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Acquisition of

Finance Centre Podium

March 2008

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Introduction

- The independent directors of Kermadec Property Fund recommend the acquisition of the Finance Centre Podium situated at Albert Street & Victoria Street, Auckland
- This property is currently owned and being re-developed by Augusta Group, making the acquisition a related party transaction under NZX listing rules
- The acquisition makes strong strategic sense for Kermadec and is in line with the company's stated strategic objective
- The property will be acquired for approximately $17.555m (subject to adjustment in relation to proposed additional car parking) representing a 9% net rental yield and will be funded by $8.3m of cash and $9.4m of debt
- The acquisition will be marginally earnings accretive from settlement date and will be NTA (ex deferred tax liability) accretive on re-valuation, with attractive long term rent and valuation growth expected
- The acquisition will be conditional on due diligence and shareholder approval by way of ordinary resolution

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Overview of Asset

- The property known as the “Finance Centre Podium” comprises three addresses being Durham House at 22 Durham Street West, John Scott House at Victoria Street West, and The Plaza at Finance Centre Auckland
- Essentially the property is the plaza area which sits above the Finance Centre Carpark and in and around Brookfields House, 92 Albert Street and Qantas House
- The property houses office and retail accommodation, as well as a large child care centre and gym & health club as anchor tenants
- The property has a total floor area of 7,327 square metres
- Net rental income of $1.58m on completion of re-development by Augusta Group
- WALE of 6.2 years on completion of re-development
- February 2008 valuation “as if complete” of $19.1m (Colliers International NZ)

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Key Tenants

- **Lollipops Educare**
  - New 12 year lease
  - Annual rent reviews to CPI +1%
  - $347,655 annual net rental

- **Just Workout**
  - New 9 year lease
  - Two yearly rent reviews to CPI
  - $141,000 annual net rental

- **Pavillion Management**
  - New 8 year lease
  - Annual rent reviews to CPI +1%
  - $123,258 annual net rental

- **Daikoku**
  - New 10 year lease
  - Two yearly market rent reviews
  - $90,000 annual net rental

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Key Terms

- Purchase Price $17.555m (subject to adjustment)
- Current Valuation “as if complete” $19.1m
- Net Rental Income on completion $1.58m
- Yield on Purchase price 9.0%
- Yield on Valuation 7.96%
- Settlement 1 July 2008 (on completion of re-development by Augusta Developments No. 95 Ltd.)

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Key Terms

Additional Car-parks

- The property has the potential to operate up to an additional 20 car-parks on-site if Resource Consent can be obtained
- These additional car-parks would increase the property's net rental income by up to $38,000 p.a.
- If Resource Consent is obtained, Kermadec will pay an additional $35,000 for each single parking space and $22,188 for each additional stacked parking space. If the Resource Consent that is currently envisaged is obtained the amount payable by Kermadec would be $495,000 which would bring the total purchase price to $18.05m compared to a valuation under this scenario of $20.1m
- This scenario would maintain Kermadec's yield on purchase price at 9% and increase the discount to valuation to $2.04m (10.1%) or 2.6 cps of NTA backing (ex deferred tax liability)

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Rationale

- **Strategic Sense**
  - The Podium shares boundaries with Kermadec's two largest properties, Brookfields House & Finance Centre Carpark. Losing control of the Podium would significantly limit Kermadec's strategic value and future re-development options for these properties
  - One of Kermadec's key stated objectives when it was established was to benefit from its right of first refusal over "pipeline" properties from managers Augusta Group & Starline
- **Purchase Price**
  - Kermadec would be buying the property at a $1.49m (7.8%) discount to current valuation
  - This represents a net rental yield of 9% compared to yield on valuation of 7.96%
  - Kermadec is privy to this discount via its right of first refusal arrangement with the manager on "pipeline" assets

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Rationale

- **Portfolio Enhancement**
  - Increases portfolio WALE from 5.6 to 5.7 years
  - Increases number of tenants from 79 to 95, further insulating the future risk of large lease expiries
  - Introduces new high quality tenants Lollipops, TAB, Servilles, Daikoku & Just Workout
  - Kermadec will be taking delivery of a newly refurbished property which will compliment the average age & quality of the Kermadec portfolio
  - The property is conservatively rented at an average rate of $242 per square metre with a mixture of fixed and market rent reviews all with full ratchet clauses
  - Brings greater balance to Kermadec's portfolio by increasing the retail component to 15% from 11%

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Rationale

- **Positive Financial Impact**
  - Acquisition is marginally EBIT & EPS accretive from settlement (July 2008 indicative) and will be significantly NTA accretive on re-valuation
  - Solid medium to long term growth prospects with a mixture of fixed and market rent reviews. Property will be 4.3% under-rented at date of acquisition
  - Enhanced depreciation tax shelter which will be positive for shareholder returns under PIE regime
  - Internally funded, with no new equity required
  - Gearing lifted to 39.5%, not significantly higher than target level of 35%
  - Expect 8.65 cps distribution to be maintained at approx 90% payout ratio
  - $2.0m un-drawn debt facility remaining post acquisition

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Funding

- Purchase price $17.6m
- Acquisition costs $0.1m

- Funded by: Cash $8.3m
  Debt $9.4m
  $17.7m

- Gearing ratio 39.5%

- New debt in 5 year swap @ indicative rate of 8.74% including margin

- Blended cost of debt following acquisition will increase to approx 8.10% from 7.98% currently