

NZX announcement – 25 February 2020

Quality portfolio delivers strong first half result

Performance summary for the six months ended 31 December 2020

Financial summary

- Total comprehensive income after tax of \$167.9 million, up 213% (1H20: \$53.6 million).
- Strong portfolio revaluation gain of \$148.5 million or 5.1% for the half year ended 31 December 2020 (June 2020: -\$66.3 million).
- Active period of leasing and completion of developments contributing to a 15.7% increase in operating income before indirect expenses to \$62.5 million (1H20: \$54.0 million).
- Increase in net asset value per security of 10 cps to \$1.55 (June 2020: \$1.45).
- Adjusted funds from operations (AFFO) of 3.34cps, a 7.4% uplift y-o-y (1H20: 3.11cps).
- FY21 dividend guidance of 6.50cps maintained.

Capital management

- Balance sheet remains in a strong position with gearing of 29.9% (June 2020: 28.8%).
- Entered into an agreement to divest the remaining 50% of the ANZ Centre for \$177 million in the period. Sale will reduce gearing to around 26%.

Operating performance

- Occupancy levels maintained at 98% (June 2020: 98%) on a weighted average lease term (WALT) of 7.7 years (June 2020: 8.0 years).
- Secure earnings track with just 4% of contract rent due to expire in 2021.
 - ~55% of current contract rent subject to fixed reviews providing certain growth on average of 3% per annum over next 12 months.
- Well located and premium portfolio continuing to secure leasing transactions with 11,300 sqm concluded in the period.
 - 6,900 sqm of new office leasing completed 7.9% above previous contract rent.
- Generator performance impacted over the short term due to Covid however demand is recovering strongly, and outlook is positive.
- Commercial Bay operating income lower for the first half due to timing impacts from Covid following delays in opening. Trade performance continues to track in line with expectations after adjusting for no international visitors.

Development projects update

Wynyard Quarter

- Stage 2 achieved base build practical completion in October 2020, on time and on budget.
- Client fitout works are ongoing post balance date with occupation expected to commence from March 2021.
 - Office remains 100% pre-committed.
 - Expected return on cost of around 15% and a fully leased yield of around 7.0%

40 and 44 Bowen Street

- 44 Bowen Street, the second building of stage 2, was committed to in the period (November 2020). Both buildings are advancing well and tracking to programme and budget.
 - Solid leasing enquiry with the development around 50% pre-committed.
 - Expected total project cost of around \$195 million and yield of 6.6% once fully leased.

Environmental, Social and Governance (ESG) risks and opportunities

- Sustainable debt programme launched in the period.
- Precinct released its Climate-related Financial Disclosures document based on the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations.
- Achieved a 2020 Global Real Estate Sustainability Benchmark (GRESB) score of 83 (2019: 77).
 - Pleasingly the result was again above the global average of 70 for the year.
- Inclusion in the Bloomberg 2021 Gender-Equality Index (GEI).

Note: Further information can be found within the 2021 Interim Financial Statements and results presentation. You can find these at <http://www.precinct.co.nz/interim-reporting/2021-interim-results>

Precinct Properties New Zealand Limited (Precinct) (NZX: PCT) reported its financial results for the six months ended 31 December 2020 today. A strong half year portfolio revaluation of \$148.5 million has contributed to total comprehensive income increasing to \$167.9 million (+213%) compared to the prior period of \$53.6 million. The solid performance was supported by an uplift in operating income following completion of developments and a positive tax outcome from the depreciation on structure and prior period contamination expenditure.

Operating income for the period increased 15.7% to \$62.5 million (December 2019: \$54 million). The investment portfolio remained relatively consistent with the previous comparable period, a strong outcome given significant fitout works underway, with the increase primarily attributable to transactions and developments. While a strong result, Covid has adversely impacted operating income for the first half by around \$6 million due to retailer support, timing impacts caused by delayed occupation of Commercial Bay and the effects from Covid on income at Generator and Commercial Bay Hospitality (CBHL).

Adjusted funds from operations (AFFO), which adjusts for several non-cash items increased 7.4% to \$43.8 million or 3.34cps (December 2019: \$40.9 million or 3.11 cps).

Scott Pritchard, Precinct's CEO, said "We are pleased to announce another strong result with the portfolio continuing to illustrate its resilience and performance in these uncertain times. While market conditions remain challenging in 2021, we continue to see demand for high quality, city centre office space with surrounding amenity. With a further 11,300sqm of leasing transactions completed in the period, the portfolio continues to attract businesses who want to occupy premium assets and be in highly attractive locations."

"Whilst the debate around workplace strategies continues, pleasingly almost all of Precincts clients were back and working from their premises prior to the 15th of February 72-hour lockdown. Noticeably, some clients have increased their allowance for flexibility, however, this varies dependent on the role and industry. With a portfolio that is 98% leased, and on floor occupancy levels averaging between 85% and 90%, our clients are clearly recognising the value of face to face working. Precinct's buildings encapsulate these benefits given their city centre location, premium quality, and surrounding amenity."

Supporting this approach, Precinct has launched the Commercial Bay Club App, a loyalty programme for its ~10,000 workers in the Commercial Bay Precinct. In the first 6 months the app has attracted around 2,000 members and the variety of events and offers to date have been well received.

Interim results

Continued execution of strategy has provided a further uplift of 15.7% in operating income for the 6 months to 31 December 2020 to \$62.5 million. The increase has primarily been through the completion of developments in the period with Commercial Bay and No.1 The Terrace contributing an additional \$15 million for the first half of 2021. Offsetting this was vacancy at ANZ Centre following client migration and the decant of 1 Queen Street. 1 Queen is now fully vacant in preparation for the future development of the asset.

Independent property valuations undertaken at 31 December 2020 indicated a \$148.5 million or 5.1% revaluation gain. The gain increases Precinct's portfolio to around \$3.3 billion, providing an NTA uplift of 11 cents per share (June 2020: \$1.44). On a like-for-like basis, Auckland asset valuations increased by around 4.0% and Wellington assets recorded an uplift of 8.0%, compared with the draft interim book values. The growth in portfolio values were predominantly driven by a material compression in capitalisation rate, with PCT's weighted average capitalisation rate firming around 40 bps to 4.9% over the half year. Market rental growth in Wellington and development progress at Bowen Campus Stage 2 also contributed to the positive outcome.

The current tax expense recorded a positive outcome of \$6.5 million for the half (1H20: -\$7.6 million). The outcome is attributable to the reintroduction of depreciation on structure (\$7.2 million) and expenditure related to testing, removal, and encapsulation of contaminants as part of the demolition of building structure during 2016-2019 (\$13.0m).

The fair value loss in financial instruments has increased to \$22.4 million due to the convertible note option fair value loss from the movement in Precincts share price. A \$2.0 million loss was recognised for the same period last year.

Generator recorded a lower gross operating revenue of \$3.1 million for the period (1H20: \$4.8 million). Membership revenue and occupancy remained stable for the first half. Events revenue was impacted due to Covid however was recovering at a more accelerated rate than anticipated post the August 2020 lockdown. Strong demand is being experienced at the new meeting suites at Commercial Bay with utilisation ahead of expectations. New meeting suites have also been completed post balance date at 188 Quay Street.

Dividends attributable to shareholders for the six months ending 31 December 2020 totalled 3.25 cps representing an increase of 3.2% on the prior period (1H20: 3.15 cps). The 1H21 dividend represents approximately 98% of Precinct's Adjusted Funds From Operations (AFFO) for the first half of the 2021 financial year of 3.34 cps.

Investment portfolio performance

Positive leasing results in Auckland and Wellington have maintained Precinct's high occupancy of 98% and delivered a weighted average lease term of 7.7 years at 31 December 2020. The Auckland portfolio was very active during the period with over 37,000sqm of fitout undertaken, the majority of which is now complete and income producing post balance date.

The portfolio continues to attract interest with an additional 18 leasing transactions completed across 11,300 sqm. New leases in the investment portfolio accounted for around 6,900 sqm which were secured 7.9% above previous contract rents.

Structured rent reviews were completed across 43,000 sqm in the first 6 months, resulting in an average annual uplift of 2.1% on \$21.6 million of contract rent. Market reviews were secured 3.5% above previous contract rentals across 8,000 sqm or \$3.5 million of contract rent.

The Auckland prime office waterfront market conditions remain very resilient however elevated sublease space availability in secondary locations has impacted those submarkets. Notwithstanding, according to CBRE research much of the potential sublease space has not translated into physical vacancy.

While there is a level of uncertainty, the strength and security of Precinct's cashflow will continue to deliver over the next 12 months with around 55% of the portfolio subject to a structured review and less than 10% of contract rent expiring annually over the next 5 years. Most of Precinct's clients have also returned to their premises with on floor employee occupancy levels averaging between 85% and 90%.

Capital management

Capital management position remains strong supporting Precinct's long-term strategy with gearing as measured under borrower covenants, which disregards subordinated debt, of 29.9% (30 June 2020: 28.8%).

Announced in the period, Precinct entered into an agreement for the sale of its 50% interest in the ANZ Centre in Auckland for \$177 million. The sale price is consistent with the 30 June 2020 independent valuation. This capital recycling initiative will see proceeds from the sale used to repay bank debt and reduce leverage. Post-sale gearing will reduce to around 26%.

Consideration for additional non-core asset sales remains as an option to continue to fund Precinct's long-term strategy.

Development update

40 and 44 Bowen Street

Stage 2 of Bowen Campus is well underway with the development progressing during the first half. The project continues to track on programme and on budget. The project remains round 50% pre-committed across both buildings with EY, Fujitsu and KPMG secured. Leasing enquiry remains elevated for the remaining space from both corporate and government occupiers with the development expected to be 100% leased prior to practical completion.

Wynyard Quarter Stage Two

The project has been progressing well with base build works completing at 10 Madden Street towards the end of 2020. Client fitout works are now underway with occupation commencing from March this year and the office floors 100% leased.

Future development projects

1 Queen Street remains the primary focus for the business over the next 6 months. Since the decision to delay the project, a significant work stream has been underway in determining the preferred scheme for the site. The composition of the building has been changed to factor in the current market conditions and leverage off the surrounding amenity provided by Commercial Bay. The current revised scheme is expected to offer ground floor retail integrated into Commercial Bay, 3 levels of shared workspace, a reduced 139 room hotel (previously 244), 2 levels of private office suites, 7 levels of premium grade office and a roof top bar. Key stakeholders have engaged positively with the revised scheme and continue to work closely with Precinct to determine the optimal outcome for all parties. Detailed design and outstanding workstreams are still to be finalised but it is anticipated a decision will be made on the development within the next 6 months.

Dividend payment

Precinct shareholders will receive a second-quarter dividend of 1.625 cps. Due to Precinct's current tax position for the period, there are no imputation credits to attach for the quarter and therefore no supplementary dividend to be paid (see note 2). The record date is 12 March 2021 with payment to be made on 26 March 2021.

Outlook and guidance

Completion of developments and sale of non-core assets continues to underpin a stable and strengthening earnings profile. Precinct's outlook remains robust with growth expected due to:

- High occupancy levels and a 7.7-year WALT providing lower leasing costs and incentives,
- Around 55% of the portfolio benefiting from structured reviews,
- Revenue sourced from Government and high-quality occupiers,
- Development pipeline providing accretion to current low cost of debt, and
- Low recurring capex requirements due to premium portfolio quality and asset age.

Precinct expects its full year normalised results to be consistent with earlier guidance provided. Full year FY21 AFFO and Dividend remains at 6.50 cps, representing a 3.2% increase to shareholders.

Further information can be found within Precinct's 2021 Interim Financial Statements and results presentation. You can find this at:

<http://www.precinct.co.nz/interim-reporting/2021-interim-results>

Ends

For further information, please contact:

Scott Pritchard
Chief Executive Officer
Mobile: +64 21 431 581
Email: scott.pritchard@precinct.co.nz

George Crawford
Chief Operating Officer
Mobile: +64 21 384 014
Email: george.crawford@precinct.co.nz

Richard Hilder
Chief Financial Officer
Mobile: +64 29 969 4770
Email: richard.hilder@precinct.co.nz

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 HSBC Tower, AMP Centre, ANZ Centre (50%), Jarden House, 1 Queen Street, 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)

Amounts in \$millions unless otherwise stated

	Unaudited six months ended 31 December 2020	Unaudited six months ended 31 December 2019	Audited year ended 30 June 2020
Net profit after taxation	163.2	54.3	30.2
Unrealised net (gain) / loss in value of investment and development properties	(148.5)	-	66.3
Unrealised net (gain) / loss on financial instruments	22.4	2.0	1.9
Net realised (gain) / loss on sale of investment properties	-	-	2.5
Net realised loss / (gain) on disposal of investment in joint venture	-	-	-
Depreciation - property, plant and equipment	0.6	0.5	1.1
Depreciation recovered on sale	-	-	1.4
Deferred tax (benefit) / expense	7.1	2.5	(3.4)
IFRS 16 lease adjustments	1.0	1.2	2.3
Liquidated damages (net of tax impact)	-	(19.2)	(19.2)
One off item - project initialisation costs	0.4	-	-
Amortisation	6.3	4.0	7.9
Straightline rent	(1.7)	(0.4)	(0.5)
Funds from operations (FFO)	50.8	44.9	90.5
Funds from operations per share (cents)	3.87	3.42	6.89
Maintenance capex	(2.7)	(2.0)	(5.0)
Incentives and leasing costs	(4.3)	(2.0)	(2.8)
Adjusted funds from operations (AFFO)	43.8	40.9	82.7
Weighted average number of shares for net operating income per share (M)	1,313.7	1,313.7	1,313.7
Adjusted funds from operations per share (cents)	3.34	3.11	6.29

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 is no disadvantage to Precinct or our shareholders, and non-resident shareholders do not get a larger cash dividend than an equivalent New Zealand resident shareholder.