

# ASX Announcement

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31 October 2018

## September 2018 quarterly update

### Highlights

- Specialty store<sup>1</sup> productivity improved 3.9% to \$10,531 per sqm over the quarter
- Combined specialty and mini majors moving annual turnover (MAT) growth was 2.1%, strengthening from 1.6% at June 2018. For our portfolio of approximately 50 market-leading destinations (destination portfolio), these growth figures improved to 2.6% at September 2018 from 2.2% at June 2018
- Two major developments opened in October 2018 both 100% leased, Perth's first DFO and stage three of The Glen in Melbourne
- Significant progress on owning market-leading destinations, sold 11 non-core assets for \$631 million in October 2018, three months ahead of schedule
- 17.6 million securities (0.5% of issued capital) acquired for \$46.2 million at an 11.8% discount to net tangible assets per security (NTA) since buy-back recommenced earlier this month
- Commenced stage two of \$73 million solar investment program across 22 shopping centres
- Ranked best workplace in Australia and 19<sup>th</sup> globally in Forbes' annual 'World's Best Employers' survey
- Ranked third most sustainable real estate company globally in the DJSI<sup>2</sup> survey
- FY19 guidance reiterated, with funds from operations (FFO) expected of 18.0 to 18.2 cents per security, reflecting 3.4% to 4.6% growth in FFO on a comparable basis<sup>3,4</sup>, and the distribution payout ratio expected to be at the upper end of the target range of 95% to 100% of adjusted funds from operations (AFFO) or 85% to 90% of FFO<sup>4</sup>.

### Vicinity Centres (Vicinity, ASX:VCX) provides this update for the September 2018 quarter.

Mr Grant Kelley, CEO and Managing Director, said: "We are delivering ahead of schedule on our strategy to focus on approximately 50 market-leading destinations to drive strong and sustainable growth for securityholders. We have sold 11 non-core assets for \$631 million. We have reinvested a portion of the proceeds in buying back more than \$40 million of Vicinity securities on-market at a material discount to NTA. This active redeployment of capital will reduce the short-term earnings dilution created by divesting these non-core assets.

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<sup>1</sup> Sales are reported on a comparable basis which excludes divestments and development-impacted centres in accordance with Shopping Centre Council of Australia guidelines. Includes Chadstone same-store sales and excludes 11 non-core asset divestments announced on 3 October 2018.

<sup>2</sup> Dow Jones Sustainability Indices.

<sup>3</sup> Assumes average settlement date of 31 December 2018 for \$2 billion of planned asset sales.

<sup>4</sup> Assumes no material deterioration in existing economic conditions.

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“We opened DFO Perth earlier this month with very strong trading results and stage three of The Glen in Melbourne opened last week, both 100% leased. We are continuing discussions with potential investors to establish our proposed wholesale fund, in joint venture with Keppel Capital, which is intended to be seeded with approximately \$1 billion of Vicinity’s assets.

“Following the completion of planned transactions, approximately 50% of our destination portfolio will consist of flagship assets – Chadstone, Australia’s number one retail asset, a unique and unrivalled portfolio of premium CBD retail assets, and Australia’s leading premium outlet centre portfolio. The remainder will comprise a range of high potential assets that are strong performers, or have significant retail or mixed-use development potential in growing catchments, with an average specialty store sales productivity across the destination portfolio of approximately \$11,000 per sqm.”

At September 2018, specialty store MAT averaged \$10,531 on a per sqm basis, up 3.9% compared to three months earlier. Total MAT growth of 1.9% was recorded for the period, up from 1.2% at June 2018, with improving sales growth across most store types. Combined MAT growth of the specialty and mini major categories was 2.1% at September 2018, up from 1.6% three months earlier, supported by retail services, leisure and food catering which continued to perform strongly.

Mr Kelley said: “The quality of our destination portfolio is represented by its specialty store MAT per sqm of \$10,932. Combined MAT growth in the specialty store and mini major categories was 2.6%, which increases to 3.4% if centres in pre-development are excluded.

“We are continuing to work through our in-the-box development pipeline, together with advancing preparatory work for a number of mixed-use opportunities across our portfolio.”

The \$150 million<sup>5</sup> DFO Perth opened this month with all 113 retailers trading from day one, providing residents and visitors with high quality designer brands at discounted prices and a 350-seat dining precinct. The unique retail offer, which includes first to Western Australia stores for Coach, Furla, Kate Spade, Polo Ralph Lauren, Tommy Hilfiger and Under Armour, has been well received with more than 240,000 visitors in the first three weeks of trading. Initial sales performance has been strong, with a number of retailers exceeding their inaugural month’s budget within the first fortnight. This high yielding project is expected to deliver a development yield of more than 11% and an internal rate of return (IRR) in excess of 16%, on a stabilised basis.

The third stage of The Glen’s \$430 million<sup>5</sup> major redevelopment opened last week, with international fashion retailers H&M and UNIQLO together with more than 80 other new speciality fashion and homeware stores. The next stage will include a new-format David Jones and a high-quality entertainment and leisure precinct opening in late 2019. The project remains on track to exceed the forecast development yield of more than 7% and an IRR of more than 13%, on a stabilised basis.

“We are continuing the evolution of Chadstone, Australia’s number one retail asset. The redevelopment of the atrium includes more dining options, youth fashion and sporting goods stores, and the addition of Australia’s first full-line Victoria’s Secret store, and will be open for 2018 Christmas trading.

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<sup>5</sup> 100% interest. Vicinity’s share is 50%.



“The construction of the 250-room Chadstone hotel is also progressing well and is due for completion in late 2019,” Mr Kelley said.

A large redevelopment at Chatswood Chase Sydney is in advanced stages of planning and will elevate the retail and dining experience for Sydney’s north shore shoppers and visitors. Preparations have also commenced for retail and mixed-use developments at Box Hill Central in Victoria and Bankstown Central in New South Wales, with master planning and government and stakeholder engagement underway or shortly to commence.

Australia’s largest battery at a shopping centre was installed at Castle Plaza in South Australia last month. The circa 550kWh battery is a key component in Vicinity’s integrated energy strategy.

Mr Kelley said: “Our solar investment reinforces the commercial benefits of our approach to sustainability, reducing our exposure to volatile energy market pricing and providing environmental benefits, while also delivering strong investment returns with an initial yield of approximately 15% and an IRR of 12%.”

Vicinity was named as the number one Australian company by Forbes in its annual ‘World’s Best Employers’ global ranking. Vicinity also earned 19th place overall globally, from the 2,000 corporations evaluated world-wide.

Vicinity was ranked third most sustainable real estate company globally in the DJSI survey, improving on its global ranking from 2017. This strong result reflects the integration of sustainability with business objectives to achieve the best outcomes for Vicinity’s diverse stakeholders.

Additional detail on Vicinity’s September 2018 quarterly update can be found in the investor presentation released to the ASX today.

Vicinity’s 2018 Annual General Meeting will be held in Melbourne tomorrow and Vicinity’s FY19 interim results will be announced on 15 February 2019.

**ENDS**

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**About Vicinity Centres**

Vicinity Centres (Vicinity or the Group) is one of Australia’s leading retail property groups with a fully integrated asset management platform and \$27 billion in retail assets under management across 70 shopping centres, making it the second largest listed manager of Australian retail property. The Group has a Direct Portfolio with interests in 63 shopping centres (including the DFO Brisbane business) and manages 35 assets on behalf of Strategic Partners, 29 of which are co-owned by the Group. Vicinity is listed on the Australian Securities Exchange (ASX) under the code ‘VCX’ and has over 27,000 securityholders. Vicinity also has European medium term notes listed on the ASX under the code ‘VCD’. For more information visit the Group’s website [vicinity.com.au](http://vicinity.com.au), or use your smartphone to scan this QR code.