



The Whillans Report

AUCKLAND MARKET UPDATE / 4TH QUARTER 2014

\$500 Million in Sales for 2014



2014 marked another stellar year for Whillans Realty Group with over \$500 million in settled sales, more than double the previous year.

While land sales to resident Chinese or Chinese companies represented over 50% of this total, other notable transactions included the Textile Centre in Parnell for \$25 million, two Queen Street

office towers totalling \$81 million, The New Zealand Student Portfolio (Wellington) for \$49.4 million, 44 Khyber Pass for \$23 million and underwrites to the value of \$24 million, indicative of the diverse nature and strength of our business.

With business confidence high, a growing stream of capital coming from Asia and interest rates holding firm, 2015 promises to be another strong performing year for the New Zealand commercial property market.

I trust you find value in the information contained in our final quarterly report for 2014 and I look forward to doing business with you in the New Year. I wish you a Merry Christmas and all the very best for a happy and prosperous New Year.

Bruce Whillans

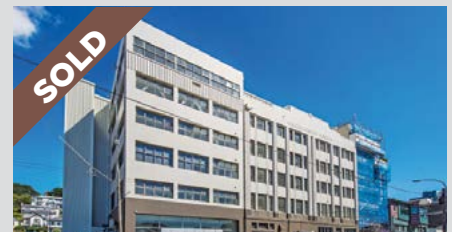
Managing Director – WHILLANS REALTY GROUP



Queen Street Office Tower c. \$24m



3 Monahan Road - \$8.85m



NZ Student Portfolio - \$49.4m

Market 2014 Third Quarter Update

CBD Commercial

The CBD office market continued to be a standout performer in the third quarter of 2014, underpinned by growing CBD employment numbers and a static supply of new office space. Prime effective rentals increased 2.1% for the 6 months to September, with secondary office rentals improving 5% over the same period. Significant levels of A-Grade office supply won't be delivered until the second half of 2015. This will provide relief to larger corporate occupiers looking to expand or relocate premises.

Most of the other major research houses are predicting rental growth between 5%-7% in 2015, with a slight upswing in vacancy rates following the completion of 151 Victoria Street and the refurbishment of 125 Queen Street. 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.

Auckland CBD Commercial Market Summary* (CBRE)

	PRIME	SECONDARY	PREV 6MTH TREND
Vacancy	2.1%	11.2%	Decreasing
Effective Rent	\$373.00	\$203.00	Increasing
Yield	7.25%	8.23%	Firming
Incentives*	6.0 mths	8.6 mths	Decreasing

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

Auckland Industrial

The secondary industrial market recorded strong growth in the 12 months to September, with indicative rental rates improving 13%. Much of the ground lost over the GFC has been recovered with secondary rental rates approaching their pre-GFC highs. Secondary yields firmed by 27 basis points in the last 6 months, but for the first time since June 2012, prime industrial yields firmed at a faster pace (31 basis points over the same period).

Land values surged by 10.2% over the last year making it increasingly difficult for new build 'spec' projects to stack up, particularly when prime industrial rentals increased by only 6.8% over the same period. However, long term land holders and developers, like Auckland Airport and Goodman, are not governed by current land prices and 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	\$86.50	Increasing
Yield	6.97%	8.19%	Firming
Land Value	\$525	\$225	Increasing

CBD Prime Retail

Indicative Queen Street rentals improved 2.2% in the 6 months to September, the first movement in 18 months. 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, and upper Queen Street continues to work through an oversupply of small strata retail shops. The good news is foot traffic numbers have been increasing year on year driven by Auckland's booming cruise ship industry, rising employment numbers, and a growing CBD resident population.

Auckland CBD Prime Retail Market Summary* (CBRE)

	AVERAGE	HIGH	LOW	PREV 6MTH TREND
Rent	\$2,520	\$3,300	\$1,700	Flat
Yield	5.45%	5.00%	6.00%	Flat



Market Forces to Watch in 2015 Brendan Keenan Senior Analyst



City Apartment Values Will Plateau

- CBD apartment prices have surpassed their previous 2007 peak, with apartment prices stalling for the last four months.

- Limited new supply will be completed in 2015, but we are sceptical values will continue to see double-digit year on year growth. In the long run, history tells us the Auckland CBD apartment market has barely kept up with the rate of inflation. However, rising construction costs and land prices will put a squeeze on development margins. In turn, this will place a collar around new development, halting the risks of an oversupply situation like we saw in the early 2000's.
- CBD land value growth should follow suit with slower capital appreciation next year. However, this could be offset by more capital inflow from China into CBD land (or what will be left of it).

CBD Office Will Continue To Be A Standout Performer

- The conversion of secondary C, D and possibly one or two B-Grade office buildings into residential could have a stronger than expected effect on the secondary office vacancy rate.
- The next significant supply of office won't be available until the end of next year following the refurbishment of 125 Queen Street into a new A-Grade office tower and the completion of 151 Victoria Street West.
- Big gains are still to be had as yields continue their downwards march and rentals keep rising. Our weaker dollar combined with offshore capital could compound the situation, particularly when office yields across Asia's main business centres are sub 6%.

Interest Rates In Holding Pattern

- With benign inflation and respectable growth, we are at the lower end of the RBNZ's inflation target zone (1-3%). The CPI Index has moved just 1% between the third quarter of 2013 and the third quarter of 2014.
- The widening growth gap between Auckland and Canterbury and the rest of the country means the RBNZ will have to think carefully before embarking on a rate hike. Any attempts to cool Auckland's housing market will come at a cost to the rest of the country right at a time when the rural economy is reeling from the steep fall in dairy prices.
- With a quarter of the world's economy (EU/ Japan) slipping back into recession, crude oil prices below \$70 a barrel and China shifting towards a lower, more sustainable 'consumer lead' growth model, policy makers will be looking at ways to stimulate their economies through quantitative easing or monetary policy.
- The bears who predicated inflationary whiplash from the massive stimulus packages which followed the GFC have been proven wrong, for now, although there are asset bubbles emerging within certain sectors.
- The American and UK economies are bright-spots, but even their central bankers are dovish about tampering with monetary policy.

Residential Land Values

- The last 24 months has seen residential and mixed-use land values play catch up, with values recovering from the deep lows experienced throughout the GFC. Land is generally selling for more than the previous peak in 2007, however we expect the rate of land appreciation will slow over 2015.
- Auckland Council's Housing Project Office has fast tracked 4,250 hectares of land for residential development through its newly minted Special Housing Area's (SHAs). It's expected that the four tranches released to date will provide 40,761 new homes. This readily available supply didn't exist 18 months

ago, and we believe that it will temper residential land growth across 2015.

- However, we are mindful that the current immigration surge, cost of construction and hold on future interest rates rises are putting the wind back into Auckland's housing market.

Chinese Capital Inflows Will Grow

- Comfortable with New Zealand, Chinese investors are beginning to move away from speculative land deals into more traditional office and retail investments.
- Our falling dollar will make our assets look even more attractive.
- After a clear election result, changes to New Zealand's immigration policy will be minimal over the next 3 years.
- Canada and the US are beginning to hit the annual quotas for their 'Chinese investor' immigration schemes. These groups are having to look elsewhere and New Zealand is seen as an attractive alternative.
- Looking at the bigger picture, 2015 will mark the first time that capital leaving China exceeds capital entering China, since the Peoples Republic underwent economic reforms in the late 1970's. This wave of outbound investment is having a direct impact on New Zealand and will continue to do so across 2015.

2015 - Full Ahead

Our office is extremely positive about 2015. A new level of confidence has permeated throughout the business community with a collective sense that Auckland is maturing both as a city and becoming New Zealand's undisputable economic powerhouse. Our growing ties with Asia have bolstered our property market, injecting hundreds of millions of dollars into the local economy. Big, new public and private infrastructure developments such as the International Convention Centre, Waterview Connection and the overhaul of our International Airport will ensure Auckland remains competitive and a centre of growth in the Asia Pacific.



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Central Auckland: Development Land & Conversion Sales

CBD Land Sales

Address	Property	Proposal/Development	(m ²)	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 ² 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 ² 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 ²)	Sale Price	\$/psm	Date
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
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, Parnell	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 ² office building.	3,502	\$7,820,000	\$2,233	Aug-14

CBD Conversion Sales

Address	Property	Proposal/Development	(m ²)	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
8-10 Eden Crescent	Ex Cargen Hotel	Plans for conversion into heritage apartments	2,991	\$4,500,000	\$1,505	Dec-14