PRRES Conference 2006

The New Zealand REIT market

January 2006
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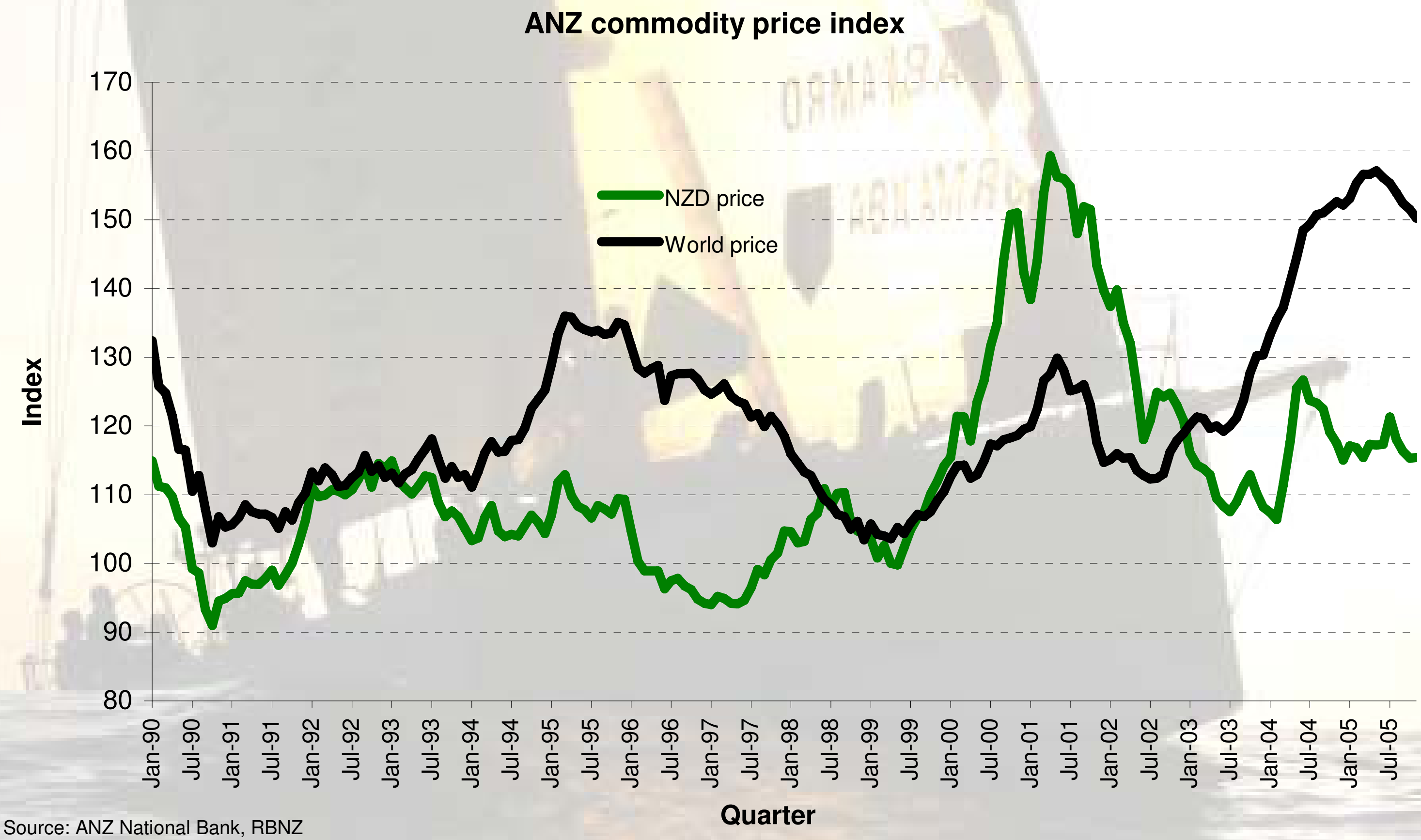
ABN·AMRO Craigs

Presentation overview

- The macro environment
- Impacts of the macro situation on direct and listed property
- Sector themes
- The influence of the Australian REIT market on New Zealand's listed property sector
- Where New Zealand listed property has not followed Australia
- Outlook for 2006 and factors that will impact NZ LPTs

The macro environment – Commodity prices

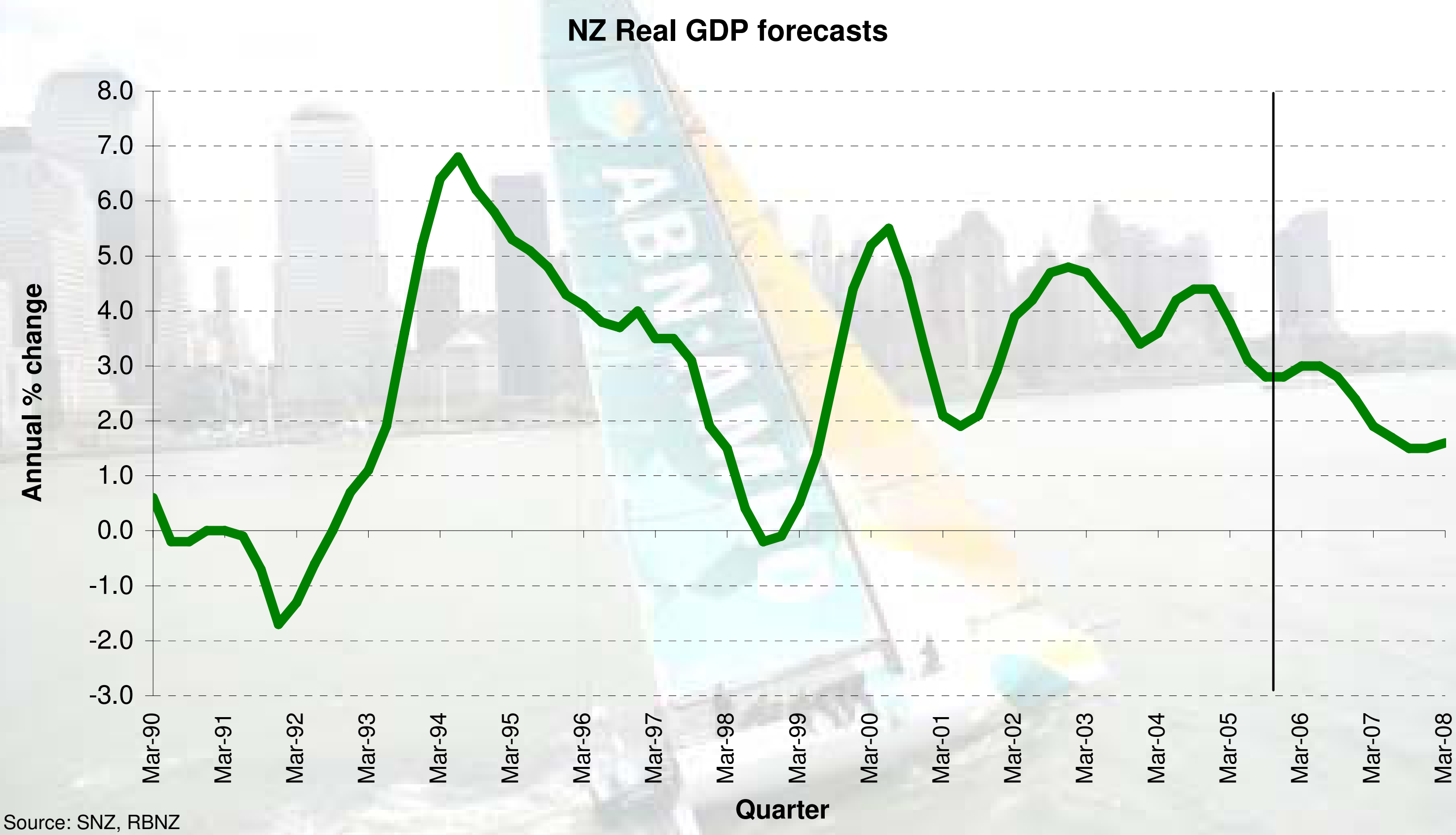
Very strong prices, NZ farmers shielded from our high dollar



Source: ANZ National Bank, RBNZ

The macro environment – GDP

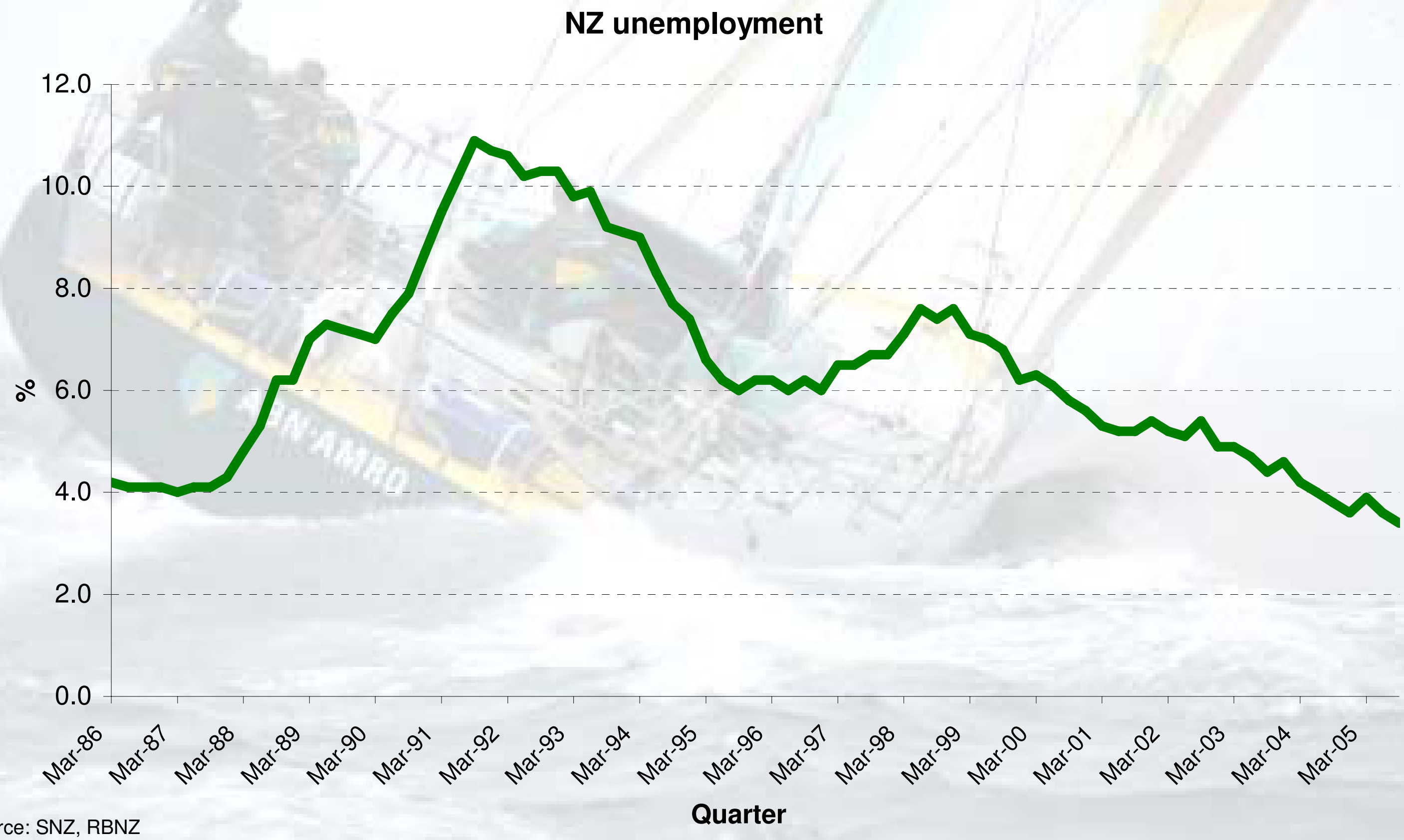
Strong GDP growth



Source: SNZ, RBNZ

The macro environment – unemployment

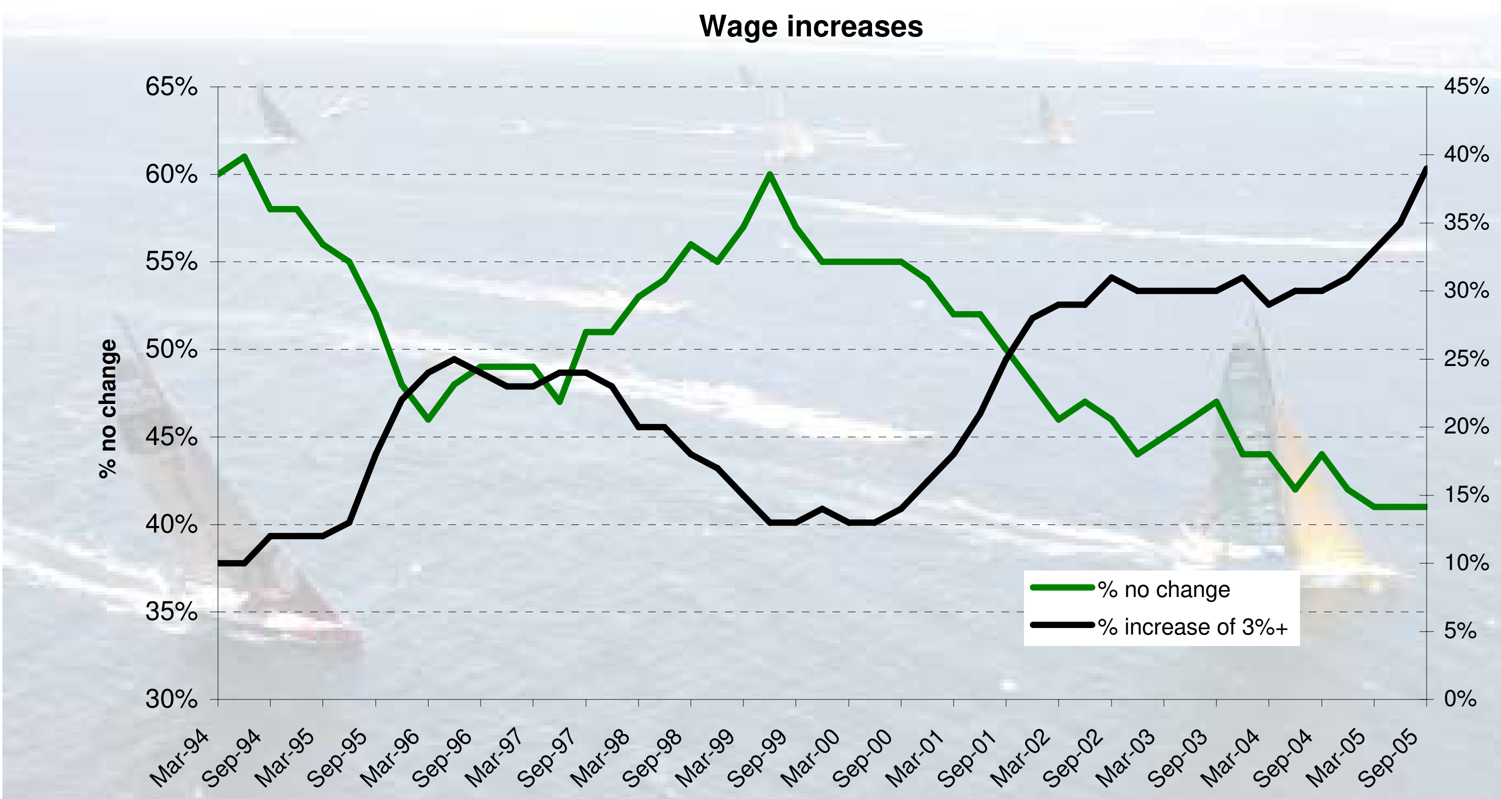
At record lows, everyone's employed, job security not a concern



Source: SNZ, RBNZ

The macro environment – wages

We're earning more



Source: SNZ

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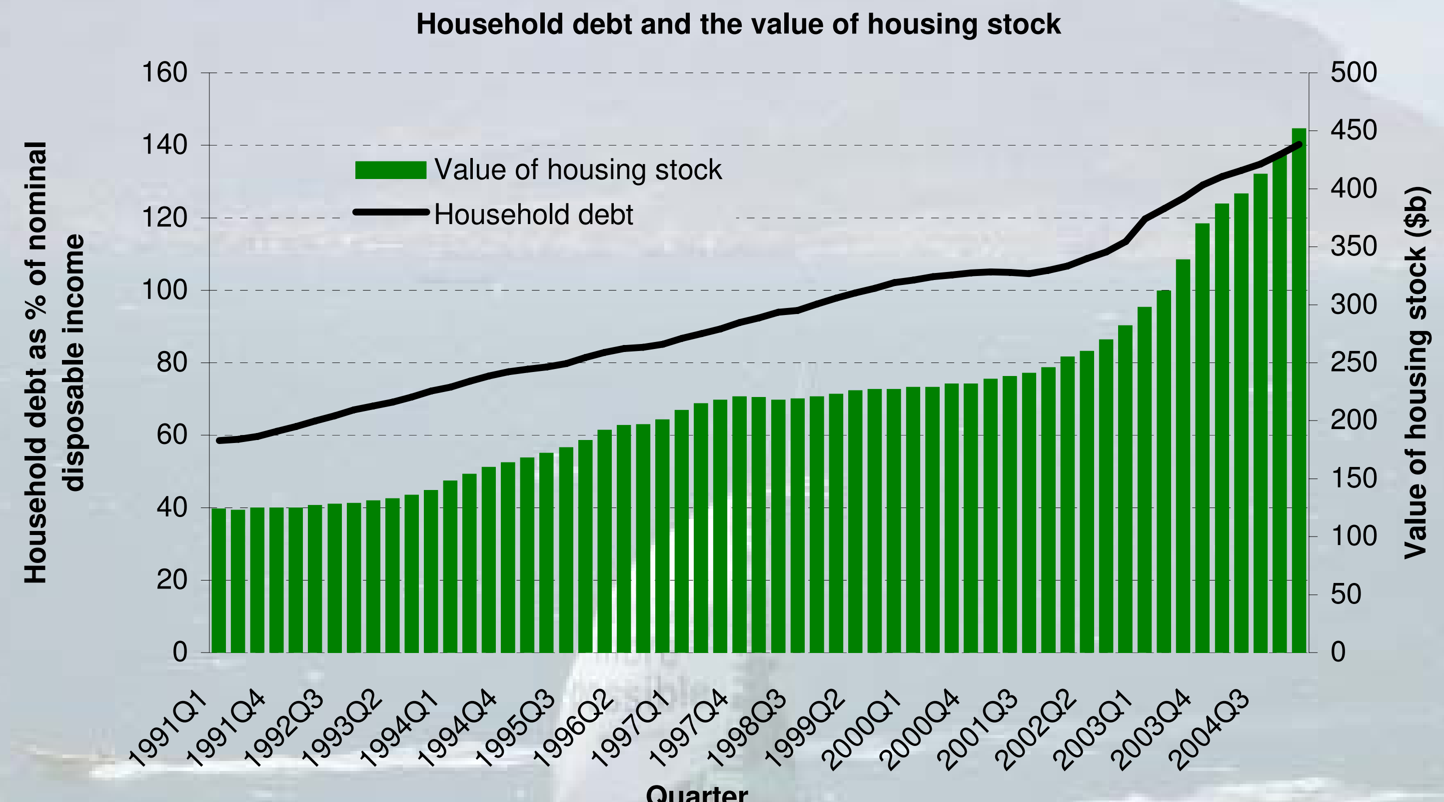
The macro environment – household debt

…and spending more



Source: Quotable Value Limited, RBNZ estimates

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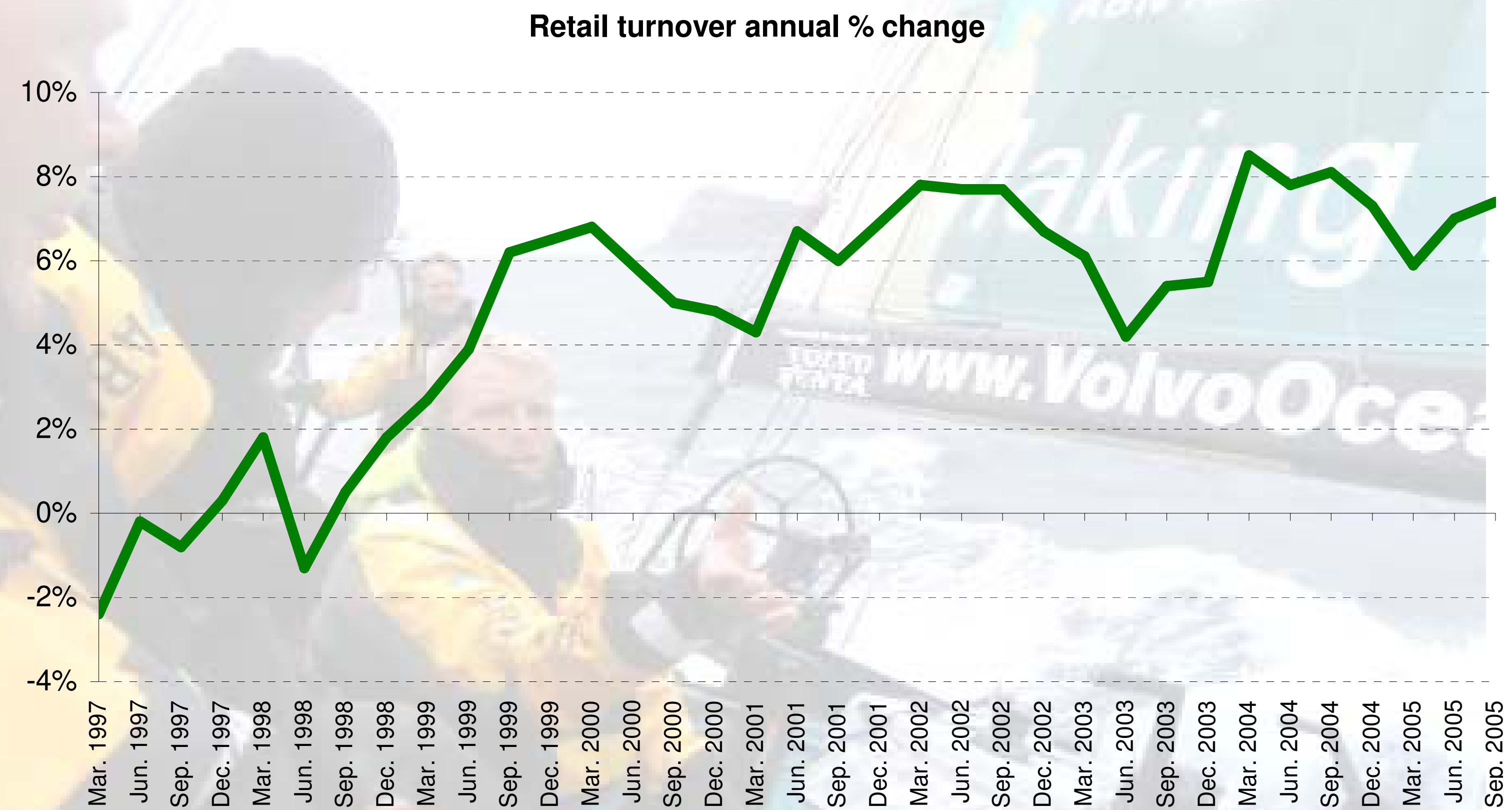
The macro environment – retail spending

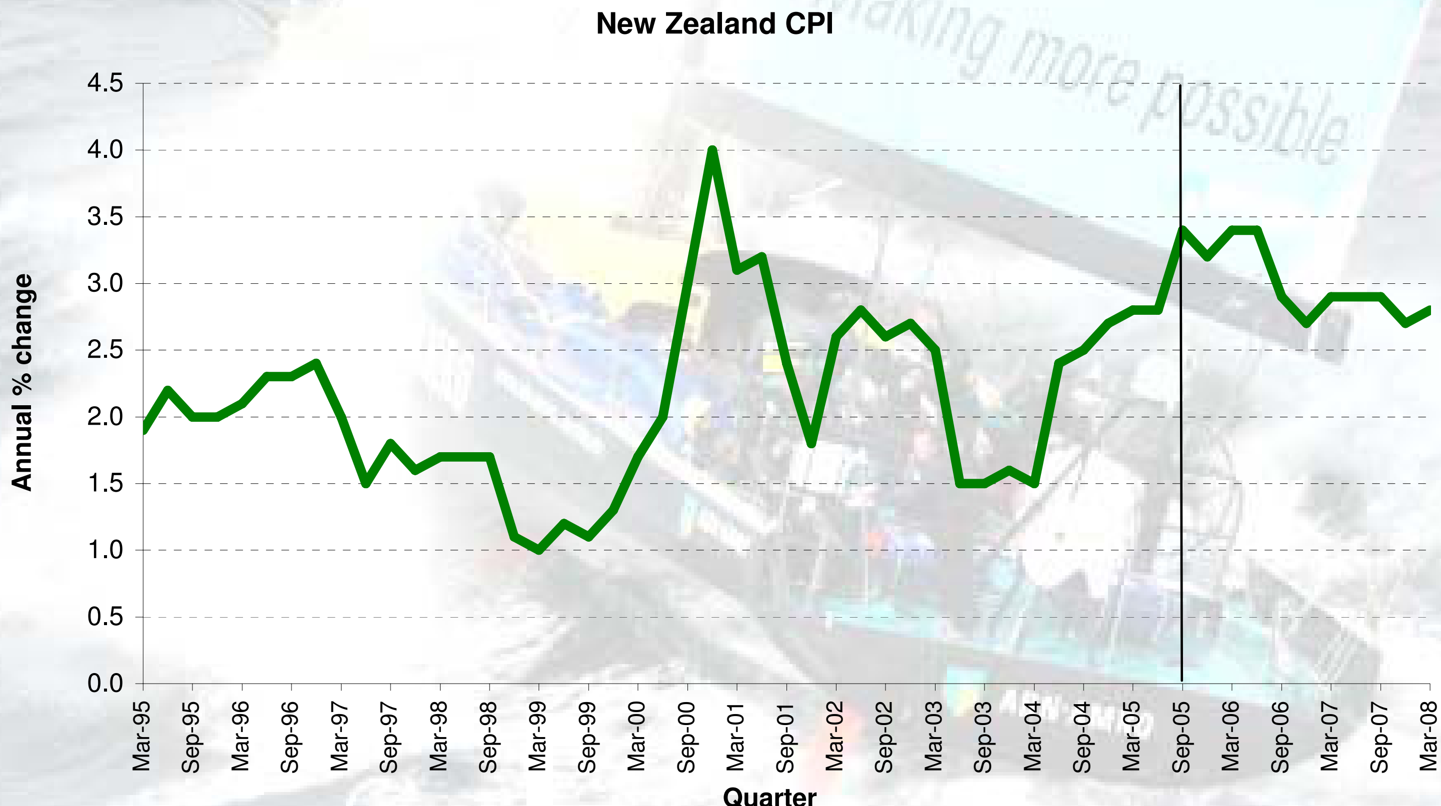
All of this reflected in sustained strong retail sales



Source: Statistics NZ

The macro environment - inflation

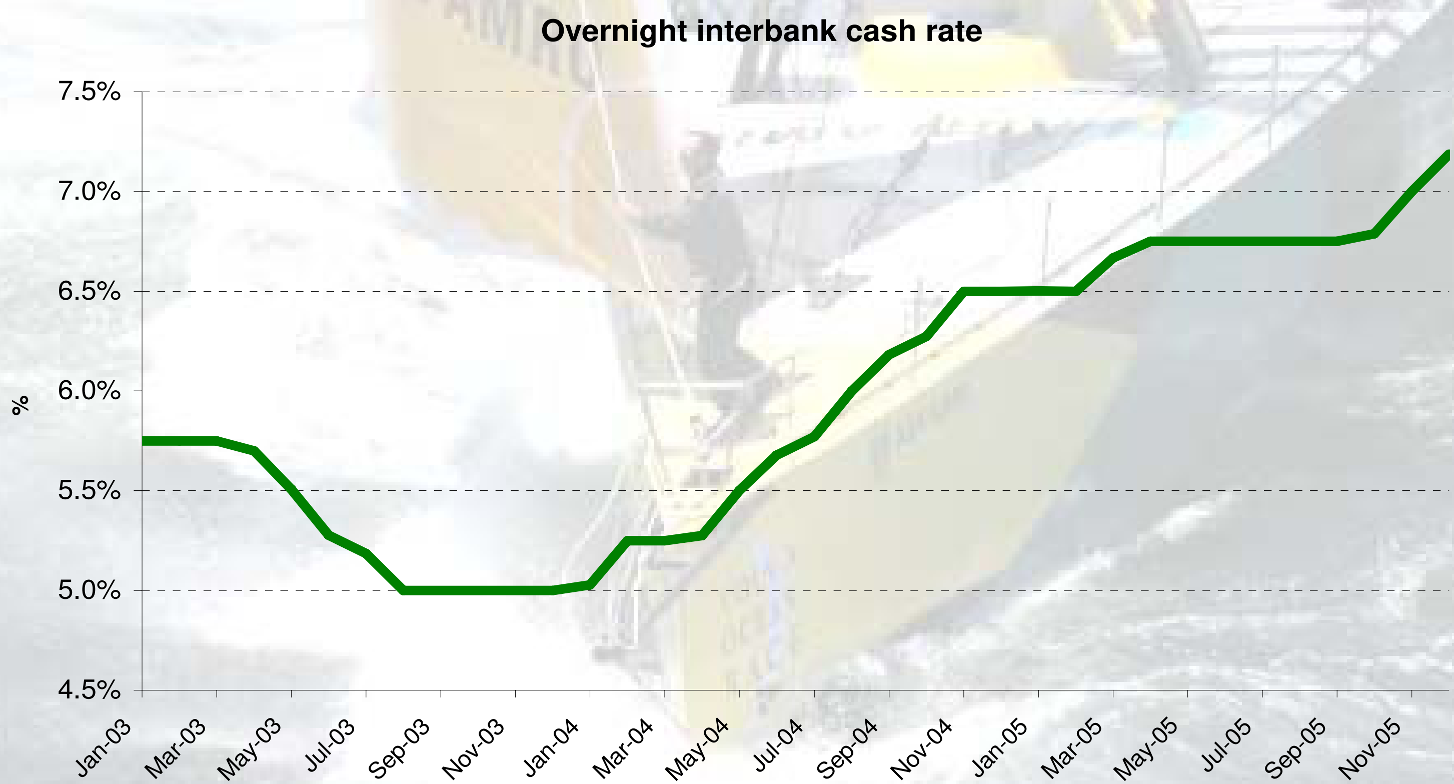
Inflation pushes through RBNZ 3% upper limit as we continue to spend



Source: SNZ, RBNZ

The macro environment – interest rates

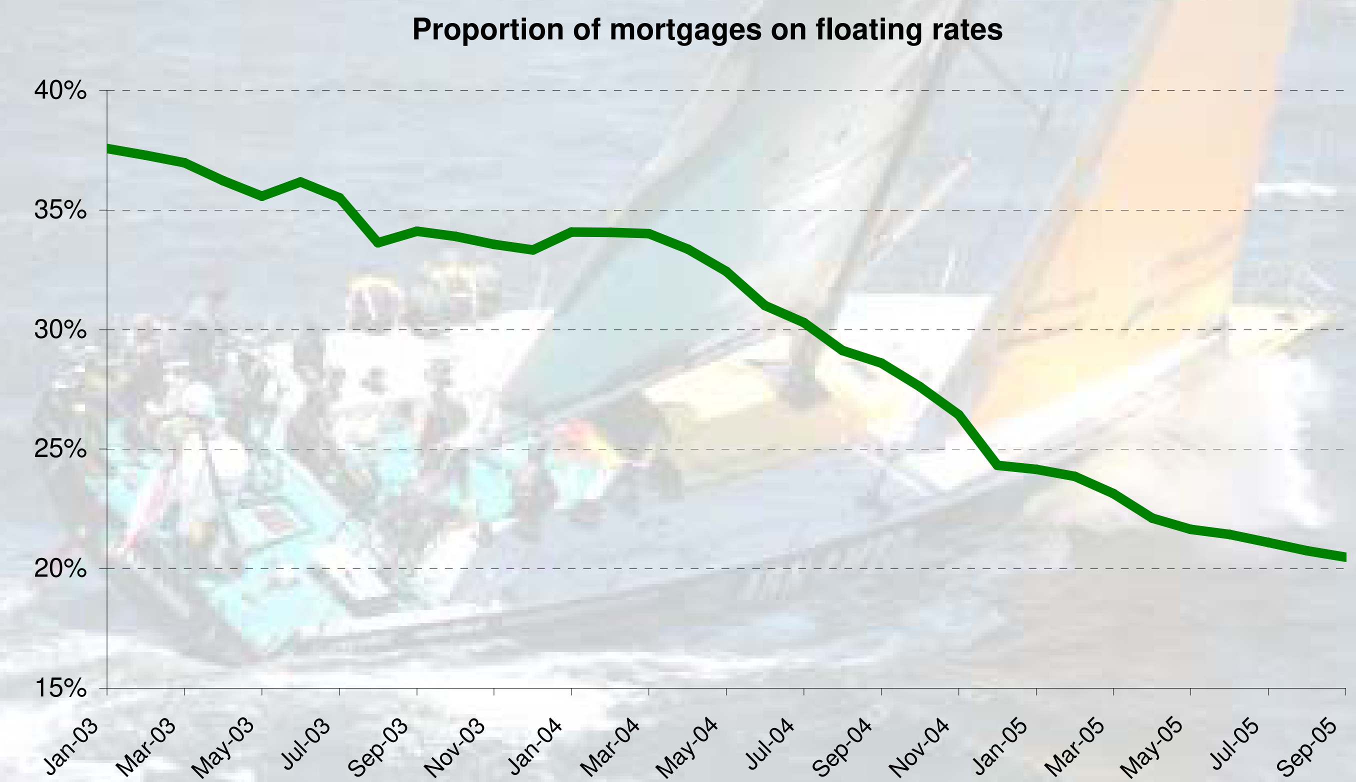
OCR up nine times since 2003



Source: RBNZ

The macro environment – mortgage maturities

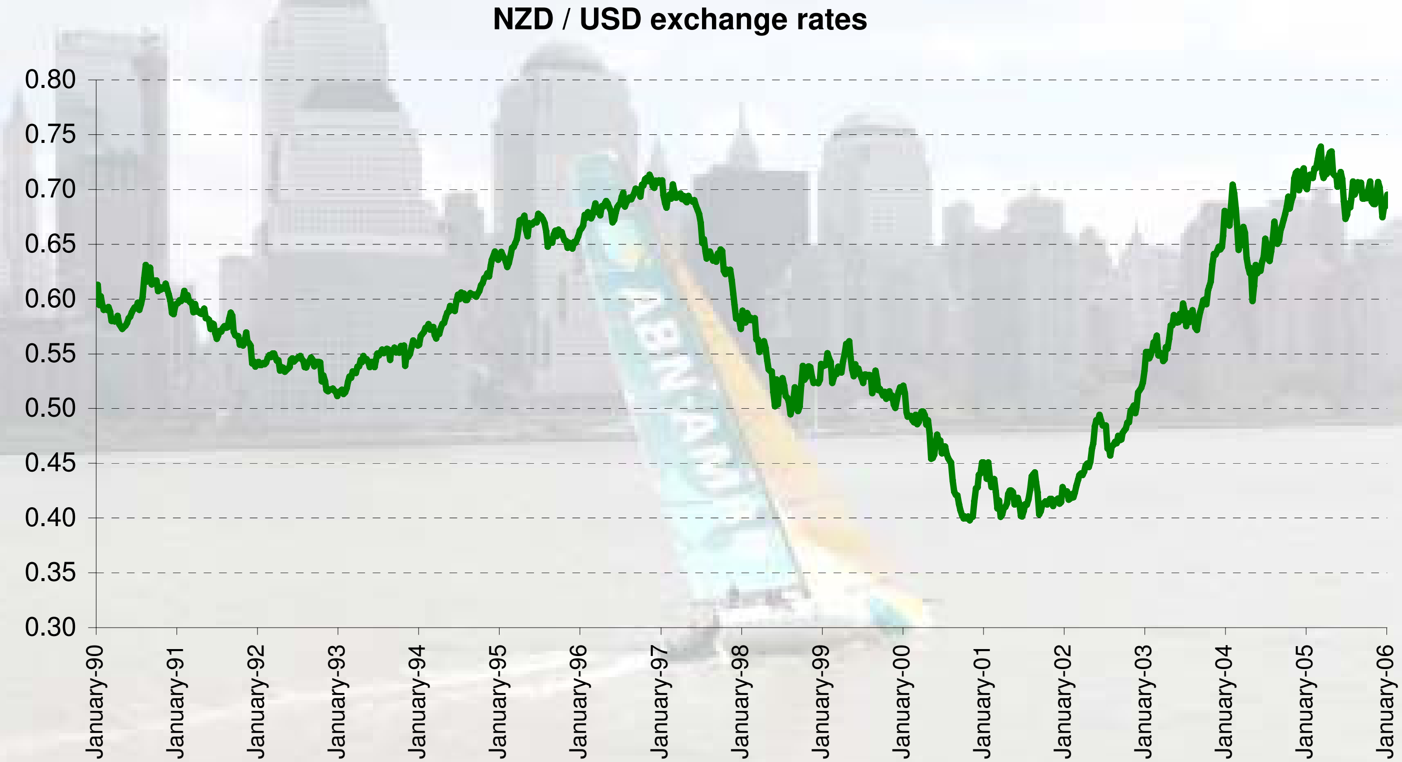
More borrowers are fixing mortgages, so minimal effect on the consumer



Source: Reuters, RBNZ

The macro environment – exchange rates

But not on the exchange rate, up 33% since 2003 as investors chase yield



Source: Bloomberg

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How has the bouyant domestic economy's strength impacted on the listed property sector?

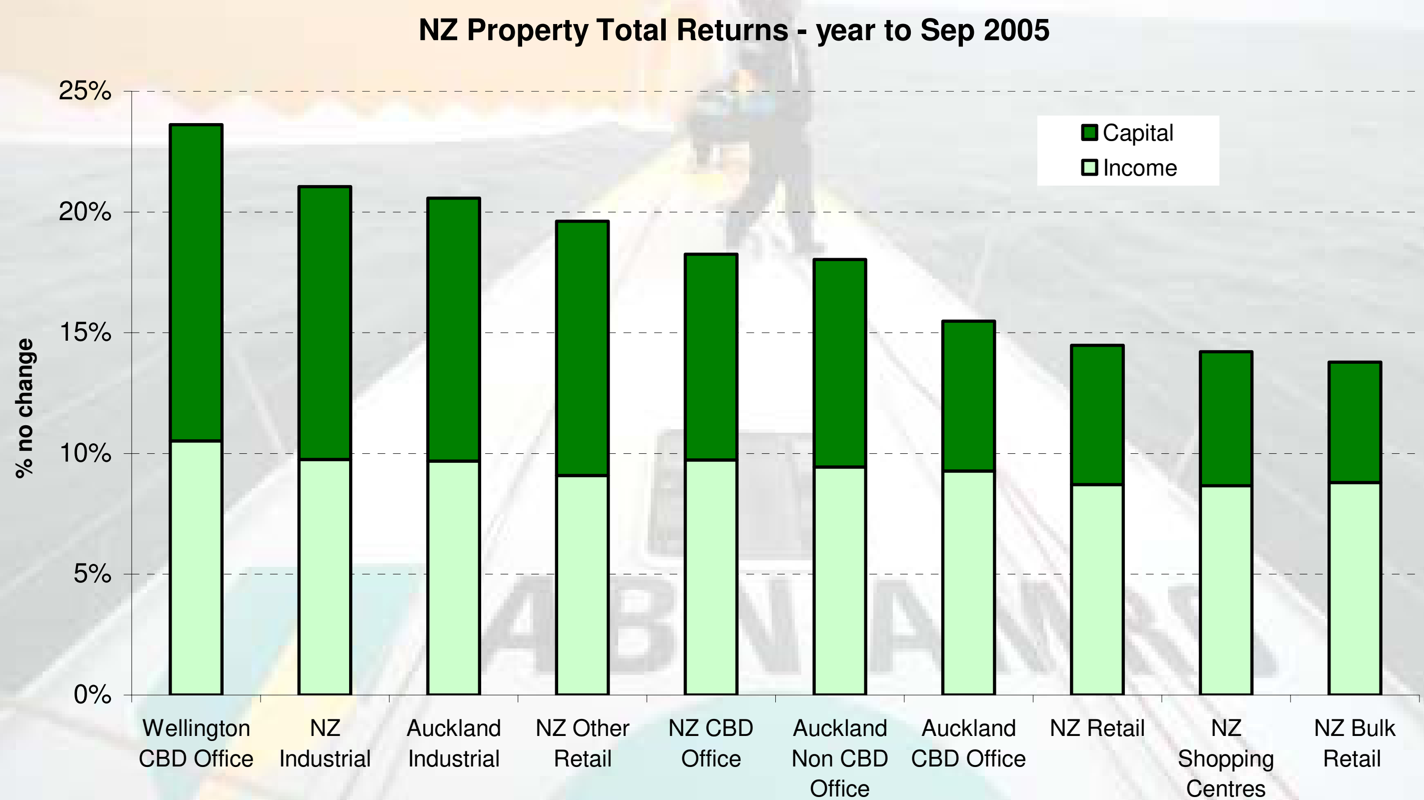
- Increasing company profits and stronger balance sheets
- Increasing business confidence
- More staff

- Increased business investment and expansion
- Increasing demand for space, supply and demand forces at work

- Decreasing vacancy rates
- Increasing rental growth
- Increasing asset values
- Market moves in favour of the landlord

And how has that translated into returns?

Average 18% return for the year for property owners, with the Wellington CBD office market the star performer



Source: Property Council of NZ

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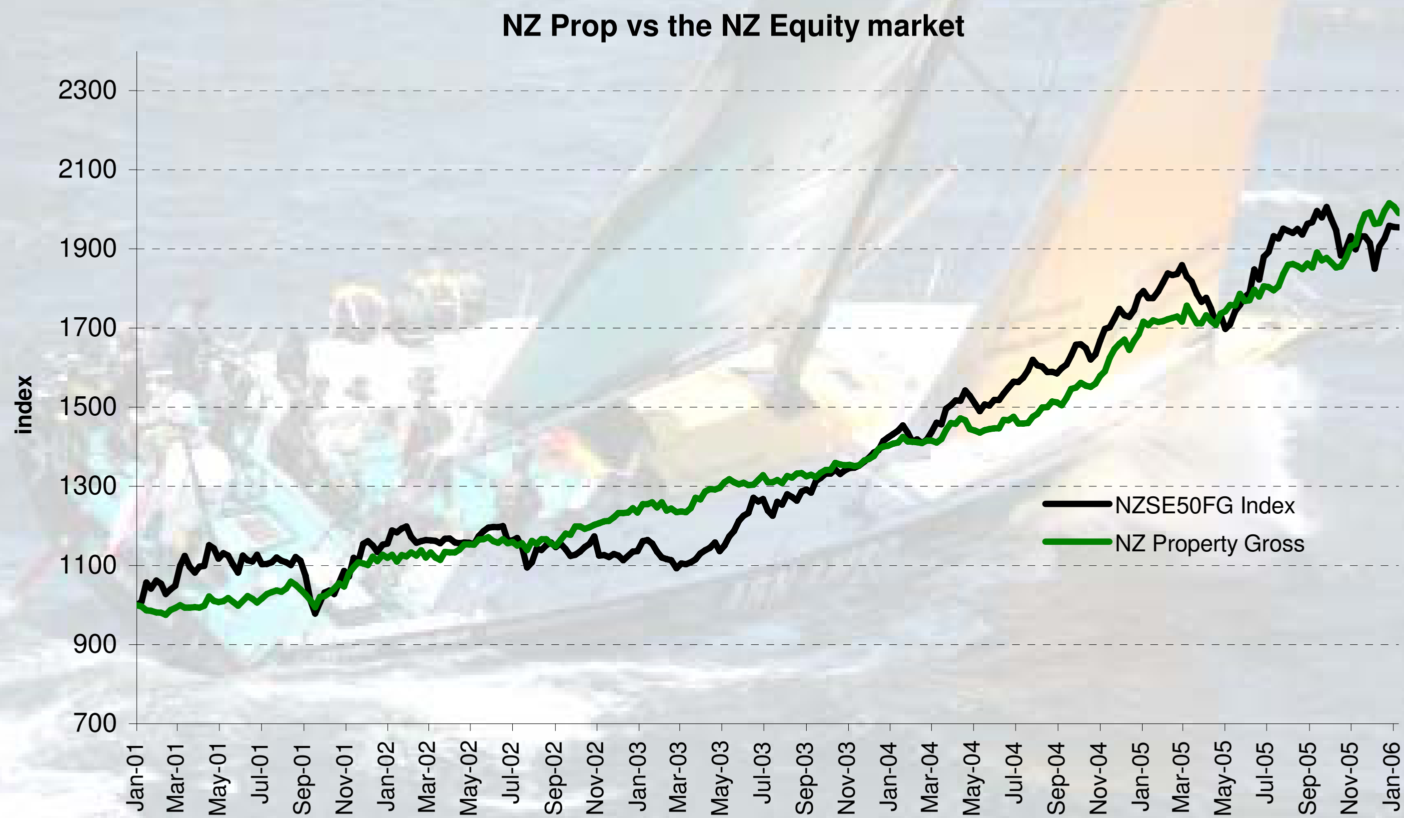
Performance compared with NZ equities

Last five years? A pretty even performance… both up around 14.3% pa.



Source: Bloomberg

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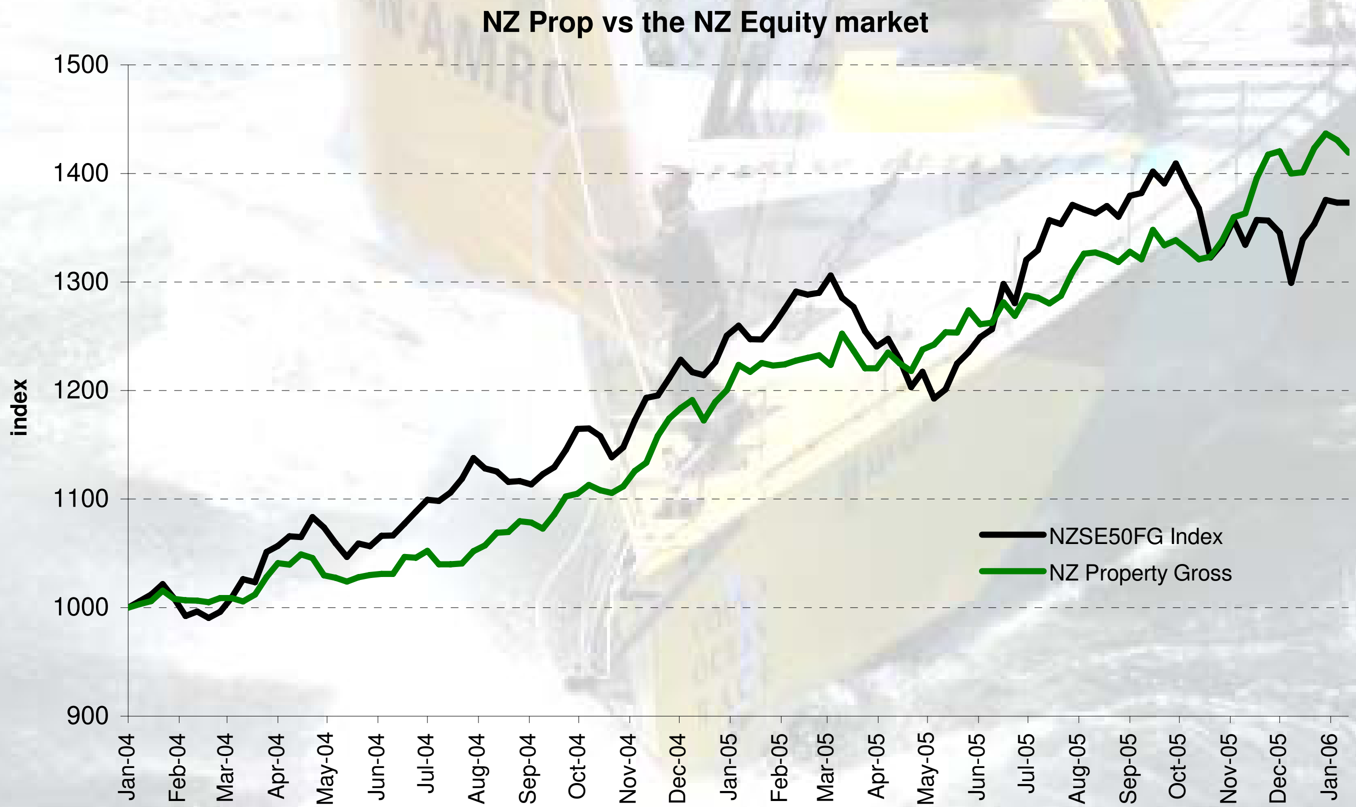
Performance compared with NZ equities

Last two years? Property slightly ahead… 19.9% pa vs 17.3% pa



Source: Bloomberg

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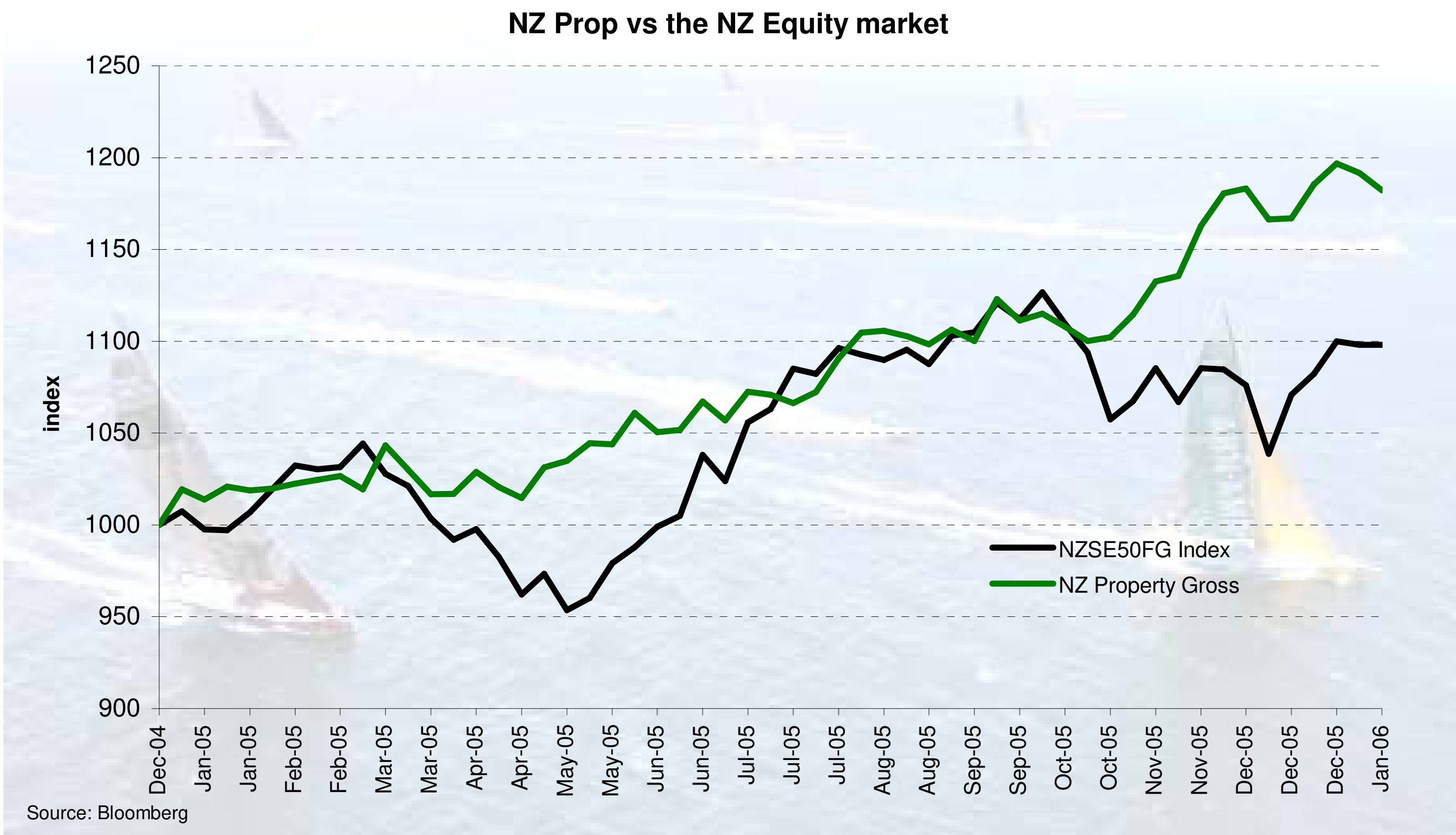
Performance compared with NZ equities

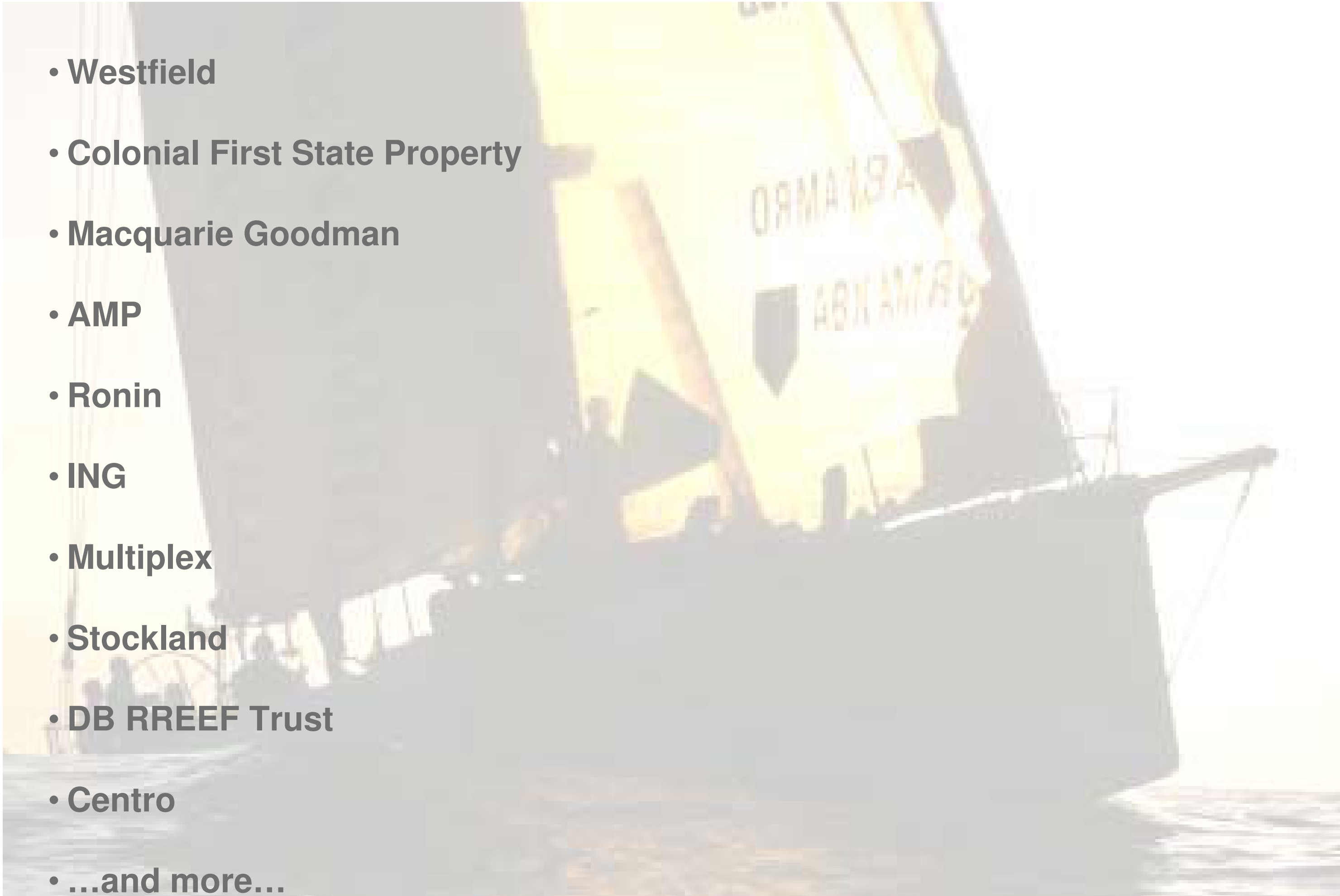
Last 12 months? Property strongly ahead... 19.7% pa vs 10.0% pa



Listed Property Sector themes

- Increased international interest in NZ property contributed to a structural movement in capitalisation rates
- Falling risk premiums, particularly in regional centres
- Consolidation and M&A activity
- Relationships between LPTs and their managers
- Changes in fee structures to more performance incentive based. PFI, ING, MGP, KIP now have incentive based structures
- Development exposure
- Changes to Unit Trust structures
- Impact of the Super Fund and proposed changes to tax law

In recent years Australian investors have become more active in our direct property markets



- Westfield
- Colonial First State Property
- Macquarie Goodman
- AMP
- Ronin
- ING
- Multiplex
- Stockland
- DB RREEF Trust
- Centro
- …and more…

Australian influence on our direct property markets

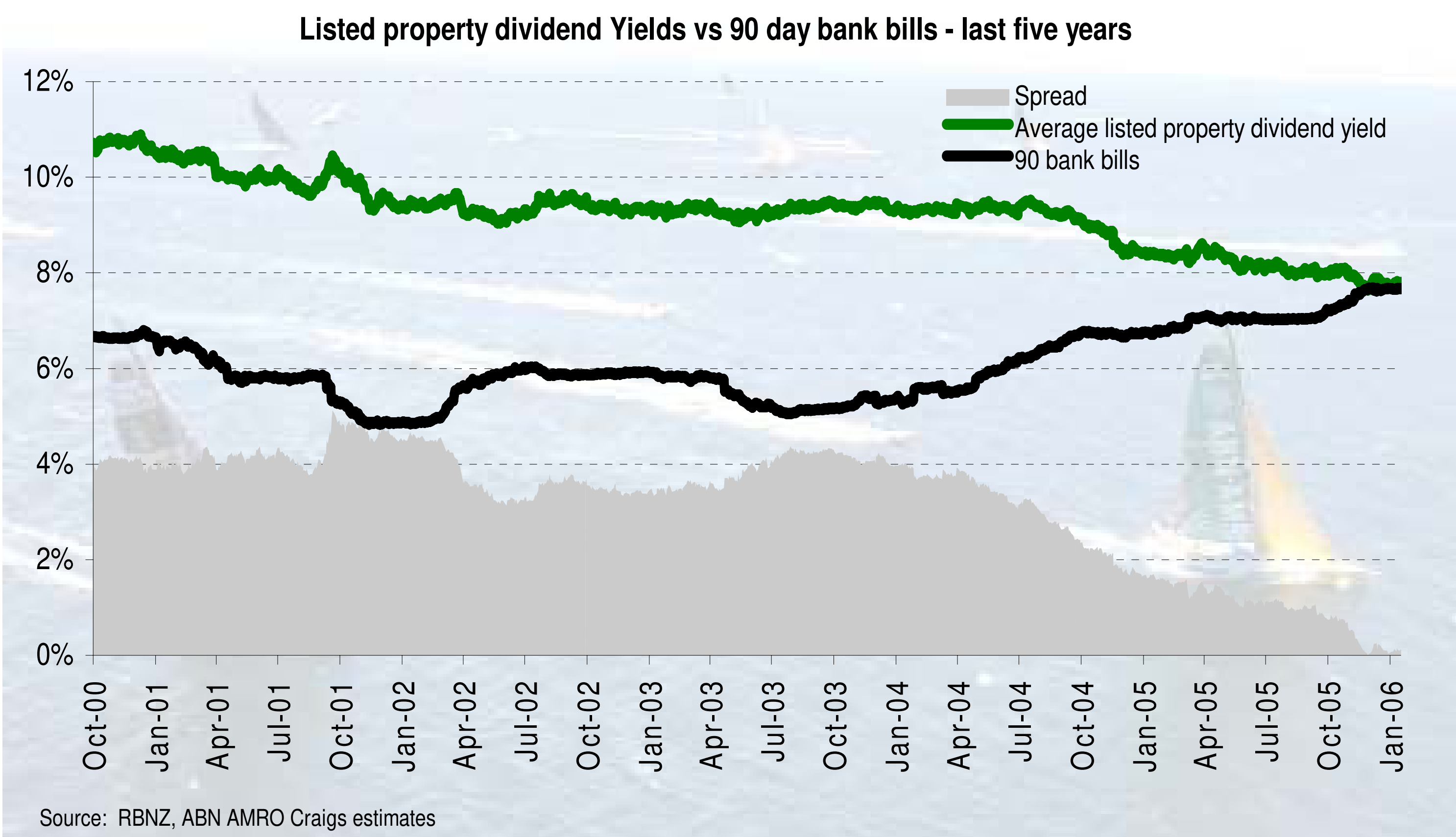
- Rental yields have fallen significantly over the last few years
- One reason for this is the increased accessibility of New Zealand to international investors, and particularly the increased presence of Australian investors in our property markets
- The higher yields available in New Zealand may have been a key attraction, and the historical yield gap has decreased
- The impact of this re-pricing of assets has had a significant effect on cap rates, property values, investor interest and returns

	Auckland			Wellington		
	June 2005	**June 2001**	**Change**	**June 2005**	**June 2001**	**Change**
CBD Office	9.13%	11.50%	-2.37%	8.88%	9.50%	-0.62%
CBD Retail	7.50%	9.25%	-1.75%	9.25%	10.00%	-0.75%
Industrial	8.75%	10.25%	-1.50%	9.75%	11.38%	-1.63%

Source: JLL, CBRE, ABN AMRO Craigs estimates

This has flowed through to LPT risk premiums

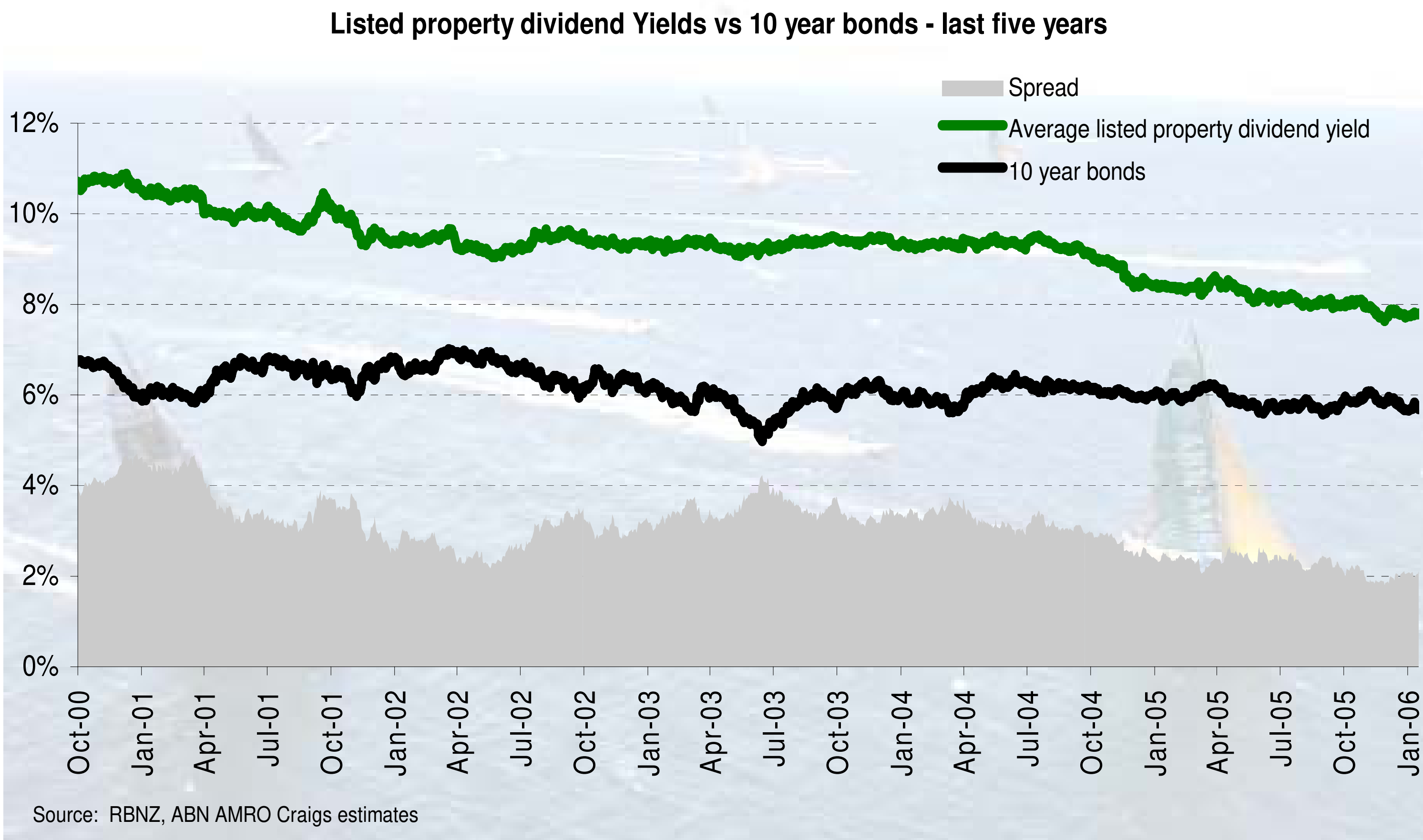
Last 5 yrs average dividend yield premium over 90 day bills – 3.2%
Current premium – 0.1%   …a decrease in risk premium of 96%



Source: RBNZ, ABN AMRO Craigs estimates

This has flowed through to LPT risk premiums

Last 5 yrs average dividend yield premium over 10 year bonds – 3.0%
Current premium – 2.1%   …a decrease of 30%.



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Consolidation in our listed property markets

- Colonial First State / CBA purchased the management company of KIP in February 2002, and in 2005 increased its holding in KIP to 11.5%
- Macquarie Goodman Management acquired the management company of MGP from Colonial First State in December 2003, puchased a cornerstone unitholding and later sold MGP assets owned by MGI
- ING purchased 50% of the Paramount Property Trust management company from Symphony Group. The Trust was renamed ING Property Trust and is managed by the JV
- Urbus sold its management company to ING /Symphony Group in 2004, Urbus was delisted and merged with the existing ING Propertry Trust in 2005
- Ronin acquired 30% of APT and a share in the management company in 2003
- St Laurence acquired 12% of NAP in 2004, then in 2005 purchased the management contract for APT
- KIP took a 19.9% stake in CNZ in 2004, AMP took a 15% stake in CNZ in early 2005 followed by a full takeover offer which KIP accepted, AMP now with 87% and offer is still open

So who controls our listed property vehicles?

- ING Property Trust – ING & Symphony Group
- Kiwi Income Property Trust – Colonial First State / CBA
- Property For Industry – AMP Capital Investors
- AMP NZ Office Trust – AMP Capital Investors / Multiplex
- National Property Trust – St Laurence
- Capital Properties – Internally managed… for now
- Macquarie Goodman Property Trust – Macquarie Goodman Group
- Calan Healthcare Properties Trust – CHP Management

Five out of eight are managed/controlled by Australians.

Fee structures changes

- Traditionally, LPT fee structures have been based on the assets under management
- Recently this has shifted to a more performance incentive based structure
- Performance measure against benchmarks and linked to income streams as well as capital growth
- MGP, KIP, ING, PFI all operate on these structures now
- Further aligns investor interests with those of the manager

Strengthening relationship between Trusts and Managers

- **Australia has seen a movement away from the historical seperation of manager and underlying vehicle, toward a Stapled Security structure**
  - –Macquarie Goodman Group
  - –Westfield
  - –DB RREEF
  - –GPT / Lend Lease proposal
- **This may be aimed at ‘cementing the relationship’ and, from the managers perspective, ‘locking in’ the income stream**
- **In some cases this benefits the investor through an increased alignment of interests and the ability to gain an equity interest in the management company**
- **The risk profile of investments may change, particularly if the manager engages in development activity**
- **While NZ Trusts have not moved to this structure, we have seen evidence of the management companies ‘cementing the relationship’. APT, MGP, KIP, NAP, ING managers all have cornerstone unitholdings**

Increasing development exposure in the Australian listed property market not as prevalent in NZ

- Some investors have expressed concern over the changing risk profiles of the sector
- Consolidation has lead to some vehicles in NZ and Australia transform from pure landlords to landlords with a development arm
- NZ investors are much less receptive to development exposure, and some development initiatives have been met with negative feedback
- As a result, NZ LPT's have moved into development in a more low-key way. MGP 10% of portfolio limit and all major devlopments executed through ASX-listed entity, PFI small scale design-builds, CNZ low risk Government pre-leased projects
- However, there has been some level of increased development exposure. Several years ago, KIP developed the Vero Centre via a seperately listed entity. At present KIP is undertaking the significantly larger Sylvia Park project via its own Balance Sheet

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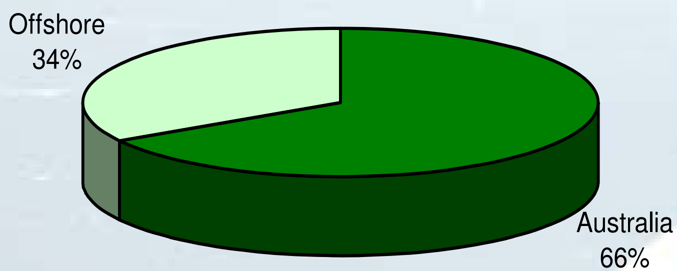
International exposures

- Another area where NZ LPTs have not followed their Australian counterparts is in diversifying offshore

- Australian LPTs have 34% of their funds invested offshore

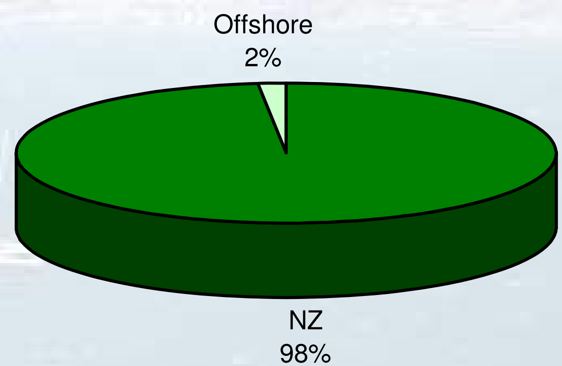
- NZ LPTs have only 2%

Australian LPT international exposure



Source: Property Council of Australia

New Zealand LPT international exposure



Source: ABN AMRO Craigs estimates

- Reasons? Size, scale and ability to compete in the global market, many are 'divisions' of global / Australian entities anyway, investor sentiment in NZ percieves offshore investments as higher risk

Changes to unit trust structures

- Apart from CNZ, all NZX listed property vehicles are managed by an external manager

- Apart from PFI and CNZ, these are all governed by the Unit Trusts Act 1960, a substantially older document than the Companies Act 1993

- Unit Trust Act says ‘no AGM necessary’, ‘no obligation to include shareholder motions’ and ‘not required to convene a meeting unless 10% of shareholders request’

- At the request of several institutional investors, KIP held an EGM on late 2005 at which significant amendments to the Trust Deed were approved by unitholders

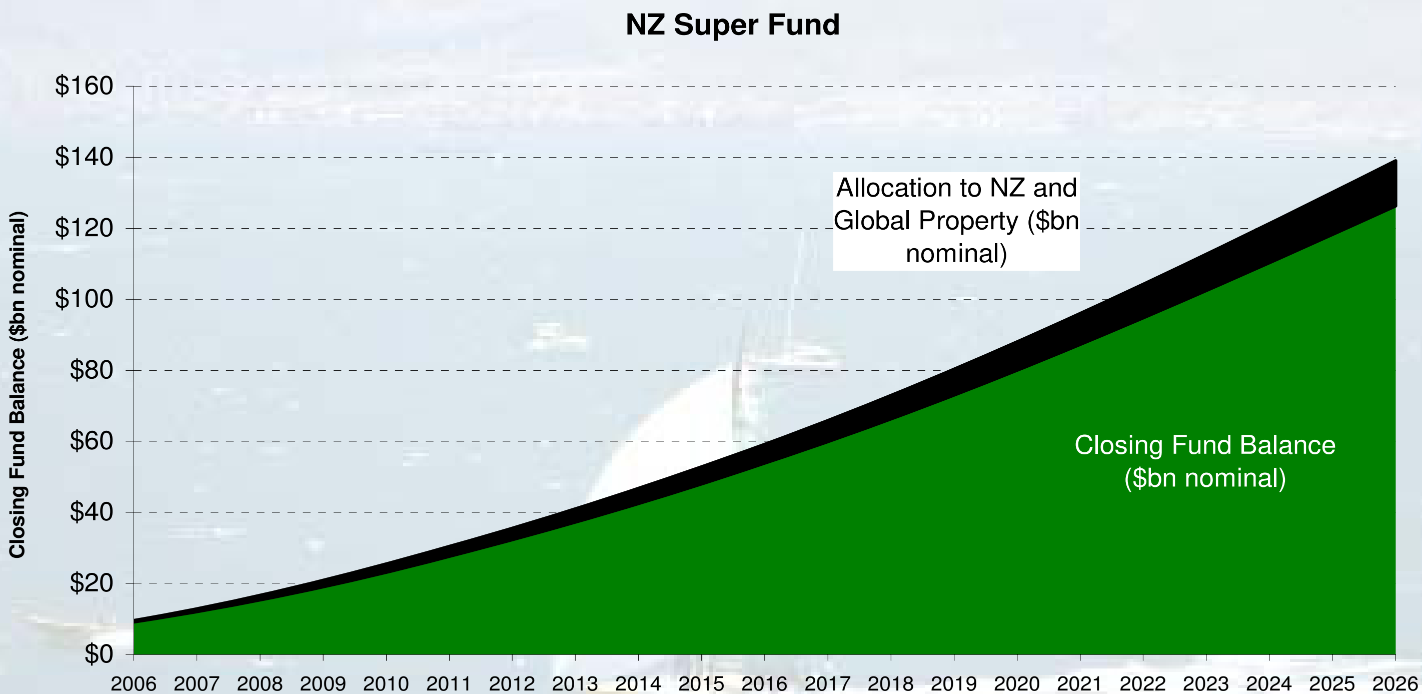
- Changes will mean that KIP is obliged to
  – Hold an AGM
  – Include duly advanced shareholder motions in the AGM’s notice of business regardless of the investors holding size
  – Convene an EGM to consider shareholder motions should 5% or more of shareholders choose to requisition such a meeting

- The effect of this is that the corporate governance structures of property trusts in NZ have moved one step closer to those of companies, and other NZ LPTs have already indicated that they may follow suit

- More investor power, further aligns interests

The NZ Super Fund

- The NZ Super Fund is expected to grow from its current $7.0bn to over $20.0bn by the early 2020's
- The long term allocation to property (NZ & Global) is 10%. By 2010 this will equate to $2.4bn, of which a portion will be invested domestically adding market depth
- Changes to the way international investments are taxed



Source: Treasury, ABN AMRO Craigs estimates

Economic outlook for 2006

- Domestic risks are to the downside, with growth slowing and interest rates high
- The high currency is a key risk to growth in 2006 if commodity prices fall significantly further from their recent record highs
- Our NZD long term forecast is negative, as global demand for soft commodities is peaking and the RBNZ tightening cycle is near an end as NZ growth slows in 2006
- Labour government budget initiatives (WFF) may offset some negatives in 2006

Year ended March	2004A	2005A	2006F	2007F	2008F	2009F	2010F	Long Term
Real GDP growth, aapc	3.6%	3.7%	1.6%	1.4%	3.2%	2.7%	3.1%	3.0%
CPI inflation (aapc)	1.5%	2.6%	3.3%	2.3%	2.8%	2.9%	2.2%	2.1%
Exports, real aapc	1.6%	4.0%	0.6%	2.3%	4.6%	4.5%	4.5%	
Imports, real aapc	13.0%	13.6%	5.8%	-0.8%	-1.4%	3.3%	4.6%	
Current account (% of GDP)	-4.9%	-7.4%	-8.6%	-7.4%	-4.7%	-4.7%	-4.4%	
Current account balance (US$bn)	-4.2	-7.6	-9.1	-6.8	-4.1	-4.6	-4.7	
Trade balance (US$bn)	-2.5	-3.1	-2.3	-2.3	-1.2	-1.7	-1.8	
US$/NZ$*	0.66	0.71	0.68	0.58	0.53	0.56	0.58	0.58
A$/NZ$*	0.87	0.92	0.92	0.86	0.82	0.82	0.82	0.85
Money supply growth (M3 %yoy)								
90 day bank bill yield*	5.5%	6.9%	7.4%	6.4%	6.2%	6.2%	6.2%	
10 year gov't stock yield*	5.9%	6.0%	6.1%	6.2%	6.3%	6.3%	6.4%	

Source: NZIER, ABN AMRO

*Historical and forecast numbers qtrly ave ended March

2006 Listed property outlook

- Equity markets generally exhibit some downside risk, although a fall in the NZD may benefit exporters and defensive, high yielding blue chips are likely to be favoured
- Property sector fundamentals look solid: vacancy rates, lease terms, tenant demand, balance sheet strength
- A strong round of NTA growth over the upcoming reporting season, to reflect 2005 conditions, and then increases in NTA to slow, and the majority of returns to come from dividends
- The LPT sector no longer provides the attractive yield premium over the rest of the market that it once did – LPT sector gross yield ~8.0% vs NZSX50 ~7.8% (TEL 9.3%)
- The defensive, low risk nature of the sector should maintain investor support in a challenging equity market
- Our strategy is to favour strong occupancy levels, long lease terms, dividend growth potential and minimal downside risk