

NZX announcement – 16 August 2019

Strategic execution drives PCT annual results

Performance summary for the 12 months ended 30 June 2019

Financial summary

- Net operating income increased to \$79.4 million, up 3.7% (2018: \$76.6 million).
- Gross rental revenue was \$135.8 million, 3.9% higher than the previous year (2018: \$130.7 million).
- Net property income (NPI) of \$97.5 million (2018: \$95.3 million); after adjusting for development projects and sales, like for like NPI was 3.9% higher than the previous comparable period.
- Total comprehensive income after tax of \$190.1 million (2018: \$254.9 million).
- Full year dividend of 6.00 cps, up 3.4% (2018: 5.80 cps), matching Adjusted Funds From Operations (AFFO) for the year of 6.02 cps. Consistent with Precinct's intention to transition towards paying out approximately 100% of AFFO as dividends.
- Strong property revaluation gain of \$161.7 million or 6.1% (2018: \$208.7 million).
- Net Asset Value (NAV) per share increased by 6.4% to \$1.49 (2018: \$1.40).
- FY20 dividend guidance of 6.30 cps, an increase of 5.0%.

Capital management

- \$151.8 million raised through successful equity issue.
- Asset recycling - \$191 million assets sold
 - This includes the sale of a 50% interest of the ANZ Centre in Auckland for \$181 million and the disposal of 10 Brandon Street in Wellington.
 - Post balance date, Precinct has agreed a conditional sale of Pastoral House in Wellington for \$77 million.
- Long term funding secured via \$162.8 million United States Private Placement (USPP).

Operational performance continues to advance

- Maintained high occupancy level of 99% (2018: 99%) and increased weighted average lease term (WALT) across the portfolio to 9.0 years (2018: 8.7 years).
- Active leasing with 27 office transactions secured, totalling over 20,000 square metres.
- Auckland portfolio continues to achieve rental growth with like for like income up 6.1% on the previous comparable period, Wellington remains flat.
- Generator business
 - Strategic acquisition of the remaining 50% equity interest during the year.
 - Significant occupancy growth to 88% across its sites as the business matures, this has underpinned 116% growth in revenue for the year to \$16.4 million.

Development projects update

Commercial Bay

- Leasing progress with retail commitments now at 95% (2018: 76%) and office commitments at 82% (2018: 78%).
 - Revised targeted opening dates of March 2020 for the retail centre and April 2020 for the new PwC Tower.
 - Forecasted total project cost remains in the range of \$690 to \$700 million and the yield on cost is expected to be in the 7.4% to 7.5% range.
- One Queen Street has now entered into detailed design phase and pre-commitments lifted to 78%.

Wynyard Quarter

- Commitment to the second stage of Wynyard Quarter, 10 Madden Street in November 2018.
 - The building is 62% committed with major leasing to Media Design School (MDS).
 - Remainder of the office space is conditionally leased to two confidential parties (documentation under negotiation).
 - Project remains on budget and on schedule for practical completion at the end of 2020.
- Wynyard Quarter Stages 3 and 4
 - Design programme allows for mid-2020 works commencement.

Bowen Campus

- The Charles Ferguson Building reached practical completion in December 2018, now occupied by Ministry of Primary Industries.
- At Defence House (previously Bowen State Building), base build works are now complete with integrated fitout progressing well. The project remains on schedule for New Zealand Defence Force to occupy the building in October 2019. Rent has commenced.
- Bowen Campus Stage Two continues to progress.
 - Detailed design now complete and resource consent granted for two additional buildings.
 - Active leasing discussions are underway with a number of potential occupiers.
 - Construction procurement underway.

Note: Further information can be found within the 2019 Annual Report and results presentation. You can find these at <https://www.precinct.co.nz/annual-reporting/2019-annual-results>

Precinct Properties New Zealand Limited (Precinct) (NZX: PCT) reported its financial results for the 12 months ended 30 June 2019 today. A strong revaluation gain contributed to total comprehensive income after tax of \$190.1 million. This compares with \$254.9 million last year, with the difference mainly attributable to the movement in financial instruments and the prior period revaluation gain.

Net operating income, which adjusts for a number of non-cash items, was up 3.7% to \$79.4 million (2018: \$76.6 million) or 6.37 cps. Net operating income before performance fees was 6.62 cps, in line with guidance.

Dividends paid and attributed to the 2019 financial year totalled 6.00 cps and reflected a year on year increase of 3.4%. Importantly the dividend matched Adjusted Funds From Operations (AFFO) for the year of 6.02 cps. This is consistent with Precinct's intention to transition towards paying out approximately 100% of AFFO as dividends.

Gross rental revenue was \$135.8 million, 3.9% higher than the previous year (2018: \$130.7 million). This increase was primarily due to the acquisition in February of the remaining 50% interest in Generator. Allowing for Generator, the sale of a 50% interest in the ANZ Centre, the completion of Bowen Campus Stage One and other transactions, like for like gross rental income was 3.8% higher than the previous period. Adjusting for development projects and sales, like for like NPI growth was 3.9% higher than the previous comparable period. The Auckland portfolio saw an increase of 6.1%, while Wellington was flat.

As at 30 June 2019 Precinct's portfolio totalled \$2.8 billion (2018: \$2.5 billion), with Precinct's NAV per share at balance date increasing 6.4% to \$1.49 (2018: \$1.40). The increase in NAV is due to the revaluation gain and is partly offset by the fair value loss in financial instruments. Further financial information can be found within the 2019 Annual Report at <https://www.precinct.co.nz/annual-reporting/2019-annual-results>.

Scott Pritchard, Precinct's CEO, said "The last financial year has been another active period for our business. Precinct's investment and development portfolios continue to perform well. We have also maintained a strong balance sheet position by completing several capital management initiatives during the 2019 financial year, ensuring we have sufficient funding capacity to deliver all committed developments".

“Demand drivers for city centre real estate across the office, retail and hotel markets remain positive. Our strategy continues to deliver performance; we are enhancing our portfolio composition through diversification of city centre real estate and increasing our investment in coworking/flexible space. We believe these initiatives, along with aligning dividends with AFFO further support our strategy in the long-term”.

Our investment portfolio is benefiting from significant leasing activity, strong rental growth and high occupancy achieved in Auckland and Wellington. The strength in our assets is driving Precinct's operating performance and reinforces the position that our portfolio holds in meeting the needs of our clients. At 30 June 2019, overall portfolio occupancy was maintained at 99% and our WALT has increased to 9.0 years.

Expanding further into the fast-growing coworking/flexible space market has provided Precinct with a unique investment opportunity. Purchasing the remaining 50% equity interest in coworking space provider, Generator in February 2019 has significantly increased our presence. Our investment now makes up 66% market share of total coworking/flexible space in Auckland city. This acquisition has been a pursued investment of Precinct, in line with our business strategy of being city centre specialists. Generator allows us to extend our traditional offering, providing flexible office space and meeting/events solutions to a broad range of New Zealand businesses.

Scott Pritchard, Precinct's CEO, said “We have a clear strategy for the Generator business. Similar to other global cities, over the long-term we expect to see continued growth and demand from this market in Auckland and Wellington city centres”.

During the period, a total of \$191 million of assets were sold. This included the sale of a 50% interest in the ANZ Centre in Auckland for \$181 million, to a fund controlled by Invesco, together with the sale of 10 Brandon Street in Wellington. Post balance date, Pastoral House in Wellington is now under contract for sale and remains conditional at this stage on the purchaser's due diligence. We will provide an update on this transaction in due course.

Development update

Commercial Bay

During the year we have advanced pre-leasing at Commercial Bay. Pleasingly, we have welcomed a number of high quality retailers ensuring the retail mix is first class. This has

increased retail leasing commitments to 95%. Around 8% of the office tower has been leased during the year, with pre-leasing now at 82%.

As previously disclosed in May 2019, the targeted opening dates of Commercial Bay have been revised to March 2020 for the retail centre and to April 2020 for the new PwC Tower. This is due to observed delays in construction progress by the main contractor. We are working closely with all retailers and office occupiers to manage risks and minimise any potential disruptions. This is our key priority. Precinct remains confident the provisions of the construction contract appropriately protect Precinct from losses due to contractor delay and/or breach of contractor obligations.

With designs now progressed, the second stage of the Commercial Bay project, One Queen Street is set to create a true and vibrant mixed-use community in the heart of the Auckland city centre. Fully integrated into the Commercial Bay retail precinct, One Queen Street reinforces our commitment to creating a world-class waterfront destination on par with other gateway cities. Construction remains scheduled to commence during 2020.

Wynyard Quarter

Announced during the period, the development of the second stage of Wynyard Quarter, 10 Madden Street is now under construction. The project remains on budget and on schedule for practical completion at the end of 2020. Currently 62% committed with major leasing to Media Design School (MDS), we are pleased to have conditionally leased the remainder of the office space to two confidential parties with documentation currently under negotiation. At Wynyard Quarter Stages 3 and 4, preliminary designs are underway with the programme allowing for mid-2020 works to commence.

Bowen Campus

In Wellington, we completed the Charles Ferguson Building during the period. At Defence House (previously Bowen State Building), base build works are now complete with integrated fitout progressing well and rent has commenced.

Across Bowen Campus Stage Two, detailed design is complete. Enabling works are progressing on site and are on programme to be completed at the end of August 2019. Management are currently engaged in discussions with a number of potential occupiers for 40-44 Bowen Street. We expect to commit to a construction start in the next 12 months.

Board changes

Over the past eight years, Precinct has benefited from a strong and stable governance regime. Having a Board of Directors comprising the right balance of skills, knowledge and perspective provides Precinct with an effective leadership team to take the business forward.

In November 2018, it was announced that Don Huse will retire in the second half of 2020. Commencing a recruitment process earlier this year for a new Independent Director has been part of the succession plan. Ensuring a seamless transition and best practice corporate governance is maintained has been a key priority. We look forward to announcing the appointment of a new Independent Director ahead of this year's Annual General Meeting of shareholders.

We also announce, today, that Chris Judd has notified the Board of his intention to resign as a director for both Precinct and for our management company, AMP Haumi Management Limited (AHML). Chris will remain on both the Precinct and AHML Boards until early 2020.

Craig Stobo, Precinct's Chairman said "Don and Chris have been an integral part of Precinct's strategic review and execution. We would like to thank them both formally for their on-going contribution over the last 9 years and wish them all the best".

Dividend policy change

Recognising a dividend policy should optimise long term sustainable returns for Precinct's shareholders, the Board has recently reviewed Precinct's dividend policy. Accordingly, Precinct intends to transition towards paying out approximately 100% of AFFO as dividends, with the retained earnings being used to fund the capital expenditure required to maintain the quality of Precinct's property portfolio. Aligning dividends with AFFO is considered to be best practice in a global context for real estate entities. It is consistent with the objectives of the current dividend policy, but more explicitly adjusts for maintenance capital expenditure and incentives. AFFO best reflects the sustainable cash flow produced by our portfolio. The Board is of the view that this updated dividend policy will provide a stable long term profile, in line with executing Precinct's strategy. The updated policy will be phased in over the next two years and has been considered in relation to our FY20 dividend guidance of 6.30 cps.

Dividend payment

Precinct shareholders will receive a fourth-quarter dividend of 1.50 cps plus imputation credits of 0.021737 cps. Offshore investors will receive an additional supplementary dividend of 0.009864 cps to offset non-resident withholding tax (see note 2). The record date is 13 September 2019 with payment to be made on 27 September 2019.

Outlook and guidance

As our business evolves, so does the city centre markets in which we invest in. We recognise the uncertainty which exists as a consequence of global events. However, we remain confident in the occupier markets of Auckland and Wellington and the key drivers which support them.

Our portfolio is performing well. We are achieving high occupancy across our assets and good levels of pre-leasing at our development projects. The balance sheet is in a strong position and our business is well placed to deliver earnings and dividend growth to our shareholders.

Precinct's current strategy is responsible for our business performance. The primary objective is to drive outperformance through creating sustainable value from city centre real estate. A high quality investment and development portfolio, supportive markets and clear strategic direction are advancing our business transformation.

The way in which people are working is changing. We are responding to this. Businesses and employees are now demanding flexibility, social interaction, work-life balance, digital connectivity and a positive workplace environment. The Auckland city centre market is strong. As Auckland grows, businesses and employees are increasingly recognising the value of being located in the city centre. We believe this trend will continue as major public transport infrastructure projects progress.

While Precinct's long term predominant asset class will be city centre office, widening our mix of real estate to include retail, hotels and flexible workspace is enabling us to realise our potential as a city centre specialist.

The Board expects full year earnings for the 2020 financial year of to be at least 6.80 cps, before performance fees and expects to pay a total dividend of 6.30 cps. This represents a 5.0% increase in dividends to shareholders.

Ends

Further information can be found within the 2019 Annual Report and results presentation. You can find this at:

<https://www.precinct.co.nz/annual-reporting/2019-annual-results>.

Ends

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About Precinct (PCT)

Precinct is New Zealand's only listed city centre specialist investing predominately in premium and A-grade commercial office property. Listed on the NZX Main Board, PCT currently owns Auckland's PwC Tower, AMP Centre, ANZ Centre (50%), Zurich House, HSBC House, Mason Bros. Building, 12 Madden Street, 10 Madden Street and Commercial Bay; and Wellington's AON Centre, Dimension Data House, No. 1 and No. 3 The Terrace, Pastoral House, Mayfair House and Bowen Campus.

Precinct owns Generator NZ, New Zealand's premier flexible office space provider. Generator currently offers 13,200 square metres of space across four locations in Auckland.

Note 1

Net operating income and AFFO are alternative performance measures which adjust net profit after tax for a number of cash and non-cash items as detailed in the reconciliation below. Precinct's past Dividend Policy has been based upon net operating income and Precinct is transitioning to a dividend policy based on AFFO. These alternative performance measures are provided to assist investors in assessing Precinct's performance for the year.

Reconciliation of net operating income

| (Amounts in \$ millions) | 2019 | 2018 |
|--|-------------|-------------|
| Net profit after taxation | 189.9 | 254.9 |
| Unrealised net (gain) / loss in value of investment and development properties | (161.7) | (208.7) |
| Unrealised net loss / (gain) on financial instruments | 44.3 | 11.1 |
| Net realised loss on sale of investment properties | 1.7 | |
| Net realised loss / (gain) on disposal of investment in joint venture | (6.6) | |
| Depreciation - property, plant and equipment | 0.3 | |
| Depreciation recovered on sale | 10.7 | |
| Deferred tax expense / (benefit) | (0.3) | 17.0 |
| Share of (profit) / loss of joint venture | 1.1 | 2.3 |
| Net operating income | 79.4 | 76.6 |
| Addback: Amortisations | 7.1 | 7.2 |
| Less: Straightline rents | (0.3) | (0.4) |
| Less: Maintenance capex | (7.2) | (4.9) |
| Less: Incentives and leasing costs | (3.9) | (8.3) |
| AFFO | 75.1 | 70.2 |

Note 2

A supplementary dividend is paid to non-resident shareholders to offset the amount of non-resident withholding tax ("NRWT") that New Zealand companies are required to deduct from dividends paid to non-resident shareholders. A supplementary dividend is paid to ensure equitable treatment between non-resident shareholders and resident shareholders (whose dividends are not subject to NRWT).

There's no disadvantage to Precinct or our shareholders, and non-resident shareholders don't get a larger cash dividend than an equivalent New Zealand resident shareholder.