

The logo features a large, bold, white letter 'P' on the left. To its right is a vertical bar with a diagonal split: the left half is white and the right half is a light brown color. To the right of this bar, the word 'PROPERTY' is written in a bold, white, sans-serif font. Below 'PROPERTY', the words 'INCOME FUND' are written in a bold, light brown, sans-serif font.

# PI PROPERTY INCOME FUND

Annual General Meeting

Manager's Presentation

Thursday 28 July 2022

# 2022 Financial Summary



# Statement of Comprehensive Income

NZD in 000s	FY2022 Group 12 months	FY2021 Group 6 months
Rental income	3,629	709
Operating expenses	(622)	(238)
Operating profit	3,007	471
Net finance income	22	7
Change in fair value of investment property	2,266	38
Net profit before income tax expense	5,295	516

*Uplift in Nayland Road of 5.02% on original cost*

# Statement of Financial Position

NZD in 000s	As at 31 March 2022	As at 31 March 2021
Current assets		
Cash and cash equivalents	2,459	5,517
Other receivables	395	-
Total current assets	2,854	5,517
Current liabilities		
Trade and other payables	332	178
Total current liabilities	332	178
Net current assets	2,522	5,339
Non-current assets		
Investment properties	86,400	50,600
Total non-current assets	86,400	50,600
Net assets	88,922	55,939

# Key Metrics

Equity called to date	\$85.5 million \$0.34 per share
Net tangible assets per share	\$0.3557 4.0% premium to capital called
Existing portfolio yield on cost	5.29%
Loan to value	nil
March 2022 dividend (annualised)	4.1% pre tax yield 4.9% PIE adjusted yield

Portfolio



# Portfolio

				Portfolio
Tenant	ENZA Fruit New Zealand International Ltd.	Fonterra Limited	Tauranga City Council (Conditional)	-
Guarantor	T&G Global Limited	n/a	n/a	-
Address	484 Nayland Road, Nelson	1 Fraser Street, Timaru	90 Devonport Road, Tauranga	-
Remaining lease term	13.5 years	7.8 years	15 years (target commencement Nov 2024)	14.4 years
Lease type	Triple net	Net	Net	-
Valuation	\$53,100,000	\$33,300,000	\$112,589,000 cost \$115,700,000 valuation	\$196,489,000
Net rental	\$2,667,472	\$1,764,608	\$5,516,850	\$9,910,100
Annual rent reviews	Annual 2.25% fixed rent review	Annual 2.25% fixed rent review	CPI plus 1% with a collar of 1% and a cap of 4%.	-
Market rent review	2027 and on renewal	2025 and on renewal	Years five and ten	-
Current yield on cost	5.28%	5.31%	4.90% on completion 5.90% during fund through period	5.29% (excluding 90 Devonport Road)
Valuation yield	5.0%	5.3%	4.7%	

# 90 Devonport Road

- Willis Bond Capital Partners III development
- Independent approval by SRG.
- Acquisition still conditional on vendor approval of construction contract.
- 15 year net lease to Tauranga City Council.
- Largest timber building in New Zealand, targeting 6 Green Star.
- 4.90% acquisition rate, with a 5.90% fund-through yield.
- Annual rental inflated by CPI + 1.0%.
- Construction completion targeting November 2024.







# Investment Strategy



# Original mandate



‘An opportunity exists in the current market for a new defensive listed property vehicle, underpinned by long leases and stable cash flows’

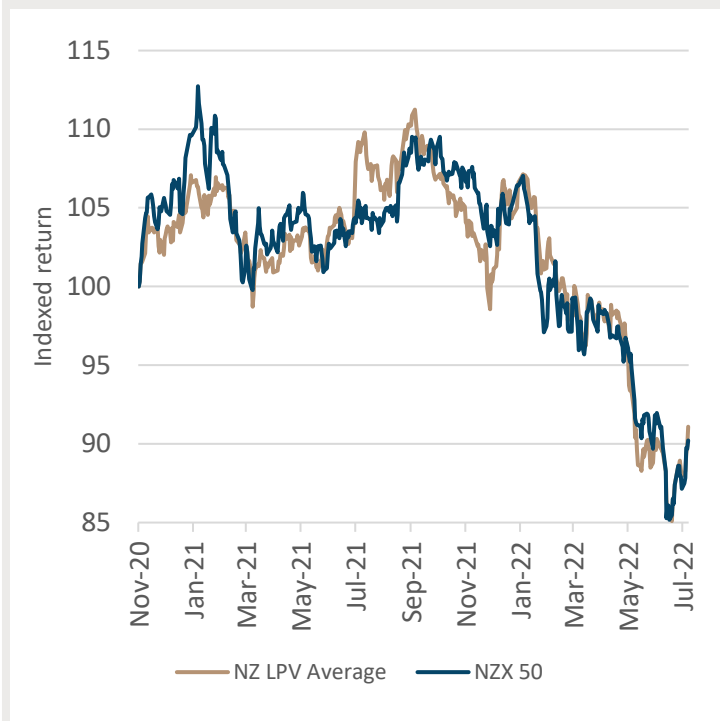
- Property Income Fund IM, October 2020

## Acquisition criteria

- Tenure–targeting a portfolio average WALT of 10 years.
- Sector–not restricted.
- Type of lease –net lease or triple net lease, gross leases permissible if favourable attributes.
- Tenant quality –strong tenants favoured including high quality private companies, large corporates or local or central government organisations.
- Building quality -new or near new buildings preferred or maintenance risk mitigated in other ways.
- Scale–assets of large size are preferred.
- Rent growth –rental growth expected over the term of the lease.
- Specialist properties –considered provided long lease duration and high tenant covenant.
- Capital preservation –look to buy well, avoid over-rented properties, sound underlying land value, fit for purpose properties.
- Location–NZ only, preference for metropolitan cities and regional cities (but not exclusively).
- No development or value add assets –all assets yielding, and cash flows stable on acquisition. Development permitted only if relating to extensions of existing premises and supported by tenant pre-commitments.
- Purchase method –off market or negotiated purchases preferred, particularly sale and lease back transactions.

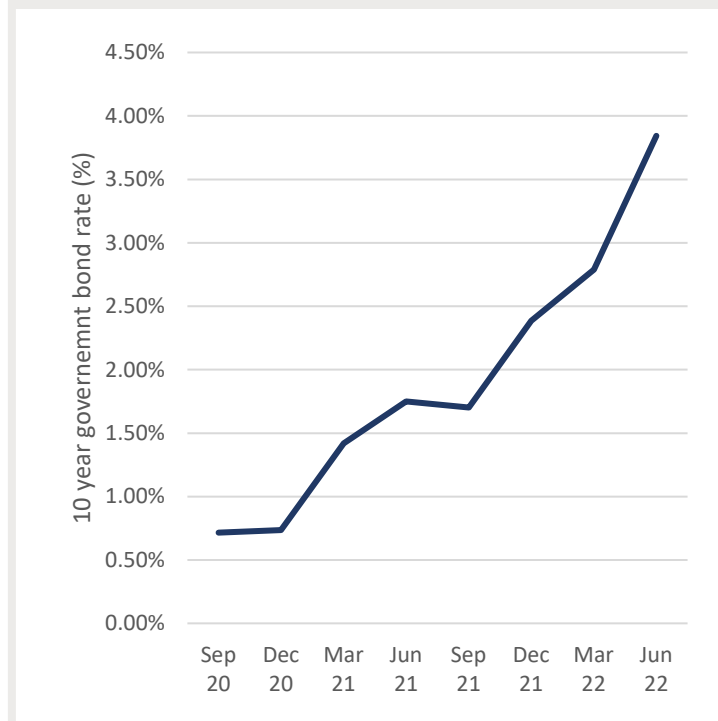
# What has changed

NZ listed property market down 20% from its September 2021 peak



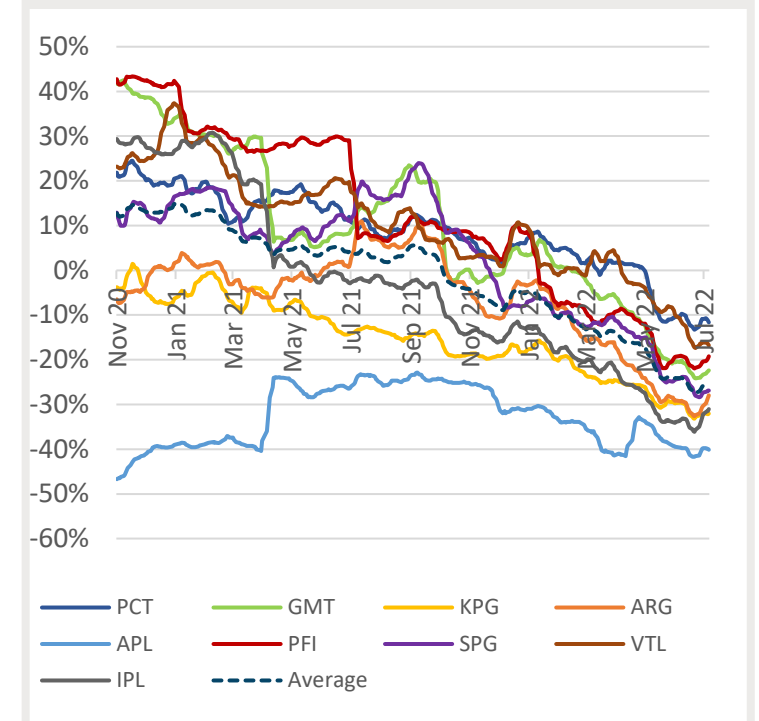
Source: NZX, S&P/NZX50 index

The risk free rate has increased by 5.3x since late 2020



Source: Westpac Economics Forecast Summary

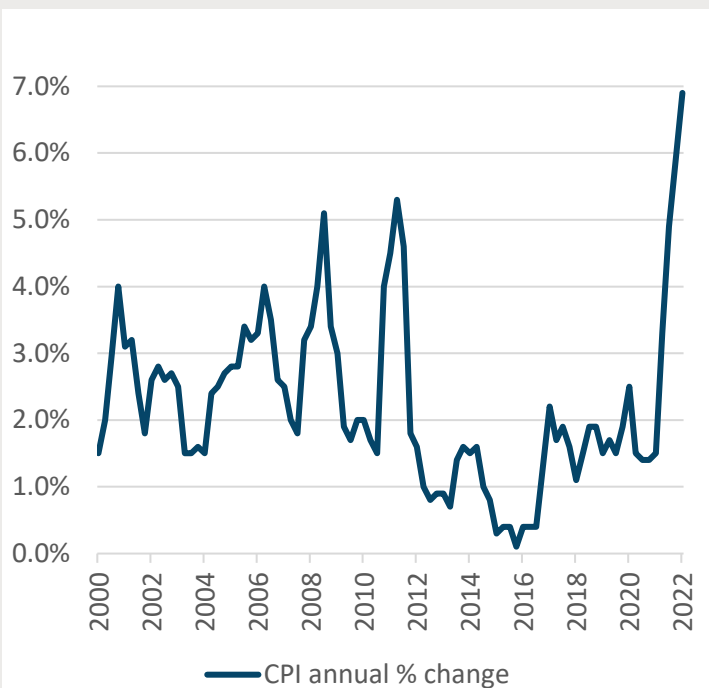
Listed property is now trading at an average 25% discount to NTA



Source: NZX, Company reports

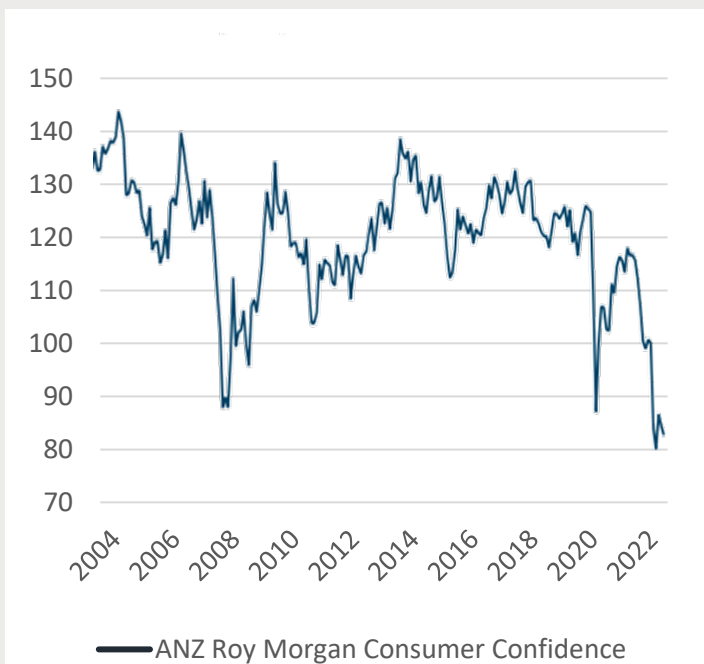
# What has changed

Inflation is at a 20 year high



Source: Westpac Economics Forecast Summary

Consumer confidence at its lowest level since the GFC

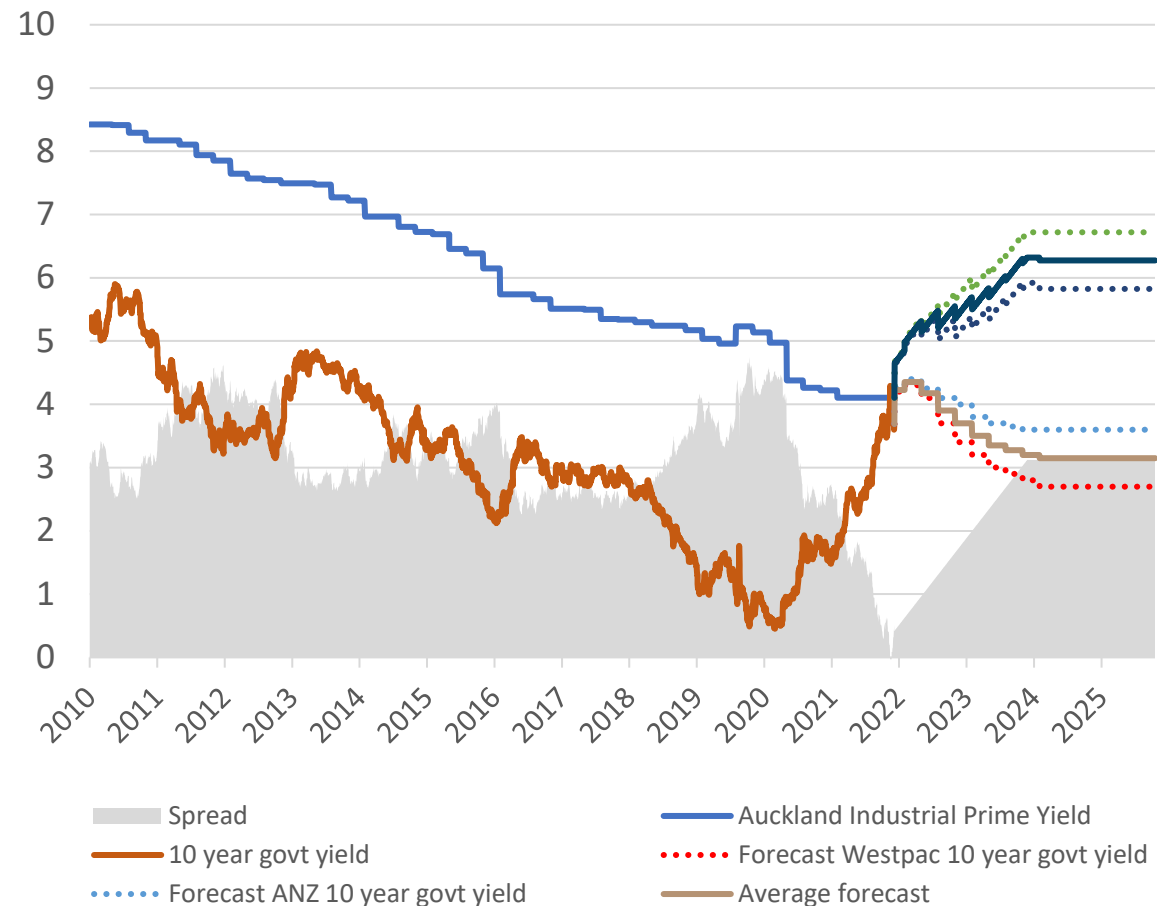


Source: ANZ Roy Morgan Consumer Confidence Survey

# Our view

- Anticipate further distress in the market, with asset values following the fall in listed property values.
- Auckland prime industrial yields are currently circa = risk free rate
- A fall of 1.50% - 2.50% in prime capitalisation rates to 5.5% - 6.5% is required to return market to historical average.
  - Share market currently pricing a 0.4% - 1.9% cap rate softening across listed vehicles.

Forecast Auckland prime industrial yield



Source: ANZ Economic Forecast, Westpac Economics Forecast Summary, CBRE, Willis Bond analysis

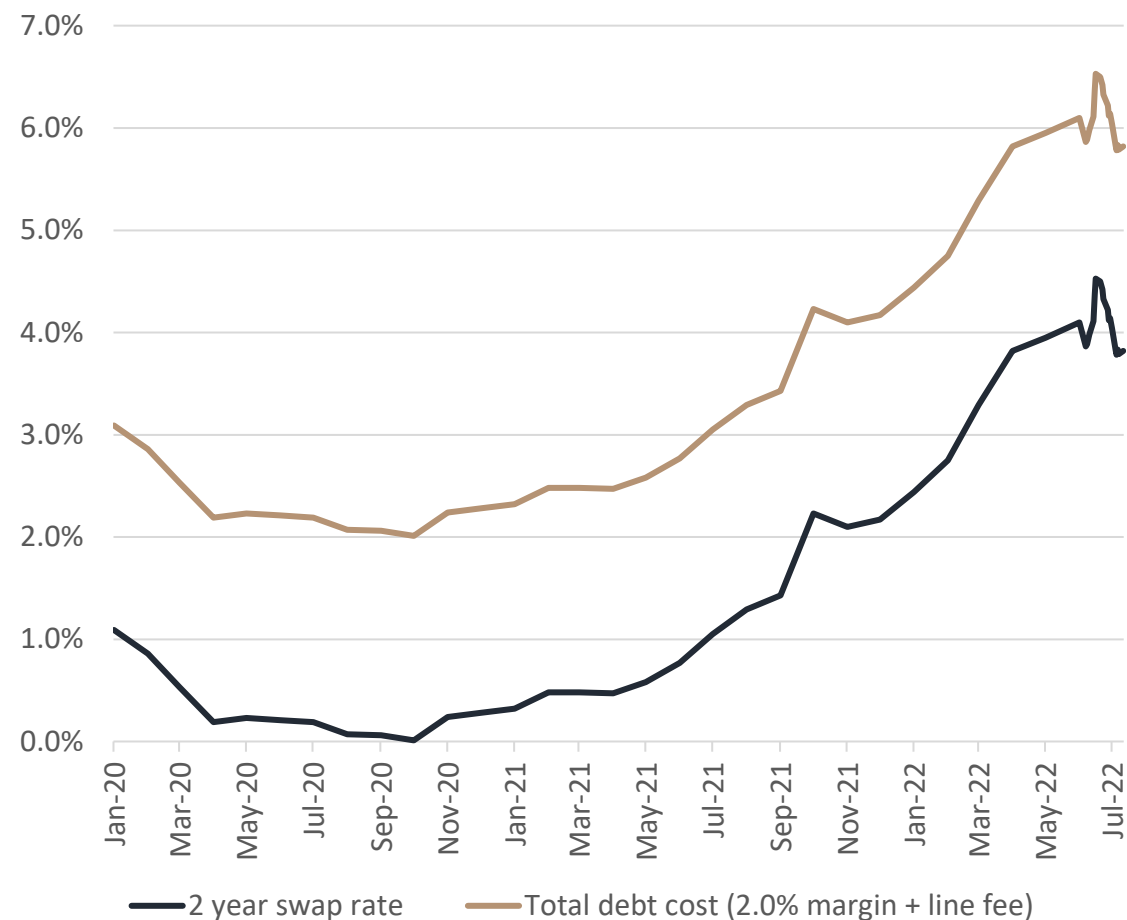
Response



# Reduced Gearing

- Debt costs have tripled since late 2020, increasing from c.2.0% to c.6.0% since PI establishment.
- Debt is yield decreitive at current capitalisation rates.
- Original PI mandate stated gearing of 50%.
- Current market supports lower gearing levels, with a 20 – 30% target established.

Cost of debt



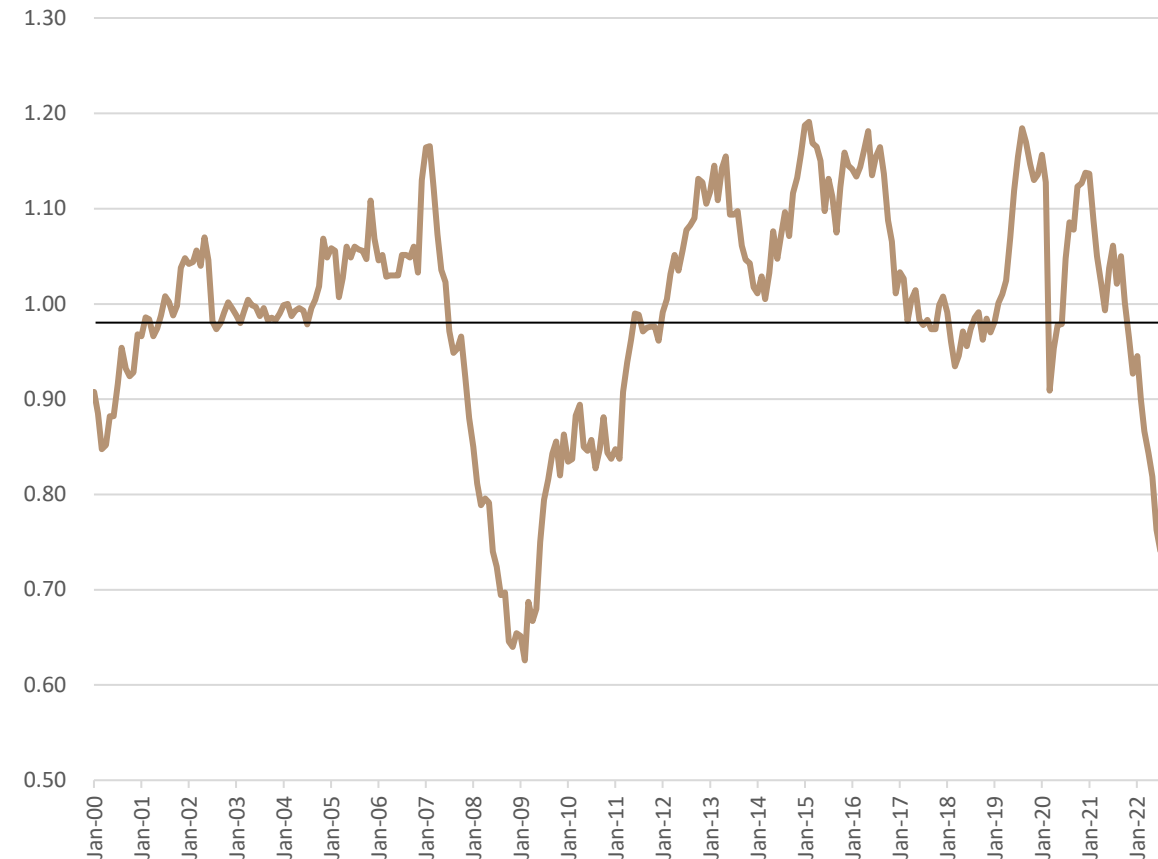
Source: Westpac economic analysis, current PI margin and line fee pricing



# Delay Listing

- NZ listed property market now trading at an average 25% discount to net tangible asset value.
- Discount does not support a listing in the near term, eroding shareholder value.
- Grey market facilitated to provide liquidity in the interim.
- List when market conditions become favourable.

NZ Listed Property Vehicle average P / NTA

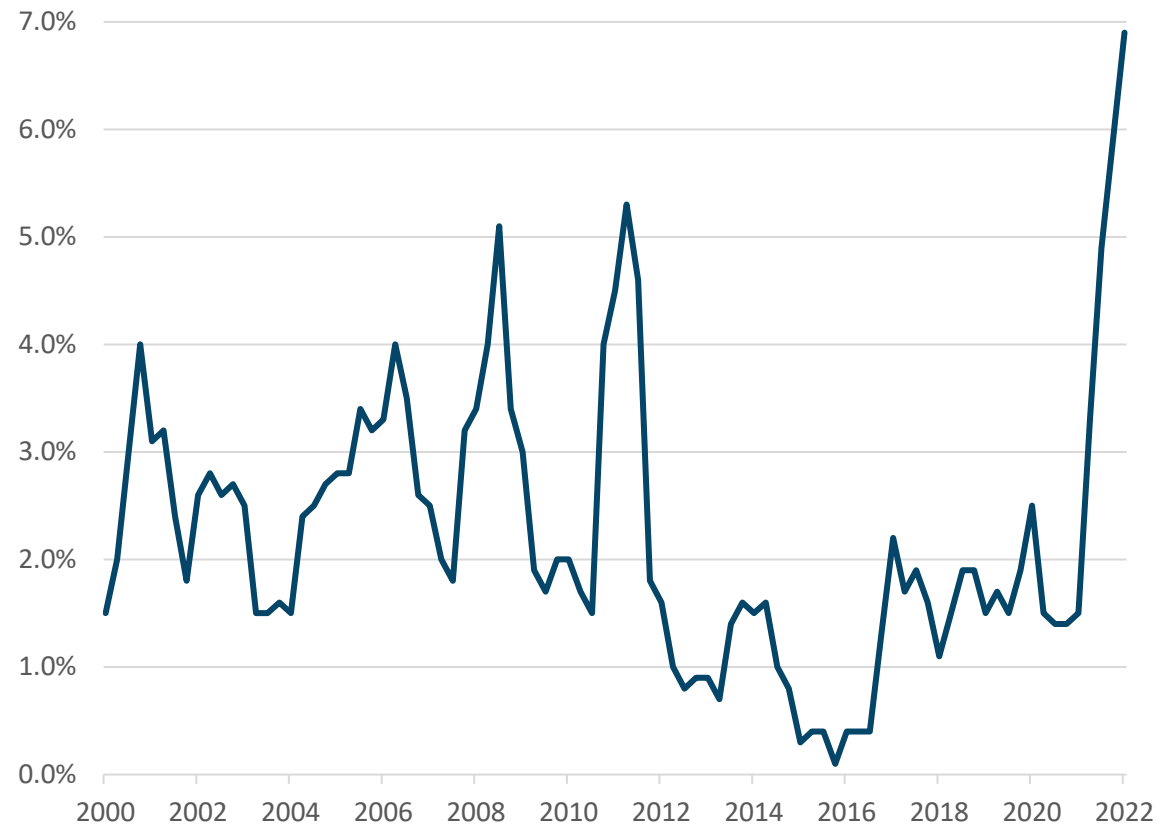


Source: Forsyth Barr analysis, NZX, company reports

# Target real rental growth

- Strong preference for inflation indexed returns.
- High inflation environment expected to persist.
- 90 Devonport Road conditional acquisition has annual rental reviews of CPI + 1.0%.

Annual CPI change (%)



Source: Westpac Economics Forecast Summary

# Use investment capacity to best effect



- Cycle has turned. Normally a lag before physical asset values fall.
- Many buyers side-lined e.g. listed buyers and syndicates
- Falling values may trigger equity raising in REITs
- Strong acquisition capacity to buy into market weakness.
- Target assets with inherent real growth characteristics
- Manager expects some property owners will be under pressure as interest rates bite forcing assets to the market
- PI's advantage is to move quickly and use its investment capacity to buy well.

# Dividend and call forecast

Date – quarter ending	Call forecast (\$ per share)	Pre tax annualised dividend forecast	PIE adjusted dividend forecast
June 2022	-	4.44%	5.25%
Sep 2022	-	4.57%	5.39%
Dec 2022	\$0.0095	4.55%	5.37%
Mar 2023	\$0.0179	4.60%	5.43%
June 2023	\$0.0326	4.68%	5.52%

