THE WHILLANS REPORT

AUCKLAND MARKET UPDATE 2ND QUARTER 2023

Major shopping centre sale signals retail sector resilience

Westgate Lifestyle Shopping Centre sold for $85.7 million

Whillans Realty Group have closed the biggest retail deal on record this year, in a sale that sounds a vote of confidence for New Zealand's retail sector.

Whillans sold Westgate Lifestyle Shopping Centre on behalf of Kiwi Property Group for $85.7 million. The shopping centre, one of New Zealand's biggest large-format retail centres, was sold to private investors. The $85.7 million sale price represents a 7% yield.

Built in 2016, the Westgate Lifestyle Shopping Centre is located on a 51,319sqm island site. It boasts a gross lettable area of 25,754sqm and parking for 622 vehicles. The centre is fully leased to 28 tenants, including Harvey Norman, Freedom Furniture, Hunter Furniture, Rebel Sport, and Briscoes.

Whillans - doing the business

Despite current market uncertainty, the sale shows that prime retail assets continue to attract strong buyer demand. With seven properties currently under contract and two further sales pending, we're starting to see movement in the market and deal flow gaining pace.

Our notable sales for this quarter include	
Westgate Lifestyle Centre	Bruce Whillans
124 Vincent Street	Jeremy Sim
101 Mt Eden Road	Brice Clark Henry Thompson

No one rings the bell at the bottom

In this edition of the Whillans Report, our senior analyst Brendan Keenan comments on the current state of the market and offers four key takeaways for 2023.

I trust you find this quarterly report valuable, and I look forward to doing business with you in the near future.

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2023 Whillans second quarter sales results

Westgate Lifestyle Shopping Centre, Auckland
$85,700,000

124 Vincent Street, Central Auckland
$20,200,000

101 Mount Eden Road, Auckland
$8,500,000

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Market 2023 first quarter update

CBD Office —Auckland's prime and secondary CBD office market continue to diverge.

In the 6 months to March, the prime sector posted solid gains with net effective office rents increasing by 3.8%. Prime incentives eased for the first time since the pandemic.

Over the same period, secondary office rents decreased by 0.3% with higher lease incentives eroding real rental growth.

Deal volumes ground to a halt in 2022. However, there are signs that the impasse between vendors and purchasers is easing. Several CBD office towers are now under contract and will provide much needed market evidence.

In the 12 months to March, indicative prime CBD office yields softened by 123 basis points to 6.63%. Indicative secondary CBD office yields expanded by 149 basis points to 8.31%.

Auckland CBD Office Market Summary*

	PRIME	SECONDARY	PREV 6MTH TREND
Vacancy	10.3%	18%	Falling
Effective Rent	$435	$226	Diverging
Yield	6.63%	8.31%	Softening
Incentives*	12.8 mths	14.1 mths	Diverging

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

CBD Retail — Prime CBD retail rents eased slightly in the six months to March and currently stand at $3,708/m².

Foot traffic counts taken from Queen Street's six busiest intersections suggest that March foot traffic reached 70% of pre-pandemic levels. Interestingly, Lower Queen Street figures are now closer to 80% of pre-pandemic levels.

A steady inflow of tourists and overseas students is narrowing the pre-pandemic gap.

Auckland Transport patronage figures are reassuring and show more and more workers returning to the office each month. Network patronage in March 2023 reached 81% of pre-pandemic levels.

Indicative prime CBD retail yields expanded 67 basis points in the year to March. Mirroring the CBD office market, renewed investment activity will provide new evidence, anchoring this sector.

Auckland CBD Prime Retail Market Summary

	INDICATIVE	HIGH	LOW	PREV 6MTH TREND
Rent	$3,708	$5,000	$1,500	Decreasing
Yield	5.75%	5.25%	6.75%	Softening

Auckland Industrial — Auckland's industrial market continues to outperform the wider commercial property sector.

In the year to March, prime net effective industrial rents increased 16.8% to reach $189.9/m².

Over the same period, net effective secondary industrial rents increased by 12.5%, reaching $143.8/m².

Land values decreased by 1.5% in the 12 months to March, with steeper falls recorded at the top end of the market.

Despite solid rental growth and record near-zero vacancy, prime and secondary industrial yields continued to unwind. In the 12 months to March, indicative prime and secondary industrial yields expanded by 109 and 70 basis points respectively.

Auckland Industrial Market Summary

	PRIME	SECONDARY	PREV 6MTH TREND
Vacancy	0.0%	0.1%	Decreasing
Effective Rent	$189.9	$143.8	Increasing
Yield	5.29%	5.96%	Softening
Land Value	$1,500	$700	Decreasing

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.

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AUCKLAND MARKET UPDATE 2ND QUARTER 2023

Nobody rings the bell at the bottom

— *Brendan Keenan, Senior Analyst*

New Zealand's commercial real estate market is continuing to adjust and reprice after a historic run up in the Official Cash Rate.

But interest rates and inflation have plateaued, with inflation easing globally. A degree of certainty is returning to the market. This is giving buyers and sellers more confidence, boosting deal flow and providing a much-needed anchor for the commercial property sector.

A significant amount of capital is still sitting on the side-lines, but we're seeing once-in-a-generation investment opportunities emerge as owners rebalance their portfolios. We anticipate quality assets and strategic development land becoming available in the second half of 2023 – assets that would be more challenging to secure in a stable market.

For those with the means – and a bit of courage – opportunity abounds. As the saying goes, nobody rings the bell at the bottom.

Our four key market takeaways for 2023

Here's how we see the rest of 2023 playing out in commercial real estate.

1. Residential development land on offer

For cashed-up buyers, there continues to be an abundance of residential development land for sale.

Higher interest rates and construction costs, coupled with falling residential prices, have made countless projects unviable. Unless developers have a clear plan to see a project built and pre-sold (or a strong balance sheet) many will be unable to hold onto land that's not producing income.

We expect to see the best opportunities arise for residential development sites that were purchased near the peak of the cycle in 2020 and 2021.

2. Secondary office values recalibrate

In the secondary office market, we've seen a significant recalibration in asset values. Limited rental growth and higher borrowing costs have weighed heavily on the sector.

However, as values fall, opportunities arise for owner-occupiers and investors with an eye on conversion to pick up newly affordable assets. Demand for hotel and student accommodation is quickly returning to pre-pandemic levels, and conversion projects are often seen as the path of least resistance.

The office sector may also provide a window of opportunity to buy character and well-located secondary buildings with limited buy-side competition. Savvy buyers will get in before negative sentiment turns into talk of green shoots.

3. Banks taking a more nuanced approach

So far, mainstream banks have been largely lenient with borrowers breaching their banking covenants. Wary of setting off a sharp correction that could discount their own books, banks are choosing to work with existing owners rather than enforce these covenants. Still, we expect to see pressure on borrowers to improve their balance sheets.

This gentle approach may be partly explained by the limited amount of new development lending, and traditional banks' reduced exposure to the development sector. This void has been filled by non-bank lenders.

Unsurprisingly, these non-bank lenders are behind the most recent handful of distressed land sales. We expect to see more distressed sales, mainly land, come to market during the second half of 2023, as non-performing loans work their way to the surface.

> We believe a window of opportunity exists to acquire certain gilt-edged commercial property assets which, in normal times, rarely become available.

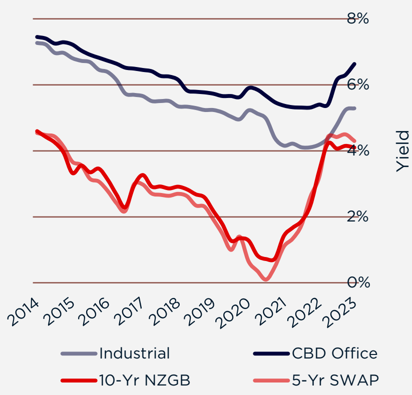
4. Value in retail returns

New Zealand's retail market has endured a challenging five years. Shopping centres were already facing a correction prior to Covid. The rise of e-commerce and the spectre of ghost malls saw a number of shopping centre assets offloaded across Australasia. The pandemic only accelerated these write-downs.

However, compared to other asset classes, shopping centres now offer initial returns far greater than industrial and office assets, particularly from a historical perspective. Centre occupancy rates have remained robust, and NOI has generally recovered from the pandemic.

Market Recalibration

Prime Auckland property yields vs debt costs



Unlike their Northern Hemisphere counterparts, New Zealand shopping centres are more insulated from the impacts of online shopping. Supermarkets, rather than department stores, anchor most centres, and New Zealand's shopping centre space per capita is about half that of Australia's and a quarter of the US'.

For now, seismic issues, liquidity and finding capital remain the biggest hurdles facing New Zealand's shopping centre sector.

Light at the end of the tunnel?

With the market beginning to find its feet and deal flow gaining pace, we seem to have reached the end of a year-long Mexican stand-off between vendors and buyers. We now believe a window of opportunity is opening to acquire certain gilt-edged commercial property assets which, in normal times, rarely become available.

However, this window could be short-lived if inflation and interest rates fall faster than expected. The general election in October and future OCR announcements also have the potential to shift perceptions and sentiment overnight.

Keen buyers will need to keep a close eye on the property market – if you're hearing the bell, that window may already be closed.

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Auckland Office and Mixed-Use Investment Sales

Address	Suburb	Asset Type	NLA	Parking	Occupancy	WALT	Sale Price	Date	Initial Yield
124 Vincent Street	CBD	Secondary	4,891	63	81%	3.9	$20,200,000	May-23	Confidential
7A Pacific Rise	Mt Wellington	Business Park	5,374	112	Conf.	Conf.	$17,000,000	Dec-22	Confidential
504 Porchester Road	Papatoetoe	Childcare	670	21	100%	12	$4,700,000	Dec-22	6.57%
110 Symonds Street	CBD	Secondary	8,729	166	NA	NA	$28,000,000	Nov-22	11%*
190 Great South Road	Epsom	Secondary	1,095	28	0%	NA	$6,615,000	Oct-22	Vacant
3 Union Street	CBD	Conversion	17 units	7	100%	NA	$5,000,000	Jul-22	6.66%
8 Rockridge Avenue	Penrose	Secondary	3,149	144	NA	2.8	$15,750,000	Jun-22	Confidential
Pier21 Marina Complex	Wynyard Quarter	Office/Drystack	6,653	159	Conf.	Conf.	$20,702,000	Jun-22	Confidential
3 Brian Smith Drive	Silverdale	Medical/Childcare	1,727	41	100%	NA	$14,200,000	Jun-22	5.57%
47 New North Road and 22 Exmouth Street	Eden Terrace	Character	925	5	100%	0.5	$4,700,000	Jun-22	4.73%
27 Nugent Street	Grafton	Secondary	675	12	0%	NA	$6,800,000	Jun-22	Vacant
4 Osterley Way	Manukau	Secondary	3,780	24	Leaseback to Council		$14,200,000	May-22	7.3%
22 Dundonald Street	Eden Terrace	Secondary	1,063	31	NA	NA	$5,400,000	Apr-22	6.19%*
80 Greys Avenue	CBD	Secondary	5,451	94	100%	3	$22,500,000	Apr-22	Confidential
35 Teed Street	Newmarket	Secondary	2,865	99	NA	~6	$24,500,000	Apr-22	5.65%*
35 Graham Street	CBD	Secondary	12,515	-	0%	NA	$65,000,000	Apr-22	Vacant
110 Carlton Gore Road	Newmarket	Prime	13,541	115	100%	10.5	$213,000,000	Apr-22	5.1%
6 Nixon Street	Grey Lynn	Build-to-Rent	32 Apartments		NA	NA	$23,500,000	Mar-22	4%*
60 Khyber Pass Road	Grafton	Secondary	5,117	93	34%	2.7	$21,000,000	Mar-22	9.3%*
2-8 Chancery Street	CBD	Character	3,580	-	55%	<2	$15,500,000	Mar-22	2.26%

*Yield based on estimated fully let net income. No adjustments made for lease-up, refurbishment or holding costs.

Auckland Retail Investment Sales

Address	Suburb	Asset Type	GLA	Parking	Occupancy	WALT	Sale Price	Date	Initial Yield
Westgate Lifestyle Shopping Centre	Westgate	Bulk Retail	25,754	622	100%	3	$85,700,000	Apr-23	7%
22 Stoddard Road	Mount Roskill	Bulk Retail	8,412	335	100%	2.9	$36,750,000	Apr-23	7.46%
3 Victoria Road	Devonport	Suburban Retail	459	-	Vacant Possession		$2,000,000	Apr-23	NA
Placemakers, 547-557 Don Buck Road	Westgate	Bulk Retail	7,184	70	100%	4.5	$14,700,000	Sep-22	4.62%
Burger King, 270 Mount Wellington Highway	Mt Wellington	Fast Food	2,273m² site		100%	NA	$11,080,875	Jul-22	NA
46 Hurstmere Road	Takapuna	Suburban Retail	473	NA	100%	NA	$5,400,000	Apr-22	4.8%
492-500 New North Road	Kingsland	Suburban Hosp.	704	NA	100%	4.4	$9,400,000	Jan-22	4.78%
Countdown Portfolio	Mangere/Hamilton	Supermarket	9,235	486	100%	10	$66,798,000	Dec-21	4.19%
Gull North Island Service Station Portfolio	North Island	8 Service Stations	NA	NA	100%	11	$32,000,000	Oct-21	4.40%
34 Barrys Point Road	Takapuna	Retail/Office	3,556	100	100%	3.5	$17,000,000	Nov-21	5.82%
7-19 Croftfield Lane	Wairau Park	Bulk Retail	3,276	145	100%	NA	$17,280,000	Nov-21	4.98%
8 Kent Street	Newmarket	Character	818	-	100%	3.8	$11,200,000	Apr-21	4.1%
Ex Nido Furniture Store	Henderson	Bulk Retail	27,682	325	-	-	$46,300,000	May-21	Vacant

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Auckland Non-CBD High Density Land Sales

Address	Zone	Proposal/Development/Description	(m^2)	Sale Price	$/psm	Date
101 Mount Eden Road, Mount Eden	Mixed Use	Corner site in Grammar Zone. 21m height limit. Returning $289k.	1,832	$8,500,000	$4,640	May-23
2 Wiremu Street, Mount Eden	Local Centre	Ex childcare centre, just off Dominion Road.	726	$2,500,000	$3,443	Apr-23
51 Florence Avenue, Orewa	Mixed Use	Mortgagee sale. Potential for development up to 6 levels.	809	$1,750,000	$2,163	Apr-23
9 Rose Road, Ponsonby	Town Centre	Corner site with 18m height limit. Fully leased returning $339k.	986	$8,100,000	$8,215	Mar-23
13 Prosford Street, Ponsonby	Mixed Use	204m² single level building sold with vacant possession.	306	$1,695,000	$5,539	Mar-23
56 St Heliers Bay Road, St Heliers	THAB	Corner development site. Ex Police Station.	448	$2,100,000	$4,687	Feb-23
381 Richmond Road, Grey Lynn	Local Centre	Corner site with 13 metre height limit.	451	$2,380,000	$5,277	Dec-22
949 New North Road, Mt Albert	Town Centre	18 metre height limit. Holding income providing 3.5% return.	3,345	$11,200,000	$3,348	Dec-22
3 and 5 Morgan Street, Newmarket	Mixed Use	Two vacant industrial buildings. 27 metre height limit.	665	$5,500,000	$8,270	Dec-22
160 Bairds Road, Otara	Town Centre	Vacant corner development site.	2,004	$3,200,000	$1,596	Nov-22
4 Bond Street, Grey Lynn	Mixed Use	1,310m² 2-level building with dual street access.	1,628	$6,715,000	$4,125	Oct-22
5 Burns Avenue, Takapuna	THAB	Consented for seven, 200m² luxury townhouses. 22.5m height limit.	1,039	$4,360,000	$4,196	Sep-22
66 Kauri Heart Avenue, Takanini	Local Centre/MHS	Bare site. 3,600m² Local Centre and 650m² Mixed Housing Suburban.	4,250	$3,700,000	$870	Aug-22
3 Park Avenue, Grafton	Mixed Housing Urban	MHU site with 9 residential flats. Returning $140,00 p.a.	771	$3,900,000	$5,058	Aug-22
28 Norwich Street, Eden Terrace	Mixed Use	Mixed Use site - 21m height limit. Single level warehouse office conversion.	296	$2,600,000	$8,783	Aug-22
80 Cawley Street, Ellerslie	Mixed Use	Bare mixed use site. Minimum 6-level height limit under Plan Change 78.	3,303	$6,606,000	$2,000	Jul-22
181 Jervois Road, Herne Bay	THAB	THAB site with four, two-bedroom flats. Returning $126,880 p.a.	701	$3,680,000	$5,250	Jul-22
11 St Benedicts Street, Newton	Mixed Use	Mixed Use site - 32.5m height limit. Single villa. Sold with vacant possession.	344	$2,282,000	$6,633	Jul-22
18 Norwich Street, Eden Terrace	Mixed Use	Corner lot overlooking Basque Park. Improved by 1960s warehouse.	306	$2,800,000	$9,150	Jul-22

Auckland CBD Land Sales

Address	Property	Proposal/Development	(m^2)	Sale Price	$/psm	Date
217-223 Hobson - 110 Nelson Street	Ex workshop	Purchased by Australasian Data Centre business; NextDC.	2,926	$23,750,000	$8,116	Dec-22
12 Liverpool Street	2-level building	460m² office building and 11 car parks. 67% NBS.	384	$3,080,000	$8,020	Oct-22
536 Karangahape Road	Car park	Corner development site with 15 metre height limit.	1,283	$8,000,000	$6,235	Apr-22
103 Vincent Street	YWCA Hostel	Ex 173-room, YWCA hostel and police barracks. Purchased by HNZ.	1,324	$11,650,000	$8,799	Dec-21
50 and 52 Cook Street	Bare site	Consented for a 15-level apartment building. 50m height limit.	1,732	$10,500,000	$6,062	Dec-21
17-27 Beresford Square	CRL site office	35 metre height limit. $755k holding income from CRL site office.	1,777	$16,000,000	$9,003	Oct-21
51-71 Victoria Street	2-level retail block	Corner development site with 13:1 MFAR. 3.6% initial yield.	860	$19,300,000	$22,442	Jul-21
42 Wellesley Street West	Aotea station box	125-year prepaid leasehold site with consent for 21 level tower.	4,780	$40,000,000	$8,368	Mar-21
40 Airedale Street	2-level building	50 metre height limit. Price GST incl.	230	$1,600,000	$6,956	Nov-20
105 Vincent Street	Church hall	41 metre height limit. Purchased by HNZ.	536	$3,350,000	$6,250	Oct-20
29-31 Anzac Avenue	Bare site	Consented for 16-level hotel, 7,122m² 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 adjacent owner.	282	$6,000,000	$21,277	May-20