The Whillans Report

AUCKLAND MARKET UPDATE / 1ST QUARTER 2016

Whillans Realty Group Completes $130 million in First Quarter

Defying international volatility, the New Zealand property market delivered strong results throughout 2015 and as we near the end of the first quarter of 2016, the market is showing no sign of letting up.

With business confidence high and the reserve bank indicating interest rates are likely to stay low for the next three years, many of the favourable conditions that contributed to a record year for Whillans Realty Group in 2015 should remain in place to make 2016 yet another stellar year.

Despite the Chinese Government's recent restrictions on the transfer of capital overseas, international interest in property throughout the Asia-Pacific region, including New Zealand, continues to rise as Asia emerges as the world's largest real estate market.

We are engaging with more and more institutional investors from outside the region, including the U.S. and Europe.

These groups are looking to diversify capital away from their home markets. We are also experiencing renewed interest from Australian fund managers, focused on core assets and in some cases, shifting up the risk curve to look at value-add or lower grade stock.

I trust you find value in the information contained in this first quarterly report for 2016. I look forward to doing business with you in the near future.

Bruce Whillans

Managing Director — WHILLANS REALTY GROUP

Tamaki Estate, Tamaki $30.3m

McClymonts Road, Albany $23.7m

Market 2015 Fourth Quarter Update

CBD Commercial (Q4)

The CBD office market ended 2015 on a high note as falling vacancy rates, strong tenant demand, rising rentals and surging investor activity drove office yields to new lows. Auckland's total CBD vacancy rate is now at 6.7%, the second lowest in Australasia after Sydney. A lack of new office supply combined with robust tenant demand saw secondary effective office rentals increase 10.1% to $226/psm and prime effective office rentals increase 4.8% to $395/psm in the 12 months to December. Looking at the year ahead, most major research houses are pencilling in rental growth of between 4 % and 5% for prime office space, and between 5% and 6% for secondary office space. With the potential for further rate cuts and a quarter of the world's economy living with negative interest rates, our comparatively high office yields continue to attract attention from abroad. Chinese, Southeast Asian, German and Australian investors are going head-to-head against cashed up local high-net-worth private investors and an exceptionally buoyant syndication market. Together, these market forces should unite to deliver another year of solid capital and income growth for CBD office owners.

Auckland CBD Commercial Market Summary* (CBRE)

	PRIME	SECONDARY	PREV 6MTH TREND
Vacancy	1.4%	10.8%	Decreasing
Effective Rent	$395.00	$226.00	Increasing
Yield	6.82%	7.60%	Firming
Incentives*	5.7 mths	6.4 mths	Decreasing

***Based on an indicative new 9 year prime and 6 year secondary lease**

Auckland Industrial (Q4)

The industrial market recorded strong growth in the 12 months to December, with both prime and secondary effective rentals increasing by 4.8%. However, rental growth decelerated over the second half of 2015, with prime industrial rentals increasing 1.3% and secondary rents increasing by just 1% over the same period. In spite of this slowdown, yields have continued to firm with indicative prime industrial yields improving to 6.5% and secondary industrial yields firming to 7.7%.

For many developers, Auckland's industrial market remains elusive as they are forced to compete with owner-occupiers and larger developers who have the benefit of large, long-term land banks. At current land prices, many developers are unable to speculate new projects with a handful of players like AIAL and Goodman continuing to corner the prime industrial market.

Auckland CBD Industrial Market Summary* (CBRE)

	PRIME	SECONDARY	PREV 6MTH TREND
Vacancy	2.9%	4.3%	Flat
Effective Rent	$123.50	$91.80	Increasing
Yield	6.46%	7.70%	Firming
Land Value	$525	$225	Flat

CBD Prime Retail (Q4)

The prime CBD retail market remains incredibly tight, with virtually no vacancy on the lower end of Queen Street. Rising CBD employment and inner city resident numbers have boosted pedestrian foot traffic along the Golden Mile, with rental rates following suit. Indicative Queen Street retail rents have rocketed over the last 12 months, increasing by 39.6% to $3,517/psm in December 2015. At the top end of the market, smaller luxury retail units are commanding prices closer to $4,000/psm as global fashion brands fight to secure high profile premises near the waterfront. The indicative prime CBD retail yield firmed by 20 basis points to 5.25% in the last year.

Auckland CBD Prime Retail Market Summary* (CBRE)

	AVERAGE	HIGH	LOW	PREV 6MTH TREND
Rent	$3,517	$4,000	$2,600	Increasing
Yield	5.25%	5.00%	5.50%	Firming

The Whillans Report

AUCKLAND MARKET UPDATE / 1ST QUARTER 2016

Are Cracks Emerging In Auckland's CBD Apartment Market?

After two years of uninterrupted growth, cracks are beginning to surface in the Auckland central city apartment market. In this report, we question whether these are merely speed bumps or the beginning of a broader market correction.

Following our June 2015 Whillans Report on the apartment market, we look at the impact new macroprudential rules have had on CBD apartments. We also explore the consequences of tighter capital controls in China and what the red-hot CBD land market will mean for owners of leasehold property.

Auckland CBD Apartment Market Overview

After a long hiatus, the Auckland CBD apartment market is once again the darling of media and industry commentators with eye watering statistics highlighting the spectacular growth within this sector. While it is true median apartment prices climbed over 25% in the 12 months to February 2016, this growth should be taken into context against longer-term performance.

Measured peak to peak, prices are 50% above their previous 2007 market high (Fig1). In comparison Auckland median house prices rose approximately 70% over the same period. New build sales data is also skewing these statistics, artificially lifting the medium apartment price, but conversely, older leasehold units are dragging median prices down.

As we pointed out in our previous report, there is a significant divide between what the existing apartment stock built in the last cycle is achieving and what new build units are selling for off-plan. The same is true for rental rates, with current one and two bedroom apartment weekly rentals well below the rates being promoted in the glossy marketing brochures for apartments being sold off-plan. For many owners who purchased new units between 2003 and 2006, the recent surge in values is bittersweet. Following a decade of zero growth, these buyers are only now seeing values and rental rates realign with their original purchase price.

Leasehold Issues Resurface

Of the 18,000 apartments in the CBD, there are approximately 2500 leasehold units. For the owners of these leasehold apartments, sale prices are often well below their original purchase value. A significant number of these units are located on the 20 hectares of leasehold waterfront land owned by Ngāti Whātua Ōrākei. Following a series of contentious ground rent reviews in 2011, which saw apartment outgoings skyrocket, Ngāti Whātua Ōrākei are priming themselves once again for their upcoming 2018 ground rent review cycle.

Leasehold ownership is attractive when occupancy rents rise at, or above, the rate of land growth. However, the previous 2011 ground rent review by Ngāti Whātua Ōrākei took place when CBD land values had approached their lowest point in the wake of the GFC. Supported by a booming apartment market and an insatiable appetite from wealthy offshore (mainly Chinese) investors looking to park cash in the form of CBD development sites, land values in the city have doubled since 2011. However, median weekly apartment rentals have increased by only 25% over the same period. The result being, land growth outpacing rental growth by a factor of 4:1 (Fig2). Rising body corporate levies, ageing plant and equipment and costly weather tightness issues are further eroding cash flow.

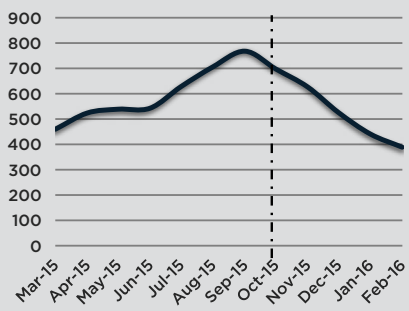
Unless there is substantial upward momentum in weekly rental rates, these rising costs will conspire to place downward pressure on leasehold apartment values as buyers seek out more attractive returns in the face of weaker cash flow. With over 2000 apartments currently under construction and ready for completion between now and 2018, weekly apartment rental growth will face further headwinds as the market adjusts to this supply.

Macroprudential Rules. A Cause for Concern?

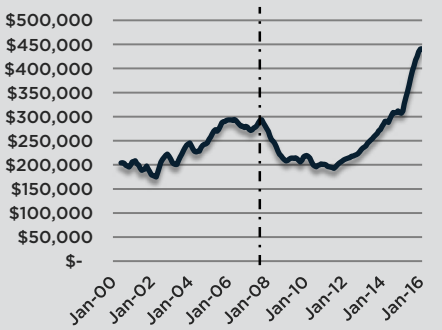
In our June 2015 Whillans Report, we warned that both new IRD reporting rules aimed at offshore investors and the introduction of a bright line capital gains test directed at speculators would have an immediate effect on the apartment market from October 2015. In November, new loan to value (LVR) restrictions were also placed on investors purchasing residential investment property in Auckland. These macroprudential rules aimed at speculators, saw apartment sales volume plummet (Fig3) and the number of days required to sell a unit increase to 30 days (Fig4). Median apartment prices have since plateaued, and remain virtually unchanged since August last year (Fig5).

This market is still largely influenced by investors and these rules have caused many of them to reconsider the merits of owning a CBD apartment. However, our discussions with apartment brokers indicate that first home buyers and owner occupiers have now become more active in the CBD over the last six months. As entry level prices in the previously affordable suburbs of Mt Wellington, Te Atatu, Pakaranga and Mangere Bridge approach $800,000, first

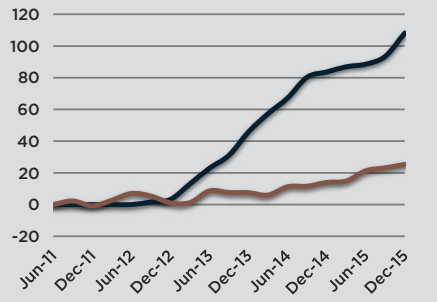
(Fig3) Apartment Volume Plummets
No. Units Sold (REINZ)



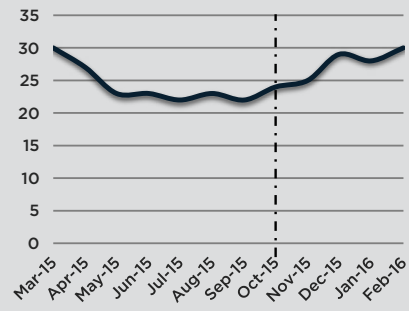
(Fig1) Values Reach Lofty Highs
3 Monthly Median Apartment Price (REINZ)



(Fig2) Land Outstrips Rental Growth
CBD Land vs Weekly Apartment Rental Index (MBIE)



(Fig4) Apartments Tougher to Sell
Days on Market (REINZ)

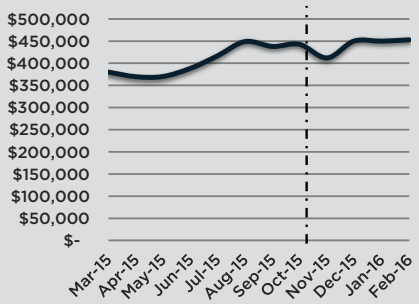


The Whillans Report

AUCKLAND MARKET UPDATE / 1ST QUARTER 2016

Are Cracks Emerging In Auckland's CBD Apartment Market?

(Fig5) Apartment Prices Plateau
3 Monthy Median Apartment Price (REINZ)



home buyers with $400,000 to $600,000 to spend are now facing the choice of either living in a CBD apartment or moving to outer suburbs like Papakura, Drury and Manurewa. For many buyers, commuting distance and access to amenity far outweigh the benefits of owning freehold land.

Chinese Capital Control Consequences

In the wake of China's August share market collapse and broader economic slowdown, Beijing has introduced tougher capital controls aimed at defending the country's currency by stemming the flood of money leaving the Middle Kingdom. This is a policy which many economists consider ineffective, with no country being able to maintain an independent monetary policy, free capital borders and a fixed exchange rate all at the same time.

By some estimates nearly $700 billion US Dollars left China in the 12 months to December, with a significant amount flowing into global real estate markets. Officially, Chinese citizens are still only allowed to invest $50,000 US Dollars outside of China every year. An entire industry has developed around illicitly transferring funds outside the country. In an attempt to control capital leaving China, authorities have clamped down on shadow money agents and back room methods such as pooling $50,000 USD payments with friends and family members.

Our March 2015 Whillans Report indicated that the flow of capital leaving China would continue to grow exponentially. However, who could have predicted the response of Chinese officials following their stock market meltdown and a weakening economy?

The proposed Qualified Domestic Individual Investor (QDII2) scheme has attracted a high level of local and global media coverage. Initially earmarked to launch in 2015 in six Chinese cities, the scheme would have allowed individuals with at least 1 million yuan ($225,000 NZD) of financial assets to invest up to 50% of their wealth into offshore investments. In June last year, Juwai.com, a Chinese real estate listings website made headlines when they predicted QDII2 could see US $11 billion of Chinese money flow into New Zealand's real estate market. Since August, Chinese officials have been back peddling on the scheme, giving no commitment to a start date. On 28 February, the Financial Times reported that the scheme had been mothballed.

There are no official statistics which accurately track offshore investment into Auckland's apartment market but we do know that mainland Chinese make up a significant proportion of apartment buyers, with most new build developments widely promoted off-plan in China and elsewhere in Asia.

Are these tighter restrictions having an impact on the market? Anecdotally it has been reported that enquiry from China for residential real estate in Auckland dramatically slowed over the second half of last year. New macroprudential rules are thought to be the biggest factor, but barriers to accessing cash may also be behind the sudden drop in sales volume.

If China tightens its grip further, will this source of demand dissipate and could settlement risk become an issue for developers selling apartments off-plan in China? With most developers requiring 20% deposits from offshore purchasers, settlement risk remains a remote possibility. However, faltering offshore demand may become an issue moving forward. There are two schools of thought around the current capital restrictions being imposed by China. The first is that the policy works, the second is that it is impossible to control money flows and that China's current hardline approach will only galvanise investors to get their cash out before the RMB depreciates further. Time will only tell which theory prevails.

Superficial Cracks or Structural?

In summary, after a dream run, the CBD apartment market is beginning to experience some turbulence. But while cracks are starting to appear there are constructive forces which should help avoid a severe correction. Record migration, the relative affordability of apartments and major infrastructure investments within the central city are all long-term positives which will support the market. For the time being, Auckland's central apartment market should be treated with a degree of caution.

Brendan Keenan
Senior Analyst — WHILLANS REALTY GROUP
brendan.keenan@whillans.co.nz

The Whillans Report

AUCKLAND MARKET UPDATE / 1ST QUARTER 2016

Central Auckland: Apartment Sales Analysis

Building	Unit	BC Levy	Rates	Rates + Levy	Description	Area m²	Sale Date	Sale Price	$/psm Gross	Weekly Rental	Net Yield
A-Grade Apartment Sales											
The Metropolis	2403	$13,463	$2,581	$16,044	2 bed	100	Sep-15	$1,031,000	$10,310	$920	3.1%
The Metropolis	808	$3,886	$1,175	$5,061	1 bed	44	Feb-16	$415,000	$9,432	$450	4.4%
Hopetoun Residences	6D	$3,761	$3,000	$6,761	3 bed + 2 park	144	Feb-16	$1,440,000	$10,000	$1,200	3.9%
Quay West	2407	$12,488	$2,600	$15,088	2 bed + 1 park	111	Mar-16	$1,020,000	$9,189	$950	3.3%
B-Grade Apartment Sales											
Argent Hall	18	$6,594	$1,323	$7,917	1 bed + park	50	Sep-15	$475,000	$9,500	$450	3.3%
The Grand Chancellor	1304	$5,337	$1,492	$6,829	1 bed + park	56	Nov-15	$512,000	$9,143	$570	4.5%
The Quadrant	906	$3,750	$1,134	$4,884	1 bed	32	Feb-16	$307,050	$9,595	$450	6.0%
Citta	115	$4,180	$1,463	$5,643	2 bed	60	Feb-16	$540,000	$9,000	$560	4.3%
Alpha	1405	$3,546	$1,299	$4,845	2 bed	45	Dec-15	$395,000	$8,778	$440	4.6%
The Quadrant	1225	$3,873	$1,147	$5,020	1 bed	32	Dec-15	$300,000	$9,375	$450	6.1%
The Quadrant	1619	$4,137	$1,197	$5,334	1 bed + park	32	Dec-15	$390,000	$12,188	$510	5.4%
The Quadrant	1816	$6,980	$1,110	$8,090	studio	22	Feb-16	$337,000	$15,318	$370	3.3%
Heritage Tower	1006	$8,528	$3,546	$12,074	1 bed + park	72	Feb-16	$612,000	$8,500	$520	2.4%
Tower Hill	6C	$5,055	$2,026	$7,081	2 bed	78	Mar-16	$825,000	$10,577	$620	3.0%
Argent Hall	14A	$5,237	$1,274	$6,511	1 bed	43	Mar-16	$398,000	$9,255	$400	3.6%
C-Grade Apartment Sales											
Harvard on Hobson	1D	$3,626	$1,051	$4,677	2 bed	37	Nov-15	$240,000	$6,486	$420	7.2%
Ascent	329	$2,490	$805	$3,295	1 bed	40	Dec-15	$241,000	$6,025	$302	5.1%
Meridian	G08	$3,112	$908	$4,020	studio	21	Feb-16	$240,000	$11,429	$340	5.7%
Aura	308	$4,368	$1,089	$5,457	2 bed	49	Feb-16	$450,000	$9,184	$560	5.3%
Federal	206	$4,063	$1,212	$5,275	2 bed	48	Feb-16	$401,000	$8,354	$520	5.4%
Volt	1414	$4,239	$1,114	$5,353	2 bed	37	Feb-16	$338,000	$9,135	$450	5.3%
Volt	1514	$4,281	$1,126	$5,407	2 bed	37	Feb-16	$338,500	$9,149	$450	5.3%
Volt	1516	$4,620	$1,175	$5,795	2 bed	40	Feb-16	$335,000	$8,375	$430	4.9%
Aura	206	$4,132	$1,089	$5,221	2 bed	49	Feb-16	$377,000	$7,694	$520	5.8%
Zest	505	$3,371	$1,089	$4,460	2 bed	36	Feb-16	$290,000	$8,056	$420	6.0%
Harbour City	13J	$1,765	$2,061	$3,826	studio	27	Feb-16	$216,000	$8,000	$340	6.4%
Ascent	101	$2,553	$953	$3,506	1 bed	39	Feb-16	$240,000	$6,154	$320	5.5%
City Zone	1002	$2,835	$1,101	$3,936	2 bed	47	Mar-16	$442,500	$9,415	$470	4.6%
City Zone	1303	$1,805	$1,027	$2,832	studio	22	Mar-16	$229,000	$10,409	$290	5.3%
City Zone	1211	$1,550	$965	$2,515	studio	18	Mar-16	$197,500	$10,972	$310	6.9%
Federal	808	$5,223	$1,397	$6,620	2 bed	60	Mar-16	$475,500	$7,925	$580	5.0%
Harvard	1k	$3,627	$1,052	$4,679	2 bed	37	Mar-16	$275,000	$7,432	$400	5.8%
Zest	1503	$3,801	$1,126	$4,927	2 bed	36	Mar-16	$309,000	$8,583	$430	5.6%

Development	Developer	Units	Delivery	Indicative 1 Bed Asking	Typical Size	$/m² Gross	Indicative 2 Bed Asking	Typical Size	$/m² Gross	Parking (Additional Cost)
New Build Asking Prices										
Connect Anzac	Zhengzhi Holding (NZ)	98	2017 Q4	$660k	58m² + 8m² deck	$11,379	$908k	75m² + 15m² deck	$12,107	1 Bed - $100k 2 Bed - $80k
The Maritime	Martin Kells	79	2017 Q3	$660k	50m² + 9m² deck	$13,200	$1.1 million	90m² + 18m² deck	$12,222	$80k
SkyView	Martin Kells	56	2016 Q4	$610k	53m² no deck	$11,509	$845k	71m² no deck	$11,901	N/A
EVE Apartments	Kitchener & Co	59	2017 Q4	$620k	54m² + 10m² deck	$11,481	$800k	68m² + 8m² deck	$11,765	$89k
Oasis Apartments	Martin Kells	28	2016 Q4	$880k	53m² + 20m² deck	$16,603	$1.28 million	89m² + 19m² deck	$14,382	Inclusive
Whitaker Central	Balanced Investments	80	2016 Q3	$635k	63m² no deck	$10,080	$950k	98m² + 5m² deck	$10,106	$63k

Auckland CBD Land Sales

CBD Land Sales

Address	Property	Proposal/Development	(m²)	Sale Price	$/psm	Date
46 Albert Street	APN Site	No known consents (lease to APN returning $2.6million p.a.)	4,258	$42,000,000	$9,863	Oct-14
184-200 Pakenham Street West	Wynyard Quarter	Future development pipeline for Goodman Group.	9,793	$40,100,000	$4,094	Oct-14
26 Poynton Terrace	Carpark	Currently being promoted for Oasis Apartment development.	334	$2,200,000	$6,586	Oct-14
44 Sale Street	Accent Building	Plans underway for a new 10,000m² spec office building.	2,175	$10,765,000	$4,949	Nov-14
52-54 Sale Street	Schischka Engineering	Plans for residential apartments.	749	$3,750,000	$5,006	Dec-14
520-536 Karangahape Road	Carpark	No known consents.	1,272	$5,010,000	$3,938	Mar-15
27 Rutland Street	Vacant	Plans for 12 level student accommodation development with 146 units.	309	$4,150,000	$13,430	Mar-15
36 Fort Street	Ex Brothel House	High-rise mised use tower under construction.	282	$3,000,000	$10,638	May-15
70-74 Anzac Avenue	Abandoned Building	Plans and marketing underway for high-rise apartment development.	742	$6,000,000	$8,086	May-15
38 Airedale Street	Two Level Building	Two level building. No known consents.	230	$1,475,000	$6,413	Jun-15
79-83 Beach Road	Car Rental	Two level building. No known consents.	814	$5,600,000	$6,879	Jun-15
35 Whitaker Place	Vacant Land	Resource Consent for 1,082 student beds in twin tower scheme.	3,071	$14,100,000	$4,591	Jun-15
38 Airedale Street	Two Level Building	Marketed as a development site.	230	$1,465,000	$6,414	Jun-15
151 Beach Road	Ideal Electrical	Sold to a developer. No known consents.	1,032	$6,800,000	$6,589	Sep-15
2 Anzac Avenue	Carpark	Corner of Anzac Avenue and Beach Road.	938	$9,500,000	$10,127	Sep-15
7-9 Halsey Street	Millar Paterson Metals	Reported in NBR that buyer is considering a mixed use development.	561	$3,085,000	$5,500	Oct-15
438 Queen Street	Real Groovy	Conrad Properties are building 236 apartments and 9 retail units.	1,965	$13,800,000	$7,022	Oct-15
26 Poynton Terrace	Carpark	Plans to develop boutique apartment building to be known as The Oasis.	334	$2,200,000	$6,586	Oct-15
6-8 Upper Queen Street	Vacant Buildings	Marketed as a development site.	1,176	$4,100,000	$3,486	Oct-15
10 Commerce Street	Tasman Building	Consented for 48 level apartment tower. Purchase included air rights.	1,388	$27,760,000	$20,000	Nov-15
163-165 Beach Road	Budget Rentals	Warehouse space. Under the PAUP the height will increase to 30m.	1,330	$6,700,000	$5,037	Dec-15
29 Beach Road	Liquor Centre	Marketed as a development site.	245	$2,550,000	$10,408	Dec-15

CBD Fringe Land Sales

Address	Property	Proposal/Development	(m²)	Sale Price	$/psm	Date
30-40 Enfield Street, Mt Eden	Mixed Use	Ex Orion Health Building and carpark.	3,750	$7,600,000	$2,027	Aug-14
99-115 St Georges Bay Road	Mixed Use	*Source Mondial and Attwoods* redevelopment site.	2,585	$7,750,000	$2,998	Aug-14
97-115 The Strand, Parnell	Business 5	Consent for 7,800m2 office building.	3,502	$7,820,000	$2,233	Aug-14
121 Grafton Road, Grafton	Mixed Use	Being developed into student accommodation *Grafton Crossing.*	3,006	$10,000,000	$2,326	Aug-14
17 Hargreaves Street, College Hill	Mixed Use	Currently leased to Xerox to 2016.	11,032	$32,500,000	$2,946	Dec-14
1 Exmouth Street, Eden Terrace	Mixed Use	Vacant carpark.	655	$1,920,000	$2,931	April-15
3-11 Rendall Place, Eden Terrace	Mixed Use	Development site.	2,279	$6,000,000	$2,632	May-15
11A Cheshire Street, Parnell	Mixed Use	Development site.	1,031	$3,400,000	$3,297	Jun-15
23 Cheshire Street, Parnell	Special Purpose 3	Plans for a retirement village. Site is subject to a MOU with AT.	23,368	$18,000,000	-	July-15
29 Altham Avenue, Sandringham	Mixed Use	Vacant caryard.	1,518	$3,000,000	$1,976	Sep-15
8 Roxburgh Street, Newmarket	Mixed Use	Mixed use development site with older style two-level building.	842	$3,750,000	$4,453	Oct-15

CBD Conversion Sales

Address	Property	Proposal/Development	(m²)	Sale Price	$/psm	Date
18 St Martins Lane	Ex FAL Technology Centre	Currently being converted into 63 apartments.	2,415	$7,388,000	$3,038	Aug-14
8 Hereford Street	Ex Telecom House	Currently being converted into 119 apartments.	15,521	$47,000,000	$3,028	Aug-14
10-14 Lorne Street	Ex Crown Institute Building	Plans to refurbish and use for English language school.	5,121	$13,580,000	$2,652	Sep-14
44 Khyber Pass Road	Ex Newcall House	Currently being converted into SKHY Apartment development.	9,318	$23,000,000	$2,468	Sep-14
100 Mayoral Drive	Ex Chamber of Commerce	Purchased by owners of 85-89 Greys Avenue carpark.	2,770	$8,500,000	$3,069	Sep-14
8-10 Eden Crescent	Ex Cargen Hotel	Plans for conversion into heritage apartments.	2,991	$4,500,000	$1,505	Dec-14
9 Princes Street	Ex Fonterra Building	Potential residential conversion.	10,683	$45,000,000	$4,212	Oct-15
16-22 Anzac Avenue	Tasman House	Plans to be converted into student accommodation.	2,556	$6,400,000	$2,503	Dec-15