FORSYTH BARR

NEW ZEALAND EQUITY RESEARCH
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Real Estate Reflections
Internalisations — Have They Delivered?

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The listed property vehicles (LPVs) were flat and underperformed the broader S&P/NZX 50 in March, with higher bond yields continuing to weigh on investor sentiment. Precinct's (PCT) internalisation of its management contract was the most notable event in the sector this month and in this report we review the operating cost performance of other internalised LPVs. Our analysis suggests that shareholder value has been delivered, however, benefits vs. prior externally managed structures are slowly being eroded by cost creep. Also, the pricing of PCT's internalisation highlights the value of management contracts in the current market with Stride Property Group (the only LPV with an asset management platform of scale) being the key beneficiary in the sector.

Figure 1. NZ listed property sector summary

LPV	Code	Rating	Price 1-Apr	Target price	Gross yield	Expected total return	P/NAV	P/NTA
Asset Plus	APL	OUTPERFORM	$0.335	$0.40	7.7%	24.8%	80%	76%
Argosy Property	ARG	OUTPERFORM	$1.43	$1.55	6.5%	13.3%	112%	101%
Goodman Property	GMT	UNDERPERFORM	$2.23	$2.20	3.4%	1.1%	101%	105%
Investore	IPL	OUTPERFORM	$2.05	$2.35	5.4%	18.4%	114%	106%
Kiwi Property Group	KPG	UNDERPERFORM	$1.23	$1.25	7.1%	6.6%	98%	91%
Precinct Properties	PCT	OUTPERFORM	$1.63	$1.77	5.8%	12.7%	93%	107%
Property for Industry	PFI	UNDERPERFORM	$2.79	$2.70	4.1%	-0.4%	104%	126%
Stride Property	SPG	OUTPERFORM	$2.22	$2.30	6.4%	8.1%	107%	110%
Vital Healthcare	VHP	NEUTRAL	$2.92	$3.15	4.5%	11.0%	101%	115%
Core simple average					**5%**	**9%**	**104%**	**108%**

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

LPVs flat but underperform the broader market

The NZ LPV sector was up +0.4% in March supported by distributions (the capital index was down -0.2%). The best performing LPVs were Kiwi Property Group (KPG) and Goodman Property Trust (GMT), both of which provided portfolio valuation updates ahead of their full year results. LPVs underperformed the broader market with the NZX50G up +2.7% in March. We believe this underperformance partly reflects continued pressure from higher long bond yields.

Have recent internalisations delivered?

The most significant announcement from the sector this month was PCT's NZ$215m internalisation of its management contract, which is expected to result in an annual cash saving of NZ$14.6m. This continues a trend which has seen a number of LPVs buyout and cancel their external management agreements over the last decade, with half of the sector now internally managed. Our analysis of past internalisations suggest they have generated shareholder value above that of the initial payment but cost increases are slowly eroding the initial benefits over time. To date, lower debt costs have helped to offset this cost creep which has reduced operating leverage at the EBIT level.

Could we see more internalisations?

We do not believe the relatively high cost of PCT's internalisation will spur other LPVs to follow a similar path, with the managers of the remaining externally managed LPVs focussed on expanding their real estate asset management businesses. However, we do highlight that SPG is the owner of a number of management contracts which we estimate are potentially worth up to 27cps, based on the PCT transaction metrics, on top of its NZ$2.01 NTA.

Internal vs. external management

All LPVs are managed by either a separate external entity or an internal management team. External management is where fees are paid to a third party who undertakes activities on behalf of the LPV. Under an internally-managed structure LPVs' directly employ staff to carry out the various property and asset management functions.

Costs can be split into two categories — property management and asset management. Asset management relates to the corporate functions of the LPV, such as portfolio strategy, project management, and capital management. Property management relates to the day-to-day management of properties, for example leasing activity and facilities management. External asset management fees are normally set as a percentage of the value of assets being managed (typically 0.40–0.60%).

For internally managed LPVs all employee costs are recognised as corporate overhead. As a result, the property management and leasing functions for internally managed vehicles are effectively recognised as a corporate expense and not a direct property expense (to the extent these are not outsourced). Outside of the property and asset management functions, accounting under internal and external management is practically the same.

NZ LPVs have moved from external to internal management

Outside of lower operating costs, a key benefit of an internalised management structure is better alignment between managers and shareholders, in our view. It removes the inherent conflict of interest in an external contract where management is incentivised to grow assets under management to increase fees. The downside of internally-managed structures is that (1) it can cost a lot to internalise, (2) declining asset values do not result in lower management costs, and (3) it is not feasible unless the vehicle is at scale.

PCT's recent internalisation continues a trend which has seen a number of LPVs buyout and cancel their external management agreement. There are now five internally managed LPVs including Argosy (ARG), KPG, Property for Industry (PFI) and SPG. SPG was internalised as part of its IPO process while ARG, KPG, and PFI have all brought management inhouse over the last decade.

Figure 2. NZ LPV internalisations

Date	Entity	EV	FUM	EV/Revenue	EV/EBIT	EV/FUM
Mar-21	Precinct	215	3,102	7.1	14.7	6.9%
Jun-17	Property for Industry	42	1,083	5.8	10.6	3.9%
Dec-13	Kiwi Property Group	73	2,188	2.8	6.3	3.3%
Aug-11	Argosy Property Trust	20	935	2.5	5.3	2.1%
Jul-10	DNZ (now Stride Property Group)	35	730	3.5	7.1	4.8%

Source: Company data, Forsyth Barr analysis

Have recent internalisations delivered?

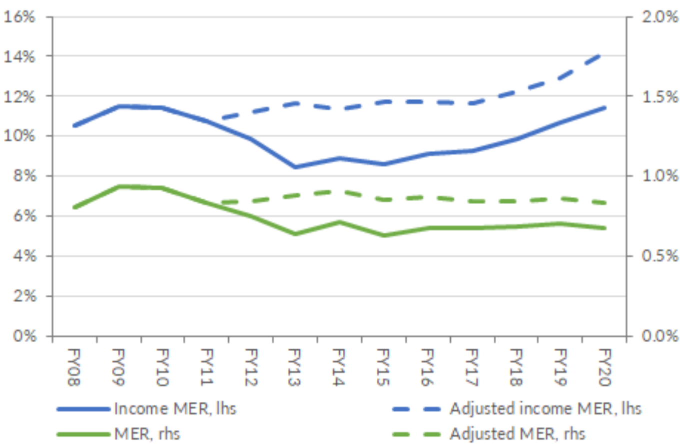
A key benefit associated with internalisations is a reduction in the LPV cost base. External management fees often exceed the cost of internal management, partly reflecting the profit margin that the external management company makes. As such, cost savings can be significant for large scale entities and those that pay large and lumpy performance fees.

The cost of management is typically expressed at a management expense ratio (MER) which reflects the total cost (management and administration) relative to the LPV's total property asset value. All else equal, in a rising asset value environment internally managed LPVs should see MERs fall, while externally managed LPVs MERs remain stable. As such, cap rate compression is a headwind to externally managed LPVs earnings growth. This was highlighted by GMT's recent asset revaluation which lifted management fees by NZ$1.7m. Conversely, a fall in asset values would lower management fees payable.

The MER can also be expressed as a percentage of net rental income (income MER) which we believe is a better measure of operating efficiency. To use an extreme example, a 0.5% external management fee would equate to 5% of net rental income for an asset yielding 10% or 10% net rental income for an asset yielding 5%, whereas there would be no charge for an internally managed LPV assuming costs remain stable.

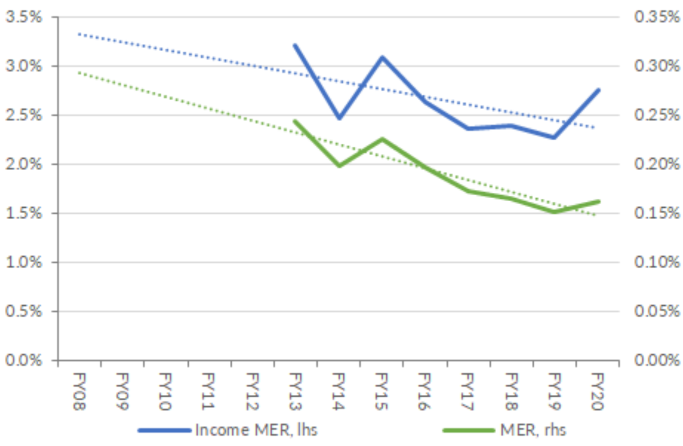
In Figures 3–5 we show the reported MERs of ARG, KPG, and PFI as well as our estimate of the MER assuming they remained externally managed (denoted as adjusted MER). We have excluded performance fees. Our key observation is that while the cost base has been reset structurally lower, cost increases have reduced the savings made over time. ARG being the LPV with the longest period as an internalised vehicle has shown the largest increase in costs as a percentage of rental income with this ratio now back to pre-internalisation levels and costs having grown at a +10% CAGR since FY13 (the first full year as an internally managed LPV) vs. net property income growing at a +5% CAGR.

Figure 3. ARG MER



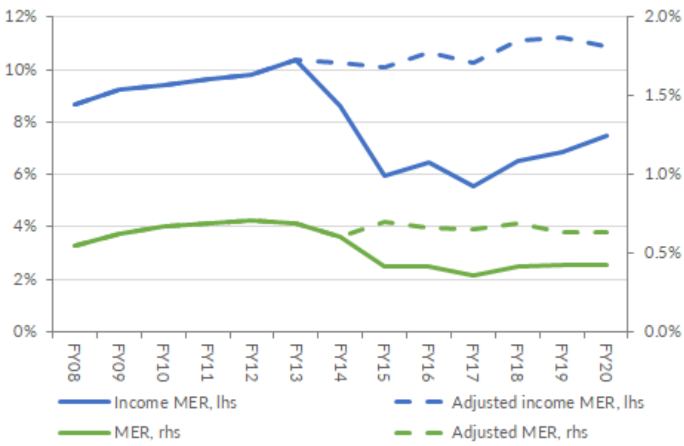
Source: Company data, Forsyth Barr analysis

Figure 4. ARG spread between adjusted and reported MER



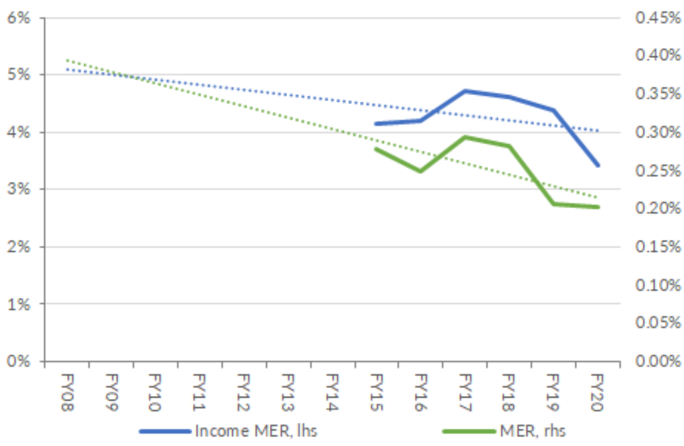
Source: Company data, Forsyth Barr analysis

Figure 5. KPG MER



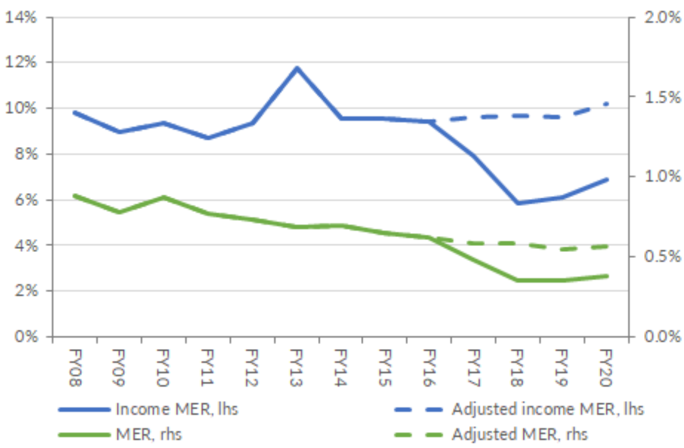
Source: Company data, Forsyth Barr analysis

Figure 6. KPG spread between adjusted and reported MER



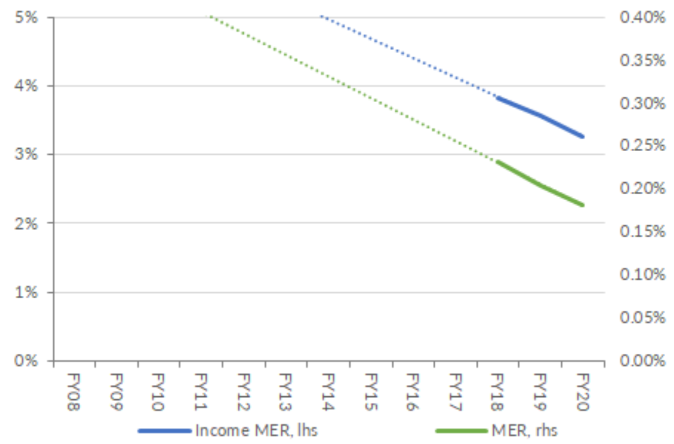
Source: Company data, Forsyth Barr analysis

Figure 7. PFI MER



Source: Company data, Forsyth Barr analysis

Figure 8. PFI spread between adjusted and reported MER



Source: Company data, Forsyth Barr analysis

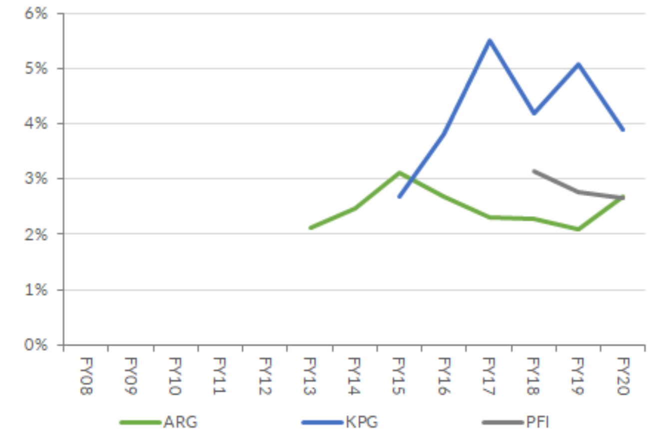
We have also calculated the distribution benefit that internalisation has delivered for ARG, KPG, and PFI (higher management costs partly offset by lower debt funding costs). This has ranged from +2–5% higher distributions. Assuming this distribution benefit has translated directly into the share price, we estimate market capitalisations have increased by +26–128% of the net value of the cost of internalisation.

In conclusion, internalisations have generated shareholder value above that of the initial payment (particularly if you include the higher distributions that have been paid) but cost increases (which are partly due to higher compliance costs such as ESG reporting) are slowly eroding the initial benefits over time. To date, lower debt costs have helped to offset this cost creep but investors have been focussed on the modest operating leverage delivered by the internalised LPVs.

For LPVs with external management, the high cost (NZ$215m) of PCT's recent internalisation highlights the value of management contracts. Based on the PCT transaction we estimate the remaining external management contracts could potentially equate to 7–12% of NTA (Figure 11). However, we believe it is unlikely further internalisations will occur in the near-term with managers of APL, GMT, IPL, and VHP all focussed on expanding their real estate asset management businesses.

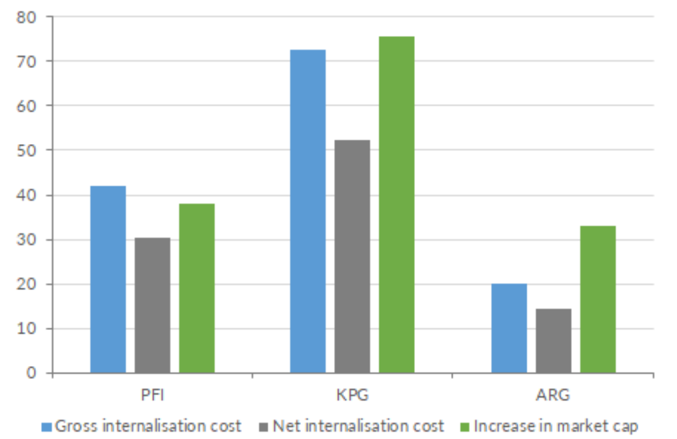
Furthermore, SPG is the external manager of IPL and holds the management contracts for unlisted vehicles Diversified and Industre. The value of these contracts are not represented in SPG's NTA; based on the PCT transaction metrics we estimate these contracts are potentially worth 27cps.

Figure 9. DPS uplift from internalisation



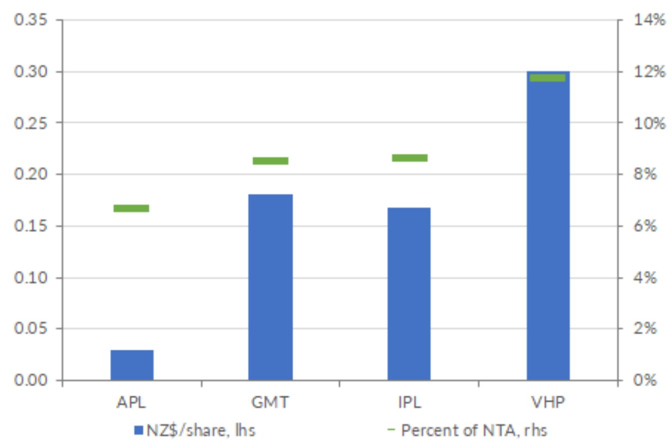
Source: Company data, Forsyth Barr analysis

Figure 10. Internalisation cost vs. increase in market cap



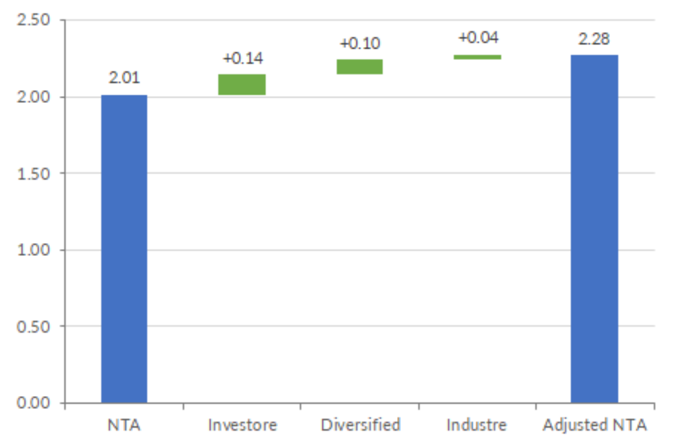
Source: Company data, Forsyth Barr analysis

Figure 11. External management contract value vs NTA assuming PCT transaction metrics



Source: Company data, Forsyth Barr analysis

Figure 12. SPG NTA adjusted for the value of owned management contracts



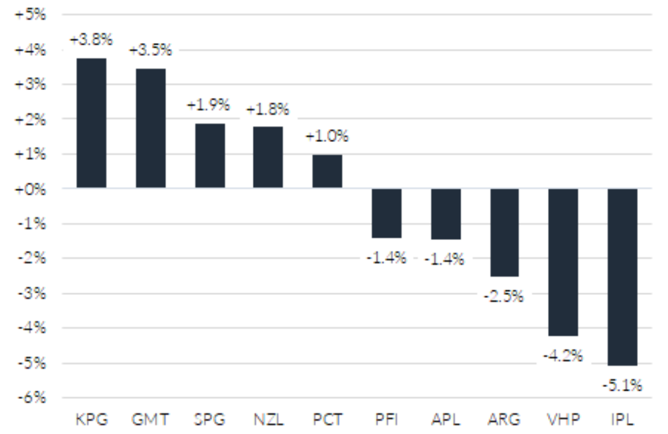
Source: Company data, Forsyth Barr analysis

Performance and valuation

LPVs underperform in March

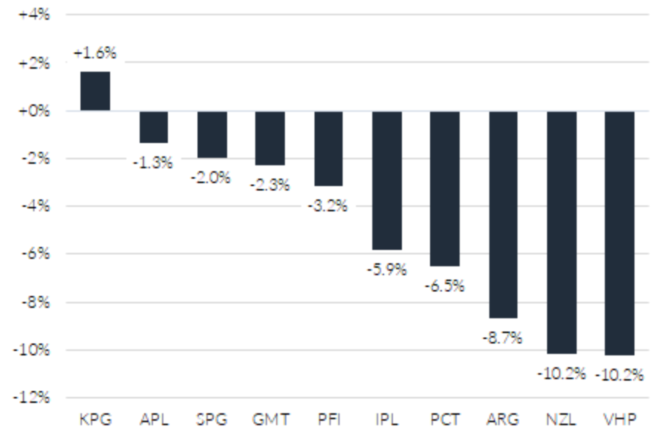
The NZ LPV sector was up +0.4% in March supported by distributions (the capital index was down -0.2%). The best performing LPVs were KPG and GMT both of which provided portfolio valuation updates ahead of their full year results. LPVs underperformed the broader market with the NZX50G up +2.7% in March. We believe this underperformance partly reflects continued pressure from higher long bond yields.

Figure 13. March returns



Source: Forsyth Barr analysis, S&P

Figure 14. YTD returns



Source: Forsyth Barr analysis, S&P

Figure 15. Sector total returns (as at 31 March 2021)

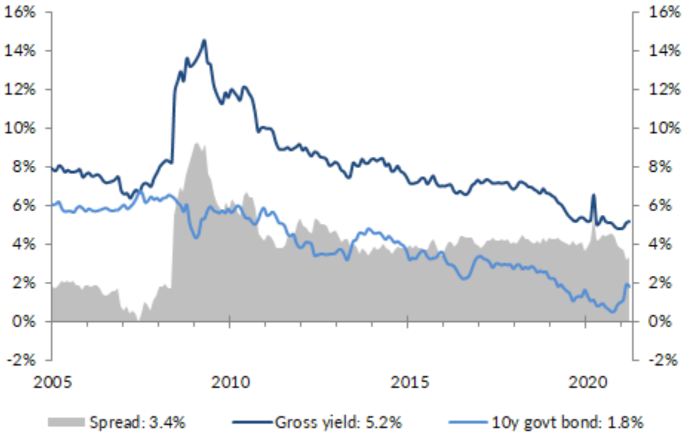
Company	Code	Price 31-Mar	Market Cap	Gr. Div wImp	Month return	Rank	Quarter return	Rank	Year return	Rank	YTD return	Rank
Asset Plus	APL	$0.340	$123m	-	-1.4%	7	-1.3%	2	+0.6%	8	-1.3%	2
Argosy Property	ARG	$1.435	$1,205m	$0.02	-2.5%	8	-8.7%	8	+67.6%	2	-8.7%	8
Goodman Prop Trust	GMT	$2.260	$3,144m	$0.02	+3.5%	2	-2.3%	4	+8.5%	7	-2.3%	4
Investore	IPL	$2.060	$758m	-	-5.1%	10	-5.9%	6	+30.2%	5	-5.9%	6
Kiwi Property Group	KPG	$1.240	$1,946m	-	+3.8%	1	+1.6%	1	+35.4%	4	+1.6%	1
NZ Rural Land Company	NZL	$1.150	$70m	-	+1.8%	4	-10.2%	9	-8.0%	10	-10.2%	9
Precinct Properties NZ	PCT	$1.630	$2,141m	$0.02	+1.0%	5	-6.5%	7	-0.5%	9	-6.5%	7
Property for Industry	PFI	$2.810	$1,412m	-	-1.4%	6	-3.2%	5	+44.1%	3	-3.2%	5
Stride Property Group	SPG	$2.280	$1,078m	$0.03	+1.9%	3	-2.0%	3	+76.9%	1	-2.0%	3
Vital Healthcare Property Trust	VHP	$2.910	$1,507m	$0.03	-4.2%	9	-10.2%	10	+28.8%	6	-10.2%	10
S&P/NZX All Real Estate Cap		1,415.3			-0.2%		-4.9%		+21.7%		-4.9%	
S&P/NZX All Real Estate Gr.		1,813.4			+0.4%		-4.2%		+25.6%		-4.2%	
S&P/NZX All Real Estate Gr. wImp		1,907.9			+0.5%		-4.1%		+26.3%		-4.1%	
S&P/NZX 50 Gross		12,560.7			+2.7%		-4.1%		+28.2%		-4.1%	
S&P/NZX 50 Gross wImp		15,400.8			+2.9%		-3.9%		+28.9%		-3.9%	

Source: Forsyth Barr analysis, Eikon, S&P

LPV yield spread; below its historical average vs. bonds

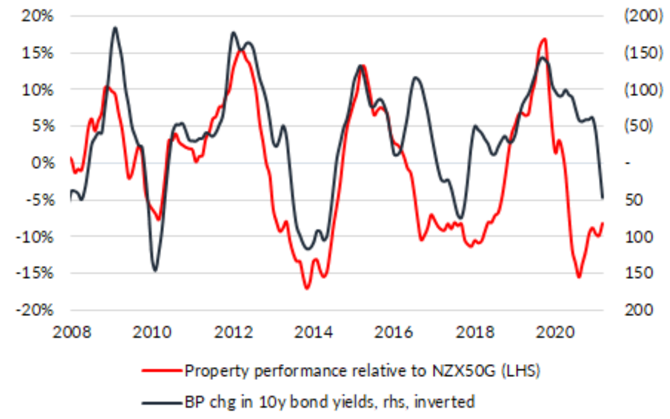
Interest rates continue to be a key driver of LPV sector performance. The sector's gross dividend yield spread is now +340bp vs. the 10-year NZ Government bond yield. This is below its 5-year average spread of c.+400bps due to a recent lift in bond yields on the back of solid economic data and higher inflation expectations. 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 change is largely factored into current prices.

Figure 16. Gross dividend yield vs 10y Govt Bond



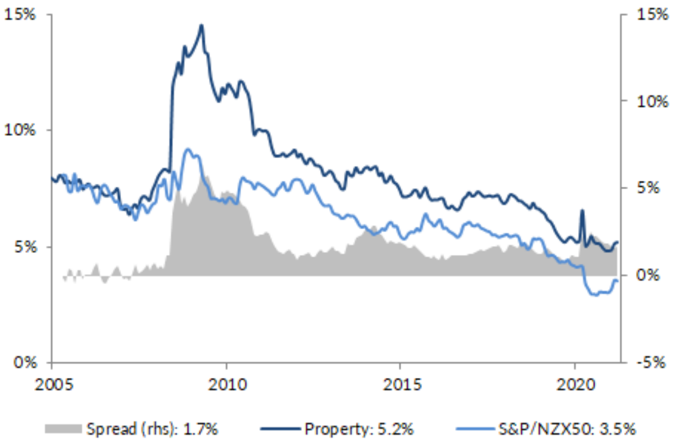
Source: Forsyth Barr analysis

Figure 17. Relative LPV performance vs bonds



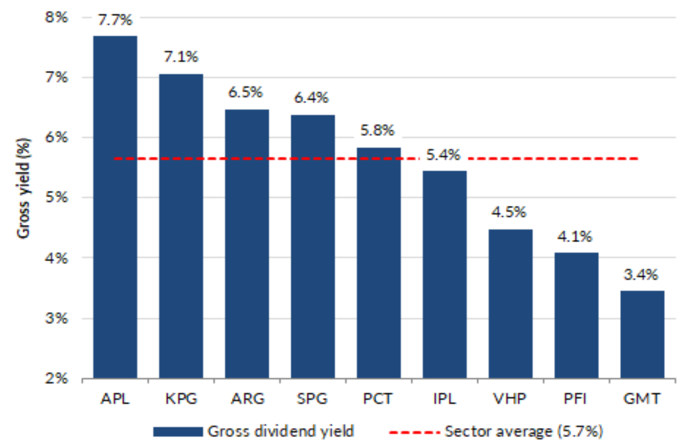
Source: Datastream, Forsyth Barr analysis, note: 3mth rolling average, yoy % chg

Figure 18. Sector gross yield versus S&P/NZX50 gross yield



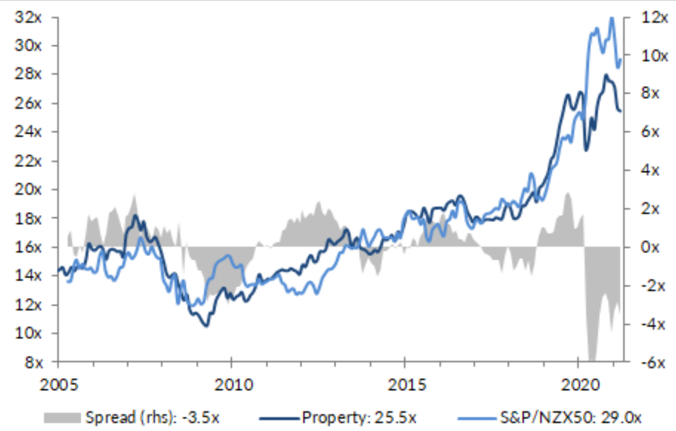
Source: Company reports, Forsyth Barr analysis, IRESS Note: Market cap weighted

Figure 19. Gross Yield



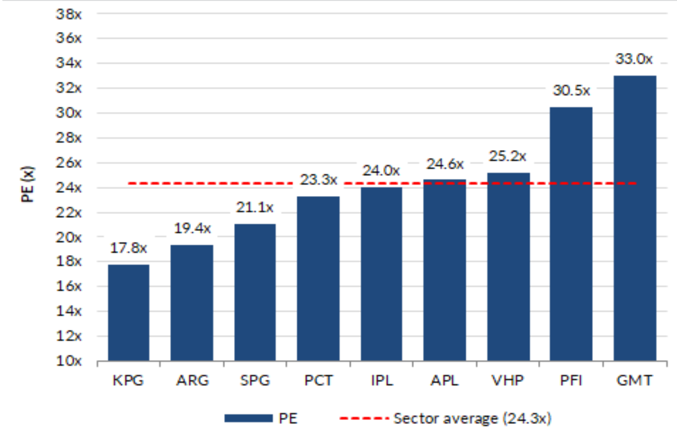
Source: Company reports, Forsyth Barr analysis , Thompson Reuters

Figure 20. Sector PE versus S&P/NZX50 PE



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

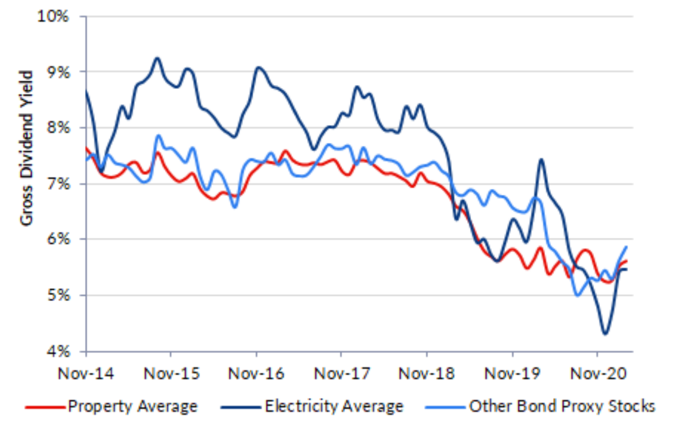
Figure 21. PE Ratio



Source: Company reports, Forsyth Barr analysis , Thompson Reuters

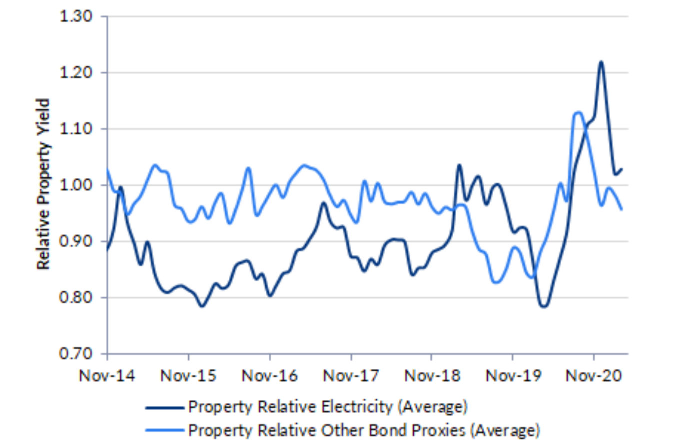
Compared to the electricity sector LPV yields continue to look attractive vs. history but look fair vs. other bond proxies (Spark, Chorus and Vector).

Figure 22. Simple average sector yields



Source: Forsyth Barr analysis

Figure 23. Property relative yields

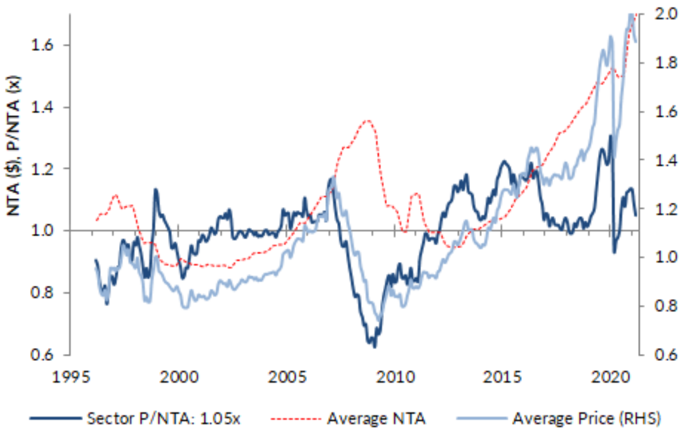


Source: Forsyth Barr analysis (note: Property yield is numerator)

Sector still trading above NTA

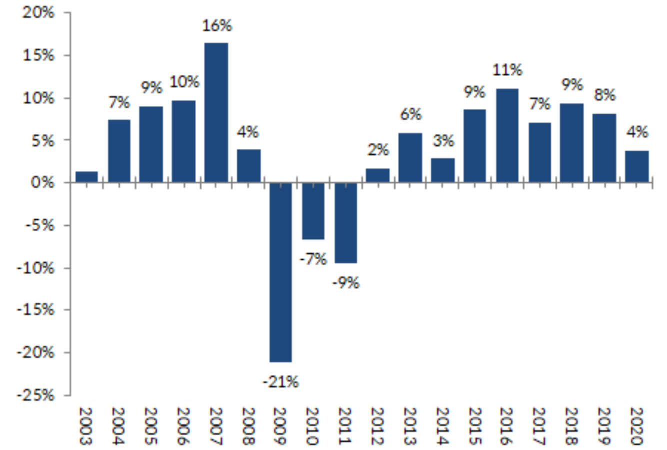
The LPV sector is trading above its net asset backing at 1.05x P/NTA with lower share prices closing the gap. With rising bond yields we will look for any signs this has impacted investor demand for real assets but believe demand should remain robust for well located property with strong tenant covenants. Transactions and revaluations this month highlighted industrial and office assets remain well supported while retail is yet to recover.

Figure 24. Property sector P/NTA



Source: Forsyth Barr analysis

Figure 25. Market cap weighted sector NTA growth



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

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

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

Figure 26. Forsyth Barr rating and multiples

Company	Rating	P / NTA	P / NAV	PE	P / AFFO	Cash yield	Gross yield	AFFO Pay-out
APL	OUTPERFORM	-23.9%	-20.2%	24.6x	28.0x	5.4%	7.7%	150%
ARG	OUTPERFORM	+1.1%	+12.2%	19.4x	22.2x	4.5%	6.5%	100%
GMT	UNDERPERFORM	+5.0%	+0.9%	33.0x	34.8x	2.4%	3.4%	84%
IPL	OUTPERFORM	+6.2%	+13.9%	24.0x	26.4x	3.8%	5.4%	100%
KPG	UNDERPERFORM	-8.9%	-2.4%	17.8x	19.2x	4.9%	7.1%	95%
PCT	OUTPERFORM	+6.5%	-6.9%	23.3x	23.5x	4.1%	5.8%	96%
PFI	UNDERPERFORM	+26.4%	+4.5%	30.5x	34.3x	2.9%	4.1%	98%
SPG	OUTPERFORM	+10.4%	+7.1%	21.1x	23.5x	4.5%	6.4%	105%
VHP	NEUTRAL	+14.5%	+0.7%	25.2x	27.7x	3.1%	4.5%	87%
Average		**+4.2%**	**+1.1%**	**24.3x**	**26.6x**	**4.0%**	**5.7%**	**102%**
Core average[1]		**+7.7%**	**+3.8%**	**24.3x**	**26.4x**	**3.8%**	**5.4%**	**96%**

Source: Forsyth Barr analysis

Figure 27. 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	1.36	-34%	2.92	2.23	1.20	-36%	3.6%
ARG	7.20	7.56	7.34	1%	6.27	5.41	6.43	1%	4.5%
GMT	6.73	6.69	6.75	0%	6.24	6.33	6.41	1%	2.9%
IPL	7.66	7.75	8.53	5%	6.49	7.25	7.77	9%	3.8%
KPG	7.14	6.02	6.91	-2%	6.85	5.56	6.40	-3%	5.2%
PCT	6.28	6.84	7.05	6%	6.29	6.59	7.06	6%	4.3%
PFI	9.11	9.17	9.06	0%	8.03	8.17	8.01	0%	2.9%
SPG	10.32	10.97	10.53	1%	8.71	9.62	9.43	4%	4.2%
VHP	10.35	11.06	11.77	7%	7.23	10.14	10.67	21%	3.6%
Avg									**3.9%**
Weighted avg									**3.8%**

Source: Forsyth Barr analysis

Figure 28. 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%	5.4%	7.0%	7.7%	8.0%	8.8%
ARG	6.28	6.35	6.45	6.45	1%	4.5%	5.9%	6.5%	6.8%	7.4%
GMT	6.65	6.65	5.30	5.38	-7%	2.4%	3.1%	3.4%	3.6%	4.0%
IPL	7.60	7.60	7.60	7.80	1%	3.8%	5.0%	5.4%	5.7%	6.2%
KPG	6.95	3.53	5.25	6.08	-4%	4.9%	6.4%	7.1%	7.4%	8.1%
PCT	6.00	6.30	6.50	6.71	4%	4.1%	5.3%	5.8%	6.1%	6.7%
PFI	7.60	7.70	7.96	8.01	2%	2.9%	3.7%	4.1%	4.3%	4.7%
SPG	9.91	9.91	9.91	9.91	0%	4.5%	5.8%	6.4%	6.7%	7.3%
VHP	8.75	8.75	8.88	9.23	2%	3.1%	3.9%	4.5%	4.7%	5.1%
Avg						**4.0%**	**5.1%**	**5.7%**	**5.9%**	**6.5%**
Weighted avg						**3.6%**	**4.7%**	**5.2%**	**5.4%**	**6.0%**

Source: Forsyth Barr analysis

Property News for March 2021

NZ listed property portfolio activity

GMT announced strong 31 March 2021 valuations, with capitalisation rate compression of -50bps over the past six months (-70bp over FY21) lifting asset values by approximately NZ$415m (+12.5%) to NZ$3.8bn. The revaluations lift GMT's NTA per share by +30cps (c.+16%) to 2.12cps. We estimate that GMT's NZ$415m portfolio revaluation has lifted base management fees by NZ$1.7m. (10 March 2021)

KPG announced a 2H21 revaluation gain of NZ$100m which lifted its portfolio valuation to NZ$3.3bn. The solid 2H gains in office (+NZ$52m) and mixed use (+NZ$38m) values was partially offset by retail (-NZ$8m). Cap rates firmed -28bp in KPG's office assets taking full year cap rate firming to -47bp. KPG's mixed use assets continued to see low single digit cap rate firming. While retail assets saw large cap rate declines, valuations continued to reduce due to lower market rental assumptions (valuations imply -5% in the 2H) and further seismic strengthening costs being incorporated. Valuers also removed material uncertainty clauses from their mixed-use valuations. (25 March 2021)

ARG has settled its acquisition of 8–14 Mt Richmond Drive and 2 Doraval Place in Mt Wellington, Auckland for NZ$76m. The purchase of these contiguous sites were announced on 9 October 2020. With a current net rental of NZ$3.55m, the initial holding yield is 4.7%. (26 March 2021)

Other NZ listed property news

SPG announced that it has appointed a new General Manager of Investment, Adam Lilley. Adam previously worked with SIML as an Investment Manager, and most recently has been a Research Analyst with Craigs Investment Partners, specialising in the listed property sector. (4 March 2021)

Auckland Real Estate Trust (NZX: AKL) announced the acquisition of 60 Federal St and 16 Kingston St for NZ$58m. The two acquired properties adjoin its existing property, 87 Albert St, with AKL intending to redevelop the three sites into an A Grade office precinct. (11 March 2021)

KPG increased its FY21 AFFO guidance +8.7–12.2% to 5.50–5.60cps (previously 4.90–5.15cps). Stronger than anticipated trading in its shopping malls has seen leasing outcomes and turnover rents ahead of KPG's expectations and rental abatements, and doubtful debts lower than anticipated despite further COVID-19 disruptions. Implied 2H21 AFFO is 3.18–3.28cps (1H21: 2.32cps) which suggests a potential final distribution of 3.05cps based on a 95% payout. (12 March 2021)

ARG announced it has refinanced its existing syndicated facilities. The total facility amount is now NZ$490m, down from NZ$535m, with the earliest Tranche expiry being April 2023. ARG's total funding tenor is currently 4.2 years. (18 March 2021)

PCT will pay NZ$215m (NZ$145m net of tax and fees on current development projects) to internalise its management functions, which is expected to result in an annual cash saving of NZ$14.6m. The benefits stem from a fall in its management expense ratio (MER) to a sector low 0.31% (from 0.74%). PCT expects that AFFO will lift by +6.0% per share on a pro-forma basis. This accretion is fully realised once the Bowen Campus and 1 Queen St developments are complete and tax is deducted from the internalisation cost, as such near-term benefits are likely lower on an underlying basis. (29 March 2021)

ARG released an investor newsletter, providing updated portfolio metrics, and leasing deals. WALT of 5.5 years compares to 5.7 years at 1H21, and occupancy of 99.1% compares to 99.4% at 1H21. ARG has a new 9-year lease with The Teachers Council at 7 Waterloo Quay. The new lease is for Level 11 on a gross rental of $510 per sqm. This takes the building's occupancy to 89% and ARG is in negotiations with one of the existing government tenants to lease the whole of Level 9. ARG highlighted four other leasing deals, and now has 1% of income left to expire in FY21 vs. 4.3% at 1H21. (30 March 2021)

KPG has announced a 50:50 JV with Tainui Group Holdings (TGH), enabling redevelopment of Centre Place North into a mixed-use precinct. The JV will comprise Centre Place North, 61–65 Bryce Street, 511–523 Victoria Street and land at 10 Ward Street, with a combined value of approximately $71 million. A new 100-year ground lease will be granted by TGH, with rent pre-paid. (1 April 2021)

Other commercial property news

Auckland Council has completed a 125-year leasehold sale of a carpark on the corner of Albert St and Wellesley St to Malaysian Resources Corporation Berhad for NZ$40m. The site will see a $452 million 21-level office/apartment/retail project rise above the new Aotea train station. (9 March 2021)

The Auckland Council is selling its Downtown Car Park, which is contiguous with PCT's 188 Quay St property. The NZ Herald reported that the buyer will have to accommodate future transport needs, with PCT showing interest in partnering with the Council on a prospective development. (29 March 2021)

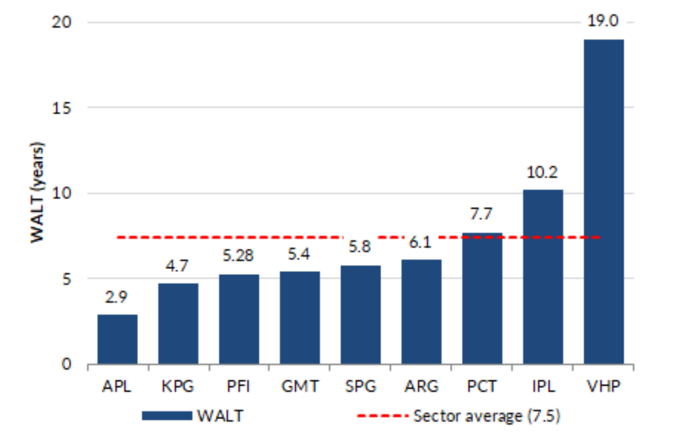
Portfolio Summary

Figure 29. Last reported 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	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	2,991	287	15	161	5.00%	199	7.7	98.0%	2.0%	6.0%	6.0%	14.0%
PFI	1,525	838	94	148	5.50%	16	5.3	99.4%	0.6%	3.3%	11.1%	15.0%
SPG	877	135	14	343	6.23%	63	5.8	96.7%	3.3%	14.0%	22.0%	39.3%
VHP	2,248	nd	45	120	5.30%	50	19.0	99.1%	0.9%	1.5%	1.0%	3.4%
Total	**17,116**	**3,679**	**289**	**2,025**								
Average	**1,902**	**460**	**32**	**253**	**5.75%**	**136**	**7.5**	**98.8%**	**1.2%**	**6.6%**	**13.1%**	**20.9%**

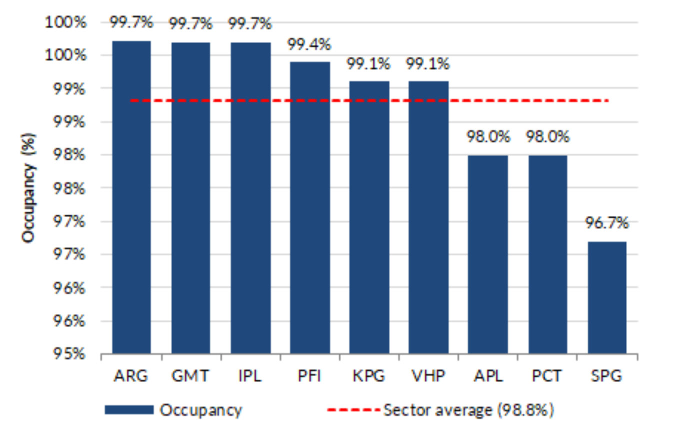
Source: Forsyth Barr analysis

Figure 30. Sector WALT (weighted average lease term)



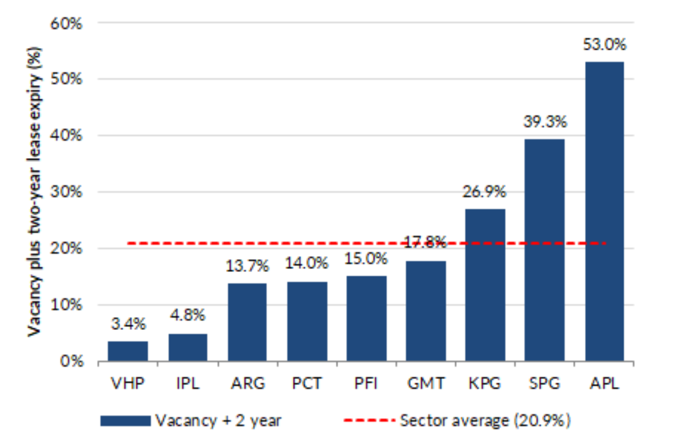
Source: Forsyth Barr analysis, Company Reports

Figure 31. Sector occupancy



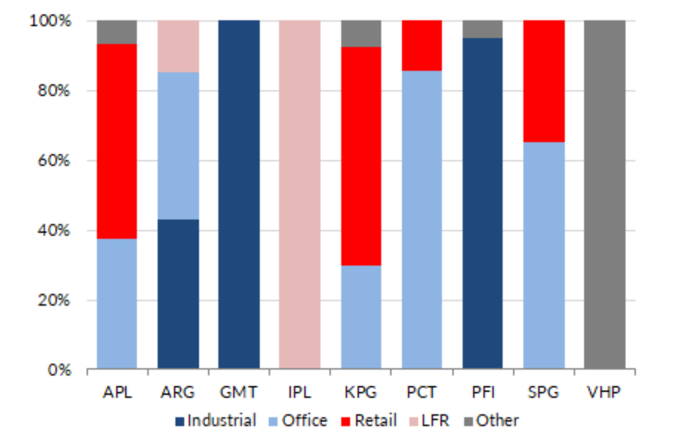
Source: Forsyth Barr analysis, Company Reports

Figure 32. Vacancy + Lease expiry in next 2 years



Source: Forsyth Barr analysis, Company Reports

Figure 33. Sector diversification



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

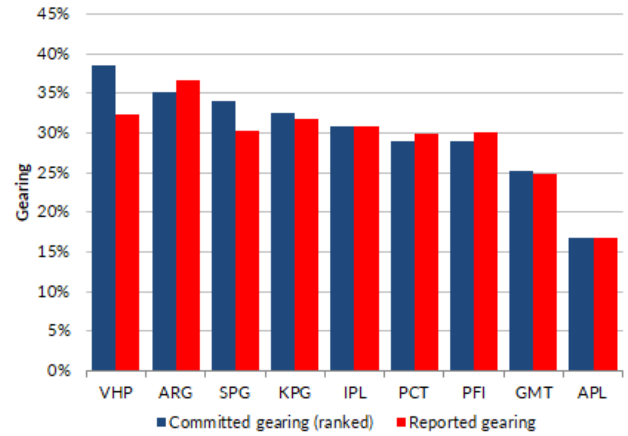
Balance Sheet summary

Figure 34. 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	1.3	-	1.3
ARG	Sep-20	36.6%	35.2%	30-40%	50%	660	325	133	1.9	5.9	3.2
GMT	Sep-20	24.9%	25.3%	25-35%	50%	400	556	400	1.7	3.7	2.8
IPL	Sep-20	30.9%	30.9%	<48%	65%	251	225	196	3.0	5.0	3.9
KPG	Sep-20	31.8%	32.5%	25-35%	45%	825	475	268	3.9	2.8	3.5
PCT	Dec-20	29.9%	29.0%	<37.5%	50%	610	586	244	2.4	4.1	3.2
PFI	Dec-20	30.0%	28.9%	<40%	50%	350	200	128	2.0	4.2	2.8
SPG	Sep-20	30.3%	34.1%	38-42%	50%	405	-	139	2.4	-	2.4
VHP	Dec-20	32.4%	38.5%	na	50%	975	-	212	1.1	-	1.1
Average/total		**29.3%**	**30.1%**		**51.1%**	**4,551**	**2,367**	**1,769**	**2.2**	**2.9**	**2.7**

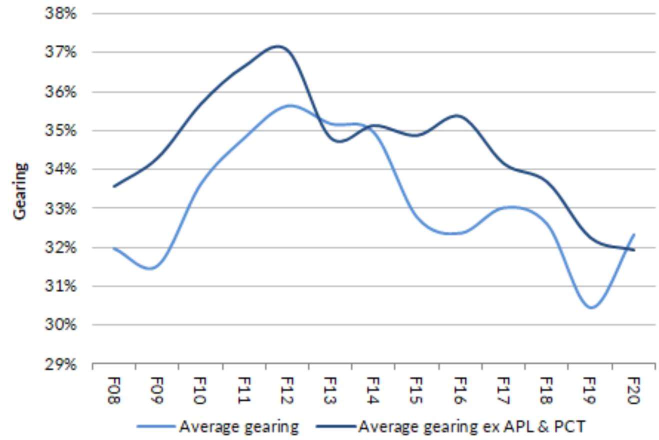
Source: Forsyth Barr analysis, company summary

Figure 35. Committed gearing



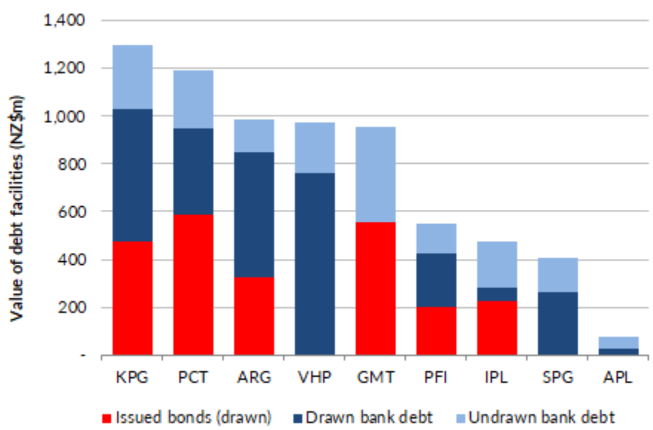
Source: Forsyth Barr analysis, Company Reports

Figure 36. Sector gearing



Source: Forsyth Barr analysis

Figure 37. Summary of debt facilities



Source: Forsyth Barr analysis, Company Reports

Figure 38. Funding tenor at 28/02/2021

Source: Forsyth Barr analysis, Company Reports

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