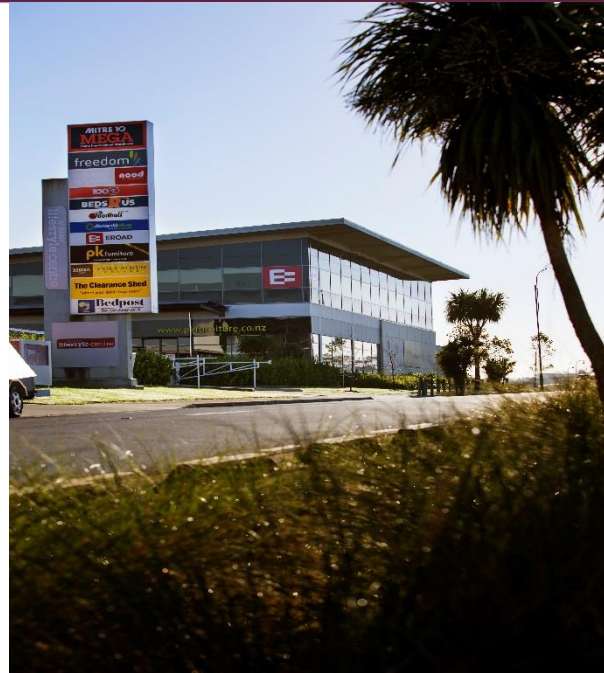




# Half Year Results Presentation

Argosy Property Limited | 19 November 2014



**CONTINUED**

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**MOMENTUM**

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# Argosy

## Highlights

# Highlights of 1H15

Argosy

- ▶ Portfolio revaluation gain of \$24.9 million (increase of 2.0%)
- ▶ Net property income increased to \$43.8 million (increase of 8.7%)
- ▶ Gross distributable income increased to \$29.1 million (increase of 22.7%)
- ▶ Net distributable earnings 2.95 cents per share
- ▶ Weighted average lease term strong at 5.77 years
- ▶ Occupancy (by rental) increased to 99.1%
- ▶ Official opening of 15-21 Stout Street, Wellington
- ▶ Divestment of non-Core properties
- ▶ Extension of Company debt facilities

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NET PROPERTY INCOME ▲

**\$43.8<sub>m</sub>**

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GROSS DISTRIBUTABLE INCOME ▲

**\$29.1<sub>m</sub>**

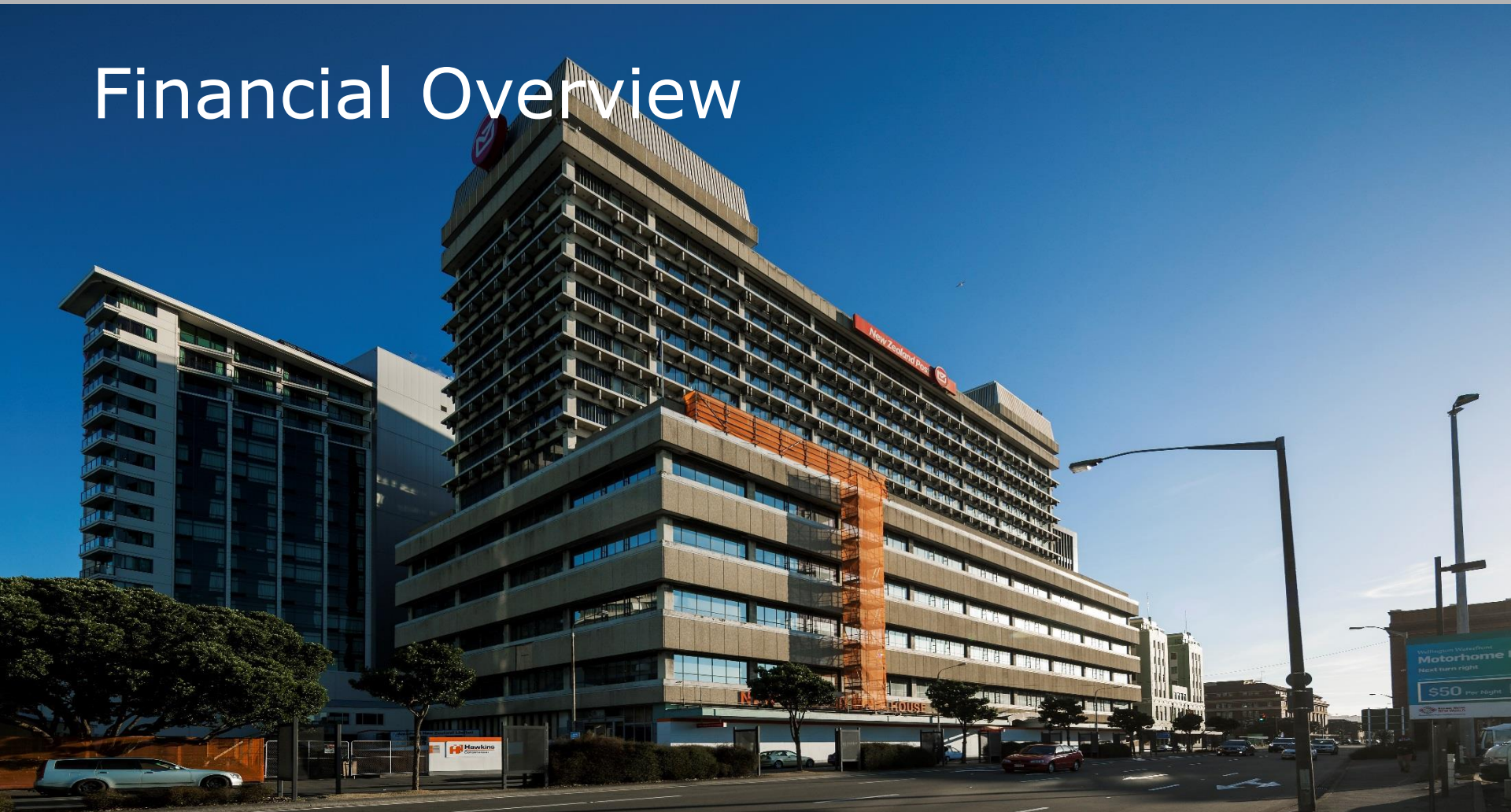
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OCCUPANCY (BY RENTAL) ▲

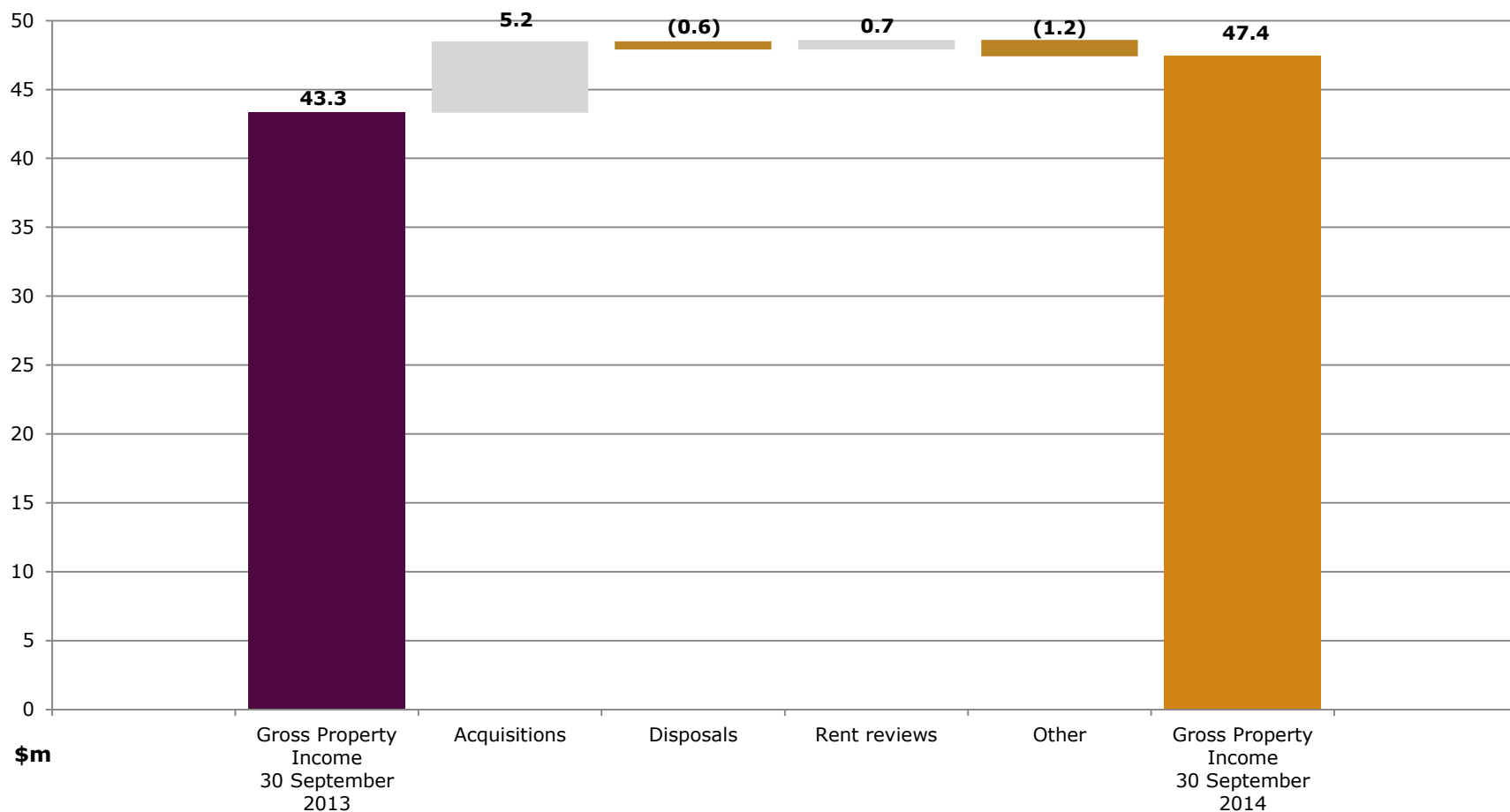
**99.1%**



## Financial Overview



# Income Reconciliation



# Financial Performance

Argosy

	<b>HY15</b>	<b>HY14</b>
Net property income	\$43.8m	\$40.3m
Administration expenses	\$(3.8m)	\$(3.8m)
<b>Profit before financial income/(expenses) and other gains/(losses)</b>	<b>\$40.0m</b>	<b>\$36.5m</b>
Interest expense	\$(12.6m)	\$(12.9m)
Gain/(loss) on derivatives	\$(9.1m)	\$16.0m
Finance income	\$0.1m	\$0.1m
Revaluation gains	\$24.9m	\$(0.0m)
Realised losses on disposal	\$(0.5m)	\$(0.1m)
<b>Profit before tax</b>	<b>\$42.8m</b>	<b>\$39.7m</b>
Taxation expense	\$(5.2m)	\$(9.6m)
<b>Profit after tax</b>	<b>\$37.6m</b>	<b>\$30.1m</b>
Basic and diluted earnings per share (cents)	4.74	4.25

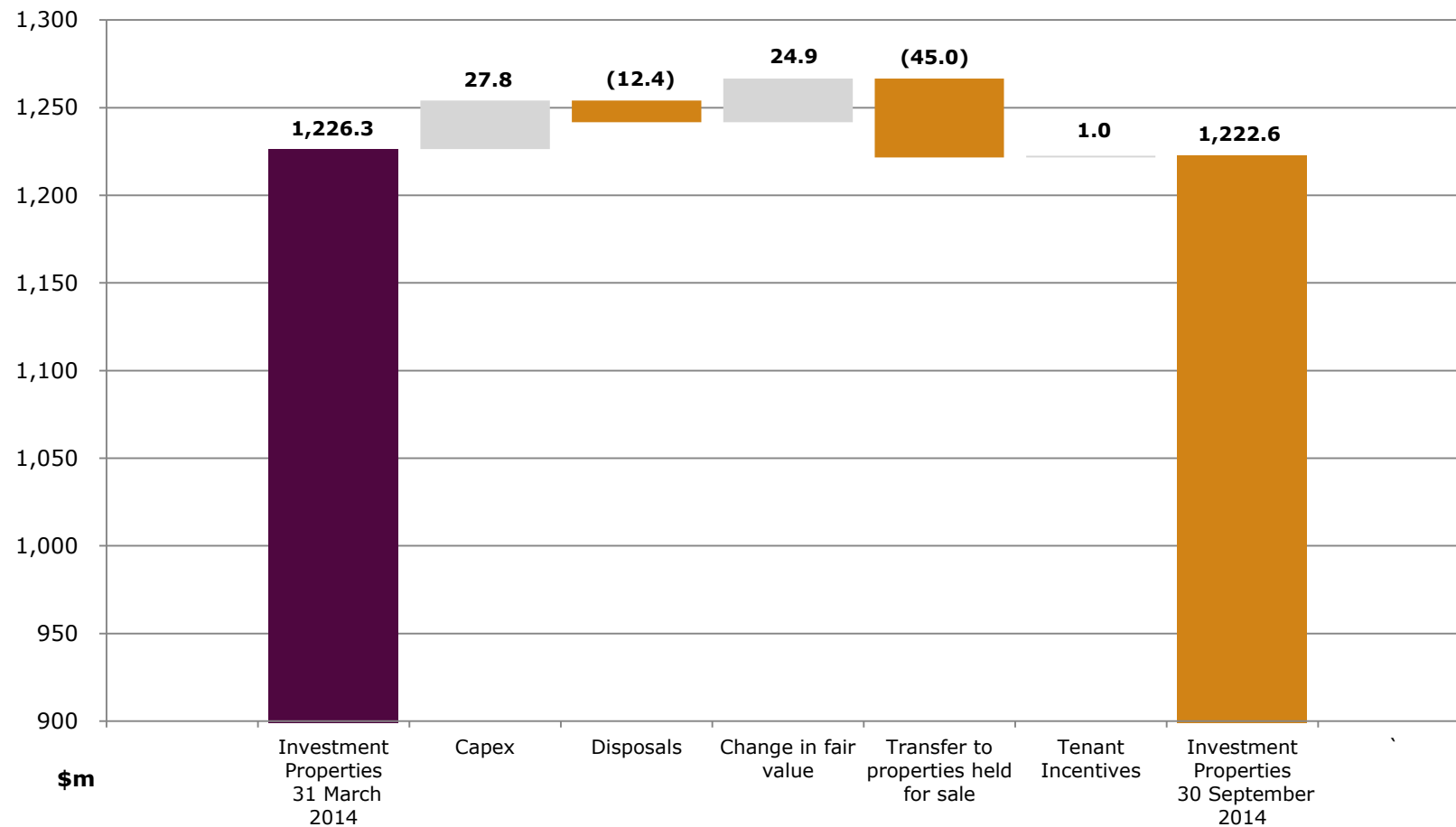
# Distributable Income

Argosy

	<b>HY15</b>	<b>HY14</b>
Profit before income tax	\$42.8m	\$39.7m
Adjusted for:		
Investment disposal losses	\$0.5m	\$0.1
Derivative fair value adjustment	\$9.1m	\$(16.1m)
Revaluation gains	\$(24.9m)	-
Depreciation recovered	\$1.6m	-
Gross distributable income	\$29.1m	\$23.7m
Tax paid	\$(5.7m)	-
Net distributable income	\$23.4m	\$23.7m
Weighted average number of ordinary shares	793.1m	708.6m
Gross distributable income per share (cents)	3.68	3.35
Net distributable income per share (cents)	2.95	3.35



# Investment Properties



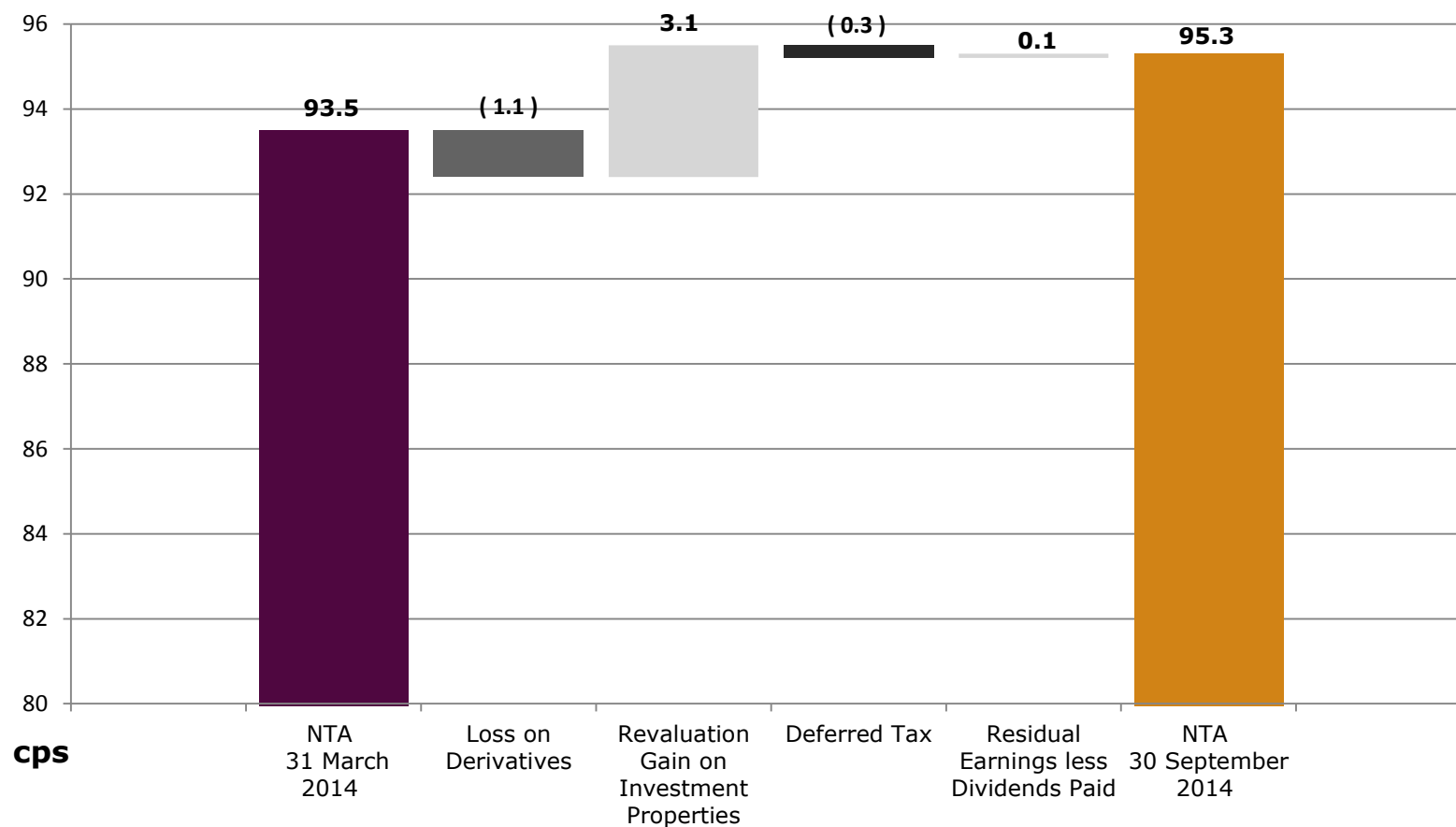
# Financial Position



	<b>HY15</b>	<b>FY14</b>	<b>HY14</b>
Shares on issue	798.1m	790.9m	783.9m
Shareholders' funds	\$760.7m	\$739.5m	\$700.2m
Net tangible asset backing per share (cents)	95.3	93.5	89.3c

	<b>HY15</b>	<b>FY14</b>	<b>HY14</b>
Investment properties	\$1,222.6m	\$1,226.3m	\$1,130.9m
Other assets	\$51.7m	\$6.1m	\$13.0m
Total assets	\$1,274.3m	\$1,232.4m	\$1,143.9m
Bank debt (excl. capitalised borrowing costs)	\$474.6m	\$449.5m	\$391.3m
Debt to total assets ratio	37.2%	36.5%	34.2%

# Movement in NTA per share



Argosy

# Portfolio Overview





# Office

Argosy

NUMBER OF BUILDINGS

17

BOOK VALUE OF ASSETS (\$M)

\$469.14

VACANCY FACTOR (BY RENT)

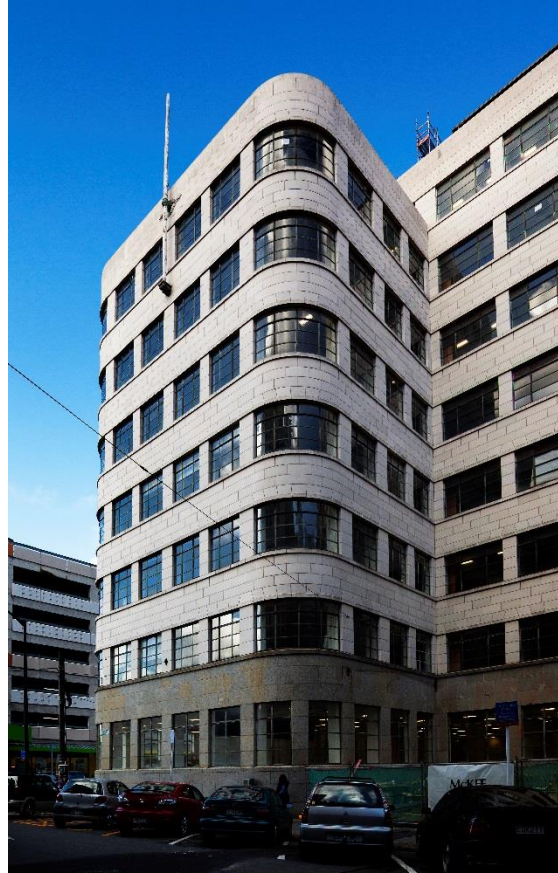
1.3%

WALT (YEARS)

5.75

PASSING YIELD

8.09%



# Industrial

Argosy

NUMBER OF BUILDINGS

35

BOOK VALUE OF ASSETS (\$M)

\$450.51

VACANCY FACTOR (BY RENT)

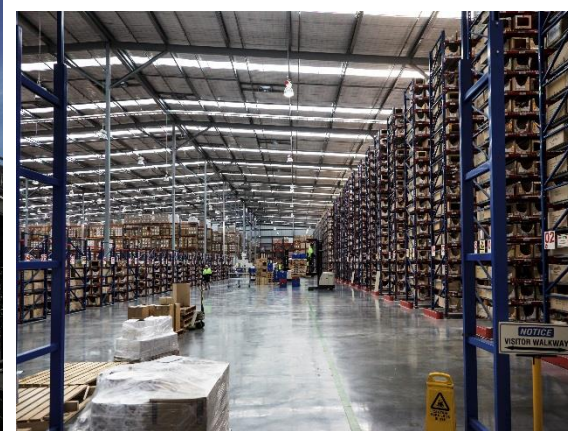
0.6%

WALT (YEARS)

6.07

PASSING YIELD

7.52%





# Retail

Argosy

NUMBER OF BUILDINGS

11

BOOK VALUE OF ASSETS (\$M)

\$302.92

VACANCY FACTOR (BY RENT)

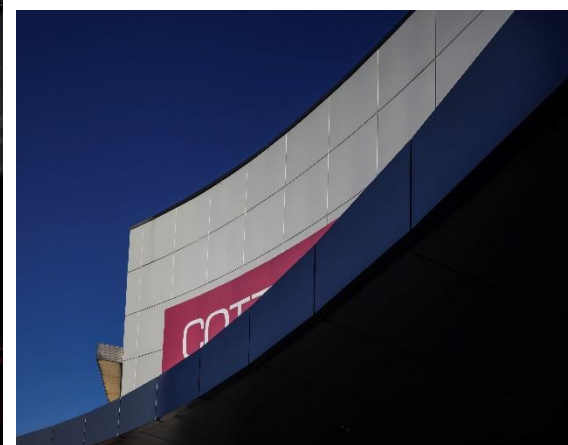
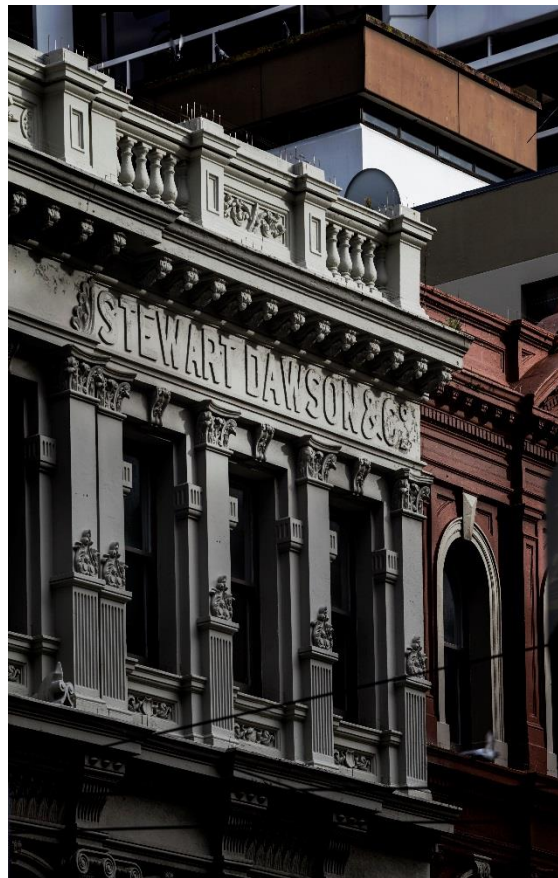
0.8%

WALT (YEARS)

5.37

PASSING YIELD

7.70%

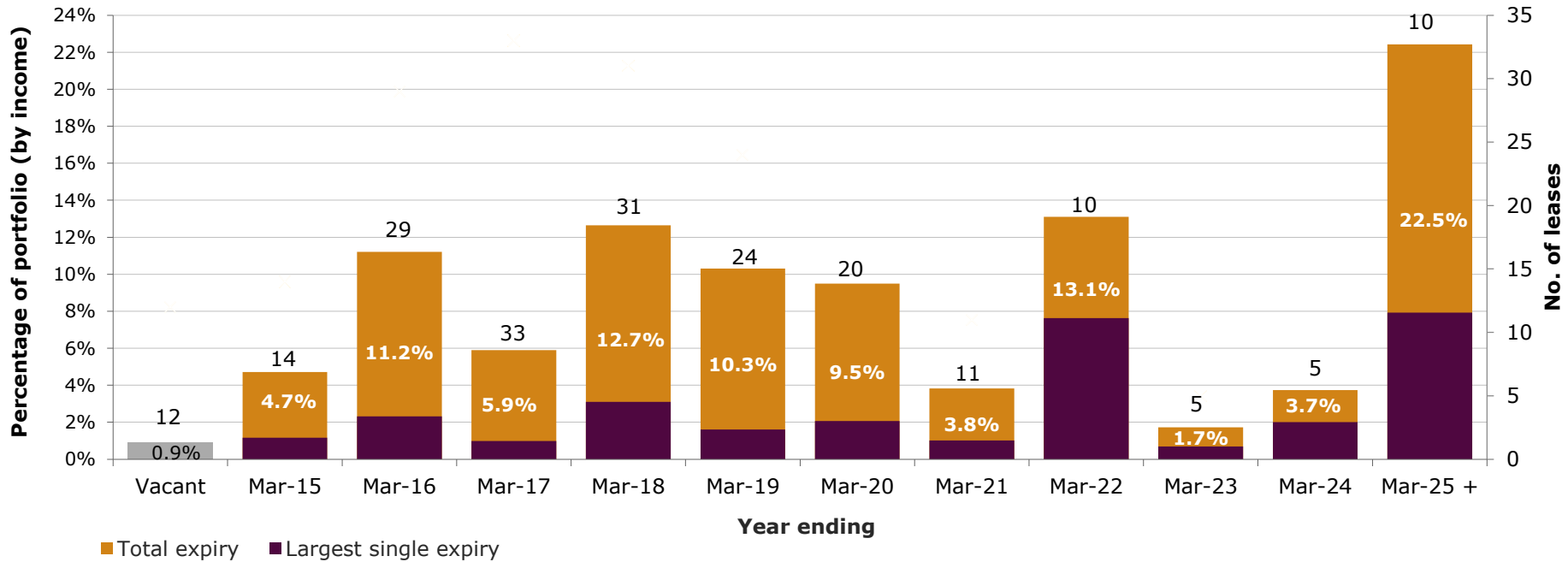


- ▶ The New Zealand economy remains reasonably solid, despite a troubling European environment, lower dairy commodity prices and confidence levels coming off the highs at the start of the year.
- ▶ Lower than expected inflation may result in the Reserve Bank holding interest rates at current levels well into 2015.
- ▶ Face rental growth in the Auckland property markets has been slow to materialise.
- ▶ However, there is net effective rental growth as incentives reduce.
- ▶ There is still a large amount of overseas capital seeking exposure to local assets, firming up yields in the process.
- ▶ Good quality stock that meets modern requirements is highly sought after in Wellington, driving up rents and firming yields for premium CBD properties.
- ▶ Net absorption has been moderate.



- ▶ Occupancy, tenant retention and lease expiries remain key focus areas for the asset management team.
- ▶ Occupancy (by rental) has improved to 99.1% from 98.7% at March 2014.
- ▶ Outstanding lease expiries for the period to 31 March 2015 have reduced to 4.7% from 9.4% at 31 March 2014. *As at 31 October 2014 this has improved further to 3.6%.*
- ▶ During the period, 21 lease transactions were completed, including 8 new leases and 13 lease renewals and extensions.
- ▶ The weighted average lease term 5.77 years, which remains stable from 5.68 years at 31 March 2014.

# Lease Maturity

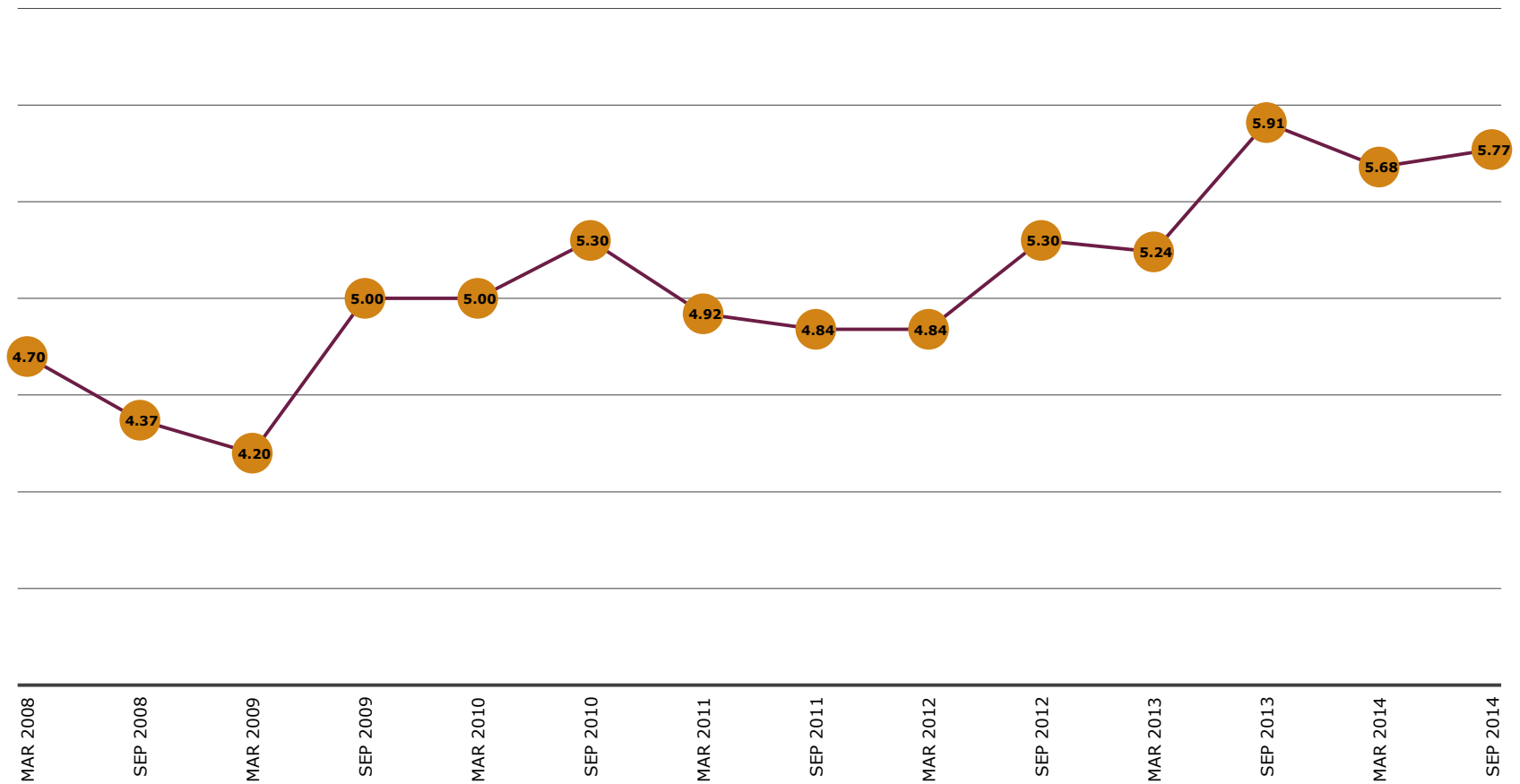


**The number above each bar denotes the total tenant expiries per year (excluding monthly carparks and tenants with multiple leases within one property)**

# Weighted Average Lease Term

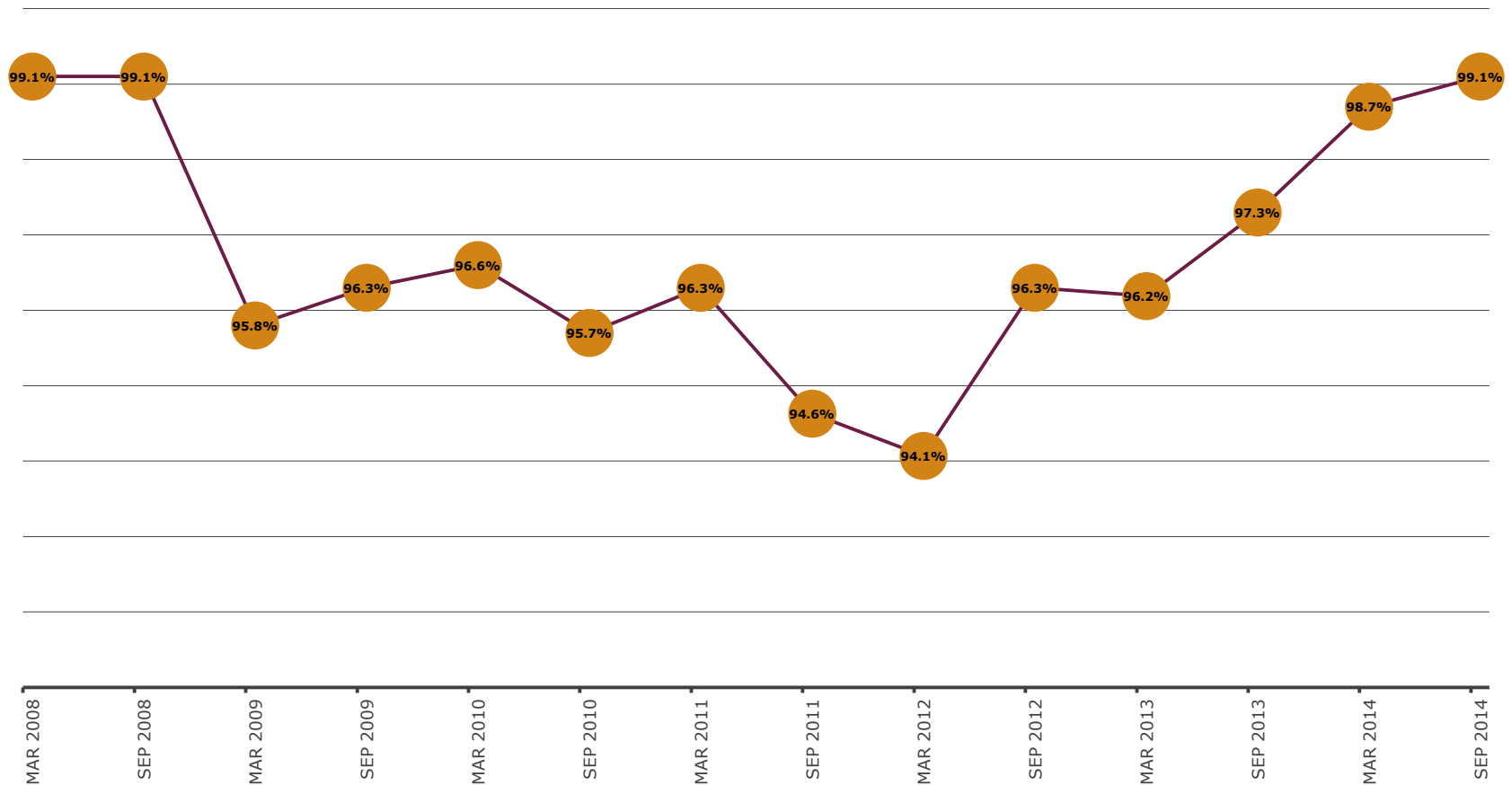


WALT remains in a strong position



# Occupancy (by rental)

Highest occupancy rate in six years





## 15-21 Stout Street

The redevelopment was successfully completed on time with MBIE occupying in July 2014

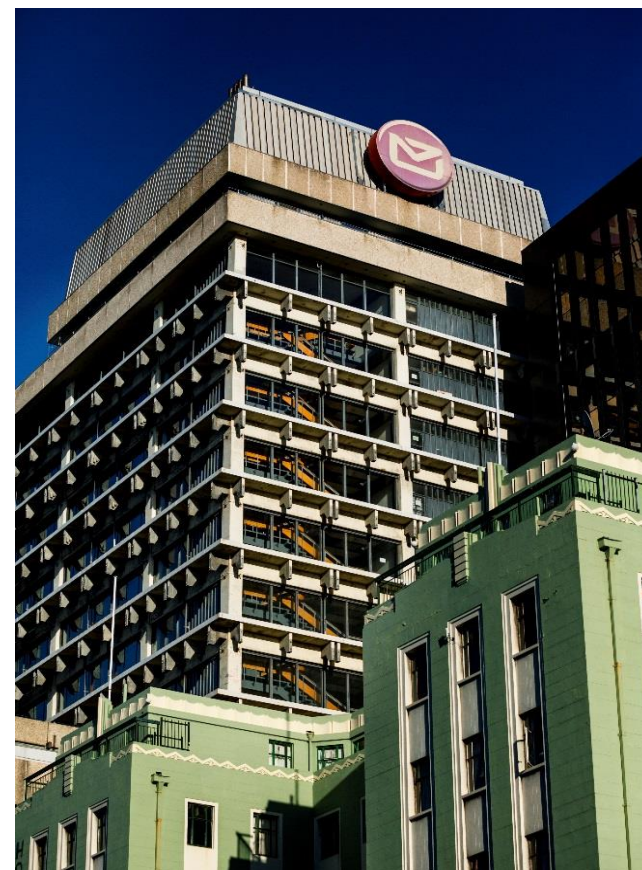
Net lettable area	19,629 sqm
Lease commencement	July 2014
Lease term	12 years
End cost	\$80.4 million
Valuation	\$86.0 million
Passing yield on value	7.04%



## NZ Post House

Work has commenced and is expected to be complete by late 2016.

Net lettable area	24,977 sqm
Lease commencement	March 2013
Lease term	5 years from practical completion date
Passing yield on end cost	8.50%
Purchase price	\$60.0 million
Upgrade cost	\$40.0 million
End cost	\$100.0 million



- ▶ Increase in property valuations of \$24.9 million, up 2.0% on book values immediately prior to the revaluation.
- ▶ This is the first time since September 2009 that an independent valuation has been performed at the half year. The desk top valuation was performed due to evidence of a firming in capitalisation rates over the first six months of this financial year.
- ▶ The portfolio is now valued at \$1.223 billion.
- ▶ Post revaluation Passing Yield of 7.79% and Fully Let Market Yield of 7.68%.

# Portfolio Interim Valuation



## By location

	31 Mar 14 Valuation	2014 Movement	Book value	30 Sep 14 Valuation	Δ \$	Δ %	Market Yield		Δ bps
							31 Mar 14	30 Sep 14	
Auckland	\$858.5m	(\$49.0m)	\$809.5m	\$825.7m	\$16.2m	2.0%	7.96%	7.67%	(29 bps)
Wellington	\$265.9m	\$22.2m	\$288.1m	\$296.1m	\$8.0m	2.7%	8.15%	7.99%	(16 bps)
Palmerston North	\$58.7m	(\$2.2m)	\$56.5m	\$56.5m	-	-	5.28%	5.00%	(28 bps)
Other regional	\$43.2m	\$0.4m	\$43.6m	\$44.3m	\$0.7m	1.6%	9.62%	9.15%	(47 bps)
<b>Total</b>	<b>\$1,226.3m</b>	<b>(\$28.6m)</b>	<b>\$1,197.7m</b>	<b>\$1,222.6 m</b>	<b>\$24.9m</b>	<b>2.0%</b>	<b>7.93%</b>	<b>7.68%</b>	<b>(25 bps)</b>

## By sector

	31 Mar 14 Valuation	2014 Movement	Book value	30 Sep 14 Valuation	Δ \$	Δ %	Market Yield		Δ bps
							31 Mar 14	30 Sep 14	
Office	\$437.3m	\$14.6m	\$451.9m	\$469.2m	\$17.2m	3.7%	8.30%	7.97%	(33 bps)
Industrial	\$441.8m	\$3.5m	\$445.3m	\$450.5m	\$5.2m	1.2%	7.73%	7.57%	(16 bps)
Retail	\$347.2m	(\$46.7m)	\$300.5m	\$302.9m	\$2.5m	0.8%	7.73%	7.38%	(35 bps)
<b>Total</b>	<b>\$1,226.3m</b>	<b>(\$28.6m)</b>	<b>\$1,197.7m</b>	<b>\$1,222.6 m</b>	<b>\$24.9m</b>	<b>2.0%</b>	<b>7.93%</b>	<b>7.68%</b>	<b>(25 bps)</b>



# Argosy

## Strategy

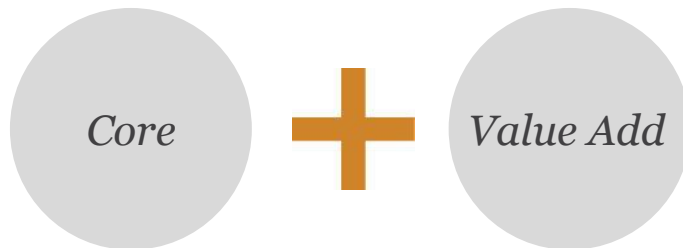




We have a clear investment strategy marked by a diversified portfolio of desirable properties that attract high-quality, long-term tenants.

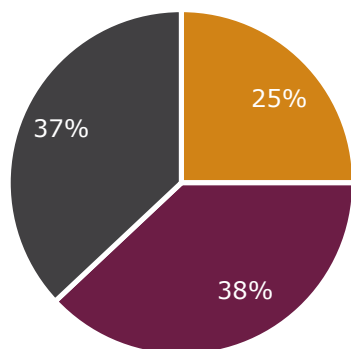
Argosy is and will remain invested in a portfolio that is diversified by primary sector, grade, location and tenant mix. The portfolio will be in the primary Auckland and Wellington markets with modest tenant-driven exposure to provincial markets.

Argosy's portfolio consists of "Core" and "Value Add" properties. Core properties are well constructed, well located assets which are intended to be long-term investments (>10years). Core properties will make up 75-85% of the portfolio by value.



# Portfolio Mix as at 30 September 2014

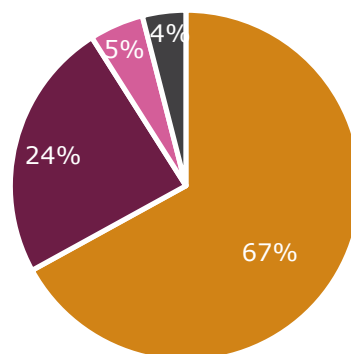
## TOTAL PORTFOLIO VALUE BY SECTOR



### Target

■ Retail	15 – 25%
■ Office	35 – 45%
■ Industrial	35 – 45%

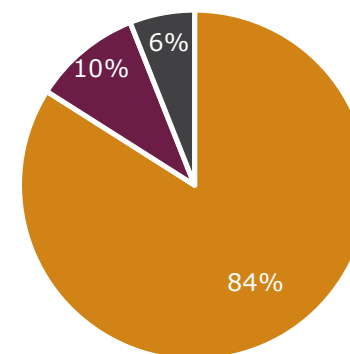
## TOTAL PORTFOLIO VALUE BY REGION



### Target

■ Auckland	65 – 75%
■ Wellington	20 – 30%
■ Palmerston North	
■ Other regional	

## PORTFOLIO MIX



### Target

■ Core	75 – 85%
■ Value Add properties	
■ Properties and land to divest	

- ▶ The Board's policy is for debt to total assets to be between 35 to 40% in the medium term.
- ▶ Divestment of vacant land and non-Core assets will continue to be a key strategy for the company. The sale of vacant land at Manawatu Business Park remains a focus.
- ▶ During the period, the divestment of two non-Core properties were settled.
- ▶ The Waitakere Mega Centre has also been sold and will settle in March 2015.

# Bank Covenants



<b>Loan to valuation ratio (LVR) – based on:</b>	<b>HY15</b>	<b>FY14</b>	<b>HY14</b>
Total borrowings	\$474.7m	\$449.5	\$391.3m
Fair market value of properties <sup>1</sup>	\$1,235.3m†	\$1,226.9m	\$1,119.5m†
Not to exceed 50%	38.4%	36.6%	35.0%

<b>Interest cover ratio – based on EBIT/Interest and Financing Costs:</b>	<b>HY15</b>	<b>FY14</b>	<b>HY14</b>
Must exceed 2:00x	2.57x	2.62x	2.57x

<sup>1</sup> Includes properties held for sale

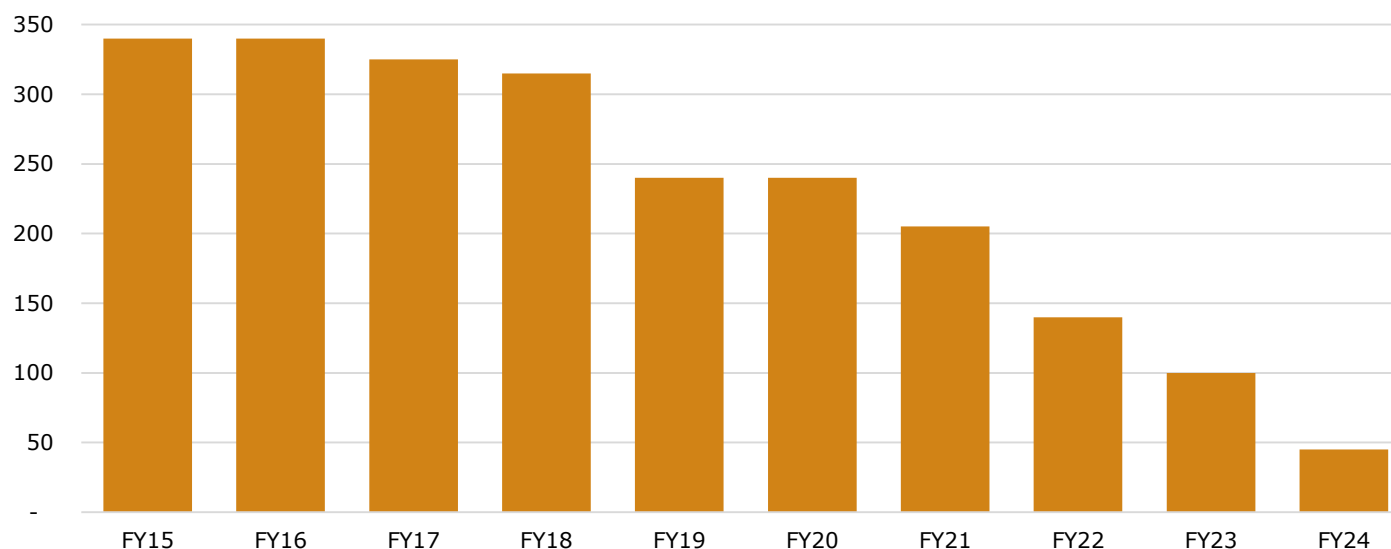
† Based on 31 March valuations, adjusted for properties acquired and divested, plus actual costs on property not ready for occupation (up to the original budget limit).



# Interest Rate Hedging Profile

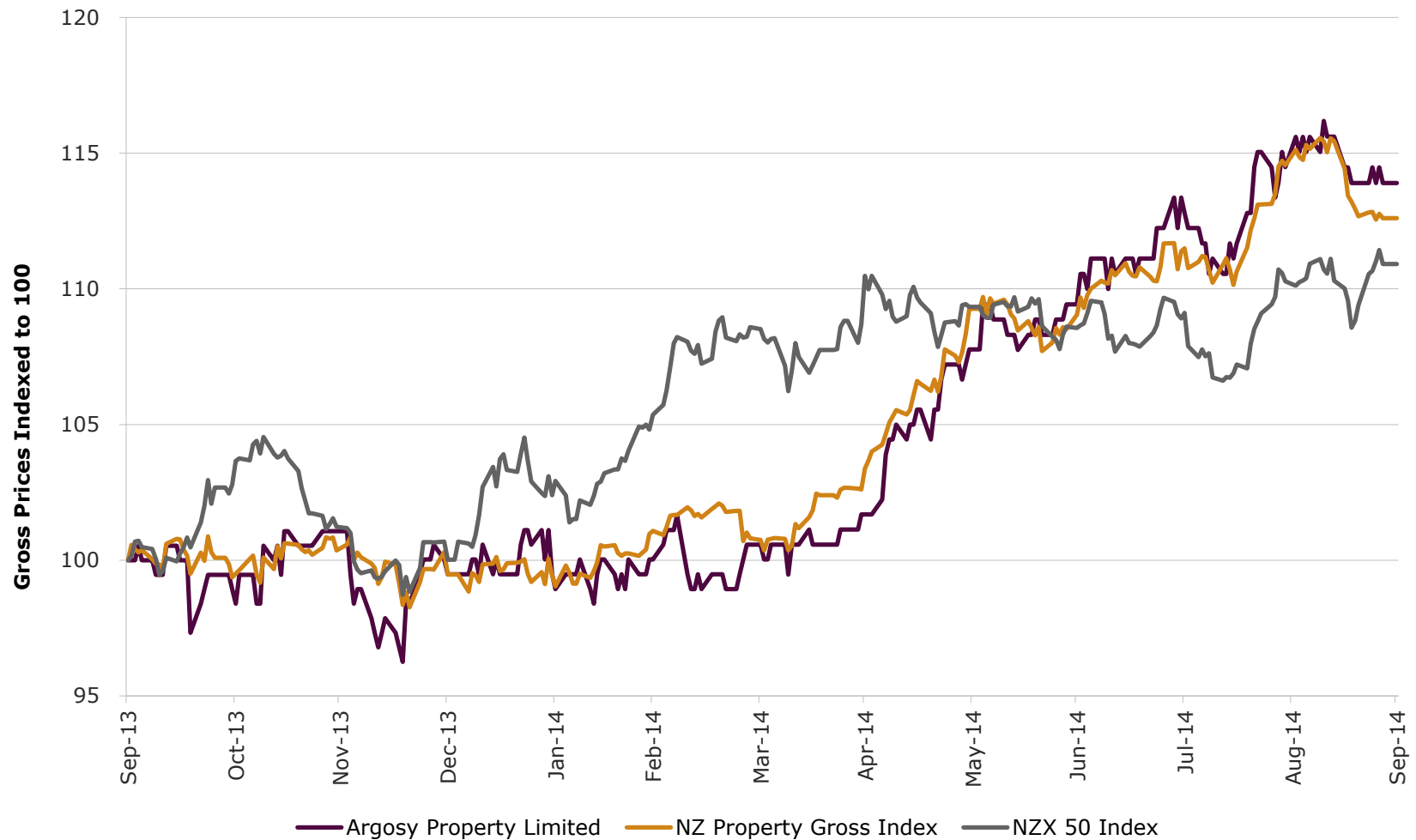


	30 September 14	31 March 14	30 September 13
Percentage of drawn debt hedged	67%	69%	72%
Weighted average duration (years) †	6.70	7.11	5.85
Weighted average interest rate (incl. margin & line fees)	5.72%	6.06%	6.58%

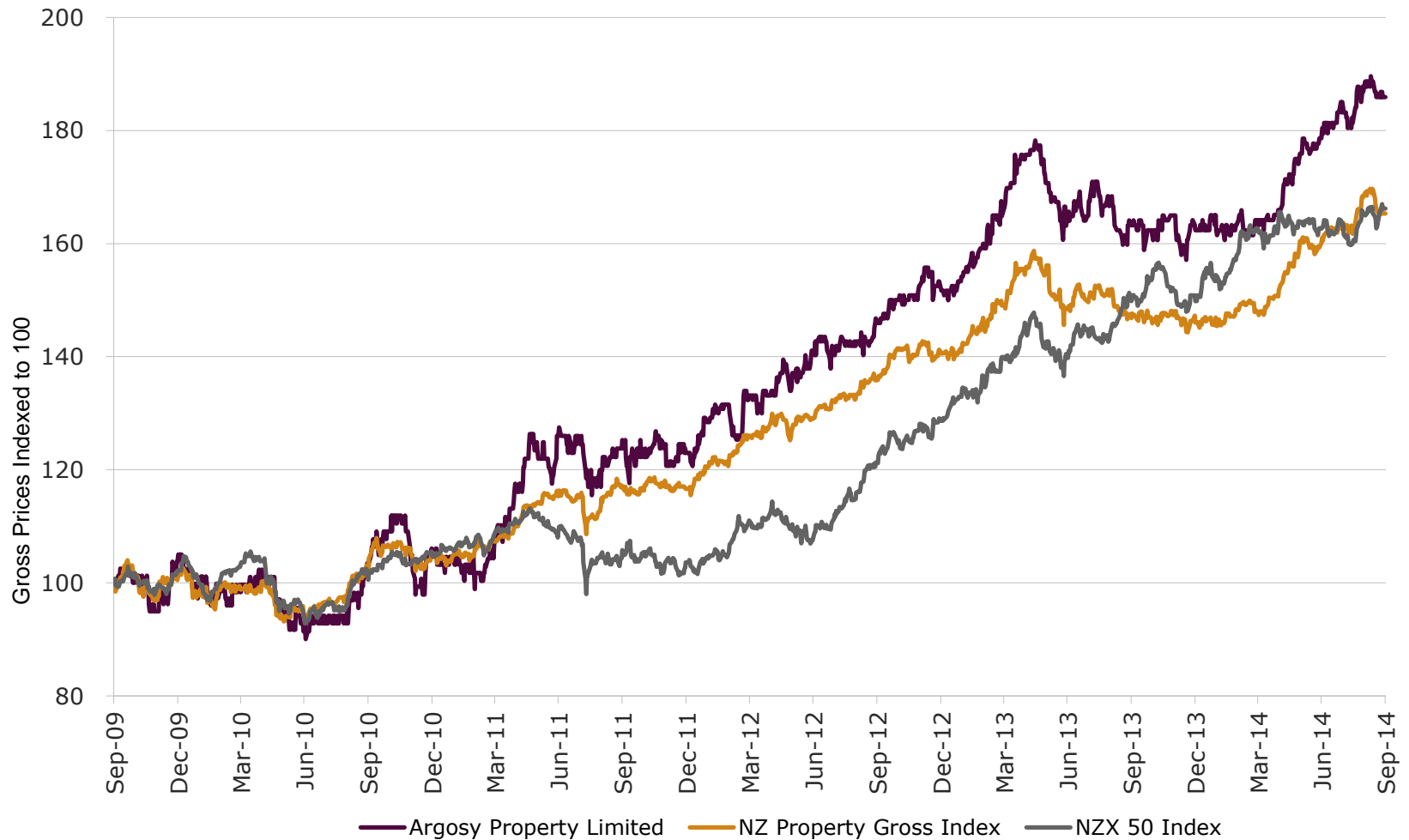


# Total Shareholder Return

# Total Shareholder Return – 1 Year



# Total Shareholder return – 5 Years



Argosy

# Concluding comments



# Concluding comments

- ▶ The first six months of the year have been a busy and exciting time for Argosy.
- ▶ Our focus remains on adhering to the strategy, maintaining the portfolio's high level of occupancy, reducing near term lease expiries and improving tenant retention rates.
- ▶ We will also continue to look for opportunities to develop the portfolio in line with our strategy.

# Argosy

# Thank you



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

November 2014