proportions reflect that Penrose is one of Auckland’s older industrial areas.
- A substantial proportion of Transport and Storage firms (31%) occupy Grade A buildings built after 1990, compared to 24% for Manufacturing firms, 16% for Wholesale Trade firms, and 5% for Retail Trade firms. The high proportion for Transport and Storage firms reflects general market demand of this industry for modern high stud warehouses, a requirement that is not so essential for industrial manufacturing.

The chart below graphically illustrates the quality distribution of space for each industry category of occupier and further underlines the dominance of manufacturing in the area.



4.3 Penrose Vacancy

The following chart shows the Penrose industrial vacancy trends over the past five years.

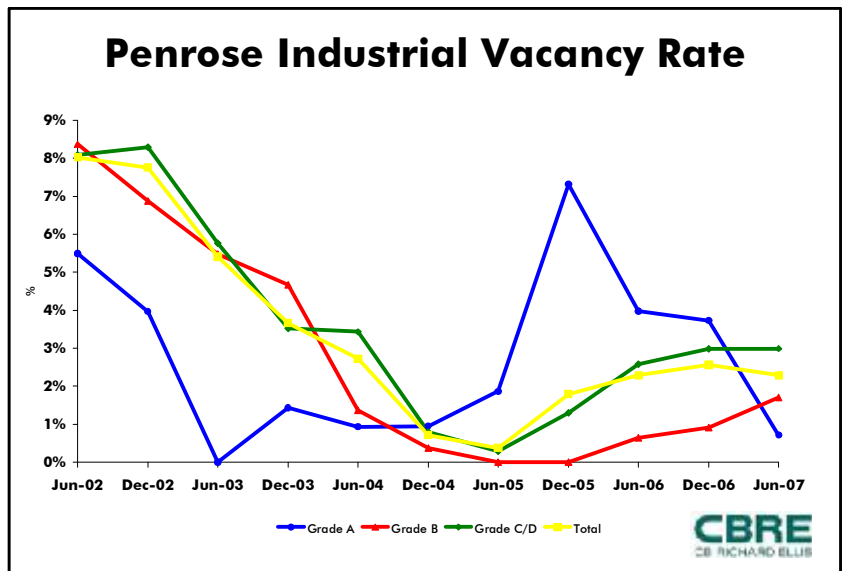


Table 3. Penrose Vacancy by Grade

	GRADE A	GRADE B	GRADE C/D	OVERALL
percent	0.71%	1.70%	2.99%	2.29%
sqm	1,963	7,411	29,216	38,590

Source: CB Richard Ellis

- From June 2002 to June/December 2005 vacancies in Grade B and Grade C/D industrial units gradually declined from a level between 8.0% and 8.4% to a level as low as 0% and then increased again to a level between 1.7% and 3.0%.
- Vacancies in Grade A industrial units declined from 5.5% in June 2002 to 0% in June 2003, sharply increased to a peak of 7.3% in December 2005 and then declined to 0.7% in June 2007. The increase in Grade A vacancies was due to a lag in market absorption of 39,400 sqm of new Grade A stock coming on stream in 2005/2006.

4.4 Greenfield, Potential Vacant, and Brownfield Land

We have partially utilised ARC’s 2008 survey that identifies Greenfield business land, potential vacant business land, and Brownfield Business land.

Greenfield land is defined as any parcel of land that is zoned for business activities that contains no buildings. Potential vacant land is defined as any parcel of land that that has one or more business activity building on it and includes a portion of undeveloped or vacant land (i.e. the parcel is partially vacant and therefore underutilised). Brownfield land is defined as existing business zoned land that has been developed, but is either not in current use or is significantly under utilised, and could be regenerated or redeveloped for business use. Greenfield sites greater than 1 Ha are listed below.

The map below highlights the locations of the various land holdings in the precinct.

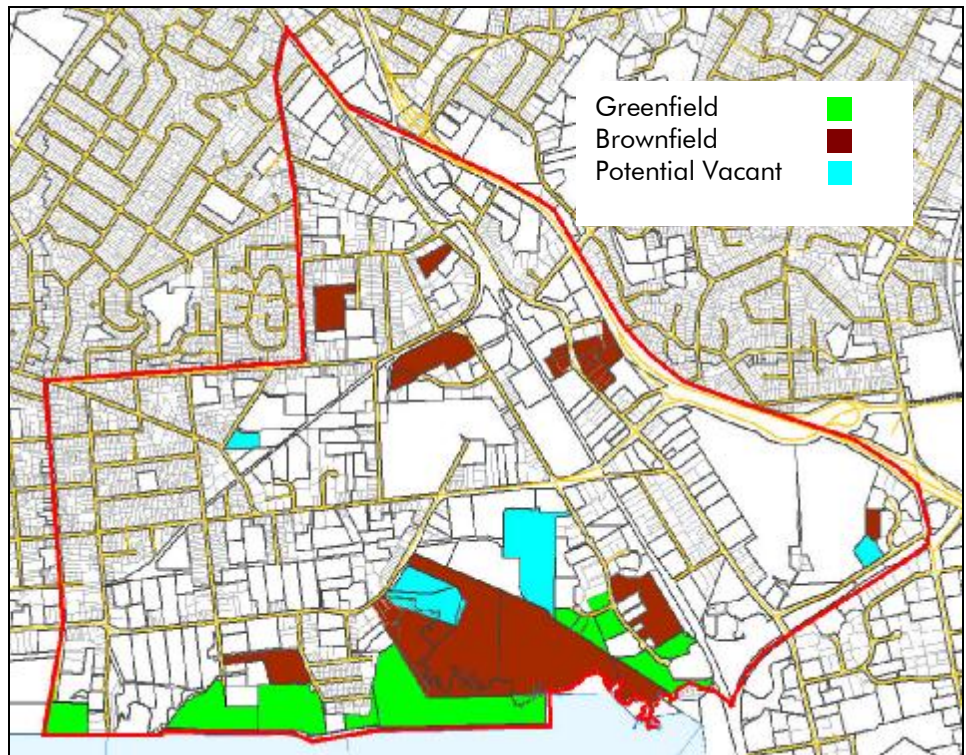


Table 4. Penrose Greenfield Land Supply greater than 1 Ha

Status	Address	Land Area (Ha)
Greenfield	69 Captain Springs Road	8.1
Greenfield	5-9 Miami Parade	7.3
Greenfield	2-4 Southpark Place	1.5
Greenfield	Victoria Street South East	9.9
Greenfield	142-162 Hugo Johnstone Drive	1.6
Greenfield	6-10 Southpark Place	1.6
Greenfield	141 Hugo Johnston Drive	3.3
Greenfield	Neilson Street South	17.7
TOTAL		51.0

Source: ARC & CB Richard Ellis

- Greenfield land greater than 1 Ha in the Penrose - Te Papapa area totals 51.0 Ha. The bulk of this land is located at the end of Hugo Johnstone Drive and South of Neilson Street along the shore line. Ports of Auckland owns 17.7 Ha and a single private investor owns the first four sites listed above totalling 26.8 Ha.
- Potential vacant land forms a total of 2.9 Ha in the Penrose - Te Papapa area. The bulk of this land is located at the Carter Holt Harvey site in 33 Hugo Johnston Drive, 8 Sylvia Park Road, and 33 Felix Street. Potential vacant land forms about 22% of the total area (13.1 Ha) of these sites.

Table 5. Penrose Brownfield Land Supply greater than 1 Ha

Status	Address	Land Area (Ha)
Brownfield	1 O'Rorke Road	5.2
Brownfield	13-17 Botha Road	3.6
Brownfield	296 Neilson Street	2.0
Brownfield	108-138 Hugo Johnston Drive	7.8
Brownfield	19 Station Road	1.3
Brownfield	81 Captain Springs Road	4.1
Brownfield	204 Neilson Street	1.5
Brownfield	South of 345 Neilson Street	33.9
Brownfield	830-844 Great South Road	2.2
Brownfield	3 Pacific Rise	1.0
Brownfield	862-880 Great South Road	2.4
Brownfield	645 Great South Road	2.5
TOTAL		67.4

Source: ARC & CB Richard Ellis

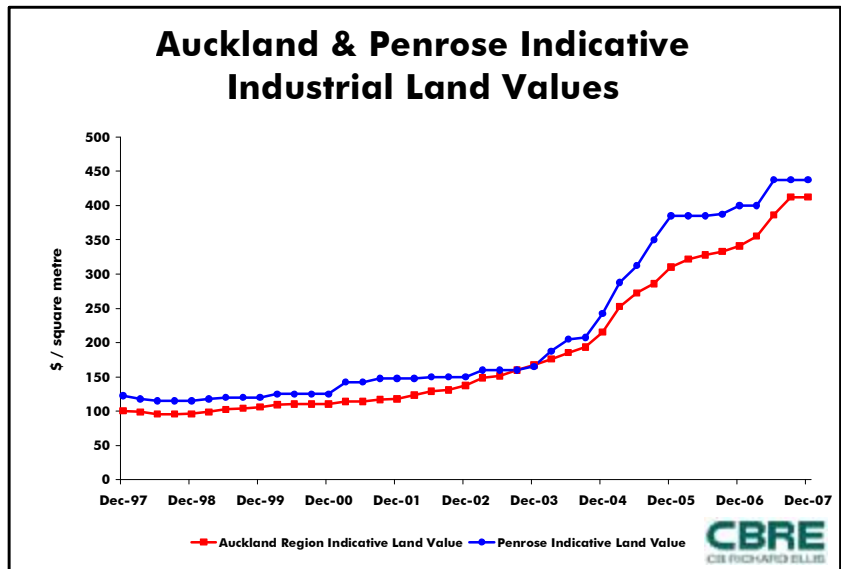
- Brownfield land supply greater than 1 Ha forms a total of 67.4 Ha. Almost 50% of this land is owned by Toll New Zealand and is operated as container port located south of The Gate Industrial Park in Neilson Street.
- The combined area of the adjacent sites at 830-844 and 862-880 Great South Road is 4.9 Ha with another 2.5 Ha located at 645 Great South Road on the direct opposite side of the road. 830-844 Great South Road is owned by Tony Radasich, 862-880 Great South Road is owned by Valad Property Group, and 645 Great South Road is owned by Works Infrastructure.
- The former freezing works is located at the rear of 108-138 Hugo Johnston Drive. This 7.8 Ha site is owned by John Sax.
- The 5.2 Ha site at 1 O'Rourke St, the Penrose Panels Manufacturing Plant, is owned by Dominion Funds.
- Details of developments on the above sites can be found in Section 6.2

One factor that needs to be considered is the actual availability of sites for development. In some cases the ownership and lease structures currently in place mean that several of the sites listed in our analysis are not available for development.

4.5 Land Value

The following chart compares the indicative land values of the Auckland Region and Penrose between 1997 and 2007.

- The rate of land value growth in Auckland intensified between 2002 and the latter half of 2007. The strong increase in land values was driven by a combination of a number of factors, including good overall economic growth. There was a perception of limited and reducing business zoned land in Auckland and an increasing proportion of owner occupiers participated in the land market and competed against the traditional land developer. Developers/investors who did not require an immediate profit margin and held onto completed buildings instead of on-selling, thus avoiding incurring on-selling costs, were able to pay higher land prices and outbid the traditional land developer.
- In December 1997 Penrose’s indicative land value was \$123 per sqm, 23% higher than the \$100 per sqm average for the Auckland Region. Over the 10 year period to December 2007 Penrose indicative land values increased by 256% to \$438 per sqm. Currently, Penrose land values are 6% higher than that the Auckland Region average which increased by 313% to \$413 per sqm.



The following chart details the high/low/indicative Penrose land value growth since 1993. The table details Penrose land values and their annual change.

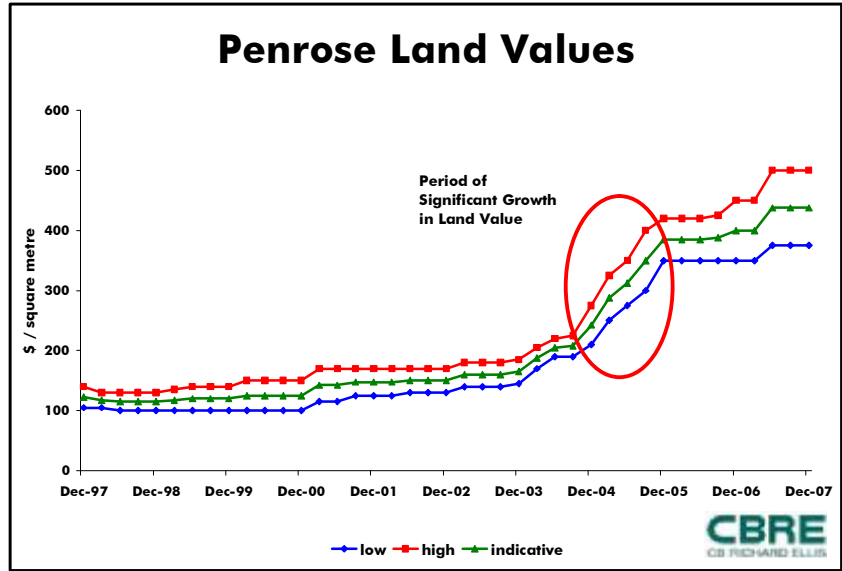


Table 6. Penrose Industrial Land Values (\$ per square metre)

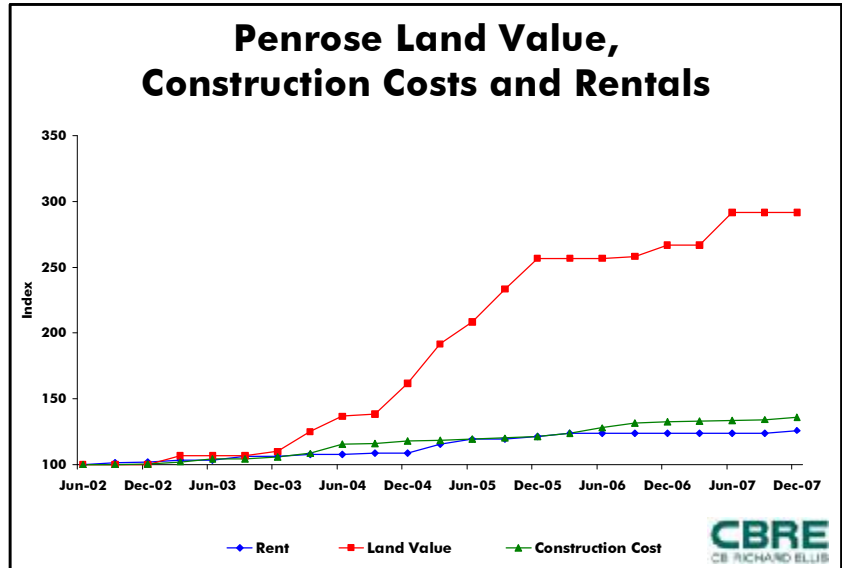
	Low		High		Indicative	
	\$/sqm	change %	\$/sqm	change %	\$/sqm	change %
1997	\$103	18%	\$140	2%	\$122	8%
1998	\$101	-2%	\$130	-7%	\$116	-5%
1999	\$100	-1%	\$139	7%	\$119	3%
2000	\$100	0%	\$150	8%	\$125	5%
2001	\$120	20%	\$170	13%	\$145	16%
2002	\$129	7%	\$170	0%	\$149	3%
2003	\$141	10%	\$181	7%	\$161	8%
2004	\$190	35%	\$231	28%	\$211	31%
2005	\$294	55%	\$374	62%	\$334	58%
2006	\$350	19%	\$429	15%	\$389	17%
2007	\$369	5%	\$488	14%	\$428	10%

Source: CB Richard Ellis

- Growth in Penrose land values increased significantly by 55% to 62% in 2005, but remained static in 2006 and the latter half of 2007.
- Penrose has substantial potential for intensification through Brownfield development reflected in the high proportion of lower quality Grade C/D stock which forms 58% of the total stock.
- For major redevelopment to occur in Penrose, land values would need to rise to the level where the value of a cleared site in its new use is greater than the value of the site and existing building in its existing use plus the costs of demolition and clearing the site. Put in another way, the

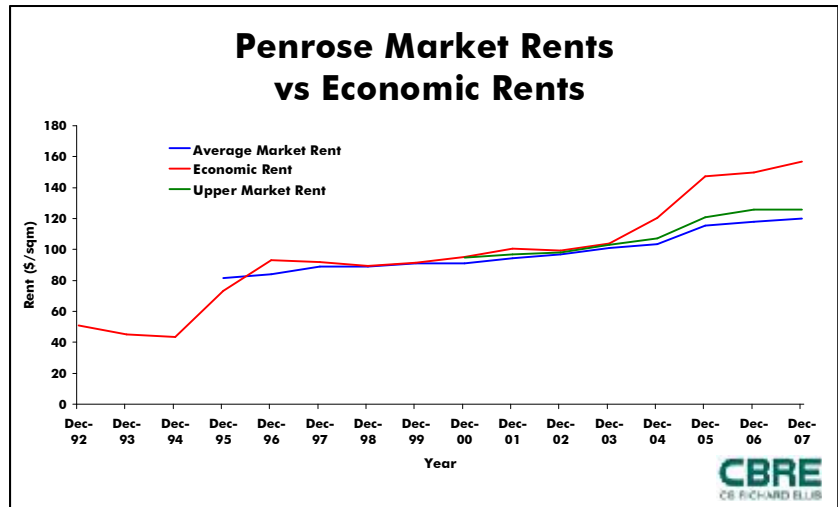
increase in value of a new development (land and buildings) over and above the value of the existing building and land its current use would need to be greater than the costs of redevelopment (including normal profit for the developer) plus the costs of demolition and clearing the site.

The following graph charts Penrose land values, construction costs, and rental values, each of which have been converted to an index of 100 as at June 2002 so as to enhance a visual comparison of growth rates.



- Land values have grown substantially faster than either rent values or construction costs from June 2002 until December 2007, notwithstanding static growth in land values between December 2005 and June 2006 and between June and December 2007.

The following chart plots market rents in Penrose against economic rent between 1992 and 2007.



- The gap between economic rent, the rent level at which development becomes economically viable, and average market rents was negligible between December 1998 and December 1993, then increased to almost \$37 per sqm in December 2007 due mainly to sharp increases in land values between December 2003 and December 2005. The current rent gap limits redevelopments based on purely economic considerations to higher value commercial development.
- The current rent gap does not preclude lower value industrial development where an owner/occupier has no requirement to create an immediate financial return or where the developer has been holding the land historically and is not factoring current land values into the feasibility equation. Refurbishment of existing buildings is also economically viable so long as the subsequent increase in value of the property is greater than the costs to achieve that increase.

4.6 Industrial Rental Trends

The following chart details Penrose's prime and secondary industrial office and warehouse net effective rental trends. The prime rent series applies to properties built since 1990 and over 1,500 sqm. The combined indicative prime rent uses an 80/20 split between office/warehouse space. The secondary rent series applies to properties built prior to 1990 and greater than 500 sqm and built since 1990, but under 1,500 sqm and over 500 sqm. The combined indicative secondary rent uses a 15/85 split between office/warehouse space.

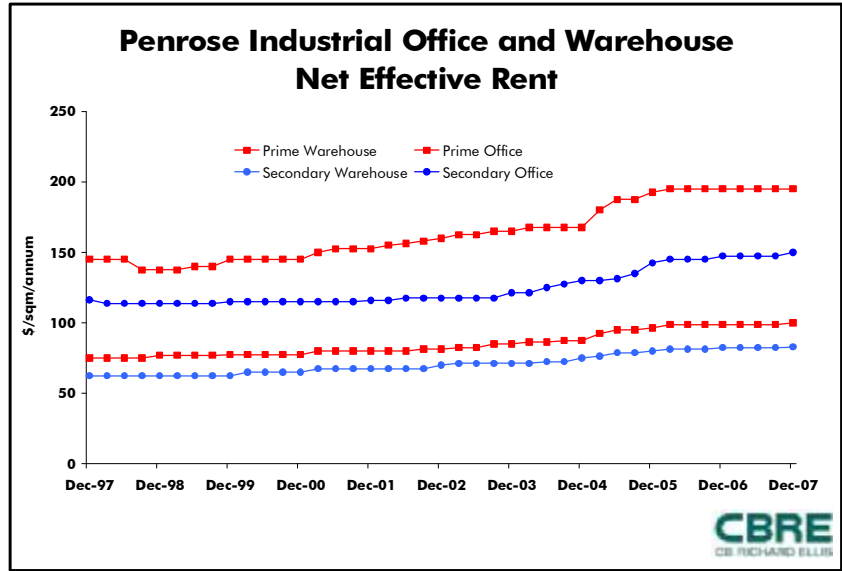


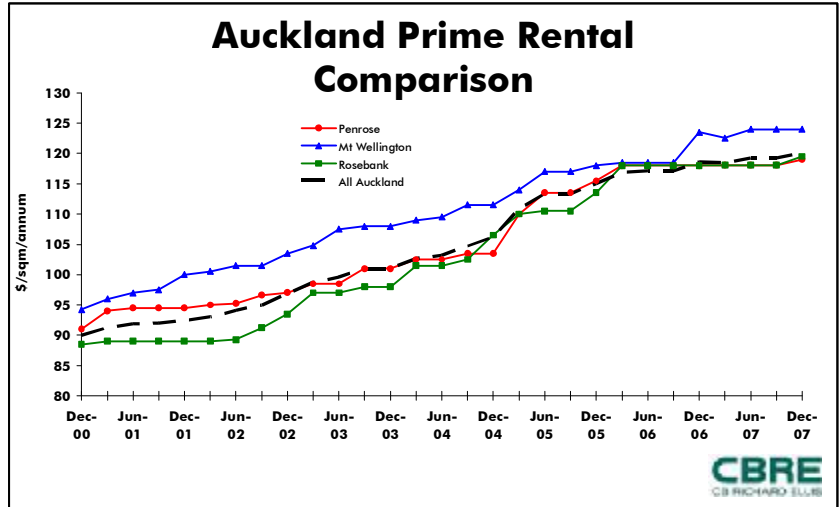
Table 7. Penrose Industrial Rental Values and Change (\$ per square metre)

	Prime			Secondary		
	W/HOUSE net face	OFFICE net face	COMBINED net effective	W/HOUSE net face	OFFICE net face	COMBINED net effective
RENT AT DEC 2007	77.5	145.0	91.0	65.0	115.0	72.5
RENT AT SEP 2007:	77.5	145.0	91.0	65.0	115.0	72.5
Quarterly change:	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Annual change:	0.6%	3.6%	1.6%	4.0%	1.1%	3.3%
5 year compound pa:	1.5%	3.9%	2.2%	2.0%	1.5%	1.9%

Source: CB Richard Ellis

- Penrose industrial rents for Prime and Secondary grade warehouses and offices remained static over the last quarter of 2007. Increases in rents over the full year of 2007 were moderate with Secondary combined rents increasing by 3.3% and Prime combined rents increasing by only 1.6%, a growth rate lower than inflation.
- Prime industrial warehouse space at December 2007 commanded rents at \$120 per sqm, up by 24% over the past five years while associated offices commanded \$195 per sqm, up by 22%.
- Office rents in the secondary market at December 2007 were \$160 per sqm, up by 28% over the last five years, while warehouse rents were \$83 per sqm, up by 19% over the same period.

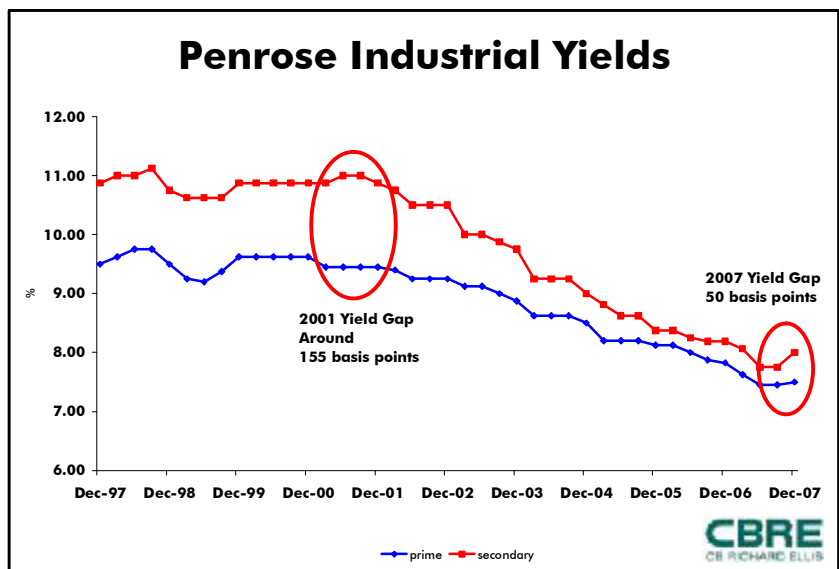
The following chart shows the combined prime rental trends for a selected number of comparable industrial precincts.



- Prime rents in Penrose were initially slightly higher than that in Rosebank (\$91.0 per sqm vs \$88.5 per sqm) and remained higher until September 2004 when the rent gap closed. The rent gap temporarily widened again until March 2005. Combined primes rents in both precincts have subsequently closely tracked each other.
- Prime rents in Mt Wellington adjacent to Penrose to the East have historically been substantially higher than that in Penrose, but the rent gap almost closed from March until September 2006 and then the rent gap widened again.

4.7 Industrial Value Trends

The following chart details Penrose’s prime and secondary industrial capital value trends.



- Yields have firmed substantially over the 10 year period to December 2007 from 9.50% to 7.50% for prime industrial properties and from 10.88% to 8.00% for secondary industrial properties.
- The yield gap between prime and secondary properties closed from a high of 155 basis points over the June/September 2001 quarters to a low of 25 basis points over the December 2005 and March/June 2006 quarters. The yield gap then widened to 50 basis points in the December 2007 quarter when prime and secondary yields eased by 5 basis points and 25 basis points respectively.

Table 8. Penrose Capital Values (\$ per square metre)

	Prime		Secondary	
	High	Low	High	Low
1997	903	856	657	623
1998	902	862	621	570
1999	946	883	633	556
2000	918	850	653	555
2001	960	900	662	577
2002	988	936	694	602
2003	1052	1003	758	698
2004	1159	1070	888	764
2005	1326	1238	1013	925
2006	1425	1324	1110	1029
2007	1526	1407	1180	1086

Source: CB Richard Ellis

- A significant amount of both institutional and private investment capital in the market has been one of the drivers behind the above yield firming. The other driver has been ongoing appreciation in land values and a subsequent increasing share of the land component in the total capital value of the property.
- High prime capital values increased by 69% from \$903 per sqm to \$1,526 per sqm over the ten year period to December 2007 while high secondary capital values increased by almost 80% from \$657 per sqm to \$1,180 per sqm.
- The latest trends reflect the softening investment market conditions. Accordingly yields have increased with most of this increase concentrating in the Secondary sector for lower quality and higher risk properties.

4.8 Major Property Owners in Penrose

Penrose has a diverse cross section of owners in terms of size (large and small companies) and background (owner/occupiers, investors) and intentions (passive and active) with regards to property opportunities. Several of these property owners own key sites or multiple adjoining sites which enhance the value of their holding and increase the opportunity for future redevelopment. Many of these owners also have significant balance sheet backing and/or development experience which adds to the likelihood of their sites being optimally developed.

The different ownership profiles have varying implications on the nature and evolution of this area. For example, a greater proportion of owner occupiers are likely to slow development and a large proportion of investors are likely to expedite development. The following tables show some of the notable owners under the various categories. We have focused on owners of sites that are greater than 1 hectare (Ha) as it will be on these that potential exists for the more notable and dramatic changes to the buildings stock and land use in the area. The list of owners under the owner occupier and private investor categories is inconclusive as some owners could not be accurately ascertained. The list of institutional property holdings is conclusive.

Table 9. Large Owner Occupiers Holdings

Owner	Address	Land Area (Ha)
Carter Holt Harvey Ltd	33 Hugo Johnston Drive	10.6
Fletcher Building Holdings Ltd	790-816 Great South Road	2.2
Flint Ink NZ Ltd	57 Walls Road	0.9
Freightways Properties Ltd	32 Botha Road	2.0
Freightways Properties Ltd	161 Station Road	1.7
James Hardie New Zealand Ltd	2 O'Rorke Road	2.5
Metals Warehouse Ltd	306 Neilson Street	1.0
Nuplex Industries Ltd	12 Industry Road	2.5
NZ Bakels Ltd	421 Church Street East	1.0
Penford New Zealand Ltd	319 Church Street	2.7
Steelpipe New Zealand Ltd	224 Neilson Street	3.5
Winstone Ltd	37-41 Felix Street	3.9
TOTAL		34.4

Source: CB Richard Ellis

Table 10. Large Private Property Investor Holdings

Owner	Address	Land Area (Ha)
273 Neilson Street Ltd	273 Neilson Street	2.8
Coolum Properties Ltd	525A Great South Road	1.9
Edney	184 - 192 Rockfield Road	3.7
Edney	5 Maurice Road	1.9
Edney	160 Rockfield Road	3.7
Gordon	31 Maurice Road	1.5
ING	4 Henderson Place	2.2
James Kirkpatrick	930 Great South Road	1.4
John Sax	108-138 Hugo Johnston Drive	8.7
Location (Church Street) Ltd	273 Church Street	2.3
Morris & Jackson	27 Patrick Street	1.6
Morris & Jackson	270-280 Neilson Street	5.9
Samson Corporation Ltd	15 Beasley Avenue	1.3
Samson Corporation Ltd	117-147 Neilson Street	2.0
Samson Corporation Ltd	362-370 Church Street	2.0
Siat Limited	11 Walls Road	1.4
Siat Limited	101-103 Neilson Street	1.2
T & O Properties Ltd	218 Station Road	2.7
Tony Radasich	830-844 Great South Road	2.2
TOTAL		50.5

Source: CB Richard Ellis

Table 11. Institutional Property Investor Holdings

Owner	Address	Land Area (Ha)
Dilworth Trust Board	24-26 O'Rourke Road	1.6
Direct Property Fund	9 Southpark Place	1.7
Direct Property Fund	306 Neilson Street	1.0
Direct Property Fund	312-314 Neilson Street	1.6
Direct Property Fund	83-91 Captain Springs Road	1.3
Direct Property Fund	122 Captain Springs Road	1.0
Dominion Funds	20 Rockridge Avenue	1.7
Dominion Funds	968 Great South Road	1.2
Dominion Funds	1 O'Rourke Road	5.2
Goodman	373 Neilson Street	15.4
Goodman	345 Neilson Street	6.8
Goodman	575-591 Great South Road	5.9
Kempton Holdings Ltd	6-10 Southpark Place	1.6
PFI	373A Neilson Street	2.5
PFI	102 Mays Road	1.1
PFI	415, 417, 417a Church Street	1.5
Valad	862-880 Great South Road	2.4
TOTAL		53.5

Source: CB Richard Ellis

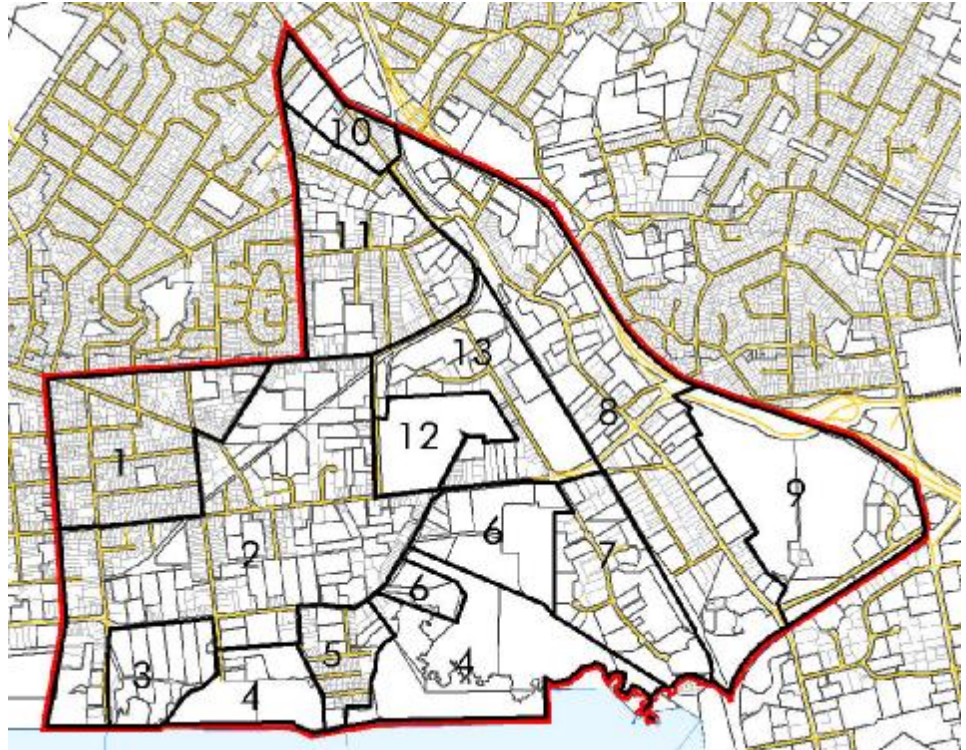
Land larger than 1 Ha under the various ownerships listed above totals some 138 Ha. The largest group is institutional property investors which own 53.5 Ha with large private property investors following closely behind with 50.5 Ha. Owner-occupiers own 34.4 Ha. A number of the sites listed above are under developed and a number of buildings on some sites are in a state of disrepair or even derelict. There are current plans to develop some of these sites as highlighted in Section 7.

Institutional property investment activity is well established in Penrose and we have provided some detail below on institutional property owners in the area.

- Goodman with a total New Zealand property asset base of \$1.2 billion is the most active institutional property investor in Penrose. Goodman's Penrose portfolio includes Gate Industry Park at 373 Neilson Street and Gateside Industry Park at 345 Neilson Street. These two industrial parks have net lettable areas of 85,541 sqm and 19,549 sqm and a 2007 Valuation of \$113.1 million and \$24.9 million dollars respectively.
- Direct Property Fund Limited (managed by DPF Management Limited) owns adjacent sites at 306 and 312-314 Neilson, a combined land area of 2.6 Ha.
- Dominion Fund is an unlisted property company that manages a portfolio worth more than \$850 million, including the Penrose Panels Manufacturing Plant at 1 O'Rorke Road, a 5.1 Ha site. The company acts as both an investor and developer.
- AMP managed Property for Industry (PFI) owns 59 properties in key industrial locations with a 2007 valuation of \$437 million. PFI's largest site in Penrose (2.5 Ha) is located adjacent to Goodman's Gate Industry Park.
- Valad is a top 150 ASX-listed company with offices throughout Asia Pacific and Europe with approximately A\$20 billion of assets under management. In 2007, Valad purchased the Carter Holt property portfolio in New Zealand and owns the 2.4 Ha Brownfield site at 862 Great South Road occupied by Carter Holt Harvey. This site is adjacent to the 2.2 Ha Brownfield site at 83-844 Great South Road owned by Tony Radasich.

5 Zones of Activity

The map below separates the Penrose – Te Papapa precinct into zones according to location and predominant characteristics of size of sites, building size, building condition, actual land use, and additional development and/or redevelopment potential within the zones.



Our interpretation of the profile of the various zones is set out below;

- Zone 1: North west location, residential.
- Zone 2: West location, larger sites, average building condition, mixture of industrial uses, and limited Brownfield land and potential vacant land. Some potential for residential encroachment on sites adjacent to existing residential uses.
- Zone 3: Waikaraka Park and Cemetery.
- Zone 4: South of Neilson Street location adjacent to shoreline, large sites, predominately Greenfield and Brownfield land.
- Zone 5: South of Neilson Street location, small buildings on small sites, and older buildings in poor condition, dirty light and heavy industrial activity, fragmented potential for redevelopment.

- Zone 6: Central location south of Church Street, industrial parks, predominantly storage and distribution, potential vacant sites.
- Zone 7: Hugo Johnstone Drive location, larger modern buildings, predominantly storage and distribution, large Greenfield and Brownfield sites.
- Zone 8: Great South Road and side streets location, mixture of large and smaller sites, mixture of building sizes, mixture of offices/warehouses and showrooms/warehouses.
- Zone 9: South east, Sylvia Park Road, some potential vacant land and Brownfield land.
- Zone 10: Great South Road north location, predominantly multi-storey office buildings and office parks.
- Zone 11: North-west of Mt Smart Road and Station Road location, predominantly smaller office/warehouses on small sites, clean industrial, and some potential for Brownfield redevelopment on larger sites, otherwise fragmented potential.
- Zone 12: Ericson Stadium.
- Zone 13: Central location north of Church Street, a number of large sites, high quality large offices/small warehouses along Rockridge Avenue, potential for similar development on large Brownfield site at 1 O'Rorke Road.

6 Overview of Development Activity

A number of development trends have been evident over the last ten years in the Penrose area. These are:

- Formation of industrial parks.
- Appearance of major spec building.
- Transition from low to high stud heights.
- Showrooms taking advantage of street frontage.
- Refurbishment and start of gentrification.
- Appearance of modern office/warehouses in established areas.
- Planned incremental redevelopment.
- Introduction of terraced housing and townhouses.
- Transition from dirty to clean industrial.
- Expansion on site.

We will cover each of these types of development activity in some detail below.

6.1 Formation of industrial parks

Formation of industrial parks, a planned conglomeration of industrial buildings and individual units within complexes of buildings all on a single site is a relatively new development approach in New Zealand. A late 1980s example is 761-787 Great South Road shown in the photographs below. This industrial park takes advantage of the Great South Road frontage with showrooms and offices above. Groups of units are arranged around a central courtyard at the rear of the site.



A more recent example of an industrial park completed in 2006 is located at 930 Great South Road. This complex shown in the photographs below comprises 30 office/warehouse units grouped in five buildings ranging size from 360 sqm to 646 sqm. It is of note that 22 out of the 30 units are vacant as of March 2008.



6.2 Appearance of major spec building

An example of a major (11,850 sqm) spec industrial building is the former Coca Cola Amatil building shown in the photograph below. This building located at 30 Victoria Street was developed by James Kirkpatrick, a private developer.



6.3 Transition from low to high stud heights

Many early vintage industrial buildings in Penrose - Te Papapa have a relatively low stud height (4.5 m) and short roof span (15 m). These buildings commonly house light manufacturing activities. A typical example is shown in the left photograph below of a group of buildings in Pukimiro Street. A 4.5 m stud height is an absolute minimum for any industrial purposes, and a stud height of 6 m has become necessary to enable higher stacking and more economically efficient storage. A typical example is shown in the middle photograph below of a warehouse in Captain Springs Road. Modern hoisting and stacking systems in large scale distribution centres can take advantage of a stud

height of 8 to 10 m. An example is shown in the right photograph below of a major warehouse under construction in Victoria Street.



6.4 Showrooms taking advantage of street frontage

There is a trend for developments or redevelopments in Business 5 zones to take advantage of street frontages to incorporate showrooms. This trend is especially pronounced along Church Street and Great South Road. The left photograph below shows an example of showrooms in Church Street, the middle photograph is of 718 Great South Road, and the right photograph is of recently completed building at 531 Great South Road.



6.5 Refurbishment and start of gentrification

A number of older (pre 1980s vintage) industrial buildings have undergone major refurbishment. An example shown in the photograph below is the BOC building at 970 Great South Road. The façade of this 6,200 sqm building has undergone substantial modernisation.



A large number of industrial buildings in the Penrose - Te Papapa area are long overdue for refurbishment to the extent that their building envelopes now show significant signs of degradation and decay. This applies especially to those relatively small, pre 1980s industrial buildings located on small sites and in “dirty” areas where manufacturing processes take place. The two buildings in the photographs below are located almost directly opposite each other at the East end of Miami Parade. The building in the left photograph has deferred maintenance to the extent that the property has devalued, whereas the owner/occupier of the building in the right hand photograph has undertaken major refurbishment. Refurbishment of pre 1980s buildings is also starting to take place by owner/occupiers in nearby Pukimiro Street.



6.6 Appearance of modern office/warehouses in established areas

Large scale, modern, well designed industrial buildings are the rule, rather than the exception, in new industrial park like streets such as Hugo Johnston Drive and Rockridge Avenue. Developers are continuing this trend in established industrial areas with smaller scale buildings. The photographs below show two examples that take full advantage of corner sites. The building on the left is located in Neilson Street and the building on the right is located at the corner of Wall Street/Fairfax Avenue.



6.7 Planned incremental redevelopment

A large number of adjacent sites in the Penrose - Te Papapa area are relatively small with separate ownership that is not conducive to planned redevelopment unless developers purchased a series of adjacent sites. A good example of planned incremental redevelopment is in Onehunga Mall, a few streets over from the boundary of the Penrose - Te Papapa area where a series of adjacent sites are owned by Samson Corporation Limited. The first two photographs below show the initial planned development with street frontage and driveway to rear units. The distant south wall of the redevelopment can be seen in the right hand photo. The units range in size from 200 sqm to 600 sqm. The buildings to the front and right of the development are also owned by Samson Corporation, and these will be demolished and built on as part of the incremental expansion of the redevelopment.



6.8 Introduction of terraced housing and townhouses

The majority of houses in the Penrose - Te Papapa and adjacent Onehunga area are detached. In recent years a number of adjacent sites have been consolidated and redeveloped into terraced housing and townhouses. The left hand photograph below show examples of terraced housing in Felix Street located at the fringe of the industrial area. The right hand photograph shows low cost townhouses in Onehunga.



6.9 Transition from dirty to clean industrial

The well established older industrial areas of Penrose - Te Papapa include a number of large scale heavy industrial manufacturing buildings. A Neilson Street example is shown in the left photograph below. The trend for development on Greenfield land and redevelopment on Brownfield land is for clean office/warehouses rather than manufacturing. An example is shown in the right photograph below. The building located at 65 Hugo Johnston Drive is occupied by L’Oreal NZ Limited and is owned by John Sax. The industrial buildings in Hugo Johnston Drive would not be out of place in a Business 5 zone.



6.10 Expansion on site

A number of businesses choose to expand their operations on site rather than relocate to larger premises. An example shown in the photograph below is Hirepool at 820 Great South Road. Hirepool has expanded its operations at the Great South Road frontage to the rear of the site at Holloway Place. Hirepool has further expanded its operation on opposite corner site at 4 Holloway Place.



7 Greenfield, Potential Vacant, and Brownfield Development

7.1 Greenfield development land

John Sax owns the prime site of 1.5 Ha at 2-4 Southpark Place at the South corner to Hugo Johnston Drive as shown in the left photograph below. John Sax also owns the 0.7 Ha site on the opposite corner at 109-125 Hugo Johnston Drive shown in the right photograph. A new warehouse will be developed on this site for BJ Ball which will shift from its current warehouse at the South West corner of Neilson Street and Hugo Johnston Drive.



7.2 Potential vacant development

Gateside Industry Park at 345 Neilson Street shown in the photograph below is owned by Goodman. There is currently 19,000 sqm of industrial space on the 6.8 Ha site. An additional 10,000 sqm development is planned to be constructed on the surplus land to west of site and a number of existing buildings will be refurbished, including one for TNL Freight. Rents expected to be \$115 per sqm for warehouses and \$215 per sqm for offices.



The 14,000 sqm Seamount building at 69 Captain Springs Road shown in the left photograph below will be extended by 16,000 sqm. Site works has already started as shown in the right photograph. The land is reclaimed land which necessitates the use of either piling or raft foundations, the costs of which add a premium to the costs of construction compared to a site located on more stable land.



The potential vacant land shown in the photographs below is located at the South East corner of Felix Street and Mays Road. The site is owned by Owens Transport and is zoned Business 4. A complex of terraced housing is located in a Business 4 zone on the opposite side of Mays Road to the South and the land to the north corner of Mays Road and Felix Street is zoned Residential. The site in question has the potential to be developed likewise into a complex of terraced housing.



7.3 Brownfield development land

The 2.2 Ha Brownfield site at 830-844 Great South Road shown in the photograph below is owned by Tony Radasich. The 7,800 sqm dilapidated building on site is occupied by Texaco Auction & Tender and Warehouse Carpets.



The adjacent 2.4 Ha Brownfield site at 862-880 Great South Road shown in the photograph below is owned by Valad. The 12,300 sqm complex of buildings on site are occupied Carter Holt Harvey and redevelopment is likely to take place on expiry of the 9 year leases.



The 2.5 Ha Brownfield site shown in the photograph below is located on the direct opposite side of Great South Road at number 645. The site is owned by Works Infrastructure and the 4,300 sqm building complex is currently occupied by Downer Edi Works. Works Infrastructure will be moving from Lunn Ave in Mt Wellington. This move illustrates the passing of sites into higher value uses as the Lunn Ave site Works are moving from has been sold by them to be redeveloped into retail use.



The 7.8 Ha Brownfield site at 108-138 Hugo Johnstone Drive shown in the photographs below is owned by John Sax. The major building on this rear site used to be the freezing works, the south end of which is currently leased to tenant while the north end is derelict. John Sax also owns three additional sites with modern industrial buildings that front onto Hugo Johnston Drive. This major Brownfield site is likely to be developed into traditional offices/warehouses of the same high standard as other industrial buildings that front Hugo Johnston Drive. The timing of redevelopment is uncertain. Hugo Johnston Drive is zoned Business 6, heavy industrial, but the developments that have actually taken place in Hugo Johnston Drive warrant a rezoning to Business 5.



The 33.9 Ha Brownfield site shown in the photograph below is located south of The Gateside Industry Park at 345 Neilson Street and is owned by Toll New Zealand. This land is currently used as a regional centre for the distribution by truck to the Auckland region of containers that were transported to Auckland by rail. The availability of this site for redevelopment is dependent on the timing and extent of rising levels of land values in the area and the future share of transport between major centres by rail versus by truck. The opportunity cost of retaining the site in its current use will rise over time to a level where a higher and alternative use for the site becomes viable.



The 5.2 Ha Brownfield site at 1 O'Rourke Road shown in the photograph below is owned by Dominion Funds and the 34,000 sqm complex of buildings on site is currently occupied by the Penrose Panels

Manufacturing Plant. This site will likely be redeveloped when the lease expires.



8 Future Trends & Issues

In preparing this section we have relied on both our own experience and thoughts on the area as well as consulted some of the property interests with an active role in the Penrose area.

8.1 Auckland Business Property Market

- Auckland's central industrially zoned land is coming under increased intensification pressure. Greenfield business zoned land in Hobsonville, Highbrook, Takanini and Papakura will increasingly cater for large new build industrial occupiers. They will attract occupiers of central secondary premises who will be leaving redevelopment opportunities behind. These redevelopment sites will come under pressure to increase the intensity of their land use.
- The increased involvement of institutional entities both locally and internationally is likely to mean less high value property trading as they tend to hold assets for a longer time than private or smaller investors. It will also likely see property being owned by organisations with large resources and significant management skills enabling the property to be optimally positioned.

8.2 Penrose - Te Papapa Market

- The cost of locating in Penrose for industrial occupiers is likely to rise relative to many other industrial precincts as the area becomes an increasingly higher value location.
- Existing industrial occupiers who lease their premises may find the rental cost becoming too high and relocation to a cheaper suburb becoming a desirable/necessary option.
- The area will experience continued development with increasing focus on positioning assets to their highest and best use over time. This will mean an increasingly non traditional industrial development focus in many parts of Penrose.
- The existence of owner occupiers and the long term leases over some of the current properties however will limit both the speed and location of redevelopment.

8.2.1 Regional Positioning of Penrose – Te Papapa

- Penrose - Te Papapa has the largest stock of industrial units in the Auckland Region
- The area has a stock of Greenfield land for additional development and Brownfield land for more intensive redevelopment to ensure it remains an active and progressive industrial market. However, ownership and lease structures mean that not all of this land is readily available for development.
- Penrose - Te Papa has the advantage of being centrally located in the Auckland Region compared to competing industrial precincts such as Wiri, Henderson, and Albany which are located at the fringe. Costs of distribution to the Auckland Region are subsequently less. An additional advantage is the precinct's proximity to Auckland's main transport corridors. The east and west edges of the Penrose – Te Papapa precinct are directly adjacent to Auckland - Hamilton Motorway and the South Western Motorway. Widening of Mangere Bridge by way of duplication will ease current congestion on the South Western Motorway.

8.2.2 Property Uses

- A high proportion of older Grade C/D industrial buildings are located on small sites and these units tend to have an undesirable low stud height unsuitable for today's industrial market. A number of these buildings are falling into disrepair and eventually will need to undergo refurbishment or be redeveloped. Consolidation of a series of adjacent sites would enable a more economically efficient redevelopment. Some developers have already purchased adjacent sites and have adopted a planned incremental redevelopment approach by demolishing and rebuilding in response to the dictates of the market.
- New developments tend to provide for storage and redistribution instead of light or heavy industrial manufacturing. The proportion of office space to total floor space is greater in these developments and typical new office/warehouses have a substantial two storey, high quality office in front with an 8 m to 9 m stud height warehouse behind.

- The rent gap between economic rent, the rent level at which new development is economically viable, and market rent has increased in recent years due to recent substantial increases in land values in the precinct. The implications are that new development in the near future is likely to be focused at the top end of the market where higher rents can be justified.
- New showrooms are being developed or redeveloped on properties with a high profile street frontage. This trend applies especially in Church Street and Great South Road. Sufficient onsite parking for customers is not always provided.

8.2.3 Zoning and Land use

- Hugo Johnston Drive is zoned Business 6, heavy industrial. The actual development of clean use and high quality offices/warehouses along Hugo Johnston Drive warrants rezoning to Business 5 so as to avoid any potential land use clash.

8.2.4 Traffic

- Traffic congestion at peaks periods is becoming an increasing issue along the main arterial routes of Great South Road, Mays Road, from Great South Road to Neilson Street via Church Street, and Neilson Street to the South Western Motorway and Hugh Watt Drive. Neilson Street has sufficient width to carry higher volumes of traffic by eliminating the median strip and/or prohibiting street parking. This potential will need to be put into effect as traffic volumes increase due to the development and redevelopment almost 100 Ha of vacant and Brownfield land along and to the south of Neilson Street. Development and redevelopment is likely to be more intensive resulting in greater employment per land area and corresponding greater commuter traffic.
- Right turning on Neilson Street is hazardous without traffic lights which slow down traffic flow, and elimination of right turning into minor streets with strategically placed U turn islands would maintain traffic flows. A major impediment to maintaining traffic flow is the bottleneck at the bridge to the Neilson Street – Onehunga Mall intersection which

considerably slows down the flow of traffic to and from the motorways.

- The new Onehunga branch line renewal will help to relieve commuter traffic congestion within the Penrose – Te Papapa precinct provided the new rail service is accompanied by a ring road bus service.

8.2.5 Street Parking

- Casual parking near the north end of Great South Road is impossible during working hours as all street parking is taken up by local employees. The local offices clearly do not accommodate sufficient onsite parking for both staff and visitors. The introduction of street parking meters would allocate parking more fairly.

9 Conclusions

- The Penrose-Te Papapa precinct is undergoing transition. The former small scale manufacturing and larger scale heavy manufacturing dominance is being diluted by new developments that provide for storage and distribution. The “dirty” is becoming overshadowed and/or replaced by the “clean”.
- Storage and distribution facilities require higher stud heights. It is more economic to develop such facilities on larger Greenfield land.
- The potential for additional development on Greenfield land and redevelopment on Brownfield land is sizeable, although ownership and lease structures mean that some of the land is not readily available for development.
- Both institutional property owners and major private investors/developers are very active within the precinct.
- New developments on Business 6 land may require rezoning to avoid land use clashes with actual developments that warrant Business 5 zone classification.
- Additional and higher intensity development on Greenfield and Brownfield land will exacerbate current traffic congestion problems within the precinct. Traffic engineering strategies to cope with increases in traffic volume will be necessary.
- There is a possibility that a number of small scale light manufacturing tenants will be eased out as the land value of the cleared site in a new and higher use justifies demolition and redevelopment. Owner/occupiers are likely to stay put, especially when the use value of the property to the owner exceeds its market value.
- A large proportion of the industrial stock is long overdue for refurbishment. There are early signs that a process of industrial gentrification is starting to take place.