



# AMP NZ Office Trust

[www.anzo.co.nz](http://www.anzo.co.nz)

Stock ticker: APT.NZ

## Interim Result – FY09

(For Six Months Ending 31 December 2008)

Rob Lang, Chief Executive Officer

Amish Vallabh, Chief Financial Officer



Managed by AMP Haumi Management Limited



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## AMP NZ Office Trust

- ANZO is NZ's largest CBD office investor
- Strong traditional real estate business model
- Clear strategy and investment policy....
  - "to invest in predominantly prime CBD properties in major NZ cities"
  - Real estate lease based revenue streams
- Strategic objective....
  - Sustainable earnings...
  - Distribution growth...
  - Modest risk...
- Market leadership position





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## Highlights – Year to date

- Strong traditional real estate business model is paying dividends in current climate
- Intensive portfolio management is enhancing value, reducing risk
- Resilient revenue, earnings and distribution growth
- Defensive and secure balance sheet
  - 50% of bank facility rolled for three years
- Portfolio in robust shape
  - Attracting new tenants and maintaining high occupancy
  - Current and prospective rent reviews delivering strong upside
  - Low forward expiry risk provides sustainable, low risk cash flows
  - Strong tenant covenants
- Early revaluation of portfolio assets to provide value transparency
- Trust strategy delivering intended benefits



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## Strong Earnings Momentum (to 31 December 2008)

- Total Rental Revenue up 11.2% to \$65.2m
  - Like for like contract rental revenue up 7.1%
- Direct Expenses up 7.1% to \$16.7m
  - Like for like direct expenses up 5.9%
- Indirect Expenses up 26.4% to \$18.7m
- Operating Profit Before Current Tax up 5.5% to \$30.1m (distributable profit)
  - Operating Profit After Current Tax up 1.8% to \$27.1m (distributable profit)
  - EPU<sup>1</sup> before current tax up 5.6% to 4.37cpu
  - EPU<sup>1</sup> after current tax up 1.8% to 3.94cpu
- Net Loss: \$4.97m
  - Directly due to unrealised \$39.7m loss in the fair value of swaps
- Key earnings drivers:
  - 39 rent reviews completed: 25.5% average increase in contract rents
  - High average occupancy / low void periods due to renewals
  - Active lease management
  - First ½ earnings affected by unsettled rent reviews: positive lag effect



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## Balance Sheet<sup>1</sup> (as at 31 December 2008)

- Defensive balance sheet
- Total Assets up 1.8% to \$1.67bn
  - Gain due to work in progress on 21 Queen Street
  - Annual statutory 30 June valuations being brought forward to March
  - Valuation environment challenging, anticipated cap rate weakness
  - Decline in asset values is earnings accretive (due to lower management fees)
- Total Liabilities up 10.5% to \$680.6m<sup>2</sup>
  - Gain due to unfavourable change in fair value of swaps
  - \$485m bank facility, 50% expiring in Oct 09 and 50% in Oct 11, Oct 09 facility to be rolled by 30 June 09
  - Debt to total assets: 28.7%, committed 30%, management/bank covenant 40%
  - 82.2% of floating debt fixed with an average hedge duration >5 years, <25% of swaps profile expires in any one year
  - Current average interest rate (incl. margin) is 7.65%
  - Interest rate cover 2.9x (covenant 2.0x)
- Equity declined 2.84% to \$991.9m
- Current book NZ IFRS Adjusted NTA<sup>3</sup> = \$1.59 per unit

1. Compared to 30 June 2008 (full year end)

2. Liabilities include NZIFRS deferred tax liabilities of \$200m

3. Adjustment refers to the exclusion of the deferred tax on revaluation gains of \$112.0m, which is not payable in NZ as ANZO is on capital account for income tax purposes

# Distributions

## ➤ 4.3% increase in Gross Distribution for interim period:

- Interim period gross DPU 4.192cpu, +4.3% pcp
- Interim period net DPU 3.663cpu
- 2<sup>nd</sup> Qtr gross distribution is 2.096cpu; net is 1.824cpu plus imputation credits of 0.273cpu
- Record date is 20<sup>th</sup> February, payment date is 27<sup>th</sup> February

## ➤ Distribution funded from operational cash flows

- Payout ratio 93.1%
- Projected FY09 tax rate is approximately 12-13%

## ➤ Distribution reserve:

- 30 June 08 balance \$4.1m and increasing during FY09

## ➤ Gross DPU growth exceeds NZ LPT sector average<sup>1</sup>

- ANZO 4 year gross DPU CAGR = 4.6%
- LPT sector 4 year gross DPU CAGR = 2.1%

## ➤ Outlook

- FY09 full year outlook favourable: *minimum* of +4% gross DPU growth
- Ahead of minimum gross distribution growth target policy of 2.5%pa

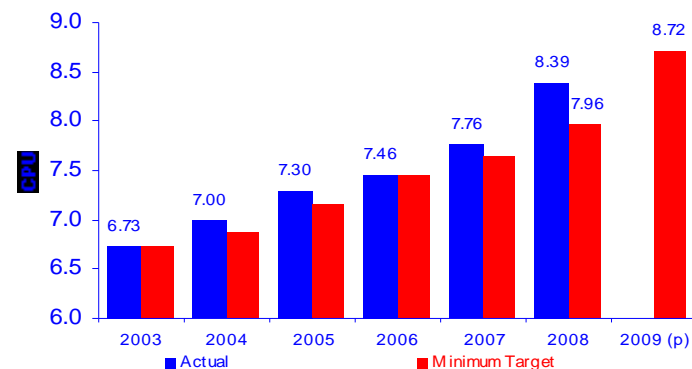
### Distribution Reconciliation Statement

	\$m	Cents per Unit
<b>NZIFRS Net Profit (Loss) After Tax</b>	<b>(4,971)</b>	<b>(0.722)</b>
<i>less:</i>		
Unrealised Net Change in Value of Investment Properties	-	0.000
Unrealised Interest Rate SWAP Gain/(Loss)	(39,678)	(5.766)
Deferred Tax Revenue/(Expense)	7,620	1.107
<b>Net Profit (Loss) After Current Taxation (distributable profit)</b>	<b>27,087</b>	<b>3.937</b>
<b>Net Distribution</b>	<b>25,204</b>	<b>3.663</b>
Payout Ratio	93.1%	

	Q1	Q2	Q3	Q4
<b>Distribution Payments (net cpu)</b>	1.839	1.824	-	-

**Gross Distributions**  
Actual vs Minimum Target





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# Unit Price Performance – ANZO (ticker: APT.NZ)

## High sustainable running yield

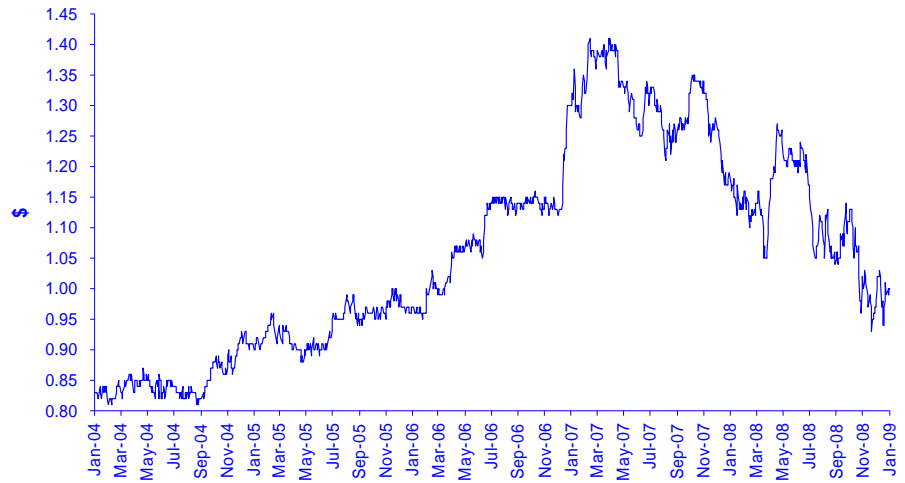
- c.12.5% gross yield for NZ based investor @33% tax rate<sup>1</sup>
- c.8.1% net yield for non-tax payer<sup>1</sup>
- Spread between bank deposits and APT yield now 7% (a year ago this was c.<2%)

## Wide discount to Adj. NTA per unit

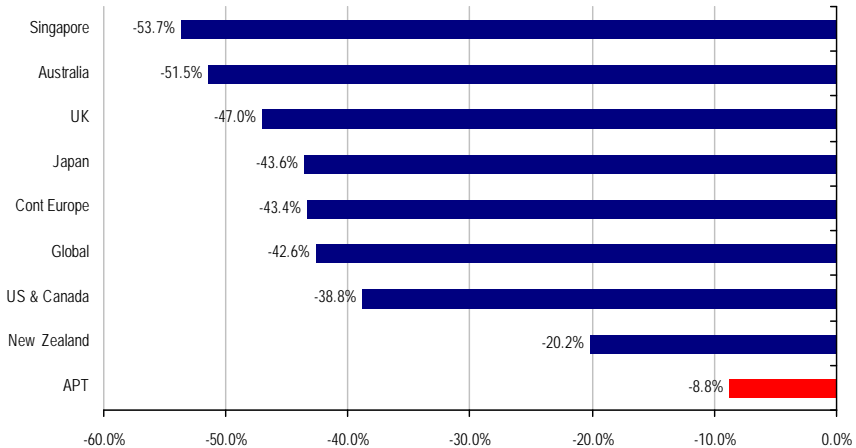
- 42% (based on 30 June 08 asset values)
- 29% (assuming 100bps cap rate expansion)

## NZ LPT sector out-performing global markets

ANZO Unit Price (1 Jan 04 to 31 Dec 08)



12 Month 2008 Calendar Total Returns - Local Currency



Returns at 31/12/2008	Month	3 Months	6 months	YTD	1 Yr	3 Yr	5 Yr
KIP	0.0%	-9.5%	-13.2%	-18.8%	-18.8%	-0.7%	5.9%
APT	3.1%	-8.3%	-11.3%	-8.8%	-8.8%	8.1%	12.1%
KPF	0.0%	-16.2%	-21.3%	-35.3%	-35.3%	n/a	n/a
PFI	10.0%	1.6%	-3.2%	-19.2%	-19.2%	4.3%	11.1%
NAP	-15.8%	-17.5%	-13.7%	-23.0%	-23.0%	-19.6%	-8.2%
IMP	4.8%	3.9%	4.1%	1.1%	1.1%	5.0%	13.3%
GMT	-5.6%	-16.9%	-17.8%	-28.8%	-28.8%	-0.8%	n/a
ING	4.6%	-4.2%	-21.3%	-30.6%	-30.6%	-10.6%	n/a

APT	3.1%	-8.3%	-11.3%	-8.8%	-8.8%	8.1%	12.1%
NZX Prop	0.2%	-9.3%	-13.1%	-20.2%	-20.2%	-1.1%	6.9%
NZX50 G	0.3%	-11.9%	-14.2%	-31.6%	-31.6%	-5.2%	3.3%

1. Assumes unit price of \$0.92 (3-2-09)



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# Portfolio and Investment Overview.....

Pricewaterhouse Coopers  
Tower



IAG House



AMP Centre



ANZ Centre



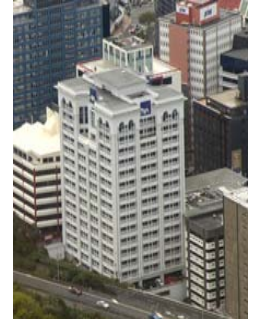
State Insurance Tower



HP Tower



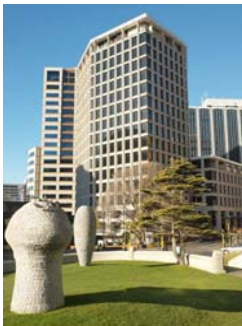
AXA Centre



Mayfair House



Vodafone on the Quay



No.1 The Terrace



125 The Terrace



Pastoral House



Deloitte House



21 Queen Street



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# Portfolio Occupancy 98.2% (98.7% as at 30 June 08)

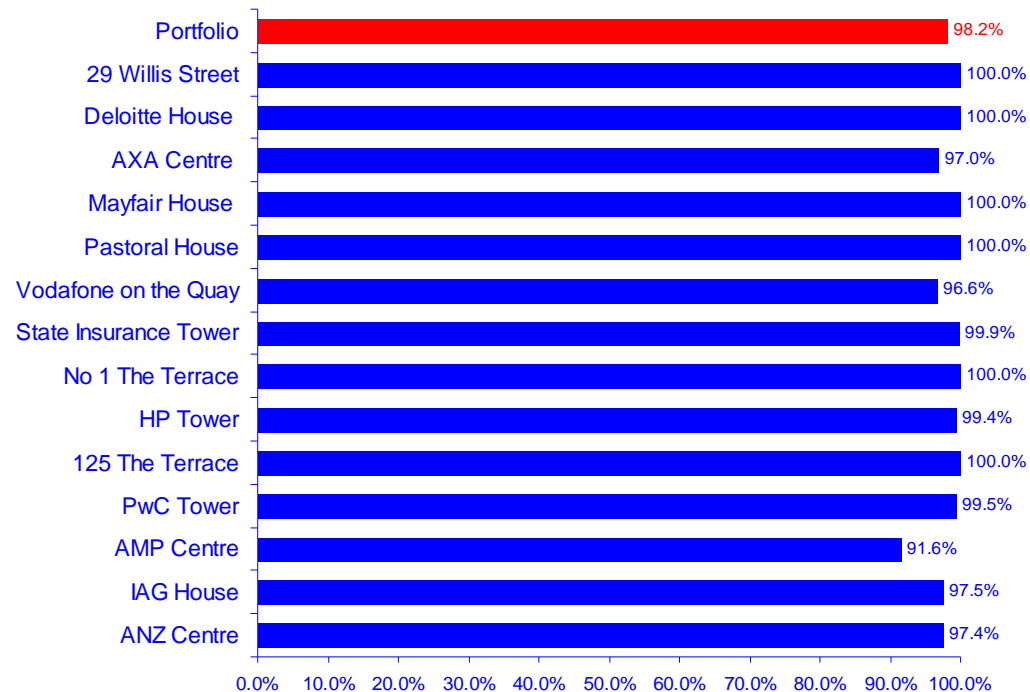
## Occupational demand resilient

- Retrenchments having *de minimus* impact on portfolio
- Tenant survey:
  - 2<sup>nd</sup> Qtr polling
  - none (at that stage) intended reducing staff (<15% were unsure)
- Yoy tenant enquiry slower

## Three new tenants entered the portfolio

## High quality office fostering strongest demand

## High quality office out-performs lower quality in market downturns

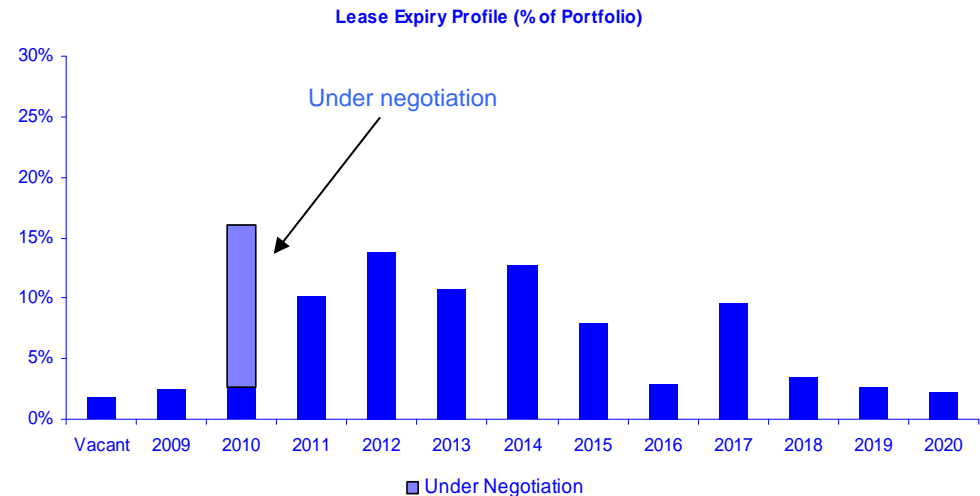




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# Sustainable and Secure Cash Flows

- Sustained high tenant retentions
  - > 90% average annual tenant retention rate over last 5 years (89% in FY08)
  - Strong market fundamentals, with vacancy rates at historical lows
  - Lower voids, sticky tenants provide additional upside / security
- Lease expiry profile underpins a stable growth platform
  - As at 31 Dec 2.3% of NLA expiring in balance of FY09
  - Post result deals reduce FY09 expiry to 1%
  - 4.9yr WALT (4.9 as at 30 June 08)
- FY10 expiries being actively managed
  - Currently 33,700sqm under active negotiation
- Top 25 Tenants = 60% of NLA
  - Top 25 tenants = 52% of net income
  - Top 15 tenants = 43% of net income
- Strong tenant covenant
  - Gov't sector = 26% of portfolio NLA
  - Gov't sector = 41.5% of Wellington portfolio NLA
  - "Sticky" tenants = stable cash flows





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## Rent Reviews: “Engine Room” for Growth

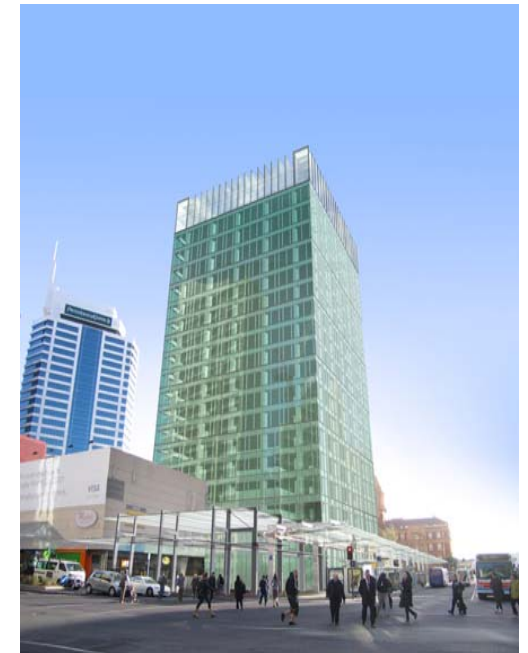
- Portfolio rent reviews and lease events continue to out-perform
  - High quality properties showing resilience.
  - 39 rent reviews (30,700sqm) completed delivering an average 25.5% increase in contract rents (\$2.95m annualised)
  - 8 lease renewals (4,450sqm), rentals yet to be confirmed. Projected 27.5% increase in contract rents
  - 4 new leases (4,600sqm) secured delivering an average 26.4% increase in previous contract rents (\$0.37m annualised)
  - Completed reviews achieving targets
  - Full year effect of strong FY09 activity to be realised in FY10
- Portfolio 12.2% under-rented providing strong and secure medium term growth
  - Completed reviews providing sound evidence for future reviews: high precedent value
  - Worst case: market rents would have to decline by >40-50% before no growth achieved on key large outstanding reviews
- 35.8% of portfolio (90,000sqm) to review in FY09, lag effect benefits FY10....
- Reversion value of outstanding FY08 and FY09 rent reviews c.\$7.5m



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## Other Portfolio Activity / Investment Projects

- Active lease management
  - PWC Tower: key lease extension
  - State Insurance Tower: key lease extension, recycling underperforming retailer
- Aggressive Capex management
  - Capex scaled back
  - Focussed on value enhancing capex
- 21 Queen Street – premium office development project
  - \$113m project cost
  - 14,700sqm NLA
  - Completion September 2009
  - Expected IRR under review following portfolio revaluation programme
  - Awarded 5-Star Green Building rating by New Zealand Green building Council
  - Active enquiry on 6,000sqm
  - Anchor retailer secured on favourable terms
  - Vacancy risk (earnings risk) mitigation initiatives.....





## Office Market Environment

### ➤ Property market fundamentals

- Market generalisations in recessions are dangerous: real estate is a heterogeneous asset, especially in a shallow market
- Short-term outlook challenging /headwinds , medium-term outlook neutral to firm, long-term outlook firm
- Short-term outlook cushioned by historically low vacancy rates
- Previous downturns (1990/91 and 1998/99) affected by large supply pipeline (175,000sqm and 78,000sqm respectively)
- Historically rents have responded to speed and volume of vacancy
- Higher quality buildings offer higher value add proposition to tenants
- Supply risk constrained by high construction costs, lack of finance, lack consented projects and lag effects and higher economic rents
- Nominal and real rents are lower than 18 years ago...affordability factor supportive but short-term strains
- Short-term rental growth subdued but scarcity of supply and low vacancies are underpinning a resilient market

### ➤ Macro environment conditions challenging, but supportive backdrop post 2010

### ➤ Valuation outlook

- Cap rate weakness anticipated: reversal of spread between A and B/C grade assets, transactional evidence is scarce
- Valuation market estimating 75-100bps - cap rate expansion for prime and A-grade
- Valuations fall below replacement cost
- Some fundamentals providing support: 10yr bond, 5-yr swap, OCR in steep decline, dollar in steep decline, under-renting and supply risk has weakened

### ➤ Market has seen a return to times when real property skills are needed to deliver extra value



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# Office Markets

## Auckland Vacancy at historical lows

- Current (Prime: top 10): 3,860sqm or 1.7%
- Dec'12 forecast (Prime: top 10): 9,400sqm or 4.1%
- Current total market: 66,200sqm or 7.0%

## Wellington vacancy at historical lows

- Current (Prime: top 10): 690sqm or 0.5%
- Dec'12 forecast (Prime: top 10): 8,500sqm or 5.8%
- Current total market: 33,200sqm or 2.9%

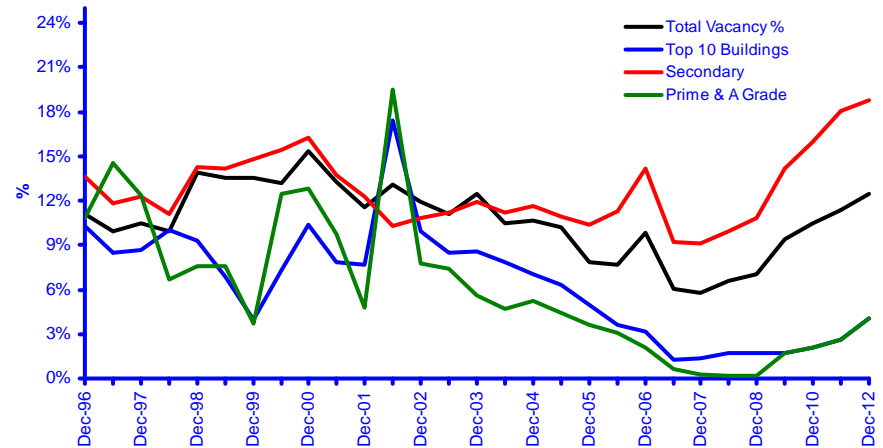
## Forecast comments

- JLL assumes all new building proposals delivered
- Uncertainty behind new project delivery reduces reality of implied vacancy outlook

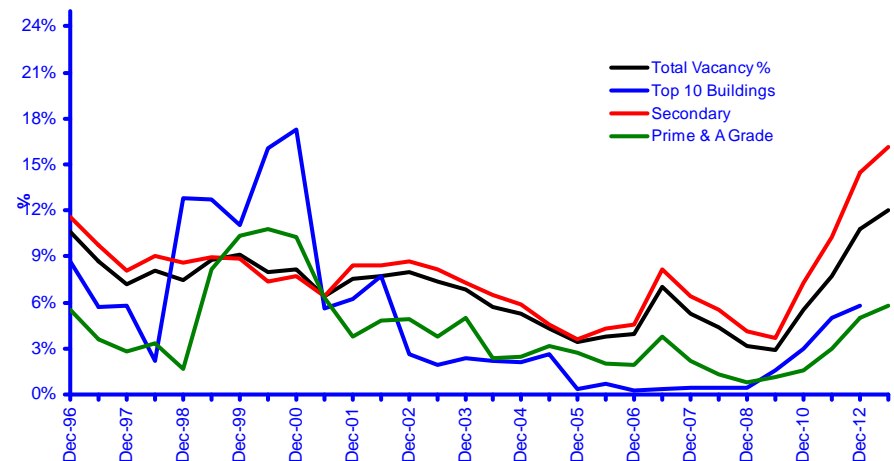
## Rental growth outlook

- Supply outlook supportive of better growth beyond 2009
- Vacancy remains at historically low levels through to 2012 – this is a favourable backdrop

Historic and Projected Office Vacancy Rates - Auckland CBD



Historic and Projected Office Vacancy Rates - Wellington CBD



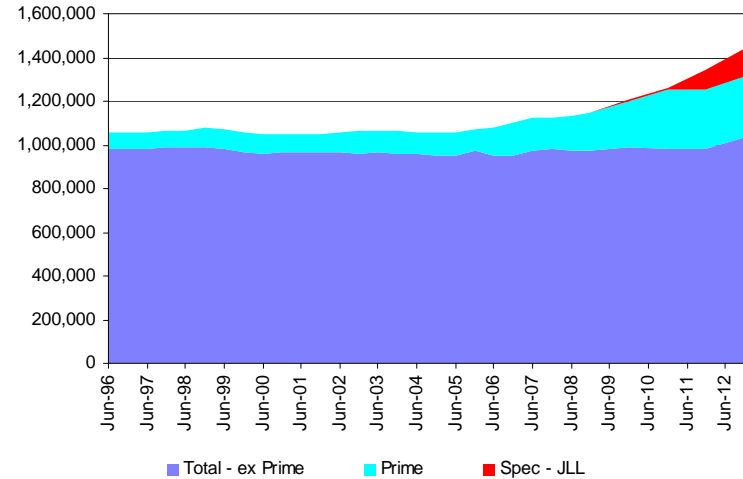


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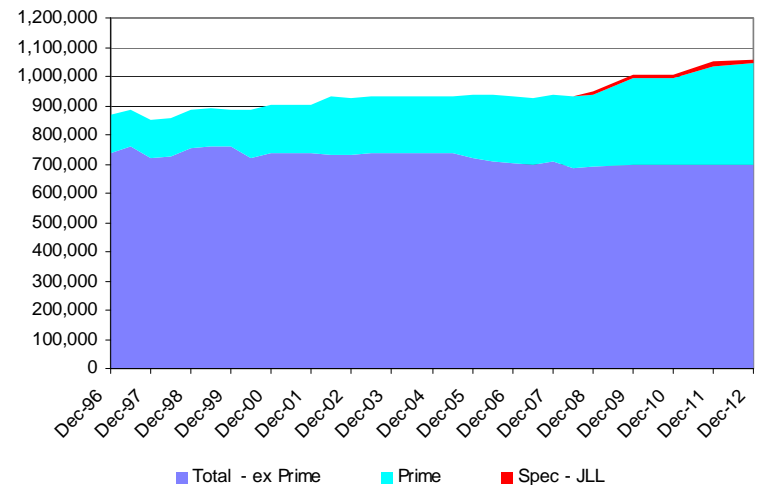
# Office Markets - Supply

- Supply pipeline small
- Wellington new build supply risk low
  - 104,000sqm new supply to 2012 but fully pre-committed
  - 79,000sqm planned and purely speculative: unlikely to be delivered
  - Existing stock main source of “new” supply
- Auckland new build supply risk low
  - Committed buildings essentially fully occupied (except 21 Queen Street)
  - 130,000sqm new supply to 2012: most new supply is fringe CBD locations only 37,000sqm is core
  - Planned and speculative supply unlikely to materialise
  - Existing stock main source of “new” supply
- 4-5 years delivery lag for new as yet uncommitted building
- Prime/A-grade stock small in proportion to overall stock: responsive to demand pressure, better upside

**Wellington - Total Supply (sqm)**



**Auckland - Total Supply (sqm)**





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## Office Markets - development

- Economic rents: +16-25% above best existing market rents
- Economic rent spread conditional on: building quality, size, acceptable margin, cap rate?
- Development pre-commitment issues ....
- Availability and cost of finance
- High construction costs, but capacity looming
- Lack of consented projects and lag effects
- = Less new supply
  - Time lapse to delivery: near term positive for ANZO
  - Uncertainty behind project delivery and poor economics reduces reality of new supply and down side risk to vacancy outlook

### Hypothetical Development - 32,000sqm Tower, 5 Star Rated

#### Investment Valuation

Revenue			\$23,815,300
	Avg Office Net Rental	\$650/m <sup>2</sup>	
<b>Value Upon Completion</b>	7.00%		<b>\$340,218,571</b>
Acquisition Costs			\$57,918,000
Construction	GLA - 38184m <sup>2</sup>	\$3,000/m <sup>2</sup>	\$114,552,000
Professional Fees	18%		\$20,619,439
Lease Incentives	12months Rent Free - Office		\$24,000,000
Financing	10%		\$41,054,692
Other Costs (Contingency, Legal, Holding, Agent)			\$21,259,063
<b>TOTAL COSTS</b>			<b>\$279,403,194</b>
Developer Margin	21.8%		\$60,815,377
Yield on Cost	8.5%		



## Outlook

- Well positioned for low risk earnings and distributions
  - Protection from recession.....resilience...
  - Capitalise on portfolio under-renting: organic growth, high visibility of earnings growth
  - High occupancy and tenant retention rates provides sustainable cash flows
  - Favourable office sector supply: lowest vacancy rates in recent history - ANZO is main beneficiary
  - Net income growth expected to support valuation and NTA performance
  - Biggest risk is occupier demand / CBD employment
  
- Focus on adding value: occupancy, rent reviews, capex, costs
- Investment market – underlying conditions favour prime sector
- Strong balance sheet and treasury position
- More opportunities in times of turmoil than in bull markets
- Established a resilient earnings and distribution growth platform
- Macro-economic – light at the end of the tunnel?



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