NZX announcement – 23 February 2022

PCT 1H22 result and new investment partnership established

Performance summary for the six months ended 31 December 2021

Financial summary

- Strong first half leasing momentum with Net Property Income (NPI) of $61.1 million, up 1.5% on previous comparable period (1H20: $60.2 million), contributing to net operating income before tax of $45.5 million, up 6.3% (1H20: $42.8 million).
- Total comprehensive income after tax of $40.7 million compared to $167.9 million in 1H21 due to significant portfolio revaluation gain reported in the previous comparable period.
- Adjusted funds from operations (AFFO) of 3.22 cps (1H21: 3.34cps).
- FY22 dividend guidance of 6.70 cps reaffirmed.

Establishment of new strategic investment partnership

- Precinct has conditionally agreed the formation of a new real estate investment partnership with Singapore sovereign wealth fund GIC ("GIC").
- The partnership will initially acquire five assets from Precinct's existing portfolio in Auckland and Wellington totalling around $590 million and has the ability to grow to around $1.0 billion over time.

Operating performance

- Portfolio occupancy maintained at 98% with 7.5 year weighted average lease term (WALT).
- Strengthening demand for well-located quality office space underpinned strong first half leasing with over 21,000 square metres secured in the period.
- Wynyard Quarter Stage 3 project commenced targeting a 5.75% yield on cost.
- Completed redevelopment of 30 Waring Taylor Street, with successful launch as first Generator Wellington shared workspace.
- A total of $1 billion in development projects underway which is 79% pre-leased, targeting a blended yield on cost of 6% and a blended development margin of 20%.

Note: Further information can be found within the 2022 Interim Financial Statements and results presentation. You can find these at http://www.precinct.co.nz/interim-reporting/2022-interim-results

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Precinct Properties New Zealand Limited (Precinct) (NZX: PCT) reported its financial results for the six months ended 31 December 2021 today.

Strong leasing performance has delivered a 1.5% increase in net property income (NPI) for the 6 months to 31 December 2021 or $61.1 million (December 2021: $60.2 million). This level of NPI is after providing $5.5 million (equivalent to 25 bps to AFFO) in rental support for the retail and office portfolios. This has contributed to net operating income before tax of $45.5 million, up 6.3% on the previous comparable period (1H20: $42.8 million).

While sales performance at Commercial Bay retail has been improving since moving to the COVID-19 Protection Framework at the beginning of December last year, overall pedestrian flows are well below average levels. Lockdowns and prolonged restrictions have negatively impacted several of Precinct's retailers and hospitality venues. Covid related rental support provided to retailers during the period totalled $4.2 million.

Total comprehensive income after tax of $40.7 million compares to $167.9 million for the same period last year, with the difference due to the significant portfolio revaluation gain of $148.5 million reported in the previous comparable period. An internal review of the 30 June 2021 property valuations undertaken at 31 December 2021 indicated no material value movement in the period for all the assets. Precinct's current tax expense recorded a positive outcome of $3.3 million for the first half of FY22 (1H21: -$6.5 million).

Ensuring Precinct has sufficient balance sheet capacity means the business is well placed to achieve the best results across our operational business into the future. Precinct's gearing level as measured under borrower covenants remains well under PCT's borrower covenant level of 50%, at 31.8% (30 June 2021: 28.2%). Following the establishment of the investment partnership gearing falls to around 20%. A new $300 million bank debt facility was secured during the period following the maturity of the PCTHA and PCT010 notes.

Dividends attributable to shareholders for the six months ending 31 December 2021 totalled 3.35 cps representing an increase of 3.1% on the prior period (1H21: 3.25 cps). The 1H22 dividend represents approximately 104% of Precinct's Adjusted Funds From Operations (AFFO) for the first half of the 2022 financial year of 3.22 cps.

Scott Pritchard, Precinct's CEO, said "Precinct has demonstrated strong resilience in its operating performance given the majority of the business was impacted by lockdowns during the first half of the financial year".

“As we saw last year, prolonged lockdowns and various levels of restrictions have already had a significant impact on our city centres, Auckland and Wellington. In particular, city centre based retail and hospitality businesses have experienced severe financial impacts with business closures for some during the period. The Omicron variant has unfortunately led to further financial pressure on an already struggling sector, particularly in Auckland’s city centre which is being heavily affected once again after just coming out of months in various lockdowns during 2021. Fortunately for Precinct, due to the quality of our office portfolio and its occupiers, we are able to offer assistance to those in our portfolio who need it”.

Establishment of new strategic investment partnership

Precinct has also today announced it has conditionally established a new strategic investment partnership with Singapore sovereign wealth fund GIC. The partnership will initially acquire five assets from Precinct’s existing portfolio totalling around $590 million, comprising 3 Wellington and 2 Auckland assets, with the ability to grow to around $1.0 billion. Precinct will own a minority 24.9% interest in the partnership.

The establishment of the real estate investment partnership reflects a strategic next stage following the internalisation of Precinct last year. Accessing third party capital supports the advancement of Precinct’s long-term strategy, enabling Precinct to participate in a broader set of opportunities, both on and off balance sheet. This strategic decision to establish this platform increases Precinct’s liquidity and strengthens its balance sheet, provides diversification of capital sources and is expected to enhance earnings to deliver further long-term value to Precinct’s shareholders.

Scott Pritchard, Precinct’s CEO, said “Establishing a new collaborative and committed partnership with a global investor of this scale and quality represents a strategic step forward for our business. The partnership with GIC provides access to capital with an aligned partner and fully supports the execution of Precinct’s future growth, further enhancing shareholder returns. We are leveraging our well-located premium assets, experienced team and Precinct’s unique market position. The newly established partnership will target stable, secure low risk returns through investment in well-leased, premium grade real estate. We are very excited about this investment opportunity and to be partnering with a globally recognised long-term strategic partner like GIC”.

Precinct will be the investment manager of the partnership and there is a market fee arrangement in place for the funds and property management of the assets. Proceeds from the asset sales of the seed portfolio will initially repay bank debt and provide funding for future growth.

The disposals to the partnership remain conditional at this stage on the completion of due diligence, Overseas Investment Office approval and certain subdivision consents in the initial portfolio. We continue to progress these items and will provide a further update in due course.

Portfolio performance

Active leasing achieved in the period with 13,000 sqm leased across the investment portfolio. This has contributed to Precinct maintaining a high portfolio occupancy of 98% and a weighted average lease term of 7.5 years at 31 December 2021. In addition, 8,000 sqm of pre-leasing has been completed within the development portfolio.

New leases were secured 10.9% above previous contract rents. Structured rent reviews were completed across 74,000 sqm in the first half of FY22, resulting in an average annual uplift of 2.8% on $43.5 million of contract rent. Market reviews were secured 4.3% above previous contract rentals across 6,400 sqm or $2.9 million of contract rent.

In both Auckland and Wellington, there remains a clear preference for quality office space as businesses continue to focus on attracting and retaining staff in a constrained labour market. Whilst many organisations, particularly amongst larger corporate services are having staff working from home again due to the recent rise in Omicron cases, Precinct's clients have indicated a definite intention to return to the office and wanting to be back working from their premises. This is supported by what we are seeing first-hand - strong demand for prime inner city office space in the markets we are invested in.

Development update

Auckland

We continue to observe strong leasing demand across our development assets. In Auckland, One Queen Street is 91% committed with just two floors of private offices remaining to be leased. The majority of the façade has now been removed and the installation of the new façade has just commenced achieving a key milestone for the project.

At Wynyard Quarter, the development of Stage 3 is now well underway. We have commenced discussions with potential occupiers and expect to achieve a high level of pre-leasing prior to completion. The decision to proceed on an uncommitted basis reflects the strong enquiry in the market and the lack of available space within Precinct's investment or development portfolios.

Wellington

In Wellington, despite the ongoing challenges we have faced with the supply chain and sourcing materials, we are pleased with the progress we have made at Bowen Campus Stage 2 with the project remaining on programme and budget.

Settling the two Wellington acquisitions, Bowen House and Freyberg Building during the period is a pleasing result. We are progressing both these redevelopment opportunities as we look to take advantage of the strong market conditions in Wellington which support these projects and offer future value accretion.

Environmental, Social and Governance (ESG) progress

Our business continues to make good progress across our ESG performance. During the period, Precinct achieved a 2021 Global Real Estate Sustainability Benchmark (GRESB) score of 82, pleasingly this was well above the global average of 73. Precinct also received a public disclosure level 'A' demonstrating its high level of public disclosure. In addition, Precinct also improved its score to 'B' following its participation in the Carbon Disclosure Project (CDP). This was higher than both the Oceania regional and global average of C and B-, respectively.

The recent establishment of a dedicated Board ESG Committee further reflects the importance of ESG to Precinct and the long-term view we are taking in this area.

Dividend payment

Precinct shareholders will receive a second-quarter dividend of 1.675 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 11 March 2022 with payment to be made on 25 March 2022.

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Outlook and guidance

We are focused on the next stage in Precinct's strategic evolution, following the internalisation of Precinct's management last year. Over the last six months we have actively identified value add opportunities and we are progressing these. Establishing a third party platform and diversifying our capital sources enables our business to grow to take advantage of future opportunities in the market as they arise.

While the outlook for the rest of 2022 is uncertain, Precinct will continue to leverage the quality and resilience of its portfolio and its people. Our strategy is evolving and while we remain committed to owning a high quality portfolio of city centre assets, we recognise that through the use of third party capital, we are able to further extend our participation in opportunities and drive higher returns from our capital. Consistent with earlier guidance provided, the Board expects no change to Precinct's full year FY22 dividend of 6.70 cps to be paid, representing a 3.1% year-on-year growth in total cash dividends to shareholders. Due to the rental support that Precinct has offered to those occupiers who need it, FY22 may see our dividend payout ratio modestly exceed 100% of our AFFO. We believe this is the right decision due to the 'one off' nature of the support offered this year as well as a high degree of confidence in our AFFO profile.

Further information can be found within Precinct's 2022 Interim Financial Statements and results presentation. You can find this at:

http://www.precinct.co.nz/interim-reporting/2022-interim-results

Ends

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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 and Freyberg Building. 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 net profit after tax to adjusted funds from operations (AFFO)

Amounts in $millions unless otherwise stated	*Unaudited six months ended 31 December 2021*	*Unaudited six months ended 31 December 2020*	*Audited year ended 30 June 2021*
Net profit after taxation	**42.2**	163.2	**187.7**
Unrealised net (gain) / loss in value of investment and development properties	**-**	(148.5)	**(282.9)**
Unrealised net (gain) / loss on financial instruments	**(8.9)**	22.4	**(19.7)**
Net realised (gain) / loss on sale of investment properties	**0.2**	-	**2.4**
Termination of management services agreement	**-**	-	**217.1**
Impairment of goodwill	**-**	-	**9.8**
Depreciation - property, plant and equipment	**0.9**	0.6	**1.4**
Depreciation recovered on sale	**-**	-	**10.5**
Deferred tax (benefit) / expense	**10.8**	7.1	**15.7**
NZ IFRS 16 lease adjustments	**0.5**	1.0	**1.9**
Tax from management services termination payment	**-**	-	**(60.8)**
Swap closeout	**-**	0.4	**3.0**
One off items	**0.7**	-	**0.7**
Share-based payments scheme	**0.6**	-	**-**
Amortisation	**7.4**	6.3	**13.8**
Straightline rent	**(2.1)**	(1.7)	**(4.0)**
Funds from operations (FFO)	**52.3**	50.8	**96.6**
Funds from operations per share (cents)	**3.41**	3.87	**7.34**
Maintenance capex	**(0.9)**	(2.7)	**(4.0)**
Incentives and leasing costs	**(2.0)**	(4.3)	**(7.3)**
Adjusted funds from operations (AFFO)	**49.4**	43.8	**85.3**
Weighted average number of shares for net operating income per share (millions)	**1,533.4**	1,313.7	**1,316.5**
Adjusted funds from operations per share (cents)	**3.22**	3.34	**6.48**

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.