Stride Property Group (NS)

NZX Announcement
1 May 2020

Stride Property Group

Valuations, financing and business update

Stride Property Group (Stride) is pleased to provide an update to the market on:

- Portfolio valuation as at 31 March 2020
- Financing update
- COVID-19 Impact and FY21 Update
- Update on Business and FY20 Fourth Quarter Dividend

Portfolio Valuations as at 31 March 2020

For the 12 months to 31 March 2020 (FY20), Stride Property Limited (SPL) reports a revaluation movement of -$1.0 million, being a -0.1% decrease, with a total portfolio value of $995.6 million (Note 1). When compared to the valuations as at 30 September 2019, the decrease was -$26.0 million or -2.6%. These valuations remain subject to audit finalisation and will be confirmed in Stride's audited financial statements for the year ended 31 March 2020. The independent valuers engaged by SPL have included material valuation uncertainty clauses in their reports, which Stride understands to be consistent with market practice as a result of COVID-19. These clauses highlight that less certainty, and consequently a higher degree of caution, should be attached to the valuations as a result of the COVID-19 pandemic (Note 2).

SPL notes that it had previously received draft valuations for its portfolio in early March, and these valuations were subsequently withdrawn by the valuers due to the impact of COVID-19. The revised valuations, as announced above, reflect changes in the portfolio value of -$66.5 million (Note 3) or -6.2% from the draft March valuations.

By sector:

- SPL's industrial assets continued to show strong valuation gains, with the 31 March 2020 valuations representing a 12 month net valuation gain of $38.9 million or 13.7% (Note 4). The final valuations declined by -3.3% from the draft valuations prior to the expected impacts of COVID-19 being reflected in the valuations.
- SPL's office portfolio showed a small decrease over the 12 months to 31 March 2020, primarily due to the COVID-19 revaluation, with a net valuation decrease over the 12 month period of -$3.7 million, or -2.0%. These valuations were -6.3% down on the initial draft valuations.
- The shopping centre portfolio declined by -$38.5 million or -11.4% over the 12 months to 31 March 2020. This portfolio also showed the greatest decline from the draft valuations received in early March, with a decline of -12.1%.

- The three large format retail properties that SPL had agreed to sell to Investore Property Limited (Investore) for $140.75 million will be recorded at $132.2 million as at 31 March 2020, after allowing for the cost of certain seismic upgrade works SPL has committed to undertake on the properties, rental underwrite and disposal costs. SPL notes that this transaction settled on 30 April 2020.

Disposals update

Stride has been in correspondence with the Overseas Investment Office (OIO) in relation to the consent required in connection with the establishment of its new industrial product, Industre Property Joint Venture. Based on these discussions, Stride expects to receive a decision by 30 June 2020, and is confident settlement of this transaction will follow shortly thereafter.

Financing update

Following the updated valuations, as at 31 March 2020, SPL's loan to value ratio (LVR) was 39.1%. On establishment of Stride's new industrial product, Industre Property, a joint venture with a group of international institutional investors, through a special purpose vehicle and advised by J.P. Morgan Asset Management (together, JPMAM), SPL's LVR is expected to be less than 20%, on a pro-forma basis, well within banking covenant levels of 50%, following settlement of the sale of three large format retail properties to Investore on 30 April 2020 and allowing for the shares to be acquired by SPL on settlement of the placement recently announced by Investore.

In addition, SPL is pleased to announce the refinancing of $135 million of debt for a further three years, to June 2024. As a consequence, SPL's weighted average debt maturity as at 30 April 2020 is 3.1 years, with no facilities expiring until August 2022.

As a part of this refinancing, SPL has chosen to reduce its total available facilities post the settlement of the two divestment transactions noted above to $305 million, with expected drawn debt of approximately $90 million after subscribing for shares in the Investore placement (on a pro forma basis), leaving headroom of $215 million, providing significant capacity for SPL to continue to grow its directly held portfolio and continue its strategy of establishing and supporting a group of products in specific sectors to provide growth in Stride's investment management business.

COVID-19 Impact and FY21 Update

SPL has elected to work proactively with its tenants through this unprecedented Government shutdown due to COVID-19, and in particular to provide support for smaller tenants that are significantly adversely affected by the lack of economic activity during this period. This approach includes a sharing of costs between tenants and landlord, which, in the case of the landlord, may take the form of rental abatements and rental deferrals, and may additionally be combined into wider lease discussions. As a result, SPL expects these discussions to be ongoing throughout much of FY21. Based on an initial assessment, and assuming no further deterioration in economic conditions or any Government interventions which may relate to commercial leases, SPL currently expects FY21 gross rental revenue to be reduced by between $8 million and $11 million, impacting net distributable income by -$5.8 million to -$8 million.

Balanced against the impact noted above, Stride has completed a review of all costs within its business, and following reductions in spending to a range of areas, Stride Investment Management Limited (SIML) expects that it will be able to reduce corporate costs by approximately $3.0 million from that originally budgeted for FY21, increasing net distributable income in FY21 by approximately $2.2 million.

Stride also notes that, as a part of the assistance package offered by the Government on 17 March 2020, depreciation allowances were re-introduced for commercial buildings. As a result, SPL estimates the impact of this will be to increase net distributable income in FY21 by approximately $1.1 million.

Developments

All three of SIML's current development projects, including SPL's two sites at The Concourse and Wickham St, Hamilton, and Diversified NZ Property Trust's Queensgate rebuild project, all re-commenced operations this week following the move to Alert Level 3. Given the recent commencement, the impacts to programmes following the shutdown is not certain at present.

Conclusion and fourth quarter dividend

While the full negative impacts from the COVID-19 pandemic on Stride's business are not yet clear, Stride's diversified business, low committed leverage, significant banking headroom, together with the measures taken to manage costs and the financial impact of the shut down to its tenants, have placed Stride in a very strong position to manage the impacts of COVID-19.

Given this, Stride confirms it currently intends to pay its fourth quarter dividend in June 2020 in line with prior guidance, assuming no further economic deterioration due to COVID-19.

Notes:

1. The portfolio as at 31 March 2020 includes the three large format retail properties that SPL had agreed to sell to Investore Property Limited for $140.75 million which will be recorded at $132.2 million as at 31 March 2020, after allowing for the cost of certain seismic upgrade works SPL has committed to undertake on the properties, rental underwrite and disposal costs. SPL notes that this transaction settled on 30 April 2020. See also Note 4 below.
2. Due to COVID-19, SPL's 31 March 2020 valuations have been reported on the basis of 'material valuation uncertainty', meaning less certainty and a higher degree of caution should be applied. The opinion of value has been determined at the valuation date based on a certain set of assumptions, however these could change in a short period of time due to subsequent events.
3. This excludes the three large format retail properties that SPL has agreed to sell to Investore Property Limited.
4. As announced in September 2019, SPL has agreed to transfer its industrial properties to a new joint venture called Industre Property Joint Venture, which will be a joint venture between SPL and a group of international institutional investors, through a special purpose vehicle, and advised by J.P. Morgan Asset Management (JPMAM). This transaction remains conditional on a number of conditions precedent, including Overseas Investment Office consent. Upon establishment of the joint venture, SPL expects to own approximately 70% of the interests in the joint venture. SPL has agreed to sell the industrial assets to Industre Property Joint Venture at a determined price. Upon commencement of the joint venture, the joint venture will recognise the assets at the then market price. If that market price was the same as the 31 March 2020 valuations, there would be a $2.8m valuation gain attributable to JPMAM. The +$38.9 million increase for the industrial sector excludes The Concourse development.

End

For further information please contact:

Tim Storey, Chairman, Stride Investment Management Limited / Stride Property Limited
Mobile: 021 633 089 - Email: tim.storey@strideproperty.co.nz

Philip Littlewood, Chief Executive Officer, Stride Investment Management Limited
Mobile: 021 230 3026 - Email: philip.littlewood@strideproperty.co.nz

Jennifer Whooley, Chief Financial Officer, Stride Investment Management Limited
Mobile: 021 536 406 - Email: jennifer.whooley@strideproperty.co.nz

Louise Hill, General Manager Corporate Services, Stride Investment Management Limited
Mobile: 0275 580 033 - Email: louise.hill@strideproperty.co.nz

A Stapled Security of the Stride Property Group comprises one ordinary share in Stride Property Limited and one ordinary share in Stride Investment Management Limited. Under the terms of the constitution of each company, the shares in each can only be transferred if accompanied by a transfer of the same number of shares in the other.

Stapled Securities are quoted on the NZX Main Board under the ticker code SPG. Further information is available at www.strideproperty.co.nz or at www.nzx.com/companies/SPG.