

# Precinct Properties New Zealand Interim Results

28 February 2018



# Agenda

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## **Precinct Properties New Zealand Limited**

Scott Pritchard, CEO

Richard Hilder, CFO

George Crawford, COO

Note: All \$ are in NZD unless otherwise stated



# Highlights

## Financial performance

**\$40.9m**

1H18 net operating income<sup>1</sup> before tax up 3.8%

**3.7%**

increase in net property income

**\$17.7m**

1H18 net profit after tax

## Capital management

**\$250m**

Non bank funding secured during the period

**23.0%**

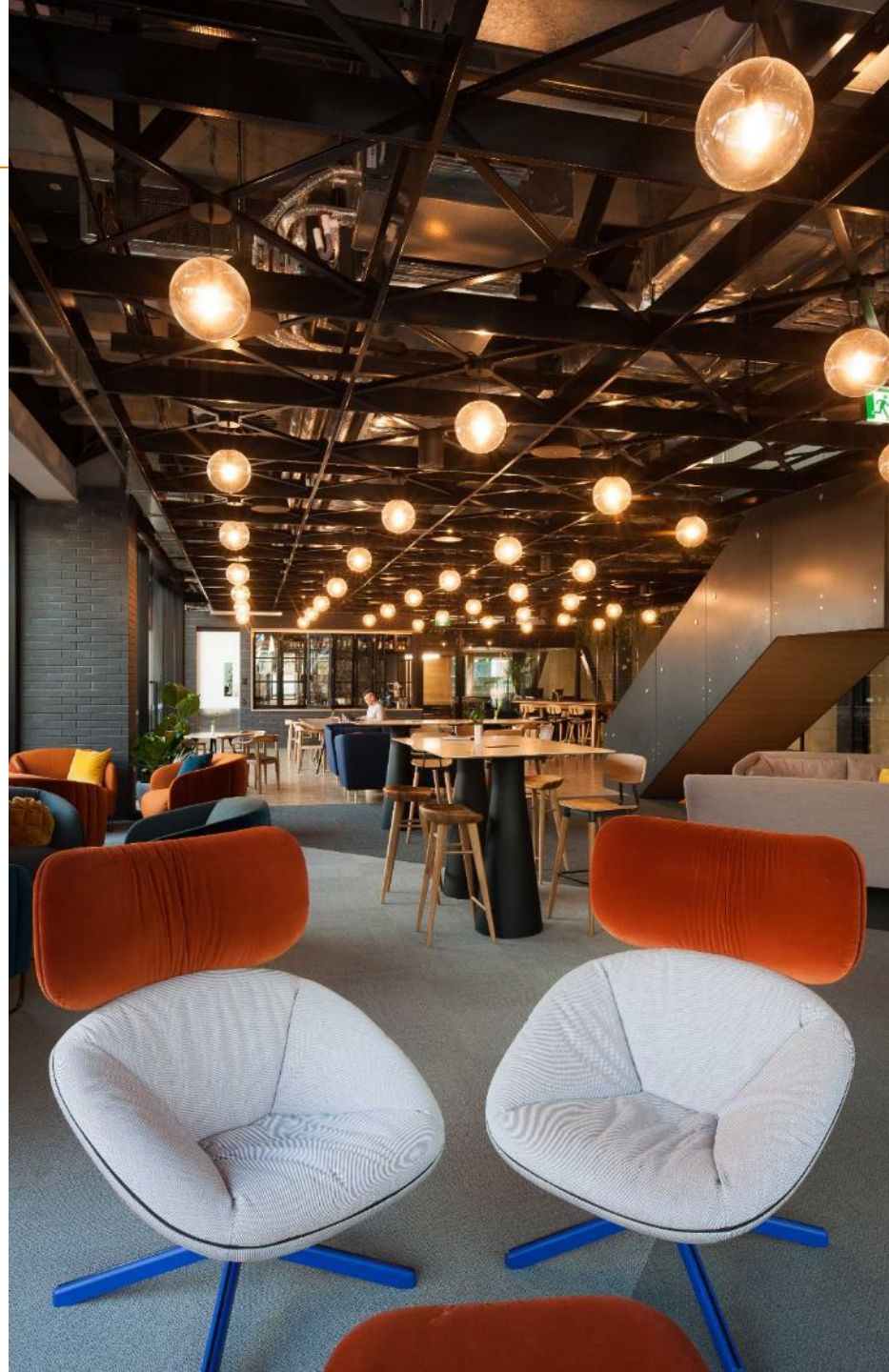
reduced gearing ratio

## Portfolio performance

**99% occupancy and 8.8 year weighted average lease term**

**Strong leasing across the portfolio**

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







## Section 1

Strategy progress

# Strategy progress since June

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## Empowering People

- Sourcing retail management team for Commercial Bay
- Diversity policy updated
- Intern program completed

## Operational Excellence

- 50% ANZ Centre being marketed for sale
- \$250 million capital management initiatives
- Third location secured for Generator
- Portfolio WALT further extended to 8.8 years
- Strong Wellington occupancy lifting like for like rentals by 12.4%

## Developing the Future

- Commercial Bay:
  - + Retail leasing commitments - 60%
  - + 15% of the tower under negotiation
- Bowen Campus:
  - + On programme and budget
  - + 100% office leased
- Wynyard Quarter stage 2 well advanced





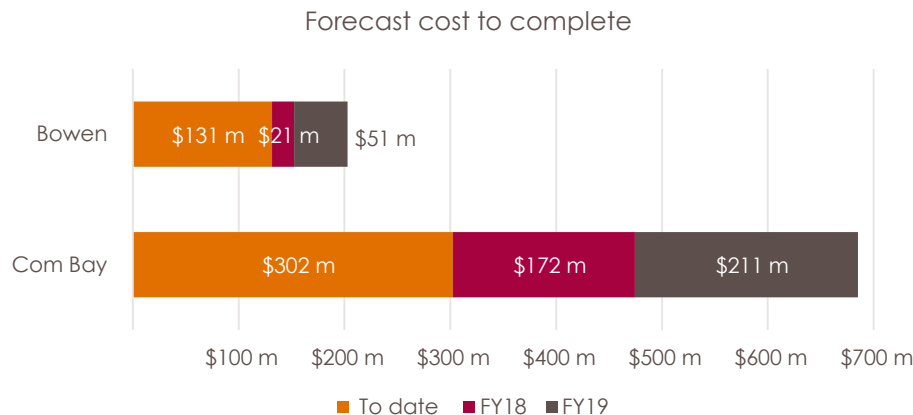
## Section 2

Development  
summary

# Development Summary

## Current

- Targeted metrics remain on track
  - Blended return on cost of **27%**
  - Blended yield on cost of **7.5%**
- **+76,000sqm** additional office NLA
  - **Currently 80%** leased
- **80%** weighting to Auckland



## Pipeline

- 1 Queen Street mixed use office/hotel
- Wynyard Quarter Stage Two
- Bowen Campus Stage Two
- Additional c. **36,000 sqm** of office area

## Targeted Pipeline Returns

**15%**

Targeted profit on cost

**7%**

Yield on cost



# Commercial Bay

- Targeted return metrics maintained
- Independent advice on completion dates updated
- Settlement of Queen Elizabeth Square completed





# Retail Leasing

- Leasing now at **60%**
- Significant progress achieved at Harbour Eats:
  - 50% of F&B operators already committed
- Secured renowned F&B operators
  - Mimi Gilmour
  - Al Brown
  - Josh Emmett
- New to NZ fashion retailers committed adding to the retail mix



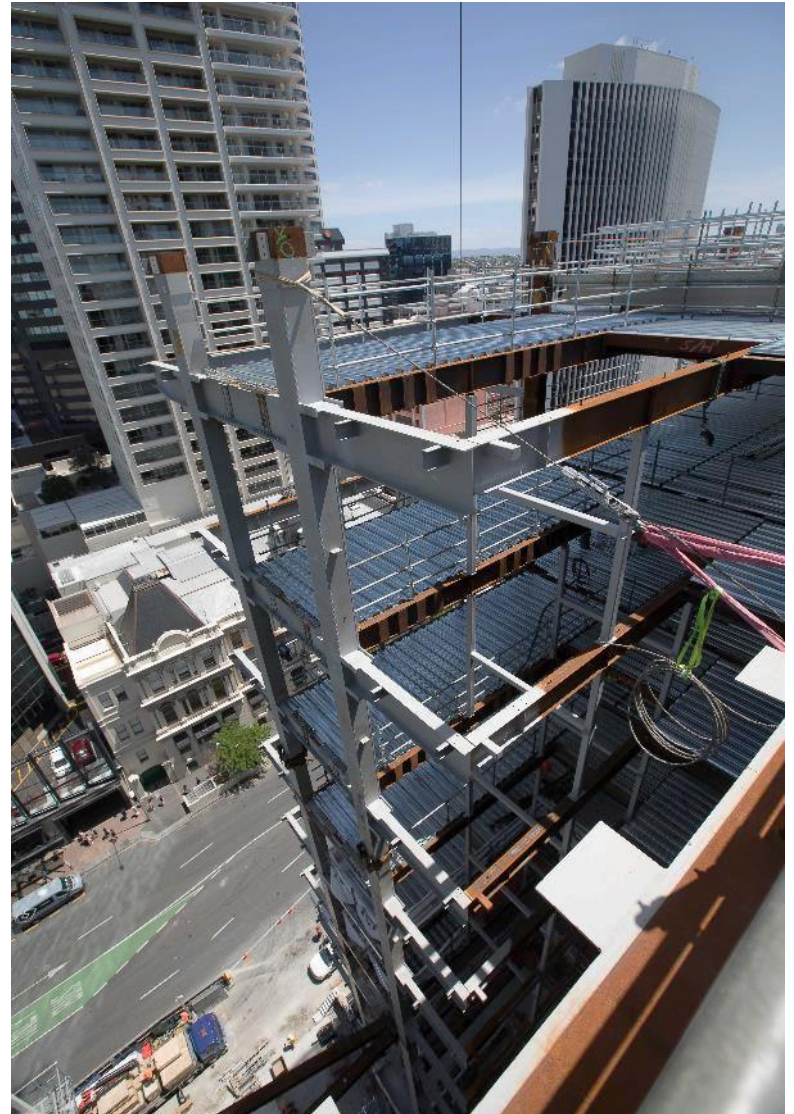
↑ 60%

Committed to date



# Office Leasing

- Total office commitments remain at **66%**
- Leasing momentum continues:
  - Circa. 15% (6,000sqm) of space under negotiations
  - Commercial terms remain consistent with feasibility assumptions
- Supportive Auckland CBD property environment for the remaining tower floors





# Commercial Bay programme update

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- Previously announced delayed retail completion until late Q1 2019 based on independent advice
- Contract date for retail completion is November 2018, contractor has recently advised December 2018 date
- Our independent advice is that December 2018 completion is unlikely
- PwC Tower programme date for completion remains mid 2019 (July)
- Some risk to achieving Tower programme date dependent on the rate of façade installation
- Both programmes are subject to increased and ongoing monitoring, independent of the contractor
- Precinct remains confident with the provisions of its construction contract and the protections from losses due to contractor delay

# Bowen Campus

- 100% pre-committed
  - Lease to the Crown now unconditional
- Lease to the New Zealand Defence Force at Bowen State building extended to 18 years
- Project works remain on programme and budget





# Future opportunities

## Wynyard Quarter Stage Two

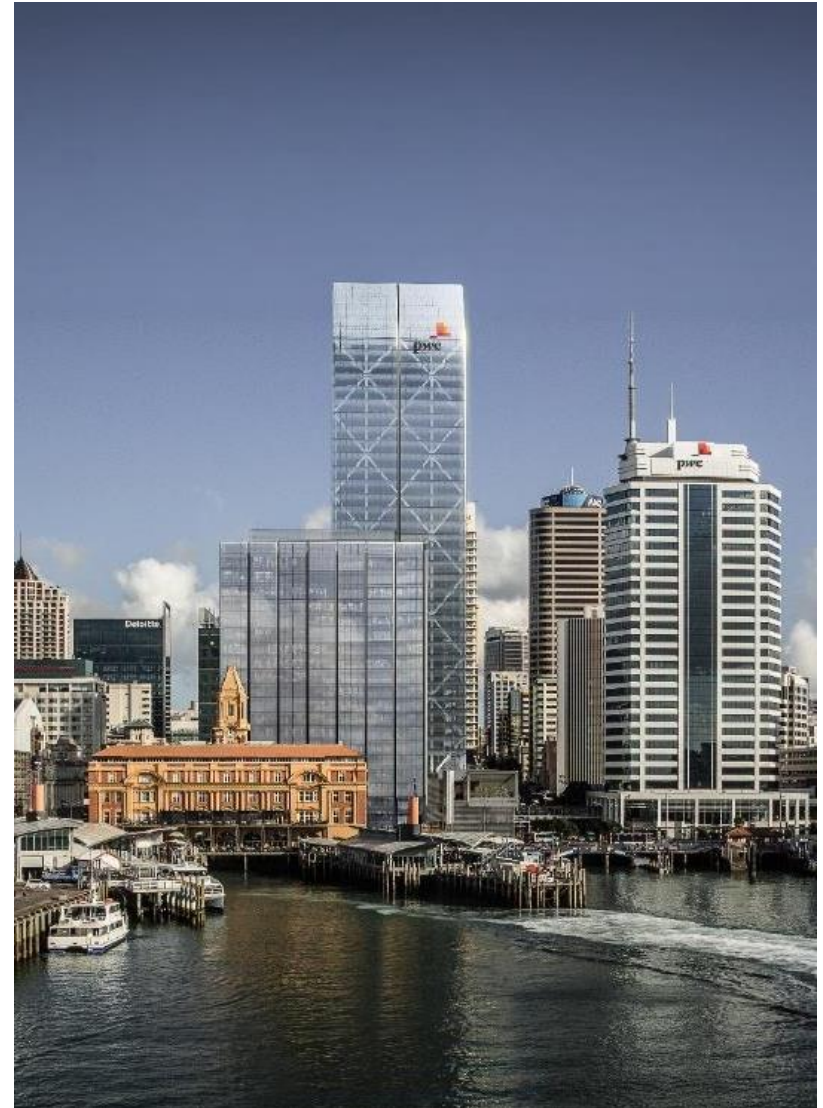
- Continue to advance Stage Two (10 Madden St)
  - 1 of the remaining 3 sites
- Development consists of another 8,000sqm office building across 6 floors as well as a new F&B precinct and plaza
- Negotiations are taking place with occupiers seeking 50% pre-commitment
- Remain on target to commit within next 6 months



# Future opportunities

## Commercial Bay Stage Two - 1 Queen St

- Investigations continue into development options
- Most feasible option mixed use development
  - Hotel with office above
- Negotiations with preferred hotel operator are on-going
- Hotel use will further support the Commercial Bay retail precinct, particularly food and beverage and night time trading





# Future opportunities

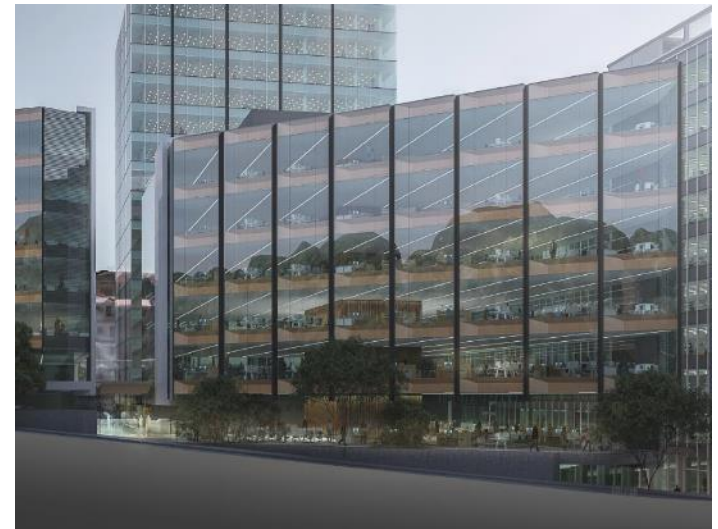
## Wynyard Quarter Stage 3

- Remaining stage of Wynyard Quarter precinct
- Potential for up to 20,000sqm of NLA across 2 separate or interconnected buildings
- Commencement of stages 3 and 4 will be demand led



## Bowen Balance land

- Stage 2 currently being designed
- Site preparation works are underway including demolition of existing Annex building
- Potential for up to c.20,000sqm of NLA across 2 new builds
- Suitable for both Crown and corporate occupiers





## Section 3

### Interim Results and Capital Management



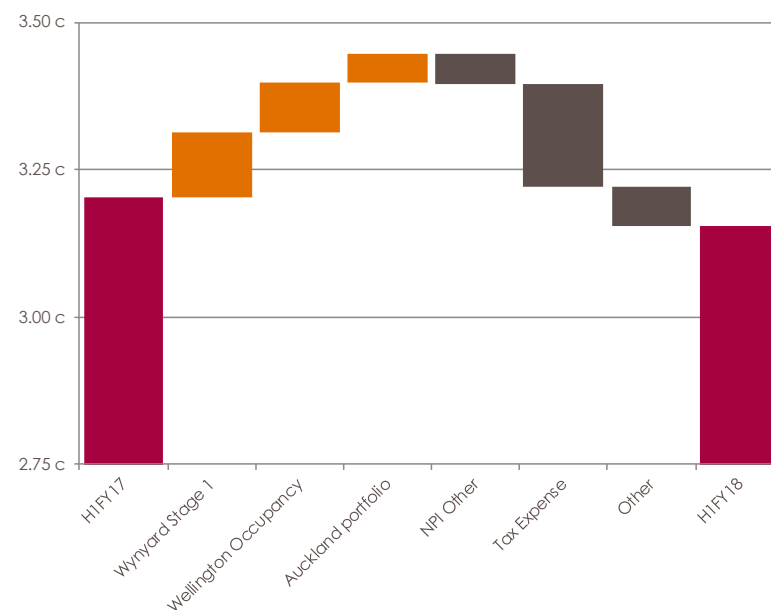


# Financial performance

six months ended (\$m)	31 December 2017 Unaudited	31 December 2016 Unaudited
<b>Net property income</b>	<b>\$47.6 m</b>	<b>\$45.9 m</b>
Indirect expenses	(\$1.1 m)	(\$1.1 m)
Performance fee		
Base fees	(\$4.0 m)	(\$3.8 m)
<b>EBIT</b>	<b>\$42.5 m</b>	<b>\$41.0 m</b>
Net interest expense	(\$1.6 m)	(\$1.6 m)
<b>Operating profit before tax</b>	<b>\$40.9 m</b>	<b>\$39.4 m</b>
Current tax expense	(\$2.7 m)	(\$0.6 m)
<b>Operating profit after tax</b>	<b>\$38.2 m</b>	<b>\$38.8 m</b>
Unrealised net gain / (loss) in value of investment and development properties	(\$14.7 m)	(\$12.1 m)
Net realised gain / (loss) on sale of investment properties		
Unrealised net gain / (loss) on financial instruments	(\$6.9 m)	\$15.3 m
Depreciation recovered on sale		
Deferred tax (expense) / benefit	\$1.6 m	(\$2.9 m)
Share of profit or (loss) of joint venture	(\$0.5 m)	
<b>Net profit after tax and unrealised gains</b>	<b>\$17.7 m</b>	<b>\$39.1 m</b>
Weighted Number of Shares on Issue	1,211.1 m	1,211.1 m
Net operating income before tax - gross (cps)	3.38 cps	3.25 cps
Net operating income after tax - (cps)	3.15 cps	3.20 cps
Payout ratio	92%	87%

- Net operating income of 3.15 cps
- Full year guidance remains around 6.30 cps
- Net profit after tax impacted by the (\$14.7) million fair value movement for 10 Brandon Street

## EPS reconciliation to comparative period

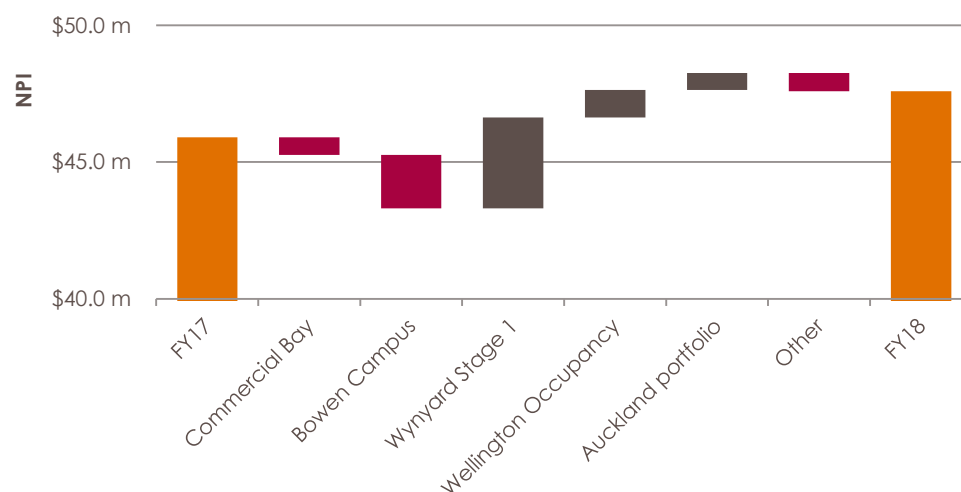


# Net property income

For the 12 months ended \$m	Unaudited six months ended 31 December 2017	Unaudited six months ended 31 December 2016	Δ
AMP Centre	\$4.8	\$4.5	+ \$0.3
PwC Tower	\$8.7	\$8.4	+ \$0.4
ANZ Centre	\$9.1	\$9.3	(\$0.2)
Zurich House	\$2.4	\$2.3	+ \$0.1
<b>Auckland total</b>	<b>\$25.0</b>	<b>\$24.4</b>	<b>+ \$0.6</b>
Pastoral House	\$2.2	\$2.2	(\$0.0)
157 Lambton Quay	\$3.7	\$3.1	+ \$0.7
State Insurance Tower	\$4.5	\$4.3	+ \$0.3
Mayfair House	\$1.7	\$1.6	+ \$0.1
No 1 The Terrace	\$2.9	\$3.2	(\$0.4)
<b>Wellington total</b>	<b>\$15.0</b>	<b>\$14.4</b>	<b>+ \$0.6</b>
HSBC House	\$3.3	\$4.0	(\$0.8)
<b>Total Investment portfolio</b>	<b>\$43.3</b>	<b>\$42.9</b>	<b>+ \$0.4</b>
<b>Transactions and Developments</b>			
Commercial Bay	\$0.0	(\$0.1)	+ \$0.1
12 Madden Street	\$2.2		+ \$2.2
Mason Brothers	\$1.2	\$0.1	+ \$1.1
Bowen Campus	\$0.0	\$2.0	(\$1.9)
Bowen Annex			
10 Brandon Street	\$0.9	\$1.2	(\$0.2)
<b>Total</b>	<b>\$47.6</b>	<b>\$45.9</b>	<b>+ \$1.7</b>

- Overall NPI was \$1.7 million (3.7%) higher following the completion of Wynyard Quarter Stage One
- Allowing for developments and HSBC House net property income was \$1.2 million (3.1%) higher than the comparative period
  - NPI in the corporate Wellington assets increased by 12.4% following a 10% lift in occupancy
  - Auckland NPI increased 2.5%

## Reconciliation of movement in net property income



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



# Taxation reconciliation

- Tax expense of \$2.7 million
  - \$2.1 million higher than comparable period
- Higher tax charge due to:
  - Lower level of leasing costs
  - Lower disposal of depreciable assets
- Effective tax rate for FY18 expected to be around 4-6%.
- Second half expected to have a lower tax expense due to:
  - Disposal of depreciable assets at Bowen Annex and No3 The Terrace
  - Higher level of leasing costs

## Tax expense reconciliation

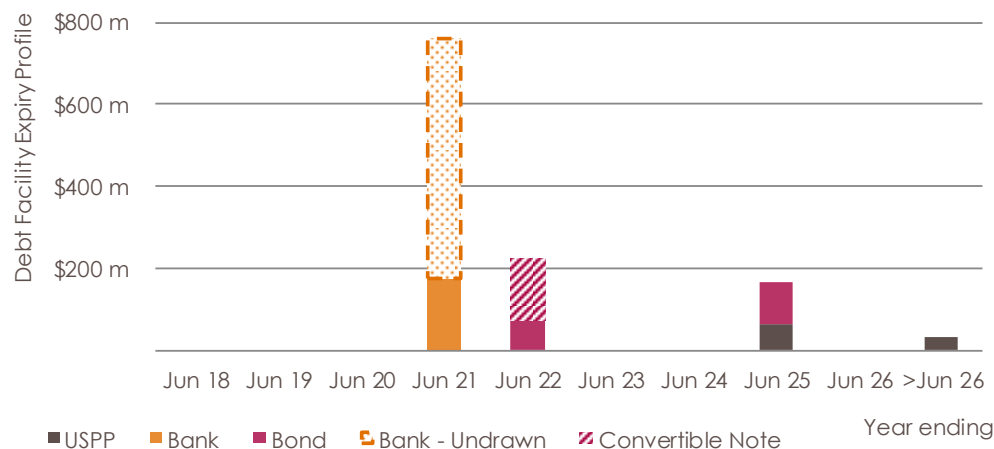
	Unaudited six months ended 31 December 2017	Unaudited six months ended 31 December 2016
<b>Net profit after tax and unrealised gains</b>	<b>\$17.7 m</b>	<b>\$39.1 m</b>
Deferred tax benefit	(\$1.6 m)	\$2.9 m
Current tax expense	\$2.7 m	\$0.6 m
<b>Net profit before taxation</b>	<b>\$18.8 m</b>	<b>\$42.6 m</b>
<b>Less non assessable income</b>		
Unrealised net (gain) in value of investment properties	\$14.7 m	\$12.1 m
Unrealised net (gain) /loss on financial instruments	\$6.9 m	(\$15.3 m)
Share of profit or (loss) of joint ventures	\$0.5 m	
<b>Operating profit before Tax</b>	<b>\$40.9 m</b>	<b>\$39.4 m</b>
<b>Other deductible expenses</b>		
Depreciation	(\$9.8 m)	(\$8.8 m)
Leasing fees and incentives in the period	(\$2.3 m)	(\$8.7 m)
Capitalised interest on development properties	(\$15.1 m)	(\$7.4 m)
Disposal of depreciable assets	(\$1.6 m)	(\$12.4 m)
Other deductibles	(\$2.4 m)	\$0.1 m
<b>Taxable income</b>	<b>\$9.6 m</b>	<b>\$2.1 m</b>
Tax at 28%	\$2.7 m	\$0.6 m
<b>Current tax expense</b>	<b>\$2.7 m</b>	<b>\$0.6 m</b>
Effective tax rate	6.6%	1.5%

# Capital management

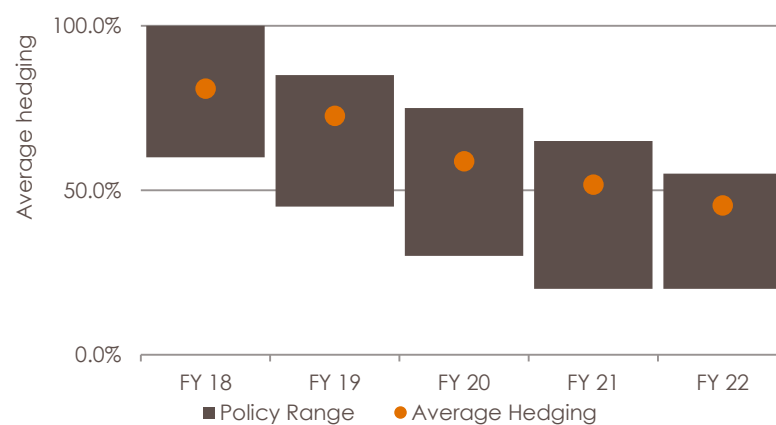
- \$250 million of funding secured in period
  - Total facilities increased to \$1.18 billion
- Borrowings increased to \$600 million due to development expenditure
- Subordinated convertible note has resulted in covenant gearing falling to 23.0% (June 17: 25.1%)
  - Committed gearing around 34%
- Weighted average debt to maturity of 4.2 years

Key metrics	Dec 2017	June 2017
Debt drawn (\$m)	600	452
Gearing - Banking Covenant	23.0%	25.1%
Weighted facility expiry (years)	3.8	4.0
Weighted average debt cost (incl fees)	5.4%	5.6%
Hedged	75%	65%
ICR (previous 12 months)	2.9 times	3.9 times
Total debt facilities (\$m)	1,183	1,033

## Debt maturity profile



## Hedging profile







## Section 4

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### Market and Portfolio Overview

# Portfolio activity

- Strong portfolio performance, driven by growth in rental levels and occupancy, especially Wellington.
- Total Rent reviews were 4.1% higher than valuation
- Market events (leasing and reviews) were 1.8% higher than valuation
- Compared with previous contract rent, settled market rent reviews were 8.3% higher (2.9% including fixed and index)
- Portfolio remains 4.7% under-rented

## Leasing Events

New Leases	Number	Area
Auckland	8	2,918 m <sup>2</sup>
Wellington	6	2,733 m <sup>2</sup>
<b>Sub Total</b>	<b>14</b>	<b>5,651 m<sup>2</sup></b>

## RoR, Extensions & Restructures

Auckland	4	2,408 m <sup>2</sup>
Wellington	1	110m <sup>2</sup>
<b>Sub Total</b>	<b>5</b>	<b>2,518 m<sup>2</sup></b>
<b>Total Leasing</b>	<b>19</b>	<b>8,170 m<sup>2</sup></b>

Rent Reviews	Number	Area
Auckland	41	30,531 m <sup>2</sup>
Wellington	16	10,842 m <sup>2</sup>
<b>Total Reviews</b>	<b>57</b>	<b>41,372 m<sup>2</sup></b>

	Increase to contract	Total rent
Market rent reviews	8.3%	\$3.4m
Fixed and indexed	1.7%	\$14.6m
<b>Total reviews</b>	<b>2.9%</b>	<b>\$18.0m</b>



# Portfolio metrics

## 8.8 years

Weighted average lease term  
(including development pre-leasing)

## 99%

Occupancy

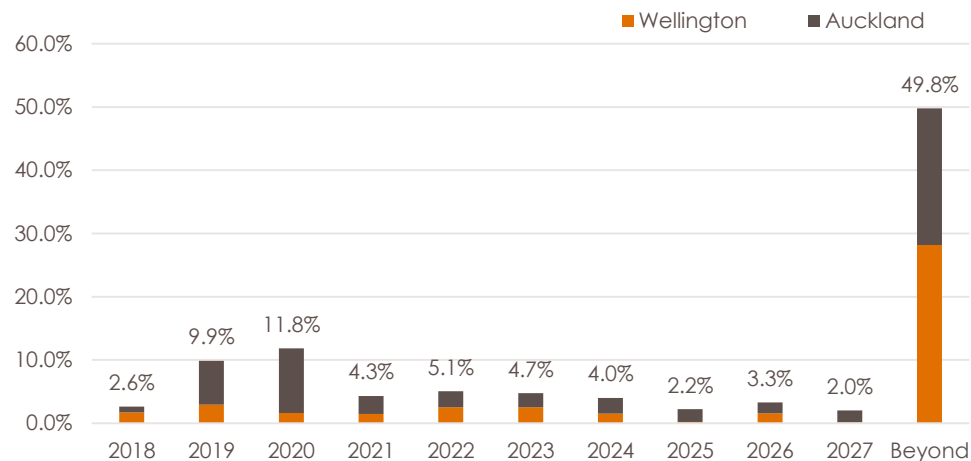
## 11.8%

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

## 72%

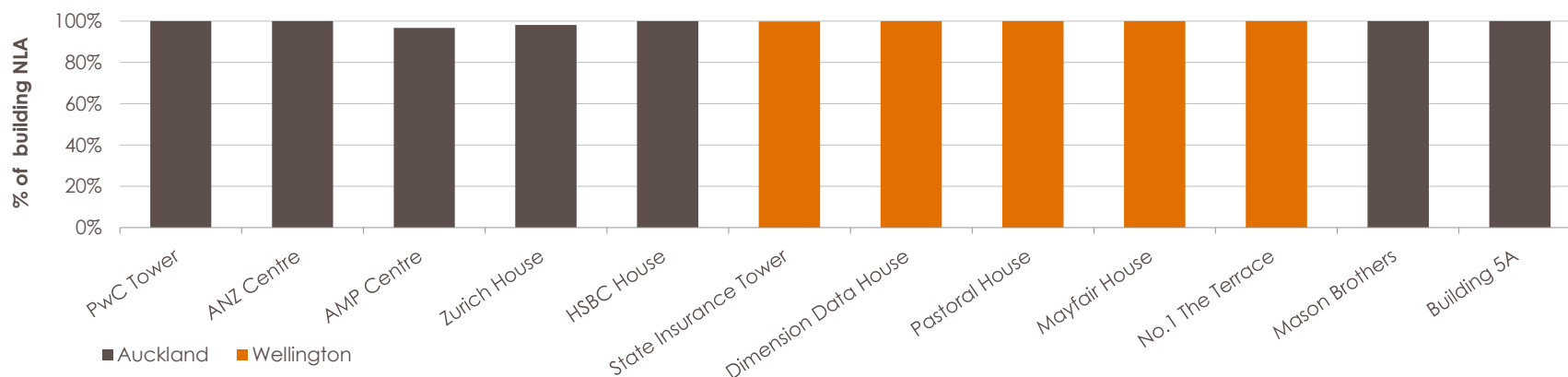
weighting to Auckland

Lease expiry profile by Area (including pre-commit)



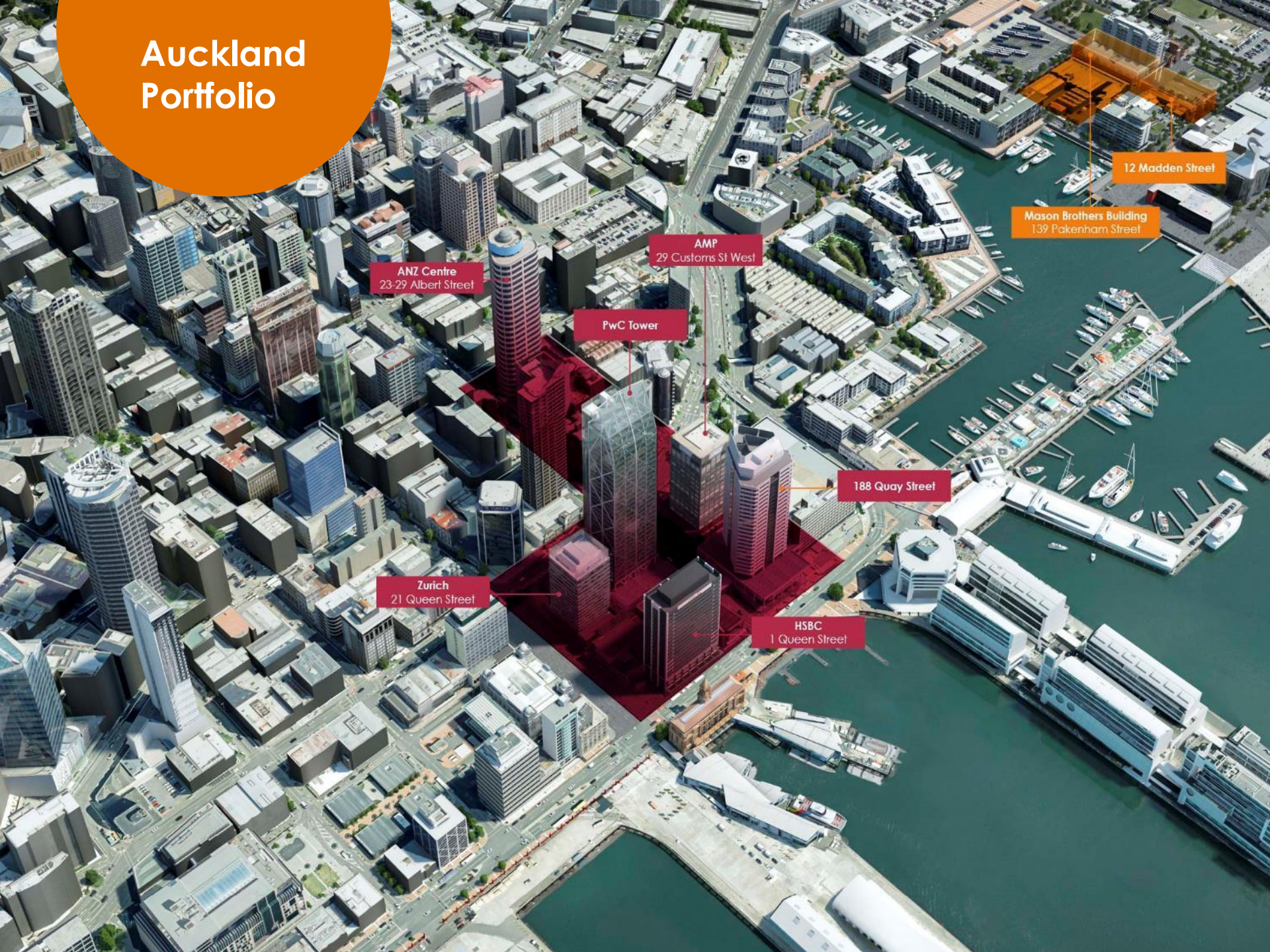
\*Excludes Commercial Bay Retail

Occupancy





# Auckland Portfolio



ANZ Centre  
23-29 Albert Street

AMP  
29 Customs St West

PwC Tower

Zurich  
21 Queen Street

HSBC  
1 Queen Street

188 Quay Street

Mason Brothers Building  
139 Pakenham Street

12 Madden Street



# Auckland CBD office market

## Occupier Demand

According to Colliers research, total Auckland CBD vacancy has not exceeded 6.0% since the middle of 2015. The recent rise to 5.9% stems from vacancy arising in both Viaduct Harbour and Victoria Quarter. Premium grade vacancy remains low at 1.8%.

## Supply

With premium vacancy rates remaining low, evidence of over-occupancy driven by lack of available space, and minimal supply in the market, the 60,000 sqm of new supply due to be completed over the next two years is expected to be comfortably absorbed by the market.



**60,000**

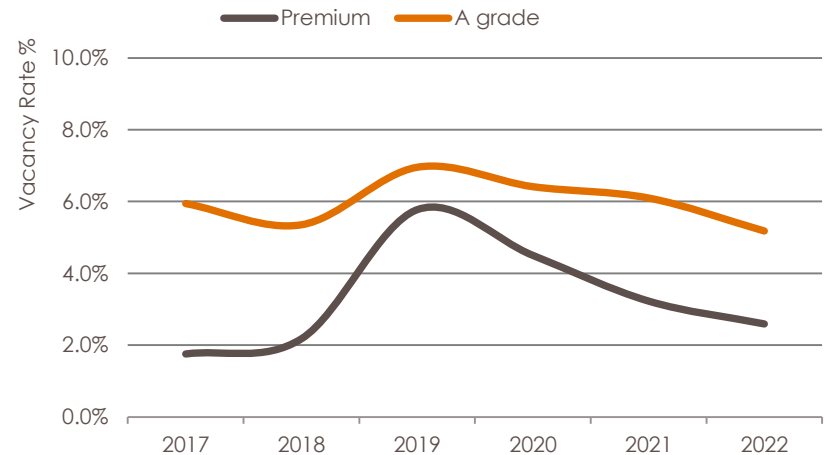
Sqm of office space set for completion over the next two years



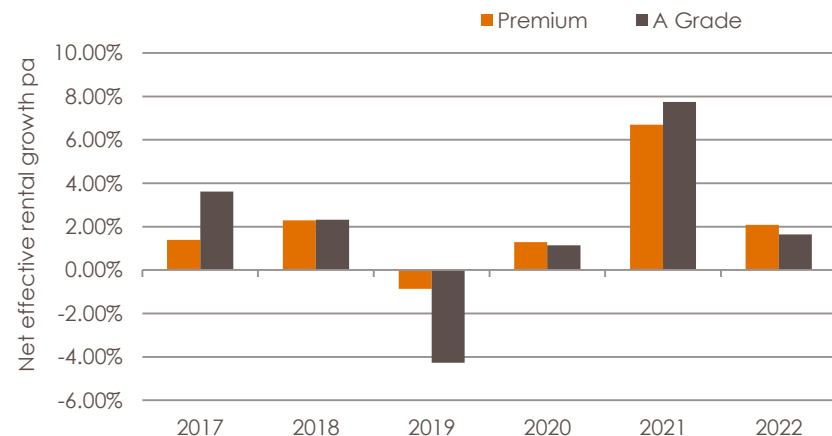
**5.9%**

Total Auckland CBD office vacancy rate as at 31 December 2017

## Forecast vacancy (JLL, Dec 2017)



## Forecast net effective rent growth (JLL, Dec 2017)





# Wellington Portfolio



State Insurance  
Tower

Dimension Data  
House

10 Brandon St

Pastoral House

1-3 The Terrace

Mayfair House

Bowen Campus

Bowen Campus  
Stage Two



# Wellington CBD office market

## Occupier Demand

With the loss of nearly 100,000sqm of office space, vacancy has hit record lows, indicating continued strong demand for office space.

## Supply

The completion of several new buildings has done little to meet the demand, with most of the developments being near 100% pre-committed, resulting in an undersupply of CBD office space.



**100,000**

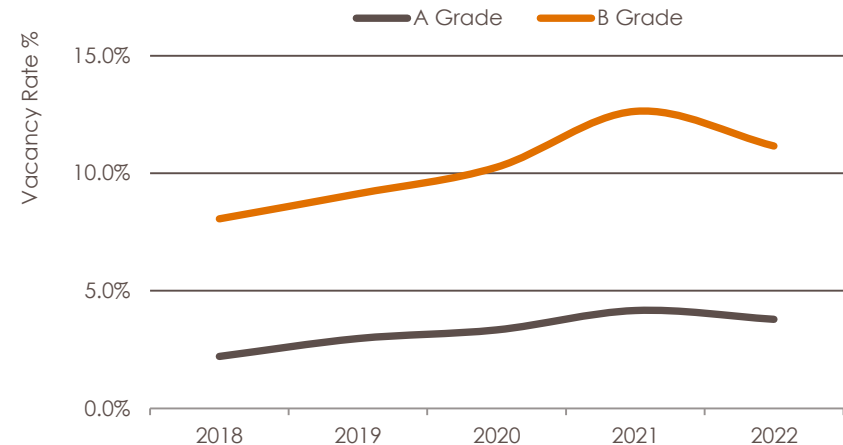
Sqm of office stock removed from the market by the November 2016 earthquake.



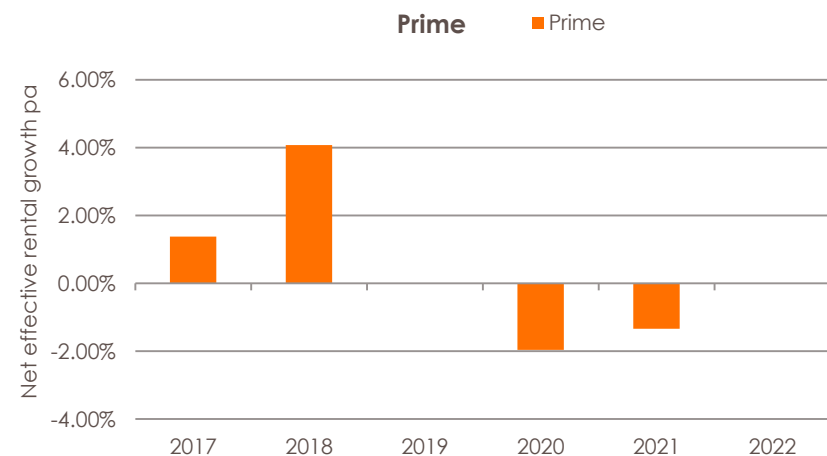
**38,800**

Sqm of office stock brought to the market in 2017 with little or no impact to the occupier market.

Forecast vacancy (JLL, December 2017)



Forecast net rent growth (JLL, December 2017)

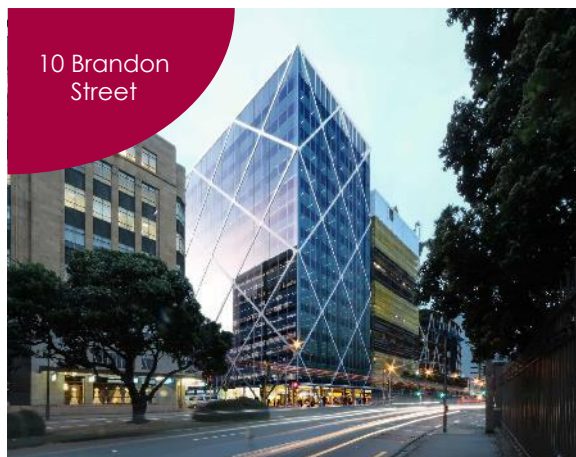


# 10 Brandon Street

- A number of options for the building have been explored to date:
  - Strengthen existing
  - Strengthen with façade upgrade
  - Full office redevelopment
  - Student accommodation
  - Apartments
  - Office/Apartment hybrid
- Preferred option is to strengthen with façade upgrade
- Commencement of work to be demand led



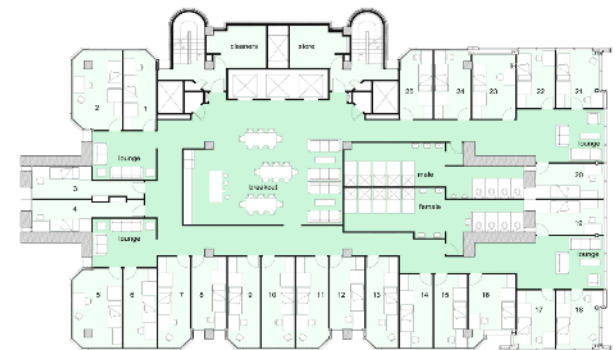
**Full redevelopment**



**Office/Apartment hybrid**



**Student accommodation**





# Generator update

- Generator now manage circa 12,000 sqm of co-working space over three locations
- Stanbeth & Excelsior
  - Established location with stable operations in heritage Britomart buildings
  - Recently expanded and facilities upgraded to total 340 desks
- 10 Madden Street and Mason Brothers
  - Launched September 2017
  - Wynyard Quarter location as part of ATEED's GridAKL Innovation Precinct
  - A total of 560 desks over two buildings with state of the art events and meeting facilities
  - Occupancy ahead of expectations and strong demand for event facilities
- Generator House
  - Launching May 2018
  - Circa 270 desks with events and meeting spaces over the upper levels of the Britomart East building

A low-angle, upward-looking photograph of several modern skyscrapers. The central building is a tall, curved tower with a glass facade reflecting the sky and clouds. To its left is a shorter, more angular building with a glass facade. To the right is another tall building with a grid-like facade. The sky is blue with scattered white clouds. In the bottom right corner, a glass entrance with the ANZ logo is visible. A large, semi-transparent red circle is overlaid on the left side of the image, containing the text for Section 5.

## Section 5

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### Conclusion and outlook



# Conclusion and outlook

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- Global economic growth continues to improve
- Strengthening markets
  - Signs of post election stability emerging
  - Strong occupier and investment markets
- New Zealand is well placed to continue to grow
- Precinct well positioned
  - Strong balance sheet
- Precinct has a clear strategy
  - City centre specialisation
  - Targeted approach to our markets
- Increased confidence
  - Performance of our investment portfolio
  - Outlook for both committed and uncommitted developments



Thank you