2008 PROPERTY MARKET REVIEW

To be sure you receive…

details of any new investments, please contact our office and check we have your email or other contact details.
Email your details to property@guideline.co.nz, or mail to PO Box 268, Tauranga.

We are pleased to again welcome you to our 2007 Property Market Review.

The 2006/7 period did continue the trends of the last few years. Although the general view of the state of the NZ economy has continued to present reason for medium term confidence, we do see a pause now emerging. Some key indicators suggest reasons for what we might now be seeing as a waning in that confidence.
For investors this could be pointing to increased short-term volatility/risk.
For investors holding a portfolio of property interests the buffer of high relative incomes will continue to generate comfort and reliability.

- ✓ **Low volatility**, providing the comfort of relatively stable investment values,
- ✓ **Low correlation** to other investments, producing stable income streams when other forms of investment are not,
- ✓ **Constant higher levels of income**,
- ✓ **Hedge against inflation**, ensuring both your capital value and income grows over time, these are some of the rewards obtained only through sound property investment.

During the year under review Guideline Investors have again done well. The average "**triple net**©" (and "pretax bank rate equivalent*") **income return** has been 15%, again proving;
"success in property investment is largely about hanging on when others have let go".

Note; the estimated return stated here assumes investment in each property in current portfolio at time of acquisition and applicable tax rate of 33%

Summary

Property prices continue to rise, land and building costs continue to increase, rentals too are increasing, shortages of land available for future development will impact on values and rentals. **Against this backdrop investors who understand the importance of and act to accumulate assets will continue to do well over time.**
The latest figures from the Property Council of New Zealand's **Investment Performance Index** survey show commercial property investors receiving an average (capital and income) returns of 17.78% for the year to December 2006.
Colliers International NZ Research Report cites much of the recent interest in our market continues to come from Australian funds.
This coupled with the increasing asset allocation to property by funds managers seems to point to a growing understanding of the importance and value that property investment can bring to prudent long term investors.

Industrial research is highlighting …….

low levels of Auckland industrial vacancy in most areas. However, we would caution that anecdotally it does seem to be taking longer to fill vacancies. Having said that, the time taken to re-lease any vacant space has always been the most unpredictable aspect of property investment and management. Our direct experience has seen vacancies exist for periods currently of up to 6 - 7 months, whilst others have filled pre-vacancy. Lease renewal levels appear no different than normal or predicted.

The difference, when compared to the last few years, lies in the number of enquiries. Whilst hard to prove, these do seem to have reduced.
On the other hand, Bayleys First Half 2007 Industrial Report concludes that across Auckland leasing demand and rental trends are "steady" or "rising".
Our experience in Tauranga is similar. Very low vacancy levels exist, whilst Rotorua and Hamilton seem strong though the demand levels may be lower than Tauranga and Auckland.
The Cushman Wakefield report "Industrial Space Across the World" points to the NZ economy going sideways and the industrial property market rising. They refer to the surging land prices, the shortage of suitablely zoned land around Auckland, and the low vacancy rates as influences driving rents.
Prime Auckland industrial vacancies fell 0.2% to only 3.5% in the year to Dec. 06 according to the Colliers International report, and rentals rose across the main centres.

Commercial space demand…….

according to reseach shows vacancies edging up in Auckland. Vacancies have been low on a recent historical basis. We have received comments of office rental rates moving up recently.
There has been much recent comment about a shortage of quality office space in Tauranga. However, when the market is tested genuine enquiries prove hard to come by. There is the prospect for 2 or 3 new larger office developments. These would be the first in over 2 years. Rental expectations are still below those required to provide an adequate return on development costs.
NZ prime CBD office indicator showed a stable market generally, with vacancy in Auckland falling 1.1% to a 1.9% level, and rents and capital values rising (source; Colliers International NZ Research Report).

Retail spending still on the rise….

according to Statistics NZ last survey. The face of retail continues to change with new malls and new styles focussing on the entertainment element of spending becoming a stronger focus.
RCG Ltd has done a GAP analysis of the over/under supply of space in Auckland's Eastern Suburbs. They conclude that whilst the rate of growth in retail floor space has been significant, there is still a gap, a shortage of retail floor space.
Is this the case elsewhere? We suspect it is generally.
Vacancies in retail remain low. Rental movements are steady.

CBD retail must continually change in response to the growth in new shopping malls and big format "convenience" retail creating new centres away from the CBD. There is constant pressure in all areas, Auckland, Tauranga, Hamilton etc, from this spread. One response to this has been the reduction in the average size in CBD retail floors. CBD's need to continue to develop their points of difference and professionalism. This latter area is perhaps the key to improving demand.
Again, rents are moving slowly, but when compared to the costs of development remain uneconomic.
Colliers NZ Prime CBD Retail Indicators show the same trends as found in industrial and commercial sectors – falling vacancies and rising rents and capital values.

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Other Current Trends…

Last year we felt that the risk of further interest rate increases was diminishing. However, following a pause in the Reserve Bank's interest rate activity, it started again. The last 2 announcements have increased rates 0.25% each time. On top of this the RB governor has been reported to be talking (threatening) banks into less aggressive marketing strategies.
Keeping the lid on inflation remains the Banks key concern. In the end they will win, spending will be curbed, residential property growth will be capped.
Inflows of overseas money continues to purchase large amounts of property in all property sectors. This money, the anticipated growth in population and the high levels of Government spending will see property pressures remain, short periods of adjustment aside.

The increasing cost trends for land, building and compliance along with the extreme degree of difficultly developers face to obtain consents must result in on-going cost/value increases.
Existing investment in land and buildings can only be well rewarded over the medium term.

Adding value remains most critical element in advancing investors interests…..

and ensuring the optimum capital and income growth.
Achieving this though, requires patience, time, dedication and some faith.
Those who back this judgement have been well rewarded over recent years. The outcome will usually see a jump in investor's income and wealth.
Effective management requires that we are continually assessing the best future for each property, weighing that up against the investors needs and the alternatives. Investors can look forward to this on-going process resulting in our proposing redevelopment, refurbishment or change of use only when we are confident that investors interests will be enhanced beyond that that would otherwise be achieved.
KiwiSaver will also have quite some impact on asset values as it starts to accumulate contributions and invest these.

Development margins…..

are getting harder to extract from projects as many developers, forced by competition, take the risk and put in all the effort for margins that can best be described as dangerous.

To date we are pleased to be able to say that all development or redevelopments undertaken by us have produced excellent profits. We do need to remember though that this is the risky part of the property business. Necessarily, it is the preserve of only those who are in a position to and can afford the risk. If you would like more information on these opportunities please call or drop us an email message at property@guideline.co.nz.

We will remain alert to the chance to profit from areas that have traditionally not been available, or where we have not yet focussed any attention. We continue to research many areas of the property market so don't be surprised if you see us becoming involved in a new arena.
Be sure if we do, it will be because we have satisfied the criteria we feel important to ensure profitability.

Property Council of NZ Returns Statistics..

to December 2006.

	NZ CBD Office	NZ Industrial	Auckland Industrial	NZ Retail
Income	8.73%	8.85%	8.92%	8.3%
Capital	12.09%	4.03%	3.94%	9.81%
Total	**21.78%**	**13.20%**	**13.17%**	**18.86%**

As always priority should always be given to the income side of the equation. Without a realistic expectation of sound income levels, capital value cannot be sustained.
"success in property investment is largely about hanging on when others have let go".

Some of Our Property Statistics…

Over the last twelve months our activity has included:

- ✓ Rent reviews for 29 tenancies (with 26 increases)
- ✓ 1 short term rental reduction, 2 stayed the same
- ✓ 7 new leases
- ✓ 9 re-negotiated expiries
- ✓ 1 lease renewal incomplete at this time
- ✓ 64 total tenancies
- ✓ 9 vacancies (incl new reconfiguration)

Investment resales – good liquidity

Would releasing some of the capital you have tied up in property suit your purposes?
Whilst we are not suggesting selling as generally appropiate, we do recognise that from time to time investors objectives do change and we are here to help in those occasions.
Resales are not a regular feature in our portfolio. When they do arise it is not unusual for them to be taken up within the same group or company. This is probably a testimony to the benefits of Guideline co-owned investment properties. When an interest does become available, they tend to be very keenly sought. Contact details for resales and investment are ph. 07 5784 807, email; property@guideline.co.nz..

Contacts for investment, investor introductions, sales and acquisitions….

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