NZX and media announcement - 19 August 2015

PCT annual profit of $122.4 million, asset sale and Wynyard progress

Performance summary for the twelve months ended 30 June 2015

7.1% rise in net operating income[1] and 3.7% growth in contract rents

- Net profit after tax increased by 4.4% to $122.4 million (2014: $117.2 million)
- Net operating income increased to $68.3 million (2014: $63.8 million)
- Full year dividend of 5.4 cps (2014: 5.40 cps), representing an 87% payout ratio
- Property portfolio revaluation gain of $64.8 million (2014: $47.5 million)
- NTA per share of $1.11 (2014: $1.04), an increase of 6.7%

Development update

- Committed to Wynyard Quarter Stage 1 for a total cost of $83.6 million with an estimated value on completion of $98.2 million
- Leasing success at Wynyard Quarter with 70% of Stage 1 preleased to Auckland Tourism Events and Economic Development for a lease term of 12 years and a 10 year lease to architecture firm Warren and Mahoney.
- Key development milestones at Downtown achieved. Obtained resource consent, secured development agreement with Auckland Council and conditionally agreed the acquisition of Queen Elizabeth Square.
- NZ Government Cabinet approval to proceed to final stage of Government RFP process for Bowen Campus and other Precinct assets in Wellington.

Execution of strategy

- Execution of $274 million of assets sales further reweighting the portfolio to Auckland, including the announcement today of the sale of 125 The Terrace in Wellington for $65 million.
- Successfully raised $174 million of equity through a pro-rata entitlement offer at a 9.5% premium to NTA.
- Secured $173 million of long term borrowings including a $98 million United States Private Placement (a first for the New Zealand property sector) and Precinct's inaugural New Zealand listed bond.
- Extended the weighted average debt maturity profile to 4.6 years (2014: 3.1 years).
- Proforma gearing of 11.3% positions Precinct's balance sheet to fund its developments.

Auckland fully leased and 98% portfolio occupancy

- Weighted average lease term across the portfolio of 5.0 years (2014: 5.4 years)
- The portfolio is under-rented by 1.8% (2014: (0.6%)), with Auckland at 4% under-rented and Wellington 1% over-rented.
  In total 66 leasing transactions covering 25,600sqm were secured in the period on a WALT of 4.9 years. Overall leasing transactions were secured at a 3.4% premium to 2014 valuations.

Note: Further information can be found within the 2015 Annual Report and results presentation. You can find these at www.precinctannualreport.co.nz

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[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 provided 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.

Precinct Properties New Zealand Limited (Precinct) (NZX: PCT) reported its financial results for the 12 months ended 30 June 2015 today, as well as further progress in line with its long term strategy. The net profit after tax of $122.4 million was higher than the $117.2 million recorded the previous year. Net operating income increased 7.1% to $68.3 million versus $63.8 million the year before.

Scott Pritchard, Precinct's CEO, said "It has been an active year with a number of highlights achieved. Strong operational results have allowed the company to grow earnings and maintain dividend levels despite significantly reducing leverage. This performance continues to position the business consistent with its long term strategy."

Portfolio metrics continue to be strong with portfolio occupancy at 98% (2014: 98%) and a weighted average lease term (WALT) of 5.0 years (2014: 5.4 years). "For the first time in Precinct's history we ended the year with 100% occupancy in Auckland where we continue to see very strong market demand and occupier interest," he said.

The Auckland CBD office market continues to strengthen as vacancy rates fall to historical lows. Colliers latest vacancy survey effective 30 June 2015 shows that the overall Auckland Prime CBD office vacancy rate has decreased to 0.7% (2014: 1.4%). These favourable market conditions and a robust investment market helped generate a 4.0% portfolio revaluation gain of $64.8 million. This resulted in Precinct's net tangible assets (NTA) increasing from $1.04 to $1.11.

Development progress

The company achieved a number of key milestones across Bowen Campus, Downtown and Wynyard Quarter. At Bowen Campus we welcomed Cabinet approval for the Crown to enter the final phase of the Government's Wellington Accommodation Project.

At Downtown we continue to make good progress with 2015 seeing a number of key project milestones. We obtained resource consent approval and entered a development agreement with Auckland Council which will allow the construction of the tunnels for the city rail link to be coordinated with our development. The conditional acquisition of Queen Elizabeth Square was also approved by the Auckland Council development committee.

Wynyard Quarter Stage 1 update

At Wynyard Quarter, the boards of both Precinct and Waterfront Auckland (the owners of the freehold interest) have approved the development of the first stage and the consideration for the 125 year prepaid ground lease.

Stage 1 is 70% preleased to Auckland Tourism Events and Economic Development (ATEED) and Warren and Mahoney. Stage 1 of the project is expected to have a total project cost of $83.6 million and an estimated value on completion of $98.2 million.

Scott Pritchard, also commented on the progress of Wynyard, "We are pleased to confirm commitment to the first stage of the Innovation Precinct. We are excited as to what this development will deliver for the regeneration of the Wynyard Quarter in partnership with Waterfront Auckland and ATEED. We are also delighted that Warren and Mahoney, the Stage 1 architect, have chosen to locate their own offices there"

The 13,400m^2 development comprises the refurbishment of the Mason Brothers building, and the construction of the Innovation building. On completion, Stage 1 is expected to provide annual net rental of $6.7 million when fully leased. The Innovation building totals 8,100m^2 and is entirely pre-leased to ATEED for a 12 year term.

"The project has seen a real focus on creating a very high quality design outcome. This is reflective of the quality environment Waterfront Auckland is creating in the precinct" Scott Pritchard, Precinct's CEO, said.

"The exterior of the buildings have been designed to activate the ground floor. Sustainability requirements have been significantly enhanced with the inclusion of mixed mode ventilation."

The Mason Brothers building is forecast to achieve practical completion in December 2016 with the Innovation Building to be complete in July 2017. On completion, the development will increase Precinct's weighting to Auckland to around 70% and the weighted average lease term will increase by around 0.3 years.

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Execution of strategy

2015 was a pivotal year for Precinct. It was one where the company made significant steps in advancing its long term strategy. Precinct secured $173 million of long term borrowings through the United States Private Placement completed in November and the New Zealand retail bond issue completed in December. These initiatives have positioned the company well to execute on its strategy over the coming years.

Also as a consequence of progressing the development opportunities, the company raised $174.1 million of equity from existing shareholders through a pro-rata entitlement offer in March. The issue, undertaken at a 9.5% premium to net tangible asset value, was well supported by institutional and retail investors.

Another key achievement for the year was advancing the asset sales programme. Precinct sold SAP Tower, Auckland and 171 Featherston Street and 80 The Terrace, Wellington for a total consideration of $209 million. This reflected a 1% discount to book value. Precinct also announced today the successful sale of 125 The Terrace in Wellington. This sale for $65 million is in line with its 30 June valuation of $64.9 million which was valued on a 7.88% cap rate. Combined with the equity issue, these sales have reduced proforma gearing to 11.3% compared with 33.8% the previous year.

Reinvestment of this capital into Downtown, Wynyard Quarter and Bowen Campus will see Precinct further its strategy of concentrated ownership in strategic locations. Our strategy reweights our portfolio to Auckland reflecting the growth opportunity evident in the city. The asset sales have reduced the size of the Wellington portfolio by $177 million to $506 million (2014: $690 million). It also reduces our exposure to the Wellington corporate market.

Full year result overview

Improved occupancy and a strong revaluation gain contributed to net profit after tax of $122.4 million (2014: $117.2 million).

Despite selling SAP Tower in February 2015, raising $174.1 million of equity in March and expensing $2.2 million relating to interest rate swap and bank facility closeouts, net operating income per share increased 1.5% for the year to 6.19 cps (2014: 6.10 cps). Dividends paid and attributed to the 2015 financial year totalled 5.40 cps (2014: 5.40 cps). This represents a payout ratio to net operating income of 87%.

Net property income increased to $121.6 million (2014: $118.3 million). Adjusting for the sale of SAP Tower and straight-line rent, like for like net property income rose by 3.7%. This increase was primarily due to an improved occupier market, in particular within the Wellington portfolio where average occupancy increased by 5% following leasing success at State Insurance Tower and 171 Featherston Street.

Indirect expenses fell by $2.2 million primarily due to no performance fees being payable for the year (2014: $12.6 million).

Net interest expense fell $1.8 million to $31.4 million, reflecting lower debt levels following the sale of SAP Tower and the $174.1 million entitlement offer. This reduction was offset by the close out of $69 million of interest rate swaps at a cost of $1.6 million.

Current tax expense increased $2.8 million to $11.5 million reflecting higher pre-tax profit and a lower level of deductions.

Market rental growth and capitalisation rates firmed 30 basis points to 7.0%. This generated a $64.8 million revaluation gain. Despite this strong revaluation gain the portfolio value (2015: $1.69 billion) remained consistent with the prior period (2014: $1.73 billion) due to the gain being offset by the sale of SAP Tower.

Precinct's NTA per share at balance date increased 6.7% to $1.11 (2014: $1.04). The increase in NTA is due to the revaluation gain, the equity issue and Precinct's retained earnings policy.

Dividend payment

Precinct shareholders will receive a final dividend of 1.35 cents per share plus imputation credits of 0.4281 cents per share. Offshore investors will receive an additional supplementary dividend of 0.19424 cents per share to offset non-resident withholding tax. The record date is 10 September 2015. Payment will be made on 24 September 2015.

Outlook

The board expects full year earnings for the 2016 financial year of approximately 6.0 cps, before performance fees and expects to maintain a dividend of 5.4 cps. Our portfolio continues to perform strongly. This enables Precinct to maintain earnings and dividends despite the very significant reduction in leverage.

Precinct is committed to its long term strategy. The Board and Management believe it is appropriate to focus on long term value growth. This is an essential approach to real estate investment to ensure that dividends are strong and sustainable over the long term.

In coming years as the development programme is executed and as associated risks are reduced, it is anticipated that returns will grow, as they reflect the solid earnings growth and value created from the completed developments.

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About Precinct (PCT)

Precinct is New Zealand's only specialist listed investor in premium and A-grade commercial office property. Listed on the NZX Main Board, PCT currently owns 14 New Zealand buildings – Auckland's PwC Tower, AMP Centre, ANZ Centre, Zurich House, HSBC House and Downtown Shopping Centre; and Wellington's State Insurance Building, 157 Lambton Quay, 125 The Terrace, No. 1 and No. 3 The Terrace, Pastoral House, Mayfair House, 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.

Reconciliation of net operating income

Amounts in millions	**2015**	**2014**
Net profit after taxation	**122.4**	**117.2**
Unrealised net (gain) in value of investment properties	(64.8)	(47.5)
Realised loss on sale of investment properties	1.6	-
Unrealised net loss / (gain) on financial instruments	11.9	(10.9)
Depreciation recovered on sale	3.8	-
Deferred tax expense / (benefit)	(6.6)	5.0
Net operating income	**68.3**	**63.8**