THE WHILLANS REPORT

AUCKLAND MARKET UPDATE 4TH QUARTER 2023

Welcome to our final report for 2023

Meeting the repricing challenge

This has been a challenging year for the property industry, marked by successive rate hikes and a painful period of repricing.

Some owners have held their ground. Others have had no choice but to bring their properties to the market.

At Whillans, we have successfully navigated our clients through this repricing cycle – bridging the divide between buyers' and vendors' expectations.

Experience and connections drive success

As trusted advisers, we present our clients' properties in the best possible way and ensure the right opportunities hit the right desks.

We remain focused on completing sales.

Our strategy prioritises off-market solutions that deliver effective results for our clients.

My team is the most experienced and well-connected in New Zealand, and our reputation is built on solid partnerships. We are renowned for our confidentiality, our professionalism, and our negotiation skills. Our consistent results affirm this reputation.

Our notable sales for this quarter include	
Kiwi Bacon Building	Jeremy Sim
187 Queen Street	Henry Thompson
198-206 Bealey Avenue	Jeremy Sim
10 Morningside Drive	Brice Clark
101 Queen Street	Henry Thompson

Who are the buyers?

In this edition of The Whillans Report, our senior analyst Brendan Keenan looks at who is buying in the current market, and why they are re-entering now.

We trust you find this report valuable, and we welcome the opportunity to work with you in 2024.

We wish you a happy Christmas, a safe holiday, and a happy New Year.

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2023 Whillans fourth quarter sales results

Kiwi Bacon Building, Kingsland, Auckland
$33,000,000

101 Queen Street, Central Auckland
$11,880,000

10 Morningside Drive, Morningside, Auckland
$23,054,500

198-206 Bealey Avenue, Christchurch
Confidential

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Market 2023 third quarter update

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

In the 12 months to September, the prime sector posted solid gains with net effective office rents increasing by 5.3%. This was led by higher face rents and falling lease incentives.

Over the same period, secondary office rents increased by 1.6% with lease incentives holding firm at 19.7%.

The secondary office vacancy rate fell from a multi-decade high of 20.7% in June 2022 to 19.4% in June 2023. This was led by the withdrawal of secondary office stock for conversion and repositioning.

Measured from the market peak in late 2021, indicative prime CBD office yields have softened by 164 basis points to 6.95%. Over the same period, secondary CBD office yields softened by 203 basis points to 8.51%.

Auckland CBD Office Market Summary*

	PRIME	SECONDARY	PREV 6MTH TREND
Vacancy	9.3%	19.4%	Falling
Effective Rent	$451	$229	Increasing
Yield	6.95%	8.51%	Softening
Incentives*	12.5 mths	14.2 mths	Flat

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

CBD Retail — Prime CBD retail rents remained flat in the six months to September and currently stand at $3,708/m².

Foot traffic counts taken from Queen Street's six busiest intersections show that October pedestrian traffic reached 73% of their pre-pandemic levels for the same period in 2019. This was up from 64% in October 2022.

According to Paymark, June marked the first time since the pandemic that CBD retail spend, unadjusted for inflation, surpassed pre-pandemic levels.

Indicative prime CBD retail yields expanded 73 basis points in the year to September to 6.13%.

Auckland CBD Prime Retail Market Summary

	INDICATIVE	HIGH	LOW	PREV 6MTH TREND
Rent	$3,708	$5,000	$1,500	Flat
Yield	6.13%	5.75%	6.75%	Softening

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

In the year to September, prime net effective industrial rents increased 10.4% to reach $196.5/m².

Over the same period, net effective secondary industrial rents increased by 8%, reaching $149.4/m².

Land values eased by 13.5% in the 12 months to June to an indicative $985/m².

Despite solid rental growth and record, near-zero vacancy, prime and secondary industrial yields continued to unwind - even though the pace of easing decelerated over 2023. In the 12 months to September, indicative prime and secondary industrial yields expanded by 84 and 47 basis points respectively.

Auckland Industrial Market Summary

	PRIME	SECONDARY	PREV 6MTH TREND
Vacancy	0.6%	0.5%	Increasing
Effective Rent	$196.5	$149.4	Increasing
Yield	5.62%	6.18%	Softening
Land Value	$1,400	$550	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.

Buyers returning to the market — *Brendan Keenan, Senior Analyst*

Signs of stabilisation

At the height of last year's official cash rate hiking cycle, New Zealand's commercial real estate market was in a state of turmoil. The gulf between what buyers were willing to pay and what vendors would accept led property owners to withdraw their assets from sale. Without fresh sales evidence, a period of uncertainty persisted across 2022 and into early-2023.

Two years have passed since the Reserve Bank began its ambitious battle against inflation. A wholesale repricing of commercial real estate is now well underway.

On the sell side, highly leveraged investors have led the way, along with certain listed companies with gearing covenants. On the buy side, private investors have taken centre stage, reminiscent of the post-2008 global financial crisis era.

In this report, we delve into the motivations and assumptions underlying buyer demand as the market shows signs of stabilising.

Owner-occupiers take the spotlight

Owner-occupiers have emerged as a driving force behind recent transactions spanning multiple asset classes and a wide range of value. Owner-occupiers have been able to make more compelling offers than traditional investors. They have access to preferential lending – where cashflow is strong – and they have different motivations for buying.

We have seen this pattern very clearly at Whillans. Our recent sales of the Westgate Lifestyle Centre ($85.7 million), The Kiwi Bacon Building ($33 million), and 101 Mount Eden Road ($8.5 million) all confirm this trend.

In the same vein as owner-occupiers, neighbouring property owners are also participating in select transactions. These buyers often have more to gain from a purchase than a typical investor. As neighbours, they can unlock value in a property that other investors cannot. The opportunity to acquire a neighbouring site may outweigh concerns with market timing. We saw this in our recent sales of the Pier21 Marina Complex ($20.7 million) and 101 Queen Street ($11.8 million).

Private investors: a study in patience

We can categorise the behaviour of the traditional private investor into two broad groups. The first, more sizable group has stuck to the sidelines. They are biding their time, waiting for the market to adjust to higher interest rates and for distressed opportunities to materialize. However, unlike the 2008 global financial crisis, these opportunities are scarce. Mainstream banks have held back the floodgates for the better part of 18 months. They have supported their most at-risk borrowers through this period of higher funding costs.

The second group of private investors has a different, yet highly selective approach. They are taking advantage of the market to buy gilt-edged commercial real estate which, in more stable times, is difficult to secure.

Those watching from the sidelines must balance picking the bottom of the market against the risk of missing out on the 'family silver'. At the same time, no one wants to catch a falling knife.

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New Zealand leading the way over Australia

Like the private market, we can divide offshore investors – predominantly from Australia – into two groups.

The first are waiting for our commercial real estate market to reprice before re-entering. They see more value in their own backyard, and balk at our local funding costs. New Zealand was once seen as a 'rock-star' economy. Now, many Australian investors view the country, rightly or wrongly, as the land of shaky isles.

The second group of offshore investors believe New Zealand is ahead of Australia's interest rate and economic cycle. This group expect New Zealand to see rate cuts before Australia. They are looking to deploy capital ahead of this shift, enjoying the benefit of cheaper debt costs and cap rate compression.

The resurgence of wholesale syndicates

Retail syndicates have been notably absent from the market after a prolonged period of expansion. Term deposit rates upwards of 6% and higher funding costs have made it difficult to offer returns attractive enough to entice 'mum and dad' retail investors.

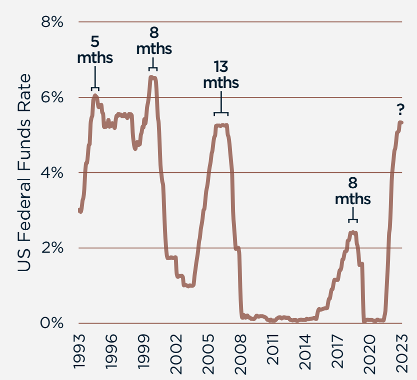
But we are now seeing renewed interest from wholesale syndicators backed by high-net-worth privates. These groups can see past headline cash returns, and are focused on value-add opportunities. Wholesale syndicates have been looking at regional assets as well as secondary industrial and office assets, where they see a path to higher returns. Our sale last year of the Northlands Shopping Centre to a wholesale syndicate for $160 million remains one of the largest transactions in the South Island.

A brighter horizon for 2024

As 2023 draws to a close, New Zealand's commercial property market continues to wind its way through the investment cycle. Falling inflation, a new government, and recovery in the residential sector all bode well for commercial property.

Table Mountain or Matterhorn?

Historical short-lived plateaus before easing



Recent headlines have speculated about a 'higher-for-longer' interest rate scenario. However, the historical pattern is worth remembering here. This pattern has always seen short-lived plateaus and subsequent easing. Once interest rates peak, both here and in the US, they have tended to remain high for nine months on average.

This historical context is a positive reminder that the current commercial property landscape may change sooner than anticipated.

Auckland Office and Mixed-Use Investment Sales

Address	Suburb	Asset Type	NLA	Parking	Occupancy	WALT	Sale Price	Date	Initial Yield
4 Alma Street	Newmarket	Secondary	640	11	~100%	NA	$4,050,000	Oct-23	5.39%
The Kiwi Bacon Building	Kingsland	Character	4,486	108	95%	2.3	$33,000,000	Sep-23	6.29%
114 Dominion Road	Mount Eden	Secondary	3,645	100	100%	~4	$18,500,000	Sep-23	6.89%
137 Great North Road	Grey Lynn	Secondary	1,400	34	Value-add opportunity		$7,800,000	Sep-23	3.78%
51 Shortland Street	CBD	Secondary	11,137	141	~74%	~2	~$55,000,000	Aug-23	9.8%*
6 Antares Place	Rosedale	Secondary	1,137	57	Vacant July 2024		$7,125,000	Aug-23	NA
Quay Park Portfolio - JV Partnership	CBD	A-Grade	21,392	342	~77%	~2.3	$60,000,000	Aug-23	11%**
119 Apollo Drive	Rosedale	Medical	4,906	210	NA	6.7	$28,000,000	Jul-23	6.9%
18, 20 Northcroft Street	Takapuna	Secondary	2,482	37	NA	NA	$10,500,000	Jun-23	NA
36 Karaka Street	Eden Terrace	Character	480	-	Vacant Possession		$2,310,000	Jun-23	Vacant
43 College Hill	Freemans Bay	Secondary	4,448	NA	Value-add opportunity		$21,650,000	May-23	Development
31A Normanby Road	Mount Eden	Office/Showroom	852	20	100%	6.7	$4,900,000	May-23	6.34%
124 Vincent Street	CBD	Secondary	4,891	63	81%	3.9	$20,200,000	May-23	Confidential
7-9 Union Street	CBD	Mixed Use	1,475	12	~95%	NA	$7,350,000	Apr-23	9.22%
7A Pacific Rise	Mt Wellington	Business Park	5,374	112	83%	<1	$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	<1	$15,750,000	Jun-22	Confidential

*Yield based on estimated fully let net income. No adjustments made for lease-up, refurbishment/seismic strengthening or holding costs. **Quay Park sale reflects freehold equivalent fully let yield.

Auckland Retail Investment Sales

Address	Suburb	Asset Type	GLA	Parking	Occupancy	WALT	Sale Price	Date	Initial Yield
187 and 193 Parnell Road	Parnell	Suburban Retail	311	6	100%	NA	$3,297,000	Nov-23	5.23%
Mitre10 Mega, New Lynn	New Lynn	Bulk Retail	13,756	251	100%	9.6	$35,385,000	Nov-23	5.6%
McDonald's/Caltex Wellsford	Wellsford	Service Station	933	NA	~90%	~5	$4,880,000	Sep-23	8.22%
101 Queen Street	CBD	High Street	682	-	100%	<2	$11,880,000	Jul-23	4.62%
Countdown Huntly	Huntly	Supermarket	3,964	NA	100%	8.5	$7,860,000	Jun-23	8.7%
Countdown Howick	Howick	Supermarket	3,395	142	100%	3	$20,300,000	Jun-23	5.17%
Countdown Mangere	Mangere	Supermarket	5,263	NA	100%	NA	$33,000,000	Jun-23	5.2%
The Warehouse Pah Road	Royal Oak	Bulk Retail	~8,900	~270	100%	8.9	$30,500,000	Jun-23	6.07%
139 Cascades Road	Pakuranga	Service Station	1,725	NA	100%	3.2	$5,900,000	Jun-23	5.73%
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%

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Auckland Non-CBD High Density Land Sales

Address	Zone	Height	Proposal/Development/Description	(m^2)	Sale Price	$/psm	Date
10 Morningside Drive, Morningside	Mixed Use	16	Sold to developer - plans remain confidential.	3,226	$23,054,500	$3,500	Oct-23
55 Church Street, Onehunga	Mixed Use	21	405m² warehouse building on a 535m² mixed use site.	535	$1,455,000	$2,719	Sep-23
1 Lauchlan Avenue, Epsom	Mixed Housing Urban	11	Sold with resource consent for 8 homes.	2,023	$4,750,000	$2,347	Aug-23
433 Lake Road, Takapuna	Mixed Use	18	Resource consent for commercial space and six apartments. $101k holding income.	663	$2,885,000	$4,351	Aug-23
39 Main Highway, Ellerslie	Mixed Use	21	Sold with vacant possession to a developer.	832	$2,150,000	$2,584	Aug-23
128 Great North Road, Grey Lynn	Mixed Use	27	Future development site. $53k holding income. RORs to 2028.	412	$3,050,000	$7,402	Aug-23
27 Morningside Drive, Morningside	Mixed Use	18	Corner site. Improved by warehouse and mezzanine office.	708	$2,850,000	$4,025	Jul-23
634 New North Road, Morningside	Mixed Use	18	Vacant single level warehouse on main train line. 300m from station.	506	$1,200,000	$2,371	Jul-23
28, 30/30A Alamein Avenue, Belmont	THAB	16	Consent lodged in 2022 for 16 terraced homes.	1,743	$5,150,000	$2,954	Jun-23
16 Handley Avenue, Narrow Neck	Mixed Housing Suburban	9	Improved by 6 pensioner flats built in the 1950s.	2,259	$5,250,000	$2,324	Jun-23
2 Scott Road, Hobsonville Point	Mixed Housing Urban	12	Corner development site.	2,046	$3,420,000	$1,671	May-23
308-320 Richardson Road, Mt Roskill	THAB	16	Corner development site. 13 dwellings returning $320k p.a.	6,151	$9,050,000	$1,471	May-23
180 Chapel Road, Flat Bush	THAB	9	Purchased by adjoining owner, Vital Healthcare. RC for 59 dwellings.	7,461	$13,000,000	$1,742	Mar-23
47 Kawerau Avenue, Devonport	Mixed Housing Suburban	9	MHS site. Single house on-site.	979	$2,804,187	$2,864	Mar-23
9,11,17 Matipo Road, Te Atatu	Mixed Housing Urban	12	RC lodged for 32 townhouses. Existing house to remain.	4,515	$5,100,000	$1,129	Feb-23
14 Edmonton Road, Henderson	Metropolitan Centre	72.5	On-grade public car park.	4,435	$6,500,000	$1,465	Feb-23
72 Rukutai Street, Orakei	Mixed Housing Suburban	9	Partially developed site for 5 standalone homes.	966	$3,420,000	$3,540	Apr-23
8B-8C Walsall Street, Avondale	THAB	16	Rear site. Subject to overland flow path.	4,572	$5,000,000	$1,093	May-23
101 Mount Eden Road, Mount Eden	Mixed Use	21	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	13	Ex childcare centre, just off Dominion Road.	726	$2,500,000	$3,443	Apr-23
237 Dominion Road, Mount Eden	Neighbourhood Centre	13	Sold with vacant possession. 322m² building and 10 car parks.	536	$1,610,000	$3,003	Apr-23

Auckland CBD Land Sales

Address	Property	Proposal/Development	(m^2)	Sale Price	$/psm	Date
31 Customs Street West	Downtown Car Park	Concept designs for two high-rise towers. Settlement late 2025.	6,442	$122,000,000	$18,938	Nov-23
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