

THIS ISSUE

WE'VE STARTING MANAGING YOUR INVESTMENTS



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After 14 years of observing, listening to feedback from clients, waiting for the ideal timing and with current pressure from clientele, a much welcomed expansion on our existing business is born. Seemingly Landlords we've spoken to want more than just a babysitting service for their properties and have mentioned to us a need for advice and understanding on how their money invested is doing, not just the rent ability of their property.

Understandably this advice cannot be given by anyone not experienced or trained to do so, hence our need to employ someone with a University Degree in Property Management and Valuation. We've not only found someone suitably trained but he has also had experience in residential investment, commercial and industrial sales for nine years in the North Island. Add to this the fact that he is an investor himself and has first hand experience in all the range of stresses and emotions that go with this chosen path to financial freedom, and you'll see why we're excited.

Anyone who has bought through us knows we prefer to ascertain by meeting with purchasers what their goals and therefore their needs are. Our management structure will be exactly the same. You must know where you want to go or what you want to achieve in order to ascertain whether the property you've bought will take you there.(cont on page 3)

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2 x 2 brm
Freshly painted
N/O \$135,000



2 x 3 brm
Modern T/house
N/O \$149,500 ea

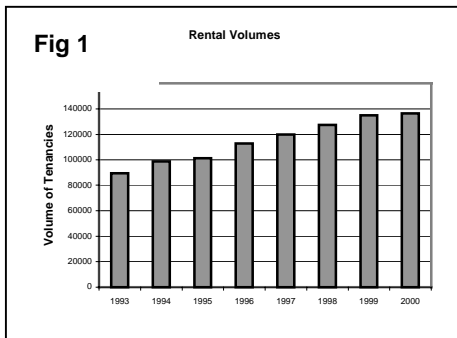


2 x 1 brm
Huge o/door space
N/O \$114,000

NZ RESIDENTIAL RENTAL MARKET MARCH 2001 Trends in Rental Volumes

The National Picture

The national volume of private sector tenancies for the eight year period 1993-2000 is shown in Figure 1. During this time there was a 52.5% increase in the volume of private sector tenancies. This represents an annual compound rate of growth of 5.2% and is much higher than the rate of population growth. It is also noticeable that rental volume growth slowed to just over 1% in the 1999-2000 period.



The most obvious explanation is that the rate of home ownership is reducing because more households are choosing to rent. The results of the 2001 Census are expected to confirm the trend towards renting, a trend also emerging in Australia. It is acknowledged that increases in private sector volumes are greater than all over national changes because of the switch of some state houses to the private sector.

The Cities

Table 1 compares the volume of private sector rental transactions in the 24 main urban centres for 1995 and 2000. During this five year period rental volumes in the main urban centre increased by 36% overall, but there were significant differences between cities. Most of the growth was in the Auckland and Wellington regions.

Area	1995	2000	% Difference
Whangarei	1594	2475	55.27
North Shore	5599	7393	32.04
Waitakere	3357	4917	46.47
Auckland	14536	20919	43.91
Manukau	4920	7496	52.36
Papakura	1035	1574	52.08
Hamilton	5651	7541	33.45
Tauranga	3017	4316	43.06
Rotorua	2430	2899	19.3
Gisborne	994	1220	22.74
Hastings	1628	1943	19.35
Napier	1857	2136	15.02
New Plymouth	2175	2317	6.53
Wanganui	1269	1403	10.56
Palmerston North	3338	3817	14.35
Kapiti	858	1350	57.34
Porirua	631	1195	89.38
Upper Hutt	836	1546	84.93
Lower Hutt	2037	3125	53.41
Wellington	6069	9910	63.29
Nelson	1886	2030	7.64
Christchurch	11253	14590	29.65
Dunedin	4350	4818	10.78
Invercargill	1336	1460	9.28

Areas showing below average growth were provincial centres in the lower part of the North Island and over all of the South Island. Overall the Auckland region

accounts for 37.6% of the rental market by volume.

Rental Levels

A snapshot of recent rental levels in the main centres is shown in Table 2. The national median rent of \$190 per week has remained unchanged for more than two years. Rental levels in the 24 cities were static over the last six months.

	Jul 00	Oct 00	Jan 01
Whangarei	165	165	170
North Shore	260	260	260
Waitakere	240	235	240
Auckland	260	250	260
Manukau	245	237	240
Papakura	220	230	210
Hamilton	180	185	180
Tauranga	190	190	185
Rotorua	165	160	155
Gisborne	150	150	150
Hastings	157	160	165
Napier	175	180	170
New Plymouth	145	150	135
Wanganui	120	125	125
Palmerston North	170	170	175
Kapiti	195	195	190
Porirua	190	200	185
Upper Hutt	182	190	160
Lower Hutt	200	200	200
Wellington	250	260	250
Nelson	175	175	180
Christchurch	180	180	180
Dunedin	150	160	160
Invercargill	110	110	120
All NZ	190	190	190

PROPERTY MANAGEMENT (cont)

To date I, like many of you, when I've had my own properties managed, find this check-up is basically limited to being asked to replace drapes, paint rooms, etc in order to make tenanting easier. This is important and the basis of any good Property Manager's service but our intention is to extend this to the financial health and performance of the property.

Our clients will receive this as part of our service. In the future we hope to offer it to others for a consultation fee. It is natural for vendors to go from company to company comparing property management services before they choose which one they require. In doing so, apart from the normal questions that go through one's mind, one could ask a manager:

- 1 **Do you analyse the financial performance of my property at least annually to gauge how my investment is growing?** (Otherwise how do you know whether it is working or not?).
- 2 **What is your formal training as a Property Manager?** (It is important to know a background. They may have been trained for something totally unrelated or not at all).
- 3 **Do you have many investment properties of your own personally?** (Otherwise how do they know what it feels like to have to pay a mortgage when the rents are tight, for example. As a salesperson I get this question a lot).
- 4 **Do you have any experience in selling this type of property?** (This helps a manager know what advice to give that will not only attract tenants but end buyers too.)
- 5 **Are all of your company's team members investors as well with similar training and experience?** (It is important to know the back-up is there and not just one layer thick).
- 6 **Is your Management Service backed up by a team of specialists dedicated to selling this type of residential investment property?** (Our team has, we believe, the highest market share in the city and sell nothing else to a huge database of buyers worldwide).
- 7 **Do you have the training and expertise to manage industrial and commercial property should I wish to branch out?** (No use having two companies to deal with).
- 8 **Is your accommodation person mobile, ie will they meet prospective tenants at the property?** (This is time consuming but the most effective way of selling the properties attributes to prospective tenants. Not too many fish hook themselves).
- 9 **Do computer savvy tenants have the ability to check for your available flats on the internet?** (Our target market use the internet like we used pencils – it cannot be ignored).

Thankfully we can answer a resounding **YES!!** to all of the above questions.

We look forward to your call to talk about management so that you can turn your investment into a business*. Our manager is Michael McCormick AREINZ BCom VPM (Valuation & Property Management), direct dial 3551 430, phone 3555 121 or 021 302 070.

*Definition of Business....

“A Commercial Profitable Enterprise that Works without Me”

Brad Sugars

MARKET COMMENT

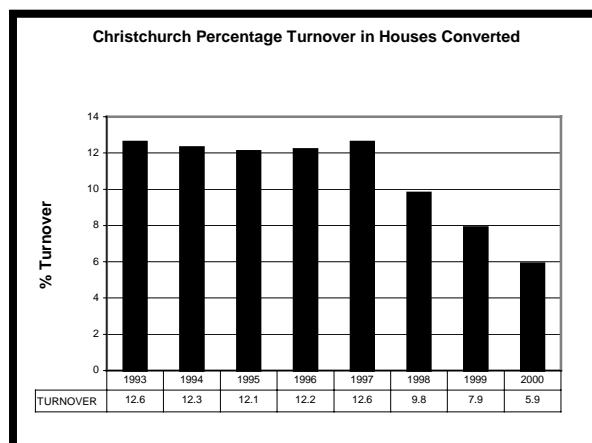
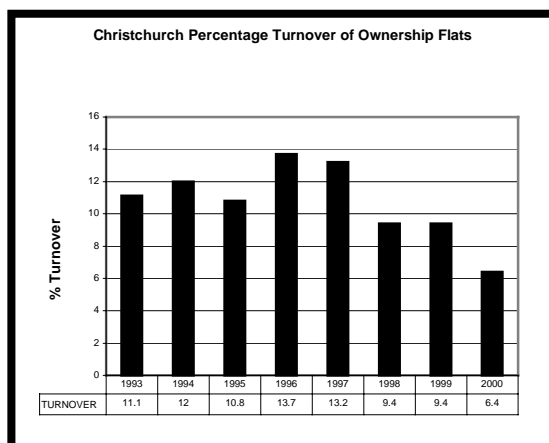
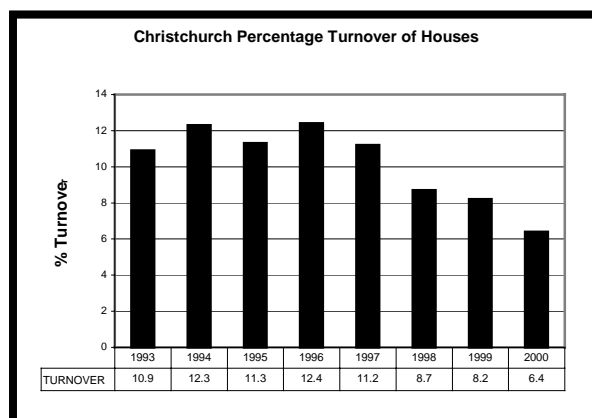
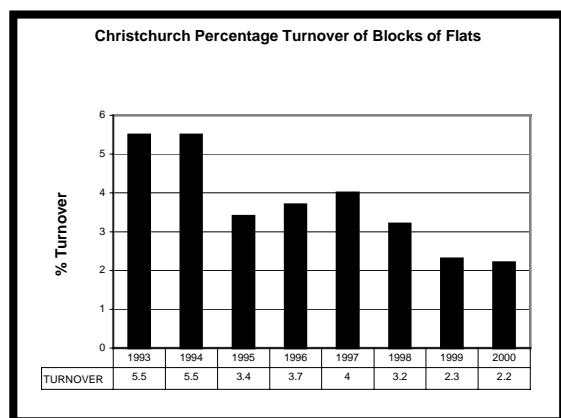
It has always been our goal through this newsletter to keep our clientele fully informed through a “warts ‘n’ all” presentation of the markets within which they buy and invest. We do not fudge the figures or say everything is rosy when it is not. If our sales are peaking but the market is flagging we’ll tell you. Such is the case at the moment. Some who have had their heads in the sand over recent years will initially look aghast at some of the following information yet other, more sophisticated, investors will see it for what it is – a correction.

In short we report to you as intelligent human beings – here’s the news.

All markets peaked in 1997 in both numbers of sales and turnover except for houses and ownership flats which peaked in 1996 (see following graphs 1-4). Turnover in all markets has basically halved when comparing their peaks to last year’s figures. The exception to this is Blocks of Flats where the 1993 and 1994 figures shouldn’t be compared because at the time the massive development of Townhouse complexes were categorised as Blocks of Flats then sold as Houses or Ownership Flats which affected (lowered) the comparative turnover figure from 1995 onwards. Studying the graphs you will see that turnover is down by the following margins from the peaks of ’96 – ’97. Turnover is the number sold compared to the existing stock available that can be sold.

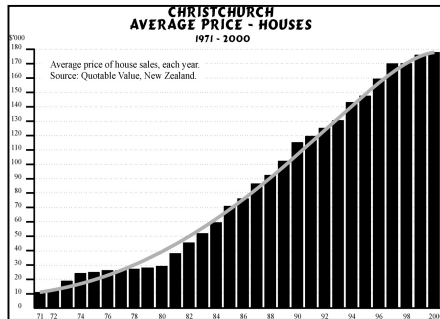
Turnover	Houses (Standalone Dwellings)	Ownership Flats (Share a wall)	Blocks (Purpose built)	Conversions (Houses split)
Decrease on peak in 1993-2000 era	48.4%	53.3%	45%	53%

CAUTION – Don’t confuse lower turnover with lower prices

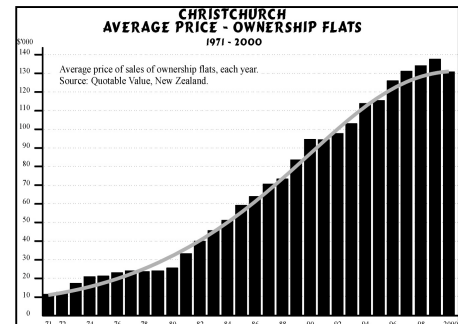


This chart and these graphs on page 4 explain many things (including the fact that REAL and some others have closed their doors). However turnover does not always translate into lower prices as can be seen by the graphs below of figures from 1971-2000 of sales in the various property types.

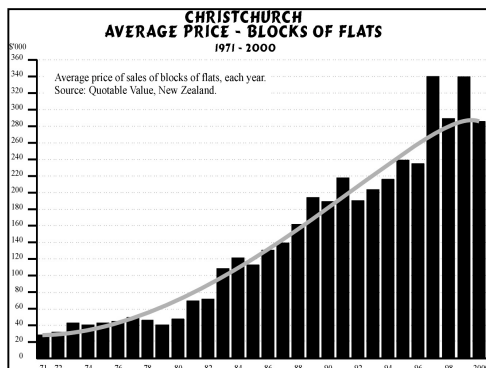
- a) The relatively smooth growth chart of house prices has levelled giving little or no growth over the last year. When people sense taking a loss they sit on their hands. Those who have had to sell due to shifting towns, etc have experienced diminished demand hence accepted lower prices. This has been offset by some extremely high prices paid for larger homes as the IT sector (among others doing well) create a new brand of wealthy home owners (see Graph left), plus the exchange rate assisting foreign home buyers.



- b) Ownership Flats prices have dropped, as we predicted they would, due to the huge number that were built. Over supply is never conducive to price rises (see Graph right). Remember ownership flats share a wall, hence most new developments are categorised this way.

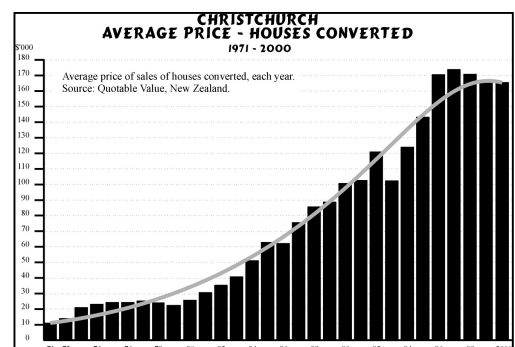


- c) Blocks of Flats have, according to the graphs, had a roller coaster ride over the last few years since the peak in 1997,

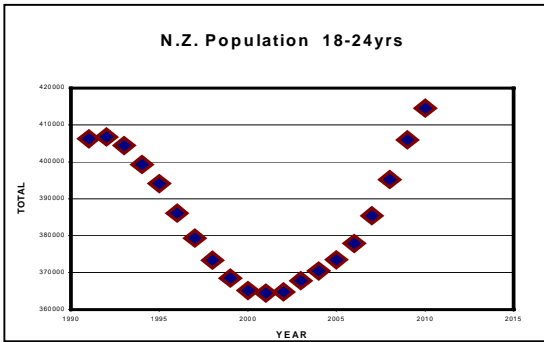


in both sales and turnover. This is a comparatively small part of the market in general, and of what we do. It can be easily affected by insertion of one or two large sales. This is the disadvantage of using averages in small statistical fields. In 1997 and 1999 we made a handful of sales ranging between \$930,000 and \$1,325,000. Generally our average sale in this type of property is in the mid \$200,000s. Even one sale over a million can affect the averages (see Graph left). These ups and downs are not indicative of how that market has felt during this time.

- d) Houses converted have had a gradual decline in value since the peaks of 1997 but have levelled off over the last year as developers buying for land only have been flushed out of the market and prices have found a new level that once again satisfies investors looking for a healthy yield. (see Graph right).



There is no hiding the fact, across the board **WE HAVE HAD A CORRECTION**. As a medium to long term investor you should expect at least one in your career. However this correction is of more concern to us as agents relying on turnover, rather than you as investors wanting growth. We can dwell on the past and say “poor me” or we can look to the future as our new, and many of our more experienced investors, are doing. Take a look at the long term view. By referring to any of the graphs (a) to (d) you will see periods of correction. Some of you will have been through them as investors, whereupon you will look back on them as times of (maybe lost) opportunity.



For example, look at the early 70s and 80s in Houses, the late 70s and early 90s for Blocks of Flats and the early 70s, 80s and 90s for Houses Converted. It seems that from a totally unscientific point of view the start of each decade is a quiet time followed by a period of growth. In fact in The Press today (April) I read that our economy is expected to grow to a peak mid-decade then correct again later on. There are other reasons for looking at this market as a good time to buy/reposition oneself.

- More households are choosing to rent – 5.2% compound increase pa (see article inside front page).
- The tenants aged 18-24 years will increase in number by 10% (see Graph above page) by 2010.
- It is proposed that 900 Chinese students will come into the city this year as the first of many..
- The Government has a new immigration policy pending.
- The Banks have reduced interest rates to below 7%, and predict stability.
- The doors are open for wage rounds.
- The lowest unemployment rate recorded since June 1988.
- Continued positive outlook in the Canterbury economy.

This present correction is general, not specific to any one type of property – don't panic. **If you look on the bright side, just re-finance at a lower rate and that pays for us to manage it for you.**

Keep a firm eye on the long term growth which is still healthy above and beyond any other cashflow, tax benefit and leverage opportunities you may have, when you consider how little most of us put in.

Growth Rates				
	Houses	Ownership Flats	Blocks	Conversions
1971-2000 compounding	10.09% pa	8.69% pa	8.46% pa	9.7% pa

NOAH'S ARK

And the Lord spoke to Noah and said, "In one year, I am going to make it rain and cover the whole earth with water until all flesh is destroyed. But I want you to save the righteous people and two of every kind of living thing on the earth. Therefore, I am commanding you to build an Ark in New Zealand." In a flash of lightening, God delivered the specifications for an Ark. In fear and trembling, Noah took the plans and agreed to build the ark. "Remember," said the Lord, "You must complete the Ark and bring everything aboard in one year. Exactly one year later, fierce storm clouds covered the earth and all the seas of the earth went into a tumult. The Lord saw that Noah was sitting in his front yard weeping. "Noah", he shouted, "Where is the Ark?" "Lord, please forgive me!" cried Noah. "I did my best, but there were big problems. First, I had to get a Resource Consent for construction and your plans did not meet the codes. I had to hire an engineering firm and redraw the plans and get an engineer's report from

the Council. Then I got into a fight with NZ Fire Service over whether or not the Ark needed a sprinkler system and smoke alarms and the Ministry of Health over the provision of smoking or non smoking areas. Then the residents' Association objected, claiming I was violating RMA zoning ordinances by building an Ark in my front yard that was a recreational watercraft and therefore a threat to existing homes. Then I had problems getting enough wood for the Ark because of the ban on native logging on the West Coast. They tried to get me to use Fijian Jara but I couldn't get the necessary dispensation from Customs & Excise to import timber from a Pacific Island nation that wasn't party to the International Working Party on the Lifecycle of Native Timbers. I finally convinced DOC that I needed the wood to indirectly save the kakapo from extinction which seemed to get a bit of a reaction, however the Royal Forest and Bird Society objected and won't let me catch any Kakapo. (Cont on Page 8)

ARE YOU IMPRESSED BY MARKET SHARE?

The turnover may have been down across the board resulting in sales in most arenas in 2000 being down also but 2001 feels much more positive. In fact reports by straight residential sales teams are much more positive and every day we are seeing new buyers calling in, albeit tentatively. Although turnover was down our sales were stable in 2000. In fact in our chosen area of the market

“we’re up 20% since opening”.

Traditionally we have sold up to 80% of particular parts of our market, but this dramatic increase in tough times is not only indicative of new systems, motivation and techniques, it is born simply of desperation also. Having only a percentage of the market may shock some who thought we had it all, but when you consider we are only 0.1% of the available salespeople (1,679 in 2000) it’s not too bad. Compare this also with our closest competitors who had (as far as we can ascertain) 5% of the market, then it gets put into perspective. The other 1675 salespeople sold the rest, ie 0.03% each.

Impressed? – you should be, but be careful.

When discussing statistics such as market share one should be very careful to ascertain just how these figures are worked out. The percentages above are worked out on the sales listed **and** sold by this company (February 2000 to January 2001). How else would we? If we choose to broadcast market shares that included every sale other agents sold of ours, and all those we sold of other agents and then added this to our own listed and solds, this creates a very rosy picture. Then, if all of the other agencies did exactly the same, the market could look 2-300% its actual size meaning whatever figure we quoted could actually be a third of this in reality. Aren’t statistics wonderful. What’s the saying?

“Statistics, statistics and lies.”

If you’re not sure how a company works out its market share just ask – if they’re not sure – well.....

Tenant numbers are set to go up – read this

MORE GOING TO SCHOOL THIS YEAR (28/01/01)

School doors will open across the country next week to more than 728,000 students, 2300 up on last year. Ministry of Education figures show primary school enrolments have fallen 880 to 483,200 and secondary numbers increased 3200 to 244,700. Secondary school numbers are expected to jump by more than 30,000 by 2006 placing pressure on teacher supply. Ministry projections show primary school numbers will continue to decline until 2016. An oversupply of primary teachers exists. Post Primary Teachers’ Association president Jen McCutcheon said secondary schools would be pushed to the limit in the next few years. “It’s a huge increase this year and that’s just the start of a

growing trend,” she said. “It effectively means about another 150 teachers are needed at a time when secondary school teachers are in short supply.” The increasing number of teachers going overseas to take up jobs with more attractive salaries did not help the situation. “The release of the Staffing Review Group report next month would be an important test of the Government’s commitment to teachers,” she said. “There’s a real challenge here for us all to do something about staffing in our secondary schools,” she said. School principals were getting increasingly worried about meeting the needs of students in the next five years.

NOAH'S ARK (cont)

No kakapo. No wood. Under the new Employment Contracts Act, the carpenters formed a union and went out on strike. I had to negotiate a settlement under the provisions of good faith bargaining before anyone would pick up a saw or a hammer. OSH arrived and now I have to produce a Hazard Management and Safety procedure before they start work and ACC are insisting we pre pay our annual premiums on the basis we may not be returning. So now I have 16 carpenters on the Ark but no kakapo and no wood.

When news got out that I was rounding up other animals, MAF arrived and insisted I build quarantine facilities to hold them in for the six months before sailing. They also wanted blood samples to prove no genetic engineering practices were involved. The next thing I know the Regional Council is knocking on my door. They want an Environmental Impact Report on the proposed flood, the area it would cover, the amount of water in cubic metres, impact on local micro-ecosystems, velocity and force of water, cost to manufacturing and production and local transport, areas for possible relocation and resettlement. I tried telling them they were missing the point entirely. Right now I am trying to resolve a complaint filed with the Equal Opportunities Commission and the Race Relations Office that our selection criteria does not fairly reflect the age, gender, religious and race diversity of Earth.

I really don't think I can finish the Ark for another five or six years", Noah wailed. The sky began to clear, the sun began to shine and the seas began to calm. A rainbow arched across the sky. Noah looked up hopefully. "You mean you are not going to destroy the earth, Lord?" "No", said the Lord sadly. "I don't have to. The Government already has".

RECENT SALES

Blocks of Flats(RR)		Houses in Flats(RC)		House(HSE)		Townhouse(TH)		Ownership Unit(RF)	
Richmond	RR	8 x 2 brm	\$520,000	(11.8%)	Addington	RR	4 x 2brm	\$230,000	(11.3%)
City	RC	2 units	\$127,500	(10.0%)	Sydenham	RR	2 x 2 brm	\$164,000	(9.5%)
St Andrews	RR	2 x 2 brm	\$250,000	O/O	St Alb/Meriv	RC	2 units	\$205,000	(9.0%)
St Alb/eriv	RR	2 units	\$175,000	(9.0%)	City	RR	Hse plus 4 x 1brm	\$257,500	(13.5%)
St Albans	RR	6 x 2 brm	\$480,000	(12.0%)	Linwood	RR	4 x 2 brm	\$225,000	(12.3%)
Riccarton	RR	4 x 2 brm	\$292,000	(9.5%)	Bexley	RR	2 x 2 brm	\$170,000	(9.2%)
Merivale	RR	8 x 2 brm	\$600,000	(10%)	Harewood	RR	2 x 2 brm	\$160,000	(10%)
Merivale	RF	1 x 2 brm	\$119,000	(6.6%)	Burnside	RR	2 x 2 brm	\$202,000	(9.0%)
St Alb/Meriv	RR	4 x 1 brm	\$250,000	(10.2%)	St Alb/Meriv	RF	1 x 2 brm	\$ 70,000	(10.4%)
Linwood	RF	1 x 2 brm	\$ 75,000	(10.0%)	Linwood	RF	1 x 3 brm	\$ 85,000	(10.0%)

MISSION STATEMENT

To assist our clientele in the long term, progressive realisation of their financial independence through residential investment by giving them priority as buyers and total access as vendors to all of our appropriate methodology, marketing and databases of current qualified buyers at competitive fees reducing in relation to transactions made.

For further information and **FREE** market appraisals on the value of your property, call us anytime on 3555 121. If you no longer own your flats or have changed your postal address, please inform me to save you further inconvenience.

Thank you
Tony Brazier
AREINZ Dip Bus(RE) BEd

While every effort has been made to ensure accuracy, no liability is accepted for errors of fact or opinion herein. Our intention is to promote thoughtful analysis of your own portfolio. Any decisions should therefore be made after consulting your professional advisors