

Real Estate Reflections

Flattening the Earnings Curve

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The once predictable earnings path of Listed Property Vehicles (LPVs) has abruptly become less clear with COVID-19 challenging the historically defensive asset class in an unprecedented way. In this note we attempt to quantify the level of near-term tenant support LPVs may have to provide. We also adjust our earnings forecasts for lower market rents and higher vacancy, although the immediate impact is moderated by under renting, fixed annual rent increases, and solid lease terms, particularly for LPVs with strong tenant covenants. Furthermore, the overall earnings impact is partially offset by reintroduction of depreciation on building structure and lower floating interest costs. We retain our preference for Investore (IPL), Property for Industry (PFI), and Vital Healthcare Property (VHP). Our least preferred LPVs remain Kiwi Property (KPG) and Asset Plus (APL). With this note we transfer coverage of the NZ LPV sector to Rohan Koreman-Smit.

Lowering our earnings estimates

Company announcements and industry anecdotes suggest that LPVs are being good corporate citizens and providing relief to tenants impacted by the Government enforced lockdown. We estimate this near-term support will cost LPVs 1-14% of annual gross rental income, significantly reducing June quarter cash flows, with retail landlords seeing a higher than average impact. We have also 1) lowered our rent growth to zero for the next two years, with structured rent increases being broadly offset by negative market reviews and lease expiries, and 2) increased vacancy. The impact of these adjustments is partially offset by tax benefits from the reintroduction of depreciation on building structures and lower floating interest costs as hedging rolls off. The net outcome is a reduction of -2% to -23% in our FY21 LPV earnings estimates but a more modest -1% to -6% for FY22.

Uncertainty weighed on LPVs over April

The LPV sector rebounded +3.7% in April, lagging the S&P/NZX 50G index which was up +7.5% in one of its three best months in twenty years. Since the sell off began in late February the property sector has underperformed utilities by -6% and the market by -8% over concerns about revaluation losses and rent relief. Revaluation outcomes have been mixed with valuers turning away from valuation approaches based on market evidence, instead focusing on cash-flows and sentiment. Industrial properties have fared the best and have provided steady gains, while some retail assets have been dealt severe write-downs. The pandemic impact remains fluid, and with a wide range of possible outcomes we continue to prefer LPVs with defensive asset bases and lower near-term uncertainty.

Figure 1. NZ listed property sector summary

LPV	Code	Rating	Price 12-May	Target price	Gross yield	AFFO yield	P/NAV
Asset Plus	APL	UNDERPERFORM	\$0.40	\$0.65	6.9%	6.4%	60%
Argosy Property	ARG	NEUTRAL	\$1.05	\$1.13	6.5%	5.6%	102%
Augusta Capital	AUG	RESTRICTED	\$0.66	n/a	n/a	n/a	n/a
Goodman Property	GMT	NEUTRAL	\$2.32	\$1.92	3.2%	2.7%	122%
Investore	IPL	OUTPERFORM	\$1.69	\$1.85	6.4%	4.1%	102%
Kiwi Property Group	KPG	UNDERPERFORM	\$0.92	\$1.29	7.7%	5.9%	81%
Precinct Properties	PCT	NEUTRAL	\$1.58	\$1.52	4.7%	3.6%	99%
Property for Industry	PFI	OUTPERFORM	\$2.28	\$2.15	4.4%	3.3%	111%
Stride Property	SPG	NEUTRAL	\$1.50	\$1.75	6.7%	5.6%	93%
Vital Healthcare	VHP	OUTPERFORM	\$2.39	\$2.76	5.0%	3.7%	101%
Core simple average					5.6%	4.3%	101%

Source: Forsyth Barr analysis, Eikon, Company reports

Note: Core average excludes APL and AUG

Earnings Changes

The outlook for LPV earnings has become uncertain. Some LPVs have removed guidance, some have cut dividends, and others are reviewing distributions on a quarterly basis. If any FY21 guidance is provided during the upcoming reporting season we expect a wider than normal range and heavy caveats.

LPVs are being good corporate citizens and supporting tenants when required. This has typically seen landlords reduce rent over the higher levels of lockdown. Some tenant/landlord discussions (likely outside the listed space) have not been constructive and as such there continues to be calls for Government intervention in commercial leases. The most recent iteration being a code of conduct similar to Australia where landlords fund any rent relief provided. **Our attempt to quantify the level of rent support that LPVs may be providing to tenants suggests an impact of -1 to -14% on gross rent.**

While market rents are expected to fall varying degrees across all sub-sectors, the increased prevalence of annual fixed rent increases (vs. market adjustments which were more common 12 years ago and through the GFC period) limits the immediate impact to Net Operating Income (NOI). Furthermore, under-renting across many portfolios further cushions the immediate downside. **Our analysis suggests a 10% reduction in market rents would reduce portfolio rent growth to zero for most LPVs. To be more conservative we have reduced portfolio rent growth to zero across all LPVs for the next 24 months.**

Medium term, we expect soft economic backdrop to weigh on occupier demand reducing market rent and increasing vacancies. Last cycle LPV portfolios were more resilient than the broader market. We expect similar outcomes this cycle particularly in office where Precinct Properties (PCT), KPG, and Argosy (ARG) have significant government and large corporate exposure. **Where leases are not backed by strong tenant covenants we have assumed vacancy increases 10% in office, 5% in industrial, and 10% in retail.**

Offsetting these headwinds are **1) reintroduction of depreciation on structural building elements and 2) lower floating debt costs. We estimate that these combined equate to 4-10% of earnings** with IPL, PCT, and KPG seeing the largest benefits, and Stride Property (SPG), and VHP the least. In terms of being able to offset any short term rent support provided to tenants this offsets a 1-4 week reduction in gross rent.

Our earnings changes are summarised below – note that we recently made changes to our earnings forecasts for SPG and IPL. For these changes. refer to our reports "*Stride Property: March 2020 Valuations – Keeping Pace*" and "*Investore: Cashing up to go shopping*".

Figure 2. Earnings Changes

		Old Forecasts (CPS)			New Forecasts (CPS)			Change (%)		
		NPAT	AFFO	DPS	NPAT	AFFO	DPS	NPAT	AFFO	DPS
APL	FY20	3.87	3.27	2.70	3.87	3.28	2.70	0%	0%	0%
	FY21	3.64	3.18	1.99	2.92	2.47	1.80	-20%	-23%	-10%
	FY22	3.51	3.04	2.73	3.35	2.88	2.71	-5%	-5%	-1%
ARG	FY20	6.57	5.97	6.35	6.57	5.97	6.35	0%	0%	0%
	FY21	6.87	6.22	4.66	6.49	5.84	4.67	-6%	-6%	0%
	FY22	6.90	6.23	5.60	6.90	6.24	5.62	0%	0%	0%
GMT	FY20	6.75	6.08	6.65	6.75	6.08	6.65	0%	0%	0%
	FY21	6.89	6.32	5.37	6.64	6.08	5.17	-4%	-4%	-4%
	FY22	7.17	6.67	6.01	7.09	6.61	5.95	-1%	-1%	-1%
IPL	FY20	7.58	6.90	7.60	7.58	6.90	7.60	0%	0%	0%
	FY21	7.94	7.37	7.60	7.47	6.89	7.60	-6%	-6%	0%
	FY22	8.18	7.56	7.69	8.03	7.41	7.60	-2%	-2%	-1%
KPG	FY20	7.10	6.46	3.53	7.10	6.46	3.53	0%	0%	0%
	FY21	7.29	6.68	5.01	5.93	5.32	4.80	-19%	-20%	-4%
	FY22	7.42	6.81	6.13	6.98	6.36	6.14	-6%	-7%	0%
PCT	FY20	6.60	5.95	6.25	6.16	5.51	5.65	-7%	-7%	-10%
	FY21	6.89	6.07	4.55	6.54	5.74	5.16	-5%	-5%	13%
	FY22	6.66	5.88	5.29	6.57	5.82	5.24	-1%	-1%	-1%
PFI	FY20	8.79	7.76	5.82	8.40	7.37	7.00	-4%	-5%	20%
	FY21	8.81	7.77	6.99	8.63	7.60	6.99	-2%	-2%	0%
	FY22	9.01	7.95	7.15	8.82	7.79	7.01	-2%	-2%	-2%
SPG	FY20	12.23	8.81	9.91	12.23	8.80	9.91	0%	0%	0%
	FY21	11.12	8.21	6.90	10.94	8.22	6.90	-2%	0%	0%
	FY22	12.25	9.57	8.61	11.59	9.19	8.27	-5%	-4%	-4%
VHP	FY20	9.80	7.60	8.75	9.87	7.77	8.56	1%	2%	-2%
	FY21	10.38	9.30	8.37	9.98	8.91	8.40	-4%	-4%	0%
	FY22	10.57	9.44	8.50	10.35	9.26	8.40	-2%	-2%	-1%

Source: Forsyth Barr analysis

Tenant support likely to be landlord funded

The impact of COVID-19 on LPV distributable income and distributions remains uncertain. Rent is a key fixed cost for many businesses. LPVs are being good corporate citizens and supporting tenants where required. However, anecdotes suggest some tenants are refusing to pay rent while some landlords are demanding rent from tenants who are unable to access their premises and trade. Data provided by property services companies suggests April and May rent collections have been 80%+ for industrial and office landlords vs. 50–60% for retail.

While the Government has stated it is working on a package to support tenants, final details of any scheme are yet to be released. The Government has suggested that the outcome may be a code of conduct similar to Australia.

The Australian code of conduct

Under the Australian Code of Conduct, near-term cash rent declines in line with the percentage fall in tenant turnover. This rent reduction is then evenly split between a waiver (i.e. not repaid later) and a deferral (i.e. required to be repaid later). The Code of Conduct focuses on Small to Medium Enterprises (SMEs) with turnover of <A\$50m, with larger tenants left to negotiate their own deals. The Code also:

- Imposes a freeze on rent increases for the duration of the pandemic as well as a reasonable subsequent period
- States that the landlord must share any reduction in outgoings with the tenant.

This results in:

- The landlord (rather than the Government) fully funding any reduction in rents
- A potential disconnect between cashflow and reported P&L earnings depending on accounting treatment of rent deferrals
- Higher working capital and increased receivables risk if tenants default on payment of deferred rent.

Given NZ's more stringent lock down requirements, especially over Level 4 and into Level 3 for retail, replicating this code would see cash rent payments over higher Alert Levels reduced to close to zero for some tenants. Scentre Group (SCG.AX) is applying the Australian Code of Conduct to tenants in the shopping malls it owns in NZ.

Tenant support may equate to 1–14% of gross rent

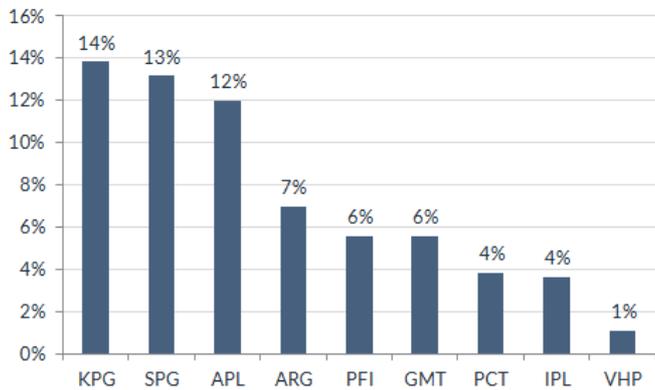
With landlords currently providing tenant support on a case by case basis in NZ and the Government suggesting it may follow Australia's lead on commercial rents, we believe landlords will ultimately fund any rent reductions. We have attempted to quantify the level of rent support LPVs potentially provide tenants. We have assumed a level of rent support provided to each occupier type based on our assessment of tenants ability to trade during each Alert Level coupled with survey and anecdotal evidence. Our assumptions range from 100% abatement of shopping mall rent at Level 4 to zero rent abatement for essential services such as Government and Supermarkets. Our assumptions are set out in Figure 3. We have also cross-checked our output against guidance provided by SPG (13–18% of gross rent) and ARG (6–10% of gross rent) who have relatively diversified portfolios. Our estimates are towards the lower end of this guidance.

We estimate tenant support may impact gross rent by 1–14%. As expected, LPVs with high retail exposure are likely to have to provide a higher level of support while the impact is lower for industrial (particularly logistics) and prime office with strong lease covenants (i.e. Government and bank tenants). We acknowledge there is a wide range of actual outcomes vs. our simplified scenario.

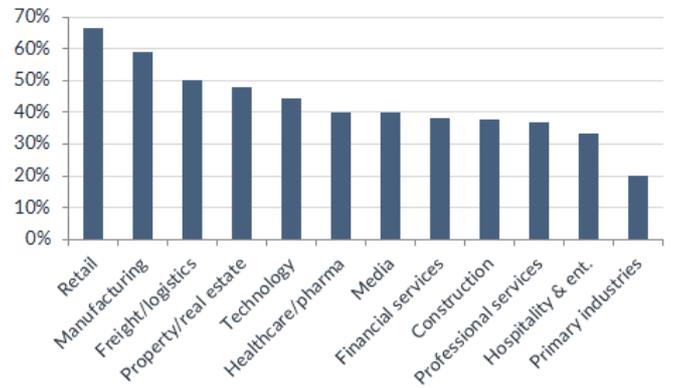
Figure 3. Rent reduction estimates under NZ Government alert system

	Level 4	Level 3	Level 2	Level 1
Retail				
Large Format Retail - Supermarkets	0%	0%	0%	0%
Large Format Retail - Other	100%	50%	25%	0%
Shopping malls	100%	75%	25%	0%
Office				
Central and Local Government	0%	0%	0%	0%
Professional services	50%	0%	0%	0%
Other	50%	50%	0%	0%
Industrial				
Warehousing/logistics	50%	0%	0%	0%
Light industrial/manufacturing	75%	25%	0%	0%
Other				
Medical	50%	0%	0%	0%

Source: Forsyth Barr analysis

Figure 4. Estimated rent abatement in CY20 (% of gross rent)


Source: Forsyth Barr analysis

Figure 5. FB survey: Rent holidays by sector


Source: Forsyth Barr analysis

Market rent, NOI, and vacancy

Market rents will fall

As with past cycles and recessions we are likely to see a significant adjustment in markets rents as economic conditions weigh on occupier demand. Downsizing of existing requirements, revisited growth ambitions, and changed work habits (increased working from home, potentially offset by a need for great physical distancing) will impact demand across all sub-sectors. In recessionary periods market rents typically take 2-3 years to bottom.

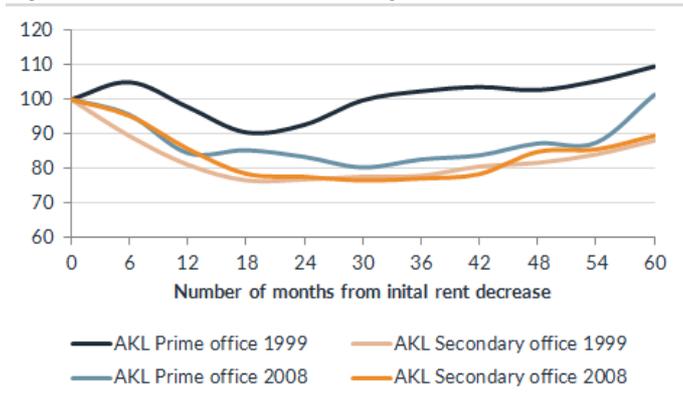
Office: The office market has been relatively well managed this cycle in our view in terms of supply and demand, and the increased use of structured rents and longer lease terms. Commercial Bay is the only new major CBD office tower opening late this cycle. Trends such as activity based working have already been reducing demand over the last five years and large occupiers such as law firms have already sought less space and more efficient floor layouts. Approvals data also highlights new supply has moderated as rental growth has flattened. Secondary and shared office are likely to see larger impacts, in our view. Prior rent decreases have been 10-20% for prime and 25% for secondary (Figure 6).

Industrial: Retailers are reporting online sales have more than doubled and while this is likely to drop back once restrictions are eased, we believe this sales channel will continue to rise in consumer preference. The demand for logistics and warehouse space should remain relatively robust. That said, there had already been a significant increase in new warehousing and storage being built in Auckland with consents >300k sqm in 2019/20 vs. c.200k sqm p.a. the prior 5 years. GMT has also recently increased its speculative developments. Prior rent decreases have been 5-15% for prime and 15-25% for secondary (Figure 7). Industrial rent is less volatile through the cycle given a tighter matching of supply with demand due to shorter lead times to add new space. High land prices have also had an impact on development.

Shopping centres: While major regional shopping centre rents did not fall post GFC, regional shopping centre rents have corrected 5-20% in prior recessionary periods (Figure 8). Adding to the pressure this cycle is a significant increase in Auckland shopping centre space with the completion of Newmarket, Sylvia Park, and Commercial Bay developments. Shopping centre landlords will also need to carefully balance rental levels against vacancy and some have suggested rent being more closely linked to retailers turnover. Smaller speciality tenants are likely to be more problematic, as such we believe dominant centres with a higher proportion of national and international retailers will hold up better. While many smaller suburban malls continue to have a challenging outlook, there is not much of this space in the NZ LPVs.

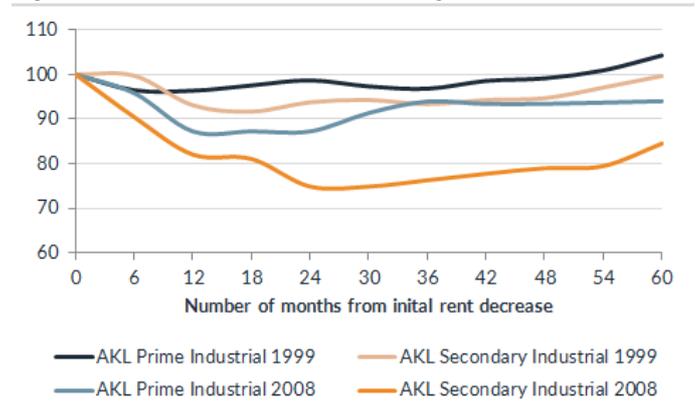
Large format retail (LFR): LFR should be relatively resilient given the typically large corporate nature of the tenants. Furthermore, listed LFR assets are mostly underpinned by supermarket leases. Prior rent decreases have been 0-5% for this property type. However, tenants remain in a strong bargaining position with landlords in terms of lease structures going forward.

Figure 6. Auckland office rents during downturn



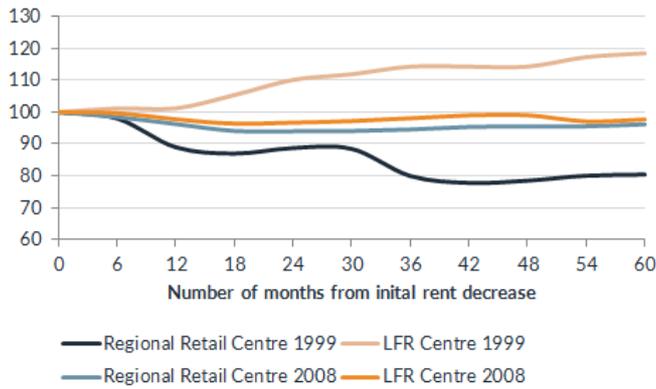
Source: Forsyth Barr analysis, CBRE
Note: Data indexed to 100

Figure 7. Auckland industrial rents during downturn



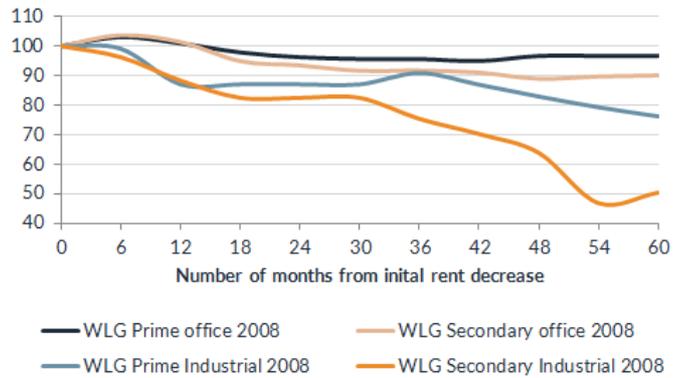
Source: Forsyth Barr analysis, CBRE
Note: Data indexed to 100

Figure 8. Auckland retail rents during downturn



Source: Forsyth Barr analysis, CBRE
Note: Data indexed to 100

Figure 9. Wellington rents during downturn



Source: Forsyth Barr analysis, CBRE
Note: Data indexed to 100

Fixed rent reviews lessen the impact on NOI

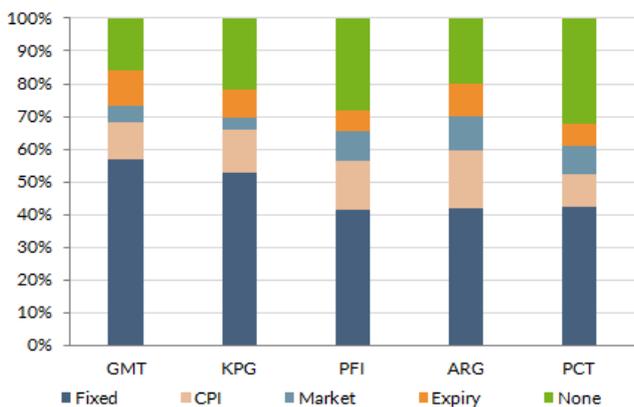
While market rents are expected to fall varying degrees across all sub-sectors, the increased prevalence of annual fixed rent increases (vs. market adjustments which were more common 12 years ago) limits the immediate impact to NOI. The indicative example of a 10-year lease with fixed annual increases shown in Figure 11 highlights how the structured payments smooth a cycle.

However, at a market rent review point (typically every 5/10 years depending on the lease) or expiry there may be negative reversion to market. The headwind of negative leasing spreads remains until all leases have been re-set. LPVs with short weighted average lease terms (WALTs) will see a faster re-setting of rents impacting near-term cash flows but with eventual growth from this new level. This compares to LPVs with longer WALTs who will see better near-term cashflows but with the potential for large rent reversions if they find themselves in a sustained over rented position.

Furthermore, with solid market rent growth, particularly in the Wellington office and Auckland Industrial markets, pre COVID-19 pockets of LPV portfolios were under rented. These under renting positions will be helpful to cushioning any initial decline in market rents. Figure 13 highlights various under/over renting positions where disclosed.

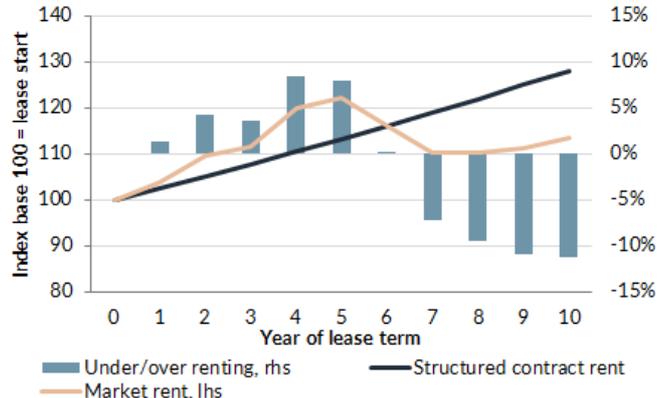
Our analysis of portfolio rent growth outcomes based on lease review mechanisms (as summarised in Figure 12) suggests a 10% reduction in market rents is required for growth to turn negative for most LPVs. We have reduced rent growth to zero across all LPVs for the next 24 months.

Figure 10. Typical rent review mix



Source: Forsyth Barr analysis

Figure 11. Rent review mechanism



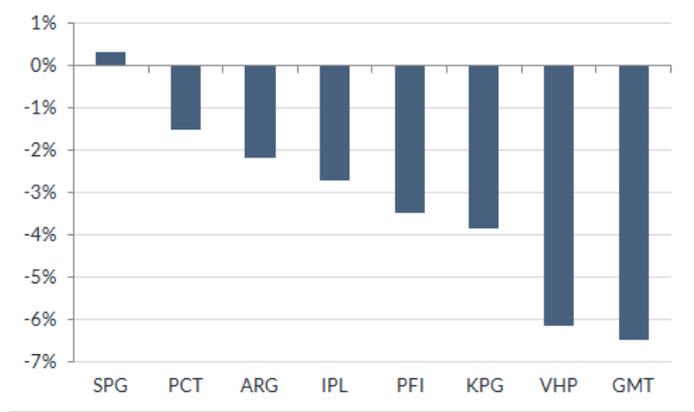
Source: Forsyth Barr analysis

Figure 12. Portfolio rent sensitivity to market reviews



Source: Forsyth Barr analysis

Figure 13. Estimated over/under renting



Source: Forsyth Barr analysis, Company reports (as at last reported result)

Vacancy will increase

Medium term we expect a soft economic backdrop to weigh on occupier demand reducing market rent and increasing vacancy. Last cycle LPV portfolios were more resilient than the broader market.

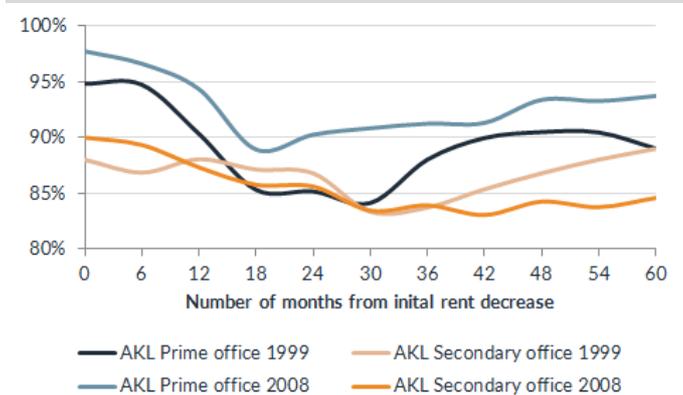
Listed **office** occupancy dropped to the low 90% level last cycle. PCT, KPG, and ARG's office portfolios have significant government and large corporate tenants, which provides some insulation. In a downturn or when there is a sharp increase in supply you can get hidden vacancy in the form of tenants subleasing some of their space. Over time this has a softening impact on market rental levels. Another feature will be an increased level of incentives to attract and retain tenants which, while may protect face rents to a degree, lowers net effective rental levels.

Quality listed **industrial** occupancy only dropped to around the ~95% level last cycle and the LPVs in this space proved resilient. With the demand for logistics and warehouse space likely to remain robust, we expect that occupancy in the industrial sub-sector will hold up in a similar fashion to previous cycles.

Retail vacancy remained relatively unchanged last cycle. We believe this cycle will be different given the very sharp economic correction, greater supply, increased online purchasing, and consumer behavioural change, particularly with respect to social distancing and large crowds. That said, shopping centre occupancy may stay high with landlords balancing vacancy by reducing rents in order to maintain the vibrancy of their malls, leaving the major tenants are in a powerful position in terms of rental negotiation.

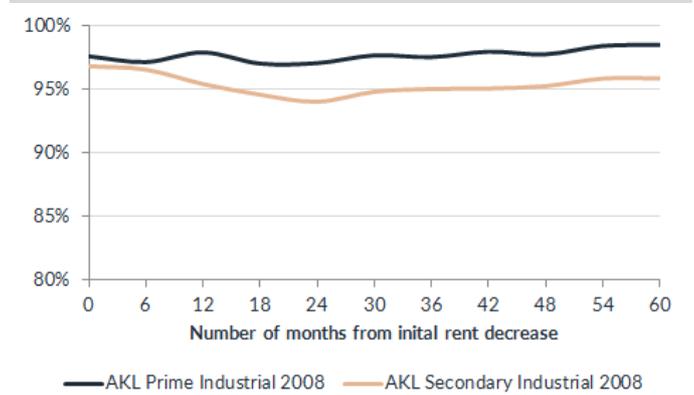
Where leases are not backed by strong tenant covenants we have assumed vacancy increases 10% in office, 5% in industrial, and 10% in retail.

Figure 14. Auckland office occupancy during downturn



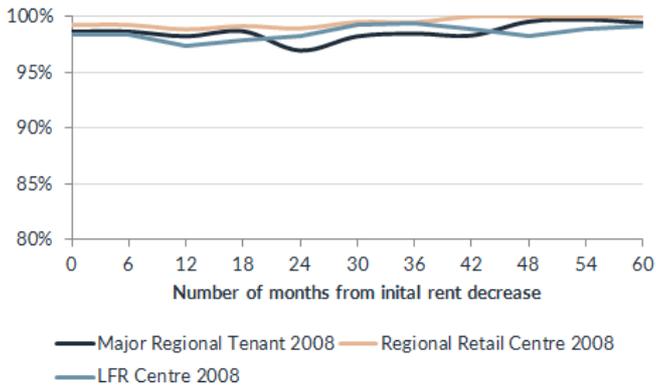
Source: Forsyth Barr analysis, CBRE

Figure 15. Auckland industrial occupancy during downturn



Source: Forsyth Barr analysis, CBRE

Figure 16. Auckland retail occupancy during downturn



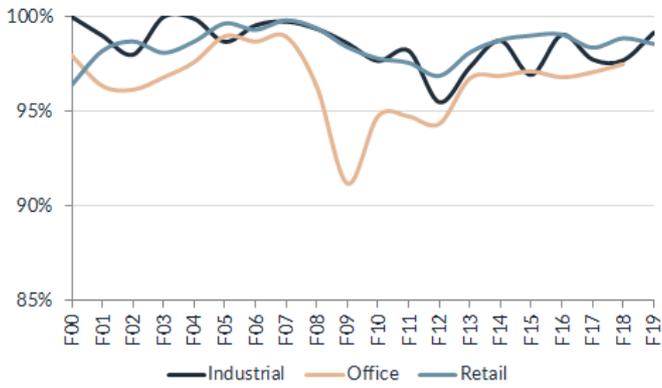
Source: Forsyth Barr analysis, CBRE

Figure 17. Wellington office occupancy during downturn



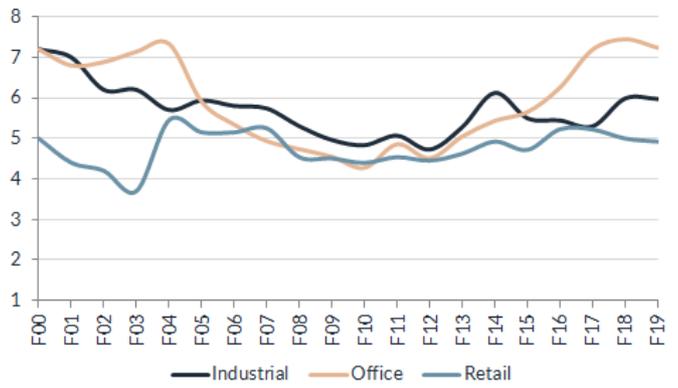
Source: Forsyth Barr analysis, CBRE

Figure 18. LPV sector occupancy



Source: Forsyth Barr analysis

Figure 19. LPV sector WALT



Source: Forsyth Barr analysis

Depreciation and interest benefits provide some offset

Structure depreciation benefits AFFO 2–9%

The ability for asset owners to depreciate building structure was removed in 2011. This change resulted in depreciation for tax purposes roughly halving across the LPV sector. As part of the initial stimulus package announced by the NZ Government in mid-February the ability for landlords to depreciate commercial building structure was reinstated from April 2020. The capital cost of earthquake strengthening work is now also able to be depreciated.

To calculate the benefits of this tax change we need to ascertain the tax cost base that relates to the structure. This varies greatly between LPVs with key differences being:

- Pre-2011 assets that have been partly depreciated
- The value mix between land, fit out, and structure for retail, office, and industrial assets
- The scale of asset remixing and/or development undertaken since 2011.

Fortunately a few LPVs (ARG, IPL, SPG, and PFI) have already provided some guidance regarding the impact of these changes which has allowed us to cross check.

Our estimates of the LPVs undepreciated structure and AFFO benefits are outlined in Figure 20. IPL receives the largest benefit with all assets being purchased post 2011, however, this has largely offset dilution from the recent equity raise. KPG and PCT have been active in recycling assets and development, and have not been able to depreciate the structure of a large portion of their assets and as such also receive a significant benefit. Only 25% of VHP's portfolio is located in NZ, hence, the small benefit vs. peers.

While this change benefits LPV cash flow and distributable earnings near-term it is clawed back via greater depreciation recovery when assets are sold.

Figure 20. Tax benefit from depreciation reinstatement

NZ\$m	APL	ARG	GMT	IPL	KPG	PCT	PFI	SPG	VHP ¹
Current portfolio value	141.8	1,784.1	3,023.1	887.7	3,100.0	3,440.9	1,522.7	863.4	1,938.6
Estimated undepreciated structure cost base	54.5	464.3	710.4	392.9	1,223.8	1,047.4	339.7	196.4	185.1
% of current portfolio value	38%	26%	24%	44%	39%	30%	22%	23%	10%
Depreciation (2%)	1.1	9.3	14.2	7.9	24.5	20.9	6.8	3.9	3.7
Tax shield (28% tax rate)	0.3	2.6	4.0	2.2	6.9	5.9	1.9	1.1	1.0
% change in AFFO	5.9%	5.1%	4.6%	9.0%	6.6%	7.4%	4.9%	3.3%	2.4%

Source: Forsyth Barr analysis, [1] Undepreciated structural cost base of NZ assets only

Lower floating debt costs benefits AFFO 0-3%

In response to the deteriorating economic outlook the RBNZ cut the OCR by 75bp on 16 March. This has seen the BKBM, a key benchmark used as a base for commercial lending, reduce by a similar magnitude. Interest costs should reduce, however, near-term benefits will vary depending on the level of hedging in place.

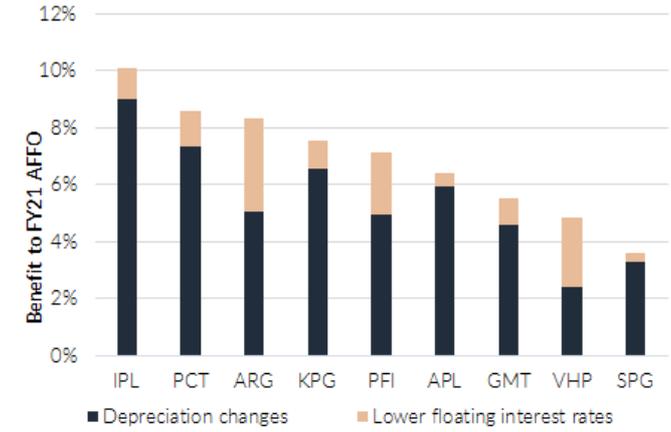
Figure 21 sets out our calculation of the potential benefits of lower interest costs which we estimate supports AFFO by 0–3%.

Figure 21. Interest savings from lower debt costs

NZ\$m	APL	ARG	GMT	IPL	KPG	PCT	PFI	SPG	VHP
Total debt drawn	48.5	650.0	556.0	344.7	997.0	874.2	415.6	210.0	680.5
% of current borrowings fixed	90%	49%	70%	84%	80%	78%	59%	90%	70%
Total floating borrowings	4.9	331.5	166.8	55.2	199.4	192.3	170.4	21.0	204.2
Interest savings net of tax	0.0	1.6	0.8	0.3	1.0	1.0	0.9	0.1	1.0
% change in AFFO	0.5%	3.2%	1.0%	1.1%	1.0%	1.2%	2.2%	0.3%	2.4%

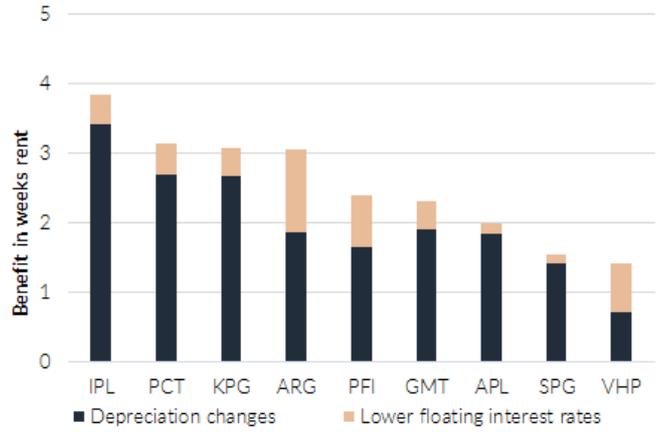
Source: Forsyth Barr analysis

Figure 22. AFFO benefit



Source: Forsyth Barr analysis

Figure 23. Weeks in rent benefit



Source: Forsyth Barr analysis

Property News for April 2020

NZ listed property portfolio activity

APL has announced its 31 March 2020, revaluations, which saw asset values decline by -11% yoy. APL's gearing increases to 35% and NTA falls to 57cps (versus 1H20 NTA of 71cps). APL also announced it will not be paying a final quarter dividend, and FY21 dividends will be considered on a quarterly basis. [16 April 2020]

KPG announced its 31 March 2020, revaluations, which has resulted in an -8.5% (-NZ\$290m) reduction in the fair value of its property portfolio. Following the revaluation, KPG's portfolio cap rate softened by -12bps from 5.99% to 6.11% and decreased NTA by -18cps from \$1.42 to \$1.24 per share. Gearing has increased to 32%. [20 April 2020]

ARG announced its 31 March 2020, revaluations, which saw its portfolio value lift +3.6% yoy (+NZ\$61.7m). Relative to Sep-19 desktop revaluations, the valuation was broadly flat. NTA lifts from NZ\$1.28 to NZ\$1.30. [23 April 2020]

IPL reported a revaluation gain of +NZ\$7.4m (+1.0%) for the year ended 31 March 2020. Additionally, the acquisition of three assets from SPG is now unconditional. Cap rates were broadly unchanged at 6.06% (6.04% FY19). [28 April 2020]

Other NZ listed property news

ARG provided an update to highlight its initial expectations regarding rent relief and the reintroduction of depreciation allowances. Subject to change, ARG estimates a potential reduction in net distributable income in FY21 in the order of NZ\$5-8m due to short term rent risks. This will be partially offset by the depreciation tax benefits of approximately NZ\$2.7m. ARG also reaffirmed its fourth quarter dividend. [2 April 2020]

VHP held a special meeting on 2 April 2020, where shareholders voted on management's proposal for a foreign exempt listing on the ASX. 66.2% of shareholders voted in favour of the proposal, falling short of the 75% threshold required for the proposal to proceed. The NZ\$8m of costs associated with the proposal will be expensed during this half year. [2 April 2020]

IPL has announced that it has appointed Adrian Walker to its board as an Independent Director. Adrian will be the third independent director of IPL, following the resignation of Director Kate Healy in 2019. Adrian previously spent twenty years as the General Manager of Property at Progressive Enterprises. [3 April 2020]

KPG announced that it will not be proceeding with the final dividend for FY20. It has also implemented a cost savings program which has seen the stoppage of non-essential capex, a review of all opex, and 20% pay reductions for board members and some of the senior management team. [6 April 2020]

VHP has extended \$107m of near-term debt expiries, leaving it with no debt expiring before March 2021. VHP currently has NZ \$254m in undrawn facilities. Additionally, VHP has settled on the acquisition of three Australian aged care assets (announced on 19-Feb-20). The three properties are leased to Bolton Clarke for a WALT of 16.5 years. [9 April 2020]

PFI has withdrawn all forward looking statements given the uncertain economic environment. PFI stated that it intends to continue to pay dividends on a quarterly basis, but cannot currently confirm the amount for the first quarter, or the year. PFI expects to make an announcement on 8 May 2020. [15 April 2020]

GMT has announced that it will report its FY20 annual result on 28 May 2020. [24 April 2020]

Following its in-line revaluations, IPL commenced a capital raise of up to NZ\$100m to provide funding flexibility to continue IPL's growth strategy. NZ\$85m was raised via a successful placement, which was fully underwritten. The remaining NZ\$15m will be raised through a share purchase plan. [29 April 2020]

AUG provided an update to highlight it has extended the settlement date for its purchase of the Anglesea Medical Centre, to 30 September 2020. It has paid a non refundable deposit of NZ\$2.75m, and if settlement does not occur, its liability is capped at an additional NZ\$1.74m. Additionally, the purchase of the Albany Lifestyle Centre, which was to be purchased and included in the Augusta Property Fund, has been cancelled. As a result, the NZ\$4.525m deposit funded by AUG has been forfeited. [29 April 2020]

Other commercial property news

The Caughey Preston rest home property in Remuera has been sold to a local buyer during the Level 4, COVID-19 lockdown. While the buyer and price has not been disclosed, the site had a CV of NZ\$100M. [24 April 2020]

Figure 24. Sector total returns (as at 30 April 2020)

Company	Code	Price 30-Apr	Market Cap	Gr. Div w/imp	Month return	Rank	Quarter return	Rank	Year return	Rank	YTD return	Rank
Asset Plus	APL	\$0.415	\$65m	-	+6.4%	4	-32.2%	7	-24.7%	9	-32.2%	7
Argosy Property	ARG	\$1.060	\$877m	-	+17.8%	1	-24.6%	6	-14.7%	6	-21.9%	6
Augusta	AUG	\$0.820	\$104m	-	-3.5%	9	-58.4%	10	-23.2%	8	-45.3%	10
CDL Investments	CDI	\$0.800	\$217m	\$0.05	+19.5%	n/a	-7.8%	n/a	+13.2%	n/a	-8.8%	n/a
Goodman Prop Trust	GMT	\$2.255	\$3,104m	-	+5.1%	5	-1.8%	1	+35.4%	1	+2.6%	1
Investore	IPL	\$1.710	\$602m	-	+3.6%	6	-7.4%	2	+9.8%	4	-4.8%	2
Kiwi Property Group	KPG	\$0.965	\$1,514m	-	+2.7%	8	-38.3%	9	-33.8%	10	-38.1%	9
Precinct Properties NZ	PCT	\$1.590	\$2,003m	-	-6.7%	10	-14.5%	5	+3.2%	5	-12.4%	4
Property for Industry	PFI	\$2.170	\$1,115m	-	+7.4%	3	-12.0%	3	+14.3%	3	-10.0%	3
Stride Property Group	SPG	\$1.510	\$555m	-	+10.2%	2	-36.0%	8	-21.1%	7	-34.9%	8
Vital Healthcare Property Trust	VHP	\$2.405	\$1,063m	-	+2.8%	7	-12.5%	4	+17.7%	2	-13.7%	5
S&P/NZX All Real Estate Cap		1,205.5			+3.7%		-20.0%		-5.6%		-18.1%	
S&P/NZX All Real Estate Gr.		1,496.6			+3.7%		-19.4%		-1.9%		-17.4%	
S&P/NZX All Real Estate Gr. w/imp		1,566.1			+3.7%		-19.3%		-1.1%		-17.3%	
S&P/NZX 50 Gross		10,532.1			+7.5%		-10.1%		+5.2%		-8.4%	
S&P/NZX 50 Gross w/imp		12,841.4			+7.5%		-9.9%		+6.1%		-8.1%	

Source: Forsyth Barr analysis, iress

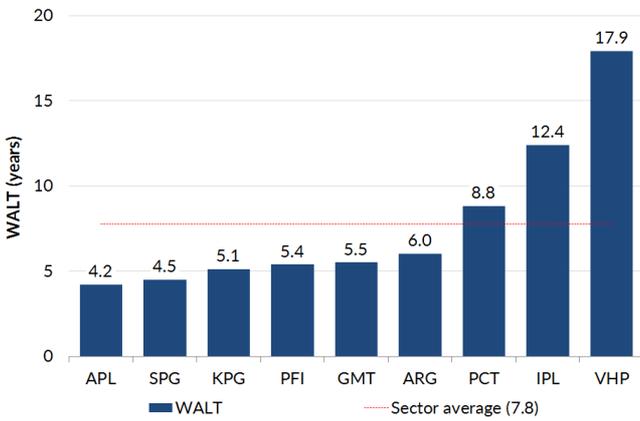
Portfolio Summary

Figure 25. Portfolio metrics summary

Company	Value (NZ \$m)	NLA (000sqm)	No. assets	No. tenants	Market cap rate (%)	Average asset size (NZ\$m)	WALT (years)	Occupancy (%)	Vacancy	FY1 expiry	FY2 expiry	Vacancy + FY1-FY2 expiry
APL	142	96	4	48	6.77%	35	4.2	97.2%	2.8%	8.0%	7.0%	17.8%
ARG	1,784	558	59	nd	6.13%	30	6.0	97.6%	2.4%	5.2%	9.7%	17.3%
GMT	2,878	1,040	10	171	5.30%	288	5.5	99.5%	0.5%	2.0%	11.0%	13.5%
IPL	761	208	40	78	6.24%	19	12.4	99.7%	0.3%	2.1%	2.1%	4.5%
KPG	3,100	440	12	892	5.99%	258	5.1	99.4%	0.6%	9.0%	9.0%	18.6%
PCT	2,794	235	14	nd	5.70%	200	8.8	99.0%	1.0%	7.0%	4.0%	12.0%
PFI	1,462	809	94	144	5.75%	16	5.4	99.0%	1.0%	6.5%	6.6%	14.1%
SPG	999	254	26	391	5.76%	38	4.5	98.2%	1.8%	3.8%	13.4%	19.0%
VHP	1,930	nd	42	178	5.52%	46	17.9	99.5%	0.5%	0.4%	0.3%	1.2%
Total	15,850	3,640	301	1,902								
Average	1,761	455	33	272	5.91%	103	7.8	98.8%	1.2%	4.9%	7.0%	13.1%

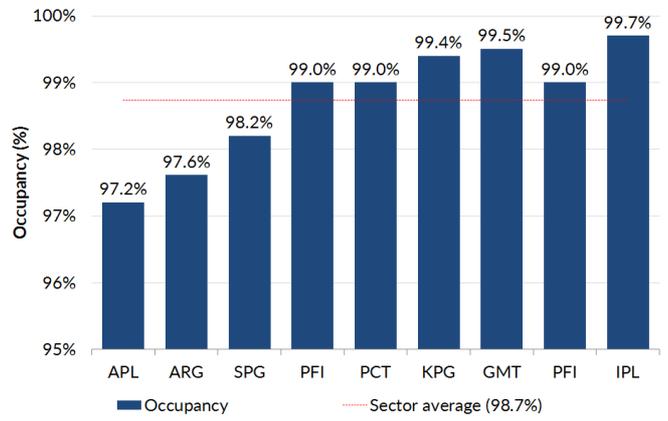
Source: Forsyth Barr analysis

Figure 26. Sector WALT (weighted average lease term)



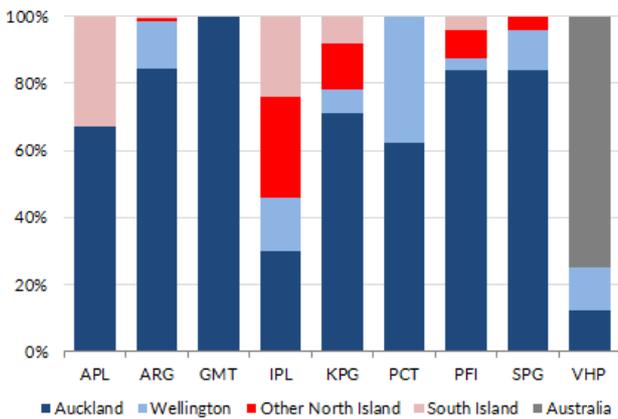
Source: Forsyth Barr analysis, Company Reports

Figure 27. Sector occupancy



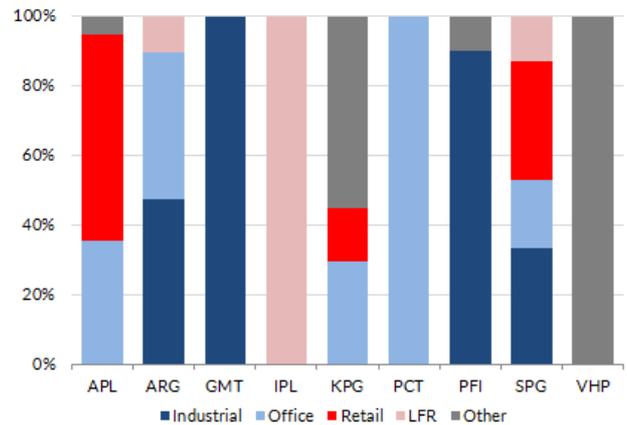
Source: Forsyth Barr analysis, Company Reports

Figure 28. Geographical diversification



Source: Forsyth Barr analysis, Company Reports

Figure 29. Sector diversification



Source: Forsyth Barr analysis, Company Reports

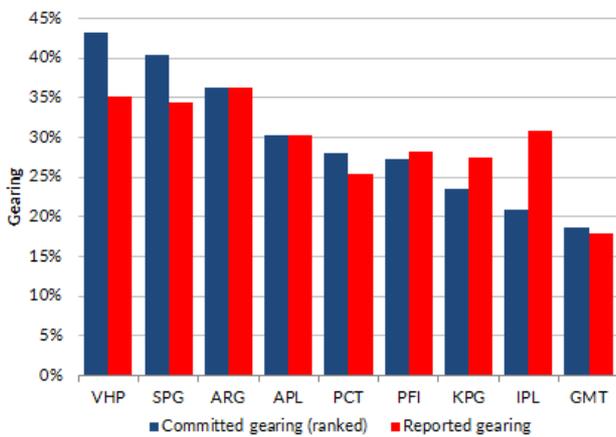
Balance Sheet summary

Figure 30. Balance Sheet summary

	As at	Reported gearing	Committed gearing	Target gearing	Bank covenant	Bank facilities (NZ\$m)	Issued Bonds (NZ\$m)	Facility capacity (NZ\$m)	Term - bank (years)	Term - bonds (years)	Term - weighted (years)
APL	Mar-20	30.2%	30.2%	35-40%	50%	75	-	27	2.2	-	2.2
ARG	Sep-19	36.2%	36.3%	30-40%	50%	585	200	135	2.7	6.3	3.6
GMT	Sep-19	17.9%	18.7%	25-35%	50%	400	556	400	2.6	4.6	3.8
IPL	Sep-19	30.9%	21.0%	<48%	65%	270	100	65	1.5	4.1	2.2
KPG	Sep-19	27.4%	23.5%	25-35%	45%	825	475	303	3.5	3.7	3.6
PCT	Dec-19	25.4%	28.1%	<37.5%	50%	610	586	322	3.3	5.1	4.2
PFI	Dec-19	28.2%	27.3%	<40%	50%	350	200	134	2.9	5.1	3.7
SPG	Sep-19	34.4%	40.4%	38-42%	50%	400	-	67	1.8	-	1.8
VHP	Dec-19	35.1%	43.2%	na	50%	870	-	225	2.0	-	2.0
Average/total		29.5%	28.0%		51.1%	4,385	2,117	1,678	2.5	3.2	3.0

Source: Forsyth Barr analysis, Company Reports

Figure 31. Committed gearing



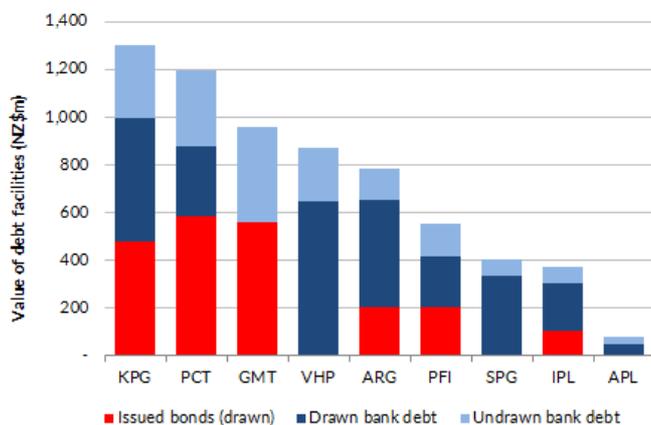
Source: Forsyth Barr analysis, Company Reports

Figure 32. Sector gearing



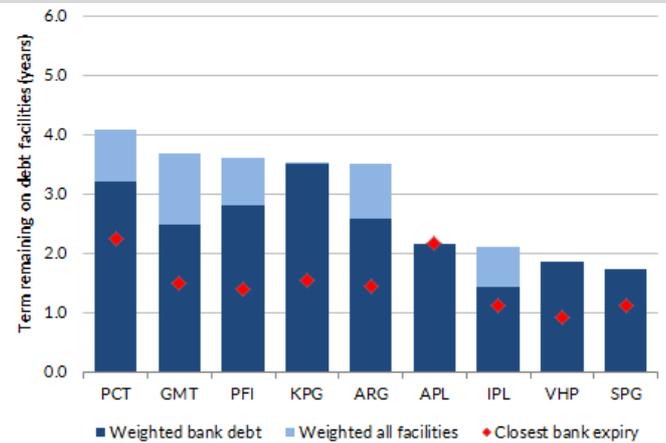
Source: Forsyth Barr analysis

Figure 33. Summary of debt facilities



Source: Forsyth Barr analysis, Company Reports

Figure 34. Funding tenor at 30 April 2020



Source: Forsyth Barr analysis, Company Reports

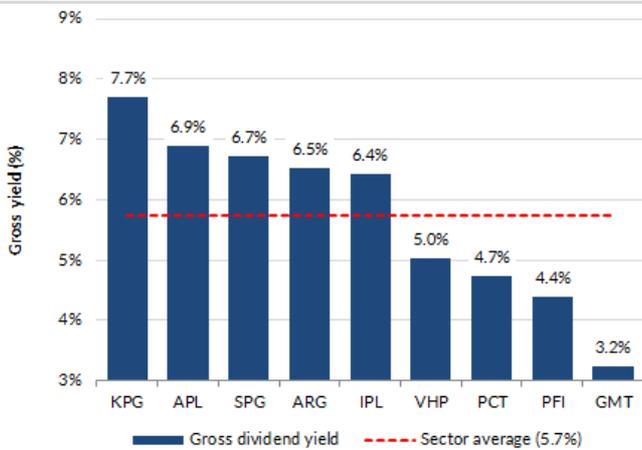
Relative value summary

Figure 35. Relative valuation metrics – 12 May 2020

Company	Rating	Value 12-May	Cash yield	Gross yield	P / NTA ¹	PE	EV/ EBITDA
Asset Plus	UNDERPERFORM	0.40	4.8%	6.9%	0.69x	13.3x	16.4x
Argosy Property	NEUTRAL	1.05	4.6%	6.5%	0.80x	16.0x	18.3x
Augusta Capital	RESTRICTED	0.66	n/a	n/a	n/a	n/a	n/a
Goodman Property	NEUTRAL	2.32	2.3%	3.2%	1.34x	34.6x	29.6x
Investore	OUTPERFORM	1.69	4.5%	6.4%	1.01x	22.4x	19.1x
Kiwi Property Group	UNDERPERFORM	0.92	5.4%	7.7%	0.74x	15.2x	16.6x
Precinct Properties	NEUTRAL	1.58	3.3%	4.7%	1.07x	24.3x	24.4x
Property for Industry	OUTPERFORM	2.28	3.1%	4.4%	1.11x	26.9x	22.4x
Stride Property	NEUTRAL	1.5	4.7%	6.7%	0.76x	15.3x	16.6x
Vital Healthcare	OUTPERFORM	2.39	3.5%	5.0%	1.01x	24.0x	22.8x
S&P/NZX Real Estate Gross		1,497	3.5%	5.0%	1.05x	24.9x	23.1x
S&P/NZX50 Gross		10,819	2.5%	3.2%	1.77x	30.3x	15.6x

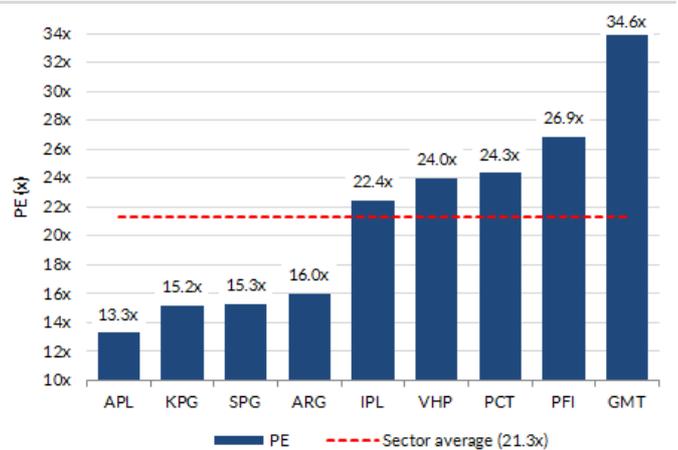
1: NTA is adjusted. 2: Index metrics reflect average constituent metrics weighted by market capitalisation. Source: Forsyth Barr analysis, Company Reports

Figure 36. Gross Yield



Source: Company reports, Forsyth Barr analysis, Thompson Reuters

Figure 37. PE Ratio



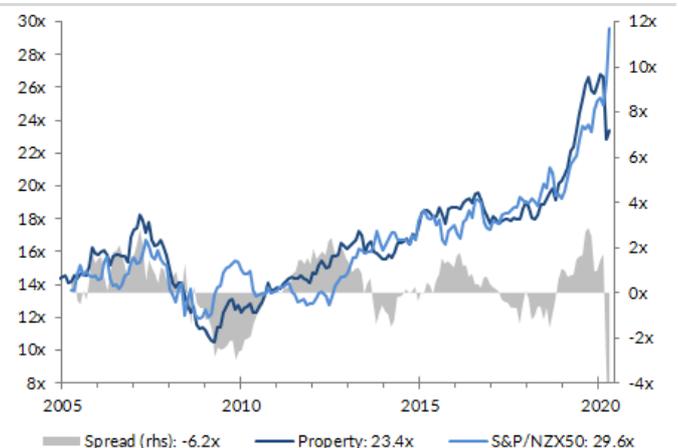
Source: Company reports, Forsyth Barr analysis, Thompson Reuters

Figure 38. Sector gross yield versus S&P/NZX50 gross yield



Source: Company reports, Forsyth Barr analysis, IRESS

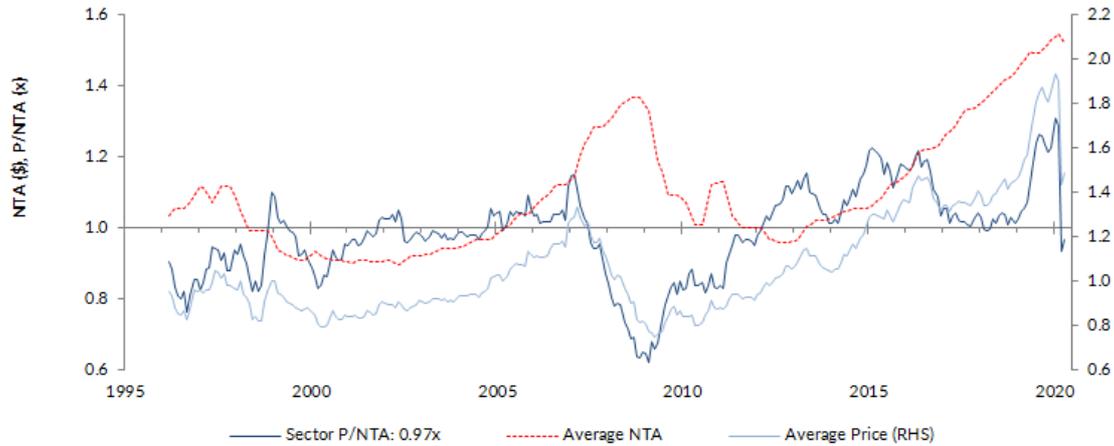
Figure 39. Sector PE versus S&P/NZX50 PE



Source: Forsyth Barr analysis, Company reports, IRESS

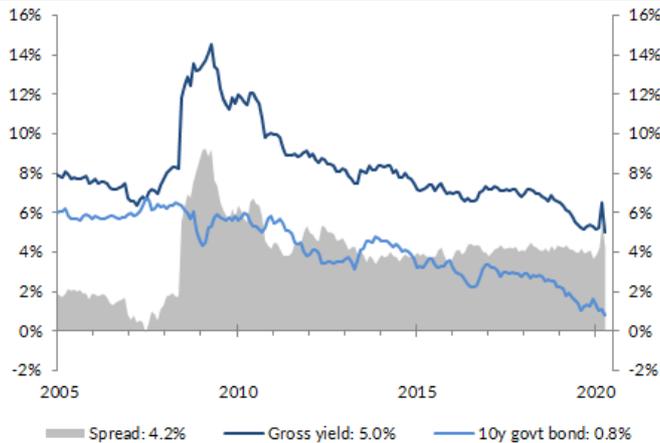
Key monthly charts and tables

Figure 40. Sector P/NTA, NTA and price



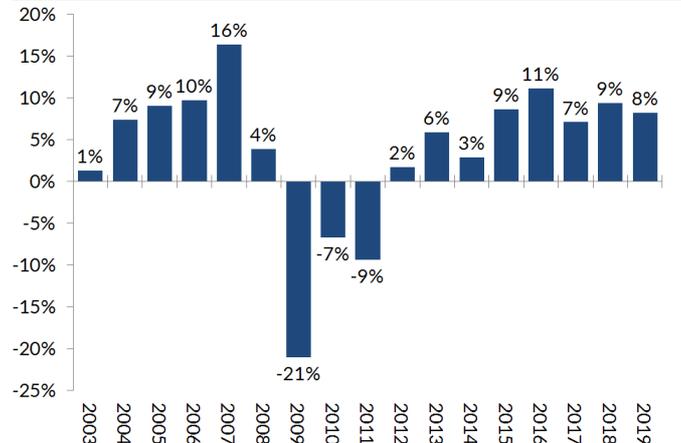
Note: Series represents simple average of price to reported NTA for core LPVs (ARG, GMT, IPL, KPG, PCT, PFI). Source: Forsyth Barr analysis, IRESS, Forsyth Barr analysis.

Figure 41. Yield spread - gross dividend yields vs 10 year bond



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

Figure 42. Sector NTA growth



Note: Sector average is weighted by market capitalisation. Source: Forsyth Barr analysis

Figure 43. Dividend summary

Company	FY17 DPS	FY18 DPS	FY19 DPS	FY20 DPS	12-mth DPS	Price 12-May	Cash yield	Gross yield ¹ 10.5% MTR	Gross yield ¹ 17.5% MTR	Gross yield ² 30.0% MTR	Gross yield ³ 33.0% MTR
APL	3.60	3.60	3.60	2.70	1.90	\$0.40	4.8%	6.0%	6.3%	6.9%	7.2%
ARG	6.10	6.20	6.28	6.35	4.78	\$1.05	4.6%	5.7%	5.9%	6.5%	6.8%
GMT	6.65	6.65	6.65	6.65	5.26	\$2.32	2.3%	2.8%	3.0%	3.2%	3.4%
IPL	0.00	7.46	7.60	7.60	7.60	\$1.69	4.5%	5.6%	5.8%	6.4%	6.7%
KPG	6.72	6.85	6.95	3.53	4.95	\$0.92	5.4%	6.7%	7.0%	7.7%	8.0%
PCT	5.60	5.80	6.00	5.65	5.23	\$1.58	3.3%	4.1%	4.3%	4.7%	4.9%
PFI	7.45	7.55	7.60	7.00	7.00	\$2.28	3.1%	3.8%	4.0%	4.4%	4.6%
SPG	9.96	9.91	9.91	9.91	7.06	\$1.50	4.7%	5.9%	6.1%	6.7%	7.0%
VHP	8.50	8.56	8.75	8.56	8.42	\$2.39	3.5%	4.2%	4.4%	5.0%	5.3%
Avg							4.0%	5.0%	5.2%	5.7%	6.0%
Weighted avg							3.5%	4.3%	4.5%	5.0%	5.2%

Source: Forsyth Barr analysis, Company reports

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

Figure 44. EPS and AFFO summary (Forsyth Barr estimates)

Company	FY18 EPS	FY19 EPS	FY20 EPS	12-mth fwd EPS	PE	FY18 AFFO	FY19 AFFO	FY20 AFFO	12-mth fwd AFFO	AFFO yield
APL	3.88	3.19	3.87	2.97	13.3x	3.80	2.69	3.28	2.51	+6.36%
ARG	6.62	6.94	6.57	6.54	16.0x	6.04	6.25	5.97	5.88	+5.63%
GMT	7.24	7.02	6.75	6.69	34.6x	6.35	6.32	6.08	6.14	+2.65%
IPL	7.85	8.01	7.58	7.53	22.4x	7.07	7.53	6.90	6.95	+4.11%
KPG	7.46	6.99	7.10	6.05	15.2x	6.82	6.41	6.46	5.44	+5.92%
PCT	6.32	6.21	6.16	6.49	24.3x	5.80	6.02	5.51	5.71	+3.61%
PFI	8.38	8.54	8.40	8.48	26.9x	7.46	7.68	7.37	7.45	+3.27%
SPG	10.63	10.62	10.47	9.83	15.3x	9.12	8.87	8.80	8.33	+5.55%
VHP	10.60	9.51	9.87	9.96	24.0x	7.45	5.86	7.77	8.76	+3.66%
Avg					21.3x					+4.53%
Weighted avg					24.9x					+3.87%

Source: Forsyth Barr analysis, Company Reports

Figure 45. Peer multiples

Company	P / NTA	P / NAV	PE	P / AFFO	Cash yield	AFFO yield	Gross yield	AFFO Pay-out
APL	-30.7%	-39.7%	13.3x	15.7x	4.8%	6.4%	6.9%	76%
ARG	-19.6%	+2.5%	16.0x	17.8x	4.6%	5.6%	6.5%	81%
GMT	+34.0%	+21.8%	34.6x	37.7x	2.3%	2.7%	3.2%	86%
IPL	+0.6%	+1.7%	22.4x	24.3x	4.5%	4.1%	6.4%	109%
KPG	-25.8%	-19.3%	15.2x	16.9x	5.4%	5.9%	7.7%	91%
PCT	+6.8%	-1.3%	24.3x	27.7x	3.3%	3.6%	4.7%	92%
PFI	+10.9%	+10.7%	26.9x	30.6x	3.1%	3.3%	4.4%	94%
SPG	-23.9%	-7.2%	15.3x	18.0x	4.7%	5.6%	6.7%	85%
VHP	+1.3%	+1.3%	24.0x	27.3x	3.5%	3.7%	5.0%	96%
Average	-5.2%	-3.3%	21.3x	24.0x	4.0%	4.5%	5.7%	90%
Core average¹	-2.0%	+1.3%	22.3x	25.0x	3.9%	4.3%	5.6%	92%

Source: Forsyth, company reports, Eikon 1: Core LPVs are ARG, GMT, IPL, KPG, PCT, and PFI. Barr analysis

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