Maat Group

Building Financial Security

Investment News

Spring 2015

www.maat.co.nz

Welcome to another edition of Maat News, with a blend of property analysis, economics, Maat's business and sport! As always, we welcome your feedback on any issue and appreciate your contact with us either as an investor, prospective investor or one who is interested in the commercial property sector. Through your support and loyalty, we have been able to develop our desired vision for Maat since our formation in early 2010, guided by the principles of Maat – who was the Egyptian Goddess of Truth, Justice and Balance.

Latest Offer

Todd Park, Porirua

You most likely would have already seen our latest investment offer, for the purchase of the large, multi-tenanted building at Todd Park, Porirua, The capital raising is scheduled for completion on 21 September with settlement on September 28, unless capital is raised earlier. For your copy of the prospectus please contact the office: 09 414 6078 or info@maat.co.nz.

The Maat Group

With regards to our company, you will notice that our address has changed to 17 Corinthian Drive, Albany, allowing us to own premises in an area designated for significant development. You are most welcome to visit us if you're ever nearby.

Jodi Tuffin

Paul Tuffin

Katherine Marshall

You may have had the pleasure of talking to our capable administrators, Jodi Tuffin & Katherine Marshall, or Paul Tuffin, who is developing our Personal Insurance division. You may have a family member who requires advice for tailoring a cost-effective insurance policy for their needs. If so, please contact Paul to discuss.

Annual General Meetings

The company held the AGMs recently for all of the syndications it manages. There was a good number of attendees for the larger syndicate meetings which produced constructive contributions from investors. If you have any queries about our business or your investment, please call Neil direct at any time on 021 481 441, or contact the administration office on (09) 414 6078.

Commercial Property in NZ

As a property investor or prospective investor, you may be interested in the current status of the market, which drives yields for landlords and property market prices.

A recent research report by Colliers International provided an overall view that, despite ongoing Eurozone uncertainty, an extended period of positive economic conditions and solid tenant demand in New Zealand has driven many markets up, in the landlords' favour. In response, developers are gearing up to alleviate any demand pressures.

However, Colliers concluded that all regions (except Christchurch) were below average in their construction of commercial property which is good for landlords as the rental returns are maintained at a high level on a supply and demand basis.

Construction of retail premises in Auckland is near the long-term average, but is still some way off the heights of between 130 to 150 consents per year reached in between the late 1990 and mid - 2000s period. Industrial construction consents are currently low, in spite of vacancy rates being at a record low of 2.6%. The main barrier to future development is the land price, at now over $400 per m^2. The Industrial sector accounts for one-third of NZs employment and one-third of the country's GDP and can be linked to the health of the economy.

Auckland's office vacancy rate is at 6.2%, the lowest on record. This demand will be somewhat alleviated with the plans to have a further 224,000 per m^2 of new office space completed by 2017.

Although Waikato and Wellington office building consents are running near long-term averages, the remainder of the North Island and the South Island regions are below the average and near the lowest points of activity recorded since 1991. This suggests that some of the provinces are still in recovery phase rather than expansion phase.

Wellington is seeing significant activity as investors seek better returns away from the more expensive Auckland properties. The Wellington office market is tight, with less than 5% vacancy for prime office.

The Economy

International Economy

And the World waits for China.....

The impact of China on the world economy has taken on a huge significance over the past decade. Some interesting facts highlight the rise of China:

• In 2014, China became the world's largest economy for the first time in modern history, replacing the United States by producing $17.63 trillion in economic output
• The EU remained in second place, producing $17.61 trillion
• The United States fell to third place, producing $17.46 trillion

Together, these 3 economies generate almost half of the world's economic output of $107.5 trillion

The recent devaluation of the Yuan is aimed at making Chinese exports cheaper to stimulate world demand. The impact of the decision has been felt across world equity markets as investors realised the significance of the fall in demand for Chinese products.

NZ Economy

New Zealand is still a small player on the global economic stage and anything that affects our biggest trading partners will have a direct impact on the local economy. The country can usually ride the wave of big international developments, but is always at risk of getting swamped.
In the wake of international issues, the Government has revised its growth target from 3% to 2.00-2.25%, below the target for the world economy of 3%.

The Government is being urged to have a Plan B in place in case the economy takes a turn for the worse, including the option of fast tracking some planned infrastructure projects.

The effect of the reduction in the dairy price pay - out will have a significant ($3.3 billion) effect on the economy.

But while dairying is a significant portion of the New Zealand economy, lean spells for dairy farmers do not always translate into tough times for everybody. The Employers and Manufacturers Association has pointed out that while the drop in dairy prices had dominated the headlines in the past 12 months, other areas such as kiwifruit, wine and the service industry were growing.

So, what are the main forces affecting the NZ economy?

A) The devaluing of the Chinese Yuan

This is bad news for New Zealand exporters, particularly for those who export commodities like dairy products, which are priced in US dollars and now more expensive for Chinese consumers.

The Chinese move has put further pressure on the New Zealand dollar, which is expected to continue to trend downwards for the immediate future.

But the Manufacturers and Exporters Association believes that its members are well positioned to counter the Chinese devaluation as a result of the exporters being lean and efficient.

B) The Christchurch re - build

A recent Westpac report forecast that the rebuild will peak in 18 months' time, following which thousands of workers will vacate Christchurch and will be seeking other opportunities in NZ.

C) Housing

The residential property market continues to show strong growth figures, though there are signs that it is coming off the boil. Any rise or fall in house values has a direct impact on the entire economic system due to the high proportion of investment in property in NZ.

The positive side effect of the property boom is that construction activity during the next six years is expected to top $200 billion, with a recent government report showing residential construction in Auckland driving a "golden era" for the building industry.

D) Migration

Figures released in June showed the number of people wanting to live in the country long term is continuing to reach new highs, with more people arriving from Australia than leaving for that country for the second month in a row.

It was the 10th successive month of record highs. It was recently revealed that the country's population grew by 86,900 people in the last 12 months (1.9%), compared to Australia's 1.4% per year.

E) The OCR

The best single figure to give an indication of the economy's direction remains the Official Cash Rate as set by the Reserve Bank, with some of the country's top economists trying to guide the economy into growth.

It was recently cut to 3 percent, and the Reserve Bank has indicated it is likely to fall further in order to maintain economic growth and return inflation to its target of 2 percent.

Interest Rates

Interest rates have been volatile over recent weeks. Whilst we expect interest rates will rise in the future and are prepared for that occurrence with cash reserves in our property investment entities, we have been surprised that we have seen a sustained period of low interest rates across the world.

One commentator recently suggested that (maybe) the current interest rate regime will become the norm!

Long term rates are (again) all about China! Their devaluation of the Yuan by 4.4% over three consecutive days impacted on currency, interest rates and commodities markets. The Chinese economic data has again been concerning, with their growth forecast of 7% for the current year now expected to be closer to 5-6% (if their stimulus measures don't have the required effect). This is a long way from the well - publicised Chinese double digit growth rates being achieved for a sustained period up to 2013.

Long term US Treasury rates fell to 2.04% recently, well below the forecast 2.20-2.50% range, a symptom of a 'holding' economy for a sustained period with low inflation and probable impact of low growth as a result of increasing value of USD.

The NZ economy. One of the important indicators is that of Retail Sales. The recently released report for the second ¼ of 2015 showed that Retail Sales were weaker than expected, +0.1% versus a forecast of +0.5%. NZ bank economists are now forecasting two further OCR rate cuts out to April next year.

Generally, we borrow funds for our syndications on a 3 year term which is currently circa 4.6% pa (including the bank's margin), making it an attractive time for property investors. With the current volatility, pressure is still on for further rate reductions as world economies struggle to make significant growth progress.

SPORT

With the Bledisloe tucked away for another year we must take pride in the way the ABs defeated Australia at Eden Park. It was a lesson to all how a team can galvanise together under inspirational leadership, total commitment and self belief.

We are hoping to see all of those strengths combined for success by our rowers at the World Championships in France, starting August 30th.

The netballers couldn't quite do it but acquitted themselves well at the World Cup, playing the best netball by a Silver Fern team for a long time

Now that spring's just around the corner, it's time to set the sights on a few half marathons before the end of the year and back to combining the physical strengths with the day by day business challenges.