



# The Whillans Report

AUCKLAND MARKET UPDATE / 1ST QUARTER 2015

## Five Years in Business and \$1 Billion in Sales



It is hard to believe that five years have gone by since Whillans Realty Group was established. With over \$1 billion of sales under our belt, our tight team of 12 continue to focus on delivering

a professional and confidential service to our clients.

Since we started our company in 2010, our average sale value has been \$10.4 million. This is a figure which I challenge any other

agency in the country to match and a number that reflects our position in the market as the 'go to' agency when you are looking to buy or sell quality investment property and value-add development opportunities.

Capitalising on the growing inflow of funds from China, our team have successfully concluded over \$250 million in land sales during the last 12 months, with several significant sales pending.

Other sales include three Queen Street office buildings with a combined value of \$115 million and a student accommodation portfolio for just under \$50 million.

I trust you find value in the information contained in this quarterly report and I look forward to doing business with you in the near future.

### Bruce Whillans

Managing Director – WHILLANS REALTY GROUP



Queen Street Office Tower



KFC & Carl's Jr, Albany



Mixed Use 6,077m<sup>2</sup> Land Block

## Market 2014 Fourth Quarter Update

### CBD Commercial

The CBD office market continued to be a standout performer in the fourth quarter of 2014, underpinned by growing CBD employment numbers and a static supply of new office space. Prime effective rentals increased by 2.1% for the 6 months to December, with secondary office rentals improving 3.1% over the same period. Significant levels of A-Grade office supply won't come on-stream until the second half of this year.

Cap-rates are approaching their pre-GFC lows, but with interest rates holding firm and international investors chasing our attractive yields, we expect to see more yield compression in the year ahead. Prime office vacancy will hover around 0%. However, we expect secondary office vacancy rates to flatline over the medium term. The conversion of secondary office stock into apartments will offset the vacancies created as corporates relocate into new prime office buildings currently under development.

#### Auckland CBD Commercial Market Summary\* (CBRE)

	PRIME	SECONDARY	PREV 6MTH TREND
Vacancy	1.8%	12.7%	Increasing
Effective Rent	\$376.00	\$205.00	Increasing
Yield	7.29%	8.22%	Firming
Incentives*	6.0 mths	8.4 mths	Decreasing

\*Based on an indicative new 9 year prime and 6 year secondary lease

### Auckland Industrial

The secondary industrial market recorded strong growth in the 12 months to December, with indicative rental rates improving by 12.2%. Much of the ground lost over the GFC has been recovered with secondary rental rates approaching their pre-GFC highs. Secondary yields firmed by 15 basis points in the last 6 months of 2014 with prime industrial yields firming by 25 basis points over the same period.

Land value growth slowed dramatically over the

second half of 2014; 0.5% versus 9% for the year ending December. Despite this lull in land values it is still difficult for new build 'spec' projects to stack up, particularly when prime industrial rentals increased by 7.3% over the same period. However, as per our last report, long-term landholders and developers, like Auckland Airport and Goodman, are not governed by current land prices. These groups continue to deliver new industrial stock, cornering the prime industrial market.

#### Auckland CBD Industrial Market Summary\* (CBRE)

	PRIME	SECONDARY	PREV 6MTH TREND
Vacancy	2.9%	4.3%	Flat
Effective Rent	\$117.90	\$87.10	Increasing
Yield	6.97%	8.19%	Flat
Land Value	\$525	\$225	Flat

### CBD Prime Retail

Indicative Queen Street rentals improved by 1.4% in the 6 months to December. Our view of the 'Golden Mile' remains mixed. While the city gravitates towards the waterfront, retail premises in lower Queen Street are achieving new benchmark rental rates in excess of \$3,000/psm. Meanwhile, 'mid town' is witnessing a shift towards youth retailing (TopShop), and upper Queen Street continues to work through an oversupply of small strata retail shops.

The Precinct Property 'Downtown' redevelopment is due to start in March 2016 and there will be a number of tenants looking to re-establish a presence in the CBD. This development will provide much needed prime retail space for international retailers looking to open new doors in the city. The expected flow-on effect of tenants not relocating back to the centre will help bolster the market for secondary CBD retail space.

#### Auckland CBD Prime Retail Market Summary\* (CBRE)

	AVERAGE	HIGH	LOW	PREV 6MTH TREND
Rent	\$2,250	\$3,300	\$1,750	Increasing
Yield	5.45%	5.00%	6.00%	Flat



## Liberalisation of Chinese Investment Rules Brendan Keenan *Senior Analyst*



**New policy changes introduced by Beijing last October aim to simplify approval procedures for outbound investment, making it easier for Chinese investors to diversify**

**outside of the Middle Kingdom.**

Under new rules introduced by the Chinese Ministry of Commerce (CMC), domestic Chinese companies no longer need to seek approval before investing overseas. Instead, investors only need to register their investment with the CMC. This is a significant change to the rule book and one which is making it easier for Chinese investors to compete abroad, particularly for trophy commercial real estate assets.

Under the previous investor regulations, any overseas investment project worth more than US\$100 million required approval from the CMC. Similar to New Zealand's Overseas Investment Office (OIO), but for outbound rather than inbound investment, this layer of bureaucracy has handicapped Chinese investors competing against other local and global property players for prime assets. In the past, this layer of red tape meant that Chinese companies would need to include an exit clause with any offer, allowing them to cancel their contract in the event the CMC did not approve the purchase.

Economic liberalisation is expected to flow right down the investment ladder. In March, Yi Gang; deputy governor of the Peoples Bank of China, indicated that the annual per capita outbound investment ceiling of US\$50,000 was under review. According to Gang this could be lifted to as much as US\$2 million in the near future, fuelling a further surge in overseas real estate investment by Chinese individuals.

In a country whose GDP (measured in US Dollar terms) is already 50 times the size of New Zealand's and growing by the equivalent of the entire New Zealand economy every three and a half months, the liberalisation of China's outbound investment rules will have major flow-on effects here in New Zealand.

Chinese billionaires and property funds are relatively new players on the international investment stage, which has traditionally been dominated by sovereign wealth funds, pension funds and global REITS. In New Zealand players like the Government of Singapore, the Abu Dhabi Investment Authority and the Canadian Pension Fund, already have key

holdings in many of our prime commercial real estate assets. However, Chinese funds remain visibly absent, despite the fact that China now accounts for 30% of global economic growth.

Acquisitions of landmark properties by Chinese groups have been widely reported over the last 18 months, including Ping An's purchase of the Lloyds of London Building for £260 million, China Life's purchase of an office tower in Canary Wharf for £795 million and more recently, Angbang Insurance Group's record US\$1.95 billion purchase of the Waldorf Astoria Hotel in New York City.

Moving closer to home, Australia is seeing an unprecedented level of interest from China, as Chinese Insurance giants and billionaire's compete for premium grade office investments and strategic CBD development sites. Sydney is now one of the top preferred global investment destinations for Chinese, with close to US\$3.9 billion invested in this market over the last two years by Chinese companies.

Fosun Property; the real estate arm of China's largest privately-held investment conglomerate, purchased an office tower in Sydney for AUD\$116 million in January 2015. Fosun Property is the same entity which made headlines in October 2013 after purchasing the 204,000m<sup>2</sup> Chase Manhattan Plaza in New York City for US\$725 million.

Other major Chinese players active in the Australian property market include Dalian Wanda; a commercial real estate developer controlled by China's wealthiest property tycoon Wang Jianlin. Wanda are currently undertaking an AUD\$1billion development on Sydney's waterfront. Not far from Wanda's development, Chinese developer Greenland Group are building an AUD\$600 million residential tower, which has been mainly pre-sold to Chinese investors. And in December last year Sunshine Insurance Group paid AUD\$463 million for Sydney's Sheraton Hotel, making it the biggest hotel deal in Australian history.

A big driver behind the commercial activity in Sydney can be traced back to the steady flow of ultra-high-net-worth Chinese individuals buying residential property and vacationing in Australia over the last decade. Chinese have a strong affinity with Australia and are attracted by its lifestyle, environment, economic and geopolitical stability and the fact that Australia shares a similar time zone with much of Asia.

As a smaller but comparable market to Australia, New Zealand enjoys a very similar relationship with China. Despite being five years behind Australia in terms of market

awareness, there has been a similar trend of high-net-worth individuals investing in residential real estate here. The Huran Report; China's equivalent to Forbes Magazine, recently named New Zealand as the fifth most desirable destination for China's super rich to send their children to school. Replacing Switzerland, soft statistics like these are creating conduits between China and New Zealand, with the parents of these children buying some of the country's most exclusive residential real estate.

The quality of our natural environment has always been a major drawcard for the Chinese, and even more so following the release of 'Under the Dome'. Over two hours long, 'Under the Dome' takes a 'TED talk' style look at pollution in China, and offers the most high-profile investigation into the state of China's environment the public has ever seen. Made by a well-known CCTV newscaster the film drew more than 150 million views in the first three days after being posted online before it was removed by Chinese authorities. Reminiscent of Al Gore's 'An Inconvenient Truth', the documentary has propelled the state of China's environment into the national spotlight. Not surprisingly, many of our high-net-worth Chinese clients claim New Zealand's environment as a key reason for moving and investing here.

We are just starting to see this new group of Chinese 'high roller' investors dip their toe into commercial property, and we expect to see the momentum in Australia's commercial real market replicated here. New Zealand does not have the same depth of institutional grade investment stock as Australia, but \$100 million plus portfolio's and development opportunities do exist and have been aggressively pursued by offshore investors.

Our team is currently working with several substantial Chinese construction and banking groups looking for development opportunities of scale. And while we have successfully placed high-net-worth individuals into development and investment properties, we are only just beginning to see the institutional Chinese investment giants, listed developers and private billionaires looking for opportunities on this side of the Tasman.

Crowned by Forbes Magazine as the best place in the world to do business, New Zealand is exceptionally well positioned to benefit from the investment and liquidity these investors will bring to our commercial property market.



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## Central Auckland: Development Land & Conversion Sales

### CBD Land Sales

Address	Property	Proposal/Development	(m <sup>2</sup> )	Sale Price	\$/psm	Date
210 Federal Street	Ex Datacom House	Future development stock for Conrad Properties	1,904	\$9,500,000	\$4,989	Sep-12
106 Vincent Street	Ex Datacom House	Future development stock for Conrad Properties	1,447	\$4,400,000	\$3,040	Sep-12
5 Howe Street	Ex Chubb Security Site	143 unit <i>Urba Residences</i> under construction.	1,804	\$5,400,000	\$2,993	Feb-13
27 Union Street	SugarTree	Three stage development with 563 apartments.	8,073	\$31,605,078	\$3,915	Jul-13
39 Beach Road	Ex Apex Rental Cars Site	Concept plans for a 15 level tower.	2,167	\$10,700,000	\$4,938	Aug-13
85 Hobson Street	Sky City Convention Centre	Part of <i>SkyCity's</i> proposed International Convention Centre.	1,029	\$10,650,000	\$10,350	Sep-13
51-53 Albert Street	Ex Saffron Tower Site	Resource Consent for 46 level, 154 unit apartment tower.	645	\$6,500,000	\$10,078	Nov-13
53-55 Symonds Street	Carpark	No known consents.	1,138	\$6,350,000	\$5,580	Apr-14
28 Shortland Street	Auckland Star Site	Resource Consent for 26 level tower with 171 carparks.	2,010	\$26,000,000	\$12,935	Apr-14
85-89 Greys Avenue	Carpark	No known consents.	5,223	\$18,000,000	\$3,446	May-14
57 Wakefield Street	Golden Pool Massage Centre	No known consents.	767	\$3,780,000	\$5,019	Jul-14
35 Albert Street	Ex Angus Steak House Site	Resource Consent for 29 level, 225 unit apartment tower.	1,265	\$11,500,000	\$9,091	Aug-14
302-328 Queen Street	St James Theatre	Resource Consent for 39 level tower with 332 apartments.	3,051	\$34,500,000	\$11,307	Aug-14
85 Customs Street	Ex Proposed ANZ Bank Site	Resource Consent for 35,305m <sup>2</sup> office tower and 200 car parks.	1,667	\$32,000,000	\$19,196	Aug-14
39-47 Union Street	Ex Xanadu Site	Resource Consent for 182 apartments and 291 carparks.	3,774	\$12,100,000	\$3,206	Sep-14
75 Victoria Street West	Ex Palace Hotel	Resource Consent for 15 level tower.	522	\$7,000,000	\$13,409	Sep-14
46 Albert Street	APN Site	No known consents (lease to APN returning \$2.6million p.a.)	4,258	\$42,000,000	\$9,863	Oct-14
184-200 Pakenham Street West	Wynyard Quarter	Future development pipeline for Goodman Group.	9,793	\$40,100,000	\$4,094	Oct-14
44 Sale Street	Accent Building	Plans underway for a new 10,000m <sup>2</sup> spec office building.	2,175	\$10,765,000	\$4,949	Nov-14
52-54 Sale Street	Schischka Engineering	No known consents.	749	\$3,750,000	\$5,006	Dec-14

### CBD Fringe Land Sales

Address	Property	Proposal/Development	(m <sup>2</sup> )	Sale Price	\$/psm	Date
10 Lion Place	Mixed Use	84 unit Ivory Apartment building under construction.	2,152	\$3,750,000	\$1,742	Aug-12
Lion Nathan Brewery, Newmarket	Business 4	New Engineering School for the University of Auckland.	52,632	\$70,000,000	\$1,329	Sep-12
2 Ariki Street, Kingsland	Mixed Use	27 unit Turning Apartments building under construction.	940	\$2,060,000	\$2,191	Mar-13
11-13 Fleet Street, Eden Terrace	Mixed Use	No known consents.	678	\$1,000,000	\$1,474	Apr-13
5 Mahuru Crescent, Newmarket	Mixed Use	Future development site currently used for on-grade parking.	2,863	\$4,500,000	\$1,572	Jun-13
11A Cheshire Street, Parnell	Mixed Use	Currently being marketed for sale with consent for 36 apartments	1,031	\$2,400,000	\$2,327	Nov-13
74 St Georges Bay Road, Parnell	Mixed Use	Development site purchased by Mansons.	2,205	\$4,600,000	\$2,086	Dec-13
1 Taylors Road, Morningside	Business 4	No known consents.	4,896	\$5,550,000	\$1,134	Dec-13
25 Enfield Street, Mount Eden	Mixed Use	Plans for 5 level apartment complex adjacent to the <i>Horse &amp; Trap</i> .	3,411	\$7,900,000	\$2,316	May-14
9-11 Fenton Street, Mt Eden	Mixed Use	37 unit <i>Station- R Apartment</i> building under construction.	1,184	\$2,450,000	\$2,069	May-14
30-40 Enfield Street, Mt Eden	Mixed Use	Ex Orion Health Building and carpark.	3,750	\$7,600,000	\$2,027	Aug-14
99-115 St Georges Bay Road	Mixed Use	<i>Source Mondial and Attwoods</i> redevelopment site.	2,585	\$7,750,000	\$2,998	Aug-14
97-115 The Strand, Parnell	Business 5	Consent for 7,800m <sup>2</sup> office building.	3,502	\$7,820,000	\$2,233	Aug-14
17 Hargreaves Street, College Hill	Mixed Use	Currently leased to Xerox to 2016.	11,032	\$32,500,000	\$2,946	Dec-14

### CBD Conversion Sales

Address	Property	Proposal/Development	(m <sup>2</sup> )	Sale Price	\$/psm	Date
15 Hopetoun Street	Ex Baycorp House	Currently being converted into 85 apartments.	6,078	\$16,500,000	\$2,715	Jul-13
103 Symonds Street	Ex Natcoll House	Plans to convert the building into 45 apartments.	3,096	\$10,500,000	\$3,391	Apr-14
8 Hereford Street	Ex Telecom House	Currently being converted into 119 apartments.	15,521	\$47,000,000	\$3,028	Aug-14
10-14 Lorne Street	Ex Crown Institute Building	Plans to refurbish and use for English language school.	5,121	\$13,580,000	\$2,652	Sep-14
44 Khyber Pass Road	Ex Newcall House	Mixed-use scheme being worked up.	9,318	\$23,000,000	\$2,468	Sep-14
100 Mayoral Drive	Ex Chamber of Commerce	Purchased by owners of 85-89 Greys Avenue carpark.	2,770	\$8,500,000	\$3,069	Sep-14
8-10 Eden Crescent	Ex Cargen Hotel	Plans for conversion into heritage apartments	2,991	\$4,500,000	\$1,505	Dec-14