

# Real Estate Reflections

## The Green Edition

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The listed property vehicles (LPVs) didn't participate in November's vaccine fuelled rally, with the sector down -0.5% as bond yields made a recovery. Notably in November, six LPVs reported interim results, with results broadly positive across the board. In this month's report, we highlight our takeaways from the reporting season and our subsequent rating changes, and also how the sector is responding to sustainability issues in light of our recently published ESG report "*Part of the Problem or Part of the Solution?*". Although the LPVs aren't first to mind when contemplating carbon emissions, it is becoming an increasingly important issue to management teams, tenants, and investors with regards to development, funding, and leasing.

**Figure 1. NZ listed property sector summary**

LPV	Code	Rating	Price 8-Dec	Target price	Gross yield	Expected total return	P/NAV	P/NTA
Asset Plus	APL	OUTPERFORM	\$0.35	\$0.38	7.5%	15.4%	86%	78%
Argosy Property	ARG	OUTPERFORM	\$1.51	\$1.55	6.1%	6.9%	119%	107%
Goodman Property	GMT	UNDERPERFORM	\$2.38	\$2.30	3.3%	-1.1%	105%	130%
Investore	IPL	OUTPERFORM	\$2.18	\$2.35	5.1%	11.3%	121%	113%
Kiwi Property Group	KPG	UNDERPERFORM	\$1.18	\$1.25	6.7%	10.6%	95%	91%
Precinct Properties	PCT	NEUTRAL	\$1.69	\$1.72	5.5%	5.6%	109%	117%
Property for Industry	PFI	NEUTRAL	\$2.87	\$2.73	3.9%	-2.1%	113%	140%
Stride Property	SPG	OUTPERFORM	\$2.22	\$2.30	6.4%	8.1%	107%	110%
Vital Healthcare	VHP	OUTPERFORM	\$2.99	\$3.15	4.3%	8.6%	107%	125%
<b>Core simple average</b>					<b>5.2%</b>	<b>6.0%</b>	<b>110%</b>	<b>117%</b>

Source: Forsyth Barr analysis, company reports, Eikon Note: Core average excludes APL. ETR = target price + cash yield

### ESG: Greening portfolios

The built environment is responsible for 13–20% of NZ's carbon emissions, and commercial buildings consume 9% of all electricity. While the LPV sector has a relatively low direct carbon footprint there has been movement towards lowering energy use and greening portfolios. Occupiers are starting to demand green and energy efficient buildings; the NZ Government as part of their climate change initiatives has announced that offices and public buildings it constructs or leases must meet energy efficiency standards from 1 January 2021. For landlords there is a capital cost as buildings are upgraded but there is potential upside from lower operating costs as well as better occupier demand lifting rents, and lower vacancy (although this is yet to be delineated within the market).

### Solid November reporting season

The LPV sector had a solid 1H21 reporting season with COVID-19 impacts being more modest than expected and offset by lower interest costs and tax (although for some names this was due to large one-offs). Five out of the six LPVs who reported interim results beat our forecasts by +2.5% or more, with Kiwi Property (KPG) being the key laggard as retail was particularly impacted by the ongoing impacts of COVID-19. We lifted our earnings estimates by +1.5% or more for four names; Argosy (ARG) and Goodman (GMT) lifted guidance, while KPG provided FY21 guidance for the first time but below our prior estimates.

### Vaccinated bond yields a headwind

Property didn't participate in November's market rally, despite a better than expected reporting season. The All Real Estate gross index was down -0.5%, versus the broader market up +5.7%, likely due to rising bond rates with the NZ 10 year bond yield lifting +32bps (or +56%) in November on the back of vaccine news flow. Asset Plus (APL), the only stock trading at a wide discount to its net asset value, lifted +8.2%, while ARG was up +7.2% following a strong result.

## Property sector doing its bit for ESG

### A low emissions sector but with wider impacts

The property sector has low direct CO<sub>2</sub> emissions and hence was not the focus of our recent report, *ESG with a Capital "E"*. However, the built environment is responsible for 13–20% of NZ carbon emissions according to the Green Building Council. Commercial buildings in NZ consume 9% of all electricity. Given these large impacts New Zealand's listed property vehicles (LPVs) take their environmental and sustainability obligations seriously, despite having modest direct carbon footprints themselves (which largely relate to unrecoverable building operating costs such as common area lighting and lifts). Most have produced sustainability strategies and all are reporting CO<sub>2</sub> emissions. Furthermore, many have initiatives in place to lift the quality and environmental performance of their portfolios.

**Figure 2. Property sector ESG disclosure**

	Pages covered in:			Sustainability report produced	Emissions (tCO <sub>2</sub> )/\$m of mkt cap	Key GHG targets
	Annual report	Result preso	AGM Preso			
ARG	3	1	2	N	n/a	1. Obtain independent energy efficiency rating on all office buildings by 2022. 2. Collect energy consumption data (electricity, water and gas) for all buildings. 3. Develop a Waste Management Plan for all major projects
GMT	2	0	1	Y	0.2	100% renewable energy use and carbon neutral operations by 2025
KPG	1	1	1	Y	1.7	Reduce total greenhouse gas emissions by 40% by 2025 on 2012 base year emissions, and reduce total greenhouse gas emissions by 55% by 2050 on 2012 base year emissions.
PCT	2	1	3	Y	1.5	Aim to have 100% of buildings as 3 stars or above on NABERSNZ rating
PFI	1	1	1	Y	0.1	Use resources efficiently and eliminate waste
IPL	2	1	0	N	n/a	Minimise adverse contributions toward climate change from Investore's operations
SPG	1	1	0	N	n/a	Create efficient, climate-resilient places that deliver long term value and support a low carbon future

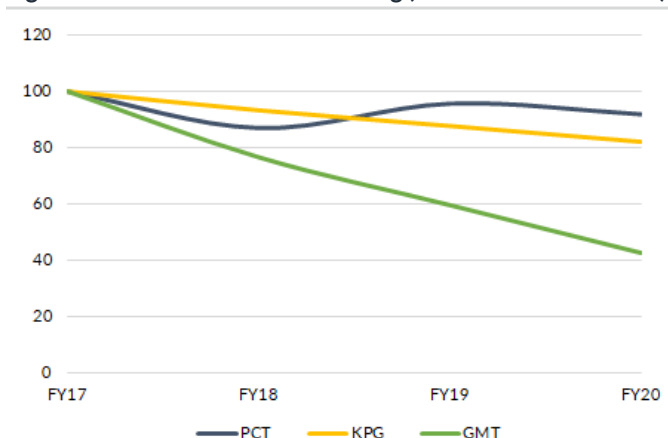
Source: Company reports, Forsyth Barr analysis

### NZ Government leading the charge on demand for greener buildings

Occupiers are starting to demand green and energy efficient buildings. The NZ Government as part of their climate change initiatives have announced that offices and public buildings it constructs or leases (>2,000sqm spaces) from 1 January 2021 must be 4 stars (although the target is 5 stars) based on the National Australian Built Environment Rating System New Zealand (NABERSNZ) energy-efficiency standard. NABERSNZ is an adaptation of the National Australian Built Environment Rating System (NABERS) which is mandatory for large office buildings in Australia.

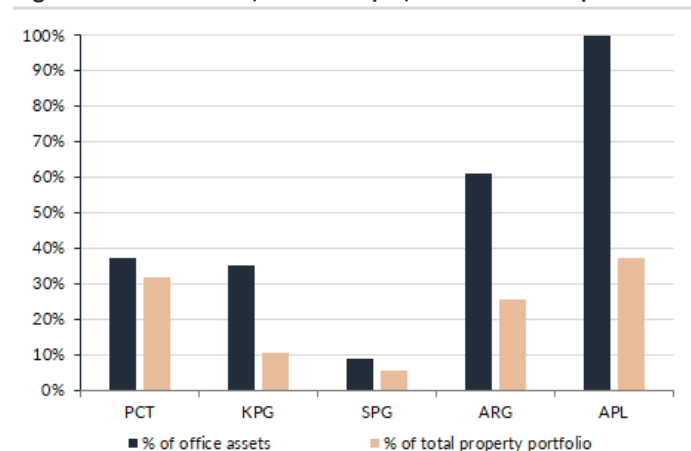
The NZ Government is the country's biggest owner and tenant. Government tenants are highly desirable and as such this initiative could result in significant upgrades of commercial buildings with automated lighting, insulation, and double glazing being some of the easy wins. NABERSNZ ratings are not yet available for industrial buildings.

**Figure 3. Carbon emissions are falling (indexed to 100 in FY17)**



Source: Forsyth Barr analysis, Company reports

**Figure 4. Government (incl municipal) tenants as % of portfolio**



Source: Company reports, Forsyth Barr analysis [Note: values are estimates]

### LPVs have been greening their portfolios

PCT has been applying the NABERSNZ rating system to its portfolio. It currently has four buildings with a 3.5 star or above rating and is targeting 100% of its portfolio to be at or above 3 stars. A case study is AMP Centre in Auckland where PCT lifted its NABERSNZ rating from two stars to four over three years via targeted improvements. PCT is also installing solar panels on the roof of its development at 10 Madden St which will provide 100% of the annual energy use of the common area lighting and lifts. KPG has (or is in the process of achieving) NABERSNZ ratings for all its office towers.

Lifetime emissions of a building are evenly split between day-to-day use and construction, materials and waste. The other rating system widely used is Green Star which looks at the whole of life cost of the building. Green Star takes into account everything from the building design to the disposal of waste materials at the end of the building's life. The government has previously suggested they would certify all buildings they fund to green star standards but has not yet made a firm commitment to this policy. SPG's recently acquired 20 Customhouse Quay has a four Green Star rating.

ARG has been greening its portfolio through redevelopment and has achieved a 5 green star rating of 5 of its office towers (with two more under development) and one of its industrial assets. ARG has part funded these initiatives via issuing green bonds, with the bonds having security directly over the green assets. Longer term ARG believes this strategy will lower vacancy, lift rent growth, and support tenant demand. SPG's development for Waste Management in Auckland won the Green Building Award at the 2020 Property Council New Zealand Awards due to its sustainability initiatives.

Countdown has committed to green star ratings for its new supermarket developments. The first development is in Richmond, Nelson, and is targeting a 4 Green Star rating. To achieve this the base build will use steel, paints and sealants, and use building materials that carry a green certification where possible as well as recycling of waste material. In terms of operating efficiencies solar panels will be installed on the roof, electric vehicle charging points provided, and energy efficient lighting installed.

## A better than expected 1H21 reporting season

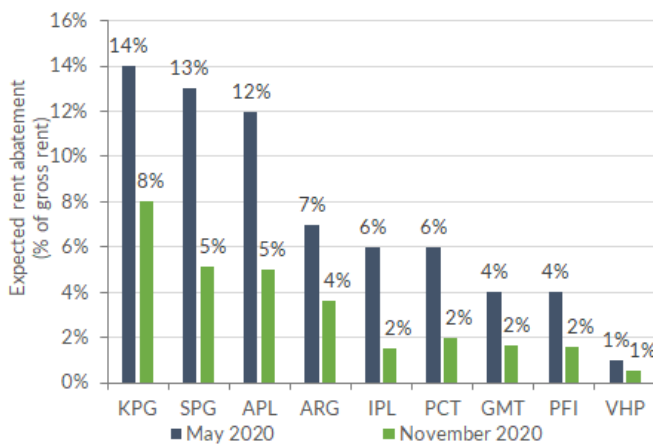
LPVs had a solid 1H21 reporting season with COVID-19 impacts being more modest than expected and offset by lower interest costs and tax (although for some names this was due to large one-offs). Five out of the six LPVs who reported interim results beat our forecasts by +2.5% or more and we lifted our earnings estimates by +1.5% or more for four names. KPG was the key laggard with retail being particularly impacted by the ongoing impacts of COVID-19.

Figure 5 highlights the difference between our May estimate of the impact of lockdown on gross rents and the current reported or guided impact. The average LPV's COVID-19 impact is tracking c.55% below our initial estimates. Further, some have been effective at extending lease terms in exchange for a rent abatement; for example SPG achieved an average extension of 10 months.

Specific sub-sector comments were:

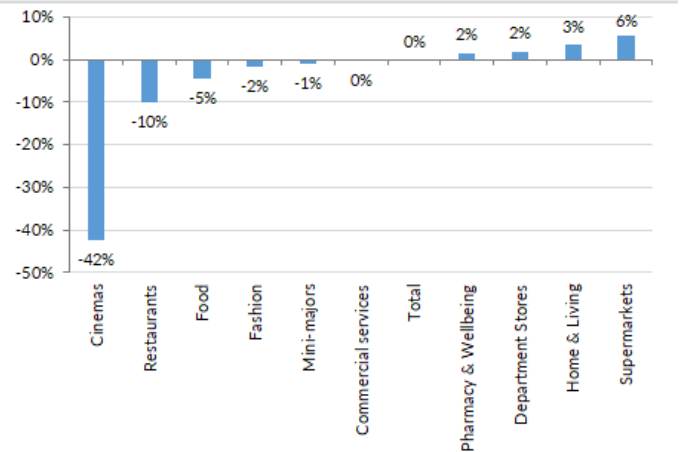
- **Office:** Office remains robust but subleasing is increasing and tenant incentives have lifted. Workplace occupancy is slowly increasing and new leases have been signed to underpin developments (i.e. PCT's Bowen Campus stage 2).
- **Industrial:** Industrial demand remains solid, rent growth has slowed and incentives have crept slightly higher. GMT has restarted an un tenanted development it had paused as part of its initial response to COVID-19.
- **Retail:** Retail rents were described as softer by a number of LPVs and KPG reported negative leasing spreads for both its mixed-use and retail assets (largely relating to one deal). Underneath a solid rebound in headline sales the category outcomes appear much more mixed. Figure 6 shows KPG's sales growth by sector but excluding lockdown periods.

Figure 5. Rent abatement % of gross rent



Source: Company reports, Forsyth Barr analysis

Figure 6. KPG 'adjusted' retail sales growth



Source: Company reports, Forsyth Barr analysis

Figure 7. Reporting season summary

Company	EPS beat/miss (+/- 2.5%)	EPS FY21 Revision (+/- 1.5%)	True Market Surprise 3 Day Post Result (+/- 2.0% rel)	Outlook	Total score	3 Day Post Result Share Price Reaction (rel)
Argosy	+1	+1	+1	+1	+4	+5.60%
Investore	+1		+1	+1	+3	+3.30%
Goodman Property Trust	+1	+1	-1	+1	+2	-2.50%
Stride Property Group	+1	+1	-1	+1	+2	-4.70%
Asset Plus	+1	+1	-1		+1	-2.70%
Kiwi Property Group	-1	-1		-1	-3	-4.40%

Source: Eikon, Forsyth Barr analysis

**Figure 8. Results vs. expectations and market surprise**

Code	EPS Result vs Expectations*	Dividend vs Expectations*	Market Surprise 3 Day Post Result (rel)	Post Result Revenue FY21 Revision	Post Result EBITDA FY21 Revision	Post Result EPS FY21 Revision	Post Result DPS FY21 Revision	Comments
APL	Above	In-line	-2.7%	+7.3%	+8.8%	+9.6%	+0.0%	
ARG	Above	In-line	+5.6%	+2.0%	+2.3%	+6.5%	+1.6%	Rating up to OUTPERFORM
SPG	Above	In-line	-4.7%	+8.4%	+12.1%	+2.7%	+0.0%	Capital raise
GMT	Above	In-line	-2.5%	+3.5%	+3.9%	+2.2%	-0.1%	
IPL	Above	In-line	+3.3%	-3.5%	-4.9%	-0.1%	+0.0%	
KPG	Below	In-line	-4.4%	-4.9%	-5.5%	-10.2%	-7.7%	

Source: Company reports, Forsyth Barr analysis

**Figure 9. Results, FY21 revisions, and outlook statements**

Code	EPS Result vs Expectations*	Dividend vs Expectations*	Post Result Revenue FY21 Revision	Post Result EBITDA FY21 Revision	Post Result EPS FY21 Revision	Post Result DPS FY21 Revision	Outlook Statement
APL	Above	In-line	+7.3%	+8.8%	+9.6%	+0.0%	Neutral. With the Munroe Lane deal now unconditional, execution of the development and leasing of vacant space are near-term priorities. Focus is now also on the 35 Graham Street development opportunity.
ARG	Above	In-line	+2.0%	+2.3%	+6.5%	+1.6%	Slightly positive. Based on the economic outlook and portfolio performance the Board has increased the expected FY21 dividend to 6.45cps. Highlighted the favourable demand dynamics in Wellington and Auckland.
SPG	Above	In-line	+8.4%	+12.1%	+2.7%	+0.0%	Slightly positive. Total cash dividend for FY21 expected to be 9.91cps. SPG will continue to pursue growth in its investment management business. SPG announced a capital raise to fund the acquisition of 20 Customhouse Quay, Wellington.
GMT	Above	In-line	+3.5%	+3.9%	+2.2%	-0.1%	Slightly positive. Improved business outlook has led to an increased FY21 full year cash earnings guidance to 6.3cpu. The Trust's quality portfolio, low level of gearing and targeted investment strategy gives confidence for sustainable growth.
IPL	Above	In-line	-3.5%	-4.9%	-0.1%	+0.0%	Slightly positive. FY21 dividend guidance given at 7.60cps. Focus on targeted growth including acquisitions and development of existing portfolio.
KPG	Below	In-line	-4.9%	-5.5%	-10.2%	-7.7%	Neutral. Highlighted a relative stabilisation in trading conditions and announced an interim dividend payment. Guided to FY21 AFFO of 4.9-5.15 cps, acknowledging that trading conditions remain uncertain for the remainder of the year.

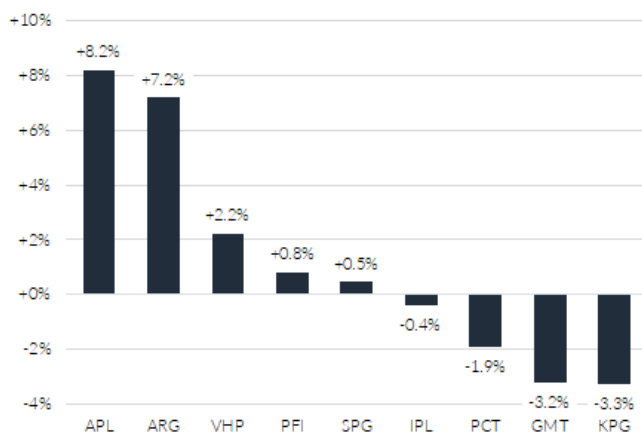
Source: Company reports, Forsyth Barr analysis

## Performance and valuation

### LPVs lag as bond yields rise

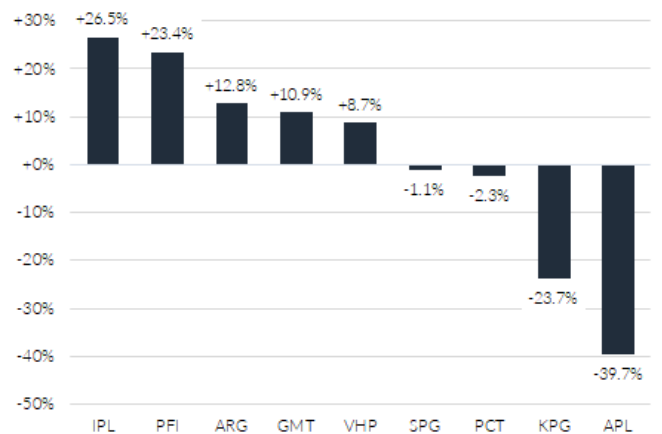
Property didn't participate in November's market rally, despite a better than expected reporting season. The All Real Estate gross index was down -0.5%, versus the broader market up +5.7%, likely due to rising bond rates with the NZ 10 year bond yield lifting +32bps (or +56%) in November. APL, the only stock trading at a wide discount to its net asset value, lifted +8.2%, while ARG was up +7.2% following a strong result. KPG underperformed following its 1H21 result.

Figure 10. October returns



Source: Forsyth Barr analysis, S&P

Figure 11. YTD returns



Source: Forsyth Barr analysis, S&P

Figure 12. Sector total returns (as at 30 November 2020)

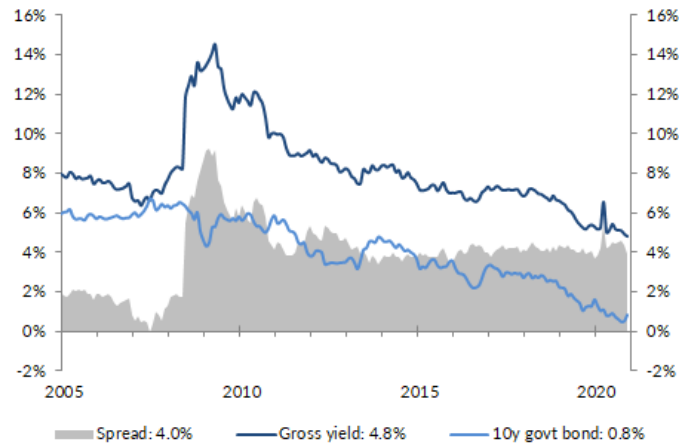
Company	Code	Price 30-Nov	Market Cap	Gr. Div w/mp	Month return	Rank	Quarter return	Rank	Year return	Rank	YTD return	Rank
Asset Plus	APL	\$0.330	\$123m	-	+8.2%	1	+9.7%	5	-39.7%	9	-39.7%	9
Argosy Property	ARG	\$1.490	\$1,301m	-	+7.2%	2	+10.2%	4	+11.9%	5	+12.8%	3
CDL Investments	CDI						+0.6%	n/a	-1.8%	n/a	-8.2%	n/a
Goodman Prop Trust	GMT	\$2.400	\$3,297m	-	-3.2%	8	+3.7%	8	+15.3%	4	+10.9%	4
Investore	IPL	\$2.200	\$810m	\$0.02	-0.4%	6	+2.0%	9	+27.9%	2	+26.5%	1
Kiwi Property Group	KPG	\$1.190	\$1,883m	-	-3.3%	9	+14.4%	2	-22.6%	8	-23.7%	8
Precinct Properties NZ	PCT	\$1.720	\$2,233m	\$0.02	-1.9%	7	+5.3%	6	-1.2%	7	-2.3%	7
Property for Industry	PFI	\$2.900	\$1,450m	\$0.02	+0.8%	4	+13.4%	3	+28.4%	1	+23.4%	2
Stride Property Group	SPG	\$2.220	\$1,011m	-	+0.5%	5	+16.7%	1	+6.2%	6	-1.1%	6
Vital Healthcare Property Trust	VHP	\$2.975	\$1,534m	-	+2.2%	3	+3.7%	7	+15.6%	3	+8.7%	5
S&P/NZX All Real Estate Cap		1,454.40			-0.8%		+7.0%		+0.7%		-1.1%	
S&P/NZX All Real Estate Gr.		1,837.4			-0.6%		+8.0%		+4.0%		+1.3%	
<b>S&amp;P/NZX All Real Estate Gr. w/mp</b>		<b>1,927.6</b>			<b>-0.5%</b>		<b>+8.2%</b>		<b>+4.6%</b>		<b>+1.8%</b>	
S&P/NZX 50 Gross		12,768.5			+5.7%		+7.0%		+12.8%		+11.1%	
<b>S&amp;P/NZX 50 Gross w/mp</b>		<b>15,617.7</b>			<b>+5.7%</b>		<b>+7.2%</b>		<b>+13.5%</b>		<b>+11.7%</b>	

Source: Forsyth Barr analysis, Eikon, S&P

**LPV yield spread; In line with history vs. bonds**

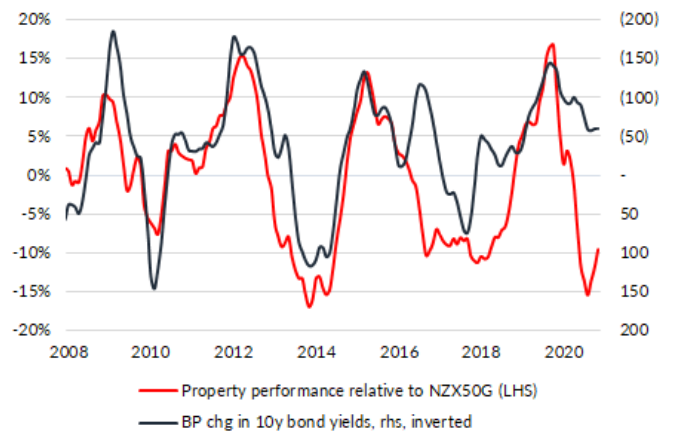
Changes in interest rates continue to be a key driver of LPV sector performance. The LPV sector's gross dividend yield spread is +400bp vs. the 10-year NZ Government bond yield. This is now in line with its 5-year average spread of c.+400bps after a recent lift in bond yields due to vaccine news flow.

**Figure 13. LPV sector gross dividend yields vs 10 year bond**



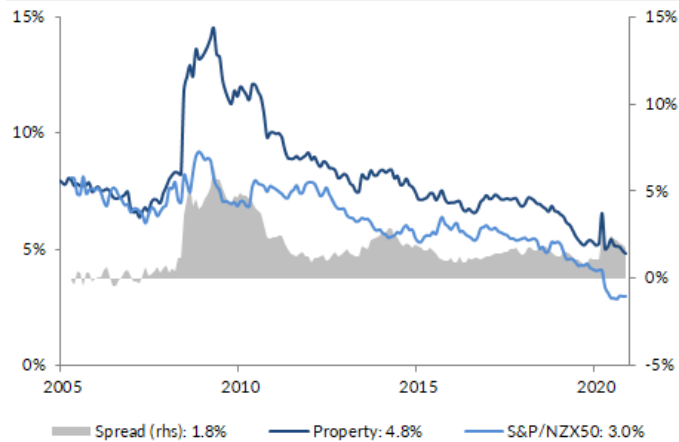
Note: Gross div yield is the PIE from Sep-07. Source: Forsyth Barr analysis, Company reports

**Figure 14. Relative property sector performance vs. bond yields**



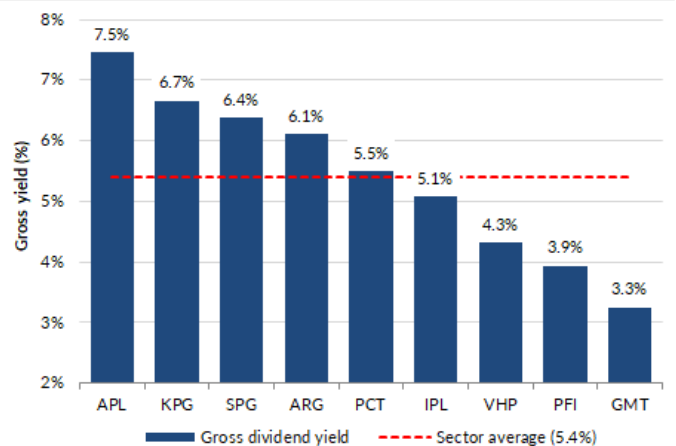
Source: Forsyth Barr analysis [note: 3-month rolling average yoy]

**Figure 15. Sector gross yield versus S&P/NZX50 gross yield**



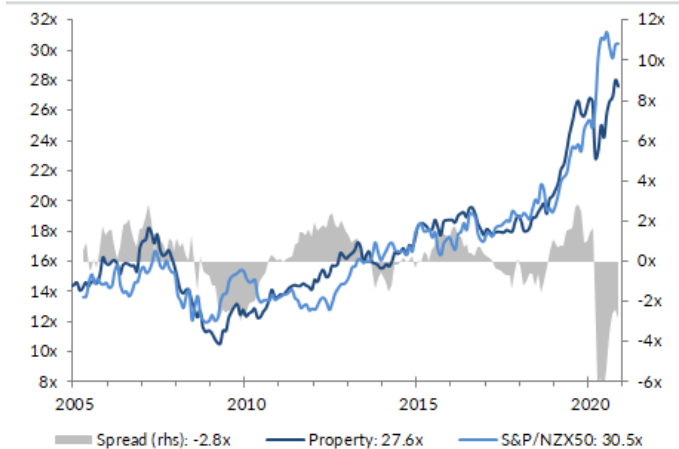
Source: Company reports, Forsyth Barr analysis, IRESS Note: Market cap weighted

**Figure 16. Gross Yield**



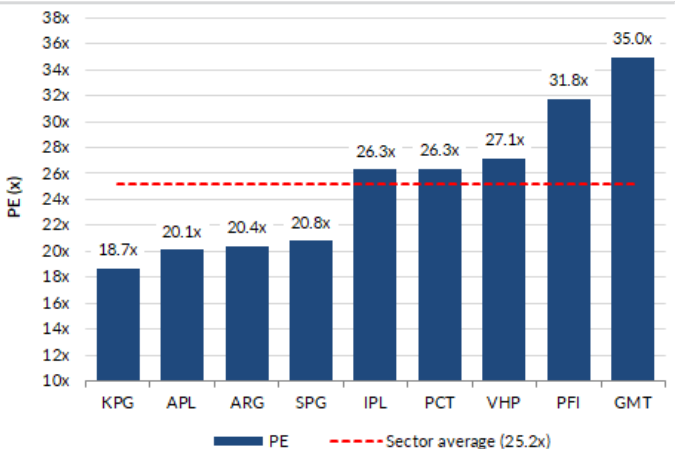
Source: Company reports, Forsyth Barr analysis, Thompson Reuters

**Figure 17. Sector PE versus S&P/NZX50 PE**



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

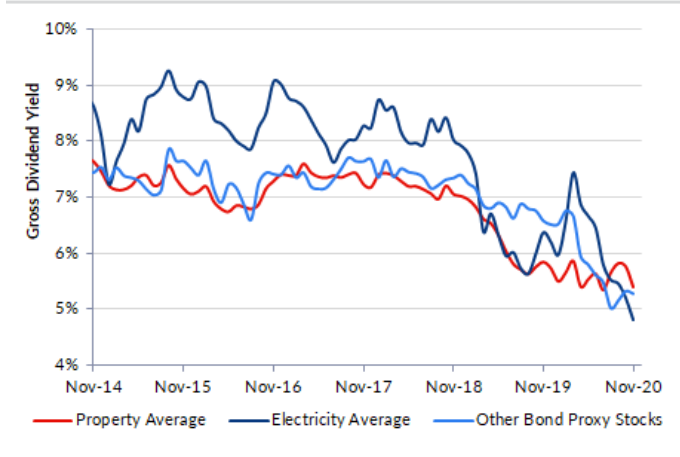
**Figure 18. PE Ratio**



Source: Company reports, Forsyth Barr analysis, Thompson Reuters

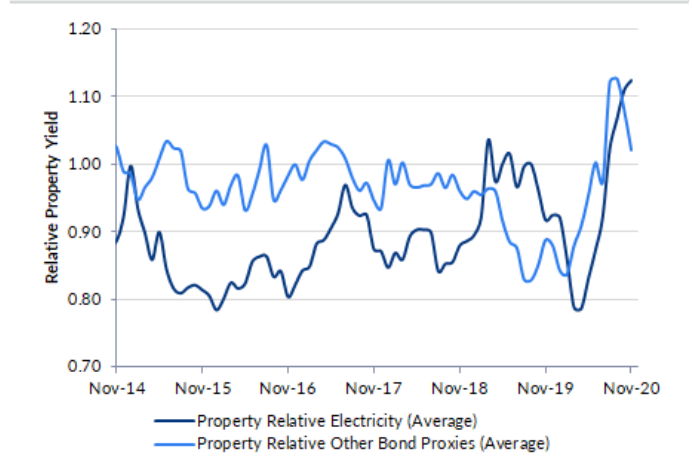
Compared to other yield sectors, LPV yields remain higher than other bond proxies (Spark, Chorus and Vector) and the electricity sector.

**Figure 19. Simple average sector yields**



Source: Forsyth Barr analysis

**Figure 20. Property relative yields**

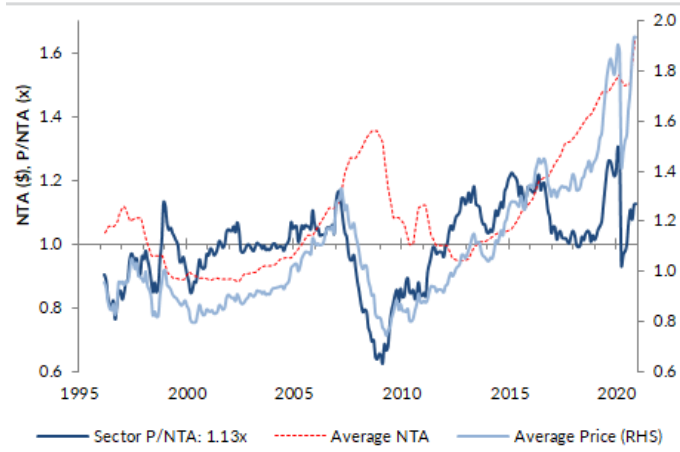


Source: Forsyth Barr analysis (note: Property yield is numerator)

**Sector still trading above NTA**

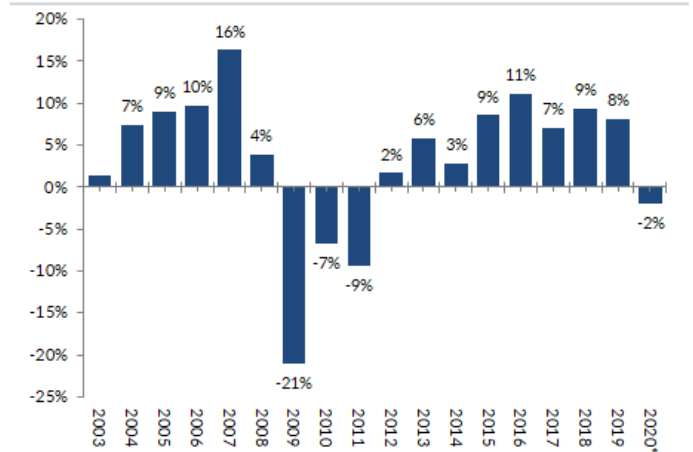
The LPV sector is trading above its net asset backing at 1.13x P/NTA, despite solid revaluations in the recent reporting season. In the direct market the spread to funding remains attractive vs. history, suggesting demand should remain robust for well located property with strong tenant covenants. Anecdotes suggest syndicators and asset management companies are seeing strong demand from retail investors driven by lower interest rates, and demand remains strong for <NZ\$50m assets. Demand has also spurred the establishment of new open ended property funds. Transactional pricing has been strong for industrial and large format assets with long lease terms to strong tenants. Structured rent growth has also been particularly prized.

**Figure 21. Property sector P/NTA**



Source: Forsyth Barr analysis

**Figure 22. Market cap weighted sector NTA growth**



Source: Forsyth Barr analysis, Note: 2020\* is YTD

Our preferred LPVs are APL, ARG, IPL, SPG and VHP

We have made two rating changes since our last Real Estate Reflections being:

- ARG (NEUTRAL to OUTPERFORM)

*"We upgrade our rating to OUTPERFORM with ARG trading at a +3.5% premium to its NTA backing versus the sector average of +13.8%, and on a gross yield of 6.3% versus the sector average of 5.4%. While DPS growth will be minimal as ARG moves to an AFFO based payout, we believe it currently offers relative value in an expensive sector".*

- APL (NEUTRAL to OUTPERFORM)

*"We see two positive catalysts for the share price being 1) a tenant pre-commit to the Graham St redevelopment with APL in discussions with potential occupiers, and 2) the sale of underperforming retail assets which will improve portfolio metrics as well as provide funding for developments. We lift our rating to OUTPERFORM but highlight elevated risks vs. peers given APL's concentrated portfolio coupled with high levels of leasing and development".*

Given recent share price performance, upside to our target prices has moderated across the sector.

**Figure 23. Forsyth Barr rating and multiples**

Company	Rating	P / NTA	P / NAV	PE	P / AFFO	Cash yield	Gross yield	AFFO Pay-out
APL	OUTPERFORM	-21.6%	-13.8%	20.1x	22.5x	5.2%	7.5%	117%
ARG	OUTPERFORM	+7.1%	+18.9%	20.4x	24.7x	4.3%	6.1%	105%
GMT	UNDERPERFORM	+30.5%	+4.8%	35.0x	36.8x	2.3%	3.3%	84%
IPL	OUTPERFORM	+13.0%	+21.1%	26.3x	28.7x	3.6%	5.1%	102%
KPG	UNDERPERFORM	-8.5%	-4.8%	18.7x	20.3x	4.7%	6.7%	95%
PCT	NEUTRAL	+17.4%	+9.0%	26.3x	26.0x	3.8%	5.5%	100%
PFI	NEUTRAL	+39.7%	+13.0%	31.8x	36.0x	2.8%	3.9%	99%
SPG	OUTPERFORM	+10.4%	+7.1%	20.8x	23.4x	4.5%	6.4%	104%
VHP	OUTPERFORM	+25.4%	+7.0%	27.1x	30.9x	3.0%	4.3%	93%
Average		+12.6%	+6.9%	25.2x	27.7x	3.8%	5.4%	100%
Core average <sup>1</sup>		+16.9%	+9.5%	25.8x	28.3x	3.6%	5.2%	98%

Source: Forsyth Barr analysis

**Figure 24. 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	2.37	1.42	-32%	2.92	2.23	1.22	-35%	+4.5%
ARG	7.20	7.56	7.34	1%	6.27	5.41	6.43	1%	+4.0%
GMT	6.73	6.70	6.86	1%	6.24	6.34	6.53	2%	+2.7%
IPL	7.66	7.75	8.53	5%	6.49	7.25	7.77	9%	+3.5%
KPG	7.14	5.60	6.63	-4%	6.85	5.10	6.12	-5%	+4.9%
PCT	6.28	6.39	6.45	1%	6.29	6.46	6.55	2%	+3.8%
PFI	8.77	9.05	9.31	3%	7.65	7.99	8.02	2%	+2.8%
SPG	10.32	10.97	10.53	1%	8.71	9.62	9.43	4%	+4.3%
VHP	10.35	10.71	11.36	5%	7.23	9.46	9.92	17%	+3.2%
Avg									+3.8%
Weighted avg									+3.6%

Source: Forsyth Barr analysis

**Figure 25. Dividend summary**

Company	FY19	FY20	FY21	FY22	DPS	Cash yield	Gross yield <sup>1</sup>	Gross yield <sup>2</sup>	Gross yield <sup>3</sup>
	DPS	DPS	DPS	DPS	CAGR		17.5% MTR	30.0% MTR	33.0% MTR
APL	3.60	2.70	1.80	1.80	-21%	5.2%	6.8%	7.5%	7.8%
ARG	6.28	6.35	6.45	6.45	1%	4.3%	5.6%	6.1%	6.4%
GMT	6.65	6.65	5.30	5.47	-6%	2.3%	3.0%	3.3%	3.4%
IPL	7.60	7.60	7.60	7.80	1%	3.6%	4.6%	5.1%	5.3%
KPG	6.95	3.53	4.80	5.81	-6%	4.7%	6.1%	6.7%	7.0%
PCT	6.00	6.30	6.47	6.55	3%	3.8%	5.0%	5.5%	5.7%
PFI	7.60	7.65	7.91	8.02	2%	2.8%	3.6%	3.9%	4.1%
SPG	9.91	9.91	9.91	9.91	0%	4.5%	5.8%	6.4%	6.7%
VHP	8.75	8.75	8.87	9.22	2%	3.0%	3.8%	4.3%	4.5%
<b>Avg</b>						<b>3.8%</b>	<b>4.9%</b>	<b>5.4%</b>	<b>5.6%</b>
<b>Weighted avg</b>						<b>3.4%</b>	<b>4.5%</b>	<b>4.9%</b>	<b>5.1%</b>

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.

## Property News for November 2020

### NZ listed property portfolio activity

PCT announced it is committing to the development of 44 Bowen Street after securing a 15 year lease to KPMG for two of the 8 floors. 44 Bowen Street is directly adjacent to PCT's existing 40 Bowen Street development. The development now totals NZ\$195m with 21,000sqm of office space and an expected yield on cost of 6.6% once fully leased. Tenant pre-commits are ~47% for the office space with both buildings also providing a small amount of retail/F&B as well as storage, end of trip facilities and car and bike parks. The buildings share a common entrance lobby and basement facilities including carparking; as such there are cost savings of NZ\$1-2m from aligning construction timetables. (19 November 2020)

SPG announced the acquisition of 215 Lambton Quay, Wellington, known as Grant Thornton House. The purchase price of NZ\$84.5m reflects an initial passing yield of 6.0%. The property has a WALT of 3.4 years, and SPG expects that there are opportunities to extend this. Post settlement of Lambton Quay, SPG will have a portfolio of 9 office assets valued at ~NZ\$340m with ~57,000sqm NLA that is ~92% occupied on a WALT of ~3.4 years. (19 November 2020)

VHP acquired Grace Hospital, a 51-bed, 11-theatre facility that was purpose-built in 2007 and expanded earlier this year. As part of the acquisition VHP will support Grace Hospital's \$50m Master Plan to be built over the next 5 years. The property will be fully leased to a joint venture between Evolution Healthcare and Southern Cross Hospitals for 30 years from settlement and provide a rental yield of 5.25% (based on year 2 stabilised/market rent). (24 November 2020)

With a 20-year lease secured for a 17,700sqm facility, GMT has announced the redevelopment of its Roma Road property in Mt Roskill. The 42,000sqm master-plan for Roma Road involves the staged development of four separate logistics facilities, which GMT expects will be worth over NZ\$200m on completion. Given the significant Foodstuffs lease expiry looming in mid-2021, GMT had been exploring both re-leasing and redevelopment options. Tenant commitment for the NZ\$55m first stage of the sites' redevelopment has given GMT the confidence to progress with the redevelopment pathway. (25 November 2020)

VHP announced the sale of three of its assets, which has previously been flagged at its October capital raise. The three hospitals, located across regional Australia, were sold at a 14.7% premium to its book value, netting c.NZ\$100m that VHP can deploy into its development pipeline. (26 November 2020)

### Other NZ listed property news

APL announced that following a signed facility agreement with BNZ, the Munroe Lane agreement is now unconditional. Ground works for the development, including excavation, have since commenced. (30 October 2020)

GMT appointed Laurissa Cooney to the Board as a non-executive Director. Laurissa is a professional director. Her current directorships include Accordant Group Limited, Air New Zealand Limited, Ngai Tai ki Tamaki and Tourism Bay of Plenty where she is also the Chair. (4 November 2020)

PFI extended its liquidity facility with CBA, with expiry date now 19 March 2022. The facility has been increased from \$50m to \$100m and will be used to fund the capital commitments around the recent acquisition of 528-558 Rosebank Road in Avondale, Auckland. (18 November 2020)

GMT lifted guidance marginally and announced the recommencement of a speculative project it had paused, highlighting confidence in demand for industrial space. AFFO was up +5.1% in dollar terms, but down -1.2% on a per unit basis due to the increased share count from GMT's September 2019 capital raise. With activity bouncing back better than expected, tenant demand not faltering, and no uplift in incentives, GMT provided a slight upgrade to earnings guidance from 6.2cpu to at least 6.3cpu. (23 November 2020)

KPG reported a soft interim result, with AFFO down -21% versus the pcp due to the impacts of COVID-19. Retail metrics softened with increased vacancy and lower WALT across most centres and re-leasing spreads were -9%/-23% in mixed-use/retail, boosted by a significant short term deal to one tenant. KPG's soft result was largely attributable to NZ\$17m of COVID-19 related rental abatements, although there was no change in expected total abatements of NZ\$20m even with a second lockdown in Auckland. (23 November 2020)

APL delivered a solid result, with AFFO of 1.55cps, +26% ahead of our forecast 1.23cps. The difference was attributable better net rental income with lower rental abatements than forecast. Positively, APL noted that rent relief deals related to both the national and subsequent Auckland lockdowns have been completed. APL also highlighted it completed a number of renewals at Stoddard Rd,

which remains 100% occupied. NTA lifted marginally, with revaluation gains offsetting the dilution of its recent capital raise. (25 November 2020)

SPG reported a strong 1H21 result underpinned by better than expected rent abatements as well as recurring and one-off management fees. The announcement of an NZ\$220m capital raise to fund the acquisition of a prime Wellington office tower was the key piece of new information in yesterday's result. SPG's post-offer pro-forma gearing of 30.4% provides it with capacity for further acquisitions. SPG expects FY21 distributable profit to be impacted by -NZ\$0.2m-1.9m. Across the portfolio, 81% of COVID-19 related rent arrangements have been completed, with SPG negotiating lease extensions in most deferral/abatement deals. These extensions, alongside recent acquisitions, have resulted in an improvement in SPG's portfolio metrics with pro-forma WALT +1.5 years to 5.8, and occupancy +80bp to 96.7%. (25 November 2020)

ARG 1H21 result was boosted by a number of one-offs, but underpinned by underlying distributable profit growth which we estimate to be +5-7%. The strong result saw ARG lift FY21 distribution guidance +0.10cps to 6.45cps. One-offs included the NZ\$4.5m forfeited deposit received for the Albany Lifestyle Centre and NZ\$3.4m of tax deductions, offsetting NZ\$3.9m of rental abatements and NZ\$0.5m of ongoing earthquake expenses. The portfolio maintained its strong metrics, with occupancy lifting +60bps to 99.4% while WALT shortened by 0.4 years to 5.7. (26 November 2020)

PFI announced an expected annual increase from independent valuations in the value of its property portfolio of approximately \$75 million. As a result of the valuation process PFI's passing yield has firmed by around 0.25% and around 17 cents will be added to PFI's NTA per share. (1 December 2020)

PCT launched its Sustainable Debt Programme, in line with its focus on sustainable business outcomes. Proceeds from the issuance of their Green Bonds will be used to refinance existing or planned assets with a high star energy rating. (26 November 2020)

SPG made an oral submission to Wellington City Council, asking for consent to allow Johnsonville Shopping Centre be redeveloped into an 18-storey building. Stride said that the current 8-storey height limit was restrictive and would compromise the ability for Johnsonville to develop as a regionally significant area. (26 November 2020)

IPL announced that the carpark at its Bunnings Warehouse in Mt Roskill needs seismic upgrades. The store was unexpectedly shut on 27 November after receiving concerns from engineers surrounding the structure's safety. IPL had previously announced that it was working with Bunnings as part of a planned expansion to the store and carpark. No reopening date has been provided. (30 November 2020)

## **Other commercial property news**

Vijay Holdings, which built the new Nido store in Henderson, is pleading with suppliers not to sue after announcing liquidation. Vijay Holdings intends to repay creditors over time once refinanced, although they also noted that one attempt at refinancing had already failed. Liquidator Daran Nair from Greenlane Chartered Accountants declined to supply any details of the liquidation. (12 November 2020)

T&G Global announced the sale and leaseback of its post-harvest facility in Nelson to Willis Bond for its recently established Property Income Fund (PIF). The sale price of NZ\$50.5m, reflecting an initial yield of 5.16%, is PIF's first acquisition following its recent capital raise. The 15 year leaseback has annual fixed rental reviews of 2.25%, with an adjustment to market on the seventh anniversary of the lease commencement date. (2 December 2020)

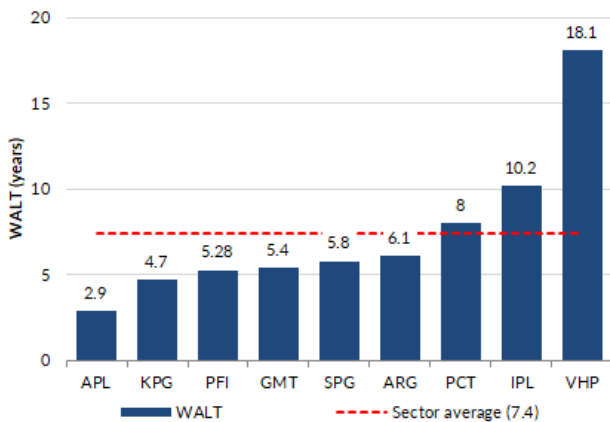
# Portfolio Summary

Figure 26. Portfolio metrics summary (last reported)

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	153	96	5	46	7.08%	31	2.9	98.0%	2.0%	13.0%	38.0%	53.0%
ARG	1,917	563	55	nd	6.14%	35	6.1	99.7%	0.3%	4.3%	9.1%	13.7%
GMT	3,218	1,077	6	206	5.00%	536	5.4	99.7%	0.3%	3.4%	14.1%	17.8%
IPL	980	246	43	130	5.53%	23	10.2	99.7%	0.3%	1.7%	2.8%	4.8%
KPG	3,207	437	12	871	6.00%	267	4.7	99.1%	0.9%	12.0%	14.0%	26.9%
PCT	2,976	287	14	161	5.30%	213	8.0	99.0%	1.0%	6.0%	6.0%	13.0%
PFI	1,462	809	93	140	5.75%	16	5.3	99.0%	1.0%	1.9%	6.8%	9.7%
SPG	877	135	14	343	6.23%	63	5.8	96.7%	3.3%	14.0%	22.0%	39.3%
VHP	2,086	nd	44	120	5.54%	47	18.1	99.4%	0.6%	1.5%	0.8%	2.9%
<b>Total</b>	<b>16,877</b>	<b>3,650</b>	<b>286</b>	<b>2,017</b>								
<b>Average</b>	<b>1,875</b>	<b>456</b>	<b>32</b>	<b>252</b>	<b>5.84%</b>	<b>137</b>	<b>7.4</b>	<b>98.9%</b>	<b>1.1%</b>	<b>6.4%</b>	<b>12.6%</b>	<b>20.1%</b>

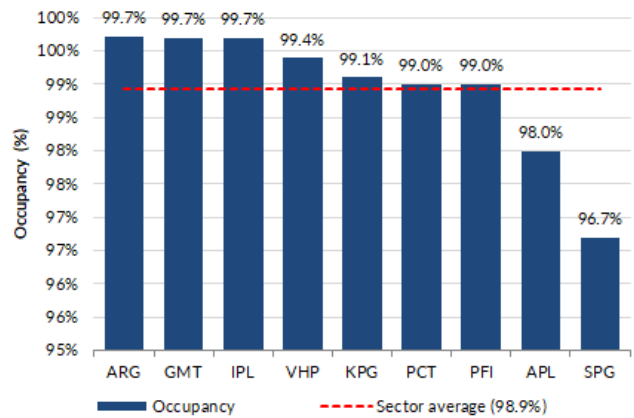
Source: Forsyth Barr analysis, Company reports

Figure 27. Sector WALT (weighted average lease term)



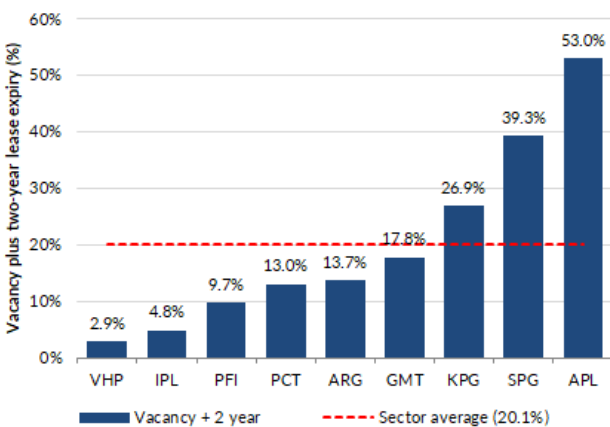
Source: Forsyth Barr analysis, Company Reports

Figure 28. Sector occupancy



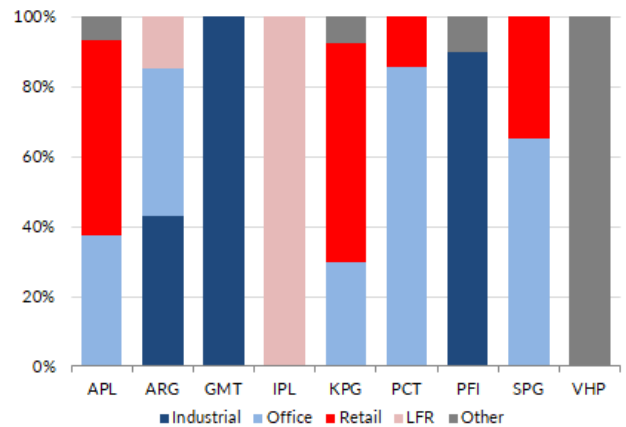
Source: Forsyth Barr analysis, Company Reports

Figure 29. Vacancy + Lease expiry in next 2 years



Source: Forsyth Barr analysis, Company Reports

Figure 30. Sector diversification



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

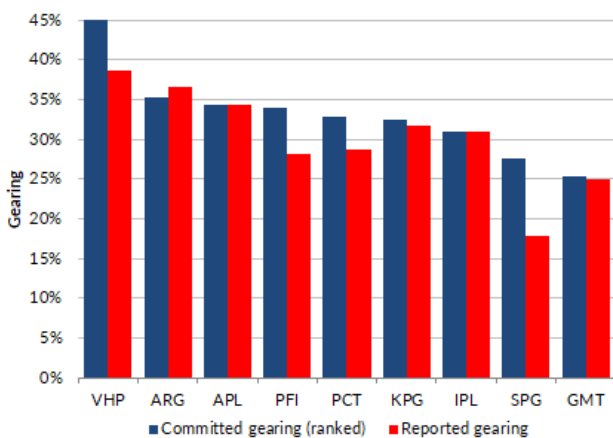
## Balance Sheet summary

Figure 31. 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	Sep-20	34.3%	34.3%	35-40%	50%	75	-	48	1.6	-	1.6
ARG	Sep-20	36.6%	35.2%	30-40%	50%	660	325	133	1.7	6.1	3.1
GMT	Sep-20	24.9%	25.3%	25-35%	50%	400	556	400	1.9	3.9	3.1
IPL	Sep-20	30.9%	30.9%	<48%	65%	251	225	196	3.2	5.3	4.2
KPG	Sep-20	31.8%	32.5%	25-35%	45%	825	475	268	3.9	3.0	3.6
PCT	Jun-20	28.8%	32.9%	<37.5%	50%	610	586	244	2.6	4.4	3.5
PFI	Jun-20	28.2%	34.0%	<40%	50%	350	200	128	2.2	4.4	3.0
SPG	Sep-20	17.8%	27.5%	38-42%	50%	405	-	139	2.6	-	2.6
VHP	Jun-20	38.7%	45.2%	na	50%	975	-	212	1.4	-	1.4
<b>Average/total</b>		<b>30.2%</b>	<b>33.1%</b>		<b>51.1%</b>	<b>4,551</b>	<b>2,367</b>	<b>1,769</b>	<b>2.4</b>	<b>3.0</b>	<b>2.9</b>

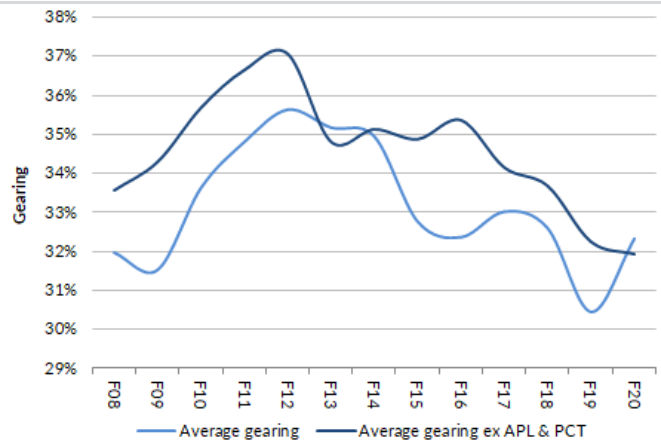
Source: Forsyth Barr analysis, company reports

Figure 32. Committed gearing



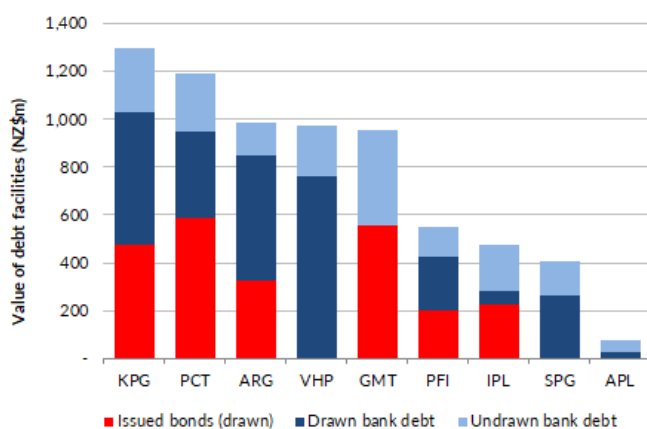
Source: Forsyth Barr analysis, Company Reports

Figure 33. Sector gearing



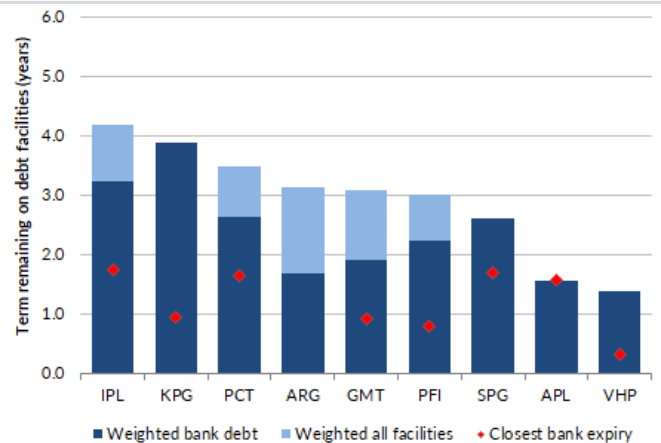
Source: Forsyth Barr analysis

Figure 34. Summary of debt facilities



Source: Forsyth Barr analysis, Company Reports

Figure 35. Funding tenor at 30 November 2020



Source: Forsyth Barr analysis, Company Reports

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