Precinct

NZX announcement – 23 August 2023

Strong leasing performance and strategy underpin PCT FY23 result

Performance summary for the 12 months ended 30 June 2023

Financial summary

- Strong leasing momentum and market rental growth during the year has resulted in net property income (NPI)[1] of $130.2 million (2022: $124.6 million), up 4.5%.
- Net operating income before tax of $102.1 million, up 7.1% (2022: $95.3 million).
- Total comprehensive income after tax of ($147.5) million (2022: $108.8 million) with the movement largely attributable to the annual revaluation which recorded a $257.1 million decline in FY23.
- Net Tangible Asset (NTA) per share of $1.38 (2022: $1.54).
- Adjusted Funds from Operations (AFFO) of 6.69 cps (2022: 6.51 cps), representing a year on year increase of 2.8%.

Successful strategy execution

Strategic initiatives and strengthened balance sheet position

- Established partnerships with Singaporean sovereign wealth fund, GIC and global private asset manager, PAG. Additional growth in the capital partnership with GIC following the sale of the Wynyard Quarter Stage 3 development project during the period and conditional acquisition agreed of 56 The Terrace, Wellington for $146 million (post balance date).
- Post balance date, Precinct announced it has formed a joint venture with Ngāti Whātua Ōrākei, to invest in the regeneration of the Te Tōangaroa precinct in the Tāmaki Makaurau city centre. Precinct's investment will be in partnership with PAG.
- Launched a residential development business with Tim and Andrew Lamont.
- Received shareholder approval for Precinct to move to a stapled company structure, effective 1 July 2023, supporting strategic direction.
- Significant business activity during the year with $680 million of asset disposals settled, including 40 and 44 Bowen Street (post balance date).
- Announcing today, Precinct NZ is considering an offer between $150-$200 million of subordinated convertible notes, providing additional funding capacity for future projects.

Advancing development opportunities

- Secured the 61 Molesworth Street development opportunity in Wellington, with works now commenced for a new 24,000 square metre fully pre-leased office development.
- Commitment to 117 Pakenham Street, the final building at the Wynyard Quarter Innovation Precinct, following major pre-leasing secured.
- Preferred development partner for Downtown Carpark site in Auckland with exclusive negotiations nearing completion.

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[1] Net property income excludes IFRS 16 rent expense elimination.

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Operating performance

- Portfolio occupancy maintained at 99% with 6.0 year (2022: 7.1 years) weighted average lease term (WALT) with over 53,000 square metres of leasing completed in the period.
- 13.8% growth in contract rents on new leases.
- Generator delivers gross operating revenue of $22.8 million during FY23, reflecting strong office and event space demand (2022: $15.8 million).
- Successfully completed development project at 40 and 44 Bowen Street in Wellington.
- Post balance date, premier dining and entertainment precinct Willis Lane in Wellington officially opened in July 2023.

Environmental, Social and Governance (ESG) update

- Global Real Estate Sustainability Benchmark (GRESB) score of 82, above the current global average of 74 and maintained a public disclosure level of 'A'.
- Committed to the World Green Building Council Net Zero Carbon Buildings Commitment.
- Prepared interim climate-related disclosures supporting transparency towards compliance with the Aotearoa New Zealand Climate Standards in FY24.

Board succession update

- Craig Stobo, Chair and Independent Director of the Precinct Board stepping down at the conclusion of his current term in November 2023. Precinct Independent Director, Anne Urlwin has been appointed as Chair to replace Craig Stobo.
- Recruitment process for a new Independent Director underway with appointment expected at this year's Annual General Meeting in November 2023.

Note: Further information can be found within the 2023 Annual Report and results presentation. You can find these at https://www.precinct.co.nz/annual-reporting/2023-annual-results

Precinct Properties New Zealand Limited reported its financial results for the 12 months ended 30 June 2023 today. Precinct's business has continued to perform well during the 2023 financial year with significant leasing and market rental growth achieved. This has resulted in net property income (NPI) of $130.2 million for the year (June 2022: $124.6 million). On a like for like basis, net property income was up 4.1% for the Auckland assets and 0.6% for the Wellington assets. This has contributed to net operating income before tax of $102.1 million, up 7.1% on the previous year (June 2022: $95.3 million). Total comprehensive income after tax was ($147.5) million compared to $108.8 million in FY22 with the movement largely attributable to the annual revaluation which recorded a $257.1 million devaluation in FY23.

The revaluation decline for the period was predominantly attributed to an expansion in capitalisation rates, with a higher interest rate environment continuing to place increasing pressure on investment returns and impact property valuations across all real estate sectors.

Precinct's weighted average market capitalisation rate has softened on a like-for-like basis from 4.9% to 5.6% over the past twelve months.

More importantly, however, is Precinct's Adjusted Funds from Operations (AFFO) which adjusts for unrealised valuation movements and other non-cash items. Precinct's AFFO for the 2023 financial year was $106.1 million (June 2022: $101.5 million) or 6.69 cents per share, representing a year on year increase of 2.8%. Full year dividends paid to shareholders and attributed to the 2023 financial year totalled 6.70 cents per share.

With $680 million of asset sales settled, including 40 and 44 Bowen Street (post balance date), Precinct's balance sheet is in a strong position.

Following the post balance date settlement of 40 and 44 Bowen Street, gearing as measured under borrower covenant, which disregards subordinated debt is 34.9%, well under PCT borrower covenant level of 50%.

As at 30 June 2023, Precinct's portfolio, including assets held for sale, totalled $3.4 billion (30 June 2022: $3.7 billion), equating to a net tangible asset (NTA) per share of $1.38 at the balance date (30 June 2022: $1.54).

Further financial information can be found within the 2023 Annual Report at https://www.precinct.co.nz/annual-reporting/2023-annual-results.

Scott Pritchard Precinct CEO said, "The 2023 financial year has seen Precinct successfully advance a number of transactions which has further reinforced the quality of our business and the leading position we hold in the markets that we operate in. This has included establishing and growing our capital partnerships, sourcing new development opportunities, being selected as the preferred development partner for the Downtown Car Park site in Auckland and entering the multi-unit residential development market. In addition, we received both Shareholder and Board approvals to move to a stapled company structure earlier this year, demonstrating the support for Precinct to continue to execute its long-term strategy."

"Our core portfolio continues to perform well with occupancy at 99% and the evident rental growth our assets are achieving. As a business, we continue to leverage our learnings over the past several years. We are focused on ensuring that the spaces we create have a lasting impact on our society, communities and how people interact."

Precinct

Operational performance

Precinct's operating performance has delivered a strong year end result with a high overall portfolio occupancy of 99% and a WALT of 6.0 years recorded as at 30 June 2023.

Strong leasing momentum during the last 12 months and rental growth achieved has underpinned the 9.3% uplift in rental revenue during the period with a total of 66 leasing transactions completed across 53,123 square metres of space. Notably, rentals achieved on new office leases were on average 10.4% higher than valuation rents at 30 June 2022.

Including structured rent reviews, Precinct completed a total of 151,342 square metres of reviews at a 5.1% premium to previous contract rental. There were 26,381 square metres of market rent reviews which were settled at a 7.0% premium to 30 June 2022 valuation rentals.

At 30 June 2023 Precinct's portfolio is under-rented by 10.6% (June 2022: 6.3% under-rented).

While property valuations have been impacted by expanding capitalisation rates, demand for Precinct's assets has led to the portfolio benefiting from strong market rental growth being achieved across our leasing transactions. This has partially offset the impact of the capitalisation rate expansion on our asset valuations during the period.

Pleasingly, the Generator business delivered a record annual performance during FY23 with occupancy across the portfolio averaging 74% during the period (FY22: 77%). Strong demand for co-working and events has led to Generators record performance with the events business revenue and ancillary revenue increasing by 142% and 130%, respectively compared to FY22. We continue to see high levels of daily attendance on site aligning with the increasing trend of working from the office and a number of large corporate and global companies also taking office space at our Generator sites.

During the period the Generator business launched a new events space in Wynyard Quarter, opened a new site at 40 Bowen Street in Wellington and committed to opening a further mixed-use site at the Wynyard Quarter Stage 3 project, which is scheduled to open in 2025.

Development update

In Wellington, works have started at the development of the new 24,000 square metre project at 61 Molesworth Street in Wellington and continue to progress well during the period.

Following the completion of 40 Bowen Street at Bowen Campus in the period, 44 Bowen Street completed post balance date with both buildings sold to a capital partnership with PAG. Precinct is the investment manager of the joint investment partnership and holds a 20% ownership interest.

Post balance date, Willis Lane officially opened in July 2023 with over 40,000 visitors going through in the opening week.

In Auckland, excavation is now complete and structural steel erection underway at Wynyard Quarter Stage 3 and completion remains on track for 2025. A 12-year lease was secured from Beca at Wynyard Quarter Stage 3 over 14,000 square metres which, together with Generator's commitment to over 1,800 square metres, increases pre-commitment to 74% and enabled the commitment to 117 Pakenham Street during the period. This has been a pleasing result for the development project. On completion of Wynyard Quarter Stage 3, Precinct will continue to manage the properties under the terms of an investment management agreement with GIC and has a 24.9% ownership interest in the Limited Partnership.

Deloitte Centre at One Queen Street continues to advance construction with the project on schedule to complete later this year. The project is currently 92% pre-committed.

Precinct NZ considers subordinated convertible notes offer

Announcing today, Precinct Properties New Zealand Limited (**Precinct NZ**) is considering making an offer between $150-$200 million in aggregate across two series of subordinated convertible notes (the **2026 Notes** and the **2027 Notes**, and together the **Notes**), convertible into ordinary shares of Precinct NZ (subject to a cash election, described in further detail below).

If Precinct NZ issues shares on conversion, Precinct Properties Investments Limited (**Precinct Investments**) must issue a corresponding number of fully paid ordinary shares for no consideration. The Precinct NZ shares and Precinct Investments shares will be stapled under the Stapling Deed (**Stapled Shares**).

For each series of Notes, the offer consists of a shareholder priority offer open to eligible New Zealand resident retail shareholders, as well as a general offer to investors resident in New Zealand and certain overseas institutional investors. The Notes are expected to be quoted on the NZX Debt Market.

Precinct NZ continues to focus on an active capital management strategy. The proceeds of the offer (net of issue costs) will be used to repay existing bank debt and for general corporate purposes and is expected to reduce Precinct NZ's gearing, as measured under its borrower covenant, which disregards subordinated debt. This places Precinct NZ's balance sheet in a strong position to enable the business to execute on strategy and future opportunities while also diversifying its funding sources.

On the relevant conversion date, all outstanding Notes in a series will convert and Stapled Shares will be issued, subject to the cash election. The number of Stapled Shares to be issued following conversion of each holding of Notes will be determined by dividing their principal amount ($1.00 per Note) (together with any unpaid interest (including any interest thereon)) by the conversion price, which is the lesser of:

1. a conversion price cap (the "**Conversion Price Cap**") (which is yet to be set); and
2. the 20-day volume weighted average price ("**Market Price**").

Rather than converting a series of Notes, Precinct NZ may elect to instead pay a cash amount to noteholders at the end of the relevant term. In this case, noteholders would be paid an amount equal to the Market Price (as described above) of all the Stapled Shares that would have otherwise been issued to them following conversion of their Notes, so that they receive an equivalent value to those Stapled Shares (as determined under the terms of the Notes) and will similarly benefit from any appreciation of the Stapled Shares price above the relevant Conversion Price Cap prior to the conversion date.

It is expected that full details of the offer will be released in early September, when the offer is expected to open.

Precinct NZ has appointed Jarden Securities Limited (**Jarden**) as Arranger and Craigs Investment Partners Limited, Forsyth Barr Limited and Jarden as Joint Lead Managers for the proposed offer. Investors can register their interest in the offer by contacting the Lead Arranger, Joint Lead Managers, or their usual financial advisor. Indications of interest will not constitute an obligation or commitment of any kind. No money is currently being sought and applications for the Notes cannot currently be made. If Precinct NZ offers the Notes, the offer will be made in accordance with the Financial Markets Conduct Act 2013.

Dividend payment

Precinct shareholders will receive a fourth-quarter dividend of 1.675 cps. Due to Precinct's current tax position, there are no imputation credits to attach for the quarter and therefore no supplementary dividend to be paid (see note 2). The record date is 8 September 2023 and payment will be made on 22 September 2023.

Outlook and guidance

The quality of our real estate is enabling our business to grow. The transactions we have secured, advanced and completed during the period reinforces this and moreover, have strengthened Precinct's business and position in both Auckland and Wellington.

There remains considerable uncertainty in regards to the New Zealand and global economy. Higher inflation and rising interest costs will place further pressure on valuations. Despite these concerns, the prime grade office occupier market remains strong with workers now back to the office and businesses seeking higher quality premises.

Precinct's active approach to asset management and capital management, as well as its focus on capital partnerships is expected to support its AFFO forecast.

The Board expects Precinct's dividend for the 2024 financial year to be 6.75 cps in total cash dividends to be paid to shareholders.

Further information can be found within the 2023 Annual Report and results presentation. You can find this at: https://www.precinct.co.nz/annual-reporting/2023-annual-results.

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About Precinct

Listed on the NZX Main Board under the ticker code PCT and ranked in the NZX top 20, Precinct is the largest owner, manager and developer of premium inner-city real estate in Auckland and Wellington. Precinct is predominantly invested in office buildings and also includes investment in Generator, Commercial Bay retail, third party capital partnerships, and a multi-unit residential development business. For information visit: www.precinct.co.nz

On 1 July 2023, Precinct effected a restructuring to create a stapled group structure. A stapled group comprises two listed parent companies whose shares are held by the same shareholders in equal proportions. The shares in each parent company can only be transferred or dealt with together.

Shareholders in Precinct Properties Group ("**Precinct**") hold an equal number of shares in Precinct NZ and Precinct Investments Limited and these shares can only be dealt with together. The stapled issuers are described as "Precinct Properties NZ Ltd & Precinct Properties Investments Ltd (NS)" on NZX systems and the ticker code for the stapled shares remains PCT.

Note 1

AFFO is a non-GAAP financial measure that shows the organisation's underlying and recurring earnings from its operations and is considered industry best practice for a REIT. This is determined by adjusting statutory net profit (under IFRS) for certain non-cash and other items. AFFO has been determined based on guidelines established by the Property Council of Australia and is intended as a supplementary measure of operating performance.

Reconciliation of adjusted funds from operations

(Amounts in $ millions)	2023	2022
Operating income before indirect expenses	**141.0**	129.4
Management fee income[1]	**5.4**	-
Indirect expenses	**(44.3)**	(34.1)
Operating income before income tax	**102.1**	**95.3**
Current tax expense	**5.2**	7.0
Operating profit after tax	**107.3**	**102.3**
Non operating income / (expenses)	**(266.8)**	34.0
Deferred tax and depreciation recovered on sale	**6.4**	(26.3)
Net profit / (loss) after taxation attributable to equity holders	**(153.1)**	**110.0**
Operating profit after tax adjusted for		
IFRS 16 rent expense	**(8.9)**	(7.6)
Share of (loss)/profit in equity-accounted investments	**(2.0)**	
Unrealised (gains)/losses on JV - Property Revaluations	**3.2**	-
Tax on revenue account property sales	**0.5**	-
One-off project costs	**0.8**	0.7
Share-based payments scheme	**1.4**	1.2
Amortisations	**13.7**	14.7
Straightline rents	**(2.0)**	(3.8)
FFO	**114.0**	**107.5**
Maintenance capex	**(3.3)**	(2.3)
Incentives and leasing costs	**(4.6)**	(3.7)
AFFO	**106.1**	**101.5**

Note: AFFO is an alternative performance measure which adjust net profit after tax for a number of cash and non-cash items as detailed in the reconciliation above. Precinct has transitioned to a dividend policy based on AFFO. AFFO is an alternative performance measure provided to assist investors in assessing Precinct's performance for the year.

1 Management fee income is fees generated through the provision of investment and development management services to other entities.

This additional performance measure is provided to assist shareholders in assessing their returns for the period.

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).

Note 3

All portfolio metrics are as at 30 June 2023 and reflect Precinct's direct ownership in assets and exclude PPILP and BILP assets, unless otherwise stated.