

NZX and media announcement - 20 August 2013

Precinct reports annual profit of \$157.5 million and announces 5% increase in dividend

Performance summary for the twelve months to 30 June 2013

13.6% rise in net operating income¹ and 12% rise in net tangible assets (NTA) per share

- Net profit after tax of \$157.5 million (2012: \$45.1 million)
- Net operating income¹ of \$58.3 million (2012: \$51.3 million) or 5.85 cents per share (cps) (2012: 5.14 cps)
- FY13 full year dividend of 5.12 cps (2012: 5.04 cps), forecast to increase by 5% to 5.4 cps for FY14
- Property portfolio revaluation gain of \$46.3 million (2012: \$5.5 million) to a total value of approximately \$1.64 billion (2012: \$1.33 billion)
- A non-operating deferred tax gain of \$39.7 million impacted by a change in estimate of provision for depreciation claw-back
- Net tangible assets per share rise to 99 cps (2012: 88 cps), an increase of 12%

Portfolio occupancy of 97%, strategic acquisitions and operational gains

- Acquisition of Downtown Shopping Centre and HSBC House for \$193 million consolidating two hectares of land and buildings on Auckland's waterfront
- Entered negotiations with Auckland Council on coordinating works at the Downtown Shopping Centre with construction of the City Rail Link tunnel
- ANZ Centre awarded the 2013 Rider Levett Bucknall Property Council Supreme Award
- Leased 35,000 square metres with continued progress in Auckland and significant leasing success in Wellington
- Portfolio occupancy of 97% (2012: 94%) with a weighted average lease term of 5.7 years (2012: 5.9 years)
- FY14 insurance costs reviewed and reduced by around 12%

Capital management savings

- Negotiated a new \$660 million secured bank debt facility, replacing an unsecured facility, delivering material savings and increasing the weighted average term to expiry from three to four years.

¹ Net operating income is an alternative performance measure which adjusts net profit after tax for a number of non-cash items as detailed 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.

Head Office

Wellington Office

Precinct Properties New Zealand Limited (Precinct) (NZX: PCT) reported its financial results for the 12 months to 30 June 2013 today, recording a net profit after tax of \$157.5 million, an increase of \$112.4 million on the previous year.

Scott Pritchard, Precinct's CEO, said it had been a very good year when the company's strong financial results were matched by operational gains and successfully completed strategic acquisitions. "To achieve a strong result at this stage in the cycle is very pleasing. At 97%, occupancy is at a four-year high. And we are very pleased to have now secured such substantial holdings right on Auckland's waterfront, which offers exciting opportunities for Precinct and for developing the true potential of this whole area.

"The previous three years were a time of steady consolidation and growth. But over the last 12 months Precinct has moved to execute its strategy and achieve a new level of growth," he said.

Leasing success in Wellington had been particularly pleasing, achieving a 50% reduction in vacancies in the city since January with significant new leasing at the State Insurance Tower and 80 The Terrace.

Acquisitions also contributed to a 16% increase in rental income of \$147.7 million.

The highlight of the year was the two side-by-side acquisitions in downtown Auckland, which means that Precinct now owns almost two hectares of land and buildings on Auckland's waterfront.

The company's focus remained on quality office space, but the ability to combine this with a new level of retail experience in Auckland within a much more attractive overall precinct on the waterfront would bring the company's offering to clients to a new level.

Precinct has also entered negotiations with Auckland Council with a view to coordinating the timing of works at the Downtown Shopping Centre with the building of a tunnel at the site for the City Rail Link.

Scott Pritchard, Precinct's CEO, also commented that the earthquake activity in Wellington has been a reminder of the importance of structural integrity for clients. "We have recently completed a comprehensive programme of assessment and as a consequence have a high degree of assurance as to the seismic performance of the portfolio," he said.

RESULT OVERVIEW

Leasing success, a more optimal level of gearing, a deferred tax benefit and a strong revaluation gain led to an increase in net profit after tax to \$157.5 million (2012: \$45.1 million).

The acquisition of Bowen Campus in June 2012 and the Downtown Shopping Centre in October 2012 contributed to a 16% increase in rental income to \$147.7 million (2012: \$127.3 million).

Allowing for these transactions and the ANZ Centre redevelopment, like-for-like income was 3.2% higher than in the previous year due to higher occupancy.

Property expenses were \$43.7 million, 20% higher than the previous period. Once these were adjusted for recent acquisitions, however, the increase was 3.5% compared to 2012. This increase was primarily a result of non-recoverable expenses associated with the No.1 The Terrace rent review and higher insurance costs.

Interest expense increased \$7.2 million to \$28.2 million, reflecting higher debt levels following the purchase of Bowen Campus and Downtown Shopping Centre.

Precinct recorded a 16.3% total return for the year to 30 June 2013. This exceeded the benchmark New Zealand listed property sector return (excluding Precinct) of 15.8%, with approximately two-thirds of the maximum performance fee being paid in line with the agreed process for recognising outperformance of the market.

Overall indirect expenses increased by around 10% reflecting an enlarged portfolio.

Tax expense was \$4.9 million (2012: \$7.2 million) reflecting higher pre-tax profit and a lower level of deductible leasing costs, offset by a higher level of depreciation associated with acquisitions. The disposal of depreciable assets associated with the ANZ Centre redevelopment delivered a reduction in tax expense of \$2.4 million.

The fair value gain in interest rate swaps of \$13.2 million compared to a loss of \$5.1 million the previous year. The positive movement reflected an increase in market interest rates since 30 June 2012 and an unwinding of interest rate swap positions.

Precinct has adopted a revised approach to determining the provision for deferred tax. The revised methodology reflects that the market value of fixtures and fittings will on average be equal to their tax book value. This has resulted in a reduction in the liability to \$40.3 million as at 30 June 2013 (2012: \$83.7 million).

Auckland valuations increased by around 6%. This gain reflected an improving investment market, leasing success and higher rentals. Wellington valuations were stable, due to supportive sales evidence and steady market rents.

Excluding the ANZ Centre, Downtown Shopping Centre and HSBC House, the portfolio weighted average (by income) capitalisation rate has compressed from 8.0% a year earlier to 7.7%.

Collectively, the revaluation, redevelopment of ANZ Centre, and the acquisitions of Downtown Shopping Centre and HSBC House increased the value of Precinct's portfolio to around \$1.64 billion (2012: \$1.33 billion).

Precinct's NTA per share at balance date was 99 cents per share, compared with 88 cents per share as last reported. The increase in NTA is due to the revaluation gain, the reduction in deferred tax liability, the fair value gain in interest rate swaps and Precinct's policy of retaining earnings.

ACQUISITIONS AND SALES PROGRAMME

The acquisition of the Downtown Shopping Centre for \$90 million and HSBC House for \$103 million was consistent with Precinct's strategy of securing quality space where it can also add value and, in Auckland, a focus on properties in the downtown waterfront area.

As the company advances this strategy it will now look to recycle out of non-core assets with the proceeds matched to development opportunities.

CAPITAL MANAGEMENT

Following the two Auckland acquisitions and the ANZ Centre redevelopment, bank borrowings increased to \$603 million (2012: \$347 million). Gearing rose to 37.3%. This compares with 27% a year earlier. It remains well within Precinct's banking covenant of 50%.

Precinct's existing bank debt facilities were amended twice during the period to accommodate the additional drawings required for the new acquisitions. The final restructured \$660 million secured bank debt facility comprises three tranches expiring in July 2016, July 2017 and July 2018, increasing the weighted average term to expiry to four years (2012: 3.2 years).

Precinct has been able to negotiate reduced borrowing margins by providing mortgage security over selected properties.

Of Precinct's drawn bank debt, 57% (2012: 63%) was effectively hedged through the use of interest rate swaps. This now results in a weighted average interest rate, including all fees of 5.6% (2012: 6.8%).

PORTFOLIO PERFORMANCE

Continued momentum in Auckland and renewed success in Wellington saw 27,500 square metres of new leasing, lifting occupancy to 97% (2012: 94%). This is the highest it has been in four years. Through this leasing, Precinct has attracted twenty one new clients across 12,300 square metres.

Planned departures from 80 The Terrace in Wellington had resulted in portfolio occupancy falling to 93% in January. Since then around 9,000 square metres of space was let in Wellington and this significant leasing success means Precinct now has a much-reduced total of around 6,300 square metres currently available in the Capital.

Other leasing highlights included:

- Securing Chorus for over 4,000 square metres at Wellington's State Insurance Tower
- Leasing 6,000 square metres at 80 The Terrace (formally AXA Centre)
- ANZ Bank committing to around 4,000 square metres at 171 Featherston Street in Wellington

In total 35,000 square metres and 60 leasing transactions were secured in the period on a weighted average lease term (WALT) of 6.0 years, helping maintain a secure income stream as demonstrated by a portfolio WALT of 5.7 years.

Leasing transactions in the Auckland portfolio were let at a 2% premium to valuations, with Wellington's at a 1% premium.

Post-balance date, accounting firm Crowe Horwath (formally WHK) committed to the top floor of PWC Tower on a nine-year term, taking PWC Tower occupancy to 97%. With this success, Precinct now has no material vacancies (by income) in the Auckland portfolio.

In the period, Precinct settled 28,500 square metres of market rent reviews at a 2% premium to valuation and an additional 23,200 square metres of structured reviews. Across the 51,700 square metres of rent reviews, we saw a reduction in passing rents of around 2%.

Over-renting, which peaked in 2011 at 7%, fell to 1.8% (2012: 3%) and the portfolio is now in a solid position to capture market rental growth.

Pleasingly, existing clients including AMP, Bell Gully, Vero and the New Zealand Fire Service, have committed to new leases, extensions or expansion within the portfolio.

SEISMIC UPDATE

Precinct has now completed a comprehensive programme of assessment of the seismic strength of its portfolio. Consequently, it has a high degree of assurance as to the seismic performance of the portfolio and improvement works that will be undertaken. The total cost of seismic works remains unchanged and is expected to range between \$15 and \$25 million over a 5-8 year period.

Outside the period, the recent earthquake activity in Wellington has been a reminder of the importance of structural integrity for clients. Clients are usually looking for low risk buildings which have a score higher than 67% of New Build Standard (NBS). Rather than reliance only on the higher level IEP (Initial Evaluation Procedure) assessments, additional detailed computer modelling and analysis has also been undertaken where necessary to confirm that 85% of Precinct's buildings by market value score greater than 67% NBS.

Precinct renewed its insurance during the period with premiums reducing by around 12% and on more comprehensive terms. Precinct has a flat deductible for seismic events of \$30m for Wellington and \$20m for Auckland.

OFFICE MARKET UPDATE

Colliers latest vacancy survey, effective June 2013, shows that the overall Auckland Prime (includes both Premium and A-Grade) CBD office vacancy rate has decreased to 5.8% (June 2012: 8.4%).

The tightening in supply, lack of new developments on the horizon and strong occupier demand for quality space continues to see most research houses forecasting a good level of market rental growth along with expectations of growth in the Auckland economy.

Vacancy in Wellington 'A' grade office space has decreased. According to Colliers CBD 'A' Grade vacancy fell to 3.7% in June 2013 (June 12: 4.6%).

DIVIDEND PAYMENT

Precinct shareholders will receive a fourth-quarter dividend of 1.28 cents per share, with no imputation credits or supplementary dividend. The record date is 4 September 2013. Payment will be made on 19 September 2013.

EARNINGS AND OUTLOOK

The Board expects full year earnings for the 2014 financial year of approximately 6.2 cps (before performance fees) or 6.0 cps (assuming 50% of the maximum performance fee is payable).

Precinct expects to pay a dividend of 5.4 cps for the 2014 financial year, consistent with the 90% payout dividend policy.

While committed occupancy was 97% at 30 June 2013, income generating occupancy was 93% providing potential for future earnings growth. In the medium term, we expect market rental growth in Auckland to increase due to falling vacancy and incentive levels. In Wellington, we expect moderate rental growth due to clients focusing on seismic performance.

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About Precinct (PCT)

Precinct is New Zealand's only specialist listed investor in prime and A-grade commercial office property. Listed on the New Zealand Exchange, PCT currently owns 17 New Zealand buildings – Auckland's PricewaterhouseCoopers Tower, ANZ Centre, SAP Tower, AMP Centre, Zurich House, HSBC House and Downtown Shopping Centre; and Wellington's State Insurance Tower, Vodafone on the Quay, 171 Featherston Street, 125 The Terrace, No. 1 and 3 The Terrace, Pastoral House, Mayfair House, 80 The Terrace, Deloitte 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.

\$M

Net profit after taxation
 Unrealised net (gain) / loss in value of investment properties
 Realised loss / (gain) on sale of investment properties
 Unrealised interest rate swap (gain) / loss
 Deferred tax expense
 Net operating income

	30 June 2013	30 June 2012
	157.5	45.1
	(46.3)	(5.5)
	0.0	0.3
	(13.2)	5.1
	(39.7)	6.3
	58.3	51.3