

MARKET COMMENTARY

NZFUNDS

KIWI INCOME PROPERTY TRUST INTERIM RESULT

20 NOVEMBER 2009

“Kiwi Income Property Trust’s (KIP) half-year result clearly shows the strength of its diversified asset base - it is KIP’s retail portfolio that has been the main driver behind the 24% increase in operating profit. With 60% of its assets in retail property, KIP is a great way for New Zealanders to access the benefits of this sector,” says Stephen Bennie, Senior Portfolio Manager of NZ Funds Management’s (NZ Funds) Global Property Strategy.

Property trust	Share price	Portfolio size at 30 September 2009 (\$millions)	% of Portfolio by property type				FY10 cash yield
			Retail	Office	Industrial/ Commercial	Other	
AMP NZ Office Trust	\$0.78	1,394	0%	100%	0%	0%	10.2%
Goodman Property Trust	\$1.01	1,497	0%	0%	100%	0%	11.7%
ING Property Trust	\$0.79	1,052*	31%	0%	69%	0%	13.6%
ING Medical properties	\$1.22	286**	0%	0%	0%	100%	10.0%
Kiwi Income Property Trust	\$1.05	1,783	60%	40%	0%	0%	9.8%
Property for Industry	\$1.21	345	0%	0%	100%	0%	8.5%

Source: Bloomberg. * Date as at 31 March 2009. ** Date as at 30 June 2009

“Premium retail assets are the more defensive type of property to own when a downturn in the market comes along. Spending habits change but not necessarily lifestyle ones. Saturdays still involve the trip to the mall but with a few dollars less in the purse. Retailer profit margins quickly and sharply compress when this happens, despite mall foot traffic remaining relatively stable. The foot traffic stability does; however, mean stable profits for the retail landlord. The mall seen as the Saturday destination is an extremely valuable asset and KIP has the country’s best example of that in Sylvia Park. With annual retail sales in excess of \$350 million it is the busiest mall in New Zealand. The creation of such an asset is not just a ‘build it and they will come’ phenomenon. Management has to secure the right mix of retailers, and this must be kept fresh and relevant. They have to ensure that it has all the amenities, plentiful parking, easy access and an attached cinema complex. The team at KIP have achieved this at Sylvia Park with great success.”

“KIP also appears to be making good progress in repeating the formula with the Plaza Shopping Centre in Palmerston

North. A large (\$93 million) and challenging project, the Plaza looked ambitious as the economy slumped. In May of this year, with completion less than a year away and 30% of the centre still to be leased, investor nervousness was high. This interim result offers comfort as the centre is now 86% leased and there is another six months before completion of the final stage of the development.”

“One of the most attractive aspects of property for NZ Funds is that it is a natural hedge against the damage that inflation can cause. KIP is ideally placed to perform relatively well in an inflationary environment as many of the specialty retail contracts that it has in place have CPI related rent reviews. Given the emphasis NZ Funds’ Global Property Portfolio places on delivering returns in excess of inflation, it is reassuring to see evidence of this characteristic.”

“Looking ahead NZ Funds will be particularly interested in the progress KIP makes in the marketing of the PricewaterhouseCoopers Centre in Christchurch. This building is valued at \$55.4 million, with very few buildings having been sold in New Zealand over the past two years in this price bracket. A successful sale of this asset will not only allow KIP to further reduce their gearing to less than 30%, but would also provide hard transactional evidence that the New Zealand property market is continuing on its path to recovery.”

KIP PRICE



Source: Bloomberg.

KIP RELATIVE TO NZ SHARES



Source: Bloomberg.

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