

NZX announcement – 29 July 2016

## Precinct secures major government leasing

**Precinct Properties New Zealand Limited (Precinct) (NZX: PCT)** is very pleased to announce the successful conclusion of the Government's Wellington Accommodation Project and the resultant commitment by the Crown to long term leases at Bowen Campus, Pastoral House, Mayfair House and 3 The Terrace, as well as an extension to the existing lease at 1 The Terrace.

The commitment by the Crown will see Precinct develop Bowen Campus and undertake significant refurbishment works at the remaining assets. The commitment secures 68,000 sqm<sup>1</sup> of office space leased on a weighted average lease term (WALT) of 14.6 years.

Across all buildings Precinct will make a total additional investment of around \$213 million with a total project cost (including ingoing asset value based on 30 June 2015 valuations) of \$380 million. On completion, the buildings will generate a blended yield on cost of 7.0%.

Across Bowen Campus, Pastoral House and Mayfair House the Crown have committed to 15 year leases with varying commencement dates while the lease term at 3 The Terrace is for a 12 year period. All leases have a structured lease review profile.

Precinct CEO Scott Pritchard said the commitment by the Crown concludes a comprehensive and rigorous process which has required the Crown to relocate a number of different Government Agencies. Importantly for Precinct, the outcome will lift the WALT of the Wellington portfolio by 6 years to 9.5 years as at 30 June 2016. Precinct's portfolio WALT improves by 3 years to 7.4 years.

"This is the largest leasing transaction ever undertaken by Precinct, and potentially in the New Zealand office market and represents the successful conclusion of 3 years of complex negotiations. We are confident that the very substantial investment we are making will result in significant benefits for Precinct and the Crown through re-purposing existing Crown

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<sup>1</sup> Area and WALT of 14.6 years excludes the 1 The Terrace lease extension from 2017 to mid 2019

occupied buildings to deliver modern, highly efficient and cost effective public sector workspace. The long term leases represent some half a billion dollars in income over the lease terms and provides material earnings security for Precinct, while significantly strengthening our portfolio quality in line with our long term strategy."

Bowen Campus, Precinct's most significant development opportunity in Wellington, will undergo a significant redevelopment which will see the existing area, excluding the annex building, increase from 26,100sqm to 38,400sqm. This increase in floor area is primarily due to an expansion of the Bowen State building from 14,100sqm to 23,000sqm as well as additional floor area gained from a new facade installed at Charles Ferguson Tower and additional retail amenity. The scope of works for the Bowen Campus buildings include:

1. Demolition of existing facade, removal of all plant/equipment and demolition of existing fit out
2. Strip back to existing concrete structure and completion of seismic strengthening to 100% NBS
3. Extension of the floor plate over levels 1-6 at Bowen State building
4. Installation of new curtain wall glass facade
5. Installation of new mechanical services including chilled beam and Fan Coil unit systems
6. Installation of new lifting systems throughout each building
7. Installation of new 'on floor' base building fit out including floor coverings, bathrooms, ceiling grid and tiles, kitchen facilities and wall finishes.

Precinct has today agreed a construction contract with LT McGuinness who will be completing the construction of the works at Bowen Campus. The contract is a fixed price lump sum contract providing suitable certainty to Precinct regarding cost for the project.

At Bowen Campus the Crown have committed to 32,400sqm of office space (87% office pre-commitment) and have an option to take the remaining three floors at Bowen State representing around 4,700sqm. Importantly, future development potential is retained over the balance of the Bowen Campus site with 4,000sqm of land remaining available for future

development. This land could support up to a further 25,000sqm of additional office development in the future.

The Bowen Campus project is expected to have a total cost of \$203 million and to generate a yield on cost of 7.5% when fully leased.

Works at Bowen Campus will commence in November 2016 at the expiry of the existing lease to the Ministry of Social Development. The project is expected to reach practical completion in early 2019.

Pritchard said "Bowen Campus has been an outstanding investment for the Precinct portfolio. Purchased in June 2012 for \$50.4 million, by the time works commence in November Precinct would have received \$27 million in income (12% p.a.). Now the business will create two premium grade assets immediately adjacent to Parliament underpinned by long term leases to the Crown with further development potential in the future".

Pastoral House will be vacated in March 2017 for works to take place over a 12-month period. These works include the complete refurbishment of all base building plant and equipment in addition to major upgrades of all interior aspects of the building. Pastoral House currently has a 67% NBS rating which will improve to 80% NBS following seismic strengthening works.

Mayfair House and 3 The Terrace will each undergo their respective works in the 2018 calendar year and will be undertaken upon decant of the existing occupiers and vacant possession of the buildings. The scope of works is consistent with Pastoral House noting that neither of these buildings require seismic strengthening. It is anticipated that the works at Mayfair House and 3 The Terrace (and consequential lease commencement) will be completed in mid 2019. The forecast total incremental spend for Pastoral House, Mayfair House and 3 The Terrace is \$55 million.

At Pastoral House, Mayfair House and 3 The Terrace the Crown has committed to lease 100% of the available space on completion of the works. The current lease for No.1 The Terrace (tower portion comprising 7,400 sqm) will be extended through to mid 2019 and this remains under consideration by the Crown for long term lease.

The projects will be funded through existing bank facilities and will take committed gearing to around 39%. The transaction underpins delivery of the longer term earnings pathway previously disclosed to the market.

Pritchard concluded " The Government WAP 2 process has resulted in an outstanding outcome for both the Crown and for Precinct. Precinct has obtained long term leases across almost 70,000sqm of space throughout its Wellington portfolio while the Crown will benefit from premium quality assets with below market rental levels. Precinct and the Crown have agreed a 'bulk offer discount' of 5% to market rental levels reflecting the high quality covenant the Crown provides and the scale of the leasing transaction. These rental levels (reflected in the yields outlined above), provide the Crown with a competitive total occupation cost in addition to having a long term professional owner".

Ends

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### **About Precinct (PCT)**

Precinct is New Zealand's only listed CBD specialist investing predominately in premium and A-grade commercial office property. Listed on the NZX Main Board, PCT currently owns 13 New Zealand buildings – Auckland's PwC Tower, AMP Centre, ANZ Centre, Zurich House, HSBC House and Commercial Bay (Downtown Shopping Centre); and Wellington's State Insurance Building, 157 Lambton Quay, No. 1 and No. 3 The Terrace, Pastoral House, Mayfair House, Deloitte House and Bowen Campus.