Argosy

21 November 2017

MARKET RELEASE

ARGOSY 2018 INTERIM RESULT

FOR THE SIX MONTHS TO 30 SEPTEMBER 2017

Argosy will present the 2018 interim results via a teleconference and webcast at 10am today. Please visit http://edge.media-server.com/m/go/argosyfy18 or dial **0800 452 795** and quote the conference ID **800456**. 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 six months to 30 September 2017.

Argosy Chief Executive officer Peter Mence said "Against the backdrop of a stable economy, we are pleased to have delivered a solid result for the first half of the 2018 financial year. During the period, we continued to concentrate on improving portfolio quality and delivering quality and sustainable earnings for investors. The management team also maintained its focus on divesting non-Core assets whilst working closely with our existing tenants to develop and add value organically within the portfolio.

On the back of this work, Argosy's portfolio metrics remain in great shape. Our occupancy remains high at 98.1% and our Weighted Average Lease Term (WALT) has been maintained at 5.6 years."

Chairman Mike Smith says "We have started the 2018 financial year well and we are pleased the team has delivered a good result for Argosy's shareholders. The management group continue to deal with significant lease expiries and vacancies and delivering on strategy. Looking ahead, there is now more visibility and certainty around New Zealand's medium term position and we are confident there will be no material impact on our business. There could potentially be some attractive opportunities for our Wellington assets. The outlook for the New Zealand property market remains positive, with rental growth being achieved and good levels of enquiry for vacant space. We continue to see strength in our diversified portfolio and are focused on delivering sustainable dividends to our shareholders. On behalf of the Board I would like to thank shareholders for their continuing support."

Highlights:

- **Net property income of $48.5 million**
- **Net distributable income per share of 3.23 cents**
- **Debt to total assets ratio at 36.8%**
- **NTA per share of $1.06**
- **Disposal of non-Core properties above book value**
- **Tenant led developments completed and other tenant developments on track**
- **Weighted average lease term maintained at 5.6 years**
- **Occupancy remains high at 98.1%**
- **Annualised rent review increase of 2.8%**

Financial Results

Statement of Comprehensive Income

Argosy reported net rental property income of $48.5 million for the period which includes rental loss recoveries from insurers. This is down $5.2 million due to the payment recognised in the six months to 30 September 2016 (previous period) of $5.5 million in respect of the surrender of the lease by New Zealand Post (NZ Post) for the top three floors of the building at 7 Waterloo Quay in Wellington.

Administration expenses were stable.

Interest expense for the period reduced to $12.6 million, a reduction of $0.4 million compared to the previous period, primarily due to capitalised interest in relation to development projects.

While there were no interim revaluations undertaken for the interim reporting period, full year revaluations will occur as per normal.

Profit before tax for the period was $27.4 million compared to $62.2 million in the previous period, the key difference being the interim revaluation gain recorded last year of $35.8 million.

Distributable Income

Gross distributable income[1] was $31.2 million compared to $36.1 million, driven largely by the surrender payment recognised from NZ Post of $5.5 million in the six months to 30 September 2016 (previous period). Gross distributable income for the period was 3.79 cents per share, down 14.6% from 4.44 cents per share in the previous period.

Net distributable income declined 9.8% to 3.23 cents per share from 3.58 cents per share in the prior period.

Portfolio Activity

Leasing and Rent Reviews

Supported by solid property market fundamentals, Argosy delivered strong leasing results over the first six months of the 2018 financial year.

During the period, 22 lease transactions were completed, including 13 new leases and 9 lease renewals. Argosy also re-leased several material expiries and dealt with some key vacancies.

Argosy's key leasing results during the period included the renewal of a 6-year lease at 9 Ride Way, Albany with Amcor Flexibles for 9,178sqm. This lease was Argosy's largest expiry in the current financial year accounting for 1.2% of portfolio income. Other results included a new 12-year lease to New Zealand Couriers Limited for 12,736sqm at 1 Rothwell Avenue, Albany. They will relocate when Mighty Ape shift to their new building being developed by Argosy in Highgate, Silverdale.

Due to the leasing success over the period, Argosy's outstanding lease expiries to 31 March 2018 has reduced to 5.7%.

Argosy remains confident of further leasing success with key expiries over the second half of this financial year. The strong leasing results including new leases over the period was a key driver in maintaining the weighted average lease term at 5.6 years and maintaining occupancy over 98%.

During the period Argosy completed 41 rent reviews achieving an annualised increase of 2.8%. Approximately 50% of rent reviews by value were fixed reviews with the balance split between CPI and market.

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[1] 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 14 of the financial statements released today provides a full reconciliation between profit before tax and distributable income.

Acquisitions and Value Add Developments
No new acquisitions were made over the period. However, another development was completed and others remain in progress where Argosy has worked with tenants on solutions to support growth in their businesses. The extensive $9.0 million refurbishment of 82 Wyndham Street in Auckland was completed during the period. This development has seen the building transformed, with both a 4 Star Office Built Green Star rating and a 4 Star NabersNZ[2] energy efficient rating being targeted. The ground and level 1 works have been completed to program and Panuku Development Auckland (an Auckland Council organisation) has moved in on a 9-year lease.

Developments in progress:

- Highgate, Silverdale. The $24.7 million development will be completed for Mighty Ape by December 2017. Over recent months Argosy has worked closely with Mighty Ape to create an environmentally sustainable design package or ‘green building’ which has now been included in the development. Many energy saving systems will now be incorporated into the project providing the opportunity to add significant value to the tenant and Argosy’s portfolio.
- 23 Customs Street, Auckland (Snickel Lane). This is Argosy’s laneways style development at the Citibank Centre. Whilst consenting delays have pushed time frames out, significant leasing progress has been made with an exciting mix of retailers already in the laneway. Argosy expects to make further detailed announcements on this before Christmas with expectations that final retailers could shift in by early 2018. The Snickel Lane concept has seen increased occupier interest within the building and Citibank has renewed their 689sqm of space on Level 11 for a further 3-years.
- 180 Hutt Road, Wellington. This redevelopment is forecast to cost $9.4 million. The property is currently occupied by Placemakers who have entered into a new 9-year lease on 3,713sqm of the property following completion. The development will also include the addition of 1,100sqm of retail space for lease. Completion is due by late-2018.

New Zealand Post House – 7 Waterloo Quay

Damage Assessment
Argosy’s 12 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 significant reinstatement of fit out and services was required. We do not expect the final cost to be higher than the $50 million that was estimated by our quantity surveyor earlier in the year, based on a preliminary scope of works. Argosy has reinstatement insurance and we are working with our insurers to progress our insurance claim.

Insurance Claim
Argosy has made claims under its business interruption policy and has received $4.0 million on an unallocated basis (by October 31, 2017). The total amount claimed to 30 September 2017 is $8.7 million and a $4.8 million deductible has been applied against this amount. Argosy’s business interruption insurance provides loss of rents cover for a 24-month period expiring in November 2018.

Leasing/Reinstatement
Argosy has commenced reinstatement works on levels 1-4 and 7 which remain unoccupied due to earthquake damage. Levels 10-12 are being marketed to new tenants now, and will be reinstated and ready for occupation toward the end of the 2018 calendar year. We expect strong demand for these, and any other levels that become available.

[2] NabersNZ is National Australian Built Environment Rating System (New Zealand).

Divestment of non-Core Assets

Argosy has continued to take advantage of the strength in the property market during the period, selling the predominantly vacant property at Pandora Rd in Napier. The property was sold to an owner-occupier for $7.7 million, a premium to the current book value of $7.5 million. The sale was in line with Argosy's strategy of divesting non-Core properties. Argosy has approximately 4% or $60 million of the portfolio remaining as non-Core with potential to divest further properties over the back half of the financial year.

Post 30 September 2017, there are currently two assets subject to conditional sale agreements with a combined sale price of $32.6 million, being approximately 9% above current book value.

Capital Management

Current Leverage

At 30 September 2017, Argosy's debt to total assets ratio, excluding capitalised borrowing costs, was 36.8% versus 36.3% at 31 March 2017 year end. The slight increase reflects the net impact of developments during the period offset by divestments. Argosy remains at the lower end of the target debt-to-total-assets range of 35% to 40%. Argosy remains well within all bank covenants.

Argosy's weighted average interest rate for the period was 5.04% versus 4.88% at 31 March 2017 year end. During the period Argosy restructured its syndicated banking arrangements with ANZ Bank New Zealand Limited, Bank of New Zealand Limited and Hongkong and Shanghai Banking Corporation. Following the restructure, the expiry of Tranche A ($275 million) has been extended to 31 October 2021. The expiry of Tranche B (also $275 million) remains at 30 September 2020. An additional tranche (Tranche C) of $25 million has been added to the facility with an expiry date of 31 October 2021. The total facility is now $575 million. At 30 September 2017, the weighted average facility term is 3.6 years.

Dividends

Consistent with the first quarter dividend, a second quarter dividend of 1.55 cents per share with imputation credits of 0.32720 cents per share attached, has been declared for the September 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 20 December 2017 and the record date will be 6 December 2017. The dividend reinvestment plan (DRP) will continue, but no discount will be applied to the price at which shares will be issued under the DRP for this dividend. The Board can confirm that, based on current projections for the portfolio, a full year dividend of 6.20 cents per share is expected to be paid for the year to 31 March 2018.

Consistent with our full year result, our accompanying interim result presentation provides details of Argosy's Adjusted Funds from Operations (AFFO). AFFO is considered by some investors to represent a measure of dividend sustainability. Argosy's Board recognises this view and intends to move to an amended dividend policy, based on AFFO earnings, in the medium term. The Board expects, based on current projections, that the cash dividend will be at least maintained over the transition period.

Governance

At the July 2017 Annual Meeting, Andrew Evans and Mark Cross were re-elected as independent Directors. At the date of this report, the Board comprised six Directors who are all independent.

Strategy

The Board remains focused on our strategy to create value and deliver sustainable earnings to shareholders. The slight amendments made to our Investment Strategy asset allocation weightings in 2017 will support our ability to achieve this. It is the Boards view that the property cycle is at or nearing the top which makes acquisitions more challenging. As a result, we will continue to focus on our Value Add properties where we can use our proactive asset management skills to provide solutions to our tenants, increase future earnings and provide capital growth in these assets. This ultimately supports our strategy by increasing portfolio quality and the delivery of sustainable dividends.

Outlook

Argosy has delivered solid outcomes in the first six months of the 2018 financial year. The portfolio remains in great shape and our core portfolio metrics strong. We completed some value add developments with others still on track to deliver higher quality assets on completion. Key expiries were dealt with and we are confident about resolving a number of others over the remainder of the financial year.

– ENDS –

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