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INVESTOR UPDATE



WELCOME. The New Zealand Government's tax reforms have resulted in a mixed outcome for Kiwi Income Property Trust. On the one hand, we are pleased to see lower corporate and personal tax rates and a focus on increased savings in New Zealand – changes which should be genuinely positive for the country. On the other hand, we are disappointed with the outcome for the commercial property sector with the removal of depreciation allowances for building structures. Commercial building owners and investors provide the infrastructure for business in New Zealand and these buildings require continuous investment to ensure they provide up to date, productive premises for the businesses they accommodate. Building structures do depreciate and become sub-standard over time (the Canterbury earthquake is a vivid reminder) and not being able to claim a modest level of structural depreciation makes it harder for commercial property owners to renovate and structurally upgrade.

In this quarterly update to investors we look at our emergency response to the Canterbury earthquake, acknowledge some important milestones in our proposed development of the ASB headquarters at Wynyard Quarter and provide you with some insights into our international investor efforts.

If you wish to know more about these or any other Trust initiatives, please visit our website www.kipt.co.nz or contact us. We're always pleased to hear from investors.

CHRIS GUDGEON, CHIEF EXECUTIVE, KIWI INCOME PROPERTIES LIMITED

CHRISTCHURCH PROPERTIES REMAIN OPERATIONAL FOLLOWING EARTHQUAKE

AFTER THE 7.1 MAGNITUDE EARTHQUAKE HIT THE CITY OF CHRISTCHURCH ON THE MORNING OF SEPTEMBER 4, STAFF FROM THE TRUST RESPONDED QUICKLY. EMPLOYEES IN CHRISTCHURCH, AUCKLAND AND WELLINGTON, ALONG WITH KEY CONTRACTORS, SHOWED GREAT COMMITMENT AND PROFESSIONALISM TO ENSURE SAFETY AS THEY RESTORED ORDER. FORTUNATELY, HAVING BEEN BUILT TO MODERN EARTHQUAKE DESIGN CODES, THE TRUST'S TWO CHRISTCHURCH ASSETS ONLY SUFFERED MINOR DAMAGE.

In the initial hours and days following the earthquake:

- the Trust's two assets, Northlands Shopping Centre and the PricewaterhouseCoopers Centre, were inspected by structural engineers to identify any potential safety concerns;
- all fire systems were checked and remedial work undertaken to ensure these were fully functional;
- all electrical and gas supplies were isolated and then progressively reinstated with accompanying checks to identify and remediate any issues; and
- egress pathways, particularly in the office tower, were inspected with action taken to remove any hazards.

By isolating and progressively reinstating utilities, we were able to minimise further damage and provide safe access for the buildings' occupiers and customers. Fortunately, no injuries to staff or building occupants were recorded. Both properties are fully insured for earthquake damage and consequential losses.

While damage sustained to both properties was minor compared to the rest of the city, some retail tenants at Northlands did experience disruption due to damage to stock and fixtures.

CBA GROUP IN NEW ZEALAND HELPING EARTHQUAKE VICTIMS

On 6 September, ASB Bank, together with other CBA Group companies in New Zealand (Sovereign, CBA (NZ) Branch, BankDirect and Kiwi Income Properties Limited), responded to the residents and businesses across the Canterbury region by activating a range of emergency relief initiatives to help those impacted by the earthquake.

Two major relief initiatives announced were a \$500,000 donation to the Red Cross Canterbury Earthquake appeal, together with a comprehensive special customer assistance package. A number of special banking products and concessions to assist victims during the recovery and rebuilding process were also established.



“WE HAVE BEEN IN CONTACT WITH A NUMBER OF THE EMERGENCY RELIEF PROVIDERS IN CHRISTCHURCH WHO ARE WORKING TOGETHER TO ENSURE THAT PEOPLE ARE APPROPRIATELY ASSISTED WITH IMMEDIATE FOOD, CLOTHING AND SHELTER REQUIREMENTS”
– CHARLES PINK, CHIEF EXECUTIVE, ASB

NEW ZEALAND RETAIL SALES OUTLOOK

PUSHING FORWARD WITH SMALL STEPS

The New Zealand economy appears to have rounded the corner, quarterly economic growth has turned positive and retail sales, excluding auto-related industries, have been trending upward for several months. While the rate of growth remains relatively modest, the outlook is for continued, albeit moderate, improvement.

DISCRETIONARY SPENDING UP

Monthly retail trade data has been volatile throughout 2010, although the underlying trend has picked up in recent months. Data for June shows retail sales, excluding vehicle-related industries, rose 1.5% on the prior month. However, this followed a 0.2% fall in May and flat sales growth in April.

Supermarket sales and food related retailing held up relatively well during the worst months of the global financial crisis as consumers

concentrated on the basics. Supermarket and grocery store sales continued to record modest growth of 0.5% in June and 0.6% in May.

SLOW AND STEADY

The outlook for New Zealand retail sales is for continued modest growth supported by a stronger economy, rising employment and tax breaks. This will be offset somewhat by rising interest rates and weaker house prices.

If the New Zealand economy continues to recover, as forecast by ASB Economics, this should be positive for employment and income growth, and is also likely to result in an improved trading environment for the Trust's shopping centres.

ASB PROJECT DRAWS NEARER

THE TRUST CONTINUES TO MAKE PROGRESS WITH THE DEVELOPMENT OF THE FIRST COMMERCIAL OFFICE BUILDING IN THE HEART OF AUCKLAND'S NEW WATERFRONT SHOWPIECE, WYNYARD QUARTER.

In late August, the Trust announced that the key Board and Trustee approval requirements in the conditional development agreement with ASB Bank (ASB), under which the Trust will build ASB's new head office, had been satisfied.

While the proposed development remains conditional on a number of procedural matters and securing resource consent, it is anticipated that construction of the landmark office building at Wynyard Quarter on Auckland's waterfront will begin by mid 2011.

Chief Executive Chris Gudgeon said: "This represents a rare and attractive investment opportunity for the Trust to lease head office premises to ASB for a minimum term of 18 years, providing our investors with a long-term, low risk rental income stream. The location in Wynyard Quarter is a prime waterfront site within what will progressively become a landmark precinct for Auckland City."

Key highlights of the project include:

- **Over 18,000 sqm of prime office space;**
- **18-year lease agreement with ASB with fixed rental increases;**
- **Fletcher Construction recently appointed as main contractor; and**
- **Earnings accretive to Unit Holders**

Under the terms of the development agreement, ASB will lease approximately 18,000 sqm of modern, environmentally sustainable office space, together with approximately 100 carparks and naming rights. The lease agreement provides for fixed annual rental increases of 2.5% throughout the 18-year term with a mid-term market rent review, subject to a 15% cap and collar arrangement.



"IN UNDERTAKING ANY DEVELOPMENT PROJECT, WE ALWAYS SEEK TO ENSURE THE RISK TO THE TRUST IS MINIMISED. THE ASB DEVELOPMENT IS NO DIFFERENT" – CHRIS GUDGEON.

"The Trust's involvement with this development has been deliberately structured to minimise its exposure to development and ongoing investment risk. ASB will account for approximately 93% of the total budgeted rental income from the building, with the balance derived from approximately 1,700 sqm of retail space to be leased to third parties."

INVESTMENT RETURNS

The development is expected to be earnings accretive with a projected post-tax internal rate of return over a 10 year period of 9.5% (or 11.0% pre-tax), delivering an attractive premium over the Trust's post-tax weighted average cost of capital which has been assessed at 6.9%.

The initial project yield is projected to be approximately 8.5% based on a total development cost of \$126.2 million, with a projected value on completion of approximately \$138.5 million.

HELP THE ENVIRONMENT AND CUT COSTS

Ensuring our investors are kept up to date is key to our commitment to provide transparent communications. Each year, however, we send out tens of thousands of printed materials which can be costly and environmentally unfriendly.

Earlier this year, we invited our investors to receive their communications from us electronically – and we'd like to thank the more than 3,800 investors who have taken up the challenge and opted to become 'e-Investors'.

We would like to encourage those of you who haven't yet signed up to our 'e-Investor' program to consider the benefits.

If you elect to become an e-Investor, we will:

- email you when investor updates, including full-year and half-year financial reports, are available on the Trust's website;
- email you when the notice of annual meeting is available on the website along with instructions on how to lodge your proxy electronically;
- email you important information about the Trust; and
- no longer send you printed versions (where possible) of the documents in the mail.

To become an 'e-Investor' please contact our Unit Registrar, Link Market Services via email at lmsenquiries@linkmarketservices.com, or phone +64 9 375 5998 or 0800 377 388.

Further information on the ASB project investment returns can be obtained from the Trust's website at www.kipt.co.nz/media-releases

Further information on Wynyard Quarter can be obtained from the Sea+City website at www.seacity.co.nz

TE PAPA HOSTS 2010 ANNUAL MEETING OF INVESTORS

THE TRUST'S 2010 ANNUAL MEETING WAS HELD ON AUGUST 12 AT WELLINGTON'S TE PAPA MUSEUM.

While there were no resolutions to pass, investors were presented with an update of the Trust's annual results and an overview of asset performance by Chief Executive Chris Gudgeon, with Chairman Sean Wareing presiding over formal proceedings.

As noted in earlier announcements, key highlights of the 2010 financial year included:

- Operating profit before tax of \$73.4 million, up 5% on the prior year;
- Distributable profit was \$61.1 million, in line with the prior year;
- \$74.7 million in asset valuation declines on the back of the global financial crisis;
- At year end, the Trust's total assets stood at \$1.98 billion, with a property portfolio of \$1.85 billion and net bank debt to total assets ratio of 24.4%; and
- The \$93 million expansion of The Plaza Shopping Centre was completed on time and within budget.

Mr Wareing told investors that the Trust's management team continued to intensively and pro-actively manage the Trust's assets, with portfolio occupancy at 97% as at 31 March 2010.



Looking forward, he said the return to economic growth and a gradually improving employment outlook was encouraging and should in turn lead to greater business and consumer confidence, and a lift in investment intentions over time.

"While we remain cautious in the current economic environment, based upon the outlook for the Trust, and subject to economic conditions, we are projecting a cash distribution for the year ending 31 March 2011 of approximately 7.00 cents per unit."

This represents an after tax yield of around 7% per annum for domestic investors at current unit prices.

ON THE ROAD...

MAINTAINING AN ACTIVE INVESTOR BASE IS IMPORTANT FOR ANY ENTITY TRADING ON A STOCK EXCHANGE.

As part of our efforts to improve liquidity within the Trust's stock and to broaden the Trust's investor base and profile, we have substantially increased our institutional marketing activities.

In June 2010, Chief Executive Chris Gudgeon and Chief Financial Officer Gavin Parker joined Investor Relations Manager Mathew Chandler on an investor road show in Australia, visiting potential institutional investors in the cities of Melbourne and Sydney. The road show was also an opportunity to catch up with some Australian analysts, the results of which led to one broking firm, NAB, releasing analysis of the Trust to its Australian investor base, which it will now do on a semi-regular basis.

Later in the same month, Mr Gudgeon and Mr Chandler extended the international road show to Singapore and Hong Kong. The initial meetings and introductions in Australia and Asia were encouraging and part of a long-term strategy to increase our profile amongst overseas investors, and to attract new investors to our unit register. At present, an estimated 11.6% of the issued units in the Trust are owned by Australian investors and 1.24% in Singapore and Hong Kong.

Our marketing efforts in these regions follow similar roadshows undertaken in the United States over the past two years, with more than 115 institutional investors from the Americas now appearing on the Trust's register, representing 12.56% of issued units.

BUDGET 2010 – DEPRECIATION UPDATE

As reported in the 2010 Annual Report, on 20 May 2010, the New Zealand Government announced a number of tax changes including a reduction in the depreciation rate applicable to 'building structures' to 0%, with effect from 1 April 2011. At that time, the Government also announced that it would undertake a review of the definition of 'building structure' for tax purposes. Subsequently the Inland Revenue has released an issues paper titled 'Post-budget depreciation issues'.

The issues paper concludes that a 'building' only includes structural items (e.g. foundations, external walls, roof, etc). Items which form part of a building cannot be depreciated from 1 April 2011 onwards. All other non-structural items can continue to be depreciated separately.

The Trust was involved in the submission process and the findings of the Inland Revenue are consistent with the Trust's current treatment of building fit out.

INVESTOR ACTIVITIES

- **June** – Australia roadshow
– Hong Kong/Singapore roadshow
- **July** – Wellington and Auckland site visits
- **August** – Palmerston North site visit
– Christchurch site visit

FINANCIAL CALENDAR

Key dates for investors are outlined below:

- 12 Nov 2010** Interim result announcement
- 15 Dec 2010** Payment of interim distribution and release of interim report
- 20 Dec 2010** Quarterly interest payment on the 8.95% Mandatory Convertible Notes

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

CONTACT DETAILS YOUR FEEDBACK IS WELCOME

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