ASX Announcement

14 August 2019

Vicinity delivers solid FY19 results in challenging retail environment

- Statutory net profit after tax of $346.1 million
- Funds from operations (FFO)[1] of $689.3 million, or 18.0 cents per security reflecting 2.0% comparable growth[2]
- Specialty store and mini majors MAT growth[3] almost doubled to 3.1%
- Sold 12 assets for $670 million at a 3.9% discount to total book value
- Strong balance sheet and investment grade credit ratings maintained
- Wholesale fund Vicinity Keppel Australia Retail Fund (VKF) and further divestments not proceeding, with assets to remain on balance sheet at this time

Vicinity Centres (Vicinity, ASX:VCX) today announced its results for the 12 months to 30 June 2019, with FFO of $689.3 million or 18.0 cents on a per security basis. On a comparable basis[2], FFO per security growth was 2.0%, driven by comparable net property income (NPI) growth of 1.5%, development completions and Vicinity's securities buy-back. Vicinity's statutory net profit after tax was $346.1 million.

Mr Grant Kelley, CEO and Managing Director, said: "We have delivered a solid financial result in a challenging retail environment, which demonstrates the strength and resilience of our portfolio and the execution of the strategy that we commenced a year ago. We continued to strengthen our portfolio through divestments, active asset management and progressing our developments, resulting in improved portfolio metrics and better positioning Vicinity for the future."

Distribution per security was 15.9 cents for FY19, compared to 16.3 cents in the prior year. This decrease is largely due to the impact of asset divestments over the past two years and reflects an adjusted FFO (AFFO) payout ratio of 99.8%. The final distribution for the six months ended 30 June 2019 was 7.95 cents per security and will be paid to securityholders on 28 August 2019.

Mr Kelley said: "We are pleased to have finalised the majority of our divestment program strategically ahead of the cycle, totalling $3.1 billion of asset sales for a 0.8% premium to book value over the past four years. In addition to strengthening the quality of our portfolio through repositioning, we have reinvested divestment proceeds into acquisitions, developments and our securities buy-back creating further value for securityholders.

---

1 For a reconciliation of FFO to statutory net profit, refer to Note 1(b) to the Financial Statements of the 2019 Annual Report released to the ASX on 14 August 2019.

2 Adjusting for the impact of divestments and one-off items. Unadjusted FFO per security is down 1.1%.

3 Sales growth is reported on a comparable basis which excludes divestments and development-impacted centres in accordance with Shopping Centre Council of Australia (SCCA) guidelines.

"The recent softening in investor demand for retail property funds globally, compounded by a crowded divestment market, is impacting retail property pricing in Australia. Consequently, we believe it is in the best interests of securityholders not to proceed with VKF, nor any further material asset divestments, in the current environment as there is more value keeping these assets on balance sheet.

"Our focus will now be on maximising the value of these assets through continuing to enhance the retail mix, leveraging ancillary income opportunities, identifying and driving operational efficiencies and making targeted investment into the assets as appropriate."

PORTFOLIO STRENGTHENED

In the past 12 months, Vicinity has divested 12 assets for $670 million at a 3.9% discount to book value. Capital recycling since merger in June 2015 to today has positioned Vicinity's portfolio for long-term growth. Vicinity's direct portfolio has reduced from interests in 88 assets valued at $14.3 billion at June 2015, to interests in 62 assets valued at $15.8 billion at June 2019. Over this time, specialty store MAT per sqm has increased by 32%, average asset value has increased 1.7 times, and we have decreased gearing by 90 basis points while enhancing our investment grade credit ratings.

Mr Kelley said: "Our 62 shopping centres remain close to full occupancy at 99.5%. Our total portfolio MAT growth has continued to improve, increasing to 2.7%. Specialty and mini major MAT growth has almost doubled on the prior year to 3.1% and specialty store productivity is up by 9.4% to approximately $11,100 per square metre.

"These results are underpinned by strong performance from Chadstone and the DFO Outlet Centre portfolio with specialty and mini major MAT growth of 9.0% and 5.2% respectively."

Average leasing spreads for the year were -2.0%[4] and excluding short-term deals, 2.5%, up from -4.7% and 0.7% respectively at June 2018. The highly productive DFO portfolio achieved very strong leasing spreads of 15.8% for the year.

Mr Kelley said: "While Vicinity's portfolio metrics have generally strengthened in FY19, the Western Australian (WA) portfolio has impacted performance, with leasing spreads of -15.0% and comparable NPI down 2.5%, compared to +0.5% and up 2.0% respectively for the remainder of the portfolio. There are however, potential signs of improvement in WA, with 4.7% sales growth in the June 2019 quarter[5]."

4 Includes short-term deals and all store types other than majors, offices, ATMs and storage, and excludes project-impacted leasing and divestments.

5 Normalised to remove an additional week of sales reporting from some major tenants during the June 2019 quarter.

DEVELOPMENTS

Mr Kelley said: "During the year, we made strong progress on our $3.3 billion (Vicinity's share: $1.9 billion) development pipeline. In October, we opened DFO Perth, 100% leased and trading from day one. We also continued to elevate Chadstone's market-leading status, expanding the luxury precinct with first-to-market brands and flagships, a new visitor lounge, valet parking and new destination and casual dining offers.

"This month, the final major stage of The Glen's $430 million[6] development was completed, with the first four days of trading attracting more than 250,000 visitors. The centre now has more than 250 retailers, a new-format David Jones and a new indoor-outdoor dining precinct. Construction has also commenced on more than 500 apartments at The Glen in the largest air-rights deal in Australia, Vicinity's first residential project to realise value from mixed-use opportunities across our portfolio."

A transformational development at Chatswood Chase Sydney, positioning the centre as Sydney's northern leading luxury and lifestyle destination, is in advanced planning with development approval granted and construction expected to start in mid 2020.

Additionally, Vicinity is advancing plans for several retail and mixed-use developments:

- Development applications are expected to be lodged in 2020 for Box Hill Central and Bankstown Central.
- Five projects are in detailed planning at Chadstone.
- Other mixed-use developments to capitalise on strong inner-city locations at Buranda Village, Victoria Gardens Shopping Centre, Emporium Melbourne and QueensPlaza.

CAPITAL MANAGEMENT

Vicinity's 62 directly-owned retail properties were revalued during the year, with the Flagship portfolio of Chadstone, premium CBD and DFO assets, recording strong gains, averaging a 3.7% net uplift[7]. This was offset by declines in the WA portfolio and pre-development centres, with a net valuation decline of $227 million or 1.4%[7] recorded for the total portfolio over FY19. The weighted average capitalisation rate for the portfolio firmed 6 basis points to 5.30% over the year.

Mr Kelley said: "Our balance sheet is strong and our investment grade credit ratings remain stable. Gearing of 27.1% is at the lower end of our 25% to 35% target range and we have well diversified funding sources."

During the year, Vicinity accessed $2.0 billion of new or re-negotiated debt. This included the issuance of $400 million of Australian medium term notes for a six-year term, with an interest rate of approximately 2.6%. Vicinity now has access to undrawn debt facilities of $1.4 billion[8].

"We remain committed to actively managing our debt expiry profile cognisant of future capital requirements and our key capital ratios. We will look to take advantage of the lower interest rate environment and extend our weighted average maturity over the coming year," Mr Kelley said.

---

6 100% interest. Vicinity's share is 50%.

7 Net valuation movement excludes statutory accounting adjustments.

8 Adjusted for $225 million of FY20 bank debt cancelled in July 2019.

COMMITMENT TO A SUSTAINABLE FUTURE

Mr Kelley said: "As one of the largest retail landlords in Australia, we recognise the integral role that Vicinity and our centres play in our local communities, in creating sustainable, market-leading destinations for the future and we have committed to targeting Net Zero carbon emissions by 2030[9]. This target is supported by Vicinity's industry-leading $73 million solar investment program, with 12 of the 20 sites completed and generating renewable energy at our centres.

"Energy saving initiatives, combined with our efforts to reduce water usage and advanced waste management practices, have contributed to Vicinity's portfolio achieving a 4 Star Green Star – Performance rating, the highest and largest rated retail property portfolio in Australia."

FY20 GUIDANCE

Vicinity's FFO guidance for FY20 is 17.8 to 18.0 cents per security[10], reflecting comparable growth[11] of 1.7% to 2.9%. The distribution payout ratio is expected to be at the upper end of the target range of 95% to 100% of AFFO[10], and reflects FY20 maintenance capital expenditure and incentives of approximately $80 million to $90 million.

The retail environment is expected to remain challenging in FY20, although economic stimulus including lower interest rates and income tax cuts may benefit retail spending.

"We are well advanced in repositioning Vicinity to create long-term value and sustainable growth for our securityholders," Mr Kelley concluded.

Additional detail on Vicinity's FY19 annual results can be found in the investor presentation released to the ASX today. A briefing by management elaborating on this announcement will be webcast from 10.30am (AEST) today and can be accessed via Vicinity's website at www.vicinity.com.au.

ENDS

For further information please contact:

Penny Berger
Head of Investor Relations
T +61 2 8229 7760
E penny.berger@vicinity.com.au

Kat Rellos
Head of Corporate Communications
T +61 3 7001 4670
E katherine.rellos@vicinity.com.au

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 $26 billion in retail assets under management across 66 shopping centres, making it the second largest listed manager of Australian retail property. The Group has a Direct Portfolio with interests in 62 shopping centres (including the DFO Brisbane business) and manages 33 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 23,000 securityholders. Vicinity also has European medium term notes listed on the ASX under the code 'VCD'. For more information visit vicinity.com.au or use your smartphone to scan this QR code.

---

9 For common areas in Vicinity's wholly-owned retail assets.

10 Assuming no material deterioration to existing economic conditions.

11 Adjusting for divestments and one-off items in FY19.