

# ASX Announcement

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2 May 2023

## **Sustained retail sector resilience and operational execution underpins strong 3Q FY23; cautious outlook maintained for 4Q FY23 and into FY24**

Vicinity Centres ('Vicinity', ASX:VCX) today announced its quarterly update for the three months ended 31 March 2023 ('3Q FY23').

### **Key highlights**

- Strong operating metrics delivered in 3Q FY23, supported by continued retail sales growth and operational execution
- Portfolio retail sales up 13% relative to 3Q FY22 as retailer confidence and retail sales growth remained resilient; expected to moderate in 4Q FY23 driven by higher cost of living including increased interest rates
- Positive leasing spreads driven by retail sales growth and strong tenant demand
- In excess of \$300m of retail and mixed-use development underway<sup>1</sup>; Chadstone's 'The Social Quarter' performance exceeding expectations and Hub Local opened at Box Hill Central
- Vicinity Board and JV partner approval for \$150m<sup>2</sup> redevelopment at Galleria; emphasis on dining and entertainment offerings
- Sustained retail sector resilience underpinned stronger than expected percentage rent and ancillary income in the quarter
- As part of its interim FY23 ('1H FY23') results announcement on 15 February 2023, Vicinity guided FY23 FFO and AFFO per security to be in the ranges of 14.0 – 14.6 cents and 11.8 – 12.4 cents, respectively<sup>3</sup>. Vicinity now expects FY23 FFO and AFFO to be around the top end of the guidance ranges<sup>4</sup>
- Vicinity is targeting a full-year distribution payout at the lower end of Vicinity's target range of 95-100% of AFFO

CEO and Managing Director, Mr Peter Huddle commented, "Building on Vicinity's strong first half result, we have delivered another quarter of positive operating metrics, supported by continued retail sales growth and strong operational execution.

"While retailer confidence and retail sales growth remained robust during the quarter, our outlook for 4Q FY23 and into FY24 remains cautious due to the ongoing escalation of household living costs and the potential

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<sup>1</sup> Vicinity share.

<sup>2</sup> Total project cost. Vicinity share: \$75 million.

<sup>3</sup> Inclusive of the \$25.1 million reversal of prior year waivers and provisions recognised in 1H FY23.

<sup>4</sup> Vicinity's guidance assumes no material changes in existing economic conditions and no further reversals of prior year waivers and provisions in 2H FY23.

### **Vicinity Centres**

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for consumption to soften. That said, the strong operating and financial performance delivered in the financial year to date enabled us to guide to around the top end of our FY23 earnings guidance range.

“With a flexible balance sheet and strong credit metrics, Vicinity remains well positioned to navigate market uncertainty and at the same time, invest in its growth agenda. Furthermore, in an increasingly capital constrained environment, we are prioritising long term growth and value accretion and judiciously deploying capital accordingly.”

### **Portfolio performance<sup>5</sup>**

Vicinity maintained its disciplined approach to writing quality, long-term leasing deals that lock in future rent growth and reflect the underlying value of Vicinity’s assets.

During 3Q FY23, Vicinity completed 249 comparable<sup>6</sup> leasing deals representing a significant improvement on last year (3Q FY22: 198 deals).

Representing the seventh consecutive quarter of improvement, leasing spreads for the nine months ended 31 March 2023 were positive at +0.3% (1H FY23: -0.1%). Consistent with 1H FY23, improved leasing spreads reflect continued retail sales growth and strong demand for space at Vicinity’s premium centres, notably Chadstone and the Outlet portfolio.

Collection of gross rental billings in respect to 3Q FY23<sup>7</sup> was 96%, largely in line with the collection rate reported over 1H FY23. While rent collection from National and Majors tenants remains at pre-pandemic levels, collection of SME debt is ongoing, particularly from SME tenants located in CBD centres.

Customer visitation across Vicinity’s total portfolio continued to improve, with almost 16 million more visits in 3Q FY23 versus 3Q FY22 (noting that 3Q FY22 was COVID-impacted due to the outbreak of Omicron) and represented approximately 88% of 2019 levels. Excluding CBDs, visitation during the quarter was 93% of 2019 levels.

Vicinity’s CBD assets continue to gain momentum as improved weekday visitation supported a 52% increase in the number of visits in 3Q FY23 compared with 3Q FY22. Similarly, weekend visitation across Vicinity’s CBD assets in 3Q FY23 was 35% higher than 3Q FY22 as day-trippers continue to frequent CBD centres and international tourism recovers (now 70% of pre-pandemic levels<sup>8</sup>).

### **Retail sales**

Portfolio retail sales in 3Q FY23 were up 13% on the prior year<sup>9</sup>, again noting that 3Q FY22 was impacted by the outbreak of Omicron which peaked in early February 2022.

Mr Huddle commented, “The Australian retail sector has once again demonstrated its resilience in the face of rising household costs and heightening near-term macroeconomic uncertainty. Our premium centres

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<sup>5</sup> Unless otherwise stated, retail sales, visitation and cash collection outcomes are compared to the prior corresponding period in 2022.

<sup>6</sup> Total deals (including non-static leasing deals relating to development deals, reconfigurations, and managed assets) was 363 for the quarter (3Q FY22: 333 deals).

<sup>7</sup> As at 31 March 2023.

<sup>8</sup> Overseas arrivals for February 2023 compared to February 2019.

<sup>9</sup> Sales are reported on a comparable basis, which excludes divestments and development-impacted centres in accordance with Shopping Centre Council of Australia (SCCA) guidelines. Also excludes travel sales.

delivered 20.3% growth and our core centres remained resilient, with 8.4% growth, indicating the continued strength of both discretionary and non-discretionary demand.

“It was particularly encouraging to see the positive momentum in CBD visitations during the quarter, which underpinned a 37.2% uplift in CBD sales and in fact, our CBD portfolio was a key contributor to our overall portfolio sales performance.”

All retail segments performed strongly in 3Q FY23 relative to 3Q FY22, with Majors up 8.3%, Mini Majors up 14.7% and Specialties up 17.7%. Excluding the continued outperformance of Luxury, Specialties delivered 17.2% growth relative to the prior year, with the majority of retail specialty categories delivering double-digit growth.

This was particularly strong for Cafes and Restaurants in Vicinity’s portfolio, up 29.3% in 3Q FY23, noting the absence of vaccination mandates in certain states that were in place in 3Q FY22. Apparel & Footwear sales (excluding Luxury) increased 18.9% relative to 3Q FY22, largely driven by the CBD recovery and continued outperformance of Vicinity’s Outlet portfolio.

Additional sales information can be found in the Appendix.

### **Development**

Vicinity has delivered a number of its development milestones during the quarter, completing multiple retail and mixed-use projects, and commencing construction of its first fully integrated retail and mixed-use project at Chadstone.

Delivering an elevated entertainment and dining precinct to Chadstone, ‘The Social Quarter’ opened in March 2023 and includes 17 entertainment and dining tenants across 10,350 sqm of new gross lettable area (‘GLA’). The precinct brings a new leisure-orientated customer to Chadstone, extending the centre’s evening trade, particularly on weekends, and has also enhanced the visitation and sales performance of nearby food and entertainment tenancies.

Also at Chadstone, refurbishment, and expansion of Chadstone Place, an 8,000 sqm office tower has been completed ahead of Officeworks’ planned relocation of its head office in May. Works have also commenced on a fully-integrated mixed use development at Chadstone, including a new office tower, One Middle Road, and a new fresh food precinct, which includes a European style market hall and alfresco dining.

Development of a four-level office podium in the south precinct of Box Hill Central, was completed during the quarter, and Hub Australia launched its first suburban offering, Hub Local, delivering co-working spaces across the 4,000 sqm of GLA.

At Chatswood Chase in Sydney, tenant de-fit works are underway for the revitalisation and upgrade of the centre’s ground floor fresh food and casual dining precinct which is expected to be completed by March 2024. At the same time, Vicinity continues to progress its plans for the major redevelopment of the upper levels of the centre.

## Guidance

As part of its 1H FY23 results announcement on 15 February 2023, Vicinity guided FY23 FFO and AFFO per security to be in the ranges of 14.0 – 14.6 cents and 11.8 – 12.4 cents, respectively<sup>10</sup>. Vicinity now expects FY23 FFO and AFFO to be around the top end of the guidance ranges<sup>11</sup>.

Vicinity is targeting a full-year distribution payout at the lower end of Vicinity's target range of 95-100% of AFFO.

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## Authorisation

Vicinity's Board authorised this document to be lodged with the ASX.

**ENDS**

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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 asset management platform, and \$24 billion in retail assets under management across 60 shopping centres, making it the second largest listed manager of Australian retail property. The Group has a Direct Portfolio with interests in 59 shopping centres (including the DFO Brisbane business) and manages 29 assets on behalf of Strategic Partners, 28 of which are co-owned by the Group. Vicinity is listed on the Australian Securities Exchange (ASX) under the code 'VCX' and has 25,000 securityholders. Vicinity also has European medium term notes listed on the ASX under the code 'VCD'. For more information visit [vicinity.com.au](http://vicinity.com.au) or use your smartphone to scan this QR code.

<sup>10</sup> Inclusive of the \$25.1 million reversal of prior year waivers and provisions recognised in 1H FY23.

<sup>11</sup> Vicinity's guidance assumes no material changes in existing economic conditions and no further reversals of prior year waivers and provisions in 2H FY23.

## **Appendix – Portfolio sales**

Portfolio sales <sup>a</sup>	Mth vs prior year			Qtr vs prior year	2mths vs 2021
	Mar-23 %	Feb-23 %	Jan-23 %	Mar-23 %	Nov/Dec-22 %
Specialty stores	10.6	13.7	29.3	17.7	10.1
Mini majors	11.3	12.4	20.7	14.7	12.6
<b>Specialties and mini majors</b>	<b>10.9</b>	<b>13.3</b>	<b>26.7</b>	<b>16.8</b>	<b>10.9</b>
Supermarkets	6.2	8.4	3.7	6.2	6.3
Discount department stores	6.7	10.9	19.8	12.2	6.8
Other retail <sup>b</sup>	2.8	(2.1)	8.1	3.0	0.6
Department stores	4.3	9.2	35.1	14.7	4.2
<b>Total portfolio</b>	<b>8.8</b>	<b>10.8</b>	<b>19.6</b>	<b>13.0</b>	<b>8.8</b>
<b>Total portfolio (ex-CBDs)</b>	<b>7.5</b>	<b>8.8</b>	<b>16.9</b>	<b>11.0</b>	<b>7.5</b>
VIC	9.2	10.1	23.8	14.1	6.4
NSW	8.7	12.9	25.8	15.4	16.6
– NSW (ex-CBDs)	3.0	5.1	16.6	8.0	11.3
QLD	5.2	12.8	23.9	13.7	14.9
WA	12.4	12.3	4.9	9.7	5.5
SA	8.2	6.8	14.7	9.8	8.3
TAS	1.4	1.1	7.1	3.1	(0.7)

a. Sales are reported on a comparable basis, which excludes divestments and development-impacted centres in accordance with SCCA guidelines. Also excludes travel sales.

b. Other retail includes cinemas, auto accessories, lotteries, and other entertainment.