ING Property News

The Newsletter of ING Property Trust **December 2008**

"Be fearful when others are greedy, and be greedy when others are fearful." Warren Buffett

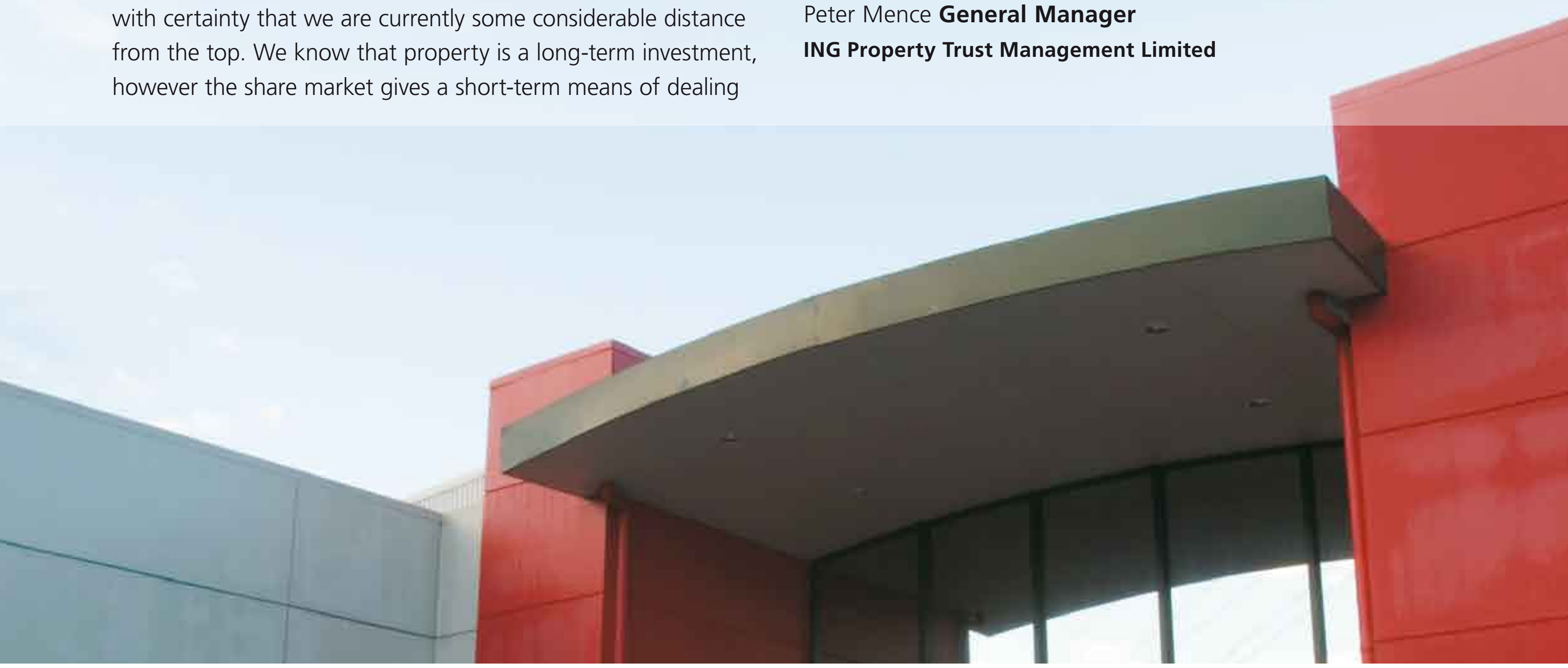
Welcome to the summer newsletter of ING Property Trust. We will all have been touched to some degree by the recessionary environment in New Zealand and by the global affects of the credit crisis, and consequently many of you will be concerned with the risk profile of our investments.

It is at times like this that we naturally return to the fundamentals of secure income returns and diversification. It is human nature that we tend only to provide sufficient weight to risk levels when we are faced with the reality of them.

History tells us that investments will go in cycles; that a recovery will always follow a recession. Stock market history also suggests that the bigger the drop, the bigger the subsequent gain. While it is impossible to predict with any certainty the bottom of an investment cycle, we are in the unenviable position to predict with certainty that we are currently some considerable distance from the top. We know that property is a long-term investment, however the share market gives a short-term means of dealing with a long term asset class and at present, a better opportunity to realise a loss. One of the disadvantages of the liquidity provided by the share market is that the effects of sentiment and fear can be strongly felt over a short time frame showing in the daily face value of our interests. It is equally true that where we can be confident in our investments it provides an opportunity to increase longer term gains by seeking the benefit of depressed prices.

In real terms, most people would jump at the opportunity to acquire a house valued at $400,000 for $220,000, and very few would be inclined to sell their home at the same sort of discount. Yet it is the same sort of ratios that we see units in ING Property Trust changing hands in the current investment environment.

Peter Mence **General Manager**
ING Property Trust Management Limited



Throughout 2008, we have been hearing about the global financial turmoil and how it is affecting both businesses and investors.

In particular there has been attention devoted to financial services companies and managed funds. Recently, ING (NZ) Limited has been covered in the media, with reports around closing various investment funds both here in New Zealand and overseas.

In early December, ING (NZ) Limited announced that it will be closing four investment funds. These actions in no way affect your ING Property Trust unitholding. Your unitholding can continue to be traded freely on the NZX, via your chosen broker.

ING Property Trust is a unit trust. This means that the units in the trust are governed by a Trust Deed which is managed or overseen by a Trustee. In the case of ING Property Trust, this is The New Zealand Guardian Trust Company. The Trustee is an independent entity who safeguards the Trust's assets.

The Trust contracts with ING Property Trust Management Limited, which is a subsidiary of ING (NZ) Limited to manage the day to day operations of the Trust and its portfolio.

Our people | **Mike Clark**

Mike joined the Real Estate team at ING (NZ) Ltd fresh from university in 2005 with a great deal of enthusiasm and a good attitude to his work. Since then, he has gained valuable work experience as well as the respect of his peers and superiors. Mike has recently been enrolled on the ING Talent Register which is targeted to train and retain our best staff to provide future leaders for the worldwide business.

Mike has spent three years as a Property Manager working on the ING Property Trust portfolio and has just been promoted to Senior Property Manager where he will take additional responsibility for the investment performance and income delivery for a group of assets.

Nearing completion -

Albany development project

The first stage of the Albany development is complete and the Mitre 10-Mega store is now open and trading well.

Recent tenancies have been committed to a number of well-known retail businesses including Retrovision, Avanti and Beds 'R' Us. The development is now over 80% leased, and the leasing team are confident of a fully-committed unit before its completion, currently due in March 2009.

The Mitre 10-Mega Store covers in excess of 10,000 sqm, providing DIY enthusiasts an extensive selection of hardware and gardening products, plus a timber yard and a cafe.

The key attraction of this site for Mitre 10 is the ease of access. Oteha Valley Rd is a critical thoroughfare joining the East Coast Bays to the inner harbour suburbs of Auckland's North Shore.

The Oteha Interchange provides access to and from the northern motorway. With access to the site directly from Oteha Valley Rd and major round-a-bouts located at either end of the site, access could not be easier.

Commencement of any further development at Albany has been deferred in response to the current domestic economy and the constraining effect it has had on the retail sector.

Residential v commercial – investment truths

Over the past few months there has been a lot of speculation in the press about the property market. Most commonly this is around the values of residential property.

- While the drivers of value in residential property are different to those in the commercial property market, both markets have seen negative pressure as the credit issues internationally reduce the number, and change the nature, of potential buyers of property in the market.
- The supply and demand balance is the major influence and it effects change in both the residential and commercial property market in two ways. Firstly, the **occupancy** of, or supply and demand for, space; and secondly, the **investment** or the supply and demand for income generation and capital appreciation. It is in the application of supply and demand where the residential market differs substantially from the commercial market.
- The residential market in New Zealand is dominated by the need to find somewhere to live or accommodate our families, and a desire to own the house we live in. Many feel that the security or permanence engendered by ownership is one of the intangibles that makes a house become a home. Therefore population growth is a factor.
- Residential investment is driven by the relatively small number of buyers who see it as a means of making money. Residential investors are generally lead by the potential for capital growth rather than the income returns from the residential investment. This is because the income returns are generally significantly inferior to other means of investing in the property market.
- In contrast, the commercial market is driven by the growth in requirements for space by businesses active in each sector and the current availability of space in the form of excess capacity, vacancy and new development supply. The introduction of the "Portfolio Investment Entity" (PIE) has levelled the playing field and removes the previous advantages with residential investment relative to most other forms of property investment.
- New Zealand commercial property tends to deliver income returns of approximately 8–9% and residential property 4–5%. Residential property will need to increase in value by 4% per annum in order to equal the income return from the commercial property sector. In the current market it is clear that far from delivering these sort of value increases, there is in reality a significant decrease in the values. For some highly leveraged owners there is a chance of negative equity situations such as recently seen in the United States with devastating results.
- Looking at the current environment, there have been reductions in values for both residential and for commercial property, with potential for further to come.

'The supply and demand balance is the major influence and it effects change in both the residential and commercial property market'

The commercial market continues to show good fundamentals with vacancy rates increasing, but under control and even some potential for rental growth. The residential property market is certainly facing a supply and demand slowdown and without doubt the credit crisis has had an impact. Commercial property will also be affected but with the greater proportion of its total return generated from income, rather than value growth. There remains potential for solid returns without reliance on value growth, this is because the commercial market remains reasonably sound and importantly, the level of new supply to be introduced to the market will be limited by the reduction in availability of credit. Developers of new space to the market will be less able to obtain the funds to effect new development. In New Zealand, the majority of new supply has been injected into the market by professional property developers, who can demonstrate an opportunist approach to market fundamentals and to the long-term quality impact of their decisions both in terms of design and specification. In the current environment, development is more likely to be occasioned by investors interested in the long-term performance of the development as an asset, and a commensurate interest in the quality of the product.

So if residential property investment is relatively less attractive than commercial, why is it that as a nation we have so embraced the concept?

- We can see that it is really there – the "concrete" story
- We can remain in control – the "I don't trust anyone" story
- We find it easier to understand – the "everyone is an expert" story.

3 things that are good about the credit crisis for New Zealand Property

- Supply and demand will be more measured
- The longevity and quality of new developments should be improved
- Environmentally sustainable design will be better achieved

Property revaluations

ING Property Trust has recently completed an interim review of asset valuations last completed at year end on 31 March 2008. While the policy is to revalue the assets in the portfolio at year end, the directors considered that in light of the issues facing the credit markets and the recessionary domestic environment, it was in the interests of unitholders to perform an interim review of property values.

A review of the existing valuations was undertaken by the independent valuation practise DTZ New Zealand, but the scope was limited to a "desktop" review rather than a full revaluation and as such no inspection of the properties was completed. The intent was to determine the expected impact of the changed economic environment.

The result was a slight reduction in total portfolio value of about 1.3% or $14m.

The portfolio will be revalued as normal on 31 March 2009.

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