P R E S S   R E L E A S E

CB Richard Ellis Pty Ltd
ABN 57 057 373 574

Level 26, 363 George Street
Sydney NSW 2000
DX 10262

T 61 2 9333 3333
F 61 2 9333 3330

www.cbre.com.au

FOR IMMEDIATE RELEASE — 8 September 2008

For further information:
Kathryn House
Communications Manager
61 2 9333 3585
61 402 465 440

Challenges and opportunities for NZ commercial property sector

Sydney, NSW (8 September 2008)

Australian developers are tipped to become a significant force in the New Zealand commercial market as local developers struggle to source project financing.

CB Richard Ellis's annual National Director of Institutional Investments Bruce Whillans said the development arena was the market sector in New Zealand likely to see the greatest changes in the year ahead.

"Private developers have become an endangered species," Mr Whillans said.

"With a total reliance on debenture generated funds, their return in the near future is unlikely. As a result the development land grab is over, with vacant land often considered more of a liability than an asset. "

Mr Whillans said development in New Zealand had traditionally been the domain of privates supported by the finance industry. Now, however, as the result of the collapse in the financial sector and impact from the global credit crunch, private developers were struggling to finance the projects.

According to Mr Whillans much of the enquiry on the development front is now coming from Australian corporates interested in stepping into some of the better projects to take advantage of existing consents and record low land values.

"Opportunities abound for developers to take advantage of the current 'depressed' development market," Mr Whillans said.

"The financial climate has dramatically changed over the past 12 months and land has been re-priced accordingly. With land values virtually in 'freefall' this is the perfect time for cashed up buyers to step into the market. Very rapidly we are going to see a changing of the guard with corporates dominating the development market and the private developers relegated back to doing town houses in the suburbs."

The weaker NZ dollar was likely to be another draw card for Australian buyers.

CBRE Investment Analyst Brendan Keenan said the exchange rate gap has widened considerably since August last year where the Australian dollar was hovering around 90 cents, whereas it is now closer to 80 cents to the NZ dollar.

Mr Whillans said the favourable exchange rate combined with the promised cycle of interest rates cuts, a potential change in government and favourable tax breaks would also be enticing factors for Australian investors.

“New Zealand’s commodity boom and proximity to both Australian and Asian markets will continue to play a positive role in the underlying performance of the economy” adds Mr Whillans.

On the investment front, Mr Whillans said institutional investment levels were expected to remain lackluster for the next 12-18 months as the market settled and the effects of sales and re-valuations established new benchmarks.

However, new buyers were emerging to fill the void.

“As with Australia, we are already seeing a noticeable increase in enquiry from the private sector,” Mr Whillans said.

“We are also experiencing a resurgence of interest from the cashed up South East Asia region from investors who are comfortable with New Zealand as an investment destination.”

Mr Whillans said enquiries were also coming from Europe, particularly Germany and the UK, mainly from high net worth private investors and closed end funds chasing income returns.

However, he warned that after seven years of sustained growth, the NZ commercial property sector was facing challenging times in light of concerns about short terms adjustments to pricing and valuations.

“Markets do this now and again, but the shakeout this time around is particularly severe,” Mr Whillans said.

At the top end of the commercial property market, sales had fallen to their lowest level in 15 years with sales over $5 million down from 60% for the first half of 2008 compared with the first half of 2007.

However, while confidence was understandably at a low ebb, the commercial sector, in particular, still enjoys historically low vacancy levels and lease terms, whilst declining, are still good and under renting is prevalent.”

CBRE NZ Research & Consulting Director Zoltan Moricz said that with the listed property trusts constrained in their ability to acquire assets, the NZ market would be more heavily reliant in the short term on domestic private capital and offshore investment to drive its momentum.

Mr Keenan cites that on average New Zealand listed property vehicles were trading at a discount to NTA of around 30% with several approaching their bank and trust deed gearing requirements. “The trusts are likely to remain in a holding pattern with some divesting assets to bring their gearing back in line,” Mr Keenan said.

“On the flipside New Zealand LTP’s are typically more conservative than their Australian counterparts, where gearing ratios remain around 30%, considerably lower than Australia.

In regard to likely offshore investor interest, Mr Moricz said Middle Eastern sovereign wealth funds and German groups were showing interest in New Zealand property, however investors assessing New New Zealand property would do so within the context of yields elsewhere.

Prime yields have eased in the top 15 European markets has been 60 basis points for offices, 32 for retail and 46 for industrial. Some individual locations have been hit harder.

London has experienced a 130 basis point easing since mid 2007. The picture has been similar in Australia, with Sydney Prime office yields having eased by 53 points and Perth Prime office yields having eased by up to 75 basis points, despite the buoyant resources sector.

CBRE’s current forecast for NZ is for yields to have eased by 120 basis points by mid 2009 from the levels being achieved in mid 2007.

“At that level they should allow a reasonably comfortable margin over funding costs and yields in major global cities,” Mr Moricz said.