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Insights from CB Richard Ellis' Valuation and Advisory Property Financier's Forum

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Resort Based Proportionate Ownership as an Emerging Market

Resort based proportionate ownership is being introduced by a number of developers in New Zealand.

At CB Richard Ellis Valuation and Advisory Property Financier's Forum in Auckland, John Schellekens, Senior Director of Valuations & Advisory Services said that proportionate ownership in the tourism sector is at its very early stages in New Zealand, with only a few developments currently available in the market place.

"Proportionate ownership in the tourism sector has been extremely popular in resort towns in the US such as Aspen Colorado and is currently being introduced and considered by a number of resort and apartment developers in New Zealand," said Mr. Schellekens.

Mr. Schellekens commented, "A premium location and a premium quality product are critical success factors for such projects."

Mr. Schellekens also identified other key areas as emerging markets in New Zealand. These included infrastructure assets, strata title / management right development, wellness centres and spa resorts and vertical (or high-rise) retirement villages.

Leasehold land rises in popularity

Leasehold land in New Zealand has grown in popularity over recent years.

Mark McNamara, Director of Valuations & Advisory Services at CBRE said that the growth in popularity of leasehold land has resulted from the short supply of land, coupled with strong land inflation over recent years.

“Traditional freehold land in good locations is being transferred to leasehold because of the short supply of land, and land inflation,” said Mr. McNamara.

Mr. McNamara also commented that a lessee’s interest is more volatile than a lessor’s interest.

“When the market drops, the lessee’s interest drops further, whereas the lessor’s interest has bond like characteristics and a low risk default position,” said Mr. McNamara.

Mr. McNamara continued, “Currently, the highs being realised are reflective of the ‘bull’ property market we have seen over the past five years. I suspect the ‘bears’ may be around the corner, so watch and fund lessee’s interest with care.”

Lack of business zoned land in the Auckland region

The issue of business land availability in Auckland is fast coming to a head.

Stephen Dunlop, Director of Valuations & Advisory at CBRE said that the reserves of Greenfield development land have diminished beyond critical levels.

Metropolitan Urban Limits or MUL are adopted in the ARC’s Regional Policy Statement, and the policy is reviewed every ten years. The time of the next review is looming and Aucklanders will have the opportunity to provide for the next decade of development land supply.

“Local Authorities cannot create urban land outside the MUL, and to shift it, they must turn to the ARC” commented Mr. Dunlop.

Mr. Dunlop said that various locations had been identified in the Regional Growth Strategy to be considered for inclusion in the MUL totalling approximately 570 hectares.

“We are also aware of over 500 hectares in various other locations on the edge of the existing Urban Limit that Local Authorities have recognised but the ARC has not,” Mr Dunlop said.

“However this may provide for just over six years of supply at historic growth rates” Mr Dunlop added.

He forecast that the opportunities for Greenfield development were situated at and around Silverdale, Hobsonville, Massey North, Flatbush, Puhinui, Mangere, Takanini, Hinigia and four areas in the Franklin District.

Mr Dunlop commented, "The market is rife with speculative investment on fringe rural land in anticipation of plan changes. If the ARC has not recognised a plan change for a shift of the MUL, then projects may need to sustain a considerable holding period."

Owner/occupier impact on the property cycle

Patrick Ryan, Director of Valuations and Advisory Services at CBRE said that historically owner/occupiers have been seen as inconsequential players in the property market. However in the last four to five years they have been a major driver of demand in our current cycle.

Mr. Ryan said, "Owner/occupiers are second only to institutional investors' impact on the current property cycle".

Bank lenders are driving this market, offering up to 100% Loan Value Ratio, and the reasoning for owners has been compelling – whether it be a pure arbitrage on interest rates versus property yields, or a view to longer term asset planning.

"Sales of owner/occupier properties by way of leaseback transactions have also become more prevalent, particularly for \$10,000,000 plus properties," added Mr. Ryan.

Mr. Ryan commented that owner/occupiers are however the segment of owners in the market most at risk of default in a climate of significant negative credit margins.

Some owner/occupiers who have in the past leveraged favourably, but heavily against personal assets or businesses, may now be in a position of negative leveraging and will have to dispose of properties, most likely under a sale and leaseback transaction to maximise returns.

Countering this is the sheer weight of capital on call. If increased liquidity is generated from owner/occupier sales, the better properties will be acquired quickly by cash rich investors driven by a longer term outlook.

"What is clear is that the positive yield arbitrage available in recent years is now history. Without this incentive, we see a potential contraction in the size of the owner occupier market particularly if overall economic conditions deteriorate" concluded Mr. Ryan.

Retirement village market on the verge of blooming

Michael Gunn, Associate Director of Valuations and Advisory Services at CBRE said that the retirement village market in New Zealand is on the verge of blooming after the seed was first planted in the mid 1980's.

Mr. Gunn said, "with the 'over 65' population forecast to increase to over 27% of the national population by 2050, based on market absorbed occupancy densities, forecast demand for retirement units is expected to peak at just under 900 additional units per annum, but not for another 20 years".

"Current stock levels will not be sufficient to meet demand however the issue is over supply in the short to medium term for locations with high development pipelines" added Mr. Gunn.

"Moving forward, the level of market penetration and a point of difference will become increasingly more critical as operators look to capitalize on opportunities where the supply demand equilibrium is not balanced," Mr. Gunn concluded.

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