AGM Minutes

Date: 17 August 2017

Q: Michael Midgely, Unitholder, I just have one question, disruption has been referred to in the context of e-commerce but I would be particularly interested to hear about the attitude of the Trust to having now nearly 50% of its assets at Highbrook and a concentration in Auckland, I come from the mainland where there has been a lot of seismic activity, I am concerned that there is so much concentration in a very confined geographical area, has the Trust taken into consideration lessons learnt from other property investors in the South Island.

A: John Dakin: that's a good questions, one of the things about industrial property whilst you have got Highbrook which is a big property but it is actually a series of a lot of properties. When people talk about a natural disaster in Auckland it is a volcanic eruption and the risk of that effecting every property in our portfolio is very low and we have tended to see in Wellington a lot of the damage in high rise offices and there is no question that this has changed the sector in terms of standards. I don't know how many buildings we have off the top of my head but it is a lot and so the risk is spread quite wide and we have a new portfolio which means that we are likely to have assets built to 100% of the code.

The Chairman: also there was a question about concentration.

John Dakin: I think that we are investing in the markets that we see the most growth and I think that the economic growth and population growth in Auckland as we are seeing a lot of gateway cities in the world are superior and that is actually panning out as we are seeing in returns.

Q: Colin Upchurch, Unitholder, I would agree with the Manager that the balance sheet is looking pretty flash and I think that you can take some credit out of that. More on the profit and loss side of things a comment looking forward, the profit has 2 elements buildings and valuations and your nett income from renting the properties, now clearly the income from the properties is dependent on a large degree on how many you have got and how much sqm you are renting, but just looking back on the last 3 years you are really stuck on 134 million now I would like to know the prognosis for this number going forward and if you will increase the rents. I would like to know what is going to happen to the income line going forward.

A: The Chairman, very good question and one that certainly taxes the Board and the Management Team, before I pass this question on to John and Andy I would like to say that we are in a pretty much a 0% inflation environment and putting aside the assets we have sold, you can only put up your rents if inflation goes up and with inflation at below 1% rental growth is not great and that leads me into Johns comments about the quality of the portfolio.

John Dakin, I would like to make some comments about rental growth and the state of the market and Andy can talk about the balance sheet and the impact of the de-gearing as that does have an impact on your revenue line. Currently we are building several new developments and we are seeing some really strong rental growth and in the last 6-12 months we have noticed that the closer you are located to the city the stronger the rental growth is, its currently at 3-4% and in relation to inflation that is pretty strong and that has really come about because of the huge shortage of supply and a pretty strong economy and Auckland continuing to benefit from the population growth etc. So the prognosis for rental growth in the next 12 months is actually pretty good and we are confident about having a mixture of new developments with some being pre-committed and some are built on an un-committed basis and so long as the conditions stay as they are we will continue to see good rental growth coming thorough. So I will pass you on to Andy now who will tell you about the value of lowering debt.

Andy Eakin, thanks John I think you nailed it on the head especially around the trading of assets, typically we are selling assets ahead of reinvesting so there is a short-term impact on the income until we reinvest. You noted that the balance sheet was really good and we have made a decision over the last couple of years to de-gear on the balance sheet and historically we had a target gearing band of between 35-40% currently we have a target band of 30-35% and we sit at the bottom end of that and as a result of that it does have an impact on the earning that do come through, but at this stage of the property cycle we very much think that this is a prudent thing to do and a key component of the income which flows through to the balance sheet is property re-valuations which is something that we cannot directly influence ourselves, so we are happy with the low impact on de-gearing and like John said with the rental growth and new developments which will continue to influence the income sheet.

Q: Don Atkinson director of AirFlow, Unitholder, look I think I have a very fair understanding of your strategies but after talking to our analysis he says in respect to property shares generally the main risk is interest rates rising, have you done any modelling around this and what impact that might have on values.

A: John Dakin, thanks that’s a very good questions, look I don’t think there is any doubt that if interest rates fall then yields on property falls and unit rates on property stock goes up and when interest rates rise the opposite happens and we have probably seen a bit of that in the last 6 months as it looks like the interest rate cycle is increasing and Andy can talk about how we see the management of that but the key things is to make sure we do not have too much debt so we can comfortably afford any rises.

Andy Eakin, look as John said the lower levels of debt reduce the interest rate rising affecting us that are coming through but we also have a very strong hedging policy and we fix a large proportion of our debt at fixed interest rates to insulate ourselves from any increases that could come through and that together with some of the initiatives that we have undertaken in recent years extending the term of the debt, so the recent bond issue we did at just over 4.5% with a 7 year debt, again insulates us a little from those increases, we certainly have seen some evidence in the banking market on increases on interest and what they charge and we were fortunate enough to plan ahead with some of the refinancing activity we did last year with our banks and we have rates locked in today for an extended period and these are lower than what the market rates would be, those are some of the strategies that we undertake to try and mitigate some of those risks but when interest rates do increase that will eventually flow through into our business and what we try and focus on is what we can do to mitigate that as much as we can.

The Chairman, when interest rates rise theoretically inflation should rise and then rent should rise, it is a very complicated model if you sat down and tried to put all the inputs into it.

Q: Craig, Unitholder, Mr Chairman how much free land do you actually have left to build on and question number two, the unit price has gone down from $1.40 to $1.20 or a little bit more recently but like when shares for Ports of Tauranga and Fisher and Pykel have gone to an all-time high.

A: The Chairman, for the first question, one of the slides that John was talking on, at the end of this coming financial year we should have about 7% left of undeveloped land in the portfolio which is about 50-60 hectares, in terms of the share price question this is an exact follow on from the previous question, unit prices are something I am not prepared to comment on its all based on interest rates, where the property cycle is at, when the unit price was up at around $1.40 that was before the GFC when things had a whole lot of different valuations if I remember rightly, but we can't control it all, all we can do is carry on delivering.

Q: Hayley Chan, unitholder, I would like to enquire about your commercial buildings do you have any plans in the future to have less carparks and to get 6 star not 5 stars on your buildings as everyone is talking about green energy except America. So are you thinking about less carparks and more charging ports for electric vehicles as this is what the government is promoting. I'm hoping that I will live long enough for driverless cars. Are you thinking about adding amenities for e-bike storage and that would attract lots of millennials and that would make the stock price go up.

A: John Dakin, let me start with the topic of 5 star buildings going to 6 star well at the moment our customers are demanding 5 star buildings as say a 5 star building is $450 psm to rent a 6 star would be an extra $100 psm but you can get a lot of sustainable features in a 5 star building and we do have a lot of charging ports also, at Fonterra we have end-trip facilities were you can ride to work on your ebike, I had a ride on one the other day and it was really fun, you don't even need to pedal and you go really fast, so we are investing in those types of amenities so that people can come to work in a more sustainable manner. We are lucky in NZ where most of our energy is renewable and we do have an expert with Mr Pryke here as he is on the board for Electricity Generation so this trend is something that we are very considerate of and you may see that we are recycling some of our old stock and investing in new development where we can introduce these types of facilities. In terms of carparking there is still a big demand for these so we are not there yet for shrinking our carparking.

Q: Colin, just my final parting shot, I would like to talk about your joint venture down at the Viaduct area, joint ventures inherently carry more risk as there are more people to make one decision on and I have come across one or two in my time, so I would like to know how this joint venture is going and if you have an alignment with values, visions, management, ideas and expectations on what you would all like out of the joint venture, I would like some comfort around this and if you are as confident as you were 2 years ago as that would be a rarity in my experience.

A: The Chairman, I was actually lucky enough to have dinner with the representatives from the joint venture in June and I can say wearing my Chairman hat that they were very welcoming and wanted to know all about what our focus was on and in terms of if they were happy with the Manager, this being Goodman Group there was no doubt in their minds that the Manger was doing a good job.

John Dakin, in short, the joint venture is going really well and I think with these types of relationships you have to have the same alignments and values right at the start and we are very long investors and so are they, the timeframe for investing for GIC is 20 years and they have been investing for over 20 years all over the world and they are very experienced, they deal with Goodman in a few jurisdictions around the world. It is a very constructive working relationship and they are innovative and share their ideas on global trends which helps with our planning but the main alignment is that they are in it for the long term.