

# Precinct Properties New Zealand Interim Results

17 February 2016



# Agenda

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## **Precinct Properties New Zealand Limited**

Scott Pritchard, CEO

George Crawford, COO

Note: All \$ are in NZD unless otherwise stated

# Highlights

## Financial performance

**\$34.8m**

H1 FY16 net profit after tax

**+1.1%**

increase in net operating income<sup>1</sup>

**\$860m**

refinance secured in the period

**12.8%**

Gearing Ratio

## Portfolio performance

**52% pre-commitment achieved**

for the PWC Tower at Commercial Bay

**Stage 1 Wynyard Quarter  
committed**

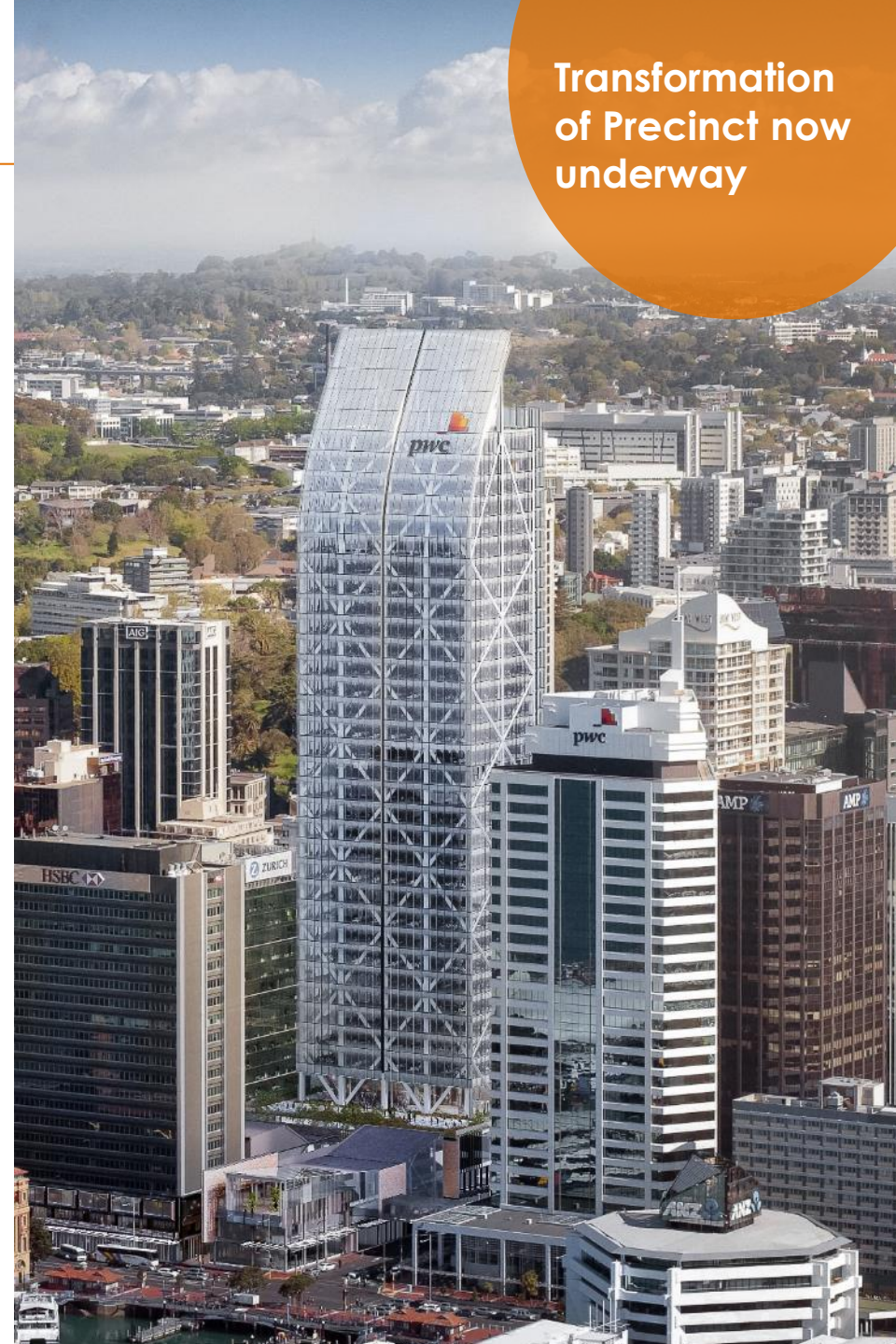
**97%**

Portfolio Occupancy

**5.8years**

Weighted average lease term including development  
pre-leasing

Note 1: Net operating income is an alternative performance measure which adjusts net profit after tax for a number of non-cash items.



Transformation  
of Precinct now  
underway

# Section 1

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## Strategy



# Strategy Recap

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- Concentrated ownership of strategic assets in prime locations
- Bias to Auckland
- Reduce average age of portfolio assets
  
- In order to execute the strategy, Precinct will:
  - Dispose non-core assets
  - Undertake development
  - Drive value growth from investment portfolio
  
- Strategy will result in:
  - Superior growth in earnings and NTA over the status quo scenario,
  - Reduce maintenance capex requirement – improving cash on cash returns,
  - Increased exposure to Auckland’s growing market, and
  - Significantly enhance portfolio quality

# Progress to date

- Acquired strategic assets Bowen Campus, HSBC House and Downtown with a bias to Auckland
- Sold \$274 million of non core assets increasing weighting to Auckland
- Average age of assets reduced and quality improved
- Funding achieved ahead of guidance
- FY16 earnings consistent with previous guidance while gearing reduced
- Transformational developments commenced
  - Wynyard Stage 1
  - Commercial Bay

## \$1bn

Value of Auckland Waterfront developments

## 79%

Weighting to Auckland  
(on completion of committed developments)

	2014	As at Dec 2015
Portfolio Age in 2020	26 years	11 years
Portfolio Quality	A-Grade	▲
Weighting to Auckland (on completion of Developments)	60%	79%
Value of assets on Auckland's CBD Waterfront	\$558 m	\$784m
Value of development on Auckland's CBD Waterfront	-	\$950 m
Weighting to Commercial Bay precinct	40%	63%

# Wynyard Quarter

## Section 2

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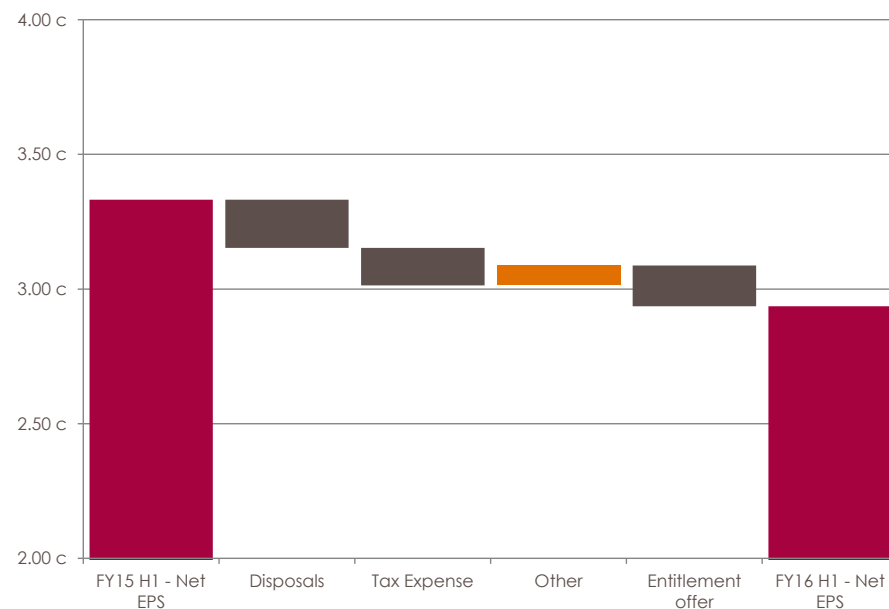
Interim Results  
and Capital  
Management



# Financial performance

six months ended (\$m)	Dec-2015 Unaudited	Dec-2014 Unaudited	Movement
<b>Net property income</b>	<b>\$53.7 m</b>	<b>\$62.1 m</b>	<b>(\$8.4 m)</b>
Indirect expenses	(\$1.0 m)	(\$0.8 m)	+ \$0.2 m
Performance fee			
Base fees	(\$4.1 m)	(\$4.3 m)	(\$0.2 m)
<b>EBIT</b>	<b>\$48.6 m</b>	<b>\$57.0 m</b>	<b>(\$8.4 m)</b>
Net interest expense	(\$6.0 m)	(\$16.9 m)	+ \$10.9 m
<b>Operating profit before tax</b>	<b>\$42.6 m</b>	<b>\$40.1 m</b>	<b>+ \$2.5 m</b>
Current tax expense	(\$6.9 m)	(\$4.8 m)	(\$2.1 m)
<b>Operating profit after tax</b>	<b>\$35.7 m</b>	<b>\$35.3 m</b>	<b>+ \$0.4 m</b>
Net realised gain / (loss) on sale of investment properties	(\$2.7 m)	\$0.2 m	(\$2.9 m)
Unrealised net gain / (loss) on financial instruments	\$4.3 m	(\$5.3 m)	+ \$9.6 m
Depreciation recovered on sale	(\$10.0 m)		(\$10.0 m)
Deferred tax expense / (benefit)	\$7.5 m	\$1.4 m	\$6.1 m
<b>Net profit after tax and unrealised gains</b>	<b>\$34.8 m</b>	<b>\$31.6 m</b>	<b>+ \$3.2 m</b>
Weighted Number of Shares on Issue	1,211.1 m	1,059.7 m	151.4 m
Net operating income before tax - gross (cps)	3.52 cps	3.78 cps	(\$0.27 cps)
<b>Net operating income after tax - (cps)</b>	<b>2.95 cps</b>	<b>3.33 cps</b>	<b>(\$0.38 cps)</b>
Payout ratio	92%	81%	11%

## EPS reconciliation to comparative period



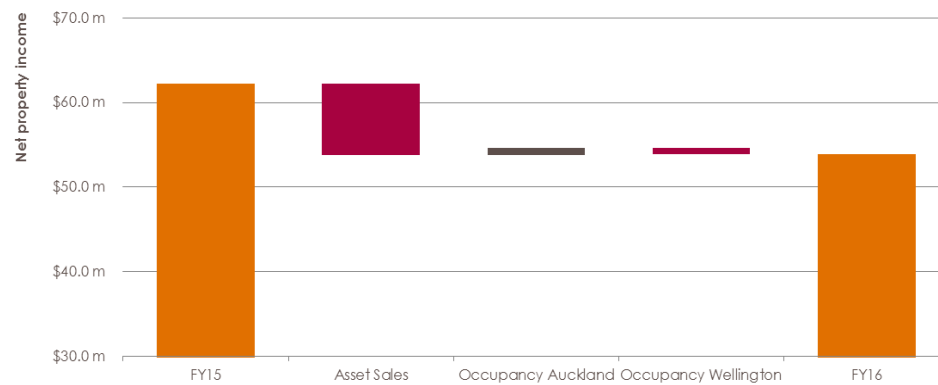


# Net property income

	FY16	FY15	\$
AMP Centre	\$4.6	\$4.5	+ \$0.1
PwC Tower	\$8.2	\$8.0	+ \$0.2
ANZ Centre	\$8.9	\$8.4	+ \$0.5
HSBC House	\$4.1	\$4.0	+ \$0.1
Downtown Shopping Centre	\$3.1	\$3.3	(\$0.2)
Zurich House	\$3.1	\$2.9	+ \$0.2
<b>Auckland total</b>	<b>\$32.0</b>	<b>\$31.1</b>	<b>+ \$1.0</b>
Pastoral House	\$2.2	\$2.1	+ \$0.1
157 Lambton Quay	\$3.0	\$3.5	(\$0.5)
State Insurance Tower	\$4.7	\$4.8	(\$0.1)
Mayfair House	\$1.5	\$1.5	-
Deloitte House	\$1.6	\$1.9	(\$0.3)
Bowen Campus	\$3.0	\$3.3	(\$0.3)
No 1 The Terrace	\$3.6	\$3.6	-
<b>Wellington total</b>	<b>\$19.6</b>	<b>\$20.6</b>	<b>(\$1.0)</b>
<b>Sub Total</b>	<b>\$51.7</b>	<b>\$51.7</b>	<b>-</b>
<b>Transactions and Developments</b>			
125 The Terrace	\$1.3	\$2.6	(\$1.3)
SAP Tower	\$0.0	\$3.6	(\$3.6)
171 Featherston Street	\$0.5	\$3.1	(\$2.7)
80 The Terrace	\$0.3	\$1.2	(\$0.9)
<b>Total</b>	<b>\$53.7</b>	<b>\$62.2</b>	<b>(\$8.5)</b>

- Allowing for asset sales net property income was consistent with FY15
- Improved Auckland occupancy offset by vacancy in Wellington
- Downtown Shopping Centre was 6% lower due to the increase in vacancy from the impending demolition.

## Reconciliation of movement in net property income



# Taxation reconciliation

- Tax expense increased by \$2.1 million to \$6.9 million
- Higher tax charge:
  - Higher pre-tax profit
  - Lower depreciation deductions following asset sales
  - Lower feasibility deductions
- Expectation FY16 effective tax rate will range c.12% due to demolition and development deductions generated in 2H16

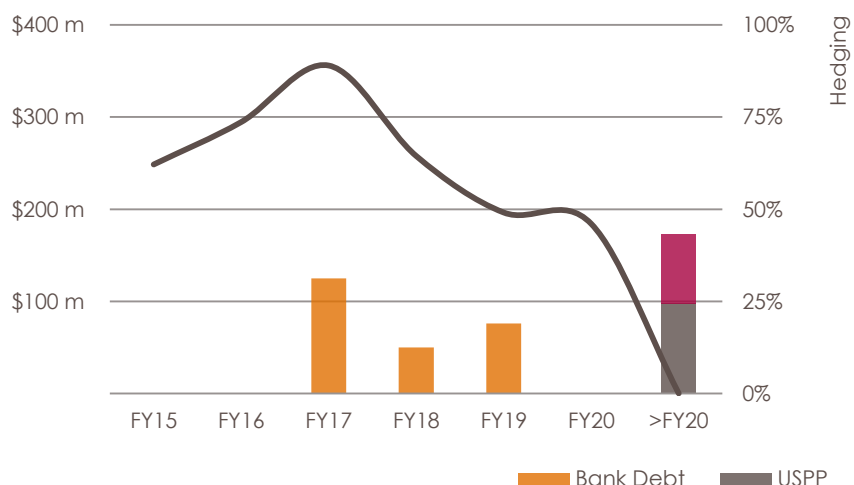
<b>Tax expense reconciliation</b>		
	H1 FY16	H1 FY15
<b>Net profit before taxation</b>	<b>\$34.2 m</b>	<b>\$35.0 m</b>
<b>Less non operating income</b>		
Depreciation recovered on sale	\$10.0 m	
Realised loss/ (gain) on sale of investment properties	\$2.7 m	(\$0.2 m)
Unrealised derivative financial instrument (gain)/loss	(\$4.3 m)	\$5.3 m
<b>Operating profit before Tax</b>	<b>\$42.6 m</b>	<b>\$40.1 m</b>
<b>Other deductible expenses</b>		
Depreciation	(\$10.9 m)	(\$12.6 m)
Feasibility deductions	(\$3.3 m)	(\$4.5 m)
Other deductibles	\$0.6 m	(\$1.2 m)
<b>Taxable income</b>	<b>\$27.8 m</b>	<b>\$21.8 m</b>
Prior period washup	(\$0.9 m)	(\$1.3 m)
<b>Current tax expense</b>	<b>\$6.9 m</b>	<b>\$4.8 m</b>
Effective tax rate	16%	12%

# Capital management

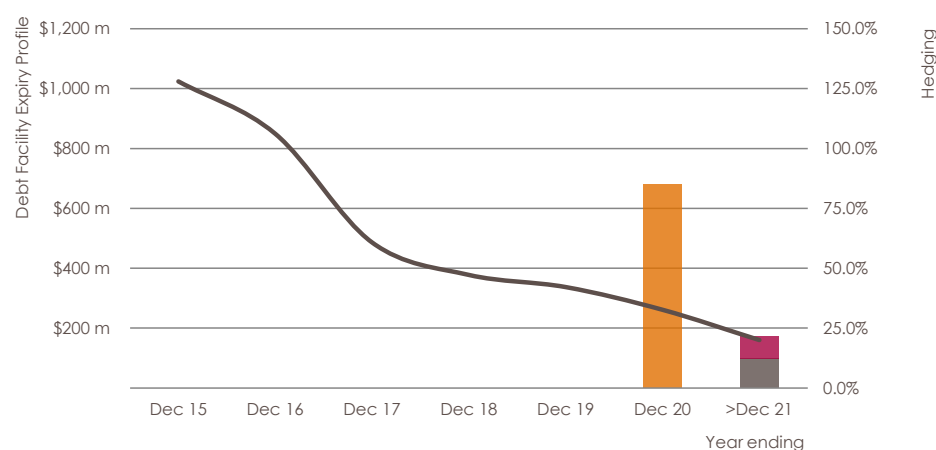
- Borrowings reduced to \$178 million following asset sales
- Gearing reduced to 12.8% from 20.1% (Dec 14 34%)
- Committed gearing around 35% in 2019
- New 5 year \$680 bank facility providing funding certainty with no refinance risk during development period
- Additional \$180 5 year facility secured, dependent on Bowen Campus success
- Weighted average debt maturity increased to 5.6 years
- Level of hedging to reduce as development capital is deployed

Key metrics	Dec 2015	June 2015
Debt drawn	\$178m	\$323m
Gearing - Banking Covenant	12.8%	20.1%
Weighted facility expiry (years)	5.6	4.6
Weighted average debt cost (incl fees)	5.7%	5.4%
Hedged	128%	62%
ICR	4.9 times	3.5 times
Weighted average hedging (years)	4.9	2.9

### June 2015 maturity and hedging profile



### December 2015 maturity and hedging profile



## Section 3

### Market and Portfolio Overview

# Portfolio activity

- 11 Leasing transactions totalling 4,100 square metres secured at a 1.5% premium to June 2015 valuations.
- New office leases in Auckland were secured at a 4% premium to valuation
- Market events (leasing and reviews) compared to valuation were 3.1% higher
  - Majority of Wellington market reviews held at ratchet positions

## Leasing Events

New Leases	Number	Area
Auckland	2	1,041 m <sup>2</sup>
Wellington	6	555 m <sup>2</sup>
<b>Sub Total</b>	<b>8</b>	<b>1,596 m<sup>2</sup></b>
<b>RoR and Extensions</b>		
Auckland	0	0 m <sup>2</sup>
Wellington	3	2,506 m <sup>2</sup>
<b>Sub Total</b>	<b>3</b>	<b>2,506 m<sup>2</sup></b>
<b>Total Leasing</b>	<b>11</b>	<b>4,103 m<sup>2</sup></b>

Rent Reviews	Number	Area
Auckland	26	16,734 m <sup>2</sup>
Wellington	27	27,983 m <sup>2</sup>
<b>Total Reviews</b>	<b>53</b>	<b>44,717 m<sup>2</sup></b>

# Portfolio metrics

**5.8 years**

Weighted average lease term  
(including development pre-leasing)

**97%**

Occupancy

**26%**

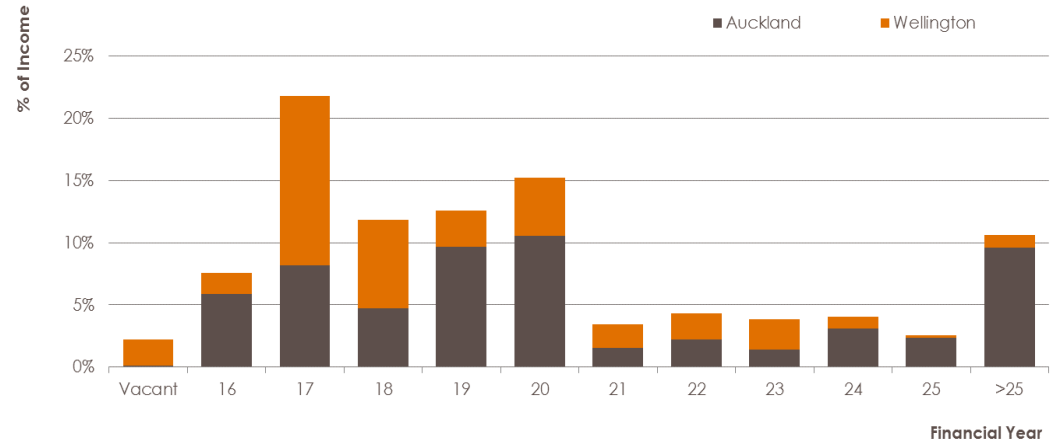
of Auckland portfolio has a market event in FY16

**67%**

weighting to Auckland

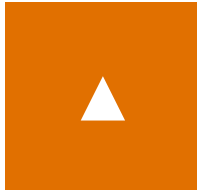
Occupancy

Lease expiry profile by Income (ex pre-commit)



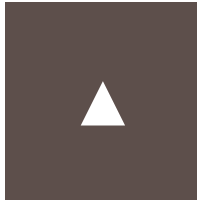
# Auckland market

## Occupier Demand



Vacancy reduced and absorption increased due to growing employee base

## Supply



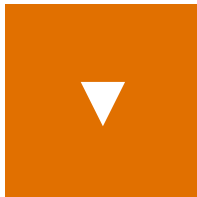
Increase in pipeline of office space mainly in fringe markets. Committed supply expected to be absorbed

## Rental Growth



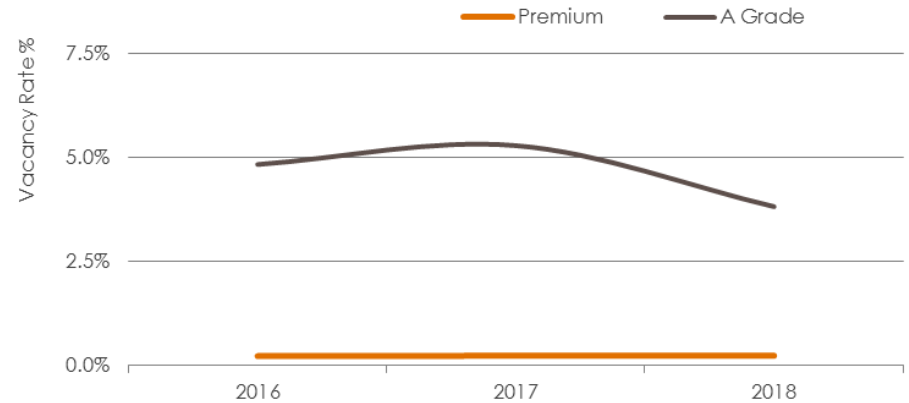
Growth as face rents increase and incentive levels further diminish

## Cap Rates

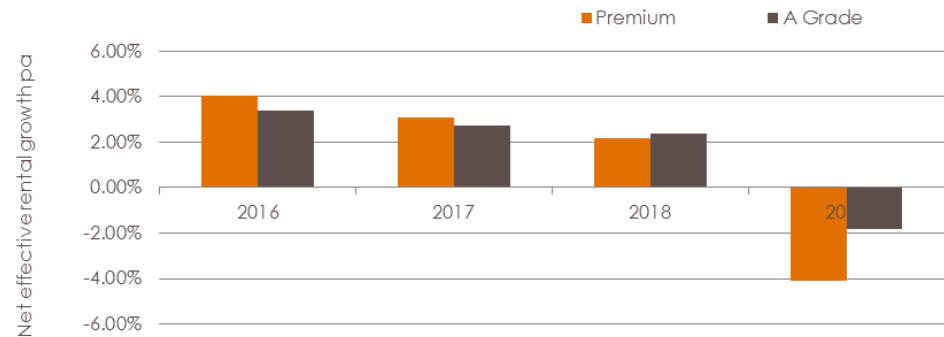


Further yield compression reflecting strong CBD office demand and interest rate expectations

Forecast vacancy (CBRE, Nov 2015)

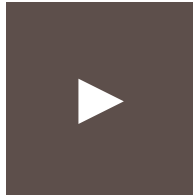


Forecast net effective rent growth (CBRE, Nov 2015)



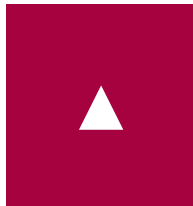
# Wellington market

## Occupier Demand



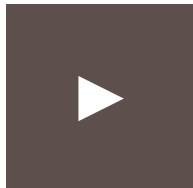
CBD based employment remains static. Crown growth limited due to ongoing RFP

## Supply



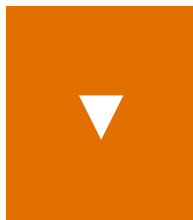
New supply emerging in the CBD. Impact likely for corporate market

## Rental Growth



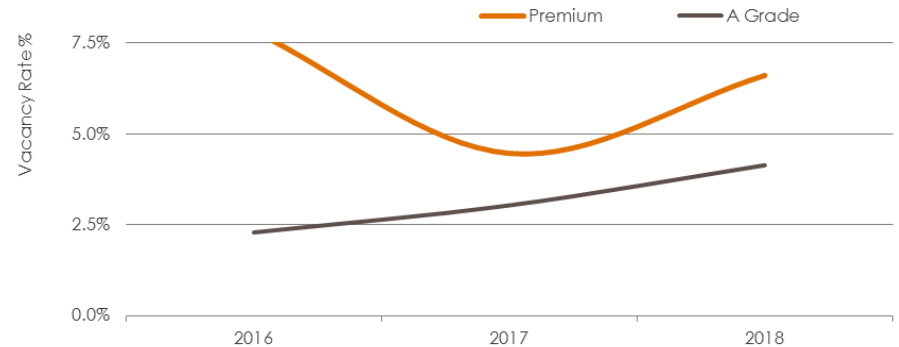
Rental growth remains limited due to increasing supply outlook and static occupier growth

## Cap Rates

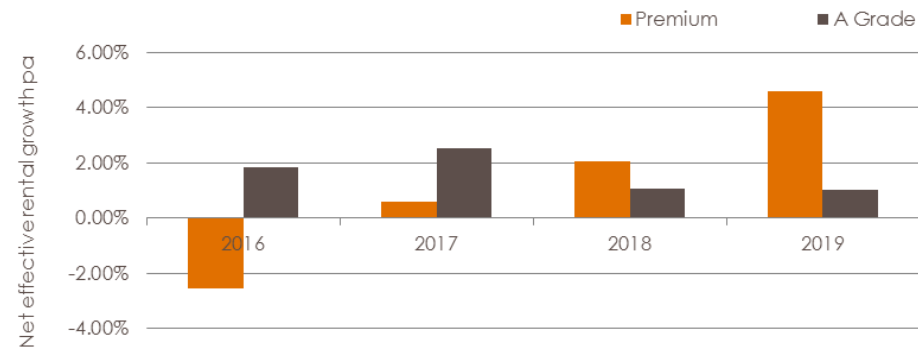


Capitalisation rates have firmed with continued lower interest rates and increased confidence of occupier market

Forecast vacancy (CBRE, Nov 2015)



Forecast net effective rent growth (CBRE, Nov 2015)





## Section 4

### Development Update



# Commercial Bay Highlights

- Commercial Bay will restore the waterfront as the heart of Auckland city
- Major Queen Street retail development and landmark office tower
- Retail centre comprises:
  - Unique laneway environment over three levels
  - 130m of Queen Street retail with around 100 new stores\*
- Office tower will be called PwC Tower and is 52% pre-leased
- Construction set to commence June 2016 and expected to complete:
  - Retail – October 2018
  - Office – June 2019
- Project estimated to cost \$681 million with a guaranteed maximum price construction contract with Fletcher Construction
- Expected yield on cost of 7.5%

# Project description

## Retail

- 3 levels of retail which includes HSBC Building & Zurich House
- 18,000sqm of NLA\*
- Around 100 retail stores
- Retail frontages to Queen St, Albert St, Quay St & Customs St

## Office

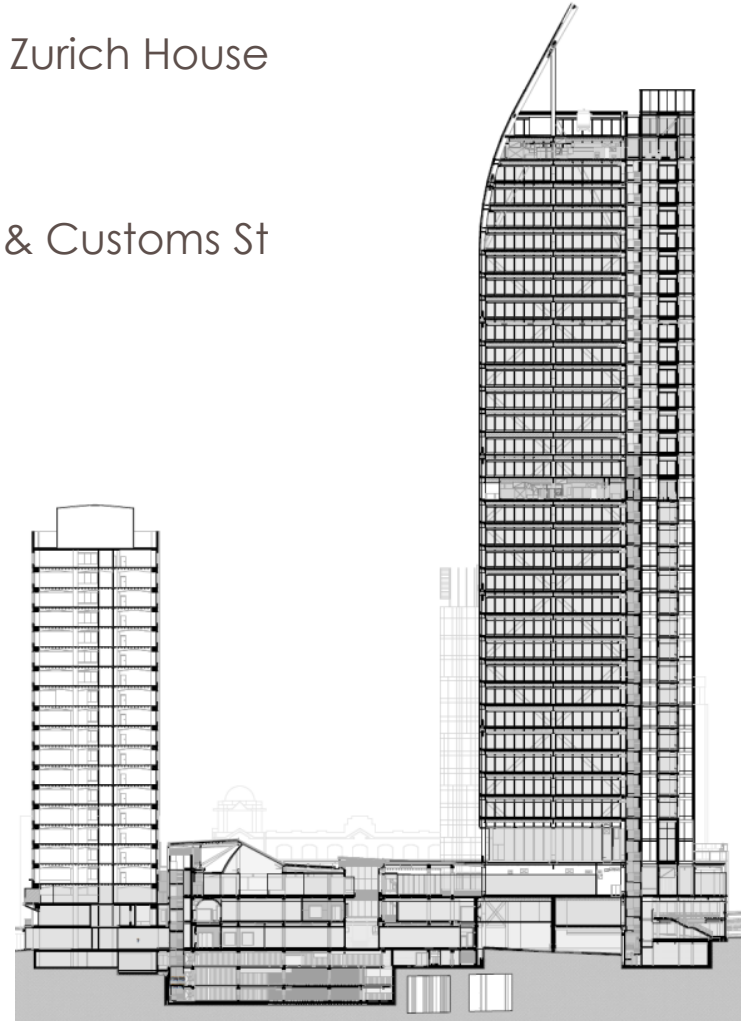
- 30 levels of office above sky lobby
- Sky lobby positioned above retail
- Floor plates range from 1,324sqm to 1,375sqm
- 39,000sqm of NLA
- Mid level plant located on levels 22-23

## Car parks

- 278 basement car parking spaces
- 3 levels of car parking with direct access to the new PwC Tower, Zurich House and HSBC Building

## CRL

- 2 tunnels positioned at basement levels 2 & 3



# Commercial Bay leasing update

## Retail

- Negotiations progressing with mini major retailers
- Strong demand for food & beverage operators
- Unsolicited enquiry from specialty retailers further supports development opportunity
- Resurgence of CBD retail is generating significant growth in prime CBD retail rents



## Office

- Enquiry remains elevated for remaining vacant space in new tower
- Continued enquiry for back fill space throughout Auckland portfolio

# Wynyard Stage 1

- During the period
  - Committed to stage 1
  - Entered into 125 year prepaid ground lease
  - Appointed Hawkins and NZ Strong
- Project progressing on budget and programme
  - Demolition completed
  - Commenced site works
- Leasing status
  - 70% preleased
  - Innovation building (8,100m<sup>2</sup>) entirely pre-leased to ATEED on a 12 year term for Grid AKL (Innovation Precinct)
  - Mason Brothers c.25% pre-leased

## Key Metrics

Net Lettable Area (NLA)	13,400sqm
Total project cost	\$84m
Grid AKL lease term	12 years
Pre-commit % achieved (by area)	70%
Expected valuation on completion	\$98.2m
Expected annual rental fully leased	\$6.7m
Yield on cost	8.0%
Practical completion	Mason Brothers – Dec 2016, Innovation building – July 2017



# Wynyard Stage 1 – leasing update

- Exclusive negotiation for additional space in Mason Brothers which will take total pre-commitment to 87% across stage 1
- Further enquiry on remaining vacant space attracting good enquiry given characteristics of the space
- Initial discussions underway for future stages of Wynyard Quarter



# Government RFP update

- Received Cabinet approval to enter the final phase of the Governments Wellington Accommodation Project
  - Pastoral House
  - Mayfair House
  - No 3 The Terrace
  - Bowen Campus
- 1 The Terrace remains under consideration
- Final phase progressing well
  - Agreeing final development agreements across multiple agencies
  - Agreeing sequencing and programme of works



## Section 5

### Fee Review





# Fee review

- In Accordance with clause 7.5 of the Management Services Agreement, the additional fees are reviewed to market every two years. Following advice from an independent expert, the latest review has been completed with the following changes:

Fee Amendment	Pre	Post	Comment
Leasing Fee	12%-20% (of gross receipts based on 3 years and increasing by 1% per year thereafter)	11%-20% (of gross receipts based on 3 years and increasing by 1% per year thereafter)	Reduction in scale of fees by 1% per year. Fees remain capped at 20%
Renewal Fee	50% - 100% of scale of fees (as outlined above)	25%-75% of scale of fees (as outlined above)	Range reduced to reflect market fee range applicable
Market Rent Reviews	3% of total revenue or 10% of rental uplift	10% of rental uplift	3% of total revenue removed
Development Management Fees	2.5% of total development costs (excluding land, finance, marketing, incentives)	3% of total development cost (as defined) plus up to a further 1% if project is successfully delivered (payable on completion)	Development management fee structured following market research

# Conclusion

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# Conclusion and outlook

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- Global uncertainty remains driven by concerns over China, commodity prices and banking sector confidence
- NZ outlook remains positive underpinned by:
  - strong net migration
  - tourism and construction sectors
  - significant forthcoming infrastructure projects
- Precinct well placed:
  - Portfolio well occupied with strong cashflows
  - Projects are fully funded consistent with FRM policy
  - Projects are well positioned, have pre-commitment and are generating very positive enquiry
  - Deployment of significant level of debt at lower than assumed interest rates is expected to support earnings track
  - Significant exposure to Auckland exposure and strong centralisation trends

# Appendices

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# Balance sheet

Financial Position as at	Dec-2015	30 June 2015	
\$m	Unaudited	Audited	Movement
<b>Assets</b>			
Property Assets	\$1,569.7 m	\$1,611.8 m	(\$42.1 m)
Deferred tax asset	\$3.1 m	\$4.3 m	(\$1.2 m)
Fair value of swaps	\$17.7 m	\$15.4 m	\$2.3 m
Assets held for sale		\$76.0 m	(\$76.0 m)
Property sale proceeds to be settled		\$32.5 m	(\$32.5 m)
Other	\$16.9 m	\$13.2 m	\$3.7 m
<b>Total Assets</b>	<b>\$1,607.4 m</b>	<b>\$1,753.2 m</b>	<b>(\$145.8 m)</b>
<b>Liabilities</b>			
Total Borrowings	\$190.1 m	\$340.0 m	(\$149.9 m)
Deferred Tax Liability	\$30.3 m	\$39.0 m	(\$8.7 m)
Fair value of swaps	\$16.6 m	\$13.9 m	\$2.7 m
Other	\$30.1 m	\$22.0 m	\$8.1 m
<b>Total Liabilities</b>	<b>\$267.1 m</b>	<b>\$414.9 m</b>	<b>(\$148.0 m)</b>
<b>Equity</b>	<b>\$1,340.3 m</b>	<b>\$1,338.3 m</b>	<b>\$2.0 m</b>
<b>Liabilities to Total Assets</b>	<b>12.8%</b>	<b>20.1%</b>	<b>-7.3%</b>
Shares on Issue (m)	1,211.1 m	1,211.1 m	-
<b>Net Tangible Asset per security</b>	<b>1.11</b>	<b>1.11</b>	<b>-</b>