


# **Kiwi Income Property Trust**

## **Management Fee Review**

**30 March 2005**

# Introduction



- 
- Following both internal and independent reviews of the current fund management fee, KIPL<sup>1</sup> has determined to make the following changes to its fee structure:
    - ▶ Significant reduction in the base fee
    - ▶ Introduction of a performance fee to align interests
    - ▶ Inclusion of total fee cap to ensure overall reduction in fees
  - This presentation covers
    - ▶ Overview of the new fee structure
    - ▶ Illustrative impacts of the new fee structure
    - ▶ Benchmarking the new fee against KIPT's<sup>1</sup> peers
    - ▶ A summary of the Deloitte independent review
    - ▶ Conclusion

**The changes guarantee an immediate reduction in overall fees and enhance the alignment of the Manager and unit holder interests**

<sup>1</sup> For the purposes of this presentation "KIPL" refers to Kiwi Income Properties Limited and "KIPT" refers to Kiwi Income Property Trust.

# Overview of New Fee Structure



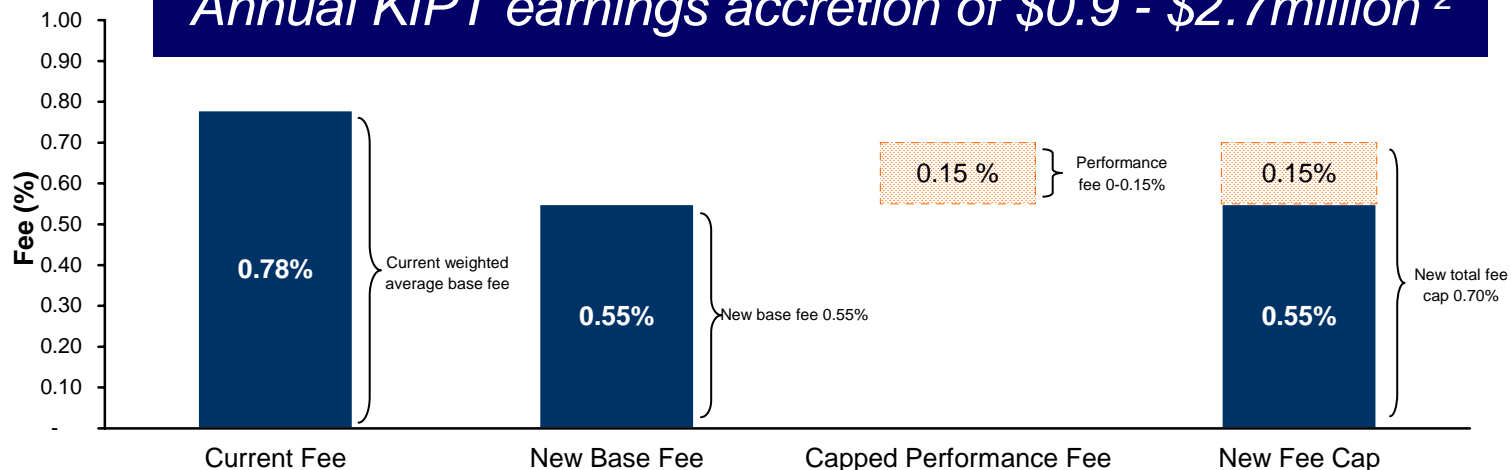
## Current Fee Structure

- 0.85% of average gross assets up to \$750m
- 0.65% of average gross assets over \$750m
- Current blended FY05 fee of 0.78%

## New Fee Structure

- Base Fee of 0.55% of average gross assets
- Performance fee based on a minimum 10% total return threshold<sup>1</sup>
- Total management fee cap of 0.70% of average gross assets

*Annual KIPT earnings accretion of \$0.9 - \$2.7million<sup>2</sup>*



<sup>1</sup> Performance fee details and calculation detailed on the following page.

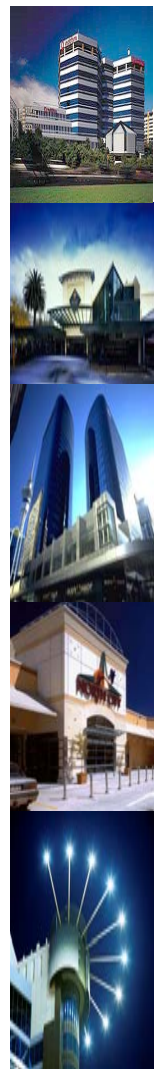
<sup>2</sup> Dollar value earnings accretion based on an average gross asset value of \$1,150m.

# Performance Fee Component



Performance fee is determined as 10% of KIPT's outperformance above a threshold total unit holder return of 10%

- The key features of the performance fee structure are:
  - ▶ KIPL will earn a fee of 10% of outperformance over the threshold return
  - ▶ Threshold return is set at 10% per annum, in line with the performance hurdle adopted by other listed property entities
  - ▶ Return based on gross dividend and unit price movement over the relevant period
  - ▶ Under or over performance is carried forward for two years
  - ▶ Performance fee to be paid in KIPT units (subject to approval at next unit holder meeting). Otherwise payable in cash
  - ▶ Performance fee is capped at 0.15% per annum of average gross assets
  - ▶ Calculated each half year period ending 30 September and 31 March

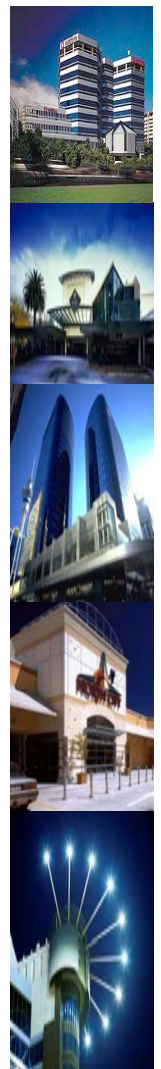


# Performance Fee vs Peers



KIPT's performance fee cap ensures total fees do not exceed 0.70%. Peers have potential to earn fees in excess of 1.00%

- A performance fee cap was included to limit total fees to 0.70% of average gross assets
  - ▶ Other NZ peers performance fee caps are greater and allow fees in excess of 1.00% of assets to be paid
- A defined threshold return was used in preference to the NZX property index for several reasons
  - ▶ KIPT is over one third of the NZX property index, and the residual index forms a potentially inefficient and volatile benchmark
  - ▶ Ensures performance fees are not paid out when actual returns are below the defined threshold
  - ▶ Local NZ benchmark is not the primary return hurdle focused on by KIPT's international unit holder base



# The Financial Impact of Fee Reduction



## New KIPT fee structure delivers a higher level of earnings per unit when compared with the existing fee structure

Illustrative Example		Comments
<b>Assumptions</b>		
Unit price beginning period (\$)	1.10	Assumptions are for illustrative purposes only
Unit price end of period (\$)	1.14	Assumptions are for illustrative purposes only
Weighted Average Units on Issue (m)	705	Assumptions are for illustrative purposes only
Gross dividend paid over period (cpu)	8.57	2004FY gross DPU - used for illustrative purposes
Average gross assets (\$m)	1,150	Assumptions are for illustrative purposes only
<b>Unit holder return</b>		
Unit price appreciation (cpu)	4.00	Opening Unit Price less Closing Unit Price
Gross Dividend per unit (cpu)	8.57	2004FY gross DPU - used for illustrative purposes
Total Unit holder return (cpu)	12.57	DPU plus unit price appreciation/depreciation
Total Unit holder return (%)	11.4%	% return over opening unit price
<b>Threshold and Cap Calculation</b>		
10% Return Threshold (cpu)	11.00	Opening unit price multiplied by 10% threshold
Maximum Performance Fee (\$m)	1.72	Average gross assets multiplied by 0.15%
Total Performance Fee Cap (cpu)	2.45	Performance fee (\$m) divided by weighted average units divided by 10%
Total Fee Cap Return Threshold (cpu)	13.45	Performance fee cap plus 10% return threshold
<b>Fee Calculation</b>		
Excess/(Deficit) Return (cpu)	1.57	Actual unitholder return less 10% threshold
Performance Fee Payment (\$m)	1.11	Excess return multiplied by weighted average units multiplied by 10%
Performance Fee as % Average Gross Assets	0.10%	
<b>Comparative Fees (new vs old)</b>		
Fees Charged (old fee structure) (\$m)	8.97	Old fee structure assuming \$1,150m average gross assets
Fees Charged (new structure) (\$m)	7.43	Base Fee (0.55% of ave gross assets) + performance fee
Fee Reduction under new structure (\$m)	1.54	Fee differential (old fees less new fees)
Accretion per unit (cpu)	0.22	Fee differential divided by weighted average number of units
% accretion per unit (based on DPU assumption)	2.6%	



# Example Fee Calculations



New fee structure is accretive for KIPT unit holders  
Earnings accretion of at least 1.5% and potentially up to 4.4%

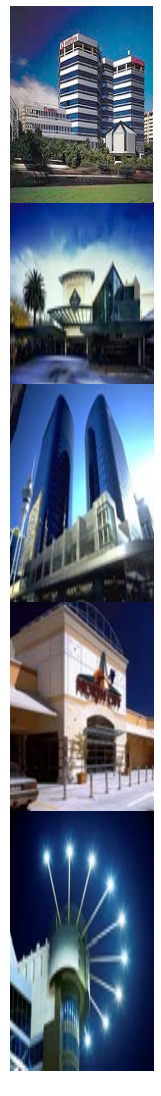
Example Return	Exceed 10% and cap	Exceed 10% but below cap	Below 10%
<i>Assumptions<sup>1</sup></i>			
Unit price beginning period (\$)	1.10	1.10	1.10
Unit price end of period (\$)	1.15	1.13	1.10
Weighted Average Units on Issue (m)	705	705	705
Gross dividend paid over period (cpu)	8.57	8.57	8.57
<i>Unit holder return (cpu)</i>			
Unit price appreciation	5.00	3.00	0.00
Gross Dividend	8.57	8.57	8.57
Total Unit holder return	13.57	11.57	8.57
Total Unit holder return (%)	12.3%	10.5%	7.8%
<i>Fee Calculation</i>			
10% Return Threshold (cpu)	11.00	11.00	11.00
Excess/(Deficit) Return (cpu)	2.57	0.57	(2.43)
Total Fee Cap Return Threshold (cpu)	13.45	13.45	13.45
Excess Return within Fee Cap (cpu)	2.45	0.57	n/a
Deficit/Excess Carried Forward (cpu)	0.12	0.00	(2.43)
Performance Fee Payment (\$m)	1.72	0.40	0.00
Performance Fee as % Average Gross Assets	0.15%	0.03%	0.00%
Fee reduction (vs old structure) (\$m)	0.93	2.25	2.65
Comparative accretion per unit (cpu)	0.13	0.32	0.38
% accretion per unit (based on DPU assumption)	1.5%	3.7%	4.4%

<sup>1</sup> Assumptions are for illustrative purposes only.

# Benchmarking vs KIPT Peers

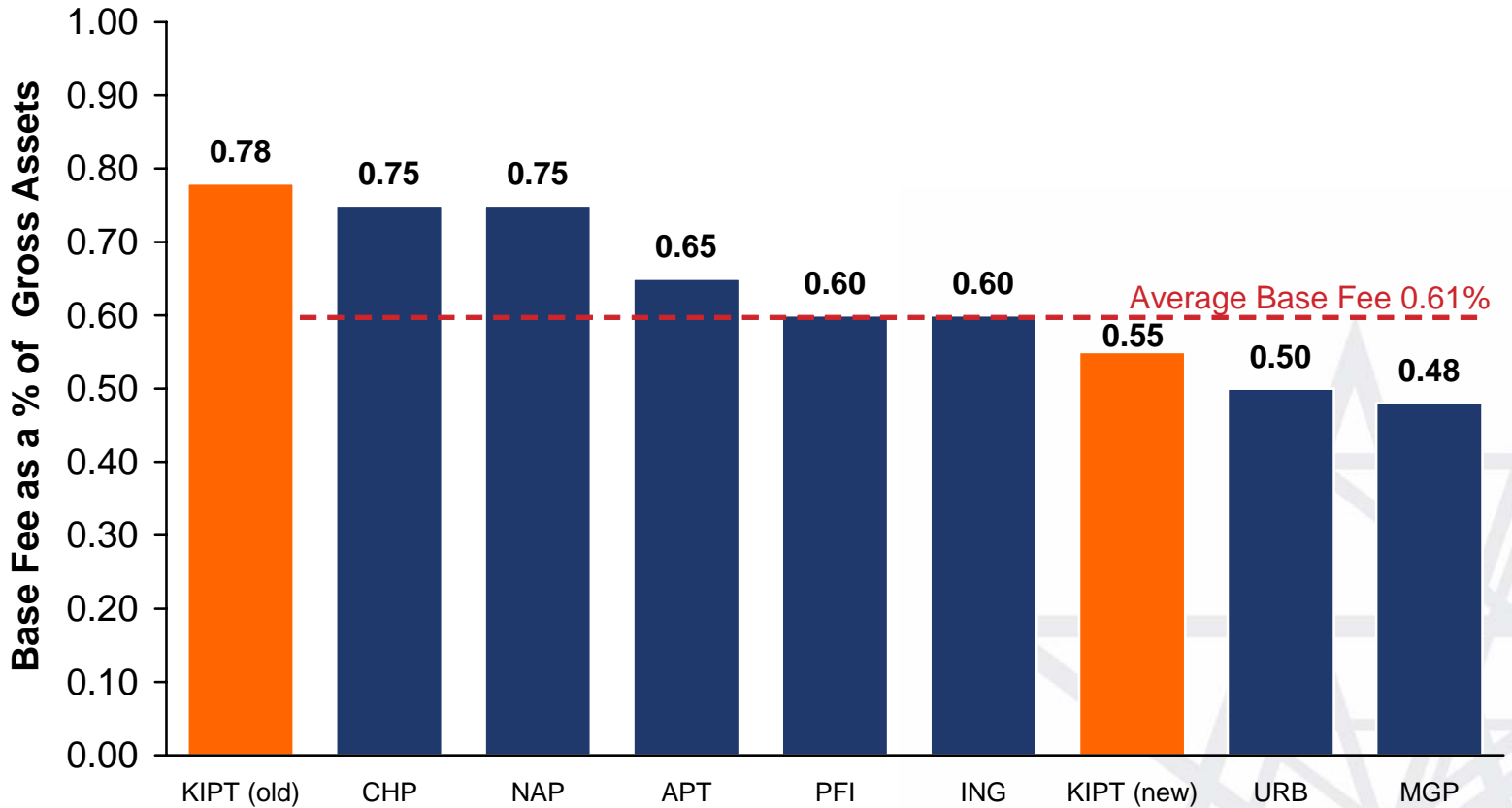
An analysis of total fees provides a more appropriate benchmark for the KIPT fee structure

- In benchmarking the new KIPT fee structure to NZ peers, it is important to ensure total fees are assessed, not just the fund management fee
- The three broad fee components considered are:
  - ▶ Base fund management fee
  - ▶ Performance fee
  - ▶ Other fees including acquisition / disposal and property management fees



# Benchmarking – Base Fees

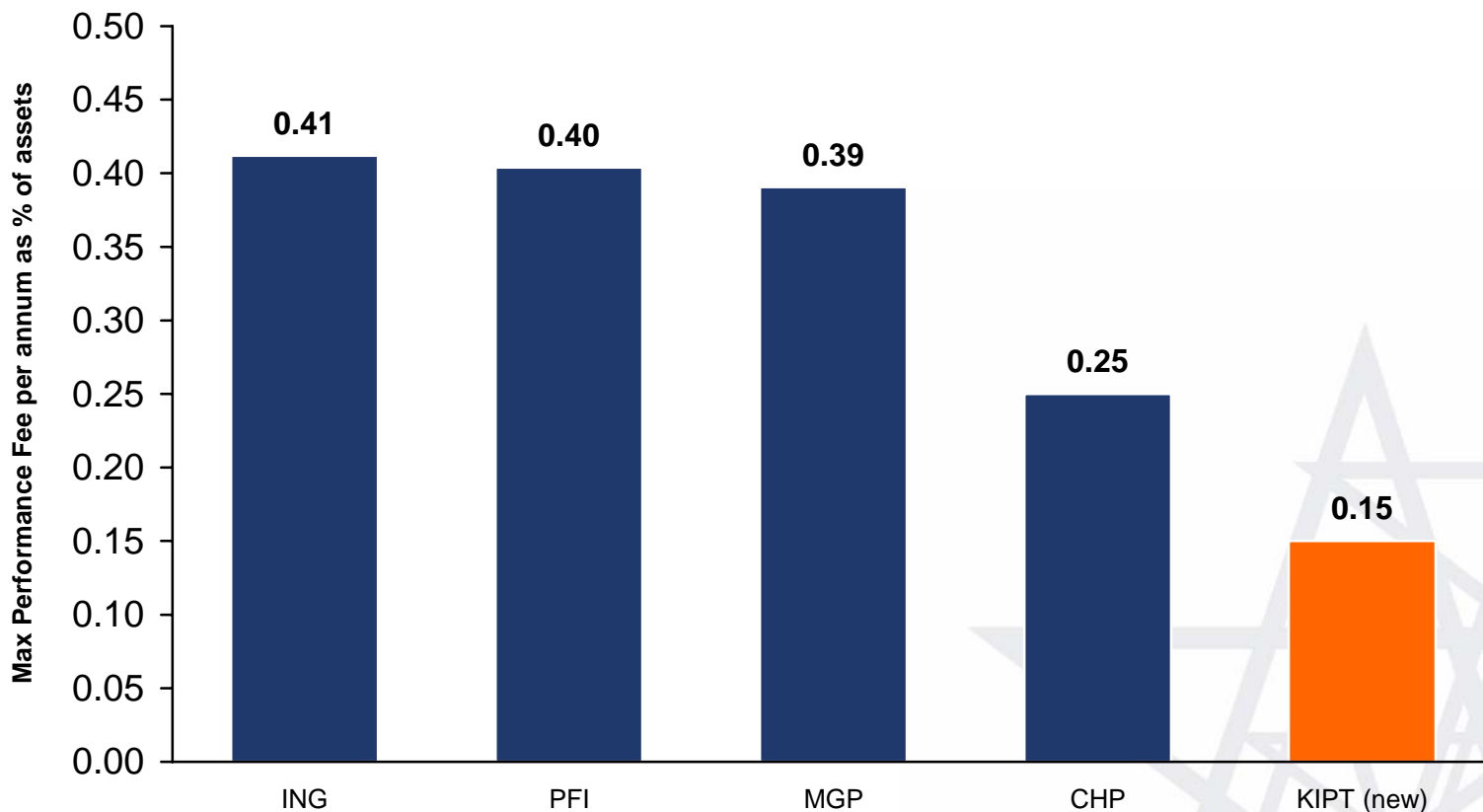
The new KIPT base fee of 0.55% is at the lower end of the base fees charged within the New Zealand market



Source: Comparable fee structures are based on publicly available information.

# Benchmarking – Performance Fees

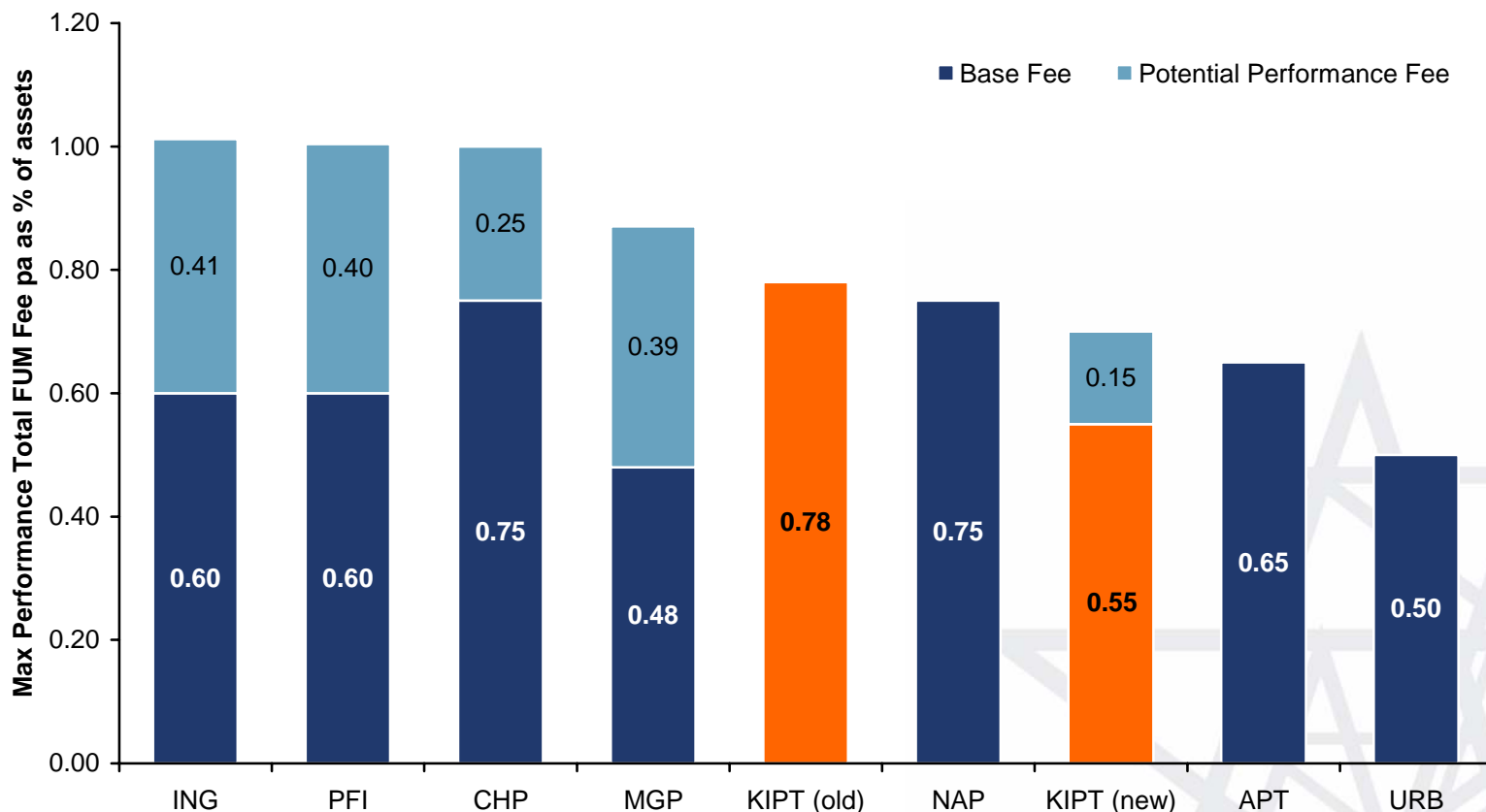
The maximum KIPT performance fee is significantly below the potential performance fees paid by KIPT's peers



Source: Comparable fee structures are based on publicly available information.

# Benchmarking – Potential Total Fees

The maximum fee payable by KIPT under the new fee structure is at the lower end of the potential charges in New Zealand market



Source: Comparable fee structures are based on publicly available information.

# Benchmarking – Other Fees

- The following table summarises the property management fees charged in the New Zealand market

## Property Management and other Fees<sup>1</sup>

Property Management Fee	KIPT	Comparable Entities (where charged)
Acquisition Fees	No Charge	0.75% - 2.0%
Disposal Fees	No Charge	0.50% - 2.0%
Base Fee - Retail	4.75% of gross billings	4.0% - 5.0% of gross billings
Base Fee - Office	2.5% of gross billings	1.5% - 3% of gross billings or 3.9% - 5.1% of net
Leasing Fees	10% of annual rent (rebated if external agent used)	6% - 19% of annual rent (according to term) with overrides
Rent Review Fees	No Charge	10% of annual rental increase
Consultative and Project Management Fees	Project fees to a maximum of 3% of project cost, and consultative fees at market rates.	2% - 6% of development value
Project Management Fees	Maximum of 3% of project cost, and consultative fees at market rates.	5% of development cost

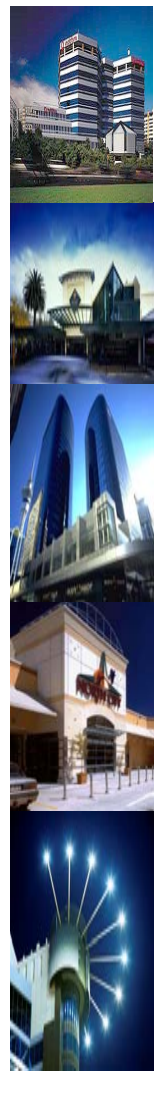
<sup>1</sup> Summarised from Deloitte Report.

# Benchmarking – Other Fees

- Deloitte has determined that the property management fees are likely to be lower than the majority of KIPL's peers
  - ▶ *“Unlike many of the comparable listed property entities, [KIPL] does not charge any fees in respect of rent reviews, acquisitions or disposals of properties. As a result, it is likely that the overall property management fees charged would be at the lower end of the range of fees charged by comparable entities”*  
**Deloitte Independent Report**
- It is important to incorporate in any comparison fees which are not charged by KIPL
- KIPL charges no fees for acquisitions and disposals where some of its peers charge in the range of 0.75% - 2.0%
  - ▶ For example, if a listed property entity were to charge a fee of 1.0% for acquisitions and was to acquire assets worth 10% of its portfolio in assets per annum it would effectively increase its overall fees by 0.10% of its gross asset base



# Independent Review



- An Independent Review of the New Fee Structure by Deloitte has concluded the following:
- *KIPT's proposed base fee of 0.55% of the average of the gross value of the fund is at the lower end of the range of base fees charged by New Zealand listed property entities*
- *The total fee Cap results in KIPT's performance fee being significantly lower than the potential performance fees that may be paid by other New Zealand listed property entities*
- *The maximum fund management fee payable under the proposed structure is at the lower end of the potential fund management fees paid by New Zealand listed property entities*

# Conclusion

- ✓ Immediate savings delivered to KIPT unit holders
- ✓ KIPL interests more aligned with unit holders
- ✓ The fee cap guarantees that overall fees are reduced
- ✓ Independent review supports new fee structure
- ✓ KIPT total fees are at the lower end of NZ peers
- ✓ No charge for acquisitions, disposals or rent reviews

