IPD PRESS RELEASE

PCNZ/IPD New Zealand Property Index

7 November 2012

On the pulse of the property world

Positive capital growth continues in New Zealand's commercial property markets

Auckland, 7 November 2012

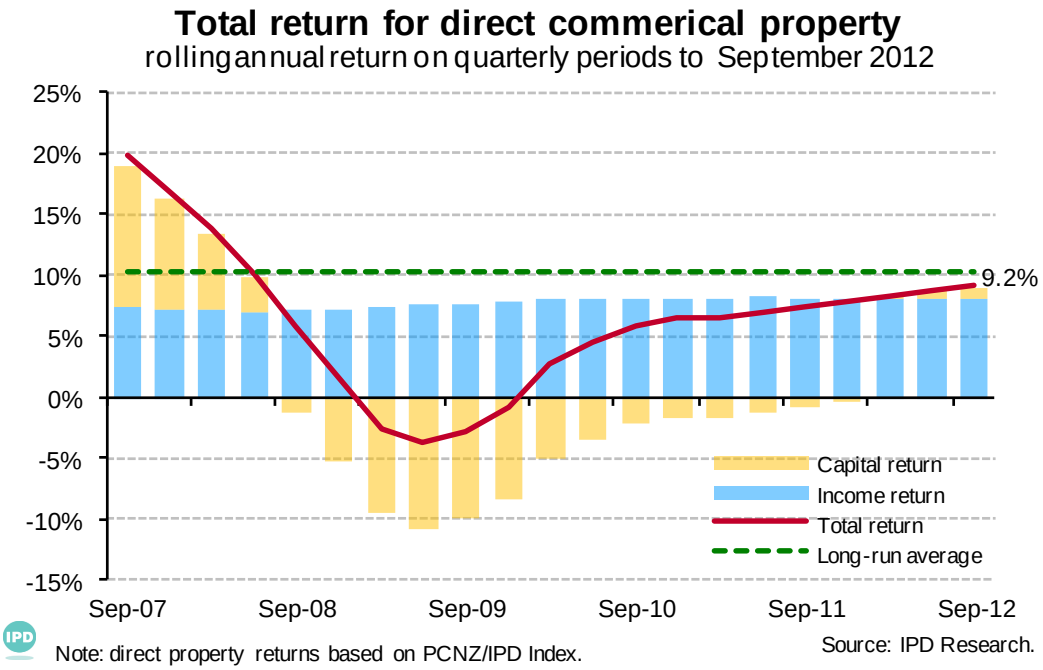
Overview

The PCNZ/IPD Commercial Property Index provides a measure of investment market performance across office, retail and industrial property sectors. The Index, sponsored by Yardi, is comprised of data from 26 participants, representing 31 funds/portfolios with 581 assets worth cNZ$11.2 billion. This represents c65% of the total New Zealand commercial property market. The Index details income return and capital growth on a quarterly basis and provides pricing and market metrics such as capitalisation rates, discount rates and capital values.

PCNZ/IPD Property Index Performance, September 2012

Released today, the Index showed that the broader New Zealand property market continued to show positive annual capital growth of 1.0% for the year ending September 2012. Annual income return was 8.0%, which resulted in a total return of 9.2%. The result represents a stronger return in comparison to the previous quarter of 8.8%, but is still lower than the long-run total return of 10%. Figure 1 shows rolling annual nominal total return split by income and capital return.

Figure 1

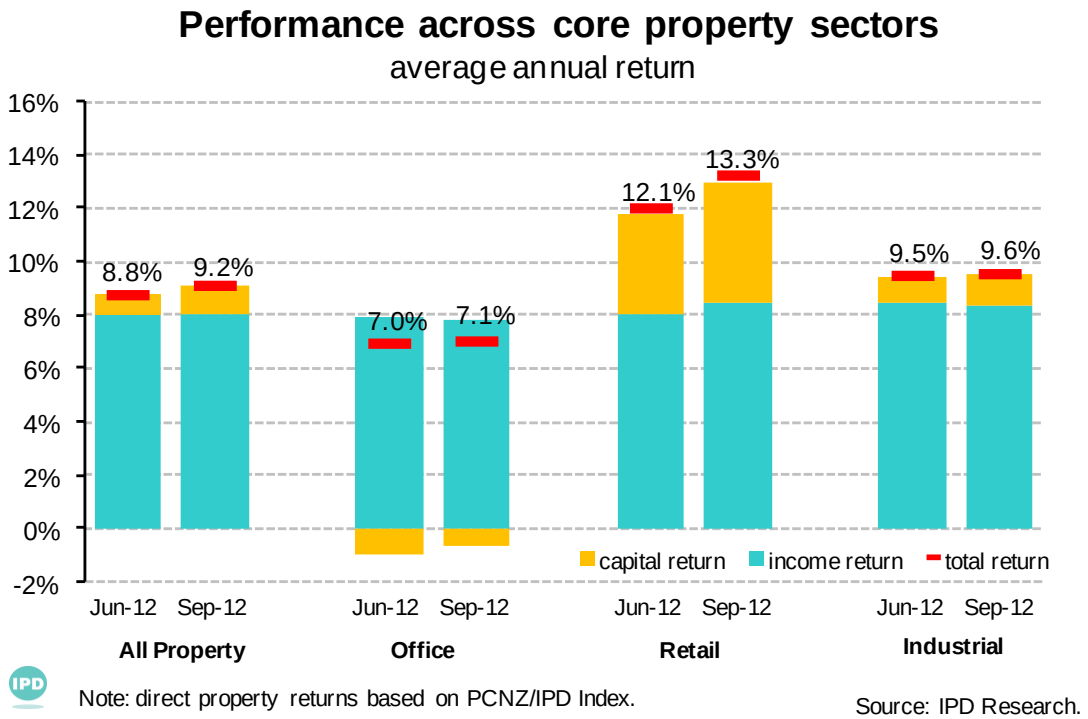


Property Council New Zealand

Property Sector Performance

The retail sector has lead the industrial and office sectors through the recovery phase with total returns of 13.3%, 9.6% and 7.1% respectively. These comparative results are reported in Figure 2. Clearly, the retail sector has outperformed competing core property sectors, reflecting strength in retail spending and general consumption. The performance in the industrial sector has been stable, while the office sector experienced weakness in capital values, corresponding with soft employment and business conditions. The pace of recovery in all sectors remains slow and reflects weak space market fundamentals and macro economic activity.

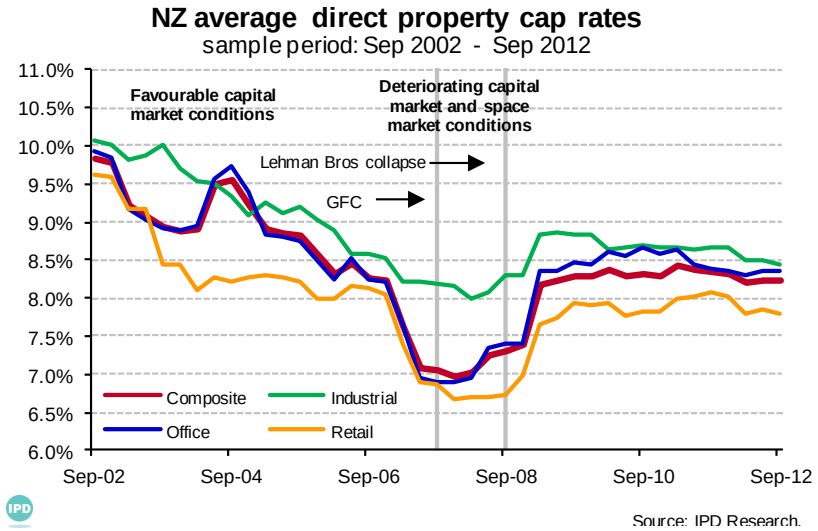
Figure 2



Trends in Pricing

With reference to pricing trends, average cap rates over the year to September 2012 stood at 8.2%. The retail sector experienced mild cap rate compression, which is consistent with positive capital growth. Conversely, the office sector experienced cap rate decompression corresponding with capital growth declines. Cap rate movements are mild and are expected to remain generally steady. Cap rates across property sectors are detailed in Figure 3.

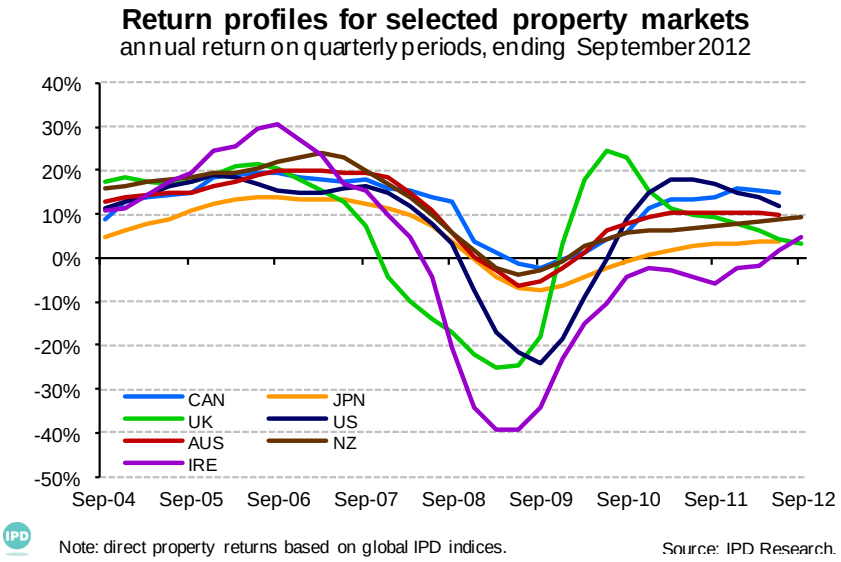
Figure 3



Global comparison

The New Zealand property market has experienced a relatively mild downturn and recovery phase in comparison to other major property markets. The UK, US and Ireland experienced the greatest decline in total return as they were adversely impacted by the spill over from the GFC. Over the short term, the New Zealand market is expected to perform favourably against competing property markets globally. This is highlighted in Figure 4, which shows rolling nominal annualised returns for selected global property markets.

Figure 4



Dr Anthony De Francesco, Managing Director of IPD in Australia and New Zealand, said, "The latest results suggest that the broader commercial property market is slowly showing signs of improvement with capital values increasing over the year. However, market conditions vary markedly across property sectors."

"The office property sector is likely to experience subdued conditions underpinned by a soft labour market. The retail property sector will continue to experience a stronger investment return than the office sector, but is expected to be weaker going forward."

"Cap rates, while likely to remain generally steady, will vary across property sectors: retail and industrial sectors are expected to experience mild firming in cap rates while the office sector is set to experience a stabilisation in cap rates for prime stock."

Property Council New Zealand's chief executive, Connal Townsend, said, "The latest results we have seen today are heartening, proving that the commercial property market has officially turned a corner. I expect the increases we are seeing in property returns steadily rising as the market continues to pick up."

"The steady and strong performance of industrial returns has been consistent over a sustained period of time, and this segment is a high performer in the commercial property market in New Zealand.

"Retail returns over the last quarter have been very good, indicating the boost to the market during the Rugby World Cup was not a one-off, but a sustainable trend.

"Reviewing the office returns, whilst performance has not been as solid, it has also improved.

"All sectors combined now show a marked increase, and the returns are now quite close to the long-time run of 10.0% we have had since 2007 which predates the Lehman Brothers crash. It is positive to see the index so strong, with nearly 600 property assets considered which represent more than $11 billion in value."

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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 32 countries including most of Europe, the US, Canada, South Africa, South Korea, New Zealand 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.

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