Precinct Properties New Zealand Limited Annual General Meeting

10:00am (New Zealand time), Thursday 17 November 2016

Crowne Plaza, 128 Albert Street, Auckland

Chairman's Opening address

Good morning. I'm Craig Stobo, Precinct's Chairman, and I'm very pleased to welcome you to our Annual General meeting.

It has been another positive year for Precinct.

We moved forward with our strategy of improving the quality of the portfolio by progressing our developments.

In particular, it has been exciting to see progress on the ground: with Commercial Bay works now underway and the first building at our Wynyard Quarter development fully leased and scheduled for completion before Christmas.

Before I progress any further I would like to touch on the events of the past week. Following Monday's 7.5 magnitude earthquake that struck the North East of the South Island, management instructed our structural engineers to undertake thorough structural inspections. I am pleased to report that all of our buildings, with the exception of Deloitte House, were cleared for occupation and have in fact now been re-occupied.

The initial assessment for Deloitte House at 10 Brandon Street indicates that there has been some damage to building services and fitouts within this building and further assessments are being undertaken over the next two weeks.

As a board, we were proud of the highly professional way our management team responded at the time, checking on the safety of all staff and contacting all clients immediately with updates and support. This reflected the commitment to best practice, client service and health and safety that is a core part of the Precinct culture.

Board and Executive

Let me introduce the members of the Board and executive team here today.

We have with us representatives from our auditors, Ernst & Young, tax advisors, KPMG, our legal advisors, Chapman Tripp, along with Precinct staff.

After the meeting we hope you will stay and join us in some morning / afternoon tea and refreshments.

Positive results

We had another strong year of financial performance. Net profit after tax rose 12.9% to $138.2 million.

Our portfolio had a revaluation gain of 5% or $81 million, taking it to $1.7 billion. Net tangible assets per share rose 5.4% from $1.11 to $1.17; and net operating income was in line with guidance at just over 6 cents per share.

It was pleasing to see all these results in a year when we also achieved record low debt levels in anticipation of funding our development projects.

Leasing: strong key metrics

This slide reflects the company's strong leasing position.

It shows the percentage of net lettable area that will expire each year out to 2025, including all committed office developments.

And from it you see the secure long-term occupancy we enjoy, with 45% of all expiries not due to expire until after 2025.

During the year we leased 135,000 sqm, or the equivalent of more than four PwC Towers.

Portfolio occupancy held firm at a near-full 98%. Our WALT, or weighted average lease term, rose to 6.3 years and it will move to 8.2 years once developments are included.

This leasing performance confirmed the attractiveness of our portfolio to the market. It put us in a strong position to further increase shareholder value and earnings growth.

Board review

As a Board we are committed to creating shareholder value, managing risk and ensuring transparency.

During the year we completed the 2014 management fees review and due diligence on developments. We also led the market committing to our dividend policy which is consistent with international best-practice.

For the fees review your independent directors took advice from an independent expert and held extensive discussions with Precinct's manager. The revised fees have seen a reduction in leasing fees and an increase in development fees. These changes were agreed earlier this year and reflect the ongoing changes in the market.

Given the 2014 fee review was recently agreed and reflect the current market. Independent directors and the manager have agreed to waive the November 2016 fee review. The next fee review will now occur in 2018.

The due diligence committees for the Commercial Bay and Bowen Campus developments undertook extensive review before we as Board committed to each development.

In the year we also reviewed our dividend policy. The board continue to believe that matching dividends with cash flow, as defined by adjusted funds from operations, or AFFO is appropriate and best practice.

This approach is consistent with the guidance of the Property Council of Australia, and by taking into account recurring capital expenditures it provides a more transparent and accurate way of determining dividends.

Our pay-out ratio of 101% of AFFO was more conservative than the local sector average of around 115%.

We can always allow for fluctuations, but this approach reduces the potential for volatility and produces a more genuinely sustainable dividend flow into the future.

And you will see from our annual report that our level of disclosure is market leading which is something the management team has been working hard at.

Finally, in order to improve board effectiveness, the board has reduced the number of board committees through the Amalgamation of the Nomination and Remuneration Committees.

Advancing our strategy: overview

Scott Pritchard, our CEO, will talk in more detail about applying our strategy for value creation within the business. But in summary we are very pleased with the strong position we are in.

Our three major developments, here in Auckland at Commercial Bay and Wynyard Quarter, shown in the image, and Bowen Campus in Wellington occupy strategic locations. They all benefit from, and contribute to, attractive new urban precincts meeting strong and growing market demand.

In transforming our portfolio we have increased our weighting to Auckland where we have outstanding opportunities on the increasingly sought-after waterfront.

In Wellington, securing the Crown at Bowen Campus brings secure long-term government leasing, while at the same time we have reduced exposure to the capital's corporate sector.

Underpinning a strong year in both developments and leasing we also completed a two-year pre-funding phase ensuring sustained and conservative capital management.

Further to our previous equity-raising and sales of non-core assets, we also secured an $860 million bank debt facility: ensuring the business is well funded as we advance our developments.

Increased Dividend Payment

Last year we said we expected dividends to rise as we advanced our development programme.

And I am pleased to confirm a first quarter dividend for the 2017 financial year of 1.40 cents per share, representing an increase of 3.7%. The board still expect to pay a 5.6 cents per share dividend for the year.

We remain confident about earnings growth and we expect dividends to grow further. Payment of the first quarter dividend will be on the 8th of December.

I'd like to thank you for your continued support as shareholders.

The company is in a very good position. We are confident our strategy will continue to create shareholder value. We look forward to reporting strong progress over the coming year.

Thank you.

Scott will now take you through a more detailed account of the year and our strategy moving forward.

Scott Pritchard, Chief Executive

Strategic Direction: Creating Shareholder Value

Thank you Craig.

It has been an active and exceptionally positive year and a significant one in moving from planning to commitment.

Consistent with our strategy, we continued to concentrate in city centre locations, increased the quality of our portfolio and continued a bias towards Auckland.

The three figures highlighted in this slide tell much of the story.

80% of our development investment is now in Auckland where we see a very strong future.

When we complete our current three developments we will have a 76% weighting to premium assets. And we are on track to move to progressively newer buildings.

This strategy will see the average age of our portfolio in 2020 fall from 27 years to 11 years, while also shifting from A-Grade quality to Premium. By owning more modern buildings we will also gain significant reductions in capital expenditure on maintenance, assisting growth in earnings.

The reduced 11% weighting in Wellington corporate assets reflects challenges in that market, while we remain in a good position serving the government market.

We are also looking beyond the horizon. Indeed, going out past 2020, we see several good development opportunities within our portfolio at Wynyard Quarter, additional potential at Bowen Campus and new opportunities at 1 Queen St, which will of course be part of the new Commercial Bay precinct.

Development overview

During the year, and including Bowen Campus which we committed to outside the period, we commenced $1 billion of developments, with a collective estimated return on cost of 18%.

This investment is central to our growth; and we have managed it very carefully to reduce risk.

Once again, a few key metrics tell much of the story and give us real confidence about future earnings.

Effectively reducing development risk, pre-commitment to our office developments now sits at 74% across all three projects.

On a blended basis, we expect the developments to return a yield on cost of 7.5%. This is a very good outcome that will also contribute to growth in our net tangible asset value.

By securing key locations we are increasing the attractiveness of the precincts they are in. This allows us to secure attractive lease terms with good clients.

We are happy that committed leases on our developments to date provide a WALT of over 13 years.

With future leases we expect the developments to increase the total portfolio WALT to eight years, putting the business in a very strong long term position.

Across each of our developments we have utilised fixed price contracts with the construction contractor to ensure the business is not exposed to cost escalation.

We have also diversified the use of contractors in the market with four builders currently used across the development portfolio. Importantly, we remain very close to our contractors by adopting a partnership approach ensuring that each project remains in a strong position.

Development capability

As we grow we are making sure we have a strong and well-resourced team.

We have always aimed to secure the best people in the market. Since 2010 the management team has grown in capability and scale and is now six times larger than in 2010.

We now have a strong dedicated development team led by Andrew Buckingham, who is General Manager Developments. Each development is led by a senior experienced development professional.

The development team is bolstered by our experienced executive team of George Crawford, Richard Hilder, Davida Dunphy, Kym Bunting and Nicola McArthur who have all assisted in positioning the business to this strong position.

The Precinct team is supported by a group of selected specialist consultants and contractors who include architects Warren and Mahoney, and project managers RCP and Beca. We are partnering with some of New Zealand's best and most proven construction contractors, working with Fletcher Construction at Commercial Bay, Hawkins and NZ Strong at Wynyard Quarter and LT McGuiness in Wellington.

Wynyard Quarter Stage 1: Key milestones met

As Craig noted, Wynyard Quarter Stage 1 will be our first development to reach completion, with Mason Brothers on target for completion before Christmas.

With a net lettable area of 13,400 sqm, the total Stage 1 development has an expected yield on cost of 8% and a value on completion of around $100 million. We are very happy with the project and pleased to see the office space 86% leased.

We are also on target to reach practical completion of the Innovation Building in July next year. After that we have very good options for future stages of development, with three remaining sites available to us at Wynyard Quarter.

Our agreement at Wynyard allows us to stage further development. This means we can match any future investment with the strength of the occupier market, which we expect to be positive given the increasing attractiveness of this area within the city.

Commercial Bay

Commercial Bay remains our largest development and we are very pleased at how it is progressing.

As you will all know, this is a $850 million investment in what will be a 39-story office tower surrounded by a premium retail and dining centre.

On completion the project is expected to generate an attractive yield on cost of 7.5%.

With three years to go until its completion, we are happy with the rates of leasing and strong market interest Commercial Bay is attracting.

We committed to the project after achieving 52% pre-commitment from premium anchor clients PwC and Chapman Tripp.

Since then, we have secured a further 6,000sqm from outside the portfolio, with MinterEllisonRuddWatts committing to 4,000 sqm at the Commercial Bay Tower. We have leased 60% of the office tower by income on a weighted average lease term of around 13 years.

We expect to lease a further 10-15% of office space at this development in the coming financial year.

Commercial Bay – a new level of retail

The retail centre surrounding the new tower at Commercial Bay will offer a totally new experience for Aucklanders, and we are seeing already very positive market and consumer response.

H&M, one of the world's fastest-growing international fashion retailers, chose to commit to Commercial Bay for a flagship store two years before works will be completed. This reflects the desirability of the precinct to high-end retailers, and H&M's announcement has already drawn interest from other retailers looking to locate here.

We are currently in discussions with a number of retailers and food and beverage operators and are very happy with the strong interest we are seeing.

The demolition phase of work at this site recently ended. The whole development is attracting a lot of public interest and favourable comment. We are excited by the next phases in creating what will be a whole new heart of the city.

Post balance date in respect to the conditional acquisition of Queen Elizabeth Square we were pleased to receive the Environment Court ruling which upheld the decision of Auckland Transport and Auckland Council to approve the road stopping for Queen Elizabeth Square.

From the image you can see just how exciting this part of Queen Street will become. Our retail centre will open up to the new public space being created at lower Queen Street and we expect this new space will become a vibrant and defining public space for all Aucklanders to enjoy.

Major crown leasing

In what has been a very eventful year with a number of stand-outs, arguably the biggest achievement was signing a contract with the Crown at Bowen Campus and surrounding properties in Wellington.

This saw us secure the Crown across Bowen Campus, Pastoral House, No 3 The Terrace and Mayfair House on a weighted average lease term of around 15 years.

It also confirmed the potential we have always seen in Bowen Campus for a unique and highly desirable Government precinct right next to Parliament's Beehive. We acquired the property in 2012 and it has been a good investment: earning $27 million in income, equivalent to a 12% annual return.

Bowen Campus is nearly fully leased to the Crown and has the benefit of a fixed price construction contract to LT McGuinness. With a forecast project cost to complete of around $200 million we have a high degree of certainty in the forecast yield on cost of 7.5%.

We started development works this month, targeting practical completion in early 2019. Works will include expanding the floor plate of the Bowen State building, increasing seismic strength to 100% and installing new mechanical and other services.

From a strategic perspective Bowen Campus provides very secure income with the benefit of expansion opportunities in a clearly defined government precinct. It is also further proof of the value in developing new precincts that are focussed on client needs.

Good development potential within portfolio

We are happy with where we are today, and about the potential for further development in our portfolio.

Subject to further planning and due diligence, we have the opportunity to develop another 30,000 sqm at Wynyard Quarter. This is an opportunity we have secured without needing to hold the land on our balance sheet.

At Bowen Campus and in agreement with the Crown, there is good potential for more significant office, retail and potentially residential development.

Also longer term, we have a good opportunity within our portfolio at 1 Queen St, right on the Auckland waterfront and where the existing ground, first and second floors are already being integrated into Commercial Bay. This is a good example, we think, of how the Commercial Bay development will enhance the value of this whole new precinct.

Conclusion and outlook

In summary, with occupancy ay 98% and a WALT of over 6 years we are in a very good position.

Globally, the economic outlook is never certain. But we expect stable conditions in New Zealand, with the economy driven by population growth, continued growth in tourist numbers, recovering dairy prices, significant construction activity in Auckland and historically low interest rates.

Auckland office vacancies are at historic lows and we see demand continuing to stay high, with restricted land supply and construction price inflation keeping space at a premium.

The Auckland CBD retail environment has strengthened considerably over the past few years driven by strong demand from international and local retailers, improvement in dining and entertainment precincts and strong growth in tourist numbers. This has been supported by continued growth in CBD-based employment, major investment in hotel and commercial construction and in public transport initiatives including the City Rail Link.

We expect the city to continue to grow. Its working age population is forecast to swell. Auckland Council has identified around $60 billion of capital investment in infrastructure and construction over the next 30 years. Public transport continues to grow and is centred on our Commercial Bay location. As has been seen in other countries people increasingly want to live closer to city centres.

The number of people who call the inner city home in Auckland is now 26,000. Reflecting trends in Sydney and Melbourne this is expected to reach 45,000 by 2032.

In Wellington we have reduced our corporate exposure while significantly expanding our government leasing.

It has been another good year. We have a strong balance sheet, committed opportunities in premium locations and enjoy strong market demand. We look forward to further advancing shareholder value in the year ahead.

I would like to thank the Precinct team for their excellent work during another great year, and also you, our shareholders, for your continued support.

I will now hand you back to Craig.