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Institutions Hungry for PIE

Wellington (September 2007)

New tax changes will come into effect in New Zealand on 1 October 2007 under the new Portfolio Investment Entity (PIE) regime.

Ryan Johnson, Managing Director of CB Richard Ellis in Wellington said that these tax changes will have a direct effect on the commercial property market.

A PIE is required to primarily invest in assets with the objective of deriving a passive income from activities such as investment in property related rents.

“One of the key benefits will be that a PIE will not be taxed on realised capital gains on New Zealand and Australian shares,” Mr. Johnson commented.

The market has recognised the introduction of the new PIE tax regime as having effectively transferred value from the New Zealand government (tax revenue) to listed property trusts through a lower tax liability on income streams earned.

Under the PIE regime there is a reduction in the top marginal tax rate from 33% to 30%.

Mr. Johnson said that the result of this and other structural changes will lead to a higher net yield to investors.

Within the current volatility in finance markets and the sharemarket, Mr. Johnson forecasts that this will keep the focus on the relatively low volatility and high net yields from commercial property trusts. Such trusts include AMP New Zealand Office Trust (ANZO), Kiwi Income Trust, Goodman International and National Property Trust.

Given that yields have seen significant compression, a number of trusts are focusing on development prospects in their existing portfolio, as they have an opportunity to promote material unit holder creation. Examples of this include AMP New Zealand's planned Vogel Campus and the acquisition of Capital Properties which have significant development pipelines.

"In some cases we have seen Listed Property Trusts being able to compete slightly more aggressively than other buyers and this has led to some record yields being offered for CBD properties," Mr. Johnson said.

"Add to this the increasing capital flows from KiwiSaver and you will see more of Wellington CBD properties in institutional ownership," Mr. Johnson continued.

We are already seeing evidence of this trend.

Five years ago Wellington was very much dominated by private owners. At this time, the level of private ownership was as much as 60-70% of the market.

This statistic has now been turned on its head and institutions now own the majority of the Prime to B grade stock. The level of institutional ownership of these types of properties is now at around 60% and increasing.

About CB Richard Ellis

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