NZX announcement – 16 August 2018

PCT delivers strong profit result and launches One Queen Street

Performance summary for the 12 months ended 30 June 2018

Delivering strong results

- Net profit after tax increased by 57.2% to $254.9 million (2017: $162.1 million).
- Net property income (NPI) increased by 5.4% to $95.3 million (2017: $90.4 million).
- Net operating income[1] increased to $76.6 million, up 2.5% (2017: $74.7 million).
- Full year dividend of 5.80 cps, up 3.6% (2017: 5.60 cps), representing a 100% payout ratio (AFFO).
- Strong property revaluation gain of $208.7 million or 9.0% (2017: $77.5 million).
- NTA per share increased by 12.9% to $1.40 (2017: $1.24).
- Earnings guidance for FY19 net operating income of approximately 6.60 cps, with the FY19 dividend expected to increase by 3.4% to 6.00 cps.

Capital management

- $191 million of asset sales[2] providing capacity for new projects.
- $250 million non bank funding secured.
- Post balance date refinancing of $760 million bank debt facility.
- Strong financial position with gearing of 25.0% (2017: 25.1%); pro forma gearing reduced to 19.4% at balance date following asset sales.

Development update

Launch of One Queen Street, announced today

- Precinct will undertake a $298 million redevelopment of One Queen Street (currently HSBC House) in Auckland.
- Redevelopment comprises a luxury hotel, premium office accommodation above and a variety of unique food and beverage options integrating with Commercial Bay.
- Appointment of InterContinental Hotels Group (IHG) as the hotel operator for the new hotel, InterContinental Auckland.
- Signed heads of agreement[3] over 3,700 square metres of the office premises which results in the overall project being 75% precommitted, with an expected yield on cost of 7.0% once complete.
- Entering into a 50% fixed price construction contract with LT McGuinness.
- Construction is scheduled to commence in 2020.

Commercial Bay

- Advancing retail commitments to 76% (2017: 46%) and office commitments to 78% (2017: 66%).

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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.
[2] The sale of the 50% interest in ANZ Centre sale remains subject to Overseas Investment Office approval and the sale of 10 Brandon Street is conditional on ground lessor approvals and is due to settle in August 2018.
[3] Signed heads of agreement records all commercial terms agreed subject to negotiation and execution of binding documentation.

- Yield on cost remains unchanged at 7.5% with an increased profit on cost following the revaluation of 41% (June 17: 31%) or $283 million.
- Phase one of the retail remains on schedule with H&M opening its flagship 3,800 square metre store on 30 August 2018.
- A revised completion programme has recently been provided.

Bowen Campus

- Charles Fergusson Tower on track for completion in December 2018 and occupation by Ministry of Primary Industries.
- Bowen State Building to be occupied by New Zealand Defence Force with lease commencing April 2019.
- Yield on cost of 7.0%+ with an increased profit to 18%.

Future development opportunities

- Design has advanced for Wynyard Quarter development stages two, three and four with the second stage of the development anticipated to commence in the next 6 months.
- Building design and marketing underway for pre-commitment leasing for the remaining development land at Bowen Campus.

Investment portfolio performing well with Auckland fully leased

- Occupancy of 99% (2017: 100%) and a weighted average lease term (WALT) across the portfolio maintained at 8.7 years (2017: 8.7 years)
- Positive leasing momentum with 41 transactions completed during the period, encompassing over 21,900 square metres and 598 car parks.
- Strong demand for space with QBE expiring floors leased ahead of vacancy and 3 floors of IAG expiry leased at Aon Centre, Wellington.
- Strong like for like income growth of 3.0% on the previous comparable period, with Auckland increasing by 3.1% and the Wellington portfolio achieving an uplift of 2.9%.
- Generator occupancy of 73%, well above expectations
  - With 75% (9,500 square metres) of its space launched during the year, the business recorded a loss, as anticipated for this trading-up period.

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

Precinct Properties New Zealand Limited (Precinct) (NZX: PCT) reported its financial results for the 12 months ended 30 June 2018 today, with net profit after tax (NPAT) up 57.2% to $254.9 million (2017: $162.1 million). The quality of Precinct's portfolio including its active development pipeline has resulted in a significant portfolio revaluation gain of $208.7 million or 9.0% for the period. This has contributed to our increase in NPAT this year.

Net operating income (distributable earnings) which adjusts for a number of non-cash items has also increased by 2.5% to $76.6 million over the period (2017: $74.7 million). On a cents per share (cps) basis, this equates to 6.32 cps and was in line with guidance (2017: 6.17 cps).

Revenue growth of 3.6% was primarily due to the completion of Wynyard Quarter Stage One which was partially offset by foregone income related to development activity and 10 Brandon Street. After allowing for these transactions and activity, on a like for like basis gross rental income was 3.7% higher than the previous period. This growth has driven an uplift in NPI by 5.4% to $95.3 million (2017: $90.4 million).

As at 30 June 2018, Precinct's portfolio value increased to around $2.5 billion following the strong revaluation gain during the period. Precinct's NTA per share was up 12.9% to $1.40 (2017: $1.24). Further financial information can be found within the 2018 Annual Report at www.precinct.co.nz/annual-report-2018.

Scott Pritchard, Precinct's CEO, said "The last financial year has delivered another strong result for our business. As we moved forward with our strategy, we progressed a number of initiatives and achieved key milestones during the year. We have continued to take an active management approach with both our investment portfolio and our development pipeline, leveraging Precinct's market position".

Focusing on a number of capital management initiatives during the year has resulted in a total of $250 million of capital raised through the completion of a convertible notes offer and bond issue. Progressing the sale of a 50% interest in ANZ Centre in Auckland and the sale of 10 Brandon Street in Wellington are other examples that demonstrate Precinct's active management approach. These assets totalled $191 million of capital recycled during the period.

Scott Pritchard, Precinct's CEO, said "We believe these initiatives are well suited to Precinct's strategy and provides the necessary available capital to match our development commitments. The post balance date refinancing of Precinct's $760 million bank debt facility in July 2018 further supports this by providing sufficient funding capacity to deliver these projects".

At year end our investment portfolio has continued to benefit from strong occupier markets. Achieving a high overall portfolio occupancy of 99% at year end and weighted average lease term of 8.7 years demonstrates this. Our Auckland portfolio has performed particularly well with occupancy sitting at 100% reflecting demand for premium inner-city office space. In Wellington, we have also reduced vacancy increasing occupancy levels through active leasing during the year.

In both Auckland and Wellington we have successfully leased major expiries well ahead of vacancy. At AMP Centre in Auckland, the QBE expiry has been fully leased at a premium of 17% to previous rentals. At Aon Centre in Wellington, 3 floors have been leased on the former IAG tenancy, with two remaining floors becoming available in early 2019.

Development update

One Queen Street

Precinct has today announced it will proceed with the $298 million redevelopment at One Queen Street (currently HSBC House). As a second stage of the Commercial Bay project, the mixed use redevelopment of the building comprises a luxury hotel, premium office accommodation above and a variety of unique food and beverage options including a roof-top hospitality venue. The development will be fully integrated into the Commercial Bay retail precinct, providing a further and complementary demand driver especially for the weekend, evening and holiday trading periods.

The hotel will operate across 11 levels of the building and provide a total of 244 guest rooms and suites, together with an all-day dining restaurant, meeting suites, health club and club lounge facilities. The commercial office space will encompass 8,700 square metres across 7 levels.

The mixed use redevelopment of One Queen Street significantly enhances Commercial Bay for retail, business and visitors alike. To have such a large area operating seamlessly under single ownership and management provides a unique opportunity to generate strong synergies between the uses. We believe this offering will further support the Commercial Bay retail precinct, particularly food and beverage.

The Auckland hotel market is experiencing unprecedented levels of growth in demand, which is forecast to persist through further growth in tourism numbers through to at least 2025. While a number of new hotel projects have been announced in the last 24 months, the increase in supply is expected to still fall short of demand over the short term and reach equilibrium over the medium to long term. This is expected to underpin robust room and occupancy rates moving forward.

Scott Pritchard, Precinct's CEO, said "The launch of One Queen Street is further evidence of Precinct's role in creating a world class waterfront destination on par with other global cities.

Securing InterContinental, one of the world's most recognised luxury hotel brands, reflects the high demand from operators for this unparalleled waterfront location".

The overall project is 75% precommitted with a management agreement entered into with IHG and a signed heads of agreement[4] across 3,700 square metres of the office premises. The One Queen Street development will be funded through Precinct's existing debt facilities. On completion, the project is expected to generate a stabilised yield on cost of 7.0% and a profit on cost of 15%.

LT McGuinness will be the main contractor for the One Queen Street development. With a proven record of delivering projects on time and to the highest standard, we are confident about the delivery of this project. Construction is scheduled to commence in Q1 2020.

Precinct are pleased with LT McGuinness's performance to date on site at Bowen Campus in Wellington and with their work in Wynyard Quarter in Auckland.

Commercial Bay

Commercial Bay continues to achieve a good level of leasing enquiry and we have secured a number of additional occupiers during the period, advancing retail commitments to 76% and office commitments to 78%. With retail enquiry levels remaining elevated, we expect leasing momentum to continue into 2019. Across the office tower, securing commitments from a number of occupiers outside the existing portfolio is a great outcome.

Phase one of the retail remains on schedule with H&M opening its flagship 3,800 square metre store on 30 August 2018, marking an important development milestone.

Commercial Bay remains on track to deliver a yield on cost of 7.5% and an increased profit on cost of 41% (June 17: 31%) or $283 million. Based on current project metrics, there remains a further $100 million of unrecognised development profit expected to materialise on completion.

Construction has reached several key milestones during the period, with the completion of key tower structural elements, retail construction out of the ground and completion of the first phase of façade installation.

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[4] Signed heads of agreement records all commercial terms agreed subject to negotiation and execution of binding documentation.

Up until this point, Precinct has estimated the completion programme from independent advice. Following considerable engagement with the main contractor, Fletcher Construction, a revised completion programme has recently been provided.

The completion programme provided by Fletcher Construction has been reviewed by Precinct's expert programmer, RCP, who have confirmed the revised dates are achievable, subject to the main contractor's performance. The revised completion dates for the Commercial Bay retail and the new PwC office tower are September 2019 and December 2019, respectively.

Scott Pritchard, Precinct's CEO, said "While any delay in a project is disappointing, we believe Fletchers are maintaining a very high standard of quality during a very challenging period within the construction industry".

Precinct remains confident with the provisions of its construction contract, which protect Precinct from losses due to contractor delay. Liquidated damages will effectively mitigate the impact on Precinct from any loss of income and other costs over the delayed period.

Precinct continues to work closely with retailers at Commercial Bay to communicate the revised occupation dates. For those occupiers coming into the new PwC office tower, all have existing lease terms which extend beyond the revised completion dates of the office tower.

Bowen Campus

In Wellington, construction works have continued to progress well over the last 12 months. We have now completed the facade installation at Charles Fergusson Tower with on floor works continuing. All works are targeted for completion late December 2018.

At Bowen State Building we have completed the majority of the structural works for the building including the north and south shear walls. The façade is now 90% complete for the building, installed from Level 1 to 10. On floor works are also underway to all levels.

Occupation of Bowen State Building by New Zealand Defence Force is expected in Q3 2019.

Future opportunities

Preliminary designs for the remaining development land at Bowen Campus are being progressed and marketing for leasing pre-commitment has been launched. With potential to accommodate up to 20,000 square metres of commercial office space, it is considered suitable for both Crown and corporate occupiers. The Annex Building which was previously on the site has now been demolished.

At Wynyard Quarter with the first stage now complete, design has advanced for stages two, three and four. Precinct is able to develop a further 30,000 square metres of office space on the site and will draw on the land when it wishes to proceed with each stage. Precinct has continued to engage with potential occupiers for the type of space within the Innovation Precinct and is encouraged by the extent of ongoing interest. Precinct anticipate commencing the second stage of the development in the next six months.

Dividend payment

Precinct shareholders will receive a fourth-quarter dividend of 1.45 cps plus imputation credits of 0.2473 cps. Offshore investors will receive an additional supplementary dividend of 0.1122 cps to offset non-resident withholding tax (see note 2). The record date is 14 September 2018 with payment to be made on 28 September 2018.

Outlook and guidance

The long-term outlook for the Auckland market remains strong, with solid demand drivers for city centre real estate across the office, retail, hotel and residential markets.

The office market in particular is supported by increased growth in the working age population, with continued elevated visitor growth projected to underpin hotel demand. With demand forecast to grow with limited supply evident, constraints in the construction market are expected to continue placing upwards pressure on replacement costs. Similarly, outlook for the Wellington market has significantly improved in contrast to previous years.

We are committed to our long-term strategy as city centre specialists. This strategy is progressing well and is reflected in our strong results this year.

The Board expects full year earnings for the 2019 financial year of approximately 6.60 cps, before performance fees and expects to pay a dividend of 6.00 cps. This represents a 3.4% increase in dividend to shareholders.

Ends

Further financial information can be found within the 2018 Annual Report. You can find this at www.precinct.co.nz/annual-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 14 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 AON Centre, Dimension Data House, No. 1 and No. 3 The Terrace, Pastoral House, Mayfair House 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	2018	2017
Net profit after taxation	**254.9**	**162.1**
Unrealised net (gain) / loss in value of investment and development properties	(208.7)	(77.5)
Unrealised net (gain) / loss on financial instruments	11.1	(11.8)
Net realised (gain) / loss on sale of investment properties	-	-
Deferred tax (benefit) / expense	17.0	1.9
Share of (profit) / loss of joint ventures	2.3	0.0
Net operating income	**76.6**	**74.7**

Note 2

A supplementary dividend is paid to non-resident shareholders to offset the amount of non-resident withholding tax ("NRWT") that New Zealand companies are required to deduct from dividends paid to non-resident shareholders. A supplementary dividend is paid to ensure equitable treatment between non-resident shareholders and resident shareholders (whose dividends are not subject to NRWT).

There's no disadvantage to Precinct or our shareholders, and non-resident shareholders don't get a larger cash dividend than an equivalent New Zealand resident shareholder.