NZX and media announcement - 13 August 2014

Precinct annual profit of $117.2 million following strong operating performance

Performance summary for the twelve months to 30 June 2014

9.4% rise in net operating income[1] and 5.1% rise in net tangible assets (NTA) per share

- Net profit after tax of $117.2 million (2013: $157.5 million, including a $39.7 million deferred tax benefit)
- Net operating income[1] of $63.8 million (2013: $58.3 million) or 6.10 cents per share (cps) (2013: 5.85 cps)
- FY14 full year dividend of 5.4 cps (2013: 5.12 cps)
- Property portfolio revaluation gain of $47.5 million (2013: $46.3 million) to a total value of approximately $1.73 billion (2013: $1.64 billion)
- Net tangible assets per share rise to $1.04 (2013: 99 cps), an increase of 5.1%

Strong office occupancy of 98%

- 57,500 square metres of leasing transactions secured at a 3% premium to June 2013 valuations.
- Portfolio occupancy of 98% (2013: 97%) with a weighted average lease term of 5.4 years (2013: 5.7 years)
- FY15 expiry profile reduced to 6%

Positioning the business for future growth

- Successfully raised $62.5 million of new equity, putting the company in a strong position to deliver on active opportunities.
- Entered into a development agreement with Waterfront Auckland to develop the commercial office property at Wynyard Central
- Completed the Downtown Shopping Centre development master plan. Negotiations significantly advanced enabling construction of the City rail link (CRL) tunnels through the Downtown Shopping Centre site for Auckland Transport as part of the development.
- Post balance date, negotiated a new $600 million secured bank debt facility, delivering material savings and increasing the weighted average term to expiry from 3.1 years to 3.8 years.
- Intention to advance sales programme during the next 12 months to reduce gearing while maintaining current earnings and dividend levels.

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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 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 to 30 June 2014 today. The net profit after tax of $117.2 million was lower than the $157.5 million recorded the previous year which included a $39.7 million deferred tax benefit.

Scott Pritchard, Precinct's CEO, said the previous 12 months had seen continued progress as the business was further positioned to execute on a strategy of improving portfolio quality, increasing its weighting to Auckland and delivering a long term improved earnings outlook."

Portfolio occupancy continued to improve over the year lifting to 98% (2013: 97%). "We are very pleased that the portfolio is close to being fully let, with continuing leasing success in Auckland and Wellington. As we look to execute our strategy it is crucial that we actively manage our core portfolio," he said.

Leasing success in Wellington had been particularly pleasing. Occupancy at 80 The Terrace has increased from 78% to around 89% with only one and a half floors remaining vacant. The balance of the Wellington portfolio remains 98% occupied.

The Auckland CBD office market continues to strengthen driven by a strong Auckland economy. Vacancy in Auckland's prime CBD office buildings fell from 5.8% in June 2013 to just 1.4% in June 2014. This is a record low in the last 20 years and below the long term average of 8.2%. The reduction in vacancy rates and a strong investment market helped lift the value of the Auckland portfolio by 5.9%.

Given this low vacancy, few new developments on the horizon, strong demand for quality and expectations of growth in the Auckland economy, most research houses forecast continued good levels of market rental growth.

In the period Precinct entered into a development agreement with Waterfront Auckland. This provides the opportunity to develop the commercial office property within Wynyard Central at Wynyard Quarter in Auckland. The 46,000 sqm of gross floor area is expected to be built over 5 stages and several years.

Precinct is making good progress on the design and commercials for the first stage of Wynyard Central. This site provides Precinct with the last remaining commercial waterfront development site and complements the Downtown Shopping Centre opportunity.

The completion of the Downtown Shopping Centre masterplan was a milestone for the project and the company alike. This was a six-month project involving the Board, management company representatives from Haumi and AMP Capital, project managers RCP, internationally renowned masterplanners Woods Bagot, and Auckland architects Warren & Mahoney.

Precinct now has a more comprehensive understanding of this unrivalled opportunity and has been able to better ascertain the scale, scope and overall cost of realising its potential.

As a result it has also revised its expectation for development spend estimates to between $400 and $500 million, reflecting a scheme that will maximise the opportunities offered by the site. This revised guidance compares with $300 to $350 million provided last year and comes after increasing the potential area to be developed.

As previously announced Precinct has identified assets that it intends to sell. It is the intention to advance the sales programme during FY15 with the sale of non-core assets. Funding the development opportunities organically through asset recycling remains the objective of the business.

Following masterplanning Precinct has entered the concept design phase. A select group of leading global architects was invited to submit proposals for this phase. Following a series of workshops and presentations NH Architecture from Melbourne was appointed as the retail architect and Woods Bagot based out of San Francisco was appointed as the commercial architect. Local New Zealand architecture firm Warren and Mahoney will ensure the integration of these schemes.

Negotiations with Auckland Transport in relation to the CRL on the Downtown Shopping Centre site are now significantly advanced. While a final agreement has not yet been signed, both parties are committed in principle to a solution whereby construction of the tunnels for Auckland Council will occur as part of the Downtown Shopping Centre redevelopment.

In February, Precinct responded to the first stage of the Government office Wellington accommodation RFP for Bowen Campus, 1-3 The Terrace, Pastoral House and Mayfair House. Shortlisted parties are expected to be informed of an outcome over the next few months.

RESULT OVERVIEW

Strong rental performance, recent acquisitions, a strong revaluation gain and an unrealised gain on interest rate swaps led to a net profit after tax of $117.2 million (2013: $157.5 million). Compared with the previous period net profit after tax was $40.3 million lower due to a deferred tax benefit of $39.7 million being recorded in 2013. This benefit arose after Precinct adopted a revised approach to determining the provision for deferred tax.

The acquisitions made in 2012 and 2013 generated a full year's income which helped increase gross rental income to $165.4 million (2013: $147.7 million). Allowing for these transactions, gross rental income increased by 3.6% due to increased Auckland occupancy.

Property expenses were $47.1 million, 7.7% higher than the previous period. When adjusted for recent acquisitions, expenses actually fell by 1.6%. This reduction was due to a lower level of non-recoverable expenses, a range of procurement initiatives and lower insurance costs compared with 2013.

Net property income at 80 The Terrace fell by around 30% as the property underwent substantial capital works. However, this reduction was outweighed by additional income generated within the Auckland portfolio and income generated by recent acquisitions. In total for the period portfolio net property income increased to $118.3 million (2013: $104.0 million). On a like for like basis net property income rose by 5.7%.

Interest expense increased $5.2 million to $33.2 million, this reflected higher debt levels following the purchase of Downtown Shopping Centre and HSBC House. The increase in interest expense was partly offset by the equity initiatives undertaken in 2013 which collectively raised $62.5 million.

Precinct recorded an 8.9%[2] shareholder total return for the year to 30 June 2014. This exceeded the benchmark New Zealand listed property sector return (excluding Precinct) of 8.0%. Approximately two-fifths of the maximum performance fee was paid in line with the agreed process for recognising outperformance of the market.

Overall indirect expenses were consistent with the previous year.

Tax expense increased $3.8 million to $8.7 million reflecting higher pre-tax profit and a lower level of deductible leasing costs. The increase was also a reflection of the 2013 tax impact of $2.4 million associated with the disposal of depreciable assets at the ANZ Centre. This was partly offset by the recognition of a tax deduction in 2014 relating to the sale of Chews Lane in 2011 which reduced tax expense by around $1.2 million.

The fair value gain in interest rate swaps of $10.9 million reflects an increase in market interest rates since 30 June 2013 and an unwinding of interest rate swap positions.

The valuation gain of $47.5 million (2013: $46.3 million), when compared with year end book values, reflected valuations increasing by 5.9% in Auckland and decreasing by 1.4% in Wellington. The Auckland increases were mainly attributable to rises in market rents, leasing success and more positive sentiment due to a continued firming investment market.

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[2] Returns are calculated quarterly as per the Management Services Agreement and are based on 5 day volume weighted average share prices.

The main contributors to the Wellington decreases were the uncertainty associated with the Government's future accommodation plans and a softening of gross market rentals. This was largely offset by insurance cost savings. Excluding the Government leased assets, Wellington corporate assets increased in value by 0.9% compared with year end book values.

The revaluation increased the value of Precinct's portfolio to $1.73 billion (2013: $1.64 billion).

Precinct's NTA per share at balance date was $1.04, compared with $1 as last reported. The increase in NTA is due to the revaluation gain, the fair value gain in interest rate swaps and Precinct's retained earnings policy.

CAPITAL MANAGEMENT

Precinct undertook two equity initiatives in the financial year. The $50 million placement in September and the $12.5 million share purchase plan in October. They resulted in bank borrowings reducing to $572 million (2013: $603 million). Gearing was 33.8%, compared with 37.3% a year earlier.

Precinct also announced today the refinancing of its existing secured bank debt facility and reduced the facility to $600 million (31 December 2013: $610 million). The refinancing will deliver material savings from lower margins.

Funding is provided by the existing syndicate of ANZ, BNZ, CBA and Bank of Tokyo-Mitsubishi UFJ. The new facility has tranches expiring in July 2016, July 2017, July 2018, and July 2019, and the weighted average term to expiry of the facility is 3.8 years (2013: 4.0 years).

Of Precinct's drawn bank debt, 67% (2013: 57%) was effectively hedged through the use of interest rate swaps. This now results in a weighted average interest rate, including all fees of 6.0% (2013: 5.6%).

PORTFOLIO PERFORMANCE

Following leasing success, particularly at 80 The Terrace and State Insurance Tower in Wellington, portfolio occupancy increased to 98% (2013: 97%).

Progress made at State Insurance Tower and at 80 The Terrace was very pleasing. In total around 5,500 square metres were leased on a weighted lease term (WALT) of around 6 years. This success increased occupancy, across the two buildings, to 94% (2013: 85%). State Insurance Tower is close to being fully let and with only one and a half floors available at 80 The Terrace these assets are positioned well for the future.

In total 61 leasing transactions covering 57,000 square metres were secured in the period on a WALT of 4.0 years. This included the lease extension to the Ministry of Social Development at Bowen Campus until October 2016. Excluding this transaction, the 32,000 square metres of leasing transactions were secured on a WALT of 4.9 years. This leasing helped maintain a strong portfolio WALT of 5.4 years.

Overall leasing transactions were secured at a 3% premium to 2013 valuations. In Auckland a strong market saw leasing transactions secured at a 6.1% premium, while in Wellington leasing transactions were at a 0.6% discount.

In the period, Precinct settled 35,000 square metres of market rent reviews at a 3.5% premium to valuation. In Wellington it was pleasing to secure around 16,500 square metres of market rent reviews at a 4.2% premium to valuation. Including structured leases, 72,000 square metres of rent reviews were settled at a 2.6% premium to passing rents.

The strong operational performance of the last three years, positions the business well to realise its development opportunities.

SEISMIC REFURBISHMENT WORKS

In 2014 Precinct completed a number of significant seismic upgrades. These included works at 80 The Terrace, The Former Central Police Station in Wellington and SAP Tower in Auckland.

As at 30 June 2014 the portfolio had a weighted (by value) New Build Standard Score (NBS) of 87%. Precinct has identified further strengthening work to be undertaken in its portfolio. This additional work will be undertaken as occupier needs allow. It is expected to cost between $5 million and $10 million.

Precinct renewed its insurance during the period, with premiums reducing by around 26%, without compromising the scope of cover. This successful outcome brings the total level of savings achieved over the previous two years to 33%. Precinct has also achieved a lower flat deductible for seismic events of $20m for both Wellington and Auckland.

OFFICE MARKET UPDATE

Vacancy in Auckland Prime CBD office buildings has fallen significantly from its peak. As at June 2014, the overall Auckland Prime CBD office vacancy rate has fallen to 1.4% from 5.8% as at June 2013 and 4.7% as at December 2013.

In Wellington, CBD ‘A’ grade vacancy has decreased to 2.5% (June 13: 3.7%). This drop is mainly due to the lower core CBD A-Grade vacancy from 4.2% at June 2013 to 0.6% as at June 2014. Wellington occupiers remain focused on the risks from seismic events and the quality of assets, in particular their resilience to seismic events.

DIVIDEND PAYMENT

Precinct shareholders will receive a fourth-quarter dividend of 1.35 cents per share plus imputation credits of 0.1647 cents per share. Offshore investors will receive an additional supplementary dividend of 0.074735 cents per share to offset non-resident withholding tax. The record date is 4 September 2014. Payment will be made on 18 September 2014.

OUTLOOK

Consistent with last year, the Board expects full year earnings for the 2015 financial year of approximately 6.2 cps (before performance fees) or 6.0 cps (assuming 50% of the maximum performance fee is payable). This guidance provides for the assumed sale of some non-core assets through the year.

Precinct expects to pay a dividend of 5.4 cps for the 2015 financial year, consistent with the 90% payout dividend policy.

Over the coming two years the company will enter a pre-funding phase progressing the sales programme and positioning for the planned developments. During this early phase management will be particularly focused on Precincts operating performance. It expects earnings after tax and dividends will be maintained at current levels.

Precinct expects that once capital redeployment occurs, solid earnings growth and value will result from completed developments.

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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	30 June 2014	30 June 2013
Net profit after taxation	**117.2**	157.5
Unrealised net (gain) / loss in value of investment properties	**(47.5)**	(5.5)
Unrealised interest rate swap (gain) / loss	**(10.9)**	(13.2)
Deferred tax expense	**5.0**	(39.7)
Net operating income	**63.8**	58.3