

OYSTER®

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update



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Welcome to Oyster Update

A note from Mark Schiele, Chief Executive



AS WE ENTER 2023, I've been reflecting on the environment we have navigated over the past three years. The resilience of commercial property shone through during this period and we were able to deliver

consistent results, despite significant external pressure.

2022 was a year of protecting value. As active fund managers, our mandate is to optimise returns across the lifetime of your investment.

This has seen the Oyster team firmly focused on ensuring our funds are well positioned to navigate the coming year, and to maximise the opportunity for growth that may present itself as we enter the next cycle.

Last year, Oyster Industrial undertook its fourth equity raise, and the fund's results have continued to reflect industrial property's position as New Zealand's strongest performing commercial property asset class. Additionally, the large format retail sector continues to see growth, and there is consistent demand for quality, well located, office assets.

Enhancing our position as a landlord of choice to drive rental growth plays a critical role in our strategy, and we continue to see strong occupier demand from quality local and international organisations.

Key highlights of 2022 included expanding our team of commercial property experts, significant progress against our sustainability objectives, and enhancing Oyster's relationship with several global investors.

Of particular note was the strong investor outcome achieved on the sale of 60 Khyber Pass Road, which has been owned in an Oyster single asset fund for nearly 18 years.

Following settlement at the start of February the investment has delivered an exceptional 14% annualised total return over the period of ownership. This result is

testament to the long-term investment fundamentals of quality commercial property – certainly several cycles (and interest rate environments) were experienced during this period of ownership.

We began to see the impact of very high inflation (primarily significant interest rate increases) in the second half of the calendar year, and this has created the need to redeploy cash across the near term to reduce long term material impact on some of our funds.

While these measures will have some short-term impact on investors, we are seeing the early benefits of this active management strategy and have conviction in the long-term benefits this will have on total returns.

Over the coming year, our focus will remain on expense reduction and capital management across our funds, closely monitoring the occupier environment, maximising the value potential of our current assets and driving growth as opportunities arise.

Volatile economic periods often provide significant opportunity. Our active fund management strategy ensures we are well positioned to capitalise on the strategic transactions that will present themselves in 2023.

While global uncertainty continues for almost all sectors, as a team we have navigated many economic cycles over the last 25 years. We remain buoyed by our close relationships with occupiers, the growth potential of the asset classes we invest in, and our ability to respond to, and manage the impact of market forces in real time.

We thank you for your ongoing support and look forward to working closely with you this year.

MARK SCHIELE
CHIEF EXECUTIVE

SUSTAINABILITY

Sustainability Update



BY STEVEN HARRIS
General Manager, Investment

AS A LANDLORD AND FUND MANAGER our sustainability strategy plays a key role in managing risk and driving value for tenants and investors.

We're seeing increasing demand from tenants to partner with a landlord who is invested in sustainable outcomes and have made significant progress against several important initiatives in 2022.

Over the last 12 months, Oyster has achieved baseline ratings (3 stars and above) under the National Australian Built Environment Rating System in New Zealand (NABERSNZ) at 28 of our commercial properties, with 20 achieving 4-stars or higher, which means excellent performance.

NABERSNZ is the industry benchmark for assessing the energy efficiency and performance of commercial buildings. Their framework helps us set baselines for improvements and set the roadmap to get there.

Other sustainability initiatives underway include:

- The installation of 'smart' electricity and water meters across the majority of assets, which will streamline how energy and water consumption data is captured.
- A partnership with independent environmental experts Toitū Envirocare to formulate a strategy to measure, manage and reduce Oyster's carbon emissions.
- Development of a new 5-Green Star Design and As Built property at Central Park, in Auckland.

While this work is ongoing, we are proud to be part of the community of businesses working proactively to accelerate New Zealand's transition to a greener economy and look forward to progressing in this area in 2023.

“Strong sustainability principles are an important part of contributing to a better New Zealand. They also play an important part in ensuring Oyster holds and grows its position as a landlord of choice”.



“We're working hard across the Oyster portfolio to optimise energy efficiency, minimise our environmental footprint and support the sustainability goals of our tenants and investors”



Oyster celebrates long-term leases with KiwiRail



We are thrilled to have cemented a long-term partnership with KiwiRail across two significant leases within the Oyster portfolio.

IN NOVEMBER 2022, a 25-year lease term was signed with KiwiRail at Central Park, a multi-use precinct owned by Oyster together with our capital partners, Kohlberg Kravis Roberts (KKR). The lease term is the longest commercial lease agreement ever brokered by Colliers.

Construction has begun on the purpose-built, stand-alone Rail Management Offices, which will occupy a 3,358 sqm lettable area. The building will house the Auckland Integrated Rail Management Offices, centralising operations for the mid-upper North Island rail network.

In August 2022, KiwiRail became our largest occupier at the Millennium Centre. With a seven-year lease term, their 4,608 sqm head office equates to 10% of the Centre, and encompasses their

corporate head office functions, alongside a range of supporting services.

To ensure a fit-for-purpose space that will deliver on their needs well into the future, we worked in collaboration with KiwiRail, who led an integrated and extensive base build refurbishment and fit out of the premises.

These two properties will play an important role in supporting KiwiRail's vision of creating stronger connections for a better New Zealand. KiwiRail have nationwide operations incorporating freight, property, Interislander and Great Journeys New Zealand, along with providing quality public transport for the future of Auckland city. We are proud to be providing quality, well located, customised tenancy solutions to support this.

INDUSTRY INSIGHT

Active fund management explained

Active fund management in the current environment

Commercial property investment is a long game, which means over time your investments will likely encounter different property markets and economic cycles.

Over the last decade, investors sought regular income during a low interest rate environment and this demand led to substantial increases in asset prices across many investment sectors, including commercial property.

Central bank response to high inflation has been to rapidly raise interest rates, this is impacting to various extents right across the economy. From a commercial property perspective, interest costs are usually the largest single expense for investors. Our priority during periods of economic volatility is to both navigate the market conditions presented, and continually focus on optimising the total returns of your investment.

At times, this may include the divestment of properties to realise optimal returns or to mitigate against near-to-medium term investment risk. In addition, we want to ensure we remain well positioned to capitalise on new investment opportunities that may present themselves.

Long-term returns are underpinned by an active management strategy which sees the Oyster team keep a firm focus on the current and future income and expense outlook of our funds.

We focus on managing properties with stable tenants with the ability to deliver rental growth through various lease provisions whilst actively managing the properties and tenants to identify new leasing income opportunities.

Fund expenditure is actively controlled by regularly reviewing underlying capital expenditure, non-recoverable expenses and the cost of borrowing, and where possible, both costs and increases to these costs are minimised to enhance the performance of your investment.

Short term measures, long-term benefits

Reducing the impact of increasing costs has been a particular area of focus in recent times as interest rates continue to place pressure on funds through rising borrowing costs.

At times it's important that our funds are appropriately geared to enhance returns for investors however equally it is important for Oyster to be agile and responsive to changing market conditions. We regularly review our gearing exposure relative to property values and debt servicing costs, so we can make proactive decisions to support long term investment returns.

Over the coming months as market conditions continue to have a material impact on many investments, you may see Oyster implement various





interest rate hedging strategies or make one-off debt repayments to reduce the borrowing costs for a fund. When required, these measures will be employed to protect the overall value of your investment and to maximise your total returns over the long term.

Utilised by most active fund managers across many sectors, these short-term management solutions may include reductions or temporary halts in distribution payments and redemptions, asset sales and/or capital raising.

While some of these strategies, like temporary changes to distributions, may create short-term disruptions for investors, our experience is that they can be highly effective in optimising total returns and protecting the value of your investment over the long term.

Capitalising on opportunity

While cash redeployment can support short-term debt repayments and cost reduction, it may be used to fund strategic capex projects too.

Current property market conditions and rising interest rates are putting pressure on some owners, who may look to sell their properties at better prices than we have seen in recent years.

Over the coming year, our team will be monitoring the market with a view to capitalising on these conditions and it is important our funds are well placed to take advantage of strategic acquisitions when the opportunities arise.

INTRODUCING THE OYSTER INVESTOR REFERRAL PROGRAMME



**Refer a new investor for
your chance to receive an
Oyster Investment of up
to \$5,000!**

To us, an investor's willingness to recommend Oyster to a friend, family member, colleague or organisation is the strongest indicator that we're doing right by them.

We want to show our appreciation for these word-of-mouth referrals; to say thank you, we're excited to launch the Oyster Investor Referral Programme.

There are two ways you can benefit as an Oyster investor.

- 1. Investment bonus:** For every new investor you introduce to Oyster (who successfully invests with Oyster), you'll both receive an Oyster investment of up to \$1,000.*
- 2. Quarterly draw:** Every referral made by an Oyster investor will go into a quarterly draw where you'll have the chance to receive an Oyster Investment of up to \$5,000.*

Make a referral for your chance to win:
Head to oystergroup.co.nz/referrals for more information.

INDUSTRY INSIGHT

SPOTLIGHT ON
CAPITAL PARTNERSHIPS:

KKR



BRANDON CARTER
Director, KKR

Over the last 25 years, Oyster Property Group has worked with both local and international capital partners to fund growth and innovation in the New Zealand property market – sometimes more than either partner thought possible.

Since 2017 we've proudly partnered with Kohlberg Kravis Roberts (KKR), a leading global investment firm, to deliver a number of projects to market including the Central Park multi-use precinct in Auckland, and The Green, its award-winning food and beverage precinct.

We caught up with Brandon Carter, Director at KKR, to talk about what we've been able to achieve together so far.

What is the benefit to KKR entering a capital partnership with an organisation like Oyster?

Understanding the nuances of a market is so important - we make sure we partner with local experts in the markets where we have investments to ensure that we have that insight. Having people on the ground also gives confidence to our investment committees and our investors that the right amount of attention is being given to an investment.

A 'fly in, fly out' approach to investment in New Zealand doesn't work – you need that on the ground, day-to-day attention, and we're assured of that by our partnership with Oyster.

Why Oyster?

We like to partner with best-in-class operators in the markets that we invest in. Oyster stands out as having strong commercial property expertise and a strong track record on investments across a number of different criteria.

They're also intimately involved in the investments we undertake together – for this investment in particular, Central Park in Ellerslie, Oyster has an asset manager who spends most of his week out at the asset. It's the little things like being able to have conversations directly with tenants that make a huge difference to an investment.

While we are focused on returns, we're also focused on doing business with people who we trust. The team is easy to work with; we find ourselves aligned on the way we look at things and the way we want to work together.



What have KKR and Oyster been able to achieve together so far?

The number of things we've achieved together has been quite remarkable, and key to these is the flexibility in our business plan. There is a significant difference between what we underwrote and what has ended up happening at our asset, and this flexibility to pivot when opportunities arise and keep thinking about incremental value adds is critically important. An example is the addition of The Green food and beverage precinct to Central Park – an award-winning public space that has transformed the asset.

Even today, five years into the investment, we're still making those decisions constantly, and finding the next thing we can do to really drive value. I'm proud of us as a team for doing that.

“We like to partner with best-in-class operators in the markets that we invest in. Oyster stands out as having strong commercial property expertise and a strong track record on investments across a number of different criteria.”

INVESTMENT INSIGHT

Tax Benefits of Commercial Property Investment



BY RACHEL BARR
Chief Financial Officer

ALONGSIDE STRONG LONG-TERM FUNDAMENTALS, commercial property investment can provide a range of potential tax benefits. This presents a good opportunity to understand the range of tax benefits which might be applicable to your commercial property investments.

For investors taking a long-term view, the potential to pay less tax over time can provide immediate appeal to investors considering commercial property relative to other investment types.

- **Capital gains realised on the sale of commercial property are generally non-taxable**, while residential property investment is subject to the bright line test. Residential property investment acquired after March 2021 and sold within 10 years will be taxed on any capital gains.
- **Depreciation deductions for non-residential buildings were reinstated** from 1 April 2020. This allows for a depreciation rate of either 1.5% straight line or 2% diminishing value, to be applied to commercial property.
- **Landlord fixtures and fittings of commercial properties can be depreciated**. In comparison, residential fixtures only depreciate where they're not physically attached to the building.
- **Interest costs on commercial property ownership are tax deductible**. With the exception of new residential property, interest deductibility has been removed for residential property acquired after March 2021 and these deductions are to be phased out by March 2025.
- **Many unlisted property funds are PIE tax structured with a maximum tax rate of 28%**, this can provide potential tax advantages for those investors on higher income tax rates of 33% or 39%.
- **Any tax losses on commercial property investment are not ring fenced, so can be offset against other income**. Residential property tax losses can only be offset against other residential property income.

If you have questions relating to your Oyster investments, please reach out to the Oyster Investor Relations Team.

Digital investor portal now live

We started the roll out of our digital investor portal at the end of 2022 and want to say a huge thank you to our investors who have been making the most of having all their investment information in one easy-to-navigate location.

YOU CAN USE THE PORTAL TO:



See a personalised snapshot of how your investments are performing



Access key documents including Quarterly Reports and Distribution Statements



Stay informed of key upcoming dates



Learn about available investment offers



Update your personal details

If you would like access to the investor portal, please contact our investor relations team at investor@oystergroup.co.nz for assistance with getting set up.

‘The Summary Dashboard, which is the investor portal’s opening page, really tells me everything I need to know. It breaks down our portfolio into our various investments, splits the total into retail and office, and shows our income return and capital return.’

– TONY FALKENSTEIN - OYSTER INVESTOR



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