UPDATE

APRIL 2018 – ISSUE 22

LET'S GO: 2018

Mark Schiele
CHIEF EXECUTIVE OFFICER

Since the start of the year, there have been plenty of interesting headlines in the media ranging from rocket launches and climate change costs through to international tariffs sparking fears of a trade war.

On the economic front, we have also seen concerns about the stock market play out in the media with: *Will the Stock Market Crash? Yes. Here's What to do* and *Where should you put your money if you think the market will crash?*

In various articles, New Zealand journalists have wrung their hands over the nervousness of markets and suggested that there is little else to do other than ride out the drama and hope for the best. While I appreciate that these dire predictions and associated comments have often formed part of broader stories on investment options, there has definitely been an upsurge in rhetoric around a search for more stable returns.

All of this has had a flow on effect for Oyster, as we search for quality commercial assets to invest in and manage rising investor demand for our property funds and syndicates.

Over the past 12 months, our Millennium Centre Business Park capital raising project was fully subscribed. This successfully raised $112M, making it the largest ever single property equity raise in New Zealand.

Late last year, we also contracted to purchase the Central Park Corporate Centre, with an international joint venture partner – pending final approval by the Overseas Investment Office.

Following the conclusion of the purchase of Central Park Corporate Centre, Oyster will have $1.4B of property assets under management, via a combination of retail and wholesale property funds and syndicates, institutional and private equity partnerships, and mandates from third party owners.

Our diversified Direct Property Fund (DPF) has also been growing at a rate of around 10% per month through new investments. With a current value of approximately $40M, the DPF has doubled in size over the past 18 months. The Fund recently became the first unlisted direct property fund in New Zealand to be given an 'AA' rating by FundSource. This put the DPF in the top 5% of 64 funds that have been rated by the research house.

NZX-owned, FundSource supplies independent research and data to financial advisors and fund managers in New Zealand. This was a particularly pleasing result, given that the Fund was only launched in mid-2016. The rating is solid independent confirmation of the DPF's structure and performance and will be helpful for investors when they are assessing their investment options.

The unlisted PIE structured unit trust was set up to hold a diversified commercial property investment portfolio giving investors an affordable way of investing in the commercial property market.

The DPF provides investors with exposure to $500M in quality commercial property throughout New Zealand, monthly cash distributions or the ability to reinvest, and the potential for capital growth.

Our strategy with the Fund is to continue to invest in a range of commercial properties that fit the criteria and investment mandate which covers major urban locations, long-lease terms and quality tenant covenants. Oyster continues to progressively grow the Fund, providing investors with ongoing opportunities to invest.

We want participation in commercial property ownership to be achievable for as many people as possible and we expect the Oyster Direct Property Fund to continue to have wide appeal.

Earlier last month, we were pleased to announce the appointment of experienced company director, Joanna Perry, as Oyster's independent chair. Joanna brings to the position a wealth of governance expertise spanning a range of industries from property, energy and sports through to e-commerce and finance.

During her career, she has been appointed to a number of high profile boards in both chair and non-executive director roles. She is currently chair of the IFRS Advisory Council (London-based), deputy chair of Regional Facilities Auckland and sits as an independent director on the boards of Genesis Energy, Trade Me Group and Partners Life.

Her gravitas in the governance space and depth of experience across so many different industries, including property, fits extremely well with Oyster's growth strategy.

So, while the experts spend sleepless nights fretting over the highs and lows of the stock market, our enlightened investor base is quietly reaping the rewards of quality commercial property investment. ■

REINVIGORATING MERIDIAN MALL

Dunedin's premier shopping centre – Meridian Mall – underwent a makeover late last year, with upgrades occurring across its food court, lighting and external façade.

The $1M renovation was project managed by Oyster, with Cook Brothers Construction carrying out building work.

The upgrade, which took three months to complete, was managed in such a way that the Mall was able to continue operating at full capacity while the work was being done.

Renovations included improving food court sightlines, lighting, flooring and capacity, as well as external signage and rebranding.

The finished work has significantly enhanced the Mall, ushering in a more modern look and feel to the centre.

When the 'wraps' came off ahead of the busy Christmas and summer cruise ship seasons, an extensive marketing campaign was rolled out, which included events, social media and radio promotions. Feedback from both locals and visitors to the makeover has been overwhelmingly positive.

The Meridian Mall sits on a prime George Street site in the heart of the Dunedin CBD, and provides a three-level shopping centre, offices and car parking for Otago's largest city. ■

GUEST EDITORIAL - CBRE
A NEW GOVERNMENT HEADING IN A NEW DIRECTION

BY ZOLTAN MORICZ, SENIOR DIRECTOR, HEAD OF RESEARCH, CBRE

On the 23rd of September 2017, New Zealand voters went to the polls. The final formation of the Government was announced four weeks later with NZ First deciding to form a coalition with the Labour Party, which also has a supply and confidence agreement with the Green Party.

CBRE reviewed the coalition agreement, the supply and confidence agreement, the 100-day plan, as well as the party manifestos, to gain insight into the new policy directions' implications for the property market. The policy changes can be grouped into the categories of regional development, macro-economic regulation, overseas investment, housing, and immigration, with some overlap between these in terms of their likely impacts for the various property sectors.

Immigration

The new government has targeted a 20,000 to 30,000 net reduction in immigration. Much of this reduction is expected to come as a result of removing work visas following the completion of study under a student visa. This policy change is expected to account for between 9,000 and 12,000 people per year. Regions are expected to find some leniency in the visa laws, as they will require additional employees to support the Government's growth agenda.

Migration controls may cause a shortage of labour in some industries, with the already stretched construction sector being particularly exposed. To offset this, there is some attempt to limit the shortage through the KiwiBuild visa programme.

Overseas investment

The Government aims to reduce competition in the residential property market by restricting international buyers from purchasing existing homes, being similar policy to that adopted in Australia in 2008. This will be achieved by amending the Overseas Investment Act, where residential housing will be included on the list of sensitive land. Importantly, Australians will be exempted.

None of the foreign ownership restrictions relate specifically to commercial property and it is unlikely that there will be reduced demand for New Zealand commercial assets based on the change in government. However, with additional categories of sensitive land, the Overseas Investment Office approval process may become more protracted.

Housing

The housing market is a priority for this Government. They are not only seeking to address foreign ownership, but also intend to arrest the high capital growth that has occurred, particularly in Auckland, increasing affordability, increasing the housing stock and providing more stability and security to renters.

While providing the opportunity for New Zealanders to purchase a home, this Government also recognises the population which are renting. Increasing renters' rights through a variety of different policies should allow this subset of the population to enjoy more security around their living arrangements.

> "Our observations indicate that there will be both challenges and opportunities for commercial property markets across the country as the new policy direction takes shape."

Residential investment property is likely to become a less attractive mainstream investment proposition. With the removal of loss transfers, paired with the additional pressure placed on landlords though rental market regulation, we may see some investors looking elsewhere, potentially to commercial property.

Macro-economic regulation

A review of the Reserve Bank Act is likely to result in amendments to include a decision-making committee as well as adding 'full employment' as a policy target. This is unlikely to have any material impact on interest rates in the short to medium term; however, with the addition of a full employment target, it is possible that inflation could increase.

There is potential for inflation volatility as a result of balancing the two targets, which may at times be at odds with each another.

A major campaign focus from all coalition parties was to increase the minimum wage. There will be a 75c increase by April 2018 (to $16.50), increasing to $20.00 by April 2021. This equates to a total increase of 27%.

In the short term, there is expected to be minimal variation to interest rates as a result of changes to the Reserve Bank Act, although the minimum wage increases will result in some inflationary pressures as businesses pass on the cost impact to consumers. The NZD has already seen some depreciation, which was expected with the change of Government.

The increase in the minimum wage will affect SMEs the most. The retail and hospitality sectors are more vulnerable to changes in the minimum wage and, as a result, the ability for landlords to escalate rental rates may be muted while the market responds to the new cost base.

Regional development

With an annual contribution of $1 billion, the newly established Regional Development Fund is intended to support regional areas. Funding has been earmarked for rail networks, the forestry sector and individual capital projects. In addition, the Government has committed to establishing a greater government department presence in the regions. The Deputy Prime Minister has said that it would not be entire ministries, but rather smaller departments and functions.

It is expected that regional development, and investment of infrastructure, will support commercial property in these provincial areas. This is likely to benefit the manufacturing and logistics sectors, and locations which have previously been deemed as isolated may become more viable for capital expenditure and investment.

Whilst some government functions may be relocated to regional centres, it is likely to be paired with overall government expansion, and an increase in government spending requiring additional state functions, such as the Regional Development Fund. As such, the government property footprint in Wellington is unlikely to decline.

In summary, while most of the current policy detail does not allow for detailed analysis, based on current understandings we do not see their impact as either net positive or negative for the property sector. Our observations indicate that there will be both challenges and opportunities for commercial property markets across the country as the new policy direction takes shape. ■

JOANNA PERRY APPOINTED AS CHAIR

Oyster has appointed experienced company director, Joanna Perry, as the Group's first independent chair. Joanna brings to the position a wealth of governance expertise spanning a range of industries from property, energy and sports through to e-commerce and finance.

During her career, she has been appointed to a number of high profile boards in both chair and non-executive director roles. She is currently chair of the IFRS Advisory Council (London-based), deputy chair of Regional Facilities Auckland and sits as an independent director on the boards of Genesis Energy, Trade Me Group and Partners Life.

Oyster's Chief Executive Officer, Mark Schiele, says he is excited to have someone of Joanna's calibre joining the board as chair.

"Her gravitas in the governance space and depth of experience across so many different industries, including property, fits extremely well with Oyster's growth strategy."

Joanna was previously an independent director of Kiwi Property Group for 11 years.

She is a Chartered Fellow of the Institute of Directors, a Fellow of the New Zealand Institute of Chartered Accountants and has a Master of Arts in Economics from Cambridge University.

Awarded Membership of the New Zealand Order of Merit for services to accounting, Joanna was a senior partner at KPMG, a member of the Securities Commission and chaired the Financial Reporting Standards board. ■

STAFF PROFILE **Rich Lyons** – Capital Sourcing Manager

Rich Lyons joined Oyster in July 2017 as a Capital Sourcing Manager. As a member of the Transactions Team, he is responsible for promoting and raising equity for Oyster's wholesale and retail investment offers including the Direct Property Fund.

Rich is the key contact for investors in relation to new investments and manages all secondary market re-sales. He enjoys interacting with new and existing investors and explaining the 'ins and outs' of Oyster's current investment opportunities.

Prior to joining the organisation, he worked at Westpac as a Property Finance Manager. In that role, he managed key relationships and financing requirements for property investors and developers. He was also involved in the financing of a number of significant suburban apartment developments and property syndicated investments. Rich has also worked in lending and sales positions at ANZ and Macquarie Bank, and in commercial property with DTZ and CBRE.

Maintaining a diligent and hard-working attitude towards one of the most vital parts of Oyster's operations, Rich has already proven himself to be an invaluable asset.

With his varied and diverse skillset, he is keen to support the continued growth of Oyster's transaction team and its client base. ■

To learn more about investment opportunities with Oyster, contact **Rich Lyons DDI** 09 869 2351 **M** 021 841 960 | rich.lyons@oystergroup.co.nz