



THE WHILLANS REPORT

AUCKLAND MARKET UPDATE 4TH QUARTER 2020

Investment properties drive more than \$250 million in sales

Welcome to our final report for 2020.

Our team had an outstanding third quarter, with over \$250 million in sales. The bulk of our activity was in investment sales, reflecting a strong demand for income-earning property.

An exceptional market turnaround

Over the 36 years I've worked in commercial real estate, I've never experienced such a dynamic market. In March, buyers were unsure of how the market was going to react to the global COVID-19 pandemic, so they took time out. But, remarkably, this hiatus was only short-lived.

The ensuing regime of low interest rates reignited the investment market, with buyers actively chasing income-producing property.

Developers have also re-emerged, capitalising on the booming residential market.

The turnaround we've witnessed since March has been exceptional to observe and be part of.

Our notable sales for this quarter include:

- 34 Shortland Street — Bruce Whillans
- Farmers Queen Street — Henry Thompson
- 152 Fanshawe Street — Bruce Whillans
- 5 Short Street — Henry Thompson

Current and future market forces

In this edition of the Whillans Report, senior analyst Brendan Keenan reviews the current and future forces that will

influence Auckland's investment and development market.

We trust you find this report valuable and we look forward to doing business with you in 2021.

Wishing you a very Happy Christmas and a prosperous New Year.



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152 Fanshawe Street, Auckland CBD
\$36,250,000



210A Queen Street, Auckland CBD
\$48,000,000



34 Shortland Street, Auckland CBD
\$67,500,000



3 Ferncroft Street, Grafton
\$19,400,000



6 Osterley Way, Manukau CBD
\$11,260,000



5 Short Street, Newmarket
\$21,000,000

Market 2020 third quarter update

CBD Office — The CBD office market has remained remarkably resilient in the face of a global pandemic. Both prime and secondary vacancy rates remain below their 10 year average. This is providing a buffer against significant swings in values and rental rates.

However, with some occupiers shrinking their office footprint, there is a growing pool of office space to sub-lease. Faced with rising

vacancy and the increased availability of space to sub-lease, landlords are having to offer tenants more incentives to remain competitive. This is eroding net effective rental growth, particularly in the secondary market.

Indicative of a changing market and a flight to quality, the yields between prime and secondary assets have widened as investors and funders chase lower risk investments.

Auckland CBD Office Market Summary*

	PRIME	SECONDARY	PREV 6MTH TREND
Vacancy	4.3%	11.2%	Increasing
Effective Rent	\$396	\$233	Decreasing
Yield	5.69%	7%	Firming
Incentives*	12.1 mths	11.2 mths	Increasing

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



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Market 2020 third quarter update

Auckland Industrial — Auckland’s industrial market has outperformed the wider commercial property sector.

Globally, the pandemic has crystallised the importance of warehousing, cool stores and logistics and the role they play in national security and the economy. It has also turbo charged the shift to online-shopping. In New Zealand, online shopping levels remain elevated, up 22% on last year. Across Auckland, industrial vacancy rates have barely budged,

holding their ground at 1.4%. Investors are having to compete for a limited pool of industrial stock, sending yields to fresh lows, with prime yields dipping below 5%.

To meet this growing demand, investors and occupiers are scrambling to secure industrial land. In the six months to September, industrial land values increased 21%, reaching \$853/m². And in the 12 months to September, land values increased by an incredible 34%.

CBD Retail — The pandemic has had the most impact on Auckland’s prime CBD retail market. Queen Street foot traffic is down by approximately 35%.

Across the board, rents on Queen Street have decreased by 2.1%. Inferior premises have fallen by as much as 11.6%. Prime CBD yields on Queen Street have softened 4 basis points in the six months to September.

Despite these headwinds, the pandemic is creating an opportunity for some landlords to amalgamate sites and deliver larger premises for new flagship stores.

For investors, the downturn provides the opportunity to buy into the market at a low point, while the pandemic, the City Rail Link and roadworks temporarily reduce pedestrian numbers.

Auckland Industrial Market Summary

	PRIME	SECONDARY	PREV 6MTH TREND
Vacancy	1.2%	1.5%	Flat
Effective Rent	\$140.9	\$111.8	Decreasing
Yield	4.97%	6.02%	Firming
Land Value	\$1,300	\$600	Increasing

Auckland CBD Retail Market Summary

	AVERAGE	HIGH	LOW	PREV 6MTH TREND
Rent	\$3,842	\$4,800	\$1,900	Decreasing
Yield	5.08%	4.75%	5.75%	Softening

Source: Statistical data in this market update has been summarised from CBRE research and is intended for general guidance only. No responsibility is accepted by CBRE or Whillans Realty Group Limited for any omissions or errors contained within this report.

Moving forward from 2020 — our expectations for 2021

In this edition of the Whillans Report, we review the market forces influencing Auckland’s development and investment market. We also look at what will drive the market in the year ahead.

The financial impact of the COVID-19 pandemic led to a dramatic fall in global interest rates earlier this year, which in turn impacted asset classes worldwide. While this has lowered borrowing costs it has also reset the risk-free rate of return — investors chasing yield have had to move capital higher up the risk ladder to achieve returns.

And it’s this capital that’s finding its way into commercial real estate.

The shift in interest rates is providing crucial support for the commercial property sector and it is also beginning to re-price the market. Could these low rates signal the start of a new property cycle in 2021?

Auckland’s land market defies expectations

Just six months ago, New Zealand’s major trading banks were forecasting that house prices would fall between 10% and 15%. Some commentators predicted an even more severe correction.

Instead, median prices have touched new highs in Auckland, gaining 16.3% in the 12 months to October 2020. Propelled by a significant drop in interest rates, borrowers are enjoying a 21% reduction on their pre-pandemic mortgage expenses.

Unlike past recessions, the Reserve Bank of New Zealand is focussed more than ever on supporting employment and maintaining social and financial stability.

For now, it would appear that asset inflation and rising house prices are risks worth taking.

Demand for land on the rise

Investors, first-home buyers, and owner-occupiers are now competing for a limited amount of existing stock.

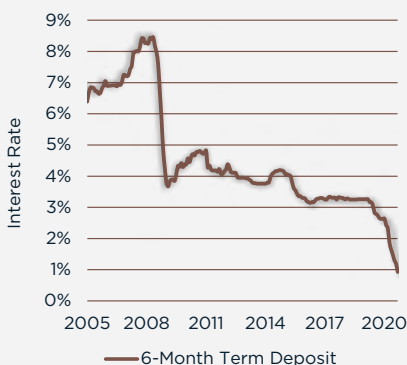
We’re seeing strong demand for new-build housing, particularly housing located near amenities and major transportation nodes. This demand is spilling over into the price developers can pay for land that’s zoned for low-rise apartments, terraced homes, and semi-detached and detached housing.

Demand for sites zoned Terrace Housing and Apartment Buildings, Mixed Housing Suburban, and Mixed Housing is approaching levels that have not been seen since 2016.

CBD land market in limbo

Not all residential land has been buoyed by Auckland’s resurgent housing market. The CBD apartment and hotel markets have been hit hard by a reduction in overseas student numbers and the complete lack of international tourists. Both these groups underpin the market for development land in the CBD. Sales evidence post-lockdown is patchy. However, we’ve seen a handful of land sales in the CBD trading between 5% and 15% lower than their pre-pandemic levels.

Penalised for Holding Cash
6-Month Term Deposit Rate (RBNZ)





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Moving forward from 2020 – our expectations for 2021

Interestingly, the top-end of the city’s apartment market has fared better, underpinned by downsizers and reports of wealthy expats returning to live in New Zealand.

Auckland’s land market is looking remarkably resilient. Unemployment levels are better than expected and the cash rate is heading to zero, and possibly negative, by the middle of next year. At some point, will the reality of an economic recession take hold and confidence wane?

Renewed optimism ahead

If border restrictions ease by the end of 2021 and a vaccine is developed and effectively distributed, could low interest rates become the jet-fuel that ignites the city’s housing and land markets?

Global equity markets have already been bolstered by Pfizer’s announcement that their stage-3 vaccine trials demonstrated a 90% success rate against COVID-19. Moderna and Oxford Astra Zeneca’s vaccine announcements have injected further optimism into the marketplace. Is this a sign of things to come?

New Zealand has earned its reputation as a true global safe haven. Will the country become front and centre for overseas students looking to study abroad? The reputations of the USA and UK – the world’s two largest markets for overseas students – are in tatters. Could New Zealand see a surge in foreign student numbers once our borders re-open? Could the same be said of our tourism market? And what impact will returning Kiwis and expats, who are used to apartment living overseas, have on the apartment market?

When our borders do re-open, will the CBD land market follow the rest of the city and rebound?

Auckland’s commercial market holds its ground

Auckland’s commercial investment market has also been buoyed by the seismic shift in interest rates. Globally, investors are facing the prospect of near-zero returns from holding cash, forcing them higher up the risk spectrum. Could investors sitting on the sidelines risk missing out on another run-up in asset prices?

In 2008, interest rates in New Zealand more than halved, triggering a decade long run-up in commercial real estate values. Could a similar situation be unfolding now? Will the continuing vaccine news be the match that

ignites the fiscal and monetary fuel unleashed by the world’s central banks.

The market for office premises not going away

Locally, many industry observers have lamented the end of the shopping mall and office tower. However, to date many alarmist scenarios have failed to materialise. Attitudes to flexible offsite/at-home working have changed dramatically over the last nine months, although online communication platforms like Zoom do have their limitations.

Companies will continue to need physical premises where new employees can be trained and integrated, ideas and wisdom shared, and culture curated. We were interested to note that in the hours after Pfizer’s vaccine announcement, Zoom’s share price dropped 25%. It has recovered, but is still 16% below its October peak. Meanwhile, the Dow Jones REIT index has increased by 6%.

The market for quality office premises is not going away. Since the start of the pandemic, prime office rents in Auckland have barely budged, with yield compression pushing asset values higher.

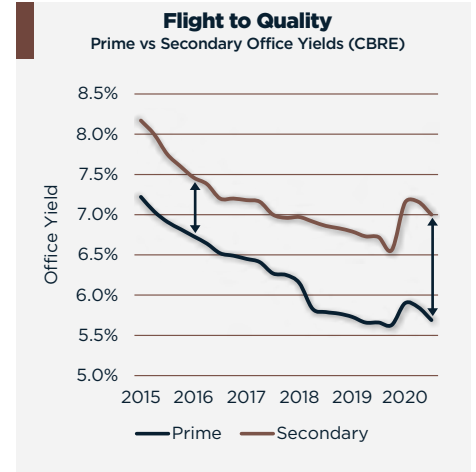
Globally, investors are facing the prospect of near-zero returns from holding cash, forcing them higher up the risk spectrum.

A pandemic accelerates change

In many ways the COVID-19 pandemic has simply turbo-charged changes in the property market that were already in play.

The importance of data centres, cool stores, and warehousing has become more important than ever, stimulating growth in the industrial market. Meanwhile, the retail and office markets have become increasingly two-tiered as they confront the challenges of online shopping and flexible working.

Retail investors are now chasing assets underpinned by non-discretionary retail tenants. These tenants – supermarkets, pharmacies, and suppliers of household goods



— have been aptly coined ‘pandemic proof’ investments. At the other end of the retail market, assets underpinned by discretionary retailers – department stores, movie theatres, and apparel retailers – have been avoided by all but the bold. Is the fate of the shopping mall sealed, or will we see centres that offer the right mix of retail, entertainment, services, and food and beverage bounce-back?

In the office sector, we’re witnessing the emergence of a two-tiered market and a flight to quality. More investors are chasing premium office buildings. This is pushing yields down at a faster rate when compared to secondary office assets. And while some secondary office buildings face redundancy, will the trend of residential conversion accelerate over the next decade?

Light at the end of the 2020 tunnel

Next year, 2021, will not be without its challenges. But we’re cautiously optimistic that there is now light at the end of the tunnel. We’re not medical experts but, encouragingly, scientific experts are overwhelmingly positive about developments around control of the COVID-19 pandemic. News of a vaccine has stimulated markets and provides hope worldwide. This has given us confidence that next year we can get back to some kind of normal.



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Auckland Office and Retail Investment Sales

Office Investment Sales

Address	Suburb	Asset Type	NLA	Parking	Occupancy	WALT	Sale Price	Date	Initial Yield
152 Fanshawe Street	CBD	A-Grade	6,673	69	100%	3.3	\$36,250,000	Nov-20	7.16%
6 Osterley Way	Manukau	A-Grade	1,237	13	100%	15	\$11,260,000	Sep-20	4.37%
3 Ferncroft Street	Grafton	B-Grade	3,269	76	100%	6.9	\$19,400,000	Sep-20	5.38%
15 Lambie Drive	Manukau	B-Grade	2,511	92	100%	3.5	\$12,095,000	Aug-20	6.1%
22 Amersham Way	Manukau	B-Grade	2,874	7	100%	4.3	\$11,000,000	Aug-20	6.45%
34 Shortland Street	CBD	B-Grade	8,128	73	80%	2.7	\$67,500,000	Aug-20	6.00%
44 Taharoto Road	Takapuna	B-Grade	3,606	88	100%	14.3	\$25,500,000	Jun-20	4.45%
529 Lake Road	Takapuna	B-Grade	2,154	-	100%	6.9	\$14,500,000	Feb-20	5.23%
220 Queen Street	CBD	B-Grade	5,653	-	100%	3	\$47,500,000	Jan-20	5.43%
9 City Road	CBD	B-Grade	3,358	58+	NA	5.5	\$17,500,000	Jan-20	4.57%
7 Falcon Street	Parnell	A-Grade	1,131	39	100%	NA	\$10,250,000	Dec-19	5.3%
42 Upper Queen Street	Eden Terrace	B-Grade	2,907	23	NA	NA	\$14,000,000	Dec-19	NA
2 Flower Street - Media Works	Eden Terrace	B-Grade	7,001	125	100%	3	\$26,000,000	Dec-19	6.46%
25 Broadway	Newmarket	B-Grade	2,421	33	100%	4.5	\$19,450,000	Dec-19	5.88%
229 Dairy Flat Highway	Albany	Mixed-Use	6,736	156	100%	10	\$33,000,000	Oct-19	5.78%
36 Kitchener Street	CBD	B-Grade	3,251	28	NA	NA	\$24,500,000	Oct-19	NA
166-174 Queen Street	CBD	Character	5,890	-	100%	1.8	\$52,000,000	Oct-19	5.13%
5 Nelson Street	CBD	C-Grade	1,221	24	NA	NA	\$9,500,000	Oct-19	5.00%
25 Union Street	CBD	C-Grade	1,976	57	NA	NA	\$8,325,000	Oct-19	7.48%
57 Symonds Street	CBD	B-Grade	3,726	53	95%	1.7	\$22,750,000	Oct-19	4.38%
10 O'Connell Street	CBD	Character	460	-	100%	3.37	\$4,650,000	Sep-19	3.28%
16 Wakefield Street	CBD	B-Grade	13,987	43	100%	4.8	\$62,593,460	Aug-19	5.79%
2 Princes Street	CBD	B-Grade	2,804	29	100%	NA	\$15,037,000	Aug-19	4.45%
ACG, 345 Queen Street	CBD	B-Grade	5,159	49	100%	20	\$39,000,000	Jul-19	5.68%
48 Greys Avenue	CBD	B-Grade	6,449	34	67%	NA	\$20,800,000	Jul-19	NA
89/87 Albert Street	CBD	C-Grade	7,210	58	68%	NA	\$34,300,000	Jun-19	NA
323 Great South Road	Ellerslie	C-Grade	3,434	97	100%	5.5	\$20,630,000	Jun-19	5.95%
The General Building, 29-33 Shortland Street	CBD	Character	5,486	-	91%	2	\$42,000,000	Jun-19	4.46%
79 Carlton Gore Road	Newmarket	A-Grade	3,597	95	100%	8.4	\$37,300,000	May-19	6%
35 Graham Street	CBD	B-Grade	9,990	42	100%	2	\$58,000,000	May-19	6.85%
86 Parnell Road	Parnell	B-Grade	1,832	7	100%	2.5	\$12,764,000	Apr-19	5.8%
66 Wyndham Street	CBD	B-Grade	21,856	191	NA	3.48	\$144,500,000	Apr-19	5.34%
32 Manukau Road	Epsom	B-Grade	2,130	75	NA	NA	\$13,900,000	Feb-19	5.8%
155 Fanshawe Street	CBD	A-Grade	15,354	80	60%	NA	\$247,000,000	Jan-19	5%

Retail Investment Sales

Address	Suburb	Asset Type	GLA	Parking	Occupancy	WALT	Sale Price	Date	Initial Yield
Bunnings Warehouse	Grey Lynn	Bulk Retail	8,827	211	100%	8.8	\$54,000,000	Nov-20	3.75%
210A Queen Street	Auckland CBD	Farmers	3,700	-	100%	7.8	\$48,000,000	Sep-20	4.99%
Countdown Orewa/Papakowhai	North Island	Supermarket	6,875	NA	100%	10	\$44,355,369	Aug-20	4.98%
Countdown, 35 Cook Street	Howick	Supermarket	3,395	142	100%	6	\$24,000,000	Jul-20	4.38%
Placemakers, 547-557 Don Buck Drive	Westgate	Bulk Retail	3,539	60	100%	6.8	\$14,225,000	Jun-20	4.8%
Mitre 10 Mega	New Lynn	Bulk Retail	8,939	250	100%	12.9	\$32,500,000	May-20	4.63%
Wynyard Quarter Retail Portfolio	Auckland CBD	Hospitality	1,266	-	100%	NA	\$13,200,000	May-20	6.5%
Meadowlands Shopping Plaza	Botany Downs	Shopping Centre	5,215	303	97%	5.4	\$23,050,000	May-20	5.72%
Kelston Mall	Glen Eden	Shopping Centre	7,741	NA	98%	5.7	\$43,400,000	May-20	5.86%
Stonefields Market	Stonefields	Shopping Centre	2,887	148	100%	4.87	\$17,360,000	Apr-20	6.36%
90-92 Queen Street	Auckland CBD	Luxury Retail	910	-	100%	NA	\$30,000,000	Jan-20	NA



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Auckland CBD and City Fringe Land Sales

CBD Land Sales

Address	Property	Proposal/Development	(m ²)	Sale Price	\$/psm	Date
29-31 Anzac Avenue	Bare Site	Consented for 16 level hotel, 7,122m ² of GFA	752	\$6,900,000	\$9,175	Aug-20
71-73 Wakefield Street	2-level building	Underdeveloped: 50 metre height limit	319	\$3,000,000	\$9,404	Aug-20
3 Scotland and 44 Ireland Street	2-level building	Mixed Use 5-level development.	490	\$3,400,000	\$6,939	Aug-20
141-143 Hobson Street	2-level building	Partially vacant - 50 metre height limit	1,782	\$11,500,000	\$6,453	Jun-20
38 Fort Street	Bare site	Purchased by Prakash Pandey	282	\$6,000,000	\$21,277	May-20
16-18 Beresford Square	2-level building	Purchased by Samson Corp	460	\$4,000,000	\$8,695	Oct-19
28 Fort Street	2-level building	Purchased by adjacent owner	265	\$8,080,000	\$30,490	Sep-19
5-7 Galatos Street	2-level building	Underdeveloped: 35 metre height limit	713	\$4,350,000	\$6,101	Oct-18
6-8 Upper Queen Street	Vacant section	Plans for a student accommodation development	1,176	\$9,000,000	\$7,653	Sep-18
6 Wolfe Street	Vacant warehouse	No known consents	285	\$5,500,000	\$19,298	Sep-18
29 Anzac Avenue	Vacant building	Consented for 15 level apartment tower	754	\$17,459,159	\$23,155	Jun-18
7 Albert Street	4-level building	Plans for a 50 level apartment / hotel tower	1,043	\$27,000,000	\$25,887	Jun-18
65-71 Federal Street	Federal Street Carpark	Plans for a 50 level apartment / hotel tower	1,641	\$40,000,000	\$24,375	May-18
74-80 Wellesley Street West	2-level office building	152 room Grand Chancellor Hotel	997	\$10,000,000	\$10,030	Apr-18
76 Anzac Avenue	3-level 1920's building	No known consents	356	\$5,300,000	\$14,887	Apr-18
204 Hobson Street	Warehouse building	No known consents	506	\$3,500,000	\$6,917	Nov-17
4 Hobson Street	5-level mixed use building	No known consents	455	\$5,200,000	\$11,429	Nov-17
136-142 Fanshawe Street	Warehouse building	Purchased by Mansons TCLM	5,210	\$30,739,000	\$5,900	Oct-17
9-11 Albert Street	Food Alley	Plans for a 50 level apartment / hotel tower	885	\$19,200,000	\$21,695	Aug-17
13-15 Albert Street and 9 Wolfe Street	Link House	Plans for a 50 level apartment / hotel tower	1,228	\$26,500,000	\$21,580	Aug-17
103 Wellesley Street	Datacom House	Plans a new 194 room Sudima Hotel	1,228	\$12,250,000	\$9,975	Jul-17
51 Albert Street	Vacant Building	41 level Indigo Hotel and Apartment. 225 hotel suites, 24 apartments	645	\$10,425,000	\$16,162	Jun-17
46 Albert Street	Part of old APN site	37 level, 490 room Holiday Inn Express and Even hotel	1,134	\$31,000,000	\$27,336	Jun-17

Non-CBD High Density Land Sales

Address	Zone	Proposal/Development	(m ²)	Sale Price	\$/psm	Date
115 Newton Road, Eden Terrace	Mixed Use	Sold with vacant possession, 214m ² standalone villa onsite.	610	\$2,513,000	\$4,119	Nov-20
12 King Edward Avenue, Epsom	THAB	No known consents.	1,373	\$7,060,000	\$5,142	Nov-20
115 Great South Road, Greenlane	THAB	Consent for 54 apartments.	2,786	\$11,000,000	\$3,948	Oct-20
572 Manukau Road, Epsom	Mixed Use	Logan Apartments	1,012	\$3,601,000	\$3,558	Sep-20
44 Shelly Beach Road, St Mary's Bay	Mixed Housing Urban	No known consents. 11 metre height limit	1,004	\$3,900,000	\$3,884	Sep-20
181 Great South Road, Greenlane	THAB	Double Grammar Zone location.	928	\$3,000,000	\$3,233	Aug-20
22 William Avenue, Greenlane	Mixed Housing Urban	No known consents. 11 metre height limit	806	\$2,400,000	\$2,978	Aug-20
62 Great South Road, Epsom	Mixed Use	No known consents. 18 metre height limit	1,042	\$5,100,000	\$4,894	Jul-20
81 Remuera Road, Newmarket	Mixed Use	Consent for 8 level apartment development. 27 metre height limit.	567	\$3,260,000	\$5,749	Jun-20
5 Burns Avenue, Takapuna	THAB	No known consents. 22.5 metre height limit	1,040	\$4,005,000	\$3,850	Jan-20
18 Elm Street	Mixed Use	No known consents. 21 metre height limit. Purchased by Housing NZ.	9,647	\$15,053,000	\$1,560	Dec-19
3 and 3A Burns Avenue, Takapuna	THAB	Consented for 7-level, 42 unit apartment building	1,094	\$3,700,000	\$3,382	Dec-19
92 Manukau Road, Epsom	Mixed Use	Consented for 5-level, 11-unit apartment building	390	\$1,480,000	\$3,794	Dec-19
78 Orakei Road, Remuera	Mixed Housing Suburban	78 The Reserve - 19 town houses	2525	\$8,600,000	\$3,406	Nov-19
5 Comerstone Drive, Albany	Metropolitan Centre	Bare land. 72.5 metre height limit	2,757	\$5,350,000	\$1,940	Nov-19
3094 Great North Road, New Lynn	Metropolitan Centre	Corner Metropolitan Centre site with 72.5 metre height limit	18,668	\$20,680,000	\$1,108	Nov-19
299 Great North Road, Grey Lynn	Mixed Use	Corner site sold with vacant possession. 16 metre height limit	1,632	\$6,010,000	\$3,682	May-19
2 Mountain Road, Newmarket	Mixed Use	Resource consent for 11-level mixed-use development. 40m height	1,113	\$6,600,000	\$5,930	Oct-19
71 Boston Road, Mt Eden	Mixed Use	No known consents. 21 metre height limit	799	\$3,625,000	\$4,537	Aug-19
8 Margot Street, Epsom	Mixed Use	No known consents. 18 metre height limit	695	\$3,200,000	\$4,604	Aug-19