KIWI INCOME PROPERTY TRUST

NZX RELEASE

20 May 2014

KIWI INCOME PROPERTY TRUST ANNOUNCES ANNUAL RESULT FOR THE YEAR ENDED 31 MARCH 2014

Kiwi Income Property Trust today announced its annual result for the year ended 31 March 2014, delivering an operating profit before other income/(expenses) and tax[1] of $78.7 million, up $9.3 million or 13.4% on the previous year. After taking into account property and interest rate derivative revaluations, insurance income and the cost of terminating the previous management arrangements, the Trust reported an after tax profit[2] of $101.3 million. This result is after $74.5 million of internalisation costs and compares with an after tax profit of $109.8 million in the prior year.

With the Trust in a nil tax paying position, distributable income after tax[1] was $76.3 million, up $15.1 million or 24.7% on the previous year. Unit Holders will receive a final cash distribution of 3.20 cents per unit, taking the full-year cash distribution to 6.40 cents per unit, in line with guidance.

Mark Ford, Chairman of the Manager of the Trust, said: "As we mark the Trust's 20th year since listing on the New Zealand Stock Exchange, we can look back with some satisfaction at a long history of delivering consistent, sustainable returns to Unit Holders, with an average total return of 9.7% per annum since inception.

"Our anniversary year also delivered a new era of independence, with Unit Holders voting overwhelmingly in favour of a proposal to internalise the Trust's management to create New Zealand's largest internally managed, diversified property trust.

"This is an exciting time for the Trust. The internalisation reduces operating costs and provides investors with greater control and superior alignment of interests," Mr Ford added.

1 Operating profit before other income/(expenses) and tax and distributable income are alternative performance measures used by the Trust to assist investors in assessing the Trust's underlying operating performance and to determine income available for distribution. Refer to the summary financial results in Attachment 1 for full details of how these measures are calculated.

2 The reported profit has been prepared in accordance with New Zealand generally accepted accounting practice and complies with New Zealand Equivalents to International Financial Reporting Standards. The reported profit information has been extracted from the annual financial statements which have been the subject of an audit pursuant to New Zealand Auditing Standards issued by the External Reporting Board. Refer to the summary financial results in Attachment 1 for further information.

Chris Gudgeon, Chief Executive of the Manager of the Trust, said: "From an operational perspective, net rental income of $148.7 million was up $13.2 million or 9.7% on the previous year, driven by the inclusion of the new ASB North Wharf building into the portfolio, the completion of the Centre Place Shopping Centre redevelopment, the reinstatement of 11 stores at Northlands Shopping Centre and solid rental growth at Sylvia Park Shopping Centre."

Strategy review

Following internalisation, the opportunity has been taken to reconfirm the Trust's objective, set strategic goals and review strategy. Mr Ford said: "The Trust's objective, which has served investors well for the past two decades, has not changed. We remain committed to providing investors with a secure, reliable investment in New Zealand property, and will continue to target superior risk-adjusted returns over time through the ownership and active management of a diversified, high-quality portfolio.

"For our investors, our goal is to deliver long-term total returns greater than 9% per annum, underpinned by pre-tax distributable earnings growth per unit of at least 2% per annum."

Mr Gudgeon said: "The strategy we deploy to deliver on our goals continues to have three core pillars. We will maintain a strong balance sheet with conservative gearing. We will intensively manage our property assets to optimise income and investment performance, and will always look to add value through our investment decisions.

"A new framework for employee remuneration is being developed to support and drive the achievement of business objectives and to focus our team on delivering superior investor returns in line with strategic intent," Mr Gudgeon added.

Corporatisation

Mr Ford said: "In the year ahead, we will continue our preparations to corporatise the Trust.

"Corporatisation involves moving from a trust to a company structure. Investors benefit from a streamlined corporate structure, cost savings, and greater protections under the Takeovers Code and Companies Act. We expect to be able to put a corporatisation proposal to investors for their approval towards the end of this year with an expectation that it will take effect following the conversion of our Mandatory Convertible Notes on 20 December 2014," Mr Ford said.

Highlights

Highlights of the financial year include:

- Net rental income of **$148.7m**, up $13.2m (+9.7%)
- Like-for-like net rental of **$110.2m**, up $2.4m (+2.2%)
- Profit after tax of **$101.3m**, down $8.5m (-7.7%)
- Distributable income after tax of **$76.3m**, up $15.1, (+24.7%)
- Cash distribution of **6.40 cents per unit**, in line with guidance
- Bank debt gearing ratio of **35.2%**, up 3.2 basis points
- Property portfolio revaluation gain of **$8.5m**, (+0.4%) lifting property portfolio value to **$2.13b**
- Unit Holder funds of **$1.19b**, up $56.4m (+5.0%)
- Net tangible assets per unit **$1.17**, up from $1.14

Progress against FY14 priorities

During the year, the Manager executed upon its FY14 priorities, achieving:

- the on-budget, on-programme delivery of ASB North Wharf
- the completion of the Centre Place Shopping Centre redevelopment, repositioning the centre as Hamilton's CBD focus for food, fashion and entertainment
- the reinstatement of 11 stores at Northlands Shopping Centre following a seismic upgrade
- a steady progression of seismic strengthening works at The Majestic Centre
- high portfolio occupancy of 97.1%
- an extension of the weighted average lease term to 4.7 years (+0.4 years)
- the sale of a 50% interest in 205 Queen for $47.5 million with confirmation, post balance date, that the purchaser will acquire the remaining 50% interest in June 2014 for $56.3 million
- the conclusion of 764 new leases and rent reviews over 196,000 sqm, equivalent to 53% of total portfolio area, and
- the renewal and extension of $465 million in bank debt facilities on favourable terms.

Focus for FY15

The focus for the Trust during the 2015 financial year will be to:

- develop a corporatisation proposal for Unit Holder approval to move from a trust to a company structure
- actively manage the cost, term and sources of the Trust's funding
- maintain active retail and office leasing programmes to minimise vacancy
- complete seismic strengthening works at The Majestic Centre
- commence refurbishment works at 56 The Terrace (Unisys House)

- finalise plans for the development of an entertainment and leisure precinct at LynnMall Shopping Centre, and
- seek opportunities to undertake value-added acquisitions or divestments consistent with the Trust's strategy.

Property markets

Market fundamentals continue to improve in the core Auckland and Wellington office markets.

The Auckland CBD office market is favourably positioned with limited new supply and employment growth expected to lead to stronger demand for office space, rental growth and lower vacancy rates. Despite the relatively weaker demand outlook, the Wellington office market has been assisted by a low level of new supply and the withdrawal of several buildings for refurbishment or conversion to non-office uses.

Across the broader economy, increasing consumer confidence is leading to a lift in discretionary spending in the retail sector. Within the Trust's shopping centres, this was reflected in positive sales performances in the department store and specialty retail categories. The encouraging economic outlook is expected to underpin further growth in retail sales.

Outlook and distribution guidance

The New Zealand economy is growing positively, as is business and consumer confidence. This is leading to increased employment and wage growth, which will likely benefit both the retail and office sectors in the medium term.

Mr Ford said: "Overall, our outlook is positively underpinned by the strengthening economy. Based upon the outlook for the Trust and subject to a continuation of reasonable economic conditions, the Trust is projecting distributions to Unit Holders for the year ending 31 March 2015 to increase to approximately 6.50 cents per unit.

"The Trust's distribution reserve, together with the financial benefits arising from internalisation, will enable us to accommodate the absence of rental income from 56 The Terrace, Wellington, as that building is refurbished over a 21-month period from November 2014 in readiness for our new 18-year lease to the New Zealand Government."

Additional information

For further information please refer to the following:

- Attachment 1: Summary financial results table
- Attachment 2: Detailed financial and operational update

The Trust has also released today the following documents which are available for download on the Trust's website **kipt.co.nz** or the New Zealand Stock Exchange website **nzx.com**:

- Annual results presentation
- 2014 Annual Report (online version)

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About Kiwi Income Property Trust

Kiwi Income Property Trust's objective is to optimise returns for its Unit Holders through the careful acquisition, development and professional management of its property portfolio. The Trust is listed on the New Zealand Stock Exchange and is ranked within the top 15 on the NZX 50 Index, and is a member of the NZX 15 Index.

The total value of the Trust's property portfolio is $2.1 billion. Assets include:

Key retail assets

Sylvia Park Shopping Centre	Auckland
LynnMall Shopping Centre	Auckland
Centre Place Shopping Centre	Hamilton
The Plaza Shopping Centre	Palmerston North
North City Shopping Centre	Porirua
Northlands Shopping Centre	Christchurch

Key office assets

Vero Centre	Auckland
ASB North Wharf	Auckland
205 Queen (50%)	Auckland
The Majestic Centre	Wellington
Unisys House	Wellington
44 The Terrace	Wellington

Kiwi Income Property Trust's website address is kipt.co.nz

ANNUAL RESULT FOR THE YEAR ENDED 31 MARCH 2014
ATTACHMENT 1: Summary financial results

Financial performance [$m] For the year ended	31-Mar-14	31-Mar-13
Gross rental income	208.2	197.1
Property operating expenditure	-59.5	-61.6
Net rental income	**148.7**	**135.5**
Net interest expense[1]	-55.7	-49.7
Manager's base fees	-8.1	-10.4
Manager's performance fees	-	-3.0
Management and administration expenses	-6.2	-3.0
Operating profit before other income/(expenses) and tax[2]	**78.7**	**69.4**
Fair value change to interest rate derivatives	29.1	11.7
Fair value change to investment properties	8.5	21.0
Loss on disposal of investment properties	-3.3	-0.3
Insurance and litigation settlement income	52.9	16.6
Termination of management arrangements	-74.5	-
Other non-operating items	-0.8	-0.8
Profit before tax	**90.6**	**117.6**
Tax benefit/(expense)	10.7	-7.8
Profit after tax[3]	**101.3**	**109.8**

Distributable income[2] [$m] For the year ended	31-Mar-14	31-Mar-13
Operating profit before other income/(expenses) and tax	78.7	69.4
Depreciation recovery offset	-	3.4
Fixed rental income adjustments	-2.6	-1.4
Distributable income before tax	**76.1**	**71.4**
Current tax benefit/(expense)	0.2	-10.2
Distributable income after tax	**76.3**	**61.2**

Distributions [cpu] For the year ended	31-Mar-14	31-Mar-13
Cash distribution	**6.40**	**6.60**
Imputation credits[4]	-	1.02
Gross distribution	6.40	7.62

Financial position [$m] As at	31-Mar-14	31-Mar-13
Property assets	2,130.2	2,076.5
Total assets	2,235.8	2,126.5
Unit Holder funds	1,188.5	1,132.1
Bank debt gearing ratio[5]	35.2%	32.0%
Net tangible asset backing [per unit]	$1.17	$1.14

1. Shown net of interest income and interest capitalised.
2. Operating profit before income/(expenses) and tax and distributable income are alternative performance measures used by the Trust to assist investors in assessing the Trust's underlying operating performance and to determine income available for distribution.
3. The reported profit has been prepared in accordance with New Zealand generally accepted accounting practice and complies with New Zealand Equivalents to International Financial Reporting Standards. The reported profit information has been extracted from the annual financial statements which have been the subject of an audit pursuant to New Zealand Auditing Standards issued by the External Reporting Board.
4. Due to the tax deductibility of the internalisation payment, the Directors have determined that there are no imputation credits available to be attached to the final distribution. As the Trust is a Portfolio Investment Entity, the payment will be an excluded distribution for tax purposes, with no tax payable by New Zealand resident investors.
5. Calculated as bank debt over total assets.

ANNUAL RESULT FOR THE YEAR ENDED 31 MARCH 2014
ATTACHMENT 2: Detailed financial and operational update

FINANCIAL RESULT

Financial performance

- Net rental income of **$148.7m** (2013: $135.5m) *+$13.2m*
- Like-for-like net rental income of **$110.2m** (2013: $107.8m) *+$2.4m*
- Operating profit before other income/(expenses) and tax **$78.7m** (2013: $69.4m) *+$9.3m*
- Profit after tax of **$101.3m** (2013: $109.8m) *-$8.5m*

The benefits of the Trust's strategic and defensive development projects were evident in improved rental income, which rose from $135.5 million to $148.7 million over the financial year. This was driven by the inclusion of the new ASB North Wharf building into the portfolio, the completion of the Centre Place Shopping Centre redevelopment, the reinstatement of 11 stores at Northlands Shopping Centre following seismic upgrade works and solid rental growth at Sylvia Park Shopping Centre.

On a comparable basis, like-for-like net rental income was $110.2 million, up 2.2% on the prior year.

The improvement in rental income resulted in a lift in operating profit before other income/(expenses) and tax to $78.7 million.

After adjusting for property and interest rate derivative revaluations, insurance income for Northlands Shopping Centre, the one-off cost of internalisation, together with other non-operating items and income tax benefit, an after tax profit of $101.3 million was recorded.

Following the internalisation of the Manager in December 2013, the Trust sought a binding ruling from Inland Revenue on the tax deductibility of the $72.5 million payment made to Commonwealth Bank of Australia for the relinquishment of its fund and property management arrangements.

As anticipated in the Notice of Special Meeting dated 20 November 2013, Inland Revenue ruled that the payment was deductible for tax purposes, reducing the net cost of this payment to $52.2 million.

During the year, the Trust adopted a revised approach to estimating the liability for deferred tax in relation to depreciation expected to be recovered on fixtures and fittings upon the sale of investment properties. The market values of fixtures and fittings for significant properties have been assessed utilising independent valuation advice and the remaining properties have been assessed with reference to previous transactional evidence and their age and quality. The effect of the change in estimation has been to reduce the deferred tax liability by $14.4 million, with a corresponding one-off reduction in deferred tax expense.

Due to the deductibility of the internalisation payment and the adjustment to deferred tax, the Trust recorded an overall income tax benefit of $10.7 million which improved the after tax profit.

Distributable income and distributions to Unit Holders

- Distributable income after tax of **$76.3m** (2013: $61.2m) *+24.7%*
- Payout ratio **85%** (2013: 107%)
- Full-year cash distribution **6.40 cpu** (2013: 6.60cpu)

Distributable income was $76.3 million, up $15.1 million on the prior year as a result of the improved operating profit, together with the benefit provided by the tax deductibility of the one-off internalisation payment.

Consistent with the interim distribution and, in line with guidance, Unit Holders will receive a final cash distribution of 3.20 cents per unit, taking the full-year cash distribution to 6.40 cents per unit.

Due to the tax deductibility of the internalisation payment, the Directors have determined that there are no imputation credits available to be attached to the final distribution. As the Trust is a Portfolio Investment Entity, the payment will be an excluded distribution for tax purposes, with no tax payable by New Zealand resident investors.

The record date for the final distribution is 5 June 2014, and the payment date is 19 June 2014. The Distribution Reinvestment Plan, which provides a discount of 2%, will remain in place. This means that eligible Unit Holders may acquire additional units in the Trust at a 2% discount to the average unit price at which the units trade through the New Zealand Stock Exchange during the pricing period.

Financial position

- Investment properties **$2,130.2m** (2013: 2,076.5m) *+$53.7m*
- Drawn bank debt **$786.5m** (2013: $681.0m) *+$105.5m*
- Bank debt gearing ratio **35.2%** (2013: 32.0%) *+3.2 percentage points*
- Net tangible assets per unit **$1.17** (2013: $1.14) *+$0.03*

As at 31 March 2014, the property portfolio was valued at $2.13 billion, with total assets of $2.24 billion including $9.2 million of cash and a $64.3 million insurance income receivable recorded in respect of certain earthquake remedial works at Northlands that are the subject of an on-going insurance claim.

The bank debt gearing ratio increased to 35.2% compared to 32.0% in the prior year, predominantly driven by the one-off expense of internalisation together with development expenditure at Centre Place, Northlands and The Majestic Centre. This expenditure was offset in part by the sale of a 50% interest in 205 Queen, Auckland.

Net tangible asset backing per unit increased 3 cents to $1.17, driven largely by the positive property and interest rate derivative valuation gains together with the insurance income receivable, offset in part by the one-off internalisation expense.

Internalisation

The Trust began its new life as an internally managed property trust on 13 December 2013, 10 days after the Trust's 20th anniversary since listing on the New Zealand Stock Exchange.

The internalisation transaction was financed by the Trust through committed bank debt facilities, which were increased by $25 million to $875 million, and involved a net payment of $70.5 million to Commonwealth Bank of Australia (CBA), the owner of the Trust's former manager, consisting of:

- a termination payment of $72.5 million from the Trust to CBA for the relinquishment of its fund and property management arrangements; and
- a net payment of $2.0 million from CBA to the Trust for the acquisition of certain assets and the assumption of liabilities relating to the ongoing management of the Trust.

The internalisation resulted in a number of benefits including: the establishment of a new Manager controlled by Unit Holders; the smooth transition of management and staff to the new entity; and, among other things, expected pre-tax net expenditure savings of approximately $8 million per annum (after funding costs). From a governance perspective, Unit Holders will now be able to direct the appointment of all directors, which creates further alignment of interests for investors.

On 17 December 2013, CBA announced that it had sold its 8.6% holding in the Trust, being approximately 87 million units, for $1.06 per unit, thereby ending CBA's association with the Trust as a significant investor.

Capital management

Bank debt

- Total bank debt facilities **$875m** (2013: $850m)
- Weighted average term to maturity of bank debt **3.4 years** (2013: 3.8 years)
- Weighted average cost of bank debt **6.0%** (2013: 7.1%)

At year end, the Trust's weighted average cost of debt was 6.0%, down from 7.1% at the same time last year and well down on the Trust's peak debt costs of 7.7% recorded in September 2012. This improvement reflects the maturity of some of the Trust's more expensive interest rate swaps, as well as the lower interest rate environment which we have been able to capitalise upon when renewing $465.0 million of bank debt facilities on favourable terms during the year.

The weighted average term to maturity of all bank debt facilities remained appropriate at 3.4 years at 31 March 2014.

Gavin Parker, Chief Financial Officer of the Manager of the Trust, said: "From a capital management perspective, we achieved the operational objectives we set ourselves for the financial year, including refinancing bank debt facilities, and managing the Trust's maturity profile and exposure to interest rate volatility.

"Our refinancing activities have lowered our average cost of debt and assisted in our strategy of maintaining diverse sources of debt funding," Mr Parker said.

Property divestment

Consistent with the Trust's strategy of recycling capital to maintain balance sheet flexibility, the Trust secured the sale of a 50% interest in the Auckland office asset, 205 Queen, which settled in January 2014 for a sale price of $47.5 million. The net sale proceeds were utilised to pay down bank debt.

Post balance date, the purchaser, Auckland City Holdings Limited, exercised its right to acquire the remaining 50% interest in the building. This transaction will settle on 3 June 2014 for a consideration of $56.3 million, in line with the building's March 2014 independent valuation.

OPERATING RESULT

Overall portfolio metrics

Development leasing, shopping centre remixing activity and strong leasing outcomes at 205 Queen have resulted in generally improved metrics for the combined retail and office portfolios as at 31 March 2014. A high occupancy rate was maintained at 97.1% and the weighted average lease term increased from 4.3 years to 4.7 years with ASB North Wharf now included in the core portfolio.

The weighted average capitalisation rate for the portfolio firmed 32 basis points to 7.19% and the independent valuations indicate that over-renting across the portfolio is 1.2%.

Retail portfolio metrics and activity

- Portfolio value **$1,390.2m** (2013: $1,349.9m)
- Weighted average capitalisation rate **7.17%** (2013: 7.31%)
- Occupancy **99.4%** (2013: 99.7%)
- Weighted average lease term **3.8 years** (2013: 4.0 years)
- **132 new leases and renewals** over **20,000 sqm** resulting in an average uplift of 0.9% (excluding development leasing)
- **550 rent reviews** over **115,000 sqm** providing an average uplift of 3.5%

In the year to 31 March 2014, the value of the Trust's retail portfolio decreased by $9.5 million (-0.7%) to $1.39 billion. This was due to allowances made in valuations for earthquake strengthening and remedial work at three of the Trust's shopping centres together with a lower than anticipated valuation of Centre Place in Hamilton after completion of its redevelopment in October 2013.

The Trust's flagship retail asset, Sylvia Park in Auckland, increased in value by $21.5 million (+4.0%) to $564.0 million reflecting a continuation of the centre's market dominance, strong trading performance and rental growth. Growth in value over a two-year period for this prime regional shopping centre has been an impressive $58.4 million (+11.6%).

The value of Centre Place, at $122.5 million, reflects the competitive operating environment in Hamilton and resulted in a $14.5 million (-10.6%) revaluation loss.

The value of Northlands in Christchurch reduced by $12.7 million (-5.8%) consistent with updated provisions made in the valuation for earthquake remedial works that are the subject of an ongoing insurance claim. A formal mediation is underway with the Trust's insurers with the intention of securing a settlement towards the middle of this year.

Similarly, the value of North City in Porirua reduced by $4.0 million (-4.0%) largely as a result of a capital expenditure allowance made in the valuation for seismic strengthening to isolated areas of the centre.

The value of the Trust's other shopping centres, LynnMall in Auckland and The Plaza in Palmerston North, remained essentially unchanged at $206.0 million and $196.0 million respectively.

The weighted average capitalisation rate for retail assets firmed 14 basis points over the year, from 7.31% to 7.17%.

The retail leasing team had a very active year, executing 153 leasing deals (including 95 renewals by existing tenants) equivalent to almost 20% of the total number of retail tenancies in the Trust's portfolio. A further 550 rental reviews were concluded representing a further 71% of tenancies by number.

Overall, rentals achieved through new leasing and rent reviews showed growth of $2.6 million (+3.1%) for the year. Rental reviews resulted in an uplift of $2.5 million (+3.5%), while newly negotiated rentals (excluding development leasing) increased $0.1 million (+0.9%) from previous rents.

With close to 90% of the retail portfolio on fixed or CPI-related annual increases, the rental uplift provided through rent review mechanisms underpins rental growth across the portfolio, and it is now pleasing to note an increase in rents achieved through new leasing activity after a number of years of negative growth.

Highlights for the year included the negotiation of 16 new leases and renewals at Northlands which delivered rental uplift of 16.0% over previous prevailing rentals, and Sylvia Park's consistent performance where a rental uplift of 5.2% was secured across 41 new and renewed leases.

Retail sales and gross occupancy costs

- Total sales **$1,419.4m** (2013: $1,390.1m) *+2.1%*
- Unaffected sales[3] **$975.9m** (2013: $967.4m) *+0.8%*
- Specialty gross occupancy costs ratio (including GST) **13.9%** (2013: 13.5%)

For the 12 months to 31 March 2014, retail sales increased by +2.1% to $1.42 billion, including sales from the reinvigorated Centre Place and reinstated stores at Northlands.

3 Unaffected sales provides a more normalised picture of sales trends. They exclude centres which have undergone redevelopment in either year of comparison. In this instance both Centre Place and Northlands are excluded.

Positive growth in moving annual turnover was recorded at Sylvia Park (+1.0%), Centre Place (+22.5%), The Plaza (+1.5%), North City (+3.2%) and Northlands (+1.9%). Sales at LynnMall declined marginally (-1.2%).

Increasing consumer confidence is leading to a lift in discretionary spending and this was reflected in positive sales performances in the department and discount department store and specialty retail categories, which were up 4.5% and 2.7% respectively on an unaffected basis.

Sales continue to be influenced by price deflation across a number of retail categories including home electronics where sales declined by 6.8%. New supermarket openings within our centres' catchments also affected in-centre supermarket sales at LynnMall and The Plaza which were down 4.0% and 1.4% respectively for the year.

Office portfolio metrics and activity

- Portfolio value **$674.6m** (2013: $525.0m)
- Weighted average capitalisation rate **7.23%** (2013: 8.07%)
- Occupancy **93.0%** (2013: 92.6%)
- Weighted average lease term **6.4 years** (2013: 4.8 years)
- **29 new leases or renewals** over **20,000 sqm** resulting in a 1.2% increase in rents (excluding development leasing)
- **29 rent reviews** over **14,000 sqm** resulting in a 2.6% improvement in rents

In the year to 31 March 2014, the office portfolio increased in value by $15.5 million (+2.4%) driven predominantly by improving fundamentals in the Auckland office market and positive leasing outcomes at 205 Queen. Valuation gains have largely resulted from capitalisation rate firming, with continued strong demand for investment-grade assets and anticipated improvement in office rents.

The overall value of the office portfolio now stands at $674.6 million. The weighted average capitalisation rate is 7.23% which is 83 basis points firmer than the prior year, or 47 basis points firmer on a like-for-like basis.

Vero Centre in Auckland increased in value by $25.2 million (+9.2%), with the capitalisation rate firming 62 basis points to 6.88%. The capitalisation rate for the Trust's newest asset, ASB North Wharf, also firmed to 6.88%, increasing its value by $8.7 million (+5.7%) to $162.2 million as at 31 March 2014, comparing favourably to its $134.0 million development cost.

Positive leasing outcomes and a reduction in building vacancy at 205 Queen assisted a $3.7 million (+7.1%) increase in value for the Trust's remaining 50% interest.

In November 2013 the Trust announced a new 18-year New Zealand Government lease commitment at 56 The Terrace (Unisys House) Wellington, as part of a comprehensive $67 million refurbishment of the 45-year-old office complex.

In recognition of the impending departure of existing tenants and the development works, the value of the building has been adjusted downwards by $17.4 million (-24.6%) to $53.4 million as at 31 March 2014. Following refurbishment, and on commencement of the Government's new lease in August 2016, it is projected that the building's value will be approximately $120.5 million.

A positive change in market fundamentals and an effective marketing campaign assisted the Trust's leasing team to deliver a strong result for 205 Queen. The building's vacancy reduced from 31.5%, immediately following ANZ Bank's lease expiry on 31 July 2013, to just 7.0% at year end. Key outcomes include a 12-year lease to law firm Brookfields over 1,169 sqm and a 12-year lease to the Korean Consulate over 585 sqm. Other new tenancy agreements were concluded with Cigna Life Insurance, Cash Converters, Auckland Council, Champion Flour, Kahne and WSP NZ, all of which assisted a lift in the building's weighted average lease term to 4.6 years.

At The Majestic Centre, where substantial seismic upgrade works are being undertaken, tenant enquiry continues to be strong, reflecting market demand for those buildings which carry superior seismic performance ratings. Since commencing the project, new lease agreements have been concluded for approximately 10,500 sqm of space, representing 43% of the building by area.

The Trust's building at 44 The Terrace, Wellington, has been short-listed by the Government's Property Management Centre of Expertise (PMCoE) for use as a long-term Government accommodation option and negotiations are underway to conclude a new long-term Crown lease over the entire building in the coming financial year.

Overall, rentals achieved through new leasing and rent reviews showed growth of $0.2 million, or 1.8%, for the year. Rent reviews for 29 tenancies (14,000 sqm), delivered a total rental uplift of 2.6% (+$0.1 million), while 29 new leases or renewals for 20,000 sqm of space across the portfolio resulted in a rental uplift of 1.2% (+$0.1 million).

At year end, the office portfolio had 93.0% occupancy and a weighted average lease term of 6.4 years, both measures showing improvement over the year prior.

Subsequent to year end, two new leasing transactions were completed for 3,200 sqm at Vero Centre. As a result, vacancy within the building will reduce to just 0.6% from 7.3% at year end and office portfolio occupancy will improve to over 95%.

Developments

Value-adding and defensive development projects completed during the year included ASB North Wharf, the Centre Place redevelopment and the reinstatement of 11 stores at Northlands following seismic upgrade works. Considerable progress was also made with seismic upgrade works at The Majestic Centre.

Completed

- ASB North Wharf

  ASB's new head office was successfully completed on 31 May 2013, on-programme and within budget. ASB moved in progressively over June, with its lease commencing on 1 July 2013. All 11 ground floor retail tenancies are now leased with some strong trading performances having been recorded.

  The net rental income yield on completion is 8.5%, based on the development cost of $134.0 million[4]. The building's value now stands at $162.2 million, comparing favourably with both its development cost and the initial feasibility value projection of $138.5 million.

- Centre Place Shopping Centre

  The final stage of the redevelopment was completed on 17 October 2013 with the opening of a new 7,100 sqm Farmers department store and approximately 30 speciality shops, joining a new METRO by Hoyts five-screen cinema complex which opened its doors the week prior.

  These additions to the centre, along with the Lido art-house cinema offer, mini-majors Rebel Sport and Dick Smith Electronics, a refreshed foodcourt, new dining lane and reinvigorated specialty retail mix, are part of an overall centre redevelopment completed over the past three years that has been designed to reposition Centre Place as Waikato's leading destination for food, fashion and entertainment.

  The net income yield on investment[5] is projected initially at 5.4% but forecast to increase to approximately 7% over the following three years as the centre recaptures market share and re-establishes a solid trading pattern.

4 The proceeds of the Mandatory Convertible Notes (MCN) issue were utilised for the purposes of the development (in combination with bank debt). Accounting rules required the MCN interest, net of interest earned on the MCN proceeds, to be capitalised as a project cost from the time the land for the development was unconditionally secured. This resulted in $10.7 million of additional holding costs being capitalised over the period of the development.

5 After amortisation of leasing fees and incentives.

- Northlands Shopping Centre

  Following completion of reconstruction and strengthening works, 11 shops with a total area of 1,400 sqm progressively opened between August and October 2013, restoring $1 million in annual net rental income.

In progress

- The Majestic Centre

  Seismic upgrade works at The Majestic Centre in Wellington continue to progress, with key elements such as the main transfer beam and foundations on programme to complete in August 2014. Our engineers and contractors continue to work hard to overcome the technical and logistical challenges inevitable with a project of this complexity, while the asset management team continues to successfully maintain a high level of building occupancy. We anticipate the balance of the project will be completed in early 2015.

- 56 The Terrace (Unisys House)

  To accommodate the new Crown lease, the building is to be extensively refurbished and expanded. The building will be thoroughly modernised to an A-grade standard, with building services upgraded, new window systems fitted and office floors refurbished. The 45-year-old building complex, which includes Aurora House, will be extended by approximately 10% to 24,700 sqm, providing large efficient floorplates of over 1,800 sqm. The ground-floor lobby will be reconfigured to accommodate two retail tenancies and entrance area. The building will also be seismically strengthened to 90% of New Building Standard (NBS) from its current 70% NBS rating.

  Construction is programmed to commence on-site in November 2014 and complete in July 2016 in time for the Crown's lease commencement in August 2016.

ENDS