

Goodman bond issue 'first for NZ'

Created 05/11/2009 - 15:22

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Goodman Property Trust today announced that it would soon open up a \$100 million bond issue to its shareholders (proceeds which will go to reducing debt) and its chief executive John Dakin told NBR it's a first for a listed property market player.

"It is really about diversifying the debt of our balance sheet, replacing bank debt with proceeds from the bond issue," Mr Dakin said.

The reason for the bond issue appealing to the trust is that in the New Zealand market, the trust can get a longer term than it would with a bank, Mr Dakin said. The average bank term is three years but with a bond issue it will be five years.

Goodman Property Trust shareholders can expect further bond issues in future. "We expect to be a repeat issuer," Mr Dakin said.

Currently the trust is working on completing Ingram Micro's building at its M20 Business Park but shareholders could see another similar project before the year is out.

"There could be another design build announced before Christmas," Mr Dakin hinted.

The trust sold \$100 million worth of property assets in the six months to 30 September, and Mr Dakin said that while it had no further buildings on the market it could look at selling some more soon.

"I think people recognise we're a reasonably active seller. We're comfortable with where gearing is (at 35.5%) so we're happy to sit tight but coming in to next year there could be one or two more assets we could look to exit out of."

NZ Funds Management portfolio manager Stephen Bennie said that the trust's result of a \$13.2 million net profit and distributable earnings down 9.9% to \$38.5 million show that it has come through a "tough cycle in excellent condition".

"The result is respectable. As expected property values have been revalued down but at a more modest rate than over the previous year. Occupancy levels remain strong and rents are up. Interest costs are higher but pleasingly the company has confirmed guidance of earnings and dividend," Mr Bennie said.

Forsyth Barr research analyst Jeremy Simpson said Goodman Property Trust's investors had improved optimism.

"Investor sentiment has improved with key drivers being recognition of the sound management of both its industrial and also suburban office portfolio and its banking facilities and liquidity," Mr Simpson said, adding that his recommendation was to accumulate its shares.

"[It] has high quality properties, its banking under control, a favourable management fee structure and a very attractive yield."

The management of the trust had faced “a severe test” in recent market conditions and had coped well according to Mr Bennie.

“Questions were raised when their ambitious growth programme saw the bare land proportion of their portfolio rise to nearly 14% (and the total development portfolio to over 17%) in 2008. When the recession came and land values fell, Goodman Property Trust’s debt burden began to look a little frightening,” Mr Bennie said.

“However management has deftly managed down their debt by selling down a large number of smaller assets. This activity kept the trust well away from its banking covenants: their loan to valuation ratio stands at 35.5% versus covenant of 45%. As a result unit holders were not forced to participate in a deeply discounted rights issue or have their future returns severely diluted.”

With debt now more under control, the trust will soon reap benefits, Mr Bennie said.

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