



MARCH 2008

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# INVESTOR UPDATE





**Welcome** to the first 2008 edition of Investor Update, Kiwi Income Property Trust's newsletter for investors. Although the New Zealand economy is showing signs of slowing and the global credit crisis is having an impact on equity markets, the Trust continues to perform well with high occupancy levels and strong rental growth across its portfolio of pre-eminent office and retail assets. Our flagship office asset, the Vero Centre, is now attracting rentals nearing \$600 per square metre, and we are delighted that Sylvia Park recently became the first shopping centre in New Zealand to break the \$300 million barrier in annual retail sales. A turnover of \$322 million was achieved with half of the Centre's retailers yet to complete a full year of trading. This edition of Investor Update also includes coverage of the \$93 million redevelopment of The Plaza in Palmerston North and our move into the National Bank Centre in Auckland. A view of the listed property market is provided by Goldman Sachs JB Were analyst, Shamubeel Eaqub.

I hope you will enjoy reading about the Trust's activities. To find out more about the Trust, please visit [www.kipt.co.nz](http://www.kipt.co.nz) or contact us (details on page 4).

Angus McNaughton – Chief Executive, Kiwi Income Properties Limited.

# ALL GO FOR THE PLAZA'S \$93 MILLION REDEVELOPMENT



The \$93 million redevelopment of The Plaza Shopping Centre in Palmerston North will meet growing retailer demand for high-quality retail space and consolidate the Centre's position as the leading retail destination in the Manawatu-Wanganui region.

The redevelopment will increase the size of the Centre by nearly 60% to 31,200m<sup>2</sup>, create additional space to accommodate around 40 new specialty retailers and include the construction of a new foodcourt.

The decision to proceed with the project was supported by strong demand from local, national and international retailers for high-quality retail space, Palmerston North's low ratio of retail centre space per capita compared with other metropolitan centres, and the Trust's successful track record in development projects.

The redevelopment is scheduled for completion in the second quarter of 2010 at which time The Plaza is projected to have a value of approximately \$209 million, providing a projected yield on the capitalised cost of 7.5%, rising to more than 8.5% in the third year post completion. The projected Internal Rate of Return is 9.8% per annum over eight years.

The Plaza is the Trust's strongest performer on a sales-per-square metre basis and its trading success can be attributed to the strength of key merchandise categories such as fashion.

Palmerston North City Council has granted resource consent for the \$93 million redevelopment, which represents less than 5% of the Trust's \$2 billion in total assets.

In a separate transaction in December 2007, the Trust purchased the Countdown Supermarket adjoining The Plaza for \$14.5 million from Macquarie Countrywide of Australia. The supermarket will be integrated into the adjacent Centre.

The redevelopment and the acquisition are being funded through a new \$100 million, five-year committed bank debt facility finalised in late 2007. The commercial terms for the new facility are in line with the Trust's existing debt facilities. Upon completion of The Plaza redevelopment, the Trust will remain conservatively geared at around 34% of total assets.



# SYLVIA PARK BREAKS RETAIL SALES RECORD

Sylvia Park has become the first shopping centre in New Zealand to exceed \$300 million in annual retail sales.

A turnover of \$322 million for the 12 months to January 2008 was posted with half of the Centre's retailers yet to complete a full year of trading.

Angus McNaughton said "the \$322 million in sales is believed to be the highest figure reported by any shopping centre in New Zealand and the first time a shopping centre has broken the \$300 million barrier. Strong December 2007 trading continued into January 2008 and the \$322 million is well ahead of our sales projections."

the total number of retailers at the Centre to more than 200.

"For the 100 specialty retailers who have been trading at New Zealand's leading shopping destination for more than 12 months, comparable sales were up 29% for December 2007 and up 25% for January 2008," Mr McNaughton said.

"The size, amenity and quality of Sylvia Park have combined to raise the bar for shopping centres in New Zealand and we are delighted

with the way the Centre is performing. Retail premises are fully leased and there is solid demand from retailers who are on a waiting list to take up suitable space at the Centre in the event that any becomes available," he said.

Major tenants at the 70,100m<sup>2</sup> Centre include The Warehouse, PAK'nSAVE, Foodtown, Borders, Dick Smith Powerhouse, Noel Leeming, EziBuy, Kathmandu and Baby Factory. Attractions at the Centre include Hoyts Cinema Complex, a dining lane and an adventure precinct.

Sales reached \$322 million for the 12 months to January 2008 with half of the Centre's retailers yet to complete a full year of trading.

"This is a fantastic result because two of the four stages of the Sylvia Park project were completed during 2007 and the Centre's full potential will not be realised until all retailers have traded for a year," Mr McNaughton said.

Stage III of Sylvia Park opened in March 2007 and Stage IV in June 2007, bringing



## LISTED PROPERTY'S TIME TO SHINE AS A DEFENSIVE STOCK

By Shamubeel Equb – Analyst  
Goldman Sachs JB Were (NZ) Ltd

Against a slowing economic backdrop, defensive exposures with stable and secure cash flows should be considered for a well diversified portfolio.

In past downturns, listed property has exhibited defensive characteristics. Looking at the last three periods of domestic demand weakness (1998, 2000 and 2005/2006), the median annual absolute return was +8% and median annual relative return was +11%. While this is retrospective and market conditions aren't necessarily the same, it serves to highlight the sector's defensive characteristics.

Importantly, the underlying property market in New Zealand is in reasonably good shape with low vacancy rates across most categories.

However, capitalisation rates (income expressed as a percentage of price) are likely to soften and the cap rate convergence trend across the quality spectrum over recent years is unlikely to continue as the economy slows. We expect this weakness to have greater weighting in lower quality assets (which benefited through greater cap rate compression in the bull phase). As such, the focus should be on

quality assets and those with organic development opportunities.

Most listed property vehicles are trading at a significant discount to net asset backing as it appears that equity markets have pre-emptively priced in weakness in commercial property prices. Resulting dividend yields are very attractive (effective gross between 10%–15%) and we view the risk to earnings to be mitigated by high occupancy levels, relatively long lease terms and already locked in rental increases.

While the economy is showing signs of slowing, valuation support, attractive yields and comfort with the earnings outlook mean we view the listed property trust sector as attractive on a 12 month horizon.



## 'GREEN' OFFICE FOR KIWI PROPERTY MANAGEMENT

Kiwi Property Management's new head office showcases the use of sustainability principles to create a 'green' working environment.

The refurbishment of levels 14 and 15 of the DLA Phillips Fox Tower in the Trust's National Bank Centre on Auckland's Queen Street makes maximum use of natural light and cost-efficient energy systems and demonstrates how space in the building can be revitalised.

Completed in November 2007, the office 'refit' enhances the Centre's reputation as one of Auckland's prime office locations.

In New Zealand, green rating tools for fitouts are still under development, so the Australian Green Building Council's rating system was used as a reference for the fitout. The refurbishment works were designed to meet four-star criteria and create a healthy indoor environment.

The open-plan office features workstations made from green-star rated materials. Purchasing decisions took into account environmental issues such as air quality, and energy and water consumption, which led to solutions such as controlled lighting and high-efficiency taps in the bathrooms.

Rather than source new furniture, chairs from the Manager's previous office location were recovered and other items of furniture reused. Where new furniture was procured, sustainable materials were specified such as recycled timber and bamboo, a fast-growing sustainable crop. This approach to materials selection resulted in bamboo also being used for the flooring in the new office reception and common areas, and carpet tiles being used in the main office areas. Carpet tiles allow individual tiles to be replaced in high-traffic areas. The old tiles can be returned to the manufacturer for recycling.

"We are very proud of the new office. It demonstrates the high quality working environment that can be achieved when green criteria are applied to a fitout," said Angus McNaughton.



## THE PERSONAL TOUCH KIWI WORKING IN THE COMMUNITY

The team at Kiwi Property Management spent a morning doing voluntary work at Auckland's Middlemore Hospital before Christmas 2007.

Tasks included cleaning the visitor area in the Kidz First Hospital, putting up Christmas decorations in the hospital wards, offering chocolates to elderly patients, planting shrubs in the 'healing garden,' clearing rubbish from the hospital grounds and carparks, and packing toothbrushes and other dental-care goods for a dental health campaign.

Angus McNaughton said "helping out at the hospital provided an opportunity for our staff to put something back into the community. It was also a great team-building exercise with staff enjoying working together as a team to support such a vital community service."

Kiwi Property Management gifted the shrubs for the healing garden, Christmas trees and decorations and made a donation towards Kidz First's Intensive Care Unit.

Middlemore Hospital provides specialist and community health care services to the diverse

Counties-Manukau community with Kidz First Children's Hospital purpose built to deliver family health care.

### 'MOVEMBER' 2007: STAFF RAISE FUNDS FOR PROSTATE CANCER RESEARCH

Most of the men at Kiwi Property Management grew moustaches during 'Movember' to raise almost \$20,000 for the Prostrate Cancer Foundation.

In total, 38 employees raised \$19,817, the second-highest amount raised by an organisation in New Zealand. The money raised by three staff ranked them among the top 20 individual performers. None of the staff elected to retain their moustaches beyond 30 November!

## FINANCIAL CALENDAR

14 MAY '08	Annual Result Announcement
04 JUN '08	Final Distribution Record Date
16 JUN '08	Release of Annual Report
16 JUN '08	Payment of Final Distribution
25 JUN '08	MCN Interest Record Date
30 JUN '08	Payment of MCN Interest
13 AUG '08	Annual General Meeting
12 NOV '08	Interim Result Announcement
03 DEC '08	Interim Distribution Record Date
15 DEC '08	Payment of Interim Distribution
22 DEC '08	MCN Interest Record Date
31 DEC '08	Payment of MCN Interest

PLEASE NOTE: These dates are indicative only and may be subject to change.

## ARTWORK AT THE VERO CENTRE

"Pohutukawa – Cicadas' Song 1999" is a large scale artistic creation by Gretchen Albrecht who is acknowledged as one of New Zealand's leading painters.

The artwork, housed in the Vero Centre, was inspired by the red canopy of the Pohutukawa tree in flower. It captures the vibrancy and nuances of nature's summer hues with sweeps of sumptuous scarlet. The red oval (see picture), a shape much used by Albrecht over the past decade, is interrupted by rectangles of orange and green. "This creates an optical effect, jangley and vibrating on the scarlet to evoke the sound of cicadas," the artist explains.



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