



YOUR INDUSTRIAL
PROPERTY EXPERTS

WELCOME

TO THE **2018** INTERIM RESULTS BRIEFING



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A photograph of two men in high-visibility yellow jackets reviewing documents on a construction site. The background features a large red and white structure, possibly a tent or canopy. A dark red horizontal bar is visible on the left side of the image.

01. HIGHLIGHTS

- **Significant portfolio activity:** 58,000 square metres or 8% of the portfolio leased during the interim period to 11 tenants for an average increase in term of 6.5 years
- **Increased earnings and dividends:** profit after tax up \$35.2 million, 9.4% increase in Funds From Operations (FFO) ¹ earnings per share, 2.5% increase in Adjusted Funds From Operations (AFFO) earnings per share, cash dividend up 2.9% to 3.60 cents per share
- **Acquisition:** neighbouring property acquired for \$16.0 million, creates an industrial estate of ~4.5 hectares in Penrose
- **Governance changes:** Peter Masfen retires after 16 years as Chair, Anthony Beverley appointed as new Chair

1. Funds From Operations and Adjusted Funds From Operations are non-GAAP financial information and are common investor metrics, which have been calculated in accordance with the guidelines issued by the Property Council of Australia. Please refer to slide 30 for further details.

An aerial photograph of a large industrial or warehouse complex. The foreground is dominated by a long, low-profile building with a corrugated metal roof, divided into several bays. To the right of the building is a large, dark asphalt parking lot filled with numerous cars parked in neat rows. Further back, there's a more active area with various pieces of heavy machinery, including forklifts and trucks, and some smaller buildings. The overall scene depicts a busy industrial or logistics hub.

02. PORTFOLIO

PORTFOLIO SNAPSHOT



- PFI's portfolio is diversified across 93 properties and 146 tenants, with 98.1% occupancy and a weighted average lease term of 5.39 years, weighted towards Auckland industrial property

	30 June 2018	31 December 2017	30 June 2017
Book value	\$1,239.5m	\$1,210.8m	\$1,096.0m
Number of properties	93	92	83
Number of tenants	146	148	144
Contract rent	\$80.0m	\$79.6m	\$73.2m
Occupancy	98.1%	99.9%	99.5%
Weighted average lease term	5.39 years	5.33 years	4.78 years
Auckland property	82.6%	82.4%	85.3%
Industrial property	86.6%	86.4%	85.4%

PORTFOLIO PERFORMANCE

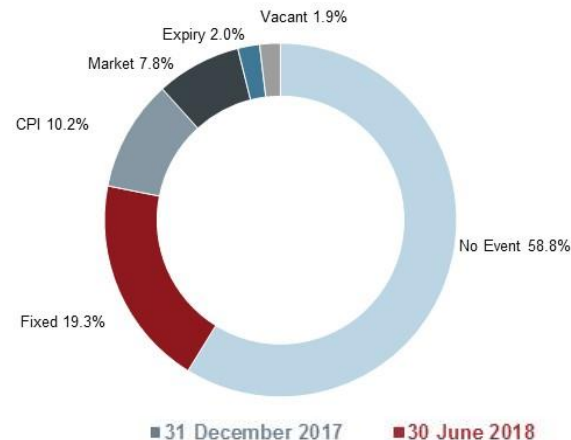


- Valuations:
 - Full valuations for ten properties, \$7.9 million or 3.7% uplift (\$9.6 million or 8.3% excluding Carlaw Park)
 - Independent desktop review of remainder of portfolio
- Leasing:
 - 11 leases agreed over ~58,000 sqm of space for an average term of 6.5 years
 - Lease renewals accounted for more than 80% of the contract rent secured
 - 52 rent reviews completed, average annual uplift of ~2.6% on ~\$21.2 million of contract rent

Tenant	Address	Term	Area	% Rent Roll
Mainfreight	36 Neales Road, East Tamaki	5.0 years	12,546 sqm	1.4%
Nestle	Carlaw Park Office Complex, Parnell	6.0 years	1,720 sqm	1.3%
Peter Hay Kitchens	47 Dalgety Drive, Manukau	6.0 years	13,360 sqm	1.1%
Fletcher Building	509 Mt Wellington Highway, Mt Wellington	3.0 years	6,982 sqm	0.8%
Quest	229 Dairy Flat Highway, North Shore	12.0 years	1,422 sqm	0.7%
Kiwi Steel	212A Cavendish Drive, Manukau	15.0 years	3,965 sqm	0.6%
5 other transactions	Various	3.7 years	18,207 sqm	2.2%
11 leasing transactions	Various	6.5 years	58,202 sqm	8.1%

LEASE EVENTS

- Near term leasing outlook: just 1.9% of contract rent vacant and 2.0% due to expire during H2 2018
- Expiries and vacancy at Carlaw Park, Parnell represent 1.8%, leasing of that space is a key priority in 2018 and 2019 (see next slide)
- ~41% of portfolio subject to some form of lease event during H2 2018



CARLAW PARK, PARNELL



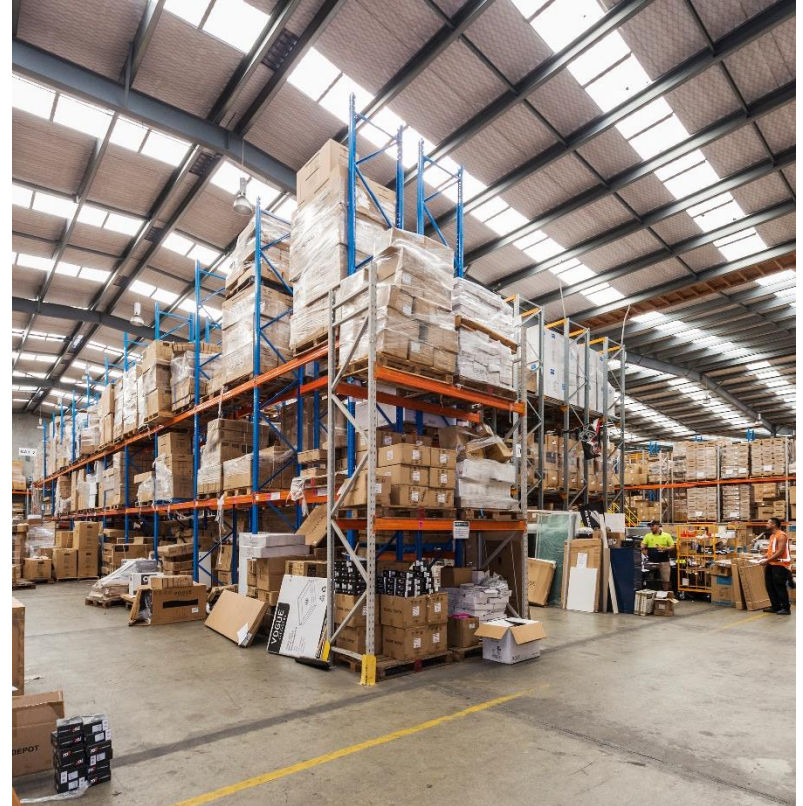
- Purchased by PFI in 2013 via the merger with Direct Property Fund
- Office: Grade A, 4 star green building: 11,150 sqm of office across 4 floors and ~50 car-parks
- Gateway: 42 room Quest serviced apartments hotel, 600 sqm of retail space and 655 car-parks
- Development of the property was completed in March-2009 and the first round of lease expiries / renewals are now taking place, resulting in a WALT of ~2.5 years across the property
- Property is currently 15.1% (\$1.1 million) vacant, with 6.1%(\$0.4 million) due to expire in H2 2018 and 35.9% (\$2.5 million) due to expire in 2019
- Market conditions are more challenging than industrial property: CBRE report Grade A Non CBD Office vacancy of ~9.5%, and an estimated ~50,000 sqm of additional supply in 2018
- Leasing at Carlaw Park is a key priority in 2018 and 2019



ACQUISITION: 306 NEILSON STREET



- Purchased in June 2018 in a sale and lease back transaction for \$16.0 million
- Yield on purchase price of 5.5%
- 5,490 sqm warehouse and 812 sqm of office and amenities on a 9,781 sqm site leased for 10 years on a triple-net basis to Trade Depot
- Fixed rental growth of 2.25% annually
- Adjacent to three other PFI properties, PFI now owns an industrial estate comprising ~4.5 hectares in Penrose: a sought-after Auckland industrial location
- PFI maintains a cautious stance towards acquisition activity, despite having significant unutilised bank loan capacity and low gearing



DEVELOPMENT: 212 CAVENDISH DRIVE

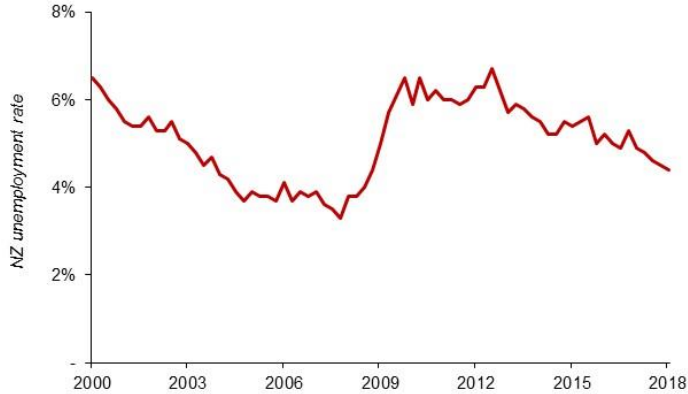
- PFI committed mid-2017 to a new 2,500 sqm warehouse on surplus land at 212 Cavendish Drive, Manukau, tenant commitment was sought during the design and build programme
- A successful marketing campaign secured Kiwi Steel in March 2018 – before the design process was completed – on a 15-year term for \$0.459 million
- The project has a total cost including land of ~\$9.1 million or \$7.2 million excluding land, equating to a yield on total project cost of 5% or a return on additional cost of ~6.5%, with completion expected April 2019
- \$3.5 million of surplus land across five PFI sites available for development



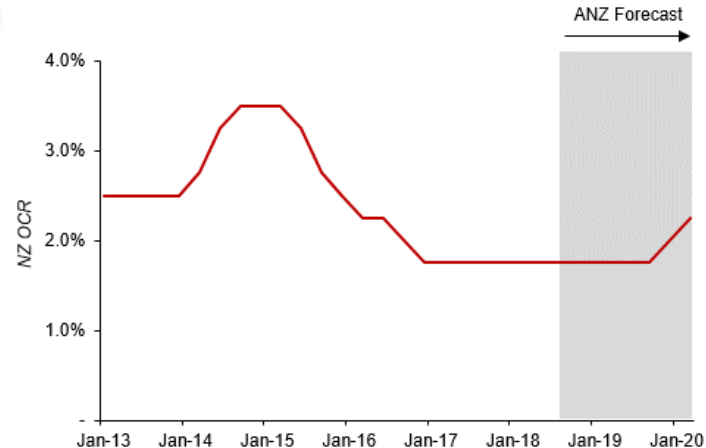
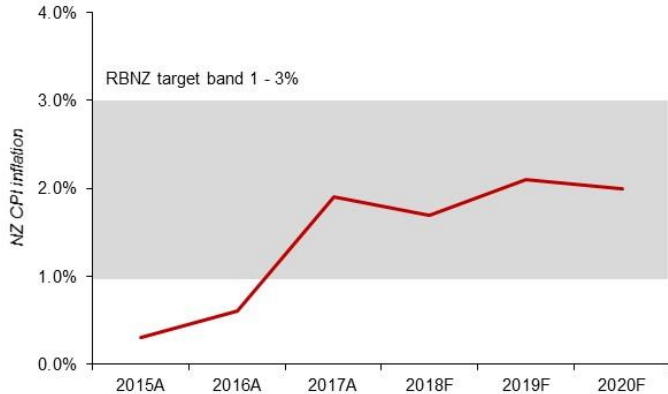
An aerial photograph of a large industrial park or warehouse district. The scene is dominated by numerous large, rectangular buildings with light-colored, corrugated metal roofs. The buildings are arranged in a somewhat grid-like pattern, with parking lots and roads interspersed between them. In the foreground, a large, long warehouse building is prominent, with several smaller structures and parking areas nearby. The background shows a dense urban or industrial area extending to the horizon. A red horizontal bar is visible on the left side of the image, partially overlapping the text.

03. MARKET

MARKET UPDATE: ECONOMY



- New Zealand continues to enjoy low levels of unemployment...
- ... yet CPI inflation forecasts remains well within the RBNZ's target band...
- ... supporting a continued low interest rate environment.



Sources:

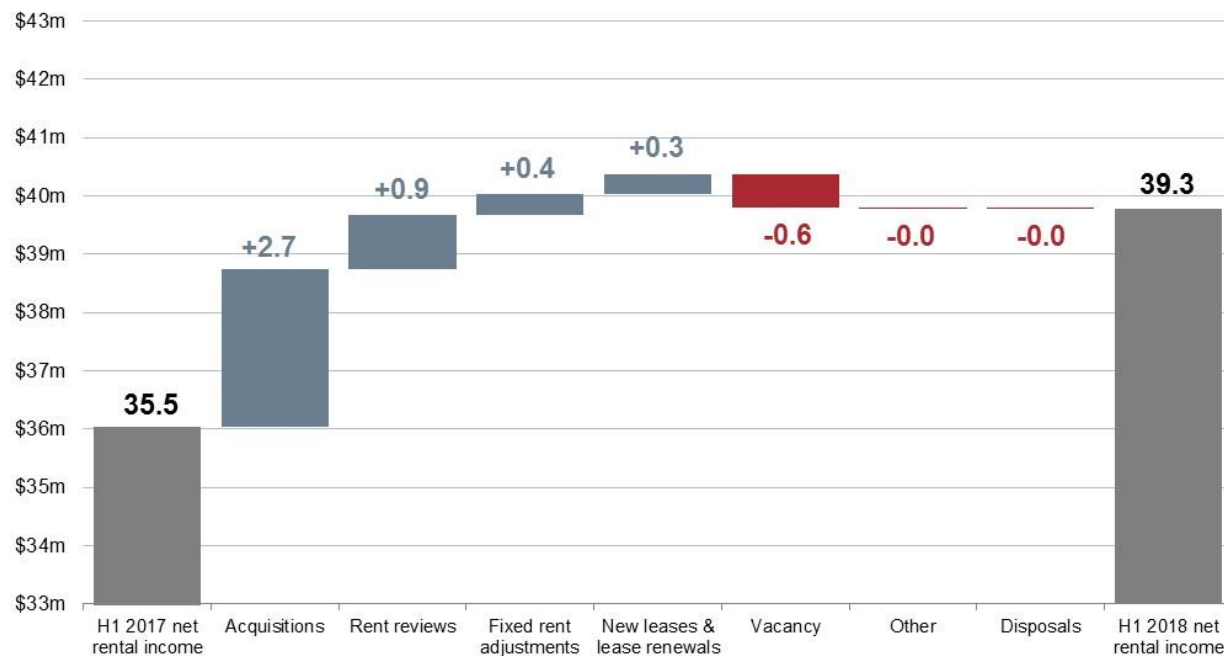
- NZ unemployment rate: RBNZ
- NZ CPI inflation: Bloomberg
- NZ OCR: Historical: RBNZ, Forecasts: ANZ

- CBRE June 2018 Auckland Market Outlook:
 - *“... there is still good investor demand, and the pricing of some investor categories, especially from offshore, has firmed. Monetary conditions will likely be supportive of yields over the next 18 months...”*
 - Prime industrial ranks third out of 12 property classes in their returns forecasts, forecast five year returns total 7.8% per annum (income 5.5%, capital 2.4%)
 - *“Prime industrial has been elevated in the rankings, given the forecast industrial market environment its rent driven capital returns remaining in relatively good shape compared to other sectors.”*
 - Secondary industrial ranks first out of 12 property classes in their returns forecasts, forecast five year returns total 10.7% per annum (income 6.4%, capital 4.2%)
 - *“Favourable industrial supply demand conditions drive Secondary industrial to outperform on capital returns mainly through rent growth, but also aided by cap rate trends.”*



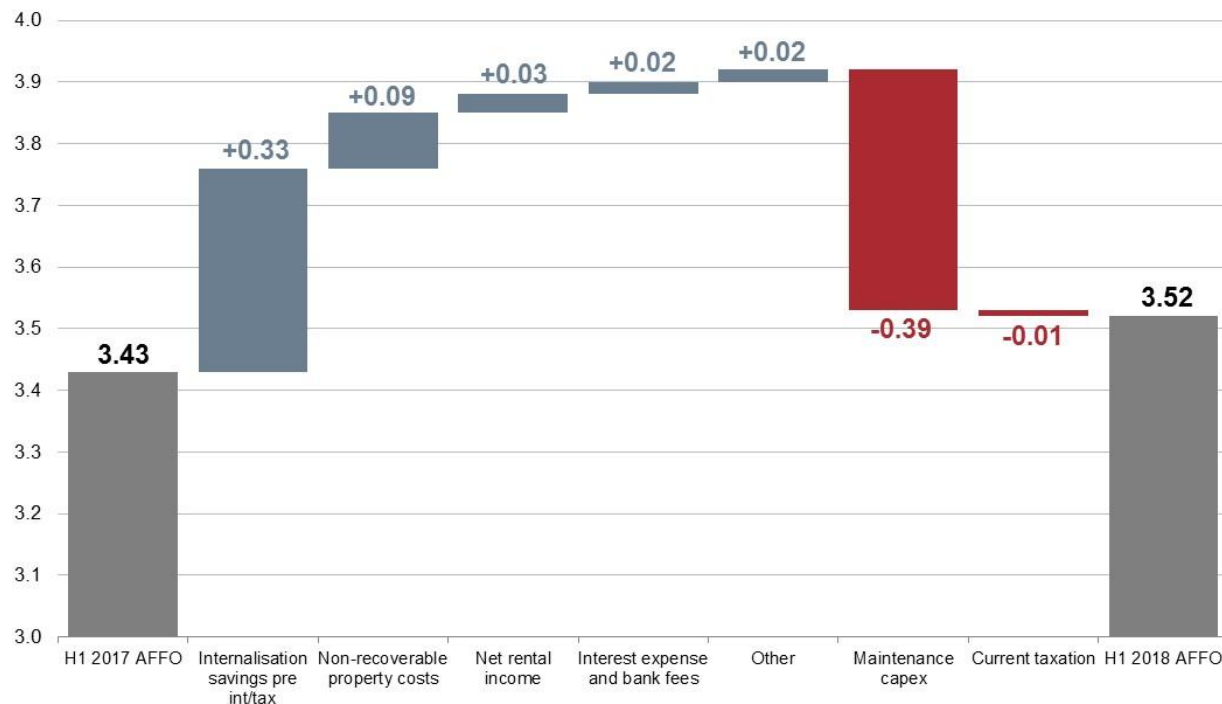
**04.
2018 INTERIM
RESULTS**

NET RENTAL INCOME



- Net rental income of \$39.3 million up \$3.7 million or 10.5%
- Increases due to acquisitions (\$2.7 million) and positive leasing activity (\$1.6 million)
- Decrease due to increased intra-period vacancy (\$0.6 million)
- Average occupancy during H1 2018 of ~98%, guidance assumes ~100% reached late 2018 / early 2019

ADJUSTED FUNDS FROM OPERATIONS (CENTS PER SHARE)



- Profit after tax up \$35.2 million
- Cost savings and increased revenues contributed to a 9.4% increase in FFO earnings per share in H1 2018
- Higher-than-average level of maintenance capex resulted in AFFO earnings per share increasing at a lower rate than FFO earnings: increase of 2.5%
- Maintenance capex is expected to normalise to ~35 basis points by the end of FY 2018

EARNINGS, DIVIDENDS, GUIDANCE



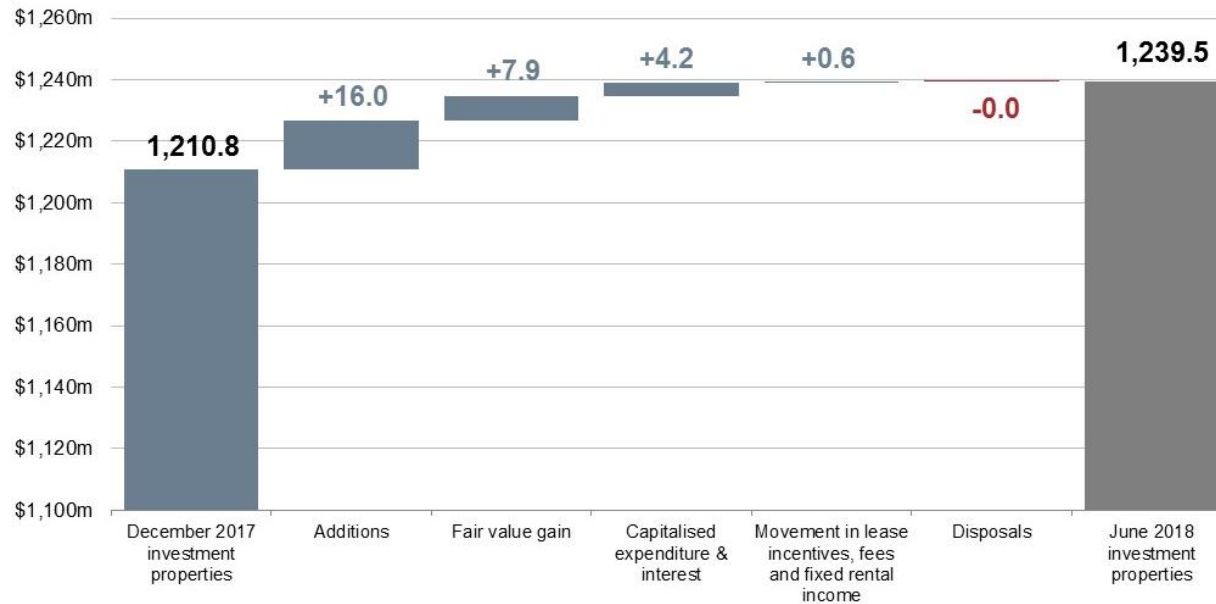
- Funds From Operations earnings up 0.38 cps or 9.4%
- Adjusted Funds From Operations earnings up 0.09 cps or 2.5%
- H1 2018 cash dividends total 3.60 cps, up 0.10 cps or 2.9% from the prior period payment of 3.50 cps
- FY 2018 dividend policy is based on 80-90% of FFO and 95-100% of AFFO
- FY 2018 dividend guidance unchanged: 7.55 cps, representing 95% to 100% of AFFO, represents full year distributable profit of 8.10 – 8.30 cents per share

Earnings	H1 2018 CPS	H1 2017 CPS	Increase
Funds From Operations	4.46	4.08	9.4%
Adjusted Funds From Operations	3.52	3.43	2.5%
Distributable Profit	4.23	3.86	9.6%

Dividend Pay-out	Policy	H1 2018 Pay-out Ratio	H1 2017 Pay-out Ratio
Funds From Operations	80 – 90%	81%	86%
Adjusted Funds From Operations	95 – 100%	102%	102%
Distributable Profit	95 – 100%	85%	91%

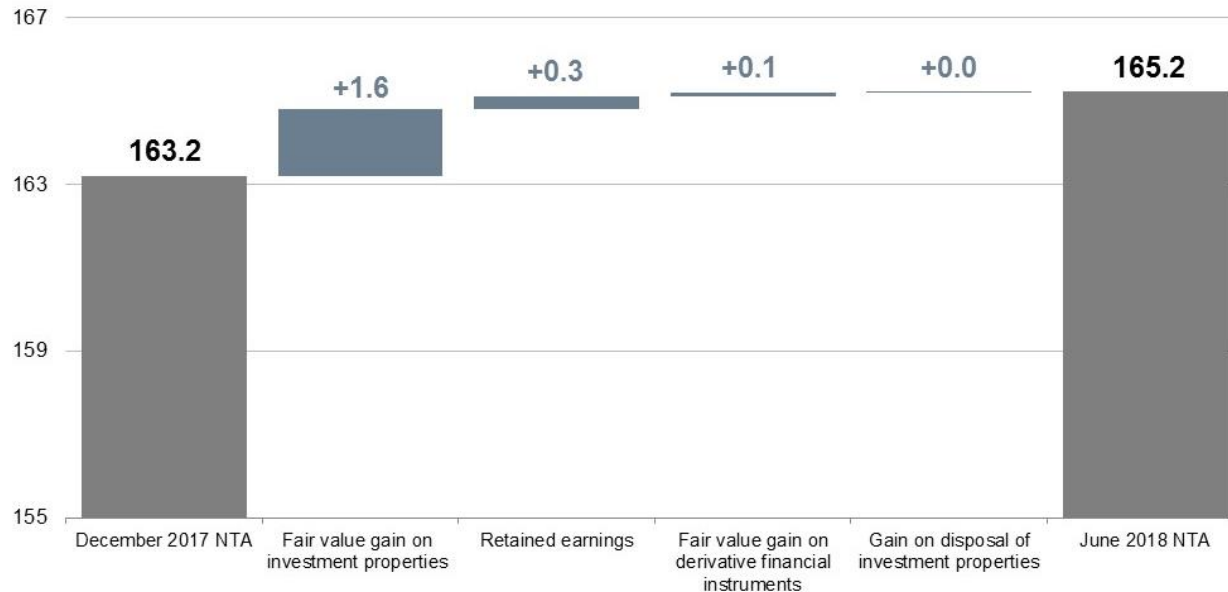
1. Distributable profit is non-GAAP financial information previously used by the PFI Board to assist in determining dividends to shareholders. Please refer to slide 31 for further details.

INVESTMENT PROPERTIES



- Portfolio value of ~\$1.24 billion
- Neighbouring property acquired for \$16.0 million creating an industrial estate of ~4.5 hectares in Penrose
- \$7.9 million uplift from independent revaluation of ten properties, independent desktop review of remainder of the portfolio

NET TANGIBLE ASSETS (CENTS PER SHARE)



- Net tangible assets (NTA) per share increased by 2.0 cents per share or 1.2%
- Change in NTA per share was driven by the increase in the fair value of investment properties (+1.6 cps), retained earnings (+0.3 cps) and the decrease in the net fair value liability for derivative financial instruments (+0.1 cps)



**05.
CAPITAL
MANAGEMENT**

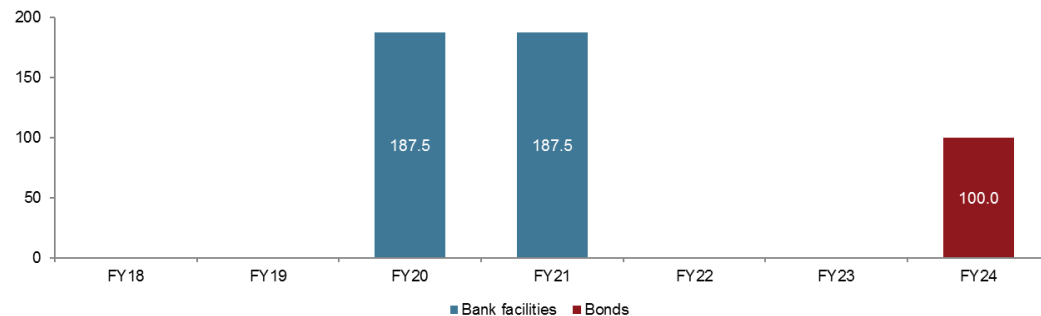
FUNDING, COVENANTS, INTEREST RATES



- No changes made to bank facilities during the first half of 2018
- Considering options, including a second senior secured bond issue, to extend and diversify borrowings
- Gearing of 31.4% and interest cover ratio of 3.8 times well within policy and covenant limits

	June 2018	December 2017
Funding		
Syndicated bank facility drawn (excluding overdraft)	\$289.0m	\$272.7m
Syndicated bank facility limit	\$375.0m	\$375.0m
Syndicated bank facilities headroom	\$86.0m	\$102.3m
Fixed rate bonds	\$100.0m	\$100.0m
Funding term (average)	3.2 years	3.7 years
Syndicated bank facility banks	ANZ, BNZ, CBA, Westpac	ANZ, BNZ, CBA, Westpac
Covenants		
Gearing	31.4%	30.8%
Interest cover ratio	3.8 times	3.7 times
Interest rates		
Weighted average cost of debt (including margin and fees)	4.90%	4.96%
Fixed rate payer interest rate hedging (excl. forward starting hedging, \$m / rate / duration)	\$220m / 4.37% / 2.1 years	\$220m / 4.37% / 2.6 years
Fixed rate payer interest rate hedging (forward starting hedging, \$m / rate / duration)	\$175m / 3.51% / 3.7 years	\$155m / 3.55% / 3.7 years

MATURITY PROFILE, HEDGING



- Debt facility maturity profile (graph on LHS): average term to expiry of 3.2 years, ~\$86 million of unutilised bank facility capacity

- Fixed rate payer hedging profile (graph on RHS): cover profile provides for an average of ~57% of debt to be hedged at an average fixed rate of ~4.19% for the remainder of FY18





06. GOVERNANCE

BOARD UPDATE



- Peter Masfen – PFI Board Chair since June 2002 – retired at the annual meeting in May
- Anthony Beverley – formerly PFI’s Deputy Board Chair – appointed as new Board Chair
- David Thomson joined the PFI Board in February and was re-elected at the annual meeting in May
- Audit and Risk Committee changes:
 - Susan Peterson appointed as Chair, replacing Anthony Beverley
 - David Thomson joined the Committee

- PFI's ESG vision: "... is focused on being a responsible and responsive landlord in order to create long term value for key stakeholders."
- First ESG report published in the annual report, released in February
- That report notes that Stakeholder Rights, Building Safety, Health and Safety, and Policies and Procedures are Material Issues for PFI
- Recent ESG activities include:
 - Stakeholder rights: governance changes
 - Building safety / health and safety: completion of asbestos testing of the portfolio, phase 1 of remediation complete, phase 2 of remediation planned
 - Industry leadership / community involvement: [Keystone Trust](#) sponsorship commenced

A stack of yellow pipes is shown in a close-up, shallow depth-of-field shot. The pipes are arranged in a way that their circular ends are visible, creating a pattern of overlapping circles. A solid red horizontal bar is positioned on the left side of the image, partially overlapping the text.

07. REVIEW & QUESTIONS

REVIEW & QUESTIONS



- PFI's strategy is to invest in quality industrial property in New Zealand's main centres and the Company aims to deliver strong, stable shareholder returns
- H1 2018 highlights:
 - Significant portfolio activity
 - Increased earnings and dividends
 - Acquisition
 - Governance changes
- Questions?



08. APPENDICES

APPENDIX 1: FFO AND AFFO



(Unaudited, \$000, unless noted)	6ME June 2018	6ME June 2017
Profit / (loss) and total comprehensive income after income tax attributable to the shareholders of the Company	29,570	(5,637)
<i>Adjusted for:</i>		
Fair value gain on investment properties	(7,948)	(5,970)
Material damage insurance income	-	(505)
Gain on disposal of investment properties	(53)	(1,897)
Fair value (gain) / loss on derivative financial instruments	(647)	582
Amortisation of tenant incentives	1,141	1,053
Straight lining of fixed rental increases	(524)	(138)
Deferred taxation	2,691	(7,186)
Termination of management agreement	-	42,869
Current taxation without deductibility of termination of management agreement	(1,994)	(4,725)
Funds From Operations (FFO)	22,236	18,446
FFO per share (cents)	4.46	4.08
FFO dividend pay-out ratio (%)	81%	86%
Maintenance capex	(3,501)	(1,413)
Incentives and leasing fees given for the period	(1,188)	(1,495)
Other	(6)	(6)
Adjusted Funds From Operations (AFFO)	17,541	15,532
AFFO per share (cents)	3.52	3.43
AFFO dividend pay-out ratio (%)	102%	102%

APPENDIX 2: DISTRIBUTABLE PROFIT



(Unaudited, \$000, unless noted)	6ME June 2018	6ME June 2017
Profit / (loss) and total comprehensive income after income tax attributable to the shareholders of the Company	29,570	(5,637)
<i>Adjusted for:</i>		
Fair value gain on investment properties	(7,948)	(5,970)
Material damage insurance income	-	(505)
Gain on disposal of investment properties	(53)	(1,897)
Tax on depreciation claw-back on disposals of investment properties	-	67
Fair value (gain) / loss on derivative financial instruments	(647)	582
Deferred taxation	2,691	(7,186)
Movement in fixed rent reviews	(524)	(138)
Termination of management agreement	-	42,869
Current taxation without deductibility of termination of management agreement	(1,994)	(4,725)
Other	(6)	(6)
Distributable profit	21,089	17,454
Distributable profit per share (cents)	4.23	3.86
Dividends paid relating to period reported	17,954	15,836
Pay-out ratio (%)	85%	91%

DISCLAIMER



The information included in this presentation is provided as at 8 August 2018 and should be read in conjunction with the NZX interim results announcement, NZX appendix 1, NZX appendix 7 and interim report (including financial statements) issued on that same day.

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