POWER IN NUMBERS

THE SYNDICATION MODEL

Changing dynamics in the investment world in the wake of the Global Financial Crisis (GFC) have elevated the profile of proportionate ownership as an investment option.

Leveraging off the concept of there being power in numbers, proportionate ownership structures via syndications give investors the opportunity to acquire interests in a commercial, industrial or retail property offering which could otherwise be out of their financial reach, or to build a diversfied portfolio.

The pooling of resources and the expertise of the syndicator allows investors to purchase a 'beneficial interest' in the registered freehold title of a property, and to become passive investment partners in a good building, with a proven tenant and a long lease with growth prospects.

Costs are therefore spread – making property assets of considerable value and scale more accessible and affordable and in turn, lessening the risk to individual investors.

The syndication model has gained traction in the market post-GFC, driven largely by investor demand for steady income streams, higher yields relative to current bank deposit returns, and the tangible nature of bricks-and-mortar investment – the 'touch and see' factor.

The syndication market has evolved from a relatively small industry 10 years ago to a significant niche within the broader commercial and industrial sector today.

As well as appealing to 'mum and dad' investors or those dipping their toes into the commercial property market for the first time, syndications have become an investment of choice for large investment trusts – including iwi – family trusts, and high net-worth individuals. Some investors are securing upwards of $1 million worth of interests in individual syndication offerings.

Syndicates offer the chance to access some of the country's premium commercial and industrial property stock at entry level values. Many syndications have a minimum investment of $50,000 with investors able to purchase numerous interests.

Changes to the disclosure regime for New Zealand property syndications two years ago now require syndicators to issue a registered prospectus and an investment statement, and to appoint a statutory supervisor. The commercial property syndication investment market now effectively has the same disclosure rules as any other public investment offering.

The secondary market for the on-sale of syndicated property interests is also active. In most proportionate ownership schemes, interests are offered first to existing stake holders in the scheme. Investors are able to set their own price and under some structures can sell their interest(s) themselves, or the expectation may be that they sell through the syndicator's appointed secondary market agent with a pre-agreed commission structure.

With seasoned and specialist syndication companies behind the proportionate ownership structures, further benefits to investors can include:

- Security of title for individual interests
- Capital management
- Financial reporting and regular updates on activity undertaken on behalf of investors
- Good governance
- Day-to-day property management services including tenant liaison
- Attractive yields relative to bank deposits
- Strategic planning and the ability to build a diversified property portfolio
- Monthly cash distributions (dividends)
- A passive investment
- Opportunities for capital gain

There are some points which investors will want to weigh up in the syndication equation including:

- Most syndicates do not have a specified termination date
- Reduced liquidity should an investor wish to cash up before the syndicate is wound up
- Generally the properties have a single tenant profile which, while also often being a selling point, does expose the syndicate to the risk of that tenant vacating
- Syndicates are generally leveraged
- There are costs associated with the establishment of the syndicate

As with any investment purchase, you should obtain independent advice before making any syndicated investment decisions.

WHO'S BUYING?

Bayleys' head of syndication, Mike Houlker, has been involved with numerous high profile syndication sell-downs over the last 13 years throughout New Zealand and Australia. He says buyers come from a wide cross-section of New Zealand society – both geographically, and demographically.

"Historically we have had a considerable number of traditional 'mum and dad' investors along with a large percentage of retirees looking for an investment which offers better returns than bank term deposits. In recent times, syndications have also had strong appeal to heavyweight investment trusts including high profile iwi groups, and there are a large proportion of high net-worth individual buyers," says Houlker.

Syndications offer investors the opportunity to invest in institutional grade property assets which are out of the

> "In recent times, syndications have also had strong appeal to heavyweight investment trusts and high net worth individual buyers."
>
> Bayleys' head of syndications, **Mike Houlker**

financial reach of most investors, without the burdens of day to day management, he says.

They also allow investors to create a well structured property portfolio through diversification. Through investing in a number of syndications, investors can diversify their portfolio across various regions, with different property types - retail, office, industrial - and with differing tenant profiles.

Houlker says the secondary market for syndicate interests is growing. As evidence of this, over the last three years, no secondary sales for interests in Augusta Funds Management Ltd offerings have been sold for less than the initial sell down face value and some have sold for up to 20 percent higher.

Over the last 39 months, Augusta Funds Management Limited and Bayleys Real Estate Limited have facilitated the secondary sale of 254 proportionate shares with a total sales value of $12,855,000.

CARTER HOLT HARVEY'S MANUFACTURING FACILITY
33 HUGO JOHNSTON DRIVE, PENROSE, AUCKLAND

- Number of syndicated interests = **192**
- Number of investors = **106**
- Auckland buyers = **34%**
- Rest of the North Island buyers = **47.2%**
- South Island = **16%**
- Other = **2.8%**

BUNNINGS
SILVERDALE, AUCKLAND

- Number of syndicated interests = **254**
- Number of investors = **143**
- Auckland buyers = **36.4%**
- Rest of the North Island buyers = **45.4%**
- South Island = **16.1%**
- Other = **2.1%**

COUNTDOWN
HUNTLY

- Number of syndicated interests = **109**
- Number of investors = **73**
- Auckland buyers = **23.3%**
- Rest of the North Island buyers = **60.3%**
- South Island = **16.4%**

ASB NATIONAL SUPPORT CENTRE
360 DOMINION ROAD, MT EDEN, AUCKLAND

- Number of syndicated interests = **340**
- Number of investors = **175**
- Auckland buyers = **32%**
- Rest of the North Island buyers = **52.6%**
- South Island = **15.4%**

For further information on syndicated property investment please contact a member of Bayleys specialist syndications' team:

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CASE STUDY - SPARK CITY

When the opportunity arose to secure a proportionate slice of Telecom's (now rebranded as Spark) head office complex in Auckland, investors jumped – keen to get a stake in one of the biggest ever single property syndications undertaken in New Zealand.

A total of 780 $50,000 proportionate interests totalling $39 million were offered for sale by Augusta Funds Management Ltd in a 7,495m2 building at Telecom Place, now known as 'Spark City', on the corner of Victoria Street and Dock Street in Auckland's CBD.

The offering provided investors with a projected initial income return of 8 percent for the first full year ending 31st March 2016.

The syndication followed Augusta entering into an unconditional agreement to purchase Building C, one of four buildings in the Telecom Place complex, for $65,186,117.

The building, which is fully leased to Spark New Zealand Trading Limited (formerly Telecom New Zealand Limited) on a 10 year lease from 1st June 2014 with two rights of renewal of six years each, sold at a 7.25 percent yield on its current net annual rental income of $4,725,993.

The syndication was structured as a proportionate property ownership scheme with the opportunity to purchase beneficial interests in a proportion of the registered freehold unit title in the property.

Investors could subscribe for one or more of the $50,000 proportionate shares. The balance of the purchase price was funded by an extendable loan facility from ASB Bank, with an initial 36 month term.

Spark City forms part of a premium grade campus style office development that was purpose built by Mansons TCLM Ltd for then-Telecom New Zealand Limited and completed in 2010.

Three of the buildings in the development are leased by Spark New Zealand Trading Limited, with Television New Zealand now leasing the remaining building. A unit title subdivision of the development was completed in June, which has created separate freehold unit titles for each of the four buildings.

"Spark City is one of the most modern and highly specified office building complexes in New Zealand and has achieved 5 Star office design and built certifications from the New Zealand Green Building Council," says Bayleys head of syndications , Mike Houlker.

"Building C is located in a high profile corner position in a growth CBD location where there has been substantial office development activity in recent times. Mansons is also currently building a 18,600m² office complex across the road and nearby, Fonterra's new head office on Fanshawe Street is currently under construction.

"There are a number of other big name tenants located in the surrounding area such as TVNZ, Oracle, Vodafone, KPMG, Microsoft, NZI and Kiwibank."

Spark's lease - which includes underground parking for 73 cars - runs until 31st May, 2024, with rights of renewal until 31st May, 2036. The lease has built in rental growth, with fixed annual increases of 3 percent per annum for the initial 10-year term. The next increase due in November 2014 will increase the building's annual net rental income to $4,867,000.

Augusta Funds Management Ltd managing director, Mark Francis.

Mansons TCLM is providing a capital and defects warranty for the initial term of the lease until 31st May, 2024.

The proportionate ownership scheme will be managed by Augusta Funds Management and overseen by Covenant Trustee Limited as statutory supervisor.

Augusta Funds Management is a wholly-owned subsidiary of NZX-listed Augusta Capital Limited, and following its merger with KCL Property earlier this year, now has almost 170 properties valued at approximately $1.17 billion under management, says managing director Mark Francis.

He says Augusta is able to use its group balance sheet to secure properties unconditionally before presenting them to the market for syndication, allowing them to generally acquire assets at favourable prices and terms – sometimes below registered valuation.

"We also underwrite a large proportion of our offerings, which means that we only offer assets to our investors that we would be happy to own ourselves," he said.