

# Real Estate Reflections

## Themes for 2021

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The listed property vehicles (LPVs) were up +4.4% in 2020, but down -0.3% in January 2021. Taken at face value, these muted outcomes do not tell the story of the winners and losers of 2020 due to shifts in sentiment across the different property sub-sectors. With defensive assets coming into favour in times of stress, paired with ever-low interest rates, the LPV sector is starting 2021 from a high base. In this note we outline five themes we expect to influence the sector in the year ahead. We believe that rising bond yields are a potential headwind for direct and listed valuations, as well as earnings growth from higher interest costs. On the positive side, better than expected monetary and fiscal support should underpin property fundamentals in the near-term, and strong asset pricing provides an opportunity for LPVs to undertake strategic portfolio initiatives.

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

LPV	Code	Rating	Price 9-Feb	Target price	Gross yield	Expected total return	P/NAV	P/NTA
Asset Plus	APL	OUTPERFORM	\$0.35	\$0.38	7.3%	13.7%	88%	80%
Argosy Property	ARG	OUTPERFORM	\$1.57	\$1.55	5.9%	3.2%	123%	111%
Goodman Property	GMT	UNDERPERFORM	\$2.24	\$2.30	3.5%	5.1%	99%	123%
Investore	IPL	OUTPERFORM	\$2.25	\$2.35	4.9%	7.9%	125%	117%
Kiwi Property Group	KPG	UNDERPERFORM	\$1.28	\$1.25	6.3%	2.1%	103%	99%
Precinct Properties	PCT	NEUTRAL	\$1.73	\$1.72	5.4%	3.5%	111%	111%
Property for Industry	PFI	NEUTRAL	\$2.91	\$2.73	3.9%	-3.3%	114%	131%
Stride Property	SPG	OUTPERFORM	\$2.36	\$2.30	6.0%	1.7%	114%	117%
Vital Healthcare	VHP	OUTPERFORM	\$3.24	\$3.15	4.0%	0.2%	116%	136%
<b>Core simple average</b>					<b>5.0%</b>	<b>2.5%</b>	<b>113%</b>	<b>118%</b>

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

### Our themes for 2021:

- **Vaccinated bond yields a headwind to sector valuations:** Share price performance of the LPV sector is strongly influenced by changes in bond yields; however, yields have risen +90bp from their pandemic lows due to stronger economic data.
- **Limited market rent growth but no doomsday reductions:** Significant stimulus has underpinned better economic outcomes which is likely to limit downside rent movements, but there are still some sub-sector specific issues.
- **Capitalisation rates catch up, but further compression harder to come by:** With long bond yields rising, our theoretical cap rate model implies more limited scope for compression. Changes to investor risk appetite due to lack of alternatives may contribute to higher asset prices.
- **Debt cost tailwind coming to an end:** Falling interest rates have been an earnings tailwind for the best part of a decade, however, a steeper swap curve is likely increasing the cost to hedge against the potential impact of higher floating interest rates.
- **Strong asset prices should see portfolio activity rise:** The majority of LPVs we cover are currently looking to take advantage of favorable direct market demand to advance strategic initiatives and recycle non-core assets.

### Soft start to 2021

The sector had a slow start in 2021 and was down -0.3% in January, lagging the broader market slightly. With the retail landscape remaining buoyant over the holiday period, Kiwi Property Group (KPG) performed strongly, delivering a +5.7% return.

In the month ahead three LPVs will report: Property for Industry (PFI) will report its FY20 result on the 22nd, while Precinct Properties (PCT) and Vital Healthcare (VHP) will both report 1H21 results on the 25th.

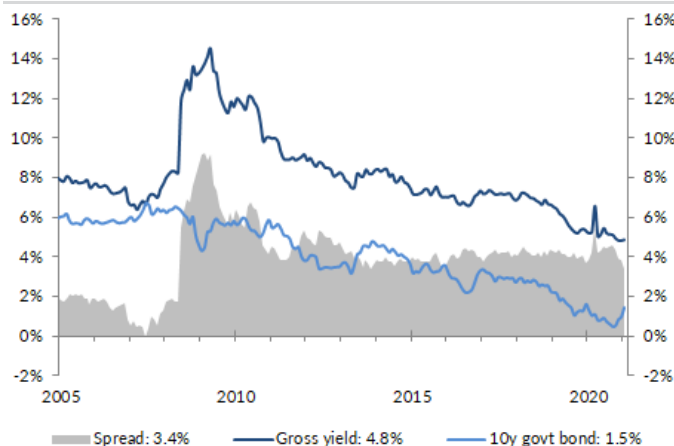
## Five themes for the year ahead

### 1) Vaccinated bond yields a headwind to sector valuations

NZ LPV sector performance has been closely linked to changes in long bond yields. 10-year government bond yields reached a low of 50bps in September 2020, but have steadily risen as economic outcomes beat expectations and news of effective vaccinations lifted expectations for global growth and inflation. 10-year bond yields are now c.1.40% and the LPV sector spread to these yields is 340bp; below its five year average of 400bp. At the short end of the curve market expectations have also shifted from further cuts to the official cash rate ([OCR] and potentially negative rates) to a rising cash rate from mid-2022. Continued increases in interest rates presents a headwind to LPV share price performance. Figure 4 also highlights the reliance of NZ LPV valuations on lower interest rates with share prices significantly ahead of DPS growth.

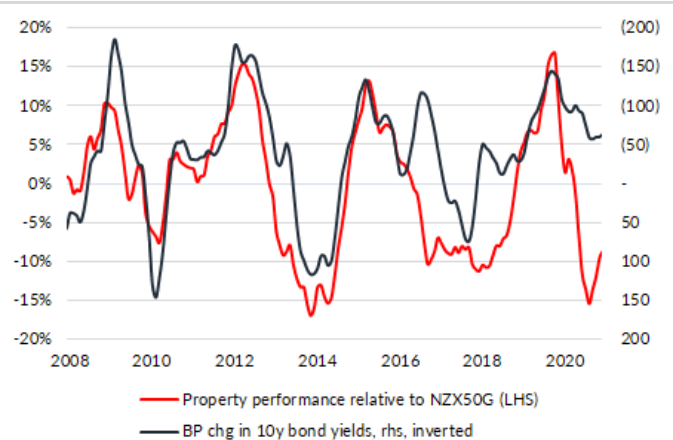
Despite this lift in bond yields NZ LPV share prices were broadly stable in January which likely reflects 1) yields still being at low levels and broadly in line with pre-pandemic levels, 2) better than expected economic outcomes supporting market rents, and 3) limited yield options for investors with low term deposit rates which have fallen -160bp since the OCR was cut -75bp (the total dollar amount on term deposits reduced by NZ\$20bn over the year to November 20). There are also a number of potential fixed interest maturities in 1HCY21, as such investor demand for relatively better short term yields may provide near-term support to NZ LPV share prices.

**Figure 2. LPV sector gross dividend yields vs 10 year bond**



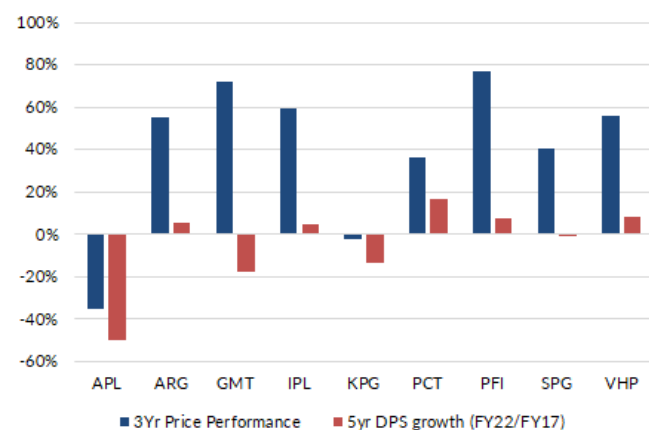
Note: Gross div yield is the PIE from Sep-07. Source: Forsyth Barr analysis, Company reports

**Figure 3. Relative property sector performance vs. bond yields**



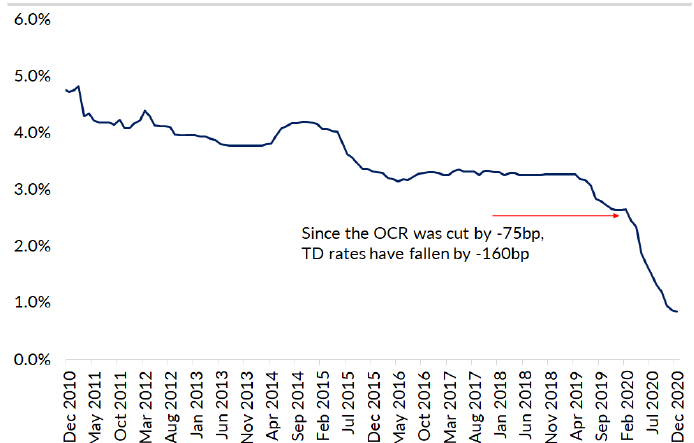
Source: Forsyth Barr analysis [note: 3-month rolling average yoy]

**Figure 4. Three year share price vs. DPS growth**



Source: Forsyth Barr analysis

**Figure 5. Term deposit interest rate**



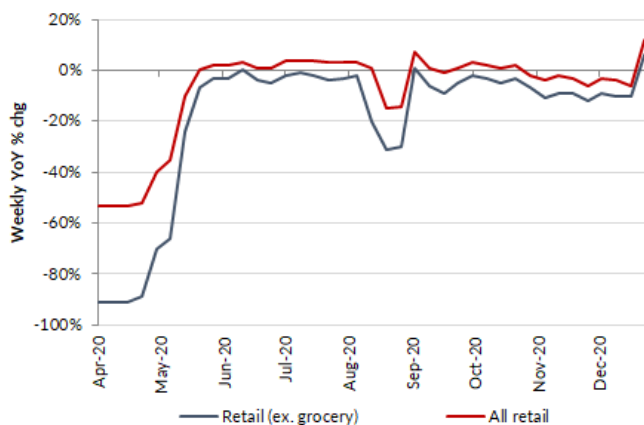
Source: Forsyth Barr analysis

## 2) Limited market rent growth but no doomsday reductions

Past cycles and recessions have seen significant adjustments in markets rents as economic conditions weigh on occupier demand. These adjustments have typically taken 2–3 years to wash through. However, none of these cycles have been pandemic-induced and none have seen anywhere near the level of fiscal or monetary support that was rolled out in 2020. This stimulus, combined with limited negative health outcomes, has resulted in much better than expected near-term economic activity. As such, while market rent growth may be currently limited, the possibility of large reductions in rent has diminished.

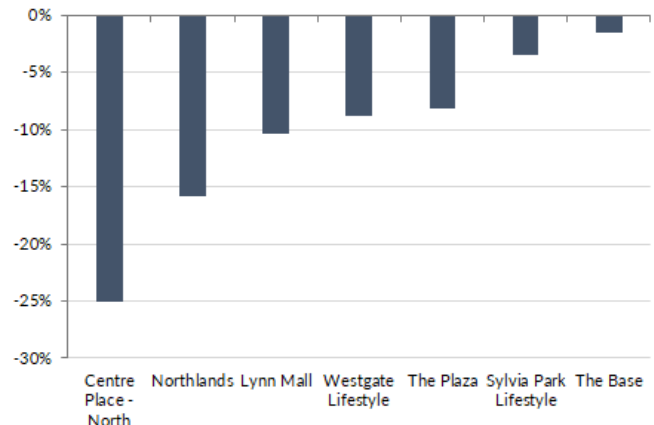
- **Industrial:** Face rents have remained stable but incentives have increased marginally. Occupier demand remained solid with the pandemic accelerating the move of retail sales online. We also note that non-residential building consents data suggests that supply has restarted, highlighting that developers are confident tenant demand exists.
- **Office:** Face rents have also remained stable with incentives increasing in Auckland while Wellington rent growth is better. Sub-lease space has increased for two reasons 1) distressed (such as travel and tourism) and 2) workplace resizing. The key medium term issue for office markets is the extent to which the pandemic has structurally changed office demand. Some large corporates (such as ANZ) have made the investment in infrastructure to support greater working from home and reduced footprint, while others have yet to make the call. Productivity will likely be the deciding factor, and while hard to measure, we believe it is likely to be higher in the office for most professions.
- **Retail:** Our shopping centre car park tracker, KPG's reported sales (+12% in December), and trading updates from listed retailers suggest consumption has bounced back strongly post lockdown, albeit concentrated in areas such as home improvement and electronics. To us this suggests that retail rents will likely hold up better than implied by pandemic impacted valuations (Figure 7, we note this is somewhat clouded by below the line adjustments).

Figure 6. Retail sales



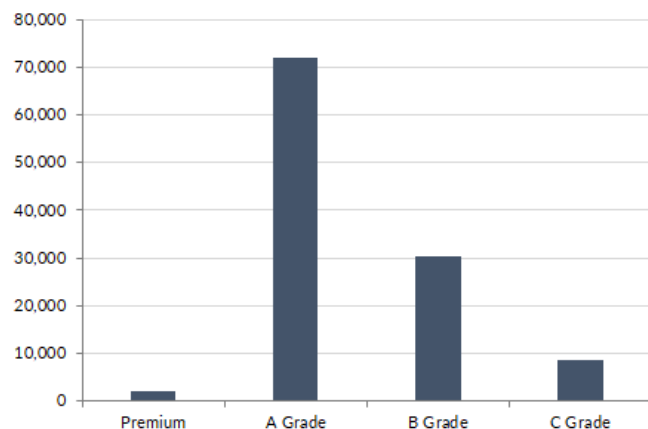
Source: Paymark, Forsyth Barr analysis

Figure 7. Implied rent reductions in KPG's FY20 valuations



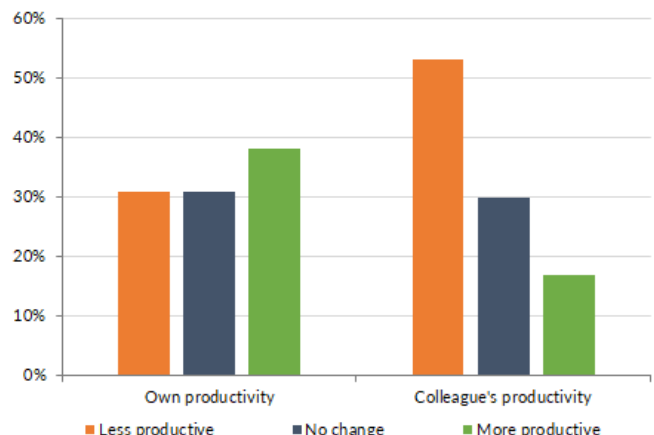
Source: Company reports, Forsyth Barr analysis

Figure 8. Auckland sublease space available by grade (sqm)



Source: CBRE, Forsyth Barr analysis

Figure 9. Are you and your colleagues more or less productive when working from home?



Source: Colliers, Forsyth Barr analysis

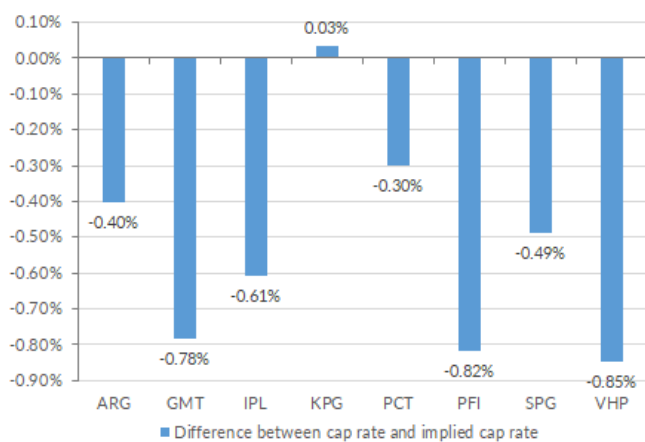
### 3) Capitalisation rates catch up, but further compression harder to come by

Low interest rates have lifted investor demand for commercial property. In industrial and large format retail (supermarkets and hardware stores in particular) we have seen transactions occurring on capitalisation rates sub-4%. This has not been lost on the market with LPVs trading at a premium to their net asset backing (NTA). Our analysis suggests the market pricing is implying -50bp cap rate compression on average with outcomes ranging from flat (KPG) to -85bp (VHP) at the individual stock level. We expect NTA to catch up to share prices as revaluations are reported over the next few months.

However, as highlighted above yields have steadily risen; 10-year government bond yields reached a low of 50bp but is now c.1.40%. We believe this is likely a headwind to even greater cap rate compression than is already priced by the market and market rent growth is needed to see further valuation growth. Our model of theoretical cap rates is based on 10-year government bond yields and long run average risk premiums and growth rates as derived from valuation capitalisation rates and IRRs. This suggests the market is under valuing retail, over valuing industrial, and is broadly in line on office.

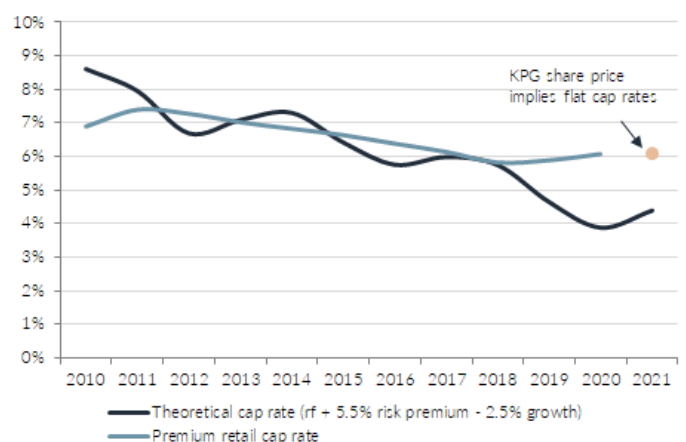
That said, risk premium and growth rates are likely not static. For example, recent structural changes in online retail has likely lowered the rent growth outlook for shopping centre assets and increased investor demand for industrial/logistics assets. Reducing the long-run growth assumption for retail from 2.5% to 1.5% would close two-thirds of the gap between our theoretical retail cap rate and that implied by the market. Similarly, reducing the risk premium applied to industrial assets by 50bp to 5.5% reduces the spread between our theoretical retail cap rate and that implied by the market by two-thirds. Near-term low interest rates and the acceptance of lower risk-premiums given the lack of alternatives could see cap rates compress further in some sectors.

**Figure 10. Market implied cap rate compression/expansion**



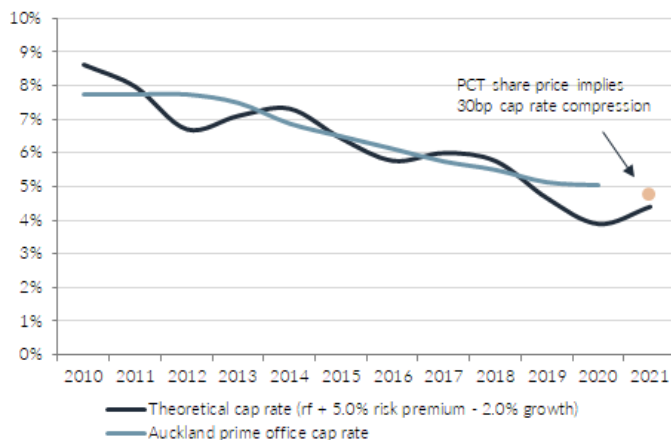
Source: Forsyth Barr analysis

**Figure 11. Premium retail cap rates**



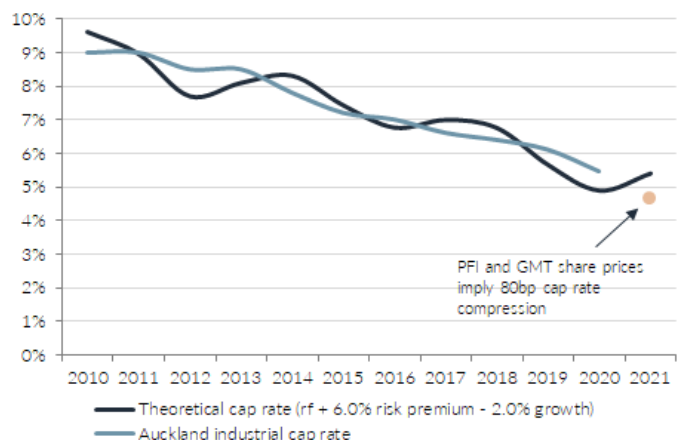
Source: Company reports, Datastream, Forsyth Barr analysis

**Figure 12. Auckland prime office cap rates**



Source: Company reports, Datastream, Forsyth Barr analysis

**Figure 13. Auckland industrial cap rates**



Source: Company reports, Datastream, Forsyth Barr analysis

#### 4) Debt cost tailwind coming to an end

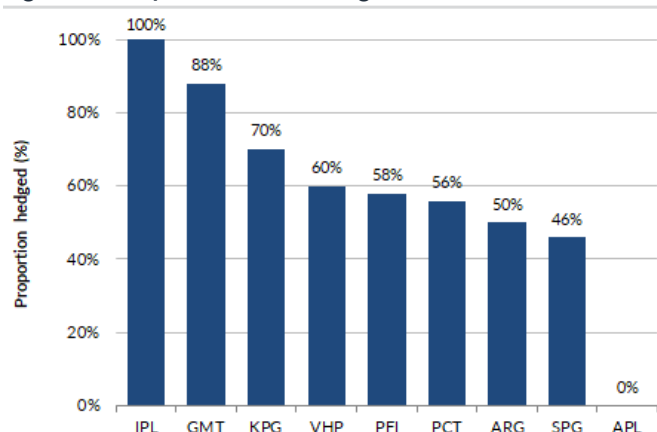
While we are not experts on the minutiae of central bank policy, consensus forecasts and recent movements in bond markets suggest that the long end of the interest rate curve bottomed in 2020. We expect that the short end of the curve will continue to be suppressed due to accommodative monetary policy. The net outcome is a steeper yield curve, resulting in more expensive hedge costs for LPVs that aren't looking to gamble on the uncertain nature of floating interest rates.

As outlined in Figure 14, LPVs are protected from rising interest rates to varying degrees given their respective hedging books. Currently, coverage is generally towards the lower end of policy ranges. Hedge terms typically range from 3–4 years suggesting a significant level of swaps were put in place before 2020's extremely low and flat swap curve. As such there still may be some opportunities to roll onto lower costs swaps despite recent movements in interest rates.

Despite commentary above, we expect a 'lower for longer' interest rate environment to persist in the medium term. However, the point of debt costs bottoming out is made to highlight that the one way earnings tailwind from falling interest costs that was experienced over the past decade is likely coming to an end. Our sensitivity analysis (Figure 16) shows the impact of a 50bp rise in floating rates on FY22E AFFO is 0–2% across our coverage.

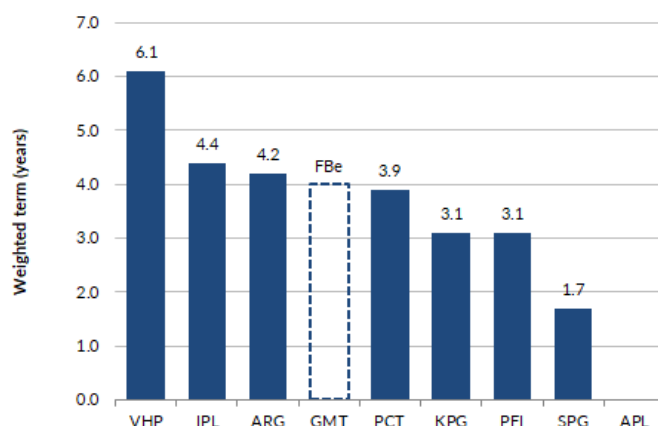
On the positive side, hedges are marked-to-market for accounting purposes so rising interest rates may result in hedges becoming more valuable (or less onerous), and LPVs recognising fair value gains.

**Figure 14. Proportion of debt hedged**



Source: Company reports, Forsyth Barr analysis

**Figure 15. Weighted hedging term**



Source: Forsyth Barr analysis, note GMT do not disclose weighted hedging term

**Figure 16. Interest cost sensitivity**

		APL	ARG	GMT	KPG	PCT	PFI	SPG	VHP
Drawn debt (reported)	NZ\$m	26.6	726.6	778.4	1,019.9	951.7	422.3	265.7	762.7
% of current borrowings fixed	%	0%	50%	88%	70%	56%	58%	46%	60%
Total floating borrowings	NZ\$m	26.6	363.3	93.4	306.0	418.7	177.4	143.5	305.1
Net impact of +50bp increase in floating rate	NZ\$m	(0.1)	(1.3)	(0.3)	(1.1)	(1.5)	(0.6)	(0.5)	(1.1)
Net impact as a % of AFFO (FY22)	%	-2.0%	-2.4%	-0.4%	-1.1%	-1.6%	-1.6%	-1.3%	-2.2%

Source: Company reports, Forsyth Barr analysis Note: IPL is unaffected given it is 100% hedged

## 5) Strong asset prices should see portfolio activity rise

There is strong investor demand for both direct real estate investment opportunities and listed property exposures. A number of LPVs are currently in the process of taking advantage of favorable direct market demand by advancing strategic initiatives and recycling non-core assets.

- **PCT** recently announced the sale of ANZ Tower for NZ\$177m which has seen a lift in vacancy due to tenants moving to Commercial Bay as well as the reduced anchor tenant foot print. The proceeds from this will help fund development of Bowen Campus Stage 2 as well as 1 Queen St and/or the final stages of Wynyard Quarter.
- **KPG** is marketing The Plaza for sale. KPG has logical plans to lower its exposure to retail and invest in its mixed-use assets, however, relatively high balance sheet gearing vs. targets due to heavy pandemic related devaluations has left it capital constrained. Disposing of The Plaza will aid in both reducing retail and funding development opportunities as well as potentially providing market evidence to support (or even improve) book values. KPG's other retail assets maybe harder to dispose than The Plaza given Centre Place North's ownership structure and high levels of competition to Northlands. KPG also has plans to grow its asset management business with options including spinning off a fund (either listed or unlisted), the part sale assets, and/or capital partnering for development.
- **SPG** has been acquiring office assets to warehouse on balance sheet with the intention of seeding a new office fund. SPG's office portfolio is now valued at NZ\$595m which we believe is sufficient scale for a listed vehicle (IPL had NZ\$640m of assets upon listing). SPG also has NZ\$300m of retail assets on its balance sheet as seed for a Town Centre fund.
- **PFI** is marketing Carlaw Park (its largest non-core asset) for sale. Timing of redeployment of the sale proceeds as well as strong demand for industrial assets resulting in low yields will likely result in some EPS dilution.
- **ARG's** Albany Lifestyle Centre is currently subject to a sale and purchase agreement and at the 1H21 result remained subject to purchaser due diligence.
- **IPL** was one of the few NZ LPVs to raise capital in 2020 and now has NZ\$200m of undrawn bank debt to deploy. To date, IPL has been unable to secure assets at attractive prices with strong demand for "essential" supermarket assets resulting in very firm pricing.
- **APL** has suggested its Eastgate and/or Stoddard Rd may be potential funding sources for a significant redevelopment of Graham St. However, any redevelopment is contingent on securing a tenant which may be challenging in the current office market.

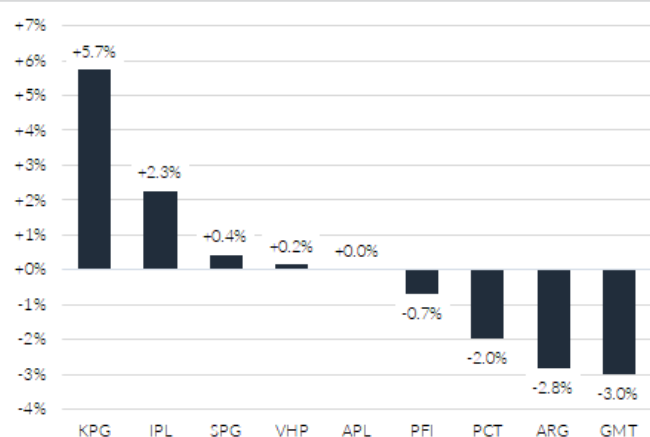
## Performance and valuation

### LPVs lag slightly in January

Through all the uncertainty of rent collection and the future of capitalisation rates and office occupancy, LPVs performed strongly in 2020. The biggest winners were those on the more defensive end of the spectrum, with the pandemic highlighting that industrial and healthcare property are deemed essential in nature, relative to office and retail properties. The best performing LPV was IPL, which was led higher by a shift in how investors view large format retail property (LFR), as well as strong market evidence, with some LFR properties trading at below 4% capitalisation rates.

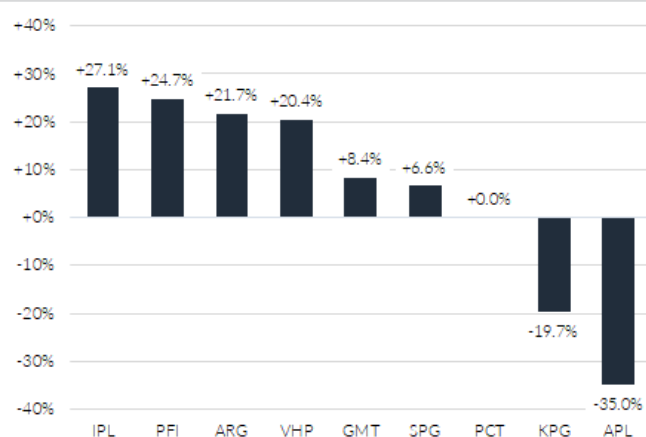
In January, the All Real Estate gross index was down -0.3%, lagging the broader market slightly. With the retail landscape remaining buoyant over the holiday period, KPG performed strongly, delivering a +5.7% return.

Figure 17. January returns



Source: Forsyth Barr analysis, S&P

Figure 18. 2020 calendar year returns



Source: Forsyth Barr analysis, S&P

Figure 19. Sector total returns (as at 29 January 2021)

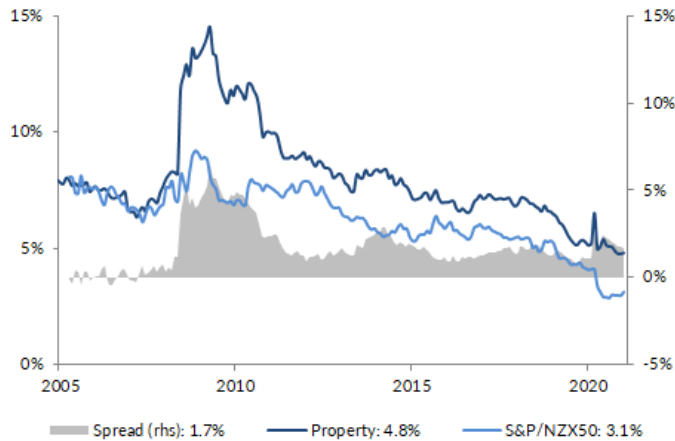
Company	Code	Price 29-Jan	Market Cap	Gr. Div w/imp	Month return	Rank	Quarter return	Rank	Year return	Rank	YTD return	Rank
Asset Plus	APL	\$0.350	\$126m	-	+0.0%	5	+16.6%	1	+0.0%	5	+0.0%	5
Argosy Property	ARG	\$1.545	\$1,306m	-	-2.8%	8	+12.4%	3	-2.8%	8	-2.8%	8
Goodman Prop Trust	GMT	\$2.260	\$3,172m	-	-3.0%	9	-8.2%	9	-3.0%	9	-3.0%	9
Investore	IPL	\$2.260	\$831m	-	+2.3%	2	+2.4%	6	+2.3%	2	+2.3%	2
Kiwi Property Group	KPG	\$1.290	\$2,024m	-	+5.7%	1	+7.6%	5	+5.7%	1	+5.7%	1
Precinct Properties NZ	PCT	\$1.725	\$2,194m	-	-2.0%	7	-1.6%	8	-2.0%	7	-2.0%	7
Property for Industry	PFI	\$2.910	\$1,457m	-	-0.7%	6	+1.2%	7	-0.7%	6	-0.7%	6
Stride Property Group	SPG	\$2.370	\$1,114m	-	+0.4%	3	+8.7%	4	+0.4%	3	+0.4%	3
Vital Healthcare Property Trust	VHP	\$3.280	\$1,660m	-	+0.2%	4	+13.5%	2	+0.2%	4	+0.2%	4
S&P/NZX All Real Estate Cap		1,484.3			-0.3%		+1.2%		-0.3%		-0.3%	
S&P/NZX All Real Estate Gr.		1,888.1			-0.3%		+2.2%		-0.3%		-0.3%	
S&P/NZX All Real Estate Gr. w/imp		1,984.0			-0.3%		+2.4%		-0.3%		-0.3%	
S&P/NZX 50 Gross		13,127.3			+0.3%		+8.6%		+0.3%		+0.3%	
S&P/NZX 50 Gross w/imp		16,065.2			+0.3%		+8.7%		+0.3%		+0.3%	

Source: Forsyth Barr analysis, Eikon, S&P

### LPV yield spread; Below its historical average vs. bonds

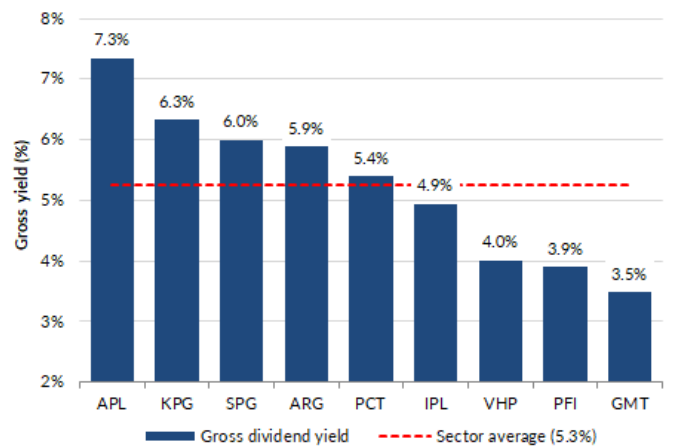
As highlighted earlier in this report changes in interest rates continue to be a key driver of LPV sector performance. The sector's gross dividend yield spread is now +340bp vs. the 10-year NZ Government bond yield. This is below its 5-year average spread of c.+400bps due to a recent lift in bond yields on the back of solid economic data. Adjusting the sector gross yield to reflect the new top income tax rate of 39% effective from 1 April this yield spread lifts to +390bp suggesting this taxation may be largely factored into current prices.

**Figure 20. Sector gross yield versus S&P/NZX50 gross yield**



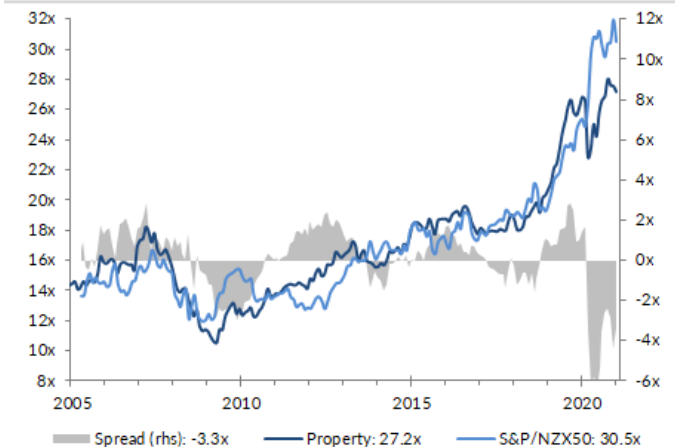
Source: Company reports, Forsyth Barr analysis, IRESS Note: Market cap weighted

**Figure 21. Gross Yield**



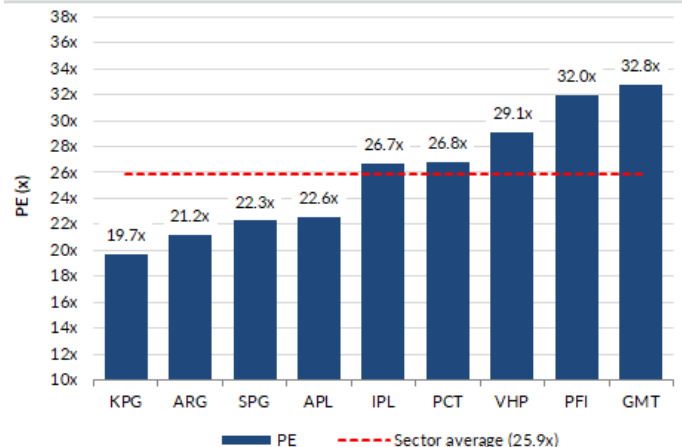
Source: Company reports, Forsyth Barr analysis, Thompson Reuters

**Figure 22. Sector PE versus S&P/NZX50 PE**



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

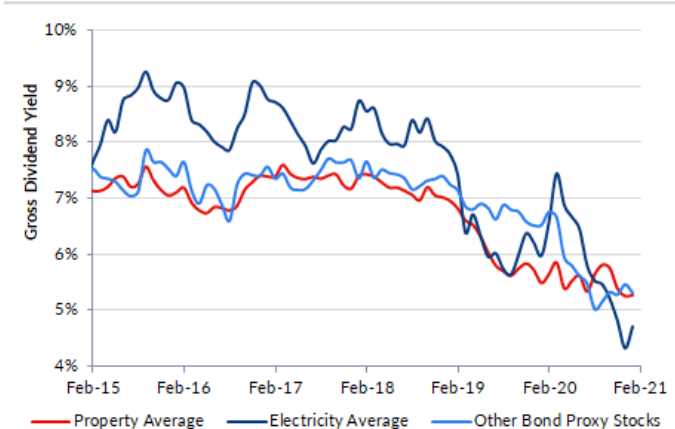
**Figure 23. PE Ratio**



Source: Company reports, Forsyth Barr analysis, Thompson Reuters

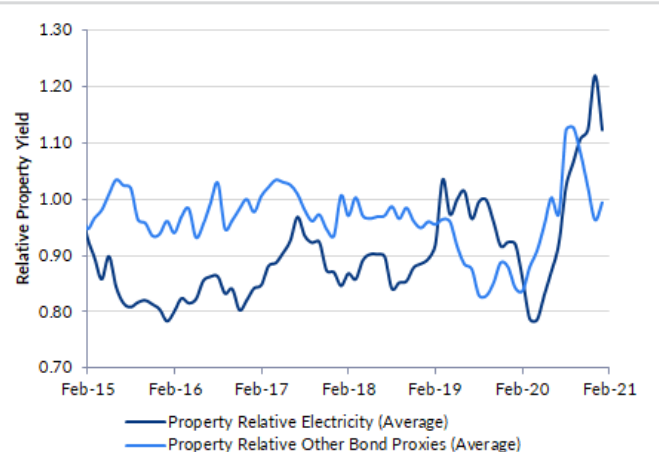
Compared to the electricity sector LPV yields look attractive vs. history but look fair vs. other bond proxies (Spark, Chorus and Vector).

**Figure 24. Simple average sector yields**



Source: Forsyth Barr analysis

**Figure 25. Property relative yields**



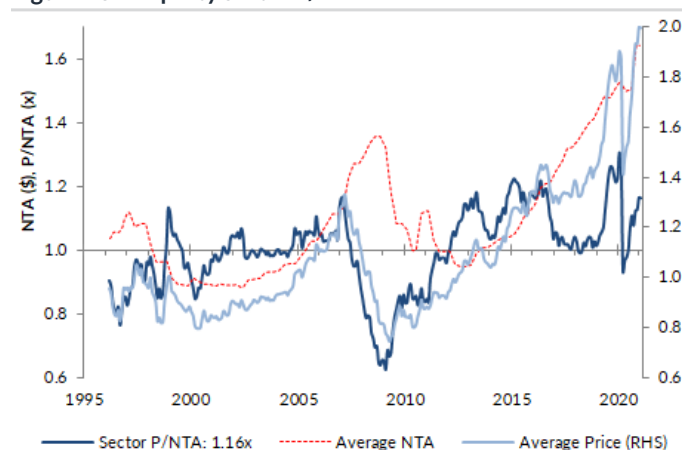
Source: Forsyth Barr analysis (note: Property yield is numerator)



## Sector still trading above NTA

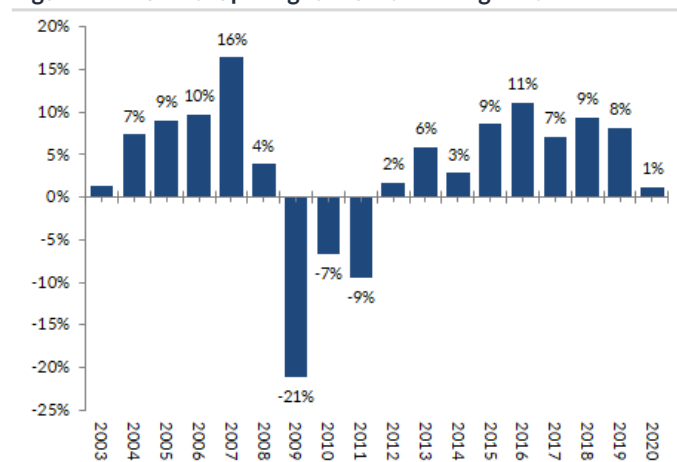
The LPV sector is trading above its net asset backing at 1.16x P/NTA, despite solid revaluations in the recent reporting season. In the direct market the spread to funding remains attractive vs. history, but this spread has closed as interest rates have risen. We will look for any signs this has impacted investor demand for real assets but believe demand should remain robust for well located property with strong tenant covenants. Syndicators and asset management companies are likely to continue to see strong demand from retail investors given limited alternatives due to lower interest rates. Demand has also spurred the establishment of new open ended property funds (particularly with a focus on the industrial subsector). Transactional pricing has been strong for industrial and large format assets with long lease terms to strong tenants. Structured rent growth remains particularly prized.

Figure 26. Property sector P/NTA



Source: Forsyth Barr analysis

Figure 27. 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 continue to favour IPL and VHP for their defensive attributes and above sector growth expectations, ARG and APL on relative valuation grounds, and SPG for its transformation into a capital light asset manager. We believe GMT remains expensive vs. its sector peers and KPG faces structural headwinds for its retail heavy portfolio along with capital constraints limiting development upside.

Figure 28. Forsyth Barr rating and multiples

Company	Rating	P / NTA	P / NAV	PE	P / AFFO	Cash yield	Gross yield	AFFO Pay-out
APL	OUTPERFORM	-20.5%	-12.5%	22.6x	25.7x	5.1%	7.3%	132%
ARG	OUTPERFORM	+11.0%	+23.2%	21.2x	24.9x	4.1%	5.9%	103%
GMT	UNDERPERFORM	+22.8%	-1.3%	32.8x	34.5x	2.4%	3.5%	84%
IPL	OUTPERFORM	+16.6%	+25.0%	26.7x	29.2x	3.5%	4.9%	101%
KPG	UNDERPERFORM	-0.8%	+3.2%	19.7x	21.4x	4.4%	6.3%	95%
PCT	NEUTRAL	+19.8%	+11.3%	26.8x	26.5x	3.8%	5.4%	100%
PFI	NEUTRAL	+41.4%	+14.4%	32.0x	36.3x	2.7%	3.9%	99%
SPG	OUTPERFORM	+17.4%	+13.8%	22.3x	25.0x	4.2%	6.0%	105%
VHP	OUTPERFORM	+35.9%	+15.9%	29.1x	33.2x	2.8%	4.0%	93%
Average		+16.0%	+10.3%	25.9x	28.5x	3.7%	5.3%	101%
Core average <sup>1</sup>		+20.5%	+13.2%	26.3x	28.9x	3.5%	5.0%	97%

Source: Forsyth Barr analysis

**Figure 29. 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%	+3.9%
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%	+2.9%
IPL	7.66	7.75	8.53	5%	6.49	7.25	7.77	9%	+3.4%
KPG	7.14	5.60	6.63	-4%	6.85	5.10	6.12	-5%	+4.7%
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%	+4.0%
VHP	10.35	10.71	11.36	5%	7.23	9.46	9.92	17%	+3.0%
<b>Avg</b>									<b>+3.6%</b>
<b>Weighted avg</b>									<b>+3.5%</b>

Source: Forsyth Barr analysis

**Figure 30. Dividend summary**

Company	FY19 DPS	FY20 DPS	FY21 DPS	FY22 DPS	DPS CAGR	Cash yield	Gross yield (by MTR)			
							17.5%	30.0%	33.0%	39.0%
APL	3.60	2.70	1.80	1.80	-21%	5.1%	6.7%	7.3%	7.7%	8.4%
ARG	6.28	6.35	6.45	6.45	1%	4.1%	5.4%	5.9%	6.2%	6.8%
GMT	6.65	6.65	5.30	5.47	-6%	2.4%	3.2%	3.5%	3.6%	4.0%
IPL	7.60	7.60	7.60	7.80	1%	3.5%	4.5%	4.9%	5.2%	5.7%
KPG	6.95	3.53	4.80	5.81	-6%	4.4%	5.8%	6.3%	6.6%	7.3%
PCT	6.00	6.30	6.47	6.55	3%	3.8%	4.9%	5.4%	5.6%	6.2%
PFI	7.60	7.65	7.91	8.02	2%	2.7%	3.5%	3.9%	4.1%	4.5%
SPG	9.91	9.91	9.91	9.91	0%	4.2%	5.5%	6.0%	6.3%	6.9%
VHP	8.75	8.75	8.87	9.22	2%	2.8%	3.5%	4.0%	4.2%	4.6%
<b>Avg</b>						<b>3.7%</b>	<b>4.8%</b>	<b>5.3%</b>	<b>5.5%</b>	<b>6.0%</b>
<b>Weighted avg</b>						<b>3.4%</b>	<b>4.4%</b>	<b>4.9%</b>	<b>5.1%</b>	<b>5.6%</b>

Source: Forsyth Barr analysis

## Property News for December 2020/January 2021

### NZ listed property portfolio activity

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)

SPG's JV Industrie announced that it has entered an unconditional agreement to acquire an industrial property at 48–60 Wilkinson Road, Ellerslie, for NZ\$54m. Industrie has now spent NZ\$99.5m acquiring properties since 1 July 2020, taking the total portfolio value to NZ\$553m. Following the acquisition, SPG's interest in the JV is reduced to approximately 57%. (16 December 2020)

PFI has announced that it has acquired 670–680 Rosebank Road in Avondale, which neighbours some of PFI's existing assets. The NZ\$39m purchase price reflects an initial return of 4.4%, and an estimated market yield of 4.9%. The 2.8ha site comprises four buildings, leased to two tenants; NZ Comfort Group and Dunlop Flooring. PFI also announced that its agreement to acquire industrial properties at Tidal Road, Mangere have lapsed, with sunset dates on the agreements now reached. (23 December 2020)

PCT has revalued its portfolio, resulting in an +NZ\$149m or +5.1% increase (vs. -NZ\$66m at 30 June 2020) in the value of its portfolio. Auckland asset valuations lifted +4% while Wellington was up +8% with the lift largely driven by cap rate compression (-40bps to 4.9%) following strong recent transactional evidence, particularly in Wellington. Better market rent growth in non-government leased Wellington assets and development progress at Bowen Campus Stage 2 also contributed. The revaluation outcome lifts NTA +NZ11cps to c.NZ\$1.55. PCT also confirmed the sale of its remaining 50% interest in the ANZ Tower for NZ\$177m, consistent with its 30 June 2020 book value of NZ\$178m but slightly below the first 50% which sold for NZ\$181m in mid-CY18. ANZ Towers flat valuation over the past three years reflects increased vacancy with some tenants relocating to Commercial Bay and ANZ reviewing its accommodation requirements in response to the pandemic. This transaction remains subject to regulatory approval, expected April 2021 and PCT will not provide property management services going forward. (9 February 2021)

### Other NZ listed property news

ARG announced that it has settled its longstanding insurance claims related to earthquake reinstatement works at 7 Waterloo Quay, Wellington, following damage from the Kaikoura Earthquake in 2016. ARG will receive a further NZ\$23.5m in addition to the already received NZ\$24.0m (after an NZ\$4.9m deductible), versus total claims of NZ\$65.8m, representing an 80% recovery rate. (15 December 2020)

David Gibson has been appointed to GMT's Board of Directors as a non-executive Director. The effective date of the appointment is 2 February 2021. David has over 20 years' of capital markets experience, and currently sits on the board of NZME, Rangatira Limited, and Diocesan School for Girls. (16 December 2020)

KPG reported +4.2% (vs. pc) sales growth across its retail portfolio in December 2020. Specialty store sales grew 9.3%, while major retailers recorded a 6.5% year-on-year uplift. During the last three months of 2020, sales across KPG's shopping centres increased +6.1% vs. pc. (29 January 2021)

KPG announced that Steve Penney has been appointed as General Manager Funds Management. Steve was most recently SPG's General Manager, Investment, and prior to this has worked as Investment Director and Partner at H.R.L Morrison & Co Limited and Associate Director at PwC. (2 February 2021)

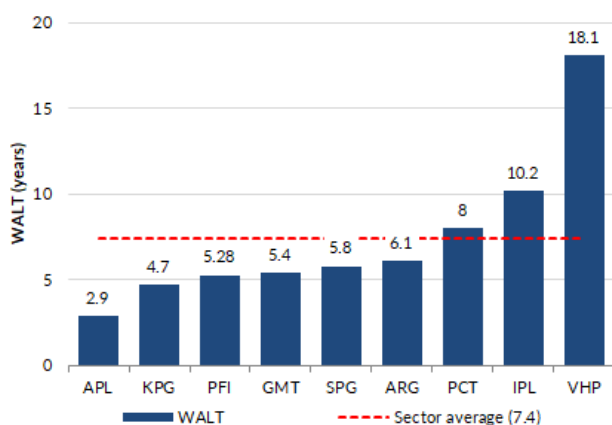
## Portfolio Summary

Figure 31. 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>

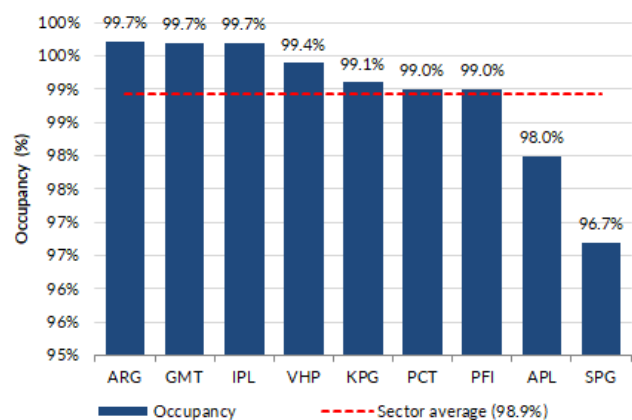
Source: Forsyth Barr analysis, Company reports

Figure 32. Sector WALT (weighted average lease term)



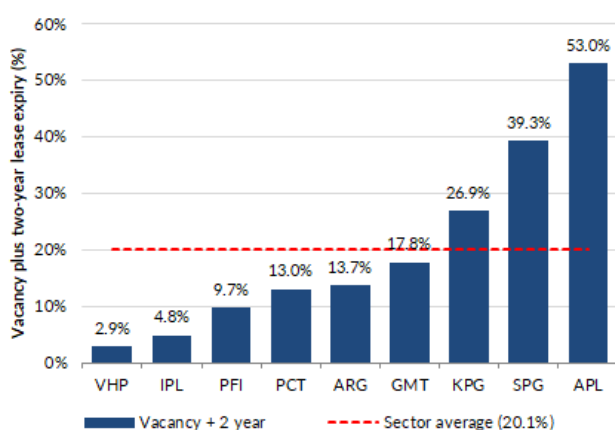
Source: Forsyth Barr analysis, Company Reports

Figure 33. Sector occupancy



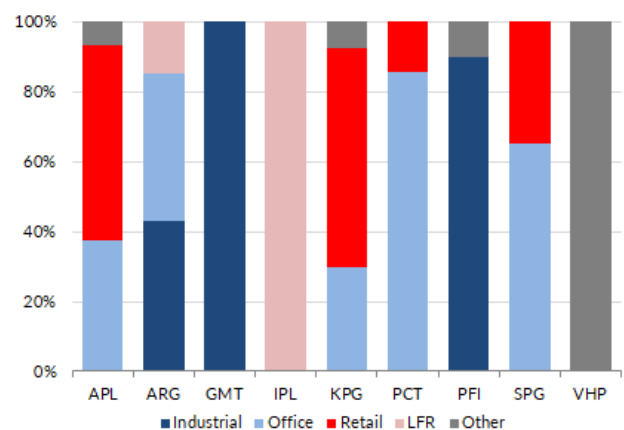
Source: Forsyth Barr analysis, Company Reports

Figure 34. Vacancy + Lease expiry in next 2 years



Source: Forsyth Barr analysis, Company Reports

Figure 35. Sector diversification



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

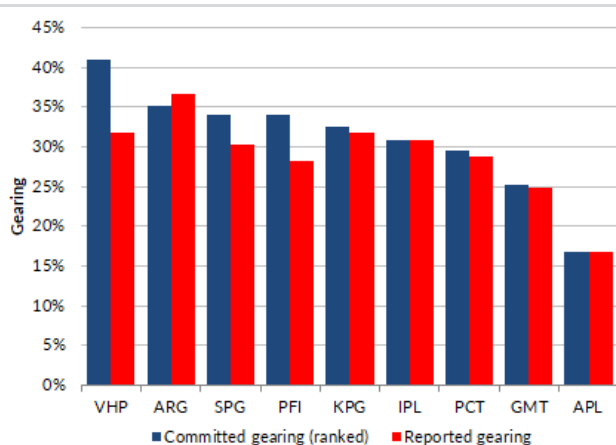
## Balance Sheet summary

Figure 36. 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	16.8%	16.8%	35-40%	50%	75	-	48	1.4	-	1.4
ARG	Sep-20	36.6%	35.2%	30-40%	50%	660	325	133	2.0	5.9	3.3
GMT	Sep-20	24.9%	25.3%	25-35%	50%	400	556	400	1.7	3.8	2.9
IPL	Sep-20	30.9%	30.9%	<48%	65%	251	225	196	3.1	5.1	4.0
KPG	Sep-20	31.8%	32.5%	25-35%	45%	825	475	268	3.9	2.9	3.5
PCT	Jun-20	28.8%	29.5%	<37.5%	50%	610	586	244	2.5	4.2	3.3
PFI	Jun-20	28.2%	34.0%	<40%	50%	350	200	128	2.1	4.2	2.9
SPG	Sep-20	30.3%	34.1%	38-42%	50%	405	-	139	2.5	-	2.5
VHP	Jun-20	31.7%	41.0%	na	50%	975	-	212	1.2	-	1.2
Average/total		28.9%	31.0%		51.1%	4,551	2,367	1,769	2.3	2.9	2.8

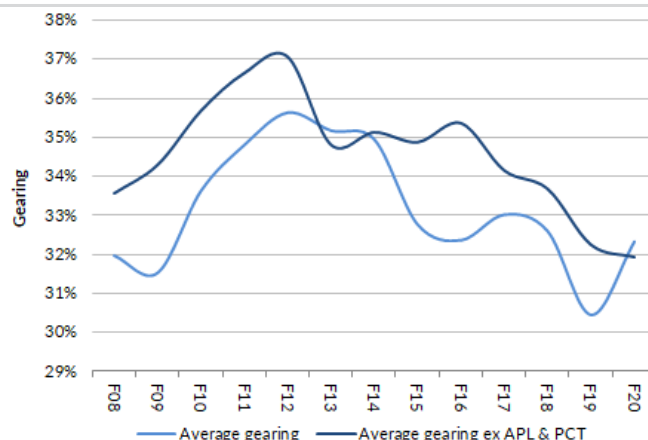
Source: Forsyth Barr analysis, company reports

Figure 37. Committed gearing



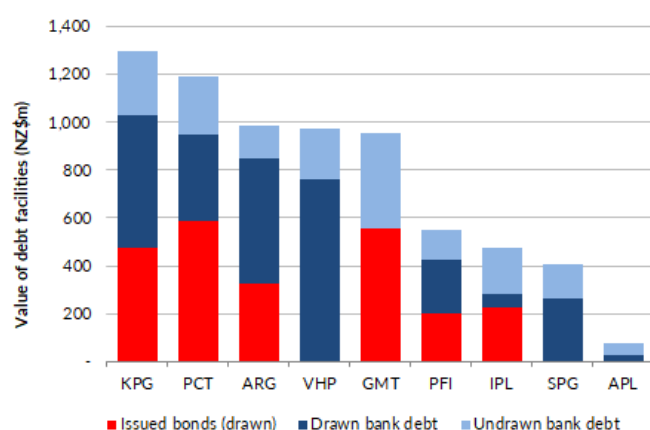
Source: Forsyth Barr analysis, Company Reports

Figure 38. Sector gearing



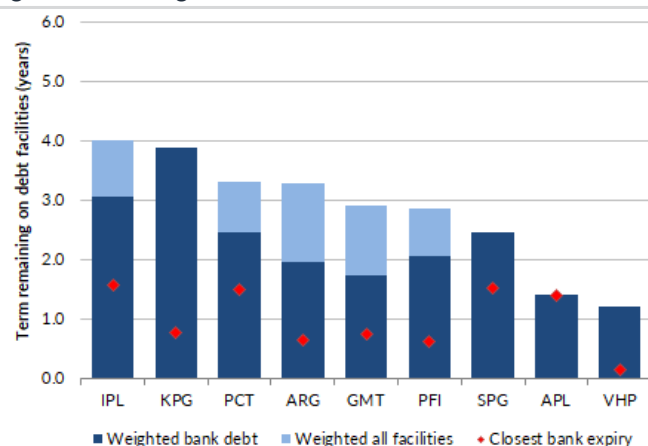
Source: Forsyth Barr analysis

Figure 39. Summary of debt facilities



Source: Forsyth Barr analysis, Company Reports

Figure 40. Funding tenor at 30 November 2020



Source: Forsyth Barr analysis, Company Reports

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