KIWI INCOME PROPERTY TRUST

NZX RELEASE

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Kiwi Income Property Trust announces interim result for the six months ended 30 September 2014

Kiwi Income Property Trust today announced its interim result for the six months ended 30 September 2014, reporting an after tax profit of $23.8 million[1]. The reported after tax profit in the prior comparable period was higher, at $61.9 million, due to a favourable fair value change to interest rate derivatives and a one-off deferred tax benefit recorded at that time.

Operating performance

The highlight of the period was a very pleasing result from an operational perspective. Operating profit before other income/(expenses) and tax[2] increased $4.6 million, to $42.1 million, and distributable income[2] grew to $40.3 million, up $6.6 million on the prior comparable period.

Chief Executive, Mr Chris Gudgeon, said: "The improved operating performance was a consequence of the completion of a number of development projects and was assisted by continued strong rental growth at Sylvia Park Shopping Centre and cost savings brought about by the recent internalisation."

Unit Holders will receive an interim cash distribution of 3.25 cents per unit, in line with guidance.

Management made good progress on the key priorities of maintaining high occupancy and extending lease terms. A key highlight was the overall improvement in portfolio occupancy to 98.9%[3], with pleasing leasing outcomes at the Vero Centre, Auckland and The Majestic Centre, Wellington.

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[1] 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 interim financial statements which have been the subject of a review by Independent Accountants pursuant to the External Reporting Board's New Zealand Standard on Review Engagements 2410. Refer to the summary financial results table in Attachment 1 for further information.

[2] 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 table in Attachment 1 for full details of how these measures are calculated.

[3] Tenancies vacated for development works are excluded from the occupancy statistics. At 30 September 2014, this excludes 1,500 sqm at 56 The Terrace and four floors (3,800 sqm) at The Majestic Centre which are undergoing redevelopment and seismic strengthening works.

Capital management

The Trust's financial position was further strengthened over the period through the restructuring of bank facilities on more favourable terms and the successful issue of $125 million in seven-year fixed rate senior secured bonds.

LynnMall redevelopment

The Trust is today announcing a $36 million development to create a new dining and entertainment precinct at LynnMall Shopping Centre.

The current retail offer will be expanded through the development of a new Reading Cinemas multiplex on a 15-year lease, complemented by a new dining precinct called 'The Brickworks', and additional specialty retail.

Mr Gudgeon said: "The LynnMall redevelopment is a response to shopper demand and positive growth in the centre's catchment area. We are pleased to be bringing cinemas back to New Lynn after a 14-year absence."

Resource consent has been obtained and construction is due to begin in January 2015, with completion targeted for November 2015.

Since acquiring the centre in 2010 for $174 million, the Trust will have invested a further $45 million (including this latest $36 million project), bringing its total investment in the centre to $219 million. The projected value of the centre on completion of this latest value-adding development is expected to be $262 million, with a projected incremental income yield on cost of approximately 7%.

The Majestic Centre earthquake strengthening project

The seismic upgrade work at The Majestic Centre in Wellington continues to progress, with two key elements - the transfer beam and foundation works - now structurally complete. Innovative solutions have been established and now proven for the key remaining work element, involving the strengthening of individual tower floors, with works now significantly advanced or complete on 11 of 22 floors. However, the complexity of the structural engineering involved, together with the logistical challenges of working in a fully operational building, has meant that the cost of the seismic upgrade works has increased by a further $29.9 million to an estimated $83.5 million. The target date for completion of the tower on-floor strengthening works is September 2015, with the site team typically working six days per week in two shifts to achieve this. Works in relation to the shear core and podium will continue past this date into early 2016.

Mr Gudgeon said: "While the cost increase is unwelcome, the strengthening project remains a pragmatic response to the market's heightened awareness of seismic resilience since the Canterbury earthquakes, and the demand by tenants for working environments that are low risk."

"Wellington tenants are demanding a high level of seismic performance and the Trust's commitment to these strengthening works, targeting a standard equivalent to 100% of New Building Standard for the office tower, has enabled us to secure new long-term lease commitments for around 56% of the building's area, or 13,800 sqm, since work commenced on site in July 2012."

Organisational structure

Following the internalisation of management, a review has been completed to ensure the Trust's organisational structure is optimally configured, with the right accountabilities and capabilities to deliver on the corporate objective, goals and strategy. Clearer accountabilities and a more effective focus of resources have now been established for the delivery of the key functions of asset management, development management, transactions management and corporate services.

In October a number of changes within senior management were announced. Mr Gavin Parker, previously Chief Financial Officer, has been appointed to the newly created role of Chief Operating Officer to oversee the provision of corporate services across the Group, whilst maintaining responsibility for overall management of our financial position, and corporate and capital structure. Mr Stuart Tabuteau, formerly Financial Controller, has been appointed to the role of Chief Financial Officer.

Mr Mark Luker has resigned from his position as General Manager Development effective from 23 December 2014. Following Mr Luker's resignation, an opportunity has been identified to streamline the development function, combining responsibility for both retail and office development. An executive search for a new General Manager Development is currently underway.

Northlands Shopping Centre insurance claim

The Trust's insurance claim relating to earthquake damage at Northlands has been settled. Following a mediation process, which commenced in February this year, agreement was reached in November with the Trust's insurers to settle all outstanding claims for $60.1 million (net of deductibles and payments received in the prior year). This compares to the estimate recorded in our 31 March 2014 financial statements of $64.3 million.

Total insurance payments in connection with earthquake damage at Northlands from the 2010 and 2011 Canterbury earthquakes now total $70.2 million, against which remedial works (subject of the insurance claim) costing $10 million have been completed.

Settlement of our insurance claim provides the Trust with certainty and funding to complete a remedial works programme that can be staged over time to minimise disruption to the strong trading performance of the centre.

Governance and corporatisation

The Trust's governance has been further strengthened with the appointment of two new independent directors during the period, Ms Jane Freeman and Ms Mary Jane Daly. This increases the number of directors to six.

Good progress has been made on a corporatisation proposal and a Notice of Special Meeting and Prospectus (Notice) has been registered with the Registrar of Financial Service Providers and released to NZX today. Unit Holders will have the opportunity to vote upon the corporatisation proposal, which involves moving from a trust to a company structure.

Chairman of the Board, Mr Mark Ford, said: "If the corporatisation proposal is approved, investors will benefit from further cost savings along with a streamlined corporate structure and greater protections under the Takeovers Code and Companies Act. Our corporate identity will also change, to 'Kiwi Property', enabling us to refresh our brand. Your directors unanimously recommend you vote in favour of the proposal."

The Special Meeting of Unit Holders will be held in Auckland on 15 December 2014 and investors should refer to a separate announcement made to the NZX today in relation to the corporatisation proposal. The Notice will be sent to all Unit Holders and MCN Holders of the Trust later this month.

Progress against 2015 priorities

During the period, the Manager made progress on its 2015 priorities, including:

- finalising a corporatisation proposal for Unit Holder approval
- settling the sale of the second tranche of 205 Queen
- strengthening the Trust's financial position through the restructuring of bank debt facilities and the successful issue of $125 million in seven-year fixed rate senior secured bonds

- minimising portfolio vacancy through an active leasing programme
- completing major milestones in the seismic upgrade programme of The Majestic Centre, including structural completion of the transfer beam and foundation works
- finalising plans for the development of a dining and entertainment precinct at LynnMall Shopping Centre, and
- commencing preparatory works at 56 The Terrace, ahead of the comprehensive redevelopment of the building.

Focus for remainder of 2015

The focus for the remainder of the 2015 financial year will be to:

- present our corporatisation proposal to Unit Holders and, if approved, roll out our new brand identity and streamlined corporate structure
- recruit a new General Manager Development
- progress the seismic strengthening works at The Majestic Centre
- commence construction on the redevelopment of 56 The Terrace
- conclude lease negotiations with the Crown at 44 The Terrace
- begin the development project at LynnMall, and
- seek opportunities to add value through strategic acquisitions, divestments and developments.

Outlook and distribution guidance

Economic activity, investment intentions and overall business and consumer confidence in New Zealand remain reasonably positive, despite the recent decline in dairy prices. These underlying fundamentals are expected to continue to underpin prospects for both the retail and office property sectors.

Mr Ford said: “Subject to a continuation of reasonable economic conditions, we continue to project distributions to Unit Holders for the year ending 31 March 2015 to be approximately 6.50 cents per unit.”

Additional information

For further information refer to the following:

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

The Trust has today also released the Interim Result presentation and Interim Report which are available for download on the Trust's website **kipt.co.nz** or the New Zealand Stock Exchange website **nzx.com**.

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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
The Majestic Centre, Wellington
56 The Terrace, Wellington
44 The Terrace, Wellington

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

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014
Attachment 1: Summary financial results table

Financial performance [$m] **For the six months ended**	**30-Sep-14**	**30-Sep-13**
Gross rental income	102.3	101.5
Property operating expenditure	(25.3)	(30.1)
Net rental income	**77.0**	**71.4**
Net interest expense[1]	(27.5)	(26.8)
Manager's base fee	-	(5.7)
Management and administration expenses	(7.4)	(1.4)
Operating profit before other income / (expenses) and tax[2]	**42.1**	**37.5**
Fair value change to interest rate derivatives	(3.1)	20.3
Fair value change to investment properties	(5.1)	4.4
Loss on disposal of investment properties	(0.7)	-
Insurance income/(adjustment)	(4.7)	2.0
Restructuring and litigation costs	(1.6)	(0.7)
Other non-operating expenses	(0.4)	(0.4)
Profit before tax	**26.5**	**63.1**
Tax expense	(2.7)	(1.2)
Profit after tax[3]	**23.8**	**61.9**

Distributable income[2] [$m] **For the six months ended**	**30-Sep-14**	**30-Sep-13**
Operating profit before other income/(expenses) and tax[2]	42.1	37.5
Fixed rental adjustments	(1.5)	(0.8)
Distributable income before tax	**40.6**	**36.7**
Current tax expense	(0.3)	(3.0)
Distributable income after tax	**40.3**	**33.7**
Transfer to retained earnings	(7.0)	(1.5)
Cash distribution	**33.3**	**32.2**

Distributions [cpu] **For the six months ended**	**30-Sep-14**	**30-Sep-13**
Cash distribution	3.25	3.20
Imputation credits	0.26	-
Gross distribution	3.51	3.20

Financial position [$m] **As at**	**30-Sep-14**	**31-Mar-14**
Property assets	2,102.6	2,130.2
Total assets	2,166.7	2,235.8
Unit Holder funds	1,192.1	1,188.5
Bank covenant gearing ratio[4] (Limit 45%)	32.8%	35.2%
Net asset backing per unit	$1.16	$1.17

1. Shown net of interest income and interest capitalised.
2. 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.
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 interim financial statements which have been the subject of a review by Independent Accountants pursuant to the External Reporting Board's New Zealand Standard on Review Engagements 2410.
4. Calculated as finance debt (which includes secured bank debt and the $125 million face value of bonds) over total tangible assets (which excludes interest rate derivative assets).

FINANCIAL RESULTS

Financial performance

- Net rental income **$77.0m** (30-Sep-13: $71.4m) *+$5.6m*
- Like-for-like net rental income **$53.0m** (30-Sep-13: $49.3m) *+$3.7m*
- Operating profit before other income/(expenses) and tax **$42.1m** (30-Sep-13: $37.5m) *+$4.6m*
- Profit after income tax **$23.8m** (30-Sep-13: $61.9m) *-$38.1m*

Net rental income rose $5.6 million (7.8%) over the prior comparable period to $77.0 million. This was primarily due to the inclusion of ASB North Wharf, Centre Place Shopping Centre and Northlands Shopping Centre for the full six-month period following completion of development activity, together with another strong performance by Sylvia Park, offset by the sale of 205 Queen and reduced income at The Majestic Centre as additional floors were made available for strengthening works. The increase was also assisted by internalisation benefits, with property management fees no longer payable to the previous manager, adding $4.1 million to rental income for the period.

On a comparable basis, like-for-like rental income was up $3.7 million (7.5%).

The increase in net rental income contributed to a 12.3% lift in operating profit before other income/(expenses) and tax to $42.1 million.

Overall, the Trust's income tax expense increased $1.5 million over the prior comparable period. The deferred tax expense in the prior comparable period included a one-off saving of $14.6 million following the adoption of 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.

Due to the tax deductibility of the internalisation payment made in the prior year, and the associated tax losses carried forward, the Trust's current tax expense for the period is significantly reduced. The Trust continues to carry gross tax losses of $12.8 million which are expected to be utilised in the next six-month period.

After adjusting for property and interest rate derivative devaluations, other non-operating items and income tax, an after tax profit of $23.8 million was recorded.

Distributable income and distributions to Unit Holders

- Distributable income **$40.3m** (30-Sep-13: $33.7m) *+$6.6m*
- Payout ratio **83%** (30-Sep-13: 96%)
- Interim cash distribution **3.25 cpu** (30-Sep-13: 3.20 cpu)

Distributable income was up $6.6 million (+19.6%) to $40.3 million, driven by the improvement in operating profit before other income/(expenses) and tax, and the reduction in the current tax expense.

An interim distribution totalling $33.3 million, or 3.25 cents per unit, will be paid in line with previous guidance. Imputation credits of 0.26 cents per unit will also be attached to the interim distribution.

At the end of the period, $7.0 million of distributable income was retained and will be utilised to normalise earnings during the forthcoming redevelopment of 56 The Terrace, as that building will be vacant for 21 months while it is being redeveloped.

The record date for the interim distribution is 2 December 2014, and the payment date is 16 December 2014.

The Distribution Reinvestment Plan remains in place, with the discount set at 2%. 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 and capital management

- Investment properties **$2,102.6m** (31-Mar-14: $2,130.2m) *-$27.6m*
- Net asset backing per unit **$1.16** (31-Mar-14: $1.17) *-$0.01*
- Total finance debt facilities **$900m** (31-Mar-14: $875m)
- Drawn finance debt **$710.0** (31-Mar-14: $786.5m) *-$76.5m*
- Bank covenant gearing ratio[4] **32.8%** (31-Mar-14: 35.2%) *-2.4 percentage points*
- Weighted average term to maturity of finance debt **4.1 years** (31-Mar-14: 3.4 years)
- Weighted average cost of finance debt **6.27%** (31-Mar-14: 6.01%)

As at 30 September 2014 the property portfolio was valued at $2.10 billion, with total assets of $2.17 billion, including $9.5 million of cash and a $33.6 million insurance income receivable in respect of certain earthquake remedial works at Northlands (see page 3).

[4] Calculated as finance debt (which includes secured bank debt and the $125 million face value of bonds) over total tangible assets (which excludes interest rate derivative assets).

The value of the Trust's investment properties decreased over the six-month period from March 2014 with capital expenditure and positive revaluations for two Auckland properties offset by a write-down for The Majestic Centre and the sale of the remaining 50% of 205 Queen.

As at 30 September 2014, independent valuations were obtained for Vero Centre, ASB North Wharf and The Majestic Centre. Firming capitalisation rates in Auckland led to value increases for Vero Centre (+$15.7 million) and ASB North Wharf (+$7.1 million) although this was offset by a $29.5 million decrease in the value of The Majestic Centre reflecting the increased costs of the seismic strengthening work.

The Trust's bank covenant gearing ratio improved to 32.8% compared to 35.2% at 31 March 2014, reduced by the proceeds from the sale of 205 Queen and the receipt of insurance proceeds, partially offset by ongoing development expenditure.

The net tangible asset backing per unit at period end was $1.16, down marginally from $1.17 at March 2014, with a $3.6 million increase in Unit Holder funds.

In June 2014, the Trust refinanced all $875 million of its then bank debt facilities, leading to interest savings, improved terms and an extension of the weighted average duration of these facilities.

In addition, on 10 July 2014 the Trust announced the successful issue of $125 million in seven-year fixed rate senior secured bonds. The offer was well received, with oversubscriptions of $25 million and a competitive interest rate set at 6.15% per annum.

The bonds benefited the Trust by extending the weighted average duration of its finance debt facilities as well as diversifying the sources of funding.

Following the bond issue, the Trust reduced its bank debt facilities by $100 million to $775 million.

The Trust's weighted average cost of finance debt at 30 September 2014 was 6.27%, up from 6.01% at 31 March 2014, with a weighted term to maturity of 4.1 years, up from 3.4 years.

OPERATING PERFORMANCE

Overall portfolio metrics

Across both the retail and office portfolios, occupancy has increased from 97.8% at March 2014 to 98.9%[5] and the weighted average lease term (WALT) has moved from 4.7 years to 4.6 years over the same period.

Retail portfolio metrics and activity

- Portfolio value **$1,399.7m** (31-Mar-14: $1,390.2m) *+$9.5m*
- Occupancy **99.1%** (31-Mar-14: 99.4%) *-0.3 percentage points*
- Weighted average lease term **3.6 years** (31-Mar-14: 3.8 years) *-0.2 years*
- **70 new leases** over **6,800 sqm,** providing an average rental uplift of **2.5%**
- **386 rent reviews** over **59,100 sqm,** providing an average rental uplift of **4.0%**

Active asset management over the period resulted in improved rents, along with a stable portfolio occupancy rate and weighted average lease term.

The 70 new leases completed across all six shopping centres had a weighted average lease term of 4.4 years and resulted in a net increase in rent of 2.5%.

Rent reviews across the retail portfolio continued to provide consistent uplift due to the predominance of fixed and CPI-linked review mechanisms, with the average 4.0% increase recorded to September 2014 translating to an additional $1.7 million per annum in base rental.

No retail assets were revalued as at 30 September 2014; therefore, the increase in portfolio value represents capital expenditure over the period.

Annual sales and gross occupancy costs

- Total sales **$1,448.9m** (30-Sep-13: $1,387.7m) *+4.4%*
- Unaffected sales[6] **$983.4m** (30-Sep-13: $969.2m) *+1.5%*
- Specialty gross occupancy costs **14.0%** (31-Mar-14: 13.9%)

For the 12 months to 30 September 2014 total sales increased 4.4% to $1.4 billion, assisted by the completion of development works at Centre Place and Northlands.

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[5] Tenancies vacated for development works are excluded from the occupancy statistics. At 30 September 2014, this excludes 1,500 sqm at 56 The Terrace and four floors (3,800 sqm) at The Majestic Centre which are undergoing redevelopment and seismic strengthening works. At 31 March 2014, excludes 2,800 sqm at The Majestic Centre.

[6] Unaffected sales provide a more normalised picture of sales trends by excluding centres which have undergone redevelopment in either year of comparison, in this instance Centre Place and Northlands.

On an unaffected basis, it was pleasing to note improving consumer confidence reflected in growth in discretionary purchases at department and discount department stores (+2.8%), together with specialty stores (+2.5%) and commercial services (+2.7%). Combined, these categories account for approximately 63% of total portfolio sales.

Within the specialty retail category, food and personal services categories showed the greatest strength with sales up 3.9% and 4.1% respectively.

Karl Retief, General Manager Retail, said: “We continue to evolve the retail mix within our shopping centres with the aim of maximising sales and rental productivity, while reducing our exposure to those categories with the greatest online penetration.”

Shopping centre rents within the Trust’s portfolio remain affordable, with an average gross occupancy cost for specialty tenants of 14.0%.

Retail development project

LynnMall Shopping Centre, Auckland

The Trust today announced a $36 million development to create a new dining and entertainment precinct at LynnMall in response to shopper demand and positive growth characteristics within its retail catchment.

The redevelopment will be anchored by a new, state of the art, eight-screen Reading Cinemas complex on a 15-year lease, bringing movies back to New Lynn after a 14 year absence.

A complementary dining precinct, to be known as ‘The Brickworks’, in reference to New Lynn’s industrial heritage, will provide up to seven restaurants and cafés, some licensed, set around a north-facing, landscaped dining laneway.

The net lettable area will increase by 4,600 sqm to approximately 37,000 sqm on completion. As part of the redevelopment, 4,000 sqm within the existing centre will be reconfigured and re-leased as part of the Trust’s ongoing programme to improve the retail mix at its centres.

In addition to the Reading Cinemas lease pre-commitment, a new 15-year lease agreement has been negotiated with Barworks Group Ltd for a new 540 sqm licensed restaurant. Barworks is the operator of the successful ‘Garrisons’ establishment at Sylvia Park. Approximately 60% (by income) of the new dining and entertainment precinct has been pre-leased.

A resource consent has been obtained, with construction due to begin in January 2015. The cinemas and dining precinct are planned to be trading by November 2015.

The projected value of the centre on completion of the development is expected to be $262 million, creating a $20 million development margin over the sum of the centre's $206 million March 2014 valuation and the $36 million development cost. The projected incremental income yield on cost is approximately 7%.

Office portfolio metrics and activity

- Portfolio value **$637.0m** (31-Mar-14: $674.6m) *-$37.6m*
- Weighted average capitalisation rate **6.87%** (31-Mar-14: 7.23%)
- Occupancy **98.4%** (31-Mar-14: 95.1%)[7] *+3.3 percentage points*
- Weighted average lease term **6.8 years** (31-Mar-14: 6.4 years) *+0.4 years*
- **10 new leases** over **6,800 sqm,** producing an average **2.4%** rental increase
- **17 rent reviews** over **24,800 sqm,** producing an average **2.4%** rental increase

The office portfolio occupancy rate improved to 98.4% following successful leasing outcomes in both Auckland and Wellington. The Trust's premium Auckland asset, Vero Centre, is now effectively full with new leases negotiated for a net 4,000 sqm of office space, over 10% of the building's area, in the six months to September 2014.

At The Majestic Centre, the Trust's leasing team executed new or restructured leasing deals for 2,150 sqm of space over the period, for an average lease term of 8.5 years. Wellington tenants continue to demand premium seismic performance for their business accommodation, which is highlighted by the very strong demand we have seen for space within the building. Since commencing the earthquake strengthening project in 2012, new lease agreements have been successfully concluded for approximately 13,800 sqm of space, representing 56% of the building's area.

The value of the office portfolio decreased $37.6 million during the period following the sale of 205 Queen and the revaluation of three assets, offset by capital expenditure across the balance of the portfolio.

[7] Tenancies vacated for development works are excluded from the occupancy statistics. At 30 September 2014, this excludes 1,500 sqm at 56 The Terrace and four floors (3,800 sqm) at The Majestic Centre which are undergoing redevelopment and seismic strengthening works.

Independent revaluations were undertaken for Vero Centre, ASB North Wharf and The Majestic Centre as at 30 September 2014, prompted by evidence of firming capitalisation rates in Auckland and, in the case of The Majestic Centre, the increase in project expenditure.

Capitalisation rates for both Vero Centre and ASB North Wharf firmed 25 basis points, to 6.63%. Vero Centre's value increased $15.7 million to $315.0 million and the value of ASB North Wharf increased $7.1 million to $170.0 million. Together, these two assets provided a revaluation gain of $22.8 million. This gain largely offsets a $29.5 million reduction in the value of The Majestic Centre, commensurate with the increased project spend.

Office development project

56 The Terrace, Wellington

Preliminary strip out, demolition and enabling works commenced in September 2014, with construction commencing in early November. The building will be modernised to an A-grade standard, with building services upgraded, new window systems fitted and office floors refurbished. Construction is programmed to complete in July 2016, in time for the commencement of the Ministry of Social Development's 18-year lease commitment from August 2016.

Portfolio earthquake strengthening update

Following the Canterbury earthquakes, a review of the seismic resilience of the Trust's property portfolio was undertaken. This led to the commencement of The Majestic Centre strengthening project in November 2011 as part of an objective to strengthen all of the Trust's buildings that were sub-50% of New Building Standard within five years.

In addition to the cost of The Majestic Centre strengthening project, now estimated at $83.5 million, the Trust completed $12 million of reconstruction works at Northlands in October 2013 and a further $6.3 million on smaller projects at The Plaza and Centre Place. It is expected that the cost of outstanding remedial works at Northlands can be funded from the recent insurance claim settlement and that a further $10 million will need to be spent on earthquake strengthening works, mainly at North City and The Plaza.

Current assessments indicate that 74% (by replacement value) of the Trust's portfolio is classified as low risk[8] and that this will increase to approximately 82% on completion of The Majestic Centre strengthening project. Approximately 26% of the portfolio is currently classified as moderate risk[8]. Less than 0.5% is high risk[8] or earthquake prone and plans are in place to either strengthen or sell these buildings by the end of 2015.

Property markets

The Auckland CBD market remains favourably positioned, with limited new supply and employment growth having a positive impact on demand for space. This is translating into positive leasing momentum, as evidenced by recent leasing activity at The Vero Centre. The demand outlook for Wellington is more subdued, with the Government sector (which occupies around 40% of all office space) continuing to consolidate.

Across the broader economy, declining unemployment and a positive outlook for real wages growth is assisting consumer confidence, and is being reflected in solid sales performances from specialty and department store operators.

Mr Gudgeon said: "We are looking forward to this trend becoming more firmly established, with economic indicators continuing to move in the right direction."

[8] The New Zealand Society for Earthquake Engineering has produced a risk classification scale for property based on a building's structural performance relative to a 'New Building Standard' (%NBS score). Low risk is 67% NBS or above, moderate risk is 34-67% of NBS and high risk is less than 34% of NBS.