



Stride Property Group (NS)

NZX Announcement

IMMEDIATE – 27 November 2024

Stride Property Group HY25 Interim Results

Stride Property Group (Stride) (note 1) announces its interim results for the six months ended 30 September 2024 (HY25).

Key highlights

- Higher net rental income of \$36.0m, up 3.5% on HY24
- Profit before other expense and income tax at \$25.4m, in line with HY24
- Profit after income tax of \$18.5m, up \$69.0m compared to HY24
- A strong balance sheet, with net tangible assets (NTA) of 175cps, marginally down from 31 March 2024
- Total assets under management (AUM) after commitments (note 2) of \$3.3bn as at 30 September 2024, with external AUM of \$2.2bn
- Stride Property Limited (SPL) committed balance sheet loan to value ratio (LVR) (note 3) of 29% and committed bank LVR (note 4) of 38%, as at 30 September 2024
- SPL entered into \$75m of forward starting interest rate hedging during the period, with 73% of drawn debt hedged as at 30 September 2024
- Industrie Property Joint Venture (Industre) committed to two developments during HY25, with total expected development cost of \$61m (excluding land)
- Combined cash dividend of 2.0cps declared for SPL and Stride Investment Management Limited (SIML) for the quarter ended 30 September 2024; the Boards reaffirmed full year cash dividend guidance of 8.0cps

Results overview

Stride is pleased to announce its interim results for HY25. Stride's strategy to invest in high quality properties with enduring demand, supported by its diversified and enduring investment management business, has delivered strong results.

Chief Executive Philip Littlewood said "We have always sought to grow our business in a sustainable way. We are very pleased to see that, once again, all of our funds delivered strong income growth for the period. As expected, our investment management business has delivered in-line results for its recurring income, reflecting a stabilising investment market, and we look forward to an improving activity fee income outlook with new committed developments in our pipeline."

While macroeconomic conditions have been challenging during HY25, the commencement of the interest rate easing cycle is expected to benefit property transaction activity, supporting asset valuations and transactional activity for SIML's investment management business.

Stride's balance sheet remains robust as valuations stabilised during the period, with a small net reduction in fair value of investment properties of \$(3.6)m, an improvement of \$51.7m on HY24, contributing to profit after income tax of \$18.5m, up \$69.0m on HY24.

Higher net rental income and lower corporate expenses were offset by one-off income in the prior period, which contributed to an overall small decline in profit before net finance expense, other (expense)/income and income tax of \$35.1m, down \$(0.7)m on HY24, however lower net finance expense resulted in profit before other (expense)/income and income tax of \$25.4m, in-line with HY24.

Distributable profit (note 5) after current income tax of \$24.1m was down \$(7.3)m from HY24, due primarily to one-off income of \$6.2m received in the prior period, together with higher taxation following the removal of tax deduction for building depreciation. Stride's effective tax rate has increased to 16.8% for HY25 (HY24: 11.6%).

Real Estate Investment Management business

Stride's total committed AUM of \$3.3bn was slightly up on 31 March 2024 at \$3.2bn, although investment and development activity levels have remained steady across HY25.

Recurring management fee income (note 6) of \$7.9m was broadly in-line with HY24. Activity fee income of \$1.5m was down on HY24's \$2.1m due to the timing of development activities, and contributed to total fee income of \$9.4m, down \$(0.9)m on the comparable period.

SPL has exposure to the four core commercial property sectors through its directly owned portfolio, as well as its investment in the Stride Products of Industrie Property Joint Venture (Industrie), Investore Property Limited (Investore), and Diversified NZ Property Trust (Diversified). This provides diversification of revenue from each of the core property sectors, diversifying risk in varying market conditions.

Portfolios and Products

Industrie

Industrie's total portfolio is valued at \$745m as at 30 September 2024, reflecting a net reduction in fair value of the portfolio of (0.2)% over the six months to 30 September 2024. Industrie's portfolio remains under-rented based on Industrie's independent valuation reports as at 30 September 2024, with a potential reversion to market of +14.7% across the portfolio. With 14.1% of net Contract Rental (note 7) subject to market review or expiry over the remainder of FY25 and a further 9.6% in FY26, this provides scope to capture potential market rental upside.

Industrie is continuing its strategy of developing quality properties which it will hold for the long term, with two developments in progress or committed – a new logistics facility at Industrie's property at 16A Wickham Street, Hamilton, with total estimated project cost of \$28m (excluding land), estimated to generate yield on cost of between 6.25% and 6.75% (including land). During the period Industrie committed to develop a new industrial property at Favona Road, Auckland. This project is expected to cost \$33m (excluding land) and provide yield on cost of 6%+ (including land).

Investore

Investore continued to deliver resilient operating earnings during HY25, while at the same time executing its strategic objectives of targeted growth and portfolio optimisation. Delivering on Investore's targeted growth strategy of recycling into assets that exhibit strong growth fundamentals over the medium to long term, Investore entered into unconditional agreements to sell two non-core regional properties at Invercargill (sale settled 31 October 2024) and New Plymouth, and an unconditional agreement to acquire Bunnings Westgate. These transactions increase Investore's exposure to the Auckland market, increasing the percentage of total portfolio value in Auckland from 37.2% to 42.5%, with its regional weighting decreasing correspondingly, and 39% of Contract Rental (note 7) being derived from the Auckland market on a pro forma basis as at 30 September 2024 (assuming the transactions had completed on that date).

Investore's portfolio is valued at \$1.0bn as at 30 September 2024 (note 8), with an average portfolio capitalisation rate (note 9) of 6.4% and an initial yield of 6.6%. The portfolio (note 9) continues to demonstrate strong metrics, with 99.3% occupancy by area and weighted average lease term (WALT) of 7.0 years.

Diversified

Challenging economic conditions during HY25 have resulted in reduced moving annual turnover (MAT) at the shopping centres owned by Diversified, with specialty MAT to 30 September 2024 declining (2.2)% to \$226.4m (note 10), compared with the 12 months to 30 September 2023. Despite this, gross occupancy costs remained steady at ~13.0% as at 30 September 2024. Rent reviews have generated a 2.8% increase against prior rentals (note 11).

Diversified's total portfolio has a value of \$410m as at 30 September 2024, reflecting a net reduction in fair value of (1.4)% over the six months to 30 September 2024, driven primarily by portfolio capitalisation rate expansion of +21 bps (note 11) as a result of lower MAT and shopping centre market activity, with more properties being marketed for sale but not transacting.

SPL Office and Town Centre Portfolio

SPL's total office portfolio is valued at \$718m as at 30 September 2024, with a weighted average capitalisation rate (note 11) of 5.9% and WALT of 7.4 years. Across SPL's office portfolio (note 11), overall office portfolio occupancy as at 30 September 2024 is 87.6%. The Prime grade assets have 100% occupancy, with the remainder having occupancy of 69%, which is expected to improve after current upgrade projects at these properties are delivered.

SPL has a strategy of improving its office assets, to maximise demand in what is currently a challenging market. Works include the recently completed mechanical upgrades to 34 Shortland Street, Auckland, which complement the installation of end of trip facilities and lobby upgrade completed in FY24. SPL has also recently committed to upgrading the Shortland Street and Fort Street façades of this property to reflect the quality interior of the building. With the office building at 215 Lambton Quay, Wellington, SPL is in the process of completing a refurbishment project, including installation of end of trip facilities, and lobby and mechanical upgrades, consistent with the works undertaken at 34 Shortland Street, Auckland.

Within the office portfolio, rent reviews and renewals completed during HY25 over 31,000 sqm provided a 3.5% uplift on prior rentals.

The SPL Town Centre portfolio has seen an increase in sales, with MAT increasing by 2.5% to \$131.3m compared with the 12 months to 30 September 2023 (note 10). Rent reviews completed during the period generated a 4.8% increase on prior rentals, primarily driven by CPI related reviews (note 11). The total SPL Town Centre portfolio is valued at \$307m as at 30 September 2024, reflecting a net reduction in fair value of (0.1)% over the six months to 30 September 2024.

Sustainability

Stride continues to deliver on its transition plan objectives of targeting a 5 Green Star rating for new developments or major refurbishments, and implementing Stride's carbon transition plan designed to support its target of reducing scope 1 and 2 greenhouse gas emissions by 42% by 2030, from the FY20 baseline year. Recent achievements include:

- The newly completed industrial developments at 34 Airpark Drive and 439 Rosebank Road, both in Auckland, (owned by Industrie) achieved a 5 Green Star Design & As Built Rating
- The new industrial development for Industrie in progress at 16A Wickham Street, Hamilton, is targeting a 5 Green Star rating
- The office property at 110 Carlton Gore Road, Auckland, acquired by SPL during HY24 achieved a 5.5 star NABERSNZ rating – NABERSNZ ratings require 12 months of utilities consumption data, and accordingly a NABERSNZ rating can only be obtained 12 months after the building is occupied
- Upgrades have been completed at the 34 Shortland Street, Auckland, office property owned by SPL, targeting a 4 star NABERSNZ rating
- Carbon reduction upgrades are also underway at the 215 Lambton Quay, Wellington, office property

Capital management

As a result of Stride's initiatives to manage its LVR, SPL's bank LVR was 37.4% as at 30 September 2024, or 38.2% on a committed basis (note 4). Taking into account SPL's interests in the Stride Products, committed LVR is 38.9% on a look-through basis (note 12) and 28.7% on a balance sheet basis (note 3).

The weighted average maturity of SPL's debt facilities is 2.6 years as at 30 September 2024, with 73% of SPL's drawn debt hedged. As at 30 September 2024, SPL's weighted average cost of debt (including margins and line fees) was 4.08%, down from 4.22% as at 31 March 2024, due to the beginning of the Reserve Bank of New Zealand's interest rate easing cycle.

Outlook

Looking ahead, current macroeconomic conditions are expected to continue during FY25, although the Reserve Bank of New Zealand's interest rate easing cycle is expected to result in a lower cost of capital, supporting asset valuations and transaction activity over time, and provide opportunities for Stride's real estate investment management business.

Stride will continue to take an active approach to management of its real estate investment business and the Stride Products, including the upgrades of its office assets at 34 Shortland Street and 215 Lambton Quay, and delivering quality development projects for Industrie.

The Boards of SPL and SIML confirm that, consistent with previous guidance, they are targeting a combined annual cash dividend for FY25 of 8.0cps. The Dividend Reinvestment Plan will not operate for the quarter ended 30 September 2024.

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.
2. Commitments include: SPL: (1) building upgrades at 34 Shortland Street, Auckland, and 215 Lambton Quay, Wellington; and (2) various capital expenditure commitments contracted for (refer note 3.3 to the consolidated interim financial statements); Investore: (1) sale of Pak'nSave New Plymouth and Woolworths Invercargill, (2) acquisition of Bunnings Westgate, and (3) various other capital expenditure; Industrie: (1) development at 14-20 Favona Road, Auckland; (2) development at 16A Wickham St, Hamilton; and (3) completion of the acquisition of 160 Higgins Road, Hamilton; together with the equity contributions from the joint venture partners associated with this transaction.
3. 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. For commitments, see note 2.
4. Banking covenant LVR is 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 properties in the Industrie joint operation and associated bank debt which are reported as part of the assets and liabilities of SPL (refer note 6.3 to the consolidated interim financial statements). For commitments, see note 2.
5. Distributable profit is a non-GAAP measure and consists of profit/(loss) before income tax, adjusted for determined non-recurring and/or non-cash items, share of profit/(loss) in equity accounted investments, dividends received from equity accounted investments and current tax. Further information, including the calculation of distributable profit and the adjustments to profit/(loss) before income tax, is set out in note 4.4 to the consolidated interim financial statements for the six months ended 30 September 2024.
6. Net of management fees received from SPL.
7. 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.
8. Investore's portfolio value includes all properties owned by Investore and excludes lease liabilities.
9. Portfolio metrics exclude properties classified as 'Development and Other' and properties classified as 'Assets held for sale' in Investore's HY25 consolidated interim financial statements.
10. Sales data includes GST. MAT is calculated across the portfolio excluding properties categorised as 'Development and Other'.
11. Metrics exclude properties categorised as 'Development and Other'.
12. 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 2.

Ends

Attachments provided to NZX:

- Stride Property Group – HY25 Interim Results Announcement – 271 124
- Stride Property Group – HY25 Consolidated Interim Financial Statements – 271 124
- Stride Property Group – HY25 Interim Results Presentation – 271 124
- Stride Property Group – NZX Results Announcement – 271 124
- Stride Property Limited – NZX Distribution Notice – 271 124

- Stride Investment Management Limited – NZX Distribution Notice – 271124

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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.