NZX announcement – 28 February 2018

Strong revenue growth drives PCT interim results

Performance summary for the six months ended 31 December 2017

Financial summary

- Strong uplift in net operating income before tax of $40.9 million, up 3.8% (1H17: $39.4 million) driven by 3.7% lift in net property income (NPI).
- Net operating income[1] of $38.2 million, consistent with previous comparable period (1H17: $38.8 million).
- Net profit after tax of $17.7 million, reduced from $39.1 million in 1H17 following fair value movement for 10 Brandon Street in Wellington.
- Earnings guidance for FY18 unchanged at 6.30 cps. Dividend guidance maintained at 5.80 cps representing a YoY increase of 3.6%.

Capital management

- Issued $150 million of subordinated convertible notes in September 2017.
- Issued $100 million of senior secured, seven year bonds in November 2017.
- Strong balance sheet position with gearing of 23.0% (30 June 2017: 25.1%).
- Post balance date, commenced a marketing campaign to divest a 50% interest in ANZ Centre, Auckland.

Strong investment portfolio

- Occupancy of 99% (30 June 2017: 100%) and a weighted average lease term (WALT) across the portfolio of 8.8 years (30 June 2017: 8.7 years)
- 19 leasing transactions totalling 8,170 square metres were secured during the period.
- Strong like for like rental growth up 12.4% in Wellington corporate assets and 3.1% across the portfolio.

Development update

Commercial Bay

- Project remains on budget with yield on cost maintained at 7.5%, supported by strong leasing outcomes.
- Increased leasing across the retail space at Commercial Bay with leasing commitments of 60% (30 June 2017: 46%).
- Total office commitments across the Tower maintained at 66% (30 June 2017: 66%).
- Leasing momentum continues with strong interest in the retail centre and around 15% of the Tower or 6,000 square metres currently under negotiation.
- The release of a tower lobby fly-through and a 360 degree retail experience.

Bowen Campus

- Construction works remain on programme and on budget.

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[1] Net operating income is an alternative performance measure which adjusts net profit after tax for a number of non-cash items as detailed in the reconciliation provided at the end of this announcement. Precinct's dividend policy is based upon net operating income. This alternative performance measure is provided to assist investors in assessing Precinct's performance for the year.

- Remaining office space at Bowen Campus leased to the Crown, now unconditional.
- New Zealand Defence Force lease at Bowen State building extended to 18 years during the period.

Future opportunities advancing

- Continue to advance Wynyard Quarter development with commitment for Stage 2 expected within 6 months.
- Advancing the second stage of Commercial Bay with the integration and redevelopment of 1 Queen Street into a mixed hotel/office use. Negotiations with a preferred hotel operator are advanced and commitment to this project targeted for later this year.
- Bowen Campus Stage 2 design continues and site preparation works are underway.

Note: Further information can be found within the 2018 Interim Report and results presentation. You can find these at www.precinct.co.nz/interim-report-2018

Precinct Properties New Zealand Limited (Precinct) (NZX: PCT) reported its financial results for the six months ended 31 December 2017 today, with net operating income, which adjusts for a number of non-cash items, of $38.2 million or 3.15 cents per share (cps), consistent with the previous comparable period (2017: $38.8 million or 3.20 cps). Net profit after tax (NPAT) of $17.7 million compares with $39.1 million for the same period last year, with the difference mainly attributable to the fair value movement of 10 Brandon Street in Wellington and movement in financial instruments this period.

Scott Pritchard, Precinct's CEO, said "It has been an active six-month period. We have continued to focus on our long-term strategy as city centre specialists and have achieved strong rental growth across our investment portfolio".

"We have advanced our developments with construction progressed at Commercial Bay in Auckland and Bowen Campus in Wellington. Bowen Campus continues to track well with the project benefitting from further office leasing while remaining on budget and on programme.

Commercial Bay has also progressed with retail leasing advancing to 60% and office pre-leasing maintained at 66%. Enquiry levels for both retail and office remain elevated and the company is buoyed by the interest from potential occupiers in this development.

The recent completion of Wynyard Quarter Stage One and high occupancy levels across our portfolio have both contributed positively to our increased revenues, with our Wellington corporate assets achieving particularly strong growth during the period.

As projects advanced during the year we reduced our risk profile, and continued to diversify our funding sources which remains a core component of Precinct's capital management strategy," he said.

During the period, Precinct further improved its capital structure through a number of capital management initiatives including a successful convertible notes offer and bond issue, totalling $250 million.

Interim results

The completion of Wynyard Quarter Stage One, higher occupancy levels and improved rental growth have contributed to an increase in net property income by 3.7% to $47.6 million (31 December 2016: $45.9 million).

After adjusting for Wynyard Quarter Stage One, foregone income associated with development projects and 10 Brandon Street, like for like income was 3.1% higher than the previous comparable period. The Auckland portfolio saw an increase of 2.5% while in Wellington the corporate assets saw NPI increase by an impressive 12.4%. This was due to occupancy increasing by around 10%.

The fall in the New Zealand interest rate swap curve during the period was the primary reason for the fair value loss in financial instruments of $6.9 million. This loss compared with a $15.3 million gain for the same period last year.

Current tax expense increased by $2.1 million to $2.7 million. This was a result of a higher level of deductibles in the prior period due to the disposal of depreciable assets at Bowen Campus in October 2016.

An internal review of the 30 June 2017 property valuations undertaken at 31 December 2017 indicated no material value movement in the period for all the assets apart from 10 Brandon Street in Wellington.

With a number of options for 10 Brandon Street having been assessed to date, we have now completed our options analysis and tested the market for the asset to be sold. Following an independent valuation at 31 December 2017, a further valuation write down of $14.7 million to $7.0 million (30 June 2017: $20.2 million) has occurred at this property. Whilst not imminent, the most likely option for this asset is for it to be strengthened and repositioned.

The value of net tangible assets per share at interim balance date was $1.23 (30 June 2017: $1.24). Further financial information can be found within the 2018 Interim Report. You can find these at www.precinct.co.nz/interim-report-2018

Investment portfolio performance

Leasing progress has continued over the last six months with overall portfolio occupancy remaining in excess of 99% (30 June 2017: 100%) and WALT increased to 8.8 years (30 June 2017: 8.7 years).

In addition, 57 rent reviews were settled over the 6 months to 31 December 2017, resulting in a 4.1% increase on valuation rents at 30 June 2017. Market rent reviews across the investment portfolio provided a 3.0% uplift.

With good levels of leasing enquiry in both Auckland and Wellington, we expect to reduce the remaining vacant office space in the portfolio and to see further organic growth achieved.

Precinct's 50% owned co-working space provider, Generator successfully launched its new innovation focused co-working space at GridAKL in Wynyard Quarter. Occupancy is sitting well ahead of expectations and contributing to the emerging vibrancy of the new commercial precinct. Generator now manages 12,000 square metres across three locations. Generator House at 11 Britomart Place, Takutai Square will be the newest site to join Generator's co-working offering. Located across three upper levels, this new executive space will be available for occupation from May 2018.

Capital management

In September 2017, we successfully raised $150 million of four-year, fixed-rate subordinated convertible notes. Precinct considers this to be a capital management solution which is well suited to its current strategy and opportunities. It is a flexible funding option that gives Precinct the capital available to match development commitments while ensuring that earnings are not diluted in the short term.

Also in the period, Precinct issued a $100 million senior secured seven year bonds with the proceeds used to repay bank debt. Both issues have further strengthened Precinct's capital management position.

At balance date Precinct has total borrowings (including convertible notes) of $600.4 million (30 June 2017: $452.1 million) and total assets of $2.2 billion (30 June 2017: $2.1 billion). Gearing as measured under borrower covenants, which disregards subordinated debt, has consequently decreased during the period to 23.0% (30 June 2017: 25.1%).

Consistent with Precinct's capital recycling strategy and ongoing capital management, we are seeking to progress the sale of a 50% interest of ANZ Centre in Auckland. Real estate agency firm Colliers International has been appointed to market the asset for sale.

Development update

Commercial Bay

As strong retail leasing progress has been achieved over the last six months, we have also achieved a pleasing level of success with securing the key retailers who will define our unique retail mix at Commercial Bay. This includes renowned food and beverage operators Mimi Gilmour, Al Brown and Josh Emett who will each have a concept in Commercial Bay alongside legendary New York restaurant Saxon + Parole, as well as a number of leading local and international fashion retailers who remain confidential at this stage.

In August 2017, Harbour Eats, the communal dining offer at Commercial Bay was also launched. Located on level 2, the 700-seat eatery is designed by one of the world's leading hospitality design firms, New York-based, AvroKO and will offer a food destination unlike anywhere else in the world.

In the period we were also excited to share a taste of Commercial Bay with the release of a tower lobby fly-through and a 360 degree retail experience.

As outlined at the full year FY17 results, Precinct received independent advice that the completion of the retail centre will likely be delayed beyond its contracted date of November 2018, potentially to late Q1 2019. Our contractor has recently advised that their programmed date for retail completion is December 2018. Our updated independent advice remains that the contractor's December 2018 programme date is unlikely to be achieved. With construction still at an early stage we continue to closely monitor progress on site.

The contractor's programme date for the completion of the office tower remains mid 2019 (July). Independent programme advice has also been sought for the office tower. This advice shows that there is some risk to achieving the programme completion date, but that this will depend on the rate of façade installation, a workstream which has just commenced and will be closely monitored. Precinct notes that these reviews are independent of the contractor and have been sought by Precinct so that we can inform lessees of likely occupation dates.

Precinct remains comfortable with the provisions of its construction contract and the provisions which protect Precinct from losses due to contractor delay.

Precinct continues to forecast a profit on cost of over $200 million and a yield on cost of 7.5%.

Bowen Campus

Construction works remain on programme and on budget with 100% of the office space at Bowen Campus pre-committed.

During the period, the lease to the New Zealand Defence Force at Bowen State was extended to 18 years. The WALT across Bowen Campus has increased to almost 17.0 years (30 June 2017: 15.0 years).

The previously announced lease to the Crown across the top four floors totalling 4,700 square metres at Bowen State building also became unconditional during the period.

Dividend payment

Precinct shareholders will receive a second-quarter dividend of 1.45 cents per share plus imputation credits of 0.0936 cents per share. Offshore investors will receive an additional supplementary dividend of 0.042494 cents per share to offset non-resident withholding tax. The record date is 12 March 2018 with payment to be made on 23 March 2018.

Outlook and guidance

Precinct has a clear strategy of city centre specialisation which is expected to provide long term outperformance. We remain comfortable with our earnings pathway into the future.

With supportive capital markets and both occupier and investment markets remaining strong, Precinct is well positioned to advance our city centre strategy and increase shareholder value in 2018 and beyond.

Full year operating earnings after tax for the 2018 financial year are expected to be approximately 6.30 cents per share, before performance fees. Dividend guidance also remains unchanged at 5.80 cents per share, representing a 3.6% increase in dividends to shareholders.

Ends

Further financial information can be found within the 2018 Interim Report. You can find this at www.precinct.co.nz/interim-report-2018

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About Precinct (PCT)

Precinct is New Zealand's only listed city centre specialist investing predominately in premium and A-grade commercial office property. Listed on the NZX Main Board, PCT currently owns 15 New Zealand buildings – Auckland's PwC Tower, AMP Centre, ANZ Centre, Zurich House, HSBC House, Mason Brothers Building, 12 Madden Street and Commercial Bay; and Wellington's State Insurance Building, Dimension Data House, No. 1 and No. 3 The Terrace, Pastoral House, Mayfair House, 10 Brandon Street and Bowen Campus.

Note 1

Net operating income is an alternative performance measure which adjusts net profit after tax for a number of non-cash items as detailed in the reconciliation below. Precinct's Dividend Policy is based upon net operating income. This alternative performance measure is provided to assist investors in assessing Precinct's performance for the year.

Reconciliation of net operating income

Amounts in millions	2017	2016
Net profit after taxation	**17.7**	**39.1**
Unrealised net (gain) / loss in value of investment and development properties	14.7	12.1
Unrealised net (gain) / loss on financial instruments	6.9	(15.3)
Net realised (gain) / loss on sale of investment properties	-	-
Depreciation recovered on sale	-	-
Deferred tax (benefit) / expense	(1.6)	2.9
Share of (profit) / loss of joint ventures	0.5	-
Net operating income	**38.2**	**38.8**

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