

## Chairman's Report

It is my pleasure to present the 2014/2015 annual report of the Greytown District Trust Lands Trustees. It has been a very busy year for all concerned at the Trust and I believe we have achieved significant success along the way. I'll support this statement by running through some of the activities the Trust has engaged in over the 12 months ending 31 March.

### *Property development*

A key feature of this year's success has been the increased level of property development activity which has taken place in line with the Trustees' strategy of growing the Trust's rental base by undertaking building development on land it owns. The long term objective is to increase our revenue and net profit and therefore be able to increase the dividend we pay in future to the Greytown District community in the form of grants and other financial assistance.

This time last year we had completed one new build, the Stihl Shop at 246 Main Street. In 2014/15 I am pleased to say we completed the construction of a new warehouse storage and workshop facility for Hiddenbeds NZ Ltd at 170 East Street, while another development was completed shortly after balance date for the Olive Press in Arbor Place on Bidwills Cutting Road.

This development, which incorporates a processing facility and retail space, received high level approval from Nathan Guy, Minister for Primary Industries, who formally opened the premises in May. It is a fine example of the sort of quality development the Trust can achieve when working in collaboration with a willing, committed and, as it should be, demanding prospective tenant.

It hasn't stopped there. Details are being worked on with two prospective tenants that may result in further new developments being undertaken in Arbor Place and in central Greytown in the very near future. There is also potential for sale of a section of land in Arbor Place for development by others.

### *Land and property transactions*

New development obviously comes at a cost and we continue to review our portfolio to identify land and property that it may suit us to sell to raise additional funding. We also actively scout for opportunities to acquire land and buildings that may fill gaps in our portfolio and better fulfil our future development needs. This is a bit of balancing act for us as, particularly as we always have to be conscious of the constraint on our total borrowing imposed by the Minister of Finance.

I referred last year to two existing properties under review. The first was 1-3 Main Street, Greytown, which had become vacant following Athol A F Ross Ltd's move to Arbor Place. Various units in the building are being leased on short terms to a number of tenants, largely for storage purposes. At the time I voiced the hope that the Trustees would agree to demolish the building to make way for a new development by us or some other developer. Trustees instead decided to market the site, as is, for sale and a conditional offer has been accepted post balance sheet date. It is understood the site will be redeveloped.

The other property was the Oddfellows Hall building on Hastwell Street, which came with the land we purchased last year. The signs were good that this well preserved building would be relocated and find a new home as a training room and social hub for the exciting new development by the Greytown Soaring Centre at the end of Papawai Road. However, the Soaring Centre has very recently advised us the logistics and costs associated with the move have made the proposal uneconomic. This setback means we will now need to explore other options.

On the acquisition front, the Trust purchased another sizeable plot of land on Bidwills Cutting Road to supplement its current Arbor Place holding. This sets the Trust up nicely to be able to respond to on-going demand from small to medium size companies for light industrial premises to lease or own.

### *Community dividend*

At the core of all of the Trust's activities is its commitment, actually its statutory requirement, to maintain and promote the welfare and wellbeing of the Greytown District's residents. Our prominent grant recipient groups continue to be our local schools and tertiary students with total grants of \$140,020 this year, our local sports and recreation bodies, including the Greytown Community Sports and Leisure Society, who collectively received \$138,679 in rent remission and grants, and local community organisations and individuals who collectively received \$164,758 in rent remission and grants.

I indicated last year that Trustees would need to review the sum allocated to grants due to the impact on the Trust's bottom line of the higher interest cost resulting from increased borrowing to fund the property development programme. In fact funds committed to grants in 2014/15 are down by 5% against the previous year. Considering the circumstances this is a better than expected result and indicative of the Trust's solid financial management.

There is no room for complacency though. As we continue to explore and take up additional development opportunities, we will need to ensure the level of community dividend remains sustainable without creating liquidity issues for us. This may mean some further downward adjustment to grant levels in the short term.

Trustees believe the long term benefits our development programme will bring indirectly to the community - in increased business investment and local economic prosperity in the form of new jobs and more spending on local products and services - will outweigh the short term downsides. Ultimately, a portfolio containing newer, better quality properties means higher rents are achievable resulting in more revenue which will enable us to increase the number and amount of grants in future.

Nevertheless, we will endeavour to relieve the short term impact on the community dividend through the sale of land and property, such as 1-3 Main Street, that we believe no longer meets the Trust's needs. This will reduce our borrowing requirement and therefore our operating costs, leaving us more room to try to maintain grant levels at or around their current levels.

### *Financial results*

Despite the additional cost burdens on our normal business operations as a result of implementing our development programme, this year's results have been encouraging. It is particularly pleasing to see that the gross rate of return on our property assets has increased, due principally to the higher rents that the newer buildings in our portfolio can command.

Rental income and gross profit were both up off the back of rents for new properties coming on stream and rents for existing premises increasing as a result of market rent reviews. This good showing was offset though by increases in certain expenses – some foreseen, others not. Increases in interest and trust administration costs were largely expected as a result of the new build programme, however a \$36,000 bill to repair the roof of our premises at 11 Cole Street in Masterton was not. Although net profit was down, the situation remained manageable to the extent that as I have already mentioned we were able to limit the impact on grant levels.

Reflecting our new build, total assets have increased but not by as much in dollar terms as might be expected due to the impact of a reduction in market value across the property portfolio of \$462,000 following our annual revaluation. This reduction is a product of the valuation methodology used, which takes into account the “terms certain” left to run on our property leases. As demonstrated by the weighted average lease term (WALT) measure the remaining term on many of our leases is relatively short, which is perceived as creating risk to the security of rental income that in turn diminishes the value of our portfolio.

The WALT will always go up and down periodically, reflecting the cyclical nature of lease renewals. However, 5 years is seen as the industry standard for this measure so Trustees acknowledge we need to focus on getting tenants to sign on for longer lease terms than at present to achieve better revenue security going forward.

Not surprisingly, having previously exhausted our investment property reserve, we doubled our level of borrowing during the period to help fund the new build programme. This has impacted equity. However, we remain well under our mandated borrowing limit at present.

All in all, Trustees are very satisfied with the Trust’s performance this year.

### *Management*

The Trust has made some organisational changes as a result of the decision by Stuart Roper shortly after last year’s AGM to step down as the Trust’s Manager after five years in the role. I would like to go on record with my thanks to Stuart for ably administering the Trust’s affairs over that period and for guiding Trustees’ strategic oversight of the property portfolio and review of business opportunities.

Kevin Murphy has been appointed as our new General Manager to replace the role filled by Stuart. He is based full-time in Greytown and joins Helga Perry, now an employee of the Trust rather than a contractor to Trust Hawkes Bay, who has become the Trust’s Secretary and Administrative Assistant on a part time basis. Daniel Murphy from Rightway continues to be contracted to provide the accounting support and advice the Trust needs.

Speaking on behalf of the Board we have full confidence in this team’s skills and enthusiasm that they will be able to build on the good work that has gone before and help further consolidate the Trust’s position.

### *Governance*

Last year two new members, David Montgomerie and Wayne Regnault, joined the Board. I commend them for the different perspective, new ideas, drive and enthusiasm they have brought to the Board table, which has complemented the experience, knowledge and expertise of existing members, Rob, Mike and Graeme. To all of you, my thanks for your support and for making my job as Chairman more manageable and enjoyable over what has been a very interesting and at times challenging year.

### *Finally....*

There are both opportunities and challenges ahead for the Trust in the coming 12 months. While retaining a strategic focus on developing and restructuring our property portfolio – whether that be filling up Arbor Place or selling land and property that is surplus to requirements – we still want to be able deliver a level of community dividend that Greytown District residents have come to expect and deserve.

This means our housekeeping will need to be of the highest standard. It may also mean we have to become more innovative, so that rather than use our land and buildings to raise profits to grant back to the community we instead develop them to directly serve its needs. It will be an interesting year to come!

Derek Wilson  
22 September 2015