

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

CB Richard Ellis Ltd &
CB Richard Ellis (Agency) Ltd
MREINZ

Level 12, 2 Hunter Street
PO Box 5053
Wellington, New Zealand

T 64 4 499 8899
F 64 4 499 8889

www.cbre.co.nz

FOR IMMEDIATE RELEASE — November 2007

For further information:

Frank Fa	Zoltan Moricz
Research Analyst	Director – CBRE Research
Wellington	New Zealand
New Zealand	64 9 359 5399
64 4 474 9867	021 595 399
021 366 108	

Strong fundamentals underpin Wellington office market

Wellington, New Zealand (November 2007)

Strong tenant demand has pushed office vacancy rates in Wellington to the second lowest level in five years, according to the latest research from CB Richard Ellis.

While the overall vacancy rate in Wellington is 3.7 per cent, Wellington's prime office vacancy rate has fallen to a low 1.4 per cent.

By area, Te Aro is the best performer after its vacancy rate dropped by 1.6 per cent to 4.2 per cent.

In the CBD core, the vacancy rate dropped from 3.7 per cent to 3.4 per cent. A moderate increase in vacancy was recorded in Thorndon, from 4.1 per cent to 4.3 per cent.

However, CBRE Wellington Research Analyst Frank Fa warned that some lower grade office buildings were struggling to find tenants after being vacated by large government occupiers.

"High levels of pre commitment to new buildings and strong space take-up in mainly B-grade space has resulted in above average net absorption," Mr Fa said, "however, the differentiation in absorption is easily recognisable between the grades of office space".

Mr Fa said the challenge ahead would be for owners of secondary buildings, as occupiers gravitated towards high quality offices.

Optimization House and 86 Customhouse Quay have already been upgraded from C-grade to B-grade after extensive refurbishment works.

The positive market fundamentals have underpinned significant increases in prime office rents – prime rents jumped by 6.2 per cent, while secondary rents grew by 3 per cent in the September quarter.

On a 12 month basis, rents have spiked by 12.9 per cent for both the prime and secondary markets, according to CBRE Research.

Leases struck earlier in the year in Vodafone on the Quay reflected gross rental rates of \$515 a square metre to \$550 a square metre (or \$404 a square metre to \$438 a square metre net).

Matt Hince, Director of CBRE's office leasing unit in Wellington who was involved in brokering several of these benchmark rentals, commented, "there is a willingness for tenants to meet the rental costs attached to premium grade space given the image and the quality provided".

Among secondary stock, part of a refurbished floor in Featherston House was leased to a recruitment agency for more than \$360 a square metre gross. Along Lambton Quay, new leases indicate rental rates ranging between \$300 to \$320 per square metre gross.

"The prime office market is expected to flourish in the next two years, with the current tightness in the occupier market unlikely to change materially," Zoltan Moricz, Director of CBRE Research commented.

Mr Hince agreed that the market will remain tight.

"The release valve will come in the form of new buildings. The current lack of space in a market demanding large floor areas has led to unprecedented tenant commitment to new development – this will add 15 to 20 per cent over and above the existing total stock once these buildings are completed in 2010-2011," Mr Hince said.

Investor confidence

On the investment front, over the three months to September 2007, yields have been stable at what could be cyclical lows, reported by the third-quarter MarketView.

Six office buildings have changed ownership during the last six months, worth a total value of over \$130 million. The initial yields stand at a range of 4.8 per cent to 7.4 per cent.

Managing Director of CBRE Wellington, Ryan Johnson said that Wellington is still a market where investors are seeking out quality investments and are willing to pay for it.

"We are currently seeing a key theme whereby there is a transfer of ownership from private owners to institutions. Wellington is becoming more institutionalised, with that type of owner accounting for close to 60 per cent of CBD property," Mr Johnson said.

"Only five years ago this was the reverse and is similar to what is happening in the Australian market," Mr Johnson added.

The report also warns that investor confidence has been dented by the global credit crunch and recent interest rate hikes.

“The eventual outturn for the global credit turmoil and the crises in the New Zealand finance sector remains uncertain,” Mr Fa said.

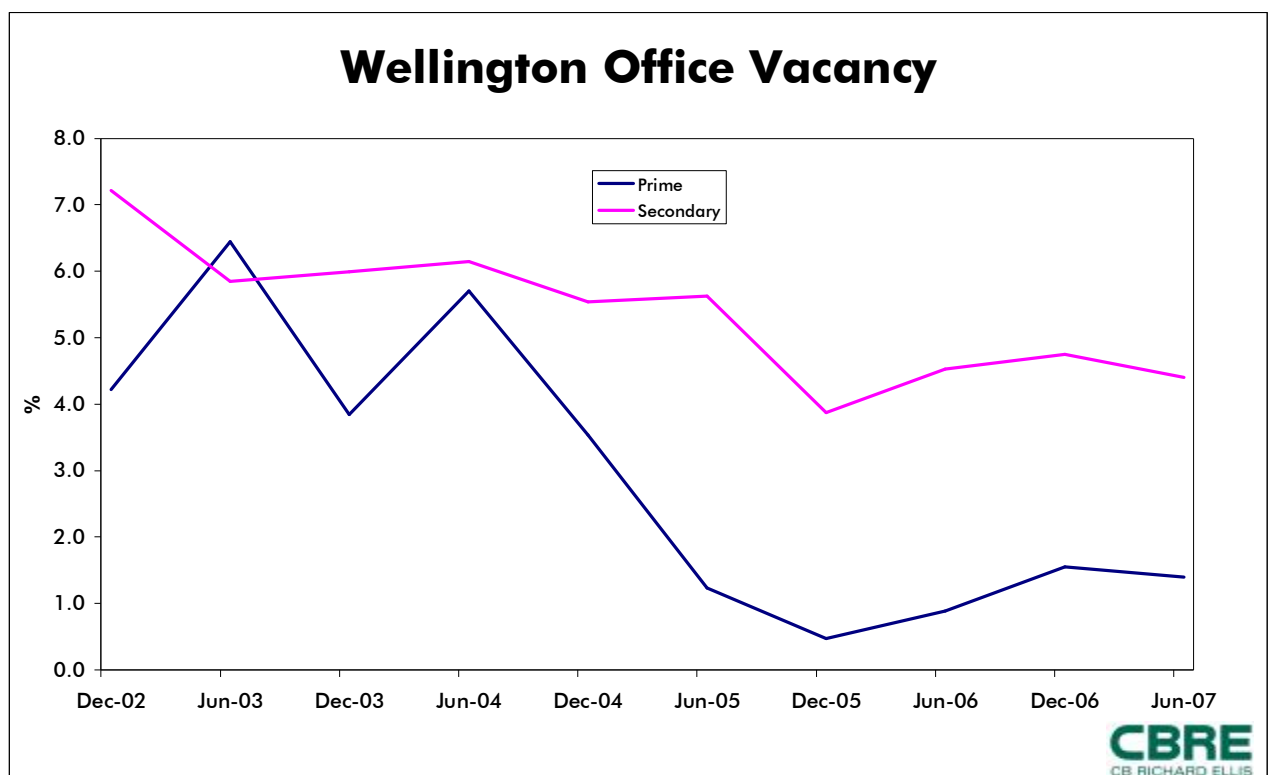
“But its effect to date, coupled with interest rate hikes, has been a dent in investor confidence and some loss in liquidity. This may result in a re-rating of risk with a negative impact on values for secondary property and land,” Mr Fa added.

However, Mr Fa said the long term trends supporting investment remained positive.

“The weight of money continues to build and an increasing number of investors are looking at the New Zealand property market,” Mr Fa said.

“In addition to overseas capital, factors such as Kiwi Saver and the NZ Super Fund will also benefit the weight of domestic capital flowing into commercial property. Therefore, beyond the current cyclical events, the structural factors underpinning the property market are looking favourable,” Mr Moricz concluded.

Supporting charts



About CB Richard Ellis

CB Richard Ellis Group, Inc. (NYSE:CBG), an S&P 500 company headquartered in Los Angeles, is the world's largest commercial real estate services firm (in terms of 2006 revenue). With over 24,000 employees, the Company serves real estate owners, investors and occupiers through more than 300 offices worldwide (excluding affiliate and partner offices). CB Richard Ellis offers strategic advice and execution for property sales and leasing; corporate services; property, facilities and project management; mortgage banking; appraisal and valuation; development services; investment management; and research and consulting. In 2007, CB Richard Ellis was named one of the 50 "best in class" companies by *BusinessWeek*, and one of the 100 fastest growing companies by *Fortune*. Please visit our Web site at www.cbre.com