UNIVERSITY OF AUCKLAND
INVESTMENT
CLUB

# INVESTMENT BULLETIN

STUDENT WRITERS - STUDENT OPINIONS

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# Contents

# An update from the fund

A RUNDOWN OF THIS WEEKS PITCHES WRITTEN BY IC CHAIRMAN NEHAAL RAM

## PUSHPAY

Pitched by Hamish Marsden, Senior Equity Analyst:

Pushpay (NZX: PPH) is the market leader in donations technology and online management tools for large US churches. Pushpay provides churches with a comprehensive product offering including; software to facilitate mobile and web-based donations, a donor management reporting system, and an administrative church management system. Generating revenue through church subscription fees and processing fees on donations, Pushpay has benefitted from an industry trend towards digital giving due to COVID-19, growth in US megachurches and growth in average donation size. With a superior quality product in relation to competitors, Pushpay is poised to grow further and continue to dominate the industry. However, Pushpay is not without risks, M&A among competitors may result in rivals producing a more competitive product offering, compressing margins in the industry. Pushpay is also exposed to reputation risk, as churches may elect to work with non-profit competitors which they believe more closely match their churches values. Finally, diverse movements in the USD to NZD exchange rate will affect Pushpay's NZD . The Investment Committee moved to pass Pushpay with a final vote of 10/16, with the valuation headed by Hamish Marsden, Tribhuvan Krishnan, Daniel Vaz and Donovan Rea.

**"Revolutionising the donations industry, one gift at a time." -** Hamish Marsden, Senior Equity Analyst

## BRAMBLES LTD

Brambles Ltd (ASX: BXB) forms the invisible backbone of global supply chains, primarily serving the fast-moving consumer goods, retail, and general manufacturing industries. They own and lease out reusable plastic pallets to major global companies to help with supply chain issues. Brambles' strong and resilient demand, coupled with their forward-looking and sustainable approach to business puts them at the forefront of change in the logistics industry. They have a diversified client base and revenues are well sheltered, coming from multiple different industries. Brambles' share and reuse business model is unique within the industry and offers a fresh way of thinking that sees them fend off most competition. Retailer acceptance of their solution and compliance are the biggest hindrances to what is otherwise considered a deep value investing opportunity. The Investment Committee has voted to pass Brambles Ltd with a final vote of 15/16. The valuation will be conducted by Michael de Boyett, Nehaal Ram, Katy Qiu, and Kevin Li.

**"Brambles have quite a pallet-able solution for supply-chain efficiency." -** Michael de Boyett, Senior Equity Analyst


# Is day-trading for students?

WRITTEN BY CHRISTOPHER WONG

I HAVE NOTICED THAT A FEW QUESTIONS ABOUT DAY TRADING ALWAYS POP UP DURING EVENTS. DAY TRADING IS OFTEN ASSOCIATED WITH 'GET RICH QUICK' SCHEMES AND IS SOMETIMES CONSIDERED BY SOME AS A TABOO AREA OF INVESTING. HOWEVER, THE REASONS FOR ITS NEGATIVE STATUS ARE NOT ALWAYS CLEARLY IDENTIFIED. THUS, I BELIEVE IT WOULD BE VALUABLE TO EXPLAIN WHY DAY TRADING IS CERTAINLY NOT FOR MOST UNIVERSITY STUDENTS.

Though there is no clear definition for day trading, most interpretations share a similar notion that involves multiple trades over a short period. To illustrate, the New York Stock Exchange (NYSE) defines a day trader as someone who trades a minimum of 4 times over 5 days, provided that the number of day trade is more than 6% of the customer's total trading activity for the same 5-day period. An individual who identifies as a day trader aims to gain a profit on intraday (one day) market movements. Typically, day traders intend to capitalise on small price actions through executing large volumes of long and/or shorts trades.

Day traders require a range of strategies. Three of the most common strategies will be outlined in the following. The first strategy is known as 'scalping' which attempts to profit on multiple small gains on incremental price movements throughout the day. Secondly, 'range trading' aims to identify support and resistance levels to inform opportunities to buy or sell. Lastly, 'news-based trading' exploits increased volatility in price movements around news events.

There are two distinct categories of traders. Most, if not all, university students who attempt to day trade will conform to the first category known as the 'individual day trader'. Individual day traders are characterised by those who manage their own or other people's money. It is unlikely that these day traders have access to a trading desk. However, they still have a solid relationship with their brokerage and have access to limited resources. As a result, individual day traders are forced into assuming more risks with leverage to generate a meaningful profit.

The day traders in the second category are employed by large institutions. The day traders in this division are in a much more favourable position. These traders have direct access to a trading desk and are offered specialised mentorship and training. Moreover, they have access to exclusive and expensive analytical software and platforms.

3 (technically 4) REASONS WHY DAY TRADING IS NOT VIABLE FOR STUDENTS:

## TIME, KNOWLEDGE AND EXPERIENCE

It is an understatement to say day trading requires devotion of attention and time. Many weeks, months, and years need to be dedicated to practising and developing various strategies. Therefore, day trading should not be perceived as a part-time hobby or something to engage in when the "trading bug bites". Assuming a student's top priority is their academic obligation, it is safe to infer that a significant proportion of time is spent on taking/revising notes or completing a never-ending wave of assignments. This presents the first constraint. Time. Essentially, to fulfil one's academic obligations, one feasibly cannot commit to day trading.

As above-mentioned, it is unlikely that a student can gain the adequate knowledge and experience needed to capitalise on day trading whilst completing course work. Accordingly, this means that individuals who intend to day trade without a sound understanding of the market are often going to be punished with frequent losses. I am a big supporter of self-directed learning. However, when leverage comes into play, day trading can become your biggest nightmare. In consideration of these factors, I believe that sacrificing time to advance one's day trading skills may not be a valuable nor meaningful use of time for a university student.

## HIGH COMMISSION

For university students, a key restriction and barrier for entry are the high brokerage fees from transaction costs. To generate an adequate profit, day trading requires a heavy amount of investment per trade. Typically, brokerage fees are relative to the amount invested. To demonstrate, Direct Broking (formerly ANZ) charges NZD29.90 per trade under NZD15,000 in addition to 0.20% for any value exceeding NZD15,000. To demonstrate, let's say someone trades 5 times daily, allocating NZD20,000 for every trade. This would incur a brokerage fee of approximately NZD40 a day as exhibited in Figure-1 below.

*Figure-1: Brokerage fees per day*

| BROKERAGE FEE PER DAY | |
|---|---|
| VALUE | BROKERAGE FEES |
| NZD 15,000 | NZD 29.90 |
| NZD 5,000 | NZD5000 X 0.20%<br>= NZD 10 |
| **TOTAL** | NZD 39.90<br>= NZD40 (for simplicity sake) |

*Figure-2: Estimated brokerage fees in relation to time*

| ESTIMATED BROKERAGE FEES BASED ON TIME | | |
|---|---|---|
| PERIOD | BROKERAGE FEES X PERIOD | TOTAL |
| 1 day | 1 x NZD40 | NZD 40 |
| 1 week (5 working days) | 5 x NZD40 | NZD 200 |
| 1 month (20 working days) | 20 x NZD40 | NZD 800 |
| 1 year (approximately 250 working days) | 250 x NZD40 | NZD 10000 |

Assuming that a beginner day trader is lucky and does not lose money, the brokerage fees will inevitably begin to eat heavily into capital. As presented in Figure-2 above, in one year the brokerage fees will amount to half of the available fund. A priori, the student will need to gain a 50% annual return to preserve the NZD20,000. Though this is a simplistic example, this is a tall order for professionals,

let alone students with little to no experience with day trading.

Furthermore, experiencing losses by day trading is as common as Briscoes having a sale on any given week. This notion is furthered by Barner and Odean at the University of California. Their paper "The Behaviours of Individual Investors" postulates that individual investors who develop a habit of frequent and speculative trading with a lack of diversification have a significant probability of losing capital. Thus, in tandem with the high brokerage fees, day trading can be a money-sucking activity.

## LIMITED FUNDS & MARGIN CALLS

As aforementioned, day trading requires large amounts of capital. As I have yet to find specific regulations regarding day trading in NZ, it is difficult to provide context as to how much capital is adequate to make day trading a feasible option to explore, i.e., worth your time. Notwithstanding, to provide a reference, the Financial Industry Regulatory Authority (FINRA) states that a pattern day traders in the equities market must have a minimum of USD 25,000 (~NZD 38,000) maintained in their account or face having their account closed. For myself, a person whose HOP card is perpetually in a negative balance, my limited access to funds makes it difficult to even ponder the viability of day trading.

Notwithstanding, there are always exceptions to the rule. Some students may have access to funds required for day trading. Let's say call this student Amy. Amy decides to finance or leverage her position to purchase a larger quantity of shares. To leverage a position is to borrow capital (money) in an expectation that the profit generated will be greater than the interest payable. Leverage is commonly used by day traders to augment expected profit.

Unfortunately, Amy's position has decreased sharply, and her account has decreased below the required minimum. She is issued a margin call and now owes more than she had initially invested. Margin calls are a large risk linked to day trading and can be difficult to deal with if there are insufficient funds. A margin call can present as an extremely stressful experience, especially for a student during stressful periods such as exams. Essentially, margin calls are significantly worse than those ice-breakers in your first tutorial.

I strongly believe day trading is not a feasible or practical endeavour for university students to engage in. Firstly, the time required to develop the necessary skills will consume valuable study time. Secondly, the high commission costs not only eat into capital but can be considered a barrier in itself. Lastly, limited access to funds and exposure to risks such as margin calls further the notion that university students should avoid day trading. I hope this piece clarifies or at least provides some reasons for why day trading is not promoted by the UAIC and industry professionals.

# Investing books that you should be reading

WRITTEN BY SEAN SPIRES

GIVEN THAT I'M AN ENGINEERING STUDENT AND HAVE NEVER STUDIED FINANCE FORMALLY IN MY LIFE (AND YES THIS INCLUDES HIGH SCHOOL TOO), IT HAS OFTEN PERPLEXED PEOPLE AS TO HOW I HAVE LEARNT ABOUT INVESTING. HONESTLY, THERE IS NO SECRET. READING IS ALL THAT I HAVE DONE AND DO; THERE IS NO BETTER WAY TO LEARN ABOUT THE INVESTMENT BUSINESS. YOU SHOULD STILL BE READING INVESTMENT BOOKS EVEN IF YOU ARE CURRENTLY STUDYING A FINANCE DEGREE. WHILE I AM SURE THAT DOING A DEGREE IN FINANCE IS UNDOUBTEDLY HELPFUL, STUDYING FINANCE WITHOUT EXTERNAL READING IS LIKE LEARNING HOW TO BUILD YOUR CAR WITHOUT EVER GETTING YOUR LICENSE TO DRIVE THE DARN THING.

THAT BEING SAID, I THOUGHT I WOULD COLLATE SOME OF MY ABSOLUTE FAVOURITE INVESTMENT BOOKS. WHILE NOT A COMPLETE LIST, AS THEY ARE MANY MANY GREAT INVESTMENT BOOKS OUT THERE, I HAVE LISTED THE ONES THAT HAVE HAD THE BIGGEST IMPACT ON MY INVESTMENT JOURNEY, AND I HOPE THEY HAVE A SIMILAR IMPACT ON YOURS. AS A FINAL NOTE, IF YOU ARE THE TYPE OF PERSON WHO LIKES TO READ PHYSICAL BOOKS RATHER THAN PDFS (DON'T WORRY I'M ONE OF THESE PEOPLE TOO) AND YOU'RE WORRIED ABOUT THE PRICE OF BUYING SO MANY BOOKS, DO UTILISE YOUR LOCAL LIBRARY! YOU WILL BE SURPRISED HOW QUICKLY SOME OF THESE BOOKS ARRIVE AT YOUR DOORSTEP IF YOU REQUEST THEM FROM YOUR LOCAL LIBRARY.

## THE CLASSICS

This section contains the must-read books for every investor (no matter how serious of an investor you are). These are the books that show up time and again in lists of books recommended by the pros themselves. Whether you're just starting out with your first investment or you're a seasoned investor, these books contain something for everyone.

First up on the classics list is 'The Intelligent Investor' (1949) by Benjamin Graham. A book described by Warren Buffet as "by far the best book about investing ever written", and I can promise you, Buffet was not exaggerating. If anything, he was under-exaggerating. 'The Intelligent Investor' outlines a framework for the investment process called value investing alongside the sheer folly of how most investors think about financial markets and securities in general. Now you might be thinking, value investing sounds familiar. Oh, don't worry, it's only a framework that's responsible for producing countless millionaires and billionaires. Buffet has often touted that "all prudent investing is value investing", and he couldn't be more right. If you're interested in investing, it's probably best to learn about the most successful investment framework ever developed, and the best place to learn about it is by reading 'The Intelligent Investor'.

Next up is 'Margin of Safety' (1991) by Seth Klarman. If you were still unconvinced about value investing after reading 'The Intelligent Investor', pick up this book and you'll be singing songs about value investing from dawn till dusk. 'Margin of Safety' builds upon the lessons of 'The Intelligent Investor' with additional insights from Klarman's investment experience. The book is mostly focused on discussing and expanding upon Graham's concept of a "margin of safety", which so happens to be one of the most important concepts in capital market investments (which I will say seems to be lost in the modern teachings of finance, which is a shame).

To take a break from books focused heavily on value investment, next up on the list is 'One Up on Wall Street (1989)' by Peter Lynch. Peter Lynch is undoubtedly one of the greatest investors of all time and in this book, he shares his entire investment philosophy and process. What's special about One Up on Wall Street is how simple Lynch's methods are as he shows how you can use what you already know to make money in the stock market. Furthermore, unlike the other books on my list, Lynch's is the only one which is seemingly written for 'amateurs', and I do not mean anything negative by this; it is great as Lynch uses easy-to-follow terminology and dissects complex topics to make them easily understandable.

Last but not certainly least is 'Common Stocks and Uncommon Profits' (1958) by Philip Fisher. Philip Fisher is among the most influential investors of all time. His investment philosophies are not only studied and applied by many of today's financiers and investors but are also regarded by many as gospel (including myself). In this short book, Fisher teaches you the key things to look out for which separate good businesses from bad ones. If you're looking for a book to show you what to buy, when to buy it and when to sell it to get uncommon returns on your investments, then look no further.

## UNCOMMON GREATS

Now that we have gotten the classics out the way, I feel it's best to review some equally good books that seem to have been forgotten. While these books do not carry the same clout in terms of bragging about how well-read you are at the latest investment club cocktail

party, the information in these books is by no means inferior to more widely known books.

The first of the uncommon greats is 'The Most Important Thing: Uncommon Sense for the Thoughtful Investor' (2011) by Howard Marks. Howard Marks is the Chairman of the ultra-successful Oaktree Capital Management firm and in this book, he lays out his investment philosophy in a manner that is beneficial to the average investor. Marks places a heavy emphasis on psychology and thinking differently about value portfolio management. This book is chocked full of very accessible, very down-to-earth investment advice.

While books like The Intelligent Investor are brilliant at outlining what value investing is and why it's beneficial, they usually lack detail as to how an average investor can utilise value investing to its fullest potential. 'The Dhandho Investor: The Low-Risk Value Method to High Returns' (2007) by Mohnish Pabrai does just this. In this book, Pabrai details a comprehensive value investing framework for the individual investor in a straightforward and accessible manner. If anything, Pabrai does this so well, my main advice would be for you to not follow the investing framework laid out in this book, as it will make my job as an investor that much more difficult because you'll be much more competitive.

Last up on my list of uncommon greats is only for the true financiers and investors. When talking about stocks, people usually spend 99% of the time talking about the price of a stock and 1% of the time talking about its value. 'The Theory of Investment Value' (1938) by John Burr Williams sets forth an equation for calculating the value of any stock. This equation and the associated thought process Williams used in 1938 is as relevant today as it was all those years ago (despite what your finance professors might tell you). Do note that reading this book may be quite dry if you're not incredibly interested in finance as this book was originally a PhD thesis and isn't written for the layman.

## THE OLD AND NEW TESTAMENT OF INVESTING KNOWLEDGE

While it was quite challenging to pick which books to include as classics or uncommon greats in this booklist so far, picking the two most valuable investment resources which I like to dub the Old and New Testament couldn't be easier. These two resources (I'm using the word resources as one of these isn't a book but I'm sure you'll forgive me for this) are the ultimate source of investment knowledge. I keep one of these on my bedside table just in case I ever need a quick reference. However, be warned that both these resources are not for the faint of heart as they are both long and oftentimes complicated.

The Old Testament is 'Security Analysis: Principles and Technique, 2nd Edition' (1940) by Benjamin Graham and David Dodd. With nearly a million copies sold, Security Analysis has been continuously in print for more than sixty years. In the 725 pages of Security Analysis, Graham and Dodd detail techniques and strategies for attaining success as individual investors, as well as the responsibilities of corporate decision-makers to build shareholder value and transparency for those investors. I often like to think of The Intelligent Investor as the "informal" version of Graham's teaching whereas Security Analysis is the more "formal" teaching. There is no better singular resource to learn about value investing and the other teachings of Graham.

If the Old Testament is to be the work of Graham, it then seems fitting that the New Testament should be the product of his greatest disciple, Warren Buffet. The 'Berkshire Hathaway Shareholder Letters' (1977 – present) is the ultimate insight into the thought process of the world's greatest investor. Through these letters, you can see Buffet not only implement the teachings of Graham and Fisher successfully but also improve upon them in his way. Moreover, Buffet makes each of these letters accessible as well as informative, and he's careful not to include too much jargon. To keep it readable, he writes the letter as if he's talking to his two sisters. To list the lessons I've learnt from reading these letters would probably take up ten to twenty pages so I'll just say that it would be hugely in your interest to read these letters.

# Share buybacks?

WRITTEN BY NICHOLAS SIMMONS

SHARE BUYBACK – THE PRACTICE OF COMPANIES REPURCHASING THEIR SHARES FROM THE OPEN MARKET.

SHAREHOLDERS LOVE IT, IT BOOSTS THE VALUE OF THEIR SHARES AS RELATIVELY FEWER SHARES ARE FLOATING IN THE MARKET. COMPANIES LOVE IT, AS IT BOOSTS THEIR EARNINGS PER SHARE AND MAKES THEM APPEAR MORE PROFITABLE, BUT IS IT THE BEST USE OF CORPORATE CASH?

In 2018, the US saw a surge in share buybacks to all-time highs to over $900 billion. Fast forward to 2020, like the rest of the market, share buybacks have taken a heavy hit from the global uncertainty created by COVID-19. Over one-third of S&P 500 companies suspended stock buybacks in the first quarter, which represented over $400 billion of the planned buybacks. Goldman Sachs forecasts share repurchases will decline by 50% to $371 billion during 2020. The markets haven't seen a lower year for the collective S&P 500 spending on buybacks since the year 2010.

Despite the recent slowdown in share buybacks, the public debate over how corporates should be going about spending their excess cash is still top of mind for politicians and company stakeholders. At the core of the debate are two different notions - the first notion is that share buybacks come at the expense of investment. The other is that buybacks redirect investment rather than reducing it, trapping cash reserves within firms that don't have a good use for it.

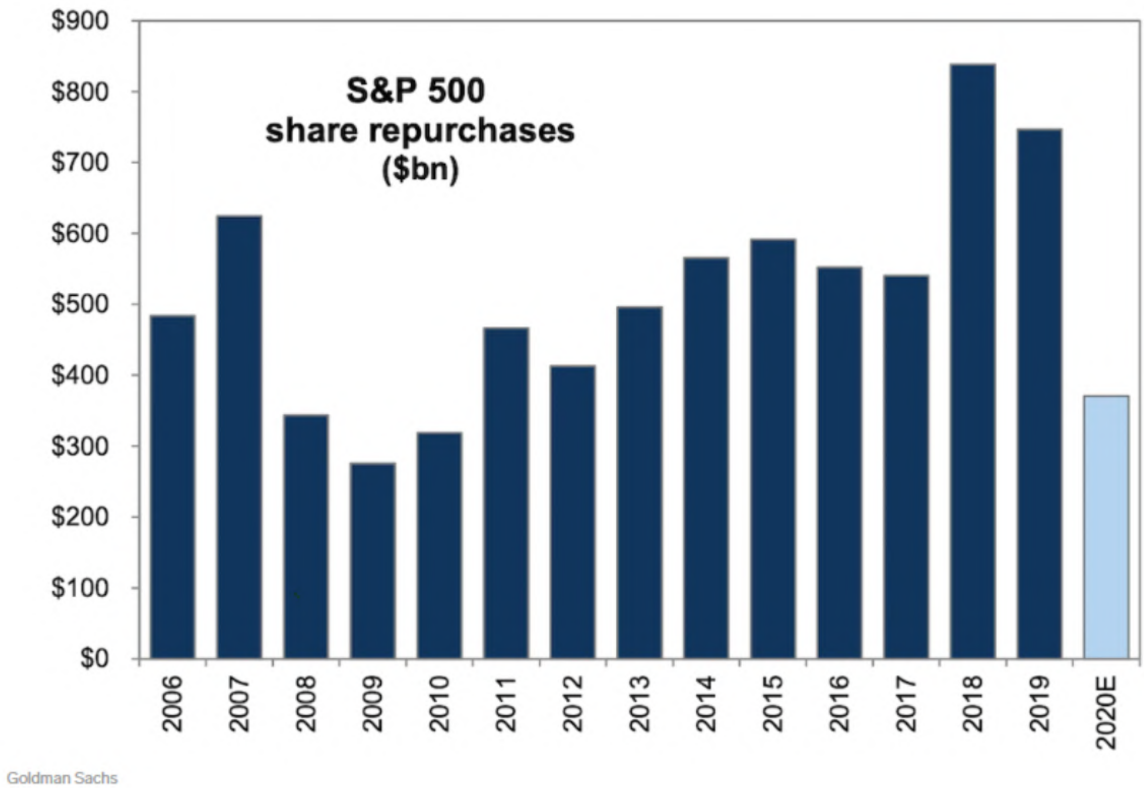
In terms of the backlash against buybacks, there have been a number of prominent names from Washington who have weighed in on the heated debate. Republican Senator (Sen.) Marco Rubio and Sen. Tammy Baldwin were some of the first advocates for change and pushed the proposal to discourage/ban share buybacks from the open market. They reason that buybacks are cannibalising investment which would have led to the creation of jobs. Furthermore, share buybacks have an unfavourable effect on income inequality.

On the other hand, many Wall Street goers have taken the opposite stance. Their defence is that buybacks create jobs and allow further growth in smaller firms and argue that excess cash should go back to shareholders rather than being wasted on low yielding projects and investment opportunities. "The money doesn't vanish, it gets reinvested in higher-growth businesses that boost the economy and jobs. Is that bad?" former Goldman Sachs - CEO, Lloyd Blankfein wrote on Twitter earlier this year. The buybacks allow for excess cash to be reinvested into the economy by investors (i.e. to invest into start-ups and to boost household spending), hence making better use of cash than would be otherwise.

The more recent popularity of share buybacks represented a shift in corporate companies' priorities. Corporate boardrooms now follow the mantra that it is their duty to maximise shareholder value. Meaning, that if the companies do not have any projects that meet their required rate of return, then the excess cash should be returned to the investor, whether that be via dividends or a share repurchase plan. This has several implications, included is the reduction of human capital investment and disproportionate growth in buybacks compared to the growth rate of wages. The shift in corporate boardroom objectives is believed to have come at the detriment of workers and income inequality.

Securities and Exchange Commissioner Robert J. Jackson, Jr believes that there has been a misuse of share buybacks. In a letter by Jackson, he raised his concerns about the relationship between stock buybacks and corporate insiders' stock cash-outs. His independent research found that corporate insiders' cash out much more of their personal stock immediately after announcing a buyback than on any other day and suggested that if executives truly believe a buyback is the right thing to do, they should hold their stock over the long term. Instead, they found that executives were using buybacks to cash out – raising questions around the incentives of executives.

In a backlash to companies using cash reserves to reward shareholders rather than sharing it with workers and the misuse of buybacks. Earlier last year, Senator Tammy Baldwin proposed a new piece of legislation – the Reward Work Act – prohibiting issuers from purchasing their own securities on a national exchange, aimed to achieve further clarity of buyback

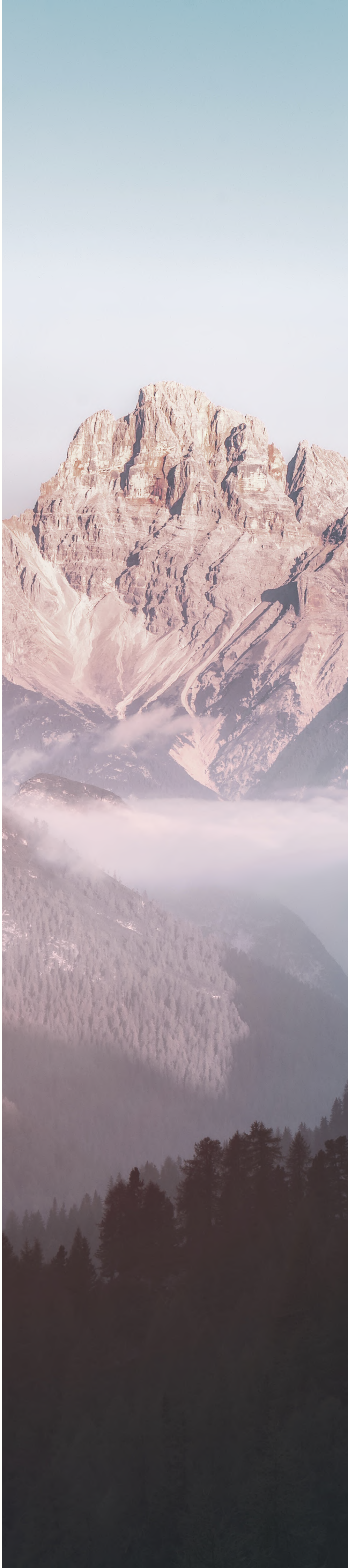


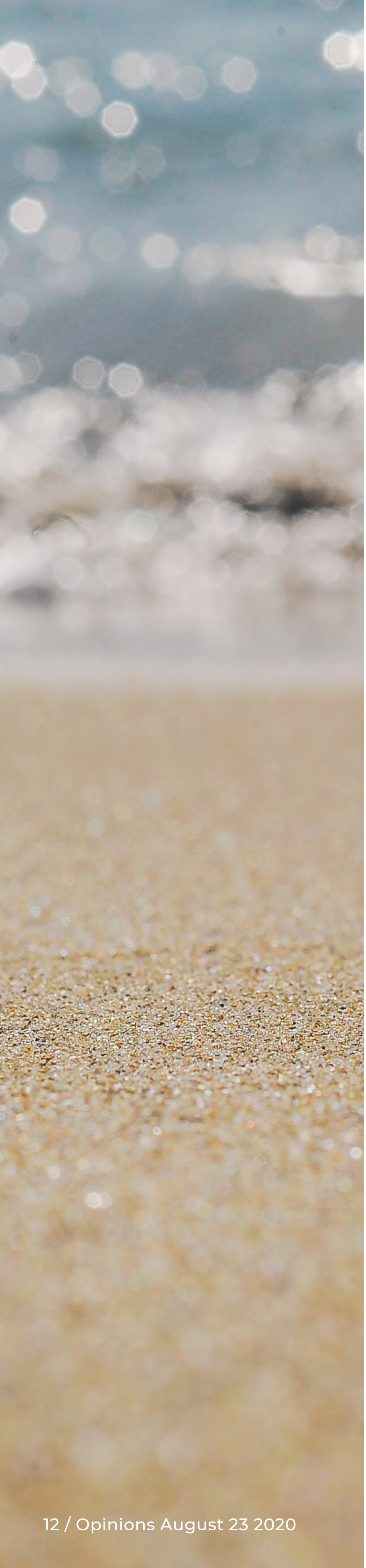
disclosure and requires companies to give worker's the right to directly elect one-third of their company's board of directors. All in the hope of shrinking the ever-widening gap of income inequality.

Incomes have stagnated. But not for the 'very rich', their after-tax incomes have risen much faster than per capita GDP – up 420% since 1980. Share buybacks have been ousted as one of the main reasons for the divergence in wealth from the 'rich' and the 'poor'. According to Sen. Chuck Schumer and Sen. Bernie Sanders, "American corporations shared a belief that they had a duty not only to their shareholders but to their workers, their communities and the country that created the economic conditions and legal protections for them to thrive." Whether or not these conceptions are true, the Senators concerns about income inequality is definitely warranted.

In my opinion, a large number of the claims made against share buybacks – by the likes of Sen. Bernie Sanders – are based off of a misunderstanding about share buybacks. The notion that businesses are using profits for dividends and share repurchases instead of investing in their business or workers is misconstrued. Companies have three choices for their profits: (i) dividends; (ii) share buybacks, or (iii) investing in projects and expanding their business. Good management will deploy their earnings in whichever of those three ways that has the greatest expected return. If a company has a good use for its earnings, then it will invest them. If not, earnings should be returned to the shareholders, since they are the owners. Unless management is making a mistake, they are not overlooking workers, but are more efficiently allocating capital.

Share buybacks have made considerable contributions to the gains in the S&P 500 over the past decade, which raises questions as to whether a ban will, in fact, result in a more favourable return on the same dollar that would have otherwise been reinvested in the market through the buyback flow-on effect. Similar to the debate of the 'ideal' America between the Republican and the Democratic party – this is a story that we will unlikely see the end of.





# The property pandemic problem

WRITTEN BY SHYAM PRASAD-JONES

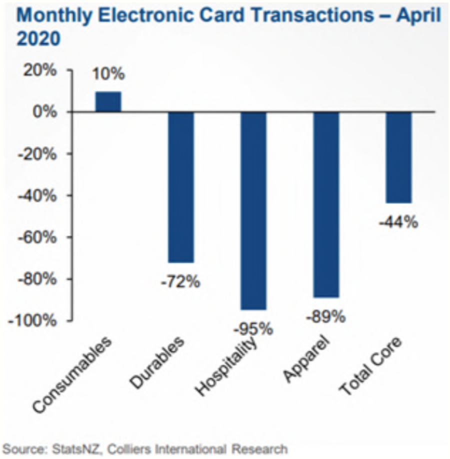
PROPERTY UNDERPINS MUCH OF OUR LIFESTYLE AND SHAPES WHERE WE LIVE, SHOP, SOCIALISE AND INVEST OUR TIME AND MONEY.

HOWEVER, COVID-19 THREW A SPANNER IN THE WORKS FOR MOST FORECASTS RELATED TO 2020.

Property is a multi-faceted market space. Supply, demand and confidence remain the three most important factors in this market as they will determine the market's direction for years to come. An uncertain future will lead to landlords and tenants re-evaluating their operating plans to address the changing economic climate. Retail, Office and Industrial assets are a subset of commercial property assets available for NZX listed companies to invest in. The COVID-19 pandemic will catalyse change throughout the property market and the returns generated from property assets. Therefore, analysis of retail, office, and industrial assets will inform investment strategy to realise returns in a post-pandemic market.

## RETAIL

Retail is a subset of commercial property. Businesses lease buildings to operate in, selling goods and services to customers. These physical stores are vital to the retail industry. Colliers International NZ finds 90% of retail sales are captured in physical stores. The lockdown has hit the retail sector hard. Electronic card expenditure fell 44% compared to April 2019. The hospitality sector fell by approximately 95% compared to April 2019. Businesses will struggle to continue operating and meet fixed overheads as revenue falls. Communication between landlords and tenants regarding rent abatements and deferrals will be key to ensure occupants remain liquid to survive in the short to medium term, with 82% of landlords surveyed negotiating a change in rental payments. Government stimulus will support some of the hardest-hit occupants. Otherwise, landlords will evict tenants and look for new occupants. Essential services are the exception as having experienced a surge in business. These businesses include certain retailers like supermarkets. Perhaps a glimmer of hope post lockdown, as Kiwi consumers return to shopping with some pent up demand, consumer spending recovered 73% in May compared to April, a positive sign for retailers and their landlords.




## OFFICE

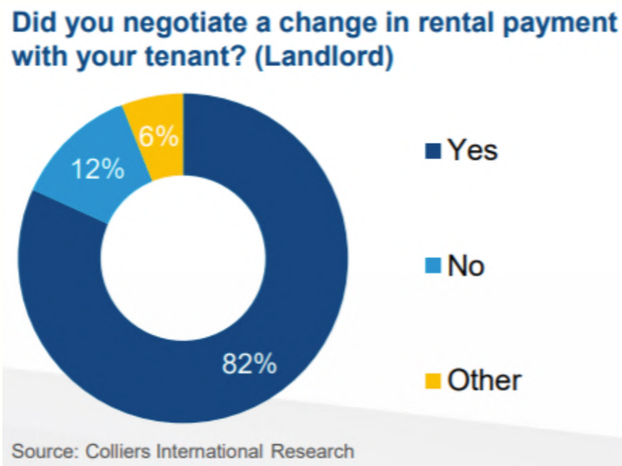
Pre COVID-19, there was a low vacancy rate in the Auckland and Wellington office markets. Strong demand for these assets created upward pressure on rental prices despite investment in new office developments. In the short term, it is unlikely there will be a significant change in tenants as businesses are contractually bound to these premises. In Auckland, high quality and prime grade spaces are occupied by IT, Government, Law, and Accounting services. Wellington city's office sector is largely occupied by government departments. This provides confidence to landlords moving forward. The downside to a strong operating office market is companies hold additional space to accommodate growth. This additional space is likely to be subleased as businesses struggle to grow for the foreseeable future. Sydney is experiencing the highest level of office space availability for subletting since the 1990s recession. In New Zealand, we may expect increased levels of subletting if businesses are unable to renegotiate leases. Office downsizing may occur in the medium to long term if more drastic cost-cutting measures are required or working from home practises continue to develop.

## INDUSTRIAL

Investors view the industrial assets as a resilient investment in times of uncertainty. Manufacturing and construction account for approximately one-fifth of NZ's $300 billion-dollar economy. It is not hard to see how this sector is a stronghold during periods of high uncertainty and low confidence. Some services experienced surges in business during the lockdown. A subset of these businesses includes warehousing, postal, and delivery. The New Zealand Government plans to invest $15 billion in major transportation, rail, and 'shovel ready' projects. This investment creates certainty for industrial assets.Analysis of these three assets will inform commercial property investments over the next two years. However, other external factors must be considered. New Zealand's borders will remain closed for the foreseeable future. A lack of migration and tourism will continue to hurt New Zealand businesses who occupy these commercial property assets and the supply and demand of new real estate developments. This uncertainty does no favours for business confidence which is paramount when planning future investment decisions. Precinct Properties (NZE: PCT) have deferred a $298 million development project from this uncertainty. However, Precinct's highly anticipated $1 billion Commercial Bay in downtown Auckland opened on Thursday 11th of June. Property companies have no choice but to complete nearly finished projects as tenants would have been already secured. Further delay would only hurt business. Hope for growth in the market will be encouraged by a lower OCR, lowering the cost of borrowing for companies taking on development projects in the future.

## SO WHAT DOES THIS MEAN FOR INVESTORS?

The impact on demand and supply increases the difficulty to find an equilibrium. Investments made by NZX companies in industrial real estate are safer options for the foreseeable future. Expectations from investors reflect this as both



Property for Industry (NZE: PFI) and Goodman Property (NZE: GMT) are up 9.23% and 7.03% respectively in the last twelve months. Comparatively, NZX companies with large holdings in retail and office space have not fared as well. Precinct Properties (NZE: PCT), Argosy (NZE: ARG), and Kiwi Property (NZE: KPG) are all down -7.14%, -13.89%, and -39.02% respectively. The market does not believe that retail and office space will be earning the same yield Pre-COVID-19. The effects of a lower expected yield from office and retail space can be visualised more clearly in a more holistic comparison of the market. NZ Property ETF shown as the blue line (NZE: NPF) which invests in property assets listed on the NZX, is down -10.12%. Contrastingly, NZ Top 50 ETF shown as the yellow line (NZE: FNZ) is up 1.12% on the year to date. Essentially, telling investors property shares are performing below the market expectations.

Opportunities and problems are presented to investors as the pandemic continues to wreak havoc across the globe. Markets around the world appear optimistic about the future despite lockdowns, riots, protests, and civil unrest. NZ was in a strong position after the de-escalation to alert level one. The potential of a trans-Tasman travel bubble could have opened the door for investment opportunities in companies like Precinct, Argosy and Kiwi. All of whom are far more reliant on the shopping habits of New Zealanders than their counterparts. Unfortunately, as the country cautiously balances between a controlled cluster and a widespread community outbreak, the turmoil in the retail and office industry looks set to continue for the near future. Additionally, there will be flow-on effects to industrial real estate should retail and office space be hurt even more. Businesses who occupy industrial assets produce and transport goods sold by retail businesses. There will likely be a more widespread decline in the commercial property market should the current market momentum stagnate. The outlook over the next year appears to be a mixed bag. The safety of industrial assets is proving to be the most robust at the moment while a degree of speculation surrounds the near future of retail.

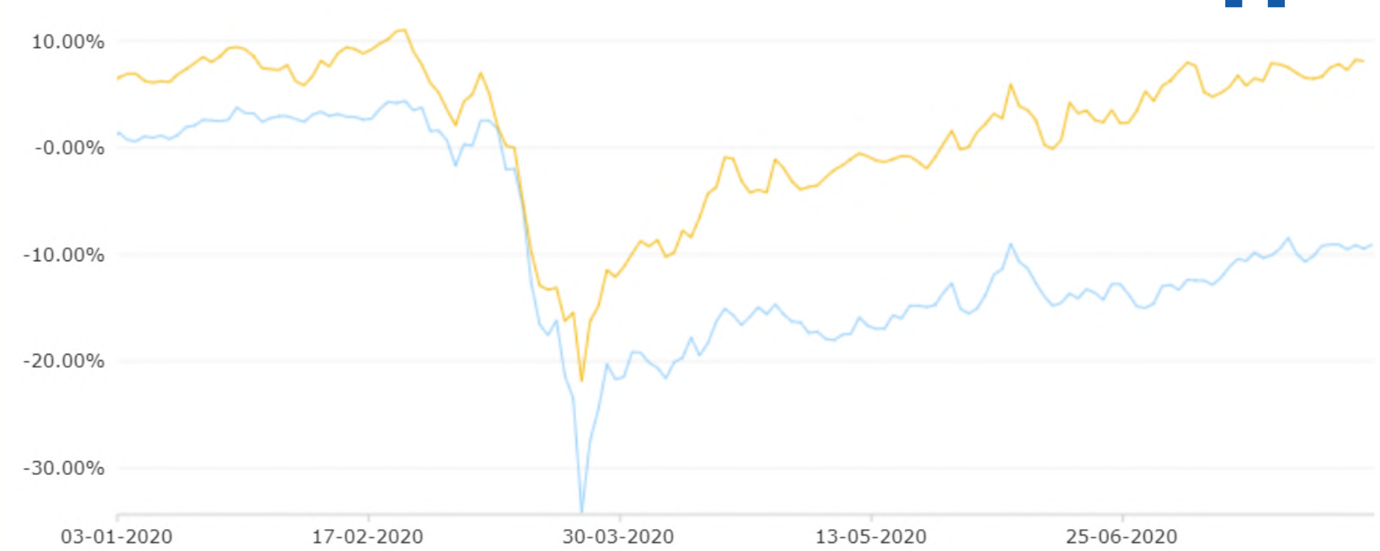



Figure 1: NZX Property vs NZX 50, source: https://www.nzx.com/instruments/NPF

# MYOB's column

## COVID-19 CHANGING SMES' VIEW OF THE FUTURE

- Remote working, increased virtual meetings and reduced physical premises likely
- Productivity and efficiency bigger drivers of change than customer communications
- Cloud computing, connectivity and big data top trends SMEs expect to change their industry

The far-reaching implications of the COVID-19 pandemic have already changed the way New Zealand businesses operate and the experience will significantly increase their use of technology.

The latest MYOB Tech Report highlights that local businesses are now making some major changes in an effort to future proof their operations.

Read the full report here.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