mint
ASSET MANAGEMENT

Quarterly Fund Report:
Mint Australasian Property Fund

mint
ASSET MANAGEMENT

SINGLE SECTOR FUND

Mint Australasian Property Fund

Investment Objective

The fund aims to provide investors with long-term capital growth by investing in New Zealand and Australian listed property and property related securities. The Fund has an investment objective of outperforming the S&P/NZX All Real Estate (Industry Group) Gross Index after fees and expenses, over the medium to long term.

Another tough quarter for real estate markets

Over the last three months, markets gradually came to the realisation that interest rates are likely to remain higher for a bit longer which was not great news for the property sector globally. Concerns about vacancy, incentives and levels of debt continued to hold sway and weigh on the sector, despite limited changes in asset values for the industry in recent months (albeit largely due to the scarcity of market transactions).

During the quarter, we undertook a number of management meetings and site visits across the sector in both Australia and New Zealand and while there were common themes, the markets and views towards different asset classes proved to be quite different across the Tasman and further afield. In general, prime assets remained the place to be, even if some sectors are starting to lose some of their lustre.

It was interesting that despite visiting a number of REITs whose asset mix was dominated by office, all wanted to talk about something else! This is not to write that student accommodation, build to rent and residential developments are not of interest. More, we believe this highlights the current lack of international interest in the office market due to high levels of vacancy and material reductions in asset values in Europe and the US. That said the prospects for the Melbourne and Sydney office markets look challenged in the short term where incentives for prime office are reportedly at the 30-40% level as a number of new developments come to the market. This stands in contrast to New Zealand and Brisbane where new prime office capacity is more restrained (in Auckland and Wellington) and Brisbane where the Brisbane 2032 Olympic games are creating a major infrastructure tailwind.

Industrial remains the safe haven asset class, even if recessionary concerns are increasing and raises the question, how long will this remain true? Key centres such as Highbrook and Moorebank remain in demand and are likely to prove resilient if economic concerns prove justified, even if valuations reflect this and lease renewals step up markedly in 2025 and 2026 (particularly for Highbrook). We remain wary on secondary industrial sites, particularly with short term lease expiries and rising vacancy levels, where we expect economic weakness to be felt acutely. However, we remain comfortable with data centres where recent capital raises by NextDC (A$1.3bn) and Infratil (NZ$1.15bn) highlight ongoing demand.

The retail side of the sector continues to be fixated on the Government Investment Committee of Singapore's (GIC) decision to exit its Westfield assets in New Zealand. Within the portfolio there are attractive assets (Newmarket and Albany) and some less so (Manukau and Riccarton) and it remains to be seen whether the portfolio will be sold whole or in a piecemeal fashion. Nevertheless, this transaction is likely to set a new precedent for the retail sector where lower retail spending statistics and escalating company insolvencies imply pressure is rising.

Solid outperformance from the fund

The fund outperformed the benchmark which fell 8.7% in the quarter. This was once again largely thanks to NextDC and Goodman Group which both bucked the negative property trend. Although aided and abetted by our underweight position in Vital Healthcare which was weighed down by concerns about its parent and the risk of exiting a number of indices (FTSE and NAREIT).

Kiwi Property Group's broadly flat performance for the month weighed on the funds return. While our concerns remain about its foray into the build to rent market (too high spec and inflated rent expectations), the 5.8% rental growth declared at results was at the top end of expectations and highlights the quality of the Sylvia Park asset. Goodman Property Trust also weighed on performance as the stock traded back to its book value post the internalisation of its funds.

Looking forward

Industry results highlighted the mounting pressure on the sector from rates staying higher for longer, even if we are only now starting to see the impact this is having on tenants and consumers. Industry interest rates are likely to continue to rise going forward, even if we do see a number of rate cuts towards the end of the year, and we would expect the industry to need to raise capital over the year ahead.

So, we continue to prefer balance sheet strength in what remains a challenging macro environment particularly in New Zealand. We will continue to keep a keen eye on vacancy across the industry and lease expiries and re-contracting when they come to pass. However, we believe that sector valuations are starting to better reflect the current outlook and at last starting to present valuation opportunities.

mint
ASSET MANAGEMENT

Portfolio Manager, John Middleton

BA

John has more than two decades of experience and joined Mint from ANZ Investments where he was Head of Australasian Equity Research. During this time, he was also heavily involved in corporate broking.

At Mint, John is Portfolio Manager for the Australasian Equity Fund and the Australasian Property Fund and provides research coverage across a number of sectors.

Portfolio Manager, David Fyfe

BCom (Hons.), CFA

David has over 15 years' experience in the financial industry. Previously he worked at BT Funds Management (NZ) as both a Quantitative and Equity Analyst undertaking sector research specialising in Transportation, Utilities and Technology in both New Zealand and Australian markets.

At Mint, David is the Portfolio Manager for the NZ SRI Equity Fund and the Australasian Property Fund and provides research across a number of sectors.

Signatory of:

PRI Principles for Responsible Investment

TOITŪ NET CARBON ZERO ISO 14064-1 ORGANISATION

STEWARDSHIP CODE AOTEAROA NEW ZEALAND

riaa Responsible Investment Association Australasia

For more information on our Funds, please contact:

Level 29, SAP Tower
151 Queen Street, Auckland
New Zealand

P 0800 646 833
E info@mintasset.co.nz
www.mintasset.co.nz