

# kcl property focus.

## LIQUIDITY IN PROPERTY



Real Estate in most structures is not, never has been and never will be a readily liquid form of investment. It is important that this is understood before you make any investment in real estate whether it be in the form of direct single ownership, or multi ownership in the form of proportionate ownership, partnership etc.

To enjoy the benefits of good property investment one must ensure that they consider some basic rules before making any commitment. Serious consideration should be given to the following:

- 1 A good property investment is medium to long term and if you are not prepared to commit this capital for at least a five year term with the appropriate income benefits, then you must question whether you should make the investment.
- 2 Often a person's biggest investment decision is buying his or her own residence. Any other property acquisitions should only be made after you have purchased your first family home. Any further property interests are then to grow your equity and income for the future.
- 3 You should have a well thought out investment strategy to ensure that the investments you make meet your expectations. Every commercial property has different attributes. We try to clearly spell out the strengths and weaknesses of any property that we make available to market and these should be considered versus your own investment expectations and aspirations.

4 If capital liquidity is paramount then other forms of listed investments should be chosen, including property equity trusts. When considering all of the above it is clear that the best investment strategy is to ensure that you have an appropriate mixture of good capital growth assets and assets that create income. The liquidity of your asset classes should be viewed in light of each individual's investment strategy and appetite for risk. The attributes of proportionate ownership then allows you to spread your property risk amongst various properties including diversification as to:

- Location (e.g. Auckland, Wellington, Christchurch, Brisbane or other good provincial locations);
- Types of buildings including office, warehouse, retail etc;
- Different types of tenants and industry groups.

A diverse investment portfolio that takes into account the above factors spreads the risk, but this in itself is not enough in my view. It is important that the Manager of the property is not only there to manage the property but also to ensure they are maximising your investment and your investment expectations.

We at KCL try to be very proactive in this regard and each of our syndicates or proportionate ownership structures calls an Annual General Meeting of the shareholders. Here the results for the year and the future investment strategies are fully discussed to ensure that investors' expectations or changes in expectation are voiced and considered. In any investment cycle there is often an appropriate time for the investment to be realised and again it is the owners decision to do this,

but equally active management should help bring the owners attention to the appropriate time to consider this decision.

Other things that are important in this decision making process is ensuring that the property is not heavily weighted with debt so as the value and the income grows there is always potential to:

- Release initial equity back to the shareholders without adjusting their regular monthly return;
- Increase borrowings to allow a reorganisation of shareholdings and owners if shareholder has to exit because of extraordinary circumstances.

It is important to have this ability to ensure that should something unexpected happen, the syndicate structure and the Manager has a clear process to follow. KCL has been able to meet all the expectations of any shareholders who have had to exit prematurely for unexpected reasons and even though we cannot make guarantees, a well structured syndicate and good management can be helpful in facilitating this process.

One of our fundamental operating requirements is to have some form of contact with our investors before they make any commitment to invest to ensure that they understand the strengths and weaknesses of such an investment and the lack of liquidity together with the benefits in capital appreciation that go with it and that this meets their own personal investment expectations.

We welcome the opportunity to speak to any interested investors on this matter.

*Bryce Barnett, Managing Director*

## ARRENWAY DRIVE SYNDICATE



KCL Property recently settled the \$9m purchase of a high quality commercial building in Arrenway Drive, Albany. Occupied by GSM Operations, the trading arm of Billabong International, under a lease with 8½ years still to run, the property ticked all the boxes in terms of sound commercial property investment in today's market. The high quality

tenant, long term lease, good location and modern building, all added up to a good quality investment package that was broken down into 100 equity units of \$50,000 each.

As the single largest number of investors KCL has dealt with, marketing of the property was undertaken both by KCL and Bayleys North Shore in a co-operative environment that worked very well in terms of the end result.

Located in the prestige Interplex subdivision in Albany, North Shore, the property features a building constructed approximately 1½ years ago specifically to meet the needs of Billabong as a parent company. First and second floor office space comprises 2,128m<sup>2</sup> in addition to a warehouse of 1,000m<sup>2</sup>. In addition there are 70 car parks divided between 38 secure basement car parks and 32 ongrade car parks at the front of the building.

Providing investors a 9.5% pa pre tax cash return paid monthly, the lease rental also has annual rent reviews by the CPI which will provide steady, regular rental increases. Overall, this is a property that KCL Property is very proud to have as part of its syndicated investment portfolio.

*Phil Hinton, Executive Director*



### INSIDE

- 2 • KCL PROPERTY RESTRUCTURE
  - CHANGES TO ASSET MANAGEMENT TEAM
  - END OF AN ERA
- 3 • INTEREST RATES - TO FIX OR TO FLOAT - UPDATE 1
  - PRESERVING AND GROWING EQUITY IN THE PRESENT ENVIRONMENT
  - NEWS BRIEFS
- 4 • EFFECTIVE DUE DILLIGENCE

Ph +64 6 759 1520  
Fax +64 6 759 1521  
Web [www.kclproperty.com](http://www.kclproperty.com)

**KCL**  
property

# KCL PROPERTY RESTRUCTURE



As with many companies in the country, we are currently working through the final stages of an organisational restructure. Fortunately, we have not been forced into this process by the recession and a need to cut costs (usually heads!). Rather, we have decided to proactively move to adopt a structure that is designed to support our anticipated continued growth and one that provides clear lines of accountability and responsibility to our team.

Since our formation in the early 1990's we have grown to the point where we now manage more than 130 properties with approximately 350 tenants. This trajectory is one we expect to

maintain and the new structure is sufficiently robust to support this expansion without compromising on levels of service delivery and performance to you, our investors.

Some of the benefits we hope to achieve through the restructure include:

- Greater Auckland based resource. 40% of our portfolio is in Auckland and we will now have two full-time Asset Managers working from our office in High Street.
- Improved communication. The revised roles and responsibilities will help to ensure the timely communication of quality information to investors
- Risk mitigation. We have attempted to ensure that the most appropriate employees are working on the high value transactions to deliver the best possible outcome.

• Marketing support. In recognition that we are in essence a service based company, we have moved to support this function and to ensure that our service promise is not compromised as we continue to grow.

• Improved performance. All this is ultimately aimed at ensuring we maximise rental growth, minimise vacancy rates and continue to deliver strong results to investors.

We are excited about the future for the company and welcome some new employees to the KCL team. We have also recently updated our website to reflect the new direction we are taking ([www.kclproperty.com](http://www.kclproperty.com)), and have a few other initiatives planned – but you can read about them in future newsletters!

*Clint Sullivan, General Manager*



It is with great pleasure that we announce the new look Asset Services Team, which consists of the old faces you are all familiar with, complemented by some talented new staff who will provide different skill sets and fresh perspectives, in what is a very challenging market. Whilst the restructure will provide a platform for future growth, it has also prompted us to reallocate the portfolios again so that both the Asset Managers and properties will benefit from the variety and fresh blood.

The Auckland region will now be managed by Julie Sarten and Craig Morresey. Julie has been with KCL for over six years, and has managed various portfolios over that time, from both our New Plymouth and Auckland offices. Julie is also studying towards a Post Graduate Diploma in Business Studies. Craig Morresey has recently joined KCL, and has a Bachelor in Applied

## CHANGES TO ASSET SERVICES TEAM

Science majoring in Valuation and Property Management, and is also a Registered Valuer, having worked with Hutchins and Dick in Taranaki for over 5 years. Craig then worked as an Asset manager in London, and is looking forward to the challenges and opportunities that the current market will provide. Julie and Craig will be assisted by Calista Hea who has recently graduated from Auckland University with Bachelor Degrees in both Property and Commerce.

Stephen Brown-Thomas will now manage the central North Island and the South Island portfolios' with assistance from Richard Buttimore. Stephen has a Bachelor of Business Studies majoring in Valuation and Property Management, and has been with KCL for the last two years. Richard has recently graduated from Massey University with a Bachelor of Business Studies majoring in Valuation and Property Management, and is currently completing his Post Graduate Diploma in Finance.

Simon Betts will now manage the southern North Island portfolio. Simon also has a Bachelor in Business Studies majoring in Valuation and Property Management, and has been with KCL for over four years, during which time he has been involved with most of our properties. Simon will be assisted by Erica Green, who is also responsible for the building compliance aspects for the whole portfolio.

Gavin Fiddes will manage our Brisbane portfolio. Gavin has a Bachelor of Business Studies with a double major in Property Management and Valuation and Finance, and has been with KCL for the past two years as our IT Implementation Manager. Gavin has previously worked in a number of commercial property roles in Wellington and is looking forward to being back in active Asset Management.

The Asset Managers also have a wealth of property experience from prior to joining the KCL team, which together with our extensive networks, is proving invaluable in the current market.

Please don't hesitate to contact the team if you have any queries or feedback, otherwise a letter will follow in due course to each investor advising of any management changes on their specific property, together with full contact details of the respective Asset Manager for future reference.

We are confident that this restructure will deliver the desired results so that our investors can sleep easy knowing that their investments are being actively managed by a team of experienced, dedicated and qualified professionals at the top of their game.

*Bronwyn Simmonds, Manager, Asset Services*



**Craig Morresey**  
M 027 555 4109  
E [craig@kclproperty.com](mailto:craig@kclproperty.com)



**Julie Sarten**  
M 027 2816168  
E [julie@kclproperty.com](mailto:julie@kclproperty.com)



**Stephen Brown-Thomas**  
M 027 544 4955  
E [julie@kclproperty.com](mailto:julie@kclproperty.com)



**Simon Betts**  
M 027 228 6988  
E [simon@kclproperty.com](mailto:simon@kclproperty.com)



**Gavin Fiddes**  
M 027 555 4104  
E [gavin@kclproperty.com](mailto:gavin@kclproperty.com)

## END OF AN ERA - ASHLEY BARNETT

After 10 years working with the company, Ashley Barnett has decided to leave KCL Property in order to seek new opportunities and challenges. Without doubt, his dedication and commitment has helped the company become what it is today. Through his role as the Property Team Manager and as a fellow investor, Ashley has become well known to virtually all our clients. Ashley's detailed knowledge of all of KCL's managed properties, his professionalism, dedication and empathy will be sorely missed.

Ashley has made a significant impact on KCL Property, and we know that he will make a similar impact on whatever opportunity he pursues. On behalf of KCL Property, we would like to publicly thank Ashley for his dedication and efforts over the years and to wish him every success in whatever endeavour he pursues.



# INTEREST RATES: TO FIX, OR TO FLOAT – UPDATE 1

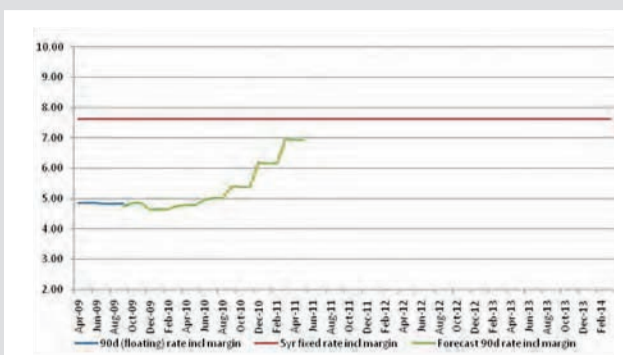


In our last newsletter Bryce outlined his view on floating being the safe harbour in the current climate. He depicted a scenario of a property purchase of \$5.0m with bank funding of \$2.5m. At that time we were quoted a 5 year fixed rate of 7.62% (incl. margins) and a 90d 'floating' rate of \$4.86%. On 1 July this was reset for 90d at a rate of \$4.84% including margins. In this

article we look at the cost to date of the 2 options, and will continue to do so into the future.

Firstly, what does 'floating' mean. In our dealings with the treasuries of the various Banks we do business with, floating is any rate that is short-term and generally that means up to 90 days. Most of our 'floating' loans are on a 90d rate meaning they are re-priced every 90 days to whatever the BKBM rate is, plus the banks cost of funds. The 90d or BKBM rate is also a 'benchmark' rate that is monitored and recorded by the Reserve Bank of New Zealand. The 'actual' data I am using comes from their website, to which I add the current margins being charged by the trading banks. You can see the actual raw data by going to: [www.vbnz.tovt.nz/statistics/exaudint/b2/](http://www.vbnz.tovt.nz/statistics/exaudint/b2/).

The graph shows the actual 90d rate and to that we have added the margin, which includes the banks cost of funds and our credit margin. Banks 'cost of funds' range from 60 – 150 points (0.6% to 1.5% depending on the commitment term of the loan by the bank) and includes the risk factor of raising funds from offshore sources. I have also added a line for the consensus forecasts to show where NZ banks are expecting the 90d rate to go over the medium term. The interesting point to note (good pun that) is that they are not forecast to go above the 5 year fixed rate, yet.



The assumptions and savings to date are:

Started	<b>1 April 2009</b>
Bank funding	<b>\$2.5m</b> (of \$5.0m purchase)
Fixed	<b>5 yr rate 7.62%</b>
Floating	<b>90d</b>
<small>(first rate = 90d at 1/4/09, re-priced on 1/7/09)</small>	
<b>Cost to 31 August 2009 (122 days):</b>	
Fixed	<b>\$79,853</b>
Floating	<b>\$49,628</b>
Savings to date	<b>\$30,225</b>

*Chris Rudd, Finance & Investment Manager*



## NEWS BRIEFS

### PORT TARANAKI OFFICE BUILDING

As shown in the photograph below, progress has been excellent with the building officially opened in mid September. It was completed by Clealands Construction Limited and the contract proceeded very smoothly. We will give an outline of the project and the finished building in our next newsletter.



### COUNTDOWN, THE VALLEY, NEW PLYMOUTH

Having officially opened in early August 2009, this 4,000m<sup>2</sup> floor plate building is one of the new generation Countdown offerings and has blended well into the integrated format of The Valley. With nearby bulk retail and a Mitre 10 Mega, this supermarket will meet the needs of Progressive Enterprises on the northern side of New Plymouth city. KCL Property is pleased to have been able to provide project management services to the developers, Brookfield Multiplex.



### KCL PROPERTY YOUTH PERFORMANCE SHOWCASE

KCL Property was privileged once again to sponsor the Youth Performance Showcase held at the TSB Showplace on 15 August 2009. This event showcased young Taranaki performing artists who have been recipients of grants from the Dame Malvina Major Foundation. KCL Property enjoyed being a part of a very appreciative audience and wish all the performers all the best in the future.

# PRESERVING AND GROWING EQUITY IN THE CURRENT ENVIRONMENT



The KCL Property ethos has always been to preserve and then grow equity through property investment by active management. In the current economic environment preserving equity is of the utmost importance and in some cases challenging. The recession has provided a number of obstacles for property investors, and creative management is crucial to preserve and grow equity - KCL prides itself on doing this.

KCL has implemented a number of systems and processes for monitoring debtors, rental relief requests and tenants with whom we have concerns. We do our utmost to retain existing tenants, however, the fate of some tenants is out of our control, and vacancies are inevitable given the present economic climate. This is where KCL's networks, contacts, and creativity come into play. We have recently preserved and grown equity in a number of properties and will share some examples with you to show that it is not all doom and gloom. Smart operators are preserving, and in some instances growing equity despite the challenging environment.

We manage an industrial building in Christchurch for a syndicate that had a single tenant decline an option to renew its lease in 2008. The buildings were substantial and KCL saw the ability for the site to be broken down into two separate tenancies to spread risk across multiple tenants, and to attract smaller scale tenants given that large tenants are retrenching and consolidating. A national transport operator was secured on a 6 year Lease for the rear portion of the property, with minimal incentives and a market based rental with regular reviews moving forward. Through our networks KCL also secured a short-term monthly tenant for the front portion of the property to provide holding income whilst a more suitable longer-term tenant was obtained. Through our contacts a suitable tenant was located for the front portion of the property on a 6 year Lease, with regular market reviews moving forward. Some works were required to suit the tenant, however, they were capital upgrades to the building and ultimately provided additional value to the landlord. Upon completion KCL have secured two substantial tenants spreading

the property's risk, increased the (Weighted Average Lease Term) WALT, and completed upgrade works to the property. These all add significant value and increased the total rental by approximately 5%, not only preserving but growing the investors equity in the process.

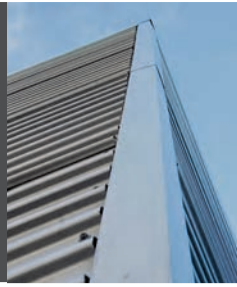
We have also recently relocated Resene Paints in Palmerston North to a site we administer on behalf of a private investor. Through our networks and contacts we had identified the opportunity to secure this substantial national tenant for the site. Through active management KCL were able to secure a Surrender of the existing Lease over the premises, along with a substantial Surrender payment for the inferior tenant to vacate prior to the Lease expiry in 2011, and secure Resene on the site. KCL negotiated a new 6 year Lease with Resene, and arranged for the building to be refurbished to suit their requirements, the majority of those costs being incurred by Resene. The new Lease also achieved 9% rental growth on the previous tenant, with regular market reviews moving forward. KCL were able to secure Resene despite the fact they still had circa 5 years to run on their existing premises, and no major contributions were required, a testament to KCL's creative and active management and negotiation skills. The equity within this property was preserved through a longer WALT a substantial national tenant, with significant capital upgrades to the building at minimal cost to the Landlord, putting the property in an excellent position moving forward for positive equity growth.

As can be seen from these few examples KCL's active and creative management, together with elaborate networks and contacts in the industry allow us to not only preserve and set the property up for future equity growth, but in some cases grow equity immediately despite the challenging economic climate. The importance of a competent and professional property manager during these difficult times is crucial as outlined in the previous newsletter. Should you wish to discuss any aspect of KCL's property management services, or wish to explore options on how KCL can help preserve and grow equity in your property investments, please do not hesitate to make contact with one of the team.

*Stephen Brown-Thomas, Asset Manager*

*"To preserve and then grow equity through property investment by active management"*

## EXTERNAL CONSULTANTS



# EFFECTIVE DUE DILIGENCE BY PROARCH ARCHITECTS LIMITED

Proarch Architects Limited has been involved in due diligence assessments for the built environment for over 20 years. We have unique expertise which we bring to each project from a master planning, urban design, architecture and building maintenance perspective which can be utilised as part of a full due diligence report.

In the most general terms a due diligence report for a developer/investor serves to confirm all material facts in regard to a purchase. Understanding the built environment and the possibilities is a core part of this process. In practical terms the better the due diligence the more informed the investor or purchaser. The purpose of due diligence is to determine whether to go ahead with the transaction at all, and if so, on what terms. Due diligence should ensure that:

- The purchaser is fully informed before making a final commitment
- The property is priced appropriately given all available information
- Identify risks to enable them to be efficiently allocated between purchaser and vendor

It is essential that due diligence is undertaken either prior to making an offer or in the period of grace prior to making a commitment to invest. Proarch gathers information about a property. This requires fast effective service from key professionals to bring together a report which highlights the opportunities and risks in a comprehensive manner for our clients. At the outset of the process it is important to define the scope of the due diligence assessment required. A thorough due diligence report may include detail from the any or all of the following subject areas;

### LEGAL INFORMATION MEMORANDUMS (LIM)

A LIM provides information held on file about a property from the relevant city or Local Council database. If there are any problems, unusual or important features, these should show up. A LIM may reveal that the property is subject to flooding, or contains a council drain which may not be built over, or a protected tree or historic building rating which could impact on development viability.

The list of building consents and code compliance certificates combined with a visual inspection can be informative in terms of what is not listed in the LIM. Any un-consented works will not be shown in council records.

A LIM should include all copies of legal titles for the property. Titles should include fully researched copies of all Easements, Caveats, Building Line Restrictions and Council Bylaws listed on the titles. A LIM may highlight Building Act 2004 provisions for the existing established buildings on a site such as s75 where a building is built over two more allotments or include Consent Order requirements relating to existing Resource Consents for a property.

If Caveats, Easements, Building Line Restrictions or Council Bylaws are included on a title they should be fully expanded on so that the full potential or lack of potential for the property can be assessed. Council Bylaws occasionally present barriers for development which are not picked up in LIM or Resource Consent stages of projects. A LIM may include information on storm-water, sewer drains, and zoning details for the site.

### COUNCIL FILES

Obtaining a copy of the council held property file can also be useful. Our experience in searching property files is that Councils do not necessarily include all information on these files. With



larger councils the property file may exclude relevant information on fire design, geotechnical or drainage aspects. Identifying the gaps in the information and highlighting risks associated with omissions can prove meaningful to investors.

### UTILITY SERVICE PROVIDERS

The known available utility services connections for domestic water, fire fighting water, electricity, gas, and telecommunications/fibre optics can be researched and included. Limitations to the information obtained from service providers can apply subject to the knowledge of the end use for a potential development. For instance, if the property is developed for a larger building or more intensive use, the amount of available 'juice' (power) in the local network may need to be increased via a new transformer installed at owners cost.

### VISUAL INSPECTION

Proarch regularly undertake Building Condition Reports which include a visual examination of the structure and systems of a property from top to bottom. Only those items that are visible and accessible by normal means are included in the report. The evaluator reports on the condition of roof, foundations, services, cladding, linings, walls, windows and doors.

The usual cover-ups viewed at inspection often require more investigation. A fresh coat of paint can hide a more serious problem. Stains on the ceiling may indicate a chronic roof leakage problems or a one-off occurrence. Viewing below the roof, in the ceiling space and below the ceiling may allow a more informed opinion. Interpreting the clues allows a professional opinion to be given and the potential reduction of unpleasant surprises.

The report will describe the existing building condition and indicate items that need minor or major repair. It will highlight items of maintenance that require immediate attention and matters of concern arising from the inspection.

### STRUCTURAL CONSIDERATIONS

The New Zealand Society for Earthquake Engineering "Assessment and Improvement of the Structural Performance of Buildings in Earthquakes" recommendations June 2006 apply to structures built prior to 1977. For older buildings the input of a Structural Engineer at due diligence stage is valuable to investigate likely cost of structural modification for a new use where known. Again, Structural Engineer reporting is based on visual assessments and property file information rather than intrusive testing unless otherwise instructed.

### PLANNING

An assessment of zoning and what the property may or may not be used for can benefit due diligence reporting. Proarch are experienced in undertaking quick bulk and location sketch plans to examine the potential to maximise return. We examine how the building or property can be utilised, what activity can be established here as of right? If there is a known intended use then further investigation into planning, fire design, disabled access, carparking etc is warranted. Likely opposition to the type of activity proposed is an important aspect of risk assessment. If there is an unknown future use or activity for the property then these aspects are excluded and the risk is largely left unknown.

### CONCLUSIONS

Part of background assessment is to provide the material facts to give a clear picture of what you can afford and how it can be developed for best return on investment. This enables financing to be adequately assessed. Even though one property looks great and ticks all the boxes at due diligence, it never hurts to undertake some comparison shopping and look at other opportunities to make sure you are signing to the best concept. We enjoy assisting KCL in researching key components of properties as part of their effective due diligence programme.

[www.proarch.co.nz](http://www.proarch.co.nz)

#### KCL PROPERTY AUCKLAND OFFICE



#### NEW PLYMOUTH



**Head Office**  
331-335 Devon Street East  
PO Box 44 New Plymouth,  
New Zealand  
**Ph** +64 6 759 1520  
**Fax** +64 6 759 1521  
**Web** [www.kcproperty.com](http://www.kcproperty.com)

**Auckland Office**  
Level 4, 5 High St  
Auckland City  
PO Box 911  
Shortland Street, Auckland  
**Ph** +64 9 302 7720  
**Fax** +64 9 307 6412

