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A private buyer's kingdom

Auckland, NZ

Although New Zealand might have come through the recession relatively unscathed compared to Europe and the United States, the commercial property market has felt its effects.

Values and rents are down and institutions have become sellers rather than buyers. The market has become a private buyer's kingdom. There have been a few bargains, but the rock bottom prices of the early 1990s recession haven't eventuated this time around.

While there have been some encouraging economic signs, CB Richard Ellis' research shows there are still uncertainties over the country's outlook and the interplay of property supply, demand, expectations, confidence and buyer/seller motivations will have a complex bearing on the market over the next year.

This will throw up considerable divergences between the regions, particularly Auckland and Wellington.

Immigration, rebounding residential activity and the Rugby World Cup in 2011 should underpin an improving Auckland economy next year, says CBRE's research team. In contrast, Wellington's economy is likely to under-perform because the government has reined in some of its spending leading to a flow-on in private sector activity and businesses continue to drift away from the capital.

The recession has had the biggest impact on Auckland's office, industrial and CBD retail property sectors. Composite net effective rents have fallen sharply since the middle of last year and are now below levels of three years ago. Wellington and Hamilton have followed Auckland to a lesser extent.

Christchurch, on the other hand, has been an outstanding performer over the past three years and rents across the three sectors continue to remain at levels built up from a growth spurt during 2006-2007. The rental index for the South Island's "garden city" even shows a 0.6% increase over the past year.

Office

In a breakdown of the sectors over the past three years, office was the star in prime rental growth followed by CBD retail and industrial. However, the past year hasn't been good for the sector as a whole, with the rental index falling 12.2%.

During the three years, the Christchurch office market led the way. High demand for office space and low vacancy fuelled growth of 42.6%. In contrast, Auckland's prime office market dropped by 2.1% over three years and a massive 17.4% over the past year.

Wellington and Hamilton office rents grew 17.8% and 16.2% respectively over the three years and have shown softer falls over the past year.

Confirmed new Auckland office property will add more than 9% of space to the city's CBD stock by the end of 2011. Inquiry levels from office tenants are increasing.

The growth in confidence is creating a wider gap between landlord aspirations for rents and yields, and tenants' expectations of continuing incentives.

In Wellington the new office supply pipeline is substantial. Following the completion of more than 40,000m² in the first half of this year, a further 100,000m² is underway for completion between December this year and June 2011.

Tenants have pre-committed to more than 80,000m². The impact of the new office space on B- and C-grade buildings will be enormous. As in Auckland, the magnitude of new supply means the vacancy recovery will lag retail and industrial. Vacancy rates are expected to peak at more than 11% in 2011.

Retail

Prime CBD retail rents fell in every city apart from Auckland during the September quarter. A recovery aided by stronger consumption means retail sales should improve next year to support recovering store turnovers and aid rental affordability.

Over the past three years Hamilton's retail has fallen 42.6% - the biggest fall in all sectors. CBD retail in other cities has fallen to around the level of three years ago.

New and confirmed retail property will add 2% to Auckland's stock.

Industrial

In the industrial sector, Wellington has suffered the most with an 18.9% decline in prime rents for the past year and a 5.2% fall in the past quarter – the biggest quarterly change in all the property sectors.

A greater volume of goods manufactured, stored, transported and wholesaled will create demand for industrial premises in Auckland. New stock will add 2.5% to the industrial supply.

Yields

The story for this decade has been one of firming yields until bottoming out in mid-2007.

During this time yields firmed to 6.65% for Auckland's CBD retail sector. Since then, all yields, apart from Christchurch's CBD, have softened to levels slightly higher than were reached three years ago.

The biggest change over the past three years has been in Hamilton's industrial market, which has softened by 106 basis points.

In the September quarter, yields showed signs of stabilising, with some sectors even showing slight firming. Auckland CBD retail and industrial have firmed 15 and 12 basis points respectively.

Yields range from 7.35% for Auckland CBD retail to 8.95% for Wellington industrial property – a spread of 160 basis points. Auckland has the firmest yields and Hamilton the softest. In terms of sectors, CBD retail has the firmest and industrial the softest.

Investment

On the investment front, there has been increasing vendor confidence in Auckland, but it is notably absent in Wellington. Pressure on some investors to quit stock coupled with falling rents is putting stress on yields and cap rates.

In the prime office, retail and industrial markets some stability is likely to return by the end of next year or early 2011 but for secondary offices, the still sizeable vacancy increases forecast for 2011 means continued rental falls.

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