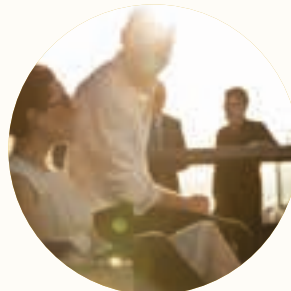


CURIOSITY | DISCOVERY | CONNECTION



# Investor Report

## EXECUTIVE SUMMARY

<b>Project name</b>	Connect	
<b>Project location</b>	70-74 Anzac Avenue, Auckland CBD	
<b>Project description</b>	98 apartments over 14 levels Ground level – Business lounge/Management services Rooftop recreation floor	
<b>Developer / Builder</b>	Nereus Properties Limited	
<b>Architect</b>	Paul Brown & Architects	
<b>Apartment breakdown</b>	Studio	10
	1 bed + multi-purpose room	54
	2 bed	24
	2 bed + multi-purpose room	10
<b>Transactional requirement</b>	Resident purchasers – 10% deposit (Cash or bank guarantee)  Non-resident purchasers – 20% deposit (Cash or bank guarantee)  All deposits must be 10% or 20% of purchase price	
<b>Key features</b>	<ul style="list-style-type: none"><li>• Mix of studios, 1 and 2 bedroom apartments (7 per level)</li><li>• 17-level development</li><li>• Key central Auckland location</li><li>• Close to universities</li><li>• Affordable, from \$390K</li><li>• Contemporary appeal and urban lifestyle</li><li>• Rooftop garden community facilities for residents and guests</li><li>• Dedicated business lounge including meeting rooms, conference facilities, storage lockers, computers, Wi-Fi access, photocopier, printer and binder</li><li>• Exceptional views</li><li>• 21 car parks available on-site</li></ul>	



## THE INVESTMENT

A Connect apartment has been designed to achieve remarkable synergies between work and leisure. Many of the apartments feature dedicated multi-purpose rooms that are large enough to be considered bedrooms in other developments, and when the hard work has been done, there are balconies and broad terraces to refresh the spirit with spectacular vistas. Looking to the north, some apartments take in the broad sweep of the Hauraki Gulf, while others embrace the energy of a city that's proud of its glittering skyline.

Each apartment in Connect benefits from the individual attention to detail that ensures a superb living environment. From one and two bedroom apartments with multi-purpose rooms and generous living areas to designer studios with fully equipped kitchens, these are all residences to be proud of.

### **Connect provides a unique off the plan opportunity that ticks all the boxes:**

- All residents and guests can enjoy the superb roof-top recreation area and dedicated business lounge
- High capital growth potential through providing a purpose-built residential offering which takes full advantage of this first class location
- Flexible management options mean investors can take advantage of the current demand for short term (less than 6 months) accommodation in Auckland or choose to rent to the long term (6 months plus) depending on market demand; allowing maximum returns
- Connect purchasers will now have the opportunity to choose how they wish to use their property from owner occupiers, long term or short term rental. This has been offered in many other countries and will now be available in Auckland where supply for accommodation is far outweighed by the enormous demand

## Dwelling make up

The following table provides an overview of stock available in the development:

Unit type	Int sqm	Ext sqm	Price range	Long term rents p/w	Long term yield (Avg)	Short term income p/n	Short term yield
Studio	32	3	\$390,000-\$426,000	\$400-\$450	5.5%	\$188	10.1-12.6%
1 bed+S	50-57	3-22	\$540,000-\$705,000	\$550-\$590	5.0%	\$203	7.4-9.3%
2 bed	62-67	15-20	\$763,000-\$1,030,000	\$700-\$800	4.7%	\$232	5.5-6.8%

*Note: The short term income is based on a range of occupancy of 60%-75%. Occupancy in hotels in Auckland is currently running at 83% (Colliers International Hotels Division). Short term income is net of GST and based on a minimum 3 night stay tariff (Source: Auckland serviced apartment rate). The yields are stated before deduction of management fees.*

## KEY DATES

Building	Stage of construction	Construction timetable	Completion expected	Sunset clause
Selling off plan	RC received	21 months	December 2017	June 2018





# Outgoings

## Body Corporate

The Body Corporate is the entity responsible for all matters associated with the development and the associated common services. The Body Corporate manager is selected by owners.

Unit Type	Body Corporate fees per annum (estimate)	Council rates per annum (estimate)
Studio	\$1,725	\$1,716
1 bed	\$2,658-\$3,741	\$2,809
2 bed	\$3,937-\$4,135	\$2,809





# Property investment analysis

## With 20% deposit

	Studio		1 bed		2 bed	
Purchase price	\$390,000-\$426,000		\$540,000-\$705,000		\$755,000-\$1,030,000	
Deposit (20%)	\$78,000-\$85,200		\$108,000-\$141,000		\$151,000-\$206,000	
Gross rental yield	5.19%-5.67%		4.36%-5.49%		3.66%-4.86%	
Rental yield (after Rates, Body Corp)	4.38%-4.78%		3.4%-4.47%		3.00%-3.94%	
Capital growth rate	7.6 % p.a. (20 year long term capital growth)					
Inflation rate	2.8 % p.a. (over the same 20 year period)					
Tax rates	10.5-33% (individuals), 28% (company)					
Your income / (cost) per week:	Without interest	With 5% interest	Without interest	With 5% interest	Without interest	With 5% interest
1 year	\$359	\$31-\$59	\$444-\$465	\$(79)-\$49	\$571-\$595	\$(199)-\$(9)
2 years	\$369	\$32-\$60	\$456-\$478	\$(67)-\$62	\$587-\$612	\$(182)-\$7
3 years	\$379	\$33-\$62	\$469-\$491	\$(54)-\$75	\$604-\$629	\$(165)-\$23
5 years	\$401	\$35-\$66	\$496-\$519	\$(27)-\$103	\$638-\$665	\$(130)-\$57
10 years	\$460	\$40-\$75	\$569-\$596	\$(46)-\$179	\$733-\$763	\$(132)-\$152

Note: Based on an LVR of 70% for existing property, 10% for newly developed property for local investors. 20% deposit will be required for a non-resident purchaser.

\* Source: Colliers International Research

\*\*Cash flow per week ignores tax impact as this will be variable dependent on investment structure

## With 10% deposit

	Studio		1 bed		2 bed	
Purchase price	\$390,000-\$426,000		\$540,000-\$705,000		\$755,000-\$1,030,000	
Deposit (10%)	\$39,000-\$42,600		\$54,000-\$70,500		\$75,500-\$106,000	
Gross rental yield	5.19%-5.67%		4.36%-5.49%		3.66%-4.86%	
Rental yield (after Rates, Body Corp)	4.38%-4.78%		3.4%-4.47%		3.00%-3.94%	
Capital growth rate	7.6 % p.a. (20 year long term capital growth)					
Inflation rate	2.8 % p.a. (over the same 20 year period)					
Tax rates	10.5-33% (individuals), 28% (company)					
Your income / (cost) per week:	Without interest	With 5% interest	Without interest	With 5% interest	Without interest	With 5% interest
1 year	\$359	\$(10)-\$21	\$444-\$465	\$(144)-\$(3)	\$571-\$595	\$(298)-\$(82)
2 years	\$369	\$0-\$31	\$456-\$478	\$(132)-\$10	\$587-\$612	\$(281)-\$(66)
3 years	\$379	\$11-\$42	\$469-\$491	\$(119)-\$23	\$604-\$629	\$(264)-\$(49)
5 years	\$401	\$32-\$63	\$496-\$519	\$(93)-\$51	\$638-\$665	\$(229)-\$(15)
10 years	\$460	\$91-\$123	\$569-\$596	\$(19)-\$128	\$733-\$763	\$(131)-\$79

Note: Based on an LVR of 70% for existing property, 10% for newly developed property. 20% deposit will be required for a non-resident purchaser. Interest rate of 5% was assumed.

## Before tax cash flow - expressed as - your income / (Cost) per week

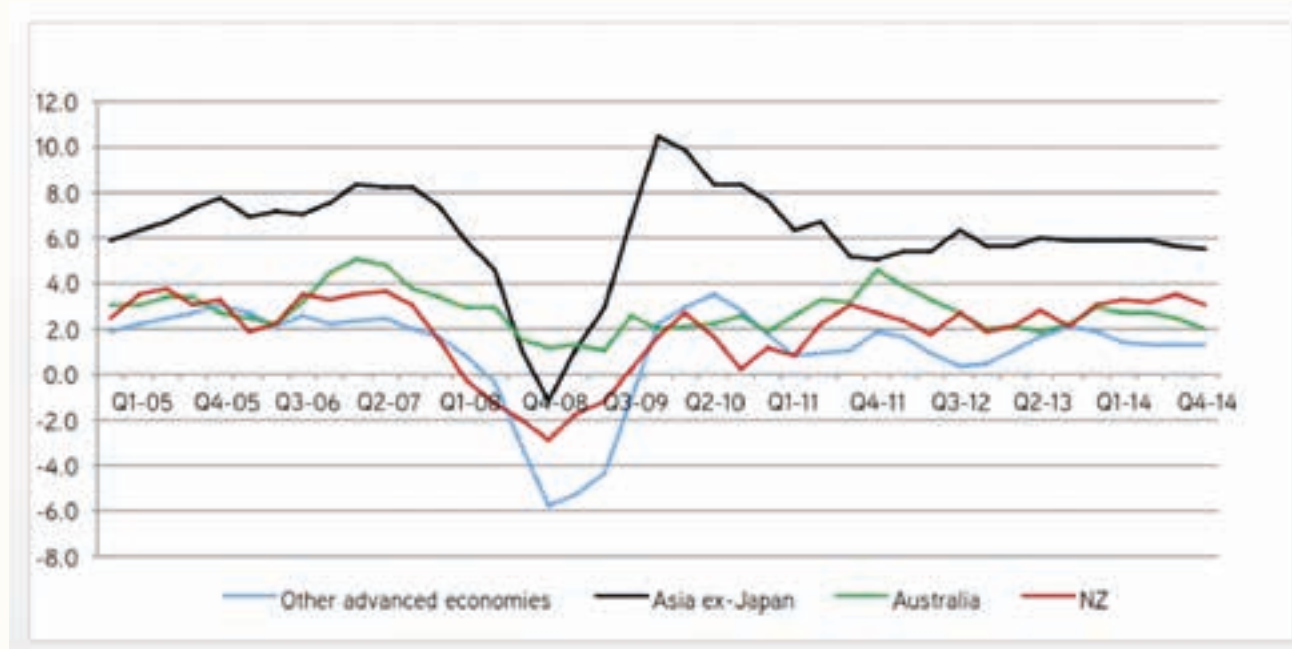
These are all the monies that flow into or out of your pocket BEFORE tax is taken into account.

When the loan is substantial (negatively geared), the before-tax cash flows are usually negative but gradually become positive as rents rise with inflation.

# OUTLOOK

## Economic outlook

New Zealand's economy is performing well relative to other advanced economies whilst falling short of the Asia economies, excluding Japan.



## Population growth

Estimated population of New Zealand		
Year ended June, 2001-14	Population	%increase P.A.
2001	3,870,800	1.37
2002	3,915,400	2.18
2003	3,989,600	3.12
2004	4,060,600	2.7
2005	4,113,100	1.9
2006	4,160,600	1.7
2007	4,207,000	1.53
2008	4,244,300	1.16
2009	4,281,100	1.05
2010	4,330,400	1.28
2011	4,371,600	1.32
2012	4,398,500	1.22
2013	4,425,600	1.08
2014	4,476,300	1.67



## Auckland outlook

Auckland is the largest city in New Zealand and drives the New Zealand economy. It occupies just 2% of the total land area and generates 34% of the Gross Domestic Profit (GDP).

Auckland is ethnically diverse; 56% European, 19% Asian, 14% Pacific with 37% of the population born outside New Zealand.

The Auckland economy continues to benefit from strong structural support factors and a surge in net migration. Strong migration is boosting retail spending.

Auckland is the fastest growing region and was recently ranked 3rd in the Mercer Quality of Living Survey and 7th in the World Economists view of the most live-able cities. The long standing urbanisation trend continues to favour Auckland. People and businesses are increasingly locating to Auckland.

## Tourism

Global connections	Auckland	Year-on-year changes	Rest of NZ
Tourism – guest nights	7,088,000	Up	28,359,000
Net migration	26,830	Up	31,425
Arrivals	48,488	Up	67,167
Departures	21,654	Down	35,742

## International, cruises

Total arrivals August 2014–2015		
Country	Visitors	% increase
Australia	1,290,192	4.10%
China	315,248	29.50%
USA	235,232	11.10%
UK	198,752	2.40%
Japan	84,016	9.10%
Germany	81,232	7.20%
Korea	60,640	14.10%
Singapore	47,136	5%

Holiday arrivals August 2014–2015		
Country	Visitors	% increase
Australia	494,976	3.10%
China	236,448	31.90%
USA	144,128	12.90%
UK	82,688	8.40%
Japan	54,320	11.70%
Germany	58,416	8.40%
Korea	41,488	22.10%
Singapore	29,360	9.4%

\* <http://www.tourismnewzealand.com/>

## AREA OVERVIEW

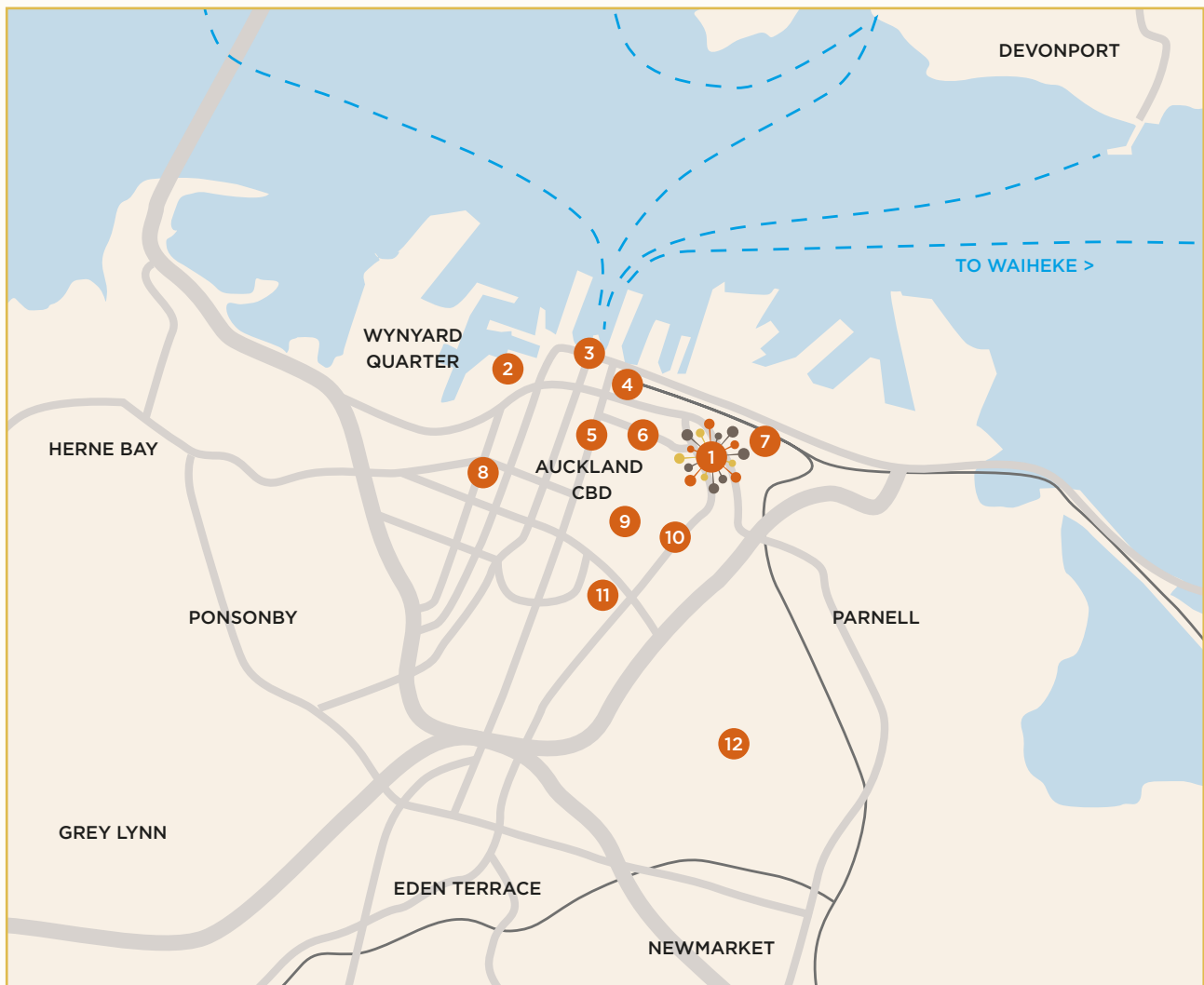
Connect is located in the heart of Auckland, which is New Zealand's most populous city with 1,415,550 residents, or a third of the country's population. Significant population growth has seen strong demand for apartments and housing in the city and this trend is expected to continue with Auckland's population projected to exceed 2 million by 2050.

In addition to the permanent population, Auckland also welcomes around 72% of all leisure visitors to the country, and 62% of international students.

Auckland is a city that's evolving fast, and this dynamic change is creating exciting opportunities

to discover a new way of living – a new experience. New investment in the CBD by Council and private developers commencing in 2016 includes Downtown Shopping Centre \$500m (Precinct), Wynyard Quarter \$200m (Precinct), Wynyard Quarter \$200m (Goodman Property Limited), CityRail Link \$2.4b (Auckland Council), and the new Convention Centre \$400m (Sky City). Invest in Connect now to coincide with the delivery of this enhanced amenity for CBD residents.

From Auckland CBD you have access to Ponsonby, Herne Bay, Parnell, Newmarket, Mission Bay and are a short ferry ride to Waiheke Island and Devonport.



1. Connect, 70-74 Anzac Ave

2. The Viaduct

3. Ferry Terminal

4. Britomart

5. Queen Street

6. Shortland Street

7. Vector Arena

8. Sky Tower

9. Albert Park

10. Auckland University

11. AUT

12. Auckland Domain

## Attractions

Maritime Museum  
Auckland War Museum  
Vector Arena  
Auckland Art Gallery

## Restaurants and Cafés

Ostro  
Ima  
Mexico  
Ebisu  
Ken Yakitori  
Shakey Isles  
Quay St Café  
The Store  
Ortalana  
Daikoku

## Bars

Tyler Street Garage  
Orleans  
The Jefferson Whiskey bar  
Soul Bar & Bistro  
The Brew Bar

## Shopping

High Street  
DFS Custom House  
Britomart  
La Cigale French Market  
The Atrium on Elliot

## Leisure

Auckland ASB Tennis Centre  
The Viaduct  
Les Mills Britomart

## Health

Auckland Hospital  
Citymed Physio  
The Loft Yoga  
Pullman Spa Auckland  
Lumino The Dentists

## Education

Auckland Girls Grammar School  
Auckland University  
Auckland University of Technology (AUT)  
ACG Parnell College (Year 1-15)  
St Kentigem Boys' School (Year 1-8)  
Baradene College  
Freemans Bay School  
Diocesan School for Girls (Year 1-15)  
St Cuthbert's College (Year 1-15)





# AMENITY AND SOCIAL INFRASTRUCTURE

## Transport

### Rail

Auckland CBD is linked to greater Auckland by road and rail. Auckland CBD rail station is located at Britomart Transport Centre.

### Bus

Auckland buses are heavily present in the CBD with the central station at Britomart Transport Centre.

### Road

Auckland's central city is linked to the North Shore via the Auckland Harbour Bridge, West Auckland via the North-Western Motorway and South Auckland via the Southern Motorway.

### Ferry

Auckland Ferry Terminal is the central station for all ferries.

## Universities and schools

Auckland CBD is serviced by Auckland University and Auckland University of Technology with private educational institutions and well-established public schools.

- Auckland Girls Grammar School
- ACG New Zealand International College (Private)
- Auckland International College (Private)
- Whitecliffe College of Art

## Community and neighbourhood amenities

Central Auckland is located right in the heart of everything. Within a short walking distance of:

- A selection of premier gyms and leading health clubs
- Close proximity to Auckland Hospital
- City Farmers Market (Britomart)
- A short distance to the iconic Parnell Baths or Tepid Baths
- A diverse range of pubs, restaurants, bars and cafés

## Sports and recreation

Auckland City is home to many beautiful green spaces. Auckland Domain is the largest central park which is popular amongst joggers and home to many cricket pitches in summer whilst Albert Park offers a green oasis for the CBD office population.

Take a walk or run along Auckland's Waterfront, a 10 kilometre stretch from Auckland's Harbour Bridge to the eastern bay suburbs of Mission Bay, Orakei, Kohimarama and St Heliers.

Take a stroll to Auckland's Historic Rose Gardens in summer to see the roses in bloom or visit Victoria and Albert Parks.



# THE AUCKLAND APARTMENT MARKET 2H 2015

– Alan McMahon, National Director, New Zealand, Colliers International

## Maturing market reflects demand

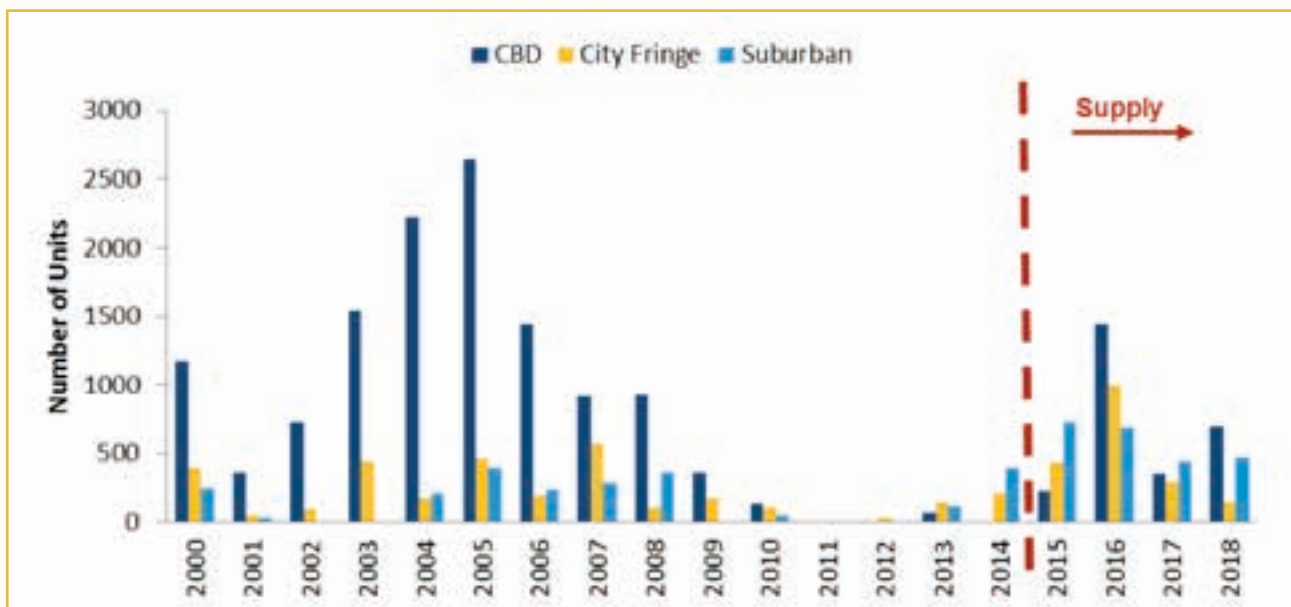
### Key findings

- Purchaser demand is highest in central Auckland locations reflecting apartment residents' requirement for good, nearby amenities. This matches the pattern of office demand, where convenient, accessible locations are also in high demand.
- Robust price increases are being driven by steady demand along with low debt costs, high net immigration, and confidence in the economy.
- No price slowdown is expected in the short term.
- New apartment product commands the highest selling price per square metre of any dwelling typology. This is frequently more than \$10,000/sqm gross (including GST).

### By the numbers

- 6,601 new apartments will be completed across Auckland from the second half of 2015 to the end of 2018.
- 640 new apartments per annum are needed in the CBD. Supply is on track from 2015 to 2018, but 2013 and 2014 only added 62 apartments to the stock.
- In the CBD, 22% of existing stock is studio apartments with no separate bedroom. Only 7% of new stock are studios. Apartment sizes are increasing as the market matures.

### Auckland apartment supply by location



Source: CoreLogic & Colliers International Research.

Please note: only apartments that are complete, under construction or in the marketing /design stage are included in this chart and this chart doesn't include terraced units.

# Supply

## Playing catch up

The chart below illustrates periods of dramatically different supply. Nearly half the CBD's existing apartment stock was built between 2003 and 2006, significantly more than is planned in 2015 to 2018.

The chart doesn't show apartment development in the pre-2000 period. From the 1920s until the end of the twentieth century, we calculate that 6,230 units were built.

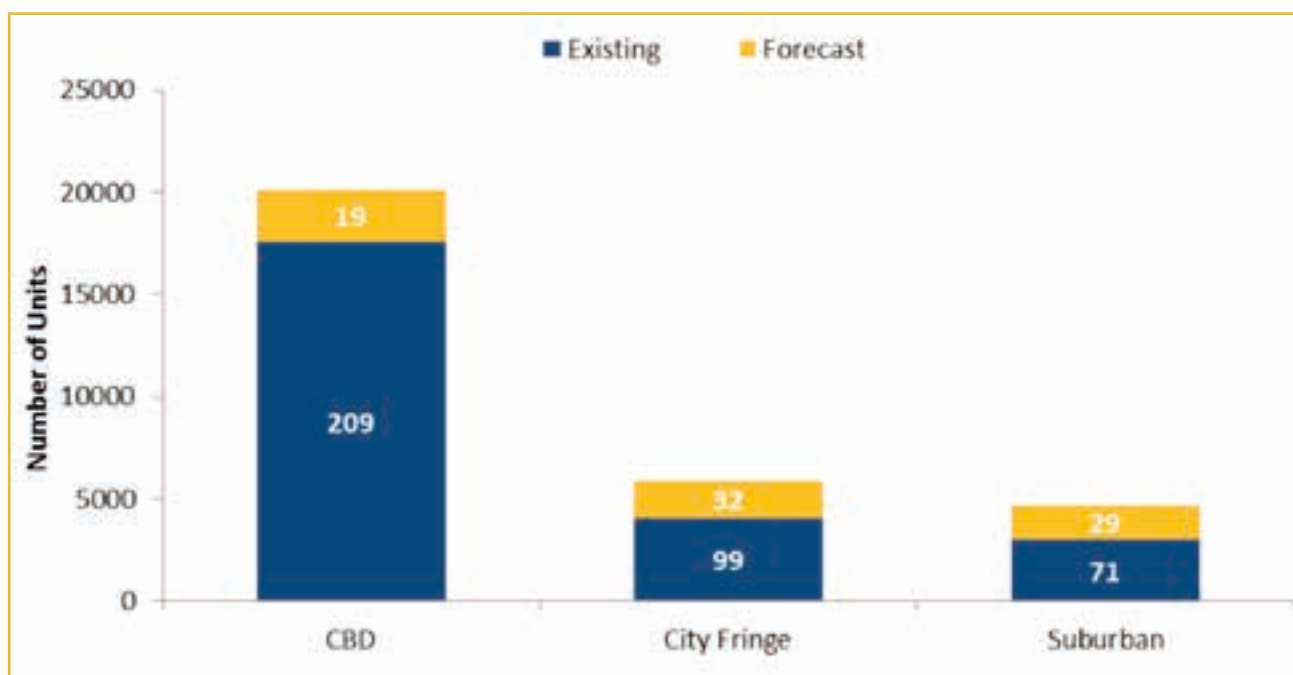
By the end of 2018, 31,546 units, including student accommodation, will exist across the city. Of these, 20,472 (or 66%) will be in the CBD, 5,969 in the city fringe (19%) and 5,105 in suburban locations (15%).

By the end of 2018 we estimate these extra 6,601

units will be housed in a further 80 buildings, averaging 82 units per development. At that time there will be around 459 apartment buildings in total, averaging 69 units each.

This supply is not evenly spread. 1,332 CBD units are scheduled for completion in 2016 but only 496 in 2018. If you are thinking of buying or renting, it might be best not to wait until 2018.

## Auckland apartment unit stock and new supply



Source: CoreLogic & Colliers International Research.

Please note: only apartments that are complete, under construction or in the marketing /design stage are and this chart doesn't include terraced units.



# Demand

## All about growth

Statistics New Zealand anticipates Auckland's CBD population to be approximately 53,000 by 2031 – nearly double what it was just two years ago. Assuming a stable average household size of 2.0 people, that requires another 11,500 dwellings (or 640 per annum), to keep pace with that prediction.

However, since the 2013 census data was made available, market demand has continued to expand to the point where medium term projections now look conservative.

In particular, immigration has repeatedly reached record levels with the majority of the annualised 56,800 net migration settling in Auckland. One notable piece of data from April 2015 was that, for

the first time in 24 years, more Australians migrated to New Zealand than vice versa.

Of the 6,601 new apartments likely, 2,901 will be in the CBD. This copes with the 640 per annum requirement in 2015 to 2018, but despite that our analysis suggests supply will have to be accelerated to keep pace with demand in the medium term.

The equation is not helped by low levels of completion in 2013 and 2014 which together saw only 62 units completed, so we are already playing catch-up. Net immigration to Auckland alone is more than 2,000 people a month, with another 1,000 or more due to the excess of births over deaths.

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## Demand by typology

### The market matures

The CBD apartment market is slowly maturing as it moves from the student based market of the early 2000s. It is accommodating more professionals

and families keen to take advantage of the growing CBD amenities, avoiding travel time and costs, and reduced maintenance.



## Pricing

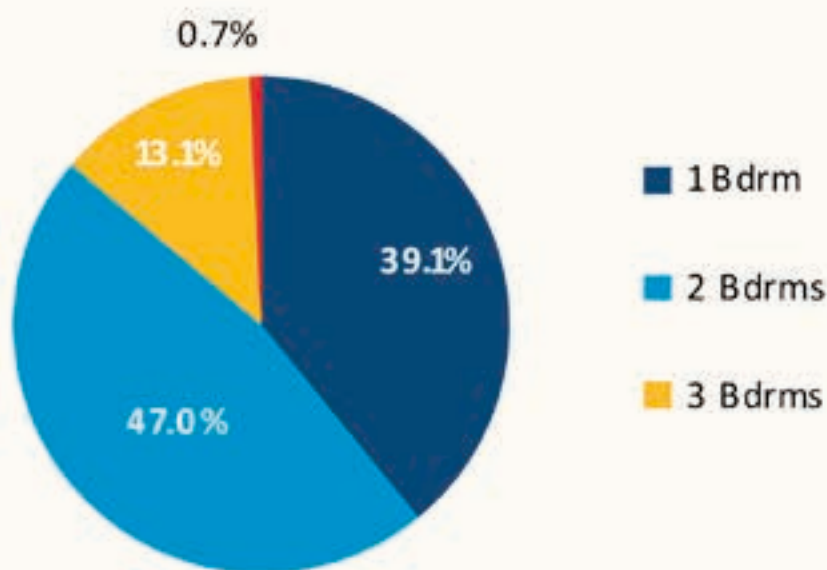
### Affordable is not the developer's choice

Of the developments currently on the market in the CBD, asking prices vary from \$7,600 to over \$20,000/sqm, including GST, if any. Asking prices for some luxury or penthouse units are even higher.

Of the 16 developments in this category, only five have studio units with prices varying from \$290,000 for a 35 sqm unit to \$568,000 for a 33 sqm unit.

At the other end of the scale, three bedroom apartments vary from around \$700,000 to more than \$3million, with most non-penthouse levels at around \$900,000 to \$1.5million. Pre-sales and the amount of recent sales activity, attest to the affordability at these price levels, by at least one person – the purchaser.

### Apartment sales by typology - 2012 to Q1 2015



Source: CoreLogic & Colliers International Research



# Residential capital returns

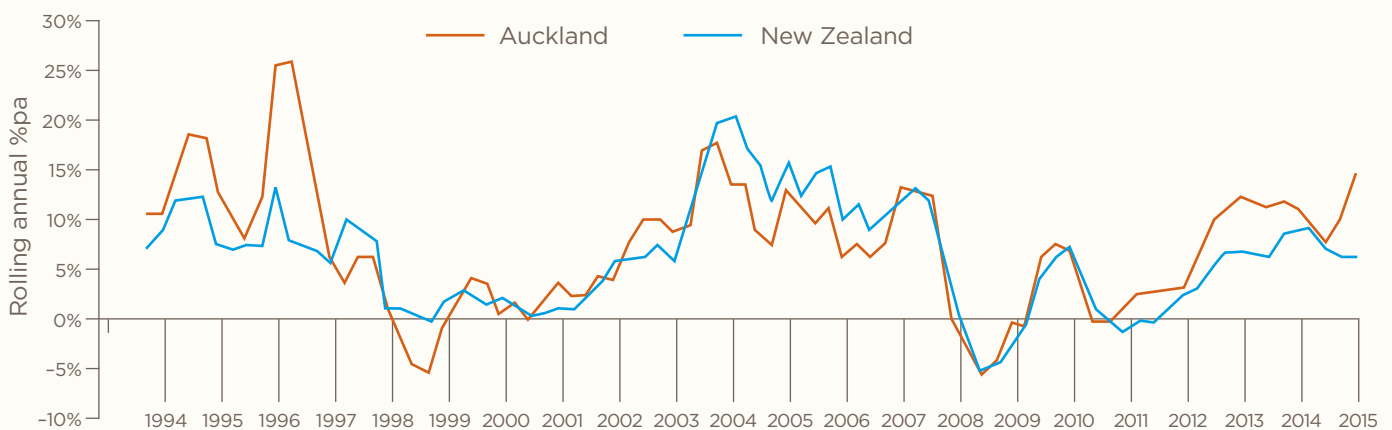
## Rental returns to stay low

The total returns in Auckland have improved markedly compared to New Zealand overall. The effect of increasing sale prices has the effect of decreasing income (or rental) returns but increasing capital returns.

Auckland investors seem to be content to accept a low income or rental return. In comparison with commercial property income returns at the time of acquisition of say 5% to 8% per annum, the overall annual income return of 3.1% per annum for Auckland seems unattractive.

However, while capital growth remains strong and the ability of renters to pay higher rents is limited, landlords will tend to continue to match borrowings with net rent. They will target a cashflow neutral position, keeping their tenants happy and the rent flowing and wait for a windfall capital gain on sale.

## Residential capital returns



Source: Colliers International Research, REINZ & MBIE

*“Rents in Auckland are due to rise due to limited supply”*



# NATIONAL DIRECTOR OF HOTELS

– Dean Humphries, National Director, Hotels New Zealand & South Pacific, Colliers International

The New Zealand hotel and tourism market has witnessed unprecedented growth in the first quarter of 2015, with many regions reaching historically high occupancy levels together with surging room rates and corresponding RevPAR growth.

Underpinning this positive performance has been a continuation of strong inbound visitation numbers reaching a record 2.95 million in the year ending March 2015, a 7% increase over the previous 12 months.

Domestic demand has also been robust with GDP growth of 3% in the year ending December 2014 together with a continuation of positive business sentiment right across the country.

At the other end of the spectrum, we are witnessing historically low levels of new hotel development, and a contraction of room inventory in regions such as Auckland.

Auckland and Queenstown have been the star performers achieving RevPAR growth of 20% and 18% respectively in the first quarter of 2015 compared to the same period in 2014.

The short to medium term outlook continues to be strong with limited new room supply across the country, strong forward bookings and increasing airline capacity across many existing and new carriers, including the recently announced Air New Zealand link to Houston, USA, and an alliance between Air New Zealand and Air China which will see daily flights from Auckland to Beijing by the end of 2015.

Buyer demand is also at an all-time high with an increasing number of investors wanting to purchase hotel assets. We have seen three large hotels exchange hands in the past six months and buyers now outnumber sellers by 5 to 1. It is likely we will see more assets being brought to the market as vendors now start to take advantage of higher property values based on long term sustainable growth in revenue and profitability and a strengthening in yields.

Featured in this market snapshot is an overview of hotel transactions that occurred in New Zealand during 2014 and early 2015.

## Auckland

- Occupancy increased from 75% to 83% over the three year period from 2012 to the year ending March 2015, maintaining the highest occupancy rate across New Zealand.
- The average room rate (across 3-5 star hotel grades) has also improved over the same period from \$135 to \$154, an increase of 13%.
- RevPAR has grown from \$103 to \$128 for the year ending March 2015, reflecting an increase of 24% since 2012 and surpassing the historical peak of \$123 achieved in 2011 by the Rugby World Cup



## Summary

### Hotels

Occupancy increased from 75% to 83% over the three year period from 2012 to the year ending March 2015; maintaining the highest occupancy rate across New Zealand.

The average room rate (across 3-5 star hotel grades) has also improved over the same period from \$135 to \$154, an increase of 13%.



## INVESTMENT RISKS

***There are a myriad of influences that affect the value of capital growth and rental yields in property investments. There is not a guarantee that targeted returns will be met. A prudent investor would consider the following non-exhaustive list of factors which could affect the financial performance of the investment property.***

The non-exhaustive list of factors which may affect the value of the Investment Property include:

- a) Changes in legislation or government policy such as stamp duty, grants and general taxes, with respect to property may result in the investor incurring unforeseen expenses, which in turn may affect rental returns and capital growth prospects;
- b) Natural disasters, events causing global unrest such as war or terrorism, other hostilities, civil unrest and other major catastrophic events can adversely affect New Zealand and International markets and economies;
- c) New developments in the vicinity providing competition/alterations in demand – a sharp increase in the number of sites under construction within close proximity of the subject site may have an adverse effect, resulting in an oversupply from comparable properties, which in turn could have a negative impact on the ability of Investors to divest or sell their Investment Property at an acceptable price;
- d) Interest rate movement – Investors should be aware that the performance of any investment property can be affected by the conditions of the economy (or economies) in which it operates. Factors such as interest rates, inflation, inflationary expectations, changes in demand and supply and other economic and political conditions may affect the Investment Property's capital growth, value and/or rental yield;
- e) Potential investors should be aware that general economic conditions including inflation and unemployment can impact the value of the investment property and the ability of Investors to divest or sell their Investment Property at an acceptable price;
- f) Tenant risk – there is the risk of tenants defaulting on their obligations and costs to be incurred in enforcement proceedings and often costs in re-leasing of the tenancy;
- g) Insurance risk – Where feasible, damage from fire, storm, malicious damage etc can be covered by insurance. However, the full extent of coverage is subject to the specific terms and conditions of the insurance policy entered into by the body corporate manager on behalf of the Investor;
- h) Vacancy risk – there is no guarantee a tenant will be readily found at settlement or that a tenant will renew their tenancy; and
- i) Timing risk – Market conditions change, if at time of selling investment the market is depressed, investor may realise a loss.

Professional advice should be sought from your accountant, financial adviser, lawyer or other professional adviser before deciding whether to invest. Colliers International (and its associated entities, employees and representatives) do not provide financial advice.



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Victor Liu 刘胜  
Licensee Salesperson  
021 222 3680 | 09 308 5509  
victor.liu@raywhite.com

Ray White City Apartments  
City Realty Ltd LICENSED (REAA 2008)  
2 Lorne Street, Auckland Central  
[www.rwcityapartments.co.nz](http://www.rwcityapartments.co.nz)

