NZX announcement - 1 November 2018

Precinct Properties New Zealand Limited Annual General Meeting

11:30am (New Zealand time), Thursday 1 November 2018

The Maritime Room, Princes Wharf, Corner Quay and Customs Streets, Viaduct Harbour, Auckland 1142

Chairman's opening address

Good morning and welcome everyone. I'm Craig Stobo, Precinct's Chairman, and it's a pleasure to welcome you all here to our 2018 Annual General Meeting.

It is great to see so many of you, our shareholders present today at The Maritime Room.

2018 has been another successful year for Precinct. Significant progress has been made on our major initiatives and we have seen the business take substantial steps forward.

We have continued to enhance our portfolio. We have maintained occupancy in our portfolio, sold assets to recycle capital, progressed our developments, sourced non-bank debt to strengthen the balance sheet, and importantly, we have grown earnings and dividends for our shareholders.

I would now like to introduce the members of the Board and executive team joining us here today.

We also have with us representatives from our auditors, Ernst & Young, tax advisors, KPMG, our legal advisors, Chapman Tripp, along with Precinct staff.

On behalf of the Board and Executive team, I would also like to acknowledge, today, the recent resignation of Precinct's General Counsel and Company Secretary, Davida Dunphy.

Davida joined Precinct in 2014 and has been responsible for the provision of legal and compliance support to the business. She is leaving Precinct to return to the legal profession joining law firm DLA Piper New Zealand. Although we are disappointed to see Davida leave, we thank her for her contribution to Precinct and wish her well with her future endeavours.

Meeting agenda

We will shortly begin by reviewing the recent performance and activity of Precinct. We will then take any shareholder questions after concluding the presentation, before proceeding to the formal business of the meeting.

Today, we will consider four ordinary resolutions. This includes two resolutions relating to the re-election of Independent Directors, one resolution on fixing the remuneration of Precinct's auditors, Ernst and Young and lastly, one resolution that the directors be authorised to fix the remuneration of the independent directors of the company from 1 November 2018.

Today's forum provides an opportunity for you, our shareholders to communicate directly with those who are responsible for your investment in Precinct. We welcome any feedback you may have and on behalf of my fellow board members, I would like to acknowledge the good suggestions made thus far by shareholders for change.

As an example of changes made following your feedback, voting today will be conducted by way of a poll in accordance with NZX Corporate Governance recommendation 8.4, with voting results of the poll to be announced to the NZX later this afternoon.

We are also providing, today, full transparency of director fees including committee memberships. The proposed rates in resolution 4 on Directors remuneration have been independently benchmarked by Strategic Pay Limited, with a review of both the structure of payments and the current level of directors' fees having been completed.

We recognise an effective board comprises a balance of independence, tenure, skills, knowledge, experience and perspectives amongst directors. With this in mind, we are looking to proactively advance our board succession planning.

Following the meeting, we hope you will stay and join us for some morning tea and refreshments after the meeting.

Delivering results

During the last financial year, we have delivered a strong result and we are pleased with the performance achieved across our business.

The quality of Precinct's portfolio including its active development pipeline resulted in a significant portfolio revaluation gain of $208.7 million or 9.0%, increasing the value of Precinct's portfolio to around $2.5 billion.

This contributed to a net profit after tax of $254.9 million, up 57.2%. Net tangible assets per share rose 13% to $1.40 and net operating income also increased by 2.5%, in line with guidance.

Full year dividends paid to shareholders and attributed to the 2018 financial year was 5.80 cents per share, representing a 3.6% increase.

Focused strategy

As we continue to focus on our long-term strategy as city centre specialists, we are particularly pleased with the strong position we are in. Our FY18 results reflect continued growth in earnings as well as the targeted lift in portfolio quality being achieved.

Precinct's strategy is a continual focus of the Board. It has continued to evolve over the last 20 years. Reviewed annually, our strategy is regularly refined, and we believe it provides clear direction for both the Precinct team and our shareholders.

Importantly, we are monitoring risk and applying sound capital management. This has resulted in a total of $250 million of capital raised in FY18 through the completion of a convertible notes offer and a bond issue. Asset sales totalling $191 million which Scott will talk more about has also been completed. These initiatives are providing the necessary available capital to match our development commitments.

FY19 Dividend

It has been five years since we fully transitioned our dividend policy to a sustainable AFFO based policy. Notably, our AFFO payout ratio has averaged around 101% over this period ensuring that what we pay in dividends is consistent with the cash generated in the business.

We continue to see dividend and AFFO growth through a sustainable dividend policy, an effective strategy and strong markets.

Following another good year for Precinct, I would like to confirm a first quarter dividend for the 2019 financial year of 1.50 cents per share, representing an increase of 3.4%.

We are delighted to be providing shareholders with dividend growth which is consistent with our previously published long-term earnings pathway.

The Board expect to pay a 6.00 cents per share dividend for the full 2019 financial year.

Leasing momentum, construction progress, the recent announcement of One Queen Street and the second stage of Wynyard Quarter which Scott will talk to you more about shortly, provides us confidence with our earnings outlook.

Payment of the 2019 first quarter dividend will be on the 3rd of December this year.

Increased Disclosure – Sustainability

Recognising sustainability is an important part of Precinct's business activities. It's strategy has been designed in parallel with Precinct's broader business strategy.

We have defined sustainability at Precinct as enabling sustainable and successful business, improving our operational performance and incorporating sustainable design across our portfolio of properties.

Precinct Properties New Zealand Limited
E hello@precinct.co.nz
W www.precinct.co.nz

Head Office
Level 12, 188 Quay Street, Auckland 1010 T 0800 400 599
PO Box 5140, Auckland 1141, New Zealand F +64 9 927 1655

Wellington Office
Level 19, 157 Lambton Quay, Wellington T 0800 400 599
PO Box 2, Wellington 6140, New Zealand F +64 4 494 2267

The Board and team at Precinct are focused on our Environmental, Social and Governance (ESG) issues, which extends beyond reporting on them. We are developing plans of action with targets to achieve our goal of creating sustainable value through city centre real estate. Our sustainability committee leads this work and includes staff from key roles across the business.

In line with our long-term view we are seeking to deepen our understanding of sustainability and future-proof our business. We have undertaken a number of initiatives in the last year to strengthen how we define sustainability and clarify the related material risks and opportunities. We are pleased with the progress we are making.

As you would have seen, this year Precinct prepared its annual report in accordance with the Global Reporting Initiative (GRI) Standards. By reporting to GRI Standards we are providing greater clarity and accountability around our sustainability issues including how we are responding to them.

For those of you who haven't already, we encourage you all to read more about "Sustainability at Precinct" in our 2018 Annual Report.

GRESB

Being able to measure Precinct's sustainability performance and having measurable long-term targets is just as important. The overarching measure we have chosen to use as Precinct's core ESG indices performance benchmark is the Global Real Estate Sustainability Benchmark (GRESB).

GRESB assessments are guided by what investors and the industry consider to be material issues in the sustainability performance of real estate investments. It is considered the global standard for ESG benchmarking and reporting for real estate.

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Precinct was one of two New Zealand entities to participate in the GRESB real estate assessment this year. Globally, there were a total of 903 property companies, real estate investment trusts, funds and developers. This represents over 3.6 trillion USD in gross asset value across 64 countries. To add some market context to those numbers, the listed real estate dataset includes 75 of the top 100 largest REITs by market capitalisation and the assessment now covers more than 79,000 assets.

Precinct became a member of GRESB earlier this year and we are pleased to report that we achieved a Participation & GRESB Score in 2018 of 69 out of 100. This reflects both a score above the GRESB global average and a significant improvement from our first submission in 2017.

Our 2018 score demonstrates our commitment to being able to measure Precinct's sustainability operational performance and having measurable long-term targets. Improving on our score in 2019 and beyond is a key objective for Precinct.

Health and safety

The Board recognises Precinct's influence on health and safety across the business and wider industry, making it a highly material issue and something we are very focused on.

So, before Scott talks to you, I would like to provide an update on health and safety again, this year.

We are committed to promoting an engaged and positive health and safety culture throughout the supply chain. This is achieved through robust practices and policies, active principal monitoring and engaging with workers at the work face which includes principal led health and safety awards and wellness initiatives.

In FY18, there were no significant injuries with approximately 75% of recorded incidents being classified as minor.

We are also pleased to note that over 225 principal audit and monitoring inspections were undertaken during FY18, which is in addition to regular internal contractor health and safety practices.

Before I hand over to Scott to take you through the past year in more detail and provide an overview of our next major development, One Queen Street, I would like to thank you, our shareholders, again, for your continued investment in our business.

I look forward to delivering more strong results as we execute our long-term strategy for continued growth.

Thank you.

Scott Pritchard, Chief Executive Portfolio

Enhanced Portfolio and Key Milestones

Thank you Craig, and good morning everyone.

As Craig has mentioned, the last financial year has delivered another strong result for our business. We have continued to take an active management approach with both our investment and development portfolio's, leveraging Precinct's strong market position.

We are continuing to drive meaningful growth in our operating income at the same time as transforming the portfolio into a higher quality set of assets.

The next slide highlights some of the key milestones achieved during the year. In addition to diversifying our funding sources which Craig mentioned, Precinct also refinanced it's $760 million bank debt facility in July of this year, further supporting our committed developments by providing sufficient funding capacity to deliver these projects.

We have also successfully sold $191 million of assets which includes the unconditional sale of 50% of the ANZ Centre in Auckland, and the disposal of 10 Brandon Street in Wellington. These sales have further strengthened the balance sheet and reduced Precinct's gearing.

Another major highlight has been recording a total portfolio occupancy of 99%, with the Auckland portfolio being 100% leased at balance date. Maintaining such high occupancy levels year on year demonstrates the strength of the occupier markets that we are in and the demand for premium inner-city office space.

One Queen Street

In August we announced our commitment to Precinct's next major investment, One Queen Street, which is something we are very excited about. The $298 million redevelopment will enhance the Commercial Bay area and provide a further dynamic use to this precinct, bringing the waterfront to life.

One Queen Street which is currently HSBC House, will comprise a luxury hotel, premium office accommodation above and a variety of unique food and beverage options including a roof-top hospitality venue.

The new flagship hotel will be known as InterContinental Auckland, managed and operated by InterContinental Hotels Group (IHG). It will occupy 11 levels of the building and provide a total of 244 guest rooms and suites, together with a restaurant, meeting suites, health club and club lounge facilities. It is a great outcome to have secured such a strong brand with local, regional, and international recognition.

The overall project is 75% precommitted and includes a signed heads of agreement across 3,700 square metres of the office premises.

LT McGuinness will be the main contractor for this development. With a proven track 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 the first half of 2020 with the hotel expected to open in early 2022. Similarly, the commercial office and hospitality space are due to open in mid-2022.

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. Real estate services provider, Colliers International have reported an unprecedented level of growth in demand present in the Auckland hotel market and forecast that this will persist through further growth in tourism numbers through to at least 2025.

We are committed to creating a world class waterfront destination on par with other global cities.

Commercial Bay

Commercial Bay has benefitted once again from a significant lift in its completed valuation, having achieved further leasing success. The expected profit on completion is now forecast to be $283 million, representing a development profit of more than 40%.

During the year we have lifted our retail commitments to 76% of the available space. This is a major movement and demonstrates the significant demand that we are receiving. We are delighted with the composition and mix of retailers, and very pleased that we will be bringing some new entrants to the New Zealand market. We have also lifted our total commitment in the office building to 78%. Pleasingly, the leasing transactions completed to date remain consistent with feasibility and have assisted in seeing the value on completion for this development now exceed $1 billion.

Following the first stage of the retail opening of Commercial Bay just over two months ago, Aucklanders and visitors alike have had their first glimpse of how great Commercial Bay is going to be.

Swedish retailer H&M, opened the doors to their new four storey flagship store, offering for the first time in New Zealand H&M's entire range including men's, women's, kid's and homeware.

It was fantastic to see around 600 people queued up from 7am on the opening day to be one of the first to experience the store. With over 100,000 customers passing through the doors during its first month of being opened, we are excited by the number of people choosing Commercial Bay as their retail destination.

An integral part of the Commercial Bay project has been having an independent program expert. Our expert, RCP have provided us with advice on both the progress on site and expected completion dates for this active development.

Precinct PROPERTIES NEW ZEALAND

Pleasingly our main contractor, Fletcher Construction, has this year engaged fully with our team to determine the current status of the site and consider the program to complete. We believe this engagement has been highly beneficial for the project as it gives us as the developer, and owner, the confidence that the revised program to complete is achievable.

As outlined in our year end results in August, the revised program will see the retail centre opening in September 2019, and the new PwC Tower opening in December 2019.

As I have said previously, while any delay in a project is disappointing, we remain incredibly excited about the project and the long-term benefits it will deliver for Aucklanders.

As you will be aware, locally we are facing a shortage of construction workers, in fact, it is estimated by Crown agency MBIE that New Zealand needs 50,000 more construction workers by 2022. So, like many others in the construction industry, Fletchers are operating in an extremely challenging environment.

Importantly we believe Fletchers are maintaining a high standard of quality on this project and Precinct remains comfortable with the provisions of its construction contract, which protect it from potential losses from delay caused by the main contractor.

Wynyard Quarter Stage Two

Moving to Wynyard Quarter, having secured the development rights over certain land in this precinct, we as a business have a unique opportunity to develop office buildings at an unrivalled Auckland location.

Today, we are pleased to have announced our commitment to Stage Two of this project. This follows the successful completion of Stage One and reflects an important step forward in the development of the wider Innovation Precinct and the creation of a thriving creative hub. We began construction of Stage One in 2015 and we are excited to proceed with the next stage of the project's evolution.

Stage Two will commence construction later this month and is being developed on an uncommitted basis.

We are receiving good levels of enquiry from businesses wanting to be located in the innovation precinct and are pleased with the demand we have received in the Generator space within our first stage, which is now recording committed occupancy of around 80%.

With on-going negotiations currently taking place with potential occupiers, we expect that the majority of tenancies will be committed prior to completion at the end of 2020.

Following stage two, there are a further two sites which offer another 22,000 square metres of office space, which we expect to develop over the next five to six years.

Bowen Campus

In Wellington, Bowen Campus continues to progress and remains on program and on budget.

It is anticipated that The Charles Fergusson Tower will reach practical completion in December of this year, while the Bowen State building will complete in 2019.

Pleasingly the development profit for this project has increased to 18% or $37 million, following an increase in the project's value on completion to $240 million.

During the year the Crown has determined that the New Zealand Defence Force will take on a head lease of the Bowen State building for a period of 18 years.

With the remaining developable land at Bowen consisting of around 4,000 square metres, there is potential to accommodate up to 20,000 square metres of commercial office space.

We would like to share the latest design render with you.

As you can see, 40 and 44 Bowen Street is the next step in the reinvigoration of Bowen Campus. We have been given the opportunity to expand the area to deliver more premium office space and amenity to the Wellington workforce.

The buildings have been designed to cater to the demands of the modern workforce. Large, open floorplates allow occupants to tailor their work space to their needs and floor to ceiling glass with ceiling heights of 2.95 metres maximises natural light and views.

Flexible design allows businesses to quickly adapt and change. We've seen growing demand for businesses looking to implement agile working strategies and we believe the layout for 40 and 44 Bowen Street reflects this and will accommodate this demand.

The buildings have also been designed to offer a very high seismically resilient building with dampers installed to withstand significant seismic events.

Generator

Before I conclude and hand back to Craig for the formalities of the meeting, I would like to talk a bit more about our investment in Generator and how we see flexible space evolving.

Since our acquisition of the 50% interest in Generator in 2017, we continue to see strong interest from a range of occupiers. We believe Generator provides a unique offering with something for everyone.

Achieving committed occupancy levels around 80% has been well above expectations. With over 900 members and 75% of its space being launched during the year, Generator has grown substantially as a business. Generator, Britomart Place is the newest site to join Generator's co-working offering. Launched in June, it has already secured around 60% contracted occupancy. Total square metres managed by Generator now totals 12,600 square metres across three locations.

Flexible space

Looking at what has happened in other markets internationally with flexible space and the more agile approach corporates are taking with their operations, we are pleased to have exposure to this developing market.

Precinct currently has a significant presence in the Auckland CBD, making up around 50% of the flexible/co-working market.

As we see the demand for flexible workspace increasing across our portfolio, being committed to creating workspaces that meet the requirements of today's businesses is therefore a key objective.

In other major global cities anywhere between 5-8% of the office market is in co-working so this is an area of investment that we definitely see room for growth in.

Conclusion and outlook

In summary, we are pleased with another year of strong results for our business. As we continue with a long-term view, we are pleased with the results our strategy is delivering.

We are maximising our value potential and transforming the cities and communities we operate in. Widening our investment into other city centre real estate to include retail, hotels and co-working space, is offering greater opportunity for Precinct to create value for shareholders.

Our balance sheet is well positioned and we are committed to developing high-quality real estate in strategic locations.

I would like to thank the Precinct Board for their support, the Precinct team for their on-going work during another busy year, and also you, our shareholders, for your continued investment in Precinct.

I will now hand you back to Craig. Thank you.

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