

Precinct Properties New Zealand Interim Results

16 February 2017



**Mason Brothers Lobby,
Wynyard Quarter**

Agenda

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Precinct Properties New Zealand Limited

Scott Pritchard, CEO

George Crawford, COO

Note: All \$ are in NZD unless otherwise stated

Highlights

Financial performance

\$39.1m

H1 FY17 net profit after tax

+8.7%

increase in net operating income¹

20.1%

Gearing Ratio

Portfolio performance

**99% occupancy and 8.1 year
weighted average lease term**

**Wynyard Quarter Stage One 100%
leased**

Strong Wellington portfolio leasing

Commercial Bay leasing progress

**Investment in co-working space
provider**

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



**Wellington
leasing
success**



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Section 1

Strategy and
major initiatives

Strategy progress since June

- Wynyard Stage One 100% leased, 8 months ahead of completion
 - Practical completion of Mason Brothers building in December 2016
- Commercial Bay progressing well
 - Queen Elizabeth Square acquisition became unconditional
 - Further office tower leasing progress
- Works at Bowen Campus have commenced
- Strengthening Wellington portfolio and market
 - Increased market certainty from Government WAP2 conclusion
 - Wellington leasing has lifted occupancy from 94% (Dec 2015) to 98%
 - Earthquake has removed stock and led to leasing up of new supply pipeline
- Deloitte House \$12 million devaluation
 - Minor earthquake damage with unrestricted access to levels 1-13 anticipated shortly
 - Additional seismic strengthening to improve NBS score
- Conditional acquisition of 50% interest in Generator

Development Summary

7.5%

Blended yield on cost

18%

Blended return on cost

\$968m

Development cost

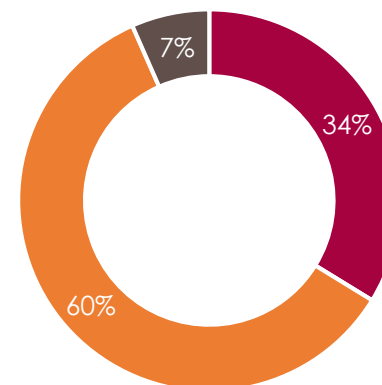
13 years

WALT

Key development metrics

Total Development NLA	110,149 m ²
Total Office NLA	89,806 m ²
Office leased to date	69,345 m ²
% of office leased	77%
WALT committed to date	13.0 years
Value on Completion	\$1,193 m
Weighting to Auckland	80%

Strong occupier covenant (of leased space)



■ Financial and legal services ■ Government ■ Other

Commercial Bay

Progress to date

- Demolition of Downtown Shopping Centre completed November 2016
- On-site works progressing well
 - Diaphragm wall and perimeter sheet piling complete
 - Bulk excavation has commenced
- Remain on programme and budget

15,000hours

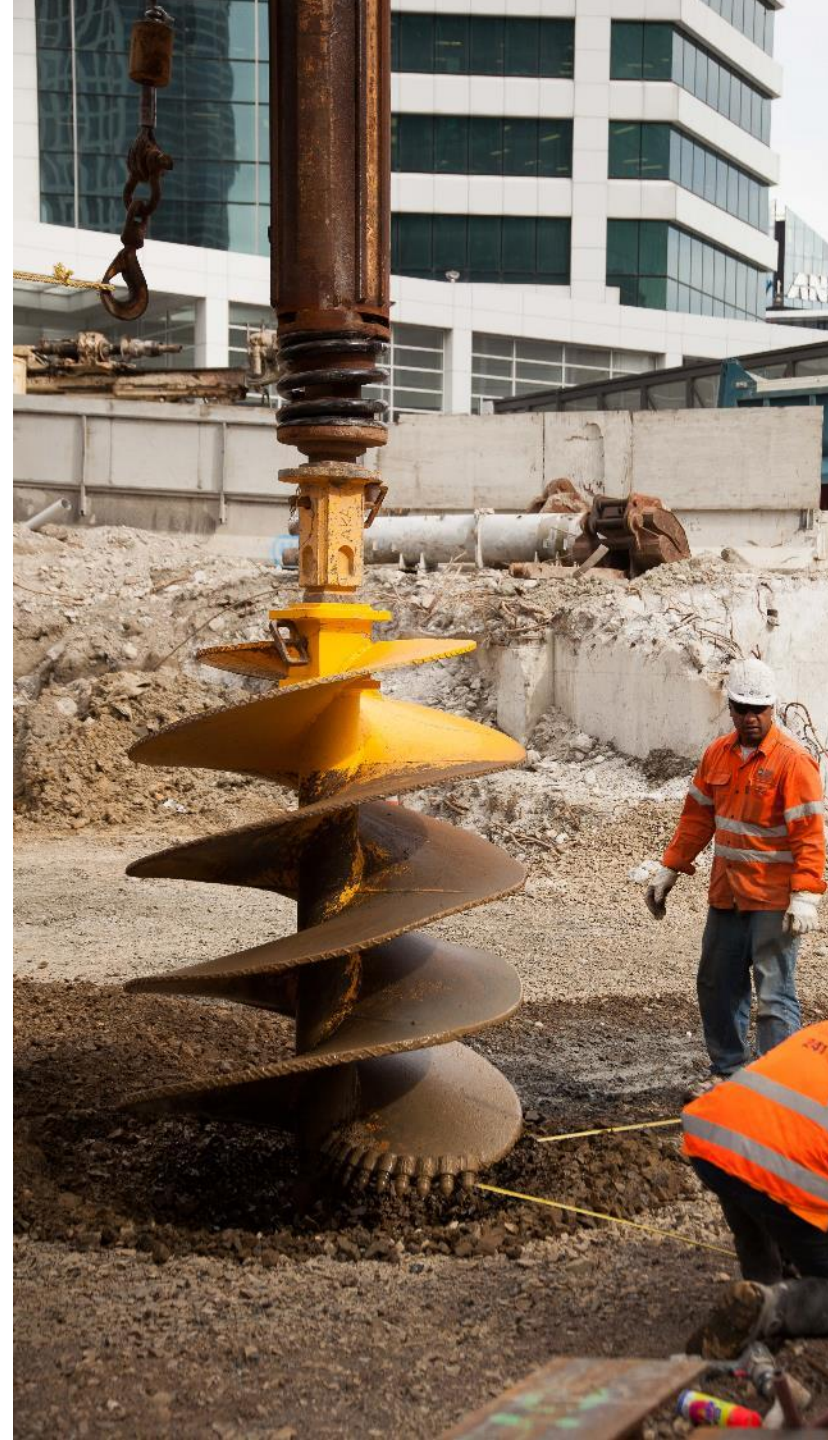
Of demolition

9,500tonnes

Of material removed
from site

87.3%

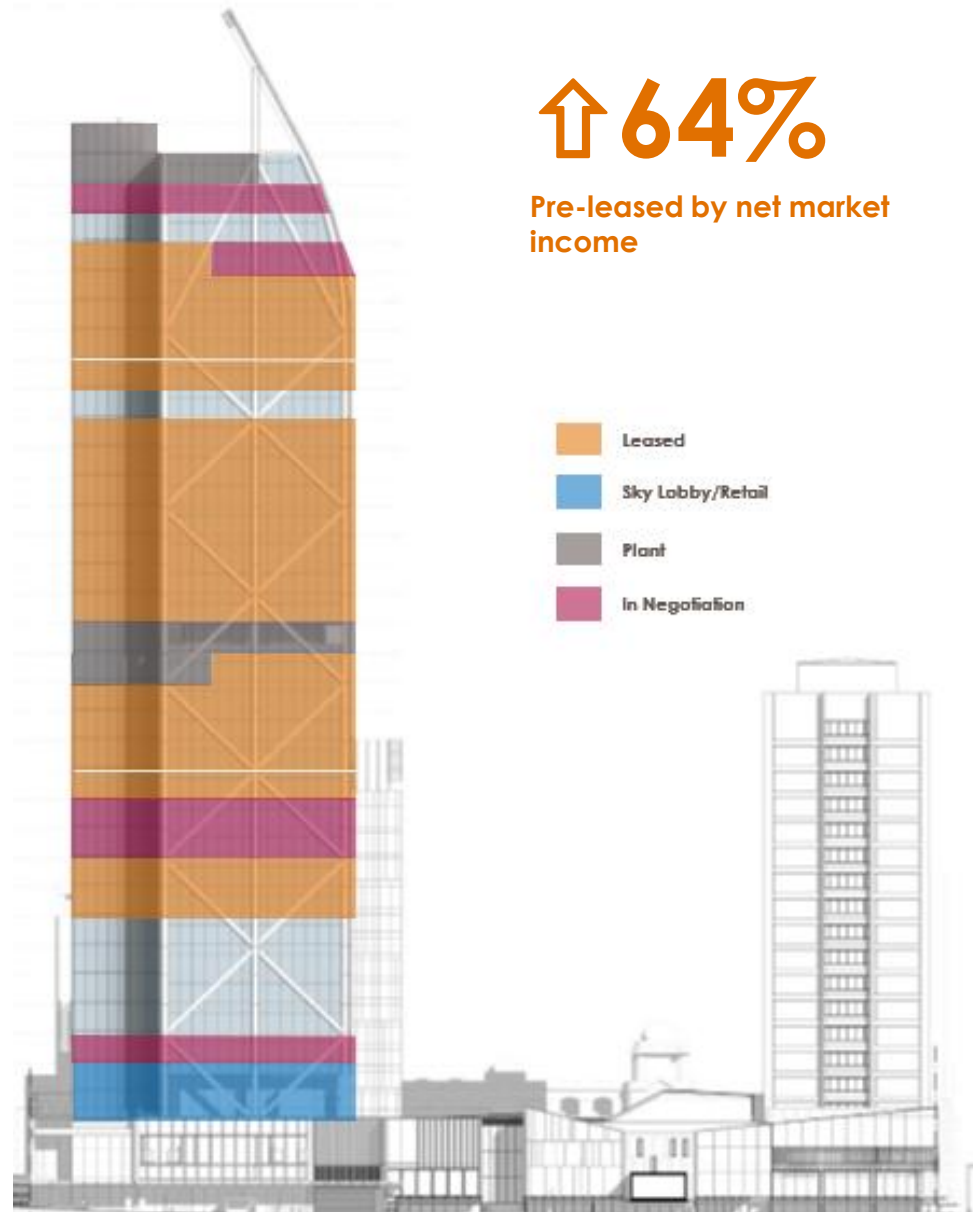
On-site materials recycled
and repurposed



Office Leasing

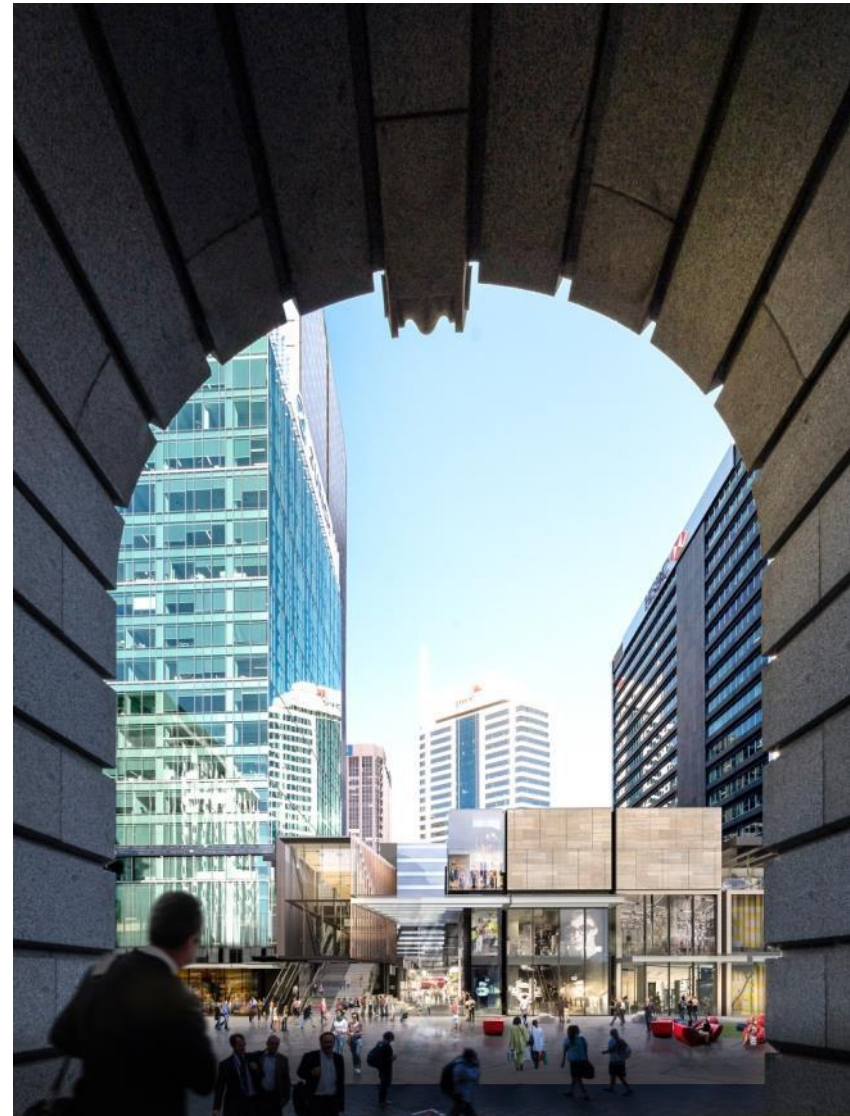
Continued leasing momentum

- Secured DLA Piper during the period across 2,700sqm
 - 33% of leasing from outside the portfolio
- Strong occupier demand with 4.5 floors under negotiation
- 6 full floors remain with 2.5 years until practical completion



Retail Leasing

- Achieved unconditional agreement to acquire Queen Elizabeth Square in December 2016
 - Land now incorporated into the development, restoring the retail edge to Lower Queen Street
- Provides certainty to advance leasing on the QE Square portion of the development
- Centre continues to attract high levels of interest
- Discussions with key anchor food and beverage operators is advanced



Wynyard Stage 1

Mason Brothers

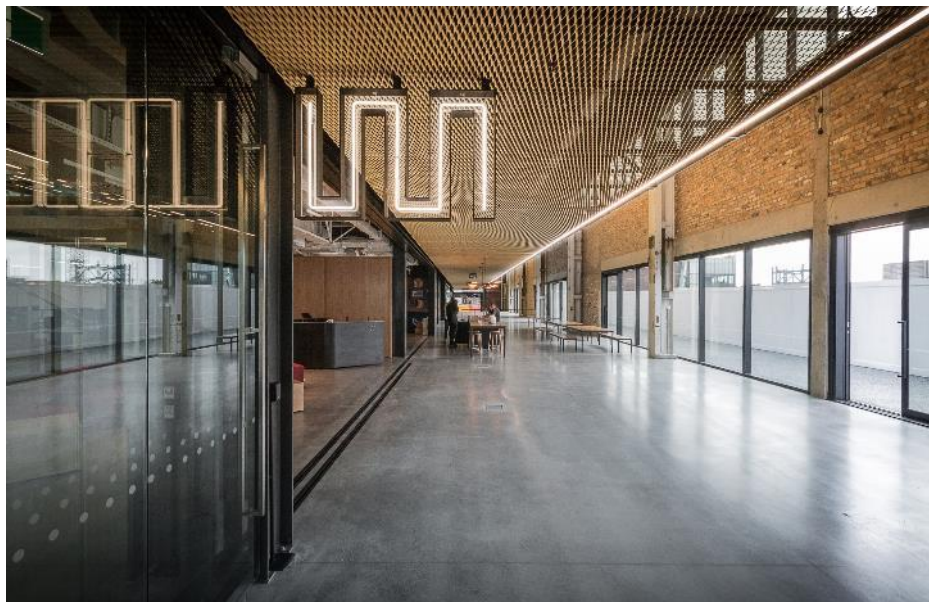
- Reached practical completion December 2016
- Major milestone for the business
 - First of the recent developments to be completed
- \$35.9m value on completion
- 100% occupied (December 15: 29%)

100%

Pre-leased, 8 months ahead of completion

Building 5A

- Roofing nearly complete with façade installation progressing well
- Practical completion remains on target for July 2017



Bowen Campus

- Crown committed to 32,400sqm of office space in August 2016
- Total project cost of \$203m, with an expected yield on cost of 7.5%
- Works commenced in November 2016
- First phase of construction includes:
 - Demolition of fixtures and fittings
 - Removal of original façade
- Practical completion remains on target for early 2019



Future opportunities

	Wynyard Quarter 2-4	Bowen Campus	1 Queen Street
Timing	2017+	2019+	2020+
Value on completion	\$200m	\$100m	\$200m
Use	Office	Office/Mixed	Office/Mixed

- Focus beyond 2020 for future opportunities
- Retain City Centre focus
- Supplementary uses considered to compliment office development



Section 2

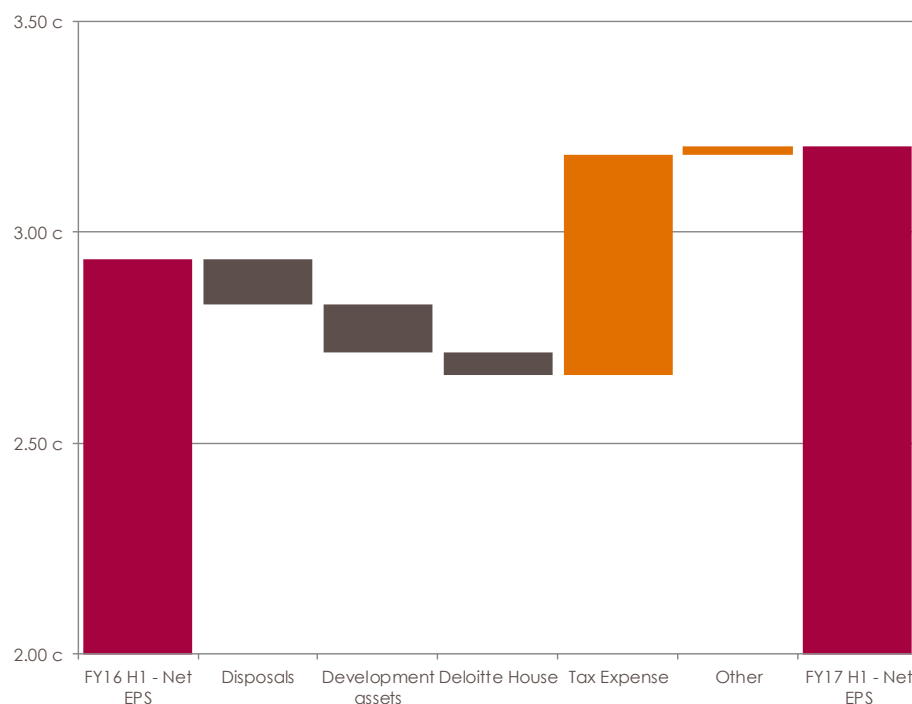
Interim Results and Capital Management



Financial performance

six months ended (\$m)	Dec-2016 Unaudited	Dec-2015 Unaudited	Movement
Net property income	\$45.9 m	\$53.7 m	(\$7.8 m)
Indirect expenses	(\$1.1 m)	(\$1.0 m)	\$0.1 m
Base fees	(\$3.8 m)	(\$4.1 m)	(\$0.3 m)
EBIT	\$41.0 m	\$48.6 m	(\$7.6 m)
Net interest expense	(\$1.6 m)	(\$6.0 m)	\$4.4 m
Operating profit before tax	\$39.4 m	\$42.6 m	(\$3.2 m)
Current tax expense	(\$0.6 m)	(\$6.9 m)	\$6.3 m
Operating profit after tax	\$38.8 m	\$35.7 m	\$3.1 m
Unrealised net gain / (loss) in value of investment and development properties	(\$12.1 m)		(\$12.1 m)
Net realised gain / (loss) on sale of investment properties		(\$2.7 m)	\$2.7 m
Unrealised net gain / (loss) on financial instruments	\$15.3 m	\$4.3 m	\$11.0 m
Depreciation recovered on sale		(\$10.0 m)	\$10.0 m
Deferred tax expense / (benefit)	(\$2.9 m)	\$7.5 m	(\$10.4 m)
Net profit after tax and unrealised gains	\$39.1 m	\$34.8 m	\$4.3 m
Weighted Number of Shares on Issue	1,211.1 m	1,211.1 m	-
Net operating income before tax - gross (cps)	3.25 cps	3.52 cps	(0.26 cps)
Net operating income after tax - (cps)	3.20 cps	2.95 cps	0.26 cps
Payout ratio	88%	92%	-4.0%

EPS reconciliation to comparative period

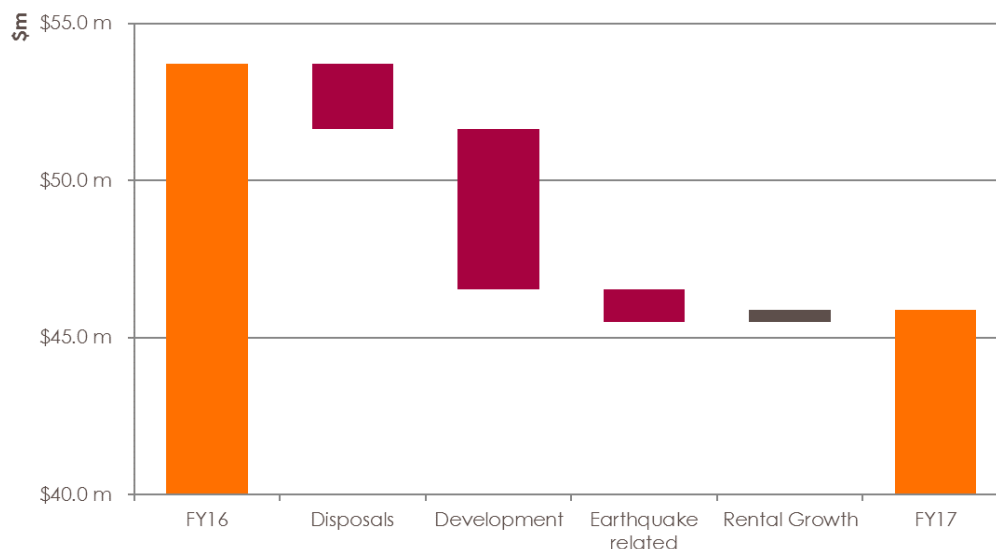


Net property income

	FY17	FY16	\$
AMP Centre	\$4.5	\$4.6	(\$0.1)
PwC Tower	\$8.4	\$8.2	+ \$0.2
ANZ Centre	\$9.3	\$8.9	+ \$0.4
HSBC House	\$4.0	\$4.1	(\$0.1)
Zurich House ¹	\$2.3	\$3.1	(\$0.8)
Auckland total	\$28.5	\$28.9	(\$0.5)
Pastoral House	\$2.2	\$2.2	+ \$0.1
157 Lambton Quay	\$3.1	\$3.0	+ \$0.0
State Insurance Tower	\$4.3	\$4.7	(\$0.4)
Mayfair House	\$1.6	\$1.5	+ \$0.1
No 1 The Terrace	\$3.2	\$3.6	(\$0.4)
Wellington total	\$14.4	\$15.0	(\$0.6)
Sub Total	\$42.9	\$43.9	(\$1.0)
Deloitte House	\$1.2	\$1.6	(\$0.4)
Investment portfolio total	\$44.0	\$45.5	(\$1.5)
Transactions and Developments			
125 The Terrace	-	\$1.3	(\$1.3)
171 Featherston Street	-	\$0.5	(\$0.5)
80 The Terrace	-	\$0.3	(\$0.3)
Downtown Shopping Centre	-	\$3.1	(\$3.1)
Bowen Campus	\$2.0	\$3.0	(\$1.1)
Mason Brothers	\$0.1		+ \$0.1
Total	\$45.9	\$53.7	(\$7.8)

- Allowing for asset sales and developments (including Zurich House) net property income was \$0.7 million lower than the comparative period
- Reduction due to Kaikoura earthquake
 - Adjusting for rental rebate at Deloitte House and earthquake related costs like for like income was \$0.4 million higher than the comparative period

Reconciliation of movement in net property income



Note 1: Variance relates to foregone income associated with Commercial Bay

Taxation reconciliation

- Tax expense fallen by \$6.3 million to \$0.6 million
- Lower tax charge due to:
 - Higher level of leasing costs
 - Capitalised interest
 - Disposal of fixtures and fittings at Bowen Campus
- Effective tax rate for FY17 expected to be around 5%

Tax expense reconciliation

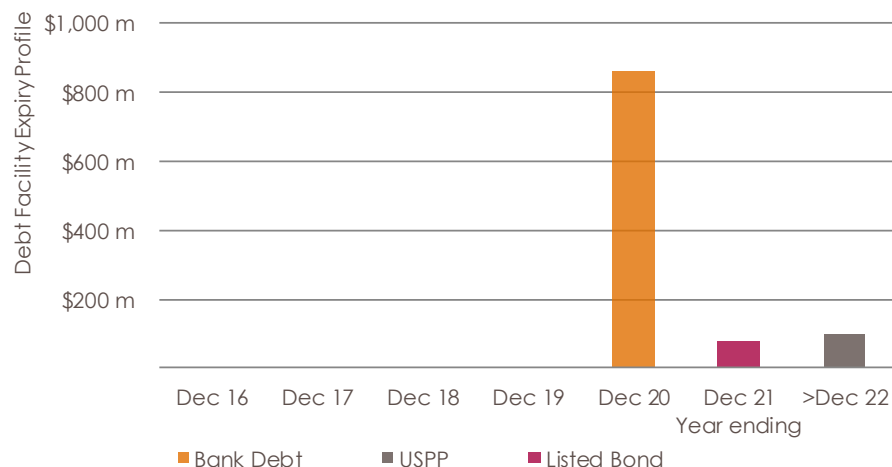
	H1 FY17	H1 FY16
Net profit before taxation	\$42.6 m	\$34.2 m
Less non assessable income		
Depreciation recovered on sale		\$10.0 m
Realised loss/ (gain) on sale of investment properties		\$2.7 m
Unrealised net gain / (loss) in value of investment and development properties	\$12.1 m	
Unrealised derivative financial instrument (gain)/loss	(\$15.3 m)	(\$4.3 m)
Operating profit before Tax	\$39.4 m	\$42.6 m
Other deductible expenses		
Depreciation	(\$8.8 m)	(\$10.9 m)
Development deductions	(\$28.5 m)	(\$3.3 m)
Other deductibles	\$0.1 m	(\$0.5 m)
Taxable income	\$2.1 m	\$27.8 m
Prior period washup		(\$0.9 m)
Current tax expense	\$0.6 m	\$6.9 m
Effective tax rate	2%	16%

Capital management

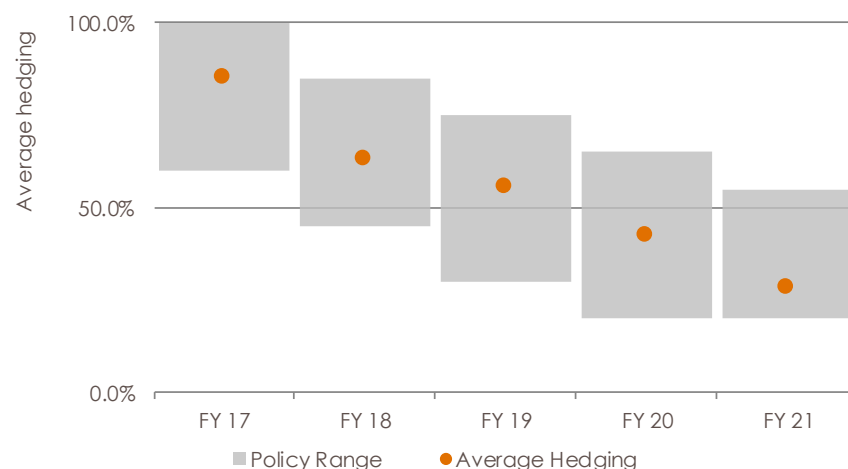
- Borrowings increased to \$324 million due to development expenditure
- Gearing increased to 20.1% (June 16 14.4%)
 - Provides for unconditional purchase of Queen Elizabeth Square
- Weighted average debt maturity of 4.5 years
- Over the next 12 to 18 months Precinct will look to increase its weighting to non bank funding sources

Key metrics	Dec 2016	June 2016
Debt drawn (\$m) ¹	324	221
Gearing - Banking Covenant	20.1%	14.4%
Weighted facility expiry (years)	4.5	5.1
Weighted average debt cost (incl fees)	5.8%	5.4%
Hedged	85%	90%
ICR (previous 12 months)	5.3 times	6.9 times
Total debt facilities (\$m)	1,033	1,033

Debt maturity profile



Hedging profile



An architectural rendering of a modern urban plaza. A tall glass skyscraper with a green-tinted facade dominates the background. In the foreground, a wide, paved plaza is filled with people walking and sitting. To the left, there is a red, modular seating area with people sitting on it. In the center, a wide staircase leads up to a building entrance. To the right, a large glass storefront of a shop is visible, displaying various items. The sky is clear and blue.

Section 3

Market and Portfolio Overview

Portfolio activity

- 23 Leasing transactions totalling 9,871 square metres
- Strong leasing activity in Wellington, consistent with strategy to secure occupancy
 - 157 Lambton Quay
- Office vacancy significantly reduced
- New leases in Auckland were secured at a 5.1% premium to valuation
- Market events (leasing and reviews) compared to valuation were 0.4% higher
- Compared with previous contract rent, settled market rent reviews were 5% higher (3.8% including fixed and index)

Leasing Events

New Leases	Number	Area
Auckland	8	1,616 m ²
Wellington	10	5,738 m ²
Sub Total	18	7,354 m²

RoR and Extensions		
Auckland	3	2,160 m ²
Wellington	2	357m ²
Sub Total	5	2,517 m²
Total Leasing	23	9,871 m²

Rent Reviews	Number	Area
Auckland	28	44,901 m ²
Wellington	13	5,954 m ²
Total Reviews	41	50,855 m²

	Increase to contract	Total rent
Market rent reviews	5.0%	\$0.5m
Fixed and indexed	3.8%	\$21.5m
Total reviews	3.8%	\$22.0m

Portfolio metrics

8.1 years

Weighted average lease term
(including development pre-leasing)

99%

Occupancy

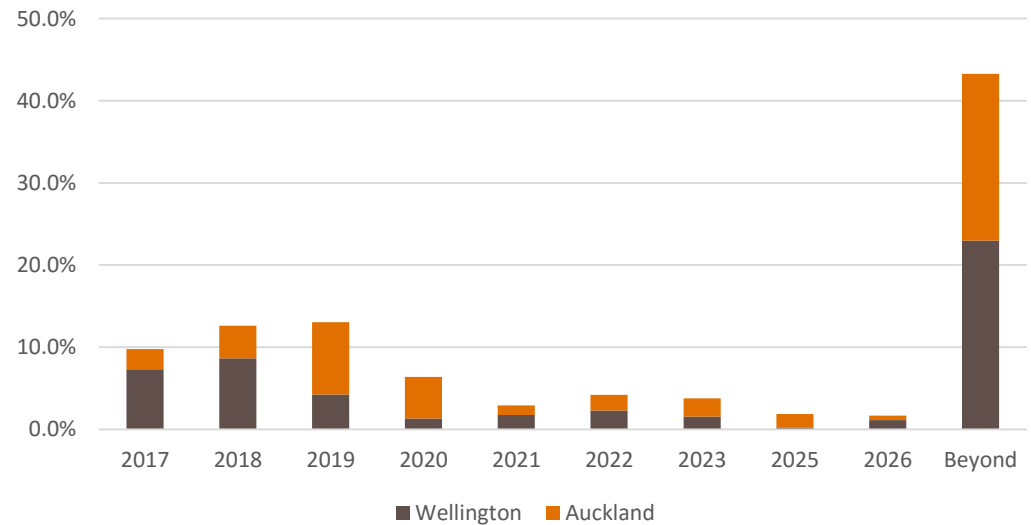
22%

of Auckland portfolio has a market event over the
next 12 months

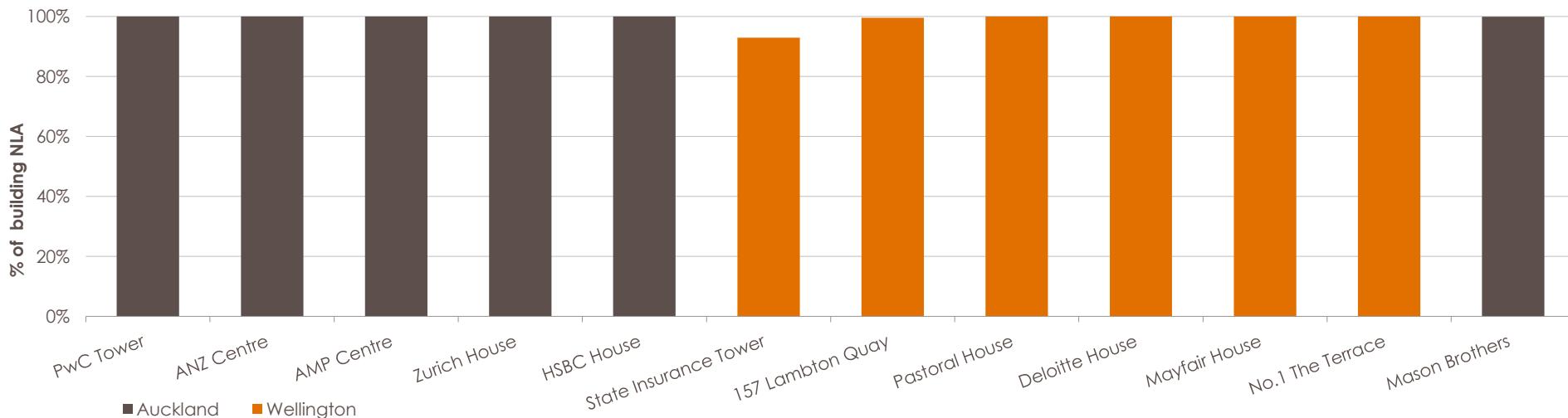
69%

weighting to Auckland

Lease expiry profile by Income (including pre-commit)

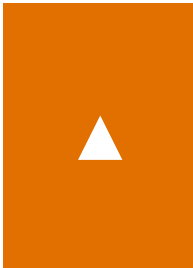


Occupancy



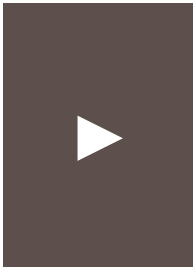
Auckland CBD office market

Occupier Demand



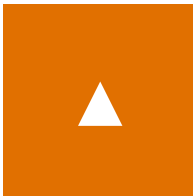
Prime CBD office vacancy remains at historic lows driven by occupiers continuing to upgrade or expand within existing prime space. Strong employment growth forecast to continue.

Supply



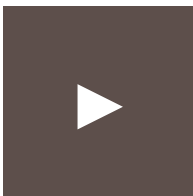
Fringe supply increasing however is largely subject to pre-commitment. CBD supply is yet to emerge and remains highly dependent on securing an anchor occupier or occupiers.

Rental Growth



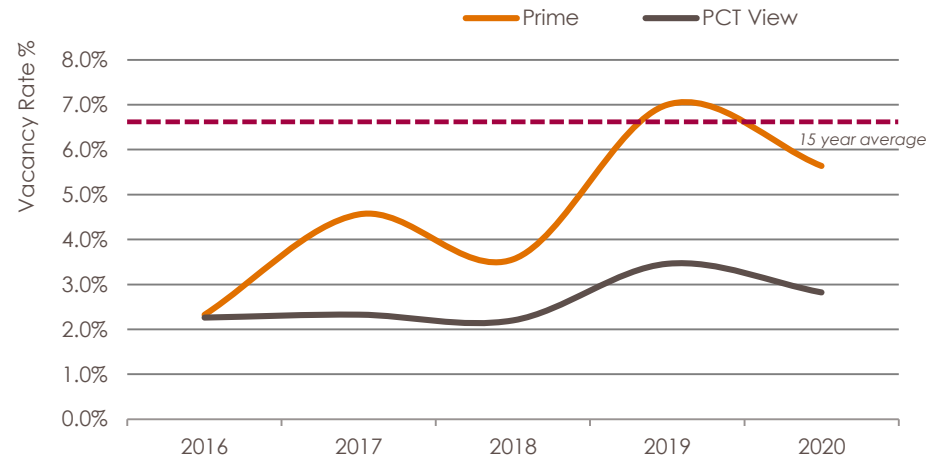
Limited available prime accommodation driving rental growth through increasing face rentals and decreasing incentives.

Cap Rates

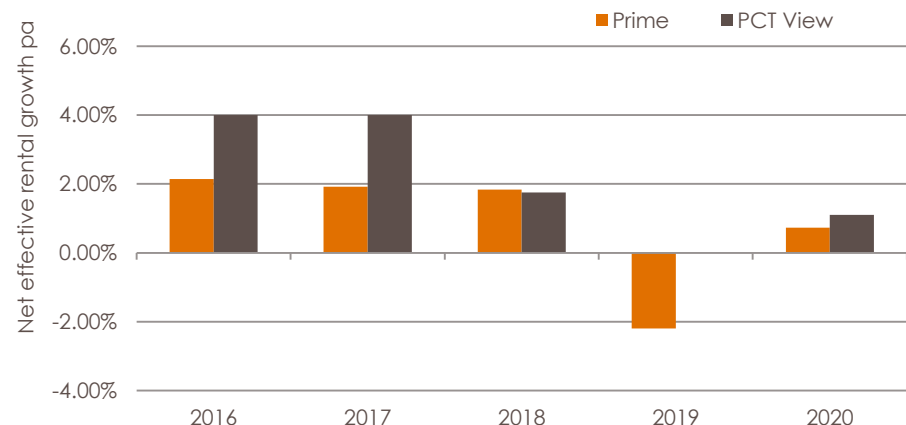


Investment activity remains strong, particularly for prime assets, however property lending and capital availability appears to be tightening.

Forecast vacancy (CBRE, Dec 2016)

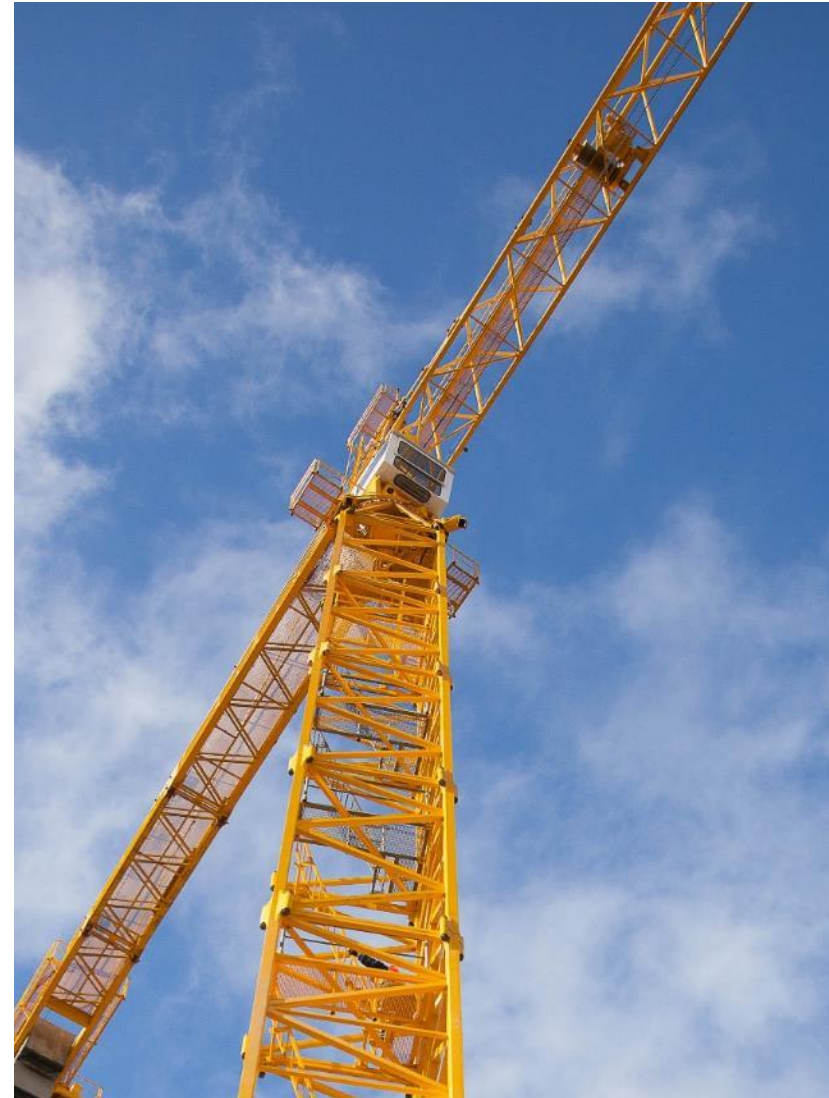


Forecast net effective rent growth (CBRE, Dec 2016)



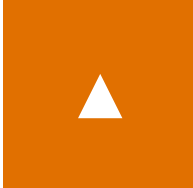
Auckland supply outlook

	August 2016	February 2017	Supply Risk Change
Construction Costs	Elevated	Elevated	Nil
Land Values	Elevated	Moderated	Slight increase
Funding availability	Good	Constrained	Decrease
Funding costs	Low	Increasing	Decrease
Outlook for supply	Moderate	Limited	Decreased



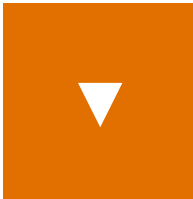
Auckland CBD retail market

Occupier Demand



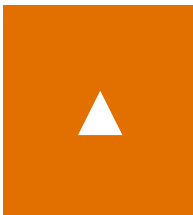
Historically low vacancy with continued demand from local and international retailers.

Supply



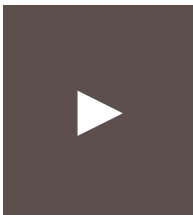
Limited new CBD development outside of Commercial Bay.

Rental Growth



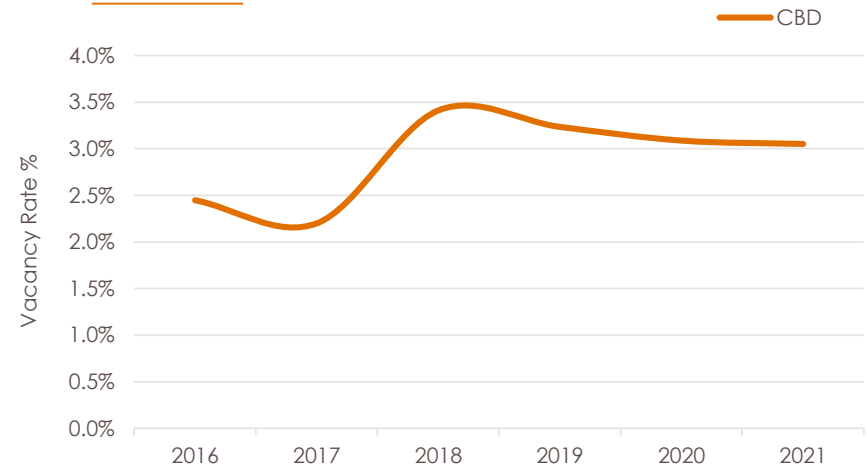
A scarcity of options and continued demand is driving rental growth. Key drivers remain location, size and adjacencies.

Cap Rates

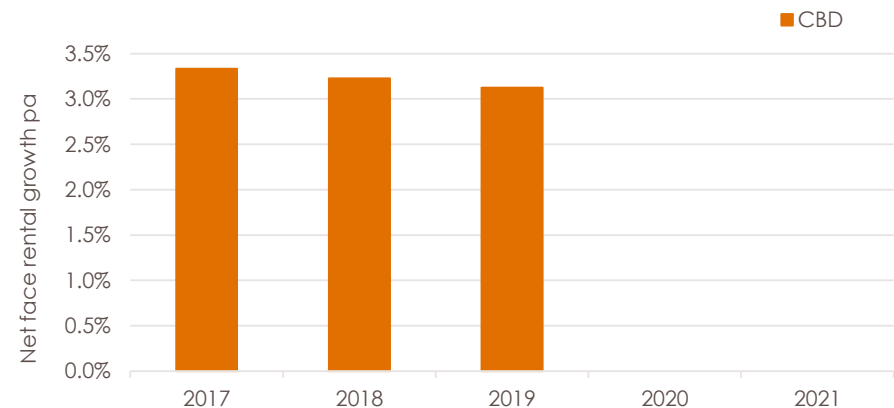


Prime CBD retail yields have firmed to cyclical lows. As monetary conditions tighten retail yields are forecast to stabilise.

Forecast vacancy (Colliers, December 2016)



Forecast net face rent growth (Colliers, December 2016)



Wellington CBD office market

Occupier Demand



Focus for occupiers has returned to the seismic performance of buildings. Demand somewhat unclear until the extent of stock withdrawn from the market is fully understood.

Supply



New stock in pipeline now largely leased. Significant withdrawals from market apparent. Greater supply certainty following WAP2 conclusion.

Rental Growth



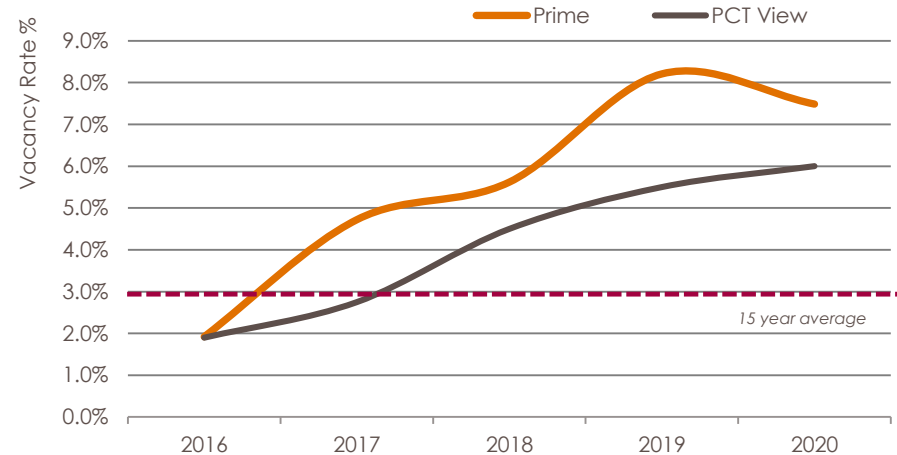
Two tier market likely to emerge with demand focused on seismically acceptable accommodation of which there is currently limited available supply.

Cap Rates

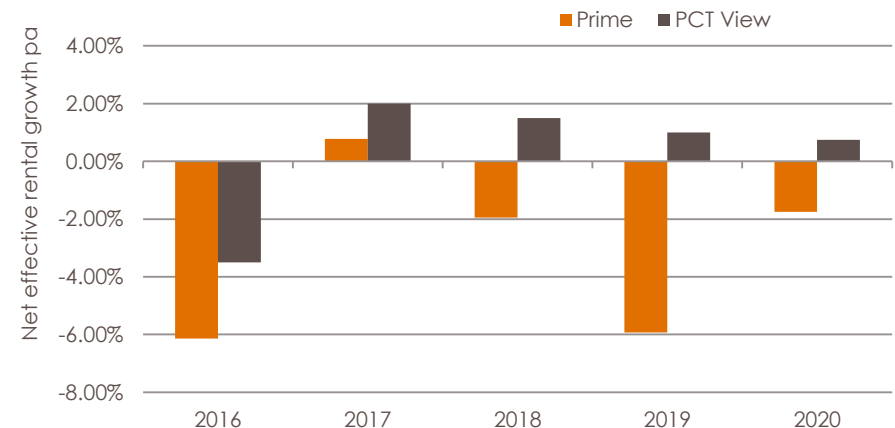


Investment activity put on hold following the earthquake with the full extent of the effect on the capital market not yet apparent. A likely repricing of risk for earthquake prone assets.

Forecast vacancy (CBRE, December 2016)



Forecast net effective rent growth (CBRE, December 2016)



Wellington portfolio seismic review

- Overall portfolio has performed well, with repair costs (ex- Deloitte) totalling c.\$250k
- Insurance market has re-priced Wellington risk upwards, but Auckland premiums largely unaffected
- Precinct benefits from May 2016 one year extension agreement, with 2017 renewal price pre-agreed
- 10 Brandon Street damage less extensive than initially feared
 - Partial re-occupation likely to occur shortly
- Seismic strengthening requirement identified with \$12m devaluation recorded
 - Physical investigations and design underway
 - Current NBS estimated at 40% to 60%
 - All options are being explored

Generator opportunity

- Precinct has conditionally acquired a 50% stake in Generator
 - Generator established in 2011, operates 3,000 square meters of co-working space over three sites mainly within the Britomart precinct in Auckland city centre
 - Strong management team and established operator
 - Generator will continue to function as a standalone business
- Generator is well aligned with Precinct's values and its strategy of being a city centre specialist.
- Benefits to Precinct:
 - Exposure to growing market sector reflecting changing workplace trends
 - Provides incubation pipeline of growth focused occupiers
 - Potential for expansion with attractive returns
 - Increasing market of potential users of Precinct buildings
 - Opportunity to enhance the amenity and service levels that Precinct can offer its clients

Co-working market overview

- Co-working provides a flexible workspace solution for businesses ranging from 1 to around 30 employees
- A curated environment with a focus on creating a community of businesses and professionals rather than simply a workplace
- Typically businesses pay membership fees as well as a “user pays” model of shared meeting room, conference and administration support services
- This city centre office based market segment is currently not catered for within Precinct's traditional office buildings.
- Market research indicates that this segment is growing significantly, including amongst more traditional business on a membership basis or to supplement traditional space
- Generator is operating at capacity with growth opportunities being actively explored
- Significant synergetic opportunity for Precinct clients to utilise Generator facilities as well as for Precinct to cater for businesses which outgrow co-working solutions



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Conclusion

Conclusion and outlook

- Global uncertainty remains elevated
- NZ outlook remains positively underpinned by:
 - Population growth
 - Tourism
 - Construction activity
- Precinct well placed:
 - Strong occupier markets
 - Wellington market presents opportunity
 - Strategic projects with significant pre-commitment levels
 - Fixed price construction contracts
 - Secured funding
 - Capable team with experience
 - Timing of market cycle is supportive