



Following the shift from land sales to investment stock



Land has always been a major part of our business. However, rising construction costs, Chinese capital controls and more recently the changes proposed by the Overseas Investment Amendment Bill, have shifted our market focus from land sales to investment stock.

For our recent report on the Overseas Investment Amendment Bill [click here](#)

The new emerging asset classes

We are witnessing a groundswell of local and offshore investors seeking not only traditional investment property, but also new and emerging asset classes. These investors are chasing purpose-built student accommodation

(PBSA), data centres and hotel developments. This is generating renewed demand for land in and around the city that was previously earmarked for residential development.

High demand for student accommodation

In this edition of the Whillans Report, Senior Analyst Brendan Keenan reports on the drivers behind the international interest in PBSA. He also looks at why investors in New Zealand are well positioned to capitalise on this growing asset class.

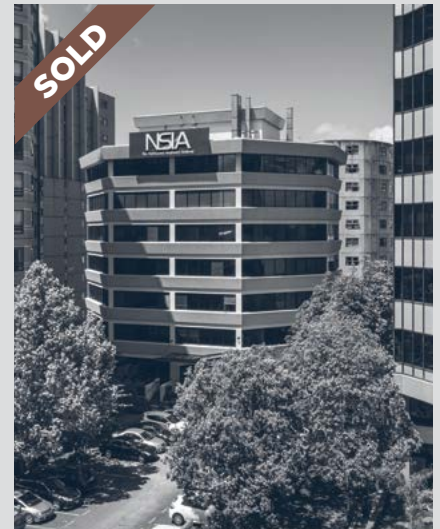
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98 and 100 Symonds Street
Sold: \$22 million (Kathy Ying)

Market 2017 Fourth Quarter Update

CBD Commercial (Q4)

Investment activity in the Auckland CBD office market remained buoyant over the second half of 2017. Office yields firmed to all-time lows. However, indicative of late cycle behaviour, there was a noticeable deceleration in yield compression when compared to the previous year.

Prime office yields firmed 17 basis points over the course of 2017 with secondary yields firming 20 basis points over the same period.

Despite this yield compression, vacancy levels have increased from 6.9% in December 2016 to 8.9% in December 2017. This increase is due to new supply in the Victoria and Wynyard Quarters.

Landlords are now offering tenants greater incentives which in turn has eroded real rental growth. For the year ending December, effective prime rental rates decreased marginally by 1.2% to \$399/psm and secondary effective rental rates decreased by 0.7% to \$238/psm.

Auckland CBD Commercial Market Summary* (CBRE)

	PRIME	SECONDARY	PREV 6MTH TREND
Vacancy	6.6%	11.1%	Increasing
Effective Rent	\$399	\$238	Decreasing
Yield	6.25%	6.96%	Firming
Incentives*	8.9 mths	8.5 mths	Increasing

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

CBD Prime Retail (Q4)

Following a stellar run, Auckland CBD retail rents flat lined in the second half of 2017. For the first time since 2009, rents recorded an actual decrease of 0.4% in the six months to December.

However, prime retail rents at the high-end remained unchanged with retail rents at the low-end recording a 7.1% decrease.

Despite this slowdown CBD employment and resident numbers continue to increase and support overall retail spending. Several new hotel developments and strong tourism numbers are also forecasted to buoy the CBD retail market, particularly at the high-end.

Auckland CBD Prime Retail Market Summary* (CBRE)

	AVERAGE	HIGH	LOW	PREV 6MTH TREND
Rent	\$3,958	\$4,500	\$2,600	Decreasing
Yield	4.95%	4.75%	5.25%	Flat

Auckland Industrial (Q4)

The industrial market was a standout performer in 2017. Yields continued to firm and were supported by strong rental growth and declining vacancy rates.

For the year ending December 2017, net effective prime industrial rents increased by 4.3% to \$134.3/psm and secondary rents increased by 8.4% to \$105.6/psm.

Indicative prime industrial yields moved 23 basis points to 5.51% and secondary industrial yields firmed 39 basis points to 6.56%. Supported by Auckland's growing economy and surging population, confidence in this sector remains high. Vacancy levels for prime and secondary industrial are exceptionally low at just 1.6% and 1.2% respectively.

Auckland Industrial Market Summary* (CBRE)

	PRIME	SECONDARY	PREV 6MTH TREND
Vacancy	1.6%	1.2%	Decreasing
Effective Rent	\$134.30	\$105.60	Increasing
Yield	5.51%	6.56%	Flat
Land Value	\$700	\$225	Flat

SOURCE: Statistical data in this market update has been sourced and summarised from CBRE research and is intended for general guidance only. No responsibility is accepted by CBRE or Whillans Realty Group Limited for any omissions or errors contained within this report.



Student accommodation a new global asset class



Are crowded halls of residence now a thing of the past?

Globally, the market for student accommodation has changed beyond recognition. In a little over a decade, student housing has shifted

from the traditional realm of universities, with overcrowded halls of residence and substandard student flats, to something much grander. Student accommodation has now become one of the world's fastest-growing and most sought-after commercial property asset classes. And now a development wave of new purpose-built student accommodation (PBSA) is set to revolutionise the New Zealand marketplace.

In New Zealand and abroad, the demand for higher education and more student housing is growing exponentially. Rising tertiary enrolment numbers, a fiercely competitive global job market, and increasing numbers of international

students are all driving this demand. At the same time, universities in the developed world are struggling to develop resources to match this increasing demand. They're becoming far more competitive and now need additional income to fund new scholarships, lecture theatres, and research and academic programmes. Tuition fees from foreign students offset this expenditure.

Capitalising on an accommodation shortfall

International exchange students currently number around 5 million worldwide. This is more than double the number of students in 2000, and more than triple the number in 1990. The global pool of international students is expected to swell to almost 8 million by 2025.

The growth in exchange student numbers is being fuelled by Asia's emerging middle class, who place a premium on higher education and a safe learning environment. However, with this growth comes the need for even more student housing. Universities have traditionally provided

this housing, but now they can't deliver enough beds to meet the level of demand.

So who is going to cover this shortfall? A new class of private providers and investors has now stepped in to capitalise on this opportunity, and they've sparked a global wave of PBSA development. These groups are enticing students with amenities that would have been unheard of a generation ago. Students are now offered private ensuites, flatscreen TVs, shared study space, rooftop BBQ areas and gyms. Some PBSA developments have gone as far as offering 24/7 concierge services, on-site cinemas, free WiFi, and even private bars decked out in the latest designer furniture.

The days of old-style university halls of residence and shoddy student flats are now officially over.

Introducing a flood of PBSA investors

The global student accommodation market is being flooded with interest from real estate investment trusts, sovereign wealth funds, pension funds and private equity groups. These groups are attracted by the stable and countercyclical nature of student housing. Tertiary enrolment numbers typically increase in down times, supporting high occupancy rates and revenue. In tough economic times, PBSA outperforms other property asset classes.

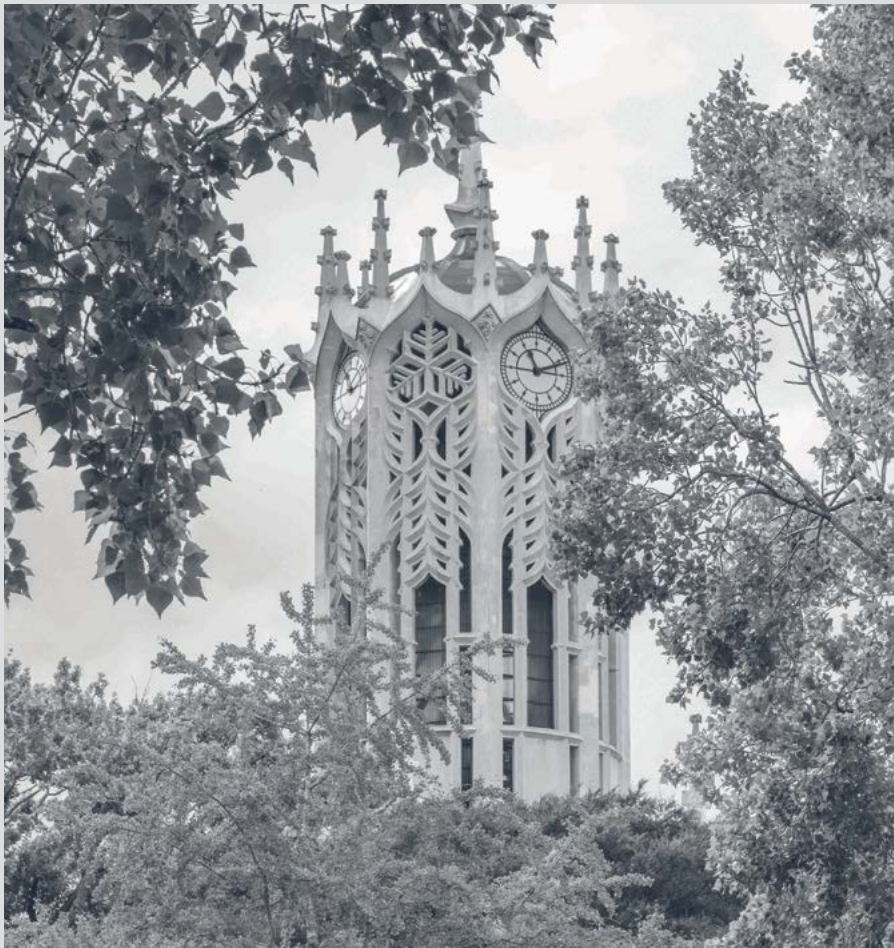
Student housing has now become synonymous with the aged-care, commercial and industrial property investment sectors.

Where best to invest in PBSA?

What boxes are investors looking to tick when it comes to PBSA investment? These investors are certainly looking for established tertiary institutions in global gateway cities that face an undersupply of student accommodation. But the primary measure used by investors to ascertain the potential depth of a local PBSA market is the ratio of existing beds to students.

The United Kingdom has the world's most mature student accommodation market, with one PBSA bed for every four students. However, New Zealand offers just one PBSA bed for every 14 students. PBSA investment yields in the UK are approaching 4 percent and investors are now having to look elsewhere to grow their portfolios.

Australia and New Zealand are attractive PBSA investment destinations. Both countries have a deep pool of high-quality tertiary institutions, a growing population of foreign students, and a chronic undersupply of student housing.



The University of Auckland Clock Tower



Student accommodation a new global asset class

Australia's PBSA market takes off

Australia now has the second-largest number of foreign students behind the United States: one in four tertiary enrolments comes from outside the country.

Australia is firmly on the radar for foreign students. The country is perceived as a safe destination. It has a streamlined visa application process. And seven of its universities are ranked in the top 100 universities worldwide. Australia's international student industry has become so large that it now ranks second behind coal and iron ore as one of the country's largest exports.

However, unlike the United Kingdom, Australia has an exceptionally low ratio of PBSA with only one bed available for every 17 students. Private Australian and international PBSA providers are now rushing into Australia's capital cities to fill this void. These groups have ignited a building boom of new student housing projects, with thousands of new beds under way.

New Zealand's PBSA market tries to catch up

New Zealand's tertiary education market shares many similarities with its Tasman neighbour. One in seven university students is now a foreigner. And education ranks as New Zealand's third-largest service export behind tourism and commercial services.

Arguably New Zealand is seen as an even safer destination than Australia. The country's largest university, The University of Auckland, is ranked among the top 100 universities globally. Five of New Zealand's eight Universities are also ranked among the world's top 300 universities.

Over the last two decades, New Zealand's total enrolment with formal tertiary providers has grown by 50 percent to 233,755. In 2016, international students accounted for 14 percent of all enrolments: more than four times the number in the mid-1990s. Students from China and India account for almost 60 percent of these foreign students.

This enormous growth in tertiary students is driving a similar demand for student accommodation in New Zealand.

Domestic students add to growing demand

International students aren't the only group expected to put pressure on tertiary accommodation. Domestic enrolment numbers are forecast to increase further under an initiative announced by the New Zealand government recently. At the beginning of this year the Labour Government introduced a free first year of tertiary education to New Zealand residents. The Government intends to extend this policy to 3 years of free education by 2024.

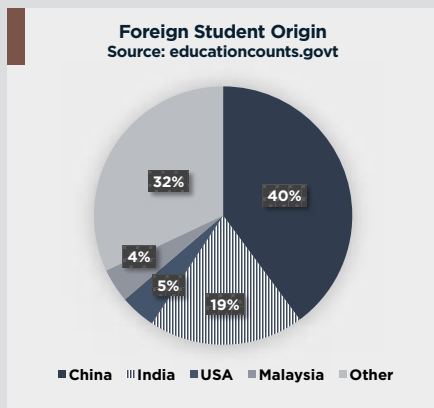
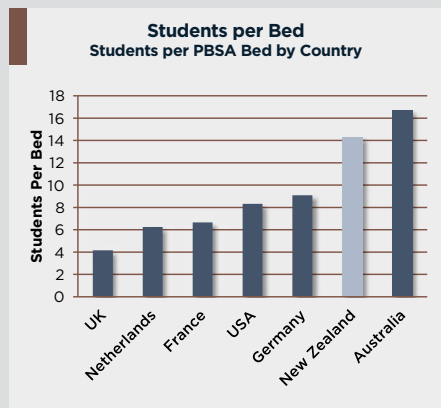
Could this new policy boost demand for PBSA in New Zealand even further? With local students having more money in their pockets, will they opt for the convenient lifestyle that purpose-built accommodation offers?

Auckland undersupply leads to hefty rent hikes

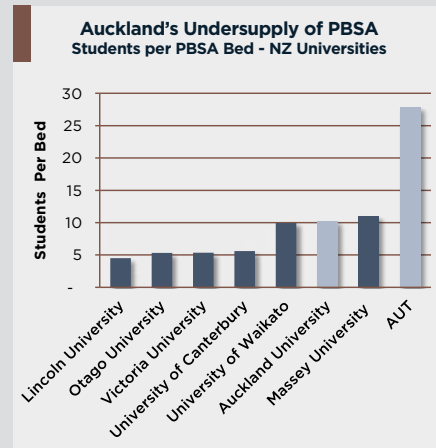
Significant demand for PBSA already exists in Auckland, New Zealand's largest city. The city is home to New Zealand's two largest universities: The Auckland University of Technology (AUT) and the University of Auckland. And both institutions have an exceptionally low number of beds per student.

The University of Auckland has one bed available for every 10 students, and reportedly receives twice as many applications as there are beds available.

AUT, New Zealand's second-largest university, has just one bed available for every 28 students. Officially, AUT has the lowest number of beds per student in New Zealand, despite having one of the largest foreign student enrolments in the country.



Auckland University of Technology (AUT) City Campus





Student accommodation a new global asset class

Auckland's lack of PBSA, coupled with a wider housing shortage in the city, has seen hefty hikes in weekly student rentals. Some PBSA providers have already increased their 2018 room rates by 5 percent, which is more than three times the rate of inflation.

Over the last decade, rental growth for one-bedroom apartments in the Auckland CBD has outperformed the city's prime industrial and CBD office markets. The annual compound rental growth for a one-bedroom CBD apartment has increased by around 3.8 percent over this period, which gives a workable baseline for the historic performance of PBSA. Approximately 62 percent of all PBSA beds in Auckland are located in the CBD.

What's on the horizon for PBSA in Auckland?

In response to demand, a development pipeline of student accommodation has already begun. Four PBSA projects are currently under construction in Auckland. These projects will deliver an additional 1,646 beds by 2020. On completion, this will boost the total number of PBSA beds in Auckland to approximately 6,600 beds. However, this new supply will still not meet demand.

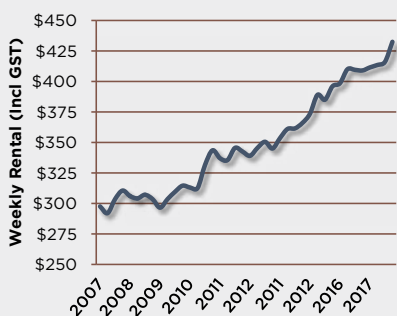
To put these figures into context, The University of Auckland has identified that it needs to provide 7,500 beds by 2026. This is more than the entire existing supply of beds for all tertiary institutions across the Auckland region.

In order to fully meet accommodation demand, significant resources need to be allocated to the PBSA market. However, a combination of an overstretched construction industry and funding shortages is making it difficult for local developers to deliver new projects. Will experienced international providers with access to foreign capital step in to counter this shortfall?

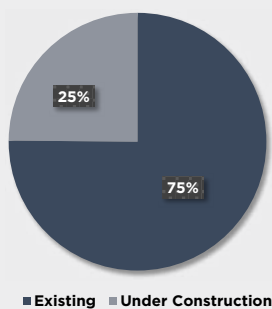
Meanwhile, Auckland's housing shortage and a lack of student accommodation continue to drive up the cost of living for university students. The New Zealand Government's new policy of free education for first-year tertiary students will help reduce living costs for domestic students. But could it ultimately increase demand for PBSA?

Whichever way the issue of student accommodation falls, a development wave of new PBSA is set to revolutionise the New Zealand marketplace.

Rising Rents in Central Auckland
Auckland CBD - 1 Bedroom Apartments



PBSA Development Pipeline
Auckland



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The University of Auckland City Campus



Auckland CBD and City Fringe Land Sales

CBD Land Sales

Address	Property	Proposal/Development	(m ²)	Sale Price	\$/psm	Date
136-142 Fanshawe Street	Warehouse building	Purchased by Mansons TCLM	5,210	\$30,739,000	\$5,900	Oct-17
4 Hobson Street	5 level mixed use building	No known consents	455	\$5,200,000	\$11,429	Nov-17
13-15 Albert Street	Link House	Purchased by a hotel investor	1,228	\$26,500,000	\$21,580	Aug-17
103 Wellesley Street	Datacom House	Purchased by a hotel investor	1,228	\$12,250,000	\$9,975	Jul-17
51 Albert Street	Vacant Building	Consented for 150 apartments and 11,023m ² GFA	645	\$10,425,000	\$16,162	Jun-17
46 Albert Street	Part of old APN site	37 level 490 room Holiday Inn Express and Even hotel	1,134	\$31,000,000	\$27,336	Jun-17
86 Nelson Street	Two level office building	No known consents	278	\$1,925,000	\$6,924	Jun-17
127 Vincent Street	Two level office building	No known consents	475	\$4,000,000	\$8,421	May-17
16 Waterloo Quadrant	Newman Hall	No known consents	1,779	\$11,000,000	\$6,183	May-17
30-36 Fanshawe Street	Fosters Building	Consent being sought for approximately 92 apartments	506	\$8,500,000	\$16,798	Feb-17
115 Beach Road	Rental Car	No known consents	318	\$3,500,000	\$11,006	Nov-16
155-167 Fanshawe Street	Ex-Caltex Site	No known consents	3,879	\$23,247,000	\$5,993	Nov-16
38 Fort Street	Ex Brothel House	High-rise mixed use tower	282	\$5,060,000	\$17,943	Aug-16
128 Anzac Avenue	Vacant Land	Student accommodation tower	710	\$8,200,000	\$11,549	Jul-16
79 Airedale Street	On-Grade Car park	Sale included 40 strata car parks. Consented for 17 level tower	1,092	\$7,600,000	\$6,690	Jun-16
29-31 Anzac Avenue	Waterfront Union House	Maritime Apartments	761	\$5,500,000	\$7,227	Jun-16
57-59 Wakefield & 28 Airedale Street	1940's Building	Apartment development site being marketed as Fiore Wakefield	768	\$6,200,000	\$8,073	May-16
121 Grafton Road	Vacant Land	Consented for student accommodation	3,006	\$15,200,000	\$5,057	May-16
26 Airedale Street	Two Level Building	No known consents	220	\$2,920,000	\$13,273	Apr-16
50-52 Cook Street	Ex. Workshop Outlet Store	Fiore Cook Residences	1,732	\$9,900,000	\$5,715	Apr-16
201 Hobson Street	The Eve Apartments	Plans for residential apartments	563	\$4,700,000	\$8,338	Apr-16

CBD Fringe Land Sales

Address	Zone	Proposal/Development	(m ²)	Sale Price	\$/psm	Date
223 Ponsonby Road	Town Centre	Consented for apartment and retail development	569	\$4,100,000	\$7,205	Apr-18
340-344 Onehunga Mall, Onehunga	THAB	Consented for 50 apartments	3,132	\$5,900,000	\$1,883	Dec-17
34 Edwin Street	Mixed Use	Currently used as an on-grade carpark for the Eden Business Park	2,970	\$5,000,000	\$1,638	Nov-17
1949 Great North Road, Avondale	Town Centre	32.5 metre height limit. Bare site purchased by Panuku	7,447	\$9,750,000	\$1,309	Nov-17
18 Westmoreland Street, Grey Lynn	Mixed Use	Demolition sales yard	2,782	\$8,500,000	\$3,055	Sep-17
27 Virginia Avenue East, Eden Terrace	Mixed Use	No known consents	625	\$2,050,000	\$3,280	Aug-17
1843 Great North Road, Avondale	Town Centre	32.5 metre height limit	2,309	\$5,775,000	\$2,501	Aug-17
1 Minnie Street, Eden Terrace	Mixed Use	No known consents	1,115	\$3,888,000	\$3,486	Aug-17
376 Great North Road, Grey Lynn	THAB	1970's Warehouse / Office	570	\$4,000,000	\$7,018	Jul-17
835-837 Manukau Road, Royal Oak	THAB	Marketed as a development site	1,897	\$3,800,000	\$2,003	July-17
9 Madeira Lane, Grafton	Mixed Use	No known consents	1,040	\$4,600,000	\$4,423	Jul-17
7/5 Madeira Lane, Grafton	Mixed Use	No known consents	801	\$4,293,000	\$5,359	Jun-17
1 Kelmarna Avenue, Herne Bay	Town Centre	No known consents	2,342	\$8,000,000	\$3,415	Jun-17
290 Parnell Road, Parnell	Town Centre	Leased to Wilson Carparking returning \$146,209+GST p.a.	747	\$7,088,000	\$9,489	May-17
66-80 Broadway, Newmarket	Metropolitan Centre	The Warehouse	13,988	\$65,000,000	\$4,647	May-17
10 Fleet Street, Eden Terrace	Mixed Use	Bare Land, four level apartment building proposed	434	\$1,650,000	\$3,801	May-17
12 Fleet Street, Eden Terrace	Mixed Use	Character Villa	336	\$1,250,000	\$3,720	Apr-17
2 Turakina Street, Grey Lynn	Mixed Use	Crest Apartments	1,524	\$6,888,000	\$4,519	Apr-17
43 Gillies Ave, Newmarket	Mixed Use	Sold with consent for 86 apartments	2,689	\$10,760,000	\$4,001	Apr-17
25 Hargreaves Street, Ponsonby	Mixed Use	Sold with consent for 29 apartments	1,219	\$5,400,000	\$4,430	Apr-17
572 Manukau Road, Epsom	Mixed Use	Older Villa - Marketed as a development site	1,012	\$4,155,000	\$4,106	Mar-17
839 Manukau Road, Royal Oak	THAB	Marketed as a development site	1,012	\$2,446,000	\$2,416	Feb-17



The Whillans Report

AUCKLAND MARKET UPDATE / 1ST QUARTER 2018

Auckland Investment Sales

Office Investment Sales

Address	Suburb	Asset Type	NLA	Parking	Occupancy	WALT	Sale Price	Date	Initial Yield
7 City Road	CBD	B-Grade	6,662	134	100%	NA	\$23,000,000	Feb-18	7.90%
128 Broadway	Newmarket	B-Grade/Retail	1,436	30	100%	NA	\$9,128,948	Jan-18	5.86%
98 and 100 Symonds Street	CBD	B-Grade	4,263	85	100%	9.26	\$22,000,000	Dec-17	5.40%
29-33 Shortland Street	CBD	Character	5,486	0	100%	2.6	\$39,900,000	Dec-17	5.46%
52 Symonds Street	CBD	B-Grade	3,826	70	85%	NA	\$16,150,000	Dec-17	5.79%
9 City Road	CBD	B-Grade	3,358	58	91%	5.5	\$12,000,000	Dec-17	6.60%
151 Victoria Street West	CBD	B-Grade	4,777	75	100%	9	\$30,000,000	Dec-17	5.90%
323 Great South Road	CBD	B-Grade	3,434	97	60%	NA	\$10,500,000	Nov-17	4.88%
3 Albert Street	CBD	B-Grade	8,429	0	91%	NA	\$45,000,000	Nov-17	4.60%
9 Gore Street	CBD	Character	1,323	10	NA	NA	\$7,100,000	Oct-17	NA
272 Parnell Road	Parnell	B-Grade	2,648	37	NA	2.2	\$15,000,000	Oct-17	6.00%
99 Albert Street	CBD	B-Grade	12,284	91	100%	2	\$47,000,000	Oct-17	7.33%
NZI Centre, 1 Fanshawe Street	CBD	A-Grade	9,446	65	100%	7.1	\$63,000,000	Sep-17	8.05%
2-4 Fred Thomas Drive	Takapuna	A-Grade	12,263	450	100%	NA	\$60,850,000	Sep-17	6.96%
205 Queen Street	CBD	A-Grade	25,381	125	96%	3.9	\$174,000,000	Aug-17	6.13%
62 Victoria Street West	CBD	C-Grade	3,513	0	100%	3	\$18,800,000	Jul-17	5.95%
27 Bath Street	Parnell	B-Grade	1,009	16	100%	4	\$7,210,000	Jul-17	5.17%
3 City Road	CBD	B-Grade	5,621	42	NA	NA	\$20,000,000	Jul-17	NA
350 Queen Street	CBD	B-Grade	4,876	NA	100%	NA	\$46,400,000	Jun-17	6.00%
7-9 Union Street	CBD	C-Grade	1,363	13	100%	4	\$9,500,000	Jun-17	7.10%
15 Osterley Way	Manukau	B-Grade	4,967	28	100%	2.7	\$14,100,000	May-17	7.80%
87-89 Albert Street	CBD	C-Grade	7,193	57	NA	NA	\$26,500,000	Mar-17	6.10%
171 Hobson Street	CBD	B-Grade	2,951	40	100%	8	\$9,500,000	Apr-17	8.42%
24 Mackelvie Street	Grey Lynn	Showroom	1,832	28	100%	2	\$9,500,000	Mar-17	5.40%
46 Sale Street	CBD	A-Grade	11,700	96	100%	11	\$113,000,000	Mar-17	6.20%
117 Khyber Pass Road	Grafton	B-Grade	2,750	75	0%	NA	\$9,750,000	Mar-17	NA
1-11 Short Street	CBD	B-Grade	4,950	46	100%	6.9	\$17,000,000	Feb-17	6.00%
360 Queen Street	CBD	C-Grade	5,481	0	NA	NA	\$29,000,000	Jan-17	NA
519-521 Lake Road	Takapuna	B-Grade	4,882	74	100%	7	\$24,500,000	Nov-16	5.70%
75 Karangahape Road	CBD	B-Grade	5,684	59	100%	NA	\$15,000,000	Sep-16	7.30%

Retail Investment Sales

Address	Suburb	Asset Type	NLA	Parking	Occupancy	WALT	Sale Price	Date	Initial Yield
Appliance Shed and Warehouse Stationery	Henderson	Bulk Retail	2427	59	100%	NA	\$7,580,000	Ap-18	6.60%
Caltex Stations (Mt. Roskill, Sandringham, Penrose)	Auckland	Service Stations	NA	NA	100%	16	\$12,775,000	Nov-17	4.70%
Placemakers, 24 Oteha Valley Road	Albany	Bulk Retail	3,329	NA	100%	NA	\$14,000,000	Oct-17	5.50%
405 and 415 Remuera Road	Remuera	Retail	785	11	100%	NA	\$7,180,000	Oct-17	4.54%
4055-4059 Great North Road	Glen Eden	Shopping Centre	1,420	NA	100%	NA	\$8,250,000	Sep-17	5.67%
Blackett's Building, 90-92 Queen Street	CBD	Character	910	0	100%	11	\$21,750,000	Sep-17	4.39%
Hunters Plaza Shopping Centre	Papatoetoe	Shopping Centre	15,885	521	100%	NA	\$50,600,000	Jun-17	8.40%
Bunnings Warehouse, 272 - 302 Great North Road	Grey Lynn	Bulk Retail	8,872	211	100%	12	\$37,700,000	May-17	4.98%
Westfield Westcity Shopping Centre	Henderson	Shopping Centre	36,108	1,492	95%	4	\$153,000,000	Dec-16	7.38%
Bunnings Warehouse, 167 Great South Road	Takanini	Bulk Retail	10,433	230	100%	12	\$26,500,000	Oct-16	5.20%

Alternative Asset Sales

Address	Suburb	Asset Type	NLA	Parking	Occupancy	WALT	Sale Price	Date	Initial Yield
2-4 York Street	Newmarket	Carpark		250	100%	11	\$16,390,000	Dec-17	5.10%
1-4 Eden Street Carpark	Newmarket	Carpark	1,423	377	100%	9.6	\$19,000,000	Oct-17	4.92%