



Property Line

Issue 24 - January 2019

Letter from the CEO



Scott's Outlook for 2019

After a fair bit of reading time over the New Year break and having chatted to a great number of business people over the last month or so, there is no doubt that 2019 is

shaping up to be an interesting and changeable year for a multitude of reasons.

On the global scene, I expect to see continued volatility in equity markets, following the major sell-off just before Christmas resulting in US markets dropping 20% and then rebounding in the New Year. The theme of ongoing uncertainty remains, something market participants are having to grow more and more accustomed to, in what is the new economic norm.

Global growth is continuing to slow due to a multitude of factors including; Brexit, ongoing trade tensions between the US and China, high global debt, global central banks moving to 'quantitative tightening' and continued rising populism driven by inequality – many of these issues caused by political interference and poor leadership. New Zealand's economy remains in relatively good shape, however as the saying goes, "if the US or China sneezes, New Zealand catches a cold." Should we see a further slowdown or indeed a major global economic correction, this is likely to impact New Zealand's economy and the commercial property market to a varying degree.

PMG's steadfast position

PMG has seen over 26 years a number of economic cycles play out. There is no doubt many businesses will find the next down turn challenging through either over-extension of borrowings or poor strategy. Over the years we've seen businesses being forced to close their doors and leave commercial premises – this is consistent with every economic cycle. At this point, proactive property management is critical to ensure; (a) we have the correct mix of tenants in the first place, and (b) we proactively seek to re-tenant any vacant space to mitigate any downside to investors.

We also see a slowdown in investor interest in residential property this year as the prospect of ongoing capital gains moderates. This is a result of tighter bank lending, immigration policy changes, tax loss ringfencing, rising costs and the Labour Governments capital gains tax proposal. On a positive note, this may see greater interest from investors in commercial property; which is not seeing the same headwinds as the residential sector.

While this picture might not be as rosy as previous years, it is these eventualities we at PMG have planned for. As many of you know, PMG's strategy is to provide long term investment opportunities which are focussed on cashflow, capital preservation and growth in value over time. In 2019 this strategy will remain steadfast.

For the last four years, PMG has worked tirelessly to build robust investment vehicles for our clients. We have transitioned our business model to that of providing a fund structure and reduced debt to equity ratios in the funds we manage. We have moved away from higher-leveraged, standalone buildings and tenant syndications which are still prevalent in the market today.

As a result, we provide investors with greater choice and reduced risk by creating diversification – ensuring that our funds are not reliant on one property, tenant or geography. Instead we have multiple properties with multiple tenants, in multiple geographies in a single fund. We have also worked hard to add value to the existing assets in PMG funds and replace some properties with better quality assets.

Therefore, if market valuations reduce or a tenant relocates or disappears, a fund structure is less exposed thanks to the other properties and tenants in the fund. We also minimise downside risk to our investors through maintaining conservative bank gearing levels across our funds – and we are not beholden to any one bank.

Due to this fund structure, strategic divestment of some properties, careful bank burrowing, and the acquisition of higher quality buildings, we believe the funds we manage are robust and resilient.

As we go into 2019, we will continue to provide you with updates and information about our activities, news and the performance of our funds. In the meantime, my door is open and I welcome the opportunity to speak with our investors. Please don't hesitate to contact me if you have any queries.

Yours sincerely

Scott McKenzie
CEO & Director
Property Managers Group

What's inside ...

Letter from the CEO	P1
Case Study	
127 Durham St, Tauranga	P2
Welcome Matt & Hannah.....	P2
PMG's ESG Strategy	P3
Introducing	
Lorena Zanesco.....	P3
Investor Survey	P3
PMG in the community.....	P4
In the media	P4
Re-brand and office move.....	P4
DOF Offer coming	P4



Upcoming events

DOF Informal

Unitholder Presentation

Wed 13 February 2019 at 4.00pm

RSVP info@propertymgr.co.nz

127 Durham Street, Tauranga

A PMG Direct Office Fund property



The Opportunity

The Tauranga CBD is undergoing a massive revitalisation. Major developments are underway from Elizabeth Street to McLean Street, including the \$130 million redevelopment of the Farmers site and the new \$39 million University of Waikato Campus taking shape on Durham Street, which will welcome an estimated 1000 new students and staff in mid-June 2019. With two PMG Direct Office Fund properties located in Durham Street, adjacent to the University Campus development, this represented a huge opportunity to proactively review their current usage, current occupancy, and tenancy terms and undertake an analysis on how we could add value to the properties and Fund.



The Project

In mid-2018, PMG reviewed both the 127 and 143 Durham Street properties and, after an initial assessment, we undertook a more detailed project analysis of 127 Durham Street. 127 Durham had been tenanted primarily by the Tauranga City Council on a rolling 3-month lease term as it awaited a move into a new-build premises just outside of the CBD.

Knowing this, our analysis looked at both the benefits and metrics of redeveloping the site or retaining the existing building, refurbishing it and re-leasing it. Once the indicative redevelopment pricing and timing issues were understood, it became obvious that retention of the existing building was the most feasible option for the Fund in the short to medium term. Furthermore, knowing the University had plans for a larger education precinct in the area, and thanks to PMG's contacts and involvement with Mainstreet (Tauranga's CBD Business Association – of which a PMG Asset Manager is the Chairperson), we approached the University's property manager about leasing space in the building.

The result

Initially, the University was only interested in taking the ground floor of 127 Durham Street, which would have left the entire second floor vacant. However, PMG was aware the new campus was already going to be at capacity, so persisted and after researching the University of Waikato's plans to introduce a Science Facility in Tauranga, we put together a further proposal for it to also lease the remaining floor, Level 1, (and therefore 100% of the building). In December, the University of Waikato signed a five-year lease term for both levels in 127 Durham and is due to move into the property in June. The University is covering the fit-out costs of its Science Facility with PMG Direct Office Fund undertaking to complete a basic refurbishment of the exterior of the building.

Conclusion

This is an exceptionally good outcome for a property which was facing potentially extended vacancy following the Council's exit. Understanding and researching the needs of existing and prospective tenants, knowing what is happening in the areas around PMG-managed properties and having contacts, expertise, and the right approach to asset management has resulted in significant value being added to not only the 127 Durham Street property but also to the PMG Direct Office Fund.

We welcome Matt White and Hannah Bishop to the PMG team

Matt White

We're thrilled to announce the recent appointment of Matthew (Matt) White, (or affectionately known in PMG as M3) who has joined us as Associate Asset Manager. Matt joins a long and distinguished line of Matthews at PMG (Matt McHardy – M1 - Head of Investor Relations and Mat Harvie – M2 – Investor Relations Manager, Auckland).

Tertiary qualified from Massey University, Auckland, with a Bachelor of Business Studies majoring in Valuation and Property Management with a minor in finance, Matt brings both his academic expertise and his practical expertise as a qualified carpenter and Project Foreman.

With this background in the building industry, Matt has a proven proactive and practical approach to both project and property management. His focus and primary function will be assisting in all aspects of the administration of PMG's Central North Island (CNI) property portfolio; adding value to our investor's investments and caring for our tenants.

Matt will work closely with Asset Manager, Brian Berry in the Tauranga office, managing the CNI portfolio.



Hannah Bishop

PMG is thrilled to have Hannah Bishop join the team in the role of Associate Facilities Manager, for the Central North Island (CNI).

Hannah has broad experience within the Fleet Management industry, working alongside internal and external stakeholders.

She is committed to customer service, building strong networks, task management, and following and leading industry 'best practice'. Hannah has experience managing numerous concurrent projects, finding solutions, whilst delivering on exceptional customer service. Hannah will ensure the smooth day-to-day running of building services and maintenance, including ensuring Health & Safety policies are applied across all properties.

Based in the Tauranga office, Hannah will be supporting both the Asset Management and Body Corporate teams for the CNI portfolio, working closely with Group Facilities Manager, Simi Mukherjee and her team.



What is an ESG Strategy and why is PMG developing one?

As mentioned in the highlights section of this issue, PMG is currently researching and developing an Environmental, Social and Governance (ESG) strategy which will guide our decision-making and ensure we consider any impacts our decisions may have on the following:

- Environment
- Staff and society
- Governance - our responsibility to our investors in the way we manage the PMG business, their funds and their rights under our investment constitutions.

Developing and implementing an ESG is considered 'best practice' globally for investment firms and funds and essentially are a set of standards for a company's operations that socially conscious investors use to screen potential investments¹. As PMG has scaled, and demand for our investment offerings has increased, we believe it

not only makes good business sense to design and build into our daily decision-making an ESG strategy and 'thinking', but it's integral to living up to our company values (of Trusted, Transparent, Invested, Approachable, Professional and Innovative) and providing investments that live up to our clients' values.

Here's a few facts to support our ESG efforts:

- The 4th annual New Zealand Responsible Investment Benchmark Report 2018, undertaken by Responsible Investment Association of Australasia and KPMG, revealed that \$183.4 billion of NZ investments

are now managed as responsible investments, up from \$131.3 billion in 2016 and \$79 billion in 2015².

- While most of these investments are via institutions, the report found the single most significant driver of growth in responsible investment is coming from the demand and desire from clients to align investments to their values³.
- From an environmental perspective – a massive 40% of global energy consumption is used in buildings and by 2050 global floor areas are expected to double⁴, we need to do better.

If you have any thoughts on what you would like to see in PMG's ESG strategy please email us any time at info@propertymgr.co.nz or come in and chat to us.



¹ <https://www.investopedia.com/terms/e/environmental-social-and-governance-esg-criteria.asp>

² <https://home.kpmg.com/nz/en/home/insights/2018/08/responsible-investment-benchmark-report-2018.html>

³ <https://home.kpmg.com/nz/en/home/insights/2018/08/responsible-investment-benchmark-report-2018.html>

⁴ National Business Review, Investing in Property Special Feature, October 5, 2018

Introducing ... Lorena Zanesco

Many of you know Sally Lavis who is an integral part of the Investment Team. Sally's new role at PMG is as the Compliance Manager; where her responsibilities will encompass governance and compliance. Whilst managing PMG's Compliance Assurance Programme, reviewing and updating PMG's AML Programme and Risk processes, Sally will also focus on regulatory and operational compliance. Sally will continue as the Executive Assistant to the CEO, CFO and Directors of PMG.

Lorena Zanesco has accepted the role of Client Relations Associate, that sits within the Investment Team. Lorena's key responsibilities will encompass organisational and administration support, customer service and communications and supporting in all other aspects the Sales and Investment Team.

Lorena has an extensive background in the financial

sector, working for The Brazilian Exchange, British Airways Pension Fund and the University of South Florida Foundation. With core competencies in analysis, research and implementation of valuation methodologies, Lorena will ensure the smooth day-to-day running of investment services for the clients and investors of PMG.

Based in the Tauranga office, Lorena will be supporting the Investment Team and working closely with Matt McHardy Head of Business Development and Investor Relations

Outside of the office, and with her home metres from the beach, you will find Lorena relaxing into her yoga practise, cycling and reading.



Take our Investor Survey

Go in the draw to win
\$500 Air NZ vouchers

At PMG it's our vision to be the most trusted property and funds manager in NZ. To ensure we are always striving to achieve this, and delivering on our promises, we need your feedback.

Within the next few weeks, we will be sending all our current investors an email, requesting that you take three quick minutes to answer a 15-question survey. **All respondents will go in the draw to win a \$500 worth of Air New Zealand vouchers or the funds can go to the charity of your choice.**

Thank you in advance for your assistance with this survey. Your feedback is very important to us.

PMG in the community



The team at PMG are proud to have supported this worthy cause by growing mo's and donating \$1,300 for all the dads, brothers, sons and mates in our lives. Together we made a difference for men's health in prostate cancer, testicular cancer, mental health and suicide prevention.



In the media



We were proud sponsors and speakers at the Financial Advisers Conference in Auckland in November 2018. We look forward to continuing our support next year.



Following the successful closure of the recent PPF capital raise, we received very positive media coverage in a number of high profile publications including NZ Business Review.

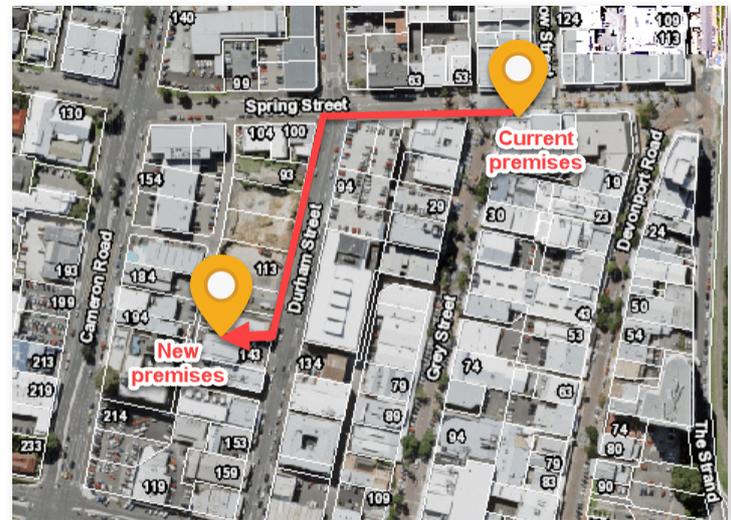
PMG Brand and Office are on the move

Thanks to the growing talent in the PMG team, in March we will be moving our Tauranga office to 143 Durham Street, Tauranga and Craigs Investment Partners will expand into our current space at 46 Spring Street.

Not only is this move due to space restraints in our current office, and a desire to support one of PMG's Funds through leasing vacant space, it is an exciting opportunity to design an office space which creates greater collaboration, connectively, teamwork and conversation – key elements proven to improve productivity and performance in a business.

We are currently undertaking some research and looking to transition the 'look and feel' of our brand to ensure it accurately says what we do, which includes fund management and not just property management.

While we are looking to refresh our brand, we are acutely aware of the heritage of the PMG brand, the trust it holds and PMG's robust and admirable history. These factors are critical elements and any change will be scrutinised thoroughly. We look forward to bringing you more information on this and the Tauranga office move, over the next month.

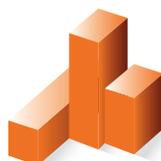


Offer coming REGISTER YOUR INTEREST



PMG Direct Office Fund is considering the acquisition of two quality office properties to its portfolio and is expecting to launch an offer to the public soon.

No money is currently being sought and units in the Fund cannot currently be applied for or acquired under the intended offer. If the offer is made, it will be made in accordance with the Financial Markets Conduct Act 2013. No indication of interest will involve an obligation or a commitment to acquire the financial products.



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