

NZX announcement – 18 August 2022

## Strong leasing performance supports PCT FY22 result

### Performance summary for the 12 months ended 30 June 2022

#### Financial summary

- Strong leasing completed achieves net property income (NPI) of \$126.1 million (2021: \$124.4 million), with \$8.3 million rental support provided mainly to retailers due to lockdown impacts.
- Net operating profit before tax of \$95.3 million, up 14.8% (2021: \$83.0 million).
- Total comprehensive income after tax of \$108.8 million (2021: \$179.9 million).
- Net Asset Value (NAV) per share of \$1.54 (2021: \$1.52).
- Adjusted Funds from Operations (AFFO) of 6.51 cps (2021: 6.48 cps).

#### Repositioned balance sheet

- Accessing third party capital with the conditional establishment of a new strategic investment partnership with Singapore sovereign wealth fund GIC announced in February 2022
  - The sales to the partnership remain conditional on Overseas Investment Office approval and certain consents in the Initial Portfolio.
  - Defence House sale may not proceed due to the occupier's consent not being received.
  - Alternative partnering opportunities are being explored with GIC.
- Gearing at 34.3% (2021: 28.2%), well under PCT borrower covenant level of 50%.

#### Strong operating performance

- High portfolio occupancy at 99% with 7.1 year (2021: 7.7 years) weighted average lease term (WALT) following leasing success in the period.
- 34,600 square metres of leasing transactions completed.
- Wynyard Quarter Stage 3 project commenced during the year.
- 30 Waring Taylor Street redevelopment completed with first Generator Wellington site performing well ahead of budget.
- Leveraging Precinct's development capability with \$854 million of value-add development projects currently underway with 77% pre-leased to quality occupiers.

#### Environmental, Social and Governance (ESG) performance

- Global Real Estate Sustainability Benchmark (GRESB) score of 82, above global average of 73.
- Toitū carbonzero certification validated.
- Becoming signatory to Net Zero Carbon Buildings Commitment (post balance date), reinforcing Precinct's support to decarbonise the building and construction sector by 2050.

**Note: Further information can be found within the 2022 Annual Report and results presentation. You can find these at <https://www.precinct.co.nz/annual-reporting/2022-annual-results>**

**Precinct Properties New Zealand Limited (Precinct) (NZX: PCT)** reported its financial results for the 12 months ended 30 June 2022 today. The performance of Precinct's core office portfolio has been very robust, supported by our high quality occupiers and a resilient office market. This has resulted in a pleasing full year result for the business during a challenging period. While the first half of the financial period was impacted by lockdowns, net property income (NPI) of \$126.1 million was achieved for the year. Notably, this level of NPI is after providing \$8.3 million of support predominantly through rental relief to our retailers and reflects the strong level of leasing performance throughout the year. This has contributed to net operating income before tax of \$95.3 million, up 14.8% on the previous year (June 2021: \$83.0 million).

Total comprehensive income after tax was \$108.8 million compared to \$179.9 million in the previous year with the movement largely attributable to a significant revaluation gain recognised in the 2021 financial year. Precinct recorded an annual revaluation gain in FY22 of \$19.4 million (2021: \$282.9 million), equating to a 0.5% increase on the year end book values, driven mainly by development profit recognition. The revaluation gains for the period were predominantly attributed to market rental growth and positive leasing activity but partially offset by capitalisation rates remaining flat or slightly softening year-on-year. This outcome reflects greater confidence in the office market but impacted by rising interest rates over recent months.

Adjusted funds from operations (AFFO) was \$101.5 million (June 2021: \$85.3 million) or 6.51 cents per share (cps). Full year dividends paid to shareholders and attributed to the 2022 financial year totalled 6.70 cps, representing a 3.1% increase. The quality of our real estate is enabling our business to grow and create further value for our shareholders and capital partners.

As at 30 June 2022 Precinct's portfolio totalled \$3.7 billion (June 2021: \$3.3 billion) including assets held for sale. Precinct's net asset value (NAV) per share at balance date was \$1.54 (June 2021: \$1.52).

Further financial information can be found within the 2022 Annual Report at <https://www.precinct.co.nz/annual-reporting/2022-annual-results>.

Scott Pritchard Precinct CEO said, "Precinct's portfolio has continued to outperform in an exceptionally challenging operating environment. Acknowledging the extent of rental support provided to our retailers over the past 12 months, we are very pleased with our 2022

financial year result and the resilience Precinct's assets have demonstrated. Being able to support not only those in our portfolio who are entitled to it, but also to those occupiers who we believe needed financial assistance has been the right thing to do for our business."

"Following the internalisation in 2021, we have considered how our strategy might evolve in a way which is consistent with our focus on high quality assets and large scale developments. We want to leverage our strengths and apply our learnings of the past 6 years. During the year, we have successfully progressed our revised strategy with the formation of a strategic investment partnership with GIC. Establishing a third party platform and diversifying our capital sources is enabling our business to grow, providing flexibility for Precinct to take advantage of future opportunities in the market as they arise."

### **Operational and leasing update**

Precinct's portfolio continues to perform well reflecting its quality occupiers, a long weighted average lease term (WALT) and its high occupancy levels. At balance date, overall portfolio occupancy was 99% and Precinct's WALT was 7.1 years.

Strong leasing momentum has been achieved during the period with a total of 60 leasing transactions completed across 34,600 sqm of space. While many organisations are factoring in ongoing flexible working arrangements, we continue to observe strong demand from businesses wanting to have their workforce based in high quality space in both Auckland and Wellington markets. New leases secured in the period totalled 10,645 square metres at 13.5% above previous contract rents, equating to a compounded annual uplift of 5.0%.

With the majority of our corporate occupiers now back in office premises full time, it is becoming increasingly important for our clients to have access to a high level of amenity to attract and retain staff – spaces where people can connect and collaborate.

Including structured rent reviews, Precinct completed a total of 183,973 sqm of reviews at a 3.0% premium to previous contract rental. There were 17,441 square metres of market rent reviews which were settled at a 5.9% premium to 30 June 2021 valuation rentals.

At 30 June 2022 Precinct's portfolio is under-rented by 6.3% (June 2021: 5.9% under-rented), with the majority of under-renting occurring in Wellington and over 50% of upcoming reviews subject to a market review within the next three years.

## Development update

### Auckland

#### Wynyard Quarter Stage 3

The development of 124 Halsey Street and the Flowers Building which commenced at the end of 2021 are progressing well with the projects now well underway. Construction remains on schedule with the building piling now complete. Leasing enquiry has been solid with ongoing negotiations taking place with potential occupiers which we expect to complete well ahead of completion of the buildings in late 2024.

The project has an expected total project cost of around \$157 million and will generate a yield on cost of circa 5.75% once the building is fully leased. Preparations are underway for construction commencement of the final Wynyard Quarter Stage 3 building, subject to continued leasing progress.

#### Deloitte Centre (One Queen Street)

Construction has advanced well. While an extended Alert Level 4 lockdown during the first half of the year has caused disruptions on site, the project remains on track to complete in late 2023. The project is currently 86% pre-committed with the high-rise office floors fully leased.

### Wellington

#### Bowen Campus Stage Two

Both projects at 40 and 44 Bowen Street have continued to progress well despite the ongoing challenges with supply chain and sourcing materials. Bowen Campus Stage Two remains on programme and on budget. The project consists of around 20,000 square metres of office space with a combined entry lobby and large low rise floor plates. Following further leasing to high quality law firms in the period, we are now 96% leased across both buildings.

#### Dividend payment

Precinct shareholders will receive a fourth-quarter dividend of 1.675 cps. Due to Precinct's current tax position, 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 9 September 2021 and payment will be made on 23 September 2022.

## Outlook and guidance

Precinct has continued to be supported by the quality and resilience of its portfolio and its people during 2022. Our strategy is evolving but will continue to focus on our three key pillars, our people and partners, operational excellence and developing the future.

While the city centres are firmly in a recovery phase this is against a backdrop of expectations for a slowing economy. Our view is that it is critical to be adding value through this stage of the economic cycle by maintaining portfolio occupancy, leveraging our strong development capability, and partnering with direct investors.

We remain encouraged by the occupier market and the opportunities which are being presented to our business. Precinct is well positioned to create further value for our shareholders, and also our capital partners. We are committed to owning, managing and developing a high quality portfolio of assets.

The Board expects Precinct's dividend for the 2023 financial year to be no less than 6.70 cps. Further information can be found within the 2022 Annual Report and results presentation. You can find this at: <https://www.precinct.co.nz/annual-reporting/2022-annual-results>.

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## **About Precinct (PCT)**

Precinct is New Zealand's only listed city centre specialist investing predominantly in premium and A-grade commercial office property. Listed on the NZX Main Board, PCT currently owns Auckland's HSBC Tower, AON Centre, Jarden House, Deloitte Centre, 204 Quay Street, Mason Bros. Building, 12 Madden Street, 10 Madden Street, PwC Tower and Commercial Bay Retail; and Wellington's AON Centre, NTT Tower, Central on Midland Park, No. 1 and No. 3 The Terrace, Mayfair House, Charles Fergusson Building, Defence House, Bowen House, Freyberg Building and 30 Waring Taylor Street. Precinct owns Generator NZ, New Zealand's premier flexible office space provider. Generator currently offers 13,600 square metres of space across nine locations in Auckland and Wellington.

## 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 adjusted funds from operations

(Amounts in \$ millions)	2022	2021
<b>Operating income before indirect expenses</b>	<b>129.4</b>	127.7
Indirect expenses	(34.1)	(44.7)
<b>Operating income before income tax</b>	<b>95.3</b>	<b>83.0</b>
Current tax expense	7.0	67.8
<b>Operating profit after tax</b>	<b>102.3</b>	<b>150.8</b>
Non operating income / (expenses)	34.0	63.0
Deferred tax and depreciation recovered on sale	(26.3)	(26.1)
<b>Net profit / (loss) after taxation attributable to equity holders</b>	<b>110.0</b>	<b>187.7</b>
<b>Operating profit after tax adjusted for</b>		
Generator rent expense	(7.6)	(7.0)
Tax impact from MSA termination payment and liquidated damages	-	(60.8)
Swap closeout	-	3.0
One off item - project initialisation costs	0.7	0.7
Share-based payments scheme	1.2	-
Amortisations	14.7	13.8
Straightline rents	(3.8)	(4.0)
<b>FFO</b>	<b>107.5</b>	<b>96.6</b>
Maintenance capex	(2.3)	(4.0)
Incentives and leasing costs	(3.7)	(7.3)
<b>AFFO</b>	<b>101.5</b>	<b>85.3</b>

Note: AFFO is an alternative performance measure which adjust net profit after tax for a number of cash and non-cash items as detailed in the reconciliation above. Precinct has transitioned to a dividend policy based on AFFO. AFFO is an alternative performance measure provided to assist investors in assessing Precinct's performance for the year.

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).

## Note 3

All portfolio metrics are as at 30 June 2022 and include assets held for sale, unless otherwise stated.