2014 PROPERTY MARKET REVIEW

"Success in property investment is largely about hanging on when others have let go"

Summary;

It has been a really good year again for the NZ share market, not as good as the 2012 year, but good never-the-less. For property we have been seeing a return to growth in both capital and income. Leasing continues to improve, but difficulties still remain and vacancies remain higher than we have been accustomed to.

Eriksen Actuaries and Investment have concluded;

"Although all the signals look good for New Zealand's economy in 2014 such as the Reserve Bank looking to raise interest rates a number of times, growth forecast to top 3.5% and strength in world prices for our products, we remain cautious about the road ahead. We are still in the middle of a Global Financial Crisis and heavy weight players in the world economy are making some big moves without knowing the consequences: this game hasn't actually been played before."

The Guideline portfolio distributions continue to reflect the tough market conditions, but are still, we believe, very creditable. Our distribution for the year under review has been estimated at 9%, whilst the income and capital estimate since inception was around 23% average for the year.

We do see these improving to their historic levels over the next year or 2.

Introduction;

Economic Momentum from last year seems to have been maintained into 2014.

We continue to receive reports of improving economic performance. For example, we are told our employment levels at the highest on record. That hasn't resulted though, in any meaningful drop in unemployment. You will have heard the much overstated "rock star economy" description given to our economy. We suggest we are far from that in a real sense but in general our terms of trade and other indicators remain strong.

But just to provide some sense of balance*; "The latest data on business performance provided by over 30,000 businesses in mid-2013 was released by Statistics NZ in April 2014, showing that despite the rhetoric on better conditions ahead, the business environment is tough.'*

And from a recent Colliers survey; *Our latest investor confidence survey slipped back ever so slightly in the first quarter of 2014 to a net positive 28%, but from a record net positive 31% recorded at the end of 2013. The slight dip was a result of Cantabrians becoming less bullish than in previous surveys, most likely due to expectations aligning with rebuild momentum*.

So, once again, despite apparent improving conditions the recovery remains in a prolonged state and whilst nearly all indicators are positive, consumers and the market appear tentative. Further we'd comment that much of our near economic fortunes include the Christchurch factor. The rebuild will continue for many years distorting the economic indicators.

Anecdotally we'd agree that excluding the construction sector considerable struggle remains a prevailing status in the business sector.

Importantly immigration is likely to continue to play a positive role in our growth.

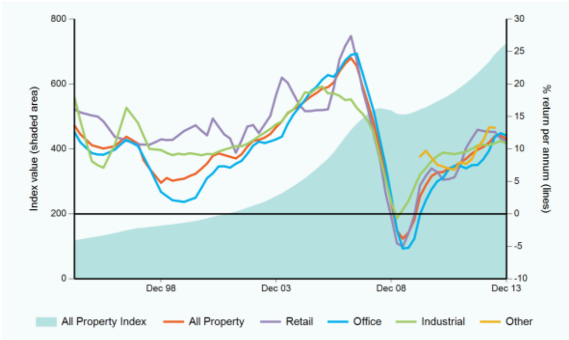
Property;

Building consent data, whilst patchy as between months is generally on an upward trend. Given this trend is some indicator of the country's performance.

We can expect continued positive economic growth expected over the short to medium term. However, it may be some time before the levels experienced before the recession especially in the industrial sector. Leasing enquiry whilst still not where we'd like does seem to be maintaining its recent momentum. Rental growth in some areas seems to be happening, but in our experience this is not yet general.

The PCNZ / IPD New Zealand Quarterly Property Index measures ungeared total returns to directly held standing property investments from one open market valuation to the next and in the year to Q4 returned 11.6%.

This is just for the last year and the graph plots the yearly returns for 10 years.



So it really does get back to what is important, that is **what happens on average and over time.**

Compare the returns on your Guideline portfolio to other portfolio investments and you'll appreciate the power that lies in your property portfolio with an estimated 9% average income only distribution* for the year, after five really difficult years. On the same basis estimated average capital and income since inception is around 23% pa.

Note; each Guideline investor's returns will vary due to the actual portfolio held, time of acquisition and the holding time, our estimates show that distributions on a *triple net return*© basis across the portfolio on a since inception basis. And remember the time frame since Guideline commenced its first group that is still in the portfolio is over 28 years.

It's what happens on average, and over time that counts.

Looking at the **Eriksens Master Trust Survey Results to 31 December 2013** we find the average for All Growth Funds(share market) is;

1 yr	2 yrs	3 yrs	4 yrs	5 yrs
13.2(*10.8*)	***12.5*** (4.3)	***6.4*** (4.8)	***6.2*** (9.3)	***7.7***(1.9) %

Previous years the numbers in ( )

The last 2 years have been very rewarding for the sharemarket. The NZ 50 gross index returned 12% and 28% respectively over the two same

Tauranga

We have been seeing a recovery from the depths of the recessionary impacts.

We are getting reports suggesting industrial property vacancy levels have improved dramatically, development, sales levels and values are moving positively. Retail, despite the best Christmas sales in a few years remains a struggle, especially for the smaller and less professional operators.

Vacancy levels in the main business areas are uncomfortably high. Improvements in both business and consumer confidence should see vacancy levels decline over the next 12 months.

Auckland

All reports on Auckland industrial are positive. Vacancy levels have fallen dramatically over the last year. Rents remain stable to increasing, though only moderately. The immediate out remains positive.

The benefits of direct investment in professionally managed property:

* High distributable income (compare with current bank rates in the 3-5% range, and the average for NZ sharemarket top 10 companies at 6.2%)

* Low correlation to other investments should be seen as a key benefit.

* 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.

Some of Our Property Statistics:

Over the last twelve months our activity has included:

Rent reviews for 21 tenancies (with 13 increases)

1 rental reduction

1 review/expiry incomplete at this time

14 new leases

11 re-negotiated expiries

8 vacancies 31/3/14

70 total tenancies

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