



**Precinct Properties New Zealand**  
**Investor Day**  
November 2017



# Today we're focussed on

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- Our strategy – portfolio transformation
- Portfolio and market overview
- Hot topics
  - Auckland CBD office performance
    - Supply constraints
    - Construction costs
    - Economic rents
  - Density ratios
  - New Government
  - Co working
- Developments
  - Commercial Bay and Bowen Campus
  - Future opportunities





## Section 1

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Strategy

# Business and strategy overview

**Precinct is a specialist city centre real estate investment company. It invests in high quality strategically located city centre real estate.**

- Most recently reviewed in 2012, the strategy has been continually refined since 1997 when the company was first established
- Current strategy provides clear direction for the Precinct team and shareholders
- May invest in other city centre real estate including land, retail, hotels and value add properties where profitability can be enhanced
- Ambition to control or own strategic city centre precincts enabling us to create vibrant environments

## Principles of success

1. Concentrated ownership in strategic locations
2. Quality client relationships
3. Investing in quality
4. A long-term view

## Strategy focus



# Achieving strategy



## Operational excellence

	2012	▶	2017
<b>Asset age</b>	21 years		11 years
<b>Quality</b>	A-grade		Premium
<b>WALT</b>	5.9 years		9.0 years
<b>Occupancy</b>	94%		100%
<b>Maint. CAPEX</b>	0.8%		0.4%
<b>NBS Score</b>	85%		94%



## Empowering people

	2012	▶	2017
<b>Dedicated staff</b>	14		55
<b>Property functions</b>	Out-sourced		In-house
<b>Client satisfaction</b>	64%		72%
<b>Staff engagement</b>	75%		78%



## Developing the future

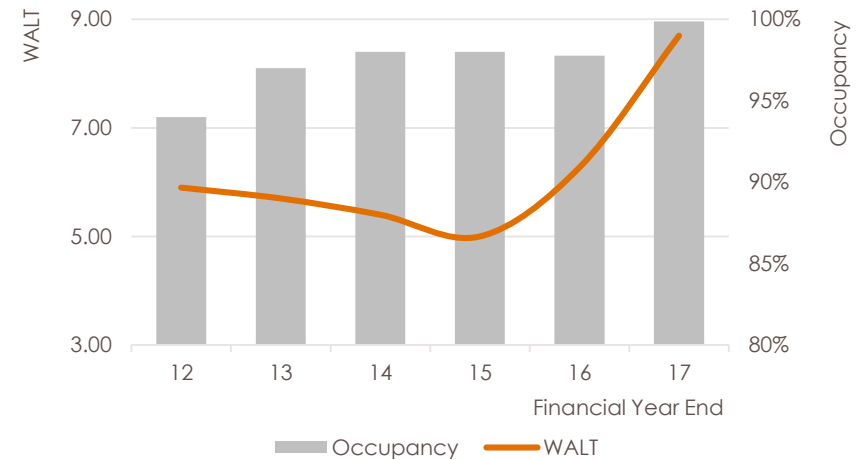
	2012	▶	2017
<b>Acquisitions</b>			Bowen Campus Downtown Shopping centre HSBC House Queen Elizabeth Square
<b>Regeneration Precincts</b>			Wynyard Quarter Bowen Campus Commercial Bay
<b>Development pipeline</b>	\$0		\$1.2 billion
<b>% of retail</b>	4.5%		18% <sup>1</sup>
<b>AKL Weighting</b>	50%		76%
<b>Mixed use projects</b>			Commercial Bay Wynyard Quarter
<b>Partnerships</b>			Panuku Development Auckland Generator, ATEED

<sup>1</sup>includes Commercial Bay retail

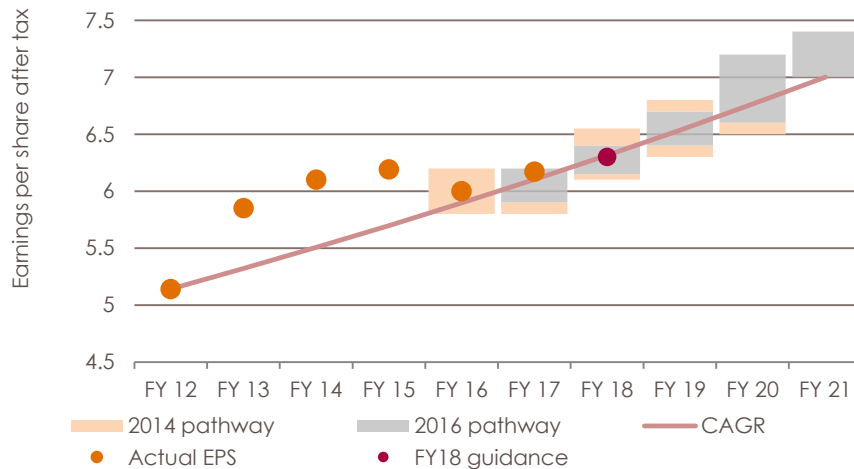
# Earnings pathway and quality shift

- Earnings pathway maintained to 2021
- Forecast earnings growth expected to provide CAGR of 3.5% between 2012 and 2021
- Significant quality shift occurring contemporaneously
- Committed WALT now 9 years

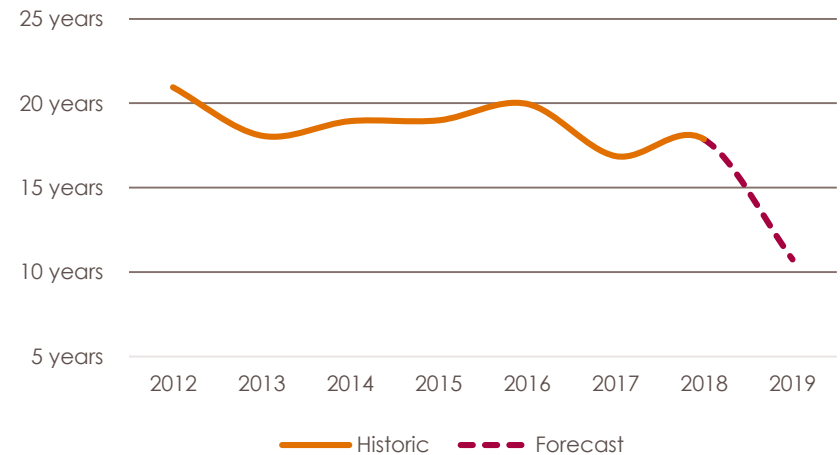
## Portfolio WALT and Occupancy



## Earnings per share – Actual and pathway



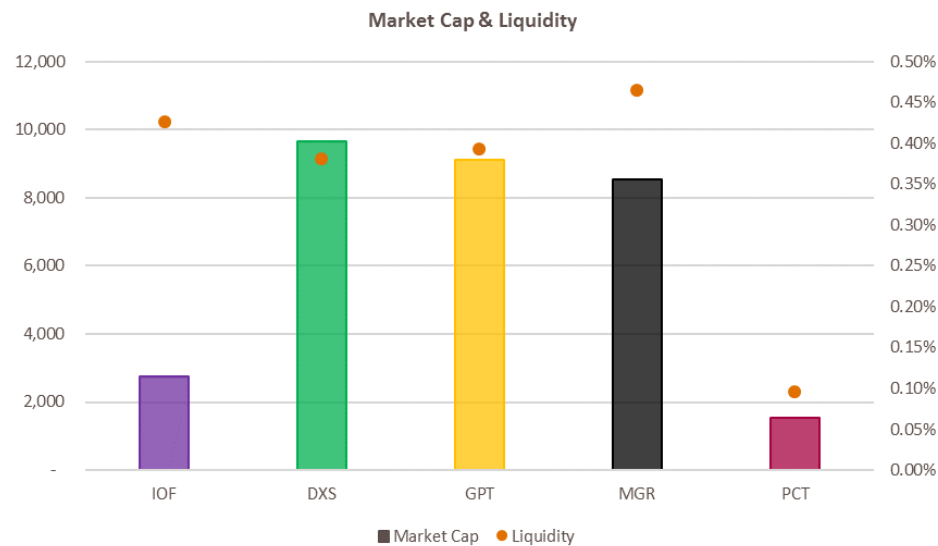
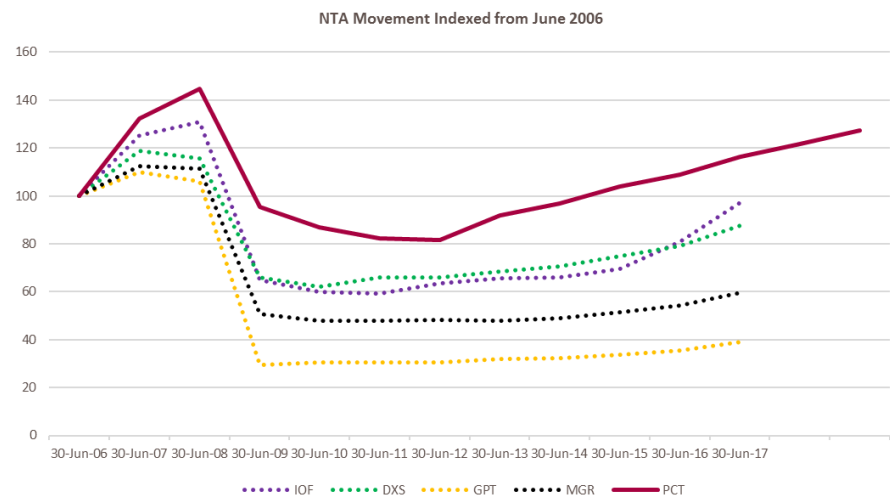
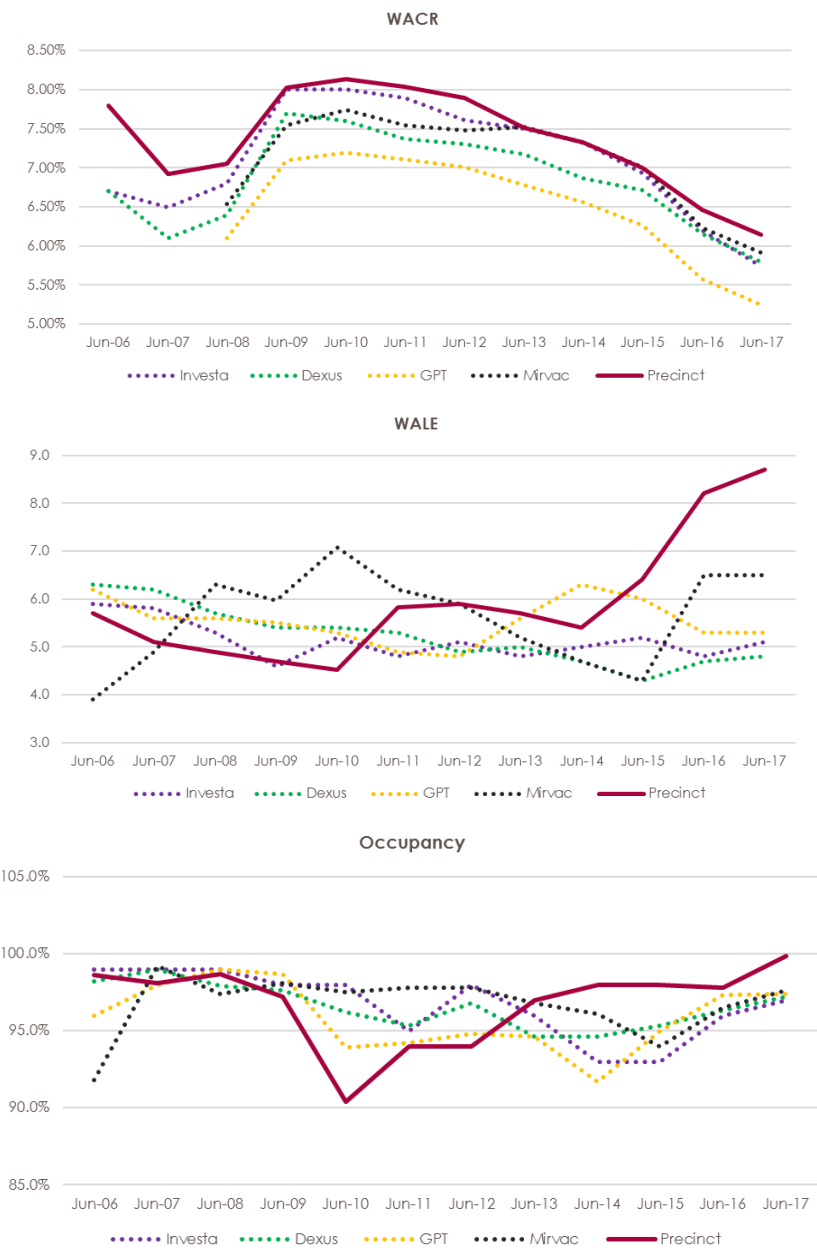
## Weighted average portfolio age



Note: The graph presented above represents a hypothetical scenario only and should not be considered a budget, plan or forecast. There is no certainty that earnings will eventuate as illustrated.



# Comparison to A-REITs



A low-angle photograph of a modern, multi-story building with a glass and dark panel facade. The building features large glass windows and dark, textured panels. The sky is clear and blue. An orange circular graphic is overlaid on the left side of the image, containing the text 'Section 2', 'Portfolio:', and 'Market Overview'.

## Section 2

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Portfolio:  
Market Overview

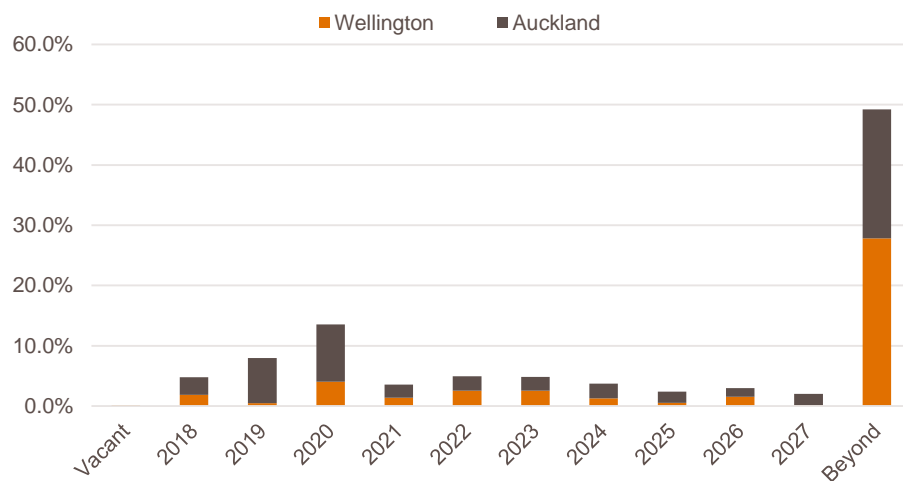


# Portfolio overview

## Key metrics

	Investment Portfolio	Developments on completion	Investment Including Developments on completion
Total Assets	\$1,535 m	\$1,174 m	\$2,709 m
% Wellington	28%	20%	24%
WALT	7.1 years	11.5 years	9.0 years
Occupancy	100%	96%	99%
Market Cap rate	6.2%	5.6%	6.0%
NLA	221,665 m <sup>2</sup>	95,600 m <sup>2</sup>	317,265 m <sup>2</sup>

## Lease expiry profile

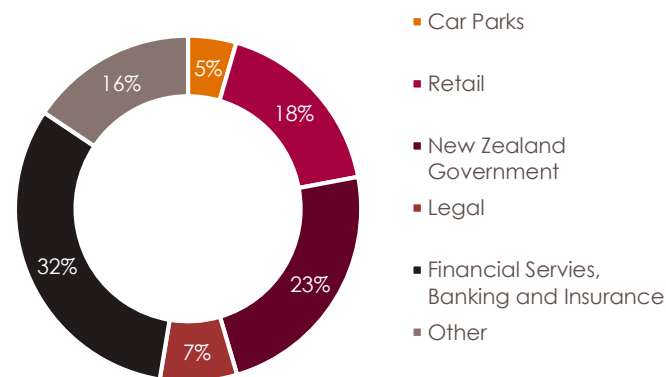


## Portfolio metrics

**76 %**  
weighting (by value) to  
Auckland (inc. developments)

**9.0 years**  
Weighted average lease term  
(incl. developments)

## Composition of revenue by industry sector on completion





# Auckland Portfolio



ANZ Centre  
23-29 Albert Street

AMP  
29 Customs St West

PwC Tower

Zurich  
21 Queen Street

188 Quay Street

HSBC  
1 Queen Street

Stanbeth

Takutai  
Coming soon

Mason Brothers

12 Madden

12 Madden Street

Mason Brothers Building  
139 Pakenham Street



# Auckland CBD market

## Midtown



↑ 2.7%



↑ \$365



↓ 6.9%

## Core



↑ 6.0%



↑ \$485



- 6.2%

## Commercial Bay precinct



- 0.0%



↑ \$525



↓ 6.1%

## Britomart



- 0.0%



↑ \$480



↓ 6.8%

Key:



Vacancy



Rents



Market yields



# Auckland CBD public investment



Map Key:	
	Public investment
	CRL / Light Rail
	Public regeneration
	Commercial Bay

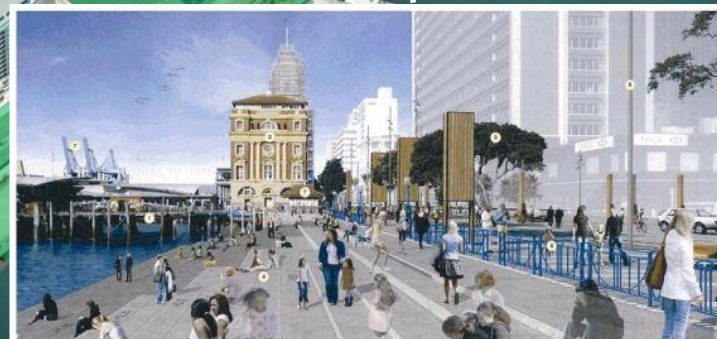




# Auckland CBD public investment

## Map Key:

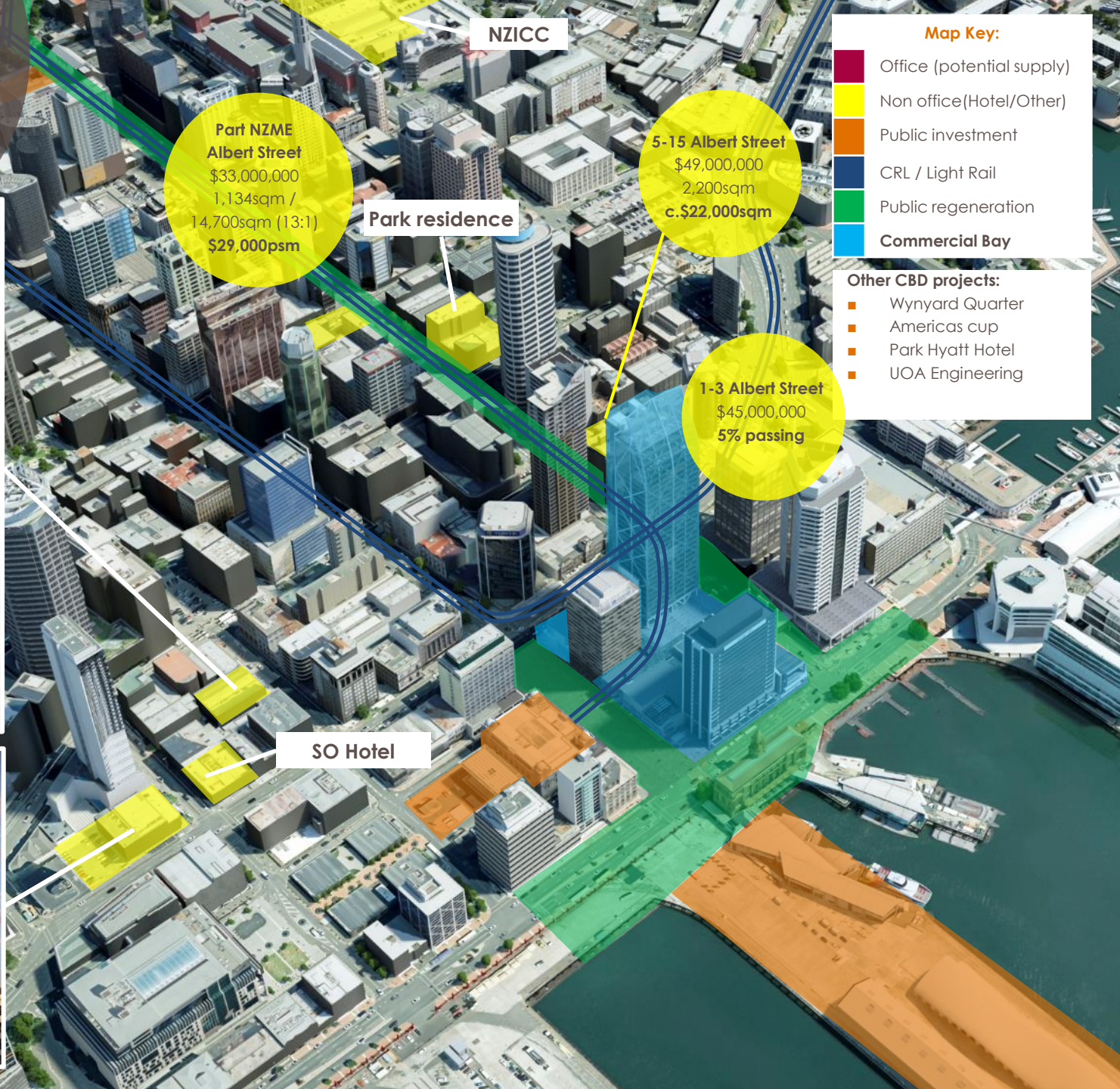
- Public investment
- CRL / Light Rail
- Public regeneration
- Commercial Bay



Visualisation of Lower Albert Street - Grand Harbour Stairs: Quay Street Upgrade Concept Design Report



# Auckland CBD private investment





# Auckland CBD private investment

## NZME Albert Street (Mansons Approach)

\$42m (Original purchase)  
\$9m cost net of divestment  
3,124sqm / \$2,800psm  
Assuming 20,000 GFA  
Net Face Rent

**\$670psm**

## 28 Shortland Street

\$26,000,000 (April 2014)  
2,010sqm / 26,000sqm (13:1)  
\$13,000psm

Required Average  
Net Face Rent

**\$795psm**

## 10-12 Commerce Street

\$27,765,000 (November 2015)  
1,388sqm / 36,700sqm (26:1)  
\$20,000psm

Required Average  
Net Face Rent

**\$770psm**

### Map Key:

- Office (potential supply)
- Non office (Hotel/Other)
- Public investment
- CRL / Light Rail
- Public regeneration
- Commercial Bay

### Other CBD projects:

- Wynyard Quarter
- Americas cup
- Park Hyatt Hotel
- UOA Engineering

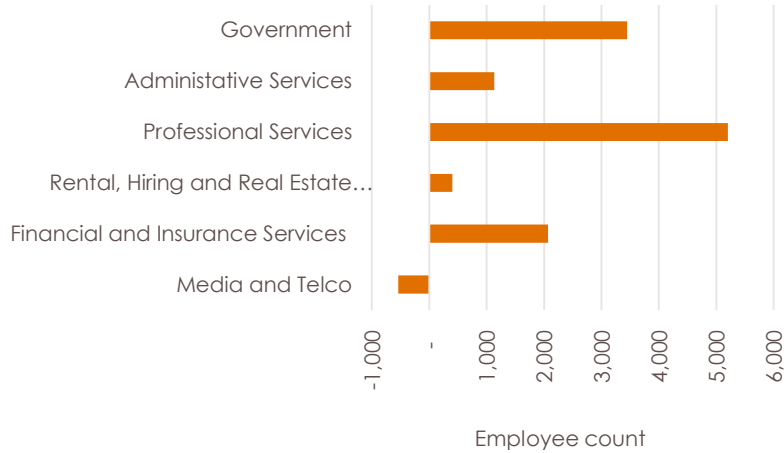
## Assumptions

- Commercial Bay construction costs escalated to 2017
- Capitalisation rate of 6.0%
- Return on Cost of 17.5%
- Adopted MFAR or Consented FAR

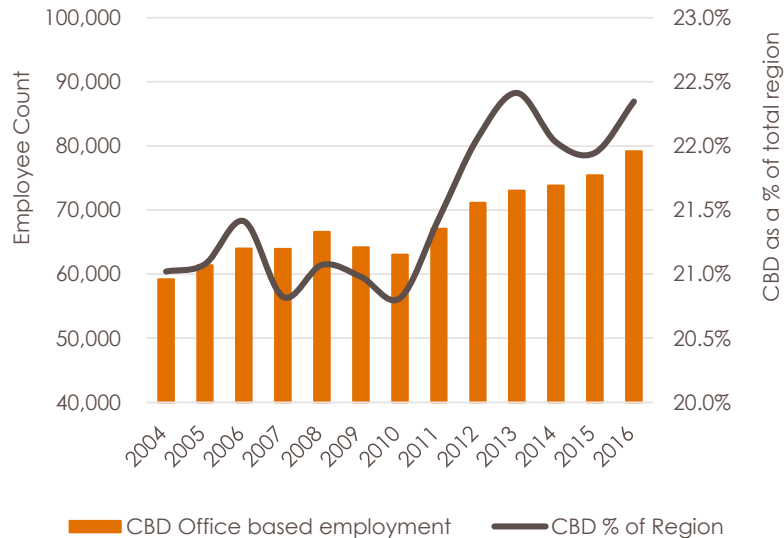


# Auckland CBD office market

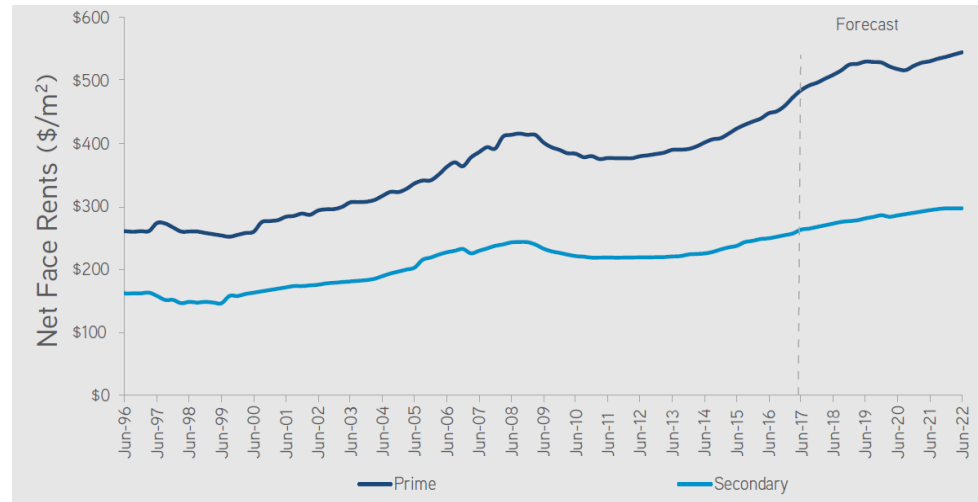
## CBD office employee change 2011 to 2016



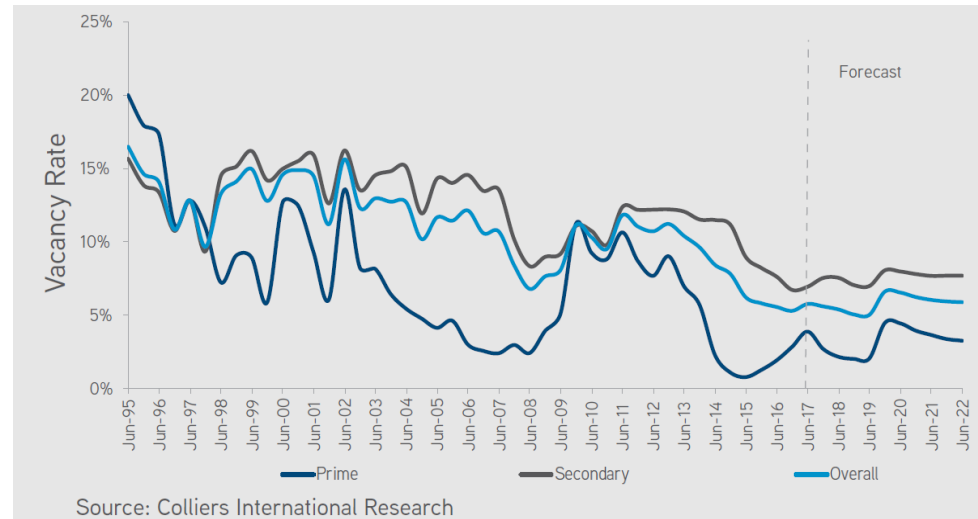
## Total CBD office employment



## Office net rental - Colliers



## Office Vacancy - Colliers



Source: Colliers International Research

# City centre drivers

## Benefiting from city centre centralisation

- CBD market share of regional office employment increasing
  - CBD office employment grown by 12,000 people (18%) since 2011
- Increase in CBD public transport patronage
  - City rail link and new rail stations
  - Rail patronage increased 224% in the last 10 years
- Strong and growing pedestrian counts
- CBD resident population has grown 6 times faster than the rest of the city.
- Record hotel occupancy levels due to strong tourism sector
  - Daily rates have increased 13.3% year on year
- Since 2010, annual cruise ship passengers have more than doubled to 250,000.
  - Expected to grow to 350,000 in next two seasons



**95,000**

Net migration over the past 3 years into Auckland



**5,000+**

5 year increase in number of professional service employees in CBD office



**45,000**

Inner city residents. 15 years ahead of previous projections



**+17%**

Increase patronage adjacent to Commercial Bay



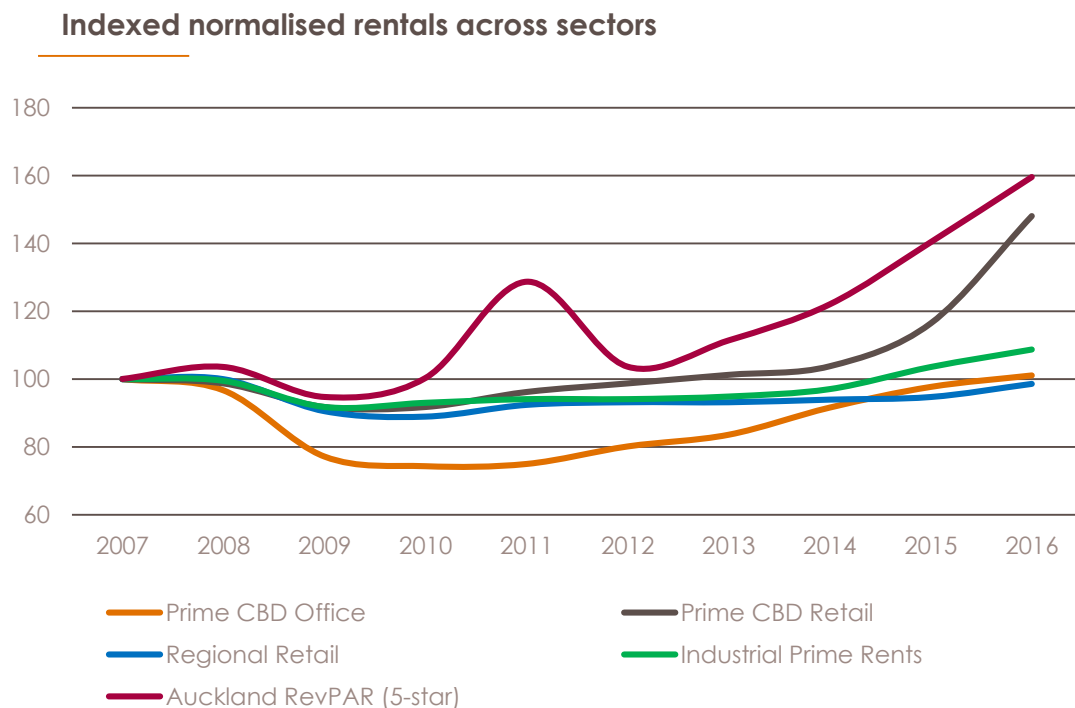
# Auckland CBD retail market

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- Auckland retail market is holding firm
  - Growing population is bolstering demand for goods and services
- Vacancy rates remain tight
  - Strip retail reducing to 3.3% June 2017 (4.8% 2016)
  - Queen Street remained flat at 2.8%
    - Strong tenant demand remains for prime retail space
- Average net face rentals have increased  
1.8% over the past 12 months
  - Low vacancy rates likely to keep rentals firm in prime locations
- CBD retail not expected to be materially impacted by online retail due to experiential offer and high foot traffic

# Auckland Hotel market

- Visitor arrivals to New Zealand are expected to grow 4.8% p.a. to 2023
  - Auckland Airports international passengers were up 6.8% over the past 12 months
  - Auckland Airport's second runway to be complete by 2025
  - Auckland accounts for majority of tourism spend
- Demand for hotel space is growing faster than the supply
- Auckland hotel occupancy has hit record highs of **83%**
  - Driving growth in average daily rate
- According to Colliers, Auckland market requires up to 4,300 new hotel rooms by 2025 to meet demand.
- Based on known forecast supply, there is a shortfall of up to **1,800 rooms**.
- Hotel income outperformed other property sectors post GFC.





# Wellington Portfolio



State Insurance  
Tower

Dimension Data  
House

10 Brandon St

Pastoral House

1 -3 The Terrace

Mayfair House

Bowen Campus

Bowen Campus  
Balance Land

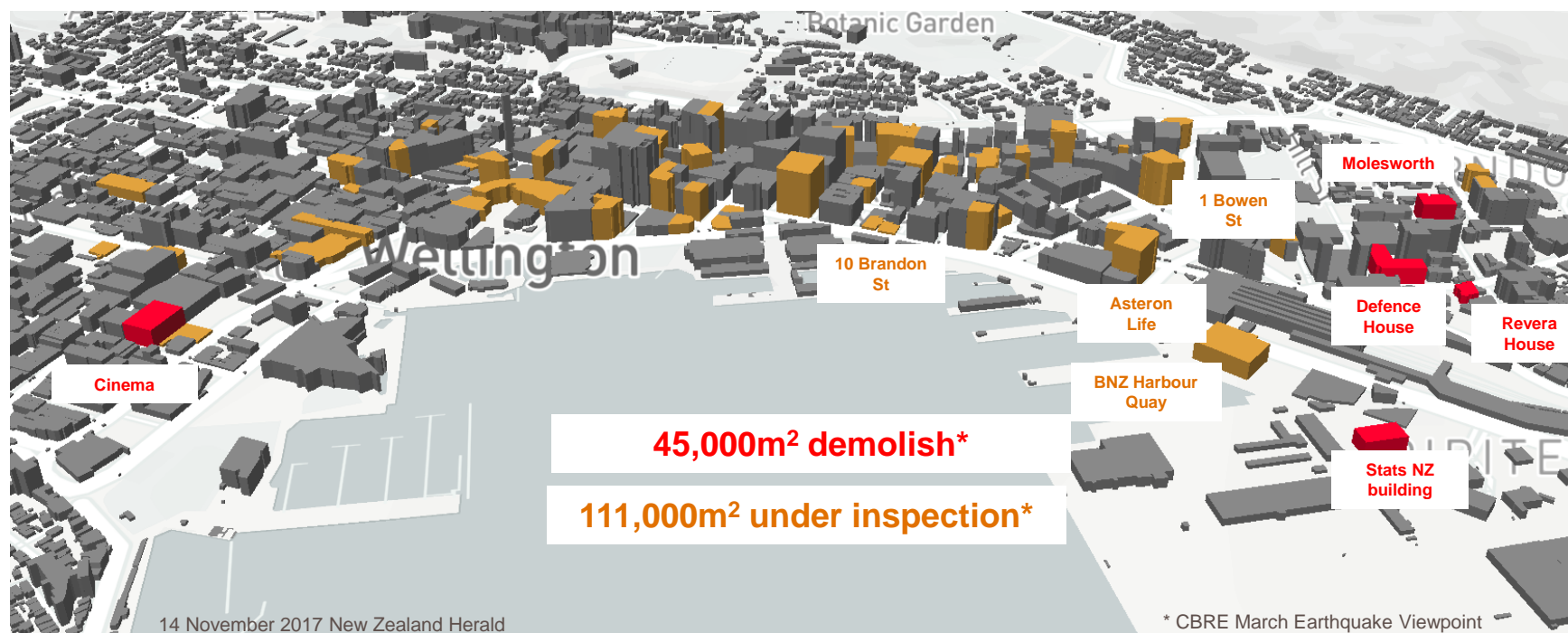


# Wellington market

- Post quake, total office stock reduced by c.100,000m<sup>2</sup> reducing total stock to 1.4 million m<sup>2</sup>
  - City wide vacancy fell to 7.8% (Nov 16: 10.5%)
- Majority of stock withdrawals from A grade or better
  - Prime vacancy reduced to 0.1% (from c.3%)
- Wellington Council required 80 building owners to undertake invasive seismic testing which is ongoing

Buildings that have been/will be demolished

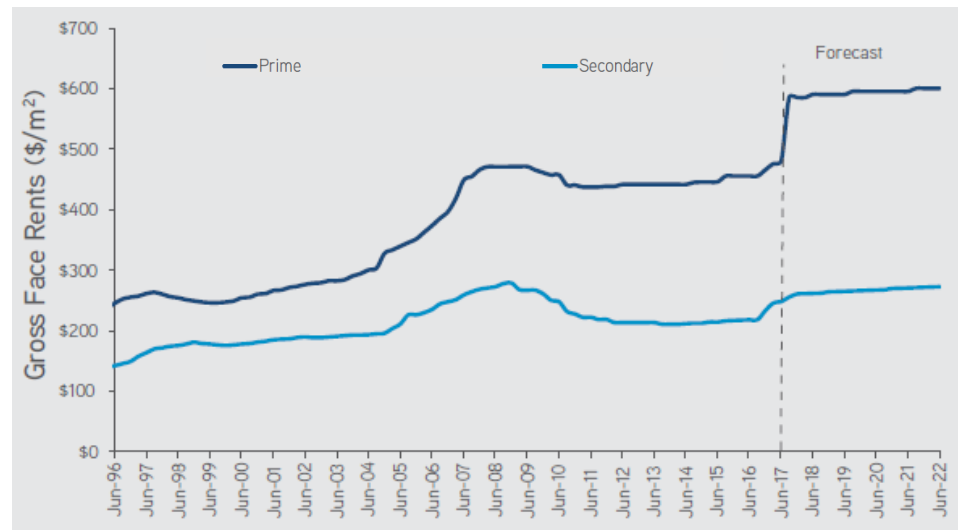
Buildings that required additional inspection



# Wellington CBD office market

- In the near term prime office space will continue to be tight
- 80,000m<sup>2</sup> currently under construction
- Short term rental growth is expected to slow following the completion of new builds and seismic refurbishments
- Supportive investment market
  - Majestic Centre sold for \$123 million at a 6.9% passing yield
  - HSBC sold off market at 6.25% passing
- Seismic remains a focus for occupiers, insurers and investors

Office gross rental - Colliers



Office CBD vacancy - Colliers



Source: Colliers International Research



A close-up photograph of several hexagonal bolts on a metal plate. The bolts and the plate are heavily corroded with orange-brown rust. The bolts are arranged in a grid-like pattern. In the top right corner, there is a semi-transparent magenta circle containing the text 'Section 3' and 'Hot topics'.

## Section 3

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### Hot topics

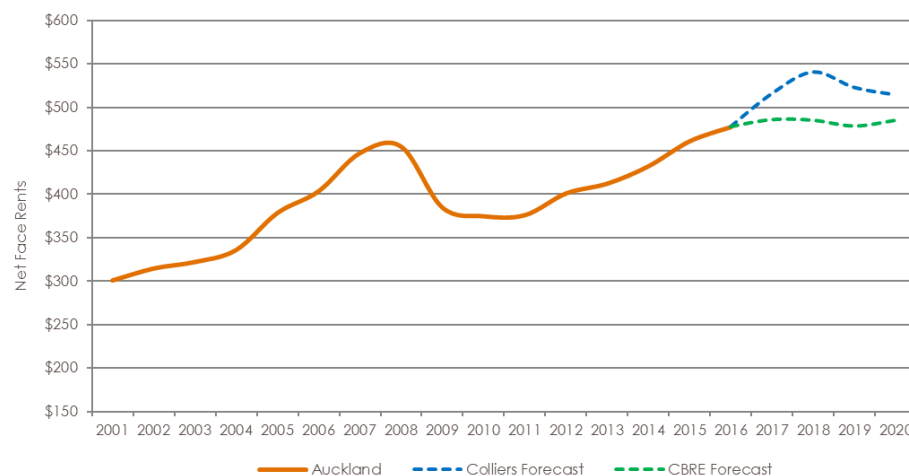
# Auckland CBD office market

- Some emerging concerns over future CBD office market performance due to supply pipeline
- Underlying market drivers remain strong
  - Economic strength/activity
  - Employment intentions
  - Public / Private spend
- Supply pipeline continues to reduce

## Historical forecast market yields



## Historical forecast net face rents

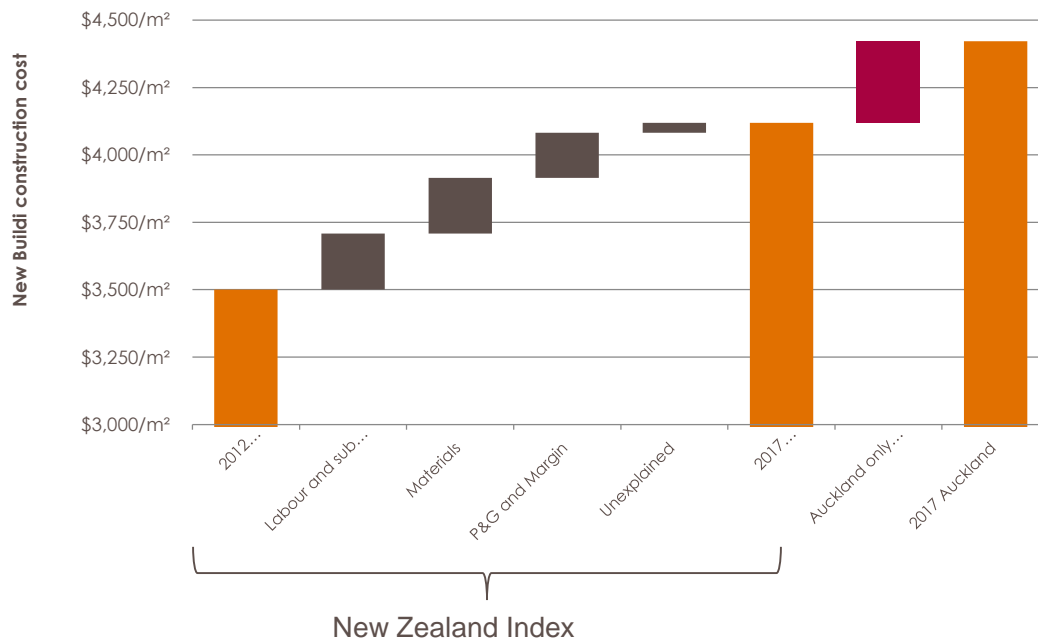




# Hot topic 1: Auckland supply outlook

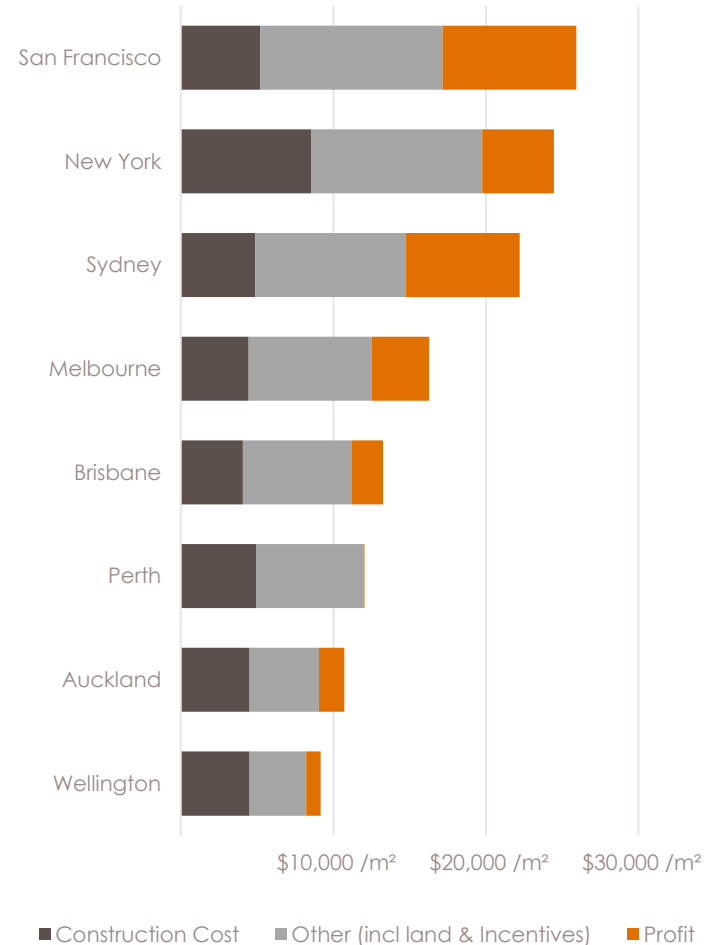
- NZ non residential construction costs increased by 19% over previous 5 years
- QS pricing suggests Auckland costs have risen by 25% over the past 3-4 years
- Forecast construction cost inflation of 4.4% p.a. through to 2021.
- Auckland building and infrastructure activity to grow materially.

## Building cost escalation 2012-2017



Source: RLB, Stats NZ and PCT estimates

## International development feasibility comparison

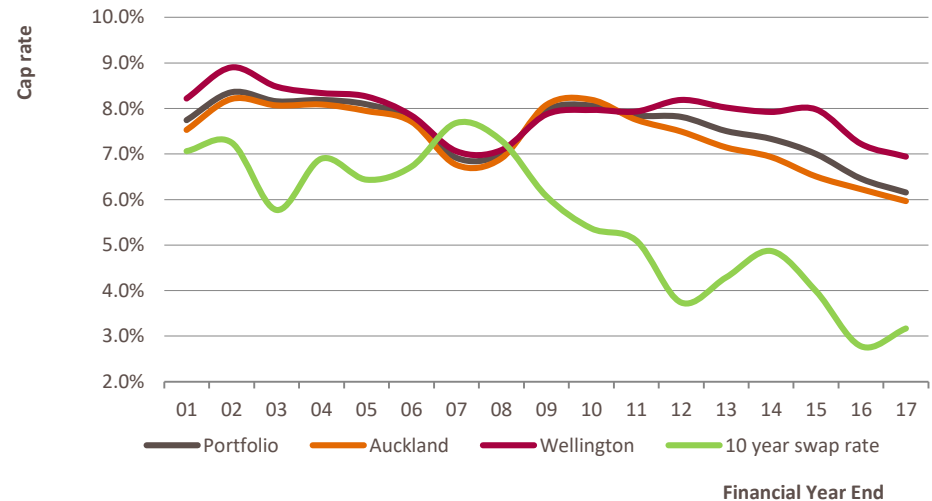


Source: RLB International Report Q3 2017, Colliers CBD Office H2 2017 and PCT estimates

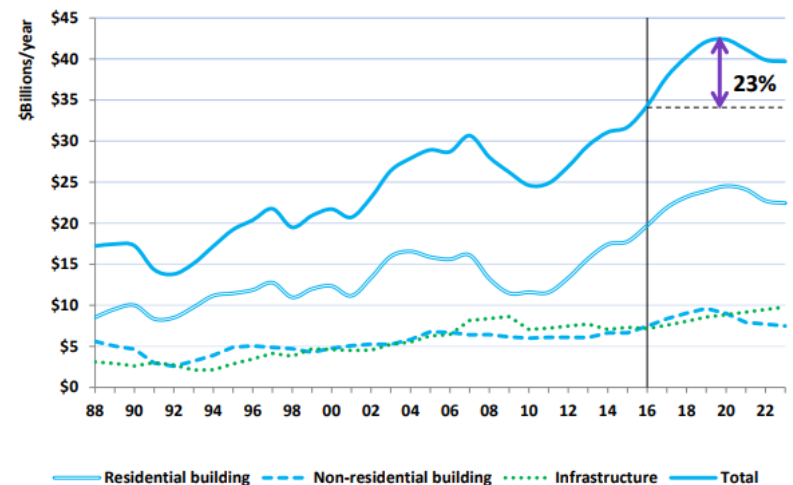
# 1: Economic rents

- Strong investment market
  - Continued strength in Auckland
  - Strengthening in Wellington taking advantage of yield spread
- Auckland cap rates are below peak levels reached in 2007
  - Spread to 10 year swap rate remains above historic average
- Number of factors supporting rental growth
  - Historically low vacancy rates
  - Continued growth in CBD employee numbers
  - Lack of forecast supply
- Strong building and construction forecast
  - Forecasting peak levels to be reached by 2020 (3 years later than previously forecast)

## Historic cap rates



## All building and construction nationally, by value



Source: BRANZ / Pacificon



# 1:Economic rents (188 Quay St example)

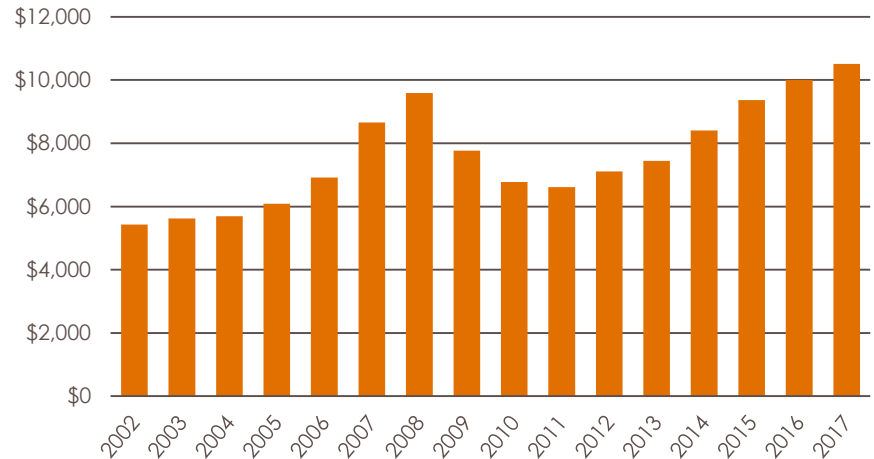
- Land and buildings rates now above peak levels (10 years later)
- Market rental levels remain below peak
  - 17% below 2008 peak inflation adj. levels (5% below nominal)

## For a new tower to be feasible

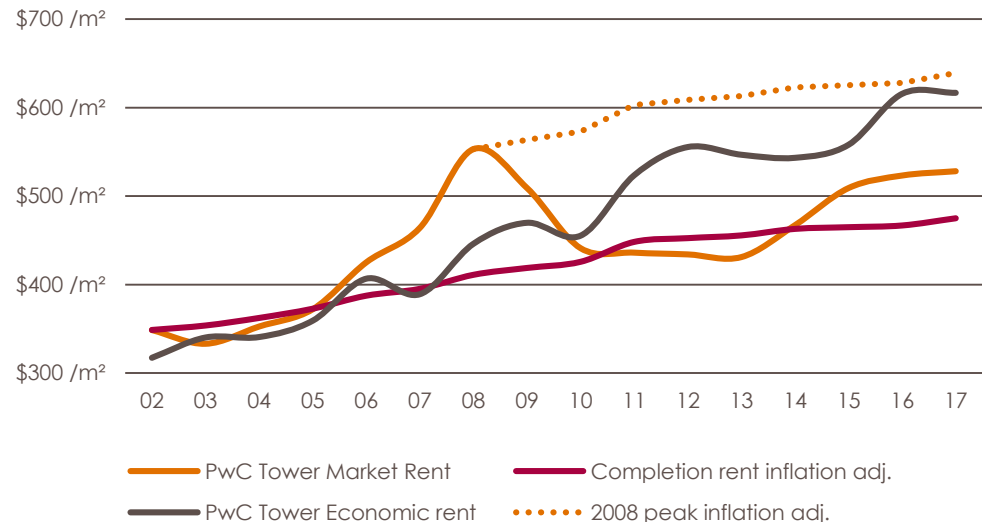
i.e. Market effective = to economic rents

- Market rents need to increase
    - Currently 14% below economic rents
- or
- Land and building rates need to decrease
    - Land value falls by 40% (to pre 2012 levels), or
    - Construction costs fall by 19% (to pre 2015 levels)

## PWC land and building rates (psm)



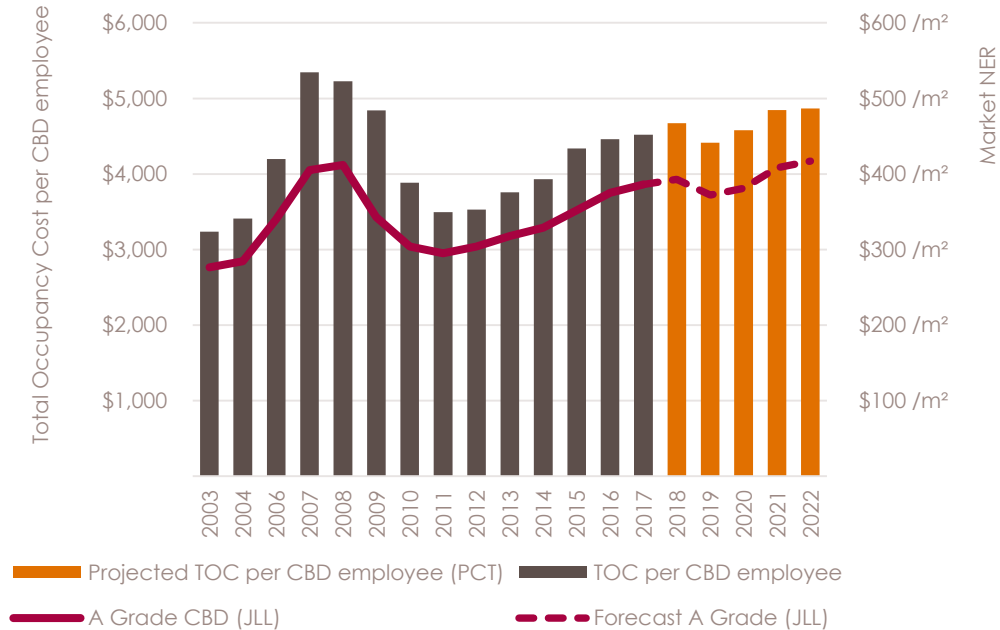
## PWC average tower rent (psm)



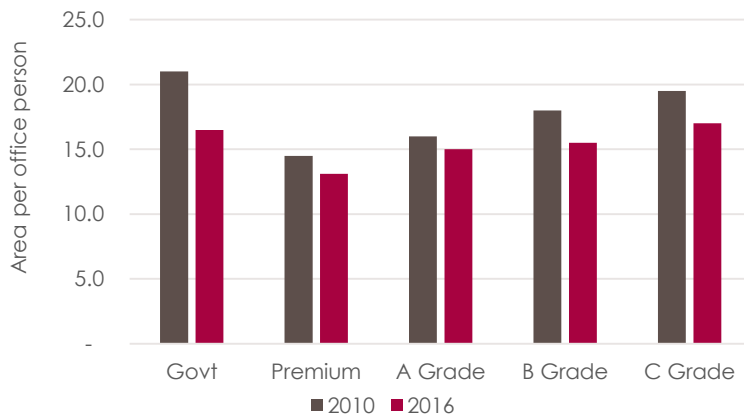
## Hot topic 2: Density and TOC

- While market rents are close to 2008 high total occupancy costs are **15% lower**
- Based on JLL rental and stock forecasts, TOC per CBD employee are expected to grow by 1.2% p.a. over the next 5 years
  - Below level of forecast inflation, and
  - Indicates rental affordability. In 2022 rents are 9% below 2008 levels
- On floor efficiencies and improved density. Majority of occupiers (govt and private) have already made shift.

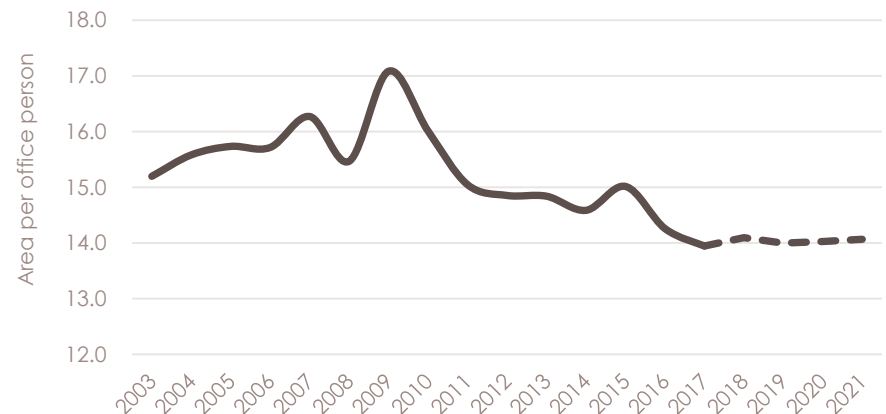
### Auckland TOC and Market NER



### NZ density benchmarking 2010-2016



### Auckland density – Historic and Forecast





## Hot topic 3: Government impacts for Precinct

Policy	Description	Impact on construction cost	Impact on construction capacity	Impact on commercial supply	Commercial Investment market
<b>Tax</b>	Potential tax changes including capital gains tax	–	–	▼	▼
<b>Kiwibuild</b>	Commitment to build 10,000 houses p.a. for 10 years	▲	▼	▼	–
<b>Infrastructure and transport</b>	Commitment to proceed on a number of infrastructure projects	▲	▼	▼	▲
<b>Immigration</b>	Reduce net immigration	▲	▼	▼	–
<b>OIO changes</b>	Limit foreign investment	–	–	▼	▼
<b>Minimum Wage</b>	Increase in minimum wage	▲	–	▼	▼

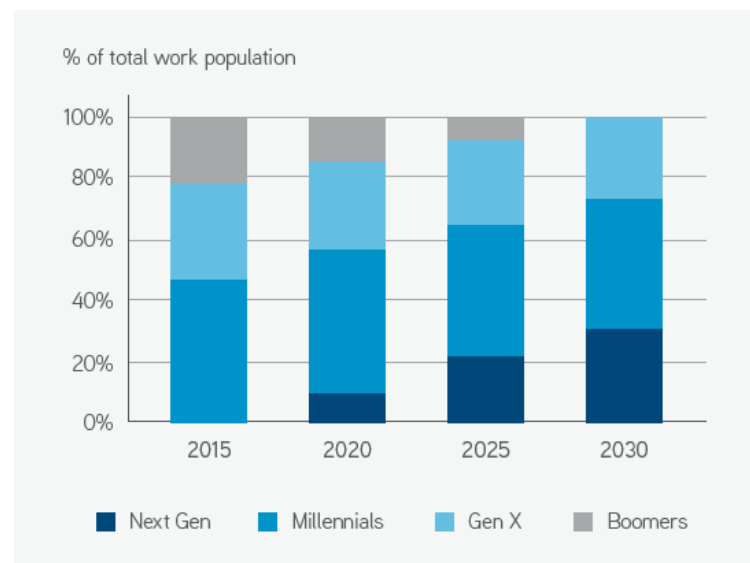
## Hot topic 3: Co-working investment

- Precinct have a 50% interest in Generator;
  - Co working
  - Dedicated desks and/or small suites
  - Event space
- Generator now manages 13,000m<sup>2</sup> across three locations
  - Stanbeth
  - GRID AKL Wynyard
  - Takutai – Britomart (opens mid 2018)
- Generator provides businesses with fewer employees high quality space and service/amenity that they otherwise couldn't access
- Future opportunities driven by trends to managed workplaces
- 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

### Asia work population by generation

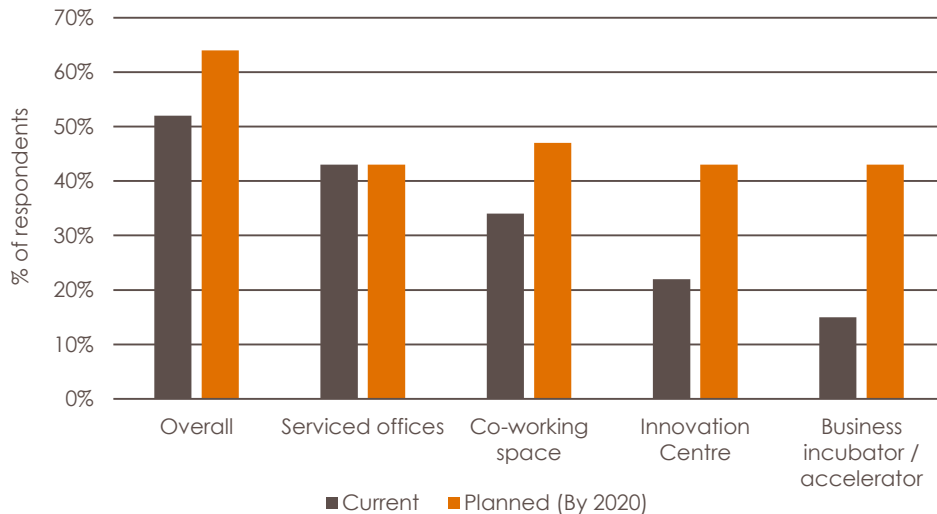


Source: United Nations ESCAP; Colliers



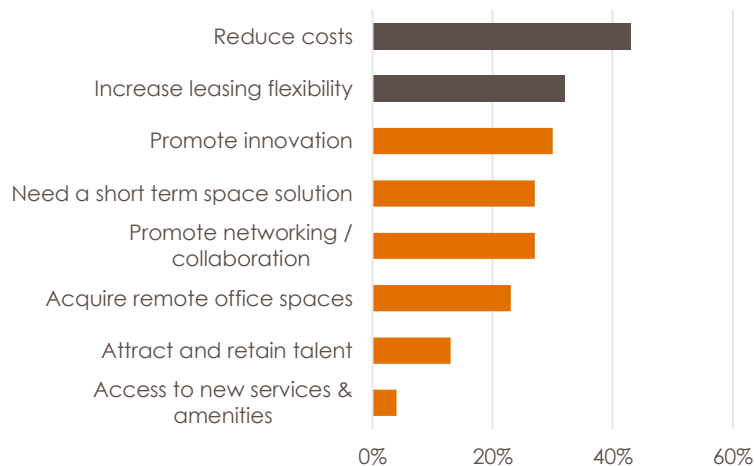
# Hot topic 3: Co-working investment

## APAC Multinationals' current and planned use of third party space (CBRE)

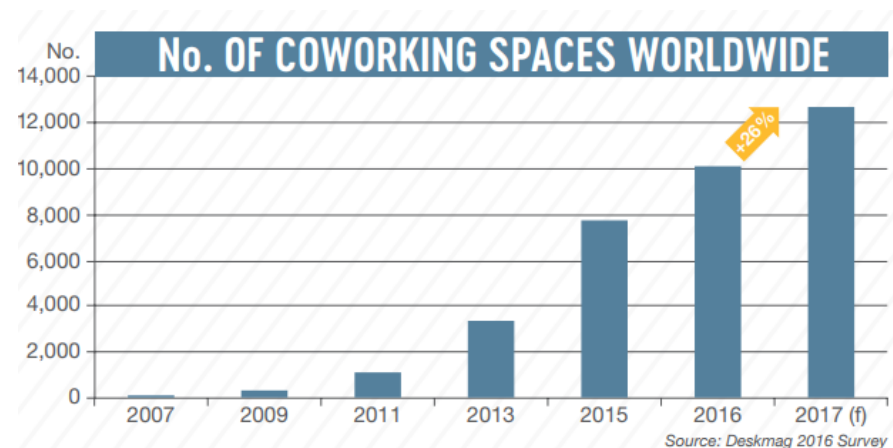


**Co-working market forecast to grow by 51% (by area) by 2018**

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



## No. of co-working spaces worldwide





## Section 4

### Developments





# Development Summary

## 7.5%

Blended yield on cost

## 27%

Blended return on cost

## 70%

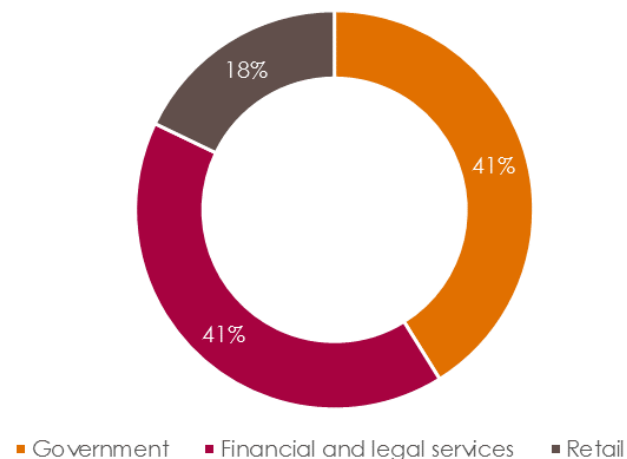
Pre-leased by NLA on office and retail

## \$160m

Un-recognised development profit

Key development metrics	2017	2016
Development Pipeline	\$0.9 b	\$1.0 b
Total development NLA	96,825 sqm	109,827 sqm
Total office NLA	76,397 sqm	89,542 sqm
Office leased to date	61,279 sqm	66,131 sqm
% of office leased	80%	74%
% of total NLA leased	70%	64%
WALT committed to date	13.2 years	13.1 years
Value on Completion	\$1,174 m	\$1,140 m
Weighting to Auckland	80%	80%

### Strong occupier covenant (of leased market rental)





**\$213M**

of expected profit

## Commercial Bay

- Value on completion of **\$941** million
- **\$213m** expected profit on completion
- **46%** of retail space committed
- **66%** of office space committed
- Retail launch phased with two stage opening
  - c. 20% opening mid 2018
  - Remainder opening in Q1 2019

### Financial Metrics

	Commencement	Current	Change
Retail Pre-committed	0%	46%	46%
Office Pre-committed	52%	66%	14%
Total project cost	\$681 m	\$685 m	\$4 m
Value on Completion	\$853 m	\$941 m	\$88 m
Return on cost	19.4%	31.0%	11.6%



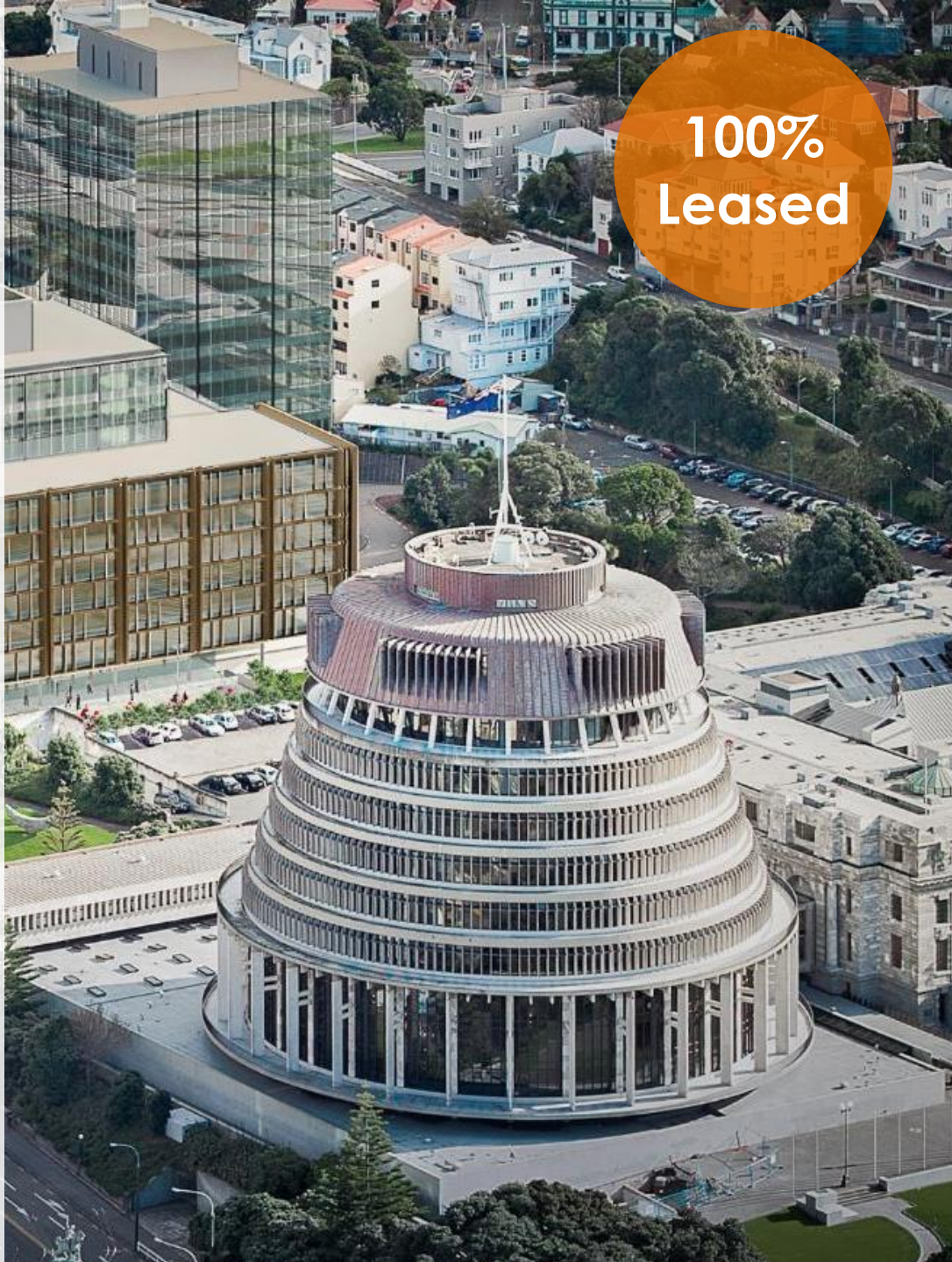
# Bowen Campus

- Crown leased the remaining 4 floors of Bowen State building
- NZDF is approved to occupy the Bowen State building
- MPI lead agency on Charles Fergusson Tower
- Construction works are progressing well
- Bowen State lease extended to 18 years

## Financial Metrics

	Commencement	Current	Change
Construction Start	November 2016		
Expected Completion	Early 2019		
Total project cost	\$203 m	\$203 m	-
Value on Completion	\$229 m	\$233 m*	\$4 m
Return on cost	13%	15%	2%

\*Excluding the benefit of 100% occupancy and 18 year lease



100%  
Leased



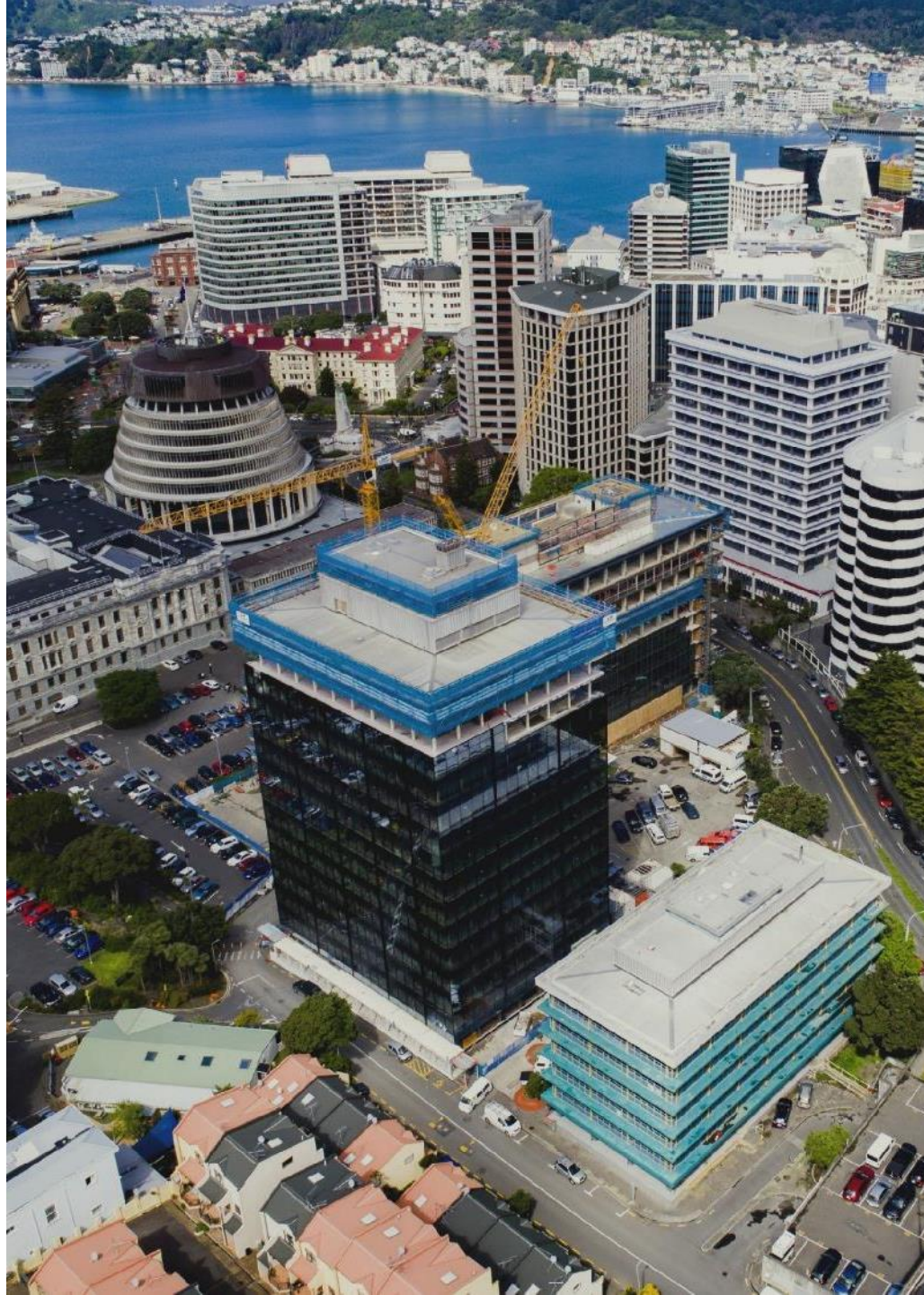
# Wellington RFP update

## Bowen Campus

- 100% leased
- Bowen Campus WALT increased to **16.9 years** (June 17: 15 years)
- Wellington portfolio WALT increased to **11.2 years**
- Annex currently being demolished

## Remaining RFP assets

- No.3 The Terrace commencing as planned in May 2018
- Mayfair House works are expected to start mid 2019 coinciding with the completion of No. 3 The Terrace
- Pastoral House redevelopment commencement date shifted to December 2018







## Section 5

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### Future Developments



# 1 Queen

**2019 +**

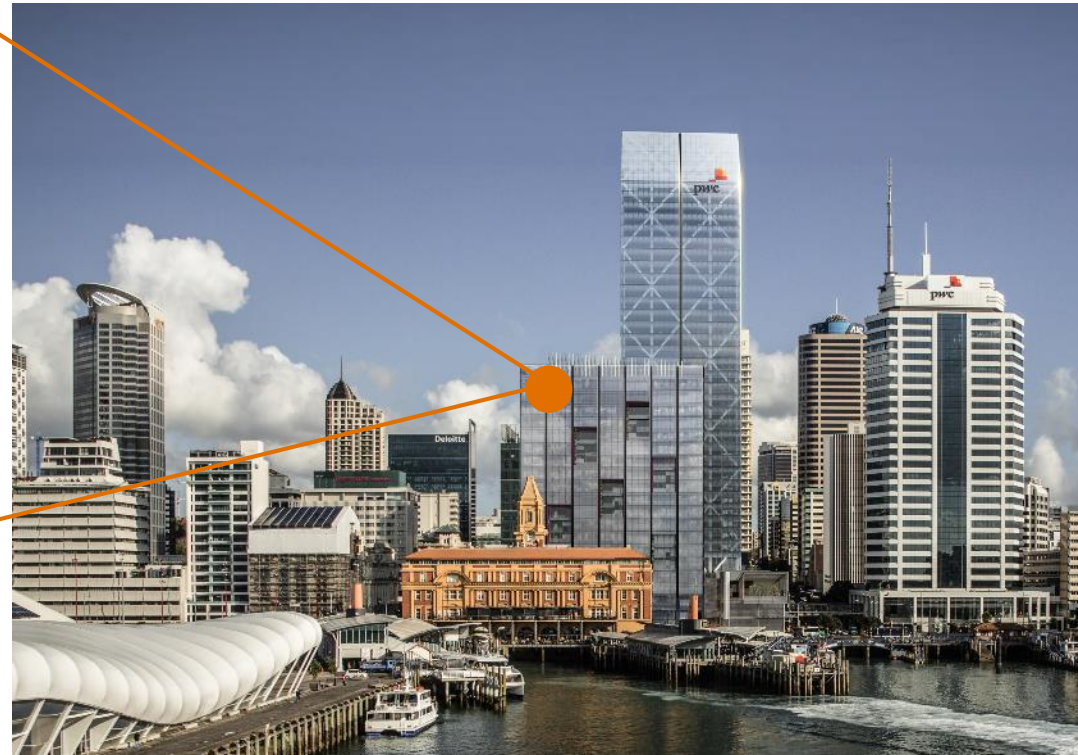
Expected project start

**\$160 million**

Estimated incremental  
project spend

**Office or  
Mixed use**

Proposed use





# 1 Queen

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- Discussions on-going with preferred hotel operator
- Likely mixed use
  - Hotel with office above
- Supports Commercial Bay retail
  - Particularly food and beverage



# Wynyard Quarter

- 3 remaining sites
- c.30,000sqm of GFA to be developed
- In discussion with occupiers for stage 2 (site 5b)
- Target to commit Stage 2 within the next 6-12 months
- Timing determined by:
  - Strength of occupier market (supply)
  - Growth of Innovation Precinct (future stages)



Artist impression of Site 6



Above: Artist impression of Site 5b

	↑
<b>2020 +</b>	<b>2018 +</b>
Expected project start	Expected project start
← <b>\$150 million</b>	<b>\$60 million</b>
Estimated incremental project spend	Estimated incremental project spend
<b>Office</b>	<b>Office</b>
Proposed use	Proposed use



# Bowen balance land

**2018 +**

Expected project start

**\$150 million**

Estimated incremental  
project spend

**Office**

Potential use

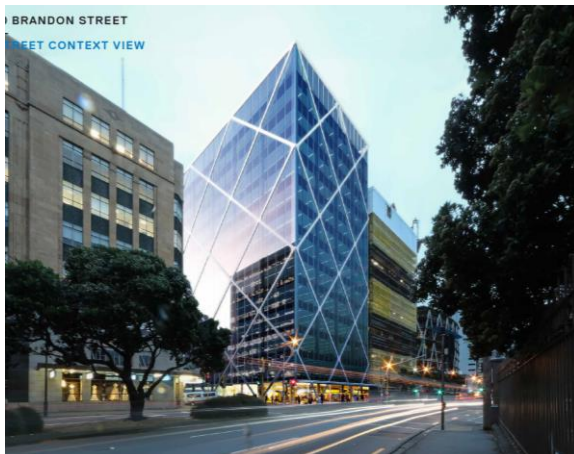


# 10 Brandon Street

- 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 expected to be finalised by February 2018



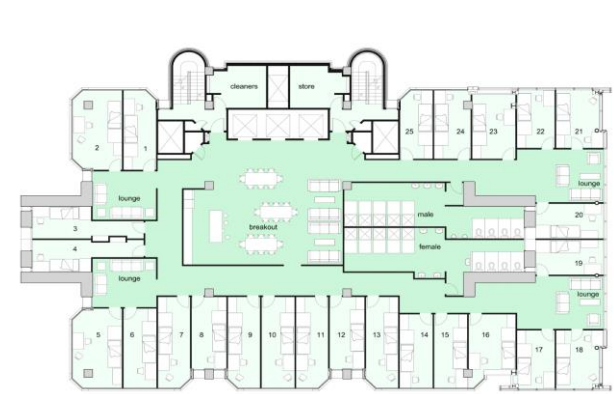
Full redevelopment



Office/Apartment hybrid



Student accommodation





# Conclusion

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- Precinct has a clear strategy to provide long term outperformance
- Strategy provides certainty for:
  - Investors
  - Staff
  - Market
- Strategy retains focus on city centre real estate
- Precinct continuing to be well positioned with supportive market