NZX and media announcement – 18 February 2014

Precinct records solid start to year

Performance summary for six months to 31 December 2013

Increase in net operating income[1] of 22% and 5.5% lift in first-half dividend

- Net profit after tax increased 67% to $39.5 million (2012: $23.6 million) following improved Auckland occupancy, recent acquisitions, and gains on interest rate swap valuations.
- Net operating income increased 22% to $32.0 million (2012: $26.2 million) or 3.10 cents per share (cps) (2012: 2.63 cps).
- Half year dividend of 2.7 cps (2012: 2.56 cps).

Higher total portfolio occupancy of 97% (2012: 95%), improved occupancy and market rental growth in Auckland

- Across the portfolio, 30 leasing transactions covering 38,700 square meters.
- Strong Auckland office market rental growth with 24 market events (leasing and reviews), excluding Downtown Shopping Centre secured on average at a 6% premium to June valuations, underpinned by growth in occupier demand.
- Eight market events in Wellington were secured at levels consistent with June valuations.
- Weighted average lease term across the portfolio of 5.5 years (2012: 5.5 years).

Capital management initiative

- Successfully raised $62.5 million of new equity, putting the company in a strong position to deliver on existing development opportunities through future asset sales.

Precinct in exclusive negotiations at Wynyard Quarter

- Precinct announces today that it is in exclusive negotiations with Waterfront Auckland to become their development partner for commercial office within the Innovation Precinct on the Auckland waterfront at Wynyard Quarter. This development will be part of one of the country's largest urban regeneration projects with which Precinct is excited to be involved.

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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 in the reconciliation provided 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.

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Precinct Properties New Zealand Limited (**Precinct) (NZX: PCT)** today reported its financial results for the six months to 31 December 2013, recording a net profit after tax of $39.5 million, up on the $23.6 million for the same period last year.

Scott Pritchard, Precinct's CEO, said it had been a good start to what will be another active and important year for the company when it will focus on optimising the investment portfolio, designing the Downtown Shopping Centre development, repositioning non-core assets for disposal and participating in the Government Wellington office accommodation process.

"We are pleased to have started the year so strongly. These results put us in a good position to continue a strategy of focusing on key assets, driving new leasing and progressing the development opportunities we have built up in the portfolio."

Improved Auckland occupancy and recent acquisitions contributed to a 22% increase in net operating income for the period of $32.0 million (2012: $26.2 million).

Improved occupancy was matched by market rental growth, with leasing transactions and market reviews in Auckland secured on average at a 6% premium to 30 June valuations. "We have been anticipating Auckland market rental growth for some time and it is pleasing to now see this coming through. With no significant vacancy within the Auckland portfolio we expect this trend to continue," he said.

In Wellington, the July and August earthquakes contributed to a further increase in market awareness of the seismic performance of Wellington's CBD office stock with increasing demand for strong, quality buildings.

DOWNTOWN SHOPPING CENTRE

During the period Precinct also entered into negotiations with Auckland Council to coordinate the timing of works for the City Rail Link and the Downtown Shopping Centre development. Mr Pritchard said this project will take advantage of strong growth in demand for city centre office space and will reinvigorate the heart of the city's main transport hub and waterfront area.

Planning was progressing well towards a 2016 start for work when current leases in the centre expire. Precinct has appointed a leading international master planner, Woods Bagot, to work closely with local architects, Warren and Mahoney, in planning for this development and the company looked forward to sharing its vision for this new precinct as planning work is completed in the second half of 2014.

WYNYARD QUARTER

Precinct is in exclusive negotiations with Waterfront Auckland to become its development partner for commercial office property within the Innovation Precinct at Wynyard Quarter.

Non-binding commercial terms have been agreed with Waterfront Auckland, with negotiations progressing well and a development agreement expected to be signed in the coming months. Final approval remains conditional on Precinct board and Waterfront Auckland approval.

Wynyard Quarter is one of New Zealand's largest urban regeneration projects and the sites in question have a land area of approximately 1.1 hectares and the potential to develop around 46,000 square metres of gross floor area. The leasing strategy for the sites will build upon existing efforts to create a purpose-built information communication technology and digital media hub that brings together innovative entrepreneurs and larger scale companies as part of Auckland Tourism Events and Economic Development's (ATEED's) plans for a multi-building innovation precinct in the Wynyard Quarter.

Scott Pritchard, Precinct's CEO, said. "Since our inception we have retained a city centre office sector specialist strategy. This has not changed. This opportunity will complement our existing core CBD offering and allow us to widen our client base to innovative businesses through ATEED's planned initiatives for high-growth technology businesses. We will also be targeting occupiers whose preference is for low rise, larger floor plate accommodation but with all the benefits of a central city location."

"The proposed partnership structure provides for a staged approach including a pre-paid leasehold structure."

Mr Pritchard said, "Waterfront Auckland have already made huge progress in transforming Wynyard Quarter into one of Auckland's most exciting precincts for businesses and the public alike. Wynyard Quarter will benefit further over the coming years from considerable public and private investment and its location within close proximity to the core CBD. These factors should attract occupiers and ensure the success of the commercial development."

Precinct's previously announced programme of recycling capital out of its existing portfolio will provide funding for this opportunity, taking advantage of strong investment market conditions and a lack of competing stock.

INTERIM RESULT OVERVIEW

Rental revenue for the six months was up 20% to $82.6 million (2012: $68.9 million). The increase was primarily due to new rental income from recent acquisitions, the ANZ Centre becoming fully income-producing and improved Auckland occupancy. Excluding the impact of acquisitions and the ANZ Centre redevelopment, revenue was 3% higher than the previous interim period.

Property expenses were $23.8 million. This was 12% higher than the previous interim period, but once adjusted for recent acquisitions it represented a reduction of 3%.

Following the two earthquakes that struck Wellington the company engaged Holmes Consulting Group to undertake comprehensive inspections of its buildings in the city. These found no material damage to their structural integrity and the non-recoverable cost to repair superficial damage was minor.

Interest expense increased $4.6 million to $16.7 million, reflecting higher debt levels following the purchase of the Downtown Shopping Centre and HSBC

House and interest costs associated with the ANZ Centre redevelopment being fully expensed.

Other expenses increased by around 13% as the size of the portfolio grew. Precinct outperformed the benchmark New Zealand-listed property sector return (excluding Precinct) resulting in a performance fee of $1.3 million being payable in the second quarter.

Tax expense of $3.9 million was at a similar level to the previous interim period (2012: $3.8 million) despite higher pre-tax profit. This period's tax expense relating to the higher profit was offset by an increase in depreciation associated with acquisitions and recognition of a tax deduction 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 $10.6 million (2012: $1.7 million) reflected the increase in market interest rates since 30 June 2013 and the unwinding of interest rate positions.

An internal review of the 30 June 2013 valuations was undertaken in accordance with our accounting policies. It indicated no material value movement in the period. The 31 December 2013 investment property book values were consistent with Precinct's policy of carrying investment property at fair value.

Precinct's NTA per share at balance date increased to one dollar per share, compared with 99 cents per share as last reported. The increase in NTA mainly reflected fair value gain in interest rate swaps and Precinct's policy of retaining earnings.

CAPITAL MANAGEMENT

Two equity initiatives were undertaken in the period. The proceeds from a $50 million placement and a $12.5 million share purchase plan were used to repay bank borrowings which reduced to $556 million (2012: $603 million). Precinct's gearing decreased to 34.1% (30 June 2013: 37.3%).

Precinct's existing bank debt facilities were also reduced during the period to $610 million (30 June 2013: $660 million) as the company carried excess funding capacity following the successful equity issues. The 2016 tranche was reduced resulting in a weighted average term to expiry at 31 December of 3.6 years (30 June 2013: 4.0 years).

Of Precinct's drawn bank debt, 67% (30 June 2013: 57%) was effectively hedged through the use of interest rate swaps. This hedging resulted in a weighted average interest rate including all fees of 5.8% (30 June 2013: 5.6%) and a weighted average term of 2.4 years (30 June 2013: 2.2 years).

PORTFOLIO PERFORMANCE

As noted, portfolio occupancy was maintained at 97% (30 June 2013: 97%) and new leasing was secured at a 3% premium to valuations.

In Auckland, we started the year with income generating occupancy of 97%, significantly higher than at the same time last year. After allowing for recent acquisitions and the ANZ Centre redevelopment, this improved position led to a 19% increase in Auckland's net property income compared to the previous interim period.

The Auckland portfolio is now almost fully occupied with only 600 square metres of office space available in the city. HSBC House, which was acquired in May 2013 and had benefited from a six-month vendor underwrite, is now 100% occupied. 2,500 square metres of space within the building has been secured at a premium to 30 June valuations.

In Wellington, continued success at State Insurance Tower has led to the portfolio being 96% occupied. With the strengthening works in the former Central Police Station com and reinstatement works almost complete, further leasing progress is anticipated in the next 12 months. Precinct has responded to the first stage of the Government office accommodation RFP for Bowen Campus, 1-3 The Terrace, Pastoral House and Mayfair House.

In total, 30 leasing transactions covering 38,700 square metres were secured in the period this helped maintain a strong portfolio WALT of 5.5 years.

Precinct settled 5,200 square metres of market rent reviews at a 6% premium to valuation in the period. Across the 6,800 square metres of rent reviews, we saw an increase in passing rents of around 2%.

OFFICE MARKET UPDATE

The outlook for prime CBD office stock continues to firm as vacancy remains at low levels. According to CBRE, Auckland Prime CBD vacancy decreased from 6.0% to 4.0% in the six months to December 2013. As a result, most research houses are forecasting meaningful rental growth over 2014, consistent with recent leasing transactions in the Auckland portfolio.

Wellington's Prime CBD vacancy also continues to decrease, with vacancy reducing from 2.9% to 1.2% over the six months to December 2013. The Wellington portfolio is positioned well given low levels of prime supply and a concentration of leasing activity for well-located, seismically strong buildings. A key consideration for the Wellington market is the Government's accommodation plans.

DIVIDEND PAYMENT

Precinct shareholders will receive a second-quarter dividend of 1.35 cents per share plus imputation credits of 0.21567 cents per share. Offshore investors will receive an additional supplementary dividend of 0.09787 cents per share to offset non-resident withholding tax. The record date is 6 March 2014. Payment will be made on 20 March 2014.

EARNINGS AND OUTLOOK

Precinct is well positioned to capture earnings growth in the medium term with the portfolio no longer over-rented and an expectation in Auckland of sound market rental growth. Earnings growth however will lag market due to a lower level of impending expiry and a higher weighting to structured leases.

In Wellington, market awareness of seismic performance and our commitment to seismic upgrades is contributing to an increase in occupier demand and an improved occupancy outlook. Sustained low prime vacancy rates and price stability returning to the insurance market should provide for some modest rental growth in the medium term.

Guidance for the 2014 financial year remains unchanged with full-year operating earnings after tax expected to be around 6.2 cents per share (before performance fees) or 6.0 cps (assuming 50% of the maximum performance fee is payable).

Dividend guidance for the 2014 financial year also remains unchanged at 5.4 cents per share, consistent with the 90% pay out dividend policy.

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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 PwC 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 reconciliation

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	**31 December 2013**	**31 December 2012**
Net profit after taxation	**39.5**	23.6
Unrealised net (gain) / loss in value of investment properties	**-**	-
Realised loss / (gain) on sale of investment properties	**-**	-
Unrealised interest rate swap (gain) / loss	**(10.6)**	(1.7)
Deferred tax (benefit) / expense	**3.1**	4.3
Net operating income	**32.0**	26.2