Argosy

29 November 2012

ARGOSY INTERIM RESULT AND DIVIDEND ANNOUNCEMENT

FOR THE PERIOD ENDING 30 SEPTEMBER 2012

Highlights:

- **Distributable income increased to 3.6 cents per share**
- **Net property income maintained at $35.4 million**
- **Occupancy increased to 96.3%**
- **Debt to total assets lowered to 40.7%**
- **Weighted average lease term (WALT) increased to 5.3 years**
- **6 cents per share guidance to annual dividend maintained, payable quarterly**
- **29 lease transactions completed**
- **Bank facility restructured on improved terms**
- **The Board continues to actively seek growth opportunities**

Argosy Property Limited (Argosy) is pleased to report its interim results for the six-month period to 30 September 2012.

It is pleasing to report that the momentum generated by internalisation and corporatisation in the prior period has continued over the first six months of this year. The cost savings from internalisation have been considerable and are in line with that originally indicated to shareholders. In addition, the strong focus on leasing activity in the period has improved occupancy, increased the weighted average lease term and significantly reduced pending 2013 expiries. Proactive and hands-on management of tenant relationships has translated directly into improved shareholder returns.

Argosy continues to maintain a well-balanced, diversified portfolio of quality properties by sector. The Company has delivered a strong performance over the first six months of this financial year, demonstrating the benefits of a well-diversified portfolio. The strategy of selling non-core assets during the global financial crisis has ensured that the Argosy portfolio is stronger now than it was pre crisis.

Interim Result

Net distributable income for the six months was $20.2 million (2011: $15.7 million) an increase of 29% on the interim period to 30 September 2011.

Net property income for the six months was comparable to the previous interim period at $35.4 million (2011: $35.6 million), despite the sale of fifteen properties in the year ended 31 March 2012, and a further two this period.

The operating surplus before tax for the six months, after allowing for the non-cash impact of interest rate swaps, was $5.5 million compared to a loss of $23.8 million for the previous interim period. The previous interim period included one-off items amounting to $28.2 million relating to the management rights buy-out and associated expenses, an unsolicited merger proposal and the write-down of a previous management contract.

Interest expense was $3.6 million lower than in the previous interim period due to the restructure of our banking facility and treasury initiatives undertaken during the last twelve months as well as capitalised interest of $2.1 million related to development activities.

Dividends

The Board confirms its previous guidance that the full-year dividend is expected to be 6.0 cents per share.

A cash dividend of 1.50 cents per share, consistent with the first quarter, has been declared for the September quarter. There are no imputation credits attached to the dividend and the dividend re-investment plan ("DRP") will continue with a discount of 1% applied to the price at which shares will be issued under the DRP. The record date is 13 December 2012 and the payment date will be 21 December 2012.

Governance

At the Annual Meeting, Andy Evans was reappointed as an Independent Director and Mark Cross was elected as a Director. The Board has determined that Mark Cross is not an Independent Director because he is an associated person of MFL Mutual Fund Limited, which holds 15.96% of the shares in the Company (as at 23 November 2012).

Capital management

Argosy's debt levels have reduced to 40.7% of total assets (31 March 2012: 41.4% and 30 September 2011: 43.6%). When allowance is made for the settlement of unconditional contracts in respect of vacant land and the two buildings in Palmerston North, the debt to total assets ratio reduces further to 39.5%. The divestment of vacant land and under-yielding assets will continue to be a key strategy for the Company.

Bank facility

In August Argosy restructured its syndicated bank facility with ANZ National Bank, Bank of New Zealand and the Hongkong and Shanghai Banking Corporation on improved terms.

The facility amount was increased from $450 million to $500 million and is now split into two even tranches of $250 million. The first tranche expires on 30 June 2015 and the second on 30 June 2017. The Company received immediate margin and line fee reductions on both tranches averaging 25 basis points (after including upfront fees).

Taxation

As reported last year, Argosy is in discussions with Inland Revenue over the classification of its leasehold payment for Albany E Block as depreciable intangible property. Should the outcome be successful, a deduction will be available. The Board has determined not to recognise any deduction in respect of the leasehold payment until the outcome is certain.

Portfolio activity

The property market in general is starting to show signs of improvement, particularly in the Auckland market with the potential for future growth improving. Net effective rents in the Wellington market have continued to suffer mainly as a result of insurance increases over the past few years.

Leasing

The Management team has continued to focus on occupancy and near-term lease expiries with pleasing results. Occupancy (by rental) has improved to 96.3% from 94.1% at March 2012. Outstanding lease expiries for the period to 31 March 2013 have reduced to 7.0% from 17.9% at 31 March 2012.

During the interim period, 29 lease transactions were completed, including 16 new leases and 13 lease renewals and extensions. The weighted average lease term improved to 5.30 years from 4.77 years at 31 March 2012.

Capital projects
Major refurbishment projects, resulting from solid leasing commitments, are nearing completion at Argosy's two largest Wellington office towers, Te Puni Kokiri (143 Lambton Quay) and TSB Tower (46 Waring Taylor Street). Works are expected to be completed by 31 March 2013 and are on budget.

Divestments
Two properties were sold at less than book value during the interim period (221 Bush Rd, Albany which was sold vacant and 221 Wakefield St, Wellington which was cash flow negative). A small parcel of land at 211 Albany Highway was also sold during the interim period.

As noted in the last Annual Report, one of Argosy's key strategies is to divest vacant land and under-yielding assets in the near-term. Since reporting date, the Company has announced the unconditional sale of part of the vacant land on Oteha Valley Rd in Albany and three vacant sites in the Manawatu Business Park subdivision in Palmerston North. The Company has also announced the sale of two smaller buildings located in the Manawatu Business Park. The unconditional sales total $19.2m ($15.5m for land and $3.7m for the two buildings) reflecting 98% of the current book value.

Manawatu Business Park
It is pleasing to report that progress is being made at the Manawatu Business Park. The subdivision is substantially complete and titles have been issued. It is also pleasing to report an increase in activity with three sales since reporting date.

Christchurch property
Argosy owns one Christchurch industrial property, at 8 Foundry Drive. During the interim period an insurance claim was settled for the sum of $10 million with the proceeds used to repay bank debt. The value of the residual land and buildings was assessed at $4.05 million by CB Richard Ellis Limited as part of the 31 March 2012 asset valuations. The property, which represents the sole remaining asset of the business in Christchurch, is being marketed for sale.

Valuations
The Board and Management have reviewed the portfolio using available market information and consider that there has been no significant change to the valuation completed at 31 March 2012. Independent property revaluations will be completed at year-end as normal.

Seismic ratings
Initial evaluation assessments by structural engineers have been undertaken on a number of properties (including Wellington and other assets that were considered to present a seismic risk) with no significant issues identified.

Outlook
The property market remains challenging; however the Company's portfolio is well-placed with quality properties in good locations. The Management team is actively managing current leases to meet the requirements of tenants to ensure that retention rates are high.

The movement in leased space has been positive in the Auckland industrial and commercial markets, where the majority of Argosy's portfolio is located, and vacancy rates have fallen, particularly in office space outside the CBD. Occupancy enquiry from potential tenants has been more robust during the interim period than previously and this, along with increased investor demand, is likely to be reflected in future capital values.

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Press enquiries

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Argosy Property Limited

Argosy Property Limited is the most diversified property fund listed on the New Zealand Stock Exchange. It has a $906 million portfolio of 63 properties across the retail, commercial and industrial sectors. The Company has a focus on quality properties where value can be added and properties modernised to extend their effective utilisation.