NZX announcement – 4 November 2021

Precinct Properties New Zealand Limited Annual General Meeting

11:30am (New Zealand time), Thursday 4 November 2021

Online only attendance at https://meetnow.global/nz

Chairman's opening address

Morena, Tena Koutou Katoa

Good morning and welcome everyone to the Precinct Properties 2021 Annual General Meeting of shareholders. I'm Craig Stobo, Independent Director and Chair.

While we had planned for a hybrid meeting, due to the current uncertainty of the COVID-19 situation in New Zealand, the on-going restrictions on gatherings in Auckland and having regard to the health and safety of our stakeholders and people, attendance at today's meeting is being held online only via the Computershare Online Meeting platform.

This allows Shareholders, Proxies and Guests to attend the meeting virtually. All attendees can watch a live webcast of the meeting and read the company documents associated with the meeting. In addition, shareholders and proxies have the ability to ask questions and submit votes. We hope to be able to hold an in-person meeting next year with you all. I now declare voting open on all items of business.

I would now like to introduce the members of the Board and executive team joining us today. We have, Anne Urlwin, Graeme Wong, Nicola Greer, Mark Tume, Chris Judd, Scott Pritchard, George Crawford and Richard Hilder.

Mohammed Al Nuami is unable to attend this year's meeting and has given his apology.

We also have present with us representatives from our auditors, Ernst & Young, tax advisors, KPMG, legal advisors, Chapman Tripp and our registrar, Computershare.

Now moving to the agenda of today's meeting

Meeting agenda

We will begin with reviewing the performance and activity of Precinct over the last financial year. Following the conclusion of the presentation, we will then take any questions you may have. We welcome any feedback.

The meeting will then proceed to the formal business where we have a number of resolutions to consider. There are six ordinary resolutions and one special resolution put forward for shareholder approval today.

This includes four ordinary resolutions relating to the re-election and election of Independent Directors, one ordinary resolution to consider director remuneration and one ordinary resolution that the Directors be authorised to fix the remuneration of Ernst & Young as auditor for the ensuing year.

The last resolution to consider today is a special resolution. It proposes that the existing constitution of the Company is revoked, and the constitution presented at the meeting is adopted as the constitution of the Company.

Board composition and changes

Before we move to some of our highlights this year, I would first like to give a brief update on how our Board succession plans have progressed. I will also provide a bit more detail to you on the fifth ordinary resolution being considered with regards to director remuneration. As you would have noticed, our Board composition has changed since our last meeting. Earlier this year, Launa Inman and Rob Campbell retired from the Precinct Board. Consequently, we are delighted to have appointed Nicola Greer and Mark Tume as Independent Directors to our governance regime. Both Nicola and Mark are capable and experienced professional directors who further strengthen Precinct's Board effectiveness and will ensure best practice corporate governance is maintained.

In accordance with the NZX Code, a majority of Independent Directors is maintained with six of our seven directors currently being independent.

Moving to the proposed changes to Director remuneration.

Director Remuneration

Following an annual review and independent benchmarking exercise undertaken by PwC, the adjustments we are proposing to shareholders take into account the overall performance of the Company and are also reflective of market conditions.

We continue to provide full transparency of director fees including committee memberships. Importantly, the Company engaged independent advisors PwC to provide New Zealand listed company benchmark data in considering the proposed rates in resolution five.

In particular, PwC was requested to provide benchmark data for the newly-established Environmental, Social & Governance Committee.

The Company also proposes to introduce a cap on the aggregate ad hoc fees that can be paid in respect of Due Diligence Committees in any one year. Any Due Diligence Committee fees in excess of the proposed annual cap would be put to shareholders for approval.

The Board considers that alignment of Directors' fees to market is important in order for the Company to be able to continue to attract and retain high performing Directors whose skills and experience are well-suited to the Company's requirements.

Notably, Director remuneration has been held constant since the last approved at our 2018 Annual General Meeting. Since then, the regulatory landscape in which the Company operates has continued to change. Increased regulatory risk and obligations have resulted in increased demand on Directors' time and broadening their scope of responsibilities in monitoring and assessing legal and regulatory compliance.

Focus on ESG

This is particularly true with respect to climate change and the establishment of the Company's green bond programme. Establishing a dedicated Environmental, Social & Governance (ESG) Committee at a Board level reflects the increased importance of this area to our Company. This reinforces the high priority Precinct places on our material ESG risks and opportunities, and the long-term view we are taking. Nicola Greer has been appointed Chair of this committee.

As a business, we continue to make good progress across our ESG performance. Let me share some of our recent achievements in this space. As you know, Precinct measures and reports on its performance against global sustainability assessments, frameworks and standards. Ensuring Precinct is continuously aligned with international best practice sustainability governance, management practices and disclosure enables Precinct to review and evaluate its performance against industry peers and global benchmarks.

During the year, we achieved a Global Real Estate Sustainability Benchmark (GRESB) score of 83. Pleasingly, this was well above the global average of 70. GRESB is considered the global standard for ESG benchmarking and reporting for real estate and remains our core ESG indices performance benchmark. The Precinct team are immensely proud of improving our GRESB score over the last four consecutive years.

Today, we are also able to share our most recent 2021 GRESB results which were published globally last month. Precinct achieved a score of 82, again placing us above the current global average of 73. I would also like to note Precinct was recognised for its high level of public disclosure. This has improved from a GRESB 'B' to an 'A' level which is well above the global average of 'C', and further reflects the improvements our business has made in reporting and disclosure, particularly over the last five years.

In addition to GRESB, Precinct received a score of 'B-' following its participation in the Carbon Disclosure Project (CDP) during the year. Pleasingly, this was higher than both the Oceania regional and Global average of C. Precinct has also been validated as a Toitū carbonzero certified organisation for a second year.

Last year you may remember we shared that we would be offsetting the embodied carbon from construction at our development project at 40 Bowen Street in Wellington. Effectively this means we will compensate for the tonnes of CO2 equivalent embodied in the materials used and associated with construction to seek carbon neutrality. We are delighted to report this has been achieved in partnership with Toitū Envirocare through the purchase of carbon credits.

Including the cost to offset the embodied carbon within the project budget was a first for Precinct and we continue to proactively progress this initiative. This year we extended the initiative to our 44 Bowen Street project in Wellington.

Precinct considers the construction of a zero-carbon building to currently be unfeasible both financially and physically, and believes carbon offsetting is an appropriate tool. Going forward, we plan to include the cost to offset embodied carbon in all our development feasibilities for future development projects, where feasible.

As we continue to deliver on our business objectives and key priorities for FY22 and beyond, we are focused on improving our operational performance further. The requirement for climate-related financial risk reporting for listed corporates and major financial institutions has now been passed by Parliament and, once it comes into force, will further support a low-carbon future for Aotearoa New Zealand, something Precinct is fully supportive of.

Before I hand over to Scott, I would like to take you through our 2021 results highlights and cover the Internalisation Agreement which was reached this year before declaring the first quarter dividend for FY22.

2021 highlights

Precinct's strategy remains clear, and we are committed to our business objective of creating sustainable value from city centre real estate. We remain focussed on delivering exceptional spaces for our clients and communities, in which they can thrive, whilst maximising long term returns to Precinct investors.

2021 has certainly been another unique year. We continue to navigate through the challenges from COVID-19 and more recently the delta variant, which has seen New Zealand be placed in various Alert levels of lockdown. As many of us have experienced first-hand, Auckland in particular has been impacted heavily by the recent lockdowns. So, like many other businesses our operations have also been impacted. Scott will provide more of a deep dive into this and how we are responding to these challenges.

Despite these challenges, our business has delivered a strong result for the FY21 period. This illustrates the portfolio's resilience and investor confidence which remains very supportive for the Precinct business.

Pleasingly and in line with guidance, we have delivered further growth in our AFFO. This has resulted in a 3.2% increase in our dividends for the FY21 year to you, our shareholders. We are committed to growing value for Precinct investors, and we are extremely pleased to have lifted our dividends every year since 2015.

We completed a significant amount of leasing in the period and maintained our high portfolio occupancy at 98%, reflecting the premium quality of our portfolio, and active management approach by the Precinct team. Our strong portfolio metrics reinforce Precinct's earnings security and the stable and secure income our portfolio generates.

During the year, we also completed several capital management initiatives which have placed Precinct in a strong balance sheet position. These include our first green bond issue, a $250 million equity raising and the sale of the remaining 50% of the ANZ Centre in Auckland.

Precinct Internalisation Agreement

Earlier this year in March, the decision by the Independent Directors to internalise the management of Precinct was a key moment in the evolution of our business. Precinct was listed on the NZX in 1997 as an externally managed trust and has evolved significantly since then. Particularly in the last 10 years as it has been corporatized, rebranded, adopted a new strategy, and has now been fully internalised.

As the Independent Directors needed to act quickly and with certainty given competing interests, and to ensure Precinct was able to secure all the benefits of internalising management, an NZX waiver was obtained so that the transaction did not require a shareholder vote.

This decision to internalise places Precinct in a strong position for future growth and is an appropriate progression considering the scale and breadth of Precinct's business.

The internalisation is expected to provide significant benefits to Precinct and its shareholders. Importantly, Precinct has retained key management personnel here with us today, and the internalisation ensures the continuity of Precinct's successful strategy and ongoing long-term stable shareholder returns.

FY22 dividend

Precinct's dividend for the 2022 financial year is expected to be 6.70 cents per share. This represents 3.1% year-on-year growth in total cash dividends to shareholders. Consistent with our dividend policy, we are pleased to again be providing year on year dividend growth to our shareholders.

Payment of the 2022 first quarter dividend will be made on the 10th of December this year.

On behalf of my Board colleagues, Management and wider Precinct team, I would like to thank you all for joining us today. To our shareholders, as I said it has been another unique and challenging year. We remain committed to growing sustainable value for your investment. Thank you all again for your continued support in Precinct.

Nga Mihi Nui

I will now hand over to Scott. Thank you.

Scott Pritchard, Chief Executive Portfolio

Quality delivers resilience

E ngā mana

E ngā waka

E nga reo

E rau Rangatira mā

Tena koutou

Tena koutou

Tena Tātoua Katoa

Thank you, Craig, and good morning everyone. I am Scott Pritchard, Precinct's Chief Executive Officer.

I'd first like to reiterate what Craig mentioned earlier. The high quality and resilient nature of our portfolio is driving Precinct's operating and financial performance. Delivering a strong result for the FY21 period has been a great outcome for our business and our investors.

Portfolio highlights

Pleasingly, overall portfolio valuations improved vastly since last year with Precinct recording a significant full year revaluation gain of $282.9 million or 9.3% for the period, reinforcing the strong investment demand for premium inner-city space.

Total comprehensive income after tax was $179.9 million for the year ending 30 June 2021 and, as Craig noted earlier in the presentation, in line with guidance, adjusted funds from operations (AFFO) increased 3.0% to 6.48 cents per share and we were able to deliver a full-year dividend of 6.50 cents per share, representing a 3.2% increase.

Capital management

Turning to capital management. We have completed a number of initiatives which have further strengthened our balance sheet position. This includes successfully raising $250 million of equity through a Placement and Retail Offer in June 2021 to provide funding for assets in Wellington. I will talk more about this shortly. We received a high level of support from both local and offshore investors for this equity raising reinforcing the investor confidence for our business and Precinct's long-term strategy. The offer structure was designed to provide an equitable treatment to all our existing shareholders and we strongly believe this was achieved.

In addition, we issued a six-year secured, fixed rate green bond offer of $150 million and continued to progress capital recycling opportunities with the divestment of the remaining 50% of the ANZ Centre in Auckland for $177 million. These initiatives and establishing a new $250 million bank facility have maintained a favourable gearing level of 28.2% which is well under Precinct's borrower covenant level of 50%.

Our markets

While the markets we are invested in, Auckland and Wellington, have been impacted by COVID-19, despite the challenging backdrop of the pandemic, we have been able to capitalise on strong office leasing demand throughout the year.

Precinct's portfolio continues to benefit from quality occupiers, a long WALT and high occupancy levels.

Our observation is we have not seen a material change in the demand for premium grade office space in New Zealand. The role of the office has shown its resilience, reinforcing the importance occupiers are placing on office space being a critical component to the success of their business.

For Precinct, we have seen significant demand for our assets, particularly those located on the waterfront in Auckland or in seismically strong buildings in Wellington.

While recent extended lockdowns have of course meant more volatility, especially in Auckland, it is clear that businesses are making the decision to lease high-quality space in order to ensure that their workforce want to come back to the office.

In Wellington, occupier markets have been less impacted, and we continue to observe solid demand particularly from central government.

COVID-19 impact and support

Since our annual results in August, the impacts of COVID-19 have been felt across New Zealand with the country experiencing prolonged lockdowns and various levels of restrictions. In particular, we are seeing how the extended lockdown and prolonged Covid-19 restrictions are affecting our biggest city, Auckland. The extended lockdown which began in mid-August to battle the Delta variant has without a doubt impacted Auckland businesses. Businesses have had it tough; the length and uncertainty of the lockdown and restrictions are resulting in heavy financial impacts and sadly, business closures for some.

Precinct engaged with our occupiers early on with an approach of providing support to those who are suffering significant losses and facing financial hardship. While support has mainly been provided to our retailers and hospitality food and beverage operators, Precinct will continue to support all occupiers in our portfolio who need it.

We understand just how stressful the immediate impacts have been and for many, are still being felt.

Precinct have provided support through a range of relief packages including rental abatements. Since the pandemic started, this has totalled financial support of circa $10 million.

Throughout the lockdowns, we have also prioritised the mental health and wellbeing of our own staff, ensuring support and services were available. Making sure we were all staying connected and in regular contact as a business has been fundamental.

Before I talk more about each of our development projects, I would like to provide an update on Generator.

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Generator

Generator continues to provide a differentiating component to Precinct's real estate offering. It is supporting Precinct's portfolio leasing and our long-term strategic objectives.

Prior to the recent lockdown, occupancy and events bookings were showing a solid recovery and we saw the demand for flexible workspace rebound. Pleasingly, over the last quarter, we have achieved encouraging results which are inline with budget.

During the year, Generator also opened its brand-new meeting and events suites located in the lobby of the HSBC Tower in Auckland.

We are also pleased to have further advanced our Generator offering in Wellington with the completion of 30 Waring Taylor Street. This is Generator's first Wellington-based offering, and we are excited to welcome clients and businesses to this space.

Advancing Wellington opportunities

Now moving to our development assets. I will start with our projects in Wellington.

As mentioned earlier, raising $250 million of new equity this year has provided sufficient funding for the acquisition of two Wellington office assets. As you can see from the slide, Bowen House and the Freyberg Building are both strategically located in the heart of the government precinct. These assets offer significant redevelopment opportunities and we have progressed these since their purchase.

At Bowen House, the refurbishment and seismic upgrade works commenced in August and continue to track well.

At the Freyberg Building, refurbishment options are currently being explored.

Bowen Campus

Moving to Stage two of Bowen Campus. Both projects at 40 and 44 Bowen Street continue to advance, and we are tracking to programme and remain on budget.

Pleasingly, Precinct signed a 12 year term lease to Waka Kotahi NZ Transport Agency at 44 Bowen Street. They will occupy 6 contiguous floors across the ground and levels

1 to 5, totalling 8,660 sqm of space. This is a significant leasing deal to have secured for this project as the building is now 100% pre-leased prior to expected practical completion in 2023.

Notably, with only one and a half floors totalling 2,700 sqm remaining vacant at 40 Bowen Street, the aggregate pre-committed leasing across Stage Two now represents 87% of the combined office space with a weighted average lease term of over 11 years. A great result for this project.

Now moving to Auckland.

Deloitte Centre

Following the start of construction of our One Queen Street redevelopment project in May of this year, we continue to achieve good progress at the site. Despite the recent lockdowns we remain on track for all the upcoming critical dates for the project.

Securing a commitment earlier this year from Deloitte to lease all the remaining high rise office space comprising levels 15 to 20, together with naming rights of the building means there is only two and a half low rise floor plates which remain vacant. Concluding this long-term commitment from a high quality business like Deloitte ahead of project completion reflects the strong demand for prime inner city office space and how businesses are valuing the benefits of being part of the wider Commercial Bay community.

Following the commitment from Deloitte, we have advanced pre-committed leasing at this project to 87%.

Conclusion and outlook

To conclude, our business has demonstrated remarkable resilience over the last 18+ months. While there is much uncertainty with regards to COVID-19, we are encouraged by the increase in New Zealand's vaccination rate.

Looking ahead, with the internalisation now complete, the management team, along with Precinct's Board, is considering its strategic options and we expect to leverage the quality of our portfolio into the future as we look to take advantage of future opportunities in the market.

As you know, Precinct's dividend policy is to pay out approximately 100% of Adjusted Funds From Operations (AFFO) as dividends, with the retained earnings being used to fund the capital expenditure required to maintain the quality of Precinct's property portfolio. While our AFFO, which adjusts for several non-cash items, has been impacted by the lockdowns resulting from COVID-19, Precinct is committing to maintaining a FY22 dividend to our shareholders of 6.70 cents per share despite this.

Maintaining long term sustainable returns and a pay-out ratio of approximately 100% of Precinct's AFFO to our shareholders remains our target in the coming years.

Before I hand back to Craig to take us through the formal business of the meeting, I'd like to thank the Precinct Board for their support this year and the Precinct team for the ongoing hard work and dedication they have shown, especially during the recent lockdowns. And to you our Precinct shareholders, thank you again for your continued investment. Our business is well placed, and we are confident in delivering our FY22 earnings guidance and maintaining a dividend at 6.70 cents per share.

Thanks everyone for joining us today.

Huri noa i te whare

Tēnā Koutou

Tēnā Koutou

Tēnā Tātou Katoa

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