VICINITY CENTRES

ASX Announcement

14 December 2015

Vicinity reiterates strategic focus and announces intention to recycle assets

- Strategic focus remains unchanged
- Group to target a total return[1] of greater than 9.0% and underlying earnings growth of greater than 3.0%, on an annualised basis through the cycle
- Comprehensive portfolio evaluation has identified approximately $750 million to $1 billion of asset recycling opportunities
- $1.8 billion bridge facility to be repaid and cancelled by 31 December 2015
- On target to achieve 75%[2] of merger operational cost synergies by 30 June 2016 and integration on track
- Development projects progressing strongly

Vicinity Centres (Vicinity or the Group, ASX:VCX) today reiterated its strategic focus to create value and sustainable growth by owning, managing and developing quality Australian assets across the retail spectrum.

The Group also announced that following a detailed evaluation of its $14.1 billion directly-owned portfolio of 83 retail assets[3], it has identified approximately $750 million to $1 billion of asset recycling opportunities, subject to market conditions. The proceeds of any asset sales will be redeployed into value-accretive development and acquisition opportunities, such as the recently announced $319 million acquisition of The Shops at Ellenbrook and Livingston Marketplace in Perth.

Mr Angus McNaughton, CEO and Managing Director of Vicinity, said: "We have a simple and transparent business model supported by a very experienced management team. Vicinity's strategy is to own high quality assets across the retail spectrum that are well-positioned in strong catchments and where we can add value through our intensive asset management and development capability.

"Vicinity's portfolio is very strong and includes Australia's premier retail asset, Chadstone Shopping Centre. We are the largest owner and manager of Sub Regional and Outlet centres, and the second largest owner and manager of Regional[4] assets in Australia. With our deep capability, we see opportunities and value across each of the retail sub-sectors. Our scale and diversity is the central element of our investment strategy and operating model.

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[1] (Change in NTA + distribution) / Opening NTA.
[2] On an annualised basis.
[3] Including announced acquisitions the directly-owned portfolio totals 85 assets and is valued at $14.4 billion.
[4] Includes Major Regional, City Centre and Super Regional.

"We are focused on long-term value creation and delivering sustainable earnings growth through the cycle, while maintaining a strong balance sheet and efficient cost structure.

"The Group will target a total return of greater than 9.0% and underlying earnings growth of greater than 3.0%, on an annualised basis through the cycle."

Mr McNaughton added: "We are also pleased to update the market on our recent refinancing activities which will result in us cancelling our $1.8 billion bridge facility by the end of the calendar year. This follows the establishment of $700 million of new bank debt facilities and the issuance of A$433 million of US Private Placement (USPP) Notes which will settle next week."

Investing across the retail spectrum

Mr Michael O'Brien, Chief Investment Officer of Vicinity, said: "Our rationale for investment across the retail spectrum is clear. The retail sub-sectors have delivered strong total returns with similar volatility over long periods of time and have attractive investment characteristics.

"Vicinity's diversification and scale provides the ability to expand tenant relationships and gain operational efficiencies, and we have a team with deep capability and a proven track record of value creation in each of the sub-sectors."

Implementation of the portfolio strategy

Mr O'Brien said: "We have established clear investment criteria for assessing asset quality for the existing directly-owned portfolio and for future investment opportunities.

"We want to own assets in catchments where spending growth is strong, the likelihood of significant additional competition is low, sales productivity is solid and growing, occupancy costs are at acceptable levels and where there is potential for reconfiguration or expansion of the asset to increase market share. These are our measures of quality and these characteristics exist across the key sub-sectors.

"Our development pipeline currently stands at $1.5 billion on balance sheet – projects at Chadstone Shopping Centre, Warriewood Square, Colonnades and Halls Head Central are underway and we expect works at Mandurah Forum to commence in the first half of next year. These developments are forecast to generate internal rates of return of 10% to 15+%.

"Beyond the development opportunities that we have underway and in the pipeline, we will look to selectively acquire assets. The Shops at Ellenbrook and Livingston Marketplace in Perth are examples of the type of assets we will be focused on. They are both in strongly growing catchments, anchor tenants in the centres are performing very well, and they have high specialty sales productivity and low occupancy costs plus development potential. Importantly, we have a very strong team on the ground to create additional value.

"The Outlet sub-sector, in which Vicinity has a clear leadership position, has attractive investment characteristics. The four outlet centres in the portfolio have performed extremely well and the team has developed market-leading capabilities. Outlet centres remain a key focus for Vicinity and opportunities exist for us to extend our market leadership in this sub-sector.

"Our comprehensive portfolio review has identified opportunities to recycle $750 million to $1.0 billion of assets across the spectrum[5] into value-accretive investment opportunities. In the short term we have assumed the proceeds would be used to reduce our borrowings, which would reduce gearing by between approximately 350 bps and 450 bps. Assuming no immediate reinvestment of any sale proceeds, the impact on earnings would be approximately 0.7 to 0.9 cents dilution per security on an annualised basis. There is no change to the Group's FY16 underlying earnings guidance of 18.8 to 19.1 cents per security[6], given the expected timing of the asset sales.

"The proceeds of any asset sales will ultimately be reinvested into value-accretive investment opportunities such as the Group's $1.5 billion (Vicinity share) development pipeline and acquiring assets that meet our investment criteria."

Strategic Partnerships

Vicinity manages 38 assets on behalf of its Strategic Partners, 28 of which are co-owned by the Group.

Mr O'Brien said: "We will continue to selectively pursue new joint ventures with aligned capital partners to gain access to quality assets and mitigate risk on the basis that Vicinity is the manager and has a minimum 50% ownership interest in any jointly-owned assets.

"We remain committed to our existing wholesale funds and mandate. However, expansion of the platform is not a near-term priority."

Capital management

Mr Richard Jamieson, Chief Financial Officer of Vicinity, said: "Prudent capital management continues to be a key focus for Vicinity. We are committed to maintaining a strong balance sheet with conservative gearing, an investment-grade credit rating of A- by Standard & Poor's, well-diversified debt sources, long debt duration and will continue to be well-hedged against short-term interest rate fluctuations.

"These settings maximise the Group's access to equity and debt funding in all market conditions to enable investment in existing assets and new opportunities through the cycle.

"We have secured $700 million of new bank debt facilities with a number of international banks, further diversifying our sources of debt. Together with the settlement of the A$433 million USPP Notes issuance on 21 December 2015 and the use of undrawn debt facilities with the major domestic banks, this will enable the Group to cancel its $1.8 billion bridge facility by 31 December 2015."

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[5] Subject to market conditions.
[6] Subject to no unforeseen deterioration in economic conditions.

Mr Jamieson added: "The cancellation of the bridge facility is an important milestone for the Group, completing the merger refinancing program. We anticipate an improvement in our weighted average debt duration to approximately 4.0 years at 31 December 2015, and we are on track to achieve a weighted average cost of debt of circa 4.0% for the six months to 31 December 2015, compared to 3.2 years[7] and 4.2% respectively reported at our FY15 annual results.

"We will continue to review opportunities to extend our debt duration through further debt capital markets issuances in 2016, subject to market conditions. Ongoing management of our debt profile will also take into account the progress of asset sales outlined in today's announcement."

Conclusion

Mr McNaughton said: "The detailed evaluation work undertaken over the past three months has validated our strategy and clearly identified our preferred pathway for delivering value and sustainable growth for our investors. The focus now is on disciplined execution of our vision to deliver the leading retail property and lifestyle experience in Australia."

Market briefing

Additional detail on Vicinity's portfolio strategy and composition, investment opportunities and asset sale program can be found in the associated presentation released to the ASX today.

A briefing by management elaborating on this announcement will be webcast live from 10.30am sharp (AEDT) today and can be accessed via Vicinity's website at www.vicinity.com.au.

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About Vicinity Centres

Vicinity Centres (Vicinity or the Group) is one of Australia's leading retail property groups with a fully integrated funds and asset management platform, and $22.2 billion in retail assets under management across 93 shopping centres, making it the second largest listed manager of Australian retail property. The Group has a Direct Portfolio with interests in 83 shopping centres (valued at $14.1 billion) and manages 38 assets on behalf of Strategic Partners, 28 of which are co-owned with the Group. Listed on the Australian Securities Exchange under the trading code 'VCX', Vicinity has over 24,000 securityholders. For more information visit the Group's website vicinity.com.au, or use your smartphone to scan this QR code.

[7] 30 June 2015 figure assumed the option to extend the $1.8 billion bridge facility for 12 months was exercised.