OYSTER®

JULY 2022

update

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NOTE FROM THE CEO

Welcome to Oyster Update

A note from Mark Schiele, Chief Executive

2022 HAS PROVIDED a remarkably quick transition from managing the impacts of a global pandemic to dealing with significant macro-economic change and geo-political uncertainty. We are now in an environment of rising interest rates, high inflation, a historically tight labour market, and continued global logistic constraints. All that said, we remain confident in the enduring value of well located, quality commercial property investments and their ability to continue to provide solid returns.

We are pleased that, in April this year, Oyster Industrial successfully acquired 67 Main North Road in Kaiapoi, Canterbury in April 2022; a large-scale food production facility fully leased to Hellers Limited, and the Oyster Direct Property Fund acquired 35 Hickory Place in Hornby, Christchurch in April 2022. This property is a 7,800m² logistics warehouse and office located in the heart of the industrial precinct in Hornby and is fully leased to Westland Dairy Milk Company.

Despite the challenges of the past 24 months and the changes now occurring, we see opportunity across all the asset sectors Oyster operates in.

We continue to have confidence in quality office space; CBDs are regaining momentum globally while city fringe and suburban office hubs are catering to growing demand for affordability and shorter commutes. How organisations use offices will continue to evolve. However, we believe their unique role in bringing people and businesses together sees them as incredibly important to the culture of successful companies.

The more the economy changes, the more large format retail properties show their resilience. They are both important places to shop and logistics hubs linking suppliers to consumers. The value of these properties has been further enhanced by global supply chain issues and they remain in high demand. We see occupiers continuing to seek larger tenancies as they strive to better control delivering products to their consumers.

Global supply chain issues, and increased on-line purchasing, have further enhanced the already attractive nature of the industrial and logistics property sector to occupiers and investors alike. Occupiers have continued to see the business value of being able to hold stock locally to meet customer demand. Combined with the need to ensure supply, we believe limited supply of appropriately zoned land will continue to drive occupier demand, ultimately translating into value and rental growth.

One of Oysters key focus' over the next 12 months is to grow rental on the back of solid occupier demand and our asset management team is working hard to continue to add value for investors. Additionally, in this changing environment, we will continue to explore acquisition opportunities with sound fundamentals that appeal to our investors.

MARK SCHIELE
CHIEF EXECUTIVE

OYSTER INDUSTRIAL

OYSTER INDUSTRIAL'S LATEST ACQUISITION

67 Main North Road, Kaiapoi, Canterbury.

OYSTER INDUSTRIAL LIMITED re-opened for its fourth equity raise offering investors the opportunity to invest in a pure-play multi-asset industrial portfolio.

WE ARE PLEASED TO CONFIRM Oyster Industrial successfully acquired 67 Main North Road, Kaiapoi, Canterbury, settling on 29 April 2022. This represents a strategic purchase to further diversify Oyster Industrial's property portfolio and income streams.

67 Main North Road, Kaiapoi consists of a 15,714m² large-scale food production facility on a 47,993m² site held in three freehold titles leased to Hellers Limited. Hellers is New Zealand's leading brand of processed meats and they have been in operation since 1985, supplying to New Zealand, Australia and parts of the Pacific. In addition to Hellers, Oyster Industrial's tenants include Downer New Zealand Ltd (a subsidiary of the NZX and ASX listed entity Downer EDI Ltd), Plumbing World Ltd (guaranteed by NZPM Group Ltd), Alto Packaging Ltd (guaranteed by ASX listed entity Pact Group Holdings Ltd), and Cardinal Logistics Ltd.

The industrial sector continues to retain its investor appeal due to its strong defensive qualities and sound occupier fundamentals. The sector's appeal is supported by continued low vacancies, supply constraints of appropriately zoned industrial land and consistent rental growth. The industrial asset class has been the strongest performing asset class within the New Zealand property sector for the past 15 years[1], supporting the demand for Oyster Industrial and the appeal to those investors who wish to invest in a sought-after diversified industrial portfolio, quality tenants and long-term leases.

BRODIE PRITCHARD
Investment Executive

[1]Source: MSCI as at 30 September 2021.


Jen Bunbury

Governance team bolstered with new appointment

WE ARE PLEASED TO ANNOUNCE the appointment of Jen Bunbury to our Board as an Independent Director and Chair of Oyster's Audit and Risk committee.

Jen has an extensive background in strategic leadership, investment banking and enterprise risk. She is currently a Non-Executive Director on the My Food Bag Board, an NZX Listing Sub-Committee member, and has held senior roles at Craigs Investment Partners and Tourism Holdings.

"Jen's capabilities will stand us in good stead as we steer through a fast-changing economic environment".

"The Board is firmly focused on managing emerging risks, capitalising on opportunities and optimising our portfolio to deliver enduring value for our investors and partners", says Oyster Chief Executive, Mark Schiele.

On her appointment, Jen says; "Oyster has a proven track record of solid performance, consistent growth and managing investors interests which made taking this Directorship an easy decision. This is a firm that is well-placed to both protect and prosper in a changing economic climate".

> "Jen's experience is hugely applicable to protecting and growing the interests of Oyster's investors and capital partners."
>
> – MARK SCHIELE, OYSTER CHIEF EXECUTIVE

Interest rates

BY MARK-SCHIELE
Chief Executive

Economic forecasts may continue to vary, but we are now clearly in a new environment of higher inflation and interest rates. While for some investors this will be a new experience, it has been well signalled by the Reserve Bank as it and most central banks around the world have moved interest rates to dampen inflation. Given that interest payments are usually a fund's biggest expense the key question is what this new economic environment means for commercial property investment, and for investors in Oyster assets in particular.

THERE IS CERTAINLY A NEAR-TERM IMPACT where debt is either floating or rolling off fixed positions which often cannot be immediately offset by income growth. But long-term commercial property enjoys some key built-in inflation protections which, with good management, make it well-placed to not only adjust but continue to perform well.

Two factors are important.

Firstly, rent review mechanisms in leases give commercial property a powerful adaptative advantage. When linked to CPI increases, they provide an automatic balance for inflation. Market-based rent reviews allow the reset of rental and normally bring good results where properties enjoy strong demand.

We remain confident in the long-term value of assets in the Oyster portfolio and will also be targeting new opportunities that become available on favourable terms in a changing market.

Second, is the quality of management response. Although we may not share some of the more extreme projections for interest rate growth, Oyster is managing all debt positions carefully through a mix of existing hedging, fund affordability, and in some cases debt repayment. We are budgeting across all funds to ensure we most effectively preserve underlying value.

We are also looking at options to raise equity and pay down debt, which may provide investors with opportunities to enter funds that had been closed.

This is not the first time Oyster has experienced rising interest rates, and it needs to be remembered that the growth is from a historically low base. Indeed, rates were significantly higher during the global financial crisis (GFC) when most of our assets, including several still part of our portfolio, proved their resilience. By contrast with the GFC, today's environment is shaped by different macro-economic forces. Then, we saw several of our tenants falling over due to freezing of the debt markets and huge loss in consumer wealth and income, today our buildings continue to enjoy strong occupier demand from sound businesses. When investing in property, you need to back assets you believe in. Key investment considerations are occupier demand (which drives occupancy and rental growth), tenant covenant (which ensures the rent gets paid), and quality locations (which cements long term value). Higher interests change the environment, but they do not detract from a good property investment's ability to deliver.

> "Higher interests change the environment, but they do not detract from a good property investment's ability to deliver."

OYSTER DIRECT PROPERTY FUND

The power of reinvesting your distributions

GENEVIEVE THOMPSON-FORD
Investment Executive

IF YOU ARE AN INVESTOR who is not reliant on the monthly income derived from your investment in the Oyster Direct Property Fund (DPF), you have the potential to significantly increase the value of your investment over the long term by harnessing the power of compounding returns.

The Oyster DPF Distribution Reinvestment Plan makes it easy for investors to continually reinvest their net monthly proceeds (the monthly distributions after tax) into acquiring further units.

You can see the potential benefit, relative to receiving your monthly distributions, in the table below.

In short, Investor One has chosen to receive their regular monthly distributions from the Oyster DPF rather than reinvesting the distributions, whereas Investor Two has chosen to reinvest their monthly distributions. After almost six years, Investor Two has an investment worth $16,039 more than Investor One (an increase in investment value of $101,438 compared to $85,399).

Reinvesting vs. receiving distributions

	INVESTOR 1 **Receives** Distributions*	INVESTOR 2 **Reinvests** Distributions*
	INVESTMENT VALUE	INVESTMENT VALUE
Jul-16 (Initial investment)	$100,000	$100,000
Mar-17	$109,864	$110,121
Mar-18	$123,558	$125,102
Mar-19	$135,514	$138,755
Mar-20	$143,159	$147,811
Mar-21	$169,882	$181,230
Mar-22	**$185,399**	**$201,438**
Total Return	85.4%	101.4%
Annualised Total Return	14.7%	17.4%

*Total Returns are after fees and after tax at the highest prescribed investor rate (PIR) of 28%

Both Investors received the same distribution amount per unit throughout their investment period. However, through compounding returns and buying further units, those additional units allowed Investor Two to receive a total net distribution amount of $37,885 compared to Investor One with $32,648. Both investments also achieved a capital gain throughout the investment period but the capital gain, in dollar terms, was more significant for Investor Two due to reinvesting in further units each month and foregoing their monthly income.

To find out more on the Oyster DPF Distribution Reinvestment Plan, please contact our team or visit oystergroup.co.nz/dpf

BY VAUGHAN LUDLAM
Head of Leasing / Licensee

Leading baby retailer welcomed into fund tenant mix

OYSTER HAS SECURED AUSTRALIA'S LARGEST BABY RETAILER, Baby Bunting, as a long-term tenant at the Albany Lifestyle Centre precinct in Auckland, diversifying the mix of tenancies in its Large Format Retail Fund and creating an exciting new drawcard for shoppers.

The popular retailer will base its inaugural New Zealand store opening in mid-August at the precinct, which was the initial acquisition in Oyster's Large Format Retail Fund.

Oyster's Head of Leasing Vaughan Ludlam says Baby Bunting is a strong addition to the Centre, adding a new dimension to it that it will attract a different customer demographic and increase visitation, which will also benefit the other stores.

"Baby Bunting enhances the Centre's mix of retail from mostly homeware and DIY, which tends to attract weekend patronage, with a new offering that we anticipate will entice higher weekday footfall,' Vaughan says.

Established in Melbourne as a family-owned business in 1979, Baby Bunting is now Australia's largest specialty nursery retailer and one-stop-baby shop with over 60 stores and a passion to support new and expecting parents in their early years of parenthood.

Baby Bunting Group Property & Leasing Manager Mark Ashton says: "We are incredibly excited to be opening our first bricks and mortar store in New Zealand at the Albany Lifestyle Centre and looking forward to welcoming families to a new experience.

"We had a very specific brief for the type of premises and lease we required, which Oyster was able to deliver on due to their strong expertise in commercial leasing and knowledge of the market.

> "Oyster provided us with invaluable support through every step of the process and now we are looking forward to throwing open our doors in August."

"Oyster provided us with invaluable support through every step of the process and now we are looking forward to throwing open our doors in August."

Oyster's Leasing Executive for Albany Lifestyle Centre, Miranda Dallow says: "Parents need to stock

up on baby goods no matter what the day of week, and Baby Bunting is a drawcard destination in its own right so will attract customers from a wide catchment; and even further afield until its opens more stores across Auckland and beyond.

"We're excited to see how it will lift the overall customer experience and increase the attractiveness of tenancies, which in turn will help to sustain leases and achieve returns for our investors."

Vaughan says Oyster's experience and long-held relationships with the Baby Bunting team helped give the Australian-owned company confidence in establishing Albany Lifestyle Centre as the right location to launch its first New Zealand store.

"This being the first time Baby Bunting was establishing a physical store presence in New Zealand, it was important they got it right," Vaughan says.

"Albany Lifestyle Centre is well located with good accessibility in a strong catchment and ideal carparking.

"Oyster's expertise in retail leases, lease negotiation and property management ensured we achieved the most robust outcome possible for Baby Bunting, with the right balance of commercial pragmatism and legal firmness along the way."

Vaughan says the tenancy delivers on the fund's investment strategy to continue strengthening this asset as part of growing a diversified portfolio of large format retail properties throughout New Zealand.

"We are delighted to welcome Baby Bunting as a tenant and deliver another quality outcome to our investors."

TEAM PROFILE

Tom Jamieson

Asset Manager - Commercial

TOM JAMIESON JOINED OYSTER as Asset Manager - Commercial in April 2022.

Tom will be responsible for the proactive asset management direction of Oyster's commercial portfolio with a key focus being identifying and subsequently implementing initiatives which enhance investor returns.

His role includes leading a team that drives strategic asset management and value-add opportunities across approximately 30 Oyster office and industrial properties throughout New Zealand.

Tom has had a varied career with roles in asset, investment and development management, advising a combination of private and institutional investors during the entire property life cycle. Prior to joining Oyster, Tom spent close to a decade overseas initially in London working as an Investment Manager. He focused on value engineering associated with three listed multi-sector funds totalling circa $8 billion across the UK, including central London, which saw him build close working relationships with tenants including Deutsche Bank, Google and Allen & Overy.

More recently Tom was based in Melbourne providing strategic fund-level advice focused on enhancing the underlying value of CBRE Investment Management's Australian portfolio.

Tom spent his formative years in Geneva, Switzerland before moving to NZ in his teens and studying Management and Politics at The University of Auckland. He holds certifications in Asset Management and Property Finance.

INDUSTRY INSIGHT

Aotearoa's outlook has softened.

Interest rates on the rise

- **AS WE LOOK TO 2023**, we must incorporate higher interest rates, a falling housing market, and a moderation in spending. Although we forecast below-trend (but positive) growth into 2023, the probability of a recession grows with every RBNZ rate hike from here.
- We believe inflation is peaking, around 7.1%, and will ease into 2023. Global inflation pressures, while persistent, will eventually abate. Similarly, domestically generated inflation is also likely to moderate into 2023. The speed at which inflation eases will determine the peak in interest rates.
- Ultimately, we expect the RBNZ's actions over 2022 to have a magnified impact on growth into 2023. We suspect the RBNZ will underdeliver on said interest rate hikes. House price falls and the negative wealth effect will ultimately limit the amount of rate hikes. We expect the cash rate to peak at 3.5%, not 4%.
- Interest rate cuts may be a consideration into 2024...

LOOKING OFFSHORE, the global economy is cooling. Inflation is running at 8% globally, and central banks are following the RBNZ in their eagerness to tame the inflation beast. Global interest rates are rising. And global growth rates are waning. The combination of a war in Ukraine and Chinese lockdowns have seen commodity prices soar, and supply-chain fragility once again exposed. The risk of a recession in many of Aotearoa's key trading partners has risen. Global growth forecasts have been slashed in recent months. Of course, this feeds into the Kiwi economic outlook as well.

We see demand easing over the next few years.

We find ourselves in a world with more persistent inflation and a more determined central bank. Consequently, we have much higher interest rates and a weaker housing market. Kiwi households face a cost-of-living crisis and much higher mortgage rates. Consumption growth will stagnate. Kiwi corporates face a plethora of challenges, including a very tight labour market and rising wages, margin pressure, and continued difficulty in sourcing product (with disrupted supply chains). Confidence in the economy has been hit, and investment intentions are contracting.

Under the weight of regulatory changes, macroprudential policy shifts, and rapidly rising interest rates, the housing market is in retreat. The negative wealth effect from falling house prices will suffocate household consumption and ultimately limit the amount of RBNZ tightening needed.

Despite omicron sinking its teeth in over the March quarter, GDP growth looks to be robust thus far. It's the second half of this year onwards that looks shakier. High inflation and rising interest rates are eroding firms' profitability and straining households' budgets. Consumer and business confidence is in the doldrums, and forward indicators of activity have fallen once again.

Following last year's COVID disrupted recovery, we expect GDP growth to halve for 2022 from ~6% last year to a more ordinarily 3%. However, tightening monetary policy – and less stimulatory fiscal policy – at home and a weakening global economy is expected to see growth halve again in 2023 to just 1.4%. The outlook for 2023 and 2024 have been revised down notably.

BY JARROD KERR
Chief Economist, Kiwibank

The RBNZ are on attack.

THE RBNZ IS HELL-BENT on returning inflation to the target band of 1-3%yoy. The lift in inflation expectations is challenging the central bank's credibility. And the central bank is hiking at double-speed (50bps moves). A cash rate of 3.5% is expected by November, up from 2% today. And the RBNZ is forecasting a continued push to 4% in 2023. This is the fastest tightening cycle in decades. Mortgage rates have doubled in the last year. And they have further to rise.

The pace of tightening is fast and furious and unforgiving. The market has (effectively) 3 x 50bps moves in July, August and Oct – taking the cash rate to 3.5%. There's another 25bps in November – taking the cash rate to at least 3.75%. Into 2023 the pace of tightening fades, but the cash rate peaks at over 4% (in line with the RBNZ forecast). Late in 2023, the market is entertaining the chance of rate cuts. Because it is widely expected that a move to 4% would induce a hard landing.

We don't see the cash rate heading to 4%. We believe the RBNZ will get enough bang for buck going to 3.5%. Wholesale interest rates are likely to peak soon. If we're right and the RBNZ only delivers to 3.5%, then wholesale interest rates will start to decline over the remainder of the year. For now, it's a game of wait and see.

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