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THE GOOD, THE BAD & THE UGLY

Our present market place reflects some interesting trends as we've moved from a downright poor market to one of unparalleled opportunity. The stories of success told today do not truly show the erratic and sometimes sorrowful tales of woe that have given rise to such buoyancy.

In this issue (now that figures are finally available from 2001) we will finally put to rest the market of yesteryear and discuss the opportunities and stories that are evolving today.

THE GOOD

Sales in our company are up 88% on what they were for the same time last year. This is generally the case throughout the investment market and inquiry from especially new buyers is almost overwhelming. We have re-started our seminar programmes to cater for this volume where by we present to a dozen or so at a time rather than an hour each in a one-to-one. Many need education, but most are able to buy. Rentals have increased as predicted. Although we said a general increase of 10-15% this year we have stories of \$135 up to \$250pw, (i.e. 85% inc). Some of you are being a bit hesitant in raising \$5 - \$10pw. Others are getting \$20 - \$40pw extra. It may be just a case of asking. The market is fun at the moment. Owners are trying new things with varying degrees of success, but seldom failure. From 1997 - 2001 losing a tenant often meant reducing the rental in order to get another who may have insisted upon whiteware or refurbishment before moving in. Nowadays, any money spent between tenants on renovation and furnishings is measured in the percentage increase one can get in rental.

"Don't be stingy, do it up!"

If I offered you anywhere between 35-75% return on money invested you wouldn't hesitate, yet this is what happens when you spend money on your flats these days. \$5,000 spent on painting throughout and furnishing can nett you another \$50pw in rent or \$2,500pa. In other words a 50% return. You don't need to furnish even. I achieved a 100% return on the cost of a new oven by increasing \$20pw. Others have better tales. (Cont on page 2.)

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Middleton
1 x 3 brm, 3 x 2 brm



Merivale/St Albans
1 x 1 brm, 2 x 2 brm, 2 x 2 brm



Linwood
3 x 2 brm

So is this having an effect on prices? Damned right it is!

Case Study One; Eighteen months ago I sold a block to a young energetic couple who hooked on to shorter-term stays (under our advice) and slowly furnished and crept their rentals up from \$120pw to \$200pw. They recently sold, via an approach, for \$205,000 more than they paid (42% increase). Funnily enough the financial advisors at the time told them there was no growth in property. I wonder how their managed funds are going?

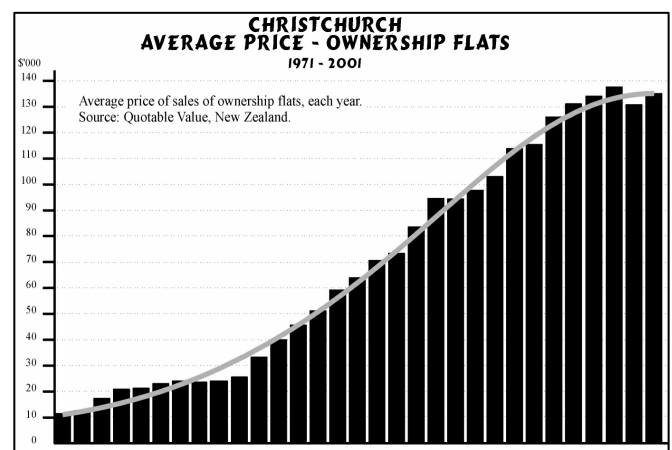
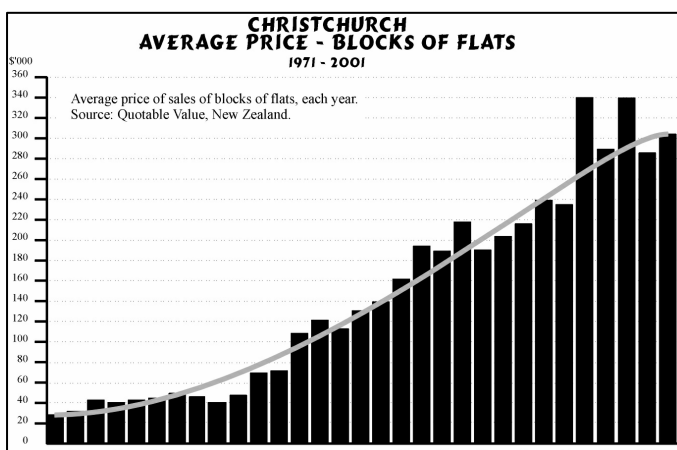
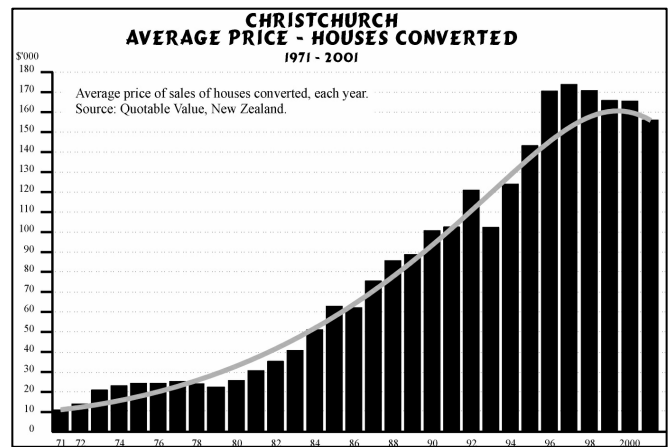
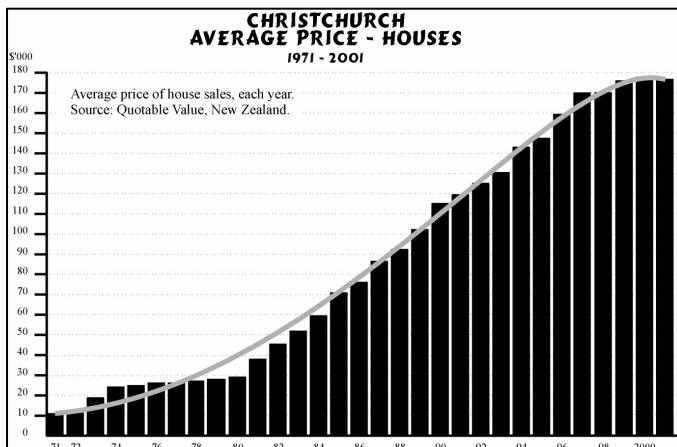
Case Study Two; I sold a block of 1950s units in the inner city last year for a generous price on current returns. The purchaser immediately redecorated, (with some talent I must add), furnished it and raised the rentals \$115pw, or 85% above what they were and has just had a valuation 54% above the original purchase price. (Are you keeping up valuers?)

Case Study Three; I sold three years ago, a 1970s block with rotting window frames and major renovation needed, to a chap who had the time and skills to do it himself. Recently after coming through such a cumbersome three year process he achieved an increase in rent from \$125pw to \$190pw but more importantly set a new bench mark for a tidy block of four refurbished by achieving \$50,000 more than what he had suspected it was worth. He sold through us of course.

Cautionary Note; In the late 1980s/early 90s the market did something similar to this but not to the same extent. Many owners were approached with what looked like good offers, sometimes from the street without viewing. In reality, of the few that rang to ask advice, they were being offered far less than what was achievable in that market. *This is happening again.* If you're approached please ring, or at least touch base with a valuer versed in this part of the market.

THE BAD

There is no need to repeat the positive graphs showing the reasons for our present sustained growth and activity as that last Newsletter is still posted on our website www.investrealestate.co.nz. Look it up if you want to feel good. Read on if you like to feel bad.



The average price graphs for the thirty years prior to and including 2001 show the down-turn that we have lived and invested through. All forms of investment have sustained some form of correction downwards in the last three years and an obvious leveling off since 96/97. The positive part of these graphs is that they show that the reductions have ceased. However in the houses converted it is going to take another round of re-development before they kick away again. As one can see the peaks in this area of the market were when the mid-late nineties townhouse oversupply happened. Unfortunately for those owners the land underneath is sometimes the properties highest and best value. Since then and now buyers require healthy 13-16% returns (especially when one can buy new for 9.6% gross.) Our belief is that next year when we update this graph all areas of the market will show signs of improvement as it is happening now, (explained above). It is prudent to remember, for every reduction below the long-term trend line there is an increase (or bounce back) period. Bring it on.

THE UGLY

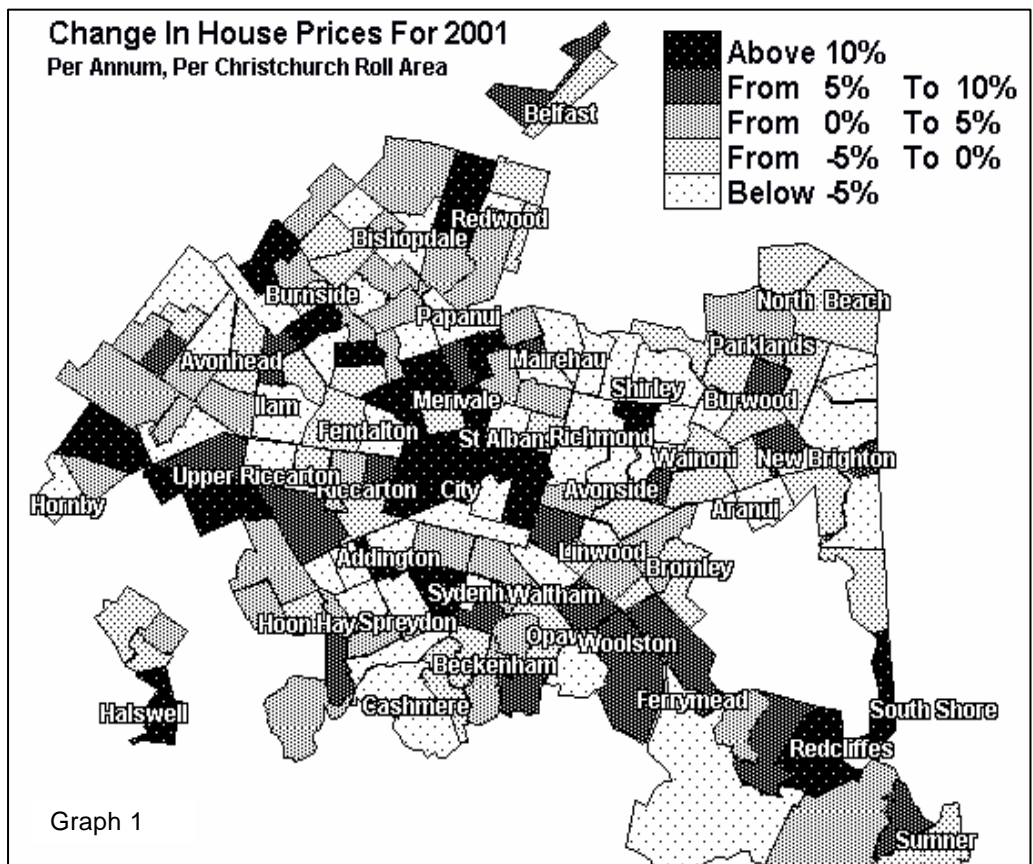
Many purchasers ask me which are the best areas to buy in, my answer is 'it depends'. A market such as ours at present offers opportunities in properties that inexperienced investors would not see because the property is not in the "North West".

I would hazard a guess and say that the stories of the best gains in real estate at the moment are happening in the not so prestigious locations. They have tremendous opportunities. Buying solely for position and prestige relies very heavily on capital growth. As you can see by the above graphs that is something we have not relied on for years.

The best location to concentrate on when buying investment property is...

'Between your ears'

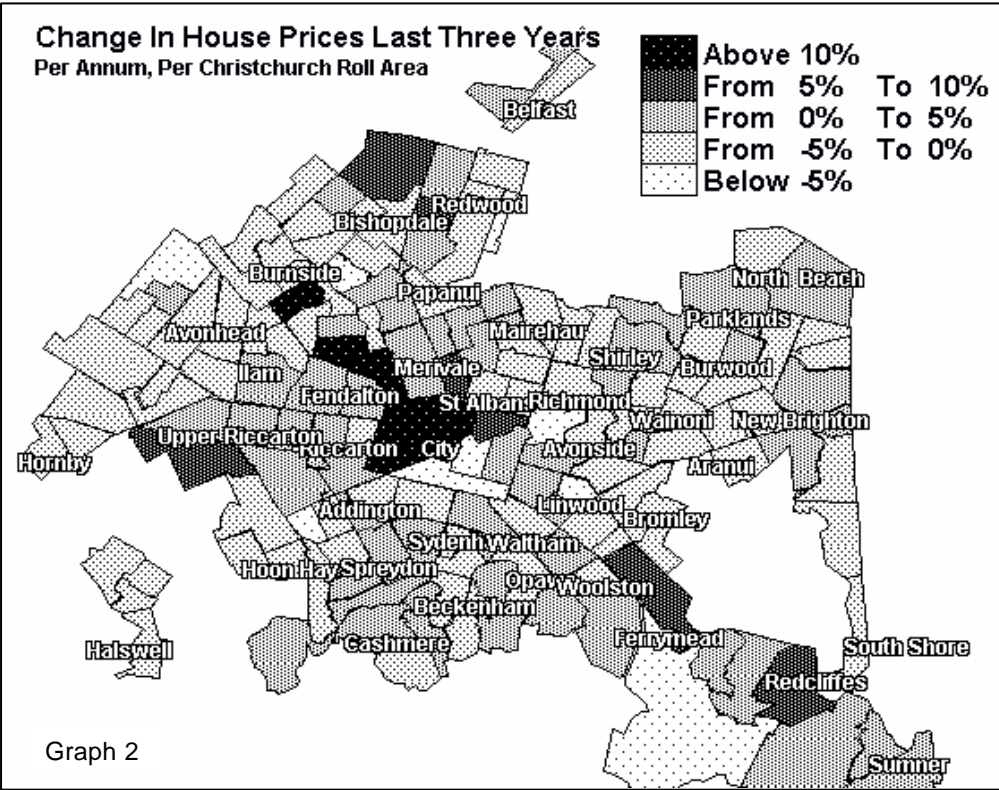
All properties must be looked at with the questions in mind, "How can I improve this?" "What will create value in this market?"



I have not been able to answer the question of which area is the best for a long time. Merivale/St Albans is best for the development of certain larger units. City East is growing increasingly due to the Polytech. Peripheral properties are increasing due to the location of Language Schools. Recent research into the growth achieved by roll number shows a huge variance in 2001 figures. (Graph 1) These are all house sales and generally are a reflection of the best growth areas. What the graph does not show is the extremes in all areas. The best growth area at +71% is right beside the worst at -41% in the inner city. In some cases the same suburb has five different roll numbers (eg Fendalton - 3.48%, - 2.98%, - 2.17%,

+ 14.21%, + 30.9%). This is the **UGLY** because it does not give us the luxury to generalise and say one suburb is better than another due to various parts of that suburb acting differently from other parts.

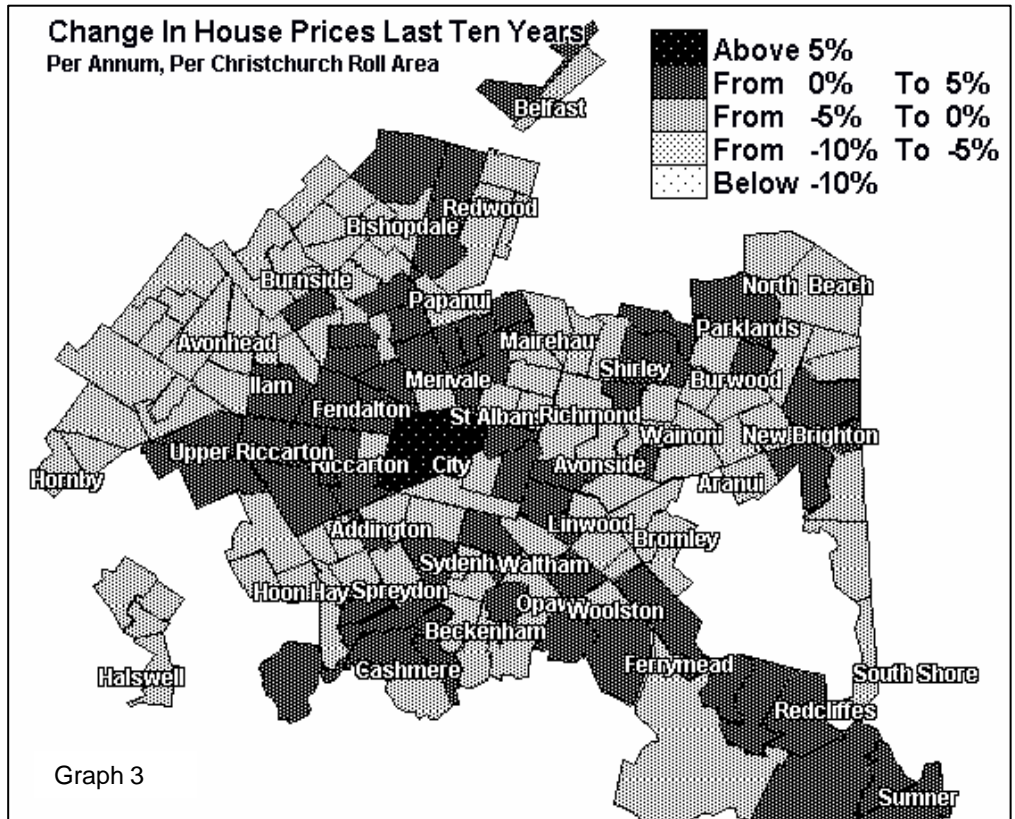
When our attention is drawn to the growth rates of the last three years (Graph 2), there are very few areas (ignore



Hagley Park which shows up in each group as 10%pa) apart from Merivale, Fendalton and Burnside which grew at 10%pa, compounding, for that time. It does however give a better indication of stability as opposed to the erratic nature of looking at just 2001. If nothing else graph 1 shows that the pot is starting to simmer and some areas are bubbling away first. The growth rates over ten years by suburb/roll no. (ignoring once again Hagley Park at above 5%) show a fairly sorry picture for those who just rely on buying any old residential for capital growth. The best of it has been up to 5% compounding pa. (see graph 3). One would have to say that if you blindly followed the old adage "Buy in the NorthWest" you may be either disappointed or

mildly happy dependent on how far out you bought. By referring to the actual figures of values per unit (see table one)

of the four chosen types of property, (blocks of flats, houses, converted houses and ownership flats) over the last ten years one can see that the lower compounding rate for the last ten years has been increasingly affected over the latter part of that period. All of these types of property have been affected in the same way making their long-term (31yrs) figures adjust downward. If Dolf de Roos is to be believed, regarding an average 10% pa capital growth rate being achieved over the long-term, then it is logical to assume, especially considering what is happening today with good demographics for the next 10-15 year, we will see the upswing that will bring the 10% back into equilibrium.



CHRISTCHURCH REAL ESTATE STATISTICS				
(per unit)				
	Blocks of flats \$	Houses Converted \$	Houses \$	Ownership Flats \$
1992	51,112	43,978	126,032	97,767
1993	54,151	43,032	131,354	102,828
1994	62,415	45,941	143,524	114,702
1995	62,603	53,093	147,561	115,359
1996	73,358	61,335	159,504	126,144
1997	78,172	68,018	170,281	131,774
1998	80,543	67,776	170,046	134,630
1999	79,940	67,788	176,000	137,500
2000	78,042	62,476	177,547	131,313
2001	82,946	65,336	176,771	135,388
INCR 10 yr 0	4.44%	5.83%	3.98%	3.66%
31 yr	7.93%	9.05%	9.39%	8.22%

CONCLUSION

True property investors create value they don't wait for it to come along. Regardless of these historic statistics I am helping people who have achieved consistently high percentage annual growth rates on their properties.

I have to watch from the outside to a degree because of in-house rules but the opportunities are amazing out there and should be taken advantage of by you. If you're a seller there is a frenzy starting, if you're a buyer there are opportunities to upgrade where others choose not to. The market is fun again, get into it.

GOOD OLD HNZ

In light of the closing comment by Andrew King of the very popular "Residential Property Investor" magazine regarding his recent article on the Labour Governments use of \$186 million for housing, he said;

"Government should be working with the private sector to provide sound long-term solutions to housing low-income households."

The local division of Housing New Zealand is doing just that. You may remember in the last Newsletter an advert on the back page for such a property.

HNZ (Chch) have shown a very refreshing and encouraging attitude to working with our local private sector. It goes something like this:

- HNZ need new housing especially to house the aging tenants they have.
- Some of these older tenants are occupying 3-4 brm houses even though their families have flown the nest.
- Local developers (after stringent requirements) provide suitable units in predetermined suburbs of need with over 60 year old CCC Covenants.
- HNZ takes a 10 year lease with five year right of renewal at current market rates with annual reviews to house their elderly.
- HNZ shifts older tenants into new, warm, smaller units. New tenants occupy their house.
- Brazier Property Investments (agents for the developer) markets secure investment.
- HNZ manage the units and guarantee any damage for the buyer.
- Buyer gains secure long term investment whilst providing community service.

WIN WIN WIN

These developments have been extremely popular and we are at present taking orders for other blocks/unit sales as they come on stream. We see this system as a win for all parties;

- The HNZ free up existing stock and re-house older clientele.
- The developer keeps dozens of people employed and upgrades neighbourhoods.
- The buyer owns a new property with a secure income run by HNZ rented to a low "wear 'n' tear" tenant age group.
- We get to deal with some wonderful new developments. Depreciation and tax relief are high due to the age of the property. Banks love them due to the security aspect and the fact that they're on separate titles.



6 x 2 brm Sold \$725,000, one buyer.



8 x 2 brm, only two left, be quick.



Larger 5 x 2 brm, just finished. Neg Over \$625,000.

Ring to book your viewing and/or property now.

GUARANTEED RETURNS

In the late nineties, hundreds of townhouses were marketed with two year rental guarantees. At that time any we saw were often cranked up in the rental and any topping up by the guarantor was well and truly catered for by the price. As you know we steered clear of these because it was obvious what was going to happen when the two years was up. Lower rent, lower price.

That was then. Today's guaranteed incomes that we are involved with, if anything will give a higher figure to the owner at the end of the guaranteed period. Why? Because we insist on the market setting the rate being advertised, not the developer. For example:



— Guaranteed income at \$350pw for 2 years. We manage it and get \$370 pw for the guarantor. Purchaser's choice; security for 2 years or higher cash flow.

Presently offering 9.6% gross return or 9% — effective with 2 years guarantee and management paid for. Guaranteed at \$340pw, but getting \$360pw/unit from open market. No topping up.



Too many people have been bitten by reductions after the two years is up both locally and in Australia. Current guarantees have up-side from day one. In some, purchasers have chosen not to take the guarantee because they felt they could do better, within that time frame, in getting the rents up even further.

NEW STAFF MEMBERS



Neil - after years with a local company selling residential and residential investment Neil has drifted towards selling commercial property. He joins us to specialise in all commercial up to \$1,000,000. Many of our clients have both forms of investment.

Neil McLaughlin
Commercial Sales



Christine – Chris joins us from a background in banking and accounting. As we've grown, the need for someone else to boss us around has emerged. Your sales, listing and management accounting issues will be her responsibility.

Christine Boyd
Office Administrator

SUCCESSFUL INVESTOR PROFILE

If you have any stories about yours or other people's success in their achievement of their ultimate goals in reaching financial independence, please give me a call.

Bob and Pam Vernal, Christchurch

I've always admired these two, among others, as every time I ring them they seem to be traveling for 6-8 months each year. Largely by self-sacrifice and resisting the "spend it all" mentality, these two now do what they like tied to no-one. I sent a young Auckland investor, hungry to talk to successful people, to interview Bob and Pam to gather their story.

Bob and Pam started young buying their first house just after they were married. Bob sold his car to get the deposit for the house. At that stage he worked as a plumber and Pam as a hairdresser. He borrowed some money from his boss and bought Pam a hairdressing salon which she ran until they started a family. Once they found out Pam was pregnant they sold the hairdressers and used the money to buy an old house which Bob converted into flats. They moved to Christchurch and continued to buy, sell and manage his properties - predominately residential. Bob has stuck largely to the property market having tried the sharemarket and been burnt. He prefers to invest in things where he has sole control over the investment. Bob stopped working when he was 50 although he said that he could have done this when he was 40 and started doing the things that he really enjoys - like travelling, tinkering with cars etc.

Bob attributes his success to saving hard and not overextending himself financially. Here are his key findings:

Start young. Save hard - accumulate income. Do your sums - make sure that the rent will cover the mortgage repayments even if the interest rate goes up a % or two. It's not a risk if you research it enough. Try to buy in the good areas - aside from the potential capital gain there is a higher likelihood the tenants will pay the rent. Be a policeman with your properties - always enforce the 10 day rule if the rent hasn't been paid. Always look for property that has at least two opportunities - e.g you could subdivide it, do a conversion or rent it out. This way if the government or someone else changes the rules you have options. Think laterally - it helps, for example, if you have a tradesman in the family.

Bob said that he has given about 50 people advice on investing in property and only about 2 of these people have acted on it because they think it is a risk - and he says - you don't need to take a risk if you calculate the return and research the property. It's not that complex, but it works, obviously. Well done, Bob and Pam. Happy traveling.

LONG TERM TENANT

Often we see examples of properties where there is a long term tenant in place. Examples of a tenant residing in a house/unit for 10 years or more are not unheard of. Two longer examples that come to mind are 21 and 40 years - enough time to pay off a mortgage!

Naturally the majority of owners would have cause to be happy that their tenant has stayed for so long.

We have also seen many examples of where a property is purchased with long term tenants (at below market levels) and with new ownership/management, the rentals are lifted significantly above those previously achieved.

We all know that the current rental market is in a good state and that growth in an individual property's rental will differ markedly dependant on the way the property is run. Some people have the knack and know what steps are necessary to increase the desirability of the property (in the eyes of the tenant) and subsequently the rent. Sometimes it is just a matter of being prepared to ask.

In tough times, properties are refurbished with the view to maintaining rentals. In more positive times, switched-on operators see the gains to be had.

So is it best to persist with an existing long term tenant or is it better to have shorter tenancies? There are pros and cons to both:

Benefits of a long term tenant:

- Less wear and tear.
- Less need to redecorate, as the tenant may be happy with surroundings.
- Continuity of income i.e. no vacancy factor.
- Often the tenant may view him/herself as the owner of the property and takes pride in keeping the place tidy.

Negatives of a long term tenant:

- Rental falls well below market.
- Animosity when a rent review does take place, particularly if there is a good deal of catch-up involved (although this can also occur when there is a relatively small increase required.)

Benefits of having shorter term tenants:

- Rents do not fall out of step with the market – this can, over time, be substantial.
- Rental level is set at the time of commencement and there is no animosity from the tenant as they knew what they were getting when they signed up.

Negatives:

- Higher management burden – more hands on approach required.
- Vacancy factor between tenants – if handled correctly this can be minimal.
- Additional wear and tear – if furniture or other items are moved in and out more frequently, damage could result. This can also be minimised.

Example: Two units purchased. Unit 1 with tenant of 10 years paying \$125.00pw. Unit 2 with tenant of 2 years paying \$125.00pw also. The new purchaser went to seek a rent review from both tenants and received negative feedback. The new owner decided it was going to be an uphill battle with tenant 1 and gave her 90 days notice to vacate. He consequently redecorated unit 1 and easily re-let at \$170.00pw. (36% increase at the cost to refurbish. The unit needed upgrading any way). Tenant 2 decided to leave and unit 2 was re-let without any work undertaken at \$150.00pw. (20% increase).

The question an owner has to weigh up is, is it worth it to stick with the status quo or should a different approach be taken to the management of the property.

In the event the owner manages the property, time constraints may mean he/she may be unable to seek new tenants.

If the property is managed, then the additional management burden is the property manager's problem, not the owners. It is part of the job.

We have seen numerous examples of proactive owners and managers being prepared to adapt to new trends, such as shorter term tenancies or furnished properties. The result has been increased revenue from the property and a better bottom line.

Treating the property as a business is, in our opinion, the key to the success of the venture, as opposed to relying on passive input.

Therefore it is important the owner or property manager takes a proactive approach and is not merely baby-sitting.

Long term tenants, once an asset, are they now a liability?

Michael McCormick
Property Manager

For further information and FREE market appraisals on the value of your property, call us anytime on 3777 122. 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
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