

CHANGE AND INNOVATION



Mark Schiele
CHIEF EXECUTIVE
OFFICER

We have a general election this coming weekend which may very well deliver a change in government. Whilst the policies and vision of the presiding party will impact us all, the three year electoral cycle and predominantly centrist policies are likely to provide far less change than global shifts which are occurring. I have attended

several conferences and presentations recently where disruption and innovation are key themes.

It is clear most industries will be the subject of disruption over the next decade. Some, like the automotive industry, to a massive extent.

Property will not be immune and we are continually looking at how our properties (existing and proposed) will respond. Amazon's pending arrival in Australia will impact and provide direction on future changes in logistics and retail property – negative and positive.

Enduring occupier demand will, more than ever, be critical in our property purchasing and holding decisions. Understanding the businesses of our tenant customers will be vital, and working with long term occupiers to repurpose existing property and buildings will become ever more important. Oyster's asset management, development and transaction teams have this front of mind.

I'll leave you with some thought-provoking statements concerning change and innovation made by the CEO of Mercedes Benz in July this year...

- Software will disrupt most traditional industries in the next 5-10 years.
- Uber is just a software tool; they don't own any cars, and are now the biggest taxi company in the world.
- Airbnb is now the biggest hotel company in the world, although they don't own any properties.
- Artificial Intelligence: Computers become exponentially better in understanding the world. This year, a computer beat the best Go player in the world, 10 years earlier than expected.
- In the US, young lawyers already don't get jobs. Because of IBM Watson, you can get

legal advice (so far for more or less basic stuff) within seconds, with 90% accuracy compared with 70% accuracy when done by humans.

- So if you study law, stop immediately. There will be 90% fewer lawyers in the future; only specialists will remain.
- Watson already helps nurses diagnosing cancer, four times more accurately than human nurses. Facebook now has a pattern recognition software that can recognise faces better than humans. In 2030, computers will become more intelligent than humans.

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- Autonomous cars: In 2018 the first self-driving cars will appear for the public. Around 2020, the complete industry will start to be disrupted. You don't want to own a car anymore. You will call a car with your phone, it will show up at your location and drive you to your destination. You will not need to park it; you only pay for the driven distance and you can be productive while driving. Our kids will never get a driver's licence and will never own a car
- It will change the cities, because we will need 90-95% fewer cars for that. We can transform former parking spaces into parks. A total of 1.2 million people die each year in car accidents worldwide. We now have one accident every 60,000 miles (100,000 km); with autonomous driving that will drop to one accident in 6 million miles (10 million km). That will save a million lives each year.
- Most car companies will probably become bankrupt. Traditional car companies try the evolutionary approach and just build a better car, while tech companies (Tesla, Apple, Google) will do the revolutionary approach and build a computer on wheels.
- Many engineers from Volkswagen and Audi are completely terrified of Tesla.

- Insurance companies will have massive trouble because without accidents, the insurance will become 100 times cheaper. Their car insurance business model will disappear.
- Real estate will change. Because if you can work while you commute, people will move further away to live in a more beautiful neighbourhood.
- Electric cars will become mainstream about 2020. Cities will be less noisy because all new cars will run on electricity. Electricity will become incredibly cheap and clean: Solar production has been on an exponential curve for 30 years, but you can now see the burgeoning impact.
- Last year, more solar energy was installed worldwide than fossil. Energy companies are desperately trying to limit access to the grid to prevent competition from home solar installations, but that can't last. Technology will take care of that strategy.
- Health: The Tricorder X price will be announced this year. There are companies who will build a medical device (called the “Tricorder” from Star Trek) that works with your phone, which takes your retina scan, your blood sample and you breath into it.
- It then analyses 54 biomarkers that will identify nearly any disease. It will be cheap, so in a few years everyone on this planet will have access to world class medical analysis, nearly for free. Effectively the end of the medical establishment.

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- Longevity: Right now, the average lifespan increases by three months per year. Four years ago, the lifespan was 79 years; now it's 80 years. The increase itself is increasing and by 2036, there will be more than one year increase per year. So we all might live for a long, long time – probably way more than 100. ■

MARKET OVERVIEW

BY NICK TUFFLEY, CHIEF ECONOMIST
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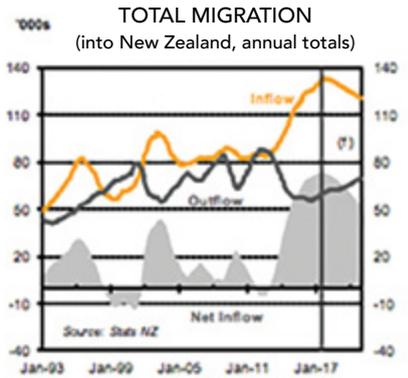
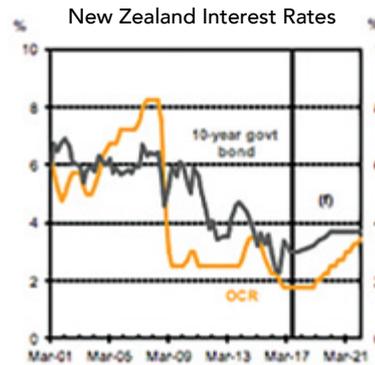
New Zealand's general election is almost upon us and, under MMP, all New Zealand elections carry a high degree of uncertainty about the outcome. This uncertainty leads to a traditional period of caution, as some people decide to sit on the sidelines and await the outcome before committing to major decisions – including property purchases.

The 2017 election is proving to be eventful already, with three party leaders stepping down and turning political opinion polls.

From a property and investment point of view, some potential policies matter more than others. Tax rates are particularly important, as they can shift incentives over what assets to invest in. At the time of writing the incumbent National Party is not proposing any further tax changes likely to have a significant effect on property. Several opposition parties are proposing to change the tax treatment of, at the least, residential property investment to make it less favourable. Any changes which narrowly target residential property investment will encourage some would-be investors to consider alternative investment vehicles, such as bank deposits, managed funds, shares and commercial property. At the other end of the spectrum, tax changes which affect all asset classes equally would simply maintain the relativities between one investment vehicle and the next, though could affect after-tax returns.

Migration policy is another potential influence on the property market, given the property market's fundamental purpose is housing families, workers, and the all services they need. Net migration is running red hot: New Zealanders and immigrants are voting emphatically with their feet that they want to live in New Zealand. Given the infrastructure pressures, there is debate over the desirable and sustainable pace of net migration. The incumbent government has made minor tweaks to immigration policy, and several opposition parties propose to tighten up even further. That is easier said than done. A significant part of net migration is the trans-Tasman flow with full freedom of movement. And New Zealand is also using immigrants to alleviate labour shortages – the construction sector being one example.

The key thing to remember about election outcomes is that the underlying economic environment is usually what dominates over policy decisions (unless you are in Venezuela). When you step back and look at New Zealand's outlook, it has a number of tailwinds. Interest rates are still very low by historic standards, and future increases will be modest, gradual – and still some time off. The global environment for our exports remains fair – despite the barrage of Twitter tirades. Our Terms of Trade (export prices relative



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to import prices) are likely this year to exceed the 1973 record, meaning the purchasing power of our exports will never have been better since records began in the 1950s. The growing population is still spurring retail spending and construction, and housing and commercial building shortages remain – particularly in Auckland – as infrastructure struggles to catch up.

So the upcoming election can shift the edges of the playing field a little, and cause people to hesitate briefly. But it is important to keep a steady eye on the more permanent foundations of New Zealand's prosperity.

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ANTI-MONEY LAUNDERING & COUNTERING THE FINANCING OF TERRORISM

Since the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 came fully into effect in 2013 we have all been faced with increased requirements to provide identification when we open bank accounts and make investments.

The second phase of the legislation is about to take effect with lawyers, accountants and real estate agents also required to check the identities of their clients and report suspicious transactions.

The purposes of the legislation are to detect and deter money laundering and the financing of terrorism, to maintain and enhance New Zealand's international reputation and to support public confidence in the financial system. It is estimated by the United Nations that up to US\$2 trillion is laundered globally every year. We need to ensure New Zealand is not seen as an easy place for criminal and terrorist groups to launder their money.

Money laundering is the process by which a criminal takes "dirty" money from their criminal activities and makes it "clean" by getting the money into our financial system. Once the money is in a legitimate investment (a bank, managed fund or property syndicate) it becomes clean and can then be used freely by the criminal or terrorist group. The use of trusts and companies is quite common as these can be used to disguise the true owner of the money. The recent Panama Papers scandal demonstrated just how widespread the use of foreign trusts is.

We recognise the customer due diligence process of having to find originals of trust deeds and provide copies of passports and evidence of your address is a time consuming and, at times, frustrating exercise for investors.

Oyster also has time consuming processes and audits we are obligated to go through to ensure our systems are as effective as they can



be to detect dirty money. The customer due diligence process is a necessary burden if we want to make it difficult for criminals and terrorist groups to use New Zealand's financial system to launder their money. ■

STAFF PROFILE

Jacqui Hoskin Investor Relations



Jacqui joined Oyster in June 2017 after two years with the Colliers International Syndication team in the role of Investor Relations, where she was the key contact for all Colliers' syndication investors.

Prior to that she was a project co-ordinator for five buildings in the Auckland CBD with Shortland Management, followed by a role with Britomart Group Management Company as the Tenant Services Manager in the Facilities team, working closely with all tenants and contractors to ensure day to day smooth management of business at Britomart.

In her Investor Relations position at Oyster Jacqui is part of the Transactions Team focused on liaising with investors to develop strong investor relationships. She is the key contact for investor enquiries across all aspects of Oyster's business, ensuring investors are kept regularly updated and informed on their investments.

Jacqui is passionate about "interacting with investors daily, answering questions, or talking to those that just call for a chat". She really enjoyed the chance to meet investors at the recent Annual Scheme meetings in Auckland and Hamilton and is looking forward to putting more names to faces in the year ahead.

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FOR YEAR TO 31 MARCH 2017

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Minimum investment \$10,000

Diversified exposure in commercial property valued at \$477 million

The Oyster Direct Property Fund aims to provide investors with an income distribution payable monthly, combined with the potential for capital growth through investing in a diversified portfolio of quality commercial property assets.

- A range of office, retail and industrial assets in a single investment
- Investment in commercial property assets of significant value and scale
- Structured for monthly distributions and redemptions
- A fund which targets a portfolio weighted towards major urban locations, quality tenants and long leases
- Affordable entry point with a minimum investment of \$10,000
- Units issued on the first day of each month
- An unlisted, diversified commercial property fund
- Oyster Management Limited is the offerer and issuer of the units in the Oyster Direct Property Fund

A Product Disclosure Statement is available; to receive a copy please contact:

Rich Lyons (09) 869 2351 Email rich.lyons@oystergroup.co.nz

*The cash distribution stated in the advertisement is based upon the pre-tax distribution paid to investors for the period from 6 July 2016-31 March 2017. Past performance is no indication or guarantee of future performance. For further details, please refer to the Product Disclosure Statement.

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