

New Zealand Shareholders Association Inc. Auckland Branch

Presentation by Chris Gudgeon,
Chief Executive | Kiwi Income Properties Limited

16 February 2011





Sylvia Park Shopping Centre, Auckland

- **Listed property sector**
 - Investment characteristics
 - Investor demand
 - Product supply
 - Global
 - Australia
 - New Zealand
 - Sector issues
- **Kiwi Income Property Trust**
- **Market overview and outlook**

Listed property sector

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- Stable cash flows from rental income
- Superior alternative to direct ownership
 - Lower capital outlay
 - Easily bought and sold
 - Diversification of risk
- Over the long term, lower volatility and more stable risk-adjusted returns than equities
- Portfolio Investment Entity Regime (PIE) aligned tax benefits with direct property investment

- Ageing population driving demand for annuity style investments
- Kiwi Saver
 - 30% of population (1.2 million out of 4.2 million) signed up since inception
 - NZ\$4.25 billion (5%) of total funds under management in New Zealand
- Property yields attractive in low interest rate environment
- Investors want simple, low risk, lowly geared structures

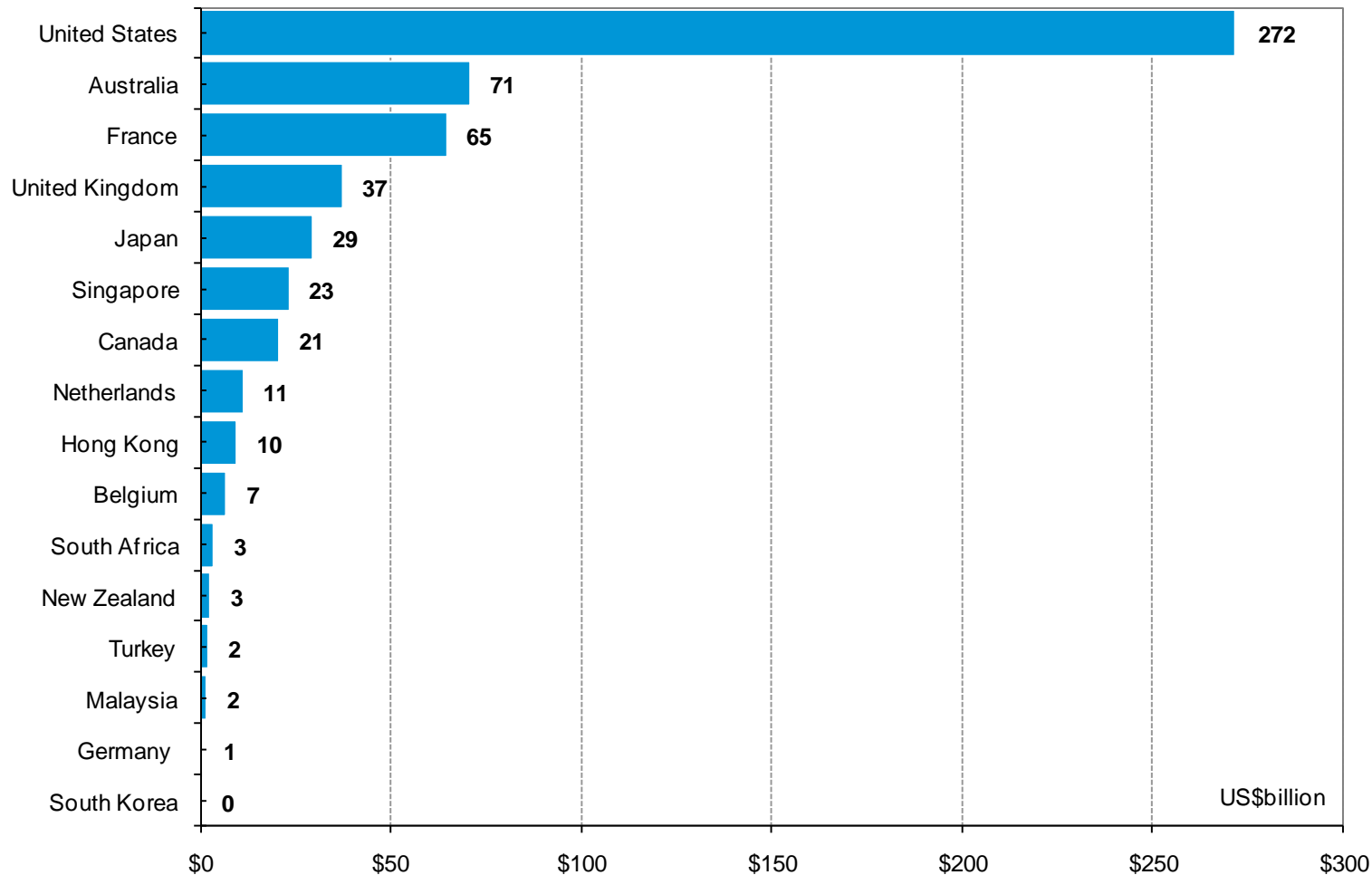
Listed property sector

Product supply – global sector



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– At 31 December 2009, the total market capitalisation of the global LPT sector was US\$555 billion



Source: Ernst & Young Global Real Estate Investment Trust Report 2010 (Based on Bloomberg data as at 31 December 2009)

Australian listed property trust sector

- Second (to the United States) largest listed property sector in the world
- Contains over 12% of the world's listed real estate market
 - 58 listed property trusts (November 2010)
 - Top 3 trust's represent 50% of the ASX 200 A-REIT Index
- Sector market cap of A\$76 billion (~6% of ASX All Ordinaries market capitalisation)

New Zealand listed property trust sector

- Comprises 10 entities
- Sector market cap of NZ\$3.6 billion (~9% of NZX 50 market capitalisation)

Listed property sector

Product supply – Australia & NZ



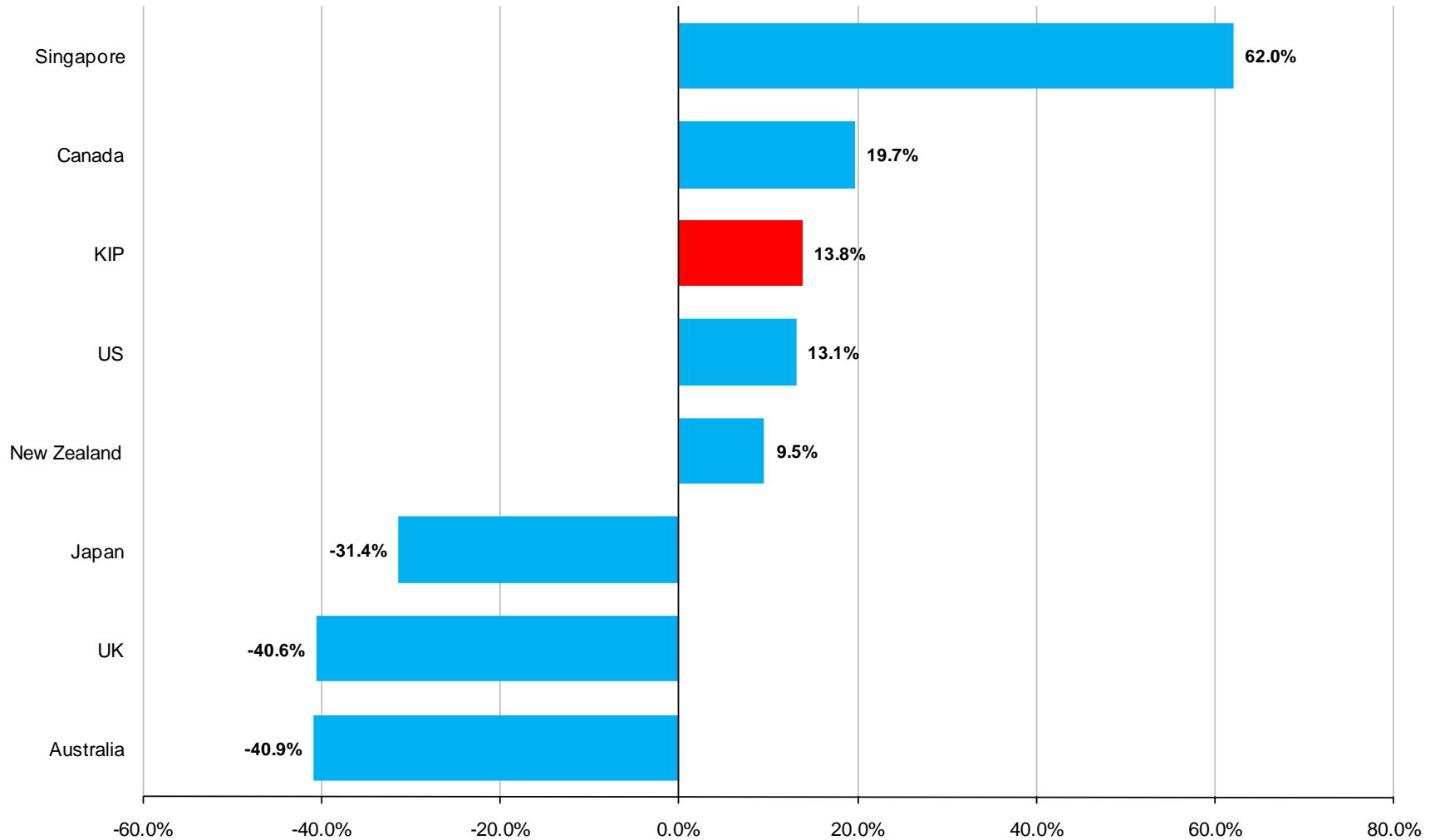
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Rank	Code	Fund	Market Cap (NZ\$m)
1	WDC	Westfield Group	25,356
2	SGP	Stockland	10,948
3	GPT	GPT Group	6,288
4	MGR	Mirvac Group	5,230
5	GMG	Goodman Group	5,175
6	CFX	CFS Retail Property Trust	5,166
7	DXS	Dexus Property Group	4,808
8	CPA	Commonwealth Property Office Fund	2,368
9	IOF	ING Office Fund	1,965
10	CQO	Charter Hall Office	1,465
11	KIP	Kiwi Income Property Trust	973
12	CQR	Charter Hall Retail	971
13	CMW	Cromwell Group	853
14	BWP	Bunnings Warehouse	717
15	GMT	Goodman Property Trust	714
16	ABP	Abacus Property Group	700
17	ANO	AMP New Zealand Office Limited	623
18	ARG	Argosy Property Trust	302

Listed property sector LPT global total returns



Five years ended 31 December 2010



- To varying degrees, the LPT story is the same around the globe over recent years:
 - Availability of credit significantly fuelled the LPT sector
 - Competition for assets saw values driven upwards → **increased risk**
 - LPTs looked beyond core markets for opportunities → **increased risk**
 - Increased gearing to leverage equity returns → **increased risk**
 - Other operational issues increased the perceived riskiness of LPT investment
 - Distributions above cash earnings → **not sustainable**
 - Non-rental revenue streams → **not sustainable**

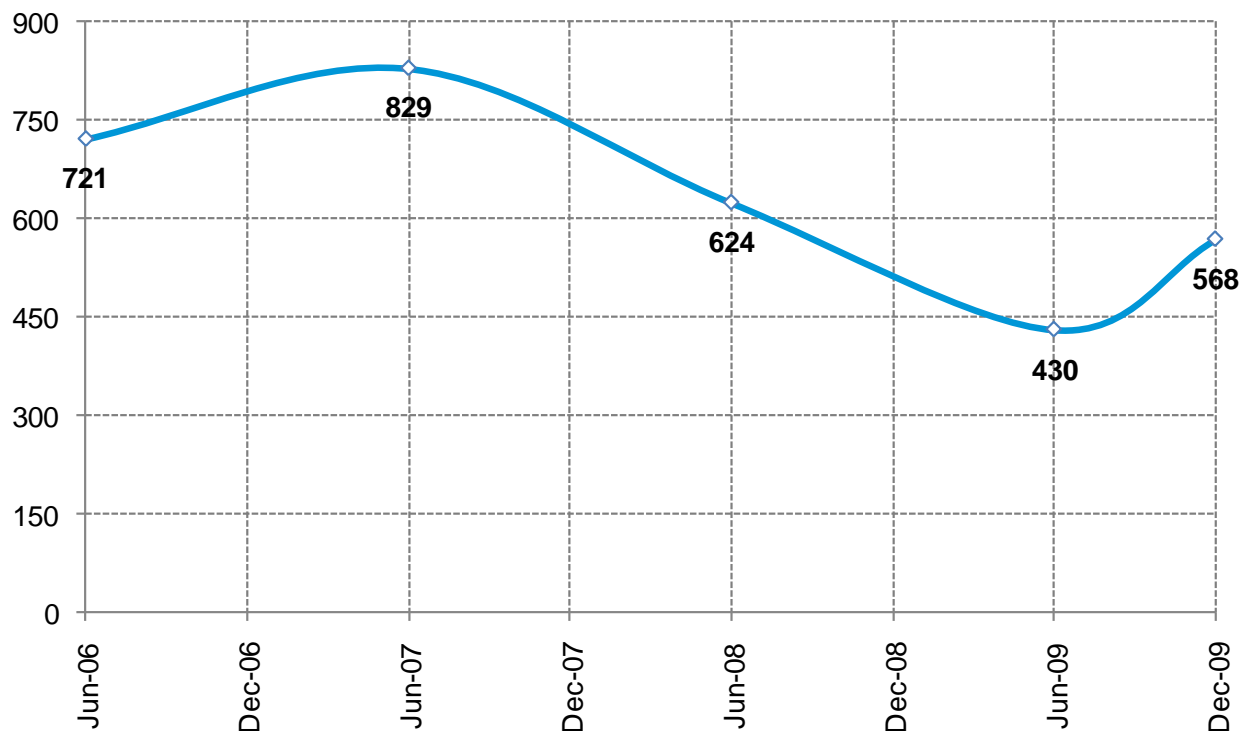
RESULT: Decreased market capitalisation, unsustainable debt levels, gearing and covenant pressure and negative returns. Research has concluded that those countries that strayed furthest from the ‘traditional’ LPT model fared worst

Listed property sector

Short term recovery

- Significant debt and equity raising have been completed
 - Used to reduce debt and recapitalise balance sheets
- Share prices have rebounded
 - Most markets have rebounded significantly from their lowest point (Mar-09) and now sit around Jun-05 levels

Global market capitalisation US\$b
(at 31-Dec-09 exchange rates)



Source: Ernst & Young Global Real Estate Investment Trust Report 2010 (Based on Bloomberg data as at 31 December 2009)

- Investors have rejected complex structures, leverage and development risk (hybrid funds, opportunistic development funds, private equity and property derivatives) in favour of traditional low risk, lowly geared property investment vehicles with limited development exposure

– Return to basics

- Return to a simpler, more conservative sustainable business model
 - Focus on rent collection and domestic portfolios
 - Expected result:
 - Simpler operating models
 - More transparent borrowing structures – lower gearing and well structured debt expirations
 - Sustainable distribution levels supported by core rental income
 - Transparent reporting

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Largest LPT

- New Zealand's largest listed property trust (listed 1993)
- Only listed property trust in the NZX 10 Index (ranked 10th)
- Diversified portfolio of 15 key retail and office assets located throughout New Zealand

Sound financial position

- Total assets of **\$2.03 billion***
- Strong financial position with net bank debt gearing ratio of **24.9%**
- Combined market capitalisation of over **\$1.1 billion** (incl. mandatory convertible notes)

Solid property fundamentals

- Solid property fundamentals:
 - Occupancy **97.0%**
 - WALT **4.2 years**
- Income and investment performance enhanced through intensive asset management, prudent development and new investments

* Post acquisition of LynnMall Shopping Centre on 1 January 2011

Geographical spread of investors

New Zealand	73%
United States	11%
Australia	10%
Europe	4%
Asia	2%

Retail versus institutional investors

Retail	41%
Institutional	59%

Kiwi Income Property Trust

Total returns

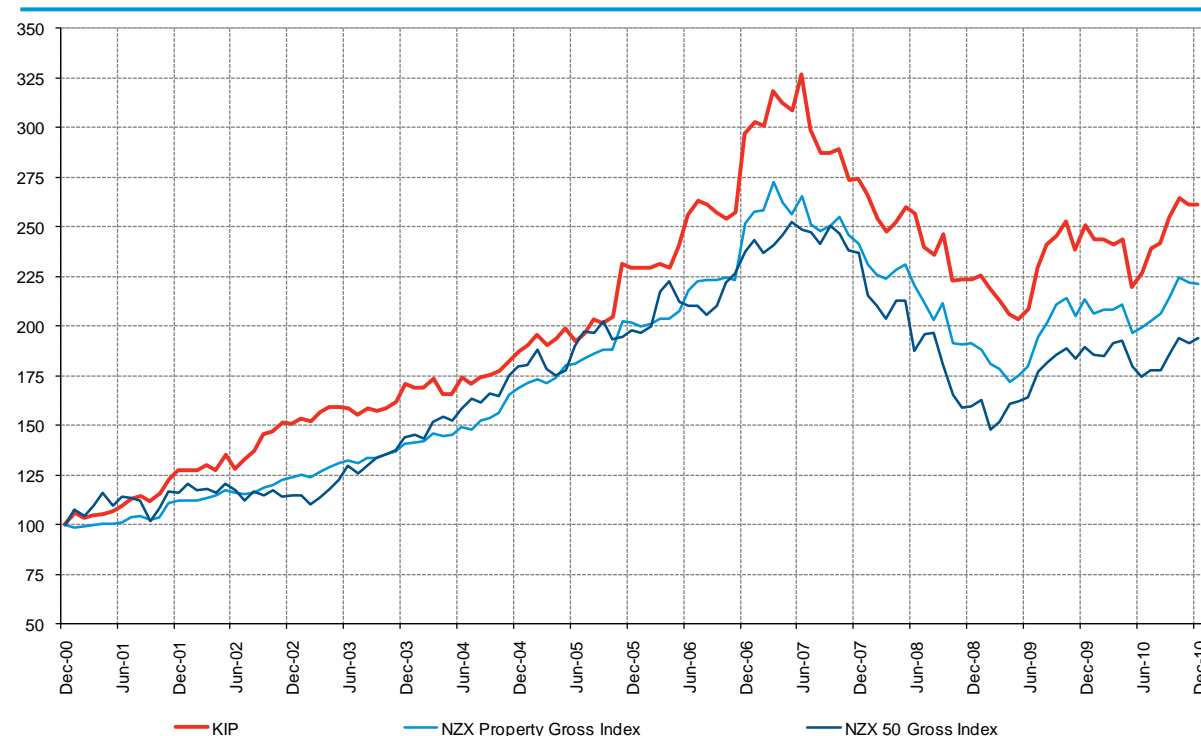


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Total returns For the periods to 31-Dec-10	1 year	3 year	5 year
	%pa	%pa cum	%pa cum
KIP [Unit price \$1.00]	4.1	-1.6	2.6
NZX 50 Gross Index	2.4	-6.4	-0.4
NZX Property Gross Index	3.4	-2.9	1.8

– The Trust has outperformed both the NZX 50 and NZX Property Gross Index over the one, three and five year periods

Indexed gross returns ^{2,3}
Indexed from 100 from 31 December 2000



1. Total Return means the return, including unit price movements and the reinvestment of all cash distributions and imputation tax credits
2. Gross Return means the return, including price movements and reinvested dividends (excluding imputation credits)
3. Source data obtained from NZX

Portfolio metrics ¹	Retail	Office	TOTAL
Number of assets	7	8	15
Value	\$1.28b	\$0.69b	\$1.97b
Percentage of investment portfolio ²	65%	35%	100%
Net lettable area [sqm]	223,495	158,061	381,556
Number of tenants	791	138	929
Occupancy	99.0%	94.9%	97.3%
Weighted average capitalisation rate [as at Mar-10]	7.55%	8.35%	7.86%
Weighted average lease term [years]	4.08	4.03	4.06

1. At 31 March 2010 the property portfolio was held at fair value as determined by independent valuations. At 30 September 2010 the value of the property portfolio represents the 31 March 2010 valuation plus capital expenditure incurred. All statistics above reflect the balances as at 30 September 2010 + LynnMall acquisition
 2. Excludes Investment Properties classified as "Other Property", ie adjoining, development and non-core properties (value \$62.9m / 3.4% of total portfolio)



**Sylvia Park
Shopping Centre
Auckland**

NLA: 71,225 sqm
Value: \$453.2m



**Northlands
Shopping Centre
Christchurch**

NLA: 42,256 sqm
Value: \$236.8m



**The Plaza
Shopping Centre
Palmerston North**

NLA: 32,279 sqm
Value: \$195.6m



**LynnMall Shopping
Centre
New Lynn**

NLA: 30,661 sqm
Purchase price: \$174.0m



Vero Centre
Auckland

NLA: 39,490 sqm
Value: \$265.7m



National Bank
Centre
Auckland

NLA: 26,141 sqm
Value: \$98.3m



Majestic Centre
Wellington

NLA: 24,387 sqm
Value: \$103.5m

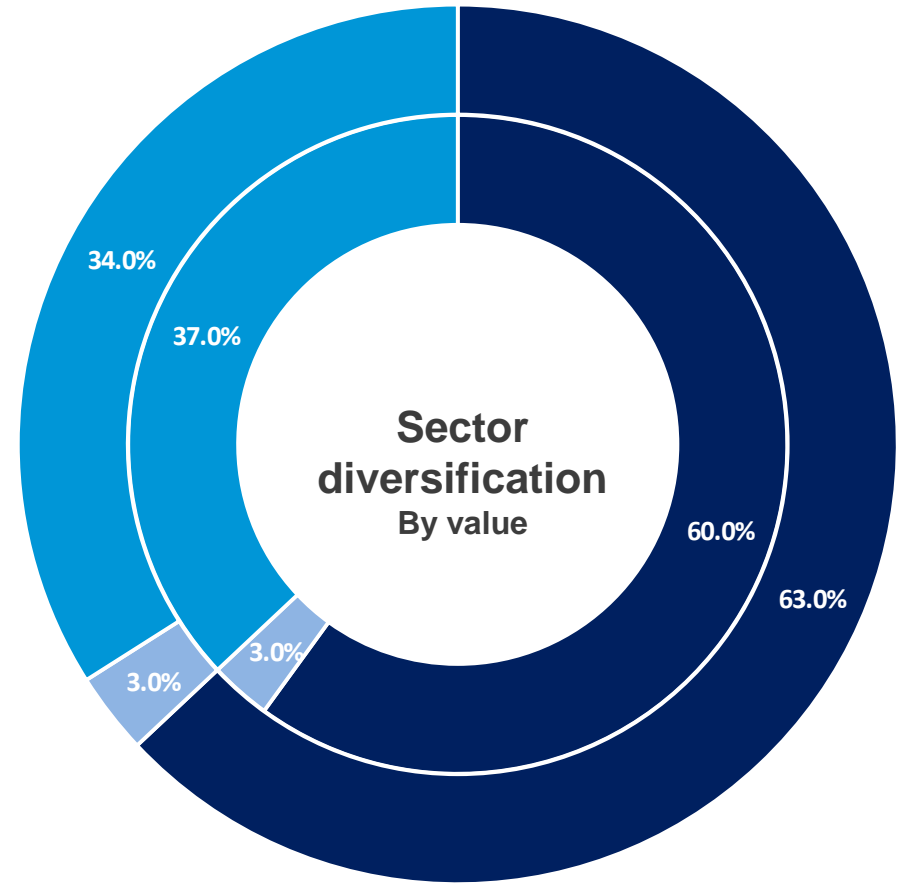
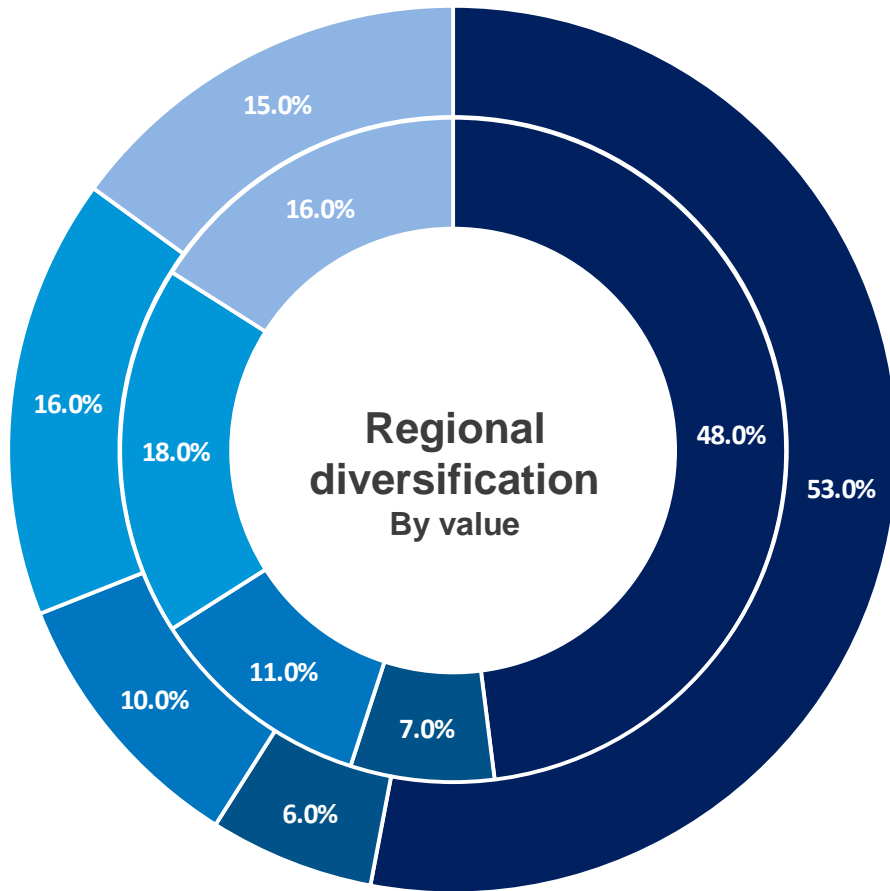


Unisys House
Wellington

NLA: 22,158 sqm
Value: \$79.8m

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Regional and sector diversification



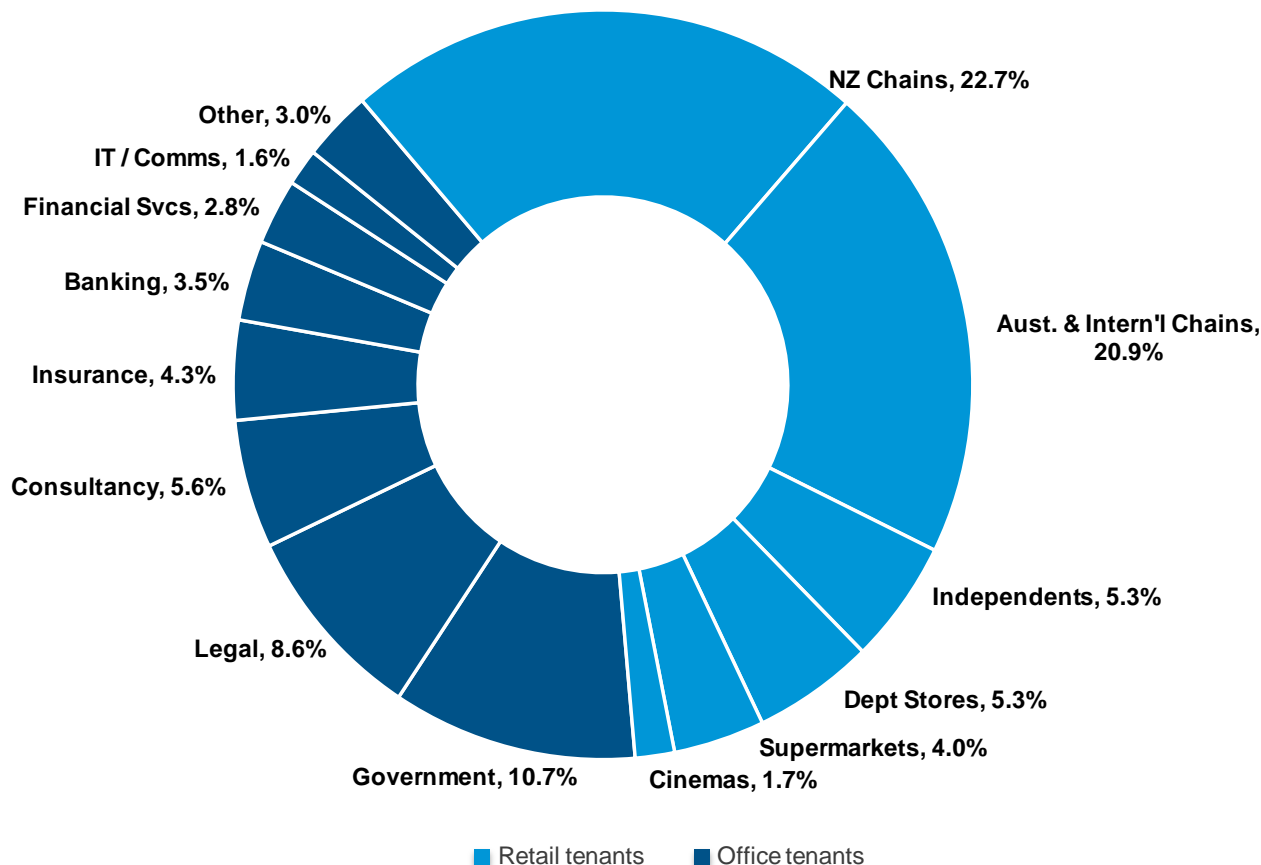
■ Auckland ■ Hamilton ■ Palmerston North ■ Wellington ■ Christchurch

■ Retail ■ Other ■ Office

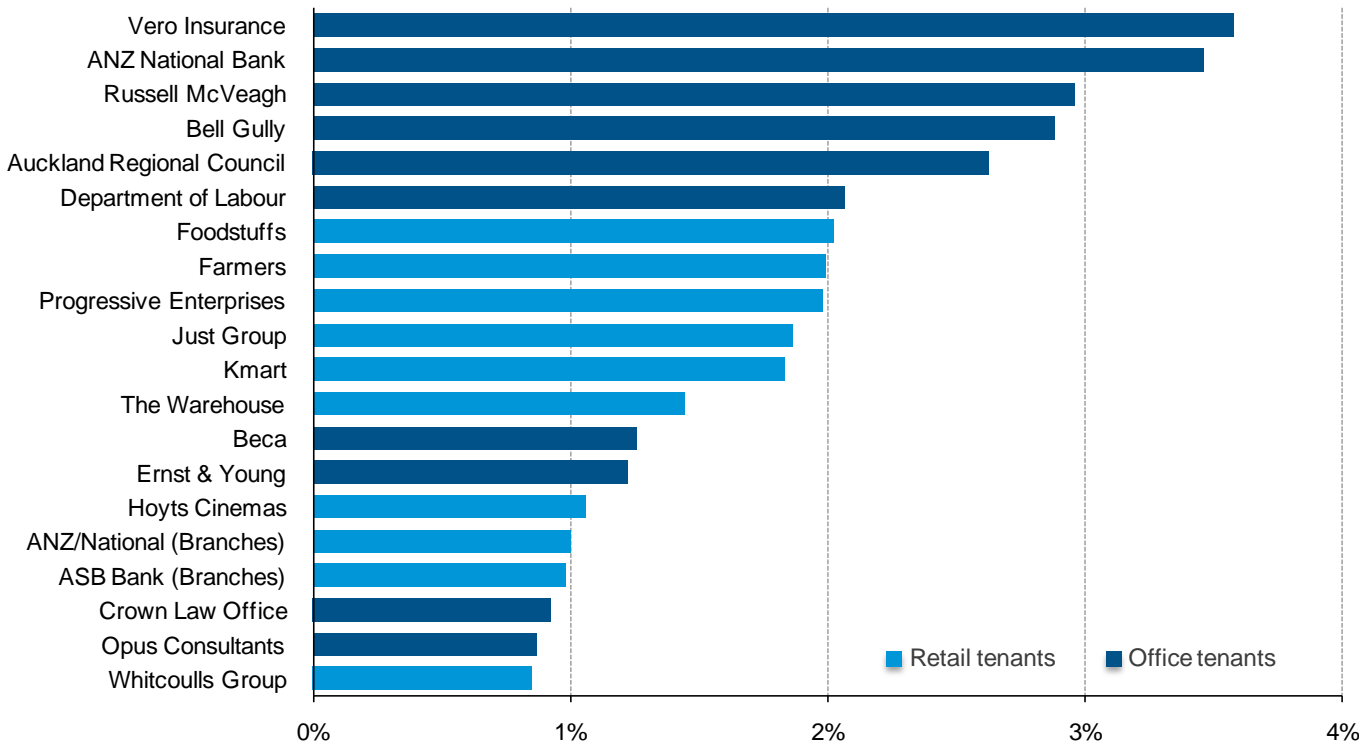
Inner ring – per Interim Result 30 September 2010
 Outer ring – as above and including LynnMall Shopping Centre

- Retail tenants provide **60%** of income
 - Over 11% of income from major tenants (department stores, supermarkets and cinema operators)
 - 44% from international, Australian and New Zealand chains
- Office tenants provide **40%** of income
 - Government and legal sectors are dominant

Tenant diversification
By gross income



Top 20 tenants by gross income % of investment portfolio



- The core portfolio includes over **790 tenants***
 - 664 (83%) are retail
 - 17% (17%) are office
- The top 20 tenants:
 - Contribute **37%** of gross rental
 - Occupy **53%** of net lettable area
 - Comprise government, legal and professional services firms, insurance companies, banks, supermarkets and major department stores

* Including LynnMall this increases to over 930

Financial performance

	6 months to 30-Sep-10	Year to 31-Mar-10
Net rental income	\$67.4m	\$133.7m
Operating profit before tax	\$36.1m	\$73.4m
Distributable profit after tax	\$33.0m	\$61.1m
Interim / full year cash distribution	3.50cpu	7.50cpu

Financial position

Total assets	\$1.99b	\$1.98b
Bank debt	\$578m	\$571m
Net bank debt to total assets	24.9%	24.4%
Adjusted NTA ¹	\$1.15	\$1.22

¹ Adjustment of NTA refers to the exclusion of deferred tax on revaluation gains and other items which will not crystallise

– **Balance sheet protection** ...




... maintaining conservative gearing and diversity within the capital structure to optimise the cost of capital

– **Intensively manage assets** ...

... to maximise income and investment performance

– **Position for growth** ...

... to take advantage of value added investment opportunities at the bottom of the cycle

Strategy / step	Achieved	Details
<p>Balance sheet protection maintaining conservative gearing and diversity within the capital structure to optimise the cost of capital</p>		<ul style="list-style-type: none"> ▪ Balance sheet enhanced through: <ul style="list-style-type: none"> – \$223 million of capital management initiatives (incl. institutional placement, unit purchase plan, asset sales and mandatory convertible note) – \$303 million bank debt extension completed ▪ Net bank debt to total assets ratio ~25%
<p>Intensively manage assets to maximise income and investment performance</p>		<ul style="list-style-type: none"> ▪ Results of active asset management include: <ul style="list-style-type: none"> – Net income maintained at \$133m, occupancy stable at ~97% and WALT at 4.2 years in difficult market conditions – Pro-active leasing: <ul style="list-style-type: none"> • Auckland's largest office leasing deal of 2010 undertaken • 385 leasing transactions undertaken over 111,649 sqm NLA
<p>Position for growth to take advantage of value added investment opportunities at the bottom of the cycle</p>		<ul style="list-style-type: none"> ▪ Value added investment opportunities undertaken include: <ul style="list-style-type: none"> – Acquisition of LynnMall Shopping Centre (\$174m) <ul style="list-style-type: none"> • In target Auckland retail market • Accretive from day one – Unconditional agreement to build new ASB Bank head office (~\$126m)

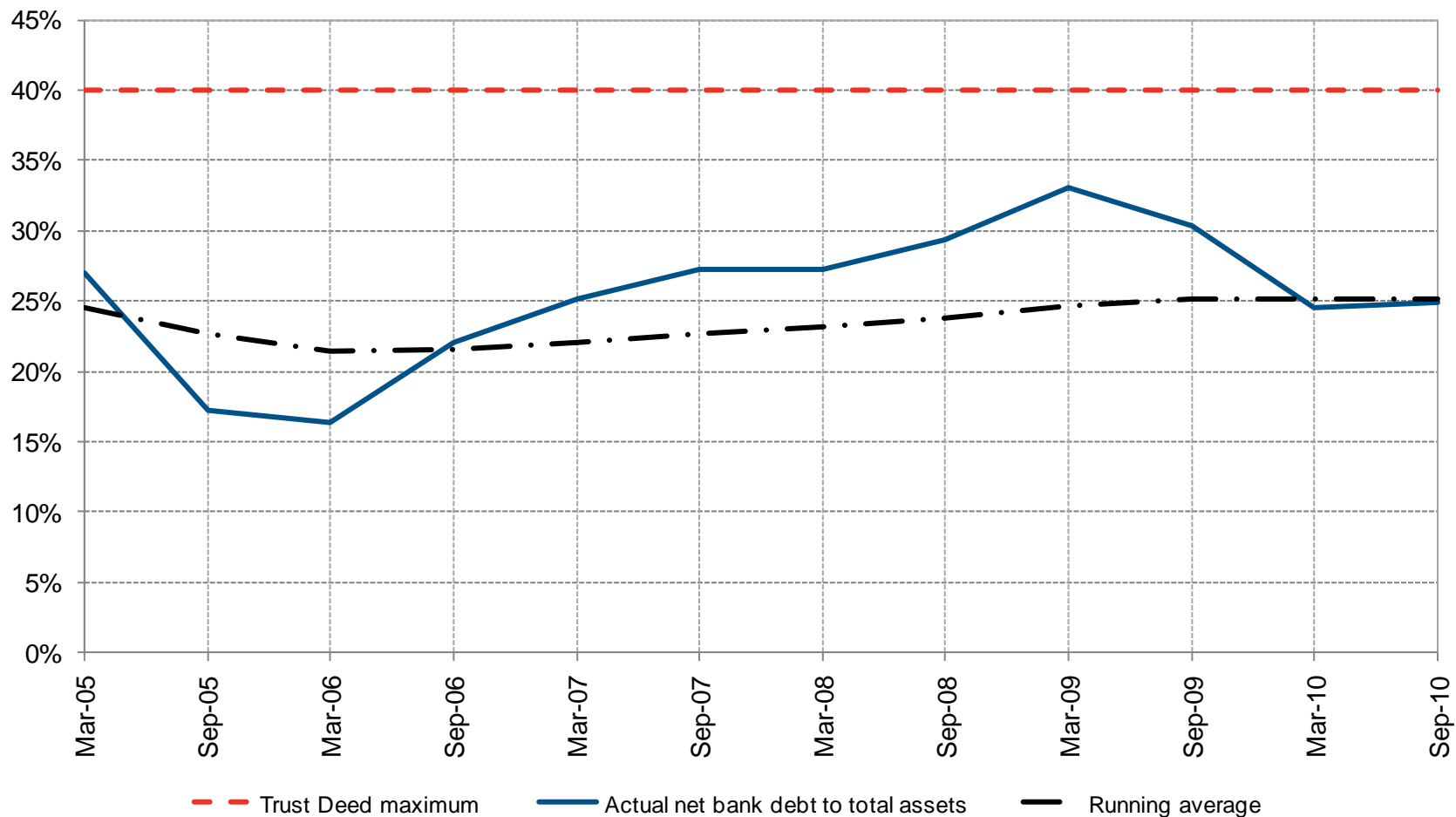
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Net bank debt to total assets



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- The average net bank debt to total assets ratio over the past five financial years is approximately **25%**



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LynnMall Shopping Centre



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Centre details		Tenants and carparks		Property statistics	
Type	Regional	Major tenants	2 Farmers, Countdown	Occupancy / WALT	99.6%
NLA	30,661 sqm	Mini-majors	4 Postie Plus, Number One Shoes, JB Hi-Fi, Noel Leeming	Weighted average lease term	3.0 years
Opened	1963	Specialty	130 incl shops, kiosks, foodcourt and ATMs	Moving annual turnover (incl. GST)	\$216m
Refurbished	1999, 2008	Carparks	1,412	Specialty GOC ratio (incl. GST)	14.7%



- **Immediately accretive** to earnings
- Accords with the Trust’s objectives of providing **long-term sustainable investment returns**
- Consistent with the Trust’s strategy of **increasing exposure to the Auckland retail market**
- Represents a **‘bottom of the cycle’** investment opportunity
- **9% initial yield** and **10.5% IRR**
- One of **only eight existing regional shopping centres in Auckland**
- New Lynn identified as a sub-regional centre for **future growth and intensification**
- **Excellent accessibility** through adjacent integrated rail and bus transport centre and planned motorway and arterial road improvements
- **Sales growth** in the trade area is projected to average 4.7% pa to 2020
- Potential to **add value** by application of the Trust’s active management model

Kiwi Income Property Trust

ASB Head Office, Wynyard Quarter



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- Resource consent granted
- Development agreement conditions satisfied
- Fletcher Construction appointed



ASB Head Office location

Project statistics

Development budget	\$126.2m
Target initial yield	8.5%
Net lettable area	18,000 sqm
ASB net lettable area	93%
ASB lease term	18 years
Construction period	Jun-11 to Jun-13

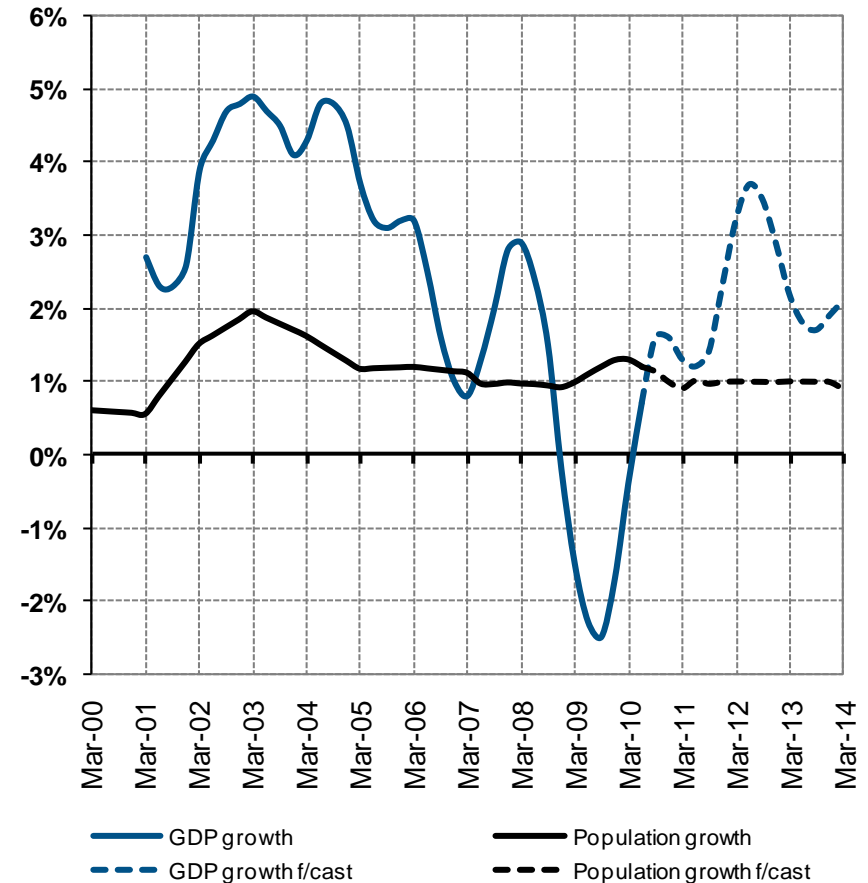


Market overview and outlook

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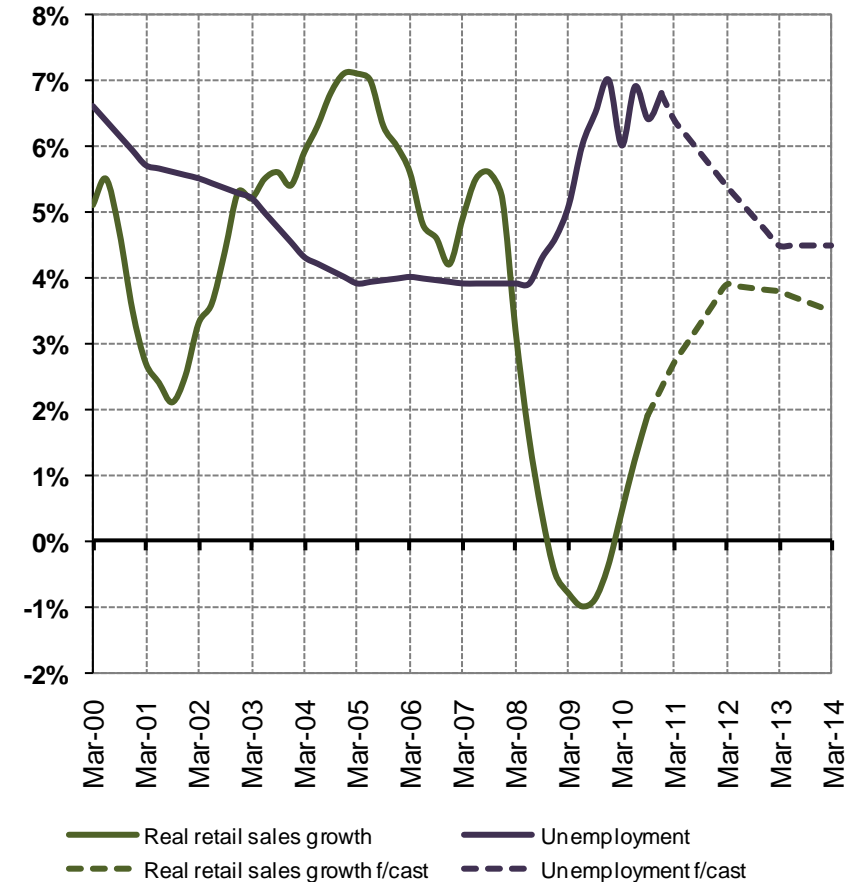
- New Zealand’s economic recovery weakened over the latter part of 2010 in line with global trends
- Activity anticipated to remain weak in early 2011
- More sustained recovery evident from mid 2011. The recovery will be driven by:
 - Demand for NZ commodities
 - A stronger construction market
 - Continued positive net migration
 - Cyclical recovery in business and residential investment
 - Low interest rate environment
 - Increased tourism expenditure with Rugby World Cup

GDP and population growth



- Retailer performance inextricably linked to retail sales strength which in turn is influenced by factors, including:
 - Housing market
 - Labour market
- Overall, a gradual recovery in the housing and labour markets will flow through to retail sales. However households are expected to remain cautious with expenditure until recovery is more entrenched

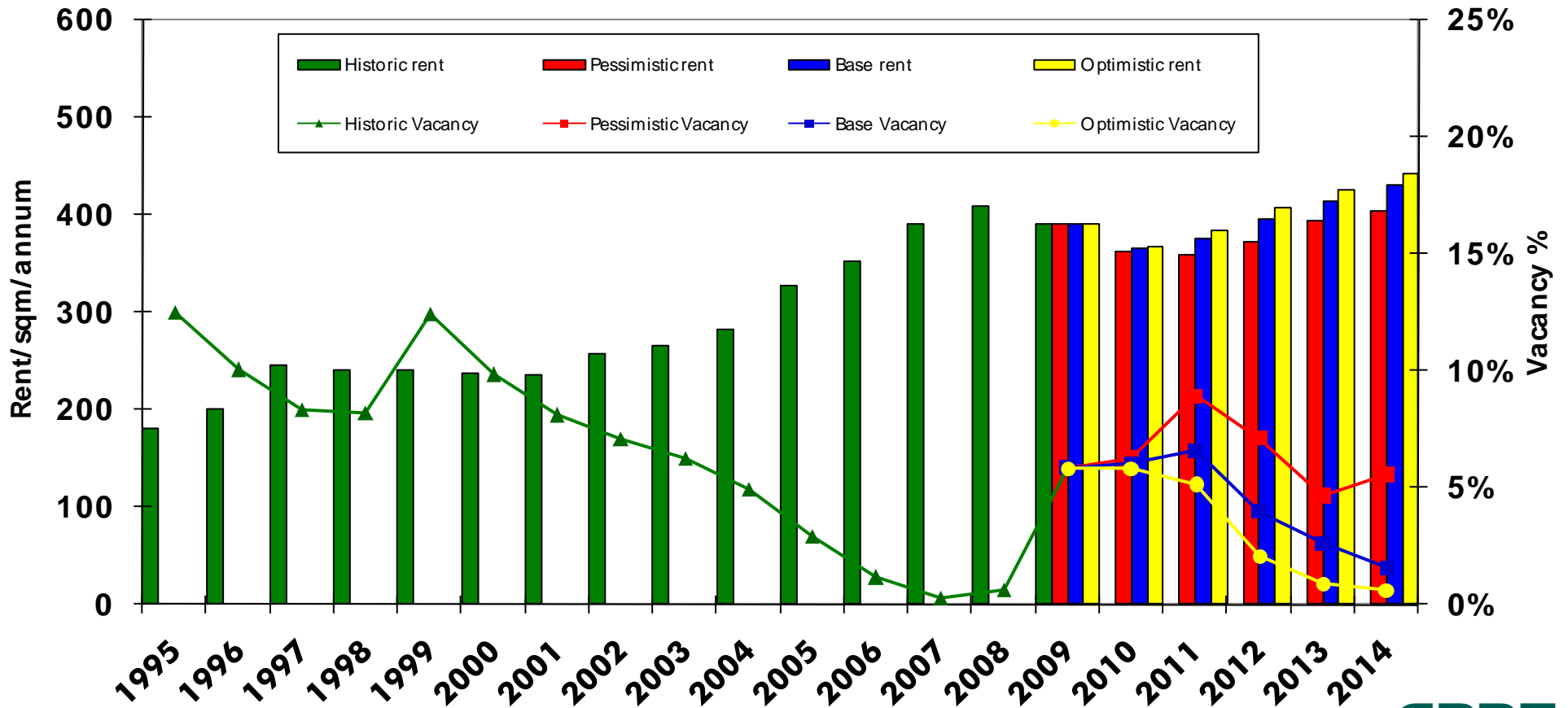
Retail sales growth and unemployment rate



Market overview and outlook

Office sector – Auckland

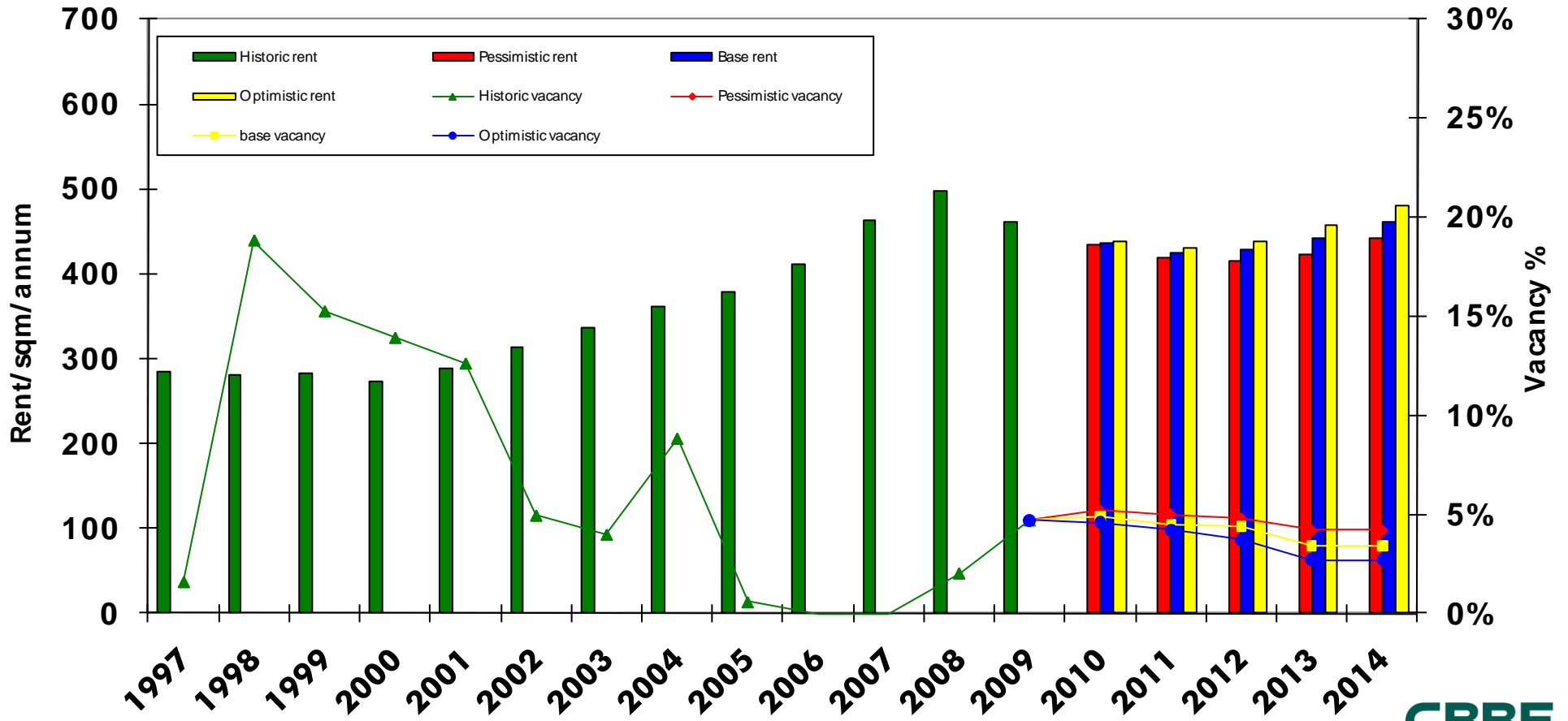
Auckland CBD Office Premium Rent and Vacancy



Market overview and outlook

Office sector – Wellington

Wellington CBD Office Premium Rent and Vacancy



**Moderate pace
of economic
recovery**

**Trust's
defensive
characteristics**

Distribution
cents per unit

7.00

- Economic recovery export led – strong growth in Australia, China and emerging Asia
- Household sector cautious with soft consumer spending
- Recovery in retail sales and employment in 2011
- Strong financial position
- Active management maintaining high occupancy rates
- Premium assets, diversified portfolio, solid tenant base
- Based on the outlook for the Trust, and subject to economic conditions, we are projecting an after tax cash distribution of 7.00 cents per unit for the year ended 31 March 2011

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