8 February 2018

MIRVAC GROUP HALF YEAR RESULTS – 31 DECEMBER 2017

Mirvac Group (Mirvac) [ASX: MGR] today released its interim results for the half year ended 31 December 2017, reaffirming operating EPS guidance for FY18 of between 15.3 cents and 15.6 cents per stapled security (representing growth of between 6 and 8 per cent), and distribution guidance of 11.0 cents per stapled security (representing growth of 6 per cent).

The Group's CEO & Managing Director, Susan Lloyd-Hurwitz, said, "We have delivered a solid result for the first half of the financial year, driven by our modern investment portfolio and our unique asset creation capability, which continue to deliver quality income to the Group.

"In line with guidance provided at our FY17 results, there will be a strong skew of earnings to the second half of the financial year due to the timing of residential settlements. We remain confident in our ability to deliver operating earnings growth of between 6 and 8 per cent in FY18."

Key highlights across the Group:

- statutory profit of $465 million (31 December 2016: $508 million), due to lower property revaluation gains in the investment portfolio compared to the prior corresponding period, as well as the timing of residential lot settlements, which is in line with expectations;
- operating profit after tax of $215 million (31 December 2016: $230 million), representing 5.8 cents per stapled security[1];
- half-year distribution of $186 million, representing 5.0 cents per stapled security;
- strong portfolio metrics maintained within the Investment portfolio, with high occupancy of 98.8 per cent[2] and a weighted average lease expiry of 5.8 years[3];
- residential pre-sales increased to $2.9 billion[4] (30 June 2017: $2.7 billion);
- 92 per cent of expected residential earnings (before interest and tax) secured for FY18; and
- achieved 1,164 residential lot settlements[5], and on track to settle approximately 3,400 residential lots in FY18.

Key financial and capital management highlights:

- net tangible assets (NTA)[6] per stapled security increased to $2.20 (30 June 2017: $2.13);
- weighted average debt maturity increased to 6.8 years from 6.2 years (30 June 2017), following the issuance of US$400 million of Reg S European Medium Term Notes;
- substantial available liquidity totalling approximately $913 million of cash and committed undrawn bank facilities held;
- Moody's Investor Services credit rating upgraded from Baa1 to A3;
- Standard & Poor's credit rating outlook revised from stable to positive, with the Group's BBB+ credit rating maintained; and

1. Excludes specific non-cash items, significant items and related taxation.
2. By area, including investments in joint ventures and excluding assets held for development.
3. By income, including investments in joint ventures and excluding assets held for development.
4. Adjusted for Mirvac's share of JVA and Mirvac managed funds.
5. Includes 429 residential lots settled in January 2018.
6. NTA per stapled security, based on ordinary securities including Employee Incentive Scheme securities.

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- gearing remained within the Group's target range of 20.0 to 30.0 per cent at 23.8 per cent[1].

"Our prudent approach to capital management has ensured we have maintained a healthy and flexible balance sheet, which is critical at this point in the cycle," said Ms Lloyd-Hurwitz.

"Given our strong capital position, and as part of our disciplined capital allocation strategy, we have also announced plans to initiate an on-market buy-back program for up to 2.6 per cent of Mirvac securities on issue[2]."

Office portfolio highlights:

- occupancy increased to 98.1 per cent[3], with a long WALE of 6.7 years[4];
- like-for-like net operating income growth of 9.7 per cent;
- strong valuations provided an uplift of $169 million[5] (or 3.3 per cent) over the previous book value for the six months to 31 December 2017, reflecting a cap rate of 5.81 per cent;
- over 50,250 square metres of leasing activity completed[6], with leasing spreads of 12.2 per cent and average incentives of 21.4 per cent; and
- progressed the Group's $2.1billion office development pipeline which is 84 per cent pre-let, and includes 664 Collins Street and 477 Collins Street in Melbourne, and Australian Technology Park in Sydney.

Ms Lloyd-Hurwitz commented, "Our strategic overweight to Sydney and Melbourne, and to Premium and A-grade assets, is supporting strong like-for-like NOI growth of around 10 per cent across the office portfolio, as we create one of Australia's youngest and lowest capex portfolios. Pleasingly, we are starting to see income accelerate following the low point in earnings in FY17.

"We have an excellent future earnings outlook, with our recently completed office developments and a strong forward-looking commercial development pipeline that has the potential to deliver around $60 million of additional annual NOI, $160 million of development profit and $200 million of NTA uplift by FY21," Ms Lloyd-Hurwitz said.

Industrial portfolio highlights:

- occupancy increased to 99.3 per cent[7], with a long WALE of 7.0 years[8];
- over 44,000 square metres of leasing activity achieved;
- formed the Mirvac Industrial Logistics Partnership (MILP) with Morgan Stanley Real Estate Investing. The partnership was seeded by two industrial assets in Victoria, that were sold by

1. Net debt (at foreign exchange hedged rate) excluding leases/(total tangible assets – cash).
2. Further details of the buy-back program are available in Mirvac's Appendix 3C – Announcement of Buy-Back, released 8 February 2018.
3. By area, including investments in joint ventures and excluding assets held for development.
4. By income, including investments in joint ventures and excluding assets held for development.
5. Includes investments in joint ventures.
6. Excludes leasing of assets under development.
7. By area.
8. By income.

Mirvac to the partnership for a total consideration of $65.5 million, with Mirvac to retain a 10 per cent interest in the partnership[1];
- completed the sale of 1900-2000 Pratt Boulevarde, Chicago USA for a total consideration of $52.4 million, slightly above previous book value; and
- progressed construction of Building 3 at Calibre in Eastern Creek, with practical completion expected in early 2018, and commenced construction on Building 4, which is 100 per cent pre-leased to Sheldon & Hammond for a 10-year term and is expected to achieve practical completion in the second half of 2018. In addition to this, Mirvac finalised a seven-year lease deal with appliance giant, Miele, for Building 2, which is expected to achieve practical completion in the first half of FY19.

"Our industrial portfolio is now 100 per cent concentrated to Sydney, following the sale of two Melbourne assets to our industrial partnership with Morgan Stanley, and the sale of a remaining asset in Chicago. We believe our exposure to Sydney will continue to deliver secure, stable income to the Group, supported by strong demand from wholesale and retail tenants.

"We were pleased with our leasing success at Calibre in the first of half of the financial year, where we continue to attract high-quality long-term tenants, and we remain focused on leasing the balance of the estate," Ms Lloyd-Hurwitz said.

Retail portfolio highlights:
- strong occupancy maintained at 99.4 per cent[2];
- total sales productivity grew to $10,149 per square metre, and comparable specialty sales productivity increased to $10,034 per square metre, up from $9,864 at 30 June 2017;
- comparable moving annual turnover sales growth of 3.7 per cent and comparable specialty sales growth of 5.2 per cent;
- specialty occupancy costs of 15.3 per cent;
- over 29,000 square metres of leasing activity achieved, with average leasing spreads of 2.2 per cent;
- grew the portfolio's exposure to the strong Sydney market, with Mirvac increasing its ownership in East Village, Zetland and the proposed South Village Shopping Centre, Kirrawee to 100 per cent;
- completed the sale of a 50 per cent interest in Kawana Shoppingworld on the Sunshine Coast, QLD to ISPT for a total consideration of $186 million, based on a capitalisation rate of 5.50 per cent; and
- completed the $19 million redevelopment of Birkenhead Point Outlet Centre, introducing a new premium precinct which includes Bally, Coach, Harrolds, Michael Kors and Peters of Kensington. The development was 100 per cent pre-leased on completion.

1. Following the sale of 47 Westgate Drive, Altona North VIC, 26 Harcourt Road, Altona VIC and 1900-2000 Pratt Boulevarde, Chicago USA, Mirvac's industrial portfolio is 100 per cent weighted to Sydney, excluding assets held in the MILP.
2. By area.

Ms Lloyd-Hurwitz commented, “While conditions in the retail sector remain challenging, our urban focus, along with a high exposure to health, tourism and education markets, and a focus on experience-based retailers, ensures our portfolio remains relevant and resilient.

“The strategic positioning of our portfolio is reflected in the strong metrics we’ve maintained in the first half of the year; our specialty sales growth of 5.2 per cent, for example, is well ahead of our peers.”

Residential highlights:

- settled 735 residential lots, with a further 429 lots settled in January 2018. The Group is on track to settle approximately 3,400 residential lot settlements in FY18. Defaults remained below 2 per cent, in line with historical averages;
- secured future income with $2.9 billion of residential pre-sales[1], up from $2.7 billion at 30 June 2017, with 92 per cent of expected residential earnings before interest and tax secured for FY18;
- released over 1,100 lots across new and existing projects, with 69 per cent of all released lots pre-sold; and
- remain on track to release approximately 1,300 lots in the second half of the financial year, supporting future sales momentum.

“Although sales activity has moderated to more normalised levels in Sydney and Melbourne, we are still seeing consistent demand for well-located, quality product, particularly in our masterplanned communities.

“A number of our forward-looking projects in Sydney are also set to benefit from new transport infrastructure, and our ability to buy at the right time has ensured we can release approximately 13,000 lots over the next four years, while taking a prudent approach to restocking our pipeline,” Ms Lloyd-Hurwitz commented.

Outlook:

“Our urban strategy, diversified and integrated business model, and our proven asset creation capability ensures we are on track to deliver strong growth in FY18,” said Ms Lloyd-Hurwitz.

“We remain confident in our earnings outlook, with clear visibility of future cash flows in FY18 and beyond.”

A management presentation of the results will be webcast live from 10:30am (AEDT) at www.mirvac.com.

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1. Adjusted for Mirvac’s share of JVA and Mirvac managed funds.