

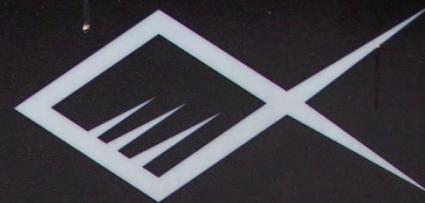
# Argosy

## 2019 Retail Roadshow Presentation

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Argosy Property Limited  
4 – 21<sup>st</sup> June 2019

▶ [www.argosy.co.nz](http://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 release dated 23 May 2019. Due to rounding, numbers presented in this presentation may not add up exactly to the totals provided and percentages may not reflect exactly absolute figures.



Our strength lies in the diversity of our portfolio by sector, location and tenant mix, providing flexibility to support our tenants changing needs, ensuring a resilient business model through various economic cycles.”

**Peter Mence**

CEO

# HIGHLIGHTS

Argosy



23 Customs Street, Snickel Lane

[www.argosy.co.nz](http://www.argosy.co.nz)

# FY19 Full Year Highlights



35.1%

Total shareholder return for 12 months

5.0%

Net Distributable Income increase

\$70.5m

Annual revaluation gain, 4.3% above book value

\$100m

Successful Green Bond Issue

6.1 yr

Weighted average lease term (WALT)

6.275c

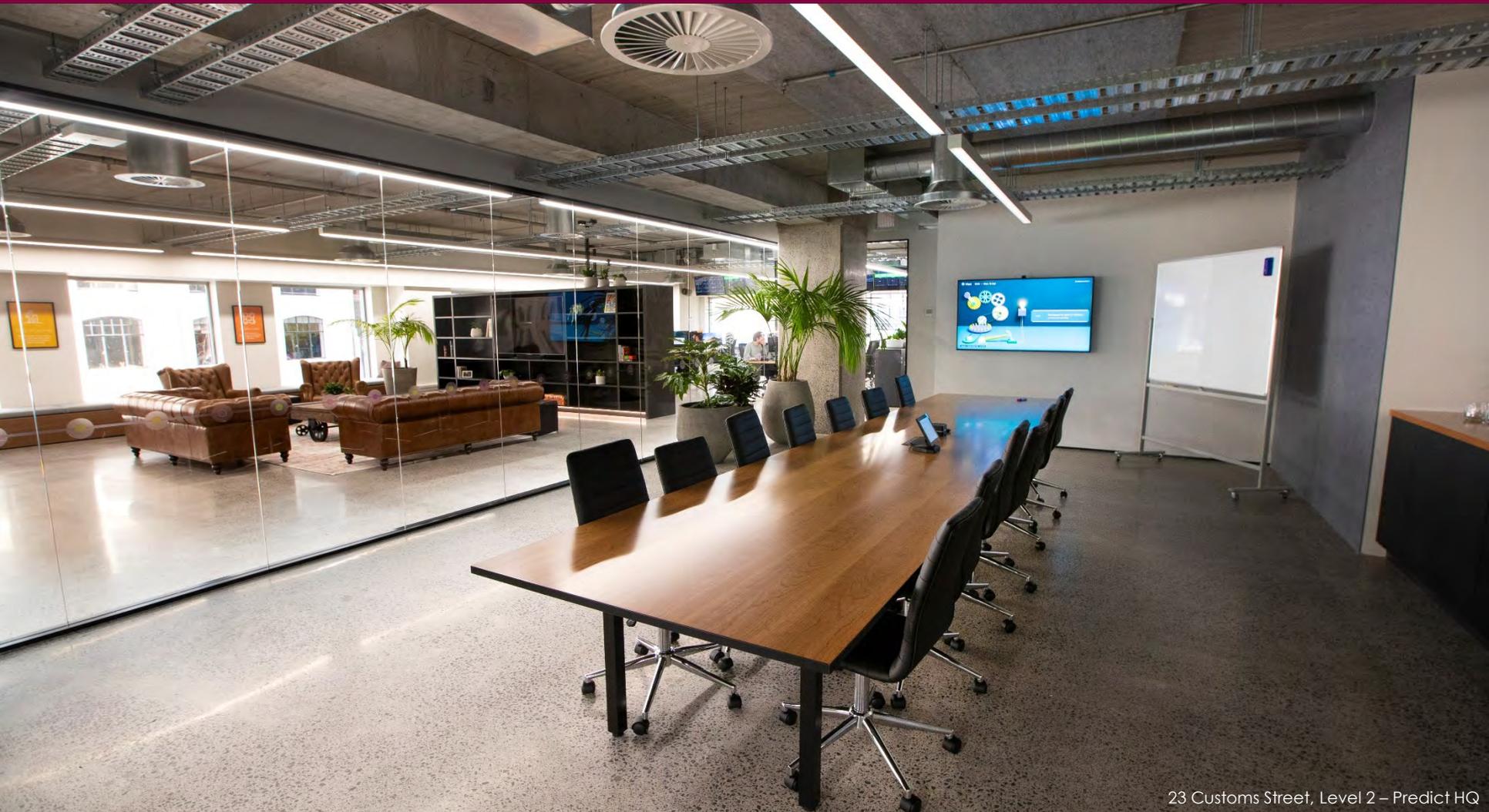
Full year dividend

7WQ

Solid progress



# Strategy / Portfolio



# Create. Manage. Own.



*Proactive delivery of sustainable growth.*



**An environmentally focused & sustainable business**

**Transition value add properties** to drive earnings and capital growth

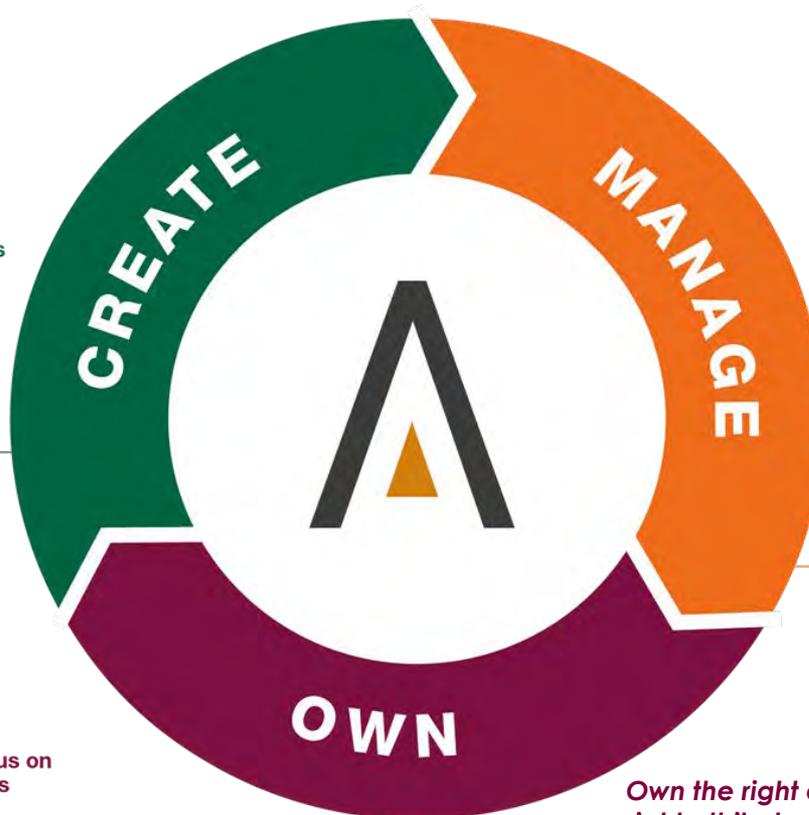
**Streamlined tenant led** development process and execution



**A diversified portfolio of high quality**, well located assets with growth potential

**Real estate with a primary focus on Auckland & Wellington markets**

**Target off market opportunities** or contiguous properties with potential



*Manage all elements of the business to deliver the right outcomes for all our stakeholders.*



**Strong and valued relationships** across all key stakeholders

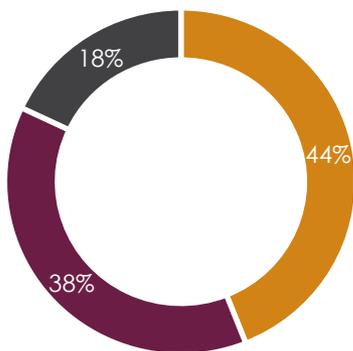
**Safe working environments** for Argosy's people and its partners

**A commitment to management excellence**

*Own the right assets, with the right attributes in the right locations.*

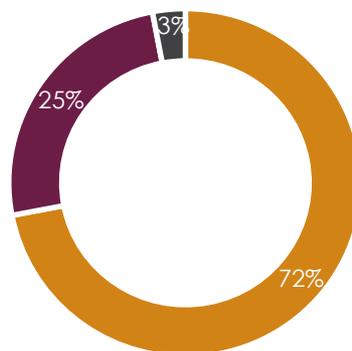
# Portfolio at a Glance

**TOTAL PORTFOLIO VALUE  
BY SECTOR**



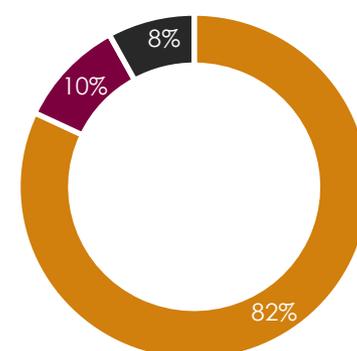
- Industrial
- Office
- Retail

**TOTAL PORTFOLIO VALUE  
BY REGION**



- Auckland
- Wellington
- Regional North Island & South Island

**PORTFOLIO MIX  
BY VALUE**



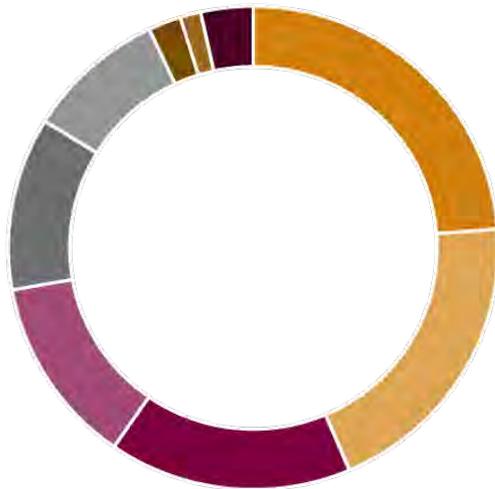
- Core properties
- Value Add properties
- non Core

- ▶ Divestment of non Core assets continued through FY19.
- ▶ Subsequent to year end Argosy sold Albany Lifestyle Centre for \$89.0m, a 2% premium to its book value. Settlement is expected to occur on or around 27 March 2020.

# Portfolio Metrics

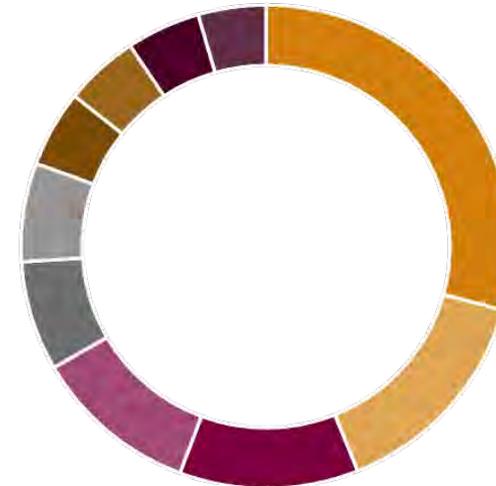
▶ The strength of our diversified portfolio is in the breadth and depth of our tenant base and sectors they represent.

Rent Roll by Industry



- Government Administration
- Retail
- Transport and Storage
- Manufacturing
- Property & Business Services
- Wholesale Trade
- Finance and Insurance
- Electricity, Gas and Water Supply
- All other

Top 10 Customers by Rent



- MBIE
- General Distributors Limited
- The Warehouse Limited
- Cardinal Logistics Limited
- New Zealand Post Limited
- Housing New Zealand Corporation
- Tonkin & Taylor Limited
- Mitre 10 (New Zealand) Limited
- Te Puni Kokiri
- Halls Logistics Limited

Note: Data as at 31 March 2019

# Value Add

- The following properties have been designated as Value Add and make up ~10% of the total portfolio:

Property	Sector	Location	Valuation \$m
90 - 104 Springs Road, East Tamaki	Industrial	Auckland	5.7
80 Springs Road, East Tamaki	Industrial	Auckland	13.2
211 Albany Highway, Albany	Industrial	Auckland	26.2
960 Great South Road, Penrose	Industrial	Auckland	6.9
133 Roscommon Road, Wiri	Industrial	Auckland	8.7
180-202 Hutt Road, Kaiwharawhara	Industrial	Wellington	12.9
99-107 Khyber Pass Road, Grafton	Office	Auckland	11.6
107 Carlton Gore Road, Newmarket	Office	Auckland	29.0
8-14 Willis Street	Office	Wellington	22.8
Stewart Dawsons Corner	Retail	Wellington	18.3
252 Dairy Flat, Albany	Retail	Auckland	7.9
<b>TOTAL \$m (excl. land)</b>			<b>163.2</b>
56 Jamaica Drive, Grenada North	Land	Wellington	1.1
15 Unity Drive, Albany	Land	Auckland	4.5
<b>TOTAL \$m</b>			<b>168.8</b>



8-14 Willis Street (yellow) and Stewart Dawsons Corner (red).



Stewart Dawsons Corner – internal framework

# Development Pipeline



Development	Major Tenant	Type	Location	Expected value on completion \$m	Forecast completion	FY 2020		FY 2021	
						Sep-19	Mar-20	Sep-20	Mar-21
<b>Underway / commenced</b>									
180-202 Hutt Road	Placemakers	IND	WTN	18.8	Dec-19				
Stewart Dawsons Corner	In final discussions	RET	WTN	30.2	Jul-20				
<b>Planned</b>									
107 Carlton Gore Road	Housing New Zealand	OFF	AKL	44.6	Mar-20				
8-14 Willis Street	Statistics New Zealand	OFF	WTN	94.0	Apr-21				
<b>TOTAL</b>				<b>187.6</b>					

Green buildings

Standard

- ▶ **180-202 Hutt Road:** Progressing well. Stage 1 comprising 1,300m<sup>2</sup> of showroom and office was completed recently. Stage 2 works, comprising the drive through warehouse and hardstand area, will be complete by December 2019.
- ▶ **Stewart Dawsons Corner:** In final discussions with an international retailer to occupy the entire building of 3,400m<sup>2</sup>.
- ▶ **Carlton Gore Road:** 12 year lease with Housing New Zealand Corporation commencing 1 March 2020 for the entire 6,100m<sup>2</sup> of net lettable area will commence following a building upgrade expected to take approximately six months. Targeting Green Star and NABERSNZ ratings. On completion the building will be an A Grade building with an expected valued of \$44.6m.
- ▶ **8-14 Willis Street:** The development will create a substantially new 11 level, 11,800m<sup>2</sup> building that will target a 6 Green Star Built rating and 5 Star NABERSNZ energy efficiency rating. New 15 year lease with the Crown (Statistics New Zealand) to occupy the entire building, other than the 500m<sup>2</sup> ground floor retail component. On completion 8-14 Willis Street is expected to have an independent valuation of \$94m. The development is projected to deliver an internal rate of return of 8.2% and a 7.2% initial yield.

# Valuations



	31 March 19 Book Value \$m	31 Mar 19 Valuation \$m	Δ \$m	Δ %	Market Yield	
					31 Mar 19	31 Mar 18
Auckland	1,161.5	1,206.8	45.3	3.9%	6.43%	6.75%
Wellington	422.9	412.8	(10.1)	-2.4%	7.48%	7.60%
North Island Regional & South Island	46.8	47.4	0.6	1.3%	7.45%	7.96%
<b>Total</b>	<b>1,631.2</b>	<b>1,666.9</b>	<b>35.8</b>	<b>2.2%</b>	<b>6.65%</b>	<b>6.98%</b>

	31 March 19 Book Value \$m	31 Mar 19 Valuation \$m	Δ \$m	Δ %	Market Yield	
					31 Mar 19	31 Mar 18
Industrial	713.4	737.7	24.3	3.4%	6.46%	6.74%
Office	627.8	626.6	(1.2)	-0.2%	7.14%	7.37%
Retail	290.0	302.7	12.7	4.4%	6.27%	6.80%
<b>Total</b>	<b>1,631.1</b>	<b>1,666.9</b>	<b>35.8</b>	<b>2.2%</b>	<b>6.65%</b>	<b>6.98%</b>

- ▶ Second half revaluation gain of \$35.8m or 2.2% above book value resulting in a full year gain of \$70.5m or 4.3% above book value.
- ▶ Regionally, Auckland biggest contributor again. Big increases for Albany Mega (\$16m or 15%) and 211 Albany Highway (\$3.8m or 17%).
- ▶ Wellington market results mixed.
- ▶ Portfolio market yield<sup>1</sup> firmed 33bps with Auckland firming 32bps and Retail 53bps.

<sup>1</sup> Yields exclude Waterloo Quay, 8-14 Willis Street and Stewart Dawsons Corner.

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.

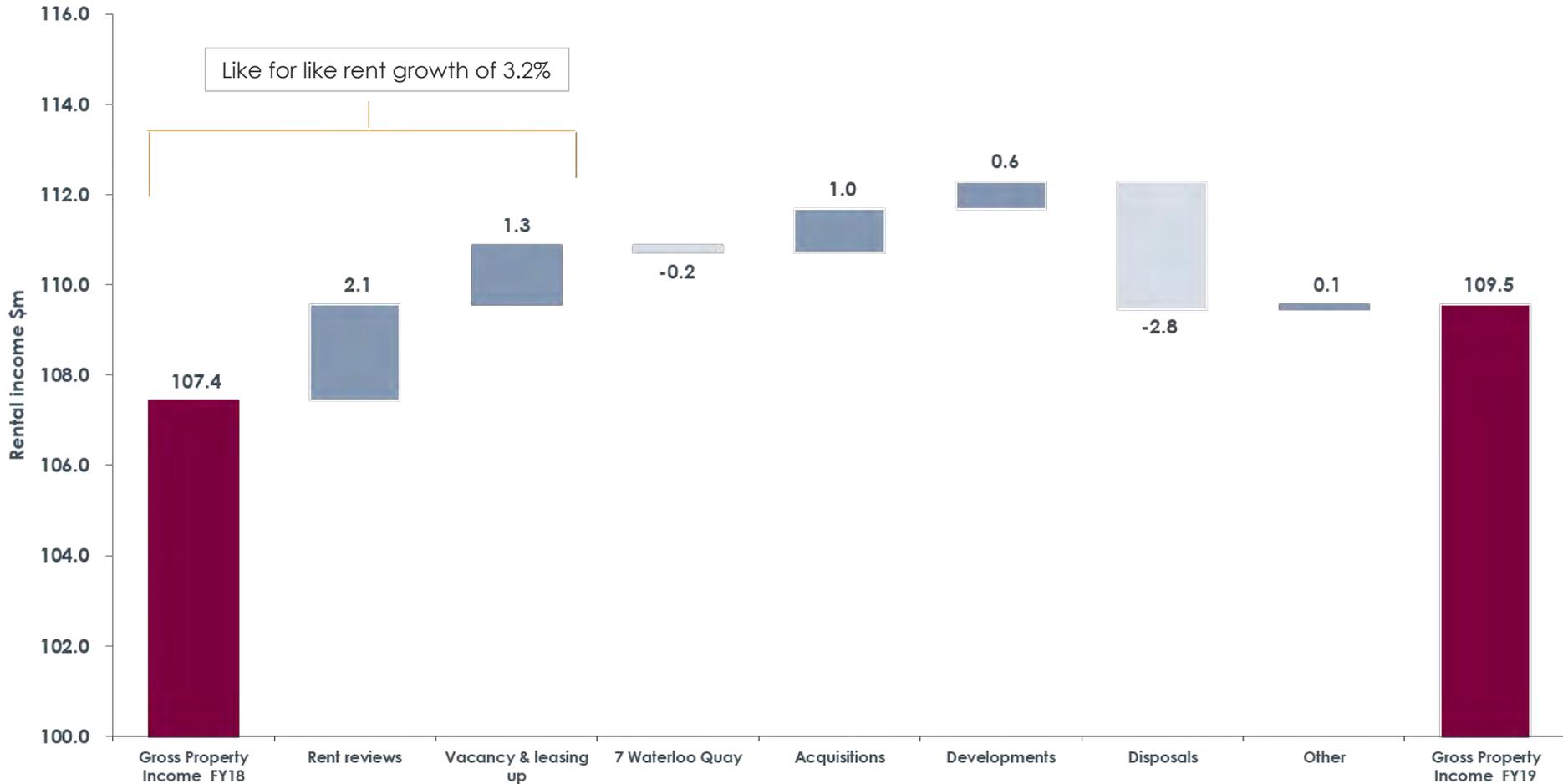
# FINANCIALS

Argosy



Albany Mega Centre

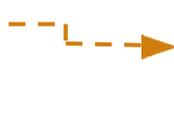
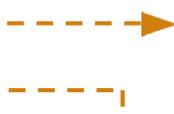
# Income Reconciliation



# Financial Performance



	FY19	FY18
	\$m	\$m
Net property income	102.5	101.0
Administration expenses	(10.9)	(9.9)
<b>Profit before financial income/(expenses), other gains/(losses) and tax</b>	<b>91.5</b>	<b>91.1</b>
Interest expense	(24.2)	(25.5)
Gain/(loss) on derivatives	(7.4)	(4.1)
Revaluation gains	70.5	47.3
Realised gains/(losses) on disposal	6.1	0.3
Net: Insurance proceeds & earthquake expense	6.8	0.2
<b>Profit before tax</b>	<b>143.3</b>	<b>109.3</b>
Taxation expense	(9.6)	(11.1)
<b>Profit after tax</b>	<b>133.7</b>	<b>98.2</b>
Basic and diluted earnings per share (cents)	16.16	11.90

-  Like-for-like gross rental growth of 3.2% driving increase in net income
-  Expenses up due to one-off restructuring and additional resourcing costs across the business
-  Annual revaluation gains driven by a mix of cap rate firming and rental growth
-  Solid realised gains due to favourable vendor market
-  Lower tax expense driven by movement in deferred tax, higher capitalised interest, non assessible insurance proceeds and losses on disposal.

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

# Distributable Income



	FY19 \$m	FY18 \$m
<b>Profit before income tax</b>	<b>143.3</b>	<b>109.3</b>
Adjusted for:		
Revaluations gains	(70.5)	(47.3)
Realised losses/(gains) on disposal	(6.1)	(0.3)
Derivative fair value loss/(gain)	7.4	4.1
Earthquake expense net of recoveries	(6.8)	(0.2)
<b>Gross distributable income</b>	<b>67.3</b>	<b>65.6</b>
Depreciation recovered	1.7	0.6
Current tax expense	(11.7)	(11.6)
<b>Net distributable income</b>	<b>57.4</b>	<b>54.6</b>
Weighted average number of ordinary shares (m)	827.0	825.1
Gross distributable income per share (cents)	8.14	7.95
Net distributable income per share (cents)	6.94	6.62

---▶ Net distributable income up by 5.0%

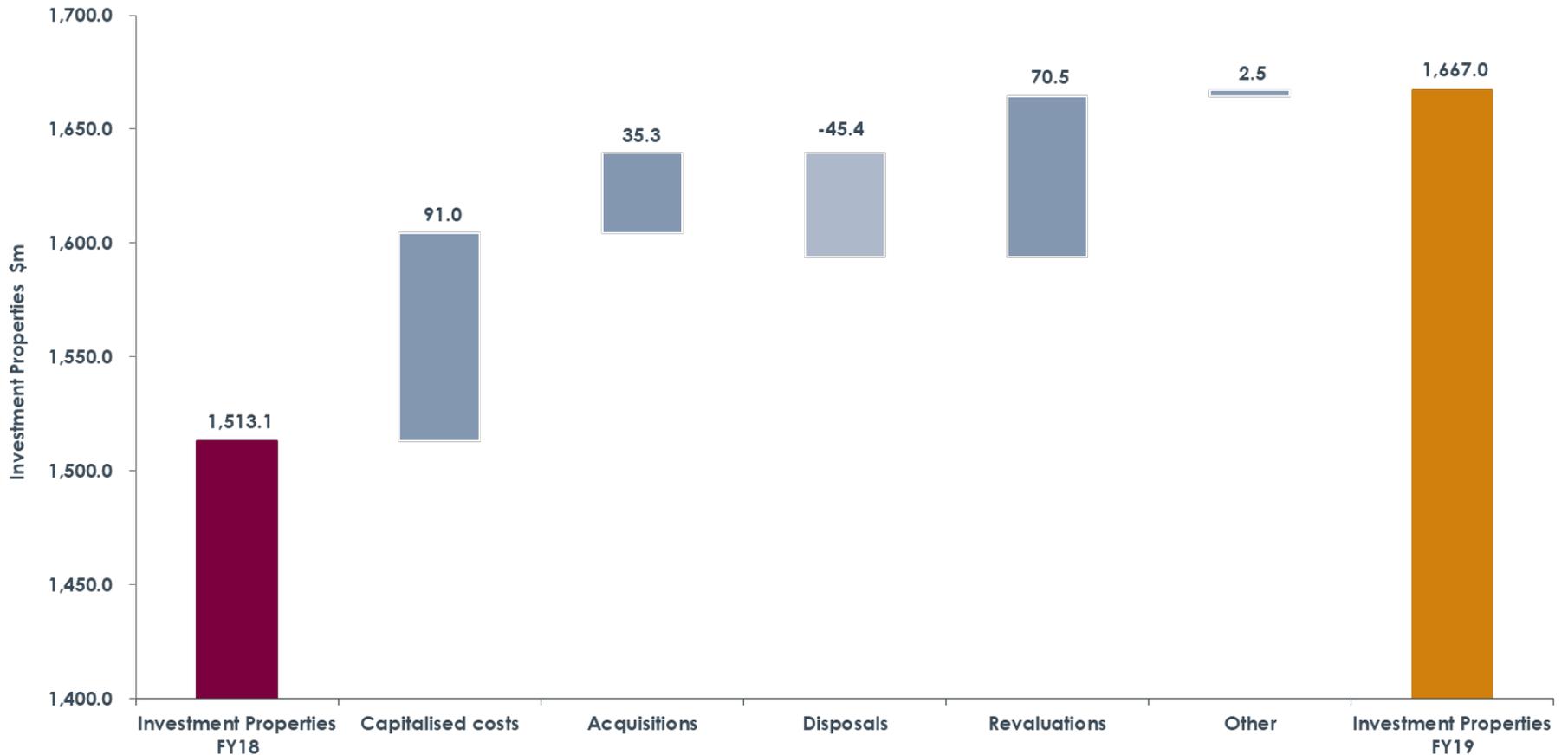
---▶ Net distributable income per share up by 4.8%

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

# Investment Properties

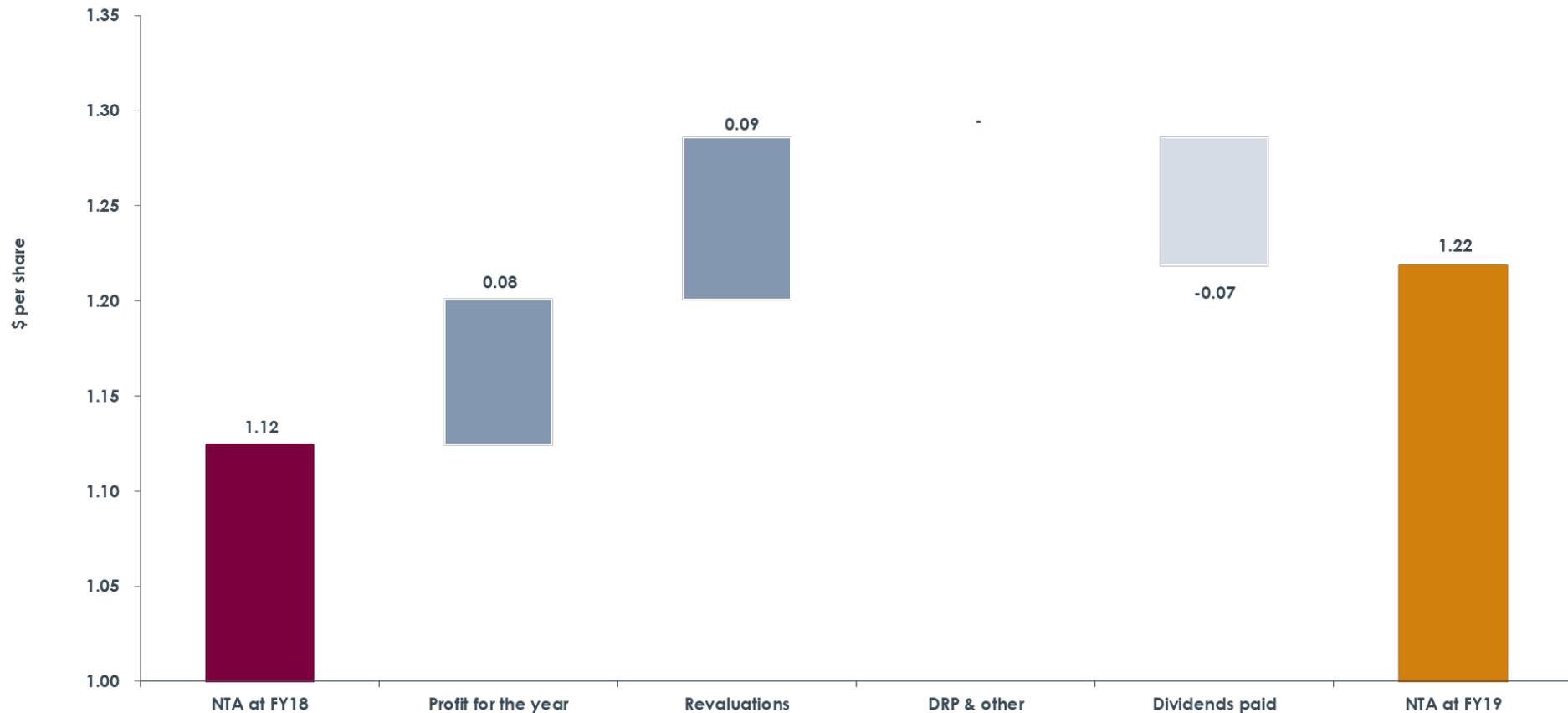


▶ Portfolio growth (+10%) driven by a combination of capital projects, acquisitions and revaluation gains.



# Movement in NTA per share

▶ Full year revaluation gain key driver of ~9% NTA uplift to \$1.22.



# Funding & Interest Rate Management



	FY19	FY18
Weighted average duration of debt facilities	2.7 years	3.1 years
Weighted average interest rate <sup>1</sup>	4.75%	4.98%
Interest Cover Ratio	3.2x	3.3x
% of fixed rate borrowings	53%	62%
Average fixed interest rate <sup>2</sup>	4.49%	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.
- ▶ In October 2018, Argosy added a further tranche of \$25m, expiring October 2020 (Tranche E).
- ▶ In March Argosy issued \$100m of 7 year senior secured fixed rate bonds. The coupon was set at 4.00% per annum.

35.6%

Debt-to-total-assets ratio

2.7 yrs

Weighted average facility term

<sup>1</sup> Including margin and line fees  
<sup>2</sup> Excluding margin and line fees

# Dividends

- ▶ A fourth quarter cash dividend of 1.5875 cents per share has been declared, with imputation credits of 0.3026 cents per share attached, and will be paid on 26 June 2019.
- ▶ The Board has signalled FY20 dividend guidance of 6.275 cents per share.
- ▶ The FY20 dividend reflects the Board's wish for shareholders to share in the continued strong results whilst allowing Argosy to maintain its momentum towards an AFFO based dividend policy.



6.275c

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FY20 dividend guidance



26 June

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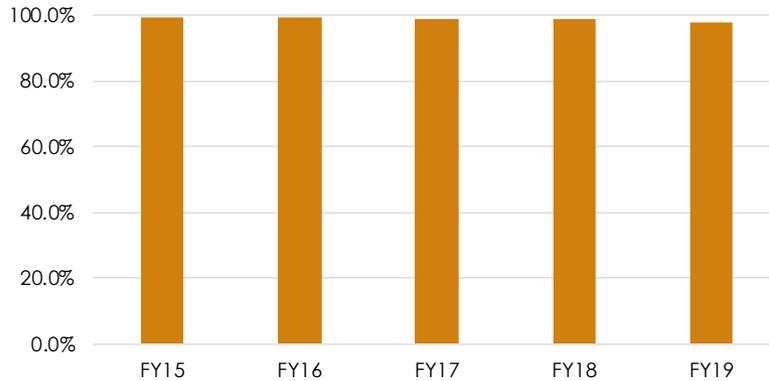
4<sup>th</sup> quarter dividend paid

# Portfolio Snapshot

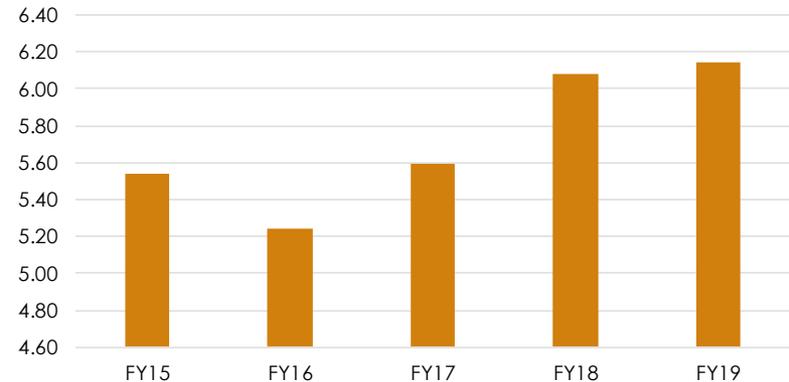


► Our focus is delivering improved portfolio quality and is reflected in our strong portfolio metrics

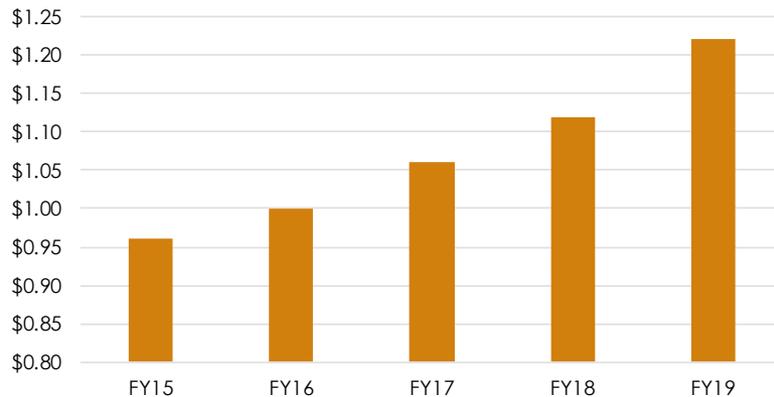
### Occupancy



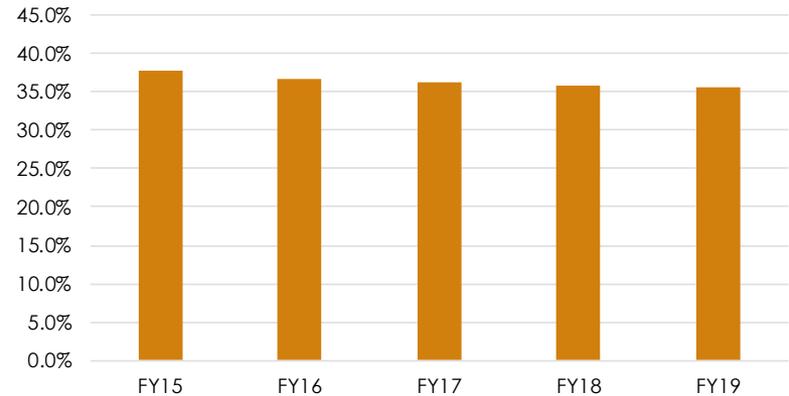
### WALT (years)



### Net Tangible Assets



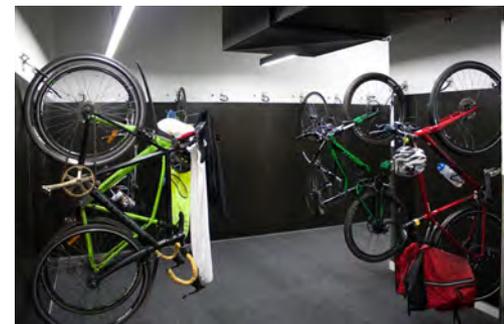
### Debt-to-total-assets



# Environmental Strategy



- ▶ The impact of Argosy's property investment business on the natural environment is an increasingly important consideration for investors, tenants and other stakeholders.
- ▶ Our environmental strategy reflects our long-term ambition to create vibrant sustainable workplaces for our tenants. We believe that green buildings have the potential to provide a number of key business benefits including:
  - ▶ increased marketability;
  - ▶ higher rental rates;
  - ▶ lower operating costs;
  - ▶ higher occupancy;
  - ▶ improved worker productivity and occupant health and well-being;
  - ▶ lower regulatory risk.
- ▶ We believe that an integrated design approach, where experts and tenants are involved from the pre-design stage through to occupancy can greatly assist in the reduction of green development costs.
- ▶ We are a member of the New Zealand Green Building Council which is dedicated to accelerating the development and adoption of market based green building practices.



# Green Projects Completed



**15-21 Stout Street,  
Wellington**



**82 Wyndham Street,  
Auckland**



**Highgate Parkway, Auckland**



▶ <b>Completion:</b>	2014	2018	2018
▶ <b>NLA / WALT<sup>1</sup>:</b>	20,709m <sup>2</sup> / 7.3yrs	6,012m <sup>2</sup> / 6.7yrs	10,581m <sup>2</sup> / 8.9yrs
▶ <b>Green Star rating:</b>	5 Star Built	5 Star Built	Targeting 4 Star Built
▶ <b>NABERSNZ rating:</b>	5 Star	Targeting 5 Stars	n/a
▶ <b>Current value<sup>1</sup>:</b>	\$111.0m	\$44.7m	\$29.5m

1. 31 March 2019 full year valuation.

# Green Assets

► Assets with Green Star Ratings and their NABERSNZ Ratings shown below.

## Value of Existing Green Assets

Address	Use	Current NABERSNZ Rating	Green Star Rating	Asset Value (NZDm) <sup>1</sup>
143 Lambton Quay	Office	4 Stars Energy Whole Building	5 Star Office Built	\$29.3
15-21 Stout Street	Office	5 Stars Energy Whole Building	5 Star Office Built	\$111.0
82 Wyndham St	Office	Targeting 5 Stars (in progress)	5 Star Office Built	\$44.7
<b>Total Existing Green Asset Value</b>				<b>\$185.0</b>

## Value of Green Assets Awaiting Certification

Address	Use	Current NABERSNZ Rating	Targeted Green Star Rating	Asset Value (NZD m)
Highgate Parkway	Industrial	n/a	4 Star Industrial Built (in progress)	\$29.5
<b>Sub-total</b>				<b>\$29.5</b>

**Total Green Asset Value  
(Existing + Awaiting Certification)      \$214.5**

**\$157.4m**  
Expected end value of other green projects underway

1. 31 March 2019 full year valuation.

# Leasing Update



# Leasing Success



- ▶ Strong leasing results for the year have continued, delivering a WALT of 6.1 years.
- ▶ 44 lease transactions were completed on 81,274m<sup>2</sup> of net lettable area, including 21 new leases, 12 renewals and 11 extensions.
- ▶ Notable leasing successes include;

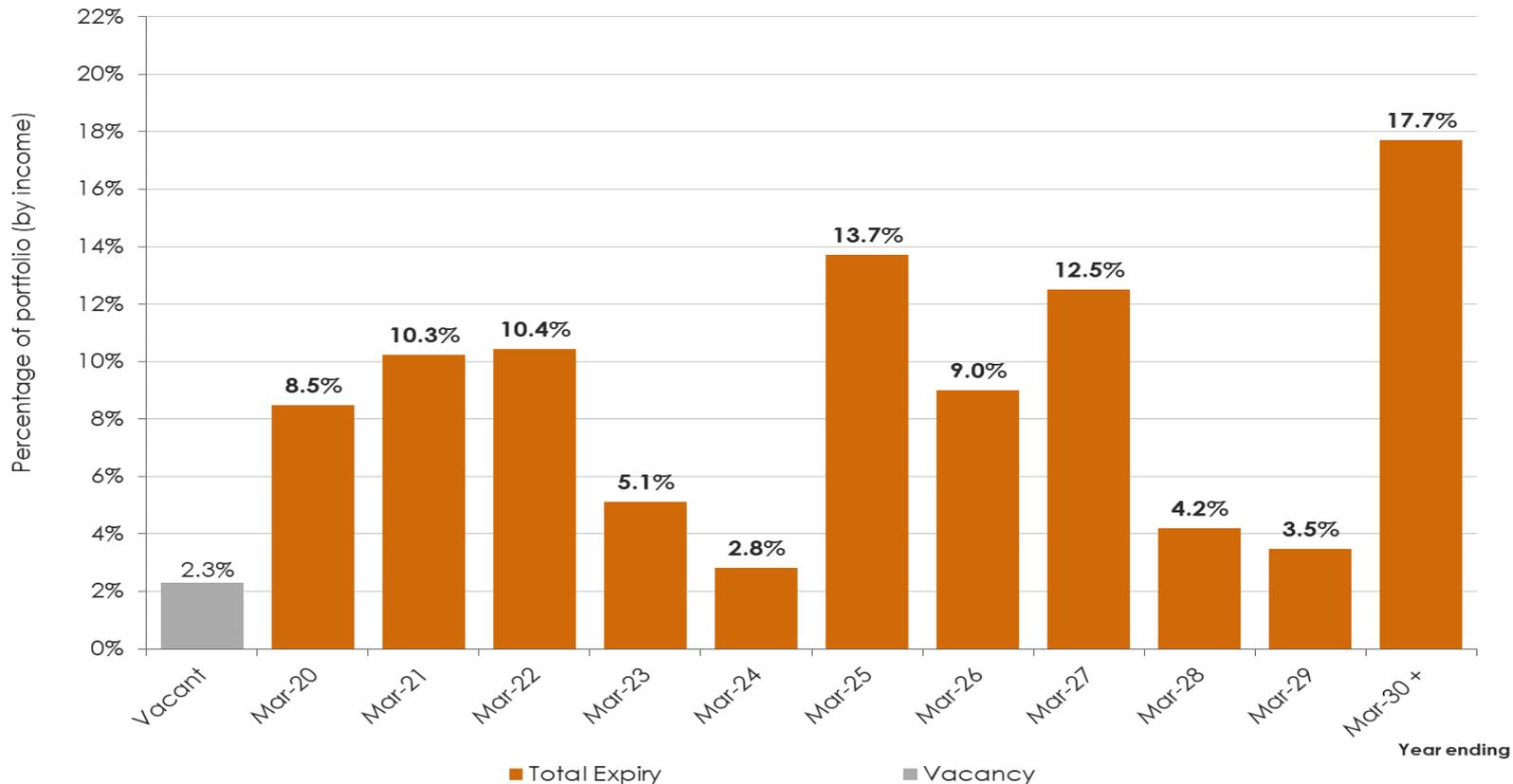
Property	Tenant	NLA (m <sup>2</sup> )	Lease Term
107 Carlton Gore Road, Auckland	Housing New Zealand	6,100	12 years
320 Ti Rakau Drive, Auckland	Bunnings Limited	12,374	10 years
252 Dairy Flat, Auckland	Albany Toyota	2,261	10 years
147 Gracefield Road, Wellington	Winstone Wallboards	8,018	9 years
Albany Lifestyle Centre, Auckland	E Road Limited	1,690	9 years

- ▶ Some larger FY20 lease expiries to address include;

Property	Tenant	NLA (m <sup>2</sup> )	Status
147 Lambton Quay, Wellington	MBIE	8,139	In discussions with tenant
23 Customs Street, Auckland	US Embassy	1,308	Renewed for further 10 years
Albany Mega Centre, Auckland	North Beach	1,085	Renewed for further 6 years

# Lease Maturity

- ▶ Normalised lease maturity profile relatively stable over the medium term.
- ▶ Strong Crown interest in 7 Waterloo Quay space.



## ▶ Office

- ▶ Flexible working environments continue to drive a disconnect between employment growth and net absorption. This is expected to continue with recent transactions demonstrating a move to agile work environments.
- ▶ Rental growth impacted by new supply – softer in Auckland, reflected in higher incentives, and firmer in Wellington.
- ▶ The Wellington market continues to show strong demand, with low vacancy for good quality seismically sound space that is well located. There is a shortage of large floor plate/high quality stock with upward rental growth pressure as a result. Premium and Grade A vacancy is minimal.

## ▶ Industrial

- ▶ Steady economic growth driving occupier demand. Lower interest rates and offshore capital flows driving yields/cap rates lower.
- ▶ Continued low supply forecast with challenges around land supply and congestion in Auckland market.
- ▶ Land values are at historic highs.
- ▶ New rental benchmarks being set with each new phase as costs of supply increase (\$130-140m<sup>2</sup> for prime warehouse).
- ▶ Vacancy at historic lows for both prime and secondary (< 2%).

## ▶ Retail

- ▶ Continued increase in online retailing is impacting discretionary retail.
- ▶ Generally a more negative retail spending outlook. Waning migration, increasing fuel prices and flat housing prices are providing headwinds.
- ▶ Support from increasing tourism has ebbed as this growth plateaus.
- ▶ Approximately 200,000m<sup>2</sup> of retail space to be added by 2022.
- ▶ Large format retail expected to be most secure.

# Looking Ahead



## Create

Proactive delivery of sustainable growth.

- ▶ Continue transitioning Value Add properties to drive earnings and capital growth.
- ▶ Ensure projects are completed on time and on budget.
- ▶ Keep investigating strategic acquisitions (off market or contiguous).

## Manage

Manage all elements of our business to deliver the right outcomes for all our stakeholders.

- ▶ Maintain high tenant retention rates and address key expiries / vacancies.
- ▶ Leasing up of 7 Waterloo Quay.
- ▶ Ensure diversity of debt funding and increase tenor.
- ▶ Maintain transition towards AFFO based dividend policy.

## Own

Own the right assets, with the right attributes in the right locations.

- ▶ Continue to invest in a diverse range of properties across sectors, locations and sizes.
- ▶ Maximise current attractive vendor market conditions.
- ▶ Investment activity focused on existing portfolio.

Thank you.

Argosy



# Disclaimer



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

4 June 2019