The Whillans Report

AUCKLAND MARKET UPDATE / 2ND QUARTER 2014

$300 Million in Sales for the First Quarter

The first quarter of 2014 saw our sales figures up by over 250% on the previous year with $300 million in settled sales in just three months. Not surprisingly, 64% of these property sales were to resident Chinese or Chinese companies entering the New Zealand market, reflecting the huge capital inflow from this region (refer to special report on China on page two). Recognising the need to service this burgeoning market, we have established an Asian desk headed by Kathy Ying who is not only fluent in Mandarin and Cantonese but as a well qualified architect has a good understanding of the development process. This is proving to be invaluable to Asian developers looking to establish themselves in New Zealand.

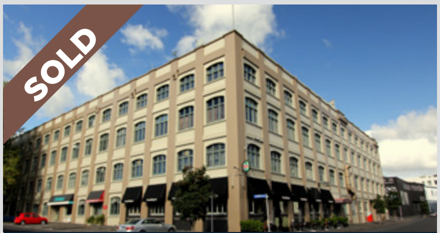
Our completed sales this year also reflect the wide variety of transactions we have undertaken. They include a CBD office building, a hotel and large tracts of future development land.

Another interesting turnaround is the ever increasing enquiry from Australian investors, both private and institutional, looking to place capital over here despite our strong dollar. With the growth of business confidence in NZ being well reported over their side of the Tasman, it would appear that Australia is no longer 'the lucky country'.

Our focus this year is to continue to excel in the high level of service we offer, as we strive to be the best and not the biggest in the market. Real estate is all about service and we strongly believe in delivering service as it should be delivered. With a growing international focus on our market it is time the real estate industry upped their game by providing accurate information and delivering sales processes with integrity and accountability.

My team of 11 highly qualified professionals are well positioned to assist you with your commercial real estate requirements. We look forward to doing business with you in the near future.

Bruce Whillans
***Managing Director* — WHILLANS REALTY GROUP**



Textile Centre Parnell

Auckland CBD Office Building

183ha Hatfields Beach Landholding

Market 2014 First Quarter Update

CBD Commercial

The Auckland CBD office market continued to gain traction over the first quarter of 2014 as falling vacancies and improving confidence facilitated further gains to rental rates and yields across the city.

Incentives are quickly approaching zero levels, particularly for prime office space, and this is beginning to push up face rental rates, albeit at low levels for the time being.

Supported by strong up take of premium office space, the prime office vacancy rate fell to 4.6%, the lowest level in four years. New CBD towers, even those well advanced through the consent process are still two plus years away from completion and with rising construction costs will require rental returns north of $550/m2 to make a new build stack up. With limited supply threats we believe the CBD office market will be the strongest performing asset class in Auckland over the next two years.

Auckland CBD Commercial Market Summary* (CBRE)

	PRIME	SECONDARY	PREV 6MTH TREND
Vacancy	4.2%	14.8%	Decreasing
Effective Rent	$365.00	$194.00	Increasing
Yield	7.45%	8.43%	Firming
Incentives*	6.1 mths	8.8 mths	Decreasing

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

Auckland Industrial

Industrial indices remained steady over the second quarter of 2014 with new supply keeping a lid on rental growth, particularly for prime industrial stock. However, rental growth is beginning to pick up in the prime sector, with rents increasing 6% over the last 6 months and 7.3% for the year ending June.

By contrast secondary rentals have enjoyed significant uplift, with rents increasing 10.6% over the last 12 months.

With secondary rentals still below their 2007 peak, room for further rent growth exists over the medium term. Following the de-coupling between prime and secondary industrial yields during the GFC, yields have begun to edge closer as the market re-enters its growth phase. We anticipate the secondary market will continue to lead the charge over coming months with investors drawn by greater opportunities for rental growth, in turn driving yields down at a faster rate than prime industrial.

Auckland Industrial Market Summary* (CBRE)

	PRIME	SECONDARY	PREV 6MTH TREND
Vacancy	2.9%	4.3%	Flat
Effective Rent	$113.70	$82.10	Increasing
Yield	7.27%	8.46%	Firming
Land Value	$500	$200	Increasing

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CBD Prime Retail

Prime CBD retail indices remained flat over the first quarter of 2014, with indicative Queen Street rental rates holding firm at $2,465/psm, a level which has not changed in over a year. Our view on CBD retail remains mixed. While the 'Golden Mile' of lower Queen Street continues to attract higher rental rates and lower yields, peripheral precincts like Lorne and High Street are struggling to compete with more sought after destinations like Britomart and Ponsonby.

Issues around seismic upgrading pose another threat to the CBD retail market with a significant portion of the city's retail stock in older character buildings. A two-tier market is beginning to emerge in the CBD with investors beginning to apply a risk premium on earthquake prone buildings. However, we have been encouraged by the sale of several sub-33% NBS (structural) buildings showing there is life in the market for earthquake risk properties.

Auckland CBD Prime Retail Market Summary* (CBRE)

	AVERAGE	HIGH	LOW	PREV 6MTH TREND
Rent	$2,465	$3,300	$1,700	Flat
Yield	5.45%	5.00%	6.00%	Flat

All sales have been supported by engineering reports quantifying the issues.

Two-Tiered Market Emerging in Auckland

Brendan Keenan *Senior Analyst*

The scale and speed of Chinese capital flowing into the New Zealand commercial property market is unprecedented.

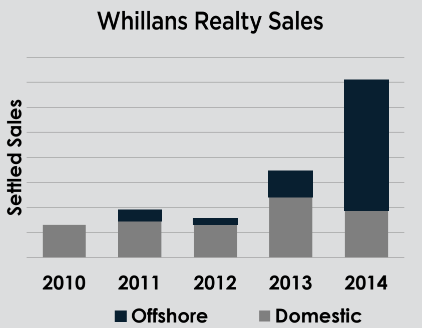
In the last 12 months over half of our business has come in the form of investment from high-net-worth resident and non-resident Chinese and Chinese investment companies. These groups have purchased 15 properties with a combined value of $249 million. In the 12 months prior to June 2013 only 22% of our business was from offshore, with none of our buyers originating from China.

The driving forces behind this surge in investment seem to be mixed and not always motivated by pure financial decision making. Similar to both the Australian asset grab we saw in the early 2000's, and the South East Asian investment boom during the 1990's, the current influx of Chinese investment is helping underpin growth across the Auckland property market. However, within certain sectors we are beginning to see a two-tiered market develop, with offshore buyers paying a premium for landmark CBD sites, large residential development landholdings and more recently commercial investment property. Where previously there has been a collective industry notion of what an asset should be worth, these new entrants are blowing the traditional thinking on value out of the water and setting new pricing benchmarks.

So what is behind this flood of capital? Lower GDP growth and the prospect of a property bubble are creating headwinds for the Chinese economy and making headlines, but equally important are new structural changes introduced in the last year aimed at making China a more open and transparent economy.

Recent changes to outbound investment rules introduced in the last year aim to liberalise China's economy, as the politburo tries to cool an overheated property market. Higher thresholds for FDI, less administration and eventually the full liberalisation of the Yuan are making it easier to invest and diversify outside of China.

At the same time President Xi Jingping's hard line on graft and corruption are shaking up the status quo for China's elite establishment, with reports of many high ranking government officials illegitimately siphoning funds offshore and moving their families overseas. Referred to as 'naked officials' this group has caused discomfort for the rest of China's elite who worry that the slowing economy and growing resentment towards corrupt officials and the wealthy in general could lead to more widespread political and economic uncertainty.



However, unchecked pollution, environmental degradation and a lack of access to high quality education are also equally important factors forcing China's wealthy to search elsewhere.

New Zealand's natural environment, education and healthcare system and relatively cheap property market coupled with our open immigration policy and language make our country one of the top immigration destinations for Chinese citizens alongside Canada, Australia, England, Singapore and the United States. But this is quickly changing.

Canada recently decided to terminate an immigration deal that essentially allowed foreign millionaires to loan $800,000 Canadian dollars to the Canadian Government for five years (interest free) in exchange for permanent residence.

The knock on effect has been huge, reportedly leaving 65,000 applicants in limbo, the majority being high-net worth Chinese. In April this year, The South China Morning Post labelled New Zealand the next Canada suggesting that New Zealand is about to see a wave of new ultra high-net-worth Chinese applying for residency under our 'Investor Plus' policy, which allows those who invest NZ$10 million over a three-year period to gain residency. A less expensive option, the 'Investor' category, grants residency for those who speak English and invest NZ$1.5 million over four years.

The United States and United Kingdom remain difficult destinations with tougher stances on residency. Meanwhile it has been reported that cash strapped counties in Eastern Europe like Latvia, Greece and Cyprus are giving away residency for as little as $100,000 USD in an attempt to bolster their economies.

The current climate in China for the rich is one of uncertainty. With much of the western world closing its doors or making it harder to immigrate, New Zealand is quickly becoming a preferred destination for China's wealthy, and we believe that we have only just begun to experience the tip of this very large iceberg. The impact of this on our commercial property market will significantly underpin asset performance across our main centres and inject new capital and competition into our marketplace.