



Stride Property Group (NS)

NZX Announcement

IMMEDIATE — 28 May 2024

Stride Property Group FY24 Annual Results

Stride Property Group (Stride) (Note 1) has released its Annual Report, Results Presentation, and Sustainability Report and Climate-Related Disclosures for the twelve months ended 31 March 2024 (FY24).

Overview for the period:

- \$(56.1)m loss after income tax, reduced by \$60.6m from FY23, due primarily to a smaller net reduction in fair value of investment properties
- Distributable profit (Note 2) after current income tax of \$59.1m, up 2.6% from FY23
- FY24 full year dividend of 8.0 cents per share represents a payout of 74% of combined distributable profit (Note 2) and an 83% payout of AFFO (Adjusted Funds from Operations)
- Rent reviews and renewals completed across SPL's directly held portfolio (Note 3) delivered 4.9% rental growth on previous rentals
- Capitalisation rates for SPL's directly held portfolio increased 29 basis points to 6.3% over the 12 months, but were unchanged in the six months to 31 March 2024, indicating a stabilising investment market
- Capital management initiatives implemented during FY24 have contributed to ensuring SPL retains a robust balance sheet, with a committed loan to value ratio (LVR) of 28.1% on a balance sheet basis (Note 4) and a committed bank LVR (Note 5) of 37.2%, consistent with 31 March 2023 (Note 6)
- Dividend reinvestment plan (DRP) continued to operate during FY24, with an average participation rate of 45%, resulting in \$20m reinvested
- SPL completed the acquisition of the 6 Green Star Design rated office property at 110 Carlton Gore Road, Auckland, and has progressed the refurbishment of the office property at 34 Shortland Street, Auckland
- Progress continues towards meeting sustainability targets, with scope 1 and 2 emissions reducing 26.4% from FY23 and 18.7% from Stride's FY20 baseline year (Note 7)
- Combined cash dividend guidance for FY25 of 8.0 cents per share provided, in line with FY24

Economic conditions have continued to remain challenging during FY24, with elevated inflation rates driving higher interest rates which, in turn, have impacted property capitalisation rates and

resulted in lower portfolio values for SPL and the Stride Products (Note 8). Despite these conditions, Stride's underlying earnings for FY24, as measured by distributable profit (Note 2), have remained resilient, with FY24 distributable profit after current income tax of \$59.1m being 2.6% up on FY23, with distributable profit after current income tax on a weighted per share basis of 10.76 cps, up 0.9% on FY23.

SPL reported a net reduction in fair value of investment properties for FY24 of \$(75.8)m, lower than for FY23 where SPL experienced a \$(118.5)m net reduction. This has contributed to a loss after income tax of \$(56.1)m, compared with a loss after income tax of \$(116.7)m for FY23. The key driver of SPL's portfolio valuation movement for FY24 is market capitalisation rate softening, partly offset by market rental growth.

The Board is pleased to have seen property valuations stabilising over the second half of FY24, but is conscious of elevated interest rates and a softer economy, which are expected to persist for the remainder of this year.

SPL and SIML are pleased to announce fourth quarter (1 January 2024 to 31 March 2024) cash dividends to be paid by each company on 13 June 2024 to all shareholders on the register as at the close of business on 6 June 2024, as follows:

- SPL announces a cash dividend for the fourth quarter of FY24 of 1.94 cents per share
- SIML announces a cash dividend for the fourth quarter of FY24 of 0.06 cents per share

This brings the total combined cash dividend for Stride Property Group for FY24 to 8.0 cents per share, in line with previous guidance. The SPL FY24 total cash dividends represent a payout of 78% of SPL's distributable profit, which is slightly below its targeted range of between 80% and 100% of distributable profit. The FY24 SIML cash dividends represent a payout of 53% of SIML's distributable profit, consistent with the policy of paying between 25% and 75% of distributable profit. The combined cash dividend of 8.0 cents per share for FY24 represents a payout of 74% of Stride's distributable profit and 83% of AFFO (Adjusted Funds from Operations).

The Board has resolved to suspend the DRP for the FY24 fourth quarter dividends of both SPL and SIML.

FY24 Overview:

Financial Performance – Stride Property Group

- Net rental income of \$72.3m, up \$1.2m or 1.7% from FY23 (\$71.1m)
- \$(56.1)m loss after income tax, reduced by \$60.6m from FY23 loss after income tax of \$(116.7)m. The reduction is due primarily to a smaller net reduction in fair value of investment properties of \$(75.8)m compared with a \$(118.5)m net reduction for FY23. The net portfolio valuation reduction is due in large part to the movement in portfolio capitalisation rates as a result of the high interest rate environment

- \$59.1m distributable profit (Note 2) after current income tax, up \$1.5m or 2.6% from FY23 (\$57.6m). Distributable profit after current income tax of 10.76cps, up 0.10cps or 0.9% from FY23 (10.66cps)
- Adjusted funds from operations distributable profit (Note 2) after current income tax on a weighted per share basis of 9.62cps, up 0.08cps or 0.8% from FY23 (9.54cps)
- FY24 combined cash dividend of 8.0cps, in line with guidance
- Net tangible assets (NTA) per share of \$1.78 as at 31 March 2024, down \$0.20 from 31 March 2023 (\$1.98), primarily due to the reduced portfolio value

Real Estate Investment Management Business

- \$19.9m management fee income (Note 9), down from FY23 (\$23.3m), due to lower portfolio valuations of the Stride Products (Note 8) driving lower asset management fees, as well as lower levels of activity and no performance fees contributing to a reduction in activity fees
- Activity based fees are directly impacted by economic cycles and are therefore expected to improve as the economy recovers
- Assets under management of \$3.2bn on a committed basis, including \$2.2bn of external assets under management on a committed basis (Note 10)

Developments

- During FY24 SIML managed the development of a new industrial building at 34 Airpark Drive, Auckland, for Industrie. This property has a number of sustainable features, including solar panels and rainwater harvesting, and is targeting a 5 Green Star As Built rating. The property has been leased to DHL on a 10 year lease and delivers a yield on cost of 5.8% (including land)
- SIML also managed the development of a new Woolworths supermarket for Investore at Waimakariri Junction, Kaiapoi. This property has achieved a 5 Green Star Design rating and is targeting a 5 Green Star As Built rating. Woolworths has leased the property for a 12 year term, and a total term of 35 years if all rights of renewal are exercised
- SIML is also delivering a refurbishment of the SPL office building at 34 Shortland Street, Auckland, with the lobby having been redeveloped into a light and welcoming space, end of trip facilities installed, and an upgrade of the heating and cooling system in progress, targeting a minimum 4 star NABERSNZ rating on completion

SPL Office Portfolio (Note 3)

- Portfolio value of \$704.5m as at 31 March 2024 (Note 11)
- Rent reviews and renewals completed across 36,000 sqm of the portfolio during FY24 delivering a +4.4% increase on prior rentals
- +26 basis points capitalisation rate expansion partially offset by +2.2% market rental growth, resulting in a net reduction in fair value for the total office portfolio (Note 12) of \$(61.0)m or (7.8)% from 31 March 2023

- Weighted average lease term (WALT) of 6.9 years as at 31 March 2024, up from 31 March 2023 due to the acquisition of 110 Carlton Gore Road, Auckland
- Occupancy of 94.6% as at 31 March 2024. SPL has progressed the refurbishment of 34 Shortland Street, Auckland, and is undertaking similar refurbishments at 215 Lambton Quay, Wellington, expected to improve occupancy at these properties
- Acquisition of 110 Carlton Gore Road, Auckland, settled during FY24, and disposal of 22 The Terrace, Wellington, also completed during FY24
- Anchor tenant actioned an early renewal at 20 Customhouse Quay, Wellington, post balance date, extending the lease term to 2039
- SPL has, post balance date, committed to an upgrade of amenities at 215 Lambton Quay, Wellington

SPL Town Centre Portfolio (Note 3)

- Portfolio value of \$283.5m as at 31 March 2024 (Note 13)
- Capitalisation rate softening of +33 basis points was partially offset by +0.6% market rental growth, resulting in a total portfolio (Note 14) reduction in fair value of \$(11.3)m or (3.5)% for FY24
- Specialty moving annual turnover (MAT) (Note 15) increased 2.9% on FY23 to \$130.6m
- Specialty gross occupancy costs (Note 16) for the portfolio remained steady at 11.0% as at 31 March 2024, despite increases in insurance and council rates
- Rent reviews and renewals drove a +5.8% rental uplift, primarily driven by CPI (consumers price index) related reviews
- SPL's town centre portfolio has WALT of 3.8 years and occupancy of 97.8% as at 31 March 2024

Investore Property Limited (Investore) (Note 3)

- Portfolio valued at \$1.0bn as at 31 March 2024 (Note 17)
- 65 rent reviews completed over 96,000 sqm resulting in a 3.1% increase on prior rentals
- Development of new Woolworths Waimakariri Junction, Kaiapoi, completed in November 2023; achieved 5 Green Star Design rating and targeting 5 Green Star As Built rating
- Distributable profit (Note 18) after current income tax of \$31.0m, in line with FY23
- 88% drawn debt subject to a fixed interest rate as at 31 March 2024, for a weighted average period of 2.3 years
- Post balance date lease agreements have increased portfolio occupancy to 99.4%

Industre Property Joint Venture (Note 3)

- Total portfolio (Note 19) valuation of \$726m as at 31 March 2024, reflecting a net reduction in fair value of (3.8)% during FY24, driven by capitalisation rate expansion of +54 basis points over FY24, partially offset by +6.7% market rental growth

- Renewals completed over 45,000 sqm, generating an increase of 23.5% on prior rentals
- Potential reversion to market of +18.8% (Note 20) across the portfolio. 19.3% of net Contract Rental is subject to market review or expiry over FY25, with an additional 9.6% in FY26
- Disposal of two properties for an aggregate sales price of \$43.5m, 10% above the combined book value
- Development completed at 34 Airpark Drive, Auckland, delivering a 15% development margin at completion
- Post balance date Industrie has commenced the development of a new warehouse at 16A Wickham Street, Hamilton, for a total expected cost of \$31m (excl. land), targeting a 5 Green Star rating
- Post balance date Industrie has acquired 7.9 hectares of land in Hamilton for \$19m, providing future development opportunities

Diversified NZ Property Trust (Note 3)

- Total portfolio (Note 21) valuation of \$414m as at 31 March 2024, reflecting a reduction in fair value of (0.4)% over the 12 months from 31 March 2023, as a result of capitalisation rate expansion of +25 basis points, partially offset by +4.2% market rental growth
- Specialty MAT (Note 15) increased 3.4% to \$230.8m against FY23
- Rent reviews generated an uplift of 5.9% on prior rentals
- Lease renewals during FY24 included leading brands such as H&M, BNZ, ASB and Westpac

Capital Management – SPL

- SPL has continued to take a prudent approach to capital management given the current higher interest rate environment. This careful approach has enabled SPL to maintain its bank LVR (Note 5) at 36.7%, or 37.2% on a committed basis (Note 6), largely in line with 31 March 2023
- When factoring in SPL's interests in its products, SPL's committed (Note 6) gearing is:
 - 28.1% on a balance sheet basis (Note 4)
 - 37.8% on a look-through basis (Note 22)
- SPL has benefited from a number of initiatives during FY24 to manage its LVR, including continued operation of the DRP which resulted in \$20m being reinvested during FY24, receipt of a distribution from Industrie of \$15m following the sale of two properties (demonstrating SPL's sources of liquidity over and above its directly held property portfolio), and sale of the office property at 22 The Terrace, Wellington
- During FY24 SPL refinanced its bank debt facilities and reduced total facility size by \$65m as part of its cost management initiatives. Following this refinancing, SPL now has no debt expiring until FY27 and a weighted average maturity of debt facilities as at 31 March 2024 of 3.1 years

- As at 31 March 2024, SPL had \$280m of active interest rate swaps, representing 75% of drawn debt
- SPL's weighted average cost of debt is 4.22% (excluding forward starting swaps) as at 31 March 2024, an increase of only 26 basis points over FY24, compared to a 75 basis point increase in the Official Cash Rate over this time, as a result of SPL's strong hedging position and cancellation of excess bank debt facility

Sustainability

- Climate-related targets progressed during FY24, including development of a carbon transition plan, setting actions to be taken to reduce emissions across Stride's owned and managed office and town centre properties
- 26.4% reduction in scope 1 and 2 emissions from FY23 and 18.7% reduction from Stride's FY20 baseline year (Note 7), demonstrating progress on Stride's target of achieving a 42% reduction in scope 1 and 2 emissions from the FY20 baseline year by 2030

Outlook

- Challenging macroeconomic conditions expected to continue during FY25, which may result in continued reduced levels of activity in the short term
- However, current market conditions are expected to create new opportunities for Stride's real estate investment management business
- We are positioning the business to deliver new investment management and development initiatives as conditions improve
- Focus on delivering Industrie's development pipeline and SPL's remaining asset repositioning initiatives at 34 Shortland Street, Auckland, and 215 Lambton Quay, Wellington
- The Stride Boards confirm they intend to pay a combined cash dividend for SPL and SIML during FY25 of 8.0 cents per share, 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 share in SIML and one 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 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 4.2 to the consolidated financial statements for the year ended 31 March 2024.
3. Unless otherwise stated, all metrics exclude properties categorised as 'Development and Other' in the respective financial statements.
4. 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.

5. Calculated as bank debt as a percentage of the value of investment property for mortgage security purposes. Includes: (1) SPL's office and retail properties; and (2) 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 (refer note 7.3 to the consolidated financial statements for further information).
6. For the purpose of calculating committed bank LVR, SPL commitments include: (1) building upgrades at 34 Shortland Street, Auckland, and 215 Lambton Quay, Wellington (committed post balance date); and (2) various capital expenditure commitments contracted for (refer note 3.4 to the consolidated financial statements). When calculating committed balance sheet LVR and committed look-through LVR, commitments include: SPL: commitments noted previously; Investore: (1) various capital expenditure commitments; and (2) the reduced FY24 Q4 dividend; Industrie: (1) development of the property at 16A Wickham Street, Hamilton; (2) the purchase price of the property at 160 Higgins Road, Hamilton, committed post balance date; and (3) the equity contribution from the joint venture partner associated with these transactions.
7. Stride's FY20 baseline year has been recalculated during FY24 in line with Stride's Baseline Recalculation policy which requires the baseline to be recalculated when there is a movement of more than 10% of total portfolio net lettable area.
8. The Stride Products comprise Investore Property Limited (Investore), Industrie Property Joint Venture (Industrie) and Diversified NZ Property Trust (Diversified).
9. Net of management fees received from SPL.
10. Commitments include: (1) SPL: building upgrades at 34 Shortland Street, Auckland, and 215 Lambton Quay, Wellington (committed post balance date), and various capital expenditure commitments contracted for (refer note 3.4 to the consolidated financial statements); (2) Investore: various capital expenditure commitments; and (3) Industrie: development of the property at 16A Wickham Street, Hamilton, and the purchase price of the property at 160 Higgins Road, Hamilton, which was committed to and settled post balance date.
11. Includes: (1) the value of Stride's office at 34 Shortland Street, Auckland, which is shown in the consolidated financial statements as 'Property, plant and equipment'; and (2) the value of the rental guarantee receivable in relation to 110 Carlton Gore Road, Auckland.
12. Includes all investment properties in SPL's office portfolio, including investment properties classified as 'Development and Other' in the consolidated financial statements.
13. Excludes lease liabilities.
14. Includes all properties in SPL's town centre portfolio, including properties classified as 'Development and Other' in the consolidated financial statements.
15. Moving annual turnover (MAT) comprises annual sales on a rolling 12 month basis, including GST. In respect of moving annual turnover for the SPL town centre portfolio, sales data is not collected for all tenants at Silverdale Centre as not all tenants are obliged to provide this information under the terms of their lease.
16. Gross occupancy costs (excluding GST) expressed as a percentage of MAT.
17. Includes all properties in Investore's portfolio, including properties classified as 'Development and Other' in Investore's consolidated financial statements. Excludes lease liabilities.
18. 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 (including non-recurring adjustments for incentives payable to anchor tenants for lease extensions) 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 3.2 to Investore's consolidated financial statements.
19. Includes all properties in Industrie's portfolio, including properties classified as 'Development and Other' in Industrie's financial statements.
20. Based on Industrie's valuation reports as at 31 March 2024 and comparing passing rent to market rent on a face rental basis.
21. Includes all properties in Diversified's portfolio, including properties classified as 'Development and Other' in Diversified's financial statements.
22. 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.

Ends

Attachments provided to NZX:

- Stride Property Group – FY24 Annual Results Announcement – 280524
- Stride Property Group – FY24 Annual Report – 280524
- Stride Property Group – FY24 Annual Results Presentation – 280524
- Stride Property Group – FY24 Sustainability Report and Climate-Related Disclosures – 280524
- Stride Property Group – NZX Results Announcement – 280524
- Stride Property Limited – NZX Distribution Notice – 280524
- Stride Investment Management Limited – NZX Distribution Notice – 280524

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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.