PFI ANNOUNCES INTERIM RESULTS

The PFI management team will present the results via live webcast from 10am NZT on 22 August 2023. To view and listen to the webcast, please visit https://edge.media-server.com/mmc/p/hvy9xwof. Anyone wishing to participate in the webcast (for example, to ask a question) must pre-register for the conference call at https://register.vevent.com/register/BI3097c5a81d33434cadaff6af14aa117f. Upon registering, participants will be provided with participant dial-in numbers, a passcode and a unique registrant ID. In the 10 minutes prior to the call start time, you will need to use the conference access information provided in the email received at the point of registering, in addition to opening the webcast (using the details above).

Highlights

- **Interim result:** Fair value losses on properties of $55.0 million or 5.3% contributing to a loss after tax of $30.5 million. Funds From Operations (FFO)[1] down 4.0% from the prior interim period to 4.92 cents per share (cps), Adjusted Funds From Operations (AFFO) in line with the prior interim period at 4.62 cps, interim cash dividends of 3.90 cps.
- **Constrained supply driving rental growth:** Auckland industrial vacancy remains at all-time lows, driving rental growth. $32.8 million of contract rent reviewed during H1 2023 delivering an average annualised uplift of 4.2%, 2.3% of contract rent leased during H1 2023 at an average of 14.7% above previous contract rents. $2.1 billion industrial property portfolio ~16% under-rented.
- **Green Star development pipeline progressed:** Demolition complete across both active sites, $140 million of committed spend, all buildings targeting Five Green Star ratings.
- **Sustainability initiatives advanced:** Refreshed sustainability strategy rolled out, in house facilities management services now live, first solar installation complete, power metering installed at seven properties.
- **Balance sheet optimisation:** BNZ facility upsized and extended, $199 million of available bank liquidity and gearing comfortable at 29.2% at the end of the interim period. Green Finance Framework launched, inaugural Green loan tranches established post interim balance-date.

Property for Industry Limited (PFI, the Company) today announced the Company's interim result for the six months ended 30 June 2023.

"Occupier market fundamentals remain robust, and our resilient, well-located portfolio continues to capture further rental growth. Significant progress has been made across the Company's Green Star development pipeline, financed by PFI's inaugural Green loan tranches, demonstrating our commitment to long term sustainability initiatives" says PFI Chief Executive Officer, Simon Woodhams.

Interim result

PFI reported a loss after tax for the interim period of $30.5 million (loss of 6.08 cps), down from a profit of $23.8 million (profit of 4.70 cps) in the prior interim period. A $55.0 million fair value loss on the independent valuation of 37 investment properties, as compared to a $19.5 million fair value gain on the independent valuation of 11 properties in the prior interim period, was the main contributor to this reduction.

At an operating level, net rental income[2] of $47.4 million was down $0.3 million or 0.7% on the prior interim period, with the commencement of the Company's brownfield development projects and current

[1] Funds From Operations (FFO) and Adjusted Funds From Operations (AFFO) are non-GAAP financial information and are common property 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] Refer note 2.3 of the interim financial statements. Excludes service charge income recovered from tenants and management fee income.

and prior year divestment activity contributing $1.8 million to this decrease. Offsetting this, positive leasing activity contributed to an increase in net rental income totalling $1.5 million.

Interest expense and bank fees increased by $3.2 million, the result of an increase in the Company's weighted average cost of debt to 5.34% from 4.07% as at the end of the prior interim period. Current taxation of $3.3 million was down $2.7 million on the prior interim period, the change from the prior interim period being largely due to an increase in deductible capital expenditure and tax deductions associated with the Company's brownfield redevelopment projects.

As a result, FFO earnings were down 4.0% from the prior interim period to 4.92 cps, whilst AFFO earnings of 4.62 cps were in line with the prior interim period (4.64 cps).

That being the case, the PFI Board has resolved to pay a second quarter interim cash dividend of 1.95 cps. The dividend will have imputation credits of 0.36 cps attached and a supplementary dividend of 0.16 cps will be paid to non-resident shareholders. The record date for the dividend is 29 August 2023, and the payment date is 7 September 2023. The dividend reinvestment scheme will not operate for this dividend.

The second quarter dividend will take cash dividends for the interim period to 3.90 cps, resulting in an FFO dividend pay-out ratio of 83% (2022: 79%) and an AFFO dividend pay-out ratio of 89% (2022: 92%, refer Appendix 2).

Consistent with earlier guidance, the PFI Board expects to declare 2023 cash dividends of between 8.10 and 8.30 cps, an increase of up to 2.5% on 2022 dividends. PFI's dividend policy is to distribute between 90% to 100% of AFFO on a rolling three-year historic average basis, and cash dividends of between 8.10 cps and 8.30 cps are anticipated to result in a dividend pay-out at the bottom of this dividend policy range. Elevated interest rates have the potential to impact forecast earnings, and PFI's guidance assumes an average BKBM throughout the remainder of 2023 of around 5.70%, up from 5.25% when PFI's 2023 guidance was first issued. This guidance is also subject to upside risks from capturing sector rental growth and portfolio under renting, with additional downside risk from matters that are outside the Company's control, including tenant failure.

Constrained supply driving rental growth

Portfolio snapshot as at	30 June 2023	31 December 2022
Book value	$2,058.9m	$2,117.2m
Number of properties	93	94
Number of tenants	128	132
Contract rent	$94.4m	$98.2m
Occupancy	100.0%	100.0%
Weighted Average Lease Term (WALT)	5.00 years	5.08 years
Auckland property	84.7%	83.2%

PFI's portfolio again delivered strong levels of rental growth over the first half of 2023.

Rent reviews were completed on 61 leases during the first half of 2023, resulting in an average uplift of 4.7% on ~$32.8 million of contract rent. CBRE predict[3] industrial rental growth over the next five years to average 3.4% per annum for prime properties and 2.9% per annum for secondary properties, following growth of 17.4% and 13.8% in 2022, respectively.

[3] CBRE "Auckland Property Market Outlook", July 2023

Around 36,000 square metres (sqm), $4.4 million or 4.6% of PFI's portfolio by rent, was leased during the interim period to eight existing tenants for an average increase in term of 4.7 years, with average incentives of 0.1 months per year of term negotiated across these leasing transactions. Rents were agreed on $2.2 million of contract rent, achieving a positive re-leasing spread of around 15% on annual passing rents. The remaining $2.2 million of contract rent secured during the first half of 2023 will be subject to market reviews on renewal (all uncapped), with those leases ~9% under-rented at June 2023.

Combined, over 39% of contract rent was reviewed, varied, or leased during the first half of 2023.

At the end of the interim period, the Company's portfolio was fully occupied and just 3.2% of contract rent is due to expire in the second half of 2023, with ~75% of remaining 2023 expiries either secured, or in advanced stages of negotiation, since the end of the interim period. The occupier market for industrial property remains robust, with vacancy at record low levels. CBRE reports[3] almost no Auckland industrial vacancy for prime properties and just 0.1% for secondary properties.

Post interim balance date, PFI has secured leases at benchmark portfolio rents across wider Auckland. On the Rosebank Road peninsula, a warehouse rate of $190 psm has been agreed on a 2,750 sqm warehouse, representing a 46% uplift on the previous warehouse rate, and a 54% uplift on the previous passing rent for the facility. At East Tamaki, heads of terms have been signed at a warehouse rate of $183 psm on a 5,000 sqm manufacturing warehouse, which is a 43% uplift on the previous warehouse rate, and a 51% uplift on the previous passing rent for the facility. In addition, on a psm basis, these warehouse rates are 27% and 22% ahead of June 2023 valuer estimates of market rent. With the next leasing event for 21% of PFI's properties being an expiry of market rent review, PFI is well positioned to capture these benchmark rents across the portfolio.

37 properties, representing around half of PFI's portfolio by value, were revalued at the end of the interim period, resulting in a fair value loss on those properties of $55.0 million or an average decrease of 5.3%. These decreases were driven by ~43bps of market capitalisation rate expansion, somewhat offset by rental growth. A significant factor in the decrease of individual property values was the lack of access to market rents in the near-term, particularly for assets with longer lease terms. We note these assets will naturally achieve reversion to market rents as time moves forward, through PFI's ongoing asset management activities. As a result of portfolio and valuation activity, PFI's passing yield softened from 4.50% to 4.73%[4]. An independent market rental assessment of the entire portfolio was completed as part of the valuation process, this assessment estimates that PFI's portfolio is around 16% under-rented.

Net tangible assets (NTA) per share decreased by 10.6 cps from 298.8 cps as at the end of 2022 to 288.2 cps as at the end of the interim period.

Green Star development pipeline progressed

The Company has around $232 million or 11% of the portfolio held in properties where there is an opportunity for redevelopment, and these properties are referred to as brownfield opportunities. During the interim period, the PFI team made significant progress at the Company's committed brownfield development sites, 30-32 Bowden Road in Mount Wellington and 78 Springs Road in East Tamaki. Demolition is now complete across both sites, with civil and foundational works underway.

At the Company's 3.9 hectare 30-32 Bowden Road property, ~40% of the development has been pre-leased to Tokyo Food for a lease term of 12 years. PFI is developing the remainder of the site without tenant commitment and expects to complete the project in Q3 2024. The estimated incremental cost of ~$65 million remains unchanged. Both buildings will target a Five Green Star rating, creating PFI's first fully Green Star rated industrial estate, with close to 24,000 sqm of covered workable area once

[4] Both current and prior period exclude committed brownfield development properties (30-32 Bowden Road and 78 Springs Road)

complete.

At 78 Springs Road, the Company is developing a 25,500 sqm warehouse for existing tenant Fisher & Paykel Appliances, with an option to expand the warehouse to 30,000 sqm. Stage 1 of the project is expected to complete in Q1 2025 and has an estimated total incremental cost of ~$76 million, with contract pricing showing signs of construction costs easing. PFI is continuing to work through the configuration of future stages, with 5.3 hectares of land available across the balance of the site. Future stages will be committed to on an individual basis, taking into consideration their ability to meet hurdle rates of return, market conditions and availability of capital, and all significant buildings will target Five Green Star ratings.

Sustainability initiatives advanced
Further progress has been made across a variety of areas in the Company's sustainability programme, including; rolling out a refreshed sustainability strategy to investors, team and key suppliers; embedding in-house facilities management; completing the Company's first solar installation; and installing power metering at seven PFI properties.

As mentioned above, PFI continues to work towards achieving Five Green Star[5] ratings on all buildings at the Company's current brownfield development sites, with these projects now backed by Green loans (see below).

Balance sheet optimisation
PFI's balance sheet remains conservative with gearing as at 30 June 2023 of 29.2% (covenant: 50%) and an interest cover ratio for the year then ended of 2.8 times (covenant: 2.0 times). Interest rate hedging provides for an average of ~61% of the Company's debt to be hedged at an average fixed rate of ~2.35% for the remainder of 2023, offering some protection from floating interest rates.

During the interim period, PFI refinanced its $100 million loan facility from the BNZ, extending the facility expiry date by two years to 31 March 2025 and increasing the facility from $100 million to $175 million, providing initial funding certainty through to the estimated completion of the Company's committed Green Star developments at 30-32 Bowden Road and 78 Springs Road.

Post interim balance date, PFI launched its Green Finance Framework (the Framework), recognising the Company's commitment to invest in long-term sustainability initiatives, and concurrently established its inaugural $150 million Green loan tranches, in accordance with the Framework. The Green loan facilities were provided by PFI's long-term banking partners ANZ, BNZ, CBA and Westpac.

Upon establishment of the Green loan facilities, PFI reduced the short-term BNZ facility by $50 million to $125 million. Following this activity, the weighted average term to expiry of PFI's bonds and bank facilities increased to 2.7 years[6] and the Company added $125 million of additional liquidity to the $199 million of available liquidity as at the end of the interim period.

Closing
"Our diligent approach to capital management over the first half of the year will facilitate the execution of the Company's Green Star development pipeline, as we work towards the completion of our Bowden Road and Springs Road projects in 2024 and 2025, respectively" notes PFI Chairman, Anthony Beverley. "Concurrently, we will continue to extract value from our $2.1 billion industrial property portfolio, supported by a robust occupier market and record low vacancy in Auckland. Looking ahead, the Company is well placed to perform against a softer economic backdrop, and indeed capitalise on any opportunities that arise."

[5] Refer to slide 25 of the interim results presentation for further detail on Green Star ratings
[6] As at 20 July 2023

ENDS

ABOUT PFI & CONTACT

PFI is an NZX listed property vehicle specialising in industrial property. PFI's nationwide portfolio of 93 properties is leased to 128 tenants.

For further information please contact:

SIMON WOODHAMS
Chief Executive Officer
—
Phone: +64 21 749 770
Email: woodhams@pfi.co.nz
—

CRAIG PEIRCE
Chief Finance and Operating Officer
—
Phone: +64 21 248 6301
Email: peirce@pfi.co.nz

Property for Industry Limited
Level 4, Hayman Kronfeld Building, 15 Galway Street,
Auckland 1010
PO Box 1147, Shortland Street, Auckland 1140
www.propertyforindustry.co.nz

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 2023**	**For the six months ended 30 June 2022**
Profit and total comprehensive income after income tax attributable to the shareholders of the Company	**(30,527)**	**23,780**
Adjusted for:		
Fair value loss / (gain) on investment properties and AHFS	55,046	(19,451)
Material damage insurance income	(140)	-
Loss on disposal of investment properties and AHFS	931	131
Fair value (gain) / loss on derivative financial instruments	2,210	(14,293)
Amortisation of tenant incentives	1,330	1,441
Straight lining of fixed rental increases	(323)	(681)
Deferred taxation	(4,080)	5,934
Goodwill impairment	-	29,086
Other	279	(3)
Funds From Operations (FFO)	**24,726**	**25,944**
FFO per share (cents)	**4.92**	**5.13**
Maintenance capex	(1,366)	(1,051)
Incentives and leasing fees given for the period	(242)	(1,556)
Other (incl. reversal of accounting entries for COVID-19 abatement and deferral deals)	77	129
Adjusted Funds From Operations (AFFO)	**23,195**	**23,466**
AFFO per share (cents)	**4.62**	**4.64**

Appendix 2 – FFO and AFFO Dividend Pay-out Ratios

	2023	**2022**
Full year dividends per share (cents, 2023 = mid-point of guidance, 2022 = actuals)	8.20	8.10
Pro-rata share of full year dividends per share (cents, 2022 = 50% of guidance, 2022 = 50% of actuals)	4.10	4.05
FFO dividend pay-out ratio (%)	**83%**	**79%**
AFFO dividend pay-out ratio (%)	**89%**	**92%**