

NZX & MEDIA RELEASE

23 August 2010

ASB Head Office Development Update

Kiwi Income Properties Limited, as Manager of Kiwi Income Property Trust ("the Trust"), today announced that the key Board and Trustee approval requirements in the conditional development agreement with ASB Bank Limited ("ASB"), to develop new head office premises for ASB in Wynyard Quarter on Auckland's waterfront, have now been satisfied. The proposed development remains conditional on a number of procedural matters and securing resource consent.

Chief Executive of the Manager of the Trust, Chris Gudgeon said, "This represents a rare and attractive investment opportunity for the Trust to lease head office premises to ASB for a minimum term of 18 years, providing our investors with a long-term, low risk rental income stream. The location in Wynyard Quarter is a prime waterfront site within what will progressively become a landmark precinct for Auckland City."

Key highlights of the project include:

- Over 18,000 sqm of prime office space
- 18-year lease agreement with ASB with fixed rental increases
- Prime waterfront site within Wynyard Quarter
- Fletcher Construction recently appointed as main contractor
- Earnings accretive to Unit Holders

ASB development agreement

Under the terms of the development agreement, ASB will take an 18-year lease over approximately 18,000 sqm of modern, environmentally sustainable office space, together with approximately 100 carparks and naming rights. The lease agreement provides for fixed annual rental increases of 2.5% throughout the 18-year term with a mid-term market rent review, subject to a 15% cap and collar arrangement.

The Trust's involvement with this development has been deliberately structured to minimise its exposure to development and ongoing investment risk. ASB will account for approximately 93% of the total budgeted rental income from the building, with the balance derived from approximately 1,700 sqm of retail space to be leased to third parties. The rent payable by ASB to the Trust will adjust for any increases or decreases in the development agreement budget during the design, consenting and construction tendering phases, so as to maintain the Trust's yield.

Investment returns

The intention of the Trust's investment in the ASB development is to enhance the Trust's earnings. The development is expected to be earnings accretive with a projected post-tax internal rate of return over a 10 year period of 9.5% (or 11.0% pre-tax), delivering an attractive premium over the Trust's post-tax weighted average cost of capital which has been assessed at 6.9%.¹

The initial project yield is projected to be approximately 8.5% based on a total development cost of \$126.2 million, with a projected value on completion of approximately \$138.5 million (based on a capitalisation rate of 7.75%).

During 2009 the Trust implemented a number of capital management initiatives to maintain a strong financial position. These initiatives enabled the Trust to reduce debt, diversify its sources of funding, extend the duration of its funding base and provide flexibility to consider value added investment opportunities. These initiatives included raising \$120 million from an issue of Mandatory Convertible Notes in December 2009, the proceeds of which have been set aside to partly fund the proposed development, in combination with bank debt.²

Construction arrangements

ASB and the Trust have recently appointed The Fletcher Construction Company Limited ("Fletcher") as the main contractor to complete both the base building works and ASB fitout works under a fixed price lump sum construction contract to be concluded prior to commencement of construction.

Mr Gudgeon said, "The early appointment of Fletcher as an experienced construction contractor is expected to reduce design, construction cost and program risks."

Fletcher's early involvement will contribute to ensuring that items such as design detailing and construction methodologies are both cost and time effective which in turn will facilitate competitive pricing of key sub-trade packages.

¹ PricewaterhouseCoopers Cost of Capital Report (March 2010). This report can be accessed on the PricewaterhouseCoopers website www.pwc.com/nz/en/cost-of-capital.

² As the proceeds of the 2009 Mandatory Convertible Notes ("MCN") issue are to be utilised for the purposes of the development (in combination with bank debt), accounting rules require the MCN interest, net of interest earned on the MCN proceeds, to be capitalised as a project cost from the time the land for the development is unconditionally secured (expected to be the fourth quarter of 2010). This is expected to result in approximately \$11 million of additional holding costs being capitalised to the development.

Additional time and cost efficiencies are also expected to be secured by having one contractor responsible for both the base building works, funded by the Trust, and the fitout works funded by ASB.

Development site

The 6,500 sqm site for the development is located at the corner of Jellicoe and Halsey Streets within the first stage of the Wynyard Quarter redevelopment on Auckland's waterfront.

A conditional ground lease agreement has been entered into by the Trust with Auckland Regional Holdings ("ARH") for an initial 90-year term with an option for the Trust to renew for a further 30 year period. Ground rent for the initial 90-year term is via one upfront payment of \$15.9 million, payable on completion of the development. No further ground rent is payable over the initial term, thereby ensuring the Trust is not exposed to the negative impact of increasing ground rent payments.

The Wynyard Quarter redevelopment is a joint initiative between ARH (Auckland Regional Council's statutory investment entity) and Auckland City Council ("ACC") that will see 29 hectares of land under their ownership transformed into a world class mixed use waterfront area. ARH, through its specialist subsidiary SEA+CITY Projects Limited, is leading and managing a design led transformation of this currently semi-industrial area into a vibrant and internationally successful part of Auckland's waterfront that will integrate with the Auckland CBD. ARH and ACC are committed to investing more than \$200 million into public infrastructure (most of which will be spent over the next 10 years) and to attracting private sector investment into the precinct of \$2-3 billion over the next 25 years.

Mr Gudgeon said, "This is one of the most exciting undertakings to have occurred on the Auckland city waterfront for many years. We are proud to be a part of the first major commercial development within the precinct and look forward to seeing ARH and ACC complete the first stage of Wynyard Quarter in time for the Rugby World Cup."

The first stage of Wynyard Quarter will deliver a new cycling and pedestrian bridge connection between Jellicoe Street and the Viaduct Basin, a new Events Centre, a major upgrade of the Jellicoe Street urban landscape including Silo Park, food, beverage and entertainment facilities on North Wharf and the three new 90 metre berths for marine industry commissioning and refit of super yachts.

Further information on Wynyard Quarter can be obtained from the Sea+City website at www.seacity.co.nz.

Land zoning

A proposed change to ACC's district plan, Plan Change 4, was notified by ACC in 2007 to provide the necessary zoning to give effect to the entire Wynyard Quarter development masterplan. The Trust's agreements with ARH and ASB are conditional on the issue of resource consent required for the proposed ASB development. Current expectations are that resource consent can be secured to enable construction to commence by mid 2011, with completion scheduled to suit a lease commencement date for ASB's premises in July 2013.

Mr Gudgeon said, "In addition to the investment returns provided by the development, other benefits will include the quality of the tenant covenant, the long-term lease with fixed rental growth and the resulting extension to the portfolio weighted average lease term".

ENDS

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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
Downtown Plaza 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