

Examples of the issues faced by your Fund and those surrounding commercial property ownership are retiring and deceased members, the ongoing issues of regulatory compliance, the departure of tenants, sourcing new tenants, tenant cash flow problems, property maintenance, plant replacement, property revaluations both up and down, and the property sales and purchase process from time to time. All these “normal” uncertainties are reflected in the overall compounded rate of return.

Your Fund invests in small to medium (\$500,000 to \$2m) commercial buildings. The tenants have commercial leases which, in most cases, are supported by personal guarantees.

Your trustees are constantly reviewing the property market, the portfolio for relevance and from time to time will sell or replace a property in a constant endeavour to upgrade the portfolio. Your properties are revalued annually by a registered valuer.



Difficulty in securing tenants is also reducing the attraction of vacant property for investors. This is being offset to some degree by the owner occupier purchaser who is seeing the increased number of vacant premises and lower prices in tandem with relatively low interest rates as an opportunity to make the transition from a tenant to an owner occupier. However, tougher funding criteria by the banks and the demanding economic conditions are often making the transition difficult.

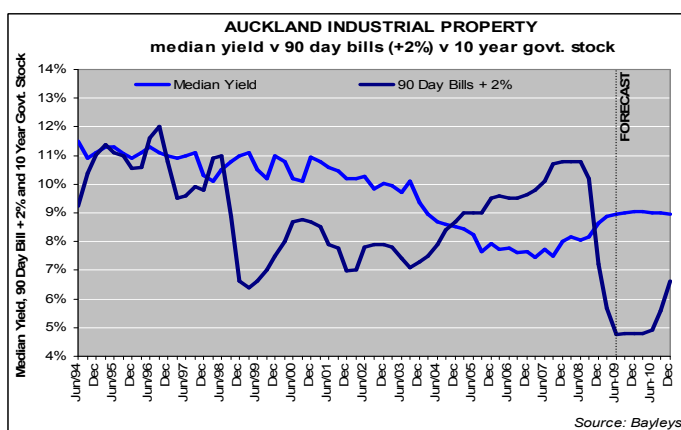
Analysis of sales achieved during the June quarter of 2009 reflect a median yield of 8.95%, an increase of 100 basis points over the figure recorded in the same quarter of 2008. Yields have now been softening since late 2007. From the latter part of 2008 through to mid 2009 the cost of borrowing had reduced sharply as the Reserve Bank aggressively cut the Official Cash Rate (OCR) in a bid to stimulate the economy and return confidence to the financial markets. The net result has been the re-emergence of a positive yield gap which has stimulated investor interest in the sector.

Mike Houliker, Manager Bayleys Commercial and Industrial who has over 23 years experience at Bayleys, sees the market is currently short of prime investment property, especially in the lower, sub \$3 million, price bracket. “This type of property, when available for sale, attracts very strong buyer interest and can still achieve low yields despite the current conditions” says Mike.

Commercial and Industrial Property

(Bayleys Industrial & Commercial)

Yields achieved on the sale of commercial and industrial investment property have continued to soften during 2009 as investors look for a higher initial return from their investment to compensate for the fact that rental and capital growth is likely to be subdued over the short to medium term future.



This softening of yields reflects an increasing gap between what investors are willing to pay for a prime property versus a secondary one. Whilst the softening at the prime end of the market is relatively minor, it is much more marked in the secondary tier and it is sales in this category which is pushing the median yield higher. While prime and secondary properties are differentiated under a number of criteria including location, quality of the building and the term of the lease, the primary concern for investors, is the strength of the tenant in the current economic climate.

Are you a member of KiwiSaver yet?



MSF KiwiSaver Scheme

The establishment of Kiwisaver was one of the better things that the last government did for the future of the New Zealand economy. It is our belief that this programme will become compulsory for tax payers at some stage in the future as governments struggle to cope with the ever-growing burden of National Superannuation.

MSF KiwiSaver was established 1 July 2008.

If you have not already enrolled, we suggest that you give this serious thought. At present the Government contributes \$1,000 to your fund as you join, but there are no guarantees that this will continue in the future if the savings scheme does not become compulsory. That \$1,000, along with any contributions you and/or your employer put in, will continue to grow with compound interest. If you are interested, please call our office on 09 379 8052 to arrange a complimentary discussion.

Where to from here?

Your trustees believe that your fund is in good heart. The current period of uncertainty is familiar to us all and we believe, that with a continuation of prudent management policies that have stood your fund in such good stead in the past, and whilst we are currently in a period on low returns, the outlook remains positive for investors with a medium term view.