Argosy
Property Trust

03 June 2011

A MESSAGE FROM THE INDEPENDENT DIRECTORS

Dear Unitholder

Update on Evaluation of DNZ Takeover Proposal

Further to our letter of 25 May 2011 we are writing to provide an update on our review of DNZ's takeover proposal, with this letter covering:

- **a summary of market releases on DNZ's proposed takeover**
- **the economics of our internalisation proposal**
- **the rationale behind our commercial payment to terminate the management arrangements with the current manager**
- **our view of the DNZ takeover proposal**

As you will recall on 11 May 2011 DNZ notified the NZX of its desire to take over the Argosy Property Trust and in doing so provide an alternative internalisation strategy to that being developed by ourselves, the independent directors of Argosy Property Management Limited.

At the time of the DNZ announcement, we issued a release to the NZX responding that in our view we considered the DNZ approach uncompelling, with the independent director initiated internalisation likely to result in greater unitholder value and providing unitholders greater leverage to pursue in the future initiatives like that proposed by DNZ. We outlined our thoughts on this matter in our recent letter to you.

Around the time of the initial DNZ release we requested our financial and tax advisors, First NZ Capital and KPMG respectively, to review the merits of the proposed DNZ takeover from the perspective of Argosy unitholders. Subsequent to this, DNZ made a further detailed release to the NZX on 18 May 2011 outlining in their view the basis of and merits of the takeover. This has assisted our review. We also met the Chair and Managing Director of DNZ on 2 June 2011 to allow them to clarify DNZ's proposal.

As independent directors of Argosy Property Management Limited our focus in the development of our internalisation proposal and review of the DNZ takeover proposal has been to form conclusions that we consider are in the best interests of, and value adding to, Argosy unitholders.

Rationale for Our Internalisation Proposal

The rationale for our decision to put our internalisation proposal to the annual meeting in August will be outlined in more detail in our unitholder materials expected to be sent to you around mid July which will include an independent report to unitholders from Grant Samuel. Financially the rationale is strong:

1. Argosy's normalised gross distributable earnings per unit is expected to increase by approximately 6.9% post taxation.

2. The earnings per unit increase occurs for the following reasons:

   a. **reduction in costs of approximately $4.20 million, reflecting the difference between:**

- **the fees payable under the terms of the existing, external management contract consisting of an Argosy base fee of $5.8 million, an assumed notional performance fee of $400,000[1], property management fees of $1.5 million and time-in-attendance fees of approximately $350,000; and**

- **our expected future costs of $3.85 million to run the Trust following the internalisation;**

b. an anticipated one-off taxation benefit, resulting from a deduction of the transaction purchase price and associated internalisation expenses (which for the purposes of this calculation are not expensed but capitalised), with the tax benefit for the purpose of this calculation allocated against the purchase price;[2] and

c. offsetting some of the gains above, additional financing costs of $1.2 million on the bank funding utilised to purchase the management contract.

Progressing the internalisation will also provide stronger leverage to Argosy unitholders for Argosy to deal with any future proposals like that developed by DNZ so that Argosy unitholders can extract better future value.

Proposed Payment to Internalise the Management Company

We outlined in our last letter to you that we propose to make a payment to the current Argosy management company to terminate their involvement with the Trust so we can internalise management. To recap, internalisation is a process where a new manager is appointed which will operate on a cost recovery basis only, so that the profit component of the management of the Trust is eliminated, creating financial benefit for unitholders.

We chose to negotiate a commercial arrangement with the current owner because we judged this in the best interests of unitholders. Alternatives available to us and unitholders included calling a meeting to dismiss the manager. We considered this option carefully, but ultimately deemed such action created too much uncertainty as to whether a vote would be successful, and even it if was, dismissal would cause significant disruption to the operation of the Trust as we would have no systems or management, and imperfect information relating to our property portfolio. In addition a separate agreement with the current manager to manage individual properties would remain in place until December 2013, which could cause significant tenant disruption and likely cost more than it does today. All of these factors were likely to have a negative impact on unitholder value and the unit price. As a result we took a decision to negotiate a commercial transaction with the current manager.

We have commissioned an independent review from Grant Samuel which will accompany the unitholder materials sent to you in connection with the proposed internalisation. The review will assess the merits of this payment.

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[1] Source, Goldman Sachs research note of 12 May 2011

[2] Argosy will seek a ruling from the IRD that this sum will be deductible for income tax purposes. There is no certainty that this ruling will be obtained. The internalisation proposal will proceed whether or not the ruling is obtained.

Review of DNZ Takeover Proposal

Following discussions with representatives of DNZ and analysis of publicly available information, which has also been reviewed by our financial and tax advisors mentioned above, we remain of the view that at this time a takeover by DNZ of Argosy is unlikely to be in unitholder interests, but we remain open to considering such an initiative in the future.

The principal reasons for our view are:

1. At an appropriate exchange ratio, a takeover of Argosy by DNZ may have benefits to Argosy unitholders in the form of earnings and value accretion, synergy, scale, size, liquidity, the avoidance of some minor internalisation costs (however those costs are not expected to be significant) and the potential use of DNZ's corporate structure.

2. However, we see no rush to progress discussions with DNZ now, as the internalisation proposal that you will vote on at the annual meeting will allow Argosy unitholders to keep 100% of the cost savings achieved from internalisation (estimated savings pre tax of $3.0 million per annum, net of financing costs of $1.2 million as described above), rather than being shared as proposed by DNZ.

3. We also do not accept that in the case of takeover, the exchange ratio should necessarily be based on a NTA metric as proposed by DNZ, because:

    a. Argosy units are trading at a smaller discount to NTA than DNZ indicating that DNZ has more to gain from an NTA based exchange ratio

    b. Argosy's consensus forecast FY2012 net yield, based on its current unit price[3], is 7.1% versus DNZ's consensus forecast FY2012 net yield of 6.3%

    c. We are of the view that Argosy will have higher future EPU growth than DNZ, with a NTA based merger allowing DNZ to capture some of that growth

    d. Argosy has a lower risk property portfolio, with a longer weighted average lease term and higher property yields than DNZ, with DNZ having a higher proportion of its property portfolio in more volatile regional markets

4. We also believe that any takeover should take the best parts of both entities, and not be focused as DNZ would have it on DNZ taking over Argosy. We are after all the larger entity. We also consider that Argosy could manage a combined Argosy / DNZ portfolio more cost effectively than DNZ currently manages its own portfolio.

5. Finally, any takeover may see the forfeiture of tax losses, and the incurrence of transaction costs, significantly reducing overall transaction economics, particularly in the first year.

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[3] Source: IRESS, 2 June 2011. At the time of determining forecast net yields, Argosy's unit price and consensus FY2012 forecast DPU were $0.82 and $0.058 respectively, and DNZ's $1.32 and $0.083 respectively.

For the above key reasons we do not propose progressing any takeover by DNZ at this time, instead focusing on the internalisation of Argosy's management as that will have the most immediate financial and value benefit to Argosy unitholders. Having said that, we remain open to discussing future options with any party, including DNZ, subsequent to internalisation should any such option be in the best interests of unitholders.

We will continue to keep you informed of any developments relating to internalisation or other potential transactions and our website will be updated with additional information (www.argosy.co.nz).

Yours sincerely

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