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HD	**Auckland tower deals to ease**
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The number of major Auckland office deals can be expected to slow with investment capital moving in a new direction towards the end of this year, says Brent McGregor, senior managing director of CBRE New Zealand

“The ever-tighter investment market in Auckland due to the weight of capital, along with the number of office buildings being converted to **residential** use, is adding stimulus and viability to **commercial** development, which is good for future investors,” McGregor says. “It is also shifting investor interest toward development and into other major centres including Wellington, which is already the focus of numerous major marketing campaigns.”

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McGregor has been involved in the **sale** of more than $500 million of **commercial property** this year alone.

“I am pleased to say that CBRE has been involved in a significant number of major Auckland CBD deals concluded this year,” he says. “These have included the former National Bank Centre at 205 Queen St, AECOM House in Quay **Park**, the Lumley Centre as buyer’s agent, Chorus House, and the former Telecom Headquarters at 8 Hereford St.

“While there have been some major sales that have hit the headlines, there are also other **transactions** that are not yet public.”

AECOM House was **sold** to underlying landowner Ngati Whatua Orakei Whai Rawa Ltd while the “twin towers” **sold** for $103 million. Another Queen St deal was the April **sale** of the BNZ tower at 125 Queen St for $57 million

McGregor, with colleague Warren Hutt and CBRE’s Christchurch managing director Mark Macauley, brokered the **sale** of the $84 million Chorus House on Wyndham St in the Auckland CBD to a private Christchurch-based investor.

In mid-July, through CBRE, noted Wellington **property** investor Caniwi Capital acquired a portfolio of six Inghams Enterprises chicken farming properties for $57 million from private equity owners. The properties include four breeder farms, a hatchery and a processing plant, all in the Waikato region.

The latest big news for CBRE was the confirmation by Dexus **Property Group** on August 15 that it had **sold** the Lumley Centre at 88 Shortland St to German pension fund Deka Immobilien Investment GmbH for a 7.08 per cent yield at $146 million, subject to Overseas Investment Office [OIO] approval.

“This was CBRE’s 11th deal with Deka but their first in New Zealand,” McGregor says. “To bring this German **purchaser** to New Zealand, CBRE’s local team worked together with their Sydney-based International Investments team, led by Rick Butler.”

Butler says a Kiwi colleague working in the off-shore team based in Sydney has helped with attracting new capital to New Zealand.

"Deka has €16 billion [$25 billion] of property assets under management and is an active property investor," McGregor says. "Much has been written recently about the attractiveness of New Zealand property to overseas investors.

"While some of the press hits the nail on the head — and it is undeniable that New Zealand yields are attractive to European and Asia-Pacific institutions with a net $188 million inflow of foreign funds into New Zealand property in the first half of 2014 — it's also worth remembering that many local investors are active too.

"For example, AECOM House was sold to Ngati Whatua Orakei Whai Rawa. Maintaining long-term New Zealand ownership was certainly a key factor in the sale from the perspective of its previous owner, Harbour 5, which continues to retain other holdings in the precinct and sees this transaction as a further positive step in its strong relationship with Ngati Whatua. Chorus House was also acquired by a New Zealand investor."

McGregor says that AECOM House can in many ways be seen as a case study of some of the current market threads — the link between increasing development and investment sales.

"The previous owners of AECOM House, Harbour 5 Ltd, part of a family owned business which purchased the land in 2008, progressed the eight-level, five-star, green-rated building in 2011 with the intention of holding the asset long-term. However, when an opportunity arose for a negotiated sale with the underlying land owner, Ngati Whatua, the directors felt this was an excellent prospect for both entities, the building's tenants and the wider precinct in general. The opportunity also made real sense for the local iwi which picked up the 'marriage value' benefit from combining the lessee's and lessor's interest."

McGregor says that the buoyancy of the development market is evident.

"Towards the end of 2016 we expect the completion of over 85,000sq m of newly built and substantially refurbished office space. These projects include new campus-style city fringe office premises like Mansons TCLM's new 18,600sq m building on Victoria St and Fonterra's new head office in Wynyard Quarter which will fill a number of market niches.

"Wynyard Quarter is becoming a major focus for new office supply. Aside from the Fonterra building, an additional four projects are expected to add over 20,000sq m by the end of 2016 to Wynyard Quarter's office stock. Unlike the large campus-style buildings, some of these new Wynyard premises will offer occupancy options for smaller to medium-sized occupiers, some of it in 'character' style premises.

McGregor says another market niche being filled by new supply is core CBD refurbished secondary buildings.

"For example, the refurbishments of 125 Queen St and potentially 22 Fanshawe St will bring on the market about 25,000sq m of good quality occupancy options in 2015 for those seeking core CBD tower-style office space.

"However, the main market niche that is not currently being addressed by new supply is premium quality CBD office towers. This market sector has been inactive for new development during the past five years, and no new meaningful supply is expected until the latter part of this decade."

McGregor says investor interest is being driven by office buildings being converted to apartments as well as by yields.

"We are seeing quite a few local and offshore groups wanting to buy into development sites — city and suburban — with mostly residential underpinnings. For this reason and others, we are observing a rising number of conversions, typically from secondary grade office buildings into residential uses."

One prominent building undergoing such a transformation is the former Telecom headquarters building at 8 Hereford St in Freemans Bay that was purchased by the Tawera Group, an award-winning developer.

"A significant number of the 121 apartments now being planned in the new Hereford Residences development have been pre-sold, leading to more than 10,000sq m of B-grade office floor area being withdrawn from office stock," McGregor says.

"All this conversion work is undoubtedly putting pressure on existing stock and thus on vacancy, which is already low in Auckland. The city has been the popular investment destination in the year to date but investor focus is now shifting to include other centres, including Wellington, where good buying opportunities exist."

McGregor says Ryan Johnson, CBRE's Wellington managing director, recently returned from a visit to Singapore, where interest in New Zealand **commercial property** continues to be strong.

Johnson says the Singapore government is trying to cool the market locally using tools such as increased stamp duty and putting in place more loans-to-value restrictions.

"So foreign capital is looking elsewhere to invest and Australia and New Zealand are attractive options."

Johnson says this has led to a noticeable jump in investor interest in Wellington. "Three months ago there was little institutional interest in Wellington but now that yields are more attractive, at around 8.5 to 9.5 per cent, interest is rising from institutional Australian, Singaporean and **Chinese** investors."

Johnson says the outlook in Wellington is good in the second half of the year. "The interest shown is translating into activity already with our office working on 10, mainly sole agency, sales campaigns at the moment totalling around $225 million.

"CBRE has control of a lot of stock. Our sole agency on the IBM/Datam house in Petone had more than 10 offers, half of which were offshore investors. Other Wellington properties currently on the market and generating significant interest are 1 Victoria St, being **sold** on behalf of ANZ bank, and Trade Me's headquarters, which are generating significant interest."

In Christchurch, a fully leased five-storey office building redevelopment is being marketed for **sale** at 104 Victoria St by Mark Macauley, managing director of CBRE Christchurch. The **property** occupies a net lettable area of 3473sq m with typical floor plates of 676sq m.

The building has four floors of tenanted office accommodation and the ground floor contains a Tony Astle restaurant and gym.

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