Capital Properties

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Dear Capital Properties shareholder,

AMP Property Portfolio Investments Limited ("AMP Property Portfolio")
Takeover Offer for Capital Properties New Zealand Limited ("Capital Properties")

This letter has been prepared by the independent directors of Capital Properties ("Independent Directors") to inform shareholders about recent communications between AMP Property Portfolio and the Independent Directors. These communications have arisen out of AMP Property Portfolio's takeover offer for your shares, and the target company statement which Capital Properties sent to you in response to the offer ("Target Company Statement").

AMP Property Portfolio published an open letter dated 21 October 2005, to which the Independent Directors responded with their open letter of 28 October 2005. These letters are available for your review on the Capital Properties website at www.cpnz.co.nz under Articles/ Media Releases.

In this letter we highlight aspects of this recent communication exchange and other information in the public domain that, in the opinion of the Independent Directors, are worthy of further comment to shareholders.

AMP Property Portfolio refers to a statement in the Sunday Star Times of 16 October 2005 attributed to Mr Frankham, that Capital Properties was "looking at whether or not it is appropriate for us to release further forecasts". We have pointed out to AMP Property Portfolio that this statement was in response to a suggestion that Capital Properties was under pressure to increase its dividends. Having considered this suggestion, the Independent Directors are of the view that there is no need to release further forecast material. The following statement made on page 21 of the Deloitte independent advisers report in section 3 of the Target Company Statement remains valid:

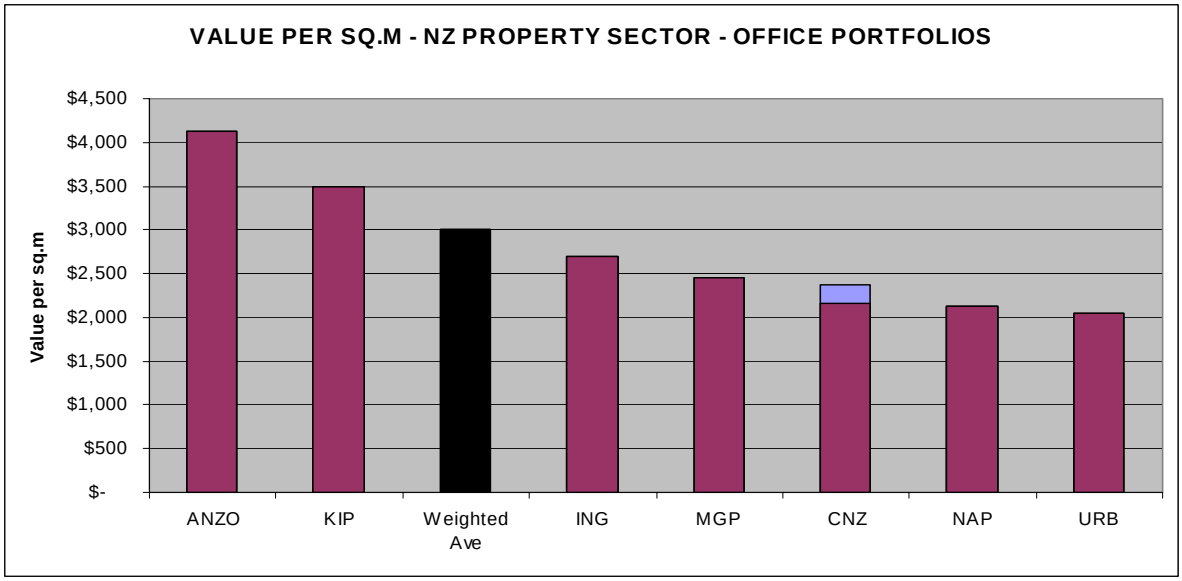
> "Dividends in 2006 are projected to increase to 10 cents per share, and further projected to increase to 11 cents per share in 2007".

The Independent Directors are, however, concerned to correct any misinformation in the market about a 'revenue hole' for Capital Properties. A review of analysts' projections has been completed and it has been observed that there is a divergence of views with respect to Capital Properties' 2008 revenues and earnings. The Independent Directors consider that those analysts whose projections support the continuity of the level of the 2007 dividend through into 2008 are making a reasonable assessment.

AMP Property Portfolio has expressed the view that a key driver behind the rise in Capital Properties' share price over recent months has been the corporate activity surrounding Capital Properties. We have responded that we believe the main factors behind the Company's recent share price growth are the increase in net tangible assets per share ("NTA"), together with a general market re-rating of Capital Properties to recognise the increased potential for earnings growth. NTA is derived from the underlying value of the property portfolio as independently quantified by professional valuers in the course of portfolio revaluations.

In the media AMP Property Portfolio has questioned the independent property valuations commissioned by Capital Properties in response to the takeover offer. Shareholders should be aware that the valuers used by Capital Properties, Colliers International, Jones LaSalle and CB Richard Ellis, are among the most respected in the industry. They are widely used by most property companies, including by AMP NZ Office Trust.

Further, the value of the office properties within Capital Properties portfolio, at approximately $2,400 per square metre of rentable area, is at the low end of the range in comparison with the rest of the listed office property sector, and well below the average level of about $3,000 per square metre. This is illustrated in the graph below which compares Capital Properties' ("CNZ") values with other office property portfolios.



Source: DTZ New Zealand Limited - Office property valuations based on information in respective 2005 annual reports for each entity (other than Capital Properties (CNZ) valuations which reflect the September 2005 portfolio revaluations adjusted to exclude retail, carparking and development sites).

The lighter shaded area in CNZ's (Capital Properties') bar denotes the September 2005 revaluation uplift.

Key: ANZO – AMP NZ Office Trust; KIP – Kiwi Income Property Trust; ING – ING Property Trust; MGP – Macquarie Goodman Property Trust; CNZ – Capital Properties; NAP – The National Property Trust; URB – Urbus Properties Limited (now delisted).

In addition to the above value comparison, in our opinion the net annualised income yield on Capital Properties' portfolio value of 8.3% as at 30 September 2005 compares favourably with the rest of the listed property sector.

AMP Property Portfolio has questioned the Deloitte independent adviser report which was included in the Target Company Statement. We have pointed out that Deloitte are independent advisers, appointed by the Independent Directors in accordance with the Takeovers Code, and approved by the Takeovers Panel. They had access to material information concerning Capital Properties and its prospects and were well placed to independently assess the fair value of the company's shares for the benefit of shareholders considering the AMP Property Portfolio takeover offer. In their role as independent advisers under the Takeovers Code Deloitte acted independently in their professional capacity.

Deloitte set out in their report why they believed a discounted cashflow analysis was the most appropriate and robust approach in determining the fair value range for Capital Properties' shares. As such, Deloitte's valuation takes into account the medium to long term earnings growth prospects for the company and not just the next one to two years.

Material in the Deloitte report, publicly available information and information regarding the current completion status of the New Defence building can be used to construct the analysis set out below:

		$m	$ per share
Audited shareholders' funds at 31 March 2005		306	1.29[1]
Add	-Dividend reinvestment programme	3	
	-New Defence building development margin to 30 Sept 2005[2]	5	
	-Portfolio revaluation at 30 September 2005	44	
Unaudited shareholders' funds at 30 September 2005		358	1.48[3]
Add unrecognised development margin for New Defence building[2]		9	
		367	1.52[3]

The table above does not address a range of other factors which were either taken into account in determining, or likely to be implicit in, Deloitte's fair value range of $1.48-$1.73 with a mid point of $1.60, including:

- A premium for a controlling interest.
- Advice from property valuers that, in their opinion, the market value of the portfolio is likely to be greater than the sum of the market values of the individual buildings (as noted in Capital Properties' 2005 Annual Report)
- Future development opportunities.
- Ongoing management costs.

Capital Properties historically viewed itself as providing a reliable income stream with limited capital growth prospects. The Independent Directors now consider that Capital Properties could be viewed as continuing to provide a reasonable yield with positive earnings growth potential.

The Independent Directors will continue to monitor the situation. Until there are further developments, we confirm our recommendation that you do not accept the current AMP Property Portfolio offer at $1.42 per share.

Yours sincerely

AN Frankham
Chairman
Independent Directors' Committee
Capital Properties New Zealand Limited

[1] Based on number of ordinary shares on issue excluding shares treated as treasury stock for accounting purposes.
[2] The expected development margin is based on the development cost and projected value on completion of the New Defence building currently under construction. The expected development margin is progressively taken up during the construction period to March 2007 based on construction progress at each reporting date.
[3] Based on number of ordinary shares on issue including shares treated as treasury stock for accounting purposes.