The Whillans Report

AUCKLAND MARKET UPDATE / 4TH QUARTER 2017

Biggest Year Ever for Whillans Realty Group

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$800 million in sales

Whillans experienced its biggest year ever in 2017, with the group achieving over $800 million in settled sales. The market focus shifted from land sales to investment stock. New sources of offshore capital and low interest rates drove asset prices to record highs.

A stellar fourth quarter

Some of our most outstanding sales in this quarter included:

- The AA Building, 99 Albert Street (Bruce Whillans, $47 million)
- West Plaza, 3 Albert Street (Bruce Whillans, $45 million)
- The Eden Street Carpark, Newmarket (Henry Thompson, confidential)
- 272 Parnell Road, Parnell (Henry Thompson, $15 million)

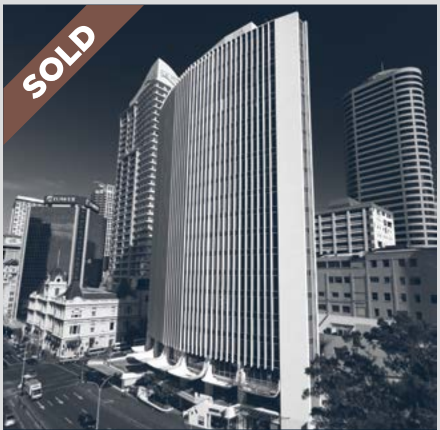
Looking ahead to 2018

In this edition of the Whillans Report, Senior Analyst Brendan Keenan reviews the local and international factors that have affected our market in 2017. We also look ahead and predict what may change and influence the property market in 2018.

We trust you find this report valuable and we look forward to doing business with you in 2018.

Wishing you a very happy Christmas and a prosperous New Year.

AA Building, Auckland CBD



West Plaza, Auckland CBD

Eden Street Carpark, Newmarket

Market 2017 Third Quarter Update

CBD Commercial (Q3)

Investment activity in the Auckland CBD office market remained exceptionally buoyant over the second half of 2017. This was supported by a ground swell of interest from Australian and Asian fund managers. These groups are actively competing against locally listed property trusts, high net worth private investors and syndicators. Several major CBD buildings were sold to offshore buyers including West Plaza ($45 million), the NZI Centre ($63 million) and 205 Queen Street ($174 million).

Following a slow start to the year, both prime and secondary office yields firmed by 18 basis points in the six months to September. However, new office supply led to rising vacancies. Landlords are now offering tenants greater incentives which in turn has eroded real rental growth over this period.
In the six months to September, effective prime rental rates decreased by 1.2% to $400/psm and secondary effective rental rates decreased by 0.2% to $238/psm.

Auckland CBD Commercial Market Summary* (CBRE)

	PRIME	SECONDARY	PREV 6MTH TREND
Vacancy	5.8%	10.4%	Increasing
Effective Rent	$400	$238	Decreasing
Yield	6.27%	7.00%	Firming
Incentives*	8.8 mths	8.2 mths	Increasing

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

CBD Prime Retail (Q3)

On the back of higher pedestrian foot traffic, low vacancy rates and the arrival of international retail brands seeking a Queen Street address, prime CBD retail rents continued to increase, albeit at their slowest pace in three years. In the six months to September 2017, the indicative prime retail rental increased 1.3% to $3,942/psm. However, prime retail rents at the high end of this series remained unchanged and retail rents at the low end fell for the first time in nearly eight years. Against this backdrop of weaker rental growth and looming supply, indicative prime CBD retail yields remained flat with zero movement recorded across the last 12 months.

Auckland CBD Prime Retail Market Summary* (CBRE)

	AVERAGE	HIGH	LOW	PREV 6MTH TREND
Rent	$3,942	$4,500	$2,600	Flat
Yield	4.95%	4.75%	5.25%	No Change

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.

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Market 2017 Third Quarter Update

Auckland Industrial (Q3)

Industrial yields continued to firm in the six months to September. This was supported by strong demand from both investors and owner occupiers, with record low industrial vacancy rates and rising industrial rents. Indicative prime industrial yields moved 15 basis points to 5.51% and secondary industrial yields firmed 23 basis points to 6.56%. In the six months to September, net effective prime industrial rents increased by 1.6% to $131.8/psm and secondary rents increased by 2.9% to $103.1/psm over the same period. Supported by Auckland's growing economy and surging population, confidence in this sector remains high. The latest October Performance Manufacturing Index (PMI), a survey which measures manufacturing activity, remains elevated (currently 57.2 points). A PMI reading above 50 points indicates manufacturing activity is expanding and below 50 indicates it is contracting.

Auckland CBD Industrial Market Summary* (CBRE)

	PRIME	SECONDARY	PREV 6MTH TREND
Vacancy	1.7%	1.5%	Decreasing
Effective Rent	$131.80	$103.10	Increasing
Yield	5.51%	6.56%	Firming
Land Value	$700	$225	Increasing

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.

What to Watch Out For in 2018

The 2017 market — Mixed fortunes

This year marked a turning point for Auckland's commercial property cycle: the heat came out of the development market, while the investment market reached boiling point.

The development sector showed noticeable signs of cooling. The pressure came off rising land prices because of uncertainty about the 2017 New Zealand election, new Chinese capital controls, and tighter bank lending requirements.

Spiralling construction costs and Auckland's slowing housing market undermined the viability of new development. Several high-profile residential development projects were cancelled or redesigned and the market was flooded with land for sale. Development sites that would have flown off the shelf in 2015 and 2016 were suddenly harder to shift.

Meanwhile, investment properties across Auckland achieved new benchmark prices. A combination of limited investment-grade stock, new offshore investors entering the market, and low interest rates drove asset prices to record highs. Investor confidence was reinforced by low vacancy rates, rental growth, and Auckland's robust economy.

Interest rates — Do we have lift-off?

For the first time since 2007, the world's largest economies are all beginning to experience synchronised economic growth. Falling unemployment and rising wages, growing international trade, and a coordinated attempt by the world's central banks to normalise monetary policy all point to gradual interest-rate rises in 2018.

Could central bankers find themselves between a rock and a hard place in 2018? Will they raise interest rates at the risk of bursting a global asset bubble? Or will deflationary forces like disruptive technology and globalisation continue to keep a lid on prices?

A mixed outlook

The outlook for the New Zealand economy in 2018 is mixed. A weaker housing market, high household debt, and uncertainty about new government policies could weigh down economic growth. Will a weaker NZ dollar, increased government spending, lower unemployment, and hikes in the minimum wage offset these headwinds and ultimately boost inflation and economic growth?

The substantial pipeline of private and public construction projects in Auckland should continue to stimulate the economy. A growing list of mega-projects includes:

- the city rail link
- the New Zealand International Convention Centre
- downtown Auckland's Commercial Bay office tower and shopping centre.

Adding to this list are major new developments such as Westfield Newmarket, Pacifica, and the University of Auckland's expansion.

The Reserve Bank of New Zealand (RBNZ)'s current monetary policy is relatively accommodating, but consensus is emerging among the main trading banks that the Official Cash Rate could be raised in the second half of 2018. Interest rates are hovering near historic lows and the margins between investment returns and servicing costs remain positive. Any gradual upward movement in interest rates is unlikely to put meaningful pressure on property prices. But could a surprise in inflation figures force the RBNZ to suddenly hike interest rates? And what impact will higher offshore interest rates have on local borrowers — in particular those overseen by the US Federal Reserve?

The current cycle is still a long way off from the 2006 to 2008 experience, when interest rates were higher than investment returns. However, if interest rates increase in conjunction with weaker rental growth, yields could flatten across the investment markets next year.

Non-bank lending comes to the fore

Many traditional retail banks are withdrawing from the development sector. New sources of funding are entering the frame, offsetting the retail banks' ability to finance larger property transactions.

This is already happening in Australia, where new macro-prudential rules — where regulations are introduced to mitigate risk to the financial system as a whole — have dried up traditional sources of bank funding. Ultra high net worth individuals, investment banks, and private equity are filling this void. We believe these groups will become more prominent during 2018, with several Australian companies looking to enter the New Zealand marketplace early next year. These groups have expressed an interest in funding land acquisitions, development, and value-add projects above $20 million.

What to Watch Out For in 2018

Chinese capital controls remain

In 2017, Chinese investors bought less land and investment property in the Auckland market than in the year before. This slowdown in Chinese interest appears to have been a direct result of Chinese authorities introducing new capital controls, to stabilise the Yuan and curb the flow of money leaving the 'Middle Kingdom'. Evidence suggests these new capital controls are working. China's total foreign currency reserves are recovering from their January low and the Yuan is regaining some of the ground it lost to the US Dollar last year.

However, a rapid return of Chinese investors is not necessarily expected. Feedback from our Chinese clients is that it will still be difficult to transfer funds out of China next year. The Chinese Government is also putting pressure on some groups to repatriate funds back to China. Chinese investors are cautiously watching the new policies being introduced by the 19th National Congress of the Communist Party, under the growing control of President Xi Jinping.

The Chinese appetite for New Zealand property has been further dampened by changes proposed by the new Labour Government, including:

- a ban on foreign ownership of existing residential property
- a call for a comprehensive register of foreign-owned land
- an extension of the bright-line test to 5 years.

We believe many of our Chinese clients will continue to adopt a wait-and-see approach over 2018 as they assess the roll-out of new governing policies in both China and New Zealand.

Offshore institutional investors gain a foothold

Despite the slowdown in Chinese investment, we are witnessing unprecedented demand from Australian, Asian, and European funds investing in Auckland's commercial real estate market. These groups are chasing office, retail, and hotel assets, as well as emerging asset classes such as student accommodation. They are attracted to Auckland's strong growth story, our relatively high commercial property yields, our market transparency, and the ease of doing business in New Zealand. We believe these groups will ramp up their efforts in 2018.

A lack of sizeable investment-grade stock remains the biggest impediment for these groups. Some overseas investors are teaming up with local developers to deliver new hotel and student accommodation projects to overcome this lack of stock. Given the challenging banking environment, many of these groups are likely to adopt fund-through and take-out models to meet their investment mandates.

The reality of residential development

The Labour Government's KiwiBuild programme aims to build 50,000 affordable homes in Auckland over the next 10 years. This programme will underpin the demand for certain types of residential development land. To develop and deliver affordable homes that can be sold for between $500,000 and $600,000, land generally needs to be purchased for below $200/psm. But this resource is in short supply. We expect land with any semblance of infrastructure near the metropolitan urban limit to be a prime target for this policy.

Meanwhile, in the apartment sector, will double-digit inflation for construction costs continue to make many projects unviable? In an environment of stalling home prices and rising construction costs, could we see an adjustment to land prices in certain parts of the city where pricing has got away from market fundamentals? Or will the new ban on foreign ownership of existing homes reignite off-plan apartment sales?

2017 - A wake-up call

As 2016 drew to a close, we questioned whether 2017 would be a wake-up call for Auckland's property market. While the investment sector soared, the development and residential market hit several air pockets.

We believe 2018 could be a mixed bag. A shifting property cycle always opens up new opportunities for some while posing challenges for others.

Thanks to all subscribers, readers and respondents. I wish you a Merry Christmas and an enjoyable holiday season ahead.

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Whillans Realty Group 2017 Sales Track Record

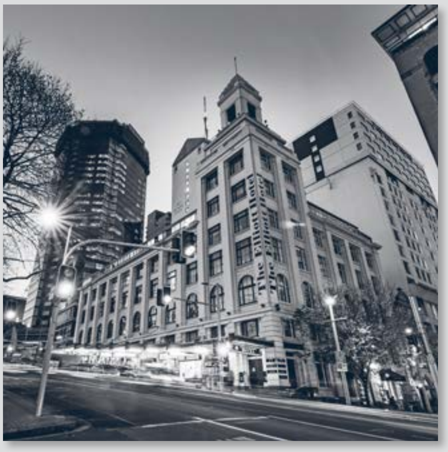
WESTFIELD WESTCITY MALL
HENDERSON
$153,000,000

35 MAYORAL DRIVE
AUCKLAND CBD
Confidential

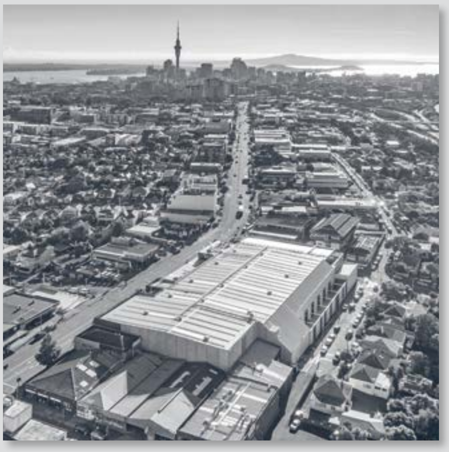
ALBANY HIGHWAY
ALBANY
Confidential

AA BUILDING
AUCKLAND CBD
$47,000,000

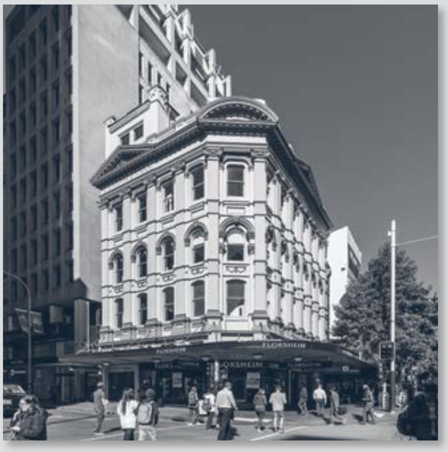
WEST PLAZA
AUCKLAND CBD
$45,000,000



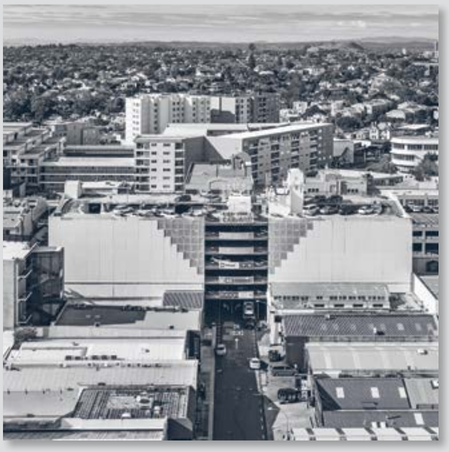
ELLIOTT STABLES
AUCKLAND CBD
Confidential



BUNNINGS WAREHOUSE
GREY LYNN
$37,700,000



BLACKETTS BUILDING
AUCKLAND CBD
$21,750,000



EDEN STREET CARPARK
NEWMARKET
Confidential

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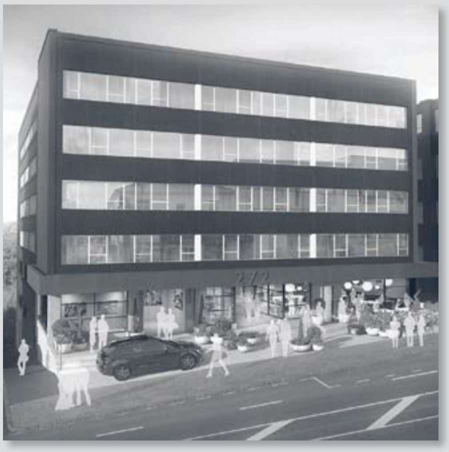
Whillans Realty Group 2017 Sales Track Record

ALLOY/SENSATION YACHTS
HENDERSON
$18,930,000



272 PARNELL ROAD
PARNELL
$15,000,000

15 OSTERLY WAY
MANUKAU CBD
$14,100,000

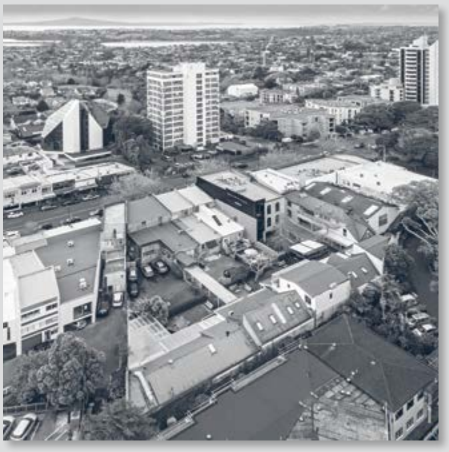
16 WATERLOO QUADRANT
AUCKLAND CBD
$11,000,000

51-53 ALBERT STREET
AUCKLAND CBD
Confidential

24 MACKELVIE STREET
GREY LYNN
$9,500,000

7-9 UNION STREET
AUCKLAND CBD
$9,500,000

27 BATH STREET
PARNELL
$7,210,000



405 AND 415 REMUERA ROAD
REMUERA
$7,180,000

Auckland CBD and City Fringe Land Sales

CBD Land Sales

Address	Property	Proposal/Development	m²	Sale Price	$/psm	Date
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
127 Vincent Street	Two level office building	No known consents	475	$4,000,000	$8,421	May-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
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
147 Victoria Street West	NZ Tourism	Plans for a Ramada Hotel	1,176	$9,000,000	$7,653	Feb-16

CBD Fringe Land Sales

Address	Zone	Proposal/Development	m²	Sale Price	$/psm	Date
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
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
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
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
409 Great North Road, Grey Lynn	THAB	Character Bungalow	427	$1,959,000	$4,588	Dec-16
562-562A Richmond Road, Grey Lynn	Mixed Use	Retirement Village	4,501	$14,500,000	$3,222	Nov-16
57-59 France Street, Eden Terrace	Mixed Use	Kings Arms Tavern - Application for 104 apartments	2,112	$7,450,000	$3,527	Nov-16
12 Nixon Street, Grey Lynn	Mixed Use	1960's Warehouse	531	$2,250,000	$4,237	Sep-16
667 Great North Road, Grey Lynn	Mixed Use	Car Yard	1,727	$5,900,000	$3,416	Sep-16
103-105 Great South Road, Epsom	Mixed Use	1980's Office	2,076	$7,850,000	$3,781	Sep-16
10 Maidstone Street, Grey Lynn	Mixed Use	1980's Warehouse	634	$3,300,000	$5,205	Sep-16
7 Sarawia Street, Newmarket	THAB	1930's Flats	711	$3,100,000	$4,360	Aug-16
25 Exmouth Street, Eden Terrace	Mixed Use	1980s Warehouse / Office	2,053	$5,700,000	$2,776	Aug-16
3 Abbey Street, Newton	City Centre	1970s Office	607	$3,525,000	$5,807	Aug-16

The Whillans Report

AUCKLAND MARKET UPDATE / 4TH QUARTER 2017

Auckland Investment Sales

Office Investment Sales

Address	Suburb	Asset Type	NLA m²	Parking	Occupancy	WALT	Sale Price	Date	Initial Yield
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%
92 Albert Street	CBD	B-Grade	11,380	25	84%	2.9	$36,000,000	Oct-16	6.40%
450 Queen Streeet	CBD	C-Grade	9,571	175	100%	6.3	$39,000,000	Jul-16	6.00%
Millennium Centre, 600-604 Great South Road	Greenlane	A-Grade	43,500	1,567	100%	4.9	$210,023,756	Jul-16	7.30%
The Telco Building, 60 Federal Street	CBD	B-Grade	7,828	41	92%	2.2	$31,750,000	Jul-16	6.79%
Fletcher HQ, 581-585 Great South Road	Penrose	B-Grade	8,903	478	100%	9.2	$40,900,000	Jun-16	7.10%
AUT Tower, 2-14 Wakefield Street	CBD	B-Grade	13,987	43	100%	8.2	$47,200,000	May-16	6.70%
26 Lorne Street	CBD	Character	1,219	0	100%	4	$7,200,000	Apr-16	6.20%
124 Vincent Street	CBD	B-Grade	4,487	62	100%	7.1	$18,883,278	Mar-16	7.06%
Cider Building, 4 Williamson Avenue	Ponsonby	A-Grade	13,200	537	100%	10	$93,000,000	Dec-15	6.70%
NZ Invest House, 32-34 Mahuhu Crescent	CBD	A-Grade	7,224	69	100%	2.9	$18,560,000	Dec-15	9.10%
Grant Thornton House, 152 Fanshawe Street	CBD	A-Grade	6,697	66	100%	4.2	$28,100,000	Dec-15	9.80%
49-51 Symonds Street	CBD	B-Grade	10,027	256	100%	5.1	$49,700,000	Dec-15	5.90%
Auckland Club Tower, 34 Shortland Street	CBD	B-Grade	8,137	76	100%	3.4	$44,500,000	Dec-15	7.10%
56 Wakefield Street	CBD	B-Grade	9,586	367	100%	2.2	$43,000,000	Nov-15	7.70%

Retail Investment Sales

Address	Suburb	Asset Type	NLA m²	Parking	Occupancy	WALT	Sale Price	Date	Initial Yield
Caltex Stations (Mt. Roskill, Sandringham, Penrose)	Auckland	Service Stations	NA	NA	100%	16	$12,775,000	Nov-17	4.7%
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%
DFS Galleria, 22 Customs Street West	CBD	Retail	5,129	0	100%	9.77	$33,500,000	Oct-16	5.69
Three Kings Shopping Centre, 528 Mt Albert Road	Three Kings	Shopping Centre	10,000	NA	NA	NA	$37,000,000	Aug-16	5.90%
Shore City, 52 Anzac Street	Takapuna	Shopping Centre	13,990	830	98%	NA	$90,150,000	May-16	Confidential