

# New thinking in property investment – opportunities ahead!

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# Topics Covered

1. Brief overview of ANZ New Zealand Investments
2. The outlook for Funds under Management (FUM)
3. Listed Property: Growth or Defensive Asset Class?
4. NZ Listed Property Sector – Key Features
5. Where to from here?
6. Summary

# 1. ANZ New Zealand Investments Limited

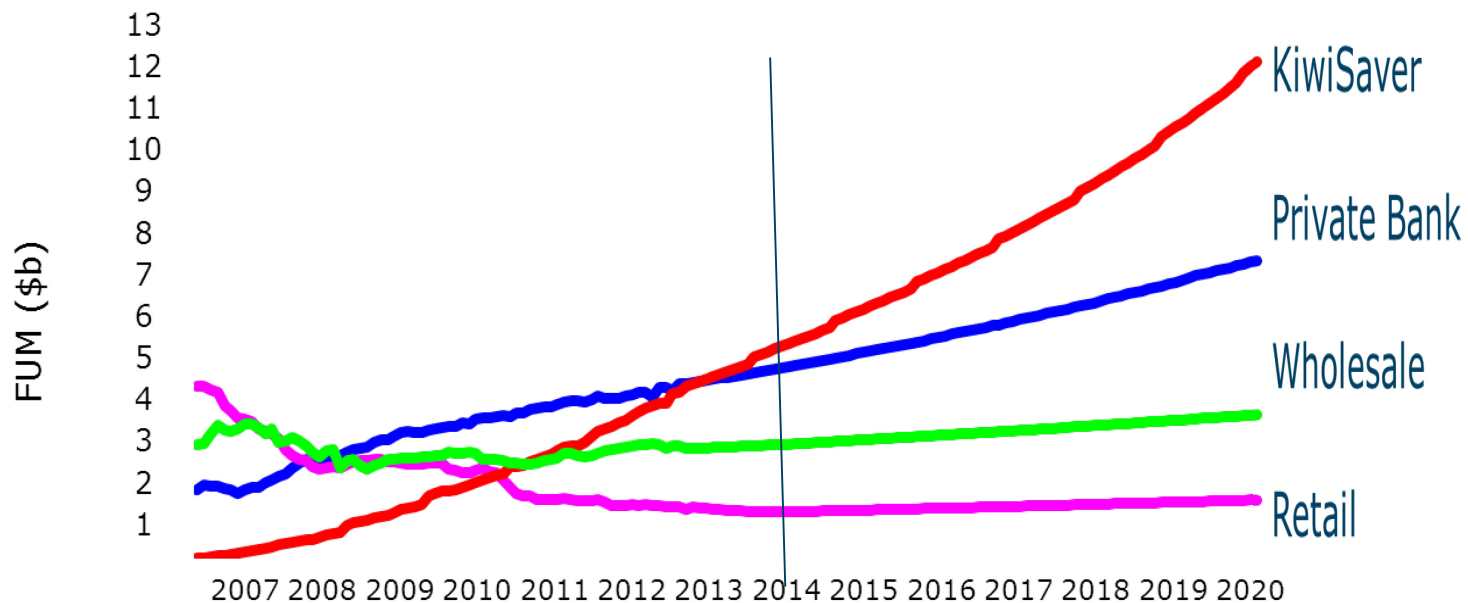
- Wholly owned by ANZ Banking Group
- NZ's largest manager of 3<sup>rd</sup> party money
- Investment history back to 1989
- Substantial investment team based in Auckland
- Part of ANZ Global Wealth
- Chief Investment Office based in Sydney
- Regional investment resources
- Award winning investment team

Asset Class	Funds U Management NZ\$(m)
Cash	4,342
NZ Fixed Interest	4,365
International Fixed Interest	2,447
NZ Equities	1,320
International Equities	2,898
Australian Equities	647
Australasian LPTs	665
International LPTs	306
<b>Total FUM</b>	<b>16,988</b>
Client Type	Funds Under Management NZ \$ (m)
Retail	1,265
KiwiSaver	4,654
Wholesale	2,826
Private Banking	4,978
Bonus Bonds	3,231
<b>Total FUM</b>	<b>16,988</b>



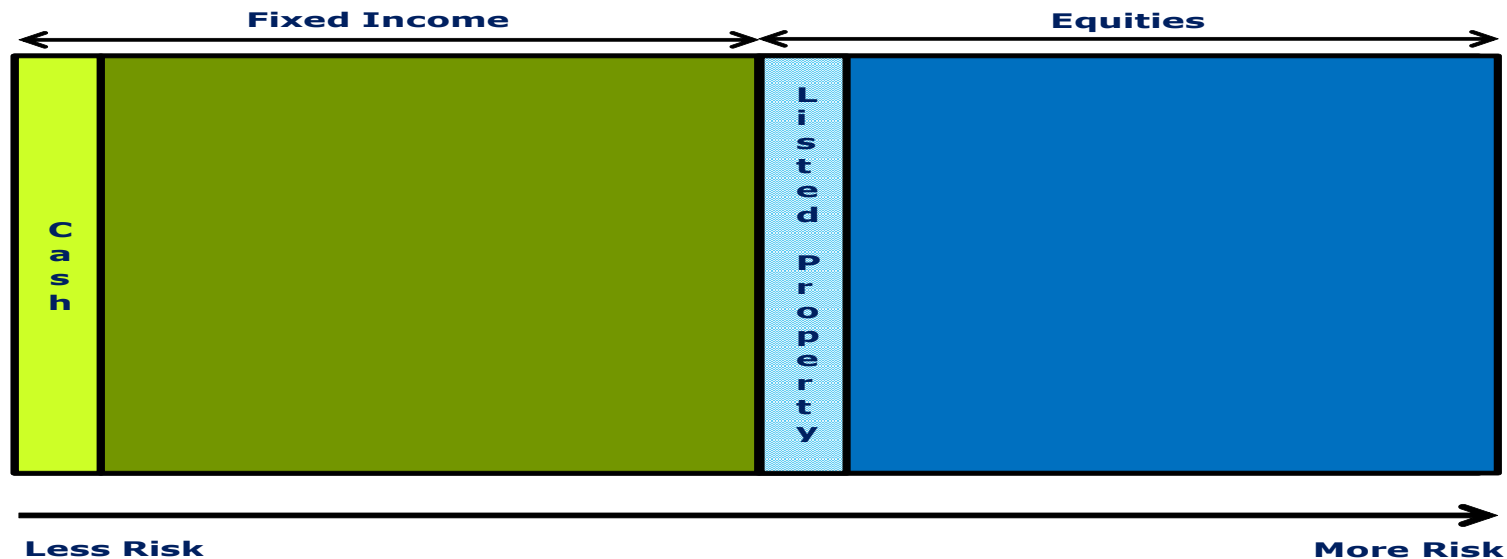
## 2. The Outlook for FUM (ANZ) - Sources

### Investment FUM



# 3. Listed Property: Growth or Defensive Asset Class?

- Listed Property is an equity (growth) but has defensive characteristics (high yield, contracted cash flows, asset backing etc.)
- Despite the equity market's obsession with EPS growth, we believe that the listed property sector is perfectly positioned to deliver what many investors want:
  - **Greater income certainty**



### 3. ANZ Asset Class Weights: K/S Bal Growth Fund

Asset Class	Asset Class % of KSBAL Fund	Added Value Expectation	Targeted Added Value for KSBAL	Tracking Error at Asset Class level
NZ Equities	8.0%	2.0%	0.16%	3.0%
Australian Equities	8.0%	2.0%	0.16%	3.0%
International Equities	39.0%	2.0%	0.78%	3.0%
Australasian Property	5.0%	2.0%	0.10%	4.0%
International Property	5.0%	2.0%	0.10%	4.0%
NZ Fixed Interest	9.0%	0.8%	0.07%	1.0%
International F/interest	20.0%	0.2%	0.04%	0.4%
Cash	6.0%	0.5%	0.03%	0.2%
Tactical Asset Allocation		0.6%	0.60%	1.0%
<b>TOTAL</b>	<b>100%</b>		<b>2.04%</b>	<b>1.61%</b>

# 4. NZ Listed Property – Key Characteristics

## Key Listed Property vehicle characteristics

NAME	Inv't Prop (NZ\$m)	No. of Buildings	Tenants	NLA (sqm)	Market Cap Rate	Gearing #	Occupancy	WALT (years)
ARGOSY PROPERTY LTD	\$1,226	66	224	590,991	7.93%	36.2%	98.7%	5.7
AUGUSTA CAPITAL LTD	\$95	4	44	24,718	8.31%	44.7%	84.0%	4.8
DNZ PROPERTY FUND LTD	\$788	46	292	364,916	7.90%	32.9%	99.5%	5.5
GOODMAN PROPERTY TRUST	\$2,094	20*	254	1,034,996	8.10%	34.7%	97.0%	5.5
KIWI INCOME PROPERTY TRUST	\$2,131	12	919	373,277	7.19%	34.8%	97.2%	4.7
NPT LTD	\$157	5	93	121,037	8.40%	21.8%	97.0%	5.9
PRECINCT PROPERTIES NEW ZEAL	\$1,658	17	350	322,275	7.50%	32.9%	97.0%	5.4
PROPERTY FOR INDUSTRY LTD	\$832	83	136	627,575	7.93%	35.8%	96.9%	5.5
VITAL HEALTHCARE PROPERTY TR	\$597	24	105	150,000	9.09%	33.4%	99.4%	14.9
<b>Total</b>	<b>\$9,578</b>	<b>257</b>	<b>2,417</b>	<b>3,609,785</b>				
<b>Average</b>					<b>8.04%</b>	<b>34.1%</b>	<b>96.3%</b>	<b>6.4</b>
<b>Weighted Average</b>					<b>7.84%</b>	<b>34.3%</b>	<b>97.5%</b>	<b>6.1</b>

# Gearing = net debt/total assets

\* GMT discloses 20 properties or estates

WALT = Weighted Average Lease Term



# 4. NZ Listed Property - Dividend Yields and Price/NTA

FY15F Broking analyst consensus dividend forecasts and implied yields

9/06/14

NAME	LAST_PRICE	Index Weight	NTA	Prem/ (Disc't) to NTA	FY15F Cash Div (cpu) #	Net (Cash) Yield	Implied Gross Yield *	FY15F/14A Cash DPU Growth
ARGOSY PROPERTY LTD	\$0.975	13.6%	\$0.935	4.2%	6.00	6.15%	9.2%	0.0%
AUGUSTA CAPITAL LTD	\$0.830	1.0%	\$0.618	34.2%	5.00	6.02%	9.0%	25.0%
DNZ PROPERTY FUND LTD	\$1.620	8.7%	\$1.690	-4.1%	9.18	5.67%	8.5%	2.0%
GOODMAN PROPERTY TRUST	\$1.070	18.6%	\$1.004	6.6%	6.45	6.03%	9.0%	3.2%
KIWI INCOME PROPERTY TRUST	\$1.175	21.7%	\$1.170	0.4%	6.50	5.53%	8.3%	1.6%
NPT LTD	\$0.605	1.8%	\$0.720	-16.0%	3.20	5.29%	7.9%	0.0%
PRECINCT PROPERTIES NEW ZEAL	\$1.090	16.9%	\$1.000	9.0%	5.47	5.02%	7.5%	1.2%
PROPERTY FOR INDUSTRY LTD	\$1.325	10.0%	\$1.230	7.7%	7.28	5.49%	8.2%	0.6%
VITAL HEALTHCARE PROPERTY TR	\$1.330	6.7%	\$1.050	26.7%	8.00	6.02%	9.0%	1.3%
<b>Simple average</b>				<b>7.6%</b>		<b>5.69%</b>	<b>8.5%</b>	<b>3.9%</b>
<b>Market-weighted average</b>				<b>5.7%</b>		<b>5.61%</b>	<b>8.4%</b>	<b>1.7%</b>

# numbers in blue reflect management guidance where available, otherwise numbers are analysts' consensus

\* Gross yield implied for a 33% tax paying investor

PFI FY14 numbers are for y/e 31/12/14

## 4. NZ Listed Property - Cash DPU growth

- Sector cash dividend growth has been disappointing at -2.7% p.a. despite growth in underlying rents over the period
- Only PFI and VHP have delivered cash DPU growth over the last 10 years

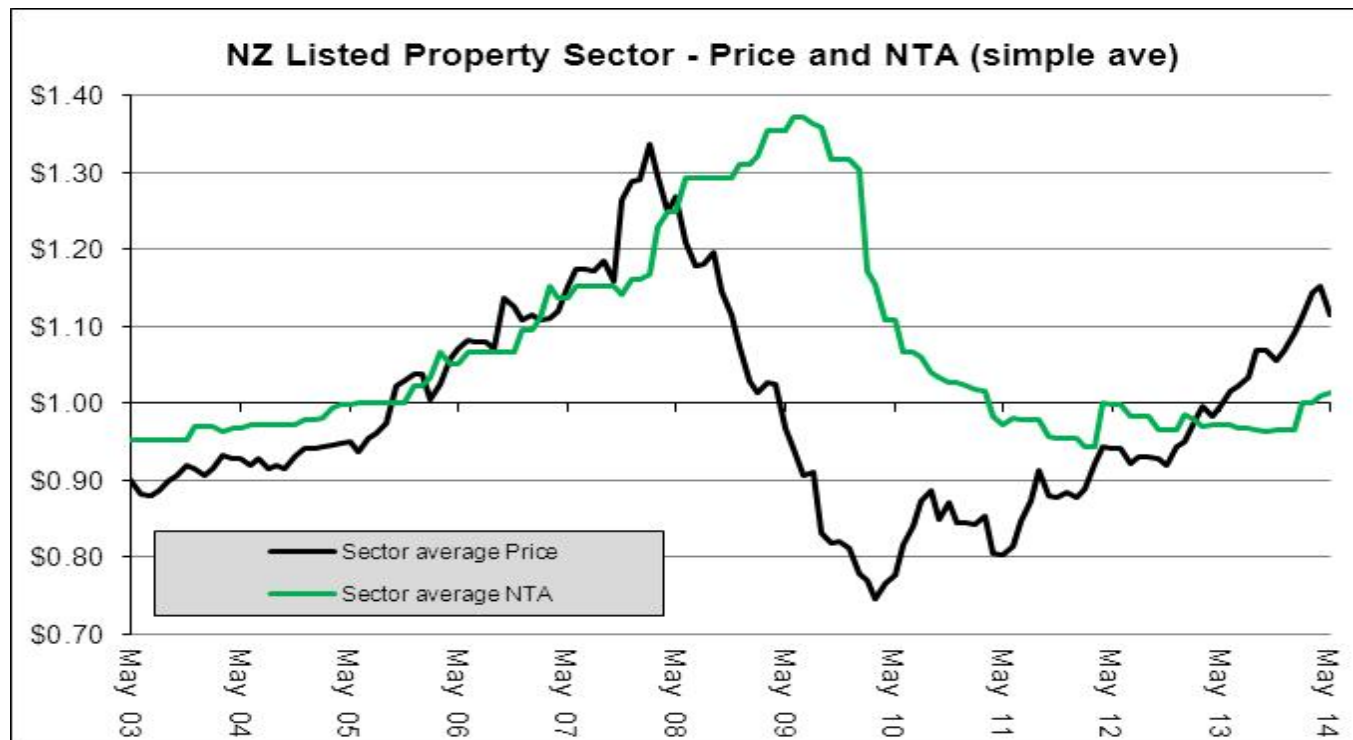
NZ Listed Property - Cash DPU (cents)

Name	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14F	Growth FY14/04	CAGR FY14/04
Argosy Property Trust	10.00	8.14	9.39	8.67	8.70	8.00	7.50	7.00	6.00	6.00	6.00	-40.0%	-5.0%
Augusta Capital Ltd				6.99	7.79	7.07	5.00	4.00	4.00	4.00	4.00		
DNZ Property Fund Ltd								8.00	8.50	9.00	9.00		
Goodman Property Trust	8.48	7.88	8.63	9.45	9.90	10.00	8.50	7.74	6.25	6.25	6.23	-26.5%	-3.0%
Kiwi Income Property Trust	7.60	7.01	7.95	8.34	9.00	8.00	7.50	7.00	7.00	6.60	6.40	-15.8%	-1.7%
NPT Ltd	9.00	8.40	3.20	5.51	4.16	5.00	4.43	4.65	3.83	3.80	3.20	-64.4%	-9.8%
Precinct Properties Ltd	7.00	7.30	7.46	7.76	7.61	6.15	6.14	5.47	5.04	5.12	5.35	-23.6%	-2.7%
Property for Industry Ltd *	5.78	6.25	6.56	6.76	7.18	7.18	7.18	7.18	6.60	7.20	7.30	26.3%	2.4%
Vital Healthcare Property Trust	6.98	7.32	7.90	7.64	8.50	8.50	8.50	8.10	7.70	7.86	7.90	13.2%	1.2%
<b>Average</b>												<b>-18.7%</b>	<b>-2.7%</b>

\* FY14F no's are based on guidance where available or on broking analyst consensus.

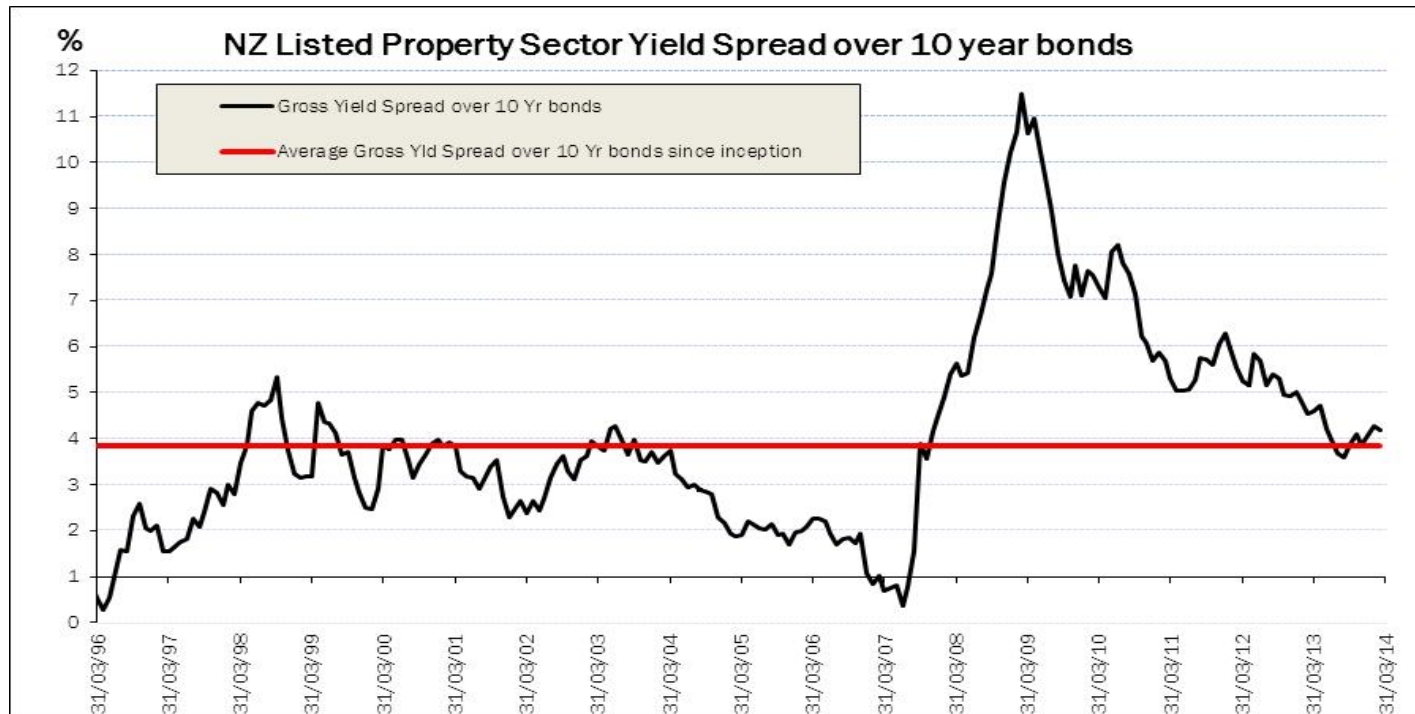
## 4. NZ Listed Property - Historic Price vs NTA

- The listed property sector has historically led valuations by 12-18 months



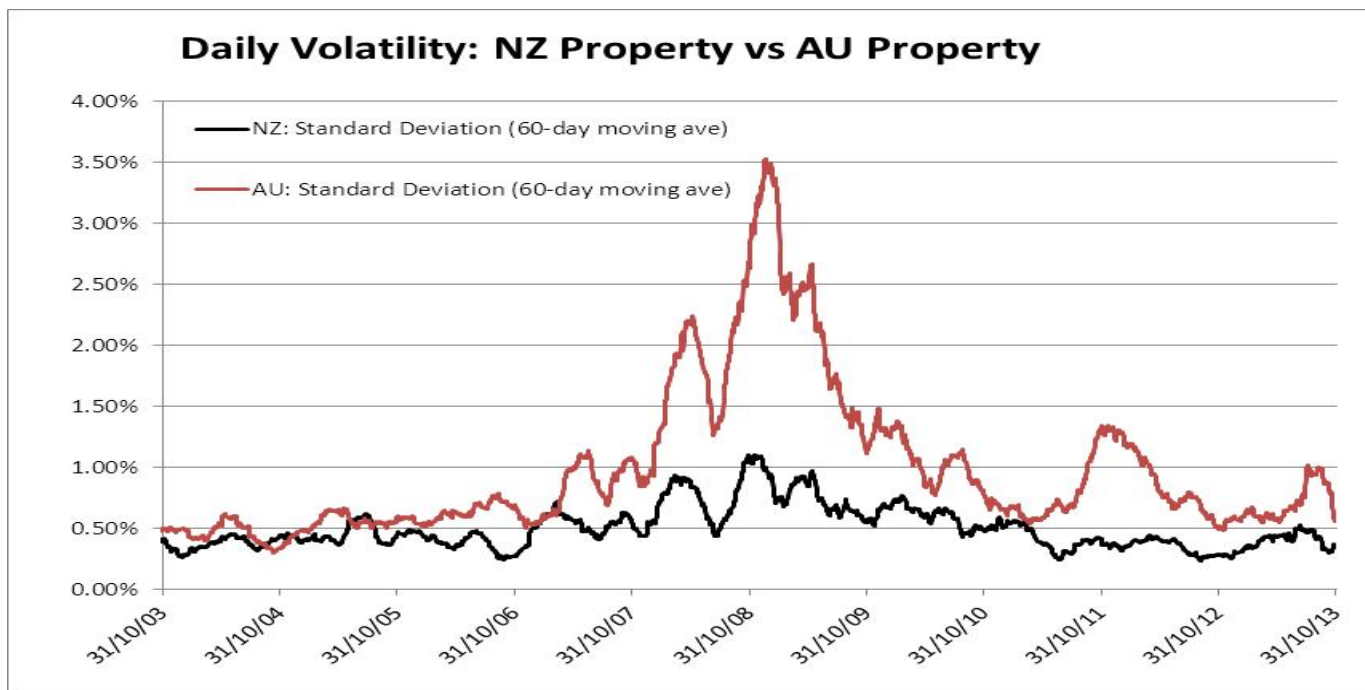
## 4. NZ Listed Property - Sector Yield Spread

- The sector is trading marginally above the long-run average spread over bonds
- 10-year bond yield have increased 1.4% since the lows in May to 4.5%



## 4. NZ Listed Property Sector - Volatility

- Daily share price volatility doubled during the GFC but has fallen back to normal levels
- Australian property sector volatility got to 3.5X NZ



# 5. NZ Listed Property - Where to from here?

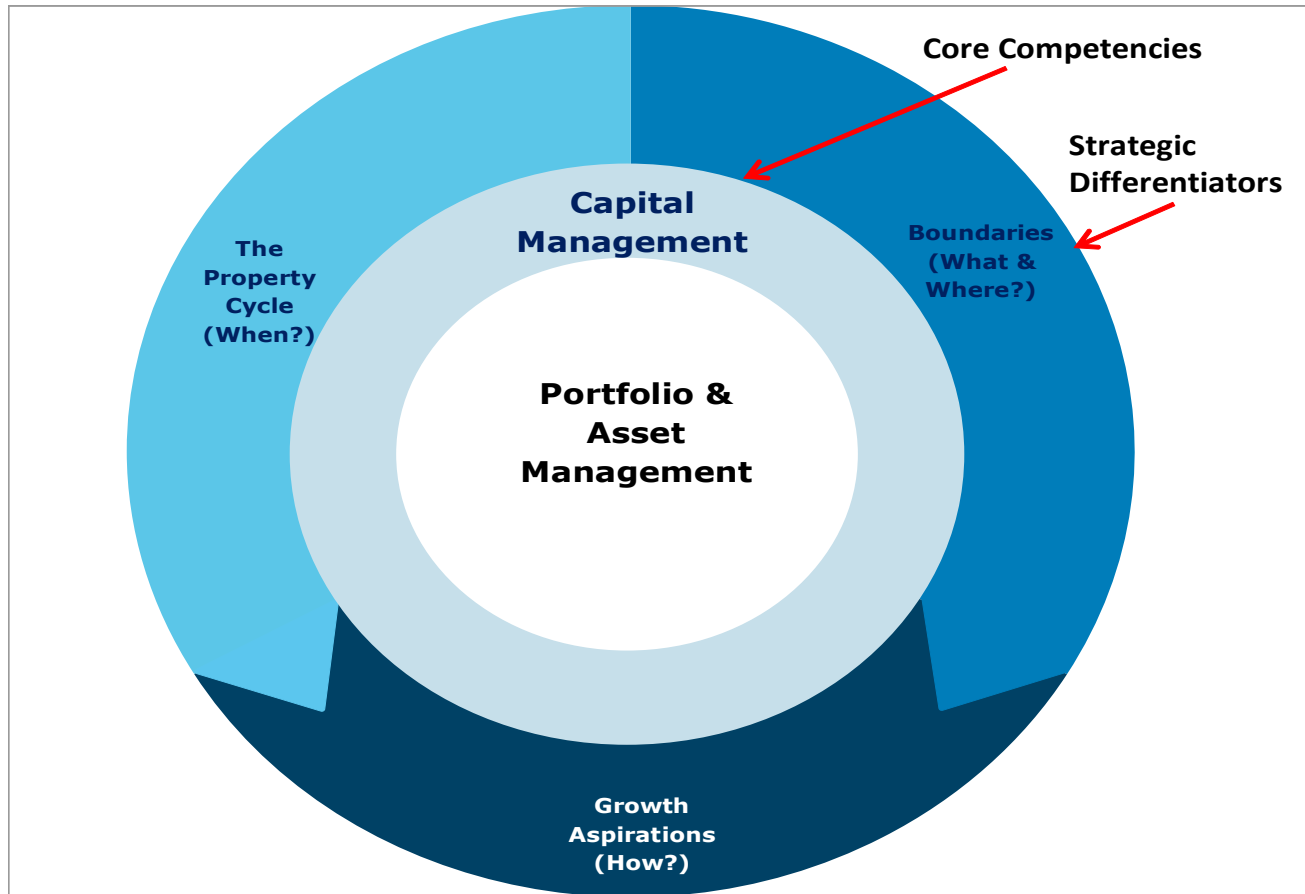
In order to deliver more consistent dividend growth we believe listed property vehicles need to:

- Have a **robust strategy** which can deliver growth in DPU through the cycle. In particular:
  - i. Manage capital more effectively
  - ii. Be less focused on growth in size and more focused on **recycling capital**
  - iii. Have a view on the **property cycle** and be more prudent when asset prices have run
  - iv. Effectively communicate the outline of these plans to investors so that they can understand the risks and the requirements for capital

What we will never say to you:

- You have a lazy balance sheet
- You are not delivering enough growth – we expect dividend growth to be in line with the underlying rental growth

# 5. Strategy – Key Value Drivers



# 5. Strategy: Boundaries (What & Where?)

- Each property vehicle must decide:
  - What are the business's competitive advantages?
  - Will the business acquire or develop?
  - What will it not do? (e.g. leasehold land)
  - Which markets? (e.g. Wellington & Auckland, provincial, offshore?)
  - How much development, land etc. (e.g. max 5% of assets?)
  - Growth/size ambitions
- Property businesses must be very clear about what they will and will not do because:
  - The universe is huge
  - Decisions have implications for risk & return
  - Investors also need to understand the requirements for capital and whether they will need to re-invest (dividends & new capital)



# 5. Strategy: Growth Aspirations (How?)

- There are benefits for investors from growing a portfolio of assets:
  - Earnings and value accretion
  - Asset and tenant diversification
  - Scale/operational benefits (internalised vehicles) = lower MER
  - Lower cost of capital?
- However growth is difficult due to the capital constrained nature of the sector and every acquisition or development requires equity funding by either:
  - Selling assets and recycling capital
  - Raising equity (at or above NTA) or using a DRP
  - Retaining earnings by reducing the pay-out ratio
- But listed property vehicles should:
  - Only take on higher risk projects (e.g. developments, land banking, etc.) if they offer significantly higher returns in order to compensate for the extra risk
  - Have a rigorous capital allocation process within a disciplined risk/return framework

## 6. Summary

- Property is an attractive asset class due to its relatively stable income streams and growth profile in line with inflation i.e. it is unique in that it has both **defensive** and **growth** characteristics
- Listed property provides many benefits relative to direct investment, including greater diversification, lower tax rate & transaction costs and greater liquidity
- The NZ listed property sector has seen significant change over the last few years with more **choice**, improved **governance** and greater **alignment** of interest
- The ageing demographic is likely to require a greater demand for investments with high yield and income certainty
- The growth in KiwiSaver is likely to result in further growth in the number of vehicles & higher institutional ownership of the sector
- The fundamentals of the sector continue to improve, albeit with a lag relative to the economy
- With the changes that have been made and an improving outlook for the sector, we are more confident that the listed property sector can deliver a growing dividend stream with lower volatility over the cycle

Any questions?