

2003 PROPERTY MARKET REVIEW

SUMMARY

In last years report we commented on trends and the drivers for those trends in the property market. In the 12 months since we have witnessed a continuation of those trends. Property as an investment asset has continued to perform well. We refer you to the Property Council table of performances over.

Some of the factors affecting performance this year include:

- The poor performance of shares and modest performance of fixed interest investments
- Internationally low interest rates
- Events driven uncertainty associated with overseas economies and investments

All of this has resulted in strong demand with little supply forcing NZ property prices very high.

On the local scene the past six months have witnessed examples of this including:

- The sale of a bank branch on Maunganui Road, Mt Maunganui at a yield of **5.2%**
- The sale of other bank branches in Te Puke at yields in the 7% range
- The sale of a commercial building on Maunganui Road with four tenants at a yield of 4.7%
- Sales in Tauranga as low as 7.7%

Such high prices send clear signals that investors want to become involved in property at any price and this trend has been evidenced throughout the country, though to a lesser extent.

We continue to seek new property investment opportunities and are always ready to create an investment offering. However, over the last few years, prices have been so high as to squeeze out the required margin for risk. We are not prepared to buy, because everyone else is. We will continue to search (we appraised around 35 properties over the last year) and are ready when and if something arises that meets our criteria, without the need to resort to some sort of financial engineering or debt to "enhance" returns.

We have repeated from last years report and updated the item on "**Risk Premiums**" because we believe it to be a timely reminder.

Property as a Wealth Accumulation Tool

All the evidence points to a wide range of investors all seeking to accumulate property investments.



Historically, it has been evidenced that this strategy of accumulation (as apposed to buy and sell) of income producing property has been the smartest and most reliable way to develop sustainable wealth and income streams.

As property is becoming more tightly held, less future opportunities for good investing are occurring, and pressure comes on those who do own to sell. This pressure inevitably arises from investors wanting a slice of the action, or their agents.

Logically then, selling out puts you back behind those buyers you might sell to in your ongoing wealth accumulation efforts.

THE PROPERTY MARKET

The trends we have pointed to before are included in these current influences:

- Demand outstripping supply
- Capital gains stronger
- Lower yields, equating to higher prices
- Some evidence rentals are having to go up, in this respect and some locales are more dominant
- Tourism and accommodation industry a growing influence (in spite of recent setbacks)
- Changing population demographics and distributions
- Infrastructure property

Demographic trends along with the prospect of NZ becoming the beneficiary of the recent international political instability suggests that property investors can expect to experience relative stability, if not solid growth, over the next year or two.

"It took only 20 years for NZ to grow from 3 million to 4 million people. This has had a major impact on the property market. Over the next 20 years demographic growth is likely to be slower. Thus changes in population composition and distribution are going to be more important than growth in population size in driving demand in sectors such as the property industry"
Mr. Connor English, CEO NZ Property Institute.

We would point out though, that recent New Zealand economic trends could well result in a temporary slowing down.

NZ Property Council: Performance Statistics to 31 Dec 2003.

RETURN SUMMARY

TWELVE MONTHS ENDING 31 DECEMBER 2002

%	NZ CBD Off.	Akl CBD Off.	Well. CBD Off.	NZ Non- CBD	Akl Non- CBD	NZ Indust	Akl Indust	Chch Indust	NZ Shop Cntrs	NZ Bulk Ret.	Akl Bulk Ret.
Inc.	9.57	8.60	11.15	9.24	8.64	10.19	10.15	10.14	9.33	10.23	9.75
Cap.	-1.53	-2.05	-0.78	-1.61	-1.78	0.91	0.89	0.11	1.42	2.44	3.58
Total	7.93	6.42	10.31	7.53	6.74	11.17	11.11	10.25	10.84	12.85	13.59

Retailing is performing well with Statistics New Zealand reporting seasonally adjusted retail sales of \$4,321 million to January 2003 – up 1.1% in December 2002 and 7.5% on the same period last year. The reasons given are, “Strong population growth led by immigration, more tourists and increased annual spending.”

RISK PREMIUMS

Risk premium is the term given to the increase in the so-called “risk free” return required to justify the extra risk of any investment.

It is generally held that for direct property investment that premium should be 4% net of costs and management. We believe that for fully managed investment where the investor is not required to risk substantial capital as would be the case in buying an entire property that requires your personal management, any propositions for investment offered to you, should in our view reflect this sort of expected premium, that premium can be reduced to 2%-3%.

The long-term risk free rate should be taken as 6.0%-6.5% (using the 90day bill rate) therefore necessitating a net, before tax of 8%-9%. This is on a debt free basis.

These returns expectations must though be looked at as those expected **on average and over time**, not what might occur during any short period. Returns can be abnormally high or low during any shorter term, say 1-3 years. And of course poorer, property quality or location will extend that premium further.

A Major Investment Asset Class

Property has always presented a major investment opportunity. It displays the qualities of relative stability, high income with income with some capital growth over time. The key to success in property investing lies in the long term holding of property interests that are located where growth will occur. From time to time we experience swings in local demands. However, if there is general growth in an area the swings usually revert over time

“When the economy is bad and property values are falling and everyone wants to be a seller, buy well located real estate and hold on to it. Don’t sell whatever the critics, the cynics and the losers might say. That way you will end up very wealthy”

John Paul Getty III

Some of our property Statistics

Over the last twelve months our activity has included:

- Rent Reviews for 22 tenancies
(With 19 increases)
- No Rental reductions
- Two reviews incomplete at this time
- New Leases – 9
- Re-negotiated expiry’s – 3
- Total tenancies – 62
- Vacancies - 3

If you have any queries about the property market or specific property investments or opportunities, please don’t hesitate to contact us by writing, phone or email.

Best Wishes

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