

NZX announcement - 9 November 2017

Precinct Properties New Zealand Limited Annual General Meeting

10:00am (New Zealand time), Thursday 9 November 2017

Pullman Auckland, Corner Princes Street and Waterloo Quadrant, 1010 Auckland, New Zealand

Chairman's Opening address

Good morning and welcome everyone. I'm Craig Stobo, Precinct's Chairman, and it's a pleasure to welcome you all here to our 2017 Annual General Meeting.

It has been another good year for Precinct in many respects, we recorded another strong financial result and again increased our dividend. We have also reduced our risk profile as major developments were completed or passed construction milestones.

As we continue to focus on our long-term strategy as city centre specialists, we are particularly pleased with the strong position we are in, not only are we seeing our earnings continue to grow, but we are also achieving a significant shift upwards in our portfolio quality.

I would now like to introduce the members of the Board and executive team here today.

I am particularly pleased to be welcoming Richard Hilder to his first Annual Meeting in his new capacity as Chief Financial Officer for Precinct following his recent appointment. Richard has been a member of the team for 7 years and his appointment reflects the significant contribution Richard has made to the business and shaping the direction of Precinct's long-term strategy in recent years. We also have with us representatives from our auditors, Ernst & Young, tax advisors, KPMG, our legal advisors, Chapman Tripp, along with Precinct staff.

We will shortly begin by reviewing the recent performance and activity of Precinct. We will then take any shareholder questions after concluding the presentation.

Finally, the meeting will also consider three ordinary resolutions this morning, two relating to the re-appointment of Independent Directors and as with previous years, one resolution on fixing the remuneration of Precinct's auditors, Ernst and Young.

We hope you will stay and join us for some morning tea and refreshments after the meeting.

Strong Results

Our financial results confirm another good year for our business.

Net profit after tax was up 17.3% to \$162.1 million after achieving a revaluation gain of \$77.5 million. Net tangible assets per share rose 6% to \$1.24 and net operating income was 2.7% higher and in line with guidance.

Dividends paid and attributed to the 2017 financial year totalled 5.60 cents per share, this was 3.7% higher than last year and represents a payout ratio of around 90%, consistent with Precinct's dividend policy.

Capital Management

The Board monitors risk closely and applies sound capital management. As projects advanced during the year we reduced our risk profile, and we are continuing to diversify funding sources.

In September, we successfully raised \$150 million of four-year, fixed- rate subordinated convertible notes. We believe this is a capital management solution which is well suited to Precinct's current strategy and opportunities. It gives us the comfort of having the capital available to match our development commitments while ensuring that earnings are not diluted in the short term. Post issue, our committed gearing has reduced supporting growth through a flexible funding option.

Today, we are also pleased to announce the consideration of a senior bond issue. The proceeds of the considered bond will be used to repay bank debt. We believe this option is well suited to Precinct's current strategy and will further improve our capital structure post issue.

Diversifying our funding sources remains a core component of Precinct's capital management strategy. We will prudently consider future funding options which are well suited to Precinct's strategy and further improve our capital structure. This allows us to pursue strong opportunities within our portfolio, which Scott will tell you more about shortly.

In safeguarding a sustainable future, our gearing of 25.1% at year end has subsequently reduced to around 18% following the convertible notes issue.

As you will know, we reviewed our dividend policy last year, and have continued to match dividends with cash flow, as defined by adjusted funds from operations, or AFFO. This produces a more transparent dividend flow and is also more sustainable.

Increased FY18 Dividend

We have said previously we expect dividends to rise as we advance our development programme. Based on another good year I am pleased to confirm a first quarter dividend for the 2018 financial year of 1.45 cents per share, representing an increase of 3.6%.

The Board expect to pay a 5.80 cents per share dividend for the 2018 financial year, and are confident about the dividend growth into the future.

Payment of the 2018 first quarter dividend will be on the 1st of December this year.

Health and Safety

With approximately 17,000 workers across Precinct's stabilised property portfolio and a current 530 workers on its two development sites, forecasted to increase to 2,000, the Board recognises Precinct's influence on health and safety across the business and wider industry. It is something we take very seriously.

Precinct's health and safety policies are embedded throughout its operations and are continually developed in accordance with best practice. During the six months to 30 June 2017, over 150 additional principal audit and monitoring inspections were undertaken outside regular contractor health and safety monitoring. In addition, we also had 162 contractors and suppliers complete Precinct's health and safety pre-qualification processes over the year.

20 Years on the NZX

And finally, this year we celebrate our 20th birthday as a listed company on the New Zealand Stock Exchange.

When we first listed back in 1997, we were a unit trust and owned just six properties. We significantly enhanced our corporate governance when we corporatised in 2011 and have continued to refine our ongoing strategy in order to grow value for you, our shareholders. Today, Precinct owns 15 properties across Auckland and Wellington, and is ranked in the NZX top 25.

We adopted our new name in 2012 to reflect our evolution as a business, and have since grown to become a city centre specialist investing in high quality real estate.

It is an evolution we continue to be excited about.

I'd like to thank you, our shareholders, for being with us on what has been an exciting journey. We look forward to more strong results as we deliver more of our long-term strategy.

I will now hand you over to Scott to take you through the past year in more detail and our strategy for continued future growth.

Thank you.

Scott Pritchard, Chief Executive

Portfolio Success and Strategy Overview

Thank you Craig. It has been a good year. And this slide sums up the good position our portfolio is in today.

A major highlight for the business has been growing our portfolio occupancy to 100%, this is a great result which is complimented with a strong weighted average lease term that is now almost nine years.

As Craig mentioned, we have continued to review and refine our strategy since the company listed in 1997.

Precinct has always been a city centre specialist and we will continue to invest in high-quality, strategically located office real estate. However, both the Board and management believe that to advance our position as a city centre specialist, considering a broader mix of real estate offers greater opportunity for Precinct to create value for shareholders.

City centres around the world are enjoying a resurgence. We are taking advantage of this growth in a variety of ways. Commercial Bay is a great example with Precinct developing a premium retail offering in the heart of the CBD. Fundamentally, we are growing in, and with, the cities we are part of.

We have a clear strategy for creating vibrant environments with a broad retail, leisure and food and beverage offering. Our aim is to create precincts that our clients like working in, and that CBD residents, visitors and whole communities enjoy being in.

Strategy Focus

Precinct has defined its strategic focus into three essential areas including our people, our portfolio and our developments.

Putting strategy into effect means empowering our team, seeking operational excellence and developing real estate for the future. Over the last five years our dedicated staff have grown from 14 to 55 with the management company now providing all core functions for the business. Measures of staff engagement and client satisfaction continue to rise.

We currently have \$900 million of developments which are underway and have identified a further \$600 million development pipeline within our portfolio. This is a significant increase from five years ago when the business had no development capability.

As Craig mentioned briefly at the beginning of the presentation, we are very pleased with the strong position we are currently in. The next three graphs illustrate this. The first graph illustrates our actual earnings to the earnings pathways we published in 2014 and 2016.

The next two graphs show the significant jump in our weighted average lease term as a result of our development activity and the decline in the average age of our portfolio, respectively.

As you can see not only are our earnings growing but we are also achieving a significant increase in portfolio quality. Achieving a positive result in all three measures is a great outcome and further reinforces the strength of our business. The following slide shows some of our key strategy achievements over the last 5 years.

Our asset age has nearly halved, from 21 to 11 years. Along with an extended WALT and full occupancy we have secured and advanced development in highly strategic locations. We have shifted more weighting to Auckland, which now accounts for 72% of our portfolio.

City Centre Focus

Our focus on city centres, particularly Auckland is very positive. With continued growth supported by key drivers such as net migration and tourism, we believe we are well-placed to benefit from the city's strong growth going forward.

I'll start with the Auckland market and our activities in this market.

Auckland is growing and this looks set to continue. And like cities all around the world it is seeing increasing centralisation. The current slide illustrates the committed and forecast private and public investment in Auckland city. As you can see, most of the works are occurring in close proximity to Commercial Bay.

A major focus for Precinct continues to be the extensive public regeneration which is set to occur on all surrounding streets of Commercial Bay. Auckland is growing fast and billions of dollars are being invested in regional infrastructure such as the city rail link and new bus network. Of course, more recently there has been the commitment by New Zealand's new Government to a light rail system which will support Auckland city's ongoing economic performance.

Our research shows Auckland city centre population growth in 2016 was 17% and it is now growing 6 times faster than Auckland as a whole. With over 12,000 people moving to the city centre in the last three years, the population is already 15 years ahead of previous predictions of 45,000 people by 2032. Auckland is certainly moving ahead at pace, and we are very pleased with our positioning in this market.

Developing the Future – Commercial Bay

The opportunity in Auckland is clear when you look at Commercial Bay.

We remain positive and excited about Commercial Bay. Having launched the project in 2015, we have gained an additional \$88 million increase in the project's value.

Lease commitments have also increased to around 50% of the retail space and 66% of the office space. We are attracting leading corporate clients, and we are particularly pleased about the high quality of local and global retail and food brands choosing Commercial Bay. They will give Auckland a whole new retail and dining experience in the heart of the city.

We are now forecasting a development profit for Commercial Bay of \$213 million, reflecting a return on cost of 31%.

To give you a sense of what to expect, Commercial Bay will include a range of food and beverage including a communal dining offer designed by the legendary New York-based AvroKO, who are one of the world's most respected names in hospitality design.

The name for this food offering is Harbour Eats which is distinctively Kiwi, but AvroKO will bring the international flair. The 700-seat eatery will use plenty of natural greenery and foliage, making most of the open air atrium that will sit right at the waterfront location.

This will be a truly world-class dining precinct.

Wynyard Quarter Stage One

A major milestone reached this year has been the completion of our most recent development, Wynyard Quarter Stage One part of the wider Innovation precinct.

The first stage of Wynyard consists of two buildings totalling around 13,000 squares metres of office space. Achieving 100% occupancy upon completion of both buildings is a great result and we are delighted to see the development complete ahead of program and consistent with budget.

Precinct has achieved a development profit of 18% or \$16.2 million on this project.

Our involvement in this Innovation Precinct shows how we are meeting different client needs in different ways, and our commitment to building strong partnerships.

This is achieved through a joint venture with Panuku Development Auckland, an Auckland Council-controlled organisation, and on what is the last site left on Auckland's waterfront.

Our buildings here have a particular focus on sustainability and innovation.

During the year, we acquired a 50% interest in Generator New Zealand Limited, the co-working and shared office space provider.

Quality co-working spaces are growing and are substantial businesses in cities around the world. We see the acquisition of a stake in Generator as being consistent with our strategic focus on building client relationships and increasing our service levels.

This year Generator was also appointed by ATEED to manage GRID AKL in the Innovation precinct, where it now operates almost 10,000 sqm of space and is leading an approach to co-working spaces we expect to see grow.

Bowen Campus

In Wellington, we are also very positive about our development at Bowen Campus, at the centre of a unique Government precinct. As with Wynyard Quarter we enjoyed both a revaluation uplift at Bowen and 100% leasing pre-commitment following the Crown exercising their right to lease the remaining vacant floors at the campus.

The Kaikoura earthquake changed the fundamentals of the Wellington market, with many buildings still closed. With limited prime stock available all research houses are predicting increased occupier demand.

However, we too have been impacted following the earthquake with Deloitte House being closed for a period and remaining largely unoccupied since it reopened in March. Investigations are continuing to be undertaken to try and identify the best solution for the property and its existing clients.

The next two slides show the development progress on site at Bowen Campus over the last 12 months.

The works to date at Bowen Campus are progressing well and we remain both on programme and on budget. The façade is nearly installed on one of the buildings, and we are on track for completion in April 2019.

Future Opportunities

We are in the good position of having several attractive future development opportunities available to us within our portfolio.

Our property at 1 Queen Street is part of the Commercial Bay precinct and enjoys a prime waterfront location offering very good potential for further development as this whole area continues to grow.

At Wynyard we have the option to develop three remaining sites, covering 30,000 square metres and we are already in discussion with occupiers for Stage 2, developing another 8,000 square metres.

At Bowen Campus we can build a further 20,000 square metres of office space suitable for government and corporate occupiers.

Each of these opportunities provide Precinct with feasible opportunities. We hope to commit to the second stage of Wynyard Quarter within the next year.

Before I conclude and hand back to Craig for the formalities of the meeting, we would like to play you a short video. It shows the construction time-lapse of 12 Madden Street at Wynyard Quarter, which recently reached practical completion in July 2017.

Conclusion and Outlook

In summary, it has been a good year, we delivered on strategy and because of this enjoyed strong results and grew the value of our portfolio.

Just over a year ago we had three big developments all just starting or at an early stage. Since then all have advanced significantly or been completed.

While there is continued global uncertainty, we expect the New Zealand economy and property markets to remain strong, particularly in Auckland where growth is driven by population increase, tourism and construction.

We also expect to see the trend to centralisation remain and allow us to make further gains from our city-centre strategy. This has put us in the strong position we are in today.

We look forward to further advancing our strategy and shareholder value in the year ahead.

Lastly, I would like to thank the Precinct Board for their support, the Precinct team for their on-going work during another successful year, and also you, our shareholders, for your continued support of our business.

I will now hand you back to Craig.

Thank you.

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