Wednesday 27 April 2016

The Ownery Media Release Q & A

(See explanation of terms used at the end)

How does it work?

Savers will be offered the opportunity to buy shares in companies, each of which owns a single house. The value of savings at any time will be directly linked to the value of these houses.

HouseShare Offers will be regularly published on The Ownery's website. Over time, savers will have the opportunity to build up their stake in the housing market across many different HouseShare Companies who own properties in a variety of suburbs, bought over a variety of stages in the property cycle.

Savers must provide personal details, their current address and their New Zealand Bank Account number from which funds will be deducted. The Ownery takes care of the rest.

Funds will be deducted from the supplied bank account and deposited into a trust account where it stays until the HouseShare Offer closes. If for any reason a HouseShare Offer is unsuccessful all money received will be returned to savers. Once a HouseShare offer is fully funded HouseShares are issued and the proceeds are transferred to the HouseShare Company.

A different company for each house?

Each company is a stand-alone legal entity. This means its assets are ring-fenced from the assets of any other company. This puts savers in the driving seat with performance directly related to the HouseShares they choose to save in.

What sort of properties?

It makes sense for HouseShare Offers to be backed by houses that are of interest to first home buyers, so HouseShares can work as a close substitute for what our owners might buy if they chose to buy their own home. HouseShare Companies will hold their underlying property long term so properties with high rental yields and lower maintenance costs will also be favoured. Properties will be selected and secured by HouseShare Management Ltd.

Will all of the properties be in Auckland?

Yes,for the first 12 months we expect to be buying properties only in the Auckland City area.

Do savers have to live in Auckland?

No. They can live anywhere provided if they live outside New Zealand, they confirm they are eligible to invest under their country's securities laws.

Who is eligible to use The Ownery to buy HouseShares?

This product is intended for Kiwis. Savers must provide the following before making their first HouseShare purchase:

- New Zealand proof of identity
- New Zealand Bank account
- Thier current residential address

Is there any obligation to use these savings for a house deposit?

Not at all. This is an opportunity for all Kiwis to effectively save in Auckland houses. A saver can use their savings for any purpose they wish. The Ownery provides a simple way for Kiwis to build their stake in residential housing starting with $500, without having to buy and manage an entire property on their own. Our market research has indicated that people gearing up to buy their own home show particular interest in our offering as do parents wanting to put some savings aside to help their kids into a home down the track.

Is there a minimum amount which can be saved ?

There will be a minimum purchase per HouseShare Offer of $500, but savers can buy more HouseShares if they wish. The more HouseShares bought, the bigger their stake in the housing market.

How will houses be funded?

HouseShare Companies will fully fund their property through an initial HouseShare Offer. Debt may be used by HouseShare Companies to buy shares from owners who wish to exit and to pay for unforeseen expenses not covered by insurance. The levels of debt that can be held by a HouseShare company is stipulated in each HouseShare Company's constitution.

So what does The Ownery actually do and how does it make money?

The Ownery provides a place for HouseShare Companies to publish HouseShare Offers for Kiwis to save in. The Ownery will charge savers an upfront fee at the time HouseShares are purchased through its website.

Each HouseShare Company will appoint a professional manager to administer the Company and manage its property. This contract and related fees are disclosed as part of any HouseShare Offer. HouseShare Management Ltd has been set up for this specific purpose. HouseShare companies are ultimately controlled by HouseShare owners who could choose to replace the HouseShare Manager.

So how does a shareholder make money?

There are two primary ways Owners could make money. Firstly, if they sell their HouseShares at a higher value than they purchased them for. There will be no exit fee.

Secondly, if there is any rental income remaining after the Company's costs (such as management fees, rates, insurance, valuation, legal and maintenance expenses) it may be distributed to shareholders as a dividend.

How do owners cash up?

Savers have the right to request HouseShare Companies to buy their HouseShares at their current published value. There will be no exit fee. Share valuations will be updated monthly according to QV data and twice a year from a full registered valuation.

Owners also have the right to sell their shares to a third party if they wish. There will be a small administration fee charged in this case.

What security is there for a shareholder during the process?

- Save in bricks & mortar
    - Every dollar saved is backed by property that has been carefully vetted by HouseShare Management Ltd and chosen by the shareholder.
- Spread your ownership
    - Shareholders can reduce the risks of property ownership by buying HouseShares in many different houses, in different locations, at different times in the property market cycle.
- You're in control

    - Shareholders choose which HouseShare offers they save in and they can view their HouseShares on their Ownery Dashboard at any time. Everything they need is at their fingertips.
- Each house is ring-fenced
    - Each offer of HouseShares is made by a separate company which is owned and controlled by its shareholders.
- Your money is held in trust
    - Until an offer closes, all money is held in trust in a segregated bank account.
- Regulated by the FMA
    - Each HouseShare offer is made by a property owning company and is regulated by the New Zealand Financial Markets Authority under the Financial Markets Conduct Act, 2013.

What are the Tax implications of owning HouseShares?

Personal taxation is dependent on individual circumstances, so there is a limit to what can be said. We recommend independent tax advice be sought.

HouseShare Dividends are income and will attract personal income tax. The rate of taxation is dependant on personal circumstances, so again, we recommend owners seek independent tax advice. In New Zealand dividends cary tax credits to avoid shareholders paying double tax.

At the time of sale, the difference between the purchase price and the sale price of HouseShares is a capital gain. Whether personal tax is payable on capital gains is dependant on personal circumstances, much like owners of shares in publicly listed companies. We recommend that owners seek independent tax advice.

What happens if Auckland housing values decrease in any particular year?

HouseShare values published on The Ownery's website will reflect the movement in property price changes in the location of the underlying property. The value of Owners savings will move in step with the housing market, whether it goes up or down.

What will happen if a particular Company starts making a loss? Would further contributions be required from shareholders?

Additional funds will not be required from shareholders. It is very unlikely that a property with no or little debt will run at a loss for any extended period. If it did the short term shortfall could be covered by debt and the property could be sold, with the proceeds (less disposal costs) distributed to shareholders.

Alternatively additional equity could be raised to cover any unforeseen expenses that were not covered by insurance and could not be funded through rental cash flow or debt.

What if The Ownery itself gets into financial difficulties?

Each HouseShare offer is made by a separate company which is owned and controlled by its Owners. If The Ownery got into financial difficulty HouseShare Companies could continue to operate if its HouseShare owners elected to do so.

Is this type of savings plan operating successfully elsewhere in the world?

Yes, there are companies which are successfully buying properties, managing them and offering shared ownership to multiple owners, under similar principles to what we are doing. The laws are different in each country, so each structure looks slightly different. The common theme is enabling individuals to invest in residential real estate without having to buy and manage an entire property themselves. However there are differences in their business models, and in the markets in which they operate.

What are the risks to HouseShare Owners

Risks associated with each HouseShare Offer published on The Ownery's website will be clearly disclosed by the relevant company. HouseShare Offers are regulated by the FMA.

<u>Property Price Changes</u>

HouseShare owners will be exposed to property price changes as the value of HouseShares will predominantly be dictated by the value of the underlying property. However if you are saving for a house deposit an Owner may choose to view this risk in quite a different way. Owners house deposit savings move with the property market, which means savings in HouseShares stay in step with the property market.

<u>Buying at the wrong time</u>

By starting straight away and buying HouseShares, often throughout different stages of the property cycle, the risk of buying at the "wrong time" is managed more efficiently. Owners don't have to try and pick the <u>best</u> time to buy.

Owning and Managing a property

HouseShare owners will be exposed to the risks associated to renting out a house such as the failure to secure the expected rental or having to fund an unoccupied property for a period or unexpected maintenance costs.

In saying that because savings can be spread across many different properties, in different locations, with different tenants, in our view these risks can be managed more efficiently than an owner of a single house.

Each HouseShare Company and its property will be professionally managed.

Interest rate fluctuations

Companies will carry limited interest rate risk, because low levels of debt will be carried from time to time. However the level of debt that HouseShare Companies can carry is limited by its constitution to a level that will not leave it heavily exposed to normal interest rate fluctuations.

Exit

HouseShare owners have the right to ask the issuing company to buy their shares at the current advertised value. If too many shareholders make a request to sell their shares then it may take longer to receive payment.

Terms

What is an Owner?
An Owner is the term we fondly call HouseShare holders - because, after all, once you buy HouseShares ™, you're effectively a property owner!

What are HouseShares™ ?
HouseShares is the name we have for shares in a company that owns a single house. When you buy HouseShares, you're effectively buying a share of the house it owns. HouseShare owners also have the right to request an issuer to buy their HouseShares at their current advertised price.

What is a HouseShare™Company?
A 'HouseShare Company' is a separate legal entity that will own a single property. A HouseShare Company is owned and ultimately controlled by its shareholders.

<u>What is a HouseShare™ Offer?</u>
A HouseShare Offer is a share offer made by a HouseShare Company to the public. Each HouseShare Offer is made by a property owning company and is regulated by the New Zealand Financial Markets Authority under the Financial Markets Conduct Act, 2013.

<u>What is a HouseShare™ Manager ?</u>
Each HouseShare Company is required to appoint a professional manager to administer the company and select and manage its property. HouseShare Management Ltd is a company set up specifically to provide these services. HouseShare Management Ltd and The Ownery share the same owners.

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