Creating City Centre Precincts

Precinct Properties New Zealand Annual Results

August 2018

precinct
PROPERTIES NEW ZEALAND

Agenda

Precinct Properties New Zealand Limited
Scott Pritchard, CEO
George Crawford, COO
Richard Hilder, CFO

Note: All $ are in NZD

Highlights

- **$254.9 m NPAT (+$92.8 m)**
- **$208.7 m revaluation gain**
- **Operating earnings 6.32 cps (+2.5%)**
- **$191 m capital recycling**
  - Sale of 50% interest in ANZ Centre
  - Divestment of 10 Brandon Street
- **$250 m non bank funding secured**
- **$760 m bank debt facility refinanced** (post balance date)
- **Strong leasing success across developments and stabilised portfolio**

85%

Development portfolio committed

12.9%

NTA uplift to 1.40

Commitment to One Queen Street development (August 2018)

Major themes

- **City centres will outperform**
  - Growth in resident population
  - Higher GDP
  - Auckland as a gateway city
  - Wellington is the capital city and benefits from strong demand from the Crown
  - Benefits of agglomeration
- **Strong correlation between population, working age population, city centre employee numbers and demand for office space**
  - Demand forecast to grow with limited supply evident
- **Construction market difficulties will continue leading to replacement costs exceeding market value**
  - Underpins market values
- **Auckland activity levels remain elevated**
  - Population growth
  - Infrastructure investment
  - Strong demand for Auckland assets
  - Tourism and leisure growth

Strategy overview

Precinct is a specialist city centre real estate investment company. It invests in high quality strategically located city centre real estate with a focus on sustainability.

Our strategy is focused on concentrated ownership of real estate in Auckland and Wellington creating spaces to thrive, adopting a long term view and offering our occupiers high quality service.

Strategy progress FY18

Our People

- Focus on advancement for high-performing individuals;
  - 26 internal promotions made during FY17 & FY18.
- Strong focus on diversity and inclusion;
  - Overall gender diversity improving by 14% (now 43% female)
  - 10% at the Senior Leadership team level (now 40% female)
- Commercial Bay has driven 5 new roles to be placed during FY19

Operational Excellence

- 99% occupancy (100% AKL; 98% WLG) and WALT of 8.7 years
- $191 m sold in FY19 with $565 m sold over past 4 years
- $250 m capital sourced with 36% of debt facilities non-bank
- Portfolio to contain $1.3 b Green Star rated buildings

Developing the Future

- Commercial Bay: Occupier commitments increased to 75-80%
- Bowen Campus: On programme and budget and 100% leased (office)
- Commitment to One Queen Street development with appointment of InterContinental Hotels Group as operator

Sustainability framework

Section 1

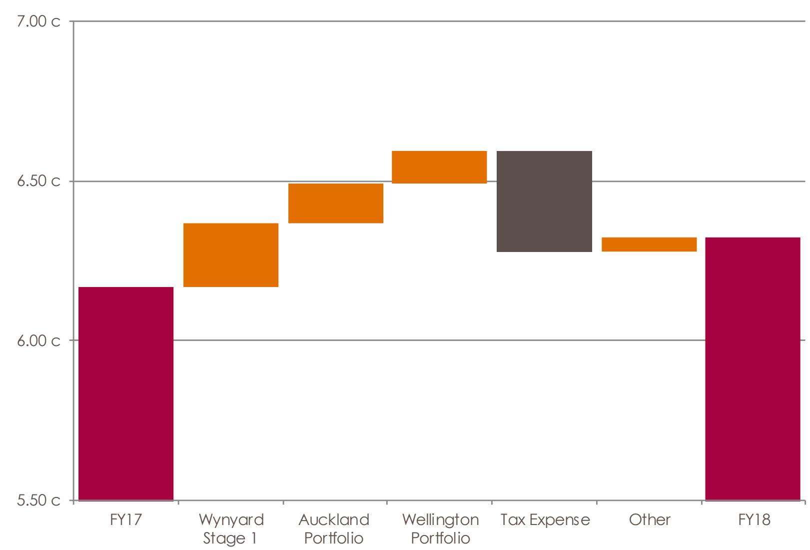
Financial results and capital management

Financial performance

For the 12 months ended ($m)	30 June 2018 Audited	30 June 2017 Audited	Movement
Investment portfolio	$74.4 m	$71.7 m	+ $2.7 m
Transactions and Developments	$20.9 m	$18.7 m	+ $2.2 m
Operating income before indirect expenses	**$95.3 m**	**$90.4 m**	**+ $4.9 m**
Indirect expenses	($2.2 m)	($2.1 m)	($0.1 m)
Manager's performance fees			
Manager's base fees	($8.0 m)	($7.7 m)	($0.3 m)
EBIT	**$85.1 m**	**$80.6 m**	**+ $4.5 m**
Net interest expense	($2.2 m)	($3.4 m)	+ $1.2 m
Operating profit before tax	**$82.9 m**	**$77.2 m**	**+ $5.7 m**
Current tax expense	($6.3 m)	($2.5 m)	($3.8 m)
Operating profit after tax	**$76.6 m**	**$74.7 m**	**+ $1.9 m**
Deferred tax (expense) / benefit	($17.0 m)	($1.9 m)	($15.1 m)
Unrealised net gain / (loss) in value of investment and development properties	$208.7 m	$77.5 m	+ $131.2 m
Share of profit or (loss) of joint ventures	($2.3 m)		($2.3 m)
Unrealised net gain / (loss) on financial instruments	($11.1 m)	$11.8 m	($22.9 m)
Net profit after tax and unrealised gains	**$254.9 m**	**$162.1 m**	**+ $92.8 m**
Net operating income before tax - gross	6.84 cps	6.37 cps	+ $0.47 cps
Net operating income after tax - post performance fees	6.32 cps	6.17 cps	+ $0.16 cps
Net operating income after tax - pre performance fees	6.32 cps	6.17 cps	+ $0.15 cps
Dividend	5.80 cps	5.60 cps	+ $0.20 cps
Payout ratio to operating profit after tax	91.7%	90.8%	0.9%
AFFO payout ratio	100.0%	103.1%	(3.1%)

- Operating profit before tax increased by 7.4% demonstrating strong operating result
- 2.5% increase in operating income after tax to 6.32 cps
  - Strong lift in net property income
- Revaluation gain driven by development profit recognition contributed to an increase in net profit after tax
- Higher tax expense due to higher pre tax profit, lower level of leasing fees and disposal of depreciable assets

Net EPS Reconciliation

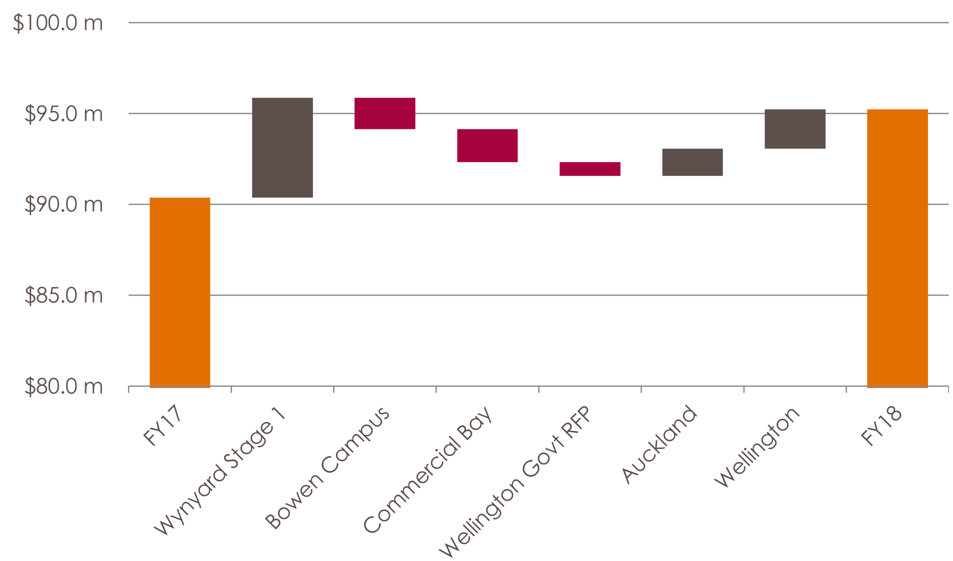


Net property income (NPI)

For the 12 months ended $m	30 June 2018	30 June 2017	Δ
AMP Centre	$9.5	$9.2	+ $0.3
PwC Tower	$17.4	$16.7	+ $0.6
ANZ Centre	$18.2	$17.9	+ $0.3
Zurich House	$4.8	$4.6	+ $0.3
Auckland total	**$49.9**	**$48.4**	**+ $1.5**
Pastoral House	$4.5	$4.3	+ $0.1
157 Lambton Quay	$7.6	$6.5	+ $1.1
Aon Centre	$9.1	$9.3	($0.2)
Mayfair House	$3.4	$3.2	+ $0.1
Wellington total	**$24.6**	**$23.4**	**+ $1.2**
Investment portfolio	**$74.4**	**$71.7**	**+ $2.7**
Transactions and Developments			
HSBC House	$6.3	$8.1	($1.9)
Commercial Bay	$0.0	($0.1)	+ $0.1
Mason Brothers	$2.3	$1.3	+ $1.0
12 Madden Street	$4.5	$0.1	+ $4.5
Bowen Campus	$0.3	$2.0	($1.7)
10 Brandon Street	$2.1	$1.1	+ $1.0
No 1 The Terrace	$5.4	$6.1	($0.8)
Total	**$95.3**	**$90.4**	**+ $4.9**

- NPI increased $4.9 m to $95.3 m (+5.4%)
- After allowing for developments and non recoverable earthquake costs, like for like income growth was **3.0%** higher than previous comparable period.
  - Rental growth increased Auckland NPI by 3.1%
  - Improved occupancy increased Wellington NPI by 2.9%

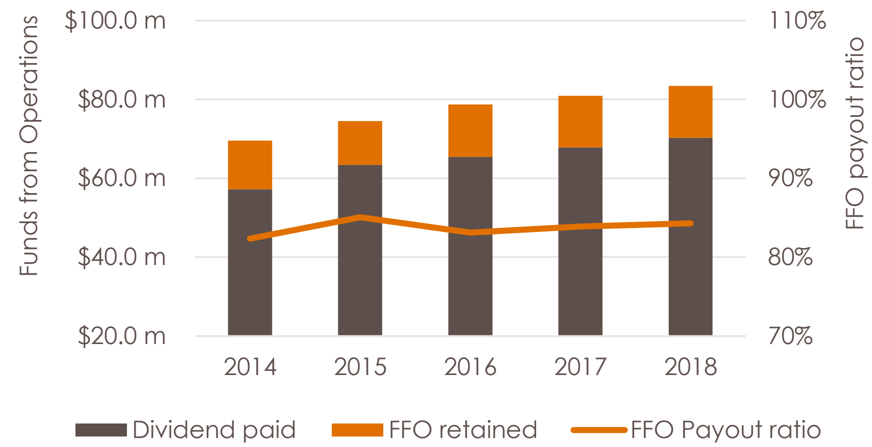
Reconciliation of movement in net property income



Sustainable dividend

- Moved to a sustainable AFFO based policy in 2011
- Over the past 5 years the FFO payout ratio has averaged 84%, retaining $62.9 m
  - Averaged 101% AFFO payout ratio
- FY18 FFO grew by 3.1% to 6.89 cps
- FY18 AFFO grew by 6.8% to 5.80 cps
- Dividend and AFFO growth has been supported by disposal of non-core assets, development completions and rental growth

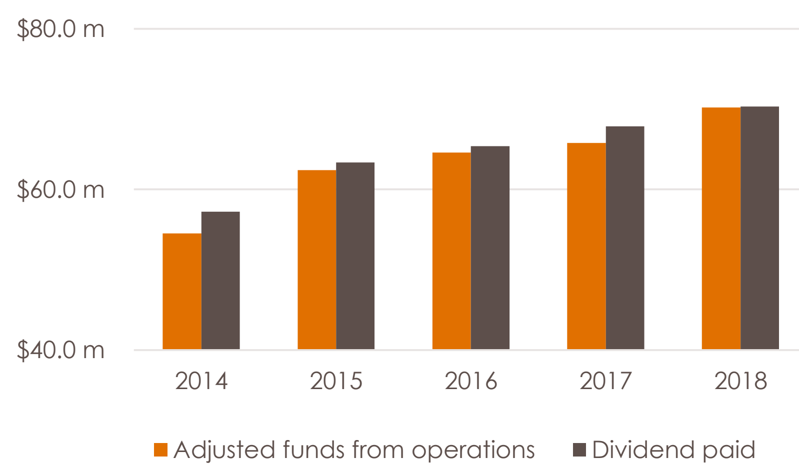
Funds from operations (FFO)



Dividend summary

	2018	2017	2018	2017
Funds from operations	$83.4 m	$80.9 m	6.89 cps	6.68 cps
Amount retained	($13.1 m)	($13.0 m)	(1.09 cps)	(1.08 cps)
Cash dividend paid	**$70.3 m**	**$67.9 m**	**5.80 cps**	**5.60 cps**
Dividend payout ratio				
Funds from operations	84%	84%		
Adjusted funds from operations	**100%**	**103%**		

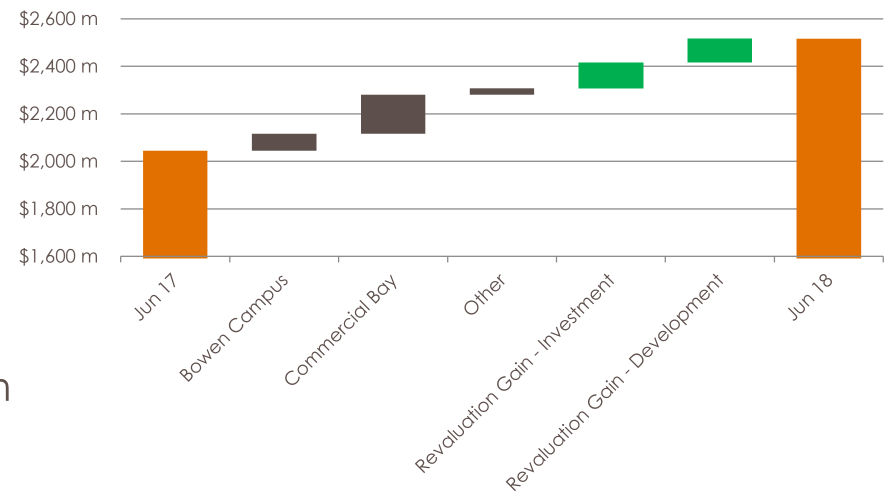
Adjusted funds from operations



Balance sheet

- Revaluation of **$208.7** m or **9.0%**
  - Attributable largely to cap rate compression and development profit recognition
  - Investment properties cap rate compressed from 6.2% to 5.8%
- Contributed to 12.9% increase in NTA to $1.40
- Active development properties "on completion" values increased by around $77 m

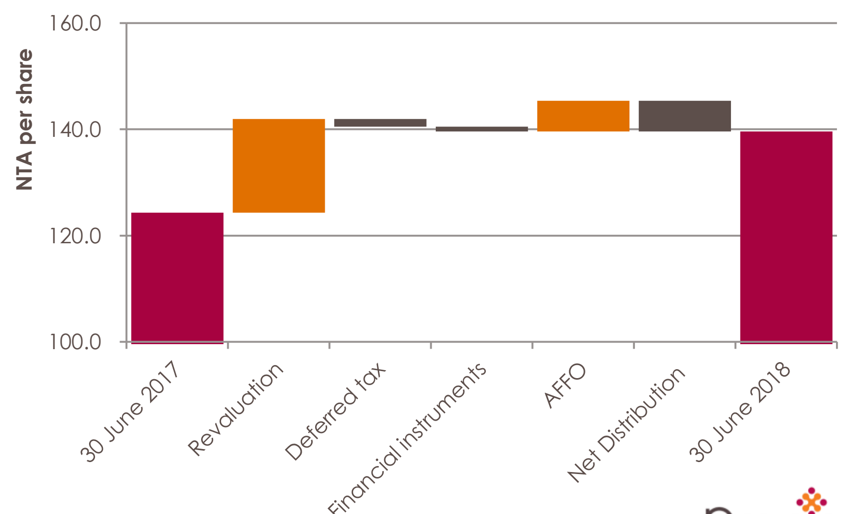
Change in asset valuations



Portfolio valuation

	Cap rate	Valuation	Revaluation ▲	▲ %
Total Investment Properties				
Wellington	6.8%	$435.8 m	$0.1 m	0.0%
Auckland	5.4%	$1,232.8 m	$108.3 m	9.6%
Subtotal	**5.8%**	**$1,668.6 m**	**$108.4 m**	**6.9%**
Total Development Properties				
Bowen Campus Stage One	6.0%	$178.6 m	$2.2 m	1.2%
Bowen Campus Stage Two		$11.5 m	($3.0 m)	-20.7%
10 Brandon Street		$10.2 m	($12.9 m)	-55.8%
Commercial Bay	4.9%	$648.0 m	$114.0 m	21.3%
Subtotal	**5.5%**	**$848.3 m**	**$100.3 m**	**13.4%**
Total properties	**5.7%**	**$2,516.9 m**	**$208.7 m**	**9.0%**

Movement in net tangible assets per share



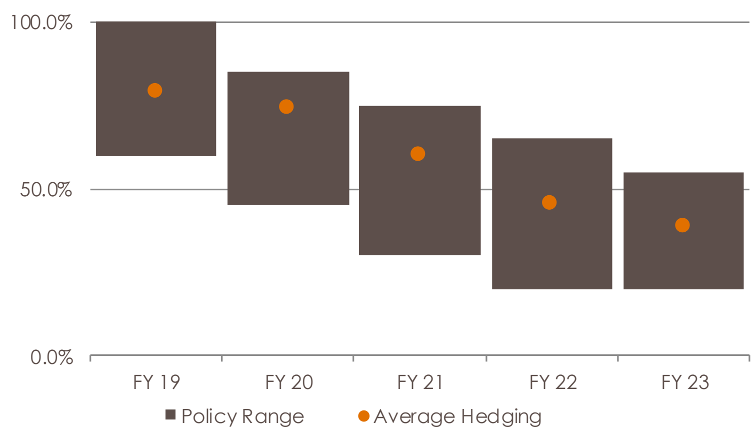
Capital management

- Total borrowings increased to $751 m related to development spend at Bowen Campus and Commercial Bay
- $250 m of non bank funding secured in period
  - $150 m 4 year subordinated convertible note
  - $100 m 7 year senior secured bond
- 36% funding sourced from non bank sources
- Gearing as measured under borrower covenants is 25%
- Weighted average interest rate of 5.3%

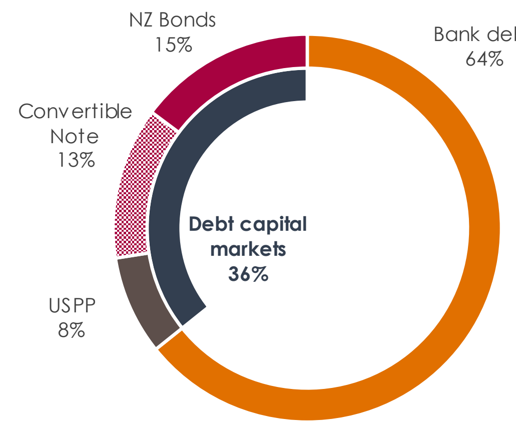
Key metrics	June 2018	June 2017
Debt drawn ($m) [1]	**751.4**	**452.1**
Gearing - Banking Covenant	**25.0%**	**25.1%**
Weighted facility expiry (years)	**3.3**	**4.0**
Weighted average debt cost (incl fees)	**5.3%**	**5.6%**
% of debt hedged	**84.5%**	**65.3%**
ICR (previous 12 months)	**2.4 times**	**3.9 times**
Weighted average hedging (years)	**3.2**	**2.7**
Total debt facilities ($m)	**1,183**	**1,033**

1 Excludes the USPP note fair value adjustment of $15.0 m (June 2017: $8.8 m). Interest bearing liabilities are detailed in Note 15 of the Financial Statements.

Hedging profile



Funding diversity



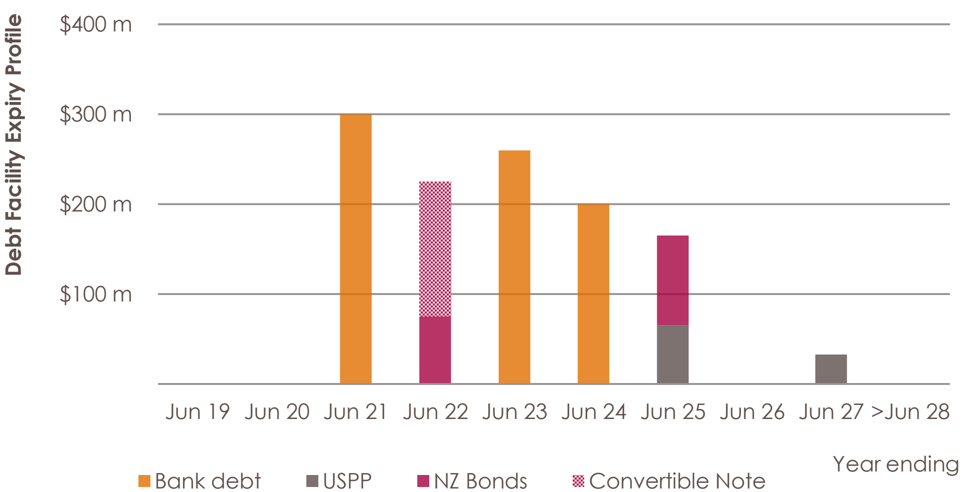
Capital management supporting strategy

- Non bank funding secured in period provides valuable tenor and funding diversity
- Post balance date, Precinct successfully refinanced its $760 m bank debt facility which was due to expire in 2020
  - Significantly reduces November 2020 refinance risk
  - Ladders and extends weighted facility expiry from 3.3 years to 4.1 years
- Over $400 m of funding liquidity
- $191 m of assets sales announced in the period
  - Provides funding liquidity to deliver future developments
  - Reduces proforma gearing as at 30 June 2018 to 19.4%

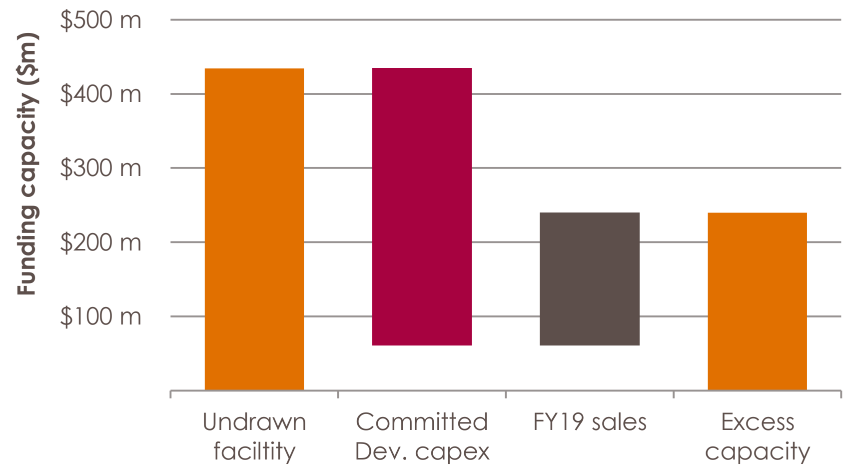
19.4%

Proforma gearing, following asset sales

Debt maturity profile (post refinance)



Funding liquidity as at 30 June 2018



FY19 Earnings and dividend guidance

6.60 cps

FY19 net operating income after tax, before performance fees

6.00 cps

FY19 dividend guidance

+3.4%

Increase in dividend

- Earnings growth consistent with the earnings pathway provided in 2014 and 2016
- Lift in dividend based on confidence in earnings growth and execution of strategy
  - Completion of Charles Fergusson Tower in December 2018. Bowen Campus office 100% pre-committed to Crown
  - Leasing progress at Commercial Bay
  - 99% occupancy of the investment portfolio
  - Confidence in occupier demand for Auckland and Wellington markets
  - Potential for under supplied office market
  - Under-renting of 6.4% providing strong reversionary potential
  - Contribution of H&M following opening on 30 August

Section 2

One Queen Street development

One Queen St – Commercial Bay Stage Two

- **Major mixed-use development comprising:**
  - Luxury 244 room waterfront hotel
  - Premium office totaling 8,700 sqm
  - Iconic rooftop hospitality venue
  - Fully integrated into Commercial Bay retail

- **InterContinental Auckland**
  - 15 year management agreement with IHG
  - Precinct returns based on hotel performance

- **Premium office**
  - Boutique offer over upper 7 floors
  - Unparalleled views
  - Heads of Agreement[1] signed over 3,700 sqm, which lifts commitment to 75%

[1] Signed heads of agreement records all commercial terms agreed subject to negotiation and execution of binding documentation

One Queen St – Commercial Bay Stage Two

- Increases size of building by 2,200 sqm
- Commercial office totals 8,700 sqm
  - Ground floor Queen Street lobby with dedicated office floor lift provision
  - Highly efficient 1,260 sqm floor plate
- Hotel occupies around 11,600 sqm or 57% by area
  - Ground floor corner Queen Street entry
  - First floor comprises lobby, meeting suite and hotel F&B, connection to Commercial Bay retail
  - Level 3 – 13 hotel rooms and suites
- Construction scheduled to commence H1 2020:
  - Hotel opening early 2022
  - Office/rooftop F&B – opening mid 2022
- Fixed price lump sum construction contract with LT McGuinness
  - Significant experience (Bowen Campus, Wynyard Quarter)

One Queen St – Funding and return metrics

Funding

- Development is to be fully funded from existing debt facilities
- Sale of 50% interest in ANZ Centre at 5.25% yield maintains strong balance sheet
- Committed gearing will increase from 29% to 34%

Financial metrics

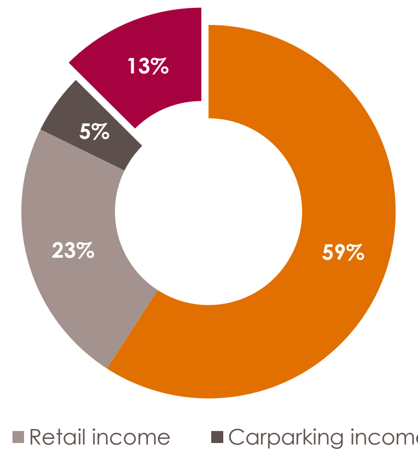
- Total project cost of $298 million
- Expect stabilised profit on cost of 15%
- Capital reinvested at c. 7% yield
  - Spread to ANZ Centre allows 0.20 cps or 3.0% EPS accretion
- Value on completion of $342 million
- Capitalisation rates:
  - 5.125% office and 6.625% hotel

One Queen St – Commercial Bay Stage Two

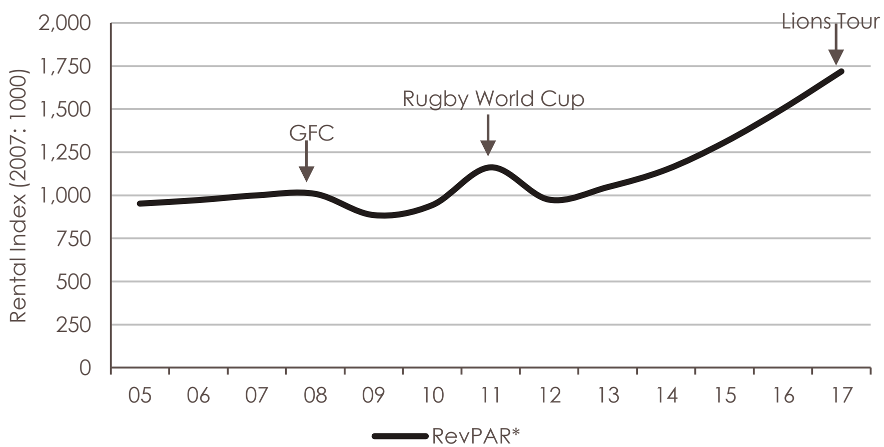
Mixed-use benefits

- Leverage One Queen St's unique waterfront location to gain exposure to NZ's no. 1 export industry (tourism)
- Hotel use will increase and de-risk retail turnover at Commercial Bay
- Highly complementary to corporate office, as well as driving evening and weekend demand for retail and F&B
- Increased earnings diversity with the hotel forecast to contribute approx. 13% of the Commercial Bay precinct's income once complete and stabilized
- The Auckland hotel sector has significantly outperformed post-GFC, driven by strong international visitor demand
- Demand growth forecast to continue. Supply response has begun, but constrained by construction cost pressures

Commercial Bay income by use



Indexed hotel RevPaR

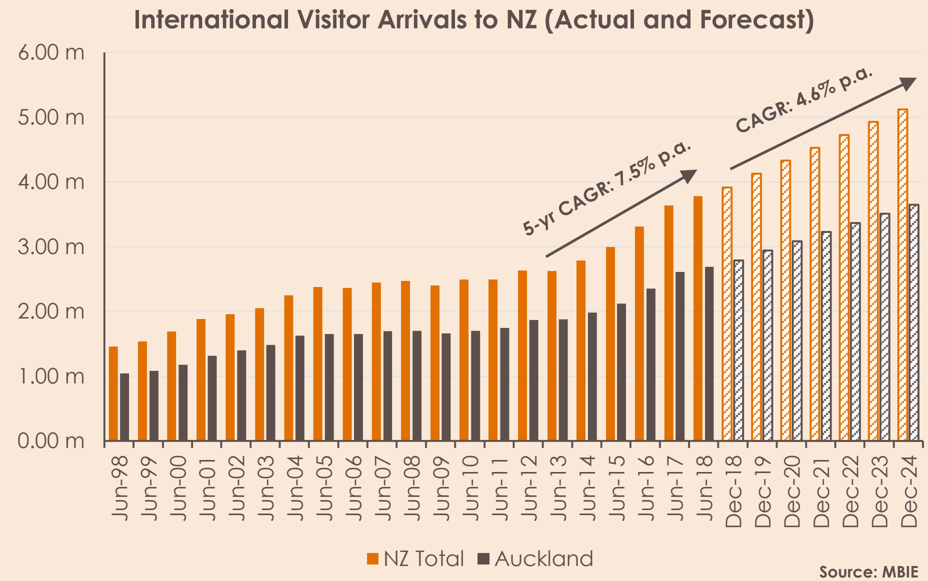


Source: Tourism Industry Aotearoa

* RevPAR = Revenue per Available Room = Average Daily Rate x Occupancy Rate

Auckland hotel market

Auckland is expected to capture the majority of the forecast growth in inbound visitation (**5.1 million p.a.** by 2024)



51%

Of guest nights in Auckland hotel accommodation attributed to domestic travellers

3.0% p.a.

Continued GDP growth expected to underpin domestic guest nights and occupancy rates

101,000

Additional annual guest nights expected to be generated by the New Zealand International Convention Centre

214,569

Guest nights attributed to event attendees when America's Cup was held in 2003 - similar impact likely in 2021

Auckland hotel market

33%

Increase in Auckland hotel/ motel/ serviced apartment guest nights between 2008 and 2017

4,000

Additional rooms required to cater for current demand projections according to NZTE

5%

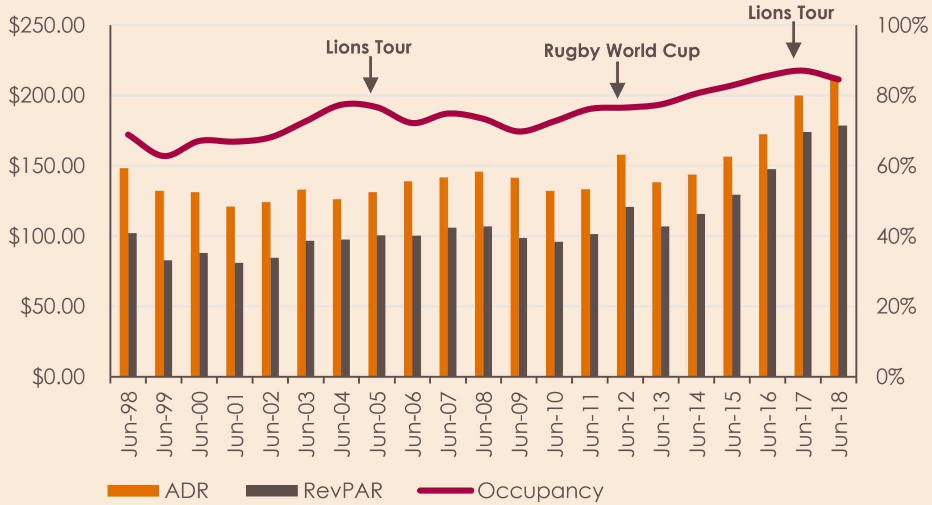
Net change in stock over the same period (source: Stats NZ)

~1,000

Projected shortfall in required new stock based on current construction activity and probability-weighted future supply

Auckland hotels have achieved significant growth in occupancy (**+9%**) and room rates (**+53%**) since 2013 due to imbalance in demand and supply

Auckland Hotel Market KPI's – Rolling 12 Month Averages



Source: Tourism Industry Aotearoa

Note 1: ADR = Average Daily Rate = average price paid per room per night (ex taxes/commission)

Note 2: RevPAR = Revenue per Available Room = Average Daily Rate x Occupancy Rate

Section 3

Developments

Commercial Bay

Since launch, **$158 m** increase in value on completion to **$1 billion**

$283 m expected profit on completion

7.5% expected yield on cost

Overall development **75-80%** committed for retail and office

Successful hand-over of retail phase one – H&M to open 30 August

Financial metrics

	Commencement	Current	Change
Total project cost	$681 m	$685 m	$4 m
Value on completion	$853 m	$1,011 m	$158 m
Return on cost	**19.4%**	**41.0%**	**21.6%**

	To date	FY19	FY20
Indicative and actual spend	$409 m	$236 m	$41 m

Commercial Bay retail

- Strong retail leasing progress achieved advancing commitments to **76%** (2017: 46%)
- Enquiry levels remain elevated and expect leasing momentum to continue into 2019
  - F&B well advanced
  - Fashion retail advancing

H&M

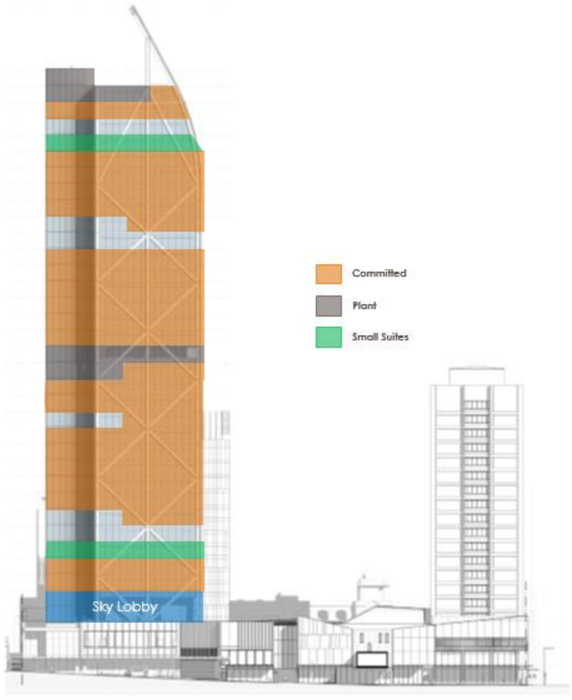
H&M will be the first Commercial Bay flagship store when it opens on 30 August 2018 encompassing 3,800 sqm over four levels.

Located on the corner of Customs and Queen Street the four-level shop will be the biggest H&M to date and will feature women's, men's, kids and the homeware collection.

Commercial Bay office

Office commitments progressed to **78%** (2017: 66%)

- All commitments from outside of the portfolio:
  - Terms agreed are generally consistent with feasibility and valuation
  - Excluding small suite offer (see below), just 6,000 sqm left to lease

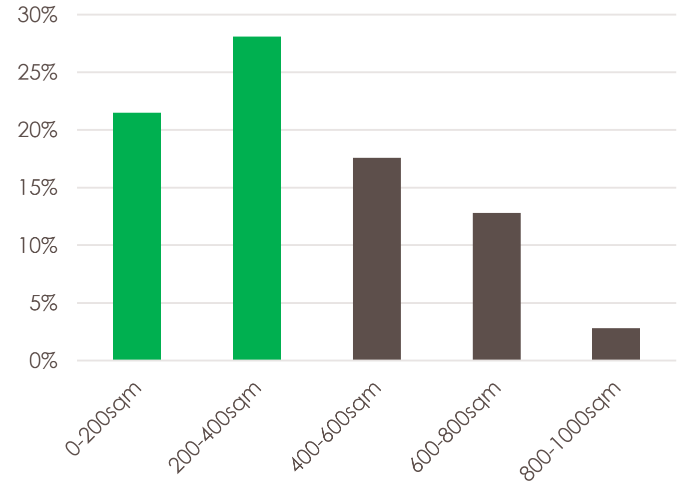


Small suites

- Advancing small suites offer across two floors
- Tower well positioned to capture this market
- Efficient floor plate offers ability to create suites aligned with tenant space requirements

Research:

- Expiry profile for sub 500 sqm occupiers between 2019 and 2022 totals 31,400 sqm across 104 occupiers in prime grade
- **60% or 32,000 sqm** of vacancy take up between June 16 – Dec 17 was for space between 0-400 sqm
  - 7.6% in A-grade stock, 0% in premium stock
  - Low figures illustrate the lack of prime space available



Source: Colliers International Research

Commercial Bay programme update

- Following considerable engagement with the main contractor, Fletcher Construction, a revised completion programme has now been provided.

- The programme provided has been independently reviewed by Precinct's expert programmer, RCP.
  - Confirmed revised dates are achievable, subject to main contractor's performance

- **Revised completion dates:**
  - **Commercial Bay retail** **September 2019**
  - **New PwC Tower** **December 2019**

- Precinct remains confident with the provisions of its construction contract, which protect Precinct from losses due to contractor delay.
  - Liquidated damages will effectively mitigate the impact on Precinct from any loss of income and other costs over the delay period.

- Precinct continue to work closely with retailers and occupiers to communicate the revised occupation dates.

Bowen Campus

Uplift in as-if complete value to **$240 m** providing for a profit on cost of **$37 m** (18%)

Charles Fergusson Tower

- On target for December 2018 completion
- Rent commencing on 4 floors already

Bowen State Building

- Occupation on target for NZDF in Q3 2019
- Rent to commence April 2019
- Targeted yield reduced through increases in insurance and rates

Financial metrics

	Commencement	Current	Change
Total project cost	$203 m	$203 m	-
Value on Completion	$229 m	$240 m	$11 m
Return on cost	13%	18%	5%
Yield on cost	7.5%	+7%	(~0.5%)

Wynyard Quarter

- Design advanced for Stages Two, Three and Four
- Opportunity to develop a further 30,000 sqm of office space
- Will draw on the land when proceeding with each stage
- Potential exists for Stage Two to meet occupier demand in 2021
- Anticipate commencing the Stage Two in the next 6 months

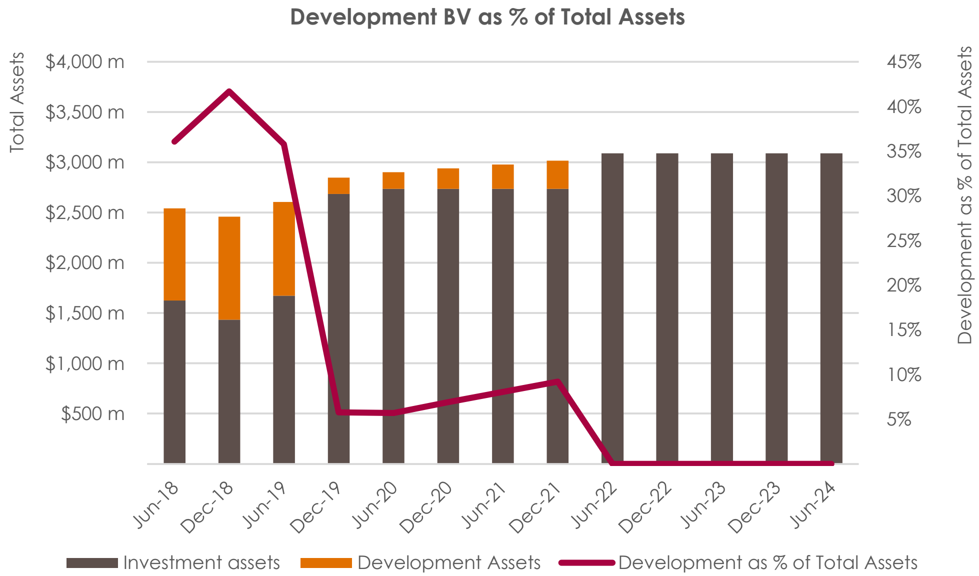
	Stage 2	Stage 3&4
Timing	2018	2019+
Total project cost	$70 m	$150 m
Use	Office	Office

Bowen Balance Land

- Design process advancing
- Potential accommodation for up to 20,000 sqm of commercial office space
- Considered suitable for both Crown and corporate occupiers
- Designed to offer higher seismic resilience for occupiers

Timing: **2019+** **Estimated Cost:** **$160 m** **Use:** **Office**

Development summary



Current (incl One Queen St)

- Return metrics further improved
  - Blended profit of +**30%**
  - Blended yield on cost of +**7.3%**
- **c. 85,000 sqm** additional office NLA
  - Currently **84%** committed
- **85%** weighting to Auckland

Pipeline

- Wynyard Quarter – stages 2, 3 and 4
- Bowen Campus Stage Two
- Potential for up to c. **45,000 sqm** of office area

Targeted pipeline returns

15%

Targeted profit on cost

+7%

Yield on cost

Section 4

Market

Auckland city centre economy

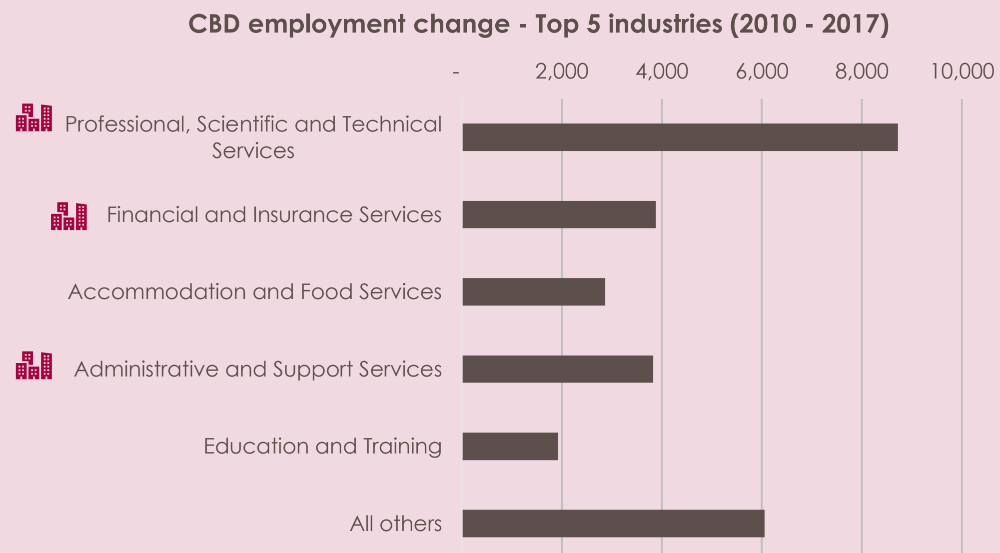
Auckland city centre leads growth in key economic drivers since 2010

60%

Of employment increase occurred within CBD office industries

4.6% p.a

Annualised growth since 2010 in top 5 industries (3.7% AKL / 2.3% NZ)



Source: Ecoprofile

Auckland city centre demand drivers

20,000 sqm

Annual net demand over next 5 years (based on forecast WAP growth)

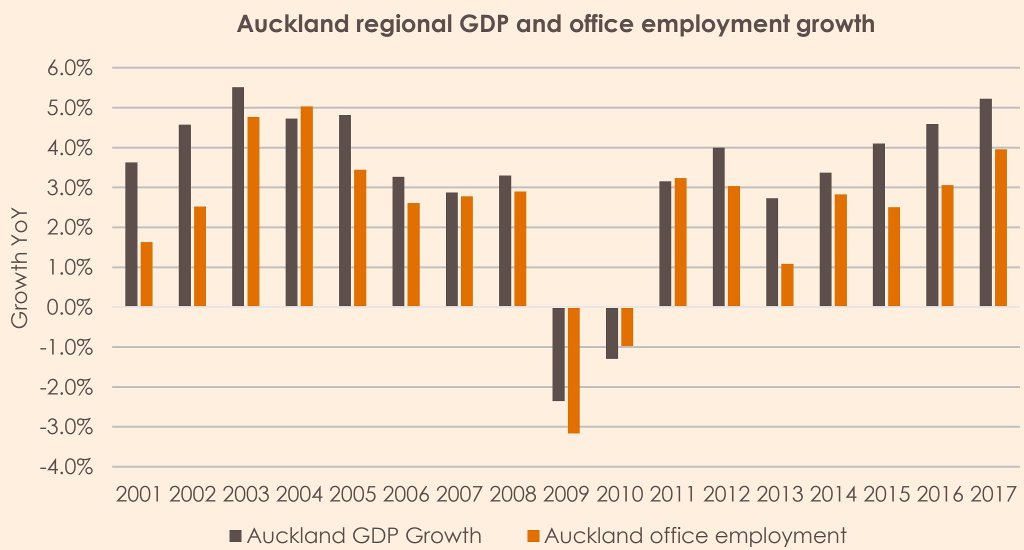
Auckland drivers	City centre impact
Additional **30,000+** inner city residents expected over the next 10 years	Further underpins activity levels in the city centre and demand for office, retail and leisure, and residential market
50% increase in working age population (WAP) expected by 2043	Historical positive correlation between WAP and office stock Growth is applying pressure to office stock
$28 billion infrastructure spend over 2018-2028 with a city centre focus	Improved city centre accessibility Increasing size of labour force Investment driven activity, demand for services

WAP and city centre stock both grew by **35%** over 1996 – 2013 period

Over last 5 years - WAP growth: 15.4% / City centre stock growth: 1.2% (density ratio increased)

Strong relationship between GDP and office employment growth. Forecast GDP expected to grow office employment by **~10,000 city centre workers** by 2021

Equivalent to **100,000 sqm** (assuming 1:10 sqm ratio)



Supply outlook

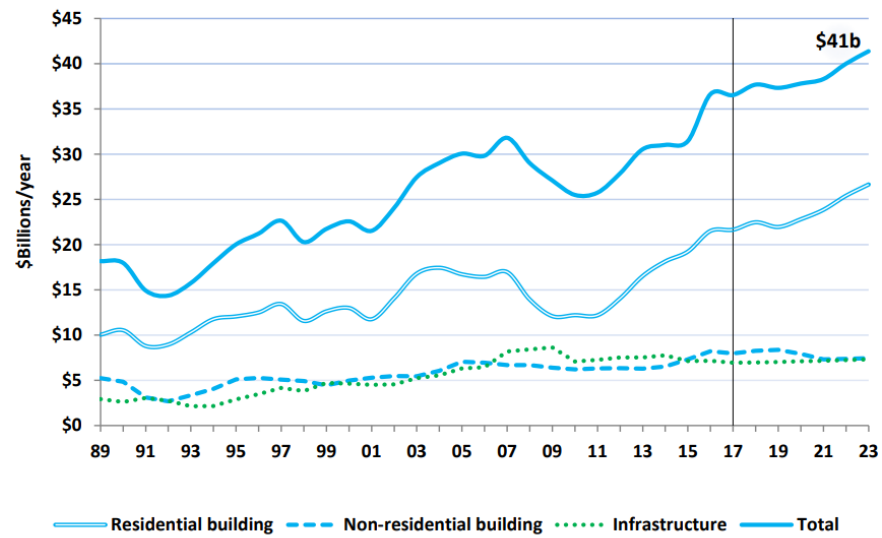
Number of factors limiting city centre supply

	2017	2018	Supply risk change
Construction costs	Elevated	**Elevated**	Decrease
Construction capacity	Constrained	**Highly Constrained**	Decrease
Land values	Stabilised	**Elevated**	Decrease
Funding availability	Constrained	**Stabilised**	Neutral
Funding costs	Increasing	**Stabilised**	Neutral
Outlook for supply	Limited	**Very limited**	Decreased

Construction market

- Sustained growth forecast for building and construction nationally. Peak now not expected until past 2023 (MBIE National Construction Pipeline Report 2018)
- Construction market under significant pressure through cost increases and labour shortages
- Limited options for local credible tier 1 contractors

Figure 2-1 All building and construction nationally, by value



Source: BRANZ/Pacifecon/Statistics New Zealand

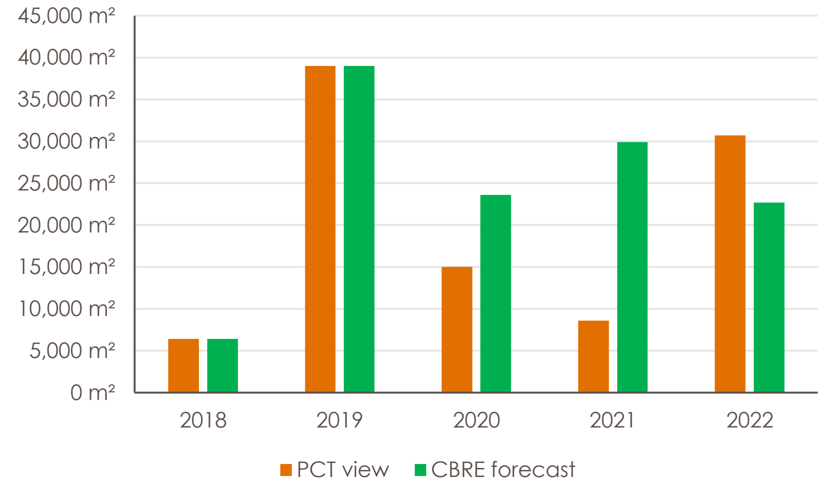
Auckland city centre office supply pipeline

Development	Developer	Submarket	NLA	Timing (PCT)	Timing (CBRE)
34 Sale Street	Russell Group	Viaduct	6,400 m²	**2018**	**2018**
Commercial Bay	PCT	CBD Core	39,000 m²	**2019**	**2019**
155 Fanshawe St.	Mansons	Viaduct	15,000 m²	**2020**	**2020**
Building 5B	PCT	Viaduct	8,600 m²	**2021**	**2020**
136 Fanshawe Street	Mansons	Viaduct	22,000 m²	**2022**	**2021**
Building 6B	PCT	Viaduct	7,900 m²	**Beyond**	**2021**
One Queen	PCT	CBD Core	8,700 m²	**2022**	**2022**
1 Mills Lane	Mansons	CBD Core	30,000 m²	**Beyond**	**Beyond**
Building 6A	PCT	Viaduct	14,000 m²	**Beyond**	**2022**
Supply to 2022			**99,700 m²**		
Stock removal					
HSBC	PCT	CBD	(18,200 m²)		
4 Viaduct Harbour		Viaduct	(7,000 m²)		
22 Fanshawe St		Viaduct	(8,000 m²)		
500 Queen St		CBD	(2,600 m²)		
Datacom Building		CBD	(2,600 m²)		
54 Cook St		CBD	(3,750 m²)		
Total Stock removal			(42,150 m²)		
Net Supply to 2022			**57,550 m²**		

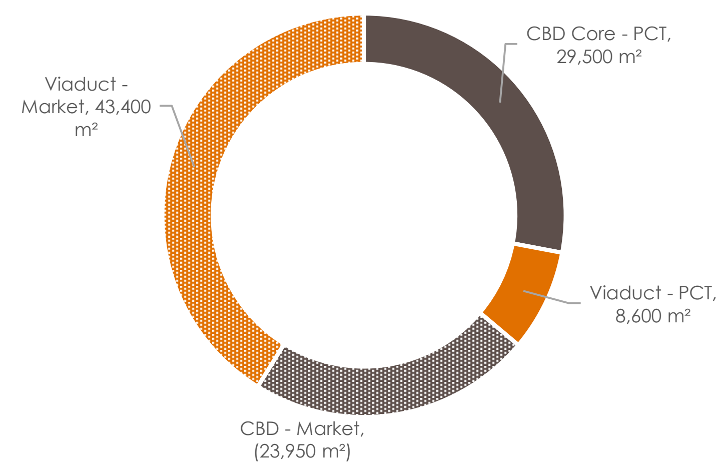
11,500 sqm

Annual net supply over next 4-5 years

Forecast net change in prime stock



Net supply change – Developer and location (2022)



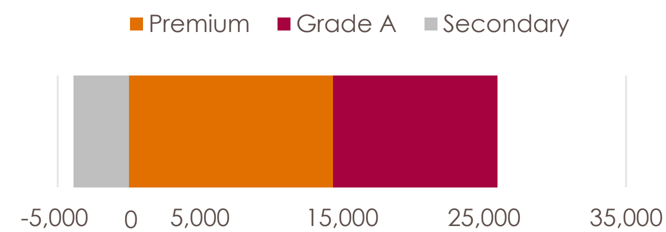
Net absorption and density

- Over past 20 years net absorption in Auckland has averaged 23,000 sqm
  - 50% of absorption in CBD core
  - 65% gone to premium grade stock
  - Attributable to relocations from secondary stock

23,000 sqm

Annual net absorption since 1999

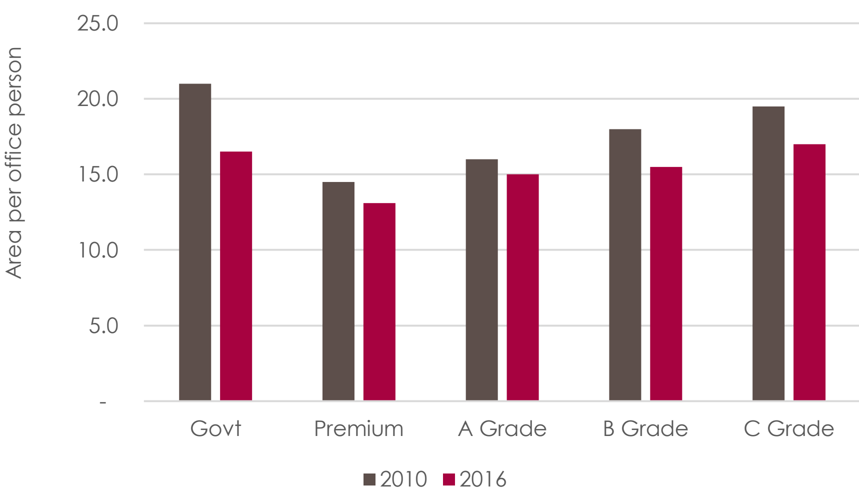
Annual net absorption by quality (99-17)



Density

- Has already occurred (ref: Colliers 2016)
- 10 sqm for largest PCT portfolio occupier
- Since 2016 50% of Auckland CBD leasing has been to sub 400 sqm occupiers

Colliers occupier survey density



Firm size density

Auckland city centre supply/demand summary

- City centre office employment growth forecast to grow by 10,000 workers to 2021
- Assuming 1:10 sqm, growth in workers will require 100,000 sqm of space
- Anticipated stock withdrawals equal to ~40,000 sqm
- Demand and stock withdrawals equivalent to 140,000 sqm
- Current Prime vacancy (30,000 sqm), committed supply equivalent to 100,000 sqm
- Potential undersupply of close to 40,000 sqm after all existing space is leased (including existing vacancy)

Precinct believe the Auckland office market could be under-supplied in 2021-2023

Wellington city centre

Wellington city centre has now largely recovered to post-quake levels. Sector outlook remains positive.

- Centralised city with public transport infrastructure in place
- Government remains active seeking to increase occupier footprint
- Vacancy at record lows indicating strong demand for office space
- Recently completed developments are fully leased with further unsatisfied occupier demand.
- Positive employment growth expected to increase worker city centre population by 5,600 by 2021 indicating demand 60,000 sqm

100,000 sqm
Sqm of office stock contraction

38,800 sqm
Office stock supply introduced to the market in 2017

1.0%
Prime CBD office vacancy rate

Section 5

Operations

Portfolio activity

Major portfolio leasing has underpinned portfolio performance, captured reversionary potential and maintained high occupancy

8.7 years
Weighted average lease term

99%
Portfolio occupancy

$1.7 b
Investment portfolio value

Portfolio leasing deals in the period

- **3,700 sqm** of office space leased at the AON Centre (1 Willis Street)
  - 12% uplift on previous passing rental
- **NZTA** relocation from HSBC House to the AMP Centre agreed
- **2,400 sqm** of future PwC Tower (188 Quay Street) vacancy mitigated
- New **10 year** lease agreed for extended Kindercare in the AMP Centre

Portfolio activity

Leasing activity

- 41 leasing transactions totalling 22,000 sqm or $12.5 m in contract rent
  - Secured on a 6.1 year WALT

- **Compared with previous contract rent**
  - Auckland leasing showed growth of 8%
  - Wellington leasing showed growth of 15%

- **Government portfolio**
  - Works at No 1 The Terrace podium have commenced
  - Pastoral House works expected to commence in February 2019

Auckland	Number[1]	NLA	Uplift on contract[1]	WALT[1]
Leasing Transactions	30	16,780 m²	7.9%	5.8 years
Market Reviews	3	5,186 m²	11.1%	
Wellington				
Leasing Transactions	11	5,146 m²	15.4%	6.7 years
Market Reviews	8	7,827 m²	3.8%	
Portfolio				
Leasing Transactions	41	21,926 m²	10.6%	6.1 years
Market Reviews	11	13,013 m²	6.6%	

[1] Includes major carparking transactions

598 Carparks

Leased at Mayfair House, Dimension Data House and the ANZ Centre

AMP Centre – active management case study

- Active management and value add investment driving strong rental growth
- Major leasing deals across 8,600 sqm
  - NZTA
  - Kindercare
- QBE lease expires September 2018 across 3,300 sqm
  - 2 floors already leased, with an average increase of 17% on passing
- Capex completed and planned from FY15 to FY20 totaling $15.4 m
  - Total rental increase expected of $2.2 m, yielding 14% (including maintenance capex)
  - Capital expenditure such as the chiller replacement has kept OPEX low, increasing around 1% pa

12.1%

Increase on previous passing rent across leasing deals done in FY18

26.5%

Forecast increase in rent roll between 2015 and 2020

	FY15	FY18	FY20
Office and retail rent roll	$8.3 m	$9.0 m	$10.5 m Forecast

Note: All years including the forecast are at 100% occupancy

Lease events

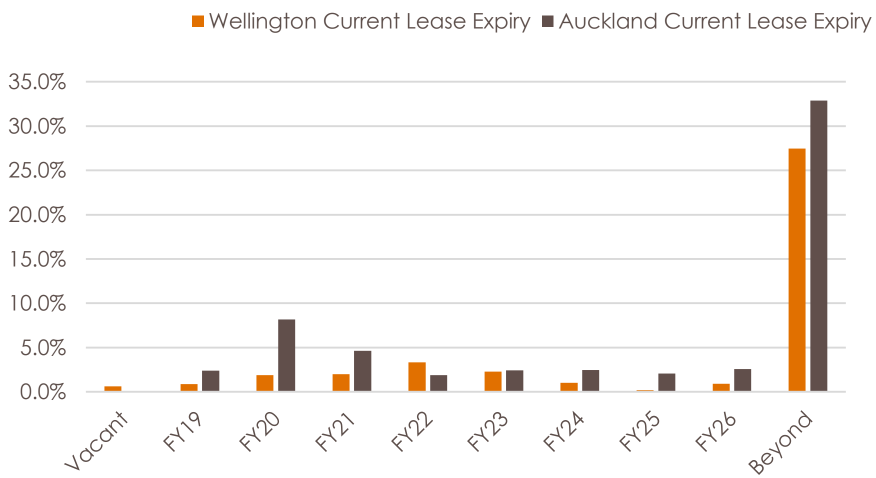
- 52% of portfolio subject to review event in FY19. Of this 17% subject to market review.
- 3.2% or 9,509 sqm expiring in 2019
- 112,300 sqm of leasing events including rent reviews

Major expiries FY19

Property	Client	Area
AMP Centre	QBE	3,300 m²
PwC Tower	Servcorp	1,300 m²
Dimension Data House	Forsyth Barr	1,000 m²
Total		**5,600 m²**

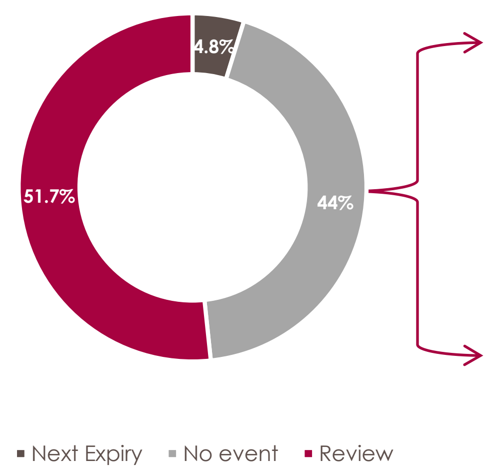
[1] Excludes NZTA expiry in HSBC House & The Treasury in No.1 The Terrace, due to being positioned for redevelopment

Lease expiry

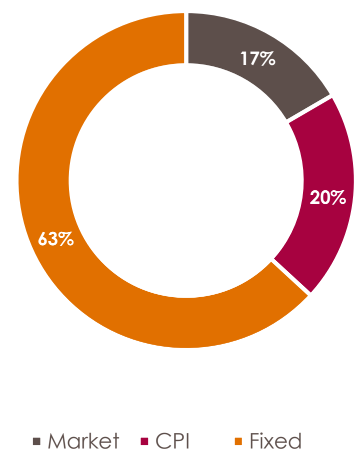


Note: Includes committed development leasing, ad excludes Commercial Bay retail

FY19 event profile

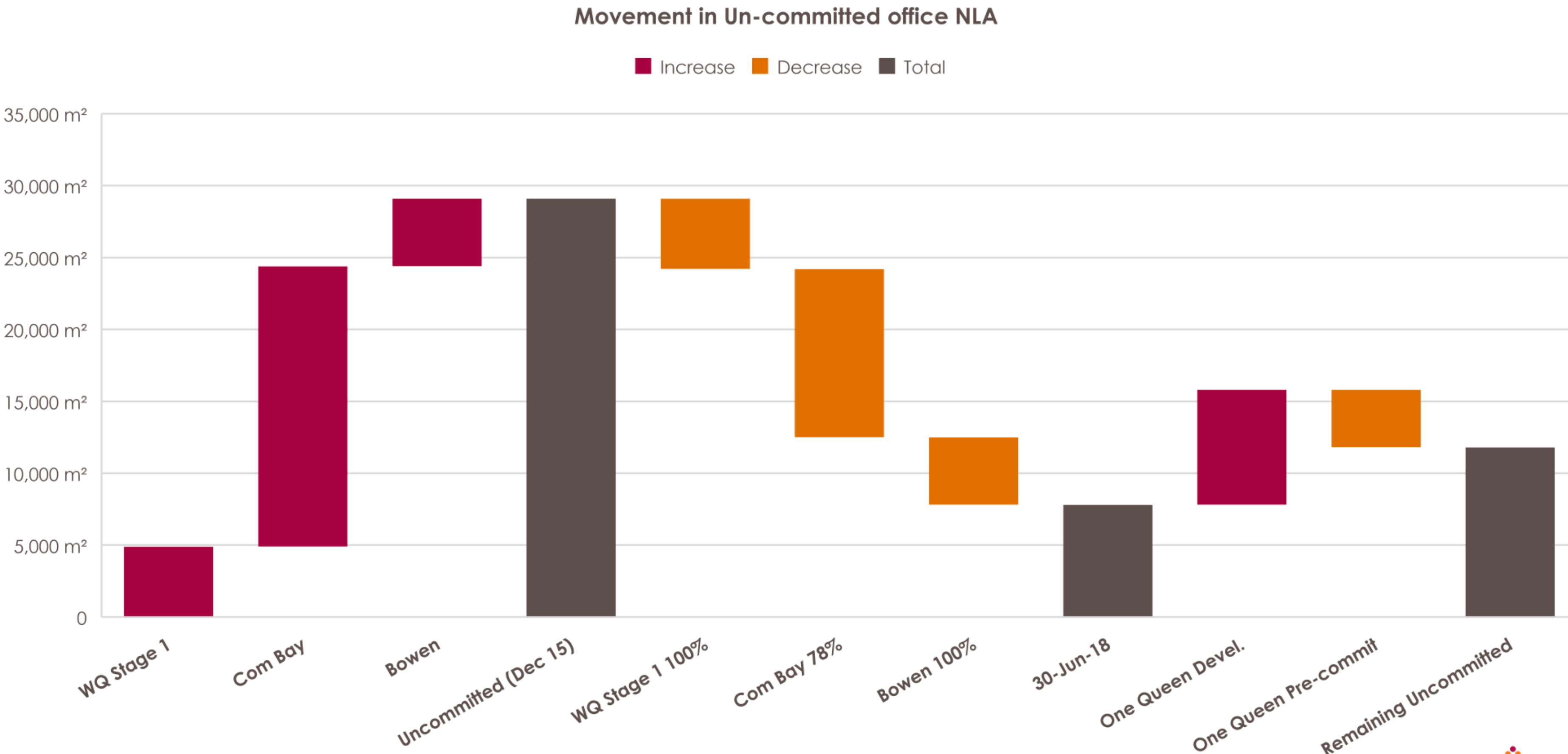


Event composition



Movement in uncommitted office NLA

- Around 30,000 sqm of uncommitted office space at 30 December 2015
  - 8.5% of PCT portfolio and 2.0% of CBD office market
- Mitigated over 20,000 sqm through leasing by 30 June 2018
- Committing to One Queen Street and post pre-commitment, assumed uncommitted office space totals 11,800 sqm (4.0% of PCT portfolio, 0.8% of CBD office market)



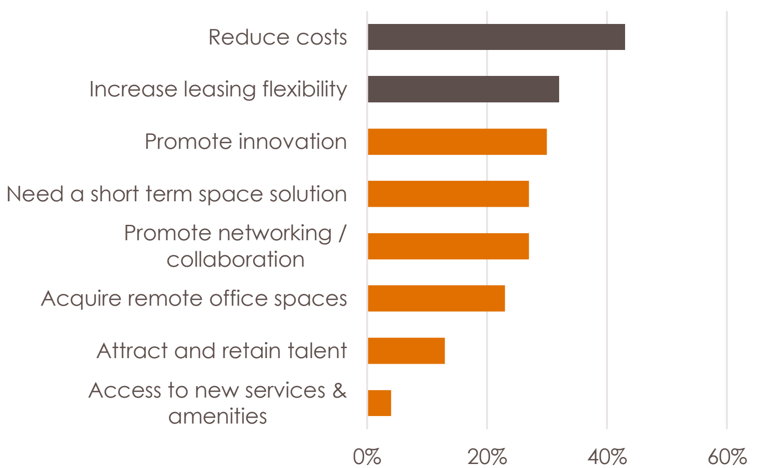
Generator investment

- Precinct have a 50% interest in Generator:
  - Co working
  - Dedicated desks and/or small suites
  - Event space
- Generator provides businesses with fewer employees high quality space and service/amenity that they otherwise couldn't access
- Generator now manages 13,000 sqm of space
- Generator market share in Auckland city centre ~50%
- Generator has grown from a single location to three main locations at Stanbeth House, Grid AKL and Britomart Place
- Provides pipeline of growth occupiers as well as attractive financial returns

Factors driving growth

1. New business (startups and new entrants)
2. Flexibility, ease and speed of setup
3. Corporate market using space as part of real estate strategy
4. Lease accounting changes
5. Growth in technology sector
6. Millennial workforce

Factors driving multinationals' use of third party space (CBRE)



Generator performance

- Precinct has funded $9 m to fund expansion to two new sites totalling 9,762 sqm
- New sites in stabilisation phase resulting in $2.3 m (50%) loss. This reflects rent expense and leasing commissions etc expensed for start-up period
- New sites have performed well and ahead of expectations
- Around 900 members across almost 200 companies

Property	Stanbeth & Excelsior	Grid AKL	Britomart Place
Opening date	2011, expanded Oct 2017	September 2017	June 2018
Area	2,893 sqm	6,656 sqm	3,106 sqm
Current Occupancy (Aug 2018)	73%	81%	59%

- Focus for current year on stabilisation of new sites. Allowing for Britomart Place trade-up, a break-even performance is anticipated

Section 6

Conclusions and Outlook

Conclusion

- Precinct has a clear strategy which is supported by its markets
- Strategy of active management is proving successful as newly developed real estate is of highest quality and margins are increasing
- Strategy of being a city centre specialist enhancing returns as city centres outperform globally (higher GDP contribution)
- Construction cost escalation will underpin growth in market values as replacement costs exceed market values
- Occupier demand to continue to grow with potential for under supply in Auckland due to inability to develop
- Auckland emerging as NZ’s gateway city attracting $28 billion of public investment leading to long term outperformance

Outlook

- Precinct well positioned through:
  - Clear strategy with market share
  - Capable team – in-house and external
  - Successful execution of capital management initiatives
  - Committed opportunities in premium locations
  - High quality investment portfolio with an extended WALT
- Strong balance sheet
- Earnings track maintained with FY19 guidance of 6.60 cps and dividend of 6.00 cps
- Precinct establishing an enviable track record of creating world class developments with world class returns

Appendices

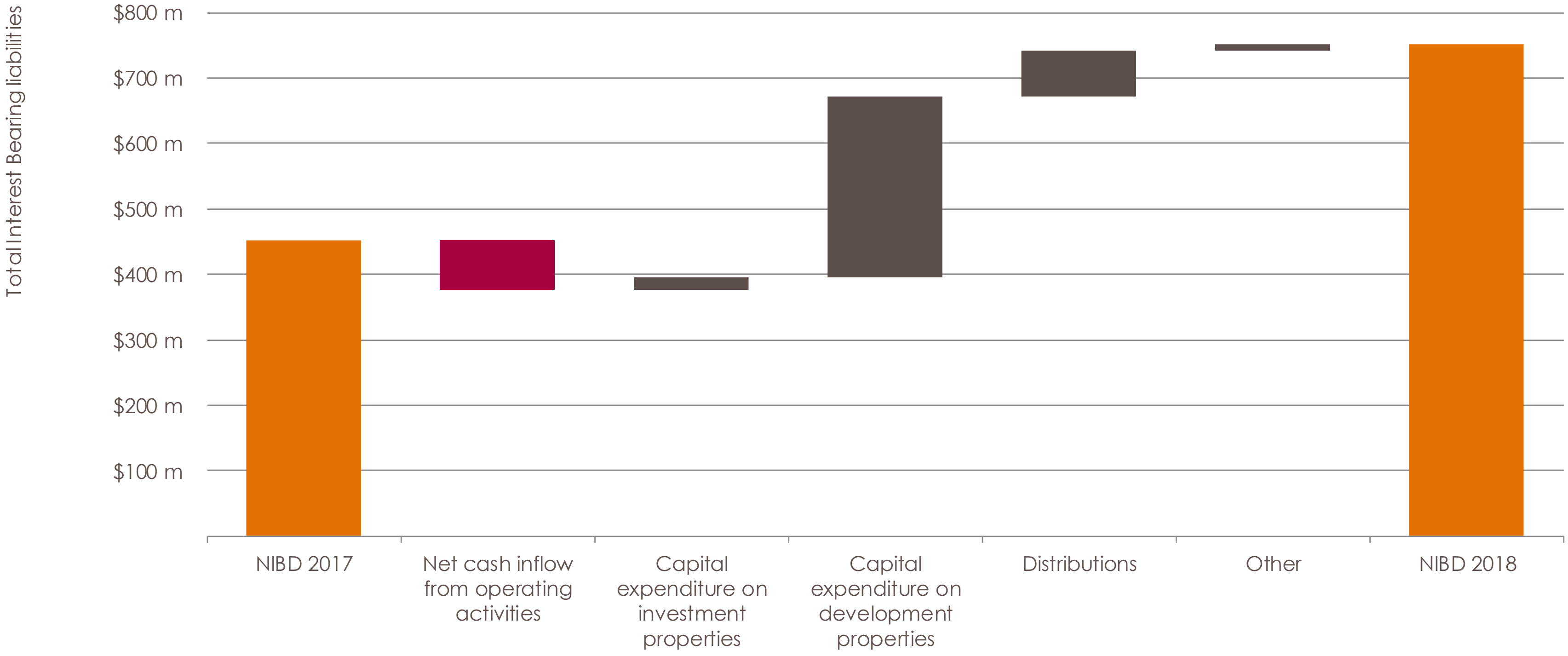
Financial summary

($ millions unless otherwise stated)	2018	2017	Change
Operating income before indirect expenses	95.3	90.4	5.4%
Operating profit after tax	76.6	74.7	2.5%
Operating profit after tax (cents per share)	6.32	6.17	2.4%
Net profit after income tax	254.9	162.1	57.2%
Net distribution (cents per share)	5.80	5.60	3.6%
FFO (cents per share)	6.89	6.68	3.1%
FFO Payout ratio	**84.2%**	**83.8%**	**0.5%**
FFO yield (based on period end price)	5.1%	5.4%	
AFFO (cents per share)	5.80	5.43	6.8%
AFFO Payout ratio	**100.0%**	**103.1%**	**-3.0%**
Weighted average cost of debt	5.3%	5.6%	-5.4%
Total assets	2,561.7	2,079.2	23.2%
Total liabilities	871.0	573.6	51.8%
Total equity	1,690.7	1,505.6	12.3%
Shares on issue (million shares)	1,211.1	1,211.1	0.0%
NTA (cents per share)	140	124	12.9%
Gearing ratio at balance date (%)	25.0%	25.1%	-0.4%
Total borrowings	751.4	452.1	66.2%
Hedging at year end	84.5%	65.3%	29.4%
Interest coverage ratio (previous 12 months)	2.4	3.9	-37.4%

Balance sheet

Financial Position as at ($m)	30 June 2018 Audited	30 June 2017 Audited	Movement
Assets			
Development properties	$838.1	$509.2	+ $328.9
Investment properties	$1,487.6	$1,535.4	($47.8)
Investment properties held for sale	$191.2		+ $191.2
Fair value of derivative financial instruments	$18.2	$12.8	+ $5.4
Other	$26.6	$21.8	+ $4.8
Total Assets	**$2,561.7**	**$2,079.2**	**+ $482.5**
Liabilities			
Interest bearing liabilities	$761.7	$456.9	+ $304.8
Deferred tax liability	$40.3	$23.3	+ $17.0
Fair value of derivative financial instruments	$33.8	$23.8	
Other	$35.2	$69.6	($34.4)
Total Liabilities	**$871.0**	**$573.6**	**+ $297.4**
Equity	**$1,690.7**	**$1,505.6**	**+ $185.1**
NIBD to Total Assets	29.3%	21.7%	7.6%
Liabilities to Total Assets - Loan Covenants	25.0%	25.1%	-0.1%
Shares on Issue (m)	1,211.1 m	1,211.1 m	
Net tangible assets per security	$1.40	$1.24	0.15

Borrowing movement



Tax expense reconciliation

- FY18 effective tax rate of 7.6%
  - Higher than previous guidance due to lower level of leasing fees and lower level of deductible disposals
- FY19 expected effective tax rate to range between 4 and 6%
  - Dependent on level of leasing activity and disposal of depreciable assets
- Future tax profile will continue to be impacted by deductible costs associated with developments activity
  - Capitalised interest
  - Leasing costs
  - Rates

	30 June 2018	30 June 2017
Net profit after tax and unrealised gains	**$254.9 m**	**$162.1 m**
Depreciation recovered on sale		
Deferred tax benefit	$17.0 m	$1.9 m
Current tax expense	$6.3 m	$2.5 m
Net profit before taxation	**$278.2 m**	**$166.5 m**
Less non assessable income		
Unrealised net gain / (loss) in value of investment and development properties	($208.7 m)	($77.5 m)
Net realised loss on sale of investment properties		
Share of profit or (loss) of joint ventures	$2.3 m	
Unrealised net (gain) /loss on financial instruments	$11.1 m	($11.8 m)
Operating profit before Tax	**$82.9 m**	**$77.2 m**
Other deductible expenses		
Depreciation	($19.9 m)	($18.4 m)
Leasing fees and incentives in the period	($1.6 m)	($12.4 m)
Capitalised interest on development properties	($31.2 m)	($17.5 m)
Disposal of depreciable assets	($3.6 m)	($18.4 m)
Other deductibles	($4.1 m)	($1.4 m)
Taxable income	**$22.6 m**	**$9.1 m**
Tax at 28%	$6.3 m	$2.5 m
Current tax expense	**$6.3 m**	**$2.5 m**
Effective tax rate	7.6%	3.3%

Precinct PROPERTIES NEW ZEALAND

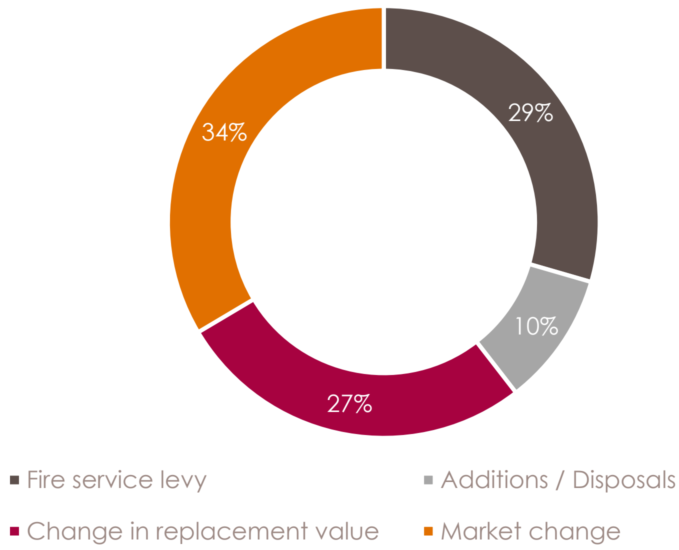
FY18-19 insurance renewal

- Insurance costs increased to $4.8 m from $3.5 m
  - Represents an increase of 37%
- Increase due to:
  - Increase in the Fire Service Levy (effective from July 2017)
  - Replacement costs increasing by 16%
  - Larger portfolio (completion of 12 Madden)
  - Higher market insurance costs
- Wellington insurance costs increased more than Auckland's reflecting seismic risk

Insurance change year on year

	FY18-19	FY17-18	Change
Investment property	$4.0 m	$3.1 m	29.8%
Fire service levy	$0.8 m	$0.4 m	92.1%
Total Premium	**$4.8 m**	**$3.5 m**	**37.2%**
Total	**$21 /m²**	**$16 /m²**	**31.3%**

Insurance increase breakdown



5 year income summary

($ millions unless otherwise stated)	2014	2015	2016	2017	2018
Financial performance					
Gross rental revenue	165.4	170.5	146.0	126.2	130.7
Less direct operating expenses	(47.1)	(48.9)	(41.5)	(35.8)	(35.4)
Operating profit before indirect expenses	**118.3**	**121.6**	**104.5**	**90.4**	**95.3**
Net interest expense	(33.2)	(31.4)	(11.0)	(3.4)	(2.2)
Other expenses	(12.6)	(10.4)	(10.1)	(9.8)	(10.2)
Operating income before income tax	**72.5**	**79.8**	**83.4**	**77.2**	**82.9**
Non operating income / (expense)					
Unrealised net gain in value of investment properties	47.5	64.8	81.2	77.5	208.7
Other non operating income	10.9	(13.5)	(19.1)	11.8	(11.1)
Net profit before taxation	**130.9**	**131.1**	**145.5**	**166.5**	**280.5**
Current tax expense	(8.7)	(11.5)	(10.6)	(2.5)	(6.3)
Depreciation recovered on sale expense		(3.8)	(10.0)		
Deferred tax benefit / (expense)	(5.0)	6.6	13.3	(1.9)	(17.0)
Share of profit or (loss) of joint ventures					(2.3)
Net profit after taxation	**117.2**	**122.4**	**138.2**	**162.1**	**254.9**

Precinct PROPERTIES NEW ZEALAND

Funds from operations and dividend

($ millions unless otherwise stated)	2014	2015	2016	2017	2018
Dividends					
Net dividend (cents)	**5.40**	**5.40**	**5.40**	**5.60**	**5.80**
Net operating income					
Operating income before income tax	72.5	79.8	83.4	77.2	82.9
Less: Current tax expense	(8.7)	(11.5)	(10.6)	(2.5)	(6.3)
Net operating income after tax	**63.8**	**68.3**	**72.8**	**74.7**	**76.6**
Net operating income after tax per share (cents)	6.10	6.19	6.01	6.17	6.32
Dividend payout ratio to net operating income after tax (%)	88.5	87.2	89.9	90.8	91.8
Funds from operations (FFO)					
Net operating income after tax	63.8	68.3	72.8	74.7	76.6
Adjusted for:					
Amortisations	6.2	7.3	6.4	6.4	7.2
Straightline rents	(0.5)	(1.1)	(0.5)	(0.2)	(0.4)
Funds from operations	**69.5**	**74.5**	**78.7**	**80.9**	**83.4**
Funds from operations (cents)	6.64	6.75	6.50	6.68	6.89
Dividend payout ratio based on FFO (%)	81.3	80.0	83.1	83.8	84.2
Adjusted funds from operations (AFFO)					
Less: Maintenance capex	(6.3)	(6.6)	(11.1)	(5.8)	(4.9)
Less: Incentives and leasing costs	(8.7)	(7.1)	(3.0)	(9.3)	(8.3)
Swap close outs	-	1.6	-	-	-
Adjusted funds from operations	**54.5**	**62.4**	**64.6**	**65.8**	**70.2**
Adjusted funds from operations (cents)	5.21	5.66	5.33	5.43	5.80
Dividend payout ratio based on AFFO (%)	104	95	101	103	100.0

5 year balance sheet

($ millions unless otherwise stated)	2014	2015	2016	2017	2018
Financial position					
Total investment assets	1,728.1	1,687.8	1,513.7	1,535.4	1,678.8
Total development assets			190.4	509.2	838.1
Other assets	19.4	65.4	34.5	34.6	44.8
Total assets	**1,747.5**	**1,753.2**	**1,738.6**	**2,079.2**	**2,561.7**
Interest bearing liabilities	572.0	340.0	234.1	456.9	761.7
Other liabilities	68.7	74.9	93.6	116.7	109.3
Total liabilities	**640.7**	**414.9**	**327.7**	**573.6**	**871.0**
Total equity	1,106.8	1,338.3	1,410.9	1,505.6	1,690.7
Number of shares (m)	1059.7	1211.1	1211.1	1211.1	1211.1
Weighted average number of shares (m)	1046.6	1103.1	1211.1	1211.1	1211.1
Net tangible assets per share (cps)	**1.04**	**1.11**	**1.17**	**1.24**	**1.40**
Share price at 30 June ($)	1.07	1.14	1.25	1.24	1.35
Covenants					
Loan to value ratio (%)	33.8	20.1	14.4	25.1	25.0
Interest coverage ratio	3.2 x	3.5 x	6.9 x	3.9 x	2.4 x
Key portfolio metrics					
Average portfolio cap rate (%)	7.3	7.0	6.5	6.2	5.8
Weighted average lease term (years)	5.4	5.0	6.3	8.7	8.7
Occupancy (% by NLA)	98	98	98	100	99
Net lettable area (sqm)	322,115	304,485	225,613	224,430	221,513
Number of investment properties	17.0	15.0	13.0	12.0	12.0

Investment portfolio overview

Key metrics

	Investment portfolio	Auckland	Wellington
WALT [1]	**8.7 years**	7.5 years	10.9 years
Occupancy	**99%**	100%	98%
Investment Portfolio Value ($m)	**$1,668.6 m**	$1,232.8 m	$435.8 m
Weighted average market cap rate	**5.8%**	5.4%	6.8%
NLA (m²)	**221,513 m²**	132,198 m²	89,315 m²
Under Renting position	**6.4%**	6.5%	6.1%

[1] Includes development leasing

Portfolio metrics

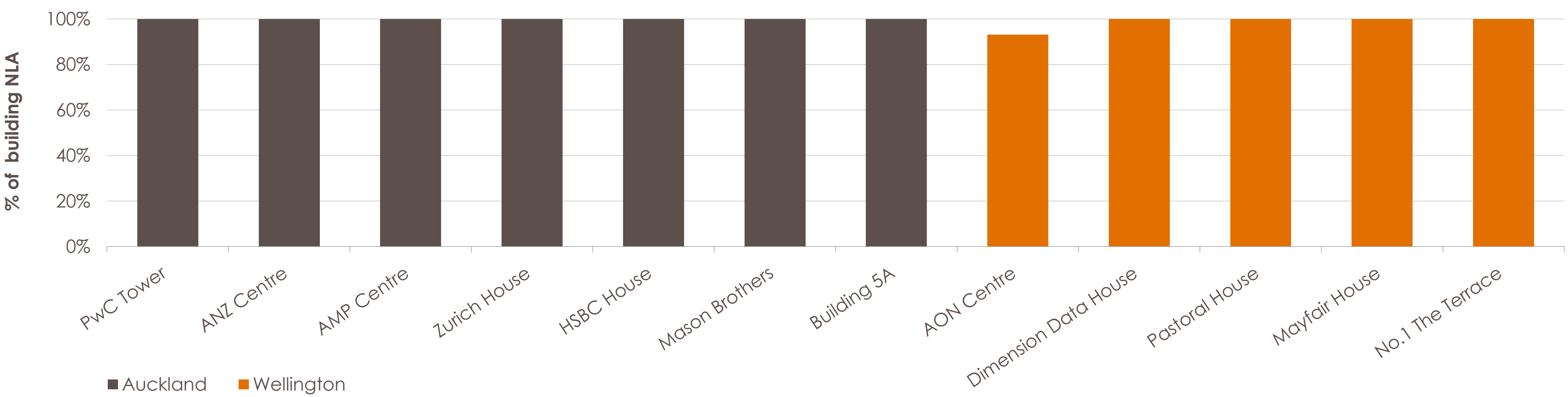
8.7 years

Weighted average lease term

99%

Portfolio occupancy

Occupancy



Asset level valuations

	Cap Rates %			Valuations			Value Movement	
	FY18	FY17		FY18	FY17	Additions/ Disposals	Revaluation	%
Investment Properties								
Dimension Data House	6.8%	6.9%	(13 bps)	$118.3 m	$114.3 m	$1.9 m	$2.1 m	1.8%
Mayfair House	6.5%	6.6%	(13 bps)	$44.4 m	$40.8 m	$0.3 m	$3.3 m	8.0%
No.1 The Terrace	6.8%	7.0%	(20 bps)	$67.0 m	$70.5 m	$1.6 m	($5.1 m)	(7.1%)
No.3 The Terrace	n/a	n/a	n/a	$11.6 m	$11.7 m		($0.1 m)	(0.9%)
Pastoral House	6.5%	6.6%	(13 bps)	$45.0 m	$42.9 m	$3.2 m	($1.1 m)	(2.4%)
AON Centre	6.9%	7.0%	(10 bps)	$149.5 m	$144.5 m	$4.0 m	$1.0 m	0.7%
Wellington	**6.8%**	**6.9%**	**(13 bps)**	**$435.8 m**	**$424.7 m**	**$11.0 m**	**$0.1 m**	**0.0%**
AMP Centre	5.9%	6.3%	(38 bps)	$179.0 m	$163.4 m	$4.0 m	$11.6 m	6.9%
ANZ Centre	5.3%	5.9%	(63 bps)	$362.0 m	$324.0 m	$2.2 m	$35.8 m	11.0%
HSBC House	6.1%	6.4%	(25 bps)	$91.0 m	$93.8 m	$4.0 m	($6.8 m)	(7.0%)
PricewaterhouseCoopers Tower	5.1%	5.8%	(63 bps)	$376.0 m	$329.0 m	$1.0 m	$46.0 m	13.9%
Zurich House	5.6%	6.1%	(50 bps)	$106.0 m	$95.5 m	($0.6 m)	$5.5 m	15.0%
12 Madden Street	5.5%	6.0%	(50 bps)	$76.7 m	$67.8 m	$2.6 m	$6.3 m	8.9%
Mason Brothers Building	5.5%	6.0%	(50 bps)	$42.1 m	$37.2 m	$0.7 m	$9.8 m	10.2%
Auckland	**5.5%**	**6.0%**	**(55 bps)**	**$1,232.8 m**	**$1,110.7 m**	**$13.8 m**	**$108.3 m**	**9.6%**
Subtotal - Investment Properties	**5.8%**	**6.2%**	**(45 bps)**	**$1,668.6 m**	**$1,535.4 m**	**$24.8 m**	**$108.4 m**	**6.9%**
Development Properties								
Bowen Campus Stage One	6.0%	6.5%	(50 bps)	$178.6 m	$108.5 m	$67.9 m	$2.3 m	1.3%
Bowen Campus Stage Two	n/a	n/a	n/a	$11.5 m	$10.5 m	$4.0 m	($3.0 m)	(20.7%)
10 Brandon Street	n/a	8.3%	n/a	$10.2 m	$20.2 m	$2.9 m	($12.9 m)	(55.8%)
Commercial Bay Development Site	4.9%	5.4%	(47 bps)	$648.0 m	$370.0 m	$164.0 m	$114.0 m	21.3%
Subtotal - Development Properties	**5.2%**	**5.6%**	**(49 bps)**	**$848.3 m**	**$509.2 m**	**$238.8 m**	**$100.3 m**	**13.4%**
Total	**5.6%**	**6.1%**	**(52 bps)**	**$2,516.9 m**	**$2,044.6 m**	**$263.6 m**	**$208.7 m**	**9.0%**

Note 1: Adopted capitalisation rates for Government RFP Assets reflect new long term leases to Crown

Note 2: Sale and purchase agreements in place for 10 Brandon Street ($10.2 m) and 50% of ANZ Centre ($181.0 m) however 2017 additions/disposals have not been adjusted due to settlement taking place post balance date

Note 3: The table may not add due to rounding

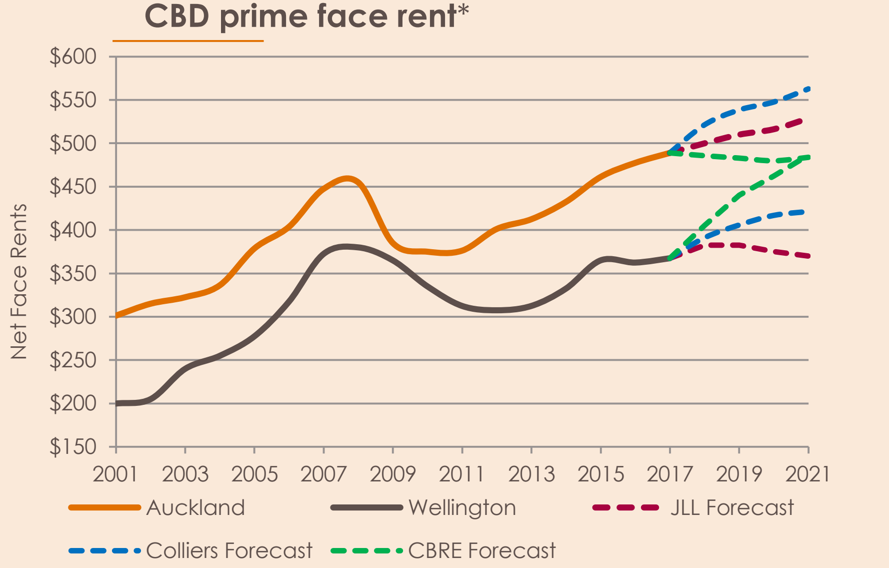
CBD office market

$489 Average Auckland CBD face rent

2% Forecast Auckland annual growth rate

$368 Average Wellington CBD face rent

4% Forecast Wellington annual growth rate

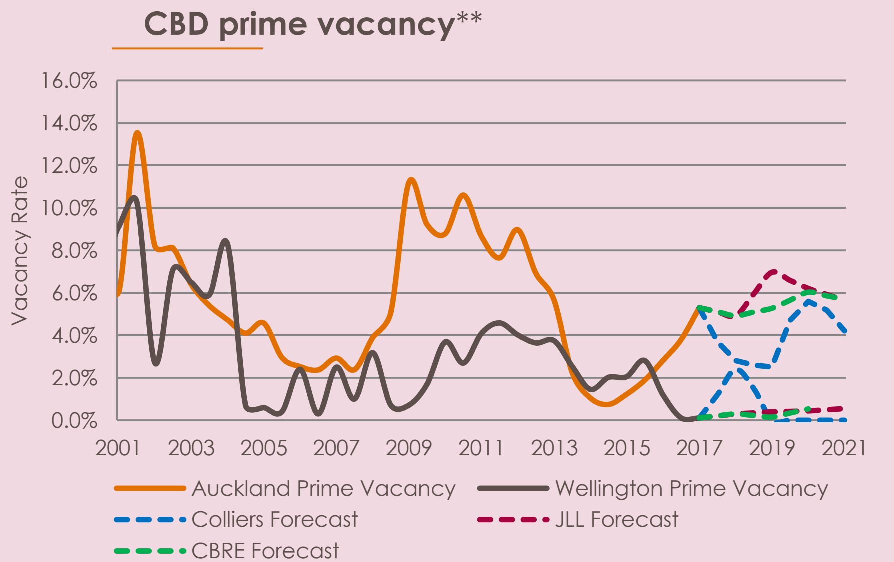


* Colliers and CBRE forecasts rebased using JLL data

Prime Vacancy

Auckland CBD prime vacancy rate of 5.3%

Wellington CBD prime vacancy rate of 0.11%



** JLL and CBRE forecasts rebased using Colliers data

Auckland CBD retail market

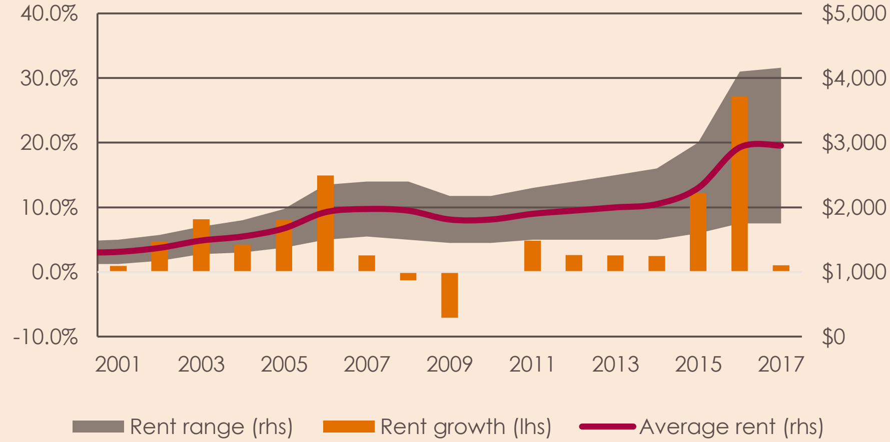
Prime Net Face Rent

Average prime net face rent of $2,955 psm, with average annual growth to 2021 forecast to be 2%

The retail rental spread continues to diverge

International brands continue to seek exposure

Auckland CBD prime face rent

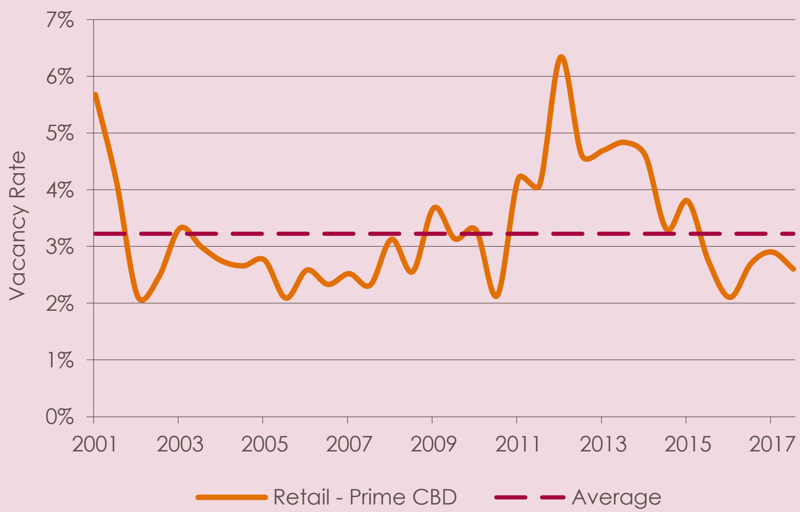


Source: JLL December 2017

Prime Vacancy

Auckland CBD prime retail vacancy rate of 2.6%

Auckland 16 year average vacancy rate of 3.2%



Source: JLL December 2017

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