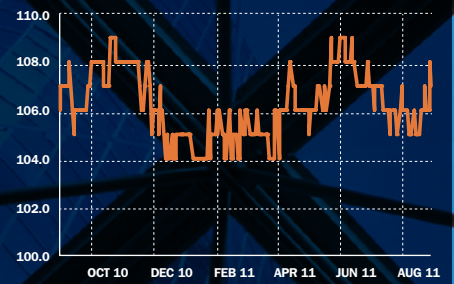


KIPT UNITS



KIPT MANDATORY CONVERTIBLE NOTES



SEPTEMBER 2011

INVESTOR UPDATE



CHRIS GUDGEON
CHIEF EXECUTIVE



MARKET VOLATILITY RETURNS... BUT THE TRUST IS PERFORMING WELL

GLOBAL share market volatility returned during the quarter, brought about by continuing European and US debt concerns. The underlying fundamentals of the Trust, however, remain solid, supported by its defensive characteristics, income focus and quality asset base.

This newsletter updates construction progress on the new ASB North Wharf building at Wynyard Quarter in Auckland and provides a snapshot of the recently completed new dining lane precinct and foodcourt development at Centre Place Shopping Centre in Hamilton.

In keeping with the Trust's objective of optimising investment returns and maintaining a strong financial position, we recently sold a Wellington office building, 50 The Terrace, as well as the former Farmers department store building in Palmerston North.

Sales proceeds have been used to retire debt. At the same time, marketing continues for the intended sale of another Wellington office asset, 44 The Terrace.

Northlands in Christchurch continues to trade above expectations as it benefits from the reduction in that city's retail stock due to the earthquake impacts. Meanwhile we continue to make progress on our insurance claim for the PricewaterhouseCoopers Centre.

On 21 June 2011 the Trust paid its final distribution for the year ended 31 March 2011. Unit Holders received a total cash distribution for the year ended 31 March 2011 of 7.00 cents per unit, representing an after tax return of 7.00% based on a \$1 unit price. ■

IN BRIEF

Earthquake assessment

As previously reported, the PricewaterhouseCoopers Centre in Christchurch sustained significant damage in the February 2011 earthquake. Engineering and damage assessments have been completed for the building structure, curtain wall cladding and foundations and these have been submitted to our insurers, who are now processing the associated insurance claim. Our target is to secure settlement of the insurance claim, together with a decision on the future of the building, by the end of October 2011. The building is insured for earthquake damage and three years' loss of rent.

Northlands Shopping Centre

Due to the relatively minor damage sustained at this centre during the earthquake events in Christchurch, the centre has been one of the few major retailing destinations to remain operating. As a result, we have seen sales growth at the centre in excess of 40%, a position which augers well for the centre's income performance and future valuation prospects.

Sale of 50 The Terrace

In August, we announced the sale of the Trust's non-core Wellington office building, 50 The Terrace. The three-storey building was sold to a private investor for \$6.37 million, which was in line with the asset's current book value of \$6.3 million. Chief Executive, Chris Gudgeon, said: "This asset was not core to our investment portfolio and was a logical candidate for capital recycling."

Sale of Farmers building

Also in August, we settled the \$2.0 million sale of the former Farmers department store building at 1-17 Broadway Avenue in Palmerston North. The building was acquired by the Trust in 1999 to facilitate the relocation of the Farmers department store to The Plaza Shopping Centre as part of the centre's redevelopment. The sale price equated to its book value. ■

OUR NEW CHAIRMAN



After seven years at the helm, Sean Wareing, the Chairman of the Trust's Manager, Kiwi Income Properties Limited, handed over the reins at the Trust's annual meeting in Auckland to incoming Chairman, Mark Ford.

MR FORD joined the Board of the Manager as an independent director in May 2011 and brings with him a wealth of property and finance expertise. A professional Sydney-based director, he also holds the roles of Non-Executive Chairman for Cbus Property Pty Ltd and Non-Executive Director for the Manager of China Commercial Trust.

Mr Ford's previous directorships include Comrealty Ltd, South East Asia Property Company (Chair), Property Council of Australia, Deutsche Asset Management Australia and Trafalgar Corporate Group Limited, amongst others. Prior to becoming a professional director, Mr Ford was Managing Director, Head of Deutsche Bank Real Estate Australia, where he managed over A\$10 billion in property



Sean Wareing (left) with Mark Ford (right).

funds, as well as overseeing the listing of two property trusts, the acquisition of the AXA Australia property business, the purchase of Paladin Limited and the merger of the Deutsche and Paladin Trusts.

Upon his retirement, Mr Wareing said: "I am pleased to be handing over the role of Chairman to Mr Ford. I leave in place an excellent group of directors who will continue to diligently govern the Manager's activities in the attainment of the Trust's objectives."

"Since my appointment seven years ago it has been my pleasure to Chair a Board of Directors fully committed to the Trust's vision of being New Zealand's leading property investment vehicle." ■

WHITCOULLS TO REMAIN



DURING the quarter, the Trust's retail leasing team secured the ongoing tenancies of the Whitcoulls bookstores across the retail portfolio after their previous owner went into administration.

In a very positive result for the Trust, all six of the Whitcoulls and Borders tenancies

currently within the shopping centre portfolio have been retained as the booksellers' new owners, the Norman family, look to apply their specialist New Zealand retail expertise.

Gordon Bray, Manager Retail Leasing, said: "This is a great outcome for Whitcoulls and for the Trust. The fact that the Norman's are now in charge is a very positive event – they are renowned for their retail expertise and we continue to have a good relationship with them through their other businesses, such as the Farmers department stores and the Pascoes Group."

Three new seven-year leases have been agreed for the Whitcoulls stores at LynnMall, North City and Northlands. A new three-year lease has been struck for the Centre Place store, and the Norman entities have taken assignments of existing leases over stores at Sylvia Park and The Plaza.

The Whitcoulls stores in the Trust's portfolio range in size between 350 sqm and 600 sqm, with the Borders store at 2,200 sqm. ■

THE FUTURE IS HERE... WORK CONTINUES ON ASB NORTH WHARF



1. Viaduct Events Centre
2. Wynyard Crossing pedestrian bridge
3. North Wharf restaurants
4. ASB North Wharf

The construction of the new head office premises for ASB Bank (known as ASB North Wharf) is now well underway at Wynyard Quarter, Auckland.

OUR main contractor, Fletcher Construction, took possession of the site in January 2011. The building is starting to take shape, with foundations, ground level and first level now largely complete. The construction project is on program to complete in time for ASB's July 2013 lease commencement date.

The photo above shows the ASB building under construction within the first stage of Wynyard Quarter which opened in early August – in readiness for the Rugby World Cup.

The Wynyard Quarter redevelopment, being undertaken by Auckland Council, is a transformational project for Auckland's waterfront which will eventually cover 38 hectares of land.

New facilities include the North Wharf restaurant development, the new Viaduct Events Centre, Gateway Plaza, Silo Park, landscaped Jellicoe Street and the new Wynyard Crossing pedestrian bridge which connects Jellicoe Street to the Viaduct Basin and CBD.

To those of our investors who live in Auckland, or are visiting during the Rugby World Cup, we would encourage you to visit Jellicoe Street in Wynyard Quarter, which will be part of Auckland's entertainment hub during the Rugby World Cup. The ASB development site is very prominent thanks to the Trust's distinctive orange hoardings that have been erected on the northern boundary, fronting Jellicoe Street. ■



Andrew Buckingham, Project Director (right), on site at ASB North Wharf.



CENTRE PLACE DINING LANE AND FOODCOURT OPEN... IN TIME FOR RWC KICK OFF

HAMILTON shoppers have this week been delivered a new outdoor dining precinct and foodcourt at Centre Place Shopping Centre following the completion of our \$10 million refurbishment and redevelopment – just days ahead of the city's first Rugby World Cup match.

Thanks to the efforts of our retail leasing team, both the dining lane and foodcourt opened 100% leased, with the outdoor dining precinct offering six new alfresco restaurant and café options and the indoor foodcourt comprising 10 food operators and 450 seats for diners, up from the previous 300.

The works included the conversion of a carpark slip lane into an outdoor dining terrace with a north-facing aspect.

Shopper carparking in the city is also set to become easier, thanks to the Hamilton City Council undertaking works to improve access into its Garden Place carpark via a signaled intersection on Anglesea Street. The Trust is also working with the Council on a number of initiatives to improve accessibility to, and utilisation of, the Centre Place carpark.

Mark Luker, General Manager Development said: "We were extremely pleased to deliver this project on time and on budget. This is an exciting and timely project, which rightly restores Centre Place as a food and entertainment hub in Hamilton's CBD."

The incremental net income generated from the completed upgrade project is expected to provide the Trust a return of approximately 8.5% on total project costs. ■

CHALLENGING OFFICE MARKET



GENERALLY, the office market has proved challenging due to a number of new buildings in both the Auckland and Wellington markets coming on line at a time when occupier demand was contracting. Although these new developments were largely pre-committed, the impact of this new supply has been an increase in vacancy levels in secondary buildings across both markets. Looking specifically at the Auckland office market, where about 20% of our total investment portfolio is located, the city's office stock has come under pressure. According to CB Richard Ellis (CBRE), the subdued demand has led to market rents contracting between 13% and 25% in the two-year period to December 2010 for premium and A-grade assets respectively. We expect rentals in Auckland to remain relatively flat in the short term before beginning to recover in 2012. CBRE forecasts that the overall Auckland office vacancy rate will peak in 2011 at approximately 14% and recover thereafter. The vacancy rate across the Trust's Auckland office assets (Vero Centre, National Bank Centre and 21 Pitt Street) currently sits at around 5.5%. A similar story exists in Wellington. Market rents have contracted by up to 15% in the two years to December 2010. CBRE forecasts rents to further moderately decline across 2011 before returning to growth the following year. CBRE also forecasts that overall vacancy will increase to around 13% then correct. Overall, the vacancy rate across the Trust's four Wellington office assets is less than 2%. ■

Growth in internet sales – 'bricks & clicks'

A REPORT on the growth in internet sales in Australia and New Zealand has recently been released by PricewaterhouseCoopers (PwC).

According to PwC, online retailing accounts for around 5.1% of all retail sales in New Zealand¹. This compares to 5.5% in Australia, 7.5% in the United States and 9% in the United Kingdom. The substantial difference, according to PwC, is the lack of online presence by the large retailers in the Oceanic region.

Our view is that while online retail sales can be expected to increase over time, internet sales will still only form a part of retailers' overall distribution strategies and that a strong presence in retail malls or in high street shopping precincts will remain the

cornerstone of effective retailing. With shopping centre space in New Zealand being relatively undersupplied (shopping centre space per capita in New Zealand is about 50% of that of Australia), the demand for good shopping centres in this country looks likely to remain strong as retailers need to employ a 'bricks & clicks' approach to accessing the customer.

We view the internet as being complementary to a successful retailer's physical presence in a shopping centre, reinforcing the brand. According to the PwC report, 65% of in-store purchases are actually initiated on the web. For a copy of the PwC report refer to their website www.pwc.com/nz. ■

¹PricewaterhouseCoopers: Digital Media Research, 2011

GOOD LUCK TO THE ALL BLACKS

At the time of going to press, New Zealand was excitedly awaiting the first match in the Rugby World Cup.

FROM everyone here at Kiwi Income Property Trust, we send good luck to all of the teams competing ... and we send the very best of our luck to the All Blacks. Go New Zealand! ■

2011 Annual Report

THE 2011 Annual Report has been posted to all unit holders who have elected to receive one. An online version is available on the Trust's website at www.kipt.co.nz. Alternatively, a copy of the Annual Report can be requested by emailing info@kipt.co.nz. ■



2011 Annual Meeting

THE Trust held its annual meeting in Auckland on 18 August 2011, at which outgoing Chairman Sean Wareing and Chief Executive of the Manager, Chris Gudgeon, provided an overview of the 2011 financial year. A copy of the presentation is available on the Trust's website at www.kipt.co.nz. ■

UPCOMING INVESTOR ACTIVITIES

16 November 2011	Interim results announcement
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FINANCIAL CALENDAR

20 September 2011	Payment of MCN interest
20 December 2011	Payment of MCN interest
20 December 2011	Release of interim report
20 December 2011	Payment of interim distribution

Please note: These dates are indicative only and may be subject to change.

CONTACT DETAILS

Your feedback is welcome

Phone +64 9 359 4000 **Fax** +64 9 359 3997
Website www.kipt.co.nz **Email** info@kipt.co.nz