NZX and media announcement
26 February 2024

PFI ANNOUNCES ANNUAL RESULTS

The PFI management team will present the results via live webcast from 10am NZT on 26 February 2024. To view and listen to the webcast, please visit https://edge.media-server.com/mmc/p/i3sigtua. 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/BI94fa315da6cf418e979dd8a2783c2874. 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

- **Annual result:** Fair value losses on properties of $140.8m (-6.7%) contributing to a loss after tax of $97.8m. Funds From Operations (FFO)[1] down 1.8% on FY22 to 10.03 cents per share (cps), Adjusted Funds From Operations (AFFO) up 1.0% on FY22 to 8.92 cps, FY23 cash dividends of 8.30 cps, up 2.5% on FY22 dividends.
- **Under-renting[2] provides platform for rental growth:** Auckland industrial vacancy remains near all-time lows, driving rental growth. $68.9m of contract rent reviewed during FY23 delivering an average annualised uplift of 4.2%, 14.8% of contract rent leased during FY23 at an average of 26.4% above previous contract rents. ~$2.0b industrial property portfolio independently assessed as being ~16% under-rented.
- **Green Star development pipeline expanded and on track:** 5.8 hectares of land under contract at Spedding Road, active brownfield sites on track with ~$73m of committed spend remaining, all buildings targeting 5 Green Star ratings.
- **Sustainability at our core:** In house facilities management services enabling an increased focus on the operational performance of buildings, solar and power metering initiatives advanced, Green Star developments matched with Green Finance.
- **Proactive capital management:** $251m of available bank liquidity within existing funding envelope, gearing comfortable at 32.0%. Green Finance Framework launched and inaugural $150m Green loan tranches established, initial $25m draw made on Pricoa shelf-facility.

Property for Industry Limited (PFI, the Company) today announced the Company's annual result for the year ended 31 December 2023. PFI's balance date is changing from 31 December to 30 June and PFI's next annual report will reflect a six-month period to 30 June 2024 (FY24).

"Strong leasing outcomes have delivered cashflow and stability," says PFI Chief Executive Officer, Simon Woodhams. "Despite significant increases in interest rates during the year, low gearing, low vacancies and growing rents have all worked in our favour."

Annual result

PFI reported a loss after tax for FY23 of $97.8m (loss of 19.48 cps), as compared to a loss of $13.9m (loss of 2.76 cps) in FY22. A $140.8m fair value loss on the independent valuation of the Company's property portfolio, as compared to a $56.7m fair value loss in FY22, was the main contributor to this reduction.

[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] Under-renting in commercial property occurs when contractual rent is below independent valuer assessments of market rents. This presents an opportunity to achieve reversion to market rents over time through rent reviews and re-leasing activity, all else remaining equal.

FY23 net rental income[3] of $94.9m was down $0.8m (0.7%) on FY22, due to the impacts of brownfield development projects (-$3.2m) and divestment activity (-$1.5m), partly offset by positive leasing activity ($3.6m).

Interest expense and bank fees increased by $4.5m, the result of an increase in the Company's weighted average cost of debt to 5.70% from 4.77% as at the end of FY22. Current taxation of $5.6m was down $4.9m on FY22, the change from the prior year being largely due to an increase in deductible capital expenditure and tax deductions associated with redevelopment projects.

As a result, FFO earnings were down -1.8% on FY22 to 10.03 cps, whilst AFFO earnings of 8.92 cps were up 0.9% from FY22.

In line with PFI's dividend policy to distribute between 90% to 100% of AFFO on a rolling three-year historic average basis, the PFI Board today resolved to pay a fourth quarter final cash dividend of 2.45 cps. The dividend will have imputation credits of 0.34 cps attached and a supplementary dividend of 0.15 cps will be paid to non-resident shareholders. The record date for the dividend is 4 March 2024, and the payment date is 13 March 2024. The dividend reinvestment scheme will not operate for this dividend.

The fourth quarter dividend will take cash dividends for FY23 to 8.30 cents per share, up 2.5% from FY22 dividends (refer Appendices 2 and 3 for all pay-out ratio calculations).

Under-renting provides platform for rental growth

Portfolio snapshot as at	31 December 2023	31 December 2022
Book value	$2,027.7m	$2,117.2m
Number of properties	92	94
Number of tenants	126	132
Contract rent	$96.6m	$98.2m
Occupancy	100.0%	100.0%
Weighted Average Lease Term (WALT)	5.06 years	5.08 years
Auckland property	85.3%	83.2%

The strong levels of rental growth reported for the first half of FY23 continued into the second half of the year.

Rent reviews were completed on 111 leases during FY23, resulting in an average uplift of 5.0% on ~$68.9m of contract rent. CBRE forecast[4] Auckland industrial rental growth over the next five years to average 2.9% per annum for prime properties and 1.8% per annum for secondary properties, following growth of 45% and 37% over the past five-years to 31 December 2023, respectively.

Around 148,000 square metres (sqm), or $17.7m (18.3%) of PFI's portfolio by rent, was leased during FY23 to five new and 24 existing tenants for an average increase in term of 5.2 years, with negligible incentives across these leasing transactions. Rents were agreed on $14.3m of contract rent, achieving a positive re-leasing spread of around 26% on annual passing rents. The remaining $3.4m of contract rent secured during FY23 will be subject to market reviews on renewal. After factoring in rent review caps those leases are ~18% under-rented as at 31 December 2023.

Combined, over 92% of contract rent was reviewed, varied, or leased during FY23.

[3] Refer note 2.5 of the financial statements. Excludes service charge income recovered from tenants and management fee income.
[4] CBRE "Auckland Property Market Outlook", December 2023

At the end of FY23 the Company's portfolio was fully occupied and just 1.3% of contract rent is due to expire in FY24, with the largest single expiry totalling 0.9% of contract rent. FY24 expiries and market reviews (5.6% of contract rent) are ~30% under-rented at the end of FY23 after factoring in review caps. Multiple recent leasing transactions have recorded re-leasing spreads of ~40% on previous contract rents and settling at or above independent valuer assessments of December 2023 market rent. With the next leasing event for 17% of PFI's properties being an expiry or market rent review, PFI's well-located portfolio is set to continue realising rental growth in the coming years.

The Company recorded an annual decrease in the value of its property portfolio from independent valuations of $140.8m (-6.7%) to $2,027.7m. Realised rental growth was estimated to have added around ~6% to the value of the portfolio, with the remainder of the valuation outcome due to a softening in yields or cap rates as a result of the higher interest rate environment. As a result of portfolio and valuation activity, and excluding the Company's brownfield development properties, PFI's passing yield softened by 0.51% to 5.01%, while the portfolio market cap rate softened by 0.74% to 5.74%. 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) as at the end of FY23 of 270.9 cps are down 27.9 cps on FY22, largely as a result of decreases in the value of properties and derivatives.

Green Star development pipeline expanded and on track

During the year, PFI entered into a conditional contract to acquire approximately 5.8 hectares of land within the proposed industrial subdivision at Spedding Road, located at the end of the Northwestern Motorway in Auckland, for $40.6m. Indicative plans demonstrate that site coverage of up to 70% of the lots to be purchased can be achieved, with early concepts allowing for ~40,000 sqm of covered workable area once complete, for an estimated total project spend of ~$150m (including land). Consistent with PFI's sustainability strategy, all buildings will be designed and developed to target a minimum of 5 Green Star ratings.

In addition to Spedding Road, PFI currently has around $267m (13%) of the portfolio held in brownfield opportunities. Progress at the Company's current sites (30-32 Bowden Road and 78 Springs Road) has continued apace, with all buildings set to be delivered on time and on budget.

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, with the remainder being developed on a speculative basis, and PFI is in advanced discussions with a tenant for this space.

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. PFI has also signed a non-binding Heads of Agreement with a prospective tenant to develop ~6,500 sqm of warehouse, anchoring stage 2 of the redevelopment. Should this tenant commitment be secured, the balance of stage 2 (~4,800 sqm of warehouse) will likely be developed on a speculative basis, and construction could commence as early as Q1 2025, upon completion of Stage 1. Plans for the balance of the site, Stage 3, allow for a ~17,500 sqm warehouse with 500 sqm of office, 4,200 sqm of breezeway and canopies and 2,300 sqm of yard, with any redevelopment likely to be tenant led. All 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.

Sustainability at our core

Further progress has been made across a variety of areas in the Company's sustainability programme, including: embedding in-house facilities management services, enabling an increased focus on the operational performance of our buildings; advancing the Company's solar and power metering initiatives, with 240 solar panels installed as part of the sustainable refurbishment of 3-5 Niall Burgess Road, 20 properties within the portfolio now have power metering and monitoring installed.

PFI will also publish its first mandatory Climate-Related Disclosures in accordance with the Aotearoa New Zealand Climate Standards by 30 April 2024.

Proactive capital management

"FY23 has been a busy year for capital management at PFI," says PFI Chief Finance and Operating Officer, Craig Peirce. "We've actively managed our funding envelope, providing funding certainty on our near-term capital commitments, while at the same time diversifying our sources of funding."

Financing activities included launching a Green Finance Framework and establishing the Company's inaugural $150m Green loan tranches. PFI also made a $25m drawdown on the Company's Note Purchase and Private Shelf Agreement with PGIM, Inc (also known as Pricoa). The drawdown was for six years on a float-rate basis, with the margin fixed for the duration of the drawdown. Following this activity, the weighted average term to expiry of PFI's bonds and bank facilities is 2.4 years and the Company has over $251m of available bank liquidity as at the end of the year.

PFI's gearing as at the end of FY23 was 32.0% (covenant: 50%) and the interest cover ratio for the year then ended was 2.8 times (covenant: 2 times). Interest rate hedging provides for an average of ~57% of the Company's debt to be hedged at an average fixed rate of ~2.46% for FY24, offering some protection from floating interest rates. PFI's guidance (see below) assumes an average BKBM throughout FY24 of 5.53%.

Closing and outlook

Favourable market conditions, coupled with a portfolio that is around 16% under-rented, provides a platform for the Company to continue to grow rental income. Following a period of rapid Official Cash Rate increases from 0.25% in August 2021 to 5.5% as at the end of 2023, as the Reserve Bank of New Zealand sought to reduce inflation, financial markets both here and around the globe have begun to price in interest rate cuts. With around 40% of PFI's borrowings on floating interest rates, these cuts would provide some relief to the Company's interest bill.

However, changes to depreciation rules, which are likely to impact PFI from 1 July 2024, will see the Company's tax bill rise by approximately ~$2m a year. In addition, a range of economic indicators suggest that 2024 may be a challenging year for businesses.

Balancing these factors, and noting that the FY24 financial year will be a short six-month period due to a change in year end to 30 June, dividend guidance for this six-month period has been set at 4.15 cents per share, which on an annualised basis is 8.30 cents per share, in line with dividends for FY23. Cash dividends of 4.15 cps are anticipated to result in a dividend pay-out at the bottom of PFI's dividend policy range (after pro-rating for the balance date change).

"PFI's strategic response to market conditions has been to focus on projects and bolt-on acquisitions that have the potential to increase shareholder returns beyond current levels, to divest sensibly, and to enhance our engine room," says PFI Chair Anthony Beverley. "We have continued to deliver stable cash returns for investors, while positioning the Company to continue to grow in the years ahead."

ENDS

ABOUT PFI & CONTACT

PFI is an NZX listed property vehicle specialising in industrial property. PFI's nationwide portfolio of 92 properties is leased to 126 tenants.

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Attachments

NZX Form – Results Announcement
NZX Form – Distribution Notice
Annual Results Presentation
Annual Report

Appendices

Appendix 1 – FFO and AFFO Calculations

Funds / Adjusted Funds From Operations **(unaudited, $000, unless noted)**	**For the year ended** **31 December 2023**	**For the year ended** **31 December 2022**
Profit (loss) and total comprehensive income after income tax attributable to the shareholders of the Company	**(97,792)**	**(13,944)**
Adjusted for:		
Fair value loss / (gain) on investment properties	140,830	56,735
Impairment of goodwill or intangibles	-	29,086
Material damage insurance income	(689)	-
Loss / (gain) on disposal of investment properties	1,859	(575)
Fair value loss / (gain) on derivative financial instruments	10,151	(18,536)
Amortisation of tenant incentives	2,616	2,799
Straight lining of fixed rental increases	(577)	(942)
Deferred taxation	(6,565)	(3,114)
Other	553	40
Funds From Operations (FFO)	**50,386**	**51,549**
FFO per share (cents)	**10.03**	**10.21**
Maintenance capex	(5,288)	(3,870)
Incentives and leasing fees given for the period	(493)	(3,173)
Other (incl. reversal of accounting entries for COVID-19 abatement and deferral deals)	168	72
Adjusted Funds From Operations (AFFO)	**44,773**	**44,578**
AFFO per share (cents)	**8.92**	**8.83**

Appendix 2 – FFO and AFFO Dividend Pay-out Ratios

	2023	**2022**
Full year dividends per share (cents)	**8.30**	**8.10**
FFO dividend pay-out ratio (%)	**83%**	**79%**
AFFO dividend pay-out ratio (%)	**93%**	**92%**

Appendix 3 – Rolling three-year AFFO Dividend Pay-out Ratios

	2023	**2022**	**2021**	**2020**	**2019**
Rolling three-year AFFO dividend pay-out ratio (%)	**90%**	**91%**	**92%**	**98%**	**99%**