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Market Commentary: Foreign Money Keeps Investment Market Buoyant Auckland (October 2007)

The interest from overseas investors, in particular Australia, has been well published over the last three years. It is now that this money is proving essential in maintaining the interest in investment grade stock in New Zealand to a point where it would be difficult to see the current yield levels holding firm without it.

The commercial property market has seen some cooling over the past three months, largely due to increased interest rates and this has not been helped by the recent demise of several finance companies.

Whilst local interest remains cautious, especially in the “sub-prime” market, interest remains strong from overseas buyers for the right product. These buyers are prepared to take a long term view and look at the “big picture”, and key fundamentals of the New Zealand commercial property market.

The market in Australia is still fizzing. Fueled by the continued flow of superannuation money, the resource sector growth in Queensland and Western Australia, and record gains on the share market, overall, the property market is booming. Quite simply, there is more money in the market with lower levels of borrowing – mezzanine debt being less common in Australia than in New Zealand.

For these Australian buyers looking to spend money, New Zealand still has key fundamentals which are appealing.

Firstly, the lack of stamp duty and capital gains tax means lower transaction costs – of particular interest to portfolio purchasers, who may look to trade out of some assets.

Secondly, yields – considered firm in New Zealand, are still far more attractive than those currently in major Australian cities. Prime yields in Sydney CBD office buildings are now close to 5% in a market where 15% tenant's incentives are not uncommon.

The "wholesale funds" such as Valad, Charter Hall, Orchard and Eureka are best suited to the New Zealand market. These funds are "total return" driven and have equity to improve buildings and drive rental increases. The recent aggressive play by Valad to purchase the entire Carter Holt Harvey Portfolio, totaling NZ\$312 million clearly illustrates this appetite.

In addition to Australian investors, the other source of incoming equity this year has been from Germany. This has been demonstrated recently in Auckland with the acquisition by HHH of 280 Queen Street and the new GE and BNZ buildings at Quay Park, developed by Manson's.

With low interest rates at home, a scarcity of suitable opportunities and an increasing supply of equity, the Germans are being pushed off shore. CB Richard Ellis in Australia has been transacting with German funds for the last six years and this has enabled New Zealand to be put firmly on the radar.

The stable economic and political environment is a key driver for this German interest, which is generally only keen for buildings with stable tenants and long term leases. The New Zealand Green Building Council's "Green star" rating is also increasingly becoming a must have for these buyers.

All of the above groups are generally looking for assets in excess of NZ\$30 million to justify the time, due diligence cost and effort required for transactions. So we therefore predict that the upper end of the market will continue firm, and for the right product – yields could yet sharpen.

CB Richard Ellis is fortunate to enjoy the benefit of offices throughout the world, being clearly the largest real estate services company with over 300 offices and 24,000 employees. As the commercial property market is truly now a "global playing field" CB Richard Ellis is able to capitalise on this and offer clients in New Zealand the spin-off from this range of world-wide contacts.

The "global playing field" scenario has been clearly evident in the number of the significant transactions that CB Richard Ellis has concluded in the first half of 2007.

For example, take the situation of the recent Carter Holt Harvey portfolio. In this circumstance, CBRE was best placed to source the right purchaser through the CBRE Sydney office, to provide the most appropriate solution for Carter Holt Harvey. The portfolio included plants and sites in both Australia and New Zealand. This offered Valad an excellent chance to gain a substantial point of entry into the New Zealand market. At the same time, the deal provided funds to Carter Holt Harvey via a sale and lease back agreement, which allowed the organisation to continue with their world-wide expansion.

In another example, the sale of the Lion Nathan Brewery in Newmarket for circa NZ\$165million again provided a large corporate with a perfect solution. The impressive line up of international

and local buyers interested in the site ensured price maximisation for the vendor. This transaction again utilised CBRE's trans-Tasman experience and networks for the benefit of the client.

A third example which demonstrates the "global playing field" and increasing interest from overseas investors is the recent sale of Eden Business Park. This property was sold for more than NZ\$100million to an Australian specialist property fund manager. CBRE again ensured price maximisation via a competitive process to a wide international market.

So whilst there may be some reason for a level of pessimism at a local level, New Zealand must rise above this and realise that for the right assets, we really are part of the global playing field. It is the ability to partner with this foreign equity that is the key to maximising value in New Zealand.

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.