



## **NZX & MEDIA RELEASE**

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### **KIWI INCOME PROPERTY TRUST ANNOUNCES ANNUAL RESULT**

Kiwi Income Property Trust today announced its annual result to 31 March 2010, delivering solid operating performance despite reporting a full year after tax loss of \$12.4 million. Importantly, the Trust will deliver Unit Holders the forecast full year cash distribution of 7.50 cents per unit.

The after tax loss was driven by an unrealised reduction in the value of the Trust's portfolio, reflecting the world-wide decline in property asset values brought about by the global financial crisis.

"It is pleasing to note that the Trust continued to deliver solid underlying operating performance in challenging market conditions," noted Sean Wareing, Chairman of the Manager of the Trust.

"Distributable profit was \$61.1 million, up 0.2% on the previous financial year. Even after the sale of two assets in the first half of the financial year, the Trust's net rental income was unchanged at \$133.7 million and operating profit before tax increased by 5.0%, to \$73.4 million," Mr Wareing said.

"The Trust continued to benefit from the strength of its premium assets, its sector diversification in both retail and office properties, and its diverse and high quality tenant base. The benefit of active management to create long-term value through development and asset enhancement was also illustrated by Sylvia Park's strong performance in difficult market conditions," Mr Wareing said.

During the year, independent asset valuations reflected the prevailing adverse economic and financial market conditions and the resultant impact on business and consumer confidence. As a result, the book value of the Trust's portfolio dropped by 3.9%, or \$74.7 million, to \$1.85 billion for the financial year to 31 March 2010. The decline resulted from a softening in capitalisation rates and market rentals, the latter across the office portfolio in particular.

In line with previous guidance, Unit Holders will receive a final cash distribution of 3.75 cents per unit, bringing the Trust's full-year cash distribution to 7.50 cents per unit. This represents a payout ratio of around 99% of operating earnings with the value of the Trust's distribution reserve increasing to \$11.6 million. The Manager intends to retain these funds in reserve until such time as a more consolidated economic recovery becomes established and global financial markets exhibit less volatility. The record date for the final distribution is 4 June 2010, and the payment date is 23 June 2010. The distribution is eligible for reinvestment in accordance with the terms of the Trust's Distribution Reinvestment Plan with no discount to the price at which units will be issued under the Plan.

| <b>Financial highlights</b>                          | 2010   | 2009    |
|--|--------|---------|
|  | [\$m]  | [\$m]   |
| <b>Financial performance</b>                         |        |         |
| Net rental income                                    | 133.7  | 133.7   |
| Operating profit before tax                          | 73.4   | 69.9    |
| Current tax expense                                  | (10.7) | (8.5)   |
| Distributable profit                                 | 61.1   | 61.0    |
| Unrealised property revaluations                     | (74.7) | (215.1) |
| Fair value change in interest rate derivatives       | 4.0    | (54.1)  |
| Deferred tax benefit / (expense)                     | (1.7)  | 40.3    |
| Net profit/ (loss) after tax                         | (12.4) | (168.9) |
| <b>Financial position</b>                            |        |         |
| Total assets   | 1,985  | 1,928   |
| Total Unit Holder funds <sup>[1]</sup>               | 909    | 912     |
| Bank debt to total assets                            | 28.8%  | 32.9%   |
| Net bank debt to total assets <sup>[2]</sup>         | 24.4%  | 32.9%   |
| Adjusted NTA [per unit] <sup>[3]</sup>               | \$1.22 | \$1.37  |
| Distributable profit [cents per unit] <sup>[4]</sup> | 7.65   | 8.45    |
| <b>Distributions</b>                                 |        |         |
| Cash distribution [cents per unit]                   | 7.50   | 8.00    |
| Imputation credits [cents per unit]                  | 1.33   | 1.12    |
| Gross distribution [cents per unit]                  | 8.83   | 9.12    |

<sup>[1]</sup> Includes distribution reserves of \$11.6 million.

<sup>[2]</sup> As at March 2010 calculated as bank debt less \$113.8 million MCN proceeds on deposit over total assets (excluding MCN proceeds on deposit).

<sup>[3]</sup> Adjustment excludes deferred tax on items that will not crystallise.

<sup>[4]</sup> Calculated using the weighted average number of units on issue.

## Balance sheet and capital management

"The Board of the Manager has consistently held the view that it is essential to maintain a strong balance sheet. The benefits of this prudent approach were particularly apparent this year, a period in which we experienced a crisis in global financial markets combined with a world-wide economic recession," Mr Wareing said.

A number of capital management initiatives were implemented to strengthen the Trust's financial position over the past year, providing further capacity to absorb the decline in asset values experienced and to accommodate the ongoing volatility in financial markets that will likely continue over the next few years.

Specifically, the following measures to strengthen the balance sheet were undertaken during this latest reporting period:

- ▶ \$50 million Institutional Placement completed April 2009
- ▶ \$15 million Unit Purchase Plan completed June 2009
- ▶ \$12 million sale of Fisher & Paykel Finance Building settled June 2009
- ▶ \$26 million sale of BP House settled August 2009
- ▶ \$120 million issue of new five-year Mandatory Convertible Notes completed in December 2009

The Trust's issue of new Mandatory Convertible Notes (MCNs) extends the duration of the Trust's funding base and maintains the diversity of the Trust's sources of funding, noting that the MCNs which were issued by the Trust in 2005 will convert into ordinary units on 30 June 2010.

"The effect of our completed capital management initiatives has been to significantly reduce net bank debt," Mr Wareing said. Net bank debt to total assets stood at 24.4% as at 31 March 2010, down from 32.9% a year earlier.

"Our increased financial capacity will also better position the Trust to take advantage of future investment opportunities that may arise out of the current environment," he added.

As at 31 March 2010 the Trust's total assets were \$1.98 billion, with secured bank debt of \$571 million representing a Trust Deed gearing ratio of 28.8%, comfortably within the Trust Deed limit of 40%. The Trust had \$800 million of committed bank debt facilities with a weighted average cost of bank debt of 7.07%, up from 6.45% as at 31 March 2009. The Trust has no bank debt that expires before the commencement of the 2012 financial year and the combined banking facilities have a weighted average duration of 1.9 years as at 31 March 2010.

## **Operations**

Chief Executive of the Manager of the Trust, Chris Gudgeon, said that despite the recession, the underlying operating performance of the Trust's portfolio remained sound.

“Due to our active management approach, strong tenant relationships, and high quality assets, the Trust has maintained net rental income performance during a difficult period,” Mr Gudgeon said. In the year to 31 March 2010, 643 new leases, renewals or rent reviews were completed for 152,000 sqm of space (equivalent to around 44% of the total portfolio). This resulted in an overall rental increase of \$4.38 million (5.2% above previous rental levels), with an average compound annual growth rate of 4.5% recorded from rent reviews. Occupancy levels remain high at 97.0%.

### **Retail portfolio**

|   |                |
|---|----------------|
| ▪ Portfolio value                                 | \$1.1 billion  |
| ▪ Occupancy                                       | 98.6%          |
| ▪ Weighted average lease term remaining           | 4.3 years      |
| ▪ Retail sales (incl GST)                         | \$1.05 billion |
| ▪ Specialty gross occupancy cost ratio (incl GST) | 14.7%          |
| ▪ Weighted average capitalisation rate            | 7.55%          |

“The Trust’s shopping centre management and leasing teams are working with retailers to drive sales performance, increase market share, maintain vacancies at current minimal levels and ensure rents remain affordable. Occupancy levels remain high at 98.6%,” said Mr Gudgeon.

Overall sales for the retail portfolio were \$1.05 billion (including GST) for the year to 31 March 2010, unchanged on the previous year. On a like-for-like basis, retail sales were down 1.2% on the previous year, reflecting lower discretionary spending, with a 1.5% decline in specialty stores sales performance. Major tenants (supermarkets, department stores and cinemas) recorded like-for-like sales growth of 0.6%.

Sylvia Park again demonstrated its strength by delivering net rental growth of 2.0% for the year to 31 March 2010 while net rental income for the retail portfolio as a whole was down 1.8% for the year.

Over the 2010 financial year, the Trust’s leasing team completed rent reviews over 84,000 sqm of retail space, resulting in a 5.5% increase over passing rentals (largely reflecting the CPI-related annual rent review structure in place for most specialty retail leases). The average gross occupancy cost ratio (inclusive of GST) for specialty retail tenants was approximately 14.7% as at 31 March 2010, unchanged on the year prior.

A total of 188 new leases were negotiated across the portfolio, of which 53 related to The Plaza redevelopment and 63 were due to lease expiries at Northlands. Sylvia Park recorded a solid

increase over previous rental levels of 9.0% due to its dominant regional position and its ability to grow market share. North City delivered rental growth of 1.4% on new leases, benefiting from a stable regional economy in Wellington and the absence of new competition.

The leasing program at Northlands was successful in maintaining occupancy at over 99%, but specialty rentals declined by 9.4%. This reflects a market correction following six years of fixed or CPI-linked rental growth at a time of increased competition due to leasing activities for the recently completed Westfield Riccarton redevelopment.

Specialty rentals at Centre Place and Downtown Plaza have also been under pressure due to increased competition from expansions at The Base and Westfield Chartwell shopping centres. Although no commitment has yet been made by the Trust, management has prepared plans for a \$40 million redevelopment to reposition Centre Place and Downtown Plaza as a competitive CBD specialty centre anchored by a department store, with a focus on fashion and entertainment. This strategy is intended to restore the Centre's sub-regional dominance over central and southern parts of Hamilton City and to capture significant ongoing growth in that market.

#### **Office portfolio**

|   |               |
|---|---------------|
| ▪ Portfolio value                       | \$686 million |
| ▪ Occupancy                             | 95.2%         |
| ▪ Weighted average lease term remaining | 4.2 years     |
| ▪ Tenant retention rate                 | 90%           |
| ▪ Weighted average capitalisation rate  | 8.35%         |

Despite the office market entering a difficult phase of the property cycle, the office portfolio produced like-for-like net rental income growth of 3.7%. During the year to 31 March 2010, rent reviews were completed for 36,000 sqm of office space, with an average 9.8% rent increase, equivalent to compound growth of 3.3% per annum since the previous review.

New leases and renewals of existing leases were executed for over 19,000 sqm, or 12% of the total office portfolio's floorspace, and rentals achieved represented an increase of 14% compared to previous rates. This included 14,800 sqm of office space in the Vero Centre (equivalent to 37% of the buildings total area) to tenants including Vero Insurance, Goldman Sachs JBWere and Craigs Investment Partners.

In April 2010, after the reporting date, ANZ National Bank entered into a new six year lease over 5,846 sqm at the National Bank Centre. The lease has an early break provision enabling

the tenant to surrender its lease in June 2013, representing a two year extension on the current expiry date of June 2011.

Vacancy rates in the Auckland and Wellington CBD office markets continued to increase throughout the reporting period, and a downward adjustment in market rents has occurred. Whilst the business environment is one of subdued demand, a considerable amount of new office space has been supplied through new developments that have either been recently completed or are due for completion over the next three years. Although these developments are largely pre-committed by tenants, surplus space will come to market in buildings subsequently vacated.

According to CB Richard Ellis, overall office vacancy rates in Auckland are projected to increase from 13.3% at December 2009 to a peak of 14-17% in 2013, and in Wellington from 6.1% at December 2009 to a peak of 10-12% in 2011.

"In this environment it is particularly important to maintain strong relationships with tenants and to maintain the relevance and attractiveness of our assets. Our longstanding commitment to this has assisted us in retaining 90% of tenants whose leases expired in the past 12 months. The Trust's office portfolio continues to enjoy a relatively high occupancy rate of 95.2% at 31 March 2010 with only 6.5% of our office rent roll expiring over the next 12 months," Mr Gudgeon said.

### **Asset valuations**

Independent valuations were completed for the Trust's assets by CB Richard Ellis, Colliers International and Jones Lang LaSalle. These indicate that the overall value of the Trust's property portfolio at 31 March 2010 was \$1.85 billion, a net reduction of \$74.7 million or 3.9% of the portfolio value for the year. Excluding assets sold during the period, the weighted average capitalisation rate for the investment portfolio increased 16 basis points from 7.70% as at 31 March 2009 to 7.86% as at 31 March 2010.

"The movement for the latest six month period to 31 March 2010 was a reduction of approximately \$8.7 million or 0.5% of the portfolio value. This indicates that property values are stabilising, consistent with recent improvements in global economic conditions," said Mr Gudgeon.

"The downward revaluation of the portfolio over the past 12 months was largely contained within the office portfolio. In contrast, in the six months to 31 March 2010 the value of the retail portfolio increased by 1.5% and is now only 0.8% down on March 2009 levels. Sylvia Park Shopping Centre in Auckland was again a standout performer, delivering growth in retail sales

and rents during a difficult period. As at 31 March 2010 it was valued at \$452 million, 1.6% higher than its value one year prior. Looking forward, our higher retail sector exposure, at 60% of total assets, should continue to assist in countering the softer outlook for the office sector," said Mr Gudgeon.

As at 31 March 2010, the portfolio had a weighted average lease term remaining of 4.3 years and an occupancy rate of 97.0%. Based on the independent valuers' assessments of market rents, portfolio rental levels are at market levels.

## **Development**

The ongoing refurbishment and expansion of the Trust's existing assets and the judicious development of new assets is essential to the Trust's continued performance and the delivery of attractive long-term sustainable returns.

- **The Plaza Shopping Centre, Palmerston North**

In March 2010, the third and final stage of the Trust's redevelopment of The Plaza Shopping Centre in Palmerston North opened on time and fully leased. This stage 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. Pleasingly, 100% of the Centre's budgeted base rent on completion is now secured by unconditional Agreements to Lease.

Stages 1 and 2 of the redevelopment were completed during 2009, resulting in the addition of a new nine-outlet, 450-seat foodcourt, a 700 space three-storey car parking building, and 18 new specialty shops.

The 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.

This month the retail offer was further enhanced with the opening of mini major JB Hi-Fi, a market leader in the entertainment and lifestyle category.

"As this was a late addition to our redevelopment plans, the 1,300 sqm JB Hi-Fi tenancy had to be funded from cost savings made during the project, highlighting the benefit of our development experience and focus on cost control," Mr Gudgeon said.

The overall redevelopment is expected to be completed within the initial capitalised cost budget of \$93 million, providing a projected yield of between 7.25% and 7.4% on

capitalised cost for the first full year post completion, rising to more than 8.25% in the third year post completion. The Centre was independently valued at \$195.5 million as at 31 March 2010 (before the deduction of costs relating to the completion of JB Hi-Fi).

- **Sylvia Park plan change**

A private plan change request for Sylvia Park has been initiated by the Trust in consultation with Auckland City Council. The Council has identified Sylvia Park as one of three 'principal centres' for its future planning of Auckland City. 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.

Significant provisions of the plan change, which was publicly notified by Auckland City Council in early April 2010, 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 floor area of approximately 72,500 sqm.

The plan change process is a necessary step in the long-term planning for the Trust's most valuable asset. Subject to appeals, the plan change could be operative during 2011. 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.

- **Potential ASB office development**

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

"This is a rare investment opportunity to secure an 18-year lease with one of New Zealand's leading banks on a prime waterfront location within what will progressively become a landmark precinct for Auckland City," said Mr Gudgeon.

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.

## Outlook

"We are encouraged that the return to economic growth and improving employment figures should in turn lead to greater business and consumer confidence, and a lift in investment intentions over time. We remain mindful, however, that the global financial crisis may continue to cause volatility in financial markets for some time yet," said Sean Wareing, Chairman of the Manager of the Trust.

"Despite these broader market conditions, 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," said Mr Wareing.

"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 the significant contraction in economic activity in the New Zealand and global economies will continue to be felt for some time. Tight credit conditions and the prospect of higher interest costs will continue to dampen prospects for rental and distribution growth until business profitability consolidates and investment and employment intentions lift following a period of sustained recovery. Our capital management measures have strengthened the balance sheet during a period of uncertainty but have the effect of diluting operating earnings per unit, as will the conversion of the 2005 Mandatory Convertible Notes on 30 June 2010," said Mr Wareing.

"While the Manager remains cautious in the current economic environment, based upon the outlook for the Trust, and subject to economic conditions, we are projecting operating earnings after tax for the year ending 31 March 2011 of approximately 7.00 cents per unit. Our intention is to provide distribution guidance for the year ending 31 March 2011 once we have analysed the Government's budget announcement, due to be announced later today, given that it may have implications for the taxation of property investments."

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## **About Kiwi Income Property Trust**

Kiwi Income Property Trust's objective is to optimise returns for its Unit Holders through the careful acquisition, development and professional management of its property portfolio. The Trust is listed on the New Zealand Stock Exchange and is ranked within the top 15 on the NZX 50 Index, and is a member of the NZX 10 Index.

The total value of the Trust's property portfolio is \$1.85 billion. Assets include:

### **Key Retail Assets**

|                              |                  |
|------------------------------|------------------|
| Sylvia Park Shopping Centre  | Auckland         |
| Centre Place Shopping Centre | Hamilton         |
| The Plaza Shopping Centre    | Palmerston North |
| North City Shopping Centre   | Porirua          |
| Northlands Shopping Centre   | Christchurch     |

### **Key Office Assets**

|                               |              |
|-------------------------------|--------------|
| Vero Centre                   | Auckland     |
| National Bank Centre          | Auckland     |
| 21 Pitt Street                | Auckland     |
| The Majestic Centre           | Wellington   |
| Unisys House                  | Wellington   |
| 44 The Terrace                | Wellington   |
| 50 The Terrace                | Wellington   |
| PricewaterhouseCoopers Centre | Christchurch |

Kiwi Income Property Trust's website address is [www.kipt.co.nz](http://www.kipt.co.nz)