SEPTEMBER 2012

INVESTOR UPDATE

KIWI INCOME PROPERTY TRUST

CHRIS GUDGEON
CHIEF EXECUTIVE

FOCUSING ON VALUE

THE domestic economy continues to show signs of recovery, albeit at a slower pace than economists had previously been anticipating. Kiwi households are paying off debt and saving more, assisted by mortgage rates at historical lows and stable or rising house prices in many parts of the country. Retail sales growth is positive and forecast to remain so, although core discretionary sales growth remains below long term averages.

We are encouraged that 85% of the Trust's core property portfolio is positioned either in the recovering retail sector or in the Auckland office market where the outlook also continues to improve.

In the past quarter, we have continued to deliver on both our value-adding and defensive investments. The Trust continues to make good progress with the development of ASB Bank's new head office premises in Wynyard Quarter, Auckland. In July, construction commenced on the earthquake strengthening project at The Majestic Centre, Wellington and good progress continues to be made on the Centre Place redevelopment in Hamilton.

At Northlands Shopping Centre we are coming to grips with the new stricter earthquake code now applicable in Christchurch. We are making preparations to reconstruct an area affecting 14 shops and continue to evaluate requirements for further strengthening works, potentially in conjunction with a partial redevelopment of the centre to construct a new, larger Farmers department store.

Our commercial and retail management teams have completed a number of major new lease agreements and continue to proactively deal with upcoming lease expiries. Our flagship retail asset, Sylvia Park, continues to trade strongly providing us with exciting opportunities to improve and refresh our mix of retailers as we work through a significant program of specialty lease renewals over the next two years.

In this issue, we look at building works underway across the portfolio and turn a spotlight on the retail sector, which continues to show signs of a slow but steady recovery. ■

IN BRIEF

Maintaining a strong financial position

As the Manager of the Trust, we have consistently held the view that it is essential to maintain a strong balance sheet. In the last six months, the Trust's financial position has been strengthened by the repayment of bank debt, firstly using the $63 million final insurance payout for the PwC Centre, Christchurch and secondly by using the $55 million we received from the sale of Beca House, Auckland. Beca House was sold as part of our strategy to recycle capital out of mature assets to maintain balance sheet flexibility. This building was bought by the Trust in 1997 for $32.2 million and our view is that the $55 million sale price achieved was a positive outcome.

Debt refinancing

In July, the Trust announced that it had renewed and extended $227.5 million of bank debt facilities, the majority of which were due to expire between December 2012 and April 2013. The renewed facilities, which were agreed with Bank of New Zealand ($127.5 million) and Commonwealth Bank of Australia ($100.0 million), are for six-year terms, expiring in the Trust's 2019 financial year.

Gavin Parker, Chief Financial Officer, said "The Trust's ability to secure six-year bank debt at attractive rates highlights its credit quality and the strong support that it continues to receive from the banks. This has enabled us to maximise the term to maturity for the combined facilities whilst maintaining competitive pricing and diversity amongst lenders, with an appropriately spread expiry profile."

Farmers extends at LynnMall

In a very positive development for LynnMall in Auckland, Farmers has extended its department store lease for a further 15 years and has committed to an expansion and refurbishment of the store. Work is now underway with construction due to be complete in time for the 2012 Christmas trading period. ■

RETAIL SECTOR CONTINUES ITS RECOVERY

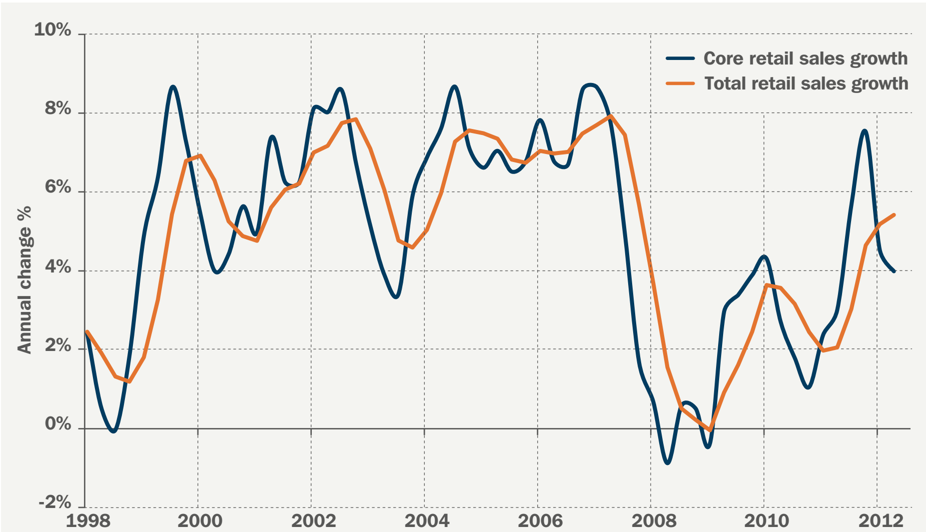
ACCORDING to Statistics New Zealand, total retail sales over the 12 months to June 2012 rose a solid 5.4%, the strongest annual sales growth figure since December 2007 (see Figure 1). Over the same period core retail sales, excluding vehicle and fuel spending, grew by 4.0%.

While the core growth rate of 0.7% for the quarter to June 2012 is a little below the long-term quarterly average of 1.1%, the figure represents a return to steady growth after the weak post Rugby World Cup figure for the March 2012 quarter of -1.4%.

Growth across the retail sectors was relatively broad based although clothing, footwear and electrical goods sales were comparatively soft. Solid motor vehicle sales indicate consumers are willing to make big ticket, discretionary purchases but remain selective.

Looking forward, the New Zealand economy is expected to continue on a path of steady growth. Unemployment is forecast to trend lower, real wages are expected to grow and retail sales nationally are projected to continue to grow at around 4% per annum, in line with the historic average. ■

FIGURE 1: NEW ZEALAND RETAIL TURNOVER
ANNUAL GROWTH FOR TOTAL AND CORE RETAIL SALES



Source: Statistics New Zealand & CFSGAM Research

SYLVIA PARK PROVES WHY IT IS NEW ZEALAND'S BEST

The leasing team has been hard at work at the Trust's flagship retail asset, Sylvia Park, with 80 leases due to expire this financial year.

THE team is capitalising on the opportunity to refresh, remix and introduce new retailers to Auckland's number one shopping mall, as well as to re-sign some of the centre's most successful brands.

Leading Apple retailer Yoobee is one of the new tenants to take up residence, opening a new store at the southern end of the centre.

Other new retailers to open include Peter Alexander, Novo Shoes, WildPair/Lippy, Decjuba, as well as food operators Butlers Chocolate Café, Hungry Wok, Katsubi and Tank Juice.

Meanwhile, Sylvia Park has been named as New Zealand's leading retail asset in the 2012 RCG shopping centre awards.

Taking line honours in the 'super heavyweight category', Sylvia Park was described by judges as possessing *"a first-rate retail environment, with attractively presented shopping areas, and a mix of indoor and outdoor tenancies."* Judges were equally impressed by Sylvia Park's *"excellent entertainment offering."*

Sylvia Park is the most valuable shopping centre in the country and achieved sales of $446 million over the 12 months to 31 March 2012. ■

REBEL WITH A CAUSE

THE redevelopment and repositioning of Centre Place is well underway, with the opening of a new, purpose-built Rebel Sports tenancy in July. This sporting goods giant opened to strong sales, with its new look merchandise and extended range proving popular with customers.

The opening of Rebel Sports follows the completion of the new dining lane and reconfigured foodcourt precinct in 2011. The second stage of the redevelopment, costing $39.9 million is now underway with a target opening date of October 2013. This stage features the redevelopment of the former Downtown Plaza complex which will include a new 7,000 sqm, two-level Farmers department store, a refurbished fashion focused specialty mall and a covered connection across Ward Street between the two parts of the centre.

With increased retail competition in the region, the development works are aimed at restoring Centre Place's competitive position as Hamilton's downtown entertainment and retail hub. ■

NZ YACHTING TECHNOLOGY CROWNS ASB NORTH WHARF, AUCKLAND

IN a New Zealand first, the design and construction team at ASB North Wharf commissioned a local super yacht builder to construct a huge fibreglass composite funnel and rooftop feature that now crowns this new office building.

The distinctive funnel, which forms part of the building's passive ventilation system, was installed atop the development on the morning of 1 June, having arrived via barge on Auckland Harbour.

In passive ventilation mode, fresh air will be drawn from the operable windows through the workspace and out through the rooftop cone. Allowing fresh air to pass through the building naturally enhances temperature control and building ventilation, while significantly reducing energy use.

The funnel was built at Yachting Developments' West Auckland factory and, due to its size, was barged down the harbour and then craned into place. It was constructed in segments and assembled together to make one enormous conical structure.

FUNNEL FACTS

- 19m long x 12m high x 8m wide, weighing 8,500kg
- Total internal air volume is almost 600 cubic metres, which would hold around nine standard 40-foot shipping containers
- Yachting Developments is an international award winning builder of composite super yachts which are New Zealand made for a global clientele. ■

BELL GULLY RETAINS ITS HOME IN THE VERO CENTRE

'New Zealand Law Firm of the Year', Bell Gully, has signed a new 12-year lease agreement to remain within the Trust's flagship Auckland office asset, the Vero Centre.

THE firm, which received its award from global publisher *International Financial Law Review* in February this year, will occupy 6,514 sqm of space over five and a half levels, representing approximately 16% of the building's rentable area. The lease has a commencement date of 10 November 2012 and includes storage areas and associated car parking spaces in addition to the office areas.

Bell Gully has leased space in the Vero Centre since November 2000, originally occupying space over six and a half levels.

Chris Gudgeon, Chief Executive said, "Bell Gully's commitment to the building for this extended term is testament to the quality of the Vero Centre. Bell Gully is one of New Zealand's pre-eminent law firms and has been an important part of the business community within the building since its completion."

As part of the new lease agreement, Bell Gully is modifying its workspace to deliver better efficiency and will release one floor from 10 November 2012. Half of this space has been leased to law firm Ellis Gould, who will occupy 597 sqm from December 2012 on a new nine-year lease.

The weighted average lease term to expiry for the Vero Centre will increase by 1.6 years to 5.5 years as a result of the new lease agreements.

Bell Gully Partner Jane Holland said: "We are delighted to have achieved this outcome. A new commitment to the Vero Centre, coupled with a refit of our floors, made complete sense for us. The Vero Centre continues to meet all of our expectations for a premium office tower." ■

STRONG INVESTOR TAKE UP

The Trust's distribution reinvestment plan (DRP) has provided participating investors with an opportunity to gain a larger stake in the Trust, at a discount.

JUST over 23% of the Trust's Unit Holders participated in the DRP for the distribution that was paid on 19 June 2012. The $1.0354 per unit price set for that distribution represented a 2% discount to the volume-weighted average price of units traded over the 10 business days succeeding the record date. Unit Holders who wish to participate in the DRP for future distributions should notify the Trust's Registrar, Link Market Services, on 0800 377 388 or, for Australian investors, +64 9 375 5998. ■

FINANCIAL CALENDAR

14 Nov 2012	Interim result announcement
18 Dec 2012	Release of interim report
18 Dec 2012	Payment of interim distribution
20 Dec 2012	Payment of MCN interest

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

CONTACT DETAILS

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