

2006 PROPERTY MARKET REVIEW

We are pleased to welcome you to our 2006 Property Market Review.

The 2005/06 period again continued the trends of the last few years. Investors in investment property continue to be well rewarded. Guideline investors have been solid beneficiaries of the on-going economic strength. In a year when sharemarkets have been in catch up mode, property investors have maintained their steady but solid returns, with nearly all recording growth in income and in capital values.

It is worth remembering the proven benefits of well-managed investment property portfolios;

- ✓ **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.

“success in property investment is largely about hanging on when others have let go”.

Summary



There is now evidence that the long (since 2002) upward trend in **residential property** prices is coming to an end. Realistically, you could not have expected it to continue much further.

In the other hand, commercial and industrial property has continued to forge forward. And it has been a spectacular year for some **sharemarket** investors. The extra-ordinary returns of the last 12 months, or thereabouts, has restored some value to share portfolios. Managed funds total returns (income and capital) for the last 5 years are now edging into double digit returns. In general (and there are some of the more speculative funds that have done better) those extra-ordinary returns of 2005/6 when averaged over say 5 years have nearly touched what reasonable **commercial/industrial property** has provided every year in a consistent manner.

Compare Our Returns.....

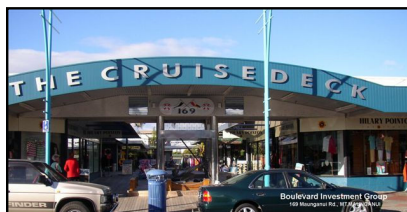
The average annual bank rate equivalent* (triple net) income from the Guideline portfolio since we commenced business in 1982 now runs at 17.3% pa, whilst the same figure for additions to the portfolio since 1992 is estimated at 10.5%. Capital appreciation is on top of this.

Other Current Trends...

Interest rate rises do seem to have reached the end of their current cycle of increasing. If this proves to be the case we should see interest rates start to ease off during the next year.

The enormous sums of money available in Australian super funds continues to provide the real impetus for a part of the on-going value increase for NZ investment property. This is not about to change anytime soon. Further drivers include the significant growth in land and construction costs, and more recently the very high increases in council charges for development and building levies.

Collectively these increases are now, and will continue to, push the costs of new development way ahead of the market value of existing property. **Existing investors will reap the benefits of the**



flow-on effect of these forces.

Rents will continue to rise, while values will not only reflect the increasing income but also the continued international buyer interest in NZ property. We have long argued that capitalisation or income rates are being pushed too low. (Mid 90's, 10% property income return was considered the rule of thumb, that is now up to 30% lower at 7%- 8%). There does seem to be a move to a closer alignment with international rates. Withstanding this pressure is not an option.

Investors seeking the long term (capital and income) benefits of property investment, are now required to accept lower initial returns. And compared to the options, it does make economic sense. (Refer NZ Property Council Statistics later in this report.)

“We have provided valuation advice in respect of the.....property for many years now and have been impressed with Guideline Enterprises’ management ability. This ability was certainly tested when Guideline persevered with ensuring the results of previous rental arbitrations undertaken locally were effectively overturned and the rental for the property substantially increased.”

This statement from a report by a professional valuer and property consultant is a reassuring reinforcement for the effort and vision employed in Guideline's management process.

Adding value, is a critical element in advancing investors interests.....

and ensuring the optimum capital and income growth of your investment. The opportunity to make a significant difference to any specific property arises infrequently in a property's life. Usually associated with the end of lease periods, or periods of market growth, these opportunities require very careful consideration and assessment. 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.

Death and taxes.....,

as they say, are the only certainties in life. Recent moves by Government to increase the tax take on international investments are not well considered. In seeking to redress an anomaly in the system they have added to the discouragement to sensibly diversify.

These moves further enhance property investment from a taxation perspective. Obtaining the **benefits of depreciation** adds to the net investor returns passed on to Guideline investors.

Diversification within your property investment portfolio, along with simplicity of investment, flexibility and the trouble

free nature of our co-owned investments provides the freedom many investors are seeking. ***“It is great to just keep getting the quarterly distributions. There has never been a problem with the timing of these and they seem to just keep increasing over the years”.***



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Property Council of NZ Returns Statistics..

to December 2005.



	NZ CBD Office	NZ Industrial	Auckland Industrial	NZ Retail
Income	9.56%	9.49%	9.46%	8.83%
Capital	8.18%	14.14%	13.98%	6.46%
Total;	18.32%	24.6%	24.39%	15.73%

The last year has seen some extra-ordinary value increases. We caution against expecting these types of increases in the future.

However, they do reinforce the value of long term property investment. **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”.

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.

Some of Our Property Statistics...

Over the last twelve months our activity has included:

- ✓ Rent reviews for 22 tenancies (with 19 increases plus 1 concluded after 31/3/06)
- ✓ 0 rental reductions
- ✓ 2 reviews incomplete at this time
- ✓ 10 new leases
- ✓ 10 re-negotiated expiry's
- ✓ 55 total tenancies
- ✓ 0 vacancies

Our assessment of the market.....

suggests that vacancy levels are still low, however they are increasing. There appears to be no notable increase of empty buildings in the main industrial suburbs, however, we are aware from our enquiries and activity at the leasing front line that the number of premises options available to prospective tenants is increasing. This is something we need to be prepared for. The last time we saw similar conditions approaching we became more conservative in our leasing policies and more determined to hold existing tenants even if there seemed to be some short term rental sacrifice.

Our policy resulted in the reduction of risk of vacancies and more reliable distributions to investors whilst waiting for the next period of demand.

However, on the positive side;

CB Richard Ellis Research provides rental forecasts which are largely in line with the general economic outlook – over the next 5 years CBRE are predicting good, if not spectacular, growth in the industrial rental market. Of particular note is that their projected rental growth from industrials exceeds all other property asset classes excluding prime CBD offices.

From Colliers director of research and corporate services;

On the Government's economic stance, he commented: "The task of bringing the economy back onto a sustainable growth path would be made easier if the Government delayed the planned easing in its fiscal stance, thereby allowing a more balanced policy mix for managing current macroeconomic challenges. The net result could well see an easing of interest rates by year end."

"As usual, it is a question of supply & demand. While overseas & local investment funds continue to chase investable property, and businesses find it hard to find good quality accommodation, prime commercial property values are likely to grow in 2006. A glance at our vacancy survey results demonstrates that prime vacancies remain tight across the board."

So all in all, we see no real need for any concern, more a matter of keeping in touch with current trends and given the subdued outlook working to minimise the leasing risks that might arise.

Development margins.....

have provided the means by which we have been able to generate new investor opportunities within above market return prospects. To this extent we have modified our acquisition strategy and are more actively seeking not just added value prospects but full development properties. We expect to be able to offer an on-going supply of these investment opportunities.

We are also alert to the chance to profit from areas that have traditionally not been available, such as apartments. Evolving/ changing economics might now favour new and emerging property types.



Investment resales – good liquidity

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 below.

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

Tauranga - Guideline Investors office
Ph 07 578 4807 Fax 07 578 4806
Email property@guideline.co.nz

For new acquisitions/developments – Brian Scantlebury
Email brian@guideline.co.nz

For investment or new acquisitions/developments
Auckland – Hadi Younan
Ph 021 444 440 Email hadi@guideline.co.nz

Best Wishes

Guideline Enterprises Limited

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* Bank rate equivalent and "Triple Net" are terms used by Guideline to describe distribution level. They refer to the full income distributed on investment amounts including acquisition costs, and after all operating costs, allowances and management.