

March 2010

TEN YEARS OF VALUED LEADERSHIP

It's ten years since leading valuation and property advisory professionals across New Zealand came together to create TelferYoung.

It's been a great decade during which our business has doubled in size. That is due to the high standard of skill, service and local market knowledge our people offer to the clients we work with.

Our priority now is to ensure we keep the high standards of professionalism and service as we continue to grow. That's why we are improving the connections between our nine offices, ranging from Northland through to Canterbury, so that each office can draw on the impressive range of specialist skills, expertise and experience to offer we have within our national team. Our new head office in Wellington will be responsible for national market analysis, and making sure we deliver a consistent standard of communication and service right across the country.

This will help us add an extra national dimension to the strong connections and local market knowledge of each of our regional offices.

We live in interesting times, and for everyone in the property business, there is a great need for quality information on what is happening in the market. That's what TelferYoung provides - and we're looking forward to keeping you up-to-date as the value of New Zealand property shifts in relation to local, national and international economic events.

QUEENSTOWN - A DYNAMIC PROPERTY MARKET



Yes - we all know Queenstown is a dynamic holiday location with plenty of adrenalin rush activities on offer. The qualities that make it a dynamic place to holiday, also make it a dynamic property market.

As a premium Australasian tourism destination, Queenstown feels the highs and lows of national and international economic events more quickly than New Zealand's main metropolitan areas, says Chris Stanley of TelferYoung's Canterbury office. "Queenstown's property values react quickly to changes in both the domestic and global economies, so it has a more pronounced

"boom-bust" cycle than major New Zealand cities. But its unique location and national and international standing as a destination means a positive medium to long-term outlook for property in the greater Queenstown area."

Chris says Queenstown is currently suffering from an over supply in most property sectors but particularly in apartments, tourist accommodation and office space.

"The market for higher valued residential properties is subdued but there is good demand for lower priced property suitable for first home owners, and for premium properties. There has been a substantial fall in section values and a significant reduction in sales volumes. The apartment market has also gone through a price correction as well as a significant reduction in sales volumes, although there have been a number of mortgagee sales."

There has been a substantial increase in commercial development in Queenstown over the last two years creating a significant increase in supply of retail and office accommodation. "Office rentals, and to a lesser extent retail rentals have eased as a result," Chris says. "But investor demand for good quality investment property remains strong."

If you'd like more information on the Queenstown market, give Chris a call on 027 293 3279.

LEAKY HOMES - A MONOLITHIC STIGMA

Leaky homes remain a concern to many of our clients. Evan Gamby of TelferYoung has researched the approaches required to quantify the loss in value associated with leaky monolithic cladding systems. It's a complex subject, which includes needing to address the potential outcomes that may arise through the process of remediation including claims pursued through the Weathertight Homes Resolution Dispute Tribunal and the High Court.

Our research has considered the impact on the valuation process of the 'inherent stigma' associated with all monolithic cladding systems whether or not they leak.

Stigma with respect to leaky building syndrome is a term valuers used to describe "a loss in value - that cannot be accurately quantified but is known to exist and may change over time".

If you would like to learn more about this topic, go to our website: www.telferyoung.com

EMAILING US JUST GOT EASIER

A small change, but a good one! From 15 March our email addresses will change. You no longer will have to type in the office location of the person you are emailing. So if you want to mail Ian McKeage in Nelson, for example, you no longer have to type in ian.mckeage@nelson.telferyoung.com Just email him at ian.mckeage@telferyoung.com



THE AUCKLAND OFFICE MARKET - FEELING THE AFTERSHOCK

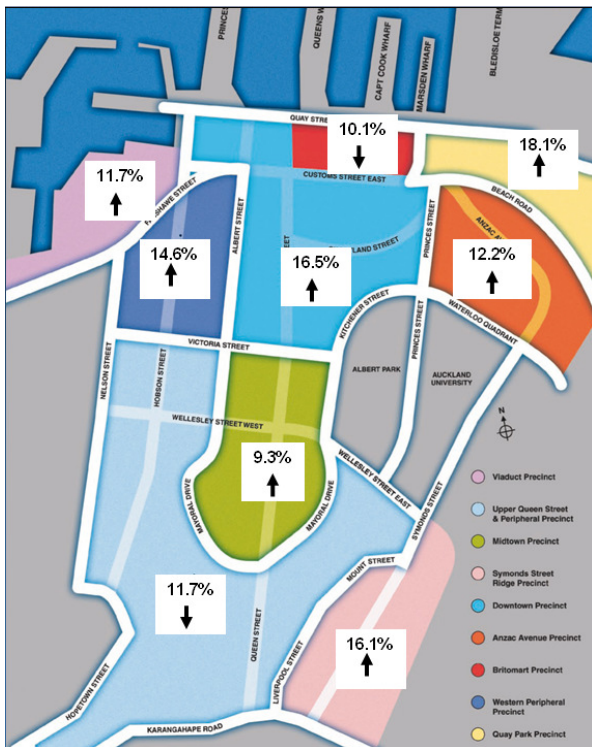
The Auckland CBD vacancy rate jumped from 10% in early 2009 to 14% in January 2010. At the same time, the Auckland City fringe overall office vacancy rate has leapt from 7.9% to 13.5%, as the aftershocks of the global financial crisis in September 2008 continue to be felt locally.

New buildings were committed and under construction at the time of the crisis, and space in those buildings, such as 21 Queen Street and new buildings in the Britomart area, remain vacant.

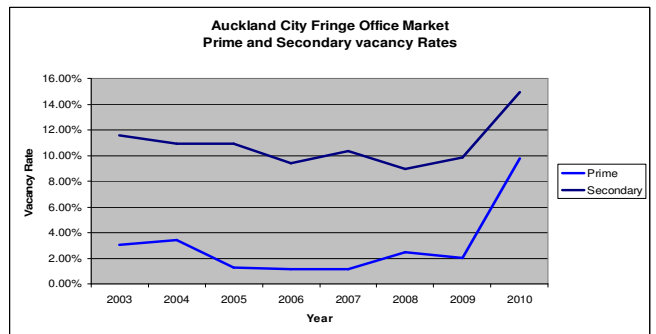
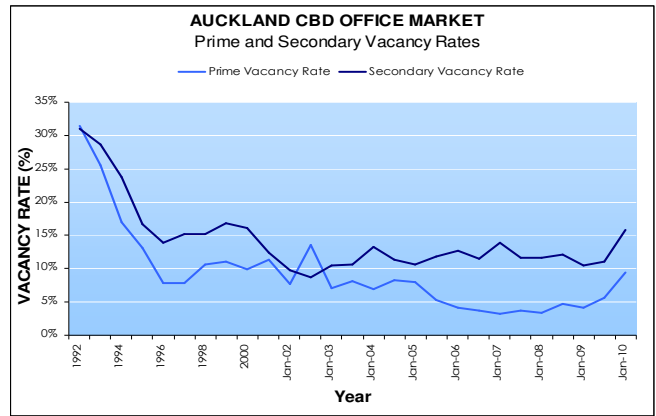
Rentals for premium space reached \$550/m² in mid 2008, but taking incentives into account, are now predicted to be around the \$350/m² mark, a drop of approximately 30%.

We have been asked how the current situation compares to the sharemarket crash of 1987, and the glut of office space that occurred in the early 1990s, from which the market took years to recover. We consider the situation today to be different. In the late 1980s buildings were being constructed with no tenant in sight. Over recent years, however, relatively little space was constructed that was uncommitted. The economy is rebounding and so we anticipate there will be a shortage of premium office space in the CBD again, sooner rather than later.

Attached below from Bayleys/TelferYoung Research are the vacancy rates in different locations of Auckland. Notably, they are reasonably evenly spread with significant vacancy levels around Symonds Street, central lower Queen Street (influenced by the Deloitte Centre) and in the Beach Road/Quay Street railway precinct.



The following two graphs from Bayleys Research, emphasises the movement in rates over time, with secondary vacancy (B & C grade) offices consistently showing a higher vacancy rate than prime A grade offices. **Lewis Esplin**



THE UNBALANCED PROPERTY INVESTMENT MARKET

There is little doubt that the residential investment market fuelled property value increases between 2004-2007, based partly on investors' ability to claim tax deductions against other personal income.

An individual on a 39% tax rate gained the advantage of using tax savings to increase personal wealth by capital appreciation in property. This included not only loss from interest on borrowings, but non-cash deductions for depreciation.

In 2010 there is little incentive for an investor to repeat the process as there are no potential capital gains on the immediate horizon and the residential property market ran out of steam before the financial collapse in 2008. However, the opportunity for a cash strapped Government to claw back those tax deductions in exchange for personal tax reductions (the personal tax rate) must be irresistible. By comparison, the introduction of a capital gains tax and land tax which, thankfully, have been dismissed as an option, is unpalatable.

The forthcoming Budget looks set to confirm that residential investments will lose their status for depreciation and ability to claim income losses against personal income. Whether that should extend through to commercial property is a moot point. Such a move could have repercussions for listed property entities that not only hold investments but also buy and develop shopping malls, office buildings and industrial property which create the underlying fabric of the commercial property market. **Evan Gamby**

REGULAR UPDATES

If this is the first time you have received our newsletter, and you would like to be on our distribution list, please email auckland@telferyoung.com