

Ground Lessor Interests Highly Sought After



Welcome to the third quarter Whillans Report for 2011. After a tumultuous year in the global markets, commercial property in New Zealand has seen confidence return supported by positive data across key sectors.

Quality continues to attract values seen at the height of 2007, with strong competitive tension achieved in our recent sales,

including the Dilworth Trust Board's ground lessor interest in 7 Remuera trophy properties.

This sale comes off the back of another ground lessor portfolio in central Wellington, which formed part of a treaty settlement with ground leases to the crown in perpetuity. Sold by us off market in November to a local private investor the property changed hands at a 6% initial yield.

Having sold in excess of \$50m worth of ground lessor interests over the past 12 months, it never fails to amaze us of the overwhelming demand for this type of stock. Attracted by the passive nature, the pure growth associated with underlying land values and the hedge against inflation this affords, ground lessor interests are seen by many as a means of preserving as well as enhancing wealth.

We are currently in discussions with a number of leading New Zealand organisations looking to unlock their equity through ground lessor interests rather than standard sale and leasebacks. From a lessee's perspective, these groups see value in maintaining control of their operations, tax benefits and the sustainable nature of occupancy costs associated with ground lessor interests as opposed to triple net sale and leasebacks.

While New Zealand is set to enjoy respectable GDP growth over the coming year, a backdrop of global uncertainty will continue to place low risk assets like ground lessor portfolios at the top of investor wish lists.

I look forward to showcasing these opportunities with you in the New Year and would be happy to discuss your current or future requirements in the interim. Merry Christmas and wishing you the very best for a happy and prosperous new year.

Bruce Whillans

Market 2011 Third Quarter Update - Modest Uplift Across all Key Markets

CBD Commercial (Q3)

The CBD office market has posted its first uplift in effective rental rates as incentive levels for both prime and secondary CBD office stock begin to decline, reversing what has been a four year trend.

Yields remain steady, with some hint of yield compression across both sub markets evidenced through recent sales achieving dollar amounts above valuation.

Looking to the future, we anticipate this trend of recovery to continue, buoyed by positive employment data in the Auckland Region and a lack of any significant development pipeline.

Auckland CBD Commercial Market Summary (CBRE)			
	Prime	Secondary	Previous 6 mth trend
Vacancy*	8.6%	16.5%	(Decreasing)
Rent	\$356.00	\$212.00	(Flat)
Yield	8.80%	10.10%	(Flat/Firming)
Incentives	15.1 mths	14.8 mths	(Decreasing)

*Vacancy rates not assessed for Q3

Auckland Industrial (Q3)

Following from our previous quarterly outlook, industrial land values have seen a modest uplift in value, supported by the regions static supply of available industrial land.

A lack of speculative development continues to keep a lid on new supply, with a noticeable uplift in enquiry from owner occupiers and larger corporates looking to

shift operations into new premises or locations more strategic to their business requirements.

There has been no change in rental levels across both the prime and secondary markets, with marginal cap rate compression.

Auckland Industrial Market Summary (CBRE)			
	Prime	Secondary	Previous 6 mth trend
Vacancy*	2.7%	5.5%	(Decreasing)
Rent	\$108.4	\$68.6	(Flat)
Yield	8.17%	10.07%	(Firming)
Land Value	\$500	\$200	(Increasing)

*Vacancy rates not assessed for Q3

CBD Prime Retail (Q3)

2012 will see significant new retail supply brought online in the CBD with the development of 273 new retail strata units. The effect is likely to place downward pressure on secondary retail rentals and vacancies in the CBD.

Prime locations along lower Queen Street and High Street have seen rents and yields stabilise after 24 months of steady appreciation. We anticipate there will be little to no knock-on-effects to prime retail from this new supply.

Auckland CBD Prime Retail Market Summary (CBRE)				
	Average	High	Low	Previous 6 mth trend
Rent	\$2,410	\$3,250		(Flat)
Yield	6.65%	6.00%	7.25%	(Flat)

Looking at the Year Ahead - 2012



Analyst - Brendan Keenan

On the economic front, NZ commercial property is well positioned over the coming year.

Population growth pressure in Auckland and an undersupply of housing is reaching a critical stage, the Christchurch rebuild is expected to get underway in mid 2012, we don't have an 80's style oversupply headache, and our major trading partners are still experiencing respectable growth.

Privates will continue to dominate the investment landscape in 2012.

Without a significant improvement in the performance of global share markets, fund managers are unlikely to re-weight into property, which is good news for privates. We do expect to see re-weighting within existing listed portfolios, but not a broad based return of LPTs as buyers.

Expect to see continuing interest from offshore

investors who view NZ as a global safe haven away from the woes of Europe and America. Chinese and Sovereign Wealth Funds will become more active looking to diversify out of their \$USD denominated investments. Some Australians may even be lured across the ditch by our comparatively low exchange rate, attractive investment yields, and even lower interest rate regime.

We are seeing large scale opportunities like Soho Square, and Victoria Quarter come onto the market

as prime lenders draw lines in the sand and crystallise their positions.

The low interest rate regime and under the radar property underwriters are breathing new life into the development landscape.

A four year construction hiatus coupled by pent up demand for housing will underpin new developments in Auckland over 2012.

Insurance payout's from the Christchurch Earthquake has seen South Island investors looking to diversify their geographic base.

Auckland has been seen as a relative safe haven. Hoteliers are likely to be particularly active continuing the winning streak in the hotel sector where over \$1billion in hotel assets changed hands across Australia and New Zealand in the last 24 months.

The CBD office market led a staged recover in the second half of 2011. We expect this trend to continue into 2012. **Smart money will continue to re-enter this market over next year taking advantage of pricing and future growth expectations.** With no new major office developments planned a lid will be kept on supply, facilitating a recover in vacancy rates and rent levels. If you are considering shifting office premises do so now, as the market troughed in July.

High net worth privates, charitable trusts and superannuation funds will continue to seek out large scale modern industrial warehouses, putting additional downwards pressure on yields in prime industrial suburbs.

Environment of risk aversion will see strong demand for quality, with yields on par with the boom in 2007.

Ground lessor portfolios will continue to be strongly sought after, as will anything with strong tenant covenants and long term lease tenure.

Have a safe and relaxing break, and I look forward to working with you in the new year.

Brendan Keenan

City Office Suites

Looking for new premises for 2012?

Specialising in sub 500m2 CBD office space our team have a great selection of office suites from 100m2 - 500m2. Whether you are looking for character or state of the art we will have a space for you. Call:

Trish Whillans
021-875-656

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Kirsten Moore
021-230-6594

kirsten.moore@raywhite.com

Commercial Broker

Senior broker sought to join team

With over \$200m in sales in our first 18 months of business we have an opportunity for an experienced commercial broker with a proven track record to join our team. Call me for a discussion in confidence.

Bruce Whillans
021-985-619

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