

ASX Announcement

5 May 2022

Vicinity on track to deliver FY22 FFO and AFFO guidance as retail recovery continues

Vicinity Centres ('Vicinity', ASX:VCX) today announced its quarterly update for the three months ended 31 March 2022 ('3Q FY22') and reaffirmed its FY22 FFO and AFFO guidance provided to the market as part of its FY22 interim result ('1H FY22') on 16 February 2022.

Key highlights

- Strong financial and operational execution in 3Q FY22, supported by recovery momentum from 1H FY22
- Leasing activity accelerated in late February and March following some moderation in January and early February due to the impacts of Omicron
- Occupancy remained stable at 98.2%
- Disciplined approach to deal structures and improved leasing spreads continue to support future growth; FY22 to date leasing spreads now at -5.9% (1H FY22: -6.4%)
- 89% of gross rental billings collected for 3Q FY22; cash collection expected to increase following expiration of SME Codes of Conduct in NSW and Victoria in mid-March
- March quarter sales¹ up 11.2% compared to March 2019²; purposeful shopping drove spend per visit of 1.34 times 2019 levels (1H FY22: 1.30 times)
- Transition from planning to execution of Vicinity's mixed-use development pipeline continues; 'Development Showcase' investor event planned for 23-24 June 2022
- Settlement date confirmed for the sale of Runaway Bay Centre, expected on 9 May 2022
- Vicinity reaffirms FY22 earnings guidance with FY22 FFO per security expected to be in the range of 11.8-12.6 cents with AFFO per security expected to be in the range of 9.5-10.3 cents; targeting a full-year distribution payout range of 95-100% of AFFO³

CEO and Managing Director Mr Grant Kelley commented, "During the March quarter, we continued to build on the operational and financial performance delivered in the first half of FY22. Occupancy remained stable, cash collections improved and retailer confidence rebounded in late February and March.

"The quarterly results were delivered despite challenging trading conditions at times during the quarter, with the spread of Omicron, catastrophic floods in NSW and Queensland and growing geopolitical instability."

¹ Sales reported for comparable centres, which excludes acquisitions, divestments and development-impacted centres in accordance with Shopping Centre Council of Australia guidelines. Also excludes travel sales and tobacconists.

² Retail sales growth compared to 2019 includes the benefit of strategic remixing to improve sales productivity.

³ Vicinity's FY22 guidance range is subject to changes in COVID-related conditions.

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Portfolio performance⁴

Vicinity completed 186 leasing deals during 3Q FY22. January is seasonally a quieter month for leasing activity, and this was compounded by the rapid spread of Omicron from late December 2021. The concerns of Omicron moderated throughout the quarter and deal momentum rebounded strongly from late February.

Across the 829 leasing deals negotiated in FY22 to date, 74% have fixed annual rental growth of 5% and cumulatively, 95% of new deals have fixed annual rental growth of at least 4% (1H FY22: 72% and 91% respectively). Furthermore, Vicinity delivered an improved leasing spread, now at -5.9% (1H FY22: -6.4%) while preserving the average tenure for new mini majors and specialty leases during the quarter at 4.8 years.

Vicinity collected 89% of gross billings during the quarter⁵ representing a significant improvement on the 80% reported for 1H FY22. As communicated in the FY22 interim results announcement, Vicinity remains focused on collecting outstanding rent for current and prior periods, particularly given the strength of retail sales and following the expiry of the SME Codes in NSW and Victoria on 13 and 15 March 2022, respectively.

With the expiry of the SME Codes in NSW and Victoria, Vicinity is expediting short-term COVID lease variation negotiations with SME tenants and collecting outstanding rent.

Mr Kelley commented, “We welcomed the expiry of the SME Codes in NSW and Victoria in March 2022, given that both states had remained open and trading since October 2021. Pleasingly, retail sales have proven resilient to COVID-related disruptions, giving retailers in our centres confidence to pay current and any overdue rent. Of course, we remain committed to supporting retailer partners in locations and categories that continue to be affected by the pandemic.”

Despite the spread of Omicron, portfolio visitation averaged 76% of pre-COVID levels in 3Q FY22 and excluding CBDs, visitation reached 85% of pre-COVID levels. This has increased to 85% for total portfolio and 91% (ex-CBDs) for the month of April as consumers are increasingly confident to return to normal activities.

Visitation across Vicinity’s CBD assets increased steadily, buoyed by the return of day-trippers, domestic tourists and, since 21 February 2022, the reopening of Australia’s international borders to foreign tourists. Furthermore, the removal of mandatory mask wearing in office buildings as well as the lifting of the NSW and Victorian Government’s work from home guidelines in late February 2022, is underpinning a steady return of office workers.

Mr Kelley added: “Consumers continue to shop with purpose and are demonstrating an ongoing willingness and capacity to spend in our centres. Spend per visit during the March 2022 quarter, was 1.34 times higher than 2019 levels (Dec-21 quarter: 1.28 times), with retail sales at an impressive 11.2% above 2019 levels. This compared to 4.1% reported for November and December 2021.⁶

The strong sales result for the quarter was underpinned by a strong performance by mini majors (up 24.3%), while supermarkets and discount department store sales remain elevated, up 13.5% and 11.1% respectively.

⁴ Unless otherwise stated, retail sales, visitation and cash collection outcomes are compared to the corresponding period in 2019 i.e. pre-COVID.

⁵ As at 28 April 2022.

⁶ Represents two Covid-unimpacted months following the end of lockdowns in the Victorian and NSW economies in October 2021.

Specialty store sales growth of 10.2% was driven by a number of categories, including jewellery (up 28.9%), services (up 19.5%), homewares (up 16.3%) and apparel (up 11.9%). Sales across the luxury category remain strong, while a number of SME retailers, particularly those without an omni channel presence and in CBD locations, continue to lag the portfolio.

Additional sales information can be found in the Appendix.

Development

Mr Kelley said: “Vicinity emerges from the pandemic in a strong capital position and having accelerated planning on a number of major mixed-use development projects. We are now transitioning from planning to execution on a number of priority retail and mixed-use development projects.”

Following the completion of additional parking and rooftop solar panels at Chadstone in 2021, Vicinity commenced construction of a wintergarden-style leisure and dining precinct during 3Q FY22. Having already secured and/or agreed terms with six of the eight tenants in the precinct, the project is expected to be completed by Christmas this year. Also at Chadstone, redevelopment of the existing Chadstone Place office space is due to commence with Officeworks having been secured in late 2Q FY22 to take all 8,000 sqm of this space.

At Bankstown Central, in preparation for major mixed-use development, Vicinity is undertaking a number of smaller projects to improve the existing retail offer. Works underway include a new Coles and fresh food precinct, a Uniqlo-anchored mini majors precinct and the relocation of the existing major bus interchange. The retail works are expected to be completed in stages through late 2022 to mid-2023.

At Box Hill Central, Vicinity is also preparing for major mixed-use development, with a number of smaller projects underway. Construction of the first stage of the redesign and refurbishment of the centre’s southern retail precinct is being completed, with a number of mini majors and specialty retailers opening in the new double-width mall that will be anchored by a new Coles supermarket, which is due to open in 1Q FY23. In the period, Vicinity also commenced construction of the 4,000 sqm office building which has been pre-leased to Hub Australia, a leading co-working provider.

Summary

In summary, Mr Kelley said: “The momentum of our recovery and the continued resilience of the retail sector enable us to reaffirm our earnings guidance for FY22.

“While the macroeconomic environment continues to provide favourable tailwinds for our recovery, we are mindful of inflationary pressures and the rising interest rate environment. That said, we remain well positioned, supported by the structure of our leases, and noting also that moderate inflation typically supports sales and margin growth for retailers. Furthermore, approximately 80% of our drawn debt is hedged, and our prudent approach to managing our balance sheet and credit metrics continues.”

Authorisation

Vicinity's CEO and Managing Director authorised this document to be lodged with the ASX.

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 \$23 billion in retail assets under management across 61 shopping centres, making it the second largest listed manager of Australian retail property. The Group has a Direct Portfolio with interests in 60 shopping centres (including the DFO Brisbane business) and manages 30 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 28,000 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.

Appendix – Portfolio sales

Portfolio sales compared to 2019	Month growth			Quarter growth	
	Mar-22	Feb-22	Jan-22	Mar-22	Dec-21
	vs Mar-19 %	vs Feb-19 %	vs Jan-19 %	vs Mar-19 %	vs Dec-19 %
Specialty stores	16.8	10.6	3.3	10.2	(10.1)
Mini majors	28.3	25.7	19.2	24.3	3.5
Specialties and mini majors	20.0	14.6	7.5	14.0	(6.4)
Supermarkets	13.5	10.2	17.2	13.5	3.9
Discount department stores	20.1	9.7	3.8	11.1	5.0
Other retail ^a	12.7	20.1	1.8	10.9	1.8
Department stores	(15.3)	(19.5)	(28.9)	(21.1)	(16.2)
Total portfolio	15.8	11.1	6.8	11.2	(3.4)
Total portfolio (ex-CBDs)	19.0	14.6	10.0	14.5	(1.2)
VIC	13.7	6.6	2.2	7.5	(11.7)
NSW	21.0	15.4	5.4	13.9	(9.3)
– NSW (ex-CBDs)	37.9	33.7	22.7	31.4	1.9
QLD	20.9	12.7	2.6	12.0	5.5
WA	9.3	9.4	15.7	11.5	9.8
SA	25.9	28.6	19.6	24.6	12.0
TAS	18.5	18.8	11.5	16.3	8.6

a. Other retail includes cinemas, auto accessories, lotteries and other entertainment.

Portfolio sales compared to prior year	Month growth			Quarter growth		MAT growth	
	Mar-22	Feb-22	Jan-22	Mar-22	Dec-21	Mar-22	Dec-21
	vs Mar-21 %	vs Feb-21 %	vs Jan-21 %	vs Mar-21 %	vs Dec-20 %	vs Mar-21 %	vs Dec-20 %
Specialty stores	11.2	16.2	2.1	9.5	6.2	15.7	13.0
Mini majors	10.3	14.8	1.3	8.4	4.7	12.6	12.1
Specialties and mini majors	10.9	15.8	1.8	9.2	5.8	14.7	12.7
Supermarkets	3.7	3.4	4.2	3.8	(0.5)	0.4	(2.2)
Discount department stores	(5.7)	0.7	(10.3)	(5.2)	(5.4)	(5.4)	(2.3)
Other retail	7.8	22.0	12.1	13.6	18.1	21.3	16.0
Department stores	14.2	(3.8)	(9.7)	0.3	19.3	14.6	22.0
Total portfolio	7.6	10.1	1.3	6.2	4.1	8.7	7.3
Total portfolio (ex-CBDs)	7.0	11.6	1.3	6.5	3.8	8.6	7.1
VIC	13.5	20.5	4.0	12.3	9.5	21.4	17.0
NSW	7.9	4.8	0.5	4.5	(1.3)	(2.8)	(5.1)
– NSW (ex-CBDs)	8.2	5.7	(0.4)	4.5	(1.5)	(4.3)	(5.0)
QLD	12.1	(0.2)	(1.9)	3.3	1.2	5.9	6.5
WA	(4.1)	4.3	0.1	0.0	0.8	2.4	3.4
SA	0.7	4.5	(3.0)	0.7	3.0	2.5	4.5
TAS	0.7	4.7	(2.6)	1.0	(0.1)	5.7	4.3