New Zealand Transaction Trends

Office, Industrial, Retail and Mixed 2014

Executive Summary

Office...Building on up

- The office market continues to lead the pack with strong investor demand over 2014.
- NZD 2.1 billon of office transactions were completed in 2014, a 79% increase to total office sales when compared with 2013.

What are the sector hotspots?

- Activity in the retail sector has reached a new all-time high with NZD 2 billion transacted in 2014.
- The industrial sector has likewise experienced further improvements in 2014, rising 32% when compared to 2013.

Who are the purchasers?

- Private investors remained the most active investors over the last half of 2014 accounting for 43% of all transactions.
- Investment from international investors reached an all-time high with NZD 2.9 billion worth of property purchased by foreign entities.

What is the most active price point?

- Investors were actively focusing on large assets in the Prime segment of the market. Fifty-three transactions in the 'greater than NZD 20 million' category were completed in 2014, the largest number ever recorded by JLL in a single 12 month period. The smaller NZD 5—10 million segment also saw a number of transactions completed, the largest since 2011, with 49 sales.

Where is the capital going?

- Auckland continues to represent the market that comprises the 'Lion's Share' of transactions with 70% of all sales occurring in the Auckland Region with Wellington and Christchurch taking 13% and 7% respectively. Strong capital inflows in other parts of New Zealand in Hastings, Dunedin, and New Plymouth were seen with a number NZD +5 million transactions completed.

Are yields compressing?

- Yields across most markets have experienced downward pressure over the past 12 months. Increased interest and large amounts of capital in the top end of the market have driven yields lower. Secondary assets have also seen improved activity and as a result, yields have moved lower.

Transactions volumes have increased **78%** compared to 2013

NZD 2.1b of office sales were recorded in 2014

Privates still dominate the market with **43%** of all transactions

NZD 2.9b of foreign capital was invested in the NZ commercial property market in 2014

What should we expect for the rest of 2015?

- With over NZD 5.1 billion worth of commercial property transacting in 2014, we expect that investment in New Zealand's commercial property market will remain robust in 2015.
- As has been the case over 2014, Prime assets are expected to be highly favoured by investors. However, given the limited number of Prime assets coming to or likely to come to the market through 2015, we expect to see an increase in the number of value add and non-core transactions.
- We expect that more capital will start to move to locations outside traditional investment locations in search of yield and somewhere to place investment capital.
- Robust underlying economic fundamentals, a low interest rate environment and strong investor demand is likely to result in further downward pressure on yields in 2015. We expect that investor appetite for office assets will remain solid over the next year.
- New Zealand is becoming a more favoured location to overseas investors. As a result, capital flows from abroad hit a new high in 2014. We expect that foreign entities will play a more active role in 2015.
- The investor pool is therefore likely to remain more balanced this year with private entities well represented as well as institutions, both local and foreign, also playing a large role. Other groups including unlisted real estate funds could be more active over the coming year as the capital raising environment improves.

Why do we do this report?

Jones Lang LaSalle monitors all real estate sales transactions across New Zealand above NZD 5 million. This report monitors the office, industrial, retail and mixed sectors. This enables us to provide investors insight into overall market dynamics as well as the trends on the 'hot sectors' at a granular level. It also enables investors to gauge market depth and identify suitable entry and exit strategies.

Whilst we endeavour to provide a complete list of the major transactions, additional information or sales may become evident post the publishing of this report. This is due to the size and confidential nature of the transactions. For the most up to date information we recommend that you contact:

Justin Kean
Director, Research & Capital Markets
+64 9 363 0226
justin.kean@ap.jll.com

Ryan Woock
Research Analyst
+64 9 363 0279
Ryan.woock@ap.jll.com

Sarah Dominey
Consultant
+64 9 363 0306
Sarah.dominey@ap.jll.com

Jones Lang LaSalle
Level 16, PwC Tower, 188 Quay Street, Auckland
PO Box 165, Auckland

VISIT OUR WEBSITE
www.joneslanglasalle.co.nz

Office...Building on up

Office transactions dominated the commercial property market in 2014, following from the previous record set in 2013. International and local investors were keen to secure large, trophy, Prime grade assets, with transactions clustering around Auckland and Wellington CBDs. Large property transactions over NZD 20 million have moved to a new all-time high, driving the average deal size in the office category to over NZD 34.5 million.

NZD 2.1 billion worth of office assets transacted in total, making up 41% of all sales in 2014. In the office market, two large portfolio deals contributed NZD 629 million to the total, with PSP Investments purchase of AMP Capital's property portfolio and GIC's stake in Goodman Property's Viaduct office portfolio. Low global interest rates, a robust New Zealand economy and stable performance profile has attracted new international capital. Notable single asset sales include the sale of Lumley Centre to Deka Immobilien for NZD 146 million, SAP Tower to Robert Jones for NZD 97 million and Chorus House to Christo Investments for NZD 84 million.

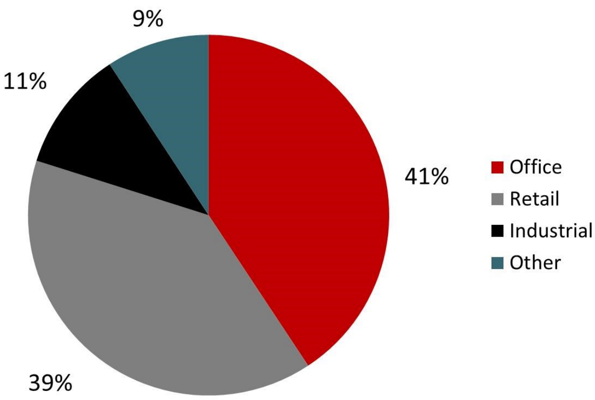
Office as a Cyclical Play

The Jones Lang LaSalle Total Return index shows that Prime office in both Auckland and Wellington has performed well over the last year, with returns of 26.3% and 16.6% respectively. Despite being a strong performer in the New Zealand market, office also suffers from high levels of volatility. Standard deviation of returns is in the region of 10.4% for Auckland and 11.5% for Wellington. This suggests that the greatest gains to be made in the New Zealand market is in the office sector, however timing in the asset class is everything with the deep value swings in the sector adding significantly to the sector risk.


Lumley Centre	SAP Tower
Location : 88 Shortland Street, Auckland	**Location** : 151 Queen Street, Auckland
Vendor: Dexus Property Group	**Vendor**: Precinct Properties
Purchaser: Deka Immobilien	**Purchaser**: Robert Jones Holdings
Yield: 7.1%	**Yield**: 7.8%
Price: NZD 146,000,000	**Price: NZD 97,000,000**

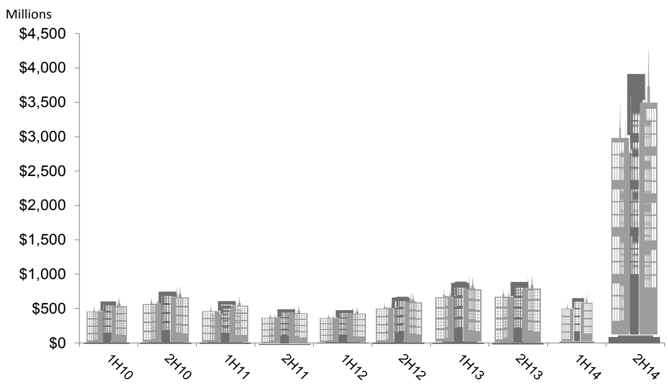

Chorus House	Auckland Council HQ
Location : 66 Wyndam Street, Auckland	**Location** : 1-7 The Strand, Takapuna
Vendor: Brookfield Investment	**Vendor**: Private Investor
Purchaser: Christo	**Purchaser**: Private Local Investor
Yield: 8.4%	**Yield**: 8.4%
Price: NZD 84,000,000	**Price: NZD 70,000,000**

New Zealand Transactions by Sector 2014



Source: JLL

New Zealand Office Transactions 2009-2014



Source: JLL

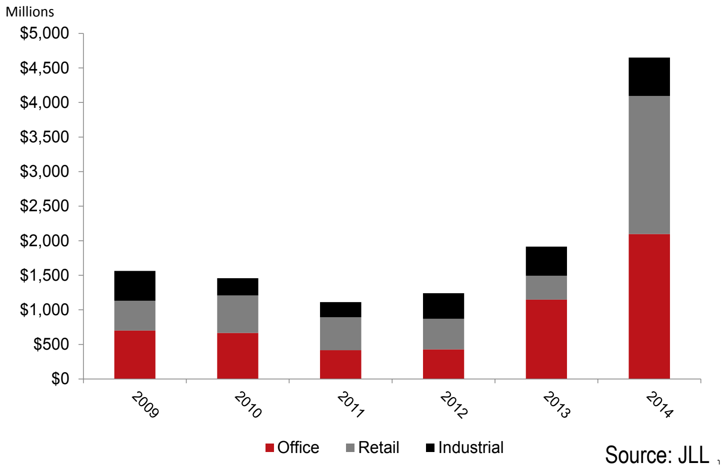
What are the sector hotspots?

Total sales values in 2014 across the major sectors (office, retail and industrial) increased by 142% over 2013. While Office assets continue to remain the most popular class of commercial property, the real growth story in 2014 belonged to the retail sector.

Total retail transactions in 2014 increased 478% when compared to 2013. NZD 2 billion worth of retail property changed hands in 2014, a level never seen before. A large driver of this exponential growth was a number of large regional shopping centres that transacted, including GIC's and PSP's Investments. GIC purchased a 49% stake in five Westfield's shopping centres for over NZD 1 billion, whilst the PSP Investments deal added some NZD 600 million to retail total.

The continued good performance of large retail shopping centres that are able to dominate their catchment and deliver sustained income streams across Asia Pacific has encouraged intense competition for investment grade product. Sovereign wealth funds, pension funds, and high net worth individuals with excess capital have invested in the retail space, and are likely to continue to do so through 2015. These groups have primarily focused on the +NZD 20 million category, with assets typically sporting strong rent roles, backed by large brands names, and in locations which are likely to experience future growth.

New Zealand Sale Transaction by Sector



Source: JLL

Who are the purchasers?

Private investors continued to make up the majority of individual buyers in 2014. Forty three percent of all deals settled during the year sold to private participants.

Overseas investment into commercial property has reached a new high. Attractive yields, robust economic data, and stable risk profile have attracted foreign capital. Investors from Indonesia, China, and Germany were active in purchasing property in 2014.

The New Zealand market is relatively new and unexplored on the international scene. The PSP and GIC transactions have focused international attention on New Zealand as an alternative core proposition that also provides strong risk adjusted returns.

The largest single asset transaction in the year was Deka Immobilien's purchase of the Lumley Centre from Dexus, a listed Australian Fund Manager. The property sold for NZD 146 million with an initial yield of 7.1% brokered by JLL and Knight Frank

New Zealand Purchaser Profile 2014

3%	Real Estate Fund
22%	Government / Sovereign Wealth
22%	Pension Fund
43%	Private/ Undisclosed

Source: JLL

What is the most active price point?

All recorded groups across the price stratums saw year on year increases. The two extreme ends of the spectrum experienced a strong increase in demand, with new international capital and solid local activity.

In 2014, the NZD +20 million price point was the most active with 53 deals concluded. Transactions in this price stratum increased by 96% compared to 2013 and up 179% from 2012. We have also seen record levels of NZD +100 million deals done with large amounts of foreign capital driving up sales volumes. Retail assets made up the majority of transactions in this category, with only one office sale completed.

Assets in the NZD 5-9.9 million range were sought after by smaller investors, and as a result, totals were up 44% on 2013 figures. Investors were particularly active in the industrial and retail sectors, which made up 50% of all sales in this range. This is partly due to the availability of stock and expectations in relation to an eventual recovery in the retail sector and an expanding logistics sector.

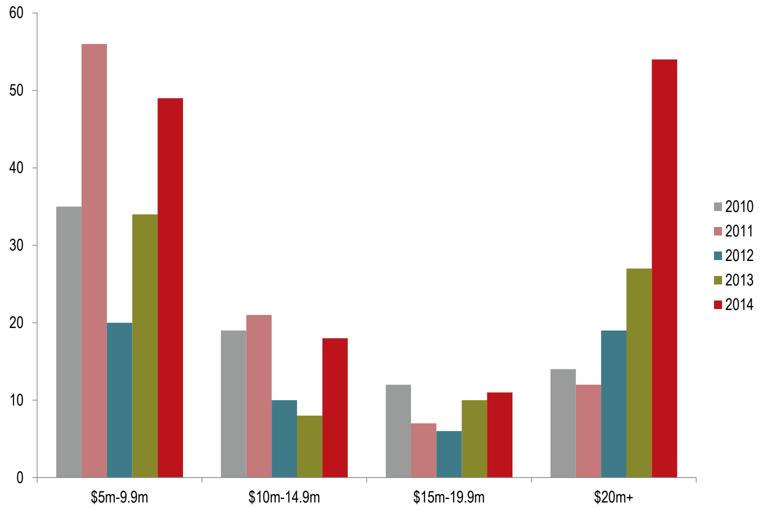
While options for large, Prime grade assets are limited, there is potential for portfolio deals to be completed over the coming year. We expect that the NZD 5—9.9 million category will be well supported, with more stock available and readily traded.

Where is the capital going?

Despite the significant increase in total capital flows, the regional split remains largely in line with historical norms. Seventy percent of all deals completed during 2014 (by volume) occurred in the Auckland Region. Strong demand for office assets put Wellington into second position, accounting for 13% of total transaction volumes. The rest of New Zealand (excluding Christchurch) made up 10% of all volumes, with the sale of AMP Capital's Property Portfolio and increased private activity. This suggests that liquidity outside the main investment destinations is starting to improve.

The transaction breakdown shows that for both the Auckland and Wellington markets, private purchasers dominated sales activity. while syndicates, corporate's and Listed REITs also remained active. In value terms, the Wellington market saw the pension fund move into first position. This was followed by privates, the only class to reach double digits in sales volume terms.

Annual New Zealand Sales Transactions by Price Stratum



Source: JLL

Office, Industrial, Retail and Mixed Sales Transactions

Sales by Volume

Year	$25m+	$50m+	$75m+	$100m+
2009	14	2	0	0
2010	13	3	3	2
2011	7	1	0	0
2012	14	7	5	1
2013	22	12	6	3
2014	49	31	16	7

Transaction Breakdown 2014: Geographical & Purchaser Type

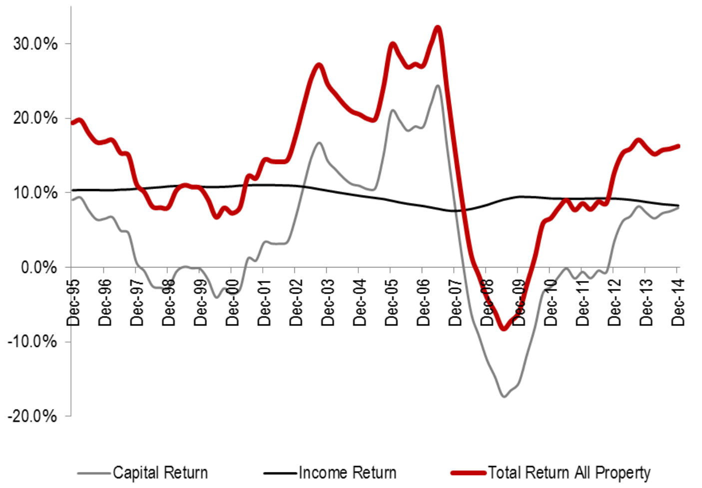
	Auckland		Wellington	
	Volumes	Values ($m)	Volumes	Values ($m)
Private /UD	86	1,740	11	223
Sovereign Wealth Fund	7	903	-	-
Pension Fund	5	653	5	276
Syndicate	3	149	2	22
Corporate	3	62	2	33
Listed REIT	2	104	1	7

Source: JLL

Where is the market cycle at?

Property is a highly cyclical investment class as is illustrated in the JLL total returns graph below. The market appears to be entering the momentum driven period in the cycle with values being supported by sustainable rental increases. We are not yet seeing the sharp uplift in values that were previously experienced through 2002 and 2004, which were a precursor to the market peaking in 2007. Accordingly it appears that this cycle is more benign than the previous one with the market players no doubt learning the lessons of the past.

NZ Total Property Returns 1995-2014



Source: JLL

What should we expect over the rest 2015?

2014 was a super year for commercial property. Strong demand for investment yields, combined with better outlook and excess capital, has led to a historic level of sales performance. While the office sector led the way, it was a notable year for the retail segment too. 2014 also saw international capital on a large scale introduced to the market, sending the sales total to a new high.

Over NZD 5.1 billion of commercial property transacted in 2014. 2015 is shaping up to be a very strong year, but is not expected to set a new record. Investors are set to move up the risk profile, largely in the lower Prime and Secondary CBD segments. Value-add and restoration prospects will likely become increasingly popular with fewer Prime offerings and demand for higher returns.

Auckland will be the most active market in 2015 with the largest volume of sales and total value. Investors remain cautious when looking at Wellington based assets, preferring to focus on high quality properties. The current reshuffle of government's office will provide opportunities for more risky projects. Interest for commercial real estate in the Christchurch region has started to improve. Construction is well underway and investor confidence is increasing, leading to more sales in the region.

Activity from international investors is likely to remain firm. New Zealand's yield advantage over other markets, and relative strong economic fundamentals will drive further yield compression. While office assets will be highly sought after by investors, interest continues to broaden into other sectors. Retail assets in the form of shopping malls and other large formats, is at the front of investors' minds.

While the Private and local investors will likely remain most active, real estate funds and investment groups will become more active in search of higher yielding investments to improve returns.