



22 August 2012

Capital growth continues for New Zealand's commercial property markets

Auckland, 22 August 2012

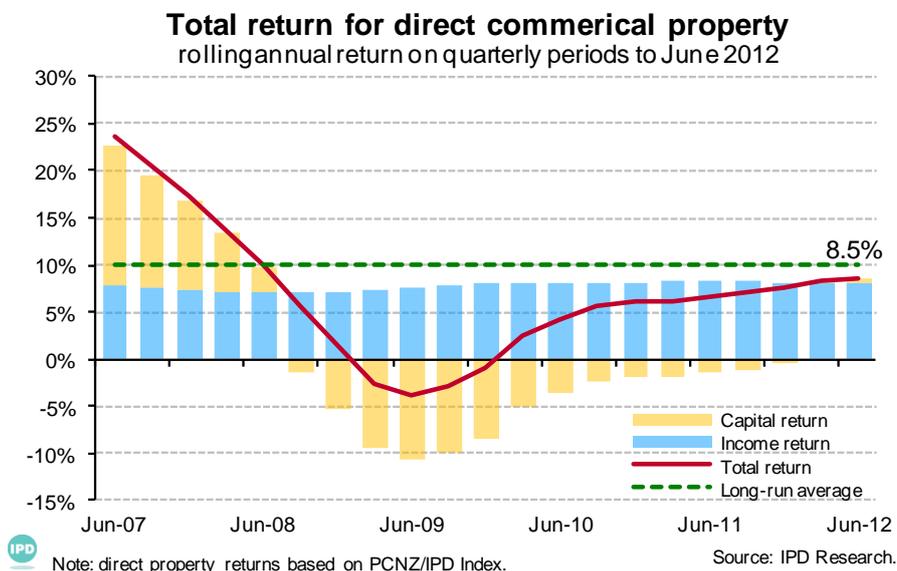
Overview

The PCNZ/IPD Commercial Property Index provides a measure of investment market performance across office, retail and industrial property sectors. The index is comprised of data from 20 participants, representing 25 funds/portfolios with 575 assets worth cNZ\$10.3 billion representing c65% of the total New Zealand property market. The index details income return and capital growth on a quarterly basis. The index also provides pricing and market metrics such as capitalisation rates, discount rates and capital values.

PCNZ/IPD Property Index Performance – June 2012

Released today, the index recorded a second consecutive quarter of annual capital growth in three years of 0.3% for the broader New Zealand property market. Annual income return was 8.2% which resulted in a total return of 8.5% for the year to June 2012. The result represents a mild strengthening in annual return in comparison to the previous quarter of 8.4% 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. The chart shows the upswing in commercial property and the first annual period of positive capital growth.

Figure 1

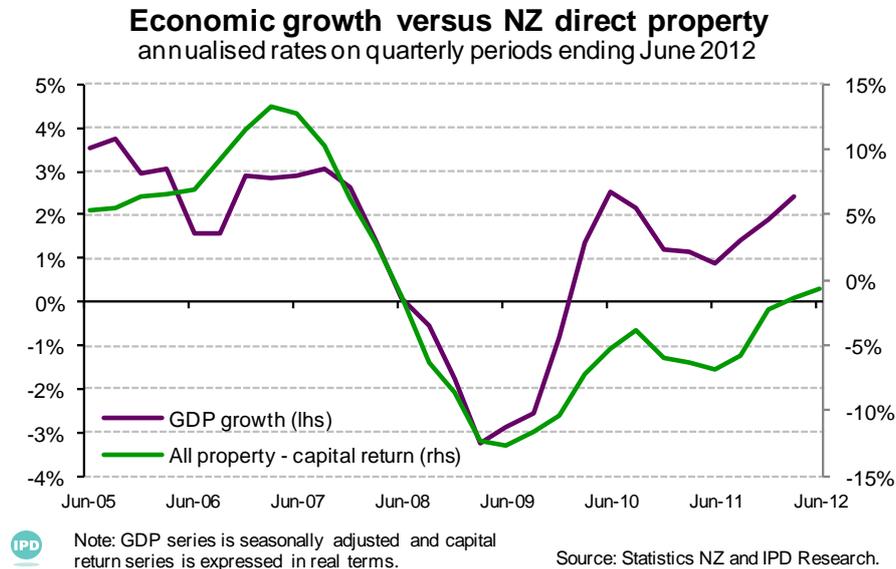




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Figure 2 highlights the close positive correlations between the New Zealand macro-economy and commercial property market. Clearly, commercial property returns have been increasing with rising GDP growth.

Figure 2



Property Sector Performance

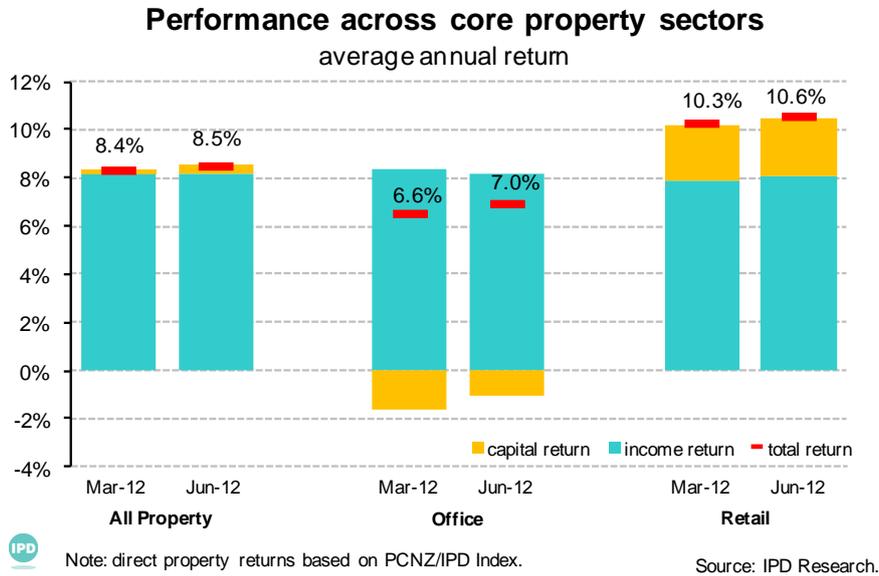
The retail sector (10.6%) has led the office sector (7.0%) through the recovery phase of the property investment cycle. These comparative results are reported in Figure 3. [Returns for the industrial sector have been omitted due to insufficient data contributors].

The retail sector continues to outperform the office sector due to ongoing strength in retail spending. The office sector reported a slightly higher total return with employment conditions remaining relatively subdued.



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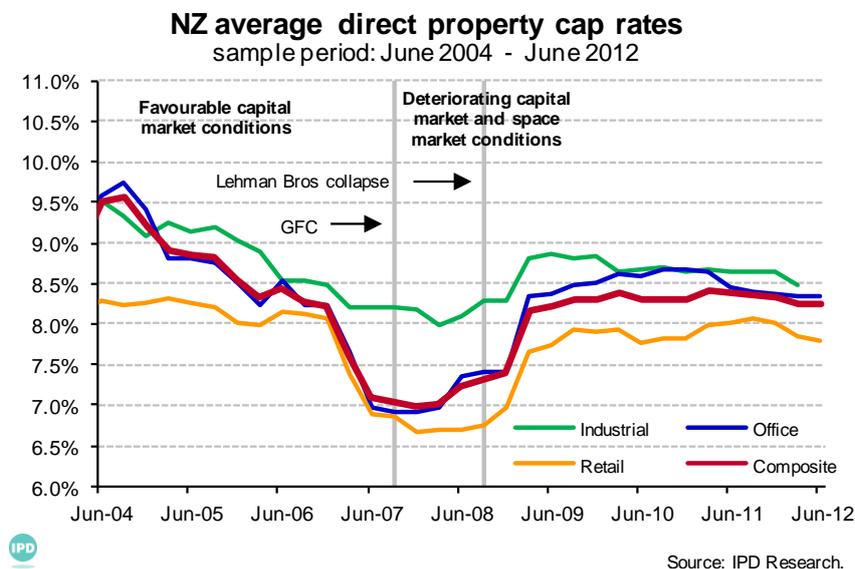
Figure: 3



Trends in Pricing

With reference to pricing trends, average cap rates over the year to June 2012 stood at 8.3% as detailed in Figure 4. Notably, cap rate movements are mild and are expected to remain generally steady. The retail sector experienced mild cap rate compression which is consistent with positive capital growth.

Figure 4



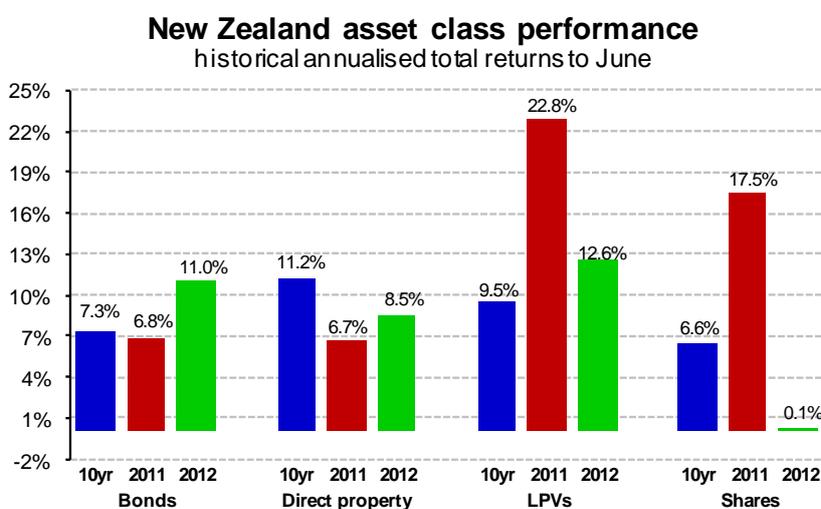


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Property versus Other Asset Classes

Figure 5 shows the return performance of the commercial property market against bonds, listed property vehicles (LPVs) and shares. Notably, commercial property outperformed over the last 10 years against competing asset classes, but has underperformed over more recent periods.

Figure: 5



Note: annual returns ending June

Source: NZX, EcoWin and IPD Research.

Dr Anthony De Francesco, Managing Director of IPD in Australia and New Zealand, said, “The latest results suggest that the commercial property market is showing a mild sign of strengthening with a slight uptick in capital values over the last twelve months.”

“Property market conditions are generally showing signs of improvement, although fundamentals remain relatively soft. The ongoing recovery in economic growth is a positive factor which should ultimately be reflected in a broader uplift in property investment returns. However, this uplift will vary across property sectors.”

“The retail sector is showing an upward trend in returns but the office sector will trail behind given the weakness in the labour market. The industrial sector is expected to experience further upside as the growth pace of the economy strengthens.”

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Mr Peter McGuinness, Research Manager at IPD in Australia and New Zealand, said,

“A divergence in cap rates is appearing with the retail sector showing ongoing firming in line with its capital growth profile.”

“With the weak growth outlook in the global economy and turbulence in capital markets from the on-going European debt crisis, downside risks remain prevalent. These factors are likely to prolong the recovery in commercial property markets.”

Mr Connal Townsend, Property Council New Zealand Chief Executive, said, “it is pleasing for the industry to see positive gains for the property market once again. It is great to see that the New Zealand commercial property market has posted two quarters of positive growth, boosting the perception that the industry is working its way out of the recessionary period.”

“All market segments have increased their total returns when compared to returns for this time last year, with a noticeable lift from the retail market, which has almost doubled its performance from 5.4 per cent in June 2011 posting a spectacular 10.6 per cent total return for the latest quarter,” Mr Townsend said.

“The lift in retail performance was obviously stimulated by the Rugby World Cup last year, but it is particularly pleasing to see that the initial boost has been sustained and the sector is continuing to thrive well after this event concluded.”

END.

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 25 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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