23 May 2013

Argosy

# MEDIA RELEASE

## ARGOSY ANNUAL RESULT AND DIVIDEND ANNOUNCEMENT

FOR THE YEAR ENDING 31 MARCH 2013

**Highlights:**

- **Distributable income increased to 6.90 cents per share**
- **Occupancy increased to 96.2%**
- **Debt to total assets, as at 31 March 2013, lowered to 33.1%**
- **Weighted average lease term ("WALT") increased to 5.24 years**
- **Guidance to FY 14 dividend of 6.0 cps, payable quarterly**
- **Acquisition of New Zealand Post building in Wellington**
- **Conditional acquisition of Stout St building in Wellington**
- **Oversubscribed capital raise of $100m**
- **Bank facility restructured on improved terms**

Argosy Property Limited (Argosy) is pleased to report its results for the year ending 31 March 2013.

It is pleasing to report that the momentum generated by internalisation and corporatisation in the prior period has continued this year. As well as the savings achieved from these changes, the strong focus on leasing in the period has improved occupancy, increased the weighted average lease term and significantly improved the Company's leasing profile.

The Board has continued to pursue opportunities accretive to earnings and the acquisition of the New Zealand Post building and conditional acquisition of 15 Stout St in Wellington, along with the associated $100 million capital raising, was a major highlight of the year.

The Company's strong performance this year has demonstrated the benefits of a well-diversified portfolio. Argosy is, and will remain, invested in a portfolio that is diversified by primary sector, grade, location and tenant mix. The portfolio will be primarily located in the Auckland and Wellington markets with modest tenant-driven exposure to provincial markets.

**Financial Results**

***Profit before tax***

Net property income for the year was $69.9 million (2012: $71.2 million), a decrease of 1.9% primarily due to the flow-through impact of the sale of fifteen properties in the previous financial year.

Profit before tax, after allowing for the non-cash impact of interest rate swaps, was $38.7 million compared to a loss of ($3.0) million for the previous period. The previous period included one-off items amounting to $29.0 million relating to the management rights buy-out and associated expenses, corporatisation, an unsolicited merger proposal and the write-down of a previous management contract.

Interest expense was $7.4 million lower than in the previous period due to lower average debt and improved margins following the restructure of our banking facility. Interest of $4.1 million relating to development activities has been capitalised.

***Distributable income***
Net distributable income for the year was $40.4 million (2012: $33.4 million), an increase of 21% on the prior period.

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. Please refer to Note 26 of the financial statements released today for a full reconciliation between the two measures.

***Taxation***
As disclosed previously, Argosy has been in discussions with the Inland Revenue Department over the classification of its leasehold payment for Albany E Block. As announced to the market on 16 April 2013, Inland Revenue has confirmed that a deduction of $24.4 million will be allowed for the payment.

**Capital Management**

***Current leverage***
Argosy's debt levels, excluding capitalised borrowing costs, have reduced to 33.1% of total assets (31 March 2012: 41.4%). The debt to total assets ratio increases to 34.8% when allowance is made for the settlement of two unconditional vacant land sales and the conditional acquisition of 15 Stout St. The divestment of vacant land and under-yielding assets will continue to be a key strategy for the Company.

The intention of the Board is to maintain the ratio of debt to total assets between 35-40% (post upgrade of the two Wellington acquisitions) in the medium term.

***Bank facility***
In August 2012, Argosy restructured its syndicated bank facility with ANZ Bank New Zealand, 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.

Subsequent to balance date, the Company has further restructured and extended its syndicated bank facility. The expiry of the first tranche is now 30 June 2016 and the second tranche on 30 June 2018. The Company will also receive further margin and line fee savings averaging 14 basis points per annum (after including upfront fees). For the first time the facility also provides for a 45/55 line fee, margin split. This will result in further savings for Argosy in the future.

Argosy remains well within all bank covenants.

***Dividends***
The Directors have announced a final quarter dividend of 1.50 cents per share. There are no imputation credits attached to the dividend and the dividend reinvestment 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 12 June 2013 and the payment date will be 26 June 2013.

The Board is pleased to confirm that, based on current projections for the portfolio, a distribution of 6 cents per share, paid fully from distributable income, is expected to continue for the year to 31 March 2014.

**Portfolio Activity**

***Leasing Environment***
In general, the leasing environment has improved over the past year:

- Net absorption has been positive in the industrial and commercial sectors in Auckland, 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 positive than previously (and has been particularly strong in the first four months of 2013 following the holiday period).
- The retail sector continues to have challenges; however the total volume of retail sales rose 3.7% in the year to December 2012.

***Leasing***
The management team has continued to focus on occupancy and near-term lease expiries with pleasing results. Occupancy (by rental) has improved to 96.2% from 94.1% at March 2012. Outstanding lease expiries for the period to 31 March 2014 were only 7.2% as at 31 March 2013.

During the year 65 lease transactions were completed, including 30 new leases and 35 lease renewals and extensions. The weighted average lease term improved to 5.24 years from 4.77 years at 31 March 2012. This is the highest weighted average lease term for the Company since 2003, when Argosy had only two properties in its portfolio.

***Acquisitions***
In December 2012, Argosy announced the accretive acquisitions of the New Zealand Post Building in Waterloo Quay, Wellington and the former Ministry of Defence building at 15 Stout St, Wellington. The New Zealand Post building settled on 28 March 2013. The initial acquisition cost for the New Zealand Post Building was $60 million with further estimated upgrade expenditures of $40 million. The documentation of the acquisition and redevelopment of the Stout St property has now been completed, subject only to final approval of the documentation by the Crown (as tenant). Settlement of the acquisition will occur following the Crown's final approval. The initial acquisition cost for the Stout St building is $33 million with further estimated upgrade expenditures of $47 million.

In order to provide the Company with sufficient funds to settle and develop the property acquisitions, Argosy successfully raised $100 million of additional capital, comprising $80 million by way of a Placement to institutional and other qualified investors and $20 million under a Share Purchase Plan.

The Company also acquired a small property at 252 Dairy Flat Highway, Albany in February for $4.8 million. The tenant of this building is Albany Toyota.

***Valuations***
The Company is pleased to report that for the third year in succession the revaluation of the property portfolio has resulted in an increase in property values. The increase this year is $9.3 million (2012: $3.7 million) or 1% on book value immediately prior to valuation. The Company's portfolio following the revaluation, including vacant land, shows a passing yield on values of 7.96% and a yield on the assessed market rentals of 8.22%.

Market activity since the completion of the valuations indicates further firming in values and the Company is well placed to benefit in the future from the firming momentum in yields across all sectors in the Auckland market.

***Seismic ratings***
Initial evaluation assessments by structural engineers have been undertaken for 24 properties (including the New Zealand Post and 15 Stout St buildings). The only issue relates to the façade at Stewart Dawson Corner in Wellington and the Company has elected to complete a structural upgrade of the building, in addition to the required works, in the next financial year at an estimated combined cost of $1 million.

**Strategic Review**

Following the successful completion of the internalisation and corporatisation processes, the Board and management conducted a strategic review to reaffirm the company's mission, values, strategy and portfolio. This strategic review process clarified, confirmed and in some cases reshaped the company's strategy including sector exposures and acquisition criteria. The process also involved a review of individual properties by sector and location.

In the medium term, Argosy's portfolio will consist of *Core* and *Value Add* properties. Core properties are well constructed, well located assets which are intended to be long-term investments (>10 years). Core properties will make up 75-85% of the portfolio by value.

Core properties enjoy strong long term demand (well located and generic), a preferred leasing profile that provides for rental growth of at least CPI and good seismic integrity with minimal maintenance capital expenditure required. Core properties currently make up 80% of the Argosy portfolio.

Value Add properties are assets which, through skilled asset management, can increase future earnings and provide capital growth. Value Add properties will already be well-located with the potential for strong long term tenant demand. These properties are available for near to medium term repositioning or development with the view to moving into the Core category. Value Add properties currently make up 8% of the Argosy portfolio.

Following the strategic review of the entire portfolio, 12% of the portfolio (including vacant land) is considered neither Core nor Value Add.

**Governance**

The Board is pleased to advise the appointment of Mr Chris Hunter to the Board. Chris has many years senior experience in the property and construction sectors, most recently as Chief Executive Officer of Hawkins Construction Limited.

**Outlook**

The Company's diversified portfolio is well-placed with quality properties in good locations and the outlook is positive. The management team is actively managing current leases to meet the requirements of tenants to ensure that retention rates are high.

Along with the continued focus on leasing, the Board will continue to actively monitor the market and will actively pursue growth opportunities where these are consistent with the Company's investment strategy and accretive to shareholders.

**– ENDS –**

**Press 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

**Argosy Property Limited**

Argosy Property Limited is the largest diversified property fund listed on the New Zealand Stock Exchange. It has a $977 million portfolio of 63 properties across the retail, commercial and industrial sectors. Argosy is, and will remain, invested in a portfolio that is diversified by primary sector, grade, location and tenant mix. The portfolio is located in the primary Auckland and Wellington markets with modest tenant-driven exposure to provincial markets.