EARNINGS GROWTH, VALUATION GAINS, 2019 PRIORITIES ADVANCED

The PFI management team will present these results via live webcast from 10.30 am NZT today. To view and listen to the webcast, please visit https://edge.media-server.com/mmc/p/pjdkgz6u. We recommend you log on a few minutes before the start time, and if you cannot attend the live webcast, a recording will be available on PFI's website shortly after the conclusion of the live event. Alternatively, you can listen to the live presentation by dialling in on 0800 667 018 and using the access PIN 7170729.

Highlights

- **Earnings growth:** interim profit after tax up $16.8 million, Funds From Operations (FFO)[1] earnings per share in line with the prior interim period, Adjusted Funds From Operations (AFFO) earnings per share up 16.8% to 4.11 cents per share
- **Valuation gains:** $23.4 million or 8.8% increase in the value of 13 properties from independent valuations, net tangible assets per share up 5.4 cents or 3.0% to 183.1 cents per share
- **Positive portfolio activity:** over 72,000 square metres or 11% of the portfolio leased during the interim period to 14 tenants for an average increase in term of 6.8 years, market rent reviews settled at an average of ~4.8% above December 2018 market rental assessments
- **2019 priorities advanced:** two Auckland industrial opportunities secured totalling $51.4 million, 229 Dairy Flat Highway in Albany now being marketed for sale, $19.1 million of value-add strategies committed to or in advanced stages of planning

Property for Industry Limited (PFI, the Company) today announced growth in earnings and valuation gains as it made two strategic additions to its portfolio since the beginning of the year.

"Our strategy is focused on ensuring we optimise our portfolio and acquire the assets that will help us deliver the strong, stable returns our investors expect," says PFI Chief Executive Officer Simon Woodhams. "By finding the right opportunities, looking for ways to add value where that makes sense, and maximising the rental returns from our existing portfolio, we continue to make the disciplined gains that have underpinned PFI's growth since inception."

Financial performance

PFI ended the current interim period with a $16.8 million or 56.9% increase over the prior interim period in profit after tax.

Net rental income for the interim period increased by $1.7 million or 4.3% to $41.0 million. Positive leasing activity contributed an increase of $1.1 million or 2.9%, and acquisitions contributed a further increase of $1.0 million. These increases were partially offset by lost rental income from properties now under re-development ($0.3 million), disposals ($0.1 million) and lost rental income from a fire at 314 Neilson Street, Penrose[2] in April 2019.

Property costs – net of recoveries from tenants – were in line with the prior interim period.

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[1] Funds From Operations (FFO) and Adjusted Funds From Operations (AFFO) 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 Appendix 1 for more detail as to how these measures were calculated.

[2] PFI has material damage insurance up to a value of $9.65 million and 24 months of business interruption insurance in place for this property. The final amounts to be received under these insurances are yet to be determined and received.

Interest expense and bank fees increased $0.4 million or 4.6% as a result of average borrowings increasing by $32.1 million. This increase was partially offset by a reduction in the Company's weighted average cost of debt[3], which reduced ~34 basis points from the end of the prior interim period to 4.56%.

Administrative expenses were in line with the prior interim period.

PFI's effective current tax rate for the first half of 2019 was 22.5%, up from 19.5%[4] in the prior interim period due to a higher-than-average level of maintenance capex in the prior interim period.

All told, the Company made a profit after tax for the interim period of $46.4 million or 9.30 cents per share, up $16.8 million or 3.37 cents per share on the prior interim period. A large portion of the increase is due to a $15.5 million increase in the fair value gain on investment properties as compared to the prior interim period.

FFO and AFFO

FFO earnings per share were in line with the prior interim period and slightly ahead of the second half of 2018, with increases in net rental income offset by increased interest expense and bank fees and current taxation (refer Appendix 2).

AFFO earnings per share were 0.59 cents per share or 16.8% ahead of the prior interim period and 0.14 cents per share of 3.5% ahead of the second half of 2018 (refer Appendix 2). Maintenance capex was the key driver of this increase: in the first half of 2018, maintenance capex totalled $3.5 million or 57 basis points on an annualised basis. In the second half of 2018, this reduced significantly to $1.0 million or 8 basis points on an annualised basis, and in the first half of 2019, a low level was also recorded: $0.4 million or 6 basis points.

As noted in previous communications, PFI expects that maintenance capex will average 35 basis points per annum, but that the timing of this will be volatile. Given a low level of maintenance capex was incurred in the first half of 2019, a slightly lower level of maintenance capex – 30 basis points – is forecast for the full year (FY19). If half of this level of maintenance capex had been incurred in H1 2019, this would have resulted in AFFO earnings per share reducing by 0.32 cps to 3.79 cps.

Q2 Dividend

The PFI Board has today resolved to pay a second quarter interim cash dividend of 1.8000 cents per share. The dividend will have imputation credits of 0.6163 cents per share attached and a supplementary dividend of 0.2796 cents per share will be paid to non-resident shareholders. The record date for the dividend is 26 August 2019 and the payment date is 4 September 2019. The dividend reinvestment scheme will not operate for this dividend.

The second quarter dividend will take cash dividends for the first six months of 2019 to 3.60 cents per share, in line with the prior period, resulting in an FFO dividend pay-out ratio of 85% (H1 2018: 85%) and an AFFO dividend pay-out ratio of 93% (H1 2018: 107%, refer Appendix 3).

Guidance

In February 2019, the Company guided to a cash dividend of 7.60 cents per share for the 2019 financial year, with full year cash dividends expected to approximate 80% to 90% of FFO earnings and 95% to 100% of AFFO earnings, in line with the Company's dividend policy.

PFI Chief Finance and Operating Officer, Craig Peirce, notes: "The first half of 2019 has delivered strong leasing outcomes and the current low interest rate environment is translating into reduced interest costs.

[3] Weighted average cost of debt comprises float interest rates, hedging, margins and all borrowings related fees.
[4] H1 2018 excludes the impact of the June 2017 internalisation.

Given these conditions, we are guiding to the mid-point of our dividend policy ranges, with FFO earnings of around 8.95 cents per share and AFFO earnings of around 7.80 cents per share. We note that there is potential for AFFO earnings per share to exceed this guidance if our current expectations for maintenance capex of 30 basis points is not incurred."

Please refer to Appendix 4 for more detail on this guidance.

Net tangible assets (NTA)
PFI's NTA per share increased by 5.4 cents per share or 3.0% from 177.7 cents per share as at the end of 2018 to 183.1 cents per share as at the end of the interim period.

The change in NTA per share was driven by the increase in the fair value of investment properties (described below, +4.7 cents per share), retained earnings (+0.4 cents per share) and the decrease in the net fair value liability for derivative financial instruments (+0.3 cents per share).

Capital management
There were no changes to PFI's bank facilities during the first half of 2019: the facilities total $275 million, and are due to expire in May 2020 ($50 million), May 2021 ($187.5 million) and May 2022 ($37.5 million).

When combined with the Company's November 2024 ($100 million) and October 2025 ($100 million) bonds, at 30 June 2019, the weighted average term to expiry of PFI's bank facilities and bonds stands at 3.5 years.

The Company is well placed to continue to take advantage of the current low interest rate environment: based on current hedging and debt levels, an average of approximately 55% of PFI's debt will be hedged at an average rate of approximately 3.83% for H2 2019, with the remainder on historically low float interest rates.

The Company ended the interim period with gearing[5] of 31.1%, well within the self-imposed gearing limit of 40% and bank covenants of 50%. The interest cover ratio[6] of 3.9 times was also well within bank covenants of 2.0 times.

Craig Peirce, notes: "This low level of gearing provides us with the capacity to deliver on our recycling strategy, in particular, it gives us the ability to secure industrial property opportunities before divesting PFI's non-industrial properties."

Portfolio performance

Portfolio snapshot as at	30 June 2019	31 December 2018	30 June 2018
Book value	$1,368.3m	$1,322.0m	$1,239.5m
Number of properties	94	94	93
Number of tenants	147	148	146
Contract rent	$83.1m	$82.0m	$80.0m
Occupancy	99.7%	99.3%	98.1%
Weighted avg. lease term	5.71 years	5.39 years	5.39 years
Auckland property	83.8%	83.1%	82.6%
Industrial property	87.4%	87.3%	86.6%

[5] That is, total borrowings as a percentage of the most recent independent valuation of the property portfolio.
[6] That is, the ratio of interest expense and bank fees to operating earnings excluding interest expense and bank fees.

Full valuations of 13 properties were completed during the interim period, resulting in a total uplift of $23.4 million or 8.8%. The total uplift includes:

- $25.0 million or 11.3% of uplift on 10 properties with leasing transactions;
- $0.7 million or 4% of uplift on 51-61 Spartan Road, Takanini, purchased in March 2019;
- $1.8 million or 17% of write down on 314 Neilson Street, Penrose, due to a fire in April 2019; and
- $0.5 million or 2.6% of write down on 6 Donnor Place, Mount Wellington, where refurbishment has started following tenant expiry.

As a result of portfolio and valuation activity, PFI's passing yield firmed from 6.21% to 6.09%.

An independent desktop review of the remainder of the portfolio confirmed that there has not been a material change in value at the end of the interim period, and the entire portfolio will next be revalued by at the end of the year. Market evidence – and CBRE estimates[7] of prime and secondary Auckland industrial yields of 5.17% and 6.08% – indicate that further increases in value can be expected at the end of the year if market conditions remain unchanged.

Over 72,000 square metres, representing more than 11% of PFI's existing portfolio by rent, was leased during the interim period to 14 new and existing tenants for an average increase in term of 6.8 years. Lease renewals accounted for more than 90% of the contract rent secured, with 11 PFI tenants retained for an average increase in term of 7.0 years. Across these leasing transactions, low levels of incentives and capital expenditure were required to attract and retain tenants, with average leasing costs of less than half a month per year of term.

Included in these totals is a renewal of engineers Jacobs' tenancy at PFI's Auckland city-fringe Carlaw Park office and mixed-use property. Just 564 square metres of space remains vacant at this property, where the Department of Internal Affairs and NZ Behavioural Health – part of the Acurity Health Group – are currently completing their fit-out for their six-year and 10-year leases.

Rent reviews were completed on 56 leases during the interim period, resulting in an average annual uplift of 3.3% on $23.4 million of contract rent. Nine market rent reviews on $4.6 million of contract rent delivered an annualised increase of 3.3% over an average review period of 3.7 years, and these reviews were settled at an average of approximately 4.8% above December 2018 market rental assessments. An independent market rental assessment of the entire portfolio was not completed at the end of the interim period, but PFI estimates that the Company's Auckland industrial portfolio is around 5% under-rented, on a portfolio basis.

At the end of the interim period, the Company's portfolio was 99.7% occupied and just 2.8% of contract rent is due to expire in the second half of 2019 (a total of 3.1%, H2 2018: 3.9%). When combined with rent reviews, more than 40% of PFI's portfolio is subject to some form of lease event during the second half of 2019.

In their June 2019 Auckland Market Outlook, CBRE predict industrial rental growth over the next five years to average 3.0% per annum for Prime properties and 4.1% per annum for Secondary properties. PFI will continue to access this projected market rental growth as approximately 12% of the Company's H2 2019's lease events[8] are market related.

Market update

In the July ANZ Business Outlook Survey, headline business confidence fell six points during the month, with a net 44% of respondents reporting that they expect general business conditions to deteriorate in

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[7] CBRE "Hot Off The Press Update", July 2019.
[8] Being ~5% of total contract rent.

the year ahead. Employment intentions also fell during the month from zero to a net 6% of firms expecting to cut jobs.

Amidst ongoing trade tensions between major economies, rising protectionism and slumping exports, a growing number of central banks have taken action to shore up cooling economies, all this against a background of inflation that remains subdued across the OECD.

Interest rates in the main industrialised economies have fallen sharply, and local markets continue to reflect the likelihood of further easing by the RBNZ.

In their June 2019 Auckland Market Outlook, CBRE note that: “Investment markets will continue to benefit from the renewed monetary stimulus being implemented by Reserve Banks around the world suppressing both short and long term interest rates.”

As regards to rents, CBRE noted that for prime industrial property: “Given the active development market, low vacancy and ever increasing construction costs, we continue to expect new industrial warehouse rental benchmarks to be achieved in a number of the more active suburbs…”

For secondary industrial property, they note that: “… low vacancy and ongoing demand from more cost sensitive occupiers support Secondary grade rental growth going forward…”

These factors combine to result in CBRE predicting that secondary industrial will continue as the market with the best return outlook. Their forecast of annual returns over the next five years totals 11.2% per annum (December 2018: 11.0%), comprising an income return of 6.0% (December 2018: 6.3%) and capital growth of 5.2% (December 2018: 4.8%).

Prime industrial once again ranks second in their forecasts, with annual returns over the next five years expected to total 8.9% per annum (December 2018: 8.7%), comprising an income return of 5.1% (December 2018: 5.3%) and capital growth of 3.8% (December 2018: 3.4%).

2019 priorities

Simon Woodhams notes: “As we reach the halfway point of 2019, we are pleased to report good progress on our priorities for the year, which included starting to replace PFI’s non-industrial properties with quality industrial properties in sought-after areas.”

“Since the beginning of the year, $51.4 million has been committed to two prime Auckland industrial opportunities. 12-year leases have been secured at both sites, and the return to PFI is estimated to be around 5.35%.”

Simon Woodhams continues: “Following the settlement of the sale of 50 Parkside Road in Wellington in January of this year, we are pleased to report that we are also underway with divesting PFI’s non-industrial properties.”

Following the completion of a number of asset management initiatives, the Company’s mixed-use property at 229 Dairy Flat Highway in Albany is now being marketed for sale by Colliers International under a deadline private treaty closing at Tuesday, 27 August 2019.

Value-add strategies within the existing portfolio also form an important part of the Company’s 2019 priorities.

Kiwi Steel’s 2,500 square metre warehouse on surplus land at 212 Cavendish Drive, Manukau, achieved practical completion early May, and since the beginning of the year the Company has committed to four more new projects with a total value of $8.3 million. Combined, these four projects are expected to deliver a return on incremental cost of 6.3%. A further $10.8 million of projects are in advanced stages of planning and negotiation.

Closing

Simon Woodhams concludes: "With an excellent portfolio, a strong balance sheet, and a favourable outlook for industrial property, we enter the second half of 2019 well positioned to deliver on our Purpose: creating strong, stable income for investors and generating prosperity for New Zealand."

ENDS

ABOUT PFI & CONTACT

PFI is an NZX listed property vehicle specialising in industrial property. PFI's nationwide portfolio of 94 properties is leased to 147 tenants.

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Attachments

NZX Form – Results Announcement
NZX Form – Distribution Notice
Interim Results Presentation
Interim Financial Statements

Appendices

Appendix 1 – FFO and AFFO Calculations

Funds / Adjusted Funds From Operations (unaudited, $000, unless noted)	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Profit and total comprehensive income after income tax attributable to the shareholders of the Company	**46,398**	**29,570**
Adjusted for:		
Fair value gain on investment properties	(23,449)	(7,948)
Loss / (gain) on disposal of investment properties	57	(53)
Fair value (gain) / loss on derivative financial instruments	(1,297)	(647)
Amortisation of tenant incentives	1,297	1,141
Straight lining of fixed rental increases	(717)	(524)
Deferred taxation	127	2,691
Adjustment to current taxation for the deductibility of the termination of the management agreement	-	(1,994)
Funds From Operations (FFO)	**22,416**	**22,236**
FFO per share (cents)	**4.49**	**4.46**
Maintenance capex	(374)	(3,501)
Incentives and leasing fees given for the period	(1,556)	(1,188)
Other	-	(5)
Adjusted Funds From Operations (AFFO)	**20,486**	**17,542**
AFFO per share (cents)	**4.11**	**3.52**

Appendix 2 – FFO and AFFO Compared to H1 2018 and H2 2018

	FFO (CPS)	Change	AFFO (CPS)	Change
H1 2018	4.46	+0.03 CPS or +0.7%	3.52	+0.59 CPS or +16.8%
H1 2019	4.49		4.11	

	FFO (CPS)	Change	AFFO (CPS)	Change
H2 2018	4.38	+0.11 CPS of +2.5%	3.97	+0.14 CPS or +3.5%
H1 2019	4.49		4.11	

Appendix 3 – FFO and AFFO Dividend Pay-out Ratios

Full year dividends per share (cents, 2019 = guidance, 2018 = actuals)	**7.60**	**7.55**
Pro-rata share of full year dividends per share (cents, 2019 = 50% of guidance, 2018 = 50% of actuals)	**3.80**	**3.78**
FFO dividend pay-out ratio (%)	**85%**	**85%**
AFFO dividend pay-out ratio (%)	**93%**	**107%**

Appendix 4 –

The table below illustrates the level of FFO and AFFO earnings based on the mid-point of the guidance range:

CPS	**FFO @ 85%** **Policy: 80 – 90%**	**AFFO @ 97.5%** **Policy: 95 – 100%**
Guidance	~8.95	~7.80
Actual H1 2019	4.49	4.11
Implied H2 2019	**4.46**	**3.69**
Normalise maintenance capex	-	+0.32
Normalised H2 2019	**4.46**	**4.01**