

Real Estate Reflections

Management Potential

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With funds management platforms en vogue (Augusta (AUG) and Stride (SPG) being the top performers over the month), we profile the characteristics of these vehicles in this month's report. We also highlight that (1) the dividend outlook has become more clear post-reporting season, and (2) lower interest rates have expanded yield spreads in both the listed and direct property markets. We believe greater income certainty and higher spreads will prove attractive to investors and result in demand for LPV yield. While medium term rents and vacancy remain unknown, we believe low interest rates potentially limits further downside to direct property valuations, particularly for well located assets with low vacancy risk and strong lease covenants. We remain selective given the volatile operating backdrop and continue to prefer Investore (IPL), and Vital Healthcare Property (VHP) for their defensive attributes in this time of uncertainty, and SPG for the leverage in its asset management platform.

Figure 1. NZ listed property sector summary

LPV	Code	Rating	Price 8-Jul	Target price	Gross yield	Expected total return	P/NAV
Asset Plus	APL	UNDERPERFORM	\$0.38	\$0.41	5.6%	13.2%	75%
Argosy Property	ARG	NEUTRAL	\$1.21	\$1.17	7.5%	1.9%	119%
Augusta Capital	AUG	NEUTRAL	\$0.94	\$0.95	3.2%	3.9%	99%
Goodman Property	GMT	UNDERPERFORM	\$2.13	\$1.90	3.6%	-8.3%	110%
Investore	IPL	OUTPERFORM	\$1.86	\$1.85	5.8%	3.6%	112%
Kiwi Property Group	KPG	UNDERPERFORM	\$1.03	\$1.10	7.6%	12.6%	97%
Precinct Properties	PCT	NEUTRAL	\$1.64	\$1.52	4.5%	-3.7%	102%
Property for Industry	PFI	NEUTRAL	\$2.36	\$2.15	4.2%	-5.7%	114%
Stride Property	SPG	OUTPERFORM	\$1.91	\$1.90	7.4%	4.7%	99%
Vital Healthcare	VHP	OUTPERFORM	\$2.56	\$2.70	4.7%	9.0%	108%
Core simple average					5.7%	1.8%	108%

Source: Forsyth Barr analysis, Eikon, Company reports

Note: Core average excludes APL and AUG. ETR = target price return plus cash yield

Funds management 101

The NZ LPV rent based earnings has been relatively vanilla vs. other income derived by Australian REITs. There has been some changes in the NZ LPV sector with (1) SPG transitioning to an asset management model, and (2) AUG building a portfolio of open ended unlisted property funds. The key revenue driver for real estate asset managers is growth in assets under management. Additional fees leverage a relatively high fixed cost base, driving strong incremental margins and high earnings growth. The NZ market appears reluctant to ascribe much value to SPG's management platform at this stage.

Flat as a pancake

The S&P/NZX All Real Estate Gross index returned -0.2% in June, underperforming the broader S&P/NZX 50G market which was up +5.2% over the month. While the prima facie performance gap is large, the broader market was largely driven by strong performances in its two largest exposures: FPH and ATM. Within the LPVs return dispersion was particularly wide with smaller LPVs outperforming; Augusta +23% on the back of a takeover offer, SPG +13% following a solid result and broker upgrades, and Investore +8% being offset by large cap GMT -7%.

Fund Manager 101

Asset management adding something different to the NZ LPV sector

The NZ LPV sector has historically been relatively vanilla, with earnings typically derived from commercial rents. Across the Tasman Australian REITs earnings have also included asset management fees (Charter Hall [CHC], Centuria [CNI] and Goodman Group [GMG]), development fees and profits (Lendlease [LLC], GMG, and Dexs [DXS]), and residential development (Stockland [SPG] and Mirvac [MGR]). There has been some changes in the NZ LPV sector with (1) SPG transitioning to a funds management model, and (2) AUG building a portfolio of open ended funds vs. its more syndication heavy legacy business. Develop to sell is yet to become a feature of NZ LPV earnings with develop to hold being the current development strategy of most NZ LPVs.

It's all about AUM

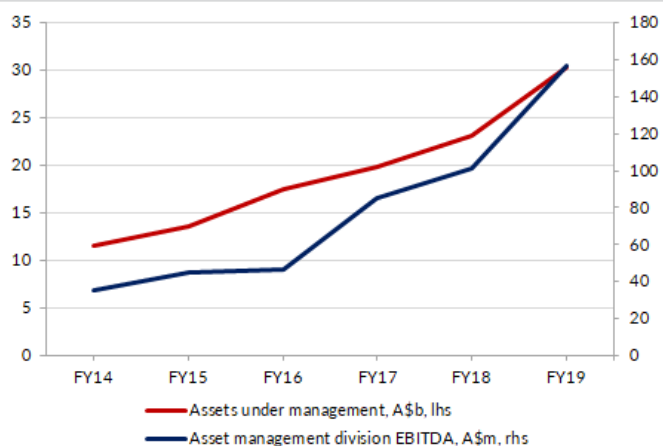
Real estate asset management involves raising capital to acquire direct property assets where the NZ LPV acts as manager in return for a management fee. This structure is well known within the NZ LPV sector with a number of LPVs paying management fees to external parties. Several NZ LPVs have recently internalised management which effectively captures the value of these contracts for shareholders.

The key driver of revenue for real estate asset managers is growth in assets under management (AUM) which is typically achieved via (1) net asset purchases, (2) platform acquisitions (i.e. CNI's takeover of AUG), and (3) asset value appreciation (rent growth, cap rate compression, and development). With a relatively fixed cost base, real estate asset managers have high operating leverage and strong incremental margins (we estimate 70–80%) on additional AUM. CHC's AUM has grown at 22% CAGR over the last 5 years resulting in EBITDA CAGR of 34% over the same period. The asset management model also produces higher returns on equity and assets due to relatively low capital intensity vs. more traditional property owning LPVs.

Australian real estate asset managers have been able to attract capital and significantly grow AUM due to offering (1) fully integrated platforms with asset, acquisition, development, and property management capability, (2) alignment of interest with co-investment, and (3) a wide pool of available assets.

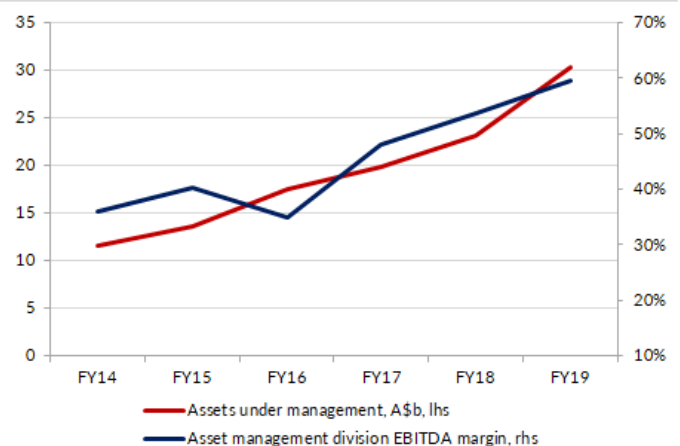
AUM growth to the same extent may be more difficult in the NZ context given (1) KiwiSaver's need for liquidity, (2) more limited interest from international institutional capital relative to Australia, (3) a significantly smaller commercial property market, and (4) cap rate compression, which has driven asset values higher over the last 5-years, may not persist to the same degree going forward. Indeed, SPG's transformation to an asset manager has thus far been relatively long dated, with IPL IPOed in mid-2016 and Industre commencing the start of this month.

Figure 2. CHC AUM vs. EBITDA



Source: Company reports, Forsyth Barr analysis

Figure 3. CHC AUM vs. EBITDA margin



Company reports, Source: Forsyth Barr analysis

Scale needed before valuation catches up

Unlike investment property, the value of asset management operations are not typically represented by a direct balance sheet item. As highlighted in Figure 4 Australian REITs with management operations typically trade at a premium to NTA. This premium typically reflects the scale and/or profitability of the management operations. As such comparisons to other LPVs on valuation metrics such as NTA can be difficult. For SPG we add our assessment of the value of its management business (NZ\$50m) to its NTA (reduced to reflect conservative valuations of on balance sheet assets) to arrive at our NAV.

Another way to build scale is to acquire management operations. Recent transactions have been struck at an average of c.4% of AUM with higher prices paid for larger AUM/more profitable operations.

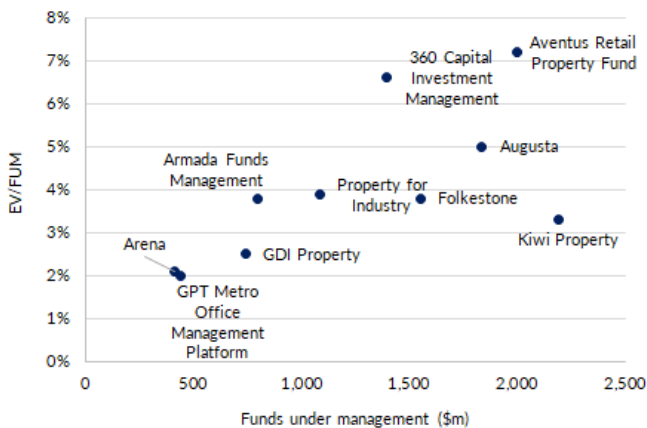
Compared to other asset managers the market attributes little value to SPG's asset management business (calculated as premium to NTA) in our view. We believe this partly reflects modest earnings from SPG's asset management due to its relatively small AUM. As a result SPG's EBIT margin is currently relatively low; we calculate underlying EBITDA margin of c.30% after attributing costs equating to 75bp of asset value for the balance sheet portfolio. SPG's growth ambitions partially account for these low margins, with significant cost in over the last two years in anticipation of growth in AUM. SPG has available capital of NZ\$300m within its current funds, and also has balance sheet assets and debt capacity of NZ\$700m to seed additional external funds. We expect high incremental margins as AUM grows over the next two years.

Figure 4. Value of asset management businesses implied by premium to NTA

Ticker/Exchange	Charterhall CHC AX	Centuria CNI AX	Goodman GMG AX	Augusta AUG NZ	Stride Property SPG NZ	APN APD AX	Elanor ENN AX
AUM \$m	38,900	7,300	49,200	1,800	1,821	3,067	1,679
Share price	9.67	1.735	15.52	0.92	1.90	0.51	1.045
NTA p/s	4.37	1.10	5.34	0.46	1.91	0.40	1.50
Prem/disc to NTA	+121%	+58%	+191%	+100%	-1%	+27%	-30%
Implied value for FM business \$m	2,509	286	19,525	79	(4)	34	(54)
Value as a % of AUM	6.5%	3.9%	39.7%	4.4%	-0.2%	1.1%	-3.2%

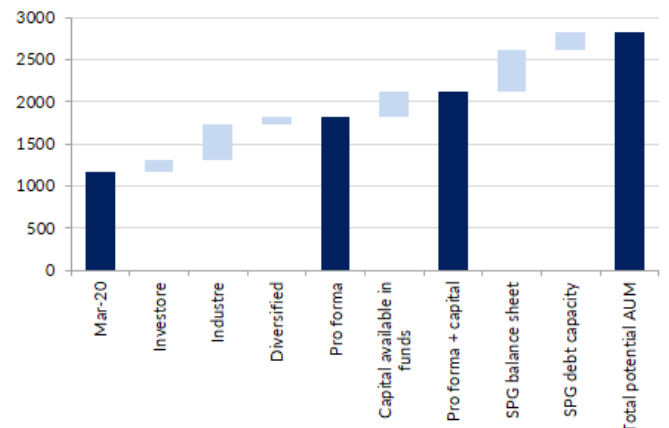
Source: Forsyth Barr analysis

Figure 5. Recent transaction as a %age of AUM



Source: Forsyth Barr analysis

Figure 6. SPG assets under management



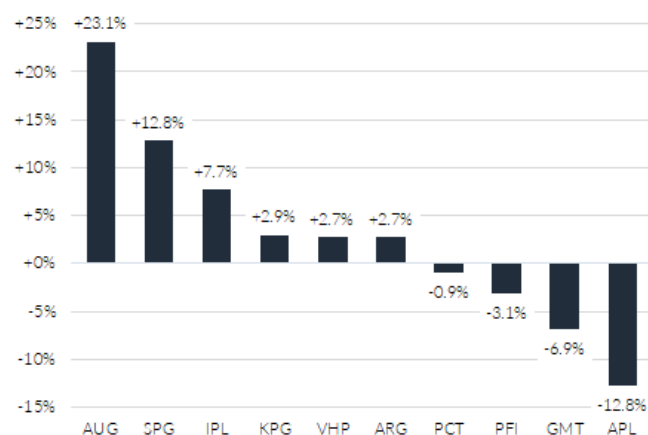
Source: Forsyth Barr analysis

Performance and valuation

A flat month but with a wide range of outcomes

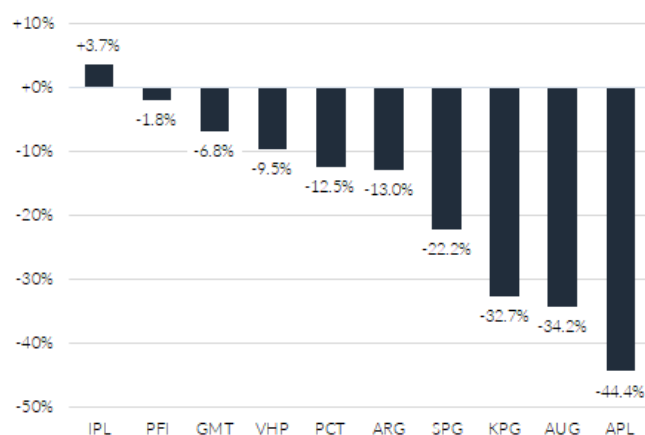
The LPV sector returned -0.2% over June. On the back of a takeover offer from ASX listed Centuria Group (CNI), AUG was this month's top performer. SPG performed well following a solid result which highlighted progress in its funds management business. IPL's exposure to strong supermarket sales growth and solid defensive yield continues to be attractive to investors. Year-to-date LPVs with exposure to retail have underperformed peers while those with industrial and supermarket exposures have remained steady.

Figure 7. June returns



Source: Forsyth Barr analysis, S&P

Figure 8. YTD returns



Source: Forsyth Barr analysis, S&P

Underperforming a strong broader market

NZ LPVs underperformed the broader market over June, down -0.2% vs. the NZX50G up +5.2%.

Figure 9. Sector total returns (as at 30 June 2020)

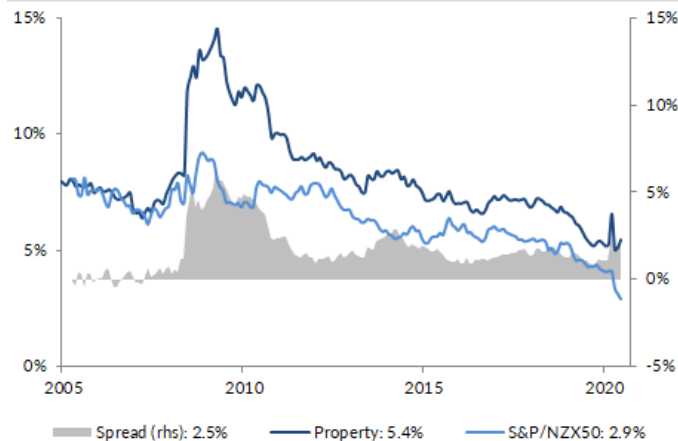
Company	Code	Price 30-Jun	Market Cap	Gr. Div w/imp	Month return	Rank	Quarter return	Rank	Year return	Rank	YTD return	Rank
Asset Plus	APL	\$0.340	\$58m	-	-12.8%	10	-12.8%	10	-42.6%	10	-44.4%	10
Argosy Property	ARG	\$1.165	\$1,005m	\$0.02	+2.7%	6	+31.2%	2	-10.7%	6	-13.0%	6
Augusta	AUG	\$0.880	\$158m	-	+23.1%	1	+16.0%	4	-23.5%	8	-34.2%	9
CDL Investments	CDI	\$0.765	\$222m	-	-6.1%	n/a	+14.3%	n/a	+15.9%	n/a	-12.7%	n/a
Goodman Prop Trust	GMT	\$2.030	\$2,901m	\$0.02	-6.9%	9	-4.5%	8	+8.8%	2	-6.8%	3
Investore	IPL	\$1.840	\$681m	\$0.02	+7.7%	3	+12.9%	5	+3.6%	4	+3.7%	1
Kiwi Property Group	KPG	\$1.050	\$1,648m	-	+2.9%	4	+11.7%	6	-32.5%	9	-32.7%	8
Precinct Properties NZ	PCT	\$1.570	\$2,141m	-	-0.9%	7	-6.8%	9	-7.7%	5	-12.5%	5
Property for Industry	PFI	\$2.345	\$1,187m	-	-3.1%	8	+17.2%	3	+13.2%	1	-1.8%	2
Stride Property Group	SPG	\$1.770	\$701m	\$0.03	+12.8%	2	+31.7%	1	-14.2%	7	-22.2%	7
Vital Healthcare Property Trust	VHP	\$2.495	\$1,153m	\$0.03	+2.7%	5	+7.7%	7	+5.7%	3	-9.5%	4
S&P/NZX All Real Estate Cap		1,230.7			-0.7%		+5.8%		-11.4%		-16.3%	
S&P/NZX All Real Estate Gr.		1,539.8			-0.2%		+6.7%		-8.3%		-15.1%	
S&P/NZX All Real Estate Gr. w/imp		1,613.5			-0.1%		+6.8%		-7.7%		-14.8%	
S&P/NZX 50 Gross		11,451.1			+5.2%		+16.9%		+9.0%		-0.4%	
S&P/NZX 50 Gross w/imp		13,966.8			+5.3%		+16.9%		+9.9%		-0.1%	

Source: Forsyth Barr analysis, Eikon

LPV yield spread to the broader NZ market remains high

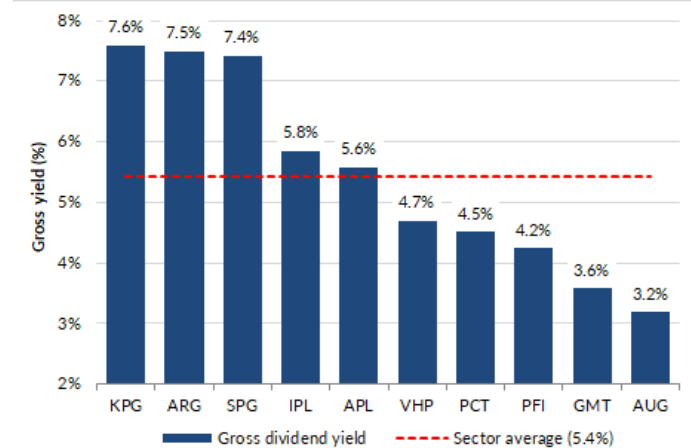
LPV yield remains attractive vs. the boarder market as dividend expectations firmed post reporting. Figure 10 shows broader market dividend expectations have continued to be cut vs. property estimates, which were cut early but have subsequently been revised upwards. Property sector P/E is now at a historically wide discount vs. the broader market which reflects lower market earnings expectations rather than 'cheap' property valuations. Compared to other yield sectors, LPV yields are now slightly higher than other bond proxies (Spark, Chorus and Vector) but below the electricity sector at ~6.5%.

Figure 10. Sector gross yield versus S&P/NZX50 gross yield



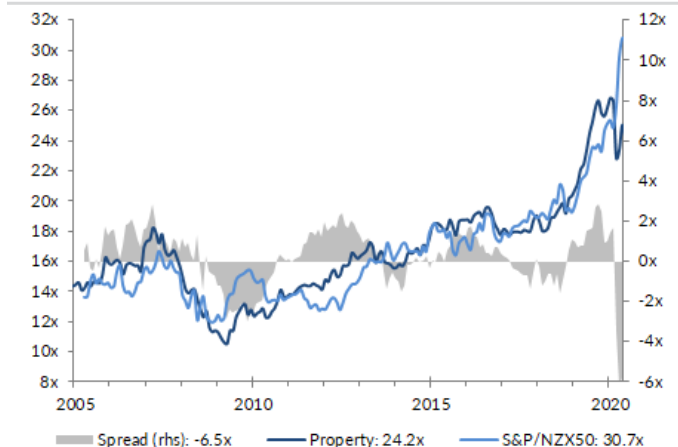
Source: Company reports, Forsyth Barr analysis, IRESS Note: Market cap weighted

Figure 11. Gross Yield



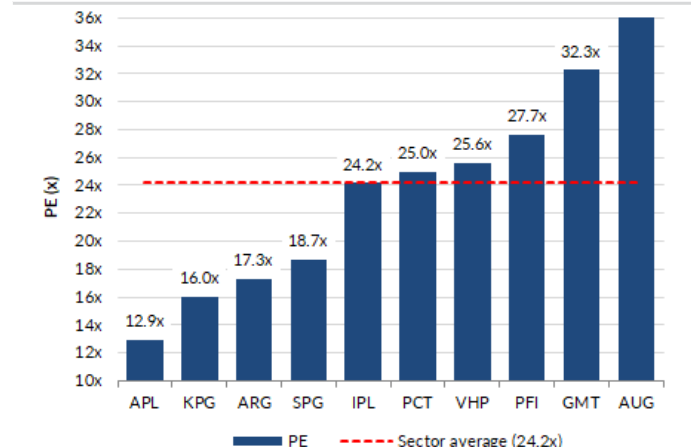
Source: Company reports, Forsyth Barr analysis, Thompson Reuters

Figure 12. Sector PE versus S&P/NZX50 PE



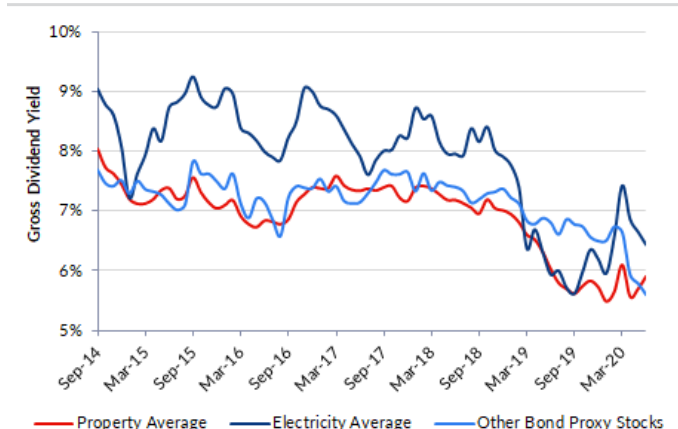
Source: Company reports, Forsyth Barr analysis, IRESS Note: Market cap weighted

Figure 13. PE Ratio



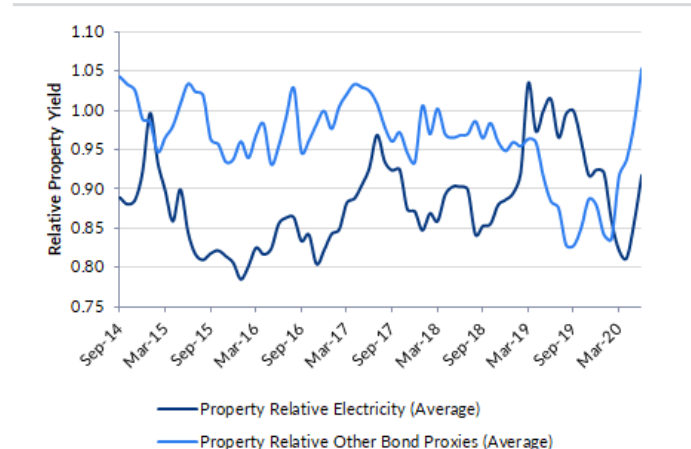
Source: Company reports, Forsyth Barr analysis, Thompson Reuters

Figure 14. Simple average sector yields



Source: Forsyth Barr analysis

Figure 15. Property relative yields



Source: Forsyth Barr analysis

Our preferred LPVs are SPG, VHP, and IPL

One of the longest reporting seasons in recent times has finally come to a close. Our reporting season scorecard suggested that the best results came from ARG and SPG, while APL and GMT didn't meet expectations (see full report, *Reporting Season: A Point in Time*, dated 3 July 2020). While Kiwi Property Group's (KPG) result was in line with our expectations, the market reacted positively to its better-than-expected commentary surrounding COVID-19 related abatements and relief.

A key takeaway from results was that distributions are largely being maintained vs. expectations of COVID-19 cuts. Dividend cutter KPG has signalled distributions will restart with its 1H21 result while SPG and ARG guided to flat DPS. GMT, however, did take the opportunity to reset distributions to better align with cash earnings (largely as a result of management fees no longer being paid in units).

Over June we (1) lowered our rating on PFI to NEUTRAL with the stock having recovered to pre COVID-19 levels and trading at a solid premium to its NTA, and (2) upgraded SPG to OUTPERFORM with the market attributing little value to its growing asset management business.

We continue to prefer Investore (IPL), and Vital Healthcare Property (VHP) for their defensive attributes in this time of uncertainty and remain underweight Kiwi Property (KPG) and Asset Plus (APL) given high retail exposure and limited balance sheet capacity.

Figure 16. Forsyth Barr rating and multiples

Company	Rating	P / NTA	P / NAV	PE	P / AFFO	Cash yield	Gross yield	AFFO Pay-out
APL	UNDERPERFORM	-33.9%	-25.0%	12.9x	15.5x	3.9%	5.6%	60%
ARG	NEUTRAL	-6.9%	+18.6%	17.3x	19.2x	5.2%	7.5%	101%
AUG	NEUTRAL	+48.4%	-0.5%	42.5x	42.5x	2.3%	3.2%	98%
GMT	UNDERPERFORM	+23.3%	+9.8%	32.3x	34.0x	2.5%	3.6%	85%
IPL	OUTPERFORM	+10.7%	+12.0%	24.2x	26.6x	4.1%	5.8%	109%
KPG	UNDERPERFORM	-17.3%	-3.3%	16.0x	17.4x	5.3%	7.6%	92%
PCT	NEUTRAL	+10.5%	+2.2%	25.0x	28.5x	3.2%	4.5%	90%
PFI	NEUTRAL	+14.6%	+14.3%	27.7x	31.4x	3.0%	4.2%	93%
SPG	OUTPERFORM	+0.0%	-0.7%	18.7x	21.0x	5.2%	7.4%	109%
VHP	OUTPERFORM	+8.3%	+8.3%	25.6x	30.0x	3.3%	4.7%	99%
Average		+5.8%	+3.6%	24.2x	26.6x	3.8%	5.4%	94%
Core average¹		+5.4%	+7.6%	23.3x	26.0x	4.0%	5.7%	97%

Source: Forsyth Barr analysis, note: core average excludes APL and AUG

Figure 17. EPS and AFFO estimates

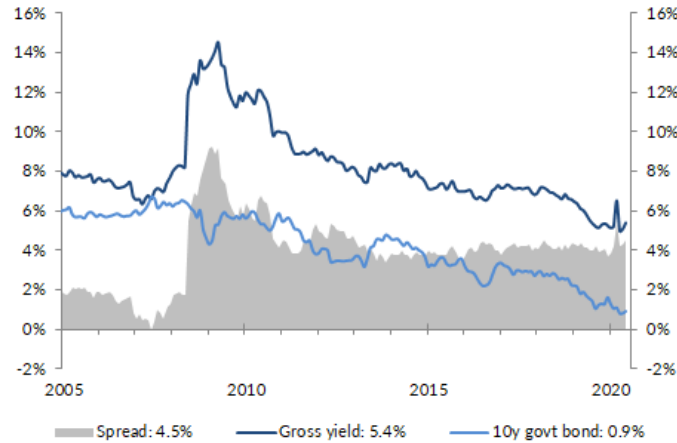
Company	FY20 EPS	FY21 EPS	FY22 EPS	EPS CAGR	FY20 AFFO	FY21 AFFO	FY22 AFFO	AFFO CAGR	AFFO yield
APL	3.10	2.93	2.81	-5%	2.92	2.47	2.30	-11%	+6.46%
ARG	7.20	6.99	7.01	-1%	6.27	6.32	6.20	-1%	+5.20%
AUG	0.26	1.84	3.17	248%	0.26	1.84	3.17	248%	+2.35%
GMT	6.73	6.55	6.72	0%	6.24	6.20	6.42	1%	+2.94%
IPL	7.66	7.55	8.07	3%	6.49	6.86	7.32	6%	+3.75%
KPG	7.14	6.23	6.86	-2%	6.85	5.72	6.35	-4%	+5.75%
PCT	6.16	6.54	6.57	3%	5.51	5.74	5.82	3%	+3.51%
PFI	8.40	8.63	8.82	2%	7.37	7.60	7.79	3%	+3.18%
SPG	10.32	10.45	9.64	-3%	8.71	9.22	8.74	0%	+4.76%
VHP	9.87	9.97	10.35	2%	7.76	8.49	8.94	7%	+3.33%
Avg									+4.12%
Weighted avg									+3.86%

Source: Forsyth Barr analysis

Interest rates supportive of LPVs...

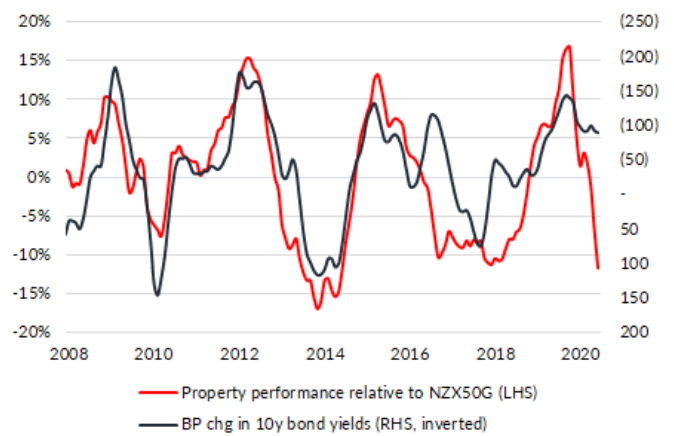
The LPV sector gross dividend yield is 5.4% representing a +450bp spread to the NZ Government 10 year bond yield of 0.9%. This is slightly above the 5-year average of +410bp. Changes in interest rates have been a key driver of LPV performance vs. the broader NZ market over the last 10-years. Higher sector yield spreads have reflected increased uncertainty due to the quantum of lockdown associated rent abatements and the deteriorating macro backdrop.

Figure 18. Yield spread — gross dividend yields vs 10 year bond



Note: Gross div yield is the PIE from Sep-07. Source: Forsyth Barr analysis, Company reports

Figure 19. Relative property sector performance vs. bond yields

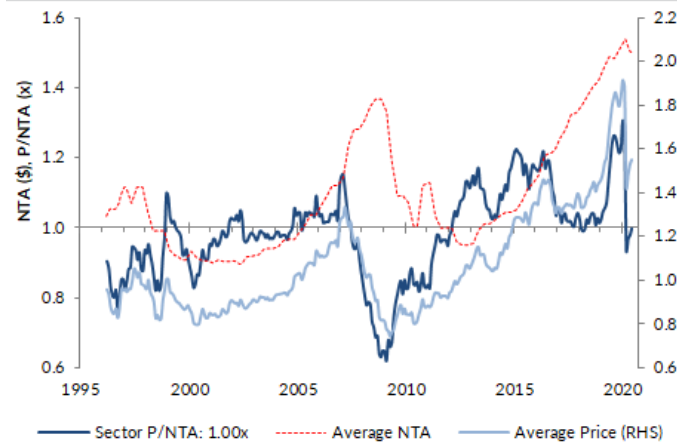


Source: Forsyth Barr analysis

...and direct property valuations

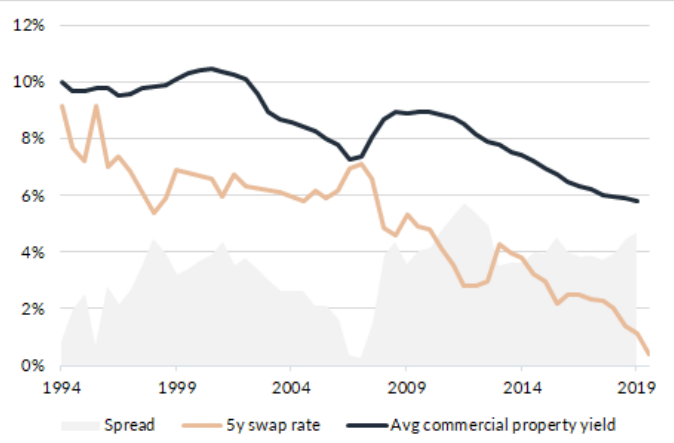
The LVP sector is trading in line with its net asset backing at 1.00x P/NTA. March revaluations generally lifted cap rates and lower LPV property valuations. In the direct market the spread to funding remains attractive vs. history, suggesting demand should remain robust for well located property with strong tenant covenants. Anecdotes suggest syndicators are seeing strong demand from retail investors driven by lower interest rates. Assuming cap rates remain flat at Dec-19 levels (a conservative assumption given post COVID-19 valuation cap rates are likely to expand slightly) the spread to 5-year swap rate would be +540bp, the highest since June-12.

Figure 20. Property sector P/NTA

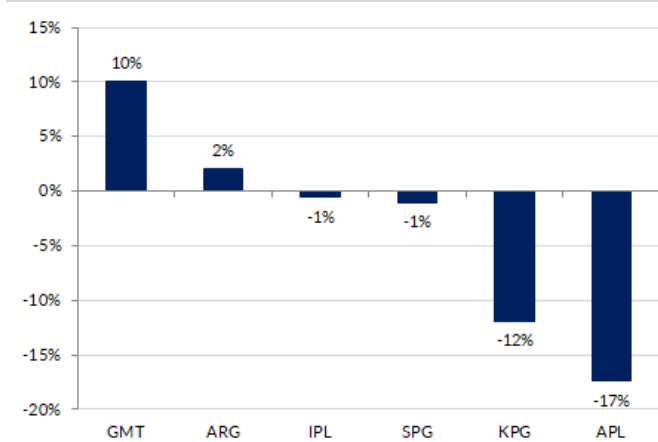


Source: Forsyth Barr analysis

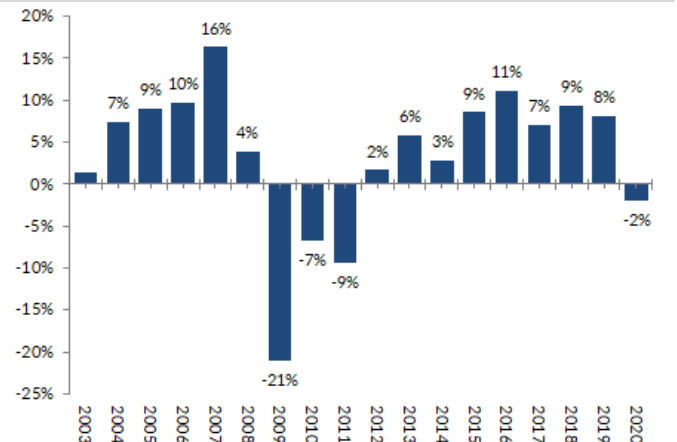
Figure 21. Commercial property yields vs 5Y swap rate



Source: Forsyth Barr analysis

Figure 22. March yoy valuation changes


Note: Gross div yield is the PIE from Sep-07. Source: Forsyth Barr analysis, Company reports

Figure 23. Market cap weighted sector NTA growth


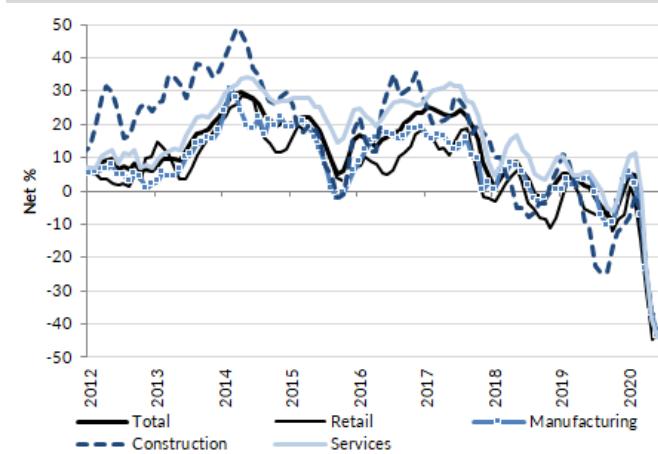
Source: Forsyth Barr analysis Note: 2020* is YTD

Operating backdrop remains challenging

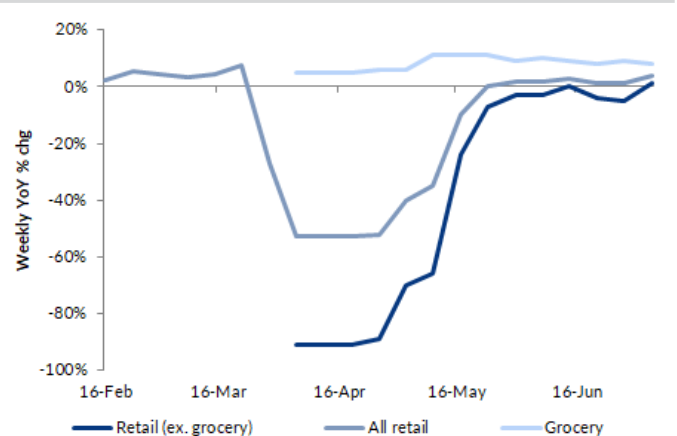
Retail: Paymark data suggests that post lockdown retail sales (ex. grocery) have been tracking slightly lower than the pcg, albeit with commentary from some retailers suggesting pent up demand has driven strong outcomes in select categories. KPG called out double digit foot traffic growth at Sylvia Park. Supermarket sales appear to have maintained high single digit growth post lockdown which is a benefit for IPL with turnover based rent.

Office: As expected subleasing has started to become a feature of the office market, particularly in Auckland and to a lesser extent in Wellington. Some jobs that are more able to be performed at home (such as call centres) have begun to give up space. Unsurprisingly, employment intentions remain weak with the upcoming withdrawal of government wage support a potential further headwind.

Industrial: Demand has been stable driven by logistics and storage. Incentives have started to increase, anecdotally increasing from 4% to 6-8% of annual rent, but face rents remain stable. Some large tenants have started to adjust foot prints, i.e. Turners at Penrose.

Figure 24. Employment – ANZ Outlook Survey


Source: Forsyth Barr analysis

Figure 25. Paymark retail spending data


Source: Forsyth Barr analysis

Property News for June 2020

NZ listed property portfolio activity

PCT will be commencing construction of the Bowen Campus Stage Two office development in Wellington. The project will be undertaken on a pre-committed basis with leasing to EY and Fujitsu securing a total 4,093sqm of office space on a WALT of 9 years. Pre-committed leasing currently represents 72% of the buildings office NLA by income. The development project has an expected total project cost of \$90.2 million and is expected to generate a yield on cost of 6.6%, once fully leased. [4 June 2020]

ARG has announced the unconditional sale of the Placemakers Kaiwharawhara building on 180–202 Hutt Road, Wellington. The property has been purchased by a private domestic investor for NZ\$23.5m, representing an 11% premium to its book value of NZ \$21.0m. Settlement is scheduled to occur in July, and proceeds will be used to pay down bank debt (pro-forma gearing to reduce to 38.0% from 38.8% at FY20 result). We view the sale as a great result for ARG; the property was a non-core holding for ARG and its disposal sees ARG achieve a c.19% IRR on redevelopment. [18 June 2020]

The establishment of Industrie (SPG's joint venture with JP Morgan Asset Management) was completed yesterday, with operations commencing today. The fund has a growth mandate (with \$154m of current available capital), and has kicked off by purchasing 1 Ross Reid Place, East Tamaki for \$15.5 million, due to settle on 23 July 2020 (5.5% yield, 2.3y WALT). [1 July 2020]

ARG has announced the unconditional sale of 80 Springs Rd, Auckland to an owner occupier. The non-core industrial property was sold for \$16.5m (2.3% above book value). The property was vacant and therefore improves occupancy metrics and is not dilutive to earnings. [1 July 2020]

Other NZ listed property news

IPL reported a steady FY20 result with distributable profit of NZ\$21.1m, underpinned by solid rent growth and lower finance costs, offsetting higher management fees. FY21 DPS guidance of 7.6cps was unchanged although upside potential was tempered. [3 June 2020]

SPG has received OIO approval for the establishment of Industrie, its joint venture between SPL and international institutional investors (advised by JP Morgan). The transaction is conditional on some final arrangements, with settlement expected on 30 June 2020. [5 June 2020]

AUG announced that the partners in the QT Lakeview Partnership have obtained the required OIO approvals for the development agreement with Queenstown Lakes District. The development agreement is now unconditional. AUG have a 25% stake in the partnership and expect to incur a total of \$2–3m of development expenditure over the next two fiscal years. [8 June 2020]

PCT officially opened the retail centre at Commercial Bay, which consists of 120 retailers across fashion, food and beverage, beauty and speciality retail. The centre is fully leased. [11 June 2020]

AUG has announced that it has received a takeover notice from ASX listed CNI, outlining terms for a deal that would see 100% of AUG's shares acquired at an implied price of NZ\$1.00, a 46% premium to AUG's prior close price. AUG set up a committee to oversee its response to the takeover notice, and appointed Cameron Partners and Chapman Tripp as advisers. [15 June 2020]

KPG advised that Steve Cooper, GM Finance and Shared Services, has resigned and will leave the company on 2 October 2020. [15 June 2020]

APL reported a soft FY20 result with funds from operations (FFO)/underlying NPAT down -18% yoy to NZ\$5.0m; below our expectations, largely due to higher transaction costs relating to two acquisitions that did not proceed. AFFO, however, was flat due to lower other adjustments. APL is in the midst of two major, and time critical, developments at Graham St and Munroe Lane, which if completed would significantly reposition its portfolio. However, funding constraints and a weakening economic backdrop have significantly increased execution risks. [16 June 2020]

KPG has reported that pedestrian counts for its portfolio are +1% vs. the pcg, since normal trading resumed on the 14 May. This is a solid improvement from -8% over the first 2 weeks of post-lockdown trading. Visitation hasn't been uniform, with Sylvia Park and Palmerston North seeing the best foot traffic. Additionally, KPG has stated the company intends to pay a 1H21 dividend based on 90–100% of adjusted funds from operations (AFFO). First half underlying earnings are impacted by rent abatements, partially offset by cost savings and tax benefits. While KPG is still in discussions with some tenants, KPG is confident rent abatements won't exceed prior guidance of NZ\$20m. [22 June 2020]

SPG reported an in line FY20 result, with distributable profit of NZ\$37.7, down -2.8% on pcp and slightly below our expectations (NZ \$38.2m), with improved operating earnings due to higher management fees more than offset by increased tax. Recent asset sales to IPL and the upcoming establishment of Industrie will leave SPG in a strong capital position as it continues to execute its asset management growth strategy. [23 June 2020]

AUG reported FY20 adjusted funds from operations (AFFO) of NZ\$0.2m, down materially from the prior year, largely due to no new fund offerings being completed. This outcome was in line with guidance provided with AUG's recent capital raise. No FY21 guidance was provided; however, AUG has targeted 20% cost savings, a plan to launch a new fund in mid-July, and to progress development and acquisition opportunities within existing funds. [26 June 2020]

AUG has received a full takeover offer from CNI, with the core components of the offer remaining the same as outlined in the 15 June takeover notice. However, this changed on 1 July, with CNI announcing the cash component of the offer would be increased to 22c from 20c, with the scrip ratio remaining the same. [29 June 2020]

With Mike Smith retiring, Jeff Morrison has been appointed Chairman. Jeff has spent seven years on the ARG board. Previously, Jeff spent 29 years as a property partner at Russell McVeagh, but now practices on his own account. [1 July 2020]

Other commercial property news

PMG Property Funds Management successfully raised \$37.8m from investors to purchase the 5 Green Star rated Vodafone Innov8 building in Christchurch. The purchase price of \$58.65m represents an initial yield of 6.7%. The 8,941sqm property is 100% occupied, with a WALT of 8.1yrs. [1 July 2020]

Figure 26. Dividend summary

Company	FY19	FY20	FY21	FY22	DPS	Cash	Gross yield ¹	Gross yield ¹	Gross yield ²	Gross yield ³
	DPS	DPS	DPS	DPS	CAGR	yield	10.5% MTR	17.5% MTR	30.0% MTR	33.0% MTR
APL	3.60	2.70	1.15	2.30	-14%	3.9%	4.9%	5.1%	5.6%	5.8%
ARG	6.28	6.35	6.35	6.35	0%	5.2%	6.6%	6.8%	7.5%	7.8%
AUG	6.13	3.25	1.80	3.07	-21%	2.3%	0.0%	0.0%	0.0%	0.0%
GMT	6.65	6.65	5.30	5.45	-6%	2.5%	3.1%	3.3%	3.6%	3.7%
IPL	7.60	7.60	7.60	7.64	0%	4.1%	5.1%	5.3%	5.8%	6.1%
KPG	6.95	3.53	5.20	6.11	-4%	5.3%	6.7%	6.9%	7.6%	7.9%
PCT	6.00	5.65	5.16	5.24	-4%	3.2%	4.0%	4.1%	4.5%	4.7%
PFI	7.60	7.00	6.99	7.01	-3%	3.0%	3.7%	3.9%	4.2%	4.4%
SPG	9.91	9.91	9.91	9.91	0%	5.2%	6.5%	6.7%	7.4%	7.7%
VHP	8.75	8.56	8.40	8.40	-1%	3.3%	3.9%	4.1%	4.7%	4.9%
Avg						3.8%	4.9%	5.1%	5.7%	5.9%
Weighted avg						3.6%	4.5%	4.7%	5.1%	5.4%

Source: Forsyth Barr analysis

1: Assumes a 17.5% personal tax rate, 2: Assumes a 30.0% personal tax rate, 3: Assumes a 33.0% personal tax rate.

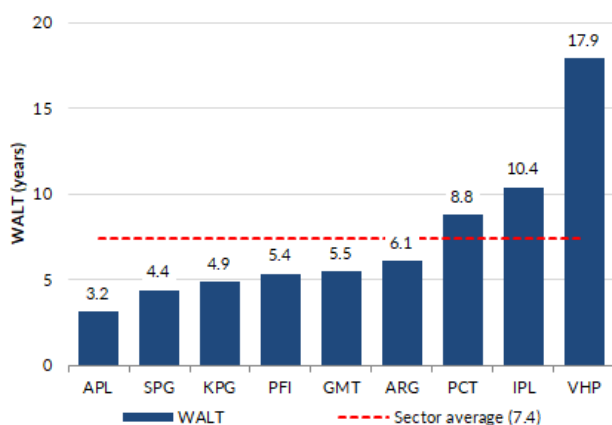
Portfolio Summary

Figure 27. Portfolio metrics summary

Company	Value (NZ \$m)	NLA (000sqm)	No. assets	No. tenants	Market cap rate (%)	Average asset size (NZ\$m)	WALT (years)	Occupancy (%)	Vacancy	FY1 expiry	FY2 expiry	Vacancy + FY1-FY2 expiry
APL	142	96	4	71	7.08%	36	3.2	98.3%	1.7%	13.0%	38.0%	52.7%
ARG	1,867	585	59	nd	6.41%	32	6.1	98.8%	1.2%	10.8%	9.4%	21.4%
GMT	3,074	1,059	11	206	5.40%	279	5.5	99.0%	1.0%	2.0%	11.0%	14.0%
IPL	895	246	43	130	6.08%	21	10.4	99.7%	0.3%	4.3%	3.5%	8.1%
KPG	3,105	436	12	890	6.11%	259	4.9	99.5%	0.5%	16.0%	14.0%	30.5%
PCT	2,794	235	14	nd	5.70%	200	8.8	99.0%	1.0%	7.0%	4.0%	12.0%
PFI	1,462	809	94	144	5.75%	16	5.4	99.0%	1.0%	6.5%	6.6%	14.1%
SPG	488	103	11	310	6.66%	44	4.4	95.9%	4.1%	13.8%	20.4%	38.3%
VHP	1,930	nd	42	178	5.52%	46	17.9	99.5%	0.5%	0.4%	0.3%	1.2%
Total	15,757	3,569	290	1,929								
Average	1,751	446	32	276	6.08%	104	7.4	98.7%	1.3%	8.2%	11.9%	21.4%

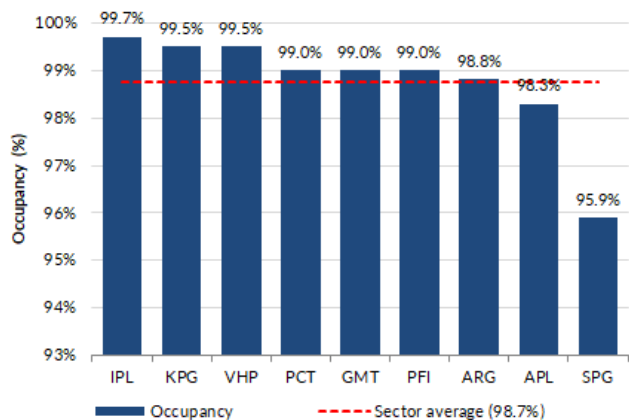
Source: Forsyth Barr analysis, Company reports

Figure 28. Sector WALT (weighted average lease term)



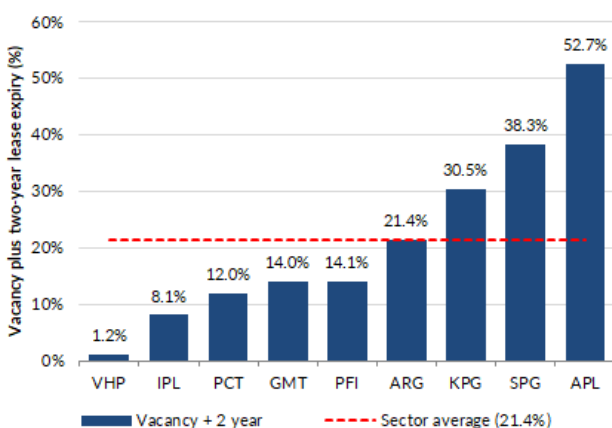
Source: Forsyth Barr analysis, Company Reports

Figure 29. Sector occupancy



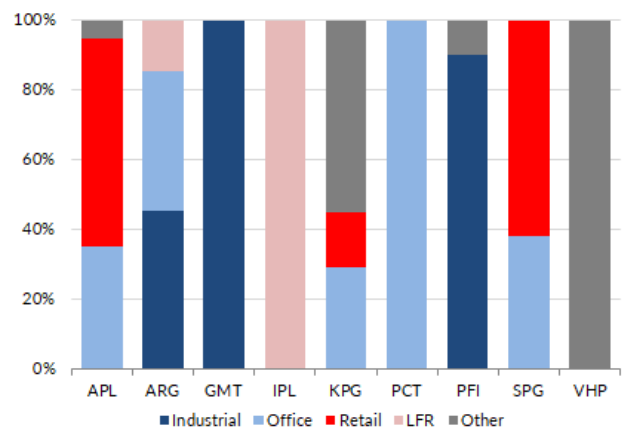
Source: Forsyth Barr analysis, Company Reports

Figure 30. Vacancy + Lease expiry in next 2 years



Source: Forsyth Barr analysis, Company Reports

Figure 31. Sector diversification



Source: Forsyth Barr analysis, Company Reports (SPG is balance sheet assets only)

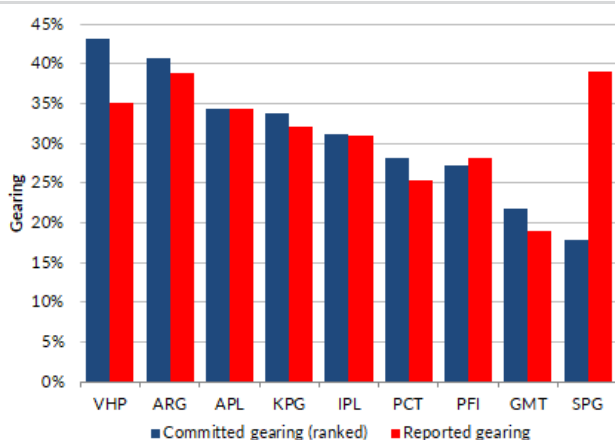
Balance Sheet summary

Figure 32. Balance sheet summary

	As at	Reported gearing	Committed gearing	Target gearing	Bank covenant	Bank facilities (NZ\$m)	Issued Bonds (NZ\$m)	Facility capacity (NZ\$m)	Term - bank (years)	Term - bonds (years)	Term - weighted (years)
APL	Mar-20	34.3%	34.3%	35-40%	50%	75	-	26	2.0	-	2.0
ARG	Mar-20	38.8%	40.7%	30-40%	50%	660	200	127	2.1	6.0	3.0
GMT	Mar-20	18.9%	21.7%	25-35%	50%	400	556	375	2.3	4.3	3.5
IPL	Mar-20	30.9%	31.1%	<48%	65%	320	100	182	2.9	3.8	3.1
KPG	Mar-20	32.0%	33.8%	25-35%	45%	825	475	291	3.9	3.4	3.7
PCT	Dec-19	25.4%	28.1%	<37.5%	50%	610	586	322	3.0	4.8	3.9
PFI	Dec-19	28.2%	27.3%	<40%	50%	350	200	134	2.7	4.8	3.4
SPG	Mar-20	39.1%	17.8%	38-42%	50%	400	-	67	1.6	-	1.6
VHP	Dec-19	35.1%	43.2%	na	50%	870	-	225	1.7	-	1.7
Average/total		31.4%	30.9%		51.1%	4,510	2,117	1,748	2.5	3.0	2.9

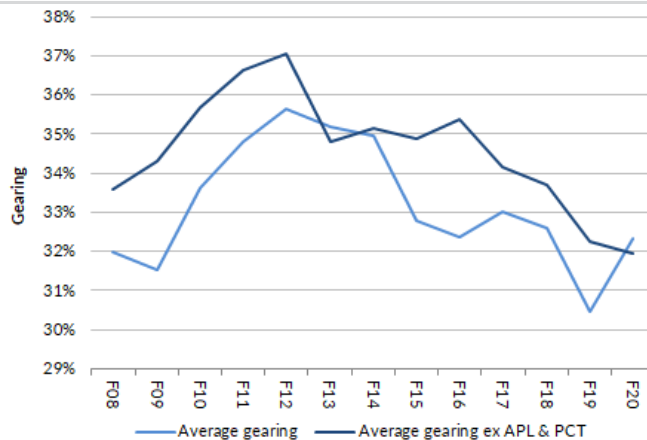
Source: Forsyth Barr analysis, company reports

Figure 33. Committed gearing



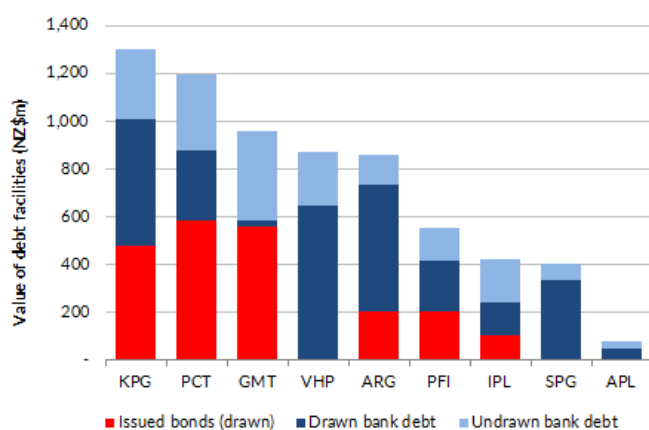
Source: Forsyth Barr analysis, Company Reports

Figure 34. Sector gearing



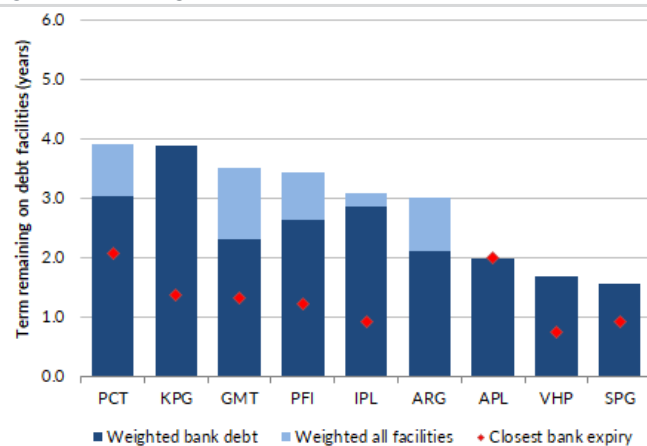
Source: Forsyth Barr analysis

Figure 35. Summary of debt facilities



Source: Forsyth Barr analysis, Company Reports

Figure 36. Funding tenor at 30 June 2020



Source: Forsyth Barr analysis, Company Reports

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