

## NZX RELEASE

21 November 2016

# Investment strategy delivers robust result

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Kiwi Property today announced that it had produced a positive interim financial result, with a 26.7% lift in after-tax profit, highlighting both the long-term benefits and sound execution of the Company's investment strategy.

Funds from operations (FFO<sup>1</sup>) increased by \$2.4 million to \$47.7 million, underpinning an after-tax profit<sup>2</sup> result of \$45.6 million, which was up from \$36.0 million in the prior corresponding period.

Chair of the Board, Mark Ford, said: "We've had a very positive six-month period, resulting in a higher quality portfolio, improved underlying performance metrics and stronger returns for our investors."

Chief Executive, Chris Gudgeon, said: "We have grown revenue and increased dividends, while continuing to build a stronger underlying portfolio of property assets. The growth in our FFO was driven predominantly by rental income from newly acquired assets and completed developments, providing an attractive return on capital invested."

During the period, the Company:

- > settled the acquisition of a 50% interest in The Base, Hamilton, giving investors an ownership stake in New Zealand's largest single-site retail centre (the Company also assumed management of the property for the joint venture with Tainui Group Holdings)
- > opened the remaining retail tenancies in the newly completed and successfully trading Westgate Lifestyle large format retail centre, in Auckland
- > settled the sale of Centre Place - South, Hamilton, a CBD retail asset which had been identified as being non-core to the longer-term investment strategy
- > completed office projects at The Aurora Centre and 44 The Terrace, in Wellington, with long-term government leases now in place for 32,000 sqm in this core crown office precinct, and
- > commenced construction of a new office building at Sylvia Park, anchored by IAG New Zealand, that has been designed to seamlessly integrate with the existing centre.

### World-class retail offer

Mr Gudgeon, said: "Post the period, we were thrilled to open the first ever New Zealand stores for international fashion brands, H&M and Zara, at Sylvia Park. The introduction of these global retailers is an important first step in our expansion plans which envisage the creation of a truly world-class retail offer in Auckland."

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<sup>1</sup> Funds from operations ('FFO') is an alternative performance measure used by Kiwi Property to assist investors in assessing the Company's underlying operating performance and to determine income available for distribution. FFO is calculated in accordance with guidelines issued by the Property Council of Australia.

<sup>2</sup> The reported profit has been prepared in accordance 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 Auditors pursuant to the External Reporting Board's New Zealand Standard on Review Engagements 2410.



“And today we are pleased to announce a further investment at Sylvia Park, with a \$9.1 million expansion of the dining lane. The project is expected to provide an initial return on project cost of approximately 6.5% and a 10-year internal rate of return of approximately 8.5%. Works are scheduled to commence in January and complete in December 2017,” said Mr Gudgeon.

This project is the next step in Kiwi Property’s long-term vision to create a world-class town centre at Sylvia Park, with planning now also in advanced stages for a ~\$180 million retail expansion of the shopping mall, the development of which could begin as early as mid-next year.

### **Strategy execution**

Kiwi Property’s investment strategy focuses on the establishment, growth and enhancement of a core property portfolio targeting property exposures that are expected to outperform.

“Execution of this strategy has resulted in our core retail portfolio value growing from \$885 million at September 2010 to \$1.80 billion today, our core office portfolio growing from \$375 million to \$718 million and our overall exposure to the Auckland market increasing from \$910 million to \$1.75 billion,” said Mr Gudgeon.

Since September 2010, Kiwi Property has:

- > invested over \$500 million in strategic property acquisitions
- > disposed of over \$200 million of non-core properties
- > invested over \$350 million in key property developments and improvements, and
- > invested in high-demand investment grade properties that have achieved strong value growth.

### **A robust balance sheet**

The Company maintains a robust balance sheet to reduce financial risk, with conservative gearing and diversified sources of debt. During the period, Kiwi Property:

- > further diversified its sources of debt funding by raising \$125 million through a seven-year domestic bond issue with a 4.00% per annum coupon
- > increased its bank debt facilities by \$200 million and lengthened the term of its facilities, and
- > reduced its weighted average cost of finance debt to 4.72%.

### **Stronger rental income**

Rental income increased to \$86.9 million, representing growth of 13.9% over the prior period. New asset acquisitions and completed developments contributed to income performance, together with structured annual rent increases in place for the majority of Kiwi Property’s retail and office leases. On a comparable basis, like-for-like rental income was up 3.9%.

### **A long weighted average lease term**

Mr Gudgeon said: “By creating a strong portfolio of high-quality assets in sought after-locations, we have increased our portfolio weighted average lease term to 5.5 years, the longest we’ve enjoyed for over 10 years. Our office portfolio weighted average lease term is now 9.6 years, the longest in our history, helping to create greater income certainty and predictability.”

### **Growth in retail sales**

Kiwi Property shopping centres delivered total retail sales of \$1.64 billion for the 12 months to 30 September 2016, reflecting positive sales growth of 5.8% or 3.4% on a like-for-like basis, with a strong contribution from discretionary spending categories.



### Earthquake update

Following the earthquake events of 14 November 2016, Kiwi Property was pleased to report that damage incurred at its Wellington, Christchurch and Palmerston North properties was minor and non-structural.

The Company's Christchurch and Palmerston North properties continued to operate without interruption and its Wellington buildings were able to be progressively re-occupied by tenants the day after the earthquake, following inspections by structural engineers.

### Outlook and shareholder dividends

Chairman, Mark Ford, said: "Kiwi Property remains in great shape. We have a strategy which favours property exposures that are expected to outperform, a healthy balance sheet, a pipeline of future development opportunities and a well-tenanted portfolio with a long weighted average lease term – all aimed at securing superior risk-adjusted returns for our shareholders."

Shareholders will receive an interim cash dividend of 3.375 cents, in line with guidance. Looking forward, subject to a continuation of reasonable economic conditions, the board has maintained cash dividend guidance for the year ending 31 March 2017 at 6.75 cents per share, up from 6.60 cents in the prior year.

The board has approved a 2% discount to be applied to the Company's Dividend Reinvestment Plan which is available to eligible shareholders for the period ended 30 September 2016.

### Detailed financial results

For detailed insights into Kiwi Property's interim result for the six months to 30 September 2016, please refer to the Company's online interim report and investor presentation, also released today, both of which are available on the Company's website [kp.co.nz](http://kp.co.nz)

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### Contact us for further information

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## About us

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Kiwi Property (NZX: KPG) is the largest listed property company on the New Zealand Stock Exchange and is a member of the NZX15 Index. We've been around for more than 20 years and we proudly own and manage a \$2.9 billion portfolio of real estate, comprising some of New Zealand's best shopping centres and prime office buildings. Our objective is to provide investors with a reliable investment in New Zealand property by targeting superior risk-adjusted returns over time through the ownership and active management of a diversified, high-quality portfolio. Kiwi Property is licensed under the Real Estate Agents Act 2008. To find out more, visit our website [kp.co.nz](http://kp.co.nz)