

# OYSTER<sup>®</sup> UPDATE



## OYSTER DIRECT PROPERTY FUND



Mark Schiele  
CHIEF EXECUTIVE  
OFFICER

The pending launch of the Oyster Direct Property Fund forms part of Oyster's strategy to continue to adapt and grow our suite of products and offers to meet differing investor risk profiles and criteria for investments.

The fund will offer investors an opportunity to diversify their commercial real estate

portfolio by geography, property type and tenants.

We will initially be seeking to raise \$15 million of investor equity for the fund which will provide investors with well-diversified exposure to \$240 million in quality commercial property throughout New Zealand, as well as a monthly tax-advantaged income stream combined with the potential for capital growth.

The Oyster Direct Property Fund will be a Portfolio Investment Entity (PIE) structure with a relatively affordable minimum investment of \$10,000, and distributions payable monthly. After its first year in operation the fund will provide investors with a monthly redemption facility.

The fund provides an attractive opportunity for investors to have spread exposure to high quality direct property investments spanning the retail, office and industrial sectors and to build wealth by investing in a range of assets of significant value and scale.

It will invest in a variety of assets which fit its criteria and investment mandate covering major urban locations, long lease terms and quality tenant covenants.

The fund will have positions in existing Oyster commercial property syndicates and growth will be achieved by purchasing further interests within new schemes and through the fund purchasing its own direct property. The intention is to grow the fund progressively in order to allow investors continuous opportunities to invest.

To begin with, the fund will be invested in a variety of properties housing well established brands as tenants including Countdown, Mitre 10 MEGA, the New Zealand Racing Board, the Ministry of Education, Westpac, RD1, VIP Packaging and City Fitness.

With the official cash rate currently sitting at 2.25% and projected to remain at historically low levels for some time, we expect interest in the property fund, providing an attractive yield from a mix of assets, to be very high.

We continue to want participation in commercial property ownership to be achievable for as many investors as possible and, with a relatively low minimum entry level, we expect the Oyster Direct Property Fund to have wide appeal.

We will be able to disclose the exact composition of the fund, and projected monthly income returns, when the fund's Product Disclosure Statement is released in April 2016. •

### OYSTER SECURES MANAGED INVESTMENT SCHEME (MIS) MANAGER LICENCE

Oyster was recently notified that it is one of the first in the commercial property industry to be granted a Managed Investment Scheme licence by the Financial Markets Authority. We believe the requirement for all managers of investment products to be licenced is a major step up in the regulation of the financial markets.

For our investors the introduction of new offer documents will be the most evident change from the new regulations. Investment Statements and Prospectuses will be replaced by a single Product Disclosure Statement (PDS). The PDS will present information on offers and investments in a structured and investor friendly format and much of the information will be presented in tables which will allow for easy comparison with other financial products. This is a positive move which should make reading offer documents a simpler, more informative task.

Like the regulation of financial advisors and statutory supervisors, this change will decrease the number of organisations involved in the market. The hurdle to licencing is set high and will weed out those operators who don't have the skills, staff and robust processes required to be a licenced manager. This can only improve our financial markets and increase the quality of the managers which remain.

## OYSTER TO PURCHASE PONSONBY'S ICONIC CIDER BUILDING

Oyster recently announced that it has unconditionally contracted to purchase the prominent Cider building on the corner of Williamson Avenue and Pollen Street in the central Auckland suburb of Ponsonby.

Settlement of the purchase is due in June this year. Cider is a new, high quality property due for completion in April and is a 13,200m<sup>2</sup> mixed use retail and office development.

The high profile property is being developed by Progressive Enterprises and will include a new 4,000m<sup>2</sup> Countdown Supermarket on a 20-year Lease, 8,000m<sup>2</sup> of office across three floors, 11 specialty retail tenancies over 900m<sup>2</sup> along Williamson Ave and Pollen Street and around 520 onsite basement car parks. Cider is 100% leased to General Distributors Limited (Countdown), Fairfax NZ Limited (on a 12-year lease) and

convenience retail.

This site is unique as one of Auckland's first real mixed use developments. The neighbouring Vinegar Lane, which is not owned by Oyster but is part of the development, is a commercial and residential hub accommodating a range of occupiers including architects, designers and engineers. It houses high quality apartments on the top floor.

Oyster plans to offer wholesale investors the opportunity to invest in this outstanding property. A total of 50 interests of \$1,000,000 each will be made available with a



projected pre-tax return of 7.5% per annum. An Information Memorandum will be available to interested investors in April. •

# MARKET OVERVIEW

from Chris Dibble, Colliers International Researcher

## NEW ZEALAND'S RANKING IN THE WORLD

Colliers International undertook a global survey of industrial and office property performance in 150 cities in December 2015.

The results show further rental growth in New Zealand is likely and the demand for property in a low debt cost environment will push investment yields lower over the medium term.

## OFFICE RENTS

In the latest Colliers International global office survey, Auckland and Wellington CBD prime net rents ranked 54th for Auckland and 73rd for Wellington. This is slightly ahead of June 2015's rankings of 61st and 84th. Demand for space in a tightly contested market has given landlords the ability to increase rents.

Rental growth of around 3% over the past six months in Auckland and Wellington were overshadowed by Hong Kong's 12% increase. Hong Kong is currently ranked the highest with an impressive NZD 2,911/sqm p.a.

## OFFICE YIELDS

The strength of New Zealand's office yields was also a major feature of the global survey. The average prime yield in the top 10 was 3.9% compared to 4.2% in June 2015. Average prime yields are 7.1% and 7.7% for Auckland and Wellington respectively. Interest rates are much lower in most major countries, but the gap between local interest rates and yields are remarkably similar at around 2% to 3%.

Although comparing the investment benefits of CBD office ownership in major gateway cities such as London with Auckland or Wellington may be challenging, investors looking at relative returns and the arbitrage between debt costs and returns are aware of the opportunity on offer in New Zealand.

## INDUSTRIAL RENTS

As well as the world's top office spot, Hong Kong is the most expensive industrial rental market.

Hong Kong's rents of NZD 365/sqm p.a. is

significantly higher than Auckland (NZD 114/sqm), Christchurch (NZD 103/sqm) and Wellington (NZD 91/sqm).

Our large global gap exists due to a strong demand environment. Vacancy rates have reduced significantly in New Zealand, with Auckland, Christchurch and Wellington all experiencing declining vacancy rates over the past year to record lows of 2.2%, 2.1% and 3.6% respectively.

## INDUSTRIAL YIELDS

Yields for New Zealand's industrial investors are among the strongest in the world. The average industrial prime yield for cities with the top 10 rents is 5.5%. This was 5.9% in June 2015. This compares with Auckland at 6.4%, Wellington at 8.0% and Christchurch at 7.4%.

The relative comparability of rates is an indication of the strong demand and competitive bidding for industrial property in New Zealand when compared globally. •

## GLOBAL TOP 10 INDUSTRIAL RENTAL RANKING

Rental Rank	City	Prime Net Rent (NZD/sqm/p.a.)	Average Prime Yield
1	Hong Kong	\$365	4.0%
2	London (Heathrow)	\$348	4.8%
3	Singapore	\$252	3.9%
4	Tokyo	\$248	5.4%
5	Geneva	\$219	7.5%
6	Honolulu, HI	\$213	n/a
7	Zurich	\$212	7.5%
8	Oslo	\$198	5.8%
9	Bristol	\$191	5.3%
10	San Francisco Peninsula	\$181	5.0%
38	Auckland	\$114	6.4%
51	Christchurch	\$103	7.4%
71	Wellington	\$91	8.0%

Source: Colliers International Research

## GLOBAL TOP 10 CBD OFFICE RENTAL RANKING

Rank	City	Prime Net Rent (NZD/sqm/p.a.)	Average Prime Yield
1	Hong Kong	\$2,911	2.7%
2	London – West End	\$2,216	3.3%
3	London – City	\$1,451	3.8%
4	Tokyo	\$1,198	3.5%
5	Paris	\$1,028	3.5%
6	Singapore	\$949	3.7%
7	Beijing	\$943	4.2%
8	Abu Dhabi	\$873	10.0%
9	Manchester	\$864	5.0%
10	Shenzhen	\$831	4.3%
54	Auckland	\$435	7.1%
73	Wellington	\$365	7.7%

Source: Colliers International Research



# THE CHANGING FACE of DEPARTMENT STORES

Two of the South Island's best known retail brands reached a deal recently which changed the face of retail in the south and brought more than a century of tradition to an end.

Invercargill-based H&J Smith purchased Arthur Barnett's – the 4200 square metre store in Dunedin's Meridian Mall which is managed by Oyster – creating a retail business directors of both companies say will "dominate" the Otago and Southland market. The purchase has given "Southland's own department store" a substantial presence in Dunedin.

Arthur Barnett completed a review of its business two years ago looking at different ways to improve the business, and says it has removed a lot of overheads and suppliers, improved its website and upgraded its rewards programme. The company has reaped the benefits by way of positive results and sales.

Arthur Barnett's sole store became part of the H&J Smith business after a three-month transition last year. Arthur Barnett also has an online store, a channel missing from H&J Smith which has a 'flagship' store in Invercargill and a presence in Gore, Queenstown, Te Anau and Balclutha.

Two of New Zealand's other iconic department stores – Ballantynes and Kirkcaldie & Stains – were also strategically reviewed last year against a background of an overall decline in sales for the sector.

Retail intelligence firm Marketview figures show

Kirkcaldie & Stains, Ballantynes, Smith & Caughey's and Arthur Barnett combined produced a 5.5 percent drop in sales last year.

All these stores are more than 100 years old and industry commentators believe they have untapped potential in two main areas – online selling and food and beverage. Done well, it is thought these two areas will provide transformation opportunities and new relevance for these stores.

Australian retailer David Jones has purchased Wellington department store Kirkcaldie & Stains, a publicly listed company, which closed this month and will reopen mid-year after a substantial revamp, worth about \$20 million. It will become the first New Zealand store of David Jones, which aims to retain most of the 270 staff. When complete, the David Jones Wellington store is likely to resemble one of the more up-market of the company's network across the Tasman, with a strong focus on beauty products and fragrances, and most likely a food hall.

It is unlikely David Jones will limit its New Zealand presence to a single store, so some retail industry commentators are waiting to see if they make a bid for department stores in Auckland and Christchurch for similar revamps – or seek space in existing shopping centres.

The privately owned Ballantynes department store does not reveal its sales figures. However, Chairman Bill Luff has said in recent media interviews that the Christchurch store was strategically

## STAFF PROFILE

*Vaughan Ludlam*  
*General Manager – Retail*



Vaughan is responsible for Oyster's retail portfolio, managing a team of 25 staff throughout New Zealand who provide asset, property, facilities management and leasing services to private,

syndicated and institutional retail property owners representing over \$300 million in retail property.

Vaughan joined Oyster as a leasing executive in 2003. This followed a diverse consultancy role with Retail Solutions Ltd, which provided his grounding in shopping centre leasing as well as tenancy mix planning and analysis, property development and event planning. He has extensive relationships with Australasian retailers, having successfully negotiated over 700 leases across a wide range of retail formats. Vaughan has led Oyster's leasing team since 2007 and, in 2015, was appointed to head the entire Oyster retail team.

Vaughan holds a Real Estate Agents Licence (REAA 2008) and a double degree from the University of Auckland – a Bachelor of Property and a Bachelor of Commerce. •

reviewing every facet of its business "...looking at future retail trading patterns, internationally, nationally, in Christchurch and looking at what our current offering has got by way of pros and cons and looking at new opportunities." He has strong concerns about the lack of public car parks in the rebuilt CBD, saying the parking shortage was limiting sales and sales growth.

Another iconic global brand which could be destined for New Zealand is the UK department store Debenhams. The UK department store trades out of more than 240 stores across 27 countries, and in the UK has a top three market position in womenswear and menswear and a top 10 share in childrenswear. It holds the number two market position in premium health and beauty. •

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COMING SOON

# OYSTER DIRECT PROPERTY FUND



## Diversified Exposure to \$240 million in Commercial Property

Oyster's new fund aims to provide investors with a monthly tax advantaged income stream combined with the potential for capital growth through investing in a diversified portfolio of quality property assets.

- An unlisted, diversified commercial property fund
- A range of office, retail and industrial assets in a single investment
- Investment in commercial property assets of significant value & 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

*Oyster is considering making an offer to the public of interests in a new managed investment scheme. No money is currently being sought; interests in the fund cannot currently be applied for. When the offer is made the offer will be made in accordance with the requirements of the Financial Markets Conduct Act 2013.*

Further information will be available in the coming weeks. In the meantime, if you wish to make a preliminary indication of interest\* in relation to the Oyster Direct Property Fund, please contact either: James Molloy: (021) 977 292 Mark Winter: (027) 496 4639  
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\*No preliminary indication of interest will involve an obligation or commitment to acquire interests in the Oyster Direct Property Fund.

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