



Stride Property Group (NS)

NZX Announcement

IMMEDIATE – 28 November 2023

Stride Property Group HY24 Interim Results

Stride Property Group (Stride) (note 1) announces its interim results for the six months ended 30 September 2023 (HY24).

Key highlights

- Higher net rental income of \$34.8m, up 2.0% on HY23 (HY23: \$34.1m)
- Profit before other (expense)/income and income tax at \$25.4m, in line with HY23 at \$25.3m
- Net portfolio devaluation of \$(55.3)m over the 6 months to 30 September 2023, compared with \$(51.8)m for HY23, contributing to a loss after income tax of \$(50.5)m (HY23: \$(53.1)m loss after income tax)
- Higher distributable profit (note 2) after current income tax of \$31.4m, up 7.2% from HY23 (HY23: \$29.3m)
- Stride Property Limited's (SPL) directly held portfolio value (note 3) is down (5.1)% in the six months to 30 September 2023 to \$1.0bn. The weighted average capitalisation rate of SPL's directly held portfolio (note 4) softened by 34bps to 6.3% over the six months to 30 September 2023, or by 41bps to 6.1% on a look-through basis
- SPL's office and town centre portfolio (note 4) continues to show strong metrics, with weighted average lease term (WALT) of 6.3 years and occupancy of 96% (note 5). WALT has increased from 5.5 years as at 31 March 2023 primarily due to the acquisition of 110 Carlton Gore Road, Auckland
- Net tangible assets (NTA) per share of \$1.85, down 6.6% from \$1.98 as at 31 March 2023. NTA does not include the value of Stride Investment Management Limited's (SIML) management contracts
- Total assets under management (AUM) after commitments (note 6) of \$3.2bn as at 30 September 2023, with external AUM of \$2.2bn
- SPL has successfully executed on its previously announced capital management initiatives, including implementation of a dividend reinvestment plan (DRP), with \$13m reinvested to date; disposal of 22 The Terrace, Wellington; reducing costs through cost management initiatives; and a \$15m distribution received post balance date from Industrie Property Joint Venture following the disposal of two properties by Industrie. These initiatives have resulted in SPL having a committed (note 7) loan to value ratio (LVR) (note 8) as at 30 September 2023 of 35.8% or 26.8% balance sheet LVR (note 9)
- SPL has current interest rate swaps in place representing 80% of drawn debt as at 30 September 2023, or 86% on a committed basis (note 7)

Stride today declares a combined cash dividend of 2.00cps for SPL and SIML for the quarter ended 30 September 2023, to be paid on 22 December 2023 to all shareholders on the register as at 5.00pm on 6 December 2023 (the record date). The DRP will operate for the dividends of both SPL and SIML, with a 2% discount being applied when determining the issue price.

Results overview

Stride today announces its interim results for the six months ended 30 September 2023. Net rental income was up 2.0% from HY23 as a result of the net impact of the acquisition of 110 Carlton Gore Road, Auckland, and the disposal of 22 The Terrace, Wellington, both of which were settled during HY24. Management fee income (note 10) of \$10.3m was down on HY23, due to lower asset management fees as a result of lower asset valuations, as well as reduced activity-based fees given the subdued real estate market.

Higher net rental income, together with guarantee income of \$2.4m and lower corporate expenses, contributed to higher profit before net finance expense, other (expense)/income and income tax of \$35.8m (HY23: \$34.0m). However, higher net finance expense due to a higher average debt balance and underlying higher interest rates for the period offset some of this gain, leading to profit before other (expense)/income and income tax of \$25.4m, consistent with HY23 (HY23: \$25.3m).

The net reduction in fair value of investment properties of \$(55.3)m (HY23: \$(51.8)m net reduction) contributed to a loss after income tax of \$(50.5)m (HY23: \$(53.1)m loss after income tax).

Distributable profit (note 2) after current income tax of \$31.4m was up 7.2% from HY23 (HY23: \$29.3m).

While macroeconomic conditions continue to be challenging, Stride's commitment to improving its portfolio has given it a level of resilience. Stride's real estate investment management business, while impacted by reduced asset valuations and a lower level of activity than has been seen for some years, provides a degree of diversification and resilience, with future opportunities for growth in activity-based fee income across economic cycles.

Real Estate Investment Management business

Stride's AUM remained stable at \$3.2bn (31 March 2023: \$3.2bn), although there has been a noticeable reduction in investment and development activity levels across HY24, which has contributed to a reduction in management fee income (note 10), at \$10.3m (HY23: \$12.0m).

SPL has exposure to the four core commercial property sectors through its directly owned portfolio, as well as its investment in the Stride Products. This provides diversification of revenue from each of the core property sectors, diversifying risk in varying market conditions. As at 30 September 2023, Stride received 18% of its look-through revenue (note 11) from investment management fees, 37% from the office sector, 20% from retail shopping centres, 15% from industrial property, and 10% from large format retail property.

SPL owns an interest in each of the Stride Products of Investore Property Limited (Investore), Diversified NZ Property Trust (Diversified) and Industrie joint arrangement (Industre). SPL receives direct property income from its directly held office and town centre portfolio as well as indirect property income through its ownership interest in each of the Stride Products. In addition, post balance date, SPL received a distribution from Industrie following the sale by Industrie of two

properties during HY24. This distribution has contributed to lowering SPL's committed LVR to 36% as at 30 September 2023.

Portfolios and Products

Despite the current challenging macroeconomic conditions, demand for good quality commercial space continues. In the industrial property sector the trend of demand exceeding available stock has continued, while in the office sector well-located, quality spaces remain in demand. There has been strong demand for retail spaces across the SIML-managed portfolios, although recent data indicates the retail market may be softening.

Industre

Industre's total portfolio is valued at \$742.1m as at 30 September 2023, reflecting a net reduction in fair value of the portfolio of (1.4)% over the six months to 30 September 2023. Capitalisation rate expansion of +27 basis points was partially offset by +2.7% market rental growth (note 12). Industre's portfolio remains under-rented (based on Industre's valuation reports as at 30 September 2023 and comparing passing rent to market rent on a face rental basis), with a potential reversion to market of +15.2%. With 5.3% of net Contract Rental (note 13) subject to market review or expiry over the remainder of FY24 and a further 18.9% in FY25, this provides scope to capture potential market rental upside. Industre has been capturing some of this market rental upside during HY24, with 13 rent reviews completed over 25,000 sqm, resulting in +7.5% increase on prior rentals. During HY24 Industre sold two properties for an aggregate sales price of \$43.5m, which was above the combined book value.

Investore

Investore's large format retail portfolio has a focus on "everyday needs" tenants, which are less susceptible to impacts from challenging economic conditions and provide a stable income stream across varying market conditions. Investore's portfolio is valued at \$1.0bn as at 30 September 2023 (note 14), a net reduction in the fair value of the portfolio of (7.8)% for the six months ended 30 September 2023. Investore's portfolio (note 15) continues to demonstrate strong portfolio metrics, with 99.2% occupancy by area and WALT of 7.7 years. Investore is currently developing a new Woolworths at Hakarau Road, Kaiapoi, due to open in December 2023, and which is targeting a 5 Green Star rating.

Diversified

The opening of the EVENT Cinemas at Queensgate Shopping Centre in December 2022 has contributed to increased patronage at the centre, and helped to drive growth in Moving Annual Turnover (MAT), which, as at 30 September 2023 is up +13.8% compared with 30 September 2022 (note 16). Rent reviews have generated a 4.9% increase against prior rentals (note 12). Occupancy (note 5) is also continuing to improve, up from 97.5% as at 31 March 2023 to 98.1% as at 30 September 2023, with new deals agreed with brands such as Forever New, Build-A-Bear and Maki Mono.

SPL Office and Town Centre Portfolio

During HY24 SPL completed the acquisition of the 6 Green Star (Design) rated building at 110 Carlton Gore Road, Auckland, supporting SPL's strategy to transform its office portfolio into a high quality, more sustainable and resilient portfolio. Connected with this strategy, SPL is currently in the process of undertaking a number of upgrades to 34 Shortland Street, Auckland, including installing end of trip facilities, and upgrading the mechanical services with a target of

achieving a 4 star NABERSNZ rating. SPL has completed one floor of turnkey suites in this building, and is in the process of completing a second floor.

SPL also completed the disposal of its office property at 22 The Terrace, Wellington, in July 2023.

Rent reviews and renewals completed across 19,000 sqm of the SPL office portfolio (note 12) during HY24 provided a +4.5% uplift on prior rentals. The total SPL office portfolio is valued (note 17) at \$718.3m as at 30 September 2023, a reduction in fair value of \$(46.0)m or (6.0)% over the six months from 31 March 2023. This portfolio movement was primarily driven by +34bps softening in the capitalisation rate across the portfolio, partially offset by +1% market rental growth (note 12).

As with Diversified, the SPL Town Centre portfolio has seen an increase in sales, with MAT increasing by 8.2% compared with September 2022 (note 18). This growth has supported positive leasing and rental activity, with rent reviews and renewals generating a 5.1% increase on prior rentals (note 12). The total SPL Town Centre portfolio is valued at \$309.3m as at 30 September 2023, reflecting a net reduction in fair value of (2.8)% over the six months to 30 September 2023, primarily driven by capitalisation rate softening of +33 bps, partially offset by a +1.6% increase in net market rentals (note 12).

Sustainability

Stride continues to focus on the ongoing sustainability of its portfolio and business activities, including monitoring progress against targets and measuring its overall sustainability performance. As announced with the FY23 annual results in May 2023, Stride has set a target of reducing scope 1 and 2 greenhouse gas emissions by 42% by 2030 from the FY20 baseline year. Stride continues to work with Beca on developing its decarbonisation plans as part of working towards this target.

Understanding and managing climate risk remains a priority for Stride, including understanding how climate risk compares with other risks that the business faces, which will help ensure an appropriate amount of time and resource is applied towards mitigating and managing risks.

Stride completes the annual Global Real Estate Sustainability Benchmark (GRESB) assessment of its sustainability performance, achieving 68 points (which equates to 68%) for 2023, a 6 point increase from 2022.

Capital management

Stride is conscious of the risks posed by the current challenging macroeconomic conditions, including elevated inflation levels and higher interest rates. In order to manage these risks, Stride has concentrated on reducing its LVR through a number of initiatives:

- Refined dividend policy
- Implementation of the DRP, with \$13m reinvested to date
- Disposal of 22 The Terrace, Wellington
- Cost management initiatives
- Post balance date receipt of distribution from Industrie following the sale of two assets

The total anticipated impact of these initiatives across FY24 would be a reduction in SPL's LVR by 6.4%, all other things being equal.

As a result of these initiatives, SPL's bank LVR (note 8) was 38.9% as at 30 September 2023, or 35.8% on a committed basis (note 7), reflecting the receipt of the distribution from Industrie

which occurred post balance date, as well as committed benefits for FY24 from the other initiatives. Taking into account SPL's interests in the Stride Products, committed LVR is 36% on a look-through basis (note 19) and 27% on a balance sheet basis (note 9).

Post balance date, SPL has refinanced its bank debt facilities, including reducing total facility size by \$65m, which will improve the weighted average cost of debt. As a result of this refinancing, the pro forma weighted average debt maturity has increased from 1.8 years to 3.6 years.

As at 30 September 2023, SPL had \$320m of active interest rate swaps, representing 80% of drawn debt. This increases to 86% after considering commitments, including the receipt of the distribution from Industrie post balance date. SPL's weighted average cost of debt (including margin and line fees) is 4.06%, an increase of only +10bps since 31 March 2023, compared with +75bps increase in the Official Cash Rate over the same period, demonstrating SPL's strong hedging position.

Outlook

Looking ahead, capital management will continue to be a focus for Stride given the ongoing challenging macroeconomic conditions. This will help position Stride to pursue its strategic objectives when conditions are conducive, including growing its real estate investment management business through the establishment of a new Stride Product.

While the current conditions pose challenges to the investment backdrop of the New Zealand commercial property market, SPL's high quality portfolio continues to exhibit strong fundamentals, which will provide a level of resilience in the current market conditions.

Stride will continue to take an active approach to management of its real estate investment business and the Stride Products, in order to maximise value where possible, including driving income growth, to provide further growth in our real estate investment management business.

The Board confirms that, consistent with previous guidance, it is targeting a combined annual cash dividend for FY24 of 8.00cps, subject to market conditions.

Notes:

1. Stride Property Group (Stride) comprises Stride Investment Management Limited (SIML) and Stride Property Limited (SPL). A stapled security of the Stride Property Group comprises one ordinary share in SIML and one ordinary share in SPL. The stapled securities are quoted on the NZX Main Board under the ticker code SPG. Information presented in this presentation is on a combined basis unless otherwise specified.
2. Distributable profit is a non-GAAP measure and consists of (loss)/profit before income tax, adjusted for determined non-recurring and/or non-cash items, share of (loss)/profits in associates, dividends received from associates, and current tax. Further information, including the calculation of distributable profit and the adjustments to (loss)/profit before income tax, is set out in note 4.4 to the consolidated interim financial statements for the six months ended 30 September 2023.
3. Includes: (1) the value of Stride's office at 34 Shortland Street, Auckland, which is shown in the consolidated interim financial statements as property, plant and equipment; and (2) the value of the rental guarantee receivable in relation to 110 Carlton Gore Road, Auckland; and excludes: (1) SPL's interest in the Industrie joint operation which is reported as part of the assets of SPL (see note 3.2 to the consolidated interim financial statements for further information); (2) lease liabilities; and (3) properties classified as 'Development and Other' in note 3.2 in the consolidated interim financial statements.

4. Excludes: (1) SPL's interest in the Industrie joint operation which is reported as part of the assets of SPL (see note 3.2 to the consolidated interim financial statements for further information); and (2) properties classified as 'Development and Other' in note 3.2 in the consolidated interim financial statements.
5. Occupancy is calculated including casual licences with an initial term greater than three months, and excluding units held for committed redevelopment or remix works.
6. Commitments include: (1) SPL: building upgrades at 34 Shortland Street, Auckland, and various capital expenditure commitments contracted for (refer note 3.3 to the consolidated interim financial statements); (2) IPL: completion of the development of Woolworths Hakarau Road, Kaiapoi, and other capital expenditure commitments; and (3) Industrie: completion of the development of 34 Airpark Drive, Auckland.
7. SPL commitments include: (1) building upgrades at 34 Shortland Street, Auckland; (2) various capital expenditure commitments contracted for (refer note 3.3 to the consolidated interim financial statements); (3) the remaining estimated FY24 impact of capital management initiatives that Stride has implemented; and (4) the impact of the distribution from Industrie received on 31 October 2023.
8. Banking covenant Loan to Value Ratio, calculated as bank debt as a percentage of the value of investment property for mortgage security purposes. Includes SPL's office and town centre properties and the debt associated with these properties, and excludes SPL's interest in the Industrie joint operation and associated bank debt which are reported as part of the assets and liabilities of SPL (see note 6.3 to the consolidated interim financial statements for further information).
9. Balance sheet LVR includes SPL's office and town centre properties as well as the value of SPL's interests in each of the Stride Products, and SPL's direct debt, which excludes Industrie joint operation debt. Commitments for the Stride Products include: IPL: (1) the development of Woolworths Hakarau Road, Kaiapoi; (2) other capital expenditure commitments; (3) reduced borrowing due to Investore's revised FY24 dividend guidance; and (4) reduced borrowing due to the retained income from Investore's dividend reinvestment plan which is assumed to continue for the balance of the distributions related to FY24 with participation at the same rate as the FY24 Q1 dividend; and Industrie: completion of the development of 34 Airpark Drive, Auckland, and the impact of the distribution to the joint venture partners on 31 October 2023.
10. Net of management fees received from SPL.
11. Stride's revenue comprises SIML management fees and SPL revenue. SPL revenue comprises income derived from SPL's directly held property plus revenue derived from its interests in the Stride Products which is calculated based on net Contract Rental on a look-through basis as at 30 September 2023. Management fees comprise HY24 management fees from Stride Products (i.e. excluding fees from SPL).
12. Metrics exclude properties categorised as 'Development and Other'.
13. Contract Rental is the amount of rent payable by each tenant, plus other amounts payable to the relevant landlord by that tenant under the terms of the relevant lease as at the relevant date, annualised for the 12-month period on the basis of the occupancy level for the relevant property as at the relevant date, and assuming no default by the tenant.
14. Investore's portfolio value excludes lease liabilities.
15. Portfolio metrics exclude properties classified as 'Development and Other' and properties classified as assets held for sale in Investore's consolidated interim financial statements.
16. Sales data includes GST. MAT is calculated across the portfolio excluding properties categorised as 'Development and Other'.
17. Includes: (1) the value of Stride's office at 34 Shortland Street, Auckland, which is shown in the consolidated interim financial statements as property, plant and equipment; and (2) the value of the rental guarantee receivable in relation to 110 Carlton Gore Road, Auckland.
18. Sales data includes GST. MAT is calculated across the portfolio excluding properties categorised as 'Development and Other'. Sales data is not collected for all tenants at Silverdale Centre, Auckland, as not all tenants are obliged to provide this information under the terms of their lease.
19. Look-through LVR includes SPL's directly held property and debt as well as its proportionate share of the property and debt of each of the Stride Products. For commitments, see note 9.

Ends

Attachments provided to NZX:

- Stride Property Group – HY24 Interim Results Announcement - 281123
- Stride Property Group – HY24 Consolidated Interim Financial Statements – 281123
- Stride Property Group – HY24 Interim Results Presentation– 281123
- Stride Property Group – NZX Results Announcement – 281123
- Stride Property Limited – NZX Distribution Notice – 281123
- Stride Investment Management Limited – NZX Distribution Notice – 281123

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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.