NZX and media announcement – 17 February 2016

Precinct commences growth phase

Operational and Financial Performance summary for the six months to 31 December 2015

Increase in net profit after taxation of 10.1%

- Net profit after tax of $34.8 million (2014: $31.6 million) following a reduction in interest expense and a fair value gain in financial instruments
- Net operating income increased by 1.1% to $35.7 million (2014: $35.3 million)
- Half year dividend of 2.70 cps (2014: 2.70cps) representing a 92% payout ratio

Developments advanced in period

- Launched Commercial Bay:
  - Committing to a $681 million development of a new 39 level commercial office tower and a world class CBD retail centre
  - Achieved 52% pre-commitment of the office tower
  - Entered a fixed price construction contract with Fletcher Construction incorporating the construction of the City Rail Link tunnels under Commercial Bay
- Wynyard Quarter:
  - Commenced construction of 2 commercial office buildings.
  - As at 31 December 2015 the $84 million project was 70% pre-committed.
- Negotiations further advanced across all Precinct Government assets

Capital management

- Refinanced existing bank debt facilities securing a new five year $680 million facility, extending the weighted average debt maturity profile to 5.6 years at 31 December 2015 (30 June 2015: 4.6 years)
- Loan to value ratio reduced to 12.8% (30 June 2015: 20.1%)

97% portfolio occupancy, Auckland market rental growth

- 11 leasing transactions totalling 4,100 square metres in the period secured at a 1.5% premium to June valuations
- Weighted average lease term (WALT) across the portfolio of 5.8 years (excluding Downtown Shopping Centre and including pre-commit) at interim balance date (June 2015: 5.0 years)
- Weighting by value to Auckland increased to 67% (June 2015: 60%)
- Auckland Prime office vacancy rate of 1.4% (June 2015: 1.6%)

Precinct Properties New Zealand Limited (**Precinct) (NZX: PCT)** reported its six-monthly results to 31 December 2015 today, with a net profit after tax (NPAT) of $34.8 million. This compared with $31.6 million for the same period last year, with the increase mainly attributable to the reduction in interest expense following the $174 million entitlement offer, and a fair value gain in financial instruments.

Scott Pritchard, Precinct's CEO, said it has been a pivotal and exciting start to the financial year. The commitment to Commercial Bay is a milestone for the company and is a project which will transform the Precinct business and Auckland's CBD.

"There is an unprecedented level of investment on Auckland's CBD waterfront and it's good to be at the heart of this transformation. Complementing our projects and existing assets on the waterfront, are a number of residential and hotel developments along with extensive public investment."

"Central Government's recent commitment to the city rail link is a further step forward for Commercial Bay."

He said at Wynyard. "We have commenced works on the first stage which is 70% pre-leased and expected to cost $84 million. Demolition works have been completed and site infrastructure works have commenced. After planning and developing our long term strategy over the past 5 years it is very pleasing to be underway with construction of prime assets in waterfront locations."

The Auckland office market continues to strengthen with overall vacancy rates declining further to 6.7% (June 2015: 7.3%). The preference for the majority of occupiers' is to be situated in the CBD Waterfront precinct. CBRE calculated that the Auckland prime CBD vacancy rate decreased to 1.4% in December 2015 compared with 1.6% recorded six months earlier.

INTERIM RESULTS

Net operating income, which adjusts for a number of non-cash items, increased $0.4 million to $35.7 million (31 Dec 2014: $35.3 million). The increase occurred primarily due to a fall in interest costs following the debt repayment from the proceeds of the entitlement offer undertaken in March 2015.

With a focus on balancing risk and return Precinct has reduced gearing to 12.8% from 33.7% a year ago. This significant reduction in gearing has put Precinct in a strong financial position to fund its development opportunities. This deleveraging has meant that earnings per share are reduced in the short term to 2.95cps from 3.33 cps in the comparative period. Precinct remains confident that the committed investments at Wynyard and Commercial Bay will result in stronger earnings growth over the medium term.

Net property income (NPI) reduced to $53.7 million (2014: $62.1 million). After adjusting for the sales of SAP Tower, 80 The Terrace, 171 Featherston Street and 125 The Terrace like for like income was consistent with the comparative period.

In Auckland, improved occupancy over the same time last year led to Auckland NPI being around 3% higher than the comparative period. This increase was offset by a decline in Wellington occupancy primarily due to vacancy at Deloitte House and 157 Lambton Quay. Post balance date, the vacancy at Deloitte House has been leased.

Net Interest expense decreased from $16.9 million to $6.0 million, reflecting lower debt levels following the asset sales and the 2015 entitlement offer.

Other expenses were unchanged at $5.1 million with no performance fees paid in the first half of the financial year.

Tax expense increased by $2.1 million to $6.9 million. This period's tax expense was higher due to a higher pre-tax profit and a lower level of deductibles.

The fair value gain in financial instruments of $4.3 million compares with a $5.3 million loss for the same period last year. The gain primarily reflected a positive fair value movement of the USPP notes due to an increase in market credit margins.

An internal review of the 30 June 2015 property valuations indicated no material value movement in the period. The 31 December 2015 investment property book values were consistent with Precinct's policy of carrying investment property at fair value.

The value of net tangible assets per share at interim balance date was $1.11 (30 June 2015: $1.11).

CAPITAL MANAGEMENT

The proceeds from asset sales have been used to repay borrowings which reduced to $190 million (30 June 2015: $340 million). Precinct's gearing decreased to 12.8% (30 June 2015: 20.1%).

Existing secured bank debt facilities were refinanced, providing material savings from lower margins and additional tenor. Following the bank refinance the weighted average term to maturity increased to 5.6 years at 31 December 2015 (30 June 2015: 4.6 years). Importantly the five year $680 million facility reduces refinance risk during the development phase of Commercial Bay.

Following debt repayment, Precinct was fully hedged through the use of interest rate swaps (30 June 2015: 62%). This hedging level will reduce as capital is deployed on development projects. The weighted average interest rate including all fees was 5.7% at 31 December 2015 (30 June 2015: 5.4%). Precinct has put in place forward start swaps to partially hedge the risk of interest rate movement from the committed capital expenditure relating to Commercial Bay and Wynyard stage 1.

DEVELOPMENT PROGRESS

On 11 December 2015 Precinct announced that it will proceed with Commercial Bay, a $681 million development including a new 39 level commercial office tower and a world class retail centre at its Downtown Shopping Centre site on Auckland's waterfront.

The anchor client for the new tower, PwC, will be joined by Chapman Tripp, along with three other foundation clients. In total the tower pre-commitment is 52%.

Since launch, Commercial Bay has had strong retail and commercial leasing enquiry. Negotiations are advancing well with mini major retailers for the flagship stores and other tower occupiers.

At Wynyard Quarter demolition works are now complete and ground works have commenced. There remains good interest in the balance of the uncommitted space within the Mason Brothers building.

As previously announced, Bowen Campus has been Cabinet approved to enter the final negotiations phase of the Government's Wellington Accommodation Project. This phase is progressing well for Bowen Campus, as well as 3 The Terrace, Pastoral House and Mayfair House.

PORTFOLIO PERFORMANCE

A fall in Wellington occupancy in the period led to overall occupancy falling to 97% (30 June 2015: 98%). This was a result of additional vacancy at 157 Lambton Quay, State Insurance Tower and Deloitte House. Post balance date, the vacancy at Deloitte House has been leased. Leasing the remaining vacant space in Wellington is a key focus for 2016.

Over the period we increased our weighting to Auckland to 67% (June 2015: 60%). In Auckland, the portfolio remained almost fully occupied. As a result there were only two new lease transactions in the period. These transactions were secured at a 4% premium to 30 June 2015 valuations.

Precinct secured 11 leasing transactions covering 4,100 square metres at a 1.5% premium to the market rents adopted within the June valuations.

At 31 December 2015 Precinct's weighted average lease term across the investment portfolio was 5.8 years (excluding Downtown Shopping Centre and including pre-commit) (June 2015: 5.0 years). Excluding development pre-commitments the WALT increases to 4.7 years.

Precinct settled 24,300 square metres of market rent reviews at a 4.3% premium to valuation in the period with a number of Wellington reviews held at ratchet. Across the 44,700 square metres of rent reviews, we saw an increase in passing rents of around 0.8%.

OFFICE MARKET UPDATE

Strong occupier demand and limited available prime Auckland CBD office stock has resulted in a continuation of historically low vacancy rates. CBRE calculated that the Auckland prime CBD vacancy rate decreased to 1.4% in December 2015 compared with 1.6% recorded six months earlier.

As occupiers continue to compete for limited vacant prime grade office stock, forecasts from most research houses are anticipating meaningful rental growth during 2016. The Auckland portfolio is expected to benefit from rental growth over this period given the sustained demand and current low vacancy levels.

Wellington vacancy rates continue to fluctuate as occupiers relocate to accommodate refurbishment and redevelopment projects. According to CBRE, the Wellington prime grade vacancy rate increased from 3.1% to 3.9% over the six months to December 2015. The Wellington Accommodation Project which looks to optimise government departments' requirements continues to be a key consideration for the Wellington CBD office market. This is expected to increase the amount of secondary space available as various government agencies vacate their current office locations.

The majority of research houses are anticipating moderate rental growth during 2016.

Additional Fees Review

In accordance with clause 7.5 of the Management Services Agreement, the directors of Precinct and AMP Haumi Management Limited have agreed some changes to the additional fees applicable between the entities following the required periodic review. This review was informed by an independent advisor and further details are provided in the Interim Results Investor Presentation.

DIVIDEND PAYMENT

Precinct shareholders will receive a second-quarter dividend of 1.35 cents per share plus imputation credits of 0.2058 cents per share. Offshore investors will receive an additional supplementary dividend of 0.0934 cents per share to offset non-resident withholding tax. The record date is 3 March 2015. Payment will be made on 16 March 2015.

OUTLOOK

Full-year operating earnings after tax are expected to be around 6.0 cents per share (before performance fees). Dividend guidance for the 2016 financial year remains unchanged at 5.4 cents per share, consistent with the 90% pay out dividend policy.

In coming years as the development programme is executed and as associated risks are reduced, it is anticipated that returns will grow, as they reflect the solid earnings growth and value created from the completed developments.

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Note 1 – Net Operating income reconciliation

Net operating income is an alternative performance measure which adjusts net profit after tax for a number of non-cash items as detailed in the reconciliation below. Precinct's Dividend Policy is based upon net operating income. This alternative performance measure is provided to assist investors in assessing Precinct's performance for the year.

$M	31-Dec-15	31-Dec-14
Net profit after taxation	**34.8**	**31.6**
Realised loss / (gain) on sale of investment properties	2.7	-0.2
Unrealised interest rate swap (gain) / loss	-4.3	5.3
Depreciation recovered on sale	10	-
Deferred tax (benefit) / expense	-7.5	-1.4
Net operating income	**35.7**	**35.3**

About Precinct (PCT)

Precinct is New Zealand's only specialist listed investor in premium and A-grade commercial office property. Listed on the NZX Main Board, PCT currently owns 13 New Zealand buildings – Auckland's PwC Tower, AMP Centre, ANZ Centre, Zurich House, HSBC House and Downtown Shopping Centre; and Wellington's State Insurance Building, 157 Lambton Quay, No. 1 and No. 3 The Terrace, Pastoral House, Mayfair House, Deloitte House and Bowen Campus.