

## \$120m of Capital Searching for Reinvestment into Property



At Ray White Commercial we are enjoying a real resurgence in sales activity with our office (Auckland City Commercial) topping the Ray White

network consistently over the last quarter.

With privates dominating the market, we continue to see robust prices being paid for quality properties particularly well tenanted investment stock, which continues to sell at premiums surpassed only at the height of the property boom. Saying this however, we are finding that buyers are very discerning, shying away from more speculative opportunities.

For larger investments, we are seeing small groups of high net worth privates combining their equity to secure substantial assets and we never fail to be surprised by the financial strength of some of the individuals and family trusts now coming to the market.

**Favoured by instructions received from two substantial charitable trusts, Ray White Commercial has been briefed to identify suitable investment opportunities to add to both their existing portfolios which have a combined value of circa \$1billion.**

In both cases, their investment criteria comprises of quality industrial properties \$5m+ with long term (6 years+) leases. Whilst their focus is on the Auckland market, they will consider investing outside of this region, for the right properties.

**We are also working closely with a large private equity group out of the UK, who are actively pursuing quality bulk retail assets with long term leases.** Like the charitable trusts, this group is investing for dynasties focused on growth rather than yield. Our low interest rate regime is helping to facilitate buyers into these properties and it is likely to remain this way whilst the five

year swap rate sits below 5%, with early indications even suggesting a possible drop in the Official Cash Rate following the Christchurch earthquake.

Consolidation remains a theme amongst New Zealand REITs. It is likely that the REIT sector will meet an equilibrium this year as deleveraging slows, offset by strategic purchasers by those funds with good balance sheets.

Banks will continue their orderly sell down of nonperforming assets, with a preference to fund solid investors back into many of the properties they are holding. Landmark developments such as Kawerau Falls, SOHO Square and Albany City Centre continued to be circled by well qualified buyers.

In Auckland, headlines remain dominated by the critical shortage of new housing. See our special report prepared by Brendan Keenan on the following page which looks at some of the drivers behind this crisis.

## Market 2010 Fourth Quarter Update

### CBD Commercial (Q4)

The CBD office market ended 2010 on much the same note that it began the year with. 2010 could best be described as flat lining with little to no movement across the CBD office indicators. Yields eased marginally over the period, facilitated by easing rent rolls and rising vacancies as corporates

### Auckland Industrial (Q4)

Auckland industrial indicators followed a similar flat lining projectory over 2010 with marginal improvements seen across prime rents and land values. Yields across both sectors recorded no movement over the year, however vacancies for both prime & secondary are beginning to decrease following their peak in Q2 2010.

### CBD Prime Retail (Q4)

Prime CBD retail continues to lead the recovery with indicative rents surpassing their peak in the 1st quarter of 2008. Retailers and investors continue to place emphasis on quality space underscoring the performance of prime Auckland CBD retail, with yields sharpening over the 3rd

moved from existing office space into new purpose built offices. With little construction in the pipeline and continued positive net absorption the impact of further corporate relocations will be less severe than the dire headlines of 20% vacancy predicted 12 months ago and closer to 15% peak vacancy in 2014, easing from there.

A good indicator to the health of this market has been the BNZ performance manufacturing index, which bundles industrial employment intentions, supply/demand into an indicy with 50 basis points being a state of equilibrium. Since Feb 2009 the index has clawed its way out of contraction, beginning 2011 at 53.7, suggesting improved market confidence.

and 4th quarter of 2010. Across the greater Auckland retail market rents, capital values and vacancy rates continue to show signs of deterioration as consumers across the region tighten their wallets.

Auckland CBD Commercial Market Summary* (CBRE)			
	Prime	Secondary	Previous 6 mth trend
Vacancy	9.1%	16.9%	(Increasing)
Rent	\$357.00	\$212.00	(Easing)
Yield	8.93%	10.13%	(Easing)
Incentives	17 mths	15.9 mths	(Increasing)

Auckland Industrial Market Summary* (CBRE)			
	Prime	Secondary	Previous 6 mth trend
Vacancy	2.7%	5.5%	(Decreasing)
Rent	\$106.60	\$67.40	(Flat)
Yield	8.41%	10.13%	(Flat)
Land Value	\$450	\$200	(Flat)

Auckland CBD Prime Retail Market Summary* (CBRE)				
	Average	High	Low	Previous 6 mth trend
Rent	\$2,400	\$3,250	\$1,700	(Increasing)
Yield	6.65%	5.50%	7.5%	(Firming)

\*SOURCE: Statistical data in this publication has been sourced and summarised from CB Richard Ellis research and is intended for general guidance only. No responsibility is accepted by CB Richard Ellis or Whillans Realty Group Ltd. for any omissions or errors contained within this report.

## Auckland Housing Shortage - Pressure Building



Analyst - Brendan Keenan  
BCOM/BPROP

With population growth on par to Australia's capital cities, Auckland is quickly outpacing the rest of New Zealand.

Over the next two decades conservative

forecasts suggest that the region's population will grow by an additional 500,000\* new residents, comparable to adding more than the entire population of Wellington or Christchurch to the city's expanding suburbs.

The Auckland Region has been growing by around 24,000\* people per year, and up until the mid 2000's new housing supply has been keeping pace with this demand (Fig 3).

Following the GFC, new construction quickly ground to a halt as finance companies and property developers were placed into receivership and bankruptcy.

The result has seen exponential demand for new housing from 2007 onwards (Fig 3). The historical average of 1 new dwelling for every 2.9 persons has nearly

doubled to an unsustainable level with one new dwelling being built for every 7 new residents in 2010, bringing the region to the brink of a housing crisis (Fig 3).

We are starting to see the effects of this supply shortage though the rapid rise in residential rents, which rose 7% across the region over 2010, some suburbs experiencing double digit increases.

With little development in the pipeline and delivery times ranging between 12-18 months, we see this as the beginning of a 2+ year cycle breaking the current stalemate in capital appreciation.

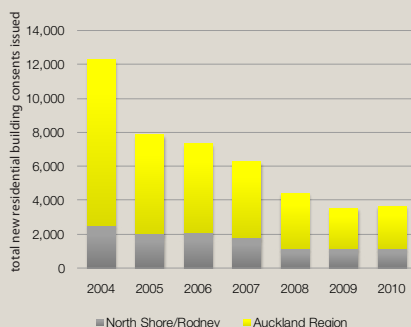
Despite government attempts to curve investment into residential property, we anticipate the growing housing crisis

will become a central debate in the new spatial plan for Auckland and upcoming elections in November, playing in favour of providers of new housing.

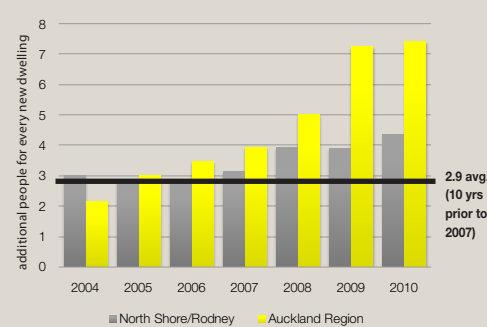
With current vacant residential land values stabilising and evidence of a looming housing crisis, we believe that we are at the bottom of what has been a 3 year easing cycle, providing investors and developers with an opportune window to pick up residential land packages before the market turns.

A summary of three available land packages at various stages has been provided below, from fringe MUL land banks right through to fully consented subdivisions.

(1) New Residential Dwellings\*

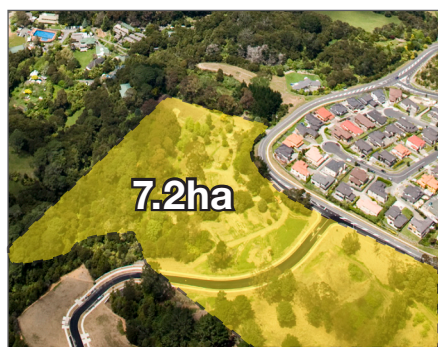


(3) Additional People Per New Dwelling\*



\*SOURCE: Statistics New Zealand

## North Shore/Rodney Land Packages For Sale



### Gills Road, Albany Heights

A 7.2 ha residential subdivision, less than 5 minutes from Albany City Centre. The existing district plan makes provision for approx 207 units, with further density achievable under the plan.

-For sale by Private Treaty POA-



### Karepiro Estate, Whangaparaoa

Northerly sloping 24.5ha estate with consent to build 112 low and medium density residential lots together with 15 separate commercial lots. Fully costed & consented.

-For sale by Private Treaty POA-



### Chin Hill, Hatfields Beach

Elevated 183ha rural land bank adjacent the Auckland Metropolitan Urban Limit (MUL). Views across Hauraki Gulf, Auckland City and Mahurangi, within 40 minutes drive time of Auckland CBD.

-For sale by Private Treaty POA-