

**Annual Meeting of Unit Holders  
Thursday, 12 August 2010 at 10.00am  
Chairman's and Chief Executive's Address**

**CHAIRMAN'S ADDRESS**

**Welcome**

Good morning Ladies and Gentlemen, welcome to the 17th annual meeting of Kiwi Income Property Trust.

My name is Sean Wareing and I am an independent director and Chairman of the Manager of the Trust. Under the terms of the Trust Deed, I have been appointed Chairman of this meeting by the Trustee, New Zealand Permanent Trustees Limited.

I am pleased to advise there is a quorum present and I declare the Meeting of Unit Holders open.

I would like to take the opportunity to introduce my colleagues on the Board of the Manager:

- **Richard Didsbury** – Richard was one of the founders of the Trust. His current directorships include Auckland International Airport and Hobsonville Land Company, and he contributes to a variety of public initiatives such as being a Trustee of the Committee for Auckland. He also chaired the Trust's Project Control Group for the recently completed redevelopment of The Plaza in Palmerston North.
- **Robert Narev** – Robert joined the Board in 1992 and is an independent director. He was a senior partner of the Auckland-based law firm, Glaister Ennor, for whom he is now a consultant. Robert specialises in property, commercial law and trusts. He is a Member of the New Zealand Order of Merit.
- **John Duncan** – John joined the Board in 2002. Until recently John was Chairman of Colonial Fiji Life Limited and the National Bank of Fiji Limited, and previously served as Chairman of ASB Bank Group Investments Limited and Sovereign Superannuation Trustees Limited. John is also an independent director.
- **Joanna Perry** – Joanna joined the Board as an independent director in September 2006. She chairs the Financial Reporting Standards Board, is a member of the International Accounting Standards Board's Interpretations Committee and the Australian Accounting Standards Board. Her other governance roles include deputy chair of Genesis Power, independent director of PSIS, AsureQuality and New Zealand Rowing and she is a member of the Independent Advisory Panel of the Primary Growth Partnership.

- **Mike Steur** – Mike is an experienced company director who joined the Board as an independent director in January this year. Mike has over 30 years experience in the property industry and is currently the Senior Managing Director of CB Richard Ellis Valuation and Advisory Services' business across Asia Pacific.

Our final director, Wal Edgell, tenders his apology as he cannot be here today.

Also joining us as at the table is the Chief Executive of the Manager of the Trust, Chris Gudgeon, and the Chief Financial Officer, Gavin Parker.

I also extend a welcome to our Trustee, Lloyd Wong, from New Zealand Permanent Trustees and Jonathan Freeman from our auditors, PricewaterhouseCoopers.

### **Summary of the day's proceedings [slide 2]**

I would like to take a moment to explain today's agenda.

Proceedings will commence with my address which will cover the Trust's financial and operating highlights for the year to 31 March 2010.

I will then invite Chris to provide a more detailed update on the Trust's activities.

As there is no formal business to take place at this meeting, we will then invite questions regarding the Trust.

### **Trust performance [slide 4]**

The Trust continues to demonstrate solid underlying performance, delivering an operating profit before tax of \$73.4 million for the financial year ended 31 March 2010, up 5.0% on last year's performance, even after the sale of two properties. After allowing for an increase in current tax expense, distributable profit for the current year was \$61.1 million, in line with the prior year.

During the year, independent asset valuations reflected prevailing adverse economic and financial market conditions. This resulted in a \$74.7 million, or 3.9%, reduction in the value of the Trust's properties.

After allowing for this write-down in property value, together with other non-cash accounting items, the Trust delivered an overall net loss after income tax of \$12.4 million.

In line with previous guidance, the full-year cash distribution was 7.50 cents per unit.

The Board has consistently held the view that it is essential to maintain a strong balance sheet. Due to the capital management initiatives implemented by the Manager during the year, the Trust remains in a strong financial position with a healthy balance sheet and a conservative bank debt to total assets ratio. At year end, the Trust's total assets stood at \$1.98 billion, with a property portfolio of \$1.85 billion and bank debt of \$571 million. Taking account of funds on deposit, this represents a net debt to total assets ratio of 24.4%.

The Trust's management team continues to intensively and pro-actively manage the Trust's assets. As at 31 March 2010, the Trust's portfolio occupancy was 97%, with a solid weighted average lease term of 4.3 years.

Among the highlights of the 2010 financial year was the opening of the third and final stage of the Trust's \$93 million redevelopment and expansion of The Plaza Shopping Centre in Palmerston North. The project was successfully completed in March, with the third and final stage opening on time and fully leased. The project has consolidated The Plaza's already significant strengths, with no other centre in the region coming close to offering the scale and range of major retailers, specialty stores and dining options.

At this point I would like to invite Chris to provide a more detailed update on the Trust's activities.

## **CHIEF EXECUTIVE'S ADDRESS**

### **Financial results [slide 6]**

As mentioned by the Chairman, the Trust has continued to deliver solid underlying operating performance.

Net rental income was stable at \$133.7 million, even after the sale of two properties, with operating profit before tax increasing 5.0% to \$73.4 million.

Distributable profit after tax was \$61.1 million for the current year, in line with last year. Our current tax expense was higher mainly due to depreciation clawback on asset sales during the year.

After accounting for a 3.9% or \$74.7 million write-down in the property portfolio value, the Trust recorded an after tax net loss of \$12.4 million for the year.

In line with previous guidance, Unit Holders received a final cash distribution of 3.75 cents per unit, bringing the Trust's full year cash distribution to 7.50 cents per unit.

### **Total returns [slide 7]**

The Total Return over the past year was a fairly solid 13.5%, albeit lower than the NZX 50 and NZX Property Gross indices.

However, looking at returns over the five-year period, the Trust's return has outperformed both the NZX 50 and the broader listed property trust market as represented by the NZX Property Gross Index.

The cumulative average Total Return to Unit Holders since the Trust's inception 17 years ago has been approximately 9.4% per annum.

### **Global property total returns [slide 8]**

To put things in context, it is interesting to compare the performance of the New Zealand listed property sector with other property markets around the world over the past five years. This five-year period includes the strong run up to a market peak in late 2007, the trough in April 2009 and the emergence of a recovery over the last year.

It shows that the New Zealand listed property sector was one of the better performers, outperforming the big markets of the United States, Canada, Japan, Australia and the United Kingdom.

We believe this is due to the fact that the New Zealand listed property sector has taken a relatively conservative approach when compared with these other markets, with attributes such as generally low gearing, limited development exposure and a wholly domestic focus on local markets.

The New Zealand listed sector as a whole delivered total returns of 22% over the five years, while the Trust's return was higher than this at 27%.

### **Capital management initiatives [slide 9]**

The Manager of the Trust has always held the view that it is essential to maintain a strong financial position and over the past year we implemented a number of capital management initiatives including raising equity; selling assets and issuing new mandatory convertible notes.

These were designed to:

- reduce the Trust's reliance on bank debt; and
- put the Trust in a strong financial position with as much flexibility as possible to get the best possible outcome from our forthcoming bank debt refinancing program.

These initiatives were also designed to:

- maintain the diversity in our capital structure;
- extend the duration of our funding; and
- provide us with the flexibility to consider value added investment opportunities that have the potential to provide long-term growth in our distribution payments.

### **Net debt to total assets [slide 10]**

This slide shows the effect of our capital management initiatives on our net debt to total assets ratio.

It also demonstrates the impact that falling valuations would have had on our gearing without these measures.

The Trust has benefitted from a history of conservative gearing, which has averaged around 25% over the past five years.

### **Financial position [slide 11]**

The value of the property portfolio decreased by \$57.5 million during the year. The decrease was due to a \$74.7 million devaluation on the back of negative valuation sentiment, and the \$38 million in asset sales we undertook. These negative movements were partially offset by the capital expenditure on The Plaza redevelopment.

Cash on deposit increased by \$115 million following the new issue of mandatory convertible notes in December 2009. These funds are held on deposit pending the ASB development and currently earn interest at the rate of around 4% per annum.

Secured Bank Debt has decreased by \$63 million following the asset sales and capital raising initiatives, offset by capital expenditure on The Plaza.

The mandatory convertible note liability increased by \$118.7 million during the year. However, we note that the 8% MCNs that were issued in 2005 converted into 162 million units on 30 June 2010. The 2005 MCNs assisted in funding the development of Sylvia Park and have been an effective instrument in the Trust's overall capital structure.

The adjusted net tangible asset calculation at 31 March 2010 was \$1.22 per unit, down from \$1.37 as at 31 March 2009. Approximately 5 cents of this 15 cent movement was due to the Institutional Placement and Unit Purchase Plan, with the balance largely due to the devaluation in the Trust's property portfolio. Following the payment of the Trust's final distribution for the year and the conversion of the 2005 MCNs, the adjusted net tangible assets calculation is now \$1.13 per unit.

### **Debt – Facility summary [slide 12]**

The Trust's debt position remains sound, with bilateral facilities in place with the four leading Australasian banks and eight tranches of debt with staggered maturities.

Committed facilities total \$800 million of which \$229 million remains undrawn.

As previously mentioned, the Trust currently has \$118 million of funds on deposit, which includes the proceeds of the recent MCN issue.

The Trust's weighted average cost of debt as at 31 March 2010 was 7.07% (inclusive of margins and fees).

The first two tranches of debt are due to expire in April 2011, being the commencement of the Trust's 2012 financial year. Based on current borrowings, and with the additional capacity that the new mandatory convertible notes provide, the Trust has considerable flexibility in dealing with its refinancing requirements and does not need to extend all of its current facilities.

Moving on to look at some of the key portfolio metrics.

### **Valuation and portfolio statistics [slide 13]**

As mentioned, independent valuers assessed the value of the Trust's property portfolio at \$1.85 billion, a decline of \$74.7 million or 3.9%.

Over the last two years, the reduction in portfolio value has been significant at 14%, and this effectively reversed the gains we made over the two years prior to that. The devaluations experienced have effectively taken us back to values as they were four years ago in 2006.

Looking ahead, it is important to note that the movement for the latest six-month period was a reduction of approximately only 0.5% of the portfolio value, indicating that property values are stabilising consistent with recent improvements in global economic conditions. The downward movement was largely contained within the office portfolio where a decline in market rents has been experienced.

We note that, not surprisingly, prospects for continued rental growth are less positive with portfolio rentals considered to be at market levels, whereas in previous years the portfolio was 4% to 6% under-rented.

Despite the softer market we are now experiencing, it is pleasing to see that the Trust has managed to maintain a high occupancy rate across the portfolio, finishing the year at 97.0% occupied. As a management team, we remain focussed on keeping vacancies to an absolute minimum.

The Trust's weighted average lease term is 4.3 years, the same as the prior year.

### **Diversification: Sector and regional [slide 14]**

The Trust operates a reasonably balanced diversified portfolio, with approximately 60% by value in retail assets and 37% in offices. The portfolio has a higher weighting in retail property when compared to the prior year due to the completion of The Plaza, the sale of two office properties and recent revaluations.

Development property, comprising future office building sites at Sylvia Park and a number of strategic properties owned adjacent to our shopping centres, accounts for 3% of the portfolio by value.

Regionally, Auckland property accounts for 49% of the portfolio with good representation in the other main centres as well.

### **Diversification: Tenant [slide 15]**

Our business is all about low risk, predictable rental income streams.

The Trust has a well diversified tenant base, with approximately 790 tenants in its core portfolio.

Approximately 60% of the gross income of the Trust is derived from the retail portfolio, underpinned by supermarkets, department stores and specialty retail chains.

The office portfolio, accounting for 40% of the Trust's gross income, is dominated by tenants from the government, legal, professional services, insurance and banking industries.

The Trust's top 20 tenants by gross income are listed on this slide – they occupy over half the portfolio's net lettable area and underpin 36% of our gross income with strong lease covenants.

### **Lease and rental activity [slide 16]**

The Trust's lease expiry profile demonstrates its diversification benefits. While the office and retail portfolios, when taken in isolation, have expiry peaks in certain years, on average around only 14% of total rental income expires in each of the next five years.

It has been another busy year for our management team with 645 new leases or rent reviews completed, covering 44% of the portfolio's rentable area.

Overall, when rental reviews are considered, the Trust's core portfolio delivered rental increases for the year to 31 March 2010 of \$4.4 million, or 5.2% over previously prevailing rentals.

### **Office markets [slide 17]**

The office markets in Auckland and Wellington are expected to come under pressure in the coming years with additional supply leading to an increase in vacancies and a consequent softening in rents.

Both markets are expected to see a significant amount of new office development over the next three years and, while these projects are largely pre-committed, surplus space will come to the market as buildings are subsequently vacated.

Current vacancy rates sit at 13.3% and 6.1% in Auckland and Wellington respectively and are expected to increase over the next two to three years. The vacancy rate within the Trust's office portfolio currently sits favourably compared to these ratios at just under 5%.

The Trust has been pro-active in meeting this vacancy challenge by increasing our dedicated office leasing resource and by early engagement with tenants concerning forthcoming expiries. We pride ourselves on our relationships with tenants and, over the past year, have retained 90% of tenants whose leases were due to expire.

Our exposure to the office markets is mitigated by a favourable lease expiry profile that sees only 6.5% of the portfolio expiring in the current financial year, with around 14% expiring in the following year. Wherever we possibly can we renew leases ahead of time. For example, we were recently able to get ANZ National Bank to renew 5,864 sqm for two years at the National Bank Centre, extending their lease commitment from 2011 to 2013.

### **Retail sales and gross occupancy costs [slide 18]**

The challenges of the general economy have resulted in flat retail sales across our portfolio.

Overall retail sales were \$1.05 billion (including GST) for the year to 31 March 2010. This was the same overall level of sales as recorded the previous year, however on a like-for-like basis it represents a decrease of 1.2%.

Specialty store sales were down 1.5% on a like-for-like basis, reflecting lower discretionary spending, although sales performance for major tenants was positive, up 0.6% overall with supermarkets performing well and growing by 2.6% and cinemas staging a late but spectacular recovery, up 12.7%, off the back of the 3D phenomenon.

The average gross occupancy cost ratio for specialty retail tenants at 14.7% is unchanged, but it is encouraging to see that this key affordability ratio appears to have peaked and is now improving following rental corrections and recovering sales.

### **The Plaza Shopping Centre [slide 19]**

Highlights of the year included the completion of the Trust's \$93 million redevelopment of The Plaza Shopping Centre, with the Deputy Prime Minister officially opening Stage 3 on 18 March 2010.

This stage, which opened on time and fully leased, features a 7,200 sqm flagship Farmers department store, 32 specialty shops, and a three-level carpark that provides an additional 500 convenient parking spaces for shoppers.

The retail offer has been further enhanced by the addition of JB Hi-Fi, a market leader in the entertainment and lifestyle category, which opened in May.

The total redevelopment has increased the Centre's net lettable area from 19,700 sqm to approximately 32,000 sqm, with the number of specialty retailers increasing from 60 shops at the commencement of the project to over 100.

The overall redevelopment has been completed within the initial capitalised cost budget of \$93 million, and is projected to provide a yield of between 7.25% and 7.4% on capitalised cost for the first full year post completion, rising to more than 8.2% in the third year post completion.

### **The Plaza Shopping Centre [slide 20]**

Here are some concept images produced prior to project commencement in 2007 alongside actual photographs taken of the completed centre in recent months.

### **The Plaza Shopping Centre [slide 21]**

Some more internal images of the redeveloped Plaza Shopping Centre showing the quality of the retail offer we have provided to the Manawatu market.

### **Sylvia Park plan change [slide 22]**

Sylvia Park continues to consolidate its position as Auckland's premier shopping destination. By increasing market share, annual retail sales have now grown to around \$400 million (including GST), the highest of any centre in New Zealand.

In order to take advantage of Sylvia Park's favourable zoning and excellent proximity to the motorway and public transport, the Trust initiated a plan change designed to support Auckland City Council's vision for a comprehensively planned sub-regional centre with provisions for retail, entertainment, office and residential activities.

The plan change was publicly notified by Auckland City Council in early April 2010. Significant provisions of the plan change include:

- increased height provisions
- an increase in allowable gross floor area on the site to 250,000 sqm, from 148,000 sqm currently; and
- within this total floor area, the allowance for retail and entertainment activities is increased to 130,000 sqm from 75,000 sqm currently.

The existing shopping centre has a gross rentable area of approximately 72,500 sqm.

The plan change process is a necessary step in the long-term strategic planning for the Trust's most valuable asset. In time, and as market conditions permit, the opportunity may arise to further enhance the Trust's investment in Sylvia Park by expanding the shopping centre, developing office buildings and facilitating residential development. However, in order to create this future potential we need to first put in place the necessary town planning provisions.

### **ASB head office, Wynyard Quarter [slide 23]**

In February 2010, the Trust entered into a conditional development agreement with ASB Bank to develop its new head office premises in Wynyard Quarter on Auckland's waterfront.

We see this as a rare investment opportunity to secure an 18-year lease with one of New Zealand's leading banks in a project deliberately structured to minimise exposure to development risk.

At this stage, the agreement with ASB remains conditional on a number of matters including rezoning outcomes and approval by the Board of the Manager of the Trust, Kiwi Income Properties Limited and the Trustee, New Zealand Permanent Trustees Limited.

### **General economy [slide 24]**

With three successive quarters of domestic GDP growth, we are clearly pleased to be out of recession with 2010 and 2011 looking to be years of steady, though unspectacular, recovery.

Despite volatility in unemployment statistics, it is widely accepted that the unemployment rate will improve over time. Off the back of this, we look forward to a gradual lift in domestic consumption and a consequent recovery in the retail sector and in time a recovery in the office sector on the back of a lift in business investment intentions.

### **Summary of tax changes [slide 25]**

On 20 May 2010, the New Zealand Government announced a number of tax changes. The changes that will directly impact the Trust include:

- a reduction in the depreciation rate applicable to "building structures" to 0%, with effect 1 April 2011;
- removal of depreciation loading for assets acquired after 20 May 2010; and
- a reduction in the Portfolio Investment Entity tax rate applicable to the Trust from 30% to 28%, with effect 1 April 2011.

The net result of these changes will be an increase in the Trust's effective tax rate, and ultimately a decrease in income available for distribution. Based on available information, the reduction in distributable profit has been assessed at approximately 5% for the Trust in the first full year post introduction of the tax changes (being the year ending 31 March 2012).

Whilst the elimination of depreciation on building structures does not make sense to us and is a negative for the listed property sector, we have to acknowledge there are positive aspects to the tax changes which will assist economic growth and these benefits should ultimately flow through to investors in the Trust.

That concludes the update on the Trust's activities for the year. I will now hand back to Sean for concluding remarks.

## **CHAIRMAN'S CONCLUDING ADDRESS**

### **Outlook [slide 26]**

We are encouraged that the return to economic growth and a gradually improving employment outlook should in turn lead to greater business and consumer confidence, and a lift in investment intentions over time. This is expected to initially benefit the retail sector as domestic consumption recovers, and the Trust is well positioned in this regard with 60% of our portfolio sitting in shopping centre assets. The office sector will remain challenging with market vacancy rates expected to peak around 2013. We are also mindful that the effect of the significant contraction in economic activity in the New Zealand and global economies continues to be felt and that the global financial crisis may continue to cause volatility in financial markets for some time yet.

Given these broader market conditions, it is appropriate that our capital management initiatives of the past 12 months have reinforced the Trust's strong financial position, whilst also providing a solid platform from which the Trust can explore investment opportunities to maintain long-term sustainable returns to Unit Holders.

While the Trust continues to benefit from the strength of its diversified property portfolio, the quality of its premium assets and its diverse and high-quality tenant base, the effect of higher interest and tax costs, together with the increased number of units on issue subsequent to the conversion of the 2005 mandatory convertible notes, is to dampen the immediate outlook for distribution growth.

While we remain cautious in the current economic environment, based upon the outlook for the Trust, and subject to economic conditions, we are projecting a cash distribution for the year ending 31 March 2011 of approximately 7.00 cents per unit, representing an after tax yield of around 7.5% per annum for domestic investors at current unit prices.

We have also recently announced an on-market buyback of up to 20 million units over a 12 month period commencing on 29 June 2010, having determined that there may be opportunities for the Trust to purchase units at prices which can be expected to enhance value for Unit Holders.

It has been another solid year for the Trust and I would like to thank my fellow directors for their support and guidance. I would also like to take this opportunity to thank the management team for their efforts and dedication to ensuring that the Trust retains its position as the leading diversified property trust in New Zealand.

With a superior quality property portfolio and through the enterprise and energy of its people, the Trust is well placed to meet its objectives of optimising earnings and providing long-term sustainable returns to investors.

That concludes today's formal business and before I invite questions from the floor, I would like to thank, on behalf of the Board and Management all Unit and MCN Holders for your ongoing support of the Trust.

## **OTHER BUSINESS [slide 27]**

### **Questions**

At this time we would be happy to answer any questions on the Trust's activities. I ask that in addressing the Chair with questions, you please use one of the microphones from the ushers and identify yourself by name. If you are a proxy for a Unit Holder, please name the Unit Holder on whose behalf you hold the proxy. Similarly, if you represent a corporate or similar Unit Holder, please do likewise.

### **Meeting closure**

Ladies and gentlemen, thank you for your attendance today. As there are no further questions I declare the meeting closed. Please join us now for refreshments.