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NZX RELEASE

25 May 2020

Kiwi Property reports 2020 financial results

Kiwi Property today announced its financial result for the year ended 31 March 2020, reporting a solid operating performance. Net rental income increased 3.4% to $186.8 million, contributing to an operating profit before tax[1] of $129.7 million, up 4.2% on the year before.

Funds from operations (FFO[1]), a key measure of operating performance, rose 6.3% to $113.6 million, underpinned by income growth across its diversified property portfolio. Kiwi Property's asset classes all delivered rental income growth through the period, including office (+7.3%), mixed-use (+5.0%) and retail (+0.9%). At year-end, the portfolio was 99.5% occupied, with a healthy weighted average lease expiry of 4.9 years.

While Kiwi Property's FY20 revenue was largely unaffected by COVID-19, the widespread economic uncertainty caused by the pandemic prompted valuers to soften their assumptions, resulting in a $290 million, or 8.5%, write-down in the fair value of the Company's property portfolio. The portfolio was valued at $3.1 billion as at 31 March 2020[2]. The revaluation of Kiwi Property's investment assets caused a drag on the Company's reported full year financial performance, turning an otherwise healthy operating result into a net loss after tax of $186.7 million[3].

Kiwi Property Chief Executive Officer, Clive Mackenzie, said: "While the Company delivered a good operating performance in 2020, the onset of the COVID-19 pandemic late in the financial year had a significant impact on our property valuations and net profit. We're committed to protecting the physical and financial health of Kiwi Property and our stakeholders, and have implemented a number of measures to help us collectively navigate the pandemic, and emerge strongly on the other side."

Supporting tenants
Kiwi Property is working with its tenants to share a fair proportion of the financial impact caused by the COVID-19 pandemic. Rent relief measures including rent abatements and deferments have been offered, with a focus on supporting the small and medium sized businesses, and retailers, that were unable to operate during the recent lockdown.

Abatements apply to the first quarter of the 2021 financial year and are expected to impact FFO by $20 million ($14 million on an after tax basis), equivalent to around 8% of the gross rental income earned by the company in 2020. This cost will be partially offset by the reintroduction of depreciation allowances for commercial buildings, which is expected to increase Kiwi Property's after tax earnings by approximately $4.5 million in the 2021 financial year.

Cost discipline
Kiwi Property implemented a number of measures to help offset the financial headwinds caused by the COVID-19 pandemic. Key among these was the introduction of a comprehensive cost control programme, including the suspension of all non-essential capital projects and operating expenditure. The Board of Directors, Chief Executive Officer and Executive Team all agreed to a temporary 20% pay cut, while recruitment and employee salaries were frozen until further notice.

Prudent capital management
Kiwi Property maintained its solid balance sheet in FY20, including the extension of $361 million of bank debt facilities in March 2020. This builds on the successful equity raise undertaken by the Company in November 2019, which delivered net proceeds of $193.7 million. Kiwi Property has no bank debt maturing until FY23, $291 million in undrawn credit facilities and gearing of 32%, as at 31 March 2020.

Mr Mackenzie said: "Our banking headroom and proactive approach to balance sheet management will help the business withstand the financial impact of COVID-19 and capitalise on the anticipated medium term opportunities."

Targeted development

Construction of the Sylvia Park galleria is nearing completion, following a delay due to the nationwide Alert Level 4 lockdown. The development is now scheduled to open progressively from the fourth quarter of the 2020 calendar year, featuring a carefully curated line-up of domestic and international retailers. Sylvia Park's new South Carpark will offer 900 additional parking spaces and is due to launch by the third quarter of the 2020 calendar year, bringing the total number of car parks at Sylvia Park to 5,000, the most of any shopping centre in New Zealand.

Planning is well advanced on a second commercial building at Sylvia Park, following the success of ANZ Raranga. The new landmark development is the next stage in Sylvia Park's evolution into a dynamic mixed-use precinct, with construction due to begin in line with tenant demand and prevailing market conditions.

Mr Mackenzie said: "We've made good progress on the design of the second office building at Sylvia Park. In the current climate, we must be particularly disciplined in our use of capital, adopting a prudent and agile approach to investment and development."

Progress at Drury

Plans for a mixed-use community at Drury continue to take shape, with Kiwi Property's 51-hectare landholding now recognised as the main town centre for the region, which is expected to become home to approximately 60,000 people in the years ahead. Following the Government's announcement regarding its plans to invest $2.4 billion to build new infrastructure at Drury, Kiwi Property has now submitted a private plan change, which if successful, could allow construction from 2023.

Dividend update

Further to Kiwi Property's recent announcement, the Board made the difficult decision not to pay a final dividend for the year ended March 2020. Kiwi Property Chair, Mark Ford, said:

"While our operating performance for the year ended 31 March 2020 was in line with expectations, given the inherent uncertainty caused by the pandemic, we believe not proceeding with the final dividend was the prudent decision to protect Kiwi Property's balance sheet.

"The Company has taken the opportunity to revise its dividend policy to ensure future payments are covered by underlying cash flows. Under the revised dividend policy, we will be targeting dividend payments that are approximately 90-100% of the Company's Adjusted Funds from Operations (AFFO[1]). Our aim is to resume paying a dividend, as appropriate, once the financial impact of COVID-19 is clear."

Outlook

Mr Mackenzie said: "Since New Zealand's return to Alert Level 2, the number of visitors to our shopping centres is down just 8% on the same time last year. While this initial trend is encouraging, there is still uncertainty about what the next few months will bring. With our diversified property portfolio, banking headroom and commitment to cost discipline, we will navigate the pandemic and strive to capitalise on the opportunities that follow.

"We're committed to delivering for all our stakeholders through this difficult time, including supporting our tenants, enhancing our communities and creating value for our shareholders," Mr Mackenzie concluded.

Additional information
Kiwi Property has today also released an Annual Result Presentation, Annual Report and Property Compendium, which are available for download on the Company's website **kp.co.nz/annual-result** or from **nzx.com**

> Ends

Notes:
1. Operating profit before tax, FFO and AFFO are alternative non-GAAP performance measures. Refer to the 2020 Annual Result presentation accompanying this announcement for definitions.
2. Kiwi Property's independent valuers have included 'material valuation uncertainty' clauses in their reports, which are consistent with market practice following COVID-19. These clauses highlight that less certainty and a higher degree of caution should be attached to the valuations, and values could change quickly and significantly due to subsequent events. As a result, Kiwi Property intends to keep asset values under frequent review with additional valuations to be commissioned if material movements are identified.
3. The reported profit has been prepared in accordance with New Zealand generally accepted accounting practice (GAAP).

Contact us for further information

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About us

Kiwi Property (NZX: KPG) is one of the largest listed property companies on the New Zealand Stock Exchange and is a member of the S&P/NZX 20 Index. We've been around for over 25 years and proudly own and manage a significant real estate portfolio, comprising some of New Zealand's best mixed-use, retail and office buildings. Our objective is to provide investors with a reliable investment in New Zealand property through the ownership and active management of a diversified, high-quality portfolio. S&P Global Ratings has assigned Kiwi Property an issuer credit rating of BBB (stable) and an issue credit rating of BBB+ for each of its fixed rate senior secured bonds. Kiwi Property is the highest rated New Zealand company within CDP (Carbon Disclosure Project) and is a member of FTSE4 Good, a series of benchmark and tradable indices for ESG (Environmental, Social and Governance) investors. Kiwi Property is licensed under the Real Estate Agents Act 2008. To find out more, visit our website **kp.co.nz**