

## Market Release

19 May 2021

### ARGOSY FY21 ANNUAL RESULT – BUILDING A BETTER FUTURE

FOR THE 12 MONTHS TO 31 MARCH 2021

Argosy will present the 2021 annual result via a teleconference and webcast at 10am today. Please visit <https://s1.c-conf.com/diamondpass/10011880-bgf157.html> or dial 0800 122 136 and quote the conference ID 10011880. 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 2021.

Key highlights for the period include:

- Net distributable income up 13.7%;
- Net distributable income per share up 13.1%;
- Maintaining sound portfolio metrics with high occupancy (99%) and WALT (5.5 years);
- Solid portfolio leasing and rent review outcomes, including 3.3% annualised rental growth on rents reviewed;
- Additional leasing up of 7WQ in Wellington, now 89% leased;
- An unrealised revaluation gain of \$157.7 million, an increase of 8.5%;
- An increase in NTA per share to \$1.53 from \$1.30 at 31 March 2020, a 17.7% increase;
- Delivery on key strategic focus areas including; minimising Covid-19's impact on the business, executing on capital management initiatives, acquisition of strategic opportunities and the continued focus on sustainability and green developments;
- The unconditional sale of Albany Lifestyle Centre for \$87.5 million;
- A 1.6% increase in full year dividend to 6.45 cents per share, fully covered by Adjusted Funds from Operations (AFFO), reflecting continued sound delivery of strategy.

Chairman Jeff Morrison said, "FY21 has certainly proved to be a challenging one and we're very pleased with the way the management team has navigated Argosy through difficult times. While the FY22 year could still bring further headwinds, Argosy's resilient financial and portfolio position sees it well placed to manage any near term economic volatility.

Argosy has always sought to do the right thing by tenants and the environment. Our vision of building a better future aims to reflect this at a more aspirational level. We have some big long term goals for the company over the next ten years primarily focused around the environment, including being carbon neutral and targeting 50% of the portfolio being green assets. Our strategy of creating a green, resilient and diversified business, requires us to remain focused on delivering for all stakeholders.

I am looking forward to my first annual shareholders meeting as Chairman in June, where we will update shareholders.

The Board remains focused on growing the sustainability of dividends to shareholders. Based on current projections for the portfolio and subject to market conditions, the Board expects that the dividend for FY22 will be 6.55 cents per share, an increase of 1.6% on the prior year."

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Argosy's Chief Executive Officer, Peter Mence said, "The FY21 year was one filled with many challenges. Technically, we had four lockdowns in this financial year. Despite the economic headwinds this presented, the business and portfolio continued to demonstrate its resilience through the delivery of very solid operating results. Net distributable income was up 13.7% and our portfolio metrics were sound. We achieved strong leasing outcomes and very good rent reviews.

We progressed our capital management programme which included our \$125 million green bond issue in October 2020, our third issue overall and we now have \$325 million issued in total. The issue of green bonds fits with our strategy of greening the portfolio further over the next 10 years. The balance sheet is in a solid position with capacity to act on opportunities as they arise. The strategic acquisition of the 10.6 hectare Mt Richmond Road industrial site is exciting and supports our vision of building a better future. The acquisition fits squarely with our green development strategy and affords us flexibility to support the growth of existing tenants' needs and potential new tenants.

Mt Richmond will be a fully green industrial estate, creating long term capital growth and earnings sustainability and supporting delivery of several of our key strategic goals by 2031.

Looking ahead, we believe we're in a strong and resilient position heading into FY22. We are focused on completing our existing green development projects and working towards commencing new ones. Our corporate goals around transformation and sustainability are at the forefront of our thinking, and will drive our actions.

Most of all, we remain focused on growing sustainable distributions to shareholders in line with our company purpose."

## **Financial Results**

### ***Statement of Comprehensive Income***

For the 12 months to 31 March, Argosy reported net property income of \$108 million for the period, up 8.1% compared with the prior comparable period.

Robust like-for-like rental growth, additional income from 7WQ, acquisitions & recently completed developments were partially offset by disposals and rental abatements for Covid-19.

Rental abatements of \$3.8 million were provided to tenants over the 12 month period and \$0.3 million in deferrals. Argosy may need to provide further support to tenants should New Zealand return to Level 3 lockdowns during FY22.

Net interest expense of \$28.6 million is up on the prior comparable period primarily due to lower capitalised interest, as developments have completed.

Valuations for the year to 31 March were performed by Bayleys, CBRE, Colliers International New Zealand Limited and Jones Lang Lasalle. The total unrealised revaluation gain for the year to 31 March was \$157.7 million. The portfolio is 1.5% under-rented excluding market rent on vacant space.

Current tax expense was lower with extra income and lower capitalised interest more than offset by depreciation on buildings, the non-assessable deposit for Albany Lifestyle Centre and extra depreciation for 7WQ.

### ***Distributable Income***

Net distributable income increased by 13.7% to \$67.7 million (including \$4.5 million received in respect of the forfeited deposit on the Albany Lifestyle Centre) compared to \$59.6 million in the prior comparable period. Net distributable income per share increased 13.1% to 8.14 cents per share from 7.20 cents per share.

## Valuations

The work performed by independent valuers resulted in an annual revaluation uplift of \$157.7 million, or a 8.5% increase on book values prior to the revaluation.

By location, Auckland was the largest contributor to the total year end revaluation gain with \$150.2 million or 95% of the total portfolio gain. By sector, Industrial was a strong driver of the overall gain at \$129.9 million, up 15.2%. Large Format Retail increased by \$29.3 million or 15.9% and the Office portfolio declined marginally by -\$1.5 million, or -0.2%. The office portfolio results were driven primarily due to Wellington office developments. 7WQ was impacted by façade costs and our green development at 8-14 Willis Street/360 Lambton Quay was impacted by increased development costs, increased non-recoverable opex and a provision for development risk applied by the valuer.

The average portfolio cap rate firming over the last 12 months has been 58 basis points.

Following the revaluation, Argosy's portfolio shows a contract yield on values of 5.63% and a yield on fully let market rentals of 5.78%.

## Portfolio Activity

### Portfolio Metrics, Rent Reviews and Leasing

As at 31 March, Argosy's WALT was 5.5 years and portfolio occupancy was 99%.

For the 12 months to 31 March, Argosy completed 111 rent reviews achieving annualised rental growth of 3.3%. These reviews were achieved on rents totalling \$77.9 million. On rents subject to review by sector, Argosy achieved annualised rental growth of 3.1% for Industrial rent reviews, 4.3% for Office rent reviews and 2.2% for Large Format Retail rent reviews.

"Through quite a tough economic and operating environment, we are pleased to have concluded the financial year with such strong portfolio metrics. The business has continued to demonstrate its quality and resilience in trying conditions. Our diversified portfolio by tenant and type has delivered defensive and sustainable cashflows" said Peter Mence.

In the 12 months to 31 March, 54% of rents reviewed were subject to fixed reviews, 34% were market reviews and 12% were CPI based. Market reviews accounted for 51% of the total annualised rental uplift and Auckland and Wellington contributed 65% and 32% of the total annualised rental uplift respectively.

Argosy completed 38 leasing transactions across 97,391m<sup>2</sup> of NLA over the 12 months to 31 March. Lease transactions were mixed between extensions (10), renewals (17) and new leases (11).

Key leasing transaction successes over the financial year include;

- Teachers Council of Aotearoa New Zealand, L11 at 7WQ, 1,221m<sup>2</sup> on a new 9 year lease;
- Iron Mountain, 68 Jamaica Drive, 9,609 m<sup>2</sup> on a 7 year renewal;
- Parliamentary Services, 147 Lambton Quay, 8,139m<sup>2</sup> on a new 3 year lease;
- NIWA, 39 Market Place, 2,788m<sup>2</sup> on a 6 year renewal;
- NZ Van Lines, 19 Barnes Street, 6,857m<sup>2</sup> extension for a further 3 years;
- Waitemata DHB, 308 Great South Road, 574m<sup>2</sup> for 6 years;
- Citibank, 23 Customs Street, 545m<sup>2</sup> on a 5 year renewal; and
- CNZ (Auckland), 23 Customs Street, 657m<sup>2</sup> on a 3 year renewal.

Peter Mence, Argosy CEO said "Overall, the leasing outlook remains challenging and some subsectors and locations are still performing better than others. While we believe we have adapted to the new Covid-19 environment, we will continue to monitor things closely."

## **Acquisitions**

A highlight during the year was the strategic acquisition of two contiguous industrial properties in Mt Richmond, Auckland, in October 2020 for \$76 million.

Peter Mence said, "Despite the challenges created by Covid-19 during the year, we remained very focused on executing on strategic acquisitions. We always take a long term view around opportunities that meet our investment criteria because real estate is a long term game.

Securing these strategic sites within a prime industrial precinct with historically very low supply levels makes sense. It allows us to be ready and responsive to changing demand patterns, not just now, but in the years ahead.

The acquisition provides Argosy with an attractive initial holding yield and positive cashflow. The sites are close to the Auckland CBD with strong arterial network connections. The redevelopment potential of the large sites provides Argosy with the opportunity to create long term value and drive earnings and capital growth."

### **8-14 Willis Street and 360 Lambton Quay, Wellington**

Argosy's green development at 8-14 Willis Street/360 Lambton Quay continues to progress with an expected completion date in February 2022. As noted at the interim result, the addition of an 11<sup>th</sup> floor to the initial plans will cost \$6.8 million and deliver incremental income of \$0.7 million.

Delays caused by Covid-19, the extra level and design variations as well as the repurposing of 360 Lambton Quay to office has resulted in additional costs to the project. The total expected cost of the development is now \$140.1 million and includes the value of land. The expected end value is in excess of \$150 million. The expected lease for 360 Lambton Quay did not eventuate and this space will now feature a combination of retail and office space. The net rental for the combined building is expected to be \$7.4 million. The IRR on the combined development is now expected to be 7.2%, with an initial yield on cost of 5.3%. The development margin is 7.6%.

### **Divestment of non Core Assets**

For the 12 months to 31 March, Argosy divested the following properties for \$73.5 million on a weighted average premium to book value of 6.3%;

- 180-202 Hutt Road, Kaiwharawhara, Wellington, for \$23.5 million, 11% above book value;
- 80 Springs Road, Auckland for \$16.5 million, 2.3% above book value;
- 960 Great South Road, Auckland for \$8.5 million, 16% above book value; and
- Corner of Wakefield and Taranaki Streets, Wellington for \$25.0 million, 1% above book value.

Argosy also divested the Albany Lifestyle Centre for \$87.5 million to a local investor. This sale settled on 30 April 2021.

"The size and nature of Argosy's diversified portfolio means that some properties do not continue to meet our investment criteria. We were very pleased to have progressed with our capital management initiatives despite a challenging operating and economic environment. With our increased focus on sustainability and greening the portfolio we continue to review the long term strategic ownership of all our properties and their ability to deliver long term capital and earnings growth for shareholders" said Peter Mence.

As noted previously, separate to the sale of Albany Lifestyle Centre, the deposit of \$4.5 million paid by the original purchaser, CPG Management Limited ('Cook Group') who nominated APF Nominee Limited as custodian for Augusta Property Fund, was forfeited during the period and has been treated as distributable income by Argosy. Any receipt of payment for damages from Cook Group will also be treated as distributable income.

## **7 Waterloo Quay Wellington (7WQ) – Leasing, Façade Works and Insurance Claim Update**

The building is now 89% leased with a WALT of 8.8 years underpinned by:

- Ground floor & Level 1: NZ Post, 5.3 years, 4,430m<sup>2</sup>
- Levels 2 and 10: Department of Internal Affairs (DIA), 9 years, 4,133m<sup>2</sup>
- Levels 3, 4 and 5: Kāinga Ora (formerly Housing New Zealand), 9 years, 7,001m<sup>2</sup>
- Levels 6, 7 and 8: Ministry of Housing and Urban Development (HUD), 9 years, 3,675m<sup>2</sup>
- Level 11: The Teachers Council have signed an unconditional 9-year lease for 1,221m<sup>2</sup>

Argosy is in advanced discussions with the Crown for the remaining 2,436m<sup>2</sup> of space on Levels 9 and 12.

The additional work on the exterior façade of the building, expected to cost \$15.5 million, is progressing and is expected to be completed in FY22.

Argosy settled its insurance claim with its insurers NZI and QBE in respect of earthquake damage at 7WQ relating to the Kaikoura earthquake, receiving \$23.5 million plus GST as full and final settlement. Overall, Argosy made \$65.8 million in claims and received a payout of \$47.5 million, or approximately 80% after adjusting for the deductible of \$4.9 million.

### **Capital Management**

At 31 March, Argosy's debt to total assets ratio, excluding capitalised borrowing costs, was 35.9% compared to 38.8% at 31 March 2020. The ratio reflects the net impact of development activity and acquisitions during the period, offset by divestments and revaluation gains. The ratio also excludes the lease liability and right of use asset at 39 Market Place of \$41.7 million, recorded in the period under NZ IFRS 16. Post balance date, the debt to total assets ratio decreased to approximately 33.2%, following the settlement of the Albany Lifestyle Centre on 30 April 2021.

At 31 March 2021, Argosy's total bank debt facility was \$490.0 million (\$585.0 million at 31 March 2020). The company's weighted average debt tenor, including bonds, was 4.2 years (3.6 years at 31 March 2020) and its weighted average interest rate was 3.69%, down from 3.95% at 31 March 2020. The earliest Tranche expiry is April 2023.

In October 2020, Argosy issued \$125.0 million in green bonds and cancelled \$125.0 million of banking facilities.

Argosy's target gearing band remains at 30-40%, well below its bank covenant of 50%. The Board regularly reviews the various capital management options at its disposal and believes the capital management initiatives undertaken during the year provide sufficient capacity to accommodate near term funding requirements. Furthermore, the Board remains comfortable that the target gearing band continues to provide sufficient flexibility based on current market conditions and internal forecasts.

Argosy regularly reviews its investment portfolio against its investment policy framework criteria. Where properties no longer meet the criteria, they may be reclassified as non Core. At 31 March, Argosy classifies approximately \$11 million or 0.5% of its portfolio as non Core.

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## **Dividends and new policy**

A fourth quarter dividend of 1.6125 cents per share has been declared for the March quarter with nil imputation credits attached. The fourth quarter dividend will be paid to shareholders on 23 June 2021 and the record date will be 9 June 2021. The Dividend Reinvestment Plan (DRP) will be available for shareholders to participate in with a discount of 2.0% applying.

Argosy's current dividend policy requires annual dividends to be less than net distributable income (NDI).

In 2017, Argosy's Board advised of its intention to move (in the medium term) to an amended dividend policy, based on AFFO earnings. Commensurate with this commitment, commencing 1 April 2022, Argosy's policy will be to pay dividends between 85-100% of AFFO.

Jeff Morrison, Chairman of Argosy said "In formulating the dividend policy, the Board was focused on Argosy's ability to grow sustainable dividends to shareholders. The management team have done a fantastic job through FY21 to minimise Covid-19's impact on the business. However, as we've seen through the early part of calendar 2021, lockdowns are still a potential headwind for the New Zealand economy in the near term.

Thankfully, Argosy's portfolio remains resilient and defensive, underpinned by a quality portfolio of diversified properties."

## **Governance and Strategy**

The Annual Shareholders Meeting (ASM) will be held on 29 June at 2pm at the Royal New Zealand Yacht Squadron in Auckland and is again planned to be a hybrid meeting. The Board has decided on the same approach due to the potential for further Covid-19 interruptions. The hybrid functionality of the ASM allows investors to attend virtually and participate in all elements of the meeting including being able to ask questions and complete all voting.

Jeff Morrison, Chairman, and Stuart McLauchlan will retire in accordance with the Company's constitution and the NZX Listing Rules and will be eligible for re-election.

The Board established an Environmental, Social and Governance (ESG) Committee to oversee Argosy's ESG Framework. The committee ensures sustainability factors remain front of mind to both preserve and create value for all stakeholders. Members of the ESG Committee are Mike Pohio (Chairman) and Rachel Winder.

Argosy's vision is to build a better future, and in the presentation released today we have clearly articulated our long term strategic plan. Having repositioned the business significantly over the last few years, the Board is now focused on how Argosy can do things better across its entire business by utilising a more focused environmental, social and governance lens in its approach.

The Board has set some large strategic goals to 2031 and the management team are now embarking on a comprehensive plan to achieve them.

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## Outlook

Through FY21, Argosy focused on managing its way through Covid-19 and has come through stronger as a result. FY22 however, will have its own challenges.

Near term, the domestic economic recovery still looks patchy across various sectors. New Zealand's vaccine rollout remains slow and whilst trans-Tasman borders have opened, they still have a high degree of Covid-19 risk attached. The potential for interest rates to rise is also a risk.

Despite this, Argosy's portfolio and capital position is strong, providing a high degree of resilience. The company is well placed to deliver on its ambitious objectives over both the medium and long term.

With a particular focus on big initiatives including carbon neutrality and greening 50% of the portfolio, Argosy will ensure that its green, resilient and diversified business is also one which minimises its impact on the environment. This approach is fundamental to its ability to benefit all stakeholders but also delivering on its purpose to provide sustainable returns to shareholders.

As the business heads into the first half of FY22, the focus will be on the operational fundamentals of addressing key expiries, leasing up remaining vacancies and executing on the current green development pipeline. Argosy will assess which Value Add projects to commence next, transitioning them to green assets to drive earnings and capital growth. To deliver on the long term strategy, critical decisions will be considered not only in the context of whether the decisions deliver on current year objectives, but whether they also support the delivery of Argosy's vision of building a better future.

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## ENQUIRIES

### Peter Mence

Chief Executive Officer  
Argosy Property Limited  
Telephone: 09 304 3411  
Email: pmence@argosy.co.nz

### Dave Fraser

Chief Financial Officer  
Argosy Property Limited  
Telephone: 09 304 3469  
Email: dfraser@argosy.co.nz

### Stephen Freundlich

Head of Investor Relations  
Argosy Property Limited  
Telephone: 09 304 3426  
Email: sfreundlich@argosy.co.nz