Property Council New Zealand

Press Release
4th September 2008

New Zealand direct property returns subdued across all sectors, Property Council / IPD show

IPD today announced the results of the Property Council / IPD New Zealand Property Index for the 12 months to end June, 2008. The total return for New Zealand ungeared direct property investments was 13.5%, a significant drop from the 24.1% return achieved over the same period to June 2007.

The main driving factor was the fall in the capital growth rate - from 14.6 % in June 2007 to 5.8% in 2008. Income return drifted downwards at 7.2% compared to 8.3% over the same period last year.

John Garimort, Director of IPD Australia, commented: "As with all real estate markets around the globe, the New Zealand market has been slowing. The inordinately strong returns of the markets which peaked in June 07 and continued through to December 2007 have a material and positive bias to the returns published for the period. But the second half of the year results, January to June have shown a marked decline for the New Zealand Property sector".

"All the major use sectors are substantially subdued with the peaks in total returns experienced by the Office and Retail sectors over the last 18 months and the Industrial sector three years ago now back to levels last seen in 2003 with a fairly narrow spread of returns 12.4% Retail to 14.7% for the office sector and Industrials with 12.5%"

"The sector is well and truly in the process of digesting the higher costs of credit where it is being made available to the sector; and the necessary structural changes to the pricing of risk; that has affected all asset classes" Mr Garimort commented.

It will be interesting to see how the REIT analysts react to the data released. Many have been marking down the fortunes of the listed property sector on the back of business risks and structure, debt management, and expected real estate market declines. With the release of the direct markets barometer for returns, we wonder if the discounts applied for declining real estate market returns have been overdone".

Office Commentary

New Zealand CBD Offices were the top performer for the fourth consecutive quarter, with a total return to June 2008 of 14.7%. The data released show that the performance of the Auckland CBD offices outperformed the Wellington office market and the office market generally with total returns for the 12 months of 15.62% and 13.84% respectively.

Jess Moyer, Research manager for IPD noted

"Rolling annual capital growth in excess of 12% has been recorded for the Auckland CBD office market in first 3 out of the 4 quarters this year. Even the more subdued June capital growth figure of 8.4% for this market is the top performer"

The office sector is the leader of the various sectors at the present time in the cycle. It has only been in the past 12 months that the office market has been in the limelight, leading the performance table for the three main sectors. Anecdotal evidence suggests the sector has seen significant increases in the capitalisation rates (yields) applied to value this sector only within the past 6 months. The market and valuation profession have reacted quickly so as to reflect the current economic outlook.

Not all assets have recorded new valuations within the IPD database. As such it may be that there are still declines in value to be recorded against assets that contribute to the index.

SECTOR SUMMARY DATA

Annual Total Return		**Rolling Annual Capital Growth**					**Decline in Annual Return in six months**	
OFFICE SECTOR	**14.7%**	**Q2 2007**	**Q3 2007**	**Q4 2007**	**Q1 2008**	**Q2 2008**	**Q4 2007 to Q2 2008**	
Auckland CBD Office	15.6%	15.4%	15.3%	15.7%	13.0%	8.4%	DOWN	47%
Wellington CBD Office	13.8%	19.4%	17.5%	19.4%	15.8%	6.6%	DOWN	66%
Auckland Non CBD Office	12.1%	7.7%	7.9%	7.6%	3.7%	3.7%	DOWN	51%

Retail Commentary

New Zealand Retail returns dropped to 12.4% for the year to June 2008 below industrial - the lowest rolling annual return for the retail sector in since their peak in June 07 of 28.7%.

SECTOR SUMMARY DATA

RETAIL SECTOR	Income	Capital	Total
NZ Retail	7.0%	5.2%	12.4%
NZ Shopping Centres	6.8%	5.0%	12.1%
NZ Bulky Retail	7.9%	4.7%	13.0%
NZ Other Retail	7.4%	7.7%	15.6%

Ms Moyer said "The fall in New Zealand Shopping Centre Capital Growth is the primary reason for the slowing in overall retail return. Shopping Centre owners enjoyed capital growth of 21.6% during the year to June 2007. It is a wholly different story this year with capital growth of just 4.8%. 75% of New Zealand Shopping Centres in the database have been re-valued in either the March or June 2008 quarter and valuers have clearly taken the different economic climate into account when selecting their cap rates. We would expect to see similar reductions in capital growth in the remaining 25% of shopping centre assets when their valuations come through later this calendar year".

Industrial Commentary

SECTOR SUMMARY DATA

	Q2 2008			Q2 2007		
INDUSTRIAL SECTOR	Income	Capital	Total	Income	Capital	Total
NZ Industrial	8.2%	4.1%	12.5%	8.5%	7.1%	16.2%
NZ Auckland Industrial	8.2%	4.0%	12.5%	8.6%	6.7%	15.9%

"Again a decline in capital growth is responsible for the lower total returns for the industrial sector realised on paper with the batch of valuations carried out on industrial properties in the March and June quarters. With close to 35% of industrial assets in the data base still to be re-valued this year we expect the downward trend to continue " Says Ms Moyer.

ENDS.

Notes to editors:

IPD is a global information business, dedicated to the objective measurement of commercial real estate performance. As the world's number one provider of real estate performance analysis for funds, investors, managers and occupiers, we offer a full range of services including research, reporting, benchmarking, conferences and indices. We operate in over 20 countries including most of Europe, the US, Canada, Australia, New Zealand, South Africa and Japan. Our indices are the basis for the developing commercial property derivatives market, and the most authoritative measures of real estate returns worldwide. For further information visit **www.ipd.com**.

Property Council New Zealand (PCNZ) is New Zealand's property voice, a professional association that represents members who have a vested interest in commercial property. PCNZ actively involves itself with central, local and other government associated bodies, promoting the views, goals and ideas of our members. Membership is broad, including owners, managers, builders and investors of commercial property in New Zealand. Collectively, members own and manage a $24 billion commercial property investment in New Zealand. Members are committed to ensuring the continued growth of New Zealand's economy to help create a vibrant commercial property market.

The PCA/IPD index now tracks the performance of 319 property investments, with a total capital value of over NZ$9 billion.

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