



2018 Annual Results Presentation

Argosy Property Limited
23 May 2018

► www.argosy.co.nz



AGENDA



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PRESENTED BY:

Peter Mence CEO



Dave Fraser CFO



Note: This result should be read in conjunction with the NZX stock exchange release dated 23 May 2018. Due to rounding, numbers presented in this presentation may not add up exactly to the totals provided and percentages may not exactly reflect absolute figures.



Our strength lies in the diversity of our properties across sectors, grades, sizes and locations allowing us to adapt to the changing needs of our growing family of tenants.

Peter Mence
CEO

HIGHLIGHTS

Argosy



HIGHLIGHTS

\$101m

Net property income

6.62c

Net Distributable Income
per share +1.1%

1.55c

4th Quarter Dividend +1.6%

\$1.12

NTA +5.5% on prior year

3.0%

Annualised rent review
increase

\$48.8m completed,
including \$33.8m of
green projects

Value Add Developments

98.8%

Occupancy (by rental)

6.1 years

WALT

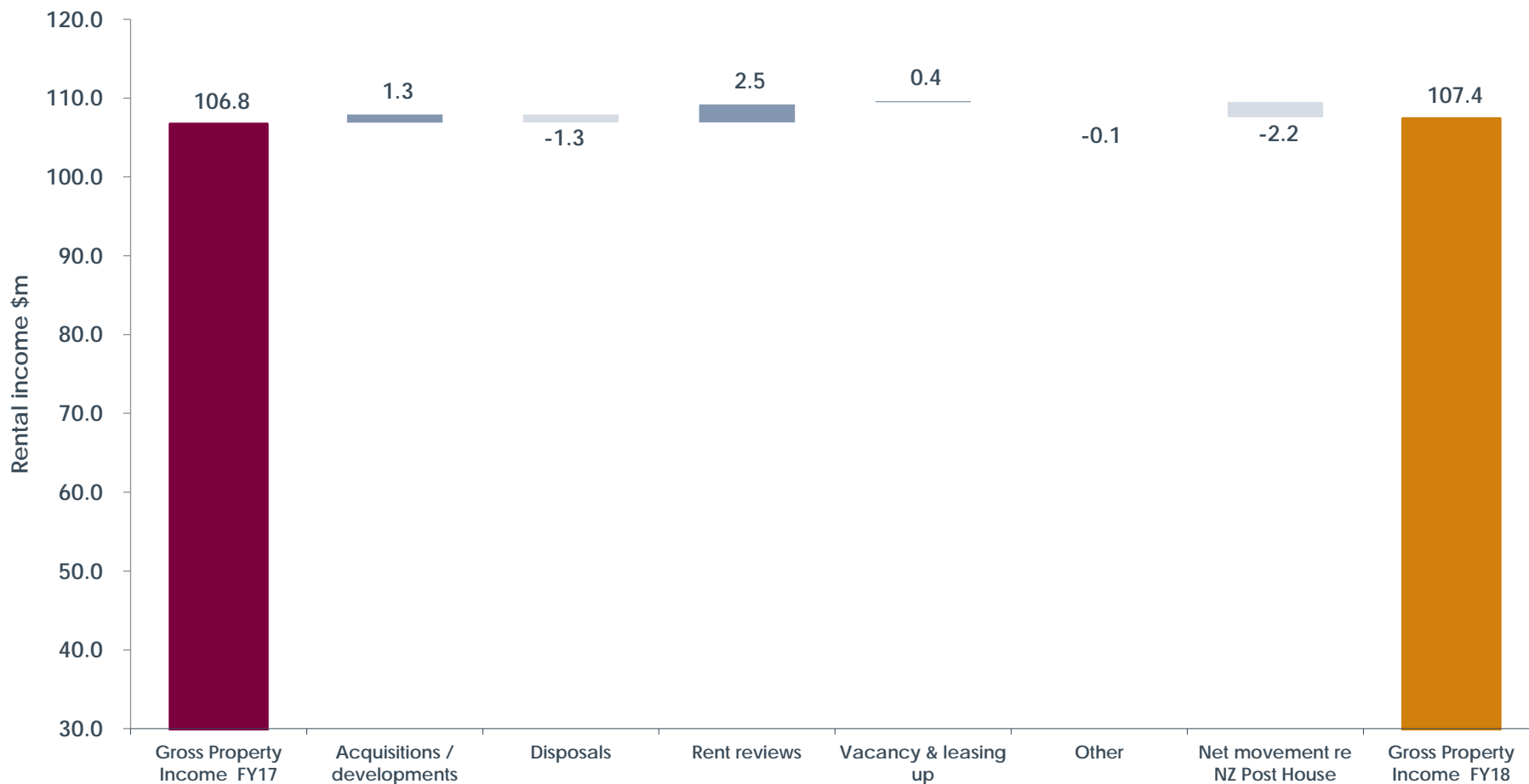
6.25c

FY19 dividend guidance,
+1%

FINANCIALS



Income Reconciliation



Financial Performance



	FY18	F17
	\$m	\$m
Net property income	101.0	100.8
Administration expenses	(9.9)	(9.3)
Profit before financial income/(expenses), other gains/(losses) and tax	91.1	91.4
Interest expense	(25.5)	(25.9)
Gain/(loss) on derivatives	(4.1)	11.0
Revaluation gains	47.3	42.3
Realised gains/(losses) on disposal	0.3	2.7
Net: Insurance proceeds & earthquake expense	0.2	(1.2)
Profit before tax	109.3	120.4
Taxation expense	(11.1)	(16.8)
Profit after tax	98.2	103.6
Basic and diluted earnings per share (cents)	11.90	12.69

- ▶ Net income stable year on year
- ▶ Expenses up due to additional resourcing costs across the business
- ▶ Non cash impact of derivatives
- ▶ Solid year-on-year revaluation gains largely driven by cap rate firming
- ▶ Lower taxation expense primarily due to deferred tax movements

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Distributable Income

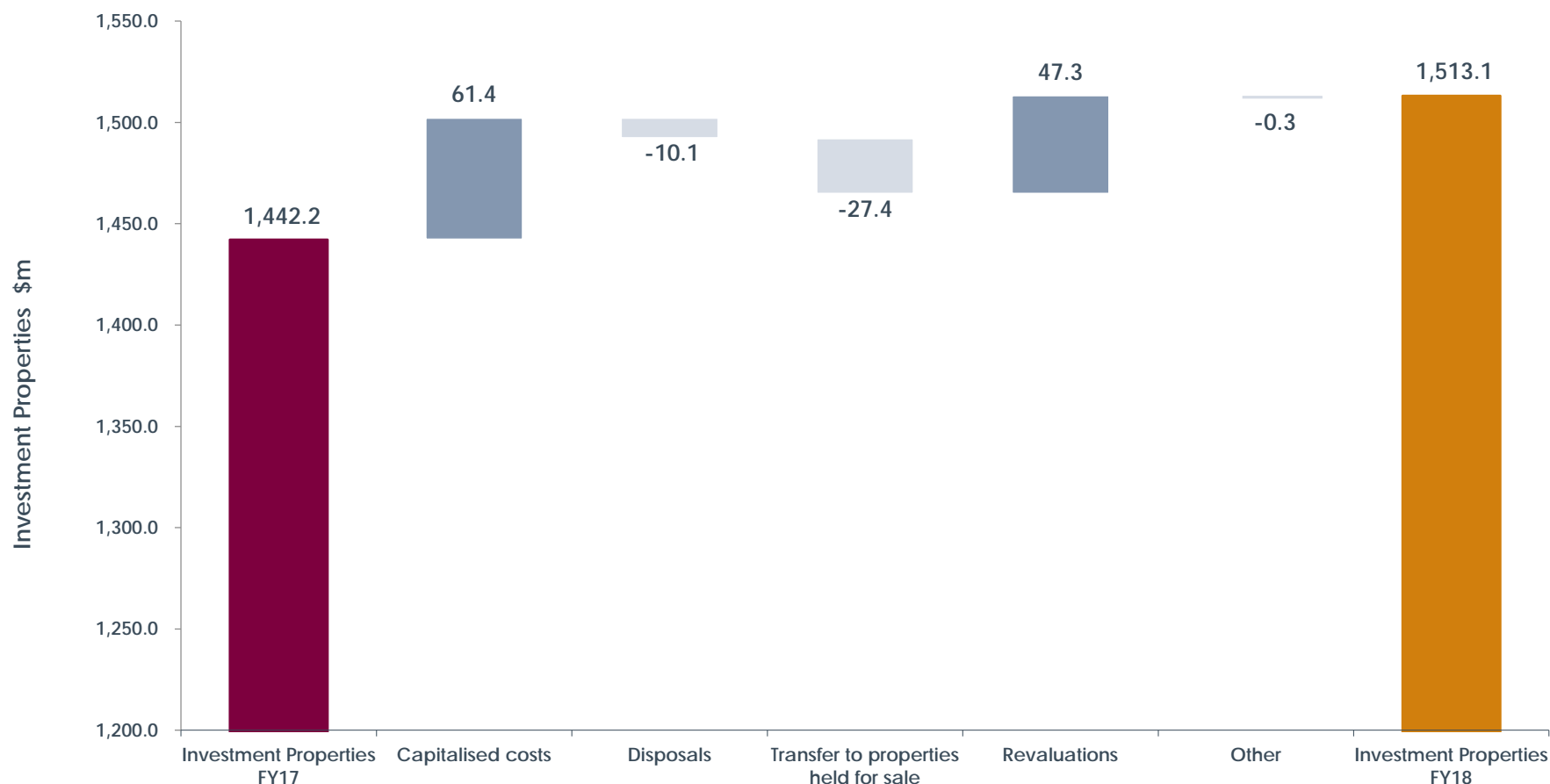
	FY18 \$m	FY17 \$m
Profit before income tax	109.3	120.4
Adjusted for:		
Revaluations gains	(47.3)	(42.3)
Realised losses/(gains) on disposal	(0.3)	(2.7)
Derivative fair value loss/(gain)	4.1	(11.0)
Earthquake expense net of recoveries	-0.2	1.2
Gross distributable income	65.6	65.6
Depreciation recovered	0.6	1.0
Current tax expense ¹	(11.6)	(13.1)
Net distributable income	54.6	53.5
Weighted average number of ordinary shares (m)	825.1	816.7
Gross distributable income per share (cents)	7.95	8.03
Net distributable income per share (cents)	6.62	6.55

► Current tax lower due to higher capitalised interest, depreciation and non-assessable insurance proceeds-reinstatement

► Net distributable income increased 1.1%

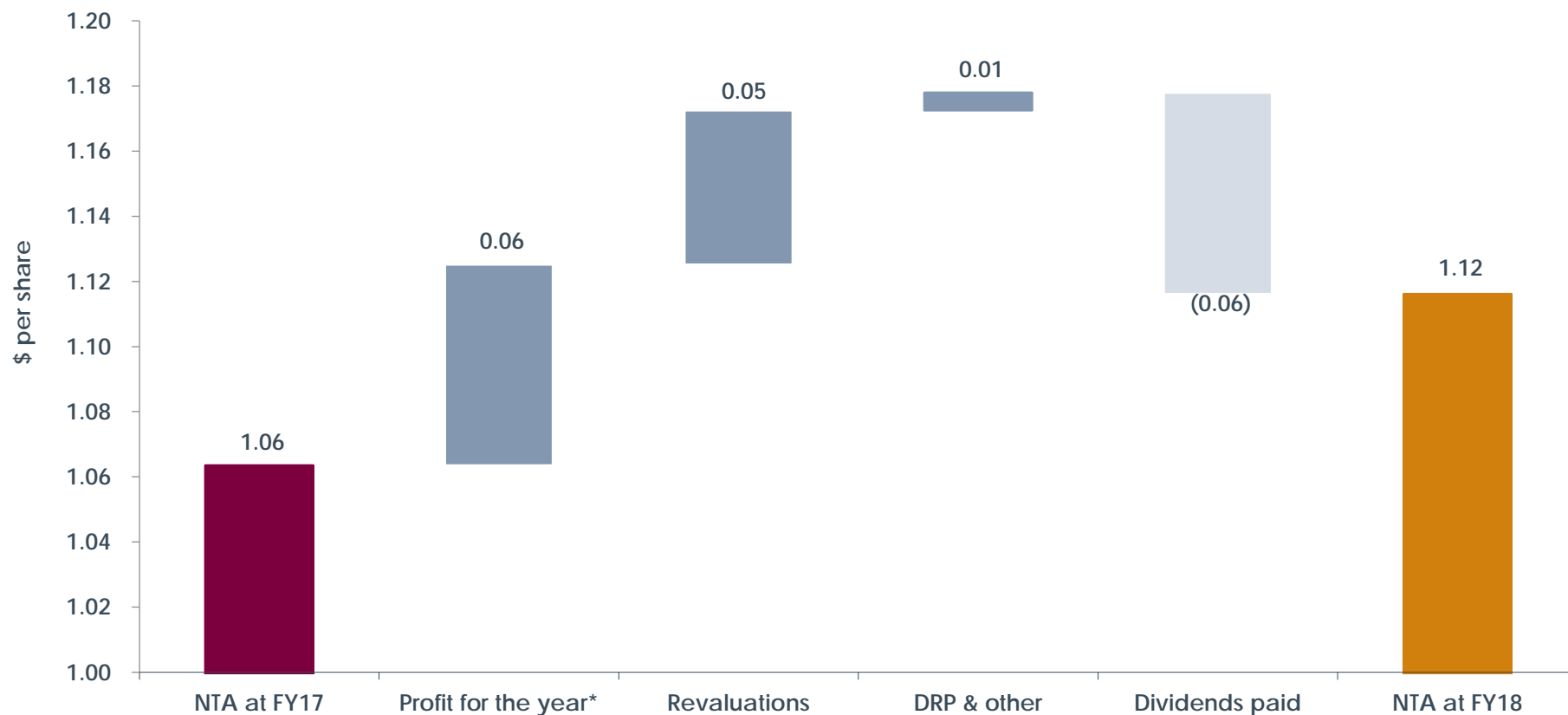
Investment Properties

- Portfolio growth driven by a combination of developments completed and revaluation gains



Movement in NTA per share

▶ Annual revaluation gain key driver of 5.5% NTA uplift year on year



* Excluding revaluations

Gearing

	FY18 \$m	FY17 \$m
Investment properties	1,513.1	1,442.2
Assets held for sale	27.4	13.0
Other assets	4.3	3.4
Total assets	1,544.8	1,458.6
Bank debt (excl. capitalised borrowing costs)	554.2	529.9
Debt-to-total-assets ratio	35.9%	36.3%

- ▶ Further divestment of non Core assets will see the portfolio repositioned to the lower end of its retail band (15-25%) and higher end of industrial band (40-50%) over next 12-18 months.
- ▶ The asset held for sale is 7 Wagener Place (Auckland), sold for \$31.0m and which settles in July 2018.
- ▶ New target policy gearing range of between 30-40% (previously 35-40%).



35.9%

Debt-to-total assets ratio

Funding & Interest Rate Management



	FY18	FY17
Weighted average duration of bank facility	3.1 years	2.5 years
Weighted average interest rate ¹	4.98%	4.88%
Interest Cover Ratio	3.3x	3.4x
% of fixed rate borrowings	62%	65%
Average fixed interest rate ²	4.56%	4.56%

- ▶ Argosy maintains strong relationships with its banking partners ANZ Bank New Zealand Limited, Bank of New Zealand and The Hongkong and Shanghai Banking Corporation Limited, and remains well within its banking covenants.
- ▶ Argosy restructured its syndicated bank facility in May 2017 and February 2018.

3.1 years

Weighted avg. bank facility term

¹ Including margin and line fees

² Excluding margin and line fees

Dividends



- ▶ A final quarter cash dividend of 1.55 cents per share has been declared, with imputation credits of 0.3744 cents per share attached, and will be paid on 27 June 2018
- ▶ FY19 dividend guidance of 6.25 cents per share is an increase of ~1.0% on the FY18 full year dividend
- ▶ The FY19 dividend reflects the Boards wish for shareholders to share in the continued strong results whilst allowing Argosy to maintain its momentum towards an AFFO based dividend policy over the medium term



6.25c

FY19 dividend guidance



27 June

Final quarter dividend paid

Strategy Overview

Argosy



Argosy will continue to invest in a diverse range of properties across sectors, grades, sizes and locations.

Our Investment Strategy consists of Core and Value Add properties.

- ▶ Core properties between 75-90% of the portfolio by value.
-

Our Investment Policy sector band parameters (by value) are:

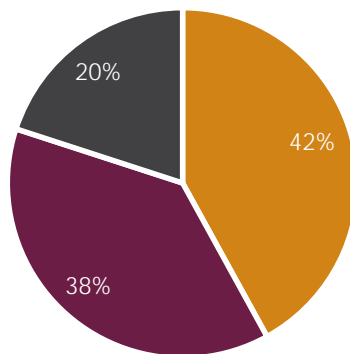
- ▶ Industrial 40-50%
- ▶ Office 30-40%
- ▶ Retail 15-25%

As at 31 March 2018, Argosy was operating within the parameters of its Investment Policy.

Argosy strives to deliver reliable and sustainable returns to shareholders. We take a considered approach to acquisition, divestment, development, leasing and capital management decisions, reflecting our proposition to shareholders as a dividend stock, with all the advantages of the PIE Regime.

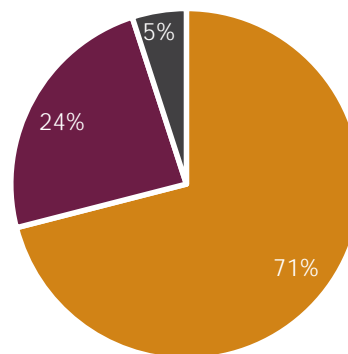
Portfolio at a glance

TOTAL PORTFOLIO VALUE
BY SECTOR



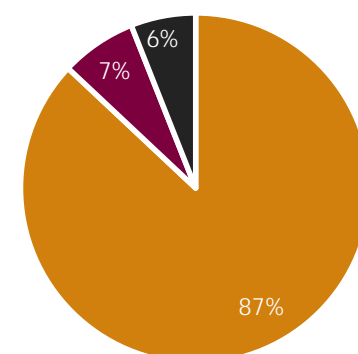
- Industrial
- Office
- Retail

TOTAL PORTFOLIO VALUE
BY REGION



- Auckland
- Wellington
- Regional North Island & South Island

PORTFOLIO MIX
BY VALUE



- Core properties
- Properties and land to divest
- Value Add properties

- ▶ Focus on continuing the divestment programme of non Core assets
- ▶ Expect to move towards the higher end of the industrial band and lower end of the retail band over the medium term

Revaluations



	31 March 18 Book Value (\$m)	31 Mar 18 Valuation (\$m)	Δ \$m	Δ %	Market Yield ¹	
					31 Mar 17	31 Mar 18
Auckland	1,025.4	1,081.5	56.1	5.5%	7.14%	6.75%
Wellington	367.1	358.1	(9.0)	-2.5%	7.53%	7.60%
North Island Regional & South Island	73.3	73.5	0.2	0.3%	8.70%	7.96%
Total	1,465.8	1,513.1	47.3	3.2%	7.31%	6.98%

	31 March 18 Book Value (\$m)	31 Mar 18 Valuation (\$m)	Δ \$m	Δ %	Market Yield	
					31 Mar 17	31 Mar 18
Industrial	598.5	637.5	39.0	6.5%	7.12%	6.74%
Office	571.7	577.3	5.6	1.0%	7.58%	7.37%
Retail	295.6	298.3	2.7	0.9%	7.27%	6.80%
Total	1,465.8	1,513.1	47.3	3.2%	7.31%	6.98%

- ▶ Strong revaluation gain 3.2% above book value
- ▶ Regionally, Auckland biggest contributor
- ▶ Wellington office: Stout Street recorded \$13m increase but overall result offset by 7 Waterloo Quay (earthquake) and Stewart Dawson Corner which is currently under development
- ▶ At 83%, the Industrial portfolio biggest contributor of the total gain followed by office (12%) and retail (5%)
- ▶ Portfolio market yield firmed 33bps with Auckland firming 39bps and Industrial 38bps

¹ Yields exclude 7 Waterloo Quay and Stewart Dawson Corner

Value Add

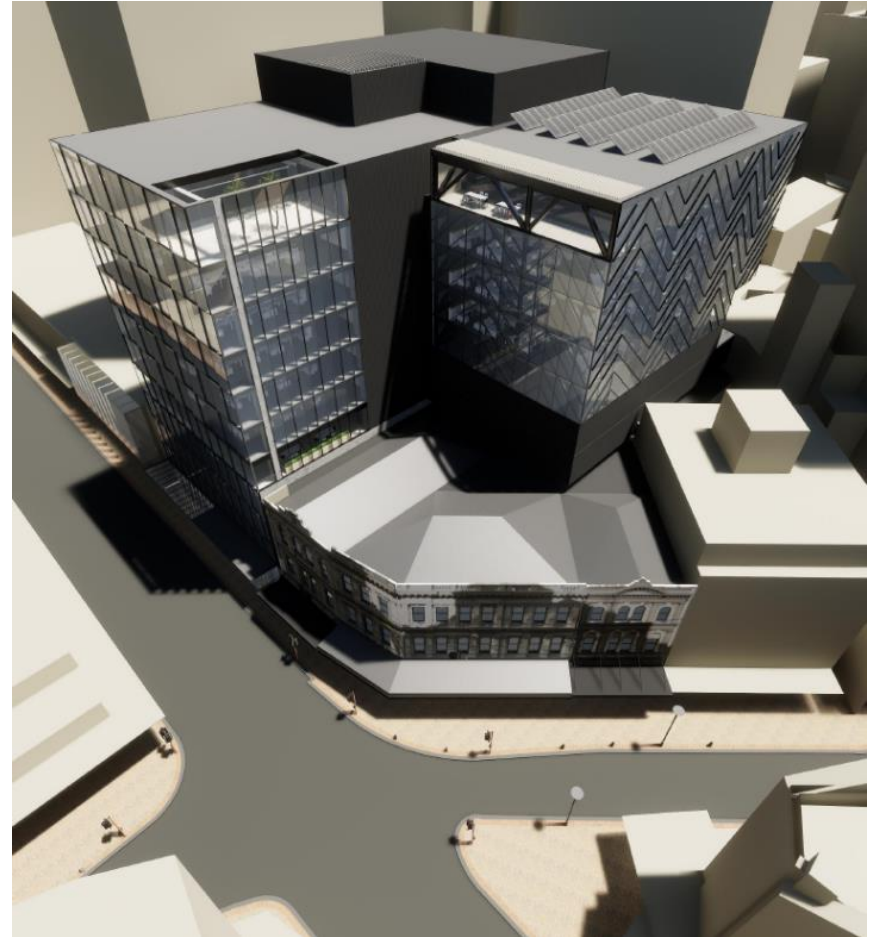
► The following properties have been designated as Value Add, which make up ~6% of the total portfolio:

Property	Sector	Location	Market Value ¹ \$m
90 - 104 Springs Road	Industrial	Auckland	5.4
80 Springs Road	Industrial	Auckland	10.0
211 Albany Highway	Industrial	Auckland	20.5
960 Great South Road	Industrial	Auckland	6.1
99-107 Khyber Pass Road	Office	Auckland	8.7
8-14 Willis Street / Stewart Dawson Cnr	Office/Retail	Wellington	26.3
180-202 Hutt Road	Retail	Wellington	9.3
TOTAL \$m (excl. land)			86.3
56 Jamaica Drive	Land	Wellington	1.1
15 Unity Drive	Land	Auckland	4.3
246 Puhinui Road	Land	Auckland	3.2
TOTAL \$m			94.9



¹ At 31 March 2018

Value Add – Stewart Dawson Corner **Argosy**



Value Add – Stewart Dawson Corner



Industrial

NUMBER OF BUILDINGS

36

MARKET VALUE OF ASSETS (\$M)

\$637.6

OCCUPANCY (BY INCOME)

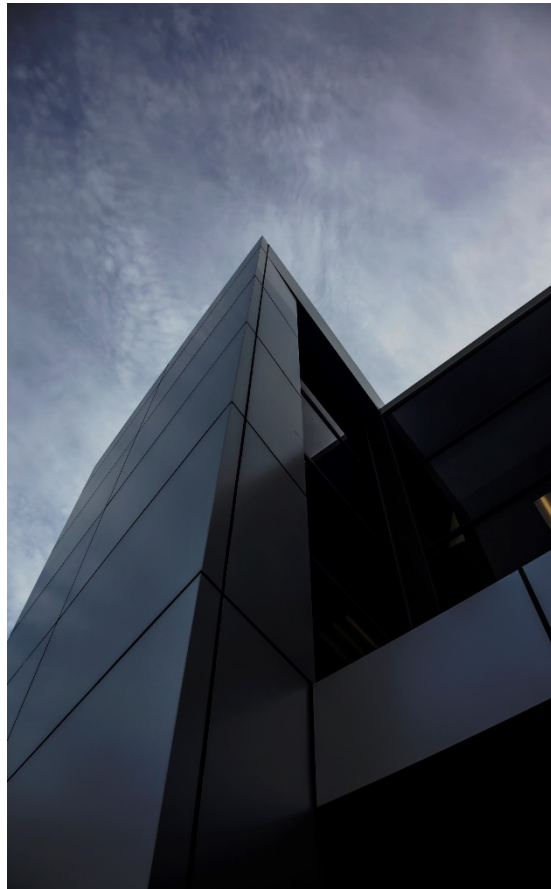
99.9%

WALT (YEARS)

7.4

PASSING YIELD

6.7%



Office



NUMBER OF BUILDINGS

17

MARKET VALUE OF ASSETS (\$M)

\$577.3

OCCUPANCY (BY INCOME)

97.3%

WALT (YEARS)

5.0

PASSING YIELD

7.0%



Retail

NUMBER OF BUILDINGS

8

MARKET VALUE OF ASSETS (\$M)

\$298.3

OCCUPANCY (BY INCOME)

100%

WALT (YEARS)

5.7

PASSING YIELD

7.1%



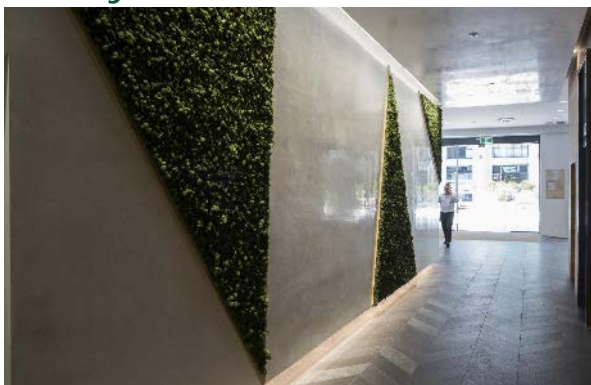
Completed Developments

Development	Major Tenant	Type	Location	Total Cost \$m
Highgate Business Park	Mighty Ape	IND	AKL	24.7
82 Wyndham	Panuku	OFF	AKL	9.1
Foundry Drive	Polarcold Stores Ltd	IND	CHC	7.5
Snickel Lane	Various	OFF	AKL	7.5
TOTAL				48.8

- ▶ Argosy completed two green developments totalling \$33.8m during the period being Highgate Business Park (targeting 4 Green Star Industrial Built Rating) and 82 Wyndham Street (targeting 5 Green Star Office Built Rating).
- ▶ 82 Wyndham will be targeting a 4 Star NabersNZ energy efficient rating now the building is fully occupied.

Green Case Study

82 Wyndham Street, Auckland



BEFORE:

\$29.0m (31 March 2017)

nil

nil

AFTER:

\$42.3m (31 March 2018)

Targeting 5 Star Office Built Rating

Targeting 5 Star Office Base Build Rating

\$9.1m

- Valuation
- Building rating:
- NABERSNZ rating:
- Total project capex¹

NEW FEATURES:

- Replaced air conditioning system to 100% above building code with CO₂ sensors
- LED lighting with intelligent controls (daylight & occupancy)
- Material increase in the building's end of trip facilities
- Energy monitoring capability to facilitate NABERSNZ measurement and emission reporting

1. Including green aspects

Green Case Study



Highgate Business Park, Auckland



BEFORE:

- Valuation
- Building rating:
- NABERSNZ rating:
- Total project capex¹

Nil
nil
nil

AFTER:

\$28.2m (31 March 2018)
Targeting 4 Star Office Built Rating
nil
\$16.6m

NEW FEATURES:

- Air conditioning system to 50% above building code with CO₂ sensors
- LED with intelligent controls for daylight and occupancy sensors throughout
- Energy metering meets Green Star requirements and separates lighting, air-condition and three point power
- Rain water harvesting, for use in the gardens and toilets with water meters

1. Excluding land valued at \$8.1m, making a total value of \$24.7m

► **Damage Assessment**

- Interim damage assessment reports now with insurers.

► **Insurance Claim**

- Three interim claims made under Argosy's material damage and business interruption insurance.
- Total recognised to 31 March was \$9.8m (after deductible) and allocated as follows;
 - Loss of rents: \$5.7m, Material damage expense: \$2.3m and Expense recoveries: \$1.8m.

► **Reinstatement**

- Proceeding swiftly with affected floors ready for occupation during FY19.
- Reinstatement work on Levels 1-4 & 7 and Levels 10-12.
- Programme cost estimated at \$41 million to complete.

► **Leasing**

- Levels 10-12 are expected to be ready for occupation by March-19.
- Very strong market enquiry.

Leasing Update



Leasing Success



- ▶ Excellent leasing results over the back half of the year driving the higher WALT of 6.1 years
- ▶ During the period Argosy completed 51 leasing transactions totalling ~150,000m² of NLA.
- ▶ Notable leasing successes include:

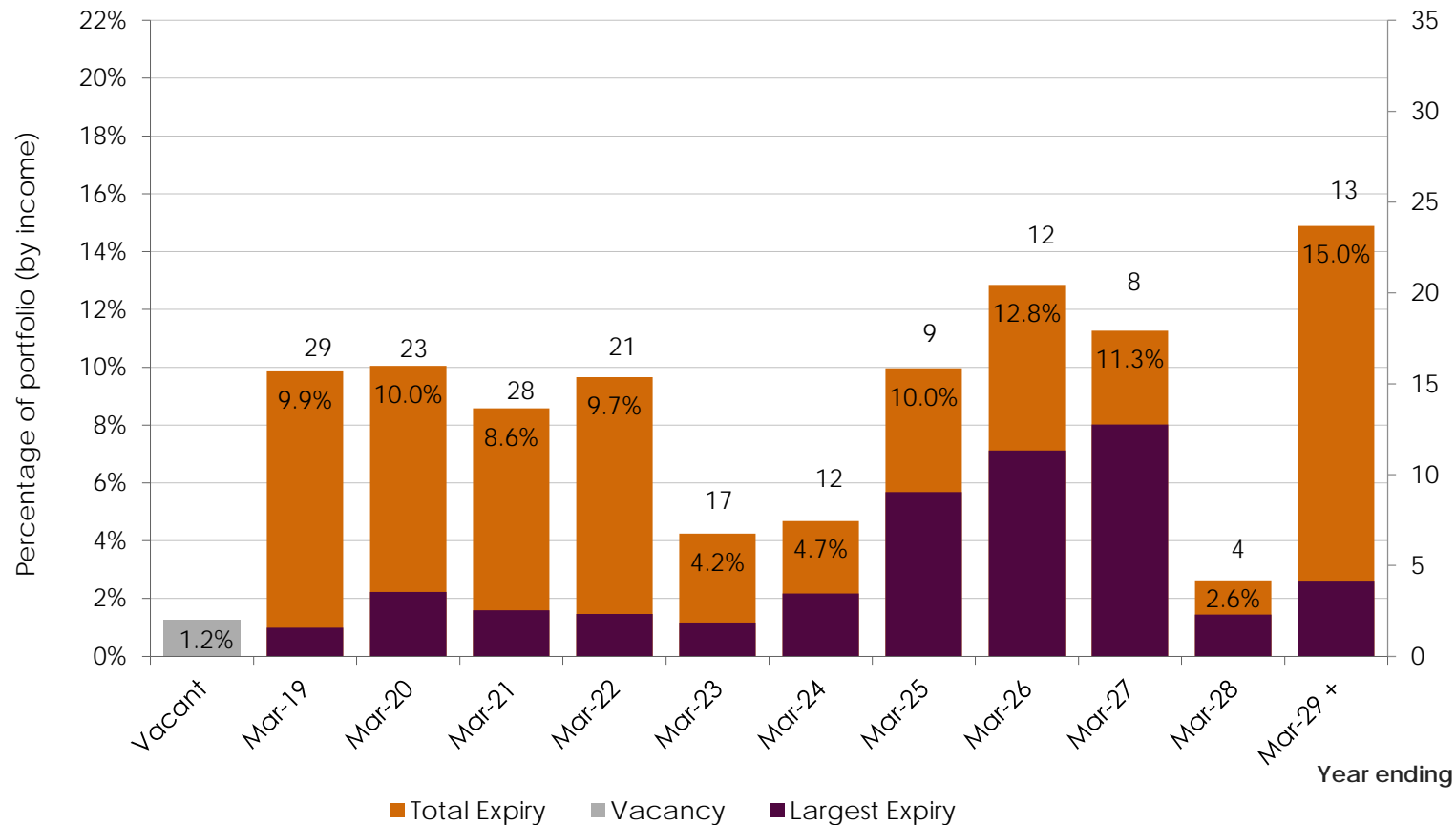
Property	Tenant	NLA (sqm)	Lease Term
9 Ride Way, Albany	Amtcor Flexibles (New Zealand) Limited	9,178	15 years
8 Forge Way, Panmure	Eclipx Fleet Holdings	4,230	12 years
143 Lambton Quay	Te Puni Kokiri	6,215	6 years
105 Carlton Gore Rd, Newmarket	Tonkin & Taylor	4,377	3 years
147 Lambton Quay	MBIE	5,560	1.5 years

- ▶ Some larger FY19 lease expiries include:

Property	Tenant	NLA (sqm)	Status
147 Gracefield Rd, Seaview	The Information Management Group	8,018	In discussion with tenant
80 Springs Road, East Tamaki	Coda GP Limited	9,675	Extension to 31-Aug-18
12-16 Bell Avenue, Mt Wellington	Mainfreight Limited	5,046	In discussion with tenant for extension

Lease Maturity

- ▶ Lease maturity profile relatively stable over the medium term, no material single tenant exposure



The number above each bar denotes the total tenant expiries per year (excluding monthly car parks and tenants with multiple leases within one property)

- ▶ Modest economic growth still forecast which will drive steady net absorption.
- ▶ The mixture of a stable economy and continued technology change is driving demand for industrial assets.
- ▶ Growth in Auckland office supply is yet to cause concern, projections for increased vacancy around 2020 are unchanged.
- ▶ Wellington office vacancy continues to reduce with rental growth resulting.
- ▶ Tougher funding environment will continue to impact developers. This will create potential opportunities for Argosy.
- ▶ Increasing construction costs and slowing of cap rate compression positives for rental growth if net absorption continues.
- ▶ Land values easing.
- ▶ Focus on green assets, seismic performance and hazard management.

Outlook

Argosy



- ▶ Fundamental real estate drivers remain sound.
- ▶ Whilst global volatility is still present, the New Zealand economic outlook is still positive with economic growth forecast and resilient local equity markets.
- ▶ Argosy's diversified portfolio provides balance across sectors allowing it to make the most of market conditions.
- ▶ Argosy will continue to focus on resolving near term expiries, maintaining high tenant retention rates and ensuring core portfolio metrics remain strong.
- ▶ Given the market appears to be firmly valued, divesting non Core assets to reinvest elsewhere or to the balance sheet is more attractive versus acquiring.
- ▶ We will continue to focus on our existing portfolio of value add properties in the context of sustainability given the environmental and business benefits they can bring.
- ▶ We remain focused on creating value and delivering sustainable and attractive risk adjusted returns to shareholders.
- ▶ Rental growth to continue.
- ▶ Green assets will continue to see increase in demand.

Appendices



Adjusted Funds from Operations (AFFO)



	FY18 \$m	FY17 \$m
Profit before income tax	109.3	120.4
Revaluation gains	(47.3)	(42.3)
Derivative fair value (gain)/loss	4.1	(11.0)
Realised losses/(gains) on disposal	(0.3)	(2.7)
Earthquake expense net of recoveries	(0.2)	1.2
Gross distributable income	65.6	65.6
Depreciation recovered	0.6	1.0
Current tax expense	(11.6)	(13.1)
Net distributable income	54.6	53.5
Amortisation of tenant incentives and leasing costs	3.1	3.8
Funds from operations (FFO)	57.7	57.3
Capitalisation of tenant incentives and leasing costs	(2.8)	(7.4)
Maintenance capital expenditure	(5.3)	(4.2)
Tax effected maintenance capital expenditure recovered	0.2	0.0
Adjusted funds from operations (AFFO)	49.7	45.8
Weighted average number of shares on issue (m)	825.1	816.7
AFFO per share (cents)	6.03	5.60
Dividends paid in period	6.20	6.10
Dividend payout ratio (to AFFO)	103%	109%

AFFO is an alternative performance measure used to assist investors in assessing the Company's underlying performance and to determine income available for distribution. This reconciliation is based on guidelines for disclosing AFFO as provided by the Property Council of Australia.

Note: Due to rounding, numbers presented in this presentation may not add up exactly to the totals provided and percentages may not exactly reflect absolute figures.

Rent Reviews



Type	#	Previous Rent (000's)	New rent (000's)	\$ Increase (000's)	% Increase	Annualised \$ Increase (000's)	Annualised % Increase	% of rent reviewed
Total	88	48,543	51,510	2,967	6.1%	1,440	3.0%	100.0%

<i>By review type</i>								
Fixed	41	13,128	13,555	427	3.3%	427	3.2%	27.0%
Market	23	24,464	26,728	2,264	9.3%	791	3.2%	50.4%
CPI	24	10,951	11,227	276	2.5%	222	2.0%	22.6%

<i>By sector</i>								
Industrial	21	20,782	21,649	867	4.2%	471	2.3%	42.8%
Office	39	18,498	20,002	1,504	8.1%	659	3.6%	38.1%
Retail	28	9,263	9,859	596	6.4%	310	3.4%	19.1%

<i>By location</i>								
Auckland	75	33,682	35,333	1,651	4.9%	927	2.8%	69.4%
Wellington	8	9,271	10,422	1,151	12.4%	409	4.4%	19.1%
Other	5	5,590	5,755	165	2.9%	104	1.9%	11.5%

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Rent Reviews



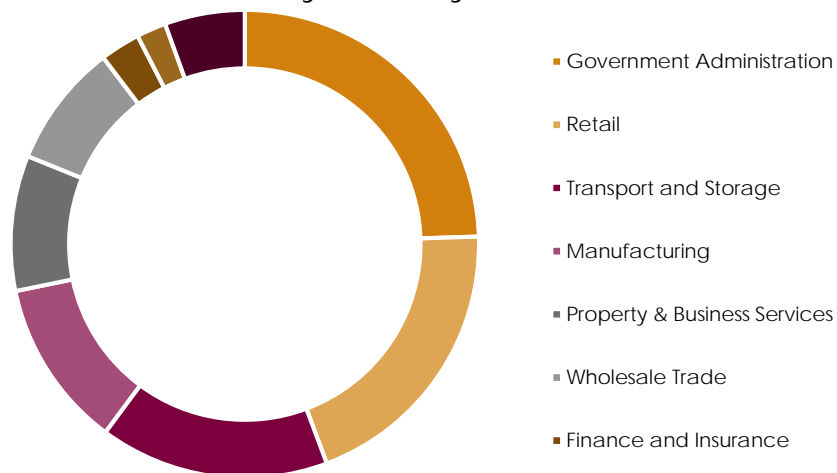
	#	Previous Rent (000's)	New rent (000's)	\$ Increase (000's)	% Increase	Annualised \$ Increase (000's)	Annualised % Increase	% of rent reviewed
Auckland								
Office	33	9,876	10,248	372	3.8%	269	2.7%	29.3%
Industrial	15	15,264	15,962	698	4.6%	362	2.4%	45.3%
Retail	27	8,542	9,123	581	6.8%	296	3.5%	25.4%
	75	33,682	35,333	1,651	4.9%	927	2.7%	93.3%
Wellington								
Office	6	8,622	9,754	1,132	13.1%	390	4.5%	93.0%
Industrial	2	649	668	19	2.9%	19	2.9%	7.0%
Retail	0	0	0	0	0.0%	0	0.0%	0.0%
	8	9,271	10,422	1,151	3.1%	409	3.1%	6.7%

Note: Due to rounding, numbers presented in this presentation may not add up exactly to the totals provided and percentages may not exactly reflect the absolute figures.

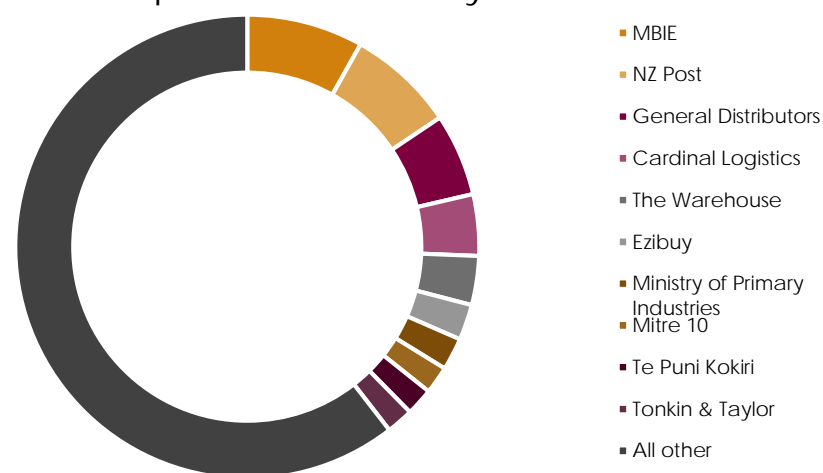
Portfolio Metrics

- The strength of our diversified portfolio is in the breadth and depth of our tenant base and sectors they represent.

Rent Roll by Industry



Top 10 Customers by Rent



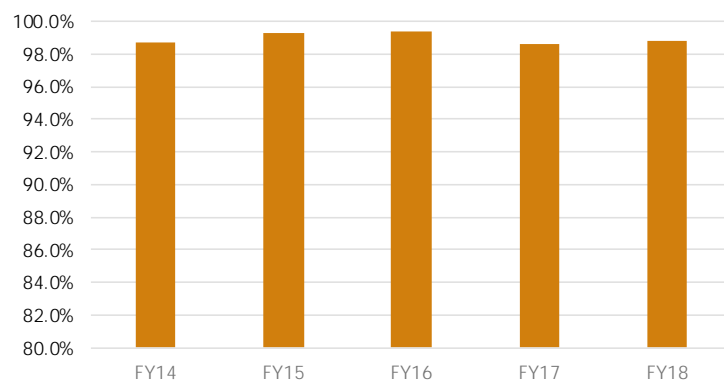
Note: Data as at 31 March 2018

Portfolio Snapshot

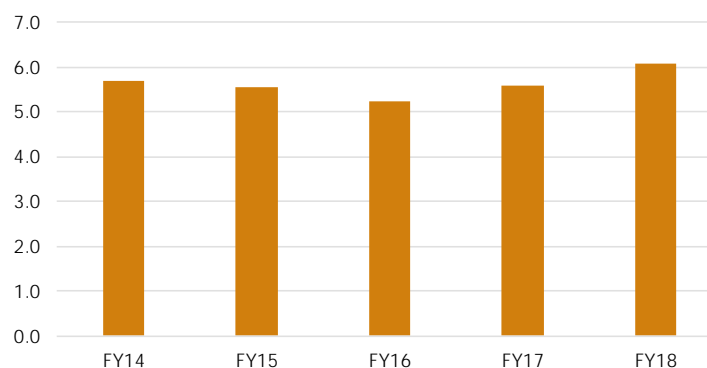


► Our focus is delivering improved portfolio quality and is reflected in our strong portfolio metrics

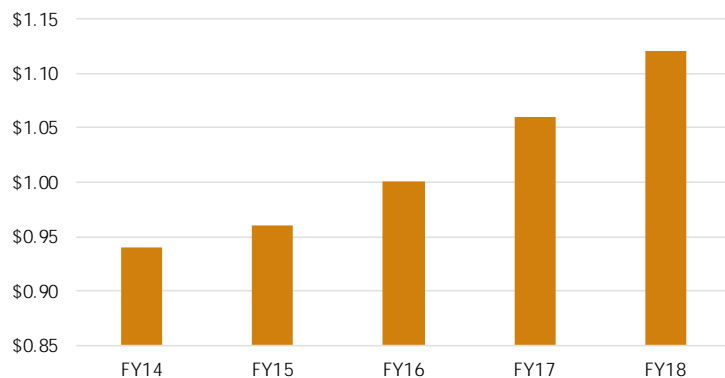
Occupancy



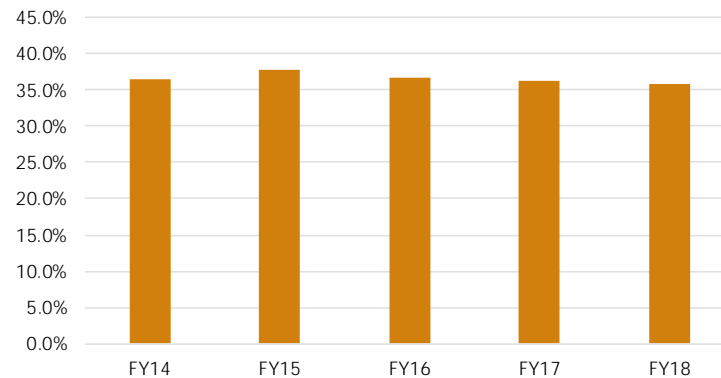
WALT (years)



Net Tangible Assets



Debt-to-total-assets



Disclaimer



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All values are expressed in New Zealand currency unless otherwise stated.

23 May 2018