ING REAL ESTATE

MARKET RELEASE

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ING Property Trust announces unaudited after-tax profit of $71.7m

ING Property Trust (the "Trust") today announced an unaudited after tax profit of $71.7 million for the year ended 31 March 2008. The result includes independent property revaluation gains of $43.0 million.

The core operating profit before interest of the Trust was $74.1 million, up 3.2% on the $71.8 million recorded in the prior year.

Last year's after-tax profit of $102.3 million was higher than this year's result, mainly due to the record revaluation gains of $87.2 million. Last year's gains were largely driven by firmer capitalisation rates. This year's revaluation increase in contrast is driven by increasing rentals.

Peter Mence, General Manager of ING Property Trust Management Limited (INGPTML), said, "The Trust has had a very good year, with rental increases providing backing for a strong revaluation result. The Trust has delivered on its key strengths in a difficult market, with its low-risk return from a well-diversified portfolio of good quality investments. The result shows the success of our strategy of adding to unitholder returns through active building and tenant management in a low-risk portfolio structure."

Through the unit buyback scheme, $40.0 million has been spent acquiring and cancelling 36.3 million units in the Trust. This has had the effect of adding 2 cents per unit to the Trust's net asset backing.

The Trust remains well positioned for the year ahead with a vacancy factor of less than 1% and a tenant retention rate of 85%. Assessments by independent valuers show the portfolio is 6.7% under-rented providing ongoing potential for further rental growth. The continuing success of the Manawatu Business Park joint venture is an example of the type of development the Trust will target. A critical element of the agreement is the mitigation of development risk, with a land return being paid to the Trust until developments are completed.

The Board of ING Property Trust Management Limited (the "Manager") will continue to identify and execute ways to add value for unitholders, in a manner consistent with the current and previous years.

Highlights

- A gross distribution of 9.85 cents per unit for the 12 months to 31 March 2008, representing a 3.5% increase in the normalised distribution from the prior year
- A strong focus on leasing, which saw the property portfolio maintain a near 100% occupancy at year-end and record an 85% tenant retention rate
- A weighted average lease term of 4.7 years, providing strong rental security
- The most diversified property vehicle listed on the New Zealand stock exchange with a portfolio of 78 buildings valued at $1.2 billion. The Trust provides space solutions for over 330 tenants
- The portfolio is 6.7% under-rented, providing a strong basis for further growth in rental income
- The property revaluation gain of $43.0 million was driven by solid rental growth, resulting in the adjusted net asset backing per unit increasing to $1.40 at 31 March 2008
- Taking advantage of the continued strength in demand for investment property assets with the sale of 5 properties for $21.3 million, realising net gains of $3.3 million over acquisition price

- Active portfolio management of the property portfolio continued to improve the quality of the property investment portfolio
- Rental growth of 10.4% on those properties subject to reviews.

Income distribution

The Trust declared gross distributions totalling 9.85 cents per unit for the 12-month period to 31 March 2008. The distributions declared had imputation credits of 1.15 cents per unit attached. A gross distribution for the quarter ended 31 March 2008 of 2.55 cents per unit was declared today, which includes imputation credits of 0.363 cents per unit. The record date for the distribution will be 11 June 2008, and the payment date will be 18 June 2008. The distribution represents, on a normalised basis, an increase of 3.5% on the distribution paid in the prior year.

The full year distribution under the PIE regime, based on a unit price of $0.92, equates to a gross effective yield of 14% for 33% marginal taxpayers and 15% for 39% marginal taxpayers.

The Manager is positive about future income distributions and providing that the economic environment remains stable, projects that the cash distribution for the 2009 financial year will be at least in line with the distribution paid in the 2008 financial year.

More challenging environment

“The ING Property Trust portfolio is well-positioned for the year ahead. Across all sectors, our tenants and income streams look solid and reliable,” said Michael Smith, Chairman of the Manager.

The Trust’s diversified low-risk strategy performs well in the current changeable economic climate. The Trust is not exposed to softening land values, as the Manawatu and Albany land holdings contribute a return to the Trust. Across the portfolio the Trust’s focus is to meet the needs of tenants in quality investments; this naturally tends to insulate the Trust from the effects of a downturn. Management has also increased its focus on security of income, believing portfolio diversification will result in reduced risk for investors. For example, the Trust’s largest tenant, who makes up 3.8% of the Trust’s rental income, is spread over eight different buildings within the portfolio.

While the Trust accepts that the retail sector will face some challenges in the year ahead as discretionary consumer spending is cut back, its tenants are well positioned to weather the storm. The majority of the Trust’s exposure in this sector is in bulk retail, a market driven by cheaper priced goods which are likely to suffer less through consumer cut backs.

The Trust’s investment in commercial and industrial properties is positioned for potential future rental growth. Both property types are subject to low vacancies, with little excess capacity also apparent in the industrial portfolio. Well-located assets are especially likely to experience sound rental growth.

Acquisitions

During the year, properties with a combined value of just over $82 million were unconditionally acquired. The acquisitions include:

- Pandora Road – an industrial building in Napier that is earmarked for conversion to an industrial showroom facility.
- 211 Albany Highway – a good quality building in a strong location adjoining an existing asset of the Trust.
- 80 Springs Road – a well-located asset with future added-value potential when combined with the adjoining three assets of the Trust.
- Wagener Place – a well-located bulk retail property adjacent to the St Lukes shopping centre, with future potential to add further value.
- Port Hills and Foundry Drive – two modern and well-located quality industrial properties in Christchurch. The Port Hills Road property will not settle until completion of the development in December 2008.

Acquisition of property adjoining existing assets is favoured for the potential to add value in the future.

Commencement of Mitre 10 development in Albany

The development provides the Trust with a share of the development profit and a return on its capital during the development phase, while exposing it to minimal tenant, construction or delivery risk. Accordingly, the Board of the Manager expects that the asset will provide an attractive total return to the Trust.

The development arrangements provide for the development profit (appraisal based end value less cost) from each of the three developments on the Albany site to be distributed 30% to the Trust on a first call basis and 70% to the developer (Symphony Projects Management Limited). Any profit beyond the level agreed in the feasibility study for each project is to be split 50/50. The leasing, construction and delivery risk rest primarily with the developer.

Mitre 10 is expected to be open for business prior to Christmas 2008 with complementary bulk retail to be opened on adjacent sites by 31 March 2009. The project is on budget and on programme.

Active portfolio management

The active management of the property portfolio and tenants continues to be a primary focus of the Trust's property management team. Active portfolio management incorporates portfolio rebalancing and the recycling of capital by way of asset sales when it is determined that value has been maximised, or the future return/risk profile of an asset does not meet the Trust's ongoing criteria. Part of the Trust's strategy is to acquire portfolios to re-position and rationalise over time. In addition, the Manager will review the strategy for individual property assets from time to time and where appropriate will recommend the disposal of properties.

For the first half of the year the strong market conditions provided a high level of demand from private buyers for smaller real estate investment through to large offshore purchasers for more significant assets. In total, five properties were sold during the year for $21.3 million, which realised net gains of $3.3 million over acquisition price, for the Trust.

In addition, the Trust has also unconditionally sold a property at Railway Street, Papakura for $6.5 million which is expected to settle in June resulting in a realised gain over acquisition price of approximately $1.1 million.

At balance date 12 properties remain available for future sale. These properties will not be taken to the market until management is satisfied that the timing is appropriate to maximise value for our unitholders.

Adding value

There remains a strong focus on upgrading and improving the Trust's property assets, and at the same time maximising the value-added opportunities inherent in the portfolio.

The Trust has a policy of continuously improving its properties. Over the year, in excess of $13 million has been invested back into Trust properties to ensure the assets are of the highest possible standard and best able to meet the ongoing needs of tenants.

The GE building in Auckland's Viaduct Basin is being upgraded to incorporate environmentally sustainable design elements and has been re-leased on 12-year lease terms. Lease restructuring, combined with the aforementioned building upgrades, have significantly enhanced the value of property assets across the portfolio.

"The Trust is actively committed to upgrading buildings as and when the opportunity arises, incorporating environmentally sustainable features where appropriate. We consider the initiative to produce environmentally responsible developments a fundamental requirement of any project, be it a new development or a retro-fit," said Peter Mence.

ING Property Trust continues the development success of the Manawatu Business Park with five new developments committed to in the site. The build-out of the Park is progressing according to plan and current interest from potential tenants is strong.

The Trust's recent acquisition in Wagener Place, Auckland is currently being developed to include a new tenancy for JB Hi-Fi, with planning underway for possible further expansion of the property in the near future.

The Pandora Rd Napier development is being offered to tenants with development expected to start in the second half of 2008. An industrial showroom complex is proposed for the property.

In the main, building works and property redevelopments are completed in conjunction with new long-term leases. Through this structure, the risks associated with property development are considerably reduced and property returns in the form of capitalisation rates are 1.0% to 2.0% higher than are possible through buying developed assets on market.

Management continues to investigate other redevelopment and added-value opportunities within the portfolio – this will remain a core focus and capital will continue to be spent on the Trust's buildings to ensure the properties are maintained to the highest standard. Management expects annual capital expenditure to be between $10 and $15 million on projects with returns averaging from 8.75% to 10%.

Portfolio statistics

It has been another strong year, with the property portfolio maintaining a high capacity utilisation level. For the third year in a row the portfolio has achieved an occupancy rate in excess of 99%.

"While there has clearly been a period of greater difficulty in the world markets, the property market in New Zealand has shown a greater degree of resilience than comparable property investment markets, principally due to the strong occupancy rates and the relatively lower gearing structures. While the unit price performance of most listed property vehicles has reacted negatively to the general global uncertainties, building occupancy levels have remained high across the board and rental growth has been evident," said Mence.

With only 11% of the leases due to expire over the next 12 months, occupancy levels should remain at their current high level. Between 14% and 15% of leases are due to expire in each of the following two years. The property management team is in discussion with tenants whose leases are due to expire over the next 24 months and is focused on ensuring the Trust maintains a high tenant retention rate.

Due to the strong focus on active tenant and building management, the Trust achieved a tenant retention rate of 85% during the year. In real terms this equates to 22 tenants being retained representing 32,000 sqm of space and $8.3 million of annual rental. Of the space that has been vacated in the portfolio, new tenants have been secured and the ingoing rental is typically higher than that paid by the outgoing tenant.

The weighted-average lease term for the entire portfolio has been maintained at 4.7 years at year-end. This is particularly pleasing from a risk management perspective when recognition is given to the breadth and depth of the portfolio as well as the highly diversified nature of the buildings, tenants and locations.

Rental reviews and new leasings

It has been another successful 12-month period in terms of rental reviews. During the reporting period, 63 rental increases were achieved, accounting for a total of $2.0 million of additional rental income at an average increase of 10.4%. On an annualised basis this equates to an increase of 3.9%.

Over the next 12 months, 113 rental reviews are due to be concluded. With the portfolio assessed at being 6.7% under rented, another good year of rental growth is expected.

The Manager has maintained the focus on actively managing tenants and upcoming vacancies to ensure that a high level of portfolio occupancy is maintained. During the period 36 new leases were entered into. This represents 48,700 sqm leased to new tenants producing $10.8 million of net rental per annum. The average lease term from the new leases is an attractive 6.6 years.

Valuations

Management was very pleased with the year-end revaluation results showing a $43.0 million value uplift driven primarily by rental growth from reviews and transactional activity during the year. The revaluation gains when combined with the Trust's share buyback programme had a positive impact on the Trust's adjusted net asset backing per unit, which rose from $1.30 as at 31 March 2007 to $1.40, an increase of 7.7%.

The properties are held at current market value, as assessed by an independent valuer. The valuation policy of the Manager is to procure that independent registered valuers complete property valuations, of each property of the Trust, in each financial year. The same valuer does not value a building for more than two consecutive years, resulting in a rotation of valuers on a regular basis.

The Trust's portfolio has an average contract capitalisation rate of 7.8% and a market capitalisation rate maintained at 8.3%, which is the same as the prior year. As a result of the under-rented position, the Trust has the basis for further growth in rental income.

At the current market price of $0.92, the Trust's units are trading at a 34% discount to its adjusted net asset backing per unit. The Directors of the Manager believe that this discount is excessive recognising the diversified nature of the portfolio and the attractive yield this represents.

Interest rate management

The Trust's interest rate management strategy is to minimise interest rate costs while limiting the risk of future interest rate increases by utilising interest rate hedges. At balance date, the Trust had $457.4 million of drawn down debt, of which the interest rate risk on $376.5 million was covered by way of hedges. The effective interest rate as at 31 March 2008 (including hedges and margins) was 7.46%. The duration of the hedge portfolio has been extended to 6.0 years post balance date. There are no hedge maturities over the balance of 2008.

Looking ahead

The Manager continues to have a positive view on the New Zealand property sector. With the positive supply and demand balance rental growth is set to continue to be a factor in the market. However, the Manager expects to see some moderation in the rate of rental growth in the retail sector as the economy slows and the effect of the high New Zealand dollar impacts business. The office sector is the most robust with the tight occupier market, lack of new supply and cost of new development pushing rents up.

"At the fundamental property level, the dynamics across the industry remain compelling. Building vacancy levels in most sectors remain at historic lows which provide landlords with the ability to increase rental levels. Construction costs, which have seen significant increases over the past few years have now moved lower supporting opportunities for future development projects. The increasing cost for tenants to relocate has assisted with the tenant retention rate within the Trust's portfolio," said Mence.

The Manager considers that the current unit price is undervalued in comparison to other listed property vehicles and remains confident that property sector fundamentals will be positive over the coming 12 months with the property portfolio well positioned to benefit from the strength in the local market.

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ING Profile

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