

# Property Sector

## Quarterly S&P/NZX All Real Estate Index Review: December 2019

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The listed property vehicle (LPV) sector's performance in the final quarter of 2019 was subdued, down -0.6%, underperforming the S&P/NZX50 which climbed +5.2%. Vital Healthcare Property Trust (VHP), achieved top return honours during the quarter, up +4.6%, underpinned by an encouraging management fee structure renegotiation, and a quarterly update presenting confirmatory evidence of its robust portfolio fundamentals.

### Opportunistic Capital Raising putting on the brakes

In a year where markets were characterized by persistently low interest rates, limited growth opportunities, and strong investor demand, the LPVs were left with an ideal platform to insulate balance sheets. Hence, the 4Q saw Goodman Property (GMT), Kiwi Property Group (KPG), and Investore (IPL) all execute opportunistic capital raises. Sector returns during the quarter couldn't evade such capital market activity, driving the relatively weak finish to the year. The 4Q pullback, however, did little to dampen the sector's exceptional full year performance, up +31.3% and exceeding the S&P/NZX50 (+30.4%). Immense demand for industrial property inspired the strong performance of GMT, up +51.0%, and Property for Industry (PFI) up +41.1%. Meanwhile, the ultra-defensive VHP, up +40.6%, and differentiated funds management model of Augusta (AUG), up +52.6%, also comfortably trumped the benchmark in 2019.

### Yield rationale evolving

The LPV sector is evidence of a sector that is fundamentally sound, with high quality portfolios, well positioned balance sheets, sustainable pay-out ratios and a continued supply-demand imbalance likely to fuel modest cap rate compression short term. But, earnings growth eclipsing steady-state is highly unlikely, where a value trapped market has been derived from peaking valuations for physical assets, and rising construction costs. Additionally, hunt for yield has maintained yield spreads relative to long bonds at ~4% — only lower pre-GFC, while bond rates dropped in 2019. Our preferred LPVs remain VHP, IPL and KPG (all OUTPERFORM).

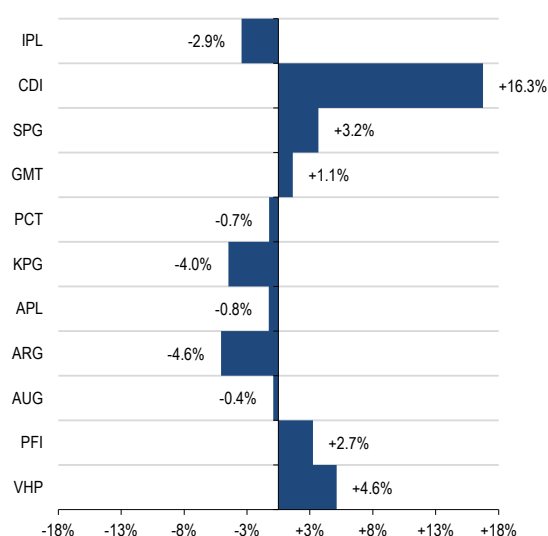


Figure 1. S&P/NZX All Real Estate Gross index return — December 2019

Company	Code	Price 31-Dec	Market Cap	Quarter return	Year return
Asset Plus	APL	\$0.625	\$104m	-0.8%	+18.1%
Argosy Property	ARG	\$1.380	\$1,142m	-4.6%	+21.6%
Augusta	AUG	\$1.500	\$138m	-0.4%	+52.6%
CDL Investments	CDI	\$0.930	\$248m	+16.3%	+19.6%
Goodman Prop Trust	GMT	\$2.220	\$3,090m	+1.1%	+51.0%
Investore	IPL	\$1.820	\$548m	-2.9%	+25.6%
Kiwi Property Group	KPG	\$1.560	\$2,448m	-4.0%	+20.8%
Precinct Properties NZ	PCT	\$1.835	\$2,391m	-0.7%	+28.8%
Property for Industry	PFI	\$2.440	\$1,232m	+2.7%	+41.1%
Stride Property Group	SPG	\$2.360	\$862m	+3.2%	+29.4%
Vital Healthcare Property Trust	VHP	\$2.820	\$1,274m	+4.6%	+40.6%
S&P/NZX All Real Estate Cap		1,471.1		-1.8%	+26.1%
<b>S&amp;P/NZX All Real Estate Gr.</b>		<b>1,812.9</b>		<b>-0.6%</b>	<b>+31.3%</b>
S&P/NZX All Real Estate Gr. wtmp		1,894.0		-0.4%	+32.4%
<b>S&amp;P/NZX 50 Gross</b>		<b>11,491.9</b>		<b>+5.2%</b>	<b>+30.4%</b>
S&P/NZX 50 Gross wtmp		13,978.0		+5.3%	+31.6%

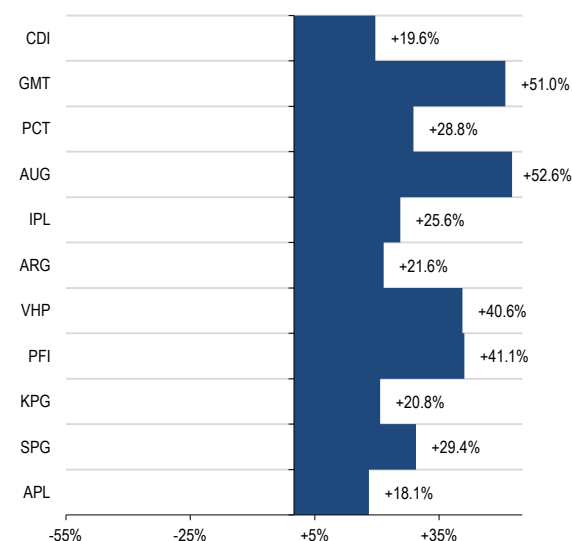
Source: Forsyth Barr analysis, IRESS

**Figure 2. S&P/NZX RE index December quarter gross stock returns**



Source: Forsyth Barr analysis, IRESS

**Figure 3. S&P/NZX RE index December year gross stock returns**



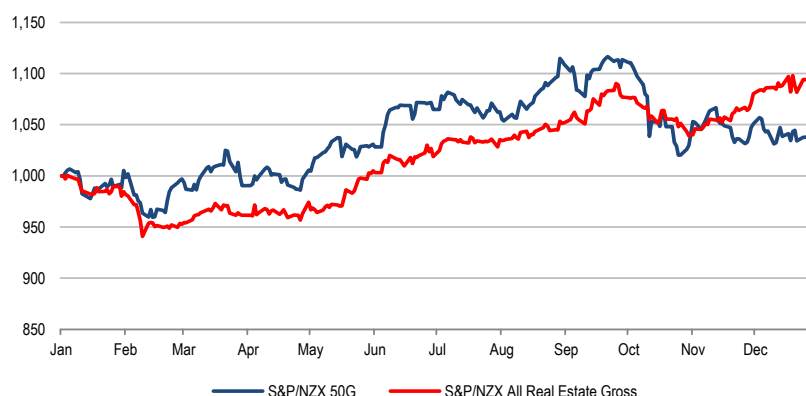
Source: Forsyth Barr analysis, IRESS

**Figure 4. NZX All Real Estate Gross index return — December 2019**

Company	Code	Price 31-Dec	Market Cap	Gr. Div w/imp	Month return	Rank	Quarter return	Rank	Year return	Rank	YTD return	Rank
Asset Plus	APL	\$0.625	\$104m	\$0.01	+0.0%	9	-0.8%	7	+18.1%	10	+18.1%	10
Argosy Property	ARG	\$1.380	\$1,142m	\$0.02	-0.8%	10	-4.6%	10	+21.6%	8	+21.6%	8
Augusta	AUG	\$1.500	\$138m	\$0.02	+5.1%	3	-0.4%	5	+52.6%	1	+52.6%	1
CDL Investments	CDI	\$0.930	\$248m	-	+6.9%	n/a	+16.3%	n/a	+19.6%	n/a	+19.6%	n/a
Goodman Prop Trust	GMT	\$2.220	\$3,090m	-	+4.0%	5	+1.1%	4	+51.0%	2	+51.0%	2
Investore	IPL	\$1.820	\$548m	-	+1.1%	7	-2.9%	8	+25.6%	7	+25.6%	7
Kiwi Property Group	KPG	\$1.560	\$2,448m	\$0.04	+1.5%	6	-4.0%	9	+20.8%	9	+20.8%	9
Precinct Properties NZ	PCT	\$1.835	\$2,391m	-	+1.1%	8	-0.7%	6	+28.8%	6	+28.8%	6
Property for Industry	PFI	\$2.440	\$1,232m	-	+4.1%	4	+2.7%	3	+41.1%	3	+41.1%	3
Stride Property Group	SPG	\$2.360	\$862m	\$0.03	+7.3%	1	+3.2%	2	+29.4%	5	+29.4%	5
Vital Healthcare Property Trust	VHP	\$2.820	\$1,274m	\$0.02	+6.4%	2	+4.6%	1	+40.6%	4	+40.6%	4
S&P/NZX All Real Estate Cap		1,471.1			+1.9%		-1.8%		+26.1%		+26.1%	
<b>S&amp;P/NZX All Real Estate Gr.</b>		<b>1,812.9</b>			<b>+2.6%</b>		<b>-0.6%</b>		<b>+31.3%</b>		<b>+31.3%</b>	
S&P/NZX All Real Estate Gr. w/imp		1,894.0			+2.8%		-0.4%		+32.4%		+32.4%	
<b>S&amp;P/NZX 50 Gross</b>		<b>11,491.9</b>			<b>+1.5%</b>		<b>+5.2%</b>		<b>+30.4%</b>		<b>+30.4%</b>	
S&P/NZX 50 Gross w/imp		13,978.0			+1.6%		+5.3%		+31.6%		+31.6%	

Source: Forsyth Barr analysis

**Figure 5. Gross return indices**



Source: Forsyth Barr analysis, Forsyth Barr analysis, IRESS Note: Last prices as at 31/12/2019. Indices rebased to 1,000 at 31/12/2018

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