Annual Meeting of Unit Holders

Tuesday, 7 August 2012 at 10.00am
Chairman's and Chief Executive's Address

CHAIRMAN'S ADDRESS

Welcome

Good morning Ladies and Gentlemen, welcome to Kiwi Income Property Trust's Annual Meeting for 2012. It is pleasing to see so many of you here today and we thank you for your attendance. We are also pleased to be holding this meeting in Christchurch, which gives us the opportunity to meet some of our South Island investors.

My name is Mark Ford and I am an independent director and Chairman of the Manager of the Trust. Under the terms of the Trust Deed, I have been appointed Chairman of this meeting by the Trustee, New Zealand Permanent Trustees Limited.

I am pleased to advise there is a quorum present and I declare the Annual Meeting of Unit Holders open.

I would like to take the opportunity to introduce my colleagues on the Board of the Manager:

- **Angus McNaughton** – Angus was appointed to the Board in February this year. Angus is the Managing Director of Property for Colonial First State Global Asset Management. Angus is a previous Chief Executive of the Manager of the Trust and has more than 20 years' experience in the property, capital markets and fund management industries.

- **Richard Didsbury** – Richard was one of the founders of the Trust. His current directorships include Auckland International Airport Limited, Sky City Entertainment Group and Hobsonville Land Company, and he contributes to a variety of public initiatives such as being a Trustee of the Committee for Auckland.

- **John Duncan** – John joined the Board in 2002. John has previously served as Chairman of Colonial Fiji Life Limited, National Bank of Fiji Limited, ASB Bank Group Investments Limited and Sovereign Superannuation Trustees Limited. John is an independent director.

- **Robert Narev** – Robert joined the Board in 1992 and is an independent director. He was a senior partner of the Auckland-based law firm, Glaister Ennor, for whom he is now a consultant. Robert specialises in property, commercial law and trusts. He is a Member of the New Zealand Order of Merit.

- **Joanna Perry** – Joanna joined the Board as an independent director in October 2006. Joanna is deputy chair of Genesis Power and her other directorships include TradeMe Group, The Co-operative Bank, Partners Life, Sport New Zealand and New Zealand Rowing. She is a member of the International Financial Reporting Interpretations Committee.

- **Mike Steur** – Mike joined the Board as an independent director in January 2010. He is an experienced company director with over 30 years' experience in the property industry. He is currently the Executive Managing Director of CB Richard Ellis' Asia Pacific Valuation and Advisory Services business and also serves on the Executive Committee of CB Richard Ellis in Australia. He is on the global board of the Valuation Professional Group of the Royal Institution of Chartered Surveyors and Chairs the Oceania Valuation Professional Group.

Also joining us as at the table is the Chief Executive of the Manager of the Trust, Chris Gudgeon, and the Chief Financial Officer, Gavin Parker.

I also extend a welcome to our Trustee, Lloyd Wong, from New Zealand Permanent Trustees Limited and Sam Shuttleworth from our auditors, PwC.

I note that John Duncan will be retiring from the Board with effect from 30 September 2012. On behalf of the Board, I wish to acknowledge the significant contribution he has made to the governance of the Trust since he joined the Board in 2002. He will leave with the appreciation and best wishes of the Board and Management.

Agenda [slide 2]

I would now like to take a moment to explain today's agenda.

Proceedings will commence with my address which will cover the Trust's financial and operating highlights for the year to 31 March 2012.

I will then invite Chris to provide a more detailed update on the Trust's activities.

As there is no formal business to take place at this meeting, we will then invite questions regarding the Trust.

Annual results highlights – A high-quality result delivered in a challenging year [slide 4]

In a challenging year, the Trust has delivered a pleasing result from both an operating and balance sheet perspective. Our ability to deliver reliable returns, through good times and bad, is attributable to our simple, conservatively-geared business model and our 'hands on' approach to the management of the Trust's high-quality portfolio.

We have improved on all of our key profit measures relative to the prior year. The Trust delivered an operating profit before tax of $81.3 million, up 6.4% on the previous year. After taking account of property revaluations, other non-cash adjustments and the settlement of our insurance claim for the PricewaterhouseCoopers Centre, the Trust reported an after tax profit of $89.2 million.

Distributable income after tax for the financial year was $71.7 million, up 4.2% on the previous year.

In line with previous guidance, the full-year cash distribution was 7.00 cents per unit. This translates into an attractive after tax yield of 6.6%, based on the year end unit price of $1.06.

The Trust has delivered a cumulative average Total Return since inception in December 1993 of 9.7% per annum.

The Board has consistently held the view that it is essential to maintain a strong balance sheet. At year end, the Trust's total assets stood at $2.16 billion, with a property portfolio of $2.01 billion. Taking account of funds on deposit, the Trust's net bank debt gearing ratio was 33.8% and net tangible assets improved two cents per unit to $1.09.

Annual results highlights – A high-quality result delivered in a challenging year [slide 5]

The Trust's management team continues to intensively and pro-actively manage the Trust's assets. As at 31 March 2012, portfolio occupancy was 96.2%, with a solid weighted average lease term of 3.9 years.

One of the highlights of the year for us has been the positive sales performance of our shopping centre portfolio, with sales growth of 8.4% to $1.43 billion.

The Trust continues to make good progress with the development of ASB Bank's new head office premises in Wynyard Quarter, Auckland.

Whilst we continually strive to add value and enhance returns to Unit Holders with our investment decisions, we are also making defensive investments in earthquake strengthening at The Majestic Centre in Wellington and at Northlands Shopping Centre here in Christchurch, and in the competitive repositioning of Centre Place Shopping Centre in Hamilton.

I would now like to invite Chris to provide a more detailed update on the Trust's activities.

CHIEF EXECUTIVE'S ADDRESS

Chief Executive's review title slide [slide 6]

Thanks Mark and good morning everyone.

I would like to start by reviewing in a bit more detail the financial result for the year to 31 March 2012 and then continue by:

- Reviewing progress against the strategic priorities we set ourselves last year;
- Looking at our operating highlights and the performance of our property portfolio;
- Reviewing progress on our key development initiatives;
- Commenting on the seismic review we have completed for our portfolio;
- Briefly commenting on the economy and the property markets; and
- Concluding with a review of our priorities for the year ahead.

Financial highlights – Financial performance and distributable income [slide 7]

As outlined by the Chairman, the Trust has continued to deliver solid underlying operating performance.

For the year ending March 2012 net rental income was $144.0 million, up 4.5% on the previous year. The growth in rental income was a result of solid performances from most of our shopping centres, together with our first full year contribution from LynnMall Shopping Centre in Auckland, which we acquired in December 2010.

This improvement in net rental income was achieved despite us receiving no rental income from the PwC Centre here in Christchurch, following its closure in February 2011 due to the earthquake, and despite a reduction in the rental performance of Centre Place in Hamilton, which has been adversely affected by competition and is now undergoing redevelopment.

Our improved net rental income performance helped us secure a 6.4% lift in pre-tax operating profit, to $81.3 million for the year.

And as you can see, a bottom line after tax profit of $89.2 million was recorded after adjusting for property revaluations and impairments, non-operating items and taxation. This represents a significant $115.6 million improvement over the prior year and is largely attributable to two factors:

- The first being an improved revaluation outcome for our property portfolio; and
- The second significant factor being the recognition of $67 million of insurance proceeds for the PwC Centre.

If we then look at distributions. Distributable income after tax was $71.7 million for the current year, up 4.2%. Unit Holders were paid a full year cash distribution of 7.00 cents per unit, the same as the previous year. This represented a payout ratio of around 95% of distributable income, with the balance being taken to the distribution reserve which now stands at $15.5 million, up from $12.2 million.

Financial highlights – Financial position [slide 8]

If we now take a look at our balance sheet position as at 31 March 2012, we can see the value of the Trust's property portfolio increased by $24 million to $2.01 billion, with the increase being largely driven by the investments we are making with the development of the ASB Bank building at North Wharf in Auckland and in the redevelopment of Centre Place Shopping Centre in Hamilton.

Moving down the table now to look at Unit Holder funds, we can see that they now stand at $1.07 billion, up $30 million – which has led to the net tangible asset backing per unit increasing to $1.09 per unit, up from $1.07 a year earlier.

I would like to just take a minute to look at this movement in Unit Holder funds – because this is what underpins the value of the units that you own.

Financial highlights – Unit Holder funds [slide 9]

In this table here we can see what drove this $30 million increase in Unit Holder funds.

The main contributor to the increase was the recognition of $67.1 million in insurance proceeds for the PwC Centre following the settlement of our insurance claim. As you know, the building is now being demolished and consistent with that we have written off our remaining $26.9 million investment in the building.

You can also see that we had a very positive increase in the value of our largest shopping centre Sylvia Park which increased in value by $27.5 million (now being worth $500 million), and other positive valuation gains totalling $17.3 million. These positive gains were offset by the $34.4 million reduction in the value of The Majestic Centre office building in Wellington, which reduced in value because of the need to undertake earthquake strengthening works, and also the $20 million reduction in the value of the competition-affected Centre Place which is now undergoing redevelopment.

I think our Chairman summed it up very well when he said it has been a challenging year, but that the Trust has delivered a pleasing result from both a balance sheet perspective – illustrated in part by the positive movement we see here in Unit Holder funds – and from an operating perspective – when you look at the increase in distributable income after tax we saw in the previous slide.

Investment return highlights – Ten years of solid performance **[slide 10]**

If we now look at long term investment returns over a 10-year period, we can see here that the Trust (shown in bright blue on the chart) has delivered a 10-year total return to 31 March 2012 of 8.3% per annum and that it has consistently outperformed the general equities market over the same period, as measured by the NZX 50 Gross Index (the dark blue). You can also see that the Trust has performed broadly in-line although slightly under the NZX Property Gross Index – which you see here in the black.

What is interesting from the chart of course is that we can see the onset of the global financial crisis five years ago, with the dramatic fall in all the markets over the following two years. But what is encouraging to note is how the property sector over the last three years has recovered the ground it lost. It is also interesting to see how much better property has performed relative to general equities as measured by the NZX 50.

Operating highlights – Progress against 2012 priorities **[slide 11]**

Last year we set ourselves some strategic priorities under the broad headings you see on the left of this chart.

The first heading 'Protect the balance sheet' is all about maintaining a strong financial position. In that regard, we were pleased to report a conservative net bank debt gearing ratio of 33.8% as at our March 2012 balance date.

Since balance date, this gearing ratio has been reduced further by paying down bank debt. Firstly using the $63 million final insurance payout for the PwC Centre and secondly by using the $55 million we received from the sale of Beca House. 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 we think the $55 million sale price achieved was a positive outcome.

Another key achievement last year was the successful refinancing of $592.5 million of bank debt facilities with an increase in the term to maturity of our bank loans. The Trust is seen as a good credit risk by the four big banks we deal with – and we get very good support from them. Subsequent to balance date, we refinanced a further $227.5 million of bank debt, increasing the weighted average term to maturity to 4.6 years. The Trust now has no bank debt expiring until the 2016 financial year.

When we look at the management of our property assets, under the heading 'Intensively manage assets', we are pleased to have maintained a high overall occupancy rate of 96.2%.

Following the harsh reminder the whole country received from the Canterbury earthquakes, we had a responsibility to review the earthquake strength of our portfolio – which we've done as well as commencing our strengthening program.

We were also determined to do what we could to drive retail sales in our shopping centre portfolio – and we had a very pleasing result there which I will talk about in the next slide.

And lastly, we've continued to focus on the need to add value through our investment decisions – and I'll report to you shortly on our developments at ASB North Wharf and Centre Place Shopping Centre.

Operating highlights – Sales [slide 12]

As mentioned earlier, a real highlight for the year was the 8.4% increase in retail sales recorded for our shopping centre portfolio. The comparable sales increase was 5.7%, which represents a very positive turn-around on the previous four years since the onset of the global financial crisis, where we saw generally flat or declining sales performances.

Looking at individual shopping centre performances.

The redistribution of retail sales here in Christchurch due to earthquake effects can be seen in the Northlands result, where sales grew by an impressive 22.2% for the year.

Sylvia Park in Auckland recorded strong sales growth of 7.1% as it continues to perform strongly and grow market share.

North City in Porirua had solid sales growth of 5.8% which is attributed to an improved performance at Kmart as well as a targeted marketing campaign from the Centre management team.

LynnMall in Auckland and The Plaza in Palmerston North also recorded solid increases in sales.

Importantly, the portfolio wide specialty gross occupancy cost to sales ratio, the key measure of rental affordability for retailers, improved quite significantly over the year, assisted by the lift in portfolio sales.

Operating highlights – Lease expiry and rental activity [slide 13]

It has been another busy year for our asset management team, with 784 new leases or rent reviews completed, covering 154,400 sqm of the portfolio's rentable area.

Overall, the Trust achieved a net rental uplift of $1.1 million from all new letting and rent review activity. Rents across the portfolio as a whole are now within 1% of the level of rent the market is prepared to pay, which suggests that the downward rental corrections we've seen over the last few years, both in retail and office rents, caused by the slowdown in the economy, may be coming to an end.

Looking ahead, the Trust's lease expiry profile is manageable, with on average only approximately 15% of total rental income expiring in each of the next four years.

Operating highlights – Portfolio valuations are stabilising [slide 14]

Looking at a four year view of valuation results enables us to pick up a clear trend of stabilising property values.

You will recall earlier in my presentation we looked at a chart that showed a 10-year history of share market returns, and the dramatic fall in market values that occurred at the onset of the global financial crisis back in 2008.

This of course affected property values and you can see here in our 2009 financial year we recorded a 10.1% fall in our portfolio value. In 2010 the fall in values was much less at 3.9%. In 2011 it would have been even less again, if it were not for the Canterbury earthquakes.

And in the latest year, 2012, our shopping centre portfolio actually increased in value and we would have shown a 1% revaluation gain, rather than the actual 1.8% decline, if it were not for the need to record write-downs in value for the PwC Centre and The Majestic Centre as a consequence of the Canterbury earthquakes.

Operating highlights – ASB North Wharf – Building topped off, project on time and on budget [slide 15]

Our main contractor, Fletcher Construction, has made excellent progress on the ASB North Wharf development during the year.

In March we had the building's official 'topping off' ceremony, or the 'roof shout' as the builders call it.

The main structure and external cladding is now largely complete and ASB are well underway with their fitout works.

The project remains on budget and on program to complete in time for ASB's July 2013 lease commencement.

On completion, this development will add a new premium grade office building to our portfolio with an 18-year lease to a blue-chip tenant. The initial net rental yield is projected to be 8.5%, with 93% of rental income coming from ASB Bank and the balance from ground floor retail tenancies.

The lease agreement with ASB Bank provides for fixed annual rental increases of 2.5% for every year of the 18-year lease term – providing a very stable, low-risk rental stream for the Trust.

Operating highlights – ASB North Wharf – Progress image [slide 16]

And here is another view of ASB North Wharf, with the city in the background, and the new North Wharf restaurant precinct on the left.

Operating highlights – Centre Place development – Repositioning as a competitive CBD specialty centre [slide 17]

Our Hamilton CBD shopping centre, Centre Place has faced significant increased competition in recent times. To competitively reposition the Centre we have committed to a $49.9 million redevelopment of the Centre.

In September 2011, we completed the first $10 million stage of the redevelopment which created a new foodcourt and dining lane, opening successfully in time for the first Rugby World Cup matches in Hamilton last year.

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 to build 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.

Operating highlights – Centre Place development – Progress image [slide 18]

This slide shows a photograph of the completed dining lane at Centre Place on Bryce Street – showing the six new restaurants.

External environment – Portfolio seismic review completed [slide 19]

Looking now at the external environment we've been operating in. I have summarised here some of the consequences of the Canterbury earthquakes.

During the year, we reached agreement with our insurers for the earthquake-damaged PwC Centre here in Christchurch, which is currently being demolished. As a result, the Trust received total insurance proceeds of $69.3 million, which as previously mentioned were used to retire bank debt.

Following the earthquake events, we have completed a seismic review of the Trust's entire property portfolio and I will take this opportunity to reflect on the outcomes.

Firstly, we have committed to and are underway with a $35 million earthquake strengthening program at The Majestic Centre in Wellington to achieve a 'low risk' classification as defined by the New Zealand Society of Earthquake Engineers. Strengthening work commenced on site last month and is programmed to be completed progressively over the next two to three years.

Secondly, we are dealing with the new stricter earthquake code now applicable here in Christchurch, where the earthquake loading standards were lifted by around 37% in response to the earthquake events. As a result of this, we announced in March that we needed to close and reconstruct an area affecting 14 shops at Northlands – equivalent to around 5% of the centre's rentable area – at a cost of approximately $9 million.

As we complete further engineering assessments at Northlands we think it's likely that further strengthening works will be required – and in fact minor strengthening initiatives have been underway in a number of locations over the past year as the centre has continued to trade.

Where a significant strengthening requirement arises, we will look to undertake it potentially in conjunction with a partial redevelopment of the centre – which would be designed to improve the retail offer and capitalise on the increased market share the centre now enjoys.

An example of this is the Farmers department store, which is undersized and somewhat compromised in terms of layout. Their lease expires in March 2016 and there may be an opportunity to build them a new store as part of a redevelopment of that part of the Centre – to be completed say within the next five years.

We have also completed a review for the rest of the portfolio, with the objective of securing a 'low risk' earthquake risk classification by undertaking selective strengthening work. This comment mainly relates to buildings that in the pre-earthquake days we were perfectly happy with as legally compliant buildings – but which now, with the new earthquake consciousness, we think would benefit from strengthening. To achieve this target low risk classification for the balance of the portfolio, we are currently looking at a program which would be rolled out over a 10-year period, at a cost in the order of $30-$40 million.

External environment – New Zealand economy slowly and steadily improving [slide 20]

Looking now at the New Zealand economy.

Whilst we have seen movements up and down in consumer and business confidence, we are encouraged by the prospect of a slow but steady recovery. As you can see:

- Economic or GDP growth is projected to build over the next two years;
- The Unemployment Rate is forecast to decrease;
- House prices are stable and rising in many parts of the country, and mortgage rates are at historical lows; and
- We've reverted to an environment of positive retail sales growth, with sales forecast to continue growing.

External environment – 85% of core portfolio located in recovering property markets [slide 21]

Looking now at what this means for the property market.

We are encouraged that 85% of the Trust's property portfolio is positioned either in the recovering retail sector or in the Auckland office market.

I talked earlier about the recovery we've seen in our portfolio's retail sales over the past year and we think the outlook remains reasonably positive with sales forecast to grow at 2 – 4% per annum. The Trust has a 65% weighting to shopping centres and we think, relative to other sectors, this is a positive position to be in.

Looking at the office sector, the outlook for Auckland office is also reasonably positive. The absence of new supply and steadily improving demand situation is forecast to lead to lower vacancy rates. According to CB Richard Ellis, the overall CBD vacancy rate is 14%, but is forecast to decline to less than 10% by 2016.

Evidence suggests that rentals are stable or improving and incentives are reducing. There has been a reasonable amount of sales activity and quite strong investor demand – and this all supports a further improvement in values.

In Wellington, the outlook is more subdued. The core CBD vacancy rate is currently 11.6% and is forecast to remain above 11% through to 2016, as the market deals with an increase in stock from new and refurbished office buildings. The net rental outlook there is not helped by increases in insurance premiums which are largely unrecoverable due to the gross structure of leases across the city. Activity in the investment market is also likely to be hindered by concern around seismic ratings.

The Trust benefits from having a 20% weighting in the Auckland office market, with only an 8% weighting in Wellington.

Priorities for FY13 – An active year ahead [slide 22]

I will conclude my presentation with a look at our priorities as Manager of the Trust for the year ahead. Our focus this year is to:

- maintain very active retail and office leasing programs to minimise vacancy;
- progress seismic strengthening works at The Majestic Centre in Wellington and Northlands in Christchurch;
- further improve the Trust's bank debt maturity profile. In fact, as already mentioned, this objective has already largely been achieved with our announcement last month that we renewed and extended $227.5 million of our bank debt facilities on favourable terms;
- progress construction of the ASB North Wharf development in readiness for ASB Bank's July 2013 lease commencement;

- progress redevelopment of Centre Place, including starting construction on the new Farmers department store, with a target opening date in late 2013; and
- continue to seek opportunities to undertake value-added acquisitions, consistent with the Trust's strategy.

Ladies and gentlemen, thank you very much - that concludes my overview of the Trust's activities. I will now hand you back to our Chairman, Mark Ford, for some concluding comments on the outlook for the Trust.

CHAIRMAN'S CONCLUDING ADDRESS

Summary and outlook – Projected FY13 after-tax distribution of 6.60 cents per unit [slide 24]

Thank you Chris.

So, as a concluding comment, our view is that the Trust's underlying investment fundamentals continue to be robust:

- our financial position is strong;
- our portfolio metrics are sound;
- we think our investment strategy is sound and our active management approach is right, and;
- we believe our exposure to the retail sector and to the Auckland market is favourable.

We do however see the need to remain cautious in the current economic environment and take into account the cost and income impacts of our earthquake strengthening requirements, notably at Northlands Shopping Centre and The Majestic Centre.

And finally, to confirm the guidance we gave back in early April. Subject to a continuation of reasonable economic conditions, we are projecting distributable income after tax, and distributions to Unit Holders, for the year ending 31 March 2013 to be approximately 6.60 cents per unit.

QUESTIONS [Header slide]

That concludes today's formal business. At this time we would be happy to answer any questions on the Trust's activities. I ask that when asking a question, you please use the microphone that is available and identify yourself by name. If you are a proxy for a Unit Holder, please name the Unit Holder on whose behalf you hold the proxy. Similarly, if you represent a corporate or similar Unit Holder, please do likewise. There will of course be further opportunities to ask questions during the morning tea break which will follow shortly.

MEETING CLOSURE

Ladies and gentlemen, thank you for your attendance today. As there are no further questions I declare the meeting closed.

Please join us now for refreshments.