OYSTER®

MARCH 2022

update

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Welcome to Oyster Update

A note from Mark Schiele, Chief Executive

2021 WAS ANOTHER year of change and COVID-19 presented new challenges for us all to rise to. But last year was also a strong year for Oyster and our investors, one that delivered new opportunities alongside our continued confidence in the enduring value of assets we have long backed.

Our strategy last year centred on three pillars: a dedicated focus on leasing, expanding our interests in asset classes we have conviction on and investing in our people. Getting closer to our occupiers and fully understanding their business drivers allowed us to protect value and unlock new opportunity.

We commend our team who have successfully supported our tenants to navigate extended periods of lockdown and transition into the 'new normal' under the Government's COVID-19 protection framework.

Last year, Oyster Industrial completed a second and third successful raise. Investor interest in the highly diversified Oyster Direct Property fund continues to keep growing. In addition, there was strong up take in the Oyster Large Retail Format fund, which was underpinned by the resilience of supermarkets and DIY occupiers.

Bricks and mortar have always been viewed as a safe haven, particularly for unlisted property funds where investment values are often less prone to sentiment-based pricing and volatility. While offering new opportunities, we will always aim to offer enduring investor returns. Our focus remains on acquiring quality industrial, logistics, office and large format retail assets, and we see future potential in healthcare and data centres.

Being a vertically integrated business providing end-to-end management is a big advantage in understanding occupiers' businesses and future demand. In 2022, we will stay focused on understanding our current and future occupiers' businesses while drawing on the knowledge Oyster has built up to create new opportunities for our investors.

We thank you for your support in 2021 and we are really looking forward to the year ahead.

MARK SCHIELE
CHIEF EXECUTIVE OFFICER

BY STEVEN HARRIS
General Manager – Property

Office Market Outlook

THE ONSET OF COVID-19 CATAPULTED sectors all over the world into new ways of working and the 'death of the office' has been a commonly heard phrase in discussions about the 'future of work'.

However, after a challenging period of uncertainty for office landlords over the past two years, organisations have now had time to analyse the impact of the pandemic on their workforce – and it has become clear that while we are redefining how we use offices, their role as the cultural heart of an organisation is more important than ever.

> "While we are redefining how we use offices, their role as the cultural heart of an organisation is more important than ever."

Quality office assets make up over half of the Oyster portfolio, giving us deep market intelligence into the office sector. Currently, 94.6% of the Oyster office portfolio is occupied, with the majority of tenants comprising government and state-owned enterprises, listed entities and the head offices of large, household name retail brands.

We are seeing enduring demand for well-located, efficiently operating buildings, particularly those in proximity to public transport links and with quality on-site amenities like food and beverage offerings, end-of-trip facilities and on-site gyms.

The performance of our quality office portfolio remains consistent with pre-pandemic times and gives us strong conviction on the future of this asset class. At the same time, it also demands innovation to maximise the opportunities that this 'new normal' presents.

From SME's through to large multinationals, organisations are continuing to seek and sign long term office leases in Oyster properties; however, the way they use this space is changing as they maximise technology gains made during lockdown periods and embrace flexible working formats.

As a landlord and a fund manager, our focus is on being responsive to this environment by supporting our tenants to create healthy, modern workspaces that suit new organisational and operation structures, foster connectivity and attract great talent.

Oyster Industrial

We are pleased to announce that Oyster Industrial will be re-opening for the fourth time.

VIRTUAL INVESTMENT PRESENTATIONS

Virtual investment presentations will be held live on:

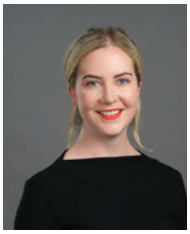
- 30 March 2022 - 5pm
- 31 March 2022 - 12pm
- 8 April 2022 - 12pm

Register to attend at **oystergroup.co.nz/oil**

OYSTER INDUSTRIAL LIMITED RE-OPENED for its third equity raise in September last year, offering investors the opportunity to invest in a pure-play multi-asset industrial portfolio. This Oyster Industrial offer was fully subscribed prior to the end of the year and the portfolio now comprises six industrial properties in both Auckland and Wellington, and has been independently valued at more than $180 million.

Investor appeal remains sought-after for the industrial sector, given the strong performance of the asset class in recent years with more than two-thirds of Oyster's existing investor base taking the opportunity to reinvest in the $18.3M equity raise late last year.

Due to the sector's strong defensive qualities and sound occupier fundamentals which is supported by low vacancies, supply constraints of appropriately zoned industrial land and consistent rental growth, Oyster will continue to grow this investment vehicle through further acquisitions, with the aim of providing a stable and diversified portfolio of industrial real estate.



GENEVIEVE TAYLOR-FORD
Equity Raising Executive

BRODIE PRITCHARD
Equity Raising Executive

Meet our investors setting their sights on their next adventure

Growing a nest egg and enjoying some well-earned downtime with family and friends were priorities for Aucklanders Nikki & Steve Sutton after selling their bustling Import & Distribution business in September 2020.

HAVING ALWAYS OWNED a rental property as part of their investment portfolio, sticking to bricks and mortar felt like a natural fit to build and strengthen their reserves.

Commercial property was an asset class Nikki and Steve were curious about, but as uncharted territory, they needed a helping hand to get started.

A recommendation from another Oyster customer led the couple to our team who has been helping them to invest since late 2020 so they can make the most of this next exciting chapter of their lives.

Here Nikki shares her experience investing with Oyster:

"We were looking for somewhere to put the proceeds of a business sale that would return more than the nothing it would sitting in a bank.

We're quite risk averse, so for us it was about balancing a return with a relative feeling of security for some of our proceeds, as opposed to investing it all in the share market, which feels a lot more volatile.

We've always had a rental property as an investment, so bricks and mortar felt safe and like something we know, but we didn't understand - or have - enough to invest in commercial property by ourselves, so the idea of pooling our resources with others and having experts manage the property appealed.

When we were looking into who to invest with, we spoke to a couple of other portfolio managers. We left one of those meetings feeling inadequate, uninformed and thoroughly confused. Our experience at Oyster has been the opposite of that.

Everyone we've dealt with at Oyster has been excellent. Nothing is too much trouble and they take the time to make sure things are explained in plain English.

Having sold the business, we're currently enjoying some downtime not working before we decide what's next and the regular monthly returns we've seen from our investment in the Oyster Direct Property Fund have been critical.

It's helped massively with budgeting - to have a set amount going into our account to work with each month gives us peace of mind and leaves us free to enjoy this next chapter in our lives.

We've also set up another couple of small investments with Oyster where we reinvest the return, which will be a nice bonus when we come to draw them down as they will have compounded.

How does the re-sale process work?

BY BRODIE PRITCHARD
Equity Raising Executive

We understand that your circumstances can change from time-to-time, and how important this is in understanding the liquidity of your investment and how Oyster's re-sale process works. We aim to create a re-sale process that is seamless, easy to understand and timely.

AT THE TIME OF A RE-SALE, we will provide you with a summary of the fund's performance and comparable re-sale evidence where applicable; this will assist with establishing your preferred asking price prior to Oyster marketing your investment for re-sale.

Once an asking price and settlement timeframe are agreed, you can consider the following options to sell your investment:

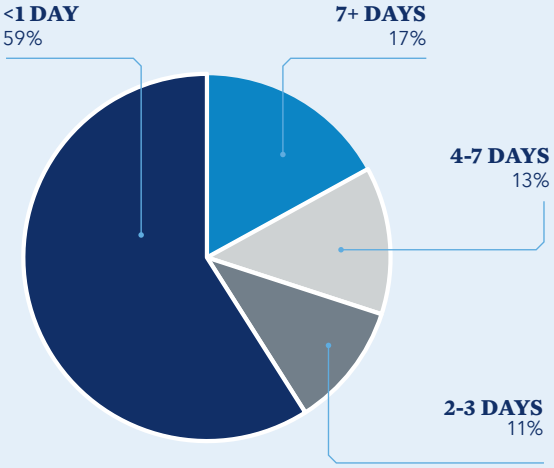
- off-market to investors who have previously expressed their interest with Oyster;
- market to all existing investors within the fund; or
- market to all other existing and prospective investors who subscribe to Oyster's new offers and re-sales.

Once you instruct us on your preferred method of sale, all relevant investment documentation is then made available to prospective investors. We prepare all sale documentation for execution and the purchaser deposits their funds to Oyster to be passed on to the vendor on settlement date.

We strive to create an investor re-sale process that provides timely communication, full disclosure of the most recent investment performance, and key property and financial reporting to ensure prospective investors can make an informed decision to invest.

Our team has facilitated 80 re-sale transactions for the 24-month period ending 31 December 2021, providing a combined re-sale value totalling more than $15 million and an average re-sale commitment timeframe of 3.3 days.

Timeframe For Re-Sale Commitment



Interest rate swaps explained

BY RACHEL BARR
Chief Financial Officer

COMMERCIAL REAL ESTATE is typically financed with a mix of debt and equity. Interest is the single largest cost for our funds and schemes and is typically made up of a fixed margin plus the floating interest rate.

Having the agility to manage the cost impact of interest rates is a critical ingredient in maintaining and enhancing the resilience of your investments in a changing economic landscape.

An interest rate swap is a commonly used tool in the active management of interest rate exposure in the commercial property sector. At any time during the term of a loan, Oyster has the ability to enter into a contract with our banking partners whereby any percentage of the floating interest rate on a fund or scheme may be swapped to a fixed rate for a period of one to five years.

Typically, at least 50% of the total borrowing costs will be fixed by way of interest rate swap and, where possible, Oyster aims to fix the interest swap period in alignment with the term of the loan.

Delivering good investment outcomes for our customers means maximising growth opportunities and minimising risk exposure. In an increasing interest rate environment, our investors benefit from the rate ceiling created by the interest swap agreement and the certainty of cashflow that this creates for the fund or scheme.

TEAM PROFILE

Karlene Daniels

General Manager of Risk & Compliance

WE ARE PLEASED TO ANNOUNCE the appointment of Karlene Daniels to the newly created role of General Manager of Risk & Compliance, further elevating our risk management capabilities.

Karlene joins Oyster from Tower Insurance where she was Head of Risk & Compliance for the Pacific region. Prior to this, she held the role of Country Risk Manager at AIG, where she gained in-depth knowledge of the finance and regulatory environment.

Oyster's CEO, Mark Schiele, commented: "Karlene is a seasoned enterprise risk management professional with over 15 years' experience in the insurance and fund management environment. She brings a wealth of experience to this key leadership position which our investors and the Oyster team will benefit from.

"Having a specialist of Karlene's calibre at the helm of our Risk & Compliance team, elevates our risk management approach to be even more proactive and fully integrated within our business, strategy and culture.

"This is vital as we continue to grow and deliver strong investment outcomes to our investors."

In her new role, Karlene will spearhead Oyster's risk management, compliance, legal and regulatory capabilities and says she is excited to drive Oyster's strong risk culture forward as the company grows.

"Oyster has an excellent reputation as New Zealand's leading commercial property and fund manager. I'm thrilled to be joining a company that understands the important role sound enterprise risk management plays in delivering better outcomes for all stakeholders."

BY TOM SCHIERLINCK
Senior Facilities Manager

Sustainability Update

As a landlord and fund manager, Oyster is committed to playing our part in building a sustainable and more resilient future for New Zealand.

The past 12 months have been busy following the establishment of a working group to deliver on our Green Building and Sustainability objectives, which cover our three areas of focus.

AREAS OF FOCUS

Setting a baseline for improvement
to enable ongoing monitoring of sustainability performance across the portfolio.

Benchmarking
including obtaining NABERS Ratings and/or Green Star Certification across the portfolio.

Establishing operational emissions targets
to minimise the carbon footprint of the portfolio and ensure that emissions reduction is considered within all capital projects.

We are excited to have progressed the assessment of four government tenanted Oyster properties under the NABERS NZ Energy Efficiency rating systems. The first property to be assessed has just received a 4.5 Star rating from the New Zealand Green Building Council (NZGBC), meaning it is considered a good to excellent performer.

A workstream has also been established across the Oyster Industrial portfolio to implement the 'Green Star Performance' industry benchmark.

Alongside adopting industry rating tools, we recognise the need to develop our own baselines against which improvements and initiatives can be measured. Oyster has commissioned an automated dashboard for the continuous monitoring of energy and water consumption across the portfolio and we expect this to be implemented early in 2022.

We look forward to keeping you up to date as we progress our sustainability strategy over the coming 12 months.

THE PAST 12-18 MONTHS HAS BEEN A VERY ACTIVE PERIOD for Oyster in the sustainability realm. In late 2020, Oyster established a small group to discuss and progress Green Building and Sustainability objectives. This preceded the notable December 2020 Government 'Climate Emergency' which, among other things, introduced new requirements of government tenancies to be assessed under the NABERS NZ Energy Efficiency rating system.

At present a NABERS NZ Rating is considered the industry benchmark for energy consumption and is mandated of office landlords in Australia. The NABERS tool rates buildings on either a tenancy, base-building, or whole-building basis over a 12-month period and is applicable for office buildings only. After some rigorous information gathering of base building and tenant energy supplies (electricity, gas, diesel) we are thrilled to oversee the assessment of five buildings now underway, the first of which is awaiting the New Zealand Green Building Council (NZGBC) verification with a targeted 4.5 Star Rating (Good-Excellent rating)

For other asset classes such as industrial and large format retail, Oyster is investigating other benchmarks such as the Green Star Performance tool with the hope of delivering a rated building or specific portfolio of buildings such as Oyster Industrial within the first half of 2022.

Noting the above rating tools are exactly that and don't aid building performance, we recognise the need to establish baselines on which improvements and initiatives can be measured. Such improvements might include efficient lighting, air-conditioning and associated building control upgrades. Once implemented we expect the improvements will be immediately evident through lower energy consumption, improved tenant amenity, and eventually an improved building rating.

For continuous monitoring of energy and water consumption throughout the year, we have worked with contractors and consultants to develop an automated 'dashboard' which over time will collate, display and benchmark individual buildings in the portfolio taking feeds directly from smart electricity and water meters that will be installed in the medium term. The energy dashboard will both aid with the aforementioned rating processes but will also become a valuable resource for our property management teams in identifying trends, improvements and diagnosing faults across the managed portfolio.

2022: Top Predictions

Further changes to inflation, employment, interest rates and debt availability are expected this year. The intricacies and interconnectedness of these economic indicators are game changers that can be an opportunity or a threat for tenants and owners alike, even more so than in the past few years.

CHRIS DIBBLE
National Director
Colliers Partnerships
Research & Communications

IAN LITTLE
Associate Director
Colliers Research

THIS SHIFT IN MARKET CONDITIONS in 2022 will lead to an outperformance by experienced parties that are prepared with the best market intelligence, enabling quick and decisive decision making.

The introduction of the 'traffic light system', the removal of MIQ as well as the easing in international border restrictions in 2022 will all combine to help strengthen property sector demand fundamentals. We will see population gains, increased domestic and international tourism, a lift in overall business activity and higher spending levels online and instore. If things do not go to plan, then the opposite is warranted, with the scale of impact consistent with the level of disruption, restriction and uncertainty provided.

Industrial vacancy rates are projected to remain stubbornly low this year, adding pressure to a sector that has experienced a boost in tenant demand from the continual expansion in warehousing and logistics, storage, construction activity and manufacturing services. While the addition of consented supply reaching near record highs will be welcomed by tenants and owner-occupiers, it is unlikely to provide the immediate relief in costs and options they desire.

The number of headlines attributed to record high prices and record low yields for industrial premises is likely to wane this year as the arbitrage between costs and returns become wafer thin in a rising interest rate environment; however, a highly competitive sector with a positive outlook and many defensible characteristics will remain appealing to investors.

One of the highest vaccination rates globally and a new COVID-19 framework for living with COVID-19 will see a greater number of people returning to their offices this year both in and out of the CBDs. A greater degree of flexibility in working styles will be more universally accepted and adopted but it will not lead to further increases in vacancy rates. The focus on attracting and retaining top talent in a tight labour market,

impacts from the 'the great resignation' as well as a refreshed perspective on sustainability as part of ESG initiatives will drive the demand for higher quality office accommodation and fit-outs, resulting in a rise in retrofits and new build activity.

Retail will get a boost this year with the return of higher levels of spending over the Christmas and New Year period that will be followed by an increase in spending with local and international border relaxations between February and October. However, high inflation and rising interest rates will reduce disposable income and change some spending habits.

A more positive scene for demand as shoppers return to downtown, malls and strip centres this year, will be the start of the return to lower vacancy rates and a stabilization in effective rents that will help to boost investment activity for a wider selection of retail assets, rather than just the fabled large-format retail and essential services retail sectors of 2021.

> "One of the highest vaccination rates globally and a new COVID-19 framework for living with COVID-19 will see a greater number of people returning to their offices this year both in and out of the CBDs."

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