

NZX announcement – 13 August 2020

## Delivering on strategy underpins strong operating result

### Performance summary for the 12 months ended 30 June 2020

#### Financial summary

- Solid leasing levels across the portfolio has achieved increased net property income (NPI) by 2.1% to \$97.2 million (2019: \$95.3 million); after adjusting for development projects, transactions and COVID abatements, like for like NPI was 3.2% higher than the previous comparable period.
- Total comprehensive income after tax of \$35.1 million (2019: \$190.4 million).
- Revaluation movement of -\$66.3 million, a decrease of 2.2% (2019: \$161.7 million gain).
- Net Asset Value (NAV) per share of \$1.45 (2019: \$1.49).
- Adjusted funds from operations increased 5.9% to 6.29 cps (2019: 5.94 cps).

#### FY21 dividend guidance

- FY21 dividend guidance of 6.50 cps, representing a YoY increase of 3.2%.

#### Capital management

- Refinanced Precinct's \$150 million bank debt facility due to expire in November 2020.
- Settled the \$162.8 million United States Private Placement (USPP) issue.
- Continued with asset recycling programme, sale of Pastoral House in Wellington settled.
- Robust balance sheet with gearing of 28.8% (2019: 22.4%), substantially under PCT borrower covenant level of 50%.

#### Investment portfolio performance

- High occupancy level of 98% achieved (2019: 99%) and a weighted average lease term (WALT) of 8.0 years (2019: 9.0 years).
- Strong leasing during the year with 28 transactions, totalling over 12,600 square metres.
  - Growth on contract rents was 8.0%
- Resilient portfolio performance during covid-19 lockdown, with total rental abatement 1.3% of gross annual income (\$1.7 million)
- Generator continues to perform well with strong revenue growth of 13% and EBITDA of \$1.8 million

#### Commercial Bay update

- The retail and hospitality precinct officially opened on 11 June 2020, fully leased.
- Office tower has opened 97% leased, well ahead of expectations on commitment.
- The first 2 months of retail trading have significantly outperformed expectations, with estimated visitor numbers exceeding 2 million and sales ahead of valuation levels.
- Post balance date, following the announcement on 12 August that Auckland has moved to Alert Level 3, the Commercial Bay retail precinct has been closed in accordance with New Zealand's Covid guidelines.

## Development projects update

- Second stage of Wynyard Quarter, 10 Madden Street progressing well, fully leased, on budget and on programme for completion end of 2020
  - Expected total project cost of \$72m with yield on cost of around 7.0%
- Second stage of Bowen Campus underway at 40 Bowen Street.
  - Project 72% pre-committed with leasing to EY and Fujitsu secured
  - Expected total project cost of \$90 million and is expected to generate a yield on cost of 6.6%, once fully leased.
  - Discussions progressing with potential occupiers for 44 Bowen Street
- 30 Waring Taylor redevelopment underway for first Generator site in Wellington
- One Queen Street redevelopment project in Auckland currently on hold.
  - Assessing options to ensure the redevelopment maximises returns and asset remains well positioned within our portfolio.

## Environmental, Social and Governance (ESG) risks

- Precinct achieved Toitū carbonzero certification.
  - Internationally recognised programme and demonstrates our commitment to the environment and our business's sustainability.
- Precinct received a 2019 Global Real Estate Sustainability Benchmark (GRESB) score of 77 in 1H20 (1H19: 69). Precinct is now trending ahead of the global average of 72.

**Note: Further information can be found within the 2020 Annual Report and results presentation. You can find these at <https://www.precinct.co.nz/annual-reporting/2020-annual-results>**

**Precinct Properties New Zealand Limited (Precinct) (NZX: PCT)** reported its financial results for the 12 months ended 30 June 2020 today. The impacts of COVID-19 on valuations contributed to total comprehensive income after tax reducing to \$35.1 million, offsetting a strong operating result. This result compared with \$190.4 million in the previous period. The difference is mainly attributable to a strong FY19 revaluation and a devaluation for this period of certain development assets within the portfolio.

Adjusted funds from operations (AFFO), which adjusts for several non-cash items increased by 11.8% to \$82.7 million (June 2019: \$74.0 million) or 6.29cps. This strong result reflects the successful execution of the long-term strategy combined with the stable and secure income our portfolio generates through its high-quality clients and asset base. Reflecting this, Precinct received 91% of its rent during lockdown levels 3 and 4 while also being able to support those occupiers who needed assistance.

Full year dividends paid to shareholders and attributed to the 2020 financial year totalled 6.30 cps, representing a year on year increase of 5.0% and an AFFO dividend payout ratio of 100%.

Net property income for the period increased 2.1% to \$97.2 million (June 2019: \$95.3 million). After adjusting for developments, transactions and COVID abatements, like for like income growth was 3.2% higher than the previous comparable period.

Generator recorded gross operating revenue of \$18.6 million with contribution to net operating income of \$1.8 million recorded for the period. Generator was impacted during the last quarter of the financial year as a result of the COVID-19 shutdown, primarily due to the lack of demand for events space. With occupiers increasingly valuing flexibility, the medium-term outlook for Generator remains positive.

As at 30 June 2020 Precinct's portfolio totalled \$3.0 billion (June 2019: \$2.8 billion). Precinct's net asset value (NAV) per share at balance date was \$1.45 (June 2019: \$1.49).

Further financial information can be found within the 2020 Annual Report at <https://www.precinct.co.nz/annual-reporting/2020-annual-results>.

Scott Pritchard Precinct CEO said, "With the recent completion of Bowen Campus and Commercial Bay, both on a fully leased basis, the Precinct business is now well placed with a portfolio of new, high quality assets occupied by a mix of Government, and investment grade office occupiers coupled with some of the best global and local retailers."

"While work from home has been the topic of much debate, our own attendance records demonstrate that the vast majority of our occupiers are back in the office highlighting that the office remains key to the success of any business."

### **Operational update**

Precinct's portfolio has benefited from high occupancy and a long WALT during the year with the overall portfolio occupancy maintained at 98% on a WALT of 8.0 years.

In total, 32 leasing transactions were completed across 21,300 sqm of space. This includes securing a number of new clients and retaining existing clients within the portfolio reflecting the quality of our investment assets. Rentals achieved within the investment portfolio across 12,600sqm were on average 8.0% higher than previous contract rentals.

During the year and since year-end, Precinct has entered into new direct leases totalling around 5,250 sqm for five Generator members to accommodate their growth, demonstrating the benefits that Generator provides to the wider portfolio. Recognising these benefits, the acquisition of the Dunbar Sloane Building, centrally located at 30 Waring Taylor Street, will be the first Generator Site in Wellington. The five-level character building, encompassing 2,300 sqm of space, will be fully redeveloped and seismically strengthened to 100% of New Build Standard. The offering will comprise private offices, coworking and event spaces.

### **Commercial Bay update**

Construction re-commenced at Commercial Bay following the easing of the COVID-19 restrictions and reached completion in June of this year. The new retail and hospitality precinct officially opened its doors on 11 June 2020 fully leased (June 2019: 95%). Precinct was delighted to welcome people to a new and exciting part of their city and experience all Commercial Bay has to offer.

Since opening, the centre has benefited from around 2 million visitors (to 9 August) and is performing ahead of expectations in terms of sales performance.

Post balance date, Precinct is pleased to welcome the first of the office occupiers to the new PwC Tower with PwC, Jarden, Minter Ellison Rudd Watts and Chapman Tripp all taking occupation of their new space. Leasing across the office tower is now at 97% (June 2019: 82%).

## Development update

### Wynyard Quarter

Construction re-commenced at 10 Madden Street in May this year and continues to progress well. Despite the impacts of COVID-19, the programme for completion remains at the end of 2020. The development will complete with the office space fully leased and 3 retail units which are now available for lease.

### Bowen Campus

Following the successful delivery of Bowen Campus Stage One, we were very pleased to announce in June that Precinct will be commencing the development of the second stage of Bowen Campus. The project is being undertaken on a pre-committed basis with leasing to EY and Fujitsu secured.

In addition, a Generator facility will also be provided over the ground and first floor at 40 Bowen Street. A portion of the Generator private office desks have already been pre-committed to EY. This further reinforces the growing demand for flexible space in Wellington.

Completion of the project is scheduled for late 2022. Discussions are currently underway with potential occupiers for 44 Bowen Street with interest from both corporate and Government occupiers.

### Board changes

In September 2019, Precinct appointed Anne Urlwin as an Independent Director. Anne replaces Don Huse, who will step down in 2020 after serving 10 years on the Board. Anne will also replace Don as Chair of the Audit & Risk Committee.

Anne is a professional director with many years' directorship experience. She has experience in the corporate sector across a range of industries. Anne is a Fellow of the Institute of Chartered Accountants of Australia New Zealand, a Chartered Fellow of the Institute of Directors in New Zealand Inc, and a Member of the Australian Institute of Company Directors.

Commencing a recruitment process in early 2019 for a new Independent Director has been part of the Board's succession planning to ensure a seamless transition of directors. We are delighted to welcome such a high calibre director as Anne to the Board. Her skills and experience will further strengthen Precinct's governance regime.

Craig Stobo, Precinct's Chairman said "During Don's tenure on the board Precinct's strategy evolved, several capital management initiatives were undertaken and the business committed to Commercial Bay. On behalf of my board colleagues and management, I again thank Don for the significant contribution he has made to Precinct since 2010."

### **Dividend payment**

Precinct shareholders will receive a fourth-quarter dividend of 1.575 cps (plus imputation credits of 0.063191 cps). Offshore investors will receive an additional supplementary dividend of 0.028675 cps to offset non-resident withholding tax (see note 2). The record date is 11 September 2020 with payment to be made on 25 September 2020.

### **Outlook and guidance**

2020 has undoubtedly presented a number of unexpected challenges at both a local and global level as a result of the COVID-19 pandemic. Locally, economic conditions and demand drivers for city centre real estate are slowly becoming more apparent, however on 12 August 2020 Auckland returned to alert level 3 and the rest of New Zealand was placed in alert level 2 for three days. Uncertainty remains and the full effects of COVID-19 are still evolving.

We recognise this short to medium term uncertainty within the New Zealand economy. However, Precinct's well-located buildings, quality client base, high occupancy and long weighted average lease term gives us confidence that our strategy will continue to deliver in these more challenging times.

The Board expects AFFO for the 2021 financial year to be 6.50 cps, before performance fees and a total dividend of 6.50 cps is expected to be paid. This represents a 3.2% increase in dividends to shareholders.

Ends

Further information can be found within the 2020 Annual Report and results presentation. You can find this at: <https://www.precinct.co.nz/annual-reporting/2020-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%), Jarden House, HSBC House, Mason Bros. Building, 12 Madden Street, 10 Madden Street and Commercial Bay; and Wellington's AON Centre, NTT Tower, No. 1 and No. 3 The Terrace, Mayfair House and Bowen Campus. Precinct owns Generator NZ, New Zealand's premier flexible office space provider. Generator currently offers 13,600 square metres of space across four locations in Auckland.

**Note 1**

AFFO is a non-GAAP financial measure that shows the organisation's underlying and recurring earnings from its operations and is considered industry best practice for a REIT. This is determined by adjusting statutory net profit (under IFRS) for certain non-cash and other items. AFFO has been determined based on guidelines established by the Property Council of Australia and is intended as a supplementary measure of operating performance.

## Reconciliation of net profit after tax to adjusted funds from operations (AFFO)

<i>Amounts in \$ millions</i>	30 June 2020	30 June 2019
Net profit after taxation	30.2	190.2
Unrealised net (gain) / loss in value of investment and development properties	66.3	(161.7)
Unrealised net (gain) / loss on financial instruments	1.9	44.3
Net realised loss / (gain) on sale of investment properties	2.5	1.7
Net realised loss / (gain) on disposal of investment in joint venture	-	(6.6)
Depreciation - property, plant and equipment	1.1	0.3
Depreciation recovered on sale	1.4	10.7
Deferred tax (benefit) / expense	(3.4)	(0.3)
IFRS 16 lease adjustments	2.3	0.0
Generator (profit) / loss	-	1.1
Liquidated damages (net of tax impact)	(19.2)	(1.4)
Amortisations	7.9	7.1
Straightline rents	(0.5)	(0.3)
<b>Funds from operations (FFO)</b>	<b>90.5</b>	<b>85.1</b>
Maintenance capex	(5.0)	(7.2)
Incentives and leasing costs	(2.8)	(3.9)
<b>Adjusted funds from operations (AFFO)</b>	<b>82.7</b>	<b>74.0</b>
Weighted average number of shares for net operating income per share (millions)	1,313.8	1,246.7
<b>Adjusted funds from operations per share (cents)</b>	<b>6.29</b>	<b>5.94</b>

This additional performance measure is provided to assist shareholders in assessing their returns for the period.

### 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.