Argosy

23 May 2018

MARKET RELEASE

ARGOSY 2018 ANNUAL RESULT

FOR THE 12 MONTHS TO 31 MARCH 2018

Argosy will present the 2018 annual results via a teleconference and webcast at 10am today. Please visit https://edge.media-server.com/m6/go/argosy-annual-results-2018 or dial **0800 122 360** and quote the conference ID 321411. It is recommended that you dial in or log in a few minutes before the start time. A copy of the webcast will be available on Argosy's website later in the day.

Argosy Property Limited ("Argosy" or the "Company") has reported its results for the 12 months to 31 March 2018.

Argosy Chief Executive officer Peter Mence said "We have delivered another strong performance for our shareholders. Underpinned by strong leasing and rent review activity through the year we finished 2018 with occupancy at almost 99% and a weighted average lease term of over 6 years, our highest ever.

It's pleasing to announce further progress at NZ Post House, at 7 Waterloo Quay. The reinstatement works are progressing well, including levels 10-12, and we expect them to be completed this financial year. We expect strong demand for levels 10-12 when they become available, whilst the other floors remain leased to NZ Post."

Chairman Mike Smith said "After a strong start the Board is very pleased to have finished the 2018 financial year very well. We are pleased to have delivered a total shareholder return of 9.8% for the 12 months to 31 March 2018. This result outperformed the property sector index by 2.8%. The management team have worked hard over the year to resolve key lease expiries and vacancies. They have also repositioned the portfolio sensibly, with the combination of completed developments, revaluations and selected divestments resulting in a modest reduction in exposure to the retail sector. Over the next 12-18 months we will continue to divest non Core assets in an attractive vendors market. Generally, after this period, we expect that Argosy will be positioned towards the lower end of our retail band and at the higher end of our industrial band.

The Board has amended the debt-to-total assets ratio target band to 30-40% from the previous target of 35-40%. As we continue to divest non Core assets to take advantage of strong investor demand, the proceeds will be used to continue our tenant-led development program and/or reduce gearing.

As we begin the 2019 financial year there is greater political visibility over the near term and we continue to be optimistic around potential opportunities for Argosy. Our diversified investment approach brings strength and balance to our business. We remain focused on delivering sustainable dividends to our shareholders and to this end, can guide to a full year 2019 cash dividend of 6.25 cents per share, an increase of 1% on the prior year.

The increase reflects our wish for shareholders to share in the continued strong results but also allows us to maintain our momentum towards an Adjusted Funds From Operations (AFFO) based dividend policy in the medium term. On behalf of the Board I would like to thank shareholders for their continuing support."

Highlights:

- **Net distributable income of 6.62 cents per share, up 1.1%**
- **NTA per share growth of 5.5% to $1.12**
- **Strong portfolio activity with annualised rent review increase of 3.0%**
- **Excellent portfolio metrics with occupancy at ~99% and a 6.1year WALT**
- **Annual portfolio revaluation gain of $47.3 million or 3.2% on book value**
- **Completion of $48.8 million of developments including ~$33.8 million of green developments**
- **FY19 dividend guidance of 6.25 cents per share**
- **Financial year total shareholder return of 9.8%, outperforming the sector by 2.8%**

Financial Results

Statement of Comprehensive Income

Argosy reported net rental property income of $101 million for the period which includes the impact of rental loss recoveries from insurers and is in line with the prior period. The prior period was positively impacted by a lease surrender of $5.5 million recognised in respect of the property at 7 Waterloo Quay in Wellington.

Administration expenses were up $0.6m on the prior period primarily due to additional resourcing costs across the business.

Interest expense of $25.5 million was down $0.4 million on the prior period as the interest on higher average debt was offset by higher capitalised interest on developments. Total financing costs were $14.8 million higher than the prior period, primarily due to the non-cash impact of derivatives.

Annual Revaluations

An independent revaluation of the portfolio was undertaken as at 31 March 2018 which saw the portfolio record a full year revaluation gain of $47.3 million, a 3.2% gain on the year end book value. Overall, the industrial portfolio increased 6.5% ($39 million) above book value, office 1.0% ($5.6 million) and retail 0.9% ($2.7 million). If we adjust the annual revaluation result for NZ Post House, Argosy's annual revaluation uplift would have been $61.6m, or a 4.5% increase above book value.

On current market value, Argosy's portfolio[1] has a passing yield of 6.88% and a 6.98% yield on market rental. The portfolio is 1.3% under rented excluding market rentals on vacant space.

Distributable Income

For the year ending 31 March gross distributable income[2] was $65.6 million and stable compared to the prior period. Gross distributable income for the period was 7.95 cents per share, compared to 8.03 cents per share in the previous period due to the higher weighted average shares for the period.

Net distributable income increased 2.0% to $54.6 million compared to the prior period, due to slightly lower current tax expense. Net distributable income per share increased 1.1% to 6.62 cents per share from 6.55 cents per share in the prior period.

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[1] Excluding 7 Waterloo Quay and Stewart Dawson Corner

[2] Profit before tax and distributable income are alternative performance measures used to assist investors in assessing the Company's underlying operating performance and to determine income available for distribution to shareholders. Note 23 of the financial statements released today provides a full reconciliation between profit before tax and distributable income.

Portfolio Activity

Leasing and Rent Reviews

Underpinned by continued strength in Auckland and Wellington property market fundamentals, Argosy has delivered strong leasing and rent review results over the second half of the year. During the period, 51 lease transactions were completed on 150,000sqm of net lettable area, including 23 new leases, 20 renewals and 8 extensions.

Material leasing transaction successes over the second half of the financial year include;

- 15-year extension to Amcor Flexibles for 9,178sqm at 9 Ride Way, Albany, Auckland;
- 12-year lease to Eclipx Fleet Holdings for 4,230sqm at 8 Forge Way in Panmure, Auckland;
- 6-year renewal by Te Puni Kokiri for 6,215sqm at 143 Lambton Quay, Wellington;
- 3-year renewal by Tonkin & Taylor for 4,377sqm at 105 Carlton Gore Rd, Newmarket, Auckland;
- 18 months extension by the Ministry of Business, Innovation & Employment for 5,560sqm at 147 Lambton Quay, Wellington;

In addition, Foster Moore is taking an initial 12-year lease on Level 1 of 82 Wyndham St for 1,644sqm. There is some vacancy remaining at 23 Customs Street where 2,950sqm of space is vacant. However, following refurbishment, the completion of the Snickel Lane development and continued strength in the Auckland leasing market, Argosy is experiencing strong tenant interest for the building.

Following strong leasing results over the second half, Argosy's FY19 lease expiries as at 31 March 2018 was down to 9.9% from the 16.4% reported in the prior year.

Argosy's weighted average lease term at year end increased to 6.1 years compared to 5.6 years at the interim result. The improvement reflects some of the longer leasing results achieved with some of our larger tenants over the second half of the year.

Argosy has maintained a very high occupancy level over the year and increased this to 98.8% at year-end compared to 98.6% in the prior year.

During the period, a total of 88 rent reviews on $48.5 million of existing rental income were completed. Rental growth of 6.1% was achieved or 3.0% on an annualised basis on all rents reviewed. Across the rental increase, the office portfolio accounted for 50% of the total rental uplift due to a large market review, with industrial and retail contributing 29% and 21% respectively.

Approximately 50% of all rents reviewed (by income) were market reviews, 27% were fixed reviews and 23% were CPI or CPI+.

Acquisitions and Value Add Developments

Ongoing tightness across the property market continued in 2018. This, coupled with a surplus of capital and scarcity of quality real estate means few opportunities have emerged during the period to make acquisitions which would add value.

Despite this, we have continued to progress our development pipeline with four projects totalling $48.8 million now completed. Following the green development works included as part of the Highgate (Mighty Ape) and 82 Wyndham Street developments, we are currently targeting a 4 Green Star Industrial Built Rating and 5 Green Star Office Built Rating on these properties respectively. These will add to our existing 5 Green Star Office Built assets at 143 Lambton Quay and 15 Stout Street, both in Wellington.

NZ Post House at 7 Waterloo Quay

Earthquake Damage and Insurance Claim

Argosy's 13 storey property at 7 Waterloo Quay in Wellington sustained damage in the 7.5 magnitude Kaikoura earthquake on 14 November 2016. Independent engineers have confirmed that the building remains structurally sound, but it suffered damage to fit out and services. Argosy has material damage insurance and we are working with our insurers to progress a significant insurance claim. Argosy expects that, as with many earthquake insurance claims, there may be debate with insurers over the extent of damage, and the appropriate method of reinstatement. Argosy has commissioned a comprehensive damage survey of 7 Waterloo Quay, and detailed damage assessment reports are now with insurers. We envisage that the damage reports may be updated, based on our advisors' experience that additional earthquake damage may become apparent.

In the meantime, Argosy has proceeded swiftly with its own interim works programme (including levels 10-12), and it is expected that the affected floors will be ready for reoccupation this financial year. We expect strong demand for levels 10-12 as they become available. This programme is expected to cost $41 million to complete, and this amount has been included as a capital deduction in the valuation for 7 Waterloo Quay at 31 March 2018.

Argosy also has business interruption insurance, which is expected to cover loss of rents and certain additional expenses until mid-November 2018, being a period of two years from the date of the earthquake. Argosy has made three interim claims under its material damage and business interruption insurance, and received progress payments from insurers of $11.8 million plus GST (after a $4.8 million deductible). Of the $11.8 million received from insurers, Argosy has recognised $9.8 million (after deductible) in its financial reporting for the period to 31 March 2018. Of this amount, $5.7 million has been allocated by Argosy to loss of rents, $1.8 million has been allocated to expense recoveries and $2.3 million to material damage reinstatement. Further interim claims will be presented for the remainder of the two-year business interruption indemnity period, and for material damage.

Divestment of non Core Assets

With the continued strength in property markets over the second half of the financial year, Argosy successfully completed the sale of Tunnel Grove, Wellington for $2.8 million and the unconditional agreement to sell Wagener Place in Auckland for $31.0 million. This transaction will settle in July 2018. The Wagener Place sale was an opportunity to reduce Argosy's retail exposure in an area where there will be increasing competition. These transactions follow the sale of Pandora Rd in Napier in the first half for $7.7 million.

At year end, Argosy has categorised approximately 7% or $110 million of the portfolio as non Core. As noted above, Argosy will continue its divestment programme over the next 12-18 months to take advantage of current market conditions.

Capital Management

Current Leverage

At 31 March 2018, Argosy's debt-to-total-assets ratio, excluding capitalised borrowing costs, was 35.9% versus 36.3% at 31 March 2017 year end. The decrease reflects the net impact of developments during the period offset by divestments and revaluation gains. During the period the Board has decided to widen the target gearing band to 30-40% (previously 35-40%). This allows Argosy to be more flexible depending on financial and property market conditions. Argosy currently sits in the middle of the new target band and remains well within all bank covenants.

Argosy's weighted average interest rate for the period was 4.98% versus 4.88% at 31 March 2017 year end. During the period Argosy undertook two restructures to its banking facilities with ANZ Bank New Zealand Limited, Bank of New Zealand Limited and Hongkong and Shanghai Banking Corporation. The first restructure can be summarised as follows:

- Tranche A ($275 million) was extended to 31 October 2021;
- Tranche B (also $275 million) remained at 30 September 2020;
- An additional tranche (Tranche C) of $25 million was added to the facility with an expiry date of 31 October 2021.

The second restructure saw an additional facility (Tranche D) of $50 million added with an expiry date of 28 February 2021. Argosy's total debt facility is now $625 million. At 31 March 2018, the weighted average facility term was 3.1 years.

Sustainability

Last year we established our Environmental, Social and Governance Framework to recognise the importance sustainable business practices have on the environment and long-term value creation for shareholders. Our environmental policy reflects our ambition to create vibrant and sustainable workplaces for our tenants and Argosy believes green buildings have potential to provide both environmental and business benefits.

Dividends

Consistent with the third quarter dividend, a final quarter dividend of 1.55 cents per share with imputation credits of 0.3744 cents per share attached, has been declared for the March quarter. This dividend represents an increase of 1.6% on the same period in the year ending 31 March 2017. The dividend will be paid to shareholders on 27th June 2018 and the record date will be 13th June 2018.

Argosy starts the 2019 financial year in a very solid financial and portfolio position. Our diversified portfolio of quality assets across the three main sectors brings real strength and balance to our business. We remain focused on delivering sustainable dividends to our shareholders. Based on current projections for the portfolio, the Board is pleased to be able to guide to a full year 2019 cash dividend of 6.25 cents per share, an increase of 1% on the prior year. The increase reflects our wish for shareholders to share in the continued strong results but also allow us to maintain our momentum towards an AFFO[3] based dividend policy in the medium term.

The dividend reinvestment plan remains suspended for the time being.

Governance

At the July 2017 Annual Meeting, Andrew Evans and Mark Cross were re-elected as independent Directors. However, subsequent to balance date, the Board determined that Mr Cross has ceased to be an independent director as he is a director of Milford Funds Limited which has subsequently (on 19 April 2018) disclosed that it manages funds with a substantial product holding in Argosy. Looking ahead, the 2018 Annual Meeting of shareholders is scheduled to be held at 2pm on 6 August 2018 at the Royal New Zealand Yacht Squadron, 101 Curran Street Westhaven Marina, Auckland. Chris Hunter and Jeff Morrison will retire in accordance with the Company's constitution and the NZX Listing Rules, and will be eligible for re-election.

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[3] AFFO is considered by some investors to represent a measure of dividend sustainability. Our accompanying result presentation provides details of AFFO.

Strategy

Creating value and delivering sustainable earnings to shareholders remains the key focus for the Board. Subtle changes to our investment policy made in the prior year were acted upon during the period where Argosy took opportunities to divest non Core properties and redeploy the capital to its balance sheet. The Board considers the New Zealand Property market to be near its cyclical peak which makes it hard to acquire property. We believe ongoing strength in the sector will provide opportunities to divest non Core assets at attractive prices and either reduce gearing or reinvest the proceeds into tenant led development opportunities. We will continue to focus on our existing portfolio of value add properties to create long term value for shareholders and increase the quality and sustainability of our earnings.

Outlook

Argosy continued to deliver excellent results over the back half of 2018 but there is more work to do through the 2019 financial year and beyond. Argosy achieved excellent leasing success and rent review growth across the portfolio. As a result, the year-end portfolio metrics are in excellent shape. Reinforced by their Green Star ratings, a number of redevelopment projects were completed which increased our portfolio quality and will contribute towards sustainable earnings over time. We will continue to look at sustainability given the environmental and business benefits that are likely to accrue. Looking ahead to 2019, we are very focused on ensuring we can continue to create value for, and deliver reliable and attractive risk adjusted returns to, shareholders.

– ENDS –

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