
PFI FY26 ANNUAL RESULTS

# WEBCAST TRANSCRIPT.

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**START OF TRANSCRIPT**

**Simon Woodhams:**

Good morning and welcome to Property for Industry's FY26 Annual Results briefing. It's Simon Woodhams speaking, the CEO of PFI, and on the line with me today is Craig Peirce, our Chief Finance and Operating Officer, and Nick Moloney, our Head of Investment Management.

This morning, Craig and I will speak to the topics outlined here. As usual, Craig and I will take you through the presentation, and then there will be an opportunity for participants on the call to ask any questions they may have. So, if you turn now to page 4 of the presentation where we lay out the highlights, FY26. PFI's FY26 result reflects the resilience of our industrial property portfolio with strong leasing outcomes and high-quality cash flows driving double-digit earnings and dividend growth.

Highlights included valuations across our $2.3 billion industrial property portfolio remains stable, despite ongoing economic and geopolitical volatility, while portfolio cash flows were supported by 7.7% growth in contract rents and occupancy of 98.7% at year-end.

We achieved key Green Star development milestones during the year, including completion of Stage 2 at 78 Springs Road; commencement of Stage 1 of Totara Creek Estate in Whenuapai in the second half; and the advancement of lease negotiations that would enable commencement of Stage 1 at our Harris Road development.

Our capital position remains robust, with over $200 million of available liquidity following the post-balance date refinancing of our bank facilities, and gearing remaining comfortably within our target range at 34.2% at year-end. This activity combined to deliver profit after tax of $77.7 million for the year, with funds from operations, or FFO, increasing 20.7% to 12.90 cents per share and adjusted funds from operations, or AFFO, increasing 14% to 10.90 cents per share.

Strong earnings growth has supported a fourth-quarter final cash dividend of 2.90 cents per share, taking FY26 cash dividends to 9.50 cents per share, representing a 10.5% increase on FY25 dividends.
We're also pleased to guide to further dividend growth in FY27, with dividend guidance of 9.75 to 9.85 cents per share, representing expected growth of approximately 2.6% to 3.7% on FY26 dividends.

Now turn to slide 6, headed strong stable returns. Before we get into the annual result itself, we wanted to take a moment to reflect on longer-term measures. Delivering strong stable returns has always been a core focus for PFI, and it remains central to how we manage and grow the portfolio today and into the future. Providing investors with exposure to a diversified portfolio of hard-working industrial property through shares listed on the NZX is fundamental to that approach.

Across a wide range of market conditions, PFI has consistently delivered dependable outcomes for investors, reflecting the quality of the portfolio and the discipline applied to its management. Since PFI's inception in 1994 through to 30 June 2026, this focus has translated into an average annual total return of around 9.24%. That long-term track record continued in FY26, with PFI delivering a total return to investors of around 10.22% over the 12 months to 30 June 2026.
In practical terms, a $10,000 investment made at inception with all dividends reinvested, would today be worth more than 16 times the original investment.
Turn to slide 7. Delivering regular and growing income has always been fundamental to the PFI investment proposition. Our policy is to distribute 90% to 100% of AFFO on a rolling three-year basis, with the clear objective of providing investors with a reliable income stream that grows over time to predict the real value of that income.

Since 1994, PFI has paid a dividend every year and importantly, that dividend has grown steadily over time, with dividends per share increasing at an average rate of 1.9% per annum since inception. FY26 continued that trajectory with cash dividends of 9.50 cents per share, an increase of 0.9 cents per share or 10.5 cents, on FY25 dividends. Looking ahead, FY27 guidance of 9.75 to 9.85 cents per share represents expected growth of approximately 2.6% to 3.7%, reinforcing our commitment to delivering growing dividends to investors.

Turn to slide 8. Growth in net tangible assets, or NTA, is another key measure in terms of how we create long-term value for investors. While valuations will fluctuate with market conditions, since listing in 1994, PFI has grown NTA per share by remaining disciplined through multiple cycles.

That discipline starts with a clear focus on industrial property where we acquire, develop and actively manage high-quality assets, driving rental growth and maintaining high occupancy. We recycle capital where appropriate, divesting assets to reinvest in opportunities with superior returns, including developments where we will also capture development margin. This is supported by a prudent balance sheet with diversified funding sources and disciplined gearing and hedging. Together, these elements have worked across cycles to grow NTA to $2.90 per share as at 30 June 2026, including growth of 6.4 cents per share or 2.3% in FY26.

Turning now to slide 10, we'll start to take a look at the last 12 months. Our portfolio has continued to benefit from strong re-leasing outcomes and structural rental growth. Here, we have a summary of the portfolio statistics as at 30 June. You can see that the company now owns a portfolio of 94 properties leased to 124 tenants. Through structured rental growth and asset management initiatives, contracted rents grew 7.7% to $121 million at the end of June 2026. Despite the addition of the speculative component of Stage 2, at our 78 Springs Road development in East Tamaki, the portfolio remained 98.7% occupied at year-end with a weighted average lease term of 5.04 years.

Turning to the next slide. During FY26, the team completed leases on approximately 85,800 square metres of area, or 11.5% of the portfolio by rent, for an average lease term of 6.9 years. Of the $11.5 million relating to stabilised contract rents, rents were agreed on $8 million of this, with those rents settling 22.1% above previous contract rents. The remaining $3.5 million of stabilised contract rents secured during FY26 are subject to a market review on renewal. After factoring in review caps, those four leases have been assessed at being around 14% under-rented at the end of June 2026, with a weighted average review date of October 2026.

Moving over the page to slide 12. As I mentioned earlier, the portfolio finished the year at 98.7% occupied, with vacancy largely reflecting the speculative component at Stage 2 of our Springs Road development. Excluding development opportunities, $9.5 million, or 7.8% of contract rent is due to expire in FY26. Expiries are weighted towards the second half, with two larger lease events accounting for almost half of FY27 expiries.

The white bars in the lower chart represent the development-related opportunities, including lease expiries at Springs Road and Neilson Street that are expected to facilitate future redevelopment activity.

If you could turn to slide 13, we'll take a closer look at the three most significant lease expiries. The three most significant FY27 expiries represent approximately 3.9% of contract rent, with both tenants indicating they intend to vacate.

At 670-680 Rosebank Road, the current lease expires at the end of this month, contributing approximately $1.8 million of annual rent and accounting for around 70% of income at the dual-tenanted site. While the current rent is modestly above market, a targeted refurbishment program is expected to support re-leasing at around current rental levels while maximising the value of the existing improvements.
At 7-9 Niall Burgess Road, the current lease expires at the end of March 2027 and is currently around 25% under-rented. Following a modest refurbishment program, management expects to re-lease the property at improved rental rates, capturing rental growth.

Importantly, FY27 guidance assumes no income is generated from either property in FY27, following the expiry of the existing leases.

Moving now onto slide 14. 123 rent reviews were completed during FY26, resulting in an average uplift of 7.2% or 6.9%, annualised on $92.1 million of contract rent. Almost 90% of our portfolio is subject to some form of lease event during FY27, with $24.6 million of contract rent, or 20.2% of the portfolio, subject to a market review in FY27. Those leases are around 10% under-rented, as at June 2026, after factoring in review caps.

If you could turn to slide 15. During the year, we recorded an increase in the value of our portfolio from independent valuations of $16.1 million, or 0.7%, to $2.3 billion. The valuation outcome was primarily driven by realised rental growth across the portfolio, together with an increase in land values at Totara Creek Estate, relative to the initial acquisition price.

As a result of portfolio and valuation activity, excluding our active development sites, PFI's passing yield increased 18 basis points to 5.41%, while the portfolio market cap rate firmed slightly to 5.73%.
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 7.1% under-rented.

Turning to slide 16. PFI's portfolio continues to deliver rental growth via structured rental reviews and capturing re-leasing spreads. The portfolio was 11.2% under-rented as at 30 June 2025. Market rents continued to grow over the year by 1.6% on a like-for-like basis. However, PFI achieved a 6.5% growth in those same rents. As a result, PFI's portfolio under-renting gap closed by 4.4% to 7.1% as at 30 June 2025 and this under-renting gap continues to provide a tailwind to earnings.

I'm now going to hand over to Craig, who will speak to several topics, including a review of annual results. Craig.

**Craig Peirce:** Well, thanks Simon and good morning, everyone. We appreciate you taking the time to tune in this morning as we share with you PFI's FY26 Annual Results.

At a headline level, profit after tax of $77 million was down $28 million on the prior year, driven by fair value gains on properties in FY26 of $16 million as compared to gains of $71 million in FY25. However, FFO was up 20.7% on the prior year to 12.9 cents per share and AFFO was up 14% to 10.93 cents per share, with both measures buoyed by a $15.2 million increase in net rental income. As a result, cash dividends for the year of 9.50 cents per share have been declared, representing an increase of 10.5% on FY25 dividends.

So let's dig into those numbers a bit. Please turn to slide 18. On this slide, we take a look at net rental income, which at $123.2 million, is up $15.2 million or 14.1% on the prior year.

A key contributor during the year was additional income of $3.6 million from the early lease surrender at 92-98 Harris Road. The other main drivers were positive leasing activity across the portfolio contributing an increase of $9.4 million, and the completion in the current and prior years of 5 Green Star-rated development projects at Bowden and Springs Road, contributing a further $1.6 million of additional rental income.

Moving now to slide 19. On this slide, we can see how the activity over the financial year is translated into adjusted funds from operations, or AFFO. On the positive side, AFFO level net rental income was up $14.1 million, or 2.79 cents per share, on the prior year, driven in part by that aforementioned early lease surrender.
The largest offsetting factors were an additional $4.7 million, or 0.9 cents per share of maintenance CapEx, equivalent to around 36 basis points, as well as a 0.30 cents per share increase in tax driven by higher taxable earnings. After normalising FY26 AFFO for the early lease surrender payment at Harris Road, underlying AFFO earnings were up 0.85 cents per share or 8.8% on the prior year.

If you could turn now to slide 20. Now we turn our attention to dividends. The PFI Board has today resolved to pay a fourth-quarter final cash dividend of $0.029 per share with the dividend reinvestment scheme not operating for this dividend. This fourth-quarter dividend will take cash dividends for the FY26 financial year to 9.50 cents per share, a 10.5% increase on FY25 dividends.

After normalising FY26 earnings for the early lease surrender payment at Harris Road, dividends of 9.50 cents per share represent a payout ratio of around 90% based on PFI's dividend policy range and approximately 91% of AFFO on a one-year basis.

Looking ahead, the PFI Board has provided FY27 dividend guidance of 9.75 to 9.85 cents per share representing expected growth of approximately 2.6% to 3.7% on FY26 dividends.

FY27 has commenced in line with expectations, supported by high cash collection rates, resilient portfolio performance, embedded rental growth and strong portfolio fundamentals. Based on current forecasts, FY27 guidance is expected to result in a one-year AFFO payout ratio of approximately 95% before normalisation or 92% after normalisation, while remaining towards the lower end of PFI's dividend policy range after normalising FY26 and '27 earnings for that lease surrender payment.

Guidance assumes AFFO adjustments of $9 million to $10 million and the continuation of Investment Boost through FY27 and as always, remains subject to events beyond PFI's control.

Turning now to slide 21. Looking at the balance sheet. Here, we provide more detail on the change in value of PFI's investment properties now valued at $2.3 billion. During the period, we completed acquisitions in Hamilton and on Mount Wellington Highway in Auckland, as well as settling the land purchase at Spedding Road.

We also deployed $55 million on capital expenditure, with the majority of this being spent completing the Company's Green Star development project at Stage 2 of Springs Road, as well as early works at the Totara Creek Estate, which was formerly called Spedding Road.

In addition, as Simon mentioned earlier, valuation gains resulted in a write-up of $16.1 million, and these increases were partially offset by divestments in Christchurch and New Plymouth which settled in March of this year.

So, turning now to slide 22, where we look at NTA or net tangible assets. NTA increased by 6.40 cents per share or 2.3%, with the increase being the result of that positive valuation outcome, retained earnings and a small gain in the fair value of our swaps.

So, moving now to slide 24 for an update on capital management. First, thinking about funding, the second half of FY26 was an active period for us. We issued $200 million of 6 and a half year senior secured fixed rate bonds in April. The proceeds from that issue replaced the $100 million of bonds which matured in the first half of FY26. So, on a net basis, we added $100 million from debt capital markets to our overall funding envelope, during the period.

Looking just beyond balance date, last month we refinanced our bank facilities, introducing adjustable Green tranche limits in the new facilities so that as the value of our Green Star-certified properties grows, we can draw more green finance against it at favourable terms. More broadly, PFI's funding mix of liquidity, diversity and capacity puts the company in great shape to execute on its strategy.

Moving over the page to slide 25. On this slide, the top chart shows our bank and non-bank facilities as they stand after the April bond issue and July bank facility refinance. The effect of our recent capital management decisions is clear. We've extended the maturity profile of our debt and at the same time, diversified the make-up of its funding.

The lower graph illustrates our hedging profile. Through interest rate hedging, an average of around 65% of the company's debt is fixed at the average rate of around 3.15% during FY27, meaning a good portion of our interest costs is protected against interest rate movements.

Turning now to slide 26. Here, we provide a bit more detail on committed gearing. Following all currently committed acquisitions, divestments and projects, and excluding any future revaluation impacts, development margins or general portfolio CapEx, we currently see gearing lifting to around 36.3% remaining well within PFI's target range.
PFI has sufficient capital available within our existing funding envelope for the company's near-term development pipeline, with an ability to maintain gearing near the midpoint of the target range, covered in more detail in Appendix 5 of this slide deck.

Moving now to slide 28 and speaking briefly about sustainability. This slide summarises our progress against our sustainability targets. We've continued to make great progress on our Green Star, solar and LED lighting targets during the year.

In particular, we're pleased to have achieved a 5 Green Star design rating for our new building at Stage 2 of 78 Springs Road, partly leased to MiTek. We also certified some of our existing portfolio under the Green Star performance tool, meaning that together with recently completed developments, around 20% of our portfolio is now rated Green Star.

So, that's all from me for now. I'll hand you back to Simon, and I'll be around for questions at the end. Simon.

**Simon Woodhams:** Thanks, Craig. We're back on slide 30 now. So, turning to current market conditions, CBRE expects Auckland industrial vacancy to increase throughout 2026, reflecting the well-signalled completion of a significant volume of speculative development that is currently under construction, here in Auckland.

Importantly, while vacancy is expected to continue increasing from historic lows, it is forecast to remain within long-term averages and below levels typically associated with a materially weaker leasing market.

Looking ahead, a gradual recovery in New Zealand's economy is expected to support improving industrial demand and net absorption from 2027, with forecast absorption expected to outpace new supply over the medium term.
Consistent with these conditions, CBRE expects industrial face rents to remain stable throughout 2026, although high vacancy is expected to result in increased incentives and some softening in net effective rents during the current calendar year.

From PFI’s perspective, however, recent rent reviews and leasing transactions continue to settle above market rental estimates, with limited incentives required outside newly completed or vacant space. This is supported by the quality of our portfolio and tenant base, as well as our proven leasing capabilities, with lease renewals historically accounting for around 75% of our annual leasing activity.

Turn to slide 32. On the slides that follow, we've set out our priorities for the year ahead. As many of you on the call will already know, when we looked at our portfolio, we split it into four categories, and these are listed on this slide.

Turning to page 33. On this slide, we provide a little bit more detail on the four categories. Our core generic holdings remain the backbone of the portfolio, providing resilient income from well-located, highly liquid industrial assets with a broad tenant appeal.
Development opportunities provide a pathway to deploy capital into higher-returning, modern industrial facilities, while also supporting the ongoing improvement in the quality and sustainability of the portfolio.

Specialised assets offer stable income streams, typically underpinned by more bespoke tenant requirements, longer lease terms and higher replacement costs. Finally, non-core holdings are assets that sit outside our long-term focus, with asset recycling remaining an important part of our capital management strategy.
Taken together, these categories provide a clear framework for capital allocation, supporting portfolio quality, earnings growth and long-term value creation.

Turning now to slide 34. On the horizon, we have several near-term development opportunities. FY26 saw practical completion of Stage 2 at 78 Springs Road and the commencement of our construction at Totara Creek Estate, while we continue to progress development opportunities at 92-98 Harris Road and across our remaining brownfield sites. The next few slides provide a closer look at four of these opportunities. We have a number of other development opportunities within the portfolio, with more detail on these provided in Appendix 4, but today, I'm going to focus on the near term.

So, moving through to slide 35. Here, we provide a closer look at Stage 2 of 78 Springs Road, which was completed in April 2026. Stage 2 has delivered approximately 16,000 square metres of 5 Green Star-rated industrial space, with around 60% leased to MiTek on a 12-year term. Leasing enquiry for the remaining speculative component has been encouraging and based on current lease-up assumptions, Stage 2 is expected to deliver a yield on costs in excess of 6.5% including land.

Looking ahead, demolition and asbestos removal of the final existing warehouse is expected to be completed in H1 FY28, enabling future Stage 3 development works, which are expected to be tenant-led.

Turning now to slide 36. This slide provides an update on Stage 1 of Totara Creek Estate in Whenuapai, formerly referred to as Spedding Road, where construction commenced in March 2026. The project is progressing in line with program and budget, with completion targeted for Q4 FY27. On completion, it will deliver approximately 8,500 square metres of 5 Green Star-rated industrial space and is targeting a yield on cost of around 6.5% including land.

Importantly, the flexible design allows us to accommodate a range of tenancy requirements, positioning the project well to respond to market demand during the planned lease-up period. Future stages at Totara Creek provide the opportunity to progressively develop a further 4 hectares of land over the next three to four years, supporting total investment of around $140 million across the estate.

Moving to slide 37. This slide outlines the proposed first stage of the redevelopment of 92-98 Harris Road. Following GrainCorp's early lease surrender, the site has been cleared and positioned for redevelopment with advanced negotiations now underway with a leading international occupier regarding Stage 1.

If progressed, Stage 1 will comprise approximately 5,600 square metres of warehouse and 1,300 square metres of office accommodation, requiring around $25 million of incremental capital expenditure and targeting a yield on cost of approximately 6.5% including land. Importantly, the current masterplan provides flexibility for a further tenant-led stage, allowing the site to respond to future occupier demand and maximise value over time.

Moving now to slide 38, where we outline the redevelopment opportunity at 304, 316 and 318 Neilson Street in Penrose. The site benefits from PFI's successful aggregation of a number of contiguous properties and provides the opportunity to deliver a significant new industrial facility in one of Auckland's premier industrial precincts.
Given current market conditions, the development will be tenant-led, while current master planning indicates the site could accommodate approximately 14,000 square metres of 5 Green Star-rated industrial space. We retain significant flexibility to tailor the scale and the configuration of the project to occupier requirements prior to commencing redevelopment.

Moving through to slide 39. Including the projects just discussed, we currently have 11 planned projects across Auckland's key industrial precincts, representing around $335 million of capital investment, excluding the value of the land already owned by PFI. These projects are expected to deliver embedded value progressively over the next six years or so as they reach completion and leasing activity captures market rents and development margins.

Lastly, since the start of 2024, we've completed over 70,000 square metres of 5 Green Star-rated industrial space, all delivered on time and on budget, a strong track record we intend to build on.

Moving on to slide 41. So, to summarise, FY26 was another strong year for PFI. We delivered double-digit growth in FFO, AFFO and dividends, reflecting the quality of our portfolio, strong leasing outcomes and the disciplined execution of our strategy.

At the same time, we continued to grow the business, completing Stage 2 at 78 Springs Road, commencing construction at Totara Creek Estate, progressing development opportunities across the portfolio and enhancing funding flexibility through a successful bond issue and the refinancing of our bank facilities post-balance date.

With a high-quality, well-leased portfolio, embedded rental growth and a significant development pipeline, PFI is well-positioned to continue delivering sustainable earnings growth and growing returns for our shareholders.

Thank you for your time. That concludes the presentation and we're happy to take any questions you may have.

**Operator:** Thank you. To ask a question you will need to press star 1 and 1 on your telephone and wait for your name to be announced. To withdraw your question please press star 1 and 1 again. We will now go to our first question. One moment please. Our first question today comes from the line of Nick Mar from Macquarie. Please go ahead.

**Nick Mar:** *(Macquarie, Analyst)* Morning, team. Just on FY26 AFFO, when you upgraded earlier in the year, you talked about how there was a bunch of maintenance that was sort of deferred to '27. Looking at the numbers, maintenance was still pretty high. So, does that include the deferral? Or did something else sneak in there?

Then '27, the $9 million to $10 million of AFFO adjustments still sounds like there's some pretty high maintenance coming through. Is that partly the refurbishments on those two vacant properties? Or is there something else in there as well?

**Craig Peirce:** Hey, Nick. It's Craig speaking. I think the short answer is that yes, that deferral is reflected in the high number for '27 but I think at the same time, we still actually managed to get through a fair bit of it in '26. So, it's kind of a yes and yes I guess I would say.

Absolutely, the numbers for '27 include those two refurbishment numbers. There's some other roofs that we've got going on in there, these sorts of things. So, as you know, sometimes that maintenance CapEx can be pretty chunky and the timing of it can be pretty hard to handle because it often requires a tenant to be cooperating, getting onto the roof, those sorts of things, like that. So, certainly, it's in an elevated period and hence why we wanted to give you a bit more colour for FY27 as to what those numbers in terms of AFFO adjustments would look like.

**Nick Mar:** *(Macquarie, Analyst)* Yes. No, that's helpful. Just in terms of those two expiries, it seems like a reasonably long lease-up time on some of those. How much of that time is the time spent actually refurbishing it versus allowed kind of lease-up periods? Are you adding extra caution at the moment, given the tougher leasing backdrop?

**Simon Woodhams:** So, in terms of the Rosebank Road expiry, we get that back end of August, Nick, so we've got a three-and-a-half-month refurbishment period there, which obviously takes us very close to the Christmas period. So, yes, there's a bit of conservatism in and around trying to lease something through that period.

The Niall Burgess one, the lease expiry is not until the end of April. So, for FY27, we're just assuming no income on either one of those given we're assuming there'll be some incentives involved as well.

**Nick Mar:** *(Macquarie, Analyst)* No, that's helpful. Then in terms of the portfolio evaluation, the second half looked a little bit kind of soft, especially if you had some of the uplift on Spedding Road's land coming through. Could you just talk through some of those movements? Like the market rent growth of 1.6% would arguably support more than a 0.7% uplift in valuation.

**Craig Peirce:** Simon, do you want to talk about that? Or do you want me to give it a go?

**Simon Woodhams:** Do you want to give it a go?

**Craig Peirce:** Yes. Look, I mean, I guess coming into the beginning of calendar '26, there was a sort of fair wind in the sails of the market and things were going along quite nicely. We obviously hit the Middle East conflict and everything that that entails. So, that definitely has had an impact on leasing decisions and these sorts of things like that in the market. So, from a valuation point of view, I think we saw some sort of momentum coming into the back end of '26. A little bit of that momentum, I guess, has come out as people are a bit more cautious as we sit right now. So, I think that's sort of where things are at when it comes to the valuation market.

I mean, that said, we actually got some transaction summaries through just last week on some recent sales. There's a $25 million sale with an equivalent yield of 5.4%. That does have a long lease, that's 20 years. There's a $39 million sale with an equivalent yield of 5.35% on a four-year WALT. There's a $15 million sale with an equivalent yield of 5.1% on a two-year income.

So, I think it's fair to say that stuff is still transacting and there's some pretty good prices there, but that last six months certainly hasn't translated into any additional uplift of any great degree, and you can see that reflected in our numbers.

**Nick Mar:** *(Macquarie, Analyst)* Okay. Thank you.

**Operator:** Thank you. Our next question today comes from the line of Rohan Koreman-Smit from Forsyth Barr. Please go ahead.

**Rohan Koreman-Smit:** *(Forsyth Barr, Analyst)* Morning, guys. Firstly, Investment Boost, can you give us an idea of what sort of benefit to the current tax year that, that provided? Also, maybe just trying to work out like an absolute underlying here without any of these tax benefits and the surrender payment, et cetera, because [unclear] bit of things coming in and coming out that may or may not be there in future.

**Craig Peirce:** Yes, sure. So, Investment Boost, I think the most significant part of that is when we complete a development. So, that second stage of Springs Road, that was where you saw that Investment Boost benefit be booked in H2 of this year. Off the top of my head, that's a couple of million dollars of benefits in terms of that there.

So, I guess that's at the highest level the benefit of it to us. I mean, of course, every dollar we're spending when it comes to maintenance CapEx and those sorts of things, you're also getting that there.

When it comes to the normalisation side of things, I think we've talked about those in the various bits of paperwork that we've put out there, but I suppose to try and make sure that we're clear here, in FY26, it's roughly speaking $2.5 million dollars of additional income from that surrender payment there.

Of course, you're getting the whole payment, but you were going to be getting income anyway, and then as we unwind that in future periods, it's around $1.2 million, $1.3 million in future periods as that unwinds. So, not sure if those numbers help.

**Rohan Koreman-Smit:** *(Forsyth Barr, Analyst)* No, that's helpful. Then, Simon, you spoke to higher incentives and new builds in vacant space. Given you've got a bit of new build space and vacant space coming up, can you just give us an idea of where those incentives sit or where you think they sit?

**Simon Woodhams:** I think if you look at the market, it's pretty common now for a minimum of one month per year of proposed term. So, if you're looking to try and get someone in on a 10-year lease, you're looking at 10 months to 12 months of rent-free period, or the equivalent of. So, it's quite markedly different to an existing tenant that is renewing. Typically, we give away very little. We might work with them to secure it early. There might be one or two months, but it's really up to that one month at least is what we're seeing in the market. On occasion, depending on the asset, maybe one and a half months, so yes.

We talked about it in the presentation, whilst the face rents don't seem to be coming back, typically on new builds, they're up around $240 to $255 a square metre. The net effective will start to track back slightly with those incentives.

**Rohan Koreman-Smit:** *(Forsyth Barr, Analyst)* Thanks. Just on these expiries that are vacating, I think at the half, you talked to one of them, which I'm pretty sure was Rosebank, that you were certain were leaving. You always talk to your active tenant management. Was the Niall Burgess one a surprise? Can you just go through what happened there?

**Simon Woodhams:** So, Niall Burgess, obviously, that doesn't expire towards the end of FY27. We've been in active discussions with them, that's DHL, so large international occupier. They had a nine-month notice period, so we've been talking to them for two or three years around whether they'll stay or leave.

So, yes, at the half year, we'd just been given no clear direction, even though that we've been working with them. Right up until the nine-month period, there was a chance that they would stay, but obviously, they've said no. So, they've given notice that they'll be leaving at the end of the lease. So, that was it, really.

Sometimes you get a tenant who will happily commit two, three years out and suits their business. But DHL, they've got a lot of space in and around Auckland. So, they're just reducing their footprint around Auckland.

**Rohan Koreman-Smit:** *(Forsyth Barr, Analyst)* Okay, cool. Thanks. Just one last thing. It was a comment that you made and you said that vacancy below, the level of vacancy associated with material weaker industrial market rents, where CBRE have it tracking. When, in your experience, do market rents weaken materially? At what sort of level of vacancy?

**Simon Woodhams:** I think you'd have to be up around that 5% to 6% which we're going back to the early 2000s when a lot of development started back then and you had rents that were, going back a while now, sitting around that $100 a square metre for new build and there was a period where there was a bit of an arms race that went on and people started putting them up $85 to $90 a square metre.

I don't think you'll see that this time. If you look at who's developing in Auckland, they're mainly institutional and high net worth owners or property owners. So, you tend to see them building, taking advantage of lower construction costs, but holding on to those face rents. So, I don't think there'll be a material weakening in face rents.

**Rohan Koreman-Smit:** *(Forsyth Barr, Analyst)* Cool. Thank you.

**Craig Peirce:** I suppose just adding to that, Si, the other part of that is the economics of it. I mean, obviously, with market cap rates out there of, 5.5%, something like that, it doesn't take long if you're dropping those face rents to get back towards that there. So, you would then be building stuff for less, sorry, the economics would be worse than going out and just simply buying things. So, I think we're a wee way off that, yet.

**Rohan Koreman-Smit:** *(Forsyth Barr, Analyst)* Cool. No, thanks for the colour, guys.

**Operator:** Thank you. As a reminder, if you would like to ask a question, please press star 1 and 1 on your telephone. That is star 1 and 1, if you would like to ask a question. We will now go to the next question. The next question today comes from the line of Vishal Bhula from Jarden. please go ahead.

**Vishal Bhula:** *(Jarden, Analyst)* Morning, guys. Thanks for the presentation this morning. Just a couple quick ones. Just on your FY28 expiries, you've given great colour on '27, but are you able to give a bit more information on what you're seeing in FY28 and ’29 and if these expiries will come along with kind of big reserve cycles?

**Simon Woodhams:** Let me just jump to this slide. Yeah, FY28, I guess what we've seen in general is, if you go back a couple of years, Vishal, tenants were a lot more engaged to secure renewals early, which was a good thing and you could work with them. What we've seen in this type of market, we're still talking to our tenants two, three years out from expiry.

The feedback we're getting at the moment is just give us another six to 12 months. So, we haven't had the success that we had in 2022/'23 where we were working two, three years out. I guess with the vacancy coming into the market, there's definitely a little bit more choice coming out there.

There's a couple of reasonable sized expiries in 2028. None of them at the moment are causing us concern. So, I guess if you're looking at expiries over sort of $400,000 or $500,000, there's probably seven or eight leases, we're talking to the majority of those at the moment.

There's no indication that anyone's planning on leaving, but it's just a little bit early given the current market to start knocking those over. So, the team out the back get in front of people, like I said earlier, generally two years out if they've not already been tracking them. So, we're pretty comfortable with 2028 at the moment.

The main focus is, as we said, Rosebank Road, which finishes this month. We've got three, three and a half months of refurbishment. We've got a tenant there that we're working with, I guess is what you'd say. It's by no means a done deal. Then the Niall Burgess one that comes on next year, we're out in the market looking for tenants for what's a really good building and a great location.

**Vishal Bhula:** *(Jarden, Analyst)* No, thanks. Appreciate the colour there.

**Craig Peirce:** I've got a bit of colour there, sorry, Vishal. The other piece of colour there is just in terms of the leases that are expiring, looking at the more significant ones, they are very H2 weighted for FY28. Just looking down the list here, anything over $400,000, there's only three in the first half of the year that expire in FY28.
The rest of them are all on the back end of '28. In fact, a couple of them, the much bigger ones, are right in June of '28. So, yes, I guess a fair amount of time to get into all of that.

**Vishal Bhula:** *(Jarden, Analyst)* No, cool. I appreciate that. Thanks. I guess just on your under-renting catch-up, that was quite strong. Then looking at your '27 reviews that you're going out, you'll be beating market rental growth across most of your portfolio once again, given your CPI stuff is only 10% or so. But over the next two to three years, do you kind of see a material portion of your portfolio moving to the over-rented territory?

**Simon Woodhams:** Do you want me to answer that, Craig? Or do you want to?

**Craig Peirce:** Yes. No, no, you give it a go.

**Simon Woodhams:** I think what you'll see, Vishal, is it will start to balance. Go back two, three years, we were 20% under-rented, so we've done a good job on the leasing front of capturing that. CBRE are still anticipating some market growth in rents. That will start to pick up to that sort of 3% plus from 2028. So, we would expect it to sort of equalise out.

The main leases that we've done in the last couple of years, even in our development, have been at or around market rents. So, I think you'll see a balance start to play out over the next two to three years. We don't think we'll be materially under- or over-rented, is what I'd say.

**Vishal Bhula:** *(Jarden, Analyst)* No, that's great. Then just the last one from me I think.
Could you just give a bit more kind of update on what you're seeing out at Totara Creek / Spedding? I appreciate most of the guys developing out there are owner occupiers, but is anyone else looking to do anything spec at the moment?

**Simon Woodhams:** No one else is spec'ing out there. I don't know the last time you've been out there. There's one, two, three completed or near-completed developments and there's two currently coming out of the ground, including ours. It's probably quieter than we thought it was going to be from 12 months on.

I think we said last time around, we were hoping we would have secured a tenant prior to commencement, but again, the building that we're developing, it's 8,000 square metres, it's purposely been designed so that we can break it up into at least up to four units. So, that type of tenant, you're targeting that sort of 1,500 square metre to 2,500 square metre tenant. So, they do have the ability to move a bit quicker than a large 6,000, 7,000, 8,000 square metre tenant.

So, been out there last week on site, it's starting to take shape. It's got roof on part of it. We're expecting towards the end of this year that that tenant enquiry will start to pick up.

In general, I guess you could say the tenant enquiry has been a bit quiet the last three months. I think Craig touched on it earlier. We actually saw a bit of activity sort of November, December last year through until February this year. It started to feel like things were starting to pull away, which was pleasing. Then obviously, with the oil situation, it really went flat for a period.

I would say the last four to six weeks, it does feel like there's a little bit of activity starting to pick up. So, hopefully, this election coming up doesn't stymie that and we'll start to see a bit of a gradual growth out.

Outside of Auckland, getting around the country, it's pretty buoyant in some of those regions. Clearly, the South Island's on a tear, which is great, and that seems to be filtering through. Hawke's Bay seems to be going a little bit better. So, it's not all gloom and gloom out there. It feels as though, particularly in the last four weeks, there's a little bit more activity out there, which is pleasing, people getting on and doing things.

**Craig Peirce:** Vishal, I was just going to say the other bit of colour around Totara Creek is obviously, one of the parts of the thesis to get on with that was construction pricing and taking advantage of attractive construction pricing. We have locked that pricing away now through the sort of process. We went in on the basis of it being attractive and it was even more attractive than we thought when we went into it. So, there's plenty of flex in the feasibility, shall we say, just to be hitting those numbers that we've put out there.

So, I think the thesis still really holds true that get on and build a building while there's a bit of softness in that construction pricing, and just be patient around the tenant side of things.

**Vishal Bhula:** *(Jarden, Analyst)* No, perfect. Thanks, guys. Appreciate that.

**Operator:** Thank you.

**Simon Woodhams:** All right.

**Operator:** Oh, thank you, sir. We have one further question. The question comes from the line of Rohan Koreman-Smit from Forsyth Barr. Please go ahead.

**Rohan Koreman-Smit:** *(Forsyth Barr, Analyst)* Hey, guys. Sorry, I just wanted to ask about slide 47.
If you go back to that, you're talking about keeping gearing within the middle of your target band over a forecast period. But it looks like a lot of the heavy lifting is done by fair value gains and losses, even in the year ahead, from just on the portfolio as a whole.

Can you just talk us through, I guess, the assumption that you have behind that and the confidence that you have in that? Or is that just kind of a running forward CBRE forecast or something along those lines?

**Craig Peirce:** Thanks, Rohan. I mean, this is a slide that's, I guess, responding to another slide that we've been putting in the deck for a while now. So, if you look at slide 39, we've been trying to give some really clear visibility to how the development pipeline would play out. A number of folk, including yourself, have been pretty keen to understand how we might pay for that and have suggested some weird and wonderful ways that we might do that.

So, I guess what we wanted to do was just put something out there that responded to that and said, if you take those two slides and look at them together, it really doesn't take much to get to the point where you assume that you could build out that pipeline and still stay within your target gearing range based on a level of assumptions there.

So, I mean, absolutely, this is assumption on assumption this one. Modest valuation growth of a couple of percent, development margins through the projects and a small level of divestments. Let's be honest, every number on the slide will be wrong, but it's just trying to give people a sort sense of this is a very steady program of work ahead of us. It's very much within our control to be able to fund these things and we think that we can kind of keep that gearing around that midpoint of our range through the various things there.

But look, take your point. We didn't get 2% of valuation growth this year. So, that's obviously going to be highly conditional on how the market plays over the next little while. But I guess just wanted to give some sense of how it might all hang together. So, does that make sense?

**Rohan Koreman-Smit:** *(Forsyth Barr, Analyst)* Yes, it makes sense and I'd say my suggestions weren't wonderful but anyway, thanks for the extra colour.

**Craig Peirce:** Haha, They were perhaps less preferred.

**Operator:** Thank you. There are currently no further questions. I will hand the call back to Simon for any closing remarks.

**Simon Woodhams:** Thanks, everyone, for listening in this morning. I know we're catching up with some of you this afternoon and a lot of you tomorrow, so I appreciate your time this morning and we look forward to answering any questions you may have. Craig, thank you very much. Nick, thank you. We'll see you guys soon. Cheers.

**End of Transcript**