

ASX Announcement

4 May 2016

Vicinity builds momentum over an active quarter

Vicinity Centres (Vicinity or the Group, ASX:VCX) provides this update for the March 2016 quarter.

Mr Angus McNaughton, CEO and Managing Director, said: “2016 has been an active year for the Group to date. We have made significant progress in enhancing the quality of the portfolio by completing \$120 million of development projects with a forecast average initial yield on costs of greater than 10%, commencing our next major development at Mandurah Forum, entering into agreements for a joint venture to develop a new DFO Outlet Centre product in Perth, and starting to deliver on our asset divestment program. We have extended our debt duration and further diversified our funding sources through the inaugural issuance of 10-year European Medium Term Notes (MTNs). We have also made strong progress on integration activities and extracting the merger synergies.”

Total comparable¹ portfolio moving annual turnover (MAT) growth has improved to 2.0% to 31 March 2016, compared to 1.6% in the 12 months to 31 December 2015 despite the impact of Easter occurring in March this year, compared to April in 2015, and the impact of Good Friday closures, particularly on City Centres. The total MAT improvement was driven by improving sales across all majors categories – department stores, discount department stores and supermarkets – although individual brand performance remains mixed. **Comparable specialty store MAT** growth to 31 March 2016 softened to 2.9% from 3.4% three months earlier, with apparel sales impacted by a very warm start to Autumn.

Mr McNaughton said: “In December 2015, post a comprehensive review of the portfolio, we announced the opportunity to divest approximately \$750 million to \$1 billion of assets.² As part of this divestment program, yesterday we confirmed the **sale of Indooroopilly Central**, QLD for a total consideration of \$85 million³ reflecting a 31% premium to the bulky goods asset’s 31 December 2015 book value. Settlement of the transaction is expected to occur around 30 June 2016 with sale proceeds being used to repay and cancel debt facilities in the short term. Over time, this capital will be reinvested into value-accretive development and acquisition opportunities, enhancing the quality of our portfolio.

¹ Excludes acquisitions, divestments and development-impacted centres in accordance with Shopping Centre Council of Australia guidelines.

² No impact on FY16 underlying earnings per security (EPS) guidance is anticipated due to the expected timing of asset sales. In the short term, proceeds from asset sales are assumed to be used to repay debt. Prior to any reinvestment, the expected impact of the asset sales on underlying EPS is approximately 0.7 to 0.9 cents dilution on an annualised basis and on gearing, a reduction of between approximately 350 bps to 450 bps.

³ Excluding transaction costs.

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“In May 2016, Vicinity entered into agreements for a joint venture with Perth Airport Pty Ltd to develop a **new DFO at Perth Airport**. The proposed \$145 million (Vicinity share \$72.5 million) development, expected to commence construction in mid-2017 subject to planning approvals, will include over 110 stores across 24,000 sqm of gross lettable area and there will be parking for over 1,600 cars. Upon completion of the project, forecast for 2018, the centre will be managed by Vicinity. DFO Perth will further solidify the Group’s market leadership position in the Outlet Centre space.

“We have also made **strong progress on our \$3.1 billion (Vicinity share \$1.5 billion) development pipeline** with \$120 million (Vicinity share \$63 million) of development projects being completed during the period at Halls Head Central, WA, Colonnades, SA⁴ and DFO South Wharf, VIC with a forecast average initial yield on costs of greater than 10% and an IRR greater than 15%. Other projects at Chadstone, VIC, and Warriewood Square, NSW, continued to progress well.

“Construction commenced on the next major redevelopment in our pipeline, which will create the new retail heart of southern Perth, at **Mandurah Forum**. The \$350 million (Vicinity share \$175 million) project will include an extensive renovation to the existing centre and a significant expansion, and will transform Mandurah Forum into one of WA’s leading Major Regional shopping centres.

“We also had a number of favourable outcomes on our **capital management program** which were in recognition of the Group’s performance. In March 2016, Standard & Poor’s (S&P) revised Vicinity’s ‘A-’ credit rating outlook from ‘stable’ to ‘positive’ and Moody’s initiated coverage with a rating of ‘A2/stable’. These ratings reflect the strength of our debt covenant, with S&P noting: *“The positive outlook is based on our increasing confidence that the group will deliver on its planned portfolio repositioning strategy, raising the overall asset quality and maintaining earnings stability”*, while Moody’s stated: *“The A2 issuer rating reflects Vicinity’s strong market position in the Australian retail property sector”*.

“The credit rating releases in March assisted Vicinity’s **inaugural European MTN launch** with an issue of £350 million (A\$650 million) of 10-year notes. The issuance was more than three times oversubscribed and achieved strong pricing and long tenor. Following the repayment of \$440 million of Australian MTNs on 2 May 2016, the Group’s weighted average debt duration has extended to 4.9 years.

“Internally, we continue to work through the consolidation of the IT platform and other integration activities, along with securing previously detailed merger synergies.

“**FY16 underlying earnings per security (EPS) guidance remains unchanged at 19.1 cents⁵** and the Group’s payout ratio is expected to be 90% to 95% of underlying EPS.”

Further detail on Vicinity’s activities in the March 2016 quarter can be found in an associated presentation released to the ASX today, which can also be accessed on Vicinity’s website at www.vicinity.com.au.

Vicinity will be hosting an Investor Day in Melbourne on 8 June 2016 and will release its FY16 annual results to the ASX on 17 August 2016.

ENDS

⁴ One external pad-site remains under construction.

⁵ Subject to no unforeseen deterioration of economic conditions.



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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 over \$23 billion in retail assets under management across 95 shopping centres, making it the second largest listed manager of Australian retail property. The Group has a Direct Portfolio with interests in 85 shopping centres and manages 38 assets on behalf of Strategic Partners, 28 of which are co-owned by the Group. Listed on the Australian Securities Exchange under the trading code 'VCX', Vicinity has over 24,000 securityholders. For more information visit the Group's website vicinity.com.au, or use your smartphone to scan this QR code.

